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OPINION

Donors turn blind eye to extortion in tax collection in Africa

Donors focus increasingly on domestic revenue generation as a way of reducing aid dependence in Africa. But tax administrations in many African countries today use violence to squeeze the taxpayers. Can support for increasing the tax base actually undermine good governance? Odd-Helge Fjeldstad questions the donors' common assumption that Africa is highly under-taxed.

In 1997, aid represented 10 per cent or more of GDP in 21 African countries. Without aid, governments would have to cut spending, raise taxes, or borrow from other sources. The donors' recipe for reducing aid dependence is straightforward: increase domestic revenue generation in the recipient countries. The assumption is that the current tax effort is low. There is some statistical evidence in favour of this view. On average, the tax-to-GDP ratio in sub-Saharan Africa is around 16 per cent, compared with the **OECD** average of about 32 per cent. In some African countries, including **Tanzania** and **Uganda**, the tax share is as low as 11 per cent.

But such simple statistical comparisons ignore substantial differences in economic structure, degree of commercialisation and urbanisation, size of the peasant population and poverty. By adjusting for such structural differences and thereby estimating a more realistic revenue potential, Tanzania's tax share is above the average of sub-Saharan Africa. Furthermore, historical data show that the tax share of many European countries did not reach 15 per cent of GDP until World War II - when incomes were substantially higher than they are in many African countries today.

Another problem with such comparisons is that informal taxation, not captured in official statistics, are probably higher in Africa than in other regions of the world. Family obligations, which can to some extent be considered as social insurance, are extensive. User charges and various self-help activities, which contribute to the maintenance of services like primary schools and health facilities, are also significant. Such groups have proliferated in recent years in response to the public sector's inability to deliver services. In some countries, these contributions are increasing. It is therefore reasonable to question a basic premise underlying donor policy that the tax effort in Africa is low. It might even be argued that the combined level of informal and formal taxes is already too high in some countries.

Excessive and arbitrary taxation are major constraints for economic and social development. Export agriculture is an especially easy target for revenue collection by local governments. In Tanzania, overall tax burdens of 20-60 per cent of the major traditional export crops are not unusual. This has led to disincentives for production and incentives for smuggling of agricultural products between countries, and in some cases also between districts within countries due to varying local government tax regimes. Thus, high taxation retards the growth process and induces tax evasion. The build-up of the taxable base and fiscal sustainability are also delayed.

Taxes are perceived to be unfair and people receive few tangible benefits in return for taxes paid. In such circumstances only coercive methods of tax enforcement can generate revenues. Indeed, in Uganda, the government has established special military units to collect taxes and fight smuggling. Roadblocks manned by soldiers, police and local militia and physical punishment of

suspected tax defaulters have become common. At times taxpayers reciprocate violently with “counter-attacks” on collectors or by burning tax offices. Tax riots are now reported from across the African continent.

Against this background, arrangements whereby development aid is given on the basis of matching funds from governments can lead to increased extortion. Studies from Tanzania show that such matching schemes have created strong incentives for revenue collection. However, coercive tax collection has important consequences for citizens’ rights and for the democratisation process. If taxpayers’ rights are unclear for both taxpayers and for tax authorities, tax compliance and accountability will be affected. As long as coercion is accepted as an integral part of tax collection it is unlikely that state-society relations can become more accountable and democratic.

In the current debate on revenue mobilisation, few concrete suggestions are presented on how to increase the tax effort, except for improving the effectiveness of the tax administration. Obviously, tax administrations in many African countries are weak, inefficient and corrupt. But merely offering wage incentives, such as bonuses, to tax collectors as a way of increasing revenue generation can actually lead to more extortion and corruption.

Furthermore, the emphasis on revenue targets does not seem to acknowledge other major impacts of the tax system. Many revenue bases in Africa perform poorly with respect to the basic principles of taxation: They are often distortive, costly to administer, and exacerbate inequity. Attempts to squeeze additional revenues from poorly designed taxes may, therefore, have negative effects on the economy and society in general. These issues are barely recognised by governments and donors, whose main concern seems to be to increase tax revenues at any cost.

The challenge for African states is to increase their ability to collect more revenue with greater efficiency and less public resistance. This is simply not realistic in the short run. The real budgetary problem in aid-dependent African countries is that the level of public sector expenditures is well above the realistic capacity of the country to finance them. It is therefore hard to imagine that serious progress can be made without expenditure cuts. Alternatively, donors must accept that foreign aid should be treated as a legitimate and predictable source of African governments’ revenue even in a more long-term perspective.

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