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OSIWA/Dalberg report provides recommendations for improved governance

June 3rd, 2015 – Dakar, Senegal – Capital flight and illicit financial flows represent missed opportunities for generating state revenue desperately needed to finance key sectors of West Africa's economy, tackle poverty and invest in social protection and safety nets. Though the exact amount lost annually is debated, the deficit is significant and undermines economic governance, financial development and fiscal transparency throughout the region, according to a joint report released June 3rd by OSIWA and Dalberg. This report estimates that between 2012 and 2018 ECOWAS governments could raise up to US$56 billion dollars in tax revenue by implementing effective transfer pricing regimes.

"This report serves as a call to action to the entire ECOWAS region, as 2015 is an election year for many countries," explains Dr. Ibrahima Aidara, OSIWA's Economic Governance Program Manager. "This period marks a real opportunity for governments to re-examine their economic policies in favor of more coherent and structured tax policy and transfer pricing."

Madji Sock, Dalberg's Regional Director for Africa, explains: "Transfer mispricing deprives West Africa from badly needed domestic resources for transformative social and economic projects. At the same time, regional policies need to continue to promote foreign direct investment, which aligns with best practices for intra-company transfers."

The key issue addressed in the report is the importance of taxation to work for West Africa's developmental prospects.

Taxation incentives and transfer mispricing are two key challenges that must be tackled from both a local and regional governance perspective. The report focuses on improved regional integration to facilitate better coordination of economic policies to avoid negative cross-border impacts. It also advocates for the formation of regulating bodies and strengthening the technical experts at the regional level to support governments as they make improvements.

"This is not solely an African problem. It is one of global governance," explains Abdul Tejan Cole, OSIWA'S Executive Director. "We've seen time and again how developed countries participate in and benefit from Africa's outflows through tax havens and sophisticated accounting practices, due to the fragility of our control mechanisms. It is past time for us to improve collaboration amongst finance ministers, revenue agencies, and support more citizen oversight, to address the economic development needs of the region. It is as much an economic question as one of basic rights."

The report suggests that the ECOWAS Commission looks at systems in the EU, UK and other African economic communities (SADC/EAC) and adapts the appropriate best practices for implementation in the region. Overall, the report calls for more cooperation and harmonization between tax incentive regimes to reduce vulnerability and a race to the bottom. It also suggests that countries entrench automatic information exchanges; that they adopt country-by-country reporting by companies; that ECOWAS sets up a regional coordination and advisory unit on transfer pricing; and that they explore the use of unitary taxation models. The report also recognizes the critical role that transparency, accountability and citizen involvement can play in tackling these issues.

OSIWA/Dalberg report looks at cases in Cote d'Ivoire, Nigeria, Senegal, Ghana and Togo.

http://www.osiwa.org/illicit-financial-flows-represent-missed-opportunities-for-west-africas-development-and-economic-needs/