

AFRICAN UNION

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**THE EXTRAORDINARY SPECIALIZED TECHNICAL COMMITTEE ON FINANCE,
MONETARY AFFAIRS, ECONOMIC PLANNING AND INTERGRATION**

01 – 04 DECEMBER 2020

CONCEPT NOTE

INTRODUCTION

1. The **African Union Commission (AUC)** is organising an extraordinary Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration to be held from **01 to 04 December 2020**. The meeting will address the following issues on:
 - i. The global tax debate regarding the tax challenges arising from the digital economy, and how this affects Africa;
 - ii. Stemming Illicit Financial Flows (IFFs) on the continent; and
 - iii. The Development of a Continental Payment System to facilitate effective implementation of the African Continental Free Trade Area (AfCFTA).
2. The first two days will enable the Experts from Ministries, Central Banks and Revenue Administrations to discuss these issues and the implications they hold for the continent, and present the Outcomes to the Ministers to consider and provide policy direction on the third day. As we move towards building more resilient economies in 2021, the timing of this extraordinary meeting is crucial for the Ministers to discuss and agree on the way forward on these critical issues.

BACKGROUND

3. In 2013, member states of the African Union agreed upon "**Agenda 2063: The Africa We Want**", working towards an integrated, prosperous and peaceful Africa, driven by its citizens, representing a dynamic force in the international arena. In line with this vision, addressing Domestic Resource Mobilisation (DRM) by securing Africa's taxing rights through the global tax discussions; stemming IFFs which has been an Achilles heel for African countries since the 20th century; and progressing on the innovative AfCFTA initiative that will expand trade across the continent, are crucial for Africa's development. Therefore, Ministers need to urgently decide on the way forward on these issues, with the commitment that all stakeholders implement the Outcomes from this meeting.
4. Regarding the global tax debate, since 2015, one hundred and thirty-seven (137) countries, of which twenty-five (25) African countries are part of the Organisation of Economic Co-operation and Development (OECD)'s Inclusive Framework on Base Erosion and Profit Shifting (BEPS), have been discussing the tax challenges and their possible solutions. Specifically in the last 2 years the focus has been on challenges arising from taxing the digital economy. To-date, two pillars have been tabled in this

regard. Under Pillar 1, the goal has been to find a consensus-based solution in taxing digital multinationals (MNEs) that trade remotely in jurisdictions with no physical presence but create value and make significant profits by their interactions with our citizens. Pillar Two is focused on a global minimum tax, ensuring that all large internationally operating businesses pay at least a minimum level of taxation. A crucial point to note is that this is the first time in more than a century that the world is discussing international tax rules; therefore, once a consensus solution is reached, tax revenue in African countries will be impacted for decades to come; hence the need to ensure the outcome is of benefit to Africa.

5. However, although African countries have been part of the process, supported by technical expertise from ATAF, many factors including the geopolitical tensions between countries and the lack of policy direction on agreeing on Africa's position on the global tax debate, to-date the current proposals though not yet agreed upon do not sufficiently address the current imbalance in taxing rights. Under the current proposals, the amount of tax that will be reallocated to market jurisdictions under Amount A will be materially small and the smaller the market, the smaller the amount of tax. The decision on this debate has been extended to mid-2021 and this affords Africa an opportunity to meet and agree on how best its voice can be heard, and the outcome beneficial.
6. Secondly, illicit financial flows (IFFs) remain a major drawback of financing for sustainable development in Africa. To effectively achieve the aspirations of Agenda 2063 and develop sustainable economies, the African Union member states emphasised mobilising domestic resources, including strengthening the fight against illicit financial flows and corruption. Though the exact amount of losses is constantly debated, an estimated US\$ \$88.6 billion is lost annually through IFFs, and this amount also surpasses inward Official Development Aid (ODA).
7. Several notable efforts to stem IFFs have been made at the continental level, specifically; the establishment of the High-Level Panel on IFFs chaired by the former South Africa President H.E. Thabo Mbeki, which developed several recommendations to address IFFs in Africa; dedication of the year 2018 theme by the African Union to "winning the fight against IFFs and corruption: a sustainable path towards Africa's transformation;" the publication of the book on domestic resource mobilization: fighting against IFFs and corruption following the theme of the year by the AUC; and several initiatives by the African Union Advisory Board on Corruption (AUABC). As the continent continues to suffer from the catastrophic COVID-19 pandemic, it is crucial to strengthen

ongoing projects and initiatives to stem IFFs and ensure Africa mobilizes adequate resources towards achieving agenda 2063 and building resilient economies.

