Current Taxation Policy Challenges in Africa

Final Report – 24 April 2024

With support from Finland's development cooperation

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Abbreviations

AAAA	Addis Ababa Action Agenda
ACBF	African Capacity Building Foundation
AfCFTA	African Continental Free Trade Area
AFRITACs	IMF’s Africa Regional Technical Assistance Centers
AFP-TCA	African-Finnish Partnerships on Taxation Capacity in Africa
APRM	African Peer Review Mechanism[1]
ATAF	African Tax Administration Forum
ATI	IMF’s Africa Training Institute
AUDA-NEPAD	African Union Development Agency[2]
AUC	African Union Commission
AUC-ETTIM	Department of Economic Development, Trade, Tourism, Industry, and Minerals at the African Union Commission
CD	Capacity Development
CREDAF	*Cercle de Réflexion et d’Echange des Dirigeants des Administrations Fiscales*
CSOs	Civil Society Organizations
DRM	Domestic Resource Mobilization
HAUS	Finnish Institute of Public Management Ltd

[1] The APRM is a mutually agreed instrument voluntarily acceded to by AU member States as an African self-monitoring mechanism established in 2003.
[2] The AUDA-NEPAD was established in 2010 to integrate the then New Partnership for Africa's Development (NEPAD) into African Union (AU) structures and processes.

IFFs	Illicit Financial Flows
M&E	Monitoring and Evaluation
OECD	Organisation for Economic Co-operation and Development
TTIs	National Tax Training Institutions
PAP	Pan-African Parliament
RECs	Regional Economic Communities
SDG	Sustainable Development Goal
TADAT	Tax Administration Diagnostic Assessment Tool
TJN-A	Tax Justice Network Africa
UNECA	United Nations Economic Commission for Africa
UNDP	United Nations Development Programme

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I. Background

The launch of the African-Finnish Partnerships on Taxation Capacity in Africa (AFP-TCA) is based on Finland's Taxation for Development Action Programme. The AFP-TCA programme is dedicated to supporting domestic resource mobilization (DRM), aligning with two of the three main pillars of the Action Programme: enhancing the taxation capabilities of developing countries and improving the representation of these countries in global tax policy discussions. The ultimate aim is to support tax policy design in developing countries through enhanced research, training, and educational efforts in taxation.

The AFP-TCA Programme impacts various stakeholders, particularly citizens who will benefit from enhanced tax policymaking. Improved DRM will allow governments to offer better public services and infrastructure, which are crucial for reducing poverty and inequality. The programme's primary strategies include capacity building, research, and sharing results and best practices with regional and national policymakers, as well as specific organizations like tax authorities, research entities, media, and civil society organizations (CSOs). Furthermore, the programme aims to improve the customer service orientation of Pan-African and national tax administrations, encouraging them to view taxpayers more as clients. The key partner in Africa for this initiative is ACBF, with collaboration central to the efforts between HAUS and ACBF.

The Impact Statement of the programme is:
Strengthened capacity of African governments and pan-African organisations to increase domestic resource mobilization through informed policy-making.

The programme has three Outcomes:

1. **Outcome 1:** Enhanced understanding on best practices of taxation policy and its implementation for improved domestic resource mobilization (DRM)
   The key output underpinning this outcome is: "*Identification and refining of key policy messages and best practices on DRM, including messages from outcome 2-3 for the project*."
2. **Outcome 2**: Knowledge on taxation in the African context is increased through improved African research capacities on taxation
3. **Outcome 3:** ACBF has increased organizational capacity and tools for capacity building in tax related issues, especially through leadership, digital learning solutions and an improved external communication and advocacy processes.

II. Introduction

Taxation and fiscal strategies are integral to the socio-economic development and financial autonomy of African countries, playing a critical role in mobilizing resources necessary for fulfilling the developmental agenda and achieving the Sustainable Development Goals (SDGs). These policies are not merely revenue-generating mechanisms; they are transformative tools that incentivize sustainable practices and behaviors across various sectors, including

environmental conservation, health, and gender equality. Beyond revenue collection, a well-structured, progressive, and equitable tax system underpins good governance and strengthens the social fiscal contract, fostering a culture of compliance and civic responsibility among citizens.

The landscape of tax policy and administration in Africa is fraught with complexities. The continent's tax systems are navigating a rapidly changing global economic environment marked, among others, by rapid digitalization, intricate cross-border financial flows, and the strategic importance of extractive industries. These global shifts, compounded by the socio-economic strain imposed by the COVID-19 pandemic, underscore the need for robust, flexible tax regimes capable of supporting recovery and sustainable development. Furthermore, while striving to increase DRM, African countries also face unique challenges that hinder their ability to capture a fair share of taxes. These difficulties include taxing digital companies, stemming illicit financial flows (IFFs), navigating the complex tax dynamics of the extractive industry, integrating the informal sector into the tax base, and having a more influential voice in global tax standard-setting. These challenges are critical barriers to equitable economic growth, reducing dependency on external aid, and achieving the ambitious objectives set forth in the Agenda 2063 and other regional development frameworks.

A. Objectives

The primary aim of this assignment is to conduct a comprehensive review of the current taxation policy issues facing the African continent, thereby informing the implementation strategies of the AFP-TCA. This entails a thorough analysis of the continent's taxation-related DRM policy landscape. The project builds upon previous efforts within the AFP-TCA framework, focusing on identifying key taxation policy challenges. A critical component of the project is to pinpoint three policy challenges that are prevalently shared across the majority of African states, setting the stage for targeted interventions and policy recommendations to address these common obstacles effectively.
This is done by engaging in a consultative dialogue with African tax officials and experts from regional and international tax organizations. This step is important is ensure a well-rounded understanding of the issues and for developing focused strategies that effectively address the most pressing tax policy challenges.

B. Methodology

The methodology comprises a two-pronged approach:

1) Desk review of pertinent documents, including policy papers, academic research, reports from regional and international organizations such as TADAT, Agenda 2063, ATAF reports (including the ATAF-TADAT report), AUC's IFFs and Tax strategies, AUC’s DRM reports, AUC’s STC reports, TJN-A reports, UNECA reports, UN Tax Convention reports (African submission), RECs’ reports on DRM, and previous work conducted within the AFP-TCA programme. The desk review was conducted from 19 February to 8 April 2024.

2) Virtual workshops to complement the desk review findings. Two virtual workshops were organized: one involving tax officials from tax administrations, tax training institutes, tax units within the Ministry of Finance, and representatives of related institutions; and another comprising representatives of regional and international organizations focusing on DRM issues in Africa, along with Finnish representatives.

The workshops were designed to be a pivotal event for dissecting and understanding the most pressing tax policy trends and challenges faced by African states. By engaging with seasoned experts in the field of taxation policy, the aim was to identify the three most critical aspects of taxation policy that hold the utmost significance for the continent. The insights derived from this collaborative effort will serve several crucial objectives:

- Elevating ACBF's understanding of tax-related resource mobilization challenges: the workshops will enhance ACBF's understanding of challenges and opportunities in tax-driven domestic resource mobilization, aiming to improve effectiveness across Africa. This will inform ACBF's support strategy and contribute to better tax policy and administration.
- Guiding future training and development: the findings from the workshop will shape ACBF's training and digital/hybrid courses for African tax officials, ensuring they meet their needs for effective tax policy implementation and DRM.
- Boosting advocacy and communication: outcomes will also focus on building strong advocacy and communication strategies to amplify Africa's voice globally, advocating for a tax system that addresses African states' unique challenges and promotes equity.

Drawing on the comprehensive analysis conducted through desktop research, the workshops effectively honed in on the most significant tax policy challenges prevalent across many African countries. This strategic identification process helps in refining the ACBF’s future direction for capacity-building programs, ensuring they are precisely targeted to address these identified challenges. Furthermore, it strengthens ACBF's influence in global tax policy dialogues, advocating for policies that consider the unique contexts of African nations. This initiative not only aligns with but actively advances ACBF's mission to bolster DRM, thereby fostering an environment conducive to sustainable development throughout the continent.

C. Scope

It is essential to emphasize that this research is exclusively focused on tax policy. While recognizing that broader reforms encompassing policy, legislative, and administrative dimensions are necessary to improve Domestic Resource Mobilization (DRM) and foster equitable economic growth, our examination is deliberately confined to tax policy issues. We will not engage with the complexities of tax administration or legislative challenges. This specific focus is crucial for accurately guiding our analysis and steering the consultative engagements.

III. Tax Policy Challenges Prevalent in Most African Countries

The sections below explore the critical tax policy challenges common across the continent, providing insights into each challenge and how it matters for Africa. These include the taxation of the growing digital economy, compliance issues in the extensive informal sector, the complexities of base erosion and profit shifting, the complex dynamics of natural resource taxation, and the tax implications of the African Continental Free Trade Area (AfCFTA). These issues, if left unaddressed, significantly erode the tax base, undermine effective tax collection, equitable economic development, and the integrity of governance systems across the continent (ATAF, 2020; AUC & UNECA, 2015; Ahmed & Gillwald, Multifaceted Challenges of Digital Taxation in Africa, 2020; Bunn, Elkse, & Cristina, Digital Taxation around the World., 2020; Mpofu, 2022). The emphasis on these challenges comes at a crucial juncture as African countries strive to recover from the pandemic's aftermath and forge stronger, more resilient, and inclusive tax systems, conducive to sustainable growth.

