The Taxcast, January 2022 transcript: 2022 – Hopes and Fears

Naomi: “Hello and welcome to the Taxcast, the Tax Justice Network podcast. We’re all about fixing our economies so they work for all of us. I’m your host, Naomi Fowler. You can find us on most podcast apps. Make sure you never miss an episode - email me on naomi@taxjustice.net, and I’ll put you on the subscriber’s list. So, in this first Taxcast of the year we’re going on a tour around the world to ask what should we expect, hope for in 2022? We’re heading to Africa, Latin America and the United States, but let’s start with Europe and the UK. I’m joined by Taxcast regular John Christensen, hi John, happy new year!”

John: “Yeah, happy new year everyone!”

Naomi: “Ok, we know that shell companies or letter box companies, or anonymous companies, they're abused for money laundering and tax evasion, and all sorts of criminal purposes. Ending anonymous ownership has always been one of the Tax Justice Network's targets. Now the European Union is proposing what they're calling an *un-shell* proposal?”

John: “Yep, the so-called ‘un-shell’ initiative is part of the third round of revisions to the European Union's anti-tax avoidance directive. And in May last year, Brussels announced that it wanted to impose more transparency on shell companies. And it's been through a consultation process, and now has brought forward some proposals which will come into force in 2024, if they're agreed by member states, which they probably will be. The context of course is that shell companies have been a core part of the tax haven secrecy offer for decades. The anonymity is supposed to end, there’s a requirement to publish on public registry the real identity of the true beneficial ownerships and that's already supposed to be coming in force, the problem is that many of the tax havens have been pushing back or delaying this, but that's coming in force.

With the so-called un-shell initiative, the nuts and bolts of the EU proposal are relatively straightforward. A set of indicators will be used to determine whether a given company is, or is not a shell company. And if a company is deemed to be a shell company, then it will have sanctions applied to it, including the possibility of losing tax reliefs. And if payments are being made to persons or entities outside the EU, a withholding tax will be imposed on those payments. Now, the indicators proposed for identifying a shell company come in the form of what they're calling *gateways*. There are three of them and these gateways relate to how the company generates its income, how much of the work being carried out in generating that income is actually performed by another company, and how much of its income and its outgoings take the form of cross border payments? So for example, if the majority of a company's income is derived from transactions linked to another jurisdiction, or if it pays the majority of its earnings to companies situated abroad, then it might be deemed to have crossed that particular threshold of that gateway. So as the old adage goes, if it looks like a duck and sounds like a duck, chances are that actually is a duck!”

Naomi: “Does this go far enough do you think?”

John: “This is a step in the right direction, particularly the proposed directive makes provision for the authorities of one country to order the company based in another country, which will make it harder for fraudsters in, let's say Italy, to hide behind a shell company in let's say Luxembourg. And of course there are caveats. For example, the entire investment management industry is exempted from the current provisions, which strikes me as an unnecessary loophole, likely to benefit rich people. And that will probably require revision in a future directive. And I also think that there needs to be stronger sanctions against companies that are shell companies from applying for any kind of government or state procurement. But overall, Naomi I think this is a welcome move towards consigning shell companies and the tax havens that host them to history."

Naomi: "Ok! Let's talk a bit about Brexit. Starting from this month there's now going to be even more red tape than in the first year that the UK was outside the European Union. And if we look at the City of London, it's been suffering a kind of - predictable really, a flood of outgoing finance companies heading for the EU, it's sort of been an unintended consequence of Brexit and it's ironic really, because we've always said the finance curse, which is too large a finance sector relative to GDP - is damaging and that London's finance sector needed shrinking. A planned strategy rather than a haphazard one for shrinking it might have been better than it happening the way it is, but in 2022, the subject of passporting rights for London-headquartered banks so they can operate in the European Union is due to be settled, or, well, tackled once more, it seems like Brexit talks will never end! Um, you've recommended before, and we talked about this on the Taxcast that the EU *shouldn't* grant passporting rights, because the post-Brexit UK finance sector poses a big threat to the EU because of a deeper tax haven strategy, certainly in the minds anyway, of those who financed Brexit. Um, so what are your expectations in 2022 on this?"

