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LINKAGES BETWEEN ILLICIT FINANCIAL FLOWS AND SOCIAL PROTECTION

CASE STUDIES FROM EAST AND SOUTHERN AFRICA

AFRODAD

African Forum and Network on Debt and Development

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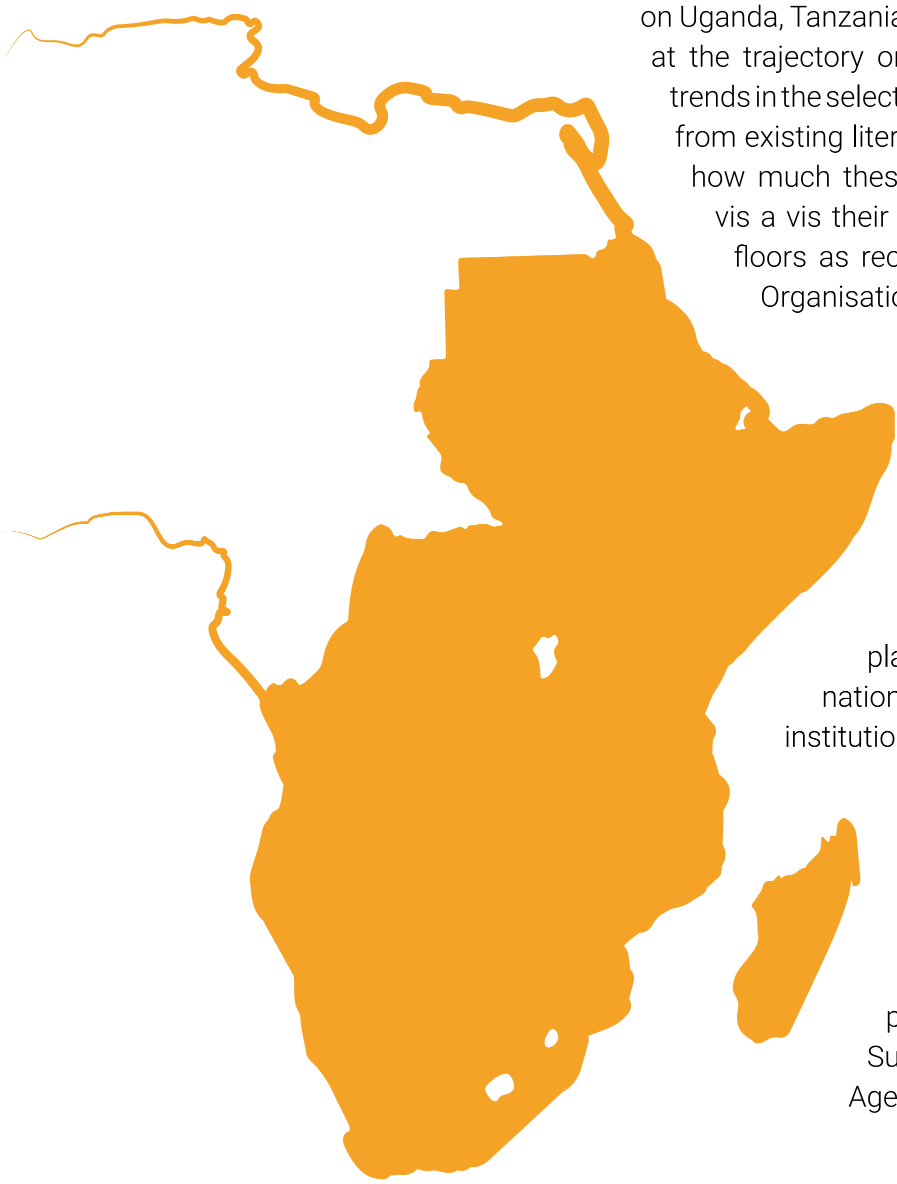
LIST OF ACRONYMS

AFRODAD	African Forum and Network on Debt and Development
AU	African Union
BEAM	Basic Education Assistance Module
CCT	Conditional Cash Transfer
COVID-19	Coronavirus
FSP	Food Security Pack
IDA	International Development Association
IFFs	Illicit Financial Flows
IGG	Inspectorate of Government
GDP	Gross Domestic Product
GNI	Gross National Income
HGSM	Home-Grown School Meals
KGS	Keeping Girls in School
NGOs	Non-Governmental Organisations
PSSN	Productive Social Safety Net
PWDs	Persons with disabilities
ODA	Official Development Assistance
SAGE	Social Assistance Grants for Empowerment
SCT	Social Cash Transfers
SDGs	Sustainable Development Goals
UGX	Uganda Shillings
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission of Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund

EXECUTIVE SUMMARY

This study seeks to analyse the link between illicit financial flows (IFFs) and social protection, specifically the potential of curbing IFFs to expand fiscal space to invest in social protection systems in East and Southern Africa. With a focus on Uganda, Tanzania, Zambia and Zimbabwe, the study looks at the trajectory on social protection and assess funding trends in the selected countries, provides an overview of IFFs from existing literature and makes a comparison between how much these governments are losing through IFFs vis a vis their spending on social protection, including floors as recommended by the International Labour Organisation 2012 Recommendation on Social Protection Floors (No. 202).



The study utilizes both quantitative and qualitative data. The data on social protection and IFFs was gathered through desk research. The literature reviewed for the paper includes national development plans, national social protection policies, national budget documents, reports of various institutions on social protection as well as on IFFs including the selected country governments, UN agencies, World Bank, and NGOs.

African governments have made several commitments to expand social protection coverage. Target 1.3 of the Sustainable Development Goals (SDGs) Agenda 2030 urges States to

"implement nationally appropriate social protection systems and measures for all, including floors" while African Union's Agenda 2063 Framework sets a target of social protection coverage of all poor and vulnerable people calling on governments to ensure "sustainable financing for social protection programmes."

Promisingly, as of 2021, 46 Sub-Saharan African governments had state sponsored social protection programmes, an almost double increase from only 25 in 2005. However, despite having social protection systems in place, the low allocation of resources over the previous decades has inhibited their capacity to respond to the social security needs of their populations. For instance, during the COVID-19 pandemic, low coverage of social protection left numerous Africans, majority of whom work in the informal sector, without support when millions lost their jobs and livelihoods.

Social protection systems in Africa remain underdeveloped primarily due to inadequate financing. Social assistance spending in the selected countries varies but is generally below the 1.5% of GDP average of Sub-Saharan Africa. One of the proposed measures for governments to increase their fiscal space to invest in social protection is tackling illicit financial flows (IFFs). UNCTAD estimates that Africa loses approximately US$88.6 billion annually through IFFs, almost double the funds received in form of official development assistance (ODA) (US$ 48 billion). The countries discussed in this paper are resource rich countries which are particularly prone to IFFs due to the complexities of the global value chains. UNECA projects that almost 50 per cent of illicit outflows from Africa arise from trade mispricing or trade misinvoicing and over half of the trade-related IFFs are from the extractive sector alone.

A resounding policy proposal from policy makers, scholars, and activists to governments is to curb various forms of IFFs including tax evasion, tax avoidance, money laundering and trade misinvoicing, and channel the funding towards closing the SDGs financing gap for SDGs, including expanding social protection and creating social protection floors. This study explored the plausibility of this proposal drawing illustrations from the selected countries and arrived at the findings below.

Uganda

20.3% (8.3 million people) of Uganda's population is living in poverty, yet only 2.9% of the population benefit from the social protection system in the country. Though the government provides cash benefits to older persons under the Social Assistance Grants for Empowerment (SAGE), only 358,420 older persons are benefiting from the programme despite the fact that almost 45% (720,000 older persons) are living in extreme poverty.

- The government would need an additional US$ 30 million (UGX. 108 billion) annually to expand coverage of SAGE benefits to the older persons in need, who are currently excluded (minus administrative costs).

Between 1980 and 2018, the country lost an annual average of $646 million through IFFs. According to the Inspector General of Government, Uganda lost UGX. 9.1 trillion through corruption as of 2022. Corruption in the environmental sector alone accounts for a loss of UGX 2.28 trillion annually, twenty times more than the amount needed to enroll older persons who are currently excluded from SAGE (UGX 108 billion) and almost quadruple the total allocation for social protection of vulnerable groups (UGX 585 billion) over the last six years (2016-2021).

