JESUITS
JUSTICE AND ECOLOGY NETWORK AFRICA

THE ECONOMY OF FRANCESCO IN THE POST-PANDEMIC WORLD:

RETHINKING THE NEXUS BETWEEN ILLICIT FINANCIAL FLOWS, DEBT AND TAX JUSTICE IN AFRICA

RESEARCH PAPER

FERNANDO C. SALDIVAR, S.J. AND PASCAL PAX ANDEBO
VATICAN COVID-19 COMMISSION – AFRICA TASK FORCE SOCIAL ANALYSIS

OCTOBER, 2020

I. Introduction: Integral Ecology and the Economy of Francesco

At the heart of Pope Francis's pontificate has been an invitation to radically rethink the global financial order, to envision "a different kind of economy: one that brings life not death, one that is inclusive and not exclusive, humane and not dehumanizing, one that cares for the environment and does not despoil it."[1] On May 1, 2019, the Feast of St. Joseph the Worker, Pope Francis called for a conference to take place in Assisi in March 2020, "The Economy of Francesco," which would bring together young economists, entrepreneurs, and change-makers from around the world to "enter a covenant to change today's economy and to give a soul to the economy of tomorrow."[2] Although the restrictions on travel and social gatherings brought on by COVID-19 have postponed the event to November 2020, the global pandemic has highlighted the gross inequalities and injustices in the world economy and made Francis's call ever more pressing.

While the Pope draws inspiration from his namesake, St. Francis of Assisi, the vision underlying the Economy of Francesco is entirely his own, a critique of global capitalism that draws upon his unique background as not only the first Jesuit pope, but the first one from the Global South. Pope Francis's entire pastoral formation has been in the wake of the Second Vatican Council and is informed by the reception of Vatican II by Latin America's bishops at Medellín, Puebla, and Aparecida. The result is a dynamic social vision that incarnates the Church's preferential option for the poor and accompanies those on the world's margins to fully realize their dignity as human beings created in the image and likeness of God. This vision was developed by Pope Francis in his 2015 encyclical on the environment, *Laudato Si;*, as *integral ecology*, the understanding that "everything is closely interrelated" and that "today's problems call for a vision capable of taking into account every aspect of the global crisis."[3]

Integral ecology is not limited to the environment, although care for creation is its foundation. Instead, if everything is truly connected, as interrelated as Francis suggests, then the crises we face are not separate, "one environmental [crisis] and the other social, but rather one complex crisis which is both social and environmental."[4] Therefore, an integral ecology must challenge the existing moral paradigm on which the global economy rests and propose a new ethics of the global financial order that respects human dignity and is directed towards the common good.

---

[1] Francis, Letter Sent by the Holy Father for the event "Economy of Francesco" (May 1, 2019), http://www.vatican.va/content/francesco/en/letters/2019/documents/papa-francesco_20190501_giovani-imprenditori.html.

[2] Ibid.

[3] Francis, Encyclical Letter on Care for our Common Home *Laudato Si´* §137 (May 24, 2015), http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html.

[4] Ibid., §139.

II. COVID-19, the Global Pandemic, and the Crisis of Global Capitalism

The COVID-19 global pandemic has unleashed an unprecedented assault on the foundations of the global financial order, cutting short millions of lives and straining already overtaxed public health and social services worldwide. For the survivors, it remains unclear what effect COVID-19 will have in the long term, meaning that even for those who recover from the virus, their quality of life may have significantly diminished and their healthcare needs greatly increased.[5] The World Bank estimates that the pandemic threatens global gains made in human capital, which are improvements in health and education, made over the last decade.[6] More shockingly, the Gates Foundation in its 2020 Goalkeepers Report estimates that progress on the United Nations' Sustainable Development Goals (SDGs) has been pushed backwards ***25 years in 25 weeks*** on account of COVID-19.[7] Globally, COVID-19 will leave in its wake a world that is much poorer and much sicker than it was at the beginning of 2020.

For Africa, the picture is even more dire. The World Bank estimates that in 2020 between 71 and 100 million people will be pushed into extreme poverty, with sub-Saharan Africa standing to be the area hardest hit.[8] It further notes that COVID-19 has pushed sub-Saharan Africa into its first recession in 25 years, estimating economic growth in 2020 from -2.1% to -5.1%, from a modest growth rate of 2.4% just a year earlier.[9] This has tangible effects on food security and the ability of governments to effectively provide public services related to clean water, sanitation, health, and transportation, all of which are areas critical to responding to the pandemic Notwithstanding the human toll that COVID-19 continues to take across the world, the upheaval of the pandemic may be opening up a window of opportunity to challenge the conventional wisdom of development economics and to rethink Africa's place in the global financial order, particularly as it applies to taxation, debt, and illicit financial flows (IFFs). The World Economic Forum, among others, have called for a rethinking of the social contract in the post-pandemic era, a "Great

---

[5] "COVID-19 (coronavirus): Long-term effects," Mayo Clinic, accessed September 21, 2020, https://www.mayoclinic.org/diseases-conditions/coronavirus/in-depth/coronavirus-long-term-effects/art-20490351.

