

## **Fostering Sustainable Development: Harmonizing International Financial Laws and Taxation Policies in Africa**

Abdallah Ali-Nakyeya, PhD

University of Ghana School of Law, Legon-Accra, Ghana and

Wisdom Akpemada Kwame Ankah, UPSA Law School, University of Professional Studies, Accra, Legon-Accra, Ghana

### **Abstract**

Achieving sustainable development in Africa requires a delicate balance between fostering economic growth and ensuring social equity, all while navigating the complexities of international financial laws and taxation policies. This paper investigates the role of harmonizing regulatory frameworks and tax policies in promoting sustainable development across the African continent. It examines the challenges posed by divergent legal systems and tax regimes, analyzes the impact on intra-African trade and foreign investment, and identifies opportunities for enhancing policy coherence and coordination. By highlighting successful examples of regional cooperation and integration, this study offers insights into strategies for harnessing the potential of international financial laws and taxation to advance the sustainable development agenda in Africa. The research methodology is qualitative to provide a thorough examination of taxation and international financial laws in Africa and their implications for economic development. The findings of the paper highlight the pivotal role of taxation and international financial laws in shaping Africa's economic landscape emphasizing the need for tailored strategies to address challenges and capitalize on emerging opportunities. The crucial role of taxation and international financial laws in Africa's development journey is discussed, emphasising their significance in fostering economic growth, ensuring fiscal responsibility, and attracting investments.. Overall, the discussions highlight the pivotal role of taxation and international financial laws in shaping Africa's economic landscape, advocating for tailored strategies to foster inclusive growth and prosperity across the continent. The conclusion underscores the importance of proactive measures to address challenges, capitalize on opportunities, and leverage international financial laws to advance Africa's development agenda. The conclusion also advocates for collaborative efforts among policymakers, stakeholders, and international partners to build robust financial systems that foster economic prosperity and shared prosperity across the continent.

**Keywords:** Africa, sustainable development, international financial laws, taxation policies, regulatory harmonization, economic growth, social equity.

## Introduction

Taxation is the foundation of development. It makes it possible for governments to meet their targets for sustainable development, encourage inclusive growth, and finance necessary services. In Africa, where resources are often scarce, effective taxation is crucial. It provides the necessary revenue to invest in infrastructure, education, healthcare, and poverty alleviation<sup>85</sup>.

Africa's economic potential places it in the spotlight of global interest. As global attention shifts towards Africa for investment prospects and economic expansion, it becomes crucial to understand the essentials of navigating the complex terrain of international financial law and taxation. A combination of legal frameworks, tax policies, and international agreements determines how capital movement, trade, and investments are regulated across African borders. Africa hosts a diverse array of economies, spanning from highly developed to nascent, each with its own regulatory framework. It is estimated that Africa is set to outperform the rest of the world in economic growth over the next two years, with real gross domestic product (GDP) averaging around 4% in 2023 and 2024<sup>86</sup>. Therefore, for businesses and investors seeking to engage with the burgeoning economic opportunities in the region, navigating double-taxation treaties, comprehending the intricacies of taxation systems, and adhering to global initiatives which combat financial crimes is imperative.<sup>87</sup>

Africa's international financial laws have evolved significantly over the past few decades.<sup>88</sup> Initially, Africa wielded limited influence in shaping global financial regulations. However, with the formation of regional economic blocs like the African Union (AU) and the African Development

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<sup>85</sup> Bretton Woods Project (2019), "Taxing to Develop: International Taxation Challenges for Africa",

18 April 2019. <<https://www.brettonwoodsproject.org/2019/04/taxing-to-develop-international-taxation-challenges-for-africa/>>, last accessed 2<sup>nd</sup> April 2024.

<sup>86</sup> African Development Bank Group (2023), "Africa's economic growth to outpace global forecast in 2023-2024 – African Development Bank biannual report", <<https://www.afdb.org/en/news-and-events/press-releases/africas-economic-growth-outpace-global-forecast-2023-2024-african-development-bank-biannual-report-58293>>, last accessed April 15<sup>th</sup> 2024

<sup>87</sup> Jean-Francois Ruhashyankiko and Richard E. Stern (2006), "Incentive Structure of Tax Systems in Africa", Paper presented at the high-level seminar: Realizing the Potential for Profitable Investment in Africa Organized by the IMF Institute and the Joint Africa Institute, Tunis, Tunisia, February 28 – March 1, 2006.

