

Taxation for development: Myths, facts and challenges for African countries

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Talking points:

- I. Why tax matters for development
- II. Myths and facts about taxation in Africa
- III. Strengths and weaknesses of the current tax reform agenda
- IV. How governance focused tax reforms can contribute to reduce inequalities

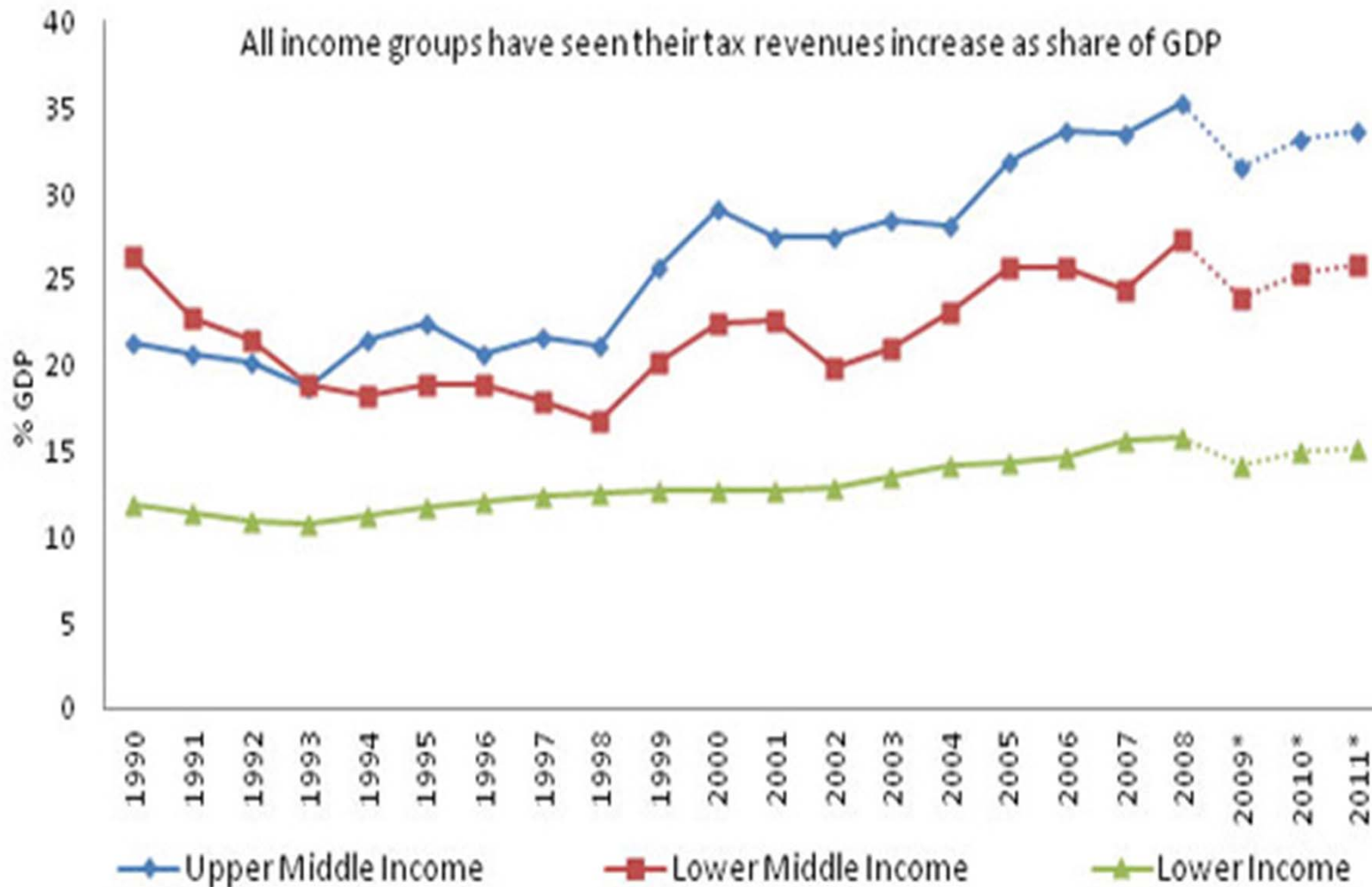
I. Why tax matters for development

- Tax is not an end in itself, but a means towards the well-being of citizens and a well-functioning state:
 1. Tax is a core part of **state-building** and the most visible sign of the **social contract** between citizens and the state
 2. Taxes - if designed well - can **promote economic growth, lessen extreme inequalities, and fund the delivery of the MDGs**
 3. Dependence on taxes requires states to develop **tax raising capacities**
 4. Rising tax revenues combined with economic growth are the eventual **exit strategy** out of aid dependency

