Africa Tax *Spotlight*

Quarterly newsletter of the tax justice network — Africa

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Editorial

Alvin Mosioma

Welcome to the Inaugural Issue of the TJN-A newsletter. From now on, you will receive on a quarterly basis information about the tax justice campaign and related events from the African continent.

Who are we?

The Tax Justice Network - Africa was launched at the World Social Forum in Nairobi in January 2007 and is part of the international Tax Justice Network. TJN-A aims to promote socially just, democratic and progressive taxation systems in Africa. We advocate for tax systems which are favourable to the poor and finance public goods. The purpose of our initiative is to mainstream tax justice in the economic discourse in Africa. We provide a platform dedicated to enabling African researchers, campaigners and policy makers to cooperate in the struggle against illicit capital flight, tax evasion, tax competition and other harmful trends in tax policy and practice.

Why is taxation so important to Africa?

Taxation has long been neglected in the discourse on development and poverty eradication in Africa. Many perceive it to be a complex issue that should rather be left to experts. However, taxation plays an important role in providing the necessary resources to finance development. Aid and other external forms of funding have often proved to be unreliable and many rich countries fail to honor their funding commitments. There is need to explore alternatives and more reliable sources of financing development. Following this trend, taxation is becoming a central issue in development discourse. Domestic resource mobilization, and tax specifically, have been recognized as an effective instrument to generate resources to invest in much needed infrastructure and enable government provide essential services such as healthcare, education and water.

Financing government programmes through local resources provides African governments with the policy space to develop their own development priorities. Reliance on local resources as opposed to dependency on Aid and other external financing sources can increase government responsiveness to the needs of citizens and enhance government accountability. Therefore taxation also contributes to strengthening democratic institutions and structures by establishing a relationship between the state and its citizens.

What are the issues?

TJN-A's efforts are aimed at highlighting the link between taxation and development. In the domestic sphere, we strive to ensure that tax policies are geared towards addressing poverty challenges. Considering the huge inequalities that characterises some African countries, taxation is an effective tool to ensure that there is equitable distribution of resources. This demands that tax policies are progressive and that the tax burden is fairly shared among the different income groups. A tax policy framework in which the wealthy do not pay their share of taxation means that the poor carry the larger burden and this encourages further inequality. It is also common knowledge that several African countries are endowed with many resources which, if well taxed would generate the necessary funds to finance development.

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However less known is that a number of multinational corporations (MNCs) operating in Africa – and particularly those involved in extractive sectors- use creative tax planning to minimise their tax obligations. Through mechanisms like transfer pricing, they are able to shift their profits to lower tax requirement jurisdictions including tax havens and therefore deny those countries their rightful share of benefits.

Additionally, efforts to attract foreign direct investments have lead to many countries offering a wide range of tax incentives including tax holidays. This practice has set off what can be termed as a race to the bottom where countries are competing for FDI at the cost of immense revenue losses.

Furthermore, many institutions responsible for domestic resource mobilisations in Africa are faced with severe capacity constraints. Many revenue authorities do not have the necessary instruments, resources and capacity to deal effectively with the operations of globally active multinational corporations that operate in their countries.

Beside, the existing global financial architecture has played a significant role in hampering domestic resource mobilisation efforts in Africa.

Particularly significant is the role played by secretive tax jurisdictions including tax havens. Because of the opaque nature of their operations, they encourage irresponsible MNCs and wealthy individuals to hide taxable incomes from concerned revenue authorities. Previous research indicates that Africa has lost up to 604 billion US$ in the last 35 years due to capital flight. For every dollar that flows into Africa through external borrowing, 80 cents flow out in the same period. It is this phenomenon that leads to the characterization of Africa as a net Creditor to the world.

What is our campaign agenda?

To address the challenges mentioned above will require policy changes at national, regional and global levels. At global level, TJN-A supports the campaign to make it a requirement for MNCs to present their financial accounting operations on a country by country basis. Country by Country Reporting would increase transparency and strengthen the ability of different stakeholder including revenue authorities, parliaments, civil society organisations to identify tax abuse. At regional level, TJN-A calls for tax harmonisation policies aimed at discouraging harmful tax competition practices.

Lastly, at the domestic level, efforts should be made to set pro poor tax policies. While efforts to widen the tax bracket should be lauded, there is need to ensure that the burden of taxation is shared equitably.

What about our Inaugural Issue?

The TJN-A newsletter aims at introducing the reader to different subjects related to taxation. To give an insight into the wide field of topics this issue presents articles which highlight different aspects: corruption in Africa and how to tackle it, asset recovery, tax justice in the extractive sector and domesticating the global tax agenda. We further provide you with some news from the TJN global community and announce some important upcoming events. We take this opportunity to thank all the contributors to this issue.

We welcome articles for our next newsletter which can be sent via email to TJN-A until the 10th of March 2010. Furthermore we appreciate any suggestions on issues you would like to hear more about in the next edition.

