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Tax for Development
Webinar Series

Implications of the COVID-19 pandemic for revenue collection in poor African countries

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Presentation is based on new study for the Ministry of Foreign Affairs, Denmark

Provide inputs for strategic discussions about possible future Danish aid to domestic revenue mobilisation (DRM) in partner countries in Africa by:

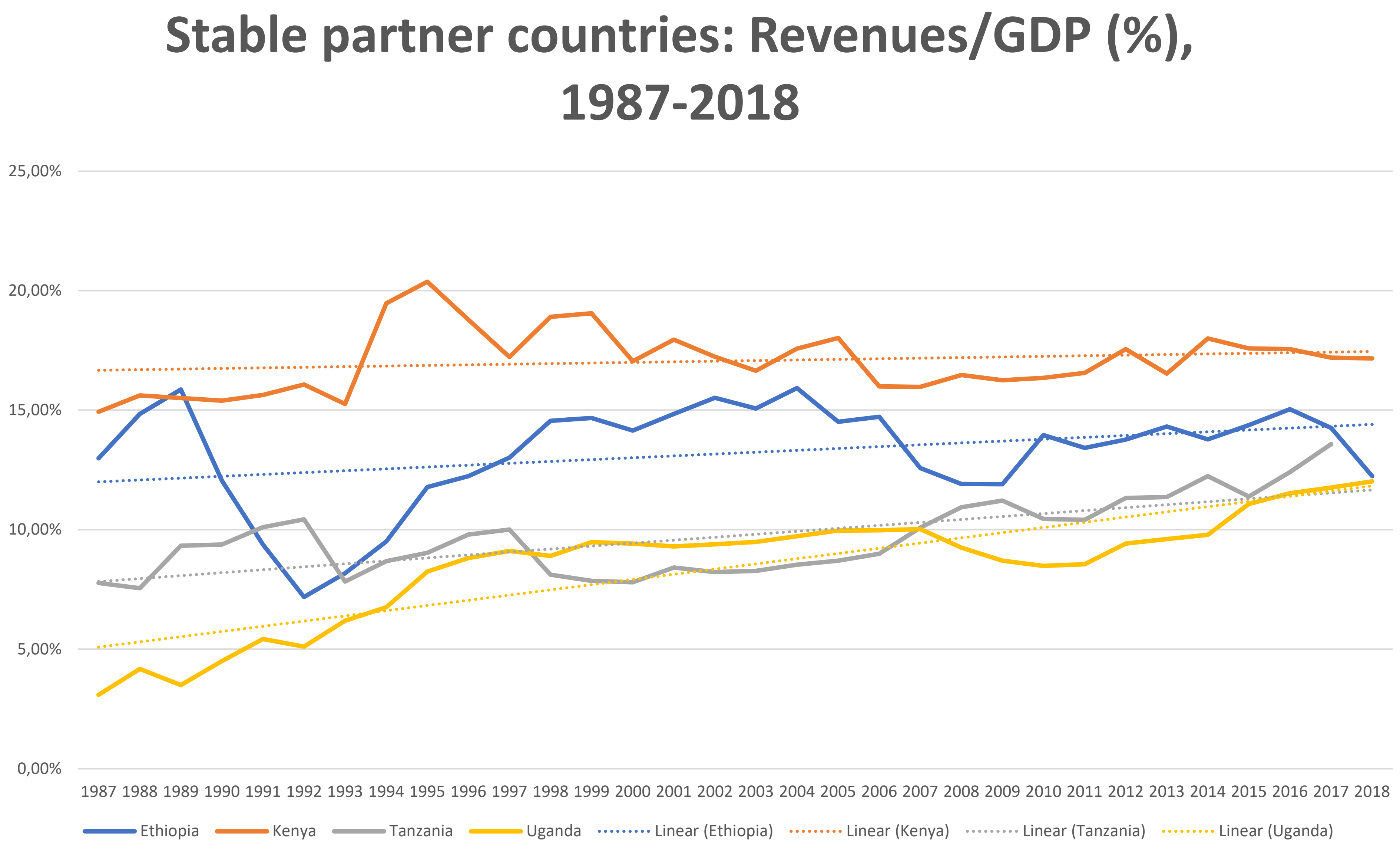
- **Examining how and to what extent the pandemic affects DRM**
- **Assessing the potential of various revenue instruments to raise additional revenues in the future**
- **Drawing policy implications of this for Danish aid to DRM**

