

Wilton Park Conference
April 2010

Capacities, Reforms, and Taxation
– Strengthening Countries' Public Finance Systems –

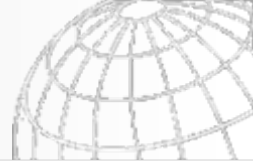
Perspective of an implementing agency

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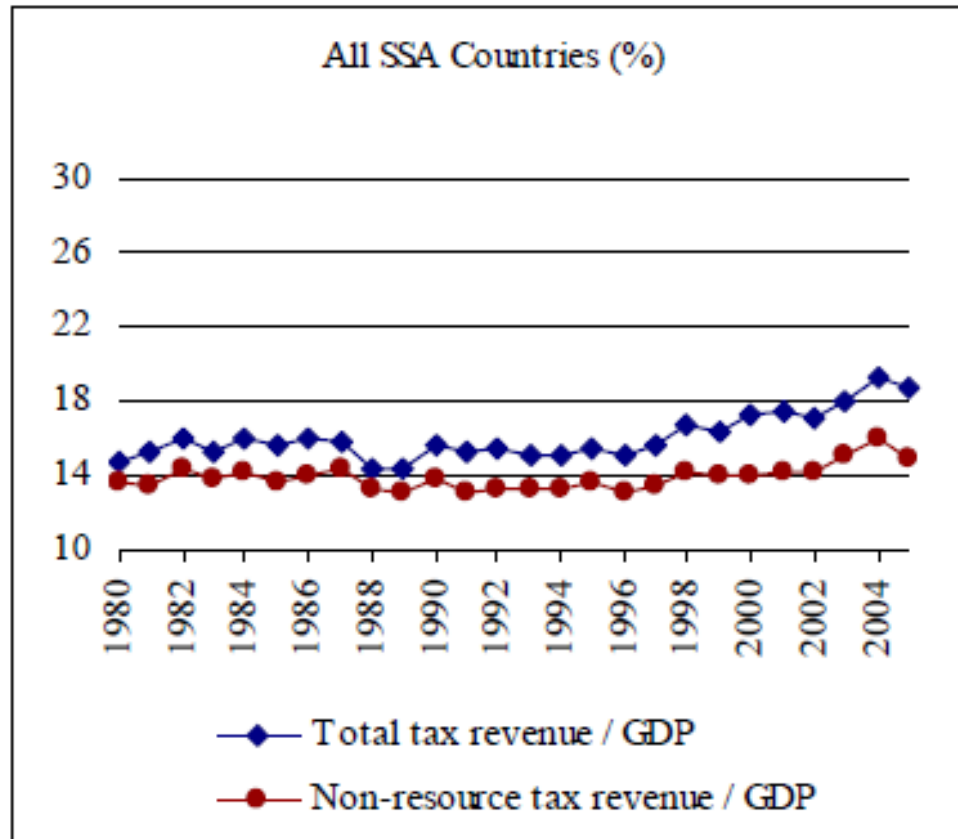


Content:

- I. Reforms of Tax Administration and Tax Policy in SSA:
Status and Challenges**
- II. Strengthening Reform Processes:
Capacity development and beyond**
- III. Challenges Ahead**

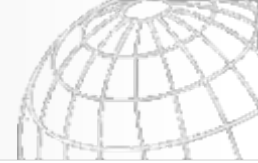


One side of the coin: Fiscal Outcomes of Tax Reforms in SSA

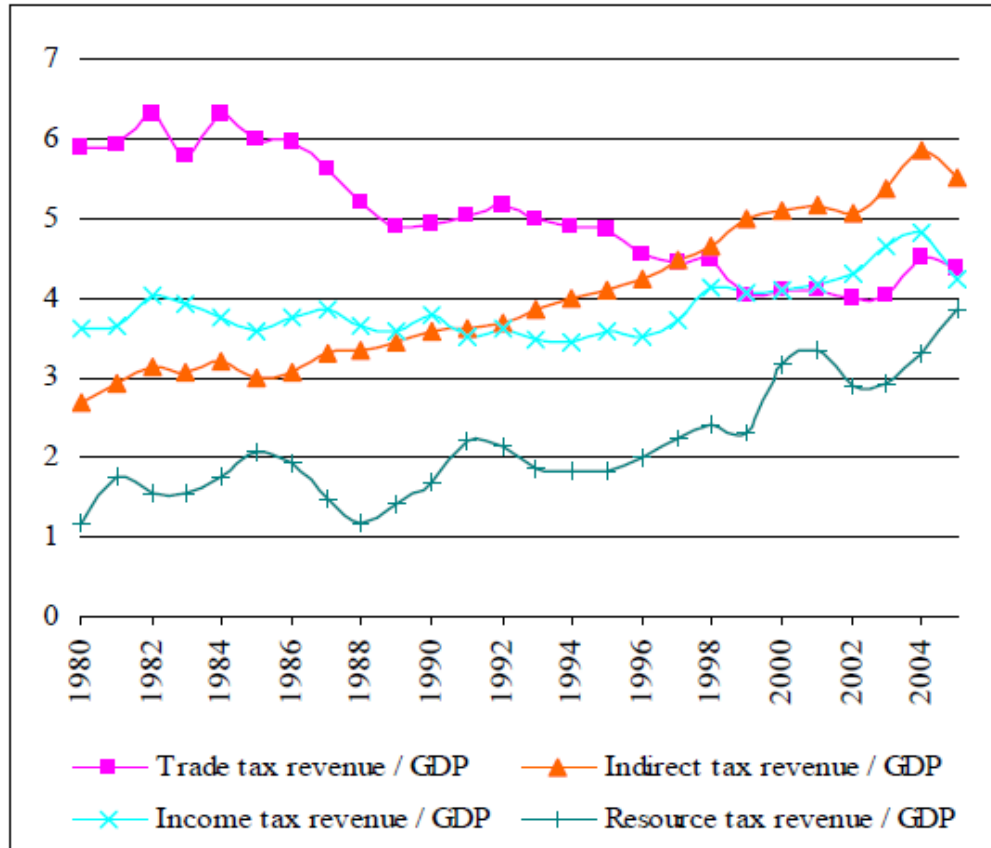


Tax Revenue Trends in SSA, 1980-2005;
(Simple Averages)