Alvin Mosioma, Coordinator TJN-A
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The Ghana Report

Taxation and Development in Ghana: Finance, Equity and Accountability

What is the relation between taxation and development? Is revenue collected equally from all residents? Why should companies be given tax concessions? These and other questions are raised by this Tax Justice Ghana report, which focuses on the ways in which the tax system and revenue collection can be linked to ongoing poverty reduction efforts. The report demonstrates that domestic resources, not loans nor aid, is the largest missing piece in reaching developmental goals.

Revenue mobilisation is at the top of government agenda, with budget deficit to reach 11% in 2008. There are areas where revenue collection could be improved, for instance, taxing property and rental income could raise an additional 1-2% of GDP in taxes, while also increasing the transparency in land tenure.

Ghana's investment policy relies heavily on tax holidays, while serious efforts to monitor and evaluate their benefits are lacking. Companies often receive a 10-year tax holiday when establishing in the Free Zones. The whole regime of Free Zones needs urgent review in

Ghana, as for instance, it has been found that 72% of forestry turnover is subject to Free Zone status.

Extractive industries account for 4.6% of Ghana's GDP, while contributing approximately 3% of government revenues. Utilising existing provisions, royalties could be set at a higher rate, and income taxes could be collected from expatriate workers. In the forestry sector, one sample indicated that firms paid income tax equal to 0.2% of turnover, due to under reporting of profits and Free Zone status. Tax losses in the forestry sector are estimated at 0.5% of GDP.

The establishment of an International Financial Services Centre (IFSC) in Accra presents major risks: tax concessions may be enjoyed by Ghanaian residents as well as foreign nationals, secrecy provisions may hamper Ghana's efforts in fighting corruption and illicit drug trade. Benefits need to be weighted with costs and risks.

While there is much talk about future oil revenues, they cannot be a basis for current expenditure as recent oil price fluctuations demonstrate. Oil will not solve the revenue raising problems of the nation - rather a broad-based and well-enforced tax system will tackle the budget short falls.

Click here for full report:

http://www.taxjustice.net/cms/upload/pdf/Ghana_0906_Report_printer_friendly.pdf

Breaking the Curse

How Transparent Taxation and Fair Taxes Can Turn Africa's Mineral Wealth into Development

December 2008 saw a 'perfect storm' hit international metal prices, bringing the five-year international metal price boom to an abrupt end. The combined collapse in demand for metals and sharp drop in the demand of institutional investors for commodity-based assets have slashed copper prices by up to two thirds, and gold prices by up to a third from their peaks in July 2008.

The metal price bust has dealt a blow to the mining tax reforms undertaken in a few mineral-rich African countries in the past two years. Emboldened by the metals price boom, governments in Zambia, Tanzania, South Africa and the Democratic Republic of Congo have amended their mining tax legislation or contracts with mining companies to increase the revenue they collect from mining rents. They did so partly under public pressure – African citizens have been all too aware that while the good times were rolling' for the global mining industry, they saw no increase in mining tax revenue to governments or spending on their basic development needs.

The poor balance sheet of mining tax revenue in times of record high metals and minerals prices has motivated African and and international nongovernmental organizations to collaborate in commissioning a study on mining taxation and transparency in seven African countries. The countries are Ghana, Tanzania, Sierra Leone, Zambia, Malawi, South Africa, and the Democratic Republic of Congo (DRC). Each country study examined past and present mining tax laws, tax rates, and the forces driving tax changes, and compared the tax terms of mining contracts with national tax laws.

Diamond miner, Sierra Leone

The central argument made by the report is that African governments have not been able to optimize the mining tax revenue due to them before the 2003 to 2008 price boom; neither have they been able to capture the anticipated windfalls during the price boom. This argument is grounded on two main reasons: (i) Mining companies operating in Africa are granted too many tax subsidies and concessions (ii) There is high incidence of tax avoidance by mining companies conditioned by such measures as secret mining contracts, corporate mergers and acquisitions, and various 'creative' accounting mechanisms. These two factors coupled with inadequate institutional capacity to ensure tax compliance contribute in a large measure to diminish the tax revenue due to African governments. In turn, they diminish the contribution of mineral resource rents to national development. This explains the high preponderance of income poverty indicators in mineral endowed African countries and communities in mining areas. To reverse this trend and ensure the maximization of mining tax revenue for national development the report recommends reforms of policies, laws, and institutions that govern the financial payments made by mining corporations to national governments.

Click here for full report:

http://www.taxjustice.net/cms/upload/pdf/TJN4Africa_0903_breaking_the_curse_final_text.pdf

Recovering African Wealth: Deterring Corruption and Financing Development

Corruption "is like drinking or sucking your brother's blood" (Armando Guebuza, President of Mozambique).

Corruption is an umbrella term used to refer to the abuse of public office for personal gain. The main direct effect of corruption is an increase in poverty levels because corruption robs the country from revenue which could have been channeled to social and development projects and makes citizens pay for services which they were supposed to get free of charge. Corruption has also indirect effects on the social and political fabric of the affected countries such as undermining economic growth and weakening the governance structure of the country. Corruption in Africa has been presented by some analysts as being part of the culture and therefore very hard, if not impossible to eradicate. However, if it is the African culture which is the cause of corrupt practices in Africa, then that culture is shared by western societies where financial secrecy jurisdictions are found.

