MOVING BEYOND AID—REVENUE MOBILIZATION
G20 Compact with Africa

A conference jointly organized by the Government of Ghana, the African Center for Economic Transformation (ACET), and the IMF
April 4-5, 2018, Accra, Ghana

Stepping up domestic revenue mobilization (DRM) could help countries working on the Compact with Africa Initiative (CWA) to overcome aid dependence, ease financing constraints, and enhance growth prospects—all key elements to achieve prosperity without jeopardizing debt sustainability. The Initiative aims to attract private investment to the CWA countries, including by ensuring macroeconomic stability. Investment-friendly tax systems could help maintain fiscal discipline, while providing adequate financing for governments' development needs. The conference would help dealing with institutional and political constraints in revenue mobilization, improving tax compliance, and alleviating base erosion and profit shifting by multinational companies. It will focus on common DRM challenges and propose short- and medium-term growth-friendly revenue-enhancing solutions. The conference will provide a forum for knowledge sharing and peer-to-peer learning among senior government officials, experts, representatives of the civil society, and development partners.

The conference will start with a discussion of common challenges, including "hard to tax" sectors; the erosion of domestic tax bases; tax compliance issues; profit shifting by multinational corporations; and tax competition. It will be followed by a session on developing growth-friendly tax policies by streamlining tax exemptions, rationalizing tax incentives and limiting rent-seeking, along with a discussion of real estate taxation, tax regimes for small business and informal sector. A special session will be dedicated to improving the efficiency of revenue administration and tax compliance issues. Experts and country participants will discuss strategies for addressing challenges in international taxation—illicit financial flows, profit shifting by multinational corporations, and tax competition. The final session will focus on designing revenue mobilization strategies and integrating them into the CWA work. The following messages may guide the discussions:

- Increasing DRM takes time. Governments should set realistic revenue targets in the context of medium-term frameworks and budget accordingly to avoid stop-go spending patterns. Medium-term revenue targets are important for reforms in tax policy, administration, and the legal frameworks which need to be coordinated.
- Governments should refrain from *ad-hoc* measures that, over time, can erode tax bases and undermine the design of tax systems. Rather than granting tax exemptions and special tax regimes (which often lack transparency), governments may wish to consider transfers and subsidies, whose costs are reflected in the budget.
- Challenges in international taxation and those from regional integration are intensifying and call for closer cooperation on tax policy and administration. With limited scope of raising tax rates, improving compliance and scaling back preferential treatments are essential for revenue mobilization.

Moving Beyond Aid: Revenue Mobilization
Compact with Africa (CWA) Dialogue
April 4-5, 2018
Draft Program
(Joint Conference with the African Center for Economic Transformation, the Government of Ghana, and the IMF)

April 4, 2018 (Wednesday)		
Time	**Topics for discussion**	**Speakers**
8:00 am-9:00 am	**Registration and refreshments**	
9:00 am-9:30 am	**Opening remarks and Keynote Address (Moderator: Ms. Buddy Buruku)**	
9:00 am-9:10 am	*Opening remarks*	Hon. Minister of Finance Ken Ofori-Atta
9:10 am-9:30am	Keynote Address: "Revenue Mobilization for Economic Transformation"	H.E. Vice President Dr. Bawumia
9:30 am-10:00 am	**Coffee break**	
10:00 am-12:00 pm	**Domestic Revenue Mobilization (DRM): Challenges, Institutional and Political Constraints (Moderator: Dr. Ed Brown)**	
10:00 am-10:15 am	Overcoming challenges in domestic revenue mobilization	Prof. Joe Amoako-Tuffour
10:15 am-11:15 am	*Challenges in revenue mobilization and credibility of policy interventions*: ✓ Erosion of domestic tax bases and tax performance; ✓ Efficiency of revenue administration; ✓ Governance issues; data; and capacity constraints; ✓ Political commitment to reforms and their implementation.	**Discussants:** • Edward Gyamera, Deputy Commissioner (Large Taxpayer Unit), Ghana Revenue Authority (GRA); • Mr. Abdoulaye Diagne, Director of Collections, Directorate General of Property and Taxation, Senegal; • Mr. George Ankomah, Tax Partner, Deloitte.
11:15 am-12:00 pm	Informal discussion, Q&A, and final remarks	Moderated by Dr. Ed Brown
12:00 pm -1:00 pm	**Lunch**	
1:00 pm -4:00 pm	**Building Blocks of a DRM Strategy (Moderator: Hon. Kwaku Kwarteng)**	
1:00 pm -1:15 pm	Integrating DRM into the Medium-Term Revenue Strategy: Revenue Targets and Growth-Friendly Tax Policies	Mr. Ruud de Mooij, Division Chief (Tax Policy) FAD, IMF

