tax justice network-Africa

TAX AND DOMESTIC REVENUE MOBILISATION

Potential Game Changer to the Financing for Development Process

Policy Brief | July 2015

CSOs conducted various consultations in Africa towards the Third International Financing for Development Conference (FfD3) to be held in Addis Ababa, Ethiopia on July 13 – 16, 2015. One such notable and key consultations was the Africa Regional Consultations towards the FfD3 held in Addis Ababa, Ethiopia on the 22nd and 23rd March 2015. This culminated in the production of a paper on CSOs recommendations whose production was spearheaded by Tax Justice Network-Africa (TJN-A). Through this submission African civil society is happy to contribute to the African common position on the financing for development (FfD) agenda.

CSOs welcome the Joint African Union/Economic Commission for Africa Elements Paper for Africa (hereon, African Elements Paper) that highlights Africa's own thinking and priorities in respect of the continent's own development and the major framework issues for the FfD agenda. This policy brief focusses on the tax and domestic revenue mobilisation part of the CSOs recommendations.

1. Context

It is now clear that the Millennium Development Goals (MDGs) process relied too heavily on overseas development assistance (ODA). This shortcoming needs to be overcome and the issues of tax dodging and illicit financial flows (IFFs) fully addressed, if the FfD3 is to deliver on the financing needs of the Post-2015 Agenda. The Africa regional consultation on the FfD should also result in an African Common Position on FfD.

The CSOs submission was premised on the following underlying principles and call:

- The recognition and desire to eradicate poverty and hunger, to achieve equitable and sustained economic development and sustainable development, to protect the environment, and to promote peaceful and inclusive societies where no one is left behind.
- ODA should be based on the principle of additionality to development needs and priorities. Key aspects of domesv tic resources mobilization such as tax dodging and IFFs should be fully addressed, if the FfD3 is to deliver on African development priorities as well as the Post-2015 Agenda.

Accordingly, the CSOs call for the following:

- All African governments to uphold the commitment to ensure gender equality and promote and protect all human rights, including the right to development, in a world where all people are able to raise their standards of living through decent work and productive livelihoods, while preserving the planet for our children and future generations as stated in the first paragraph of the Zero draft of the Addis Ababa accord.

1. Key CSO Recommendations to the FfD3

- **Industrial transformation and restructuring of African economies.** African countries should push within the FfD an agenda that seeks policies that facilitate locally driven industrialization for value addition in natural resources management as well as the transition of small holders in the informal sector through full employment and economic integration. This requires an emphasis on structural industrial transformation that advances human development; a framework that drives the African industrialisation agenda through value addition, beneficiation and effective linkages; African governments should prioritise linkages between primary commodities and industrial transformation by ensuring coherence between Africa's FfD positions and its regional transformative initiatives such as the Africa Mining vision (AMV); explicitly recognising the centrality of domestic resources mobilisation for the FfD agenda. This requires tax justice among other issues, explicitly recognising that taxation is both a means of financing the continent's needs and a tool to reduce inequality and transform African economic structures through stimulating sectors which will promote industrialisation, value addition and productivity; adopting a full range of progressive taxation measures as a primary means of funding national development goal. Tax policy design and implementation must actively seek to reduce income inequality and African governments must call for global acknowledgement that transnational corporations (TNCs) paying their share of tax should be a major means of financing development in the context of the post- 2015 development agenda as such the international community must clamp down on tax evasion and tax avoidance.
- **Governance of the international tax system**. International cooperation on tax is the key priority related to financing within the new global partnership for sustainable development. African governments should therefore call for

the establishment of a new rule/norm setting intergovernmental tax body with a decision making role for African nations and push the international community to provide the resources necessary to allow the body to operate effectively. All states should have full rights of participation in the new body; commit to working together to combat harmful tax competition; guarantee transparent, accountable and participatory budget processes; urgently implement the recommendations contained in the African Union/Economic Commission for Africa High Level Panel on Illicit Financial Flows within five years at the most; commit to national implementation and push for global commitment to; implementing publicly available beneficial ownership registries for all legal persons and arrangements, annual publicly available country-by-country reporting by multinational companies operating in their territory and a common standard of multilateral automatic information exchange, with differentiated responsibilities for developing countries which have less capacity to provide information over a specified time period.