Although it is not easy to measure the effects of corruption, some figures can help understanding the level of the problem. According to estimates from the World Bank and the United Nations Office on Drugs and Crime, 25 percent of the GDP of African states is lost to corruption each year, amounting to $148 billion. The amounts of money lost through corruption sound enormous but they become astonishing when they are compared to what for example Africa receives in foreign aid (estimated at $25 billion per year in 2005).

Corruption "is like drinking or sucking your brother's blood"

Armando Guebuza, President of Mozambique

The mainstream literature on corruption has focused on one aspect of the problem known as the demand side of corruption. This side involves corrupt officials taking bribes in order to provide services or misusing public funds for personal gain. This focus has created a situation whereby, actions both from national governments and international organizations have designed preventive and corrective measures to curb mainly that side. However, the supply side of corruption is equally guilty as it provides corrupt officials with means of storing their illegally accumulated wealth without being apprehended by their national judicial systems. There is need for an integrated approach to tackle the two sides concurrently.

"The Stolen Asset Recovery Initiative can foster greater cooperation between developed and developing countries - and between the public and private sectors - to ensure that looted assets are returned to their rightful owners. It is, of course, also essential that the recovered assets be utilized wisely." (Ban Ki Moon, UN Secretary General).

Asset recovery also known as stolen asset recovery refers to efforts made by governments to try and repatriate assets acquired through corruption and hidden in foreign jurisdictions. It is a fairly new initiative. The campaign to recover assets stolen from the Jews by the Nazi Regime (which started in 1997) is the first commonly known success story.

A 'success story' of asset recovery for Africa is the case of former Nigerian President Sani Abacha. During the five years he spent in office (1993-98), considerable amount of public wealth was sent to foreign bank accounts and mainly Swiss banks. After his death, during the term of Olusegun Obasanjo, the government of Nigeria undertook a campaign to recover the wealth stolen by Sani Abacha. The government of Nigeria ultimately entered into a deal with the Abacha family allowing them to retain US $100 million as the latter allowed US $500 million to be sent back to the government of Nigeria. Beyond the African continent, one famous case is the one where US$624 million were recovered by the Philippines from Ferdinand Marcos' Swiss bank accounts in 2004.

25 percent of the GDP of African states is lost to corruption each year, amounting to US$ 148 bn

Asset recovery involves several steps mainly tracing the assets, freezing them and finally confiscating them. The main challenges encountered in the process are: the lack of political will from the requested governments; the concern that the recovered funds could be embezzled again (this has been dealt with in the past by channeling the recovered assets to development project, with the supervision of a neutral body such as the World Bank); the issue of separating stolen from legally acquired assets (this can be solved by checking the sources of revenue of the person being investigated and assessing what is the reasonable amount of assets he or she could have accumulated within a specific period of time); and finally, structural issues such as differences in legal systems and the lack of legal expertise to understand the judicial process accompanying the initiatives.

Asset recovery can be a strong deterrence to corruption. Recent institutional frameworks such as the Stolen Asset Recovery Initiative and legal ones such as the United Nations Convention against Corruption and the African Union Convention on Preventing and Combating Corruption will give a strong backing to the initiative.

Corrupt practices undermining development in Africa involve actors both from Africa and beyond. Therefore, the global structures which offer banking secrecy to illegal funds from corruption should be fought with the same energy used to fight corrupt African officials. Asset recovery can indeed tackle both sides of corruption concurrently. However, for the initiative to be successful there is need for a global action that will include: a strong political will and legal reform not only in developed but also developing countries; a prompt and positive response from countries where stolen assets are hidden; a global cooperation to ensure that new financial havens do not replace the existing ones and developing countries receive the legal support they need.

Sandra Kidwingira, Assistant Coordinator TJN-A

Tax justice in the extractive sector in Tanzania

Policy Forum, a network of over 90 civil society organisations in Tanzania, is currently doing advocacy for tax justice in the extractive industry sector as part of playing its role in the country's review of the mining sector policy and legal framework.

Gold has a potential fortune of US$ 39 billion for Tanzania

Recognising that Tanzania is endowed with a number of minerals which include diamonds, gold and the unique gemstone, Tanzanite all which have great potential to increase tax revenues, the network is collaborating with other like-minded groups to mobilise civil society in the country to demand greater accountability of government and parliament as they make their policy choices on the matter.

Mining accounts for about 3.2% of Tanzania's GDP and 3.6% of its total tax revenues. Gold represents about 90% of these mineral exports. The petroleum sector is dominated by natural gas, of which there are currently two producing fields. Interest in Tanzania's oil-production potential is high, and Tanzania has licensed out exploration rights to various on- and off-shore blocks, but commercial quantities of oil have yet to be brought on-line.

Despite this well-recognised potential for the mineral sector to play a huge part in the rapid economic growth of the country, there have been concerns that it has not contributed enough to the improvement of lives of the poor, particularly those in local communities where the mines exist. At current prices, for instance, gold has a potential fortune of US $39 billion for Tanzania.

