ECONOMIC SUSTAINABILITY IN EAST AFRICA

Framing the Linkages Between Public Debt and Tax Justice

East African Tax and Governance Network (EATGN)
and
Africa Centre for People Institutions and Society (ACEPIS)

Economic Sustainability in East Africa

Framing the Linkages between Public Debt and Tax Justice

East African Tax and Governance Network (EATGN)
and
Africa Centre for People Institutions and Society (ACEPIS)

Published by

With support of

Jaflo Limited | Block 3 | 106 Brookside Drive | Westlands

Contacts
Email: info@eataxgovernance.net / coordinator@eataxgovernance.net
Tel: (254) 20 24 73373, (254) 728 279 368
Website: www.eataxgovernance.net

Designed by
Evolve Media Ltd

About EATGN

Founded in 2011, the East African Tax and Governance Network (EATGN) is a civil society collaborative initiative of individuals and non-state actor institutions in the East Africa Community (EAC) that share the understanding that taxation is fundamental in achieving social justice and development goals. EATGN champions for tax justice in governance, through public policy advocacy, research, and capacity building to create links between various constituencies in the region to improve tax policy while deepening democratic governance.

About ACEPIS

The Africa Centre for People, Institutions and Society (ACEPIS) is an Afro-centric think-tank dedicated to bolstering access to credible information to shape public dialogue, inform policy and drive inclusive sustainable development in Africa. ACEPIS seeks to leverage information to provide suitable solutions for Africa's organizations to grow, serve and impact lives. ACEPIS does this through strategic communication, applied research, organizational development support and knowledge advocacy.

About Public Debt and Tax Justice

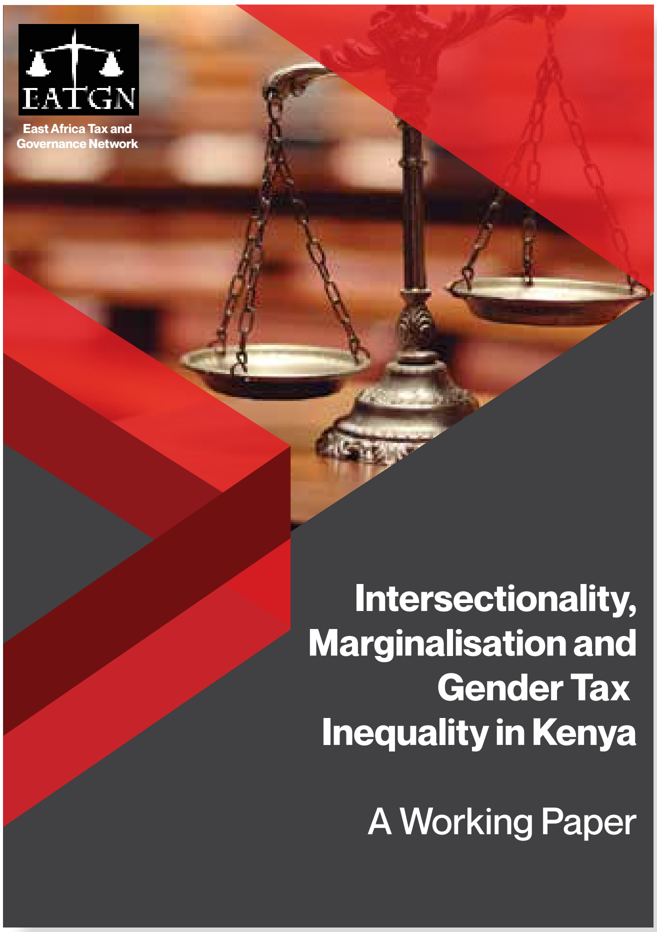
This study is a preliminary initiative to facilitate the conduct of public debt research to understand tax justice in Kenya. It hopes to spur interest from academia, policy makers, faith-based groups, private sector, and civil society organizations (CSO), to understand and advocate for better tax policies within their spheres of influence to achieve sustainable development goals (SDGs).

ACKNOWLEDGEMENTS

EATGN gratefully acknowledges the Open Society Initiative for Eastern Africa (OSIEA) for generously supporting this initiative. Specifically, EATGN thanks Sarah Nkuchia for patiently believing in a small organization with grand research ideas. EATGN is thankful to the budding partnership with the Africa Centre for People Institutions and Society (ACEPIS) that resulted in the authorship of this study. We also want to appreciate the Okoa Uchumi Coalition that collaborated with EATGN whose findings on debt have largely informed tax advocacy in relation to the Finance Bill 2021.

Special thanks go to TJNA staff and to the EATGN steering committee, namely Regina Navuga of Southern and Eastern Africa Trade Information and Negotiations Institute (SEATINI) Uganda, Cyrus Nkusi of Governance for Africa (GFA) Rwanda, Prime Nkezumukama of Dukingire Isi Yacu – Burundi, Nicholas Lekule of Policy Forum in Tanzania, and Celine Awour of International Institute for Legislative Affairs (ILA) in Kenya for their constant support. Also, full appreciation goes to the entire EATGN team comprising of the regional coordinator Leonard Wanyama plus interns Brenda Osoro, Everlyn Muendo and Kigen Kiplimo who made the logistics plus publication of this study possible.

OTHER EATGN PUBLICATIONS



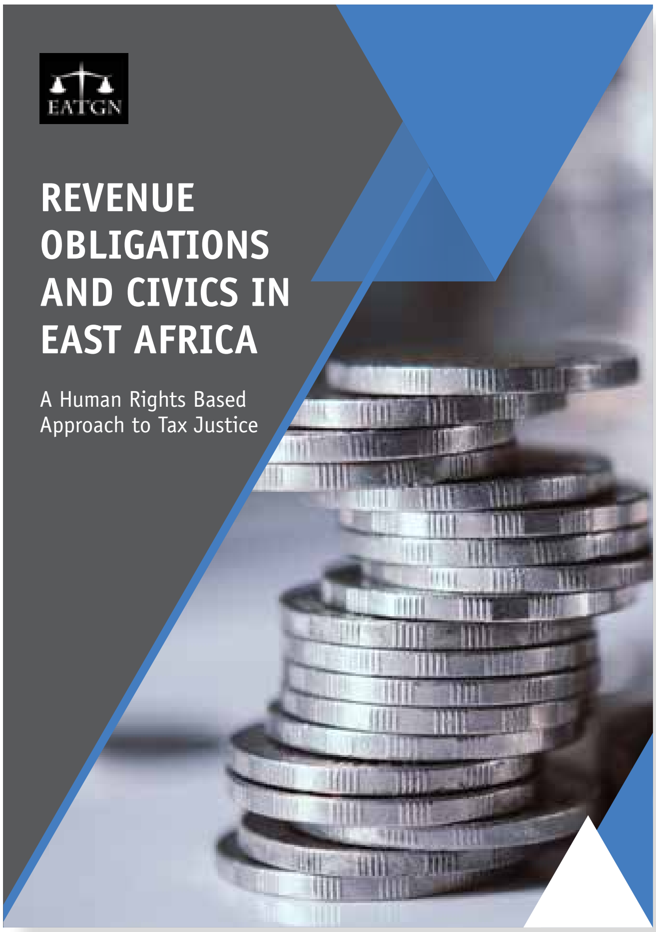


TABLE OF CONTENTS

LIST OF FIGURES

1. INTRODUCTION

Public debt remains an essential source of financing for public investments, and an important macroeconomic policy instrument for governments across the world (UNCTAD, 2017; Selassie, 2018). According to the IMF, global public debt stood at $246.5 trillion by the end of the first quarter of 2019, nearly 320% of the global GDP. When utilized appropriately, public debt can foster economic growth by bridging financing gaps and funding development agendas in a country. Japan's debt-to-GDP ratio, for instance, is 400% but it is not under debt distress due to its stable economic systems and economy that allows it to efficiently manage debt (McKinsey & Company, 2015).

However, public debt can also have negative effects on an economy when used imprudently. For instance, there is increasing evidence linking debt unsustainability to slow economic growth, job losses, increased taxation, high cost of living and low government investment in public goods and services.[1] There are concerns amongst economists and international development scholars that debt servicing demands will create pressures for government policy makers to increase taxation (expediency may reduce any concerns over regressive effects of new taxes) and to reduce public spending, including on development priorities such as health or education. Rising stocks of external debt may lead to what economists call debt overhang effect - where governments increase taxes in order to service the debt; a trend which has direct implications on discouraging/stifling private investment and domestic enterprise. In addition, governments may choose to take out loans to pay off existing debt, hence perpetuating the cycle.

Also, there have been arguments supporting the proposition that ability to borrow easy money creates false comfort and kills innovativeness in improving tax regimes and policies. In Tanzania, for example, government has exploited loopholes in the law to contract debt without due scrutiny and approval by parliament. In Kenya, CSOs indicate that debt acquisition modalities are increasingly proceeding without meaningful citizen participation, legislative oversight and intergovernmental consultation with county governments. In general, there has been notable lack of political will to pursue fiscal (tax regime) reforms that pursue just tax policies because of easy access to debt.

1.1. Objectives of this paper

In order to understand the implications of debt for tax justice in East Africa, this paper seeks to explore the implications of debt unsustainability on four major issues in tax justice discourse: i) tax burden, ii) IFFs and harmful tax practices, iii) economic growth and resource redistribution, and iv) empowerment and inclusion of citizen voices in fiscal policy making. The paper is thus guided by the following key research questions:

1. Are there any links between public debt and tax policy in East Africa?
2. How are increasing levels of public debt impacting fairness of tax policy in East Africa?
3. What are the implications of public debt on IFFs and harmful tax practices in East Africa?
4. What are the implications of public debt on economic growth and domestic revenue mobilisation in East Africa?
5. What are the implications of debt on empowerment and inclusion of citizen voices in fiscal policy making in East Africa?

1.2. A Justification for this Research

The purpose of this research is to build on the existing body of literature by examining and framing the links that exist between increasing public debt stocks (and debt repayment obligations) and fiscal injustice in the East African region. This can provide new knowledge that can shape conversations around responsible debt management and tax policy that can promote fiscal justice in the region. There is a

1. Africa uncensored, Where did the money go? - Part 1 [Video], Africa uncensored, 2019, https://www.youtube.com/watch?v=ktiYCJdSs-g

potential for more collaborative action from debt, tax, and budget actors that can galvanize government action towards addressing public debt and tax injustice more holistically in the region. Joint research considering both taxation and public debt management policy in the region can help frame the links and inform further research and conversations on this. Such kind of research can also build up the body of knowledge to inform and shape conversations around taxation and fiscal justice especially considering the tax inequalities challenges debt unsustainability may exacerbate.

1.3. Methodology

This section outlines the approaches that were used in conducting the study on framing the links between public debt and tax justice in East Africa. It spells out the approach to investigation, data sources and types, and the techniques for analysis and presentation of data and findings.

1.3.1. Approach to Investigation

This paper is a desk-based research whose purpose is to understand the links between public debt and tax justice in East Africa. The study pursued an exploratory approach reviewing the existing body of literature on public debt (globally, sub-Saharan Africa and East Africa) and attempting to make connections between key arguments on debt (debt repayment, debt stock, debt to GDP ratios) with current discourse on tax justice (fairness of tax policy and tax burden, IFFs and harmful tax practices, economic growth and resource redistribution (inequality) and empowerment and inclusion of citizen voices in fiscal policy making). The intention is to make preliminary arguments about the links for further research and debate.

1.3.2. Data Sources and types

The study relied largely on public domain literature on public debt and taxation generally and specific to the various country contexts in East Africa. These included academic papers, policy briefs, policy practice reports by NGOs and think-tanks, government data, policies, legislation, data from International Finance Institutions, economic surveys and other relevant information/data. The study team explored and consulted an array of secondary data sources to provide answers to research questions. This was done through desk review of relevant and available literature.

1.3.3. Data Analysis and Presentation

This section outlines the methods that were used to process, analyse, and present findings from the quantitative and qualitative data that was collected. The study mainly applied univariate or descriptive methods to analyse and describe the quantitative data. Outputs from quantitative analysis were presented in the form of single-variable and multi-variable frequency tables, charts and graphs. This was augmented with descriptive analysis and text presentations.

2. A PRIMER ON PUBLIC DEBT AND TAXATION

2.1. The Concept on Public Debt

Most countries across the world borrow funds to meet their financing needs and close budget deficits. Simply put, public debt or sovereign debt can be described as money a country borrows from both local and external lenders to augment revenue from taxation for purposes of financing public spending. Both domestic and external debt constitute government debt. Domestic debt includes funds raised through financial assets such as Treasury bills and bonds and money borrowed from other locally owned financial institutions. Similarly, external debt can be from bilateral, multilateral or commercial sources. Bilateral sources include government to government while multilateral sources include government to a conglomeration of countries or agencies that have created a pool of resources from which they lend. The debt of a state or provincial government, or local government can also constitute public debt. Multilateral debt can be sourced from financial institutions such as the IMF, African Development Bank and the World Bank among other Institutions (Polly, 2009).