[6] "Pandemic Threatens Human Capital Gains of the Past Decade, New Report Says," The World Bank, September 16, 2020, https://www.worldbank.org/en/news/press-release/2020/09/16/pandemic-threatens-human-capital-gains-of-the-past-decade-new-report-says?cid=GGH_e_hcpexternal_en_ext.

[7] "2020 Goalkeepers Report, COVID-19: A Global Perspective," Bill & Melinda Gates Foundation, accessed September 21, 2020, https://www.gatesfoundation.org/goalkeepers/report/2020-report/#GlobalPerspective.

[8] "Profiles of the new poor due to the COVID-19 pandemic," The World Bank, August 6, 2020, https://www.worldbank.org/en/topic/poverty/brief/Profiles-of-the-new-poor-due-to-the-COVID-19-pandemic. "The impact of COVID-19 (Coronavirus) on global poverty: Why Sub-Saharan Africa might be the region hardest hit," The World Bank, April 20, 2020, https://blogs.worldbank.org/opendata/impact-covid-19-coronavirus-global-poverty-why-sub-saharan-africa-might-be-region-hardest.

[9] "The World Bank in Africa," The World Bank, accessed September 21, 2020, https://www.worldbank.org/en/region/afr.

Reset" in the way we think about sustainable development.[10] According to UN Secretary- General António Guterres, "The COVID-19 pandemic is a tragic reminder of how deeply connected we are…[c]ombating it requires us to work together as one human family."[11] This is the language of integral ecology, a contention that all of these areas are interconnected, and a reminder that a conversation about African poverty and sustainable development in the post-pandemic world requires a holistic, integrated vision that explores the nexus between IFFs, debt and international tax justice. These issues in the African context are discussed in turn.

III. Framing the Problem: Illicit Financial Flows Crippling African Development

Illicit financial flows (IFFs) can be defined as money that is illegally earned, transferred or utilized.[12] IFFs typically originate from three sources: 1) commercial tax evasion, trade misinvoicing and abusive transfer pricing; 2) criminal activities, including the drug trade, human trafficking, illegal arms dealing, and smuggling of contraband; and 3) bribery and theft by corrupt government officials.[13] These transactions collectively undermine the ability of poor states to raise revenue for development.[14] Among academics and between organizations there is a certain variety in defining IFFs, precisely because the term "illicit" does not necessarily equate with "illegal."[15] Whatever the nuance, the key for developing countries, particularly those in sub-Saharan Africa, is that IFFs have a serious impact on sustainable development prospects and represent a significant leakage of financing resources.[16]

The Brookings Institute estimates that between 1980 and 2018 while sub-Saharan Africa received more than $2 trillion in foreign direct investment (FDI) and official development assistance

---

[10] "Beyond Geopolitics: What are the challenges in making our world more sustainable?," World Economic Forum, September 20, 2020, https://www.weforum.org/agenda/2020/09/beyond-geopolitics-what-are-the-challenges-in-making-our-world-more-sustainable/.

[11] "Global Cooperation Must Adapt to Meet Biggest Threat since Second World War, Secretary-General Says on International Day, as COVID-19 Transcends Borders," United Nations Meetings Coverage and Press Releases, April 23, 2020, https://www.un.org/press/en/2020/sgsm20058.doc.htm.

[12] African Union/Economic Commission on Africa Conference of Ministers of Finance, Planning and Economic Development, *Track it! Stop it! Get it! Report of the High Level Panel on Illicit Financial Flows for Africa*, (Addis Ababa, Jan. 2015): 9.

[13] Ibid.

[14] James Thuo Gathii, "Recharacterizing Corruption to Encompass Illicit Financial Flows," *AJIL Unbound* 113 (2019): 336. doi:10.1017/aju.2019.60.

[15] Bernd Otto Schlenther, "Addressing Illicit Financial Flows in Africa: How broad is the whole of government approach supposed to be?," *Journal of Financial Crime* 23, no. 4 (2016): 1075.

[16] Ibid., 1078.

(ODA), an estimated $1.3 trillion left the continent in the form of IFFs, using Global Financial Integrity methodology.[17] This is not a trivial number and represents a significant drain on resources that could have otherwise been used for development resources and to reduce dependence on foreign aid.[18]

This point bears repeating: IFFs, external debt, and tax avoidance work in concert to collectively deny revenue to African states that could otherwise be put towards social services and poverty reduction. In the United Nations Conference on Trade and Development (UNCTAD) Economic Development in Africa Report 2020, released at the end of September, it is estimated that every year an estimated $88.6 billion, equivalent to 3.7% of Africa's GDP, leaves the continent as illicit capital flight.[19] This represents a major drain on capital and revenues in Africa, undermines its productive capacity and directly undermines Africa's ability to achieve the SDGs.[20] If the figures from the Gates Foundation are anywhere near accurate, then progress towards achieving the SDGs has been pushed back a generation by COVID-19. [21] Collectively, IFFs also work to deprive developing countries in Africa of much needed foreign exchange, meaning that as commodities are exported from the continent the corresponding financial flows remain in foreign accounts.[22] Trade misinvoicing and capital flight mean that for a significant portion of their international trade, African governments do not benefit from their trade transactions and experience significant losses in capital and foreign exchange as a result of a high level of IFFs.[23]

