

**IMPLICATIONS OF THE COVID-19
PANDEMIC FOR REVENUE GENERATION
IN POOR AFRICAN COUNTRIES**

Odd-Helge Fjeldstad
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MAIN MESSAGES FROM THE STUDY

1. Since the early 2000s, but prior to the pandemic, and given the structural features of their economies, sub-Saharan African tax collectors have performed almost as well as their peers in the much wealthier Latin America and substantially better than in South Asian countries.
2. In Denmark's African partner countries (and elsewhere) the pandemic's impact on revenues will be country-specific and probably substantial and negative for some years, especially where revenues from international trade, petroleum exports, tourism and hospitality services are important. At the same time, the pandemic will increase the need for more revenues, not least because the total aid-to-GDP of partner countries has fallen rapidly since 2000.
3. Donor support to domestic revenue collection in poor countries can provide manifold returns on investments if targeted strategically. However, the tax systems and political economies of taxation in these countries are substantially different from Denmark's. Donor support to domestic revenue mobilisation (DRM) should reflect that.
4. Decades of experiences with donor support show that aid is most sustainable if it: (a) is demand-driven and builds on genuine partnerships with recipient organisations; (b) has a long-term perspective; (c) is realistic, i.e. supports gradual improvements (which can become substantial over time); and (d) is coherent and coordinated.
5. Collecting more revenues *is* possible if these principles are adhered to, but the IMF's position is that increasing the tax-to-GDP ratio by five percentage points by 2030 is a reasonable aspiration for poor countries. That was unrealistic before COVID-19: it is even more so now.
6. Future revenue increases will not come from just a few tax bases, but from making gradual improvements in taxing a range of sources, combined with fewer tax exemptions and subsidies. This is how past tax-to-GDP ratios have grown in most SSA countries, but patterns will vary depending on each country's economic structure and political economy.

7. Inequality may increase due to COVID-19. However, major redistribution through domestic taxation (as in the Danish welfare state model) is unrealistic in countries with revenue-to-GDP ratios below 15% of GDP. Nor is there strong organised political support for such redistribution in poor African countries. The national tax systems in some of these countries are already relatively progressive. However, public expenditure patterns should also be analysed to establish the combined effect on inequality of who pay taxes and who benefit from them. At present data on this are scarce and of poor quality.

8. A focus on increasing revenues alone is clearly inappropriate. Additional funds will only lead to improved development outcomes if the money raised is translated into productive public expenditure that also improves the state's institutional capacity to deliver public services in an accountable and equitable manner. Only then can DRM become a catalyst for broader improvements in peoples' lives.

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LIST OF ABBREVIATIONS

| | |
|-------|--|
| AERC | African Economic Research Consortium |
| AfDB | African Development Bank |
| ATAF | African Tax Administration Forum |
| ATI | Addis Tax Initiative |
| ATI | African Tax Institute |
| BEPS | Base Erosion and Profit Shifting |
| CEQ | Commitment to Equity |
| CIT | Corporate Income Tax |
| CMI | Chr. Michelsen Institute |
| DIIS | Danish Institute for International Studies |
| DRC | Democratic Republic of Congo |
| DRM | Domestic Revenue Mobilisation |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GRD | Government Revenue Data |
| GTP | Global Tax Program (World Bank) |
| ICT | Information and Communications Technology |
| ICTD | International Centre for Tax and Development |
| IFF | Illicit Financial Flows |
| IMF | International Monetary Fund |
| LIC | Low Income Countries |
| MFA | (Danish) Ministry of Foreign Affairs |
| MNC | Multinational Cooperation |
| NGO | Non-Governmental Organization |
| NRGI | Natural Resource Governance Institute |
| OECD | Organization for Economic Co-operation and Development |
| OOP | Out of Pocket |
| PFM | Public Finance Management |
| PIT | Personal Income Tax |
| PT | Property Tax |
| RMTF | Revenue Mobilization Thematic Fund (IMF) |
| SARA | Semi-Autonomous Revenue Authorities |
| SSA | Sub-Saharan Africa |
| TA | Technical Assistance |
| TJN-A | The Tax Justice Network-Africa |
| TRA | Tanzania Revenue Authority |
| UHC | Universal Health Coverage |
| VAT | Value Added Tax |
| WCO | World Customs Organization |

1. BACKGROUND FOR THE STUDY

'The World 2030' is Denmark's present strategy for development cooperation and humanitarian action (Ministry of Foreign Affairs of Denmark, 2017). The Government has now taken the initiative to develop a new strategy in dialogue with the parties in the Danish Parliament (Ministry of Foreign Affairs of Denmark, 2020, 2). The purpose of this report is to provide inputs for strategic discussions on donor support to revenue generation in poor African countries. Several factors are behind this focus

A concentration on taxation not only reflects the need to finance public spending, it is also a recognition of the centrality of taxation to growth, redistribution and broader state-building and governance goals (Besley, 2020; Bräutigam et al., 2008; Prichard et al., 2018). More taxation is positively associated with more accountable states, control of corruption, voice and accountability, government effectiveness and political stability (Moore et al., 2018). Indeed, according to the IMF (2018, 31), domestic resource mobilisation (DRM) 'is one of the most pressing policy challenges facing' Sub-Saharan African (SSA) countries.

That said, increasing revenues is not a silver bullet. Additional revenues will only lead to improved development outcomes if they are spent on improving peoples' lives and enhancing the state's institutional capacity to provide productive public services in a more accountable and equitable manner.

DRM is also reflected in Sustainable Development Goal #17.1: 'Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.' Achieving this is fundamental for financing most of the other SDGs in poor countries, although it is far from sufficient (Andersen and Therkildsen, 2019). Likewise, the sustainability of most donor support to poor countries, including what goes to the private sector and civil society, depends in one way or the other on the recipient government's ability to generate revenues. The sustainability of government-provided social services, infrastructure and social protection are obvious examples, but so also is the funding of ministerial bureaucracies, local governments and regulatory agencies, without which the private sector and civil society cannot function properly.

Denmark's present strategy, 'The World 2030: Strategy for Development Cooperation and Humanitarian Action', reflects some of the tax-related concerns noted above. For example, Denmark will support the strengthening of 'national and local tax systems with a view to enabling the countries, to an increasing extent, to mobilise their own resources with a view to realising the Sustainable Development Goals and create equal opportunities for all' (Ministry of Foreign Affairs of

Denmark, 2017, 30). Active contributions to international initiatives can help to realise this, and the strategy lists some of them.

The third and most important motivating factor for this study is the likely impact of the COVID-19 pandemic on revenue collection in poor African countries. Although we do not yet know its full impacts on their economies, health conditions or politics, we do know that they already are and will be significant (Sachs et al., 2020). Some observers even think that the impacts could be worse than the impact of the financial crisis in 2008 (Lustig and Mariscal, 2020).

Some of the more important results of the analyses in this report are presented in 'Our Main Messages' above. They are based on a desk study of some of the available data, policy documents and research findings. No primary information has been collected. We make use of both comparative and case studies. Most of these have been taken from Denmark's partner countries that are the main recipients of Danish aid in Africa and are categorised by Danida as either **fragile**/conflict countries, namely Burkina Faso, Mali, Niger and Somalia, or **stable**/poor countries: namely Ethiopia, Kenya, Tanzania and Uganda.¹

Certain limitations of the study should be noted. We do not examine: (a) short-term tax issues caused by the pandemic because the purpose of this report is to provide inputs to discussions of the strategic directions of Danish development assistance, meaning that we take longer-term perspectives on taxation; (b) government expenditure in much detail; (c) international aid and development finance in general; and (d) evaluations of Danish or other donors' support to tax administration and tax reforms (in accordance with the Terms of Reference for the study).

The rest of the report is structured as follows: Chapters 2 and 3 provide contextual descriptions and analyses of DRM, focusing on Denmark's eight partner countries in Africa (but not exclusively so). Policy-relevant findings and analyses are presented in the *Main Messages* at the start of the report, in Chapter 4 (*Revenue sources with (perhaps) underutilised potentials*) and in Chapter 5 (*The political economy of revenue increases*). Chapter 6 (*Strategic issues for Danish support to DRM following the pandemic*) concludes with a set of policy recommendations for Danida. These four parts of the report form its central, strategically relevant content.

¹ Aid to Ghana is gradually being phased out and is therefore not included in the study.

2. THE PANDEMIC AFFECTS DOMESTIC REVENUE MOBILISATION IN NUMEROUS WAYS

Fifteen years ago, the Danish Ministry of Foreign Affairs made a spot-on prediction: ‘Globalisation has made clear that threats to people’s health are an international concern. Global mobility spreads diseases rapidly.’ Moreover, this threat would ‘lead to more intensive and better coordinated international cooperation to fight contagious diseases. It is increasingly acknowledged that long-term solutions require investments in the health systems of developing countries’ (Udenrigsministeriet, 2006, 44 (our translation)). However, this has yet to materialise on a larger scale. Prior to the COVID-19 pandemic, Moyer and Hedden (2020) predicted that 28 particularly vulnerable countries may not achieve any of the nine human development-related targets set out in the SDGs.² Six of Denmark’s eight partner countries in Africa (excluding Mali and Kenya) are among these. The pandemic has made their prospects for reaching the SDGs worse.

How the pandemic will affect specific poor African countries is still uncertain, although the threats of COVID-19 in all poor countries are real enough, as they are in the richer countries. Much depends on when and the extent to which poor countries will get access to a vaccine. However, we do know that the spread of COVID-19 varies significantly between African countries according to the risk-factor analyses undertaken by the Africa Center for Strategic Studies.³ These analyses should be taken with a grain of salt, but among Denmark’s eight partner countries included in that study, Ethiopia, Somalia and Uganda seem most at risk, while at present Kenya, Tanzania and Niger seem less vulnerable.

2.1 Economic slow-down and lower revenues

Sub-Saharan Africa has experienced remarkable economic growth since the mid-1990s. Real economic activity on average grew 4.6% per year in the twenty years between 1996 and 2016 (Lustig et al., 2019, 1). Several countries had GDP growth rates that exceeded 5% during this period. Ethiopia grew by 10.7% per year in 2005-2012 (ibid.). During the last decade, Tanzania’s annual GDP growth has been close to 7%. In 2019, East Africa was one of the world’s fastest growing regions (UNECA, 2018; AfDB, 2020).

The pandemic has had dramatic impacts on African countries. The World Bank and IMF expect economic activity in Sub-Saharan Africa to contract by more than 3% in 2020 (Zeufack et al., 2020, 65; IMF, 2020c, 2), suggesting that in 2020 the region will suffer its first recession in a quarter of a century.

2 Among these are three related to health: underweight children, undernourishment and child mortality. The others are primary school completion, lower level secondary school completion, extreme poverty, access to safe water, access to improved sanitation and access to electricity.

3 The nine risk factors are international contacts (travel, trade, tourism, or business), the robustness of the public health system, urban densities, total population in urban areas, population age, government transparency, press freedom, magnitude of conflicts and displaced populations. The Africa Center is an academic institution within the U.S. Department of Defence established and funded by the Congress: <https://africacenter.org/spotlight/mapping-risk-factors-spread-covid-19-africa/> [accessed 25-9-2020].

The World Bank projects that **real per capita GDP** will contract sharply in 2020, falling by about 6%, the largest decrease over the past two decades (Zeufack et al., 2020, 35). With a moderate 2.1% growth projected for 2021, per capita GDP growth will rebound, but remain negative. If this low growth materialises, at the end of 2021, average real GDP per capita in SSA would be back to its 2008 level. Thus, the COVID-19 pandemic may wipe out the economic and development gains that SSA has achieved over the past fifteen years.

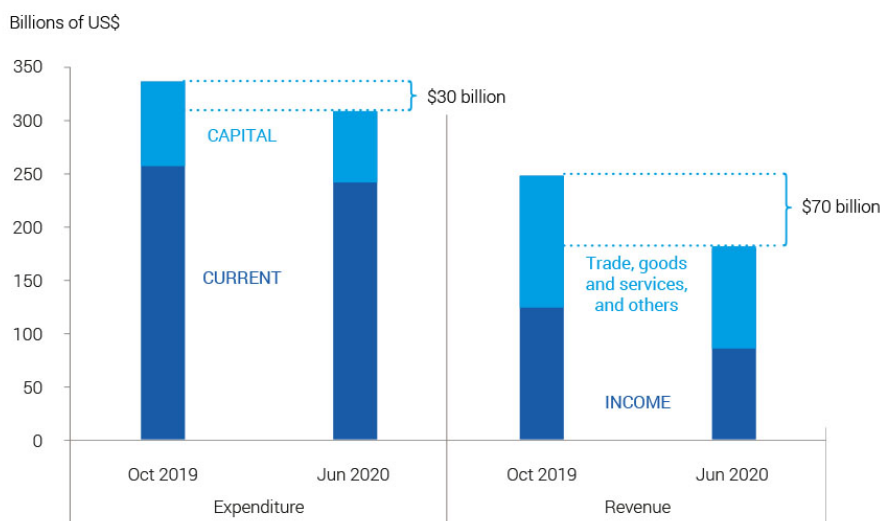
The pandemic has impacted on economies in Sub-Saharan Africa through three main channels (Zeufack et al., 2020, 16):

- the drop in domestic production resulting from lockdowns and other restrictions on business operations
- the impact on the demand for goods and services as lockdowns reduced household incomes
- the disruption to international tourism, global trade and its effects on commodity prices, exports and investments (including foreign direct investment).

The largest impact on growth so far has been in tourism-dependent economies, but oil-exporting countries and other commodity-intensive countries have also been hit hard. In East Africa, disruption to the tourism industry and lockdowns have caused substantial slowdowns in Ethiopia and Kenya. In West and Central Africa, the decline in growth is driven mainly by the reduction of oil exports. Fragile countries in SSA are expected to experience a strong decline in growth, as COVID-19 aggravates the drivers of fragility.

Due to the pandemic, government revenues in SSA in 2020 are expected to fall below pre-COVID-19 projections by about 2.3 percentage points of GDP (IMF, 2020b, 16). In nominal terms (Figure 2.1), fiscal revenues in 2020 will drop by about USD 70 billion compared to their pre-crisis projections from October 2019, and expenditure will fall by USD 30 billion (IMF, 2020a, 3). Revenues from international trade, tourism and hospitality services, and the extractive sector will be affected especially negatively. This will affect governments in respect of their capital expenditure more than their recurrent expenditure.

