

MINISTERIAL MEETING and EXPERT ROUNDTABLE



NEPAD-OECD AFRICA INVESTMENT INITIATIVE

TAXATION FOR INVESTMENT AND DEVELOPMENT: An overview of policy challenges in Africa

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List of Acronyms

ATAF	African Tax Administration Forum
AU	African Union
BIFSC	Botswana International Finance Service Centre
CIT	Corporate Income Tax
EITI	Extractive Industries Transparency Initiative
EPAs	Economic Partnership Agreements
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ITD	International Tax Dialogue
MDGs	Millennium Development Goals
MNEs	Multinational Enterprises
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay as You Earn
UNECA	United Nations Economic Commission for Africa
SADC	Southern African Development Community
SARS	South African Revenue Service
SBP	Small Business Permit
SME	Small and Medium Size Enterprise
VAT	Value Added Tax

“Improving the effectiveness of developing countries’ tax systems is the new frontier in development policy”. (OECD Secretary-General Angel Gurría - April 2009)

A. EXECUTIVE SUMMARY

Taxation is central to the current economic development agenda. It provides a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and is interwoven with numerous other policy areas, from good governance and formalizing the economy, to spurring growth. Fundamentally, tax policy shapes the environment in which international trade and investment take place. Thus, a core challenge for African countries is finding the optimal balance between a tax regime that is business and investment friendly, and one which can leverage enough revenue for public service delivery to enhance the attractiveness of the economy.

A significant share of the tax revenue increase in Africa stems from natural resource taxes, while non-resource-related revenue has increased by less than 1% of GDP over 25 years.¹ This disparity becomes even more challenging against the backdrop of the global economic crisis (with economic growth in Africa expected to decline from 5.7% in 2008 to 2.8% in 2009)² and the decrease in commodity prices. To achieve an optimal tax policy, African policymakers are challenged by the need to balance the following imperatives:

- **Mobilising domestic resources and broadening the tax base** to secure steady revenue streams for development financing and to diversify the revenue sources, especially in a context of tariff liberalisation that impacts strongly on tax revenue;
- **Fighting Tax evasion**, spurred by tax havens, regulatory weaknesses, and some corporate practices;
- **Improving the investment climate for enterprise development**, largely shaped by the tax regime; and
- **Promoting good governance**, underpinned by effective taxation that promotes the accountability of governments to citizens and the investment community.

The OECD can support African countries in addressing these challenges in various ways, from leading global efforts to countering cross-border tax evasion, to working closely with the African Tax Administration Forum (ATAF). The OECD also encourages deeper dialogue with development agencies and donors to transform widespread recognition of the central importance of taxation into effective action.

¹ <http://imf.org/external/pubs/ft/fandd/2008/09/gupta.htm>: 13

² OECD Policy Brief, Measuring the pulse of Africa in times of crisis in Africa, May 2009. <http://www.oecd.org/dataoecd/20/50/42656057.pdf>: 3

B. TAXATION FOR INVESTMENT AND DEVELOPMENT

I. Introduction

1. Taxation is an integral part of countries' development policies, interwoven with numerous other areas, from good governance and formalising the economy, to spurring growth through, for example, promoting small and medium sized enterprises (SMEs) and stimulating export activities. Among other things, taxation:

- Provides governments with the funding required to build the infrastructure on which economic development and growth are based;
- Creates an environment in which business is conducted and wealth is created;
- Shapes the way government activities are undertaken; and
- Plays a central role in domestic resource mobilisation.

2. Taxation provides a predictable and stable flow of revenue to finance development objectives. In fact, the 2002 Monterrey Consensus recognised taxation's key role in domestic resource mobilisation, an acknowledgement sentiment echoed at the 2008 United Nations Doha conference on *Financing for Development*.

3. Indeed, taxation shapes the environment in which international trade and investment take place. Certainty and consistency of tax treatment, the avoidance of double taxation, and efficient tax administration are all important considerations for business.

How is taxation central to Africa's development?

4. Taxation plays a key role in helping African countries to reach their *Millennium Development Goals* (MDGs). African governments aim to use taxation to:

- Finance their social and physical infrastructure needs;
- Provide a stable and predictable fiscal environment to promote economic growth and investment;
- Promote good governance and accountability by strengthening the relationship between government and citizens; and
- Ensure that the costs and benefits of development are fairly shared.

5. But the role of taxation goes further than promoting economic growth. Tax evasion and the siphoning of funds to tax havens deprive African countries of the fiscal benefits of growth. The development of effective tax responses to counter these challenges is also central to Africa's development agenda.

6. While this overview note considers issues of social development in Africa, it also focuses on the tax policy challenges with regards to promoting a business and investment friendly climate on the continent. It therefore considers the following issues

Taxation is central to economic development policies, interwoven with numerous other policy areas.

