Tax System for Sustainable Development Goals in West Africa

Introduction

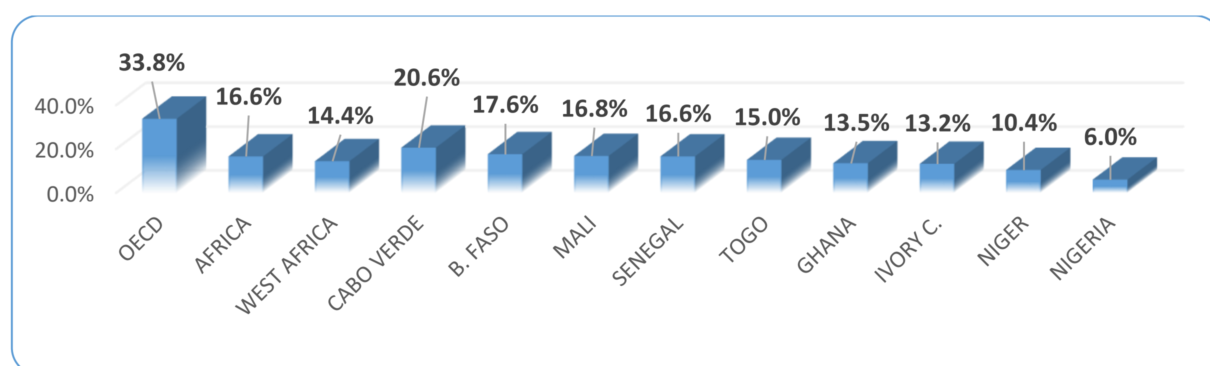
Adopted in September 2015 by the United Nations, the Sustainable Development Goals (SDGs), whose deadline is set for 2030, indicate the way forward to achieve a better life for all by addressing global challenges, particularly those related to poverty, inequality, climate, environment, peace, etc. The SDGs consist of 17 goals including SDG No.1 which aims to fight against poverty, improve access to basic services and reduce the proportion of the most vulnerable people, especially women and children.

To meet these constantly growing needs (health, food, education, employment, infrastructure, etc.) in a context of scarcity of external resources (official development aid, loans, etc.) - scarcity exacerbated by the COVID-19 pandemic - African countries can only count on fiscal resources which constitute the most stable and sovereign source of financing their development. However, despite the many tax reforms undertaken over the years, most West African countries have a Tax/GDP ratio below 20% and a very slow revenue growth rate in comparison to other regions of the world. In view of this worrying observations, will these countries manage to achieve SDG No.1 by 2030?

Analysis of the level of tax revenue mobilization in West Africa

“Tax revenues are critical for sustainable development because they provide states with the resources to invest in development, poverty reduction and the provision of public services, as well as in building state capacity, its accountability and its ability to meet the expectations of citizens”[1]. However, it is clear that almost all West African countries have a tax/GDP ratio well below 20%[2].

Figure 1: Tax/GDP ratio of some West African countries in 2019



Source: based on revenue statistics in Africa (OECD, 2021)

[1] De Paepe and Dickinson (2015), “*Tax Revenue as a Driver of Sustainable Development*” in Development Co-operation (OECD, 2014).

[2] This is the threshold used as a development trigger by WAEMU through its new convergence, stability, growth and solidarity pact adopted in 2015.

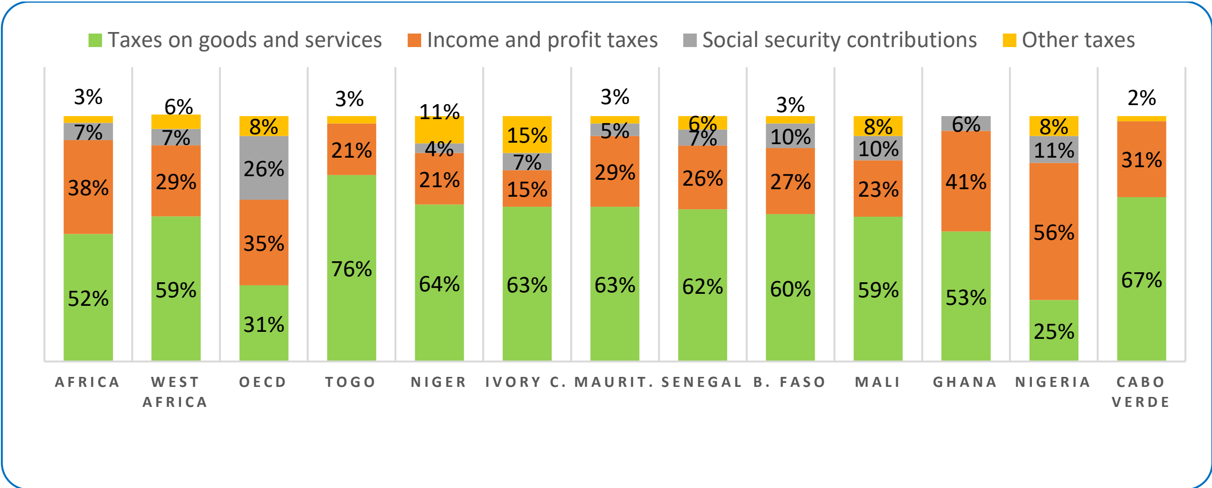
As shown in Figure 1, the average (unweighted) tax burden rate of West African countries (9 out of 16) stood at 14.4% in 2019, compared to 16.6% for the African average and 33.8% for the OECD average. With the exception of Cape Verde (20.6%), four countries (Togo, Senegal, Mali, Burkina Faso) have a Tax/GDP ratio of between 15% and 17.6% and four other countries have a lower Tax/GDP ratio at 14%; this is the case of Ghana (13.5%), Côte d'Ivoire (13.2%), Niger (10.4%) and Nigeria (6.0%)[3].

