

Africa rising?

Inequalities and the essential role of fair taxation



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List of Acronyms

Acronym	Full Description
ADB	African Development Bank
AEO	African Economic Outlook
AFRODAD	African Forum and Network on Debt and Development
AIDC	Alternative Information and Development Centre
APP	Africa Progress Panel
ATAF	African Tax Administration Forum
BEPS	Base Erosion and Profit Shifting
BIG	Basic income grant
CABRI	Collaborative Africa Budget Reform Initiative
CfSC	Centre for Social Concern
CIT	Corporate income tax
COSATU	Congress of South African Trade Unions
CSO	Civil society organisation
CTPD	Centre for Trade and Policy Development
EAC	East African Community
EITI	Extractives Industry Transparency Initiative
EPAs	Economic Partnership Agreements
EPZ	Export processing zone
GDP	Gross domestic product
GFI	Global Financial Integrity
GST	Goods and services tax
HNWI	High net worth individual
ICTD	International Centre for Tax and Development
IMF	International Monetary Fund
ISODEC	Integrated Social Development Centre
KRA	Kenya Revenue Authority
MDG	Millennium Development Goal
MNC	Multinational corporation
OECD	Organisation for Economic Cooperation and Development
PAYE	Pay As You Earn
PIN	Personal identification number
PIT	Personal income tax
SADC	Southern African Development Community
SARS	South Africa Revenue Service
SEATINI	Southern and Eastern African Trade Information and Negotiations Institute
SPII	Studies in Poverty and Inequality Institute
TJN	Tax Justice Network
TJN-A	Tax Justice Network Africa
UNDP	United Nations Development Project
UNECA	United Nations Economic Commission for Africa
UNU-WIDER	United Nations University World Institute for Development Economics Research
VAT	Value added tax
ZRA	Zambian Revenue Authority

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Executive Summary

'It cannot be said often enough, that overall progress remains too slow and too uneven; that too many Africans remain caught in downward spirals of poverty, insecurity and marginalisation; that too few people benefit from the continent's growth trend and rising geo-strategic importance; that too much of Africa's enormous resource wealth remains in the hands of narrow elites and, increasingly, foreign investors without being turned into tangible benefits for its people'

Kofi Annan, Chair, Africa Progress Panel¹

After a decade of high growth, a new narrative of optimism has taken hold about Africa and its economic prospects. Alongside buoyant growth rates, there has been some poverty reduction and some positive progress in sectors such as health and education. However, despite this, there is a broad consensus that progress in human development has been limited given the volume of wealth created. There is growing concern that the high levels of income inequality in sub-Saharan Africa are holding back progress.

This report investigates the issue of income inequality in eight sub-Saharan African countries (Ghana, Kenya, Malawi, Nigeria, Sierra Leone, South Africa, Zambia and Zimbabwe). While there is growing public recognition that inequality is the issue for our time - both globally and in sub-Saharan Africa - there is little definitive analysis of income inequality trends on the continent. This report seeks to contribute in this area, looking at whether income inequality is, in fact, rising and in what context this is occurring. In particular, this report seeks to locate an analysis of tax systems in sub-Saharan Africa in the context of these economic inequalities, given the primary importance of national tax systems in redistributing wealth.

The report looks at national taxation systems and international taxation issues - and, critically, the relationship between them. In this way it reveals how the enabling environment for tax dodging impacts on national tax systems in sub-Saharan Africa. It also dissects the trends in revenue generation, tax equity and tax reforms across the eight countries. It has a special focus on the experiences of two countries - Kenya and South Africa - which have two of the stronger tax systems in sub-Saharan Africa but which also have extensive shortcomings in the area of tax equity.

The evidence gathered in this report shows that increasing income inequality should be of huge concern to governments in at least six out of the eight countries - Ghana, Nigeria, South Africa, Zambia, Kenya and Malawi. In Ghana and Nigeria, income inequality is rising strongly. In Nigeria, between 1986 and 2010, there has been a 75% increase in the concentration of income in the country. In Ghana there has been a 50% increase in the concentration of income over an 18-year period. In Zambia income inequality is now at its highest levels since data was collected. South Africa has one of the highest levels of inequality in the world and one which keeps increasing. The sharp rise in the incomes of the richest 5% is driving the increase at the top end. Yet there is no evidence of progress in tackling this inequality, or even much preoccupation with it, in South Africa's new National Development Plan.

It is also clear that this trend is not just a result of the rich getting richer. There is clear evidence that this is at the expense of the poor who are also getting poorer, and are therefore actively impoverished in this process. To make matters worse, we know that we are vastly underestimating the problem. As Tax Justice Network research has shown, both wealth and inequality are being dramatically underestimated to a very significant degree, in every study and in every country.²

In this context of rising inequality, the role of taxation in redistributing income is particularly critical, with progressive tax systems being one of the most important tools available to governments. However, the report shows the extent to which illicit financial flows undermine this prospect.

A central contention of this report is that rising income inequality is going hand in hand with - and is ultimately caused by - the current growth model and the illicit financial flows which have increased significantly throughout Africa's high growth

'In many countries, it is the poor who end up paying more tax as a proportion of their income and this is just not right. When the rich are able to avoid paying their fair share of taxes, a government must rely on the rest of its citizens to fill its coffers. While tax dodging goes unchecked, governments are severely hampered from putting in place progressive tax systems – so fairer domestic tax systems depend on global transparency measures'

Alvin Mosioma, Director, Tax Justice Network – Africa³

period. Certainly the growth model has led to a concentration of wealth, but income inequality is also being considerably exacerbated by the inability of governments to tax the proceeds of growth, because a large part of sub-Saharan Africa's income and wealth has escaped offshore. Much of this is also driven by the reliance on the natural resource sector, which is known to be rife with tax-dodging techniques. In fact sub-Saharan Africa is suffering excessively because of a variety of factors which combine to create the 'perfect storm'. The dependence on natural resource extraction, and the region's relatively undiversified economies, means a much higher percentage of African countries' wealth is likely to be diverted by the elites that control that wealth via opaque tax haven structures; at the same time weak tax authorities have a much lower capacity to confront this problem. This exacerbates the concentration of wealth greatly.

The UK is a recognised beneficiary. A recent report from Jersey Finance shows the extent of African assets held on the island: £9.4bn in customer deposits in banks (as compared to £3bn from China) and £31bn in Jersey trusts (as compared to £1bn from China). While the UK – and a small number of Africa's super rich – are gaining via the structure of offshore finance in Jersey, African citizens are losing significantly.

The report also finds that, to a large degree, governments are hamstrung in their efforts to tackle income inequality. To make progress, sub-Saharan Africa must be able to tax its vast income and assets held offshore. This means tackling illicit financial flows and tax dodging in all its forms. However, as this report spells out, there are severe limits to national level action. Systemic, global reforms are a vital part of the answer. Progress at this level had been haltingly slow, though recent developments have shown promise. Yet, while discussions advance in the G8, G20 and OECD, it is still far from certain whether African countries will be correctly included in, and benefit from, the projects and reforms, as these are designed to benefit G20 and OECD countries first and foremost, over the sub-Saharan African countries that are most in need.

While illicit financial flows undermine the scope for African governments to put in place progressive tax systems, tax systems have also been heavily influenced by the tax consensus, led by the International Monetary Fund (IMF) and supported

by other multilateral institutions, bilateral donors and tax professionals. The tax consensus has focused on reducing corporate and, to a lesser extent, personal income tax rates while expanding the base for consumption taxes and value added tax (VAT) in particular. Its impacts have been well documented and have contributed to a heavy reliance on indirect taxation at the expense of more progressive income and wealth taxes. While the neglect of direct taxation is a major shortcoming, the tax consensus in Africa can be judged to have failed on its own terms. Revenue trends have barely risen over several decades and this report confirms that progress in recent years is not significantly affecting this picture.

This report also finds many shortcomings in direct taxation in the countries studied. The personal income tax (PIT) systems lack equity as the bulk of the burden is on employees. The self-employed rarely pay tax. The visible lack of equity erodes citizens' trust in the system. Often income tax thresholds are too low and do not protect the poor. This is highlighted by the cases of Zimbabwe and Malawi, where the poor are now eligible to pay income taxes before they earn enough to even comply with minimum food basket requirements. At the same time, threshold adjustments at the upper end to tax the rich more heavily are not in evidence. In South Africa the government has been actively reforming the PIT system so that the tax burden on higher earners has been reduced year on year. The same yearly income in real terms was being taxed at 33.8% in 1994/95 but only 18.2% in 2010/11. In South Africa, the Alternative Information and Development Centre (AIDC) has estimated the annual cost of this regressive policy at US\$17bn.

Enforcement is also a significant issue. The scale of the tax evasion problem is very evident from recent revelations regarding high net worth individuals (HNWI) in Kenya and South Africa. In Kenya only 100 HNWI are registered with the tax authority even though the country has 142 Kenyan shilling billionaires, whose net worth exceeds US\$30m each. Apart from the non-declaring billionaires, there are likely to be a further 40,000 HNWI in the country who are evading tax. In South Africa it is estimated there are somewhere between 28,000 and 114,000 HNWI who are not registered with the tax authority. AIDC estimates that US\$10.9bn in tax revenue goes uncollected in South Africa because of HNWI tax evasion.

'Tax equity has to be part of the public policy debate. We have an opportunity to make it so'

Charles Abugre, Africa Director, United Nations Millennium Campaign⁴

This report also finds that countries struggle to introduce new taxes on income, wealth and property. Kenya's recent efforts to re-introduce a capital gains tax on the sale of property and shares is an emblematic example, with the government backtracking at speed after private sector resistance. Equally notable is that Ghana and Zambia have so far failed to introduce their desired windfall taxes on mineral production. Nowhere is the failure to progress more visible than with tax incentives. Few would now argue in favour of tax incentives unless these are very carefully targeted in pursuit of clear industrial policy or social and environmental goals. The removal of those tax incentives that bring no clear benefits would be administratively simple and would immediately have a positive and significant impact on revenue. However, they continue to dominate tax systems in sub-Saharan Africa, leading to huge revenue losses.

Given the many difficulties with direct taxation, reliance on indirect taxation is still high. This continues to have negative impacts, as demonstrated by the recent VAT reforms in Malawi and Kenya, which will increase the tax burden on the poor. In both countries, food security should be a prime concern, yet the abolition of VAT exemption on many basic goods was done without proper analysis of the consequences for the poor. In Kenya's case, this move is aggravated by the implementation of the new money transfer tax, an additional tax burden for the poor. It is notable that while the tax burden on the poor is rising in Kenya, the country's elite successfully continue to resist paying taxes on the profits made from their real estate and stock market investments.

While the report notes some signs of progress, such as some mineral taxation reforms, there is also a clear gap between rhetoric and reality. There is national and international consensus that it is urgent to address issues such as tax incentives, extractives taxation, the taxation of HNWI, tax evasion and illicit financial flows. However, countries are struggling to introduce new direct taxes and to enforce tax compliance against companies and elites. Support to make such transformational changes is inadequate.

The responsibility of the international community is clear. This is not only because of the misplaced emphasis of the tax consensus applied by international financial institutions over the last few decades. It is also due to the rich world's foot-dragging on global reforms with regard to financial secrecy and tax havens. While the global reform agenda has picked up pace recently, there remains a serious risk that African countries will be excluded from the processes, with benefits mainly accruing to G20 and OECD countries. Yet, the more ambitious reforms that Tax Justice Network Africa and Christian Aid are calling for could transform the panorama for direct taxation in Africa.

If countries in Africa cannot tax income and wealth correctly, they will shift the tax burden onto the poor – as this report demonstrates. While individual governments must be held accountable for their policy choices, the international community must shoulder a lot of the responsibility for increasing economic inequalities and for the shortcomings of tax systems and public finances in sub-Saharan Africa.

Introduction

'Africa's development or growth model is seriously flawed. It has not translated into people's welfare over the last 40-50 years. The fundamental reality of Africa is that it is integrated into a global system of kleptocratic capitalism characterised by primitive accumulation or "rent seeking" by the rich nations and within each nation by the rich power elite. This creates at the opposite polar end the dispossession and disempowerment of the masses of the people'

Yash Tandon, Chairman of SEATINI⁵

A new narrative has taken hold about Africa. From the Afro-pessimism regularly expressed during the 1980s and 90s, the continent has become the subject of increasing optimism in some quarters, based on a decade of high growth rates. This is commonly noted by mainstream economic commentators, who see that many of the world's fastest growing economies are in sub-Saharan Africa.

Reports indicate that there have also been gains in terms of poverty reduction and human development. World Bank poverty data shows that in 2008 – for the first time – the average poverty rate in sub-Saharan Africa fell below 50%. The most positive changes have been in relation to education and health. Most countries have achieved universal primary school enrolment, with rates above 90%, and nearly half of the countries in Africa have also achieved gender parity in primary school.⁶ The under-five mortality rate has reduced significantly between 1990 and 2011, as has the maternal mortality rate. While substantial progress has been made in both areas it is still not enough to meet the Millennium Development Goals (MDGs) in these areas.⁷ There is also clear evidence that the massive investment in malaria, tuberculosis and HIV/AIDS has brought impressive results. The continent's HIV prevalence rates have dropped from 5.9% to 4.9% and the numbers dying from AIDS-related causes has dropped.⁸ However, despite this picture, there is a broad consensus that progress on poverty reduction has been too limited and highly uneven. *Most* countries will fail to meet *most* MDG targets.⁹

Many are therefore asking how the proceeds of growth are being shared. Is growth accompanied by decreasing inequality, with a greater share of income going to the poor? Or is income inequality increasing across sub-Saharan Africa? Could the type of growth that Africa is experiencing itself be driving inequalities? There is very little information and analysis available to answer these questions.

Inequality is, today more than ever before, a pressing issue globally. Research in developed countries by the OECD finds that in the three decades prior to the global financial crisis, wage gaps widened and household income inequality increased in a large majority of OECD countries.¹⁰ This occurred even when countries were going through a period of sustained economic and employment growth. Public opinion in OECD countries is certainly coalescing around an understanding that the global system is rigged to suit the interests of the (ultra rich) minority at the expense of the rest. The emergence of the 99% and Occupy movements is a testament to the strength of public feeling about inequality.

Of course, in Africa – as elsewhere – inequality is far from a new phenomenon. Following independence, and in the decades since, wealth has, to too great an extent, remained concentrated in the hands of elites who replaced the colonial powers and failed to reform existing structures and redistribute assets. Political economists such as Yash Tandon and Samir Amin have analysed the shortcomings of global capitalism and economic development paradigms imposed on Africa for many years and there is a body of literature on these debates.¹¹ Civil society organisations and social movements in Africa have also long challenged the traditional growth model, the narrow focus on foreign investment, natural resource extraction and export-led growth, the neglect of the agricultural sector and strategies to create good quality jobs, grow domestic demand and develop the domestic private sector.

Inequality is now becoming more prominent in documents and statements emanating from pan-African bodies. In March 2012 the African Development Bank (ADB) published a report on income inequality in Africa finding that: *'In the 2000's six of the world's ten fastest growing economies were in Africa, but this has not significantly helped to equal incomes or to redistribute wealth.'*¹² The Africa Progress Panel (APP) report published in 2012

is strongly critical of the patterns of buoyant growth alongside increasingly visible wealth disparities and cites equity alongside justice and jobs as a central feature of their report.¹³ This focus continues in their 2013 report where they look more closely at equity and the extractives sector, including the role of illicit financial flows in worsening inequality and poverty in Africa. The UN Economic Commission for Africa, (UNECA), in its 2012 report, also states that: *'Despite the acceleration of economic growth in Africa over the past decade, however, Africans' welfare has generally failed to improve. Social indicators have picked up only modestly, but with unemployment, particularly among youth, remaining stubbornly high, while income inequalities have widened'*.¹⁴ The African Economic Outlook's (AEO) 2013 report¹⁵ highlights how growth has been accompanied by insufficient poverty reduction, persisting unemployment and increased income inequalities.

Debates about taxation and its role in reducing income inequality are beginning to gain traction. African civil society is calling for fair taxation of companies, a lower tax burden for the poor, for African assets abroad to be traced and for the African elite to be effectively taxed. There is also a renewed interest in tax reform from donors as aid budgets fall in these times of austerity.

But efforts to address inequality and to put in place fair tax systems need to be significantly increased, and supported by international processes. International taxation issues are already clearly on the agenda of the G8, G20 and OECD and in recent months processes towards greater financial transparency and fairer taxation of transnational corporations have appeared to advance. However, it remains unclear whether the rhetoric will translate into real benefits for African and other developing countries. Many further actions need to be taken to strengthen global tax transparency and regulations in a way that ensures that developing countries benefit; these are discussed later in this report.

The post-2015 development agenda is another important process. It *could* significantly strengthen the link between taxation, inequality and the eradication of poverty. Whilst not legally binding, new goals to replace the MDGs when they expire in 2015 could, with the right targets and indicators, drive energy and resources into the development of fairer taxation systems. A number of proposals have already been put forward for a goal or target on income inequality and the High-Level Panel on the Post-2015 Development Agenda also recommended a target aimed at reducing illicit financial flows. These ideas need to be developed. Goals aimed at reducing inequality as well as the eradication of absolute poverty should be championed by member states as the negotiations progress and incorporated into the pan-African position.

Tax Justice Network-Africa (TJN-A) and Christian Aid have produced this report as a contribution to the debate on inequality and taxation in Africa. The report analyses inequality trends as well as the key tool available to governments in sub-Saharan Africa to reduce income inequality – namely a progressive taxation policy. A key part of this analysis looks at illicit financial flows from Africa and how these affect countries' efforts to capture taxes they are due.

The countries that are the central focus of this report are: Ghana, Kenya, Malawi, Nigeria, Sierra Leone, South Africa, Zambia and Zimbabwe. These countries were chosen as they are countries in which TJN-A and Christian Aid's partners and members are actively collaborating to advocate for progressive taxation reforms. While some of these countries can provide us with some examples of good practice, generally there is great concern over the need to ensure a progressive taxation system is in place and the lack of progress being made to reduce inequality.

CHALLENGES IN DATA COLLECTION AND METHODOLOGY

A significant challenge in preparing this report has been the availability of comparable, reliable and recent data. To look at income inequality, we present Gini data from the World Bank dataset. As there is often limited data it is difficult to get an accurate sense of trends. For many countries in Africa data is simply not available. As a result there is no detailed or conclusive literature analysing income inequality trends across sub-Saharan Africa as a whole.

Measuring illicit financial flows and assets held offshore is a very specialised area. Data is hard to collect given the nature of secrecy jurisdictions and tax dodging techniques. Here we use data from the specialists – Global Financial Integrity (GFI) and Tax Justice Network (TJN).

With regard to tax data, this report relies on mainly IMF data to enable cross-country comparisons and construct a picture of direct and indirect taxation trends. Country sources such as revenue authorities, central banks or Finance Ministries are also used. The International Centre for Tax and Development (ICTD) is building a new tax dataset, which will make such analysis easier in future. Unfortunately at the time of publication this dataset was not ready for public use.

Overall, there are several important areas where there is simply no data or analysis available. These include measurements of the tax gap; analysis of the equity of national tax systems, including analysis of the tax burden on poor people; and estimates of inequality before and after taxes. The weakness of current data and analysis reflects the political neglect – by donors as much as governments – of issues related to inequality and taxation.

Chapter 1 looks at the subject of inequality and provides an overview of income inequality trends in the countries studied in this report.

Chapter 2 looks at the role of taxation in addressing inequality and the challenges faced by African governments with respect to progressive taxation. Subsections in this chapter cover aggregate tax revenue trends; the role of illicit financial flows in undermining progressive taxation; and the impact of the tax consensus on tax equity. It looks through an equity lens at the various dimensions of the tax systems in the countries studied, including direct and indirect taxes, personal income tax, corporate income tax and tax incentives, value added tax, property tax, informal and local level taxation and extractives taxation.

Chapter 3 highlights the experiences of two countries – Kenya and South Africa – which have two of the stronger tax systems in sub-Saharan Africa but which also have extensive shortcomings in the area of tax equity.

Chapter 4 provides conclusions and recommendations with regard to reducing inequality, fighting tax dodging and making tax systems in Africa more progressive.

Chapter 1: Inequality in sub-Saharan Africa

'Extreme disparities of income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth. Disparities in life-chances – for health, education and participation in society – are preventing millions of Africans from realising their potential, holding back social and economic progress in the process. Growing inequality and the twin problems of marginalisation and disenfranchisement are threatening the continent's prospects and undermining the very foundations of its recent success'

Kofi Annan, Chair, Africa Progress Panel¹⁶

1.1 WHY INEQUALITY MATTERS

Inequality damages us all. It damages our societies and our relationships and it lies at the heart of the poverty that deeply affects so many of the world's citizens.

Inequality is not only a difference in income or economic power, it includes all types of differences – based, for example, on gender, ethnicity or location – that determine how individuals and groups can exercise control over their own lives and prospects. These multiple inequalities intersect and the picture is complex, but it is clearly the poorest who suffer most as a result. TJN-A and Christian Aid believe there is a moral imperative to address inequality. It is simply unfair that a child's life chances are so strongly pre-determined by their family's income, their gender and/or ethnicity and where they are born.

If the rich getting richer had no impact on the poor perhaps it could be more easily accepted. Yash Tandon, Chairman of SEATINI, argues that this issue has never been fully analysed: *'Plenoxia – the desire to have more and more, in this case of wealth – has seized the psychology of the newly rich in the rich countries of the South as well as the rich in the older countries of the North. One of its consequences is the forced anorexia of the poorer nations and, worse, the poorest people within the poor nations.'*¹⁷ As the data in section 1.2 below shows, rising inequality in Africa is not driven solely by the rich getting richer, the poor are also actively being impoverished in the process.

In fact income inequality hampers progress in a range of ways. This is demonstrated, particularly, by research in developed countries, where it has been found that more equal societies do better on a whole host of health and social indicators.¹⁸ Christian Aid recently tested this analytical approach using data from Brazil.¹⁹ Our research found a clear role for

income inequality – as well as poverty – in explaining why life is better or worse in different Brazilian states.

There is a growing consensus that inequality actively hampers poverty reduction in developing countries. The 2013 APP report finds that: *'Rising inequality seems to be the main reason for the disappointing overall record on reducing poverty'*²⁰ in sub-Saharan Africa. Global research confirms this view, finding that levels of income inequality matter significantly in determining global poverty projections.²¹

High or increasing inequality levels can also lead to a rise in conflict and undermine the very fabric of society. There are many examples from Africa which show how rising inequality is leading to less stable and more violent and conflictive societies. Notable recent uprisings, protests, revolts and changes of regime have happened in Cote d'Ivoire, Malawi, Burkina Faso, Gabon, Ethiopia, Swaziland, Uganda, Nigeria, Sudan and Mozambique. Protests have centred around issues such as corruption, rising utility prices, growing inequality and the visibly-increasing concentration of economic power in multinationals.²²

Unfortunately protests are often met with violence, as happened in Nigeria in January 2012 when 11 days of nationwide mass action and general strike launched the Occupy Nigeria movement. This form of protest continues in Nigeria under the Enough is Enough coalition of Nigerian youth, a well-orchestrated social media campaign and a significant expression of public anger at the situation in the country. South Africa is another case in point: for example in August 2012, police killed 34 mineworkers at the Marikana mine following workers' increasingly desperate protests to secure their basic needs and improve their living conditions. The struggles in South Africa to redistribute wealth, increase wages and increase public investment in social services and poor areas are high profile and becoming increasingly conflictive as the wealth gap grows.

'With the bottom half of the world's population together possessing barely 1% of global wealth while the top 10% owns 84%, economic inequality is widely and increasingly recognised as a problem in its own right'

Tax Justice Network²³

At the same time there is much talk of Africa's growing middle class. However, it's important to note that this is still a definition that rests on a very low level of income. The so-called middle class are not bridging the gap with African elites. In fact only 4% of Africans have an income in excess of \$10 a day.²⁴ There is, at the same time, a millionaire boom. South Africa has 48,800 dollar millionaires and Nigeria has

15,900. In terms of cities Johannesburg tops the continent's rich list with 23,400 dollar millionaires, Lagos is in third place with 9,800 and Nairobi in fifth place with 5,000. Accra in Ghana is expected to be the fastest-growing major city for African millionaires.²⁵

A STORY OF EXTREMES

"Kenya has become a country of ten millionaires and ten million beggars."

J M Kariuki, 1970

Despite the steady growth the country has experienced in recent years, Kenya remains one of the most unequal societies in the world and hosts one of the world's biggest slums. An estimated 38% of total income remains in the hands of the top 10% of the population, while the bottom 10% control only 2% of income.²⁶ In Nairobi, about 60% of the population lives in slums on about 5% of the land area, which has negative implications for both human security and economic development. Bordering Nairobi's biggest slums are upmarket residential areas with extravagant homes, well-manicured gardens and clean, well maintained and secure streets. The residents of the slums provide essential services to the upmarket residential areas, where an average family of five lives on one acre of land while in a slum a family of eight lives in one small room. However, slum dwellers are continually ignored and do not receive essential services such as health, education, garbage collection, lighting, water or even security. This has created a sense of neglect and deprivation which provides fertile grounds for crime, conflict and insecurity.

Finally economic inequality matters because it gives rise to political inequality. As witnessed the world over, the concentration of wealth leads to the concentration of political power. Political inequalities exacerbate economic inequalities because they militate against more progressive taxation and may skew public spending to support the activities and interests of those with power. This means inequality itself inhibits progressive tax reform. Taken together, this creates the possibility of a vicious cycle, in which economic and political inequalities are heightened.