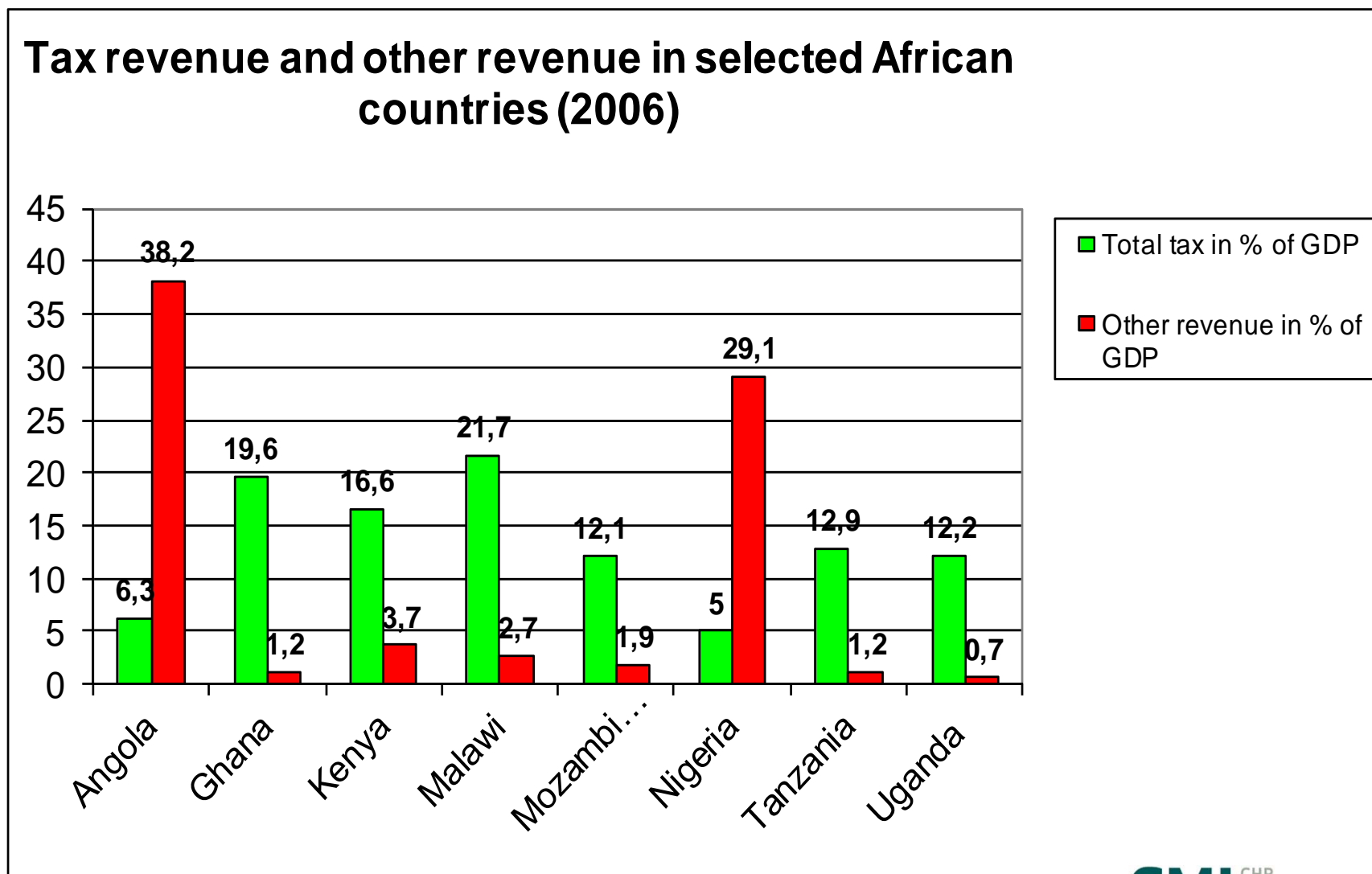
Characteristics of a 'good' tax system

- Economically efficient
 - Effective
 - Equitable
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- These objectives frequently conflict
