



The Political Economy of Tax Effort in SSA

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Tax effort

Tax effort \neq 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.

Caldeira, E., Compaore, A., Dama, A., Mansour, M. and G. Rota-Graziosi, 2019, Tax effort in Sub-Saharan African countries : Evidence from a new dataset, *Revue d'Economie du Développement*, 4, 5-51.

