OPENING REMARKS BY THE CHAIRPERSON OF THE AFRICAN TAX ADMINISTRATION FORUM (ATAF) MR OUPA MAGASHULA ON THE THEMATIC SESSION "TAX SOVEREIGNTY, COMPETITION AND COOPERATION: THE BENEFITS AND RISKS OF TAX INCENTIVES AND EXEMPTIONS FOR CONOMIC DEVELOPMENT IN AFRICA" ON THE OCCASION OF THE 2nd ATAF GENERAL ASSEMBLY ON TUESDAY, 25 SEPTEMBER 2012

Mr Amadou Ba, Director General of the Senegalese Tax Administration
ATAF members
Commissioners General and heads of tax and revenue authorities
Development Partners
Special guests
Colleagues, friends, ladies and gentlemen

It is my privilege to welcome you all to the thematic session of the second General Assembly meeting of the African Tax Administration Forum.

Let me express our deep appreciation and gratitude to Mr Ba and the Senegalese Tax Administration for hosting us here in Dakar. The warmth of your reception and hospitality is matched only by the warmth of your weather!

Ladies and Gentlemen

Four years ago while deliberating Taxation, State Building and Capacity Development at an international conference in Pretoria it became apparent that a new way of thinking was required on tax administration in Africa; one that sees beyond tax collection as a purely technical or administrative exercise, to a wider and more holistic view of the role of we can and should play in domestic resource mobilisation to support social and economic development in our countries and across our continent.

It was this thinking that planted the seed for the establishment of ATAF – as a central platform for African tax administrators to articulate African tax priorities, develop and share best practices in the region and further afield, and to build capacity in African tax policy and administration through peer learning and knowledge development.

Coming as it did in 2008 just as the global economic crisis began to unfold, our timing could not have been more opportune. In the four years since, the issues of taxation, domestic resource mobilisation and fiscal sovereignty have dominated global discourse as never before in history.

The ability of a state to collect revenue from its citizens to finance the provision of public services and the running of the state, is one of the key defining features of a capable and independent state.

As we have seen recently, countries that cannot fund themselves or repay their debts are at the mercy of donors, creditors and international organisations with their own often narrow agendas and self interest.

It is this ambition for fiscal sovereignty that underpins the establishment of this forum, the African Tax Administration Forum.

ATAF has achieved much since its launch conference in Kampala, Uganda, in November 2009, and we reviewed these achievements yesterday in our closed Administrative Session. I think it is important to mention some of these highlights in this meeting:

- The fifth Instrument of Ratification have been deposited with the Executive Secretary and the path is now cleared for ATAF to be established as an independent legal organisations
- Twenty-five capacity development technical events have been hosted by our members since 2009, where more than 560 African Tax Administrators have been trained
- We have finalised a draft agreement on mutual assistance which could dramatically increase the capability of members to tighten up on revenue leakages and
- We successfully hosted a side event at the 4th High-level Forum on Aid Effectiveness in Busan, Korea, which served as a platform to discuss the importance of investing in tax revenue and tax administration as an important means of economic self-reliance for African countries and we have established sound working relationships with and found support for our vision from our development partners including the OECD, the United Nations, the World Bank, the International Tax Dialogue, the International Tax Compact, SADC, ECOWAS, as well as our sister organisations such as CIAT, CREDAF and CATA.

Ladies and gentlemen,

Our second General Assembly meeting comes at a crucial time for Africa and indeed with world with regard to economic growth and development. Despite the challenges being faced around the world due to the continuing economic crisis, Africa is well placed to capitalise on the opportunities for growth in the years ahead and several studies, including the African Economic Outlook 2012, paint an optimistic view of Africa's medium and long term growth prospects. The AEO states that: "With the recovery of North African economies and sustained improvement in other regions, growth across the continent is expected to accelerate to 4.5% in 2012 and 4.8% in 2013."

In light of this anticipated growth, more focus should be placed on domestic revenue as the principal source for fiscal space expansion given its sustainability and thereby reducing dependence on donor assistance.

Effective revenue administration contributes to a country more than simply filling its state coffers: it is an essential component of good governance. When states are obliged to bargain with their citizens over taxation, or cannot rely on coercion or external resources, then they must become more responsive to their citizens.

As ATAF we will continue to build the capacity of our members to become effective and efficient tax administrations. ATAF fills a critical role in capacity development and yesterday we approved an expanding capacity building programme. Technical events, supported by international dialogue and research will remain our primary focus areas. At the same time, we recognise that an area requiring more attention in the coming year is our engagement with key stakeholders and we have instructed the Secretariat to develop a clear engagement strategy to assist ATAF to build the kind of partnerships we need on the continent and internationally.

Ladies and gentlemen,

The theme for today's session is "Tax sovereignty, competition and cooperation: The benefits and risks of tax incentives and exemptions for economic development in Africa".

The theme statement is a mouthful and I believe it requires some serious unpacking and since it is early in the morning and we are all fresh, I would like to throw some cats amongst the pigeons to get the blood flowing and debates growing.

