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Tax disputes

Generating government revenues

Benin's tax-to-GDP ratio has improved since democratisation in 1991 thanks to tax reforms. More needs to happen. The huge informal sector remains a challenge, argues scholar Karim Okanla. **PAGE 24**

Time to forge alliances

The international tax debate has changed. Developing countries are still disadvantaged, but their position is stronger than it used to be. By joining forces and acting collectively, they could make a difference, argues Mick Moore of the University of Sussex. **PAGE 25**

Double standards

On the one hand, OECD countries want African governments to mobilise domestic resources, but on the other hand, their policies on taxation reduce African governments' scope for doing so. Dereje Alemayehu of the Tax Justice Network Africa assesses the matter. Catherine Ngina Mutava of Strathmore University in Nairobi takes a close look at treaties that are supposed to prevent double taxation. **PAGES 28, 30**

Missing billions

Despite of their resource wealth, many African countries are poor. Tax evasion and avoidance by multinationals is one reason. Nico Beckert, a German journalist, discusses the role of tax havens. An EU blacklist is a first step to improve matters, but as Tobias Hauschild of Oxfam points out, some EU members are not blameless either. **PAGES 32, 34**

Broaden the base; close loopholes

To raise taxes, a nation's revenue service must be well organised. As GIZ tax expert Stefanie Rauscher elaborates in an interview, reforms must be designed properly for the long run. **PAGE 35**

Destructive government spending

Many developing countries still subsidise fossil fuels. Such expenditure adds up to nothing else than a destructive kind of negative tax. It is unsustainable, both in the environmental and the fiscal sense. In many Asian countries, public budgets should be freed of this burden, proposes Shikha Jha, an economist who works for the Asian Development Bank. **PAGE 38**

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The subsidisation of fuels is nothing but misguided, negative taxation **38**

What good governance depends on

Since the late 1970s, the idea has spread internationally that the lower taxes are, the better for the economy. It is misleading. In truth, a strong economy needs a competent government that provides public goods such as infrastructure, rule of law and health care. For these and related purposes, governments must be funded properly. Experience shows, moreover, that democracy works best where most citizens pay taxes and expect state agencies to deliver essential services reliably. A broad tax base and no loopholes may then make it possible to keep tax rates low, but not the tax revenues.

Scandinavian countries have strong democracies and resilient market economies as well as substantial tax revenues. In the USA, where the “small government” has many adherents, the most dynamic states are not Montana or Wyoming, which have few regulations and taxes, but California and New York, which have strong infrastructure, excellent educational facilities and public budgets that are fed by local and state taxes. If keeping the government out of as many sectors as possible were the key to prosperity, the structural adjustment programmes of the 1980s and 1990s would have succeeded spectacularly. They did not. The lesson was that development needs a capable state. The goal must thus be to raise appropriate taxes, not to keep taxes low.

For several reasons, developing countries’ tax legislation and national revenue services tend to be weak. It need not be this way.

- Some argue that poor people cannot afford to pay taxes, but the truth is that rich nations were collecting taxes when they still had much lower incomes than today.
- Some believe that developing countries should get official development assistance as a compensation for colonial exploitation, but that is not an approach that suits national independence and sovereignty.
- Some point out that it is very hard to tax informal businesses because these businesses do not do formal accounting and must not be overburdened. This is correct, but the consequence is that legislators have to develop clever rules that fit their nation’s needs.
- Some argue that the international system is biased, so developing countries cannot raise the taxes they require. They have a point, but it does not mean that countries should not improve their performance, which, by the way, would help them negotiate better international treaties.

Governments often shy away from increasing taxes or introducing new ones. They know that enforcement can cause resentment among those who must pay. In the lack of tax revenues, however, the same governments are unable to provide services that people expect, and that also leads to resentment. Prudent policymakers strike the right balance. Unfortunately, some political leaders create or tolerate loopholes that let privileged people get away with not contributing their fair share to the public good. Some leaders, moreover, appreciate complex tax legislation because it allows them to hound opponents, critics and independent media with tax investigations. They normally do not worry much about fair and effective enforcement of the law.

To achieve the Sustainable Development Goals (SDGs), all nations need good governance. Good governance, in turn, depends on viable public finances. All governments must rise to their responsibility, and taxpayers, ready to pay their fair share, should feel encouraged to holding them accountable.

► You’ll find all contributions of our focus section plus related ones on our website – they’ll be compiled in next month’s briefing section.



HANS DEMBOWSKI
is editor in chief of *D+C Development and Cooperation* / *E+Z Entwicklung und Zusammenarbeit*.
euz.editor@fazit-communication.de

Photos: sb, Fabian von Poser/Lineair

Debate



Listen to civil society

Hopes for better European-African cooperation were pinned on the 5th AU-EU summit in Abidjan. They were not fulfilled, as Maria Klatte of MISEREOR, a Catholic non-governmental organisation, regrets. In her eyes, for example, the young generation’s prospects did not get sufficient attention.

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Tribune



Getting policies right

Developing countries need to adopt prudent industrial policies, demand Tilman Altenburg and Wilfried Lütkenhorst of the German Development Institute. The two scholars point out what needs to be considered.

PAGE 16

Deadly struggle

In Mozambique, plans to devolve political power have been causing tensions for more than two decades. The opposition hopes to grow strong in those regions where it enjoys broad support from the people. Friedrich Kaufmann of the Maputo office of the German Chambers of Commerce and Winfried Borowczak, a development consultant, assess the situation.

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PROTECTING THE OCEANS

A call to action

In the context of climate protection, development cooperation is increasingly designed to protect the oceans too. Experts agree on the urgent need for immediate action. Many marine ecosystems are in imminent danger of collapse as pollution and litter, overfishing and the destruction of flora and fauna are all putting the oceans at risk. Scientists, non-governmental organisations (NGOs) and government agencies such as the KfW Development Bank are working on political and practical solutions.

By Sabine Balk

The climate and the oceans are intricately linked, according to experts. Seventy-one percent of the earth is covered by the seas, which act as a climate control system. Marine environments contribute about half the oxygen to our atmosphere. And with their rich diversity of plant and animal life, the oceans are an important source of food for humans. Worldwide 1.5 billion people depend on fish for the protein they need.

Our oceans are currently under threat from:

- rising water temperatures because of global warming,
- illegal fishing and overfishing, and
- water pollution from plastic, chemicals and other litter.

The international community has acknowledged the problems and is responding with political programmes. Sustainable Development Goal (SDG) 14 is to protect and conserve the oceans, seas and aquatic resources. In 2017, the leading industrialised and emerging nations (G20) passed an “Action plan on marine litter”. Germany’s Federal Ministry for Economic Cooperation and Development (BMZ) adopted its “Ten-point plan of action for marine conservation and sustainable fisheries”. All these programmes support developing countries in protecting the oceans and using them sustainably.

Money and expertise are needed to achieve the goals. In November, the KfW hosted the Development Finance Forum 2017 in Frankfurt to mobilise both. The international conference focused on marine protection zones, sustainable fishing and reducing plastic litter in the oceans.

In recent years, a number of films and photos have impressively documented the

danger pollution poses to the oceans. During the filming of prize-winning documentary “A plastic ocean”, Jo Ruxton, the film’s co-producer and co-founder of the Plastic Oceans Foundation, was shocked to learn what impacts plastic litter has on the animal world. Many birds mistake plastic for food and die a horrible death from starvation. According to Ruxton, around 320 tonnes of plastic are produced every year, an amount experts say will double in the next 20 years.

Globally, 72 % of all plastic packaging is not recycled. Forty percent ends up in landfills and 32 % ends up somewhere in the natural environment, including the oceans, completely unprocessed. This had led to an estimated accumulation of 150 million tons of plastic endangering animals and plants in the marine environment. By 2050, plastic in the oceans will outweigh the fish. And the problem is not going away anytime soon, since plastic decomposes very slowly – if at all.

David C. Wilson from Imperial College London says that most of the plastic pollution that ends up in marine environments originates from developing countries. Together China, Indonesia, the Philippines, Thailand and Vietnam account for roughly half of the pollution. Wilson has identified poor waste collection and disposal as the root of the problem.

The waste sector is where experts like Costas Velis from the International Solid Waste Association (ISWA) see real options



To keep it out of the oceans, plastic should be collected and recycled: the port in Tripoli, Libya.

for preventing future pollution. Overall, KfW conference participants agreed on the need to improve waste disposal on land. Waste management is usually handled by municipal authorities, so they will need know-how and money from national governments to build the necessary infrastructure.

Experts highlight the need to increase plastic recycling rates quickly and significantly. For this purpose, plastic rubbish must be collected and sorted efficiently. Starting in schools and youth centres, outreach and education can help raise public awareness of the issue. Convincing consumers of the advantages of reducing, collecting and separating waste is important. The right course will only be set if politicians, business people and other decision-makers are on board. Finally, industry must be held accountable for reducing the amount of plastic produced and ensuring its proper disposal.

Plastic and other pollution is not the only threat facing the earth's oceans. Commercial uses such as fishing, shipping, deep-

sea mining and tourism also contribute to the depletion of natural marine resources. Setting up marine and coastal protection zones in which commercial use is either limited or completely forbidden is one option. Such zones preserve animal and plant biodiversity, allowing it to recover. Greenpeace reports that just one percent of the world's oceans are currently protected. That is far too little, KfW conference attendees agreed. The current international goal to protect ten percent of all marine and coastal areas by 2020 is considered the "absolute minimum". Thirty percent would be a better target. Experts recommend improving international coordination and protection-zone management. They also want long-term funding to be provided.

Existing local and regional protection zones should be expanded and linked through a conservation network. Ideally, governments, the private sector and non-governmental organisations would uphold marine conservation guidelines and cooperate on creating this network with backing

from financial institutions and donors. The Blue Action Fund (see box below) is a new instrument in this context. Protection zones can only succeed if local people are involved in managing them. The Food and Agriculture Organisation (FAO) has issued guidelines for responsible fishery on a small scale.

Manuel Barange from the FAO reports that fishing is both part of the problem and part of the solution. Fish is an important food and a lucrative commodity in many developing countries, Barange added, so responsible fishing is a key piece to solving the puzzle. Participants at the Development Finance Forum agreed that boosting investment in sustainable fishing and aquaculture would help protect the oceans. Improving protection-zone management, involving local fishermen in sustainability efforts, and offering them financial support was also seen as essential.

LINK

"A Plastic Ocean" documentary:
www.plasticoceans.org

Money to safeguard seas and coastlines

Protecting our marine and coastal environments is an expensive undertaking, and could cost over \$ 500 billion according to some estimates. With a new trust fund, the KfW Development Bank and Germany's Federal Ministry for Economic Cooperation and Development (BMZ) have laid a cornerstone in conservation. The Blue Action Fund (BAF) was set up to promote marine and coastal protection zones, environment-friendly tourism and sustainable fishing.

The BMZ has endowed the BAF with an initial € 24 million. The fund plans to expand its funding base by attracting additional investors in the coming years. Sweden has

already pledged € 5 million. Markus Knigge, the BAF executive director, reports that the BMZ has earmarked an additional € 12 million for the BAF.

The first project proposals have come in, and the Blue Action Fund will begin to grant money in 2018. The Fund accepts applications from international non-governmental organisations. According to Knigge, "tested" and "scalable" projects will receive € 1 million to € 3 million pledges for pursuing their work. To be eligible, they must be part of the regional context and ideally serve as "lighthouse projects with spill-over effects". Implementing organisations must have a local presence and field expertise,



Mangrove forests are particularly at risk: planting of mangroves as coast protection in Kenya.

and they must involve local communities in their efforts.

Projects from all over the world can apply, though the fund will primarily focus on Africa, Latin America and the Caribbean. Applicants must support the UN Convention on Biodiversity, the 2030 Agenda and the BMZ's ten-point marine conservation plan (see main article). The Blue Action

Fund's main goal is to safeguard the seas and coastlines and promote their sustainable use. It also aims to support sustainable livelihoods for coastal communities, and develop a network of protected zones. (sb)

LINK

Blue Action Fund:
www.blueactionfund.org

NEW SILK ROAD

Clean at home, dirty abroad

China has turned to renewable technologies for its power production, not least to curb growing air pollution. No other country of the world is expanding its green-energy capacities faster. Others are paying the price, however: dirty industries and environmentally harmful power generation are shifted abroad.

By Katja Dombrowski

At home, China is building less coal-fired power plants and increasingly using cleaner and more efficient technologies. Meanwhile, Chinese companies massively invest in – mostly outdated – coal power abroad. China sees a huge market in the countries covered by its Belt and Road Initiative (BRI), a huge infrastructure investment scheme (see D+C/E+Z e-Paper 2017/10, p. 8).

As Jiahai Yuan, professor at the North China Electric Power University in Beijing said at the world climate conference in Bonn in November, masses of people in these countries still lack access to electricity: “Consumption is very low, so the growth potential is huge.” Renewable energies should be prioritised, according to him. However, “green coal power has a big potential to make improvements too,” he argues.

Officially, the BRI is geared to sustainability. In September 2016, the “Belt and Road Green Development Partnership” was launched to provide policy recommendations, involving Chinese and international think tanks as well as environmental NGOs and foundations. The idea is to achieve the UN Sustainable Development Goals as well as the nationally determined contributions (NDCs) to the Paris Agreement, says Guo Hongyu of the Chinese environmental NGO Greenovation Hub.

The reality is different, however. China’s investments in the energy sector do not focus on renewables, but on coal. According to the recent study “Silk road bottom up”, published by the independent German foundation Asienhaus and the non-profit organisation Chinadialogue, 65% of Chinese banks’ funds go to coal-fired power

plants, while only one percent is invested in wind power. China accounted for 40% of public financing for coal projects around the world between 2007 and 2013.

The Asian BRI countries are of special interest. The study states that, at the end of 2016, China was involved in 240 coal-power projects in 25 BRI countries, with a total installed capacity of 251 Gigawatt. Moreover, Chinese companies have announced intentions to build or operate at least 92 ad-

One BRI country that is rapidly increasing the use of coal power is Vietnam. Chinese money and technology are making it happen. Vietnam itself lacks the funds for financing this kind of infrastructure development. According to Nguyen Tuan Anh of the Ministry of Planning and Investment, Vietnam needs \$148 billion from 2016 to 2030, with 75% required for power plants and 25% for expanding the grid. “Chinese investors are mainly interested in coal,” Nguyen confirms.

While the big neighbour’s engagement is generally welcome, it carries some risks. Vietnam is set to become more dependent economically and may be unable to control flows of Chinese workers. Moreover, the Asienhaus/Chinadialogue study points out



Chinese President Xi Jinping and Nguyen Phu Trong, general secretary of the Communist Party of Vietnam Central Committee, witness the signing of a memorandum of understanding.

ditional coal-fired power plants in 27 countries. The majority of these power plants use out-dated technology, making them less efficient than they could be. The Asienhaus/Chinadialogue study argues that official Chinese documents, guidelines and statements regarding the BRI reveal that infrastructure investments are rarely done based on a strategic environmental assessment (SEA) or environmental impact assessment (EIA).