The Revenue Statistics in Africa 2023 report highlights the tax-to-GDP ratio3 disparities among 33 African countries, reflecting their unique economic challenges and fiscal capacities. Understanding these variations is crucial for developing tax policies that support economic stability and foster development across the continent. The unweighted average tax-to-GDP ratio in these countries was 15.6% in 2021, indicating a limited fiscal capacity compared to 19.8% in OECD countries, 21.7% in Latin America and the Caribbean, and 34.1% in Asia and the Pacific. This lower fiscal capacity hinders significant expenditures and investments in essential sectors like infrastructure, healthcare, and education, which are vital for sustainable development and improving social welfare across Africa. Enhancing tax systems and broadening the tax base are crucial to closing these fiscal gaps and ensuring equitable growth throughout the continent (OECD/AUC/ATAF, 2021; OECD/AUC/ATAF, 2023).

A.1. Taxing the digital economy

Understanding the challenge

The concept of the digital economy remains challenging to define precisely due to the absence of a universally accepted definition. Broadly, the digital economy encompasses all economic activities that are significantly enhanced or dependent on digital technologies, infrastructure, services, and data. This includes a vast array of producers and consumers throughout the economy who leverage digital technologies. In a narrower sense, it specifically pertains to the sectors producing information and communication technology (ICT) goods and services (IMF, 2023).

The G20 (2018) has developed a framework consisting of 30 indicators across four main dimensions to monitor the digital economy: Infrastructure, Empowering Society, Innovation and Technology Adoption, and Jobs and Growth. This framework provides a comprehensive overview:

[3] The tax-to-GDP ratio calculates tax collections as a percentage of GDP, which includes mandatory social security payments made to the general government (OECD/AUC/ATAF, 2023).

- Infrastructure focuses on the development of physical and service infrastructures, including mobile and fixed networks and Internet of Things (IoT) connectivity.
- Empowering Society assesses digital inclusivity, evidenced by metrics such as internet usage and financial inclusion rates.
- Innovation and Technology Adoption examines the extent to which innovative technologies and ICTs are integrated within businesses.
- Jobs and Growth evaluates the impact of digital technology on economic growth, job creation, and productivity.

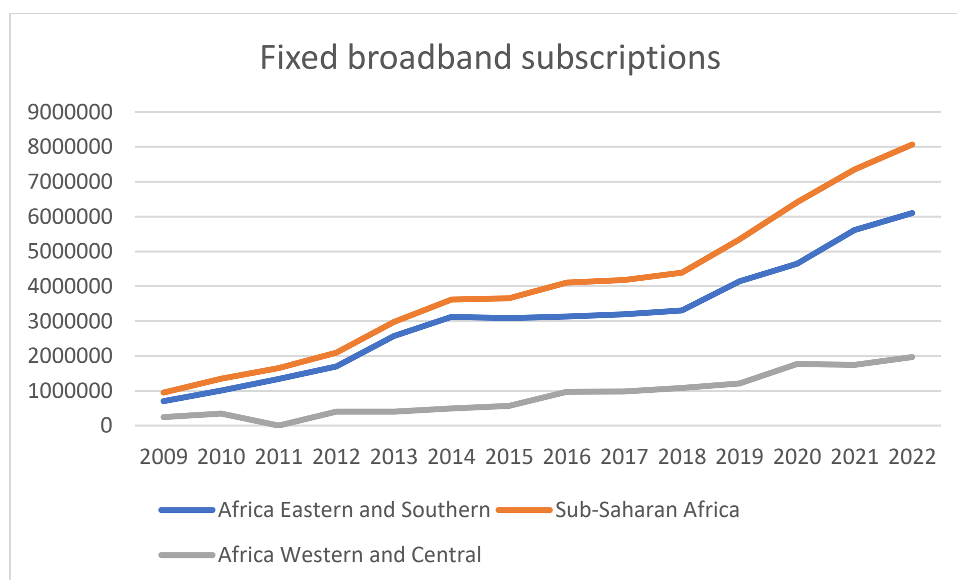
These indicators are essential for policymakers, businesses, and investors to evaluate the reach and impact of the digital economy, offering insights that guide strategic planning and investment decisions.

Supporting data from the World Development Indicators shows significant trends:

- Fixed broadband subscriptions (Figure 1) have seen an upward trajectory across Sub-Saharan Africa (SSA), reflecting growing digital infrastructure.
- Internet usage (Figure 2) percentages indicate an increasing number of individuals gaining online access, which underscores greater digital inclusion.
- Secure internet servers (Figure 3) have also increased, suggesting enhanced digital security infrastructure.

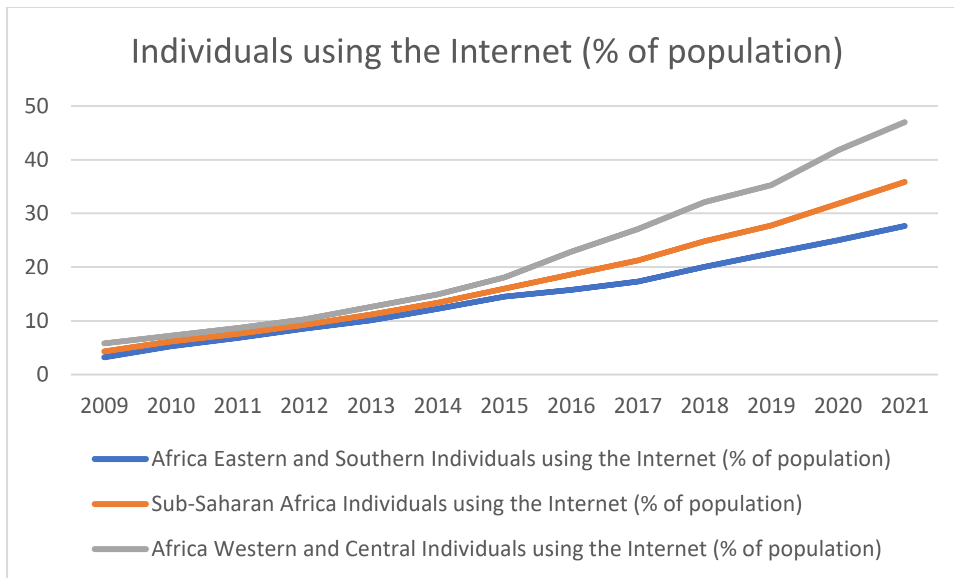
These trends highlight a positive progression in digital connectivity and security from 2009 to 2022 across various regions of Africa, demonstrating the expansive growth of the digital economy.

Figure 1: Fixed broadband subscriptions



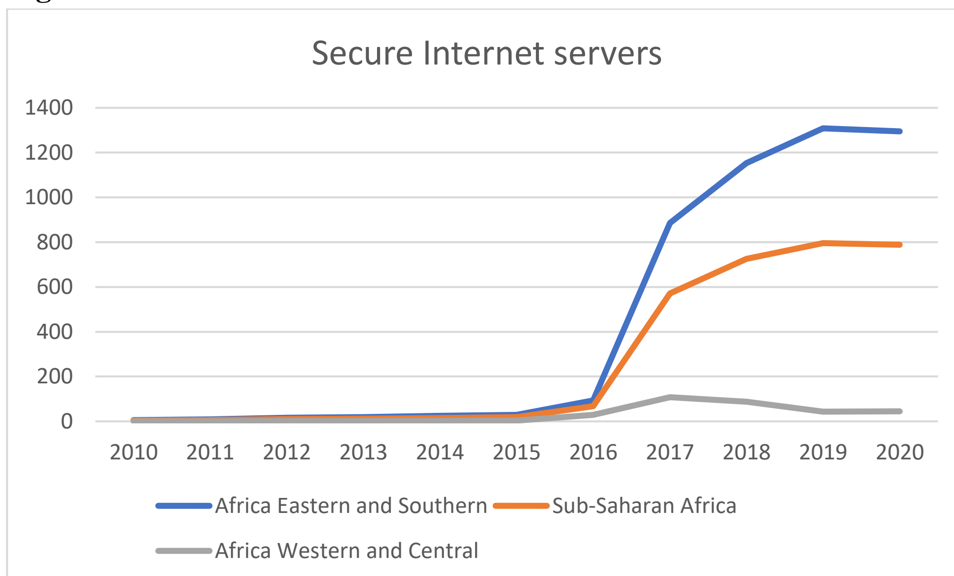
Source: World Development Indicators

Figure 2: Individuals using the internet (% of population)



Source: World Development Indicators

Figure 3: Secure Internet servers



Source: World Development Indicators

As above mentioned, the digital economy is rapidly expanding across the globe, and Africa is participating in this growth with significant engagement in digital marketplaces by both consumers and multinational enterprises (MNEs) such as Amazon, Facebook, and Google (UNCTAD, 2018).[4] The continent has witnessed a surge in smartphone usage and internet penetration, with millions of Africans now online, participating in digital services, social media platforms, and online shopping (Bunn, Elkse, & Cristina, 2020; UNCTAD, 2019).[5] This digital

[4] In Africa, there are more than 200 million Facebook users, with over 21 million regularly engaging in online shopping activities (UNCTAD, 2018).