Corruption is the elephant in the room in this discussion and attempting to combat IFFs without acknowledging the role of corruption in the African public and private spheres is not only disingenuous but doomed to failure. James Thuo Gathii, professor of international law at Loyola University of Chicago, suggests that we expand our definition of IFFs to include corruption itself as a form of illicit financial flow.[24] He notes that while "[a]nticorruption treaties generally define corruption as an abuse of entrusted power for private gain," thus targeting the bribery of public officials, this definition excludes those transactions by private actors which are likewise injurious to the development of poorer states.[25] Thus excluded are IFFs involving individuals and

---

[17] Landry Signé, Mariama Sow, and Payce Madden, *Illicit financial flows in Africa: Drivers, destinations, and policy options* (Washington: The Brookings Institution, 2020), 1-2.
[18] Ibid., 3-4.
[19] "Africa could gain $89 billion annually by curbing illicit financial flows," United Nations Conference on Trade and Development, September 28, 2020, https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2479.
[20] Ibid.
[21] Bill and Melinda Gates Foundation,"2020 Goalkeepers Report."
[22] United Nations Conference on Trade and Development, *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (Geneva: United Nations, 2020), 42-44.
[23] Ibid., 50.
[24] Gathii, "Recharacterizing Corruption," 339-340.
[25] Ibid., 336.

multinational corporations, such as tax evasion and avoidance, which while not involving bribery of a public official are no less corrupt.[26] Acknowledging corruption as a form of IFF would go a long way towards recognizing the role that African elites and public officials have had in contributing to the ongoing debt crisis, without letting private actors and multinational corporations off the hook. This too is an area where a recognition of the interconnectedness of these various actors contributes to the larger problem.

IV. Debt and Development in the Post-Pandemic World

The public debt problem facing the countries in sub-Saharan Africa, which was already a matter of increasing concern prior to COVID-19, has reached a critical state with the upheaval in the global economy. Total external debt for sub-Saharan Africa was over $583 billion in 2018, which marks a 150% increase over the ten year period since 2008.[27] Over that same period, average public debt increased by half from 40 to 59 percent of GDP, making sub-Saharan Africa the fastest growing area in terms of debt accumulation in comparison to other developing regions.[28]

Historically, Africa's largest creditors were Western governments and international organizations such as the International Monetary Fund (IMF) and the World Bank.[29] It was this group that organized the last major round of debt relief for African countries in terms of the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief (MDRI) Initiatives beginning in the 1990s.[30] The HIPC, in particular, reduced the foreign public debt of recipient countries from about 100% of GDP in 2005 to 40% by 2012.[31] The reduction in debt-to-GDP ratio in some HIPC recipients did free up resources and allow for some level of poverty reduction, however these gains have been annulled by new borrowing and COVID-19.[32]

---

[26] Ibid.

[27] "2020 International Debt Statistics," The World Bank, accessed September 21, 2020, http://datatopics.worldbank.org/debt/ids/region/SSA. "Double Burden: Africa's debt crisis hampers its fight against covid-19," *The Economist*, April 11, 2020, https://www.economist.com/middle-east-and-africa/2020/04/11/africas-debt-crisis-hampers-its-fight-against-covid-19.

[28] Francisco G. Carneiro and Wilfred A Kouame, "How much should Sub-Saharan African Countries adjust to Curb the increase in Public Debt?" World Bank Blogs, February 3, 2020, https://blogs.worldbank.org/africacan/how-much-should-sub-saharan-african-countries-adjust-curb-increase-public-debt.

[29] The Economist, "Double Burden."

[30] U.S. Library of Congress, Congressional Research Service, *The Multilateral Debt Relief Initiative*, by Martin A. Weiss, RS22534 (2012), 1-6.

[31] The Economist, "Double Burden."

[32] "COVID-19 in Africa: Regional Socio-economic Implications and Policy Priorities," OECD, May 7, 2020, https://read.oecd-ilibrary.org/view/?ref=132_132745-u5pt1rdb5x&title=COVID-19-in-Africa-Regional-socio-economic-implications-and-policy-priorities.

Further, long-term fiscal stability across the continent has been challenged by a number of external factors, not the least of which is falling commodity prices, which has resulted in weakened fiscal resources for Africa's commodity-exporting countries.[33] Combined with weak-macro-fiscal and debt management systems, this has resulted in a rapid accumulation of African public debt to make up the difference in revenue.[34] Consequently, external debt payments by African governments doubled from an average of 5.9 percent of government revenue in 2015 to 11.8 percent in 2017.[35] Almost all sub-Saharan African countries contributed to this increase, with the exception of nine countries in which the ratio of debt to GDP declined.[36] Leading this rapid accumulation of public debt have been Africa's oil exporting countries, who have faced widening fiscal deficits since the end of the commodity price boom in 2014.[37]

V. The Nature of Africa's Public Debt and the Role of China

The nature of Africa's public debt has also changed markedly since the HIPC and MDRI Initiatives began. Whereas in the past Africa's chief creditors were Western governments and key international organizations today China is the continent's biggest bilateral creditor, having signed loans worth more than $146 billion to African governments since 2000.[38] African governments have been enticed by China's socially *laissez-faire* approach to lending which does not come with the political strings that loans from the West have traditionally have had attached to theirs in terms of governance, democracy, and human rights.[39]

However, despite their policy of noninterference in the internal affairs of the countries receiving their largesse, borrowing from China does not come without a price.[40] Their willingness to lend to governments with little regard for the country's ability to pay results in a situation, particularly in regard to infrastructure projects, where China converts debt obligations when a borrower is unable

---

33 Brahima Coulibaly et al., "Fiscal and Debt Sustainability in Africa," G20 Insights, October 9, 2019, https://www.g20-insights.org/policy_briefs/fiscal-and-debt-sustainability-in-africa/.