Compounding the problems, Chinese companies and banks only have to adhere to the laws and regulations of the host countries. Those standards tend to be quite low.

bad experiences in the past. Projects run by Chinese companies were often marked by low quality, slow implementation, huge environmental damages and poor safety measures which resulted in many accidents. Moreover, costs often soared beyond what was initially planned.

LINK

China Programme/Stiftung Asienhaus, Chinadialogue (eds.): Silk road bottom up. Regional perspectives on the “Belt and Road Initiative”.

https://www.asienhaus.de/uploads/tx_news/Broschuere_Silk_Road_Bottom-Up_2017.pdf

NEGLECTED TROPICAL DISEASES

Networking instead of silo mentality

To beat neglected tropical diseases (NTDs), policies need to be better coordinated across a range of sectors – from strengthening health-care systems and developing hygiene programmes to poverty reduction, food security, climate-change mitigation and gender equality.

By Esther Dopheide

Twenty diseases are classed by the World Health Organization (WHO) as NTDs (see D+C/E+Z e-Paper 2016/11, p. 14). The most widespread are river blindness, trachoma, elephantiasis, worm infections and bilharzia. Worldwide, more than 1.5 billion people are directly affected by NTDs. Up to half a million a year die as a result.

The term “neglected tropical diseases” underlines the fact that the main risk groups are in developing countries. Women, children and people with disabilities are most affected. So NTDs are diseases of neglected people. At the same time, they are them-

selves neglected, because for a long time there was very little money available for research and treatment.

In the meantime, numerous programmes have been launched worldwide by a broad-based NTD community of NGOs, pharmaceutical companies and government agencies. Scientists at many institutes are pursuing NTD-related lines of research. What is still lacking, however, is better coordination with programmes in other areas.

The commitment to strengthening health systems, which was a priority of the German G20 presidency in 2017, should particularly go hand in hand with the fight against NTDs. That is the conclusion reached by the German network against neglected tropical diseases in a study presented at a CBM (Christoffel-Blindenmission) conference at the end of November in Berlin. The experts present agreed that it is not enough just to develop and make available new pharmaceutical products. An infrastructure needs to be created for

distributing medication at the local level. Jürgen May of the Bernhard Nocht Institute for Tropical Medicine in Hamburg says: “In some remote areas it is easier to get a cold cola than medicine.”

To control NTDs permanently, a comprehensive health-care delivery system needs to be created. This must deliver not just effective and affordable medicines but above all health-care centres staffed by trained professionals, free treatment and, last but not least, public awareness campaigns on the causes and prevention of NTDs. It is important that health-care services should be genuinely accessible to everyone. Toyin Aderemi-Ige, who heads the CBM country office in Nigeria – the country with the highest NTD infection rate in Africa – and is herself a wheelchair user, knows from personal experience that people with disabilities are still far too often excluded. “The problem needs to be tackled from different angles,” she says.

For example, risk of infection and disease is lowered by a comprehensive supply of clean water and improvements in hygiene standards. Conversely, NTD control measures help strengthen developing countries’ health-care systems by getting urgently needed basic services to even the remotest areas. And the construction of wells improves not only hygiene but also the nutrition of local communities and thus makes a broad-fronted contribution to the prevention of disease.

Coordinating policies across the various sectors is not just a constructive move for strengthening health-care systems and developing hygiene programmes. The authors of the study also cite poverty reduction, food security, climate-change mitigation and gender equality as important elements of integrated NTD work. They argue that anyone who works against inequality should also fight against neglected tropical diseases. That is the only way to stop NTDs being the diseases of neglected people.

LINK

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Wari Sanda from Nigeria suffers from river blindness. His son Barmani accompanies him whenever he goes out. Nigeria has the highest infection rates for neglected tropical diseases in Africa.

ARAB COUNTRIES

History of intellectual excellence

Tunisia stands out as the only democracy among Arab countries. The reasons why it managed the transformation from autocratic rule after the Arab spring have deep roots in history.

By Hans Dembowski

Seven years ago, a popular uprising toppled Tunisia's despotic President Zine El Abidine Ben Ali. Protests fast spread throughout the Arab world, and soon strongmen lost power in Egypt, Libya and Yemen too. Syria's devastating civil war began. Apart from Tunisia, however, all other countries affected by the Arab spring are today run by the ancien régime or have become failed states.

Observers now discuss whether Tunisia is a beacon of hope in a troubled region, or whether it is a special case that cannot serve as a model. Safwan M. Masri of Columbia University belongs to the second group. His recently published book "Tunisia – an Arab anomaly" spells out the many ways in which Tunisia differs from other Arab countries. Masri assesses the historical reasons of Tunisians' distinct sense of nationhood and their vibrant civil society:

- Tunisia has known organised statehood for millennia, going back to Carthage, which was Rome's competitor more than two millennia ago. It later became an important Roman province, and its current borders are basically those of that province. Tunisia was always a hub of pan-Mediterranean traffic. Thanks to trade, urban centres and considerable infrastructure, tribal affiliations did not matter as much as they do in most North African and Middle Eastern regions.
- After the Arab conquest in the late seventh century, the town of Kairouan became an important centre of Muslim scholarship. Tunisia had intellectual centres of excellence and fostered its own version of Sunni Islam, which fit in with pre-existing cultures. Tunisia was too far away from the centres of Muslim empires to be influenced by them much, but always stayed in touch with the Mediterranean's European shores.
- In the 19th century, Tunisian intellectuals took an interest in modernisation. They started new educational institutions, some of which were not linked to the faith. Secular and religious institutions were engaged in exchange discourse. Tunisia ended slavery before the USA did, and in-

tellectual leaders promoted women's rights early on.

- Habib Bourguiba, Tunisia's autocratic independence leader, built on Tunisia's specific history. He resisted pan-Arabism, which basically blamed all problems on the imperial powers, but did little to develop societies. Bourguiba invested massively in the bilingual education system, which relied on Arabic and French, emphasising science and humanities. Religion did not get a leading role. Moreover, the trade unions were given scope for independent deliberation, and family law was modernised in a way supportive of gender equality. Bourguiba did not want the armed forces to become a centre of power, so he did not spend much on the military.

Masri does an excellent job of showing that the success of Tunisia's Jasmine revolution has deep roots. Age-old traditions of indigenous intellectual excellence were reinforced after independence by a regime that, even though it was despotic, was developmental in the sense of promoting progress especially in the field of education.

Tunisia's democracy is still young. Long-term success is certainly possible, but by no means guaranteed. Masri finds it promising that Tunisia's major political forces have joined in a coalition government, and that the Islamist Ennahda party has changed its stance and now calls itself party of Muslim democrats.

Masri acknowledges that Tunisia has been hit by terror attacks and that religious fundamentalists are eager to see its democracy fail. Their aggressive stance proves Masri wrong in an important respect. Apparently, the extremists do see Tunisia as potential model – and that makes sense if one considers how fast the Arab spring spread throughout the Arab region. Quite obviously, what happened in Tunisia resonated elsewhere.

In developmental terms, nations can learn from one another even if their histories and social settings are not identical. Because of its specifics, Tunisia cannot serve as a blueprint, but it can certainly inspire hope in other Arab countries where people relate to what is happening in this special part of their region.

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Participant in protest rally in Tunis in January 2011.



Join us on Facebook!



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The screenshot shows the Facebook profile for 'D+C Development and Cooperation'. The profile picture is a building with a sign that says 'EL PARAISO'. The cover photo is a similar building. The page has 175,192 likes and 179,100 people who have signed up. The main post is titled 'High time to get organised: If they work collectively, developing countries have scope to make the international tax system less unfair.' It includes a table with columns for 'Country', 'GDP', 'Population', 'GDP per capita', and 'Population per sq km'. The table lists various countries and their corresponding data. Below the table, the text reads: 'On their own, the rich nations are no longer able to regulate tax issues internationally. In the past two decades, the debate on international taxation has changed considerably. While the system is still biased against the governments of...'. The page also features a 'Community' section with 179,192 members and an 'Info' section with contact details for D+C Development and Cooperation.



Rampant child smuggling

Many people from Zimbabwe go to work in South Africa. When they have settled there, they send for their children to join them. Many minors travel unaccompanied and without documents. Smugglers bring them across the border.

Thembi Nyathi's family was happy when their mother left for the rich neighbouring country of South Africa, because she had found work there and could send money home. She promised to fetch her little daughter to be with her, but it took three years for this to happen.

Finally, four-year-old Thembi left Bulawayo, Zimbabwe's second largest city, heading for South Africa to be reunited with her mother. She travelled in the company of several other minors. This reporter disguised as an illegal cross-border traveller and closely followed the underage migrants.

The transporter little Thembi travelled with lined up exactly 45 children ranging from the ages of two to nine years old, all of whom were bound for South Africa. None of the minors had travelling documents.

The smugglers claim that they record the details of all children they bring from Zimbabwe to South Africa. The parents pay at least 800 Rands (\$ 55) per child for the journey. But bribes for

patrolling cops and immigration officials from both countries on the highway make the costs shoot up still higher.

Often, the boys and girls do not reach their destinations. "Thembi was never delivered to her mother in South Africa," Melisa Ngulube, Thembi's aunt, recounts back in Bulawayo almost two months later. "She was driven back here by the transporter that had taken her to South Africa, because the money her mother had paid for her delivery was inadequate. The driver demanded 800 Rands more, claiming that the money that had earlier been paid got finished as he bribed cops and immigration officials during the journey." Since the mother couldn't pay, four-year-old Thembi was returned to her aunt.

This year alone, a total of 150 children were intercepted while being smuggled, according to the Zimbabwe-South Africa Cross-Border Coordination Committee for Unaccompanied and Separated Migrant Children.

For Zimbabwe's government, dealing with child smuggling has become a herculean task. "Every day we arrest a number of cross-border transport operators implicated in the illegal movement of children," says Francis Phiri, a police officer.



JEFFREY MOYO
is a journalist and lives in Harare, Zimbabwe.

moyojeffrey@gmail.com

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ENGAGEMENT GLOBAL gGmbH
Service für Entwicklungsinitiativen
Tulpenfeld 7
D-53113 Bonn
Phone: +49 (0) 2 28 2 07 17-0
Fax: +49 (0) 2 28 2 07 17-150
www.engagement-global.de

ADVISORY BOARD:
Thomas Loster, Prof. Dr. Katharina Michaelowa,
Prof. Dr. Dirk Messner, Petra Pinzler, Hugh Williamson

PUBLISHER:
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ADDRESS OF THE PUBLISHER AND EDITORIAL OFFICE:
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This is also the legally relevant address of all indicated as responsible or entitled to represent them in this imprint.

EDITORIAL TEAM:
Dr. Hans Dembowski (chief), Sabine Balk, Katja Dombrowski, Sheila Mysorekar, Eva-Maria Verfürth, Dagmar Wolf (assistant)
Phone: +49 (0) 69 75 01-43 66
Fax: +49 (0) 69 75 01-48 55
euz.editor@fazit-communication.de
Art direction: Sebastian Schöpsdau
Layout: Jan Walter Hofmann
Translators: Malcom Bell, Claire Davis

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ADVERTISING AND SUBSCRIPTION SERVICE:
FAZIT Communication GmbH
c/o InTime Media Services GmbH
PO Box 1363
D-82034 Deisenhofen, Germany
Phone: +49 (0) 89 8 58 53-8 32
Fax: +49 (0) 89 8 58 53-6 28 32
fazit-com@intime-media-services.de

PRINTING:
Westdeutsche Verlags- und Druckerei GmbH
Kurfürstenstraße 46
D-64546 Mörfelden-Walldorf, Germany

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CIVIL STRIFE

Shifting alliances

Yemen is stuck in a devastating humanitarian crisis. The reason is the civil war, in which foreign forces are intervening. The dynamics of the conflict are changing after the death of former president Ali Abdullah Saleh, but the suffering is likely to go on for quite some time.

By Maysam Behraves

Iran-backed Shia Houthi rebels – also known as the “Ansar Allah” group – killed Saleh on 4 December. Shortly before his death, on 2 December, Saleh declared the end of a 3-year-long alliance with Houthis in a televised speech and urged Yemenis to retake control of their country.



The results of a Saudi-led airstrike in Sanaa in early December.

He also made explicit peace overtures to the Saudi-led coalition of Arab states, which have been fighting Ansar Allah since early 2015. The Saudis want to restore ousted President Abdrabbuh Mansour Hadi to power.

Houthis felt betrayed by Saleh because he was secretly in touch with the United Arab Emirates and Saudi Arabia. Abdul Malik al-Houthi, leader of Ansar Allah, described Saleh’s killing as a “great and significant occasion”. In 1978, Saleh became

president of North Yemen, and later was the first head of state of reunited Yemen from 1990 on. His rule was marked by authoritarianism and corruption. He was toppled by protests in 2011.

The death of the former dictator is likely to change the dynamics of the civil war. It will also affect the balance of power between Iran and Saudi Arabia, two powers that are supporting opposite sides in Yemen.

From the outset, Ansar Allah’s alliance with Saleh was tactical rather than strategic. The Houthis fought against Saleh’s reign. It was the Saudi intervention that turned them into strange bedfellows. Their marriage of convenience displayed signs of disagreement from time to time. Three months

before his death, Saleh described the Houthis as a “militia” bent on conquering the country. In response, the Houthi leadership accused Saleh of “backstabbing”. The ensuing clashes left four people dead and many more wounded.

The street battles that took place in Sanaa immediately before Saleh’s death were far deadlier. They killed at least 125.

While many hardliners in Tehran have hailed the departure of Saleh as a victory for Houthis, the break in alliance between Saleh

supporters and Houthi rebels does not bode well for Iran and its position in the Yemeni civil war. There is a reason why a spokesperson of Iran’s foreign ministry called on both sides to resolve their differences peacefully and unify against the common enemy, Saudi Arabia.

Despite Ansar Allah’s proven capability in fighting asymmetric warfare and attritional guerrilla battles, Houthis lack the technological knowhow and experience of a trained conventional army. This deficit has so far been remedied by the presence of military forces loyal to Saleh. Most prominently, the Houthis almost managed to hit King Khaled International Airport in Riyadh with a ballistic missile. That would probably have been impossible without technical support from Yemeni army officers loyal to Saleh.

Saudis, meanwhile, have relocated Saleh’s son Ahmed, who was reportedly under house arrest in the United Arab Emirates, to Riyadh. They apparently hope that he might fill the power void left behind by his father and mobilise his loyalists against the Houthis. If that happens, Ansar Allah forces, who currently control Sanaa and vast areas in western Yemen, will face formidable battlefield challenges.

Iran has recently had the upper hand in this proxy war. Now its Revolutionary Guards are tempted to boost their support for the Houthis, urging them to take the battle further into enemy territory. Missiles have again been fired on Saudi Arabia from Houthi territory.

All in all, Saleh’s death does not offer a promising prospect of the Yemeni civil war in the future, which has so far claimed the lives of over 10,000 people. The escalation of fighting has already taken a great toll on civilians and will only exacerbate the nationwide poverty and famine Yemenis have been coping with since the start of the civil war three years ago. Just as in Syria, the involvement of foreign powers is perpetuating the conflict, making it last longer than it otherwise would.