John: "Well, to be honest in the last year, there seems to have been little or even no progress towards negotiating a new arrangement which will allow the city to sell its services within the European single market based on this notion of equivalence. Equivalence refers to the regulatory practices applied after the UK left the single market and therefore lost the passporting rights that applied within the single market. Now Brussels requires that the regulations of third party countries, which refers to countries who are *not* member states of the European Union, those regulations of financial markets must be equivalent in practice to the rules for financial services that are built in to the single market rule book. Now, when you talk to European Union officials and politicians, they are rightly concerned that the UK government will quickly deregulate financial services in the UK in order to use race to the bottom tactics to attract more footloose capital to London. British officials and the City of London people, they argue that it's now over a year since the UK actually left the single market. And there's no evidence that the UK is preparing a bonfire of regulations. Well, I think we need to take that argument with a very large pinch of salt because there's no way that they're going to reveal their deregulatory intentions while still engaged in the negotiations with Brussels over equivalence! The deregulation will come later on! Meanwhile, however, the evidence from the business tracker survey by accounting firm EY show that London financial services firms, out of the 222 financial firms they surveyed, 44% of the companies said that they plan to relocate more work and more staff to financial centres within the European Union. And if you listen to the mood music in Brussels, it seems that attitudes towards the UK have been hardening over the last 12 months. It's been recognised for many years that London was by far and away the largest European financial centre and European Union politicians are anxious they don't continue to rely on a financial centre outside the single market. So they've been saying to banks and to accounting firms that they won't accept brass plate operations as a means of accessing the single market, which means that banks are under more pressure to relocate away from London to places like Amsterdam and Frankfurt and Paris. Now at the level of politics and the 2022 presidential elections in France give Macron every incentive to make life even harder for Johnson and for his Brexit negotiator, Liz Truss.

As far as the finance curse issue is concerned, yes, I've argued that a smaller financial services sector would be better for the UK economy as a whole. And that argument still applies. But unfortunately, as a result of tax concessions offered by the UK minister of finance in 2021 to attract investment to the UK economy, experts are anticipating a surge of capital inflow during 2022, especially coming from the United States. The UK government will be presenting this as good news, but the vast majority of this capital inflow will be used to acquire existing companies, leading to reduced market competition, probably job cuts and loss of innovation. So from a finance curse point of view this year will bring further bad news for the UK economy."

Naomi: "Hmm. Right. Okay. Let's talk about some predictions for 2022. I think it's going to be a big year for cryptocurrencies, but not in a good way!"

John: "Yeah, well actually I was gonna begin with cryptocurrencies!"

Naomi: [laughs]

John: "So yeah, cryptocurrencies, I think in 2022 we're going to see increased volatility, almost all cryptocurrencies, and that volatility will be accompanied by more countries cracking down on the huge energy demands of the crypto currency mining. And that's partly because we're in the middle of a gigantic global energy crisis."

Naomi: "Right."

John: "As far as far as other predictions is concerned many countries have been trying to stimulate recovery from the COVID pandemic by offering short term tax breaks to business investors. Now this is something of sugar rush, harmful in the long run as the deep pocketed investors, private equity, for example, and large multinational companies use this moment to acquire smaller competitors. So I'm expecting to see many sectors of the global economy become even more concentrated, and therefore less competitive and innovative. Global security will continue to deteriorate, liberal democracy will remain on the ropes, not a great year I'm afraid."

Naomi: "Thanks for that cheery round-up John! Taxcast regular John Christensen. It's not all bad news, don't worry, this isn't a depress-athon! Later we'll catch up with the US, another part of the world that has a disproportionate influence globally. Before that, let's head to Latin America, I'm joined now by economist and former Ecuadorian Presidential candidate Andres Arauz for his take on 2022."

