FISCAL POLICY FOR FINANCING SUSTAINABLE DEVELOPMENT IN AFRICA

1. FISCAL POLICY OPTIONS
2. TAX POLICY OPTIONS
3. NON-TAX REVENUE OPTIONS
4. TAX ADMINISTRATION OPTIONS
5. POLICY OPTIONS FOR THE NATURAL RESOURCES SECTOR

ECONOMIC REPORT ON AFRICA

United Nations
Economic Commission for Africa

2019

KEY MESSAGES

THE **FIVE** MAIN MESSAGES OF THIS YEAR'S ECONOMIC REPORT ON AFRICA

1 TRANSITIONING TO THE AFRICA WE WANT IS POSSIBLE.

To accelerate

SUSTAINABLE & INCLUSIVE GROWTH

AFRICA NEEDS TO ENHANCE PRODUCTIVITY

by boosting investment to

30%–35% of GDP

and

INCREASE GOVERNMENT REVENUE

IN ORDER TO FINANCE SPENDING TO SUPPORT ACHIEVEMENT OF THE SDGS.

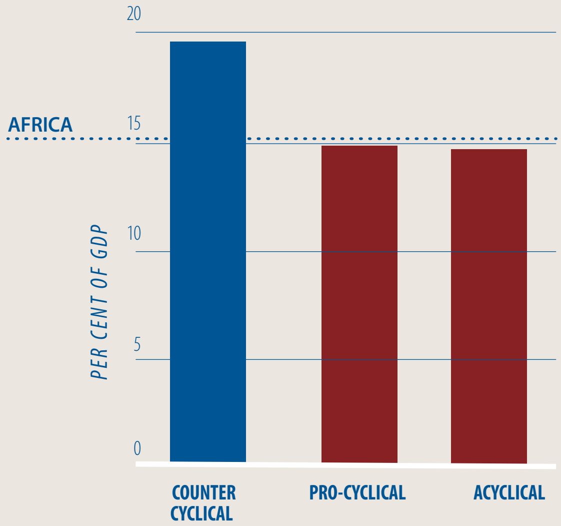
2

AFRICA CAN BOOST GOVERNMENT REVENUE BY 12% – 20% OF GDP

by

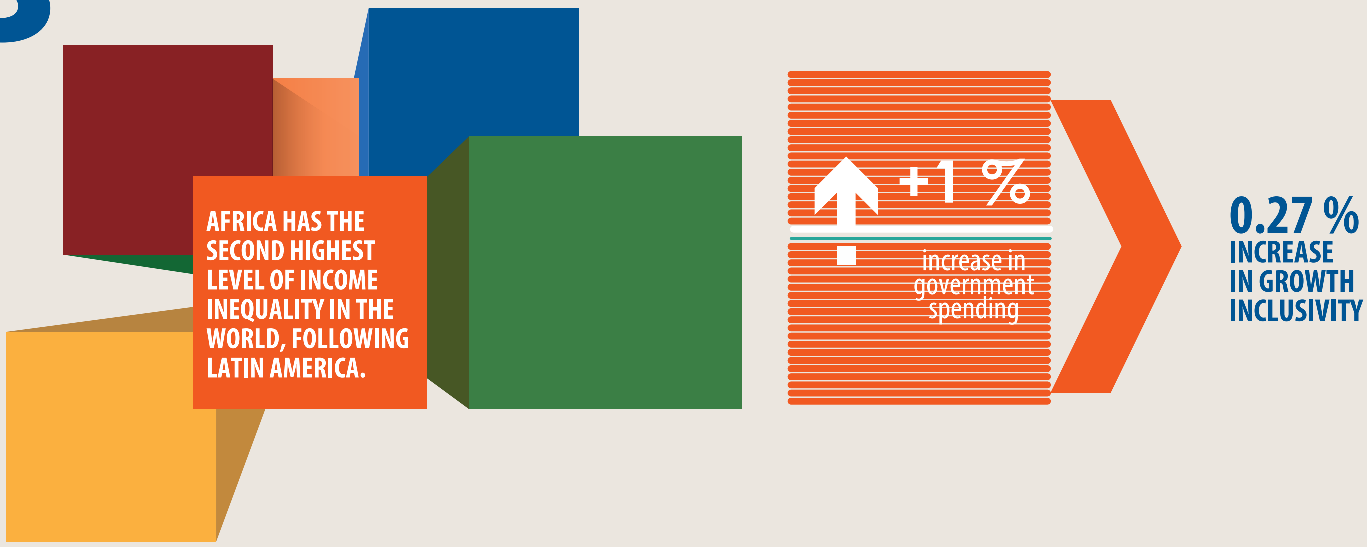
- implementing countercyclical fiscal policy 5%
- taxing hard to reach sectors 4.6%
- tapping non-tax revenue 2%
- introducing e-taxation 6%
- fighting tax evasion and avoidance 2.7%

