policy forum

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Policy Brief on

ILLICIT FINANCIAL FLOWS (IFFs): A burden to Tanzania National Budget

Introduction

Illicit Financial Flows (IFFs) represent a significant challenge to Tanzania's economic stability, depriving the country of substantial revenue that could support critical sectors such as agriculture. This policy brief examines the impact of IFFs on Tanzania's national budget, focusing on the agriculture sector. It highlights how funds lost through IFFs could bridge the agriculture budget deficit and provides key recommendations to address the issue.

Understanding Illicit Financial Flows (IFFs)

Illicit Financial Flows (IFFs) refer to the movement of money or resources across country borders that are illegally earned, transferred, or used. IFFs occurs in various forms emanating from commercial and criminal activities. This includes but not limited to tax evasion, tax avoidance, trade mispricing, transfer pricing abuse, corruption, capital flight, drug trafficking, human trafficking, smuggling, arms trade and money laundering. These flows drain essential resources from governments, reducing funds needed to support key sectors such as education, health, and agriculture, which disproportionately affect marginalized groups in developing countries like Tanzania.

Key Drivers of Illicit Financial Flows (IFFs)

The persistence of Illicit Financial Flows (IFFs) is fueled by a web of systemic weaknesses, allowing wealth to slip through the cracks of national economies unnoticed.

At the heart of the problem lie **fragile institutions and weak regulatory systems**, where ineffective enforcement and lack of transparency create an environment ripe for financial misconduct. Corrupt officials, lax tax enforcement, and regulatory blind spots make it easier for illicit funds to move undetected.

Governance and oversight remain inadequate, particularly in resource-rich sectors like mining. Here, companies exploit regulatory loopholes—underreporting earnings, undervaluing exports, and manipulating transfer pricing to shift profits offshore. These unchecked practices drain national revenues, robbing governments of much-needed funds for public services.

Beyond national borders, **global financial secrecy** plays a pivotal role. Countries with stringent confidentiality laws provide a haven for illicit funds, shielding individuals and corporations from scrutiny and making it nearly impossible to trace stolen wealth.

The persistence of IFFs is more than an economic dilemma—it is a global crisis. It stifles development, deepens inequality, and erodes the foundations of economic sovereignty. Left unchecked, these hidden flows of capital will continue to undermine progress, widening the gap between potential prosperity and a reality shaped by financial exploitation.

The magnitude of Illicit Financial Flows (IFFs) Global Context, Africa Context and Tanzania Context

Global Context (2010-2024)

Globally, illicit financial flows have been a persistent issue since the early 2000s. Between 2010 and 2020, Global Financial Integrity (GFI) estimates that developing countries lost over $1 trillion annually to IFFs, largely driven by tax evasion, corruption, trade mis-invoicing, and criminal activities. In their 2020 report, GFI noted that trade mis-invoicing alone accounted for up to $835 billion per year between 2008 and 2017, with developing countries being the most affected. According to the OECD's 2022 Base Erosion and Profit Shifting (BEPS) report, countries lose up to $240 billion annually to aggressive tax avoidance schemes by multinational corporations.

Africa Context (2010-2024)

Africa is disproportionately affected by IFFs. The African Union High-Level Panel on Illicit Financial Flows (2015), reported that Africa was losing $50 billion per year due to IFFs, a figure later revised to $88.6 billion annually by UNCTAD in 2020. This represents about 3.7% of the continent's GDP and is far higher than the continent's annual inflows of Foreign Direct Investment (FDI) and Official Development Assistance (ODA). A significant portion of these outflows comes from the extractive industries (oil, gas, and mining), with trade mis-invoicing identified as the largest contributor to 60%.

In 2023, the UNCTAD report emphasized that tackling IFFs could help close Africa's SDG financing gap by almost 50%. By reducing illicit outflows, African governments could reallocate these funds toward healthcare, education, and infrastructure development. African countries, including Tanzania, are facing significant challenges in raising domestic revenue to finance government budgets due to IFFs. The funds lost through IFFs could otherwise be allocated to essential sectors such as agriculture, health, and education.

At the regional level, organizations like the East African Community (EAC) and the African Tax Administration Forum (ATAF) have been working to address IFFs. In 2023, ATAF launched several initiatives aimed at enhancing tax administration and improving transparency across borders in East Africa. Their report highlighted that IFFs were still a major threat to regional economies, necessitating greater collaboration between countries.