Andres: “In general, I think we can be optimistic about the future of Latin America in the year 2022 and forward. There are progressive governments that have won elections in Peru and Chile especially, and the future elections in Brazil and Colombia are definitely going to set the tone for Latin America this year. I am very excited that in Chile particularly it's a progressive movement with lots of new ideas, with very, very talented people that are willing to take on transformational change. I have a lot of hope because it comes together with a constituent assembly and this is actually a very transformational opportunity in Latin America because a constituent assembly means that the people voted to write a new constitution. And this allows for major reforms in a very short time span. A constitution basically changes the rules of the game, and it's going to happen like that in Chile with regards to taxation, with regards to investor state dispute settlement, with regards to sovereignty with some of the trade agreements that are unfair for most of the people with major changes to social progress, such as those in the area of health, education and pensions. So, the constituent assembly now has a president that will accompany it and that's very important for this political process and for the region in general. We can't forget that in Chile, the constitution that is in place is actually the Pinochet constitution, that of the dictatorship. So that will be a major change in that country.”

Naomi: “Yes, very good to see, and the new constitution should be an example to the world of the importance of guaranteeing and linking human rights with fair tax.”

Andres: “Yeah, some interesting caveats in the region, we're gonna see unfortunately a foreseeable crisis in Argentina, the International Monetary Fund, the private creditors that have put Argentina on the spot in a very difficult position since the Macri administration. But now with the time to collect on behalf of the IMF is putting Argentina in a very, very difficult path to sustain the populations' human rights, social rights, economic rights. So, we will see a show down between Argentina and the IMF and implications it has for the whole region are huge, and I would dare say for the world as well, so I really hope that the IMF, and US leadership within the IMF, is open minded, it shows some flexibility so that the Argentinian government can have a restructuring of the IMF loan that the prior administration agreed to. And that we can have a policy that is coherent with the need to recover people's rights in the context of the post pandemic and the paradigm changes that occurred in the midst of the pandemic. So hopefully we will see some transformational change there, and I think we really have to push to get the IMF to agree to give flexibility and a decent restructuring in favour of the Argentinian people.”

Naomi: “Interestingly, there’s a new legal analysis where Karina Patricio Ferreira Lima of the University of Leeds School of Law questions the leal validity of the IMF’s Stand-By Arrangement with Argentina. She claims it violates the IMF’s own articles of agreement. I’ll link to that paper in the show notes. Moving to El Salvador, that country hit the headlines in 2021 when its young President Nayib Bukele adopted bitcoin as its legal tender. They did that through the Chivo wallet, a government-run app. Andres Arauz again:”

Andres: “We're gonna see unfortunately El Salvador most likely heading into a full blown debt crisis. And probably will show that the cryptocurrency experiment will not be enough, even though it is innovative in some directions, it also reproduces the same logic that favours transnational capital, that favours foreign investors over the local population, but interestingly has been a contestant to the power of banks in El Salvador, especially foreign owned banks - recall that El Salvador privatised it's basically entire banking system to foreign banks and they have shown that they have not been able to include financially most of its population so the experiment with the Chivo wallet there is a very, very interesting case that we should not be quick to dismiss and we should study a lot more to understand what really is going on, especially in the interest of the Salvadorian people.”

Naomi: “You can see why Salvadorians would want to liberate themselves from the US dollar. And an estimated 70% of El Salvadorians don’t have a bank account so it’s a very cash-based society. But, take-up of bitcoin’s been slow. So, Brazil! And Colombia. Big election year this year!”