MAYSAM BEHRAVESH is a PhD candidate in the Department of Political Science and an affiliated researcher at the Center for

Middle Eastern Studies (CMES), Lund University, Sweden.

MaysamBehraves.com

ZIMBABWE

Stopping a dynasty does not mean democracy

After President Robert Mugabe stepped down on 21 November, Zimbabweans celebrated in the streets. The country had obtained independence in 1980, but the people have hardly ever been free. Political leaders and the military never respected their rights. Emmerson Mnangagwa, the new president of the ruling party and the state, promised democracy – but in reality, he stands for business as usual.

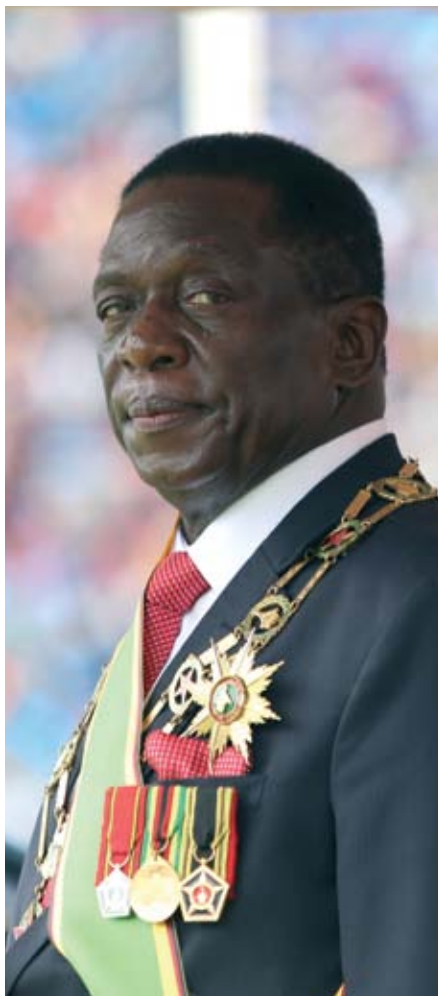
By Henning Melber

Mugabe had ruled the country for 37 years with an iron fist. His legacy includes genocidal massacres, rigged presidential elections and systematic clampdown on media, political opponents and civil-society activists. In the “Mugabeism” system, the country was run like the private property of a combined civil-political and military-security apparatus under the hegemony of ZANU-PF, the ruling party. Since the turn of the century, political repression, economic decline and an appalling deterioration of living conditions have forced several million Zimbabweans to leave the country.

While Mugabe was a driving force and the face of Mugabeism, he never acted alone. Mnangagwa was his faithful companion for over 50 years. Once Mugabe’s bodyguard, he spent several years with him in prison. Together they plotted the – when necessary also physical – elimination of political rivals.

During all the power struggles that occurred, Mnangagwa was loyal to Mugabe. Meanwhile, he pursued his own ascendancy. Mnangagwa was member of the government and the state security nexus ever since independence and coordinated most of the campaigns for ZANU-PF. Rigged elections were as much his responsibility as that of Mugabe and the military, which increasingly governed from the barracks.

As Minister of State Security Mnangagwa was in charge of the brutal massa-



Emmerson Mnangagwa is the second president of Zimbabwe.

cre of more than 20,000 Ndebele people in the 1980s. He referred to dissidents as “cockroaches” and the killers of the Fifth Brigade army unit as “DDT”, an insecticide. He dismissed the critical voice of the Catholic Church by cynically twisting the Sermon of the Mount into: “Blessed are they who will follow the path of the government laws, for their days on earth shall be increased. But woe unto those who will choose the path of collaboration with dis-

sidents for we will certainly shorten their stay on earth.”

It is no coincidence that Mnangagwa’s nickname is “the crocodile”. In Shona, the dominant language in Zimbabwe, the word is “ngwena”, and it is associated with a stealthy and ruthless character. Mnangagwa has proudly declared that he has “earned” this name. This could have been a warning to Mugabe. After all, a crocodile snaps back when being attacked. But the geriatric leader showed signs of a disoriented, frail old man whose talents as a cunning strategist were fading away. He became increasingly remote controlled by his wife Grace, who is more than 40 years younger. Dubbed “Gucci Grace” for her lavish shopping sprees, the power-hungry first lady emerged as Mnangagwa’s fiercest rival for Mugabe’s succession.

Mnangagwa’s dismissal, that had triggered the crisis, was dubbed a “bedroom coup” or “coup de Grace”. It was a tipping point for the military, which was the backbone of Mugabeism. They feared to lose control under Grace. The crocodile was their man and the personified continuation of rule.

When the military took over the country after Mnangagwa’s ousting, it was eager to stress that this “corrective measure” was an internal party affair and not a putsch. After Mugabe’s resignation, it installed a new civil-political government trusted by those who hold real power without occupying political posts. The first-struggle generation has for the time being fended off the onslaught by newcomers who were a threat to its vested interests. Mnangagwa guarantees business as usual.

Stopping a dynasty does not mean democracy. Publicly, Mnangagwa promised “unfolding and full democracy”. In a separate address to ZANU-PF party members, however, he stated that the train moves on while the dogs are barking. As the saying has it, a leopard does not change its spots. The question remains, if a crocodile does change its armoured skin.



HENNING MELBER

is senior research associate at the Nordic Africa Institute and extraordinary professor at the Universities of Pretoria

and the Free State in Bloemfontein.

henning.melber@nai.uu.se

AFRICAN UNION-EUROPEAN UNION SUMMIT

Give civil society more space

The fifth EU-AU summit in Abidjan, Côte d'Ivoire, was seen as a promising opportunity to reshape European-African cooperation. The slogan of the summit was "Investing in youth for a sustainable future". The topic was barely discussed, however. Generally speaking, the results of the summit fell far short of expectations.

By Maria Klatte

Civil society was given precious little space at the AU-EU summit. A parallel event called "Forum Citoyen Afrique-Europe" was broken up by local police, without any reasons being given, one day before the start of the official summit. The alternative citizen forum had been scheduled to start earlier, with MISEREOR contributing to its organisation. It was supposed to draft policy recommendations for fair and inclusive cooperation between Europe and Africa on such urgent matters as youth unemployment, migration, trade relations, land rights,

agriculture, fisheries and climate change. The alternative conference had convened more than 500 delegates from 16 African and seven European countries.

The forced break-up prevented forum participants from submitting their proposals to the official summit. It was a sobering symbol of the lack of a role for civil society in shaping sustainable cooperation between Africa and the EU.

The official summit was dominated by reports of slave trading in Libya. Media coverage of the event focused primarily on a plan to evacuate 3,800 refugees victimised by this dehumanising business in Libya and return them to countries like Chad and Niger. Such an evacuation would certainly have symbolical relevance, but it would be even more important to address the problem's underlying systemic issues. In recent months, the EU's anti-migration policy did much to worsen refugees' human-rights situation as stricter EU border controls frequently force migrants onto ever more dangerous routes.

The debate on flight and migration is primarily driven by European self-interest, yet innovative solutions are needed to tackle the summit's chosen topic: sustainable prospects for youth. Sixty percent of Africans are younger than 25. The majority of them still have no access to education or vocational training and thus lack long-term prospects. Africa's population, which today stands at 1.2 billion people, is expected to double by the year 2050. Creating long-term opportunities for young people will require a complete revision of EU-Africa relations. Local economies must be stimulated and vocational education promoted.

Agreements between EU members and African countries are still shaped by European self-interest. In particular, the existing Economic Partnership Agreements (EPAs) benefit strong actors like Germany, whereas African countries benefit less or not at all. For instance, smallholder farmers are crowded out of local markets in many places because of cheap food imports from the EU. They include powdered milk, tomato paste, poultry or pork. Poor people's livelihoods are being destroyed.

In light of high youth unemployment in Africa, investments will only create jobs if they simultaneously improve the quality of education and vocational training. Moreover, education and vocational training must correspond to local labour-market demand. In addition to promoting local businesses, craftspeople and shops, investors must also take into account the informal sector, which employs 84% of the labour force. Last but not least, investors must help to ensure that human rights and environmental standards are upheld.

All summed up, neither African economies nor the outlook of the continent's youth will improve significantly as long as the EU-AU relations prioritise European interests, such as migration control and exports. Civil-society involvement must be institutionalised for the consideration of young people's potential and perspectives of young people to be guaranteed long term.



Efforts to fight youth unemployment must also take into account the informal sector: street vendors in Lusaka, Zambia.



MARIA KLATTE
directs the Africa and Middle East Department at MISEREOR, a Catholic charity based in Aachen.

maria.klatte@misereor.de

POLITICAL SCIENCE

Access denied

Springer Nature is a global giant in academic publishing. The head office is based in the German city of Heidelberg. The company has recently caved in to censorship demands from China's communist regime, so internet users in China no longer have access to some 1,000 articles that deal with political issues such as the Cultural Revolution or Tibet. The publisher's decision has world wide implications.

By Jonathan Sullivan

Every sector of Chinese society has become more constrained under Xi Jinping. The Communist Party, private business, the media and internet, civil society and academia have all been affected by moves to reign in their “degrees of freedom”. For better or worse, this is the prerogative of the Chinese leadership. What I am about to write is thus not about imposing my “western values” on China or dictating how China should be run.

Instead, it is about “us”, western societies, institutions, businesses and individuals, and how we conduct ourselves in our interactions with China.

Given the tightening parameters of China's authoritarian information order, it was only a matter of time until western publishers became a target for exerting greater control. The first target, Cambridge University Press, initially acceded to demands from Chinese authorities to remove content from its website in China, only to reverse track when the backlash from academics threatened lasting reputational damage. Other publishers have followed. Some, like MIT, Oxford and Chicago University Press have said they will not self-censor. Sage meanwhile suggested that it would if asked.

Springer Nature stands out, not only because of its status as one of the world's largest academic trade presses, but because it actively barred access to some of its con-

tent to Chinese internet users. Moreover, Springer Nature has been admirably forthright in defending its decision to do so. Its rationale is that removing a small portion of its catalogue (albeit over 1,000 articles) was a small price to pay for continuing to provide access to material deemed agreeable to the Chinese state.

As an economic argument, it is unassailable. The offending materials come exclusively from journals publishing work on Chinese politics and related fields – a negligible part of Springer Nature's output. The economic impact is especially minimal when compared to consumption in China itself, where medical, engineering, business and language-learning texts are in high and lucrative demand.

It is when we go beyond purely economic cost-benefit analysis that Springer Nature's decision raises serious issues. By allowing the Chinese government to decide what is legitimate knowledge the publisher undermines the ethos (freedom of thought and dissemination) and the process (review by peers not political officials) on which academic research is predicated. If that is so, we might question the legitimacy of Springer Nature's role in the academic sector. How



Not all relevant essays are available online anymore – an academic library in Suzhou.

can we trust the integrity of an academic institution (which is what presses are whether they are also commercial enterprises or not) if the ultimate arbiter of academic research is outsourced to an unrelated body whose primary criteria is not academic but political?

When I submit my work to an academic publisher (based on my labour that is paid for by the British taxpayer), I enter an informal contract based on trust that the submission will be stringently but fairly reviewed by academically competent persons who are picked by the publisher and whose identity I do not know. If my work is deemed by blind peer review to make a contribution to knowledge, I trust that the press will publish it in accordance with the sector's standards in a timely fashion and make it available to all subscribers.

If this process is not adhered to, that betrays not just my trust but that of all academic colleagues. The decision whether an essay is a contribution to knowledge must not be outsourced to a government whose primary concern is political correctness.

This may sound overly abstract given the “negligible” practical impact. The read-

ership of the blocked content in China is likely very small. However, there are practical implications. In some cases, for example where Chinese academics have had their articles removed, it could affect professional advancement. The years of dedication and hard work required to publish academic research could, in theory, be negated as authors are denied promotions or tenure due to the idiosyncrasies of a crude keyword search (the method Springer Nature appears to have employed).

At the present time, the likelihood of such extreme hypothetical scenarios is low. But, my major concern is that we are at the beginning of a long downward spiral. A precedent has been set. What can Springer Nature do but accede to the Chinese authorities' wishes next time it decides to demand content removed? Today it is “highly sensitive” topics like Tibet and the Cultural Revolution that have been removed; tomorrow it may be slightly less sensitive topics and so on. This is a slippery slope, the end point of which is conforming with the Chinese definition of legitimate knowledge.

As I said, I am not here to tell the Chinese authorities what they should do. But I must state that for academics outside China it is an intolerable intrusion on our fundamental freedoms to have the merits of one's professional output dictated by a foreign government.

Which brings me to my final point. As China's global engagement intensifies, as Chinese interests and confidence to assert and protect them increases, it is inevitable that they will come into contact with our own. It is therefore essential that in western academia, and in western societies more generally, we consider our own interests and values. We need to decide what we value and what we are willing to do to protect it. Do we value the freedoms of academic inquiry and expression? Or are those values that we are willing to compromise?



JONATHAN SULLIVAN
is the director of the China Policy Institute at the University of Nottingham.

jonathan.sullivan@nottingham.ac.uk



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INDUSTRIAL POLICY

Pragmatism instead of ideology

In his article “Debate on Industrial Policy” in D+C/E+Z e-Paper 2016/03, p. 31, Michael Grimm took stock of the debate on industrial policy based on a number of recent publications. We would like to take up where he left off and argue that the question at hand for developing countries is not whether industrial policy is essential, but rather what form it should take to be most effective.

By Tilman Altenburg and Wilfried Lütkenhorst

In essence, industrial policy is the strategic attempt to shape economic structural change so it moves in a socially desirable direction and backs greater, overriding goals. While political actors, especially gov-

ernments, intervene in market dynamics to achieve policy goals, this does not mean they are replacing the market economy with a command economy.

Industrialised and developing countries alike are facing unparalleled challenges today. The economic development agenda has long strived to reduce poverty and inequality and to address rapid urbanisation. Moreover, there is a pressing need to decarbonise economies, which particularly concerns the energy, production and transport sectors (DDPP, 2015). Another growing challenge is to respond appropriately to disruptive technological change, such as the trend towards digitisation (OECD, 2017). The ramifications of all these challenges affect

structural change in every country in the world. They have impacts on national economies as well as on global and regional value chains that continued growth in export-oriented developing countries depends on.

Fundamental issues must be addressed. They include designing urbanisation suitably, identifying technologies to fight climate change and understanding digitised production processes’ implications for the future of work. Countries in the early stages of industrialisation also face the challenge of choosing a path that is both sustainable and avoids poor investment choices, such as building carbon-based energy and transport systems.

INFLUENCING MARKET PROCESSES

Industrial policy can offer effective answers. To start with, interventions that guide market processes clearly make sense. Active pursuit of policy goals implies being “doomed to choose” (Rodrik/Hausmann, 2006). It will



Experts agree on the need for industrial policy: freighters transport tropical timber along the Congo near Kinshasa in the DR Congo.

not do, however, to enact temporary, individual measures to correct market failures every now and again. Economic textbooks tend to pretend that this is sufficient, based on the assumption that market forces naturally ensure the best possible allocation of resources. However, prices can never fully represent complex social goals. Technological innovations and institutional changes require political guidance, especially when it comes to systemic changes (such as the transition to renewable energy).

