

Leadership in an Evolving Socio-Economic and Political Landscape

Effective Taxation & Debt Management Strategies



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Session Focus

- Principles of effective taxation policy
- Public debt management strategies
- Revenue generation and diversification Strategies
- The role of International Financial Institutions (IFIs) in debt management

Principles of Effective Taxation Policy

Introduction

Quote.....



Winston S. Churchill

“We contend that for a Nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle.”

Introduction

- **Taxation** is the imposition of compulsory levies on individuals or entities by governments
- In modern economies taxes are the most important source of government revenues
- Taxes differ from other sources of revenue in that they are **compulsory levies** and are *unrequited-No equal value in exchange of Tax paid*

History of Taxation

- Taxes have been a major subject of political controversy throughout history
 - “No taxation without representation.”- rebellion of the American colonies against Great Britain on taxes imposed by parliament which they had no representation
 - French Revolution of 1789, in which the inequitable distribution of the tax burden was a major factor
 - Kenyan case the ‘Gen Z’, Finance bill 2024 street demos
 - World War II converted the income taxes of many Countries from upper-class taxes to mass taxes
- Arguments for tax reforms, particularly in the area of income taxes, are perennially an issue in the domestic politics of many countries to date
- Fine line between tax compliance and resistance lies where government creates an equitable distribution between collective costs and benefits

History of Taxation

- Tax revolts arise when government receives tax payments but fails to deliver the perceived reciprocal benefits
- Society is not naturally motivated to pay tax. Voluntary compliance is fostered by establishing consent, trust and legitimacy in a fiscal regime
- One of the main motivations to rebel is when a tax regime is perceived to be unfair and oppressive
- A tax revolution may not merely be based on a rejection of taxes. It may be a mechanism to seek restorative action to improve government performance
- *Therefore, governments must address corruption, restore trust and legitimacy and ensure value is received for tax money*

Quote.....



Terry Pratchett

***“that there was death and taxes,
and taxes was worse, because at
least death didn’t happen to you
every year.”***

Purpose for taxation

- Finance government operations
- Resource allocation
- Income redistribution
- Economic stability
- Social Contract-*How taxes are raised and spent can determine a government's very legitimacy*
- Behaviors-'**Sin Tax**' or '**Green Tax**'

Types of Taxes

- **Direct taxes-** Taxes on natural persons (e.g., individuals), based on the taxpayer's ability to pay
- **Indirect taxes-** Taxes levied on the production or consumption of goods and services or on transactions (VAT, Excise taxes, Stamp duty, Customs or import duties)

Effect of Taxes

- Taxes can be distinguished by the effect they have on the distribution of income and wealth.....
 - **A proportional tax** -where tax liability and income grow in equal proportion
 - **A progressive tax** -Proportional rise in the tax liability relative to the increase in income- reducing inequalities in income distribution
 - **A regressive tax** -a less than proportional rise in tax liability relative to increase in income-increasing inequalities in income distribution

A Reflection!!!



How effective is the tax policy in your Country???

Principles/Canons of Effective Taxation Policy

i. The Principle of Equity

- Advocates for a fair distribution of tax burdens based on individuals' financial capacity
- ENSURES a just and balanced tax system that promotes social cohesion and economic stability -ability to pay and the societal benefits

Key Aspects

- **Progressive Taxation:** Higher income earners subjected to higher tax rates.
Reflected in the use *of Tax Brackets and Tax Credits & deductions*
- **Income-Based Taxation:** Taxes are levied proportionally to income

Principles of Effective Taxation Policy

ii. The Principle of Flexibility

- A good tax system should be flexible to meet society's needs. Where tax charged differ in times of boom and depression
- A flexible tax system allows for adjusting tax rates, structures, and policies in response to fluctuations in the economy

Key Aspects

- **Economic Cycles:** Periods of economic growth or boom, lower tax rates to stimulate consumer spending, investment, and economic activity
- **Counter-cyclical Measures:** Periods of economic downturn or recession, increase tax rates to generate additional revenue for essential public services, social safety nets, and infrastructure projects

