ACET African Center for Economic Transformation

PACT Pan-African Coalition for Transformation

Moving Beyond Aid—Revenue Mobilization G20 Compact with Africa

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● SUMMARY OF DISCUSSIONS

Working and learning together. A mechanism for policy implementation.

Working in partnership with

G20 COMPACT WITH AFRICA

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Introduction

Stepping up domestic revenue mobilization (DRM) could help Compact with Africa (CWA) countries overcome aid dependence, ease financing constraints, and enhance growth prospects—all key elements to achieve prosperity without jeopardizing debt sustainability. The Initiative aims to attract private investment to CWA countries by ensuring macroeconomic stability and supporting the business environment. Investment-friendly tax systems could help maintain fiscal discipline, while providing adequate financing for governments' development needs.

Senior government officials from the Ministries of Finance of CWA countries convened in a conference organized by the Government of Ghana in conjunction with the International Monetary Fund (IMF) and the African Center for Economic Transformation (ACET) to learn and share experiences on how to address the current challenges of domestic revenue mobilization. CWA countries represented were Benin, Côte d'Ivoire, Egypt, Ethiopia, Ghana (host), Guinea, Rwanda, Senegal, Togo and Tunisia. Representatives from the World Bank, the IMF, Germany and a host of development partners supporting the DRM efforts in CWA countries, as well as key civil society organisations on the continent and the private sector were also in attendance.

The conference focused on domestic resource mobilization (DRM), a key element of the first component of the CWA program, namely macroeconomic management. The discussion covered a number of key issues, including the institutional and political constraints in revenue mobilization, improving tax compliance, and alleviating base erosion and profit shifting by multinational companies. It also focused on common DRM challenges and proposed short- and medium-term growth friendly, revenue enhancing solutions. The conference essentially provided a platform for knowledge sharing and peer-to-peer learning for all participants.

Highlights of the conference

The conference was opened by the Honorable Minister of Finance for Ghana, Mr. Ken Ofori-Atta, with His Excellency the Vice President of Ghana, Dr. Mahamudu Bawumia giving the keynote address. The President and Founder of the African Center for Economic Transformation (ACET) Dr. K.Y. Amoako, and His Excellency Christoph Retzlaff, the German Ambassador to Ghana both gave some remarks.

The event was organized around six sessions, each opened by a lead presentation on a headline theme. This was followed by exhaustive panel and open discussions. The following were the headline themes:

- Overcoming challenges in domestic revenue mobilization;
- Integrating DRM into the Medium-Term Revenue Strategy: Revenue Targets and Growth-Friendly Tax Policies;
- Strengthening Tax Compliance: Challenges and Opportunities;
- Leveraging International Tax Cooperation to Tackle Illicit Financial Flows;
- Addressing the Implications of Base Erosion, Profit Shifting and International Tax Competition; and
- Key Takeaways: Medium-Term Revenue Strategy and DRM—Short-Term and Medium-Term Policies.

The final session of the event had a panel made up of development partners and CSOs discussing the topic: Broadening Public Support for the DRM and Developing Capacity; and Dr. K. Y. Amoako provided an overview of a CWA work program.

The highlights from the conference can be categorized into two broad areas: (a) the challenges in revenue mobilization and credibility of policy interventions; and (b) addressing the challenges in domestic revenue mobilization and broadening public support for the DRM. The following summarizes the discussions:

Challenges in revenue mobilization and credibility of policy interventions

Five main areas were identified from the discussions: (a) erosion of domestic tax bases, (b) efficiency of revenue administration, (c) governance issues and social contract; (d) political commitment to reforms and implementation; and (e) challenges in tackling illicit financial flows.

1. ***On erosion of domestic tax bases***, the following issues were raised*:* i) large informal sector and the preponderance of the "hard to tax" sectors; ii) complexity and the lack of coherence in legal taxation frameworks leading to shortcomings in their implementation; iii) base erosion and profit shifting by multinational companies – especially in the mining sector and more recently by telecommunications and construction firms; iv) tax exemptions that invariably erode the tax base; and v) weak consideration of the gender dimension in tax policy formulation and administration.