Structure of the presentation

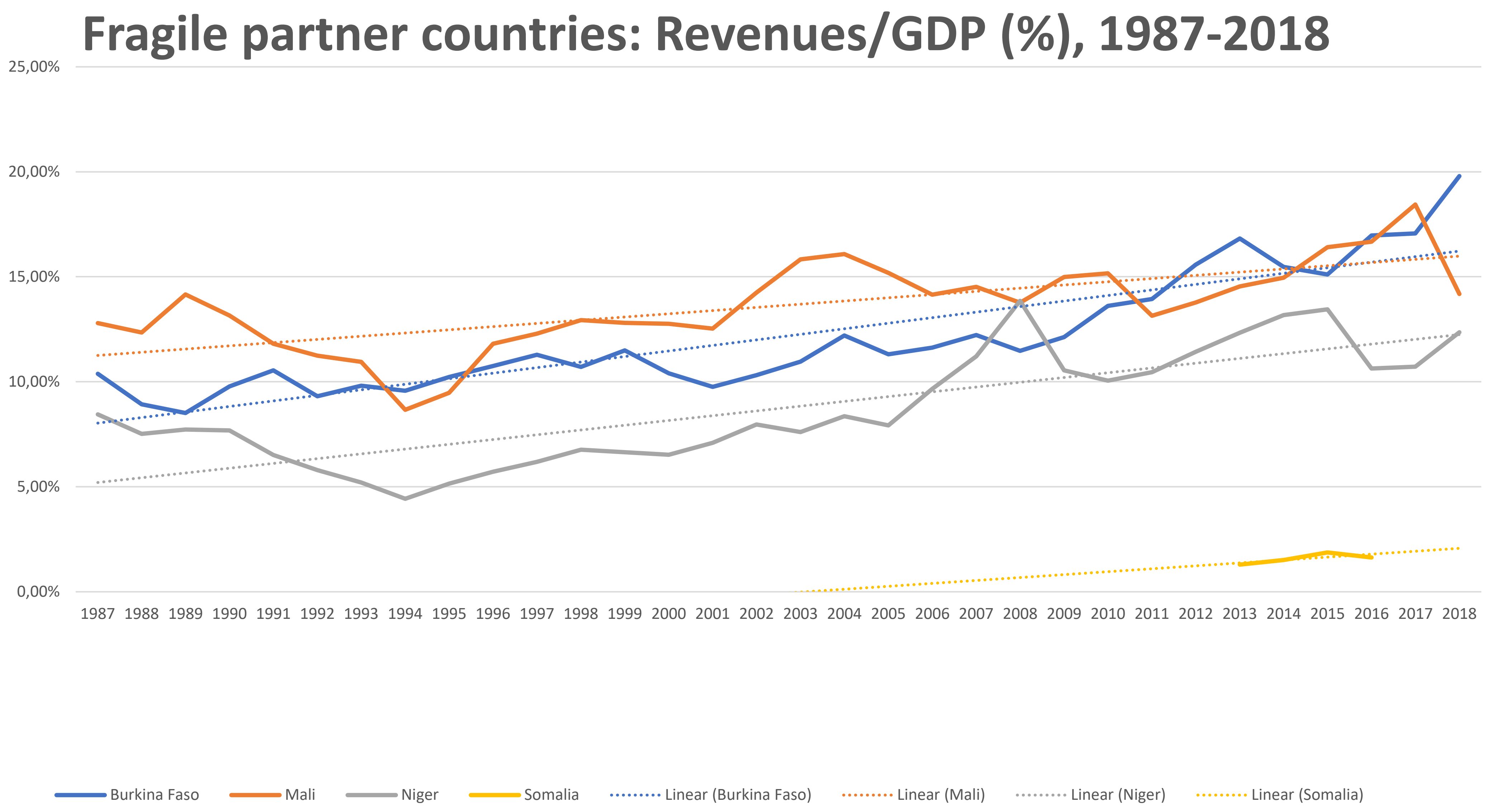
1. Taxation in sub-Saharan Africa **before** the pandemic
2. Taxation **during** the pandemic
3. Taxation **after** the pandemic
4. Implications for donor support to DRM