[5] Between 2000 and 2019, SSA witnessed a remarkable surge in smartphone usage, increasing from 10% to 30% (Bunn, Elkse, & Cristina, 2020; UNCTAD, 2019). By 2019, an impressive 89.5% of Kenyans had internet access (Philip, , et al., 2021), underscoring the rapid digital adoption across the continent. The demand for digital services, social media platforms, and cloud computing has driven this growth in internet usage (Mpofu, 2022).

transformation, accelerated by the COVID-19 pandemic (Mpofu, 2022), has brought about an increase in digital transactions, including a notable rise in mobile money transactions and the economic success of online retailers.

Ndulu et al. (2021) explore the impact of tax laws and fiscal incentives on the digital economy in SSA. They highlight that many SSA countries impose burdensome taxes on digital infrastructure components, such as import tariffs on networking equipment, which escalate the costs of digital technology adoption. Sector-specific taxes, including levies on mobile services and over-the-top (OTT) media services, potentially stifle the growth of a sector crucial for development and productivity.
Furthermore, digital goods and services in the region are frequently subjected to sales taxes and value-added tax (VAT), increasing costs for consumers and businesses alike, thereby limiting digital technology uptake. For instance, Nigeria applies standard VAT on services by non-resident digital firms, while Kenya has introduced a digital service tax (DST) to ensure foreign companies contribute taxes on local earnings. South Africa's approach includes VAT on both local and international digital service providers, integrating these efforts within its m-Government platforms to enhance tax compliance facilitated by high mobile usage and internet access (Munyoka & Manzira, 2014).
During the COVID-19 pandemic, Rwanda adapted its tax strategy on digital transactions, recognizing digital access as essential, not a luxury. Ndulu et al. (2021) advocate for balanced tax strategies, warning that overly high taxes on digital services can discourage long-term digital engagement and diminish economic efficiency. They recommend abolishing distortionary taxes to foster broader, more inclusive digitalization aligned with broader economic development objectives.

Overall, taxing these digital transactions and services presents a formidable challenge for African countries. The essence of the Fourth Industrial Revolution (4IR) and the digital economy's growth necessitates innovative approaches to taxation that can capture revenue from digital activities effectively (Ojo, 2022). However, the task is complicated by the digital economy's inherent characteristics, such as the ease of conducting cross-border transactions without a physical presence, which traditional tax systems are ill-equipped to manage.

Why it matters for Africa

For African countries, the digital economy represents a significant untapped source of revenue that could support domestic financing, reduce dependency on foreign aid, and promote sustainable development (Munoz, Giulia, Wilson, & Fabrizio, 2022). An adequate and fair taxation of the digital economy is crucial for ensuring that Africa benefits from the profits generated within its borders. Additionally, the digital economy's growth during the COVID-19 pandemic has underscored its potential as a resilience-building and development-fostering

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Consequently, the number of internet users in Africa soared from 4.5 million in 2000 to 526 million in 2019, thanks to advancements in information and communication technology infrastructure (Becker , 2021). This expansion represents a connectivity rate of 39.3%, accounting for 11.5% of the global internet population.

sector for African economies.[6] During the COVID-19 pandemic, the digital services sector experienced significant growth and success. Notably, mobile money transactions in Africa surged in both frequency and volume. In 2020, digital transactions in SSA grew by 18%, with the number of mobile money accounts expanding by 12% to reach 562 million and active monthly accounts increasing to 161 million (Clifford, 2020). The total value of mobile money transactions rose by 23% to USD 495 billion, and the number of transactions grew by 15% to nearly 27 billion, highlighting nearly USD 500 billion in transactions across Africa in 2020 (Shapshack, 2021). In addition, many online retailers experienced increased demand, profitability, and financial growth following COVID-19 mitigation efforts. This surge in demand led to market expansions and new entries, boosting job creation jobs (Kelbesa, 2020b; Kelbesa, 2020a; Mekgoe & Mohamed, 2020).

Efforts to tax digital transactions are not only about increasing revenue. They also involve ensuring fairness, reducing IFFs, and aligning with global tax reform efforts to ensure equitable economic growth. ATAF and the OECD have both engaged in crafting guidelines for digital taxation, though ATAF has expressed concerns about the OECD's proposals' relevance and effectiveness for Africa (OECD, 2021; OECD, 2019; OECD, 2020; ATAF, 2020). ATAF advocates for a simplified and more beneficial approach to profit allocation and tax rates that better align with Africa's economic interests and realities (Becker , 2021; OECD, 2021).[7]

The implementation of digital services taxes (DSTs) and the adaptation of tax laws to encompass digital transactions have been slow and uneven across African countries.[8] Only a few nations have enacted laws that directly tax digital services, while others have expanded indirect taxation, such as the VAT, to cover e-commerce activities (Simbarashe, Digitalisation and the challenges for african administrations. , 2020; Kabwe & Stephanus van Zyl, 2021). The challenge extends beyond legislation; it encompasses administrative, technological, and political hurdles that African nations must overcome to effectively tax the digital economy (Rukundo, 2020; Philip, , et al., 2021; Ahmed & Gillwald, 2020).[9]

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[6] The COVID-19 pandemic globally disrupted economies, severely affecting sectors such as manufacturing, tourism, and mining, leading to financial losses, job cuts, and reduced economic activity. This resulted in lower tax revenues, prompting governments to seek alternative funding sources for public expenditures. In Africa, the dependence on commodity markets worsened the impact, as COVID-19-related lockdowns disrupted supply and demand, affecting commodity prices and sales (Kelbesa, 2020a; Kelbesa, 2020b; Mpofu, 2022).

[7] For example, ATAF had expressed concerns over the complexity of proposed tax frameworks, fearing they could unfairly reallocate minimal profits to smaller markets, typical of many African countries. ATAF suggested calculating profit redistribution based on a MNE’s total profit rather than its residual profit, advocating for simplicity and fairness. If residual profit remains a factor, ATAF recommended allocating at least 35% to the market jurisdiction. Additionally, ATAF argued that a 20% global minimum corporate tax rate, rather than the proposed 15%, would better serve African economies by safeguarding tax bases and curtailing IFFs (Becker , 2021; ATAF, 2020).

[8] ATAF suggested a direct DST rate between 1% to 3% on annual digital transaction revenues within market jurisdictions. It urges countries to proactively establish digital tax systems rather than waiting for OECD guidelines, which may cause delays detrimental to the financial stability of African governments (Becker , 2021; Deloitte, 2020; ATAF, 2020). While ATAF advocates for proactive measures, it emphasizes the need for members to deliberate on aligning their national digital tax systems with the OECD's international framework, which may require repealing existing national taxes in favor of OECD-recommended solutions (ATAF, 2020).

[9] While countries like South Africa, Zimbabwe, Uganda, Kenya, and Nigeria have applied VAT to digital transactions, direct digital service taxation remains limited. Only Zimbabwe, Nigeria, Tunisia, and Kenya have

Eliffe (2021) outlines six challenges in taxing the digital economy: (1) the hidden nature of digital transactions, making taxation difficult; (2) challenges in gathering data on digital users' contributions; (3) the mobility and dependence on intellectual property; (4) difficulties in defining digital incomes and transactions; (5) ineffective transfer pricing rules for regulating MNEs and combating tax evasion; (6) limitations of residence-based tax systems in the context of international trade.

Finland and Estonia have created sophisticated tax structures that successfully capture economic activity in the digital sphere (Vihma, 2023; Ali-Yrkkö, et al., 2020). Estonia, leading with a 98% digital tax filing rate, has transformed tax administration through comprehensive digitization, enhancing efficiency and transparency in corporate and VAT compliance (Vihma, 2023). This high rate of digital engagement facilitates better compliance management and reduces administrative burdens.
Meanwhile, Finland focuses on reducing tax gaps in the digital economy by implementing stringent Corporate Income Tax (CIT), VAT, and Personal Income Tax (PIT) legislations. These regulations include strict controls on digital services to guarantee that, in accordance with EU principles, VAT is collected where services are consumed (Ali-Yrkkö, et al., 2020). Both nations set the standard for digital taxes in Europe by using technology, such as blockchain in Estonia and extensive digital reporting systems in Finland, to fight tax evasion and expedite tax collection (Vihma, 2023; Ali-Yrkkö, et al., 2020). By adopting these technological solutions, Finland and Estonia set a benchmark for digital taxation in Europe, demonstrating the potential for technology to enhance tax system effectiveness and compliance.

In essence, the taxation of the digital economy in Africa is a multifaceted challenge with implications for DRM, economic development, and equity. Successfully addressing this challenge requires comprehensive approaches that consider the unique socio-economic and political landscapes of African countries, ensuring that tax policies foster growth while securing the revenues needed for long-term development (Becker , 2021; Mpofu, 2022; Simbarashe, Digitalisation and the challenges for african administrations, 2020).

A.2. Taxing the informal sector

Understanding the challenge

The informal sector, often referred to as the shadow economy, encompasses unrecorded economic activities not captured in official economic data, presenting a significant challenge for tax collection in Africa (Moore, 2023; OECD, 2017). This sector ranges from small,

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enacted direct digital tax laws between 2019 and 2021, marking the early stages of such taxation in Africa. This area, still emerging and scarcely researched, is gradually gaining attention in studies on DRM. However, there is a notable lack of comprehensive data on the economic impact of DST on businesses, consumers, and government revenue in Africa (Becker , 2021; Simbarashe, 2020; Kelbesa, 2020b; Mpofu, 2022).

unorganized businesses to larger-scale unrecorded activities such as illicit trading and professional services avoiding taxes.[10]

The informal sector is a significant and permanent component of African economies, serving as the primary source of livelihood for the majority of its citizens. It employs 70% of the labor force in SSA and 62% in North Africa, underscoring its critical role in the region's employment landscape. Self-employment is notably prevalent within this sector, accounting for 70% (or 81.1% excluding South Africa) of employment in SSA and 62% in North Africa. Informal activities, especially in retail and construction, are among the largest and fastest-growing enterprises in Africa. Despite this evidence about the substantial size of the informal sector in Africa, it does not significantly contribute towards direct DRM through the payment of taxes to tax administrations (ATAF, 2021b).