Tanzania Context

Tanzania is losing potential amounts of revenue through IFFs. According to the 2021 GFI report, Tanzania's losses to IFFs around $1.83 billion annually. Companies often under-invoice exports and over-invoice imports to move illicit capital out of the country while avoiding taxes and tariffs. **The Tanzania Extractive Industries Transparency Initiative (TEITI)** has also reported that between 2010 and 2017, the country lost $360 million annually in IFFs, specifically from the mining sector due to under-reporting and transfer pricing manipulation. IFFs limit the government's ability to collect sufficient and equitable revenue from essential sectors, such as the mining sector, which deprives the government of the capacity to provide social services and finance development.

The extractive industries, particularly mining (gold, diamonds, tanzanite), and more recently natural gas are key economic sectors vulnerable to IFFs. Large-scale tax avoidance and evasion by multinational corporations operating in this sector have contributed to substantial financial losses and hindered Tanzania from achieving its Vision 2030 goal which views the extractive industry as a critical sector that can drive economic growth and development. To illustrate this, in a press release dated July 28, 2024, Hon. Anthony P. Mavunde, the Minister of Minerals, informed the media that the Ministry had initially set a target to collect 882.121 billion from the extractive sector for the 2023/2024 fiscal year, as stipulated by the Mining Act of 2010. However, the actual revenue collected amounted to 753.815 billion, falling short by 128.306 billion.

While the extractive industry is a known hotspot for IFFs, other sectors are also vulnerable. For instance, in the telecommunications sector, complex financial transactions and the rapid growth of mobile money services can be exploited for money laundering and tax evasion. Similarly, in the construction sector, the high value and cash-intensive nature of projects makes them susceptible to bribery, procurement fraud, and misinvoicing.

The amount of money lost as indicated above from the global context, Africa context and Tanzania context could otherwise be directed toward essential sectors such as agriculture, healthcare, education, and infrastructure development.

Banks and financial institutions are pivotal in either facilitating or curbing IFFs. Weak compliance mechanisms and insufficient due diligence can allow illicit funds to flow through the economic system undetected. Strengthening anti-money laundering (AML) protocols, enhancing customer due diligence, and reporting suspicious transactions are critical steps that financial institutions can take to combat IFFs.

Tanzania's Financial Intelligence Unit (FIU) plays a central role in overseeing these efforts, working in alignment with the Financial Action Task Force (FATF) recommendations to enhance the country's AML framework.

The Impact of IFFs on the National Budget

Revenue Loss and Budget Deficit

Tanzania's national budget has experienced consistent deficits due to inadequate revenue collection. For instance, *Figure 1* indicates that in the fiscal year 2022/23, the government approved a budget of TZS 41.840 trillion, yet only TZS 41.480 trillion was collected, leading to a TZS 360 billion shortfall. The estimated USD 1.83 billion lost annually through IFFs could have not only covered this deficit but also significantly increased funding for priority sectors, including agriculture.

The trend indicates that due to national budget deficits coupled with IFFs, the government opt to borrow to cover the deficit. As the result, the national debt has significantly increased from 64.52 trillion TZS in 2020/21 to about 82.26 trillion in 2022/23 as indicated in *figure 2* above.

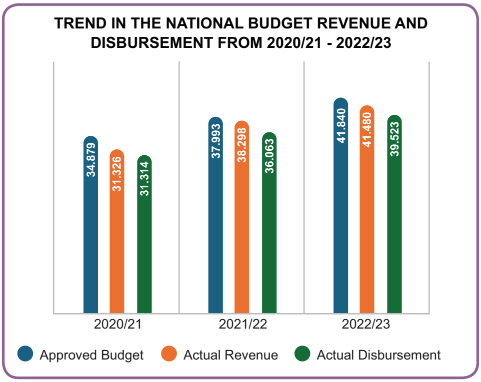


Figure 1: National Budget Allocation

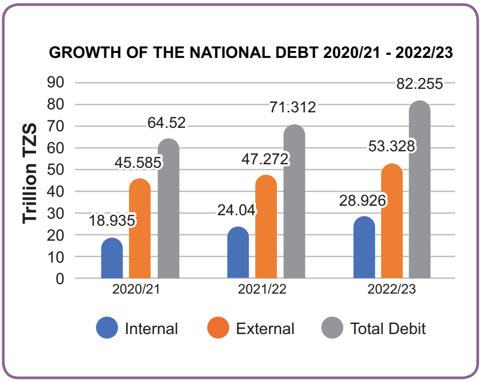


Figure 2: Growth of the National Budget

Agriculture Sector and it's Important to National Development

The agriculture sector plays a pivotal role in driving the nation's economy, as it employs 65.6% of the population and contributes to 26.5% of the GDP, 100% of all food requirements, and 65% of industrial raw materials (MoA, 2024).