<sup>88</sup> Mutarindwa, Samuel; Schäfer, Dorothea; Stephan, Andreas (2020), "Legal History, Institutions and Banking System Development in Africa.," GLO Discussion Paper, No. 444, Global Labor Organization (GLO), Essen

Bank (AfDB), African nations have actively worked to harmonize their financial laws and regulations with international norms. This alignment is geared towards streamlining international trade, fostering foreign investment, and ensuring the continent's financial stability. Africa's history with taxation extends from pre-colonial times through the colonial period to the post-colonial era.<sup>89</sup>

### **Importance of international financial laws and taxation in Africa**

International financial law is broadly the body of legal principles, rules, and regulations that govern financial transactions and activities on a global scale. It is historically primarily soft law in the form of standards transposed into domestic law, rules, and regulations.<sup>90</sup> It encompasses a wide range of issues, including international banking and finance, securities regulation, cross-border investments, and the resolution of financial disputes. The field is complex and dynamic, addressing the legal aspects of financial transactions, the regulation of financial institutions, and the management of financial risks in an international context.

The importance of understanding and navigating the complexities of international financial laws and taxation in Africa cannot be overstated. Recognizing and adeptly navigating the intricate landscape of international financial laws and taxation in Africa is paramount. Robust legal frameworks serve as the cornerstone for fostering economic development, upholding fiscal integrity, and enticing foreign investment. In a time of heightened global interconnectedness, African countries confront the dual task of harmonizing their financial structures with international benchmarks while tackling the distinct socio-economic realities within their boundaries. By establishing robust regulations and mechanisms, international financial laws combat money laundering, and are critical for ensuring that illicit funds are not integrated into the legitimate financial system. By doing so, they also address issues of tax evasion by facilitating cooperation among countries to exchange

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<sup>89</sup> Gwaindepi, Abel (2023)., "Taxation in Africa since colonial times", In Ewout Frankema, Ellen Hillbom, Ushewedu Kufakurinani and Felix Meier zu Selhausen (eds.), *The History of African Development: An Online Textbook for a New Generation of African Students and Teachers*. African Economic History Network <<https://www.aehnetwork.org/wp-content/uploads/2023/10/Abel-Gwaindepi-Taxation-in-colonial-Africa-2.pdf>>, accessed 8<sup>th</sup> April 2024.

<sup>90</sup> Arner, Douglas W. and Barton, Uzma Ashraf, "International Financial Law" (November 1, 2012). *International Financial Law*, T. Carty (Ed.), In *Oxford Bibliographies in International Law*. NY: Oxford University Press, 2012, Available at SSRN: <https://ssrn.com/abstract=2204485>

information as well as ensuring that individuals and businesses pay their fair share of taxes, thereby promoting a level playing field.

International financial laws establish standards and regulations to promote stability in the global financial system and thereby contributing to prevention of financial crises, protecting consumers, and maintaining the integrity of financial institutions<sup>91</sup>. Importantly, these laws provide a framework for cross-border investments, making it easier for individuals and businesses to engage in international trade and investment activities. By promoting transparency, accountability, and fair practices, international financial laws create an environment that attracts investment, fosters economic growth, and supports sustainable development.

### **Overview of some relevant international financial laws and their impact on African countries**

#### **Basel III-**

In response to the 2007-2009 financial crisis, the Basel Committee on Banking Supervision, previously called the Committee on Banking Regulations and Supervisory Practices set out to develop a framework that would reduce the risk factors faced by banks.<sup>92</sup> The *Basel III: International framework for liquidity risk measurement, standards and monitoring* AND *Basel III: A global regulatory framework for more resilient banks and banking systems*, generally referred to as the Basel framework was developed with its final elements having been endorsed for implementation.<sup>93</sup> It aims to strengthen the banking sector and prevent financial crises. The Basel III regulations are designed to reduce damage to the world economy from banks that take on excessive risk<sup>94</sup>. The framework has been implemented gradually by different countries and jurisdictions, with the goal of promoting a more robust and resilient banking sector worldwide. Its implementation helps

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<sup>91</sup> Schinasi, G. J. (2006). "Preserving Financial Stability". In *Preserving Financial Stability*. USA. International Monetary Fund. Retrieved Nov. 14, 2024, from <https://doi.org/10.5089/9781589063563.051.ch001>

<sup>92</sup> Bank for International Settlements, (2011), "Basel III: A global regulatory framework for more resilient banks and banking systems", Basel Committee on Banking Supervision, <https://www.bis.org/publ/bcbs189.pdf> ; <https://www.bis.org/bcbs/history.htm>; infra fn 10

