Child Rights Governance

Missed Taxation Opportunities to Improve Investment in Children in Africa

Case analysis of Kenya, Sierra Leone and Zambia

tax justice network- Africa

Save the Children

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List of Acronyms

ACRWC	African Charter on the Rights and Welfare of the Child
AfDB	African Development Bank
AIT	Advance Income Tax
BCR	Benefit-Cost Ratio
CRG	Child Rights Governance
DFID	Department for International Development (UK)
DTA	Double Taxation Agreements
EAC	East Africa Community
ECT	Electronic Cargo Tracking System
EITI	Extractives Industries Transparency Initiative
GDP	Gross Domestic Product
GIS	Geographical Information System
HNWIs	High Net Worth Individuals
IMF	International Monetary Fund
KRA	Kenya Revenue Authority
MDGs	Millennium Development Goals
MNCs	Multi-National Corporations
NAPSA	National Pension Scheme Authority
NPV	Net Present Value
OCED	Organization for Economic Cooperation and Development
PACRA	Patents and Companies Registration Agency
SCI	Save the Children International
TJN-A	Tax Justice Network – Africa
UNCRC	United Nations Convention on the Rights of the Child
VAT	Value Added Tax
ZRA	Zambia Revenue Authority

Glossary

Abusive transfer pricing. A practice in which subsidiaries of the same company buy and sell products and services to each other and artificially inflate or suppress prices so that nearly all profits are made where taxes are low or even at zero level.

Ad valorem tax. Tax which is calculated as a percentage of the value or price of a commodity. These taxes adjust automatically to inflation.

Automatic exchange of information. A system by which relevant information about the wealth and income of a taxpayer - individual or company – as well as taxes paid, is automatically passed by the country where the income is earned to the taxpayer's country of residence.

Base Erosion and Profit Shifting (BEPS). Tax planning strategies that exploit gaps and mismatches in tax rules to make profits 'disappear' for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low resulting in limited or no overall corporate tax being paid.

Beneficial ownership. Anyone who has the benefit of ownership of an asset (for example bank account, trust, property) even if the asset may be registered under another name.

Country by Country reporting. A situation whereby multinational companies provide a breakdown of income, expenditures, profits earned, assets and taxes paid in every country where they have operations or presence.

Harmful tax practices. Charging the same rates for particular types of taxes or offering reduced taxes in order to outcompete other countries especially in attracting investments. This also includes lack of effective exchange of tax information and transparency amongst countries concerned.

High net worth individuals (HNWI). An individual or a family with investable financial assets, excluding primary residence, in excess of US$2 million.

Illicit Financial Flows (IFFs). The cross-border movement of funds that are illegally acquired, transferred or used. The sources of these cross-border transfers may be commercial tax evasion, trade mispricing or abusive transfer pricing, bribery, theft by government officials, the trafficking of drugs, arms and humans and smuggling.

International tax governance. International policy frameworks, institutions and mechanisms for promoting international cooperation on tax.

Progressive taxation. A practice whereby the greatest burden of taxation is placed on those most able to pay. A regressive tax, in contrast to a progressive tax, is one where everyone pays the same amount of tax, regardless of their income or their ability to pay.

Round-tripping. A situation whereby domestic investors obtain benefits intended for overseas investors by channelling their investment through an offshore jurisdiction.

Secret financial jurisdictions. Countries that intentionally or unintentionally enable individuals or corporations to escape regulation elsewhere, by concealing either fully or partially, relevant financial information, including beneficial owners, profits made and taxes paid.

Tax avoidance. The practice of seeking to minimise the tax one pays using methods that fit within the letter of the law, though not necessarily within the spirit of the law.

Tax base/taxable base. The sum of taxable activities and the value of property and assets subject to taxation.

Tax evasion. Illegal or fraudulent non-payment or under-payment of tax. The amounts involved are counted as part of illicit financial flows.

Tax exemptions. This is an exception to the statutory tax rate usually to pay less tax or none at all which may be provided for certain activities or to groups of taxpayers.

Tax expenditure. The cumulative total amount of potential revenue lost by a government by offering tax incentives, including tax holidays. This is treated as expenditure in that government ought to have received this money, but technically gave it away to a potential tax payer, whether individual or company.

Tax haven. States or territories that provide financial secrecy and very low or zero levels of tax thereby undermining efforts of other states or territories.

Tax holiday. An agreement between a company and a government that specifies a period during which a company investing in a specific area does not have to pay tax.

Tax incentives. Special tax rates offered to particular tax payers for them to pay less tax or none at all. Usually to encourage investment, improve productivity in certain areas or promote consumption of specific goods and services. A tax holiday is an example of a tax incentive.

Tax planning. Tax strategies designed to prevent a tax liability from arising. Unlike tax evasion and tax avoidance, tax planning does not contravene either the letter or the spirit of the law.

Trade mispricing. This is the term used to describe both transfer pricing abuse between related parties, and false invoicing between unrelated parties.

Transfer pricing. This refers to the price of transactions occurring between related companies, in particular companies within the same multinational group.

Treaty shopping. A situation whereby a potential investor seeks out one or more jurisdictions whose tax treaties give more favourable treatment and routing transactions through them.

Windfall taxes. Taxes that are levied on companies if they make above average profits, usually due to unforeseen economic circumstances like changes in mineral prices.

Executive Summary

Many governments cite a lack of sufficient resources as the reason for their inability to implement children's rights according to their obligations under the United Nations Convention on the Rights of the Child (CRC). Yet, findings from this study indicate that many African governments have not fully utilized the potential of taxation to mobilize sufficient resources to invest in children.

Although aid, borrowing and other sources of financing are important, tax is the most sustainable source of government revenue.[1] In several countries across the world, increases in tax revenue have been associated with improved child wellbeing, as a direct consequence of more spending in child focused sectors.[2] The significance of tax, however, goes beyond being a source of government revenue. Tax also has the potential to redistribute wealth between different income groups, thereby addressing inequality and child poverty. It is also a tool for re-pricing goods and services consumed by children and for strengthening the social contract between tax payers and the government.[3]

Children have a right to a wide range of services. They should be able to go to school and learn, visit a health clinic, benefit from social assistance, access the justice system and be protected from violence and abuse, among others. Realizing these rights cost money. Article 4 of the UNCRC calls upon all States Parties to the UNCRC to undertake appropriate legislative, administrative and other measures to mobilize and allocate resources to the maximum extent possible and, where necessary, within the framework of international co-operation, to invest in children in order to realize their rights.

In spite of recent economic growth experienced by Kenya, Sierra Leone and Zambia, the study reveals that all three countries are yet to realize the full potential of taxation. The Ebola outbreak in Sierra Leone in 2014 significantly affected economic growth in the country and subsequently tax revenue. In all three countries, a lot of potential tax revenue has been lost through internal and external challenges. These include: inefficient tax collection systems, tax incentives to attract foreign direct investment, tax evasion and avoidance, the informality of economies and a limited tax base. The study also identified gaps in contributions from the natural resources sector, multi-national companies, high net worth individuals and small scale enterprises to tax revenue in the three countries. High corruption levels also account for significant revenue losses.

The amount of potential revenue lost is high. Below are illustrative examples of revenue losses:

- ***In Kenya***, between 2002 and 2011 the government lost an estimated US$435 million in tax revenue annually due to trade mis-invoicing alone.[4] This was approximately 3.4 times more than the project budget of the partly World Bank sponsored Kenya Cash Transfer Programme for Orphans and other Vulnerable Children in the same year.

[1] See for example: United Nations (8 August 2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft; OECD, (2014), Development Co-Operation Report 2014: Mobilising Resources for Sustainable Development, OECD Publishing.*http://dx.doi.org/10.1787/dcr-2014-en (Accessed on 15 October 2014) and* Action Aid, (2011), *Ending aid dependency through tax: Emerging research findings*, Johannesburg, Action Aid

[2] Save the Children (2014), *Tackling Tax and Saving Lives – children, tax and financing for development*, London, Save the Children Fund.

[3] Cobham A. (2005), *Taxation Policy and Development*, London, The Oxford Council on Good Governance

[4] Global Financial Integrity (2013), *Illicit Financial Flows from Developing Countries: 2002-2011*. Washington DC, Global Financial Integrity

- ***In Sierra Leone***, the government lost an estimated US$224 million in 2012 through customs duty as well as goods and services tax exemptions.[5] This amount is equivalent to 1.4 times more than the annual budget required to cover service delivery costs for the Health Sector Plan in the same year.
- ***In Zambia***, approximately US$1.919 billion was lost between 2010 and 2012 due to illicit financial flows.[6] This was more than 2.7 times more than the country spent on education and health combined in 2011, estimated at nine per cent (9%) of the country's total GDP.

An analysis of these examples of missed taxation opportunities in each of the three countries indicates that with improved and equitable taxation, political will and continuation of current spending patterns, each of the three countries could generate additional tax revenue to at least **double** annual expenditures on primary and secondary education, primary health care and child focused social protection.

Generating additional tax revenue to increase the resources available for investing in children is however one side of the story. The other side is that the available resources should be equitably and effectively used to benefit all children. Unless governments prioritize children in their budgets, increases in tax revenue will amount to nothing for children in Africa, especially the poorest and most marginalized. In a number of cases, children's issues are a lower priority in government budgets. As a result, the benefits of economic growth and subsequent generation of more tax revenue do not benefit all, unless political will is galvanized towards more and better spending on children.

The study recommends that the governments of Sierra Leone, Kenya and Zambia should:

- Ensure that children get their fair share of every marginal increase in tax revenue and that the resources are equitably and effectively used to realize children's rights.
- Put in place comprehensive measures to increase tax morale and compliance, including through improvements in transparency, efficiency and effectiveness in revenue collection and management as well as public education on the benefits of paying tax.
- Review tax incentives and exemptions offered to potential investors, mining companies and other multi-national corporations (MNCs) through cost-benefit analyses as well as Child Rights Impact Assessments. Tax incentives should be provided in a transparent way and according to national laws and policies. The use of yearly tax expenditure reports to control, monitor and manage tax incentives should be considered. These should show all tax incentives offered and include an assessment of whether tax incentives produced the expected results. The reports should be made publicly available.
- Push for improved international transparency standards to address illicit financial flows through the following measures:
    - signing up to and complying with an international agreement on multilateral automatic exchange of tax information;
    - committing to and implementing a public register of beneficial ownership information for MNCs, funds and trusts;

[5] BAN, TJN-A & NACE (2014), *Losing Out: Sierra Leone Massive Revenue losses from tax incentives,* Freetown, Budget Advocacy Network (BAN) and the National Advocacy Coalition on Extractives (NACE).

