



Impact of Institutional Quality on Tax Revenue in Côte d'Ivoire

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Abstract

Using Gill's (2000) conceptual framework, the present study is an institutional analysis aimed at explaining the low level of tax revenue in Côte d'Ivoire. It is based on data collected from the DPPSE of the country's Ministry of Economics and Finance, from the Central Bank of West African States, from the World Bank, and from various institutional reports and semi-structured interviews carried out with the staff of the two tax administration general directorates in Côte d'Ivoire (the DGI and the DGD). The study shows how crucial enhanced institutional quality is for raising tax revenue in Côte d'Ivoire, notably revenue from indirect taxes. Indeed, a low level of institutional quality, coupled with high

levels of corruption, has contributed to a poor tax-collection performance, which in turn has hindered the two tax administration general directorates' work in terms of tax auditing, tax collection, and tax-base assessment. As a result, there have been low levels of tax returns, payment of the key taxes and recovery of tax arrears. In addition, the magnitude of tax exemptions, and of the informal sector, has led to a reduction in the tax base and has created avenues for corruption within the tax administration system.

Introduction

Taxation is at the heart of economic development and constitutes a privileged means for governments to get the national resources they need to fund public expenditure. According to Fossat and Bua (2013), developing countries' tax revenues should be their main source of financing of their development, while foreign aid should play a supporting role. Increasing tax revenue is therefore essential for reducing governments' budget deficits (Osoro, 1993). The need to strengthen domestic resources was indeed highlighted by the conclusions of the 2008 Doha Conference on financing for development.

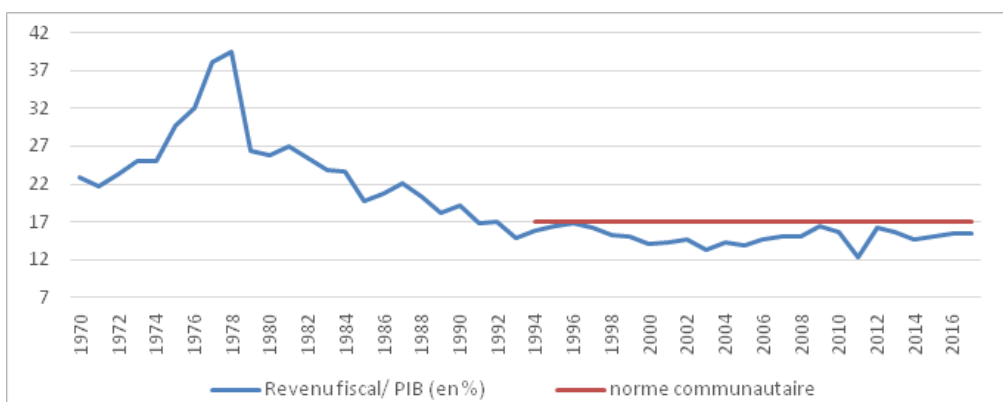
In Côte d'Ivoire, tax revenue mobilization since 2012 has taken place in an environment characterized by several spells of economic growth, with an average growth rate of around 8% per year. This rate exceeded 7% for the seventh consecutive year in 2018, which has made the country's growth one of the fastest on the African continent (FMI [IMF], 2018; Banque mondiale [World Bank], 2019). But at the same time, the country's development needs – highlighted in the National Development Plan (PND 2012-2015 and 2016-2020) – remain unchanged, in view of the high poverty rate¹, which requires increased revenue mobilization. It is against this backdrop that only a slight increase in tax revenue (as a percentage of GDP) has been observed, which is not different from its level of 1993 (see Figure 1).

After reaching a high peak in 1978, the tax revenue in Côte d'Ivoire went on downward trend and reached its lowest level in 2000. Despite a slight improvement recorded in 2009 and 2012, the UEMOA community standard of at least 17% set for the UEMOA region in 1994 has generally remained beyond reach for the country.

Côte d'Ivoire still lags the other UEMOA countries which operate within the same regulatory and legislative framework in matters of taxation. Its tax collection rate has remained almost the same since 1994, while the rate of revenue collection in the other UEMOA member states was on an upward trend between 1994 and 2016 (see Figure 2).