2. ***On efficiency of revenue administration***, the key challenges were: i) cumbersome filing systems with complex tax return forms; ii) weak incorporation of tax payer segmentation and poor infrastructure and institutional capacity to serve all categories of tax payers; iii) weak capacity of tax agencies to tax appropriately has led to low tax compliance and inability to address non-compliance; iv) governance issues, including data and capacity constraints, together with major challenges in harnessing technology to modernize and improve efficiency in tax administration, as well as tax policy formulation and analysis, and the dearth of tax experts with understanding of taxation in the extractives industry.

3. ***Low social contract between taxpayers, policy makers and tax administrators****.* There is an urgent need to build a strong social contract between taxpayers, policy makers and tax administrators since it affects people's sense of equity and fairness and this feeds into their attitude towards payment of taxes.

4. ***Political interference in tax policy and administration*** and weak political commitment to implementation of reforms. The quality of politics invariably affects enforcement, undermines the ability of the revenue administrators to implement the law as intended, undermines the power of prosecution of tax defaulters and the capacity for revenue administration, and can greatly compromise enforcement morale.

5. ***Major challenges in tackling illicit financial flows (IFFs)*** include: i) poor resource governance models – the interface between politics and business; ii) weak tax administrations coupled with multinational tax avoidance schemes – transfer pricing, thin capitalization, tax holidays/incentives etc.; iii) tax havens beyond the influence of African governments; iv) inadequate collaboration between African countries to curb the situation as there is little follow through on actions agreed at major forums; and v) wholesale adoption of international conventions and strategies to tackling IFFs without tailoring them to suit unique country situations.

Addressing the challenges in domestic revenue mobilization

Attention focused on the following eight areas: (a) broadening the tax base; (b) strengthening revenue administrations to improve tax compliance; (c) building a strong social contract between citizens and the state; (d) shoring up political commitment to DRM; (e) integrating DRM into the Medium-Term Revenue Strategy; (f) effective cooperation at the international level to tackle illicit financial flows; (g) developing growth-friendly tax policies; and (h) broadening support for the DRM agenda.

1. ***Broadening the tax base***. This includes: i) rolling out a national identification system and a national digital address system to identify all tax payers; ii) introducing tax amnesty laws to increase voluntary compliance and facilitate gathering of information on taxpayers; iii) digitizing land registry and titles to improve property taxation; and iv) prioritizing the gender dimension of DRM. In addition to the above, to address the implications of Base Erosion and Profit Shifting (BEPs) and International Tax Competition, the following were suggested:

   a) Leverage support from international community. Countries can: i) learn from advanced economies like the G20/OECD BEPS and Inclusive Framework and recent reforms in e.g. the U.S; and ii) leverage technical assistance from key multilateral financial institutions (MFIs) in the area of tax treaties, transfer pricing and capital gains on offshore indirect transfers.

   b) Optimize gains from tax treaties by limiting the signing of new ones, due to the significant revenue risk, and unclear impact of potential foreign investment in past treaties. Countries should rather focus on i) formulating a detailed policy integrating international norms and standards to guide the signing of new treaties and renegotiation of old ones; and ii) improving existing treaties by ensuring that they protect against treaty shopping; and reflect properly the country's interest (e.g. protect 'source' taxing rights).

   c) On transfer pricing, given that even advanced economies are still grappling with this issue, countries should focus on: (i) building the capacity of tax administrators and recruiting experts well-versed in transfer pricing in specific commodities; (ii) simplifying tax rule; and iii) introducing minimum tax systems as a safeguard.

   d) On international tax competition, attention should focus on: i) coordination at the regional level through RECs like CEMAC, EAC and WAEMU. This will require tailored improvement of anti-avoidance rules and massive investment in administration and enforcement; ii) mitigating mutually damaging tax competition by rationalizing decision making on tax incentives; and iii) contributing to global debate about new global norms by making the voice of Africa heard in these dialogues.