<sup>93</sup> Ibid

<sup>94</sup> Schroeder, P. (2023), "Explainer: What is the 'Basel III endgame' and why are banks worked up about it?", Reuters, <https://www.reuters.com/business/finance/what-is-basel-iii-endgame-why-are-banks-worked-up-about-it-2023-07-24/> ; Perry, Brian. (2023), "Understanding the Basel III International Regulations", Investopedia, <https://www.investopedia.com/articles/economics/10/understanding-basel-3-regulations.asp>, last accessed April 12, 2024

ensure that banks are better prepared to weather economic downturns and maintain the trust and confidence of the public. While these regulations are designed to ensure stability in the global financial system, they can have both positive and negative impacts on African countries. On the positive side, adherence to Basel standards can enhance the credibility and stability of African banks, making them more attractive to investors. This can lead to increased foreign investment and access to international capital markets. Additionally, these regulations promote sound risk management practices, which can help prevent financial crises and protect the interests of depositors and investors.

However, there can also be challenges for African countries in implementing Basel regulations. Some of these regulations may require significant financial resources and technical expertise, which may be lacking in some African countries. This can create a barrier to entry for smaller banks and hinder their ability to compete on a global scale. Additionally, the strict capital requirements may limit lending capacity, which can impact economic growth and development.

### **Foreign Account Tax Compliance Act (FATCA)**

FATCA, which is implemented through information sharing agreements with other countries<sup>95</sup> is a US law that aims to reduce tax evasion by US citizens, tax residents and entities. It requires foreign financial institutions and certain other non-financial entities to report on the assets held by their US account holders or face withholding on some payments<sup>96</sup>. By virtue of its implementation, US citizens and tax residents are required to report their worldwide income and foreign account holdings to the Internal Revenue Service (IRS). Foreign financial Institutions (FFIs) must perform thorough investigations to detect accounts held by U.S. individuals. They are obligated to disclose detailed information about such accounts, encompassing the account holder's name, address, Tax Identification Number (TIN), account balance, and income generated. Moreover, FFIs are also required to report

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<sup>95</sup> New Zealand Inland Revenue About the Foreign Account Tax Compliance Act (FATCA), <https://www.ird.govt.nz/international-tax/exchange-of-information/fatca/about-fatca>, last accessed April 19<sup>th</sup> 2024.

<sup>96</sup> IRS (2023), "Foreign Account Tax Compliance Act (FATCA)", <https://www.irs.gov/businesses/corporations/foreign-account-tax-compliance-act-fatca> ; Kenton, Will (2024), "Foreign Account Tax Compliance Act (FATCA): Definition and Rules", Investopedia, <https://www.investopedia.com/terms/f/foreign-account-tax-compliance-act-fatca.asp>, last accessed April 15<sup>th</sup> 2024

specific accounts held by foreign entities that have significant ownership ties to the U.S.<sup>97</sup>

### **The Common Reporting Standard**

The Common Reporting Standard (CRS) is an information standard for the automatic exchange of information on financial accounts between tax authorities<sup>98</sup>, The CRS was developed by the Organisation for Economic Co-operation and Development (OECD) in 2014 in response to the G20 request to combat tax evasion. The CRS requires financial institutions to obtain and report information on their account holders to their local tax authorities, who then exchange that information with other jurisdictions on an annual basis<sup>99</sup>.

### **Anti-Money Laundering (AML) Regulations**

Anti-Money Laundering (AML) regulations are a set of laws, regulations, and processes that aim to prevent illegally gained money from entering the financial system. They help combat the washing of illegal funds and restrict criminals from disguising the origins of illicitly obtained funds. AML measures are aimed at uncovering efforts to disguise illicit funds as legitimate income. They rely heavily on monitoring customer behaviour and identities, especially in the case of centralized cryptocurrency exchanges<sup>100</sup>. These regulations, implemented by various countries and international bodies, require financial institutions to establish procedures to detect and prevent money laundering and terrorist financing.

### **General Data Protection Regulation (GDPR)**

A European Union regulation that governs the protection and privacy of personal data. GDPR is a comprehensive data privacy law that establishes a framework for the collection, processing, storage, and transfer of personal

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<sup>97</sup>The Orange Hub (2024), "FATCA: Understanding the Impact of the Foreign Account Tax Compliance Act", <https://www.icicibank.com/blogs/nri-banking/fatca-impact-foreign-impact-foreign-account-tax-compliance>, last accessed 19<sup>th</sup> April, 2024.