34 Carneiro and Kouame, "How Much."

35 "Africa's Growing Debt Crisis: Who is the debt owed to?," Jubilee Debt Campaign, October 2018, https://jubileedebt.org.uk/wp/wp-content/uploads/2018/10/Who-is-Africa-debt-owed-to_10.18.pdf.

36 Ibid.

37 Ibid.

38 The Economist, "Double Burden."

39 Ali Zafar, "The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links," *The World Bank Observer* 22, no. 1 (Spring 2007): 106.

40 Ibid., 126.

to pay into a sizable ownership stake in the project at issue.[41] This "debt book diplomacy" utilizes opaque contracts, predatory lending practices, and a disregard for commercial viability to allow China to achieve its strategic goals.[42] The goodwill it generates for China in Africa might be a plus, but Beijing's perceived benevolence is extended with an eye towards furthering Chinese, not African, development.[43] In this way, Chinese lending and development practices in Africa are no different from the Western powers who preceded them.[44]

In mortgaging themselves to the Chinese, African governments are running headfirst into the battleground of what is quickly shaping up as the "New Cold War," that between the U.S. and China.[45] This has a direct effect on the willingness of the United States, and those international organizations where U.S. support is critical, to provide debt relief or aid if it is perceived that the money is simply going into Beijing's coffers.[46] The U.S. views China's increasing economic influence in Africa as a direct threat to its worldwide strategic interests, meaning that China's 20 percent share of the current African external debt stock, is a factor which cannot be overlooked in contemplating multilateral solutions to Africa's festering debt crisis.[47]
Additionally, beyond the Chinese factor, Africa's debt problem is exacerbated by the percentage of which is owed to private lenders. Even if governments and international organizations, including the Chinese, can be convinced to provide debt relief, the demands of bondholders and investment banks loom large on the horizon.[48] Obtaining debt relief from governments is hard enough, but the problem is magnified in that "multilateral banks are reluctant to risk their own credit ratings and private bondholders are hard to corral."[49]

---

[41] Sam Parker and Gabrielle Chefitz, "Debtbook Diplomacy: China's Strategic Leveraging of its Newfound Economic Influence and the Consequences for U.S. Foreign Policy" (Cambridge, MA: Harvard Kennedy School Belfer Center for Science and International Affairs, 2018): 3-4.

[42] Ibid.

[43] Tridivesh Singh Maini, "Post-COVID-19: Will China's 'Debt Trap Diplomacy' in Africa Falter?," *The Geopolitics*, April 28, 2020, https://thegeopolitics.com/post-covid-19-will-chinas-debt-trap-diplomacy-in-africa-falter/.

[44] Henning Melber, "China in Africa: A New Partner or Another Imperialist Power?," *Africa Spectrum* 43, no. 3 (2008): 394-96.

[45] Patrick Wintour, "Comparing Global Influence: China's and U.S Diplomacy, Foreign Aid, Trade and Investment in the Developing World," *The Guardian*, June 22, 2020, https://www.theguardian.com/world/2020/jun/22/us-v-china-is-this-the-start-of-a-new-cold-war.

[46] Deborah Brautigam, "China, the World Bank, and African Debt: A War of Words," *The Diplomat*, August 17, 2020, https://thediplomat.com/2020/08/china-the-world-bank-and-african-debt-a-war-of-words/.

[47] U.S. Library of Congress, Congressional Research Service, *Sub-Saharan Africa: Key Issues and U.S. Engagement*, by Tomas F. Husted et al., R45428 (2019), 10-13. *See also* James Henry Murray, "Africa's debt burden and the COVID-19 economic crisis," *Accord*, June 3, 2020, https://www.accord.org.za/analysis/africas-debt-burden-and-the-covid-19-economic-crisis/.

[48] The Economist, "Double Burden."

[49] Ibid.

Although the World Bank and the G20 endorsed the Debt Service Suspension Initiative (DSSI) in April 2020 as a means of granting debt-service relief to the poorest countries impacted by COVID-19, by its terms it only applies to loans from G20 governments, private sector debt is excluded.[50] Given the size of China's debt holding in Africa, it is important that they participate in the DSSI process for it to be successful. Of China's two largest overseas lenders, the China Export Import Bank (Exim Bank) and China Development Bank (CDB), only Exim Bank is participating in DSSI.[51] Beijing argues that China Development Bank is a private commercial bank and outside the framework.[52] Notwithstanding Chinese participation, DSSI only suspends debt payments, it does nothing in the way of debt relief or forgiveness.

