

persisting structural inequalities and development disparities, but has also resulted in the diversion of ODA by key donors to address the cost of the refugee crisis in their own countries.

With regard to **mobilizing domestic resources**, the fundamental challenge is to significantly reduce the increasing levels of outflows from Southern countries due to illicit financial flows (IFFs), debt service

payments and the maintenance of foreign reserves in developed countries (see the box by **Dereje Alemayehu** in this chapter). However, while increased capacity to mobilize domestic resources is critical, it is not a panacea. Many developing countries, particularly Least Development Countries (LDCs), still require international public finance in the short/medium term in order to confront many of their development challenges.

## Domestic Resource Mobilization and Illicit Financial Flows

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In terms of financing, one of the major differences between the MDGs and the SDGs is that, while the achievement of the MDGs was implicitly and explicitly made dependent on external financing, in particular on Official Development Assistance (ODA), the SDGs are mainly expected to rely on domestic resource mobilization for their implementation.

While recognizing ODA as an important *complementary* source of development finance, in particular in Least Developed Countries (LDCs), African governments welcomed this shift of emphasis and committed themselves to enhance domestic resource mobilization to finance their own sustainable development. Over-dependence on resources supplied by external development partners is being increasingly considered as compromising African country's commitment to pursue the development priorities they have set themselves.

However, domestic resource mobilization cannot succeed without tackling illicit financial flows (IFFs) and other forms of resource leakages through tax evasion and aggressive tax avoidance. Even the OECD admits that for every US dollar which comes to developing countries as ODA, three US dollars leave these countries as illicit financial flows. The arithmetic is simple: +1 -3 = -2. It won't be possible to raise domestic resources adequately as long as outflows exceed inflows.

In their submission to the SDG consultation, called Common Africa Position,<sup>1</sup> African governments reiterated the need for “global commitment to address issues

of illicit financial flows” and for this to happen they demanded “an expeditious transition to a development-friendly international financial architecture.”<sup>2</sup>

African countries consider tackling illicit financial flows as a key measure to enhance domestic tax revenues. It was because of this that the African Union Commission and the UN Economic Commission for Africa were mandated to establish in 2011 a High Level Panel on Illicit Financial Flows from Africa, headed by Thabo Mbeki, former president of South Africa.

After three years of case studies and continent-wide consultations the High Level Panel issued a report with findings and rec-

1 Cf. African Union (2014): Common African Position (CAP) on the Post-2015 Development Agenda. Addis Ababa ([www.africa-platform.org/resources/common-african-position-cap-post-2015-development-agenda](http://www.africa-platform.org/resources/common-african-position-cap-post-2015-development-agenda)).

2 Ibid. p. 19.

ommendations.<sup>3</sup> Four of the key findings are:

- a) IFFs from Africa are large and increasing (US\$ 50-60 billion a year and increasing by over 20 percent annually along with the emergence of new and innovative means of generating them);
- b) the commercial sector is the major driver of IFFs from Africa (over 60%);
- c) eliminating IFFs is a political issue; and
- d) the global architecture for tackling IFFs is incomplete and inadequate.

Emphasizing this political nature of IFFs and its solution, the report states:

“The range of issues related to IFFs makes this a technically complex subject. However, we are convinced that success in addressing IFFs is ultimately a political issue. Issues involving abusive transfer pricing, trade misinvoicing, tax evasion, aggressive tax avoidance, double taxation, tax incentives, unfair contracts, financial secrecy, money laundering, smuggling, trafficking and abuse of entrusted power and their interrelationships confer a very technical character to the study

of IFFs. However, the nature of actors, the cross-border character of the phenomenon, and the effect of IFFs on state and society attest to the political importance of the topic. Similarly, the solutions to IFFs that are the subject of ongoing work in various forums at the global level attest to this political significance.”<sup>4</sup>

The Third International Conference on Financing for Development (FfD) held in Addis Ababa in July 2015 was expected to deliver on development finance by challenging rich countries to fulfil their ODA obligations, by proposing global policy changes, regulatory measures and institutional arrangements to curb resource leakages which drain on development finance. It failed to deliver on all fronts. Many developing countries hoped that the conference would deal with IFFs as a political problem to be tackled in an intergovernmental process in which all UN Member States participate on an equal footing. However, the paragraphs referring to IFFs in the FfD outcome document are written more in a “we take note of” style. They don’t address IFFs as a central problem to be urgently resolved to enhance domestic tax mobilization. In the end, rich countries managed to “kill” the proposal put forward by the G77 plus China for the establishment of an intergovernmental tax body based at the UN. In fact they virtually ‘boycotted’ the negotiations, until and unless the paragraph was deleted.

The chances for addressing IFFs in follow-up negotiations in the FfD process, and to give a prominent place to IFFs in the means of implementation section of the 2030 Agenda and the SDG process appear to be very limited. Rich countries insist on considering domestic resource mobilization and IFFs as ‘technical’ issues that can be resolved through enhanced ‘capacity building’ of developing country revenue authorities, by multilateral and bilateral development agencies. This is merely a pretext to prevent the participation of African countries in norm setting and reforming international tax rules on an equal footing.

As the African High Level Panel Report on IFFs emphasizes, “the critical ingredient in the struggle to end illicit financial flows is the political will of governments, not only technical capacity.” But “political will of governments” does not come by itself; it needs international support and citizen mobilization to put pressure on decision- and policy-makers. The major reason for global civil society to support G77 countries in their call for the establishment of an intergovernmental UN tax body to tackle IFFs and tax dodging is because this creates an open process in which citizens can exert influence to generate this political will for measures and decisions which curb IFFs and enhance domestic resource mobilization to finance sustainable development.

3 Cf. Report of the High Level Panel on Illicit Financial Flows from Africa 2015 ([www.uneca.org/sites/default/files/PublicationFiles/iff\\_main\\_report\\_26feb\\_en.pdf](http://www.uneca.org/sites/default/files/PublicationFiles/iff_main_report_26feb_en.pdf)).

4 Ibid. p. 65.