Figure 2.1 Fiscal Expenditure and Revenue in SSA, 2020



Source: IMF (2020a, Figure 1.5)

2.2 Rising poverty and inequality

As the economies of poor countries slow down, poverty and inequality will increase, perhaps significantly. Consequently, the funds needed to counteract these trends through taxation, loans, aid and remittances will grow.

In the short term, some 80–395 million people could fall into extreme poverty globally, depending on the extent of the economic shock from COVID-19. For SSA the estimates range from 33 to 37 million people.⁴ This ‘could mark the first absolute increase in the global [extreme poverty] count since 1999—and the first since 1990 in terms of the headcount ratio.’ A large share of the new extremely poor will be concentrated in countries that are already struggling with high poverty rates. The poor in Denmark’s East African partner countries are projected to be hit particularly hard (Sumner et al., 2020, 19, Table 2, Figures 3 and 6).

According to the IMF, major epidemics in this century have increased inequalities of income. On average, the Gini coefficient⁵ has increased steadily over the five years following each of five major events: SARS (2003), H1N1 (2009), MERS (2012), Ebola (2014) and Zika (2016). This is ‘despite the efforts of governments to redistribute incomes from the rich to the poor to mitigate the effects of pandemics.’⁶ Milanovic (2020, 38) adds: ‘the world has suffered a very strong shock and ... the

4 A World Bank estimate of about 23 million new extremely poor is based on a contraction of GDP of 3% in 2020 (Mahler et al., 2020). SSA could be relatively the hardest hit because so many people there are already living close to the poverty line. See also <https://www.worldbank.org/en/topic/poverty/brief/projected-poverty-impacts-of-COVID-19>.

5 This measures the distribution of income across a population. The coefficient ranges from 0 to 1, with 0 representing perfect equality and 1 representing perfect inequality.

6 See: <https://blogs.imf.org/2020/05/11/how-pandemics-leave-the-poor-even-farther-behind/> [accessed 5-10-2020]. Again, the World Bank is (cautiously) more optimistic (Mahler et al., 2020).

effects on the global income distribution are likely to be felt for a long time even if we cannot yet measure them.’

These predicted increases in inequalities of income will break the stable or falling trends in inequality experienced in recent decades in almost all of Denmark’s partner countries: Burkina Faso and Niger saw inequality decline in the 2000s from already ‘very low levels’. The Gini coefficients for Kenya (‘medium level inequality’), Tanzania (‘very low’), Uganda (low’) and Mali (‘very low levels’) showed no clear trends. Only Ethiopia (‘very low’) recorded a modest increase.⁷

The bottom line is that, in ‘the aftermath of the pandemic, countries will need to pursue historically unprecedented growth paths in order to achieve the poverty and inequality Sustainable Development Goals by 2030’ (Hoy and Sumner, 2020, 2). Moreover, the ‘resources needed to lift the incomes of the poor to the poverty lines... could increase by 60 percent’ (Sumner et al., 2020, 19). The pandemic has increased the need for redistribution, though poor countries’ capacities in this regard have shrunk.

2.3 Policy responses in Denmark’s partner countries vary a lot

Policy responses to the pandemic across countries have varied markedly so far in terms of degrees of lockdown and changes to tax policies and expenditure. With respect to containment and lockdown policies that may have a direct economic impact, Ethiopia, Kenya and Uganda have been quite stringent, while Niger and Tanzania have not.⁸ Burkina Faso, Mali and Somalia had taken relatively few measures as of 1 October 2020.⁹

It is also striking, but not surprising, that the amount of money spent on COVID-19-related activities is much higher in a rich country like Denmark (up to 10% of its high per capita GDP) than in a poor country like Mali (less than 1% of a much lower per capita GDP), according to the IMF. This contrasts with the limited additional foreign aid that rich donor countries appear to have allocated for COVID-19-related purposes so far. The IMF and the World Bank appear to be the main sources of such funds at present.¹⁰

Moreover, Denmark’s partner countries have introduced various forms of tax relief and reductions to ease the economic burden on specific groups of taxpayers: individuals, small and medium enterprises, larger firms, and even foreign

7 The Gini classification comes from UNDP (2017): ‘Very low’ (<0.399), ‘Low’ (0.40-0.449), ‘Medium’ (0.45-0.529). The trends are based on information from several sources: Milanovic (2020), PovCal data from the World Bank <http://povertydata.worldbank.org/poverty/home/> and Simson and Savage (2020).

8 On COVID-19 in Tanzania, see <https://www.theigc.org/blog/covid-19-in-tanzania-is-business-as-usual-response-enough/> [last accessed 26-10-2020]. The authorities in Tanzania have not released official figures on the extent of the outbreak since late April. The last detailed figures, published on 29 April 2020, reported 480 cases and 21 deaths. In May, the semi-autonomous territory of Zanzibar added 29 more cases.

9 The Blavatnik response tracker: <https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker> [accessed 1-10-2020].

10 <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#K> (country to country description).

multinationals (Ethiopia). Several countries have also introduced special reliefs for sectors that have been hard hit by the pandemic (the tourism and hospitality sectors, for example). Indeed, 'measures to support investment and consumption have been more common in countries outside of the OECD and G20. For instance, Kenya reduced its corporate income tax rate as well as its top PIT [personal income tax] rate from 30% to 25%.' Kenya has also lowered its VAT rates on most goods and services from 16% to 14% (OECD, 2020, 19). In contrast, Tanzania's tax relief measures have been limited. The reduced revenues may hit spending on education particularly hard, spending on health less so (see Section 4.2.10).

Increased spending in the health sector from a country's own revenues is, of course, a common feature in all countries (except for Somalia, which has asked for aid for this purpose). However, some countries (Uganda, for example) are also trying to push for increased new industrial investments that brings jobs and money in the longer term, while others are targeting agriculture and livestock to get the economy going again.

However, most policy responses to date have circumvented the informal economies of poor countries, which account for 75-85% of employment (including agriculture) in East and West Africa among males and even more among females (ILO, 2020). The populations of these countries are often very vulnerable to impoverishment, hunger and disease, and they lack the necessary social protection and support mechanisms if they lose their livelihoods. 'Simply put, dependence on the informal economy means not being able to afford to be under total quarantine' (ILO, 2020, 3).

2.4 Threats to democracy

Acemoglu et al. (2015, 1927) find 'a strong and robust impact of democracy on taxes as measured by the tax-to-GDP ratio or the government revenue to GDP ratio.' Ehrhart (2011) reaches a similar conclusion.¹¹ Since democracy tends to lead to more taxes, a weakening of it by the pandemic may reduce the capacity of governments to collect taxes.

The pandemic 'has fueled a crisis for democracy around the world', making it possible for governments to disrupt or postpone elections, suppress critics and the media, and undermine the accountability needed to protect human rights and public health. The situation has worsened in eighty countries,¹² with particularly sharp deteriorations in 'struggling democracies and highly repressive states.' The pandemic is exacerbating fourteen consecutive years of decline in democracy and freedom (Freedom House, 2020, 1).¹³ In Tanzania, for example, freedom of the press has been reduced and publication of COVID-19 cases stopped. The government also used the disease to restrict opposition campaign rallies in the run-up to the 28

11 A causality also analysed by Dom (2018), Kato and Tanaka (2018).

12 Denmark is among these countries, as are all of Denmark's partner countries (there are no data for Kenya).

13 See also Youngs & Panchulidze (2020) and V-Dem Institute (2020).

October 2020 elections. The Ethiopian authorities have postponed their elections, which were scheduled for 29 August, for as long as twelve months.¹⁴

These four ‘big picture’ accounts of COVID-19 impacts form the background to the more detailed analyses of the pandemic’s implications for domestic revenue mobilisation presented in the following chapters.

3. MAIN FEATURES AND TRENDS IN REVENUES FOR DENMARK’S AFRICAN PARTNER COUNTRIES

The IMF has estimated that SSA countries ‘are not, on average, showing higher levels of inefficiency in their tax collection effort than other regions’ once the effects of structural factors are taken into account (IMF 2018, 40).¹⁵ Actually, since 2010, but prior to the COVID-19 pandemic, the average tax-to-GDP ratio for most low-income countries had increased ‘quite markedly’ (Moore and Prichard, 2017, 6).¹⁶ This is consistent with the findings for 46 African countries by Albers et al. (2020). Countries in SSA ‘experienced the largest increase in tax revenues across the globe since 2000, although it remains low on average’ (World Bank, 2019, 57).

It is therefore not correct to suggest that countries in SSA are inefficient at collecting taxes. This misconception is typically based on a simple, but faulty comparison (Mkandawire, 2015): because the tax-to-GDP ratio in poor countries is often around 13-15%, while that of middle-income countries is typically above 25%, the potential for much higher tax-takes in poor countries must be substantial.

In the following we highlight why this conclusion is wrong, and we present key features of the tax systems in Denmark’s partner countries prior to the onset of COVID-19.¹⁷ Comparisons with the Danish tax system are made where appropriate to show how different these systems are. Although some Danish experiences may still be useful in strengthening DRM in the partner countries, it is important that they suit the local context.

14 See: <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#K> [accessed 24-9-2020].

15 Tax effort is defined as the ratio of actual tax collection to predicted tax revenues (taxable capacity), which takes into account country-specific fiscal, demographic and institutional characteristics. See Minh Le et al. (2012) for a technical discussion of how a tax-effort index used as the basis for cross-country comparisons is estimated.

16 However, the average tax-take has plateaued at 17.2% since 2015, as increases in some countries offset decreases in others (OECD, 2019). See also the assessment of tax administrations in Africa by Moore (2020b).

17 The revenue data presented in this chapter are from the Government Revenue Dataset (GRD): <https://www.wider.unu.edu/project/government-revenue-dataset>.

3.1 Modest and slowly growing tax-to-GDP ratio despite comparatively strong tax effort

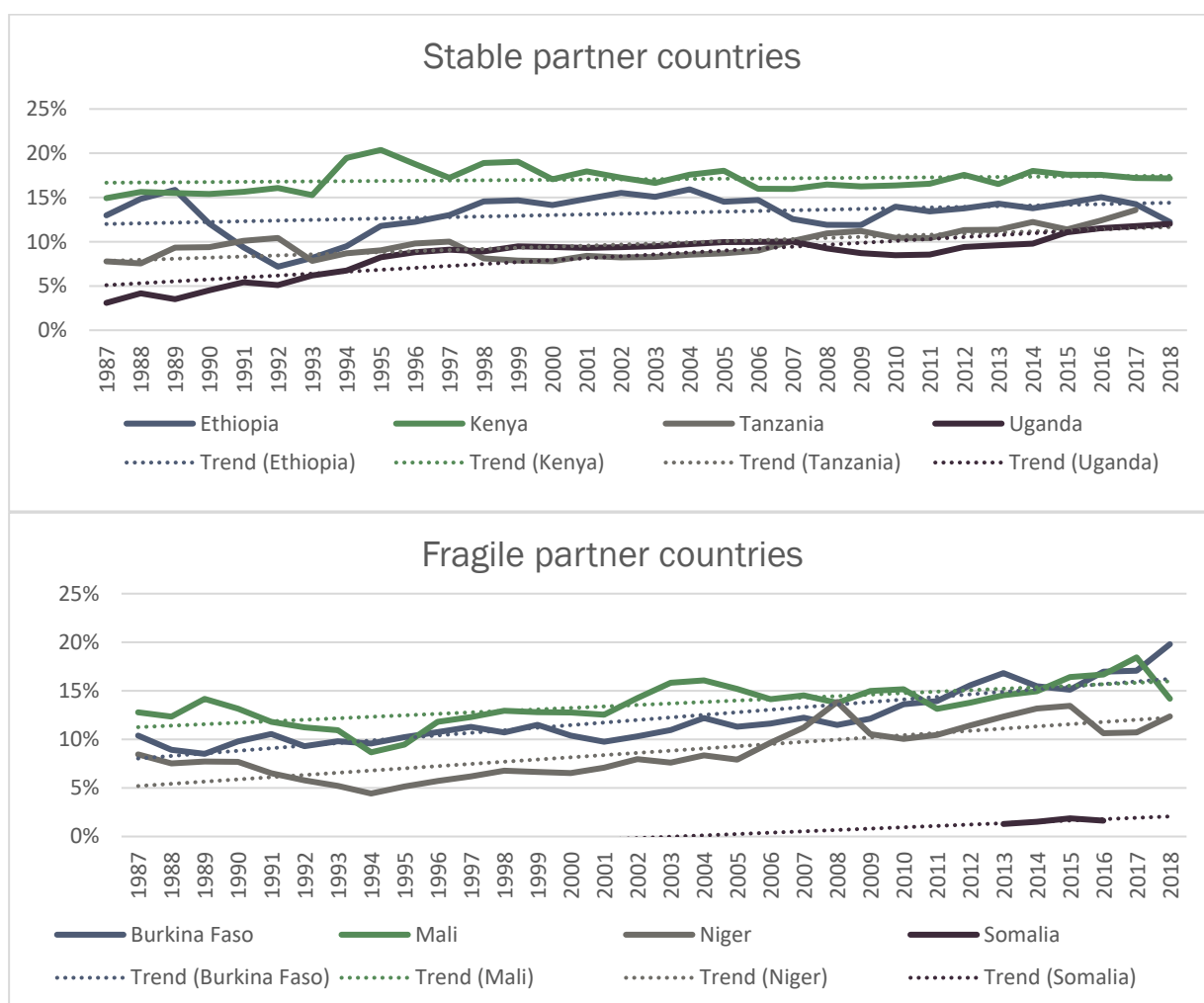
Figure 3.1 shows the growing revenue-to-GDP ratio ('the tax-take') over time in Denmark's eight partner countries, as well as the considerable variations between countries and over time.¹⁸ Over a thirty-year period (1987-2017), the four stable but poor partner countries (i.e. Ethiopia, Kenya, Tanzania and Uganda) increased their tax-take by some four percentage points on average. Data available for three fragile states (i.e. Burkina Faso, Mali and Niger) show that their average revenue-to-GDP growth was around six percentage points. This is an increase in revenue-to-GDP of 0.1 to 0.2 percentage points per year.

This slow growth in the tax-to-GDP ratio took place during a period of (generally) high economic growth, which expanded the tax base and therefore – everything else being equal – increased revenues in absolute terms. However, based on Figure 3.1, the IMF's claim that such countries could increase their tax-take by five percentage points over the next ten years (2020-2030) is unrealistic, and would have been even if the COVID-19 pandemic had not occurred (as explained in Section 4.1).