Several factors explain this underperformance of West African countries in terms of mobilizing tax revenue. These include the complexity of tax laws and their inadequacy in the face of digital activities, the persistence of fraud and tax evasion (tax havens, transfer pricing abuse, illicit financial flows, etc.), the excessive granting of ineffective tax incentives, low level of tax compliance, preponderance of the informal sector which is difficult to tax, etc.

Analysis of the tax structure of West African countries

The tax structure of a country measures the contribution of different types of taxes to tax revenue. It reflects the structure of a country's economy, its history, sociology, tax policy and the quality of its tax administration. It is an important indicator that makes it possible to assess the economic and social effects of the tax policy in force in a country.

Figure 2: Tax structures of some West African countries in 2019



Source: based on revenue statistics in Africa (OECD, 2021)

Figure 2 highlights an unbalanced tax structure, characterized by a predominance of taxes on goods and services (VAT, excise duties, customs duties, etc.) which represent 59% of tax revenue in West African countries as against the African average of 52% and 31.0% for the OECD average[4]. Indeed, with the exception of Nigeria which is excessively dependent on direct taxes (personal income tax, corporation tax, wealth tax, etc.) which stands at 56%[5], the other

[3] This low performance in tax revenue is observed in most African countries that are rich in natural resources: Chad (8.1%), Congo (8.0%), Democratic Republic of Congo (7.5%)...

[4] This trend is also observed in the "African Tax Outlook" published by ATAF in 2021, highlighting the excessive dependence of African countries on indirect taxes (58.5%).

[5] In Nigeria, direct taxes consist of 46% of corporation tax (IS) of which 53% comes from the taxation of oil companies. Nigeria has the lowest VAT rate (7.5%) among the 9 countries under review and consequently a weak performance in VAT revenue.

eight countries under review have a structure largely dominated by indirect taxes with the extreme case observed in Togo (76%)[6].

An unbalanced tax structure reflects not only the vulnerability of the countries under review to budgetary risks[7], but also their inability to diversify their sources of tax revenue, due in particular to an inefficient tax system. In addition, excessive dependence on indirect taxes (deemed regressive) affects the purchasing power of low-income social strata more severely, as they have a higher marginal propensity to consume than wealthy people. "*Women are particularly affected because they spend a larger share of their income on purchasing consumer goods and services for their families. In addition, increases in the price of goods may reduce consumption or force people to switch to lower quality goods*[8]. On the other hand, unlike indirect taxes, direct taxes and particularly personal income tax (considered progressive) are more redistributive, thus making it possible to reduce social inequalities[9]. However, excessive taxation of income and capital can also discourage employment and investment. It is therefore important for each country to find the right balance.

Conclusion and recommendations

Based on our descriptive analysis, not only West African countries are underperforming in tax revenue but also most of them are excessively dependent on indirect taxes which further impoverish low-income people. This situation must be improved to enable them to achieve the Sustainable Development Goals by 2030. To achieve this, they must put in place modern and ambitious tax systems capable of ensuring the optimal collection of tax revenue, while creating an attractive framework for investment and guaranteeing a fair contribution from citizens to public costs.

In concrete terms, it is essential to simplify tax legislation, modernize it and adapt it to current tax challenges (multinational companies, digital economy, transfer prices, illicit financial flows, mining and oil sector, telecommunications, tax expenditures, etc.). In addition, direct taxation should be strengthened by optimizing property taxation, environmental taxation and introducing a tax on large fortunes. It is also important to strengthen the technical capacity of tax administrations by providing them with adequate human, financial and logistical resources and by digitizing them. The quality of public governance should also be improved by strengthening the following aspects: quality of services provided to citizens, transparency, accountability, fight against tax fraud, tax evasion, corruption and impunity.

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[6] In Togo, VAT represents 56% of taxes on goods and services and 42% of total tax revenue.
African Tax Outlook 2021, p.50

[7] In the event of a shock affecting the yield of the category of taxes on which it is excessively dependent, the country will face budgetary difficulties.

[8] "African Tax Outlook 2021", p.50

[9] G. Canceill (1985), "*The redistributive effect of direct taxes and family benefits*", p.23-29 and "African Tax Outlook 2021", p.47