Proper understanding of public debt requires a better understanding of government budget and deficits. A government budget is a documentation of the government's forecast of its expenditures and revenues of a period of time referred to as financial or fiscal year. Budget deficits emerge when the government's budgeted expenditures exceed the revenue it is capable of mobilizing through taxes. As a result, government seeks alternative sources of revenue to finance its delivery of public goods and services. One of the ways of bridging revenue gaps is borrowing from local and international lenders, hence public debt.

2.2. The Concept on Taxation and Tax Justice

The concept of taxation includes all types of taxes levied and collected by a government (through its institutions, both local and national) to finance its operations and development programmers. Tax plays a vital role in society in every country, redistributing wealth from corporations and rich individuals, funding vital public services and tackling poverty.

However, there has been an increasing trend globally of big businesses and rich people dodging billions of tax obligations and shifting the burden to poor people – a circumstance that many in civil societies and academia refer to as tax injustice. The concept of tax injustice hinges on the understanding that there exist tax inequalities related to the productivity of labour and allocative efficiency of the economy that cause opportunities for specific groups to shrink. Essentially, the measure of just tax is the ability to pay.

Tax injustice is therefore the situation in which disparities that are founded on differences amongst income groups in an economy become apparent within the tax regime, thereby making specific groups lose out on the relevant opportunities or equal voice in decision making. Whilst corporate tax rates have been falling across the world (and more and more incentives, breaks and rebates offered to big businesses), the percentage of government revenues coming from 'indirect' tax (on goods and services) has been rising. Such taxes account for a much larger proportion of the income of poor people, who spend more of their income on goods and services than rich people. Also, personal income tax for the rich has continued to fall over time (and remains lowest in the poorest most unequal countries). Although the channels for tax injustice in poor countries remain mainly illicit outflows, harmful tax practices like tax incentives and exemptions have also been argued to contribute to substantive loses in revenues that have pushed governments to increase taxes in such areas as personal income tax and VAT that are perceived to hit poor people the hardest.

2.3. A Looming Debt Crisis in Africa

There has been much reporting, discussion, and debate of another looming international debt crisis. Unlike the last international debt crisis, the picture is more complex this time – countries now have multiple sources of debt (multilateral, sovereign lending, corporate bonds and more). This makes it harder to gauge overall debt volumes, but also demands multi-strand responses. According to Jubilee, developing country debt repayments have increased by 85% since 2010.

Should we be concerned about high and sharply rising public debt? Several advanced economies have experienced higher levels of public debt than we see today. For instance, in the aftermath of World War II, government debt in excess of 100% of debt to GDP ratio was common among countries; and none of these led to default. In more recent times, Japan has been living with a public debt to GDP ratio of over 150% without any adverse effects on its economy.

Notably, the debt to GDP ratio has been on the rise for most countries, including the developed economies like the United States, Germany, France and Japan. Yared (2018) argues that, unlike the growing public debt experienced in World War II whose repayment was facilitated after the war, the increase in public debt over the recent years reflects a long-term fiscal imbalance. He further points to the growing gap between government spending and revenue, occasioned by the expansion of government spending programmes and the inability to generate revenues from taxes as rapidly as the main cause for the growing debt burden. In some countries, unstable debt dynamics, in which higher debt levels lead to higher interest rates, lead to even higher debt levels. Servicing of domestic and foreign debt is a significant challenge for developing countries that have weaker institutional and regulatory frameworks for debt management. Gross debt in these countries consists of all liabilities that require payments of interest and principal such as loans, insurance, etc. (Smith, 2010).

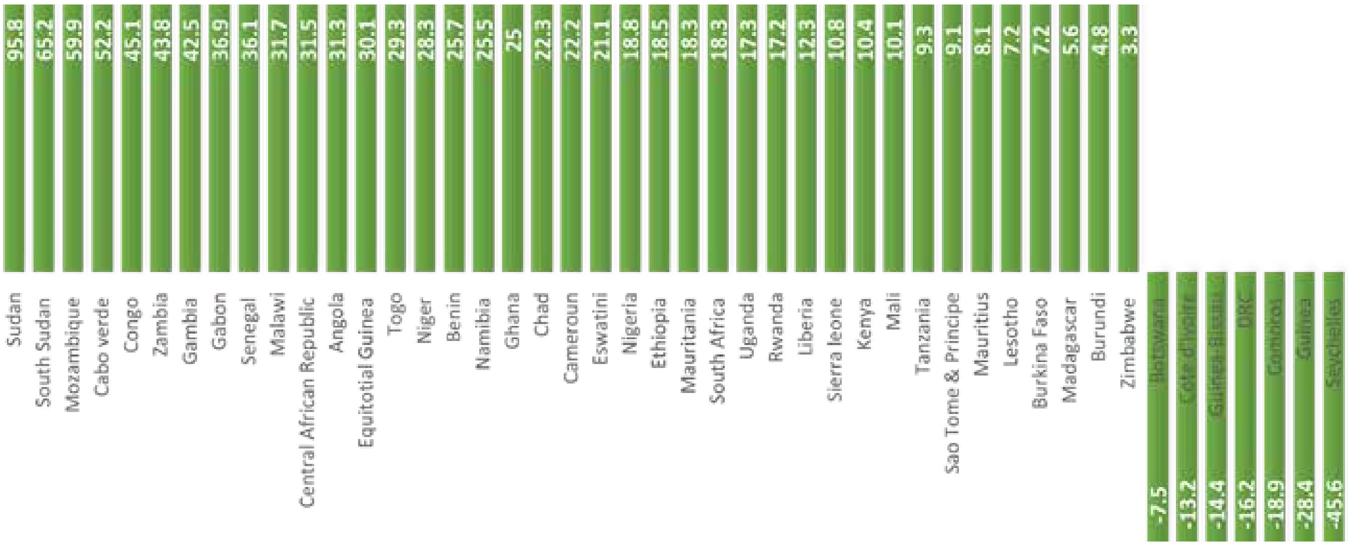
The situation is worse for developing countries, given the weak economic state they are in. There is a growing concern about sustainability of public debt in Sub-Saharan Africa.[2] The IMF estimates that about 40% of countries in the region are either already debt-distressed or at high risk of it (World Bank, 2018; IMF, 2018). The Debt-GDP ratios of nearly all sub-Saharan African countries rose significantly between 2010 and 2017, despite having benefited from the Multilateral Debt Relief Initiative (MDRI) and the Heavily Indebted Poor Countries (HIPC) interventions (Devarajan et al, 2019). According to the Sub-Saharan Africa Regional Economic Outlook, it is estimated that revenues in 15 of the 45 countries in the region are less than 15% of their respective GDP (World Economic and Financial Surveys, 2018; Regional Economic Outlook: Sub-Saharan Africa – Domestic Revenue Mobilization and Private Investment). The paper suggests that the greatest policy challenge in sub-Saharan Africa region regarding public finance management is revenue mobilization. It indicates that all countries are seeking to improve their revenue generation towards financing the Sustainable Development Goals. While there has been substantive growth in GDP for most countries, Sub-Saharan Africa still has a relatively low revenue to GDP ratio.

To bridge the budget gaps, more countries in the region are resorting to external financing. Bokosi & Chikova, (2019) found out that there was a notable increase in the issuance of sovereign bonds in Sub Saharan Africa after the 2008 global financial and economic crisis.[3] In their policy brief analysing bond issuance and the current debt levels in Sub Saharan Africa, they noted that bond issuances increased from $1 billion in 2011 to over $6.2 billion in 2014. This may be attributable to increased access to the international market, occasioned by stable international market conditions and increased willingness for investors to bet on higher returns.

However, while bond issuances have been a convenient and readily available source of financing for developing economies in the Sub-Sahara region, they have also contributed to the current worsening debt

2. Mma AE & O Chukwuka, 'Is a debt crisis looming in Africa?', Brookings, 2019, https://www.brookings.edu/blog/africa-in-focus/2019/04/10/is-a-debt-crisis-looming-in-africa/
3. Fanwell KB & C Rangarira, 'Bonds Issuance and the current debt levels in Sub Saharan Africa', Policy briefing. AFRODAD, 2019, https://media.africaportal.org/documents/BOND_ISSUANCE_IN_SUB_SAHARAN_AFRICA.pdf

Figure 1. Trends in public debt in Sub-Saharan Africa - difference in Debt to GDP ratios between 2010 and 2017



Source: Devarajan et al (2019) - Debt, Growth, and Stability in Africa: Speculative Calculations and Policy Responses

situation in the region. Bokosi & Chikova (2019) found that these bonds increased the region's external debt stock by 147% between 2010 and 2015. Data from the World Bank shows that, over this period, the Sub-Sahara Africa's debt stock rose by $133.4 billion.

The IMF estimates that about 40% of countries in the sub-Saharan region are either debt distressed or at a high risk of being debt distressed (World Bank, 2018; IMF, 2018). According to the IMF Policy Paper on the Evolution of Public Debt Vulnerabilities in Lower Income Economies, 2020, there has been an overall slow pace in the accumulation of public debt among low-income economies. However, the debt to GDP ratios have experienced a significant rise, especially for non-oil exporting low-income countries due to the rising interest burdens. Further, increased vulnerability of low-income economies to local and external shocks, coupled with the rising interest burdens have constrained the fiscal space in those countries.

Figure 2. Trends in public debt in Sub Saharan Africa

State	Gross Public Debt % of GDP		% diff in debt to GDP between 2010 and 2017
	2010	2017	
Sudan	67.4	163.2	95.8
South Sudan		65.2	65.2
Mozambique	43.3	103.2	59.9
Cabo Verde	72.4	124.6	52.2
Congo	53.4	98.5	45.1
Zambia	18.9	62.7	43.8
Gambia	40.7	83.2	42.5
Gabon	21.3	58.2	36.9
Senegal	28.3	64.4	36.1
Malawi	29.6	61.3	31.7
Central African Republic	21.4	52.9	31.5

State	Gross Public Debt % of GDP		% diff in debt to GDP between 2010 and 2017
	2010	2017	
Angola	37.2	68.5	31.3
Equatorial Guinea	7.9	38.0	30.1
Togo	46.3	75.6	29.3
Niger	20.7	49.0	28.3
Benin	28.7	54.4	25.7
Namibia	16.0	41.5	25.5
Ghana	34.6	59.6	25.0
Chad	30.1	52.4	22.3
Cameroun	14.7	36.9	22.2
Eswatini	13.8	34.9	21.1
Nigeria	9.6	28.4	18.8
Ethiopia	40.5	59.0	18.5
South Africa	34.7	53.0	18.3
Mauritania	58.5	76.8	18.3
Uganda	22.4	39.7	17.3
Rwanda	19.3	36.5	17.2
Liberia	21.8	34.1	12.3
Sierra Leone	46.8	57.6	10.8
Kenya	44.4	54.8	10.4
Mali	25.3	35.4	10.1
Tanzania	27.3	36.6	9.3
Sao Tome & Principe	79.5	88.6	9.1
Mauritius	57.1	65.2	8.1
Burkina Faso	31.2	38.4	7.2
Lesotho	31.8	39.0	7.2
Madagascar	34.7	40.3	5.6
Burundi	46.9	51.7	4.8
Zimbabwe	49.6	52.9	3.3
Botswana	20.4	12.9	- 7.5
Cote d'Ivoire	63.0	49.8	- 13.2
Guinea-Bissau	68.3	53.9	- 14.4
DRC	31.9	15.7	- 16.2
Seychelles	82.2	36.6	- 45.6
Comoros	50.7	31.8	- 18.9
Guinea	68.8	40.4	- 28.4

Source: Devarajan et al (2019) - Debt, Growth, And Stability in Africa: Speculative Calculations and Policy Responses

3. A SYNOPSIS OF THE DEBT AND TAXATION SITUATION IN EAST AFRICA

3.1. The Debt Situation in East Africa

Due to the high level of uncertainty in current global economic conditions, the IMF has not provided accurate debt data for 2019 and 2020 financial years. Available data shows the debt situation has increased geometrically across East Africa. Highest percentage increases have been witnessed in Burundi and Rwanda between 2014 and 2018. Rwanda and Burundi have recorded 128.8% and 121.8% respectively while Kenya has 104% increase over the period under review. Tanzania and Uganda have not surpassed the 100% threshold. Tanzania debt stock increased by 79.1% while Uganda's is at 94.7%.