Responsible industrial policy must promote an environmentally friendly and socially resilient market economy. For example, policymakers must assess the social compatibility and future viability of the results delivered even by well-functioning markets. Where appropriate, they should create supportive incentives and set targets concerning employment, climate or income distribution. Ultimately, industrial policy needs normative legitimacy.

Market enthusiasts like to allege that industrial policy necessarily implies that governments pick winners they encourage and subsidise, thus inviting lobby activism and “political capture”. This view is clearly an ideological exaggeration.

Rational industrial policy defines technology corridors with a promising future (for example those with low carbon emissions and high resource efficiency) and provides incentives that leave tangible investment decisions to companies competing in the market.

There are also many different ways to let market competition shape policy measures. They include bidding procedures, for example related to feed-in tariffs for renewable energies, or linking technology funding to cluster concepts that drive cooperation among companies, research institutions and civil-society stakeholders.

CHALLENGES OF IMPLEMENTATION

Implementing industrial policy measures successfully is demanding and complex. Low-income countries in particular are likely to face considerable challenges. Unfortunately, those countries that have the least efficient markets and which most urgently need structural change to boost development, are generally the ones that lack effective institutions that could promote critical reforms (Altenburg/Lütkenhorst, 2015).

Our book “Industrial policy in developing countries. Failing markets, weak states” explores the implications for development policy and cooperation. We argue that it is crucial for poor countries to pursue multiple goals such as growth, increasing productivity, fighting poverty, creating jobs, ensuring environmental sustainability et cetera. Moreover, these countries are under intense pressure to act fast in view of rising expectations of their growing populations.

Adopting a wait-and-see approach is unrealistic. Governments cannot sit back and hope that market dynamics in and by themselves will foster the kind of development that increases the capability of the necessary institutions. “Second best” approaches are needed and they must, to the extent possible, rely on self-correction and adjustment mechanisms. Important steps include:

- involving all stakeholders in defining national transformation projects,
- taking the economic capabilities of companies and skills of workers into account when deciding on the speed and sequencing of implementation,
- regularly monitoring and evaluating performance and
- promoting a culture of learning.

The idea is to create a climate of transparency that can help prevent corruption and political capture.

ANALYSIS NEEDED

Powerful analytical tools are essential for making evidence-based industrial policy. It is necessary to design proper models of current economic structures and to identify comparative competitive advantages. The better policymakers can predict future developments accurately, the easier it becomes to set medium and long-term priorities. It is often difficult to identify the technology fields and economic sectors that offer realistic growth opportunities. Such assessments require a smart mix of quantitative and qualitative instruments (Altenburg/Kleinz/Lütkenhorst, 2016), especially given the dramatic technological revolution we are currently experiencing.

In essence, developing countries should neither accept premature deindustrialisation (a trend empirically demonstrated by Rodrik, 2015), nor can they afford

misguided industrialisation. Scarce resources must be invested wisely to promote productive and sustainable development. There is always the risk of choosing poorly, but this in no way means we should not pursue rational industrial policy. It is far more dangerous to passively observe the global economy changing fast without adopting strategies to respond.



TILMAN ALTENBURG
is head of the “Sustainable Economic and Social Development” department at the German Development

Institute, GDI.

tilman.altenburg@die-gdi.de



WILFRIED LÜTKENHORST
is a GDI associate fellow and previously was a managing director at the United Nations Industrial Development

Organisation (UNIDO).

wluetkenhorst@aon.at

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GOVERNMENT CAMPAIGN

The slandering of a philanthropist

Hedge-fund billionaire George Soros unapologetically supports human rights and liberal democracy. His Open Society Foundations (OSF) network funds civil-society organisations, educational institutions and minority-rights campaigners in many countries. For obvious reasons, governments with authoritarian tendencies, like the Hungarian one, resent him.

By Dan Nolan

The vilification of George Soros at the hands of the Hungarian government is baffling at first sight. The philanthropist has donated several hundred million dollars to the country through the OSF since the 1980s. He set up an OSF office in his native Budapest and co-founded the Central European University (CEU), which has become Hungary's most prestigious institution of higher learning. Moreover, he endowed it with \$ 880 million. Soros also financed the post-graduate studies of many aspiring students, some of whom have since risen to positions of leadership. One of them is Prime Minister Viktor Orbán. Soros was born in Budapest, and, while his philanthropy has global reach (see box, p.19), he pays particular attention to Hungary.

Nonetheless, Orbán has turned against his benefactor. Hungary is currently swathed in anti-Soros posters that accuse the mega-donor of trying to undermine the Hungarian nation. It is no secret that Orbán supports this campaign – and so do Orbán-friendly media. They portray Soros as an all-powerful puppet master who has a “plan” to push refugees on Hungary and have millions of euros paid to them. Moreover, the philanthropist is accused of demanding impunity for criminal migrants.

Meanwhile government has held a “national consultation” by sending out questionnaires to 8 million households. Its questions regard Soros and his role in Hungary. It is estimated that the media empire of Orbán ally Lőrinc Mészáros made more than the equivalent of € 7 million running government advertising in this context in the third quarter of 2017.



Anti-Soros poster in Hungary: “Don’t let Soros have the last laugh!”

Orbán’s critics accuse the prime minister of promoting conspiracy theories. In their eyes, the anti-Soros campaign has no credibility whatsoever. Even senior members of Orbán’s governing party Fidesz have publicly stated their doubts about the so-called “Soros Plan”. Zsolt Neméth, who chairs the Foreign Affairs Committee of the Hungarian parliament, called the anti-Soros activism “symbolic”. Sándor Pintér, the interior minister, has admitted that Orbán’s order to uncover “threats posed to Hungary” have not yielded any results.

Soros and Orbán, a populist leader, are not natural allies. In 2014, Orbán announced he wanted Hungary to become “an illiberal state” that, like Russia or China, emphasises national interests. During the refugee crisis of 2015, Orbán turned against Soros, likening him to “people smugglers and activists (...) who support everything that weakens the nation state”. Personal attacks on Soros, whose OSF network protects minority rights, then began in earnest.

At the end of 2016, Orbán pronounced that 2017 would be “the year of the de-Soro-

isation of Hungary”. The prime minister obviously felt encouraged by Donald Trump’s victory in the presidential elections in the USA. In March, the Orbán government proposed a law designed to restrict the activities of foreign funded universities. The step was read as an attack on the CEU. The university, which focuses on law, economics, social sciences and humanities in general, has been fighting back, but the government has so far declined to sign a deal to guarantee its existence.

In June, the Orbán government passed a law requiring many non-governmental organisations to declare themselves as “foreign-funded” if they receive more than the equivalent of €23,000 from abroad. The background is that NGOs which are supported by the OSF are a regular source of discomfort for Orbán. The anti-corruption watchdog Transparency International and the investigative journalism website Átlátszó consistently expose graft in the Orbán regime, while “strategic litigation” cases taken up by the Helsinki Commission have shown the illegality of the Orbán government’s hardline stance on refugees at the European Court of Human Rights.

ANTI-SEMITIC OVERTONES

Orbán is proud of his friendly relations with Russian President Vladimir Putin. His policies mirror those adopted by Putin to discredit NGOs, liberal activists and “the west” in general. Orbán is also rumoured to resent members of Hungary’s liberal intelligentsia who shunned him in the 1990s. The prime minister is wooing far-right voters, and many anti-Soros billboards emulate anti-Jewish German posters from the 1930s. Some Hungarians evidently get the message. Slogans like “shit rat”, “thief” and “Jew faggot” have been scrawled across posters that depict the philanthropist. Graffiti demand “death to Soros and other Jews”.

Israel’s Prime Minister Benjamin Netanyahu, who is normally eager to denounce anti-Semitism anywhere in the world, failed to speak up on behalf of Soros when visiting Budapest this year. The obvious reason is that Soros endorses all peoples’ human rights, including Palestinians. In eastern Europe, the OSF supports the Roma minority at a time when many governments have abandoned any serious plans to improve their plight or even agitate against this ethnic group.

Soros finally responded to the vilification campaign in November 2017, both on his website and in an interview with the Financial Times. “With Hungary’s health-care and education systems in distress and corruption rife, the current government has sought to create an outside enemy to distract citizens,” he wrote. Soros argues that the Hungarian government has picked him as a convenient scapegoat. He accuses

the Orbán regime of “launching a massive anti-Soros media campaign costing tens of millions of euros in taxpayer money, stoking anti-Muslim sentiment and employing anti-Semitic tropes reminiscent of the 1930s.”

Even Hungary’s European Commissioner, Tibor Navracsics, who belongs to Orbán’s party, appears to agree with Soros. According to him, the alleged “Soros Plan” is

merely “a rhetorical element of the upcoming election campaign”. He says that no such plan exists. Hungary’s general election will take place in spring.



DAN NOLAN
is a freelance journalist based in Budapest.
dannolan@protonmail.com
Twitter: @nolan_dan

George Soros: Mission inspired by Karl Popper’s liberal philosophy

With 37 offices worldwide and grantees in over 100 countries, the Open Society Foundations (OSF) is a global philanthropic network with considerable financial power. The OSF were founded in 1979 by George Soros, a Budapest-born Jew who fled Hungary after World War II for the UK and later the US, where he made his fortune as a Wall Street investor. His hedge fund wielded considerable political influence in 1992, when, by speculating against the pound, it forced the UK to leave the EU’s exchange rate mechanism.

The OSF mission is “to build vibrant and tolerant societies whose governments are accountable and open to the participation of all people”. It is inspired by the teachings of the philosopher Karl Popper, Soros’s former professor at the London School of Economics. Popper’s most famous book is a manifesto for liberal democracy with the title “The open society and its enemies”. In October 2017, Soros transferred another \$ 18 billion to the OSF, raising his lifetime total donations to \$ 32 billion.

The OSF network has contributed to promoting individual freedoms in formerly Communist countries as well as post-apartheid South Africa. In many countries OSF affiliates support civil society, promoting democratic freedoms, social justice and human rights. The network has financed hospitals, welfare and environmental organisations and health research. OSF funding also helps to ensure the human rights of women, ethnic minorities and refugees and counteracts racist and homophobic agitation.

There is no OSF “master plan”, only localised funding. Moreover, the OSF organisation is complex and bureaucratic, mostly avoiding public attention. These aspects make it a perfect bogeyman for policymakers with authoritarian leanings.

For obvious reasons, some regimes do not appreciate support for independent organisations that fight corruption and demand democratic governance. Most notoriously, Russia banned the OSF as an “undesirable organisation” in



2015, after nearly three decades of OSF operations in the country. The OSF response was: “In the past, our efforts have been welcomed by Russian officials and citizens, and we regret the changes that have led the government to reject our support to Russian civil society and ignore the aspirations of the Russian people.”

Populist leaders around the world are increasingly scapegoating the OSF and are keen on banning its activities. Governments are copying anti-NGO laws from other countries (see Frank Priess in D+C/E+Z e-Paper 2017/02, page 16), and attacks on the OSF have oc-

curred in China, India, Kenya and elsewhere. The Hungarian government is perhaps running the most aggressive anti-Soros campaign so far (see main article).

In the USA, Soros has spent heavily on causes such as reforming criminal justice and stemming HIV/AIDS. Most Republicans consider Soros a left-leaning liberal. Indeed, he generously supported Hillary Clinton, the Democratic candidate in last year’s US presidential election. (dn)

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DECENTRALISATION

A deadly power struggle

In Mozambique, decentralisation has been the subject of the most intense political debates and conflicts for more than two decades. At first sight, the government and opposition parties are essentially fighting over how much power the provinces should be given. But in fact the opposition wants political responsibility and power for the administrative units where it has won the majority of votes. So far, government has managed to avoid that.

By Friedrich Kaufmann and Winfried Borowczak

After the parliamentary elections of 2014, the apparently mere administrative problem of decentralisation became enormously politically contentious. That's because the most important opposition party, Renamo, demanded that itself – not the president, like in the past – should appoint the governors in those central Mozambican provinces where it had won a majority of votes. Government refused that, and that sparked a “mini-war” between the armed forces of Renamo and the security forces of the “eternal” government of Frelimo that has been ruling the country since 1975. Mozambique was on the way to a failed state (see Kaufmann/Borowczak in D+C/E+Z e-Paper 2017/6, p. 20 and box, p. 22).

The conflict over decentralisation even led to murder. On 3 March 2015, a hit squad shot and killed Gilles Cistac, a constitutional expert and university professor, on the streets of Maputo. He had received death threats in the weeks before. On Mozambican television and in newspaper articles, Cistac argued that the constitution allowed provincial governors to be elected by the people rather than appointed by the president, as had been the case to date. He also believed that the provinces were entitled to total self-governance. Though there is no evidence of a direct connection between Cistac's murder and his expert opinion on the constitution, many viewed the crime as evidence that advocating for far-reaching decentralisation can be life-threatening.

NO FINANCIAL RESOURCES OF THEIR OWN

The history of decentralisation in independent Mozambique begins in the 1990s with the first steps towards deconcentration as a means of transferring power to the provinces (see box, p. 21). The provinces now elaborate and manage their own budgets (ongoing expenditures and investments). They receive the necessary funding from the Ministry of Finance. There is comparatively little oversight by the Ministry of Finance or other relevant ministries. The national parliament rubber-stamps the provincial budgets without discussion or a special vote.

Since 2008, the provinces have their own elected assemblies. That is where provincial budgets are discussed and voted on, which gives them greater legitimacy. However, since the provinces do not have their own financial resources, but are instead still allocated funds from the Ministry of

Finance, and since the provincial governments are under no obligation to the provincial assemblies, an institutional no-man's land between central government and provincial assemblies exists, where questions of power and loyalty are unsettled and therefore contentious.

Already in 2003, a special law (LOLE) was passed to further expand and systematise the administrative and decision-making powers of the provinces as well as the districts, without actually altering their fundamental subordination to the central government. It is worth mentioning that the justice system has undergone a certain deconcentration of its own in the last 25 years.

Much more contentious than deconcentration has been the process of devolution, or the transfer of power to lower levels. As early as 1994, parliament, acting on a suggestion by the Frelimo government, passed a law that envisaged local self-governance for all cities (cidades), small towns (vilas) and rural communities (localidades). The goal was for the entire territory and the entire population to be self-governed at the local level. But power-conscious forces within Frelimo halted its implementation. They were afraid that voters in municipal



A rare sight in Mozambique: members of the Frelimo and Renamo parties work together to construct a road.

Photo: Neil Cooper/Linear

elections would allow Renamo to dominate the local governments in regions of its strongholds.

Instead the government drafted and passed new laws in 1996/97 that envisaged a gradual roll-out of local self-governance. In 1998, the first municipal elections (for mayors and local assemblies) took place in 33 cities and small towns, which were home to almost 20% of the people. Nowadays, 53 municipalities, or about a quarter of all citizens, have the privilege of local self-governance. Nevertheless, about 75% of all Mozambicans are still governed by provincial and district administrations that are ultimately controlled by Maputo.