Accurately measuring the extent of this economy is complex, yet crucial, as it directly impacts tax revenue collection and the formulation of economic policies (Roe, 1991; Lent, 2017). In SSA, the Block Management System is commonly used to tax the informal sector. It segments large cities into smaller areas, deploying tax teams to identify and register individuals in paid economic activities, like street food vendors or retail porters. However, it is less effective for uncovering large-scale, unregistered economic activities, like unauthorized banking. This approach works best for locating small-scale operations to understand their networks and tax them accordingly (Moore, 2023). In addition, tax authorities struggle to identify and tax large defaulters within this sector due to a lack of analytical capacity and comprehensive data (Moore, 2023).

In an ATAF's survey conducted in September 2020, 20% of the respondents, primarily involved in the informal sector, expressed dissatisfaction with the tax laws in their countries. They highlighted a lack of transparency in these laws, which they believed opens the door for discretionary decisions by both taxpayers and tax administrators. This vagueness allows taxpayers to arbitrarily decide whether to pay taxes and when, while on the other side, tax administrators have the leeway to determine when to enforce certain tax payments and may even solicit bribes to exempt taxpayers from some obligations. Secondly, 10% of these respondents view the tax laws as overly complex and confusing, which demotivates some from fulfilling their tax obligations. In addition, a significant 80% of those surveyed reported unprofessional behavior by tax officials, pointing out their general negative attitude, rudeness, and unavailability to address queries from the informal sector, which collectively creates a discouraging environment for tax compliance (ATAF, 2021).

[10] Moore (2023) suggested that expanding the definition of the informal sector to include factors like low productivity, tax evasion, temporary working structures located in busy markets, and individual or family ownership could also cover broader unrecorded activities. This would encompass sectors like gambling, financing, cigarette manufacturers partnering with smugglers to bypass excise taxes, and high-earning professionals, such as doctors, who operate on a cash-only basis. Large-scale cash transactions are a crucial practical sign of the unrecorded informal sector from the standpoint of tax collectors, as opposed to small family enterprises operating out of temporary spaces.

Fourthly, 40% of respondents from the informal sector found it challenging to calculate, file, and report taxes. They attributed these difficulties to the complicated tax formulas, disorganized filing systems, and uncoordinated reporting requirements, making the tax compliance process cumbersome, costly, and time-consuming for businesses that might otherwise be willing and able to pay taxes. Moreover, 60% of those interviewed indicated that tax authorities provide insufficient and unclear information on tax payments. This lack of clarity and accessibility discourages some enterprises from paying taxes, leading them to operate within the informal sector where tax burdens are perceived to be lower.
Lastly, other concerns raised include the misuse of funds collected from the informal sector. 20% of respondents believe that the extravagant lifestyles of most tax officials and administrators, which seem disproportionate to their official salaries, fuel moral discontent and discourage tax payment by entities within the informal sector (ATAF, 2021).

On the other hand, the ATAF survey on informal sector taxation also collected views on the primary characteristics of informal enterprises and individuals operating in the informal sector. Findings identified these entities typically exhibit low productivity and operate without formal registration with government bodies. These enterprises rarely contribute direct taxes to Revenue Authorities (RAs) and usually operate from temporary setups rather than permanent premises. Additionally, they are often situated in densely populated urban markets rather than isolated rural areas. Most enterprises in the informal sector are individually or family-owned, which typically means they have limited capital. This restriction not only constrains their day-to-day operations but also significantly hinders their potential for growth and expansion (ATAF, 2021).

Why it matters for Africa
Taxing the informal sector in African countries is crucial due to its significant contribution to the gross domestic product (GDP) and its potential as a substantial source of tax revenue. Studies have highlighted the importance of taxing the informal sector to maintain tax morale and compliance among formal firms, leading to the sector's formalization. This formalization can spur growth and offer benefits to formal sector firms. Moreover, taxing the informal sector can enhance governance and political accountability by giving informal enterprises a stake in engaging with the government (ATAF, 2021).

However, the focus on small businesses for tax collection raises concerns about the cost-effectiveness and fairness of such efforts. Large enterprises and high-net-worth individuals (HNWIs) contribute significantly to tax revenues, suggesting that reallocating resources towards taxing the informal sector might not yield substantial income gains. For instance, in Rwanda, a small percentage of large taxpayers contribute the majority of tax revenue, highlighting the limited revenue potential from focusing on small and micro taxpayers (RRA, 2019). Efforts to expand the tax base among small businesses, such as simplified tax regimes, have shown limited success in increasing revenue, underscoring the challenges of effectively taxing the informal sector (Dube & Casale, 2016; Moore, 2023).

Overall, effectively and sustainably taxing the informal sector requires a holistic approach that transcends tax authorities alone. It targets a diverse population and necessitates the involvement of all stakeholders, including actors and decision-makers connected to the informal sector's management. This comprehensive strategy is essential for a deep understanding of the sector (ATAF, 2021).

In conclusion, while the informal sector represents a potential source of tax revenue, African tax administrations face significant challenges in harnessing this potential. The challenges extend beyond merely identifying and taxing businesses in this sector; they also involve guaranteeing that tax collection is cost-effective and does not unfairly target small enterprises. Additionally, there is a need to deter individuals or entities motivated purely by fraud and tax avoidance from exploiting this sector as a haven for their activities. This necessitates a balanced approach that considers the complexities of the informal economy and leverages technological and administrative innovations to improve tax compliance and revenue collection from this elusive sector.

A.3. Corporate tax abuse and illicit financial flows

Understanding the challenge

The challenge revolves around mitigating base erosion, profit shifting (BEPS), and curtailing IFFs within African economies. MNEs often exploit gaps in transfer pricing laws and engage in aggressive tax planning, evasion, and avoidance strategies, significantly undermining DRM in Africa (Oguttu, 2020). Corporate tax abuse and IFFs significantly drain resources from African countries, costing governments worldwide between US$100 billion and US$600 billion in lost income annually, with Africa alone losing US$50 billion each year (Cobham & Janský, 2018; Crivelli, de Mooij, & Keen, 2016; AUC & UNECA, 2015). This loss is magnified over time, with capital flight costing Africa over US$1.4 trillion between 1970 and 2015, surpassing the total amount of foreign aid received during the same period (Ndikumana & Boyce, 2018). These revenue losses from corporate tax evasion and IFFs are substantial, significantly affecting African states' ability to finance the SDGs, alleviate poverty, and sustain fiscal self-sufficiency (Waris, 2019).

BEPS involves MNEs manipulating tax rules to artificially lower taxable income or shift profits to low-tax jurisdictions, minimizing their tax liabilities (OECD, 2015; Olatunji & Christiana, Effect of Base Erosion and Profit Shifting on Revenue Generation in Nigeria, 2020). The 2007–2008 global financial crisis resulted in fiscal deficits for several years, prompting concerns about the need to curb BEPS worldwide. BEPS poses a significant threat to tax revenue, tax sovereignty, and tax fairness (Fligstein & Habinek, 2017; OECD, 2015). This is compounded by the digital economy, where businesses can generate significant revenue without a physical presence, further complicating tax collection efforts (Olatunji & Christiana, Effect of Base Erosion and Profit Shifting on Revenue Generation in Nigeria, 2020; Salihu, Annuar, & Obid, 2015).

The G20-OECD initiative on BEPS aims to restrict opportunities for MNEs to evade taxes internationally, addressing the resistance to international taxation and the potential for

retaliatory measures from nations seeking to make their tax systems more competitive (OECD, 2015; Olatunji & Christiana, 2020). The OECD/G20 Inclusive Framework on BEPS (IF) was established in 2016 to ensure a balanced approach among all engaged and pertinent jurisdictions and attempt to facilitate their equal participation in establishing future standards concerning BEPS issues. This includes their involvement in implementing and monitoring BEPS outcomes, as well as developing implementation strategies suited to various capacity levels, ensuring that BEPS solutions are accessible and appropriate for all members. As of November 2023, 140 countries have joined the IF including twenty-seven (27) African countries (OECD, 2023).[11]

Why it matters for Africa

For Africa, the stakes are high. The continent's economic stability and development prospects are undermined by the massive outflows of illicit funds and corporate tax evasion. These practices not only deprive African countries of essential revenue needed for development but also erode public trust in the equity of the tax system. BEPS tactics lead to economic distortions, affecting productivity, employment, and innovation negatively (Salihu, Annuar, & Obid, 2015).

Addressing these issues is crucial for ensuring that African countries can harness their rightful share of tax revenues from multinational operations within their borders. This involves not only international cooperation, as seen in the Inclusive Framework on BEPS, but also strengthening national tax systems to close loopholes, ensure fair tax practices, promote economic transparency, and enhance governance and political accountability.