Annual losses through illegal cigarette trade are estimated at US$ 8 billion (UGX 30 billion).

- These losses amount to double the total funds allocated to special grants for persons with disabilities (PWDs) over the last three years (approximately UGX 15 billion) during the COVID-19 pandemic.

Tanzania

Tanzania's Productive Social Safety Net (PSSN) commenced in 2012 with a target of reaching 650,000 extremely poor households. Tanzania initially borrowed US$ 200 million from IDA and received an additional US$ 200 million in 2016 upon extension of the project to 2019. Phase 2 of PSSN kicked off in 2019 with an anticipated total project cost of US$ 883 million, of which the World Bank, through IDA, lent Tanzania US$ 450 million while the government pledged $14 million.

Between 1980 and 2018, Tanzania lost a total of $16,322 million through IFFs. As of 2012, revenues worth between US$ 847 and US$ 1 billion leaked annually from tax evasion, incentives and other forms of IFFs, increasing to US$ 1.3 billion in 2015.

- A half of the US$1.83 million lost annually, without counting losses through corruption, would potentially fully finance Tanzania's social safety net programme for the entire five-year project duration (2019-2023).

Zambia

Despite enrolment of 4 million people in social assistance programmes, only 2.3 million people actually access these benefits partly due to insufficient resources. Zambia's predominant social assistance program, the Social Cash Transfer (SCT) programme, is underfunded and thus several poor and vulnerable households in need do not have access to these benefits. Similarly, notwithstanding an almost ten-fold increase in spending in 2021, the Food Security Pack (FSP) programme has been chronically underfunded for the past two decades.

Between 1980 and 2018, the country lost an annual average of $705 million through IFFS.

- Zambia lost approximately US$ 14.5 billion between 1995-2014 through export misinvoicing of copper which could potentially have tripled the budget for FSP between 2015 to 2022.

- Revenues worth US$ 2 billion lost through corporate tax avoidance annually add up to US$ 16 billion over the past 8 years, almost double the budget for SCT over the same period.

Zimbabwe

While spending increased significantly from US$7.9 million in 2017 to US$43.5 million in 2020, this financing was inadequate given the need. According to UNICEF, almost half of Zimbabwe's population was living in extreme poverty in 2020 due to the economic crisis caused by COVID-19 and food insecurity, yet only 51% are covered by social assistance programmes.

- AFRODAD estimates that Zimbabwe loses US$ 570.7 million annually which is 13 times more than its 2020 social protection expenditure amidst the COVID-19 pandemic.

The budgetary allocation for Basic Education Assistance Module (BEAM) programme, a social assistance programme, increased from US$ 7 million in 2015 to US$ 20 million and US$ 25 million in 2020 and 2021 respectively. Despite the significant increase, this funding is insufficient since the programme targets 1.5 million children thus this funding equates to only US$ 16.7 per child annually.

- It is estimated that the country loses US $1.5 billion worth of gold annually which is thirteen times more than the cumulative budgetary allocations for BEAM between 2015-2021.

In concluding, this study reiterates that curbing IFFs can potentially create the fiscal space to drastically transform the social protection sectors in the selected countries. It makes the following country level policy recommendations:

Prioritize curbing IFFs their various forms (commercial practices, criminal activity and corruption) to save resources which can be invested in improving social protection systems, particularly, designing and implementing social protection floors.

- Bolster legal, policy and institutional frameworks with the aim of creating an environment which is attuned to curbing complex IFFs including addressing loopholes in the legislation governing taxation and mining.
- Grant autonomy to existing institutions mandated to investigate and enforce IFFs criminal related activity and corruption to conduct their duties without political interference.
- Disclose contracts negotiated and information on revenue streams from the extractives sector in accordance to the EITI Principles.
- Implement the Africa Mining Vision framework to ensure transparency and equitable exploitation of natural resources in the extractives sector.

Governments should design national social protection floors in line with principles in the ILO Social Protection Floors Recommendation (No. 202).

- Maintain and expand the social protection measures put in place during the COVID-19 pandemic.
- Create more social protection floors to ensure wider coverage of poor households and vulnerable groups by social assistance programmes.
- Increase the funding allocated to the social protection sector and at a bare minimum, desist from cutting funding for existing social assistance programmes.

INTRODUCTION

Social protection is vital tool in reducing poverty, inequality and vulnerability and improving livelihoods in society. The COVID-19 pandemic demonstrated the importance of having comprehensive social protection systems to reduce and prevent poverty and help people to withstand economic shocks and crises. While several African countries have social protection systems in place, the low allocation of resources over the previous decades affected their capacity to respond to the social security needs of their populations. Low coverage of social protection left numerous Africans, majority of whom work in the informal sector, without support when millions lost their jobs and livelihoods during the pandemic.[1]

African governments have made several commitments to expand social protection coverage at a national, regional and international level. Target 1.3 of the Sustainable Development Goals (SDGs) Agenda 2030 calls on States to ***"implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."*** The African Union's (AU) Agenda 2063 Framework recognizes the role which social protection plays in poverty eradication and achieving the goal of Africans attaining "a high standard of living, and quality of life, sound health and wellbeing."[2] It sets a target of social protection coverage of all poor and vulnerable people and highlights "***ensuring sustainable financing for social protection programmes"*** as a key strategy to achieving this target.[3]

Plans are also underway at the African Union to adopt a Protocol to the African Charter on Human and Peoples' Rights on the Rights of Citizens to Social Protection and Social Security.[4] The Draft Protocol reiterates the right to social protection, mandating States "to provide a minimum package of essential social protection" and ensure access to social assistance for persons in need.[5]

1 World Bank (2021), "Social Protection for the Informal Economy: Operational Lessons for Developing Countries in Africa and Beyond" World Bank, Washington D.C available athttps://documents.worldbank.org/en/publication/documents-reports/documentdetail/946341635913066829/social-protection-for-the-informal-economy-operational-lessons-for-developing-countries-in-africa-and-beyond

2 Aspiration 1, African Union Agenda 2063 available athttps://au.int/sites/default/files/documents/36204-doc-agenda2063_popular_version_en.pdf and Goals and Priority Areas of Agenda 2063 available at https://au.int/en/agenda2063/goals

3 African Union Agenda 2063 Framework, Goal 1.1, Target 1.1.3 (b) available at https://uclgafrica-alga.org/wp-content/uploads/2019/06/INL__Agenda-2063-Technical-Document.pdf

4 Draft Protocol to the African Charter on Human and Peoples' Rights on the Rights of Citizens to Social Protection and Social Security available athttps://au.int/sites/default/files/newsevents/workingdocuments/36350-wd-e-protocol_on_social_protection_and_social_security.pdf

5 Article 3 (a) and (b), Draft Protocol to the African Charter on Human and Peoples' Rights on the Rights of Citizens to Social Protection and Social Security, ibid.

The International Labour Organisation (ILO) Social protection Floors Recommendation 2012 (No. 202) offers guidance to countries on establishing and implementing social protection floors. These essentially consists of basic social security guarantees including basic income security for the most vulnerable members of society including persons with disabilities, older persons, expectant mothers, children and others persons who are unable to earn an income.[6]

Adequate financing is required to implement national social protection policies and floors yet social protection systems in Africa remain underdeveloped mostly due to financing shortfalls.[7] One of the proposed measures for governments to increase their fiscal space to invest in social protection is tackling illicit financial flows (IFFs).[8] It is estimated that Africa loses approximately US$88.6 billion annually through IFFs, almost double the funds received in form of official development assistance (ODA) (US$ 48 billion).[9]

Studies have argued that by recovering financial resources lost through various forms of IFFs including tax evasion, tax avoidance, money laundering and trade misinvoicing, a government can close the financing gap for its SDGs including expanding social protection.[10] This paper adds to existing literature on the subject with a focus on the potential of funds lost through IFFs to boost investment in social protection in Eastern and Southern Africa, specifically Uganda, Tanzania, Zambia and Zimbabwe. It looks at the social spending trends of these countries, identifies the causes and scale of IFFs, highlights the implications of losing revenues through IFFs on existing social protection.