 - Progressive taxes in highly unequal societies is difficult to achieve
 - It matters how taxes are raised

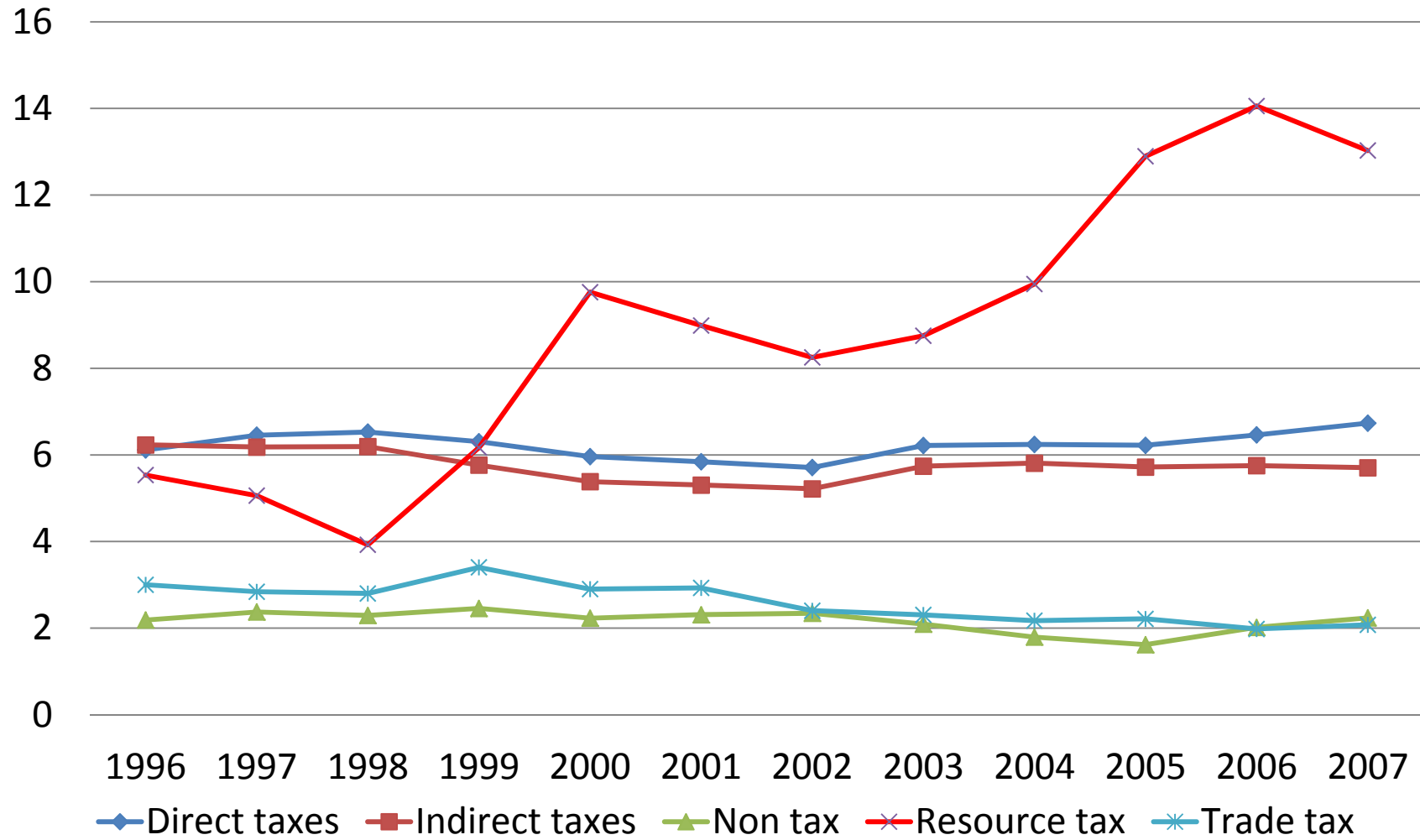
MYTH 1: There is hardly any taxation in Africa