With increasing debt appetite, focus has now shifted to country debt sustainability. Anecdotal evidence shows that the debt situation is not sustainable in the long run. In the last decade, the region's public debt to GDP has increased substantially year on year (Figure 2), this shows that while the region's debt stock has been on the rise, this has not translated into meaningful developments in the region. Public resources mobilised through revenue collection agencies and other bilateral and multilateral creditors are being diverted to repayment of loans and budgeting for the ballooning country wage bill at the expense of economic growth. Analysis shows that besides Kenya, Tanzania and Uganda, the rest of the East African countries have managed to keep their annual national debt below 10 billion USD (Figure 3).

Figure 3. National debt across East Africa In billion USD

Country/Year	2014	2015	2016	2017	2018
Kenya	25.65	31.61	37.42	43.94	52.37
Tanzania	11.72	14.72	17.18	18.92	20.99
Burundi	0.87	1.14	1.34	1.62	1.93
Rwanda	1.56	1.9	2.35	2.97	3.57
Uganda	6.06	7.41	8.78	10.35	11.8

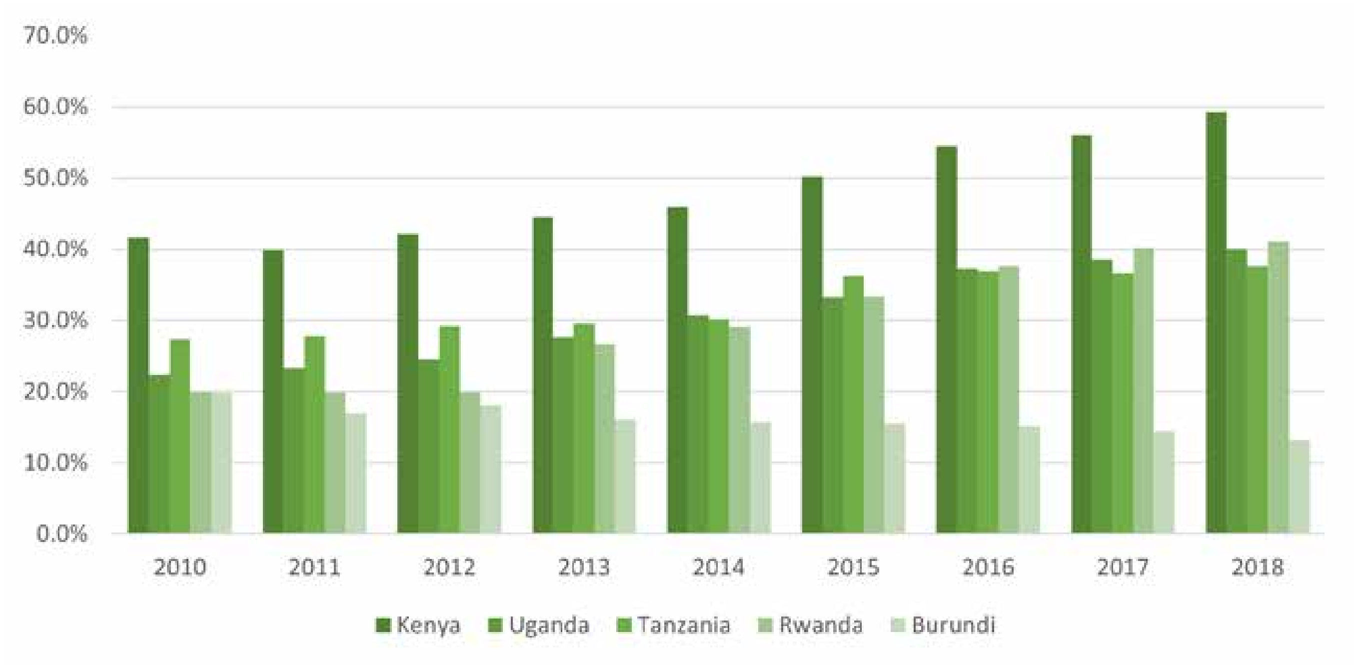
Source: International Monetary Fund

The region's public debt to GDP ratio shows high increases between 2010 and 2018 except for Burundi whose debt to GDP ratio reduced by 6.6% over the same period. This reduction cannot however be attributed to economic growth, instead the decline can be alluded to recent regional sanctions by the international community on Burundi which have had economic consequences including contraction of loans advanced to Burundi. Across the EAC, Rwanda had the highest increase between 2010 and 2018, increasing by 21.1% from 20% to 41.1% while Uganda and Kenya have increased by 17.6%. Kenya has higher debt to GDP ratio compared to Uganda having surpassed the IMF threshold of 55%. Its debt to GDP ratio increased from 41.7% in 2010 to 59.3% in 2018 while Uganda's increased from 22.4% to 40% over the same period. This may pose fiscal challenges if mechanisms are not put in place to improve Kenya's fiscal and public finance management framework. Tanzania on the hand has had the lowest increase in EAC region, increasing 10.3% from 27.3% in 2010 to 37.6% in 2018.

As a result of increased borrowing and dwindling revenue collection, these countries are now faced with high amounts of debt service almost commensurate to the financial year budget of one country. East African countries are staring at the possibility of a potential inability to repay country debts without negatively affecting the functioning of the country. In total Kenya, Uganda and Tanzania are now faced with 9.4 billion USD in debt service as of 2020.[4] According to the country finance ministries, Kenya will pay 5.1 billion USD, Tanzania will pay 2.8 billion in the current financial year as debt service while Uganda will be required to pay up to 1.7 billion USD in debt service repayments.

4. The Citizen, 'Three EAC states to pay Sh35 trillion in debt servicing', Citizen News, 2020, https://www.thecitizen.co.tz/news/-3-EAC-states-to-pay-Sh35tr-in-debt-servicing/1840340-5576818-44kxe8/index.html

Figure 4. National Debt to GDP ratio



Source: Individual Country Central Banks

The devastating effects of Covid-19 on the economy have rekindled increased access to both external and domestic debt across East Africa. According to the East African, the EAC region has amassed 2.3 billion USD in debt in the last three months with Burundi and Kenya leading with the highest debt stock.[5] This rapid build-up of debt has pushed the EAC region closer to a debt crisis and now concerns about the impending debt distress in the region have increased creating a need to forestall this through increased domestic revenue mobilisation. The dwindling revenue collection, East African countries' increased debt appetite, poor debt management and ineffective debt policy decisions have worsened the debt situation across East Africa.

What is worrying is the fact that the increasing debt stock has not translated to improved economic growth in the region. Though countries have reported increased growth rates in 2019 except Kenya, the growth has been marginal. High poverty and unemployment coupled with dilapidated infrastructure in the region has voided meaningful growth brought about by the increasing debt stock.

There is a high rate of accumulation of new debt while debt service to revenue ratio threshold has been breached as shown in Table 2 above. Although country debt sustainability in the short and medium term are sustainable, these countries are at higher risk of getting into debt distress in the long-term gauging by the debt service to revenue and the ratio public debt to GDP. With countries like Kenya now surpassing their debt to GDP thresholds according to the IMF, increased debt appetite in the EAC region now calls for caution to liberate the countries resources from debt repayment to economic growth and development activities in the countries. Countries must now limit reckless debt policies like the recent polices in Kenya which increased the debt ceilings to Ksh 9 trillion. Such policies have potential ramifications on the economy as it increases the countries debt distress and opens the economy for increased scrutiny from creditors. Countries must now opt for debt reorganization and reduce commercial loans with high interest rates. Additionally, there is need for fiscal consolidation across East Africa.

5. The East African, 'East Africa: COVID-19 Leaves Region in $2.3 Billion Debt Hole in Three Months', AllAfrica, 2020, https://allafrica.com/stories/202005180097.html

Figure 5. External Debt Servicing as a Percentage of Annual National Budget

Country/Year	2014/15	2015/16	2016/17	2017/18	2018/19
Kenya	9.3%	6.7%	7.3%	10.9%	17.3%
Tanzania	2.3%	1.2%	11.9%	2.9%	17.0%
Burundi	1.9%	2.6%	5.4%	7.7%	12.5%
Rwanda	4.2%	3.8%	5.1%	4.3%	35.5%
Uganda	6.7%	8.6%	11.1%	13.2%	14.4%

Source: Acepis Computation based on Individual Country Central Bank and World Bank

The G20 finance ministers announced a Debt Service Suspension Initiative (DSSI) in April 2020 with the aim of providing debt reprieve to developing countries with overwhelming debt burden.[6] This initiative came after calls for debt-service suspension for poor countries by IMF and World Bank, aimed minimising the impact of Covid-19. Beneficiaries of this initiative were required to commit to utilising free-up resources towards increasing economic, health and social spending, and to provide full disclosure of all public sector financial commitments for improved assessment of financial needs and debt sustainability. Further, the beneficiaries were required to limit their non-concessional borrowing, strictly adhering to non-concessional borrowing policies prescribed by IMF and the World Bank.

Figure 5. External Debt Servicing as a Percentage of Annual National Budget

State	Eligibility	Request to participate	Potential DSSI Savings (*in USD Millions*)	Potential DSSI Savings (*% of 2019 GDP*)
Burundi	Yes	Yes	3.9	0.1
Kenya	Yes	No	802.6	0.8
Rwanda	Yes	No	12.6	0.1
Tanzania	Yes	Yes	148.9	0.2
Uganda	Yes	Yes	95.4	0.3

Source: Acepis Computation based on Individual Country Central Bank and World Bank

As evident from Figure 6 above, all countries in the East African Community were eligible to benefit from the Debt Service Suspension Initiative (DSSI). However, only three countries requested to participate, with Kenya and Burundi opting out. Kenya's refusal to participate was predicated on the argument that the initiative would limit access to international capital markets due to its negative impact on the country's credit ratings, thus limiting its ability to finance the country's finance deficits.[7] Rwanda has also put forth the argument that the exclusion of private lenders and the uncertainty with the existing debt stock from non-concessional lenders as basis for opting out of the initiative.[8]

6. The World Bank, 'COVID 19: Debt Service Suspension Initiative', database, https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative
7. Duncan M, 'Exclusive: Kenya eschews G20 debt relief initiative over restrictive terms', Reuters, 2020, https://www.reuters.com/article/us-health-coronavirus-kenya-exclusive-idUSKBN22R25A
8. Robert M, 'Debt servicing or COVID-19 response? an impossible choice for developing countries', Oxfam HECA, 2020, https://heca.oxfam.org/latest/blogs/debt-servicing-or-covid-19-response-impossible-choice-developing-countries (See also 'Financial Times, 'Covid-19 crisis set to push poorest nations into debt distress, Paris Club warns', database, https://www.ft.com/content/1466fdd7-b50e-4c66-af27-64d60296e32f)

Overall, there current debt situation in East Africa and the larger Sub-Saharan region suggest calls for broader, innovative solutions. Reactions to initiatives such as the Debt Service Suspension Initiatives suggests the need for multi-stakeholder engagement, including concessional and non-concessional lending institutions in developing broader solutions that address the looming debt crisis.

3.2. Taxation in East Africa – A Snapshot

Taxes are collected to finance government budget and support government led initiatives aimed at providing public utilities to its citizens. Covid-19 has contracted revenue collection as most workers have been laid off, purchases have reduced, and exports and import have been either delayed or stopped. The effect of this is reduced national revenues in the short term as the effects of the virus continues. Furthermore, some governments across EAC have reduced tax rates during the Covid-19 period and this has had huge consequences on individual country budget whose huge portion is supplemented with the country's revenue collection. To counter this, countries have had to find other innovative ways of increasing tax base and creation of additional taxes to increase the amount of revenue collected. In the last half decade, tax rates across East Africa have remained largely the same for top revenue earners except Kenya that has reduced Income, Corporation and Value Added tax during the Covid -19 period (Figure 7)

Figure 7. Tax rates across East Africa

Tax	Period	Kenya	Uganda	Rwanda	Tanzania	Burundi
Income tax-Individual	Pre-Covid	30%	30%	30%	30%	30%, 35% on non-residents
	Covid Period	25%	30%	30%	30%	30%
VAT	Pre-Covid	16%	18%	18%	18%	18%
	Covid Period	14%	18%	18%	18%	18%
Corporation tax	Pre-Covid	30%, 37.5% for non-resident companies	30%	30%	30%	30%
	Covid Period	25%	30%	30%	30%	30%
Rental Income Tax	Pre-Covid	10%	20%	0% -30%	20%	20% - 60%
	Covid Period	10%	20%	0%-30%	20%	20%-60%

Source: Country Revenue Collection Agencies

Generally, tax rates in Kenya are lower in comparison to its peers in East Africa before and during the Covid-19 period as depicted in figure 7 above. This may have created incentives for investors who have opted for Kenya as a good destination for investment as opposed to its peers hence boosting revenue collection. Revenue collection across the region has improved significantly in the past decade with a high increase being seen in income and Value Added Taxes. Between 2009 and 2017 individual country revenue collection across East Africa increased by over 180%. The highest increase during this period was recorded by Tanzania having increased by 233%. Kenya revenue collection increased by 188% while Rwanda and Uganda have increased by 210% and 232% (Figure 8).