The difficulties that this nexus between Chinese debt and private bondholders presents in this new debt crisis is currently playing out in Zambia where the government announced on September 22nd that it was seeking a "the suspension of debt service payments for a period of six months" from holders of its $3 billion worth of international bonds, beginning in October.[53] A recent arrival to the international bond market, Zambia first tapped its resources in 2012, but in less than a decade finds itself in over its head and the first sovereign debt default accelerated by COVID-19 and investors in this original ten year bond are among those facing losses.[54] While Zambia had already secured some COVID-related debt relief from its official public creditors, private bondholders are, as expected, proving much more recalcitrant.[55] Bondholders know that it is Chinese debt that has pushed Zambia over the edge and are demanding greater transparency as to how much Zambia owes to China, but also how they plan to service that particular category of debt.[56] Zambia, as well as other African states contemplating default, should bear in mind the example of Argentina, who after defaulting on its bonds in the 2001 and attempting to restructure its debt in 2005 and 2010 found itself hauled into a New York federal courthouse by disgruntled hedge fund bondholders, chiefly Paul Singer and Elliott Management, and subject to an economically devastating judgment.[57] Singer's strategy of purchasing distressed sovereign debt cheaply and then seeking

---

[50] "COVID 19: Debt Service Suspension Initiative," The World Bank, June 19, 2020, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative.

[51] Brautigam, "China and African Debt."

[52] Ibid.

[53] Joseph Cotterill and Tommy Stubbington, "Zambia headed for Africa's first Covid-related debt default," *Financial Times*, September 22, 2020, https://www.ft.com/content/0b744d46-46b1-48c3-81cd-be0d78d99262.

[54] Ibid.

[55] Ibid.

[56] Tommy Stubbington and Lawrence Fletcher, "Bondholders balk at Zambia's plan to delay debt payments," *Financial Times*, September 30, 2020, https://www.ft.com/content/b5be6626-b228-4e52-83b4-dc2f7b5b0780.

[57] Ben Bartenstein, "Argentina Default Prompts a Paul Singer Sequel in CDS Decision," *Bloomberg*, May 27, 2020, https://www.bloomberg.com/news/articles/2020-05-27/argentina-default-prompts-a-paul-singer-sequel-in-cds-decision. Matt O'Brien, "Everything you need to know about Argentina's weird default," *The Washington Post*,

full payment in court has proved lucrative enough to encourage other creditors.[58] There is little reason to think that this current debt crisis will prove any different.

Moreover, while Zambia may be the first to pull the trigger, they are hardly the only African state in crisis. In reducing Zambia's credit rating following their announcement, Fitch Ratings also noted that default is also a real possibility for Angola, the Republic of Congo, Gabon, and Mozambique.[59] Slightly more stable are Cabo Verde, Cameroon, Ethiopia, Lesotho, and Nigeria.[60] Fitch notes that each of these countries, whether or not they actually default, have the same problem as Zambia in convincing their private creditors to join in on any debt relief or restructuring scheme.[61] As with Zambia, each of these countries, along with others, were already in a precarious fiscal position before the pandemic, but COVID-19 is causing a ripple effect accelerating a reckoning with their creditors.[62]

COVID-19 demonstrated in stark relief the precarious fiscal position that many African governments found themselves in when the pandemic hit, unprepared not only for the economic challenge of responding to the virus, but lacking the public health and civil infrastructure to effectively fight back. To a larger degree than any other region of the world, the choice facing African leaders was between paying foreign creditors or allowing more of their people to die.[63] In April, a month into lockdown, Anthony Egan, S.J., a South African Jesuit, noted that hunger was replacing COVID-19 as the existential fear in that country.[64] One can only imagine how much that fear has magnified more than six months later, not only in South Africa but across the continent. The combination of food insecurity, the strain on health care systems, and other emergency responses to the pandemic have forced many countries to surpass the recommended 60 percent debt-to-GDP threshold.[65] Governments should not be forced to choose between paying foreign

---

August 3, 2014, https://www.washingtonpost.com/news/wonk/wp/2014/08/03/everything-you-need-to-know-about-argentinas-weird-default/.

58 Robin Wigglesworth and Elaine Moore, "Sovereign debt: Curing defaults," *Financial Times*, June 7, 2016, https://www.ft.com/content/90dc38fa-2412-11e6-aa98-db1e01fabc0c.

59 "Fitch Wire: Zambia Downgrade Highlights Risk of African Sovereign Defaults," Fitch Ratings, September 28, 2020, https://www.fitchratings.com/research/sovereigns/zambia-downgrade-highlights-risk-of-african-sovereign-defaults-28-09-2020.

60 Ibid.

61 Ibid.

62 Dan Haverty, "Zambia Is on the Verge of a Pandemic-Related Debt Default," *Foreign Policy*, September 23, 2020, https://foreignpolicy.com/2020/09/23/zambia-is-on-the-verge-of-a-pandemic-related-debt-default/.

63 The Economist, "Double Burden."

64 Anthony Egan, "Hunger begins to replace COVID-19 as existential fear in South Africa," *America*, April 28, 2020, https://www.americamagazine.org/politics-society/2020/04/28/hunger-begins-replace-covid-19-existential-fear-south-africa.

