

i. Abstract

It is estimated that US\$50 Billion is attributed to illicit financial outflows from Africa each year. This has created an environment in which African tax administrations have placed political pressure on industry and in particular the mining sector, to account for this erosion of tax bases across the African continent. Transfer pricing abuse by multinational enterprises in the mining industry has been attributed to a large portion of these illicit outflows. This report sets the objective of understanding African transfer pricing challenges, both general and mining specific, as well as initiatives addressing these challenges so as to identify the subsequent synergies and gaps that exist between the two. The following general challenges related to transfer pricing on the African continent were identified namely; effective policy and legislation addressing transfer pricing, sufficient skills and capacity in tax administrations, effective document requirements pertaining to transfer pricing transactions, access to comparable data databases and exchange of information between tax administrations. In addition to these general challenges, two mining specific challenges were identified namely; the complex nature of vertically/laterally integrated mining value chains and inadequate understanding by tax authorities of mining related transactions along the value chain in terms of function, asset and risk of each transaction. Of the six initiatives identified in the literature, the World Bank Group and Centre for Exploration Targeting sourcebook on transfer pricing in African Mining as well as the African Tax Administration Forum tax programs were selected through an Analytical Hierarchy Process as being the best aligned to deal with the challenges mentioned. Synergies between these two initiatives were identified in the areas of transfer pricing policy and legislation alignment as well as transfer pricing skills and capacity building. Gaps were identified under the practical ability to implement the outcomes from the World Bank Group sourcebook which requires a centralised body and multinational transfer pricing model positioned and able to carry out the transfer pricing recommendations from the sourcebook such as effective audits and skills and capacity building programs. The report concludes with a basic framework of how such a Multi-National Transfer Pricing Unit under ATAF might function, as a possible solution to addressing this gap.