Figure 8. Revenue collection (2009-2017)

Year	Kenya *(Kshs millions)*	Rwanda *(RwF)*	Uganda *(UGX Millions)*	Tanzania *(Tshs in millions)*
2009	485,441.80	389,939	3,737,567	4,570,300
2010	540,163.60	440,724	4,252,022	5,460,200
2011	641,468.60	537,439	5,158,308	6,668,700
2012	716,766.40	645,448	6,272,330	8,031,100
2013	811,896.40	760,158	7,220,835	9,880,000
2014	976,913.50	865,554	8,065,069	10,665,100
2015	1,085,219.40	997,232	9,761,430	13,246,100
2016	1,231,771.10	1,115,647	11,042,302	14,221,900
2017	1,399,657.60	1,212,540	12,431,319	15,249,300

Source: OECD

The increase in tax revenue collection has been attributed to tougher tax legislation across East Africa, an increased tax base and increased awareness of the importance of taxation amongst the public. However even with the improvement, all the EAC countries have consistently missed their revenue targets in the last half decade putting increased scrutiny on the revenue collection agencies and the tax policies being advanced in the region.

According to OECD, the bulk of the total revenue collected is from income taxes, value added taxes and custom duty in all the five East African countries under review. VAT and income taxes form at least 50% of the total revenue collected each year. In Kenya income taxes have more than doubled increasing by 264.7% in the period under review and this has been replicated across East Africa. Uganda has had the highest increase of 278.5% followed by Rwanda with 240.8% and Tanzania coming last with 215.4%. Value added Taxes on the other hand have also increased geometrically between 2009 and 2017 with increases ranging between 165% and 212% for the five East Africa countries.

It is important to note that the general increase in tax revenue has also been contributed by other taxes such rental income tax, import and export duty and other excise taxes that have also increased during the period under review. With ever increasing debt appetite East Africa countries need to bolster their revenue collection and mobilisation strategies through innovation to cater for the increasing deficit financing in the budget and increased debt servicing.

To increase the amount of revenue collected the government will have to involve the tough balancing act of increasing the tax rates and widening the tax base while ensuring its economic growth without creating unnecessary burden on its citizens. Countries will be forced to introduce tax relief and incentives to improve investments and exports. In the past, East African countries have been forced to introduce tax incentives across the region to boost investments and exports through introduction of reduced rates, tax holidays, investment allowances and tax exemption. Introduction of tax incentives has supported investment and promoted exports, which have in turn increased revenue collected from investors and exporters. In general, countries across East Africa have introduced incentives either in the form investment tax credits and allowances and export promotion zones instituted by the export processing within these countries.

4. LINKAGES BETWEEN PUBLIC DEBT AND TAXATION – A REVIEW OF THE LITERATURE

4.1. Public Debt and Tax Burden

Kiminyei (2019) studied the empirical relationship between public debt and tax revenue in Kenya. He argues that public debt responds to tax revenue and while both represent a shift of resources from the private into the public sector, the distinction is that taxes are usually seen as necessary transfers yet public debt are transfers that are voluntary in nature. He asserts that growing public debt and growing budget deficits results in cuts in government expenditure, tax raises or both in an attempt to attain sustainability. However, raising taxes to finance government expenditure has always been seen as socially desirable resulting in the public debt financing which is associated with low political cost. He further states that the resort to debt financing overestimates the benefits accruing in the present period and underestimates the costs associated with future tax burdens. He concluded that in the long run, public debt responds positively to shocks from government expenditure.

Shonchoy (2010) in a study of 111 developing countries in Africa, South America, Asia and Europe over 1984-2004, using both country specific fixed effect and random effects models, established that the coefficient of debt service was statistically insignificant thus concluding that public debt burden may not have a direct impact on government expenditure as such he argues that it would be appropriate for developing Nations to use taxation to finance public debt burden which is fast compared to cutting pre-planned expenditure. Arif and Hussain (2018) point to the increased prominence of budget deficits and public debt in economics over the recent years. This is attributable to the growing concerns over the ability of governments to sustain financing social services in the long run. Existing literature suggests that fiscal debt impacts negatively on fiscal balance thus posing a threat to future generation. Adam and Bevan (2005) find an exacerbating effect of high debt stock on budget deficits noting that an increase in productive government expenditure, financed out of a rise in the tax rate, will be growth-enhancing only if the level of public debt is sufficiently low.

Diamond (1965) adds on the effect of taxes on the capital stock and differentiates between public external and internal debt. He concludes that, though the impact of taxes needed is to finance the interest payments, both types of public debt reduce the available lifetime consumption of taxpayers, as well as their saving, and thus the capital stock. Meade (1958) argues that the removal of the "deadweight debt" would incentivise households to save and facilitate domestic enterprise to grow and may pave the way for reduction in income taxation as a result of saving interest payments on the budget.

4.2. Public Debt, IFFs and Harmful Tax Practices

Alwneh (2017) estimates the impact of capital expenditure, current expenditure and external and internal public debt on taxes in Jordan during the period 2001–2014. Using a multiple linear regression method by Eviews programming, he finds a positive impact of both the capital expenditure and the current expenditure on taxes and a significant link between external and internal public debt on taxes in Jordan. Sargent and Wallace (1981) discuss implications of a 'debt trigger' - a principle with the assumption that there is some legal or constitutional impediment that prohibits the ratio of government debt to GDP from rising above some pre-specified upper bound, which the government is not permitted to default. Once the debt reaches this upper bound, it is assumed that tax rates must immediately and permanently adjust so that the debt to GDP ratio does not exceed this upper bound. The tax rate must be increased to prevent the relative size of the government debt from escalating. When the debt trigger kicks in, government taxes must be immediately imposed at some higher level to keep the debt to GDP ratio constant.

Makau, Ocharo and Njuru (2018) argued that the increase in public debt has been necessitated by the need to source for affordable loans with less risks in order to finance development projects. This proves that debt stabilization is not a priority for the government which is a threat to fiscal sustainability in the long run if no fiscal adjustment is taken. They argue that Kenya's fiscal instability can be attributed to the oil price shocks of 1973/74 and 1979/80, droughts, Gulf crisis which led to increase in oil prices, fall in tourism earnings, exchange rate depreciation and high interest rates, post-election violence of 2007/2008, the global financial and economic crisis of 2008 and the high international oil and food prices. Consequently, these shocks have had adverse effects on government revenues and expenditures while the instability in the fiscal balance contributed to the weak economic performance by accumulating high public debt and the associated high interest rates.

4.3. Public Debt, Economic Growth and Resource Redistribution

Krugman (1988) coined the term 'debt overhang' to describe the negative relationship between public debt and economic growth. Debt overhang refers to when the ability of a country to repay its external debt reduces below the contractual value of the debt. Public debt can also negatively affect economic growth through higher future distortionary taxation, inflation, and greater uncertainty about prospects and policies. Rangarajan and Srivastava (2005) while studying the implications of fiscal deficits and government debt on growth and stabilization found that revenue deficits have negative implications on government savings, leading to an overall decrease in the government's saving rate. They further point out that there is significant correlation between fiscal deficits and debt to GDP ratio, with high level of fiscal deficits resulting in high debt-GDP ratio and, consequently slow economic growth.

Huffman (2015) investigates the effect that higher levels of government debt, held by domestic consumers, have on economic growth. He argues that government budget constraints impose some discipline on how future tax rates need to be set, but obviously they alone do not pin down a unique path for these tax rates. Krogstrup (2002) studied public debt asymmetries and their effects on taxation and public spending in the EU. Using six theoretical hypotheses about the effects of debt service on overall taxes, primary expenditures and the tax mix, he finds that high and differing levels of debt service across EU countries may lead to cross country differences in public finances, since debt service has to be financed from the overall budget. He concludes that that taxes are higher and primary spending is lower in high debt EU countries compared to low-debt EU countries in the short run.[9]

Checherita and Rother (2012) investigated the average impact of government debt on per-capita GDP growth in twelve-euro area countries over a period of about 40 years. They established that where government debt-to-GDP ratios are significantly high, it would have a negative effect on economic growth. They argue that when debt-to-GDP ratios attain the 70-80% of GDP mark, the negative growth effect of high debt may start necessitating more prudent indebtedness policies.[10] Christie and Rioja (2012) explored how variations in the composition and financing of government expenditures affected economic growth in the long run by analysing how public investment spending funded by taxes or borrowing affected long-term output growth. They established that where tax rates were not already high, funding public investment by raising taxes resulted in growth in the long run. But, where existing tax rates were high, then public investment (expenditure) only resulted in growth if funded by restructuring the composition of public spending. They concluded that using debt to finance new public investment compromises growth, regardless of the initial fiscal condition.

Ceccetti, Mohanty and Zampolli (2010) explored the future of public debt, its prospects and implications after the global financial crisis for developed economies. They argued that the profile of public debt presented major risks and challenges for both fiscal and monetary policy. They established that a higher level of public debt implies that a larger share of society's resources is permanently being spent servicing the debt. This means that a government intent on maintaining a given level of public services and

9. Signe K, Public debt asymmetries: the effect on taxes and spending in the European Union, European Central Bank,2002, https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp162.pdf
10. Checherita C & Rother P, The impact of high and growing government debt on economic growth: an empirical investigation for the Euro area. European Central Bank, Working paper series No. 1237, 2010, https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1237.pdf

transfers must raise taxes. Taxes on the other hand distort resource allocation and can lead to lower levels of growth. And with the already high tax rates and expanded tax bases in many countries, this would mean that domestic resource mobilisation would be adversely affected. They also argued that a high debt portfolio would lead investors to demand a higher risk premium (with great implications for debt repayment) for holding the bonds issued by a highly indebted country (Ceccetti, Mohanty and Zampolli, 2010). All these highlight the negative effects that public debt has on resource distribution and economic growth in a country.

Public debt and tax revenue are used in the financing of government expenditure programs with the ability of boosting social development, the difference being that public debt is used to finance the budget deficit gaps that result from shortfalls in tax revenue. However, literature on the linkages between public debt and tax justice remains scanty especially in the East African context. This paper contributes to the literature by showing evidence on the existence of a relationship between public debt, tax policies and tax practices.

5. IMPLICATIONS OF PUBLIC DEBT CRISIS ON TAX JUSTICE IN EAST AFRICA

5.1. An Analytical Framework

In order to understand the implications public debt unsustainability on tax justice in East Africa, we developed an analytical framework based on key issues in current discourse on tax justice: i) implications of public debt on fairness of tax policy, ii) implications of public debt on IFFs and harmful tax practices, iii) implications of public debt on economic growth and resource redistribution, and iv) empowerment and inclusion of citizen voices in fiscal policy making. As such, this paper proceeds with these four key elements of tax justice as the basis for investigation and presentation of the findings.

5.2. Key Findings

5.2.1.Implications of Public Debt on Fairness of Tax Policy in East Africa

Fairness in tax policy entails balancing the pros and cons of taxation. Whilst countries pursue debt repayment in the most efficient way, they tend to shift focus of their tax policies to help them achieve the required finances necessary to pay off their debt. With the growing debt stock in the East Africa region that continues to limit economic growth, and the recurrent deficits in the region's budgets, tax reforms in the region are geared towards improving revenue mobilisation to bridge the budget gaps. This raises the question of what relationship exists between public debt and tax reforms.

Alesina & Passalacqua (2015), while examining the political economy of government debt noted that fiscal policy and politics are directly intertwined. They argue that departure from optimality in managing a country's debt and overall fiscal policy are linked to political mechanisms. For instance, in Kenya, expenditures since 2013 have experienced a sharp increase, growing by over Ksh.1 trillion between FY2013/14 and FY2017/18. The expenditures have mainly been geared towards financing infrastructure projects to fulfil the government's political promises, including major projects like the Standard Gauge Railway. In Rwanda, the government set an ambitious seven-year plan geared towards financing various infrastructure projects and stimulating the economy.