Principles of Effective Taxation Policy

iii. The Economic principle

Balances between generating sufficient revenue for government operations and minimizing the costs associated with tax administration

Key Aspects

- Revenue Generation
- Cost Efficiency
- Fiscal Policy Tool -influence economic behaviour-consumption, investment, and savings.
- Budgetary Planning- plan and allocate budgets effectively
- Public Finance Management-contribute to sound PFM, fostering economic stability and sustainable development

Principles of Effective Taxation Policy

iv. The Principle of Simplicity

- Tax system that is fair, transparent, and easy to comply with
- Advocates for a straightforward and easily understandable tax system for both taxpayers and administrators

Key Aspects

- Clarity and Transparency
- Ease of Compliance
- Administrative Efficiency
- Uniform Application

Principles of Effective Taxation Policy

v. The Principle of Diversity

- Balanced approach to revenue generation, ensuring sustainability, fairness, and economic stability in funding government operations and public services
- Emphasizes the importance of broadening the tax base
- Diversifying the tax base reduces dependency on a single revenue source

Key Aspects

- Broad Tax Base-income, corporate, sales, property taxes and excise duties
- New Sources of Revenue
- Risk Management- diversifying sources of government revenue

Principles of Effective Taxation Policy

vi. The principle of Certainty

- Emphasizes predictability and clarity in the application of tax laws and procedures
- Fosters a fair, transparent, and efficient tax system that supports economic growth and development while ensuring compliance and taxpayer confidence

Key Aspects

- Clear Tax Laws -reduced ambiguity
- Stable Tax Policies- no unprecedented changes in tax laws
- Predictable Tax Administration- administer tax laws consistently and transparently, reduces disputes and litigation

Principles of Effective Taxation Policy

vii. The Principle of Utmost Good Faith

- Also known as good faith in taxation
- Emphasizes Transparency, honesty, and integrity in tax compliance and administration
- The collection of taxes should be transparent, excellent tax audit and communicate to the public

Key Aspects

- Honesty and Integrity- no concealment or manipulation, foster fairness and impartiality
- Full Disclosure
- Trust and Cooperation- Both taxpayers and tax authorities

Quote.....



Robert A. Heinlein

“There is no worse tyranny than to force a man to pay for what he does not want merely because you think it would be good for him.”

