Interlinkage between debt, illicit financial flows, and inequality in the ECOWAS sub-region in the post-Covid-19

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TAX JUSTICE NETWORK AFRICA

OXFAM

Interlinkages between debt, illicit financial flows, and inequality in the ECOWAS sub-region in the post-Covid-19 era

(Revised Report 2023)

EXECUTIVE SUMMARY

One basic function of the state is to collect taxes. Any country that fails to collect a reasonable amount of taxes (relative to the size of the economy) amid rising expenditures and developmental challenges (poverty, inequality) will end up in a debt trap. Such is the state of many countries in Africa facing debt distress situations or at high risk of debt distress whilst confronted with monumental development challenges such as inequality in all its forms including those imposed and exacerbated by the ongoing pandemic. One fundamental development shaping this outlook is the unacceptable level of illicit financial flows which makes Africa a net creditor to the world when the narrative has been that African without external aid and assistance is incapable of realising its aspirations. Given the dwarfed domestic revenue mobilisation effort, rising expenditure (with all inefficacies), and falling Official Development Assistance (ODA), governments have resulted to borrowing including Eurobonds that have resulted in public debts reaching unsustainable levels though many of these countries benefited from the HIPC and MDRI interventions not long ago. To this extent, the current study sought to understand the interlinkages between these developments namely debt, illicit financial flows, and inequality in the ECOWAS sub-region. Specifically, the study sought to understand:

1. The level of illicit financial flows by extending the frontier of our understanding with updated estimates using data from 1980 to 2020.
2. Ascertain the current trends in the debt build-up and state of inequality in West Africa whilst recognizing the ongoing pandemic effects.
3. Establish the interlinkages between illicit financial flows, debt, and inequality in the sub-region.

To achieve the above objectives, the study employed an extensive desk review of the literature both theoretical development and empirical regularity. This helped us to ascertain the current trends across the domains of illicit financial flows, debts, and inequality in the sub-region. Ascertaining the interlinkages between illicit financial flows, debts, and inequality, the study estimated three different equations by modelling the cross-country evidence on **(1) the link between IFFs and Debt for the ECOWAS region, (2) estimating the effect of illicit financial flows on inequality, and (3) estimating the effect of debt build-up with inequality as the outcome variable.**

The study highlighted the inequality worsening situation in the sub-region during rising public debt and illicit financial outflows. Though fiscal policy represents the most means of responding to the pandemic-ravaging effect, the entrenched nature of illicit financial flows and other related revenue linkages dictates that fiscal policy is immobilised and incapacitated and practically undermines the region's ability to provide support to lives and livelihoods in a sustainable competitive manner. In terms of destination nations, the study provides evidence that China has amassed an estimated value of around 141 billion US Dollars using

data from 1980 to 2020. Even though 6 countries in the subregion have the United States amongst their top 5 exporters, an estimated 410 billion US Dollars has been lost through illicit outflows from the sub-region over the last four decades. This makes the United States the highest destination of Illicit outflows in the sub-region, followed by India and France where outflows over the years have been estimated to be approximately 155 and 113 billion US Dollars, respectively. Nigeria, the subregion's largest economy is the highest emitter of illicit outflows where almost USD 17 billion (41-year average) is lost each year through illicit activities. The study found that Illicit outflows significantly affect countries' debt stock, and this effect is estimated at around 3%. This means any 1 percent increase in illicit outflows in the ECOWAS sub-region is expected to have a substantial 3% increase in the debt to GDP ratio holding all other factors constant. Though the study could not establish a statistically significant relation between illicit financial outflows and inequality as well as between debt and inequality (a weak relationship is documented), the study documented a significant level of health inequality during the pandemic era in the procurement of COVID-19 vaccine between developed and under-developed countries (here, ECOWAS sub-region) even though some of these countries participated in the clinical trials during the development of the vaccines – thus, for quicker vaccine rollout, governments must pay to play. This payment is either during the research stage or the procurement stage which have been dominated by developed economies such as the US, UK, EU, etc.

The study makes the following recommendations:

Fiscal policy must be deployed bearing in mind the effect of the recent pandemic and ongoing Russia-Ukraine conflict as it has affected and is still affecting lives and livelihoods particularly given the fact that recovery is going to be long and arduous. To this extent, West Africa must fashion out a well-coordinated and comprehensive fiscal policy predicated on greater domestic revenues that tackles illicit financial flows and other related revenue leakages aggressively in the same shape they appear. An effective and harmonious sub-regional tax regime that is just, fair, equitable, and progressive with greater involvement of citizens, academic, and CSOs hold the key going forward. The resulting fiscal space (additional revenue) must be allocated prudently and efficiently in areas with higher inequality-reducing effects such as agriculture (food and nutrition security also), education, health, and social protection. Aside from policy interventions, administrative and greater compliance must be pursued to improve efficiency across all the tax handles (including VAT exemptions) whilst aggressively pursuing wealth and property taxes to ensure the rich put more on the table relative to the poor to finance the recovery. Also, effective debt management must immediately be coordinated by ECOWAS within the broader context of the subregional revenue mobilisation drive.

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ABBREVIATIONS

AIDS	Acquire Immunodeficiency Syndrome
BOP	Balance of Payment
CIF	Cost, Insurance, and Freight
COVAX	COVID-19 Vaccines Global Access
COVID-19	Coronavirus Disease of 2019
CSO	Civil Society Organisation
DOTS	Direction of Trade Statistics
DPI	Database of Political Institutions
ECOWAS	Economic Community of West African States
FDI	Foreign Direct Investment
FOB	Free on Board
GDP	Gross Domestic Product
GFI	Global Financial Integrity
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IFFs	Illicit Financial Flows
ILO	International Labor Organisation
IMF	International Monetary Fund
KNOMAD	Global Knowledge Partnership on Migration and Development
MDRL	Multilateral Debt Relief Initiative
MNC	Multi-national Company
NEO	Net Errors and Omission
ODA	Official Development Aid
OECD	Organisation for Economic Co-operation and Development
ReSAKKS	Regional Strategic Analysis and Knowledge Support System
SDG	Sustainable Development Goal
SSA	sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Education, Scientific and Cultural Organisation
UNODC	United Nations Office on Drugs and Crime
USD	United States Dollars
VAT	Value-Added Tax
WDI	World Development Indicators
WGI	World Governance Indicators
WHO	World Health Organization
WITS	World Integrated Trade Solution

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INTRODUCTION

Covid-19 and its ramifications have highlighted the need to take a critical look at the interlinkages between illicit financial flows, debt, and inequality within and across West Africa, the sub-region that has more people living below the societal poverty line and is saddled with rising inequality exacerbated by this once-in-a-century pandemic. Covid-19 has devastated the global, regional, and local economies in a manner unprecedented since recordings started, with unproportioned adverse distributional effects on households that have threatened to reverse decades of progress in poverty reduction. The long-held trickle-down effect in economics that failed even in normal times is made worse because of Covid-19.

The measures adopted so far tend to tilt the adverse distributional effects against the poor, marginalised, and socially excluded from society than the well-to-do as they (lower end of society) operate in the more contact-intensive subsectors of the regional economy where the lockdown measures had a more pervasive impact. Existing inequality dynamics show variations in the response of individuals to the containment measures and COVID-19 itself. It is our considered view that the long-term economic hangover or consequences of the pandemic may last beyond a century, particularly for countries that entered the pandemic with weak economic, social, and health systems and the lack of equity in the COVID-19 mitigation and policy response in the sub-region. A UNESCO report in 2020 documented that **the pandemic in sub-Saharan Africa, triggered severe economic and social contractions, magnifying the long-standing legacies of prejudice, injustice, and increasing inequalities of our societies.**

The World Bank in 2020 estimates that COVID-19 will push 49 million people into extreme poverty in 2020 with SSA being the hardest hit whilst the IMF contends the pandemic will trigger the worst economic recession since the Great Depression, and far worse than that seen during the 2008 financial and economic crises. For Africa, the IMF documents that the pandemic-caused recession shrank the GDP of the Continent by 1.9 percent – the worst performance on record. Oxfam alludes this crisis could set back the fight against poverty for thirty years in sub-Saharan Africa with the Economic Commission for Africa estimates between 300,000 and 3.3 million African people could lose their lives as a direct result of COVID-19 and depending on the intervention measures taken to stop the spread. As a result, COVID-19 has not only magnified existing economic, social, and health vulnerabilities but also, the various containment, mitigation, and policy (both fiscal and monetary) measures that have manifested expressly in debt formation leading to debt unsustainability and debt unaffordability.

West Africa entered the pandemic with limited fiscal space due to excessive revenue leakages otherwise known as illicit financial flows (IFFs). A lot is known from the pandemic raving effect though the full-scale impact is still evolving. Civil Society Organisations especially,

academics, etc are concerned that there is not much hope for greater optimism of post-pandemic inclusive and sustainable recovery given that so many resources leave West Africa by way of illicit financial flows resulting in higher borrowing and associated servicing cost. This has widened the post-pandemic financing gap whilst impeding the region's vaccination drive given little or no fiscal space. The IMF contends that Africa needs to grow faster than the world – at 7 to 10 percent – to meet the aspirations of its youthful populations and become more prosperous and secure, and this requires financing. Post pandemic recovery is predicated also on greater vaccination, and it is estimated that Africa's additional financing needs for an adequate COVID response are at around $285 billion through 2025. Example 48 SSA governments require at least $12.5 billion to vaccinate 70% of their population defined globally as the minimum coverage to achieve herd immunity (World Bank, 2021).

Covid-19 has created huge financing gaps reflecting dwarf domestic mobilisation and elevated health-related and economic stimulus intervention before vaccination drive. The IMF (2020) states "more than ever, Sub-Saharan African countries also need large-scale external financing. The International Monetary Fund and the World Bank estimate that the region faces a government financing gap (assuming a modestly supportive fiscal stance) of at least 114 billion in 2020 and a financing gap of $290bn between 2020 and 2023 (i.e., 16% of SSA's GDP in 2019). Relatedly, the Project Syndicate (2020) estimates that Africa's pandemic-response funding gap is likely to amount to some $100 billion annually over the next three years.

The initial cost of these countries' respond to the pandemic is already creating fiscal unsustainability. Whilst the funding gap keeps widening, the level of illicit financial flows makes matters worse for these countries. The weak immune system (both economic, health, and social) with which West Africa entered this pandemic could in part be due to excessive illicit financial flows that dwarf their revenue envelop. Ndikumana and Boyce (2018) estimated that in the years between 1970 and 2015, the continent of Africa lost approximately US$1.4 trillion in capital flight, significantly more than the total stock of debt owed as of 2015 (US$496.9bn) and the cumulative amount of foreign aid received in the same period (US$991.8bn). Indeed, West Africa would continue to struggle to develop as these leakages deny them the cheap capital to finance poverty-reducing programs and broadly social spending (spending on education, spending on health, and social protection). Illicit financial flows are of great concern to West Africa given the concentration (Nigeria in the top 4 in Africa) of illicit financial outflows and the commodities involved (the extractive and mining industries) and the opportunities they provide for trade mis-invoicing.

Faced with the challenges of providing public health safety in the presence of collapsed revenue, debt accumulation seems a logical outcome of these developments. Thus covid-19 has brought to the fore the depilating effect of corruption, illicit financial flows, illicit assets, and debt formation at an unsustainable level. Impending Debt Crisis reflecting the one in a century pandemic effect (Covid-19) because of the rising expenditures to contain the pandemic and collapse of government revenue envelope particularly for Africa that went into the crisis with the weak immune system whether from the health or economic or financial dimension. Africa has practically peaked prematurely in responding to the pandemic as there is no fiscal space to implement stimulus arrangements and now debt crisis is unavoidable led by Zambia as rising unbudgeted expenditures and collapse government revenue is a regular feature on the continent and more countries are expected to gravitate towards debt distress or at high risk of debt distress including Ghana. The growing public debt around the

world and West Africa in particular, has become a major concern even in the pre-pandemic period and has now become even more topical as Covid-19 and its numerous containment measures manifest themselves explicitly in debt formation. The negative output effect of the rising public debt cannot be unexpected.