Diane Lim Rogers (2013) in her paper on Reducing the Deficit Through Better Tax Policy also states that there is more that can be done to reduce budget deficits, including broadening the tax base, collecting legally due taxes and targeted adjustment of tax rates, especially for those who are high in the income distribution scale. Cheeseman and Griffiths (2006) used Kenya as a case study when researching on the increasing tax revenue in sub-Saharan Africa. The study established that the tax reforms in Kenya have been more focused on expanding the country's tax base and closing the existing tax gaps. The study further points out that while Kenya adopted the VAT system as recommended by IMF and established the Kenya Revenue Authority to manage tax and revenue collection, structural weaknesses in the economy continue to limit the country's ability to expand its ability to expand its revenue base. Over time, other tax policy changes have been implemented including the Finance Bill 2019, Income Tax Bill and Transfer pricing, among other tax measures.

According to the IMF, Kenya's tax system has recorded more than average performance over the past three decades. This superior performance is attributed to a stronger tax administration system and a relatively large formal sector. There are those who maintain that the manifestation of unsustainable public debt is seen mainly in failure of the government to meet annual revenue targets. Kenya, for example, missed its revenue targets in 2017 by KES 54.8 billion and fell short by a wider margin in 2018. (AfDB, 2012; Ndikumana (2015). A reduction in government revenue and the subsequent decline in spending on public services worsen social development outcomes in key areas such as health and education.[11] By reducing the tax gap, Kenya gains more potential to increase its tax revenue collection as a percentage of GDP.[12]

11. Barasa T, Illicit Financial Flows in Kenya: Mapping of the Literature and Synthesis of the Evidence, PASGR, 2018, https://www.pasgr.org/wp-content/uploads/2018/09/Kenya-Illicit-Financial-Flows-Report.pdf
12. AFdB (African Development Bank), Domestic Resource Mobilization for Poverty Reduction in East Africa: Kenya Case Study, OREA)Regional Department East A, 2008, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Kenya%20Case%20Study_final.pdf

Kenya's worrying debt-risk profile as a result of missed tax ceilings due to the reclining tax base in the country has recently received queries by the IMF.[13] Over a fifth of all government revenue is derived from corporate income tax paid by just 310,000 companies.[14] Kenya plans to expand its tax base in order to boost domestic resource mobilization. The country is seeking to raise the number of active taxpayers from 3.94 million to 7 million by the year 2022.[15] In 2018, The Kenya Revenue Authority (KRA) rolled out an elaborate tax base expansion programme, targeting to recruit over 500,000 new taxpayers who have been out of the tax bracket.[16] The recruitment of landlords into the tax net and the reinstatement of turnover tax (TOT) on MSMEs[17] is also geared towards widening the tax base in the country. Tax incentives, such as the lower tax rates that were available to companies who list on the Nairobi Securities Exchange (NSE), were withdrawn.[18] To take effect as from 1st January 2021 as proposed in the FY 2020/21 budget include a digital service tax of 1.5% on value of transactions on the provision of services derived from or accrued in Kenya through a digital market place such as downloading digital content.[19] The residential income tax bracket has also been expanded to Ksh. 15 Million and is payable monthly. Monthly or lumpsum pension and retirement benefits paid to low-income employees shall be taxed; Interest income earned by Home Ownership Savings Plan (HOSP) depositors shall also be taxed.[20]

These new tax measures are anticipated to raise an extra Ksh. 38.9 Billion in revenues to enable the government to finance its budget deficit.[21] VAT, charged at a standard rate of 14% on the supply of Liquefied Petroleum Gas (LPG) has seen an increase in LPG in the country. Raw materials used to make automotive and solar batteries in Kenya shall also be subjected to the same VAT rate of 14%. The energy, aviation, agriculture (tractors) and manufacturing (plastics) sectors, which currently enjoyed VAT exemptions, shall be subjected to VAT at 14%.[22]

The tax system in Uganda has largely been considered as regressive, considering its high dependence on indirect taxes such as excise duty, VAT and customs, which contribute about two thirds of the total revenue. Uganda recorded an increase in government revenue from US$3.76 Bn in 2014/15 to US$7.50 Bn in 2018/19. However, with no clear policy on tax incentives and exemptions, Uganda has significantly recorded revenue losses. According to the Uganda Revenue Authority, Uganda lost revenue from tax incentives and exemptions amounting to US$ 3,073 Million from 2010/11 to 2016/17, an equivalent of 16% of the total tax revenue. The government spends more than the revenue it collects, which increases the annual budget deficit. To finance the deficit, the government has continued borrowing, resulting into an increase in the public debt to US$ 10.53 billion (equivalent to 38.1% of GDP) as at March 2018. This increase in debt is associated with increased borrowing needs amid lower external financing.[23] High government spending on interest payments, public administration and the military sector impacts negatively on financing of other sectors such as agriculture.[24] This calls for an increase in domestic revenue mobilization to reduce the growth in public debt.

13. Muiruri K, 'IMF anxious to see jump in Kenya's tax base', Citizen digital, 2019, https://citizentv.co.ke/business/imf-anxious-see-jump-kenyas-tax-base-291377/
14. Luesby J,IMF anxious to see jump in Kenya's tax base', Business daily, 2019, https://www.businessdailyafrica.com/analysis/columnists/How-low-tax-base-limits-revenue/4259356-5145050-t7l23qz/index.html
15. Xinhua, 'Kenya to expand tax base to boost domestic resource mobilization', database, 2019, http://www.xinhuanet.com/english/2019-10/07/c_138454181.htm
16. KRA (Kenya Revenue Authority), KRA embarks on tax base expansion programmes to raise more revenue, database,2018, https://www.kra.go.ke/en/media-center/news/404-tax-base-expansion-programmes
17. Muiruri K, 'KRA targets Ksh.25 billion from tax-base expansion initiatives', Citizen Digital, 2020, https://citizentv.co.ke/business/kra-targets-ksh-25-billion-tax-base-expansion-initiatives-324170/
18. Business Daily, 'Why the time is wrong to widen tax base in Kenya', database, 2020, https://www.businessdailyafrica.com/datahub/Why-the-time-is-wrong-to-widen-tax-base-in-Kenya/3815418-5573710-fyytuez/index.html
19. RSM Eastern Africa, 'Kenya Budget Highlights 2020 – 2021', database,2020, https://www.rsm.global/kenya/insights/sector-insights/kenya-budget-highlights-2020-2021
20. Gitogo W, 'Kenya Budget 2020/21; More Taxes', The Kenyan Wallstreet, 2020, https://kenyanwallstreet.com/kenya-budget-2020-21-more-taxes/
21. Ochuodho Z, How Treasury will finance 2020/21 financial budget, People Daily Online, 2020, https://www.pd.co.ke/news/how-treasury-will-finance-2020-21-financial-budget-40474/
22. Gitogo W, 'Kenya Budget 2020/21; More Taxes', The Kenyan Wallstreet, 2020, https://kenyanwallstreet.com/kenya-budget-2020-21-more-taxes/
23. IMF (International Monetary Fund), IMF Country Report No. 14/195, 2014, https://www.imf.org/external/pubs/ft/scr/2014/cr14195.pdf
24. Oxfam in Uganda, 'Uganda's tax system continues to widen the inequality gap', database, 2019, https://uganda.oxfam.org/latest/press-release/ugandas-tax-system-continues-widen-inequality-gap

In order for Uganda to attain middle income status, it will have to heavily rely on domestic and external borrowing to finance its National Development Plan (NDP). The Uganda Revenue Authority (URA) has acknowledged the need to expand revenue collection and has implemented strategies such as tax laws and reforms and improved administration to enhance tax compliance. In the last three decades, Uganda has undertaken reforms geared towards broadening the tax base and increasing domestic revenue mobilization. These reforms include the establishment of the Uganda Revenue Authority (URA), the introduction of Value Added Tax (VAT), and modernizing the tax administration systems. The government of Uganda, in July 2018, introduced a social media tax and a 1% levy on all mobile money transactions, which affected about 5M people.[25] There has been significant improvement in domestic revenue collections in Uganda as a result of these policy reforms.[26]

Following the cessation of a civil war that claimed more than 200,000 lives in 2009, Burundi's GDP per capita was the lowest in the world at US$150. To improve financial management in the country, the Government of Burundi created the Office Burundais des Recettes (OBR), a semi-autonomous revenue authority. This move led to an improvement in revenue collection in 2012 by 25% compared to the revenue collected in 2009.[27] It also allowed the Government to make significant progress in mobilizing domestic revenue, thus reducing their dependency on aid. In 2018, Burundi recorded public debt equivalent to 13.20% of the country's GDP.[28] Burundi was able to finance majority of its government spending on its tax revenue between 2009-2011.

However, attempts to strengthen domestic fiscal revenue mobilization have faded since 2012 because of inconsistent tax policies, huge discretionary exemptions, and the narrow tax base due to weak private sector development.[29] The Government of Burundi intends to attract foreign direct investment in the agro-industry, where it has a comparative advantage among other East African countries, for it to widen its tax base.[30] In 2013, a VAT tax of 18% on the sale and import of all goods and services was introduced as an enactment of the 2009 VAT Law.[31] There are many sources of revenue that are currently under-taxed in low-income countries such as Burundi; in Burundi, one foreign company contributed nearly 20% of the country's total tax collection.[32] At the top of the list is the untaxed assets and incomes of the rich.[33] For instance, fuel taxation is one of the few genuinely broad-based sources of revenue that the government intends to explore.[34]

In the immediate aftermath of the genocide, Rwanda sought to quickly stabilize the economy by implementing a series of tax policy reforms to increase revenue collection. In 1997, the Government established the Rwanda Revenue Authority (RRA), which is a semi-autonomous revenue authority responsible for revenue collection and enforcement. Tax policy reforms since the early 2000s have focused on widening the tax base, including the establishment of a Value Added Tax (VAT) in 2001, as well as encouraging foreign direct investment and strengthening tax compliance.

25. African Business, (The View: African governments must widen the tax base), database, 2019, https://africanbusinessmagazine.com/opinion/african-governments-must-widen-the-tax-base/
26. EABN (East Africa Budget Network), database, http://csbag.org/wp-content/uploads/2017/11/Widening-Uganda%E2%80%99s-Tax-base.pdf
27. ICTD (International Centre for Tax and Development),database, https://www.ictd.ac/publication/for-state-and-citizen-reforming-revenue-administration-in-burundi/
28. Trading Economics (Burundi Government Debt to GDP), database, https://tradingeconomics.com/burundi/government-debt-to-gdp
29. The World Bank, database, 2018, http://documents1.worldbank.org/curated/en/655671529960055982/pdf/Burundi-SCD-final-06212018.pdf
30. Africa Research Institute, database,2013, https://www.africaresearchinstitute.org/newsite/wp-content/uploads/2013/10/PV-For-state-and-citizen.pdf
31. Africa Research Institute, database,2013, https://www.africaresearchinstitute.org/newsite/wp-content/uploads/2013/10/PV-For-state-and-citizen.pdf
32. African Business, 'The View: African governments must widen the tax base', database, 2019, https://africanbusinessmagazine.com/opinion/african-governments-must-widen-the-tax-base/
33. Mascagni G & A Lees, 'Using administrative data to assess the impact of the pandemic in low-income countries: An application with VAT data in Rwanda', International Centre for Tax and Development,2021, https://www.ictd.ac/country/rwanda/
34. Africa Research Institute, database, https://www.africaresearchinstitute.org/newsite/wp-content/uploads/2013/10/For-State-and-Citizen-Reforming-revenue-administration-in-Burundi-Final.pdf

In 2000, Rwanda rolled-out its National Decentralisation Policy, which involved fiscal decentralization while introducing reforms to modernize and enhance the efficiency of its tax administration system.[35] Revenue collection in the FY 2020/21 is projected to reduce as compared to that of the FY 2019/20 due to the effect of COVID-19 on the country's economy. As such, the Government of Rwanda intends to borrow more money to boost its economy from the harsh effects of the pandemic, leading to more public debt. With a reduction in almost all tax rates, it might be impossible for Rwanda to raise enough revenue to finance its budget deficit and repay its debt.[36]

Tanzania has maintained a high level of economic stability since 2005, making it the fastest growing economy in the East African Community. However, the Government's low performance in tax collection threatens its fiscal stability. To widen the tax base in the country, the Government has streamlined the many small taxes businesses and reduced tax exemptions. Close to 90% of Tanzania's revenue is raised in Dar-es-Salaam.[37] While presenting the 2018/19 financial budget in June 2018, Tanzania's Minister for Finance and Planning highlighted a narrow tax base, tax evasion, difficulties in collecting tax/levy from the informal sector, unfriendly environment for tax payment and imposition of numerous taxes and levies as some of the key challenges facing the country. The Minister proposed amendments relating to the Income Tax, Value Added Tax, Tax Administration Customs and Excise Duty among other laws. He also increased i.) The gaming tax rate from 6% to 10% on gross sales in sports betting operations, ii.) the gaming tax from TZS32,000 to TZS100,000 a month on slot machines, and iii.) The gaming tax from 15% to 18% on gross gaming revenue for land-based casino operators. A treasury single account meant for collection and payment of government funds was also created.[38]

Whilst many countries have resorted to imposing new taxes and raising the tax rates in order to finance their budget deficits, they continue to contend with huge debt burdens. It is the citizens who are most affected by government decisions on accruing debt. The tax policy paths taken in response to debt-driven budget deficits have proven to work against the very same people whom accrued debt is argued to be targeted to benefit. This points unfairness in the debt repayment strategy for many East African countries.

