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Africa calls for international taxation systems reforms as it forges a common position on digital taxation.

In Africa, the renewed focus to raise additional financing for development and narrow the resource gap by accelerating Domestic Resource Mobilisation (DRM), has been at the center of the development strategy in recent years. However, to fully harness the potential in domestic resources, sealing existing loopholes associated with the Tax revenue under-collection remains a critical issue. The African Union Commission forecasts that economic growth in Africa will be in the range of -2.1% to -4.9% in 2020, plunging the economy into recession for the first time in 25 years. The tax-to-GDP ratios in most of African countries have also remained extremely low averaging only 18 percent as of 2018. To bridge this gap, Africa must address the structural issues such as tax loopholes; illicit financial flows and device innovative systems that facilitate trade and reduce the inefficiencies associated with cross-border payments and settlements.

The strategies and actions employed to address these existing challenges dominated the African Union Ministerial meeting of the Extraordinary Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration. Facilitated by the African Union Commission Department of Economic Affairs, the Ministers of Finance, Economic Planning and Integration convened under the theme, "Securing Africa's Taxing Rights, Stemming Illicit Financial Flows and developing payment system for AfCFTA", a demonstration of the linkages between prudent resource and financial governance and improved Domestic Resource Mobilization. The meeting was attended by Permanent Secretaries and Director Generals in the Ministries of Finance, Economic Planning and Integration; Central Banks Governors and Tax Administrators, Commissioners-General and senior officials from the African Tax Administration Forum.

As economies become increasingly digitalized and remote trading by Multinational enterprises (MNEs) on the continent becomes rampant, African countries continue to loss significant tax revenue as such enterprises carry out business in African countries without creating sufficient physical presence in the countries affected. The loss arises due to the fact that the current international tax rules only allocate taxing rights to a country where a non-resident enterprise creates sufficient presence in that country i.e., creating a 'nexus' in that country. Besides the challenge of MNEs not creating nexus in African countries, African citizenry continue to create a significant market and new value streams such as user data and participation for the highly digitalized

businesses that the current international tax rules on profit allocation does not address. These key issues of international tax rules have been under focus by the international community especially through the Organisation for Economic Co-operation and Development (OECD) Inclusive Framework on Base Erosion and Profit Shifting (BEPS) where a consensus-based solution is expected to be reached by mid-2021 for addressing tax challenges arising from digitalisation of economy.

Briefed by the African Tax Administration Forum (ATAF), on the current status of the Global debate on the above tax challenges arising from digitalisation of economy, the Ministerial STC underscored the need for a Common African Position on the current global debate on international tax rules as well as the need for Member States to effectively participate in the OECD Inclusive Framework meeting to champion that Common African Position. Additionally, the Ministerial STC agreed to work diligently to provide the much need political support to ensure that the new rules under Pillar one and Pillar Two are fit for Africa. The Ministers also agreed on the need to create a continental platform within the African Union Commission to facilitate discussion of tax policy issues for Africa. The Ministers noted the possibility of the development of new global tax rules taking longer than expected and some Africa countries may consider implementing unilateral measures. Under the circumstances, the Ministers underscored the need for the Member States to act as a bloc and stand firm against any retaliatory tariffs taken against any African country that implements measures such as a Digital Services Tax (DST). The Ministers equally agreed to coordinate efforts to systemically bring the informal sector players into the tax net, through financial inclusion programmes and civic duties education programmes. This includes tax, trade and business education programmes, with a focus on basic record keeping and licensing processes that do not place an undue burden on informal sector operator.

Paul Tasong, Cameroun's Minister Delegate to the Minister of the Economy, Planning and Regional Development and the STC Co-Chair, encouraged African Union Member States to fully participate in the Global Tax Debate given the structure of African tax systems that rely heavily on corporate taxes. Only 25 African states are part of the inclusive framework on tax base erosion and profit shifting. "The share of corporate tax revenue in total tax revenue in Africa was 19.2% in 2018. These figures compel us to take this global debate on taxation in the digital economy with the seriousness it deserves. Digital Multinational Enterprises (MNEs) that make profits in our countries must pay their fair share of taxes. It is our duty to ensure that our concerns are taken into account in the global tax debate. Our meeting today should therefore help us to develop a common position to present to the ongoing global debate on taxation in the digital economy", he stated. Learn more about the push for Africa's taxing rights [here](#).