Data: IMF, 2009



Fiscal Outcomes of Tax Reforms in SSA



Composition of the Tax/ GDP Ratio in SSA, 1980-2005;
(Simple Averages)

Data: IMF, 2009



The other side: Success stories in Governance of Taxation

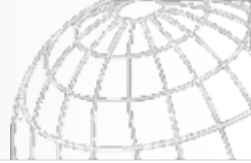
-> Three focal areas for tax reforms in the 1990s

1.) Introduction of VAT

- Attempt to replace import duties
- Successful revenue generation: Increase in indirect tax revenues equals on average twice the loss in trade tax revenue

2.) Establishment of Autonomous Revenue Authorities

3.) Establishment of Large Taxpayer Units



Focus on Reform Processes: Capacities, institutions, and beyond

Capacity development and focus on sustainability

- **Systemic, holistic and process-oriented approach**
- **Value-orientation and respect of tax culture**
- **Direct donor government involvement allows for long-term engagement and demand-driven activities**

Extensive experience and expertise in tax matters

- **Multi-level approach**
- **Close cooperation with tax experts and integration in national and international networks**
- **Integration of key internal stakeholders in partner countries**



Modernization of the Tanzanian Revenue Authority (1998-2007)

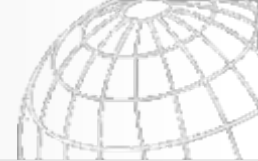


Overall Goal: Modern, efficient and transparent revenue authority

- Improved organizational structure of TRA
- Improved taxpayer services and user-friendliness

Technical Cooperation: “How to?”

- TRA's ownership was basis for success
- Discussion of reform steps with stakeholders in TRA, supported by communication strategy
- Long-term, flexible and demand-driven capacity development approach



Modernization of the Tanzanian Revenue Authority (1998-2007)



Successes after 2007:

- **ITAX covers 95% of tax revenues on national level**
- **Better tax estimates for budget planning**
- **Enhanced internal efficiency and effectiveness due to automation**
- **More fair, transparent and equal taxation process**
- **Reduced space for tax evasion and corruption**
- **Improved taxpayers' awareness of their rights and duties**

• **Instrumental changes**
• **Impact on good governance**



Ghana: Revenue Mobilization Support and Good Financial Governance (2003-2015)



Overall goal: Strengthening the Public Finance System

- **Organizational reform (Tax Policy Unit)**
- **Taxpayer orientation and user-friendliness**

Technical Cooperation: “How to?”

- **Multi-angle approach (Revenues, Budget/ Spending and democratic control)**
- **Program-based approach as contribution to MDBS**
- **Flexible and engaged advisory services and political dialogue (IT, Human Resource Development)**
- **GTZ as hinge between donors and the partner**



Ghana: Revenue Mobilization Support and Good Financial Governance (2003-2015)



Achievements

- Reduction of collection costs
- Improvements in organizational processes and transparency
- Increase in the number of taxpayers
- Improvement of overall taxpayer confidence

Challenges for GTZ

- How to work with CBOs?
- Mobilizing expertise to incite Ghanaian reforms towards:
 - Widened tax net (self-employment, rents, property)
 - Transparency in extractive industries
 - Internal accountability
 - Sound budgeting process and fiscal planning



Challenges for Revenue Authorities and Treasuries: Tackling the Impacts of the Global Economic Crisis

- Reduce the dependency of public revenues on border taxes, resource revenues and aid flows
 - Decrease risk exposure to prevent short-term spending constraints during crisis
 - Increase long-term debt management
- Capacity to carry out poverty reduction programs is reduced in the short and long run
- Crisis resilience requires focus on taxes from domestic production and non-tradables



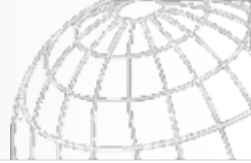
Medium and Long Term Challenges for Tax Policy and Administration in SSA

- **Broaden the PIT- and CIT- base**
 - **Taxation of small and medium size enterprises**
 - **Widened coverage of untaxed income sources**
- **Improve tax justice (equal treatment of tax cases, just spending)**
- **Enhance transparency in natural resource sectors**
- **Reduce regional tax competition**



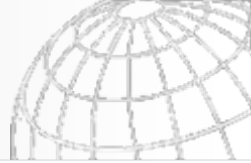
Issues for further Engagement

- **Taxation under conditions of fragility**
- **Fostering civil society's demand for governance**
- **Regional integration**
- **Broadening the scope: taxation of SME, individuals**
- **E-government**
- **Taxing the informal sector**



Lessons for the Engagement of Development Partners

- Mobilizing domestic revenue remains one of the main challenges in SSA countries
- Not only “*How much?*” but also “*How?*” important in collecting and administering state revenue
- Inclusion of all relevant stakeholders during design and implementation of reforms
- Broad approach to ensure poverty-orientated use of public resources
- Long-term donor engagement in capacity development to improve partner countries’ structures



Thank you very much!

Please visit our website:

www.gtz.de/public-finance