Africa Tax *Spotlight*

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Taxation and the MDGs

EDITORIAL

Welcome to the Fourth edition of the Africa Tax Spotlight whose theme is Taxation and the MDGs. This edition comes to you after the UN High High-Level Plenary Meeting of the General Assembly on the MDGs held in September. This plenary turned out to be another huge disappointment for poor countries as donors did not increase aid volumes enough to meet internationally agreed targets.

In principle, the Millennium Development Goals (MDGs) are a good framework for promoting development. The MDGs are unique in that they represent the first global agreement between the heads of state of developed and developing states together with the United Nations and the Bretton Woods institutions. Here is a framework that seeks to eradicate problems besieging the world's poorest countries; poverty, hunger, achieve universal primary education, promote gender equality, reduce child mortality, improve maternal health, combat HIV/AIDS, ensure environment sustainability and develop a global partnership for development. The goals have a clear target and deadlines and should ideally have the support of citizens and governments alike. The MDGs were a fresh commitment following the widespread failure of previous numerous international efforts to reduce poverty in the developing world despite massive amounts of aid poured into these regions.

The question to ask then is why progress towards achieving the goals has been at a snail's pace particularly for sub Saharan Africa which is at the epicenter of the crisis. 10 years after the MDGs were put in place and Africa is still the only region grappling with issues of increased human poverty and hunger. The aftermath of the global financial crisis will result in

- 1.2 million children under the age of five and 265,000 more infants dying between 2009 and 2015
- 350,000 students will not be able to complete primary school education by 2015
- 100 million fewer people will have access to safe drinking water by 2015

While IFIs like the IMF and the World Bank availed funds through their crisis lending and recovery is underway, the impact of the crisis will be lasting and immeasurable. The UN High-Level Plenary Meeting of the General Assembly on the MDGs did not give a clear action plan while acknowledging that much more needs to be done in achieving the" Millennium Development Goals as progress has been uneven among regions and between and within countries." Civil Society noted that donors did not live up to their many pledges on making aid work for Development and that the current aid architecture continues to deliver aid in ways that impede its developmental impacts.

The Reality of Aid Network in its Statement on the occasion of the UN High-Level Plenary Meeting of the General Assembly on the Millennium Development Goals noted that “several donors continue to provide ODA in the form of concessional loans, further deepening the long-term debt and worsening debt overhang in already heavily indebted countries.”

The G20’s push for economic growth falls short in failing to outline concrete measures to protect the poor. This reluctance by donors to honour pledges (especially the 0.7% of their GDP of which most of them have not met) means that there is need to look at other sources to meet the goals...if there is still any hope of meeting them with just 5 years left of the agreed deadline. Aid exceeds tax revenues in 12 Sub-Saharan African countries, and is equal to tax revenues in 24 countries and this shows that aid alone is not the panacea to the growing problems of the world’s poor.

There is need for new policies that look at other ways of sourcing new funds and the issue of mobilizing resources is important. The most strategic thing is the mobilization of domestic resources which are not fully utilized. This is where the issue of taxation comes into play. While external finance is attractive the danger is in accruing unnecessary and excessive debt burden. Taxation is emerging as most central to economic development agenda discourse compared to other development financing mechanisms like trade and aid as it provides a stable flow of revenues to finance development priorities. Beyond resource mobilisation, tax is an effective tool to enhance accountability between governments and the citizenry; taxation allows the citizens and their govenrments to draw a social contract as taxpayers would like to see what their taxes have been used for. Less attention is paid to citizens when governments are using more aid monies than their own funds. In this regards, governments should work towards involving the general populace on tax formulation as this is mostly viewed as the work of technocracts.

It is sad to note that countries like Tanzania which is the world’s third largest gold producer has a budget déficit in its 2010/2011 budget due to revenue shortfalls. If the country was collecting máximum revenues from the many foreign based mining companies, would there be this kind of situation? The Norwegian Embassy in Maputo hosted the Norwegian Economist Dr. Odd-Helge Fjeldstad a specialist in public sector reform, taxation and revenue administration. On being asked about the challenges Mozambique faces with regard to tax and Development he noted that “it is of major importance to address the tax exemption regime. Exemptions are extensive, non-transparent and imply substantial losses of revenues. This is particularly a problem in connection with the so called mega-projects, some of which have managed to negotiate very generous contracts with the government, which imply that they will not pay any taxes in the foreseeable future.” He further noted that there is a need to create a much broader engagement around tax policy and reforms involving parliamentarians, civil society, business associations and the media

Editorial

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Guest Editor: *Fiona Chipunza (Pictured)*

Contributing editor: *Sandra Kidwingira*

Email: infoafrica@taxjustice.net
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As civil society, there is need to create debate platforms to involve citizens and policy makers on the kind of tax policies that we want to see. These should be pro poor because the MDGs are focused on improving the lives of the poor and this is only posible whereby nations develop alternative sources to finance development of which taxation/ domestic resource mobilisation is a major component. The present world economic and financial crisis has, more than ever, exposed the vulnerability of developing countries for their reliance on foreign aid resources for their development agenda.