Increasing inequalities can, therefore, undermine development in a range of ways, from making conflict more likely to slowing progress in poverty reduction and across the range of developmental goals and targets. Overall the vicious cycle of inequality presents a formidable barrier to any society's progress.

1.2 INCOME INEQUALITY TRENDS IN SUB-SAHARAN AFRICA

In terms of income distribution, and using traditional Gini measures,²⁷ Africa is the second most inequitable region in the world after Latin America. This is not a new phenomenon; it is also a result of the inequality Africa inherited on independence. What is less clear is exactly how income inequality has changed since independence and in this respect there is certainly variation across countries. By 2010, six of the 10 countries in the world with the most unequal income distribution were in sub-Saharan Africa.²⁸ African countries with the most unequal income distribution include Namibia, Comoros, South Africa, Angola, Botswana, Lesotho and Swaziland, with the sub-region of Southern Africa showing a striking concentration of countries which suffer from remarkably high income inequality levels.

THE RELATIONSHIP BETWEEN GROWTH AND INEQUALITY

The current African high growth story – which is a major turnaround from the lost decade of the 1990s – should oblige everyone to look more closely at the growth-inequality question. Many of the world's fastest growing economies in 2011 were in sub-Saharan Africa²⁹ and both resource-rich and resource-poor countries are growing, albeit from a very low base. The growth surge in the region is broadly attributed to improved economic management, the boom in exports, rising commodity prices, the diversification of export markets and the increase in foreign direct investment – particularly from China.³⁰ However, much less is known and discussed about income inequality trends.

The relationship between growth and inequality – and indeed growth and poverty – is a major subject of academic debate. Policymakers intent on pursuing the most narrow growth model tell us that growth is clearly good for poverty reduction. However, most commentators agree that despite the positive growth picture, the results of Africa's growth are disappointing.³¹ There has been only a modest impact on poverty and many high-growth countries have experienced little or no progress on poverty reduction. There is also no evidence that countries with high growth rates have seen employment grow significantly; smallholder agriculture seems to have been totally excluded from the positive growth story and only a limited diversification of economies has taken place. Africa's natural resource story is a good illustration of the failure of the traditional growth model. The spectacular generation of wealth from the extractive industries has failed to be translated into poverty reduction and human development in a long list of countries. Nigeria and Angola are emblematic examples.

It is now much more commonly accepted that growth is not the most relevant factor to tackle either poverty or inequality. Some Latin American countries, such as Brazil, Bolivia, Ecuador and Venezuela, are notable for their success in reducing income inequality in the last decade. While this progress has been accompanied by good growth rates, analysis shows that government policies have been the key driver of progress.³² The consensus is that progress has been achieved by the implementation of successful employment policies, increased minimum wages, increased public spending and improvements in education. This finding is echoed in the African context when the APP concludes that what counts for equity are well-designed public policies, backed up by real government commitment.³³

Many African intellectuals are highly critical of the traditional growth model which has been widely promoted under the Washington consensus.³⁴ Their diagnosis is of a capitalist system based on centuries of exploitation of African economies and an inherently unequal exchange between Africa and developed countries. They conclude that under such a system the pursuit of growth can only lead to the concentration of wealth and growing inequality. Yash Tandon, for example, argues: *'One would have to be blind also not to acknowledge that the Capitalist system is inherently polarising – the rich become richer and the poor poorer... In developed capitalist countries this polarising tendency is countered by state intervention through the provision of, for example, welfare support and state subsidies. In African ... countries these safety valves do not exist, or cannot reach out to the masses.'*³⁵

Many African intellectuals and campaigners have long argued instead for systemic change. This position is becoming ever stronger as the global growth model has led to such a significant concentration of wealth and assets and the emergence of an increasingly unstable 'financialised' economy. Samir Amin, Director of the Third World Forum in Dakar, Senegal, connects these events with growing social and political turmoil: *'The policies that accompany the domination of high finance of necessity lead to an indefinite growing inequality in the distribution of income. Beyond the strictly economic consequences of an evolution in that direction that is steady and permanent – ie, the tendency to stagnation of growth from lack of effective demand – the model of oligopoly-finance capital is socially intolerable and will probably be politically intolerable as well.'*³⁶

A tendency to worsening wealth concentration and increasing inequality are key facets of the current growth model. Apart from the obvious tendency that those who have more money are in a privileged position to make more money, a central issue is that a large proportion of the high income, profits and wealth generated in high-growth Africa are simply not captured by tax authorities. Illicit financial flows and the proliferation of abusive practices to hide income and assets from tax authorities explain how this occurs, practices which are most visible in resource-rich African countries. High growth and increasing illicit financial flows are, therefore, also fundamental parts of the rising inequality story.

An IMF paper that looks at available data from the period 1990 to 2005 finds that in sub-Saharan Africa the region's average income inequality, as measured by the Gini, has fallen. The authors report a large decrease in income inequality – of over five percentage points – in Central African Republic, Kenya, Sierra Leone and Zambia, as well as Burkina Faso, Ethiopia, Guinea-Bissau, Lesotho, Senegal and Swaziland. They highlight four countries in which inequality has increased by more than five percentage points (Niger, Rwanda, Ghana and Cote d'Ivoire).³⁷ They report a medium increase in Madagascar (between three and five points) and small increases in Mozambique, Nigeria, Tanzania and Mali (between zero and three points). South Africa and Botswana also show small increases over the period, though data for the two countries is more limited.

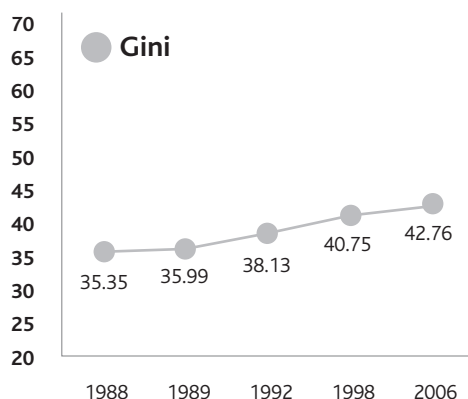
It is important to note that 14 countries are left out of this analysis because of data constraints. The IMF's analysis is based on the World Bank World Development Indicators (which we also use to create our trend charts, see below and overleaf). The IMF can only report on countries that have at least two data entries in the 1990-2005 period. Out of the full sample of 40 countries, 14 have to be left out of their analysis, including some countries with very high levels of income inequality such as Angola, Cape Verde, Comoros, Liberia, Namibia, Sao Tome & Principe and Zimbabwe. Of the 26 countries

where trends can be observed, 17 show decreasing inequality and nine show increasing inequality. New data is now also available for South Africa, Ghana, Nigeria and Zambia which does substantially affect this picture. This is discussed in more detail below.

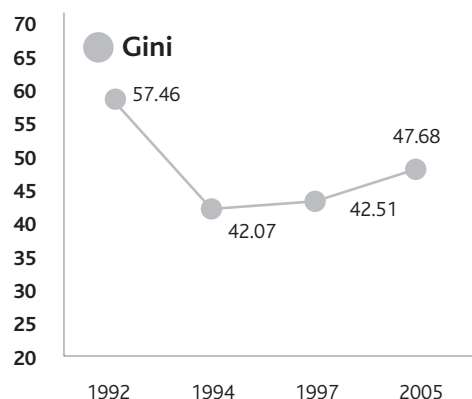
Another piece of research, using the United Nations University World Institute for Development Economics Research (UNU-WIDER) dataset, also finds a reduction in income inequality in Africa.³⁸ It reports the Gini coefficient for Africa at a starting level of around 0.63 in 1970, rising steadily throughout the 1970s and first half of the 1980s to reach a peak of 0.66. It remained high until the early 1990s and then started a downward trend that took it back to 0.63 by 2006. They explain that this shows income inequality has not 'exploded' in Africa and also describe this – rather unusually given the figures – as a 'substantial decline'.³⁹ This research has come under criticism for using very limited real (non-extrapolated) data to reach very broad conclusions.⁴⁰

It should be noted, of course, that both these pieces of research look at the average across the region and are affected by the lack of comprehensive data per country over time. This study does not seek to investigate the average trends across the continent but is only looking at the specific trends for our selected countries. These are portrayed in the graphs below and unfortunately there are worrying increasing trends in a number of cases.

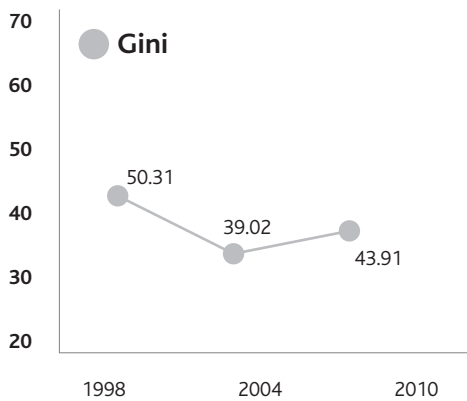
Income inequality trend in Ghana



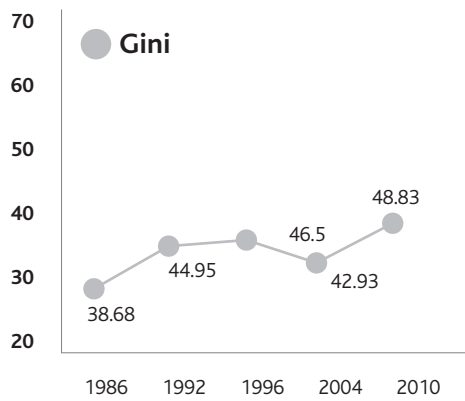
Income inequality trend in Kenya



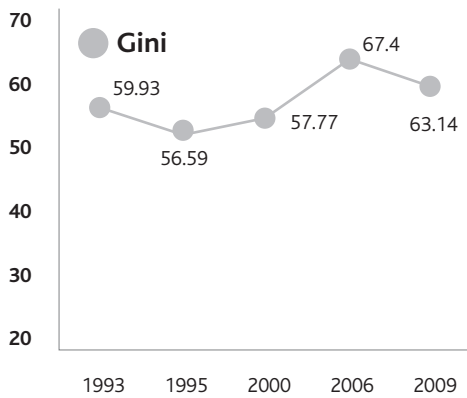
Income inequality trend in Malawi



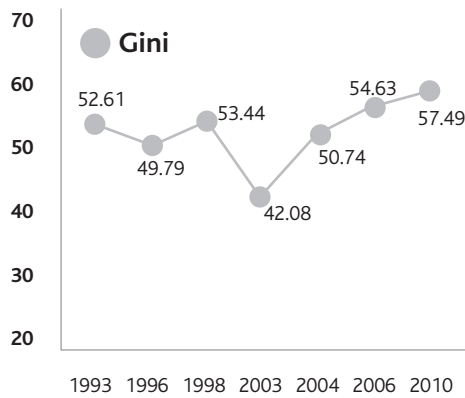
Income inequality trend in Nigeria



Income inequality trend in South Africa

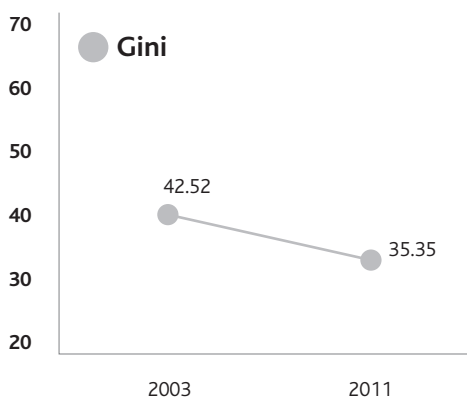


Income inequality trend in Zambia



Source for all graphs: World Bank, Databank, World Development Indicators

Income inequality trend in Sierra Leone



As these graphs show, there is a very worrying trend towards increasing income inequality in a number of countries.

Ghana and Nigeria clearly merit concern. In both countries there is a consistent, clear trend towards increasing inequality. For both these countries, there is evidence that this rising income inequality is having a drag effect on poverty reduction. The APP looks at Ghana and Nigeria from this perspective, calculating the expected poverty reduction if income distribution had remained unchanged from one survey period to the next.⁴¹ In Nigeria, rising income inequality meant that between 2003 and 2009 poverty increased by more than anticipated. In Ghana, poverty fell between 1998 and 2005, but due to income inequality rising, poverty fell by less than it should have. In both cases the top 10% are getting richer while the bottom 40% saw their share of income decline.

GHANA – HOW INEQUALITY IS HAMPERING DEVELOPMENT

A traditional summary of progress in Ghana is likely to highlight its two decades of consistent growth, its qualification for lower middle-income country status and its relatively strong institutions that have increased spending on basic services and poverty reduction programmes. As a result the country lifted 1 million people out of poverty between 1998 and 2006 according to World Bank data. However, this summary ignores a major part of the puzzle. Income inequality is rising in Ghana – from a Gini coefficient of 35.3% in 1988 to 42.8% in 2005 – and is holding back progress on poverty reduction.

A key explanation lies in Ghana's growth model, which has followed mainstream tenets, seeking to attract foreign investment and increase the country's exports as central aims. Exports are mainly based on natural resource extraction and agriculture – with the focus on natural resource extraction intensifying. Ghana recently began oil production. As in many countries, Ghana's extractives industries typically function as an enclave economy with little job creation and few spillover effects in terms of stimulating local businesses, in effect concentrating private sector wealth in a few – mainly foreign – hands. In contrast, agriculture still accounts for more than 20% of GDP and 50% of employment. Transformation of the agriculture sector, via increases in productivity and access to markets, is seen as a critical weak spot.⁴² There is little agro processing and Ghana's domestic demand for processed food is met mainly through imports. Any industrialisation

that has occurred is mainly driven by the extractives industry and the construction sector, while manufacturing has declined.⁴³ Essentially labour-intensive job creation has simply been absent. While Ghana has experienced growing export earnings mainly from gold, crude oil and – positively for small farmers – cocoa, its current account deficit is still growing due to a widening trade deficit and the repatriation of profit conducted by the many foreign investors upon which its growth model depends.

Strategies to pursue labour-intensive job creation, good quality jobs, the growth of the domestic private sector, investment in rural development and the transformation of agriculture are all falling short. Ghana's Shared Growth and Development Agenda (2010-2013) has so far seen only 3.8% of its budget invested in agriculture while 15% has gone to oil and gas.⁴⁴ Such budgetary choices are neither pro-poor, nor do they represent an equity-enhancing growth strategy.

The real story in the country is one of dramatic and severe inequalities between regions, most notably between the north and south. Even Ghana's progress in reducing poverty has not helped the northern region, where poverty is highly concentrated. There, between 1999 and 2006, the number of poor, rural people increased from 2.2 million to 2.6 million even as the national average showed a strong decline.⁴⁵ There is also a visible bias in public spending between regions, documented in great detail by Ghanaian NGO the Integrated Social Development Centre (ISODEC).⁴⁶ In essence the story in Ghana is an inequality story.

Kenya and Zambia are less clear cases – given they have witnessed some reductions in income equality in some periods. In Kenya's case, as the graph on page 15, which is based on World Bank data, shows, income inequality has been increasing since 1994. However, very recently published data, from the Kenya National Bureau of Statistics and the Society for International Development, shows a reduction from 47.7% in 2005 to 44.5% in 2013.⁴⁷ This is a positive indication of progress but inequality is still at a very high level. In Zambia's case income inequality has been consistently rising since 2003. Zambia's Gini coefficient now stands at the extremely high level of 57%, measured in 2010.

In its poverty and inequality assessment for Kenya in 2008, the World Bank found that increases in consumption over the period 1997-2005/06 were very much concentrated amongst the wealthiest quintiles. The most striking finding is that the poorest quintile lost out in absolute terms, consuming less in 2005/06 than in 1997. The gap in Kenya has grown not only because the rich have been getting richer, but also because the poor have been getting poorer. The World Bank calculates that if inequality had not worsened, poverty could have fallen by almost 20% nationally, instead of the 5.5% that resulted in practice. The impact of inequality on progress in rural areas is even more dramatic – if inequality had not risen, the rural poverty rate would have fallen by 15% instead of 3%.

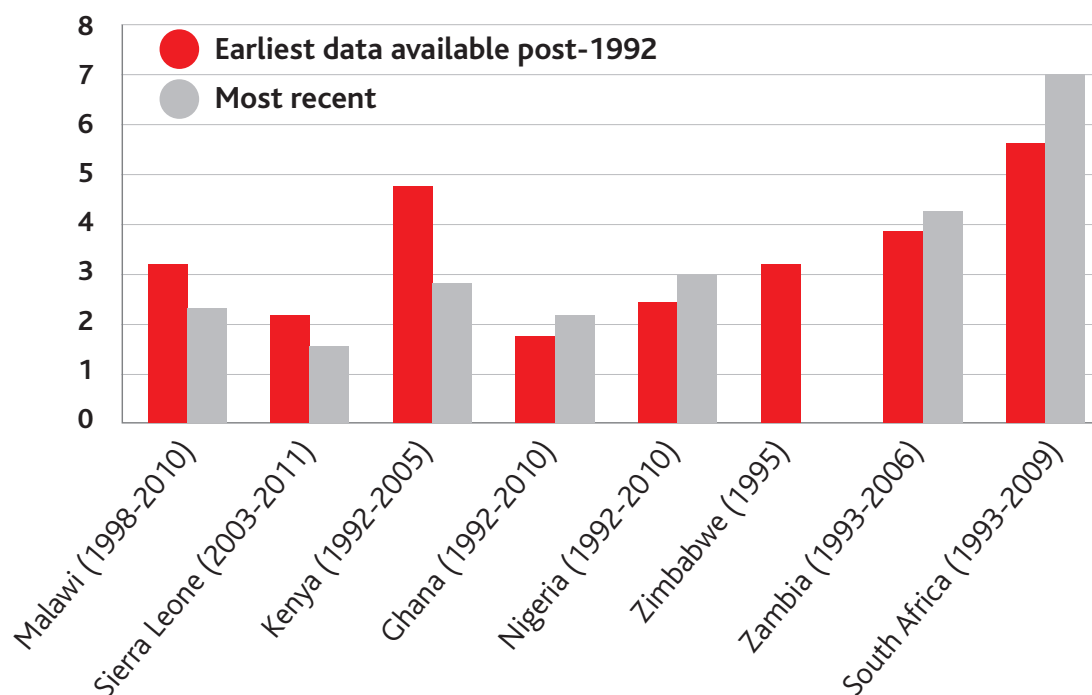
Similar analysis by the APP shows that while poverty should have fallen in Zambia between 2000 and 2006 (it was predicted to fall in absolute numbers by 660,000) it actually increased.⁴⁸ Again it is rising income inequality that explains the discrepancy between anticipated and achieved poverty reduction. This rising inequality and rising poverty accompanies Zambia's 13 successive years of growth and represents a huge waste of the country's growth dividend. Zambia has very high levels of spatial inequality; it is particularly the rural areas which have suffered.⁴⁹

In the cases of Ghana, Nigeria, Zambia and Kenya it is clear that the rich are getting richer and the poor are getting poorer. The APP concludes that *'economic growth is driving an increasingly unequal pattern of wealth distribution and weakening the link between growth and poverty reduction.'*⁵⁰

Malawi has experienced a downward trend, with the income Gini falling from 50 to 39 from 1997 to 2004. This is a remarkable decrease and is likely to point to some shortcomings in World Bank data, particularly given that 1994-2004 is commonly referred to as the 'lost decade' in Malawi. More recent figures point to a worrying rise in income inequality since 2004. Only Sierra Leone shows a downward trend but this is limited to only two data entries over a limited time period. Unfortunately we do not have any data to look at the situation in Zimbabwe over time. It had a high Gini coefficient of 50.1% in 1995. It should also be noted that the national poverty assessment conducted in Zimbabwe found a Gini coefficient of 61 in 2003.⁵¹

The Gini is not the only way to measure income inequality. A recent paper suggests we use an alternative measure of income inequality – the *Palma*.⁵² Inspired by the work of Gabriel Palma, this alternative measure focuses on the share of income of the richest 10% and the poorest 40%. While the Gini measure is more sensitive to changes in the share of income of middle-income groups, the Palma highlights changes at the top and bottom ends more. This is important as the middle class's share of income is usually more stable, which effectively means the Gini is best at measuring change in the area that is least susceptible to change. What matters more for the income share of the poor is what happens with the income share of the rich, something the Palma directly measures. The new research on the Palma also finds that countries which reduce their Palmas have rates of progress three times higher in reducing extreme poverty and hunger compared to countries with rising Palmas.⁵³

Palma Ratios in Selected Countries



Source: World Bank, Databank, World Development Indicators

Whilst the Gini coefficient is a measure of income distribution, a wider understanding on asset ownership and how narrow this base might be is not evident through such measures of distribution. The Palma ratio is one alternative through which we have been able to understand the dynamics between the top 10% and the bottom 40%. However, other views suggest that we should be looking at the movement above and between all quintiles, rather than a focus on either end of the distribution.

The graph above shows the Palma ratio over time for this study's selection of countries. The Palma ratio of 7 in South Africa in 2009 can be expressed in the statement that the top 10% of the population earns seven times as much as the bottom 40%.

This graph illustrates starkly the concentration of income. In Nigeria, the change in the Palma ratio between 1986 and 2010 means there has been a 75% increase in the concentration of income (and a rise of 22% in the more recent period covered in the graph). In South Africa – starting from a very high base – there has been a 24% increase in the concentration of income over a 16-year period. In Ghana the poorest 40% had a 19% share in total income in 1988. This had fallen to only 15% in 2006. In fact there has been a 50% increase in the concentration of income in the country over an 18-year period, and a 29% increase since 1992, as shown in the graph.

SOUTH AFRICA – THE INEQUALITY ELEPHANT IN THE ROOM

South Africa is a special case that deserves attention. It has extremely high income inequality, topping the rankings for Africa and the world in this respect. Amongst its peers – the emerging economies of Argentina, Brazil, China, India, Indonesia and the Russian Federation – it has by far the highest inequality levels, far surpassing Brazil.⁵⁴

Inequality in South Africa has its roots in the country's colonial history and the practice of apartheid and as a result, income inequality has a strong racial dimension. There have been some attempts at redress since the end of apartheid, with various economic development strategies including black economic empowerment initiatives and land reform. These are seen as piecemeal and relatively ineffective.

In fact a huge indictment of the attempted reforms is that since the end of apartheid in 1994 income inequality has risen significantly. Figures from the World Bank show a peak in 2006. However, analysis of national statistics allows a more precise estimate of inequality as income data can be used. (This is more accurate than the figures reported by the World Bank, which are based on expenditure data, used as a proxy for income to enable cross-country comparisons.) A comprehensive report by the OECD, which looked at income distribution trends and household surveys from 1993, 2000 and 2008,⁵⁵ finds that the Gini coefficient increased from 66% in 1993 to 70% in 2008, a remarkably high figure by international standards and much higher than the figure used in cross-country comparisons.

South Africa's income and expenditure survey from 2005/06 shows the wealthiest 10% of the population had 51% of income, while the bottom 10% had only 0.2% and the poorest 40% accounted for less than 7% of total household income.⁵⁶ This corresponds to an extremely high Palma ratio of 7.3.

Looking at trends over time, the OECD reports the share of the richest 10% in the period 1993-2008 as jumping from 53% to 58%. Interestingly, it also looks at the share of the richest 5% and finds that it is a sharp rise in the share of this group that is driving the increase at the top end. The super-rich really are getting richer. The report also finds that these increased shares at the top end of the distribution came at the expense of all the other income deciles. The report

further suggests that the tax-funded social assistance programme that provides means-tested cash transfers to poor children, old age pensioners and people with disabilities is failing to significantly affect income inequalities as the value of the transfers is too low.

The poorest and those dominating the lower income deciles are predominantly black South Africans. At any poverty line, black South Africans are poorer. This is of course a direct legacy of apartheid, given the active discrimination in state policy, the labour market and in relation to the provision of education, health and other social services under the apartheid regime. Rising wage inequality is a major factor. Most workers have experienced virtually no improvement in their wages, with the median real wage for a formal sector worker in 2011 being the same as it was in 1997.⁵⁷ Low-skilled workers' wages furthermore have a historic legacy of dampened wages for black workers (who occupied these positions under job reservation legislation) under apartheid. On the other hand, the 22.7% increase in the average formal sector wage has been entirely due to increases for top earners. This dramatic increase in wage inequality has been paralleled with widespread social protests, strikes and conflict amongst poor communities.

Of utmost concern is the approach of the South African government to this issue. The new National Development Plan (NDP), launched in 2012, lays out the vision for the nation up to 2030. Instead of ensuring a vision of redistribution at its heart, the NDP rests on the acceptance of high levels of inequality. According to a discussion paper published by the Congress of South African Trade Unions (COSATU), the Plan only proposes a decrease *'from its current world-beating level of 69% to an excessively high 60%.... This target is an embarrassment for a country claiming to be serious about combating inequality.'*⁵⁸ In fact the NDP proposes that after 18 years of implementation, the share of income going to the bottom 40% of income earners would have increased from the current 6% to a mere 10%. It is little wonder that some have concluded: *'... the NDP attempts to paper over the deep cracks in the structure of South African society – to ignore the inequality elephant in the room.'*⁵⁹

The South Africa case illustrates some of the limitations of the data published by the World Bank for cross-country surveys. Around two thirds of World Bank data comes from consumption surveys and while the remaining data is from income surveys, these are mainly from Latin America and the Caribbean,⁶⁰ so inequality data for Africa underestimates the problem. It should also be noted that one of the well-known shortcomings of Gini calculations is that the income of the rich will be underestimated. Income from capital is poorly captured by income and expenditure surveys; and property and earnings from capital held offshore are not included.