<sup>98</sup> ICC Academy (2021), "Common Reporting Standard (CRS) – Understanding the intention and overcoming challenges", <https://icc.academy/understanding-common-reporting-standard/>, last accessed April 20<sup>th</sup> 2024 ; OECD, "Transparency and Exchange of Information for Tax Purposes: Multilateral Co-operation Changing the World, 10th Anniversary Report, <https://www.oecd.org/tax/transparency/global-forum-10-years-report.pdf>, last accessed April 20<sup>th</sup>, 2024.

<sup>99</sup> ibid

<sup>100</sup>Ghosal, S. (2024), "What Is Anti-Money Laundering (AML)?", WallstreetMojo, <https://www.wallstreetmojo.com/anti-money-laundering/>, last accessed April 20<sup>th</sup> 2024.

data<sup>101</sup>. It was approved by the European Union in April 2016 and went into effect on May 25, 2018<sup>102</sup>. The GDPR replaced an earlier law, the Data Protection Directive, and was set up to regulate the way companies process and use the personal data they collect from consumers online. The GDPR is considered as one of the strongest privacy and security law in the world.

The impact of international financial laws on African countries is complex and can vary depending on the specific context and implementation. It's important for African countries to strike a balance between complying with international standards and ensuring that their financial systems are inclusive and supportive of their unique development needs.

### **Overview of the current landscape in international financial laws and taxation in Africa**

African countries are making efforts to harmonize their financial laws and taxation systems to promote regional integration and facilitate cross-border transactions. Harmonization ensures consistency, reduces disparities between countries, and facilitates cross-border transactions. Notable examples include the EECOWAS Trade Liberalization Scheme (ETLS), and the African Continental Free Trade Area (AfCFTA), which aims to create a single market for goods and services throughout Africa. Presently, approximately 3,000 comprehensive bilateral income tax treaties are in force with most of the tax treaties which are concluded by developing countries being with high-income countries<sup>103</sup> to prevent double taxation. These treaties provide guidelines on issues like tax residency, transfer pricing, and exchange of information. With the growth and expansion of multinational enterprises (MNEs), transfer pricing regulations are increasingly being implemented by African countries to ensure fair taxation of cross-border transactions between related entities. These regulations aim to prevent profit shifting and ensure that companies pay taxes based on the arm's length principle. Other developments which have

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<sup>101</sup> Local Government Association (2018), "The General Data Protection Regulation Guidance for Members", [https://www.local.gov.uk/sites/default/files/documents/The+General+Protection+Data+Regulation+\(GDPR\)+-+Guidance+for+Members.pdf](https://www.local.gov.uk/sites/default/files/documents/The+General+Protection+Data+Regulation+(GDPR)+-+Guidance+for+Members.pdf), last accessed April 15<sup>th</sup> 2024; <https://www.cloudflare.com/en-gb/learning/privacy/what-is-the-gdpr/>, last accessed April 20<sup>th</sup> 2024.

<sup>102</sup> Council of the EU and EU Council (2024), "The general data protection regulation". <https://www.consilium.europa.eu/en/policies/data-protection/data-protection-regulation/>, last accessed April 18<sup>th</sup> 2024.

<sup>103</sup> Sebastien Leduc and Geerten Michiels (2021), "Are Tax Treaties Worth It for Developing Economies?", Coporate Income Taxes Under Pressure, International Monetary Fund, <https://www.elibrary.imf.org/display/book/9781513511771/ch008.xml>, last accessed 22<sup>nd</sup> April, 2024

also greatly influenced the international financial landscape in Africa include the growth of technology and the digital economy.

## **Taxation Systems in Africa**

### **Overview of different taxation systems in African countries**

The tax structure in Africa is shaped by a multitude of factors, including the nature of the economy, which significantly influences the presence of specific tax bases; the government's expenditure programs, which dictate the utilization of these tax bases; and the political preferences of the government, which may prioritize certain tax types over others for reasons of fairness or other considerations.<sup>104</sup> The tax systems vary significantly from country to country in, as each nation has its own unique policies and regulations. The main components of direct taxes within Africa are taxes on individual and corporate income, payroll and workforce taxes, and property taxes. Indirect taxes are usually in the form of taxes on goods and services (sales taxes, VAT, turnover taxes and taxes on financial and capital transactions), excise duties and international trade taxes<sup>105</sup>.