2. ***Strengthening revenue administrations to improve tax compliance***. In addition to: i) strengthening the nexus between policy and administration; ii) building strong policy and legislation; and iii) investing in well-resourced tax administration, strengthening tax compliance was identified as one of the key building blocks of DRM strategies.

   The recommendations on tax compliance include: i) simplify and clearly articulate tax laws since ambiguities in the law gives room for tax administrators to be corrupt and compromise on compliance. This will include simplifying tax return forms and making e-filing options available to all taxpayers; ii) strengthen taxpayer segmentation and develop institutional capacity to serve all categories of taxpayers; iii) develop and implement an education and communications strategy to improve voluntary compliance – this should take into consideration cultural and language issues. For taxpayers to comply, they must understand their obligations and rights; iv) introduce disclosure agreements such as tax amnesty laws to facilitate voluntary disclosure of tax information; v) aggressively enforce sanctions for breaching tax legislation and non-compliance; v) focus on revenue administration and provision of public amenities and not just revenue targeting; vi) increase collaboration between experts in revenue authorities and regulators of the extractives sector to optimize revenues from the sector;

vii) provide incentives for citizens to embark on non-cash transactions while broadening financial inclusion; viii) properly tool and empower revenue authorities to prosecute non-compliant taxpayers. ix) Leverage international arrangements and support to ensure compliance of MNCs e.g. OECD's BEPS project, etc.; and x) focus on the low hanging fruit by renegotiating the tax component of extractive industries and examining the concept of beneficiary ownership cooperation to increase revenue and boost compliance.

4. ***Building a strong social contract between citizens and the state***. The emphasis was placed on: i) having revenue authorities engage the citizenry more on tax policies, and how tax revenues mobilized manifest in their lives. The tone should be set from the top and the language should engender nation building; ii) political leadership should set the tone by publicly filing their taxes; and iii) earmark portions of taxes for development e.g. a portion of property tax could be earmarked for development in the region or district it was collected.

5. ***Shoring up political commitment for DRM***. This should include the following: i) ensure fair and transparent enforcement of tax laws and sanctions; ii) introduce and adhere to performance contracts with Revenue Authority heads to incentivize them to be innovative with tax mobilization; iii) at the international level, countries should avoid a race to the bottom with tax incentives. AU urgently needs working level platforms that discuss and facilitate peer learning on practical tax issues as opposed to technical discussions that have little link to practical realities; iv) foster good and ethical leadership by ensuring all senior government officials declare their taxes. Political leadership needs to be tax compliant to engender compliance from ordinary citizens.

5. ***Integrating DRM into the Medium-Term Revenue Strategy (MTRS)***. Participants acknowledged that integrating DRM into the design and implementation of MTRS as a framework for tax system reform will boost revenues and increase the likelihood of success in achieving the SDGs. To ensure this, the MTRS should be (a) consistent with the Medium Term Expenditure Framework (MTEF) and the medium term development plan; and (b) a living document that can be adjusted from time to time to exploit new information and respond to shocks. Four major components of MTRS were identified: i) quantifiable revenue goals embedded in a wider medium-term fiscal framework and endorsed as a whole-of-government strategic commitment; ii) holistic reforms in tax systems with a concrete roadmap reflected in policy, administration and legal frameworks; iii) sustained political commitment supported by good governance, supportive empirical analysis, wider stakeholder consultation and effective communication; and iv) coordinated capacity building that avoids duplication and gaps, is appropriately timed and medium-term focused.