Large differences in Tax-to-GDP ratios between African countries

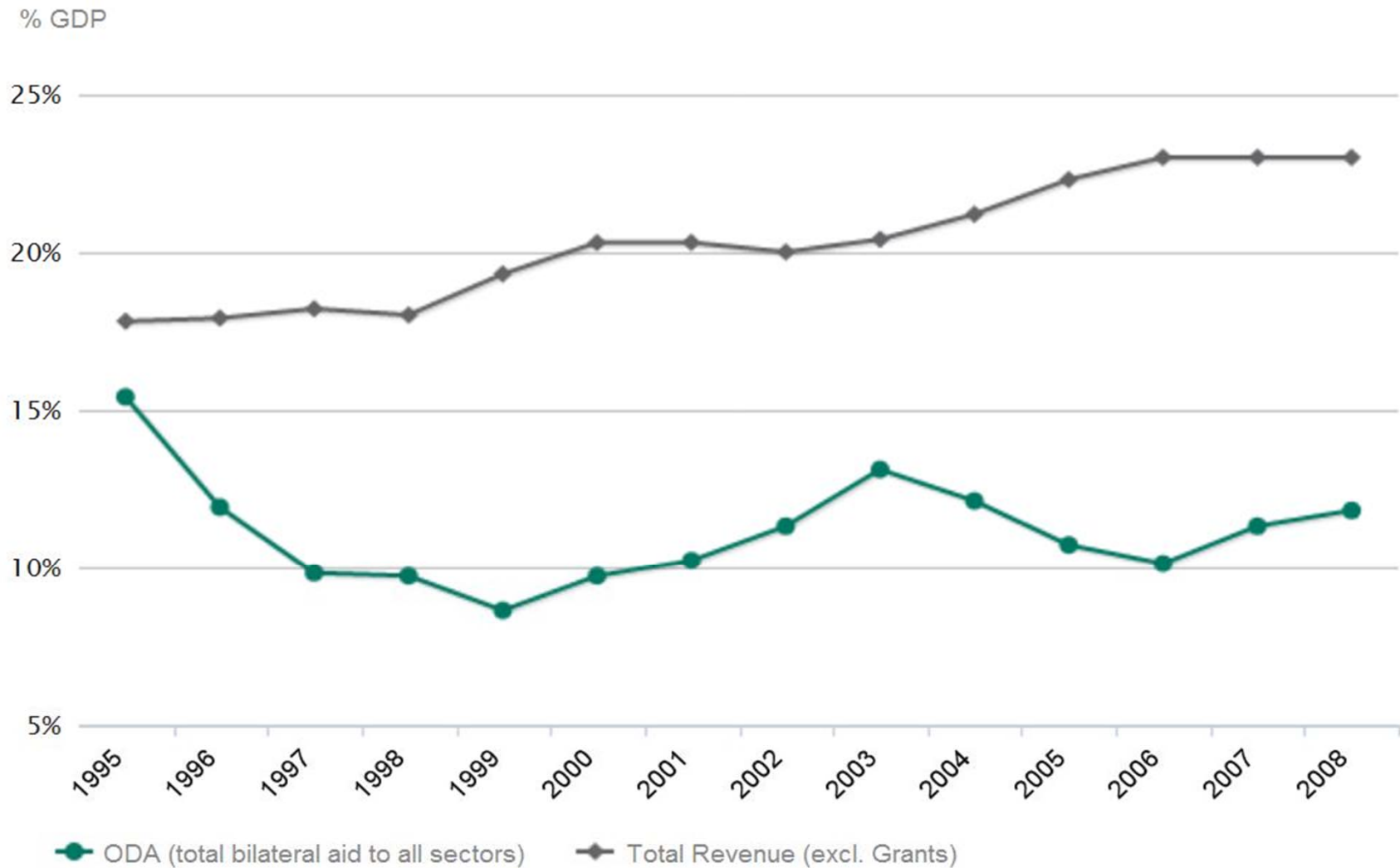


