Joint Meeting of the United Nations General Assembly Second Committee
and the
Economic and Social Council

"Illicit financial flows and development financing in Africa"

Co-organized by UN Conference on Trade and Development (UNCTAD) and Department of Economic and Social Affairs (DESA)

United Nations Headquarters
23 October 2015, 10 am – 1pm

Concept note

What are Illicit Financial Flows and why do they matter for Africa?

Illicit financial flows (IFFs) and their costs for African economies is a development issue of major concern for policy makers. According to the 2014 Report of the High-Level Panel on Illicit Financial Flows from Africa (HLP), chaired by Mr. Thabo Mbeki, former President of South Africa, such flows can be defined as "money illegally earned, transferred or used", can amount up to US $50 billion a year in Africa.[1] The estimates differ according to method used. However, as the HLP notes, estimates by Ndikumana and Boyce (2008, 2011), Kar and Cartwright-Smith (2010) and Kar and Freitas (2011), all point to three important findings for Africa: (i) IFFs are high for the region; (ii) IFFs from the continent have been increasing over time, and; (iii) oil-exporting countries tend to top the list of net creditors to the world. Africa lost about US $854 billion in IFFs over the period 1970-2008, which corresponds on average to US $22 billion per year. This sum is nearly equivalent to all the Official Development Assistance (ODA) received by Africa over that time frame (OECD, 2012) and only a third of it would have been enough to fully cover the continent's external debt which reached US $279 billion in 2008 (UNECA et al, 2009). Data from Global Financial Integrity suggest that over the period 2002-2011, of all regions, IFFs were the second fastest growing in Africa at a rate of 19.8 per cent per annum, and the highest as a share of GDP at 5.7 per cent (Herkenrath, 2014). IFFs have three main components, namely, *commercial (trade-related) activities*, *criminal activities* and *corruption*, with more than 60 per cent stemming from business-related activities. This signals the importance of State-private dialogue and State-private cooperation, as well as the pursuit of corporate governance when implementing any measures to tackle the problem.

IFFs are a concern for Africa's inclusive and sustainable development for various reasons:

1) **SDG financing**: African countries will need funds on an unprecedented scale to achieve their broader sustainable development goals. This occurs in an environment marked by aid fatigue on the part of donors and the possibility of recurrent economic crises in donor countries.

[1] The report of the Panel is available from the following link:
http://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf

Unprecedented investments will be needed for Africa to implement the ambitious and transformative 2030 Agenda for Sustainable Development. The High-level Panel of Eminent Persons Report on the post-2015 Development Agenda made it clear that developing countries should not rely on ODA to finance the achievement of the 2030 Agenda and that domestic resource mobilization should become an imperative. African countries have two inter-related objectives ahead: (i) to redouble efforts at domestic resource mobilization, including by the stemming IFFs, and; (ii) to engage in a range of policy reforms to attract private capital while channelling investments towards structural transformation and forestalling IFFs.

2) **Structural transformation, investment and infrastructure**: UNCTAD has pointed out in the Economic Development in Africa Report (EDAR) and the Least Developed Countries Report (LDCR), that though Africa's economic performance has been encouraging, many challenges remain. African countries, with a few exceptions, remain by and large dependent on primary commodities. Africa needs to undergo a process of structural transformation that shifts economic activities and sectors of low productivity, such as mining, towards those of higher productivity, such as manufacturing and high value-added agriculture and services. This will help to create jobs for its growing young labour force in the formal sector, reduce multi-dimensional poverty, harness the benefits of regional integration, while deepening its integration into the world economy. The region will need to significantly catalyse its investment in soft and hard infrastructure in order to achieve transformative growth and structural change. Countries in Sub-Saharan Africa would have to invest US $93 billion per year in order to meet their infrastructure development needs, but actual investment is only US $45 billion per year, implying a funding gap of about $50 billion a year, roughly the amount of funds Africa loses every year through IFFs

Economic implications of IFFs for Africa

Illicit financial flows reinforce the dependence of countries on aid and external debt as cash-strapped governments strive to fill the financing gaps through other sources. In addition, IFFs directly undermine efforts at domestic resource mobilization. IFFs reduce the estimated gains from deliberate national policies that could be put in place to strengthen domestic resource mobilization, particularly through tax and public administration reforms, governance reforms, financial development and harnessing benefits from remittances. Tackling IFFs therefore is unavoidable for African countries if they want to succeed at strengthening domestic resource mobilization.