The net result of the tensions between the significant financial success of the mining companies on the one hand and the questionable socio-economic impact of mining activities on the other, has made the sector unsurprisingly controversial. Many Tanzanians believe the current mining sector environment provides a disproportional share of the benefits of exploitation to international companies.

The net result of the tensions between the significant financial success of the mining companies on the one hand and the questionable socio-economic impact of mining activities on the other, has made the sector unsurprisingly controversial.

The fact that the mining contracts, or development agreements have been kept out of the public arena has only exacerbated matters.

In recent years, the extractive industries have taken centre stage in public fora and in response to the latest round of mounting public and parliamentary pressure, the Tanzania Government has directed a commission headed by Justice Mark Bomani, (commonly referred to as 'the Bomani Commission'), to review the subsisting mining development agreements. The report pinpointed areas of weakness, conflicts of responsibilities in the regulatory framework, lack of backward and forward linkages, generous tax exemptions, instances of tax evasions, transfer pricing, as well as secrecy around negotiated contracts. By means of illustration, tax exemptions on fuel import implied a loss of revenues of 32 million USD, which is far

greater than the 23 million USD earned by the government in royalties.
The Bomani process and the approval of the final report carried with it a series of encouraging developments and opportunities that might go a long way in helping Tanzania truly benefit from its extractive industries. These include moves to establish a new mining law and Policy; Tanzania being accepted as an EITI candidate country; and a renewed assertiveness of Parliament whereby key committees have proactively investigated the limited financial benefits stemming from signed contracts.
Civil society has hence decided to take advantage of these developments to pressure for better tax justice in the extractive sector.
In recent years, faith-based groups have become the most outspoken civil society voices on extractives. A platform comprising of the Islamic Bakwata (Islamic Council of Tanzania), the Catholic Episcopal Conference and the Council of Protestant Churches has been particularly active on issues of extractive industry governance. They have funded a series of activities ranging from visits to mining communities, media appearances, the production of a report and a documentary, both entitled "A Golden opportunity", to denounce the meagre revenues earned from the mining sector and the negative socio-economic and environmental repercussions endured by communities in mining districts. Within the Council of Churches a standing committee on economic justice has been created to work on extractives.

Mining accounts for about 3.2% of Tanzania's GDP and 3.6% of its total tax revenues

On its part, Policy Forum is collaborating with the Revenue Watch Institute (RWI) to assist Members of Parliament to enhance their oversight role in the extractive sector. This initiative also includes building the capacity of civil society and the media on the issue. It is hoped that with the baseline knowledge, intellectual resources, the beneficiaries of the intervention will be able to effectively oversee the executive's management of the extractive sectors.

Semkae Kilonzo, Coordinator Policy Forum, Tanzania

Gingerbread Havens - Cannibalized Economies

It could be said that the Brothers Grimm wrote both fairy tales and nightmares at one and the same time. In such tales, Hansel and Gretel, innocent children abandoned in the woods at the behest of their stepmother, stumble on a delicious, edible cottage inhabited by a cannibalistic witch. Though they eventually outwit the witch, finding their way home, the moral of the story, as it relates to "toddler" or developing economies is clear: gingerbread cottages and idyllic countries-cum-tax havens such as Switzerland, serve as bases where the young are cannibalized, deposited by "fathers" of the nation and "parent" corporations.

According to Global Financial Integrity, $900 billion is "secreted" each year from underdeveloped economies, with an estimated $11,5-trillion currently stashed in havens. More than one quarter of these hubs belong to the UK, while Switzerland "washes" one-third of global capital flight. "The idea that Switzerland has a clean economy is a joke; it is a dirt-driven economy," stated Richard Murphy, director of Tax Research LLP. The Swiss Bankers Association claims that four-fifths of the nation supports banking secrecy, revealing a society deeply embedded in a culture of impunity and exploitation, where the licit acts as a shield protecting the illicit in a terribly respectable manner.

"Corporations prefer weak governments that are anxious to secure investments, and despotic governments,"

Transparency International's corruption perception index limits corruption to the "abuse of entrusted power" by Third World governments, rating Switzerland and the UK as the least corrupt nations in the world. Despite this, the development model justified on the basis of outstanding debt continues to impose structural injustice via the "debt cancellation" trap of the Heavily Indebted Poor Countries initiative, where cancellation is more or less postponed until the satisfaction of completion points, instituting secrets memorandums of agreement, subsidies to foreign corporations and massive tax concessions (such as income tax, usage fees, property tax) the primary source of revenue for "export-oriented" developing countries. "Corporations prefer weak governments that are anxious to secure investments, and despotic governments," said John Christensen, founder of the Tax Justice Network and former economic advisor to Jersey, one of the UK's leading "crown dependency" havens. "Although multinationals influence the shape of global trade and investment by structuring trade in corrupt and secretive ways, these issues are generally marginalised during trade negotiations."