Fiona Chipunza
Programme Officer
Afrodad

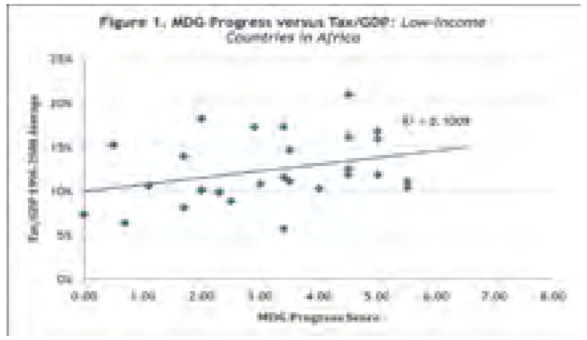
MDGs

Tax Justice is the missing ingredient in achieving the MDGs

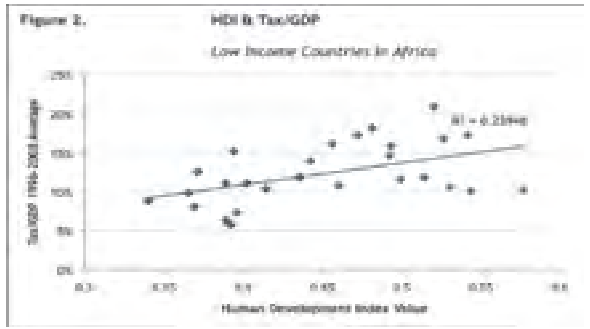
Matti Kohonen
Consultant, Tax Justice Network International Secretariat, London

The Millennium Review Summit that concluded in New York in the month of September missed on the crucial aspect of taxes, which is the main mechanism for most ordinary persons to benefit from increased trade, or higher growth. While many analysts compared the levels of aid, growth or trade liberalisation, the relationship of MDG achievement and taxation has not been analysed so far.

We have started therefore a Tax and MDG monitoring project at the Tax Justice Network, and our initial results show that the relationship is both strong but also giving some surprises requiring further analysis. Our research ranks countries according to how much tax revenue (direct, indirect and trade taxes) they receive as a share of GDP. Natural resources revenues are left out of the tax per GDP figure as the existing literature points that they tend to be dividends, royalties and bonuses.



A new MDG Progress Index[1] published in August by the Centre for Global Development (CGD) in Washington was consulted, and MDG data is sourced from the World Development Indicators database[2]. We also look at correlations with the United Nation’s Human Development Index[3]. On tax, we used data from the latest African Economic Survey[4], which we analysed in terms of both the average share of tax per GDP over the entire period of the survey (1996-2008).

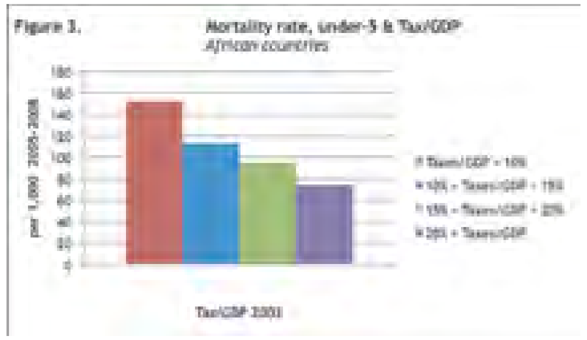


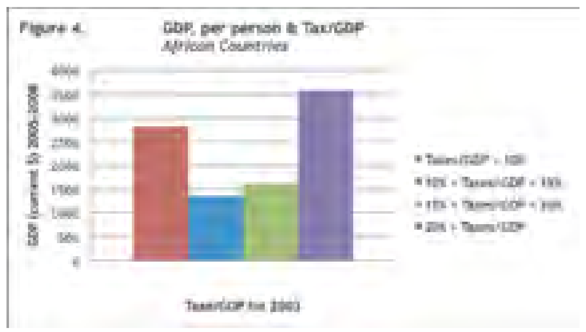
[1] *Who Are the MDG Trailblazers? A New MDG Progress Index*, Center for Global Development, Working Paper 222, Aug 23, 2010. The index compares countries’ performances in achieving the MDGs against required achievement trajectories for each of the examined MDG indicators. The Index is calculated by aggregating country performance across the eight core MDG targets covering poverty, hunger, education, gender equality, child mortality, maternal mortality, HIV/AIDS prevalence rates, and safe drinking water. http://www.cgdev.org/content/publications/detail/1424377

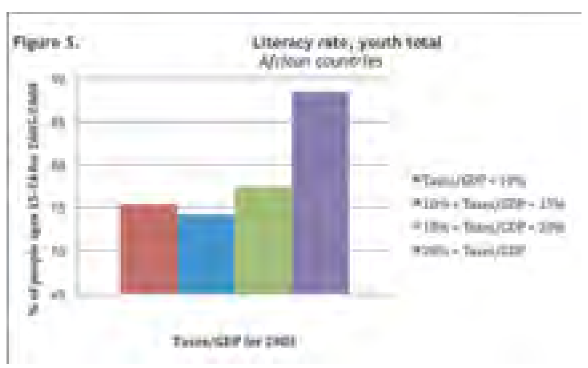
[2] World Bank 2010 ‘Databank’ Washington D.C: World Bank. http://data.worldbank.org/

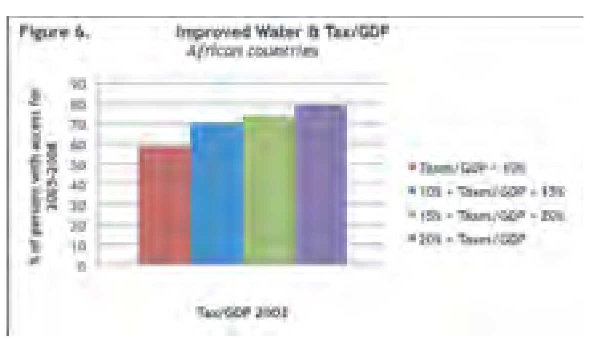
[3] In the Human Development Index 0.900 and above denotes ‘very high human development’, 0.800-0.899 is ‘high’, 0.500-0.799 is ‘medium’, while below 0.500 is ‘low human development’. In the Human Poverty Index varies uses percentages in each indicator, so it varies between 0 and 100. UNDP 2009 ‘Technical Note 1: Calculating the Human Development Indices’ New York: UNDP. ‘http://hdr.undp.org/en/statistics/tn1/

[4] ADB / OECD 2010 ‘African Economic Survey’ Abidjan; Paris: ADB; OECD.









