

**REMARKS BY THE DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE,
HON. UHURU KENYATTA, EGH, MP DURING THE OFFICIAL OPENING OF THE
IMF CONFERENCE ON REVENUE MOBILIZATION IN SUB-SAHARAN AFRICA,
HELD ON MARCH 21-22, 2011 AT HOTEL INTERCONTINENTAL, NAIROBI**

Mr. Carlo Cottarelli, Director, Fiscal Affairs Department of the IMF

Mr. Mark Plant, Deputy Director, African Department of the IMF

Senior Government Officials from Africa

Distinguished Participants

Ladies and Gentlemen

1. First, let me, on behalf of the Government and the people of Kenya, register my great pleasure to be with you this morning; and to grace the official opening of this important Conference on "Revenue Mobilization in sub-Saharan Africa". I would also like to take the earliest opportunity to convey our sincere thanks and appreciation to the International Monetary Fund for inviting the Kenya Government to jointly host and participate in this meeting.

2. The Government and indeed the people of Kenya feel very privileged and honoured to host this important conference, which brings together international experts, policy makers and tax administrators to deliberate on the important subject of revenue mobilization in Africa. I note with great satisfaction the excellent reception extended to all invited distinguished participants this morning.

3. To our distinguished guests visiting Kenya for the first time, I wish to extend a warm welcome to you - Karibu Kenya, Karibu Nairobi. Please find some time during and after this conference to sample what Kenya can offer. I want to assure you that your visit to this lovely country would not be complete and memorable without experiencing our rich and diverse culture as well as our scenic flora and fauna, **the pride of our natural heritage.**

Africa's Recent Economic Developments and Challenges

4. ***Distinguished participants***, before I proceed further with my remarks, allow me to briefly highlight Africa's recent economic developments and challenges ahead as an attempt to put into context this important subject matter of revenue mobilization in Sub-Saharan Africa.

5. I am sure you are all aware of the difficulties that sub-Saharan African economies experienced in 2008 and 2009. After registering remarkable growth and development over period 2002 – 2007, many countries in sub-Saharan Africa were hit by multiple shocks. Some of these shocks were exogenous, while others were as a result of our own actions and in some instances, our inactions.

Among these shocks were: **first**, protracted drought in a number of countries; **second**, high international commodity and oil prices that adversely affected resource-poor countries; and **third**, the global recession triggered by the financial crisis in the western economies, which reduced demand for Africa's exports, slowed down remittances and reduced tourist earnings. These challenges impacted our economies with differing intensity and in many countries they reversed some of the social and economic gains achieved over the last decade.

6. It is, however, gratifying to note that since 2010, the African Continent, like the rest of the world, is now on a strong recovery path, buoyed largely by the global recovery, the various economic policies and structural reforms we have implemented, and the resilience of our economies and hard work by our people. However, even with recovery underway, many countries continue to face a number of social and economic challenges, which we must strive to overcome if we are to secure the future of sub-Saharan Africa. More is needed to fully restore and sustain growth momentum and address unemployment, poverty and inequality in sub-Saharan Africa.

7. But achieving these important objectives calls for efforts by African governments to put in place measures to invest in infrastructure, create conducive environment for private sector growth and facilitate the development of human capabilities that will ensure sustained improvement in economic productivity and competitiveness. In other words, we must invest in priority development programmes, and especially toward: (i) accelerating the rehabilitation and expansion of key infrastructure such as road, rail system, waterways, affordable and reliable energy; (ii) basic social amenities;(iii) expanding access to basic education and healthcare services; and (iv) promoting a competitive environment, through measures intended to ease doing business so as to encourage private sector growth and employment creation.

8. We do, however, recognize that for sub-Saharan African economies to achieve their development agenda, additional resources will be needed to finance these programmes, on a sustainable basis. This is equally true even for a country

like Kenya with a tax effort of nearly 23% of GDP. We, however, appreciate that raising additional public resources to finance Africa's priority development continues to face a number of challenges. These challenges, as you are aware, include, among others: (i) inappropriate economic policies pursued by some countries; (ii) structures of our economies which make it difficult to enhance revenue efforts; (iii) institutional constraints such as weaknesses in tax administration; inefficiency, corruption and wasteful public expenditures; and uncertain external support in many countries.

9. To overcome some of the challenges facing resource mobilization, Governments in sub-Saharan Africa must strive to: (i) implement appropriate economic policies and structural reforms to facilitate private sector expansion; (ii) improve efficiency in public expenditure in order to release resources for reallocation; (iii) enhance efficiency and effectiveness in revenue administration; and (iv) mobilize and enhance execution rate of concessional externally financed development.

Mobilizing Revenue for Development in Sub-Saharan Africa

10. ***Distinguished participants***, turning to the subject of this workshop and as I have already stated, this Conference is not only important and relevant to all of us in sub-Saharan Africa, it is also very timely. Indeed, considering the experience that we have gone through following the onset of the global economic and financial crisis that hit us in 2008/2009, the Conference is of particular relevance to our development agenda in many respects, but allow me to highlight just a few.

11. **Firstly**, we all recognize that revenue mobilization is very critical in creating fiscal space for financing important priority development in our countries and I am pleased that we are gathered here today to share our experiences and best practices in this important area. **Secondly**, one important lesson that we have learnt recently is that countries that had generated fiscal space were in a better position to adjust to the shocks arising from the global crisis.

