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Media Brief:

The West African Giveaway:

Use & Abuse of Corporate Tax Incentives in ECOWAS

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Media Brief

A new report by ActionAid and Tax Justice Network Africa shows that West Africa may be losing up to $9.6 billion a year of vital public revenue by governments providing corporate tax incentives, causing a 'race to the bottom' as the region's governments vie to attract foreign investment.

The report calculates that Ghana is losing up to **$2.27 billion a year** - three times its budget allocation to health - and that Nigeria is foregoing **$2.9 billion a year** - more than the Federal Government's budget to education.

The report, (link, if avail) examines tax incentives among countries in the Economic Community of West African States (ECOWAS) region, with a focus on Nigeria, Ghana, Côte d'Ivoire and Senegal. It reveals that granting tax incentives to investors, notably foreign companies, is depriving governments of money to pay for essential public services like health, education and infrastructure, hindering regional integration, and failing in the stated objective of attracting new foreign direct investment.

Corporate tax incentives – which are reductions in tax offered by governments to attract investment - include reduced corporate income tax rates and tax 'holidays' for specified periods, often provided to companies operating in special economic zones. Despite serious questions about their usefulness and their large revenue losses, the use of tax incentives in ECOWAS member states is common practice.

Tax incentives are given to companies in the hope that foreign investors will bring in capital to support economic development and create local employment. However, there is little evidence that tax incentives have increased investment; rather, the increased investment in the region is largely due to the presence of natural resources, especially oil. Neither have significant numbers of jobs been created by foreign investment, despite generous tax incentives provided by West African governments, since most of it has not been in sectors like manufacturing that create the most jobs.

Corporate tax incentives are being used as a substitute for policies that could genuinely attract more and better investment - such as ensuring good quality infrastructure, reducing the administrative costs of setting up and running businesses, and promoting predictable macro-economic policy. Further granting incentives will only continue to reduce countries' revenues and make the provision of these essential services more difficult.

Our understanding is that no governments in the region have evaluated whether tax incentives are actually promoting foreign investment. In addition, most countries have little capacity for public institutions to calculate the costs and monitor the impacts of incentives offered. Our research confirms that many tax incentives in the ECOWAS region have unclear objectives, are not targeted at particular sectors that could bring development and tend to be poorly managed by weak institutions with little oversight.

There are multiple public institutions granting incentives in the ECOWAS region and these agencies act with little coordination within or between countries. In extreme cases, exemptions are given to firms simply with a signature by a top government official. The personal interests of officials sometimes supersede legal protocol, allowing them to treat business friends to incentives and personally gain from the transaction. In none of the countries examined is there a single entity in charge of providing or coordinating tax incentives.

Some advances have been made in the region to promote harmonised tax policies but such progress is only limited when it comes to coordinating policy on tax incentives. The political will to promote regional tax coordination is largely lacking, as countries seek to retain national measures that allow them to continue offering incentives without restraint. This lack of harmonisation is a major problem, contributing to a 'race to the bottom'.

Policy changes needed

The report recommends that all governments in ECOWAS need to comprehensively review the incentives they are granting with a view to reducing them, abolishing unproductive incentives and ensuring that those remaining are targeted to achieving specific social and/or economic objectives.

Governments must also publish detailed figures on their tax expenditures and publicly justify their remaining tax incentives, allowing public scrutiny and debate.

In order to stop the harmful spiral of dependence on corporate tax incentives, ECOWAS Heads of State and its Secretariat need to prioritise promoting tax coordination and set timelines for implementing those measures already agreed. An effective coordination and monitoring mechanism will be crucial.

ECOWAS states should also bring their incentives regimes under the control of a single entity with effective and resourced oversight mechanisms to ensure accountability and transparency of public spending. They should move from manual to online tax systems to improve transparency and reduce corruption, tax avoidance and tax evasion.

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About ActionAid

ActionAid International (AAI) is a non-partisan, non-religious development organization. ActionAid seeks to facilitate processes that eradicate poverty and ensure social justice through anti-poverty projects, local institutional capability building and public policy influencing. The organisation is primarily concerned with the promotion and defence of economic, social, cultural, civil and political human rights and supports projects and programmes that promote the interests of poor and marginalized people.

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About TJN-A

Tax Justice Network-Africa (TJN-A) is a Pan-African initiative established in 2007 and a member of the Global Alliance for Tax Justice. It is a network of 29 members in 16 African countries. Through its Nairobi Secretariat, TJN-A collaborates closely with these member organizations in tax justice activities at the national and regional level. TJN-A seeks to promote socially just and progressive taxation systems in Africa, advocating for pro-poor tax policies and the strengthening of tax systems to promote domestic resource mobilization.

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