The relationship is especially strong for the low-income countries,[5] while for the entire group of African countries the relationship was weaker, notably due to some countries being outside the normal range,[6] for low-income countries the relationship is strong. We also sliced the data a different way, by dividing African countries into four groups according to their tax per GDP ratio. We then compared their Tax/GDP ratio in 2003 with MDG achievement in 2005-8, allowing for a 3-5 year time lag between in concrete effects of public expenditure.

Out of 23 MDG indicators, chosen on data availability, 15 showed a positive relationship, 5 showed a negative one, and 3 were inconclusive. Notably the indicators on HIV/AIDS and Tuberculosis were negative, as Southern African countries with a high tax effort are particularly affected by the pandemic. Some targets, such as terrestrial protected areas, progressed only until the 15%-20% group. Analysis shows that a sustainable level of tax per GDP for achievement of MDGs would be above 20 per cent of GDP. Also the tax/GDP factor behaves differently from GDP per person, as resource rich countries are in the under 10% group. Therefore tax systems in Africa may be key factors to consider in how much progress African countries are making towards achieving their MDG targets. Accelerating domestic resource mobilisation to finance the MDGs is the seventh agenda point of the 2000- 2015 MDG Action Agenda.[7]

A research agenda for further studies should include at least the following issues:

1) Why do tax revenues and natural resource revenues have different effects in achieving the MDGs and human development targets?

2) How does absolute revenues per person influence MDG achievement in comparison to the relative tax effort measures as a per centage of GDP?

3) How taxation influences key governance measures ranging from transparency, corruption, and more effective expenditures of revenues in the budget.

[5] World Bank 2010 'Country and Lending Groups' Washington D.C.: World Bank. http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income

[6] These outliers are Lesotho and Swaziland, with tax per GDP 37.2% and 43.4% respectively, due to high trade tax receipts under the Southern African Customs Union (SACU).

[7] UNDP 2010 "What will it take the achieve the Millennium Development Goals: An International Assessment" New York: UNDP, p. 40

Taxation and the Four 'R's

Nothing comes for free in this world, least of all the achievement of a goal as ambitious as the eradication of extreme poverty. To provide healthcare and education for billions more people around the world was always going to require a massive amount of cash.

It was assumed that aid would pay for the achievement of the MDGs, but in the wake of the financial crisis these flows are dropping and few countries will live up to their commitments to give 0.7% of GDP in aid.

This realisation probably lies behind world leaders' recognition of the importance of domestic taxation in their statement after the MDG summit in September – before that, it had barely been mentioned. The hope is that developing country governments can collect more tax revenue from citizens and firms, and use it to offset the shortfall in aid money to finance development.

But achieving the MDGs, and more importantly eradicating poverty, requires more than just money, since poverty is not just a lack of income or material goods. Poverty is a lack of dignity, of opportunity, and fundamentally of power over one's life prospects. When poverty is understood in this way it becomes clear that a cash transfer alone cannot be the solution.

The MDGs are an inadequate framework in which to eradicate poverty because they fail to properly understand it, as Christian Aid's recent report 'Poverty Over 2 – We're All In This Together' demonstrates. Achieving the MDGs would address some of the symptoms of poverty, but would not go to the heart of the problem and empower the poor. Three crucial areas are ignored in the MDGs - inequality, sustainability and accountable governance.

Domestic resource mobilisation, in the form of progressive taxation, can strengthen all of these areas and ultimately tackle the structural causes of poverty as well as the symptoms. The policy objectives of taxation can be summarised as the '4 Rs': Revenue, Redistribution, Repricing and Representation.

Gaining revenue to fund public services, which give people the opportunity to live life fully and healthily, is only a part of it. If taxation is properly progressive, it can bring about great redistributions of wealth and well being. This reduces the inequality which makes for disharmonious societies, and ultimately breeds conflict.

Taxation can also contribute to the sustainability agenda by repricing goods to reflect externalities such as the environmental impact of polluting vehicles. It can also support fiscal sustainability: The OECD's African Economic Outlook stated that $1 of aid money spent on strengthening tax administrations yields $10 in development finance. It is hard to imagine a more sustainable means of spending aid money than equipping countries to raise their own revenues.

Over-reliance on aid has led governments to be more responsive to the demands of donors than of their own citizens. The final contribution taxation can make towards poverty eradication is by improving the accountability of governments to their citizens. There is nothing like taxation to engage people with politics, as the British found out in 1773 when cries of 'No taxation without representation' resounded at the Boston Tea Party. And governments will be forced to listen to their citizens if they rely on them financially.