AVERAGE RATIO OF TAXES TO GDP IN AFRICA BY FISCAL POLICY STANCE, 2010–2015

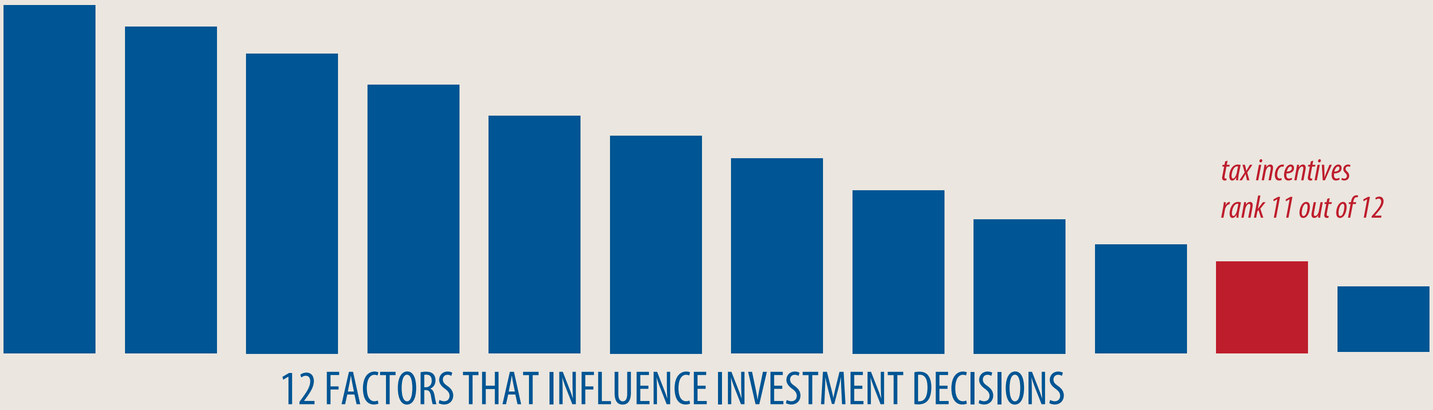


Source: Based on data from UNU-WIDER (2018).

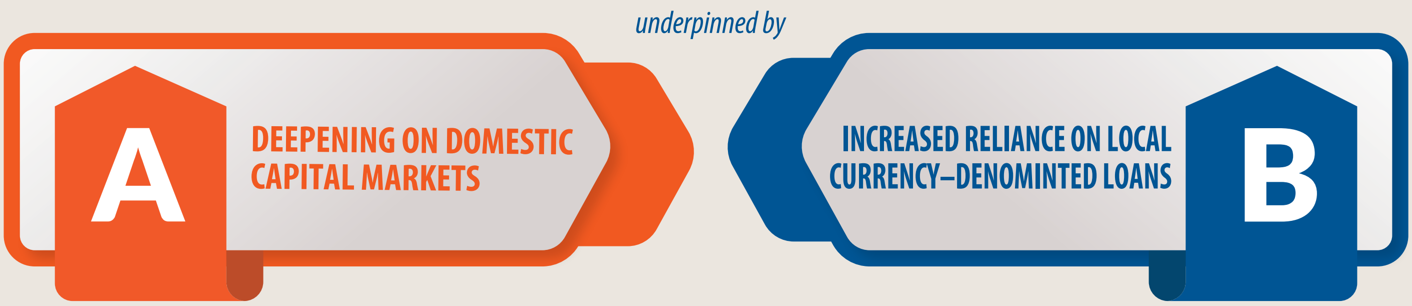
3 FISCAL POLICY COULD FOSTER INCLUSIVE GROWTH IN AFRICA



4 LOWERING TAXES DOES NOT SIGNIFICANTLY INFLUENCE INVESTMENT



5 BETTER DEBT MANAGEMENT STRATEGIES



KEY FINDINGS

1

GLOBAL ECONOMIC GROWTH AND FAVOURABLE DOMESTIC CONDITIONS SUPPORTED AFRICA'S ECONOMIC PERFORMANCE, BUT PROGRESS ON SOCIAL DEVELOPMENT HAS BEEN SLOW.