A LACK OF SUCCESS

The introduction of local self-governance has so far had a rather limited impact on the quality of life of people in the affected municipalities. Their financial resources are all too limited, there is a serious lack of qualified personnel, and the local elected officials often simply carry on the practices of corruption, unjust enrichment and nepotism that are common at the national level. Donor countries are aware of these problems and offer support in the form of advice or funding, but these measures have been largely ineffective given the complexity of the situation.

Local self-governance has also failed to reduce the overwhelming dominance of Frelimo. In municipal elections, the opposi-

tion parties of Renamo and MDM have never won majorities in more than four or five cities and small towns, meaning that there are very few places where they have been able to appoint the mayor or hold a majority of seats in the local assembly. In the current legislative period (2013-18), MDM won the mayorship in four of the 53 municipalities, but Renamo did not win a single office because it chose to boycott the municipal elections. When Renamo mayors were voted out of office, election fraud was a frequent factor. The city of Beira is worth mentioning in this context. For three legislative periods in a row, MDM has won a majority of seats on the city council and retained its mayor, Daviz Simango.

NEW LOCAL ELITES

The largest change that the entire decentralisation process has brought about thus far is the emergence of new local political elites formed by all three relevant parties. These people have risen to the top despite their limited authority, financial resources and qualifications. Such a process is never without conflict, not only between competing parties, but also within them. The most spectacular example was the case of the successful mayor of Maputo, Eneas Comiche, during the 2003-08 legislative period. In 2008, his party, Frelimo, refused to allow him to run for re-election, which he almost certainly would have won, because he refused to engage in corrupt practices relating

to the allocation of building land to party members. Additionally, he was in favour of participatory budgeting.

Even though it is the strongest opposition party with its own small army, Renamo has so far not succeeded in capturing significant positions of power at the local level. They have never been able to retain a mayorship beyond one legislative period. And those mayors always oscillate between being weak and unremarkable.

Nevertheless, the Renamo leadership knows that it would finally achieve a meaningful political victory if it were able to place its own people in the office of provincial governor in its six claimed central Mozambican provinces. It would be able to do so if a new legislation were to allow people to vote for governor, but especially if a new law were to award complete political and administrative autonomy to the provinces.

Renamo continues to argue that more extensive decentralisation, particularly at the provincial level, would give it the opportunity to pursue better policies in the interest of all Mozambicans. But these arguments should be taken with a grain of salt. After all, Renamo is also a party mired in the logic of unjust enrichment, clientelism and rent-seeking. Like Frelimo has done to date, Renamo would probably use these positions to transfer a little bit of power to lower levels, but above all to shore up new regional Renamo elites. Most likely corruption, unjust enrichment and mismanagement would be the rule. Renamo governors

Decentralisation means deconcentration and devolution

Decentralisation is an umbrella term for two related but distinct processes: deconcentration and devolution. Deconcentration refers to the transfer of administrative capacities and also limits the decision-making responsibilities of government levels below the central level. In Mozambique, an extremely centralised

country, this means for instance that tax offices or building authorities can be established in every district in the country and that offices that register newborn babies and issue personal identification cards are within reasonable distance. That is still not given. In every case, however, political control and

expert oversight are ultimately retained by the central level, for instance by a relevant ministry.

Devolution, on the other hand, does not only refer to the transfer of administrative and decision-making capacities to lower state levels. It also refers to a relative transfer of power to lower levels. State duties and the financial resources to carry them out are transferred to lower levels of government. They are also granted the right to collect certain local taxes and fees. The important thing is that the

state permits municipalities to practice local self-governance, which means that they can establish their own administrations and democratically elect various bodies. The powers of the central government are limited to legal supervision of the lower levels. The municipalities (municípios) are responsible for instance for building and operating primary schools, supplying drinking water, removing rubbish, legal metrology and maintaining law and order. (fk/wb)

who tried to escape this logic would have to expect internal sanctions.

Ultimately, political control of six provinces is just one, albeit important, stepping stone for Renamo. But with the “mini-war” that it instigated and that both sides fought stubbornly, Renamo, like Frelimo, was trying to access Mozambique’s many sources of rent. These include not only natural resources, but also state monopolies, public contracts and access to extensive donor funding. Control of a part of the state apparatus also opens up numerous opportunities for well-paid positions in state institu-

tions, state-run companies or infrastructure projects. None of this has anything to do with democratic decentralisation, not to mention rational governance.

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FRIEDRICH KAUFMANN is the head of the German Chamber Network office in Maputo in the context of the BMZ’s ExpeRTs CIM

programme. The views expressed in this article are his own personal opinions.

friedrich.kaufmann@gmx.net



WINFRIED BOROWCZAK is an independent consultant, specialised in decentralisation.

winborow@aol.com

The conflict between Frelimo and Renamo

The “mini-war” between the security forces of the Frelimo government and the fighters of the Renamo opposition started in 2013 with attacks on police stations, military vehicles and civil trucks by Renamo guerrilla forces. Renamo argued that the implementation of the peace accord of 1992, which ended the 1977-92 civil war, was incomplete. It criticised specifically the intermingling of state and Frelimo party, an insufficient integration of Renamo fighters into the army and the police and the slow decentralisation process. The new conflict was accompanied in the second half of 2016 by a rather unsuccessful attempt at international mediation. In November 2016, the mediators presented a proposal to settle the conflict. They proposed that the government give in to Renamo’s demand that it can govern the six central Mozambican provinces where it had won a majority in the 2014 parliamentary elections.

This suggestion is complex and has far-reaching implications. The mediators are proposing a constitutional amendment that would turn the provinces into something

like federal states. To date, Frelimo has neither accepted nor rejected this idea. Instead, the international mediators were escorted home at the end of 2016, and a national negotiation commission consisting of representatives from both Frelimo and Renamo was established to address the issue of decentralisation and integration of Renamo fighters.

President Filipe Nyusi and Renamo leader Afonso Dhlakama agreed to a ceasefire on Christmas 2016, by satellite phone. Later in 2017 they met in the bush of the Gorongosa Mountains and signalled the will to come to an agreement. The ceasefire may be fragile, but it has been upheld thus far. The next local elections will be held in 2018. (fk/wb)



Poster for the “eternal” governing party of Frelimo in Mozambique.

Transactions are taxable if they are accounted for in the formal sector: paying for medication in a pharmacy in Cameroon.

Disputed taxes

Without appropriate funding, good governance is impossible. Governments must raise the taxes they need to provide for the common good. At the global level, there is tough competition over what country may tax what part of an international business. Developing countries should become more assertive in this debate. At the same time, they must mobilise domestic revenues. Introducing new taxes or increasing existing ones is unlikely to be very popular – but under-funded state agencies are not popular either. Prudent policymakers must strike the right balance.

Incentives to become formal

Since democratisation in 1991, tax reforms have led to increased government revenues in Benin. Due to the large informal sector, however, the country's tax base remains small. To further increase tax revenues, the government should give businesses incentives to register as formal companies.

By Karim Okanla

Like in most sub-Saharan countries, Benin's fiscal system was first established under colonial rule. In 1960, the country gained independence from France under the name of Dahomey. A few years later, Benin introduced a series of reforms abolishing the colonial fiscal system. The two agencies responsible for collecting taxes were merged, and in 1968, the General Directorate for Tax Collection was established. It was entrusted with the exclusive responsibility of collecting money owed to the government.

According to Giulia Piccolino, an affiliate of the Hamburg-based GIGA Institute for African Affairs, the reforms were only partial and did not comprehensively restructure the fiscal system. Internal revenues stayed quite small, and the taxation system remained underdeveloped. Piccolino sees this as one cause of the fiscal crisis that hit Benin under Mathieu Kérékou's Marxist regime in the 1980s. Back then, public debt accumulated, and by the end of the decade, the state was bankrupt. The government could not pay its employees' salaries anymore and the banking system collapsed.

Among other things, Benin's democratisation process in the early 1990s was a response to this fiscal collapse, Piccolino argues. Fiscal reforms have since led to an increase in tax revenues from not quite 11% of gross domestic product (GDP) in 1992 to more than 17% in 2011. This figure is actually higher than the 15% tax-to-GDP ratio that the World Bank considers appropriate for low-income countries. Piccolino states that Benin seems to have reduced its aid dependency since the 1990s, even though it still receives considerable aid.

However, several governance problems like corruption and weak institutional

capacity remain. The case of Sebastien Ajavon is an example, believed to be linked to political malfeasance. Ajavon is the founder of Benin's largest supplier of frozen chicken. He was fined 167 billion CFA Francs (the equivalent of about € 254 million) for allegedly evading taxes. Some people argue that the fine was politically motivated, because Ajavon had ran for office against Patrice Talon, the current president, in the election of 2016. After coming in third in the poll, he supported Talon in the run-off, only to declare that he was joining the opposition a few months later. Soon after, he was accused of tax evasion.

Efforts to reorganise tax collection with an eye to more efficiency are under way. In 2014, Benin introduced the Taxe Professionnelle Synthétique for micro and small enterprises (MSE). Earlier, there had been several tax collection systems, now there is only one. Signing up for the tax register and commercial register is done in one place. The MSE are no longer taxed according to rental value; the new yardstick is turnover. Accordingly, tax calculation has become more transparent and predictable. Unfortunately, the reform has not encouraged many businesses operating in the in-

formal sector to officially register as formal companies.

BROADEN THE BASE

Rene Charles Dovi, an expert on tax matters based in Cotonou, believes that ongoing reforms have helped to harmonise the way taxes are collected in Benin. Nonetheless, he sees "room for improvement". In his eyes, it is a great problem that many businesses remain informal, which is often a competitive advantage. After all, registered companies must comply with more rules and regulations, including tax laws.

A tax-collection professional says the government should offer incentives to people operating the informal sector to formalise their business. Access to micro-finance services could be an incentive. Even though tax rates would have to be kept low, more formal businesses would mean more tax revenues. The same professional suggests that taxes should be levied on institutions that now enjoy tax exemptions, including private institutions of learning for example. Their exemption was granted to promote private education following in view of the failure of government institutions in the 1990s. More generally speaking, non-governmental organisations could be taxed too.

According to a senior tax official interviewed by Piccolino, about 80% of internal revenues are collected from some 75,000 civil servants and up to 800 large compa-



The more people pay taxes, the better: market in Porto Novo, Benin.

nies. There are certainly more individuals and business organisations that should pay taxes. They could be identified in cooperation with local governments as well as professional organisations. To motivate such partners, they could be given small share collected taxes.

The use of information and communication technologies (ICT) could accelerate tax payment. For example, small taxpayers could use rapid money transfer systems like 'Mobile Money' or electronic transfers to clear their bills. Moreover, the government is working on computerising the administration and developing new tools to prevent fraud and embezzlement. To reduce the scope for tax evasion and avoidance, the government could benefit from cooperating with various partners, including law firms, asset management firms, insurance companies, mobile-phone operators and even trade unions.

DONOR INVOLVEMENT

International donors support Benin's tax-related reforms. The International Monetary Fund (IMF) is prominently involved, for example in capacity building tax administration. Awareness raising has been done to motivate citizens to pay their taxes, and tax payment has been made easier. The



modernisation of tax collection remains a key task, and donor support is needed. Especially in remote areas, where the lack of computers and electric power thwart digitisation, revenue officers must work in a slow and outdated manner. All too often, taxpayer registration is still being done using pen and paper, and taxes are collected in cash.

To improve efficiency of tax collection and management, the IMF is encouraging the complete overhaul of the fiscal administration. One goal is to merge the various revenue-collection services into a single one. Doing so will affect functions of management, control and effective tax collection. The IMF is in favour of defining the division of labour precisely. According to its proposals, the central administration should be in charge of conception and

design, animation and back-up services, whilst operational units should be responsible for management, control and effective tax collection.

Land ownership is another serious challenge. Due to unclear and insecure land rights, buying land in Benin is fraught with unpredictability. It is common for many people to claim ownership of the same plot. The matter is usually brought to court, and it can take several years before a ruling is issued. Meanwhile, the rightful owner is denied the privilege of using his property.

The government has been trying, unsuccessfully, to get a grip on the issue for a long time. Now the idea is to collect taxes on land, and that may help to sort out things. If that happens, the government standing will improve. For it to earn and keep the trust of the people, however, what matters most is that it must handle taxation transparently and make good and accountable use of the budget.



KARIM OKANLA
is a lecturer in media studies, communication and international organisations at Houdegbe North American

University in Cotonou, Benin.
karimokanla@yahoo.com

High time to get organised

In the past two decades, the debate on international taxation has changed considerably. While the system is still biased against the governments of developing countries, the politics have moved in their favour. If they are able to organise and work collectively, they have scope to make the international tax system less unfair.

By Mick Moore

The system for taxing international economic transactions is not coherent and does not really merit the label "system". It is a mixture of – sometimes conflicting – national laws,

bilateral treaties and international agreements, treaties and practices. It is complex, involves many players and is very hard for anyone to understand. There is no tax equivalent of the World Trade Organization.

To the extent that we can talk of a system, its foundations were laid down almost a century ago. The major concern, then as now, was the allocation among governments of the rights to tax the profits of companies operating transnationally. From the beginning, the system embodied two biases:

- It favoured the governments of capital-exporting countries and the big private-sector companies, based in those countries,

that accounted for almost all international private investment.

- Companies and wealthy individuals, aided by well-paid lawyers and advisers, could exploit – or create – loopholes in legislation and rules to avoid tax. Until the 1960s, Switzerland was a prime beneficiary and the only major tax haven.

The system began to evolve significantly in the 1960s through the combined influence of:

- liberalisation of capital movements,
- steady increases in transnational capital flows,
- economic globalisation and
- the search for sources of livelihood for the many small island jurisdictions that had been part of the British colonial empire.

The number of tax havens multiplied, and the amount of business that they did increased much faster.

The most evident losers from this system were the governments of developing countries. Transnational companies operating in developing countries were especially able and likely to shift their profits, in an accounting sense, to tax havens – where they paid little or no tax. However, the governments of the richer countries also found, over time, that the system was no longer working to their advantage. “Their” transnational companies were locating subsidiaries in tax havens, booking profits there and paying less tax at home. Further, the fiscal secrecy surrounding tax havens was facilitating terrorism, the drug trade and corruption.

MILLENNIAL CHANGE

Things began to change seriously after the turn of the millennium. The Tax Justice Network, Global Witness and a range of other campaigning groups were established and began to promote public awareness of these issues, especially in rich countries. For the first time, stories about tax avoidance by

multinational corporations began to make media headlines. More and more information – of which the Paradise Papers are the latest instalment – came into the public domain.

In 2008, the global financial crisis struck. It soon turned into a fiscal crisis for many governments of the rich countries that belong to the Organisation for Economic Co-operation and Development (OECD). They spent a great deal of money bailing out banks and ran up big debts. As they began to seek more revenue, tax havens and the system that made tax havens possible came under scrutiny. Formally acting under a mandate from the G20 group of leading economies, in late 2013 the OECD launched a two-year process to come up with policy recommendations on these issues. This was termed the BEPS process, where BEPS stands for “base erosion and profit shifting”.