Taxation can help African countries to reach their MDGs and improve their investment climate.

to be addressed to make tax work in favour of investment and development:

- Domestic resource mobilisation and broadening the tax base;
- Tax evasion;
- Investment climate and enterprise development; and
- Good governance.

7. Finally, this note will highlight how the OECD can support African countries in tackling these challenges.

II. Current challenges for tax policy in Africa

The African context

A key tax policy challenge for African governments is find the optimal balance between a tax regime that is business and investment friendly, while at the same time leveraging enough revenue for public service delivery.

8. African countries are facing a series of challenges when it comes to optimising taxation while aiming to reach development targets. Perhaps the most inherently difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly, while at the same time leveraging enough revenue for public service delivery (which, in turn, makes economies more attractive to investors).

9. After a period of flat growth between the early 1990s and early 2000s, total government revenue as a share of GDP has steadily increased in most African countries. Domestic revenue — defined as tax and non-tax public revenues excluding grants — increased by almost four percentage points of GDP between 2002 and 2007, reaching an average of over 25% in 2007 for the whole of sub-Saharan Africa. Excluding Nigeria and South Africa, government revenue as a share of GDP rose even more in the continent, increasing from an average of 18.8% for 1997-2002 to 25.4% in 2007.³

Tax revenues in Africa have increased. Yet, a significant share of these are generated from natural resource taxes.

10. However, a significant share of the increase in tax revenue in the region came from natural resource taxes. This included income from production sharing, royalties, and corporate income tax on oil and mining companies. Non-resource related revenue increased by less than 1% of GDP over 25 years.⁴ This becomes even more concerning when one considers the impact the crisis has had on the continent, with economic growth in Africa expected to be only 2.8% in 2009, less than half of the 5.7% estimated for 2008 (Figure 1), and an important drop of export revenues, as well as a slowdown of investment in oil and mineral production.⁵ Overall, when compared to the 36% of tax-to-GDP ratio of the OECD countries (2006 un-weighted average)⁶, it is evident that African governments suffer from a large revenue gap.

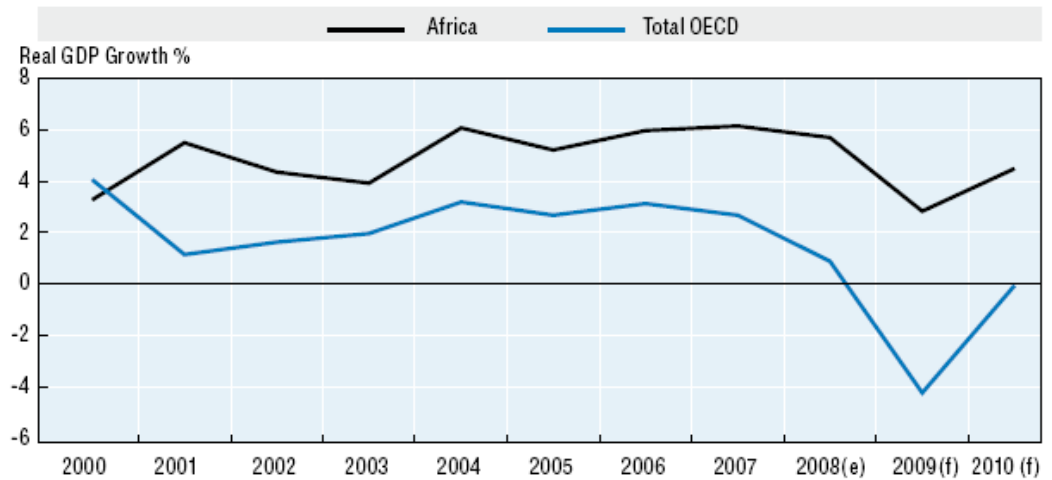
³ P. 13, OECD, Development Financing in Africa, from Monterrey to Doha, 2008 www.africapartnershipforum.org/dataoecd/63/17/41656352.pdf

⁴ P.13, <http://imf.org/external/pubs/ft/fandd/2008/09/gupta.htm>

⁵ P.3, OECD Policy Brief, Measuring the pulse of Africa in times of crisis in Africa, May 2009. <http://www.oecd.org/dataoecd/20/50/42656057.pdf>

⁶ OECD tax database, 2006, http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_1,00.html#trs

Figure 1: Real GDP Growth



Source: OECD Development Centre/World Bank, 2009.

Domestic resource mobilisation and broadening the tax base

11. For tax policy makers, it is essential to strike the right balance between designing an attractive tax regime for investment and growth, and securing the necessary revenues for public spending. Tax policy is central to domestic resource mobilisation. When transparently and effectively designed and implemented, it provides an essential financial platform for sustainable development.