2017 → 2018

3.4% → 3.2%

ECONOMIC GROWTH

underpinned by

GLOBAL GROWTH

MODERATE INCREASE IN COMMODITY PRICES

FAVOURABLE DOMESTIC CONDITIONS

PROGRESS

POVERTY

HEALTH

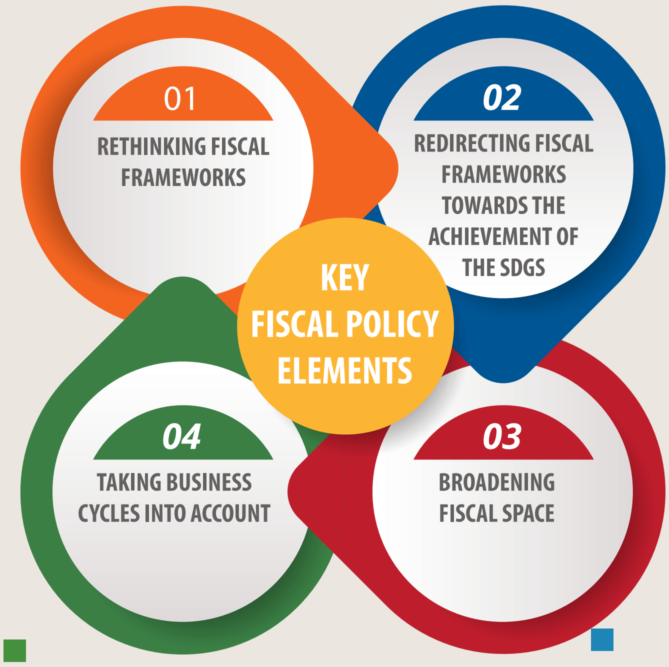
EDUCATION

INCLUSIVE GROWTH

SOCIAL DEVELOPMENT

2

IN 2018, AFRICA'S AVERAGE GOVERNMENT REVENUE RATIO WAS 21.4% OF GDP AND TAX REVENUE RATIO WAS 14.6%. FISCAL POLICY CAN BE AN ANCHOR FOR MACROECONOMIC STABILITY AND SUSTAINABLE GROWTH.



3 CORPORATE TAX REDUCTIONS OFFER LITTLE INCENTIVE FOR INVESTMENTS

Lowering taxes does not significantly influence investment

decline in total tax revenue

-20 %

TAX REVENUE

+1 %

increase in investment

TOTAL INVESTMENT

Fiscal policy is vital for "crowding in" private investment in Africa

+1 %

+1,6 %

PRIVATE INVESTMENT

Significant effect on real GDP PER CAPITA

4 INDIRECT TAXES HAVE BEEN THE MAIN SOURCE OF TAX REVENUE

60% of tax revenue

Governments rely mainly on INDIRECT TAXES

Taxing hard to reach sectors

Informal sector

Improving governance in revenue collection

Bolstering accountability

Could **MOBILIZE UP** to $99 billion a year over the next five years

5 IMPROVING THE EFFICIENCY OF REVENUE COLLECTION COULD GREATLY INCREASE NON-TAX REVENUE

NON-TAX REVENUE could expand fiscal space in a majority of African countries

POLITICAL CAPTURE
IMPEDIMENT TO NON-TAX REVENUE COLLECTION

Could **INCREASE REVENUE** by as much as 2 % GDP

Improve governance frameworks

Actively monitoring non-tax revenue

6 DIGITALISATION AND INFORMATION TECHNOLOGY COULD INCREASE COMPLIANCE AND LOWER ADMINISTRATIVE COSTS.

TAX ADMINISTRATION REFORMS have been among the most successful fiscal reforms in Africa over the last two decades.

- Semi-autonomous tax authorities
- Use of information technology

IMPROVED COMPLIANCE

- ↓ COSTS OF COMPLIANCE
- ↓ COSTS OF TAX COLLECTION
- ↑ TAX BASE

Substantial potential gains

Introduction of e-taxation:

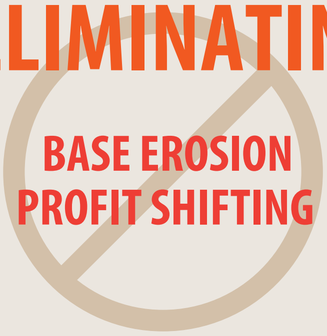
- Rwanda — **Increased revenue by 6% of GDP**
- South Africa — **Reduced compliance costs by 22.4% and lowered the time to comply with the value-added tax by 21.8%**

7 BASE EROSION AND PROFIT SHIFTING ARE MAJOR SOURCES OF REVENUE LEAKS

Main avenues of tax evasion and avoidance in the natural resources sector in Africa

- Use of non-strategic tax incentives
- Loopholes in double-taxation agreements
- Difficulties in applying the arm's length principle effectively in regulating intra-company transactions
- Inclusion of fiscal stability clauses in contracts
- Lack of coordination and information sharing among government agencies

ELIMINATING



Could **BOOST TAX REVENUE** in Africa by an estimated **2.7 % of GDP**

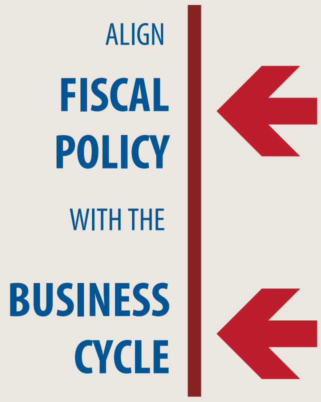
SIX KEY POLICY OPTIONS TO INCREASE GOVERNMENT REVENUE

1

FISCAL POLICY OPTIONS.