Successful interventions against corporate tax abuse and IFFs are essential for Africa to achieve its development goals, facilitate long-term inclusive development, enhance fiscal autonomy, and foster a more stable, broad-based, and equitable tax system. For example, implementing sound transfer pricing strategies and addressing the disparities in corporate tax rates across jurisdictions are critical steps towards mitigating BEPS and IFFs (OECD, 2015; Riedel, 2014; Huizinga & Laeven, 2008).

The Inclusive Framework's announcement of the Two-Pillar Solution on 12 July 2023 after over four years of negotiations marks a significant change in international tax rules, albeit with compromises reflecting diverse member views. African countries, while not fully satisfied, have gained some provisions in the package, particularly in Pillar 1's Amount A rules, aimed at reallocating global profits to market jurisdictions. However, concerns persist regarding the limited impact of Amount A on African countries' revenue allocation and the delay in taxing digital firms until the Multilateral Convention's likely implementation in 2026 or 2027. African countries also secured provisions in Amount B rules, expected to aid in transfer pricing challenges. Additionally, the Subject to Tax Rule (STTR) offers some defense against profit shifting, although concerns remain over the minimum effective tax rate and its effectiveness in

[11] These are: Angola, Benin, Botswana, Burkina Faso, Cabo Verde, Cameroon, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Egypt, Eswatini, Gabon, Kenya, Liberia, Mauritania, Mauritius, Morocco, Namibia, Nigeria, Senegal, Seychelles, Sierra Leone, South Africa, Togo, Tunisia and Zambia.

protecting source countries' tax bases.[12] Moving forward, ATAF and the African Union will continue to work closely to ensure Pillar 1 and Pillar 2 implementation and advocate for further changes to address Africa's concerns on taxing rights allocation and IFFs (ATAF, 2023).

In conclusion, BEPS and IFFs significantly drain Africa's resources. These losses hinder Africa's ability to achieve the SDGs and maintain fiscal independence. The OECD/G20 Inclusive Framework on BEPS, which includes twenty-seven African countries, have sought to harmonize international tax standards to close loopholes and ensure fair taxation from multinational corporations. However, there remain concerns about the effectiveness and slow implementation of its Two-Pillar Solution. As Africa works within this framework, it is essential for regional bodies like ATAF and the African Union to advocate for adjustments that cater to Africa's unique needs and ensure equitable taxing rights, thus supporting the continent's development goals and fiscal autonomy.

A.4. Taxing natural resources

Understanding the challenge

The exploitation of natural resources in Africa offers a path to economic progress, but introduces several challenges due to complex regulations and the potential for corruption (Zalle, 2022). This sector's significant revenue potential can support fiscal resources mobilization and finance investments to diversify economies. However, the negotiation processes often marred by bribery and tax issues reflect the maturity—or lack thereof—of institutions in resource-rich African countries (Goyette, 2019). Beyond fiscal concerns, the accelerated depletion of natural resources and environmental degradation present critical challenges. The Extractive Industries Transparency Initiative's (EITI) reports show that extractive industries form a substantial part of government income in several African countries, emphasizing the sector's importance to fiscal stability (Zalle, 2022).

Furthermore, the extractive sector, particularly mining in SSA, raises concerns due to the prevalence of competitive investment incentives, often granted without thorough cost-benefit analyses, leading to unmet expected benefits. For numerous resource-rich African countries, securing a fair share of profits from the exploitation of their often-non-renewable natural resources is imperative. The taxation of natural resources stands apart from other tax forms, as it entails allocating profits from resource extraction between the resource-owning country and the extracting entity, typically a multinational corporation with the expertise to extract, process, and market the resource. The absence of an effective tax regime could lead to substantial revenue losses for these countries (Jacquemot & Raffinot, 2018).

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[12] The STTR (Subject to Tax Rule) in the context of the OECD's Two-pillar approach to international tax reform is part of Pillar Two, which aims to address the remaining issues related to the digitalization of the economy and the prevention of profit shifting to low-tax jurisdictions. The STTR is a rule designed to ensure that multinational corporations pay a minimum level of tax on income arising in countries that have agreed to implement these rules (ATAF, 2023).

Why it matters for Africa

Africa is richly endowed with key minerals like gold, silver, copper, uranium, and cobalt, which are vital for global manufacturing. The mining and extractive industry is a major contributor to Africa's exports, revenue, and GDP, with minerals and fossil fuels comprising over a third of exports in 60% of African countries as of 2019. Furthermore, 42 out of 54 African nations are classified as resource-dependent. This sector not only boosts fiscal revenue and foreign currency reserves but also provides significant employment opportunities across the continent. While discussions often focus on oil and gas, the importance of non-fuel minerals remains undervalued (Signé & Johnson, 2021).

The income derived from natural resources, while a potential boon for development, is marked by high volatility, leading to unpredictable tax revenues and diminishing returns in several African countries such as Chad, Equatorial Guinea, Mauritania, Nigeria, and the DRC (OECD/AUC/ATAF, 2021; Zalle, 2022). This volatility limits the scope of natural resources in tax efforts, contributing to fiscal instability. Moreover, the preferential tax structures that favor multinational corporations, allowing them to remit taxes primarily in their home countries, further erode the tax base in resource-dependent countries (CNUCED, 2020).

Cust and Zeufack (2023) find that African nations typically only get 40% of the possible income from their natural resources, highlighting an opportunity to enhance its contribution the tax-to-GDP ratio by improving tax efficiency. Despite this potential, the average share of tax revenue to GDP in African countries remains lower than in OECD nations, highlighting the need for enhanced fiscal policies (Coulibaly & Gandhi, 2018). This situation can partly be attributed to the fact that tax avoidance by mining MNEs in Africa leads to an estimated annual shortfall of US$450-730 million in corporate income tax (CIT) revenue. This estimation, derived from the tax rate differences between African countries and offshore MNE affiliates, centers around a US$600 million loss each year. Consequently, the risk of profit shifting, particularly within the mining sector, is notably higher than in other industries. Additionally, the challenges are compounded by inadequate local expertise in tax administration, policy development, and cross-governmental collaboration, exacerbating the risks associated with CIT (IMF, 2021).

Furthermore, in some countries, like Botswana and Norway, natural resource rents fund development effectively, but in others, such as Nigeria and the DRC, they fuel corruption, affecting institutional integrity and tax collection (Zalle, 2022). The abundance of natural resources can undermine efforts to establish robust fiscal institutions, with political elites often exploiting resources for rent capture, deterring the development of strong taxation systems (Sen, Pritchett, & Werker, 2018; Ross, 2001). Empirical evidence shows a direct correlation between resource reliance and low tax revenue performance, with resource income negatively impacting tax mobilization capacities (Jensen, 2011; James, 2015; Crivelli & Gupta, 2014). Studies across SSA also reveal that weak institutional frameworks exacerbate the adverse effects of resource income on tax collection efforts.

In its 2023 review using the Extractive Industries Transparency Initiative (EITI) framework, the Democratic Republic of Congo (DRC) identified contractual irregularities in the Sicomines joint venture, initially valued at $3 billion. These issues, which hindered promised infrastructure developments, led to renegotiations resulting in an additional $7 billion in project value over the next decade, a move expected to substantially enhance the DRC's GDP through increased extractive revenues. Similarly, Zambia's EITI report highlighted a record $1.9 billion in mining taxes for the year—an 11% increase despite reduced copper production. This surge in tax revenue underscores the extractive sector's critical role in boosting Zambia's economic stability and growth (EITI, 2023).

Addressing the fiscal challenges associated with natural resource exploitation in Africa necessitates a multifaceted approach. This includes enhancing regulatory frameworks to mitigate corruption, improving institutional integrity, and developing robust tax systems that can effectively harness resource income for sustainable development. The strategic management of natural resources is crucial for achieving fiscal stability, reducing dependency on volatile income streams, and fostering long-term economic growth and development across the continent.

A.5. AfCFTA and taxation

Understanding the challenge

The AfCFTA represents a pivotal step towards economic integration across Africa, aiming to facilitate trade among member states under a unified legislative framework. This initiative is part of the African Union's Agenda 2063, designed to promote equitable and sustainable development across the continent (African Union, 2020; Tröster & Janechová, 2021). The AfCFTA is anticipated to establish a unified continental market that enables the 'four freedoms' (people, capital, goods and services), fostering enhanced intra-African trade, greater harmonization, improved competitiveness, and more equitable resource distribution (ATAF, 2021b).

Despite its ambitious goals, the AfCFTA faces significant challenges, including the complexity of achieving comprehensive integration across diverse African economies and the impact of external factors such as the COVID-19 crisis, which has delayed negotiations and the implementation of initial steps (Tröster & Janechová, 2021). Furthermore, trade and investment liberalization under AfCFTA is expected to lower trade costs, enhance intra-African trade, boost efficiency and competitiveness, and attract foreign direct investment (FDI), potentially leading to job creation and poverty reduction. However, the realization of these benefits depends on sustained efforts from member states to achieve regulatory alignment and overcome institutional and structural obstacles (Mosala, 2023; Oloruntoba, 2023; African Development Bank, 2019).

Additionally, the AfCFTA requires member states to eliminate tariffs, which could lead to a 1% to 5% loss of GDP for affected countries, notably those heavily reliant on customs revenue. While traditional solutions suggest replacing lost revenue with consumption and income taxes,

Africa's large informal sector poses a challenge to tax compliance. Many AfCFTA members have low taxpayer registration rates, indicating widespread non-compliance. Effective tax administration is crucial, but across Africa, informal businesses face difficulties in tax enforcement due to high administrative costs. Despite significant informal sector participation in the labor force, many countries struggle to integrate informal businesses into the tax system effectively, highlighting the need for accommodating policies within the tax framework (Ndlovu, 2022).