Tax reforms are needed to widen the tax base and bring a larger part of the population into the formal economy.

12. As mentioned earlier, the ratio of tax to GDP in poor countries is only about half of what it is in the developed world. Developing countries typically have a narrow tax base, with a relatively small part of the population subject to personal income tax. Tax reform needs to be promoted to widen the tax base and bring a larger part of the population into the formal economy.

Effective taxation can help reduce reliance on unsustainable revenue sources, such as aid and mineral rents.

13. Also, effective taxation reduces excessive reliance on aid and mineral rents and offers a path away from unsustainable revenue streams for many African economies. One of the most pressing challenges facing the continent is to embark on a path to free African countries from an over-dependence on external and volatile capital inflows, such as foreign assistance. In order to do so, African governments need to strengthen their capacities to mobilise domestic resources. Because of its sustainability, domestic revenue should be one of the main sources for fiscal space expansion, thereby reducing dependence on donor assistance.⁷

14. Furthermore, many African countries rely on tariffs for an important share of government revenue. While opening up trade is expected to bolster long-term economic growth, countries participating in trade negotiations, such as the Doha Round and the Economic Partnership Agreements (EPAs), are required to cut their tariffs and are thus likely to collect less revenue. Today, in some African countries, up to 30% of non-resource tax revenue (4% of GDP) is raised through tariffs and trade related taxes. Losing this source as a result of trade liberalisation is likely to have significant budgetary

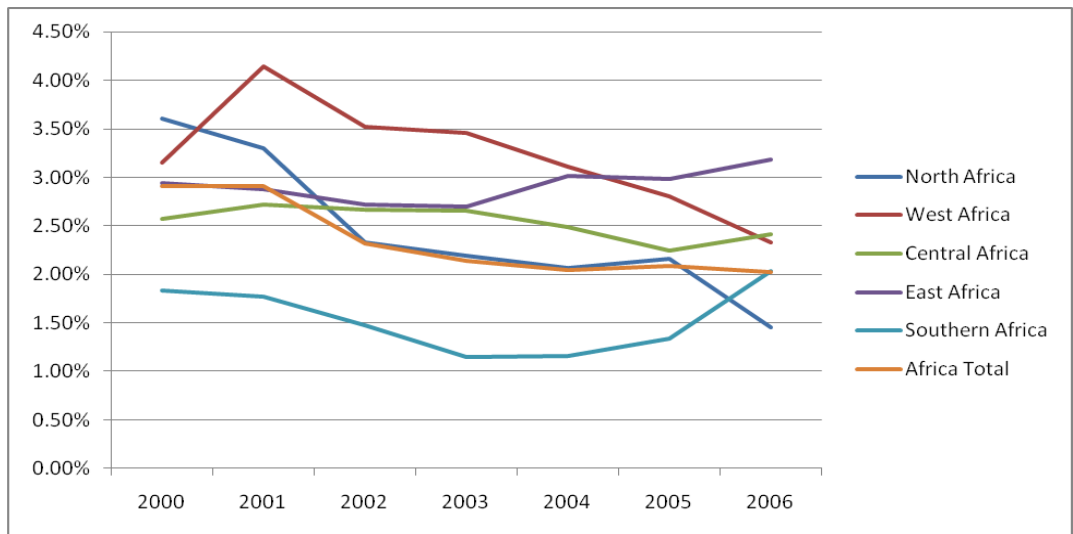
⁷

OECD database, <http://www.oecd.org/dataoecd/1/33/41227692.pdf>: 2

Current trade liberalisation trends can contribute to a decrease in tax revenues for African countries.

consequences.⁸ As Figure 2 below illustrates, recent trends of decreases in revenues from trade taxes could be indicative of such trade liberalisation effects. This obviously presents a major challenge to maintaining current revenue bases, let alone increasing them. Alternative revenue sources need to be available before tariffs are phased out. This is especially true for Africa in the context of the EPAs with the European Union, as exchanges with the latter traditionally represent roughly two-thirds of African external trade. Cross border trade with neighbouring countries is much less significant, as intra-regional trade only amounts to 10% of Africa's total external trade.