65 Murray, "Africa's Debt Burden."

bondholders and allowing their people to starve, yet that is precisely the position that many African states find themselves in, a situation magnified by the debt crisis and IFFs.

VI. Tax Justice for Africa: Reducing Tax Avoidance After COVID-19

Tax Justice is the concept of global redistributional justice which examines means of reducing tax avoidance through the use of haven jurisdictions and of increasing transparency in the current system of international taxation. Our preceding discussion of IFFs and the debt crisis have shown how these two interrelated factors have exacerbated Africa's precarious fiscal position in the global financial order. Taxation is the third piece of the puzzle. As a result of tax avoidance by multinational corporations and wealthy individuals, countries in the Global South, particularly those in sub-Saharan Africa, have been systematically deprived of tax revenues which could have been used for desperately needed infrastructure and social services. COVID-19 has shown the net effect of these sophisticated avoidance schemes in compounding the financial inability of African governments to weather the storm wrought by the pandemic.

Tax avoidance and evasion by multinational corporations operating in the developing world results in a situation where approximately half of all the proceeds of world trade passes through tax haven jurisdictions in order to avoid paying tax on profits.[66] As a result of tax avoidance by large corporations and wealthy individuals, developing countries are estimated to lose revenues greater than annual aid flows.[67] However, in the 21st century, "unilateral approaches to tax corporations whose operations span the globe are obsolete , and a multilateral approach is both essential and feasible."[68] Such a multilateral approach to increasing transparency in the global tax system is precisely the sort of collaboration at the core of integral ecology and the Vatican can, and should, be the catalyst for developing that work.

VII. Tax Avoidance in Practice and Current International Efforts to Combat it

In discussing tax avoidance, it is best to begin with the concept of strategic tax behaviors, "which are actions designed solely to minimize tax obligations, the legality of which is questionable."[69] The two bookends on the scale are tax evasion, which are intentionally illegal activities designed to escape the payment of tax, and licit tax savings, which are those behaviors which seek neither

---

66 Matti Konohen and Francine Mestrum, "Introducing the Tax Justice Network: 'Only the Little People Pay Taxes,'" in *Tax Justice: Putting Global Inequality on the Agenda*, eds. Marti Konohen and Francine Mestrum, (London: Pluto Press, 2008), xiii.

67 Ibid.

68 Reuven S. Avi-Yonah, "Hanging Together: A Multilateral Approach to Taxing Multinationals," in *Global Tax Fairness*, ed. Thomas Pogge and Krishen Mehta (Oxford: Oxford University Press, 2016), 113.

69 Reuven S. Avi-Yohah, Nicola Sartori, and Omri Marian, *Global Perspectives on Income Taxation Law* (Oxford: Oxford University Press, 2011), 101.

to subvert the letter nor spirit of the law.[70] Avoidance schemes are those "illegitimate but not necessarily illegal" behaviors aimed at reducing tax liability.[71] However, as scholars agree, the lines between all of these strategic behaviors are nowhere nearly as clear cut as they may seem. Nevertheless, the focus of this analysis is on tax avoidance, as opposed to evasion, those aggressive strategies, aided and abetted by armies of accountants, bankers, and lawyers, to manipulate transfer pricing and haven jurisdictions to avoid paying local tax. As noted in the discussion of IFFs, simply because something is not *per se* illegal does not make it illicit.

These aggressive tax avoidance strategies, largely by multinational corporations, contribute to base erosion and profit sharing (BEPS) which are "tax-avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations."[72] The "beating heart of BEPS planning – the *sine qua non* of the transactions that triggered the universal interest in BEPS" is aggressive transfer pricing.[73] Corporations exploit transfer pricing to create tax benefits by reporting profits to entities in tax havens that do not correspond with actual activities in those entities.[74] Transfer price is the price at which divisions of a company transact with each other, i.e., the price for labor, goods, and services across a vertically integrated enterprise. When related companies buy or sell commodities, services, or assets internally, a transfer price must be charged in order to allocate profits.[75] In principle, transfer pricing is supposed to be measured on the basis of an arms-length transaction: the goods and services transferred internally must be exchanged at the same price as would be charged to an unrelated firm.[76] However, given the lack of transparency and convergence between accounting regimes, multinational corporations are able to manipulate transfer pricing to avoid paying tax on trillions of dollars of foreign profit.[77] They do this by charging, and reporting, artificially low or inflated prices on the goods and services transferred to report minimal profits or excessive losses in high tax jurisdictions, and the lion's share of profit in tax havens – where *none* of the tangible taxable activity actually took place. For example, the bulk of the profit from extractive mining activities in South Africa, or cocoa production in the Ivory Coast, is manipulated through transfer pricing to be reported in a tax haven such as Jersey, Luxembourg, or the Cayman Islands. This results in a tax justice issue since jurisdictions in the

[70] Ibid., 101-02.

[71] Ibid., 101.

[72] U.S. Library of Congress, Congressional Research Service, *Base Erosion and Profit Sharing (BEPS): OECD Tax Proposals*, by Jane Gravelle, R44900 (2017), 1 (citing http://www.oecd.org/tax/beps/).

[73] Yariv Brauner, "What the BEPS?," *Florida Tax Review* 16 (2014) : 95.