Why it matters for Africa

According to World Bank data, projections suggest that by 2035, the AfCFTA could yield a 7% increase in real income and bolster African exports by US$560 billion. However, UNCTAD estimates anticipate a loss of US$4.1 billion in tariff revenue for African countries. Modest assessments indicate potential GDP losses ranging from 0.03% to 0.22% (equivalent to approximately US$1 billion to US$7 billion) across the continent. Despite these short-term setbacks, the AfCFTA's long-term benefits, such as reduced trade costs and the stimulation of regional value chains, along with increased consumer choices, are expected to offset these losses. It is anticipated that the resulting GDP and consumption growth will have a positive impact on domestic tax revenues (ATAF, 2022).

The successful implementation of AfCFTA is crucial for Africa's economic future. It offers an opportunity to significantly increase intra-African trade, foster regional value chains, and enhance the continent's attractiveness to FDI. However, the diverse economic and regulatory landscapes across Africa pose challenges to harmonizing trade policies, rules of origin, and tariff schedules. Disparities in economic development levels among African nations further complicate the creation of a level playing field, with richer nations pushing for regulations that could potentially disadvantage less developed industrial sectors (UNCTAD, 2019; Kuwonu, 2021).

Moreover, the reluctance of some low-income countries to reduce tariffs due to concerns about revenue loss and import competition underscores the need for a balanced approach to trade liberalization that considers the fiscal implications for all member states (Tröster & Janechová, 2021). The requirement to harmonize national laws with AfCFTA agreements adds another layer of complexity to the integration process (African Union, 2020).

A challenge arises specifically concerning the legal authority of the secretariat's recommendations on member states' tax policies, potentially infringing on their sovereignty. Overcoming this hurdle may involve tax harmonization efforts among member states to support AfCFTA implementation. The secretariat, leading technical assistance efforts, is poised to play a vital role in developing harmonized taxation rules. This presents an opportunity to propose enforceable standards for effective tax administration, ensuring the successful implementation of domestic tax policies. Harmonizing tax policies holds significant potential in curbing tax competition and deterring harmful tax practices among countries seeking to attract FDI (Ndlovu, 2022).

Effective implementation of AfCFTA also requires robust institutional frameworks, adequate financial resources, and strategic policies to support member states through the transition. The integration process entails significant adjustment costs, impacting public finances, employment, and economic structures. Therefore, it is essential to address these challenges comprehensively to ensure the long-term success of AfCFTA and achieve the sustainable development goals outlined in Agenda 2063.

In conclusion, AfCFTA holds the promise of transforming Africa's economic landscape by promoting free trade and integration. However, realizing this vision requires overcoming substantial challenges, including regulatory alignment, capacity building, and managing adjustment costs. Addressing these issues effectively will be key to unlocking the full potential of AfCFTA for all African nations, paving the way for a more prosperous and integrated continent.

IV. Enhancing African Taxation Policies: Overview of the UN Tax Convention

The origin of the United Nations (UN) Tax Convention is a response to the growing need for a more inclusive and effective international tax system, particularly to address the concerns of developing countries that have historically been marginalized in the development of global tax norms. The movement towards creating a UN Tax Convention has been fueled by the acknowledgment that most multilateral tax agreements have been developed in forums lacking universal participation, where countries with the greatest needs often have no voice or participate without sufficient inclusivity. This has resulted in international tax norms that do not fully benefit the countries with the greatest needs, undermining the potential effectiveness of these norms over time.

In 2022, significant steps were taken towards rectifying this imbalance. EURODAD proposed a draft UN Convention on Tax, highlighting the necessity for reform. The African Conference of Ministers of Finance, recognizing the urgent need for an inclusive approach, adopted Declaration 990.LIV. Furthermore, the African Group at the UN advocated strongly for change, tabling UN Resolution 77/244[13] titled "Promoting Inclusive and Effective Tax Cooperation at the United Nations". This resolution called for intergovernmental discussions on strengthening international tax cooperation inclusivity and effectiveness, considering the development of an international tax cooperation framework or instrument through a UN intergovernmental process. The General Assembly's adoption of Resolution 77/244 in 2022 marked the beginning of these critical discussions.

Following up in 2023, the UN Secretary-General released report A/78/235, outlining three options for advancing international tax cooperation discussions. The African Group, demonstrating leadership and commitment to this cause, tabled Resolution A/C.2/78/L.18/Rev.1, advocating for the creation of a Framework Convention for International

[13] https://www.un.org/en/ga/77/resolutions.shtml

Tax Cooperation.[14] The Resolution, submitted by Nigeria, envisages the creation of an inclusive, intergovernmental committee to set the terms of reference by August 2024.

This move, supported by a majority of G77 countries and many Asian countries, represented a clear preference for a binding framework over non-binding approaches, like the one proposed by the UK, which was overwhelmingly rejected. The UK's attempt to shift the resolution towards a non-binding framework was seen as an effort to maintain the status quo, which has historically marginalized developing countries in international tax discussions. The rejection of the UK's amendment underscored the global South's demand for a more equitable international tax system that ensures fair distribution of taxing rights and incorporates the needs and capacities of all countries.

Why it matters for Africa

Within the framework of the UN resolution, international tax cooperation should strive to establish an equitable and effective global tax system for sustainable development, considering the concerns and capacities of all countries within the existing and future international tax framework. However, ensuring that African nations truly benefit from the resolution's implementation requires navigating potential challenges and pursuing measures that align with their development goals.

The UN Tax Convention presents both challenges and opportunities for Africa. Risks include potential loss of sovereignty, dominance of developed nations' interests, and information disparities. African countries must balance their interests against more powerful nations, address information gaps, and rectify power imbalances in international tax discussions. Supporting African capacity-building and addressing root causes of IFFs are crucial. To ensure African voices are heard, flexibility, respect for sovereignty, and tailored support are essential. Meaningful dialogue and transparency can lead to inclusive and effective tax cooperation tailored to Africa's needs.

In addition, with the initiation of the UN Tax Convention, crucial questions emerge such as: how can Africa enhance its influence in global standard-setting? How might the convention profoundly benefit the continent? Exploring these questions demands thoughtful analysis of key factors, especially for African nations to maximize their gains from this seminal initiative. They include, among others,

a. Considering that most OECD members opposed the measure, how could the UN ensure binding compliance with a potential tax multilateral convention?
b. With the Terms of Reference (TORs) for the Multilateral Convention still under development, it remains uncertain whether the UN will focus on issues already addressed by the Inclusive Framework (IF) or explore alternative matters.
c. If the TORs are ambitious, how will the UN allocate resources for this endeavor, given its limited tax Secretariat? Could regional tax organizations (RTOs) play a role?

[14] https://documents.un.org/doc/undoc/ltd/n23/356/75/pdf/n2335675.pdf?token=rmlN7sKYVfoywbnxfM&fe=true

d. A significant hurdle to achieving true inclusivity within the IF is the lack of capacity in developing countries to effectively engage in its work. How does the UN process plan to address this capacity gap?

For Africa to have a greater voice in global standard setting and for the UN tax convention to be truly beneficial, the process must be inclusive, address the specific needs and challenges of African countries, and be supported by adequate resources and capacity building. ACBF through the AFP-TCA could play a significant role in this space.

V. Conclusion

This assignment conducted an in-depth analysis of the current tax policy issues facing the African continent, aiming to guide the strategic initiatives of the AFP-TCA program. It delved into the continent's tax policy environment, and identifies significant tax policy challenges with the aim of isolating three primary obstacles commonly encountered by African countries. Utilizing a systematic methodology that includes comprehensive desk research of pertinent literature and interactive virtual workshops with key stakeholders, this effort seeks to distill the critical tax policy trends and challenges into three focal areas.

The examination of tax policy challenges across the African continent reveals a landscape fraught with complexities that hinder equitable economic growth and effective tax collection. The identified challenges—spanning the digital economy, the informal sector, corporate tax abuse, IFFs, natural resource taxation, and the AfCFTA—underscore the necessity for comprehensive, nuanced strategies tailored to the unique socio-economic and political contexts of African nations.

The taxation of the digital economy emerges as a significant untapped revenue source, requiring innovative tax approaches to capture profits generated within the continent. The digital transformation, especially accelerated by the COVID-19 pandemic, underscores the need for innovative tax policies that effectively capture digital activities' revenues without stifling growth. The informal sector, a significant component of African economies, offers a vast potential tax base yet remains largely untapped due to its complex nature. Effective taxation strategies must balance the need to increase revenue with the imperative of not overburdening small businesses or encouraging tax avoidance. Corporate tax evasion and IFFs drain critical resources from African countries, undermining efforts to achieve sustainable development and economic autonomy. Strengthening international cooperation and reforming national tax systems are essential to curtail these practices. Natural resource taxation and the implementation of AfCFTA are pivotal for fostering fiscal stability and regional economic integration but require careful navigation of regulatory, institutional, and fiscal challenges.
This research underscores the necessity for targeted interventions and policy reforms to address the key tax policy challenges confronting Africa. Tackling these issues is crucial for ensuring equitable growth, enhancing public service delivery, and achieving long-term sustainable development across the continent. ACBF, in collaboration with African states and international partners, is positioned to play a crucial role in this endeavor.

