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FAIR TAX AND QUALITY PUBLIC SERVICES DELIVERY IN AFRICA

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INTRODUCTION

“Africa Rising” is one of the main catch phrases in International Political Economy, in recent times. It captures the fact that “Nowhere in the world do you get the kind of returns you get in Africa”, as Mr Olabisi Onasanya, the Group CEO of First Bank of Nigeria put it, during the World Economic Forum on Africa, held at Abuja in May 2014. But in the face of such huge profits for big business, nowhere in the world do we have the kind of poverty that confronts poor working people as in Africa, fostering inequality.

Resources that could be made available for the provision of public services have been drained out of the continent but illicitly and “legally” through unfair taxation systems that multinational corporations exploit to the detriment and often with the support of African states. Within African countries as well, spurred by the *tax consensus* which the International Monetary Fund, World Bank, and other multilateral economic institutions promote, the rich tend to proportionally pay much less than the poor masses, particularly the working class.

There is a dire need for trade unions to challenge this situation and be at the forefront of the struggle for tax justice as a basis for expanding domestic revenue generation. Public Services International and its affiliates have been championing this cause over the last few years across the world. In Africa, there is every need for us to redouble our efforts. We must also establish the linkages between fair taxation and the provision of quality public services.

THE IMPORTANCE OF TAXATION

Taxation has always existed since the emergence of states, as a means for internally generating revenue within the boundaries of states or colonies that they dominate. In modern democratic states, there are four “Rs” which constitute the basis for taxation’s legitimacy.

Revenue: taxes remain the most predictable means of sustained funding for governance and the provision of public services. This is particularly so for countries that are not resource rich and thus do not have the advantage of high revenue generation through international trade. But it is nonetheless true as well for resource rich countries, not the least from royalties on resources they generate, which is a form of corporate taxation.

Redistribution: taxation, particularly personal income taxes, *especially when this is on a progressive/gradated basis* is one of the surest instruments for ensuring redistribution of wealth and thus the promotion of social inclusion. It is not accidental that the Nordic countries, which are the most equitable societies in the world, have robust histories of redistribution through taxation. At the heart of this redistribution is the *social wage* which is the provision of free public services such as healthcare and education, and which is funded with taxation.

Repricing: taxes are also used to curtail market failures arising from externalities and the power of monopolies. Similarly, they could be imposed on such harmful luxury products like cigarettes in the overall interest of the citizenry.

Representation: taxation is considered as the legitimate basis for citizens to hold their governments accountable in a way similar to the right of workers as union members to demand accountability by their elected representatives, on the strength of their membership subscription. This is why the slogan “no taxation without representation,” which emerged during the 18th century American war of independence, is often used to express the social contract between governments and the citizenry.

FORMS OF TAXATION: PROBLEMS AND PROSPECTS IN AFRICA

There are basically four forms of taxation, all of which we must be concerned with in our quest for fair tax as a basis for enhanced domestic revenue that could be ploughed into delivering quality public services for all. These are: personal income tax; corporate income tax; transaction tax (which includes Value Added Tax); and assets (landed and non-landed property) tax.

Personal Income Tax (PIT) is a *direct* tax, and the most important form of taxation for ensuring wealth redistribution. But this is when it is central to a progressive tax system. Such systems place emphasis on direct taxes i.e. personal income and corporate income taxes. They also establish tax thresholds below which the very poor are not taxed, while gradating the percentage of personal income which is taxed such that high earners pay more, as their contribution to the social wage for funding social services like education and public health.

As part of the neoliberal attacks on the poor by the capitalist class over the last three decades though, a *tax consensus* has been instituted by the IMF, World Bank and other multilateral economic institutions. This places greater emphasis on *indirect* taxes such as those on transactions, particularly the Value Added Tax. This places a higher tax incidence on the poor and working people, who proportionally bear a higher burden through such taxation preference, increasing economic inequality.

A major argument by African governments for supporting this situation is the difficulty in ensuring personal income tax compliance. This is partly due to the large proportion of the informal economy where over three quarters of the economically active population

operate. But tax exemptions for non-luxury goods which the poor citizens require from VAT is a possible means of ameliorating the regressive impact of preference for indirect over direct taxation.

In developed countries, personal income tax has been a major instrument for promoting wealth redistribution. It was largely on the back of this that the welfare state was built during the post-World War II era. Despite the ongoing rolling back of the welfare state with austerity measures, PIT still retains a significant position in revenue generated from taxation.

For example, in 2010 PIT was 24% of total tax revenue in the Organisation for Economic Cooperation and Development (OECD) countries, while in Africa it was just 13.6%. Apart from the preponderance of the informal economy on the continent as earlier noted, tax evasion particularly by the high-flying professionals and the very rich, accounts for this sorry state of revenue generation from direct taxation in general.

