2021 IFF Conference
Theme: IFFs and Debt in Africa within the Covid-19 Pandemic

1. Introduction and background
The African Forum and Network on Debt and Development (AFRODAD) will host annual conference on Illicit Financial Flows (IFF) between the 22nd and 25th of March 2021. The conference convened by AFRODAD and its partners seeks to explore and to suggest lasting solutions to the problem of IFFs and Debt in Africa. This year’s Conference is being held against the backdrop of a global health pandemic that has evolved into a full-scale health, economic and social crisis that threatens to reverse gains made in poverty and inequality reduction in the past decades. The theme of the conference: “IFFs and Debt in Africa within the Covid-19 Pandemic” will examine how the global pandemic has again exposed the vulnerabilities of the international financial architecture to unexpected shocks which can worsen the already high incidence of IFF and the looming debt crisis African countries are faced with.

With the emergence of new strains of the coronavirus, global, continental, and national efforts to curb its spread are being hampered; forcing governments across the world to extend periods of border closures and movement restrictions. These measures are undermining prospects of a quick economic recovery. It is putting more pressure on the already low revenue mobilisation capacity of African governments especially because the pandemic has led to a global slowdown in trade, loss of export revenues and increased borrowing in a bid to secure crucial Covid-19 vaccines to protect citizens.

It is against this backdrop that the conference seeks to discuss issues related to IFFs, how they manifest and how they impinge on issues of debt sustainability; and to proffer policy recommendations on dealing with these challenges amidst the Covid-19 pandemic.

2. Context
The slowdown in economic growth resulting from the Covid-19 pandemic has exposed African economies to more debt vulnerabilities which coupled with the high incidence of IFFs from the continent, has worsened the fiscal positions of these economies, lowered their revenue generation capacity and widened their budget deficits. These challenges coupled with the
pressing needs to deal with the health demands of the covid-19 pandemic have destabilised the fiscal health of African countries.

Over the years, Africa has been grappling with the problem of IFFs and a number of figures on their scale have been brought to the fore. The Economic Commission for Africa (ECA) estimates that between 2000-2015, net IFFs averaged $73 billion, whilst Spanjers and Salomon (2017) estimated an average figure of $87 billion over the period 2005-2014. A 2020 report published by UNCTAD estimated that $88.6 billion, equivalent to 3.7% of Africa’s GDP, leaves the continent as illicit capital flight. These figures are above the $50 billion losses per annum estimated by the Mbeki Report indicating a rise in the scale. The most immediate impact of IFFs is loss of government revenues which has the sum effect of stalling progress towards achieving the sustainable development goals and the African Union Agenda 2063. It affects spending to end poverty and reduce inequality as well as spending on key sectors such as health and education.

The High-Level Panel (HLP) on IFFs from Africa led by Thabo Mbeki and the FACTI Panel have been established to investigate global solutions to the destructive effects of IFFs to Africa specifically and to international finance more broadly. The High-Level Panel Report Recommendations from 2015 has been adopted by Member States of the African Union making it a binding commitment to address IFFs on the continent. The FACTI Panel’s recommendations has more global reaching recommendations aimed at improving the transparency and accountability of the global financial architecture. It complements the work of the HLP in providing additional instruments that African countries may utilise to advance reforming of the global financial architecture. Critical to the success of curbing IFFs from the continent will be greater scrutiny of policy directions taken by some countries in establishing international financial centres (IFCs) in a bid to establish themselves as financial hubs in the region. Studies shows that IFCs are de facto tax havens and are prone to harmful and illegal practices including tax avoidance strategies, money laundering, and tax evasion all playing a role in facilitating IFFs and denying host countries much needed tax revenues.

Before the COVID-19 pandemic, Sub Saharan Africa was already sliding into a new debt crisis, with 40% of the countries at high risk of debt distress. The debt-to-GDP ratios of many countries had reached unsustainable levels. For example, Mozambique had attained 108.8%, Zambia-

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1 https://repository.uneca.org/bitstream/handle/10855/24320/b1188924x.pdf?sequence=3&isAllowed=y
3 https://repository.uneca.org/handle/10855/22695
4 https://www.uneca.org/publications/illicit-financial-flows
5 https://www.factipanel.org/about
91.6%, Angola-95%. A number of countries were already spending between 40%-50% of their national budgets on debt servicing than they spend on health and education combined. Consequently, countries are likely to fall into debt distress. The increase in debt vulnerabilities can be attributed to poor investment choices with debt resources, weak legal and institutional frameworks that result in lack of transparency and accountability and limited public participation. Other vulnerabilities have been an increase in corruption in terms of handling of Covid-19 funds, procurement of Covid-19 drugs and equipment. The diversion of public funds through corruption further burdens the citizens as they will be taxed with view to repay the loans. Corruption has also been cited as both a facilitator and form of IFFs.

