

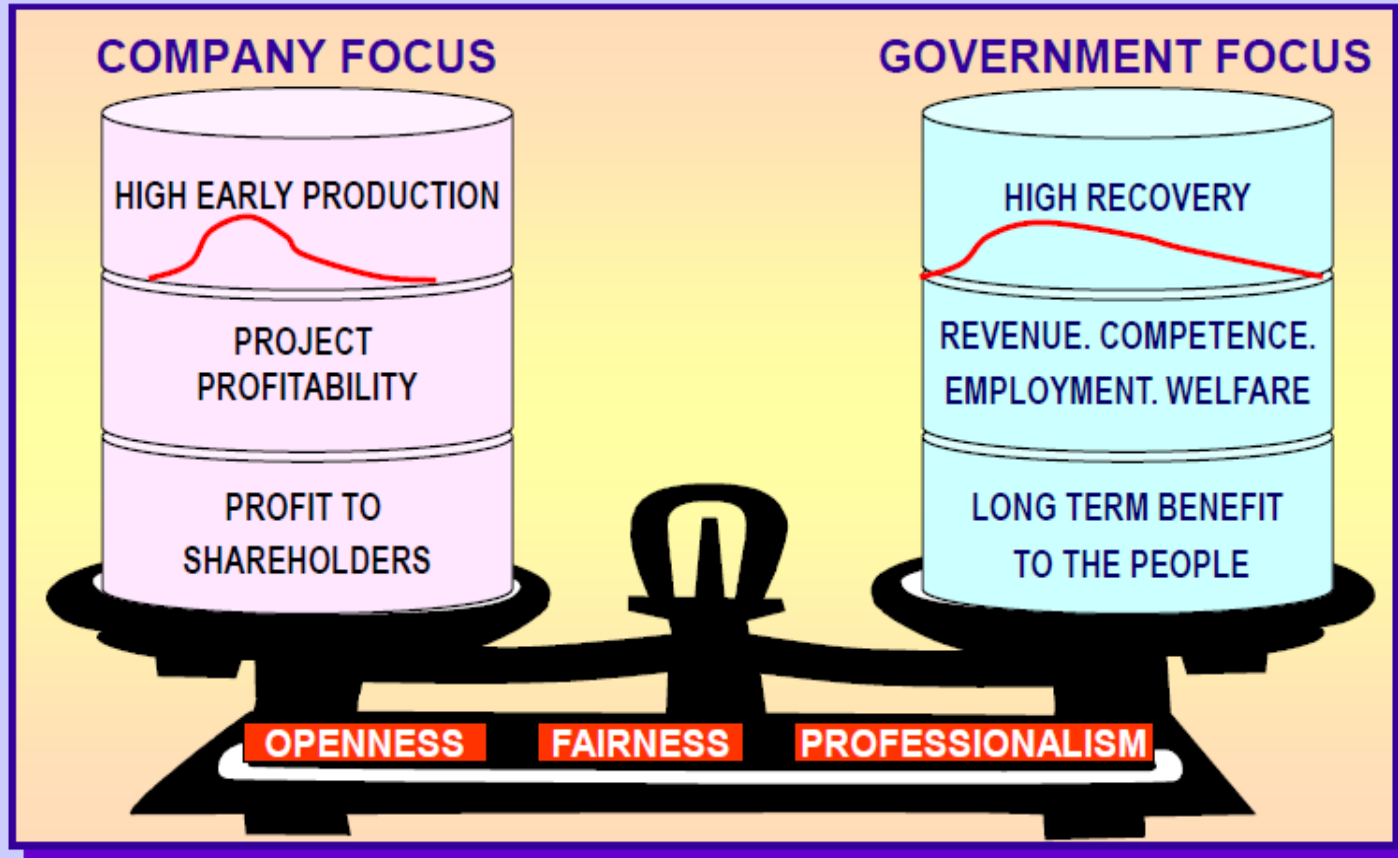


# “Natural Resources Taxation And Risks Of Illicit Flows GHEITI Capacity-building Workshop-??2015 (By Bishop Akolgo-Exe Director-ISODEC Ghana)