5.2.2. Implications of Public Debt on IFFs and Harmful Tax Practices in East Africa

Capital flight and cross-border illicit financial flows (IFFs) that serve to conceal illegal activities and evade taxes have been there for a long time now (Ndikumana, 2012; Herkenrath et al., 2012). Although still problematic to define and to measure, there is some consensus that IFFs outweigh official development assistance to developing countries and have been impeding economic development and sustainability in global south (Ndikumana, 2012; Herkenrath et al., 2012).

Whilst narrow definitions focus on such actions as hiding proceeds of crime, money laundering and tariffs and tax evasion, broader definitions of IFFs cover actions that are not strictly illegal, but which are undesirable because they result in reduced tax revenues like strategic tax avoidance actions in the form of transfer mispricing pricing (Forstater, 2018). Today, the internationally agreed definition of illicit financial flows (IFFs) accepted by the UN statistical commission indicates that IFFs have 4 components: 1) Tax and commercial IFFs, 2) IFFs from corruption, 3) Theft-type activities and financing of crime and terrorism, 4) IFFs from illegal markets (Dohlamn and Neylan, 2013).

Capital flight out of Sub-Saharan Africa region in the form of illicit financial outflows averages 6.1% of the region's GDP. The 2013 Global Financial Integrity report estimated that African economies lost between US$ 597 billion and US$ 1.4 trillion in net resource transfers over the past 30 years. The Brookings

35. Nakamura Y & A Williamson, Government Health Spending and Tax Reform in Rwanda, 2000-2013 – A Case Study, USAID, 2105, https://www.r4d.org/wp-content/uploads/HFG-Tax-Reform-Case-Study_Rwanda.pdf
36. Bizimungu J, '10 key highlights of Rwanda's 2020/21 budget', The New Times database, 2020, https://www.newtimes.co.rw/news/10-key-highlights-rwandas-202021-budget
37. The World Bank, 'Why Should Tanzanians Pay Taxes? The Unavoidable Need to Finance Economic Development', database, 2015, https://www.worldbank.org/en/country/tanzania/publication/tanzania-economic-update-why-should-tanzanians-pay-taxes-the-unavoidable-need-to-finance-economic-development
38. Ernst & Young (Tax Insights database), database, https://taxinsights.ey.com/archive/archive-news/tanzania-issues-2018-19-budget.aspx

Institute analysed illicit financial flows in Africa. They argue that while the international development community often focuses on the amount of aid and investment that enters the African continent, the other part of the balance sheet—the funds exiting the continent—has often been overlooked (Signe, Sow and Madden, 2020). Between 1980 and 2018, sub-Saharan Africa received nearly $2 trillion in foreign direct investment (FDI) and official development assistance (ODA), but emitted over $1 trillion in illicit financial flows (Signe, Sow and Madden, 2020). The African Tax Administration Forum estimates that up to 33% of Africa's wealth is unduly held in countries outside the continent. The panel on illicit financial flows – often known as the Mbeki Panel - estimated that US$ 60 billion is lost through IFFs from Africa annually. United Nations Economic Commission for Africa (UNECA) argues that these resources could be invested in programmes and public goods and services that can help substantially reduce inequality like social protection and investments in productive and job creating initiatives.

For East Africa, available evidence is anecdotal and often underestimate the magnitude of losses. For instance, it is estimated that between 2002 and 2011 Kenya lost more than KES 160 billion in IFFs and that Kenya has been losing an average of KES 40 billion annually since 2011 (Wafula, 2015). In Uganda, Trade mis-invoicing is the most significant area of illicit financial flows; with the potential over- and under-invoicing of imports from 2006-2015 was approximately US$4.9 billion, and over- and under-invoicing of exports may have reached US$1.7 billion. This is fuelled by laws governing corporations in Uganda which are generally weak on beneficial ownership declaration, absence of parliamentary oversight that compromises transparency and accountability of SOEs and a highly secretive extractives sector operating under strong discretionary political control (Global Integrity Organisation, 2018).

It has been argued that effects of IFFs are particularly devastating for developing countries and increasingly undermine international efforts to promote sustainable development (Nkurunziza, 2012; Ndikumana et al, 2015). These flows, illicitly acquired and channelled out of the continent, continue to pose a development challenge to the region, as they remove domestic resources which could have been crucial for the continent's economic development. IFFs are considered a developmental challenge in Africa as they exacerbate poverty and inequality. Notably, there has been punditry and anecdotal research linking public debt in developing countries to IFFs and harmful tax practices. Moore (2012) argues that IFFs hamper economic growth and weaken state institutions in countries where they originate. He maintains that there is a circular relationship between IFFs and development-inhibiting economic, political and social conditions. Ndikumana et al (2015) analyse the effects of illicit capital flight on economic growth in Africa. They show that by reducing domestic investment, IFF from African countries cause significant economic losses. There are also those who argue that there is an asymmetrical relation between countries that receive debt financing with illicit financial flow. This argument is related to such harmful practices and policies as unfavourable DTAs signed by debt recipient countries, transfer mispricing by MNCs of debt providing nations, and others like tax exemptions, breaks and incentives often negotiated as part of debt instruments and non-formal agreements with debt recipient governments without sufficient public scrutiny and accountability.

There are also those who argue that IFFs lead to reduction of the tax base as private wealth is illicitly transferred out of the country (Ndikumana et al, 2015; Reuter, 2017). Barasa (2018) explored Illicit Financial Flows in Kenya; he argues that IFFs are sustained by many factors that include a vulnerable financial system; reduced tax revenue which contributes to increased budget deficit and rising national debt; constrained social and economic development; and weak institutional, legal, policy and administrative frameworks. The existing literature on implications of IFFs is limited. It however suggests that IFFs have far-reaching negative implications on economic development, poverty and inequality, and social and political development agenda (PASGR, 2017). IFFs, among other things, impede government efforts to mobilise domestic resources, which ultimately contributes to widening of budget deficits, and significant resource distribution trade-offs that limit allocative efficiency and lead to the starving of crucial departments of government of resources necessary to fund and sustain delivery of essential public goods and services like healthcare.

There is broad consensus amongst multilateral development banks that most developing countries are unable to mobilize enough domestic investment capital to ensure robust, long-term economic growth (Ndikumana, 2013; Easterly, 1999). As such public investment funds are scarce for the funding of infrastructure and social policy measures for poverty alleviation (AfDB et al., 2012). As the African Development Report 2012 underlines, one of the major impacts of IFFs is that they further widen these funding deficits. IFFs have contributed to the widening of the funding deficits for infrastructure and social policy measures for poverty reduction in many African countries making it difficult to develop infrastructure and fund social policy measures for poverty alleviation (Herkenrath et al., 2012).

Whilst it may be inaccurate to assume a direct link between IFFs and investment losses, funding gaps IFFs create in public investment are often offset by foreign development funding and in particular by further public borrowing. As such, it has been proven that there is a close connection between IFFs and the public debt ratio. This is because sustained budget deficits and needs to bridge financing gaps for national development goals like infrastructure development have led to contraction of substantive amounts of public debt in East Africa (Herkenrath et al., 2012). As argued by Ndikumana and Boyce (2003) the connection works both ways, as IFFs can force and or incentivises a government to resort to flight-driven external borrowing whilst external debt can also trigger debt-fuelled capital flight (Herkenrath et al., 2012). In both cases, IFFs compound government indebtedness with implicit policy conditionalities.

For instance, in Uganda, the identification of untapped oil reserves in the Albertine area has attracted investments worth US$3 Billion from China, Libya, and Iran, as well as from oil companies from France, Britain, and Ireland (Global Financial Integrity, 2018). More importantly, China has become the lead investor in Uganda with a hand in most key sectors such as trade, investment, water conservation, agriculture, infrastructure, telecommunications, energy, textiles, human resource development, and agro-processing (Global Financial Integrity, 2018). Ugandans remain wary of the impact of Chinese financing, particularly regarding the risk of IFFs, increased indebtedness, and taking on supply- rather than demand-led projects (Global Financial Integrity, 2018).

The risk of IFFs is elevated by the fact that it is difficult to track China's development assistance, not listed because it is not a member of OECD-DAC and does not attend joint donor meetings (Global Financial Integrity, 2018). In Kenya, there have been reports of Chinese companies taking charge of management of a recently constructed railway line (SGR) with opaque modalities for revenue management that some argue disadvantage the KRA despite the huge debt burden that has been brought about by the construction of the railway line with credit from China.

Though not necessarily illicit financial flows, harmful tax practices like tax incentives and exemptions have also been argued to, alongside IFFs, contribute to substantive loses in revenues that have limited domestic resource mobilisation that impacts budget deficits and extends the vicious cycle of debt unsustainability. In East Africa, there have been multiple reports of government signing unfavourable DTAs, countries competing for FDI offering tax exemptions, incentives that lead to huge losses of tax revenues that have been linked to budget deficits and the clamour for debt finance to bridge funding gaps. Uganda for example has double taxation treaties (DTTs) with several countries, including India, South Africa, Zambia, Italy, Belgium, Denmark, Mauritius, the Netherlands, Norway, and the UK. These existing DTAs largely benefit the partners' countries than Uganda allowing non-resident investors to derive passive income from Uganda (Global Financial Integrity, 2018). In Africa, including Kenya and Uganda, there are continued efforts and advocacy for DTAs to be renegotiated as they appear to discredit these countries based on loopholes in their shape and form argued to have been negotiated based on asymmetrical power positions propped by debt relations.

A lot of government revenues are lost through tax incentives and exemptions especially through Export Processing Zones and related incentives and Other Tax Incentives and Exemptions (in the form of Industrial Building Allowance, Wear and Tear allowances, Farm Works Allowance, and Mining Operation Deductions among others) (TJNA & ActionAid, 2012). Notably, the Government of Kenya indicated in 2011 that the country was losing over Kshs 100 billion (US$ 1.1 billion) a year from all tax incentives and exemptions. More recently, Kenya Revenue Authority (KRA) indicated that scrapping of tax incentives and exemptions may bridge revenue gaps (Kivuva, 2019). Further, the World Bank's 2017 tax gap report shows that Kenya Revenue Authority will further lose an estimated Sh40.9 billion, Sh47.5 billion, and Sh55.0 billion in the 2019/20, 2020/21 and 2021/22 financial years respectively. However, the Parliamentary Budget Office in 2019 argued for a review of exemptions under the corporate income tax regime. The removal of some deductions allowed by the law could increase tax revenue by 24% (PBO, 2019). This reflects a large amount of revenue which could otherwise seal current revenue shortfall at an average of Sh112.2 billion in seven years and provide funding for crucial sectors like health that is currently grossly underfunded. According to the National Treasury, most of these IFFs are facilitated through government, local firms and multinationals engaging in fraudulent schemes and clever legal ways to avoid tax payments. In Uganda, the country's Investment Code Act, Cap 92 that regulates local and foreign investment has been utilised to facilitate extensive incentives and exemptions for MNCs, some of which originate from debt providing nations, that have been argued to stifle domestic resources mobilisation (especially losses in tax revenue). For instance, oil and gas side, companies have invoked a 1997 government-sponsored tax exemption package for international oil companies to invest in the oil and gas sector as a basis for refusing to pay certain taxes (Global Financial Integrity, 2018).