Illicit financial flows in Africa have taken a worrying turn with a recent report by the United Nations Conference on Trade and Development (UNCTAD) showing losses of more than US\$ 86.6 billion annually. The leakage of illicit financial flows further aggravates the challenges African countries face in their efforts to mobilize resources

for development. Multinational corporations are allegedly involved in the illegal transfer of funds outside the continent through abusive transfer pricing, tax evasion, and trade misinvoicing, among others. The report of the High-Level Panel on Illicit Financial Flows in Africa estimates that illicit financial flows maintained by multinational digital companies account for 65% of the total outflows. The Ministerial STC reiterated the need to strengthen institutional capacities and laws to stem the illicit outflows. The Ministers agreed on among other issues for Member States to implement the Common African Position on [Asset Recovery](#) in order to detect, identify, recover African assets taken out of Africa to foreign jurisdictions; enhance exchange of information within their revenue administrations that use the mechanisms developed by the African Tax Administration Forum and the Africa Initiative of the Global Forum on Transparency and Exchange of Information for Tax Purposes; for countries to implement and set up beneficial ownership registers with the appropriate legal framework; and collaborate against transnational organised crime in the fight against IFFs on the continent.

Prof. Victor Harison, African Union Commissioner for Economic Affairs Department, observes that the expenditure and debt for Africa governments has increased tremendously, due to the need for short-term emergency response and relief funds to support the health sector in the fight against the COVID-19 pandemic, and therefore the post-pandemic recovery will be largely dependent on the extent to which Africa can mobilize domestic resources towards building a long-term endogenous and resilient economy to withstand future shocks. "Major African oil producers suffered a 70% to 80% decline in revenues due to severely falling oil prices. More so, 76% of major extractive industries across Africa have indicated a decrease in exploration and development spending. COVID-19 would also push around 49.2 million additional people in extreme poverty; millions into hunger and malnutrition; and lead to 30 million jobs losses. Overall, the pandemic has resulted in 25 year loss of development for the continent", he stated rallying for more actions towards sealing loopholes for revenue haemorrhage. Learn more about the efforts to stem illicit financial flows [here](#).

Informal regional trade still persists in Africa on account of inadequate trade related infrastructure, under-developed cross-border payment and settlement systems, as well as settlement in foreign currency. Payments for Intra - African trade go through circuitous routes and usually involve a country outside the continent, before it is received by the beneficiary country which could be a neighbor. These inefficiencies increase the cost of funds transfer within the continent, thus increasing the prices of goods and services; constrain trade among African countries; and enhance the appeal of informal funds transfer channels associated with money laundering and terrorism financing risks. The STC Ministerial met at a critical time ahead of the start of trading under the African Continental Free Trade Area in January 2021. The STC deliberated on the development of an African payment and settlement system that will facilitate trade and reduce the inefficiencies associated with cross-border payments and settlements. The continental payment systems integration project led by the AU

Commission and Association of African Central Banks (AACB) with support from the African-Export Import Bank (Afreximbank) is underway and seeks to develop a framework for the regulation and integration of the inter-regional payment infrastructure for the ease of cross-border payments. Learn more about the development of the payment and settlement systems [here](#).

The Outcome Report of the Extraordinary Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration will be presented for consideration and adoption to the African Union Policy Organs.

Learn more about the STC and find all the statements and speeches [here](#).

For further information please contact:

Doreen Apollos, Directorate of Information and Communication | African Union Commission | E-mail: ApollosD@africa-union.org | www.au.int | Addis Ababa | Ethiopia

Rumbidzai Treddah Manhando | Department of Economic Affairs | African Union Commission | E-mail: ManhandoR@africa-union.org

Directorate of Information and Communication | African Union Commission,
E-mail: DIC@african-union.org | **Website:** www.au.africa | Addis Ababa | Ethiopia
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