Model United Nations
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STUDY GUIDE
ECOSOC

It's time to be UNique!

Table of Contents

Letter of Welcome

Dear delegates,

we would like to welcome you to the Prague Model United Nations Conference 2021 and to the ECOSOC Committee! As your chairs we are truly excited to be part of this MUN and to experience how the world of MUN is adapting to the new normal of 2020/2021.

As we are to spend a few days together, we would love to briefly introduce ourselves. Aspasia is a senior student at the National and Kapodistrian University of Athens. Her interests are mainly located within Public International Law and International Relations as well as in Human rights. She is an active member of AIESEC and has taken part in volunteering programs all over the world. Despite having participated in various MUN conferences, this will be her first time chairing the ECOSOC Committee.

Žan is a citizen of Slovenia, studying Entrepreneurship at the University of Ljubljana. He has been MUNing for several years now and this is his second time chairing at the PragueMUN. MUNing has become his main hobby, while others are football, technology, metal/rock music, and his cats (at the moment, only Sleepy and Bela are formally his, but he has many "visitors" as well).

For both of us, this is the first ECOSOC chairing experience and thus we have a lot of expectations. We believe that selected topics are both interesting and equally challenging and are looking forward to interesting and especially fruitful debates. Although the pandemic will limit the PragueMUN 2021 experience, we hope to have educative and exciting sessions, nonetheless.

We are looking forward to our sessions!

Aspasia and Žan

About the Committee

The Economic and Social Council is one of the six principal organs of the United Nations. It was established in 1945 with the UN Charter.[1] It consists of 54 Member States that have a term for 3 years. Positions in the committee are divided according to the regional key to 14 African States, 11 Asia-Pacific States, 10 Latin American and Caribbean States and 6 Eastern European States and 13 Western European and Other States. [2]

The main goal of ECOSOC is to promote economic and social cooperation between members of the United Nations. It is the central platform for fostering debate and innovative thinking, forging consensus on ways forward, and coordinating efforts to achieve internationally agreed goals. In addition, its responsibilities include following up major UN conferences and summits. [3]

It is also a coordinative body for numerous specialized agencies within the United Nations system. The entities include regional economic and social commissions, functional commissions facilitating intergovernmental discussions of major global issues, and specialized agencies, programmes and funds at work around the world to translate development commitments into real changes in people's lives.[4]

The most important agenda of ECOSOC is without a doubt the 2030 Agenda for Sustainable Development - Sustainable Development Goals (SDGs). The committee leads the way along three pillars of the sustainable development – economic, social, and environmental.[5] As of December 2020, there were 17 SDGs, 169 targets, 1034 events, 1221 publications and 5285 actions related.[6]

[1] ECOSOC, n.d. About Us. https://www.un.org/ecosoc/en/about-us (Last Access: January 14th, 2021).
[2] ECOSOC, n.d. (b). Members. https://www.un.org/ecosoc/en/content/members (Last Access: January 14th, 2021).
[3] ECOSOC, n.d. About Us. https://www.un.org/ecosoc/en/about-us (Last Access: January 14th, 2021).
[4] Ibid.
[5] Ibid.
[6] United Nations, n.d. The 17 Goals. https://sdgs.un.org/goals (Last Access: January 14th, 2021).

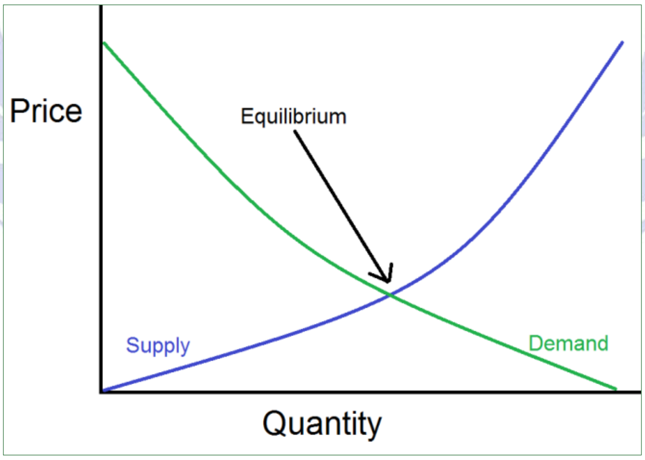
Topic A: Finding Measures to Direct the Global Commodities Market Towards Sustainable Production and Distribution

Introduction

In 2020, price gouging was a rather popular topic. At the beginning of the COVID-19 pandemic, people were buying large amount of toilet paper, masks, and other necessities for the purpose of reselling these basic commodities for a larger price. Shops were becoming empty and people in need had no option but to buy the necessity at an exaggerated price. The phenomenon is present in other industries as well. This is evident especially in the U.S., where people are facing housing crisis, college debt, or issues with basic healthcare. While the U.S. is an ideal example of this topic, the entire world lacks balance between sustainable and massive production and distribution.

Since this topic will be discussed in ECOSOC, the issue needs to firstly be understood from the point of basic economic graph of supply and demand. As seen in the Figure 1 below, Supply and Demand meet at the Equilibrium. The balance between supply and demand thus dictates, how much products will be available at what price.[7]

Figure 1: Relation of Supply and Demand



Source: Acting Man (2016).[8]

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[7] Kramer, L., 2019. How Does the Law of Supply and Demand Affect Prices? https://www.investopedia.com/ask/answers/033115/how-does-law-supply-and-demand-affect-prices.asp (December 10th, 2020).

[8] Acting Man, 2016. Look Beyond Supply and Demand to Understand Labor. https://acting-man.com/?p=43953 (Last Access: January 14th, 2021).

While understanding the graph above in depth is beyond the scope of this Study Guide, the following principles are essential for understanding the discussed topic:

1) If demand for a commodity increases (shifts to the right), equilibrium will move forward the Supply curve (if ceteris paribus9), Price and Quantity will thus increase;

2) If demand for a commodity decreases (shifts to the left), equilibrium will move backward the Supply curve (if ceteris paribus), Price and Quantity will thus decrease;

3) If supply for a commodity increases (shifts to the right), equilibrium will move forward the Demand curve (if ceteris paribus), Price will decrease, and quantity will increase;

4) If supply for a commodity decreases (shifts to the left), equilibrium will move backward the Demand curve (if ceteris paribus), Price will increase, and quantity will decrease.

However, the ceteris paribus condition is hard to encounter. In economics, everything is connected, meaning that we need to find measures to direct the global supply of certain commodities.

[9] All other things held constant.

History of the Topic

Oil Crisis (1973)

One of the biggest events related to the global commodity market is with no doubt the Oil Crisis of 1973. This crisis is a direct result of the Yom Kippur War (1973), between Israel (backed up by the U.S.) and Egypt, Syria, and some other Arab States (backed up by the Soviet Union). The war lasted almost 3 weeks and it resulted in embargo on oil towards the U.S. Since the supply of oil dropped, the demand could no longer be satisfied. Quantity thus decreased and prices, which were stable for decades, soared. While the crisis ended half a year later, the prices never returned to the previous level. The U.S. market was not prepared for an oil shock and this further resulted in a recession.[10]

While the oil crisis of 1973 was a result of low supply, the opposite happened in 2020. Due to lockdowns across the globe, people spend less time in vehicles; thus, there is lower demand for oil. Consequently, the price decreased - one barrel of crude oil cost $12.41 on April 28th, 2020.[11] The oil production did, however, not stop, especially due to the additional costs that would be incurred in case of a temporary shutdown.[12]

Sustainability and crude oil rarely go hand in hand. Oil spills are quite common. Such spills destroy flora and fauna of the marine world. When we burn crude oil, greenhouse gases are emitted into the atmosphere, which harms the ozone layer. Moreover, plastic, a product made of crude oil, is one of the major polluters since it takes decades to disintegrate. Plastic pollutes rivers, oceans, forests and in most cases is hard to recycle. Given the current state and style of the world economy (consumption-driven), crude oil is produced in amounts that are not sustainable for the planet.

[10] American History USA (n.d.). The 1973 Oil Crisis and Its Effects. https://www.americanhistoryusa.com/1973-oil-crisis-and-its-effects/ (Last Access: December 11th, 2020).
[11] Statista, 2020. Weekly Brent, OPEC basket, and WTI crude oil prices from December 30, 2019 to December 7, 2020. https://www.statista.com/statistics/326017/weekly-crude-oil-prices/ (Last Access: December 11th, 2020).
[12] Oberhaus, D., 2020. The world is still producing more oil than it needs. Why? https://www.wired.com/story/the-world-is-still-producing-more-oil-than-it-needs-why/ (Last Access: December 11th, 2020).