8. Thirdly, improving intra-African trade will go a long way in meeting the development goals of the continent, including poverty reduction. In particular, enhancing intra-African trade is a pre-requisite to achieving the AU's Agenda 2063 and the United Nations Sustainable Development Goals. The operationalisation of the AfCFTA is instrumental for the increase of trade on the continent. The successful operationalisation of the AfCFTA is centred on, among other measures, the development of an African payment and settlement system that will facilitate trade and reduce the inefficiencies associated with cross-border payments and settlements.
9. A continental payment systems integration project that is led by the AUC and AACB with support from the African-Export Import Bank (Afreximbank) is underway and seeks to develop a framework for the integration of the inter-regional payment infrastructure for the ease of cross-border payments. The framework will effectively provide a low-cost payment and settlement system for African producers and consumers, and stimulate trade, investment, and production in African countries in the process. In addition, the integration of the payment systems will provide efficiency by reducing the time to settlement and clearance of cross-border payments.
10. In order to facilitate intra-African trade and overcome persistent challenges of currency inconvertibility and fragmented payment systems, which have hampered financial integration and acted as a significant non-tariff barrier to intra-African trade, Afreximbank, and the Central Banks in the West African Monetary Zone (WAMZ) and the West African Monetary Institute (WAMI), developed the Pan-African Payments and Settlement System (PAPSS). PAPSS was designed to operate continentally but with initial start of operations in the WAMZ region and subsequent extension to the rest of the continent in collaboration with Central Banks as conceived from inception. The Pan-African Payment and Settlement System was launched by the AU Summit of Heads of State and Government, in July 2019 in Niamey, Niger, as one of the key instruments to support the AfCFTA and the expectation of the leaders was that PAPSS should be operational before trading under the AfCFTA commences.
11. Furthermore, the 11th AfCFTA African Ministers of Trade (AMOT) Meeting that was held on 30 September 2020 directed the AUC to facilitate ongoing work on payment systems and ensure that it is conducted under the authority of the AU Ministers responsible for

Finance and the Association of African Central Banks, in close collaboration with the AU Trade Ministers and the Afreximbank. Following the AMOT decision, the AUC and AACB have been working with Afreximbank to ensure that the development of a continental regulatory framework on payments and settlement is finalised in line with the expectations of the AU Summit.

OBJECTIVES OF THE MEETING

12. The meeting's main objective is to bring together experts from Finance Ministries, Economic Planning Ministries, Integration Ministries, Central Banks, and Tax Administrations to collectively build and strengthen a network that deals with financial issues impacting economies. In a changing world, post-COVID-19, in enhancing the possibilities of achieving development targets, this network of experts must continue to engage and take action on various issues. The meeting will outline priority and salient points for action by Ministers, AACB and all critical stakeholders through a consultative process and dialogue.
13. The objectives of the meeting are summarised as follows:
 - Creating a platform for Ministries Policymakers, Central Bank Experts and Tax Administration Officials on the continent to debate on critical fiscal and monetary issues that assist African countries in achieving their development goals;
 - Agreeing on Africa's position on the tax challenges arising from the digital economy, ensuring that African countries are not disadvantaged once the international tax rules are revised globally;
 - Providing the vital information required by Ministers in advocating and pursuing more taxing rights for African countries on the international stage;
 - Develop actions for strengthening the ongoing initiatives and projects on IFFs to enhance domestic resource mobilization and build resilient economies; and
 - Deliberating on the draft continental regulatory framework on payments and settlement and ensure that the framework is finalised as soon as possible to facilitate trade under the AfCFTA.

TARGET AUDIENCE

14. The extraordinary STC is aimed at senior officials of Ministries of Finance, Economic Planning and Integration (Ministers, Permanent Secretaries/Director Generals), Central Banks (Bank Governors and Senior Directors) and Tax Administrations (Commissioner-Generals/Deputy Commissioner-Generals). The meeting is a closed event, as access

will only be granted to the officials invited to the meeting.

STRUCTURE OF THE DIALOGUE

15. In light of the COVID-19 restrictions, the meeting will be delivered virtually over three days through Zoom Webinar Conferencing. Participants will be granted access to the meeting after registration.
16. The meeting will be conducted through debates with crucial policy principles (Permanent Secretaries/ Director Generals), Ministries of Finance, Economic Planning and Integration (Central Banks, Revenue Administrations) and key African institutions (AUC, AfBD, UNECA, ATAF, and AfreximBank). During the Experts' Meeting on Days 1 and 2, presentations by various stakeholders and countries will be delivered on the various issues being discussed (digital taxation, IFFs and continental payment system).
17. The Outcomes of the Experts' Meeting will be presented to the Ministers on Day 3 for their policy direction and decision.

EXPECTED OUTCOMES

18. The expected outcomes of the meeting are as follows:
 - Improved knowledge of the current global debate on taxing the digital economy and BEPS issues, and guidance on how Africa ought to proceed in the said debate.
 - A consensus on Africa's position on the current global tax issues.
 - A commitment from the Ministers and the African Union in pursuing more taxing rights by advocating politically through various international fora.
 - Actions for strengthening ongoing initiatives and projects on IFFs.
 - Consider the draft continental regulatory framework on payment and settlement and direct AACB, AUC and Afreximbank to finalise the draft no later 01 January 2020 when trading commences under the AfCFTA

EXPECTED OUTCOMES

19. For further information please contact:

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