IFFs also impose indirect costs by, for instance, blunting incentives for corrupt government officials and private actors to engage in and support structural transformation aimed at reducing dependence on extractive industries. The High-Level Panel on IFFs noted, for instance, that IFFs are highest in the extractive industries especially oil, precious metals and minerals, iron and steel and copper. IFFs blunt incentives for pro-development governance reforms and capacity development that are likely to be resisted by powerful private and public interest groups benefiting from illicit activities. IFFs also undermine the building of political institutions and contribute to preserving unequal power relations in society, with negative impacts on social and economic development (Herkenrath, 2014). Public and private investment decisions are often distorted with adverse consequences on the return of investment. For example, corrupt officials are likely to divert investment to economic sectors that are more conducive to bribery rather than to sectors that matter more for structural transformation. IFFs deepen inequality, as most of it is

undertaken in Africa by elites that engage in trade mispricing of exports and imports, or those with power to unlawfully appropriate or transfer resources abroad (AfDB et al, 2012).

Policies and the role of the United Nations

The HLP recognizes a range of push and pull factors driving IFFs from Africa. These include national factors such as poor governance, weak regulatory structures, absence of double taxation agreements, lack of information and telecommunication facilities, transportation and other relevant infrastructure, shortage of technical and human capacity to deal with crime and corruption, among others. National policies are clearly needed to tackle IFFs, including policies aimed at fostering a developmental State and enlarging fiscal space, which UNCTAD has analysed in several reports.

IFFs from Africa are also an international problem. African countries will not be able to successfully tackle IFFs without stronger and more committed cooperation from their regional and international partners. A significant component of trade-related IFFs takes place either through trade mispricing, transfer pricing, base erosion, and profit shifting (BEPS) practices by multinational corporations. Money laundering both by wealthy individuals and multinational companies is a significant component of crime-related IFFs. In addition, most flows from Africa end up in offshore financial centres, tax havens, or, in low-tax or secrecy jurisdictions abroad. National policies should, therefore, be complemented by regional and international actions.

The HLP has recommended the establishment of a global architecture for tackling IFFs, under "*perhaps the auspices of the United Nations*". The report noted that tackling these flows should be better coordinated across United Nations processes and frameworks, such as the 2030 Agenda. IFFs are undoubtedly an important development issue to tackle with the support of all Africa's development partners.

Leading Questions for Discussion

- What would be needed to implement the Addis Ababa Action Agenda call for redoubling efforts to substantially reduce IFF by 2030?
- What could be done to replicate the work of the High Level Panel on Illicit Financial Flows from Africa (HLP on IFF), and invite other regions to conduct similar work?
- Could the work of the HLP on IFF serve as a building block for a global infrastructure for tackling IFFs?
- What role could the United Nations play, in the context of a global architecture, to deal with IFFs?
- How can national policymakers balance tax policies to attract investment, with policies aimed at attracting international investment?

Format

The joint meeting of the Second Committee and ECOSOC will take the form of a three-hour expert panel presentation and interactive discussion. Presenters will be drawn from government, academia and the United Nations system. The meeting will be co-chaired jointly by H.E. Mr. Andrej Logar (Slovenia), Chair of the Second Committee and H.E. Mr. Oh Joon (Republic of Korea), President of ECOSOC.

The meeting will be called to order by the Chair of the Second Committee. The Chair will deliver opening remarks.

The President of the Economic and Social Council will make an opening statement.

The Chair of the Second Committee will invite Mr Joakim Reiter, Deputy Secretary-General UNCTAD to make introductory remarks (by video link).

The Chair of the Second Committee will then introduce the following panellists and request them to make brief presentations (10 to 15 minutes each), based on the leading questions (see above).

- H.E. Dr. Monthae Maruping, Commissioner for Economic Affairs, African Union
- Mr Amr Nour, Representative, Economic Commission for Africa
- Mr. James Boyce, University of Massachusetts at Amherst
- Ms. Erika Dayle Siu, Attorney-at-Law
- Ms. Louise Kantrow, International Chamber of Commerce
- Mr. Junior Roy Davis, Division for Africa, Least Developed Countries, and Special Programmes, UNCTAD

Following the presentations by panellists, the President of the Economic and Social Council will conduct an interactive discussion. He opens the floor for delegations to make brief statements or pose questions to the panellists.

After all questions have been exhausted, the President of ECOSOC will request the panellists to make closing observations and respond to statements and questions.

The President of ECOSOC will invite the Chair of the Second Committee to deliver closing remarks. The President then makes closing remarks and adjourns the joint meeting.

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