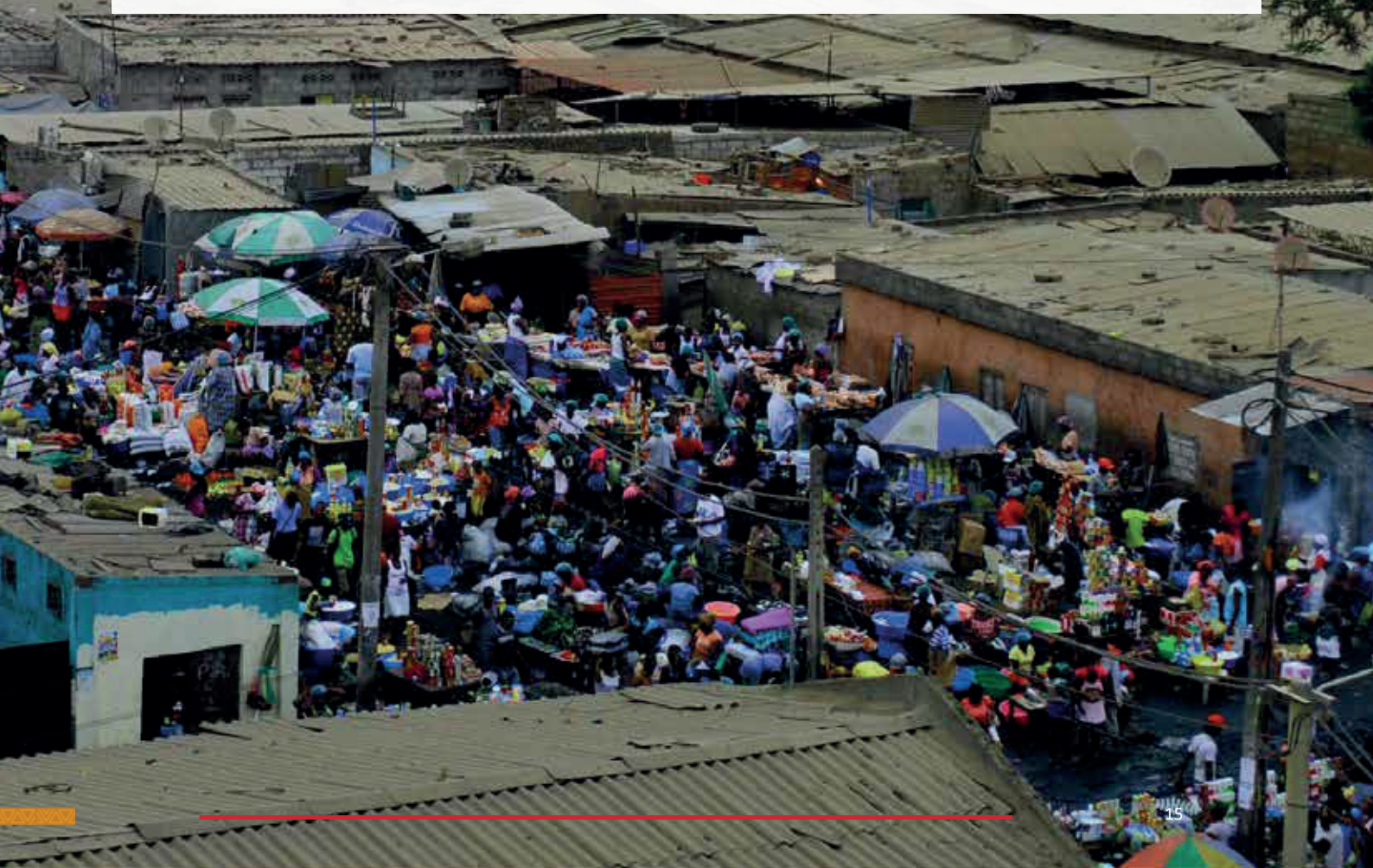
This project investigates the link between debt, illicit financial flows, and inequality in the ECOWAS subregion in the post-COVID era. Following the Global Financial Integrity (GFI) trade approach of estimating trade mis-invoicing (a proxy for illicit outflows) from 1980 to 2020, we found illicit outflows to be strongly associated with high debt but there is no such association with illicit outflows toward inequality in the subregion. Again, the association between debt and inequality is statistically not significant among ECOWAS nations and one explanation for this is associated with the less variation (between- countries) in the measure of inequality (Gini index as proxy) used in the analysis.

In what follows we present some discussions on the state of illicit financial flows, debt, and inequality in (West) Africa. Section 3 is devoted to the data source and measurements. The Section also presents discussions on the estimated measure of illicit flows as well as some descriptive statistics. Section 4 presents the framework and model to test the relationship between illicit flows, debt, and inequality. In section 5, the main results are presented and discussed and Section 6 links the results to the COVID-19. Section 7 concludes with some policy recommendations.

2

State of Debt, Illicit Financial Flows, and Inequality in (West) Africa

Every year, an estimated amount of $50bn is lost collectively on the African continent to illicit financial flows (UNODC, 2011). This is attributed to the clandestine nature of the criminal activities that generate the funds for these illicit financial flows. The above-mentioned figure is considered a significant underestimation of the actual value of funds lost to illicit financial flows on the African continent. In the sections that



follow, we will uncover how this estimated IFFs figure cripples' certain key economic variables like official development assistance to Africa and external debt stock on annual basis. Unlike other socio-economic menaces, illicit financial flows have far-reaching impacts, cutting across both developed and developing countries. The economic impacts of IFFs are a major development concern across the globe, more so for African economies whose sustainable development prospects are critically pivoted on massive financial investments. IFF is a broad term that is used to refer to the inflows and outflows of all ill-gotten wealth from illegal or criminal activities like money laundering, terrorist financing, human trafficking, trade mis-invoicing, corruption, etc.

In recent times, the scope of illicit financial flows has been broadened with a shift from the amorphous definition of activities that give rise to IFFs in Africa. In the Mbeki report of 2015, a more comprehensive list of predicate offenses that give rise to IFFs was provided, which included: "abusive transfer pricing, trade mispricing, mis-invoicing of services and intangibles and using unequal and different contracts to the end of evading and/or avoiding taxes as well as facilitate illegal export of foreign exchange" (UNECA, 2015:24).

Definitions of Illicit Financial Flows

Transparency International defines Illicit financial flows as the movement, transfer, or spending of funds obtained from illegal sources. They further explained that illicit funds are mostly obtained from illegal activities like bribery and corruption as well as embezzlement of public funds by government officials. IFFs are also defined as a type of illegal capital flight that takes place when money is generated, transferred and/or spent by criminals. Practically, the endgame of these IFF-related crimes is to as much as possible conceal any records of funds from the country of origin as well as to make returns of such funds in the destination country difficult to trace back to the source.

As a result, these illicit funds are generated through multiple channels that ensure their omission from a country's national accounts or balance of payments records. Also, according to the World Bank (2017), illicit financial flows refer to "money illegally earned, transferred or used that crosses national borders". The IMF (2020) follows closely with a similar definition, describing illicit financial flows as *"the movement of money across borders that is illegal in its source (e.g., corruption, smuggling), its transfer (e.g., tax evasion), or its use (e.g., terrorist financing)".*

Capital flight in Africa

The World Investment report published in 2015 emphasised largely on the need to attract more finances for investment to ensure the achievement of global development goals (United Nations, 2015). Among many things, the report highlights an annual investment gap of $2.5 trillion required to improve productive capacity and finance infrastructural deficits in developing countries. In their 2020 version of the Economic Development in Africa report titled, "Tackling Illicit Financial Flows for Sustainable Development in Africa", the United Nations Conference on Trade and Development (UNCTAD) provided estimates for trade mis-invoicing on the African continent to be in the region of $30-$52 billion each year (UNCTAD, 2020). This estimated figure they argued, contributes partially to a capital flight of about $88.6 billion exiting the continent every year. Given the financial estimates needed for Africa to achieve the SDGs, one may conclude based on these estimates that curbing annual capital flight of US$88.6 billion from Africa could bridge close to half of its annual SDG financing gap which is estimated to be in excess of $200 billion dollars (UNCTAD, 2020).

Figure 1: Capital flight and Revenue loss from tax avoidance (% GDP) in Africa

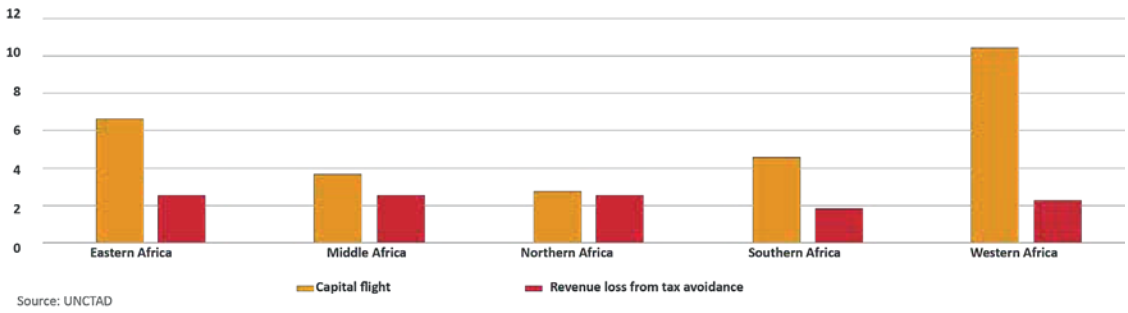


Figure 1 gives a comparative view of capital flight and revenue losses from tax avoidance among different sub-regions of Africa. The figure indicates that West African countries have taken a lead of the other countries in the region as far as capital flight is concerned where capital flight-to-GDP ratio of over 10% is recorded followed by Eastern Africa with approximately 6.3%. When it comes to revenue losses from tax avoidance, the figure shows that most African countries are within a range of 1.9- 2.3 (% of GDP). Even so, the $88.6 billion estimates for capital flight outstrips the annual inflows of ODA and FDI to Africa annually are estimated at $48 and $54 billion, respectively (UNCTAD, 2020).

External debt

As the much-needed capital of African economies flows to other continents through illicit financial flows, excessive demand for capital forces domestic interest rates upwards which leads to increasing levels of external debts in Africa. Unfortunately, this has meant that for many African countries the stock of external debt has built up over recent decades to a level that is widely viewed as unsustainable. The significant and persistent increase in the debt stock of African countries has been closely accompanied by an obvious increase in the debt servicing figures also. More so, given the fact that most African currencies express high volatility relative to countries they lend from, the likely depreciation in currency further exacerbates their indebtedness which could potentially hurt their capacity to engage in productive and transformational investment that could help alleviate poverty and improve livelihood in Africa.

Table 1: Total external debt stock in Sub-Saharan Africa (2019) - (Selected countries)

Countries	Debt stock (millions of US$)
South Africa	187,667
Nigeria	54,832
Angola	51,998
Kenya	34,217
Ethiopia	28,288
Zambia	27,341
Ghana	26,959
Sudan	22,264
Mozambique	20,354
Tanzania	19,584
Ivory Coast	19,182
Uganda	13,971
Senegal	13,581
Cameroon	12,815

Source: World Bank

From Table 2 we observe the different values of debt stock of selected African countries. These figures when compared to the annual estimate of illicit financial flows of $50 billion

show that if African countries can reduce IFFs significantly they would not have to borrow the huge sums of money they do from developed countries and organisations. Unfortunately, the global pandemic further deepens the plight of African countries particularly countries like Mozambique, Angola, Cape Verde, Congo, Djibouti, and Egypt who are already in distress with more than 100% external debt-to-GDP ratio. The far-reaching consequences of the global pandemic have left a rather complicated economic puzzle for even developed countries to solve, therefore one can only speculate how high debt-distressed developing countries can navigate these unchartered financial territories. A report published by the African Union on the economic impact of the pandemic revealed that Africa could lose up to $500 billion because of the direct and indirect consequences of the covid-19 pandemic. This estimate somehow foretells huge additions to the debt stock of African countries in the coming years (Sallent, 2020).

Interestingly, as the debt stock is projected to increase owing to the global pandemic, illicit financial flows are also projected to increase in these periods. It is expected that criminals will find the health sector more attractive for their money laundering activities. Since many countries, organisations and individuals have increased investments in the health sector significantly, it is envisaged that huge volumes of funds will be laundered through this sector thereby giving rise to more illicit financial flows.

Official Development Aid (ODA)

Aside from external borrowings from developed economies and international organisations, African countries also benefit hugely from Official Development Aid (ODA). ODAs are advanced to developing countries as direct official financing to boost economic growth and development in these developing countries. Apart from ODAs from developed economies which result from government-to-government programs, African countries also receive ODA inflows from international development organisations like the United Nations, European Union, the IMF, and the World Bank.

Between 1980 and 2018, sub-Saharan Africa received nearly $2 trillion in foreign direct investment (FDI) and official development assistance (ODA) but emitted over $1 trillion in illicit financial flows (Global Financial Integrity, 2017). Again, a critical evaluation of available data suggests if countries in the region can reduce the level of illicit financial flows from their economies, they may not have to depend heavily on ODAs as much as they currently do. The approximated annual value of capital flight from Africa is $88.6 billion, which far exceeds the estimated annual value of ODAs to Africa which stands at $48 billion (UNCTAD, 2020). According to UNCTAD, the estimated value of losses to developing economies resulting from tax avoidance on the part of multi-national companies (MNCs) stood at an amount of $100 billion in the year 2012 alone (UNCTAD, 2015). This figure when compared to the ODA inflows to developing countries which were estimated to be $115 billion for that same year lends support to the earlier assertions that African countries do not necessarily need ODAs if they can properly tackle the issue of illicit financial flows and capital flight.

Table 2: Top 10 ODA recipients and donors

2.1.1. Top 10 ODA receipts by recipient USD million, net disbursements in 2017			
1	Ethiopia	4 117	8%
2	Nigeria	3 359	6%
3	Tanzania	2 584	5%
4	Kenya	2 475	5%
5	DRC	2 280	4%
6	South Sudan	2 183	4%
7	Uganda	2 008	4%
8	Morocco	1 885	4%
9	Mozambique	1 776	3%
10	Somalia	1 760	3%
	Other recipients	28 373	54%
	Total	52 800	100%

2.1.2. Top 10 ODA donors USD million, net disbursements in 2017			
1	United States	11 190	21%
2	EU Institutions	6 851	13%
3	IDA	6 326	12%
4	United Kingdom	3 858	7%
5	Germany	3 691	7%
6	Global Fund	3 059	6%
7	African Dev. Bank	2 547	5%
8	France	2 362	4%
9	Japan	1 674	3%
10	Canada	1140	2%
	Other donors	10 103	19%
	Total	52 800	100%

Source: OECD

Table 2 shows the top 10 ODA recipients and donors in Africa. We also report the top bilateral donors to Africa from 2015 to 2017 in Table 3.

