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

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Talking points:

I. Why tax matters for development

II. Myths and facts about taxation in Africa

III. Strengths and weaknesses of the current tax reform agenda

IV. How governance focused tax reforms can contribute to reduce inequalities
I. Why tax matters for development

- Tax is not an end in itself, but a means towards the well-being of citizens and a well-functioning state:

1. Tax is a core part of **state-building** and the most visible sign of the **social contract** between citizens and the state

2. Taxes - if designed well - can **promote economic growth, lessen extreme inequalities, and fund the delivery of the MDGs**

3. Dependence on taxes requires states to develop **tax raising capacities**

4. Rising tax revenues combined with economic growth are the eventual **exit strategy** out of aid dependency
Characteristics of a ‘good’ tax system

- Economically efficient
- Effective
- Equitable

- These objectives frequently conflict

- Progressive taxes in highly unequal societies is difficult to achieve

- It matters how taxes are raised
MYTH 1: There is hardly any taxation in Africa
Large differences in Tax-to-GDP ratios between African countries

Tax revenue and other revenue in selected African countries (2006)
Africa: Domestic revenue mix as share of GDP

Direct taxes
Indirect taxes
Non tax
Resource tax
Trade tax
MYTH 2: Africa is totally dependent on aid
Aid and tax revenue per capita (2008)
Mozambique, Tanzania, Zambia & average Africa

- **Aid and tax revenue per capita**
  - Africa: 468.6 USD
  - Tanzania: 70.6 USD
  - Mozambique: 58.1 USD
  - Zambia: 219.2 USD

- **ODA per capita**
  - Africa: 42.4 USD
  - Tanzania: 58.1 USD
  - Mozambique: 66.1 USD
  - Zambia: 93.3 USD
Aid as share of GDP (1980-2009)
Mozambique, Tanzania, Zambia & average SSA

Sub-Saharan Africa (developing only)

Mozambique

Tanzania

Zambia
Illicit financial flows from and development aid to Africa 2001-2008 (mill USD)
MYTH 3: Aid is the only external financial inflow to Africa

1. Foreign aid (2007):
   - USD 104 billion (from OECD-DAC countries)
   - USD 8 billion (from non-DAC donor countries)

2. Foreign direct investments in Africa (2008)
   - USD 88 billion
   - Mostly to extractive industries
   - Nigeria, Angola, Egypt, South Africa

   - USD 41 billion

4. Philanthropy
   - ?
MYTH 4: Tax reforms are not on the policy agenda in Africa

- Actually, there are a number of good things to report:
  - Simplification of the tax system
  - Improved tax administrations at the central government level
  - Improved attitudes of tax administrations towards (some segments of) taxpayers
but also worrying problems in many countries

III. Weaknesses of the current tax reform agenda

1) Taxation generally not high on the domestic political agenda

2) The political and economic elite often not part of the tax base

3) Extremely narrow tax bases

4) Large untaxed informal sectors

5) Extensive/increasing tax exemptions

6) Massive revenues from natural resources are lost

7) Illicit capital flows facilitated by tax havens entrench inefficient tax systems
IV. HOW GOVERNANCE FOCUSED TAX REFORMS CAN CONTRIBUTE TO REDUCE INEQUALITIES

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

- Focus on reforms that simultaneously facilitate:
  
  ✔ **Revenue growth**
  
  ✔ **Build administrative capacity**
  
  ✔ **Build accountability**
Governance focused tax reforms

➤ Reduce/eliminate tax exemptions

➤ Tackle tax causes of **capital flight**

➤ Strengthen the administration of NR-taxation and esp. **extractive industries**

➤ **Improve progressivity** through income tax & property taxes

➤ Find more effective ways to **tax the informal sector**
  • **Simplified tax regime** for micro and ‘informal’ sector
  • **Establish a dedicated tax unit** for Small and Medium enterprises
Governance focused tax reforms (cont.)

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