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MOBILIZING DOMESTIC REVENUE FOR SUSTAINABLE DEVELOPMENT IN AFRICA

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ABSTRACT: *Taxation provides governments with the funds needed to invest in development including in relieving poverty and deliver public goods and services. It offers an antidote to aid dependence in developing countries and provides fiscal reliance and sustainability that is needed to promote growth. Domestic resource mobilization fulfils two key objectives sought by developing countries: predictable and sustainable financing on the one hand and a reduction in long-term dependence on aid on the other. Tax resources allow a state to finance itself without resorting to printing money or foreign indebtedness. They, therefore, hold the key to economic stability; enabling investment in infrastructure, proactive social policies, and the accumulation of savings. Taxation is integral to strengthening the effective functioning of the state and to the social contract between governments and citizens. By encouraging dialogue between states and their citizens, the taxation process is central to more effective and accountable states. In the short run, strategies towards more effective, efficient and fair taxation in Africa typically lie with deepening the tax base in administratively feasible ways. Policy options include removing tax preferences, dealing with abuses of transfer pricing techniques by multinational enterprises and taxing extractive industries more fairly and more transparently. The paper highlights the challenges of Africa mobilizing domestic revenue for sustainable development, review some relevant literature and make some suggestions such as well-designed tax system to consolidate stable institutions, increase revenues, refocus government spending on public priorities and improve democratic accountability.*

KEYWORDS: Mobilizing, Tax Revenue, Sustainable Development.

INTRODUCTION

Developing countries have determined that they must build capacity to achieve sustainable growth in their infrastructure, combat corruption, and attract foreign direct investments (FDI) and develop transparent financial systems. Taxation is central to achieving these interrelated objectives. Taxation provides governments with the funds needed to invest in development and in the longer term, offers an antidote to aid dependence in the poorest countries and a predictable fiscal environment to promote growth. Developing countries also recognize the need to work globally to retain their already scarce resources as an integral part of international efforts to combat illicit financial flows, and especially offshore tax evasion.

The rationale of a greater focus on domestic revenue mobilization (DRM) thus springs from the quest for sustainable growth and poverty reduction, and the need to create “policy space” to accommodate genuine domestic ownership and country diversity. There is also a political economy rationale for advocating for greater DRM. This relates to issues of governance and accountability. Countries that are heavily dependent on external resources may become more beholden to suppliers of those resources than accountable to their own citizens. Budgets that are largely financed by oil (or natural resource) revenues or by aid donors may reflect oil companies' or donors' priorities rather than the needs of the population. This can be true even with democratically elected governments.

A comprehensive fiscal policy encompasses the concepts of tax policy and public expenditure policy. It requires a strong tax administration and a specific regulatory and disciplinary framework. Such a fiscal policy is fundamental to the fulfillment of a government's responsibilities in the fight against poverty. It is also essential for the achievement of a fairer distribution of a nation's wealth. In fact, it is one of the primary tools available to governments to reduce the socio-economic inequality that ultimately affects growth and overall productivity. Indeed, taxation shapes the environment in which international trade and investment take place. Certainty and consistency of tax treatment, the avoidance of double taxation, and efficient tax administration are all important considerations for businesses. But the role of taxation goes further than promoting economic growth. Tax evasion and the siphoning of funds to tax havens deprive African countries of the fiscal benefits of growth. The development of effective tax responses to counter these challenges is also central to Africa's development agenda.

Africa is taking a growing role in the world, its population is increasing fast (2.20% in Ghana, 2.44% in Kenya, 2.55% in Nigeria, 2.85% in Tanzania, 3.30% in Uganda and 4.36% in Zimbabwe according to Central Intelligence Agency, 2012) and so too is its need for finance to build for the future and reduce the gap between its infrastructure and the rest of the world. In sub-Saharan Africa alone, 3.8 million teachers would have to be recruited within five years (2010-14) to achieve universal primary education (UNESCO, 2009). No economy can afford to fund such development needs primarily from external sources without mobilizing resources locally, be they public or private. Indeed, in 2002, the United Nations' Monterrey Consensus on Financing for Development acknowledged that external financial resources would not be enough to meet the MDGs, and that it was necessary to develop new strategies by mobilising domestic resources. Africa is no exception. The global economic crisis of 2008 has shown how uncertain external flows are for African governments whose revenues have been badly affected. Development success stories go hand in hand with better mobilisation of a country's own resources and less dependence on aid and other foreign finance.