The first reaction of many commentators would be that tax sovereignty and incentives relate to tax policy and therefore this Forum, should not be discussing themes that fall outside their mandate. However, times have changed and it is now, more than ever, accepted that Tax Administrations are partner organizations to those organs of state entrusted with the design of tax policy in order to evaluate policy in practice. It is only through practice that we can truly appreciate the effects of policy design on the fiscus - sometimes unintentional, unforeseen and costly.

Global Financial Integrity (GFI) estimates that, despite the massive financial crisis which rocked the global economy in late 2008, the developing world lost 903 billion US dollars in illicit outflows in 2009. The capital outflows stem from crime, corruption, tax evasion, and other illicit activity. From 2000 to 2009, developing countries lost

8.44 trillion US dollars to illicit outflows. Africa accounted for 4.5% of total illicit flows from the developing world.

The UN-mandated High-Level Panel on Illicit Financial Flows from Africa found that up to 50 billion US dollars is lost annually to illicit activities such as drug smuggling, tax evasion, over-invoicing and under-pricing – with multinational corporations found to be responsible for much of the illegal transfer of money out of Africa. The findings of the UN High-Level Panel have found support from various research tanks, including GFI which concurs that the most common way illicit money is moved across borders is through international trade and money laundering, which accounts for about 60 percent of this illicit activity.

So herein lies the question we have to ask ourselves – is this as result of a lack of policy; a problem with existing policy; a problem with the implementation and enforcement of policy; or a combination of all three.

To add to the complexity of finding an answer, the policy decisions and designs of one country - and its implementation and enforcement – cannot be viewed in isolation, for every action has a cause and effect, and more often than not, it has both positive and negative effects. Positive for attracting large conglomerates to base their operations in tax friendlier jurisdictions and negative because those same conglomerates move their operations – or worse – shift their profits to these tax friendlier jurisdictions, resulting in different jurisdictions literally competing for empty state coffers. And let us be honest, only the rich benefit from empty state coffers because they are not reliant on public services.

Ladies and Gentlemen

But is this race to the bottom really as serious as we think? If we take into account the statistics I am about the quote, I regret to say that the answer is a resounding yes:

- According to the IMF, as recently as 1980 not a single low-income Sub-Saharan African country had tax free zones. However, by 2005 50 percent did.
- In 1980 only 40 percent of these countries offered tax holidays, by 2005 about 80 percent did so.
- According to a 2004 study by the Nathan-MSI Group, 11 of 15 member states of the Southern African Development Community offered tax holidays to certain types of investors, 9 of which offer a full exemption from company tax during the holiday period.
- The Task Force on Tax and Development developed Draft Principles to Enhance the Transparency and Governance of Tax Incentives for Investment in Developing Countries. In its report it states, and I quote: “Despite the widespread use of tax incentives for investment, in general there is inadequate analysis of

> their costs and benefits in a national context to support government decision-making. There is limited data collected on granted tax incentives, qualifying investments made, direct (and indirect) benefits to the host economy, and the cost of these tax incentives in terms of foregone revenue. Moreover, even information that should be more readily available – lists of tax incentives and beneficiaries – is not always collected or reported."

To my mind, there is a need for greater transparency, information and analyses on tax policy, including tax incentives, and the impact or spillover effect of such activities on other countries.

Much has been said about the transparency and exchange of information. For one, I have written to you asking you as fellow tax administrations to consider joining the Global Forum on Transparency and Exchange of Information for Tax Purposes. The purpose of my letter was not to ensure a full room of delegates at the Cape Town meeting in October, but rather, for us as African countries to benefit from the efforts of a collective of 110 member jurisdictions who are seeking to ensure that we all benefit equally from the benefits of greater exchange of information.

Ladies and Gentlemen

After all, Africa is bleeding and it does not take much to find evidence of the potential monetary benefit if we embrace existing tools. How many of us saw the headline in the Financial Times of Wednesday 12 September 2012: "Tarantula snares 104 million US dollar reward for whistleblowing in UBS tax case".

In short, Bradley Birkenfeld (or the "tarantula" as he reportedly likes to be referred to) a former Switzerland-based banker reported allegations of tax evasion at Swiss bank UBS to the US authorities in 2007. As a result of the information he provided, UBS plead guilty to criminal charges and paid 780 million US dollars to settle the case with the US Department of Justice. Additionally, the US government collection 5 billlion US dollars in back taxes as a result of the information Mr Birkenfeld supplied.

We as African countries could certainly benefit from whistle blowing if we are to get anywhere in recovering some of the billions we lose every year. We don't mind what the likes of Mr Birkenfeld would like to call themselves, save them supporting our collective intent of ensuring that fair and legitimate taxes are paid where due, free from the poison of lucrative deals presented by contemptuous jurisdictions and tax practitioners trying to deprive our citizens of their most basic needs, just so they can make a quick buck, albeit unsustainable.

Ladies and Gentlemen

I look forward to lively debate and agreement on a possible role for ATAF, with the help from its partners, to take forward this debate.

In conclusion, in words of renowned Senegalese poet David Mandessi Diop – and I ask your forgiveness for the paraphrasing – “let the blood of our sweat, and the sweat of our work” here, as tax and revenue administrations and as equal partners in this our Tax Administration Forum contribute and make real the vision of David Diop “that our Africa continue to spring up anew, springing up patiently, obstinately, whose fruit bit by bit acquires, the bitter taste of liberty…”

Thank you