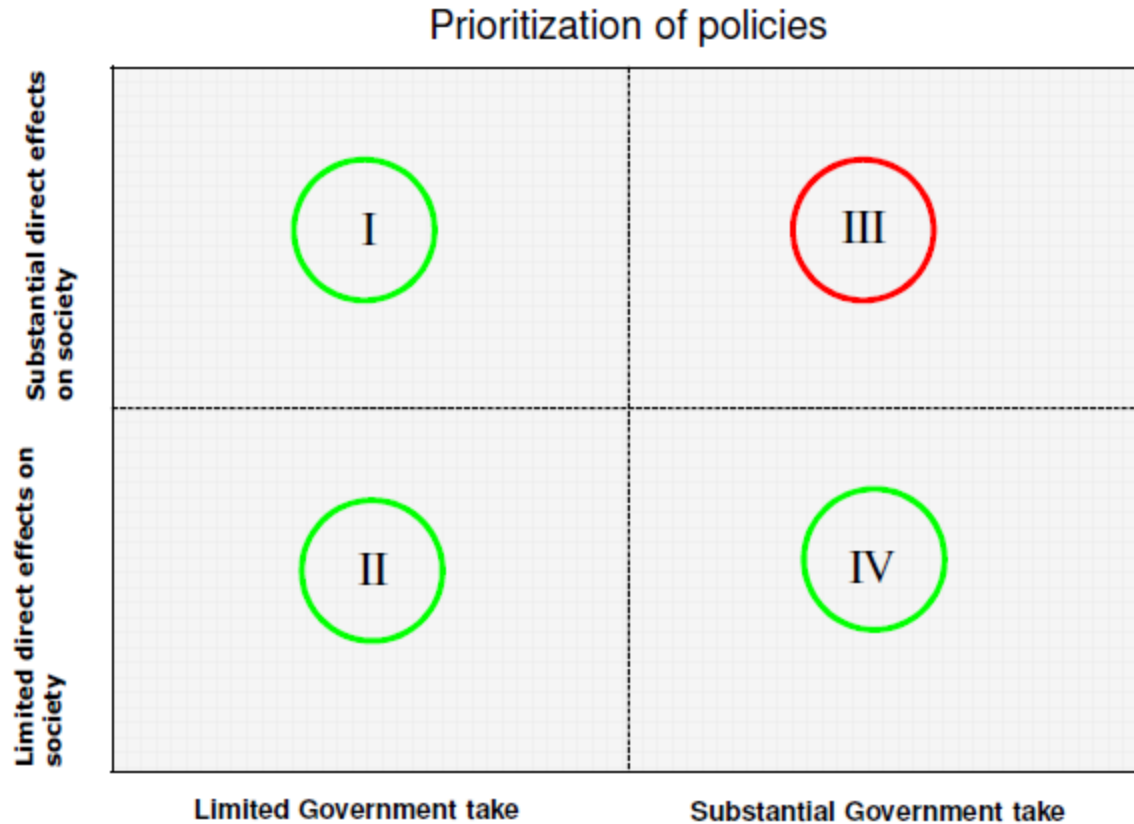
# OUR SPECIFIC IFF AGENDA

- A 3-step approach with TA/UNDP support:
  - 1.improving knowledge and understanding of the scope, drivers and mechanisms of trade-related illicit flows, through *policy research/Analysis*
  2. *workshop/roundtable* to discuss results of the study and map follow-up strategies towards
  - 3.Practical steps forward based on workshop recommendations, and putting in place *mechanisms for real-time monitoring of trade pricing*

