OECD GLOBAL FORUM ON DEVELOPMENT 2010
January 28, 2010
Domestic Resource Mobilization for Development: the Taxation Challenge
Session II
Panel on "How can DRM through taxation help reduce poverty and inequality?"
Enhanced revenue mobilization in sub-Saharan Africa: constraints and opportunities

Main points by Roy Culpeper

The North-South Institute's DRM project

- DRM at a significant level is essential to sustain high and sustained economic growth, to solidify ownership over development strategy, and to strengthen the bonds of accountability between governments and their citizens.
- Both the public and private sectors must be involved—the former primarily through taxation and other forms of revenue mobilization, and the latter through financial market deepening and building the capacity of financial intermediaries.
- NSI is examining possibilities for enhanced DRM in SSA through the lens of five countries: Burundi, Cameroon, Ethiopia, Tanzania and Uganda. Together these five cases represent a breadth of circumstances in SSA.
- This presentation will focus on findings and conclusions from the country studies with regard to taxation and public revenue mobilization. How can revenue policies and structures be reformed that contribute to rather than undermine the reduction of poverty and inequality ("progressive taxation")?
- Although the focus is on revenue mobilization, the other side of fiscal policy is expenditures—both the quantity and quality—this is at least as important as reforms to tax policies. In order to willingly pay taxes citizens need to be reasonably happy about the quality of public services they get in return.

Exploit current tax system more fully

- A large number of exemptions and derogations exist, representing a staggering opportunity cost ("tax expenditures") in terms of revenue forgone. These typically favour the wealthy and should be greatly reduced or preferably abolished.
    - In 2006 in Burundi, 60 percent of imports were exempted partly or fully from paying tax or duties, , which amounted to a loss in tax revenue equivalent to 10.7 percent of GDP and 65.5 percent of revenues
    - In 2006/7 in Tanzania, tax exemptions amounted to 32 percent of total revenue and 5 percent of GDP
    - In 2007 in Ethiopia customs exemptions amounted to 4.5 percent of GDP
- Consumption taxes (such as VAT) generate only a fraction of their potential because they are not levied on a number of commodities. A broader application on nonessential commodities will enhance revenues and be progressive.

- In Uganda, only 5 percent of consumption taxes are actually collected on domestic goods
- Direct taxes can be more progressive and indirect more regressive in terms of distributional impact—obviously design and incidence are key in both cases
- Expansion of direct taxes requires job creation and investment in the formal sector for payroll deduction

Broaden tax base with real estate property levies

- Wealthier property-owners should be taxed on properties they own and/or on which they receive rental income.
  - The annual property assessment in Cameroon's urban areas is 0.1 percent of the value of the property, but there is little concerted effort from tax officials to collect this tax or tax on rents (to support urban infrastructure and services)
  - Property taxes could be strengthened in Tanzania and should be introduced in Uganda
- Presumptive taxes on informal sector businesses are more problematic
- Need to find fays of taxing the huge informal (illicit rather than indigent) sector

Trade taxes should not be reduced too rapidly

- Trade related taxes are very significant contributors to tax revenues, so trade liberalization/tariff reduction should be paced and sequenced with offsetting revenue mobilization (donors can play key role in trade negotiations)
  - In Tanzania, 44 percent of government revenues are trade-related
  - Cameroon's EPA with the EU will reduce tariff revenues by 70 percent or $149 million (equivalent to 0.8 percent of 2006 GDP).
- Tariff rate reduction can also have the opposite effect of increasing revenues (e.g. Kenya)—design and incidence is key

Reform tax legislation and administration

- Tax legislation and rules are too complex and provide too much latitude for discretion/evasion/corruption on part of tax collectors and taxpayers—should be greatly simplified
  - Uganda—43 percent of firms pay bribes to tax officers
- Tax administration capacity and integrity is key to enhanced revenue mobilization—rooting out corruption and also elevating competency are both necessary
  - Ethiopia—part of public sector reform program
  - Cameroon—part of 2004 administrative reforms and 2007 Fiscal Reform Commission

    - Uganda—series of reforms 1991-2007; but tax officials still have wide discretionary powers and there is widespread evasion
    - Tanzania—GoT has implemented reforms to strengthen tax administration but there are still extensive loopholes and rampant corruption
    - Burundi—reform required to simplify legislation, motivate tax officials, reduce discretionary powers and root out corruption
- Donors can play a role in enhancing capacity of revenue authorities—hardware, software, research and investigative capabilities