Figure 2: Trade tax in Africa as % of GDP



Source: OECD Development Centre

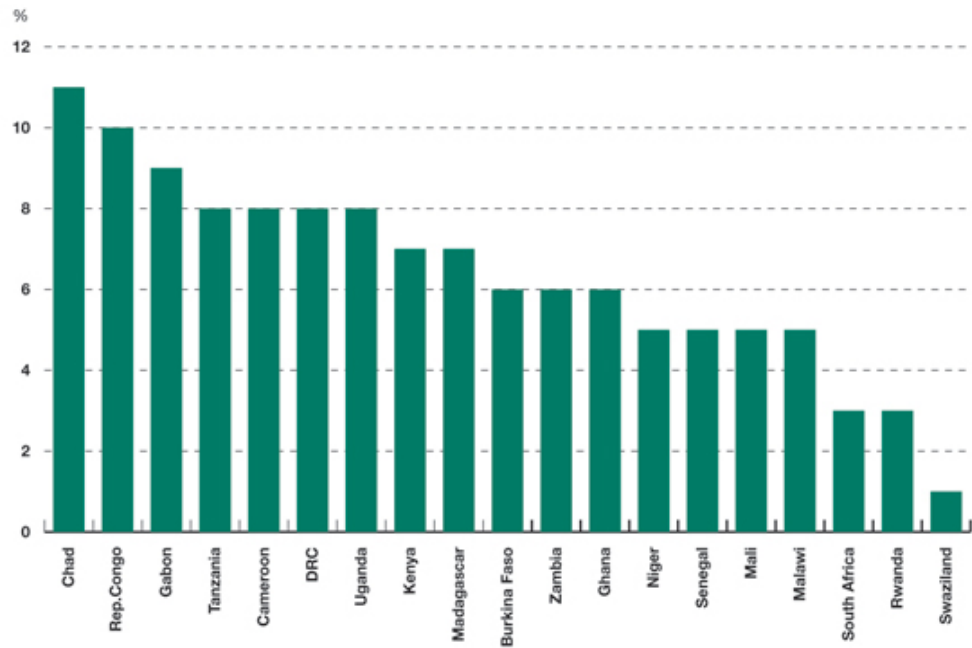
Avenues for expanding the tax base include the growing mobile telephone industry in Africa.

15. There are avenues for expanding the tax base, which go beyond traditional structural reforms in tax policy. For instance, the growing mobile telephone sector in many African countries presents an opportunity for increasing revenue and broadening the tax base for governments. In fact, a review of 15 countries (Figure 3) shows mobile operators contributed more than 8% of government tax revenues in seven of the countries, with Chad providing about 11%.⁹ The revenue comes from licensing and taxing communication services. These capital streams can be used to improve basic backbone infrastructure for the ICT industry. The same reasoning applies to other infrastructure sub-sectors as well.

⁸ <http://taxjustice.blogspot.com/2008/08/in-africa-pay-more-attention-to-tax-imf.html>

⁹ OECD, African Economic Outlook 2009, <http://www.africaneconomicoutlook.org/en/in-depth/innovation-and-ict-in-africa/the-policy-legal-regulatory-lessons/>

Figure 3: Mobile operators' contributions to government tax revenues (in %)



Source: GSM World, 2006, "Taxation and Growth of Mobile Services in Sub-Saharan Africa."

16. It is clear that expanding the tax base as an avenue for increasing revenue collection, and hence domestic resource mobilisation, is a difficult challenge. Issues such as formalising the economy rely on numerous measures that have to be co-ordinated and sequenced to ensure that it is actually worthwhile for businesses and individuals to leave the informal sector. Just as important are measures that tackle tax evasion and which can limit capital flight from Africa.

Tax evasion

17. In 2008, a US senate subcommittee issued a report highlighting that banks located in tax havens cost US taxpayers some USD 100 billion a year in lost revenue. This leakage occurred despite solid US laws, institutions and other mechanisms to help control tax evasion. If such capital flight is occurring with regulatory frameworks commonly perceived as sound, one can imagine how many more opportunities exist for evasive practices in countries with weak regulatory and legal environments.

18. Developing countries lose vital revenue through tax evasion and the siphoning of money to tax havens. According to the World Bank, illicit flows of cash from developing countries amount to between USD 500 - 800 billion a year. These are funds that could otherwise have been used to fund development priorities. Countering the loss of revenue caused by tax havens is a vital element of the G20's and G8's global responses to the current economic crisis. Hundreds of billions of dollars per year have left the African continent between 1991 and 2004. These outflows are estimated at 7.6% of the annual GDP of the region and, in effect, make African countries net creditors of donor countries.¹⁰ They also undermine African countries' tax bases.

Countering the loss of revenues to tax havens is a vital element of the G 20 and G 8 response to the global economic crisis.

¹⁰ Pretoria Communique, <http://www.oecd.org/dataoecd/1/33/41227692.pdf>: 2

19. There are some areas of taxation, such as exports of crude oil, which are particularly susceptible to tax abuse. Indeed, tax evasion for these areas often involves multiple dummy companies as well as the use of tax havens. Similarly, rent-sharing in the minerals sector is influenced by multinational enterprises' (MNEs) accounting practices, financial behaviour and possible transfer-pricing activities. By handling transactions that are internal to them, MNEs may, to some extent, choose where to declare profits to minimise their tax burden.