The average tax-to-GDP ratio for the 33 African countries from 2020 to 2021 has remained 15.6% this however represents and increase by 1.5 percentage points, from 14.1% in 2010 to 15.6% in 2021.<sup>106</sup> The weighted average tax-to-GDP ratio was 17% between 2000 and 2018. It improved from 17.9% in 2000 to 19.9% in 2005 (the peak period) but has since trended downwards. In 2018, the ratio stood at 14.6%. Both direct taxes and indirect taxes followed similar trends. Resource taxes also experienced fluctuations, peaking at 3.2% in 2006 and gradually falling to 0.35% in 2016, with a slight recovery in 2017 and 2018. Twelve countries achieved an average tax revenue-to-GDP ratio of at least 10% between 2000 and 2008, compared to 16 countries between 2009 and 2018. Notably, Mozambique, Malawi, and

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<sup>104</sup> Vito Tanzi et al. 1981), "Taxation in Sub-Saharan Africa" International Monetary Fund, Occasional Papers series,  
DOI:<https://doi.org/10.5089/9781557750815.084>, last accessed on April 20<sup>th</sup>, 2024.

<sup>105</sup> UNECA (2019), "Economic Report on Africa 2019: Fiscal Policy for Financing Sustainable Development in Africa", <https://repository.uneca.org/bitstream/handle/10855/41804/b11928190.pdf?sequence=1&isAllowed=y>, last accessed on April 19, 2024

<sup>106</sup> OECD/ATAF/AUC (2023), Revenue Statistics in Africa 2023 , OECD Publishing, Paris., <https://oe.cd/revstatsafrica>, last accessed on 15<sup>th</sup> April 2024

Namibia recorded significant increases during this period.<sup>107</sup> Many African countries have a progressive income tax system, where individuals with higher incomes are taxed at higher rates. Corporate income tax is also common, with rates varying across countries. Value Added Tax (VAT) or Goods and Services Tax (GST) is another widely used form of taxation in Africa, typically applied to the sale of goods and services.

Some African countries have specific tax incentives to promote certain sectors, such as agriculture, manufacturing, or tourism. These incentives may include tax holidays, reduced tax rates, or exemptions for a specified period. For example, in Ghana, there are tax incentives for the tourism sector to encourage investment and development.

Additionally, some African countries have introduced special economic zones or free trade zones, which offer tax incentives to attract foreign investment and stimulate economic growth. These zones often provide tax breaks or reduced tax rates for businesses operating within them.

### **Tax Administration in Africa**

Sub-Saharan African national tax systems have undergone significant reform in recent years, but they have rarely been built from the ground up. It is evident that the current tax systems have changed from their predecessors, even in nations like Rwanda and Uganda that have seen protracted internal conflict since independence. Of course, there are big variations in the structure of the tax system amongst nations. Colonial tax structures are gradually being replaced by a broadly defined, nearly universally accepted model of good practice, to the extent that they are being eliminated<sup>108</sup>.

### **Challenges in Tax Administration in Africa**

Tax administration in Africa faces some common challenges, such as limited tax compliance, informal economic activities, and a large informal sector. Other challenges include tax evasion, inadequate tax collection systems, and difficulties in enforcing tax laws. One of those handicaps is the difficulty African governments face in effectively taxing large transnational corporations in Africa, especially in their large mining and energy sectors.<sup>109</sup>

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<sup>107</sup> Supra, fn 20

<sup>108</sup> Mick Moore (2020), "What is Wrong with African Tax Administration", International Centre for Tax and Development, Working Paper 111, [https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/15661/ICTD\\_WP111.pdf?sequence=1&isAllowed=y](https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/15661/ICTD_WP111.pdf?sequence=1&isAllowed=y), last accessed April 10, 2024

<sup>109</sup> Moore, Mick & Prichard, Wilson & Fjeldstad, Odd-Helge. (2018), "Taxing Africa: Coercion, Reform and Development". DOI:10.5040/9781350222861.

More than most of the world, African economies are characterized by low incomes, small-scale business, rurality, subsistence agricultural production, and a predominance of cash transactions. This presents a challenge for tax collectors attempting to collect revenue from these economies. Comparing sub-Saharan Africa to wealthier parts of the world, the region's low tax to GDP ratio can be largely explained by this historical trajectory<sup>110</sup>.

Recent policy decisions have given African tax administrations an additional disadvantage. A typical African tax administration has a remarkably diverse clientele. In order to tax big businesses, many of which are extremely large and multinational, revenue administrations must first organize themselves in terms of personnel skills, procedures, and organizational ethos. Significant expertise in accounting, auditing, law, investigation, and various forms of international connections are needed for this. In sub-Saharan Africa, it is customary for the national tax administration to receive the majority of its revenue from a relatively small percentage of its taxpayer base<sup>111</sup>.