The study utilizes both qualitative and quantitative data. The research and analysis presented in this paper synthesizes findings from desk review research. The literature reviewed for the paper includes national development plans, national social protection policies, national budget documents, reports of various institutions on social protection as well as on IFFs including the selected country governments, UN agencies, World Bank, and NGOs.

This paper is structured as follows. Section 2 looks at the current social protection landscape in Africa with a focus on the selected countries. Section 3 provides an overview of IFFs in the selected countries highlighting their causes, forms, size and scale. Section 4 unpacks social protection funding trends in each of the countries through budget analyses highlighting specific examples. It then makes a comparison on the financial resources these countries are losing through IFFs vis a vis implementation of their social protection commitments and floors. Section 5 concludes and makes recommendations on how countries can boost their investment in social protection by tackling IFFs.

6 Article 5, ILO Social Protection Floors Recommendation 2012 (No. 202) available at https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

7 Bodewig, C. et al. (2020), "COVID-19 in Africa: How Can Social Safety Nets Help Mitigate the Social and Economic Impacts" World Bank available at https://blogs.worldbank.org/africacan/covid-19-africa-how-can-social-safety-nets-help-mitigate-social-and-economic-impacts

8 Ortiz, I. et al (2017), "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" ILO, Geneva available at http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=51537

9 United Nations Conference on Trade and Development (UNCTAD) (2020), "Tackling Illicit Financial Flows for Sustainable Development in Africa" available athttps://unctad.org/system/files/official-document/aldcafrica2020_en.pdf

10 Ortiz, I. et al. (2017), supra.

SITUATIONAL ANALYSIS OF SOCIAL PROTECTION IN AFRICA

The International Labour Organization (ILO) defines social protection as “a set of policies and programmes designed to reduce and prevent poverty and vulnerability throughout the life cycle”.11 Social protection covers four main types of programmes namely: 1) social assistance (non-contributory benefits); 2) social insurance (contributory schemes): 3) social care services; and 4) labour market programmes.[12] This study specifically focuses on social assistance interventions which are non-contributory, designed and implemented by the State using public resources, and target poor, vulnerable anmarginalized groups.[13]

Social security, a term often used synonymously with social protection14 which covers social assistance and social insurance, has been defined by ILO as “the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner.”[15]

For this study, social protection refers to policies and programmes designed to reduce and prevent poverty and vulnerability, protect poor, marginalized and vulnerable members of society against life risks and shocks, and improve their wellbeing.

The COVID-19 pandemic demonstrated the importance of investing in social protection to shield people from shocks and vulnerabilities. The poverty levels on the continent rose as a result of the pandemic and consequent measures put in place to curb spread, including lockdowns. While social protection was boosted in several parts of Africa during the crisis, it was mainly to respond to the pandemic with numerous countries planning to scale back on such measures as early as 2021, thus not capturing the opportunity to develop the temporary support measures into elements of social protection floors.[16]

11 International Labour Organization (ILO) website at https://www.ilo.org/100/en/story/protection/

12 Carter, B. et al. (2019), “Social Protection Topic Guide” Institute of Development Studies available athttps://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/14885/Social_Protection_Topic_Guide_online.pdf?sequence=1&isAllowed=y

13 Ibid.

14 ILO (2017), “World Social Protection Report 2017-19: Universal Social Protection to Achieve the Sustainable Development Goals” ILO-Geneva available at https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_604882.pdf

15 ILO, “Facts on Social Security” ILO Geneva available athttps://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_067588.pdf

16 Tamale, N. (2021), “Adding Fuel to Fire: How IMF demands for Austerity Will Drive Up Inequality Worldwide” Oxfam International available at https://oxfamilibrary.openrepository.com/handle/10546/621210?show=full See Agenda 2030, Sustainable Development Goal (SDG) Goal 1, Target 1.3: “Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.”

Social protection is a vital tool to alleviating poverty and reducing inequality. African countries have committed to implement social protection systems and ensure coverage for poor and vulnerable persons under the Sustainable Development Goals (SDGs) Agenda 2030 and Africa's Agenda 2063.17 In 2021, 46 Sub-Saharan African governments had state sponsored social protection programmes, up from only 25 in 2005.18 Eastern and Southern African countries, specifically, have made substantial strides in developing their social protection systems. However, they face hindrances which cripple effective implementation of programmes, notably insufficient financing and low coverage of intended beneficiaries.19

As of 2020, Sub-Saharan Africa had a gap of approximately $62 billion in meeting this target.[20] While the global expenditure on non-health public social protection benefits for working-age populations, including maternity benefits, disability benefits and other social assistance, stands at 3.6% of GDP, Africa spends 1.1% of GDP.[21] Only 17.4% percent of the population is covered by at least one social protection benefit, below the global rate of 47%.[22] Merely 6.7% of persons with severe disabilities receive benefits in Africa compared to the worldwide coverage of 33.5%.[23] Further, 7.5% of women with new born babies receive maternity cash benefits in Sub-Saharan Africa which pales in comparison to theglobal percentage (44.9%) and universal coverage in most European countries.[24]

Social Protection in Uganda, Tanzania, Zambia and Zimbabwe

Over the last decade, Uganda, Tanzania, Zambia and Zimbabwe have adopted policy frameworks on social protection under which they have committed to reduce poverty and vulnerability and empower individuals and communities. In addition to the formal social protections initiatives such as the contributory pension, they have a number of social assistance and empowerment interventions which target poor and vulnerable persons (Table 1).

17 SDGs Agenda 2030, ibid. See also African Union Agenda 2063 Framework, Goal 1.1, Target 1.1.3 (b) available at https://uclgafrica-alga.org/wp-content/uploads/2019/06/INL__Agenda-2063-Technical-Document.pdf

18 Handa, S. et al. (2021), "More Evidence on the Impact of Government Social Protection in Sub-Saharan Africa: Ghana, Malawi and Zimbabwe" Development Policy Review, Volume 40, Issue 3 available at https://onlinelibrary.wiley.com/doi/10.1111/dpr.12576

19 OECD (2017), "Social Protection in East Africa: Harnessing the Future" OECD, Paris available at https://www.oecd.org/dev/inclusivesocietiesanddevelopment/Social_protection_in_East_Africa.pdf See also UNICEF, "Social Protection" available at https://www.unicef.org/esa/social-protection

20 Bierbaum, M. and Schmitt, V. (2022), "Investing More in Universal Social Protection: Filling the Financing Gap Through Domestic Resource Mobilisation and International Support and Coordination" ILO Working Paper 44, Geneva, Switzerland available athttps://www.social-protection.org/gimi/RessourcePDF.action?id=57638

21 ILO (2021), "World Social Protection Report 2020-22: Social Protection at the Crossroads – In Pursuit of a Better Future" ILO, Geneva available athttps://www.social-protection.org/gimi/RessourcePDF.action?id=1

22 Ibid.

23 Ibid.

24 Ibid.

Table 1: State Sponsored Social Assistance and Economic Empowerment Programmes in Uganda, Tanzania Zambia and Zimbabwe

COUNTRY	POLICY FRAMEWORK	SOCIAL ASSISTANCE AND ECONOMIC EMPOWERMENT PROGRAMMES
Uganda	National Social Protection Policy, 2015[25]	• Social Assistance Grants for Empowerment (SAGE) • Special Grants for Persons with Disabilities • Uganda Women Entrepreneurship Programme • Youth Livelihood Programme • Northern Uganda Social Action Fund • Northern Uganda Farmers Livelihood Improvement Project
Tanzania	National Social Protection Framework, 2016[26]	• Productive Social Safety Net • Conditional Cash Transfer • Public Works Programme • Livelihoods Enhancement Intervention
Zambia	National Social Protection Policy, 2014[27]	• Social Cash Transfers • Food Security Pack • Public Welfare Assistance Scheme • Home Grown School Feeding Programme • Women Empowerment Fund • Care for Older Persons • Girls Education and Women's Empowerment and Livelihood Programme • Livelihood and Empowerment Support
Zimbabwe	National Social Protection Policy Framework, 2016[28]	• Food Deficit Mitigation • Harmonized Social Cash Transfer • Basic Education Assistance Module • School Feeding Programme • Support to Persons with Disabilities • Maintenance of Older Persons • Children in Difficult Circumstances • Decent Work Programme