[6] Wanjala B. (2014), *Zambia Case Study: Missed Taxation Opportunities to improve investments in children in Africa*, Save the Children and Tax Justice Network Africa (Unpublished Report).

  - a requirement that MNCs operating across various countries produce public accounting reports on a country-by-country basis.
- Put in place measures to broaden a progressive tax base, including to explore ways of progressively taxing small enterprises and ensuring that players in the real estate sector, online businesses as well as high-net worth individuals pay their fair share of tax.
- Strengthen national tax systems through, for example, use of information technologies for on-line filing of returns, personal identification numbers, and enhanced staff capabilities to adequately handle tax issues that relate to MNCs.
- Crackdown on corruption in valuation, customs offices, border agencies, trade pricing and in revenue collection and management in general. Abusive transfer pricing should also be considered as corruption.
- Implement the United Nations Guiding Principles on Business and Human Rights, Child Rights and Business Principles as well as the UNCRC General Comment No 16 (2013) on the impact of the business sector on children's rights as they relate to taxation.

Recommendations to the international community

- Earmark part of aid to support efforts by African countries to strengthen their tax systems, including staff training and strengthening of tax information systems.
- Support transparency and accountability initiatives such as the Extractive Industries Transparency Initiative (EITI) and Publish What You Pay.
- Support regional cooperation on tax matters through structures such as the East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) and the African Tax Administrators Platform.

Chapter 1

Background and overview: Tax and children's rights in Africa

"*Ineffective taxation systems, corruption and mismanagement of government revenues from, among others, State-owned businesses and corporate taxation, can limit the resources available for the fulfillment of children's rights, in accordance with article 4 of the CRC",*

- Committee on the Rights of the Child, General comment No. 16 (2013) on State obligations regarding the impact of business on children's rights

1.1 Introduction

All governments need tax revenue to send children to school, provide quality health services and expand child-sensitive social protection programmes, to mention a few examples. However, many governments cite a lack of sufficient resources as the reason for their inability to implement children's rights according to their obligations under the United Nations Convention on the Rights of the Child (CRC). Regardless of their income status, all States which are Parties to the Convention on the Rights of the Child (including Kenya, Sierra Leone and Zambia) have the obligation to undertake legislative, policy and institutional measures to mobilize public and private, international and domestic resources to the maximum extent possible, and where necessary seek international support, in order to fulfil children's rights in line with Article 4 of the CRC.[7] Transparent, equitable and effective tax collection systems are central to this.

Most African countries – Kenya, Sierra Leone and Zambia included – are yet to realize the full potential of taxation as a source of generating revenue. Reasons for this, which will be discussed in this report include: tax incentives, inefficient tax collection systems, corruption, high levels of informality of economies, as well as tax evasion and avoidance. Combined with mismanagement of government revenues, these limit the resources available for the fulfillment of children's rights.8 While Organization for Economic Cooperation and Development (OECD) countries collect an average of 34 percent of Gross Domestic Product (GDP) from tax revenue, half of the countries in sub-Saharan Africa collect less than 17 percent of their GDP in tax revenue.[9]

It is against this background that Tax Justice Network - Africa (TJN-A) jointly with Save the Children decided to conduct a study on *'Missed Taxation Opportunities to Improve Investment in Children in Africa'.* The study builds on three detailed country case studies: Kenya, Sierra Leone and Zambia. The purpose of the study is to produce further evidence on the potential of taxation to generate

[7] Human Rights Council (2014), *Towards better investment in the rights of the child*, Report of the United Nations High Commissioner for Human Rights (A/HRC/28/33), Geneva

[8] Committee on the Rights of the Child (CRC), General comment No. 16 (2013) on State obligations regarding the impact of the business sector on children's rights, Geneva, CRC

[9] Africa Economic Outlook, 2013

sustainable revenue to improve public spending on children. Specifically, the study analyses gaps in tax collection that have resulted in 'missed tax revenue' in the three countries. It subsequently attempts to assess the difference that such revenue could have made to improve public spending on children. Budgetary trends in the three countries are used as the basis to estimate the difference that the 'missed taxation revenue' could have made in the realization of children's rights.

The information in this study is mainly based on the three country case studies. Primary and secondary data collection methods were used. A wide range of literature on successes and challenges in taxation and child focused public spending in the three countries was reviewed. This included government budget documents and information on taxation trends mainly from the national revenue authorities. In-depth interviews were conducted with key informants from civil society, national revenue authorities, research and academic institutions, international finance institutions, government ministries and departments. The study was also enriched by inputs from country reference teams composed of Save the Children staff and TJN-A members and other civil society organizations working on taxation and budgeting for children.

A key limitation of the study was that due to resource and time constraints, it was not possible to come up with primary data on potential tax revenue lost due to various challenges such as tax evasion and avoidance, corruption and low tax morale. The study therefore mainly used secondary data on revenues lost through illicit financial flows and tax incentives. In all three countries, it was not possible to find disaggregated secondary data on how tax revenue was lost due to informality of economies, corruption and inefficiencies in tax collection. It is likely, therefore, that the figures presented in this study of 'missed tax revenue' are an understatement of the actual situation. The estimates are, therefore, only illustrative of how much potential revenue from tax the three countries are losing.

This synthesis report contains four chapters. The first chapter provides an introduction to the study by establishing the link between taxation and children's rights. The second chapter briefly discusses the challenges of effective taxation in Africa. In the same chapter, some positive practices are presented which, if supported, may improve tax collection in Kenya, Sierra Leone and Zambia. The third chapter presents 'missed taxation revenue' in the three countries. The last chapter presents conclusions and recommendations to the three governments and to the international community.

1.2 Tax and Children's Rights

Although aid, borrowing and other sources of financing are important, tax is the most sustainable source of government revenue.[10] In several countries across the world, increases in tax revenue have been associated with improved child wellbeing, as a direct consequence of spending the increased tax revenue in child focused sectors.[11] The significance of tax, however, goes beyond being a source of government revenue. Tax also has the potential to redistribute wealth between different income groups, thereby addressing inequality and child poverty.[12] It is also a tool for re-pricing goods and services consumed by children and for strengthening the social contract between tax

[10] OECD, (2014), Development Co-Operation Report 2014: Mobilising Resources for Sustainable Development, OECD Publishing.*http://dx.doi.org/10.1787/dcr-2014-en.(accessed on 15 October 2014)*

[11] Save the Children (2014), *Tackling Tax, Saving Lives*, London, Save the Children

[12] Cobham A. (2005), *Taxation Policy and Development*, London, The Oxford Council on Good Governance.

payers and the government. Governments impose or remove taxes to raise revenue, but also to influence the price of goods and services to children.[13]

Children in Kenya, Sierra Leone and Zambia constitute 48.8 percent, 48.2 percent and 53 percent of the total populations, respectively.[14] These children have the right to a wide range of services that their governments have an obligation to deliver. Among others, they should be able to go to school and learn, have quality health service coverage, benefit from social assistance, access the justice system and be protected from violence and abuse. Realizing these rights costs money. Tax, in all its various forms, is a key source of revenue for governments to pay for these essential services to children.[15]

All three countries have ratified the Convention on the Rights of the Child (CRC) as well as the African Charter on the Rights and Welfare of the Child (ACRWC). Therefore, in line with Article 4 of the CRC, these three governments have the responsibility to institute and strengthen, where required, policy, legislative and institutional measures that will enable them to collect all possible tax revenue to invest in children. At the same time ensuring equity, transparency and accountability is important. At the heart of this is the need for an effective, efficient, transparent and accountable public finance management system. Furthermore, they should also put in place a range of sector strategies and plans to fulfill children's rights such as free primary education, universal health coverage and social assistance to children. However, these policy commitments to child rights will remain empty promises unless backed by adequate, equitable and sustainable mobilization and allocation of public resources for their implementation.

Although significantly improving, the situation of many children in Kenya, Sierra Leone and Zambia is still desperate, reflecting underinvestment in crucial sectors that benefit them. Many still experience severe deprivations leading to malnutrition, stunting and infant mortality. In Sierra Leone, for example, for the period 2007-2011, an average of 51.7 percent of the population, including children, lived on less than US$1.25 per day.[16] The Ebola outbreak that hit Sierra Leone and other West African countries in 2014 is likely to worsen the situation of children. The way the Ebola virus has been spreading in Sierra Leone and Liberia and its effects on the rest of the population demonstrates underinvestment in the health sector.[17] In Kenya and Zambia, the population living on less than US$1.25 per day is estimated at 43.4 percent[18] and 74.5 percent respectively for the same period.[19] Many children in these countries do not have access to clean water, basic sanitation, decent housing, healthcare and quality education. The table below provides a snapshot of child wellbeing indicators from a few selected African countries including Kenya, Sierra Leone and Zambia.

[13] Tax Justice Network – Africa (2013), *Africa rising? Inequalities and the essential role of fair taxation*, Nairobi, Tax Justice Network-Africa and Christian Aid

[14] http://www.unicef.org/infobycountry, accessed 10 January 2014

[15] United Nations (8 August 2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft

[16] http://www.unicef.org/infobycountry/sierraleone_statistics.html, accessed on 10 January 2014

[17] Brookings Institute Blogs (2014), Understanding the Economic Effects of the 2014 Ebola Outbreak in West Africa, http://www.brookings.edu/blogs/africa-in-focus/posts/2014/10/01-ebola-outbreak-west-africa-sy-copleyaccessed on 13 February 2014

[18] http://www.unicef.org/infobycountry/kenya_statistics.html, accessed on 10 January 2014

[19] http://www.unicef.org/infobycountry/zambia_statistics.