The global economic troubles of 2008 have also stimulated the international dialogue on taxation, in which Africa is increasingly claiming its stake. Confronted by budget deficits, governments are seeking to maximise fiscal revenues by strengthening campaigns against evasion and fraud. The Group of 20 nations has made it a priority to enforce internationally agreed standards against tax havens. The Organisation for Economic Co-operation and Development (OECD) countries is actively seeking to engage others in this dialogue, to build support for wider, more binding multilateral co-operation. Donor countries are stepping up financial and technical support to tax administrations in developing countries (Fjeldstad, 2013). This changing context gives African countries new opportunities to improve tax collection for development.

This paper buttresses the fact that financial resources are important for development in Africa, because without adequate financial resources it will be difficult for African governments to implement important economic and social policies and undertake critical infrastructure investments as well as social spending necessary to attain the Millennium Development Goals (MDGs), the objectives of the New Partnership for Africa's Development (NEPAD) and, indeed, sustainable development. It points out the vulnerability of nations to external shocks as well as demonstrates the volatility and uncertainty that surround external sources of development finance, including export revenues, Foreign Direct Investment (FDI), Official Development Assistance (ODA) and remittances. The necessity to explore ways of improving domestic resource mobilization is established because domestic tax revenues are an essential source of financing for development in addition to the fact that an effective tax system leads to greater ownership of the development process (Nnadozie, 2010).

There is also a political economy rationale for advocating greater DRM. This relates to issues of governance and accountability. Such political economy arguments provide additional cogent reasons for arguing that greater emphasis on DRM is warranted on a number of grounds. By a greater emphasis on DRM it is not implied that external resources for development ought to be spurned. Rather, it is suggested that there are a number of disadvantages associated with external resources that are not shared by domestic resources and are often overlooked or downplayed in the policy discourse. For example, aid receipts, export earnings and FDI inflows all exhibit considerable volatility and uncertainty. Aid is often associated with intrusive conditionality and sometimes with other negative economic impacts, such as Dutch disease (currency appreciation and reduced export earnings). FDI primarily serves the needs of investors (natural resource extraction) rather than the development priorities of the recipient country such as employment- and income-creating investment in agriculture and manufacturing.

MAIN CHALLENGES IN MOBILIZING DOMESTIC RESOURCES IN SUB-SAHARAN AFRICA

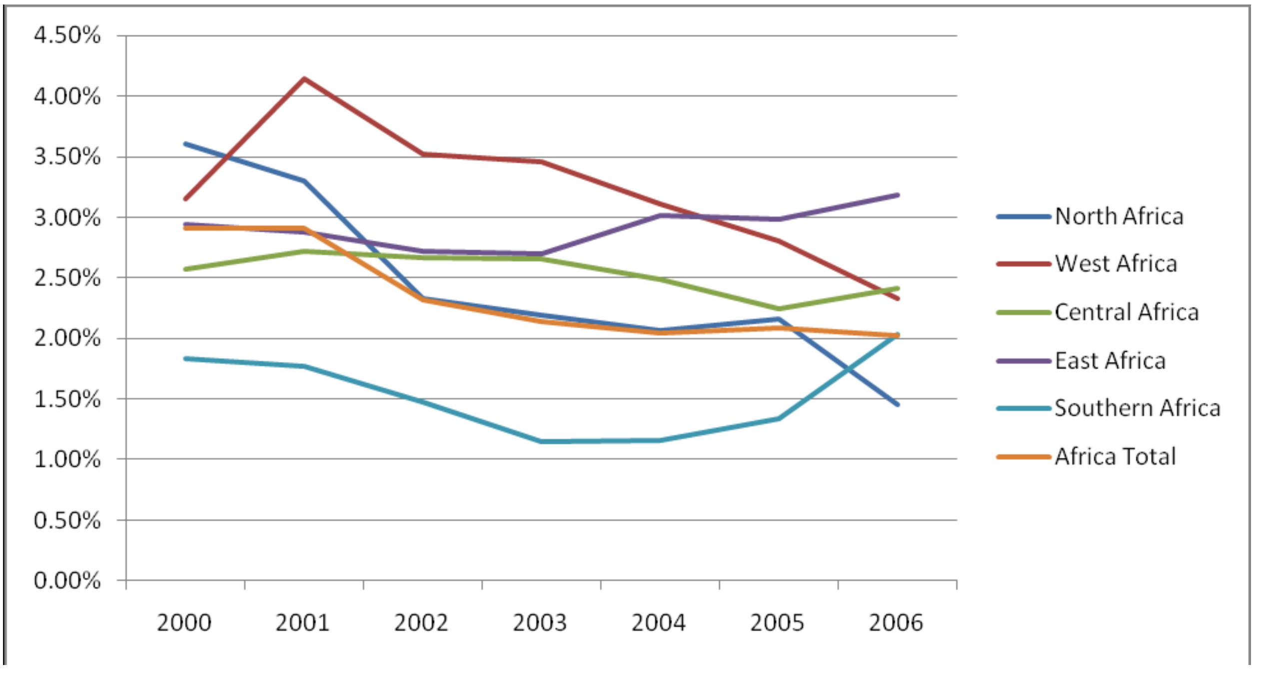
In Sub-Saharan Africa (SSA), improving taxation to meet developmental needs is one of the main challenges facing the region (Gupta & Tareq, 2008). The average tax-to-GDP ratio in Sub-Saharan Africa has increased from less than 15% of GDP in 1980 to more than 18% in 2005. But virtually the entire increase in tax revenue in the region came from natural-resource taxes, such as income from production sharing agreements, royalties and corporate income tax on oil and mining companies. Non-resource-related revenues increased by less than 1% of GDP over 25 years. Even in resource-rich countries, non-resource-related revenue has essentially been stagnant (Keen & Mansour, 2008).