Andres: “Yeah, I think the issues in Brazil are going to be very, very interesting. It's gonna be a very heated election. Unfortunately Bolsonaro is preparing a showdown with international intervention and, you know, foreign interference into the Brazilian election, he's called onto the most conservative forces in the world to try to avoid a Lula victory, which would bring Brazil back to the path, not only of dignity for its people, but also for major social reforms. And something that's very important for us, which is Latin American integration. And that means basically a brotherhood of Latin American countries pushing together in one direction - that of integration among the peoples in the education sphere, in the economics sphere, in the productive sphere, the financial sphere. And this will be very, very important for perhaps the next couple of decades. Now we also see that, you know, basically all of the accusations that were against Lula and the progressive workers party there have now been dismissed by the courts. And in fact, what has been shown is that it was basically a lot of lawfare with interference from foreign countries trying to direct judicial officials into incriminating the former president Lula, but now he has been declared innocent on *all* of the charges that he was accused in the last few years. So this will definitely be an opportunity for vindication and to teach a lesson to those who think that weaponising the justice system is the way to go.

And then in Colombia, in Colombia we've seen protests over tax justice issues and in Ecuador we started to see something similar as well. I think that in Colombia there will be a major change, even if the progressive candidate Gustavo Petro does not win, there will be substantial change in Colombia because Colombians have had it, you know. After the peace process, the left and the progressive moments have had more opportunity to show their proposals, present a platform and an agenda without the stigma of being associated to the guerillas or to the revolutionary armed forces of Colombia. So I think there's a huge opportunity there in Colombia. If there is a change there, it will not be easy because of the way these countries have been ran for almost 200 years with political, economical, elites basically running the show behind the scenes and for any progressive alternative to come about is really, really worth recognising, ‘cause it is too hard, and especially in Colombia where you've had, you know, hundreds of people being killed only last year, basically these people are, uh, social leaders, people from the countryside campesino leaders, worker union leaders. So, we really have to become watchdogs of the issue in Colombia.

Finally, I think Mexico and Central America are also going to be key actors in the region in Latin America. We've seen a progressive Mexican government in terms of tax justice that wants to apply most of the principles that perhaps, you know, are not revolutionary, but are a great path forward in terms of demanding that especially foreign and international corporations comply with local law, including taxation obligations and respecting workers rights. So in general, it's going to be a, a packed year for Latin America with lots of hope, lots of hope, but also with a few risks there, especially the oncoming March showdown between Argentina and the IMF."

Naomi: "Thank you. Andres Arauz, economist and former Ecuadorian presidential candidate. We're going to stay in the Americas now and speak with Ryan Gurule of the FACT Coalition about the United States in 2022, going to be an interesting year there too. Let's start with President Biden's investment in the IRS, the tax authorities, it's so close to our hearts in the Tax Justice Network, because the United States is one of the only nations in the world so far to start to reverse the decades of cuts we've seen to tax collection and enforcement. And I think the US had got down to a third less auditors to do the job than in 2010, and it's losing billions in tax revenue. If you look at the British experience, you know, we've seen resources for tax collection virtually halved in a decade, despite the fact that each tax collector can bring in up to 30 times their salary in terms of tax revenue, and no other tax authority in Europe has cut its staff more than the UK, except for Greece. So the US's investment commitments sound really amazing, and I know the Build Back Better Act is ina bit of trouble but if they can pass it would include funding to support criminal investigations, cryptocurrency monitoring, and compliance and enforcement personnel."

