Illicit financial flows and child rights / SDGs in Malawi

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GRADE
Government Revenue
and Development
Estimations

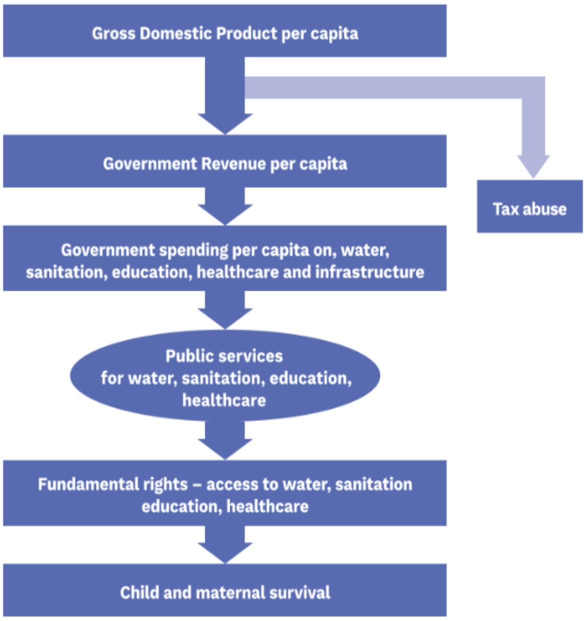
Introduction

To provide public services, governments rely heavily on tax revenue from both **domestic** and **international** sources. However, there are losses from governments' budgets that impede public service provision.

Illicit financial flows (IFFs) are defined as "financial flows that are illicit in origin, transfer or use; and that cross country borders".

According to the report published by the High-Level Panel on IFFs from Africa by the African Union Commission/United Nations Economic Commission for Africa (AUC/ECA)[2], **commercial practices,** including tax abuse, are the primary driver of IFFs in Africa, followed by **criminal activities** and **corruption**. Commercial practices or tax-motivated IFFs reduce government revenue for public services, and this directly impacts **children's rights**, especially the poorest children.

Figure 1 – the pathway between tax abuse and SDGs[1]



The Sustainable Development Goals and children's rights in Malawi

The Sustainable Development Goals (SDGs) are grounded in human rights, and Malawi has made significant progress. For example, child mortality has plummeted from 172 per 1000 live births in 2000 to 39 per 1000 live births in 2020. However, significant gaps persist, see figure 2. These gaps could be reduced if IFFs were curtailed.

Figure 2 Gaps in child rights in Malawi [3]

Preventable causes of child mortality include neonatal (43%), pneumonia (14%), diarrhoea (8%) and malaria (7%)

¼ do not have basic water

>1/2 do not have basic sanitation.

1/3rd of children are stunted Indicating chronic malnutrition

Only 1/3rd of children complete primary school

[1] Tax Justice and Human Rights https://taxjustice.net/2021/07/06/tax-abuse-and-human-rights/

[2] Report of the High-Level Panel on Illicit Financial Flows from Africa https://au.int/en/documents/20210708/report-high-level-panel-illicit-financial-flows-africa

[3] UNICEF Malawi 2021 Report using data from the National Statistics Office (NSO) https://www.unicef.org/malawi/media/7361/file/UNICEF%20Malawi%202021%20Annual%20Report.pdf

The potential of an increase in revenue for the Sustainable Development Goals and child rights

When governments have more revenue, they spend more across all sectors, including health, education, agriculture, and infrastructure, which all impact child health.

At low levels of government revenue per capita – **even small volumes of additional income** can have a significant impact, especially in countries with reasonable levels of governance, see figure 3 [4], so it is critical to identify tax gaps.

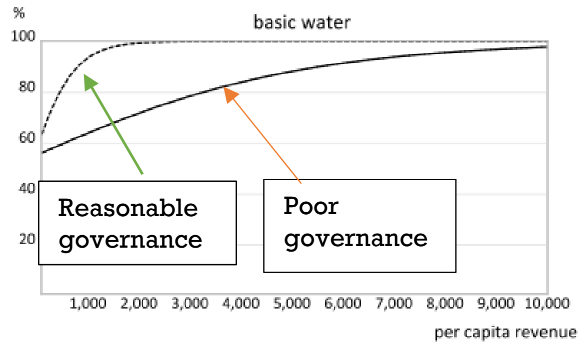


Figure 3 – When revenue increases, rights increase

Estimates for illicit financial flows from Malawi due to commercial practices and the SDGs

We employ the economic modelling from the Government Revenue and Development project (the GRADE)[5] to estimate the number of children who could access their fundamental rights if there was an increase in revenue equivalent to the tax abuses. The GRADE uses panel data to model the impact of increased government revenues on the SDGs while assuming **the government spends any additional income the same way it has in recent years.** Our focus is on children's rights, and among the most critical determinants of child health are clean water, sanitation, education, and healthcare. Therefore, we focus on SDGs 3, 4, 5 and 6. The Tax Justice Network, using aggregated 2017 OECD country-by-country data on multinational corporations, in its annual State of Tax Justice Report, estimated tax avoidance by multinational corporations for Malawi was $56 million, and tax evasion was estimated at $4 million [6]. We deflate the estimates to 2015 values ($58,407,854 in USD 2015) as the GRADE modelling used constant 2015 US dollars. We present estimates for all years for which there is data (from 2002 to 2020) because these losses occur over decades, and this is the maximum period where data is available.

Findings

An increase in government revenue, equivalent to tax avoidance and evasion in Malawi, would lead to **125,000 additional people, including children, accessing basic drinking water and sanitation each year**. Cumulatively, between 2002 and 2017-2020 (depending on data availability), **half a million additional children would attend school for an extra year, and 16,000 additional children and 1100 mothers would survive** (see figure 4).

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[4] The Impact of Government Revenue on the Achievement of the Sustainable Development Goals and the Amplification Potential of Good Governance http://www.cejeme.org/publishedarticles/2022-07-02-637870972358162234-2443.pdf
[5] The Government Revenue and Development Estimations https://medicine.st-andrews.ac.uk/grade/
[6] The State of Tax Justice 2021 Malawi https://taxjustice.net/country-profiles/malawi/

Figure 4 Increased coverage of SDGs in Malawi if tax abuse is curtailed

There is an opportunity for the international community to contribute to progress towards the SDGs in Malawi by curbing global tax abuse. These figures demonstrate that tax abuses come with a human cost for many children in Malawi. Allowing tax abuses to continue undermines fundamental human rights, directly contradicting the Universal Declaration of Human Rights and the United Nations Convention for the Rights of the Child. We are calling for action from leaders worldwide to take measures to prevent policies which allow tax abuses to continue.

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