### **Comparison of tax rates and structures**

Morocco and Madagascar had the highest value-added tax (VAT) rate on goods and services in Africa in 2022, each standing at 20 percent. Cameroon followed with the VAT rate set at 19.25 percent. On the other hand, goods and services in Nigeria were taxed at 7.5 percent, the lowest rate on the African continent<sup>112</sup>. Again, Côte d'Ivoire has a VAT rate of 18%, Kenya's standard rate of 16% and South Africa has a VAT of 15%<sup>113</sup>.

**Personal Income Tax:** Personal income tax rates also vary across African countries. Nigeria's progressive personal income tax rate is between 6-30%, Ghana's progressive tax rate is between 5-35%, and Rwanda's tax rate is 30%. Mauritius has a progressive personal income tax rate that starts at 10% and goes up to 20%.

The corporate income tax rates in African countries range from around 10% to 30%. Ethiopia's CIT rate is 30%, and Botswana's rate is

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<sup>110</sup> Ibid

<sup>111</sup> ATAF (2017), "African Tax Outlook, Pretoria: African Tax Administration Forum", (2<sup>nd</sup> Edn), [https://events.ataftax.org/index.php?page=documents&func=view&document\\_id=16](https://events.ataftax.org/index.php?page=documents&func=view&document_id=16), last accessed on April 15<sup>th</sup> 2024

<sup>112</sup> Saifaddin, Galal. (2023), "VAT rate on goods and services in Africa 2022, by country", Statista, <https://www.statista.com/statistics/1248622/vat-rate-on-goods-and-services-in-africa-by-country/>, last accessed on April 18<sup>th</sup> 2024

<sup>113</sup> PricewaterhouseCoopers, (2024), "Nigeria, Corporate – Other taxes, Value Added Tax (VAT)", <https://taxsummaries.pwc.com/nigeria/corporate/other-taxes>, last accessed April 20<sup>th</sup> 2024.

22%<sup>114</sup>. Ghana has a standard corporate tax rate of 25%, while Rwanda has a reduced rate of 28%<sup>115</sup>.

**Special Tax Incentives:** Many African countries offer special tax incentives to attract investment and promote specific sectors. These incentives can include tax holidays, reduced tax rates, and exemptions. Examples include the tax incentives for the tourism sector in Ghana or the Film and Television Production Incentive in South Africa.

Mauritius, there is a 0% tax rate on dividends, capital gains, and interest income for global business companies operating in certain sectors, such as financial services and information technology<sup>116</sup>.

Tanzania offers a 10-year tax holiday for companies investing in priority sectors like agriculture, manufacturing, and infrastructure development. This includes exemptions from corporate income tax, withholding tax, and value-added tax.

In Morocco, incentives granted to companies operating in the Industrial Acceleration Zones include an exemption from corporate income tax and local business tax, VAT, and customs duties for a certain period for companies that derive income from at least 85% of their total sales abroad<sup>117</sup>.

Uganda has a tax incentive program called the Export Promotion Scheme, which grants tax exemptions on inputs and equipment used in the production of goods and services for export.

In Nigeria, there are tax incentives for companies involved in pioneer industries, such as agriculture, solid minerals, and gas utilization. These incentives include tax holidays, reduced tax rates, and exemptions from import duties<sup>118</sup>.

In Côte d'Ivoire, there is a tax incentive for companies engaged in agricultural activities, where they can benefit from reduced corporate income tax rates and exemptions on certain agricultural equipment. Rwanda offers a

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<sup>114</sup> Trading Economics, "List of Countries by Corporate Tax Rate | Africa.", <https://tradingeconomics.com/country-list/corporate-tax-rate?continent=africa>, last accessed April 24<sup>th</sup> 2024.

<sup>115</sup> Orbitax (2024), "Rwanda- Orbitax Corporate tax rates", <https://orbitax.com/taxhub/corporatetaxrates/RW/Rwanda>, last accessed April 15<sup>th</sup> 2024

<sup>116</sup> PricewaterhouseCoopers (2024), "Mauritius, Corporate Income Determination", <https://taxsummaries.pwc.com/mauritius/corporate/income-determination>, last accessed April 20<sup>th</sup> 2024.

<sup>117</sup> Survey of Global Investment and Innovation Incentives. (2020), "Morocco", <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-survey-of-global-investment-and-innovation-incentives-morocco-2020.pdf>, last accessed April 18<sup>th</sup> 2024

<sup>118</sup> PricewaterhouseCoopers (2024), "Nigeria, Corporate Tax Credits and Incentives", <https://taxsummaries.pwc.com/nigeria/corporate/tax-credits-and-incentives>, last accessed April 20<sup>th</sup> 2024.