Table 1: Child wellbeing indicators in selected African countries

Selected African Countries	Under-5 mortality rate (U5MR)		Infant mortality rate (under 1)		Primary school net enrolment ratio (%)
	1990	2012	1990	2012	2008–2011*
Angola	213	164	126	100	86
Ethiopia	204	68	121	47	87
Ghana	128	72	80	49	84
Kenya	98	73	64	49	84
Liberia	248	75	165	56	41
Malawi	244	71	143	46	97
Mozambique	233	90	155	63	90
Namibia	73	39	49	28	86
Nigeria	213	124	126	78	58
Senegal	142	60	71	45	79
Sierra Leone	257	182	153	117	–
Uganda	178	69	107	45	94
Zambia	192	89	114	56	97
Average for Sub-Saharan Africa	**177**	**98**	**107**	**64**	**77**

Source: Authors' compilation from Unicef (2014), State of the World's Children in numbers

Although the child wellbeing indicators in the selected countries show a positive trend, the high levels of under-five and infant mortality rates lead to the conclusion that much more needs to be done. Governments still need to improve the quantity and quality of their investments in children. To illustrate the levels of underinvestment in children, as shown in the graph below, all three countries are spending below the Dakar Commitment, where African governments committed to spend nine percent (9%) of their GDP on education by 2010.[20] Out of the three countries, only Zambia allocated at least 15 percent of their budgets in 2012 in line with the Abuja Declaration. Kenya and Sierra Leone allocated 5.9 percent and 11.7 percent respectively.[21] The Abuja Declaration is a commitment made in April 2001 by African Union Countries, in Abuja, Nigeria, to increase government funding for health to at least 15%.

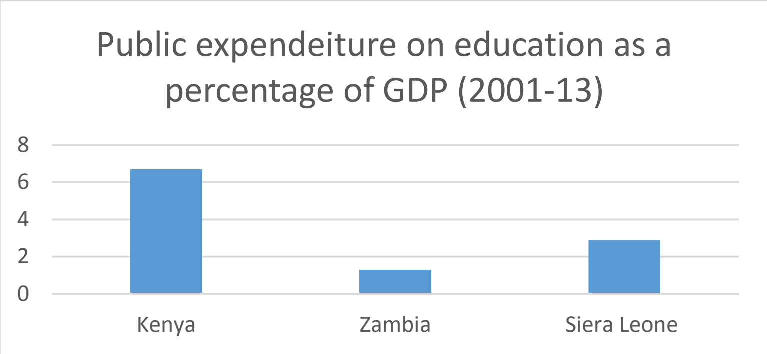
A recent study by Save the Children established a link between better taxation and improved child wellbeing. A 10 percent increase in the share of tax revenue to Gross Domestic Product (GDP), for example, has been associated with fewer child deaths per 10,000 births and a 0.2 percentage point increase in population with access to clean water due to investments in these areas.[22]

[20] Africa Child Policy Forum, (2013), Child well-being report, Addis Ababa, ACPF

[21] WHO National Health Accounts, 2013

[22] Save the Children (2014), Tackling Tax and Saving Lives – children, tax and financing for development, London, Save the Children Fund.

Figure 1: Public spending on education in the three selected countries



Source: UNESCO Institute for Statistics (UIS) Database January 2014

Studies in Bolivia, Brazil, Ethiopia, Kenya, Mexico and Rwanda also revealed a positive relationship (though the degree varies from country to country) between an increase in tax revenue and public spending on education and health.[23] In Kenya, for example, an increase in tax revenue has been associated with less aid dependency and with improvements in social sector spending, particularly on health and education. This demonstrates commitments of the respective governments to ensure that children get their fair share of every marginal increase in available tax revenue. The opposite is also true. Underinvestment in children, due to insufficient resources, has been associated with child poverty, social exclusion and inequality.[24] As we shall see in the next chapter, political will is required to ensure that benefits of economic growth and more tax revenue are enjoyed by all children, especially the poorest and most marginalized groups.

The importance of effective taxation and adequate government budgets for the realization of children's rights has also been established by the Office of the High Commissioner for Human Rights (OHCHR), in its report 'Towards better investment in the rights of the child'. The report states that "a lack of sufficient, effective, inclusive and efficient public spending on children is one of the main barriers to the realization of the rights of the child".[25] The report also recommends that "in developing fiscal policy instruments, including taxation and public budgets, States Parties to the Convention on the Rights of the Child must ensure equal opportunities for the realization of rights for all children without discrimination of any kind".[26] A progressive taxation system with real distributive capacity that preserves, and progressively increases, the income of poorer households can be beneficial to children[27]. Inadequate investment in children, especially the most vulnerable and deprived, can perpetuate the intergenerational transmission of poverty and inequality, leading to irreversible negative impact on children's development.[28]

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[23] United Nations, (2012), Tax structure and tax evasion in Latin America, United, Santiago, M*acroeconomía del desarrollo Series,* United Nations

[24] TJN-A, (2014), *Africa rising? Inequalities and the essential role of fair taxation,* NAIROBI, Tax Justice Network Africa and Action Aid

[25] Human Rights Council (2014), *Towards better investment in the rights of the child*, Report of the United Nations High Commissioner for Human Rights (A/HRC/28/33), Geneva

[26] Ibid

[27] Human Rights Council (2014), *Towards better investment in the rights of the child*, Report of the United Nations High Commissioner for Human Rights (A/HRC/28/33), Geneva

[28] Rees N., Chai J. and Anthony D. (2012), "Right in Principle and in Practice: A Review of the Social and Economic Returns to Investing in Children", New York, UNICEF

In conclusion, a strong relationship exists between effective and equitable taxation and improved child wellbeing. Tax and other fiscal policy instruments are powerful tools that governments could use to improve delivery of equitable public services to children.

Chapter 2

The challenges of mobilizing tax revenue in Kenya, Sierra Leone and Zambia

"We are not getting the revenues we deserve often because of either corrupt practices, transfer pricing, tax evasion and all sorts of activities that deprive us of our due"

- Kofi Annan, former United Nations Secretary General

2.1 Introduction

Although governments obtain their revenue from different sources, including from aid and borrowing, this study focuses on taxation, as the most predictable and sustainable source of revenue. The amount of tax that a country can collect depends on the size of its tax base, its capacity to collect and manage tax revenue, tax elasticity (percentage change in adjusted tax revenue to a percentage change in income), as well as the volatility of sectors being taxed and commodity prices.[29]

An increase in tax revenue has the potential to increase the fiscal space available to invest in children. Fiscal space is defined as the budgetary room that allows a government to avail resources for a desired purpose without any prejudice to the sustainability of its financial position.[30] Apart from improvements in tax revenue, fiscal space can also be created by restructuring expenditures, additional official development assistance (ODA), borrowing and even printing money. The more tax revenue available the larger the fiscal space to increase spending in specific child focused sectors such as health, education and social protection. If all developing countries across the world were to address the above challenges and mobilize 20% of GDP in tax revenue, while keeping social spending allocations constant, an estimated 287,000 more child deaths could be averted each year and an additional 72 million people could have access to clean water.[31]

The economies of Kenya, Sierra Leone and Zambia have been growing in the past decade. For example, between 2009 and 2013, the GDP growth rate for Kenya averaged 4.44%, Sierra Leone 9.98% and Zambia 6.8%. In 2012 and 2013 (before the Ebola outbreak), Sierra Leone recorded impressive GDP growth rates of 15.2 and 20.1 percent respectively.[32] However, as shown in figure 1 below, in all three countries, the growth in tax revenues has been much slower than the growth in the economy. If we take Sierra Leone, for example, between 2010 and 2014 the GDP per capita

[29] United Nations (8 August 2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft

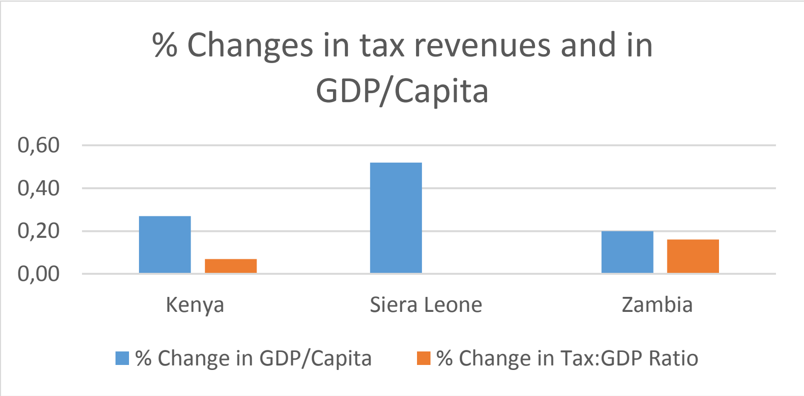
[30] Heller P.S. (2005), Understanding Fiscal Space, (IMF Policy Discussion Paper), International Monetary Fund

[31] Save the Children (2014), Tackling Tax and Saving Lives – children, tax and financing for development, London, Save the Children Fund.

[32] http://data.worldbank.org/indicator/

grew by an estimated 52% while the tax to GDP ratio slightly increased by a margin less than 10% in 2011 and 2012 and then started to decline in 2013, even before the Ebola outbreak.[33]

Figure 1: Changes in GDP/ Capita and contribution of tax to GDP

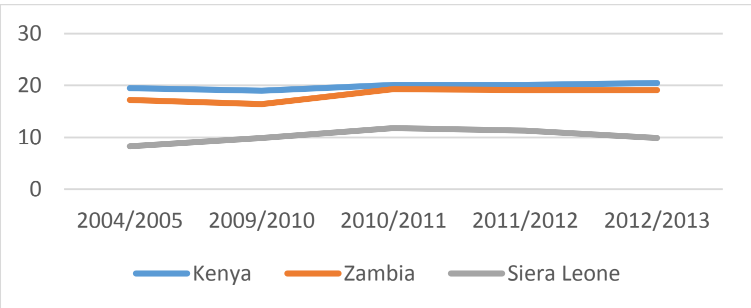


Source: Authors' compilation from World Bank (2014) data.

The slow rate in growth of tax revenues in relation to the growth in the economy reflects missed taxation opportunities. As we shall show below, several challenges such as tax incentives, tax evasion and avoidance, corruption and weak tax collection capacities account for the slow rate of increase in tax revenue.