a) Trade liberalization

Many African countries rely on tariffs from international trade as an important share of government revenue. While opening up trade is expected to bolster long-term economic growth, countries participating in trade negotiations, such as the Doha Round and the Economic Partnership Agreements (EPAs), are required to cut their tariffs and are thus likely to collect less revenue. Today, in some African countries, up to 30% of non-resource tax revenue (4% of GDP) is raised through tariffs and trade related taxes (Baunsgaard & Keen, 2010).
Figure 1 below illustrates, trends of decreases in revenues from trade is much less significant, as intra-regional trade only amounts to 10% of Africa's taxes could be indicative of such trade liberalization effects. This obviously presents a major challenge to maintaining current revenue bases, let alone increasing them. Alternative revenue sources need to be available before tariffs

are phased out. This is especially true for Africa in the context of the EPAs with the European Union, as exchanges with the latter traditionally represent roughly two-thirds of African external trade (Baunsgaard & Keen, 2010).

Figure 1: Trade tax in Africa as % of GDP



Source: OECD Development Centre (2009)

b) Transfer Pricing and Illicit Capital Flight: Another important concern for many countries, developed and less developed, is the extent to which international financial liberalization has facilitated capital flight to onshore and offshore financial centres. Tax Justice Network has estimated that capital flight from all countries, including funds undeclared in the country of residence, is approximately US$11.5 trillion (Spencer, 2006; Christensen 2009). Annual global income from such sources is conservatively estimated at US$860 billion, and the annual world-wide tax revenue lost is approximately US$255 billion, which equals the funds estimated to meet the UN Millennium Development Goals (Christensen 2009).

Africa's cumulated stock of capital flight for 1970–2004 has been estimated at USD 607 billion, representing almost three times the continent's external debt. The extent of the problem varies from country to country (UNCTAD 2009; Ndikumana and Boyce 2008). Employing a different method from Ndikumana and Boyce (2008), Kar and Cartwright-Smith (2010) arrive at a figure of USD 854 billion for the period 1970–2008. Illicit capital flight can be reasonably estimated to be twice the level of aid flows.

It is hard to see how effective investment in productive capacity can take place as long as such vast amounts are being squandered by the region's elites. In many countries, particularly in Sub-Saharan Africa and Latin America, illicit capital flight has been accompanied by increases in foreign borrowing which means , increased indebtedness has been used not to finance investment or even consumption, but to finance capital flight itself (Boyce & Ndikumana, 2003). The resulting debt burdens are most likely to hurt the poor, as social spending and infrastructural spending needs to be cut in the face of debt repayments.

Estimates presented in Table 1 below show that over the 39-year period Africa lost an astonishing US$854 billion in cumulative capital flight—enough to not only wipe out the region's total external debt outstanding of around US$250 billion (at end of December, 2008) but potentially leave US$600 billion for poverty alleviation and economic growth. Instead, cumulative illicit flows from the continent increased from about US$57 billion in the decade of the 1970s to US$437 billion over the nine years 2000-2008 (GFI, 2012).