"Hydrocarbon contracts in particular are very secretive, especially with regards to taxation, and it is difficult to get evidence of payment, with many political parties and politicians receiving payment on the side," he said. When it comes to tax receipts and tax deals, the powers that be are only too happy to become Sicilian and go the path of Omerta. It's simply not in their interest to repudiate odious debt, the midnight piggy bank of the Big Shiny Men (with fat wallets, fatter armies and the fattest of heads). In 2006, developing regions owed $3,7 trillion in "odious" debt, servicing more than $570 billion per annum. An analysis by economist James Henry revealed that more than $1 trillion worth of loans "disappeared into corruption-ridden projects or was simply stolen outright".

When it comes to tax receipts and tax deals, the powers that be are only too happy to become Sicilian and go the path of Omerta.

Tax havens, of course, are all in favour of it. According to Swiss banker Jacques de Saussure, "tax competition is the only agent of productivity for governments it is the only competition they have". Yet it is impossible to ascertain the origin and destination of capital flight as the international financial community successfully lobbied to have automatic exchange of tax information scrapped from the IMF's Article of Agreements, immunizing corporate and Third World corruption. Though Africa has been labeled as the world's most corrupt region, generally 3% to 5% of total outflow emanates from the political elite, with 30% composed of criminal flight. Multinational internal mispricing makes up 60% of capital outflow, with corporations declaring profits in tax havens, as opposed to the country of performance.

Corporations and the capital exporting governments of the Organization for Economic Co-operation and Development also known as the "rich man's club" have trumpeted self-serving "solutions" by backing frameworks such as the Extractive Industries Transparency Initiative (EITI). Yet, despite its solid framework, EITI is easily circumvented by reducing taxable revenues to cash payments. Gabon, mentioned above, passed EITI with semi-flying colours, even as the country was mired in the Elf affair. Nicholas Shaxson, author of Poisoned Wells, wrote of the subject: "Magistrates discovered the money from Elf's African operations financed French political parties and officials, and supplied bribes to support French commercial, military and diplomatic goals around the world. In exchange, French troops protected compliant African dictators."

The solution/s to this conundrum is distinctly American. According to Murphy, the profits of the whole corporation must be taken into account, and taxed on the basis of "the formula of apportionment".

"It already works in the US where states all have different corporate taxes," he said.

The definition of corruption must also broaden to include tax havens as well as make mandatory the automatic exchange of tax information. It's a move that will certainly ruffle a few feathers, but in doing so, the lifeline sustaining tyrannical regimes from Burma to Angola will be cut, effectively weeding out the real roots of terror.

Khadija Sharife, Center for Civil Society, South Africa

Tax Expenditure: Why we must watch

Citizens' demand for accountability from the government should ideally be linked to the amount of stake they have in government. This is universally defined from the perspective of taxation. There is an increasing agreement that depending on non-tax based sources of revenue for government such as foreign aid significantly reduces the level of accountability as the state lessen focus on local revenue generation through taxation.

Ideally, "democracies are built not only on periodic elections but also on a social contract based on bargaining over the collection and spending of public revenue." Taxation in this context provides a powerful tool for building a responsive state especially if the citizenry is adequately informed and conscious of their responsibility to demand accountability from the government to provide value for money - taxes they pay. Without doubt, taxation has the potential of stimulating calls for more representative and accountable governments, while the need to increase revenues can stimulate institution-building. Both have the potential to bolster the legitimacy of the government and enhance democracy and service delivery.

However, as Anne Marie Goetz & Rob Jenkins point out, "a central problem of accountability in public institutions is how to structure citizen participation so that it is meaningful, rather than tokenistic, and so that it extends beyond the exercise of ‘voice’ and towards concrete influences over decision making and enforcement” . This has to do with the need for people to have more influence in setting development agenda and priorities. The key challenge is how to operationalize participation in order to achieve real accountability.

In many developing countries, the public sector is perceived as distant, corrupt and unaccountable, leading to a widespread crisis of legitimacy between citizens and the institutions that represent them. The link between citizens’ voice, transparency and accountability has been recognized in this context as the core of good governance and improved public sector performance. It is becoming an accepted fact that governance reform requires citizen demand for accountability. This recognition has opened new opportunities for citizen involvement in recent years, with the proliferation of a wide range of accountability mechanisms aimed at increasing citizen voice and influence over public policies and the use of public resources. Such interventions share the common goal of empowering citizens to play a more active role in decisions that affect them, with the view to reducing the accountability gap between citizens and policy makers and improving the provision of public services. The moral responsibility to hold public officers to account has been closely linked to increase in taxation as a source of revenue for financing public expenditures. The link between taxation and accountability is typically illustrated by the battle cry from the American colonies’ fight for independence - “no taxation without representation”. Contemporarily, representation must go beyond the traditional conception to include the more important aspect of watching over government expenditures. No government would lay claim to the slightest of moral authority to be in power if public expenditures are in no way of public nature. In fact, governments are only as good as where they spend public resources. When a government gets out of tune with the interests of the public/taxpayers then it inherently becomes a government by itself, for itself and of itself which definitely leads to its dysfunctional forms; autocracies, authoritarianism, kleptocracy etc. The reversal or avoidance of this is an inalienable right and responsibility of the citizens.

