



## INTERNATIONAL CONFERENCE ON TAXATION, STATE BUILDING AND CAPACITY DEVELOPMENT IN AFRICA

### PRETORIA COMMUNIQUÉ

Over the past two days, we, Commissioners and Senior Tax Administrators and Policy Makers from 39 countries, together with representatives from bilateral and multilateral organizations active in Africa on tax issues, met in Pretoria, South Africa on 28 – 29 August 2008.

The gathering provided us with an opportunity to deliberate on the issues of taxation, state building and capacity development in Africa and take stock of the progress made, challenges faced and a possible new direction for African tax policy and administration in the 21<sup>st</sup> Century. The focus of our gathering enabled us to take forward the debate on the following issues:

- (i) The importance of taxation in state building;
- (ii) The changing environment of taxation in Africa; and
- (iii) An African initiative: Strengthening African Tax Administrations

The goal of our meeting was to lay a strong basis for a new approach to taxation, state building and capacity development of African Tax Administrations and the launch of an African Tax Administration Forum. The meeting has helped us build partnerships between developed and developing country administrations, thereby ensuring greater synergy and cooperation among donor organizations, reducing duplication and giving greater support to African Tax Administrations.

#### **(i) The Importance of Taxation in State Building**

***We, the participating African and other countries and international organisations, believe*** that capable and responsible states are key actors in confronting and overcoming today's global developmental challenges. The building of capable state institutions for a democratic state is a continuous, long-term goal.

Governments around the world recognise that revenue mobilisation is central to this goal and their ambitions to achieve the Millennium Development Goals (MDGs). We believe that more effective tax systems can:

1. Mobilise the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency.
2. Reinforce government legitimacy through promoting accountability of governments to tax-paying citizens, effective state administration and good public financial management; and
3. Promote economic growth, reduce extreme inequalities, and thereby significantly improve the lives of our citizens; and
4. Achieve a fairer sharing of the costs and benefits of globalisation.

## **(ii) The Changing Environment of Taxation in Africa**

**We believe** that taxation is essential to sustainable development. Developed and developing economies, NGOs, private investors and international organizations should work together to promote fair and efficient tax systems and administrations that will ensure each country receives the fruits of its own economic achievement and, at the same time, improves its overall governance.

**We agree** that one of the most pressing issues facing our continent is to embark on a path to free African countries from their dependence on foreign assistance and indebtedness. An indispensable condition of this is the strengthening of our capacity to mobilize domestic resources. Domestic revenue should be one of the main sources for fiscal space expansion because of its sustainability, thereby reducing dependence on donor assistance.

**We are concerned** at the international findings on the issues of tax havens and capital flight. Billions of dollars per year have left the African continent between 1991 and 2004. These outflows are estimated at 7.6% of the annual GDP of the region and, in effect, make African countries net creditors of donor countries. They also undermine African countries' tax bases. While developed countries are providing ODA and some debt relief on the one hand, action by the international community is required to ensure that the potential tax base of developing countries is not undermined through tax evasion. We encourage the UN and the OECD to vigorously pursue their work in this area by promoting better international cooperation.

**We are well aware** that many African countries, like most countries globally, face significant challenges in respect of the effectiveness of their tax systems. Overall revenue yields and voluntary compliance are low; the tax bases often remain narrow, while the informal sector continues to grow; the taxation of international transactions, in particular transfer pricing, has become increasingly difficult; the overall tax gap remains unquantified.

**We recognise** that, over the coming decade, we will need to enlarge our sources of tax revenues and broaden the tax base considerably, in order to compensate for the move away from trade taxes resulting from WTO obligations and from regional trade agreements.

## **(iii) An African initiative: Strengthening African Tax Administrations**

**We firmly believe** that a key component of a capable state is the existence of efficient and effective tax administrations.

Improving revenue performance will require a major improvement in tax administration through better service delivery, and taxpayer education, effective use of automated systems (especially in the clearing system and monitoring refund claims), better cooperation between tax administrations to counter tax evasion and aggressive tax planning, and strengthening audit and human resource management capability.

In meeting these challenges, **we recognise** that external assistance must be built on a clear analysis of domestic conditions and priorities.

**We believe** that donors can do more to support revenue-raising efforts in partner countries, a view supported by the G8 Gleneagles and Heiligendamm processes. Of

the US\$7.1 billion spent in 2005 on bilateral aid for government administration, economic policy and public sector financial management, only 1.7% was directed at tax-related assistance.

It is in this context that ***we have agreed*** to explore the feasibility of launching a new initiative that would primarily focus on capacity building in African tax administrations and which will help our governments meet their Monterrey commitments.