Yet talking about taxation as a way out of poverty seems to involve a contradiction: if people are in income poverty, they do not have the capacity to pay tax. And if governments tend to be more accountable to taxpayers, how can they be accountable to poor people who cannot afford to pay? The key to resolving this situation is equity within the tax system. Poor people are naturally only willing to pay their fair share of tax (probably only a small, symbolic amount) if they see that the rich are paying their way too.

However as it is, unscrupulous rich elites and multinational companies around the world do their utmost to avoid paying tax. This is an open fact: A recent Financial Times article quoted Vodafone's tax policy as saying "the maximisation of shareholder value will generally involve the minimisation of taxation". And citizens of all countries, rich and poor, know that tax havens allow untold millions to be concealed from tax authorities.

Companies avoiding paying tax may think they are maximising shareholder value, but this works only in the short term. Taking the long view, there is a concrete business case for tax – tax revenue pays for infrastructure, services, and ultimately stability. It is much better to do business in countries where investments are protected by stable judicial systems, where there are good roads, an educated population, and where the electricity doesn't cut out every other hour.

The gross imbalances in the global economy are well documented, with the USA's current account deficit and vast indebtedness opposing China's bottomless foreign currency reserves. New centres of consumer demand in poor countries would address this, benefitting people and businesses. However, for this to happen, stable, functioning states are needed which progressive taxation systems would go so far to create.

The Millennium Development Goals represent many of the symptoms of poverty, but ignore crucial elements like inequality and accountable governance. In these areas taxation has the potential to be transformative, by redistributing the spoils of growth and fostering a healthy relationship between state and citizen. And by allowing for sustainable financing of public services, effective taxation would help achieve the MDGs too.

Julian Boys

Economic Justice Policy Volunteer

Christian Aid

Nigeria

Millennium Development Goals, Taxation and Development in Nigeria

Nigeria

The move towards poverty reduction is and will continue to become, an increasingly important element in economic growth and development, hence in September 2000, leaders from 189 nations ratified the Millennium Declaration.

Africa is a continent in despair. Despite its enormous natural and human resource endowments, the continent has been trailing in all socio-economic indices of development compared with other Third World regions. Africa is synonymous with poverty, ignorance, and diseases; a sorry state that impoverish its people. In sub Saharan Africa (SSA), the number of people living in absolute poverty, that is, US $1 or less per day, soared from 217 million in 1990 to 290 million in 2000 (ECA, 2005). It is disheartening that women form the bulk of this number. Also, adult life expectancy declined from 50 years to 46 years during this period. It is on this basis that the Addis Ababa-based Economic Commission for Africa (2005) argues that, "based on the trends of the past 15 years, Sub Saharan Africa will not achieve the MDGs on time."

Resources to finance development can be mobilized from internal and external sources. While the domestic sources include private savings, taxation, money and capital markets, surpluses of public enterprises and deficit financing, the external sources, on the other hand, include Official Development Assistance (ODA), foreign borrowing and foreign investment. In recent years, migrant remittances and debt relief have also become significant for many of the poor countries. Domestic resources should ideally constitute the major source of financing development and should be the first port of call. Indeed, the Monterrey Consensus of the International Conference on Financing for Development (2002) places the mobilization of domestic financial resources for development at the centre of the pursuit of economic growth, poverty eradication and sustainable development. Domestic resource mobilization is crucial to achieving the MDGs and sustaining the achievement, and any longer term development goals. The International Poverty Centre (2007) points to evidence which shows that many developing countries have the capacity to mobilize substantial amounts of resources domestically. In this direction, a sample of 26 countries in Sub-Saharan Africa shows that total revenue/ GDP ratio increased from 14.1 per cent in 1990 – 1995 to 15.9 per cent in 2000 – 2005, and the rise was driven by increases in tax revenue. This, however, does not suggest complacency in resource mobilization in view of the subsisting development challenges.

Taxation

Taxes are the most important source of government revenue in modern economies. It is at the heart of the 'social contract' between a modern sovereign state and its citizens. In return for fulfilling duties such as 'paying a fair share of taxes', citizens are provided with security, infrastructure and social services. But in most developing countries (Nigeria inclusive), there is no strong commitment by both government and the citizens to their mutual responsibilities, and so the ability of the tax structure to yield substantial revenue is significantly reduced (NPC, 2008). In Nigeria, tax revenue has, for a long time, been adversely affected by the euphoria of oil revenue and governance problems. And so the tax effort (tax revenue/GDP ratio) at the federal level is quite low – the share of nonoil revenue (including independent revenue) in the GDP is about 10 per cent or less (NPC, 2008). Tax revenues have not fared better at the state and local government levels. But concerted efforts at genuine tax reform can yield substantial dividends with the tackling of a number of challenges relating to:

- Weak administrative capacity for tax collection, including infrastructure
- Widespread corruption in tax collection
- Absence or dearth of public service benefits for previous tax payments which serve as a disincentive to continue tax payments

- Perceived mismanagement of tax funds/ public funds
- Pervasive tax avoidance and evasion
- Unfavourable attitudes towards paying tax
- Multiplicity of taxes and levies at the three tiers of government

Government revenue is dominated by oil revenue derived from crude oil and gas exports, domestic crude oil sales by the Nigerian National Petroleum Corporation (NNPC), Petroleum Profits Tax, Mining Rents and Royalties. Over the period, 2000-06, oil revenue, on average, accounted for 80.5 per cent of total revenue while nonoil revenue comprising Companies Income tax, Customs and Excise Duties, Value Added Tax, and independent revenue of the federal government, accounted for the rest 19.5 per cent (NPC,2008). This means that these sources which would normally provide a more stable and predictable source of revenue have been significantly dwarfed by the presence of oil.