In many developing countries, the public sector is perceived as distant, corrupt and unaccountable, leading to a widespread crisis of legitimacy between citizens and the institutions that represent them.

The argument above thus provides credence for citizen demand for accountability because they have a stake in government by virtue of paying tax as a matter of right. However, this right has to be tempered with some amount of moral authority in itself on derivable from patriotic compliance to finance government – pay tax. The unfortunate thing is that governments particularly in developing countries have not come to terms with this reality that citizens have a right not just to quality services, and apt management of public resources but also to proactively demand for it. Indeed, in an environment where grand and official corruption is the norm rather than the exception, citizens must not only demand accountability but also whip those in power that are not accountable.

Three important issues thus underscore the significance of citizen demand for accountability in public expenditure; these are transparency by power holders, obligation on the part of power holders to provide reasons for public decisions, and finally, the existence of state and citizen based institutional checks or control mechanisms that detest and prevents ineptitude, impunity and abuse of power.

Michael Otieno, National Tax Payers Association, Kenya

Domesticating the Global Tax Agenda

Tax as we all know is the most sustainable form of development finance, and cutting down on tax evasion will bring more revenues for the government than debt relief or additional aid combined. However, knowing that developing countries lose US$ 160 billion in foregone tax revenues every year due to trade mispricing doesn’t tell you yet anything about where these losses occurred.

This is partly the problem of the approach, as the data is obtained from the customs declarations of goods and services entering into US and European ports, based on deviations from global mean prices. In the case of Kenya for the year 2007 the category of ‘Apparel articles, accessories, not knit’ saw an underpricing of US$ 5 million to the US market, while for the EU countries we observe that ‘Electric machinery, sound equipment, TV equipment, parts’ exports from Europe were overpriced worth US$ 7.02 million . It is these types of streams that this much publicised US$ 160 billion figure is composed of.

Let's look at the data on illicit financial flows then, which says that developing countries lose an estimated US$ 900 billion of capital every year, out of which only 3 per cent (or US$ 27 billion) is attributed to sub-Saharan African countries. The study puts together the Middle-Eastern and North African (MENA) countries as a separate group. A large part of the global figure is found from the trade mispricing data (60 per cent), while the rest is attributable to what is called the Hot Money Method but as GFI (Global Financial Integrity) state themselves: "countries in Africa with missing data have a cumulative GDP accounting for nearly 37 percent of total African GDP". Furthermore, they add that given "extensive data gaps in reporting, the volume of illicit financial flows—particularly from Africa and the Middle East—is likely to be significantly understated." So the figure could easily be double, given better customs data and central bank data on capital accounts.

Domestic resource mobilisation can yield more results than debt relief.

In both cases of measuring key issues in the Tax Agenda, we find that the way the problem is measured in Africa doesn't lead to a very good understanding of the issues on the ground, and more importantly it's hard to match local experience with the international data. This is what calls for a domestication of the Tax Agenda.

So what can be done on the national level to understand tax losses? Surprisingly, the answer is that the campaign requires a combination of domestic and international advocacy efforts, while in debt, trade and aid you often end up targeting the International Financial Institutions, the World Trade Organisation or donor agencies. The Tax Agenda, is therefore also a shift in the culture of advocacy work in Africa, while closely following a path already established by budget advocacy, the targets in this case have to do with getting the necessary revenues together to have a budget in the first place. Effectively, the target of a domestic resource mobilisation campaign starts from injustices at home.

Let's take a few examples. In Ghana, the range of royalties paid by mining companies should vary between 3% and 6%, "yet, in practice, all firms appear to have continued to pay 3%, even during the recent minerals boom, owing almost certainly to manipulation of profit figures by the firms and the lack of effective monitoring capacity at IRS ." Supposing that mining royalties were levied at 6%, you could raise a further US$ 55 million with the production levels in 2007, with a cumulative revenue loss of US$ 388 million for the period 1990 -2007. This is more than the funds received in the Heavily Indebted Poor Country (HIPC) programme. Domestic resource mobilisation can therefore yield more results than debt relief.

It's hard to match local experience with the international data. This is what calls for a domestication of the Tax Agenda.

In countries that are not dominated by mining, collecting ordinary taxes is the main target. The Kenya Institute for Public Policy Research (KIPPRA) in a 2004 publication estimated that the country loses over half of the tax potential in uncollected taxes, and especially in corporate taxes (which had a 35% collection rate). Extrapolating for the year 2007/2008 we find that the Kenyan government had foregone tax revenues worth Ksh 264 billion or US$ 3.7 billion in foregone tax revenue, while the studied categories of trade mispricing to EU and the USA show a combined loss of US$ 53 million. Needless to say, that the corporations not paying corporate tax are the ones most likely to misprice their trade as well.