The huge gap in our understanding of the true measure of inequality was explored in more depth by the Tax Justice Network in 2012, in conjunction with a publication looking at the magnitude of assets held offshore. Saying they believed their research to be the most rigorous and comprehensive of its kind, TJN revealed that, as a conservative estimate: *'well in excess of US\$21 trillion is held unrecorded and off shore... No estimate of missing wealth on this scale has ever before been constructed. Therefore, both wealth and inequality are being dramatically underestimated to a very significant degree, in every study and in every country.'*⁶¹

1.3 HORIZONTAL INEQUALITIES IN SUB-SAHARAN AFRICA

There are many types of inequalities that should be of concern to policymakers. While income inequality is classified as a 'vertical inequality,' there are also a range of 'horizontal inequalities' – that is group-based inequalities – that are prevalent in developing countries. These include inequalities based on gender, region, identity (ethnicity, race, religion), disability and HIV status, which also inter-relate in a variety of ways. Research into the effect of inequalities within countries on education and health outcomes has found, for example, that, on average, gender gaps are small compared to gaps across ethnicity, socioeconomic class or geographic location; however it also confirms the compounding effect between gender and other forms of inequality.⁶² This report cannot cover this broad range properly, nor deal adequately with the complexities. In particular the area of gender inequality and taxation is one which deserves more attention. However, this would merit further research and is not covered in this paper. It is notable that

all of these types of inequalities are being strongly highlighted in discussions by the UN-appointed High Level Panel on the post-2015 development agenda.

The issue of spatial inequality in sub-Saharan Africa is most easily illustrated by the stark gaps between urban and rural areas. It is not overstating the case to say there has been a severe anti-rural bias in sub-Saharan Africa. Poverty rates in rural areas are often much higher than urban areas. Zambia is an archetypal example of this, as mentioned above, but most sub-Saharan Africa countries show large gaps.⁶³ There is also evidence that rural poverty is only marginally declining (falling from 64.9% in 1998 to 61.6% in 2008).⁶⁴ High rural poverty rates are driving migration trends to cities where the poor, desperate to find employment, often end up joining the informal economy and swelling the ranks of the urban poor. Both the APP and UNECA are highly critical of the huge lack of investment in rural areas in their 2012 reports.

Spatial inequalities are also evident in certain countries with regional splits – for example the north-south divisions that exist in countries such as Ghana and Nigeria. These can also easily overlap with inequalities based on identity. In Ghana, for example, the poorer northern regions have some of the country's most disadvantaged ethnic groups – the Mole-Dagbani, Grusi and Gruma. Recent Save the Children research on the impact of inequality on children finds that the probability that children will experience at least two severe deprivations is five times higher among the Mole-Dagbani and three times higher among the Grusi and Gruma ethnic groups than among their Akan counterparts, who are concentrated in the wealthier southern regions.⁶⁵

The overlap between spatial and ethnic inequality can easily give rise to social and political unrest. In Kenya such problems are well documented. Kenya's ruling elites have long used their political power to direct resources to regions and groups that enjoy their patronage, hence the persisting inequalities with regard to access to services and opportunities in the country. They are a significant factor in explaining the ongoing tensions between groups in Kenya, given that spatial inequalities coincide with ethnic differences. This is a very potent mix and one which has led to violence in the past.

A SNAPSHOT OF GENDER INEQUALITY IN SUB-SAHARAN AFRICA

Patriarchal societies still dominate across Africa, with severe inequalities between men and women. This affects women's ability to make choices, for themselves individually or for their households. Women lack control over income and assets, traditionally being excluded from land ownership and inheritance. Although legal regimes related to inheritance and property rights are changing in some countries, it is still difficult to improve women's access to land in practice. Women across sub-Saharan Africa also shoulder the burden of household work – from collecting water and firewood, to cooking, washing, looking after children and often including daily agricultural tasks on the family plot. Such practices are passed on from women to girls, who take on an additional burden of domestic work early on, affecting their school work and perpetuating gender inequality.

Apart from the physical and emotional impact on women's wellbeing, the uneven sharing of the burden of unpaid work has economic consequences. Fewer women are entering the labour market in Africa and earning an income for themselves.⁶⁶ Research shows that women are more likely to work in agricultural employment and women's share of paid work outside agriculture is rising excruciatingly slowly.⁶⁷

Women's jobs are more likely than men's to have low wages and poor working conditions and women are more often in informal, vulnerable employment.⁶⁸

As a result, women suffer disproportionately from the impacts of poverty. Many years of research shows that their limited control over decision-making and income translates to poorer outcomes for women, as well as for children, in areas such as education, health and nutrition.

While gender equality in education is improving at primary school level, progress at secondary school level is much slower. There are high drop-out rates for girls from secondary school due to cultural practices such as early marriage, as well as their vulnerability to violence and unpunished sexual harassment. Sub-Saharan Africa – and particularly West Africa – has the largest gender gaps in education in the world.⁶⁹ The MDG Report 2013 for Africa also particularly highlights the disappointing lack of progress with regard to women's reproductive rights. There are still high levels of unmet contraceptive needs, unsafe abortions, early or coerced marriages and sexual violence and sexual exploitation. The failure to realise the sexual and reproductive rights of women is seen as one of the continent's weakest areas.

Increasingly there is recognition that equity has been ignored within development policy circles and that this lack of attention has meant that the unequal progress between groups and regions has barely been visible as countries strive to meet national (average) targets. The MDG framework has unfortunately served to encourage this focus

on national indicators and potentially encouraged countries to ignore the many types of inequalities and their consequences. The issue of targets that include distributional dimensions is now being discussed seriously and is likely to feature as a key part of the discussions in relation to the post-2015 development framework.

1.4 CONCLUSION

Inequality in all its forms is having a severe impact on poverty and human development in sub-Saharan Africa. Although growth has been buoyant, there is a clear consensus that overall results for the vast majority of citizens are disappointing. There are also long-standing and growing concerns that not only is growth accompanied by rising income inequality but that the existing growth model is itself driving increasing income inequality.

The countries studied here that we should be particularly worried about include South Africa, Nigeria, Ghana, Zambia and Kenya. The data shows clearly that the rich have been getting richer and that this has happened at the expense of the poor. Income inequality is clearly a barrier to development and improving the wellbeing of the poor; it is also the cause of conflict and social unrest. In countries such as Nigeria, Kenya and South Africa this is clearly visible. Malawi has limited data available but seems to have seen inequality starting to rise again in the last decade after a decrease. Only in the case of Sierra Leone does the (very limited) data potentially show some signs of recent progress. The limitations of the data also mean we are far from understanding the real depths of the problem in countries such as Zimbabwe and Angola.

The only redress is via public policies which specifically seek to reduce inequalities. The MDG national, average targets have not set countries on this path and too often inequality is ignored in policymaking discussions. Ghana is lauded for its progress whilst its income, spatial and ethnic inequality trends are broadly ignored. South Africa has one of the highest rates of inequality in the world yet the government's new National Development Plan shows only meagre ambition to tackle this problem. Only when equity is the central driver of all public policies will we see meaningful progress in sub-Saharan Africa.

Chapter 2: Addressing Inequality through Taxation

'The concentration of wealth also translates into the concentration of political power which translates further into the level of influence elites have on the tax system'

Charles Abugre, Africa Director, UN Millennium Campaign⁷⁰

2.1 WHY TAX MATTERS

Taxation provides a critical foundation for development. The absence of effective taxation systems in sub-Saharan Africa is directly responsible for the unacceptably high levels of poverty suffered by so many on the continent. TJN-A and Christian Aid believe that taxes are crucial for mobilising revenue to fund services, infrastructure and other development needs, and for building the accountability of states to their citizens.⁷¹

Tax is important, also, because it plays a key role in redistributing wealth. The tax system itself is the key lever to directly address inequality, redistributing income from the rich to the poor by taxing the rich more heavily and directing public spending to benefit poor people. A progressive tax policy also changes the incentives for extreme income and wealth, setting society on a new path for wealth creation and distribution in the future. Christian Aid and TJN-A

believe that a fair tax system means those who have more should pay more, whilst those who have less should pay less. Progressive taxation is an ethical imperative as well as undeniably necessary if African societies are to become more equal.

The tax system is, of course, not the only tool policymakers have to reduce income inequality. A wide variety of measures – all of which are funded through taxation itself – can be used. These include: the implementation of an appropriate minimum wage, as well as other policies to increase wages; land reform to reduce the inequality of land ownership; and progressive expenditure which should seek to increase the income, assets and access of poorer members of society. While these are all extremely important elements of an equitable national development strategy, redistributive taxation is the central plank of any strategy to reduce income inequality.

PROGRESSIVE EXPENDITURE AND INEQUALITY IN SUB-SAHARAN AFRICA

Much has been written on progressive spending and pro-poor budgeting in Africa. While this is not a focus of this study, it is of course extremely important to recognise the role of spending in reducing inequality. Given that sub-Saharan Africa achieves little redistribution via taxation, the urgency of ensuring highly progressive expenditure is even greater. A strongly progressive expenditure programme can have a significant impact on equality even in the context of a fairly regressive tax system.⁷²

To reduce inequalities in sub-Saharan Africa there is a need to both increase spending on social service provision and on sectors on which the poor depend heavily – such as agriculture – as well as ensuring that spending is directed in such a way as to narrow disparities between groups. Progressive expenditure of this kind would reduce poverty by increasing access to basic services and ensuring the poor are able to generate an income for themselves, as well as by reducing inequalities in access and outcomes.

In the case of sub-Saharan Africa it is impossible to overstate the basic need to increase public spending and investment. Currently the region is spending very little on social service provision, with the annual average being only 8.7% of GDP – the lowest of all the world's regions.⁷³ Basic provision of water, sanitation, health, education and security services is very poor. Often the state is practically absent in certain areas, particularly rural areas and the sprawling urban slums where large numbers of residents live in appalling conditions.

The agriculture sector needs huge investment. Agriculture accounts for almost two-thirds of livelihoods in Africa and represents the mainstay of economies.⁷⁴ In 2003 African leaders made a commitment to allocate 10% of national budgets to agriculture under the Comprehensive African Agriculture Development Programme (Maputo Declaration). However few countries have reached this target and the sector still suffers from severe neglect and under-investment.

Apart from simply increasing spending in key sectors, to tackle inequality in all its forms spending must be carefully targeted to narrow disparities. Evidence that spending is reducing inequalities is slim and often even where resources are available they are not allocated equitably. This is most clearly visible in the case of spatial inequality. Rural areas, and the poorer regions within countries, often receive less spending and support than better off areas. Kenya's health sector is a prime example. In Kenya, analysis of health spending

shows that the share of the budget allocated to higher levels of care has remained high, with frontline rural services – used mainly by the poor – relatively neglected. Overall health spending is regressive, in that the bottom quintiles get less than proportional benefits from total public health spending than the top.⁷⁵ Similarly in education, Kenya spends less per pupil in its most disadvantaged regions than in its most prosperous areas.⁷⁶

Ghana is another example of a country whose public spending is increasing the already substantial inequalities between regions. Analysis of spending trends between 2006 and 2009 reveals a severe disconnect between needs and the budget provided to meet those needs in different regions.⁷⁷ For example, the analysis of per-pupil spending by region shows that the richer areas of the country (Greater Accra, Eastern and Ashanti regions) consistently receive the highest share of per-pupil spending at the basic level. The three Northern regions and the Volta region, which are amongst the poorest regions in the country, received the lowest per-pupil spending in 2009. The health sector suffers similar disparities, with 70% of the country's doctors found in the Greater Accra and Ashanti regions and only 4.2% in the three northern regions.⁷⁸

Progressive spending is critical to reducing poverty and inequality in sub-Saharan Africa. Investment needs are huge and there are many areas of concern regarding expenditure levels in key sectors, as well as with regard to whether public expenditure is decreasing inequalities between groups. However, progressive expenditure will not happen on its own. Civil society and donor pressure, measures to increase transparency and accountability and strong leadership are also needed.

Progressive spending, which produces positive results for the country's majority poor population, is also urgently needed to bolster tax compliance and increase tax revenue over the long term. Taxpayers need to see their government is responsive to their needs and to perceive results to ensure their future tax contributions. The relationship between progressive taxation and progressive spending is clearly mutually reinforcing. Although in reality there are few efforts to link tax collection to observable changes in public spending, there are at least now more calls for tax compliance debates to be founded on dialogue between citizens and government about taxation, public spending and development goals.⁷⁹

Unfortunately the redistributive potential of the tax system has been predominantly ignored in sub-Saharan Africa. This can be partly explained by the fact that the staggeringly high illicit financial flows from the continent make taxation of wealth extremely challenging, as well as by the long standing 'tax consensus', which has effectively ignored the problem of inequality and the merits of redistributive taxation. Both of these areas are discussed in more detail below.

2.2 AGGREGATE TAX REVENUE TRENDS IN SUB-SAHARAN AFRICA

Thirty years ago many countries in sub-Saharan Africa were in fiscal crisis. In Ghana, for example, tax revenue amounted to less than 5% of GDP at the beginning of the 1980s.⁸⁰ Over time, tax revenue

has been increasing, however, the increases are small and progress overall is slow. Tax revenues in sub-Saharan Africa increased from less than 15% of GDP in 1980 to more than 18% in 2005.⁸¹ However, virtually the entire increase was due to revenue from natural resource taxes. The IMF reports that non-resource-related tax revenue was around 13% of GDP in sub-Saharan Africa in 1980 and increased to around 14% in 2005, 25 years later.⁸² This progress is underwhelming.

More recent regional data shows that taxes collected in Africa increased from an (unweighted) average of 18.1% of GDP in 2000 to 19.9% in 2009.⁸³ Again the increase is mainly driven by resource-related taxes in oil-exporting countries as oil prices surged after 2007. For comparison, OECD countries saw an average of 34% of GDP collected in tax in 2011.⁸⁴

EVALUATING TAX-GDP RATIOS IN SUB-SAHARAN AFRICA

There are fundamental shortcomings to using the tax-GDP ratio as a measure of tax performance in Africa. The economies of many African countries are driven by small scale agriculture, which often contributes the biggest share of GDP. Considering that the sector is hardly taxed – for sound developmental reasons – the use of the tax-GDP ratio and comparisons to the OECD has its limitations. Other measures are more useful in aiding understanding of efficiency and equity. These include the 'tax gap', which is a measure of the difference between what taxpayers should pay, given a certain level of economic activity, and what they actually pay.⁸⁵ It can be broken down across tax types, for example, income, corporate and VAT. Another interesting measure is the difference between the headline corporate tax rate and the rate of tax actually paid by companies, which is an indication of the effectiveness of corporate income tax and can help societies judge whether companies are making a fair contribution. While some specific country studies exist in this area there is generally a lack of investigation against these measures across sub-Saharan Africa and no comparative country statistics are available.

For the countries covered in this report, the table below shows their tax revenue trends since 2003 and the great disparity that can exist between countries. This is related to the total levels of formal (and hence taxable) employment, which again relates to income poverty levels.

Table 1: Non-oil tax revenue trends in selected sub-Saharan African countries (2003-2013)

Tax / GDP ratio

Country	2003	2006	2007	2008	2009	2010	2011	2012(e)	2013 (p)
Ghana	11.9	20.2	24.1	11.6	11.1	12.1	14.6	14.5	14.1
Kenya	18.2	18.7	19.6	20.4	20.7	19	20.1	20.1	19.5
Malawi	17	15.6	16.6	17.6	18.7	18.6	19.9	16.2	18.7
Nigeria	7.1	4.6	5.4	5	5.1	4.4	4.7	4.2	4
Sierra Leone	12.2	11.3	10.3	10.9	8.7	8.7	11.5	12.2	11
South Africa	22.7	25.7	26.4	25.9	26.8	27	27.3	27.5	27.4
Zambia	18	16.4	17.7	18.6	15	16.4	19.3	18.5	17.6
Zimbabwe	24	-	3.4	2.5	16.2	27.1	30	29.6	29.2

Source: African Economic Outlook, Country Snapshots, ADB, OECD, UNDP, UNECA and AEO Country Notes (Macroeconomic Policy section).

Notes: The data for 2012 in each case is an estimate (e) and the data for 2013 are AEO projections (p). The AEO reports oil revenue separately from tax revenue so oil revenue is not included in this table. It would be preferable to have all resource revenue separated out – including tax revenues from minerals – but unfortunately disaggregated data is not available to allow this. Grant revenue is also not included here so this is not an overall revenue figure.

As the table shows, South Africa and Kenya have the highest tax collection of this group, alongside Zimbabwe where tax collection has just recently recovered after the severe economic crisis. South Africa and Kenya are generally considered the most efficient tax collectors in sub-Saharan Africa. It should be noted, however, that Kenya's position historically has been much better. In 1994/95, tax revenue stood at 24.6% of GDP. This fell to a low of 17.3% in 2005/06, since when it has improved slowly year on year.⁸⁶ Also relevant to note is that while South Africa was making progress, rising just over 4 percentage points between 2003 and 2007, since 2007 tax revenue as a percentage of GDP has changed very little. As discussed in chapter 3, this is actually due to a specific (and in our opinion misguided) policy of the South African government to maintain tax collection around this level.

Malawi appears to be making clear progress up to 2011. Information from the Malawi Revenue Authority (MRA) on tax collection in 2011 reports positively on very strong performance, with tax revenue increasing and surpassing growth targets.⁸⁷ However the MRA

has been beset by problems since it was revealed that tax collection figures were incorrect in a highly unusual revenue scandal. In December 2011, the MRA reportedly borrowed K30 billion (US\$184m) in loans from the National Bank of Malawi, NBS Bank, Standard Bank, Indebank and Malawi Savings Bank Limited. The reason for this loan was said to be so MRA could 'paint a rosy picture of revenue collection for the hastily implemented zero-deficit budget.'⁸⁸ This budget target had been put in place in Malawi after donors pulled support due to governance problems, and the government hoped to show that the country could finance its budget from tax revenue alone. A cabinet committee inquiry in June 2012 established that revenue figures for 2011/12 were not correct. Unfortunately for Malawian citizens, it also transpired that interest charges and arrangement fees amounted to a total of K61m (US\$375,000) wasted through this manoeuvre.⁸⁹ The country is still far from achieving independence from aid. According to Malawi's 2013 budget statement, 41% of the budget will be donor funded.⁹⁰

Nigeria stands out as a country with an extremely low tax collection level. Yet the data used here refers to Nigeria's non-oil tax collection. Oil revenue has dominated Nigeria's revenue structure since the early seventies and over the last two decades oil has accounted for more than 70% of government revenues.⁹¹ Data from the Central Bank of Nigeria shows oil revenue adding 25.1% per cent of GDP to the tax revenue figure in 2011 of 6.3% of GDP.⁹² It is clear that Nigeria relies heavily on oil revenue and has not developed its traditional tax system to any great extent at all. While the volatility of oil prices and the sustainability of revenues are major problems for the country, the under-developed tax system means the most powerful lever to reduce rapidly rising income inequality in Nigeria has been ignored.

Of this list, the only other country with oil revenue is Ghana, which has generated oil revenue since 2008. In 2010 the amount was recorded as 1.1% of GDP. It should also be noted that Ghana's tax collection figures show an enormous fluctuation. This is due to a rebasing of Ghana's GDP, which led to GDP being found to be significantly higher and the tax burden uncovered as significantly lower in reality. Ghana has since classified as a lower-middle income country, though one which has a very poor level of tax collection. The average tax collection rate for low-income countries is 18.3% of GDP.⁹³ Ghana as a lower-middle income country falls even below this average, which puts its severe underperformance into context.

Sierra Leone is another poor performer, whose tax collection is also below the minimal acceptable benchmark of 15%.⁹⁴ Sierra Leone's tax system has been historically amongst the weakest in the world, with the civil war of the 1990s taking a large toll.⁹⁵ At the time of the peace settlement, tax revenue stood at 6% of GDP, so the current levels could be seen as very positive. However, there is growing concern as tax collection levels have basically stagnated and the country continues to have one of the lowest revenue bases in sub-Saharan Africa and continues to be highly dependent on aid.

Zambia is another cause for concern as it is progressing very little in its tax collection. The current Zambian government has already raised concern about this, attributing low tax revenues to harmful tax practices of multinational corporations (MNCs).

In November 2012, the Zambian Deputy Finance Minister, Miles Sampa, told reporters that the country is losing as much as \$2 billion annually to tax avoidance, with the mining industry the biggest culprit and only one or two mining operations actually declaring profits. *'The other mines for one reason or another, some genuine, some not, are always making losses,'* Sampa said. *'Most of it is due to transfer pricing or tax avoidance.'*⁹⁶

Zimbabwe's figures demonstrate the highly volatile and fragile economy in the country as a result of the crisis. However, tax collection has improved significantly in recent years, with the tax-GDP ratio almost doubling since 2009.

2.3 ILLICIT FINANCIAL FLOWS AND INEQUALITY IN SUB-SAHARAN AFRICA

Africa suffers from a staggeringly high level of illicit financial flows – Africa as a whole has the highest proportion of assets held abroad of any region in the world.⁹⁷ Illicit financial outflows undermine development and poverty reduction in two key ways. Firstly there is a lack of money kept in country that could be productively invested. Simulations suggest that if all the flight capital over the period 2000-2008 had been invested in Africa – with the same productivity as actual investment – the average rate of poverty reduction would have been 4 to 6 percentage points higher per year.⁹⁸ The second impact is through taxation. This money is often secretly kept offshore and so escapes the tax net, dramatically reducing the money available for government spending on public services and productive public investments. In practical terms, illicit flows make efforts to tax wealth largely ineffective and therefore contribute directly to worsening income inequality. As most income and assets offshore are out of reach, governments (and donors) have come to ignore the most progressive tools of taxation policy in Africa.

'The capacity of the 1% to evade their responsibilities and undermine the public good depends on a deeply entrenched network of financial secrecy that spans national boundaries'

William Minter and Tim Scarnecchia, Editors, *Concerned Africa Scholars Bulletin*⁹⁹

Given the nature of illicit flows, it is of course extremely difficult to precisely measure the scale of the problem. The most recent data on illicit financial flows from Africa comes from a joint report by the African Development Bank (ADB) and GFI in 2013.¹⁰⁰ This report investigates the period between 1980 and 2009. They find that illicit financial flows were the main driving force behind the net drain of resources from Africa of US\$1.2-1.3 trillion (on an inflation-adjusted basis) during that period. In earlier research, GFI estimated the average annual outflows between 2000 and 2008 to be about \$50bn.¹⁰¹ To put this into context, foreign direct investment flows into Africa in 2008 were US\$38bn,¹⁰² reached \$62bn in 2009 and were \$52.3bn in 2011.¹⁰³

The most recent research finds that, in terms of volume, Nigeria, Egypt and South Africa lead the regional outflows. Zimbabwe and Zambia also figure in the region's top twenty countries affected. Once illicit financial outflows are ranked as a percentage of GDP, Nigeria (8th), Zambia (9th), Zimbabwe (13th), Malawi (14th) and Sierra Leone (15th) also figure in the top twenty.¹⁰⁴

Things are getting worse not better. This is borne out by the recent ADB and GFI paper, as well as by analysis by Ndikumana and Boyce in 2011.¹⁰⁵ Figures show that leakages have increased throughout Africa's high growth period between 2000 and 2008. This stands in stark contrast to Asia, where there has been a reduction in illicit financial flows.

It is also important to reflect on how these illicit financial outflows occur. While it is common to think that these outflows are linked to practices such as bribery, corruption or money laundering, studies have shown that commercial tax evasion is responsible for the biggest component. For example GFI's analysis

of cross-border flows¹⁰⁶ shows that the corruption component (stemming from bribery and theft by government officials) amounts to about 3% of the total. The criminal component (related to drug and human trafficking, counterfeiting and illegal arms trading) is about 30-35% of the global total. Trade mispricing, described in more detail below, amounts to 60-65% of the global total. Christian Aid believes the practice of trade mispricing costs developing countries US\$160bn in lost revenues every year.¹⁰⁷ While the latter are global estimates, and practices may well differ in the African context, there is clearly no doubt that trade mispricing is a very important aspect for African tax authorities to pay attention to.

It is also important to highlight the central role of tax havens in facilitating trade mispricing. The number of jurisdictions offering financial secrecy provisions has increased significantly in the past few decades. According to the 2013 Financial Secrecy Index, more than 80 jurisdictions now contribute to global financial opacity.¹⁰⁸ The lack of transparency in many international financial transactions facilitates the tax avoidance and evasion strategies of both individuals and corporations. The existence of financial secrecy provisions makes it harder for tax authorities to obtain their fair share of tax. In other words, the loss of tax revenue mainly occurs because the global financial system enables it via the existence of secrecy jurisdictions and the more widely condoned practices of corporate tax opacity. The important point to note, therefore, is that African tax systems cannot be progressive – and Africa cannot tackle its high levels of income inequality – while the global financial system actively enables tax avoidance and evasion by the richest and most economically successful corporate entities and individuals.

CORRUPTION AND TAX EQUITY

Corruption is traditionally defined as the bribery of public officials. However, TJN-A and Christian Aid believe this definition is too limited. It should be expanded to include tax evasion because evaded taxes are stolen public assets. Tax evasion therefore entails an abuse of the public interest, as well as undermining public confidence in the integrity of the rules, systems and institutions that are necessary for the functioning of society. Efforts to address corruption, therefore, should also include efforts to combat individual and corporate tax evasion.

