PRO-GROWTH FISCAL POLICY: COMPONENTS AND DETERMINANTS

Pr MOUNGOU MBENDA Sabine Patricia
Dr MEYONG ABATH Roger Athanase

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Research subject

Need for an exponential economic growth in Africa (DSRP, SDEG)

- Low investment rates in Africa (**- than 20% of GDP**) ;
- High indebtedness (**above 50% of GDP**) ;
- Progressive disappearance of development assistance ;
- Need for the financing of infrastructures ;
- Low tax revenue in percentage of GDP (14% in Africa as against 34,3% in OECD)
- **Need for a pro-growth tax policy.**

Objectives

- Debate on the quality and quantity of tax revenue;
- Evaluate the determinants and components of fiscal policy in an informal context ;
- Identify the theoritical challenges in rationalizing fiscal policy;
- Raise the fullness of fiscal policy on the level of mandatory levies

Economic development brings forth new needs for financing.

Theoritical framework (1/5)

- **Optimal tax regime** ;
  - ✓ Public expenditure financing function;
  - ✓ Revenue redistribution function;
  - ✓ Economic activity stabilization function;
  - ✓ Correction of disparities for purposes of economic efficiency function

Important criteria of the optimal tax regime:

- **Output : a tax system must be able to raise expected revenue;**

Theoritical framework(2/5)

Rationalization of fiscal policy as an indispensable condition to growth

- Optimal equilibrum between a favourable tax regime to companies and raising sufficient revenue to finance insfrastructures;

Encourage taxes with large tax bases and low rates

- Flexibility: adaptation to a rapidly changing economy
- Simplicity: easy to administer, more understandable to the tax payer, thus better accepted ;
- Stability: tax revenue stability is a quality

Theoritical Framework(3/5)

Predorminant criteria of an optimal tax regime:

- **Efficiency**: neutral tax, i.e less interference in the decisions of economic operators.

Non-neutral tax : market corrector or regulator?

- **Equity**: redistribution, correction of disparities;

Encourage progressive taxes

- **Output** of tax policy: taxes are noted by their budget performance;

Financing of the tax system functions;

Theoritical Framework (4/5)

❖ Variety of optimal regime criteria;

Contradictory criteria (equity/efficiency, stability/flexibility)

❖ Liberal state (Vallée, 1990):

- Low public expenditure;
- Low taxes

❖ Economic efficiency (OECD, 2001):

- Promote larger tax bases;
- Elimination of exonerations and special regimes;
- **Equally important are the posibilities to finance necessary infrastuctures for wealth creation**

Theoritical Framework (5/5)

❖ Efficiency of fiscal policy (V. Tanzi & H. Zee, 2001):

- From a macroeconomic point of view (level and components of tax revenue);
- Microeconomic (conception of particular tax tools).

Optimal taxation level = optimal level of public expenditure

Methodology

Practical test: CEMAC, UEMOA;

Triangulation of secondary data (2006, 2015);

Secondary sources : IMF, OECD, ADB, UNIDO;

Web sites of employers organizations;

Prioritization of the statistical method:

- Comparison of the level of taxation between African countries, other less developped and developped countries

Evaluation of the determinants and components of tax policy which will lead to the elaboration of multidimentional tax policies, thus pro-growth

Situational analysis (1/6)

Table n°1: Total revenue in percentage of GDP (2006-2015)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cameroon	14.0	14.8	14.8	15.0	14.0	14.8	15.3	15.8	16.1	16.4
Dem. Republic of Congo	5.9	7.1	8.8	8.0	8.9	9.3	10.8	11.1	10.8	10.8
Ivory Coast	16.2	17.1	16.9	16.8	16.5	15.3	17.7	17.6	16.9	17.6
Ghana	13.1	13.2	12.7	13.1	13.2	14.5	14.8	13.6	15.0	15.0
Morocco	25.4	27.7	30.2	26.9	27.7	28.5	29.5	28.1	27.0	26.1
South Africa	27.1	27.5	27.7	25.7	25.6	26.3	26.7	27.3	27.8	29.0
Swaziland	11.8	12.0	13.1	13.0	14.0	14.3	13.6	14.3	15.3	15.3
Uganda	12.3	12.6	12.4	11.3	10.6	10.8	10.9	11.1	11.4	12.5
Average Africa	**16.6**	**17.2**	**17.7**	**17.1**	**17.2**	**17.8**	**18.1**	**18.5**	**18.8**	**19.1**
Average ALC	**20.9**	**21.3**	**21.3**	**20.8**	**20.8**	**21.3**	**21.8**	**21.8**	**22.2**	**22.8**
Average OECD	**33.7**	**33.8**	**33.2**	**32.4**	**32.6**	**33.0**	**33.4**	**33.8**	**34.2**	**34.3**

Source : OECD, 2017

Situational Analysis (2/6)