Table 1 Major Sources of Revenue Accruing to the Federal Government.

	2002	2003	2004	2005	2006	Total
Oil Revenue	1,230.8	2,074.3	3,354.8	4,762.4	4,421	15,843.3
Crude Oil/Gas Exports	496.3	998.4	1,498.4	1,995.7	2,074.2	7,063.0
Petroleum Profit Tax and Royalties	392.2	683.5	1,183.5	1,904.9	1,171.8	5335.9
Domestic Crude Oil Sales	304.2	386.4	668.1	856.9	1,171.8	3,387.4
Other Oil Revenue	38.1	6.0	4.8	4.9	3.2	57.0
Non Oil Revenue	501.0	501	566.1	785.2	677.5	3030.8
Companies Income Tax	89.1	114.8	130.1	162.2	244.9	741.1
Customs and Excise Duties	181.4	195.6	217.2	232.8	177.7	1,004.7
Privatization GSM Proceeds	19.7	0.0	0.0	0.0	0.0	19.7
Value Added Tax (VAT)	108.6	136.4	159.9	178.1	221.6	804.6
Tax on Petroleum Products	0.0	0.0	0.0	0.0	0.0	0.0
Independent Revenue of Federal Government	68.1	54.2	58.9	212.1	33.3	426.6
Education Tax	10.3	0.0	0.0	0.0	0.0	10.3
Others	23.8	0.0	0.0	0.0	0.0	23.8
Total Revenue	1,731.8	2,575.3	3,920.9	5,547.6	5,098.5	18,874.1

Source: Central Bank of Nigeria

Nigeria

Oil revenue constitutes over 80 percent of total revenue collected by the Federation Government through taxes on the private oil producing companies. These taxes include royalties and petroleum profit taxes. Royalties are fees paid for every barrel of crude oil produced while the petroleum profit tax is levied at 85 percent of profit. In addition, the government receives income from the sales of its share of crude oil

and gas internationally and domestically. Non-oil revenue is derived primarily from four sources, namely corporation tax income tax (CIT), value-added tax (VAT), customs and excise duties, and other special memorandum items.

Nigeria

Supporting Effective, Efficient, Fair and Sustainable Tax Systems

Efficient and fair tax systems are crucial for growth, poverty reduction, good governance and state-building. They tend to result in higher and more stable revenues, more sustainable investments, and improved competitiveness of economies. In particular, the nexus between tax reform and the improvement of the business environment is critical by making it easier for business to invest, trade and create jobs. Moreover, in countries encountering capacity difficulties, it seems particularly important to design tax systems that are easy to operate with limited resources.

Efficient and fair tax systems are also essential for promoting democracy and state legitimacy since tax payers tend to hold their governments accountable. They help build a strong fiscal, social contract between citizens and their government at all levels that encourages tax compliance, leads to improved democratic and economic governance, higher revenues through higher economic growth and broader tax bases. It allows for combating tax evasion and avoidance, fighting money laundering, corruption and the financing of terrorism. Although, there has been progress in "the rate of growth that has risen from 2.5% in the 1990s to 6% during 2004-2007, including rapid increases in non-oil growth" (CBN, cited in UN, 2009). However, this development did not have any positive impact on Nigerians because "more than half of Nigerians (54.4% or 76 million people) live in poverty, twice the rate in 1980" (UN News, 2009).

In the quest of creating fiscal space to meet the financing requirements of MDGs, it is important that countries in Sub-Saharan Africa in collaboration with the donor community, work harmoniously towards removing the obstacles that contribute to the ineffectiveness of external inflows. While emphasizing the need for external support, it is also important that governments, particularly those with low tax-revenue to GDP ratio of below 20 percent step up their commitment to improving revenue mobilisation effort to hit the 20 percent mark through the following measures:

- Governments should show great commitments to reducing waste in public expenditure management as a matter of priority to free up resources that can be devoted to productive public expenditures and enhance the governments' credibility and thus its ability to borrow and attract increased external assistance;
- Improve tax compliance of the public through transparent management of public funds;
- Ensure the independence of the revenue authority and address the need to maintain

incentives for staff within the service to raise their commitment and discouraging them from indulging in corrupt practices which could undermine revenue generation;

- Broaden the tax base by reducing tax exemptions without compromising its effect on the poor and also rolling in people who have the capacity and ability to pay but are not covered due to exemptions or lack of proper records to assess their tax liability.
- Improve tax and customs administration by developing IT-related procedures and manpower upgrading with particular attention to accountability and anti-corruption measures.

Conclusion

Following current trends, Nigeria is unlikely to achieve all the MDGs by 2015. Investments in the MDGs would need to be scaled up substantially to achieve the MDGs by the target date of 2015. The huge financial resources required to achieve the MDGs by this date pose significant challenges to the revenue mobilization capabilities of the three tiers of government. The primary strategies to consider in efforts to address the financing gaps are the mobilization of domestic resources and the promotion of high rates of economic growth. Resource mobilization in the public sector should be supported by improvements in the absorptive capacity of the public service delivery system for the huge budgetary resources envisaged for MDG interventions and improvement in public spending efficiency through, for instance, stronger transparency and accountability arrangements and restructuring of the public service delivery system to focus on basic services that meet the needs of majority of the people.