6. ***Effective cooperation at the international level to Tackle Illicit Financial Flows (IFFs)***. This will call for: i) reshaping the global financial architecture to combat IFFs; ii) strengthening the network and capacity of revenue authorities and the ministries responsible for negotiating mining and petroleum contracts to monitor transfer pricing, thin capitalization, etc.; iii) revising domestic tax legislations and ensuring synergies with other laws while adopting African taxation models developed by institutions like the African Tax Administration Forum (ATAF); iv) at the regional level, the African Union Secretariat should expeditiously develop a road map and action points for the implementation of key recommendations of the High Level Panel on IFFs from Africa; iv) addressing an urgent need to manage the interface between politics and business through systemic reforms; and v) improving international tax cooperation through the following:

   a) Introduction of a registry of beneficial ownership of all legal entities;

   b) Complying with anti-money laundering regulations at the international level and provisions under the Addis Tax Initiative;

   c) Fostering automatic exchange of financial information and tax information;

   d) Country-by-country reporting, especially in the case of multinational corporations;

   e) Restrict trade mis-invoicing by collaborating with countries of origin;

   f) Support the World Bank's Stolen Asset Recovery (StAR) Initiative and its Financial Market Integrity teams, which seek to combat corruption and IFFs.

7. ***Developing growth-friendly tax policies***. It was noted that governments should: (a) ensure that the tax regime is consistent with measures to boost the production base of the economy; (b) shift from revenue targeting to improving revenue administration and provision of public goods and tie success to the ability of revenues to provide access to public goods; and (c) rationalize tax incentives and tax exemption while limiting rent-seeking through:

a) Rigorous evaluation of the benefits and costs of tax incentives; setting clear eligibility criteria; close monitoring of enforcement; and sunset provisions for tax incentives. There is urgent need to change the narrative that tax incentives translate into FDI and profits by using empirical assessments.

c) Clear legal framework for the extension and monitoring of tax incentives – ensure clearance from Ministries of Finance before Ministries, Departments and Agencies negotiate tax exemptions.

d) Integrating reports on the cost of tax incentives in budget documents and hold consultations with investors and stakeholders on the factors affecting their decisions to invest.

e) everaging experts from both the public and private sector during government negotiations and not leaning only on politicians.

f) A focus on giving concessional rates instead of zero tax rates. Besides, evidence from SSA countries suggests that tax incentives are not among the top four factors that attract most investors and that they would have still invested in the absence of these incentives since investors value stable tax regimes more.

8. ***Broadening support for DRM***. In relation to development partners and CSOs: (a) Development partners affirmed their support to an Africa beyond aid and expressed their resolve to support countries in developing automated systems for customs, improve the capacity of revenue agencies to collect taxes and impose sanctions, and support the development and implementation of MTRS as measures to improve resource mobilization. (b) Civil society organizations such as the Africa Centre for Energy Policy (ACEP) are supporting DRM in their own right. The institution recently launched the Open Tax Ghana digital platform initiative to help strengthen the tax collection effort of the Ghana Revenue Authority (GRA) and to identify and address the inherent gaps that allow tax evasion and avoidance schemes to fester. It also provides opportunities for citizens to share experiences on practices that deprive the state of tax revenue. Key lessons so far include: i) tax law doesn't apply to everybody fairly and the elite always get their way; ii) there is a great deal of tax evasion in the downstream sector of the extractives sector where significant revenues are generated; and iii) there is an urgent need to be transparent with tax issues.

Conclusion

Dr. K.Y. Amoako presented a brief overview of a CWA work program and provided highlights of the results of the independent assessment of the CWA framework and activities. He indicated that this will be presented at the upcoming CWA meeting being held on the margins of the Spring Meetings of the IMF and the World Bank Group. In his closing remarks, Ghana's Minister of Finance, Mr. Ken Ofori-Atta, said that domestic revenue mobilization is crucial in achieving the Sustainable Development Goals (SDGs). He emphasized the importance of designing and implementing a medium-term revenue strategy as a framework for tax system reform and concluded with a statement of the host country's resolve: "Ghana is determined to move beyond aid. As a Government we are determined to keep this drive in a sustainable way to achieve our aspirations," Minister Ofori-Atta stated.

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