So Tax Justice should also start from our own backyard as uncollected corporate taxes, unregistered workers, unpaid VATs, unaccounted for imports of goods from anything ranging from mobile phones to mining equipment create a culture of avoidance not only on the corporate, but also at the individual level. Also as a recent barometer of public sector corruption in Ghana placed the tax authorities among the most corrupt in the public eye, the issue of reforming and staffing the tax authorities across the continent remains a key priority. If the Nigerian Federal Inland Revenue Services (FIRS) has 5000 in staff, there is no way they can collect taxes in an efficient and accountable way from the country's 140 million citizens.

The issue of domesticating the tax agenda is actually the challenge of taming a footloose agenda, where not only justice campaigners, but also international agencies, big companies, and bankers' associations attempt to have their slice of tax policy. The challenge for CSOs is to study, get involved and change how taxes are administered to get those billions working for the public good.

Matti Kohonen, Consultant TJN/ International Secretariat

TJN Across the Globe

Civil society launches ranking of secretive tax havens

The Tax Justice Network (TJN) has published a league table of countries and microstates which harbour secretive financial centers and actively shun international cooperation in tackling cross-border financial crimes. The ranking is topped by the USA, followed by Luxembourg, Switzerland, the Cayman Islands and the UK in the top five.

The Financial Secrecy Index uses a range of indicators to assess the transparency of financial centres and evaluate their willingness to cooperate with other countries in combating corrupt practices, including tax evasion and avoidance. The new index, which is based on 18 months research into national legal arrangements and engagement with international treaties, aims to highlight how financial market opacity encourages corrupt activities. Using data extracted from sources including the Organisation for Economic Coooperation and Development (OECD), the Financial Action Task Force and the International Narcotics Strategy Report, TJN's researchers have compiled an online database of bank secrecy rules, corporate ownership and accounting disclosure requirements, and participation in international information exchange treaties for every territory ranked on the index.

The Financial Secrecy Index, which was co-published with Christian Aid and Misereor, contrasts starkly with the OECD black, grey and white lists of tax havens published immediately after the G-20 London summit in April 2009. Critics of the OECD lists argue that it is too lenient in its assessment of these places, and that internal politics within the OECD have biased the outcomes, leading to the inclusion of both the USA and the UK on the white list, while Switzerland and Luxembourg were both placed to the grey list.

Further details: www.financialsecrecyindex.com

Initiatives récentes conduites par la plateforme «Paradis Fiscaux et Judiciaires»

Campagne Stop Paradis Fiscaux

Début octobre, une nouvelle campagne a été lancée qui s'intitule « Stop PFJ » et est destinée à sensibiliser les différents acteurs publics français sur la nocivité des Paradis Fiscaux et Judiciaires. Quatre cibles prioritaires ont été définies: territoires et collectivités locales, citoyens, syndicats et entreprises. Ces acteurs ont été invités à signer la pétition en ligne sur le site: www.stopparadisfiscaux.fr. Le 8 décembre, 11564 signatures avaient déjà recueillies . D'autres formes d'actions sont aussi envisagées.

Nouvelle brochure sur les Paradis Fiscaux et Judiciaires

La plateforme s'est fixée comme objectif d'actualiser la brochure « Paradis Fiscaux et Judiciaires, cessons le scandale! » publiée en avril 2007. L'idée est d'en faire un document plus cohérent dans sa logique et dans sa présentation pour répondre aux besoins des militants mais aussi du grand public toujours plus nombreux. La parution de cette nouvelle brochure est imminente. Elle sera en ligne sur le site de la plateforme.

Contacts avec les représentants du gouvernement français

Le 2 octobre, la plateforme a participé à un rendez vous au Ministère des Affaires étrangères et européennes pour souligner les insuffisances des critères retenus par l'OCDE pour l'établissement des listes pour les PFJ, le « multilatéralisme » pour l'échange d'information, l'information sur les trusts et la transparence des multinationales en mettant en place un « reporting » pays par pays.

See for more information www.argentsale.org

News & Events

TJN-A Tax Conference

Mobilizing Resources to Finance Development in Africa, March 2010, Nairobi

The conference will feature academic and professional experts, policy makers and civil society campaigners to discuss challenges facing African countries in their efforts to mobilise domestic resources. The conference further aims at presenting proposals of what civil society, nations and international bodies can do to combat illicit resource outflows from Africa.

The TJN-A conference will take place from the 24th to the 26th of March 2010. It is part of a wider programme – Towards Tax Justice – which is supported by the European Union.

The speakers and participants will be interested political leaders as well as development and finance professionals, academics and policy makers from civil society organisations, developing and developed countries, governments and multilateral institutions.

The objectives of the conference will be :To raise awareness about the centrality of taxation issues to the discussion on poverty, social inequality, employment and development. To discuss trends in taxation policy issues which have a particular effect on inequality, poverty and employment, and to provide rigorous information on the issues.
To highlight the need to address the problems posed by offshore tax havens and the increased prevalence of tax evasion, tax avoidance and capital flight.

