



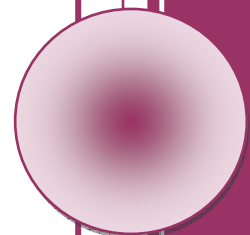
policy forum

tax justice network for Africa



LESSONS LEARNED IN TAX JUSTICE 2009

Lessons learned during seminar aimed at raising awareness and sharing experiences on emerging tax issues for Civil Society Organisations in the East Africa region. The Seminar, held in Dar es Salaam in May, 2009 and organized by Policy Forum in collaboration with Tax Justice Network – Africa, also aimed at building research and advocacy capacity on tax issues for participants.



“tax justice is slowly but steadily emerging as an important economic justice issue in the east Africa Region.”

1. Although the level of awareness is still low, tax justice is slowly but steadily emerging as an important economic justice issue in the east Africa Region. A number of organizations in East Africa have taken up the initiative and have carried out exploratory activities aimed at creating an understanding of the issues and attempting to link tax issues with their ongoing programmes.

In Kenya, the Kenya Human Rights commission has done a study looking at the tax incentives

in the flower sector and how this is related to the human rights abuse prevalent in this sector. The newly established National Tax Payers association in Kenya is in the process of developing grass root initiatives to focus both on government devolved funds and the tax component of government revenue. The tax Justice Network has commissioned the production of a country tax justice report for Kenya which is due to be finalized.

In Uganda the Uganda Debt Network (UDN) has carried out a study examining how tax system in Uganda contribute to the country’s poverty eradication Strategies. Action Aid Uganda jointly with the Tax Justice Network-Africa are finalizing a study looking into the corporate taxation, tax incentives and tax avoidance in Uganda.

In Tanzania an alliance of religious organisation with the support of Christian Aid and the Norwegian Church Aid carried out and produced a study – The Golden opportunity- looking at the tax policy and practice in the Tanzanian mining sector.

2. Brian Kagoro of

ACTIONAID KENYA says that our regulatory legislative framework is 50 years behind and not able to deal with or handle the complexities involved today. Giving his audience the background, history, goals and objectives behind the establishment of the Tax Justice Network, Brian talked of the latest developments and issues surrounding tax justice in the

international scene. In setting the context, he said there were unjust tax regimes in Africa as a result of World Bank policies that many countries have adopted. He gave an example of Zambia as a country that that focused on policies to attract Foreign Direct Investment and increase exports in the mining sector in a manner that has not brought it gains and has in fact left it worse off.

“Our regulatory legislative framework is 50 years behind and not able to deal with or handle the complexities

He then went on to discuss the importance of African countries having a visionary national growth strategy, one that involves the state playing a more active role in setting the agenda with regards to international trade and investments. “Our regulatory legislative framework is 50 years behind and not able to deal with or handle the complexities involved. Instead, we are more and more towards export generated growth, which is a movement BACKWARDS,” he said, adding that Africa countries are at a stage where they must deal with taxation in a broader context and must make internal actors invest domestically to stimulate growth in within the country.

“There is a need to get locals to invest in their on economies in a sustainable way.” He gave the example of Kenya: “The Government of Kenya offers a Chinese investor huge incentives (tax holidays) to invest in its country and extract profit without Kenya gaining anything. We should ask how do we stimulate a growth build-up from domestic activities or investments?”

Mr. Kagoro also mentioned the ecological debt caused by such extractive activities of multinational companies. He said that there was dumping and pollution happening and the break down of our natural / biodiversity resources. And because natural resources are a global public good, we will end up paying for its destruction.

3. Alvin Mosioma, the

coordinator of TJN says the resource gap will prevent African countries from reaching the Millennium Development Goals. He stated low income countries many of them being in Africa will require up to 135 billion USD in order to achieve the MDG. He then posed the question: Where should these resources come from?

Mosioma went on to explain that dependence on external resources in the form of overseas

development Assistance or/and Foreign Direct investment will not raise the required resources to fill the financial gap. He argued that domestic resource mobilization and especially tax was necessary if poor wanted to develop a sustainable economy and address poverty challenges. Beside it the revenue generation capacity of tax, he stated that taxation provided additional advantages to poor countries including: Being a more sustainable source of financing less prone to external shocks, creating policy space for poor countries to implement homegrown solution thus creating their ownership of the development process as well as strengthening their State capacity, Strengthening the social contract (Taxation and representation), improving the distribution of income and wealth thus reducing poverty and inequality and Enhancing government transparency and accountability. The capacity of African countries to mobilize tax revenue has however been reduced to a number of obstacles including: ineffective tax systems, tax evasion and avoidance by the wealthy and MNCs, capital flight, tax havens, harmful tax competition and forced market liberalization. These challenges have been identified as a major source of revenue leakage from Africa with estimates showing that the continent lost up to **\$607 billion** in accumulated stock through capital flight by the end of 2004.

Mosioma went on to stress on the need to address these challenges through:

1. Support for campaigns aimed at corporate transparency; this include International accounting standards on country by country reporting
2. Campaigns against tax concessions and for progressive tax policies;
3. Measures to counter the promotion of aggressive tax avoidance by bankers, lawyers and accountants
4. Support to campaign for the end to banking secrecy and tax havens;
5. Support for global efforts to return stolen wealth from Africa and to put in place measures to discourage illicit transfers abroad.

**“the resource gap
which will prevent
African countries
from reaching the
Millennium
Development Goals.”**

“the more dependent the state is on taxation, the more it has a stake in prosperity of the country because its survival depends on continuous, predictable and increasing revenue”

4. Dr. Dereje

Alemayehu of Christian Aid gives a theoretical discussion on the link between taxation and governance. He asserts that there existed empirical evidence that points towards governments becoming more responsive to their citizens when dependent on them for revenue. “The more dependent the state revenue on taxes, the more accountable

governments are to their citizens/citizens representatives,” he said, adding that generally, the higher the tax /GDP ratio the more accountable the government in a country is. He illustrated this point using budgetary process. For the national budget to get approved, Members of Parliament have to sit and discuss it before giving it the go ahead. Dr. Alemayehu also added that there are accountability requirements within government bodies and the auditor general to prove that the budget was wisely spent.

He also noted that the more dependent the state is on generalised taxation, the more it has a stake in prosperity of the country because its survival depends on continuous, predictable and increasing revenue. He elaborated: “If share of state revenue is say 25% of GDP rulers plan to increase the government revenue would not be to administratively raise the share of state revenue to say 30%, but to devise and implement policies to raise the GDP by 5%.”

On political and bureaucratic capability of the state, he observed that it is enhanced by generalised taxation. This is because to determine societal needs and nurture bargaining and compromise between competing interests, the state needs to enhance its political skills. Also, in order to design and implement effective policies to deliver public services efficiently, the state would need to enhance its bureaucratic capacity.

Lastly, he held that generalised taxation enhances engagement of a country’s population in policy and political processes. As taxpayers check “value for money” of their contributions in terms of the quality of government service delivery, they are using their rights to build interest in the way the establishment rules on their behalf.

Policy Forum Secretariat

May, 2009