BEPS was focused entirely on international tax and did not deal with the related issue of international money laundering. This was not entirely to the liking of the governments of many developing countries, es-

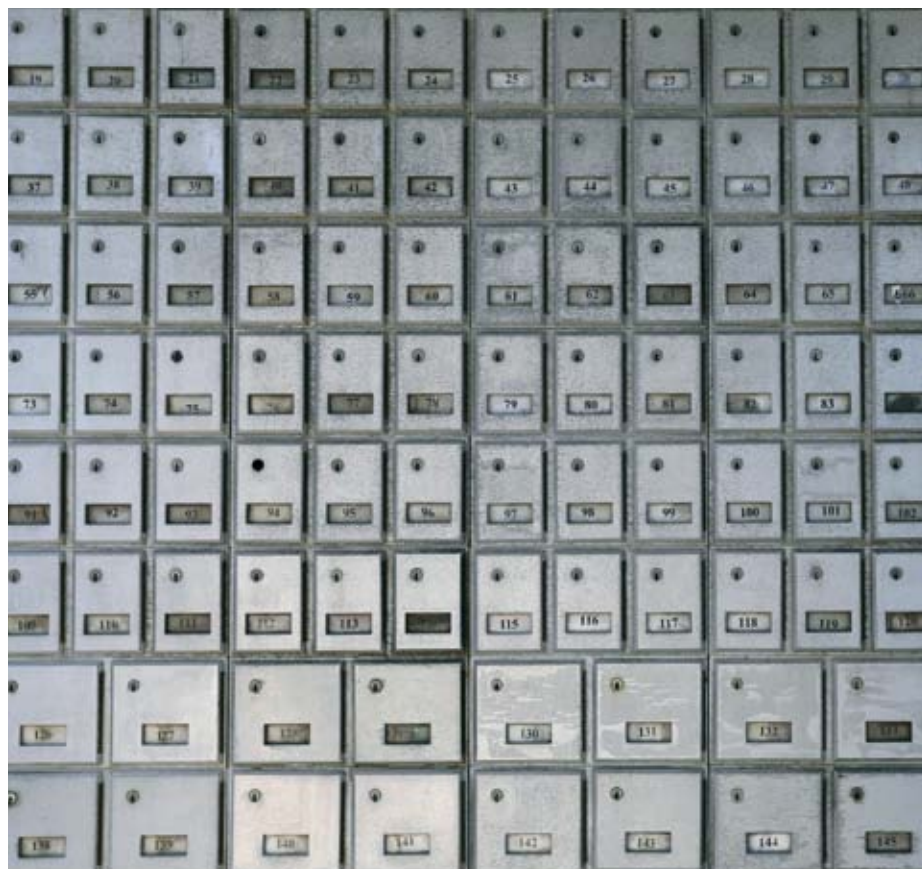
pecially in Africa. They had already become rather attached to a narrative about “illicit financial flows”, that seemed to provide statistics about how much money was being extracted from Africa through national financial transactions. This narrative was promoted in particular through the 2015 “Report of the high level panel on illicit financial flows from Africa” (Mbeki Report).

The concept of “illicit financial flows” is highly judgmental. Statistics on the incidence of illicit flows are questionable and often used in misleading ways. In particular, they tell us little about the tax revenue that African governments are losing and provide a misleading impression of the potential revenue that African governments could earn from reducing illicit flows.

The rhetoric around illicit financial flows did, however, serve to bolster the dissatisfaction of many spokespersons for the global south about the BEPS process. From the beginning, they questioned why responsibility for dealing with a global issue had been assigned to an organisation that was simply a club of rich countries. That questioning never stopped.

So was the BEPS process doomed from the outset? Or did all this criticism of the role of the OECD pile on the pressure to ensure that the final recommendations were not too OECD-centric and would seriously address the concerns of developing countries? One could find evidence for both positions. The BEPS recommendations, produced in 2015, certainly disappointed many people. They did not involve any radical reform of the international tax system. But that had never been the mission. Some recommendations are positive and useful. That is especially true of country-by-country reporting: the recommendation that all large transnational corporations disaggregate their accounts to provide detailed information on their activities in each national jurisdiction in which they operate.

But BEPS is not the end of the process. Indeed, it is clear in retrospect that it was only the beginning. It has intensified rather than closed down the debate. Various other reform initiatives have been developed outside the BEPS process. From the perspective of developing countries, one of the more important are initiatives, led by the OECD, to improve the exchange of information among national tax authorities. The declared goal is to make this system global and



Cayman islands P.O. boxes.



An Apple store in London: Silicon Valley corporations are hoarding profits abroad, avoiding taxation in the USA.

fully automatic, so that any national tax administration can obtain automatically from any other country the information it needs on a particular taxpayer.

From the perspective of developing countries in particular, there is still a great deal to do to make these recent reforms useful. Their tax administrations are running into a new – and on the whole rather welcome – problem, exacerbated by the rapid spread of the use of digital technologies in tax administration: they have access to far more information than they can actually process.

All this tax activism and lobbying is beginning to generate real change. Developing countries are not excluded from decisionmaking about international tax issues to the extent that they were excluded a decade ago. In some respects at least, the OECD is taking their interests very seriously. That is not because the OECD is particularly altruistic. As an organisation, it faces some serious challenges. The UN Tax Committee, which is a potential rival as representative of the tax interests of developing countries, has been upgraded. More broadly, the BRICs and other newly emergent national powers are decreasingly likely to fall into line with

the views of the rich countries that traditionally dominated the OECD. Becoming a more truly global representative body, in practice if not in terms of formal membership, has become something of an organisational imperative for the OECD.

LET THE STRUGGLE CONTINUE

None of this means that developing countries, or organisations that have their interests at heart, should stop pushing for reforms to the international tax system. It does mean that developing countries now can – and I believe should – organise collectively and take the initiative. For example:

- Many aid donors are now committed to spending more money on domestic resource mobilisation in developing countries. The recipients need to decide what they want to spend it on. Empowering themselves to deal with this new flood of information and to take advantage of new arrangements for the exchange of tax information globally could be a priority.
- There is very little harmonisation among developing countries in the legal and organisational arrangements that they make to interact with the global economy

in respect of tax issues. Each has their own set of tax treaties, sometimes with very diverse provisions. Some have no laws or rules about the vital if rather arcane issue of transfer pricing. Where they have them, they are very diverse. Similarly, each country draws up its own legislation, rules and administrative procedures about the granting of tax exemptions to investors. Where there is no harmonisation, powerful transnational corporations and foreign governments can deal with developing countries one by one and obtain some rather generous advantages.

It is too much to expect all developing countries to reach agreement on these kinds of issues in less than a decade at least. But there is a great deal of scope for regional and sub-regional coordination and harmonisation. The ball is now in their court.



MICK MOORE
is CEO of the International
Centre for Tax and
Development and professorial
fellow at the Institute of

Development Studies at the University of Sussex.

m.moore@ids.ac.uk

Double standards

African countries tend to collect only a small share of gross domestic product (GDP) as taxes. Accordingly, government revenues are low. Stronger domestic resource mobilisation (DRM) could help to drive development, as OECD governments like to point out. The donor countries, however, bear responsibility for tax dodging, especially by multinational corporations based in their nations.

By Dereje Alemayehu

The tax-to-GDP ratio does not reflect the fairness of a tax system. In most member countries of the OECD (Organisation for Economic Co-operation and Development), an umbrella organisation of rich nations, it has remained relatively constant in the past three decades. However, a big shift took place from direct to indirect taxes, which led

establish equitable tax systems that make all citizens pay according to their ability to pay. The higher one's income is, the higher the share of taxes one pays should be. That kind of tax system is called progressive. Moreover, African governments must do their best to curb illicit financial flows (IFF) in the global context.

African countries' tax-to-GDP ratios are low compared with those of OECD members today. However, they resemble those of OECD nations when their economies were not yet industrialised, diversified and technology-based. Back then, for example, it was not unusual for European governments to raise only 10 % of GDP.

The structure of African countries' economies is one reason for the low tax-to-GDP ratios. Tax collection is made difficult by the preponderance of subsistence agri-

International experience shows that governments are more likely to be accountable to citizens as tax payers than governments who depend less on taxes. Indeed, taxes reflect a "social contract". The people pay taxes, and in return the government delivers social services and builds infrastructure. Typically, budgets are adopted by parliaments, and the social contract is reinforced in elections.

Unfortunately, African tax systems are not yet in a situation to strengthen the social contract. The reason is that they increasingly rely on indirect taxes – such as the value added tax. Consumers are often not conscious of paying these taxes. Moreover, these taxes disproportionately burden the poor, who must spend almost all of their income on consumption.

Thanks to loopholes and exemptions, the better-off do not pay appropriate income or other taxes. All too often, governments intentionally provide them with tax avoidance opportunities. Adopting more progressive tax systems would not only raise fiscal revenues, but also address the issue of inequality. Another important aspect would be that national revenue services would have to be made more accountable and more transparent in order to minimise corruption, enhance efficiency and boost credibility. All summed up, the governance of African countries would benefit from better and more progressive taxation.

LIMITED SOVEREIGNTY

Nominally, tax policies are a sovereign prerogative. Each country is free to determine its tax policy. In practice, however, international financial institutions (IFIs) and donor governments have a strong influence on African policies (see box, p. 29). African countries have the right – and the duty – to adopt policies that serve their people rather than the interests of multinational corporations. The tax holidays that foreign investors have been granted undermine African statehood and thwart attempts to make tax systems fairer.

The influence of IFIs and donor countries in maintaining the status quo cannot be overstated. OECD countries condone tax dodging in Africa. Their stance reminds one of the attitude they used to have towards bribes. Until the beginning of the century, they not only tolerated this kind of corruption but even made bribes tax deductible. If



The informal sector is difficult to tax: selling potatoes in Arusha, Tanzania.

to a redistribution of the tax burden from the better-off to the worse-off. This example shows that fairness depends on what kind of taxes are collected.

African countries could raise their tax-to-GDP ratio by collecting more money from the poor, but that would compound problems of inequality. The aim must be to

culture, the lack of diversification and the huge share of the informal sector in urban areas. It would make sense to widen the tax base and raise taxes from the informal and subsistence sector. Measures to do so would not only raise revenue, but also turn the majority of the people into tax paying citizens with a voice.

they were to deal with multinationals' tax avoidance and tax evasion as illegal as they at long last did with bribery, this would be consistent with their rhetoric to support African governments to mobilise more domestic resources.

Illicit financial flows (IFFs) are depleting Africa's public revenue. Stemming them is a hot topic of development discourse. African governments' scope for action is limited, however, as IFFs involve manipulation of international trade prices, theft of public assets and tax-haven operations. The most notorious tax havens actually belong to the OECD: 15 are British crown dependencies and overseas territories, including the Virgin and Cayman Islands.

In 2011, the African Union and the UN Economic Commission for Africa set up

a high-level panel on IFF. It was chaired by Thabo Mbeki, the former president of South Africa (also see Mick Moore, p. 25). The panel published its report in 2015. It estimated that up to \$ 60 billion a year leave the continent in the form of IFF.

Among other things, the panel recommended to eliminate secrecy jurisdictions around the world. Scandals such as Swiss Leaks, Luxleaks, Panama Papers and the recent Paradise Papers revealed the universality of tax evasion and tax avoidance. They also proved the role of secrecy jurisdictions in facilitating such practices. After a few weeks of public outrage, however, it has so far always been back to business as usual.

OECD countries are making efforts to reduce tax dodging at home and prevent profit shifting that affects their own rev-

enues. But not much is being done in terms of profit shifting from developing countries and IFF from Africa.

If OECD governments really want to support African countries' efforts to mobilise domestic resources, they must do more than merely offering advice on tax policies and the management of revenue services. A good place to start is to minimise revenue loss through tax dodging and IFFs. Measures of this kind would boost the legitimacy of action to improve Africa's domestic tax systems.



DEREJE ALEMAYEHU

is senior advisor to Tax Justice Network Africa.

alemayehu@taxjusticeafrica.net

Undermining statehood

In the past decade, donor governments have increasingly been admonishing African countries to improve their domestic resource mobilisation. What they tend to overlook is that they themselves played a role in reducing government revenues in Africa in the past – and are still doing so today.

Beginning in the early 1980s, the international financial institutions and donor governments insisted on structural adjustment programmes that emphasised on “privatisation, deregulation and liberalisation”. Aid and concessionary loans depended on African governments adopting such policies which, however, reduced public revenues.

Compounding the problems, privatisation was linked to the mantra of attracting foreign direct investors. Tax concessions and exemptions were one way to lure foreign companies; another was the free repatriation of profits. Several

case studies show that, in some cases, the governments of developing countries spent more money on attracting investors than they collected in taxes from their businesses. The implication is that the governments actually subsidised the companies concerned.

Even today, African governments often grant multina-

tional corporations very favourable tax clauses in investment agreements. In a similar way, double taxation agreements (DTA) are becoming an increasingly important reason for African governments forgoing and forsaking tax revenues (see essay by Nico Beckert, p. 32). Officially, DTAs are supposed to ensure that a company is only taxed once and that the revenues are shared fairly by the countries involved. In practice, however, DTAs tend to benefit

the countries where the multinationals are based. Case studies and other evidence show that the sums could be significant.

The International Monetary Fund no longer endorses DTAs as a matter of course. Analysing the case of Mongolia 2012, it concluded that “some DTAs contain favourable provisions allowing residents of other countries to substantially reduce source taxation in Mongolia”. In the ensuing period, Mongolia decided to cancel its DTAs and to selectively renegotiate them with an eye to ensuring taxation in Mongolia.

Since then, the IMF has been advising developing countries to be careful about signing DTAs. Nonetheless, all OECD members continue to insist on such agreements. They are keen on DTAs that ensure tax concessions to “their” respective multinationals. This approach flies in the face of the demand of donor governments' demand to improve domestic resource mobilisation in Africa and undermines the official development assistance they provide in support of this cause. (da)



The mining industry is Mongolia's most important income source – and the experience with double taxation agreements has not been good.

The true price of management fees

Tax treaties are supposed to serve two purposes. They are meant to avoid double taxation and to prevent tax evasion. In practice, they all too often turn out to be double non-taxation agreements.

By Catherine Ngina Mutava

Tax is like a cake. Everybody wants to have a slice, but you really only want to share it with people you like. If everybody who wishes to have a piece gets one, the cake is gone soon. For this reason, governments agree on tax treaties that spell out what country gets to tax what part of an internationally run business.

Tax agreements are complex legal arrangements, but it can generally be said that they distinguish active from passive incomes. Typically the host country has the right to tax activities that take place within its borders, while the country where the company resides is entitled to collecting taxes on dividends, royalties, interest payments and other kinds of passive income. The passive income, of course, reduces the profit made in the host country – and thus the host country’s scope for taxation.

One term that helps to boost passive income is “management fee”. It is so vague that it doesn’t really mean anything much at all. A foreign company can simply charge its African subsidiaries management fees for any kind of advice or service it provides, syphoning off profits from the host country. Corporate giants like Google, Amazon or Starbucks use management fees and royalties to shift profits to tax havens. They claim that their various subsidiaries are paying for intellectual property rights, management services and other things. In reality, of course, the multinationals are not running serious operations in the tax havens concerned.