Agriculture remains the backbone of the economy, driving growth, creating jobs, and ensuring food security, the sector is characterized by low production and productivity due to depleted soils and total dependence on rainfall, an insufficient supply of seeds especially Certified and Quality Declared Seeds (QDS), inadequate supply of inputs, markets and finances among others (MoA, 2022).

The production system is predominantly small-scale and is limited by simple production tools. These factors, coupled with the impacts of climate change and variability including severe drought, flooding, storms, and epidemics of pests and diseases have increased the risks associated with farming and left rural households highly vulnerable to food insecurity and poverty (ASDP, 2018). According to the recent guidelines issued by the Ministry of Agriculture in April, 2022, The Minister of Agriculture claimed that some crops are produced in ecological zones that do not fit those crops; as a result, there are a lot of crop failures in the country. This necessitates for a change of thinking and embarking into a more profitable approach of agricultural production in the country.

The National Sample Census of Agriculture (NSCA) 2019/2020 indicates that out of about 12 million total households in the country, 7.8million households (65.3%) are involved in agricultural activities. Small-Holder Producers (SHPs) depend heavily on rained agriculture both as a source of income and consumption and therefore are most vulnerable to climate change. These small holder farmers are highly vulnerable to the vagaries of climate change because of their limited capacity to respond or adapt to its impacts, adequate to extension services, Poor resilience is worsening food insecurity, increasing competition for land and water resources and therefore increasing loss of biodiversity and pushing more people into poverty.

Budget Allocation to the Agriculture Sector

Tanzania has committed to allocate at least 10% of the national budget to the agriculture sector and achieve an average annual sectoral growth of 6% through the Malabo declaration, and commercialize the sector and achieve a 10% growth in by 2030 through the agenda 10/30. However, the persistent outflow of funds due to IFFs undermines these commitments as indicated in *figure 3* below.

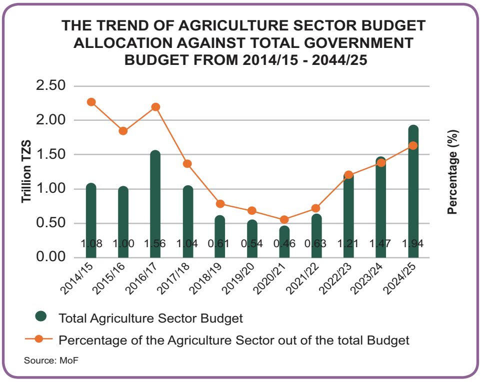


Figure 3: The Trend of Agriculture Sector Budget Allocation

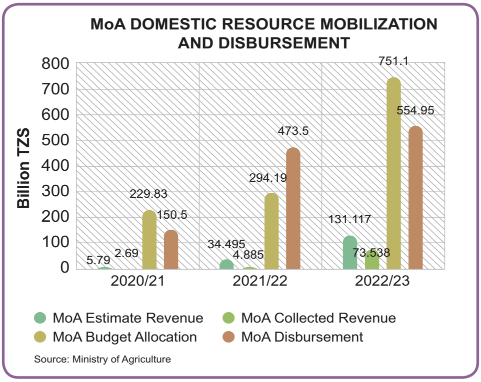


Figure 4: MoA Domestic Resource Mobilization and Disbursement

Over the past four years, there has been a notable increase in the budget allocation for the agriculture sector. However, the proportion of the agriculture budget relative to the total national budget declined from 5.3% in 2016/17 to 1.6% in 2020/21. Fortunately, this share has gradually increased to 3.9% for the fiscal year 2024/25, as illustrated in the *figure 3* above.

Despite these increased allocations, actual revenue collection has fallen short of estimates, and disbursements have been both untimely and insufficient, with the exception of the crop subsector within the Ministry of Agriculture for the year 2021/22, as shown in figure *4* above. This gap highlights ongoing challenges in effectively funding agricultural development initiatives.

Development Budget Allocations, Disbursement, and Expenditure

The trend in development budget allocations for the agriculture sector has shown improvement. However, inadequate and delayed disbursements remain a significant challenge due to budget deficit, hindering the successful implementation of development projects within the sector. This trend is illustrated in *Figure 5* indicated below, which demonstrates that the rate of development budget expenditure has been far less compared to the allocations since 2016/17, with exceptions noted in the livestock subsector for 2020/21 and the crops subsector for 2021/22. In this regard, the money lost due to IFFs could be used to effectively finance the agriculture sector and ensure successful implementation of the development projects within the sector.