Fashion Industry

Fashion industry is another industry that represents a problem for the environment. Especially fast fashion is a major issue, since most of the clothes are produced fast, cheap and can easily be thrown away. The global leaders in fast fashion are Spanish ZARA, Swedish H&M, American Forever 21 and GAP.[13]

The entire supply chain of fast fashion cannot be considered sustainable. Disturbingly, child labour is often included in collecting cotton and related materials for clothes present in the developing world, where fast fashion companies seek cheap labour. The main issue with fast fashion is the so-called "race to the bottom", where companies need to minimalize costs to be considered a competitor to main brands on the market.[14]

Production of fashion has negative effects on the environment as well as it is responsible for 10% of all carbon emissions (more than international flights and maritime shipping combined). Furthermore, fashion is the second largest consumer of water sources with 2,650 litres of water spent for one cotton sweater and 7,570 litres for one pair of jeans. In addition, it pollutes waters (20% of all industrial water pollution is contributed by fashion).[15]

From the supply chain perspective, distribution of fashion products is also questionable. Especially in the case of ZARA, where fashion collections are changing on a weekly basis. The main issue with fast fashion is that supply tries to be completely suitable for demand. Trends that are desired by consumers are quickly developed into fashion products. As soon as the life cycle of cloth goes into the decline stage, the product is disposed.[16] One garbage truck of clothes is dumped every second. On an annual basis, disposed textile could fill one Sydney harbour. In addition, microfibers that can be found in 60% of all garments, are released into the wild. Approximately 500,000 tons of microfibers (equivalent to 50 billion plastic bottles) are released into oceans due to washing clothes. Around 35% of microplastics in the ocean are contributed to the fashion industry.[17]

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[13] Hayes, A., 2020. Fast Fashion. https://www.investopedia.com/terms/f/fast-fashion.asp (Last Access: December 13th, 2020).
[14] Moulds, J, n.d. Child labour in the fashion supply chain. https://labs.theguardian.com/unicef-child-labour/ (Last Access: December 13th, 2020).
[15] McFall-Johnsen, M., 2019. The fashion industry emits more carbon than international flights and maritime shipping combined. Here are the biggest ways it impacts the planet. https://www.businessinsider.com/fast-fashion-environmental-impact-pollution-emissions-waste-water-2019-10 (Last Access: December 13th, 2020).
[16] Ferdows, K., Machuca, J. A., & Lewis, M. A., 2014. ZARA, The world's largest fashion retailer. https://www.thecasecentre.org/educators/ordering/selecting/featuredcases/CompetitionWinners/Zara (Last Access: January 14th, 2021).
[17] McFall-Johnsen, M., 2019. The fashion industry emits more carbon than international flights and maritime shipping combined. Here are the biggest ways it impacts the planet. https://www.businessinsider.com/fast-fashion-environmental-impact-pollution-emissions-waste-water-2019-10 (Last Access: December 13th, 2020).

Meat Industry

Meat industry is with no doubt one of the largest industries that needs to be regulated. Nowadays, the most common types of meat are beef, veal, pork, poultry, and sheep meat. The consumption of meat is measured in thousands of tones. Moreover, we consume animal-related products like milk and eggs.[18]

In the past, there used to be numerous minor farmers that contributed their fair share. Nowadays, there are only few big players like Tyson Foods, JBS, Cargill, Vion, etc. Moreover, the slaughtering of animals is heavily industrialized. In 1967, there were almost 10,000 slaughterhouses in the U.S. In 2010, there are less than 3,000. Circa 88% of all animals are slaughtered by 10 companies. To add to the perspective of industrialized process, 42 million chickens, 170 thousand cattle and 350 thousand pigs are slaughtered per week.[19]

There are numerous areas associated directly or indirectly to the meat industry. Circa 70% of usable water is spent on agriculture and 15,500 litres of water is spent for one kilogram of beef. On the other hand, 1 out of 3 people has limited access to drinkable water and thus meat industry is not only the environmental, but also humanitarian concern.[20] Moreover, meat industry and agriculture related to meat industry need a lot of cultivated land to operate. In 2014, 172 million hectares of the Amazon rainforest were used for animals, while the total span of the Amazon rainforest is 670 million hectares. In addition, 32% of greenhouse gases are connected to meat industry, 6% directly to animals in production. Approximately 27 kilograms of CO_2 is emitted to obtain one kilogram of beef. Meat industry and associated volumes of pollution and other issues are undoubtedly one of the main obstacles towards reaching the SDGs by the end of 2030.[21]

[18] OECD, 2020. Meat Consumption. https://data.oecd.org/agroutput/meat-consumption.htm (Last Access: October 23rd, 2020).
[19] Heinrich Böll Stiftung, 2014. Meat Atlas, Facts and figures about animals we eat. http://www.foeeurope.org/sites/default/files/publications/foee_hbf_meatatlas_jan2014.pdf (Last Access: January 14th, 2021).
[20] World Health Organization, 2019. *1 in 3 people globally do not have access to safe drinking water – UNICEF, WHO*. https://www.who.int/news/item/18-06-2019-1-in-3-people-globally-do-not-have-access-to-safe-drinking-water-unicef-who (Last Access: October 24th, 2020).
[21] Heinrich Böll Stiftung, 2014. Meat Atlas, Facts and figures about animals we eat. http://www.foeeurope.org/sites/default/files/publications/foee_hbf_meatatlas_jan2014.pdf (Last Access: January 14th, 2021).

Price Gouging and Other Examples

During the 2020 pandemic, price gouging became a popular topic. While the focus will not be placed on the most medialized commodities, such as toilet paper and other necessities, pharmaceutical companies (the so-called Big Pharma) and housing crisis will be examined. In addition, price gouging during popular events such as sport games and concerts, and also piracy will be briefly presented.

When it comes to the Big Pharma, the U.S. is once more the greatest example of price gouging. Almost 70% of all Americans use at least one prescription drug, 20% of them even have at least 5 of them. Shockingly, medication called Xanax has for example approximately 570,000% mark-up. A consumer pays $1377,9 for 1000 tablets that cost only $0,24 to produce. Overall, $329,2 billion was spent on medication in the U.S., while in 2013, the global revenue of Big Pharma companies was $980 billion. Additionally, the ratio between finances spent on research and development (R&D) and advertising is 1:19. Finally, 25% of senior Americans skip dosage of prescribed medications in order to save money.[22]

Another issue that became too noticeable to ignore is the housing crisis. During the pandemic, numerous people were left jobless or with a severe pay cut. This resulted in failure to pay rent, which is getting absurdly high and can take more than half of one's salary. While in some cases, landlords reduced the rent, in other cases, eviction was a preferred option. This then contributed to the rise of homelessness and thus faster spread of the COVID-19.[23]

Moreover, the rise of Airbnb cannot be ignored. Nowadays, numerous landlords around the globe are renting flats to tourists. This not only harms the hotel industry, but also the housing market in concerned cities. However, Airbnb is a logical decision for landlords as their daily income is higher in comparison to renting the flat. Hence, the market is largely affected as the supply of housing that can no longer keep up with the demand. Consequently, this results in higher rents for non-Airbnb flats. While some major cities have already begun regulating the housing market with regards to the Airbnb, similar practices will probably remain another obstacle towards sustainable distribution.[24]

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[22] EMedCert, n.d. 10 Big Pharma Statistics That Will Make You Cringe. https://emedcert.com/blog/big-pharma-statistics (Last Access: December 13th, 2020).

[23] Last Week Tonight with John Oliver, 2020. Coronavirus XI: Evictions. *https://www.youtube.com/watch?v=R652nwUcJRA&list=PLAuRufR2Fo3ouO9uYxBoPDBVXdtNZmyN2&index=318 (Last Access: January 14th, 2021).*

[24] Hickey, S., Cookney, F., 2016. *Airbnb faces worldwide opposition. It plans a movement to rise up in its defence*. https://www.theguardian.com/technology/2016/oct/29/airbnb-backlash-customers-fight-back-london (Last Access: December 13th, 2020).

Viagogo used to be a famous example of price gouging. The platform is mainly used for reselling tickets for numerous events (sports, concerts, etc.). In principle, it is a perfect opportunity for people that have bought non-refundable tickets and ultimately cannot visit the event. It is however worth noting, that this became one of the most famous examples for price gouging on the micro level. Nowadays, people buy numerous tickets for an event and resell them for a much higher price. Most anticipated events are sold out in few minutes. This sparked criticism and numerous measures were done to prevent such actions, e.g. only a limited number of tickets can be bought, or the tickets are personalized. Moreover, Google blocked paid advertisements by Viagogo; thus, the activity on the website declined.[25]