Kenya is one of the largest flower exporters to Europe. Despite this, most flower companies in Kenya do not pay taxes in Kenya. Foreign owners, who mostly reside in the Netherlands, provide the capital and have found clever ways of shifting profits by charging the Kenyan flower companies all sorts of fees including marketing and management fees. In accounting terms, they are not making money in Kenya. We must not take for granted, moreover, that the flower companies pay taxes in Netherlands. Rich

nations’ tax systems have all sorts of loopholes, and their governments are creating tax havens of their own. The Netherlands are known to be a low-tax country.

The truth is that Kenya needs government revenues to build infrastructure and provide public services, but a large number of companies that are active in an important sector of the economy are probably not being taxed at all. This is not fair, but it is perfectly legal.

It would be wrong to blame only the rich nations’ governments for this sad state of affairs. African governments are signatories of the treaties too. The truth, however, is that there is a lot of elite capture, which is why the African Union is unlikely to become a force for positive change in international tax matters. After all, the people who make decisions in the AU context are the people who have money in Swiss banks.

Tax treaties tend to contain very many loopholes. Combined with national loopholes, they often add up to double non-taxation agreements. The good news is that African countries have begun to close national loopholes. If tax authorities work hard on improving their transfer pricing units, moreover, they can claw back some money from multinationals. Kenya has recently been quite successful at doing so.

On the other hand, African leaders are tempted to create tax havens of their own. When the public was not paying attention before the elections in summer, Kenya passed a law to establish the Nairobi International Financial Centre. The official mission is to create an internationally competitive hub for the financial industry, but the hidden agenda is to have a tax haven. Strict secrecy rules will apply to firms registered there, and the central bank will not have oversight. Top policymakers, including the president, are on the Centre’s board, and they will be in control.

They are determined to have a tax haven of their own, but whether they will succeed, remains to be seen. Kenyans are known to be fond of litigation, and the new centre is likely to be challenged in court.

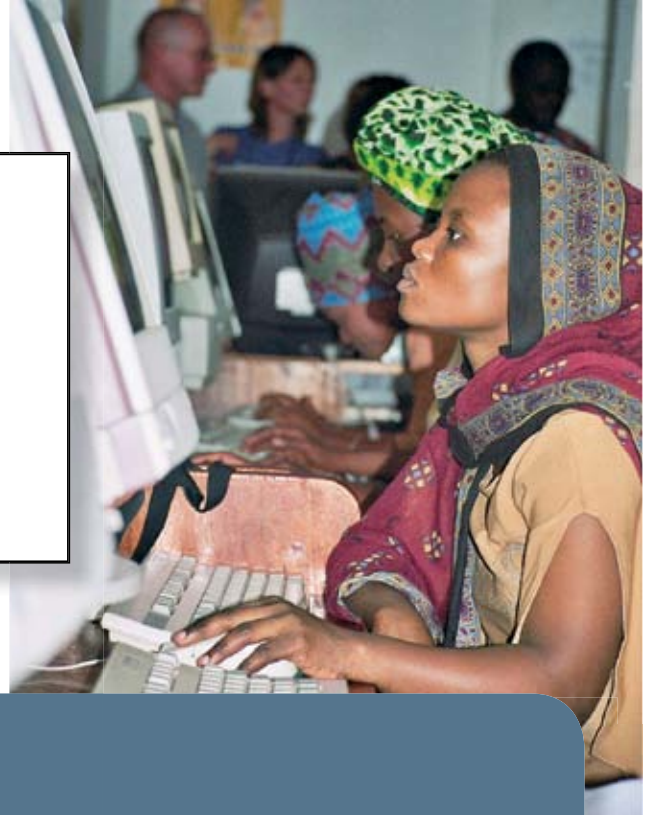


Flourishing no-tax industry: Kenyan flower farm.



CATHERINE NGINA MUTAVA is the associate director of Strathmore University’s Tax Research Centre in Nairobi. cmutava@strathmore.edu

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18/12/2017 - by Mick Moore

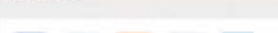


18/12/2017 - by Jeffrey Moyo

Recent blog contributions

- The new ANC leader must face the dilemma of globalisation
- The USA is setting the wrong example on taxes

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Missing billions

In spite of being rich in commodities such as gold, diamonds, gas, copper or rare earth minerals, many African countries are among the poorest in the world. One reason is tax evasion by international corporations, particularly in the commodities sector. To pay as few taxes as possible in resource-rich countries, these companies use illegal as well as legal – though morally dubious – methods.

By Nico Beckert

Tax evasion by international oil, gas and mining companies costs resource-rich countries billions of dollars in lost tax revenue every year (see also D+C/E+Z e-Paper

ing an annual \$ 8.7 billion in health care in 46 African countries would save the lives of 4 million children a year. And \$ 5.2 billion per year would be enough to pay for the teachers needed to allow every child in Africa to go to school.

Tax evasion and avoidance thus have an enormous impact. Governments of countries like Zambia, the Democratic Republic of the Congo, Chad, Niger or Liberia spend less than \$ 6 billion a year. While it is true that some African presidents embezzle part of their countries' revenue, corruption committed by politicians and civil servants makes up only a tenth of the amount that African countries lose due to tax avoidance

facilities. They must also be able to grant loans to encourage investments and new businesses. Without tax revenue, governments cannot provide these things and thus depend on outside help. According to numbers collected by the policy watchdog Global Policy Forum, the revenue lost is comparable to the amount of official development assistance (ODA) that sub-Saharan Africa receives.

It will be next to impossible to meet the Sustainable Development Goals (SDGs) if tax evasion and avoidance continue unchecked. According to UN estimates, between \$ 750 and \$ 1.3 billion in public spending will be needed each year to implement the 2030 Agenda worldwide. ODA will certainly not cover the entire costs.

TRICKERY AND DECEIT

Multinational corporations and the natural resource sector use many tactics to avoid paying taxes. Even as they are negotiating mining contracts, companies use their negotiating power, their knowledge of contract clauses or plain bribery to ensure that they are exempt from certain taxes either entirely or for a long time.

Another trick is what is known as transfer mispricing. The company sells the commodity it has extracted to a subsidiary in a tax haven for far less than the market price (see Tobias Hauschild, p. 34). This means that the company makes little profit in the country where the commodity is produced and pays very little tax accordingly. On the other hand, very few taxes are incurred in the tax haven where the profit was shifted to. The country's low tax rates are what makes it a tax haven after all. If such no- or low-tax countries did not exist, companies would have fewer opportunities to evade and avoid taxes in commodity-rich countries. Dishonest practices are also used to avoid paying value-added taxes, excise taxes, licence fees and dividends.

Double taxation agreements can be used to avoid taxes as well (see Catherine Ngina Mutava, p. 30). They spell out which country an international corporation will be taxed in: for instance in the country where its corporate headquarters are located or in the country where it earns its profit. The point is to avoid taxing it twice. But many of these agreements were designed in a way that disadvantages poorer countries.



Protest in London in August against British mining companies that are accused, among other things, of evading taxes in Africa.

2017/03, p.12). According to estimates by the UN and the World Bank, the total sum amounts to a double-digit billion figure.

Non-payment of taxes has serious social, economic and political consequences. The countries affected lack the money for basic public services. According to the World Health Organization (WHO), invest-

by corporations, according to the research organisation Global Financial Integrity.

Because of lost tax revenues, countries in question struggle to develop sustainably and build strong economies. To promote entrepreneurship and create jobs, countries need basic infrastructure that includes streets, electric power, schools and research

The use of double taxation agreements to evade taxes is not illegal, but it is extremely dubious in moral terms. The international non-governmental organisation ActionAid has demonstrated as much with the example of an Australian mining company that operates in Malawi. In order to avoid taxes in Malawi, the company made use of a tax treaty that existed between Malawi and the Netherlands. It established a subsidiary, with no employees, in the Netherlands and sent its Malawian money there. The tax rate in the Netherlands was zero percent, so the money could flow without deductions on to the company's headquarters in Australia. Over six years, the company thus saved \$27.5 million it would otherwise have had to pay Malawi's tax authority.

This case is not exceptional, and the sum in question is comparatively low. According to the Dutch NGO SOMO, an oil company once tried to evade tax payments of more than \$400 million in Uganda. After lengthy court proceedings, Uganda was at least able to collect a portion of that amount.

Many of the affected countries are demanding that their interests be taken into account when it comes to the taxation of international companies, particularly in the mining sector. At the UN Conference on Financing for Development in July 2015 in Addis Ababa, a group of 134 developing and newly-industrialising countries insisted that an inter-governmental commission be created at the UN level. They hoped that it

would give them a greater say in international negotiations on tax matters. However, many western countries rejected the request, so nothing came of it. So far, international decisions concerning tax issues are still primarily being taken by members of the G20 in the context of the OECD (Organisation for Economic Co-operation and Development), which is an umbrella organisation of rich nations (see Mick Moore, p. 25).



NICO BECKERT

is a freelance journalist and campaigner on commodities issues at Haus Wasserburg in Vallendar.

nico.beckert@gmx.net

Blog: www.zebralogs.wordpress.com

Battling tax evasion

In recent years, there have been multiple initiatives at the international level to fight tax evasion and avoidance with greater transparency and new standards. Both the US and the EU passed rules that require commodities companies to disclose tax payments and other payments they make to governments. In the US, however, industry lobbies resisted the implementation of the measures, and in early 2017, Congress decided to completely halt enforcement of the transparency rules.

The EU Accounting Directive has been criticised for only addressing illegal corruption. Critics contend that it does little to prevent more subtle cases of legal, but morally questionable tax avoidance. The relevant data is still being concealed. Non-governmental activists believe that greater public pressure is needed to ensure proper behaviour as well as more rigorous investigation of corporate practices.

At the moment, the European Parliament and the European Commission are debating what information companies should be required to disclose and which companies would be affected. The Commission's proposal does not go as far as the Parliament's. Like the Accounting Directive, which only

applies to the commodities sector, it would do little to remedy the unsatisfying current situation.

In regard to double taxation agreements, so-called anti-abuse rules have been proposed. However, NGO activists and members of the European Parliament feel that these proposals are not really addressing the problem. The reason is that it will be very difficult for commodities-rich countries

to prove that companies have taken advantage of loopholes. To apply the anti-abuse rules of double taxation agreements, governments would have to provide such proof.

In order to stop transfer mispricing, donor governments' bilateral development agencies are training staff of tax authorities in commodities-rich countries, teaching them to look for the signs. Detecting the practice is not easy. But NGOs do not think these measures go far enough. They want the OECD (Organisation for Economic Co-operation and Development) to adopt an entirely new approach called "unitary taxation". It would apply to the entire profits of a corporation, including those of all of its subsidiaries. According to a formula that would be determined at the international level, all countries in which the company is active would then be entitled to tax a specific share of the profit. Unitary taxation would help to ensure that companies are taxed on the basis of their actual value and profit. The approach would also help to stem tax avoidance. (nb)



A committee of the European Parliament discussing the Panama Papers in May. The Panama Papers made information about large-scale tax evasion and money laundering public.

Applying double standards is wrong

Tax havens are the spider in the web of tax avoidance, and the international community has officially declared to fight them. However, a coherent and effective policy on tax havens is still a long way off.

By Tobias Hauschild

Tax havens attract assets and profits. They offer a mix of extremely low tax rates, bespoke tax incentives and financial secrecy. They thus permit the avoidance of fair taxation – at the expense of the citizens of poor as well as rich countries. Blacklists are an

important instrument to tackle them. But at present, they are not being used in a way that would put tax havens under real pressure. The G20 summit in Hamburg, for instance, approved a blacklist proposed by the Organisation for Economic Cooperation and Development (OECD) that contained just one country: the Caribbean island state of Trinidad and Tobago.

The EU now promised to do better, and published its own tax-haven list. On 5 December 2017, European finance ministers agreed on a blacklist that contains 17 countries and jurisdictions. Another 46 are on

a so-called “grey list”. These are countries that are currently considered tax havens but have committed to reform their systems.

Fears that the EU blacklist might end up virtually empty – and thus a complete farce – were unwarranted. Indeed, the list includes most of the 35 countries and jurisdictions that need to be blacklisted according to Oxfam researchers who applied the EU criteria.

But weaknesses are apparent. The EU assessed countries on the basis of three key criteria:

- tax transparency, which particularly includes willingness to exchange information with other administrations,
- fair taxation, which means that they do not grant harmful tax breaks, and
- implementation of the OECD’s Base Erosion and Profit Shifting (BEPS) standards.

Whether taxes are levied at all is not a criterion. A zero-percent tax rate does



The Bank of Bermuda. Its home country is on the EU's grey list of tax havens.

not automatically mean that a jurisdiction is considered a tax haven; it is just one of many indicators. This point highlights a major challenge in international policy-making. Countries with extremely low tax rates keep driving the ruinous race to the bottom in international taxation, but this impact is still not regarded as a fundamental problem.

Most of the countries on the EU blacklist are small, and many of them are located in the Caribbean. The list is not consistent. That it includes countries like Mongolia and Tunisia is baffling indeed. The main reason is that these countries fail to meet the transparency criterion, as they do not participate in the international exchange of information. What is being ignored is that their tax administrations simply do not have the capacities to comply with international standards. Middle- or low-income countries should only be listed if they actually engage in harmful tax practices.

It is striking that many heavyweights among the world's tax havens – Switzer-

land and Bermuda, for instance – are merely on the grey list. This is because the EU says it has secured commitments from them to reform. However, the precise nature of those commitments remains unclear. The EU needs to disclose details of the reforms agreed and press for prompt implementation. The grey list must not be a “long-term lifeboat”. Countries that fail to introduce prompt and substantial reforms should be put on the blacklist. To have a serious impact, moreover, the list also needs to be linked with measures such as levying taxes on financial flows to tax havens.

Another weak point of the EU stance on tax havens is that it ignores EU members. Oxfam reckons that, according to the criteria now set by the EU, Malta, Luxembourg, the Netherlands and Ireland should also be on the list. If the aim really is to shut down tax havens, it does not make sense to apply double standards.

The blacklist is merely a first step. The EU must next consolidate the list by

identifying the real tax havens, and it must put pressure on them. It needs to make its assessment reasons more transparent and, above all, recognise that very low and zero tax rates are an important criterion. Countries that depend heavily on their status as tax havens deserve support for developing sustainable business models. And the EU needs to intensify the pressure on its member states to end harmful tax practices within its own borders.

LINK

Oxfam, 2017: Blacklist or white wash? What a real EU blacklist of tax havens should look like.

<https://www.oxfam.org/en/research/blacklist-or-whitewash-what-real-eu-blacklist-tax-havens-should-look>



TOBIAS HAUSCHILD
is a policy advisor with Oxfam Germany.

thauschild@oxfam.de

Broaden the base; close loopholes

To raise taxes, a public administration must be well organised. Several factors have a bearing on the success of reforms designed to increase the tax-GDP ratio, so reforms need to be planned long-term, as Stefanie Rauscher, a tax expert with GIZ, argues.

