

Tax Development in Africa: Three Beacons on the Path to Recovery

The challenges of African countries in the area of tax policy are immense. The stability of revenues must be insured in an economic context that is extensively dependent on external factors such as the price of natural resources and border restrictions caused by financially advantaged countries. Due to the effects of the pandemic and, in particular, the increasing debt burden, short – and mid-term prospects of Africa economies appear especially dismal. As the expression ‘two-track recovery’ used by the International Monetary Fund illustrates, African countries will recover much slower than industrialized countries, if they do so at all.¹

Moreover, in many countries, the legislative and administrative processes are deficient with insufficient access to technological and knowledge resources, lack of skilled and sufficiently paid personnel, and recurrent problems of corruption not to mention, in some cases, a worrying step backwards in the field of democracy, rule of law, and human rights. In the most dramatic cases, the very existence of the state is at risk and is undermined by foreign military interventions, aggressive investment policies or internal feuds between political rivals as well as religious or ethnical groups.

In this context, which is well-known, there are tangible signs of hope.

First of all, many African countries can depend on a new generation of intellectuals, business persons, and social changemakers among whom many are women. This has both a deeply rooted conviction that things may not continue like this and a lucid belief that improvement will be gradual and shall primarily have to come from within. This is also true in the area of taxation where young academics, professionals, and officials share

the ambition of transforming their tax systems, as the excellent contributions of Daisy Ogembo and Eric Kasoko in this issue show.

Secondly, objective factors such as demographics, opportunities for economic growth (which was a reality before the pandemic), and resilience capacity are assets to be counted on in future development scenarios.

Thirdly, There seems to be a willingness on the international level to engage in a deeper and more balanced cooperation with Africa, as recent examples such as that shown by the Africa-Europe Alliance for Sustainable Investment and Job and the New Deal for Africa, an EU-Africa initiative announced in May 2021² or the 2021 Africa-China Summit. The renewed interest in Africa can also be perceived in the tax area, the G20/OECD inclusive framework on BEPS (Base erosion and profit shifting), the support of international organizations to domestic revenue mobilization initiatives, and to regional organizations such as the African Tax Administration Forum (ATAF).

From a tax perspective, there is little doubt that the number one priority for African countries remains domestic revenue mobilization that is instrumental for achieving the 2030 sustainable development goals.³ African countries are indeed among the lowest ranked in the world regarding tax-to-GDP ratios with many being under or just above the 10% line (against this multifaceted objective encompasses more efficient fight against profit shifting, strengthening administrative capability to ensure effective tax collection, and making the necessary structural changes to the tax policy mix to apply taxes that are both perceived as fair by the population and as efficient from an economic perspective.⁴ Three elements are key to

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¹ Kristalina Georgieva, IMF Managing Director, *The Road Ahead for Africa—Fighting the Pandemic and Dealing with Debt*, Speech at the African Development Bank Annual Meeting, 23 June 2020, www.imf.org.

² ‘A New Deal for Africa’ - Op-ed article by President Charles Michel, and more than 30 European and African leaders, 31 May 2021, <https://www.consilium.europa.eu/en/press/press-releases/2021/05/31/a-new-deal-for-africa-op-ed-article-by-president-charles-michel-and-more-than-30-european-and-african-leaders/> (accessed 20 Dec. 2021).

³ See among others World Bank, *Taxation and the Sustainable Development Goals*, Proceeding of the 1st conference of the Platform for collaboration on tax (2018), <https://www.worldbank.org/en/events/2017/06/06/first-global-conference-of-the-platform-for-collaboration-on-tax#1> (accessed 20 Dec. 2021).

⁴ See e.g., the presentations of Prof. Annet Oguttu and Prof. Afton Titus during the panels organized during the Global Tax Symposiums in 2020 (Louvain) and 2021 (Leiden), recordings available on, <https://globtaxgov.weblog.leidenuniv.nl/event/global-tax-symposium/> (accessed 20 Dec. 2021).

successful attainment of that objective: digitalization, cooperation and education.

There is little doubt that digitalization may immensely assist African countries to face their tax challenges. Simplifying taxpayer obligations, detecting potential fraud, and improving communication between the stakeholders are among some of the gains of an increased reliance on digital tools.⁵ As Belisa Ferreira's contributions in this issue reminds us, such a process must harmoniously accompany the adoption of sound data protection rules that are aligned with the best international standards. Useful sources of inspiration, apart from the experience of other tax administrations, can also come from the area of financial services where countries managed to greatly improve access to basic banking services and to credit by relying on telecommunication and digitalization as illustrated by the examples of Nigeria, Ghana, and Kenya.⁶ Moreover, digital instruments may strengthen the efficiency of property taxes either by securing property rights (through blockchain technology) or by helping map the territory (with satellite images).