Africa: Domestic revenue mix as share of GDP



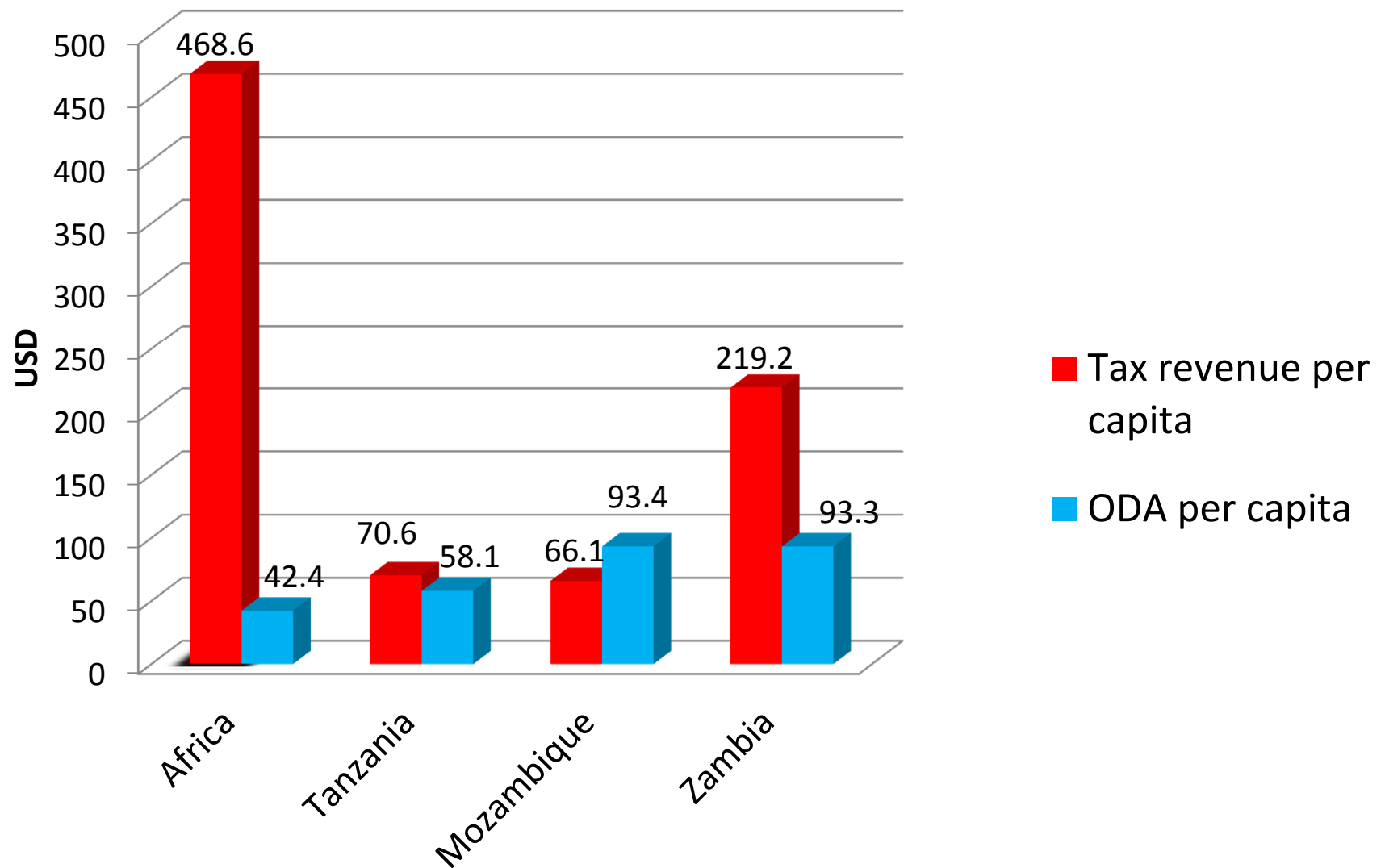
MYTH 2: Africa is totally dependent on aid