While the overwhelming bulk of this loss in capital through illicit channels over the period 1970-2008 was from Sub-Saharan African countries, there are significant disparities in the regional pattern of illicit flows. For example, capital flight from West and Central Africa, by far the dominant driver of illicit flows from the Sub-Saharan region, On average, fuel exporters including Nigeria lost capital at the rate of nearly $10 billion per year, far outstripping the $2.5 billion dollars lost by non-fuel primary commodity exporters per year. Annual average rates of illicit outflows from Sub-Saharan Africa registered a sharp increase in the 9-year period 2000-2008 relative to the earlier decades. Table 1 also shows that real illicit flows from Africa grew at an average rate of 12.1 percent per annum over the 39-year period. The rates of outflow in illicit capital for West and Central Africa (14.5 percent) as well as fuel-exporters (21.8 percent) over the entire period 1970-2008 reflect substantial outflows from Nigeria and Sudan.

Table 1. Africa: Illicit Financial Flows, 1970-2008
(in millions of U.S. Dollars)

Group	**Total IFFs**				
	1970s	1980s	1990s	2000-2008	1970-2008
Africa	**57,291**	**203,859**	**155,740**	**437,171**	**854,061**
North Africa	19,161	72,020	59,813	78,742	229,737
Sub-Saharan	38,130	131,839	95,927	358,429	624,324
Horn of Africa	2,354	14,131	5,108	15,603	37,197
Great Lakes	6,925	16,079	4,978	10,285	38,267
Southern	5,894	20,581	31,447	116,828	174,751
West and Central	22,956	81,047	54,394	215,712	374,109
Fuel-exporters	20,105	67,685	48,157	218,970	354,917
Nonfuel-exporters	7,867	26,517	22,375	23,342	80,102
Group	**Average IFFs**				
	1970s	1980s	1990s	2000-2008	1970-2008
Africa	**7,299**	**21,678**	**17,813**	**50,328**	**29,021**
North Africa	3,097	7,754	6,316	9,166	6,866
Sub-Saharan	4,202	13,924	11,497	41,162	22,156
Horn of Africa	249	1,421	715	1,949	1,183
Great Lakes	745	1,778	580	1,286	1,142
Southern	811	2,412	4,659	13,388	9,635
West and Central	2,397	8,313	5,544	24,538	10,196
Fuel-exporters	2,239	6,922	5,105	24,806	9,878
Nonfuel-exporters	1,017	2,729	2,433	2,787	2,502

Group	**Rates of Change (real 2008 CPI deflated)**				
	1975-1979	1980s	1990s	2000-2008	1970-2008
Africa	**18.9**	**-2.1**	**-4.8**	**24.6**	**12.1**
North Africa	14.0	-11.5	0.5	6.0	6.5
Sub-Saharan	n.a	1.3	-7.0	30.1	15.1
Horn of Africa	n.a	7.3	-15.5	33.5	20.0
Great Lakes	13.2	-12.7	-17.7	35.0	13.5
Southern	n.a	13.5	7.3	21.5	16.7
West and Central	21.5	0.0	-11.4	36.0	14.5
Fuel-exporters	n.a	2.2	-15.6	42.6	21.8
Nonfuel-exporters	n.a	11.3	-1.6	11.0	13.6

Source: GFI (2012)

c) Personal Income Tax

Currently personal income taxes (PIT) have very limited distributional effects and their potential to support the creation of an accountability relationship between taxpayers and the government is not used. The expansion of the tax base of the personal income tax is one of the key challenges of tax reform in all developing countries. Personal income taxes have been introduced in some developing countries, but play only a marginal role due to political and administrative difficulties in broadening the income tax net and a high level of tax evasion. As a consequence, while personal income taxes yield about 7.2% of GDP in developed countries (but are paid by around 45% of the adult population), the corresponding figure for developing countries is only 1.9% of GDP (but are paid by less than 5% of the population) (Bird, & Zolt 2005).

Table 2 shows that, for those countries where data are available, PIT yields less or not more revenue than the company income tax (CIT). Especially in Burkina Faso, revenues from the PIT are virtually zero. Revenues from the CIT range from below 2% of GDP (Zambia) to over 6% (South Africa). Kenya and Namibia raise around 4% of GDP in CIT revenues (although in those countries tourism and FDI and the mining sector, respectively, may contribute to high collections). VATs are clearly the most important single tax instrument, with revenues ranging from around 4% of GDP (Botswana, Uganda) to about 6% (Mali, South Africa). Various excises are also still important, typically raising close to 20% of tax revenues.