Ryan: "Yeah the Build Back Better is a little bit on the fritz right now, so we're not exactly sure how that picture's gonna shape out. And I think that's actually the biggest question we have around all of this is kind of what it looks like to help move forward Biden's agenda as we head into a midterm election year, which is going to be a question. Obviously, the IRS funding is such an essential component to tax justice in general. The current build back better provisions contemplate something around $44 billion in investment over the next 10 years in the IRS for enforcement, but that actually is just one part of the picture. In fact, the bill actually contemplates closer to $80 billion in funding for the IRS over the next 10 years. And that's broken down into a variety of different areas - around 44 to 45 billion would be for enforcement, but very importantly, close to 2 billion would be for taxpayer services, 27 billion for operation support, closer to 5 billion for business systems modernisation. All these things are essential to getting the IRS running in the 21st century, even though we're already a quarter of the way into this century, it's time to really start investing in the IRS and tax authorities all over the globe. As you mentioned, right now we have a system whereby our tax authorities have been depleted. They're running on technologies and with staffs that just cannot keep up with sophisticated tax planning. And you know, the result is essentially here in the US alone, probably a $1 trillion tax gap or more is what the estimates are. When you have dramatic cuts for institutions like tax enforcement authorities, the implications have dramatic class and race problems as well. What you see is that tax authorities sort of abandon going after the most complicated tax planning strategies, because they don't have their resources to do it. And that overwhelmingly and disproportionately, you know, leads to auditing of the low hanging fruit, so to speak. So it's really important to help fund the IRS to relieve some of the auditing pressure on those groups in particular, and to redirect it towards where there's a lot bigger return possible for the US government in auditing wealthier taxpayers."

Naomi: "Yeah, definitely. I mean, I know from having spoken to tax collection specialists in the UK that it takes a long time to train people in more complicated multinational tax and high net worth individual tax compliance so, even with this investment, it will still be several years that the US could possibly see a return from the kind of deteriorated audit rates and service that you know, they're not gonna get back to historical standards for a long time. I wanted to ask you about anonymous shell companies in the United States, cos I mean we know from the Tax Justice Network's work on the Financial Secrecy Index, the US is one of the world's top corruption enablers, one of the worst financial secrecy offenders and, you know, famously, you have to give more information to get a library card in some parts of the States than to create a company. And it's really good to see in the last year that the us has been finally getting a lot more of a spotlight on this from journalists, stories like the 'cowboy cocktail' in Wyoming. So I was just wondering if you could tell me a bit about the progress of the Corporate Transparency Act, which I believe was enacted in January, 2021, but it's not yet being implemented, is that right?"

Ryan: "Yeah, that's exactly right and broadly speaking, the Corporate Transparency Act in the United States is a landmark bill that is the first time that beneficial ownership information will be required for corporations, limited liability companies and quote, similar entities that are created by filing with the State office in the US. They're going to have to, for the first time, disclose their beneficial ownership in a central registry that's to be maintained by the Financial Crimes Enforcement Network within the US Department of Treasury in the US. You know, in the US, we don't have a federal corporate law, so to speak. Our corporations, our entities are all governed at the state level in the United States, so different states unfortunately compete around different ways to attract business and investment and one of those has been really a rush to compete for financial secrecy, which is an unfortunate trend, both in the US itself, but also globally. And I think the Corporate Transparency Act reflects a global movement to help sort of shed a spotlight on financial secrecy and in the US in particular, I think it reflects for the first time kind of some self-reflection that we are helping to contribute to financial secrecy, we are in many ways a tax haven, in many ways the *biggest* tax haven, and this bill is a step in the right direction to recognise that addressing that status begins with shedding a spotlight on our own governance practices in the US and how that contributes to financial secrecy and tax evasion and corruption worldwide. The Corporate Transparency Act in some ways it's completely revolutionary in the United States, but in other ways, it doesn't go all the way as far as some of our international counterparts have gone. The way the law is currently written, the registry itself will not be made public, but it will be available to different law enforcement agencies and tax agencies, based on processes set up within the statute that will then be implemented by regulation as well. So to your question - will this eliminate anonymous shell companies as is claimed? In some ways, yes. Importantly, it'll address some very broad swathes of entities, but what the scope of that bill is is currently being fleshed out. And that's exactly what you're asking as well, so in the US the bill itself was enacted in January, 2021, but it requires regulations to implement it so that process is ongoing right now, the regulation writing process. And quite frankly, we think that businesses and banks and other financial institutions are really wantng to benefit from more transparent markets as well. And that's been shown by their support of these measures."

