Symposium on IFFs: Virtual Heists: Illicit Financial Flows Amidst Digitalisation and Economic Liberalisation in Africa

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May 9, 2024

Over the past few decades, we have seen an emerging form of neoliberal discourses on Africa that focus on emergence, as the continent has moved from being framed as the world's "problem case" to the exciting new frontier of "Africa Rising". This has pushed neoliberal capitalists to see Africa as a continent of the future that is about to achieve transformations and socio-economic progress if it follows the orthodox advice of opening its market and accepting negative integration into the world economy. However, fuelled heavily by GDP growth rates, the "rising" narrative has been adept at obscuring a reality of widening wealth inequality and persistent poverty among the majority sections of the continent's population even while witnessing the emergence of mega shopping malls and cell phones in almost every hand. Additionally, the myth of an Africa that achieves growth has overshadowed the

quality of this growth as it does not lead to an improvement in the living conditions of Africans but instead breeds illicit financial flows (IFFs).

The flaws of growth-focused development have become increasingly visible as the evidence of deepening structural inequality continues to pile up. Based on free-market economics, assumptions around trickle-down growth, the automatic gains of market liberalization, privatization, and a dominant narrative of minimal state intervention and deregulation – even in delivering citizens' most basic needs – this dominant framework of neoliberal capitalism has left African countries in a vicious cycle of exploitation and poverty. Worse still, this system allows and encourages mass tax evasion through the unrestrained transfer of capital to places (most often in the global North) that offer financial secrecy jurisdictions for maximum profit. The leak of 11.5 million documents in early 2016 known as the 'Panama Papers', revealing thousands of secret offshore companies, is the tip of the iceberg in a complex web of tax havens and secrecy jurisdictions around the world, used by global elites and corporations to sustain their unrestrained power and capital accumulation.

According to the OECD (Tax Transparency in Africa 2021), more than US$ 80 billion is estimated to escape the African continent yearly through illicit financial flows. These numbers point to a profound global governance crisis and systemic inequality. African citizens continuously find themselves with weak regulatory frameworks that allow the State and corporations to drain public resources through tax exemption, tax avoidance, and evasion. The consequences of low taxation schemes are all too familiar: rising inequality as wealth concentrates in fewer hands, and lack of public resources for basic social services and protection, such as access to quality health care, education, unemployment, and care facilities. The drain on resources has had enormous consequences on the realization of human rights, including women's rights and economic, social, and gender justice.

With the development of digital technologies, the use of information and communications networks as a tool for facilitating IFFs is rising as one of the key challenges in tackling the problem of the movement of illegal funds. Due to the relative newness of the problem, there is still limited research on the issue of digital technologies as an enabler and facilitator of IFFs. This article hopes to provide insights into how the digital economy and economic liberalization

reshape the nature of IFFs in Africa from a Pan-African feminist understanding.

A Critical Loophole in the International Financial Architecture

'IFFs' is an umbrella term that constitutes money that is illegally earned, transferred, or utilized. It covers cross-border movements related to tax abuse, tax avoidance, tax evasion, regulatory abuses, bribery, the theft of state assets, and the laundering of the proceeds of crime, among others. By enabling tax evasion, IFFs violate fundamental human rights by denying tax revenues to national governments and thus, national budgets. The lack of this revenue for national governments in Africa prevents the provision of critical public services that marginalized communities need and deepens poverty and disadvantage in these countries. The UNECA High-Level Panel (HLP) on IFFs points out that Africa has lost an estimated $1 trillion or more over the past 50 years to IFFs. This figure equals all the official development assistance (ODA) received by Africa during the same period. According to the OECD (Tax Transparency in Africa 2021), more than US$ 80 billion is estimated to escape the African continent yearly through illicit financial flows. The UN Conference on Trade and Development (UNCTAD) Economic Development in Africa Report 2020 estimates Africa's losses at about US$88.6 billion in illicit capital flight annually– equivalent to 3.7% of the continent's gross domestic product.

Research has also demonstrated that almost 40% of global foreign direct investment (FDI) – close to $12tn – is completely artificial: it consists of financial investments passing through empty corporate shells in tax havens, with no real economic activity taking place. Oxfam calculations in 2019 indicated that company loans from selected tax havens to African countries totalled over $80bn. This meant that, for every $6 of FDI in Africa, $1 was a company loan from a tax haven, allowing companies through tricky schemes – like unnecessary intra-group loans or transfer mispricing – to artificially shift the profits from African countries to tax havens where they pay little or no tax. It was also estimated that 75% of the wealth of African multimillionaires and billionaires is held offshore and the continent is losing $14bn annually in uncollected tax revenues. The growth of digital technologies has become a key enabler for the new forms of earning and transferring illicit funds and a facilitator for many traditional ways of illicit financial flows. In addition to the creation of underground illegal markets of cybercrime and cyber-related crime,

digital technologies facilitate the migration of traditional organized crime online and provide several opportunities for fraud, corruption, tax evasion, and other criminal activities. The use of new digital tools for money transfers, such as online and mobile banking, electronic payments, cryptocurrencies, e-commerce providers, and online gambling services, especially if they are combined, provide a countless number of opportunities to distance money from illegal sources of profit or to illegally transfer money from legal sources. New forms of doing business online, and the digital economy as a whole, facilitate the transfer of illegal profits, the aggregation of illicit funds in offshore accounts, and their placement in fake e-commerce companies and offshore online businesses. The borderless nature and decentralized architecture of the internet, combined with a complex dynamic ecosystem of the digital economy, pose new challenges to African governments and civil society in tackling the problem of IFFs.