Social protection programmes not only reduce income poverty and inequality but are also linked to other development outcomes including access to health, education, food security, promoting gender equality and boosting the local economy.[29] Studies have found that investments in the cash transfer programmes in Zambia and Zimbabwe in turn created more income in the local economy.[30]

25 Uganda National Social Protection Policy, 2015 available at https://socialprotection.go.ug/wp-content/uploads/2016/07/National-Social-Protection-Policy-uganda.pdf
26 Tanzania National Social Protection Framework, 2016 available at https://www.social-protection.org/gimi/RessourcePDF.action;jsessionid=KMk4lYoN9qppwGCtKfjcnno5G5gg6GF9TIMrmGIMbnyg4Q16u7Dr!-1326307086?id=55789
27 Zambia National Social Protection Policy, 2014 available at https://socialprotection.org/discover/publications/national-social-protection-policy-reducing-poverty-inequality-and
28 Zimbabwe National Social Protection Policy Framework, 2016 available at https://www.social-protection.org/gimi/RessourcePDF.action;jsessionid=sfcsUQbknb_TOz_GDLUr0kaoTvMPI4HVDx5AFkwxMdxyBwfN6Mh2!-1463413688?id=55799
29 Bierbaum, M. and Schmitt, V. (2022), supra.
30 Ibid.

Expenditure on social protection varies in the selected countries. Zimbabwe currently spends 0.4% of its GDP[31] while Tanzania invested 0.46% of its GDP as of 2018,[32] both below the average of African countries. In 2022, Zambia plans to spend 1.3% of its GDP[33] and allocated 4% of its national budget on social protection in 2021.[34] Between 2016 to 2020, Uganda spent an average of 0.19% of GDP on its social development sector and only 2.9% of the population benefit from at least one social protection programme.[35]

While most African countries increased their social protection funding to respond to the pandemic (see Section 4 below), there remains a dire need to extend and boost investment in and expand social protection coverage. As an alternative to unsustainable borrowing and reliance on donor funding for social protection, several studies have proposed curbing IFFs and redirecting the recovered funds to social spending.[36] The following section looks at the scale of IFFs in Africa and highlights the main mechanisms through which IFFs are generated in Uganda, Tanzania, Zambia and Zimbabwe.

31 UNICEF (2021), "Zimbabwe Social Protection Budget Brief" available at https://www.unicef.org/zimbabwe/media/5181/file/2021%20Social%20Protection%20Budget%20Brief%20-%20Final.pdf

32 Ajwad, MI. et al, (2018), "Financing Social Protection in Tanzania" World Bank available at https://documents1.worldbank.org/curated/pt/999381538657815182/pdf/PER-P161653-ADD-VC-PER-PUBLIC-TZ-SP-PER-Final.pdf

33 Zambia Institute for Policy Analysis and Research (ZIPAR) and United Nations Zambia (2021), "Increasing Social Sector Spending for Sustained Inclusive Development" available at https://www.unicef.org/esa/media/9801/file/UNICEF-Zambia-National-Social-Sector-Budget-Brief-2021.pdf

34 UNICEF (2020), "2020/2021 Social Protection Budget Brief: Adhering to Commitments to Mitigate a Pandemic" available at https://www.unicef.org/zambia/media/2471/file/Zambia-budget-brief-2020-2021-Social-Protection.pdf

35 Development Initiatives (2021), "Social Protection for Disability Inclusion in Uganda" available at https://asksource.info/sites/default/files/Social%20protection%20for%20disability%20inclusion%20in%20Uganda.pdf

36 Ortiz, I. et al. (2017), "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" International Labour Office, Geneva available at https://socialprotection-humanrights.org/wp-content/uploads/2017/09/ESS-48-English.pdf

ILLICIT FINANCIAL FLOWS (IFFS) IN AFRICA: OVERVIEW OF IFFS IN UGANDA, TANZANIA, ZAMBIA AND ZIMBABWE

UNCTAD estimates that estimated that Africa loses approximately $88.6 billion annually through illicit financial flows (IFFs).37 IFFs are simply defined as "cross border exchanges of value, money or otherwise, which are illegally earned, transferred or utilized."38 The High-level Panel on IFFs (High-Level Panel) highlighted three main sources of these lost funds: 1) commercial practices such as tax avoidance and trade misinvoicing, 2) criminal activity including tax evasion, smuggling, human and drug trafficking, money laundering, and 3) corruption by government officials.39 It is estimated that these drivers account for 65%, 30% and 5% of Africa's IFFs respectively.40

The countries discussed in this paper are endowed with extractive resources which are particularly prone to IFFs due to the complexities of the global value chains (Igbatayo, 2019). Studies project that almost 50 per cent of illicit outflows from Africa arise from trade mispricing or trade misinvoicing and over half of the trade-related IFFs are from the extractive sector alone (UNECA and African Minerals Development Centre, 2017). The cost of tax avoidance alone has been projected to amount to 10% of corporate tax revenues collected by African countries (Hearson, 2018).

It is projected that Africa has lost US $1.3 trillion through IFFs since 1980.41 The selected countries are all low-income countries which have lost millions worth of financial resources which could have been directed towards meeting their development goals including realizing social protection coverage for their population living in poverty (Table 2).

37 United Nations Conference on Trade and Development (UNCTAD) (2020), "Tackling Illicit Financial Flows for Sustainable Development in Africa" available at https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf
38 Report of the High-Level Panel on International Financial Accountability, Transparency and integrity (FACTI Panel) for Achieving the 2030 Agenda available at https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/602e91032a209d0601ed4a2c_FACTI_Panel_Report.pdf
39 Report of the High-Level Panel on Illicit Financial Flows from Africa, 2015 available at https://repository.uneca.org/handle/10855/22695
40 Ibid.
41 Signe, L. et al. (2020), "Illicit Financial Flows in Africa: Drivers, Destinations and Policy Options" Africa Growth Initiative at Brookings Institute available at https://www.brookings.edu/wp-content/uploads/2020/02/Illicit-financial-flows-in-Africa.pdf

Table 2: Total Illicit Financial Flows from Uganda, Tanzania, Zambia and Zimbabwe, by volume (1980-2018)

	UGANDA	TANZANIA	ZAMBIA	ZIMBABWE
Total IFFs (US $ millions)	25,201	16,132	27,499	22,652
Annual average IFFs (US $ millions)	646	414	705	581
IFFs as a % of total trade	21.3	7.2	11.8	13.9

Source: Africa Growth Initiative, Brookings Institution42

Uganda

The High-Level Panel reported that Uganda was losing an estimate of 3% of its GDP through IFFs annually. Literature on the subject reveals that commercial activity, particularly, trade misinvoicing, has cost the government crucial domestic resources. Between 2006-2015, it is projected that Uganda lost almost $7 billion through trade misinvoicing alone (Global Financial Integrity, 2018). Corruption is also one of the main outflows plaguing Uganda through which an estimate of Uganda Shillings (UGX) 9.1 trillion is lost annually (Uganda Inspectorate of Government (IGG), 2022).[43]

Uganda's nascent petroleum industry is highly vulnerable to IFFs. While the recently passed Mining and Minerals Bill has provisions aimed at strengthening transparency and accountability in the industry including requirements for disclosure and publishing of beneficial ownership,[44] scholars and activists have voiced concerns of other potential leakages including through tax evasion, transfer pricing, corruption and bribery.[45]

Tanzania

Tanzania is a mineral rich country whose industry in high value commodities such as gold and diamonds is prone to revenue leakages. These various forms of IFFs include tax avoidance, bribery, trade misinvoicing and misreporting. The High-Level Panel estimated in 2015 that Tanzania had lost approximately 2% of GDP through IFFs.[46] Over the past decade, the country has undergone major reforms to curb IFFs in the mining sector including cracking down on illegal activities of mining companies and enacting new laws and regulations such as the Mineral Act, 2007[47] and tax laws removing harmful tax incentives.[48] It attributes the increase in Gross National Income (GNI) from 3.4% in 2015 to 5.2% in 2019 to these reforms in the sector.[49]