The main explanation for the slow pre-pandemic growth of the tax-take is that a country's tax potential depends on the structural aspects of its economy, such as its general openness to trade, its level of economic and institutional development, the sectoral composition of its economy and its degree of urbanisation (Stotsky and WoldeMariam, 1997). Such factors are independent of the authorities' willingness to tax, at least in the short run. Tax effort is therefore defined as depending on political will and policies, especially the extent to which countries make use of their potential tax bases to raise revenues (Yohou and Goujon, 2017, 1).

¹⁸ The figures refer to revenues from taxes and non-taxes (which are largely income from natural resources). They exclude revenues from grants (aid) and social contributions.

Figure 3.1 Revenues-to-GDP (%), 1987-2017. Stable and fragile countries



3.2 Partner country tax systems are relatively progressive

Large taxpayers – typically MNCs and big locally owned companies – are the most important sources of revenue for many countries in SSA.¹⁹ For instance, in a sample of fifteen countries covered by a study conducted by the African Tax Administration Forum (ATAF), on average 45.2% of total tax revenues were collected from large taxpayers in 2014, with a few large taxpayers contributing particularly high shares (ATAF, 2016, 56; Figure 4.11). In Tanzania, 450 large enterprises, primarily based in Dar es Salaam, contributed almost half of the total value of tax revenues. The corresponding figures for Uganda are 723 large companies contributing about 42% of the total tax revenues. In Kenya, which has a more diversified economy, almost half the total tax revenues came from 1712 large enterprises. The concentration of a small number of companies as sources of revenue is even stronger in some other countries. According to a Millennium

¹⁹ The revenues from these large companies include corporate income tax, personal income tax (PAYE) paid by their employees, VAT and royalties paid by companies in the extractive sectors.

Challenge Corporation study by Adegoke (2019), for example, only fifteen companies in Senegal pay around 75% of the state’s revenues.

Due to their economic importance and political connections, such taxpayers may receive formal and informal benefits in return (tax exemptions, access to land, import privileges, reduced compliance with rules and regulations, etc.), as discussed in Section 4.2.3. Nevertheless, in the aggregate this specific group of large taxpayers are substantial net contributors to public revenues, implying that these countries’ national tax systems are relatively progressive. Sub-national (local government) tax systems are likely to be less progressive and sometimes even regressive. The burden of such taxes on the poor can be significant (Meagher, 2018; Pimhidzai and Fox, 2011).

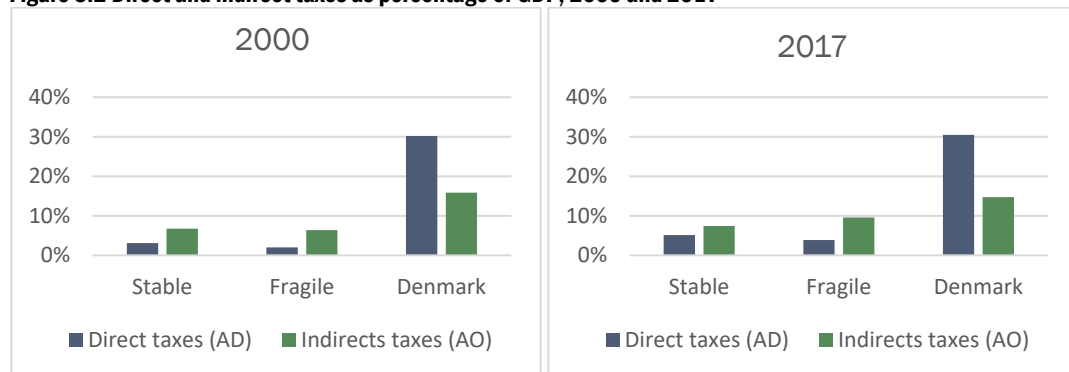
Value added tax (VAT), which is commonly assumed to be regressive, as it typically is in rich countries, may also work differently in poor countries with a large informal sector (see Chapter 4). Recent studies indicate that this is the case because most goods bought by the poor are either traded in informal markets or are exempt from VAT (Bachas et al., 2020).

To regard Denmark’s partner-countries’ tax systems as generally regressive is therefore questionable. A full picture requires that the effects of both taxation and public spending on equality be assessed jointly. For example, a regressive tax system might generate money to finance progressive spending. Unfortunately, studies of tax incidence (who pays and who benefits) are few and are based on complex assumptions and limited data (Lustig et al., 2019), making firm assessments problematic. There is, however, no doubt that there are substantial differences across countries.

3.3 Indirect taxes are much more important revenue sources than direct taxes

In Denmark’s partner countries, indirect taxes on international trade, goods and services are more important sources of revenue than direct taxes like personal and corporate incomes relative to GDP. In Denmark, the opposite is the case (Figure 3.2). The figure also shows that from 2000 to 2017 direct taxes grew more rapidly in both the poor and the fragile countries than the indirect taxes did. In Chapter 4 we discuss indirect taxes in more detail, including their implications for equality.

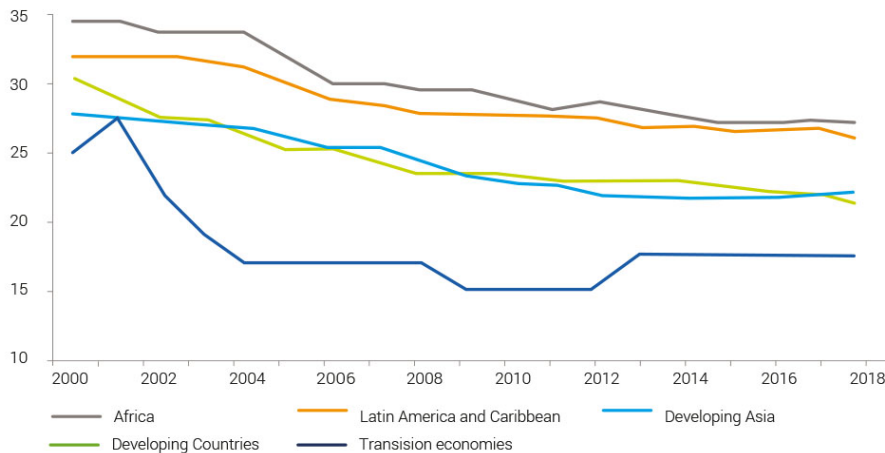
Figure 3.2 Direct and indirect taxes as percentage of GDP, 2000 and 2017



3.4 Corporate Income Tax: a race to the bottom

Worldwide tax-competition between governments makes for ever lower corporate tax rates (Clausing et al., 2020). The average statutory corporate income-tax rate for Africa declined from 35% in 2000 to some 28% in 2018 (Figure 3.3). The revenue loss from such tax competition among governments could be as much as five times higher than that from tax-motivated illicit financial flows (IFFs) for the world as a whole (UNCTAD, 2019, 107-110; Figure 5.1).

Figure 3.3 Average statutory corporate income tax rate by country group, 2000-2018 (percentage)



3.5 Volatile revenues from natural resources

Four of Denmark's eight partner countries in SSA are resource-rich gold-exporters (Burkina Faso, Mali, Niger and Tanzania). Ethiopia and Uganda also export gold, but so far only on a limited scale. Oil and gas exports have begun from Niger and Kenya.²⁰ Huge deposits of natural gas have been discovered in deep-sea wells off Tanzania's southern coast, but the decision whether to invest in extraction has yet to be made (Fjeldstad et al., 2019). Uganda has discovered oil in Lake Albert, but extraction has not yet started (Fawthrop, 2020). Only Somalia has no natural resource exports among its top three exports (it mainly exports live animals).

The contribution of natural resources (minerals, oil, and gas) to total revenues differs significantly across the Danish partner countries and over time.²¹ In recent years the share has ranged between 5% to 20% in the stable countries and between 5% and 35% in the fragile countries. Three major trends stand out. One is that the relative importance of natural resource revenues fell between 2000 and 2017 for the stable countries (especially Ethiopia), while the trend is the opposite for the fragile countries. The third trend is that resource revenues are quite volatile over time.

²⁰ <https://www.africaneconomicoutlook.org/statistics/> (Table 7 on the top three exports in 2015) [accessed 24-9-2020]. The IMF's definition of 'resource rich' is used here: natural resources account for at least 20% of a country's exports.

²¹ The GRD database does not directly provide statistics on this. Based on advice from GRD staff, we have estimated the magnitudes of natural resource revenues. However, calculations are based on data that can be unreliable - although less so in the GRD base than in other bases (Prichard et al., 2018).

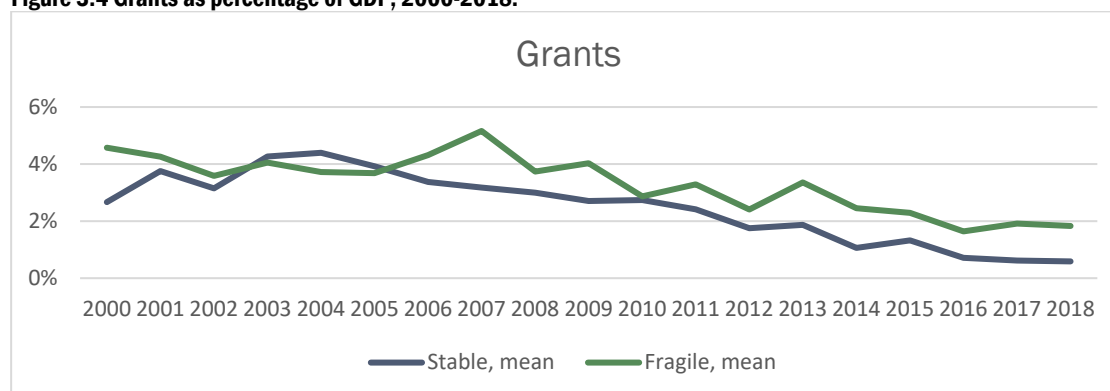
Oil- and gas-rich countries in SSA tend to have suffered most from the impact of falling commodity prices since 2014, and hence from drops in revenue.²² The most resource-rich countries generally have the lowest tax-collecting efforts and the largest taxation potentials in the region (IMF, 2018, 40 and 51).

3.6 While partner country revenues increased over time, aid declined

The small but important revenue-to-GDP percentage gains that Denmark’s partner countries have achieved during the last twenty years (see Figure 3.1) amount to substantive increased constant dollar revenues per capita because of rising GDPs. Revenues measured in constant dollars per capita increased by between 48% (Kenya) and 220% (Tanzania) from 2000 to 2017, while Ethiopia and Uganda gained some 120-150%. For the fragile countries the increases ranged from 67% in Mali to 142% in Niger to 211% in Burkina Faso.

During the same period, grants (aid) as a percentage of GDP declined rapidly (Figure 3.4).²³ Consequently, Denmark’s partner countries are now significantly less donor-dependent than they were twenty years ago. In 2000 grants made up between 40 and 60 percent of total revenues (except in Kenya and Ethiopia, with 2% and 18% respectively). In 2018 the grant share ranged from 2% to 10% in all the stable countries and from 17% to 52% (Somalia) in the fragile states.²⁴ Especially Tanzania, Uganda, Burkina Faso and Mali lost out (measured in grants per capita). The net effect of increasing domestic revenues and falling grants is, however, strongly positive for the seven countries for which we have data.

Figure 3.4 Grants as percentage of GDP, 2000-2018.



The bottom line is that donors are not as important as sources of finance as they

²² Natural resources are a major export in about 20 of the 45 SSA countries. Seven of these countries are oil exporters, accounting for more than half of the region’s natural resource exports. The other thirteen resource-rich economies receive at least a quarter of their export proceeds from mining (IMF, 2012, 6).

²³ ‘Grant’ is the concept used by GRD. It includes aid. Figures are taken from the IMF. Its Government Finance Statistics Manual states that grants ‘are transfers receivable by government units, from other resident or non-resident government units or international organisations, that do not meet the definition of a tax, subsidy, or social contribution.’ It covers grants from foreign governments and international organisations. Grants from all countries (not just from the OECD) are included according to our correspondence with GRD staff.

²⁴ Somalia’s tax-take is very low: less than 2% of GDP during the 2000s.

once were, possibly reducing their influence over partner-country governments, an issue dealt with later.

3.7 Denmark's tax system is very different from those of its partner countries

Whichever form future donor support to DRM may take, it must suit the partner country's tax system, as well as the political context surrounding taxation (discussed in Chapter 5).

The sections above highlight how different the Danish tax system is from those of poor African countries. To this should be added an obvious but perhaps sometimes forgotten fact: very low GDP per capita and small tax-takes in low-income countries translate into very low per capita public expenditure. The government budgets of Denmark's partner countries around 2017, for example, were some USD 150 per capita in current US dollars (except for Somalia (USD 23) and Kenya (USD 416)). For Denmark the figure was USD 30,200/capita.²⁵

Any notion that more effective taxation in Denmark's partner countries (and other similar low-income countries) would allow them to take significant steps in the foreseeable future towards becoming welfare states after the Danish model is completely unrealistic. This was the case before the onset of the COVID-19 pandemic and is even more so in its aftermath: while the pandemic has clearly increased the need to assist the poor, it has also made the fiscal prospects for doing so through increased DRM more difficult. These challenges are analysed in the next chapter.

4. REVENUE SOURCES WITH (PERHAPS) UNDERUTILISED POTENTIALS

Which specific potential sources of revenue do governments in poor African countries generally tend to under-exploit? Answers to this important and difficult question are discussed below.

The claim that a minimum revenue of 15% of GDP is necessary to execute basic state functions and to sustain development progress is now widely cited (Gaspar et al., 2016; Bolch et al., 2017). We have reservations about the uncritical consensus in favour of higher revenue collection. Above all, the public benefits of increased taxation are unlikely to be realised without a corresponding focus on:

- a) improving the equality of tax collection, which is frequently characterised by evasion and fiscal corruption, extractions that fail to reach the government treasury, and a failure to tax the wealthy and politically well-connected consistently and adequately.

25 See: https://en.wikipedia.org/wiki/List_of_countries_by_government_budget_per_capita

- b) ensuring that taxpayers receive better value for their money through improved public services.

The push to expand revenue collection is sometimes motivated by the idea that paying taxes is not a routine practice for citizens of low-income countries. The reality is, however, that some taxpayers may escape paying their fair share, others may pay more than theirs, and in some countries the poorer citizens sometimes bear especially heavy burdens of both formal and informal taxes at the sub-national level (Paler et al., 2017; Meagher, 2018). Without an equivalent focus on how tax is collected, from whom and how the revenues are spent, a simple emphasis on increasing collection risks exacerbating existing inequalities. In this chapter we discuss the potentials and challenges facing poor African countries with respect to enhanced DRM after the pandemic. We start with a discussion of the IMF's assessment of the relevant potentials.