1 The poverty rate rose from 10% in 1985 to 38.4% in 2002 and to 46.3% in 2015.

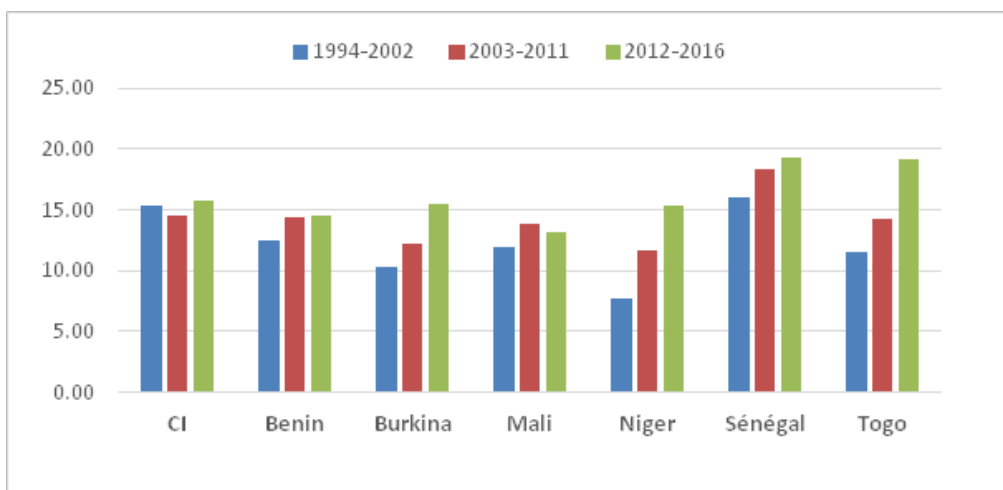
Figure 1: Trends in tax revenue in Côte d'Ivoire (as a % of GDP)



Source: Compiled by the author based on data from the BCEAO 2018 financial database.

Note: Tax revenue/GDP (%) UEMOA community standard

Figure 2: Comparative trends in the tax revenue in the UEMOA countries (as a % of GDP)



Source: Compiled by the author based on data from the BCEAO.

Figure 2 indicates that Senegal’s tax revenue rate was the highest in the UEMOA region over the three periods. Yet Côte d'Ivoire is the region’s main economy, with the largest population and the highest per capita GDP (Table 1). In 2017, Togo, whose per capita GDP represented one-third of Côte d'Ivoire’s, recorded the highest tax revenue performance after Senegal. Indeed, Togo, with a tax revenue rate lower than that of Côte d'Ivoire between 1994 and 2002 (it was less than 12% of its GDP), recorded a rate higher than 19% over the period 2012-2016. The rapid economic growth recorded in African countries such as Rwanda, Uganda, Tanzania, and South Africa has contributed to the increase in their tax revenues (Kariuki and Kithinji, 2011). Despite Côte d'Ivoire’s status as a regional economic power, its tax revenue performance leaves a lot to be desired.

Table 1: Comparative trends in the socioeconomic indicators of the UEMOA countries

| | Population, total (million) | | | GDP per capita (constant 2010 US\$) | | |
|---------------|-----------------------------|--------|---------|-------------------------------------|-----------|-----------|
| | 1997 | 2007 | 2017 | 1997 | 2007 | 2017 |
| Benin | 6.283 | 8.458 | 11.176 | 654.542 | 752.215 | 859.953 |
| Côte d'Ivoire | 15.446 | 19.086 | 24.295 | 1,382.622 | 1,207.087 | 1,632.677 |
| Burkina Faso | 10.665 | 14.252 | 19.1934 | 403.217 | 541.269 | 688.534 |
| Mali | 10.114 | 13.676 | 18.542 | 528.268 | 675.409 | 762.226 |
| Niger | 10.180 | 14.668 | 21.477 | 331.896 | 330.633 | 395.937 |
| Senegal | 9.196 | 11.874 | 15.851 | 810.999 | 985.750 | 1,134.082 |
| Togo | 4.534 | 5.997 | 7.798 | 568.984 | 480.776 | 577.382 |

Source: Banque Mondiale [World Bank] 2018.