Table 2.1: Overview of tax revenue and the tax mix in selected countries for 2006

	Total tax % of GDP	Income tax% of GDPT	Tax mix (IT/(IT+CT))	Tax mix (IT/IT+CT+trade))	Consumption tax % of GDP	Trade tax % of GDP	Trade taxes / total taxes
Angola	6.3	2.4	61.5%	45.3%	1.5	1.4	22.2%
Botswana	16.4	5.4					
Burkina Faso	11.8	2.9	32.2%	25.6%	6.1	2.3	19.5%
Ghana	19.6	5.5	37.9%	28.7%	9.0	4.6	23.4%
Kenya	16.6	7.1	46.4%	42.7%	8.2	1.3	7.8%
Malawi	21.7	9.1	48.1%	42.1%	9.8	2.7	12.4%
Mali	14.9	2.7	27.0%	22.1%	7.3	2.2	14.7%
Mozambique	12.1	3.3	33.0%	28.2%	6.7	1.7	14.0%
Namibia	30.1	11.4					
Nigeria	5.0	2.5	52.0%	42.3%	2.3	1.1	22.0%
Senegal	19.2	4.6	29.3%	29.3%	11.1		
South Africa	25.6	14.1	60.3%	57.6%	9.3	1.1	4.3%
Tanzania	12.9	3.7	34.6%	30.8%	7.0	1.3	10.1%
Uganda	12.2	3.8	34.2%	31.1%	7.3	1.1	9.0%
Zambia	19.0	8.2	48.5%	43.4%	8.7	2.0	10.5%

Note: For Botswana, and Namibia no split between trade taxes and domestic consumption taxes is available.

Source: Adapted from Volkerink (2008)

Table 2.2: Selected fiscal indicators

country	year	Total tax revenue	Other revenue	Of which oil	income	CIT	PIT	Consumption	VAT	Excise	Trade	Other	Notes / sources
Angola	2004	7.7	29.3	28.4	2.6			2.2			2.0	0.9	
	2005	7.2	33.2	32.3	2.4			2.1			1.8	0.9	
	2006	6.3	38.2	37.2	2.4			1.5			1.4	1.0	IMF, national authorities
Botswana	2004	14.3	19.6	19.5	5.0				3.8		5.4	0.1	Data relate to fiscal
	2005	15.9	18.6	18.4	4.4				4.5		6.8	0.2	years;
	2006	16.4	20.4	20.2	5.4				3.6		7.2	0.2	IMF, national authorities
Burkina Faso	2004	11.4	1		2.7			6.6			2.1		
	2005	11.1	1		2.7			6.3			2.1		
	2006	11.8	1		2.9	2.7	0.2	6.1	4.4	1.7	2.3	.5	IMF, national authorities
Ghana	2004	21.7	2.1		6.6			10.3			4.8		
	2005	20.7	1.2		6.1	3.2	2.9	9.7	5.1	4.6	4.2	0.7	
	2006	19.6	1.2		5.4	2.5	2.9	9.0	5.0	4.0	4.6	0.6	IMF, national authorities

Kenya	2004	16.6	4.4		6.4			8.4	5.1	3.3	1.8		Data relate to fiscal
	2005	17.8	3.4		7.3			8.8	5.6	3.2	1.7		years;
	2006	16.6	3.7		7.0	4.0	3.0	8.3	5.0	3.3	1.3		IMF, national authorities
Malawi	2004	19.5	3.1										Data relate to fiscal
	2005	22.0	3.1										years;
	2006	21.7	2.7		9.1			9.8			2.7	0.1	IMF, national authorities
Mali	2004												
	2005	14.6			2.8			7.1	5.9	1.2	2.3	2.4	
	2006	14.9			2.7			7.3	6.5	0.8	2.2	2.7	IMF, national authorities
Mozambique	2004	11.8	0.9		2.7			7.1			1.7	0.3	
	2005	11.7	1.8		2.8			6.9			1.8	0.2	
	2006	12.1	1.9		3.3			6.7			1.7	0.4	IMF, national authorities
Namibia	2004	24.9	3.1		10.2	3.5	6.7		5.1		9.2	0.4	IMF, national authorities
	2005	30.7	2.6		10.5	3.3	7.2		5.0		11.4	1.2	
	2006	30.1			11.4	4	7.4		7.9		9.9	.9	