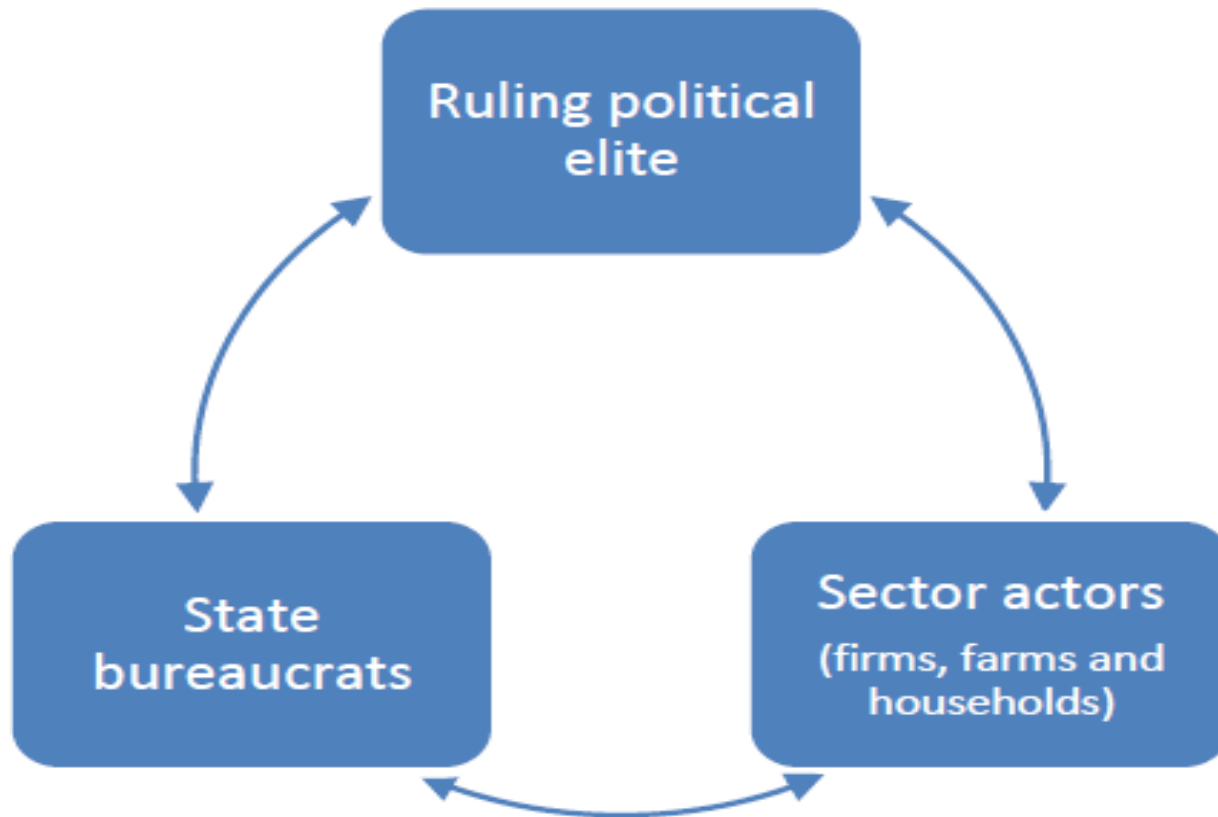
# THE NECESSARY BALANCE OF INTERESTS



# PICKING YOUR PRIORITIES



# ISSUE OF POLITICAL SETTLEMENT



Source: African Power and politics Programme et al (2012)

# NATIONAL SITUATION

- Ghana is the 22nd country in Africa and 117th in the world of countries involved in illicit financial outflows between 2000 and 2009, in a report by Global Financial Integrity (GFI).
- The report, *Illicit Financial Flows and the Problem of Net Resource Transfers from Africa: 1980–2009*, found that cumulative illicit outflows from the continent over the 30-year period ranged from \$1.2 trillion to \$1.4 trillion.
- The Guardian, a British daily, notes that even these estimates—large as they are—are likely to understate the problem as they do not capture money lost through drug trafficking and smuggling.

# The politics of taxation in poor countries

- Taxation generally not high on the domestic political agenda in these countries, neither part of strategic instrument for long-run growth/Dev
- The politics of taxation tend to take place in non-public arenas
- Typically, small lobby groups pressure for exemptions, for rate reductions on imports, or bargain with officials or ministers about tax liabilities
- Major debates in Parliament about tax issues or about tax reforms are rare as are statements by political parties about their tax policies
- Central government taxation is shaped by technical staff (from MoFinance, RAs, IFI and donor advisors) rather than by Parliament
- Local government taxation is a major exception to this:
  - Around election time, local government taxation often high on the political agenda of both national and local politicians
  - The politicisation of local government taxes undermines tax collection efforts