42 Ibid.
43 Uganda Inspectorate of Government (IGG), (2022), "The Cost of Corruption in Uganda" available at https://www.igg.go.ug/media/files/publications/IG__cost_of_corruption_flier.pdf
44 Ladu, IM. (2022), "New Mining Law Has Potential to Curb Illicit Financial Flows" Daily Monitor available at https://www.monitor.co.ug/uganda/business/prosper/new-mining-law-has-potential-to-curb-illicit-financial-flows--3724772
45 Ngabirano, D. et al. (2021), "Illicit Financial Flows Risk Factors in Uganda's Oil and Gas Sector" Civil Society Coalition on Oil and Gas in Uganda available at https://www.acode-u.org/uploadedFiles/IFFs_info_Final.pdf
46 Report of the High-Level Panel on Illicit Financial Flows from Africa, 2015, supra.
47 Miyandazi, L. (2019), "The Complexities of Tackling Illicit Financial Flows in Practice: The Example of Tanzania" ECDPM paper available at https://ecdpm.org/publications/complexities-of-tackling-illicit-financial-flows-in-practice
48 United Nations Economic Commission for Africa (2018), "A Study on the Global Governance Architecture for Combating *Illicit Financial Flows*" available at https://repository.uneca.org/handle/10855/24320 "These include the Value Added Tax Act, 2014 and a Tax Administration Act, 2014, which entered force in 2015. "Those new laws have provisions under which all multinationals must pay value-added tax; ministers' discretionary powers in granting tax incentives were removed; tax incentives for multinationals are reviewed to ensure compliance with legal tax requirements; no multinationals are granted incentives unless a cost-benefit analysis has been conducted first; and all tax incentives undergo parliamentary scrutiny."
49 2020 Statement by Ambassador Maimuna K. Tarishi, Permanent Representative of the United Republic of Tanzania to the United Nations and Other International Organizations in Geneva, on the Economic Development in Africa Report: Tackling Illicit Financial Flows for Sustainable Development in Africa.

Zambia

Zambia, a mineral rich economy, has recorded huge financial losses through IFFs particularly in its copper industry stemming primarily from trade misinvoicing, tax avoidance and transfer pricing.[50] According to the High-Level Panel, Zambia accounts for 65% of IFFs in the copper industry in Africa[51] and UNCTAD reported that Zambia lost approximately $14.5 billion between 1995-2014 through export misinvoicing of copper.[52] One peculiar example is the exportation of copper worth $28.9 billion dollars to Switzerland which was captured in Zambia's export records between 1996-2014 but did not appear in Switzerland's trade data.[53]

Further, UNECA estimates that the country loses an estimate of $2 billion annually through corporate tax avoidance.[54] While Zambia has also undergone reforms to rein in IFFs including renegotiating tax treaties with Ireland and Netherlands to incorporate provisions aimed at curbing tax abuse,[55] more effort is required to reduce the financial leakages given the country's high debt burden presently.

Zimbabwe

Studies have reported IFFs in Zimbabwe in various natural resource sectors including mining, wildlife and fisheries and timber. AFRODAD found that Zimbabwe lost $2.83 billion in these aforementioned sectors between 2009 and 2013 to IFFs in various forms such as corruption, trade mispricing, tax evasion, tax avoidance, corruption among others.[56] This equates to an average loss of revenues worth $570.75 million on an annual basis.[57] The study revealed that IFFs are attributed to numerous factors like loopholes exploited in tax laws which are exploited by corporations, misreporting in the mining industry, low enforcement of regulations and lack of transparency and accountability.[58]

Several African countries have put in place measures to curb these illicit capital flows, such laws and institutions to strengthen transparency and accountability in the extractives sector, and initiatives to fight corruption and money laundering as well as building capacity of revenue institutions. However, the revenue leakages still persist. The following section demonstrates how loss of financial resources through IFFs hampers government's ability to adequately finance their social protection commitments.

50 UNECA, African Minerals Development Center and African Union Commission (2017), "Impact of Illicit Financial Flows on Domestic Resource Mobilization: Optimizing Revenues from The Mineral Sector in Africa" UNECA, Addis Ababa available at https://repository.uneca.org/handle/10855/23862

51 Report of the High-Level Panel on Illicit Financial Flows from Africa, 2015, supra at p. 97.

52 UNCTAD (2016), "Trade Misinvoicing in Primary Commodities in Developing Countries: The Cases of Chile, Côte d'Ivoire, Nigeria, South Africa and Zambia" United Nations, Geneva and New York available at https://unctad.org/system/files/official-document/suc2016d2_en.pdf

53 Ibid. at p. 16.

54 UNECA, African Minerals Development Center and African Union Commission (2017), at p. 71.

55 UNCTAD, 2020, supra.

56 AFRODAD (2015), "Illicit Financial Flows: Towards a More Integrated Approach for Curbing Illicit Flows from Zimbabwe" AFRODAD, available at https://media.africaportal.org/documents/Towards_a_more_Integrated_Approach__for_Curbing_Illicit_Financial_Flows_from_Zimbabwe.pdf

57 Ibid.

58 Ibid.

IMPLICATIONS OF IFFS ON SOCIAL PROTECTION: KEY FINDINGS

Aa a result of the COVID-19 pandemic, the number of people living in extreme poverty on the African continent has risen by 37 million.[59] It is estimated that Africa needs $200 billion annually to achieve SDGs.[60] Specific to SDG Target 1.3 on social protection floors, the continent requires US$ 62 billion annually,[61] a financing gap which can be adequately covered by the funds lost through IFFs worth US$ 88.6 billion.[62]

ILO Social Protection Floors Recommendation, 2012 (No. 202) defines social protection floors as "nationally defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion."63 It highlights some minimum guarantees for social protection floors including benefits for children, maternity care, disability benefits and older persons' benefits.64 The value of social protection floors in reducing poverty, mitigating the impact of social exclusion and improving wellbeing cannot be overstated.

This section will demonstrate that IFFs are depriving African economies of financial resources to invest in its social protection systems, including floors. It unpacks social protection funding trends in each of the countries through budget analyses. It also analyses spending on national social protection floors in Uganda, Zambia, Tanzania and Zimbabwe including universal child benefits and universal benefits for older persons from age 65 or 70 as well as persons with disabilities. It then makes a comparison between the financial resources these countries are losing through IFFs vis a vis their social protection spending.

59 UNCTAD (2021), "Economic Development in Africa Report 2021: Reaping the Potential Benefits of the African Continental Free Trade Area for Inclusive Growth" United Nations, available at https://unctad.org/press-material/facts-and-figures-7

60 United Nations Conference on Trade and Development (UNCTAD) (2020), "Tackling Illicit Financial Flows for Sustainable Development in Africa" available at https://unctad.org/system/files/official-document/aldcafrica2020_en.pdf

61 B ierbaum, M. and Schmitt, V. (2022), "Investing More in Universal Social Protection: Filling the Financing Gap Through Domestic Resource Mobilisation and International Support and Coordination" ILO Working Paper 44, Geneva, Switzerland available at https://www.social-protection.org/gimi/RessourcePDF.action?id=57638

62 UNCTAD (2020), supra.

63 Article 2, ILO Social Protection Floors Recommendation, 2012, No. 202 available at https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

64 Article 5, ILO Recommendation No. 202, ibid.

Uganda

Uganda has committed to providing social protection under its national policies and commitments. Vision 2040 and National Development Programme III recognizes that social protection plays a key role in the country's development and protecting its people from vulnerabilities. According to a recent national household survey, Uganda's population stands at 41 million and 20.3% (8.3 million people) is living in poverty.[65]

Uganda has a number of social assistance programmes including grants and cash transfers for vulnerable groups such as older persons and persons with disabilities. However, only 2.9% of the population benefit from social protection system in the country.[66] Majority of the population derives their subsistence from the informal sector and are therefore not covered by the formal social protection interventions such as contributory pension schemes or health insurance.[67]