Further information will be published in time on our website www.taxjustice4africa.net

OECD Global Forum on Development

Domestic Resource Mobilisation (DRM) for Development: The Taxation Challenge, 28th January 2010, OECD, Paris

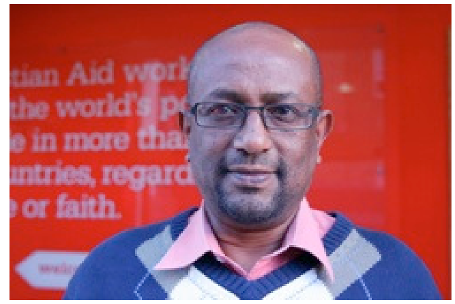
The OECD Global Forum on Development invites governments, private sector and civil society actors to explore options for a more effective development finance system. The meeting is jointly organised by the Centre for Tax Policy and Administration, the Development Co-operation Directorate and the OECD Development Centre.

This second round of the Forum (2009-2010) is focused on Domestic Resource Mobilisation (DRM) for development. This time, the themes of interest are:
1. International aspects of taxation (tax heavens, tax avoidance and evasion)
2. Success stories and challenges in DRM with emphasis on taxation.

This event will explore how the current political momentum generated by the G20 and elsewhere in the struggle against tax evasion provides a platform for improving revenue mobilization in developing countries - enabling them to strengthen their tax systems, to improve governance, human and institutional capacity, and to promote accountability and administrative effectiveness.
The meeting on 28th January will take place the day after the first ever joint meeting of the OECD Committee for Fiscal Affairs and the OECD Development Assistance Committee which will discuss a series of proposals to support developing countries to take advantage of the more transparent international tax environment, and improve their tax systems.

For more information see www.oecd.org/development/globalforum

Profile: Dereje Alemayehu



Dereje Alemayehu: Serving as Chair of Tax Justice Network—Africa since January 2007

What is your background? What are your areas of interest to which you are most dedicated?

I hold an MA degree in Development Studies and PhD in Economics from the Free University Berlin. From 1987 to 1998 I was engaged in teaching and research at this same university. After two years as an independent development consultant, I joined the NGO sector. I have dedicated my passion, knowledge and experience to the fight against poverty in Africa. There are many manifestations of poverty but its root causes are to be sought and fought in economic and political power structures globally and nationally. "Challenging and changing systems and structures that keep countries and people poor" remains my life long slogan.

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What does your current job entail and what are the main focus areas?

Since 2002 I am with Christian Aid, a UK/Ireland based charity, as Country Manager for East Africa. I am responsible for programs in Kenya, Uganda and Tanzania. We are currently in the process of developing our strategy for the next five years with four priorities. 1. Profitable, resilient and sustainable agriculture, 2. empowering citizens to build capable states; 3. Africa financing its own development; and 4. HIV and Malaria.

Why are you particularly interested on issues of Tax Justice in Africa?

I am interested in Tax Justice work in Africa for political and economic reasons. As an African who grew up under the post-independence "self -reliance" approach in leading African countries to overcome poverty, I am disgusted by the prevailing dependency syndrome. You neglect domestic resource mobilization; you let net resource transfer to the North happen either by complicity or through ineffectiveness and you go begging in the north! Economically, because wealth extraction in enclaves without any value addition and linkages within the wider national and regional economy has been, and will remain a recipe for the "development of underdevelopment". Only an economic policy that is focused on wealth creation can enable an integrated economic and social development. Taxation policy plays a key role in this.

In your opinion, what role should civil society organizations play in achieving tax justice in Africa?

1.Understand and make citizens understand the role of taxation in development – its role as a reliable and sustainable source of development finance; its role in enhancing accountability and responsiveness of governments 2. Expose and challenge the predatory practice of MNC's and wealthy elites which enables them to evade and abusively avoid taxation. Advocate for tax policy which ensures horizontal and vertical equity and at the same time maximizes domestic resource mobilization for poverty eradication and development. 3. Ensure a transparent and efficient use of public resources not only to minimize corruption but also as the best incentive to broaden the tax base and minimize coercive tax collection.

Africa is still subjected to policy dictates from IFI and donors which promote the short and long term interests of the wealthy North.

How would you describe and evaluate the progress in recent African public policies towards more justice, democracy and development for the continent?

In terms global economic and political systems and structures and the negative impacts of Africa's asymmetric integration in the MNC driven globalization that perpetuate poverty in the continent, not much has changed and has been achieved. Africa is still subjected to policy dictates from IFI and donors which promote the short and long term interests of the wealthy North. In terms of raising awareness of Africans to understand the domestic and global causes of perennial poverty in the continent and mobilizing them to challenge the status quo, an encouraging process is underway spearheaded by African Civil Society.

What are the most urgent steps that must be undertaken to ensure that African countries can finance their own development?

The challenge to enable African countries to finance their own development is the responsibility of all stake holders – African Governments, African CSO's, African citizens and African Private Sector. It involves doing our "homework" at the national level and to join hands to promote and safeguard Africa's interests on the international arena. At the national level, this means e.g. having an effective and transparent tax administration. At the international level this means e.g. collaborating with/challenging African governments to engage for tax cooperation to minimize tax competition.