Figure 2 below shows trends in tax revenue in the three target countries for the period 2004 to 2013. Kenya has the highest tax to GDP ratio followed by Zambia. It is however not clear yet whether the rebasing of Kenya's GDP in the last quarter of 2014 would result in changes in the tax to GDP ratio. A closer analysis of trends show that growth in tax revenue should have been higher, if compared with the overall growth of the economy.

Figure 2: Tax to GDP ratio in Kenya, Sierra Leone and Zambia



Source: http://www.africaneconomicoutlook.org/statistics/ accessed on 24 September 2014

[33]http://data.worldbank.org/indicator/

2.2 Key challenges in mobilizing tax revenue

All three country case studies looked into challenges in mobilizing domestic resources through taxation. The challenges were identified through review of secondary data and in-depth interviews with key informants. The study found that all three countries, to varying degrees, are faced with technical capacity, legislative, institutional and globalization challenges to maximize their tax revenue. The challenges are both internal and external, as highlighted below. These challenges account for the potential tax revenue lost that will be discussed in the next chapter.

A. Broadening the tax base

A key challenge faced by all three countries is to broaden their tax base. The tax base of a country is the sum total of taxable activities and the value of property and assets that are subject to tax within a particular jurisdiction. This can be achieved by creating conditions for enhanced productivity, attracting direct foreign investments, creating a culture of savings and enabling the private sector to grow.[34] Information from the three case studies revealed that all the countries still need to consolidate their industrial capacity and develop their service sector in order to move beyond dependence on exporting primary goods (mainly raw materials) especially from natural resources and agricultural sectors.[35]

As outlined in the Monterrey Consensus[36] on Financing for Development, it is the responsibility of governments to broaden their tax base by creating an enabling environment for increasing productivity, reducing capital flight, encouraging the private sector, and attracting and making effective use of international investment and assistance. The above should then be accompanied by the establishment of effective tax collection systems. The Monterrey Consensus and subsequently the Doha Declaration on Financing for Development in 2008 also confirmed that tax will continue to be the most significant and sustainable source of domestic revenue, hence the need to broaden the tax base and ensure efficiency and effectiveness in tax collection.[37] Improved domestic revenue from tax offers an antidote to aid dependence and increases the country's ownership of its development and growth agenda.[38]

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[34] United Nations (8 August 2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft

[35] Soucat A and Ncube M., Eds. (2014), *One Billion People, One Billion Opportunities Building Human Capital in Africa*, Washington DC, African Development Bank.

[36] The Monterrey Consensus refers to the outcome of the International Conference on Financing for Development held in Mexico in 2002, convened by the United Nations. The main purpose of the conference was for all governments to discuss ways of addressing the challenges of financing for development around the world, particularly in developing countries. This included financing of the implementation of Millennium Development Goals (MDGs).

[37] Doha Declaration on Financing for Development: Outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, 2008, http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf

[38] Tax Justice Network – Africa (2013), *Africa rising? Inequalities and the essential role of fair taxation*, Nairobi, Tax Justice Network-Africa and Christian Aid

B. Human and technical capacity

Another key challenge is human and technical capacity. In general, this is particularly acute in low income and lower middle-income economies.[39] By 2014, Kenya and Sierra Leone were ranked by the World Bank as low-income countries while Zambia was rated middle-income. Some of the key challenges contributing to low capacity highlighted by informants during in-depth interviews, include a lack of modern equipment especially information technologies, few staff dedicated to deal with multi-national companies and inadequate knowledge and skills to investigate complicated issues like transfer pricing and profit shifting by multi-national companies.

Box 3: Kenya Revenue Authority Initiative on Tax Profiling

Kenya Revenue Authority (KRA) aspires to utilize Geographical Information System (GIS) maps, third party data from utility providers and land data from the relevant land agencies and automated systems (through GIS linkages) to identify property owners and match their tax history with presumed income derived from property holdings. It also hopes to have recourse to a Block Management System (BMS) to recruit landlords, with normal compliance tools being applied to ensure that landlords remain in the tax net. This will include using data provided by tenants in annual income tax declarations to construct profiles of incomes earned by landlords. The Income Tax Act empowers KRA to request such information through a Public Notice.

Source: Wanjala, 2014, Kenya Case Study

C. Informality of economies

The large informal sectors[40] in Kenya, Sierra Leone and Zambia remain largely untaxed. In some cases this sector also extends to several small enterprises that do not keep proper records. They are therefore largely out of the tax net. The informal economy, ubiquitous across all three countries, is characterized by undocumented transactions as well as the employment of workers whose earnings often fall outside the reach of the public administration.[41]

In Sierra Leone, the informal sector is estimated to account for 42.9 percent of GDP, slightly higher than the sub-Saharan Africa average of 40 percent.[42] Although the informal businesses fall outside the purview of tax collection, they impose considerable costs on public services without contributing to their sustenance. It is estimated that potential tax revenue from the informal sector in Zambia

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[39] OECD, (2014), Development Co-Operation Report 2014: Mobilising Resources for Sustainable Development, OECD Publishing. *http://dx.doi.org/10.1787/dcr-2014-en.(accessed on 15 October 2014).*

[40] The informal sector is made of small commercial enterprises that take place outside of the legal and institutional frameworks that regulate business activities such as cross-border trading by individuals, street vending, backyard carpentry and small scale vegetable marketing targeting individuals.

[41] Joshi, A., Prichard, W and Heady, C. (2012). Taxing the informal economy: challenges, possibilities and remaining questions,

International Centre for Tax and Development Working Paper 4.

[42] Elgin C. and Oztunali O., (2012). *Shadow Economies around the World: Model based estimates,* Instanbul, Bokazici University

could be about 3.7 per cent of GDP.[43] In this country, the informal sector is characterized by the carrying out of economic activities outside the established government control structurese, non-registration with the Patents and Companies Registration Agency, National Pension Scheme Authority and Zambia Revenue Authority. Various methods have been tried to collect revenue from the informal sector, including a presumptive tax on informal public transport, a base tax on market traders, and an Advance Income Tax (AIT) on cross-border traders. In 2013, the base tax was charged at ZMK 500 (US$50) per day for all informal traders. The AIT rate is six percent (6%) of the value of imports exceeding US$500 in value for all unregistered and partially compliant firms. Total tax revenue from the informal sector has however remained low, at about 1.8 percent of total income tax collected by the government.[44]

Broadening the tax base in order to collect direct taxes from this sector is, however, replete with challenges. To begin with, taxation of the informal economy is potentially regressive because most of the people involved in this sector are usually the poorest in society. Secondly, due to the lack of documentation of players and their financial data it is difficult to identify and track all potential tax payers. Lastly, informal sector players have the potential to mobilize collectively against the government and threaten the survival of some politicians. Politicians are therefore likely to tread carefully when engaging with people in the informal sector.[45]

D. Competition to attract Foreign Direct Investment

Many developing countries offer generous tax incentives to foreign investors in sectors such as agriculture and mining, owing to the perceived competition between countries to attract Foreign Direct Investment (FDI). This is usually done without any clear cost-benefit analysis and results in what is called the race-to-bottom whereby countries involved end up losing a lot of potential tax revenue due to tax incentives.[46] Furthermore, tax incentives are sometimes offered in a non-transparent way and without opportunity for public scrutiny and oversight. Research has shown that tax incentives constitute a drain on resources, with little, if any, reciprocal benefit in terms of job creation or socio-economic development.[47]

Tax incentives are linked to tax evasion through shifting of profits and abusive transfer pricing.[48] For example, if country 'A' offers more tax incentives than country 'B', assuming a given company operates in both, there is a high likelihood of mis-invoicing or shifting of profits to country 'A' in order to pay less tax, thereby depriving country 'B' of potential tax revenue. Data from the three case studies showed that none of the countries included in this study has been spared from abusive transfer pricing in key sectors such as mining, telecommunications and tourism.[49]

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[43] Simpasa, A., Hailu, H., Levine, S. and Tibana, R.J (2013), *Capturing Mineral Revenues in Zambia: Past Trends and Future Prospects*. UNDP and EU-UN Global Partnership on Land, Natural Resources and Conflict.

[44] Phiri, S.C., and Nakamba-Kabaso, P. 2012. Taxation of the informal sector in Zambia. Zambia Institute for Policy Analysis & Research

[45] Elgin and Oztunali. (2012). Shadow Economies Around the World: model based estimates. RePEc:bou:Wpaper:2012/05, 38-39

[46] United Nations, Report of the Inter- Governmental Committee on Financing for Development, August 2014.

[47] Tax Justice Network – Africa (2013), *Africa rising? Inequalities and the essential role of fair taxation*, Nairobi, Tax Justice Network-Africa and Christian Aid. See also Save the Children (2014), *Tackling tax - saving lives: Children, tax and financing for development,* London, Save the Children Fund

[48] Global Financial Integrity (2014), *Hiding in Plain Sight: Trade Mis-invoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011*, Washington DC, Global Financial Integrity.

[49] Ibid

Regional inter-governmental bodies in Africa, whose aim is to promote economic integration and cooperation, such as the East African Community (EAC), Southern African Development Community (SADC) and Economic Community of West African States (ECOWAS) could play a key role in harmonizing tax policies.[50] This is crucial in order to minimize harmful tax policies amongst countries. In this regard, the Africa wide Tax Administrators Platform could be a useful vehicle to acvocate for tax cooperation across Africa.

E. Corruption

Corruption is seriously affecting tax revenue mobilization efforts in all three countries, and of course many others.[51] Our three case studies revealed that corruption cases have been reported at border posts, customs clearance and in other revenue collection efforts. The table below shows the corruption perception levels in the three countries, measured by the Corruption Perception Index (CPI).[52] The CPI score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt). All three countries perform far below average. It was, however, difficult to ascertain the potential tax revenue lost due to corruption in the three case studies.

Table 2: Corruption Perception Index in the three selected countries

Country	2007	2008	2009	2010	2011	2012	2013
Kenya	2.1	2.1	2.2	2.1	2.2	2.7	2.7
Zambia	2.6	2.8	3	3	3.2	3.7	3.8
Sierra Leone	2.1	1.9	2.2	2.4	2.5	3.1	3

Source: http://www.transparency.org/cpi2013/results, accessed on 12 December 2014

Fighting corruption requires that governments establish transparent tax collection and management systems, enact supportive laws and policies, ensure the revenue management bodies have the requisite institutional capacities and strengthen oversight and accountability institutions, including parliamentary oversight. Given the globalization of business transactions, international cooperation is also required in fighting corruption.

