



Semi-Autonomous Revenue Authorities in sub-Saharan Africa: Silver Bullet or White Elephant?

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A major component of tax administration reform in sub-Saharan Africa over the last thirty years has been the creation of semi-autonomous revenue authorities (SARAs). These operate at arm's length from the ministry of finance, which is different to conventional tax administrations. They have an independent legal status, and usually integrate both customs and tax functions. While most SARAs have a similar institutional framework, they may have different *de jure* competences, organisational set-up and responsibilities, and differences in their *de facto* autonomy from the ministry of finance.

This ring-fencing of tax collection from political interference is supposed to improve tax compliance and collection compared to conventional tax administrations. By handing control over to an independent authority, governments can signal a credible commitment to a fairer and less discretionary collection process that should boost compliance. In addition, increases in human resources, budget, organisational and financial autonomy might create the managerial space and flexibility needed to overcome rigid civil service structures, allowing the administration

to operate more effectively. However, to the extent to which different SARAs share the same institutional blueprint, there is a risk that the reform remains blind to local political and societal sensitivities, which could undermine its effectiveness.

Existing research largely concludes that there is a positive correlation between the establishment of SARAs and increases in revenue collection. However, our recent research shows that there is no robust evidence to substantiate this.

Methodology

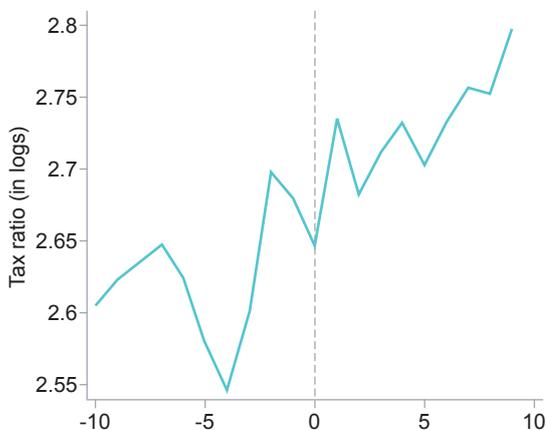
Current research on SARAs suggesting positive revenue effects has failed to take account of trends in revenue performance before SARAs were established. This compares a treatment group, countries that adopted a SARA, with a control group, countries that did not adopt a SARA. However, this comparison is flawed if there are differences in pre-reform trends in revenue collection.

Figure 1 shows that the introduction of a SARA appears to be preceded by a temporary drop in the tax-to-GDP ratio. This negative pre-reform shock may indicate

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that taxpayers anticipate the disruption associated with the introduction of a SARA and decrease their compliance, or that governments introduce a SARA in response to a revenue shock. If not accounted for, as in existing literature, a pre-reform dip in revenue leads to an overestimation of the revenue effect of SARAs. This arises because the dip is due to temporary factors, such as shocks to the tax base or changes in taxpayer behaviour – in time one would expect revenue performance to recover.

Figure 1 Tax ratio relative to introduction of a SARA



Our new research is based on econometric analysis using ICTD’s Government Revenue Dataset, covering forty-six African countries 1980-2015. We account for the pre-reform revenue trends in two ways. The revenue impact of the SARA reform is first estimated using an econometric model that explicitly includes a variable for past revenue. We look at the impact on total tax revenue, but also assess the effect of different types of taxes, including direct, indirect and trade tax revenue. This approach deals with past revenue trends by looking at the revenue effect of SARAs holding past revenue collection constant. The second approach attempts to break the correlation between past revenue and the introduction of a SARA by using factors that predict the establishment of a SARA but do not affect revenue. We use the observation that SARAs are more likely to be established when the UK is an influential donor to generate variation in SARA presence that is unrelated to past revenue.

Results

Contrary to earlier studies, our results fail to provide any evidence of a systematic relationship between the presence of a SARA and total tax revenue in sub-Saharan Africa. When we include past revenue in our estimations, the effect of SARAs on revenue drops markedly and becomes insignificant. This pattern remains unchanged across different estimations with varying specifications, and when performing an array of robustness checks. This conclusion also holds when we go beyond the total revenue effect and look at direct, goods and services, and trade taxation. The instrumental variable estimation confirms the role played by the UK as a donor in the SARA reform, as well as the baseline finding: on average SARAs have not increased revenue performance across sub-Saharan Africa.

Since revenue performance is not the only reason for advocating SARAs, we also examine the effect of SARAs on revenue volatility and tax effort, both alternative indicators of fiscal capacity, and on reducing corruption, through which SARAs are argued to increase revenue. Again, we do not find any evidence of an impact (positive or negative) of SARAs on fiscal capacity.

Implications for policy and research

The evidence calls into question the suitability of this administrative reform as a way to raise tax revenue across sub-Saharan Africa.

While SARAs do not demonstrably increase (or decrease) revenue collected on average, they may provide other benefits. Along with the rise of SARAs we have, for example, seen the consolidation of professional networks of African tax administrators. Moreover, the scope of this analysis is limited to the average revenue effect of SARAs when compared to conventional tax administrations. The lack of an average revenue effect might mask heterogeneous effects depending on differences in *de jure* or *de facto* autonomy across SARAs. Further contextualising the SARA reform in future research, therefore, has the potential to provide us with a more detailed understanding of tax administration and institutional reform in developing countries.

Further reading

Dom, R. (2017) *Semi-Autonomous Revenue Authorities in sub-Saharan Africa: Silver Bullet or White Elephant*. CREDIT Research Paper 17/01, School of Economics, University of Nottingham.

Credits

Roel Dom is a doctoral researcher at the University of Nottingham exploring the political economy of domestic revenue mobilisation in developing countries. He is also affiliated with the Overseas Development Institute. Before returning to academia, he worked as an economic adviser to the national governments of Burundi and South Sudan.

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