Tackling Illicit Financial Flows for Sustainable Development in Africa

Economic Development in Africa Report 2020

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Motivation
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- Analytically **contribute to the initiatives against Illicit Financial Flows** (IFFs) at the multilateral level and domestic level in Africa
- Gain a greater **understanding of the channels and mechanisms** through which Illicit Financial Flows are conducted and how they **affect sustainable development**
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Relevance

- Only 10 years left to meet the **2030 Agenda** and the **Sustainable Development Goals**
- Curbing IFFs will help African countries and the international community accomplish these goals
- **COVID-19** increases fiscal vulnerability, enhancing the need to sustain financial resources
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Categories of IFFs
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Tax and commercial practices

Illegal markets
Categories of IFFs

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- Illegal markets
- Theft-type and terrorism financing
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- Theft-type and terrorism financing
- Corruption
Categories of IFFs

- 65% of African IFFs are from tax and commercial practices
Vulnerable Sectors

Sectors most vulnerable to IFFs and tax disputes include extractives, financial services and telecommunications.
Data
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- Innovative methodology to measure and analyze IFFs
- Data are drawn from various national and international sources
  - International trade statistics
  - Available estimates of capital flight (balance of payments statistics)
- Data are used to quantify the impacts of IFFs on trade and socio-economic development
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Key Messages from the Data
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Channels for cross-border transfers

Impacts on Development
Channels for cross-border transfers

- Capital Flight
- Trade Misinvoicing
- Tax
Investment Consequences of illicit capital flight
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Annual capital flight from Africa of **$88.6 billion**

Outstrips inflows of, respectively:

- ODA **$48 billion**
- FDI **$54 billion**
Trade Misinvoicing
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• The **extractive sector** is particularly vulnerable to trade misinvoicing
• It is primarily done with respect to **high value, low weight commodities**
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- African nations collected 67 billion USD in corporate tax revenue
- However, they lost an estimated 10% to tax avoidance
- Loopholes in many tax treaties leave African countries vulnerable to tax avoidance
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- Health, education, and agricultural sectors are negatively affected by IFFs
- Thus, IFFs disproportionately impact women and girls
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Per person, countries with high IFFs spend

- 25% less on health
- 58% less on education

Compared to countries with low IFFs
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Why curbing IFFs is important

Curbing annual capital flight of **US$88.6 billion** from Africa could bridge half of its SDG financing gap
Policy Recommendations
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- "10 Point Plan for Tackling IFFs in Africa" to centered around Sustainable Development Goals
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- As well as specific action by relevant stakeholders
International cooperation and coordination at national, regional and multilateral levels

- Strengthen domestic regulatory frameworks
- Rekindle trust in multilateralism to fight IFFs
- Invest in data infrastructure and transparency
IFFs need to be tackled as a significant impediment to the economic development of Africa

- Devote more resources to the recovery of stolen assets
- Strengthen African engagement in international taxation reform
- Intensify the fight against corruption and money-laundering
Account for links between IFFs, environmental sustainability and climate change

- Engage MNEs on taxation and sustainable development
- Invest in research on IFFs and climate change
Addressing IFFs is in many ways a matter of ethics

- Engage on IFFs and ethics
- Protect civil society, whistle-blowers and journalists
Key Actors
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Revenue Authorities and Researchers
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- African Governments
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- Revenue Authorities and Researchers
- African Governments
- The International Community
Revenue Authorities, Policy Makers, and Researchers
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- Look into **wide and persistent trade gaps** and use **price-filter analysis** on the **transaction level data**
- Engage the **private sector** to gain more transaction level data
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Through the StAR initiative, African countries have recovered **$1.5 billion** equivalent to only **0.5% of capital flight**
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- Collect more and better **data**, and share data with multilateral institutions

- Coordinate **Regional Taxation Policies**, to avoid a "race to the bottom"
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International Community
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- Aid affected nations with **capacity building** and identifying win-win strategies for **South-South cooperation**
- Educate Multinational Enterprises on "**responsible tax**" and ensure level playing field for them to operate
Thank you for your attention!
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