In reality, corruption and tax evasion are inextricably linked. In sub-Saharan Africa this is already publicly acknowledged in society if not by legislation or governance efforts. For example, in Sierra Leone it is well known that many elites pay much less than their fair share of tax due to corruption and politically motivated privileges.¹⁰⁹ It is also the case that official public sector corruption deters tax compliance. The Chartered Institute of Taxation in Nigeria explains as follows: *'Governments in Nigeria are perceived as a corrupt and selfish lot, to whom money should not ever be voluntarily given. Taxes paid are expected to end up in private pockets, not in public utilities.'*¹¹⁰ Similarly a Zimbabwe tax study by the African Forum and Network for Debt and Development (AFRODAD) finds that because of rampant corruption in government, many people do not pay taxes as they see this as just enriching corrupt government officials.¹¹¹

Corruption within tax authorities themselves can also be an issue. This means the rich can avoid tax through bribery or other forms of patronage with tax officials and tax authorities may extort funds through threats of punitive taxation.

As part of efforts to measure the impact of tax dodging on developing countries, Christian Aid has analysed, in depth, the tax impact of the specific practice of trade mispricing.¹¹² The research looked at the form of trade mispricing that takes place when companies manipulate the price of exports and imports to artificially depress profits and dodge tax. This often takes place within company group structures when companies trade between subsidiaries – so-called transfer mispricing – but can also take place in secret deals between unrelated companies. Essentially it means a company can appear to lose money – or to make very little profit – in the country it is operating in, while making money in secrecy jurisdictions where there is no real production and sales activity going on, and crucially no tax applied.

Christian Aid calculated revenue losses to developing countries due to trade mispricing practices over a three year period. This analysis relates only to the mispricing of trade with the US and the EU, as this was the most easily available trade data. This means of course it is a partial view of the problem and tax losses are in reality much higher. To make matters worse, the practice of trade mispricing is not limited to the manipulation of import and export pricing. There are many other forms of mispricing which can also occur when pricing intellectual property rights such as the use of brand logos, patents, copyrights and licences. It is very difficult to study this area, which is why our analysis has focused on trade in the form of imports and exports only.

Of all low-income countries the worst affected in the world is Nigeria. Christian Aid has estimated that between 2005 and 2007 Nigeria lost US\$956m in tax revenue due to commercial tax dodging. Both Ghana and Kenya also figure in the top ten list for tax losses by low income countries. The table opposite shows the tax revenue losses during the period analysed for this report's selection of sub-Saharan African countries.

'I'm really frustrated at these illicit flows. What would it take for G8 and G20 countries to take some specific steps to put pressure on those countries acting as tax havens?'

Ngozi Okonjo-Iweala, Nigerian Finance Minister¹¹³

Table 2: Tax revenue losses due to trade mispricing in a selection of sub-Saharan African countries, US\$ million (2005-2007)

Country	2005	2006	2007	3-year Total
Ghana	21.39	55.30	64.09	140.78
Kenya	19.23	21.46	18.13	58.82
Malawi	2.07	1.01	1.65	4.73
Nigeria	325.11	186.59	444.59	956.29
Sierra Leone	1.5	2.32	2.43	6.25
South Africa	305.03	671.67	740.58	1,717.28
Zambia	0.7	2.2	2.47	5.37
Zimbabwe	1.83	1.91	2.29	6.03

Source: False Profits: *Robbing the poor to keep the rich tax-free*, Christian Aid, 2009

While some of the totals look moderate, they need to be put into context alongside the country's annual tax collection and more specifically with its annual corporate income tax collection. For Ghana, for example, the 2007 value is roughly 3.4% of total tax revenue. This may not sound high but it is almost 27% of the total corporate income tax collected.¹¹⁴ Sierra Leone is also of note here. In 2007 tax losses

amounted to 1.3% of total tax revenue and 13% of total corporate income tax collected.¹¹⁵ And of course, as mentioned above, this analysis only includes trade with the US and EU and only one form of trade mispricing. If trade with other countries and other forms of manipulation of prices were included, all countries would be losing much more of their total corporate income tax collection.

TRADE MISPRICING IN THE KENYAN FLOWER SECTOR

In 2011 there were a series of media reports about the Kenyan flower sector. The Kenya Revenue Authority (KRA) began investigating the sector amid suspicions that trade mispricing was taking place, based on differences between prices at which flowers were exported from Kenya and the average price at which they were imported into Europe (US\$3.70 a kg vs US\$8.08 a kg).¹¹⁶ Transport costs were around 2.5% of the price per kg so could not account for such a large price differential. Christian Aid calculated that this gap suggested Kenya might be losing as much as US\$500m a year on its flower exports. This is a highly sensitive issue in Kenya, particularly as several of the political elite have financial interests in flower farms.

In 2012 KRA ruled that Karuturi Global Ltd, an Indian-based multinational and the world's biggest producer of cut roses, had evaded taxes. No such ruling was issued against the other companies investigated.

Karuturi Global has a complex company structure. The direct owners of Karuturi Kenya are Karuturi Overseas LLC, Dubai (a holding company) and Flower Express FZE, Dubai (a marketing company). Dubai Flower Centre functions as a free zone which has zero tax on income and profits, offers confidentiality to business owners and operates as an offshore environment. The KRA ruling stated that Karuturi had used transfer mispricing to avoid paying the Kenyan government nearly US\$11m in corporate income tax.¹¹⁷ In April 2013 Karuturi appealed, bringing the proceedings into the public domain. The Kenyan government, however, upheld the ruling – making it the first time an African government has brought a large multinational company to court for transfer mispricing through a fully public process.

While trade mispricing can be practised in any commercial sector, it is particularly prevalent in the mining sector. This was highlighted in this year's APP report which said: *'Tax authorities in all regions struggle to prevent the erosion of their tax bases, but Africa struggles more than most. That is partly because of the restricted human, technical and financial resources available to revenue administrations. But it is also because companies involved in the extractive sector are highly integrated and make extensive use of offshore centres and tax havens with limited disclosure requirements. These are ideal conditions for tax evasion through mispricing.'*¹¹⁸

Evidence from Ghana, Sierra Leone and Zambia are cases in point. According to one study of taxation in Ghana, *'there is a widespread awareness of the fact that mining firms are engaged in aggressive tax avoidance and evasion, largely through trade mispricing and claiming excessive capital allowances'*.¹¹⁹ In his 2012 budget statement, the Ghanaian Minister of Finance stated that Ghana loses US\$36m a year due to trade mispricing in the mining industry.¹²⁰ In Sierra Leone, as of 2011, only one of the major mining firms was paying corporate income tax and this was because their agreement included a turnover tax of 0.5%.¹²¹ None of the top five were reporting profits despite the rapid growth of mineral exports. Dan Watch, a Danish centre for investigative journalism, also reports that the top five mines in Sierra Leone are part of company structures with excessive use of tax havens and four of the five companies reviewed are owned through intermediaries based in tax havens such as Bermuda and British Virgin Islands.¹²² Detailed audits of mining companies have never taken place in Sierra Leone and there is growing concern about the scale of revenue losses.

The leaked audit of copper company Mopani, majority owned by the Glencore group and operating in Zambia was striking (see box opposite). A new GFI report on Zambia concludes that overall, some US\$8.8bn dollars have been illegally siphoned from the country over a 10-year period, largely ending up in offshore banks and tax havens. Most of the lost money was traced to copper mining and trade mispricing. In a recent report in *The Guardian*,¹²³ Zambia's Deputy Finance Minister said that only one or two mining companies declare profits from Zambian copper mines, with the others always making losses. Most of this, he said, is due to tax avoidance or transfer mispricing.

THE MOPANI CASE AND TAX DODGING IN ZAMBIA¹²⁴

The Mopani mine is majority owned by the Glencore group via a string of holding companies in tax havens. A pilot audit, commissioned by the Zambian Revenue Authority (ZRA) into Mopani Copper Mines plc and subsequently leaked to the Zambian press, suggested systematic tax evasion by the company. The 2011 draft audit report accused Mopani of selling copper to Glencore in Switzerland at below market price, effectively shifting profits from Zambia to Switzerland. There was also, according to the report, evidence they artificially increased shipping costs, with an inexplicable doubling in the operational costs of the company from 2005-07. As a result, the auditors concluded the cost structure could not be trusted.

The mine was loss-making and Mopani had paid no corporation tax since it purchased the mine from the government 10 years before. Calculations by Action Aid based on figures in the audit suggest that it cost the Zambian government £76m a year in lost corporation tax (more than the £59m a year the UK government gives Zambia in aid). In addition the Zambian government has been losing out on dividend payments related to its 10% share in the company.

It is a widely held view in Zambia that many large companies effectively choose the amount of corporation tax they wish to pay and many of the extractive companies do not pay corporation tax at all. Zambian policy think tank the Centre for Trade and Policy Development (CTPD) has told us that this is due to a lack of capacity in ZRA, and particularly as a result of the difficulty they have in enforcing transfer pricing rules. Many of the country's mining companies have branches registered in tax havens.

CTPD has campaigned vigorously to ensure that Mopani pays all the taxes it owes to the ZRA, and was one of five organisations to submit an OECD complaint on this topic to the Swiss and Canadian national contact points. It continues to undertake research, training and advocacy in this field, working for more tax transparency in Zambia to ensure the country's natural resource base is exploited in a way which can ensure benefits to the majority of the country's population.

For its part, Glencore refuted suggestions of wrongdoing, saying such claims were based on 'broad and flawed statistical analysis and assumptions'. It said the auditors had failed to factor in rising fuel and labour costs over the period covered by the report and that all transactions were conducted on an arms-length basis and at internationally agreed prices.

There is no doubt that there is growing awareness in Africa of these issues. In February 2012 UNECA established the High Level Panel on Illicit Financial Flows from Africa. The panel is chaired by former South African president Thabo Mbeki. The APP notes that *'the importance of this work can hardly*

be overstated.'¹²⁵ This opinion is shared by African civil society. TJN-A sees this initiative *'as a huge step in the right direction. It represents a clear indication and recognition by African governments on the importance of this issue and the dangers posed by illicit financial flows'*.¹²⁶

THE ASSETS OF AFRICAN ELITES HELD OFFSHORE

Estimating the value of, and tracing, financial assets held offshore is, of course, an extremely difficult task given the nature of secrecy jurisdictions. The most recent estimates in this area come from TJN, who found that, at the end of 2010, US\$21 trillion of unreported financial wealth was owned by wealthy individuals via tax havens.¹²⁷ TJN considers these to be conservative estimates given they include only financial wealth and not non-financial assets such as real estate or yachts, owned via offshore structures.

TJN also looks at a sub-group of 139 low-middle income countries, which it finds to be responsible for US\$9.4 trillion of assets offshore (45% of the total). Nigeria figures in the top 20 when countries are ranked according to their global flight wealth, with US\$306bn estimated to be held offshore. TJN analysis shows that a comparison of these low-middle income countries' external debts to their hidden, offshore assets makes these countries net creditors rather than debtors. This research offers another illustration of how rich sub-Saharan African countries are in reality, though unfortunately their assets are held by a few wealthy individuals while their debts are shouldered by ordinary African citizens through their governments.

As academic Clive Gabay said: *'African elites are not uniquely corrupt, nor do they exist in a vacuum of African corruption.'*¹²⁸ The offshore accumulation of wealth is intricately linked to the facilitators of corruption working within a global system which enables it. TJN's research finds that, rather than "shady, no-name banks" being the primary facilitators of the hiding of assets, as commonly believed, the majority of offshore assets are in fact collectively managed by the world's largest private banks.¹²⁹ The three private banks which handle the most assets offshore on behalf of the global super-rich are all household names: UBS, Credit Suisse and Goldman Sachs.¹³⁰

Also important is not to underestimate the great benefit which flows north – and specifically to the UK in many cases – when African elites choose to hide their assets overseas. This is demonstrated by a recent survey conducted in Jersey.¹³¹ Research commissioned by Jersey Finance found Africa often leads other regions as a source of assets held in the country. The analysis of customer deposits in banks for example shows that of the total £112bn, £9.4bn comes from Africa. This compares to £9.5bn from beneficial owners in the Middle East, £5.5bn from Russia, £5.4bn from North America, £4bn from South America, £3bn from China and £2.5bn from India, with the rest coming from the UK, rest of the EU and Switzerland. Estimates of the value of assets held in Jersey trusts by private individuals also show Africa as a leading source region. Out of £391bn held in total, 44% comes from the UK (mainly from 'non-doms')¹³², with 8% (£31bn) coming from Africa. This far exceeds amounts from Russia (£15.5bn), the Middle East (£14.7bn), North America (£8.6bn), India (£6.4bn), South America (£1.7bn) and China (£1bn). On the other hand, the assets settled by corporate or institutional clients in Jersey trusts and special purpose vehicles shows the UK, rest of EU, Middle East and North America as leading source locations with much less coming from Africa.

The report makes very clear that: *'The geographic distribution of assets held shows a disproportionate benefit to the UK'* given that UK tax residents only account for a small share of assets and most assets come from overseas.¹³³ While the UK – and a small number of Africa's super rich – are gaining via the structure of offshore finance in Jersey, African citizens are losing significantly.

There are various measures African countries can take at the national level to tackle illicit financial flows. Some countries, such as Ghana and Kenya, have been seeking to improve both capacity and, crucially, legislation to better equip them to challenge abusive practices. However, while there are potentially significant gains to be made from national-level action,¹³⁴ there are also serious limits to how far it can go. The capacity gap between OECD countries and sub-Saharan Africa is such that Africa would need to recruit more than 650,000 new tax officials to reach the same level as the OECD.¹³⁵ This is not a gap that can be bridged quickly, and it is clearly unjust to suggest that Africa should have to accept greater tax dodging from companies than developed countries during the many years that it will take to bridge this gap.

Sadly, though, alternatives to improve this situation are not only not forthcoming, but are also actively challenged or avoided. Brazil, for example, has sought to develop a transfer pricing regime that is simpler and easier to administer. However it has faced considerable opposition from multinationals and OECD countries.¹³⁶ Sub-Saharan African countries would face considerable political pressure if they sought to adopt similar policies, and it is notable that the capacity-building support that is being provided to developing countries is for administering the OECD rules, rather than support to determine the best approach for the country.¹³⁷

The ultimate limit to national-level action is of course that illicit financial flows involve at least two countries, and so combatting the problem also necessitates action from at least two countries. Given both the mobility of money in a globalised world and the limited political power of African countries to force concessions – or at least transparency¹³⁸ – from other countries bilaterally, global reforms are especially important for Africa.

A number of measures need to be adopted at the global level to foster financial transparency and to reform the current rules for the taxation of MNCs. These measures must include a global system for effective automatic information exchange, that includes and benefits developing countries; public disclosure of beneficial owners of companies, foundations and trusts; enhanced transparency of MNCs' tax practices through worldwide combined tax reports and public country-by-country reporting; and the full participation of developing countries in

the current OECD- and G20-led Base Erosion and Profit Shifting (BEPS) project – which seeks to reform the rules for the taxation of MNCs.

A combination of the above measures, if implemented appropriately, would complement and support national or regional actions to stem the illicit flows that are flooding out of the continent. But, African governments need to be vocal in demanding action from the G20, G8, OECD and through the UN Tax Committee in relation to the above areas and in insisting that actions taken are beneficial for African countries rather than simply serving the interests of the OECD and G20 countries. For example, it is essential that a positive impact on developing countries is included as a criterion for assessing recommendations from the OECD/G20 BEPS project. African countries must themselves work together to develop, to the extent possible, joint recommendations which the African Tax Administration Forum (ATAF) could then play a key role in articulating in regional discussions and in ensuring that such recommendations reach the official negotiating table. African countries should also seek to work with the UN Tax Committee to identify measures that would help protect their tax bases and revenues from MNCs' aggressive tax planning. In addition, on automatic information exchange, African countries should insist that they are included from the outset in the OECD-led project to implement a new multilateral platform, so that they can benefit from the progress made in this area. The definition of the new standard and the technical modalities adopted should take into consideration the current capacities available in developing countries, so that they are not excluded from the possibility of entering any new multilateral agreement. This could be done, for instance, by adopting a non-reciprocal system of automatic information exchange, where developing countries are allowed to receive tax information without the responsibility - while they continue to build capacities - to send information to third countries. Africa must reap the benefits of the current reform agenda for greater transparency and fairer international taxation.

While making these demands for global action, progress can also be made within Africa in parallel. For example, while calling for a global system for automatic information exchange, African countries should co-operate with each other to develop the capacities required to use the information exchanged effectively. Meanwhile, the moves in Africa to sign the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters are very positive. TJN-A has called on all African states to support this initiative, sign the convention and to domesticate it. In addition, African countries could go further by making automatic information exchange between tax authorities a pan-African initiative. ATAF, set up in 2009 following agreement between 25 African tax administrations, has its own Agreement on Mutual Assistance in Tax Matters designed for Africa. It is ready for signing and TJN-A has called on all African states to sign, and support ATAF in promoting effective information exchange for tax purposes across the continent.

The High Level Panel on Illicit Financial Flows from Africa provides the best forum for advancing these initiatives, through implementing a set of continental guidelines – as TJN-A is calling for – that can incentivise progress in Africa and through speaking loudly with a unified African voice to advocate for global-level action. This could not be more critical. Until tax dodging is effectively tackled internationally and illicit financial flows from the continent halted, economic inequality will continue to rise in Africa.

2.4 TAX EQUITY AND THE IMPACT OF THE TAX CONSENSUS IN SUB-SAHARAN AFRICA

One of the main factors which dictates how progressive a tax system is in practice is its reliance on indirect versus direct taxation. Direct taxes include income taxes – both personal and corporate – as well as property taxes, various local taxes and any other capital or asset taxes. They are paid directly by taxpayers to the government and are levied on the assets and income of individuals and on corporate profits. As such they are the most visible taxes and have the greatest potential to reduce income inequality. In Africa the main direct taxes are personal income tax (PIT) and corporate income tax (CIT), with property taxation contributing very little. PIT includes payroll taxes paid by salaried employees via the Pay As You Earn (PAYE) system. Indirect taxes are levied on the sale of goods and services. They include VAT, trade taxes paid at the port and excise taxes (such as fuel taxes). They are often invisible to consumers.

In terms of equity, indirect taxes tend to weigh more heavily on the poor who consume most of what they earn, therefore spending proportionately more of their income on goods and services. The burden can be lightened, however, by a system of exemptions targeting the goods poor people consume. The exact tax incidence – that is the tax burden borne by different groups in society – requires complex analysis and depends on how the taxes are structured, what exemptions are in place and how they are applied. While indirect taxation has its role and is necessary for relatively straightforward revenue generation, it will always be a subject of concern if countries continually rely on indirect taxation and do not strive to increase the direct, more progressive, taxation of income, wealth and property.

A STUDY OF TAX EQUITY: CALCULATING THE POOR PERSON'S TAX BURDEN

The exact nature of the tax burden on different individuals and households is a complex area and a lot of data and study are required to calculate it. There are many such studies for OECD countries but data and analysis are scarce for sub-Saharan Africa, particularly with regard to the overall tax burden which would take into account the mix of all direct and indirect taxes.

Overall there is clear evidence that indirect taxes – both VAT and excise taxes – tend to increase income inequality in developed countries.¹³⁹ Results are more mixed for developing countries, where VAT exemptions and the fact that most retailers fall below the VAT threshold mean that VAT may be less regressive than sometimes assumed.¹⁴⁰ A detailed study in each country would be necessary to assess the specific impact of taxes such as VAT, looking at the exemptions in place particularly for basic foodstuffs. The exemptions systems may, in fact, not be progressive, a fact which ATAF highlights in their study as a particular problem for Africa.¹⁴¹

As sub-Saharan Africa's tax systems have low levels of direct taxation and income taxes, they are highly unlikely to achieve redistributive effects. The distributional consequences of indirect consumption taxes should therefore be a major concern. Even minor changes to consumption taxes should be closely studied to evaluate their impacts on the tax burden borne by poor people. Unfortunately this is far from the case. As discussed later in this report, impact studies were not carried out for recent VAT reforms in Kenya and Malawi.

Generally it is important to increase public understanding of citizens' tax burdens and more analysis is called for in sub-Saharan Africa, particularly around the burden of indirect taxation. This could motivate more citizen engagement. Having a better understanding of the tax burden on the poor, the middle classes and the rich is likely to stimulate more public debate on the structure of the tax system, the concept of tax equity and the issue of economic inequality in society.

The lack of focus on tax equity is directly related to the promotion of the tax consensus in sub-Saharan Africa. The tax consensus, led by the IMF and supported by the other multilateral institutions, bilateral donors and tax professionals, has focused on reducing corporate and, to a lesser extent, personal income tax rates while expanding the base for consumption taxes and VAT in particular. This has gone alongside conditionalities regarding trade liberalisation which have entailed lower revenue from trade taxes and also provided more rationale for a stronger reliance on VAT.

OTHER IMPACTS OF DISMANTLING TRADE TAXES

Discussion of trade tax reform, should, of course, go far beyond the impact on tax revenues. The dismantling of trade taxes has had a range of impacts on African economies, the main one being that the African private sector has been exposed to import competition which it is ill equipped to face. Many African businesses – including small traders – have lost market share or been driven out of business entirely as a result, leading to incalculable losses of income and livelihoods across the region. Africa's industrialisation depends on a coherent industrial policy, including protection for domestic industries and a carefully managed tariff policy. However, African countries that sign up to Economic Partnership Agreements (EPAs) would find their space to pursue strategies in this area severely restricted.

The reality of the tax consensus is borne out by the figures. Revenue from trade taxes fell from around 6% of GDP to 4% of GDP between 1980 and 2005 while indirect tax revenue has risen significantly.¹⁴² The IMF notes that in low-income countries in Africa, the increase in VAT and excise taxes accounted, on average, for 66% of the increase in total tax collection between 1980 and 2005.¹⁴³ On the other hand, direct taxation as a share of GDP has not been improving. ATAF reports a minuscule increase from 6% of GDP for direct taxation in 1996 to 6.7% in 2007.¹⁴⁴

Another element of the tax consensus is its strong focus on tax administration. This has led to a lot of reorganisation, including increased computerisation, the introduction of unique taxpayer identification numbers, improved data management and taxpayer services.

ONE SIZE FITS ALL? IMF TAX POLICY AND TAX REFORMS IN SUB-SAHARAN AFRICA¹⁴⁵

While there has been a lot of research into the IMF's policy conditionality with regard to fiscal austerity, there has been less attention paid to the IMF's responsibility for tax policy recommendations. Christian Aid has specifically analysed IMF tax policy in sub-Saharan Africa between 1998 and 2008. Christian Aid put together a unique dataset summarising IMF tax policy recommendations for 18 sub-Saharan African countries and looking at the evolution of tax revenues in those countries. The findings confirm that the IMF has uniformly promoted the tax consensus, regardless of important country-specific characteristics. The IMF's policy recommendations have also strongly pushed the introduction of VAT in sub-Saharan Africa. In Christian Aid's analysis of 18 countries, of the countries without VAT at that time, Angola was the only one where IMF staff did not recommend its introduction.

The IMF's focus on achieving economic neutrality has meant shying away from discussions on tax structure and tax equity. The tax consensus completely ignores the use of property and wealth taxes, which though politically difficult to put in place, are also strongly progressive. Christian Aid's research shows that reference to property and wealth taxes in IMF country reports is very sparse and no single specific recommendations on wealth taxes were made in the whole 18-country wide sample. The consensus instead proposes that redistribution will occur through expenditure but not via taxation. There are signs that the IMF is changing its approach and its policy department is now more likely to talk about issues such as bolstering the corporate tax take by reducing tax exemptions or the enforcement of income taxes via large taxpayer units. However, while there is a welcome shift in focus, evidence of change needs to be seen in activities undertaken by country programmes.

The tax consensus has achieved its goals in terms of changing tax structure and administration. But despite this reorganisation and the increase in sales taxes, there has still been little change to tax collection levels over time, with sub-Saharan Africa making very minimal progress. Some tax policy specialists put this down to an over-reliance on VAT when conditions are not in fact favourable. The effectiveness of VAT depends on thorough bookkeeping and reliable self-assessment and its rapid extension is not likely to work very well if these conditions are not in place.¹⁴⁶ In essence there are limits to what VAT can deliver, even if one were to ignore the equity concerns around this tax. This may be one of the reasons why the global tax consensus has not delivered much in terms of overall tax revenue gains.

It is also reasonable to conclude that the lack of overall progress is linked to the fact that reforms are not addressing the key shortcomings in sub-Saharan African tax systems. A review of the recommendations for tax reform by some of the most relevant actors throws up quite different strategies from the mainstream tax consensus focus to date. ATAF, for example, has highlighted the problems in relation to the excessive exemptions and tax preferences granted especially to multinational corporations, as well as noting African nations' inability to fight illicit financial flows and transfer pricing by multinationals.¹⁴⁷ ATAF has also highlighted the poor taxation of natural resource extraction as well as calling for more taxation of the informal sector, the taxing of land and property and a more inclusive concept of net wealth. The Collaborative Africa Budget Reform Initiative (CABRI), in their 2011 good financial governance report, highlight very similar problems. They call for governments to avoid overly generous tax breaks for investors, as well as for capacity building for governments to be able to negotiate with extractives industries, alongside efforts to address tax evasion, illicit financial flows, transfer pricing and fiscal corruption.¹⁴⁸ TJN-A has also been a leading voice in highlighting the impact of 'tax leakages' due to MNCs moving offshore without paying taxes, assets held offshore and not declared, and the impact generally of weak enforcement mechanisms and corruption.¹⁴⁹ The limitations of the tax consensus in this context should be clear.

2.5 TRENDS IN DIRECT AND INDIRECT TAXATION IN SELECTED COUNTRIES

The impact of the tax consensus on several decades of tax policy in sub-Saharan Africa up to 2005 is well documented. ATAF has found marginal evidence that trends might be changing, reporting that indirect taxation as a share of GDP declined marginally during the last decade.¹⁵⁰ However, this trend is only notable if countries are weighted according to the size of their economies. It is worth looking more closely at the period since 2006 to investigate this issue further. The table in Annex A presents data for direct and indirect taxation in the eight countries of interest for the period since 2006.

