

DOMESTIC RESOURCE MOBILISATION: HARNESSING THE POTENTIALS IN WEST AFRICA



WORLD BANK GROUP

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IMPORTANCE OF DRM AGENDA: INTERNATIONAL CONTEXT

Domestic Resource Mobilization (DRM) has moved to the forefront of priorities in the global discussion on the post-2015 development agenda:

- ❑ Sustainable Development Goals (SDGs) explicitly recognize the central role of DRM in facilitating development
- ❑ Outcome document of the Third International Financing for Development (FfD) conference held in Addis Ababa calls on support to developing countries in need in strengthening their tax systems
- ❑ Launch of the *Addis Tax Initiative* (ATI) by developing countries and development partners, including World Bank Group, IMF and OECD to provide DRM technical assistance
- ❑ Platform for Collaboration on Tax meeting in New York

DRM ACROSS WEST AFRICA

Progress has been made:

- A number of tax policy and administrative reforms introduced to expand West African countries tax base
- Average tax to GDP grew by 5 percentage points to 19% (slightly below the minimum level considered to achieve the Millennium Development Goals)

But challenges remain, including:

- Large informal sector
- Narrow tax bases in resource rich countries
- High reliance on a small number of large (usually corporate) taxpayers
- Challenge of effectively implementing sound tax policies or to counter tax evasion and avoidance
- Generous tax incentives schemes

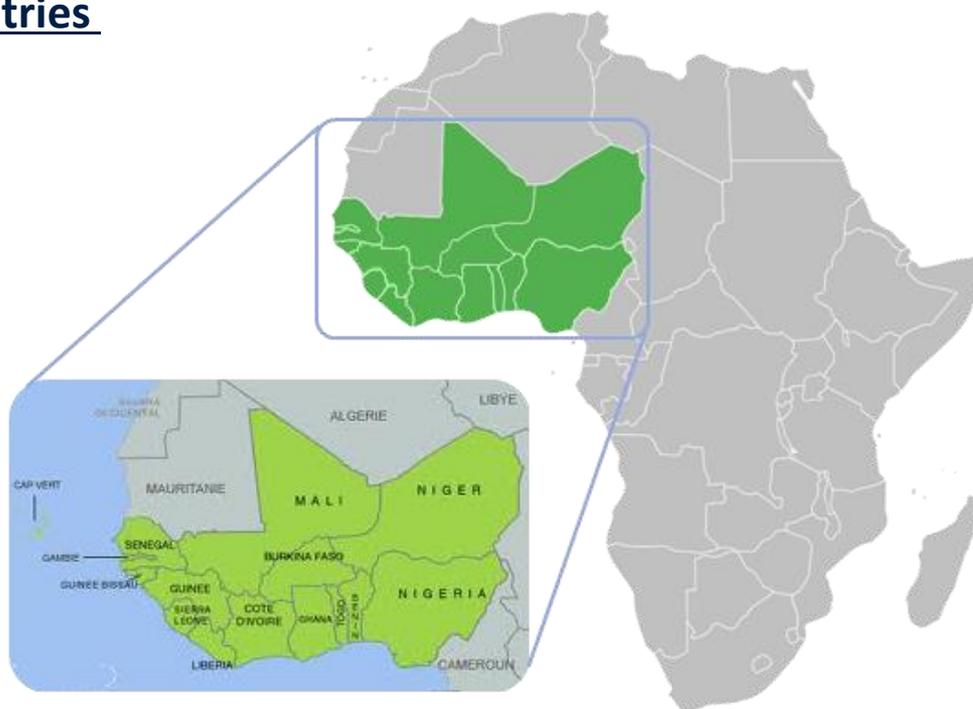
EXAMPLE OF DRM SUPPORT PROGRAM: TRANSFER PRICING REGIONAL REFORM IN ECOWAS

- ❑ **Objective** of the program: i. Increasing DRM ii. Improving investment climate across the region
- ❑ **Two components** of the program:
 - bilateral engagements: Nigeria, Liberia, Senegal, Cape Verde
 - regional agenda for all ECOWAS states
- ❑ **Areas of intervention:**
 - Diagnostic analysis to determine transfer pricing risks and countries' need for a reform
 - Legal reform: primary and secondary law, guidance and notes
 - Administrative reform: set up of specialized team, risk assessment and case selection, transfer pricing documentation, return schedule, audit manuals for taxpayers and auditors
 - Capacity building: international tax case studies, sector specific, anonymized cases
- ❑ **Delivered jointly** with ECOWAS Commission, UEMOA, and funded by the EU; other institutional partners: ATAF, WATAF, OECD, alignment with Tax Inspectors Without Borders