F. International cooperation on tax

No single country can fight illicit financial flows alone since companies increasingly operate on a global scale through complex networks of subsidiaries, contractors, suppliers and joint ventures.[53] According to the Global Financial Integrity, illicit financial flows cost the developing

[50] African Union, (31 January 2014), *Common African Position (CAP) On The Post- 2015 Development Agenda*, African Union, Addis Ababa

[51] Global Financial Integrity (2014), Illicit Financial Flows from Developing Countries 2003-2012, Washington DC, Global Financial Integrity

[52] http://www.transparency.org/cpi2013/results

[53] Committee on the Rights of the Child, General comment No 16 on State obligations regarding the impact of business on children's rights.

world US$946.7 billion in 2011. Trade mis-invoicing accounts for 80% of these illicit flows.[54] Currently, there is no inclusive intergovernmental mechanism for fighting illicit financial flows, through for example, tax evasion and avoidance. Most of the international initiatives to combat illicit financial flows have been led by developed countries, within structures such as the OECD. Unfortunately, these initiatives do not fully take into account the contexts and needs of most developing countries. Within the United Nations (UN), tax matters have mostly been handled by the Committee of Experts on International Cooperation in Tax Matters. While the Committee of Experts provides valuable advice and recommendations, it is by nature an expert committee – not an intergovernmental body. Hence, it is time for governments to establish an inclusive, independent and sufficiently resourced intergovernmental body that will spearhead global cooperation on tax matters, where all countries participate on an equal footing.

Perhaps in recognition of the importance of international cooperation on tax, the 2nd United Nations Conference on Financing for Development, held in Doha in 2008, asked "the Economic and Social Council to examine the strengthening of institutional arrangements, including the United Nations Committee of Experts on International Cooperation in Tax Matters".[55] In line with this recommendation, a number of governments and civil society organizations have therefore been advocating for the elevation of the United Nations Committee of Experts on International Cooperation in Tax Matters into an intergovernmental body that includes all countries in order to steer international cooperation on tax.[56] The proposed intergovernmental body will be mandated to lead the development of international agreements on tax, which includes the following: multilateral automatic exchange of tax information; committing to and implementing a public register of beneficial ownership information for companies, funds and trust as well as country by country accounting and reporting by companies.[57] All these measures are expected to be implemented on a global scale as opposed to being pushed by individual governments or groups of countries.

G. Business and children's rights

The private sector is a pivotal actor in ending global poverty and realizing children's rights. The private sector can stimulate inclusive growth and create decent jobs; enhance access to essential services; develop innovations to address human and sustainable development challenges; pay taxes; apply expertise and resources to improve the lives of those most in need; and reduce environmental footprints.[58] However not all private sector players conduct their business in line with Business and Human Rights Principles. There are several cases where private sector players engage in actions that undermine the implementation of children's rights.[59] For example, as discussed above, some companies engage in practices such as abusive transfer pricing, base erosion and profit shifting and in some cases actions that destroy the environment such as pollution of water sources.

[54] Global Financial Integrity (2014), *Hiding in Plain Sight: Trade Mis-invoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011*, Washington DC, Global Financial Integrity

[55] See United Nations (2008), Doha Declaration on Financing for Development.

[56] United Nations (8 August 2014), Report of the Intergovernmental Committee of Experts on Sustainable Development Financing Final Draft

[57] Save the Children (2014), *Tackling tax - saving lives: Children, tax and financing for development,* London, Save the Children Fund

[58] Save the Children (2014), Framework for the Future - Ending poverty in a generation

[59] Committee on the Rights of the Child (CRC), General comment No. 16 (2013) on State obligations regarding the impact of the business sector on children's rights, Geneva, CRC

Guided by the United Nations Business and Human Rights Principles, UNICEF, the United Nations Global Compact and Save the Children developed Children's Rights and Business Principles (CRBP) which provide guidance to companies on how they can fulfill their responsibilities to respect children's rights directly and indirectly through their business operations. These principles include the obligation for the private sector to pay taxes in full.[60] The UNCRC General Comment No 16 on State obligations regarding the impact of the business sector on children's rights further elaborates on the need for the private sector to ensure children's best interests in their work. Findings from the three country case studies revealed limited awareness and implementation of CRBP.

In Sierra Leone the private sector associations interviewed as part of the study, professed ignorance of both the Business and Human Rights Principles and CRBP. A number of people interviewed as part of the study, also indicated that corporate transparency, especially of MNCs is still a challenge. This is particularly important since tax evasion and avoidance usually take place in situations where the private sector is not fully accountable and transparent about its financial records including profits made, ownership, taxes paid and capitalization.

2.3 Not all is lost: Some promising developments

Despite the challenges noted above, some successes in revenue collection have been recorded. And there is potential to do even better. In the wake of the establishment of the Sierra Leone Revenue Authority, revenue collection surged from 7 percent of GDP in 2003 to 13 percent in 2012, in large part due to economic growth, but subsequently dipped to 12.4 percent in 2013.[61] In Kenya, tax revenue increased by an estimated 94 percent in nominal numeric terms between 2007/08 and 2012/13. There has also been a steady increase in total tax revenue to GDP, from 15.9 percent in 2002 to 22.8 percent in 2012.[62]

The improvements in total tax revenue in Kenya can largely be attributed to significant increases in income tax revenue from 2007/08 to 2012/13, of about 144 percent over the five-year period.[63] Trade tax revenue also increased by 115 percent over the five-year period. In Zambia, tax revenues increased in nominal terms by an estimated 187% between 2009 and 2011.[64]

The increases in tax revenue contributed to expansion of the fiscal space available for the respective governments to increase social sector spending. As we shall see in the next sections, between 2000 and 2014 all three countries witnessed increases in spending on child focused sectors such as health and education (though in some cases at a rate lower than other areas such as public administration). In turn this led to improvements in child rights outcomes as seen in chapter 1. Several factors explain the positive trend in tax revenue. A few examples of good practices that contributed to increased tax revenue include:

- Implementation of Mineral Value Chain Monitoring initiatives as is the case in Zambia in order to enhance the monitoring and auditing of mining activities.

[60] Children's Rights and Business Principles, http://childrenandbusiness.org/
[61] Jibao S (2014), Sierra Leone Case Study

[62] Wanjala B, (2014), Kenya Case Study

[63] Wanjala B, (2014), Kenya Case Study

[64] Wanjala B, (2014), Zambia Case Study

- Sierra Leone and Zambia are members of the Extractive Industries Transparency Initiative. Improvements in transparency and accountability have the potential to reduce corruption and other leakages in revenue collection.
- Rationalization of tax incentive policies, particularly in the extractive sector. Zambia and Kenya, for example, have been reviewing their tax incentives based on cost and benefit analyses. This also included reduction of tax exemptions and the number of zero-rated goods and services under Value Added Tax.
- Increased efficiency through use of information technology based systems, such as the Zambia Integrated Land Management Information System (ZILMIS) and the Electronic Funds Transfer at Point of Sale facilities, bank teller-in-plants and bank dedicated counters for receiving tax payments. Technology can be a very useful tool to help reduce corruption, track taxpayers and enhance efficiency in tax collection.
- Roll-out of public awareness campaigns on why it is important for individuals and companies to pay their tax in full.[65]

Box 2: Tax reforms in Kenya

To enhance trade-based revenue collection, the Kenya Revenue Authority (KRA) started using the Electronic Cargo Tracking System (ECTS) in mid-2010. The ECTS is utilized for all goods that are subject to customs control and domestic excise. Vehicles targeted include trucks that deliver containerized cargo into Kenya, as well as those transiting to Rwanda, Uganda and South Sudan. Implementation of the ECTS has, however, introduced additional costs for importers, which consumers ultimately have to bear. Since the government decreed that the full cost of implementation should be borne by the business sector concerned, friction was inevitable. Further, in a bid to minimize trends for mis-declaration and under-valuation by excisable firms, a tax management system, which binds all players in the supply chain, and prescribes procedures and guidelines was introduced.

Looking at the respective tax handles, statistics indicate that Pay As You Earn (PAYE) taxes exceeded their target between 2005/06 and 2011/12. PAYE's impressive performance can be attributed to its administrative ease. In addition, income taxes have largely performed well because of the use of Personal Identification Numbers and also the self-assessment tax payment system.

Source: Wanjala B., (2014), Kenya Case Study

To conclude, although African governments face several challenges in attempting to collect all possible tax revenue, there are positive trends which, if supported, can increase resources available from tax. There is the potential for all three countries to mobilize additional tax revenue, without further burdening taxpayers and endangering public debt sustainability. To achieve this, robust tax systems are required as well as international cooperation on tax matters, alongside broadening of the tax base.

[65] This information is based on the three country case studies conducted by Wanjala and Sibao.

Chapter 3

Missed taxation opportunities in Kenya, Sierra Leone and Zambia

"As long as there is both widespread poverty and booming wealth at the top…, then tax cuts for the rich are immoral and counterproductive",

- Jeffrey Sachs, Professor of Sustainable Development at Columbia University

3.1 Overview of missed taxation opportunities

Kenya, Sierra Leone and Zambia have the potential to increase their tax revenue by closing gaps in their tax policies and widening their tax base. Based on reviewed literatureas well as our own research in the three case countries, we found that all three countries continue to lose significant tax revenue as a result of tax incentives, tax evasion and avoidance, corruption, and inefficient tax systems. It is of course difficult to quantify all potential tax revenue lost through loopholes in the tax collection system, however, illustrative figures are provided below to show how much tax revenue is lost that could have been used, for instance to send children to school.

A. Tax Incentives

As noted earlier, tax incentives constitute a drain on resources, with little, if any, reciprocal benefit in terms of job creation or socio-economic development.[66] In 2012, Sierra Leone lost an estimated US$224 million from exemptions to customs duty as well as, goods and services tax.[67] This is approximately 1.4 times more than the estimated budget to implement the national health sector plan in the same year.[68] In addition, an estimated loss of US$131 million for the period 2014–2016 will accrue from incentives granted to five mining companies.[69] Three agro-industry companies have secured tax incentives in the form of cuts in the rate of corporate tax that will cost the country's treasury US$188.1 million over the next 10 years.[70] The table below shows examples of missed taxation revenue through tax incentives in Sierra Leone.