***The senior African Tax Administrators participating in this meeting have decided*** to take the following actions:

1. To mandate a Steering Group of African Commissioners to develop this initiative on their behalf;
2. The Steering Group will meet before the end of 2008 to prepare for the launch of an African Tax Administration Forum (ATAF);
3. The Forum will be the voice of African Tax Commissioners and provide a vital opportunity to develop joint strategies and programs;
4. The African Tax Administration Forum initiative will seek active relations with existing African Multilateral institutions such as the African Development Bank, NEPAD and the African Union, as well as regional economic bodies;
5. This will be an African programme reflecting African needs and African strategies. African countries will drive and manage the programme priorities, supported by donors, other tax administrations and international organisations;
6. It should build on the work of existing institutions and organisations and thereby avoid duplication. Already some of these organisations work together under the umbrella of the International Tax Dialogue (ITD) and the ATAF can draw on the work of the ITD. It will also encourage and seek to build on relatively new relationships, including South-South dialogue;
7. We will encourage and support new Partnerships between all countries to promote co-operation and capacity building.

This initiative is an opportunity for Africa to say what Africa wants in the tax area; for African based processes and institutions to take the lead on the continent.

***We envisage*** the new Africa Tax Administration Forum to act as a focal point for exchanging experiences on good practices, benchmarking performance, improving cooperation between, and setting the strategic direction for African Tax Administrations. The Forum would conduct its own research work on taxation on the African continent, develop specific diagnostic tools for African revenue bodies and develop a capacity building program.

The broad strategic issues that the Forum would focus on will include such themes as getting the right balance between taxpayers' service and tax enforcement; the approach of tax administrations to different groups of taxpayers. An integrated part of the program would also be to build on the work of the OECD's Forum on Tax Administration and the work of the WCO, IMF, the African Development Bank and of bilateral donors.

As Commissioners and Senior Officials of Revenue Administrations, ***we bear the responsibility*** of playing an important and robust role, as change agents, by providing the required strategic leadership to build the integrity and autonomy of our respective administrations, and for developing the required capacity and specialised skills for our administrations to perform their functions optimally. These skills are necessary if we are to contribute to developing a culture of tax compliance in our societies. We need support in developing these skills and note with thanks the commitment of Tax Commissioners in the Forum on Tax Administration (FTA) to provide that support as noted in the FTA's Cape Town Communiqué of January 2008.

To take forward this initiative, this Steering Group of African Commissioners and interested organisations will meet before the end of 2008, to develop the action plan. That meeting will also provide an opportunity to discuss one or more specific issues (e.g. how tax administrations approach the taxation of large and small businesses and multinationals) that are currently on the agenda of African Tax Administrations. The outcome of this meeting will be reported to Commissioners in early 2009 with detailed proposals for the establishment of an African Tax Administration Forum.

The outcomes of this conference will help our governments take forward their broader development agenda, and specifically to mobilize domestic resources, as will be discussed at the 3<sup>rd</sup> High Level Forum on Aid Effectiveness in Accra on 2 - 4 September, the Financing for Development Conference in Doha in November 2008 and the G8 action plan for Good Financial Governance in Africa.

***We wish to express our appreciation*** to the South African Government and the South African Revenue Service for hosting this meeting, as well as to the African Development Bank, the OECD and the Governments of Germany, Ireland, the Netherlands and the United Kingdom for their financial support.

Finally, we are appreciative of the contribution made by the Commissioners of the Revenue Administrations of Botswana, Ghana, Nigeria, Rwanda, South Africa and Uganda, the co-sponsors of this event, as well as the President of the African Development Bank, for the insight and leadership they have provided for our discussions.

Pretoria, South Africa  
29 August 2008

## Appendix

### **Countries and organisations participating in the International Conference on Taxation, State Building and Capacity Development in Africa:**

Angola, Benin, Botswana, Cameroon, Chad, Chile, Congo (Democratic Republic), Congo (Republic), France, the Gambia, Germany, Ghana, Ireland, Japan, Kenya, Lesotho, Madagascar, Malawi, Mauritania, Mozambique, Morocco, Namibia, the Netherlands, Nigeria, Norway, Rwanda, Senegal, Sierra Leone, South Africa, Sudan, Swaziland, Sweden, Switzerland, Tanzania, Uganda, the United Kingdom, the United States, Zambia and Zimbabwe.

African Development Bank, African Tax Institute, Department for International Development (UK), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ, Germany), Institute of Development Studies, International Monetary Fund, the Organisation for Economic Cooperation and Development and the Southern African Development Community.