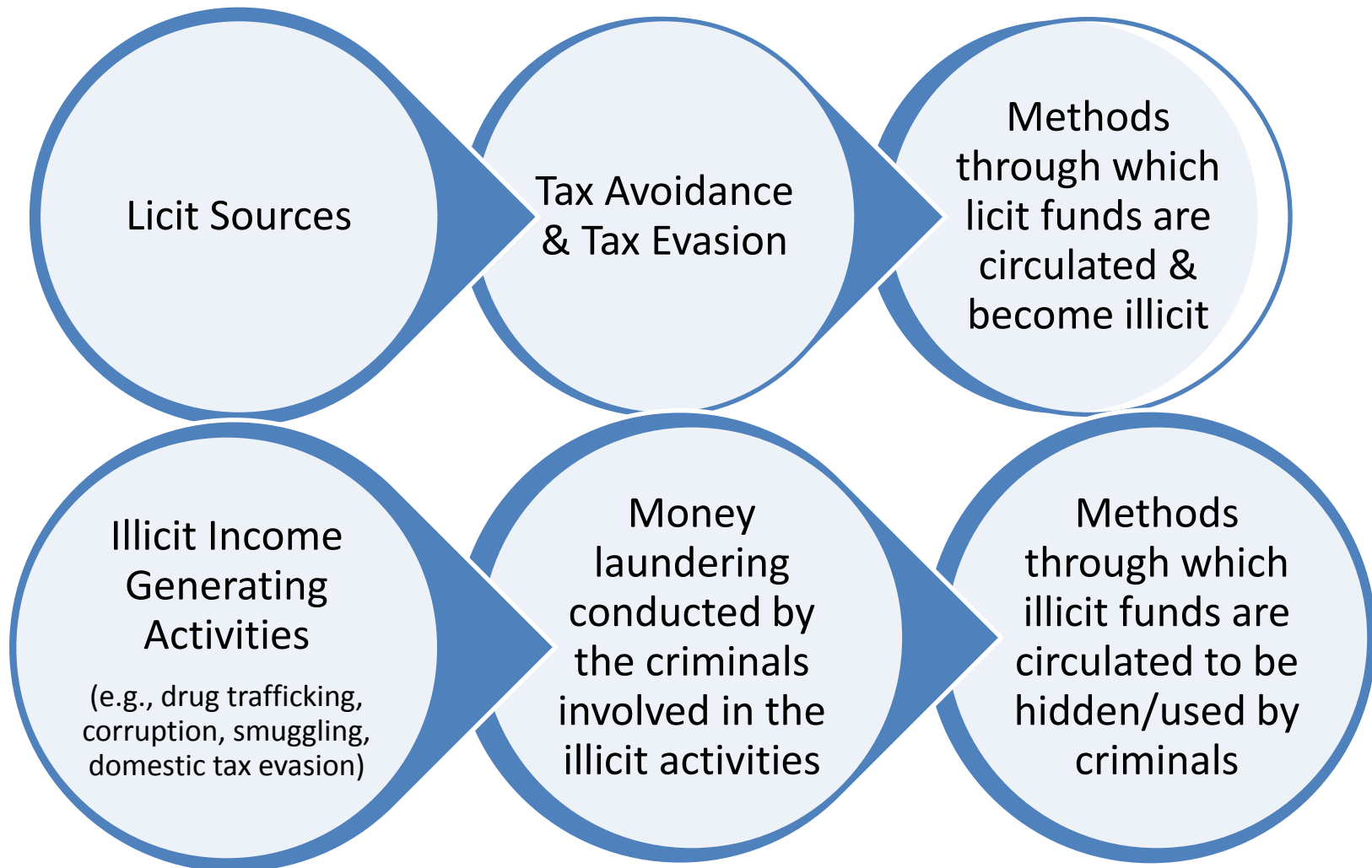
# Taxation and Governance

## Propositions

- Bargaining over taxes is central to building relations of accountability between state and citizens based on mutual rights and obligations
- The emergence of a representative government is more likely when the state faces incentives to increase income through bargaining with citizens than through foreign aid and natural resource rents
- For taxation to have a positive effect on accountability taxes must be 'felt' by a majority of citizens



# The most common sources of IFFs and the patterns of circulation of illicit and licit funds



Source (adapted): Fontana & Hansen-Shino, 2012.