Table 3: Top bilateral donors by share of aids to Africa

		2015	2016	2017	3-year average	Africa as % of each donor's aid
						2015-2017
1	Ireland	277	251	261	263	75%
2	Portugal	105	72	61	80	70%
3	Netherlands	635	663	716	671	70%
4	Belgium	421	471	460	451	67%
5	Denmark	418	455	425	433	58%
6	Sweden	873	842	1 033	916	57%
7	Luxembourg	128	123	130	127	55%
8	Iceland	13	15	15	14	52%
9	United Kingdom	4 203	3 857	3 858	3 973	52%
10	United States	9 320	9 840	11 190	10 117	51%
	Other DAC countries	10 483	10 625	11 625	10 911	30%
	Total DAC countries	26 877	27 213	29 776	27 956	42%

Source: OECD

Table 4: Illicit financial flows out of Africa, by destination region (1980-2018)

Destination region	IFF (millions of USD)	IFF (% of bilateral trade)
East Asia & Pacific	387,256	16.5
Europe & Central Asia	360,517	11.1
Sub-Saharan Africa	181,869	10.3
North America	136,304	11.2
Middle East & North Africa	123,680	20.7
Latin America & Caribbean	31,761	10.8
South Asia	8,599	1.2

Source: Global Financial Integrity

Table 4 shows the main destinations of illicit financial flows from Africa. The summary of all three Tables (2 - 4) is that the main destinations of Africa's IFFs are the main sources of Africa's ODA. The figures from the tables above show that Africa contributes massively to other regions of the world.

Statistical gleaned from the IMF data shows that from the year 2000 to 2015 a total of $836 billion was lost by African countries through illicit capital flight. When this figure is compared to Africa's total external debt stock of $770 billion as of 2018, one can agree with the view that Africa is a net creditor to the world. (UNCTAD, 2020)

Healthcare and Illicit Financial Flows in Africa

Health issues remain of key concern to many countries and organisations across the globe. It is not surprising that most of the sustainable development goals (SDGs) are related to health either directly or remotely. According to the World Health Statistics report, Africa's share of the world's population is 16% and the continent also carries 23% of the global disease burden (World Health Organization, 2020). It is estimated that a financing gap of over $370 billion is required annually to achieve the health-related SDGs. The financing gap for Africa is worse partly because the rest of the world spends 10 times more in per capita terms than Africa. The SDGs related to health are very ambitious and rightly so because the health condition of a people is of utmost importance to their all-round development. The health-related SDGs are aimed at ending the "big three" killer diseases that are predominantly endemic in Africa, these are, HIV-AIDS, malaria, and tuberculosis. In addition to this, the health-related SDGs are targeted at significantly reducing child mortality as well as deaths of children below the age of 5 (UN-SDGs, 2015). Huge financial investments are a major prerequisite for the attainment of these ambitious goals by 2030.

While most African countries have scaled up their proportion of total expenditure invested in the health sector, generally, across the continent, low health financing still poses a huge challenge to health care delivery. This situation has been exacerbated by the slow rate of economic growth and high rate of public indebtedness which have constrained the fiscal space governments have in providing healthcare for their citizens. Although aggregate healthcare financing in Africa has failed to surpass the previous 6% figure recorded between the periods 2010-2015, on average, Africa's healthcare financing in per capita terms has seen an increase from $150 to $292 (UNECA, 2019).

Unfortunately, in Africa, the larger portion

of health expenditure is borne by individual households. The WHO's report published in 2010 revealed that over 37% of health-related expenditure in Africa was financed through out-of-pocket payments by individuals and households (WHO, 2010). To put this in perspective, about 11% of the African population are overburdened with high costs of healthcare delivery while some 38% of Africans must either defer or forgo health care because of exorbitant costs of health care.

These statistics reveal the herculean nature of the SDGs related to health and seek to suggest that for these targets to be achieved, particular attention must be given to the mode of financing of health care, especially in Africa. There must be a shift from the out-of-pocket mode of payment by individuals and households to funding of healthcare through domestic government financing. Currently, most governments in Africa depend heavily on Official Development Aid (ODA) to help fund their healthcare needs. However, global statistics show that ODAs represent an unsustainable and unrealistic way of financing healthcare (WHO, 2010). These statistics reveal that in 2016, ODAs accounted for just 0.2% of global health expenditure, and 0.9% for Africa which records show has been the same 7 years prior because of the global financial crisis in 2008. Given Africa's heavy reliance on ODA, this figure tells a lot about the role of ODAs in health financing on the continent. Apart from China, which has now emerged as a major donor to healthcare in Africa, funds from existing donors have become very inadequate in helping bridge the financing gap in the health sector. Table 5 reports sources of revenues for Africa from 2014 to 2018.

Table 5: Financial flows by year (in billions of USD)

Sources of Revenue for Africa	Year				
	2014	2015	2016	2017	2018
FDI (Inflows)	53.9	56.9	46.5	41.4	45.9
Portfolio Investment	30.4	22.2	6.2	57.1	36.5
Remittances	71.8	71.4	67.5	77.6	84.2
ODA (Net Total)	54.1	50.1	50.4	53.8	55.3
Public Revenue (Excluding Grants	524.7	438.2	394.2	425.9	483.6
External debt (for SSA)	432.67	438.67	474.24	542.871	569.8
Illicit financial flows (Estimated Annual Average)	50	50	50	50	50
Capital flight (estimated annual average)	88.6	88.6	88.6	88.6	88.6

Sources: OECD, IMF, World Bank, UNCTAD, KNOMAD Remittances Data

On the back of this, in recent times some researchers have suggested that perhaps it is important for Africa to search domestically for financing alternatives with viable options like taxation. Increasingly, it is becoming obvious particularly in this post-covid era that most countries have started looking to inward solutions to finance their healthcare needs. This is where illicit financial flows could play a key role. The WHOs report of 2010 highlighted the fact that on average, 20% to 40% of resources in the health sector are lost annually to systemic inefficiencies. In Africa, portions of these losses are deliberately caused by health workers whose aim is to fraudulently redirect resources for their gains. A typical example is a rather worrying news that broke in Ghana in April 2021 on the sale of covid-19 vaccines by health workers which were originally meant to be administered for

free to citizens as well as news on the theft of blood from the blood bank of a major hospital (Ghana web, 2020). According to GenKey (2016), an amount of $487 billion is lost annually across the globe because of medical fraud. The menace of medical fraud is even more pronounced in Africa due to the lack of strong financial and medical accounting systems. A study conducted on several health insurance schemes in Africa revealed that between 15% to 20% of healthcare resources are lost to medical fraud. These illicit funds in addition to other forms of illicit funds obtained through tax avoidance or evasion, trade misinvoicing among others collectively account for the estimated $88.6 billion that is lost by Africa every year through capital flight and illicit financial flows. The WHO estimates Africa's financing gap for healthcare at $66 billion annually. This figure puts the estimate of capital flight into better perspective, showing clearly that Africa has the wherewithal to finance its healthcare programs, however, these funds are lost to other continents through capital flight and illicit financial flows.

Education and Illicit Financial Flows in Africa

Like health, education plays a crucial role in economic growth and development. However, disparities in the outcome of education are relatively less pronounced in reference to capital flight. Knowledge acquisition through investment in quality education is associated with high productivity at the national level. Unfortunately, for most African countries, microeconomic factors like individual household income levels are the major determinants of the education levels rather than macro-level factors like illicit financial flows and capital flights (Klasen and Lamanna, 2009; Trenczek, 2016). For this trend to be reversed, adequate financing for education must be provided by domestic governments to bridge the infrastructural gap in the education sector as well as ensure the availability of well-trained teachers (Klasen, 2002; Trenczek, 2016). It is important to note that for countries to be able to provide greater access to quality education, they must find the right balance between investments in infrastructure and human resources (both teaching and non-teaching staff). While African countries strive to boost their level of investment in education, they must ensure that current funds committed to the education sector are disbursed and utilised in an efficient manner (Grigoli, 2015; Ihugba et al.; 2019). Inefficient utilisation of education expenditure is common among African countries particularly in the rural areas and is a consequence of the predominance of the rural population, poor infrastructure, and high-income inequality.

The worrying demographic characteristic of African countries makes it imperative for domestic governments to mobilize adequate funding to significantly increase their financing of education and its related programs since education has been strongly linked with high productivity and economic development (UNESCO, 2020). Extant literature posits a negative relationship (howbeit indirect) between capital flight and public investment in education. According to Alfers (2016), low capital flights impact positively on a countries productivity level by freeing up funds for domestic investment. As countries invest inward funds that would have hitherto been lost to other foreign countries through capital flight or illicit financial flows, national income is increased. This boost in the private and public sectors gives rise to more financial resources for investments in the education sector.

Table 6: Public Spending on education (% of GDP)

Country	Percent of GDP in Africa
Lesotho	6.99
Sierra Leone	6.99
South Africa	6.16
Zimbabwe	5.87
Mozambique	5.50
Burkina Faso	5.38
Togo	5.37
Kenya	5.10
Soa Tome & Principe	5.15
Burundi	5.08
Mauritius	4.83
Senegal	4.83
Malawi	4.71
Zambia	4.62
Ghana	3.99
Tanzania	3.70
Djibouti	3.63
Niger	3.55
Republic of Congo	3.51
Ivory Coast	3.26
Cameroon	3.13
Rwanda	3.07
Benin	2.93
Madagascar	2.83
Liberia	2.58
Gambia	2.42
Guinea	2.32
Uganda	2.13

Source: UNESCO

Table 6 details Africa's public spending on education for 2018. On average, for the 28 African countries above, the percentage of public spending on education was 4.28. According to the UNESCO data used, the highest value was recorded by Lesotho (6.99%) and the lowest by Uganda (2.13%).

Sustainable development goal number 4 (SDG 4) is related to education, particularly, with the mandate to *"ensure inclusive and equitable quality **education** and promote lifelong learning opportunities for all."* The goal generally emphasizes on the quality and access to education especially in low-income countries and therefore requires huge financial resources to meet the targets enshrined in SDG 4. Currently, African countries' expenditure on education stands at 5% of GDP, a figure which places Africa at second on the continental rankings of education expenditure and puts the continent on track to achieve UNESCO's target of making universal primary education accessible by the year 2030. This figure also means that 50% of African countries are meeting the educational financing targets set by the United Nations. However, in absolute terms, this 5% of the GDP of African countries is woefully inadequate to cover the current annual educational financing gap of $41 billion (Dhruy, 2020).

As Africa strives to raise the needed funds to finance its educational expenditure, the continent must cope with safeguarding available resources which are lost to other regions through illicit financial flows and capital flight. From the statistics published earlier, one can glean that Africa remains one of the least efficient continents with regards to the usage of funds allocated to education and its related programs. More so, the estimated financing gap of $41 billion for education in Africa points to the fact that Africa has what it takes to bridge this gap if illicit financial flows alone could be curtailed to safeguard existing funds for investment in education. Indeed, if Africa could save 50% of what the continent loses to IFFs, that should go a long way to providing access to not only quality but free education across the continent.

How Africa's Medical Training Benefits the Developed Countries

Whilst Africa seeks to increase spending in education, we must look to also plug the hole in the losses accruing from the loss of trained medical doctors from the continent. The migration of health professionals from low income developing countries to advanced economies resulted caused the World Health Assembly to unanimously adopt the first code of practice on the international recruitment of health personnel, which recognizes problems related to the global shortage of health staff and calls for all countries to mitigate the negative effects from the migration of health workers in 2010 (see Mills et. al., 2011). The lost investment of domestically educated doctors migrating from sub-Saharan African countries (with a critical shortage of doctors, nurses, and midwives) to Australia, Canada, the United Kingdom, and the United States amount to billions of dollars of taxpayers' money. Africa experiences 24% of the global burden of disease, it has only 2% of the global supply of doctors, and less than 1% of expenditures are on global health (Scheffler et al., 2008).

Table 7 shows the expenditure on medical school by selected countries in 2011. Mills et al. (2011) document the costs of medical training in their study to range from $18 870 in Uganda to $40 383 (South Africa), which also had the highest total education cost for each medical student at $58 698 as depicted in the Table with total loss of return on investment for all doctors working in the destination countries (Canada, Australia, United Kingdom, United States of America) estimated to be $2.17bn. The study documented further that the ratio of the estimated compounded loss in investment over gross domestic product showed that Zimbabwe and South Africa had the largest losses and the benefit to destination countries of recruiting trained doctors was largest for the United Kingdom ($2.7bn) and United States ($846m)

Table 7: Expenditure on medical schools in nine sub-Saharan African countries

Country	Year	Estimated Amount (USD) including primary, secondary, and tertiary and loss of return on investment (USD, millions) (2nd column)	
Ethiopia	2011	29 898	24.63 (22.85 to 26.40)
Kenya	2011	36 453	16.75 (14.97 to 18.50)
Malawi	2011	34 286	2.16 (1.55 to 2.78)
Nigeria	2011	36 410	654.27 (649.57 to 658.50)
South Africa	2011	58 698	1412.70 (1382.51 to 1435.95)
Tanzania	2011	27 256	3.49 (2.81 to 4.17)
Uganda	2011	21 040	13.61 (12.31 to 14.85)
Zambia	2011	27 749	12.14 (10.68 to 13.58)
Zimbabwe	2011	38 620	39.61 (35.87 to 43.27)

Source: Millis et al. (2011)