Figure 3: ODA and fiscal revenue as a share of GDP



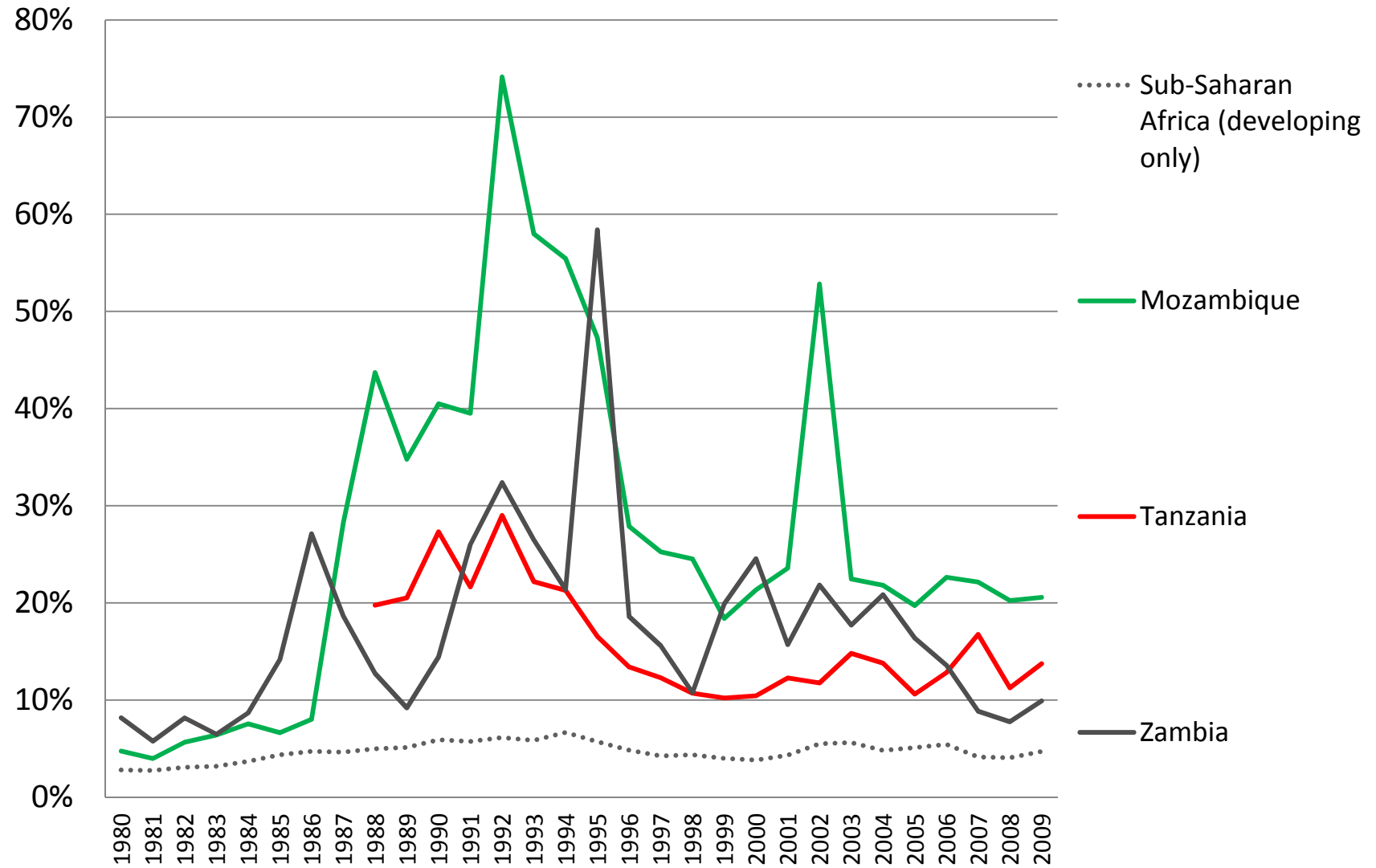
Aid and tax revenue per capita (2008)