5.2.3. Implications of Public Debt on Economic Growth and Resource Distribution in East Africa

Sub-Saharan Africa remains largely underdeveloped. However, there has been significant investment towards improving infrastructure in the region with governments expanding their annual expenditures and increasing uptake of huge infrastructure projects to bridge the huge infrastructure gap between the region and the rest of the world.[39] Despite the increased expenditure, the economies in the region remain weak and incapable of financing these investments as evident from minimal revenue mobilisation and persistent budget deficits.[40] Consequently, governments have resorted to acquiring public debt to finance the projects. Studies have shown that slow economic growth in Sub-Saharan Africa has also been influenced by the excessive stock of debt. The debt burden has weakened growth and hampered the socio–economic development (Omassoma, 2011). Slow growth has also made debt-servicing difficult leading to more borrowing and further weakening of the region's economy.[41]

Revenue mobilisation to bridge budget deficits also remains a challenge. Coulibaly and Gandhi (2018) point out that revenue shortfall in Africa for investment financing averages about $230 billion annually. They argue that the shortfalls are attributable to low domestic income and savings – one of the main consequences of rising debt stock.[42] Further, they point out that despite tax revenues in sub-Saharan Africa raising to approximately 15% of the GDP in 2015 from 11% in early 2000s, the ratio remains far below the desired levels, especially compared to OECD's 24% and compared to those of emerging and developed economies. Coulibaly and Gandhi point that there exists sufficient scope for enhancing revenue targets in sub-Saharan Africa. They suggest that improving governance frameworks around revenue collection and strengthening tax capacity are critical for the realizing the tax revenue targets.

Debt ratios are commonly used in the analysis of debt sustainability because they provide a relative measure that is standard and comparable. For instance, external debt as a percentage of Gross Domestic Product (GDP) shows how much of the wealth created by the nationals of a country compare with the foreign indebtedness.[43] While governments justify the increased expending and bridging budget deficit by borrowing with development spending for improved delivery of public goods and services, existing literature suggest otherwise. Blake (2015) aimed to clarify the effects of public debt on economic growth

39. Tralac.org, 'Investing in Infrastructure in Sub-Saharan Africa and its effects on the Economic Growth', database, https://www.tralac.org discussions/article/11606-investing-in-infrastructure-in-sub-saharan-africa-and-its-effects-on-the-economic-growth.html#:~:text=Energy%2C%20Transport%2C%20Telecommunications%20and%20Water,education%2C%20urban%20planning%2C%20etc.
40. Brahima SC, Mobilization of tax revenues in Africa, policy briefing, Africa Growth Initiative, 2018, https://www.brookings.edu/wp-content/uploads/2018/10/Mobilization-of-tax-revenues_20181017.pdf
41. Ernst & Young (Tax Insights database), database, https://taxinsights.ey.com/archive/archive-news/tanzania-issues-2018-19-budget.aspx
42. Committee for a Responsible federal Budget, 'CBO: Consequences of a Growing National Debt', database,2014, http://www.crfb.org/blogs/cbo-consequences-growing-national-debt
43. Ibrahim H, Effect of external public debt on economic growth: an empirical analysis of East African countries, Nairobi: University of Nairobi,2015, http://erepository.uonbi.ac.ke/bitstream/handle/11295/94963/Halima_Effect%20of%20External%20Public%20Debt%20on%20Economic%20Growth.pdf?sequence=3&isAllowed=y

in Jamaica. He analysed quarterly data between 1990 and 2014 and analysed the non-linear relationship between debt stock and growth in the economy. The study established that there is a negative relationship between public debt and economic growth. Muinga, (2014) analysed the relationship between public expenditure in Kenya and the resulting growth in economy. She analysed data between 1970 and 2010 and using a model with capital formation, employment and interest on debt as the independent variables, and GDP as the dependent variable, she finds that public debt and the increasing debt interest have negative impact on the country's economic growth while employment and capital formation have positive impact.

Overall, there has been increased spending on development in East Africa, mostly geared towards development and heavily influenced by the political context in the region. However, the economic growth rate in the region remains slow as a result of poor infrastructure, lack of market competitiveness and poor governance, among other issues.[44] The East African economic outlook 2019 also highlights current account deficits and increase in external debt as one of the limiting factors for economic growth in the region. With the proportion of budget allocated for debt repayment increasing, governments in the region are left with minimal resources to spend on other essential public goods and services. This, compounded by the slow economic growth makes it more complex for East African government to implement effective fiscal policies.

For instance, Kenya saw its debt stock grow from Ksh.1.89 trillion[45] in June 2013 to over Ksh.6.2 trillion in June 2020.[46] Consequently, the rising debt stock coupled with the persistent fiscal deficits[47] arising from large increase in expenditures and slower revenue growth has limited the ability of the Kenyan government to spend more on development projects that spur economic growth. Since the FY 2013/14, Kenya's debt servicing ratio has experienced a significant increase. Based on IMF County Report and the Annual Reports on Public Debt from the National Treasury, Kenya's debt servicing ration increased from 29.9% in 2013 to 45.2% in 2019, surpassing the 30% threshold. In FY2019/20, Ksh.800 billion of the budget was set for repayment of loans, with Ksh.366.4 billion of the amounts covering interest on the acquired debt. In FY2020/21 budget statement, the country is projected to spend an estimated Ksh.904.7 billion in servicing public debt[48] while the proportion allocated to counties is estimated at Ksh.316.5 billion or a third of the debt servicing costs. Consequently, the Kenyan government has initiated various tax measures[49] to bridge the revenue demands, including the contentious digital service tax.[50]

Despite Uganda having benefited from the Multilateral Debt Relief Initiative (MDRI) in the 1990s and in 2006, the increasing debt stock in the country over the recent years has had a negative effect on the economy (Ssempala, et al., 2019). On Uganda's experience of the effects of public debt on its economic growth, the research found that the current borrowing rate would impact the economy negatively due to the implications of public borrowing on investments. Similar to Kenya, debt repayment has had negative implications on distribution of resources across sectors in the country. In the country's 2019/20 budget, 9.6% of the total budget, amounting to Ush.3.145 trillion was allocated to repayment of debt interest – an increase from Ush.2.514 trillion in the previous financial year.[51] With economic growth slowing down (IMF, 2020), coupled with the shock occasioned by Covid-19, Uganda is set to have limited revenues to finance its expenditure projections for delivery of public goods and services.

44. USAID, 'Economic growth and trade', database, https://www.usaid.gov/east-africa-regional/economic-growth-and-trade#:~:text=Some%20of%20the%20world's%20poorest,to%20address%20these%20limiting%20factors.
45. CBK (Central Bank of Kenya), database, https://www.centralbank.go.ke/public-debt/
46. Omondi D, 'Kenya debt load surges to 6.2 trillion',Standard media, 2020, https://www.standardmedia.co.ke/article/2001368531/kenya-debt-load-surges-to-sh6-2-trillion
47. Cytonn Report, 'Debt Relief Amidst the COVID-19 Pandemic', database, 2020, https://cytonnreport.com/topicals/debt-relief-amidst-the-covid-19-pandemic
48. Gitogo W, 'Kenya Budget 2020/21; Cost of Debt Financing to Exceed Development Expenditure', The Kenyan Wallstreet, 2020, https://kenyanwallstreet.com/kenya-budget-2020-21-cost-of-debt-financing-to-exceed-development-expenditure/
49. Gitogo W, 'Kenya Budget 2020/21; More Taxes', The Kenyan Wallstreet, 2020, https://kenyanwallstreet.com/kenya-budget-2020-21-more-taxes/
50. Hira N, Berger R & A Mathini, 'Proposed digital services tax in Kenya', Bowmans, 2020, https://www.bowmanslaw.com/insights/tax/proposed-digital-services-tax-in-kenya/
51. Oketch ML, 'Uganda: How Govt Plans to Fund Public Debt in 2019/20 Financial Year', allAfrica, 2019, https://allafrica.com/stories/201906120319.html

Tanzania's debt to GDP ratio increased by over 10% between 2010 and 2019.[52] Over the same period the country has experienced rather stable economic growth averaging 6-7% annually.[53] However, World Bank's economic overview of Tanzania highlights that in the recent years, growth in consumption and investment has slowed down. For instance, in 2018, exports contracted by 3.9% with the economic growth estimated to be lower than the 7% reported by the Tanzania National Bureau of Statistics. This slow growth is attributable to the low private sector growth and poor execution of public development plans. This outcome may also be attributable to the rise in uptake of public debt in the country.

Increase in public debt has been proven to have a negative impact on Tanzania's economic growth prospects (Lotto and Mmari, 2018; Yusuf, 2018). Consequently, the government has consistently failed to meet its revenue targets resorting to imposing various tax measures to boost revenue collection.[54] However, the overall rise in debt stock has led to an increase in expenditure on debt servicing. For instance, in FY2020/21, the country is set to spend up to 30% of its annual budget in debt repayment. This puts a limit on the resources channelled to other sectors for development and delivery of public goods and services. With the government's budget continually expanding, this trend suggests that there will be continued reliance on public debt to finance budget deficits occasioned by persistent revenue under-collection. Consequently, more tax measures are likely to be imposed for mobilising local revenue.

According to the IMF, despite Burundi recording significant improvements – especially in FY2012/13 where the debt-GDP ratio declined by up to 3% , the country remains at high risk of debt distress (IMF, 2015). By end of 2019, the country's debt stock was estimated at 59.1% of the GDP (World Bank, 2019). At the same time, the country's economy experienced dismal growth – 1.6% in 2018 and 1.8% in 2019.[55] Fiscal deficit has also widened, with the deficit at 3.3% in 2018 and 4.2% in 2019. The widening of the fiscal deficit is attributable to the increased recurrent expenditure and increased focus on initiatives aimed at strengthening the country's infrastructure network, increasing regional trade and modernizing agriculture.

While further borrowing is the main strategy for financing the widening deficits,[56] the government has also improved its efforts to mobilize revenue from local sources to finance its expenditure needs by instituting various tax measures. For instance, Burundi imposed a 10% tax on salaried civil servants in 2018 to finance the recently concluded elections.[57] Other tax reforms previously implemented in Burundi include the introduction of One-Stop Border Posts, promulgation of VAT and Income tax, and the harmonisation of tax policies with the rest of the East African Community.[58]

The situation is slightly different in Rwanda compared to the other countries in the region. Despite overall increase in public debt, Rwanda continued to experience strong economic growth.[59] Similar to other countries in the region, the county's budget has increased significantly over the years with the FY2019/20 budget indicating a 11% increase from the previous fiscal year. In FY2020/21, the budget increased by around 6% compared to FY2019/20 budget. The increase in budget is attributable to the expenditure needs in the country's 7-year development programme currently being implemented.[60]

However, some experts argue that Rwanda's debt situation continues to limit its ability to expand its fiscal policy. The county spends up to $72.3 million annually in servicing its debt.[61] The pundits argue that

52. Trading economics, 'Tanzania government debt to GDP', database, https://tradingeconomics.com/tanzania/government-debt-to-gdp
53. World Bank, database, https://www.worldbank.org/en/country/tanzania/overview
54. Ernst & Young Global, database, https://taxinsights.ey.com/archive/archive-news/tanzania-issues-2018-19-budget.aspx
55. World bank, database, http://pubdocs.worldbank.org/en/708231492188151479/mpo-bdi.pdf
56. Africa Development Bank Group, 'Burundi Economic Outlook', African Economic Outloook, 2021, https://www.afdb.org/en/countries/east-africa/burundi/burundi-economic-outlook
57. Abdur RS, 'Burundi govt starts taxing public workers to fund 2020 elections', Africanews, 2018, https://www.africanews.com/2018/02/04/burundi-govt-starts-taxing-public-workers-to-fund-2020-elections//
58. Africa Research Institute, 'Financing the Burundi Revenue Authority – throwing good money after good?', 2014, https://www.africaresearchinstitute.org/newsite/blog/financing-the-burundi-revenue-authority-throwing-good-money-after-good-2/
59. Statista, 'Rwanda: Growth rate of the real gross domestic product (GDP) from 2016 to 2026', database, https://www.statista.com/statistics/452119/gross-domestic-product-gdp-growth-rate-in-rwanda/
60. http://www.minecofin.gov.rw/fileadmin/user_upload/NST1_7YGP_Final.pdf
61. http://www.minecofin.gov.rw/fileadmin/templates/documents/Reports/Annual_Economic_Reports_web/AER_FY2016-17_Final.pdf

given the country benefited from the Heavily Indebted Poor Countries (HIPC) Initiative that wrote of $1.4 billion of the country's debt stock,[62] the current debt situation in the country is alarming and continues to limit the effectiveness of fiscal policies. According to the country's budget framework paper 2018/2019-2020/2021, debt servicing is expected to increase to 17.3% in 2023,[63] which translates to limited funds being directed to other development needs.

Over the years, Rwanda has made significant efforts in raising domestic revenue to finance its expenditures and to service its debt. Most uniquely is that Rwanda revenue mobilization strategies have been focus on expanding the tax base as opposed to raising the tax rates.[64] Arguably, the strategy has resulted in tangible success in improving tax administration. However, the increased debt stock puts more pressure on the government to generate more revenue, and that includes revising tax rates upwards.[65] Overall, there is evidence from existing literature that suggest rising public debt has negative impact on the economy and limits government's ability to effectively distribute resources and expand expenditure for effective delivery of public goods and services. The phenomenon is evident across all five counties in East Africa.

