

World Economic Forum on Africa 2014

How to use taxation as an enabler to attract and retain investment, forge inclusive growth and create jobs.



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Congratulations to Nigeria and Nigerians for the successful hosting of the 24th World Economic Forum on Africa. According to Rosler Philipp, Managing Director of the World Economic Forum, the event is one of their best regional forums ever. Apart from being incident free, the level of attendance and active participation by political leaders and business executives was impressive. A number of resolutions were reached, business deals signed, initiatives launched and promises made. In all ramifications, the forum can be adjudged as very successful but we now need to build on the momentum and ensure to implement the recommendations.

The theme of the forum was “Forging Inclusive Growth, Creating Jobs”. This was very apt and timely not only for Africa but also Nigeria. Perhaps one area that did not receive sufficient attention is the ease of doing business and paying taxes. We all know that Africa is rising but the growth is from a very small base and inequality is rising even faster. If we must recover the lost decades, Africa must grow at a faster pace without leaving any segment of the society behind.

A significant part of the growth on the continent to date has been by accident, rather than as a result of a deliberate action plan or design. To

some extent, it is like the popular saying that if you are already down then the only possible way to go is up. So without a robust strategy you may end up falling and rising intermittently and therefore not making any real progress.

There is no doubt that to attract investment we need infrastructure, stable electricity, access to affordable finance, availability of quality human capital, consistent economic policies and regulatory framework and so on. All these have to be complemented with investment friendly tax policies and administration. Unfortunately there was too much focus on tax incentive at the forum and very little on the tax system as a whole. A much bigger incentive for investors is tax simplicity and certainty. While the other factors required to attract investment may take a long time to accomplish and involve huge financial outlay, reforming the tax system can be done relatively easily at little or no cost to government.

To really forge inclusive growth and create jobs, taxation can be used as an enabler. In the past few years, about six out of the top ten fastest growing economies in the world are in Africa. Coincidentally, six out of the bottom ten countries on the ease of Doing Business (a survey by the World Bank) are also on the continent. The eleven indicators used by the World Bank to determine the ease of doing business are (1) Starting a Business (2) Dealing with Construction Permits (3) Getting Electricity (4) Registering Property (5) Getting Credit (6) Employing Workers (7) Trading Across Borders (8) Enforcing Contracts (9) Resolving Insolvency (10) Protecting Investors and (11) Paying Taxes. The picture is the same on the global competitiveness index by the World Economic Forum. We cannot continue to measure success simply by reference to the amount of foreign direct investment coming into Africa or the fact that people are still investing. Rather we should compare “what is” to “what could have been”. If we make it easier to do business, the risk premium required by investors will reduce and more potential businesses will become commercially viable leading to more jobs.

To create jobs, we need to encourage investment not only in capital intensive projects like oil & gas or telecommunications but more in labour intensive ventures such as construction, manufacturing and agriculture. In all of these, taxation can be used as a catalyst.

Forging inclusive growth requires a progressive taxation system to reduce inequality. People who earn more should pay more taxes to create a social safety net for the poor. But this also requires that tax revenue must be utilised to provide infrastructure and social services. As Africa continues to grow inequality has grown faster thereby widening the gap. This is clearly not a sustainable model. Some of the most equal countries in the world are able to achieve this through taxation such as Denmark and Norway. From a taxation point of view, this will require that the minimum income exempt from tax which is currently N200,000 per annum be increased significantly while a higher tax rate should be introduced for higher earners. In similar fashion, there should be more reliefs and lower corporation tax rate for small companies. Commencement rule which imposes double taxation on start-up companies should be abolished.

With the rebasing of our GDP, it is almost certain now that Nigeria will become one of the largest 20 economies in the world by the year 2020. We should have the same goal of becoming one of the top 20 countries on the ease of doing business and paying taxes. This is definitely achievable and we can learn from the experience of Rwanda which now ranks 32 due to deliberate reforms in the past few years from being one of the lowest in the world.

Another key area to ensure inclusive growth is regional integration. The level of trade between African countries is abysmally low despite the huge opportunity presented by the large population and growing middle class. Ironically there is not even a single double taxation treaty between West African countries while the number of treaties between any two countries within Africa is quite limited.

In order to use tax as a catalyst for inclusive growth, of course, complemented by other initiatives, focus should not only be on tax incentives to attract investment. In fact, if tax waivers are not properly managed it will create the opposite effect of inclusive growth and job creation, that is, unemployment and widening inequality as a few investors will gain undue advantage making others uncompetitive.

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