The Political Economy of Tax Effort in SSA

Grégoire Rota-Graziosi

CERDI-CNRS-IRD, Université Clermont Auvergne
FERDI

2023 WIDER Development Conference.
Tax effort

Tax effort ≠ Tax revenue/GDP

• Definition:
  – A measure of the “distance” between actual collected tax revenue and the max. level of tax revenue given countries’ characteristics.
  – A purely economic approach

• Complementary to other analysis
  – Tax Gap: Difference between expected revenue and actual collected revenue (legal and micro.)
  – Tax policy and revenue administration diagnostics
Which characteristics?

• A long open list of (macroeconomic) variables
  – The level of development, trade openness, the size of the agricultural sector, natural resource rent, financial development…

• Distinction between resource and non-resource tax revenue.
  – An original database on 47 SSA countries with statistical information collected in the African Dep. of the IMF
    • Replication with a R-Shiny app.
  – Now, UN Wider Government Revenue Database
Advantages of the tax effort measures

• Methodology: Stochastic Frontier Analysis.
• Allow to distinguish
  • Persistent or structural factors:
    • Colonial history, culture, geography, the economic structure of the country...
  • Time-varying factors that are both country- and time-specific:
    • Tax policy, tax administration performance, natural resources discoveries, and commodity price cycles.
• Tax effort measure allows to go beyond countries’ structural weaknesses.
Main results
• Positive impact of the level of development, trade openness, financial development…
  – Standard results
    • Top perf.: Mozambique, Burundi, Togo, Senegal (0.8-0.75)
    • Worst perf.: Congo Rep., Chad, Gabon, Nigeria (0.37-0.24).
• Negative impact of natural resource rent
  – Less incentive to mobilize other tax revenues;
  – Resource rent crowds-out tax revenue;
  – Competition between Ministries.
    • Poor tax policy design: CIT red. rate/ex. vs royalties
    • Poor effective administration.
Ref.