20. Many developing countries are failing to collect their fair share of the rewards from mineral extraction. Best practices need to be encouraged and shared – especially transparency – in the design and administration of mineral taxation policy. Initiatives that encourage the publication of expenses such as the Extractive Industries Transparency Initiative (EITI) are a useful complement to tax policy in this respect.

21. For Africa, tax evasion is more than just a contributor to the current economic crisis – it is one of the main impediments to expanding the tax base and mobilising domestic resources. For instance, it is obvious that the continent's wealth of extractive resources has not translated into a sustainable increase in financial resources for development.

Investment climate and enterprise development

22. The economic growth and investment dynamics of a country are largely affected by taxation. Both foreign investors (critical for new technology, corporate know-how and capital) and small businesses (engines for local growth, employment and innovation) require clarity when dealing with tax issues so they can operate and grow. Developing countries often have complex tax structures, which dampen the business climate, and present hurdles to growth prospects.

23. A number of studies, including those conducted by the OECD, suggest that raising the overall tax burden can reduce growth.¹¹ All in all, sound tax policy improves the environment in which business is carried out – it encourages international trade and investment and promotes economic growth. This encompasses a whole range of measures that are often difficult to sequence and implement.

24. African economies are engaged in a fierce competition over corporate income tax (CIT) in view of attracting foreign investment. Compared to the 1980s, tax incentives in sub-Saharan Africa are now more widely used, as more than two-thirds of African countries offer tax holidays to attract investment. The establishment of export zones offering tax holidays has also increased. The IMF notes that developing countries frequently apply tax incentives schemes, which do not necessarily succeed in increasing the investment rate if they are not well coordinated with other policies aimed at improving the business climate, such as infrastructure or education policies.¹²

Reducing the tax burden on companies is key to improving the investment and business climate.

¹¹ An increase of about one percentage point in the tax-to-GDP ratio could be associated with a direct reduction of about 0.3% in output per capita in the long run. If the investment effect is taken into account, the overall reduction would be between 0.6% and 0.7% (Bassanini and Scarpetta, 2001).

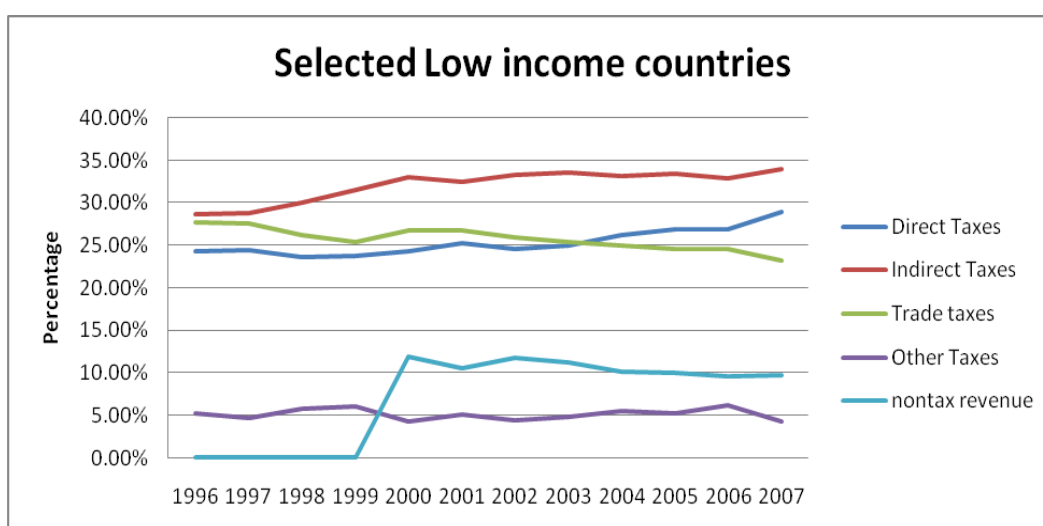
¹² Chai and Goyal, 2008, <http://www.imf.org/external/pubs/ft/wp/2008/wp08257.pdf>

Tax incentives for attracting foreign investors are no substitute for general policies focusing on encouraging investment for development.