VI. Workshops Results

As mentioned above, two virtual workshops were organized to complement the desk review findings: one involving tax officials from tax administrations, tax training institutions, tax units within the Ministry of Finance, and representatives of related institutions; and another comprising representatives of regional and international organizations focusing on DRM issues in Africa, along with Finnish representatives. The objective was to enable experts to verify the findings, suggest additional challenges as necessary, and ultimately pinpoint the three most pivotal aspects of taxation policy of paramount importance to the continent. **The complete outcomes of both workshops are detailed in the annex**. The table below showcases all tax policy-related challenges identified by participants in both workshops, including the top three.

Table 1: **Tax policy-related challenges identified by participants in both workshops, including the top 3**

Answers		Win rate %
1	Bolstering operational capabilities and expediting the digital transformation of tax administrations in Africa	90
2	**Corporate tax abuse and illicit financial flows**	**79**
3	**Taxing the digital economy** based on its digital business models and services	**73**
4	Enhancing data infrastructure and analytical capacity for flexible, responsive, and informed tax policymaking	68
5	Challenge related to tax Expenditure (TE): harmful tax incentives, race to the bottom, revenue forgone, TE reporting, etc.	45
6	Wealth taxation (e.g. Property taxation) and taxation of High-Net-Worth-Individuals (HNWI)	39
7	**Taxing the informal sector**	**27**
8	**African Continental Free Trade Area (AfCFTA) and taxation**	**16**
9	Updating biased and outdated taxation	13

Bolded ones are the challenges from the initial report from the desktop research

The findings from the workshops **highlight the top three tax policy challenges** that are prevalent across the majority of African states as follows:

1. Bolstering operational capabilities and expediting the digital transformation of tax administrations in Africa
2. Corporate tax abuse and illicit financial flows
3. Taxing the digital economy based on its digital business models and services

The challenges highlighted in bold in table 1 are those identified in the desktop research, specifically challenges A.1. to A.5. The subsequent section delves into the additional challenge (number 1 in table 1), distinct from the initial five outlined in sections A.1. to A.5., which garnered more than a 50% vote from participants.

B.1. Enhancing operational capabilities of African tax administrations through digital transformation

Understanding the challenge

The digital transformation of tax administrations across Africa is set to significantly improve taxpayer services and revolutionize tax compliance and collection mechanisms. However, the transition faces substantial challenges due to disparities in technological readiness across countries, along with constraints related to knowledge, infrastructure, and financial resources (UNCTAD, 2019; Amutabi, 2023). Key hurdles include updating outdated systems, addressing the lack of digital skills among staff, and overcoming resistance to change (Becker , 2021; Duncan, 2020; World Bank, 2020). Duncan (2020) and Bentley (2020) highlight the necessity for comprehensive training programs to equip tax administration employees with both advanced digital competencies and specialized tax knowledge.

As aforementioned, the success of IT solutions in African tax administrations depends on overcoming several operational challenges such as staff resistance, power outages, system overloads, and inconsistent internet connectivity (Okunogbe & Santoro, 2023). Countries like Rwanda, Malawi, Sierra Leone, and Nigeria each face unique difficulties relating to infrastructure and system upgrades (Mascagni & Lees, The Economic Impact of the Pandemic in Rwanda: An Analysis of Firm-Level VAT Data, 2023). Additionally, employees in Ethiopia and Uganda have shown significant reluctance to adopt new technologies, preferring traditional manual processes (Mayega, Waiswa, Nabuyondo, & Nalukwago Isingoma, 2021; Mascagni, Mengistu, & Woldeyes, 2021).

To maximize the benefits of digital transformation, tax administrations must also undertake substantial changes in workplace culture and reorganize personnel structures. This includes new hiring practices, reassignments, and extensive retraining, coupled with adopting a data-driven approach and selecting IT solutions that align with the specific needs of tax authorities. Ensuring that procurement processes involve comprehensive staff consultation and include maintenance agreements for future software updates is crucial (Mascagni & Lees, 2023; Okunogbe & Santoro, 2023).

Why it matters for Africa

Digitalizing tax administrations is a crucial step towards enhancing transparency, efficiency, and resource mobilization in Africa. It can lead to improved voluntary compliance, expansion of the tax base, and reduced compliance costs for both taxpayers and the administration (African Union, 2020; Amutabi, 2023). Amutabi (2023) argues that enhancing operational capabilities is vital for leveraging automation effectively, which in turn ensures precision and efficiency in tax collection. This enhancement facilitates better data analysis for compliance and policy-making, and robust management of digital systems to secure them against threats.
Digital advancements enable tax administrations to offer readily accessible services and timely support, fostering a culture of compliance and trust among taxpayers. Technological innovations such as mandated electronic invoicing and payments, and real-time filing systems, can reduce administrative costs for revenue authorities and compliance costs for businesses, improve fraud detection, and increase control over data for tax authorities (Evans, Taghizadeh-Hesary, Hendriyetty, & Kim, 2022).

In that regard, digital technologies are transforming tax administrations across emerging market economies (EMEs) and low-income developing countries (LIDCs) by implementing e-invoicing and Electronic Fiscal Devices (EFDs). These innovations facilitate the management of VAT and Corporate Income Tax (CIT) by creating reliable paper trails and are essential in environments characterized by informal economies, slow digitalization, and nascent financial markets. The adoption of advanced digital tools, such as mobile apps, **artificial intelligence (AI),** and digital identities, is enhancing the efficiency of Revenue Administrations (RAs). These technologies allow for better data utilization, which is crucial for improving tax administration performance. Effective use of electronic filing and invoices can transform tax administration performance, provided there is access to **advanced analytical capabilities** including database management and machine learning. There is emerging evidence that EMEs and LIDCs are rapidly adopting technologies like **blockchain and digital identity systems**, potentially leapfrogging more developed economies in certain aspects of digital governance (Nose & Mengistu, 2023).

This is confirmed by Further Africa (2023), who argue that the integration of blockchain technology alongside data analytics and artificial intelligence (AI) holds transformative potential for tax administration across Africa. These digital advancements can significantly enhance the efficiency and accuracy of tax collection processes by improving data management and analytics capabilities. Specifically, AI applications can help tax authorities effectively combat tax evasion and predict fraudulent activities, thereby fostering a more robust and transparent economic framework.
In practical applications, several African countries are pioneering the use of mobile technologies to broaden their tax bases and enhance revenue collection. For example, Kenya and Nigeria have leveraged mobile platforms to facilitate access to agricultural markets and strengthen governmental commercial interactions, which in turn increases tax revenues. Similarly, Rwanda and Uganda have employed mobile government (m-Government) initiatives to improve healthcare and agricultural services, which indirectly supports tax compliance by enhancing data collection and service delivery. Tanzania has also adopted mobile technologies to disseminate agricultural data, which aids in expanding the tax net to include groups that have traditionally been challenging to tax. These examples underscore the critical role of innovative technologies in modernizing tax systems and ensuring efficient tax collection in African countries (Munyoka & Manzira, 2014).

Anomah et al. (2024) explore the integration of blockchain technology in tax systems, identifying its potential to improve the efficiency of online tax collections in Ghana. Despite the advantages, challenges persist, including issues with regulatory compliance, technological compatibility, and stakeholder engagement. These insights are crucial for countries with similar socio-economic contexts aiming to refine their internet tax policies.

In addition, Medynska and Noginova (2022) argue that the digitization of tax administrations should be integrated with broader e-government initiatives, which aim to enhance public services and ensure efficient collaboration through digital channels. They emphasize that adopting electronic taxation systems enables the automation of internal tax processes, the

establishment of electronic data exchanges between taxpayers and tax authorities, and the creation of effective online communication networks. This integration not only facilitates secure and rapid data transfers among government agencies but also bolsters international cooperation by aligning tax administration processes with global digital standards.

Overall, the need for digitizing tax administrations in Africa aligns with broader economic modernization and enhanced domestic resource mobilization. Digital technology holds vast potential to increase DRM, as evidenced by studies from Kenya, Ethiopia, Rwanda, Tanzania, and Zimbabwe, which have shown positive impacts of digitalization on tax revenue collection (Naibei & Siringi, 2011; Eissay, Zeitlinz, Karpex, & Murray, 2014; Muhammed, 2015; Wadesango, Chibanda, & Wadesango, 2020; Bate, 2021; Kenani, Masiya, & Njolomole, 2021).

In conclusion, while digital transformation presents numerous challenges, it is essential for the future of tax administration in Africa. The digital transformation of tax administrations is not just a technical upgrade but a fundamental shift in how tax systems operate and interact with taxpayers and the global community. Addressing this challenge effectively is crucial for enhancing governance and fostering a more robust economic environment. With strategic investments in technology and human capital, alongside necessary cultural and structural adjustments, African tax administrations can achieve greater efficiency, transparency, and effectiveness in tax collection, supporting sustainable development across the continent.

Boosting Tax Morale in Africa: The Role of Trust and Transparency in Effective Tax Policy Implementation

When tax morale is low, even well-designed tax policies may fail to achieve their intended outcomes because citizens are less likely to voluntarily meet their tax obligations.