Fakile Adeniran Samuel
Department of Accounting
College of Development Studies
Covenant University, Ota, Nigeria

AFRODAD on the MDGs...10 years later

AFRODAD

In 2001, the MDGs were produced by the UN Secretary General and updated in 2005. They consist of 8 goals, 21 quantifiable target[8] and 60 indicators[9]. The MDGs comprise development issues such as eradicating poverty, education, gender equality, child and maternal health, the combat against HIV and AIDS as well as environmental sustainability and developing a global partnership for development. Only five years remain till the 2015 deadline to achieve the very important targets of MDGs

The Heads of State and Government gathered at the United Nations Headquarters in New York from 20 to 22 September 2010 during a summit to review success of MDGs and come up with measures to accelerate the implementation of targeted goals by 2015. The leaders came up with a Draft resolution referred to the High-level Plenary Meeting of the General Assembly by the Assembly at its sixty-fourth session with the theme, keeping the promise to achieve the MDGs[10].

While it recognised that there is no "one size fit all" approach to achieving the set targets by 2015, the draft resolution reiterated that each country has primary responsibility for its own economic and social development. National policies and strategies for domestic resource mobilisation is thus of paramount importance for national development.

There is a correlation between favourable tax policies and trade policies resulting in economic growth. It remains a fact that the trade regime as an engine for growth, should work for Least Developed Countries (LDCs) if the MDGs are to become a reality. The highest remaining trade tariffs are in sectors where poorer countries have a comparative advantage—agriculture, textiles and apparel, and other labor-intensive manufacturing products despite low average tariffs in rich countries.

Also if developing countries will be able to collect sufficient tax revenues, they might be able to increase their capacities to meet the set target of the MDGs. The draft resolution under Goal 8 notes that domestic taxation should go a step further through more efficient tax collection, broadening the tax base and effectively combating tax evasion and capital flight. While each country is responsible for its tax system, it is important to support national efforts in these areas by strengthening technical assistance and enhancing international cooperation and participation in addressing international tax matters. Tied with this note, implementing measures to curtail illicit financial flows at all levels will enhance local resource mobilisation.

When the MDGs were born at the Millennium Summit of the UN, it was an era of stability, stronger economic growth and fairly high aid budgets. MDGs have registered success in combating extreme poverty, improving school enrolment and child health, reducing child deaths, expanding access to clean water, improving prevention of mother-to-child transmission of HIV, expanding access to HIV/AIDS prevention, treatment and care, and controlling malaria, tuberculosis and neglected tropical diseases. The question of the day is now will this success story be sustained given the changing global developments that have transpired since 2000.

The world now grapples with new challenges such as the effects and aftermath tensions of the financial crisis, the food crisis and climate change which has reduced the yields levels of agriculture. International terrorism and the war against it have influenced international politics. Urbanisation, demographic changes and pandemics are other of many challenges with global implications. Will the donor community honour up to its pledges for aid in financing the MDGs? Hunger and malnutrition which had been combated have rose again from 2007 through 2009, partially reversing prior gains.

The draft resolution recognized that without substantial international support, several of the Goals are likely to be missed in many developing countries by 2015. As was implicit in Goal 8, the world leaders recognized that more attention should be given to Africa, especially those countries most off track to achieve the Millennium Development Goals by 2015.

AFRODAD subscribes to the notion that the attainment of the MDGs by 2015 explicitly hinges on the fulfilment of MDG 8 which talks of developing a global partnership for development. It is progress in this goal that will determine the consequent achievement or failure of the other seven goals. Satisfying this target will mean that the illicit outflow of natural resources which creates poverty will be reduced thus putting Africa a step further towards achieving MDG 1 of reducing poverty. Economic Community of West African States (ECOWAS) and Southern African Development Community (SADC) are just some of the steps toward establishing global partnerships. The debt burden in Africa continues to divert funds from the MDG discourse to debt service making MDG achievement by 2015 an illusion.

As the world moves on the path to achieve the MDGs a collective action is thus necessary to ensure that the

AFRODAD

[8] (originally 18)

[9] (originally 48)

[10] United Nations General Assembly 65th session; Agenda item 13 and 115

developing economies are given the necessary support. The donor community should honour its official development assistance pledge to increase aid to 0.7% of GNP. We need to radically change the way we do development. AFRODAD calls for the introduction of a financial transaction tax. This offers a very attractive way of raising funds for the achievement of the MDGs. It has been estimated that this tax alone could raise an additional $100 billion a year if adopted. To achieve this there is need to tackle capital flight, tax avoidance and tax evasion by strengthening of the UN Committee of Tax Experts and the creation of a global multilateral information exchange convention.

Taurai Chiraerae
Programme Officer
AFRODAD
Harare, Zimbabwe

TJN ACROSS THE GLOBE

Tax Justice Seminar and Workshop in Latin America

Latin America

On August 25th, 26th and 27th, the city of Antigua, Guatemala, received experts, academics, journalists and civil society organizations. The event began with a seminar on public finance and tax evasion and ended with a workshop for training and advocacy.

It was organized by the Central Institute for Fiscal Studies (ICEFI) of Guatemala, Tax Justice Network (TJN) and Poder Ciudadano (PC) from Argentina and had the support and collaboration of Sida, Embassy of Norway, European Union, ITC, GTZ, Kepa, SOMO, LATINDADD and Christian Aid.