These stylized facts are out of phase with the reality in Côte d'Ivoire since the country has been characterized by a continuous increase in its public spending since the end of 2011.² Recently, social unrest³, including repetitive strikes by civil servants, has forced the country to seek more resources.

According to recent literature, mobilization of internal resources, particularly tax revenues, can be hampered by numerous institutional problems. Research conducted by the International Monetary Fund (IMF)⁴ shows that an effective mobilization of domestic resources requires the existence of good institutions in the country. In the case of Côte d'Ivoire, indicators published by various organizations point to a deterioration in institutional quality in recent years. High levels of corruption and a weak rule of law were found to be the most serious institutional problems in Côte d'Ivoire (World Bank, 2012). According to the same survey, corruption was rampant and was visible in various public offices, notably those tasked with tax administration.

The IMF (2018) suggests that Côte d'Ivoire could catch up with the better-performing UEMOA member states by mobilizing more revenue through new tax policy measures and accelerated tax administration reforms. To better guide these new measures, it is necessary to analyse the causes of the country's weak increase in tax revenue. Hence the need to answer the following research question: What are the underlying factors, including institutional, that explain this weak increase in tax revenue in Côte d'Ivoire?

2 It rose from 21.4% of GDP in 2011 to 23.1% in 2012, and then to 23.56% in 2015.

3 There were protests on increase in electricity prices in 2016, demonstrations for a pay increase in 2017, and protests against new tax measures in 2018.

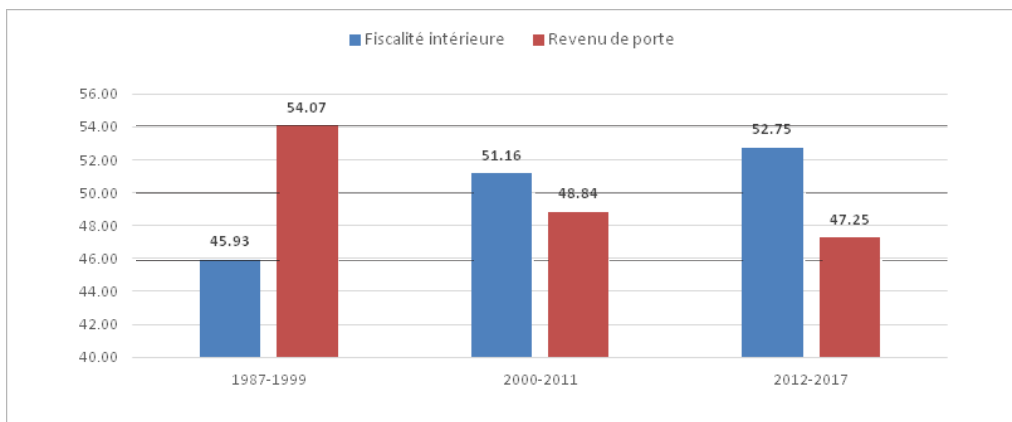
4 FMI [IMF] (2011), "Resource mobilization in developing countries".

The aim of the present study is, therefore, to analyse the role of institutional quality in Côte d'Ivoire's tax collection performance. Specifically, this involves analysing the institutional environment for tax mobilization and assessing its effect on tax collection performance.

Structure of the tax revenue in Côte d'Ivoire

Tax revenue comes from domestic levies and taxes and foreign trade duties and taxes. As Figure 3 shows, until the end of the 1990s tax revenue was highly dependent on customs duties, but this trend has been reversed in favour of domestic taxes since the 2000s. These latter now account for more than half of the country's tax revenue and their share has continued to increase over time: from 51.16% over the period 2000-2011 to almost 53% between 2012 and 2017.