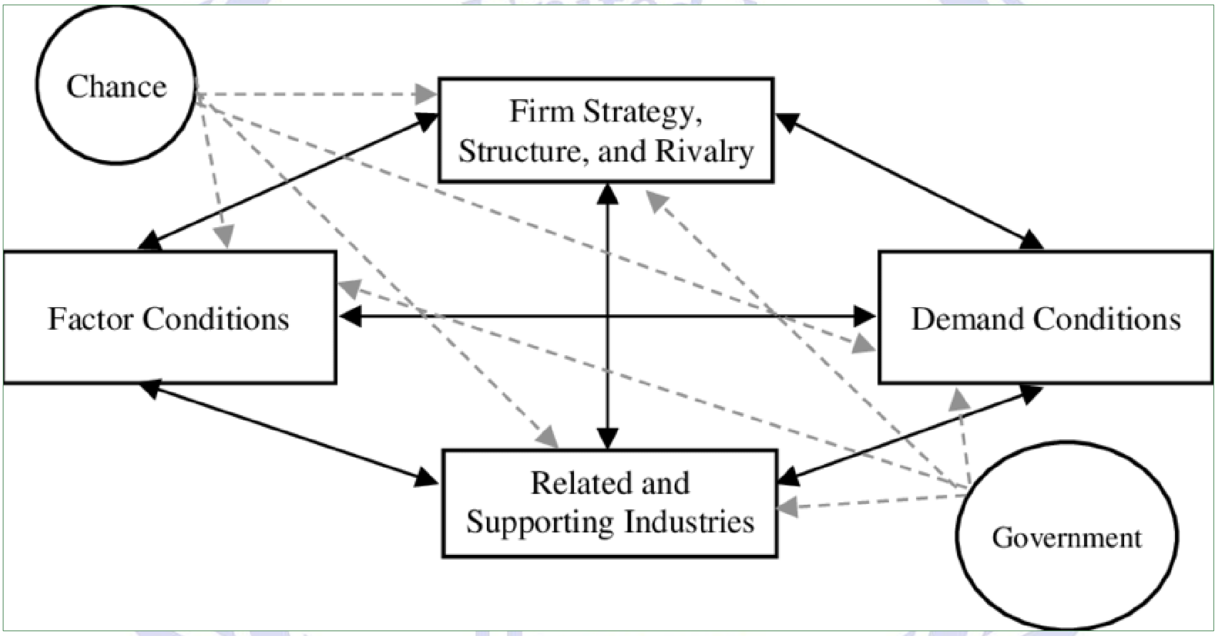
Piracy, on the other hand, is illegal distribution that is exact opposite of price gouging. Illegal downloading of copyrighted content is illegal in most countries. While there are movements that fight for digital piracy, there are numerous arguments for prohibition of illegal downloading of intellectual property. Moreover, according to some regulation, digital pirates could face large fines or even 10 years in prison.[26]

[25] Davies, R., 2019. *Number of Viagogo customers dives after Google ad ban*. https://www.theguardian.com/money/2019/oct/06/number-of-viagogo-customers-dives-after-google-ad-ban (Last Access: December 13th, 2020).
[26] BBC, 2015. *Online pirates could face 10 years in jail*. https://www.bbc.com/news/uk-33578180 (Last Access: December 13th, 2020).

Discussion of the Problem

Many problems can be directly linked to the previous issues. The main issue may be described with the so-called Porter's Diamond Model (Figure 2 below), an economic framework for understanding the dynamics of a certain economy. While the framework is usually used for domestic market, we can analyse on the global level as well. One needs to understand all six elements (listed below) to find the issues to the global commodity market.[27]

Figure 2: Porter's Diamond Model



Source: Tsiligiris (2018).[28]

Firm Strategy, Structure and Rivalry

Nowadays, the most important market players are established in majority of economies. Most companies also expand to other markets, use their own capital to fund joint ventures. Franchising or Licencing is used in order to gain the competitive advantage in numerous states. Sometimes, there are clear monopolies or oligopolies, especially in the above-mentioned

[27] Business to You, 2018. Porter's Diamond Model: Why Some Nations Are Competitive And Others Are Not. https://www.business-to-you.com/porter-diamond-model/ (Last Access: January 14th, 2020).
[28] Tsiligiris, V., 2018. An adapted Porter Diamond Model for the evaluation of transnational education host countries. https://www.researchgate.net/publication/322543250_An_adapted_Porter_Diamond_Model_for_the_evaluation_of_transnational_education_host_countries (Last Access: January 14th, 2021).

areas; therefore, some restrains to these areas could be beneficial. Most global companies are located in developed countries.

Factor Conditions

Factor conditions consist of labour, resources, knowledge etc. In this area, we can notice the shift from developed world to the developing world. As mentioned, labour and resources of the third world countries are used by multinational companies to cheaply produce commodities that are usually later sold at a higher margin.[29] This imbalance between capital and goods should be examined and several actions could be undertaken in this area.

Demand Conditions

In the current economic model, the supply is shaped by demand and vice versa. The free-market economy and marketing are creating the need for a certain product. The success in the marketing area is thus contributing to a greater demand. Higher demand creates larger issues in relation to supply. A stabilization of the ever-growing demand is essential to prevent the rise of mass production. However, possible measures are in various cases impossible to implement under the current consumption-driven structure of the world economy.

Related and Supported Industries

Industries that are related to the main industry need to be well developed. Certain commodity cannot be developed an economy without proper utilization. Consequently, shaping one industry will directly impact all others. The spill-over effect requires a careful approach with regards to limiting the power of one industry as the impact will be much broader. In order to prevent any missteps, each industry should be analysed in-depth.

Government

The role of the government should never be undermined and underestimated. As the principal actor in an economy, the government may cause the influx of certain commodity by establishing trade deals with other nations. Moreover, it can also influence trade with certain

[29] Hayes, A., 2020. Fast Fashion. https://www.investopedia.com/terms/f/fast-fashion.asp (Last Access: December 13th, 2020).

countries by enforcing embargoes, sanctions, etc. Governmental institutions wield a great power and influence not only over the national, but also foreign markets, the degree depending on the overall economic strength.

Chance

The last element of the Porter's Diamond Model is chance. Luck may sometimes shape the economy or an industry, which is evident in the case of the 2020 pandemic, where certain industries gained in value and certain industries collapsed. On one hand we have for instance ZOOM, a video communication company, that gained in value since the beginning of the pandemic.[30] On another hand, we have cruise ship companies, like Royal Caribbean that are losing value ever since the spread of the pandemic.[31]

[30] Nasdaq, 2021. Zoom Video Communications, Inc. https://www.nasdaq.com/market-activity/stocks/zm (Last Access: January 14th, 2021).
[31] Nasdaq, 2021. Royal Caribbean Cruises Ltd. https://www.nasdaq.com/market-activity/stocks/rcl (Last Access: January 14th, 2021).

Previous UN involvement

The United Nations system is already largely involved in the sustainability of humanity. The most prominent and evident example is the 17 SDGs:[32]

1) No Poverty
2) Zero Hunger
3) Good Health and Well-Being
4) Quality Education
5) Gender Equality
6) Clean Water and Sanitation
7) Affordable and Clean Energy
8) Decent Work and Economic Growth
9) Industry, Innovation, and Infrastructure
10) Reduced Inequalities
11) Sustainable Cities and Communities
12) Responsible Consumption and Production
13) Climate Action
14) Life below Water
15) Life on Land
16) Peace, Justice and Strong Institutions
17) Partnership for The Goals

Especially the 12th goal is related to the discussed topic. So far, United Nations has stated 11 targets for responsible consumption and production, hosted 48 events, released 54 publications, and completed 846 actions to promote responsibility.[33]

[32] United Nations, n.d. The 17 Goals. https://sdgs.un.org/goals (Last Access: January 14th, 2021).
[33] Ibid.

Possible solutions

There is no evident and simple solution to fix this issue. The current economic system, so-called "Laissez-faire" free-market economy is a system that cannot be fully sustainable. As the saying goes: "The market will regulate itself". The United Nations and especially ECOSOC cannot freely intervene in the market economy. They wield a considerable influence, nonetheless. ECOSOC can issue suggestions, recommendations; provide expertise and assistance; serve as a common forum for international decision-makers; pressure national leaders to uphold their commitment; utilize its reputation and powers to promote the sustainable agenda; etc.

When it comes to oil industry, it can suggest setting an upper limit on barrels of oil per month. When it comes to fashion industry, it can further combat child labour and promote sustainability. It can combat meat industry by suggesting healthier diets and promote healthy proteins and fats. ECOSOC can cooperate with World Health Organization and other specialized UN agencies or non-governmental organizations in order to set the upper price of medications. It should cooperate with the private sector, e.g. Airbnb to limit the current housing crisis. Moreover, it can cooperate with tech giants to limit fraudulent practices online.

Relevant international documents and further reading

- Earthlings (2005) and Unity (2015)
- SDG 12: Ensure Sustainable Consumption and Production Patterns (2015)
- SDG Good Practices
- The Future is Now: Science for Achieving Sustainable Development (2019)

Questions to consider

1) Is your country considered developed or developing?

2) Does your country host some of the named industries or experience the associated negative effects?

3) Does your country benefit from the current consumption-driven world economy or does it rather suffer?

4) Would your country advocate piecemeal progress towards SGDs or would emphasize a revolutionary change of the world economy necessary to preserve the planet?

5) How is your country successful with the implementation of the SDGs?

6) How could international community incentivise the non-state actors (esp. corporations) to cooperate on the SDGs?

7) How can the international community protect vulnerable states against growing power and negative influence of global corporations?

8) Should the ECOSOC assume more assertive stance and step up criticism towards economies and corporations ignoring or even working against the overall sustainable development agenda?