25. The likely response of FDI to host country tax reform very much depends on a wider range of host country conditions.¹³ In fact, on the issue of low taxes as a tool for investment attraction, some studies reveal that “taxes are somewhat less important as a location factor ... than infrastructure.”¹⁴ One should emphasise that tax incentives, financial subsidies and regulatory exemptions directed at attracting foreign investors are no substitute for pursuing the appropriate general policy measures, and focusing on the broader objective of encouraging investment for development regardless of source.¹⁵

26. In this light, the way forward should be to avoid relying heavily on indirect taxation¹⁶ (e.g. tariffs, VATs and taxes on exports and royalties). Figure 4 illustrates that indirect taxes make up the majority of tax revenue in a selected number of low-income African countries. To improve tax administration and collection, African countries could consider simplifying their tax structure with a flat tax rate, such as the 20 per cent flat corporate tax rate adopted by Egypt, as well as reducing the number of incentives. This goes hand-in-hand with the recent reforms in improving efficiency in other areas of the business climate, as showcased by Mauritius and Rwanda. Simplified tax structures can also help to clarify the corporate investment calculations.

Figure 4: Share of tax types in total tax revenues



Source: OECD Development Centre

27. Despite recent reforms, many developing countries’ tax systems remain complex. In some countries, tax laws are unclear and consulting manuals nonexistent, leaving too much discretionary power to tax enforcers. Tax officials may, for instance,

¹³ OECD Policy Framework for Investment (PFI) Toolkit, p. 29, “Draft user guidance for the PFI tax policy questions”, <http://www.oecd.org/dataoecd/46/53/41890309.pdf>

¹⁴ Vale Columbia Center on Sustainable International Investment, June 3, 2009

¹⁵ OECD, GUIDING PRINCIPLES FOR POLICIES TOWARD ATTRACTING FOREIGN DIRECT INVESTMENT, <http://www.oecd.org/dataoecd/45/21/2506900.pdf>: 9

¹⁶ One has to mention though, that direct taxes on income and wealth are important revenue bases in some poor countries. For instance, in Malawi and Tanzania direct taxes generated almost 40% of total tax revenues in 2000. Of these, corporate income taxes are most important, followed by pay-as-you-earn (PAYE) taxes on formal sector employees.

In many developing countries, government tax systems remain complex.

have discretion over important decisions, such as those related to the provision of tax exemptions, determination of tax liabilities, selection of audits, and litigation.¹⁷

28. In Kenya, for example, the Single Business Permit (SBP) introduced in 1999 was aimed at reducing the tax burden on both formal and informal business. In practice, although it quickly contributed to 17% of local revenues (compared to the 7% recorded by more complex business licenses pre-SBP) the reform initially heightened the burden on formal businesses as local officials arbitrarily applied the progressive bands of the SBP. Recent reforms to streamline the SBP are geared towards reducing the associated costs on businesses by an estimated USD 11 million annually.¹⁸ This illustrates that ultimately, administrative feasibility remains a core factor in any tax policy measure.

29. Botswana, on the other hand, has one of the simplest and most comprehensive tax regimes in the world. Corporate tax rates in Botswana are the lowest in the SADC region – 15% for all manufacturing activities and all companies operating within the jurisdiction of the Botswana International Financial Service Centre (BIFSC). At the same time, a tax rate of 25% is applied to non-manufacturing activities. The VAT is imposed comprehensively on an end-user basis.¹⁹

30. Formalizing the economy usually falls within the reach of any tax policy. The informal sector makes up a large part of African economies. Fifty percent of the non-agricultural employment in Africa is in the informal sector²⁰. Being outside the “tax net” prevents the bulk of Africa’s small business community, (vital for growth and innovation) from accessing formal business funding and credit schemes. The high threshold value for a VAT registration is a hurdle for the formalisation of African SMEs. Taxation becomes efficient if it can fuel the provision of public infrastructure for business development in exchange for formalisation. For small businesses, the choice of whether or not they pay taxes (and hence whether they remain in the informal sector) is thus driven by a simple-cost benefit analysis.

31. Taxation is a core pillar of a country’s regulatory framework for investment and growth. It features prominently in investment decision-making motivated by profit maximisation, while also spurring local enterprise development if properly designed. To date, countries like Botswana and Rwanda offer promising examples, but overall, Sub-Saharan African economies are still characterised by complex tax regimes, which deter domestic and foreign investment and offer loopholes for tax evasion.

Taxation becomes efficient if it can fuel the provision of public infrastructure for business development in exchange for formalisation.

¹⁷ Fjeldstad, Rakner, 2003: v.

¹⁸ IFC, April 2009;
[http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/InPracticenote5/\\$FILE/LocalTax5.pdf](http://www.ifc.org/ifcext/fias.nsf/AttachmentsByTitle/InPracticenote5/$FILE/LocalTax5.pdf): 6

¹⁹ Botswana Export Development & Investment Authority (BEDIA),
http://www.bedia.co.bw/article.php?id_mnu=44

²⁰ www.unevoc.unesco.org/southernafrica/.../MAR-Munbodh-Informal.doc -

Good governance

32. Effective taxation underpins effective governance, especially as taxation presents an avenue to promote the accountability of governments to citizens. A key component of a capable state is the existence of an efficient and effective tax administration. A solid taxation system also encourages good governance.

