

ACROPOLIS-BeFinD Dissemination Seminar

Mobilisation des Ressources Domestiques au Bénin: Rôles des Institutions et de la Taxe sur la Valeur Ajoutée

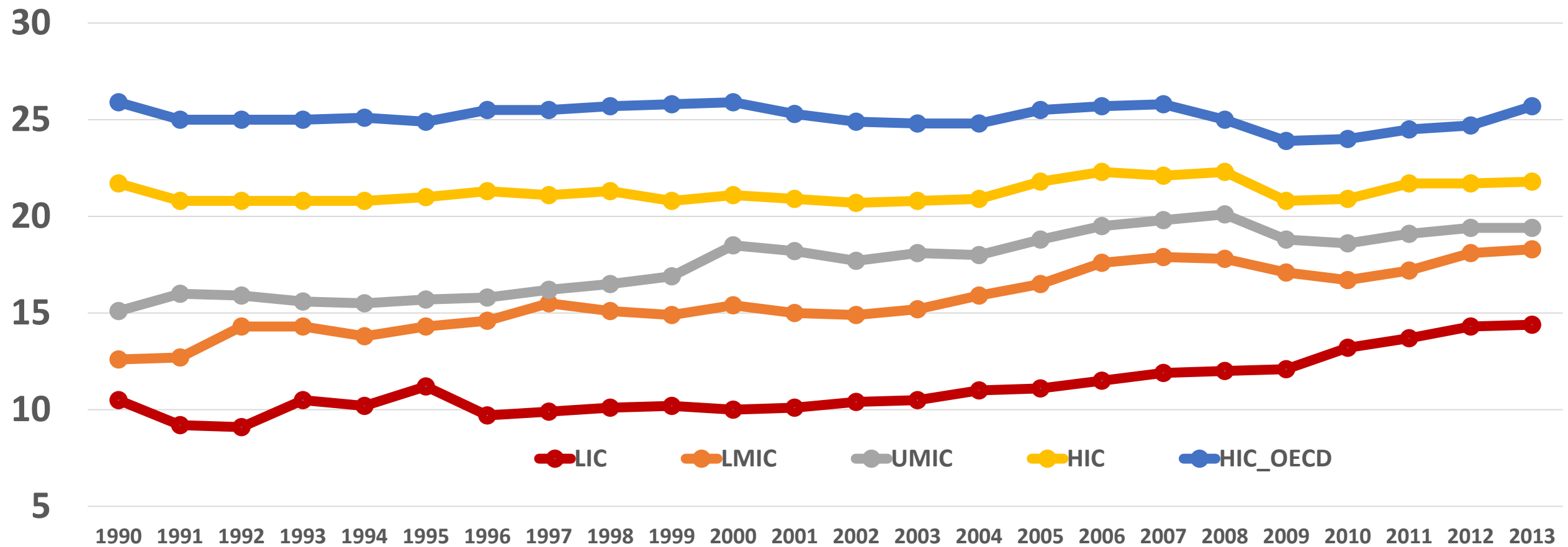
Romain Houssa

18 October 2017, **Cotonou**

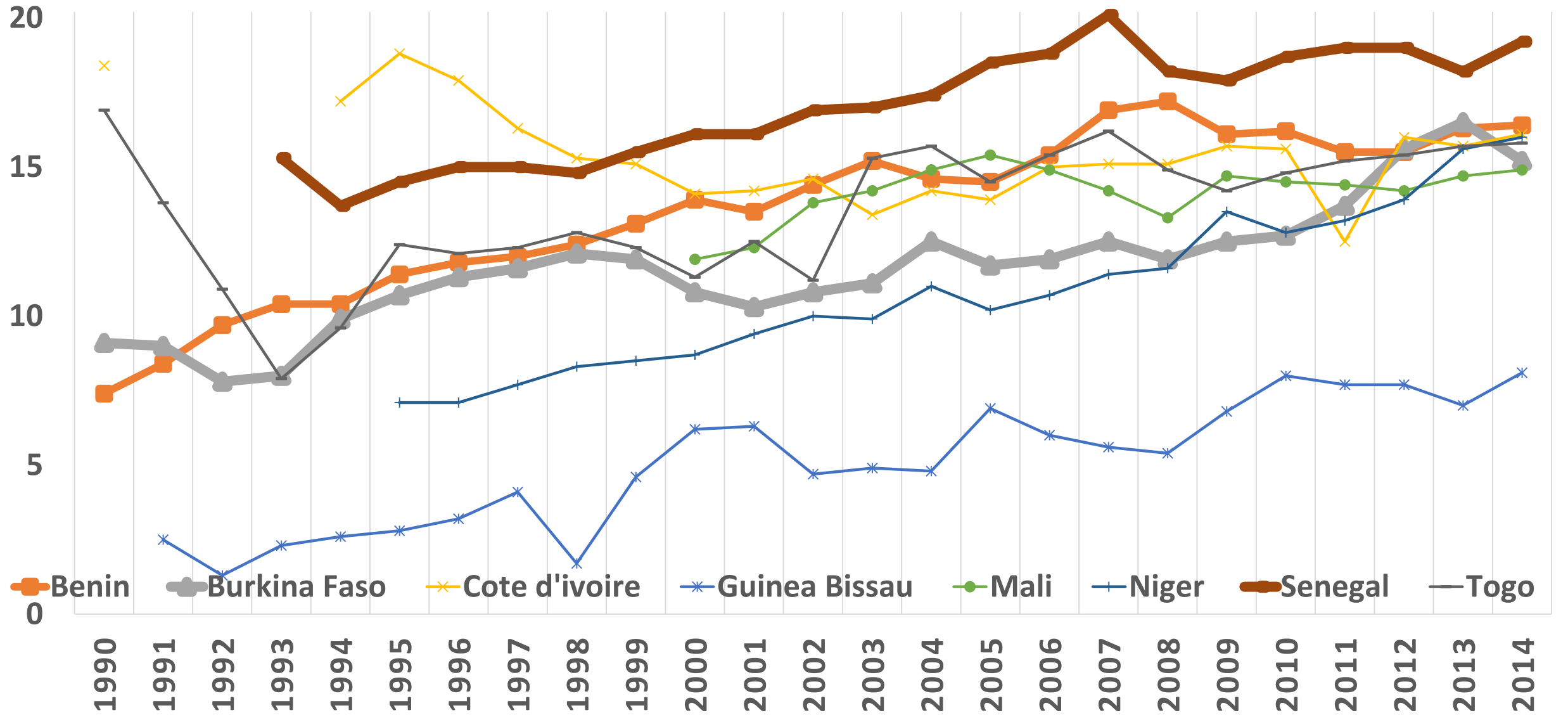
Introduction

- Financing for development (**Monterrey Consensus**)
- Huge-resource gap required in LICs (DMDF, 2015)
- Focus on **domestic taxation**
 - enhances state building and strengthen the state-citizen relationships (Tilly 1975)
 - relatively more stable