4.1 IMF's general assessment of the potentials

Falling revenues in 2020 have resulted in huge public deficits, averaging 7.6% of GDP for SSA as a whole and reaching double digits in some cases (e.g. Ghana and South Africa). Thus, in its Regional Economic Outlook for Sub-Saharan Africa, the IMF argues that fiscal policy must focus on the need to contain debt vulnerabilities (IMF, 2020b). This will require fiscal policies that support growth-enhancing reforms. Fiscal adjustments will have to rely primarily on domestic revenue mobilisation. While each country's situation will be different, the IMF states (p. 9) that *'authorities should nonetheless aggressively seek opportunities to: 1) broaden the value-added tax base, 2) increase the progressivity and coverage of personal income taxes, 3) increase the role of property taxes, 4) eliminate distortionary corporate income tax exemptions and incentives, and 5) place greater emphasis on environmental taxes. Also, given the heightened dependence of many countries on extractive industries, natural resource taxation may serve as a further option for domestic revenue mobilisation'*.

These recommendations are largely the same as the tax-policy recommendations provided by the IMF before the pandemic. However, the political risks that this approach implies for governments in SSA in the aftermath of the pandemic do not seem to have been taken into consideration. Governments must raise revenues in situations where many businesses have gone bankrupt and others remain fragile, and large numbers of people are unemployed or coping on reduced incomes. Politically, this can be challenging. Enhanced tax demands may trigger fierce political conflicts among interest groups who feel they are under threat and entitled to special treatment (Moore and Prichard, 2020). Many businesses are likely to resist any increase in taxes on profits. Increases in VAT or personal income tax are also likely to generate opposition. To minimise such risks, several African governments have reduced tax rates on major sources of revenue such as VAT and other sales taxes, CIT and PIT, as well as granting tax incentives to business sectors that have been particularly vulnerable to the pandemic (see Section 2.3). These measures will not increase revenues unless they are followed by more effective revenue collection and improved taxpayer compliance, which are unlikely in the short run.

Furthermore, the IMF (2020b, 10) argues that ‘fiscal measures will need to be complemented by mechanisms to ensure efficient public investment, streamlined tax expenditures, strengthened public financial management, and improved debt management and transparency.’ We agree. There are, however, valid reasons to question whether in the short run governments in poor African countries will be able to use their limited funds effectively by committing themselves to improved transparency and accountability.

4.2 Assessments of specific revenue sources

Ten ways of potentially increasing revenue (or reducing tax expenditure) are analysed here.

4.2.1 Illicit Financial Flows: limits to revenue gains in poor countries

There is no agreed definition of illicit financial flows (IFF), but we know that (Moore and Prichard, 2017, 9):

- Transfer mispricing is widely practiced by MNCs.
- Profits are mainly transferred from higher-tax to lower-tax jurisdictions, which often means from low-income countries to high-income countries and tax havens.

Estimates of the magnitude of tax evasion in developing countries differ, from approximately USD 100 billion to nearly USD 1 trillion annually (Johannessen and Pirttilä, 2016, Table 1).²⁶ Such figures have obviously attracted widespread international attention, but poor and secret data, combined with different methods of calculation, make agreed and accurate assessments of actual country losses difficult.

Certainly, some guestimates of IFF-related revenue losses are substantially inflated. Johannessen and Pirttilä (ibid.), among others, conclude that the lower range of estimates are more plausible than the (earlier) higher ones. In a later paper, Johannessen et al. (2018) conclude that ‘less developed countries appear to be significantly more exposed to tax avoidance by multinational firms.’ They show that the higher the difference between the domestic tax rate in a poor country and the foreign parent tax rate, the more likely it is that profits will be shifted out of the host country. This may explain why many developing countries opt for low corporate tax rates in spite of urgent revenue needs and severe constraints on the use of other tax bases (see Section 3.4 on ‘the race to the bottom’).

An additional consideration is that the bulk of the potentially lost tax revenues may originate in middle-income countries simply because FDI in most poor countries is

²⁶ For instance, in a recent report, the Tax Justice Network (2020) estimates that the world is losing over USD 427 billion in taxes a year to international tax abuse. Of this, nearly USD 245 billion is lost because multinational corporations shift their profits into tax havens and thus underreport how much profit they actually made in the countries where they do business. The remaining USD 182 billion is claimed to be lost by wealthy individuals hiding undeclared assets and incomes offshore. The study estimates that every year Africa loses the equivalent of 6.96% of the continent’s average tax revenues due to global tax abuse. This is larger than the global average loss, estimated at 2.61% of tax revenues.

limited (Forstater, 2015). Forstater and Juden (2016) have made a simple ‘back-of-the-envelope’ calculation to estimate the **maximum** revenue loss from tax evasion by MNCs. Take Uganda as an example. Its stock of foreign direct investment in 2019 amounted to USD 1.3 billion. Uganda’s corporate income tax (CIT) is 30%. Generously assuming a 15% profit rate on the entire stock with no tax deductions, international investors will pay revenues on USD 59 million annually. This is equivalent to about USD 1.3 per person in 2019 compared to total domestic revenues of USD 93 per capita for that year.²⁷ The actual CIT revenue loss due to IFF in Uganda is, of course, smaller.

This suggests that revenue losses due to IFF are not huge in poor countries like Uganda. Countries with a larger extractives sector than Uganda will incur larger losses. The important point is that telling people that stopping tax avoidance by multinationals could solve Uganda’s (or most other poor countries’) budget problems undermines important national debates about the hard choices over spending priorities that governments in poor countries face. The pandemic will make these choices even harder.

That said, it is important to reduce revenue losses from base erosion and profit-shifting (BEPS). Some progress has been made.²⁸ First, the evidence suggests that investments in transfer-pricing audit capacity and work by taxation authorities in some poor countries is being rewarded by substantial additional revenues (e.g. in Tanzania and Zambia), with returns ranging from 1:10 to 1:100. Second, an increasing number of African countries improved their transfer-pricing laws and regulations during the 2000s to give such audits some teeth. Finally, the OECD BEPS initiative faces many challenges, especially in poor countries. Many tax authorities in the latter find it too complex to deploy because the relevant information is difficult to obtain. They therefore seek simpler tools to curb transfer-pricing.

Prichard and Moore (2017) probably exaggerate the revenue gains from reducing tax evasion by MNCs when they suggest that this may add one to two percentage points to the GDPs of low-income countries over five to ten years. However, significant increases in the tax-take are clearly possible in some countries, and it seems that investing in technical assistance (TA) to improve tax administration capacity in this field is rewarded. However, it is challenging to building advanced, transfer-pricing and tax-audit units in revenue administrations in poor countries. In settings that are characterised by widespread corruption and weak public institutions, there is a real danger that donors will establish parallel systems outside the public sector to ‘make things work’ (Fjeldstad et al., 2018). There is also a concern that external experts become gap-fillers, not capacity-builders, in tax administrations. Instead, TA is more likely to succeed by prioritising the basic tax administration.²⁹

27 Sources of data. Total FDI (UNCTAD, 2019). Population and GDP data from the World Bank data base. Domestic revenue data from the GRD data base.

28 The following three points are from Moore and Prichard (2017).

29 Logan Worth, ATAF’s Executive Secretary, expressed his concern at the First Global Conference of the Platform for Collaboration on Tax, 14-16 February 2018. UN Headquarters, New York: ‘There is a balance

4.2.2 Natural resources: high expectations meet reality

Publicly available data on revenues from extractives (oil, gas, minerals) are scarce and unreliable. What we know for certain is that:

- The importance of resource revenues varies significantly across countries and over time due to substantial investment risks and volatile commodity prices, now also affected by COVID-19.
- Resource nationalism is on the rise. Governments want to gain greater control or value from their natural resources, typically being pushed by popular expectations about the significant public goods benefits that might come from this.
- Taxation is highly influenced by such technical and political factors.

All of Denmark's partner countries except Somalia generate some revenues from extractives. In 2018, these ranged from some 5-10% of total annual revenues before grants (aid) in the four stable countries to 20-30% in Mali and Niger. This corresponds to some USD 5 to USD 25 per capita (constant 2015).³⁰ Projections for presently unexploited resources in Tanzania (gas) and Uganda (oil) suggest that, when fully operational, an additional USD 20 to USD 50 per capita (constant 2012) could be generated in the two countries (African Development Bank and Bill & Melinda Gates Foundation, 2015, Figure 6).

Although these figures are significant, resource nationalism in many countries is fuelling popular and political expectations about generating even more resource revenues (see Chapter 5.1).³¹ Moore and Prichard (2017, 11-12) argue that this is possible. Mining especially is 'generally very much under-taxed' (ibid.), and mining contracts are often too generous to the investors (see Chapter 5 in Moore et al., 2018). Auctioning off mining rights is widely advocated but rarely practiced, thereby opening the door to corruption. Some MNCs are adept at transfer-pricing, which can erode their payment of corporate income tax. Thus, it is argued that royalties should be used more instead. Capital gains taxes are also often avoided by changes in ownership: a junior company with a limited concern for reputational risks organises the exploration and secures land rights (including relocating people if needed). Subsequently, the operation is sold to larger MNCs by companies registered in tax havens.

The framework for taxing and regulating extractives is assessed by the natural resource governance index (Natural Resource Governance Institute, 2017).³²

between participating in BEPS and building basic tax administration. But BEPS is absorbing all of our time. Participation in BEPS is correct, but the challenge is to get the balance right.'

30 Based on GRD data and on correspondence with GRD staff about the calculations of estimates.

31 Resource nationalism connotes a government's effort to gain greater control or value from its natural resources, often pushed by widespread popular expectations (Andreasson, 2015; Lange and Kinyondo, 2016).

32 The index does not assess the appropriateness of a country's governance framework but focuses on its adherence to principles identified by NRG. These focus considerably on information transparency in the extractive sector, revenue-sharing with local governments, etc. The indexes from earlier years are not compatible.

Denmark's partner countries have weak to poor frameworks, as do most other poor African countries. Moreover, countries often fail to follow rules that they have already introduced themselves.³³ This indicates either that the country's framework is inappropriate (implementation lacks real domestic political support) or that the enforcement capacity of its extractives-relevant institutions is weak.

There is little doubt that better taxation and regulation of extractives can generate substantial additional revenues in most partner countries. Moore and Prichard (2017, 8) venture to guess that the tax-take from mining can be increased by 1-2% over five to ten years depending on context. However, each country needs to strike a balance that aligns its regulations and tax levels with those of other competing countries while maintaining a fiscal regime that can still generate significant government revenues.

4.2.3 Excise duties: high potential and positive distributional effects

Excise duties have emerged as an important source of revenue in many countries. They are imposed on specific goods and services in addition to an indirect tax such as a sales tax or VAT. Excise taxes are primarily paid by businesses and merchants, who then pass the tax on to consumers through higher prices of the product. Consumers may or may not see the cost of excise taxes directly. Excises are typically used to raise revenue from consumption that is socially costly, such as drinking alcohol or smoking tobacco ('sin taxes'), and environmentally polluting activities, such as fuel ('green taxes') (Junquera-Varela et al., 2017). The main economic justification for the use of excise duties is to correct socially costly behaviour that individuals ignore when deciding what and how much to consume (Levell et al., 2016, 230). Within the OECD, excise duties contributed 7.8% of total tax revenues on average by 2016 (OECD, 2018). In many SSA countries, the contribution of excise duties is at about the same level or slightly higher than in the OECD. In Uganda, for instance, excise duties contributed about 9% of tax revenues in 2018–19 and raise more revenue than corporate income tax (Kavuma et al., 2020).

According to Moore and Prichard (2017), there is great potential to increase revenues by raising excise duties on cigarettes (and alcohol) in low-income countries in Africa, where consumer spending is rising quickly. The underlying health and environmental arguments behind the use of excise duties have faded because governments increasingly tend to treat them as a revenue-raising tool. This is also reflected in the introduction of taxes on mobile-phone airtime, social media, sugar, cement and cooking oil. Such excises are applied partly due to the relative ease of administration, as they are considered 'low-hanging revenue fruits' (Kavuma et al., 2020).

Since excise duty rates are usually flat, they are likely to be regressive. However, in cases where they are levied on luxury goods that are only purchased by the wealthy, they are progressive (Junquera-Varela et al., 2017). Thus, the distributional impact of excise duties depends on the consumption patterns of different income groups.

³³ The index provides detailed information on each country; see for example: <https://resourcegovernanceindex.org/country-profiles/TZA/mining>. Kenya and Somalia are not rated.

For instance, in their analysis of the distributional impact of excise duties in Uganda, Kavuma et al. (2020) find that taxes on alcoholic beverages and cigarettes made up 88% of excise duty-related expenditure for the poorest households but only 14% for the richest households. On the other hand, 2% of the excise duty levied on goods consumed by the poorest households was spent on fuel, such as petrol, diesel and kerosene, while the corresponding figure for the richest households is 69% (ibid., 12). Among the other items, the excise duty on mobile-phone airtime was the largest contributor, paid mainly by households in the middle-income deciles. Overall, excise duty in Uganda is found to be progressive, as households in the top income deciles pay more excise duties as a percentage of their consumption than households in the bottom deciles (ibid., 16).

The revenue and distributive effects of excise duties in Uganda probably do not differ substantially from other countries in East Africa, including Ethiopia, Kenya and Tanzania.

4.2.4 Savings on tax exemptions and fuel subsidies possible, but politically difficult

Revenue losses from exemptions and fuel subsidies in low-income countries are difficult to quantify because accurate information is often scarce. Nevertheless, there is broad agreement in the literature that:

- Tax exemptions and subsidies often result in substantial revenue losses (i.e. several percentage points of GDP, though differing across countries).
- Exemptions benefit a wide range of often politically well-connected groups.
- Fuel subsidies can be costly and generally benefit the wealthy more than the poor.
- Political economy is very important in understanding and reforming exemptions.

Tax exemptions

Some tax exemptions are a normal part of the tax system, such as capital allowances and import tax refunds for exporters. In countries with large informal sectors and tax-evasion pressures, tax incentives can be a means of preventing firms from shifting into the informal sector or countering evasion (Jun, 2017). However, tax experts have argued for many years that overall tax exemptions are an ineffective way of attracting investments. In addition, exemptions may create room for bribery and corruption, as well as increasing the loopholes for tax evasion (Zee et al., 2002). The granting of tax exemptions has spread to an increasing number of countries in SSA. Multiple types of exemption benefitting a range of business entities or individuals are typically used.