Topic B: Illicit Capital Robbing of Africa

Introduction

Despite the major economic development, the African continent has seen since the start of the 21st century, illicit capital flows remain one of the greatest roadblocks towards the path to sustainable development in African countries. According to the United Nations Conference on Trade and Development (UNCTAD) - *Economic Development in Africa Report 2020,* every year, an estimated $88.6 billion, which is equivalent to 3.7% of Africa's GDP, leaves the continent in the form of illicit capital.[34]

Although there is no widely agreed-upon definition of what exactly constitutes illicit financial flows (IFFs), an "umbrella" term would be "the illegal movement of money from one country to the other". As the Global Financial Integrity (an advisory organisation based in Washington) states, IFFs constitute of money that is illegally earned, transferred or utilised. This narrow definition of illicit financial flows covers activities including hiding the proceeds of crime, channelling funds towards criminal destinations, and evading tariffs and taxes through misreporting of transactions. Wider definitions generally focus on actions that are not strictly illegal, but which are undesirable as they result in reduced tax revenues, including tax avoidance actions such as strategic transfer pricing.[35]

IFFs can be limited down to three main sources: a) tax evasion, especially by government-supported companies, and trade misinvoicing, which can be located mostly in mineral products that are considered the power-force of African economy (diamonds, gold etc.), b) criminal activities, such as human trafficking, gun smuggling and the drug trade and c) bribery and theft by corrupt government officials. Historically, the majority of African countries have struggled with these issues even before gaining their independence, so the mentality of transparency in financial matters is still hard to find. Sub-Saharan African is the continent's region most affected

[34] UNCTAD, 2020. Economic Development in Africa Report 2020. https://unctad.org/webflyer/economic-development-africa-report-2020#:~:text=The%20multidisciplinary%20methodology%20adopted%20inenvironmental%20dimensions%20of%20sustainable%20development (Last Access: January 14th, 2021).

[35] Signe, Sow and Madden (2020). Illicit Financial Flows in Africa Drivers, Destinations and Policy options. https://www.brookings.edu/wp-content/uploads/2020/02/Illicit-financial-flows-in-Africa. (Last access:December 15th,2020).

by those practices (38% of IFFs originated from there), with North Africa following close and Southern African countries maintaining a steady 10-13% share.[36]

IFFs drain Africa of its opportunities of foreign investment and inner development. As the UNCTAD Secretary-General Mukhisa Kituyi has stated "Illicit financial flows rob Africa and its people of their prospects, undermining transparency and accountability and eroding trust in African institutions".[37] Without trustworthy institutions, Africa has no hope for successful international cooperation that could prove fruitful to its financial independence by increasing the availability of its domestic resources. It is also far from an exaggeration to say that curbing IFFs could help battle poverty and gender inequality, as studies have shown that it is women and old people who are especially vulnerable to the detrimental effects of limited financing for development.[38] In OECD (Organisation for Economic Co-operation and Development) countries, the disadvantageous treatment of low-income groups has led to feelings of dissatisfaction towards the government and streets riots. Public outrage towards the many cases of tax invasion by corrupt officials has been reported to other parts of the world as well, such as the Republic of Korea and Malaysia. Is it possible, though, that Africa can change its practices and adopt policies that will help African countries achieve the 2030 Agenda for Sustainable Development?

[36] GFI report, 2019. Illicit Financial Flows To and From 148 Developing Countries : 2006-2015. https://gfintegrity.org/report/2019-iff-update . (Last Access: December 15th, 2020).
[37] United Nations News, 2020. Illicit capital robbing Africa and its people of their future: UN trade and development chief. https://news.un.org/en/story/2020/09/1074052 (Last Access: January 14th, 2021).
[38] Laurence Boone, 2019. The time for reform is now to respond to global challenges. http://www.oecd.org/economy/going-for-growth . (Last access : December 15th, 2020).

History of the Topic

IFFs in Africa are not a new phenomenon. Some of the world's most prolific autocrats, who have piped billions in public funds into private accounts have come from Africa. Mobutu Sese Seko of Zaire was said to have amassed upwards of $4 billion during his 32 year tenure as president; General Sani Abacha of Nigeria looted the Nigerian Central Bank stealing an estimated $2 billion, only part of which has been recovered by Nigeria today; the Arab Spring exposed the offshore assets of numerous other African leaders including Tunisian president Ben Ali, whose family has hidden an estimated $18 billion from Tunisian authorities and the deceased *de facto* ruler of Libya Muammar Gaddafi, who had assets hidden globally at a conservative estimate of $200 billion.

Dating back to the Scramble for Africa in the late 19th century, Africa has long been the target for resource exploitation by large multinational corporations as the continent is abundant in diamonds, rubber, minerals, and fuels. A report issued by the Chr. Michelsen Institute (CMI)[39] suggests that given existing evidence, extractive industries are often associated with high levels of IFFs. Reports from diamond importing countries suggest that global production of diamonds has been routinely underreported for smuggling and tax evasion purposes, while fuel exports accounted for almost half of IFFs from Africa between 1970 and 2008. To be more specific, the CMI proposes four factors which make extractive industries prone to IFFs: (1) extractive industries fall under high-level discretionary political control such as a president or executive committee and are often prone to secrecy, (2) state companies in extractive sectors often blur lines between personal and public interests, (3) limited competition in extractive sectors leads to fewer corporate checks and balances, and (4) extractive sectors often require high degrees of technical expertise and make mispricing, and falsifying reports easier.

A lack of state capacity to enforce taxation is also another cause of IFFs in Africa. This is best illustrated through tax revenues being lost in foreign trade through the illicit practice of trade mispricing. Between 2005 and 2007, Nigeria, Ivory Coast, and Ghana lost $821 million, $260 million, and $121 million, respectively, through trade mispricing to the EU and the U.S. The OECD attributes tax evasion through trade mispricing in developing countries to a lack of respect for the rule of law, corruption, and poor governance.[40]

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[39] Chr. Michelsen Institute (2018). Can Smallholders benefit from the new market opportunities from the extractive industry in Tanzania? https://www.cmi.no/publications/6557-can-smallholders-benefit-from-the-new-market (Last Access: January 14th, 2021).

[40] Casey Sahadath, 2014. Illicit Financial Flows and Capital Flight in Africa. https://www.e-ir.info/2014/02/14/illicit-financial-flows-and-capital-flight-in-africa . (Last Access : December 15th, 2020).

However, African countries are not the only ones facing the problem of illicit capital robbing. According to the latest report by the Global Financial Integrity (GFI)[41], which studied the IFFs in 135 developing countries from 2008 to 2017, the sum of the value gaps identified in trade between 135 developing countries and 36 advanced economies was a staggering $8,7 trillion.

Developing countries with the largest annual average value gaps (in US dollars) in their bilateral trade with 36 advanced economies over the ten-year period 2008-2017[42]:

1) China – $323.8 billion;
2) Mexico – $62.9 billion;
3) Russia – $56.8 billion;
4) Poland – $40.9 billion;
5) Malaysia – $36.7 billion.

The lowest value gaps identified were between Sub-Saharan Africa's trade with Developing Europe, Middle East/North Africa and the Western Hemisphere. Overall, the analysis shows that trade misinvoicing is a persistent problem across developing countries, resulting in potentially massive revenue losses – at a time when most countries are struggling to mobilize domestic resources to achieve the internationally-agreed 2030 Sustainable Development Goals (SDGs).[43]

International cooperation is as much needed as domestically focused efforts. Low-income countries can never become fully financially independent, if their governments rely on IFFs to facilitate them, as prolonged reliance on revenues from natural resources or foreign aid tends to undermine channels of responsive government, giving rise to corruption and broader failures of accountability. However, we must not only focus on the lower-income countries, as in this way we will miss the central driver of the problem: major financial jurisdictions like Switzerland, the U.S. and Hong Kong, play an enormous role in producing and promoting corrupt flows elsewhere. Tax havens undermine necessary political changes, erode good governance, and distort economic policies. In the absence of illicit financial flows to offshore secrecy jurisdictions, African developing countries would most probably not only have higher levels of investment; provided that IFF negatively affect infrastructure and institutions, but investment

[41] GFI Report, 2020. Trade-Related Illicit Financial Flows in 135 Developing Countries :2008-2017. https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-135-developing-countries-2008-2017 . (Last access : December 15th, 2020).
[42] Ibid.
[43] GFI Report, 2020. Trade-Related Illicit Financial Flows in 135 Developing Countries :2008-2017. https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-135-developing-countries-2008-2017 . (Last access : December 15th, 2020).

would also have a larger growth effect. In short, additional GDP growth might be even larger than 3%. So, rather than asking ourselves “Why is this country corrupt”, we should ask ourselves “What are the drivers of corruption-and where?”.

Discussion of the Problem

As stated by the previously mentioned UNCTAD 2020 report, illicitness comes from the activities, from which flows originate, and from the cross-border characteristics of the movements.