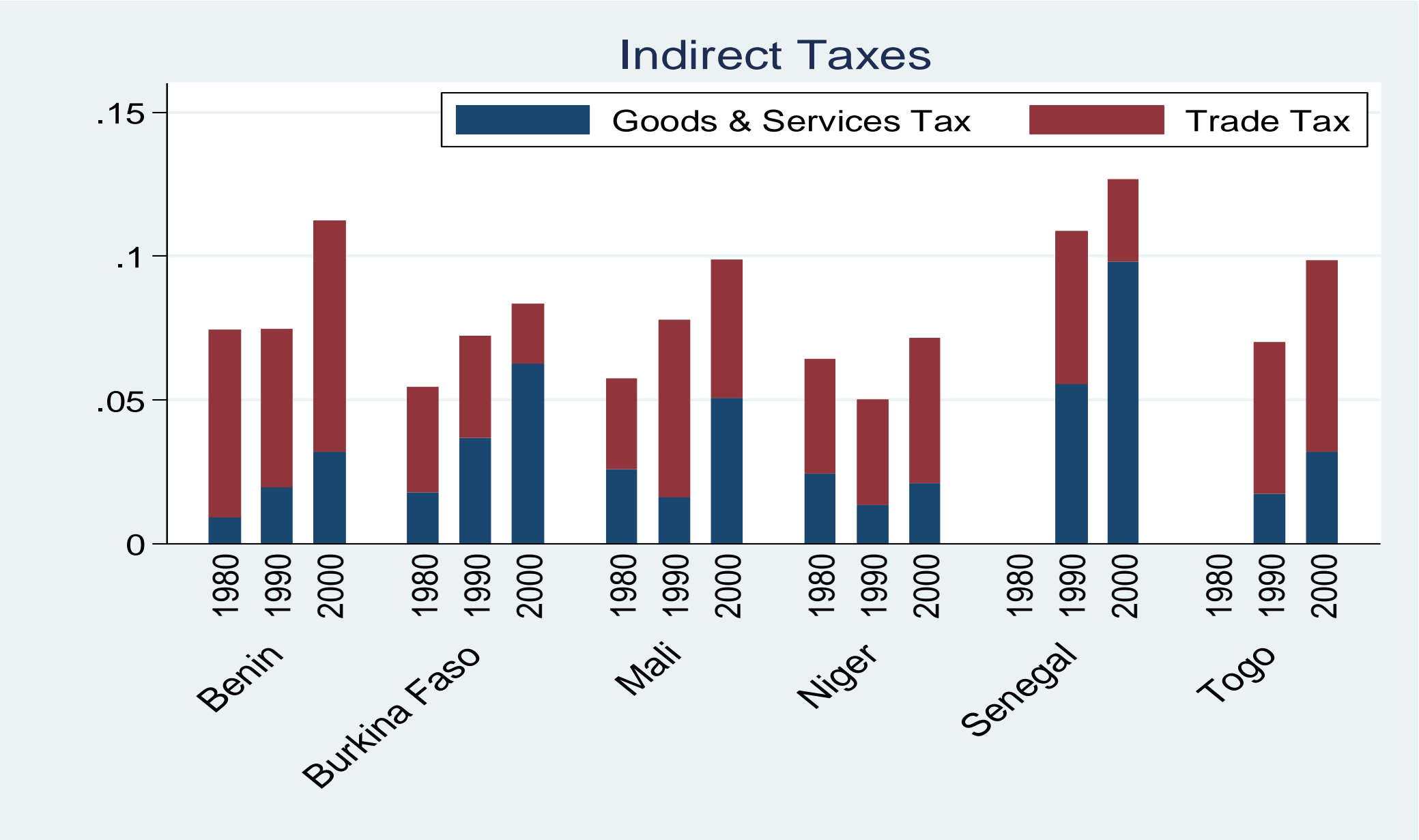
Tax Revenue Across Income Groups



Tax Revenue in WAEMU



Composition of Indirect Taxes in WAEMU



Policy (Research) Objectives at BeFinD

- **We analyze...**
 - The principles of tax design & State of Domestic Resource Mobilization (DRM)
 - Taxation of multilateral companies
 - The role of Value Added Tax (VAT) for DRM
 - Assessing rooms for improvement in VAT systems
 - The role of institutions for DRM

Research on Taxation at BeFinD

- Various (interlinked) studies on DRM capacities of Belgian Governmental partner countries (+) other developing countries
 - [The sources of VAT gaps in WAEMU: Case studies on Benin and Burkina Faso](#) *BeFinD Working Paper N°23* (Romain Houssa, Roukiatou Nikiema and Kelbesa Megersa)
 - [Institutional quality, economic development and the performance of VAT](#), *BeFinD Working Paper N°15* (Romain Houssa and Kelbesa Megersa)
 - [The Performance of VAT in DGD-partner Countries](#), *BeFinD Working Paper N°16* (Mattéo Godin, Romain Houssa and Kelbesa Megersa)
 - [Taxpayer behaviour and institutions in Sub-Saharan Africa](#), *BeFinD Working Paper N°169* (Roukiatou Nikiema and Pam Zahonogo)
 - [A Review of critical issues on tax design and tax administration in a global economy and developing countries](#), *BeFinD Working Paper N°7* (Mattéo Godin & Jean Hindriks)
 - [Follow you, follow me: public investment under tax competition](#), *BeFinD Policy Brief N° 1* (Jean Hindriks and Yukihiro Nishimura)

...for more, visit <http://www.befind.be/publications/taxes>

Outline

- **I. Impact of VAT on DRM**
- **II. Role of institutional quality on DRM**
- **III. Sources of VAT Inefficiencies: Case study in Benin**
- **IV. Concluding Remarks**