1:15 pm-1:45 pm	*Developing growth-friendly tax policies:* ✓ Broadening the tax base by streamlining tax exemptions; ✓ Rationalizing tax incentives and limiting rent-seeking; ✓ Moving from production-based to consumption-based taxes; ✓ Taxation of small businesses, real estate, and informal sector.	**Discussants:** • Mr. Imed Zair, Ministry of Finance, Tunisia; • Mr. Anthony Dzadzra Director, Revenue Policy division, MOFEP, Ghana; • Mr. Alaa Abdel-Rahman, Economic Analyst, Ministry of Finance, Egypt • Mr. Humphrey Ayim Darke, Managing Director, Hamdark Packaging Ltd., Vice President, Association of Ghana Industries.
1:45 pm-2:30pm	Informal discussion, Q&A, and final remarks	Hon. Kwaku Kwarteng
2:30 pm-2:45 pm	Strengthening Tax Compliance: Challenges and Opportunities	Mr. Logan Wort, Executive Secretary, Africa Tax Administration Forum
2:45 pm-3:15 pm	*Improving tax compliance:* ✓ Simplifying the tax regime; ✓ Modernizing revenue administration; ✓ Enforcing tax collections; ✓ Tax amnesty: pros and cons.	**Discussants:** • Mr. Lawrence Hotsonyame, Senior Revenue Officer, Training School, GRA. • Mr. Henry Gaperi, Resident Tax Administration Advisor, AFRITAC West 2, IMF; • Mr. Abeku Gyan-Quansah, Associate Director, Tax Services, PwC.
3:15 pm-4:00pm	Informal discussion, Q&A, and final remarks	Hon. Kwaku Kwarteng
7:00 pm-8:30 pm	**Reception: drinks and hors d'oeuvre (Hosted by Mr. Emmanuel Kofi Nti)**	
	April 5, 2018 (Thursday)	
9:00 am-10:30 am	**Addressing Illicit Financial Flows and Tax Competition (Moderator: Prof. Peter Quartey, University of Ghana, Legon)**	
9:00 am-9:15 am	Addressing the Implications of Base Erosion, Profit Shifting and International Tax Competition	Mr. Ruud de Mooij, Division Chief (Tax Policy) FAD, IMF
9:15 am-9:30 am	Leveraging International Tax Cooperation to Tackle Illicit Financial Flows	Mr. Abdallah Ali-Nakyea, Managing Partner, Ali-Nakyea and Associates
9:30 am-10:00 am	*Challenges in international taxation:* ✓ Dealing with illicit financial flows and profit shifting by multinational corporations; ✓ Alleviating tax competition through stronger regional integration.	**Discussants:** • Mr. Leonard Rugwabiza, Chief Economist, Rwanda; • Mr. Aboubakar Cisse, Deputy Director General of Taxes, Côte d'Ivoire;