Naomi: "Yeah definitely, thanks and I know from the many, many years what an achievement it's been to get as far as this with this Corporate Transparency Act 'cos I've seen for so many years trying to get this through. Just very quickly, do we have some kind of sense of when it will be actually implement once these processes have, um, concluded?"

Ryan: "Our hope would be that this would go into effect, you know, on January 1st of next year."

Naomi: "Right. So 2023, we hope! You know in Biden's first year in office, the Secretary of the Treasury Janet Yellen made really exciting for us, statements about national tax reform. They were talking about 21 and, and 28% minimum global corporate tax rates. As you know, we ended up with 15%. Lots of countries weren't at the table, some of the ones who were, like Nigeria, rejected the deal. Do you get any sense of that rate being raised or any other changes that might happen or pressure that might be brought to bear that Biden might be able to act on, push through Janet Yellen?!"

Ryan: "Yeah, it's a great question, Naomi. You know, I think I am sort of a jaded optimist, I guess, you know, trying to see the positive in the OECD process. There are a lot of flaws, but I think it's important, at least *I* think it's important to remember that for whatever the OECD agreement lacks, which is a *lot*, it is an incredibly transformative agreement. It does change over a hundred years of tax international tax policy, and not the least of which by recognising that the current international minimum rate is 0%. It's not as high as you and I would've liked to see, and it's not as high as a lot of developing countries would've liked to see, and there's problems that have led to that. But 15% is higher than 0%. And I am a big believer in process leads to results. They don't incorporate the voice of developing nations, and it's really difficult to imagine that a process that is exclusive could result in inclusive results, right?! So, that is one really valid criticism and I think one that we saw play out in the results of the negotiations themselves. And I think there are certainly ways to reform how the process is done and what we would like to see is real substantive conversations around improving this deal, starting tomorrow."

Naomi: "Ok. Um, I'm gonna just ask you about the midterm elections, because if Biden loses control of both houses is, I mean, doesn't that kind of just put a brick wall between some of these aspirations?"

Ryan: "Well, we, we don't know what's gonna happen yet, but certainly there's the distinct possibility that at least one of the houses will flip, if not both of the houses. Look, that happens all the time in the US, right? The one thing that's almost always certain is that you're gonna lose your mid-term elections when you're a first term president. That's one of the few political almost certainties in the US, but there are a lot of things that can be done that, especially in the anti-corruption and especially in the tax justice world, without having both chambers."

Naomi: "Well, that's true, because one thing I've noticed is that it's increasingly become a bipartisan issue."

Ryan: "Absolutely."

Naomi: "The issues of transparency -"

Ryan: "Yeah."

Naomi: "- and that has been down to such good work going on in the US in that area to convince all sides of the political spectrum that this is a national security threat and that it's also an economic threat and all the rest of it."

Ryan: "Exactly - corruption in particular, anti-corruption in the US in particular is a bipartisan issue currently. And we hope it stays that way and we hope that there is a continued push forward on, on those issues. No matter what happens in 2022 midterms."

Naomi: "That was Ryan Gurule of the FACT Coalition in the United States. Now we're off to Africa to speak with Tax Justice Network researchers and activists – Rachel Etter-Phoya in Malawi and Idriss Linge of Cameroon – he also hosts and produces the Tax Justice Network's fantastic French language podcast for French-speaking Africa - Impots et Justice Sociale. I also have with me researcher Eva Danzi. We're going to start with Idriss - Idriss, what should we be expecting from the year 2022? And how is it looking for the African region and global economies as a whole?"

Idriss: "I think climate finance and climate change issue are going to be at the top of the topic that will be discussed for Africans. Africa, especially Sub Saharan Africa needs resources for green energy, because it needs to invest in improving current access and changing infrastructures. It also needs to invest in the 600 million people who *still* don't even have access to conventional energy. So African government have no choice but to invest in mitigating the risk for climate change, which will really squeeze the fiscal policies of African economies even more, as well as finding money to repay the debts, including the one that have been used to finance green energy infrastructure, they need to address hunger, diseases and other economic and social consequences of climate change. Saving Africa is also saving the world's capacity to move towards clean energy because according to scientists the rainforest is capturing every year the equivalent of what is being produced by all the cars in the world, so we need to protect that."