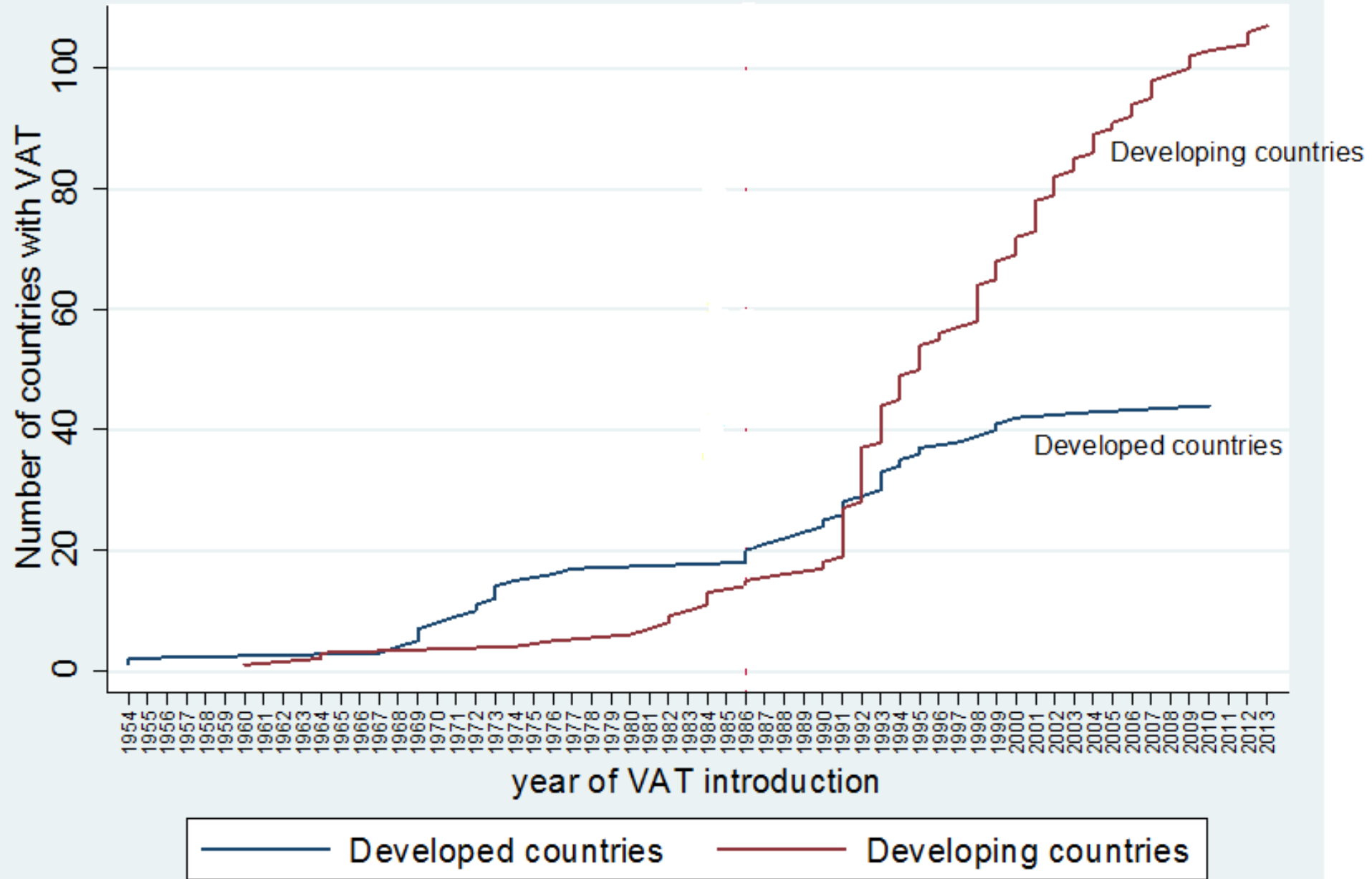
I.

Impact of VAT on DRM

Why is VAT important?

- VAT is relatively easy to administer → Less prone to tax evasion
- Suitable for developing countries
 - less sensitive to the informal market
 - If well designed, it can even reduce the size of the informal sector
- Less distortionary among taxes
 - In comparison with income taxes, VAT does not change consumption decisions relative to savings and investment decisions
- No cascading effects
 - Unlike other consumption taxes
 - Tax on a commodity is charged at separate stages of the production process without deductions
 - Sellers or firms paying VAT, can receive credit for the VAT paid on intermediate inputs
 - Allows to achieve production efficiency (Diamond-Mirrlees theorem)

VAT Adoption across the World



VAT, DRM and developing countries:

The overall picture...across the developing world & elsewhere

- We estimate the following tax-effort equation

$$Tax_{i,t} = \alpha + \beta VAT_{i,t} + \gamma X_{i,t} + \delta \sum_{j=1}^n w_{ij} Tax_{j,t} + \varepsilon_{i,t}, i = 1, \dots, n$$

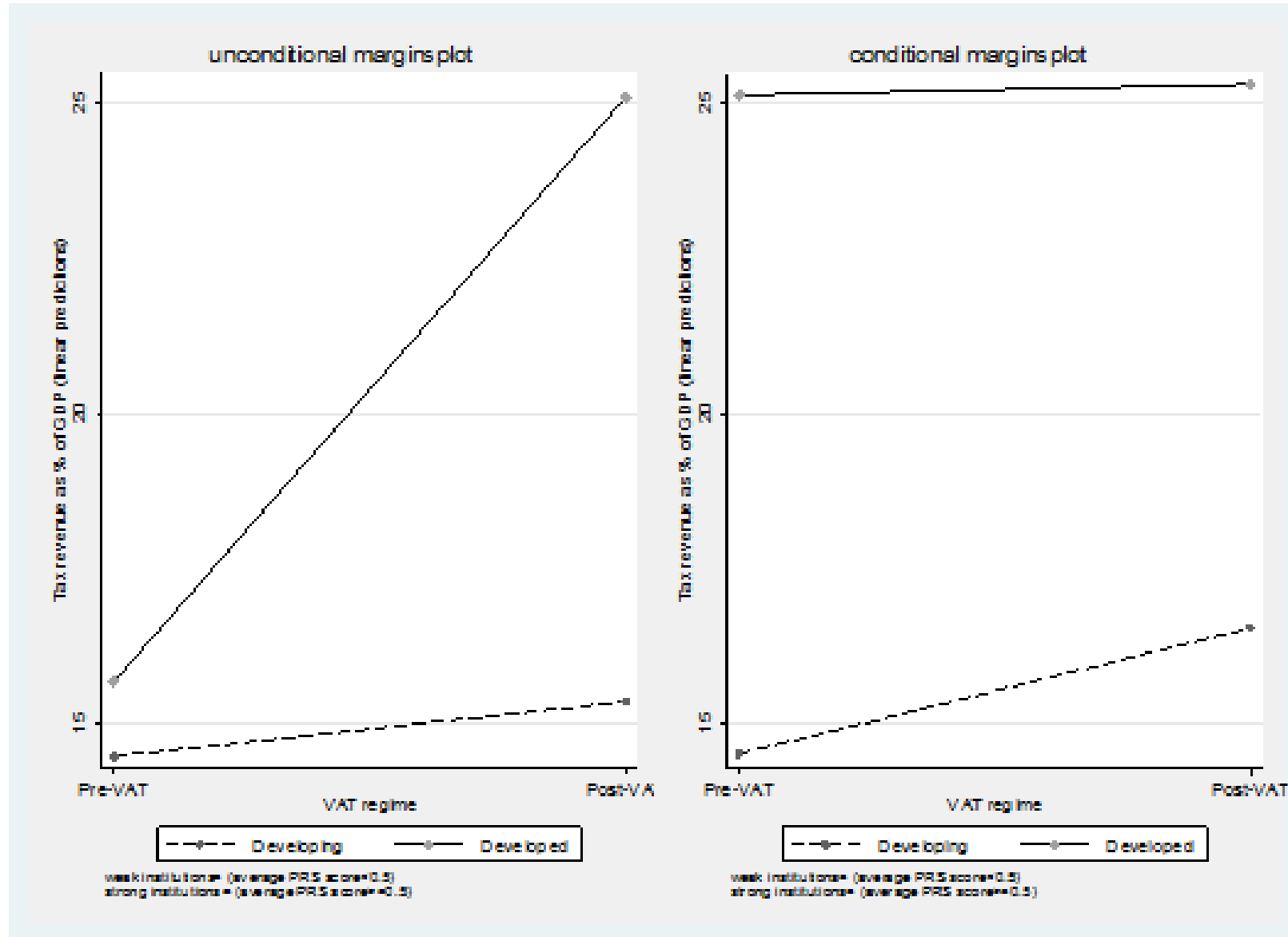
- $X_{i,t}$ include: the level of development, size of the informal sector, country size, size of dependent population, institutional quality ...

