

KEYNOTE ADDRESS TO ATAF

3 September 2015

Chairman of ATAF Commissioner General Gershem Pasi

Commissioners General

Executive Secretary of ATAF Mr Logan Wort

Eminent Persons

Distinguished Ladies and Gentleman

Fellow Friends

On behalf of my colleagues and our premier organization on tax matters ATAF, I wish to extend our warm and kind welcome to all of you to this port city of Cape Town. This city as you all know holds important symbolism in the history of our country from the wars of colonialism and dispossession and to the heroic resistance and resilient of human spirit as well as magnanimity of our people.

On the launch of African Tax Research Network, perhaps it is propitious to refer to the poignant statement made by one of the brightest sons of Africa (Pixely ka Seeme) at the turn of the 20th century, “The bright day is arising upon Africa. Already I seem to see her chain dissolved...” Necessarily, the next question that arises is whether such optimism represented a false dawn for our continent, whilst others would aver whether this is yet another dream deferred forever.

Some in the group would rightfully ask why I am straying into this realm. My simple answer is that each one of us as African patriots from the continent and the diaspora must do what we can to assert that “the bright day is (indeed) rising upon Africa”. This we would achieve by marshalling the best African brains to help define what it is that we must do to reclaim the destiny of our countries and our continent and to find creative ways to mobilise our own resources for our own development. In a small way, I hope today's deliberations will take giant steps forward in our journey of finding an African solution to Africa's socio-economic challenges.

Distinguished Ladies and Gentleman

We have all seen and heard about the G20/OECD Project on Base Erosion and Profit Shifting – a 2 year project, 1 Action Plan, 15 Action items which seeks to fundamentally change existing international tax standards with the aim of ensuring that profits are taxed where economic activities occur and where value is created. Indisputably, BEPS has disproportionately and negatively affected African countries. Concomitant with financial outflows from the continent, this phenomenon has stunted our growth prospects

The final package relating to the BEPS Project, which will include all Reports as well as an Explanatory Statement will be for dissemination to the G20 Finance Ministers by Friday 2 October, where after it will be presented to the G20 Leaders on 15 – 16 November 2015. Undeniably, at the heart of BEPS challenges is the matter of Transfer Pricing, which perpetuates tax avoidance and tax evasion. This is facilitated through trade mis-invoicing.

Exports out of African countries are often under-invoiced so that income accrues abroad, and imports into African countries are often over-invoiced; again, so that the excess payment accumulates in foreign accounts. The same mechanism is used whether the trading relationship is between subsidiaries of the same corporation or between unrelated, but cooperating buyers and sellers. This illicit outflows is then stashed into tax havens with low or no taxation.

Our continent is well endowed with minerals and natural resources but we are all agreed that instead of reaping rich rewards, the continent and its people suffer ignominy of backwardness and underdevelopment.

Mr Raymond Baker captures this state of affairs succinctly on his observation about the extractive industry in the continent. He says “The Company buys equipment and material from its own associated procurement companies in Europe, paying excessively high prices in order to move money abroad. It then sells its production to its own associated marketing companies in Europe, receiving far less in Africa than world market prices, again moving money abroad. With these mechanisms so easily utilised, foreign and even domestic companies can operate for years in the developing world without showing profits and paying taxes, yet accumulating huge funds in foreign coffers”.

The above statement is illustrative of the challenges of illicit financial outflows from the continent as a result of carefully calibrated deceptive schemes, whose sole purpose is to deprive fiscus what is it's legitimately due to it. The Report of the High-Level Panel on Illicit Financial Flows from Africa led by the former President of South Africa, Thabo Mbeki, estimates that \$50 billion is lost per year to this phenomenon. It is my hope that the assembled African thought leaders and the intelligentsia here will contribute intellectual solutions to deal and address these matters beyond the 15 Action Plans of the BEPS process.

Distinguished colleagues

Governments around the world and tax administrations are operating in challenging economic times; making the task of mobilising revenues; boosting economic growth and attracting capital investments even more difficult. In addition, governments are increasingly pressured to respond to the needs of their citizens in particular to undertake social investment programmes; provide services such as clean water, sanitation, education, health, housing and electricity with an ever increasing demand.

At an apogee of this pyramid are tax administration authorities who are tasked to mobilise the required resources year-on-year for the respective national governments in the continent, and South Africa is no exception. Taxation is one of the most important ways in which African countries can mobilise their own resources for sustainable development. The recently held Conference on Financing for Development in July in Addis Ababa has firmly re-affirmed the view that we must look inwardly for solutions to extricate African countries from underdevelopment.

Taxation supports the basic functions of an effective state by enabling it to raise the resources needed to deliver essential services and creates the context for economic growth. Payment of taxes is statutory but at the centre of it, the payment of taxes is a patriotic act. At the same time, it is a catalyst for a social contract between the governed and government, thereby reinforcing financial citizenship. In turn, government through its actions becomes more responsive and accountable to her citizens. Furthermore, for the above to be attained there has to be clear tax policies and fully functioning tax administrations with their synergies talking to the developmental needs of a country.

Distinguished Friends

Not all is doom and gloom there are some successful countries in the continent that have made significant forward movement and these have looked at the following as a part of their process of improving their tax systems:

- Building / developing Capacity;
- Introduction of value-added tax (VAT);
- Lowering personal and corporate income taxes;
- Broadening the tax bases;
- Reduction of import duties and simplification of the rate structure;
- Abolition of export taxes; and
- Avoiding excessive reliance on special tax incentives for investors.