Social Protection and Illicit Financial Flows in Africa

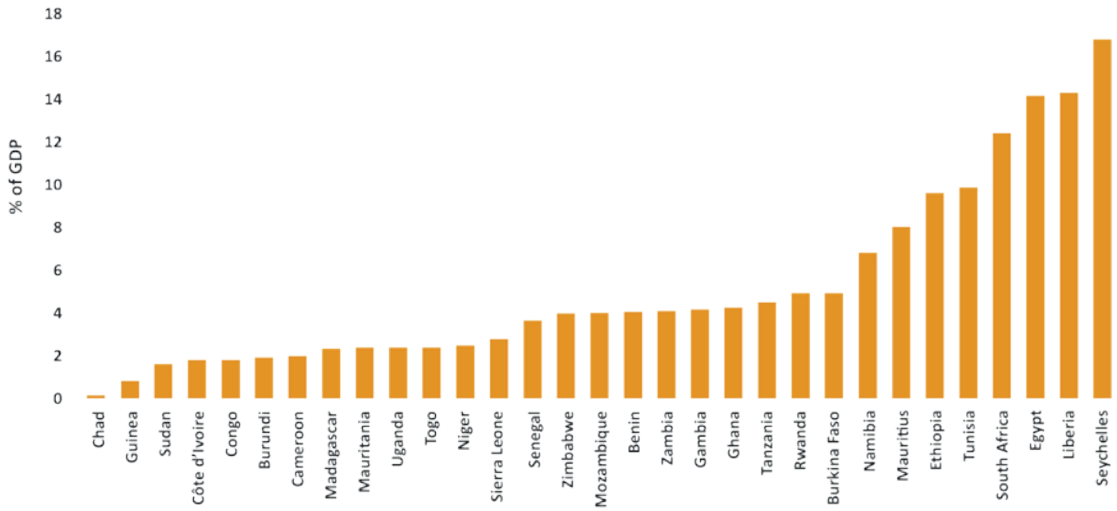
Social protection refers to all programs, policies, and strategies implemented, aimed at reducing poverty and vulnerability (Holmes & Lwanga-Ntale, 2012). Social protection programs have proliferated African countries for the past couple of decades with particular emphasis on typologies and coverage. Social protection programs also known as social safety nets include programs on unconditional cash transfers (UCT), conditional cash transfers (CCT), social pensions, school feeding, health programs, education, etc. Although globally countries spend an average of 1.5% of their GDP on social protection programs, according to the World Bank's latest social safety net report, in developing countries, only one out of five people benefit from social protection programs (World Bank, 2018). In addition to this, the report also revealed that over 50 million people escaped poverty through social protection programs in 2018 alone, underscoring the importance of such programs.

These success stories have encouraged many countries to commission more of such programs and encourage a wider coverage of existing ones. Particularly in Africa, countries like Tanzania and Senegal have significantly scaled up investment into such programs over the past decade to increase coverage and make their impact far-reaching. Tanzania for instance has increased the budget on its flagship Productive Safety Net Program to cover 10% of the population from the previous 0.4% bringing their total spending on social protection to 0.3% from the initial 0.03% of GDP that the country recorded in 2013. Similarly, Senegal also scaled up investment in their National Cash Transfer Program in 2016 to cover 16% of their population from the 3% it recorded in 2013, lifting the country's expenditure on social protection from 0.05% in 2013 to 0.2% in 2016 (World Bank, 2018).

Investments in social protection programs directly or indirectly lead to poverty alleviation as well as reducing income inequality (Africa Growth Initiative, 2018). Going forward, countries have been admonished to make their social protection programs more adaptive, to make them responsive to different shocks like financial and economic shocks, climate change, and other unforeseen contingencies (Copley, 2018). Social protection programs demand a lot of financial investment while their benefits usually span across several years. According to the United Nations (2019), the global annual financing gap for the sustainable development goals (SDGs) stands at $2.5 trillion indicating that for these goals to be achieved by the stipulated 2030 deadline, countries especially low-income countries will have to scale up their level of investment into social protection programs.

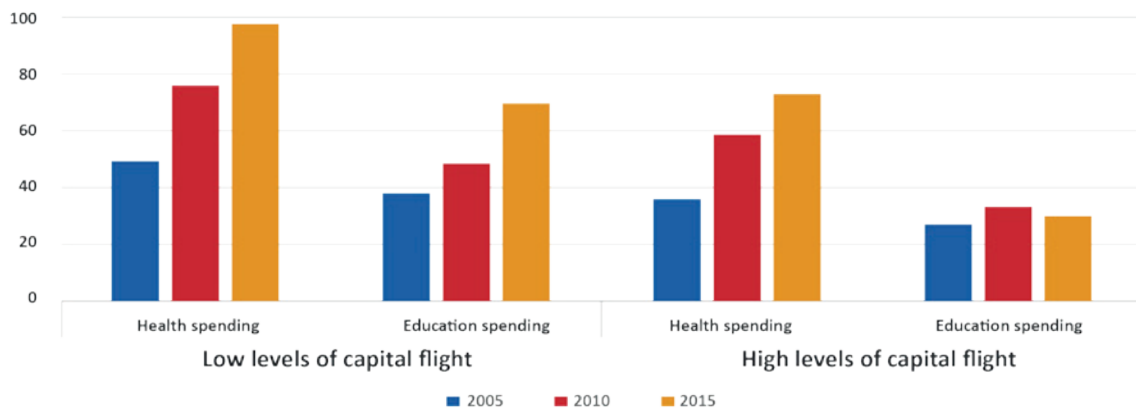
From Figure 2 we observe that most African countries invest less than 10% of their GDP on social protection programs and highlights the existence of a challenge to increase the coverage of such programs. In South Africa for instance, a large percentage of their social security expenditure is dedicated to health care, education, work-related benefits (ILO, 2010). This pattern of expenditure on social protection programs cuts across the rest of the African continent especially Sub-Saharan Africa where most funds allocated to social protection goes into either health or education-related programs.

Figure 2: Public Total Social Security Expenditure as a % of GDP (Selected countries)



Source: International Labor Organisation (ILO)

Figure 3: Total health and education expenditure, median by level of capital flight (Dollars per capita)



Source: UNCTAD

Figure 3 on the other hand details Africa's spending on health care and education disaggregated into countries with low levels of capital flight and countries with high levels of capital flight. Specifically, for African countries, apart from huge volumes of capital flight and illicit financial flows other illicit activities in the form of tax avoidance and evasion particularly in the extractive sector detract from the productivity of these countries thereby undermining their efforts to provide much-needed infrastructure for health and education sectors. The Figure shows that African countries that can curb capital flight and retain a high percentage of their much-needed capital do invest more in healthcare and education. Rightly so, as argued earlier, social protection programs

related to health and education require a lot of financial wherewithal hence a substantial budget allocation. Therefore, when African countries can retain and protect existing funds from escaping their borders through capital flight and illicit financial flows, they will be able to build the fiscal capacity to invest in these social protection programs towards the course of alleviating poverty and reducing inequality.

State of Inequality in West Africa and Covid-19

Inequality has reached a crisis level before the pandemic hit (Oxfam, 2019). The body reports that inequality is at crisis levels in West Africa where just a small but growing number of people are becoming fantastically rich, the vast majority are denied the most essential elements of a dignified life, such as quality education, health care, and decent jobs, despite remarkable economic growth driven by extractive industries. Though West Africa has witnessed economic growth in the last couple of decades, in most countries however the benefits of this unprecedented economic growth have gone to a tiny few where inequality has reached extreme levels in the region, and that in 2019, the wealthiest 1% of West Africans own more than everyone else in the region combined (Oxfam, 2019). It was reported by the Oxfam Commitment to Reducing Inequality that, West African governments are least committed globally to reducing inequality in 2019. The Brookings Institute in 2018 documented that:

- Inequality is rising in Africa led by Nigeria and DRC.
- Nigeria (87 million) now leads worldwide on inequality ahead of India (73 million).
- 6 people fall into poverty per minute.
- Africa accounts for about two-thirds of the world's extreme poor and 90% by 2030.
- Fourteen out of 18 countries in the world—where the number of extreme poor is rising—are in Africa.

United Nations Development Programme (UNDP) finds that Africa's new wealth is increasingly concentrated in a few hands and that disproportionately, 10 of the world's 19 most unequal countries are in sub-Saharan Africa. Inequality is also rife in the provision of public services, such as education and healthcare. For example, women from rich families in Mali are 15 times more likely to have received a secondary education than those from poor families and in Nigeria and Ghana, a woman from a poor family is 26 and 14 times more likely never to have been to a school than one from a rich family respectfully. Several factors including government's commitment to reducing inequality have been offered for the worsening inequality on the continent. Illicit flows have been identified as one of the drivers of inequality on the continent according to the UNDP report cited earlier. Illicit financial flows (IFFs), stemming from crime, corruption, and tax evasion, have an outsised impact on the world's poorest countries, and that the report also finds strong correlations between higher illicit outflows and higher levels of poverty and economic inequality (Global Financial Integrity, 2015). In addition, (i) the highly dualistic economic structure, with limited employment leaves the elite in government, multinational companies (MNCs), and the resource sectors, whereas the majority of people earns much lower incomes in the informal or subsistence sector; (ii) the high concentration of physical capital, human capital, and land, especially in the economies of East and Southern Africa, in certain groups or regions; and (iii) the limited distributive capacity of the state, which often manifests in the 'natural resource curse', the urban bias of public policy and ethnic and gender inequalities (UNDP, 2017). This notwithstanding, the ongoing pandemic has exacerbated the vulnerabilities and threatens to reverse decades of progress against poverty and other development outcomes.

The pandemic has been characterised by job losses, reduced wage hours, furlongs, business closures, and the containment measures have interfered directly with the livelihood of the poor, marginalised, socially excluded in society and those operating in the contact-intensive sub-sectors of West African economies. These without a doubt will worsen the already aggravated inequality situation.

3

Data Sources and Measurements

To achieve the objectives of the project, several reliable databases such as the International Monetary Funds (IMF) Direction of Trade Statistics (DOTS) datasets, as well as, the World Bank World Development Indicators (WDI), Database of Political Institutions 2020 (DPI2020), the Regional Strategic Analysis and Knowledge Support System (ReSAKSS) and various national sources were consulted for data on the ECOWAS subregion between 1980 to 2020. Table 8 presents a list of all the countries together with their ISO codes considered in our analysis. Overall, there are 15 countries in the ECOWAS subregion.

Table 8: Countries in the ECOWAS subregion

Countries	Country code	Countries	Country code
Benin	BEN	Burkina Faso	BFA
Cabo Verde	CPV	Cote d'Ivoire	CIV
Gambia, the	GMB	Ghana	GHA
Guinea	GIN	Guinea-Bissau	GNB
Liberia	LBR	Mali	MLI
Niger	NER	Nigeria	NGA
Senegal	SEN	Sierra Leone	SLE
Togo	TGO		

3.1 Construction of Illicit Financial Flows

As shown in the most recent report of GFI (2019), we have followed the trade approach to estimate the measure of IFFs used in the analysis.

Estimating Trade Mis-invoicing

To measure trade mis-invoicing we follow GFI's estimation of trade mis-invoicing by Spanjers and Salomon (2017) where the main assumption is that whatever export or imports that was reported by advanced countries but not equally reported by developing countries, are illicit financial flows. In their approach they used trade flows from the Direction of Trade Statistics (DOTS) datasets of the IMF database. The equations used in estimating import (ID) and export (ED) discrepancies by can be specified as:

$$ID_{jw,t} = \frac{I_{j,t}}{r} - X_{w,t} \quad (1)$$

$$ED_{jw,t} = \frac{I_{w,t}}{r} - X_{j,t} \quad (2)$$

where $I_{j,t}$ are imports by ECOWAS country j from the world w at time t, $I_{w,t}$ is the world w's imports from the ECOWAS country j at time t. Here, $X_{j,t}$ are ECOWAS country j's exports to the world at time t, and Xw,t is the world w's exports to the ECOWAS country j at time t. To make the import and export data comparable, we convert the reported CIF (cost, insurance, and freight) data on import to a FOB (free on board) basis by assuming the cost of trading (r) to be 6 percent. From equation (1), whenever ID is negative, we record the value as import under-invoicing (illicit inflows) whereas positive values denote over-invoicing (illicit outflows). Likewise in equation (2), negative values of ED are interpreted as export over-invoicing (illicit inflows) with positive values signifying export under-invoicing (illicit outflows). For our analysis, we do not take the part of the IFFs explained by the unrecorded balance of payment flows into account which is mostly taken from the IMF's Balance of Payment (BOP) database. This is because the net errors and omission (NEO) recorded may either be of a legitimate error or not. More so, due to missing observations on the NEO for most of the countries in our sample, we only focus on Illicit outflows in most of the analysis unless otherwise stated.

3.2 Describing the Data

3.2.1 Illicit Financial Flows

As summarised in the GFI 2019 IFF report, *"illicit inflows are a type of resource curse in that (a) their origin is unknown, (b) inflows are invisible to governments, (c) they are not*

taxed, and (d) they often times fuel illegal activities such as drug trafficking". For these reasons and as stated above, we will only focus on illicit outflows as a measure of illicit financial flows (IFFs, hereafter) and use the terms interchangeably.

Using data from 1980 to 2020, Table 9 presents the 41-year averages from equations (1) and (2) of illicit financial flows (IFFs, here after) as percent share of GDP. From the Table, Liberia recorded the highest outflow over the 41-year period which is about 98% of the country's GDP. This is followed by Cabo Verde (35% of GDP) and Sierra Leone (25% of GDP). Those with some of the lowest values in the subregion include Ghana (5% of GDP), Niger (6% of GDP) and Cote d'Ivoire (6.5% of GDP).