		• Mr. Alaa Abdel-Rahman, Economic Analyst, Ministry of Finance, Egypt • Dr. Nara Monkam, ATAF.
10:00 am-10:45 am	Informal discussion, Q&A, and final remarks	Prof. Peter Quartey
10:45 am-11:00 am	**Coffee break**	
11:00 am-12:00 pm	**Consolidating DRM in the CWA framework (Moderator: Prof. Felix Asante, University of Ghana, Legon)**	
11:00 am-11:15 am	Key Takeaways: Medium-Term Revenue Strategy and DRM—Short-Term and Medium-Term Policies	Dr. Yaw Ansu, Senior Policy Advisor, Ministry of Finance, Ghana
11:15 am-12:00 pm	Discussion and final remarks	Prof. Felix Asante
12:00 pm-1:00pm	**Lunch: Overview of a CWA work program (Dr. K.Y. Amoako, President and Founder of ACET)**	
1:00-3:00 pm	**CWA: Broadening Public Support for the DRM and Developing Capacity (Moderator: Ms. Ivonne Quansah, Director External Resource Mobilization, MOFEP)**	
1:00-2:30 pm	Contributing to Compact with Africa by supporting DRM: ✓ Development partners' support for implementing DRM; ✓ Civil society organizations.	• Mr. Mohamed Camara, Ministry of the Economy and Finance (Guinea); • Mr. Benjamin Boakye, Executive Director, African Center for Energy Policy; • Ms. Sharon Cromer, Mission Director, USAID, Ghana; Caecilia T.M. Wijgers, Deputy Head of Mission, Embassy of the Netherlands; • H.E. Christoph Retzlaff, Ambassador, Germany.
2:30-3:00 pm	Closing remarks by Hon. Minister Ken Ofori-Atta	

INTEGRATING DOMESTIC REVENUE MOBILIZATION INTO THE MEDIUM-TERM REVENUE STRATEGY (MTRS)[1]

What is an MTRS?

An MTRS is a strategy for revenue mobilization to ensure adequate financing of public sector services and development needs. It is a medium-term road map for comprehensive tax system reforms, including tax policy, administration and legal components.

The benefits of an MTRS for revenue mobilization

Commitment to medium-term reforms can help prioritize immediate objectives. An MTRS can help integrating short-term measures into a comprehensive reform of a tax system. Many countries have intensified their revenue mobilization efforts, but reforms are often erratic and tax priorities are driven by short-term considerations.

An MTRS needs to be a government-led effort. It needs to be championed at the highest political level and have broad public support, based on a whole-of-government commitment. Countries may be able to integrate their ongoing reforms into an MTRS to ensure their coherence and consistent implementation.

An MTRS can help improve the effectiveness of external support. It promotes coordination among capacity development partners, helps avoid duplication and overlapping, and brings external support under the umbrella of the government-led MTRS.

Core elements of an MTRS

Social consensus on the medium-term revenue goals. Revenue goals should be determined in tandem with expenditure needs. Governments and taxpayers need to have a social contract on the level of medium-term revenue (5-10 years) sufficient to adequately finance public services—health, education, poverty alleviation—along with other developmental needs.

A comprehensive reform plan for the tax system, reflecting country circumstances and institutional capacity. This may require (i) a redesign of the policy setting; (ii) a reform of the revenue agencies; and (iii) strengthening of the legal framework.

Political support for sustained implementation of an MTRS. This requires well managed strategy based on sound analysis, wide consultation, powerful communication and concrete plans for implementation, including the necessary resources.

Financing for capacity development to overcome constraints in policy formulation and implementation.

[1] Based on a Concept Note on the Medium-Term Revenue Strategy (MTRS), IMF.

Spillovers in International Corporate Taxation—Base Erosion and Profit Shifting[1]

Spillover effects in corporate taxation

Domestic corporate tax revenue could be eroded by international tax competition. Changes in international corporate taxation could affect domestic corporate tax bases and rates. These spillover effects are particularly significant in developing countries, which typically derive a greater share of their revenue from corporate taxes, than advanced and emerging economies.

