High progressive tax can be good when combined with good services

Outcomes from an event held to mark the dissemination of the discussion paper: 'Foreign aid and stimulating domestic revenue mobilisation in Uganda and Kenya' Nairobi, 24 May 2016

Official development assistance (ODA) for developing countries to enhance and generate domestic revenues, particularly tax revenue, has been the centre of much debate in development discourse. The adoption of the Sustainable Development Goals has increased focus on the need to map available domestic resources to finance countries' development agendas, especially among developing countries. There is a need for countries to assess and account for the effectiveness of aid to a recipient country's development.

A discussion paper written by Development Initiatives on foreign aid and stimulating domestic revenue mobilisation in Uganda and Kenya for poverty reduction and development revealed that tax revenue made up the largest proportion of total revenue in both countries (over 80%), during the 2013–14 fiscal year. It also found that ODA to domestic revenue mobilisation in Uganda and Kenya is mainly towards projects that support domestic revenue mobilisation activities indirectly but whose main objectives are not domestic revenue mobilisation (termed 'wider projects' in the study) as opposed to projects whose main objectives are primarily to support domestic revenue mobilisation activities ('core projects'). In conclusion, the study found that there is potential for more core projects to support domestic revenue mobilisation – specifically towards innovative ways of taxing the informal sector – to further boost revenues.

To disseminate and discuss the implications of these findings, DI held a breakfast meeting in Nairobi on 24 May 2016 that attracted participants from the government, media, international NGOs and organisations working directly on tax justice matters both across Africa and within the East Africa region.

Echoing the discussion paper, attendees indicated that one possible reason why Kenya has reduced its reliance on ODA is that it is now borrowing more commercially and domestically to finance its development.

The main solution, according to attendees, would be to develop approaches that increase tax revenue without necessarily increasing the tax burden (which has become more relevant in many African nations, including Kenya and Uganda, after the structural adjustment programmes of the 1980s and '90s that shifted the tax burden away from public enterprises to the private sector).

However, broadening the tax base to mobilise more domestic revenue might be undermined if attention is not given to leakages and abuses, including illicit financial flows. The Panama Papers showed that illicit financial flows are not only a problem for African countries, and that there is a need for global collaboration to track them. A media representative intimated that many journalists in East African region found the Panama Papers too complicated to report on.

There seems to be a desire on the part of the media to have access to easily digestible information on domestic revenue mobilisation and illicit financial flows issues.

In summary, the meeting concluded that countries such as Kenya and Uganda should target job-creating economic growth, and shift away from growth based solely on extractive industries – oil and gas – and services that require the employment of fewer people.

More importantly, high progressive tax should be partnered with incentives in the form of good services. As much as effective tax administration improves revenue collection and accountability, there is dire need to increase the confidence of citizens that tax revenue actually goes back into delivering essential public services and provides value for money, even as these countries consider the informal sector as a new source of domestic revenue mobilisation.

Way forward

Tax and aid experts present in the meeting expressed the hope that the upcoming High Level Meeting of the Global Partnership for Effective Development Cooperation (to be held later this year in Nairobi) will give much needed attention to effective domestic revenue mobilisation for Africa. This attention will contribute towards inclusive and accelerated implementation of the 2030 Agenda.

Moreover, there is a need to support the subnational governments to strengthen county revenue collection systems. There has been a focus on national revenue generation but activity at a subnational level should also be considered as a source of generating revenue.