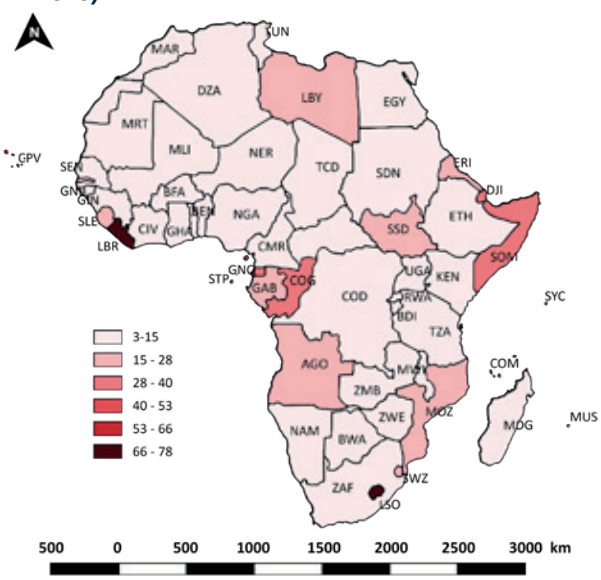
Table: Illicit outflows (% GDP) in the ECOWAS subregion (41-year average: 1980 - 2020)

Country	IFFs (%GDP)
Benin	10.164
Burkina Faso	8.381
Cabo Verde	35.290
Cote d'Ivoire	6.508
Gambia, The	17.657
Ghana	5.036
Guinea	7.172
Guinea-Bissau	8.222
Liberia	98.421
Mali	10.978
Niger	5.748
Nigeria	6.512
Senegal	9.866
Sierra Leone	24.532
Togo	12.245

Source: Authors' construct using data from the IMF's DOTS

In comparing the results in Table 9 to the rest of Africa, we present a pictorial view of the level of illicit outflows across the region while taking the size of an economy into account by acknowledging that, a country's economic size is highly correlated with the size of illicit outflows in Africa. From Figure 4, countries in the African region such as Liberia (LIB), Lesotho (LSO), Republic of Congo (COG) and Somalia (SOM) show some of the highest values of outflows over the 41-year period.

Figure 4: Illicit Outflows across Africa (1980 -2020)



Source: Authors' construct using data from the IMF's DOTS

3.2.2 Destination of Illicit outflows from the ECOWAS

The ECOWAS subregion has numerous trading partners but is not limited to those listed in Table 10. The Table reports the total sum of illicit outflows from the subregion into the top 5 exporter countries (trading partners where ECOWAS countries import from) of each ECOWAS country. For example, China, United States, United Kingdom, India, and Belgium are the top 5 exporters to Ghana, whereas Senegal, China, Cote d'Ivoire, France, and Germany are the top 5 exporters to Mali. To present the estimates in the Table, we concentrate on countries which appear the most among amongst the top 5 exporters

into the subregion. Using information from the World Integrated Trade Solution (WITS, 2020) database, 14 (out of 15) countries in the subregion have China among its top five exporters followed by France (9), India (8) among others. In the subregion, Cote d'Ivoire and Nigeria are among the countries that meet some of the regions exporting demands. Interestingly even as Nigeria is among the top 5 exporters to countries such as Cote d'Ivoire, Niger, and Senegal, a country like Cote d'Ivoire turns to be among the top 5 exporters to countries such as Burkina-Faso, Gambia, and Mali. This means there is a possibility that goods that were originally labelled as an import into Nigeria (with the main exporter being India) may be intended to be travelling to Cote d'Ivoire as the destination contributing to the difficulties in estimating the actual illicit flows in the subregion.

Table 10: Total sum of illicit outflows to top exporters of ECOWAS (1980-2020)

	Exporter	Illicit Outflows (millions of USD)
1	China[14]	141000
2	France[9]	113000
3	India[8]	155000
4	Netherlands[6]	69500
5	United States[6]	410000
6	Belgium[5]	59200
7	Thailand[3]	26500
8	Cote d'Ivoire[3]	50100
9	Nigeria[3]	56500
10	Portugal[2]	39100

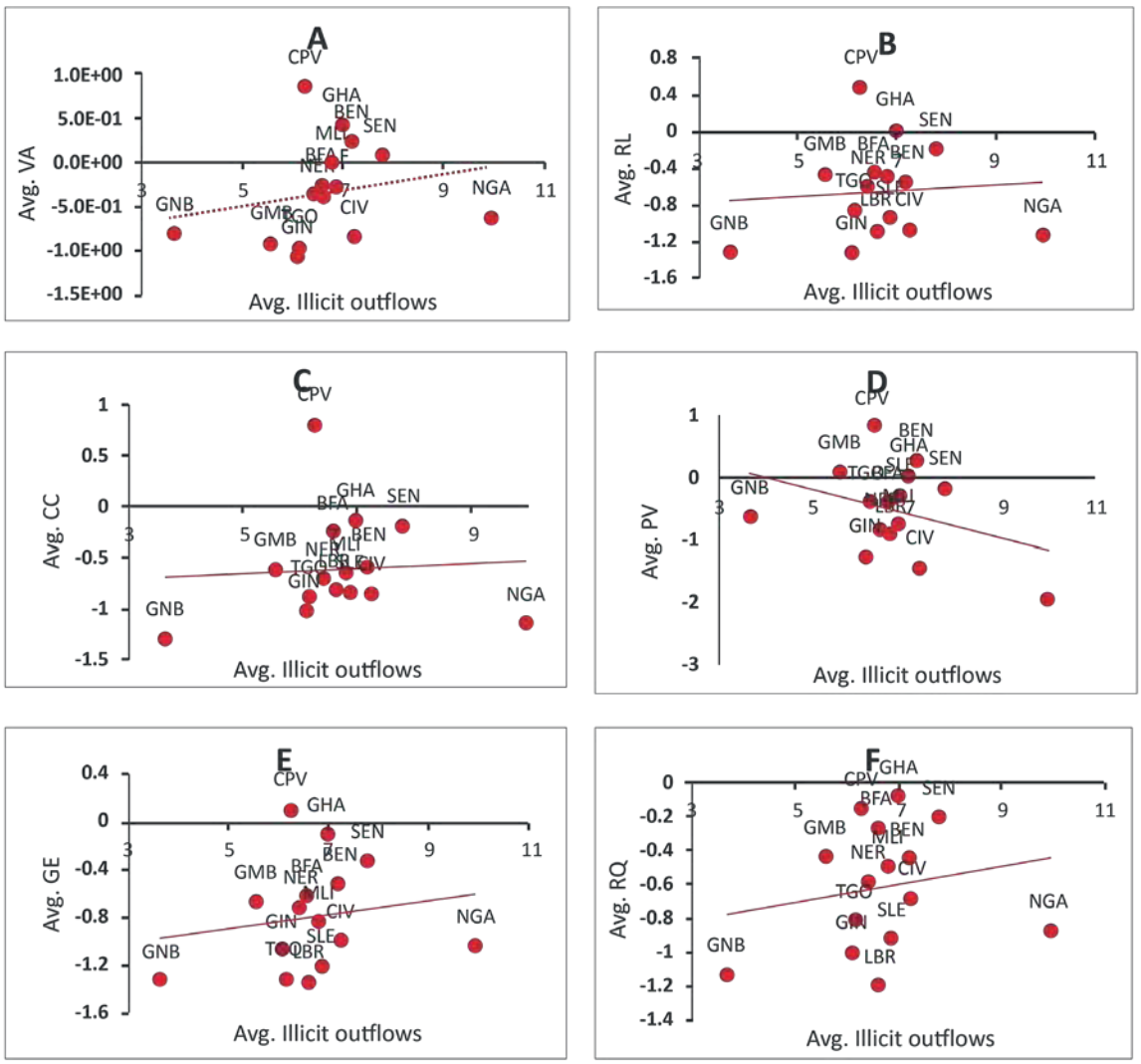
Notes: The superscripts are the number of countries in the region that have a reported country as one among 5th of top exporter countries.

Column 2 of the Table shows the total sum of illicit outflows because of trading with China to be around 141 billion US Dollars over the last four decades. Even though 6 countries in the region have the United States amongst their top 5 exporters, an estimated 410 billion US Dollars has been lost through illicit outflows from the subregion from 1980 to 2020. This makes the United States the highest destination of Illicit outflows in the subregion, followed by India and France where outflows over the years have been estimated to be approximately 155 and 113 billion US Dollars, respectively.

3.2.3. Correlation with governance indicators

Illicit activities have been linked to governance measures such as inability to control corruption, weak regulations, low accountability among others (see Goredema, 2011; Asongu et al., 2017; Osei-Assibey et al., 2018; Signé et al., 2020). For these reasons, we test the association between our measure of Illicit outflow and governance indicators taken from the World Bank World Governance Indicators (WGI, 2020). Holding all things constant Figure 5 displays a linear association between the IFFs and the World Bank governance indicators with negative correlation between political stability and absence of violence (Panel D) and illicit outflows. This result is not surprising due to the dominance of weak and under-developed institutions in the subregion.

Figure 5: Illicit outflows and governance indicators in the ECOWAS region (2002-2019)



Notes: On the X-axis we have the averages of the natural logarithms of the estimated Illicit and on the Y-axis the various governance indicators in Panels A – F where A (voice and accountability), B (rule of law), C (corruption control), D (political stability and absence of violence), E (government effectiveness), and F (regulatory quality).

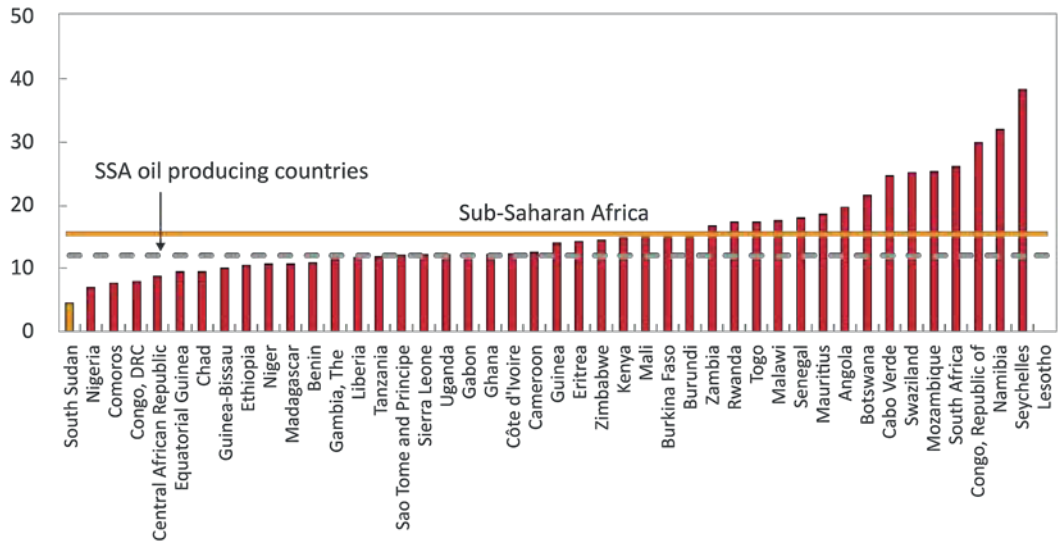
Source: Authors' construct.

3.2.4 Estimating Lost Revenue and its impact on Social Spending

The most pressing policy issue confronting West Africa today is domestic revenue mobilisation during a pandemic that has impacted practically every facet of life (both lives and livelihoods). The IMF contends that SSA could raise between 3-5% of GDP in additional revenue translating to between 50 to 80 billion dollars far more than the ODA (36 billion dollars) it received in 2016. This represents forgone development in education, health, and social protection. It

is understood from the literature that, approximately 50% of revenue losses are a result of corruption.

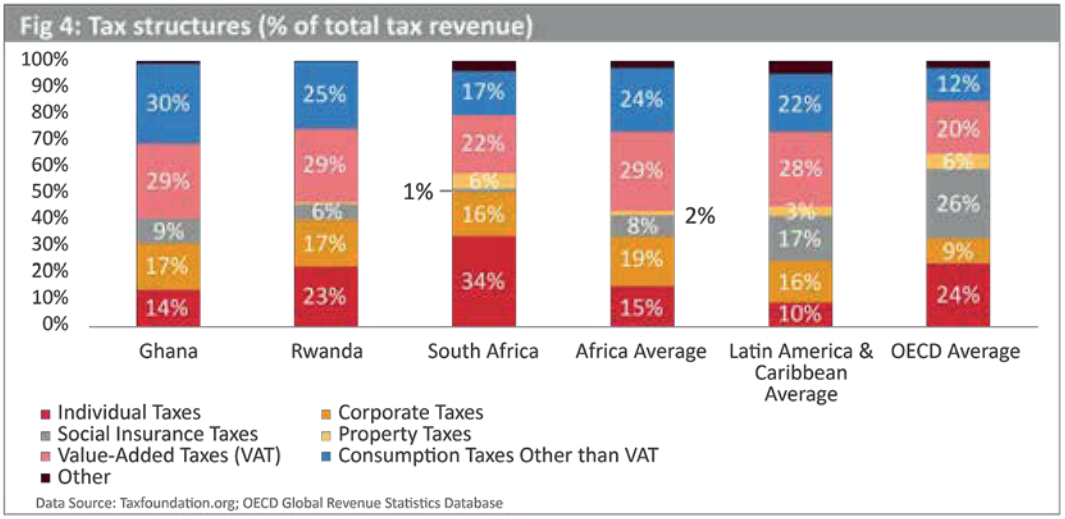
Figure 6: Non-oil tax revenue in Sub-Saharan Africa (2019, % of GDP)



Source: IMANI, 2021

The median revenue to GDP ratio among all emerging markets and developing economies is estimated to be 23% whilst Ghana's own is less than 13% of GDP, Nigeria less than 7% of GDP, Senegal 18% of GDP, and Cote d'Ivoire 14% as shown in Figure 6. From Figure 7, we observe inefficiencies exist across all the tax handles explaining the dwarfed revenue envelope. Though the introduction of VAT has improved revenue generation, greater attention should be paid to pro-poor spending and social protection measures requiring that countries use part of the resources raised through the VAT to ensure that any potentially negative distributional impact is adequately offset on the expenditure side (IMF, 2018).