However, what is needed for Africa is the re-organization of tax administrations along functional lines, rather than by the tax type. This

includes setting up large taxpayer departments to liaise with companies which often generate up to 70% of domestic tax revenue. Most countries, have established semi-autonomous revenue agencies to take over tax collection but not tax policy from government ministries. The rationale for revenue agencies is that, compared with the civil service, they have more managerial autonomy and clearer incentives for collecting revenue.

In investing in tax systems, we have to go beyond reaching competitive tax rates. It requires of us to strike a balance between providing solid taxation governance structures and improving domestic resource mobilisation. In this manner, governments can attract investors while being able to offer public provisions financed through tax revenues and promote Africa on the development ladder. However at the centre of every successful tax base improvement is the issue of strengthening capacity of revenue administrations at both human and technical level.

Ladies and Gentleman

There is a body of evidence that posits a view that African countries are not effectively utilising their narrow tax bases. A key factor that prevents countries from maximising their revenue potential is the proliferation of tax exemptions. A number of African countries that offer exemptions of some type continue to rise substantially and that growth in exemptions diminishes the revenue base and complicates African tax systems. More importantly, exemptions have a ratcheting effect in that once in place, they are hard to remove. As African countries we must guard against competition that will lead to a race to the bottom. The situation in Africa reflects that despite the recent tax system

reforms or improvements tax performance in African countries remains worrying. Tax systems remain inefficient, costly and ineffective.

It is worth noting that resources required for Africa's sustainable development will not come from aid. Africa has to look at generating financial resources from its own economies and that is the only way Africa will be able to finance its development agenda successfully and realize the "rising of Africa". Revenue derived from taxation constitutes the most significant source of domestic resources for the implementation of development programmes on the continent and there is significant potential for scaling up returns. By focusing on expanding the tax base, improving tax administration and tapping relatively underutilised sources of taxation, African countries can increase tax revenue significantly. Research reveal that domestic revenues mobilised in Africa today are in excess of USD 520 billion, compared to USD 50 billion received in aid. What is more, African central and reserve banks hold more than USD 400 billion in international reserves and Africa's pension fund assets are growing at a staggering pace.

Distinguished Colleagues,

This brings me to the importance of the launch of this momentous occasion today and why the African Tax Research Network is a key strategic feature in the many products of the African Tax Administration Forum (ATAF). The changing landscape of international taxation brought about by the OECD / G20 BEPS Project means that the number of proposed changes in the 15 point Action Plan require a new thought on taxation in Africa. For example, the ATAF Cross Border Taxation Technical Committee has participated successfully in

2015 under pressure in the OECD's Working Parties responsible for discussing the draft of the new guidelines. Through this participation, the team has been able to gain some crucial aspects for African countries such as the revisions of Chapter 1, 2 and 6 of the Transfer Pricing Guidelines as well as the inclusion of the chapter on commodities in Chapter 2 of the same guidelines.

Clearly this was a major gain for African countries that are richly endowed with natural resources. This means that issues pertaining to commodities will receive visibility and prominence at the OECD relative to the past.

The African Tax Research Network will play an important role in ensuring that there is home-grown content in Africa for tax administrations and policy makers. Home grown solutions means that there is independent thought process that evolves and stimulates African ideas and innovations. This is a useful point of departure for African as the African Tax Research Network will allow Africans to access discussion points that are related. Through the many researchers who have submitted their proposals on Africa taxation, many organisations, including ATAF will explore the recommendations and see how these can be taken forward. Moreover, the African diaspora is given the opportunity to make its contribution to the evolution of African economies and the development of taxation on the continent.

Research in general helps to inform various ministries and planning agencies of scenarios that may arise. It is therefore fitting to bring into the Africa tax debate the **tax statistics** juxtaposed with ATAF's African Tax Outlook. Such development allows that for the first time Africans will enjoy a publication on African statistics. Further, I look forward to seeing academics creating

synergies when discussing tax statistics. This has positive spin-offs in that original ideas on tax matters will have a place to germinate within the continent and hopefully shape and influence tax priorities in favour of the continent. The use of statistics is vital in determining the performance of revenue in the country and this allows for enhanced planning on budgeting and development matters. Overall, the African Tax Research Network is a strategic initiative which must be supported and allowed to flourish.

In conclusion for Africa to own its development it needs to define a new robust threshold for Domestic Resource Mobilization that will enable the implementation of majority of its development programmes and projects. There is a need to devise new and innovative domestic resource mobilisation instruments and strength the effectiveness and efficiency of existing systems. Further it requires the deepening of reform in the areas of governance, institutional and macroeconomic policy. Such reforms should lead to enhanced legal and regulatory frameworks to provide overarching enabling environments for investment and mobilisation of domestic resources. The capacity of a country to mobilise domestic resources is determined by the size of the economic activities it generates, its economic growth performance, its ability to raise and manage tax revenues, and the competence of its financial system. Undoubtedly, Africa has the potential to draw on its own capacity to finance its growth and development, and I am of the firm view that Africa is well on the road to achieving this objective. Innovation, efficiency, transparency, accountability and linkage between tax policy and administration will be central to making this happen.

We are agreed that our continent faces a myriad of taxation challenges. I want to believe that this forum is a better place to engage in debates and discussions on how to **reframe and recast** the course of action for our continent. I am certainly looking forward to the robust debates that will ensue, with Africans pitting their wit one against the other for the benefit of all our revenue authorities in the continent. I hope that in the next three days we will leave this place with creative ideas that will contribute immensely to the database of knowledge in the continent.

I am hopeful that the lone of voice Pixley ka Seeme in Columbia University in 1906 about Africa was not just iconoclastic, it asserted rightfully that “...the regeneration of Africa belongs to this new and powerful period”.

I thank you