Corporate tax spillovers may have macroeconomic implications through base and strategic spillovers:

- *Base spillovers:* Changes in corporate taxation abroad may affect foreign direct investment and result in profit-shifting which could narrow domestic tax base;
- *Strategic spillovers/tax-setting spillovers:* Tax changes abroad may trigger changes in national tax rules, potentially leading to tax competition and "race to the bottom." Also, the proliferation of tax incentives in developing countries may be a reaction to other countries' tax policies.

Tax base spillovers are the largest in developing countries. Compared with the OECD countries, the implications of changes in other countries' tax rates are two to three times larger in developing countries. In many instances these spillovers are related to extractive industries. Debt-financed projects; effective elimination of withholding taxes due to tax treaties, and offshore transfers of ownership interests can lead to base spillovers.

Key issues and messages for developing countries:

- *Sign tax treaties with caution*, as they often limit the use of protective withholding taxes. Moreover, "treaty shopping"—the use of tax treaty networks to reduce tax payments—is a major concern for many developing countries with existing treaties.
- *Protect against tax avoidance on capital gains on natural resources and other immovable assets.* Many developing countries forego tax revenue through the offshore transfer of ownership because of weak domestic laws, or tax treaties.
- *Guard against the use of borrowing to shift profits to lower tax jurisdictions.* Many developing countries still lack effective provisions against profit shifting through debt finance.
- *Simplify rules and strengthen tax policy and tax administration capacity* to address challenges related to transfer pricing.

Limiting adverse spillovers will require addressing weaknesses in domestic law and international arrangements, along with capacity development.

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[1] Based on "Spillovers in International Corporate Taxation", IMF, 2014.

EFFECTIVE AND EFFICIENT USE OF TAX INCENTIVES[1]

The role of tax incentives for attracting investment

Developing countries have ample room for improving the effectiveness and efficiency of tax incentives. Tax incentives generally rank low in investment climate surveys—in many cases tax incentives are redundant, since investment would have been undertaken even without them. Many countries use costly tax holidays and income tax exemptions to attract investment, while investment tax credits and accelerated depreciation yield more investment per dollar spent. Tax incentives targeted at sectors producing for domestic markets or extractive industries generally have the lowest impact, while those geared toward export oriented sectors and mobile capital appear to have a somewhat higher chance of success.

Tax incentives: benefits and costs

Tax incentives aim at contributing to country's economic development and better living conditions. To achieve this goal, the social benefits generated by tax incentives should exceed the associated social costs. *Social benefits of tax incentives* include the following: (i) the net incremental increase in capital due to a tax incentive, i.e. they should not be redundant; (ii) the net impact of higher investment on jobs and wages; and (iii) productivity spillovers to other, domestic industries, associated with the foreign investment. The *social costs of tax incentives* depend on the following: (i) net public revenue losses, especially if incentives create leakage and abuse or if they offer opportunities for domestic profit shifting; (ii) the scarcity of public funds, given that $1 of tax revenue has a higher social value than $1 of private income; (iii) administrative and compliance costs, if tax incentives create rent-seeking opportunities; and (iv) distortions in resource allocation, as by favoring certain investments, tax incentives discourage other investments, thereby creating inefficiencies in resource allocation.

Good practices in the use of tax incentives

Tax incentives should be viewed as a part of broader tax policy design. Good revenue systems feature simple, fair and efficient taxes, and tax incentives may compromise these principles. The design and governance of tax incentives are essential for their effectiveness and efficiency. The choice of the tax instrument used to incentivize investment; the eligibility criteria in selecting qualified investments; and reporting and monitoring requirements, along with sunset and recapture provisions are important for the design of tax incentives. Good governance requires transparency in decision-making and administration of tax incentives to ensure government's accountability. Tax incentives should be embedded in the tax law and discretion in granting them should be minimized. This limits the scope for corruption, strengthens the trust of investors in government, and enhances public confidence that the tax system is fair in design and implementation.

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[1] Based on "Options for Low-Income Countries' Effective and Efficient Use of Tax Incentives for Investment." A Report to the G-20 Development working Group by the IMF, OECD, UN, and World Bank, 2015.