Figure 7: Tax structures (country and regional averages)



Source: IMANI (2021)

Though Senegal and Cote d'Ivoire are doing better than Ghana and Nigeria, gaps still exist in comparison with the median for emerging and developing economies as illustrated in Table 11.

Table 11: Current tax effort and revenue gap among (selected countries)

Country	Current Tax Effort	EM&DE	GAP	Nominal Amounts
Ghana	12.6%	23%	10.4%	USD 7 billion
Nigeria	6.2%	23%	16.8%	USD 74.4 billion
Ivory Coast	17%	23%	6%	USD 3.7 billion
Senegal	18%	23%	5%	USD 1.3 billion

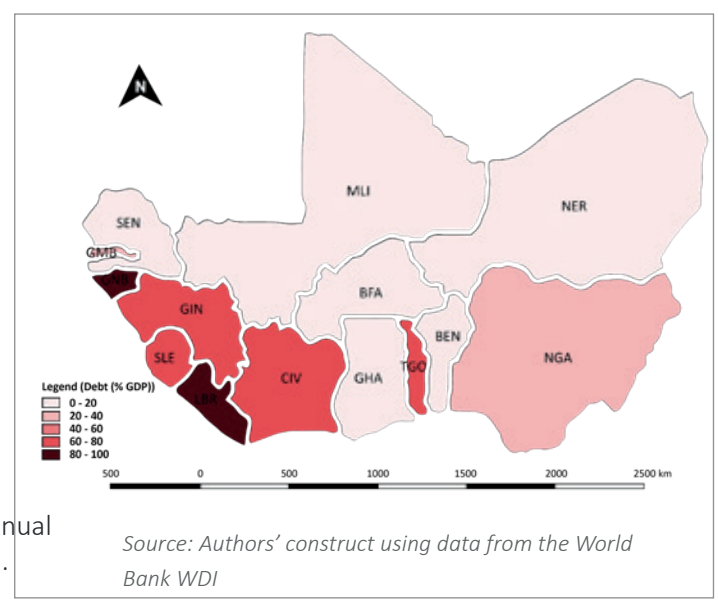
Source: Authors' estimation from the deviation of current 2019 tax to GDP ratio and median revenue to GDP ratio among all emerging markets and developing economies is estimated to be 23%.

The revenues lose for Ghana and Nigeria far exceed the total government allocation to health, education, and social protection. This represents the lost development of infrastructure and the general provision of social services. This could have built several hospitals and roads. For instance, Ghana is currently on a project of building 111 hospitals having borrowed USD 100 million. This represents forgone development and much-needed spending in education (currently at less than 4% of GDP though much of the spending goes to compensation of employees for Ghana and Cote d'Ivoire), health, and social protection. Clearly, governments tend to spend more in the areas of education, health, and social protection once the revenue generation capacity is secured. Given the level of poverty and inequality in Nigeria, the revenue gap is worrying and could have trained millions of medical doctors at an average cost of USD 36 410 even after adjusting for US inflation or build several roads at an annual median cost of USD 147,100 per lane km.

3.2.5 External Debt

In our analysis, we use external debt taken from the World Bank WDI (2020) as a share of a country's GDP. Again, we note that a country's debt is correlated with the size of the economy and plot these values in Figure 8. From the map we observe Guinea-Bissau (GNB) and Liberia (LIB) topping the group with values between 80-100, followed by countries such as Guinea (GIN), Cabo Verde and The Gambia with the least 41-year average recorded for countries such as Nigeria, Benin, and Burkina Faso.

Figure 8: Average plots of external debt (% GDP) in the ECOWAS region (1980-2019)



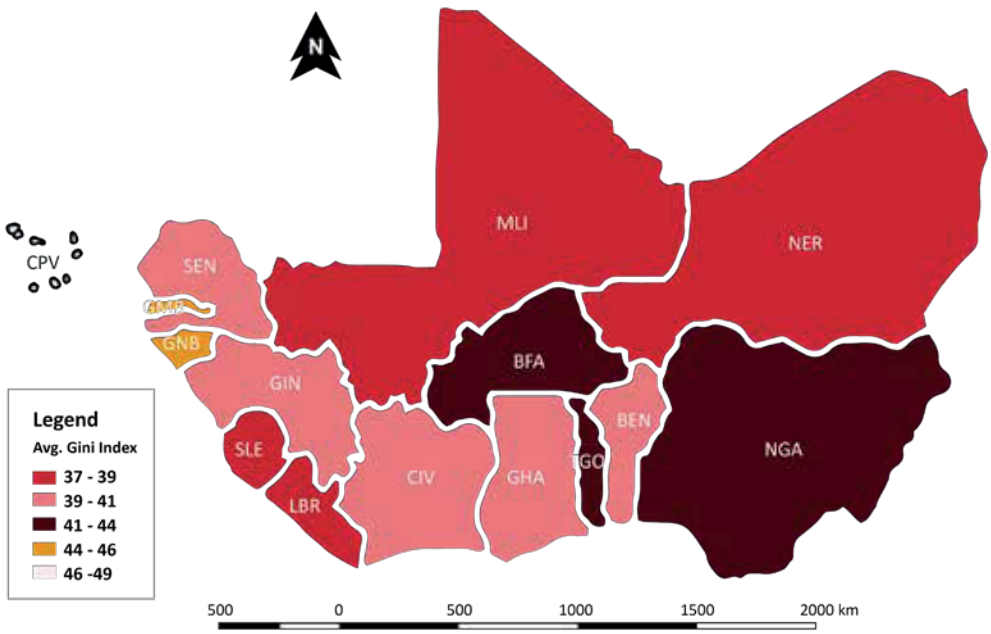
Source: Authors' construct using data from the World Bank WDI

3.2.6 Inequality

Using the Gini coefficient as a measure of inequality which captures the level of income inequality within a country, we plot

the yearly averages (30-year average) and present them in Figure 9. The Gini index is estimated on a scale of 0 (perfect equality) to 100 (perfect inequality). Even though income inequality is a global issue, both within and between countries, in general, there seems to be less variation (30-year average) across countries in the ECOWAS region with the highest level of inequality recorded in Cape Verde followed by Gambia and Guinea-Bissau.

Figure 9: Averages of Gini Index across the ECOWAS region (1991 - 2020)



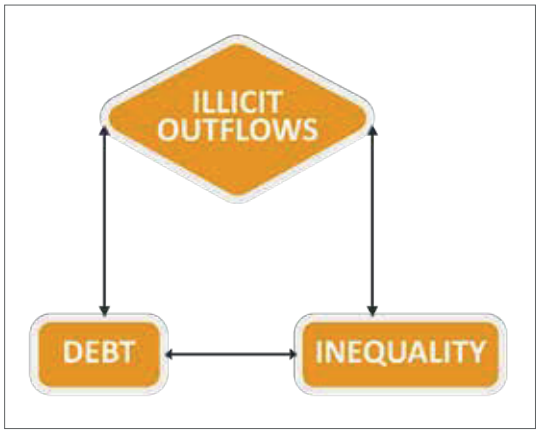
Source: Authors' construct using data from ReSAKSS.

4

Interlinkages between Debt, IFFs, and Inequality

With international inequality explaining about 85% of the world's inequality compared to 15% within countries (Milanovic (2005, 2012, 2015); UN General Assembly, 2015), all the analyses are focused across countries within the ECOWAS subregion. While IFFs can lead to flight-driven external borrowing, foreign loans can trigger debt caused by capital flight, thus intensifying government indebtedness (see Ndikumana, 2003; Beja, 2006; Kar and Cartwright-Smith, 2008; Ndikumana and Boyce, 2011) and eventually may lead to income inequality since individuals involved in such illicit activities may be enriching themselves at the expense of the people of a nation. Figure 10 illustrates the framework to be tested in the flow chart.

Figure 10: Framework to be Tested.



Illicit flows may lead to debt and/ or inequality and debt can lead to illicit flows and inequality. This signals a reversal effect between IFF and Debt (see Ndikumana and Boyce, 2011 for detailed discussions). It is possible this may not be the case for the sample of countries considered in this study. Since all directional effects are plausible, we can only test with data to be able to infer from the estimated results.

Then for a country i at time t, the model that links illicit outflows to debt can be presented in the following equation:

$$Debt_{it} = \sigma + \lambda Debt_{it-1} + \beta IFFs_{it} + X_{it}\Pi + \rho_i + \rho_t + e_{it} \quad (3)$$

and

$$IFFs_{it} = \alpha + \beta IFFs_{it-1} + \lambda Debt_{it} + X_{it}\Pi + \rho_i + \rho_t + v_{it} \quad (4)$$

where $Debt$ is measured as External Debt Stock (% GDP) taken from The World Bank and national sources. IFF is the measure of illicit financial outflows (% GDP) generated above. The traditional equation controls for additional regressors, X that potentially affect $Debt$ (% GDP) and IFF (% GDP) in equations (1) and (2), respectively (see Vighneswara 2015; Sadik-Zada and Gatto, 2019). This includes *inflation, GDP per capita growth, unemployment, population growth, and foreign direct investment*. All taken from the World Bank World Development Indicators (WDI), except unemployment taken from the International Labour Organisation (ILO). Also, we control for country, ρ_i and year, ρ_t fixed effects to account for any variation across space and time, and finally, e_{it} include time-varying unobservable shocks to the dependent variable. We estimate this dynamic panel models using the pooled ordinary least square estimator.

Additionally, IFFs and Debt may lead to increased inequality between countries by increasing the gap between low- and middle- income countries in the ECOWAS subregion.[1] For this reason, we explore variations across countries in the ECOWAS region by establishing a link between Debt and inequality as well as connecting IFFs to Inequality in separate equations. We do this because there may be a high correlation between IFFs and Debt and so it is not possible to use them as main explanatory variables in the same equation, to prevent the so-called multicollinearity among the variables for

1 See for instance Kar and Cartwright-Smith (2008), World Bank, (2016), Miyandazi, and Ronceray (2018). Adeleke (2019) and Bak (2020), Slany (2020) for discussions on the link between IFFs and Inequality, and Iacoviello (2008), Azzimonti et al. (2014), Marchionne and Parekh (2014), Dwyer (2018), Maebayashi and Konishi 2021) for evidence on the relationship between Debt and Inequality.

the above-mentioned reasons. These two equations can be specified as follows.

$$I_{it} = c + \varphi Debt_{it-1} + Z_{it}\Gamma + \rho_i + \rho_t + \mu_{it} \quad (5)$$

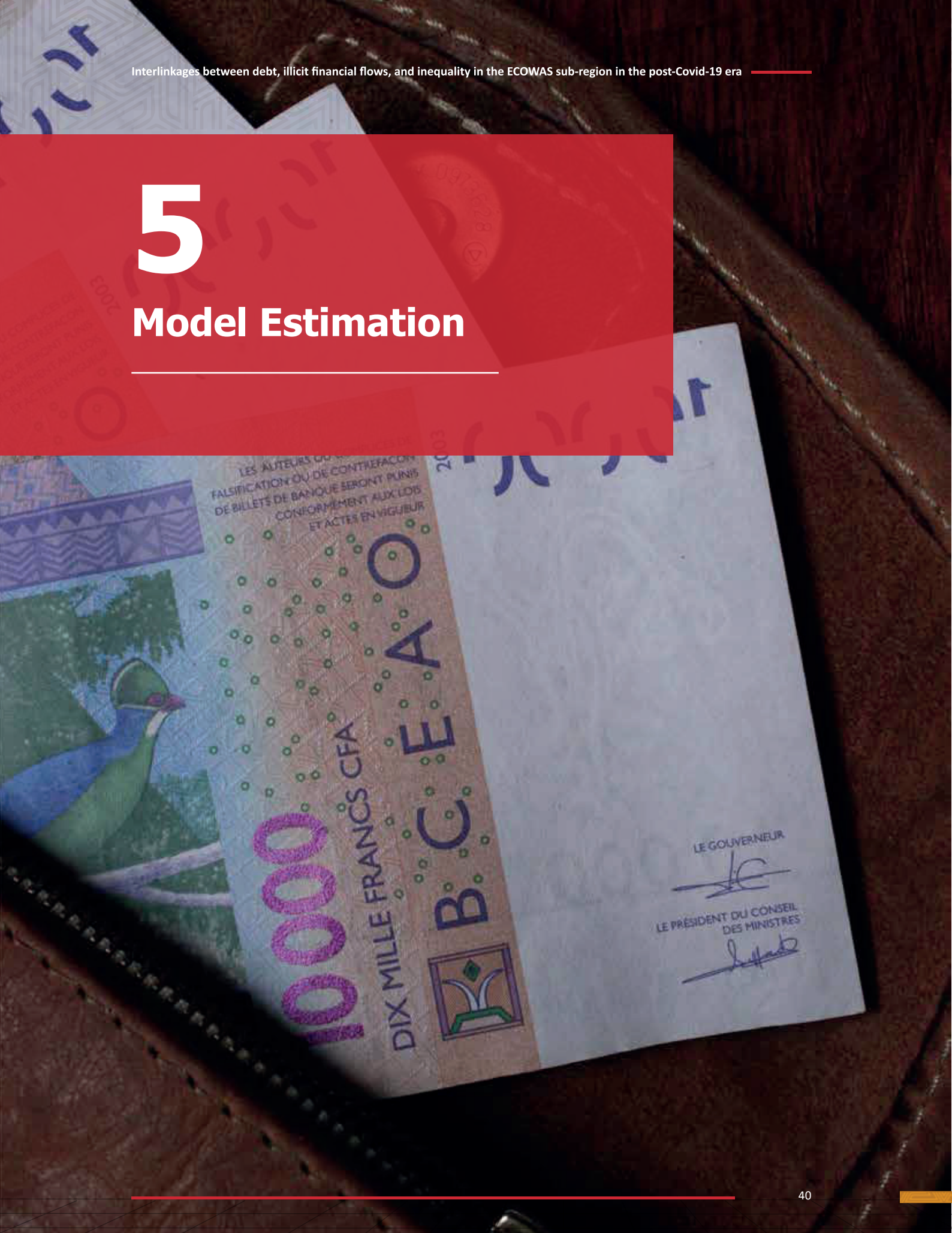
and

$$I_{it} = c + \gamma IFFs_{it-1} + Z_{it}\Gamma + \rho_i + \rho_t + \varepsilon_{it} \quad (6)$$

where I is the GINI index which is a proxy for income inequality taken from the Regional Strategic Analysis and Knowledge Support System (ReSAKSS) database and other national sources for country i at time t. $Debt$ and $IFFs$ are as before in equations. Z as a vector of covariate that the literature controls for in a model of inequality (see for instance Milanovic, 1994; Hall and Jones, 1999; Gallup et al.,1999; Acemoglu et al., 2001; Mirestean and Tsangarides, 2016). This includes *Trade* which sum exports and imports as a share of GDP taken from the World Bank WDI; Also from the same the same source is our *Female mortality* variable to capture available health care system and its quality which is measured as female adult mortality rate for those between the ages 15 - 60; Credit is domestic credit to the private sector as share of GDP to capture local financial market development that is equally taken from the World Bank WDI: *Checks and balance* to measure the political state of a country is taken from the Database of Political Institutions 2020 (DPI, 2020). Country, ρ_i and year, ρ_t fixed effects are also included in the model. Estimation is done using the pooled OLS approach. We note that, even though IFFs and Debt may not be the main determinants of Inequality, they may contribute to it.