The allocation for the social development sector, under which social assistance falls, amounted to 0.24% of its GDP in 2020/21, up from 0.10% in 2016/17.[68] The budgetary allocation for social protection for vulnerable groups (older persons, persons with disabilities and youth) as a proportion of the overall sector budget fell from 51% in 2016/17 to 42% in 2020/21 (Table 3). As of 2018, the bulk of financing for social assistance (84%) was from external funders while the Ugandan government covered only 16%.[69]

Table 3: Budgetary allocations for social protection for vulnerable groups in Uganda FY2016/17-20/21 (Uganda shillings, millions)

	2016/17	2017/18	2018/19	2019/20	2020/21
Social Protection for vulnerable groups	98,632	87,410	107,464	77,204	77,862
Ministry of Gender, Labour and Social Development	194,477	177,806	218,215	221,349	187,406
Share of Social Protection for Vulnerable groups	51%	49%	49%	35%	42%

Source: Ministry of Finance, Approved Estimates of Revenue and Expenditure and Development Initiatives[70]

It should be noted however that the funding for the disability and older persons sub-programme has sharply risen from 17 billion in 2017/18 to 133 billion in 2021/22.[71] This increase is largely attributed to expansion of the Social Assistance Grants for Empowerment (SAGE) programme under which the government distributes cash transfers to older persons through the Senior Citizens Grant.[72] This

65 Uganda Bureau of Statistics (UBOS), (2021), "Uganda National Household Survey 2019/20 Report" available at: www.ubos.org/uganda-national-survey-report-2019-2020-released

66 Development Initiatives (2021), "Social Protection for Disability Inclusion in Uganda" available at https://asksource.info/sites/default/files/Social%20protection%20for%20disability%20inclusion%20in%20Uganda.pdf

67 Ibid.

68 Development Initiatives (2021), supra.

69 World Bank (2021), "Zambia Social Protection and Jobs Public Expenditure Review 2021" World Bank Group at p.94 available at https://documents.worldbank.org/en/publication/documents-reports/documentdetail/443591633674322885/zambia-social-protection-and-jobs-public-expenditure-review-2021

70 Ibid.

71 Uganda Ministry of Finance, Approved Estimates of Revenue and Expenditure available at https://www.finance.go.ug/budget-documents

72 Development Initiatives (2021), supra.

programme has registered positive benefits such as improved welfare, food consumption, health seeking behaviour, access to credit and dignity of older persons.[73] It was initially piloted in 15 districts and targeted older persons aged above 65 before it was expanded nationwide in 2020.[74] However, upon roll out, the age of eligible beneficiaries was raised to 80 years which as a result eliminated several older persons in need of the funds.[75]

Older persons account for 4% (1.6 million) of Uganda's population,76 54% of whom are women.77 However, only 358,420 older persons are benefiting from the programme78 despite the fact that almost 45% (720,000 older persons) are living in extreme poverty,79 exacerbated by the COVID-19 pandemic. Since the monthly benefit is UGX. 25,000 (US$ 7) and approximately 361,580 older persons are currently excluded, the government would need an additional US$ 30 million (UGX. 108 billion) annually to expand coverage of SAGE benefits to the older persons in need, who are currently excluded (minus administrative costs).

Uganda loses streams of revenue annually through IFFs which could cover this coverage of social protection for older persons. Between 1980 and 2018, the country lost an average of $646 million annually (Table 2). Through corruption, according to the Office of the Auditor general, Uganda lost UGX 500 billion annually as of 2016, which has skyrocketed to UGX. 9.1 trillion as of 2022.80 Corruption in the environmental sector alone accounts for a loss of UGX 2.28 trillion annually,81 twenty times more than the amount needed to enroll older persons who are currently excluded from SAGE (UGX 108 billion) and almost quadruple the total allocation for social protection of vulnerable groups (UGX 585 billion) over the last six years (2016-2021) (Table 3).

Other significant leakages include losses through illegal cigarette trade worth US$ 8 billion (UGX 30 billion) annually,82 double the total funds allocated to special grants for persons with disabilities (PWDs) over the last three years (approximately UGX 15 billion) during the COVID-19 pandemic.83 This allocation is quite low compared to the need. 8.5% of Uganda's population have a disability and over half of households with persons with disabilities are facing extreme poverty.84

73 Merttens et al. (2016), "Evaluation of The Uganda Social Assistance Grants for Empowerment (SAGE) Programme – Impact after two years of programme operations 2012-2014 Final report," Oxford Policy Management, available at https://www.opml.co.uk/files/Publications/7265-uganda-sage/sage-endline-report-executive-summary.pdf?noredirect=1

74 Uganda Parliamentary Forum on Social Protection (2020), "The 10th Parliament Delivers SAGE National Rollout" Newsletter, Issue No. 3 available at https://upfsp.org/wp-content/uploads/2021/05/Newsletter-May-July-2020-Designed.pdf

75 Development Initiatives (2021), supra.

76 Uganda Bureau of Statistics (UBOS), (2021), supra.

77 Uganda Ministry of Gender, Labour and Social Protection (2020), "The State of Older Persons in Uganda: Situational Analysis Report" available at https://www.developmentpathways.co.uk/wp-content/uploads/2020/10/ESP-OP-Study-Final-12-Oct.pdf

78 Uganda Parliamentary Forum on Social Protection (2021), "Position Paper on Social Protection Financing for FY 2021/22" available at https://upfsp.org/wp-content/uploads/2021/05/Position-Paper-NBFP21-22-11.pdf

79 Ministry of Gender, Labour and Social Protection (2020), supra.

80 OAG (2016), 'Annual Report Of The Auditor General on the Financial Statements Of GoU For the Financial Year Ended 30th June 2016 Central Government And Statutory Corporations', Kampala: Office Of The Auditor General (OAG). See also, Uganda Inspectorate of Government (IGG), (2022), "The Cost of Corruption in Uganda" available at https://www.igg.go.ug/media/files/publications/IG__cost_of_corruption_flier.pdf

81 Uganda Inspectorate of Government (IGG), (2022), ibid.

82 Global Financial Integrity (GFI) and Advocates Coalition for Development and Environment (ACODE) (2021), "Illicit Financial Flows in Uganda" available at http://www.acode-u.org/uploadedFiles/Illicit_Financial_Flows_Fact_Sheets.pdf

83 Uganda Ministry of Finance, Approved Estimates of Revenue and Expenditure available at https://www.finance.go.ug/budget-documents

84 Uganda Ministry of Gender, Labour and Social Protection (2020), "Situational Analysis of Persons with Disabilities in Uganda," available at https://www.developmentpathways.co.uk/wp-content/uploads/2020/09/Webready-DP1294-ESP-Disability-Uganda-Sept-2020.pdf

Tanzania

Social protection is embedded in Tanzania's development plans and strategies. The National Five-Year Development Plan III and Mkukuta II National Strategy for Growth and Reduction of Poverty recognizes that social protection plays a crucial role in reducing poverty and promoting economic empowerment.[85] As of 2018, Tanzania spent 2.35% of its GDP on social protection but only 0.46% of its GDP on social assistance,[86] lower than the continent's average spending of 1.1%.

