UGANDA DEBT NETWORK
DEBT IS SLAVERY

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CURBING ILLICIT FINANCIAL FLOWS IN THE EXTRACTIVE SECTOR

1. INTRODUCTION

Courtesy of Kenyan wall street.

In March 2020 Uganda, Tanzania and French oil company Total signed agreements on building the world's longest 897 miles pipeline to carry crude oil from western Uganda to the Indian Ocean coast.

Uganda discovered commercially viable oil deposits in the Albertine graben in 2006 and in August 2020, Uganda joined the Extractives Industries Transparency Initiative (EITI). The initiative is a global standard to promote accountable management of the extractive industry. However should commercial production of oil and gas begin before the government tightens loopholes that drives illicit financial flows (IFFs), the country should expect very little and in some cases nothing at all in any form or shape of the much needed oil revenues.

2. ILLICIT FINANCIAL FLOWS IN THE EXTRACTIVE SECTOR

Illicit financial flows (IFFs) are most commonly understood as financial flows that involve capital that is illegal in nature, either by the way it is earned, how the transfer happens or what the money is used for. IFFs are widely understood to have a negative impact on countries, as they drain them of resources that could have been utilized by governments for social spending and other important functions. However, they remain an enigma for policymakers in developing countries due to their illegal nature, which makes them difficult to track and address.

Every year, an estimated $88.6 billion (about 325trillion), equivalent to 3.7 per cent of Africa's GDP, leaves the continent of Africa as illicit capital flight, according to the United Nations Conference on Trade and Development (UNCTAD) Economic Development in Africa Report 2020. IFFs related to the export of extractive commodities (amounting to $40 billion in 2015, which is about Shs147trillion) remains the largest component of illicit capital flight from Africa. Mostly, IFFs are being perpetuated by the multinational companies operating across the country's economic sector, with key amongst which include players in sectors such as oil and gas (extractive), energy, telecommunication, ICT and manufacturing.

3. CASE OF UGANDA.

It is estimated that Uganda looses more than Shs2trillion, which is almost three quarters of the general national budget support by development partners (donors) for the this financial year (2020/2021), amounting Shs 2.9 trillion, is lost as a result of IFF. Stopping illicit capital flight even for the case of Uganda could almost cut in half the annual financing gap of $200 billion (about Shs733trillion) that the continent of Africa faces to achieve the Sustainable Development Goals (SDGs).

Insufficient levels of financial transparency - globally and domestically - and government accountability in Uganda, coupled with a regulatory system that can incentivize financial crimes, are helping to drive high levels of illicit financial inflow and outflows in the country, which are undermining development efforts. Curtailing IFFs and the mechanisms facilitating them will strengthen the mobilization of domestic resources for long-term sustainable development.

4. UDN RECOMMENDATIONS & CONCULSION

1) There is need to enact a dedicated Extractive Industries Transparency Initiative (EITI) law to support the operationalization of EITI standard following Uganda's recent admission as a member country. The EITI law should among other things put in place a framework for transparency and accountability in the disclosure of extractives revenues including those from the petroleum sector.
2) For each of the signed treaties, the government of Uganda should insist on inclusion of anti-treaty abuse provisions to the effect that multinational companies including those engaged in petroleum activities in Uganda cannot benefit from the agreement where the principle purpose of the transaction is to avoid payment of taxes.
3) Double Taxation Agreements, especially the one with the Netherlands and even Mauritius must have clauses that guard against reducing the country's tax threshold and undermining the domestic tax regime especially the one that speaks to taxing income sourced and earned in the country.
4) East African Community Countries including Uganda should collaborate more and adopt a regional approach to dealing with the increasingly deep vice of IFFs as well as share information pertaining to multinational companies suspected to be involved in tax abuses of any related nature.

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