The resulting revenue losses are difficult to assess and compare across countries due to a lack of transparency and different measurement standards. Nevertheless, comparable data from a few countries indicate that exemptions can be substantial. Tanzania spent 2.5% of GDP in 2010/11 on tax exemptions compared to 7.1% in

Burundi, 2.6% in Kenya, 3.2% in Rwanda and 1.2% in Uganda. Similar levels of tax exemptions are found in West Africa (Therkildsen and Bak, 2019, 6).

Beneficiaries are often investors, but also donors, NGOs, religious organisations, the military, civil servants, members of parliament, etc. Tax incentives nonetheless typically rank low in investor surveys of the important factors that influence location and investment decisions (IMF, 2015, 12). Many tax specialists therefore argue that some poor countries provide too generous exemptions in trying to attract investments.³⁴ However, there can be valid cases for such exemptions provided they are used carefully and strategically to build competitive industries, are time-limited and are granted transparently (Moore and Prichard, 2017, 14).

Attracting and steering investment are not the only reasons why governments grant exemptions. They are also used to build coalitions to support the ruling elites, to raise money to fund election campaigns and other political activities and to bolster private wealth (Therkildsen and Bak, 2019). Moreover, tax exemptions are used as political or economic compensation for specific groups when a government seek to raise taxes (Kjær et al., forthcoming). In addition, some MNCs are skilful in persuading governments that they will (re)locate to another country if they do not get exemptions (Moore and Prichard, 2017, 14). The COVID-19-induced slow-down in FDI may increase that kind of competition.

Clearly country-specific economic and political rationales explain the uses of exemptions. Their excessive use could be reduced by better domestic transparency and by harmonising incentive arrangements at regional level. The prospects of that are country-specific, as are the sizes of the possible savings. All else being equal, the exemptions to GDP ratio indicates the country-specific potential for savings.

Fuel subsidies³⁵

These are typically used in countries where governments determine domestic fuel prices administratively. Subsidies are typically fiscally costly, inefficient and inequitable, as well as environmentally problematic.

In 2018, the cost of subsidising fossil-fuel consumption reached USD 427 billion annually worldwide, of which nearly USD 360 billion was in developing countries (Barbier and Burgess, 2020, 4). Fuel subsidies were around USD 130 million in Tanzania (~USD 2 per capita) and around USD 1 per capita in Ethiopia in 2015.³⁶ In the same year, Zambia spent some USD 770 million on fuel and electricity subsidies, much of which benefitted the mining sector (International Institute for Sustainable Development, 2019, 17).

34 Among the more important incentives for investing in low-income countries are political and economic stability, the presence of local and export markets, good governance, adequate infrastructure, the availability of a skilled labour force and cost, plus certainty about taxation regimes.

35 Fuel subsidies are not taxes but are included here as examples of problematic expenditure that could release revenues for better purposes.

36 Rough estimate based on Coady et al. (2019, Appendix 5).

'Often, fossil fuel subsidies are poorly targeted, not reaching poor households and, significantly,often have particularly negative impacts on women' (International Institute for Sustainable Development, 2019, 10).³⁷ For example, a USD 0.25 per litre increase in fuel prices reduces household incomes by, on average, over 5%. Since aggregate consumption is unequally distributed, the richest 20% of households capture on average six times more in fuel subsidies than the poorest 20%. That is why universal fuel subsidies are such a very inefficient policy instrument for protecting poor households from fuel-price increases (Arze del Granado et al., 2012, 2241).

Subsidy reforms are therefore needed. The International Institute for Sustainable Development (2019) suggests a green 'swap' in which some of the savings from reduced subsidies would be reallocated to fund clean-energy transitions.³⁸ This could contribute to long-term, permanent emissions reductions, as well as boost the economy, jobs, public health and gender equality. However, such reforms are politically difficult to implement. Attempts to raise gasoline prices, for example, are often followed by protests (Mahdavi et al., 2020). This reflects cost-of-living concerns, but probably also the fact that many people do not believe the budgetary gains will be used for their benefit.

The country estimates of fuel subsidy costs above, amounting to some USD 100-800 million per year depending on the country, indicate the maximum savings that can be achieved by removing them completely. Politically, only smaller reductions are feasible.

4.2.5 Customs: important revenue source, but undermined by corruption and administrative ineffectiveness

Trade taxes, which generally consist of import duties, excise duties and VAT or sales taxes on imported goods, account for a significant portion of government revenues, commonly 30-50% of total tax revenues in low-income countries (WCO, 2019, 24).³⁹ In fragile states, customs typically account for an even higher share of total tax revenues. However, estimates suggest that 30% or more of customs revenues are lost in some developing countries due to rampant corruption (Chalendard et al., 2016; Chalendard, 2017).

The World Bank and the World Customs Organization (WCO) have done extensive diagnostic work to measure customs performance and practices.⁴⁰ This work demonstrates that many customs administrations in developing countries continue to use manual processes and rely on paper-based transactions which require face-

³⁷ More information on various subsidies can be found on <https://www.iisd.org/gsi/>

³⁸ (Changes in) subsidies may influence the viability of existing and future energy projects.

³⁹ While customs collect much less revenue through import duties than two or three decades ago, it typically accounts for a large proportion of VAT collection (Moore et al., 2018).

⁴⁰ See, for instance, the Customs Assessment Trade Toolkit (CATT)

[<http://www.wcoomd.org/en/topics/capacity-building/resources/-/-/media/2F2BC8140C6E4AB7A0B716194E2BC36C.ashx>], and the Public Expenditure and Financial Accountability (PEFA; indicators 19 and 20)

[https://www.pefa.org/sites/pefa/files/news/files/16_08_30-Fieldguide_0.pdf].

to-face interactions (Ossio and Trudel, 2020, 3-4). Duties and taxes are often paid in cash, and revenue collection processes are excessively discretionary. Manual procedures impact on countries' ability to provide fast and transparent customs clearance that facilitates international trade and foreign direct investments and constrains effective responses to emergency situations like the COVID-19 pandemic.⁴¹

Corruption in customs at borders and ports partly explain the resistance to change (Fjeldstad, Filho, and Raballand, 2020). Moreover, revenue collection in some countries is highly concentrated. In Somalia, for instance, half of the revenue collected at Mogadishu's port is paid by only 22 traders. Consequently, they have a strong impact on accepting or refusing any increase in customs duties and tax rates (Cantens, 2018), worsening an already non-compliant environment and undermining revenue collection. Intense conflict, as seen in Mali and Niger, is also likely to cause major challenges to post-conflict customs reforms due to infrastructural damage and disruption to bureaucratic capacity.

Many efforts to adopt stricter rules for customs administrations have failed because informal practices of demanding and accepting bribes have continued. Changing the culture and mindsets of customs officers and traders is much more difficult than bringing in new regulations and technical assistance because of deep-rooted social norms that 'legitimise' corruption (Fjeldstad, Filho, and Raballand, 2020). Achieving the goal of tackling corruption in customs will require both time and a strong commitment from senior leadership. The private sector, such as Chambers of Commerce, trade associations, and transportation and brokerage companies, must be part of these modernisation efforts.

The current COVID-19 crisis may lay the foundations for cash-strapped governments supported by international development agencies to implement customs reforms such as automated processes and procedures, the rapid release of goods based on risk-management controls and post-clearance verification. However, unless customs officers recognise that the penalties for being caught are much more severe than the potential gains, they are going to continue to take the risk. This, of course, requires enforcement of the rules, which depends on a willingness at the top to eradicate corruption.

4.2.6 Value-Added-Tax (VAT): controversial, but here to stay

VAT is levied in Ethiopia (standard rate 15%), Kenya (14%; reduced from 16% in April 2020), Tanzania (18%) and Uganda (18%). The fragile states supported by Danida (Mali, Niger, Somalia and Burkina Faso) still have simple sales taxes. While VAT is an important revenue base in the four East African countries, it is not used very efficiently (Fjeldstad et al., 2020). Usually VAT systems are riddled with

⁴¹ Even when information systems have the functions to complete an automated clearance of goods, customs may still use paper documentation (Ossio and Trudel, 2020). One reason for this is that customs legislation or similar regulations in many countries demand paper-based evidence in cases where disputes emerge between the customs and traders which are ultimately resolved before the courts. Another reason is that some traders tend to provide false documents, while customs demand the originals in support of declarations.

exemptions and zero rates on domestic goods. These exemptions have been actively defended and sometimes extended through lobbying by the beneficiaries (Cnossen, 2015).

From an administrative perspective, VAT can be demanding for both tax administrators and taxpayers (Fjeldstad, 2014). Critics of VAT say that the complexity of the tax undermines its potential benefits. The IMF, however, asserts the intrinsic superiority of VAT over alternative ways of taxing transactions in goods and services, and suggests that problems with VAT stem from the influence of lobbying and interest groups on its design and implementation (Keen and Lockwood, 2010). Furthermore, the IMF argues that the demanding nature of VAT administration is positively beneficial to countries with weak tax systems because it forces systemic improvements that would otherwise not take place (Kloeden, 2011).

A major, systemic problem with VAT that is especially damaging in East Africa is the need for a refund mechanism, as revenue authorities sometimes have to pay VAT back to taxpayers, something that in practice applies mainly to exporters.⁴² If VAT was levied on exports, it would become a tax on foreign trade. Thus, the standard procedure is for exporters to claim a refund on all the VAT that has been paid in the production chain of a good or service once that item has been exported. The claim for a refund is made on the basis of documentary evidence of export, potentially VAT's 'Achilles heel'. Fraudsters claim refunds for exports on the basis of false documentation, either for totally fake transactions or for moving the same high-value, low-bulk items like cell phones repeatedly across borders, claiming export refunds each time. These problems are also widespread in OECD countries, despite their relatively good documentation systems (Carter, 2013).

In East Africa, concerns about the possibility of false claims sometimes mean that the revenue authorities make long and detailed checks, lasting up to a year, before repayments are made. Governments may also be tempted to delay paying refunds when their budgets are under pressure, thereby creating serious cash-flow problems for businesses. Knowledge of this problem may in turn motivate foreign investors to demand complete exemptions from VAT (Moore et al., 2018). Issues around VAT refunds contribute to undermining the integrity and credibility of tax administration.

The most widespread criticism of VAT is that it is regressive because it is a tax on consumption (Oxfam, 2017; Lustig, 2018). Since we generally expect the poor to consume higher proportions of their incomes than the wealthy, it seems obvious that the burden of VAT will fall disproportionately on the poor. The reality is more complex. One reason is that most governments that levy VAT give reductions or exemptions for basic consumption items, especially food, and sometimes medicine. Another is that the poor are more likely to purchase from smaller, possibly informal firms that earn below the VAT threshold (Keen, 2009).

⁴² This discussion draws on Chapter 6 in Moore et al. (2018).

Recent research suggests that consumption taxes are actually redistributive, reducing inequality by as much as income taxes (Bachas et al., 2020). Furthermore, from a policy perspective, it makes little sense to judge the impact of VAT on income distribution or of any other single tax on the basis of statistics showing which population groups are bearing the burden at any particular moment in time. We have to consider what is the realistic alternative. If a mildly regressive VAT has replaced a very regressive set of import duties, then it is a step forward.

If policy-makers try to use the fiscal system to improve the distribution of income, they need to know the overall impact of the government's tax and spend activities. The knowledge that a particular tax appears regressive when examined in isolation is no basis for deciding to abolish it. If it were abolished, if government spending were reduced in consequence and if the burden of spending cuts were to fall on the poor, then the total fiscal system might become more regressive. In a study of Ethiopia, Muñoz and Cho (2003) conclude that the net impact of VAT is progressive if the higher revenues are allocated to poverty-reducing spending, especially on education and health.

Tax-policy decisions designed to increase equality should only be taken after a full analysis of the distributional impact of the combined effects of governments' tax and spend activities. Unfortunately, that is a very challenging task which requires large amounts of detailed data, which, except for South Africa and perhaps one or two other countries, are simply not available for most countries in SSA. Arguments about the allegedly regressive character of VAT will therefore continue.⁴³

Nevertheless, VAT is now a mainstay of revenue collection in East Africa, though the impacts of the pandemic on trade and the domestic demand for goods and services have led to a substantial drop in VAT revenues. However, assuming that the governments in Denmark's partner countries in East Africa are willing and able to clean up the structure and improve the administration of their VATs, they will have a very powerful revenue-collection instrument in their hands, which may also have positive redistributive effects.

4.2.7 Local government and informal sector taxation: more important than the revenue figures indicate

In the literature, strengthening local government through decentralisation reforms is often considered a solution to state capacity restraints. This may seem quite neat in theory. The problem is that local governments often have more severe capacity constraints than central governments. Moreover, local government tax systems are often major constraints for small and micro-enterprises, and thus for income generation and growth. Multiple taxes, fees, charges, licenses etc. make it difficult to establish new businesses and enter new markets.

⁴³ The most consistent efforts to assess the impact of fiscal activities on income distribution nationally are those currently made by the CEQ Institute (2017). It has produced results for a few countries in SSA, but in every case the databases are weak.

In addition, various levels of government do not co-ordinate well over taxation issues, and the exchange of data is generally poor. Often the roots of many of the co-ordination problems that are experienced are found at the policy-formulation stage, being reflected in ambiguous objectives, unclear procedures and inadequate means to implement the reforms (Fjeldstad, Ali and Katera, 2019). Ambiguity related to the rationale behind the reforms, a lack of consultation with respect to roles and expectations, and inadequate incentives to cooperate commonly act as barriers to sound working relationships between sub-national and central government revenue administrations.

Property taxes

One ‘dangling fruit’ with substantial revenue potential in urban areas is property taxes (PTs), which are very under-utilised in Africa (Franzsen and McCluskey, 2017; Goodfellow, 2017; Kelly, 2013; Kelly et al., 2020). In most African countries, revenues from PT account for less than 0.5% of GDP, and in many cases even far less than this. In fiscal year 2015-16, property taxation in Tanzania contributed the equivalent of only 0.16% of GDP (Ahmad et al., 2017). Of this, more than 60% was collected in Dar es Salaam (Fjeldstad, Ali and Katera, 2019).⁴⁴ In comparison, PTs in some OECD countries account for more than 2% of GDP (Norregaard, 2013).