VAT, DRM, developed and developing countries:

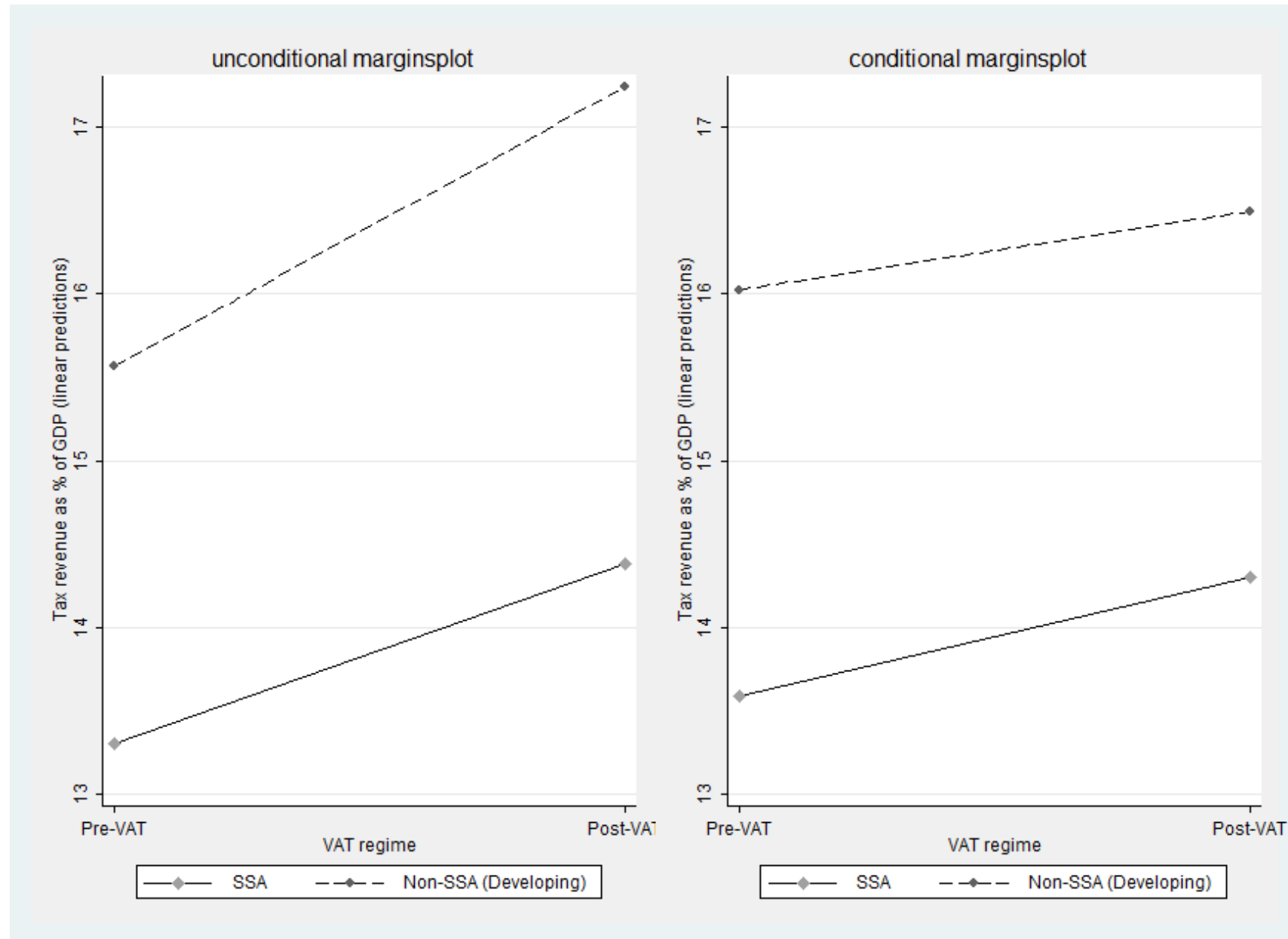
The overall picture...across the developing world & elsewhere

- Data from 149 countries over the 1970 - 2013
- Developing countries
 - Sub-Saharan Africa (SSA) and
 - Non-SSA Developing countries
- Developed countries

Marginal effects of VAT: developed vs developing



Marginal effects of VAT: SSA vs other developing



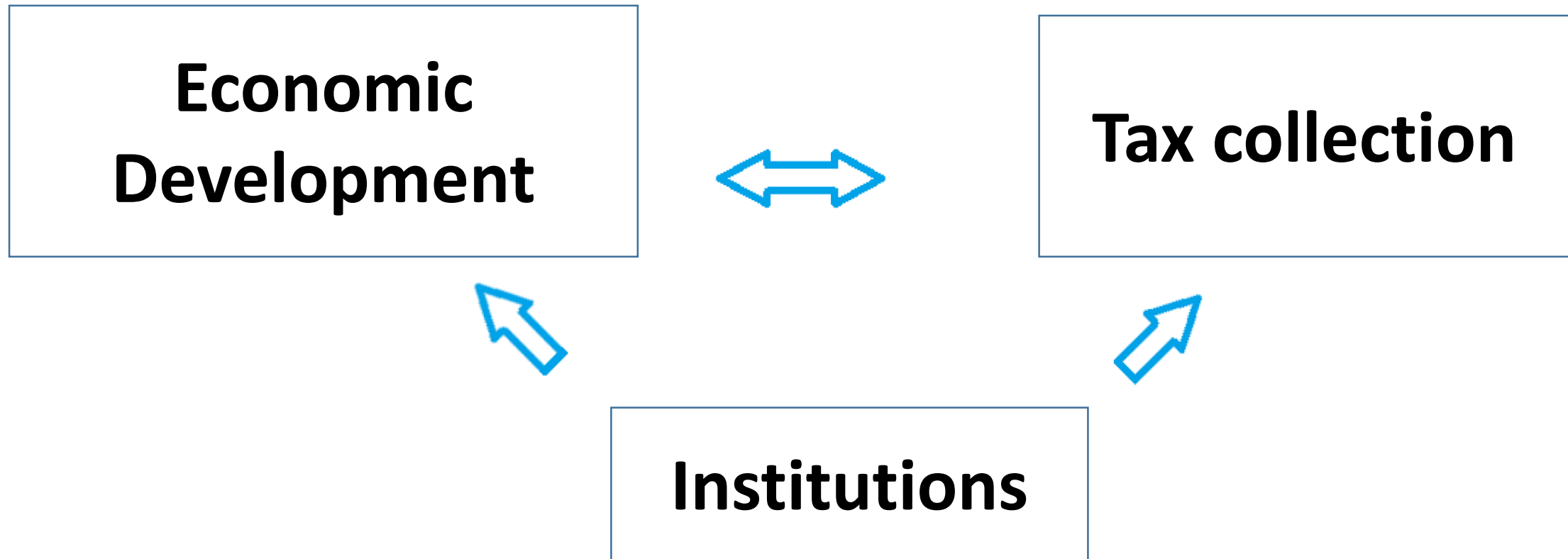
Performance of VAT in SSA

- Marginal effect of VAT adoption is estimated to be strong for SSA and other developing countries
- The positive effect of VAT on tax collection in SSA is reassuring because some earlier studies were not able to identify an overall positive effect for the region
- We show that analysis of data over the recent period (where VAT has become more contributive) is important to highlight its positive role in SSA's DRM efforts

II.