country	year	Total tax revenue	Other revenue	Of which oil	income	CIT	PIT	Consumption	VAT	Excise	Trade	Other	Notes / sources
Nigeria	2004	6.6	28.7	28.7	2.6	1.3	1.3	3.5	1.3		2.2	0.5	Data refer to general
	2005	5.8	32.3	32.3	2.4	1.2	1.2	3.0	1.2		1.8	0.4	government
	2006	5.0	29.1	29.1	2.5	1.5	1.0	2.3	1.2		1.1	0.2	IMF, national authorities
Senegal	2004	17.7		2.7	4.1			10.9					
	2005	16.2		2.6	3.9			9.7					
	2006	19.2		3.5	4.6			11.1					IMF, national authorities
South Africa	2004	22.8			12.9	5.5	7.4	8.3	6.1	2.2	0.6	0.9	
	2005	24.2			13.3	5.7	7.6	9.0	6.7	2.3	0.9	1.0	fiscal years
	2006	25.6			14.1	6.4	7.7	9.3	7.0	2.3	1.1	1.1	IMF, national authorities
Tanzania	2004	11.8	1.0		3.2			6.3	4.4	1.9	1.2	1.1	
	2005	12.4	1.2		3.5			7.0	5.2	1.8	0.9	1.0	fiscal years
	2006	12.9	1.2		3.7			7.0	5.3	1.7	1.3	0.9	IMF, national authorities
Uganda	2004	11.7	0.9		3.3			7.4	4.0	3.4	1.0		
	2005	12.1	0.8		3.7			7.3	4.0	3.3	1.1		fiscal years

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	2006	12.2	0.7		3.8			7.3	4.1	3.2	1.1		IMF, national authorities
Zambia	2004	17.4	0.7		7.8	1.3	6.5	9.6	5.2	2.3	2.1	0.0	
	2005	17.2	0.4		7.5	1.4	6.1	9.6	5.0	2.4	2.2	0.1	fiscal years
	2006	19.0	0.8		8.2	1.8	6.4	8.7	4.6	4.1	2.0	0.1	IMF, national authorities

Source: Adapted from Volkerink (2008)

d) Banking Industry

Despite significant reforms banks still prefer to lend to established firms and foreign affiliates in SSA. Post-liberalization, access to financial services in non-urban areas has deteriorated (UNTAD, 2007). The sale of government debt to finance the budget means that most banks hold their assets in government paper (treasury bills), which carry low risks. Lack of competition in the financial sector largely explains very high real interest rates (despite low and falling inflation) and high spreads. Far from being a settled issue this is an important point of debate (Honohan and Beck, 2007).

The lending–deposit rate spread in Africa is higher than in other developing regions with 18% in Nigeria, 25.1% in Ghana, 19-22% in Kenya and 21.3% in Tanzania (CIA, 2013). These factors have combined to create a peculiar picture: the majority of the population lacks access to credit, the private sector is credit constrained and the financial system is highly uncompetitive and inefficient; yet, bank liquidity ratios in some cases are upwards of 150 percent and one of the least competitive banking sectors in the world is also the most profitable (Honohan and Beck, 2007)

Table: 3 Bank profits by comparison

Region/bank	**Return on Assets (%)**	**Return on Equity (%)**
Africa	2.1	20.1
Sub-sample of Foreign Banks in Africa	4.7	43.2
Rest of World (ROW)	0.6	8.5
Foreign Banks in ROW	0.9	8.6

Source: Honohan and Beck, (2007)

Asset-liability and maturity mismatches add a further dimension of complexity. In terms of deposits, most banks attract only short-term deposits which cannot be used to fund long-term investments, particularly in risky environments. Mismatch in the term structure of savings and investment requirements implies many countries have difficulty transforming savings into investment. As short-term paper dominates debt markets in Africa – three month bills account for nearly 50 percent of the debt stock – governments roll over half the debt four times a year. The average maturity for African countries is only 231 days, compared to 720 days for Mexico, 1085 days for Brazil and 3050 days for India (Christensen and Murphy, 2004).

e) Tax Expenditure for Foreign Direct Investment (FDI)

Among the various types of tax expenditures existing in developing countries, tax incentives for foreign direct investment, have received most attention. Many developing countries use special tax incentives like tax holidays, investment allowances, free enterprise zones or tax sparing provisions. But a dataset collected by Keen and Mansour (2008), which covers 40 Sub-Saharan African countries does suggest that the use of tax incentives for investment has increased over the last decades. For instance, in 1980, only one among the 29 countries for whom data is available for this year offered free zones, i.e. zones where special corporate income tax treatment is offered. In 2005, almost half of the countries covered by the dataset offered this type of incentives. Table 4 gives an overview over the different types of tax incentives reported by Keen and Mansour (2008) and their change over time. In the literature, the growing use of tax incentives for investment in developing countries is criticized for various reasons. One issue is that these tax incentives reduce corporate income tax revenue (Bird (2008), Klemm (2009)).