3. Focus/Topics

In line with the theme of the conference, a number of issues that include but not limited to the following shall be discussed: utilizing the FACTI Panel to challenge the global financial architecture, the role of IFC in facilitating IFFs, securitisation of loans, post Covid-19 debt management recovery strategies, parliamentary and media roles in curbing IFFs and prudent debt management.

i. Political discussions on IFFs from Africa

The FACTI Panel is one of the initiatives to curb IFFs and ultimately contribute to the achievement of Agenda 2030. It is also a platform that enables governments to engage and ensure that their comments and suggestions on global policies have been solicited and fed to the UN. An understanding of how the FACTI Panel is designed to work in curbing IFFs and how African countries can utilize it to engage and influence global policies especially those on IFFs is important. It is therefore imperative to have discussions on policymakers, civic society groups, the private sector and the academia understand the work of the FACTI Panel, be connected and actively participate to the various consultative process of the Panel. Furthermore, an analysis on what could be the loopholes in the FACTI panel can also be discussed. For instance, this is a high-level panel has made some recommendations regarding combating illicit financial flows but then the problem at this point is one of the lacks of political will to take up policy recommendations. In this regard, the conference will also focus on ways to motivate or push for the political will for governments and stakeholders to take the required action.

The establishment of IFCs in countries such as Kenya, Rwanda and South Africa poses a threat to the recommendations of the FACTI Panel. This is because IFCs may potentially be used to facilitate money laundering, tax evasion, tax avoidance, and other harmful practices which will further exacerbate IFFs\(^6\). After establishing the Ghana IFC which granted Barclays Bank Ghana

\(^6\) Dr. Attiya Waris, Tax haven or international financial centre? The case of Kenya, U4 Brief, September 2014.
Limited the only offshore banking license, Ghana’s tax haven ranking fell apart amid international pressure and was included on the Financial Action Task Force’s blacklist. The illogical decision for the creation of IFCs has been cited in the ICIJ Panama papers, Mauritius Leaks, Paradise Papers, Luanda Leaks. Against this backdrop, there is need to have a discussion on the implications of the establishment of IFC on financial secrecy rankings, corruption, IFFs, how IFCs can be interpreted by the OECD black listing.

ii. IFFs and debt vulnerabilities in the Covid-19 context

Before the Covid-19 pandemic, countries were already vulnerable to IFFs. The scale of IFFs increased during the Covid-19 era as countries shifted their focus to fight the spread of the virus and turned a blind eye to fighting IFFs. IFFs have been exacerbated through mineral resources smuggling and also due to an increase in corruption in the procurement of Covid-19 equipment and drugs. IFFs have also increased countries vulnerabilities to borrow as a source of financing development needs. It is estimated that countries will plunge into debt distress as they had to seek extra funds to cope with the pandemic. To deal with the effects of Covid-19 countries are vying for debt restructuring and moratoriums under the G20 debt relief mechanism and also accessing Special Drawing Rights from the IMF. During the 2021 IFF conference, there shall be a discussion on the vulnerabilities that have been imposed by the Covid-19 pandemic and how countries should come up with strategies to recover from the adverse impacts of the pandemic. These discussions will include issues of corruption, mineral resources smuggling and government procurement and focus on other emerging trends perpetuating IFFs and debt distress such as loan securitization.

iii. Role of stakeholders to curb IFFs

Parliamentarians play an important role in issues that pertain to IFFs and debt management. Given that IFFs are a developmental challenge that affects all African regions, legislators at the RECs level play an important role in legislating laws to curb IFFs. At both the RECs and national level, efforts are being made to make laws to curb and establish institutions to deal with IFFs based on the recommendations of the HLP and FACTI Panel recommendations. However, legislators also face several challenges in trying to deal with IFFs. To come up with strategies to overcome some of these challenges, AFRODAD shall have a session where parliamentarians will share on progress, challenges and strategies to strengthen their role in fighting IFFs from the continent. This session will further link the legislators to global forums (such as the FACTI Panel) they can utilize to question and influence global policies and challenge the global financial architecture.

7 https://fsi.taxjustice.net/PDF/Ghana.pdf
iv. **Evaluating Policy Uptake**

African governments are not short of good policy suggestions but what is worrisome is that it continues to grapple with its problems. This makes it paramount to bring parliamentarians and government officials to evaluate policy uptake on IFFs and prudent debt management in Africa. There have been many recommendations for several decades on how African governments can deal with the development financing challenges but the political will for taking up policy suggestions lack behind. A discussion on the challenges that governments face and strategies to overcome those challenges is key. This will strengthen governments efforts to deal with developmental challenges that the continent is grappling with.

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4. **Conference objectives**

The specific objectives of the conference are to:

i. Having a political discussion on global initiatives such as the FACTI Panel to curb IFFs and how they are threatened by the establishment of International Financial Centres

ii. To discuss how the Covid-19 pandemic has impacted IFFs and debt in Africa

iii. Formulate recommendations and come up with key campaign messages to target AU Finance Ministers who will be meeting in April this year.

iv. Discuss the challenges and possible options to improve the role of parliamentarians in the fight against IFFs.

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5. **Partner Organisations**

   i. Tax Justice Network Africa
   
   ii. Pan-African Lawyers Union
   
   iii. Trust Africa
   
   iv. FEMNET

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6. **Format**

The 2021 IFF conference will be two-pronged: involving physical in-country activities and virtual sessions. Physical meeting will be conducted in countries where there are no lockdowns and people allowed to gather. However, Covid-19 Guidelines will be strongly adhered to. In situations where it is not possible to meet physically, online meetings shall be conducted. AFRODAD will partner with like-minded organisations to host the conference.

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Contact Persons