

**The OECD's Forum on Tax Administration
Cape Town, South Africa
10-11 January 2008**

Opening Statement by Pier Carlo Padoan, Deputy Secretary General, OECD.

- I want to begin by expressing my thanks and that of the OECD to the Minister, Mr. Trevor Manuel, to the South African Government, and to the South African Revenue Service for hosting the Fourth Meeting of the Forum on Tax Administration.
- This is my first visit to South Africa. I have already been charmed by the scenery and the people and am impressed with the efficiency with which you have organized this event.
- Since 2002, OECD work in the field of tax administration has come a long way. Given the wide and growing interest in this area and recognition of the benefits to be gained from exchanges and sharing of experiences, the FTA has become the premier forum for Commissioners. Both the Secretary General and I are proud of this and he wants you to know that as a former Finance Minister he is well aware of the key role played by tax administration in the economic and social life of a country.
- At this meeting we have almost 150 delegates from almost 40 countries. At the 1st FTA meeting in Seville in January 2004, there were 98 delegates and 27 Commissioners.
- The increasing attendance alone would suggest that these meetings provide a unique and valuable opportunity for Commissioners to meet colleagues to discuss matters of strategic importance to their respective administrations.
- As we all live in a globalised world the relationships and alliances which can be built through meeting like this are critical in enabling tax administrations to efficiently and effectively discharge their obligations.
- Our meeting in Cape Town will focus on:
 - Global trends in business and wealth management and implications for revenue bodies;
 - Enhancing the relationship between revenue bodies, taxpayers and tax intermediaries;
 - Governance and capacity building in African Tax Administrations.

I will address each of the issues and also pick up a few of the points raised by Commissioner Gordhan and Minister Manuel.

1) *Global Business Trends*

As you Mr. Minister noted, globalisation has become a reality of the 21st century. Traditional distinctions are breaking down: capital exporting versus capital importing countries; service versus manufacturing economies; public versus private sector. Look at India - in 2007 capital outflows exceeded capital inflows as Indian MNEs began to buy up steel, car manufacturing and other industries. Also, roughly 10% of Indian growth in the last decade has come from the service sector. Or look at the way in which sovereign investment funds in China, Singapore and the Middle East are acquiring major shares in the financial institutions of OECD countries.

The world is changing and you as tax administrators have to adapt to this new environment. Throwing up walls around our national tax systems is not the answer. The right response is better cooperation: both between tax administrations and between tax administrations and business. More transparency, more exchange of information, including on best practices, can all make an important contribution to improving the business climate.

I am particularly pleased that we have the CEOs from 6 major MNEs with us this morning. You can help us understand your new business models and the global competitive pressures under which you operate. On the basis of this mutual understanding, we can together tailor our tax systems to better fit the demands of the 21st century.

2. Changing the traditional relationship between taxpayers and tax administrations

When I look around the OECD and beyond I am struck by the number of countries that are currently reviewing how they interact with taxpayers and looking for new ways to achieve better tax compliance. I believe that most taxpayers want to pay the 'right' amount of tax - although there will always be some disagreement over how to define 'right', as well as a small proportion of taxpayers who are prepared to resort to using unacceptable tax planning arrangements. It is in this context that I commend the FTA's recent work on tax intermediaries and the emphasis it places on the development of an enhanced relationship between revenue bodies, taxpayers and tax intermediaries, one characterized by openness and transparency which will lead to greater trust and confidence. Achieving this enhanced relationship will not be easy but it's a goal worth aiming for.

3. Governance and Capacity Building in African Tax Administrations

As you have said on several occasions, Mr. Minister, Africa is a land of unlimited promise. Last year the OECD issued its latest Economic Outlook for Africa. We saw a continent that was at last beginning to fulfill its economic potential. Foreign investment was at a record level (although still well below Asian levels). Portfolio investment was accelerating: we estimated that there were \$US3 billion of new private equity initiatives. All the macro economic indicators are moving in the right direction: some African governments, including South Africa, have a budget surplus, inflation is broadly under control; many countries are now experiencing 5% plus annual growth rates (more than double the OECD average).

This optimistic scenario is confirmed by some micro indicators: mobile phone penetration has gone from almost zero a decade ago to one in five Africans today. Companies registered on sub-Saharan stock exchanges have increased by a factor of almost ten since 2000. Major Indian, Chinese, Brazilian and Russian MNEs are taking a new interest in the continent.

In a word, Africa is becoming the new investment frontier and despite the recent political disturbances in some African countries, I am confident that this trend will continue since its not just due to a spike in commodity prices or abundant world liquidity - its because Africa is getting the fundamentals right. However, challenges for now and the next decade remain. Unemployment remains stubbornly high: over a quarter of the labor force here in South Africa are officially unemployed. For every blackberry carrying African executive there are dozens of Africans living without access to clean water, electricity or education - an underclass deprived of economic opportunities. Financial markets remain undeveloped - less than 1 in 3 adult Africans have a bank account. The conditions for doing business needs significant transformation (it can take more than a year to enforce contracts in many countries). Capital flight, particularly to tax havens, is denying the continent of enterprise financing and governments of much needed revenues.

Tax administrations have a key role to play in helping governments meet these challenges. Robust revenue growth of the tax base and better tax compliance will enable African governments to finance the skills and infrastructure needed for a vibrant economy to generate employment-creating growth and help to eradicate poverty. We have seen considerable progress in the effectiveness of tax administrations in Africa, e.g., Uganda, Mozambique, Botswana, Rwanda, to mention just four. This is why I am so pleased to see that today we have a number of African Commissioners attending this meeting. I am sure we will all listen carefully to your perspectives on the issues on our agenda.

Once again, Mr Minister, let me thank you and SARS for hosting the event and to endorse and your suggestion that we should find the right balance between work and leisure over the next few days.