Mozambique, Tanzania, Zambia & average Africa

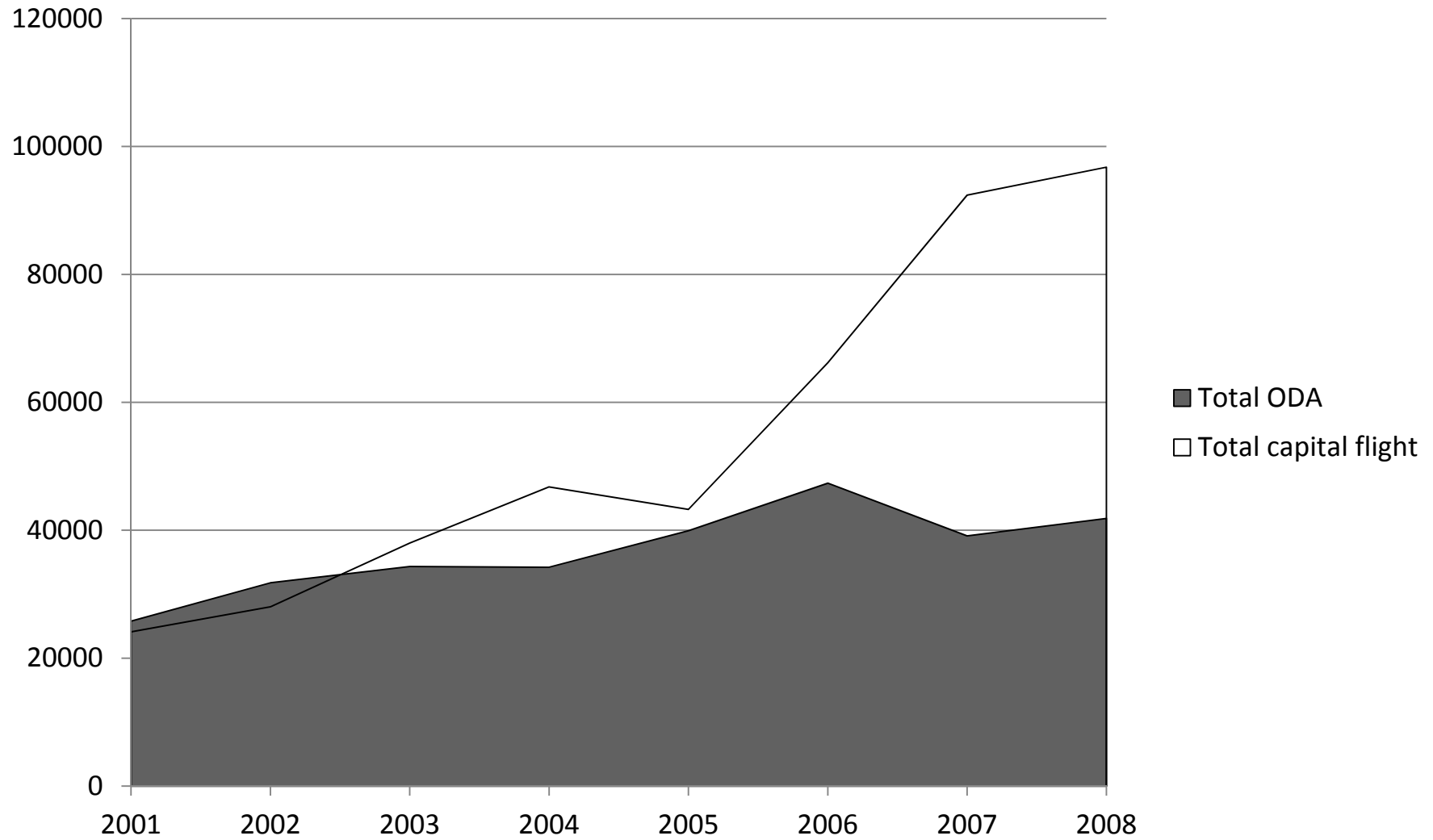


Aid as share of GDP (1980-2009)

Mozambique, Tanzania, Zambia & average SSA



Illicit financial flows from and development aid to Africa 2001-2008 (mill USD)



MYTH 3: Aid is the only external financial inflow to Africa

1. Foreign aid (2007):

- USD 104 billion (from OECD-DAC countries)
- USD 8 billion (from non-DAC donor countries)

2. Foreign direct investments in Africa (2008)

- USD 88 billion
- Mostly to extractive industries
- Nigeria, Angola, Egypt, South Africa

3. Remittances from Africans living abroad (2008)

- USD 41 billion

4. Philanthropy

- ?

MYTH 4: Tax reforms are not on the policy agenda in Africa

➤ **Actually, there are a number of good things to report:**

❖ Simplification of the tax system

❖ Improved tax administrations at the central government level

❖ Improved attitudes of tax administrations towards (some segments of) taxpayers

➤ **but also worrying problems in many countries**

III. Weaknesses of the current tax reform agenda

- 1) Taxation generally *not* high on the domestic political agenda
- 2) The political and economic elite often not part of the tax base
- 3) Extremely narrow tax bases
- 4) Large untaxed informal sectors
- 5) Extensive/increasing tax exemptions
- 6) Massive revenues from natural resources are lost
- 7) Illicit capital flows facilitated by tax havens entrench inefficient tax systems