Table n°2: Business environment in Africa

Country	Position on 190
Angola	182
Cameroon	166
Central Africa	185
Dem. Rep. Congo	184
Ivory Coast	142

Source : Doing Business, 2017

Table n°3: Tax payment indicators

	Number of payments per year	Time limit (number of hours per year)
Sub saharan Africa	37,2	280,8
East Asia and the Pacific	21,8	189,2
Europe and Central Asia	16,5	218,4
Middle East and North Africa	17,9	203,4
OECD	10,9	160,7

Source : World Bank, 2016

Situational Analysis (3/6)

For private economic operators:

- Less favorable business climate: 37,2 payments per company in a year, 280,8 hours per year for tax payments;
- Low rationalization of tax policy;
- Insufficient tax yield ;
- Inefficiency of tax incentives to investment;
- Fiscal structure dominated by direct taxes.

Situational Analysis (4/6)

VAT:

- Low VAT output (between 3% and 6% of GDP);
- Ineffective tax (efficacy indicator < 0,50);
- Numerous exonerations (between 6% and 10% of GDP)

Excise duty:

- Low ad valorem rate (25% in Africa as against 40% in OECD);
- Slender taxable base (factory outlet price in Africa; retail sales price in OECD)

Situational Analysis (5/6)

Income tax:

- Slender tax base;
- Low output (6,2% of GDP in Africa as against 11,6% in OECD);
- Less than 5% of the African population as against 50% in developped countries ;
- Complexity and lack of transparency;
- High level of fraud.

Situational Analysis (6/6))

Causes of the low level of tax yield:

- Structural factors exogenous to fiscal policy (informal sector, agricultural sector);
- Huge tax expenditure ;
- Tax evasion;
- Corruption;
- Damaging tax competition among governments ;

Tax policy:

- Instruments of budgetary policy for purposes of a cyclical stabilization (action on global demand); or
- Structural (action in favor of economic growth);

The need for the rationalization of fiscal policy in Africa (1/2)

The rationalization of tax policies in Africa will mean:

- A tax regime adapted to the needs of private economic agents as well as to public financing ;
- Additional revenu to increase growth without going in for excessive loans.

Putting in place of **gradual** and **equitable** measures suitable for fiscal policy :

- Benefit of above 4 points of GDP;
- Ameliorate the financing capacities of African countries

The need for the rationalization of fiscal policy in Africa (2/2)

Existence of significant margins for revenue increase in percentage of GDP:

- Tax effort: compare collected revenue in relation to potential revenue;
- Indicator which measures tax recovery in relation to what would have been normally attained taking into consideration the country's economic potentials.

Objective for the increase of tax revenue (4% of GDP) at the reach of African governments on the condition:

- To encourage 'good' taxes (profitable and easy to collect);
- Pursue the optimization of reforms on other taxes and tax procedures

Principal action levers (1/4)

Optimization of tax output assumes :

- Choosing bases which are easy to collect (VAT, excise duty) ;
- Minimizing tax evasion behaviors (optimization, planification, evasion and fraud);
- Putting in place the output, simplicity and efficiency criteria (optimal tax regime)

Excise duty:

- Increase the scope of application of excise duty;
- Adding more goods and services into the scope of application of this tax;
- Increase in the rate of excise duty;
- Shifting the taxable base to retail sales

Principal action levers (2/4)

Structural measures of pro-growth tax policies that encourage ‘good’ taxes:

- Rationalization of VAT exonerations so as to widden the taxable base;
- Application of a unique VAT rate;
- Increase of the threshold of subjection;
- Putting in place direct transfers so as to help poor households;
- Shifting of the tax structure to favor income tax on persons with high revenue.

Principal action levers (3/4)

- Creat a dual, simple and transparent income tax with a wider taxable base;
- Fight relentlessly against fraud and tax evasion by persons with high revenue;
- Ameliorate the conception, the governance and effectiveness of tax incentives to investment;
- Fight against distortions and redundancy in tax incentives;

Principal action levers (4/4)

Stengthen rules of international taxation:

- Transposition into the internal legislations of the principle of full competition and the obligation to produce transfer pricing documents;
- Ratify multilateral conventions for the exchange of information (OECD, ATAF);
- Adhere to BEPS mechanisms;
- Harmonise taxation to promote huge communal liberties which could help in the creation of economic growth;
- Subdue harmful effects of the damaging tax competition that exists between African countries.

Limits of the research

This research:

- Encourages the efficiency and profitability of taxes to the detriment of tax structures ;
- Has not provided a lasting solution to the problem of taxing the informal sector

Contributions and research prospects

In the long term, this article will help African countries to:

- Increase the rate of fiscal pressure without hampering the activities of companies;
- Bring about structural changes of African tax systems ;
- Obtain stable revenue which are less dependent on the rates of raw materials;

The extention of this research will consist in the analysis of strategies for the taxation of the informal sector in Africa.