FISCAL POLICY OPTIONS

1. Fiscal Policy Options

TAX POLICY OPTIONS

2. Tax Policy Options

3. Non-Tax Revenue Options

4. Tax Administration Options

5. Policy Options for the Natural Resources Sector

African countries can increase government revenue by 12-20% of GDP by strengthening revenue mobilization in five key areas.

ECONOMIC REPORT ON AFRICA 2019

United Nations Economic Commission for Africa
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

30%–35% of GDP

INCREASE GOVERNMENT REVENUE by boosting investment to

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

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

implementing countercyclical fiscal policy 5%

taxing hard to reach sectors 4.6%
tapping non-tax revenue 2%

fighting tax evasion and avoidance 2.7%

incentives rank 11 out of 12

INCREASE IN GROWTH INCLUSIVITY

AFRICA HAS THE SECOND HIGHEST LEVEL OF INCOME INEQUALITY IN THE WORLD, FOLLOWING LATIN AMERICA.

Source: Based on data from UNU-WIDER (2018).
1. **The Five Main Messages of This Year’s Economic Report on Africa**

   Transitioning to the Africa we want is possible.

2. **Key Messages**

   - To accelerate, finance spending to support achievement of the SDGs.

3. **Fiscal Policy Could Foster Inclusive Growth in Africa**

   - Africa has the second highest level of income inequality in the world, following Latin America.

4. **Lowering Taxes Does Not Significantly Influence Investment**

   - 12 factors that influence investment decisions:
     - Tax incentives
     - Rank 11 out of 12

5. **Better Debt Management Strategies**

   - Deepening on domestic capital markets
   - Increased reliance on local currency-denominated loans

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

*Average ratio of taxes to GDP in Africa can boost government revenue by 12%–20% of GDP.*

*Implementing countercyclical/fiscal policy could foster inclusive growth in Africa.*

*Lowering taxes does not significantly influence investment.*

*Better debt management strategies are underpinned by.*
KEY FINDINGS

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

   - 2017: 3.4%
   - 2018: 3.2%

   **ECONOMIC GROWTH**

   - UNDERPINNED BY:
     - MODERATE INCREASE IN COMMODITY PRICES
     - FAVOURABLE DOMESTIC CONDITIONS

   **GLOBAL GROWTH**

   **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.

   **KEY FISCAL POLICY ELEMENTS**

   - 01: RETHINKING FISCAL FRAMEWORKS
   - 02: REDIRECTING FISCAL FRAMEWORKS TOWARDS THE ACHIEVEMENT OF THE SDGS
   - 03: BROADENING FISCAL SPACE
   - 04: TAKING BUSINESS CYCLES INTO ACCOUNT

   **POSSIBLE IMPACTS**

   - TAX REVENUE: **DECLINE IN TOTAL TAX REVENUE**
   - INVESTMENT: **INCREASE IN INVESTMENT**
Improving the efficiency of revenue collection could greatly increase non-tax revenue.

Corporate tax reductions offer little incentive for investments. Lowering taxes does not significantly influence investment. Fiscal policy is vital for “crowding in” private investment in Africa. Corporate tax reductions could increase revenue by as much as 2% GDP.

Indirect taxes have been the main source of tax revenue. Governments rely mainly on indirect taxes. Taxing hard to reach sectors, informal sector, could mobilize up to $99 billion a year over the next five years.

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 mobilize up to $99 billion a year over the next five years. Could increase revenue by as much as 2% GDP. Improve governance frameworks, actively monitoring non-tax revenue.
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

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

BASE EROSION 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%
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.

2. **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.
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 policymakers 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.