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[66] Curtis. (2013). Losing out: Sierra Leone's massive revenue losses from tax incentives. Budget Advocacy Network (BAN), Freetown

[67] BAN , TJN-A & NACE (2014), Losing Out: Sierra Leone Massive Revenue losses from tax incentives, Freetown, Budget Advocacy Network (BAN)* and the National Advocacy Coalition on Extractives (NACE

[68] Sierra Leone, Health Sector Strategic Plan (2010-2015)

[69] Jibao S. (2014), Sierra Leone Case Study

[70] Jibao S. (2014), Sierra Leone Case Study

Table 1: Estimated tax expenditure on customs duty and Goods and Services Tax (GST) in Le billion and US$m)

Type of tax	2007	2008	2009	2010	2011	2012
Customs duty exemptions	Le 5.8	Le 6.09	Le 6.09	Le 88.4	Le 349.5	Le 318.5
	(US$ 1.96)	(US$2.08)	(US$1.92)	(US$22.9)	(US$81.8)	(US$73.9)
GST exemptions for mining companies	-	-	-	Le 282.1	Le 836.1	Le 648.1
	-	-	-	(US$73.3)	(US$195.6)	(US$150.4)
Total tax expenditure	Le 5.8	Le 6.09	Le 6.09	Le 370.5	Le 1,185.6	Le 966.6
	(US$1.96)	(US$2.08)	(US$1.92)	(US$96.01)	(US$277.3)	(US$224.3)
Tax expenditure as per cent of GDP	0.1	0.1	0.09	5.1	13.7	8.3

Source: *Adapted from (BAN, TJN-A & NACE (2014), Losing Out: Sierra Leone Massive Revenue losses from tax incentives, Freetown, Budget Advocacy Network (BAN)* and the National Advocacy Coalition on Extractives (NACE*

There is currently no mechanism in place in any of the three countries to produce and make publicly available tax expenditure reports which show how much potential revenue these governments are losing through tax incentives. Other developing countries such as South Africa and India are already doing this. Good public finance management practice, outlined by the International Monetary Fund, requires that the value of all tax incentives be captured in the national books of accounts.[71]

Our case studies revealed that in all three countries tax incentives are granted on a case-by-case basis, without any unified approach, broad policy framework or uniform legal basis. The majority of incentives are provided by individual government ministries, with limited parliamentary oversight, and without any analysis of the costs and benefits to domestic revenue mobilization. There are no follow up mechanisms to undertake impact assessments of the incentives, including assessing whether the incentives contributed to job creation, skills and technology transfer. In addition, since these incentives are granted by individual government ministries with no uniform legal basis and within a broad policy framework, decisions to grant these incentives could be influenced by political considerations. In some cases they may arise from corrupt behaviours by public officials. Most of the agreements, especially those benefiting the mining and commercial agricultural companies, are often not made public. It is therefore not clear whether these agreements are in the best interests of the country and will do no harm to children. The three case studies revealed that there is no public

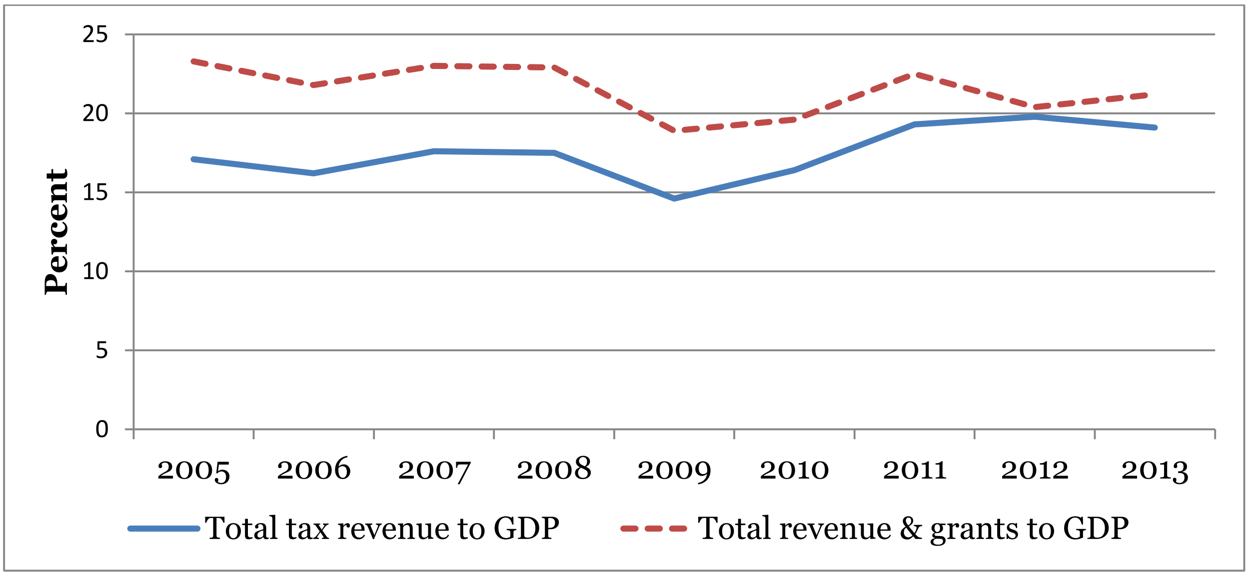
[71] See Cangiano M., Curristine T., & Lazare M., (2014), Public Financial Management and Its Emerging Architecture, Washington DC, International Monetary Fund

disclosure of the agreements made by the respective governments in which tax incentives are offered.

In all three case countries significant revenue is also lost through import duty and other tax exemptions for embassies and international organizations. In Sierra Leone, for example, the potential revenue lost this way exponentially grew from US$ 7.6 million in 2009 to US$ 27.3 million in 2012.[72]

The considerable mineral resources that Zambia is endowed with have not yielded as significant a contribution to revenue as would be expected, in part due to tax incentives, mismanagement and the impacts of privatization.[73] The table below compares mining taxes to GDP and total mining revenue to GDP for the period 2005 to 2011. As shown in figure 3 below, between 2005 and 2010, the gap between the two was huge, suggesting lost potential tax revenue.

Figure 3: Mining revenue as a ratio of GDP



Source: Government of Zambia, Ministry of Finance, http://zambiamf.africadata.org/en/ResourceCenter

The copper mines in Zambia were privatized at a time when copper prices were quite low, which led the government to offer generous incentives to attract investors. The new owners also had to invest large amounts of money to revamp the dilapidated mines after which they used accelerated depreciation allowances to carry forward losses. Even though the evidence is contested, it has been suggestions that some mines used transfer pricing and hedging to evade tax.[74]

Overall, our case study showed that in Zambia there has been a limited contribution of revenue from mining over time, during both public and private ownership. Limited revenue generation under state ownership has been attributed to poor management of the mines, exacerbated by the decline in copper prices, while generous tax incentives and transfer pricing explain the limited revenue collection during private ownership. The contractual sale agreements for the mines contained highly generous tax and other incentives, key among them: no VAT charge for mine products; a capital

[72] Jibao S. (2014), Sierra Leone Case Study, See also Wanjala B. (2014), Kenya and Zambia Case Studies.

[73] Wanjala B. (2014), Zambia Case Study

[74] Simpasa, A., Hailu, H., Levine, S. and Tibana, R.J (2013), Capturing Mineral Revenues in Zambia: Past Trends and Future Prospects. UNDP and EU-UN Global Partnership on Land, Natural Resources and Conflict.

expenditure deductible allowance of 100 percent and; "stability periods" of 15 to 20 years during which no changes could be made to the agreements. Further, the rate of mining royalties was very low, set at 0.6 percent, as compared to a global average range of 2 percent to 6 percent and the IMF's estimate of between 5 percent and 10 percent for developing countries.[75]

B. Transfer Pricing and diversion of untaxed imports and other illicit flows

All three countries are losing significant tax revenue through transfer pricing and diversion of untaxed imports. In Kenya, the Global Financial Integrity estimated that between 2002 and 2011 the government lost US$435 million in tax revenue annually due to trade mis-invoicing.[76] This is approximately 3.4 times more than the project budget for the partly World Bank sponsored Kenya Cash Transfer Programme for Orphans and Other Vulnerable Children.[77] Between 2010 and 2012, Zambia lost on average $1.919 billion every year due to illicit financial flows. This is more than 2.7 times as much as Zambia spent on education and health in 2011 and equals around 9 percent of the country's total GDP.[78] It is further estimated that Zambia lost US$17.3 billion (in real 2010 prices) in illicit capital flight between 1970 and 2010.[79]

Box 3: The Glencore-Mopani case

The weaknesses in the mobilization of trade-based taxes, which were exposed in an audit of the Mopani Copper Mines in Zambia, have denuded the tax base in both Zambia and Kenya. Mopani Copper Mines Plc, which runs the second largest copper mine in Zambia, became part of the Glencore conglomerate in 2000. Investigations by the Zambian Revenue Authority through the tax auditors Grant Thornton and Econ Poyri found that the company: 1) overestimated operating costs, compared to other firms in the industry; 2) underestimated production volumes; and 3) manipulated its financial statements, particularly the selling price of copper. The company was selling copper to its parent company Glencore at a quarter of the official price quoted at the London Metal Exchange. At the same time, it was reporting losses in its operations in Zambia. The revenue over a four-year period was estimated at US$100 million. Action Aid estimated it to be in the region of £76 million a year.

Source: Henn. M, (2013)[1]

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[75] Simpasa, A., Hailu, H., Levine, S. and Tibana, R.J (2013), Capturing Mineral Revenues in Zambia: Past Trends and Future Prospects. UNDP and EU-UN Global Partnership on Land, Natural Resources and Conflict

[76] Global Financial Integrity: Trade Mis-invoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011, Washington DC, Global Financial Integrity.