The main burden of PIT is borne by the workers in the formal sector, particularly those in the public services, through the Pay As You Earn (PAYE) system, which ensures their taxes are deducted at source. This is definitely not fair.

But beyond the dilemma of ensuring PIT compliance by individuals, huge amounts of revenue are lost to corporations, particularly transnational corporations through tax exemptions, tax evasion and illicit financial flows.

Revenue from Corporate Income Taxation (CIT) is in no way commensurate with the "Africa Rising" narrative of stupendous profits being made by some companies, particularly transnational corporations. Indeed, while CIT revenue represented 1.7% of the GDP growth in Africa for 1995-2000, the figure for 2005-2009 was 1.6%.

Discretionary tax incentives and exemptions for transnational corporations by African states in unhealthy competition leading to a "race to the bottom" is a major problem in this regard. This is despite the fact that research has shown that market size and infrastructural development, for example, are much more important for attracting foreign direct investment than tax breaks and other "incentives".

Base erosion and Profit Sharing and Double Taxation treaties, often involving the use of tax havens by these companies, are also means they use to avoid paying due taxes to governments in Africa. PSI activists have to be enlightened on these and join the struggle which the PSI and several other civil society organisations at the global level and in our different countries are waging to bring a halt to these mechanisms utilised for undermining the adequate generation of revenue from taxation.

FROM FAIR TAX TO FUNDING OF PUBLIC SERVICES

It is important to stress the fact that fair tax is only one side of the struggle we have to wage for a better life for the poor working people, which can only be guaranteed when quality public services are available for all. With fair taxation, we secure improved domestic revenue generation. There is however no assurance that enhanced revenue profile would amount to the improvement in the quality scope and spread of public services delivery in our countries.

We must be part of the *Tax Justice Campaign* globally and locally. But we must as well be at the forefront of campaigns for good governance, and better funding of public services. A critical question for us should thus be "*how do we do this?*"

Taking it from the Tax Justice Campaign: first, as we stated earlier, we all have to be part of the expanding Tax Justice Campaign, continentally and nationally. This is centred around the Tax Justice Network-Africa (TJN-A) which has networks and platforms in

several countries and equips us with adequate information and capacity-building opportunities in the pursuit of fair tax. Second, we should draw from the example in Sierra Leone where infrastructural development funded directly from taxes, for example VAT, have signboards attached to the infrastructure stating it has been funded by tax revenue.

Budget Tracking: our affiliates have to be part of the budget tracking processes in our different countries. Our research departments would be of immense use for this and it should be part of the activities of the National Coordinating Committees (NCC). There are several NGOs with expertise on this that we could collaborate with and coalitions as well that we could be active in.

Organising service delivery campaigns: we have to put the crucial role of public services delivery for fostering social inclusion and promoting the all round development of the population at the centre of public discourse. Advocacy and enlightenment activities aimed at this could include: deputations and submission of memorandums to parliament and the government at all tiers of governance, which are knowledge-driven based on research; organising symposiums, seminars, guest lectures and panel discussions on salient issues for improving public services delivery; regular media briefings and issuance of press statements; and protest marches, rallies and other forms of peaceful demonstration.

Anti-corruption and good governance: a good chunk of available revenue in the public coffers tend to be misappropriated or outrightly embezzled in the absence of strong democratic institutions for good governance. To ensure improved revenue from taxation does not end up in private pockets, we must also be concerned with fighting corruption and for good governance, in every way we can.

CONCLUSION

Fair tax is of the utmost importance for improving the domestic revenue generated of states. This is particularly so in the wake of the global economic crisis and has brought about renewed interest of trade unions and progressive civil society organisations in the struggle for tax justice. The G20 and OECD have also commenced taking steps that could lead to positive changes in the international tax architecture.

This general picture is even direr in Africa due to several reasons. Weak tax systems, tax evasion and illicit financial flows have become black holes where huge amounts of would-have-been revenue disappear. While the African Union has set up bodies such as the Thabo Mbeki-led panel on illicit funds flow, the active role of trade unions is needed now more than ever if fair tax is to be enthroned in Africa.

But we cannot be concerned only with tax justice. *"Quality public services for all"* has always been and must continue to be our battle cry as workers and citizens. The struggle for fair tax is to ensure that there is improved revenue for governments to be able to provide this.

In this two-sided struggle, we will have to work on the platform of the NCCs and in alliances as well as coalitions with several NGOs and other unions on issues of tax justice as well as for democratically expanding the spaces for good governance and against corrupt practices.

United and determined, we will win and together build better societies in Africa as part of a better world, which is only possible through our collective struggles.