ILLICIT FINANCIAL FLOWS AND TRADE MISINVOICING: THE CHALLENGES FOR AFRICA

AN ATAF DISCUSSION PAPER

Leading Africa in Tax Administration

AFRICAN TAX ADMINISTRATION FORUM
FORUM SUR L'ADMINISTRATION FISCALE AFRICAINE

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I. EXECUTIVE SUMMARY

The Millennium Development Goals (MDGs) are set to expire in 2015 and the United Nations (UN) formally transitioned to its post-2015 development agenda, known as the Sustainable Development Goals (SDGs) which will set the global development agenda for the next 15 years. Given the realization of the incapacity to achieve the MDGs through aid and most of the economic policies implemented in the last decades, African countries have to place more emphasis on Domestic Resource Mobilization (DRM) to generate the necessary savings to attain the newly stablished goals.

However, illicit financial flows (IFFs) undermine DRM. Given that developing countries lose around US$1 trillion in illicit financial flows (IFFs) per year, which accounts for 7 times the volume of aid received, there have been calls to make control of IFFs a priority within the Sustainable Development Goals (SDGs). And it is estimated that Africa alone lost over US$1.4 trillion in illicit financial outflows in the last three decades, which amounts to approximately US$50 billion to US$80 billion annually. Therefore, curbing IFFs would have positive effects on domestic resource mobilization, especially in the context of global economic developments where dependence on development assistance is no longer a sustainable option.

Since the ability of African countries to combat IFFs is seriously impeded by socioeconomic and institutional deficiencies such as corruption, poverty, crime, inadequate or non-existing rule of law, and so forth, this paper proposes some measures such as:

- Implementing corporate transparency measures
- Taxing Africa's vast income and assets held offshore
- Changing the international tax consensus that has influenced Africa's tax systems
- Exchange of Information (EoI)
- Increasing capacity building, training, and resources for institutions and regulatory agencies for work on IFFs
- Building capacity to negotiate economic contracts effectively
- Building efficient and effective tax administrations and Customs.

In line with the High Level Panel Report that synthetized the necessary actions in the report title "Track it, Stop it, Get it!", African governments are encouraged to significantly increase their tax authority capacity by investing in human resources and capacity building, improving international tax treaties that have been negatively influencing Africa's tax systems, since they maintain the tax rules that contribute to drain the continent's resources through illicit financial outflows. Furthermore, in pursuit of the development of common values, systems and institutions as well as the promotion of self-sustaining