It is impossible to classify a tax system as regressive or progressive without more detailed analysis. Indirect taxation might have well-structured exemptions to protect the poor, as well as applying luxury consumption taxes for the rich, and direct taxation can fail to be progressive in practice if only a few classes of workers actually pay it. (The actual structure of PIT, CIT and VAT – which can tell us more – is discussed below). However, for now it is worth noting the share of indirect taxation as an area of potential concern.

In fact five of the eight selected countries have greater shares of indirect taxation than direct taxation in their overall revenue collection (Zimbabwe 59%; Malawi 57%; Sierra Leone 55%; Nigeria 54% and Ghana 53%). This high reliance on indirect taxation is the direct opposite of the tax structure found in OECD countries. In OECD countries, indirect taxation made up only 33% of the total tax collection in 2010.¹⁵¹

In Sierra Leone, indirect taxation used to make up a very high proportion of tax revenue, but this is now improving. The proportion has dropped significantly, from 74% of tax revenue collected in 2006 to 55%. It is notable that the increase in direct taxation over the last three years is driven by a better contribution from mining tax and royalties. Personal and corporate income tax trends both remain flat and, interestingly, the contribution of the newly introduced goods and sales tax (GST) to overall revenue raising has fallen since 2010.

Ghana, Kenya, Zambia and Malawi also saw their share of direct taxation rising, though with some variations. In Ghana's case the rebasing of the country's GDP makes discerning trends difficult, but

'The greatest barrier to equity in the application of tax laws in developing countries is the failure to effectively tax the personal incomes of many elites'

Wilson Prichard, Professor, University of Toronto¹⁵²

It is clear that direct taxation has been increasing since 2010 and the reliance on indirect taxation decreasing. In Kenya, while there are positive signs that direct taxation is increasing, the share of indirect taxation is not falling, and reliance on VAT continues to rise slowly and is projected by the IMF to continue rising slowly up to 2015/16.¹⁵³ In Zambia, direct taxes are becoming more important and by 2013 are projected to reach 51% of the tax take.

In the case of Malawi, both direct and indirect taxation are increasing their contributions to revenue but there is no real progress in changing the overall tax structure, which shows a high reliance on indirect taxation. VAT continues to be the most important source of tax revenue. Recent tax reforms which abolished some direct taxation measures are probably not helping. In the 2011/12 budget Malawi introduced a minimum turnover tax (1% or 2% depending on turnover) to address the fact that many profitable companies are declaring losses for tax purposes year on year.¹⁵⁴ However, in the 2012/13 budget, taxes that were considered to be constraining private sector operations were abolished. These included the minimum turnover tax introduced the year before, as well as taxes on capital gains from the sale of shares and VAT on financial services.¹⁵⁵

Zimbabwe stands out. There indirect taxation was 48% of tax collected in 2006 and has grown to 59% in 2013. This points, potentially, to a regressive tendency in its most recent tax reforms. Zimbabwe's experience is, of course, an exceptional one given the severe economic and humanitarian crisis which peaked in 2007/08. The country's GDP fell dramatically, there was rampant inflation and the economy became increasingly informalised. Given the withdrawal of major donors from Zimbabwe, tax is a critical issue. Since the Inclusive Government came to power in 2009 a major effort has been directed towards tax collection and reforms. The consequent focus on VAT has been the driving factor behind efforts to expand the revenue base.¹⁵⁶ Direct taxation is increasing positively and more efforts to improve this further will require new focus in the future, particularly given Zimbabwe's very high levels of income inequality. However, given that Zimbabwe is highly affected by illicit financial flows, this will entail a major challenge for the country's tax authorities.

2.6 PERSONAL INCOME TAXATION

Personal income taxation is one of the major challenges for sub-Saharan Africa's tax systems. In OECD countries PIT is the most important tax collected and is viewed as the primary instrument for redistributing income and wealth.¹⁵⁷ In 2010 on average 24% of all tax revenue collected was from PIT, representing 8.4% of GDP.¹⁵⁸ In sub-Saharan Africa, PIT is on the face of it progressive – in the sense that tax rates increase as individual income increases – but in actual fact PIT yields very little, on average contributing only 13.6% of total tax collection across Africa.¹⁵⁹ The impact of tax evasion, low rates of formal employment and the impact of the informal economy on the collection of PIT mean that PIT systems do not deliver progressive results in practice. This is a huge limitation that is preventing more progress being made in reducing income inequality in many countries.

What tax is collected from PIT comes primarily from the PAYE system. This is clear from the figures presented in the next chapter for the case of Kenya and is a common occurrence in Africa. In Ghana around 89% of individual income taxes came from PAYE in 2007.¹⁶⁰ In Nigeria PIT has been criticised for lack of equity on the same grounds: *'...in spite of the fact that the self-employed outnumber paid workers and that they earn as much as four times that of the formal sector employees, the bulk of PIT is paid by employees whose salaries are deducted at source'*.¹⁶¹

One of the major problems with the PIT regime is not the tax policy itself but the matter of enforcement. The self-employed make a lot of money, including from capital gains, and for the most part don't pay tax. As noted by a leading tax policy academic interviewed for this research: *'Self-employed professionals have long been recognised as an important source of evasion, as they combine high incomes with weak compliance. Employees of large firms generally pay taxes through the PAYE system, but the incomes of professionals are much harder to track. Strengthening enforcement of income taxes from professionals is a potentially important source of revenue.'*¹⁶² Apart from the lost revenue itself, it also creates a vicious circle from which it is hard to escape. The visible lack of equity in the system erodes citizens' trust. A Nigerian study looking at this found that the lack of legal enforcement of taxes was a driving factor behind tax evasion generally.¹⁶³

'Influential corporations and wealthy individuals constantly seek ways to take advantage of special tax breaks to shelter income that should be fully taxed. However, rather than uniting to demand fair deals with investors, developing countries, particularly in sub-Saharan Africa, are competing with each other to see who has the best business climate, the most generous tax holidays, the best investor protection and other fiscal incentives'

Odd-Helge Fjellstad, Research Director, International Centre for Tax and Development¹⁶⁴

There are other challenges with regard to PIT in Africa. For example, the PIT system may not be progressive if the threshold at which individuals are eligible to pay tax is set too low. In Zimbabwe the tax-free band for income from employment was set at US\$150 a month when the economy was dollarised in 2009.¹⁶⁵ Since 2010 it sits at US\$175 a month. This has been the subject of much debate given that the amount required to purchase food and other essentials for a family of five to be deemed 'not poor' cost US\$477 in August 2010. The Zimbabwe Congress of Trade Unions raised the issue with the Ministry of Finance and advocated for a US\$500 tax threshold. This is an issue of great importance also to AFRODAD, who have conducted one of the few reviews of the Zimbabwean tax system and repeatedly called attention to this issue. However, the need to raise revenue prevailed and the PAYE threshold has not been changed.

Zimbabwe is not the only country facing such an issue. In Malawi, the government recently raised the tax-free threshold in its PAYE system from 15,000 kwacha (US\$35) to 20,000 kwacha (US\$46) per month.¹⁶⁶ Then the next 5,000 kwacha (US\$12) is taxed at 15% and any excess taxed at 30%.¹⁶⁷ The minister made clear in the budget statement that these changes were to protect the ultra-poor from the effects of devaluation and subsequent inflation and the rising cost of living in the country. The Centre for Social Concern (CfSC) believes the proposed tax-free band is much too narrow to cushion the working poor from these problems. The CfSC Basic Needs Basket for May 2013 shows that the average cost of living for a low-income household of six living in urban Malawi is MK96,940 (US\$225), while food costs alone amount to MK57,283 (US\$133). In this context a MK20,000 (US\$46) tax-free band is unlikely to make a difference in people's lives. CfSC proposes that the tax-free band be increased to MK45,000 (US\$104) to enable working families to at least meet some of their food costs.

In the interests of equity, clearly the tax threshold for PIT should be carefully considered and related to the poverty line. The tax thresholds for different PIT rates should also be taken into account, including how these affect higher earners. However the Malawian government is not even considering adjusting rates upwards for higher earners. CfSC has argued that the money lost to the MRA by providing a more generous tax-free threshold for low income earners should be compensated for by adjusting the tax

brackets, particularly for those that earn more than 500,000 (US\$1,160), 750,000 (US\$1,740) and 1,000,000 kwacha (US\$2,320). They argue for the reintroduction of the 35% and 40% tax brackets.¹⁶⁸

2.7 CORPORATE INCOME TAXATION AND TAX INCENTIVES

Corporate income taxation is also an area where little progress is being made. CIT revenues as a share of GDP have not increased across Africa for the last decade; they were around 1.75% of GDP between 1995 and 2000 and reported as marginally less, at 1.6%, between 2005 and 2009.¹⁶⁹ The corporate tax rate itself is not low – across Africa the average CIT rate is slightly over 30%¹⁷⁰ – but it has been declining. Even taking this into account, CIT collection is not in line with economic growth trends.¹⁷¹ The many and generous tax exemptions granted and high levels of corporate tax avoidance and evasion are widely understood to be a major factor in undermining the level of corporate tax income in Africa.

The use of tax exemptions and incentives has increased strongly from a very low base in 1980. By 2005 the IMF documents 27 out of 39 sub-Saharan African countries (more than two-thirds) offering tax holidays, compared to less than half in 1980. Countries may grant tax holidays for a period of five or even up to 15 years. Similarly, in 2005, 17 countries had free zones compared to one in 1980.¹⁷²

Research repeatedly finds that the evidence that tax exemptions and incentives are an effective tool to attract foreign investment is weak.¹⁷³ The evidence shows that investors consider a wide range of issues as important, from good infrastructure to political stability, skilled labour, contract enforcement and governance concerns. Generous tax incentives seem to have little impact on the quantity and quality of foreign investment as currently formulated.

What is clear is that the focus on tax incentives leads to damaging tax competition between states and a "race to the bottom." Tax competition occurs when firms are able to locate where tax rates are lowest. This encourages countries to lower their tax rates in order to retain and attract investors and, in practice, leads to ever-declining rates and revenues. The existence of harmful tax competition and its impact has been particularly noted in the East African Community (EAC), as highlighted in a recent report by TJN-A.¹⁷⁴ The EAC is trying to address this

as part of their moves towards deeper economic cooperation. EAC states have publicly pledged to coordinate and harmonise their tax rates, however deadlines have continually been missed.¹⁷⁵ The EAC has advanced with its Draft Code of Conduct against Harmful Tax Competition¹⁷⁶ but the draft code is yet to be adopted.

Not only do tax incentives undermine current and future revenue collection from firms which receive such exemptions and incentives, they may also undermine the broader national effort to collect corporate income tax. Odd-Helge Fjeldstad, the Research Director of ICTD, interviewed for this study, argued that: *'Exemptions and incentives undermine CIT substantially. They contribute to legitimising tax evasion by those who are not exempted. Basically the incentives systems are undermining the willingness of those who are not exempted to pay tax.'*¹⁷⁷

It is considered good practice to track and evaluate the cost of granting tax incentives and exemptions and to make this information publicly available. This has become a key focus of civil society action around tax and the Zambian tax network is mobilising around this issue. Some progress is being made. For example, Zambia's new administration has engaged with civil society in regional and national debates and consultations on the benefits and alternatives to tax incentives. An initial study into Zambian tax incentives was commissioned in 2012.¹⁷⁸ However it received a lot of criticisms from stakeholders and the Zambian government has since commissioned a second study this year. This study will undertake a comprehensive assessment of the costs and benefits associated with tax incentives, including looking at revenue loss; whether firms have met their investment pledges; the positive and negative spillover effects of incentives (which include employment, skills and technology transfer); and the administrative costs of tax incentives.¹⁷⁹ CTPD has been invited to be part of a reference group on behalf of Zambian civil society organisations (CSOs) for this second study.

However, this issue remains a problem in many countries. In Sierra Leone, for example, the country's Constitution requires tax waivers to be approved by Parliament. However transparency is extremely poor. As the Budget Advocacy Network has documented: *'Many of the tax incentives are negotiated in secret between Government and companies, with no*

*effective Parliamentary or media scrutiny. No figure is published by the government stating how much tax expenditure amounts to.'*¹⁸⁰ And the system for granting exemptions is discretionary rather than based on clear rules, leaving it wide open for abuse. It is widely suspected that the system is beset by corruption and that exemptions are granted to the well connected.¹⁸¹ The government has committed to change in this area and a new Revenue Management Bill exists in draft form. It would require the government to publish a statement of its tax expenditure, detailing all tax exemptions, the beneficiaries and the revenue foregone. The Bill was meant to be effective from 2011, but unfortunately progress towards enacting it has been very slow.

In Ghana's case, despite a much stronger, rules-based system, there is still no systematic data on exemptions and their cost. While companies in the free zone can be found on the website of the Ghana Free Zones board, not all companies enjoying tax exemptions in Ghana are publicised and a lot of negotiations regarding exemptions are secret. Not even basic estimates of revenue foregone are available.¹⁸²

There are also issues of abuse surrounding tax incentives systems. For example, research from Ghana has shown that many companies enjoying the 10-year tax holiday fold only to re-establish themselves again in another form, or under a different legal identity, so that they can keep benefiting from tax holidays.¹⁸³ This research also found that some multinational companies already located in Ghana, which were formerly paying corporate income tax, ceased to do so because they were able to acquire export processing zone (EPZ) status. In addition companies may engage in a practice known as round-tripping, where a domestic investor invests via an offshore taxation to qualify for incentives offered to foreign investors. This illustrates clearly how the aim of EPZ systems to attract new investment can be subverted.

'Many of the tax incentives are negotiated in secret between Government and companies, with no effective Parliamentary or media scrutiny. No figure is published by the government stating how much tax expenditure amounts to'

Budget Advocacy Network, Sierra Leone¹⁸⁴

CALCULATING TAX LOSSES: A SURVEY OF EVIDENCE¹⁸⁵

Tax losses from incentives can be substantial. Many simply serve to enrich companies which would have invested anyway.

- The Budget Advocacy Network in Sierra Leone, using figures obtained from the National Revenue Authority, has estimated that the government lost revenues from customs duty and GST exemptions alone worth Le 1.24 trillion (US\$287 million) in 2012, amounting to an enormous 8.3% of GDP.¹⁸⁶ In 2011 losses were even higher at 10.6% of GDP. The annual average loss over the three years 2010-12 was Le 1.0 trillion (US\$240 million). Generous tax incentives granted to the mining sector are noted as a key driver of the massive rise in revenue losses since 2009.
- The Minister of Finance in Ghana has announced that tax losses to the country as a result of tax incentives are estimated at 3.28% of GDP and that most involve exemptions from direct taxes.¹⁸⁷
- An ADB study in Tanzania found a fiscal loss of the equivalent of over 6% of GDP. The loss from tax incentives granted to companies alone, in Tanzania, is around US\$266 million a year (for the years 2008/09–2009/10).
- In Uganda, the ADB estimates that losses from tax incentives and exemptions are 'at least 2%' of GDP.
- In Rwanda it is estimated that revenue losses from tax incentives were US\$156 million in 2008 and US\$234 million in 2009. These were the equivalent of 3.6% of GDP in 2008 and 4.7% in 2009.
- In Kenya, the government has recently estimated revenue losses from all tax exemptions and incentives at US\$1.1 billion a year. This would amount to around 3.1% of GDP. Of these, trade-related tax incentives were at least US\$133 million in 2007/08 and may have been as high as US\$566.9 million.
- In Malawi the cost of tax incentives in the mining sector – calculated by looking at only two companies – was estimated to be MK86.4bn (US\$217m) at a minimum over the five years of mining operations (an average of US\$43.4m a year).¹⁸⁸ This is over eight times larger than the revenues received by the government.

There is a growing consensus on the negative impact of exemptions and a vocal civil society movement mobilising around this issue. As a result, this is one area where reform should be likely. TJN-A is calling for African governments to conduct reviews of all tax incentives with a view to reducing or removing many of them. They demand that all discretionary tax incentives (ie, those given to individual companies or organisations) should be removed as should the discretionary powers vested in individual government officials that enable the granting of such incentives. In addition any tax incentives granted should be in accordance with national legislation, should be made public, should be based on transparent criteria including adequate environmental, social and economic cost/benefit analyses, and should only exist in the context of a clear policy framework and development objectives. Governments should also ensure there is a publicly available annual tax expenditure analysis, showing figures on the cost to the government of tax incentives and showing who the beneficiaries of such tax expenditure are.

Civil society is not alone on this issue. The IMF has focused on the issue of tax exemptions and incentives for some time now. It has called on governments to cost tax exemptions and incentives and has repeatedly made clear that tax exemptions and especially tax holidays are among the most damaging single bad tax practices.¹⁸⁹ In a similar fashion, the OECD has also started calling for removing the tax preferences for multinationals.¹⁹⁰

Some countries have started to reform. Zambia is clearly moving in the direction of making sure incentives are truly beneficial for job creation and industrial development. In the country's 2013 budget the government now makes it a requirement for tax incentives to be granted only when the investor meets their obligations around employment creation for Zambians. This will be done by amending the Zambia Development Agency Act, the Income Tax

Act and the Customs and Excise Act, to make the realisation of employment pledges an essential trigger for investors to access the incentives. In addition, in order to further promote local value addition, where exemption from customs duty is granted as an incentive, it will only apply to goods that are not locally produced.

This is a hugely important area, as noted by Odd-Helge Fjelstad: *'With regard to tax exemptions any reform would have an immediate impact on tax collection. Tax authorities could handle this more easily than reform in the area of property taxation or attempts to tax the informal sector, for example. Exemptions and incentives are currently complex and burdensome from an administrative perspective. Reform in this area would certainly be one of the easier to focus on.'*¹⁹¹

However, though consensus is strong, progress is still slow overall. Serious political commitment is needed to push through reforms and abolish exemptions and incentives, as explained by Odd-Helge Fjelstad: *'...the extent of tax exemptions is often an indication of a government's political will to strengthen the fiscal contract and fight fiscal corruption and tax evasion. Strong will and commitment by the political leadership is a prerequisite to achieving this shift in culture. However, due to resistance from the benefiting elite, political leaders and businesses, the exemption regime is likely to remain a major challenge in the short to medium term.'*¹⁹² It is likely that this reform will take time. It is an area in which continued civil society engagement will be critical to build political momentum to push forward these reforms in practice.

TAX INCENTIVES FOR AGRIBUSINESS INVESTMENT: AN EMERGING AREA FOR CONCERN

The provision of tax incentives to foreign investors who buy up large tracts of land for food production, often called “land grabbing”, is fast emerging as a major new concern in Africa. It has become commonplace over the last decade for foreign investors, interested in land for food supply or biofuel production or simply for speculative purposes, to buy up large tracts of land. Research on the deals which took place between 2000 and 2011 found that an area larger than France, Germany and the UK combined has already been acquired by buyers such as foreign governments, private companies, hedge funds and other investors.¹⁹³

Land grabbing is obviously a matter of great concern. Investors may displace local communities. They are seldom required to provide employment locally or to work with smallholders within their supply chains. Safeguards to regulate their operations in terms of their impact on food security and the environment are either inadequate or

poorly implemented. And it seems that their tax contribution will be minimal.¹⁹⁴

The Action for Large-scale Land Acquisition Transparency network (ALLAT), with the support of Christian Aid, has looked at the tax incentives on offer for agribusiness investors in Sierra Leone.¹⁹⁵ Incentives include a tax holiday from corporate income tax for 10 years, exemption from import duties and machinery, equipment and key inputs. As well as providing tax incentives to agribusiness investors generally, the government has gone even further, giving individual companies special tax deals. ALLAT and Christian Aid looked at deals with three investors – Addax Biofuel Ltd, Socfin Agricultural Company Limited and Goldtree. The analysis shows that the Sierra Leone government will forego an estimated US\$188.1m in the 10 years from 2013-2022, or US\$18.8m in foregone revenue annually. This represents around 17% of Sierra Leone’s annual income tax collection.¹⁹⁶

2.8: VALUE ADDED TAX

As explained earlier, the introduction of VAT, or increase in the VAT rate, has many implications for income inequality in society, depending on how the VAT system is structured. It has not always been a happy story in sub-Saharan Africa. In Ghana, Kenya and Uganda, VAT reforms have led to riots because of their impact on food prices, and often because a poorly-consulted population was not sufficiently aware of the measures in advance. In Ghana the government tried to introduce VAT at the high rate of 17.5% in 1995. This was met by such large public protests that it was suspended and VAT was finally reintroduced in 1998 at the lower rate of 10%.¹⁹⁷ Subsequent increases in the rate have been linked to specific health and education programme funding to gain public acceptance for the measures.

Sierra Leone has a more recent story. The government introduced the GST in January 2010 as part of a large tax modernisation programme

supported by DFID. As noted, there is a concern that the GST has displaced the focus on more progressive taxes. Wilson Prichard, a leading tax academic who has published in-depth analysis of Sierra Leone’s tax system explains: *‘It is widely accepted that the GST is likely to be either regressive or neutral in its incidence, thus placing a relatively high burden on lower-income individuals... There is major concern that in Sierra Leone the success of the GST has been achieved partly at the expense of the Income Tax Department. The introduction of the GST has seen several senior staff and auditors shift to the GST Department, and there are concerns within the administration that this focus on GST is leading to a reduced focus on the collection of more progressive and redistributive personal income and corporate taxes... There is evidence that the focus on GST may have been excessive, perhaps in part as a result of strong donor support for the GST.’*¹⁹⁸

Malawi has also experienced a recent VAT reform, with measures introduced in 2011 and some additional reforms in 2012. The Finance Minister made clear in his 2011/12 budget speech in June 2011 that the move to reduce the list of VAT exemptions was driven by falling trade tax revenue, as a result of the agreements Malawi has made under the Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa trade agreements.¹⁹⁹ Exemptions were available on a range of products, including water supply, ordinary bread, meat and edible meat offal, milk and dairy products. These were to be subject to the standard VAT rate of 16.5%. This announcement was followed by such a large public outcry that the government was forced to rescind some elements of the proposal. By the end of June 2011 the Finance Minister had announced to the press that VAT would be removed on some essential items including table salt, meat and meat offal and water supply.²⁰⁰ In the following year's budget the government also removed the VAT on bread, after substantial price increases had occurred over the year.²⁰¹

Malawi has one of the world's highest rates of chronic malnutrition among under-fives.²⁰² As such, any measure which has any impact on food prices needs to be approached with great caution. Yet there was no proper analysis of the impact on the poor before this move.

CfSC has proposed that the government remove VAT on some essential food and non-food items such as soap, cooking oil, paraffin and sugar, to protect the poor. They have also expressed disappointment that concessions have been made on items such as bicycles, motorbikes, buses, agricultural machinery and ballpoints, rather than products which are essential to the wellbeing of the poor: *'The minister argued that this is for the ordinary Malawians because it can create jobs. It shows how far removed the technocrats are from the daily life of most Malawians, who haven't a hope in the world of ever owning even a bicycle.'*²⁰³

Kenya has also, even more recently, undergone VAT reform. This is discussed in detail in the next chapter. It had major implications for the poor as it involved the attempted blanket removal of exemptions on basic goods. This was successfully challenged by Kenyan civil society and the VAT Act (finally passed in August 2013) has some limited protections for the poor. As in Malawi, there was no impact analysis to investigate the impact on the poor even though huge numbers of Kenyans are vulnerable to food price rises. The country's last household survey shows food poverty was widespread, with more than 16 million Kenyans unable to meet the cost of buying sufficient food to meet recommended daily requirements.²⁰⁴

While VAT reforms have been a common fixture in the region, TJN-A, Christian Aid and many other civil society organisations are often forced to call attention to the increasing tax burden on the poor – and the implications for aggravating income inequality – which result in many cases. It may now be time to ask whether the reliance on VAT has run its course. This has not escaped the IMF, which notes that VAT rates have reached such levels that will make significant further increases problematic.²⁰⁵ Other avenues will be needed to generate revenue in future and there are already signs that countries are exploring other means of indirect taxation. New indirect taxes include a tax on mobile phone use in Ghana and Uganda, a tax via the vehicle registry in Ghana and a new tax on money transfers via mobile phones in Kenya (discussed in Chapter 3).

2.9 PROPERTY TAXATION

Property and land taxes have largely not been explored, although they have equity-enhancing potential. These taxes are considered efficient and equitable sources of revenue because property and land assets are both visible and immobile – so tax is difficult to avoid – and a clear indicator of one form of wealth. Property ownership is heavily concentrated among the wealthy in developing countries, and landlords are often not reached by the income tax system; property tax has the potential to fill this gap. Equally the high level of concentration of land ownership means that a tax on the value of land is also a progressive measure. They are also useful for local governments, providing a good tax handle for raising revenue locally.

While there are many good reasons for African countries to develop their property tax systems, property and land taxes are in practice hugely under-used. While revenue from property taxation in OECD countries in 2010 made up 5.4% of total tax collection on average,²⁰⁶ the comparable figure in many African countries is less than 0.5% of GDP.²⁰⁷ Where property taxes are applied in Africa they are mainly applied by local governments in urban areas.

There is generally a distinction between land and property taxes. Land taxes are rare in Africa and few countries have a land value tax. A number of countries, such as Tanzania, Ghana, Mozambique and Sierra Leone, consider land to be a national asset, and include only buildings in the property tax base.²⁰⁸ Kenya is a notable exception, as is Ethiopia, which has two rural land taxes in place. Ethiopia's land taxes generate 0.27% of GDP in revenue, which, while small in absolute terms, is comparatively high for the region.²⁰⁹ Interestingly there is high political commitment to the tax and high compliance levels; citizens frequently support the land tax as a guarantee of their property rights.