The seminar brought together the key players of the region and focused on tax evasion, money laundering and secrecy jurisdictions. Oscar Ugarteche, chairman of ALAI, Markus Meinzer, consultant to TJN, David Spencer, adviser to TJN, Simon Pak, transfer prices researcher, Juan Carlos Gomez Sabaini, IDB, IMF and ECLAC consultant and Maynor Cabrera , senior economist of ICEFI, participated of the event.

Relevant conclusions were collected from the seminar regarding the importance of the fight against financial globalization, the rise of secrecy jurisdictions since 1990 and the tax problem in developed economies.

Latin America

As well, the Financial Secrecy Index was presented. According to its results, United States, Luxembourg and Switzerland are placed in the first three places.

The workshop aimed to facilitate research and advocacy on tax justice issues. Jorge Gaggero, CEFID-AR researcher in Argentina, Deborah Itriago, Intermón Oxfam researcher and Mariana Paoli, from Christian Aid, among others, were the trainers of the event.

Research tools, the GAFI standards, the importance of access to public information and mechanisms to influence public policy have been presented. In this sense, TJN Toolkit was introduced and inputs were received to improve the tool.

There was a general concern about certain issues, which members of the network are considering to agree on the three most important issues in the region to advocacy in 2011.

Latindadd

Latindadd, qui est un réseau latino-américain, développe actuellement des actions de sensibilisation, de formation, de supervision, des propositions alternatives d'analyse critique, de plaidoyer et de mobilisation de la société civile autour de 3 axes stratégiques

1. L'illégitimité de la dette et la dette écologique

- Le Reseau assure la systématisation et la publication de l'audit de la dette de l'Equateur et du Brésil et le lie à l'audit en Amérique centrale. En outre, ces résultats ont de l'influence sur les propositions avancées au Groupe du CNUCED sur le financement souverain, démocratique et responsable
- Il influence des activités en rapport avec le Changement Climatique. Il mène aussi des études sur le financement du changement climatique et le dialogue avec Jubilé Sud.

2. Impact sur le financement du développement

- Le Réseau est en train de réaliser une étude sur la justice fiscale en Amérique latine et des études étendues de cas. Les études en cours s'effectuent sur les paradis fiscaux, les flux d'aide, etc Latindadd participe activement à la table ronde sur les taxes et le développement de l'OCDE et coordonne le réseau Tax Justice Network en Amérique latine.
- Il participe au dialogue entre les Organisations de la Societe Civile et le Gouvernement français (G20 2011) sur les flux de capitaux illicites et travaille en coopération et suivi avec Acra (études sur de nouveaux indicateurs et de positionnement).

3. Design et impact de la nouvelle architecture financière internationale et régionale

- Latindad maintien un dialogue avec le SICA sur le TLC et la réglementation des capitaux, une étude sur la réglementation des marchés des produits de base et de lutte contre le CIRDI.
- Il influence la réglementation des capitaux, le système monétaire international et de l'architecture financière du G20 2010-2011 en partenariat avec d'autres réseaux et en particulier sur le projet de l'UNASUR , la Banque du Sud, la monnaie unique, Les fonds du Sud, Global South, la Cour d'arbitrage, la réglementation capitale.

AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT (AFRODAD)

Give a brief background of AFRODAD, your areas of work.

AFRODAD is a civil society organisation born of a desire to secure lasting solutions to Africa's mounting debt problem which has impacted negatively on the continent's development process. It aspires for an equitable and sustainable development process leading to a prosperous Africa and its **mission** is to secure policies that will redress the African debt crisis based on a human rights value system.

AFRODAD was formed in 1996 and is governed by a Board of seven people from the five regions of Africa, namely East, Central, West, Southern and the North. The Board meets twice a year. The Secretariat, based in Harare, Zimbabwe, has a staff compliment of seven programme and five support staff.

The major target groups are the policy makers in national governments and their institutions, the intergovernmental institutions, such as sub-regional organisations(like SADC), the regional organisations such as African Development Bank, the Economic Commission for Africa, and the African Union as well as actors on the global level including the Bretton Woods institutions and the United Nations processes. AFRODAD believes that by reaching these groups, more influence will be made on regulations that would bring more development to Africa, as they are the ones who are more influential in policy issues.

Research is AFRODAD's main thrust and this contributes to its lobby and advocacy work at national, regional and international levels. AFRODAD main portfolios; debt, economic governance and development aid produce an average of 20 research projects per year covering all the regions of Africa, making their lobby and advocacy work truly rooted in the African experience.

Why the interest in tax justice?

AFRODAD developed an interest in tax amid the realisation of the growing role and impact of tax in the development agenda. The link between development and taxation has come up in various fora as development practitioners and activists discussed methods of mobilizing domestic resources for financing development in the South especially the need to finance the Millennium Development Goals (MDGs). The outcome of the 2002 UN Conference on Financing for Development stressed the importance of strengthening the revenue-raising capacity of developing countries. Tax revenues are, on average, lower in developing countries than in rich countries; the average revenue in low income countries was approximately 13% of GDP in 2000. Hence the argument that if developing countries were able to collect sufficient tax revenues, they might be able to increase their independence, the provision of social protection, infrastructure and basic services such as education and health care which are crucial for development.

AFRODAD believes that most governments in developing countries especially in Africa have the potential to raise significant amounts of money through domestic taxation. The characterisation of Africa as a poor continent is rather misleading, as Africa is a rich continent with many natural resources including gold, oil, and diamonds. If all low and middle-income countries are able to raise taxes to at least 15% of national income, they can raise an additional $US200 billion. It has been estimated that as much as $US1 trillion per year (this is more than 10 times Foreign Aid) is being lost by developing countries in illicit capital flight. There is thus need to look seriously at the issue of tax. These and other factors have thus necessitated AFRODAD to engage in tax justice so as to influence policy changes.