Taxation in sub-Saharan Africa before the pandemic

- **Countries in SSA are relatively efficient at collecting revenues**
- **Many SSA countries have relatively progressive central government tax systems**
- **Modest and slowly growing revenue-to-GDP ratios over the period 1987-2018**
- **Danish partner countries increased revenue-to-GDP/year by 0.1% to 0.2%**

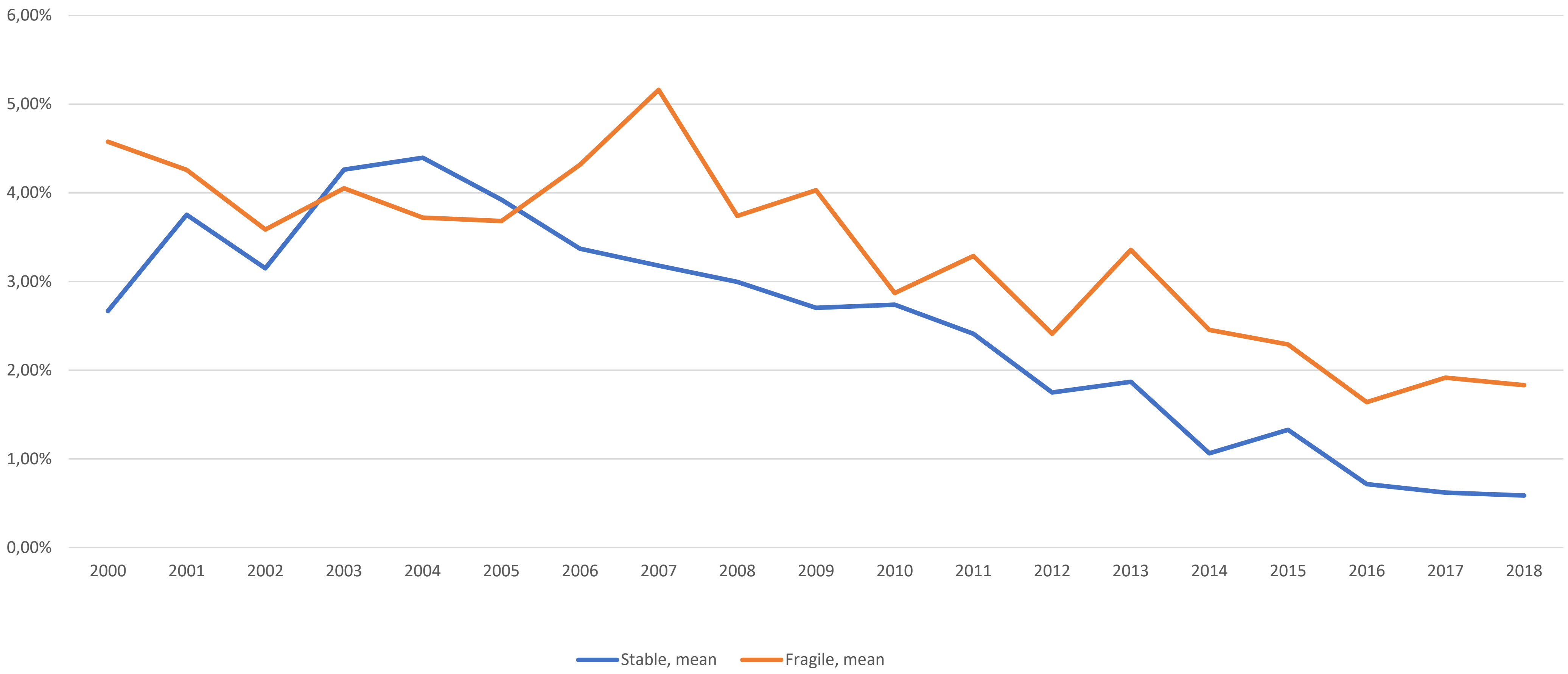


Stable partner countries: Revenues/GDP (%), 1987-2018
25,00%
20,00%
15,00%
10,00%
5,00%
0,00%
1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
Ethiopia
Kenya
Tanzania
Uganda
Linear (Ethiopia)
Linear (Kenya)
Linear (Tanzania)
Linear (Uganda)



Fragile partner countries: Revenues/GDP (%), 1987-2018
25,00%
20,00%
15,00%
10,00%
5,00%
0,00%
1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
Burkina Faso
Mali
Niger
Somalia
Linear (Burkina Faso)
Linear (Mali)
Linear (Niger)
Linear (Somalia)

