CIVIL SOCIETY POSITION LAUNCH OF STOP THE BLEEDING CAMPAIGN

Africa is estimated to be losing more than 50 billion US$ in Illicit Financial Flows (IFF’s) annually which by far outweighs the amount of money that Africa receives in official development assistance (ODA), making the problem of illicit financial flows one of the most challenging developmental and governance challenges of Africa today. It is undisputed that Africa has become a continent of investment choice, offering “attractive investment terms” and has seen an increase in foreign direct investment (FDI) largely from Multinational and transnational corporations and entities. Whilst the continent continues to score good growth prospects, millions of its people are struggling. Sub-Saharan Africa is the region with the highest prevalence (percentage of population) of hunger. One person per four people is undernourished.¹ Further, many Africans cannot access proper health and educational services due to limited health facilities.

The High Level Panel Report on IFFs observes that commercial activities account for 65% of IFFs, criminal activities 30% and corruption 5%.² The commercial component of IFFs relate to business activities and include hiding wealth, evading or aggressively avoiding tax, and dodging customs duties and domestic levies. By and large hiding wealth, evading and avoiding tax payments is more pronounced with Multinational Corporations (MNCs) as a result of the complex nature of the operations of MNCs.

Zambia must not be alienated from discussions on IFFs. Former Finance Deputy Minister Honorable Miles Sampa (MP) claimed that Zambia lost US$ 2billion due to tax avoidance.³ In addition, ActionAid Zambia in its study titled Sweet Nothings, observed that Zambia has lost tax revenue of around US$ 17.7 million attributed to the transactions of Associated British Foods Zambian subsidiary “Zambia Sugar Limited”⁴. Further, a leaked 2009 document from accountancy firm Grant Thornton suggested that

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Glencore had helped its subsidiary Mopani Copper Mine (MCM) in Zambia to avoid tax payments totaling tens of millions of pounds\textsuperscript{5}. Therefore, the discussion of IFFs should not be trivialized as the impact of IFFs on both the Zambia and African economy is significant and therefore serious steps at every governance level for not only the Zambian Government but also all other African Governments must be taken. Civil society therefore in Zambia calls upon the Zambian Government to ACT against illicit financial flows and to STOP THE BLEEDING from Zambia’s economy.

Further, in a more recent study by War on Want, Zambia is said to be losing a whopping 3 billion annually to IFFs. This is money that could otherwise be used to finance the provision of public services such as health and education, as well as critical national development projects such as roads, railways, bridges and power plants infrastructure which are all key to Africa’s industrialization. For instance, according to the Africa Infrastructure Country Diagnostic (AICD), the infrastructure needs of Sub-Saharan Africa exceed US $93 billion annually over the next 10 years

The significance of Illicit financial flows cannot be overemphasized as 3 billion dollars annually is approximately 36 billion kwacha. On the 9\textsuperscript{th} of October 2015, Zambia announced a budget of 51.3 billion kwacha this entails that IFFs in Zambia are 70\% of our national budget. We believe as civil society organizations that if we plug this hole on illicit financial flows, we would fully finance our national budget. In addition to this the DRM target for Zambia in 2016 is 20.4\% of GPD, but the Zambia Revenue Authority has indicated that collecting tax revenues in 2016 will be a challenge

As civil society organizations in Zambia, we stand in solidarity to launch the \textit{Stop the Bleeding Campaign in Zambia as a commitment of our resolve to push for firm steps in addressing the revenue losses and leakages through illicit means from the Zambian economy. We are alive to the fact that our Economy is facing huge challenges as present. High youth employment; high levels of income inequality; High poverty levels; Exchange rate volatility; high inflation (now at 14.3\%); increasing debt all point to the fact that Zambia needs every penny that is generated in its economy and must therefore ensure that adequate mechanisms, legislation and policy and put in place to seal all forms of revenue leakages.}

As civil society organizations, we are alive to the fact that IFFs have undermined the ability of the Zambian Government to meet targets on Domestic resource Mobilization (DRM) which further compromises our ability to drive our own development agenda and priorities.

