



## Concept Note

25 - 29 October 2021

### Combatting IFFs to Bridge Africa's Widening Inequality Gap

#### Background

Over the last eight years, TJNA has hosted the Pan-African Conference (PAC) on Illicit Financial Flows and Taxation. In 2017 the PAC event focused on IFF definitions, data and methodology. The 2018 event looked at corruption as a driver of IFF's and in 2019, the event examined the taxation of intangibles, Fintech and the digitalized economy. The most recent PAC in 2020 addressed the theme optimizing domestic resource mobilization from the extractive sector for Africa's Transformation, especially in the context of post-Covid-19 recovery efforts.

This year, after much thought on the implications that the Covid-19 has had on the continent, the 2021 PAC will be co-hosted by TJNA and the African Tax Administration Forum under the theme '**Combatting IFFs to Bridge Africa's Widening Inequality Gap.**' And in the spirit and tradition of the PAC, the two lead institutions will seek to collaborate with other organizations to deliver a successful 9<sup>th</sup> PAC.

#### Problem Statement

Driven by the economic fallout of the Covid-19 global pandemic, growth in Sub-Saharan Africa fell to -3.3 percent in 2020 from 2.3 in 2019 according to World Bank estimates<sup>1</sup>. Africa as a continent is only expected to recover from its worst economic recession in half a century. However, this recovery is shrouded in a lot of uncertainty from both internal and external factors.

The African Development Bank (AfDB) estimates that African governments need additional gross financing of about USD 154 billion in 2020/21 to respond to the crisis<sup>2</sup>. The need for additional financing brought about by the economic decline has resulted in countries budgetary imbalances, borrowing needs, and increased debt levels. Aside from the need for additional financing amidst the Covid-19 pandemic, an in-depth look into Africa's debt dynamics shows that debt accumulation has been driven by exchange rate depreciation, growing interest expense, high primary deficits, poor governance, weak institutions, ambitious public investment programs, and increased defence-related expenditures.

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<sup>1</sup> <https://www.worldbank.org/en/news/press-release/2020/10/08/world-bank-confirms-economic-downturn-in-sub-saharan-africa-outlines-key-policies-needed-for-recovery#:~:text=WASHINGTON%2C%20October%208%2C%202020%E2%80%94,Charting%20the%20Road%20to%20Recovery>

<sup>2</sup> AfDB African Economic Outlook 2021





A concerning trend regarding Africa's rising debt is the shift toward commercial (private sector) debt. The share of commercial creditors in Africa's external debt stock has more than doubled in the last two decades, from 17 percent in 2000 to 40 percent by the end of 2019 (AfDB 2021). This shift toward commercial debt is concerning because private sector debt is associated with some of the highest debt servicing costs, coupled with very complicated processes for negotiating with numerous, powerful bond holders. In addition to this, this form of debt is shrouded in secrecy and complexity, with no comprehensive or independent mechanism for reviewing or writing the debt down.

Further to this, according to figures from the IMF, employment fell by about 8½ percent in 2020, with more than 32 million people thrown into extreme poverty. Inequality is therefore set to increase, because of the disproportionate impact of the pandemic on such vulnerable groups as women, youth, and low-skilled informal sector workers. This growing inequality has significant implications on Africa's recovery prospects and macroeconomic stability. The gap created can lead to a suboptimal use of human resources, cause investment-reducing political and economic instability, and raise crisis risk amidst the COVID19 pandemic.

In light of the above, it is important to look at scaling up domestic resource mobilization by curbing illicit financial flows to shift from a reliance on external financing and bridge Africa's financing gap. It is important also to look at the scale of the social impact (poverty and inequality) of the Covid-19 pandemic on African countries, providing pro-poor recommendations to an all-inclusive post-Covid-19 era.

### **Curbing IFFs to address Inequality**

Indeed, curbing illicit financial flows can help African countries mobilize capital to bridge the recovery financing gap and help meet its external debt obligations. UNCTAD statistics reveal that IFFs contribute to \$88.6 billion of capital flight per year from the continent<sup>3</sup>. Reducing these outflows can increase the stock of capital available for Africa's economic recovery.

UNCTAD further estimates that in 2020 Africa's GDP reduced by around 1.4 percent while socio-economic inequalities have severely increased. This has led to a situation where many African countries face increased expenditure demands, especially within the health sector and social protection while experiencing decreased revenue-raising capabilities. Closing loopholes that enable IFFs is thus critical to the DRM efforts of African countries in their post-recovery strategies especially because the pandemic increased the vulnerabilities of African countries towards IFFs.

Analysis has shown that countries within Africa are at different stages of implementing policy reforms to combat IFF's in their countries. While some countries have in place the necessary policy and institutional frameworks to tackle IFFs, others have been slow in undertaking the necessary reforms. Some countries have also taken several steps back by undertaking reforms

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<sup>3</sup> <https://unctad.org/webflyer/curbing-illicit-financial-flows-finance-sustainable-development-africa>





that are counter to the fight against IFFs. This can be seen from countries that have offered wide sweeping tax incentives to multinationals in a bid to promote FDI. The continent has also seen some countries leaping forward with strategic approaches to combat IFFs such as through beneficial ownership legislation, asset recovery and taxation of the digital markets. It is these lessons that this PAC seeks to highlight and create an opportunity to evaluate how these efforts can be sharpened and replicated across the continent.

As African nations seek to collaborate more through trade such as through AfCFTA, the need to harmonize efforts towards curbing IFF's and financial and economic crime is now more urgent. Further, as African countries stand at the precipice of major global tax reforms, a unified position has never been more critical.

This year, the PAC will be held in October and will be in collaboration with other partner organizations. The conference is expected to feature high-level insights from key government officials, leaders in civil society, leaders from the private sector, policy practitioners and private researchers with a focus on combatting IFFs.

### **Main Objective**

The main objective of this PAC conference is to position combatting IFFs as a strong post-Covid-19 strategy to addressing the growing inequality on the continent.

### **Objectives**

1. Track the status of the implementation of reforms such as the HLP report to combat IFFs in country contexts
2. Identify transformative actions and solutions for actors such as African governments, parliamentarians, civil society organizations, the private sector and other policy players that are key in combating IFFs across Africa
3. Create opportunities for growing partnerships and collaborations to combat IFFs between the different actors.
4. Showcase the emergence of innovative policies and tools that are effective in combating IFFs.