Tax avoidance and Trade misinvoicing

1) Evasion and Tax Havens

Tax avoidance is a global problem that affects both developed and developing countries. Estimates of revenue losses related to global corporate taxation range from $500 billion to $650 billion annually depending on the variables under study.[44] [45] Calculations of corporate tax avoidance in the European Union, for instance, vary from €50 billion to €190 billion per year.[46] Analyses of recent data show that all European Union member States have tax gaps that might considerably exceed their health-care spending, with Italy, France and Germany topping the list in absolute terms.

In developing countries, losses due to global corporate taxation are estimated to range from 6 to 13% of total tax revenue, versus 2 to 3% in OECD countries.[47] Research findings for India, for example, show losses of an average of $16 billion per year during 2002–2006.[48] The 2008 global financial crisis played a role in raising awareness of the scale of tax evasion and other

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[44] Crivelli, E. et al., 2015. IMF Working Paper - Base Erosion, Profit Shifting and Developing Countries. https://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf (Last Access: January 14th, 2021).
[45] Cobham, A., Janský, P., 2018. Global distribution of revenue loss from corporate tax avoidance: re-estimation and country results: Global Corporate Tax Avoidance. Journal of International Development. https://www.researchgate.net/publication/323729709_Global_distribution_of_revenue_loss_from_corporate_tax_avoidance_re-estimation_and_country_results_Global_Corporate_Tax_Avoidance/citation/download (Last Access: January 14th, 2021).
[46] Murphy, R., 2019. Corporate tax avoidance: is tax transparency the solution?: a practitioner view. Accounting and Business Research, 49(5), p. 584-586. https://www.tandfonline.com/doi/abs/10.1080/00014788.2019.1611728 (Last Access: January 14th, 2021).
[47] Crivelli, E. et al., 2015. IMF Working Paper - Base Erosion, Profit Shifting and Developing Countries. https://www.imf.org/external/pubs/ft/wp/2015/wp15118.pdf (Last Access: January 14th, 2021).
[48] Kar, D. and Cartwright-Smith, D., 2009. Illicit Financial Flows from Developing Countries: 2002-2006. https://ssrn.com/abstract=1341946 (Last Access: January 14th, 2021).

commercial dimensions of IFFs. The political urgency of addressing global corporate taxation led to the establishment of the Base Erosion and Profit Shifting (BEPS) initiative at OECD. Estimates by UNCTAD show that the magnitude of revenue losses due to MNE (multinational enterprise) tax avoidance in developing countries was approximately $100 billion annually in 2012, comparable to the total annual amount of official development assistance (ODA) to developing countries at $115 billion the same year.[49]

With regards to Africa, one sixth of the continent's aggregate government revenue comes from corporate taxation ($67 billion in 2015) and most estimates suggest that the cost of tax avoidance is of the order of a tenth of this figure.[50] Corporate taxation is a more important share of government revenue in African countries than in OECD countries, mainly because African countries are unable to raise as much revenue from payroll taxes.

Estimates from the African Development Bank (AfDB) show that Africa loses about $148 billion to corruption every year.[51] Conservative estimates by the Stolen Asset Recovery Initiative (StAR) based on 2007 data also show that between $20 billion and $40 billion per year are stolen by public officials from jurisdictions in developing countries and countries with economies in transition.[52] More recently, publications by investigative journalists have uncovered the magnitude of African private wealth in offshore accounts. In 2015, for example, an investigation provided details on almost 5,000 individuals from 41 African countries with assets of about $6.5 billion.[53] Global-level analyses show that from 20 to 30% of private wealth

[49] UNCTAD, 2015. World Investment Report 2015: Reforming International Investment Governance. https://unctad.org/system/files/official-document/wir2015ch5_en.pdf (Last Access: January 14th, 2021).
[50] Hearson, M., 2018. When Do Developing Countries Negotiate Away Their Corporate Tax Base?. J. Int. Dev., 30(2), p. 233– 255. https://onlinelibrary.wiley.com/doi/full/10.1002/jid.3351 (last Access: January 14th, 2021).
[51] African Development Bank Group, 2015. Annual Report 2015. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Annual_Report_2015_EN_-_Full.pdf (Last Access: January 14th, 2021).
[52] Van der Does de Willebois, E.; Halter, E.; Harrison, R.; Park, J.; Sharman, J., 2011. The Puppet Masters : How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It. World Bank. https://openknowledge.worldbank.org/handle/10986/2363 (Last Access: January 14th, 2021).
[53] Moore, M. Et al., 2018. Taxing Africa: Coercion, Reform and Development. https://www.researchgate.net/publication/324991438_Taxing_Africa_Coercion_Reform_and_Development (Last Access: January 14th, 2021).

in many African countries is held in tax havens.[54] [55] [56] This is higher than the global country average of 8%.[57]

Financial sector representatives in secrecy jurisdictions often emphasize that capital flight from developing countries is a morally legitimate reaction to corruption and oppression. Banking secrecy, discretionary trusts and anonymous shell companies are argued to provide "financial asylum" to hard-working foreigners, who want to protect their assets from predatory and despotic regimes. However, this is "only true in a very narrow sense".[58] The problem is that only the wealthiest and most powerful citizens in developing countries seem to have access to offshore financial services. Capital flight to secrecy jurisdictions can therefore be argued to undermine political progress: "… to provide an escape route for a small, wealthy and powerful elite – the only constituency with the political strength to drive reform – is to undermine pressure for change".[59]

In a similar sense, it seems reasonable to assume that secrecy jurisdictions undermine good governance and encourage distortions of public investment decisions in developing countries. As a Norwegian government commission has pointed out, secrecy legislation in tax havens provides a hiding place for various kinds of players who want to conceal the proceeds of their activities, including the proceeds of economic crime and rent seeking.[60] By helping kleptocratic leaders and corrupt officials hide the real sources of their income, secrecy legislation in tax havens provides notable incentives for these persons to engage in corruption and embezzlement in the first place. Political elites in turn may reorient public investment towards projects and areas that offer the greatest opportunities for such illicit activities. The most likely result is a potentially massive distortion of public investment decisions. For

[54] GFI, 2017. Illicit Financial Flows to and from Developing Countries: 2005-2014. https://gfintegrity.org/gfi-iff-report-2017_final/ (Last Access: January 14th, 2021).
[55] Zucman, G., 2014. Taxing across Borders: Tracking Personal Wealth and Corporate Profits. https://gabriel-zucman.eu/files/Zucman2014JEP.pdf (Last Access: January 14th, 2021).
[56] Johannesen, N. et al., 2018. Are less developed countries more exposed to multinational tax avoidance? https://www.nielsjohannesen.net/wp-content/uploads/WBER-RESUBMISSION-FullPaper.pdf (Last Access: January 14th, 2021).
[57] Paul Akiwumi, 2020. Curbing illicit financial flows to finance sustainable development in Africa. https://unctad.org/news/curbing-illicit-financial-flows-finance-sustainable-development-africa#:~:text=Curbing%20illicit%20financial%20flows%20(IFFs,the%20continent%20can%20do%20so (Last access: December 15th, 2020).
[58] Herkenrath M., 2014. Tax Havens and Capital Flight from Developing Countries: The Social and Political Implications. https://www.cairn.info/revue-d-economie-du-developpement-2014-HS02-page-131.html (Last Access: January 14th, 2021).
[59] Ibid.
[60] Commission on Capital Flight from Developing Countries, 2009. Tax Havens and Development. http://www.financialtransparency.org/wp-content/uploads/2015/04/norway_tax_report.pdf (Last Access: January 14th, 2021).

instance, observe that corruption correlates with larger public expenditures, but with smaller maintenance expenditures and lower infrastructure quality.[61]

2) Trade misinvoicing

Trade misinvoicing can be used as a tool to move capital in or out of a country in order to evade taxes and custom duties, to avoid quotas, for smuggling, to launder money, or as a means of capital flight. For whatever reason misinvoicing occurs, the economic development of the given country can be severely hindered. In the case of the African continent, the amount of annual capital outflows to the U.S. between 2000 and 2005 increased by more than 60%.[62] This capital flow occurred mostly through low priced exports, which can facilitate tax evasion, launder money, or just move finances out of the country (capital flight). High priced imports are in addition used for capital flows and can be used to mask illegal commissions. Data was examined for deviations from average import and export prices as an indicator of capital flows. Four of the top thirty African countries to move capital to the U.S. are classified as Northern African countries. These four countries (Egypt, Algeria, Morocco, and Tunisia) alone moved approximately $6,734 million through trade misinvoicing, while the remaining 26 Sub–Saharan countries moved a total of $13,408 million combined. The country moving the most capital to the U.S. through trade misinvoicing was South Africa, a Sub-Saharan country.[63]

The amount Africa loses to trade misinvoicing is astounding. GFI estimates that $286 billion worth of capital was extracted out of Africa using this process over the past decade. Between 2002 and 2011, due to illicit financial flows, sub-Saharan Africa lost 5.7% of its GDP, a 20.2% increase. Of these illicit financial flows, 62% were due to misinvoicing.[64]

Although the impact of trade misinvoicing is well-known, the exact technicality of it is not understood. Poor governance and corruption may play a significant role, but the truth behind trade misinvoicing is that it is a two-way street: it may be easy in many African countries to pay a bribe to the customs official to make them look the other way, but that would not have been

[61] Herkenrath, M. 2014. Tax Havens and CapitalFlight from Developing Countries : The Social and political Implications. https://www.cairn.info/revue-d-economie-du-developpement-2014-HS02-page-131.html (Last access: December 15th,2020).
[62] Maria E. de Boyrie, Simon Pak, James Nelson, 2007. Capital Movement through Trade Misinvoicing : The Case of Africa. https://www.researchgate.net/publication/242348402_Capital_movement_through_trade_misinvoicing_The_case_of_Africa (Last access: December 15th, 2020).
[63] Ibid.
[64] GFI Report, 2020. Trade-Related Illicit Financial Flows in 135 Developing Countries :2008-2017. https://gfintegrity.org/report/trade-related-illicit-financial-flows-in-135-developing-countries-2008-2017 . (Last access : December 15th, 2020).

possible without the global shadow financial system, boosted by tax havens and various secrecy methods.

