Transcript of podcast with Alex Segura: "Africa's Untapped Revenues"

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Hello, I'm Bruce Edwards, and welcome to this podcast produced by the International Monetary Fund.

The latest *Regional Economic Outlook for Sub-Saharan Africa* suggests better policy design could help countries increase tax revenues by as much as five percent of GDP. Economist Alex Segura says that when people perceive the tax system is fair, they're more likely to accept their tax obligations.

MR. SEGURA [soundbite]: *Citizens usually don't like paying taxes, and corporations don't as well. But, that also depends on what the state does with the resources.*

MR. EDWARDS: Alex Segura heads the IMF team for Gabon, and led the team of economists who wrote the chapter on raising revenues in the latest regional economic outlook for sub-Saharan Africa.

So, why the emphasis on raising tax revenues? Shouldn't they be more focused on cutting spending, given that public debt is rising pretty significantly for a lot of these countries?

MR. SEGURA: Well, I think that depends on country-specific circumstances, but if you look at Africa in general, it's still a region that collects less revenues than the rest of the world. Usually, the average for the rest of the world is 23 percent of GDP. In Africa, it's 18 percent of GDP. So, it's less. There has been progress over the years—African countries now collect more revenues, but they still collect less.

Why is that important? I think there are three reasons. One reason is: African countries are still relatively poor. They need resources to build roads, infrastructure, hospitals, schools, and spend on critical social programs to fight poverty. These resources that the state has are still quite limited. So, they need to be expanded.

The second reason is the point you mentioned. In some cases, countries have now reached relatively higher levels of debt than in the past. Unless they are able to mobilize more revenues, they are going to have to cut spending. And, cutting spending is usually difficult politically. Sometimes, you have to cut programs that are having a positive impact, which is not good for the economy—it can have a negative impact on growth. So, unless countries mobilize more revenues, then the adjustment falls more on cuts in spending which is not always a good thing.

The third point is that when a country is making an effort to raise revenues, often that requires also developing institutions. You need credible tax laws; you need to have a tax authority that follows basic procedures. So, you develop institutions that way. And, that can also have positive spillovers in other parts of the state. The state can then also develop, for example, a statistical agency. So, you develop expertise in a core function of the state. That's why we thought that African countries are growing a little bit less than in the past. They are obtaining less aid than in the past. They used to obtain large envelopes of aid; now it's less. So, what can these countries do to mobilize more revenues for development, to control public debt levels, but also to develop their institutions?

MR. EDWARDS: In the report, it suggests that growth and development tend to accelerate once the tax-to-GDP ratio hits around 13 percent. What is it about 13 percent? And, how reasonable a target is that for these countries in the region?

MR. SEGURA: Right. So, 13 percent of GDP in tax revenues is still a relatively low level. Now, if you add nontax revenues—so you can take tax and nontax—you would be looking at a ratio of let's say 15 percent, depending on how you measure that. This is based on some recent research by the IMF Fiscal Affairs Department that noticed that in the process of development, once countries reach this level, the state is already able to perform basic functions reasonably well—maintain law and order; spend on public goods, health, and education. But, at the same time, I don't think it's a very high level. One should view that ratio as a minimum ratio that a state needs to perform its basic functions. So, it's not an optimal ratio.

If you look today at African countries, you have three groups of countries: those that collect less than 13 percent in tax to GDP; those that collect between 13 and 18 percent; and those that collect more. Those that collect less than 13 percent are usually countries that are in a fragile situation, with really weak institutions—coming out of conflict, for example. Or, countries that relied a lot on oil revenues, and because of the decline in oil prices now, their revenue base has collapsed. So, I would just say that there's nothing magical about this number, but you have to be able to collect more than that in order to have a well-functioning state in many ways.

MR. EDWARDS: Collecting more taxes, or putting emphasis on collecting more taxes, is never a popular thing politically. How hard is it to get the political commitment to get this done?

MR. SEGURA: Well, you're right. I think citizens usually don't like paying taxes, and corporations don't as well. But, that also depends on what the state does with the resources. Scandinavian countries are a good example. The level of taxation is high, but public services are of extremely high quality. So, if you ask citizens there, would you like to pay less taxes, they are going to say no, because we appreciate what the state is doing with the resources.

And, that goes back to a critical point that we make in the report, which is the importance of good governance and transparency. If the government explains clearly why it needs to collect more taxes—articulates convincingly that it's to build schools, hospitals; to provide basic services to its citizens; to build up infrastructure for the companies and for the citizens—and does that in a transparent way, then citizens are going to be less reluctant to pay taxes.

Now, it is true on the other point that at the political level, you need to have a level of commitment that is not just focusing on the short term. So, you need to have a broader consensus in parliament, or political institutions in general need to view that as an objective.

One of the things that we saw in the report of successful cases are those where you have a medium-term strategy that can survive the test of time; where the party in power might change but they still stick to the basic principles of how to expand the base, how to simplify the system, and how to introduce key taxes in a fair and equitable manner. In a way, that also requires leadership. You need to have strong commitment from the highest authorities that this is what they want to do—to mobilize more revenues, and to do it in a transparent manner. It's difficult, but there are examples of countries that have successfully done so.

MR. EDWARDS: Many of the countries in the region that have tax laws in place, don't have the resources to implement them. How can the international financial institutions like the IMF help in that regard?

MR. SEGURA: I think there are two ways. One is the traditional programs of technical assistance. The countries often contact us and ask: what can we do to reform, to modernize our customs administration? Or, our value added tax: how can we make it more efficient? How can we introduce excise taxes on tobacco, on alcohol? How would we do that? I think we can bring some expertise at that level because we have the experience of other countries. What has worked, and what hasn't worked. In a sense, it's capacity building—showing them examples of how to do it, and providing practical tools. Not just writing reports, but providing practical tools. And, that requires a continuous engagement. It's not something that you do in just one mission. So, you have a plan; you have a strategy, and you do several missions to support the countries.

It's also important that the international financial institutions coordinate their work to avoid overlap. We at the IMF can help in a particular area, but we have also experts in other institutions at the World Bank, the European Commission, and the United Nations. So, it's important to find the common goals.

There's another aspect that I think is becoming increasingly relevant, which is to hold specific brainstorming sessions with the authorities of the countries. There are two very interesting examples that have been done recently. One was in Senegal in 2016; it was called a Hackathon. And, then there was an ideas workshop in Uganda. The idea there is, let's change a little bit the way we do things. It's not just the IMF and these institutions that have this experience that are going to come and tell us how to do things. Let's go and obtain local knowledge. Let's listen to the policymakers and to the experts in the field, and see how we can use those ideas.

I think it's a very interesting and innovative process. Instead of coming with a blueprint and you tell them this is what might work, you're actually listening to them first.

One example could be the users of new technologies—whether they can pay taxes through mobile phones, for example. They can tell you, yes, that's a good idea, but before we do that, we need to expand our internet coverage, otherwise, it's not going to work. So, having these kinds of joint brainstorming sessions between local authorities, experts, and the international institutions is particularly useful, and these two examples of Senegal and Uganda are particularly interesting.

MR. EDWARDS: Thank you very much.

MR. SEGURA: Thank you; my pleasure.

MR. EDWARDS: That was Alex Segura, team lead for Gabon, and Advisor in the IMF's African Department. You can read the latest regional outlook for sub-Saharan Africa at imf.org. And, if you liked this podcast, subscribe on ITunes or on your favorite podcast app; just search for "IMF podcasts." And, you can now follow us on Twitter: @IMF_podcast.

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