Role of institutional quality on DRM

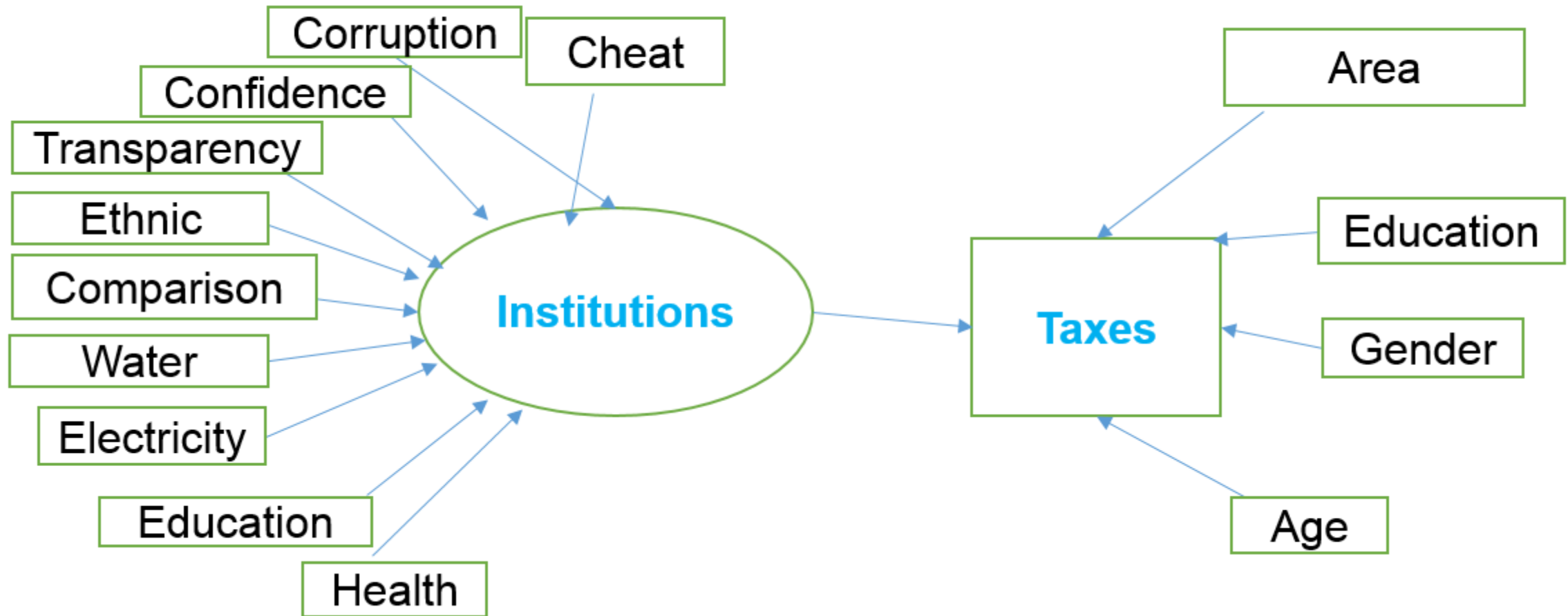
Taxation, Institutions & Economic Development



Institutional quality & DRM

- A good-institutional environment should improve both the demand as well as the supply factors inherent to the performance of VAT.
- Including: the capacity of the tax administration, government effectiveness in providing public goods, trust in the government, ...
- We provide micro and macro evidences

Institution & Taxes (Micro Evidence)

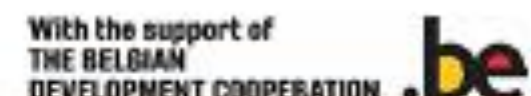
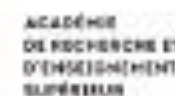


Institution & Taxes (Micro Evidence)

survey in 29 SSA countries

please tell me whether you think the action is not wrong at all, wrong but understandable, or wrong and punishable : Not paying the taxes they owe on their income

	Observation	Percentage
Not wrong at all	4,566	11.36
Wrong but understandable	14,362	35.73
Wrong and punishable	19,193	47.67
Do not know	2,108	5.24
Total	40,199	100,00



Institution & Taxes (Micro Evidence SSA)

Variables	Odds ratio
Quality of institutions	1.718***
Difficult to Cheat the gov.	0.324***
Health	0.286***
Education	0.242***
Electricity	0.188***
Water	-0.012
Partial confidence in gov.	0.185***
Total confidence in the gov.	0.919 ***
Gov. Transparency	0.326***
Less Ethnic discrimination	0.115***
Other pay taxes	0.388***
Corruption	-0.147***

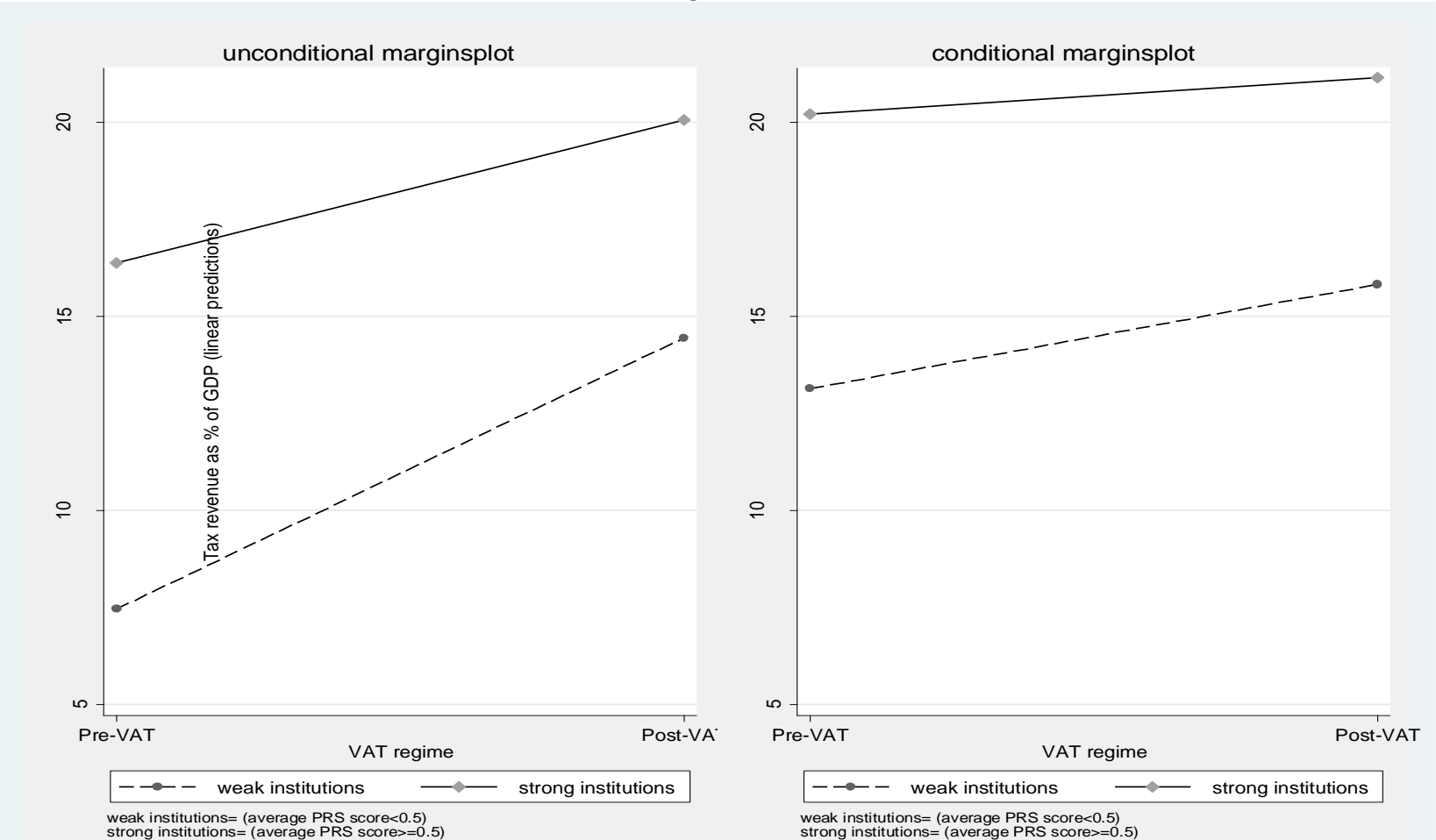
Institution & Taxes (Micro Evidence)