A caveat is necessary here given the nature of land ownership in Africa. Private property is not the norm in many African jurisdictions, and there is a lack of formal recognition of land tenure or ownership. There are also difficulties with customary land ownership, where local chiefs may 'own' large tracts of land, but this land is shared in the community. In such a context a traditional approach to land taxation in the western sense is not appropriate. Land taxes

in Africa need to take local approaches to land ownership into account.

There are many reasons for the under-use of property taxes and many challenges in this area. One of the main ones concerns the collection of data. Property registers and valuation rolls are often outdated or not in place (though the system in South Africa is seen as generally stronger in this regard). Analysts point to low administrative capacity and a lack of qualified valuers to prepare or maintain valuation rolls.²¹⁰

An additional and more critical factor is the lack of political support to enforce the property tax. There is a clear consensus in the literature on property taxation that the barriers are more political than economic and that the rich have successfully resisted property and land taxes for a long time.²¹¹ This point was echoed during our own research. Wilson Prichard explained: *'The weakness of property taxation is a largely political story. There are, of course, significant technical challenges, but the larger barrier is political. These are highly visible, highly progressive taxes and they tend to face a lot of resistance. An over emphasis on highly technical, highly sophisticated systems can be counter-productive for property tax. We need functioning, simple systems. There has been investment but little progress in this area.'*²¹² The result is that property taxes – if paid at all – are paid on a base that often bears little resemblance to the true level of property values.

PROPERTY TAXATION IN NIGERIA AND SIERRA LEONE²¹³

Nigeria is unique in having formally delegated the authority for property tax legislation to the 36 state governments. This means the various areas in Nigeria all have different approaches to estimating property tax.²¹⁴ Overall the local authorities across the country have abysmally low revenue from all sources, including property tax. This has been attributed to the obsolete property databases and valuation employed by most councils. Properties having low values means the revenue raised is much lower than it should be. A review of property taxation in Nigeria also found that administration and collection of the rates are riddled with inefficiency and corruption in most cases. Unsurprisingly given Nigeria's high oil rents, local governments have also come to rely heavily on oil tax revenues transferred from state and federal levels. This is thought to have reduced local governments' willingness to develop the property tax systems locally.

Sierra Leone also faces many challenges. A 2009 study found that there were only 16 property valuers and that their capacity was considered low. However, despite these technical challenges, there has been a dramatic expansion of property tax collection in four city councils (Makeni, Bo, Kenema and Freetown), where property tax collection increased by between 300% and 500% in each area between 2007 and 2010. Although the gains have been from a very low base, the achievement is striking.

Key elements of the reforms – which were piloted in Makeni and then expanded to the other cities – have included renewed efforts to identify and value existing properties via the recruitment and training of valuation officers, the use of portable GPS devices to identify properties and the use of straightforward database software to

capture information. The property valuation systems used have been simplified, capturing land area, number of rooms and property type (commercial or residential) but have also included other characteristics seen as essential to ensure the tax is applied in a progressive manner, such as construction type (mud, timber, brick, etc) and the facilities in the property. This has been combined with sensitisation efforts, such as regular radio programmes where officials share information on the tax and how revenue collected is spent locally.

Though the Makeni pilot was a huge success, problems have emerged. The council has been largely unwilling to aggressively prosecute those who fail to pay, given the politically sensitive nature of the tax. In addition the council has resisted adopting new software with built-in restrictions that make it difficult to amend data once inputted, a key transparency measure which guards against corruption. By contrast, the experience in Bo is evaluated as the most successful. There the highly supportive leadership of Bo city council, and particularly the mayor, has shown impressive results both in tax collection levels and critically, compliance amongst elites and other taxpayers. Public trust is high due to the regular radio programmes and the visibly improved services, such as waste management and bus services, funded by the tax. There have been a number of successful prosecutions against large and influential taxpayers and Bo city council has adopted the software safeguards which make it difficult to alter data in the system, thus reducing opportunities for corruption. Political leadership and the commitment to ensuring transparency and equity are seen as critical in ensuring and sustaining advances.

There is clearly potential for land and property taxation systems to be improved. Experiences such as those at the local level in Sierra Leone or in Ethiopia demonstrate that with political commitment, progress can be made. The revenue-raising potential could be significant. For example, the buoyant housing market in Accra, where rental prices and property values are high, has led to estimates that the taxation of rental incomes and property could yield potentially as much as 1%-2% of GDP.²¹⁵ However, although Ghana is said to have more trained registered valuers than most sub-Saharan African countries, its Land Valuation Board, which by law is responsible for property valuation, is not considered adequately staffed to cope with the task of valuing the ever-growing number of properties.²¹⁶

The government of Ghana is interested in taxing landlords as part of a wider drive to broaden the tax net and reduce tax evasion. In the 2012 budget it announced a one-year tax amnesty²¹⁷, as a way to incentivise various actors to start declaring taxable income, including to encourage landlords to register and start declaring their rental income. However, there has been little success as the government has not put in place the right institutional mechanisms to ensure the tax is paid. In the case of rental income tax there has been little communication with landlords on the tax and how to pay it. In 2013 the tax amnesty has been extended to allow both landlords and others who are not complying with tax laws to register and start paying tax. The government has created a new taskforce to try to achieve some concrete progress with regard to rental income.

A key recommendation found in the specialist literature on property taxation is that countries must seek to simplify their systems to adapt them to the reality of African countries. Advisors recommend the use of simple methods for the evaluation of property values, for example parameters such as the number of rooms, the quality of the building materials, and the area of the city where the building is located.²¹⁸ These are parameters all citizens can understand and which are easy to apply. The framework for valuation can be defined centrally while the system is administered locally.

Certainly it is important that the administrative and technical questions do not become obstacles, particularly given the much more significant political barriers that have to be overcome. Civil society has a critical role in advancing public debate on land and property taxes and the importance of their contribution in reducing the concentration of wealth in society. CSOs need to emphasise their contribution to equity and the reduction of income inequality, as well as pushing for governments to implement transparent systems and to use property tax revenue to respond effectively to pressing local development needs.

2.10 INFORMAL SECTOR AND LOCAL-LEVEL TAXATION

Policymakers have recently started to look at expanding taxation on the informal sector, as well as at strengthening the taxation functions of local government. The majority of operators in the informal sector have very low income levels and are likely to fall below the minimum thresholds for taxation. However, there is known to be a significant number of larger businesses making use of the informal sector to escape the tax net. Regulating the sector would help identify and tax these businesses.

It is also important to remember that small businesses and small self-employed traders do not escape tax completely. Unlike formal businesses, which charge VAT on their sales and consequently are able to claim back any VAT they spend as part of doing business, informal businesses bear the burden of VAT they pay on their purchases without receiving the same VAT credits. As such, VAT acts as a type of turnover tax for small traders.

At the same time, however, it is increasingly argued that efforts to bring informal sector operators into the tax net, thus formalising their activities, extending the tax base and building a large constituency of taxpayers, would have more governance and political dividends in building a taxpayer culture generally.²¹⁹ So although the tax revenue collected might be small – and should be small given equity considerations – there are other benefits to be considered. To succeed, the system needs to be made simpler for small businesses to register, maintain accounts and to navigate the tax system, and they need to see the benefits of being brought into the formal system. The customer service offered by the revenue authority is critical, as is linking formalisation to small business support initiatives.

'Resource-rich countries have seen poverty levels fall by less than predicted on the basis of their economic growth performance. The reason: In many countries, the poor have seen their share of income shrink. Rising inequality is slowing the rate at which growth reduces poverty'

Africa Progress Panel, 2013²²⁰

Local-level tax reform is also a relatively new issue on the tax reform agenda. Currently there is little or no coordination with respect to taxation between various levels of government. This has led to double taxation of the same revenue base, as well as inconsistencies between local and central government tax policies.²²¹ A focus on the local level is generally to be welcomed. It can help broaden the tax base and build legitimacy for the system as it brings it closer to a country's citizens. It can also provide important funds for local government spending on priority local projects.

There are downsides as well, as noted in the case of Sierra Leone where the government has decided to focus strongly on local tax collection.²²² Local taxes are a major issue for poor people and often local taxes and the sales taxes administered centrally make up the bulk of the tax burden on poor people. Sierra Leone is one of the few countries that still operates a local poll tax. This is a levy on every adult citizen of Le 5,000 (US\$1.4) and is usually collected in rural districts by chiefs. While it is normally a revenue source for rural districts only, Freetown city council has since 2009 expanded collection of this tax, using strategies such as roadblocks throughout the city to ensure citizens pay the tax. These have been criticised by leading tax researchers Samuel Jibao and Wilson Prichard as '*highly coercive methods on a highly regressive tax base*'.²²³

This regressive approach contrasts with Freetown city council's efforts to implement more progressive property taxation. The city has significant potential to raise revenue from property taxation but the council has only registered around 25% of properties, and has resisted efforts to follow the successful model implemented in Bo (see box, page 48).²²⁴ Such policy choices – which focus on raising revenue from sales taxes and local taxes at the expense of the direct taxation of income and wealth – have clear consequences for income inequality and can only hamper equitable development in the future.

2.11 EXTRACTIVES TAXATION

Between 2005 and 2009 half a million Zambians employed in the mining sector were carrying a higher tax burden than the companies they worked for.²²⁵ The major challenges confronting governments in effectively taxing the extractives sector, and those that citizens face in accessing information and holding their governments to account, have been well documented, by TJN-A and Christian Aid as well as a much wider group of civil society organisations and academics.²²⁶ This report does not seek to provide a comprehensive assessment of taxation of the extractives sector, but it is important to stress that it would be almost impossible to establish a progressive tax system – and reduce the excessive concentration of wealth in sub-Saharan Africa – without taxing this sector more effectively.

Economies in sub-Saharan Africa are highly dependent on natural resource extraction and a high percentage of government revenue comes from extractives taxation. As is increasingly becoming clear, there are vast mineral and oil resources that have not yet been exploited in Africa, and so the revenue generated by extractives is only set to become even more important in future. We are seeing increasing oil reserves in countries such as Angola and Nigeria, new exploration in Ghana and Uganda, potential oil exploration in Kenya and Ethiopia, new discoveries of natural gas in Mozambique, Tanzania and West Africa, and a surge in mining exploration in the region. The increase in proven oil reserves in Africa between 2010 and 2011 alone could increase government revenue by US\$180bn, or 15% of regional GDP.²²⁷

Despite the huge potential, the income capture by sub-Saharan governments from their natural resource sector is extremely low. It is a far from fair share of the wealth extracted from the country; a disproportionate share of the benefits goes to the multinational companies who extract and sell the resource.

A TINY SHARE OF THE WEALTH: THREE EXAMPLES

Many of the countries covered in this report can be used to illustrate the very low levels of revenue collected by governments. For example, Sierra Leone, one of the poorest countries in the world, has diamonds, gold, rutile, bauxite and iron ore deposits. The country's first Extractives Industry Transparency Initiative (EITI) report, produced in March 2010, showed that revenues to the government from mining were only US\$7.2m in 2006 (4% of the value of all minerals exported) and US\$10.18m in 2007 (7%).²²⁸ By 2010 this had increased to US\$24m but the country still only received 12% of the value of its mineral exports. In that year the mining industry accounted for almost 60% of exports (US\$200m) but only 8% of government revenue overall.

Zambia is another example. It produces copper and cobalt ore and is one of the leading copper producers in the world. The country's 1995 Mining Act stipulated an already extremely low 2% royalty. Later it emerged that agreements with companies had set the rate at 0.6%.²²⁹ New legislation in 2002 then carried over this meagre 0.6% royalty provision into the official tax

regime.²³⁰ In 2011, Zambia's copper exports generated US\$10bn while government revenues were only US\$240m, or 2.4% of export value.²³¹

Meanwhile it has been reported that while Ghana's gold production made up 40% of the country's exports, valued at US\$2.2bn, the government only received US\$116m in tax and royalties for this mineral (5% of the export value).²³²

To put the figures for Sierra Leone, Zambia and Ghana into context, it is important to note that, according to the IMF, the effective tax rate in mining is typically 45%-65% of export value.²³³ With Sierra Leone receiving around 12%, Ghana 5% and Zambia just over 2% they are all far below this benchmark. There are other countries where less information is available. There should be great cause for concern in Zimbabwe, where platinum, gold and diamond production is rising rapidly. Mineral exports in 2012 accounted for 64% of total exports but the AEO, a website which provides analysis of 53 African economies, says that revenues are "a tiny fraction" of total production.²³⁴

The failure of countries in sub-Saharan Africa to capture income from the extractives sector is down to a mix of factors. These include overly generous tax incentives and tax dodging, as well as weak revenue authorities and the corruption of elites. The tax incentives are far-reaching and numerous, and can include reductions in, or simply very low, royalty and corporate income tax rates; exemptions from import duties and withholding taxes; and generous rules regarding capital allowances and the treatment of losses for tax purposes.

In Ghana one of the main reasons for low revenue contributions from mineral extraction is the low royalty rate. It was officially set at 3%-6%, but the higher rate has never been applied as there was no effective monitoring to categorise when firms are profitable enough to fall under this rate. In other

cases, concessions on royalty rates and other aspects are made in specially negotiated contracts which offer companies preferential terms over national legislation. This is the case in Sierra Leone, where many mining companies have their own concessions in their mining agreements even though the country brought in a new Mines and Minerals Act in November 2009 which should have standardised terms.²³⁵

Malawi offers similar examples. Uranium produced by Australian company Paladin at its Kayelekera mine account for most mineral production and exports from the country. While there is little information available on the revenues received from mining, it is known that the government offered Paladin generous incentives. It reduced the corporate income tax rate, abolished the

'The extractive industries sector is central to the illicit outflow of money from Africa'

Thabo Mbeki²³⁶

company's obligation to pay Resource Rent Tax (Malawi's windfall tax) and reduced its royalty rate from the national figure of 5% to 1.5% for the first three years and 3% after that. Paladin's own figures provided to researchers show that it paid royalties of US\$2.58m based on export sales of US\$295.5m in the first three years of operation. This corresponds to a royalty rate of 0.87%, substantially below the preferential rate they were given.²³⁷

Paladin has rejected criticism of its operation in Malawi, saying it has yet to move into profit following a collapse in the price of uranium after the Fukushima nuclear power plant disaster in Japan. Nonetheless, it said, the Malawi mine had by March 2013 paid royalties and taxes amounting to US\$36.15m, with export proceeds totalling US\$419.9m. In addition it had spent US\$273.5m in purchasing goods and services from Malawi businesses, while corporate social responsibility spending had reached US\$16.54m. The company added that the 3% royalty figure is the benchmark rate for Africa, while estimates that it had paid a royalty rate of 0.87% failed to take into account variances in the exchange rates used, as well as allowable deductions.²³⁸

Generous tax rules have been noted in Ghana²³⁹ and in Sierra Leone, where, as a result, only one of the five major mining companies was paying corporate income taxes in 2011.²⁴⁰ In Zambia companies have avoided paying a good deal of corporate tax by carrying forward losses and taking advantage of the capital allowances rules. Zambia abolished 100% capital allowances in 2008 but these were reinstated in 2009. Such capital allowances are common. In Malawi the agreement with Paladin also provides concessions which include a 100% capital allowance. In return the government acquired a 15% stake in the project, though it is questionable how much it will gain from this given that the company can write off hundreds of millions of dollars in capital expenditure. Paladin says that *'the ability to write-off capital expenditures of 100% over a one-year period is not uncommon in mining jurisdictions around the world'*.²⁴¹

Another cause of revenue loss to governments is multinational companies' ability to use trade mispricing to artificially reduce the revenue they declare in the production country. As discussed above, there is a growing consensus that trade mispricing is rife in the mining sector and that extractives companies are frequent users of tax havens within their company structures. This is reflected in the most recent APP report and also by the stance of Africa's High Level Panel on Illicit Financial Flows. Thabo Mbeki, on a visit to the Democratic Republic of Congo in June 2013, stated: *'The extractive industries sector is central to the illicit outflow of money from Africa.'*²⁴²

After many years of civil society advocacy, the position that the revenue generated from the extractive industries is far too small is now widely held and has been highlighted by institutions including ATAF, CABRI, UNECA, the OECD and the IMF. The 2013 report of the APP is perhaps the culmination of many years of evidence gathering and provides a substantial critique of the natural resource taxation issue.

There is certainly a general understanding that balance has been lost in how benefits are shared between companies and countries and that excessive concessions have been offered to companies. However, passing new legislation and renegotiating contracts is no easy task and the resistance of mining companies should not be underestimated. There are, however, many efforts under way, for example in Ghana and Zambia. In Zambia, following many years of civil society advocacy led by CTPD, a revenue-based windfall tax was introduced in 2008, alongside changes in tax rules and a raising of the royalty rate to 3%.²⁴³ A year later, after resistance from companies, the windfall tax and change to capital allowances were repealed. In 2012, the government managed to increase the mineral royalty tax rate from 3% to 6%. And in 2013 the government will introduce a Bill to strengthen penal sanctions for false reporting of mineral production and export information. This will ensure all mineral exports and proceeds are strictly monitored.

In Ghana there have also been revisions to the mining code. In March 2010 the government announced a flat rate royalty of 5% to replace the 3%-6% range which was not properly implemented. This came into effect in March 2011 but has not been paid by companies with stability agreements

(including large investors such as Newmont and AngloGold Ashanti), denting the impact of this reform on government revenue.²⁴⁴ The Minister of Finance announced in the 2012 Budget Statement that other reforms would also take place to increase revenue from mining.²⁴⁵ These included a corporate tax rate increase from 25% to 35% and a 10% windfall tax on mining profits. Changes to the tax rules were also announced, with a uniform capital allowance of 20% for five years brought in for the mining industry (a reduction from the previous 80% that could be claimed in the first year followed by 50% thereafter). The 2012 changes also included establishing clear ring-fencing to ensure costs in one mining project can't be set off against profits from another project belonging to the same company.

While the corporate tax increase and change in tax rules have been put in place, the 2013 Budget Statement in March 2013 confirmed that the government was unable to pass the Windfall Tax Bill and a special committee is reviewing the stability agreements and incentives for the mining sector.²⁴⁶ In the Budget Statement the Minister of Finance stated that the government intends to reintroduce the Bill in a matter of weeks and the IMF is known to be pressuring to implement the tax.²⁴⁷ However, months later, the Bill is still not in place and the context of the falling gold price, falling company profits and company resistance is seen as making its passing less likely.²⁴⁸

There are also examples of legislative reform going clearly in the wrong direction. In Malawi in 2013 the government proposed a revision to its Mines and Minerals Act. The draft, however, says nothing about actual royalty or other tax rates and therefore misses an opportunity to revise these upwards. The government also retains the ability to negotiate individual royalty rates with companies, while the equity share it can take in any mining operation is cut from the existing 30% to 10%. In addition, there is no requirement in the draft for the government to make individual mining agreements public.²⁴⁹

Transparency is key to ensuring that revenue from the extractives industries is correctly captured and used to address inequality. In too many countries citizens have not been aware of the amounts of revenue due and the sector is easily open to corruption and capture by national elites.

It is critical that citizens have access to data on production, prices, exports and the royalties and taxes paid to governments. Without this it is impossible to hold the government to account and to investigate whether multinational companies are both paying their fair share and refraining from manipulating their taxable income levels. The EITI has been an important instrument in ensuring progress in increasing transparency in the extractives industry sector. A number of African countries are EITI compliant including Ghana, Nigeria and Zambia. Sierra Leone, however, has been suspended from EITI.

The Dodd-Frank Act passed in the US (though stalled in implementation due to legal wrangling over the implementation regulations) is also of huge importance in the process of building transparency in this sector. It requires extractives companies listed in the US to report on their payments (above US\$100,000) on a project-by-project basis, rather than by providing aggregate national-level reporting. This additional level of transparency should reduce opportunities for corruption and the manipulation of accounts. It is particularly important as, unlike EITI which is a voluntary standard, it is a legally enforceable regime for the global petroleum and mining industry. Reports must be filed annually with the Securities and Exchange Commission in the US. The EU has passed similar rules in the Transparency and Accounting Directives, introducing requirements for all extractives and forestry companies listed on European stock exchanges, as well as large unlisted companies, to report payments to governments on a country and project basis. Both the US and EU legislation are welcome moves in the right direction, as they should help civil society track the taxes and other payments that extractives companies have paid, enabling them to better hold the government to account. However these rules will not help civil society or governments themselves to see what taxes companies should have paid – and hence will not deal with corporate tax dodging. For this a more detailed breakdown of company accounts as part of a more comprehensive country by country reporting is necessary.

2.12 CONCLUSION

Tax is vital for development and to reduce the concentration of wealth in sub-Saharan Africa. Improvements in tax policy and tax collection should be a huge area of concern, not least because progress has been minimal over the past three decades. Several of the countries profiled here are clearly not doing well. Nigeria's non-oil tax system is barely functioning, such is the dependence on oil revenue. Ghana's tax collection is far below the acceptable level for a lower-middle income country. Sierra Leone has extremely poor tax collection levels and is making no progress.

The effects of the global tax consensus and the region's inability to tax its significant wealth, which is largely hidden via offshore structures, are very visible. There is no doubt that the global financial system, the network of tax havens and the widely condoned practices of corporate tax opacity are enabling aggressive tax avoidance and evasion in sub-Saharan Africa. This impenetrable and opaque system enables huge illicit financial flows from Africa, making it extremely difficult for the continent to advance in creating a progressive, redistributive tax system and to combat its high, and increasing, levels of income inequality. These are challenges which industrialised countries did not face; they are new problems which require new solutions. As illicit financial flows have continued to increase throughout Africa's high growth period, one can reach no conclusion other than that Africa's problems are increasing. This path can only lead to even less equal, and more conflictive, fractured societies.

The trends show that trade taxes have diminished and that there has been a growing reliance on indirect taxation, particularly VAT. Direct taxation is largely the missing piece of the puzzle. The tax consensus, implemented over several decades, can now be judged a failure, as it has not increased revenue significantly. It is remarkable that more attention is not given to this fact. While it has not delivered much on its own terms, it has also contributed to exacerbating existing tendencies towards greater economic inequality.

While the reliance on indirect taxation is clear there has been little analysis of the resulting tax burden on the poor. The VAT reforms in Kenya and Malawi are the most recent examples of a cavalier approach to tax reform. Both countries' food security concerns should be prime considerations, yet VAT exemptions are abolished on many basic goods without proper analysis. Such analysis should be the minimally acceptable threshold for tax policy reforms in countries which rely so heavily on indirect taxation. Without it, VAT reforms risk exacerbating very quickly the unequal distribution of income in society.

There is no doubt that PIT and its enforcement need more attention. Revenue gains could be significant and this tax has the potential to directly address income inequality problems. As discussed in the next chapter, this issue is currently a hot topic in Kenya as the struggle to reintroduce a capital gains tax is on the table. This is still, by and large, an unexplored issue and there is a dearth of discussion on how to get the elites to pay more tax, as well as of research into the practicalities of this question. It is essentially a political question.

CIT exemptions and incentives are also a major area of tax losses for many sub-Saharan African countries. Though there is a legitimate role in using tax incentives – alongside trade taxes – in support of strategic industrial policies, this must be judiciously managed with very clear targets for job creation, technology and skills transfer and the development of the domestic private sector. In too many cases, tax incentives to companies simply amount to revenue losses for poor countries and a mechanism which supports the excessive concentration of wealth in few – often foreign-owned - hands. While some countries are taking some action to try to reform, progress is glacially slow given the particularly clear consensus in this area. There are also worrying signs that new incentives are being offered to attract (already controversial) foreign investment in agriculture. Property and land taxes are hugely under-used, though some evidence demonstrates there is potential for these to work well in Africa. There is no question that Africa must visibly tax its successful companies and elites if progress in building equitable, functioning tax systems and reducing the concentration of wealth is the goal.

It is widely known that the revenue from natural resource extraction that is captured by countries in sub-Saharan Africa has been – and in many cases continues to be – far too low. Countries are simply not getting a fair share of their natural resource wealth. While overly generous tax incentives and concessions play a major role, tax dodging is known to be rife. Some reforms are going on and there are some positive successes in terms of increasing transparency. The EITI has enabled more disclosure and new reforms, such as Dodd-Frank and the reforms to the EU Accounting and Transparency directives, should improve this further. Legislative reforms in Ghana and Zambia to establish a fairer basis for revenue generation are also positive. But there are still too many examples of countries not doing well. Sierra Leone has been suspended from EITI and companies are not even held to the minimum benchmarks in the country's own legislation. Malawi is disappointing given it is clearly failing to learn from the experiences of other countries in this area. Zimbabwe deserves much greater scrutiny and support given the rapid scaling up of mineral production there and the serious doubts about the revenue share the country is receiving.

The framework is there for the continent to do better and with the right political will, and pressure from citizens, natural resource wealth could be harnessed correctly in future. While there is the potential to increase natural resource revenue there are also changes on the horizon that are likely to entail tax revenues dropping. There is more trade liberalisation to come, both potentially via EPAs (if African governments sign these agreements) and the regional integration initiatives taking place in the various trading blocs. It is, therefore, time for an alternative approach to tax reform and a much stronger focus on the more difficult issues – taxing all forms of wealth, including natural resource rents, land and property – more comprehensively and tackling tax evasion in all its forms. Rhetoric from the IMF and OECD is changing, with both emphasising more tax equity, the contribution of large taxpayers and the problems with tax incentives.²⁵⁰ While this is all positive, it seems we are just at the beginning of this new chapter and there is much work to be done to turn positive rhetoric into practical action that will effectively challenge income inequality levels across the continent.

Chapter 3: Case studies: Taxation in South Africa and Kenya

"South Africa does not have a poverty problem! We have a wealth problem!"

