BANQUE D'INVESTISSEMENT ET DE DEVELOPPEMENT DE LA CEDEAO
ECOWAS BANK FOR INVESTMENT AND DEVELOPMENT
BANCO DE INVESTIMENTO E DE DESENVOLVIMENTO DA CEDEAO

DOMESTIC RESOURCE MOBILISATION (DRM): HARNESSING THE POTENTIALS OF WEST AFRICA

Presentation by

Mr. Olagunju ASHIMOLOWO (MBA, FCA, CISA)

DIRECTOR, INTERNAL AUDIT AND EVALUATION OF OPERATIONS, ECOWAS BANK FOR INVESTMENT AND DEVELOPMENT (EBID),

REPRESENTING

MR. BASHIR M. IFO, PRESIDENT OF EBID

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EBID, at the heart of development of West Africa

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Protocols

- Your excellency, the President of the ECOWAS Commission, Mr. Jean-Claude Kassi Brou
- The Minister of Finance, Federal Republic of Nigeria and the Hon. Chairman of the Board of Governors (EBID), Mrs. Kemi Adeosun,
- The new Chairman, WATAF, General Kodjo S. T. Adedze,
- The outgoing Chairman, WATAF, Mrs. Elfreida Stewart Tamba,
- The Executive Chairman, Federal Inland Revenue Service (Nigeria), Dr. Babatunde Fowler,
- The Executive Director, IBFD, Netherlands, Mrs. Belema Obuoforibo
- Representatives from West Africa Union of Tax Institutes (WAUTI),
- Representatives from ATAF,
- Representatives from Org. for Econ. Co-operation and Dev. (OECD),
- The Executive Secretary, WATAF, Mr. Babatunde Oladapo,
- Distinguished ladies and gentlemen and participants from the various member states

DRM: Introduction

It is my pleasure and honour to be here this morning, representing the President of EBID in stimulating the discussion on the subject of Domestic Resources Mobilization and how to harness opportunities in West Africa.

- The business of governments is to provide infrastructures, create the enabling environment for employment generation, provision of adequate security services to protect the life, goods and services, improve the quality of life through education, enforcement of the rule of law, provide infrastructures, provision of healthcare, etc., for the citizens.

- This is done through extensive public spending. Government spending on capital projects and also recurrent expenditures. The additional capital expenditures for more developmental projects will naturally lead to economic growth and development if properly harnessed.

CHALLENGES OF FOREIGN AIDS

Foreign Aids: grants, donations, developmental projects financing, etc. were good sources of supporting government's deficit funding in the past.
With the current global challenges which do not exclude the developed countries and institutionalised funding agencies, this window of foreign financing opportunity which also comes with a number of restrictive and limiting clauses is dwindling by the day.

- Where these supports exist, the associated conditionalities makes it less and less attractive for the various benefiting governments.
- Conflict of interest - a major concern for the various beneficiaries. Instances abound where the foreign funding organization's interest are in complete opposite of the realities in the beneficiary states' economy.
- While the beneficiaries try to "endure" the conditionalities of the supporting government(s) or donor agency(ies), the conflicting objectives/desires between donors and beneficiaries often lead to:
    - uncompleted or abandoned projects,
    - lack of political will to complete the externally inspired projects. In instances where there are changes in government in the beneficiary countries, such projects finally end up being completely moribund.

More challenges of foreign aids:

In as much as the need for foreign financial support still abound in beneficiary countries:

- **economic shocks or local price increases in the funding or donor countries**
- **political or foreign policy changes**

These can trigger an abrupt end to such foreign financial aids or put a cap on the foreign sources of financing.

However, Government expenditures keep increasing in all countries hence the need for countries in the sub-region to look inwards for alternative and sustainable domestic resources towards the financing of government projects.

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Dwindling export proceeds

- Depreciation of currencies at the FX markets
- Low demands on the countries (mostly) mono products
- Falling commodities prices

These are major triggers for the various Governments' dwindling export earnings

Taxation: Major source of Governments' Revenue

Revenues for public spending are mainly derived from taxes imposed taxpayers. DRM is an essential ingredient in the developmental efforts of governments, most especially in the ECOWAS sub region.

Achieving effective DRM can be done through

- creating an inclusive tax system which reigns in all categories of tax payers by widening the bucket of taxable businesses, professionals and adults/taxpayers
- an all-inclusive tax regimes.
- expanding the bucket of taxpayers across all strata of the economy in each Member State.

DRM does not necessarily mean change in or addition to the extant tax laws but efficiently harnessing the full potentials of the existing fiscal policies towards ensuring that the government escapes the low tax revenue trap.

WAYS TO ESCAPE THE LOW TAX REVENUE TRAP

- **Inclusive Private Sector Driven initiatives**

A very fast and sustainable way of achieving this is to enhance the capability of the private sector operators for sustainable growth, poverty reduction and effective source of tax revenues.

There is need for more engagements with the various organised private sector operators to subscribe to the governments' developmental efforts financing through internal resources in the countries.

Addressing governance issues undermining tax reforms

- Develop and maintain adequate taxpayer database: who; where; type; how; size?
- Strengthen the accountability and transparency in public finance and government spending;
- automate contemporary tax information sources; Company registry database linked to the tax registration/identification system with validation link to the taxpayers' bank account, etc.
- removal of administrative bottlenecks preventing the SME operators from easily subscribing to voluntary tax assessment
- Increase taxpayers' willingness to pay
- institutionalise tax paying culture.