- Taxpayer behaviour is affected by quality of institutions
- Individuals' attitudes towards paying tax are significantly dependent on the quality of institutions
- When the quality of institutions is perceived as good, individuals are more likely to pay taxes
- Indirect effects of quality of institutions:
 - Individual's perception of difficulty to evade taxes → more likely to pay tax
- Quality of public services offered by the state:
 - Confidence in the tax authorities (partial or total) & transparency → more likely to pay tax
 - perception of corruption, cheating, quality of health, quality of education, quality of electricity, confidence, ethnic discrimination... have a significant effect on tax payment!

Institution & Taxes (Micro Evidence)

- Individuals are more likely to pay taxes if they have:
 - Perception of difficulties to evade taxes;
 - Better confidence in the tax authorities & transparency, (less corruption, ethnic discrimination...);
 - Perception that the quality of public services is good: health, education, electricity ...

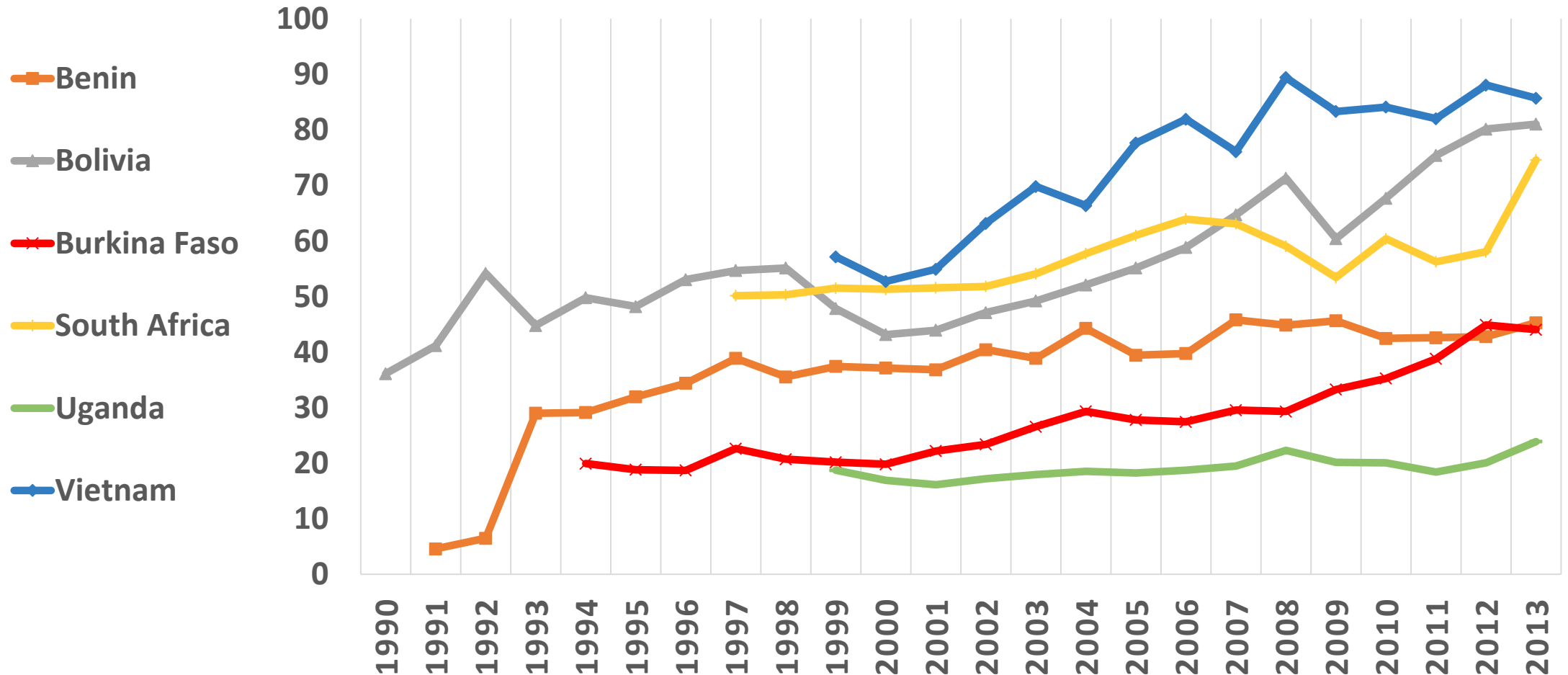
Institution & Taxes (Macro Evidence)