Poor countries are urbanising fast, driven by a combination of population growth, poverty and, in fragile states, conflicts. It is estimated that between 2015 and 2050 the share of the population living in towns and cities in Africa will grow from 38% to 55% (Freire et al., 2014). More than 50% of Africa’s poor are likely to be living in informal urban settlements by 2025 (UN Habitat, 2014). These developments imply huge challenges for urban governance, service delivery and stability (Nugent, 2010). Property taxes are a potential cornerstone of efforts to finance urban infrastructure such as local roads and water and sewage systems. Along with the huge increases in urban populations, investments are pouring into the real-estate sector in cities. Investors are increasingly drawn towards high-value, high-security property development, which promises much better returns and lighter taxation than other investment options (Zinnbauer, 2017). If taxed effectively, these property developments could potentially generate substantial public revenues for cities and municipalities.

There are some recent examples of apparently successful property tax reforms in Africa (Jibao and Prichard, 2016; Weigel, 2020), a common feature of which is that institutional responsibility for tax collection has been placed in the hands of local authorities, giving them a strong incentive to collect revenues. Thus, the sustainability of the reform partly relies on whether the local economic and political

⁴⁴ In 2016, the administration of property taxes in mainland Tanzania was transferred from the local government authorities to the central government’s tax administration, the Tanzania Revenue Authority (TRA). This shift implied the TRA becoming responsible for all aspects of PT administration, including registration of properties, valuations, rate-setting, collection and enforcement (Fjeldstad, Ali and Katera, 2019). In Zanzibar, PT has not yet been implemented due to political and administrative obstacles (Franzsen and McCluskey, 2017; Kelly et al., 2020). However, the Zanzibar Revenue Board (ZRB), the government agency responsible for administering the PT, is currently preparing to implement PT on commercial buildings as the first step in the introduction of the new tax.

elites will continue to support the reform, or instead prevent the reform being enforced. Experience shows that a main barrier to effective property taxation is political (Fjeldstad, Ali and Katera, 2019). Moreover, resource and capacity constraints are likely to affect the technical design of the reform, as well as the incentive of the stakeholders involved to cooperate.

Informal sector taxation

A large share of economic activity in poor countries takes place in the informal sector, which is hard to tax (Bird and Wallace, 2003).⁴⁵ Until recently, tax administrations tended to give it little priority because returns to effort may be low in cash terms, and collection is likely to be difficult. From the economic and administrative perspectives, it makes a great deal of sense not to tax multitudes of poor people. The VAT system generally exempts basic goods that are consumed heavily by the poor, and the income tax code generally excludes individuals and entities with incomes below a certain threshold. However, in recent years, a number of national revenue agencies have introduced special ‘presumptive’ taxes directed at the informal economy that are based on a worker’s presumed rather than actual income, given the type of work he or she performs (Dube and Casale, 2016; Joshi et al., 2014; van den Boogaard et al., 2019). According to the African Tax Administration Forum (2018), 65% of Africa’s tax authorities have a special programme to deal with the informal sector.

However, one should not expect large amounts of revenue to be raised by taxing small and micro- enterprises. Thus, Terkper (2003) and others argue that the tax system can be improved by having tax officers concentrate on handling a few thousand files efficiently, rather than trying to cover hundreds of thousands of very small taxpayers. According to the IMF, there is a strong case for raising the thresholds for tax coverage, which would actually narrow the coverage of the tax base, but have little effect on revenue (IMF, 2011). However, the removal from the tax net of taxpayers who generate little net revenue is contrary to the emphasis within many current tax reform programmes that the tax net should be broadened.

A wider tax net is not always a good thing, but the possibility that tax reforms are driven by a calculus that emphasises the advantages of excluding marginal payers must be a cause of concern (Fjeldstad, 2014; Fjeldstad and Moore, 2008). This would be less of a problem if the actual tax burdens in poor countries were fairly and effectively distributed, but they are not. In particular, as noted earlier in Section 3.2, they often fall heavily on a small number of registered, formal-sector companies. It therefore makes sense to question the arguments for excluding smaller taxpayers from the tax net on pure efficiency grounds and to explore the potential political and revenue advantages of widening that net, while also carefully considering the administrative implications of doing so.

⁴⁵ The size of the informal economy is difficult to estimate. Estimates from West Africa suggest that more than 80% of total employment is informal and up to 60% of GDP is produced by informal activities (Benjamin and Mbaye, 2012, 48).

This argument seems to have been accepted by a number of Africa governments in recent years. For instance, the revenue authorities in Tanzania, Uganda and Zambia have made substantial efforts to broaden the tax base by incorporating informal-sector operators (Fjeldstad and Heggstad, 2012; Jouste et al., 2020; Resnick, 2020). This has been achieved by a combination of measures, including simplified tax procedures for small and micro-enterprises, taxpayer education and outreach programmes using local languages, the engagement of informal sector/micro-enterprise associations, and closer collaboration and exchanges of information with sub-national authorities.

Given the growing efforts under the SDGs to both improve tax mobilisation in cities and create 'inclusive cities', there is now greater scope to look at the urban informal sector not just for its revenue potential, but also for how taxation affects the engagement of those in the sector as citizens in their local political economies (Resnick, 2020). Broadening the revenue base is vital to building the social fiscal contract. It is also central to creating an equitable tax regime. From this perspective, there are good public policy reasons for paying more attention to taxing informal urban economic activity by both broadening the tax net and exploring alternative ways of building the capacity to tax the sector more effectively in the long term.

4.2.8 Parallel systems of informal taxation: a heavy burden on the poor

The fact that formal tax collection declines during pandemics and periods of conflict is not surprising, but it does not mean that people do not pay taxes. Outside the formal, national-level tax systems and policies, people often have to pay simply to engage in trade and business, travel, educate their children and receive health care. Moreover, during conflicts parallel systems of informal taxation frequently emerge, ranging from relatively institutionalised and coordinated extractions by rebel groups to ad hoc, coercive extractions by armed individuals.

Informal taxes comprise both illicit formal taxes in the form of payments illegally collected under the guise of formality by official tax collectors and other state officials but not remitted to the government treasury (e.g. bribes and embezzlement), and 'gifts' and 'donations' collected by a wide range of non-state agents and organisations. Small and medium-sized companies in the formal sector are often taxed disproportionately high, which may lead to closures and/or businesses moving from the formal to the informal sector to avoid extortionate taxation. Many end up being exposed to a combination of formal and informal taxes in the form of bribes, fees and charges levied by both state and non-state agents.

The French economist Remy Prud'homme has studied informal taxation in the Democratic Republic of Congo (Prud'homme, 1992). The DRC (previously Zaire) has never been ruled by an effective central political authority and has suffered recurrent and sometimes acute internal conflicts since independence in 1960. Congolese public servants have routinely functioned as unofficial tax collectors simply in order to collect their own salaries. Prud'homme distinguished six categories of informal taxation: pinch (misappropriation of money by authorised tax collectors), extortion, requisition, contributions, plus gifts and donations (to schools). He estimated that informal tax collection amounted to about 85% of total

tax collection. Recent evidence from other countries, including Sierra Leone (Jibao et al., 2017), suggests that the picture on informal taxation painted by Prud'homme is common in many poor countries.

4.2.9 Taxing the rich: noble objectives, unrealistic expectations

Until the mid-1980s, considerations of income redistribution played a significant role in shaping many decisions regarding tax reform (Gillis, 1990, 81), with a focus on the development of a progressive personal income-tax system, but this has not become a major tax base as initially anticipated. Personal income tax accounts for less than 10% of all tax revenue in most low-income countries, compared with an average of more than 25% in OECD countries (Keen, 2012, 10). It comes almost entirely from wage-withholding (pay-as-you-earn) taxes on public-sector and large-enterprise employees. Commonly, less than 5% of the population pay personal income tax, compared to nearly 50% in developed countries (IMF, 2011, 31). The reasons for the failure of personal income tax reflect both the relatively low incomes of the relatively few people who work in the formal sector, administrative and political weaknesses, a poor capacity to expand the tax base to the self-employed, and resistance from the elite and wealthy individuals with plentiful opportunities to conceal their incomes.

At present, the (social) media is packed with enthusiastic features stating that 'the time has come to tax the rich.' Just to mention a few, Brendan O'Boyle argues that progressive tax reforms are gaining traction in Latin America thanks to the pandemic. In an ICTD-blog, Prichard (2020) argues that African governments should prioritise taxing the rich to help their response to COVID-19. We have great sympathy with these arguments, but, as discussed above, the most likely focus of many governments will rather be to increase revenues by broadening the tax base to incorporate larger segments of the population of individuals and firms in the tax net. The wealthy elites will probably not be much affected by these reforms.

In our view, a policy of 'taxing the very rich' is not very easy to implement. This was the case before COVID-19 and is likely to be the case afterwards; indeed, it might prove even harder. The well connected and wealthy are the backbone of many regimes, and they have an army of well-paid 'enablers' to safeguard their private incomes and wealth (Harrington, 2017). Everywhere the very rich are mobile and can easily hide or relocate their wealth and incomes in tax havens like London, Dubai and Mauritius.⁴⁶

On paper it may also seem easy to reduce or abolish tax exemptions. However, in practice we observe exemption regimes expanding in many countries, not least in Africa. This is partly because exemptions are sometimes used to build coalitions of support among the powerful factions in society (Therkildsen and Bak, 2019). At

⁴⁶ Experiences from South Africa are illustrative. According to the latest 2020 Global Wealth Migration Review, an increasing number of wealthy people are leaving the country. Taxation and an oppressive government are listed as the main reasons for their departure. Approximately three million South Africans, out of a total population of about 60 million, accounted for 97% of the country's personal income tax collected in 2019. See: <https://businessstech.co.za/news/wealth/436607/the-rich-are-leaving-south-africa-with-this-one-country-expected-to-be-a-major-destination/>.

present, in many countries in SSA, economic power is easily converted into political power and political power into private wealth. Obviously, this has made it easier to reconstruct regulatory systems in favour of the rich.

4.2.10 Pandemic likely to stall ‘out-of-pocket’ expenses for social service and privatisation

Strictly speaking, out-of-pocket (OOP) expenses for services⁴⁷ such as education and health are not taxes. Nevertheless, even in countries where part or all of such services are declared to be ‘free’ (i.e. tax-funded), households may still decide on OOP because:⁴⁸

- The government-funded services do not reach everybody .
- Some groups deem them to be of poor quality and seek other (including private) providers.
- Corruption (service providers demand illicit payments).

Three consequences follow: (i) social-service funding becomes fragmented; (ii) OOP for health and education increases (as it has in absolute terms in all Denmark’s partner countries); and (iii) the impacts of COVID-19 negatively affect both poverty and the ability to pay more OOP, let alone taxes.

Education⁴⁹

The educational sector is fragmented. Primary, secondary and tertiary education is provided not only by central and local governments, but also by faith-based organisations, local and international NGOs, not-for-profit institutions and for-profit private companies.

Governments, households and development partners, in that order, were the main funders of education in Denmark’s partner countries until 2018 (latest year of data). At that time, they were all low-income countries (LIC) except for Kenya.⁵⁰ In the LICs almost one-third of the funding for education is paid through OOP.⁵¹

Forecasts by the World Bank point to a significant slowdown in spending on public education due to COVID-19. Household incomes will also decline. The latter may lead to shifts in enrolment from private schools to public schools, placing further pressure on public education budgets and reducing quality by, for example, increasing class sizes. Declining incomes will also reduce the taxable incomes of the better off households (poorer households typically do not pay direct taxes) and push poor households into deeper poverty. ‘It will be seriously difficult to continue

47 Which include user fees.

48 This phenomenon is not new. See Semboja and Therkildsen (1995).

49 This section is mainly based on the World Bank (2020).

50 In 2020, Tanzania moved into the lower-middle income bracket in the World Bank’s latest country classifications (<https://www.weforum.org/agenda/2020/08/world-bank-2020-classifications-low-high-income-countries/>).

51 In another estimate by Al-Samarrai et al. (2019, 6), it is 41%.

to make progress in narrowing ... gaps in spending and outcomes because of the COVID-19 pandemic' (p. 3). Increasing OOP is not an equitable option.

Health⁵²

Like education, health services involve a wide range of public and private providers, as well as many sources of finance.⁵³ Donor support, half of which was earmarked for HIV/AIDS, and OOP contributed to growing health expenditure in most African countries during the 2000s. In contrast, domestically financed government spending as a share of total spending has stalled in many countries (World Bank et al., 2016, 4). In absolute terms, OOP for health increased in nearly all countries in Africa from an average of USD 15 per capita in 1995 to USD 38 in 2014. However, some eleven million Africans fell into poverty every year due to such payments, which distressed families needed to make but could not afford.

COVID-19 will amplify these 'catastrophic health payments', thereby causing more households to fall into poverty.⁵⁴ As in the educational sector, the pandemic is also likely to lead to a shift towards government health facilities that, given the relative slowdown in revenue collection in the short term, will be receiving insufficient funds to keep up with demand.

Protecting people against the impoverishing effects of health payments is a cornerstone of universal health coverage (UHC).⁵⁵ COVID-19 will make it more difficult to reach that goal. Increasing OOP to fund health services is not the way forward.

4.3 Conclusion: potentials for more revenue are real, but IMFs projections unrealistic

In this chapter, we have examined a wide range of taxes and identified some tax bases with the potential for increased revenues. However, the IMF's general projection of a 5% increase in the tax-to-GDP ratio by 2030 is unrealistic for Denmark's partner countries. The improved revenue-to-GDP ratios experienced in these countries during the last three decades have taken place gradually and slowly over the years (see Chapter 3). It is realistic to expect this to continue, rather than to expect a quantum leap. Nevertheless, after the pandemic there will be the **potential** to raise more revenues, as shown in this chapter. The need to do so is obvious, but the specific tax base potential will vary from country to country depending on the economic, political and administrative circumstances. However, the room for using the tax system for redistributive purposes is limited.

52 This section is mainly based on the World Bank, World Health Organization, JICA, The Global Fund to Fight AIDS, and African Development Bank (2016).

53 Tanzania exemplifies the great fragmentation of sources of finance. These include general taxation (26%), donor support (41%), out-of-pocket payments (23%) and health insurance contributions (8%). About 32% of Tanzanians are covered by health insurance—i.e., 8% as public servants mainly through National Health Insurance Fund, 23% as informal workers through the Community Health Fund and 1% from private insurance (Binyaruka and Anselmi, 2020, 2).