Cooperation will also be necessary. Efficient tax collection requires constant and thorough monitoring of cross-border transactions that cannot happen without mechanisms of information exchange and administrative cooperation with the beneficiaries' countries and/or those of the suppliers. This remains valid for the application of corporate income tax, especially in the framework of the implementation of Pillars I and II. However, due to the expansion of e-commerce (which increased by 52.7% between 2019 and 2020 according to Statista.com), this is equally important for indirect taxes on B2C transactions (VAT/GST). Cooperation also allows sharing best practices and building on the experience of other countries. For African tax administrations, there is a wealth of experience to be gained from successes and errors made by others in the past, and that should allow African countries to progress beyond the more classical tax systems. A concrete example could be the VAT and customs for which African countries could build on the European Union's fifty+ years of experience. In addition to economic support, the EU could provide instructors and technological transfers. It could also bring a lucid analysis regarding the current shortcomings of the EU VAT system for cross-border transactions. The endless EU quest to a definitive regime could first be implemented on Africa soil through a more efficient system based on high thresholds for registration, real

time reporting of transactions, and collection through financial intermediaries (which could also apply to domestic transactions).

The third component to Africa tax recovery is education. The OECD released its second report on tax education in November 2021.⁷ According to this report:

Supporting the efforts of developing countries in taxpayer education is especially important, given the lower levels of taxpayers-per-capita, revenues and tax morale. Developing countries face a combination of challenges: narrow tax bases (resulting in fewer taxpayers), low revenues and low reported levels of tax morale. Therefore, while taxpayer education initiatives are important in all countries, they are especially important to developing countries. They serve as a tool to help reach, and encourage, new taxpayers; explain the role of tax in society; build tax morale; and ultimately increase revenues.

Interestingly enough, many innovative initiatives originated in African countries: inclusion of a tax curriculum in Mauritius, stakeholders forums in Tanzania, NGO-run tax education training in remote areas in Sierra Leone, and Tax TV and radio shows in Senegal and Togo, however, beneficial tax education also requires resources. Access to up-to-date databases of tax legislation and case law should be made available to tax administrations, tax professionals, and the broader public. Training on general and specific tax topics should be organized in administration, universities, and professional organizations with a pool of domestic and foreign instructors who possess extensive knowledge of the subject and the realities of the country. In that respect, it is particularly important to stress that training should be provided in local languages and not only in English as that would de facto exclude a large part of the population in French-speaking and Portuguese-speaking Africa.

Cooperation, digitalization, and education are the three pillars on which the future of the African tax systems could be built. However, that will require all involved stakeholders to commit to making the system effective. Governments must provide for a minimum of stability which implies not only guaranteeing peace but also actively promoting the application of the rule of law in the legislative, administrative and judicial tax process. Businesses should also play their part by leading by example in the fulfilment of their own tax obligations, assuming the responsibility of decentralized tax collectors when so required (VAT, payroll taxes, and withholding taxes) and whenever needed to support tax

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⁵ Marcello Esteveao, *Why Tax Administrations are Embracing Digital Transformation*, <https://blogs.worldbank.org/voices/why-tax-administrations-are-embracing-digital-transformation>, 1 Dec. 2021

⁶ Alliance for financial inclusion, *Africa's Financial Regulators Use Digitalization to Reach Women* (24 Nov. 2021), <https://www.aifi-global.org/newsroom/blogs/africas-financial-regulators-use-digitalization-to-reach-women/> (accessed 20 Dec. 2021).

⁷ OCSE, *Building Tax Culture, Compliance and Citizenship, A Global Source Book on Taxpayer Education*, Second Edition 2021.

education and compliance initiatives. Higher education institutions, in Africa and elsewhere, should include courses in their programs that take into account local realities and make them accessible online and on-site. Whenever possible, networks between African and European (or other) higher education institutions should be encouraged. Knowledge developers and publishers should ensure free or reasonably priced access to existing documentary resources and databases for African tax officials and professionals and also actively work in cooperation with locals for the creation of specific databases

for African countries. Such a project could be funded by international donors, whether public or private. Of course, any of those actions would have very little weight if they did not involve local people from the very beginning. Africa deserves a better future, and that depends – in part – on how African tax systems will respond to the current crisis: every (tax) person, in Africa and elsewhere, should feel concerned.

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