Tax morale refers to the intrinsic motivation of citizens to pay taxes, which is fundamentally linked to their trust in government institutions and their perceptions of how effectively tax revenues are managed and utilized. When citizens perceive that public funds are mismanaged, or if corruption such as bribery is prevalent within governmental operations, their willingness to comply with tax obligations typically decreases. This lack of trust results in lower tax morale, which can lead to higher rates of tax evasion and reduced tax revenue collections.

This issue poses a considerable challenge for tax policy implementation because effective DRM relies not only on the adequacy of the tax system itself but also on the willingness of taxpayers to comply.

Addressing this challenge requires more than just reforming tax laws; it necessitates improving government transparency, accountability in public finance management, and the overall integrity of state institutions. Enhancing public confidence in these areas can boost tax morale, thereby improving DRM and supporting sustainable development through more reliable and increased tax revenue streams. This consideration should be integral to any discussions or reforms aimed at enhancing tax policy and administration in African contexts.

VII. Link with the AFP-TCA Programme

The section below proposes the overview of an approach to integrate the top three tax policy challenges into the training framework of the AFP-TCA programme, aimed at enhancing DRM through informed policymaking. Given the diverse audience of African tax officials and government representatives and the disparities in their levels of readiness, the training modules designed for the AFP-TCA programme need to be adaptable, scalable, and reflective of the varied training baselines and technological infrastructures across the continent.

Example of a training module development based on key tax policy challenges

A. Enhancing operational capabilities of African tax administrations through digital transformation

- **Objective of the module:** This module aims to equip tax administrations with the necessary tools and knowledge to upgrade digital infrastructure and operational effectiveness, ensuring improved efficiency and adaptability in tax collection processes.
- **Training content:**
  - *Introduction to digital transformation*: Introduce basic concepts related to the fundamentals of digital transformation, offer comprehensive insights into the benefits and challenges of digital transformation specific to tax administrations, showcasing global best practices and case studies.
  - *Technical skills development*: Provide hands-on workshops on emerging technologies such as blockchain and artificial intelligence, focusing on their practical applications in enhancing tax compliance and administration.
  - *Change management courses:* Deliver training on effective change management strategies when transitioning from traditional to digital systems, including leadership in change management, to minimize resistance, enhance adaptability, and foster a culture of innovation within tax administrations.
  - *Interactive simulations*: Utilize simulations, interactive scenarios, and role-playing exercises to allow participants to practice decision-making in a controlled, risk-free environment to better prepare them for real-world challenges during the digital transformation journey.
  - *Peer to peer events on TA digital transformation.*
- **Significance for Africa:** Digitally empowered tax administrations can handle increasingly complex tax environments more effectively, harness technology for better compliance, and service delivery, and significantly boost domestic revenue mobilization.

B. Combating corporate tax abuse and illicit financial flows

- **Objective of the module:** This module focuses on strategies to identify, counteract, and prevent corporate tax evasion and illicit financial flows that significantly reduce fiscal capacity in African economies.

- **Training content:**
    - *Understanding BEPS mechanisms:* Detailed explanations of Base Erosion and Profit Shifting (BEPS) tactics, their mechanisms, and global initiatives to counter such strategies.
    - *Legal frameworks and compliance training:* Sessions on international tax laws, treaties, and regulations that govern corporate tax obligations and compliance requirements, and the implementation of anti-abuse measures to safeguard against tax evasion.
    - *Specialized auditing techniques*: Specialized training in forensic accounting and auditing to equip officials with the skills necessary to trace illicit flows and audit complex corporate structures effectively.
    - *Policy development workshops*: Facilitate collaborative sessions for the design of robust tax policies that effectively close loopholes and enhance enforcement mechanisms.
- **Significance for Africa:** Strengthening capacity to combat tax abuse and illicit flows is essential to ensure equitable tax collection, maintain fiscal independence, and fund essential public services and development initiatives.

C. Adapting tax systems for the digital economy

- **Objective of the module**: This module aims to prepare tax officials to effectively tax digital business models and services that currently escape traditional tax systems.
- **Training content**:
    - *Economics of digital services*: Understand the scope, scale, and mechanics of digital businesses; educate participants on the economic impact of digital services and how value is created and transferred within digital business models.
    - *Frameworks for digital taxation*: Explore various global digital taxation models and their applicability to African contexts, including discussions on VAT applications and direct taxation of digital services.
    - *Case study analysis*: Use real-world scenarios and simulations to apply concepts of digital taxation, examining both successes and challenges faced by other regions.
    - *Policy development sessions:* Engage participants in designing adaptable and forward-thinking tax policies that capture revenue from digital economies while fostering technological innovation.
- **Significance for Africa**: With the rapid expansion of the digital economy, proper taxation of the digital economy is crucial to capture new revenue streams, reduce fiscal leakages, and ensure that the benefits of digital expansion contribute to equitable economic growth.

Implementation strategies

- Customized learning approaches: Design the modules to accommodate different levels of existing knowledge, using blended learning that combines in-person workshops with digital courses to reach a broader audience.

- Focus on under-resourced regions or countries: prioritize training initiatives specifically in regions or countries with lower technological and administrative readiness, providing more intensive, hands-on sessions that address specific local challenges.
- Ongoing evaluation and adaptation: Implement a robust mechanism for continuous feedback and evaluation to adapt training content as tax environments evolve and new challenges arise.
- Policy dialogues /webinars on these topics with experts and seniors level tax administrators.

Conclusion

By systematically addressing these critical tax policy challenges through targeted training initiatives, the AFP-TCA programme can significantly enhance the taxation capacity across African countries. This proposed structured training approach will build a robust knowledge base and equip tax officials with advanced skills, fostering effective and sustainable domestic resource mobilization efforts aligned with Africa's developmental goals.

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Annex

Table 2: Number of Workshop's participants

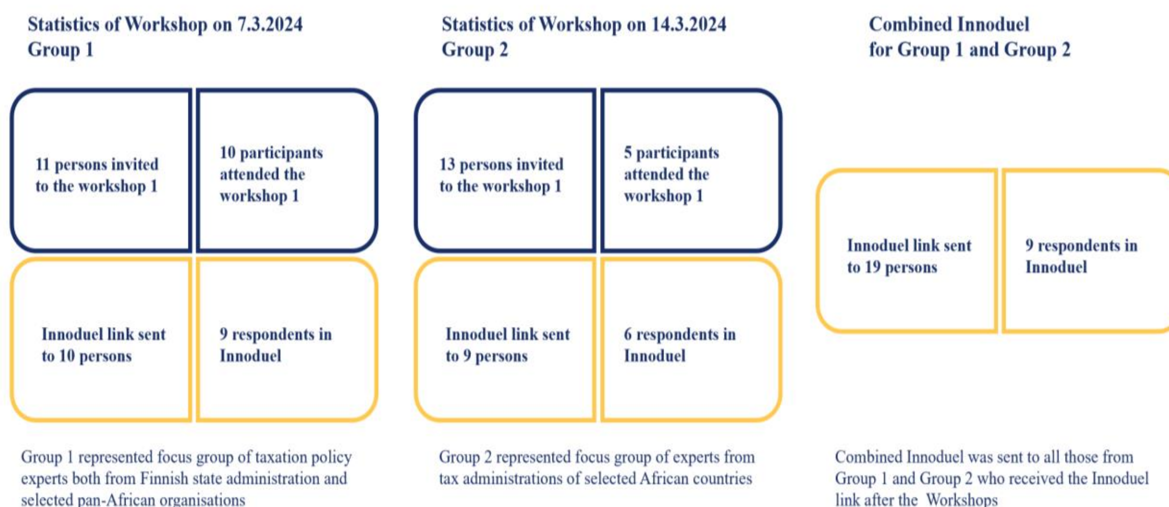

Table 3: Tax policy-related challenges identified by Workshop 1 participants

Answers		Win rate %
1	**Taxing the digital economy based on its digital business models and services**	**73**
2	Wealth taxation (e.g.) Property taxation) and taxation of High-Net-Worth-Individuals (HNWI)	71
3	Challenge related to tax Expenditure (TE): harmful tax incentives, race to the bottom, revenue forgone, TE reporting, etc.	67
4	**African Continental Free Trade Area (AfCFTA) and taxation**	**67**
5	**Taxing the informal sector**	**64**
6	Updating biased and outdated tax legislation	53
7	**Corporate tax abuse and illicit financial flows**	**50**
8	Tax policy challenges related to tax treaty abuse, including Dividend Distribution Taxes (DDTs)	44
9	Impact of Public Financial Management (PFM), governance principles on tax systems	42
10	**Taxing natural resources**	**38**
11	Tax and climate change (environmental and green taxation)	29
12	Tax and gender inequality	27
13	National debt and fiscal sustainability	8

Bolded ones are the challenges from the initial report from the desktop research

Table 4: Tax policy-related challenges identified by Workshop 2 participants

Answers		Win rate %
1	Enhancing data infrastructure and analytical capacity for flexible, responsive, and informed tax policymaking	75
2	Bolstering operational capabilities and expediting the digital transformation of tax administrations in Africa	71
3	**Taxing the digital economy**	**67**
4	**African Continental Free Trade Area (AfCFTA) and taxation**	**67**
5	**Taxing the informal sector**	**64**
6	**Corporate tax abuse and illicit financial flows**	**46**
7	Optimizing inter-agency cooperation to improve the efficacy and efficiency of tax policy	35
8	**Taxing natural resources**	**20**
9	Public Financial Management (PFM) Accountability and Taxation	12

Bolded ones are the challenges from the initial report from the desktop research