TRANSFORMING THE INFORMAL SECTOR INTO THE MAINSTREAM ECONOMY

- In the sub region today, a large majority of business operators are in the informal economic activities, with very little direct contribution to the various governments' tax revenue bucket. Paradoxically, this sector of the economy accounts for as much as sixty percent of employers of labour and main users of public infrastructures.

- Informality may be associated with poor working condition, no access to efficient means of production, low skill levels among workers, low level of start-up capital, poor habitation and possibly poverty due to low wages, the sector itself is not totally that of illegality, though a few operators engage in illegal practices (illegal mining, child labour, etc), the large majority are operators in legal trades but in an unstructured manner.

Still on informal sector

Example: the neighbourhood mobile telephone engineers

- They render productive service and contribute to the local economies.
- Their daily income ranges from US$16.00 to US$30.00 depending on the competence of the specific individual and the business location.

You will agree with me, a self-employed entrepreneur earning an average of US$23.00 per day is far above the international poverty threshold of US$1.90 and is no longer in the poor income bracket as defined by the World Bank.

According to the IMF (2017), the informal sector accounts for as much as 65% of Nigeria's GDP.

Our Govts need to bring in operators in this sector to the economy formal economy, **help them formalize** to improve the DRM process.

A little picture – Lagos State, Nigeria

- **Population:** (21 million – 2016 estimates by Nig. Population Commission)
- **Taxable citizens:** 8 million (2017 - Lagos State Govt. actual)
- **Tax Returns rendered**: 2 million taxable citizens
- **Actual tax payer**: 0.7 million

➢ Lagos State is one of the most efficient states in terms of tax collection in Nigeria

We all can extrapolate for the bigger picture in the various countries!

Strategies to formalise the informal sector

- **Incentivise formalization;** access to government financed Small and Medium Enterprises (SME) credits should be associated with formally registered businesses
- **Make formalization attractive** by granting subsidies on factor of production input for SMEs
- **Government to facilitate ease of formalization:** Remove or minimise the administrative bottlenecks associated with business registration and other formalization processes
- **Creation of simplified tax regimes**, devoid of all unnecessary formalities
- **Skills development:** Creation of training outfits for SMEs to encourage them. E.g. Technology incubation Centres
- **Social engagements:** creation of programmes that address the specific needs of the small business operators.
- **Address discrimination issues** in accessing public resources

Regional Cooperation: Exchange of information protocols to enhance DRM

Availability of useful economic data and relevant information at the right time through effective structure, collaboration and alerts are key. A knowledge sharing base can provide the information to make the right decision. Regional collaboration on information and Intelligence exchange and our experiences will bring the collective thinking power in the community, the diversity of opinions and know-how to reach the common, objective opinion for intra-community development.

This can help address issues on international taxation. One of the success stories is the West Africa Economic and Monetary Union (WAEMU/EUMOA) which collaborates strongly on tax matters at the regional level on an initiative titled "*Programme de Transition Fiscale*" (Tax Transition Programme) instituted in 2006).

This is part of the wider ECOWAS objectives of the ECOWAS Trade Liberalization Scheme (ETLS) of creating common markets based on free movement of persons, goods, services, capital, the rights of residence and right to establish businesses, as well as a common external tariff, the harmonization of the tax legislation of the Member States.

Adoption of the Common External Tariff and the Community Customs Code.

As has been proposed by the ECOWAS Commission, the adoption of the Common External Tariff (ECOWAS CET), which came into force on 1 January 2015 and adoption of the Community Customs Code within the sub-region, will help in improving the process of domestic resource mobilization within and amongst the individual countries in the sub-region.

The objective of the ECOWAS Customs Code is to ensure harmonisation of customs legislation and operations in the region and facilitate trade in accordance with the requirements for the smooth functioning of a customs union. The Customs Code was reviewed and adopted at the meeting of Member States' Finance Ministers held in Abuja, Nigeria on 24 November 2017. The Customs Code will be complemented by a manual of procedures to ensure its proper implementation by Member States.

Experience sharing in the sub-region

The quantum and quality experience available in the region is massive. The opportunity to harness and share experience is enormous:

- Over 350 million population
- 15 geographical divides with varying experiences, expertise and levels of development,.
- Systems that have worked effectively in some Member States can be replicated in the other for effective development of domestic resources.
- The regional platform is a good base for collective knowledge in the sub-region without having to reinvent the wheel, if properly harnessed.

EXAMPLES OF AREAS OF TAX LEAKAGES.

Improving **Capital Gains Tax** (CGT) in correlation with the availability of adequate taxpayers' database.

CGT on sale of landed properties

Due to economic need, businesses and individuals will always have need to dispose landed properties - capital asset.
With adequate and effective land administration database, the system ensures the buyer/seller must pay the applicable capital gains tax before the ownership title can be changed at the appropriate land registry in the country concerned.
Taking into consideration the large number of such transactions which are in millions in the community on yearly basis, this major source of tax leakages will be harnessed to the benefit of the states.

CGT on Vehicle registration

CGT on disposal of motor vehicles. Without the evidence of the payment of the appropriate CGT on the vehicle, new ownership title, vehicle road permit and other authorization document will not be granted the new owner.
This is however possible, subject to availability of adequate information on the buyer, the seller as well as the vehicle being sold. Today in most of our countries in the sub-region, this is still a mirage!

Thank you for your attention

Merci pour votre attention

Obrigado

ADDRESS
128, Boulevard du 13 Janvier
BP: 2704 - Lomé – TOGO
Tél. : (228) 22 21 68 64
Fax : (228) 22 21 86 84
bidc@bidc-ebid.org
www.bidc-ebid.org

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