0% corporate income tax rate for companies engaged in exporting goods and services, as well as a reduced tax rate for companies operating in priority sectors like manufacturing and agribusiness<sup>119</sup>. Kenya provides a 10-year tax holiday for companies investing in designated special economic zones, which includes exemptions from corporate income tax, withholding tax, and value-added tax<sup>120</sup>.

### **The role of International financial laws and taxation in Africa**

The role of international financial laws and taxation in the development of African economies cannot be overstated as they are essential for promoting economic development, ensuring transparency, attracting investments, and maintaining financial stability. They greatly contribute to the growth and prosperity of African nations. A few are discussed below.

### **Provision of Legal Foundations for Economic Stability**

International financial laws provide a framework for fair and transparent financial transactions, attracting foreign investments and fostering economic growth in African countries. The legal frameworks governing international financial activities provide the foundations for economic stability. These frameworks encompass a spectrum of regulations, from trade laws and investment policies to taxation structures. A clear, transparent, and enforceable legal foundation is essential for attracting investments and ensuring the soundness of financial systems<sup>121</sup>.

### **Influence on Investor Confidence**

The effectiveness of international financial laws directly influences investor confidence. Investors, whether domestic or foreign, seek legal certainty, protection of property rights, and transparent regulatory environments. Nations that successfully implement and enforce these laws often experience increased investor confidence and, subsequently, economic growth<sup>122</sup>. Clear and well-enforced financial laws and taxation systems create a favorable investment climate,

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<sup>119</sup> EAC (2022), “Rwanda Standard Incentives for Investors”, <https://www.eac.int/press-releases/243-sector/investment-promotion-private-sector-development/investment-guide/2475-rwanda-standard-incentives-for-investors#:~:text=Rwanda%20Standard%20Incentives%20for%20Investors%201%20Preferential%20corporate,...%206%20Exemption%20of%20Capital%20Gains%20Tax%20>, last accessed April 22, 2024

<sup>120</sup> Kenya Revenue Authority, “Investing in Kenya”, <https://www.kra.go.ke/ngos/incentives-investors-certificate/investing-in-kenya/incentives-investors>, last accessed April 20, 2024.

<sup>121</sup> Ibid.

<sup>122</sup> Ibid.

attracting foreign investors who seek stability and legal protection for their investments in African countries.

### **Combating Corruption and Money Laundering**

Strong financial laws help prevent corruption and money laundering by establishing regulations that require transparency, accountability, and reporting of financial transactions. This helps protect the integrity of African economies, preserve national wealth, promote fair competition, and create a level playing field for businesses. Some of the methods that can be used to combat corruption and money laundering include the use of technology, where alerts can be set off on suspicious transactions in financial institutions; regular meetings among corruption and anti-money laundering institutions to compare data and information to curb these activities. For example, in Ghana, the Financial Intelligence Centre (FIC), the Economic and Organised Crime Office (EOCO), the Ghana Revenue Authority (GRA), and the Bank of Ghana (BoG) have regular meetings to undertake such reviews in their efforts to curb money laundering.

Further methods to deal with corruption and money laundering are using data analytics to track transactions and the movement of suspicious funds across regions to stem the tide of money laundering. There is also the need to standardise software and systems used by financial institutions as the tracing and tracking of the movement of funds through audits will be made easier. Finally, training of anti-money laundering (AML) officials needs to be continuous to bring them up to speed to detect and combat corruption and the laundering of funds.

### **Ensuring Tax Compliance**

International taxation laws ensure that individuals and businesses pay their fair share of taxes, resulting in increased Government revenue which is vital for funding public services, infrastructure development, and social welfare programs in Africa.

### **Enhancing Financial Stability**

International financial laws, such as those based on the Basel framework, promote stability in the banking sector, reducing the risk of financial crises and protecting the savings of individuals and businesses. This can facilitate access to capital for businesses, encourage savings and investment, and foster the growth of the banking, insurance, and capital markets sectors.

### **Facilitating International Trade**

Harmonized financial laws and taxation systems across African countries streamline cross-border transactions and trade, making it easier for businesses to engage in international commerce.

### **Economic Diversification**

By implementing financial laws and taxation systems, countries can encourage economic diversification. This can help reduce dependence on a single sector or commodity, promote innovation and entrepreneurship, and create a more resilient and sustainable economy.

### **Regional Integration and Trade**

Harmonizing financial laws and taxation across African countries can facilitate regional integration and trade. This can lead to increased intra-African trade, investment, and economic cooperation, fostering economic growth and development on a broader scale.