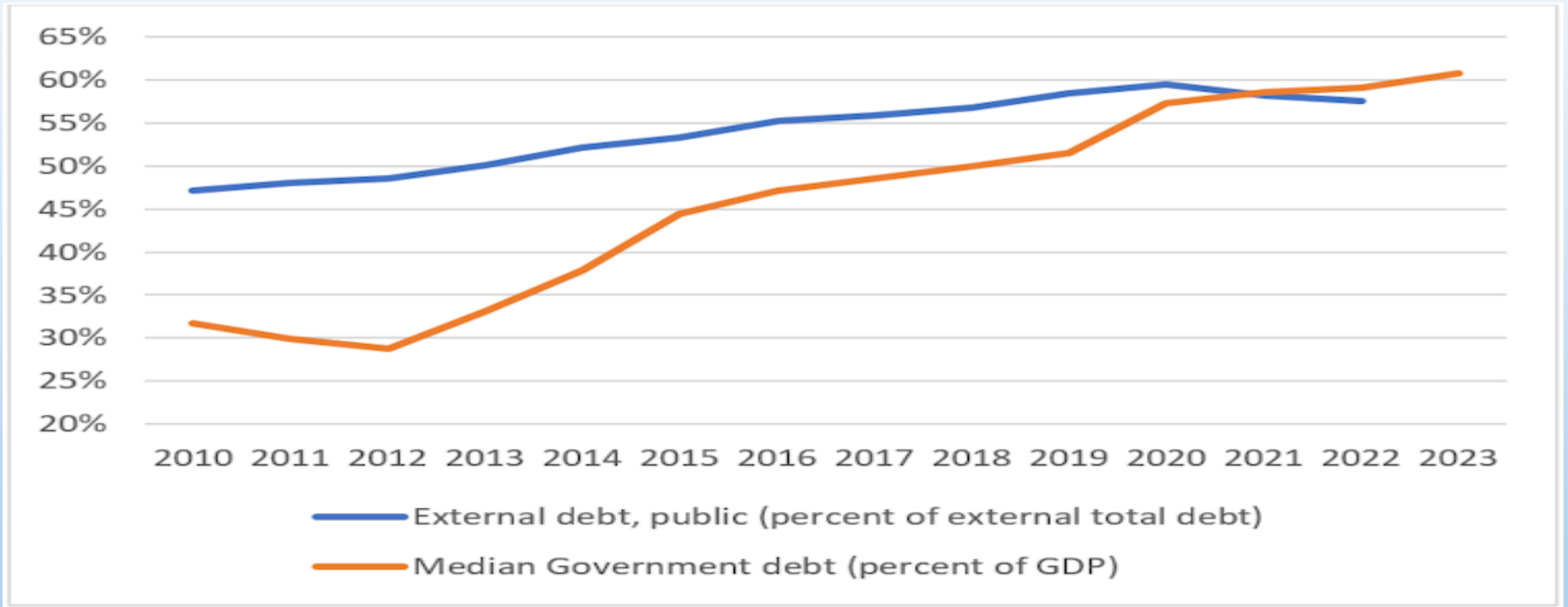
PUBLIC DEBT!!!



Public Debt an Over View

- A government's debt portfolio is usually the largest financial portfolio in any country with complex financial structures and can create substantial balance-sheet risk for the government
- Large and poorly structured debt portfolios make governments more vulnerable to economic and financial shocks
- African countries can't resolve their debt crisis under a system rigged against them and laced with predatory lending practices and exploitative economic policies
- The debt situation in many African countries has escalated again to a critical juncture. Twenty Countries in Africa are in, or at risk of debt-*Zambia, Congo, Mozambique, Zimbabwe, Burundi, Cameroon, Chad, Gambia, Guinea, Ghana, Kenya, South Sudan, and Togo.*

Public Debt an Over View



In Africa, the pain from higher borrowing costs is particularly acute for governments, given that public debt represented nearly 60% of the region's total external debt in 2022

Public Debt an Over View

Reality.....

Country	Debt % of GDP
Kenya	70.10%
Uganda	46.9%
Ghana	92.4%
Rwanda	68.6%
Tanzania	45.7%
South Africa	72.20%

Public Debt an Over View

Reality.....

- Development needs are high despite coffers were drained by higher spending tied to the pandemic and fallout from Ukraine
- Sub-Saharan African country needs to increase spending by at least 20% of GDP to meet sustainable development goals on health, education and infrastructure by 2030 (IMF)
- Climate change adaptation is expected to add billions of dollars each year for the continent
- More money being spent repaying expensive loans with the effect of depleting foreign exchange reserves-Weakening currencies

Public Debt an Over View

Reality.....

- International banking system **favor developed countries** and work against the interests of African countries
- IFIs such as the IMF and the World Bank focus on **poverty alleviation**-This is commendable
- Doesn't address the liquidity crisis, leading to highly dependency on volatile commodity exports
- Debt conditions for Africa countries are among the most unfavorable on the planet
- **Biased credit rating agencies** unfairly penalize African countries. This impedes their ability to attract investment on favorable terms

Public Debt an Over View

Reality.....

- Financial transfers to developing nations plummeted from a peak of US\$225 billion in 2014 to US\$51 billion in 2022- *Source One Campaign report*
- Therefore Aid to Africa has stagnated

Public Debt an Over View

Way forward.....