To better understand the mechanics of trade misinvoicing, we will cite an example set my Brian LeBlanc[65]: imagine a hypothetical Zambian exporter of copper arranges a deal with a buyer in the United States worth $1,000,000. Furthermore, let us assume that the Zambian company only wishes to report $600,000 to government officials to circumvent paying mining royalties and corporate income tax.

First, the Zambian exporter sets up a shell company in Switzerland which (because of anonymity) cannot be traced back to him. By doing so, any transaction the Zambian exporter conducts with the shell company will look like trade with an unrelated party. Thus, even if the Zambian government suspects some wrongdoing, it will be very difficult, or impossible, to tie the Zambian exporter to the shell company in Switzerland.

Second, the exporter then uses the shell company to purchase the copper from the exporter in Zambia for a value of $600,000, $400,000 less than the true value of the copper. An invoice that shows receipt for the $600,000 copper sale is then forwarded on to Zambia's tax authority.

Third, the shell company in Switzerland then re-sells the copper to the ultimate buyer in the United States for the agreed-upon $1,000,000. The importer is instructed to make a payment to the shell company, and the goods are sent directly from Zambia to the United States without ever even passing through Switzerland.

Thus, the Zambian exporter lowered its taxable revenue from $1,000,000 to $600,000. The remaining $400,000 remains hidden in Switzerland where it is untaxed and unutilized for development purposes.[66]

Many of such transactions are being done under the veil of anonymity and secrecy. Without multilateral effort it is very hard for any African government to detect their roots and disclose the beneficial owners of shell companies. Until a global solution to offshore jurisdictions and tax havens is found, Africa will continue to struggle to achieve social and economic development.

[65] Brian LeBlanc, 2013. Trade Misinvoicing, or How to Steal from Africa. https://thinkafricapress.com/trade-misinvoicing-how-to-steal-from-africa (Last Access: December 15th, 2020).
[66] Brian LeBlanc, 2013. Trade Misinvoicing, or How to Steal from Africa. https://thinkafricapress.com/trade-misinvoicing-how-to-steal-from-africa (Last Access: December 15th, 2020).

IFFs from other criminal activities

Recent estimates suggest that, on a global scale, revenues generated from 11 crimes (trafficking in drugs, weapons, humans, human organs and cultural property; counterfeiting; illegal wildlife trade, fishing trade, logging and mining; and crude oil theft) range from $1.6 trillion to $2.2 trillion per year.[67] However, these estimates must be treated with caution as they cannot always be equated with IFFs, given the difficulty of determining the value that moves across borders.

Human trafficking contributes to a significant part of these flows. In 2016, along selected routes, 2.5 million migrants worldwide were smuggled for an economic return of at least $5.5 billion to $7 billion.[68] Most of these illegal activities have an impact on prospects for achieving economic, social and environmental goals.

With regards to the illegal trade of counterfeit products, substandard malaria medicines were responsible for the deaths of over 100,000 children in sub-Saharan Africa in 2013 alone. Further, the global numbers associated with counterfeit malaria and tuberculosis medicines are significantly higher.[69]

Similarly, illegal waste trafficking is a little-known source of illicit flows that has significant consequences for human health and the environment. Waste trade is regulated by a number of international environmental agreements such as the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and their Disposal, the Bamako Convention on the Ban of the Import into Africa and the Control of Transboundary Movement and Management of Hazardous Wastes within Africa (Bamako Convention) and the Convention to Ban the Importation into Forum Island Countries of Hazardous and Radioactive Wastes and to Control the Transboundary Movement and Management of Hazardous Wastes within the South Pacific Region (Waigani Convention). Although a lack of appropriate data makes it difficult to measure the actual extent of the problem, globally, the volume of waste traded grew by more than 500%, from 45.6 million to 222.6 million tons during 1992–2012.[70] As a part of

[67] GFI, 2017. Transnational Crime is a $1.6 trillion to $2.2 trillion Annual "Business", Finds New GFI Report. https://gfintegrity.org/press-release/transnational-crime-is-a-1-6-trillion-to-2-2-trillion-annual-business-finds-new-gfi-report/ (last Access: January 14th, 2021).

[68] UNODC, 2018. At least 2.5 million migrants smuggled worldwide in 2016, says UNODC study. https://www.unodc.org/unodc/en/frontpage/2018/June/at-least-2-5-million-migrants-smuggled-worldwide-in-2016--says-unodc-study.html (Last Access: January 14th, 2021).

[69] World Economic Forum, 2015. How can we stop illicit flows of money? https://www.weforum.org/agenda/2015/02/how-can-we-stop-illicit-flows-of-money/ (Last Access: January 14th, 2021).

[70] World Customs Organization, 2018. Illegal trade in waste: overview of Operation Demeter IV. http://www.wcoomd.org/en/media/newsroom/2018/november/illegal-trade-in-waste-overview-of-operation-demeter-iv.aspx (Last Access: January 14th, 2021).

this trend, the share of the world's waste being exported to developing countries grew by 40% during the period 1998–2009. Africa and the Asia-Pacific regions are among the world's key destinations for large shipments of electronic waste, plastics and various scrap metals. In addition to the official data being recorded, illegal activities are thriving through different means. The most prominent channels are the sale of waste on the black market, the fraudulent declaration of hazardous waste as non-hazardous and the classification of waste as second-hand goods in order to avoid abiding by international waste regulations and allowing them to be traded with developing countries.[71]

Globally, the trafficking of cultural property from all origins contributes to money-laundering and the funding of terrorism. Regarding Africa, it is estimated that about 90 per cent of sub-Saharan African historical items are to be found in major world museums, private collections or missionary museums.[72] Most of these items have been either the result of pillaging or unfair acquisitions during wars and colonial domination, and as such have been sources of illicit flows. The resulting paucity of remaining historical cultural items across the continent is developmentally harmful for two main reasons. First, cultural goods shape historical narratives and collective values that contribute to the education and social culture of society. The trafficking of cultural goods robs people of their identity, of their place in the world and affects their ability to build a collective future. Second, past and contemporary trafficking of cultural goods represents missed opportunities for Africa to benefit from greater revenue from tourism. Indeed, cultural heritage represents a basic prerequisite for a thriving tourist industry. There is a renewed impetus for the restitution of African cultural heritage held abroad. This trend and the dynamism of pan-Africanism has led many scholars working on Africa to argue that "the decolonizing project is back on the agenda worldwide".[73] For many African countries celebrating their sixtieth year of independence in 2020, the agenda for reclaiming IFFs is likely to be situated within this wider project.[74]

[71] Ibid.
[72] Minneapolis Institute of Art, 2020. Confronting the legacy of looting: From colonialism to Nazis, Mia is reckoning with the ancient problem of plunder. https://new.artsmia.org/stories/confronting-the-legacy-of-looting-from-colonialism-to-nazis-mia-is-reckoning-with-the-ancient-problem-of-plunder/ (Last Access: January 14th, 2021).
[73] Mbembe, A., 2015. Decolonizing Knowledge and the Question of the Archive. https://worldpece.org/content/mbembe-achille-2015-%E2%80%9Cdecolonizing-knowledge-and-question-archive%E2%80%9D-africa-country (Last Access: January 14th, 2021).
[74] UNCTAD, 2020. Tackling Illicit Finacial Flows for Sustainable Development in Africa. https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf (Last Access: December 15th,2020).

Previous UN involvement

The United Nations stand firm on the belief that multinational cooperation on the global level is essential to curb illicit financial flows in a way that will help Africa reach the 2030 Agenda for Sustainable Development goals. Many Member States have banded together against the IFF problem and are confident that coordinated efforts will help restore transparency and integrity in the African continent.