### **Challenges in implementing international financial laws and taxation in Africa**

Many African countries may have limited resources and expertise when it comes to implementing complex international financial laws and taxation systems. This can make it challenging to effectively enforce and administer these laws. They lack the necessary expertise and resources to build and sustain the capacities required for effective implementation. This includes training regulatory bodies, legal professionals, and law enforcement agencies to understand and apply international financial laws adequately. The African Development Bank (AfDB) has noted that capacity building is a significant challenge in Africa, particularly in the financial sector, where skilled professionals are essential for enforcing regulations and ensuring compliance.

A significant portion of economic activity in Africa takes place in the informal sector, which can be difficult to regulate and taxed. Informal businesses often operate outside the formal tax system, making it challenging to capture tax revenue from these sectors. Hence tax evasion and avoidance practices are prevalent in some African countries with the attendant difficulty of the appropriate enforcement mechanisms, inadequate monitoring, and loopholes in tax laws.

The tax systems in many African countries can be complex and burdensome, leading to compliance challenges for businesses and individuals. Simplifying tax laws and procedures can help improve compliance and facilitate effective implementation of international financial laws.

Additionally, Africa's interconnectedness with the global economy means that cross-border transactions are common. However, enforcing international financial laws and taxation across borders can be challenging due to differences in legal systems, information sharing, and coordination among countries. Addressing these challenges requires a collaborative effort between African countries, international organizations, and stakeholders. This can

involve capacity building, strengthening tax administration frameworks, promoting transparency, and fostering international cooperation.

### **Future Trends and Recommendations**

International financial laws and taxation are constantly evolving, and it's important for African countries to stay updated and enhance their financial systems. Here are some emerging trends and recommendations:

***Environmental, Social, and Governance (ESG) Considerations:*** The integration of Environmental, Social, and Governance (ESG) factors into financial laws is gaining prominence globally. African nations are likely to witness a shift towards incorporating sustainability considerations into regulations, attracting socially responsible investments and promoting long-term economic resilience. Global investors are increasingly prioritizing ESG considerations. African countries aligning their financial laws with sustainable practices can position themselves as attractive destinations for responsible investments.

***Digital Transformation and Automation:*** African countries can embrace digital technologies to streamline their financial systems. This includes implementing electronic tax filing and payment systems, utilizing digital platforms for financial transactions, and adopting digital identity verification methods to enhance security and efficiency.

***Strengthening Tax Administration:*** Improving tax administration is crucial for effective financial systems. African countries can invest in training and capacity building for tax officials, implement robust tax compliance measures, and leverage technology for efficient tax collection and enforcement.

***International Cooperation:*** Collaboration with international organizations and other countries can help African nations enhance their financial systems. Participating in initiatives like the OECD's Base Erosion and Profit Shifting (BEPS) framework and the Automatic Exchange of Information (AEOI) can promote transparency and combat tax evasion. Again, collaborative initiatives within regional economic communities and adherence to global standards enhance consistency, reduce complexities for businesses, and contribute to a more integrated financial ecosystem.

***Promoting Investment and Economic Diversification:*** African countries can attract investment by offering tax incentives and creating a favourable business environment. By diversifying their economies

beyond traditional sectors, such as agriculture and mining, countries can stimulate economic growth and generate more tax revenues.

***Capacity Building and Knowledge Sharing:*** Investing in education and training programs for financial professionals can enhance the expertise and skills needed to implement effective financial laws and taxation systems. African countries can also engage in knowledge sharing with other nations to learn from their best practices and experiences.

***Stakeholder Engagement and Consultation:*** Policymakers must actively engage with diverse stakeholders, including businesses, investors, civil society, and experts, in the formulation and review of financial laws. Inclusive decision-making processes ensure that regulations are practical, transparent, and reflective of the diverse interests within the economy. Rwanda's success in improving its business environment is attributed, in part, to stakeholder engagement. The government collaborated with businesses and other stakeholders to identify and address challenges in the regulatory environment.

### **Conclusion**

By embracing these emerging trends and implementing these recommendations, African countries can strengthen their financial systems, promote economic growth, and ensure sustainable development.

Navigating international financial law and taxation in Africa is an intricate yet crucial endeavour. While there are challenges, including legal complexities, technological shifts, and institutional weaknesses, the continent also holds immense potential for reaping the benefits of a robust and inclusive financial system. By adopting strategies that promote legal coherence, strengthen institutions, foster collaboration, and embrace technology, African nations can chart a course for a future where international financial law and taxation serves as a catalyst for sustainable development and shared prosperity.