# WHAT HAS BEEN DONE SO FAR

- Anti-Money Laundering Act, 2008 (Act 749), the Anti-Terrorism Act, 2008 (Act 762) and the subsequent passage of the Anti-Money Laundering Regulations, 2011 (L.I.1987), Ghana is now giving necessary attention to the fight against money laundering and terrorist financing.
- Transfer-pricing Legislation
- We are working with Government on IFFs including the possibility of tracking trade-mispricing on real-time basis

# CSOs Proposed Agenda

- Consolidating CSOs working groups at the national, regional and global level to address tax issues;
- Developing practical tools for research & advocacy on tax and IFFs;
- Capacity building for CSOs and think-tank groups on research-monitoring-estimating IFFs → country by country, regions and worldwide;
- Developing global partnership between governments and CSOs to counter illicit flows as proposed in the Post 2015 development financing agenda;
- Corporate accountability and transparency advocacy.

# Taxation and state-building in developing countries: Capacity and Consent

**KEY RESEARCH QUESTION:** How do tax systems and politics interact with and shape one another in developing countries?

**CORE POLICY POSITION:** A politically-informed analysis of the relationship between taxation and the state formation often leads to recommendations different from those espoused by the “Washington Consensus”

➤ **Core Strategy:** Combine tax Justice, citizenship with Growing the economy including economic diversification and transformation to create fiscal space for sustainable national dev

# PROGRESS TO DATE

- Research papers done in 4 areas:
- Political Economy of IFF
- IFF in Ghana so far
- IFF in services

# INITIAL RESULTS

# SCOPE OF STUDY

- Estimate the scale of trade mispricing in Ghana-EU and US trades during the 2000 – 2012 period:
- **i) Underpriced amount in the EU/US**
- **import** from Ghana (**Ghana's export**
- reported in EU/US)
- **ii) Overpriced amount in the EU/US export**
- to Ghana (**Ghana's import** reported in EU/US)
- **iii) Identify commodities** with a significant amount of mispricing

# METHODOLOGY-DATA

- Two sets of databases are used in this study, one from EUROSTAT for the EU member countries and another from the US Census Bureau for the United States. These data sets include the most detailed import and export records available publicly.
- Each record in EUROSTAT is an aggregation of transactions (line items) by declarant country, partner country, product code at 8-digit level (NC8), flow (import/export), statistical procedure, and period.
- Similarly, each record in the US import or export merchandise trade data is an aggregation of transactions (line items) by partner country, product code at 10-digit level (HS10), customs district, and period. Approximately half of the US records contain one line item.



# METHODOLOGY-PRICE-FILTER

- Price filter analysis method used in this study to evaluate each import or export record against an arm's length price range, and the deviation from an arm's length price range is treated as the mispriced amount.
- The upper quartile price and the lower quartile price are estimated for every commodity category for the EU-World, the US-World, the EU-Ghana, and the US-Ghana pairs.
- The price range between an upper quartile price and a lower quartile price is assumed to be the arm's length price range. If the declared price of a particular transaction falls within the inter-quartile price range, it is assumed to be an arm's length transaction. So that:
  - Undervalued Amount =  $\text{quantity} * \text{MAX}(0, \text{PLQ} - P)$  (1)
  - Overvalued Amount =  $\text{quantity} * \text{MAX}(0, P - \text{PUQ})$  (2)
- Where:  $P$  = declared price (unit value implied in quantity and value in each trade record)
- PLQ = lower quartile price
- PUQ = upper quartile price

# SUMMARY OF FINDINGS

## Ghana's Export, 2000-2012

	Value	Undervalued amount	Percent undervalued
Export to EU	€19,033 m	€ 2,668m	14%
Export to US	\$2,985 m	\$ 633m	21%

## Ghana's Import, 2000-2012

	Value	Overvalued amount	Percent overvalued
Import from EU	€21,202 m	€ 2,835m	14%
Import from US	\$6,978 m	\$ 573m	8%

- Data Source: Eurostat & US Merchandise trade data (as of May, 2014)
- Methodology:
  - Underpricing relative to lower quartile price
  - Overpricing relative to upper quartile price

## Ghana's Export to EU 2000-2012: Undervalued Items

ALUMINIUM ORES AND CONCENTRATES	€ 436m
KERUING, RAMIN, KAPUR, TEAK, MANSONIA, . . . AND PALISSANDRE DE ROSE, SAWN OR CHIPPED	€ 250m
NON-INDUSTRIAL DIAMONDS UNWORKED OR SIMPLY SAWN, CLEAVED OR BRUTED (EXCL. INDUSTRIAL DIAMONDS)	€ 172m
SHEETS FOR VENEERING, OF A THICKNESS OF $\leq$ 1 MM	€ 155m
CRUDE FIXED VEGETABLE FATS AND OILS, IN IMMEDIATE PACKINGS OF A CONTENT OF $> 1$ KG	€ 131m