Call for Budget Justice²⁵¹

3.1 SOUTH AFRICA

South Africa's transition from apartheid is far from complete. While politically the country has gone through a major transformation, economically there is a lot to be concerned about. As mentioned earlier, income inequality in South Africa is extremely high – one of the highest rates in the world – and, according to the country's household surveys, consistently increasing. Income inequality also has a clearly racial dimension. Poverty and unemployment continue to determine the limits of transformation, and macro-economic policy choices have not had any significant positive impact on poor people since 1994. However, when it comes to taxation, South Africa is known for its relatively strong tax authority, the South Africa Revenue Service (SARS), and its high level of tax collection for the region, though the rate is still significantly below the OECD average.

Direct taxation is high and SARS collects more from CIT and PIT than indirect taxation. For example, as shown in the table in Annex A, in 2011/12 PIT made up 34% of total tax revenue and CIT 21%, with VAT bringing in 26%. SARS has made great strides in widening the tax base registering new taxpayers. From 6 million registered taxpayers in 2010 there are now 13.7 million registered individual taxpayers on its database.²⁵² Progress in tax collection in South Africa is said to be down to efforts to broaden the tax base, reduce loopholes and improve the tax administration.²⁵³ Also notable is that SARS set up the Large Business Centre in 2004 to focus on corporations and issues such as aggressive tax planning, transfer pricing, offshore arrangements and the use of trusts.

CAPITAL GAINS TAXATION IN SOUTH AFRICA

Capital gains tax was introduced in South Africa in 2001. This measure was clearly aimed at improving the equity of the tax system. Thresholds are in place to exclude taxpayers of moderate wealth from the capital gains tax net and it is a measure clearly aimed at higher earners. When the tax was first applied, only 25% of the net gain was subject to the rate of income tax in the case of individuals.²⁵⁴ In the case of companies, 50% of the capital gain was liable to tax. In practice this means an effective tax rate of 10.5% was applied for individuals and 15% for companies.²⁵⁵ The measure was of course hotly contested by the private sector but analysis shows the rates put South Africa solidly below

international averages (calculated as between 15.9% to 19.4% for individuals and 19.6% to 22.8% for companies).²⁵⁶

The rates have been increased since March 2012 as a higher proportion of the capital gain is now subject to tax. The effective rate is now 13.3% for individuals and 18.6% for companies, still below international standards as they were evaluated in 2000.²⁵⁷ This was done at the same time as a withholding tax on dividends of 15% was put in place – to replace the previous 10% secondary corporation tax. The increase in these forms of wealth taxation was greeted with great disappointment from the private sector.²⁵⁸

The high quality of data collection means we can also analyse tax contribution by gender. Data published in 2012 shows that the percentage of female taxpayers has been steadily increasing. For the 2011 tax year, women accounted for 44.3% of the assessed individual taxpayers, earning 36.3% of the taxable income and contributing 29.6% of tax. The data sheds light on income inequality between men and women: it is evident that women on average earn 28.1% less than men, as measured through taxable income, and are liable for 47.1% less tax.²⁵⁹

What is most interesting is the trends in how the tax structure is evolving. In fact the tax system is getting less progressive as high earners are allowed to keep more and more of their income, a policy which is undermining the progressive vision of the South African tax system. The PIT system is an important area for analysis. In South Africa, PIT has a progressive structure, with six rates ranging from 18% to 40%. (Previously there were also rates of 42% and 45% in place but these were abolished more than a decade ago). But not only have the headline rates changed, the amount of revenue collected through PIT has been significantly affected due to a policy of continually adjusting thresholds. Analysis by AIDC shows that the same yearly income in real terms was taxed at 33.8% in 1994/95 but at only 18.2% in 2010/11.²⁶⁰

The adjustment of brackets upwards has been justified by Finance Ministers arguing it is to compensate for the effect of inflation. The term 'bracket creep' often crops up in budget speeches. However deeper analysis shows the adjustments far exceed the effect of inflation and AIDC argues this is merely an *'ideological fig leaf for reducing overall tax pressure'* on high earners and *'if the highest tax bracket had been adjusted at the rate of inflation only, the 40% personal income tax, would, in 2011, be levied on income above R280,000 (US\$38,783, based on 2011 average exchange rate) per year, not on an income above R580,000 (US\$80,336, based on 2011 average exchange rates).'*²⁶¹

There are of course clear costs incurred because of this policy. AIDC calculates that more than R125 billion (US\$17bn)²⁶² in PIT revenue was forfeited in 2010 alone.²⁶³ They also calculate that if PIT policy had been constant over the years, SARS would have increased tax revenue from 24.5% to 29% in 2010/11 or by about 4.5 percentage points, a significant step forward for the country.

Not only is the loss of this revenue a huge cost to the government, it also amounts to excessively generous tax relief for the privileged few and directly exacerbates the concentration of wealth in an already cripplingly unequal society.

The interesting question is why is South Africa trying so hard to maintain low levels of PIT revenue and so depressing its overall tax collection level? AIDC explains this by pointing to the 'tax-pegging rule'. This was first mentioned in 1996 in the national Growth, Employment and Redistribution strategy, which stated that the government would aim for a tax to GDP ratio of about 25%. This policy is not often discussed explicitly in public, but it was once again mentioned in the February 2012 Budget speech, when the Finance Minister mentioned that: *'key features of the budget framework include... tax revenue stabilising at about one-quarter of GDP'*.²⁶⁴

The term 'tax revenue stabilising' is somewhat euphemistic. There is no way of avoiding the fact that this policy entails maintaining a ceiling on tax collection. It also takes effort. South Africa is a growing economy. The tax base is expanding and more and more people are entering the tax net and the formal system, something that is seen as a result of the successful efforts of SARS to reduce the number of operators in the informal economy. Higher earners are also consistently increasing their standards of living. In such a context, maintaining the level of tax collection means taking concrete steps to try to keep it down – offering tax cuts and tax reliefs with a view to achieving less revenue year on year. This is an odd strategy for any government in sub-Saharan Africa to pursue, especially one with the chronic inequality and unemployment levels of South Africa.

It goes without saying that such a policy imposes a limit on spending and restricts the activities the South African government can undertake to support its poor with productive investments and to provide basic services and improve infrastructure. In addition, an increase in tax revenue is the only way to finance the country's ambition for a National Health Insurance scheme (which was not dealt with at all in the 2013/14 budget) and to introduce the long called for basic income grant to support South Africa's many unemployed.²⁶⁵

THE CASE FOR A UNIVERSAL BASIC INCOME GRANT IN SOUTH AFRICA AND SOUTHERN AFRICA²⁶⁶

Studies in Poverty and Inequality Institute (SPII) has initiated a campaign for the introduction of a universal cash transfer called the Basic Income Grant (BIG) in South Africa and across the other 14 member countries of the Southern African Development Community (SADC), including Malawi, Zambia and Zimbabwe.

An innovative part of this proposal is that this cash transfer grant would be substantially funded by a tax on extractive industries. High levels of mineral resources exist in most countries within SADC, while at the same time, SADC states are characterised by high levels of poverty and some of the world's highest levels of inequality. Creating a special revenue stream from extractives income would counter the usual rhetoric that African countries cannot afford a social cash transfer scheme due to poor revenue reserves and lack of capacity. However, campaigners also believe that a key element that makes its introduction more compelling is the amount of revenue leaving the region annually through illicit flows and price manipulation by multinationals. A new tax would go some way to correcting this economic injustice, broadening access to the proceeds of mining beyond the current narrow circle of national and international beneficiaries and shareholders of the mining companies, and aligned elites, to each and every resident of the SADC sub-region.

The importance of a SADC BIG is accentuated by evidence from countries such as India and Brazil, which has shown that social cash transfers have the ability to help alleviate the worst destitution currently faced

by millions of poor people. Furthermore, given the fact that extraction depletes the levels of natural resources, such a scheme would introduce an intergenerational justice between those who oversee the extraction currently, and the development of future generations.

The concept of universality is also a fundamental part of the proposal. A universal scheme – payable to everybody in SADC, but recaptured from wealthier people through national tax systems – would ensure transparency and a greater even-handedness in the distribution of resources. It would reduce the risk of capture by politicians to win political support for their own gain and would promote solidarity among citizens, making a comprehensive social welfare system more sustainable for the future. For such a scheme to work there needs to be a groundswell demand by ordinary people, political will and a transparent accounting system of concessions and agreements concluded in the extractives sector.

In its ongoing efforts, SPII has established a network of organisations that share a collective commitment to pursuing economic justice and the realisation of human rights in the sub-region. Currently SPII coordinates a network of more than 50 partner organisations from 12 SADC member countries, covering issues around tax justice, the extractive sector, social protection, cross-border migration and food security. To join this campaign, please visit the SPII website at www.spii.org.za.

While the PIT burden on higher earning individuals is being reduced over time, there is also a notable problem of tax evasion in South Africa. An internal SARS report on high net worth individuals (HNWI) was leaked in January 2012. The report states that SARS uncovered 30,000 HNWI – 20,000 of whom who were identified after just one consultation with

a financial institution regarding how many individuals were investing at least R1m (US\$138,510 using 2011 average exchange rate) on an annual basis. There is, however, a huge discrepancy between these numbers and the taxes collected. Only 2,000 HNWI were registered and declaring income taxes between 2008 and 2010 in South Africa.²⁶⁷ This

“...reigning in the tax-dodging super wealthy could potentially lead to tens of billions in increased revenue. That would change the tax to GDP ratio and with it the whole budget”

Dick Forslund²⁶⁸

means of course a huge loss of income to the South African Treasury. AIDC estimates that if 10,000 HNWI paid their taxes correctly this would bring in R36.8bn (US\$4bn) – equivalent to 1% of GDP. Based on SARS’ initial estimates, that means over 3% of GDP (over R100bn or US\$10.9bn) is not being collected, an immense figure. It should be noted that the 2013/14 entire budget for the health sector in South Africa is R122bn (US\$13.3bn), with police services receiving R65bn (US\$7bn).²⁶⁹

Noone knows exactly how many HNWI there really are in South Africa. Credit Suisse’s global wealth report says the global top 1% of wealth holders includes 116,000 South Africans.²⁷⁰ SARS committed to forming a Risk and Intelligence team in 2012 to focus on the unknown HNWI. It remains to be seen whether this will lead to progress in tackling the severe problem of tax avoidance and evasion in South Africa. And as earlier stated, SARS would be in a much stronger position to succeed in this area if the suggested reforms to the current global financial architecture were in place.

SOUTH AFRICA’S AMNESTY FOR ILLICIT FINANCIAL FLOWS²⁷¹

South Africa is one of the countries worst affected by illicit financial flows in Africa. Between 1980 and 1993, illicit financial flows were on average 5.4% of GDP. This rose steadily from that period, reaching a staggering 20% of GDP in 2007. In line with global trends, South African research has confirmed that the vast majority of illicit financial flows arise from transfer pricing by multinationals, particularly those operating in the mining sector.

Surprisingly, given the scale of the problem, in June 2010 the South African Reserve Bank announced the introduction of a new amnesty for illicit financial flows, offering a 10% flat rate fee on the value of assets that companies and individuals had moved offshore. Companies and individuals who declared these assets would pay the fee and receive no further penalties; they would also be allowed to keep their assets offshore under a Voluntary Disclosure Programme. This is a significant decision given that the companies and individuals concerned have broken the law with regard to exchange controls and have also evaded taxation. At the same time the government announced

a relaxation of exchange controls on companies and that exchange controls and limits on offshore investments for individuals were to be lifted.

This of course allows large amounts of capital to remain offshore but it is also likely to increase illicit financial flows from South Africa in future, to the ongoing detriment of the South African population. Addressing the issue of illicit financial flows – and particularly the abusive practice of transfer mispricing by the mining industry – should be major policy priorities for the country. As noted by one South African economist, unfortunately the wrong policy decisions are being taken: “After the financial crisis, many countries are moving to regulate finance, control capital movements and manage their exchange rates. The South African government’s decision to liberalise exchange controls is going against the flow in international economic policy and is an outdated policy. It reflects a certain libertarian ideology and the power of South African finance, and not the developmental goals of the country.”²⁷²

South African civil society organisations who are part of the Budget Justice Coalition are calling for the government to abandon publicly the hidden policy of pegging the tax rate to 25% of GDP and the systematic underspending and small state ideology that has gone hand in hand with this. Specifically they call for reversing the PIT rate cuts, reinstalling the 42% and 45% tax rates, and abandoning the policy of providing tax relief to the rich. With the increased tax revenue available they call for²⁷³ the implementation of a national health insurance scheme – already the ambition of the Ministry of Health but as yet unfunded; increasing the coverage of unemployment relief via a basic income grant; the expansion of job creation efforts; and specifically the expansion of the community works programme to a massive public works programme that pays at least the minimum wage for a 40 hour week. This should go alongside a pro-poor infrastructural investment in decent housing and building schools and health centres.

The Budget Justice Coalition has also recommended a reduction of VAT on food, given the huge burden this has on the poor in the context of food price rises. Unusually in the context of sub-Saharan Africa, where studies of this kind are rare, there is already evidence from a World Bank study that the VAT system is regressive.²⁷⁴ The study found that low income households were paying more than 5% of their incomes in VAT compared with only 3.5% among high-income groups. This occurred in spite of the fact that certain food items (such as brown bread, maize meal, milk and milk powder, rice and unprocessed vegetables and fruits) were zero-rated, and small-scale firms were not required to register for VAT.

The research also found that it would be easy to make the VAT regime more progressive, for example by removing VAT and increasing income tax rates for high income households, or by lowering rates and increasing VAT exemptions and compensating for tax losses by raising more through direct taxation. There are a variety of options, none of which were found to have a major impact on tax rates for high income households. However, these alternatives have not been seriously considered in South Africa, although there have been frequent calls made by the largest trade union federation, the Congress of South African Trade Unions (COSATU), to revisit and revise VAT structuring. COSATU has advocated for the introduction of multi-tiered VAT rates, with a higher

VAT rate applied on luxury goods.²⁷⁵ This could raise revenue to compensate for the VAT exemptions which benefit the poor and would ensure the design of the VAT system had a redistributive element and contributed to reducing the vast concentration of wealth in South Africa.

Further reforms are on the horizon. In July 2013 SARS created a Tax Review Committee to look at the impact and progressivity of the tax system.²⁷⁶ Particular areas highlighted for review include capital gains and inheritance taxes; CIT, particularly the issues of tax avoidance and tax incentives; mining taxation and the taxation of the financial sector (including of hedge funds). The review will also look at efficiency and equity aspects of VAT and the prospects of funding the national health insurance initiative.

3.2 KENYA

Inequality has been rising in Kenya since 1994, but as newly published data shows, has begun to reduce somewhat since 2005. World Bank data, discussed earlier, showed clearly that as income inequality was rising the rich were getting richer and the poor were getting poorer. The richest 10% of society increased their income share by 16% between 1994 and 2005, while the poorest 40% saw their share of income fall by 14%.²⁷⁷

The richest decile was reported in 2005 to hold 38% of national income, compared to only 2% for the poorest decile, a huge disparity. It is also widely recognised that the high income inequality level is holding back progress in poverty reduction, with particularly negative impacts on the high rural poverty rates. This poor performance is all the more disappointing given that Kenya is economically stable, has enjoyed good growth rates and benefits from a relatively efficient tax collection system and moderate levels of tax revenue. While Kenya's tax system should be an important lever to address income inequality, there is no evidence this is occurring effectively in practice, as discussed below.

As mentioned in Table 1 (page 27), the tax revenue level was 20% of GDP in 2011 and Kenya is seen as one of the more successful tax collectors in sub-Saharan Africa. However, this should be seen in the context of the government target formulated in 1986 that tax collection should reach 24% of GDP by 1999/2000.²⁷⁸ In fact, tax collection has been much higher, as a proportion of GDP in the past. For

the period 1992/93 –1996/97, Kenya's tax revenue averaged 26.6% of GDP.²⁷⁹

It is also important to note that the KRA has missed its targets for revenue collection consistently (albeit narrowly), including most recently in 2008/09, 2009/10 and 2010/11. Early estimates show the same trend for 2011/12.²⁸⁰ This is in no way a revenue collection success story, and given the significant current account deficit and other budgetary pressures, KRA remains under huge pressure to do better.

Over the years the Kenyan tax structure has changed enormously, with reforms commencing in the late 1980s. Since then, reforms have reduced direct taxes (with income tax rates being gradually lowered) and increased indirect taxes. More efforts were made in the 1990s to reinforce direct taxation and in terms of tax administration one of the most important reforms has been the introduction of the personal identification number (PIN) for purposes of tax assessment. The PIN has allowed the identification of all taxable persons in the country and facilitated tracing of income earned, strengthening the enforcement of income taxes.

Direct taxes in Kenya include personal income tax (rates range from 10% to 30%), corporate income tax (at a rate of 30%) and withholding tax, which is charged on other sources of income including royalties, dividends and rental income. The most important indirect tax is VAT. As demonstrated earlier, there is a heavy reliance on indirect taxes and progress to correct this situation is very slow, a situation which should be of great concern in a country with the income inequality problem that is experienced in Kenya. As the table below shows, shares of indirect taxes as a percentage of total tax revenue have fallen only slightly over the last decade and overall VAT is the single biggest source of tax revenue.

The share of taxation from direct taxes has only minimally increased in the last decade. On interview, KRA made clear that they see severe limitations with regard to the number of contributors paying income tax. KRA explained: *'Kenya has a limited number of people on its PAYE and corporation lists – a total of under 1 million active filers – despite having a population of 40 million.'*²⁸¹ PIT thresholds are also an issue. The PIT rate is progressive up to a monthly income of Ksh 38,893 (US\$460), after which the rate is a flat 30%. The East Africa Tax and

Table 3: Breakdown of indirect and direct taxes in Kenya, 2000/01 – 2009/10

	Tax type as % of total tax revenue			
	2000/01	2004/05	2007/08	2009/10
Indirect taxes	60%	60%	57%	58%
Excise	19%	19%	16%	14%
Imports	13%	13%	12%	8%
VAT	28%	28%	29%	25%
Agency*				6%
Other Exchequer Revenue				5%
Direct taxes	40%	40%	43%	42%
Corporation tax	13%	13%	15%	
Personal income tax	1%	1%	1%	
PAYE	21%	21%	22%	23%
Withholding tax	5%	5%	5%	
Other**				19%

Source: TJN, Kenya Report, 2009 and KRA Annual Report and Financial Statements 2010

* Agency includes taxes such as airport, aviation, petroleum levy, road maintenance levy, sugar levy, etc.

** Other in this case includes all other income taxes, so corporation tax, personal income tax and withholding tax, which have been grouped together in the KRA report for 2009/10.

Governance Network has argued that this threshold is very low compared to monthly earnings in the higher middle-income and high-income groups. As an equality enhancing measure, they advocate for the introduction of one or two more tax bands with higher rates for high-income earners.²⁸²

Kenya is an archetypal example of the low PIT contribution made by professionals. Tax privileges have historically been granted to the elites and politically well collected and there has been very poor enforcement of personal income taxes. As a result, Kenyan citizens commonly believe that elites do not pay their fair share.²⁸³ This opinion is certainly not contradicted by PIT data. Revenue raised from PIT outside of the PAYE system is minimal. Also notable is how PAYE contributions compare to CIT, in Kenya's case far exceeding the CIT figure. It is clear that direct taxation relies heavily on contributions from payroll taxes, meaning that workers who earn a wage are the most consistent income tax payers. This has clear, negative implications for income inequality levels as Kenya is clearly choosing to tax labour over capital.

Apart from exacerbating already high income inequality, the absence of effective direct taxation has other consequences. There is a lack of taxpayer culture and trust and participation in the system have suffered. Conducting taxpayer education and building taxpayer ownership are consistently identified as major issues to be addressed.²⁸⁴ This is an area in which TJN-A and the National Taxpayers Alliance are already very active, and one which KRA continues to prioritise. KRA's current corporate plan includes various interventions such as targeting high net worth individuals (HNWI) and the real estate sector, where they suspect much of the undeclared income resides, as well as more strenuous efforts to address commercial tax evasion. Such an approach should help the system become more equitable, as well as increasing the perception of equity on the part of taxpayers and building more public confidence in the system.

KENYA'S HIGH NET WORTH INDIVIDUALS

HNWI are the subject of a new objective in KRA's fifth corporate plan. The plan states: 'HNWI pose a special challenge to Tax Authorities because of their complex tax arrangements, the potential for considerable tax loss, potential for aggressive tax planning and thus their ability to erode the overall integrity of the tax system.'²⁸⁵

Data from the KRA tax database shows that barely 100 people are registered with annual incomes in excess of Kshs44 million (US\$528,021), the threshold for classification as a HNWI. The top 1,000 individual taxpayers in Kenya have an entry point annual income of only Kshs14 million (US\$168,006).

This stands in stark contrast to the estimated 40,000 people who live in the top ten high end housing estates in Nairobi, where average house prices range from Kshs35-65 million (US\$420,017- US\$780,031).²⁸⁶ It also stands in contrast to the high levels of conspicuous

consumption of luxury vehicles, private planes and helicopters and expensive real estate. In addition, according to *The Wealth Report 2013* released by Knight Frank, Kenya presently has 142 (Kenyan shilling) billionaires, whose net worth in assets exceeds US\$30 million (Kshs2.5 billion) each.²⁸⁷ There is no doubt that some billionaires are not paying income tax at all, never mind all the billionaires and millionaires with assets below this threshold.

KRA is now creating a special unit to deal with HNWI. Resourcing and training this specialist unit is a major challenge, as is securing cooperation with other tax jurisdictions where the Kenyan elites are shifting their assets. Given that the unit should be targeting around 40,000 people – and around 100 are already declaring some income – the fact that the KRA has set itself the target that 100 HNWI should be fully compliant by the end of the three-year period is underwhelming.

It is already well established that Kenya's CIT collection is far below where it should be. Analysis has found that corporate taxes had the lowest collection success rate compared to the real capacity in the economy. A study using 2000/01 and 2001/02 data found a collection success rate of only 35%.²⁸⁸ A study by TJN-A calculated that this means KRA loses Ksh264 billion (USD\$3.5bn) each year²⁸⁹ in lost corporation tax revenue, a number confirmed by government estimates.²⁹⁰

Some of this loss is known to be due to the size of the informal economy. Informal businesses have grown as rapid urbanisation has not been combined with increasing formal sector employment. The government's 2011 Economic Survey found that the informal sector engages approximately 80% of the workforce.²⁹¹ KRA continues to focus on improving informal sector taxation. However, the informal economy is only a limited part of the picture. KRA's own studies have found that more than 60% of informal sector operatives earn less than minimum wage and thus would not be liable for direct taxation.²⁹² There is no doubt that lost tax revenue is also down to tax dodging by formal businesses. TJN-Africa find that: *'The low level of corporate tax payment is inherently linked to the practice of trade mispricing, with the majority of capital flight linked to profit shifting'*.²⁹³ The very recent transfer pricing investigations into the flower sector, described in Chapter 2, are a good example of this practice.

Tax exemptions and incentives also have a huge impact on Kenyan corporate tax collection. There are around 42 different EPZs in Kenya, employing around 30,000 people.²⁹⁴ These provide businesses with a 10-year corporate income tax holiday followed by a 25% corporate tax rate (compared to the standard 30%) for the next ten years, a ten-year exemption from withholding taxes, and an exemption from import duties and VAT on machinery, raw materials and inputs.²⁹⁵ The government's own calculations have recently estimated that revenue losses from trade-related tax incentives were at least US\$133 million in 2007/08.²⁹⁶

While transparency around the cost of tax incentives is widely considered a necessity, Kenya does not excel in this area either. KRA does provide data on the impact of exemptions and tax incentives to the Treasury but this data is not publicly available.²⁹⁷ KRA is participating in an ongoing World Bank-funded initiative to estimate tax expenditure and this data should be made available. However, it has not been made public in time to inform this study.

In January 2011 the government made a clear commitment to reducing tax incentives in its letter of intent to the IMF. Such a step is only possible through comprehensive amendments of the Income Tax Act. Kenya also committed to forming a Tax Reform Commission in 2011/12 to look at tax compliance, as well as simplifying the tax system. In KRA's interview for this research they explained that this comprehensive review has yet to be initiated and that the tax reform commission – something which is a Treasury prerogative – has yet to be formed. There has simply been no practical movement to deal with the proliferation of unnecessary and costly tax incentives despite the various commitments made several years ago.

As well as the extremely slow progress with regard to increasing direct taxation, there should also be concern about the nature of the reforms which are taking place. A clearly regressive move was included in the Finance Act in 2012 (gazetted on 1 February 2013) which introduced a 10% excise duty on transaction fees for all money transfer services provided by cellular phone providers, banks, money transfer agencies and other financial service providers. These reforms affected the popular M-Pesa system of mobile phone-based money transfers. The M-Pesa system is used widely across the country by people of all income levels; because of the low cost of the service poor people rely on it heavily and benefit most from it. While the richer users of the service will barely notice a small tax, it will be a more difficult burden on poor people.²⁹⁸ The expected return in revenue terms to the government is 0.1% of GDP, a relatively small contribution but one with major implications for the 15 million users.²⁹⁹ It would be interesting to know more about the tax contributions of telecommunications multinationals in the country and to investigate how they structure their intellectual property rights. It is quite likely these structures use tax havens to shift profits out of the country; unfortunately such analysis is not available. The government of Kenya is left to tax what it can,

which inevitably means aggravating the tax burden of poor people and exacerbating the already high income inequality levels in Kenya.

