

INFORMATION & COMMUNICATION DIRECTORATE

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The African Union Commission to fight Illicit Financial Flows (IFFs) out of Africa and to harmonize continental tax policy on tax Incentives



The global economy has plummeted since the **COVID-19** pandemic hit the world in early 2020. While African countries focus on their post-COVID-19 recovery and economic reconstruction, the global tax rules will have implications on Domestic Resource Mobilisation (DRM) as they refer to profit allocation, tax incentive policy design, and combatting Illicit Financial Flows.

The African Union Commission, through its department of Economic Development, Trade, Tourism, Industry, and Minerals (ETIM) organized the first meeting of the Sub-Committee on Tax and Illicit Financial Flows (IFFs) of the AU Specialized Technical Committee on Financial, Monetary Affairs, Economic Planning and Integration from 6 to 8 April 2022 in a Hybrid format in Harare, Zimbabwe. The meeting was held under the theme: **Tax Incentives – Implication of the Global Tax Reforms for Africa.**

The meeting was organized with an overall objective to facilitate discussion on the implications of the global tax reforms for African countries' tax incentives regimes. In addition, the STC had discussed the frameworks to effectively curb trade-related illicit financial flows to achieve sustainable development on the continent. According to UNCTAD (2020), Africa loses about US\$88.6 billion in illicit capital flight every year – equivalent to 3.7 per cent of the continent's gross domestic product (GDP).

In his opening remarks, **H.E Amb. Albert Muchanga**, Commissioner, Economic, Development, Trade, Tourism, Industry and Minerals, recognized the Republic of Zimbabwe for the warm reception and hospitality accorded to all delegations since their arrival to the beautiful city of Harare. He stressed that IFFs have become a major concern because of their scale and the negative impact they pose toon Africa's development and governance agenda. He said that IFFs are damaging African economies and impact overall capital outflows and ultimately increasing corruption,

undermining governance, shrinking tax revenues and expediting global organized crime.

The full speech is available at: <https://au.int/en/newsevents/20220406/first-sub-committee-tax-and-illicit-financial-flows-iffs-issues-au-specialized>

The Chairperson of the Meeting of the Sub-Committee, Mr. Raymond Nazar, Deputy Head, International Economic Policy Unit, Ministry of Finance of Ghana in his statement highlighted the importance of developing a harmonized continental tax policy to collectively address a variety of tax matters including the new global tax rules and tax incentives. He also emphasised the implication of the new tax rule on Domestic Resource Mobilization (DRM) that have a direct effect on profit allocation, tax incentive policy design, and combatting Illicit Financial Flows. He said, "It is crucial that tax matters are discussed at a continental level in order to protect African Taxing Rights as well as strengthen DRM to contribute to the realization of Agenda 2063, "The Africa We Want".

The African Tax Administration Forum (ATAF)'s Acting Executive Secretary, Ms Mary Baine, expressed ATAF's concerns regarding the tax incentives that drain the revenue needed by countries and the new global tax rules that have an implication of a double loss for the country. "The minimum effective tax rate agreed by the Inclusive Framework has lowered the minimum effective tax rate that all multinationals will pay to at least 15%. The African Union Commission and ATAF pushed for at least 21%, citing that the causes of commercial IFFs will not be deterred at a rate much lower than the average tax rates on the continent". She further stressed on the importance of an African Union Strategic Approach to Combatting IFFs, and the development of the draft tax strategy for the continent.

The STC meeting on IFFs Meeting of the Sub-Committee on Tax and Illicit Financial Flows (IFFs) was officially opened by **Hon. Clemence Chiduwa (MP)**, Deputy Minister for Finance and Economic Development of the Republic of Zimbabwe. In his statement, the deputy minister ~~he~~ highlighted the importance of having efficient and effective financial policies across the continent. He said that countries should debate and form a common position around taxation matters to give added advantage and value proposition to revenue collection challenges on the continent. "The combination of globalisation and digitalisation has increased the ability of foreign entities to earn revenue from the continent without establishing a tax presence within the existing international tax framework. Therefore, it is pertinent that African countries have taxing rights proportionate to tax revenues earned from their countries which are predominantly market jurisdictions", he added. He committed the full support of Zimbabwe to the AU programs.

In the margin of the event, H.E Amb. Albert Muchanga, Commissioner ETTIM, held bilateral meetings with different ministries and financial institutions, including meetings with Hon. Frederick Shava Minister of Foreign Affairs and International Trade, Hon. Professor Muthuli Ncube, Minister of Finance and Economic Development, Hon. Barbra Rwodzi, Deputy Minister for Environment, Climate, Tourism, and Hospitality, Dr. John. P. Mangudya, Governor of the Reserve Bank of Zimbabwe, and Mr. Justin Bgoni the CEO of the Zimbabwe Stock Exchange. The very constructive discussion was centred on the importance of AU Member States participation in STCs meetings, the establishment of the African Union Financial Institutions, including the African Monetary Institute leading to the establishment of the African Central Bank, and the

Pan-African Stock Exchange, the signing of the MOU between AU Commission and African Securities Exchanges Association, the establishment of an African tourism organization, and the economic impact of Ukraine crisis in Africa. The discussion attested the commitment and strong support of the AU Member States as a necessity to the successful implementation of the continental financial institutions and other African union programmes aimed at the economic transformation of the continent.

For further information, please contact:

Yeo Dossina , Department of Economic Development, Trade , Tourism, Industry and Mining | African Union Commission | E-mail: Dossinay@africa-union.org | www.au.int/Addis Ababa | Ethiopia

Meaza Tezera , Department of Economic Development, Trade , Tourism, Industry and Mining | African Union Commission | E-mail: Meazat@africa-union.org | www.au.int/Addis Ababa | Ethiopia

Directorate of Information and Communication | African Union Commission, **E-mail:** DIC@african-union.org | **Website:** www.au.africa | Addis Ababa | Ethiopia Follow Us: [Facebook](#) | [Twitter](#) | [LinkedIn](#) | [Instagram](#) | [YouTube](#)