[74] Gregory Pun, "Base Erosion and Profit Shifting: How Corporations Use Transfer Pricing to Avoid Taxation," *Boston College International & Comparative Law Review* 40 (2017) : 288.

[75] Gravelle, "Base Erosion and Profit Sharing," 13.

[76] Ibid.

[77] Brauner, "What the BEPS?," 97.

developing world generally lack the administrative resources to allow their tax authorities to trace the economic data and combat aggressive corporate BEPS schemes.[78]
BEPS is a unique issue in our discussion of IFFs in that it has the attention of key stakeholders in both the Global North and South, as evidenced by the 2013 OECD/G20 BEPS Project which was developed in the aftermath of the 2008 financial crisis to address the rising lack of confidence in the fairness of the international tax system.[79] The BEPS Project resulted in the 2013 BEPS Action Plan and the 2015 BEPS Package, endorsed by the G20, which represents the first substantial renovation of global tax standards in over a century.[80] As a first step in implementing the BEPS Package, in June 2016 the OECD/G20 Inclusive Framework was conceived as a means of expanding membership in the project beyond the OECD and G20 countries to include international organizations and regional tax bodies.[81] The Inclusive Framework now includes 135 countries working to implement a set of 15 Actions "to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment."[82] The importance of this is that even prior to COVID-19, the world's financial leaders had embarked on a process of rethinking the structure of the international tax system for the first time in a century. The challenges of the global pandemic will certainly accelerate the momentum for those efforts and the paradigm under which this conversation is taking place is the OECD/G20 Inclusive Framework. For Africa, it is critical to have a seat at this table and a voice in these discussions.

However, just because the OECD and the G20 are interested in BEPS at the same time as states in the Global South, that does not mean that their interests are aligned. For the Global North, their priority in countering BEPS is to address the challenges of the digital economy, where the old rules defining source and residence for purposes of taxation no longer fit the way that goods and services are bought and sold. This is why the two pillars of the OECD/G20's Program of Work for implementing the Inclusive Framework specifically address issues related to the digital economy, with Pillar One addressing the allocation of taxable profit to market jurisdictions and Pillar Two examining the introduction of a global minimum tax to prevent the shifting of profit to low-tax jurisdictions.[83] Allocation of tax in the digital economy, while important, is not the most pressing taxation issue facing African governments and is an indication that a more concerted regional

---

[78] Diane Ring, "Developing Countries in an Age of Transparency and Disclosure," *BYU Law Review* 2016 (2016) : 1796.
[79] OECD, *OECD/G20 Inclusive Framework on BEPS Progress Report July 2019 – July 2020* (Paris: OECD, 2020), 3.
[80] Ibid.
[81] Ibid.
[82] "BEPS Inclusive Framework on Base Erosion and Profit Shifting," OECD, accessed September 22, 2020, http://www.oecd.org/tax/beps/.
[83] Patrick Marley et al., "OECD provides additional detail on Pillar One proposal in update on international tax reform – Seeking consensus-based solution in 2020," Osler, accessed September 23, 2020, https://www.osler.com/en/resources/regulations/2020/oecd-provides-additional-detail-on-pillar-one-proposal-in-update-on-international-tax-reform-seeki.

effort is needed to place African concerns much higher on the international community's list of concerns.[84]

VIII. Bringing it Together: The Economy of Francesco in the Post-Pandemic World

In his virtual exhortation to the UN General Assembly to mark its 75th anniversary on September 21, 2020, Vatican Secretary of State Cardinal Pietro Parolin remarked that the Holy See has been committed to urging the UN to be a "moral center" where nations can come together as a community "in a spirit of human fraternity and solidarity to advance together with multilateral solution to global challenges."[85] He further added that the COVID-19 pandemic has made clear that we cannot go on thinking of ourselves or fostering divisions.[86] This vision of the post-pandemic world, as one driven by a spirit of human fraternity and solidarity to *advance together* with multilateral solutions to our common problems is at the core of Pope Francis's integral ecology and provides a blueprint for the role that the Vatican can take in redefining Africa's role in the global financial order. This is not to say that Africa is incompetent to handle African problems, but rather that there is strength in numbers and the moral authority and political resources of the Vatican can direct sorely needed international attention towards Africa's critical needs in its struggle to reduce poverty.

To follow up on Cardinal Parolin's point, if the UN is to be a "moral center," then both the organization and the international community need *moral direction* – something which the Vatican is uniquely poised to offer in the post-pandemic world. As we rethink the foundations of the global financial order and how African development has been severely hampered by the nexus between illicit financial flows, debt, and tax avoidance, then Catholic social doctrine on the economy, particularly as it has developed under Pope Francis, has a significant contribution to make to the global discourse.