Stefanie Rauscher interviewed by Hans Dembowski

How do you assess developing countries' capacity to generate government revenues?

A lot has happened in the past 10 years. In many countries, the awareness has grown that development opportunities depend on the state's ability to raise revenue successfully. The international buzzword is “domestic resource mobilisation”. Taxes matter very much in this context. Donor countries, by the way, agree that this issue deserves more

attention and that more resources must be committed to it accordingly. The Addis Tax Initiative (ATI), in which both developing countries and donor countries committed to verifiable targets, was launched in the context of the UN Financing for Development summit in the Ethiopian capital in 2015.

What has been achieved?

Well, tax to gross domestic product (GDP) ratios have risen in Asia and Latin America in the past 10 to 15 years. Some countries have increased their revenues considerably. Moreover, international networks have emerged that promote the exchange of experience, capacity building and awareness raising. One example is the African Tax Administration Forum (ATAF). But it remains a huge challenge to mobilise domestic resources in the least developed

countries, sub-Saharan Africa and fragile states.

What are the most important measures to improve the tax system?

It is essential to broaden the tax base, which means to include as many people as possible, but also to close loopholes. Moreover, the administration must be strengthened, and corruption must be fought. These priorities are obvious, but there is no blueprint for reform sequencing since the conditions differ from country to country.

Why is it difficult to raise taxes in developing countries?

There are various obstacles. Countries with low tax ratios are typically characterised by a big informal sector, which is hard to tax. These countries depend on the tax payments of a small number of very big private-sector companies. However, major multinational corporations are especially well versed in aggressive tax planning, and the revenue administrations of developing countries are often no match for the com-

plex tax-minimisation strategies they adopt. Moreover, many governments and their tax administrations struggle to develop tax systems that strike a balance between efficiency, equity and administrative simplicity in a healthy way. Efficiency means to raise as much money as possible while intervening as little as possible in the economy. Finding the right mix of taxes, setting tax rates, defining the tax base and anticipating how the various rules will interact is a demanding task. Once that is done, law enforcement is the next challenge.

Are there typical pitfalls?

Yes, tax exemptions are an example. Many countries have a multitude of exemptions that were introduced for various reasons. The intention may have been to stimulate investments or to make life easier for poor people. The World Bank reckons that tax exemptions amount to up to six percent of GDP in some developing countries. Studies have shown, however, that tax exemptions often do not lead to the desired results, because loopholes often set the wrong incentives. Of course, tax exemptions reduce the size of the tax base. Nonetheless, it is very difficult in political terms to phase out tax exemptions. The people concerned feel entitled to them.

How can policymakers overcome such opposition?

Well, it can be helpful to estimate the amount of revenue that is lost because of the tax exemption, and to make these numbers public. The chances that phasing out exemptions will be accepted grow if such data become common knowledge – in the course of budget debates for example.

Are the revenue administrations up to task?

Every kind of legislation needs an agency of enforcement. The stronger a revenue administration is, and the better it is organised, the more it will be able to enforce the law. Merely identifying taxpayers and updating the tax register are serious challenges in many developing countries. Many tax registers include double entries, or they lists companies that no longer exist. Information concerning addresses or industry sectors is often flawed. Tax registers also tend to be incomplete because people who should pay taxes according to the law simply do not



Ghana's President Nana Akufo-Addo wants the state to generate the revenues it needs.

register. To keep the tax register up-to-date, the tax administration needs information from other government agencies, such as local trade offices or municipal registers of citizens. The capacities of those agencies, however, are often weak, and inter-agency cooperation typically leaves something to be desired. To detect tax fraud, moreover, the revenue administration can benefit from data of taxpayers' banks and business partners, but all too often, such information is not available.

Doesn't information technology (IT) help?

Yes, the potential is great. The optimisation of procedures can boost efficiency, and to the extent that interaction between officers and taxpayers is reduced, there are fewer opportunities for corruption. Analysing big data, moreover, increases the likelihood of detect-

ing tax fraud. But to what extent IT really makes a difference, depends on many issues:

- Processes must be well defined.
- Officers must be competently trained for IT application.
- The IT system needs maintenance and regular updates.
- Power supply and internet connectivity must be reliable.
- Various functions and applications must be integrated.

These conditions are often not met. Sometimes, only some branches of the national revenue service use IT, but not all. It is also common for tax administrations to use various IT applications that are not compatible. Obviously, things like this limit efficiency gains and reduce the quality of tax data.

There are many different kinds of taxes, including income tax, sales and value added tax (VAT), corporate taxes and capital-gains taxes. Which taxes matter in particular for mobilising domestic resources in developing countries?

They all matter. The VAT is important because it is comparatively easy to raise in an efficient manner. But other kinds of taxes matter too, for the sake of social fairness for example. As the VAT is charged on consumer spending, it hits low-income groups harder than high-income groups. If policymakers do not want to compound social inequality, they need other kinds of taxes as well – plus a development-oriented expenditure policy that takes the needs of disadvantaged people into account. We must also consider that exports are normally exempted from sales taxes or VAT. The implication is that a commodity exporting country needs other kinds of taxes and levies if the state is to fiscally benefit from the country's resource wealth.

It is sometimes said that the people of least developed countries (LDCs) are too poor to pay taxes. Do you agree?

LDCs can and should raise taxes. No country can develop without government revenues, and is not healthy to depend on official development assistance. Of course, it will not be feasible to tax all people in LDCs, but some are economically successful enough to pay taxes, and that includes some people in the informal sector, who are not taxed yet. Major agricultural producers or profes-

sionals like lawyers and physicians can obviously afford to pay taxes. The Africa 2016 Wealth Report was compiled by international financial firms, and it states that there are about 165,000 very rich people in Africa who, between them, own a fortune of about \$ 860 billion. It would be fatal not to tax all of these people.

Political leaders normally belong to the elite that benefits from loopholes. Personally, they are probably more interested in tax evasion and tax avoidance than in the efficient enforcement of tax legislation. Is policymaking affected by such interests?

Well, such generalised statements are not helpful. Yes, some governments – with an eye to personal benefits or political advantages – dilute reforms or do not start them at all. On the other hand, we do see governments in some countries strive to improve the tax situation even though their members belong to the political, economic or educational elite. Consider Ghanaian President Nana Akufo-Addo for example. He is

a member of the political elite; his father, his grandfather and his granduncle were influential policymakers. Now, he speaks of “Ghana beyond aid” and wants the state to generate the revenues it needs. His ambition is healthy. Improving government revenues is a complex challenge, however, and many different issues have a bearing on the success of reforms. The political and international environment keep changing. Whether President Akufo-Addo will achieve his goal – and if so, how fast – remains to be seen.

Germany’s Federal Government put the issue of international cooperation on taxes onto the agenda of the G20 summit in Hamburg this year. It was also discussed at previous summits. How does it relate to domestic resource mobilisation in developing countries?

In view of advancing globalisation, international cooperation on taxes is becoming ever more important. Increasingly, financial flows and business activities

cross borders, and this trend poses challenges to national tax systems. Taxation is a matter of national legislation and national enforcement, but in the course of globalisation, multinational corporations and super rich individuals find it ever easier to bypass tax laws. National governments on their own cannot do anything about it, so the issue is on the agenda of intergovernmental policymaking. This debate is of great relevance to developing countries because the impact tax oases have on them are greater than those on advanced nations.



STEFANIE RAUSCHER
is an adviser on tax reform and plans projects in support of tax systems in developing and emerging markets on behalf of GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in Eschborn.
stefanie.rauscher@giz.de



Rural infrastructure requires funding: tanzanian road.

Harmful government spending

While many rich nations raise money by putting a levy on fuel consumption, many developing countries pay subsidies to make fuel more affordable. These subsidies are essentially negative taxes. They are unsustainable in both environmental and budgetary terms. Asia's public finances would be strengthened if the subsidies were phased out.

By Shikha Jha

Some 150 to 200 years ago, oil, coal and natural gas changed everything – by powering machines, lighting homes, propelling engines and reducing distances. Back then, the inventor Thomas Alva Edison said: “I’d put my money on the sun and solar energy. What a source of power! I hope we don’t have to wait till oil and coal run out before we tackle that.”

Today, sustained growth, which has catapulted many developing Asian economies to middle-income status, is indeed depleting resources such as coal, oil and gas. These resources formed as plant and animal matter fossilised over millions of years under great pressure underground. Spurred by massive government subsidies, fossil fuels are today a major source of energy, providing

a lifeline to billions of Asians. But the burning of these fuels is spewing greenhouse gases into the atmosphere at an alarming rate, increasing global temperatures and heralding a dangerous era of climate change (see box, p. 37).

Apart from the environmental risk, there is another reason why reforms of the subsidy regimes are gaining momentum internationally. Public budgets are tight and the costs of giving people access to oil, gas and coal at reduced prices are considerable. According to an assessment by the Asian Development Bank (ADB), removing these costly subsidies is the first step towards sustainability in both environmental and budgetary terms (see ADB, 2016).

Developing Asia stands at a juncture where it can contribute the most to, and gain the most from, meeting the goals of the Paris Agreement on climate change. Today, the region contributes 40% to humankind’s global carbon emissions. In the 1990s, the Asian share was just 15%. It is rising due to a growing reliance on fossil fuels, which are the dominant source of electricity generation and industrial expansion.

In 1990, 70% of developing Asia’s primary energy came from fossil fuels. By 2014,

this proportion had grown to 85%. The reasons for this trend are that the share of traditional biofuels is declining, and the contribution of renewable power is still rather small. Coal has taken up a central place in the energy mix.

Some countries, mainly in South and Southeast Asia, are still investing in subcritical coal plants. “Subcritical” means that they are not as efficient as they could be because they do not use the most advanced technology. Switching to high-tech ultrasuper-critical new coal technology is expensive, however. Doing so would require special alloys, precise manufacturing and skilled professionals.

At the same time, low-priced petroleum products account for over half of the fossil fuel subsidies in many countries. Although the share of oil consumption is expected to decline, oil will likely remain the preferred liquid fuel needed in sectors like aviation and shipping, which are not easy to decarbonise.

When the world market price for crude oil shot past \$100 per barrel a decade ago, Asia accounted for as much as a third of global fossil fuel subsidies, mostly for consumption of petroleum products. About five years ago, developing Asian economies spent about 2.5% of GDP on average on subsidising oil, gas and coal. The official objective was to encourage production and provide cheap energy to the poor.



Coal has become increasingly important in India – people near strip mine in Jharkand.

In 2013, oil prices dropped sharply. Some Asian governments took advantage of this new trend to cut fuel subsidies. However, many other governments still find reforms to be very difficult. Fuel prices are politically important, as many people feel entitled to low prices. Whether the subsidy reductions can be maintained if world market prices for oil rise is untested.

Subsidies are a huge burden on public finances. Moreover, against their official objectives, artificially low fuel prices mostly benefit the better-off since they consume more energy than the poor. Indeed, the most marginalised rural communities still depend on firewood and other biofuels. Fuel subsidies bypass them.

The price differential between subsidised and unsubsidised fuels fosters overconsumption, diversion and smuggling. Another downside is urban air pollution which affects millions of people – not only in megacities such as New Delhi or Beijing, but in smaller towns such as Gwalior in India, Peshawar in Pakistan or Xingtai in the People's Republic of China. Making the problems even worse, under-priced fossil fuels pose a barrier to investing in renewable power generation, so they ironically curtail energy supply in general.

Removing subsidies on fossil fuels will allow the development of an energy mix that reflects the true costs of each type of energy. It will also release fiscal resources that could be put to better uses, such as social protection, expanding access to affordable energy services or promoting investment in renewable energy.

Unless governments act decisively to mitigate climate change, fossil fuel consumption will continue to increase. Asia would become even more fossil-fuel dependent. It is true that renewable energy is receiving record amounts of investment, but technologies for wind and solar power generation are still comparatively expensive. If developing Asia continues a carbon-intensive development trajectory, the Paris Agreement's ambitions will not be achieved even if the rest of the world were to eliminate all their emissions.

To reform subsidies, however, governments must deal with several issues. Items on the agenda include:

- establishing market-based systems against the pressure from vested interests of politically powerful groups who benefit from the subsidies,
- addressing adverse impacts from energy price increase on the welfare of the poor and
- reducing macroeconomic impacts, for example in regard to inflation and national income.

Reforms make sense – and they are feasible, as an ADB study shows (ADB, 2016b). It uses data for India, Indonesia and Thailand to understand how reducing subsidies will impact different parts of the economy. It shows that over time, the new reality of higher-priced fossil fuels will spur users to change behaviour and switch to cheaper forms of energy, which will in turn encourage investment in renewable energy and drive down its cost. At first, the impacts of more expensive fossil fuels may be painful,

but over time economies will be on a path of cleaner energy and more sustainable public finances.

The rationale for fuel subsidies reform is to reduce national emissions and at the same time discourage energy overuse, reduce the need for energy rationing, improve economic efficiency and lessen fiscal vulnerability.

In Hamburg this summer, world leaders from the G20 group (with the exception of the USA) reconfirmed the irreversibility of the Paris Agreement. Global warming hurts everyone, so joint action is necessary. It will benefit everyone, including our children and grandchildren.

It is time to reap the benefits of the Paris Agreement by shifting resources from fossil fuels to sustainable energy. It is time to make Edison's wishes come true.

LINKS

ADB, 2016: Asian Development Outlook 2016

Update: Meeting the low-carbon challenge.

<https://www.adb.org/publications/asian-development-outlook-2016-update>

ADB, 2016b: Fossil fuel subsidies in Asia – Trends, impacts and reforms.

<http://www.adb.org/sites/default/files/publication/182255/fossil-fuel-subsidies-asia.pdf>



SHIKHA JHA

is principal economist at ADB's Economic Research and Regional Cooperation Department.

sjha@adb.org

The case against fossil fuels

Acting like a blanket, greenhouse gases keep earth warm for life to flourish, but the rapid increase in their emissions – especially of carbon dioxide – has made this blanket too thick for comfort. Public finances must be geared to solving the problem.

Global temperatures are increasing, so 2015, 2016 and 2017 have been the hottest

years on record. Glaciers are melting, the sea level is rising, and typhoons are becoming stronger. The Arctic is warming about twice as fast as other areas.

Scientists are in broad agreement about the unprecedented long-term risks posed by such events. The size and spread of their impacts is

potentially vast, though unknown. The current pace of emissions of greenhouse gases is projected to lead – within this century – to temperatures not seen for millions of years. The UN University estimates that the resulting harsh living conditions, famine and starvation may force up to 1 billion people worldwide to migrate within their countries or across borders.

In the landmark 2015 Paris Agreement on climate

change, close to 200 countries agreed to limit the rise in global mean temperature to no more than 2 degrees Celsius above pre-industrial levels. Exceeding this limit could lead to catastrophic and irreversible consequences that may transform the physical geography of the world. Public spending must set the right incentives. Subsidies must not compound the problems of climate change, but help to solve them. (sj)

In Kenya, most flower farms do not pay taxes.

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