

PRESS RELEASE

DANGERS OF TAX INCENTIVES TO EAST AFRICAN COUNTRIES

DATE: TODAY 28TH JULY 2011

TIME: 12.00 NOON

VENUE: RED COURT HOTEL, NEXT TO RED CROSS, BELLE VUE, SOUTH C NAIROBI

HIGH LEVEL PARTICIPANTS: MR. JOHN NJIRAINI-KRA AND TOP LEVEL EAC GOVERNMENT OFFICIALS

(Nairobi, 27 July 2011) East African countries must stop giving foreign investors tax breaks and other tax-free incentives if they are truly going to tackle poverty and take charge of their economies, Actionaid and the Tax Justice Network -Africa warned today.

The two civil society organizations commissioned studies in four East Africa Community (EAC) countries, (Tanzania, Kenya, Uganda, and Rwanda) to assess the impact of tax incentives in development policy.

The studies found that poor countries, including those in East Africa, have offered a range of tax incentives, such as tax holidays, to attract foreign direct investment. However, the past 10 years of private sector-led economic growth has failed to deliver rapid economic growth, create jobs, or, most glaringly, generate sufficient revenue to meaningfully reduce poverty.

The Rwanda study alone revealed that in 2008 and 2009 the country lost over \$234millions due to tax incentives and that every year about a quarter of its potential tax revenue was lost to tax incentives and exemptions given to businesses to attract private sector investment.

ActionAid Rwanda Country Director, Josephine Uwamariya said:

“The money lost to tax breaks in Rwanda would more than double spending on health, education and food security,”

“\$234 million amounts to 14 per cent of Rwanda’s potential annual budget.

“Whilst aid is absolutely critical to African nations, on its own it will not put an end to poverty. This is why it is essential that African governments look for innovative sources of funding closer to home, like effective tax systems.”

Governments should now consider bolstering their domestic resource mobilization, which would mean maximizing rather than forfeiting tax revenues. The aggregate impact of countries in the same region with the same general economic features providing investors with the same range of incentives can quickly lead to harmful tax competition, or the ‘race to the bottom,’ that results in unnecessary net revenue loss for each country—revenue that could have been used to finance essential public goods and services.

Vera Mshana, TJN-A Policy & Advocacy Officer said:

“As the call for increased domestic resource mobilisation strengthens across the globe, the time is ripe for East African countries to critically consider the value addition of continuing to pay investors through incentives to engage in economic activities in their countries, rather than receiving taxes due from them as a way of meaningfully improving people’s lives. And, offering tax incentives as Band-Aid is not only an expensive short-sighted option, but also provides no concrete solutions to underlying economic problems.”

ActionAid, TJN-A and their partners advocate for regional cooperation to reduce tax incentives – a kind of multilateral disarmament to stop a race to the bottom that erases most of the benefit of economic investment. We are glad the East African Community has begun taking steps to avoid tax competition, and will work to ensure that a far-sighted policy is adopted and enforced in all EAC countries.

The reports will be presented during the Policy Roundtable on harmful tax competition in East Africa *Harmful Tax Competition in East Africa: A Race to the Bottom*; which takes place on July 27th and 28th in Nairobi, Kenya at the **Red Court Hotel**.

The meeting includes regional participants and national policy makers, representatives from revenue authorities and relevant government ministries, as well as civil society actors, media, SME Associations, policy analysts engaged in tax policy and administration, and private sector tax practitioners. Participants will critically review the findings and recommendations of the final Rwanda country report, and the draft country and regional reports for Tanzania, Uganda, Kenya, and the EAC respectively.

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Note to editors

- On 28th July, there will be a press conference at 12:00pm. All journalists are invited
- ActionAid is an international anti-poverty agency whose aim is to fight poverty and injustice worldwide. Formed in 1972, for over 30 years ActionAid has been growing and expanding - helping over 13 million of the world's poorest and most disadvantaged people in over 50 countries worldwide. ActionAid seeks to facilitate processes that eradicate poverty and ensure social justice through anti-poverty projects, local institutional capability building and public policy influencing. The organisation is primarily concerned with the promotion and defence of economic, social, cultural, civil

and political human rights, and supports projects and programs that promote the interests of poor and marginalized people.

- The **Tax Justice Network-Africa (TJN-A)** is a Pan-African initiative established in 2007 and a member of the global Tax Justice Network. TJN-A seeks to promote socially just, democratic and progressive taxation systems in Africa. TJN-A advocates for pro-poor taxation and the strengthening of tax regimes in order to promote domestic resource mobilization. TJN-A aims to challenge harmful tax policies and practices that favour the wealthy and aggravate and perpetuate inequality.