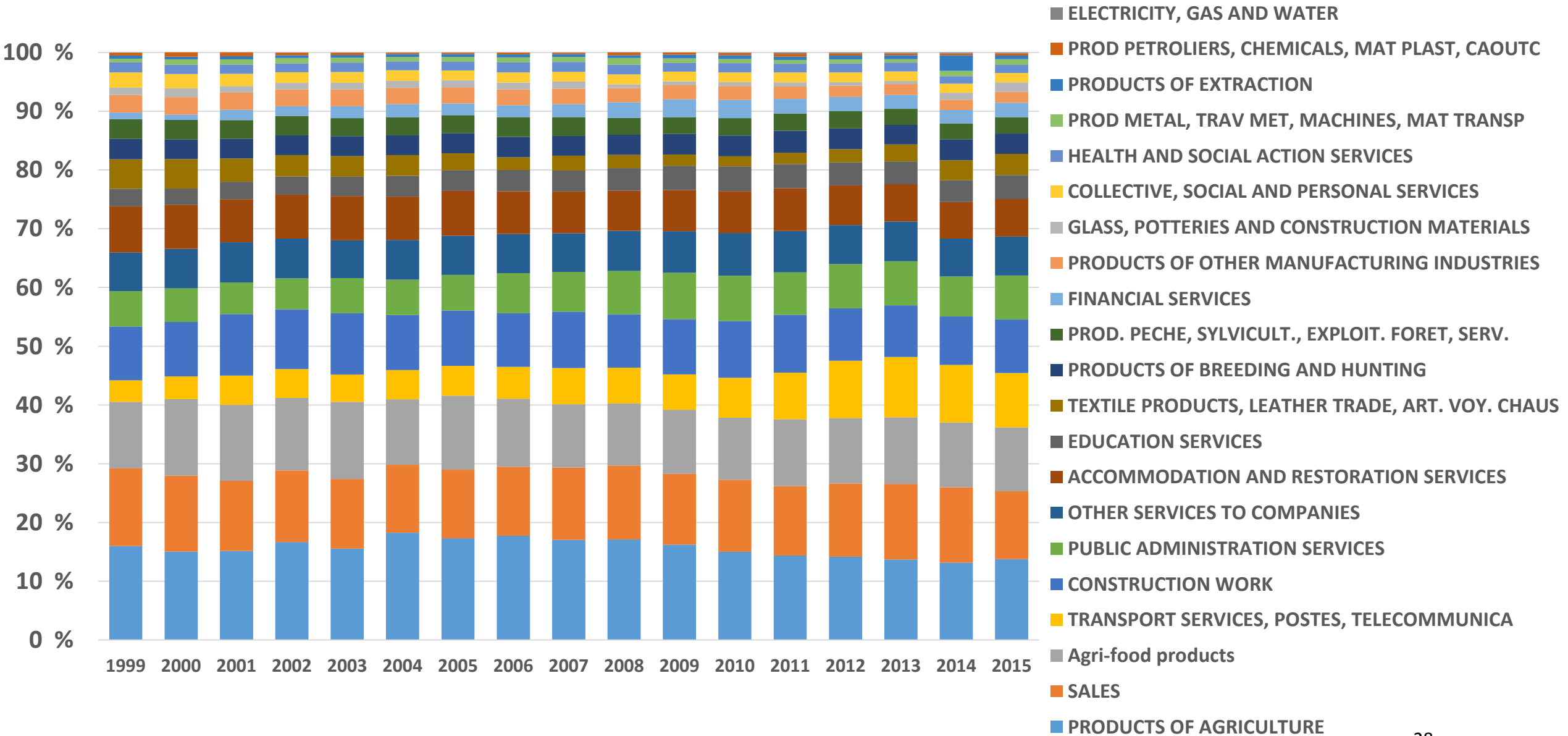
III.

Sources of VAT Inefficiencies: Case study in Benin

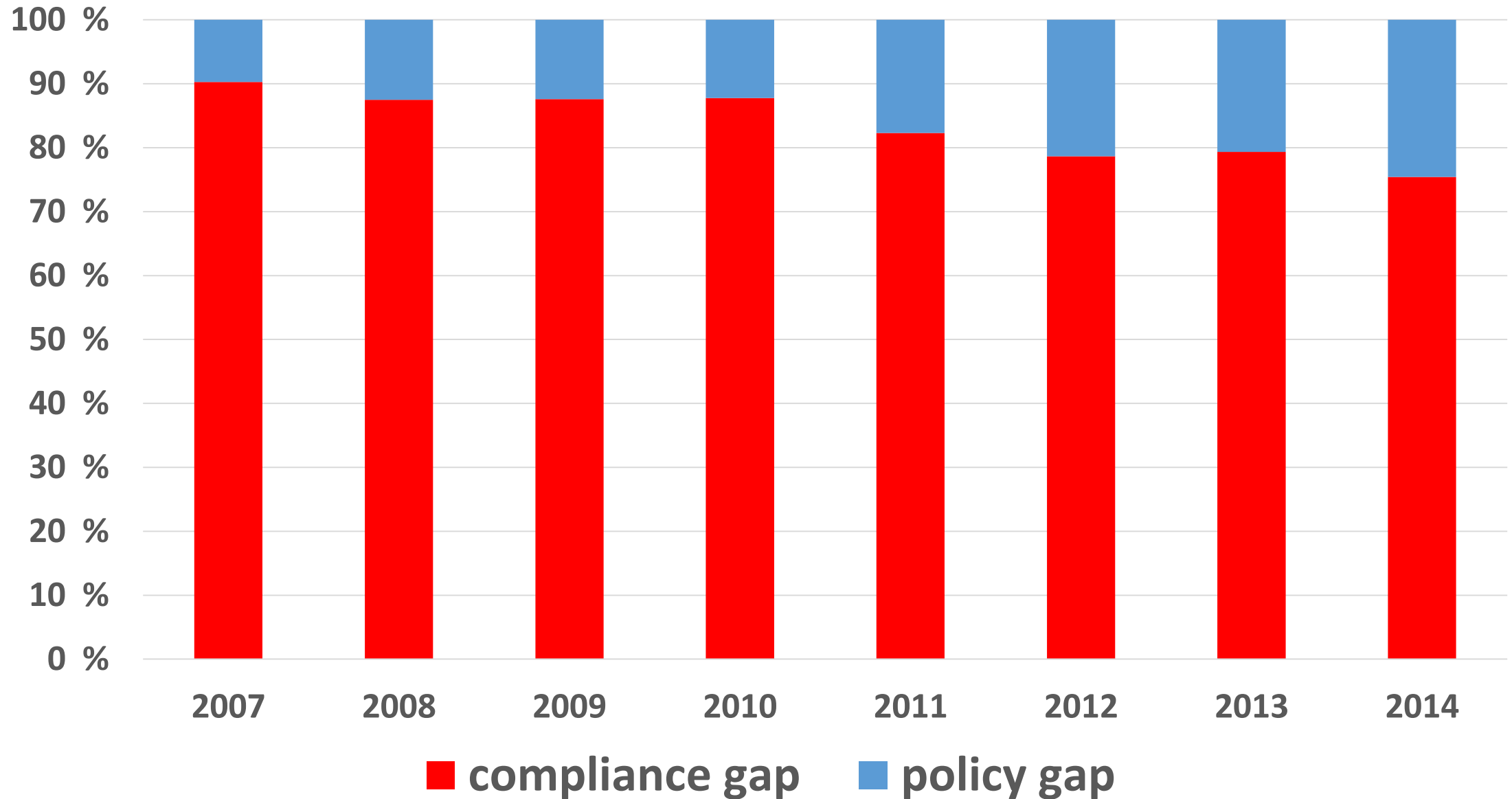
VAT efficiency (Selected partner countries)