Figure 3: Trends in Côte d'Ivoire tax structure (as a % of the tax revenue)



Source : Auteur à partir des données de la DPPSE

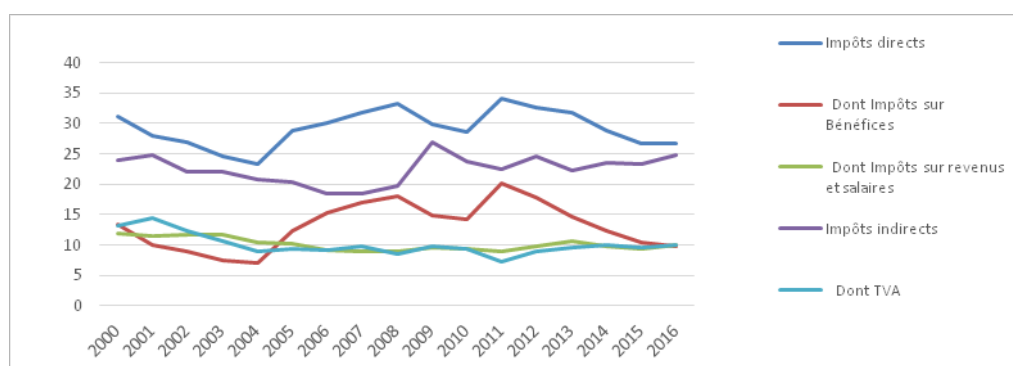
Domestic tax revenue comprises direct taxes and indirect taxes (VAT, excise duties, etc.). Direct taxes include land tax and taxes on income and wages, including those on economic activities (capital gains taxes, etc.). On average, direct taxes represented 29.1% and indirect taxes 22.48% of the total tax revenue over the period 2000-2016. This more balanced structure of domestic taxation differs from that of five UEMOA countries.⁵ For the latter, the revenue from direct taxes was barely half that from indirect ones (Olivia et al., 2017).

⁵ Burkina-Faso, Mali, Niger, Senegal, and Benin.

Profit taxes (13.16%) and taxes on income and wages (10.17%) are the main components of tax revenue from direct taxes; regarding indirect taxes, VAT contributes, on average, an estimated 10% of the tax revenue.

As Figure 4 shows, the trends in the share of each type of tax in the total tax revenue reflect their volatility over the period 2000-2016. There was a sharp increase in indirect taxes in 2009 and in direct taxes in 2011. Another highlight concerns the continuous fall in the share of direct taxes after 2011 and, especially, the share of profit taxes in the total tax revenue.

Figure 4: Trends in the share of the domestic tax revenue in the total tax revenue over the period 2000-2016



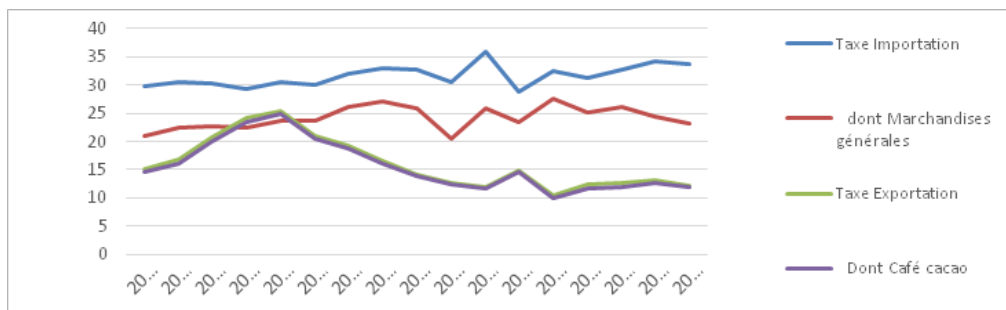
Source: Compiled by the author based on data from the DPPSE.

Note: Among which profit taxes Among which income and pay-as-you-earn taxes
 Indirect taxes Among which VAT

In relation to revenue from foreign trade, import taxes represented 31.64% of the total tax revenue for the period 2000-2016 thanks to the large amount of revenue collected from general merchandise (24.2%). Export taxes represented 16% of the total tax revenue and consisted mainly of taxes on coffee and cocoa in the form of a Single Exit Tax (Droit Unique de Sortie, DUS). On average the DUS taxes amounted to 15.6% of the total tax revenue over the same period.