33. A fair and transparent tax system – one which is free from corruption and which applies the rule of law – provides a benchmark for governance more generally. Also, co-ordination between the central and local authorities is crucial in administering tax policies. In fact, improvement in co-ordination between central and local authorities in tax policy matters (as a cornerstone of good economy policy) would have positive spillovers for other policy areas – another reason why taxation should be treated as an integral part of the development policy framework.

34. As seen in section 2.4, taxation can serve to integrate citizens into the formal economy, enabling the provision of state benefits such as pensions or unemployment insurance and the protection of workers. This is a particularly important challenge for Africa as the narrowness of the fiscal basis impacts badly on the level of taxation imposed on the relatively thin formal sector. Expanding tax policy reach while providing new infrastructure (as well as other public services) in exchange is an important frontier for African policy makers.

35. Some developing countries have tax administrations that suffer from corruption, poorly-trained and underpaid officials and a weak administrative structure. Improving revenue performance will require a major improvement in tax administration through: better service delivery; taxpayer education; effective use of automated systems; better co-operation between tax administrations to counter tax evasion and aggressive tax planning; and strengthening audit and human resource management capability.²¹

36. To fight the existing deficits, there has been a considerable degree of privatisation of revenue collection at the local government level in Africa in recent years. Most notable among these measures is the outsourcing of the right to collect fees (and in some cases also property taxes) from market traders. Donor countries have also helped fund the privatisation of tax collection. Commonly-cited examples are the contracting out of customs tax collection to British company Crown Agents in Mozambique (1997–2005) and Angola (since 2001).²²

37. Over the past two decades, more than 20 developing countries (mostly from anglophone Africa) have established revenue authorities whereby the tax administration is moved out of the Ministry of Finance and placed under the jurisdiction of a semi-autonomous entity. An example of this is the South African Revenue Service (SARS) – see Box 1. Underlying motivations for such a structural move include improving the performance of revenue collection, increasing efficiency, fighting corruption and tax evasion, and opening the door for more widespread tax administration reforms that donor

Tax policies present an avenue to promote the accountability of governments to their citizens.

The establishment of autonomous revenue authorities has been a popular tax reform policy trend, especially in anglophone Africa.

²¹ OECD, African Economic Outlook 2009: 54

²² Fjeldstad, 2009: 3

countries often encourage.²³

38. This structural reform has many potential impacts: it signals policy autonomy; creates managerial autonomy; and facilitates tax administration reform generally. However, the degree to which this reform succeeds varies. Indeed, there is evidence that governments can influence semi-autonomous tax authorities. Even when corruption charges are placed, there are often few dismissals. This suggests that corruption remains a big challenge. Generally, the annual turnover of staff in tax authorities is also low. In the Lesotho Revenue Authority, for example, turnover is around 1–2% per year.²⁴

39. On a more positive note, the Rwandan Revenue Authority, with strong international support, carried out changes to strengthen internal organisational structures and training, as well as improve relationships with local government. The result was a sharp increase in domestic revenue from 9% of GDP in 1998 to nearly 15% in 2005 in what has been one of Africa's better performing economies. In fact, the recent *Doing Business Report* of the World Bank ranked Rwanda as the world's fastest reformer.²⁵

Box 1: South African Revenue Service²⁶

The South African Revenue Service (SARS) was established to collect revenue and ensure compliance with tax law. Its mission statement highlights that it acts beyond collecting taxes to playing a pivotal role in enhancing economic growth and social development in South Africa. In terms of structure, it is an autonomous organ of the state, assuming a semi-public role (South African Revenue Service Act 34 of 1997). Thus, South Africa's tax regime is set by the National Treasury, but managed by SARS.

In addition to the traditional role of revenue collection, SARS advises the Ministry of Finance on all revenue matters and facilitates trade by acting as the customs focal point. The service negotiates free-trade agreements, such as with the South African Customs Union, the European Union and the Southern African Development Community.

SARS also serves as a knowledge platform by offering information on different taxes, legislation, international treaties and legal judgments. It also hosts a comprehensive set of statistics on revenue collection and trade. On the operational aspects, it hosts a computerised system of tax filing and payments, coupled with call center contacts and corruption hotlines.

It is clear that SARS embodies an innovative revenue authority, which collects revenue for the government, promotes business and trade, is a source of economic intelligence and acts as the interface between the public and the South African Government.