12. They were more able to accommodate a counter cyclical fiscal policy without endangering their fiscal position. In short, creating fiscal space through efficient revenue mobilization is not only important in helping us to finance priority expenditures, it is also important in enabling us to adjust to adverse exogenous shocks when they arise.

13. ***Distinguished participants***, having said that, allow me to put into context my discussion on the subject matter by highlighting some of the challenges and opportunities I see in revenue mobilization in sub-Saharan Africa and what reform options exist for governments, working with Development Partners like IMF, to

implement and assure effective revenue mobilization for financing priority development in Africa.

14. Despite recent tax reforms, raising additional tax revenue in Sub-Saharan Africa continues to face a number of challenges. These include, among other factors: (i) the prevalence of large subsistence agriculture and informal sector; inappropriate tax policy designs with generous exemptions and incentive regimes; (ii) many regional arrangements by most sub-Saharan African countries; (iii) weak capacity for tax analysis and formulation; and (iv) tax administrative challenges, including corruption.

15. The large subsistence agricultural and informal sectors in many countries often reduce flexibility of tax handles to raise additional resources, unless strategic steps are taken to diversify African economies and to broaden the tax base to include all sectors of the economy. In resource poor economies, the limited tax handles make it difficult to raise additional revenues required unless conscious policy efforts are made to focus on services as key drivers of growth and a source of revenue.

16. The many regional trade arrangements also impact adversely on the effectiveness of tax policy instruments and in most cases often erode the tax bases. Disparities in domestic taxes such as VAT and excise taxes across common borders often create incentives for tax evasion practices, including smuggling and diversion of goods destined for exports. In addition, through trade liberalization and increased global trade arrangements, governments' income from trade taxes is reduced. Increased international mobility of tax bases often put pressure on governments to lower tax rates.

17. While many countries introduced VAT as a productive tax to reduce over reliance on direct taxes, various policies and enforcement related challenges have continued to limit the realization of this goal. Exemptions and zero-rating under VAT, together with administrative inefficiencies surrounding VAT refund processing, continue to limit VAT compliance and productivity in many African countries.

18. **Ladies and Gentlemen**, excise taxes are expected to be more productive and easy to administer because they are imposed on a few products. However, contrary to our expectation, their contribution in sub-Saharan Africa continues to decline, further eroding the tax base. Challenges facing excise taxation such as inappropriate regime design and weaknesses in enforcement, especially across borders must be addressed. In addition, for those jurisdictions with specific excise tax regime, non-indexation for inflation continues to be a major source of tax base erosion, a matter that should be urgently addressed.

19. At the administrative level, despite several attempts to reform our tax systems and improve administration, many tax authorities in sub-Saharan Africa still contend with the common challenges that plague tax systems of developing countries. These, as you may be aware, include, among others: (i) complex tax structure arising from many amendments, often driven by interest groups; (ii) weak tax administration and corruption, among players; (iii) low investment in ICT to promote efficiency and reduce compliance cost; and (iv) lack of adequate capacity, especially appropriate skills among tax officials to formulate and execute sector specific strategies.

Mobilizing Revenue: Reforms and Opportunity

20. ***Distinguished participants***, these challenges present an opportunity for reforming Africa's tax systems to better facilitate the private sector and raise adequate resources to finance priority development. On the tax and revenue side, implementation of tax policy rationalization and revenue administration reforms and modernization will be needed to raise additional resources for financing priority development programmes.

21. Measures to simplify the tax system, expand tax base, rationalize tax incentives and exemptions and expand the tax net to include informal sector are necessary for the improvement of compliance and increased revenue yield in Africa. Further reforms will be needed to address, among other things: (i) inequity and unfairness of the tax system; and (ii) build capacity for tax policy analysis and formulation in support of Africa's development.

22. And to address systems and operational challenges, a second-generation tax reform will be needed in sub-Saharan Africa to: (i) enhance efficiency, effectiveness, and improve compliance; (ii) create capacity for taxpayer profiling and intelligence gathering; and (iii) integrate all taxpayer services, processing, and accounting within integrated information technology architecture. Equally, tax authorities in sub-Saharan Africa must make **ethics and integrity** a critical and integral part of their tax reforms

Concluding Remarks

23. ***Distinguished participants***, in conclusion, sub-Saharan African governments must prioritize tax policy reforms that stimulate an efficient and dynamic private sector, whose growth is expected to provide additional revenue needed to finance better public service, productive jobs and improve living standards for African people. Similarly, special focus on tax administration reforms will be required to raise additional resources required to finance priority social and economic programmes in the areas of human and infrastructure development, necessary for sustained high economic growth and development.

24. I am, indeed, confident that your two-day deliberations, including the programmed experience sharing, will provide our tax policy makers and revenue authority officials with the opportunity to learn from best practice and draw lessons for reforming our tax systems to facilitate private sector development and raise additional revenue for our development agenda. Indeed, I will be looking forward to my treasury team to brief me on the outcome of this Conference.

25. With these remarks, it is now my pleasant duty to declare this Conference on "Revenue Mobilization in Sub-Saharan Africa," officially open.

Thank you and God Bless You all.

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