5

Model Estimation



Before presenting the main results of the analysis, Table 12 reports the summary statistics of the key variables used in the estimation of equations (3) – (6). On average countries in the ECOWAS subregion have a Gini coefficient (I(i,t)) of 41.76 (out of a score of 100) which is an indication of adequate income equality with the highest yearly record of 59.3 recorded in Cape Verde. Over the study period, Debt (% GDP) averages around 40% (of GDP) with the highest being 153% (of GDP). IFFs as percent share of GDP is on average 12% (GDP) with records as high as 136% (of GDP). Among the control variables we observe double high inflation, unemployment, global trade (% GDP) and female mortality over time.

Table 12: Summary statistics on key variables

Variable	Obs	Mean	Std. dev.	[Min, Max]	Source
GINI Index	521	41.76	5.23	[23.00, 59.30]	ReSAKKS
Debt (% GDP)	521	40.78	23.96	[4.46, 153.67]	WDI
IFFs (% GDP)	521	11.98	11.85	[0.08, 136.55]	Author's elaboration on IMF DOTS
Inflation	521	8.88	13.82	[-7.80, 122.87]	WDI
GDP per capital growth	521	3.75	4.84	[-28.10, 26.52]	WDI
FDI	521	0.09	1.84	[-9.27, 32.70]	WDI
Unemployment	521	4.54	2.88	[0.32, 12.24]	ILO
Population Growth	521	2.65	0.73	[-1.77, 5.79]	WDI
Trade (% GDP)	518	55.90	19.85	[6.32, 131.49]	WDI
Credit	521	14.39	10.74	[0.00, 59.93]	WDI
Female mortality	521	285.13	68.14	[61.80, 443.19]	WDI
Checks and Balance	512	2.16	1.03	[1.00, 5.00]	DPI

Source: Authors' construct.

5.1 Relationship between Illicit Financial Outflows and Debt

To quantify the level of IFFs to debt, we report the share of illicit outflows to Total external debt for the 15 ECOWAS countries in Table 13. Countries in the subregion on average have a higher share of illicit outflows to debt as shown in the Table. This is substantial among countries such as Liberia, Cape Verde, and Nigeria among others.

Table 13: IFFs as a share of GDP and debt 👉

Country name	IFFs (% Debt)
Benin	55.066
Burkina Faso	40.947
Cabo Verde	85.304
Cote d'Ivoire	10.918
Gambia, The	42.697
Ghana	18.928
Guinea	18.847
Guinea-Bissau	11.419
Liberia	163.393
Mali	31.171
Niger	23.139
Nigeria	75.868
Senegal	34.300
Sierra Leone	50.911
Togo	31.369

Source: Authors' construct

In Table 14, we report the results when equation 3 is estimated. The estimation controls for lagged dependent variables, our main explanatory variable of interest, IFFs (% GDP), Inflation, GDP per capita growth, Foreign Direct Investment (FDI), Unemployment and population growth as well as country and year fixed effects depending on the models reported in (1) to (3).

Table 14: Relationship between Illicit outflows and debt

	Dependent Variable: Debt (% GDP)		
	(1)	(2)	(3)
Debt (% GDP)$_{(t-1)}$	0.952***	0.926***	0.896***
	(0.008)	(0.015)	(0.024)
IFFs (% GDP)	0.037**	0.069***	0.07
	(0.014)	(0.025)	(0.025)
Inflation		0.014	0.015
		(0.031)	(0.026)
GDP per capital growth		-0.372****	-0.526***
		(0.047)	(0.145)
FDI		-0.361***	-0.228
		(0.089)	(0.14)
Unemployment		0.004	-0.297
		(0.118)	(0.22)
Population Growth		-1.065*	-0.441
		(0.614)	(0.348)
Country FE	No	No	Yes
Year FE	No	No	Yes
N	521	521	521

Note: Standard errors robust to heteroskedasticity in parentheses and * p<0.10, ** p<0.05, *** p<0.01 are significant levels.

In model 1, we only control for the lagged dependent variable and our main variable of interest, IFFs (% GDP) and find that an increase in IFFs (% GDP) increases Debt (%GDP). Quantitatively, holding all other factors constant, a 1% increase in illicit outflows increases debt stocks (% GDP) of countries in the ECOWAS subregion by almost 0.04% and this effect is statistically significant at 1 percent level. This positive effect is carried over when the models exogenous regressors are controlled for in model 2. While the sign of the effect is positive when country and year variations are accounted for, the effect is statistically insignificant in model 3.

To examine the effect of Debt on IFFs, we report the results in Table 15. The results reveal a negative (insignificant) effect in this direction. This means an increase in Debt (% GDP) leads to a decrease in IFFs (% GDP) although the effect is statistically significantly not different from zero in models 1 to 3.

Table 15: Relationship between Illicit outflows and debt

	Dependent Variable: IFFs (% GDP)		
	(1)	(2)	(3)
IFFs (% GDP)$_{(t-1)}$	0.699***	0.696***	0.646***
	(0.047)	(0.044)	(0.049)
Debt (% GDP)	-0.022	-0.018	-0.021
	(0.016)	(0.013)	(0.016)
Inflation		-0.002	0.021
		(0.016)	(0.022)
GDP per capital growth		-0.003	-0.036
		(0.042)	(0.05)
FDI		0.211***	0.142
		(0.076)	(0.106)
Unemployment		0.065	-0.075
		(0.234)	(0.261)
Population Growth		0.451	0.622
		(0.426)	(0.644)
N	506	506	506
Country FE	No	No	Yes
Year FE	No	No	Yes

Note: Standard errors robust to heteroskedasticity in parentheses and * p<0.10, ** p<0.05, *** p<0.01 are significant levels.

5.2 Relationship between IFFs, Debt, and Inequality

Table 16 presents the result on the relationship between debt and inequality as shown in equation (5). The estimations also include Trade (% GDP), female mortality, a measure of local financial market development (*Credit)*, checks and balance (proxy for political institutions), as well as country and year fixed effects. From the estimation, although positive when we control or do not control for the model's exogenous factors, an increase in Debt (% GDP) leads to an increase (insignificant) in Inequality in the Ecowas subregion.

Table 16: Illicit outflows and debt on Inequality in the ECOWAS subregion

	Dependent Variable: **GINI Index**		
	(1)	(2)	(3)
Debt (% GDP)$_{(t-1)}$	0.02	0.008	-0.032
	(0.042)	(0.034)	(0.029)
Trade (% GDP)		-0.029	-0.033*
		(0.02)	(0.018)
Credit		-0.045	0.008
		(0.049)	(0.041)
Female mortality		0.033***	0.035*
		(0.009)	(0.018)
Checks and Balance		0.107	0.424
		(0.343)	(0.41)
N	543	543	543
Country FE	No	No	Yes
Year FE	No	No	Yes

Note: Standard errors robust to heteroskedasticity in parentheses and * p<0.10, ** p<0.05, *** p<0.01 are significant levels.

These insignificant results are carried over to the results reported in Table 17 where we examine the relationship between IFFs and Inequality. From the table, the effect of IFFs on Inequality across the sample space, over the sample period is statistically not different from zero.

Table 17: Illicit outflows and debt on Inequality in the ECOWAS subregion

	Dependent Variable: GINI Index		
	(1)	(2)	(3)
IFFs (% GDP)$_{(t-1)}$	-0.032	0.041	0.032
	(0.075)	(0.069)	(0.07)
Trade (% GDP)		-0.032	-0.032
		(0.02)	(0.018)
Credit		-0.053	-0.018
		(0.048)	(0.052)
Female mortality		0.036***	0.034*
		(0.012)	(0.02)
Checks and Balance		0.038	0.312
		(0.371)	(0.468)
N	520	520	520
Country FE	No	No	Yes
Year FE	No	No	Yes

Note: Standard errors robust to heteroskedasticity in parentheses and * p<0.10, ** p<0.05, *** p<0.01 are significant levels

This means we do not observe any direct association between illicit financial outflows and inequality across countries in the ECOWAS subregion. These results are statistically not different even after establishing a link between Debt and IFFs and using the predicted values on inequality in a two-stage regression. That is if we make a prediction around Debt from the estimates of equation (3) and assume the effect of IFFs on inequality is not direct but only through Debt, the results are still not significant although we observe a positively estimated sign. These

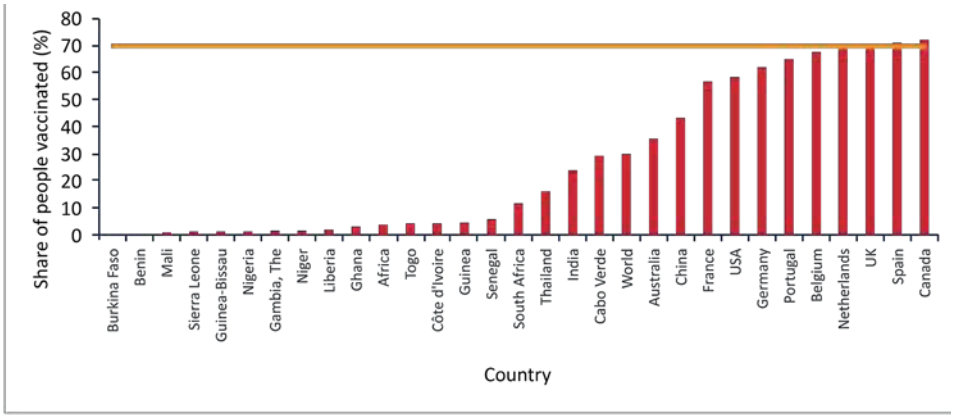
statistically insignificant results may be due to the less variation recorded in our measure of inequality between most of the countries in the ECOWAS subregion as shown in Figure 9. By this, we do not dispute the fact that illicit financial outflows and debt may contribute to international inequality but not within our sample space of the ECOWAS subregion over the study period considered.

6

COVID-19 Inequality

Even though the previous Table reveals no direct association of illicit outflows and debt on income inequality in the ECOWAS subregion, the pandemic has exposed the high level of inequality in sectors such as health, education, and service areas across the globe, especially between developed and under-developed nations. By the first week of August, more than 70% of adults in Canada have had at least one dose of COVID-19 vaccine as well as Spain and the United Kingdom almost there as shown in Figure 11, while countries in the ECOWAS region were struggling to hit 10% coverage. Ghana, the first country in the region to benefit from the COVID-19 Vaccines Global Access (COVAX facility) as of the time of writing has since not been able to vaccinate at least 10% of its adult population with a dose. Even the subregion's least populous country, Cape Verde which has an adult population (18+ years) of around 300, 000 has not been able to provide at least a dose of COVID-19 vaccine to half of the population.

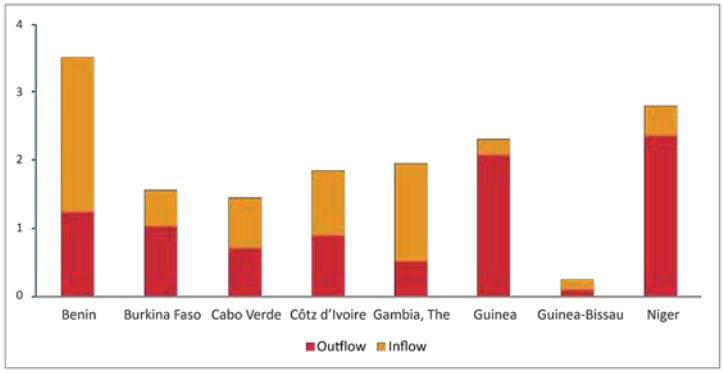
Figure 11: COVID-19 vaccine rollout across countries



The distributional inequality across countries have been criticised by country leaders and development organisation which was cemented by a comment from the director-general of WHO, Tedros Adhanom Ghebreyesus, where he says *"I believe the world faces a catastrophic moral failure in equal access to the tools to combat the pandemic. This research shows a potentially catastrophic economic failure"*.

