MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

INTRODUCTORY REMARKS BY HONOURABLE MINISTER OF FINANCE, MR. TREVOR MANUEL, MP TO THE INTERNATIONAL CONFERENCE ON TAXATION, STATE BUILDING AND CAPACITY DEVELOPMENT

The President of the African Development Bank

The Deputy Secretary General of the OECD

The Commissioner of the South African Revenue Service

Esteemed Revenue Commissioners from Africa and beyond

Distinguished delegates

It is a great pleasure for me to welcome you to Pretoria, our country's capital. I am especially pleased to note that, this year, revenue administration in Africa is receiving focused attention. This has been a long-standing issue for me in my international engagements because of its critical importance to long-run economic development. More recently, we continued discussions on this topic during the OECD's Forum on Tax Administration in Cape Town in January.

This meeting is the first of its kind in bringing a significant number of tax commissioners and senior officials of African revenue administrations together with their counterparts from developed countries and other related stakeholders. Over the next two days you will have the opportunity to examine the relationship between taxation, state building and capacity development. These areas of reform complement ongoing work on developing medium-term planning and budgeting and improving transparency. As importantly, you will be sharing experiences to enrich our understanding of what works and what doesn't, and exploring the conditions and circumstances that favour particular approaches. The aligning of reform and approach with local conditions has had a significant impact on the success or failure of public financial management reforms on the continent and globally.

While a medium-term perspective in budgeting fosters policy constancy and therefore spending effectiveness, and strengthens macroeconomic stability, it often falters when inflows into the budget are highly volatile, in turn because of poor tax practice or donor decisions. Many African countries are familiar with the problems associated with the feedback from negative economic shocks to revenue and budgeting instability, which in turn perpetuates the initial shock. Such instability can easily prevent governments from implementing medium-term perspectives required for the stabilisation of the policy environment for growth and development.

Focused and well-capacitated revenue administration is critical to minimising the damage caused by such shocks, and for overcoming longer-term structural economic weaknesses. In that spirit, it is helpful to recognise its importance to sustainable development and the prerequisites for poverty reduction, tackling education backlogs and the provision of acceptable social and health services. It is also at the core of building an effective state.

In our experience as South Africa, the reform of tax administration is at the core of the economic and social advances that we have made since the advent of our democracy. Reforming tax administration was one set of policy choices we had to make in order to attain fiscal independence and to lay a foundation for meeting the needs of our people. It turned out to be a critical one.

Other African countries have had similar experiences.

Ugandans would openly admit that the long periods of economic mismanagement in the 1970s and 1980s created a culture of tax avoidance and evasion - a time when taxation was highly predatory. By the mid-1980s, tax revenues in Uganda had fallen to a low of 5 percent of GDP. How this situation was turned around, alongside many other reform measures, is instructive. The first step in building the Ugandan revenue base was the establishment of the Independent Uganda Revenue Authority, followed by a series of tax policy reforms. While Uganda’s tax to GDP ratio is still considered to be low (around 13.1 percent), which is below the region’s average of about 21 percent, the important building blocks are being put in place.

Equally instructive are the steps undertaken by the Rwandan government when they restructured the separate customs and tax collection functions into a single tax collection and administrative institution called the Rwanda Revenue Authority. The importance that the Rwandan government attached to the RRA was seen in the actions that followed. An entirely new staff complement was recruited from the private sector and a new institutional structure was put in place, alongside new laws and processes that were geared towards eradicating corruption, improving revenue collection and increasing transparency.

We can all learn from each other about what works, what doesn't, why, and under what circumstances. The cooperation that will lead to stronger networking and the forging of bonds between practitioners is an opportunity that this conference presents us.

South Africa's revenue authority, SARS, has firm and cordial relationships with other administrations as exemplified in our participation in the Southern African Customs Union (SACU), Southern African Development Community (SADC), the World Customs Organisation (WCO) and the Forum for Tax Administrators of the OECD, to mention but a few. SARS' administrative infrastructure is particularly important to SACU as it collects over 90% of the customs and excise revenue within the union.

SACU is also an informative study of how one country's efforts in building a strong tax authority, combined with growth in imports, was able to grow a pool of revenue for redistribution to four of South Africa's neighbouring countries. It also is instructive in considering the importance of regional efforts to ensure that tax administration and capacity-building is coordinated.

Pressing challenges facing our continent include finding ways to escape the dependence on foreign assistance and indebtedness and in many cases the unsustainable reliance on customs revenue. An indispensable condition of this aim is the strengthening of our revenue administrations.

Effective revenue administration contributes to a country by more than simply filling its national coffers; it is an essential component of good governance. When states are obliged to bargain with their citizens over taxation, or cannot rely on coercion or external resources, then they must become more responsive to their citizens.

Revenue collection is an important enabler of development. It enables states to create the fiscal space in order to pursue their national development agendas, thereby both stabilising their sovereignty as well as serving the needs of their people.

In the South African experience, this has meant that we have strived to inculcate a culture of compliance with tax law through:

- Rendering the revenue administration, SARS, operationally autonomous;
- Changing the public experience when dealing with SARS through heightened service delivery, targeted enforcement and education; and
- Creating a compact with all spheres of South African society regarding the importance and obligation of paying tax.

The themes of this conference namely, “building capacity of revenue administrations” and strengthening networks between African tax administrations are necessary and urgent. Much of what we have to confront within our respective borders can only be addressed effectively if we collaborate.

Let me turn briefly to some common African revenue collection challenges:

- Most economies are characterised by relatively small formal, predominantly urban, sectors surrounded by large hinterlands of dispersed subsistence rural agricultural producers.
- Many countries are substantially reliant on import tariffs or trade taxes, particularly those involving larger companies operating within the formal economy, for the simple reason that it is relatively easy to establish control points at the border. It is evident through the concentration of revenue collection capability in this area, that tax administration skills still favour Customs operations in Africa, while global trends are shifting to the tax (income tax and VAT) arena for collection.
- Owing to the predominance of informal networks of exchange and widespread poverty, personal taxation proceeds are inherently limited – a dynamic further compounded by population dispersion.
- Indirect taxation might in practice pose certain challenges as it requires substantial bureaucratic effort to collect.

- Many African states struggle to source upwards of 20% of their revenues from domestic sources.

But more generally, what can developing countries do? The challenge is not simply to tax more, but rather to tax a larger number of citizens and enterprises more consensually.

The 21st Century has begun with some serious challenges facing the global community, significant among them being the changing role of the state, especially in the current difficult economic environment. It is in this environment that Africa, and other regions for that matter, faces its own special challenges regarding governance and sustainable state building, of alleviating poverty, and of development. It is incumbent on our governments to take responsibility for developing a healthy relationship between tax policy and administration, and for providing the necessary guidance and support for the creation of revenue administrations that can function effectively.

As Heads of Revenue Administrations, you bear the responsibility to play an important and robust role, as change agents, by providing the required strategic leadership to build the integrity and autonomy of your respective administrations, to develop the required capacity and specialised skills for your administrations to perform their functions optimally. These skills are desperately necessary if we are to collectively develop a culture of compliance in our societies.

For it is the tax administration that has to be the lead agency to create and develop this culture. Only then will we be in a position to demand of the elite and big business operating in our midst to shoulder their responsibility in developing this compliance culture. In support of this, developed countries, through their tax administrations and donor agencies, must recognise that they have to take responsibility for assisting developing countries and their state institutions through partnerships aimed at concretely building the capacity.

Thank you.