Table 4: Investment Tax Incentives in sub-Saharan African Countries 1980 and 2005

	1980			**2005**		
	Number of Countries Offering Incentives (I)	Total Number of Countries (2)	Ratio (1)/(2)	Number of Countries Offering Incentives (I)	Total Number of Countries (2)	Ratio (1)/(2)
Tax Holidays	13	29	0.45	27	39	0.69
Reduced CIT Rates	3	29	0.1	20	39	0.51
Investment Allowances	17	29	0.59	22	39	0.56
Incentives for Exports	3	29	0.1	11	39	0.28
Free Zones	1	29	0.03	18	39	0.46
Investment Code	9	29	3.1	29	39	0.74

Source: Keen and Mansour (2008)

The table 5 below shows the summary of duty loss in Nigeria to all concessions between January 2004 and November 2006. From the table, revenue loss in 2004 was N56.8billion which increased to N71.2billion in 2005 and reduced to N54.9billion in 2006.This is an evidence to show that the government is losing much revenue annually which will definitely affect negatively, provision of necessary needs for the growth and development of Nigerian economy.

Table 5: Revenue Loss by Nigerian Customs Services from 2004 – 2006 in Naira

SN Exemption/Concession	2006 N	2005 N	2004 N
Revenue loss due to exemption /waivers	18,237,049,659.54	41,636,157,785.94	33,970,745,310.37
2. Revenue loss due to ETLS	1,494,223,772.13	2,548,734,595.82	2,104,089,331.98
Revenue loss due to concessionary Duty rate granted bonafide Manufacture/Assemblies	564,956,189.29	10,001,804,163.24	6,982,047,350.65
Revenue loss due to export Processing/excise factory	256,055,157.07	248,545,281.21	146,279,457.67
Revenue loss due to concessions to Manufacture-In-Bond-Schemes (MIBS)	3,819,378.39	820,147,347.45	1,115,233,719.64
6. NDCC	34,365,839,307.46	15,989,292,537.74	11,478,137,655.38
TOTAL	**54,921,943,464.88**	**71,244,681,711.40**	**56,796,532,825.67**

Source: Adapted from Buba, (2007)

f) Limited Capacity of Revenue Authorities

Tax leakage in developing countries is often worsened by poor functioning tax authorities due to variety of reasons; under–resourced or under–trained administrators, poor tax collection systems, failure of legal enforcement mechanism for tax collection and small penalties for non- payment. These factors create opportunities for domestic and foreign entities to abuse the system since tax officials frequently lack the required technical skills to unravel complex international fiscal structures that are used to escape taxation.

g) Large Informal Economy

Most developing countries have a large informal economy, which is under–taxed or completely untaxed. The average size of the shadow economy/informal sector as a proportion of official GDP was estimated for 2002-2003 at 43% in African countries, 30% in Asian countries, and 43% in central and South American countries. In Organization for Economic Cooperation and Development (OECD) countries, the shadow economy is approximately 16% (Schneider, 2007). These data indicate that on average, the level of tax evasion due to the informal sector in developing economies is about twice that of developed countries.

THE WAY FORWARD

Direct taxation, in the form of corporate or personal income tax, exists in all countries, but its potential has not yet been fully exploited. There are many large taxpayers who are benefiting from rising commodity prices, but are not paying taxes commensurate with their income. Fine-tuning the policy and the administration governing the taxation of these taxpayers' incomes would help in raising additional revenue. A tax system is only as effective as the administrative machinery that implements it. Therefore, policies should focus on strengthening the technical capacity and organization of revenue authorities through, among others, computerization and improved operating procedures. Stricter enforcement mechanisms, proper use of revenues collected as well as improved tax audits and inspections also contribute to increased taxpayer compliance.

Using free zones that offer tax holidays not only shrink the tax base but also complicate tax administration and are a major source of revenue loss and leakage from the taxed economy. They should be abolished, if possible in an internationally coordinated way. Because investment decisions depend on a host of factors that often carry more weight than tax incentives, these countries need to improve the business climate while keeping the tax considerations as neutral as possible for investors. Furthermore, laws against manipulative transfer pricing should be introduced and the necessary technical capacities must be created

It is very important to educate the young (who are the next generation of taxpayers) on the significance and role of taxes. There is need to create an environment for tax education in schools through the establishment of councils for promotion of tax education. Tax education should be viewed in the medium and long-term perspectives, and as a means to enhance taxpayer consciousness. It would be more appropriate to target students in secondary and tertiary institutions. The overall effort should involve both the education and finance ministries in order to come up with an effective tax education curriculum. Outreach activities including, TV and radio coverage, advertising and tax themed programs also helps children and adults to understand the civic responsibility of paying taxes

The monarchs (Traditional heads) - where they still exist - are very close to the people they rule over. The tax authorities should therefore maintain close relationship with them and explore such relationship to bring more people into the tax net and also increase the level of taxpayer's compliance. Town hall meetings should be encouraged and through this, the general public can more fully understand taxation issues, changes in the law, filing obligations and so on.