There has also been a huge amount of concern over the recent VAT reform. First proposed in 2012, the VAT Bill aimed to reduce the number of exemptions. Initially it included a move to impose VAT on essential products such as bread, rice, maize flour and milk. However, this was strongly contested by civil society and, as a result of CSO lobbying, Parliament rejected the original bill in December 2012. An amended version was reintroduced to the new Parliament in July 2013, after a vigorous civil society campaign, which included petitions, a peaceful demonstration by consumers in Nairobi and a number of stakeholder consultations.³⁰⁰

The amended bill that was passed reduces the number of zero-rated and tax-exempt goods from more than 400 to about 100. Now the much shorter list of exempted and zero-rated products includes unprocessed maize, processed maize meal, unprocessed milk and some medicines and seeds, a move which has protected the poor to some degree. However, key consumer products that will now be subject to VAT include all processed milk products and dairy products such as yoghurt, butter, cheese and ghee – something that is expected to slow down the sale of processed dairy products sales and push low-income households from the formal milk market.³⁰¹ Cooking gas, cooking oil, rice, fertilisers, electricity, exercise books, text books and mobile phones will also now be subject to the VAT rate of 16%.³⁰² The rising cost of electricity will increase production costs generally and is expected to have knock-on effects such as schools and hospitals increasing their fees, landlords increasing rents, water bills going up and *matatus* (shared taxis) and buses increasing fares.³⁰³ All of this will have severe impacts on low-income consumers.

The bill was passed by Parliament on 14 August and came into force on 2 September 2013.³⁰⁴ Treasury Secretary Henry Rotich has said that the government expects to raise Kshs10 billion (US\$116m) annually from the tax measures contained in the new VAT law.³⁰⁵

An important factor to note is the influence of the IMF and World Bank with regard to the VAT reform. The IMF has made clear it sees VAT in Kenya as performing below its potential in terms of the revenues raised.³⁰⁶ The Central Bank of Kenya and Treasury joint communication to the IMF on 28 March 2013 also points to the VAT Bill being the only unfulfilled condition.³⁰⁷ KRA has also made clear in its fifth corporate plan that the main intention of the VAT Bill was not to raise revenue but to make complying with the VAT system easier for companies and thus improve the country's investment climate.³⁰⁸ KRA presents in great detail Kenya's scores in the Paying Tax component of the World Bank's Doing Business indicators – Kenya has been declining in the rankings – with the issue of VAT compliance standing out as a particular problem.³⁰⁹ Revenue mobilisation is presented by the KRA Commission General, John Njiraini, as a secondary consideration behind improving Kenya's investment climate competitiveness.³¹⁰

Clearly the approach of the tax consensus advocates is still highly visible in the reforms being undertaken. This does not mean there are no positive elements to the VAT reform. Many of the previous exemptions could not have been classified as pro-poor and the costly VAT refund system was creating a huge burden on KRA. However, any move to increase indirect taxation should be accompanied by a proper impact analysis of the reforms on the tax burden of the poor and this has not been done. While it should be celebrated that Kenyan civil society ensured the removal of basic commodities from the bill, in the end there is certainly not a full understanding of what impacts these reforms will have on the poor.

There may potentially be more progressive reforms on the horizon however. KRA's fifth corporate plan advances an enforcement strategy which includes targeting underperforming sectors, especially those that show large tax gaps, including the real estate sector, professionals, the mining sector and HNWI. The enforcement strategy also includes a special focus on transfer pricing issues and refers to recent successes in transfer pricing interventions by KRA.

THE STRUGGLE TO INTRODUCE CAPITAL GAINS TAXATION IN KENYA

The real estate sector is a booming area of the economy. It was estimated that 50,000 new housing units were made in 2012 against a demand of 150,000.³¹¹ Similarly the Nairobi Stock Exchange is seeing a huge increase in activity, with the number of shares traded growing from 337m to 837m from 2011 to 2012.³¹² The growth in both these sectors has raised the possibility of reintroducing a capital gains tax.

Capital gains tax is charged on the profit realised from the sale of an asset that was purchased at a lower price and mainly affects sale of stocks, bonds, precious metals and property. In Kenya capital gains tax did previously exist but was suspended in 1985 and Kenya has gone decades without this progressive wealth tax in place. There was an attempt to remove the suspension in 2006 but it failed when Parliament rejected the Finance Minister's budget proposals.³¹³ Since then a partial reintroduction has occurred, focusing on the oil sector only, but KRA has made clear that it would like to see it in place during 2013, in relation to property and shares.³¹⁴ The Treasury Secretary, Henry Rotich, formally introduced the capital gains proposal in his 2013/14 budget speech in June 2013.³¹⁵

There is no question about the fairness of this move. The capital gains tax is a highly progressive direct tax on wealth and one that is long overdue for implementation in Kenya, particularly given income inequality

challenges. Already it is used in South Africa, Nigeria, Ghana and in all of Kenya's East African Community neighbours. (Without commenting on the rate and efficiency of the application of the capital gains tax in these countries, the tax is at least part of the landscape). Tax experts and economists have come out to support its re-introduction in Kenya, saying it is in the interest of tax equity and fairness.³¹⁶ The East Africa Tax and Governance Network also called for the introduction of capital gains tax as an alternative to the VAT reform.³¹⁷ However, the response from the private sector has not been positive. The government's announcement led to a fall on the country's stock market and much discussion about penalising investors.³¹⁸

This has led to some immediate backtracking from the government.³¹⁹ While not abandoning plans entirely, the government has said that further consultation needs to be conducted as well as making clear that the tax is at an embryonic stage. They have stated that the tax will not be implemented in the near future, that the government has not even worked out the areas to be taxed, nor the rates, and that while property would be a focus initially, there is no immediate plan to implement a capital gains tax on share sales.³²⁰ It remains to be seen whether Kenya will successfully achieve this progressive reform.

3.3 CONCLUSION

Both South Africa and Kenya have high levels of inequality. They also have tax-GDP ratios that are comparatively high in the context of sub-Saharan Africa, as well as tax authorities which are considered fairly efficient collectors. But they both face huge challenges in ensuring their tax systems are progressive and effective in redistributing wealth. There are also signs that they are not going in the right direction in terms of improving the equity of their tax systems.

The evolution of PIT in South Africa is a particular – and arresting – story. The tax relief provided to higher earners by adjusting thresholds has been overly generous and unnecessary and carries a high cost for the country. It is particularly egregious as it reduces the burden of direct taxation on the wealthiest in society over time and is ultimately a strategy to increase income inequality. In a country with such sky-high income inequality levels, this is a drastically misguided strategy.

In Kenya, KRA is continually failing to meet its revenue targets. The recent focus on indirect taxation reforms and the ongoing reliance on VAT – without analysing the impact on the poor – shows the continued influence of the tax consensus. This is aggravated by the implementation of the new money transfer tax, an additional burden for the poor. At the same time the country has struggled for years

to try to reintroduce one of the most progressive forms of taxation, the capital gains tax. While there is a push for this, and eventually there might be some advances in terms of capital gains taxation for property, the speed at which the government has backed down from the taxation of gains on share income is hugely disappointing. It is also a classic (and tragic) illustration of a country forced to tax the consumption of the poor in a regressive way, because it is too difficult to tax the income and assets of companies and the country's elites.

Kenya and South Africa share a similar and growing preoccupation with HNWI. Both have identified this group as being responsible for a huge loss in tax revenue, both have formed specialist HNWI units and are formulating strategies and new approaches to deal with problem. The scale of tax evasion by HNWI is huge in both countries. In South Africa only 2,000 HNWI are even registered (out of a potential number between 30,000 and 116,000). And only 100 HNWI are registered in Kenya out of an estimated potential 40,000. Tax authorities are very clear that they want to tax this group, but they know their assets are offshore and this is an incredibly complex task. Again, without global reform it is unlikely either country will manage to effectively collect the taxes due from this group, which is a key barrier in terms of reducing the rising levels of income inequality in both countries.

Chapter 4: Conclusion and Recommendations

'There is now a recognition that a fixation on growth is not only inadequate but can generate a lot of problems. Increasingly people realise that our societies will be in crisis perpetually unless we pursue inclusive growth and equitable development. The post-2015 process is an international opportunity to ensure inequality is on the agenda, including the relationship between taxation and inequalities. Tax equity has to be part of the public policy debate. We have an opportunity to make it so'

Charles Abugre, Africa Director, United Nations Millennium Campaign³²¹

4.1 CONCLUSIONS

Inequality is having a severe impact on poverty and human development in sub-Saharan Africa. Increasingly Pan-African institutions are drawing attention to the negative impacts of high inequality in Africa. UNECA makes the case that high inequalities are undermining poverty reduction efforts, the enjoyment of fundamental rights and the potential for more inclusive and sustainable economic growth. The Africa Progress Panel has also argued that in many countries the pattern of economic growth itself is reinforcing inequalities. Such concerns have long been voiced by African civil society, whose campaigns for economic justice have often been underpinned by this analysis.

Despite this increasing recognition of the problem, there is no definitive research into the inequality trends across the continent and data gaps hamper this analysis hugely. However, there seems no doubt from this research that there is a major cause for concern. As economies are growing, illicit financial flows are also growing and wealth is increasingly leaving the continent. There is evidence that wealth is becoming more concentrated in countries such as South Africa, Nigeria, Kenya and Ghana. Zambia's income inequality levels are now at the highest point on record. Data also shows clearly that as the rich are getting richer, the poor are also getting poorer. Income inequality is holding back progress for the majority.

Given these trends, it is clear that there is a need for greater policy focus and commitment to reducing economic inequality in Africa. This is relevant for both national development strategies and post-2015 goals. Equity needs to be at the heart of public policy making across all sectors in all countries. This has many implications but the primary one has to be to underline the centrality of progressive taxation for the continent. Tax systems in sub-Saharan Africa must be reformed to pursue redistribution actively. The failure of the tax consensus should be

visible to all. It has failed to raise sufficient revenue, while exacerbating trends of increasing economic inequalities. It is time to listen to the many voices calling for change and to move on from this approach. This means looking more closely at how to prevent the illicit flow of African assets offshore and how to tax income and wealth in an equitable way.

These are, of course, ultimately, political questions. There has to be a significant amount of political will to investigate tax dodging, reverse the current corporate tax exemption schemes, and to make the elites pay their fair share of tax via income, property and wealth taxes. The nascent efforts to tax high net worth individuals in Kenya and South Africa are steps in the right direction but are ultimately timid ones, given the lacklustre targets and few resources in this area. At the heart of this there is, and will continue to be, a lot of resistance from Africa's political and economic elites. However, it should be noted that there is very little analysis of the elites in Africa and their willingness to enter into a social contract.

Finally it has to be recognised that progress will simply not be possible on any of these fronts without coherent and comprehensive international action to combat financial and corporate secrecy and to reduce the systemic problem of illicit financial flows. The current global financial architecture is one of the key factors making direct taxation ineffective, and progressive tax reforms are bound to fail while the global system so efficiently facilitates the shifting of profits, hiding of assets, evasion of taxes and drain of capital from African nations.

The time for action is long overdue. Global reforms promised more than five years ago have been slow in appearing. African tax authorities are simply expected to tackle global financial secrecy with little access to information from other jurisdictions and with vastly under-resourced and under-trained staff. While there has been some movement on the issue of automatic information exchange and there are

now plans to set up a multilateral platform to make it possible, there are worrying signs that Africa may not benefit any time soon. Progress has also been timid in relation to the public disclosure of the real owners of companies, foundations and trusts, a measure that is fundamental to help tackle illicit financial flows. Finally, the limited scope for Africa's involvement in global reforms is extremely disappointing, as the current OECD and G20 Action Plan to tackle base erosion and profit-shifting also shows. All in all, there has been a comprehensive failure to tackle decisively the lack of transparency and the unfairness of international tax rules that so readily facilitate the drain of resources from Africa.

There are many arenas in which progress can be made. The High Level Panel on Illicit Financial Flows is already established, doing research and undertaking consultations. Their work should be supported on every level. The Africa Progress Panel has already made great strides in raising these issues and is another important voice to push for reforms across the continent and at the global level. The High Level Panel on the Post-2015 Development Framework is also a major opportunity for civil society and African governments to ensure that equality, progressive taxation and global efforts to tackle illicit financial flows are central features of any new global development framework. Institutions such as the African Development Bank, African Tax Administration Forum and the African Union are also influential players that civil society must engage with to advocate for tax and financial reforms at the pan-African level.

4.2 RECOMMENDATIONS

National tax reforms

Governments in sub-Saharan Africa should focus on raising tax revenue, with tax equity at the centre of the tax reform and revenue raising strategy. Measures should include:

- Undertaking reforms of direct taxes (CIT, PIT, property taxes and other wealth taxes, such as capital gains taxes), so as to increase tax revenues in an equitable manner.
- Focusing on the enforcement of PIT and CIT, with a particular focus on HNWIs and on the extractives sector as well as growing sectors such as telecommunications, banking, construction, finance and tourism.

- Investigating the distributional consequences of indirect taxes such as VAT and ensuring that any reforms which increase rates, change exemptions, or bring in new taxes are fully analysed for their impact on the tax burden borne by poor people.
- Requiring companies to provide statutory accounts and creating central registers where these accounts will be accessible by the public.
- Establishing public registers of the beneficial owners of companies, foundations and trusts.
- Increasing fiscal transparency at the national level, ensuring citizens have regular access to simple, straightforward information about tax collection and compliance and how revenue is spent.
- With regard to tax incentives:
 - Abolishing discretionary tax incentives (ie those given to individual companies or organisations) as well as the discretionary powers vested in individual government officials that enable the granting of such incentives. Any tax incentives granted must be in accordance with national legislation, should be based on transparent criteria including adequate environmental, social and economic cost/benefit analyses, and should only exist in the context of a clear policy framework and development objectives.
 - Putting in place mechanisms for annual tax expenditure reviews as part of the annual budget process. In addition to including cost/benefit analyses the reviews should include information on the duration of and beneficiaries of the incentives. Information from the reviews should be made public and parliament should play an oversight role in the process.
- Prioritising an increase in social spending as a key part of fiscal reforms and making a clear link between tax reforms and revenue-raising strategies and the public budget allocations.

Pan-African tax reforms and coordinated actions

Governments in sub-Saharan African should coordinate their tax policies and improve their access to information across countries as well as pushing for global reforms. Measures should include:

- Actively pursuing regional cooperation in tax matters to work towards tax harmonisation within trading blocs in an effort to challenge tax competition and the race to the bottom.
- While calling for a global system for automatic information exchange, cooperating with each other to develop the capacities required to use the information exchanged effectively as a means to tackle tax evasion.
- Signing the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters and domesticating it.
- Signing the African Agreement on Mutual Assistance in Tax Matters and supporting ATAF in promoting effective information exchange for tax purposes across the continent.
- Working closely with the High Level Panel on Illicit Financial Flows from Africa to develop and implement a set of continental guidelines on these issues and ensuring there is a unified African voice to advocate for the global-level reforms outlined below.

Global reforms

Acting alone, African governments cannot resolve the most intractable areas of tax reform and enforcement. They are severely impeded from using taxation as a tool for redistribution, to address inequality. The international community must tackle financial secrecy and tax havens. TJN-A and Christian Aid would like to see global reforms take place within a democratic forum, under the auspices of the UN, but given the current realities we call upon the G20 and OECD to take forward the following measures:

- The G20 and the OECD must ensure that developing countries reap the benefits of automatic information exchange from the outset. The new standard defined and technical modalities developed must take into consideration the capacities currently available in developing countries.
- All G20 countries must commit to establishing public registers of the beneficial owners of companies, foundations and trusts.
- Corporations should be required to submit a worldwide combined report to the tax authorities of each country in which they operate, including

consolidated accounts, as well as a public country-by-country breakdown of their employees, physical assets, sales, profits, and taxes due and paid.

- On BEPS, the OECD and the G20 must provide the space for developing countries to participate in the implementation of the Action Plan on an equal footing. This is essential to ensure that measures adopted to tackle base erosion and profit-shifting will protect developing countries' tax bases.
- In any process of global reform, eg BEPS, the G20 and the OECD should undertake as part of the analysis an estimation of the potential impact on developing countries of any possible policy change.

Post-2015 process

New goals to replace the MDGs when they expire in 2015 could, with the right targets and indicators, drive energy and resources into the development of fairer taxation systems to address inequality. All governments should join the growing international campaign to make equality central to the post-2015 MDG successor framework and should call for:

- The adoption of a goal or target on income inequality to drive a reduction in income and wealth disparities.
- Targets aimed at improving data collection and household surveys, ensuring the disaggregation of statistics by gender, economic quintile, age, disability, ethnicity and location.
- Targets aimed at supporting the development of progressive taxation systems. Indicators could be developed to incentivise progress in relation to the national policy reforms articulated above.
- A revised 'global partnership for development' goal or supporting mechanism. Among other things, this could set clear targets aimed at curbing illicit financial flows, preventing tax dodging and establishing 'fair and equitable economic rules'. A new goal in this vein should have an overarching objective to ensure that developing countries have the ability to devise and implement sustainable 'financing for development' solutions, with both bilateral and multilateral support from other countries.

Annex A: Analysis of direct and indirect taxation in selected sub-Saharan African countries, % of GDP

GHANA	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenue	19.9	13.3	12.9	12.2	13.8	15.1	15.9	17.4
Direct taxes	6.2	4.1	4.2	4.7	5.5	6.7	7.2	8
Indirect taxes	13.7	9.3	8.8	7.5	8.3	8.6	8.6	9.3
Sales taxes	9.1	6.8	6.4	5.4	5.7	6.1	5.9	6.4
Trade taxes	4.6	2.5	2.4	2.1	2.6	2.5	2.7	2.9
<i>% of tax revenue made up by indirect taxation</i>	68.8	69.9	68.2	61.5	60.1	57.0	54.1	53.4
KENYA	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tax revenue	18.1	19	18.8	19	20	19.2	19.8	20
Direct taxes	7.6	8.4	8.3	8.5	9.3	9.6	9.9	10
Indirect taxes	10.5	10.6	10.4	10.5	10.8	9.6	9.9	10
Import duty (net)	1.6	1.7	1.6	1.7	1.7	1.6	1.6	1.7
Excise duty	3.3	3.2	3.1	3	2.9	2.4	2.5	2.3
VAT	5.6	5.7	5.7	5.8	6.2	5.6	5.8	6
<i>% of tax revenue made up by indirect taxation</i>	58.0	55.8	55.3	55.3	54.0	50.0	50.0	50.0
MALAWI	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Tax revenue	15.8	16.6	18.2	18.6	20.8	19.4	20.6	21.6
Direct taxes			7.7	8.7	9.6	9.2	9.6	9.6
Indirect taxes			10.9	10.5	11.5	10.6	11.5	12.4
Goods and services			8.8	8.5	9.4	8.7	8.9	9.6
International trade			2.1	2	2.1	1.9	2.6	2.8
Other taxes			-0.4	-0.5	-0.3	-0.3	-0.5	-0.5
Tax refunds			-0.6	-0.7	-0.5			
Other			0.2	0.2	0.3			
<i>% of tax revenue made up by indirect taxation</i>			59.9	56.5	55.3	54.6	55.8	57.4
NIGERIA	2006	2007	2008	2009	2010	2011		
Tax revenue	4.1	5.3	5.6	6.7	6.5	6.3		
Direct taxes		1.4	1.9	2.9	2.6	2.3		
Corporate income tax		1.4	1.7	2.3	2.2	2		
Education tax			0.2	0.6	0.4	0.3		
Indirect taxes		2.9	3.1	3.5	3.2	3.4		
Customs and excise duties		1.2	1.1	1.2	1	1.2		
VAT		1.4	1.7	1.9	1.8	1.8		
Customs levies		0.3	0.3	0.4	0.4	0.4		
Other								
Federal government independent revenue		1.1	0.5	0.3	0.5	0.5		
<i>% of tax revenue made up by indirect taxation</i>		54.7	55.4	52.2	49.2	54.0		

SIERRA LEONE	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenue	11.3	10.3	10.1	12.7	12.1	13.7	9.3	9.6
Direct taxes	2.9	2.5	3.3	3.2	4.2	6.2	4.2	4.2
Personal income tax			1.9	1.9	2.7	3.2	1.9	2
Corporate income tax			1.1	1	1.2	1.1	0.8	0.8
Mining royalties/licenses			0.3	0.3	0.3	1.9	1.5	1.4
Indirect taxes	8.4	7.8	6.8	9.4	7.9	7.5	4.9	5.3
Sales taxes pre GST	3.3	2.3	2.3	2.2				
GST					3.2	3.5	2.5	2.6
Excises			1.2	1.7	1.8	0.7	0.1	0.1
Import duties	4.7	5.1	2.8	2.7	2.5	3	2.1	2.4
Others (indirect)	0.4	0.4	0.5	2.8	0.4	0.3	0.2	0.2
<i>% of tax revenue made up by indirect taxation</i>	74.3	75.7	67.3	74.0	65.3	54.7	52.7	55.2
SOUTH AFRICA	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12		
Tax revenue	27	27.6	27.1	24.5	24.5	24.6		
Direct taxes (of which:)	15.1	16	16.7	14.7	13.8	14.1		
Personal income taxes	7.7	8.2	8.5	8.5	8.3	8.3		
Corporate taxes	6.6	6.8	7.3	5.6	4.9	5.1		
Secondary tax on companies	0.8	1	0.9	0.6	0.6	0.7		
Indirect taxes	9.8	9.7	8.9	8	8.9	8.6		
VAT	7.3	7.3	6.7	6	6.7	6.3		
Fuel Levy	1.2	1.1	1.2	1.2	1.2	1.2		
Customs duties	1.3	1.3	1	0.8	1	1.1		
Other tax revenue	2.1	2	1.7	1.8	1.8	1.8		
<i>% of tax revenue made up by indirect taxation</i>	36.3	35.1	32.8	32.7	36.3	35.0		

ZAMBIA	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenue	16.1	17.7	17.6	14.6	16.4	19.3	16.6	17.8
Direct taxes	7.5	8.3	8.5	7.5	8.9	11.4	8.2	9.2
Indirect taxes	8.6	9.4	9	7.1	7.5	7.9	8.4	8.7
VAT	4.6	4.8	4	3.8	4.1	4.3	4.5	4.7
Excise taxes	2.1	2.6	2.6	1.6	1.8	1.8	1.9	1.9
Customs duties	1.9	2	2.4	1.7	1.6	1.8	2	2.1
<i>% of tax revenue made up by indirect taxation</i>	53.4	53.1	51.1	48.6	45.7	40.9	50.6	48.9
ZIMBABWE	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenue	13.6	5.4	4	14.4	27.9	30	33.5	33.7
Direct taxes	7	3	1.4	3.5	11.5	12	14.1	14.1
Personal income tax	3.3	1.6	0.7	2.5	5.8	6.6	6.7	6.2
Corporate income tax	2.4	0.9	0.6	0.7	3.4	3.3	4.5	4.2
Other direct taxes	1.3	0.5	0.1	0.3	2.3	2.1	2.9	3.7
Indirect taxes	6.5	2.3	2.7	10.8	16.5	18	19.2	19.7
Customs	1.8	0.3	1.4	3.5	4.6	3.8	3.6	3.6
Excise	0.4	0.2	0.2	1.1	2.2	3.5	4	4.9
VAT	4	1.7	1	6	9.3	10.3	11.1	10.6
Other indirect taxes	0.3	0.1	0.1	0.2	0.4	0.4	0.5	0.6
<i>% of tax revenue made up by indirect taxation</i>	47.8	42.6	67.5	75.0	59.1	60.0	57.3	58.5

Source: IMF Country Reports, Central Bank of Nigeria, South Africa Revenue Service Annual Reports

Notes:

Ghana: Figures from 2011 and 2012 are preliminary figures reported by the IMF in 2013, while figures for 2013 are projections. There is some impact of the rebasing of Ghana's national account - figures are adjusted from 2007.

Kenya: Figures for 2011/12 are estimates from the IMF's 2013 report. 2012/13 are the proposed programme figures and 2013/14 figures are projections.

Malawi: Figures given in the IMF 2013 report give 2011/12 as preliminary, 2012/13 as revised projections and 2013/14 as projections.

Nigeria: Data is taken from Nigeria's Central Bank Annual Reports, given this disaggregation allows a clearer construction of the indirect vs direct taxation picture. Disaggregated data is not available before 2007. The CBN has not published an annual report for 2012. The only income tax reported is under corporate income tax. The education tax introduced in 2008 is imposed on a company's profits so we have classified it here as a direct tax. This tax is viewed as a social obligation placed on all companies to ensure they contribute to developing educational facilities in Nigeria.

Sierra Leone: There was no disaggregated reporting of taxes by the IMF before 2008. Because of the impact of iron ore on growth the IMF reports taxation of full GDP and non-iron ore GDP. Given our desire to include historical tax data here we use the tax-GDP ratio and use figures from IMF's 2010 report. Figures from 2011, 2012 and 2013 are projected figures as a result. The GST was introduced in 2010 and replaced the 2 previous sales taxes. The category of 'other' is referred to in one report by the IMF as covering 5 indirect taxes. These are not explained but 'other' tax payments are grouped for all years under the indirect category.

South Africa: Data is taken from SARS Annual Report 2011/12 which provides disaggregated data and the historical view. The 'other' category includes specific excise duties, taxes on property, other direct taxes and the skills development levy. And so this category is a mix of direct and indirect taxes. There is no 2012/13 annual report available yet and SARS did not publish projections in its 2012/13-2016/17 strategic plan.

Zambia: The IMF's latest report was in 2012 so figures for 2011, 2012 and 2013 are projections in this case.

Zimbabwe: Figures demonstrate the year of collapse of tax revenue in 2008 amidst the crisis. IMF report information in that period as estimates. The most updated figures are taken from the IMF report in 2013. Figures for 2012 are estimated and for 2013 are projections.

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