Naomi: "Yes, you're thinking of the preservation of the equatorial rainforests - or what's left of them – the Congo Basin is home to the world's second largest rain forest."

Idriss: “Yeah, then unfortunately the capital markets access for African is tough because of the risk, the perception of the risk. And even on the domestic side, they can't raise enough revenue because of profit shifting and consequently tax loss. According to the IMF report 750 million dollars per year were lost in the mining sector. And according to the Tax Network estimates we think that $17.5 billion as a whole were lost as tax. So it's a major problem. So, tax justice for allocation of resources is an absolutely key struggle. Africa still faces challenges from inflation and social problems like universal healthcare coverage which is lacking, malnutrition and poor education, all of them which are sources of conflict. The problem continues that African governments need to strengthen their tax system, but they are choosing to increase tax on consumption, unfortunately.

Naomi: “Yeah, right. So sales taxes being the kind of default, rather than things like wealth taxes and land value taxes and things like that. I wanna ask you Idriss about the 15% global minimum corporate tax rate and the nations that are gonna take quite a big hit from that, like Nigeria, which rejected it, partly because it's so much lower than their own tax rate. Now the OECD seems to think that they can still top it up themselves unilaterally, but that's not so easy for lower income countries to do, is it?”

Idriss: “No, it isn't, absolutely. It is not that easy for low income countries to benefit from that agreement. We don't really think this will benefit Africans and moreover, the problem is that the agreement has excluded sectors like the mining sector and the financial sector, which are really, really generating cash in Africa without paying too much taxes. I hope, based on the way the COVID pandemic was handled internationally, African governments will open their eyes and stop providing fiscal gifts to multinational companies, which mostly are based on G20 countries which don't need that kind of gift so they should be thinking about how they are reforming their fiscal policies, so that the multinational should be paying the fair amount of tax that is needed because 17.5 billion tax lost because of multinational and wealthy individual, it's a lot for African countries, any penny is a lot for African countries where there is a need for everything.”

Naomi: “Thank you Idriss. Rachel, let's talk about cryptocurrencies because this is something that we think is going to be increasingly important for people to be keeping an eye on.”

Rachel: “Yeah, definitely. This is something we want to be keeping an eye on this year, and to learn more about ourselves, both the pros and cons, the risk and opportunities, right? So at the moment, according to Chain Analysis, Africa accounts for 2% of the global value of crypto assets or cryptocurrencies, and the most significant channels in terms of value with Africa is between East Asia followed closely by Europe and North America. There are some indications that this may be starting to replace those traditional channels of remittances because it's cheaper to move cryptocurrencies and to challenge the cartel of price fixers in these traditional money transfer companies. But it's hard to tell because of course, cryptocurrencies are opaque in nature. There's been different approaches to how to how to regulate or how to respond to cryptocurrencies. Some African countries have banned Central Banks from processing any transactions relating to crypto assets, like in Africa's largest economy in Nigeria, which happened early in 2021. Um, the Nigerian government had various motivations for this. They were concerned with money laundering, cybercrime, and concerned about the preference perhaps that if cryptocurrencies grew over the Naira, the Fiat currency, they'd face challenges in actually being able to control money in the economy, through the monetary policy.”

Naomi: “You have an interesting example of how cryptocurrency was mobilised by activists when the Nigerian government cracked down on groups involved in the huge demonstrations against the brutal Special Anti-Robbery Squad in the Nigerian police force or SARS.”