[77] http://www.worldbank.org/projects/P111545/kenya-cash-transfer-orphans-vulnerable-children?lang=en

[78] Wanjala B. (2014), Zambia Case Study

[79] Simpasa, A., Hailu, H., Levine, S. and Tibana, R.J (2013), *Capturing Mineral Revenues in Zambia: Past Trends and Future Prospects*. UNDP and EU-UN Global Partnership on Land, Natural Resources and Conflict.

Kenya is particularly affected by diversion and internal dumping[80] of imports on which taxes have been evaded, which result in losses at two levels: at the port of entry as well as in VAT at the point of sale. There has been considerable excise and customs revenue loss mainly through diversion of transit goods into the domestic market and smuggling of excisable commodities. A study of illicit flows attributable to trade mis-invoicing or mis-pricing in Ghana, Kenya, Mozambique, Tanzania and Uganda found mis-invoicing to be a significant source of illicit outflows (and inflows) of capital in all of these countries. The annual average gross flows for Kenya during the period 2002-2011 was US$1.51 billion.[81]

A core challenge for the countries surveyed is to find the optimal balance between a tax regime that is business and investment friendly, and at the same time to generate sufficient tax revenue for effective public service delivery.

C. Low Tax morale and compliance, with some sectors escaping the tax net

Tax compliance, closely associated with low tax morale, is a challenge in all three countries. Kenya has many examples of non-compliance by corporate and private taxpayers alike. Compliance with tax on rental income is perceived to be unacceptably low.[82] The thriving property development sectors in Kenya and Sierra Leone, seen in the rapid rise of apartment and office blocks, have not yielded the anticipated dividend in tax revenue.[83]

Partly because of low tax morale and compliance, the Kenyan government collected less in tax revenue than projected during the period 2008 to 2012.[84] Other factors such as poor forecasting and changes in macro-economic circumstances however, also played a role.

In Kenya, VAT revenue, despite being seen as a tax for the future, stagnated at 27 percent of total tax revenue between 2006 and 2011.[85] The poor performance of VAT has been attributed to low tax compliance, especially in the use of Electronic Tax Registers (ETR). There are also many small and medium sized businesses that do not file for VAT because they fall below the VAT threshold. Thus, attempts to impose a turnover tax on smaller entities will greatly complement VAT revenue collections.[86]

The proportion of excise tax revenue significantly declined from 15 percent to 11 percent over the five-year period (2006-11) due to a shift from *ad valorem*[87] to a specific taxation regime in 2003/04,

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[80] **Diversion** is used in this study to refer to the action of turning something aside from its course. To put it in context, it means rerouting, redirecting, deflecting, digressing or deviating of goods intended for consumption in a foreign country to now having them consumed domestically. It often happens when a landlocked country, for example, Uganda, importing goods from Japan through a Kenyan port (Mombasa) and then the goods are transported inland through Kenya (termed goods in transit) to the destination of import in Uganda. The standard or common practice is usually that the goods in transit are not subjected to payment of duty since they are ordinarily not for consumption in the transit country (Kenya). This has a consequence of loss of customs duties and import value added tax if the transit goods are diverted and consumed locally and it is an illegal act commonly termed transit fraud. However other countries allow for local consumption of transit goods upon the payment of the requisite customs duties. Dumping, in this study, means the actual act of unloading goods intended for consumption or use in a foreign country at a local/domestic place.

[81] Wanjala B. (2014), Kenya Case Study

[82] Wanjala B. (2014), Kenya Case Study

[83] See Jibao S. (2014), Sierra Leone Case Study and Wanjala B. (2014), Kenya Case Study

[84] Wanjala B. (2014), Kenya Case Study

[85] Wanjala B. (2014), Kenya Case Study

[86] Wanjala B. (2014), Kenya Case Study

[87] This is tax based on the value of specific goods and services

especially for beer and spirits, which account for the largest share of excise tax revenue. Taxation of major excisable products has mainly been shifting between an *ad valorem regime* and a specific regime (which is a specific monetary value per unit of excisable commodity). Experience has shown that *ad valorem* taxes are more buoyant than specific taxes and would therefore lead to higher tax revenues. In addition, *ad valorem* rates adjust automatically to inflation, as compared to specific taxes, which have to be adjusted periodically to keep up with inflation. In order to maximize excise tax revenue collections, tax experts have advised governments to consider reverting to the *ad valorem* taxation regime.[88]

Looking at the respective types of tax for Kenya, statistics indicate that only Pay As You Earn (PAYE) taxes exceeded the target between 2005/06 and 2011/12. The corporate, VAT and Excise tax collections fell below target, with the gap between actual and targeted revenue collection widening over time. This has been attributed to their administrative ease of the Personal Identification Number (PIN) and also the self-assessment tax payment system.[89]

High Net Worth Individuals (HNWIs), particularly in Kenya and Zambia were also singled out amongst non-compliant potential tax payers. Some have been accused of moving their funds to low tax jurisdictions in order to avoid paying tax[90]. HNWIs can afford to have complex tax arrangements designed for them by tax advisers, using corporate institutions and trusts registered offshore. These schemes cause significant tax loss and erode the overall integrity of the tax system, prompting calls for better audits and the use of data derived from third parties with business dealings with HNWIs.

D. Windfall taxes

Windfall taxes were seen by many respondents interviewed during the study, as an important way of increasing tax revenues from the extractive sector. These are taxes that are levied on companies if they make above average profits, usually due to unforeseen economic circumstances like changes in mineral prices. This issue was raised mainly following the Zambia case study. In 2008, windfall tax contributed about eight percent (8%) of total revenue collected by the Government of Zambia.[91] This percentage could have been higher given that some of the disputed windfall taxes were settled in 2011. Estimates for outstanding windfall tax liability for the large mining companies for the financial year from April 2008 to end of March 2009 were estimated at US$240-260 million, of which only US$30 million was collected. Windfall taxes were abolished in 2009. Payment of this windfall tax liability would have increased the contribution of mining tax revenue in total revenue from 8 percent to about 38-40 percent.[92]

Further to windfall taxes, it was also revealed that most of the mining companies in Zambia did not pay income or profit taxes, despite declaring profits. For instance, Lumwana Mining Limited declared a profit of US$36 million (ZMK 182,160 million) in 2009 but did not pay any income or profit taxes. Exports of copper were previously zero-rated, but a 15 percent tax was introduced in 2008 on

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[88] TJN-A, (2014), *Africa rising? Inequalities and the essential role of fair taxation,* NAIROBI, Tax Justice Network Africa and Action Aid

[89] Wanjala B, (2014), Kenya Case Study

[90] TJN-A, (2014), *Africa rising? Inequalities and the essential role of fair taxation,* NAIROBI, Tax Justice Network Africa and Action Aid. See also Wanjala B, (2014), Kenya and Zambia Case Studies.

[91] Ibid

[92] Ibid

unprocessed copper.[93] The table below shows changes in tax policy, which had a bearing on the amount of tax revenue collected.[94]

Figure 4: Changes in Fiscal Regime of the Mining Sector in Zambia

	2006	**2008**	**2009**	**2010**
Royalty	0.6%	3%	3%	6%
Corporate tax	25%	30%	30%	30%
Variable income tax	No	Yes	Yes	Yes
Hedging activity considered part of mining	Yes	No	Yes	No
Windfall tax	No	Yes	No	No
Capital expenditure allowance	100% for all capital expenditure	100% for all prospecting and exploration, 25% for other capital expenditure	100% for all capital expenditure	100% for all capital expenditur e
Loss carry forward	10 years	10 years	10 years	10 years
Custom duties	Exports are zero-rated	15% on unprocessed copper	15% on unprocessed copper	15% on unprocesse d copper
Withholding taxes on foreign sub-contractors and interest	0%	15%	15%	15%
Withholding taxes on dividends & payments to residents	0%	0%	0%	0%

Source: Wanjala B., (2014), Zambia Case Study adapted from Simpasa et al (2013)

A review of revenue from mining trends shows that mining taxes amounted to about ZMK 125 billion in 2005, while mining royalties amounted to ZMK 39 billion. Total revenue from mining (taxes plus royalties) only accounted for 0.4 percent of GDP in 2005 (Figure 4). Mining taxes increased to ZMK 1,088 billion in 2010 and ZMK 4,226 billion in 2011.[95] The steep increase in mining taxes in

[93] Wanjala. B, (2014), Zambia Case Study

[94] Wanjala B, (2014), Zambia Case Study

[95] Wanjala B, (2014), Zambia Case Study

2011 is largely due to payment of windfall tax arrears that were supposed to be paid in 2008. This increased the contribution of mining revenue to 4.5 percent of GDP in 2011. These trends are an indication of the great potential of windfall taxes in increasing mining tax revenue.

If Zambia had effectively taxed the mining sector between 1998 and 2011, mining tax revenue would have increased to a potential of US$6,027 million, compared to the US$1,596 million actually raised.[96] Tax revenue collections would have been about 5.5 percent of GDP over the same period compared to the average actual revenue share of 1.8 percent. This represents foregone revenue or missed revenue opportunity of about 3.7 percent of GDP (US$1.6 billion).[97].

3.2 What difference could the missed tax revenue have made for children?

One of the key questions that this study sought to answer was: to what extent would an increase in tax revenue result in increases in public spending on child focused sectors such as health, education and child protection? The twin policy challenges for all governments are to institute measures to maximize tax revenue and to ensure children get their fair share of the available revenue.

Following a close analysis of government expenditures and child wellbeing indicators in all three countries we concluded that increases in tax revenue were generally associated with positive changes in public spending on children, but not in direct proportion. In all three countries, in absolute terms, public spending on social protection and health generally increased between 2005/06 and 2013/14, but not in tandem with increases in tax revenue.[98] The rate of increase was, however, lower than spending in other sectors such as infrastructure, general public service administration and debt repayments.

The potential revenue lost due to loopholes in taxation could have done a lot for children in all three countries. In Sierra Leone, for example, we found out that if tax incentives are removed and transfer mis-pricing is curbed, the country could generate additional annual tax revenue of US$725.75 million, which is 1.9 times higher than the resource gap required to implement the entire Education Sector Plan 2014-2018.[99] These estimates, drawn from the Sierra Leone case study, were arrived at by dividing potential tax revenue and the approved budget for the Education Sector Plan. Findings from the three case studies showed that changes in child focused expenditures, for every increase in tax revenue, are dependent on the political will of governments to prioritize children's issues in budgeting.