What do you think is the role of CSOs in tax justice?

The main role of CSOs in tax justice is to raise awareness on the role of tax in promoting pro-poor growth, democratisation, financing public services and reducing social inequalities in developing countries. They also have an advocacy role in pressurising the Government to adopt tax policies that are fair and just. In order for CSOs to successfully perform their advocacy function, there is thus the need to promote, build and strengthen partnership with the government at the national and regional levels.

What in your view are the most urgent steps that African countries can take to finance development, in particular the MDGs.

Urgent action is needed for Africans to be able to finance its development. This includes:

- **Promotion of Domestic Resource Mobilisation(DRM)**

  Greater reliance on DRM is vital to elevating economic growth, accelerating poverty reduction and underpinning sustained development. Enhancing DRM in poor countries involves deepening the fiscal capacity of the state and improving the social rate of return to public investments. It must also involve deepening financial markets so that they are able to attract a growing proportion of domestic savings and allocate them to commercially productive uses.

- **Termination of tax holiday breaks for foreign private companies**

  Although foreign direct investment creates jobs, and backward and forward linkages that promote economic growth, and leads to knowledge transfer, some industries such as the mining industry enjoy a wide range of tax breaks but only provide jobs that pay poverty wages.

  There is need for civil society to engage with policy makers to deal with these kinds of practices. Before any tax incentives are offered, the responsible Ministry must set out what companies are expected to provide in return. Countries need to have either sector or company based arrangements not the current Multilateral Development Aggreements that characterize most countries in Africa.

- **Development of pro-poor policies**

  While tax should be the most important source of operational income in most African countries, tax systems have been corrupt and full of exemptions that have benefited powerful people rather than the poor

  Taxation should not only be efficient but should also be fair because the emphasis on efficiency tends to favor the rich more than the poor. For example, while consumption taxes like VAT are economically efficient they favor the rich more than the poor, so they create problems for equity. Africa needs to stand up and take responsibility for their own development.

- **Strengthen weak tax administration through training and combating corruption**

  How a tax system is administered affects its yield. An administration that is unfair and erratic brings the tax system into disrepute and weakens its legitimacy. The public should also be educated on tax issues and become actively involved in formulating tax policy. Parliament should play a pivotal role in conversing with the public on the role of tax in supporting development and in creating confidence in the tax system. Once this is done there will be less incentive to avoid paying taxes.

- **Encourage transparent reporting and use of budget tracking by institutions of oversight. e.g. Parliament ,senate and CSOs**

  In order to finance development, there is also need for greater fiscal transparency. Those who manage public funds should be held accountable - to spend wisely, reform bad habits, and do business in the light of day - because only then can vital trust be restored between people and their government.

What is AFRODAD's vision for the remaining 5 years to achieve the MDGs?

Ten years down the line most of the African countries have not met the MDGs and the question is Can Africa deliver on the MDGs? The answer is probably not. Calling for "more of the same" is not the solution, what is needed is a radical change of the way we do development, a different and new approach.

AFRODAD believes that there is need to concentrate on MDG goal 8, the establishment of a global partnership around the issues of of trade, aid, debt cancellation and technology transfer to enable developing countries to achieve the other 7 goals. There should be greater efforts to reform the IMF and World Bank to become more representative, transparent, accountable and development-focused. This is because these institutions are autocratic in nature and require some democratisation in their structures.

AFRODAD believes that the current scenario of debt resolution is skewed towards the creditors who are the judge, the prosecutor and the defendant's lawyer. Among other targets there is need for a creation of a fair and transparent debt work-out procedure based on the principles of natural justice and neutrality. There is also need for a creation of an international responsible lending charter to set standards enforceable at national and international levels, the definition of debt sustainability should go beyond the ability to earn foreign currency, but also the ability to meet MDGs requirements before servicing debts.

Capital flight, tax avoidance and tax evasion also need to be tackled by the creation of a global multilateral information exchange convention and strengthening of the UN Committee of Tax Experts. In addition, AFRODAD believes that the issue of a financial transaction tax should be critically explored. This offers a very attractive way of raising funds for the achievement of the MDGs. It has been estimated that this tax alone could raise an additional $100 billion a year.

What further action is required to ensure African countries can address root causes of poverty?

Building a more widespread commitment to overcoming poverty is an essential first step. However there is need for further action to ensure African countries can address the root causes of poverty. African governments should also rout out corruption, which harms society as a whole. Corruption, both in government and business, places a heavy cost on society. All African governments should also be urged to broaden access to education and technology among marginalized groups, and especially among girls and women. The educational attainment of women has strong bearing on the well-being of their families, and efforts to improve education for women and girls must be strengthened. At the same time, steps should be taken to ensure that the current revolution in information technology benefits marginalized groups and this can begin in schools.

How well are African voices represented in the MDGs debate?

It is sad to note that although MDGs are most relevant to Africa and other developing countries, there is lack of input by developing countries. African voices tend to be used for window dressing in such gatherings and therefore the real people who could make a difference are not always consulted. This should therefore be a cause for concern and the reasons behind this must be probed because the MDGs initiative cannot succeed without the input and co-operation of developing countries.

Collins Magalasi, Executive Director, AFRODAD

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