²³ Fjeldstad, 2005

²⁴ Ibid: 8

²⁵ Doing Business 2010, World Bank, www.doingbusiness.org

²⁶ SARS, <http://www.sars.gov.za/home.asp?pid=208>

40. It is fair to state that, in general, tax administration capacity on the continent needs to be strengthened at both human and technical level. In many developing countries, governments can use the opportunity to reform tax systems as a way to advance on the governance perception scales used by domestic and foreign investors, peer governments and the international community. In fact, taxation is one of the key factors in the commonly used *Corruption Perceptions Index* (CPI) compiled by Transparency International.

III. Conclusion

41. This note has provided an overview of the main issues shaping the political economy of taxation on the African continent. The numerous challenges faced can only be tackled in a sequenced and co-ordinated manner, while considering the realities of growth generation and investment decision making.

42. It is worth mentioning that, in general, tax policies now recommended for developing countries are much the same as those which are advocated for industrial countries. In most cases this involves the introduction of measures to broaden the tax base while simultaneously flattening the tax rates, as seen earlier. The following trends in taxation reforms can be clearly seen:

- Introduction of the value-added tax;
- Lower personal and corporate income taxes;
- Broadening of the tax bases;
- Reduction of import duties and simplification of the rate structure;
- Abolition of export taxes; and
- Avoiding excessive reliance on special tax incentives for investors.

Through its work on taxation, The OECD can support African-led initiatives to strengthen democratic institutions and processes, and increase the ability of countries to collect sufficient tax revenues.

43. Improving taxation in Africa goes beyond reaching competitive tax rates. It requires governments to strike a balance between providing solid taxation governance structures and improving domestic resource mobilisation. In this way, governments can attract investors while being able to offer public provisions financed through tax revenues and promote Africa on the development ladder.

Box 2: What is the OECD doing and what does it offer to Africa?

The OECD is spearheading the global efforts to counter cross-border tax evasion. For over a decade the OECD has been leading the fight against tax havens by encouraging higher standards of transparency and exchange of information in tax matters. The OECD standards have achieved global endorsement from the G20 and the UN, and those standards will form the foundation of the work of the new Global Forum on Transparency and Exchange of Information, whose main focus will be to improve tax transparency and exchange of information so that countries can fully enforce tax laws to protect their tax base.

The OECD is working closely with the African Tax Administration Forum to identify the needs of African tax administrations and to develop and deliver responses tailored to their current priorities. Focusing on capacity building in African tax administrations will help governments meet their Monterrey commitments.²⁷ Through the African Tax Administration Forum, the OECD's Centre for Tax Policy and Administration (CTPA) is supporting African-led initiatives to:

- Strengthen democratic institutions and processes in Africa through improving the relationship between states and citizens;
- Bolster the ability of countries to collect sufficient revenues to develop their own infrastructure and avoid aid dependency or single resource reliance.

Through OECD's Committee of Fiscal Affairs (CFA) and its Global Relations Programme, OECD countries and non-OECD economies share experience and expertise to promote globally recognised standards in taxation policy and administration. This year the OECD is building on the existing programme of about 70 events to develop specific events for African tax administrations on the practical implementation of transfer pricing, the taxation of mineral resources and the taxation of financial markets.

In addition, the 2010 edition of the African Economic Outlook, "Public Resource Mobilisation and Aid", produced in partnership with the African Development Bank, UNECA, and a range of African think-tanks will review the state of public resource mobilisation across the African continent.

The OECD is developing new events to promote international dialogue aimed at strengthening the tax administration of developing countries. Specific tax administration workshops allow tax administrators to share experiences, expertise and best practice in all aspects of tax administration, including organisational structure, governance, management, taxpayer service, compliance processes and countering corruption.

The OECD's CTPA is also working in partnership with the OECD's Development Centre on the 2009 Global Forum on Development. Through the International Tax Dialogue (ITD), it co-ordinates with other international organisations and regional organisations. The ITD is a collaborative initiative with the European Commission, the Inter-American Development Bank, the IMF and the World Bank.

The OECD is encouraging a deeper dialogue with development agencies and donors to take the current widespread recognition of the central importance of taxation and turn it into a programme of effective action. Donors can do more to support revenue-raising efforts in partner countries. Of the USD 7.1 billion spent in 2005 on bilateral aid for government administration, economic policy and public-sector financial management, only 1.7 per cent was directed to tax-related assistance. In 2006, less than 1% of aid went into the tax area. If development is to take off, this ratio will have to be dramatically increased. Development partners need to demonstrate to donors that assisting developing countries build effect tax systems is a vital and central part of the development process.²⁸

²⁷ OECD, African Economic Outlook 2009: 54

²⁸ OECD Centre for Tax Policy and Administration, 2009

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