Tanzania's Productive Social Safety Net (PSSN) amalgamates different social protection programmes namely the Conditional Cash Transfer (CCT) programme, Public Works Programme and the Livelihoods Enhancement intervention.[87] The CCT programme targets poor and vulnerable households and comprises both a unconditional grant as well as a conditional cash transfer for households with children and pregnant women contingent on realizing education and health outcomes.[88] The PSSN commenced in 2012 with a loan from the World Bank International Development Association (IDA) and received support for other external donors on the understanding that the Tanzanian government would cover one third of the budget annually.[89] However, the government failed to fulfill its pledge and PSSN has been mostly donor funded. For instance, in FY 2015/2016, the government delivered only US $7 million of its US$ 44 million pledge.[90]

Phase 1 of the PSSN project kicked off in 2012 with an initial aim of reaching 650,000 extremely poor households.[91] Tanzania initially borrowed US$ 200 million from IDA and received an additional US$ 200 million in 2016 upon extension of the project to 2019.[92] Phase 2 of PSSN begun in 2019 with an anticipated total project cost of US$ 883 million, of which the World Bank, through IDA, lent Tanzania US$ 450 million while the government pledged $14 million (Table 4).[93]

85 Tanzania National Five-Year Development Plan III 2021/22 – 2025/26 available at https://mof.go.tz/docs/news/FYDP%20III%20English.pdf
86 Ajwad, M.I, et al, (2018), "Financing Social Protection in Tanzania" World Bank, Washington DC available at https://openknowledge.worldbank.org/handle/10986/30513
87 World Bank IEG Review Team (2020), "Tanzania - TZ-Productive Social Safety Net" World Bank Group, Washington, D.C., available at http://documents.worldbank.org/curated/en/426251601510346040/Tanzania-TZ-Productive-Social-Safety-Net
88 Ibid.
89 George, C. et al (2021), "Social Protection in Tanzania: Challenges in the Shift of Financing PSSN from External Funding to Government" REPOABrief PB 5/2021 available at https://www.africaportal.org/publications/social-protection-tanzania-challenges-shift-financing-pssn-external-funding-government/
90 Ibid.
91 World Bank (2019), "Five Million Tanzanians to Benefit from Improved Safety Nets" World Bank available athttps://www.worldbank.org/en/news/press-release/2019/09/12/five-million-tanzanians-to-benefit-from-improved-safety-nets
92 World Bank IEG Review Team (2020), supra.
93 Tanzania Productive Social Safety Net Project II Project Appraisal Document available at https://documents1.worldbank.org/curated/en/798681568599240846/pdf/Tanzania-Second-Productive-Social-Safety-Net-Project.pdf

Table 4: Financing for the Tanzania Productive Social Safety Net (PSSN) Project II

	PSSN PROJECT COST (US$ MILLION)	FUNDING FOR PSSN (BY SOURCE, US$ MILLION)
Phase 2 2019-2023	883	Government of Tanzania (14) World Bank IDA (450) Other external funders (169.8) Financing gap (249.5)

Source: World Bank PSSN II Project reports

Comparing these loan amounts with the amount Tanzania loses through IFFs reveals that the country could have financed the PSSN without incurring debt obligations nor relying on other external donors to fill the financing gap. Between 1980 and 2018, the country lost a total of $16,322 million (Table 2) and reports have revealed that as of 2012, revenues worth between US$ 847 and US$ 1 billion leaked annually from tax evasion, incentives and other forms of IFFs.[94] As of 2015, these leakages had increased to an estimate of US$ 1.83 million, compounded with a further loss of US$ 1.3 billion through corruption.[95]

Just a half of the US$1.83 million lost annually, without counting losses through corruption, would potentially fully finance Tanzania's social safety net programme for the entire five-year project duration (2019-2023). These resources would create fiscal space to further expand the government's social protection programmes, reduce its borrowing and significantly boost investment in public services such as health and education.

Zambia

The Zambia Vision 2030 and National Development Plan envisage a "nation that promotes and provides sustainable security against deprivation and extreme vulnerability by 2030"[96] through ensuring social protection coverage to poor and vulnerable households.[97] The National Social Protection Policy provides for four pillars of social protection namely social security, social assistance, livelihoods and empowerment and protection.

94 Curtis, M. and Ngowi, P. (2017), "The One Billion Dollar Question Revisited 5 Years Later: How Much Is Tanzania Now Losing in Potential Tax Revenues" Tanzania Episcopal Conference (TEC), National Muslim Council of Tanzania (BAKWATA) and Christian Council of Tanzania (CCT) available at https://curtisresearch.org/wp-content/uploads/ONE-BILLION-DOLLAR-QUESTION-Final.pdf

95 Ibid.

96 Zambia Vision 2030 available at https://www.mndp.gov.zm/wp-content/uploads/filebase/vision_2030/Vision-2030.pdf

97 Zambia National Development Plan 2017-2021 available at https://www.preventionweb.net/files/60947_7ndp.pdf

As of 2017, Zambia was spending only 0.2% of its GDP on social assistance, much lower than its sub-regional counterparts.[98] The actual share of government spending stood at 39% with external funding covering the greater part (61%). On a positive note, the budgetary allocations for social assistance rose tenfold from K 233 million (0.14% of GDP) in 2014 to K 2381 million (0.61%) in 2021, largely in response to the COVID-19 pandemic.[99] While the government committed to reduce its reliance on donors and consequently increased its spending on the Social Cash Transfers (SCT) programme by 700% in 2014, programmes such as the Home-Grown School Meals (HGSM) and Keeping Girls in School (KGS) are still largely covered by external funders.[100]

With regard to coverage, 4 million people are enrolled in social assistance programmes yet only 2.3 million people actually access these benefits partly due to insufficient resources.[101] Although the SCT is the predominant social assistance program and takes the largest proportion of the budget, the programme is underfunded and thus several vulnerable households in need remain excluded.[102] The government plans to reach 1 million households in 2022 from 880,539 in 2021.[103] However, this increase notwithstanding, majority of the poor still will not have access to these benefits.[104]

Similarly, despite an almost ten-fold increase in spending in 2021 (Table 5), the Food Security Pack (FSP) programme remains underfunded. This social protection intervention provides agricultural inputs to vulnerable farmers and currently covers 80,000 households though the government aims to reach 290,000 beneficiaries in 2022.[105] Though it registered significant impact at a household level, including improved food security and nutrition, it's effect pales nationwide in comparison to the scale of food insecurity, mostly as a result of chronic underfunding since its inception almost two decades ago. [106]

Table 5: Budgetary Allocations for Social Cash Transfers (SCT) and Food Security Pack (FSP) programmes

	2015	2016	2017	2018	2019	2020	2021	2022	Cumulative Total
Social Cash Transfers (SCT) (Kwacha, million)	180	302	552	721	699	1,047	2,344	3,106	8,951
Food Security Pack (FSP) (Kwacha million)	50	20	500	140	110	122	1,100	1,100	3,142

Source: Zambia Ministry of Finance

98 World Bank (2021), "Zambia Social Protection and Jobs Public Expenditure Review 2021" World Bank Group at p.89 available at https://documents.worldbank.org/en/publication/documents-reports/documentdetail/443591633674322885/zambia-social-protection-and-jobs-public-expenditure-review-2021
99 World Bank (2021), "Zambia Social Protection and Jobs Public Expenditure Review 2021" World Bank Group available at https://documents.worldbank.org/en/publication/documents-reports/documentdetail/443591633674322885/zambia-social-protection-and-jobs-public-expenditure-review-2021
100 Ibid.
101 ibid.
102 Ibid.
103 Zambia Institute for Policy Analysis and Research (ZIPAR) and United Nations Zambia (2021), "Increasing Social Sector Spending for Sustained Inclusive Development" available at https://www.unicef.org/esa/media/9801/file/UNICEF-Zambia-National-Social-Sector-Budget-Brief-2021.pdf
104 World Bank (2021), supra.
105 Zambia Institute for Policy Analysis and Research (ZIPAR) and United Nations Zambia (2021), "Increasing Social Sector Spending for Sustained Inclusive Development" available at https://www.unicef.org/esa/media/9801/file/UNICEF-Zambia-National-Social-Sector-Budget-Brief-2021.pdf See also, World Bank (2021), supra. "To meet the criteria for participation, a beneficiary must be able to farm a small plot no bigger than 1 hectare, be able to provide adequate labor, and not be in gainful employment. Beneficiaries must also meet at least one vulnerability criterion at a secondary level, the most common being that the household is female-headed.
106 World Bank (2021), supra.

Juxtaposing these amounts and shortfall in financing with IFFs demonstrates that by curbing IFFs Zambia would be able to create fiscal space to meet it social protection goals and targets. Between 1980 and 2018, the country lost an average of $705 million annually through IFFS. Zambia lost approximately US$ 14.5 billion between 1995-2014 through export misinvoicing of copper107 which could potentially have tripled the budget for FSP between 2015 to 2022.

Further, revenues worth US$ 2 billion lost through corporate tax avoidance annually108 add up to US$ 16 billion over the past 8 years, almost double the budget for SCT over the same period. These leakages could have increased the fiscal space to increase the much-needed financing required to cover majority of the population living below the poverty would be covered by the SCT programme.