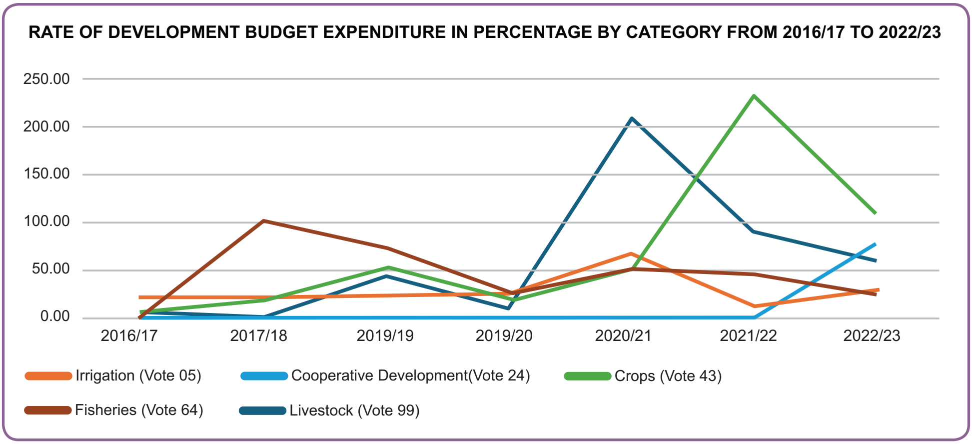
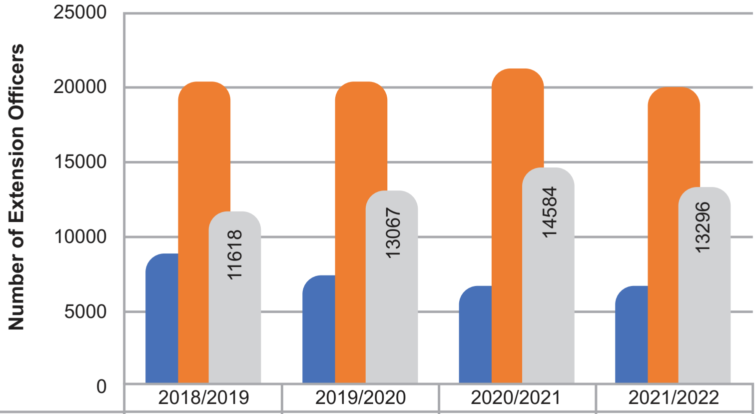


Figure 5: Rate of Development Budget Expenditure in Percentage by Category from 2016/17 to 2022/23

Extension services

Agricultural extension includes the provision of farmers with knowledge, information, experiences and technologies needed to increase and sustain productivity and for improved wellbeing and livelihoods (NRI, 2011). Tanzania extension guideline of 2012 requires to have extension officers in every village to boost productivity of the sector. Data shows there is shortage of the extension officer in Tanzania that contributed to low productivity. Due to the revenue lost through IFFs, the national budget has never attained the required target for recruitment of extension service officers as depicted in the table and *figure 7*:



	2018/2019	2019/2020	2020/2021	2021/2022
Available No Extention Officers	8756	7307	6704	6704
Required No Extention Officers	20374	20374	21288	20000
Deficit No/Gap	11618	13067	14584	13296

Source of Data: MoA Budget Speech

Figure 6: ?

Agriculture Mechanization

Allocation for Tractors and Power tillers

Year	MoA Budget (in Billions TZS)	Allocations for Tractors and Power tillers (Billions TZS)	% allocation (estimates)
2020/21	229.83	1	0.4
2021/22	294.192	0.8	0.3
2022/23	751.1	5.05	0.7

Figure 8: ?

Over the past three years, the agriculture mechanization budget in the Ministry of Agriculture has been lower than 1 percent of the overall budget of the Ministry of Agriculture, despite the dire need to transform the agriculture sector in Tanzania. For instance, as per the above figure, in 2020/2021 and 2022, the budget was less than 1 billion, except for 2023, which rose to 5.05 billion. The low share is a barrier to agro-industrial development and limits the transformation of a large number of smallholder farmers.

The Impact of IFFs on the Agricultural Sector

Inadequate Agriculture Budget Allocation

Despite agriculture being the backbone of Tanzania's economy employing 65.6% of the population and contributing 26.5% to GDP budget allocations remain below the target. Tanzania committed to allocating at least 10% of the national budget to agriculture through the Malabo Declaration, but actual allocations have remained below this benchmark, fluctuating from 5.3% in 2016/17 to 1.6% in 2020/21, and only recently increasing to 3.9% in 2024/25. The money lost through IFFs could have helped meet this target.