One of the most successful examples of UN impact on the matter is the Report of the High-Level Panel on Illicit Financial Flows from Africa[75], which was presented during the 4th Joint African Union Commission/United Nations Economic Commission for Africa (AU/ECA) Conference of African Ministers of Finance, Planning and Economic Development in 2011. This Report developed a realistic and accurate assessment of the volumes and sources of these economic flows, based on case studies of a sample of African countries, while simultaneously providing recommendations on changes that will have to be adopted by African economies, in order to confront this challenge.[76] In addition, a newer report by UNCTAD, which was published in 2020[77], emphasised on the importance of coordination between African countries, especially as regards to data sharing and aligning regulations, so as to curb IFFs in order to gain capital to invest in SDGs, national priorities and responses to crisis, such as the COVID-19 pandemic.

Another initiative by the UNODC (United Nations Office on Drugs and Crime) is ARINSA (*Asset Recovery Inter-Agency Network for Southern Africa),* an asset recovery network that has been boosted by 17 African countries and has been generously funded by the United Kingdom Department of International Development. The network assists target counties by strengthening their operational capacity to seize smuggled currency, bear negotiable instruments and foster cooperation on the regional level for combating organised crime, money laundering and the financing of terrorist activities. The network does this by providing a space for members to exchange information, model legislation and country laws to tackle asset forfeiture, confiscation, and money laundering.[78]

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[75] Report of the High Level Panel on IFFs from Africa, 2015. Illicit Financial Flow https://www.un.org/africarenewal/sites/www.un.org.africarenewal/files/iff_main_report_26feb_en.pdf (Last access: December 15th, 2020).
[76] Report of the High Level Panel on IFFs from Africa, 2015. Illicit Financial Flow https://www.un.org/africarenewal/sites/www.un.org.africarenewal/files/iff_main_report_26feb_en.pdf (Last access: December 15th, 2020).
[77] UNCTAD, 2020. Tackling Illicit Finacial Flows for Sustainable Development in Africa. https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf (Last Access: December 15th,2020).
[78]UNCTAD, 2020. Tackling Illicit Finacial Flows for Sustainable Development in Africa. https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf (Last Access: December 15th,2020).

Curbing IFFs is a matter that has troubled ECOSOC on multiple occasions, as it is the Committee's firm belief that, by reducing IFFs, Africa could use the gain to advance development and to meet its SDGs. This has led the Committee to convene a special meeting on International Cooperation in Tax Matters on April 2017, immediately following the 14th session of the UN Committee of Experts on International Cooperation on Tax Matters. Participants cited the Committee's work in updating the UN Model Double Taxation Convention between Developed and Developing Countries, and its production of an accompanying manual for negotiating bilateral tax treaties, which is a training tool for tax treaty negotiators in developing countries. Participants discussed ways to reduce IFFs and their impact on national sustainable development efforts. South Africa reported that in Africa, IFFs comprise $50 billion annually, which could be used to advance development efforts. In addition, discussed during the Special Meeting, was the work of the inter-agency Platform for Collaboration on Tax, a joint initiative of the International Monetary Fund (IMF), the OECD, the United Nations and the World Bank Group, which aims to facilitate cooperation among the organizations. The Platform plans to prepare capacity-building toolkits for developing countries, and to hold conferences on taxation and the SDGs.[79]

ECOSOC is set to help African countries adopt more transparent methods of tax-control and modernize their customs capacity in order to fight the massive outflows of capital through illicit practices, such as trade mispricing and illegal duties exceptions. It is one of the major goals to create a culture of formal tax compliance in African states, that has the potential to not only hold political and economic elites accountable, but also catch revenues lost in trade mispricing.

[79] ECOSOC, 2017. Statement of the committee. https://www.un.org/en/desa/ecosoc-convenes-meeting-international-cooperation-tax-matters (Last access: December 15th, 2020).

Possible solutions

Legal changes in the taxation system

African countries should ensure that they have clear and concise laws and regulations that make it illegal to state the price, quantity, quality, or other aspect of trade intentionally incorrectly or inaccurately in order to move capital or profits to another jurisdiction or to manipulate, evade or avoid any form of taxation, including customs and excise duties. Unless the underlying distribution of taxing rights is addressed, African countries will continue to be vulnerable to significant revenue losses. African interests must be defended in spaces, where the concerns of countries are fully heard and where alternative and substantiated views on international corporate taxation can be elaborated. The dichotomy that arises from the location of real economic activity and of permanent establishment status lies at the core of the perceived injustices. On the global level, it could be argued, that only the United Nations, with its nearly universal membership and structure, can provide a truly global tax body.[80] Other platforms, where taxation issues are discussed include the already mentioned Platform for Collaboration on Tax (IMF, World Bank, OECD, and the United Nations), and academic research undertaken by entities supporting the interests of developing countries.

Transparency of ownership and control of companies, partnerships, trusts and other legal entities, that can hold assets and open bank accounts, is critical to the ability to determine, where illicit funds move and who moves them. African countries should require that beneficial ownership information is provided when companies are incorporated, or trusts registered; such information to be updated regularly; and such information to be placed on the public record. Beneficial ownership declarations should also be required for all parties entering government contracts. False declarations should result in robust penalties.

In addition, double taxation agreements may contain provisions that are harmful to domestic resource mobilization and can be used to facilitate illicit financial outflows. African countries should review their current and prospective double taxation conventions, particularly those in place with jurisdictions that are significant destinations of IFFs, to ensure that they do not provide opportunities for abuse. The use of the Model Double Taxation Agreement developed by the African Tax Administration Forum is recommended for consideration. Regional integration arrangements should be used to introduce accepted standards for tax incentives to prevent harmful competition in the effort to attract foreign direct investment. African countries

[80] ICRICT, 2018. A Roadmap to Improve Rules for Taxing Multinationals. https://www.icrict.com/icrict-documents-a-fairer-future-for-global-taxation (Last Access: January 14th, 2020).

are encouraged to join the African Tax Administration Forum and to provide it with the necessary support, including political standing in African regional processes, such as the AU/ECA Conference of Ministers of Finance. The extractive sector is the primary source of IFFs in Africa, but it is not the sole source. African countries and companies operating in extractive industries in Africa should join voluntary initiatives like the Extractive Industries Transparency Initiative. Africa should also push for mandatory country-by country and project-by-project reporting requirements in the extractive sectors as soon as possible, and in the near term across all sectors.[81]

Battling corruption though international and intercontinental coordination

Multilateralism implies use of international cooperation in attempt to find solutions to transnational problems. Globalization has brought a new set of challenges to multilateralism, as globalization is associated with the spread of issues with transnational dimension and involving many non-state actors. IFFs are part of such transnational problems and, hence, could be resolved through multilateral means. Beyond the multiple United Nations resolutions on IFFs, recent initiatives, such as an initiative to establish a high-level panel on financial accountability, transparency, and integrity[82] under the President of the General Assembly and the President of the Economic and Social Council, provide hope of moving towards more concrete action on addressing IFFs through inclusive multilateral action. The joint initiative is set in the context of the Decade of Action to help promote faster progress towards achieving the 2030 Agenda on Sustainable Development.

African States should establish or strengthen independent governmental institutions and agencies responsible for preventing IFFs. These include (but are not limited to) financial intelligence units, anti-fraud agencies, customs and border agencies, revenue agencies, anti-corruption agencies and financial crime agencies. All such agencies should render regular reports on their activities and findings to national legislatures. African states should create methods and mechanisms for information sharing and coordination among those various institutions and agencies responsible for preventing IFFs, with such coordination being led by a country's financial intelligence unit.

[81] Report of the High Level Panel on IFFs from Africa, 2015. Illicit Financial Flow. https://www.un.org/africarenewal/sites/www.un.org.africarenewal/files/iff_main_report_26feb_en.pdf (Last access: December 15th, 2020).
[82] FACTI, n.d. About. https://www.factipanel.org/about#:~:text=It%20was%20established%20by%20the,while%20addressing%20any%20gaps%20and (Last Access: January 14th, 2021).

Banks and financial institutions have a major role in preventing and eliminating IFFs. Robust regimes for the supervision of banks and non-bank financial institutions by central banks and financial supervision agencies should be put in place. Such regimes must require mandatory reporting of transactions that may be tainted with illicit activity.[83]

Regarding the Social and Environmental aspect of the problem

Capital flight out of Africa is undermining the continent's efforts to reduce poverty and puts pressure on the lower-income social bodies. Moreover, widespread tax evasion complicates the task of the government to provide basic public services and move ahead with urgently needed institutional reforms. Considering that curbing IFFs even by 4-6% would help numerous African states relieve their most economically oppressed social classes by reducing poverty by 35%[84], implementing measures that enforce tax control and border checkpoints continent-wide are of considerable importance.

From a broader perspective, IFFs lead to decreases in domestic resources, which influence consumption and reduce national savings and investment. As a result of these losses of resources and tax revenues, as well as pressures exerted on the budget, a second channel of IFFs arises in the form of budget deficits, which lead to less social spending (health, education, and infrastructure) for socially and economically disadvantaged population. In many African countries, there is persistent exclusion and lack of access to basic services for large segments of the population. It is well known that there are imbalances in access to essential services among regions and countries, between the urban, rural, and hard-to-reach areas, inadequate health infrastructures across countries, and shortages of human health resources. In addition, such disparities follow economic lines, with access being on its lowest level in low-income countries and in the most vulnerable populations.[85]

Moreover, we should look into the impact of IFFs on climate change, not only in the African continent, but on the global level. The gap between the amount of money Africa needs for climate change adaptation and the sum that has been secured from developed countries is enormous. According to the United Nations Environmental Programme's (UNEP) Africa

[83] Report of the High Level Panel on IFFs from Africa, 2015. Illicit Financial Flow https://www.un.org/africarenewal/sites/www.un.org.africarenewal/files/iff_main_report_26feb_en.pdf (Last access: December 15th, 2020).