To get an idea of changes in child focused spending as a result of increases in government revenue (mainly through tax), in Kenya for example, our calculations from the 2012 and 2013 government budgets, found out that a one percent increase in total government revenue led to approximately 0.04 per cent increase in allocations to pre-primary and primary education, 0.87 percent increase in allocations to health (outpatient and hospital) and 0.65 percent increase in allocations to social

96 Lundstøl. O., Raballand G., & Nyirongo F., (2013), Working Paper 9: *Low Government Revenue from the Mining Sector in Zambia and Tanzania: Fiscal Design, Technical Capacity or Political Will?*, Brighton, Institute of Development Studies

97 Wanjala B, (2014), Zambia Case Study

98 Jibao S, (2014), Sierra Leone Case Study; Wanjala B., (2014), Zambia and Kenya Case Studies.

99 Jibao S, (2014), Sierra Leone Case Study

protection.[100] This implies that only seven percent (7%) of additional revenue was allocated to the three key social sectors.[101] Table 5 below shows likely changes in expenditure as a result of increases in tax revenue.

Table 5: Changes in social spending to changes in total expenditure and tax revenue in Kenya

Type of social spending change	Expected percentage change in expenditure for every 1% increase in total expenditure	Changes in absolute terms from 2012/13 Budget (KES. Million)
Response to changes in expenditure (1% change in expenditure)		**15.395.13**
Pre-primary and primary education	0.34	33.70
Health (outpatient and hospital)	1.23	463.58
Social protection	1.29	665.98
Response to changes in total revenue (1% change in revenue)		9,150.89
Pre-primary and primary education	0.04	3.53
Health (outpatient and hospital)	0.87	326.04
Social protection	0.65	336.51

Source: Wanjala B, (2014), Kenya Case Study

In Zambia, our analysis of the 2012 and 2013 budgets showed that a one percent increase in total government revenue led to a 0.91 per cent increase in expenditure on pre-primary and primary education, 0.66 per cent increase in expenditure on health (outpatient and hospital) and 0.66 per cent increase in expenditure on social protection. This means that an estimated 22 percent of additional tax revenue was allocated to the three key social sectors.[102] This was significantly higher than Kenya's estimated allocation of 7 percent. In Zambia spending on social protection was more

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[100] The calculations are based on applying the concept of midpoint arc elasticity to estimate changes in the social spending categories which would result from changes in expenditure and revenue. For instance, to estimate the responsiveness of spending on pre-primary and primary education to changes in revenue, we use the following formula:

$$\varepsilon_{educ} = (\%\ change\ in\ spending\ on\ pre-primary\ and\ primary\ education) \div (\%\ change\ in\ revenue)$$

$$= \frac{spending\ on\ education\ in\ year\ 1 - spending\ on\ education\ in\ year\ 0}{(spending\ on\ education\ in\ year\ 0 + spending\ on\ education\ in\ year\ 1)/2} \div \frac{revenue\ in\ year\ 1 - revenue\ in\ year\ 0}{(revenue\ in\ year\ 0 + revenue\ in\ year\ 1)/2}$$

$$\varepsilon_{educ} = (\%\ change\ in\ spending\ on\ pre-primary\ and\ primary\ education) \div (\%\ change\ in\ revenue)\varepsilon_{educ} = (\%\ change\ in\ spending\ on\ pre-primary\ and\ primary\ education) \div (\%\ change\ in\ revenue)$$

$$= \frac{spending\ on\ education\ in\ year\ 1 - spending\ on\ education\ in\ year\ 0}{(spending\ on\ education\ in\ year\ 0 + spending\ on\ education\ in\ year\ 1)/2} \div \frac{revenue\ in\ year\ 1 - revenue\ in\ year\ 0}{(revenue\ in\ year\ 0 + revenue\ in\ year\ 1)/2} = \frac{spending\ on\ education\ in\ year\ 1 - spending\ on\ education\ in\ year\ 0}{(spending\ on\ education\ in\ year\ 0 + spending\ on\ education\ in\ year\ 1)/2} \div \frac{revenue\ in\ year\ 1 - revenue\ in\ year\ 0}{(revenue\ in\ year\ 0 + revenue\ in\ year\ 1)/2}$$

[101] Wanjala B., (2014), Zambia and Kenya Case Studies.

[102] Wanjala B, (2014), Kenya Case Study

responsive to increases in tax revenue than expenditure. This means that the social protection sector received higher spending allocations arising from increased tax revenue than education and health. From the above analysis, we can conclude that increases in tax revenue will amount to nothing for children unless they get their fair share from the available revenue.

Table 6: Changes in in social spending to changes in total expenditure and tax revenue Zambia

Type of social spending change	Expected percentage change	Changes in absolute terms from 2012/13 (ZMK. Million)
Response to changes in expenditure (1% change in expenditure)		22,995.66
Pre-primary and primary education	0.91	3,107.52
Health (outpatient and hospital)	0.66	1,247.38
Social protection	0.66	628.38
Response to changes in total revenue (1% change in revenue)	-	24,516.06
Pre-primary and primary education	1.12	3,818.95
Health (outpatient and hospital)	1.25	2,335.84
Social protection	2.23	2,117.94

Source: Wanjala B, (2014), Zambia Case Study

Based on analyses of examples of missed taxation opportunities presented in this study and expenditure trends in the three countries we conclude that if the identified loopholes are closed, assuming that current spending patterns are maintained, each of the three countries can generate additional annual tax revenue to at least **double** annual expenditures on primary and secondary education, primary health care and child focused social protection[103]. As we saw in the three case studies, the percentage change in public spending on children as a result of increases in tax revenue is to a large extent dependent on political will of individual governments to prioritize investments in children.

[103] Conclusions based on ccalculations by Wanjala (2014) in the Zambia and Kenya case studies.

Chapter 4

Conclusions and recommendations

"The potential for further tax reform and rationalization will help to reduce the size of the underground economy, curtail illicit capital outflows, and improve overall governance,"

- Donald Kaberuka, President of the Africa Development Bank

4.1 Conclusions

Tax will continue to be an important source of revenue for all countries in the world. It is also a tool for redistributing national resources and wealth between different income groups, thereby addressing inequality and poverty especially amongst children.

A number of developing countries, including Kenya, Sierra Leone and Zambia, are yet to maximize revenues from taxation. Our study concluded that all three case countries are losing significant potential tax revenue through weak taxation systems, tax evasion and avoidance, corruption and tax incentives. As a result increases in tax revenues have not been in tandem with the high economic growth all three countries experienced between 2005 and 2014.

Notwithstanding the slow rate of growth of tax revenue contribution to GDP, we conclude that if the identified tax loopholes are sealed, all three countries could generate additional revenue to at least **double** the total annual budget for education, primary health care and child focused social protection. As shown in this study, if Sierra Leone, for example, reduces its tax incentives, improves tax morale and compliance, effectively taxes the real estate sector and tackles tax evasion and avoidance, it has the potential to raise additional tax revenue estimated at US$725.75 million a year.[104]

Generating additional tax revenue to increase the resources available for investing in children is one side of the story. The other side is that the available resources should be equitably shared and effectively used to benefit all children. Although in all three countries, increases in tax revenue have been associated with increased spending on social sectors such as health and social protection and subsequently improvements in child wellbeing indicators, the rate of increase has not been in tandem with increases in tax revenue. In all the three countries, social sector spending increased at a lower rate than other sectors such as general infrastructure, public administration and debt repayment. Unless governments prioritize children in their budgets, increases in tax revenue will amount to nothing for children.

In order to maximize revenues from tax, evidence from this study suggests recommendations on policy, institutional and other measures to be taken forward by individual governments, in close cooperation with the international community to expand the tax base, improve efficiency and effectiveness in tax collection and to ensure that children are prioritized in budget allocations.

[104] Based on Sierra Leone's case study author's calculations using the budget for 2013/2014

4.2 Recommendations

Recommendations to the governments of Sierra Leone, Kenya and Zambia:

- Ensure that children get their fair share of every marginal increase in tax revenue and that the resources are equitably and effectively used to realize children's rights.

- Put in place comprehensive measures to increase tax morale and compliance, including through improvements in transparency, efficiency and effectiveness in revenue collection and management as well as public education on the benefits of paying tax.

- Review tax incentives and exemptions offered to potential investors, mining companies and other multi-national corporations (MNCs) through cost-benefit analyses as well as Child Rights Impact Assessments. Tax incentives should be provided in a transparent way and according to national laws and policies. The use of yearly tax expenditure reports to control, monitor and manage tax incentives should be considered. These should show all tax incentives offered and include an assessment of whether tax incentives produced the expected results. The reports should be made publicly available.

- Push for improved international transparency standards to address illicit financial flows through the following measures:

- signing up to and complying with an international agreement on multilateral automatic exchange of tax information;

- committing to and implementing a public register of beneficial ownership information for MNCs, funds and trusts;

- a requirement that MNCs operating across various countries produce public accounting reports on a country-by-country basis.

- Put in place measures to broaden a progressive tax base, including to explore ways of progressively taxing small enterprises and ensuring that players in the real estate sector, online businesses as well as high-net worth individuals pay their fair share of tax.

- Strengthen national tax systems through, for example, use of information technologies for on-line filing of returns, personal identification numbers, and enhanced staff capacities to adequately handle tax issues that relate to MNCs.

- Crackdown on corruption in valuation, customs offices, border agencies, trade pricing and in revenue collection and management in general. Abusive transfer pricing should also be considered as corruption.

- Implement the United Nations Guiding Principles on Business and Human Rights, Child Rights and Business Principles as well as the UNCRC General Comment No 16 (2013) on the impact of the business sector on children's rights as they relate to taxation.

Recommendations to the international community

- Earmark part of aid to support efforts by African countries to strengthen their tax systems, including staff training and strengthening of tax information systems.

- Support transparency and accountability initiatives such as the Extractive Industries Transparency Initiative (EITI) and Publish What You Pay.

- Support regional cooperation on tax matters through structures such as the East African Community (EAC), Economic Community of West African States (ECOWAS), Southern African Development Community (SADC) and the African Tax Administrators Platform.

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