Insufficient Development Funding

The shortfall in agricultural funding due to other factors including IFFs has affected key development initiatives, including:

- **Agricultural Mechanization:** Budget allocations for mechanization remain below 1% of the Ministry of Agriculture's budget. In 2022/23, only TZS 5.05 billion was allocated for tractors and power tillers, limiting agricultural productivity.
- **Extension Services:** The shortage of agricultural extension officers due to budget constraints affects productivity and food security.
- **Delayed and Inadequate Disbursements:** Funds allocated to the agriculture sector often arrive late, affecting project implementation and sectoral growth.

Policy Recommendations

To combat IFFs and ensure sustainable agricultural financing, the following measures are recommended:

1. **Strengthen Legal and Regulatory Frameworks**
    - The Ministry of Finance and Planning and the Attorney General's Office should conduct a comprehensive review of tax laws that allow multinational corporations to shift profits offshore. This should be a joint effort by the Attorney General's Office, the Ministry of Finance and Planning, and TRA.

- Amend the Tax Administration Act and the Investment Act to ensure tax incentives are transparent, time-bound, and performance-based.

- Establish a public registry of beneficial owners to reveal the true owners behind shell companies engaging in IFFs.

- Strengthen whistleblower protection laws to encourage insiders to report financial crimes without fear of retaliation.

2. **Enhance Coordination Among Regulatory Agencies**

   - Develop a centralized electronic database where institutions lsuch as the Bank of Tanzania (BoT), Tanzania Revenue Authority (TRA), Financial Intelligence Unit (FIU), and the Ministry of Minerals can share real-time transaction data on tax, customs, and financial flows.

   - BoT, TRA, FIU, and the Ministry of Minerals Form an IFF Task Force composed of representatives from key agencies to conduct joint audits and investigations into high-risk sectors (mining, trade, banking).

3. **Invest in Advanced Tax Monitoring Tools**

   - The TRA should enhance wide-scale digital monitoring by mandating e-invoicing, deploying AI-driven forensic auditing, and establishing a unit for continuous system upgrades. These measures will strengthen tax compliance, prevent illicit financial flows, and safeguard Tanzania's financial integrity

   - Train TRA auditors and tax officers in forensic accounting and digital financial analysis to improve their ability to detect complex tax evasion schemes.

4. **Strengthen International Cooperation**

   - Enhance the Financial Intelligence Unit (FIU) with advanced tools for data analysis and real-time intelligence dissemination. Strengthen the supervisory framework for financial institutions and non-financial sectors to ensure effective AML/CFT compliance.

- Conduct a national risk assessment to identify money laundering and terrorist financing risks. Based on this, amend the legal framework to fully criminalize these activities in line with international standards

- Sign automatic tax information exchange agreements with key partners to monitor offshore financial activities. Improve cooperation with FATF, engage in regional anti-IFF efforts within the East African Community (EAC), and strengthen mutual legal assistance frameworks.

- Actively participate in the OECD's BEPS framework and UN tax discussions to prevent tax avoidance and promote a fair global tax system.

5. **Increase Budget Allocation and Timely Disbursement for Agriculture**

- Allocate the funds recovered from combating IFFs to fully meet the Malabo Declaration's 10% budget commitment for agriculture.

- Ensure timely disbursement of budgeted funds to facilitate the implementation of development projects.

- Create a special IFF recovery fund where money recovered from illicit flows is ring-fenced for agricultural development and smallholder farmers.

- Establish an independent oversight body to monitor the disbursement and impact of agriculture budgets to prevent misallocation or corruption.

- Prioritize investment in climate-smart agriculture and irrigation infrastructure to ensure that recovered funds lead to long-term agricultural resilience.

6. **Support Civil Society Oversight**

- While CSOs in Tanzania have been active in monitoring public financial management and advocating for tax justice, they often face challenges such as limited funding, restrictive regulations, and political pressures. Enhancing support for these organizations is essential for fostering a more transparent financial environment.

- Mandate public disclosure of tax agreements and contracts in key industries (mining, telecoms, banking) to allow civil society groups to monitor compliance.
- Strengthen the capacity of investigative journalists and CSOs by funding training on tracking IFFs and advocating for financial transparency.
- Introduce a citizen's reporting platform where people can anonymously report suspicious financial activities linked to tax evasion and IFFs.

Conclusion

IFFs significantly burden Tanzania's national budget, with severe consequences for the agriculture sector. The estimated USD 1.83 billion lost annually could cover budget deficits and finance crucial agricultural initiatives, leading to increased productivity, job creation, and food security. Urgent policy actions are needed to strengthen financial governance, curb IFFs, and redirect recovered funds towards national development priorities.

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