- **Children and young people.** The African common position on the FfD should acknowledge that investing in children is an essential building block of sustainable and equitable growth strategies. Financing for development should include child-related policies and programmes; African governments must commit to strengthening domestic resource mobilisation and ensure equitable spending on marginalised groups including children; applying rights based situation assessments that help to inform national and international financing and budgeting priorities; making children and other marginalised groups visible in budgets and expenditure reporting; disaggregation of data per age, sex, rural/urban and physical dis/ability as a minimum; and systematising child and human right impact assessments for financing and investment decisions.

- **Gender.** Governments must: commit to a clearly defined strategic framework with accompanying adequate resources to ensure maximization of women productive participation especially in sectors that are transformative such as technology and capital goods sectors as well as insist that state driven public service delivery and social protection regime for all, especially children, young people, women, and other marginalised populations should not only be treated as expenditure and consumption measures but also as a means to stimulate economic activity, generate revenue and create decent jobs.

- **Domestic resource Mobilization.** It is encouraging that strengthening revenue-raising in African countries is being recognized as an urgent task. It is disappointing that the target expressed in the global draft zero (for countries with revenue below 20 per cent of GDP to progressively increase their revenue as a proportion of GDP (para 19) is not taken up in the Elements Paper, which instead refers to 15 per cent of GDP as being a reasonable target for some countries (para 5.5). It should also be recognized that ensuring revenue is raised in a progressive manner is a critical element which has received insufficient attention (noting and supporting the Element's Paper's acknowledgement of indirect taxes as regressive in para 5.7). While we support commitments to raise tax/GDP ratios, such commitments must be linked explicitly to tax equity, ensuring African countries focus on the direct taxation of wealth, income and assets, the removal of tax incentives and exemptions benefiting large corporate actors and efforts to eliminate loopholes and improve enforcement.

African governments should therefore commit to: enhancing domestic resource mobilisation by adopting a full range of progressive taxation measures as a primary means of funding national development goals. Tax policy design and implementation must actively seek to reduce income inequality; taking urgent action to minimise tax expenditure by significantly reducing unjustified tax incentives and exemptions – those which lack an evidence based justification. Tax expenditure statements must be published annually alongside national budget statements and progress tracked in this area; increasing transparency and parliamentary oversight of tax incentives granted and taxation treaties signed; work collaboratively with other African countries to set common standards and minimise the corrosive effect of tax wars within the African continent.

As a priority starting point, collaboration could be achieved in relation to tax incentives; providing opportunities for citizens to make their voices heard regarding tax policy and how revenue raised is spent; enhancing national statistical capabilities to monitor and evaluate the performance of all tax types, the size of the tax gap and how the tax burden is being shared; ensuring fiscal policies are gender sensitive.

This should include assessing and tracking the tax burden on poor men and women; reviewing bilateral taxation treaties with developed countries to ensure that African countries are getting their fair share of revenue; contributing to broader recognition amongst African revenue and finance authorities that the Organisation for Economic Coorporation and Development (OECD) Model Tax Treaty favours residency based (as opposed to source) taxation and therefore favours OECD countries. African countries must also push destination countries to cooperate in the recovery and repatriation of illicit financial flows out of Africa, as recommended by the report of the President Thabo Mbeki chaired AU/ECA High Level Panel on Illicit Financial Flows from Africa (see Elements Paper, para 12.5).

Tax Justice Network- Africa
George Padmore Ridge, Second Floor Wing B,
On George Padmore Road,
Off Marcus Garvey Road in Kilimani,
P.O Box 25112-00100, Nairobi, Kenya.
Tel: +254202473373 | +254728279368
Email: info@taxjusticeafrica.net
Website: http://www.taxjusticeafrica.net/
TaxJusticeNetworkAfrica
@taxjusticeafric