Zimbabwe

Zimbabwe National Social Protection Policy Framework 2016 provides for four pillars of social protection namely social assistance, social insurance, labour market interventions and livelihood and empowerment programmes.[109] The analysis in this study focuses primarily on the government's spending on the social assistance pillar through which it aims to "reduce poverty, vulnerability and enhance access to basic services."[110]

Zimbabwe currently spends 0.4% of GDP on social protection.[111] While spending increased significantly from US$ 7.9 million in 2017 to US$ 43.5 million in 2020, this financing was inadequate given the need.[112] A 2021 UNICEF survey found that almost half of Zimbabwe's population was living in extreme poverty in 2020 resulting from the economic crisis caused by COVID-19 and food insecurity.[113] Zimbabwe's informal sector, which employs over 80% of the population, was particularly hard hit during the pandemic.[114] Despite the urgent need for social protection to provide buffers to affected households, 51% of people in extreme poverty remain uncovered by social assistance programs.[115] Further, as of 2018, the bulk of the country's social assistance funding (63%) was covered by external funders.[116]

107 UNCTAD (2016), "Trade Misinvoicing in Primary Commodities in Developing Countries: The Cases of Chile, Côte d'Ivoire, Nigeria, South Africa and Zambia" United Nations, Geneva and New York available at https://unctad.org/system/files/official-document/suc2016d2_en.pdf

108 UNECA, African Minerals Development Center and African Union Commission (2017), at p. 71.

109 Zimbabwe National Social Protection Policy Framework, 2016 available at https://www.social-protection.org/gimi/RessourcePDF.action;jsessionid=sfcsUQbknb_TOz_GDLUr0kaoTvMPI4HVDx5AFkwxMdxyBwfN6Mh2!-1463413688?id=55799

110 Ibid

111 UNICEF (2021), "Zimbabwe 2021 Social Protection Budget Brief" UNICEF at p.2 available at https://www.unicef.org/zimbabwe/media/5181/file/2021%20Social%20Protection%20Budget%20Brief%20-%20Final.pdf

112 Ibid. at p. 5.

113 UNICEF (2021), "Half of Zimbabweans Faced Extreme Poverty in 2020 Due to COVID-19: Rapid Poverty Income Consumption and Expenditure Survey" available at https://www.unicef.org/zimbabwe/press-releases/half-zimbabweans-faced-extreme-poverty-2020-due-covid-19-rapid-poverty-income

114 Dzawanda, B. et al. (2021), "Poverty on the Rise: The Impact of the COVID-19 Lockdown on the Informal Sector of Gweru, Zimbabwe" available at https://onlinelibrary.wiley.com/doi/10.1111/issj.12285

115 UNICEF (2021), supra at p.5.

116 World Bank (2021), "Zambia Social Protection and Jobs Public Expenditure Review 2021" World Bank Group at p.94 available at https://documents.worldbank.org/en/publication/documents-reports/documentdetail/443591633674322885/zambia-social-protection-and-jobs-public-expenditure-review-2021

In the 2021 National Disability Policy, the Zimbabwean government recognizes that PWDs are more likely to be facing poverty and discrimination than other sections of the population.[117] It thus commits to ensure that PWDs receive adequate social protection benefits, however the financial resources availed do not reflect this. Only 2% of the social protection budget (US$ 1.75 million) was allocated to supporting PWDs.[118] Although there was a slight increase from US$ 0.5 million in 2020, it is inadequate to cover PWDs living in poverty.[119] UNESCO found that the income of PWDs in Zimbabwe fell by 50% per month during COVID-19 yet they received minimal support to buffer them from the economic shock during this period.[120]

The allocation for social assistance to the education sector through the Basic Education Assistance Module (BEAM) programme increased from US$ 7 million in 2015 to US$ 20 million and US$ 25 million in 2020 and 2021 respectively (Table 6). Despite the significant increase, this funding is insufficient since the programme targets 1.5 million children thus this funding equates to only US$ 16.7 per child annually.[121]

Table 6: Budgetary Allocations for the Zimbabwe Basic Education Assistance Module (BEAM) Programme

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Allocation (US$ millions)	7,000	10,000	10,000	20,000	16,000	20,000	25,000

Source: Zimbabwe Ministry of Finance and UNICEF Zimbabwe Budget Briefs

Comparing these shortfalls in financing in the social protection sector with revenue leakages in the form of IFFs demonstrates that Zimbabwe could have invested much more on its social protection. AFRODAD estimates that Zimbabwe loses US$ 570.7 million annually which is 13 times more than its 2020 social protection expenditure amidst the COVID-19 pandemic. Another recent study revealed that the country loses US $1.5 billion worth of gold annually122 which is thirteen times more than the cumulative budgetary allocations for BEAM between 2015-2021. These financial resources, if recovered, can potentially create the fiscal space to drastically transform the social protection sector in Zimbabwe particularly through substantial coverage of the poor and vulnerable households in terms of beneficiaries supported and adequacy of the benefits.

117 Zimbabwe National Disability Policy available at http://www.veritaszim.net/sites/veritas_d/files/National%20Disability%20Policy%20V4%28White%20 Background%29.pdf
118 UNICEF (2021), supra.
119 Ibid.
120 Manikai, GI. (2020), "Rapid Impact Assessment of COVID-19 on Persons with Disabilities in Zimbabwe" UNESCO available at https://unesdoc.unesco.org/ark:/48223/pf0000375260?posInSet=1&queryId=9223b8ff-d3b7-4e1a-802c-cd4b626266f1
121 UNICEF (2021), supra.
122 Maverick Citizen (2021), "Cartel Power Dynamics in Zimbabwe" available at https://www.pindula.co.zw/images/c/ce/Cartel-Power-Dynamics-02-FEB-2021-Optimized.pdf

CONCLUSION AND RECOMMENDATIONS

While most East and Southern African countries have made considerable progress in developing social protection systems, several people remain uncovered mainly due to financial constraints. This paper has demonstrated that curbing IFFs can potentially expand fiscal space for adequate social protection financing in Africa, and specifically in Uganda, Tanzania, Zambia and Zimbabwe.

One of the most striking lessons from the COVID-19 pandemic was the importance of social protection coverage to protect people from economic shocks. While African countries responded by increasing their funding for social assistance, it appears that these measures were deemed temporary. As such, governments have scaled back or intend to do so in the near future despite the surge in the number of people living in poverty as a result of the pandemic and associated lockdowns. However, designing and implementing national social protection floors in line with their pledges under the SDGs agenda and Agenda 2063 requires long-term financial commitment from governments.

IFFs consume scarce financial resources of African governments resulting in the adoption of measures such as increasing the tax burden, unsustainable borrowing, and imposing austerity, whose impact is disproportionately felt by low income households and vulnerable people. This paper has shown that by tracking and recovering leakages through IFFs is not only a viable source of funding for social protection but also expands fiscal space for governments to invest in other interlinked SDG commitments.

The paper makes the following key country level policy recommendations to the governments of Uganda, Tanzania, Zambia and Zimbabwe:

Prioritize curbing IFFs their various forms (commercial practices, criminal activity and corruption) to save resources which can be invested in improving social protection systems, particularly, designing and implementing social protection floors.

- Bolster legal, policy and institutional frameworks with the aim of creating an environment which is attuned to curbing complex IFFs including addressing loopholes in the legislation governing taxation and mining.
- Grant autonomy to existing institutions mandated to investigate and enforce IFFs criminal related activity and corruption to conduct their duties without political interference.
- Disclose contracts negotiated and information on revenue streams from the extractives sector in accordance to the EITI Principles.
- Implement the Africa Mining Vision framework to ensure transparency and equitable exploitation of natural resources in the extractives sector.

Governments should design national social protection floors in line with principles in the ILO Social Protection Floors Recommendation (No. 202). These include universality of protection; entitlement to benefits; adequacy and predictability of benefits; non-discrimination, gender equality and responsiveness to special needs; social inclusion; transparency and accountability.

- Maintain and expand the social protection measures put in place during the COVID-19 pandemic.
- Create more social protection floors to ensure wider coverage of poor households and vulnerable groups by social assistance programmes.
- Increase the funding allocated to the social protection sector and at a bare minimum, desist from cutting funding for existing social assistance programmes.

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