ECOWAS CONTEXT

Common Law Culture/ Anglophone Countries

Gambia
Ghana
Liberia
Nigeria
Sierra Leone



Civil Law Culture/Francophone and Lusophone Countries

Benin
Burkina Faso
Cape Verde
Guinea
Guinea Bissau
Ivory Coast
Mali
Niger
Senegal
Togo

Regional features

- Comparatively high CIT rates, from 25-35%
- Importance of the extractives sector
- Only 5 out of 15 countries report tax-to-GDP ratio above 15%

REGIONAL AND COUNTRY WORK: RESULT TO DATE

Regional program:

- ❑ extensive diagnostics have provided the basis for policy guidance for both national and regional level reform efforts.
- ❑ Jointly with the African Tax Administration Forum (ATAF), development of transfer pricing model legislation to support ECOWAS countries with implementation of the reforms, including on transfer pricing primary and secondary legislation; practical guidance of administrators; interest deductibility rules and transfer pricing documentation.

Country engagements with Liberia, Nigeria, Senegal:

- ❑ Policy support coupled with in depth capacity building resulted in the introduction of wide ranging uditsreforms . leading to more effective transfer pricing/international tax regimes
- **Nigeria:** TP risk assessment and case selection, capacity building and policy support.
First TP audits underway

COUNTRY WORK: RESULT TO DATE CONT'D

Liberia: Transfer pricing legal and administrative framework (guidelines, manual, return schedule), transfer pricing team set-up, APA program, risk assessment and case selection and capacity building. First TP audits are underway.

Senegal: Transfer pricing legal package finalized, presented to the parliament.

Results:

- ❑ more than 150 audit cases have been opened
- ❑ Of which 22 have been closed with additional revenue collected exceeding 20 Million USD
- ❑ More than 200 Million in additional assessments have been made, and are currently in the appeals process and may be resolved either through negotiated settlement or by a ruling

POTENTIAL AVENUES FOR STRENGTHENING DRM ACROSS WEST AFRICA

I. Development of international tax and tax transparency regimes

- ❑ Ensuring multinationals' follow global standards and compliance requirements that protect the countries tax bases against profit shirking and erosion.
- ❑ Closing the loopholes in existing laws by introducing changes to the legal and regulatory frameworks
- ❑ Building capacity for the enforcement of international tax rules

II. Eliminating ineffective and wasteful tax incentives

- ❑ comprehensive cost-benefit analyses, investor motivation surveys, and review of legal and regulatory frameworks to ensure alignment with good international practice

POTENTIAL AVENUES FOR STRENGTHENING DRM ACROSS WEST AFRICA

III. Broadening the tax base by formalizing informal economic activity

- ❑ policy redesign (simplified tax regimes for micro and small businesses) and technological solutions, such as mobile filing and payments options and data-driven identification and compliance management.

IV. Improving the efficiency of tax administration

- ❑ strengthening risk assessment for audit selection, better governance and oversight structure to ensure a consistent, high-quality and efficient audit process and exchange of information between tax authorities. This will also include work on improving access to comparables information for transfer pricing analysis.

V. Building capacity and sector specific knowledge

- ❑ key industries for West Africa economies especially in mining, oil and gas, construction, telecommunication, and hospitality

POTENTIAL AVENUES FOR STRENGTHENING DRM ACROSS WEST AFRICA

VI. Developing regional knowledge management tools

- ❑ such as practical guidelines, work manuals, tracking systems to support countries with implementation of national rules and international tax standards.

VII. Establishing regional approaches

- ❑ for instance on transfer pricing and tax transparency policies or compliance requirements that may be aligned throughout the region and are commensurate with administrative capacity across the wider region.

THANK YOU!