# Ghana's Export to US 2000-2012: Undervalued Items

DIAMONDS EXCEPT INDUSTRIAL, UNWORKED OR SIMPLY SAWN, CLEAVED OR BRUTD	\$413m <sup>P1</sup>
ANNATO, ARCHIL, COCHINEAL, CUDBEAR, LITMUS, LOGWOOD AND MARIGOLD MEAL	\$31m
NAPHTHAS, EXCEPT MOTOR FUEL OR MOTOR FUEL BLENDING STOCK	\$20m
SOCKS AND OTHER HOSIERY, FOR VARICOSE VEINS, AND FOOTWEAR WITHOUT APPLIED SOLES, KNITTED OR CROCHETED, OF COTTON: NOT CONTAINING LACE OR NET	\$16m
COCOA BEANS, WHOLE OR BROKEN, RAW OR ROASTED	\$13m

>\$300m in 2000 for Diamonds

## Ghana's Import from EU 2000-2012: Overvalued Items

MEDICAMENTS CONSISTING OF MIXED OR UNMIXED PRODUCTS FOR THERAPEUTIC OR PROPHYLACTIC PURPOSES	€ 210m
AEROPLANES AND OTHER POWERED AIRCRAFT OF AN OF AN UNLADEN WEIGHT > 15.000 KG, FOR CIVIL USE	€ 170m
BASE STATIONS OF APPARATUS FOR THE TRANSMISSION OR RECEPTION OF VOICE, IMAGES OR OTHER DATA	€ 142m
PROCESSING UNITS FOR AUTOMATIC DATA-PROCESSING MACHINES	€ 141m
OTHER MEDICAMENTS	€ 137m

## Ghana's Import from US 2000-2012: Overvalued Items

OIL AND GAS FIELD WIRE LINE AND DOWNHOLE EQUIPMENT	\$30m
WORN CLOTHING AND OTHER WORN ARTICLES	\$22m
ALUMINUM WIRE ALLOY OF WHICH THE MAXIMUM CROSS-SECTIONAL DIMENSION EXCEEDS 9.5MM	\$14m
WATER FILTERING OR PURIFYING MACHINERY AND APPARATUS	\$11m
BACKHOES, SHOVELS, CLAMSHELLS AND DRAGLINES WITH A 360 DEGREE REVOLVING SUPERSTRUCTURE, USED OR REBUILT	\$11m