The irony of this is that, even though countries in the subregion are calling for external support due to the high cost of vaccines, these individual countries are still losing money through illicit activities. Figure 12 present the in-out illicit flows for selected countries in the subregion during the wake of the pandemic as recorded in 2020. Overall, these losses can buy each country in the region all the vaccines needed for their population, including transportation and storage costs.

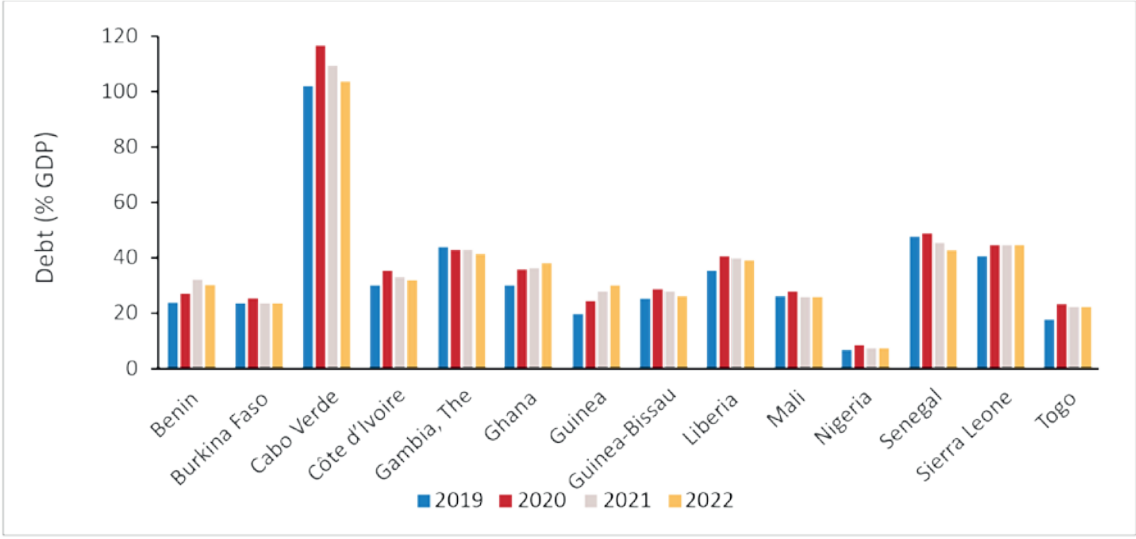
Figure 12: Illicit flows in billions of USD (2020) (selected countries)



Vaccines have been sold at varied prices based on countries' commitment to research bodies in the development of such vaccines. The AstraZeneca-University of Oxford which is one of the cheapest goes for $2.15 (U.S.) in the EU; $3-4 (U.S.) in the UK and U.S.; $5.25 (U.S.) in South Africa. The implication of this is that, for countries to have quicker vaccine rollouts, they must be ready to be in the game of "pay to play". Countries could have purchased a good number of doses with monies lost through illicit outflows even if a dose was for $5.25 as in the case of South Africa. For example, Benin, a country with an adult population of around 7 million could have purchased 240 million doses (illicit outflows estimated around $1.26bn USD divided by $5.25) of Oxford-AstraZeneca with the revenue lost to illicit outflows in 2020 alone. Even if they decide to go for the single dosage Johnson and Johnson which is estimated to cost around $10 per dose, they can still secure a good amount with these revenue losses.

COVID-19 has undone decades of progress in the subregion and as a way of sustaining economies, governments have resolved to austerity measures that have made life unbearable for most of the people through significant increases in taxes in almost all the subregions. For example, Ghana passed a new tax law which was effective in May 2021 called the COVID-19 Health Recovery Levy Act, 202, (Act 1068) which imposed a 1% levy on the supply of goods and services in the country and the import of goods and services. The consequence of this is that the cost of doing business has increased which will automatically be transferred into the ordinary Ghanaian since the price of goods and services will be increased. This means purchasing power will be affected since what few Ghana cedis could buy in 2019, can no longer be bought in 2021 – the poor becoming poorer.

Figure 13: Evolution debt before and after COVID-19



Note: Debtor-based estimates as a percent of GDP, (annual, not seasonally adjusted).

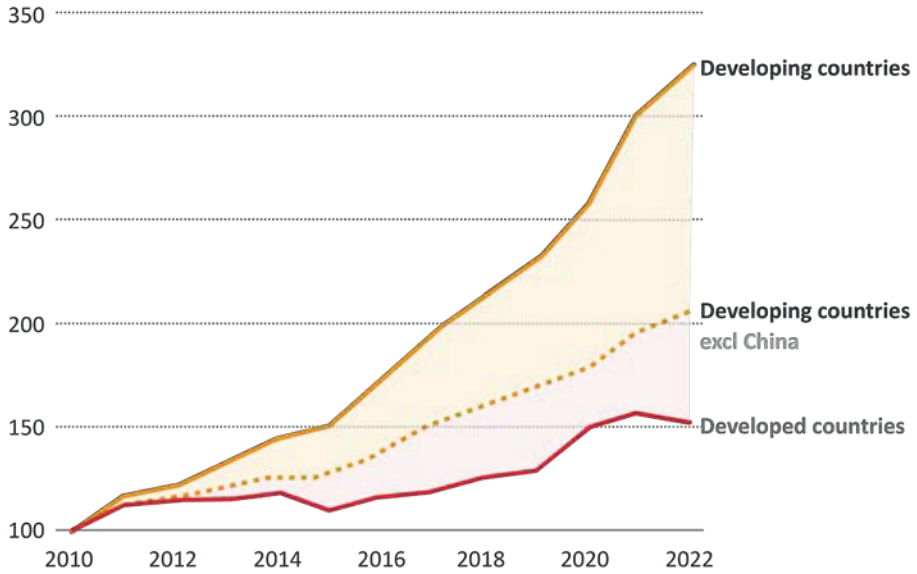
Source: authors' construct with data from the IMF.

While countries are losing money through illicit activities, governments are calling out to donor partners and development organisations for relief packages in the form of loans. The implication of this is that countries' debt stocks are expected to increase. Figure 13 plots the official external debt (% GDP) of countries from the IMFs estimates pre- and post- pandemic. One obvious observation is that, from 2019 to 2020, there has been a significant increase in the debt (%

GDP) for all the countries in the subregion and it is expected to stay around the same value post-pandemic. As of 2022, these countries have wrapped up debt beyond sustainability triggering debt restructuring as can be seen below.

Figure 14: Public debt is growing faster in the developing world

Index: outstanding public debt in 2010 = 100

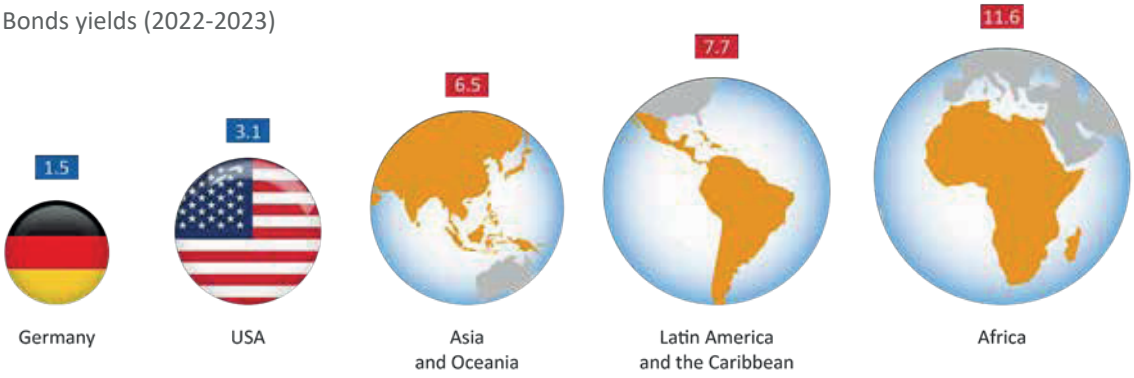


Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

From the 2010 to 2022, developing countries have accommodated more debt on the average than developed countries whilst at the same time debt composition has changed with more of those debts being held by private creditors. Debt affordability has consequently worsened. African countries on the average have had to borrow on a more expensive terms compared to advanced countries as can be seen below. Africa's cost of borrowing is almost 8 times that of Germany, almost 4 times that of USA, almost twice that of Asia and Oceania. The result is that it leaves practically no fiscal space after debt servicing for priority spending in health, education, and social protection.

Figure 7: Developing countries pay much more for their borrowing

Bonds yields (2022-2023)



Source: UN Global Crisis Response Group calculations based on IMF World Economic Outlook (April 2023).

Note: Illustrative comparison of the average JPM EMBI Global Diversified USD bond yields per region with the 10-year bond yields of Germany, and the United States from January 2022 to May 2023.

CONCLUSIONS AND RECOMMENDATIONS

Fiscal space has eluded west African governments even before covid-19 interrupted lives and livelihoods. Inequality across the globe has reached a crisis level with most governments least committed to using tolls (fiscal policy) to address the inequality crisis. Illicit financial flows have largely ensured that cheap finance was never available to finance development and critical spending in education, health, and social protection. With Official Development Assistance (ODA) dwindling, a reflection of the tapering off effect (attainment of middle-income status though at the lower end) and rising expenditures, borrowing usually Eurobonds have resulted in higher debt built-up with its associated servicing costs which are crowding out priority spending.

Whilst a huge funding gap has been documented for the attainment of the SDGs, covid-19 and its ongoing ramifications have further compounded the inequality crisis and created financial pressures at a level not seen in modern history. A UNESCO report in 2020 documented that the pandemic in sub-Saharan Africa, triggered severe economic and social contractions, magnifying the long-standing legacies of prejudice, injustice, and increasing inequalities of our societies. In 2020, the World Bank estimated that COVID-19 will push 49 million people into extreme poverty in 2020 with SSA being the hardest hit whilst the IMF contends the pandemic will trigger the worst economic recession since the Great Depression, and far worse than that seen during the 2008 financial and economic crises. But the magnitude of illicit financial outflows from West Africa will hinder the ability of countries in the region to respond comprehensively to post covid-19 recovery requirements given that most countries are already nearing the debt distress category.

The study was therefore undertaken to shed light on the interlinkages between debt, illicit financial flows, and inequality. The essence is to raise the level of awareness and the restrictions that illicit financial flows impose on the region's development efforts. It also offers recommendations on the way forward. The study found that Illicit outflows significantly affect countries' debt. This means any 1 percent increase in illicit outflows (% GDP) in the ECOWAS subregion is expected to have a substantial 0.04% increase in the debt to GDP ratio holding all other factors constant. An attempt to link illicit flows and debt to income inequality (Gini coefficient as proxy) yielded no statistically significant result, although the sign of the point estimate on debt was seen to be positive – higher debt and IFFs increases inequality. One main explanation for these statistically insignificant results may be due to the less variation in the distribution of income between countries in the ECOWAS subregion. Even so, we have documented a significant level of health inequality during the pandemic era in the procurement of COVID-19 vaccines between developed and under-developed countries (here, ECOWAS subregion). Although some of these countries participated in the clinical trials procurement of COVID-19 vaccines has been difficult (and near-impossible) such that, for quicker vaccine rollout, governments are expected to pay to play.

It is clear from the descriptive statistics on illicit financial flows and other leakages that West Africa will continue to struggle to finance the much-needed development that the citizens expect if the status quo is maintained. The inequality worsening effect of the pandemic and access to vaccines require bold and decisive action collaboratively among member states. Ghana and Nigeria have significant tax gaps (USD 7 billion for Ghana and USD 74 billion for Nigeria) that

should be closed to their advantage. The revenue gaps exist more at the administrative and compliances (efficiency gaps across all the tax handles) rather than at the policy level. Customs harmonisation, greater disclosure, and information facilitated by ECOWAS must be prioritised to curb trade mis-invoicing among member countries. Individual member countries are powerless and therefore ECOWAS must be empowered to handle this development with clear timelines and be supported by the media, academia, and Civil Society Organisations (CSOs) as well as other continental regional bodies. Governments must work together to fight tax evasion and tax avoidance, including illicit financial flows across the subregion.

Whilst efforts are aimed at enhancing the revenue envelop, conscious and deliberate steps must be taken to ensure a just, fair, equitable, and progressive tax regime bearing in mind the inequality worsening effect of the pandemic, ongoing Russia-Ukraine conflict the resulting slowbalisation, geopolitical and economic fragmentation. The tax system must require the rich to put more on the table to finance the recovery relative to the poor hence progressive tax handles such as wealth and property taxes and corporate income tax must be enforced. This will compensate for this uneven playing field created by the pandemic. The government's allocation function must be utilised to ease the adverse distributional effects of some of the tax handles especially consumption-based tax such as VAT to ease the incidence of the tax on the poor, marginalised, and socially excluded as the poorest and most vulnerable segments of the population are always affected disproportionally during economic downturns. There is a real possibility for the governments to shift the burden of the pandemic to citizens through a hike in taxes, but it must be understood as governments try to use tax as a way around the pandemic, the effect is an increase in poverty and inequality. Administrative reforms aimed at improving efficiency across the existing tax handles would be more appropriate as this would not burden loyal taxpayers. To create the much-needed fiscal space and borrow less, domestic revenue mobilisation holds the key and West Africa has the tax potential to scale up domestic revenue mobilisation without burdening the tax compliance payers whilst it improves spending efficiency.

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