54 Defined as out-of-pocket health payments of more than 15% of total household consumption (p.26).

55 UHC: All people to obtain access to quality essential health services without suffering financial hardship (SDG 3.8).

What should be taxed and at what rate are questions determined by politicians and bureaucrats in the Ministry of Finance. Even though the legislature in the partner countries plays a role in designing tax policies by debating budget statements and tax bills, the disturbing aftermath of passing such bills has raised questions as to whether legislators really understand tax policies and the implications of tax reforms for their constituents (Fjeldstad and Rakner, 2021).

Taxation is not an end but a means towards achieving development and improving welfare. Public revenues ought to be raised in a way that promotes development. There are trade-offs that need to be carefully considered in analyses of countries' taxation regimes. Tax and fiscal policies should be assessed on the basis of a range of indicators, such as private-sector investments, the business environment, growth, poverty levels and income distribution. Particularly in fragile states, this will imply that a more diverse and context-adapted set of fiscal policies needs to be developed, including tax instruments and modalities for providing technical assistance.

5. POLITICAL ECONOMY OF REVENUES INCREASES

Since 2000, DRM – measured in revenues as a percentage of GDP – has generally improved across Denmark's partner countries (see Chapter 3). It is therefore not correct to suggest that African tax administrations are generally doing badly (see the introduction to Chapter 3), as was the prevailing view in both donor and academic circles until recently (Mkandawire, 2015, 582-584).

However, in Chapter 4 we identified several under-utilised sources of revenue. An important question is therefore: What is driving the improvements in revenue collection across African countries, and what is impeding better revenue outcomes than those achieved during the 2000s?

There are four complementary answers to this question. Although with often considerable country variations, DRM is driven by:

- A fiscal contract⁵⁶ between ruling elites and individuals or groups of taxpayers. The agreement could be either 'I'll vote for you, and you'll provide better public services' – or 'I'll vote for you, and you won't tax me.'
- A political settlement: rulers distribute resources in exchange for political loyalty to keep them in power.
- Improved tax administrations and tax policies pushed by technocrats.
- Donor influence and conditionalities.

⁵⁶ The 'exchange of tax revenues (for the state) for institutionalised influence over public policy (for the citizens)' (Moore, 2008, 36).

5.1 Better services? Yes. More taxation to pay for them? Not so much

We do not know of any major political deals (fiscal contracts) in recent years involving an increase in broad-based taxes in exchange for the provision of public services (education, health, roads, etc.) in Denmark's partner countries. In contrast, it is typically only service provision that is advocated by the leading political parties and major organised interest groups of revenue-providers (labour unions, civil servants, business associations, religious organisations and other interest groups) or that is prioritised by many voters. Government proposals to raise broad-based taxes to generate the finances for public goods are typically made in between elections and sometimes met with protests.

Higher, more broad-based taxation in exchange for better services is therefore not among the major issues in recent democratic or authoritarian African presidential elections. These are dominated instead by promises of 'economic development' (jobs, health, education, poverty, roads, sanitation)⁵⁷ in response to popular expectations and priorities, but without much public discussion about how to finance them (Bleck and van de Walle, 2019, chapter 6). In some Danish partner countries the aversion to paying taxes can be strong.⁵⁸

Given the widespread demands for better public goods provision, it is no surprise that a 'tax-compliance attitude is positively correlated with provision of public services' in African countries (Ali et al., 2014, 828). Competitive elections also create incentives for African governments to implement pro-rural policies to satisfy the rural majority. This has helped significantly to increase access to primary education and reduce infant mortality rates (Harding, 2019). In other words, to win competitive elections, ruling elites must find money for public services, increased taxation being one instrument,⁵⁹ even though this sensitive issue is avoided in their election campaigns.

It is also noteworthy that corruption is a salient election issue according to Bleck and van de Walle (2019). Consequently, perceptions of low corruption at different levels of the executive branch (president's office, government officials, tax authorities) have a significant and positive impact on tax morale (Boly et al., 2019).

Redistribution through taxation ('taxing the rich to benefit the poor') is not a salient election issue in most African countries according to Bleck and van de Walle, nor is it a strong priority of their citizens.⁶⁰ Redistributive coalition-building in ethnically diverse societies may be especially difficult (Mazrui, 2008), so that any push for a wider redistributive agenda to benefit the poor tends to be weak (Bolch et al., 2017).

57 The second most important issue is 'democracy' (governance, democracy, corruption, the rule of law) followed by 'domestic security' and the 'distribution of natural resources' (ibid., Figure 6.2).

58 'Amongst the public, a high premium is placed on peace and stability, ... but there is a clear aversion to the payment of taxes, which has forced the Government to be cautious in widening the tax base.' Quoted in a review of Danish support to public finance management in Burkina Faso (Lawson et al., 2012, 17).

59 Loans is another.

60 Except, perhaps, in Ghana (ibid., 184). Inequality per se is not mentioned as a priority of citizens in a large recent Afrobarometer survey of 34 African countries (Coulibaly et al., 2018). Poor access to public services is a major concern, however, one that clearly has equity implications.

The other constraint on redistribution is limited fiscal space. The World Bank and the IMF both argue that a minimum tax revenue of 15% of GDP is necessary to execute basic state functions and to sustain progress with development (Gaspar et al., 2016, 30). Only Kenya fulfils that criterium among Denmark's partner countries (see Chapter 3). Some researchers inspired by and working with Thomas Piketty would dispute the suggestion that the fiscal space for redistribution is limited in most African countries. However, they tend to look at hidden income and wealth in Africa through Eurocentric or America-centric spectacles, and they certainly ignore the lack of strong political support in African countries for tax-driven redistribution to benefit the poor (Simson and Savage, 2020).⁶¹

One tax-related issue, however, is salient in some countries' elections: the management of natural resources (Bleck and van de Walle, 2019, 203). Widespread popular support for stronger taxation of extractive MNCs is often driven by natural resource nationalism (see Section 4.2.2). Domestic politics must play a significant role in this because countries differ significantly in how much they tax natural resource wealth and how they do so (Natural Resource Governance Institute, 2017).⁶² In some countries, revenues from mineral resources can also be significant for local governments (Moore et al., 2018, 154).

Nationalism undoubtedly generates broader popular support for the taxation of non-extractive foreign MNCs and efforts to combat illicit financial flows (see Sections 4.2.1 and 4.2.2). Such initiatives typically entail low risks for the political elites that advocate them except when MNCs run joint ventures with politically powerful domestic firms or individuals. Domestic NGOs, assisted by international NGOs, are often active in supporting such taxation.

5.2 Ruling elites distribute resources in exchange for political loyalty

The politics of taxation is also influenced by specific incentives to reduce taxation and to provide tax exemptions.

Where political settlements are characterised by weak ruling-elite coalitions and severe internal conflicts over power, distributional demands for rents can be difficult to contain. Here rulers may distribute resources in exchange for political loyalty in order to build a coalition that will keep them in power (Whitfield et al., 2015).⁶³

Competitive elections may have similar effects. Government proposals for broader and/or higher taxation of voters and/or companies owned by nationals can trigger a bargaining process in which these proposals are watered down and some tax exemptions granted to facilitate more modest increases in domestic revenue mobilisation (Kjær et al., forthcoming). Such tax exemptions are typically negotiated

⁶¹ South Africa is an exception, but it is not a low-income country.

⁶² Who gets the benefits of such resources is often at the centre of contentious domestic politics and can lead to instability and conflicts (see, for instance, Must, 2018).

⁶³ See also Arriola (2013, 19-23). The sort of political coalitions that might change this are typically weak, especially in countries with limited business-sector autonomy from regime-controlled capital.

through lobbying by big business (Fjeldstad and Rakner, 2018), are exchanged for political contributions to the election campaigns of the ruling elite or party (Therkildsen and Bak, 2019), or are the result of street protests (Bak, 2018).⁶⁴ As Keen (2012, 13) observed, large firms receive exemptions, small ones resort to evasion. In any case, such exemptions often benefit the rich, lead to unnecessary revenue losses and create opportunities for corruption (see Section 4.2.3).

5.3 Better tax administrations, improved tax policies

What, then, accounts for the increasing tax-to-GDP ratio over time in Denmark's partner countries?

Part of the answer lies in the increased professionalism, motivation and modernisation of African tax administrations, since 'in developing countries, tax administration is tax policy.' On the other hand, '[q]uestionable options in...tax policy sometimes lead to equally questionable administrative practices.'⁶⁵

A main reason why 'so many African governments established themselves as relatively effective tax collectors' in the 2000s is 'that many have [willingly] embraced substantial tax administration reform' since the 1990s as part of the economic recovery process (Moore, 2020b, 11-12).⁶⁶ These reforms focus on the effectiveness of tax administration rather than continually 'fiddling with tax rates, tax bands, tax thresholds etc. (i.e. tax policy)'. Second, taxes on international trade were cut dramatically to promote trade and economic specialisation. Third, VAT on consumption was introduced to replace revenue losses from falling trade-tax revenues and the abolition of sales taxes. Fourth, semi-autonomous revenue authorities (SARAs) were established in many countries, namely Ethiopia, Kenya, Tanzania and Uganda (but not Burkina Faso, Mali, Niger or Somalia), which paved the way for a substantial restructuring of tax administrations (Dom, 2019). Finally, the SARAs played a significant role in the creation of a regional-cum-international professional community of tax administration specialists, most visibly in the creation of the African Tax Administration Forum in 2009 (Moore, 2020b).

5.4 Donor influences

During the structural adjustment period, international development agencies, in particular the IMF and the World Bank, had a significant influence on tax policies in African countries, but this changed somewhat during the 2000s. Tax-policy and administrative reforms are no longer being forced on African countries by aid donors and international organisations as they used to be (Moore, 2020b, 12). To the extent that 'money speaks', the importance of donors measured as aid's share of the recipient government's budget dropped dramatically in the 2000s (see Chapter 3).

64 The announcement of a 16% VAT increase on petrol in 2018, for example, led to nation-wide protests in Kenya. Subsequently the rate was reduced to 8% (Bak, 2018).

65 Quotations respectively by Casanegra de Jantscher (1990) and Bodin & Koukpaizan (2008) taken from Keen (2012, 17).

66 The title of Moore's article, 'What is wrong with African tax administration', and his summary are rather misleading. He provides evidence that these agencies are doing comparatively well (see also Chapter 3).

This is likely to have reduced the general influence of foreign donors, including on DRM policy-making.

On the other hand, proposals for tax-policy and administrative reform are often strongly influenced by international trends and driven by a coalition of domestic bureaucrats and international tax advisors,⁶⁷ though they still have to be sanctioned by the country's ruling elite.

Thus, many African countries have implemented substantial reforms of tax legislation during the last two decades, with technical assistance and funding from the IMF, the World Bank and some bilateral donors. Such support has boomed in recent years. Specific tax-policy changes associated with these reforms have included: (a) the simplification of tax structures and procedures; (b) the elimination of export taxes; (c) reduced tariffs and less reliance on trade taxes; (d) a dual-income tax system with a simplified progressive tax on personal income and a simple, often flat and fairly low corporation tax; and (e) expanded reliance on taxes on goods and services, particularly VAT. A focus on the extractive sectors and MNCs is also typical. The overarching objective has been to raise revenues.

5.5 'Hidden' ruling elite support for DRM: weak electoral support for equity redistribution

There are two important imperatives in most SSA countries. One is to win competitive elections to legitimise the holders of power, even in countries without free and fair elections. The other is to build coalitions among ruling elite groups to bolster fragile political settlements. Both have major influences on DRM.

The political drive for increased revenue is specific (e.g. targeting companies in the extractive sector and MNCs), while the push to tax ordinary citizens and the rich is politically sensitive, rather diffuse and weakened by tax exemptions. Finding money for the expansion of popular public services is typically left to tax bureaucrats, sometimes in collaboration with donors, and is quietly sanctioned by the ruling elites.

Redistribution through tax exemptions typically benefits the better off or the outright rich. Using taxation to redistribute wealth for the benefit of a *large* number of the poor does not appear to have wide electoral support, nor is there much fiscal space for this in the Danish partner countries at present, nor will there be in the foreseeable future, as shown in Chapter 4.

⁶⁷ Fjeldstad and Moore (2009) refer to this as a 'global epistemic community of tax professionals' spanning international financial institutions, consultants and tax administrators.

6. STRATEGIC ISSUES FOR DANISH SUPPORT TO DRM FOLLOWING THE PANDEMIC

The purpose of this report is to contribute to discussions on future strategic directions within Danish development assistance, specifically to provide inputs to policy discussions on possible Danish support to revenue generation in poor African countries following the COVID-19 pandemic. Consequently, we do not deal here with the immediate short-term consequences of the pandemic for revenue mobilisation, as a lot of attention is being paid to that challenge already.⁶⁸

The full longer-term political, social, economic and gender impacts of the pandemic in poorer countries are not yet known, but they are already significant and will continue to be so, as discussed in the previous chapters. These countries were already struggling to meet the SDGs before COVID-19. These goals will be even more difficult to reach after the pandemic due to its multiple impacts. Improved DRM is as important as ever.

Danish interest in support to DRM in poorer countries is not new. Three quotes from Denmark's present aid strategy, 'The World 2030' of 2017, illustrate this:⁶⁹

'The developing countries must increasingly mobilise their own resources through strengthened initiatives via tax systems, combating tax havens and an improved business climate to encourage private investments, economic freedom and respect for private property. Inequality in the societies must be addressed through the framework conditions that provide the individual with freedom and equal opportunities to make choices for his/her own and his/her family's future' (p.4).

'Focus will also include combating tax havens and illegal capital flows, international economic crime, terrorist financing and anti-corruption policies' (p.30).

'We react to a demand from the countries themselves and support their ambitions and plans for fighting poverty and reducing conflicts, promoting sustainable growth and development' (p.4).

In practice, Danish support to DRM since 2017 has been rather limited (Lines, 2019) and, to our knowledge, has not been systematically evaluated.⁷⁰ Solid evidence to learn from is therefore limited. Consequently, the following suggestions are based on our analysis of the potentials and challenges of DRM facing low-income countries in the aftermath of the pandemic. Five issues that are of strategic importance from a Danish aid perspective are identified. They are related to SDG financing, revenue mobilisation, tax administration, tax policy and state–society relations.

68 For example, Steel and Phillips (2020) and Miller et al. (2020), to mention just a couple.

69 Ministry of Foreign Affairs of Denmark (2017).

70 However, an evaluation of support to DRM in Ghana, which started in 2015, shows mixed results (The Ministry of Foreign Affairs of Denmark, 2018, 80-84). In Burkina Faso aid to DRM was part of the support to public finance management. Here progress on tax reform was considered 'unsatisfactory' (Lawson et al., 2012, 15).