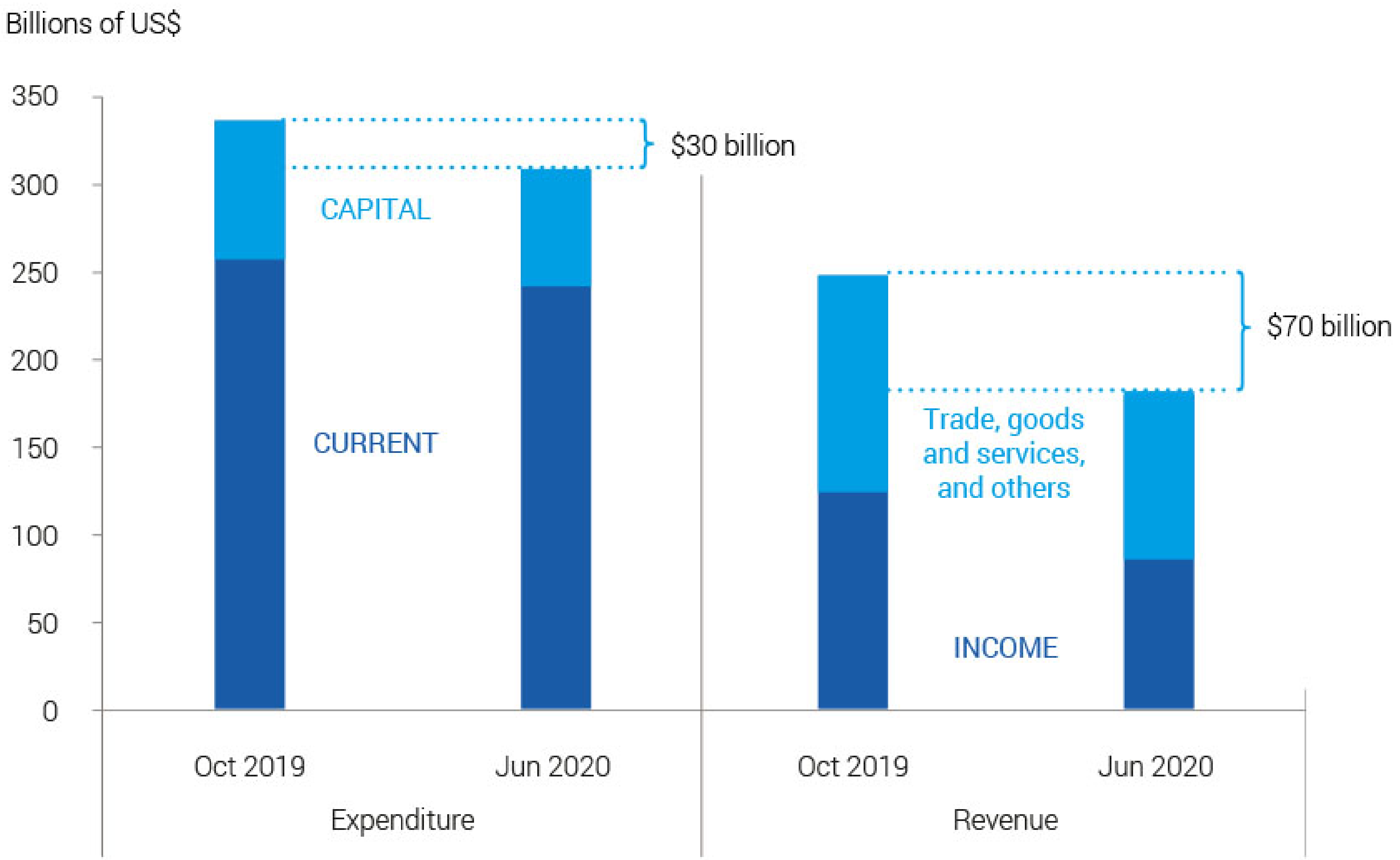
Grants as percent of GDP, 2000-2018



Taxation during the pandemic

- **Three main channels for impact of the pandemic on economies in SSA:**
  - Drop in domestic production resulting from lockdowns/restrictions on business operations
  - Decrease in household incomes as lockdowns reduce demand for goods and services
  - Disruptions of global trade that affect commodity prices, exports, and investments including FDI
- **IMF projection: Government revenues fall 2.3% percentage points of GDP in SSA in 2020 compared to pre-COVID-19 projections - but large country variations**
- **Policy responses across countries, including tax relief, have varied markedly**

Drops in Fiscal Expenditure and Revenue in SSA, 2019 -2020



Taxation <u>after</u> the pandemic

- **Major redistribution through domestic taxation is unrealistic in poor countries with revenue-to-GDP ratios below ~15%**

- **No strong organised political support for such redistribution in most poor SSA countries**

- **The political drive for increased revenue is specific (e.g. especially targeting companies in the extractive sectors and MNCs), while the push to tax ordinary citizens and the rich is politically sensitive, rather diffuse and weakened by tax exemptions**

Taxation <u>after</u> the pandemic (cont.)

- **The pandemic → reduced revenues + rapid falling aid-to-recipient-country GDP ratios since 2000 → need for increased domestic revenues**
  - **Recall: IMFs Expenditure-Revenue figure shown earlier**