IV. HOW GOVERNANCE FOCUSED TAX REFORMS CAN CONTRIBUTE TO REDUCE INEQUALITIES

- Considerable opportunities to build on the existing tax reform agenda in Africa with a view to reducing inequalities:
 1. Directly by increasing progressiveness
 2. Indirectly by raising additional revenue

- Focus on reforms that simultaneously facilitate:
 - ✓ Revenue growth

 - ✓ Build administrative capacity

 - ✓ Build accountability

Governance focused tax reforms

- **Reduce/eliminate tax exemptions**
- Tackle tax causes of **capital flight**
- Strengthen the administration of NR-taxation and esp. **extractive industries**
- **Improve progressivity** through income tax & property taxes
- Find more effective ways to **tax the informal sector**
 - **Simplified tax regime** for micro and 'informal' sector
 - **Establish a dedicated tax unit** for Small and Medium enterprises

Governance focused tax reforms (cont.)

- **Improve local government taxation**
- **Levy taxes as consensually and as transparently as possible**
- **Support civil society groups' capacity to engage with the state on tax issues**
 - **Make tax 'rock' on the domestic political agenda**
- **Carry out tax informality surveys and surveys of taxpayer perceptions, to identify willingness to pay issues around inequality and social injustice**
- **Establish better links between taxes paid and service delivery**

THANK YOU FOR YOUR ATTENTION!