6.1 Support to DRM is central for SDG financing and can be money well spent

It is worth stressing five important insights from our analysis with respect to Denmark's aid strategy:

- Poor countries are already faced with significant underfunding of their SDGs. The COVID-19 pandemic has both increased the need for more revenue and made its mobilisation more difficult.
- Aid as a share of recipient GDP declined rapidly during the 2000s.
- Some forms of donor support have resulted in significantly increased revenues, e.g. support to modernisation programmes in tax administrations and the replacement of sales taxes with VAT.
- Future revenue increases will not come from one tax base alone, but from gradual improvements in taxing a range of sources, as well as reducing tax exemptions and subsidies.
- Over the last twenty years, many low-income countries in Africa have been relatively good at generating revenues, given the structural constraints of their economies.

Consequently, donor support to DRM need not be a waste of money. That said, more revenues are not a silver bullet. Additional funds will only lead to improved development outcomes if the money is translated into productive public expenditure that also promotes greater responsiveness and accountability, reduces inequality and improves the state's institutional capacity. Only then can DRM become a catalyst for broader improvements to peoples' lives.

From this perspective, it is worrying that the IMF's main advice to African countries, both prior to the pandemic and now, has been that countries should aggressively boost their DRM efforts across all tax bases (see Section 4.1). This could negatively affect many taxpayers (firms, individuals) that are struggling to survive the impacts of COVID-19. Under present conditions, aggressive resource mobilisation could further undermine the legitimacy of taxation, tax authorities and political elites in some countries. A trade-off between the urgent need to raise more revenues in a country and ways of doing so should therefore be found. From this perspective, and especially in fragile states, it is important to strengthen the Ministry of Finance's capacity to formulate tax policy and perform realistic revenue budgeting. Moreover, there is a need for training and research support to improve the technical capacity and basic skills of Members of Parliament in the areas of public finance and tax policy, including how to read and understand government budgets.

Challenges related to intergovernmental fiscal relations and local government taxation are also important to incorporate into these considerations (Section 4.2.7). Donor support to tax reform in poor countries has largely focused on national tax systems. Due to the overall fiscal constraints, reforms of the sub-national tax system have not been a priority compared to the mobilisation of central government revenues. However, donor support to strengthen the sub-national tax system could potentially be an important factor in broadening the capacity to collect taxes. At present, in all the partner countries, there is limited or hardly any co-ordination or

exchange of tax information between the various levels of government. Priority should therefore be given to local government tax reforms and to strengthening intergovernmental fiscal relations.

6.2 Major redistribution through taxation is not realistic in the foreseeable future

‘Leaving no one behind’ in poor and fragile countries is a desirable goal, but very difficult to achieve. From a DRM perspective there are two major obstacles. The fiscal space for significant broad-based redistribution is simply limited in countries with revenue-to-GDP ratios of around 15% or below. Equally important, redistribution through taxation requires strong political coalitions to push that agenda. We found few signs of such coalitions in Denmark’s partner countries (as elsewhere in poor countries in Africa).

Therefore, just as we have reservations about the IMF’s aggressive push to increase DRM across the board (see above), we also have concerns about donors pushing welfare state-inspired policies in poor countries too hard. The declining share of aid in revenues across these countries adds to our concern. Aggressive attempts to widen the tax base will inevitably draw poor people increasingly into the tax net, as shown in Chapter 4, and therefore potentially be self-defeating from an equality perspective (Moore, 2020a).

Nevertheless, a politically viable pathway towards more redistribution could be to increase pro-poor expenditure on social services (education, health, infrastructure), as demanded by a broad spectrum of citizens. In some countries (Section 5.1) this demand may subsequently trigger a need for more revenue, which in turn can motivate the tax authorities and politicians to mobilise it.

The other challenge is to strengthen public finance management (PFM) so that additional revenues are spent as budgeted or targeted and not lost through corruption and inefficiency. Therefore, support to DRM should go hand in hand with support to PFM (which Denmark has had some experience with, for example, in Burkina Faso).

6.3 Support to DRM must be demand-driven, context-specific, coordinated, and with a long-term perspective, especially in fragile states

Taxation is both a technical and a political issue (Chapters 4 and 5) and must be addressed in a holistic manner. The relevant mixture of support to tax administration, tax reform (policy), PFM and civil society should therefore be demand-driven and country-specific. One size does not fit all.

The good news is that the push for tax-related reforms since the 2000s often came from the countries themselves, sometimes responding to the popular demand for services rather than from donors, as it did during the structural adjustment period. The crisis-level impacts of COVID-19 may motivate some political elites to start new tax initiatives for which donor support may be relevant

Support to DRM in fragile states is, however, particularly challenging, as they typically have legacies of conflict related to economic and administrative

destruction and political divisions. Moreover, DRM support should also contribute to both state-building and improving the government's legitimacy. This requires a different approach and other instruments than in the more stable poor countries. Because state legitimacy in fragile states is generally low, tax regimes must often be implemented with some coercion. Without this, people will simply not pay taxes, since they have little trust in the government's promises that they will see anything in return. However, the political risks of applying a high degree of coercion are obvious.

Bilateral technical assistance programmes of relevance to stable countries may not be appropriate in fragile countries due to their complexity and/or security situations. Here, engagement through multilateral institutions, including multi-donor trust funds and other forms of pooled resources, should therefore be prioritised (Fjeldstad et al., 2018).

Since revenues from customs are one of the major sources of revenue in fragile states (e.g. in Burkina Faso, Mali, Niger and Somalia), reforming and strengthening customs should be a priority for TA (Section 4.2.5). In particular, support to policy measures directed at combating both the incentives and opportunities for corruption are required. Information and communications technology (ICT) capabilities that enable more automated business processes and minimise face-to-face interactions between customs officers and traders should be part of measures aimed at closing loopholes and opportunities for corruption. The private sector, such as chambers of commerce, trade associations, and transportation and brokerage companies, must be part of these modernisation efforts. Experience shows that integrity reforms are unlikely to succeed if the push and leadership for them is mainly external. International development agencies should therefore not play a leading role and should not dictate the content, pace and direction of such reforms. Integrity reforms are often highly political processes that may pose a threat to important local stakeholders.

A lack of coordination poses a serious problem, as support to DRM has attracted an increasing number of bilateral and multilateral donors in recent years. Their diverse interests and different aid modalities create risks of duplication and/or fragmentation and sometimes encourage recipient countries to do 'donor shopping.' While government ownership is a prerequisite for any policy reform, it is particularly important for politically sensitive tax reforms.

In fragile settings characterised by widespread corruption and ineffective public institutions, there is a real danger of donors establishing parallel systems outside the public sector to 'make things work': External tax experts in TA projects often become gap-fillers, not capacity-builders. This is also likely to drain the already poor administrative and managerial capacity of the recipient countries.

Danish bilateral aid should therefore be based on a full picture of donor engagement in the specific country; alternatively, support through the multilateral organisation of an international organisation is an option (see below). Moreover, while donors tend to focus on tax authorities per se, the policy sections of the Ministry of Finance are often somewhat neglected. Support to these may be a relevant option.

Finally, addressing the DRM challenges identified by this study will also require long-term commitment by the international community. It takes time to build capacity and institutions and to change peoples' behaviour, whether they are policy-makers, tax officers or ordinary citizens. The slowly growing revenue-to-GDP ratios of the last thirty years (see Chapter 3) testify to the importance of a long-term perspective for DRM support. Its slogan should be to 'hurry slowly,' 'to muddle through' with patience and (especially in fragile states) to be willing to run risks.

The bottom line is that it is essential to maintain the urgency of increased funding through DRM for the sake of achieving the SDGs, but past lessons about what does and does not work in development aid should not be forgotten.

6.4 Support to international and regional tax networks

It follows from Section 6.3 that the lack of agreement on strategic goals and competition among donors with diverse national and institutional interests continues to impede coordination and DRM progress on the ground in recipient countries. Support to international tax networks could alleviate these problems, although they can also have coordination problems. There are several options.

First, there is a need to minimise duplication and inconsistencies between the work funded by different tax-related multilateral trust funds and tax initiatives, such as the World Bank's *Global Tax Program* (GTP)⁷¹ and the IMF's *Revenue Mobilization Thematic Fund* (RMTF),⁷² both of which Denmark supports. In the *Global Platform for Cooperation on Tax*, established in 2016, the World Bank, IMF, OECD and United Nations aim to collaborate more effectively in the areas of tax and capacity development in development.⁷³ The platform also aims to become a venue for discussing tax and expenditure assistance by development agencies and recipients of such assistance. The World Bank serves as the secretariat for the Platform and is one of its main drivers.

Second, the *African Tax Administration Forum* (ATAF) aims to strengthen the more general analytical capacity of African revenue administrations and ministries of finance. It is also engaged in taxpayer education programmes.⁷⁴ The ATAF has 38 member countries, including five of Denmark's partner countries in Africa (Burkina Faso, Kenya, Niger, Tanzania and Uganda). However, Denmark has provided very limited support to ATAF, which is underfunded and is struggling to build capacity or acquire influence (Danida, 2018). A principal advantage of ATAF, not yet delivered in practice, is that its wide cross-national network could help to find reform-based solutions to the many cross-border tax-related disputes that mar many continental trade relations.

71 See: <https://www.worldbank.org/en/programs/the-global-tax-program/overview>

72 See: <https://www.imf.org/external/np/ins/english/files/RMTFAnnualReportFY20.pdf>

73 See: <https://www.tax-platform.org/index.php/who-we-are>

74 See: <https://www.ataftax.org/>

Third, the *African Economic Research Consortium* (AERC) in Nairobi is a regional research and teaching organisation which runs academic courses or degrees in public economics, including fiscal reforms, taxation and public spending.⁷⁵ It can help meet the clear need to increase the technical and analytical skills of tax-policy and tax-administration staff.

A fourth option is the *Addis Tax Initiative* (ATI).⁷⁶ This is a multi-stakeholder partnership that aims to enhance DRM in partner countries and has received modest Danish support during the first strategic period of 2015-20 (Lines, 2019). The new ATI Declaration 2025 was presented to the ATI General Assembly in Addis Ababa in November 2020 (ATI, 2020). It is rooted in the 2030 Agenda for Sustainable Development (SDG targets 17.1,⁷⁷ 10.4⁷⁸ and 16.6⁷⁹) and aims to strengthen DRM in developing countries by ‘improving capacities to collect taxes and other revenues in a transparent, accountable, and equitable manner’. Key commitments in the declaration include to ‘gradually strengthen progressive revenue sources and advance the level of progressivity within tax and non-tax revenues’, and to ‘improve the efficiency of revenue administration’. The declaration largely seems to be consensus-driven and is quite general. This can, of course, be an advantage, as it allows for greater flexibility when measures are to be designed and implemented in countries with often very different challenges and needs.

Support to such networks and multi-stakeholder partnerships can also be venues for the communication of Danish experiences to influence priorities and enhance Danida’s normative influence on their revenue mobilisation work.

6.5 Support to civil society

It is vital to secure broad-based citizen engagement in taxation issues to enhance the legitimacy and accountability of country tax systems. Domestic civil society-based organisations, including business and taxpayer associations, can help to do this and to place a new focus on tax policy, for instance, on fairness and equality, and thus influence relevant policy decisions. They can also help to improve the accountability of the tax authorities by focusing on taxpayer–collector relations, which often cause problems.

The issue with the deepest history of civil-society engagement in Africa is the extractives sector, where local organisations, supported by international NGOs such as Action Aid, Oxfam and the Tax Justice Network, have protested against the ineffective taxation of mining in particular. Also, faith-based organisations – in Tanzania, for instance – challenge what they view as excessively generous minerals legislation. This helped to influence the government to revise its tax legislation

75 See: <https://aercafrica.org/>

76 See: <https://www.addistaxinitiative.net/>

77 SDG target 17.1: ‘strengthen domestic resource mobilisation, including through international support to developing countries to improve domestic capacity for tax and other revenue collection.’

78 SDG target 10.4: ‘adopt policies, especially fiscal, wage, and social protection policies and progressively achieve greater equality.’

79 SDG target 16.6: ‘develop effective, accountable and transparent institutions at all levels.’

significantly, thus sparking a long and continuing debate over the revenue raised from mining enterprises (Curtis et al., 2012). Similar processes have taken root across the African continent (Moore et al., 2018).

During the last decade, the engagement of civil society in Africa has expanded steadily to include issues such as illicit financial flows and aggressive tax avoidance strategies by MNCs, and more recently targeting wealthy Africans accused of holding significant wealth overseas. The Tax Justice Network-Africa (TJN-A) has drawn increasing attention to tax treaties that undermine national interests, including taking the government of Kenya to court over a treaty with Mauritius (Mutava and Hearson, 2019). This focus on international taxation has been mirrored by growing civil-society attention to the granting of unjustified tax exemptions and in campaigns for greater transparency regarding tax exemptions (see, for example, Oxfam, 2017).⁸⁰ Another regular target of civil-society mobilisation has been VAT, which activists have presented as regressive and damaging to the interests of the poor. In reality, these criticisms of VAT are open to question (see Chapter 4 of this report).

African and international NGOs focus less on broader issues related to national and sub-national (local government) tax systems, such as income and property taxes or customs and excise, and on how these can be strengthened to raise more revenues and improve state–citizen relations. Through its support to civil-society organisations, Danida can play a constructive role to encourage NGOs to broaden their scope of taxation issues to focus on in poor countries.

The barriers to broader popular engagement remain substantial in many countries. Limited trust in governments and tax authorities, especially in fragile states, undermines the potential for constructive tax campaigning. Moreover, the trend towards more authoritarian rule across the world, including in SSA, poses a serious challenge to such support. The urgency of increased revenue mobilisation brought about by the COVID-19 pandemic may motivate ruling political elites to push for more coercive collection methods in order to reach their targets. We can hope that instead the pandemic will motivate ruling elites to develop more compliance-friendly methods. For this to succeed, dialogue with and support from civil society will be important.

⁸⁰ It is striking how the IMF (in particular) and civil-society organisations campaigning on tax issues seem to have very similar positions on important questions such as tax incentives and exemptions, or the taxation of transnational companies. However, relationships between these actors are often characterised by a combination of indifference and suspicion. There is a need to facilitate a more productive dialogue.

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