- **Collecting more revenues <u>is</u> <u>possible</u>, but IMF's position was unrealistic before COVID-19 - and even more so now**. *[“increasing the tax-to-GDP ratio by 5 percentage points by 2030 is a reasonable aspiration for poor countries*”]
  - **Recall: Danish partner countries increased revenue-to-GDP/year by 0.1% to 0.2% over the period 1987-2018**

- **Future revenue increases → Gradual improvements in taxing a range of sources + fewer tax exemptions and subsidies → No big bang solutions**

Implications for donor support to DRM

Donor support to DRM can return investments manifold if targeted strategically

- Tax audit capacity; Tax administration modernization; Tax policy reforms

Support to DRM in fragile states is particularly challenging

- Engagement via multilateral institutions, incl. multi-donor trust funds (not bilateral)

Support to international and regional tax bodies and research networks

- Options: The Global Platform for Cooperation on Tax; African Tax Administration Forum (ATAF); Addis Tax Initiative (ATI); African Economic Research Consortium (AERC)

Support to domestic and international civil society organizations

- Vital to secure a broad-based citizen engagement around reforms of taxation to enhance the legitimacy and accountability of country tax systems

"Hurry slowly"

- The slowly growing revenue-to-GDP ratios during the last thirty years testify to the importance of a long-term perspective for DRM support

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TUESDAY 15 DEC. 15:00 – 16:00 CET

Social norms, pressures and corruption in tax administration

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