Anchoring fiscal policy to national medium-term financing strategies could allow African countries to leverage the full potential of all government revenue —tax and non-tax— for accelerated and sustained growth underpinned by macroeconomic stability.

To safeguard macroeconomic stability, countries must align fiscal policy with the business cycle, improving revenue mobilization and reducing spending to curb supply-side pressures, while lowering taxes and increasing spending when economic activity slows.



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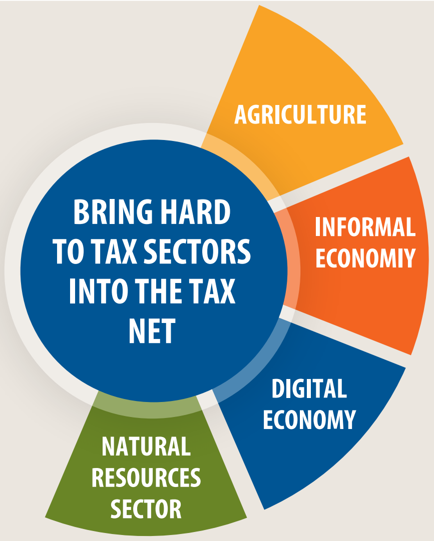


TAX POLICY OPTIONS.

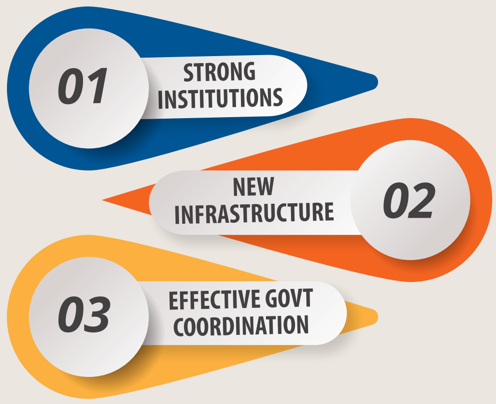
African governments must widen the tax base by bringing hard to tax sectors into the tax net, including agriculture, the informal economy, the digital economy and the natural resources sector. Countries must reassess tax incentives and drop those that do not serve the intended purpose. Limiting the use of tax incentives in the agriculture and natural resources sectors could stem tax leakages and enhance revenue collection.

3

NON-TAX REVENUE OPTIONS.

Investing in better data collection methods and implementation could strengthen monitoring of non-tax revenue collection and non-reporting. Non-tax revenue collection can be enhanced by establishing strong institutions with high levels of expertise, building new infrastructure and establishing effective coordination between central and local governments.

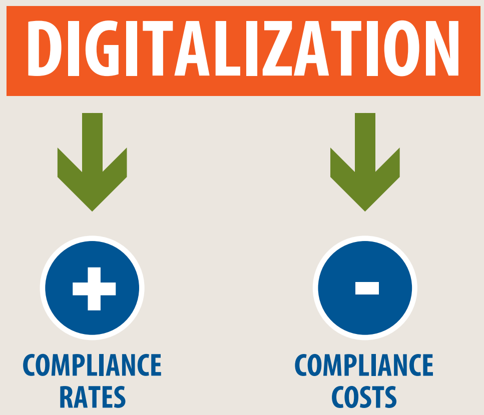
NON-TAX REVENUE COLLECTION CAN BE ENHANCED BY:



4

TAX ADMINISTRATION OPTIONS.

Reforming tax administration systems through the use of digitization and other information technologies could increase revenue mobilization. Countries that digitized their tax administration increased compliance rates and saved on compliance costs. The rollout of digital technologies needs to be accompanied by capacity building for policy makers and tax collectors on how to take advantage of data generated through digitization for more efficient assessments.



5

POLICY OPTIONS FOR THE NATURAL RESOURCES SECTOR.

African countries should strengthen their oversight of the natural resources sector. They could consider a more equitable and less administratively challenging approach to assessing what share of multinational corporations' profits to tax (for example, based on the share of sales or other variables), or they could base taxes on variables that are harder to manipulate than corporate income. At the same time, governments need to close loopholes to thwart base erosion and profit shifting.

6

DEBT POLICY OPTIONS.

The new dynamics of public debt in Africa call for adapting debt sustainability strategies and frameworks. This includes improving revenue mobilization to enhance debt servicing and reduce long-term borrowing, the increased use of local-currency denominated debt instruments and strengthened capacity for improved assessment of public debt risks and sustainability.