An example is Uber's Champion(s) League of Tax Avoidance. The company's claim to be a technology company and not a taxi company has seen it avoiding tax payments to local and federal authorities everywhere it operates (Houeland, 2018). Tax evasion practices of the organization have been revealed by research conducted by the Centre for International Corporate Tax Accountability and Research (2021) to have been accomplished using a complex tax shelter involving around 50 Dutch shell companies, what has now been described as the Champions League of tax avoidance. Despite reaping a global operating revenue of over $5.8 billion in 2019, the Dutch shell company reported a loss of $4.6 billion to global tax authorities. Out of the 2019 revenue of over $5.8 billion, 36%, a percentage amounting to $2,086 million was derived from Europe, the Middle East, and Africa. In addition, Uber ride fares, considerably lower than those of commercial operators, lead to a race to the bottom - a competitive situation where a company, state, or nation attempts to undercut the competition's prices by sacrificing quality standards or worker safety (often defying regulation), or reducing labour cost.

Illicit activities are inherently connected to capitalist dynamics facilitated by an opaque financial world that allows loopholes to accumulate capital in every possible way. As political economist Xiaoqin Ding states, while reshaping the form of capitalism, digital capitalism conceals the privatized mode of production in the name of the revolution of economics, hides the sources of

surplus value by holding high technology determinism, disguises exploitation through the value law of equivalent exchange, and covers poverty and inequality with capital accumulation. For digital capitalism, the Internet is more than a tool for communication and production but is a source of accessing information, accumulating data, and a new form of extraction and exploitation. Ding further states that information has become a conducting baton dominating the industrial landscape, input and operation, as well as the digital capital to grab profits, rather than an ordinary commodity. The acquisition of temporary advantages in the collection, transmission, and processing of financial information through huge investments in information technology has become one of the keys for financial monopolies to maintain their monopoly advantage, all while avoiding tax as a means to pursue higher returns.

Stop the Bleeding

As conversations on digitalization, and trade liberalization through the African Continental Free Trade Area (AfCFTA), among others, continue to dominate Africa's development agenda, it is critical to pay attention to the pervasive nature of IFFs more so within this context. As Fatimah Kelleher notes, as Africa becomes increasingly integrated, it will not just be intraregional trade and interests that will be affected, but also extra-regional ones. The role and influence that wider global supply chains will play on decisions taken within the AfCFTA remain in question, especially as it will still exist within a wider global economy driven and set by agendas heavily influenced by multinational corporations and international financial interests. Concerning international economic integration, research from the UN Conference on Trade and Development (UNCTAD) has shown how a growing share of the value added even in merchandise trade, accrues to 'intangibles'. Because so much of this trade is now organized into global value chains by transnational corporations (TNCs), these entities can allocate their intangible trade in ways that minimize their global tax liabilities. In other words, a significant part of such trade could be fictitious, declared only for more effective tax avoidance.

Combatting illicit financial flows is both a question of political will to transform the global financial structure, and a process deeply linked to challenging corporate power nationally and internationally. Having an accountable and regulated financial system globally, and ensuring binding corporate

accountability based on a human rights framework, is essential to stop the massive drain of public resources, and can contribute to ensuring a just distribution of wealth and power. The international tax landscape has seen a multitude of reforms over the past few years considering the challenges of an increasingly digital economy. One such important reform has been the recently adopted historic tax resolution tabled by Nigeria on behalf of the Africa Group at the UN General Assembly. This kickstarts an intergovernmental UN process to negotiate a UN Framework Convention on International Tax Cooperation. This resolution marks a momentous turning point for the global economic system and is a much-needed boost for the global fight against international tax dodging. The UN Framework Convention on Tax Cooperation promises to be a significant step towards sealing the loopholes that enable tax abuse and for all countries to have a seat at the table of this process as opposed to being dominated by the interests of the wealthy few. This convention has the potential to address the enormous outflow of resources from the African continent, the challenges of taxing multinational corporations in the digital era, and recover the billions of dollars in lost tax income needed to build societies and economies that care for both people and the planet.

By necessity, many details have been left unexplored in this discussion, which focused on showcasing the critical interrelationship between existing structural shortcomings and systemic failures in the global economic and financial architecture from a Pan-African feminist understanding. Feminist policy analysis has always highlighted inherent inequities embedded in the market-driven rationale of growth-focused development, with a focus on how gendered economic inequalities deepen on the back of these models globally. Although feminists have continuously proposed alternatives, implementing them requires a new urgency in the current moment of multiple crises. While the political will to address many of these issues, especially by those countries, commercial actors, and institutions with the most decision-making power in the system, might be lacking, a globally coordinated advocacy push by civil society and social, environmental, and economic justice movements from around the world is gaining strength and momentum to core challenges for the chaotic times we live.

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