In fact, many of the issues discussed herein have recently been the subject of the Vatican's attention. In May 2018, the Congregation for the Doctrine of the Faith (CDF) and the Dicastery for Promoting Integral Human Development jointly published a groundbreaking document which for the first time addressed moral questions related to the global economic and financial system, and was specifically addressed to those in charge of the system, "those working in the fields of

---

[84] Martin Hearson, "Africa responds to the Inclusive Framework's digital tax agenda," International Centre for Tax and Development, accessed September 23, 2020, https://www.ictd.ac/blog/africa-responds-to-the-inclusive-frameworks-digital-tax-agenda/.
[85] Robin Gomes, "Parolin: UN still needed to respond to the hopes of the world's people," *Vatican News*, September 22, 2020, https://www.vaticannews.va/en/vatican-city/news/2020-09/holy-see-parolin-un-75-anniversary-high-level-meeting.html.
[86] Ibid.

economy and finance."[87] *Oeconomicae et Pecuniariae Questiones* specifically addresses the ethics of tax avoidance through the use of offshore havens, these "widely diffused channels of tax avoidance, if not directly of evasion and the recycling of money from crimes."[88] This movement of revenue from one site to another, transferring profits into fiscal havens, and the costs into countries of high taxation, "have removed decisive resources from the actual economy and contributed to the creation of economic systems founded on inequality."[89]

Oeconomicae et Pecuniariae Questiones also addresses the role of public debt in the developing world and its nexus with illicit offshore financial flows. "The offshore system has also ended up aggravating the public debt of the countries whose economies are less developed...[i]t was in fact observed how the accumulated private wealth of some elites in the fiscal havens is almost equal to the public debt of the respective countries."[90] Although not using the term, it goes on to criticize what is known as known as "odious debt," which according to Jeff King of University College London is traditionally presented as the doctrine that "some sovereign debt claims are not binding or enforceable on account of the creditor's awareness of the fact that the proceeds of the loan would be used to oppress the population of the debtor state, or would be used for personal enrichment rather than public purposes."[91] The document does so when it states that "…at the origin of that debt there are often economic losses created by private persons and unloaded on the shoulders of the public system…[and] it is good to point out how often the public debt is also created by an incautious, if not fraudulent, management of the public administrative system."[92] This analysis, applied to an African fact pattern, is precisely the type of economic prophetic vision that the continent needs in the post-pandemic world, and the Vatican is uniquely positioned to provide and proclaim it.

In *Laudato Si'*, Pope Francis stated, "[p]olitics must not be subject to the economy, nor should the economy be subject to the dictates of an efficiency-driven paradigm of technocracy…in view of the common good, there is an urgent need for politics and economics to enter into a frank dialogue in the service of life, especially human life."[93] The COVID-19 global pandemic has revealed for

[87] Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development, Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System *Oeconomicae et Pecuniariae Questiones*, §1, (May 17, 2018) https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html.

[88] Ibid., §30.

[89] Ibid.

[90] Ibid., §32.

[91] Jeff King, *The Doctrine of Odious Debt in International Law: A Restatement. Cambridge Studies in International and Comparative Law* (Cambridge: Cambridge University Press, 2016), 2.

[92] *Oeconomicae et Pecuniariae Questiones*, §32.

[93] *Laudato Si'*, §189.

us, once again, how radically interconnected the human family is. There is not a single country, let alone a single community or family, that has not been affected.
Pope Francis reminds us that, "[t]o emerge from a pandemic, we need to look after and care for each other."[94] Looking after and caring for each other in the post-pandemic world means ensuring that nobody is left behind and that the entire human family is brought together to seek sustainable and integral development.[95] The social and economic devastation wrought by the pandemic means that nothing will be the same again, and we are collectively charged with imagining entirely new ways of living, working, and being in community with one another.[96]

Particularly as to the issue of taxation, precious little of the discourse surrounding the international tax system explores its moral or ethical dimension. According to Daniel Halliday, lecturer in philosophy at the University of Melbourne, "[t]he fact that social scientists frequently bring considerations like inequality and harm into their work on tax reflects the fact that the domain of taxation, although fragmentary, is a *thoroughly moralised* territory.[97] As thoroughly moralised territory, the ethics of the international tax system, and criticism of its abuses, is well within the prerogatives and expertise of the Catholic Church and is an area where Vatican advocacy can play a significant role in incarnating integral ecology through the Economy of Francesco. This voice is critical as the century-old foundations of the international tax system are at this moment being renegotiated in Paris as part of the OECD/G20 Inclusive Framework. The Vatican is uniquely poised to advocate for the Global South as the post-pandemic global economic order is reconceptualized and to press for Africa's specific needs not only as to taxation, but also towards illicit financial flows and debt. Everything is interconnected, but not everybody has the same voice. The Vatican can, and should, amplify Africa's voice in the post-pandemic discourse on what the new global financial order will look like.

---

[94] Francis, "Care of the common home and contemplative dimension #CatechesisCovid," Dicastery for Promoting Integral Human Development, September 16, 2020, http://www.humandevelopment.va/en/news/cura-della-casa-comune-e-atteggiamento-contemplativo.html.
[95] "Holy See says no one must be left behind after the pandemic," *Vatican News*, September 16, 2020, https://www.vaticannews.va/en/vatican-city/news/2020-09/holy-see-jurkovich-right-to-development.html.
[96] Carmen Reinhart and Vincent Reinhart, "The Pandemic Depression: The Global Economy Will Never Be the Same," *Foreign Affairs* (September/October 2020), https://www.foreignaffairs.com/articles/united-states/2020-08-06/coronavirus-depression-global-economy.
[97] Daniel Halliday, "Justice and Taxation," *Philosophy Compass* 8/12 (2013) : 1120.