- Strategies to mitigate the overwhelming debt burden
- Prioritize public spending measures that raise growth-education, health, infrastructure and other high-quality growth enhancing investments
- Enhance governance quality such as rule of law, control of corruption and government accountability
- Fix revenue collection problems as low levels of domestic revenue collection constrain the ability of governments to pay down debt and fund vital social and growth sectors

Public Debt an Over View

Way forward.....

- Governments need to restructure their debt portfolios. When a debt crisis cannot be avoided, restructuring debt can reduce the amount owed to creditors by revising the amount and timing of future principal and interest payments

Public Debt Management Strategies

- i. Good Governance
- ii. Development of a Debt Legal framework
- iii. Develop a Debt Management Strategy
- iv. Develop an efficient government securities market
- v. Use of Strategic Targets
- vi. Use of Quantitative Analysis- Stochastic models
- vii. Transparency & Accountability

A photograph of a road with a white dashed center line that splits into three paths. Each path is marked with a large black arrow pointing in a different direction: straight ahead, left, and right. The background is a light, hazy sky. A yellow banner with black text is overlaid on the center of the image.

Revenue Generation and Diversification

Revenue Generation & Diversification

- The organizational adaptation/modern portfolio theory suggests that diversification enables government to prepare for external fiscal shocks
- Analyses indicate that the type of diversification matters
- Diversifying to non-tax sources improves budgetary solvency
- Diversifying within the tax structure produces the opposite effects
- To diversify their revenue sources and reduce reliance on traditional income streams

Revenue Generation & Diversification

- To navigate the complexities of changing economic landscape, exploring innovative and sustainable revenue diversification strategies is crucial for long-term fiscal health, economic resilience and reduced vulnerability to external shocks
- Diversifying government revenue sources requires careful consideration of **Economic, Social and Political factors**
- Balance between generating sufficient revenue to fund public services and promoting economic growth and investment

Strategies fo Revenue generation and diversification

The Big Question.....?

How can governments effectively diversify their revenue sources while ensuring fairness, efficiency, and economic competitiveness?

Strategies fo Revenue generation and diversification

- Strategies for diversifying government revenue sources can encompass a range of approaches, including:
 - **Expanding the Tax Base:** Introducing new taxes, such as environmental taxes or digital services taxes, or broadening the scope of existing taxes to cover a wider range of activities or sectors
 - **Improving Tax Compliance:** Enhancing tax collection mechanisms and addressing tax evasion. Efficient and effective tax administration
 - **Developing Non-Tax Revenue Streams:** Explore alternative sources of income, such as user fees for public services, income from state-owned enterprises or revenue from the sale or lease of government assets
 - **Promoting Economic Diversification:** Fostering growth in non-traditional sectors of the economy can create new sources of tax revenue and reduce dependence on a single industry or sector
 - **Partnerships and collaborations-** like PPPs and Grant proposals



International Financial Institutions (IFIs)

International Financial Institutions (IFIs)

- IFIs are institutions that provide financial support and professional advice for economic and social development activities in developing countries and promote international economic cooperation and stability
- They include:
 - i. IMF
 - ii. World Bank Group
 - iii. Asian Development Bank
 - iv. African Development Bank
 - v. Islamic Development Bank
 - vi. The Inter-American Development Bank
 - vii. European Bank for Reconstruction and Development

What is the role of IFIs in debt management?

- Economic adjustment in borrowing countries
- Reduction in external borrowing requirements
- Balance of payments
- Develop policies geared towards higher economic growth rate
- Crisis Management
- Structural adjustment policies
- Promote sustainable world economic growth
- Maintenance of a free trading system
- Encouragement of foreign Direct investment (FDIs)

What is the role of IFIs in debt management?

- Policy advice to governments and central banks
- Tracking of global, regional, and individual economies and markets through Research
- Loans to help countries overcome economic difficulties
- Concessional loans to help fight poverty in developing countries
- Technical assistance and training to help countries improve the management of their economies
- Advising on such matters as: contract negotiations, FDIs, project financing and the re-structuring of the domestic monetary system

THE END



THANK YOU