Build efficient and fair tax systems: A basic condition for the strengthening of public revenues is a broadly based tax system. The rich and the large landowners should pay more. Capital and resource consumption should be taxed more than labour. A flat value added tax is regressive and burdens the poor. African countries need to increase their tax revenues by reforming their tax systems, so that the dependence on foreign aid can be reduced. A simple, transparent, and direct taxing system is often more efficient and equitable than a more complex, indirect system. Also, African government should cut subsidies on inputs and output and increase investments in agricultural research and development, rural infrastructure, and education.

Fight against corruption and bribery***:*** In order to reduce the losses due to fraud, corruption and bribery, a stronger rules and procedures are necessary both in the countries concerned and at the international level. The capability to detect fraud or evasion is crucial to tax compliance. As it would not be practical to audit all cases, the fear of being caught would be sufficient to act as a deterrent. Tax officials should be exposed to adequate and continuous training; both at home and abroad, for a better understanding of recent domestic and international tax issues, which could then be utilized, to formulate successful tax compliance strategies. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.

Tax policy decisions are not made in a vacuum. Citizens are more likely to comply with tax laws if they accept the state as legitimate and credible and are to some extent both willing to support it and afraid of what happens to them if they don't. Mobilizing tax for domestic revenue therefore, depends in large part upon how different political groups perceived proposed changes. In this sense, major tax reform is always and anywhere "an exercise in political legitimation" (Lledo, Schneider, and Moore 2004). Government fulfillment of promises made to taxpayers will encourage tax compliance which will in turn increase domestic revenue.

Much can be gained from studying how different countries have coped with tax reform: the solution reached may be different, but the basic problems that must be faced are often rather similar. Comparative analysis of tax reform experience around the world may not provide a complete answer for any particular country, but it can help.

IMPLICATIONS

The significance of this research is further underpinned by the fact tax administrators face enormous challenges. The essence of this paper is the realization of a focus of sustainable development in Africa which aims at developing a strategy for more effective, efficient and fair taxation through deepening the tax base, removing tax preferences, dealing with the use of transfer pricing techniques by multinational firms, taxing extractive industries more fairly and more transparently and addressing capacity constraints of tax administrators. It has been shown that it would be difficult, indeed impossible, to meet domestic development objectives principally through mobilizing external resources. Not only would the quantity of external resources fall considerably short of the total needs of most countries, but they would also not "fit" the needs of many sectors. For example, most low-income countries are agrarian; yet the resource needs of agriculture and the rural population are seldom high priorities for FDI or even aid agencies. Thus, it has been advocated that higher levels of DRM can facilitate higher levels of investment and economic growth and more rapid poverty reduction. In addition, it has been pointed out that DRM can contribute toward reducing aid dependence or dependence on FDI and thereby increase domestic policy space and ownership. Countries, and in particular governments, that are heavily dependent on external resources, may become more committed or attractive to suppliers of those resources than accountable to their own citizens. Budgets that are largely financed by oil (or natural resource) revenues or by aid donors may reflect oil companies' or donors' priorities rather than the needs of the population. This can be true even with democratically elected governments. It should be noted that higher levels of aid dependence erode the quality of governance, as measured by indexes of bureaucratic quality, corruption, and the rule of law (Nnadozie. 2010; Culpeper and Bhushan, 2008).

CONCLUSION

Of course, domestic resource mobilization will not by itself solve all the problems faced by African countries, particularly considering that many of them lack the needed quantity and quality of institutions and human resources necessary to make development work. However, in the medium to long term, the ability of African countries to finance an increasing share of their development needs from domestic sources would give them much-needed flexibility in the formulation and implementation of policies that address their economic, social and other developmental challenges. The multiplicity of the challenges facing Africa inevitably calls for an appropriate "policy mix" or "diversity of policies" tailored to the specific situation of each country, rather than a one-size-fits-all approach.

Strengthening domestic resource mobilization offers many potential benefits to African economies. Firstly, it will reduce the dependency on external flows, thereby reducing one of the sources of damaging volatility in resource availability, and reduce vulnerability to external shocks. Secondly, it will give African countries greater policy space, increasing their ownership of the development process and agenda as well as strengthening their State capacity. Thirdly, these efforts are also likely to be seen as a positive sign by donors and investors, thereby augmenting external resource inflows.

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