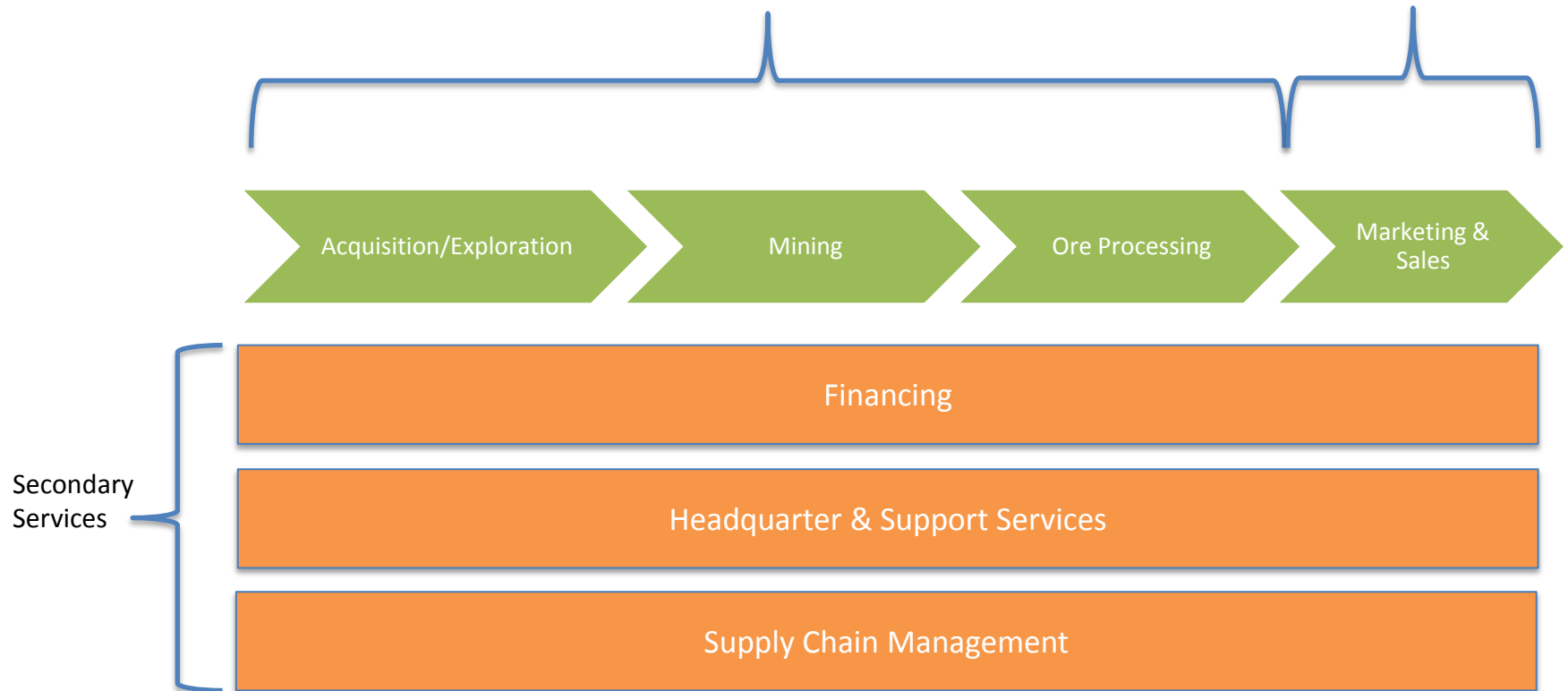
# WHAT IS THE PROBLEM?

- High leakages of Revenues due to illicit financial Outflows with damaging implications like:
- Lost tax revenues and foregone social and economic spending,
- Weakened institutions and state-citizen Relations,
- Heightened corruption and rent-seeking
- Greater inequality, and policy distortions often arising from excessive dependence on external sources of finance and natural resources.

# MINING VALUE-CHAIN

Demand Fulfillment

Demand Generation





# Exploration

- Funding the investment (and associated risk) and the rights to access any losses
- Ownership and entitlement of profits from mining rights / licenses and other IP
- Location of IP for tax purposes
- Remuneration for use of centralized services, engineering expertise, people, and technology Examples include arm's length compensation of geological exploration studies, management services dealing with the feasibility of the project, R&D services, etc.
- Ownership of exploration equipment and proper compensation for rental or leased equipment
- Responsibility of insurance and associated liability risks – compensation and deduction of payments
- Legal structure of acquisition contracts – allocation of profits

# Mining

- Financing and related arm's length payment of costs
- Relationship with ore processing companies
- Management and design of production infrastructure
- Ownership of mining equipment and proper compensation for rental or leased equipment
- Reward structure for design and manufacture of equipment, if any
- Payment of royalties / leasing / service fees (people, technology, equipment)
- Remuneration of support services
- Attribution of liabilities, regulatory and environmental risks, insurances, and indemnities
- Design and ownership of facilities and infrastructure
- Investment in relation to the mine and rights to reward
- Ownership and management of logistics aspects and relationships
- Characterization of process activities and attributable value at each step
- Arm's length compensation for transportation and logistics services
- Margin on sale of intermediary products
- Reward structure for supply-demand management performed by Trade House

# Ore Processing

- R&D and IP ownership in relation to smelting/refining processes and protocols etc.
- Plant property and equipment – design, investment / funding, ownership, characterization, location
- Characterization of processing activities (low-risk contract processor/smelter, fully fledged risk-bearing processor/smelter)
- Remuneration of support services
- Reward structure for supply chain management and logistics
- Arm's length compensation to bearer of environmental, regulatory, and insurance risks

# Marketing & Sales

- Characterization – fully fledged marketer, limited risk sales functions, commission agent
- Margin on sale of final products
- Remuneration of support services
- Ownership of transportation assets and right to remuneration
- Ownership of marketing intangibles
- Allocation of profits from sale of final product
- Arm's length compensation for product liability risks, warranties, and associated risks
- Reward structure for supply-demand management performed by Trade House