As Figure 5 confirms, the revenue from the DUS remains strongly correlated with that from export taxes. The figure shows that after its decline since 2004, the share of the DUS-related revenue remained stable from 2012. As for the share of import duties, it increased in 2010 and has increased significantly since 2012.

Figure 5: Trends in the share (in %) of customs duties in the total tax revenue over the period 2000-2016



Source: Compiled by the author on the basis of data from the DPPSE.

Note: **Import duties** Among which general merchandise
Export duties Among which coffee and cocoa

Methodology

The literature on the effects of institutional quality on tax revenue has used general measures of institutions and has most often focused on a group of countries using panel data. Given that the present study focuses on just a single country, institutional analysis is necessary. This type of analysis makes it possible to identify the possible constraints on internal processes, on relations between institutions or on the entire system, thus hindering policy implementation (Chaty, 1999). The present study's analysis is based on Gill's (2000) conceptual framework, which suggests that a weak tax revenue collection performance may be due to constraints arising directly from the internal process of tax administration or indirectly from external influences. These influences can either complicate or facilitate the tax administration officials' operations of tax revenue collection. Considering Côte d'Ivoire's specificities, and based on the literature, the analysis focuses on four potential factors that are likely to explain the trends in the country's tax revenue. The four are: shocks, reforms, institutional quality, and tax administration.

The present study's analysis is based on both secondary and primary data. Secondary data were obtained from various institutional reports⁶, from statistics produced by the Directorate of Economic Forecasting, Policy and Statistics (Direction des Prévisions, des Politiques et des Statistiques Économiques, DPPSE), from the tax administration directorates, and from the BCEAO. Primary data were obtained from a semi-structured interview guide administered to the heads of central directorates of the tax administration system. The interview bore on the organization, functioning and

6 The World Bank, the IMF, Transparency International.

the work environment, including constraints, of the tax administration system. The list of central directorates whose officials were interviewed, and their respective tasks is available. The directorates in question were selected based on their tax-revenue-related task, be it tax-base assessment, tax auditing, or tax collection.

Conclusion and policy recommendation

Despite Côte d'Ivoire's economic performance and the reforms that the country has implemented, its tax revenue collection rate is still low. And it has remained almost stable over the years and below the UEMOA region's standard by at least 17%, while the tax revenue in the other UEMOA member states has been on an upward trend. The present study's aim was to explain the specific nature of the trends in Côte d'Ivoire's tax revenue. It has underscored the fact that weak institutions, coupled with economic conditions, have contributed to the poor tax performance. Indeed, after breaking with its heavy dependence on the prices of raw materials after 1994, the country has collected its tax revenue in an environment characterized by various socio-political shocks, high levels of corruption, a non-transparent judicial system, and low confidence in institutions (including the very ones charged with tax administration), all of which have led to a low level of tax compliance. The country's tax administration organs have been inefficient in their operations (tax-base assessment, tax control, tax collection). In addition, the magnitude of the tax exemptions and the complexity of the tax-paying procedures have fostered corruption and fraud within the tax administration system, while at the same time there are not enough tax audit staff in the country.

The study has thus revealed that improving the quality of the country's institutions is necessary for it to enhance its tax revenue collection capacity. This enhanced capacity will enable Côte d'Ivoire to increase the amount of money collected from the major component of its tax revenue, namely indirect taxes, especially import taxes and indirect domestic taxes.

The Ivorian Government should, therefore, continue to improve the quality of its institutions. The digitization of tax operations at the DGI, which started in 2017, should also extend to the DGD and all the other tax administration services throughout the country to provide appropriate solutions to the problem. Only that can help reduce corruption and fraud in the tax administration system and strengthen its performance, as is the case of Kenya. For Côte d'Ivoire to achieve this aim, it is necessary to strengthen financial inclusion. That is why the call-for-candidatures practice for the post of Managing Director of Tax Administration should be institutionalized and extended to the DGD. Finally, the government should increase civic tax awareness, as it did in 2015.

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