Rachel: “Yeah with the demonstrations to end SARS the now disbanded special anti robbery squad, which was a police unit with a long history of brutality, torture and extra judicial killings, the organisations that were involved in leading these demonstrations..some of them had their bank accounts closed, and they ended up turning to like crypto assets and cryptocurrencies to raise money, and to receive donations because local payment options weren't available. What we've also seen last year in Africa is, and in Nigeria, their policy to ban cryptocurrencies really hasn't been effective, so they've introduced a digital currency that they call the eNaira. Of course, this isn't the same as a cryptocurrency - it's controlled, it's centralised, it's linked to the national currency, to the Naira, so it's not really an investment or financial asset in the way that cryptocurrency would be, but it's an interesting move.

They have said that the aim is to be more financially inclusive, but if you've got require someone to have a national ID, um, or you have to have an access to electricity and wifi to be engaged in using the eNaira. I'm not sure to what extent this is really bringing people along, or if it actually could cut people out..when it's a cash based economy, but there are some positives, I think there seems to be some positive reception that this may be used for remittances, um, which is a huge part of, um, some of the financial flows for Nigeria and the Nigerian economy. And if we look further south to South Africa, it's taken a completely different approach to crypto assets. Last year, they announced that instead of banning, they want to regulate. And so this year we're looking to South Africa to see how they are planning to formalise a relationship between banks and crypto providers. And they're also talking about their digital currency, they're creating their own one. So we are keeping an eye on this across the continent and beyond and what it means for also financial secrecy and transparency.”

Naomi: “Yeah, what's really interesting to me actually, is the development there with e-currencies or digital currencies that central banks are starting to introduce themselves. That's definitely set to multiply in 2022. And this seems to be part of the wider move away that we're seeing around the world from cash, which really is a risk for lower income groups who often don't have bank accounts, an estimated 38 million Nigerians don't have bank accounts. Um, but it's a tempting way as well for governments to kind of modernise and regulate, and presumably tax and protect consumers if it all goes wrong, unlike with cryptocurrencies, as things currently stand. That's preferable, I guess, to just allowing cryptocurrencies to kind of bypass the regulatory system, not to mention its volatility.

These digital currencies being created by central banks, they're using blockchain as well, but they're really quite different to cryptocurrencies. I mean, I can see why some activists believe that e-currencies and even crypto, if it wasn't so volatile *could* help people circumvent things like the really overpriced remittance cartels, and help nations like El Salvador try to escape the US dollar. There's so many questions to ask ourselves, but I think if digital currencies *were* set up to be accessible and fair and transparent, *could* they provide benefits for ordinary people versus volatile crypto currencies? Or just are they just gonna allow the usual players to dominate and capitalise, those are the questions.

So, anyway, by the end of 2021, we saw 14 digital currencies being piloted, 16 in development and 40 are in research phase. With cryptocurrencies institutional adoption, to some extent and regulation of cryptocurrencies seems inevitable, but the whole point with crypto was for it to be *de*centralised and not be monopoly dominated, but that seems to be the logical direction of travel. Definitely needs watching, especially as anonymous shell companies are being cracked down on. Obviously we're really suspicious of tax havens and secrecy jurisdictions jumping on that, and that's really unlikely to be about helping poor people! I want to give Eva Danzi the last word."

Eva: "Sure. Really it should be very clear by now that we are in a need for progressive fiscal reforms, and not the opposite. There are in fact, fair ways to raise revenue. In the Kenyan context, a good example was the introduction of the Kenyan financial transaction tax in 2018, which consists of a 0.05% percent excise duty on money transfers by banks and other financial service providers. The threshold that triggers the tax is high - it corresponds to approximately 5,000 US dollars. And this means that this kind of tax won't really affect the average Kenyan. So, the hopes for 2022 is that governments decide to implement these kind of reforms."

Naomi: "Yes indeed. And one thing everyone who's joined me for this Taxcast special edition on 2022 can all agree on - can we *please* protect and treasure and invest properly in our tax collectors! My thanks to John Christensen, Andres Arauz, Ryan Gurule, Idriss Linge, Rachel Etter-Phoya and Eva Danzi. Thanks to you for listening, and we'll be back with you next month."