[84] Ortega, Sanjuan and Casquero, 2020. Illicit financial flows and the provision of child and maternal health services in low- and middle-income countries. https://bmcinthealthhumrights.biomedcentral.com/articles/10.1186/s12914-020-00236-w (Last access: December 15th, 2020).

[85] Ibid.

Adaptation Gap Report 2013[86], the continent will require annual adaptation funds in the range of $7-15 billion by 2020. After that point, the costs are predicted to escalate by circa 7% per year, due to increased damage from effects of global warming. That means Africa would need $35 billion yearly by 2050 and $200 billion per year by 2070s. However, such figures are based on the premise, that the world warms by less than 2°C by 2100. If temperatures rose 3.5-4°C, adaptation costs would be closer to $50billion per year by 2050 and $350billion per year by 2070s.

If not for IFFs, Africa would have the necessary amount of capital to fund its own development through domestic resource mobilisation. However, the staggering annual loss of finances through illicit capital robbing has made cooperation with developed countries and other institutions on the global level necessary. Adaptation financing is urgently needed for a range of measures, such as helping poor farmers access faster-maturing or drought-tolerant seeds, installing small-scale irrigation systems, or accessing reliable weather and climatic forecasts.[87]

A resource for adaptation policies could as well come from curbing IFFs. Such resources could be essential in helping to develop pilot projects, improving capacity building, stimulating more innovative mechanisms, such as mobilising private finances, and be used as targeted fiscal stimuli and catalysts in climate change adaptation. Africa crucially needs funding for climate change adaptation. Plugging the illicit flow of money out of the continent would be a good starting point.[88]

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[86] UNEP, 2013. Africa's Adaptation Gap: Climate-change impacts, adaptation challenges and costs for Africa. https://wedocs.unep.org/bitstream/handle/20.500.11822/8376/-Africas%20adaptation%20gap-2013Africa%20Adapatation%20Gap%20report-%20small_2013.pdf?sequence=2&amp%3BisAllowed= (Last Access: January, 14th, 2021).

[87] Munang, 2014. Tackle climate change and illicit financial flows together. http://iffoadatabase.trustafrica.org/iff/tackle_climate_change_and_illicit_financial_flows_together.pdf (Last access: December 15th, 2020).

[88] Munang, 2014. Tackle climate change and illicit financial flows together. http://iffoadatabase.trustafrica.org/iff/tackle_climate_change_and_illicit_financial_flows_together.pdf (Last access: December 15th, 2020).

Bloc positions

African States

According to the 2013 joint report between GFI and the AfDB[89], the IFFs from Africa rose. Adjusting for inflation, Africa lost between $1.2 – 1.4 trillion between 1980 and 2009 through IFFs, with the West and Central Africa accounting for 37%, North Africa for 31%, and Southern Africa for 27%. The three largest exporters of illicit capital based on volume of outflow were Nigeria, South Africa, and Egypt, while the largest regional players were:

1) Nigeria, Republic of Congo, and Ivory Coast in the West and Central Africa region;

2) Egypt, Algeria, and Libya in the North Africa region;

3) South Africa, Mauritius, and Angola in the South Africa region.[90]

The report in addition showcases, that during the period of 1980-2009, Africa acted as a net creditor to the world through massive net resource transfers (NRT), which are calculated by the difference between legitimate net recorded transfers (NRecT) and IFFs. Estimations are that Africa provided net resources to the world ranging from $597 billion (narrow NRT estimates) up to $1.4 trillion (robust NRT estimates).[91] While some African nations made financial gains from NRTs between 1980 and 2009, the distribution is largely asymmetrical.

Real amounts of financial loss in Africa, as a result of IFFs, have grown at a staggering rate. Attempting to prevent IFFs has also proven difficult in certain areas. Despite efforts to implement anti-money laundering (AML) controls, extremists in the Sahel region as well as insurgencies in Mali, Niger, Chad, and Cameroon, have presented problems in dealing with illicit funds related to terrorism. Moreover, refugees, as a result of insurgency, have also created hindrances towards implementing legislation and controls on AML and Combating the Financing of Terrorism (CFT).[92] Nevertheless, while there is a growing support and desire

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[89] AfDB, 2013. New AfDB-GFI Joint Report: Africa a Net Creditor to the Rest of the World. https://www.afdb.org/en/news-and-events/new-afdb-gfi-joint-report-africa-a-net-creditor-to-the-rest-of-the-world-11856 (Last Access: January 14th, 2021).
[90] Ibid.
[91] Ibid.
[92] OECD, 2018. Illicit Financial Flows The Economy of Illicit Trade in West Africa. https://www.giaba.org/media/f/1048_IFF-THE%20ECONOMY%20OF%20ILLICIT%20TRADE%20IN%20WEST%20AFRICA.pdf (Last Access: January 14th, 2021).

among African states to implement AML controls, primarily because of AML actions taken by South Africa and Nigeria, state capacities and infrastructure act as a barrier to compliance due to the absence of national identity systems and proper address verification documentation.[93]

Despite being the worst affected by NRTs and IFFs, Nigeria has led from the front in enacting new AML controls in the form of the Money Laundering Prohibition Act (MLPA). The MLPA holds legal and natural persons in Nigeria liable to conviction for violation of its provisions. These include violations of record keeping and reporting requirements, which can carry a maximum prison sentence of 3 years or a maximum fine of $165,000 to individuals. Institutions are also liable - if they fail to maintain proper internal AML controls (including trade mispricing), institutional violation of the MLPA can lead to a minimum penalty of $6,500 for firms.[94]

Developed Countries

The developed world has an essential role to play in preventing IFFs and, at times, has shown that developed states are willing to assist in curtailing capital flight into their banks, most noticeably through freezing of private assets of autocrats. At the epicentre of this is the U.S. and the Stop Tax Haven Abuse Act (herein Act), which allows the U.S. Department of Treasury to take specified steps against foreign jurisdictions that impede U.S. tax enforcement; to require all corporations registered with the U.S. Securities and Exchange Commission (SEC) to annually publish tax payments, financing, sales, and tax obligations; and to strengthen the detection of foreign holdings and offshore activities. Given the U.S. hegemonic power and its role as a global financial hub, the Act has the potential to expose incriminating details surrounding shell corporations and individuals, who move IFFs through the U.S. either directly or indirectly.[95]

In addition, economies, that have been routinely referred to as tax havens, have even taken an active role in curtailing IFFs. The Crown Dependency of Guernsey has established tax information exchange agreements (TIEAs) with over 50 states including known tax havens Cayman Islands, British Virgin Islands, Bermuda, and Gibraltar. However, only 5 of states in Guernsey's TIEAs are African. Guernsey's willingness to share tax information is by no means

[93] KMPG, 2014. Global Anti-Money Laundering Survey 2014. https://assets.kpmg/content/dam/kpmg/pdf/2014/01/global-anti-money-laundering-survey.pdf (Last Access: January 14th, 2021).
[94] Federal Republic of Nigeria, 2011. Money Laundering Prohibition Act. https://www.nfiu.gov.ng/images/Downloads/downloads/mlpaamend.pdf (Last Access: January 14th, 2021).
[95] U.S. Congress, 2019. H.R.1712 - Stop Tax Haven Abuse Act. https://www.congress.gov/bill/116th-congress/house-bill/1712 (Last Access: January 14th, 2021).

the norm for tax havens and is not replicated in other offshore financial centres such as Luxembourg, Switzerland, or Hong Kong.[96]

Relevant international documents and further reading

- Report of the High-Level Panel on Illicit Financial Flows from Africa (2015).
- The Addis Ababa Action Agenda (2015)
- UNCTAD Economic Development in Africa Report 2020 (2020)
- UNODC Conceptual Framework for the Statistical Measurement of Illicit Financial Flows (2020)

[96] Sahadath, 2014. Illicit Financial Flows and Capital Flight in Africa. https://www.e-ir.info/2014/02/14/illicit-financial-flows-and-capital-flight-in-africa (Last access: December 15th, 2020).

Questions to consider

1) Is your country a victim of African IFFs or rather benefit from it?

2) Would your country prefer a regional approach, or multilateral/global solution under the auspices of the United Nations?

3) Is there an existing regional or international initiative that your country could join and benefit from?

4) Is your country member of an organization/party to a convention, mechanisms, and practices of which could work also on the global level?

5) Is there a way to incentivise developed countries into assisting developing countries more with the issue?

6) How could the international community address the issue of non-state actors and tax havens?

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