5.2.4. Implications of Public Debt on Empowerment and Inclusion of Citizen Voices in Fiscal Policy making

Public participation as a core for Open Government Partnership is essential for realising Sustainable Development Goals.[66] It creates an opportunity for marginalised groups to exert some influence in decisions that affect them resulting in a greater impact of actions that affect communities in social policies and increases trust and citizen compliance. Rising levels of public debt can be a cause or a result of poor public participation. In that it creates an environment of mistrust between a government and its people when consequences of borrowing such as unfair taxes directly impact the lives of the citizenry. On the other hand, it is a result of a poor system of checks and accountability created by a non-participatory and excluded public leaving governments to borrow as they please. Poor or lack thereof of participatory and active approaches of citizens in fiscal policy making can be attributed to a number of issues as discussed below;

Debt levels is a product of regime type on government borrowing and investment decisions (Oatley, 2010). Where the government of the day does not resonate with the needs of its people it makes decisions despite future implications to the citizenry. Over the last 10 years, Kenya has more than tripled its debt levels and this can be linked to the change of government in 2013, the current government has been on a borrowing spree to finance development which unfortunately has not resulted in the much-anticipated economic growth due to corruption and mismanagement. The government has been doing as it pleases whilst marginalising the citizenry. As such, the people have not been successful in holding the government accountable.

Public sector institutions lack the necessary resources and skills to empower people to build equal and inclusive societies. And even where regulations for the same are in place implementation is lacking. Debt management and debt policy frameworks have been set up across Uganda, Tanzania and Kenya to manage the levels and composition of public debt. However, they remain ineffective due to poor implementation and lack of political goodwill. In Kenya, public debt management is characterised by weak institutional arrangements with the operations of debt management functions spread across departments with the weight of the powerful office of the president precariously leaning on them with the hidden power of an *éminence grise*.[67]

62. International Monetary fund, 'Press Release: International Monetary Fund and World Bank Support US$1.4 billion in Debt Service Relief for Rwanda', database, 2005, https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0584
63. https://www.tralac.org/documents/resources/by-country/rwanda/1991-rwanda-budget-framework-paper-2018-2021/file.html
64. Yoriko N & W April, Government Health Spending and Tax Reform in Rwanda, 2000-2013 – A Case Study, USAID, 2015,https://www.r4d.org/wp-content/uploads/HFG-Tax-Reform-Case-Study_Rwanda.pdf
65. Congressional budget office, The Budget and Economic Outlook: 2020 to 2030, database,2020, https://www.cbo.gov/publication/56073
66. Committee of Experts on Public Administration, Governance and public administration aspects of empowering people and ensuring inclusiveness and equality, Eighteenth session, 8-12 April 2019, https://sustainabledevelopment.un.org/content/documents/22476CEPA_contribution_to_2019_HLPF_16_April_2019.pdf
67. Oyugi E & T Chiraerae, Domestic Debt Management in Africa The Case of Kenya, AFRODAD, 2011, https://media.africaportal.org/documents/kenya_domestic_debt_a5_final.pdf.pdf

The oversight mandate of parliament is crucial in conducting checks and balances on the Executive thus is crucial in creating a cap on borrowing. However, party politics have turned parliament roles into merely rubber stamping weakening its independence as an institution. In Tanzania, although it is clear that Parliament has clearly defined powers of scrutiny, practice shows that the Legislature is more often than not unable to hold the Executive to account. In Uganda, law makers lack a willingness to exercise oversight and assert their independence as a result of a sharp increase in patronage stemming from efforts by the government to hold onto office.[68] The attitudes, willingness, and convictions of lawmakers play an important a role in the effective functioning of parliament. In Kenya, with a majority of parliamentarians being members of the ruling party, they have to tow the party line thus undermining the independence of parliament.

The capabilities which citizens have also affect the extent to which their voices are heard. If the citizenry is unable to effectively process, analyse and use information in public domain, they may not be able to advocate for their needs. Existence of a vibrant civil society and active media can help strengthen these capabilities. However, greater availability of information carries the risk of elite capture by technocrats and policymakers who may not necessarily contribute to deeper inclusiveness.[69] This compounded with citizen disillusionment caused by unwise spending by government after borrowing and unfair taxation compounded with poor public service delivery creates a weak system of checks.

As a result of these obstacles in the form of ineffective structures and systems, citizens are unable to actively and effectively participate in fiscal policy making to ensure government observes fiscal discipline. With soaring debt levels, there is need to keep government borrowing in check. Bottom-up processes of participatory governance and engagement must become part of policy processes, ranging from policy design to adoption, and from implementation and to monitoring and review. Empowerment is a multi-dimensional construct as a process of increasing people's voice and creating institutions that enable the people to exercise their rights.

68. Africa Centre for Strategic Studies,'Parliamentary Oversight of the Security Sector: Uganda's Experience', database,2018, https://africacenter.org/spotlight/parliamentary-oversight-of-the-security-sector-ugandas-experience/
69. McGee R & J Gaventa, Review of impact and effectiveness of transparency and accountability initiatives, Transparency and Accountability Initiative, 2010, https://www.transparency-initiative.org/wp-content/uploads/2017/03/synthesis_report_final1.pdf

6. CONCLUSION

Our review of the literature and analysis of available empirical evidence points to some significant linkages between continuing unsustainability of public debt and tax injustice in the various situations in East Africa. We have managed to point to the implications of rising debt stock and high debt repayment portfolios on fairness of tax policy especially in expansion of tax bases and some notable cases of increases in tax rates. We have also managed to point to the linkages between public debt and illicit financial flows and other harmful tax practices in the East African region. There is substantive research exploring the implications of public debt on economic growth. Although not elaborately developed in the literature, we also note some linkages between public debt and disempowerment and exclusion of citizen voices in fiscal policy making.

Nonetheless, there remains data/information challenges on public finance matters in East Africa that limit rigorous research, analysis and exploration of the linkages between public debt and tax justice. With better quality data (up to date and comparable), it is possible to further investigate these links between continuing unsustainability of public debt and tax injustice and provide advice to policy makers in the region on how best to address the questions on public debt sustainability.

Empirical research is necessary to carry out regression and correlation analysis to further understand the relationship between tax rates and debt sustainability (debt stock, debt repayment). More diagnostic studies are also necessary to investigate the effects and implications of rising public debt portfolios and repayment obligations on long term economic development, tax fairness and inequality. The area of illicit financial flows appears to have substantive links with public debt unsustainability although there is anecdotal evidence to back this argument. Deep dive analyses and case studies in the various contexts in the region could provide information for improving understanding on how tax evasion, tax avoidance and other harmful tax practices contribute to public debt management problems and further proffer negative effects on tax justice.

7. References

1. Adam, CS & DL Bevan, *Fiscal deficits and growth in developing countries*. Journal of Public Economics, Vol. (4), 2005, pp. 571-597.
2. African Development Bank Group. East Africa Economic Outlook, 2019.
3. Ajayi, SI & L Ndikumana (Eds.), *Capital Flight from Africa: Causes, Effects and Policy Issues*. Oxford: Oxford University Press, 2014 .
4. Alesina A & A Passalacqua, T*he Political Economy of Government Debt*. *Harvard University*, 2015.
5. Arif A & M Hussain, *Economic, Political and Institutional Determinants of Budget Deficits Volatility: A Panel Data Analysis*. International Journal of Economics & Business Administration (IJEBA), International Journal of Economics & Business Administration (IJEBA), vol. 0(3), 2018, pages 98-114.
6. Tarick B, *Investigating the Impact of Public Debt on Economic Growth in Jamaica*. Bank of Jamaica, 2015.
7. Brahima SC & D Gandhi, M*obilization of tax revenues in Africa*. *Africa Growth Initiative*. 2018.
8. Checherita C & R Philipp, *The impact of high and growing government debt on economic growth an empirical investigation for the euro area*. Working paper series. European central bank, 2012.
9. Christie AL, & FK Rioja, *Financing productive government expenditures: The importance of initial fiscal conditions*. University of the West Indies and Georgia State University, 2012.
10. Diamond P, *National Debt in a Neoclassical Growth Model,* American Economic Review, 55 (5), 1965, pp. 1126-1150.
11. Rogers DL, *Reducing the Deficit Through Better Tax Policy*. The Brookings Institution, 2013.
12. Ateyah A, *The Impact of Public Expenditure and Public Debt on Taxes: A Case Study of Jordan*. Accounting and Finance Research Vol. 6, No. 3; 2017.
13. Bokosi FK & C Rangarirai, *Bonds Issuance and the current debt levels in Sub Saharan Africa*. AFRODAD, 2019.
14. Global Financial Integrity, *A Scoping Study of Illicit Financial Flows Impacting Uganda*. Global Financial Integrity, 2018.
15. International Development Association, *Debt Vulnerabilities in IDA Countries*. World Bank, 2018.
16. International Monetary Fund, *Regional Economic Outlook: Sub Saharan Africa Domestic Revenue Mobilization and Private Investment*. 2018.
17. Berensmann K, *Why developing countries are facing a renewed debt crisis*. The Current Column, 2019.
18. Kiminyei FK, *Empirical Investigation on the Relationship among Kenya Public Debt, Tax Revenue and Government Expenditure*. Academic Journal of Economic Studies, Faculty of Finance, Banking and Accountancy Bucharest,"Dimitrie Cantemir" Christian University Bucharest, 2019, 142-159.
19. Krugman P, Financing vs. *Forgiving a Debt Overhang: Some analytical issues*. NBER Working Paper no. 2486, 1988, 1-10.
20. Makau J et al, 'Fiscal Policy and Public Debt in Kenya'. *IOSR Journal of Economics and Finance,* 2018, 12-24.
21. Meade JE, 'Is the National Debt a Burden?', Oxford Economic Papers, New Series, Vol. 10(2), 1958, pp. 163-183.
22. Muinga RM, *EXTERNAL PUBLIC DEBT AND ECONOMIC GROWTH IN KENYA*. University of Nairobi, 2014.
23. Ndikumana L et al, *Capital Flight from Africa: Measurement and Drivers*. *In Ajayi SI, & Ndikumana L, Capital Flight from Africa: Causes, Effects and Policy Issues (15-54)*. Oxford: Oxford University Press, 2015.
24. Cheeseman N & R Griffiths, *Increasing tax revenue in sub-Saharan Africa: The case of Kenya*. The Oxford Council of Good Governance. Economic Analysis No.6, 2006 .
25. Nkurunziza JD, 'Illicit Financial Flows: A Constraint on Poverty Reduction in Africa'. Association of Concerned Africa Scholars Bulletin, 87, 2012.
26. Nnyanzi JB et al, Regional Economic Integration and Tax Revenue: East African Community. Journal of Economic Integration. Vol.31 No.4, 2016.
27. Oatley T, *Political Institutions and Foreign Debt in the Developing World*. International Studies Quarterly, 2010, pp. 175-195.
28. Okumku M, T*ax administration and domestic revenue mobilization in Uganda:* A case of Uganda Revenue Authority. Makerere University, 2017.
29. Yared P, 'Rising Government Debt: Causes and Solutions for a Decades-Old Trend'. *Journal of Economic Perspectives—Volume 33, Number 2—Spring 2019,* 2018, pp. 115–140
30. Poirson et al , *What are the channels through which external debt affects growth?*. International Monetary Fund, 2004.
31. Rangarajan C and Srivastava DK, *Fiscal deficits and government debt in India: Implications for growth and stabilisation*. Economic Political Weekly. Vol. 40, 2005.
32. Shonchoy AS, *Determinants of government consumption expenditure in developing countries: A panel data analysis*. IDE Discussion Paper No. 266, 2010.
33. Shonchoy AS, *What is happening with the government expenditure of developing countries-a panel data study*. IDE: Chiba, Japan and University of New South Wales, 2010.
34. Sohee K & K Taekyoon, *Tax Reform, Tax Compliance and State-building in Tanzania and Uganda*. Africa Development, Volume XLIII, No. 2, 2018, pp. 35-64.
35. World Economic and Financial Surveys, *Regional Economic Outlook: Sub-Saharan Africa – Domestic Revenue Mobilization and Private Investment,* 2018.

ISBN 978-9914-40-278-0

EATGN is thankful for the support of our partners the Open Society Initiative for Eastern Africa (OSIEA), the Tax Justice Network Africa (TJNA), and Africa Centre for People Institutions and Society (ACEPIS).

THE OPEN SOCIETY INITIATIVE FOR EASTERN AFRICA

TAX JUSTICE NETWORK AFRICA

Africa Centre for People Institutions and Society