Civil society in Zambia is of the considered view that joint efforts are required to address the challenge of IFFs and therefore everyone must come on Board. Ordinary citizens must come on board; the private sector and industry players must come on board but our cooperating partners must also come on board by strengthening legislation for MNC operating in African economies to be more transparent about their commercial activities. We are of the opinion that our aspirations as a country of becoming a prosperous middle income economy by 2030 may not be fully realized if true partnerships at the local, regional and international levels are not established to deal with the challenge of IFFs as these undermine our capacity to generate revenue. To this effect, such an ambitious vision is only achievable when enough revenue is collected and invested prudently in the economy.

While we commend measures put in place by government to try and address illicit financial flows such as plans to have dedicated Transfer Pricing Unit at Zambia Revenue Authority (ZRA) and monitoring of the mineral value chain through the "Mineral Output Statistical Evaluation System". We call upon the Zambian Government to do the following:

**Review of All Double Taxation Agreements**

We commend efforts by government to review some of its tax agreements with other countries. However, we retaliate the need to thoroughly undertake a cost benefit analysis of all DTAs. This will ensure that anti-abuse clauses that make it easy for large corporations to avoid and evade tax payments are eliminated. For instance, according to the Sweet Nothings report by ActionAid Zambia, it was observed that Zambia Sugar Limited took advantage of the Zambia/Ireland tax treaty to avoid US$7.4million in Withholding Tax (WHT) through double taxation.

**Enact Legislation that Provide for the Release of Beneficial Ownership Information**

We call upon Government to ENACT the EITI BILL and give a clear process and framework on how and when this will be done. It is our considered view that the EITI law will provide the necessary legislation for the release of beneficial ownership information for companies planning to invest in Zambia. We further implore that such information should be updated regularly and placed on public record. This will enhance transparency surrounding the operation of large corporations. Civil society believes that if no legislation of this nature is enacted, then true steps towards addressing key avenues through which revenue losses occur will not be addressed.
Adopt Policies that compel Multinational Corporations (MNCs) to report their business activity on a Country by Country basis

Civil society in Zambia also calls upon the Zambian Government to adopting tax proposals around base erosion and profit shifting (BEPS). Zambia has been implementing the BEPS initiative at the county level and there is need for a more firmed up assessment of the impact of the current measures in effectively addressing the problem of base erosion and profit shifting.

Government should also require Country by country reporting by all MNCs listed on the stock exchange of countries they operate in. This will compel them to publicly report sales, profits and taxes paid in all jurisdictions where they operate in their audited annual reports and tax returns on a country by country and project by project basis. In order to deal with transfer mis-pricing and illicit financial flows.

Civil society in Zambia calls upon the Zambian Government to ACT in solidarity with other Africa Countries to support the establishment of the High Level Panel on Illicit Financial Flows as a permanent committee with the AU system by 2016. We implore our Government to be crystal clear on this agenda and support its establishment. Further, the Zambian Government to commit and domesticate recommendations from the High level Panel on Illicit financial flows.

Adopt Policies that compel Multinational Corporations (MNCs) to exchange Tax Information

Government should also require Automatic Exchange of Tax Information or data from financial institutions on the financial assets within their domain and automatically provide it to governments where the non-resident individual or entity beneficially controlling the structure is located.

Promote/support capacity building of key financial institutions to tackle IFFs

Government should strengthen the capacity of its financial institutions particularly revenue authorities and the ministries responsible for negotiating mining and other investment contracts – to monitor transfer-pricing rules and to adhere to the “arm’s length principle.”

Embrace policies that are aimed at curbing the current tax competition

Government should push for the harmonization of tax laws within the region so as to end the current tax competition within the region in attracting foreign investments, which is tantamount to ceding such investments for free.
Lastly, we would like to commend government for engaging various stakeholders in development discussions. As Civil society, we shall continue engaging the government and use our grassroots connections to provide evidence to inform policy discussions.