**IMPROVING DOMESTIC RESOURCE MOBILIZATION AND STEMMING ILLICIT FINANCIAL FLOWS (SPEAKING NOTES)**

**12th March 2019: Crowne Plaza**

**Introduction**

* Domestic Resource Mobilization: generation of national resources and allocation to economically and socially productive investments. Taxation the primary method.
* Bribery: Giving or receiving something of value in exchange for influence or action that the recipient would otherwise not offer.
* Corruption: Abuse of entrusted power for private gain.

**Impact of Corruption on Taxation:**

* Corruption lowers the tax GDP ratio (IMF Paper using the CPI). Low tax affects provision of services and infrastructural development.
* Growth of shadow economy: corruption undermines trust in public institutions and facilitates tax evasion by new and existing businesses. (Why pay taxes to be stolen by a few)
* Distortion of tax structures: Mainly through political corruption and state capture. Those in power introduce tax measures that favour them.
* Corroding tax morality of taxpayers: Pervasive corruption fosters more corruption among players in the tax collection and administration process. Damages any efforts to establish good governance and democratic accountability.
* Increased tax burden: Corruption impacts negatively on a nation’s resources leading to scarcity. Citizens are forced to dig deeper into their pockets to pay for goods and services either directly of indirectly through taxation. (Kenya and VAT on fuel products).

**Kenya’s efforts to cab corruption: The hits and the misses**

**The Hits:**

* Automation: Tax declaration and reporting has become easier with the introduction of iTax portal. The manual system has been done away with and the system is table enough to allow for entry and retrieval of data online.
	+ Introduction of ETRs
	+ Automation of payments and the prevalence of e-money across the country.
* An aggressive tax campaign after 2004 has placed tax collection on an upward trend (by 2007, Kenya was covering 95% of its budget from domestic resources). More people were brought into the tax bracket (though the number is still very low)
* At the same time, infrastructure projects and social protection mechanisms were put in place that convinced more people that the mantra ‘*Kulipa ushuru ni kujitegemea!*’ holds value to their lives (Free Primary and Secondary Education)
* Training of tax official in complex matters of tax collection has put KRA officials among the best training for the job on the African Continent (Contemporary tax issues – trade mis invoicing, transfer pricing, illicit financial flows.
* A multi-agency approach to economic crime investigations, including tax crimes, has helped net an increasing number of tax offenders. There is more potential for better results as the MAT approach crystalizes.
* Integrity management efforts
	+ In 2009, 70 KRA employees were sacked in a corruption purge.
* Prosecution powers for KRA: In 2009, the DPP (then AG) allowed KRA to prosecute its own cases. This put them in charge of law enforcement as far as tax crimes was concerned. This yielded better results.
* Beneficial ownership transparency: This is work in progress with real potential to be a game changer if done in accordance with London Commitments, the Presidential Executive Orders and the OGP National Action Plan III

**The Misses:**

* Lifestyle audits: In 2014 a lifestyle audit was introduced on KRA employees as a way of enhancing the fight against corruption. Not clear this was ever done. If it was it yielded zero results.
* Membership into two economic blocs with taxes not harmonized continues to pose challenges. (East Africa Community and COMESA). Varied comparability and ability of revenue authorities in member countries present compliance gaps.

**Development Assistance and corruption: To cut or not to cut aid?**

This is not an easy question to respond to. On the face of it cutting aid, particularly for services accorded to the poor, affects the poor – not the political and economic elite that drive corruption.

Justification that has been offered for cutting aid is as follows: -

* When aid end up in undeserving hands, its effectiveness is reduced.
* Giving aid to corrupt regimes is tantamount to collusion and complicity. (There is a co-relation between levels of corruption and respect for human rights).
* Supporting corrupt regimes is a waste of taxpayers money.