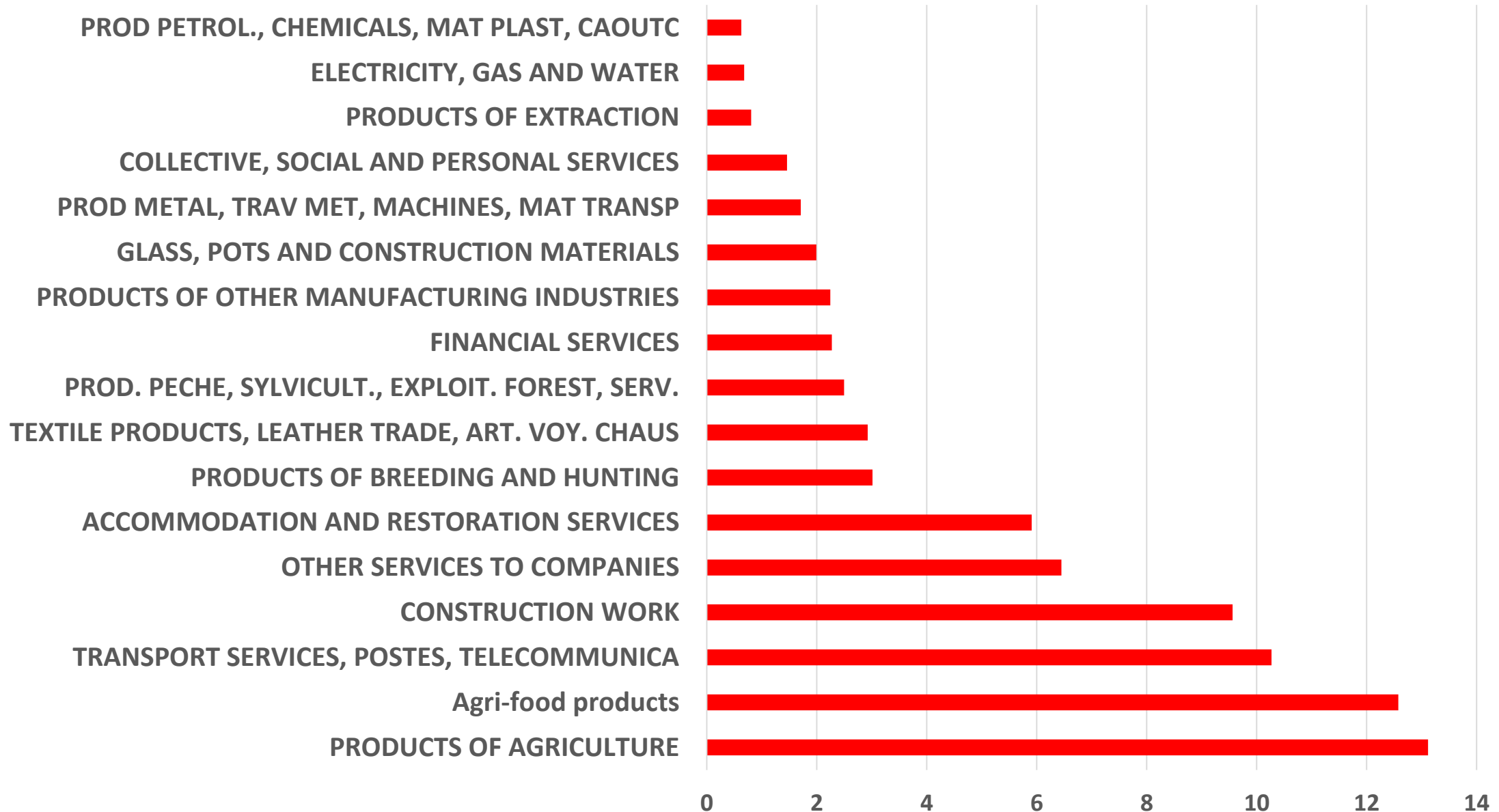
Sectoral Sources of VAT gap (1999-2015)



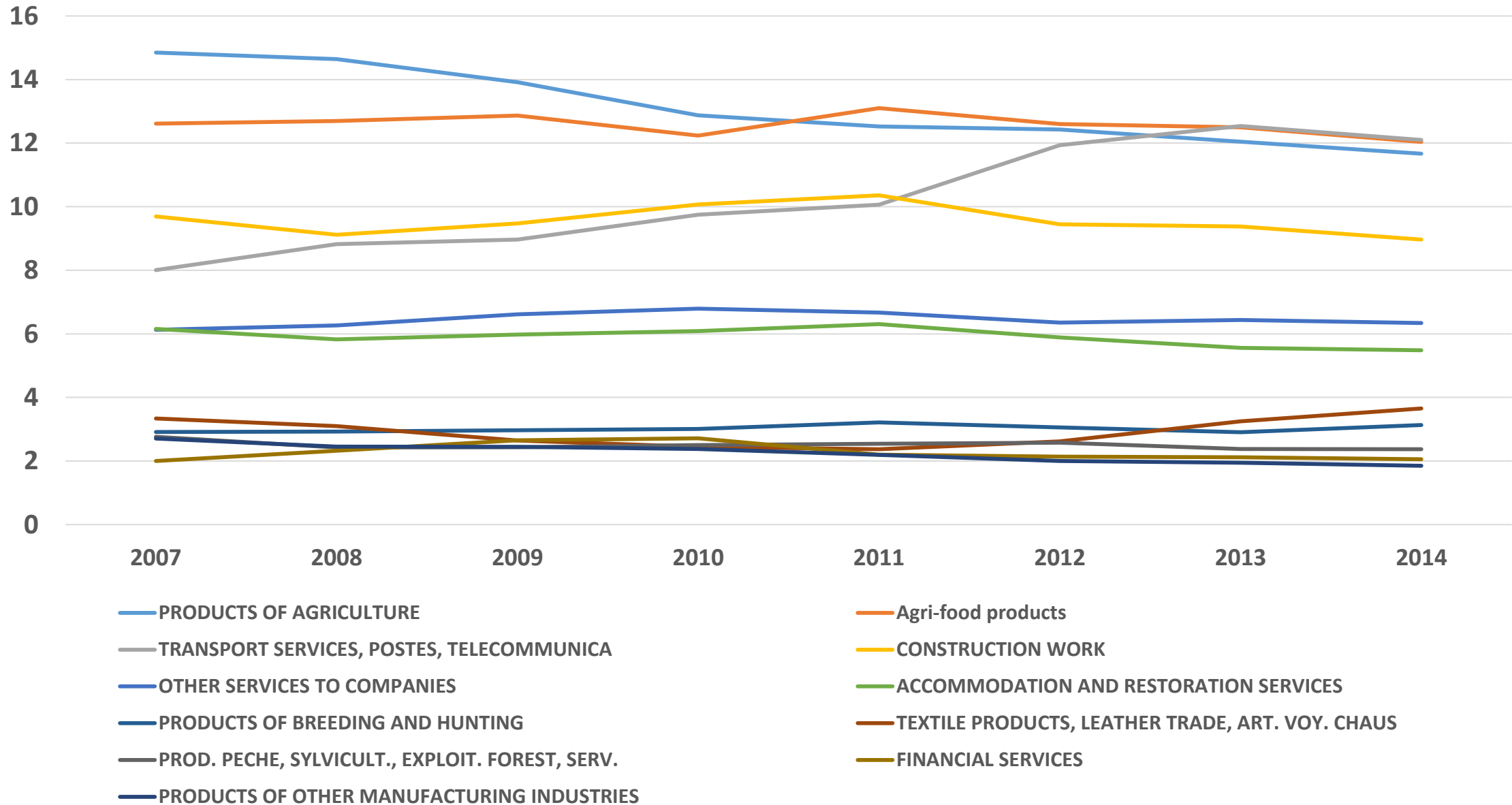
Sources of VAT gap



Sources of VAT Average compliance gap



Sources of VAT compliance gap



IV. Concluding remarks

Adress the inefficiency problems

- Benin can improve upon DRM by targeting the sectors where the VAT gaps is more pronounced
- Improving the institutional environment will be important to achieve this
- Encourage/Support institutional reforms that facilitate good governance and the provision of public goods

The way forward

- Conduct more (in depth) studies to better understand the sources of resource gaps and
- Analyze also policy experiments of alternative tax structure
- Improve the capacity of the tax authorities and statistical units

Thank you!