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Tax and Governance in the Context of Scarce Revenues: Inefficient Tax Collection and its Implications in Rural West Africa

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Summary of Working Paper 139

The expansion of the 'tax net' has commanded considerable domestic and international policy attention as a means of financing essential services, reducing dependence on international aid, and producing positive 'government dividends.' A growing body of research, however, questions the logic of extending the tax base, particularly among individuals and businesses in the urban informal economy, highlighting the associated revenue inefficiencies, negative equity implications, and lack of a direct relationship between tax payment and government accountability.

This paper draws attention to the realities of rural taxation through three country case studies in West Africa: Togo, Benin, and Sierra Leone. We use public revenue data obtained from ministries of finance, revenue authorities, and local governments; key informant interviews; and participatory observation, drawing on the specific experiences and challenges of tax collectors and administrators in rural areas.

We explore the inefficiencies of rural tax collection, as well as their root causes and the strategies which street-level collectors undertake to mitigate them. We argue that these realities have important implications for delivering services and accountability, and they demand a rethink of the nature of rural fiscal social contracts. Fundamentally, this paper questions the rationale for extending taxation to rural citizens and highlights the need to manage taxpayer expectations, to rethink the role of the state and revenue potential in rural areas, and to reconsider the nature of the fiscal social contract.

Understanding revenue inefficiencies

Across the case studies, similar issues emerge: scarce revenue potential; illegibility of rural tax bases and weak tax handles; sparsely populated jurisdictions which further drive up the costs of collections; limited fiscal mandates for local authorities; weak quasi-voluntary tax compliance; and resource constraints to support rural tax collection efforts.

1. **Limited Revenue Potential:** Revenue potential is particularly limited in rural areas because of a high concentration of poverty along with limited revenue handles and fiscal mandates. Limited collection resources and revenue potential in rural contexts can make local government service delivery mandates unachievable with the revenue instruments available to local authorities.
2. **High Costs of Collection:** Low population density increases the costs of collection. Tax agents in rural districts often cover large expanses of territory, often without logistical support or means of transportation or lodging. In the absence of detailed information about the rural economy, rural tax bases are also highly illegible to the state. Given rural areas' histories of marginalisation, low levels of investment in service delivery, and expansive distances from the state, quasi-voluntary tax compliance remains low – further challenging rural collection.
3. **Low-Tax, Low-Capacity Traps:** In rural areas, there is limited government investment in the capacity needed to raise more revenues, including staffing, transportation and fuel, office materials, electricity, administrative intranets and internet, and provisions for lodging.

Strategies to manage rural revenue inefficiencies

1. **Selective Imposition of Taxes:** Where officials recognise the inefficiency of collection, they may simply not collect revenues or do so selectively.
2. **Bottlenecks, Ringfencing and Timing Collections:** In the interest of limiting logistical challenges in covering vast distances, tax and customs authorities make use of physical bottlenecks and ringfencing strategies (e.g. employing road blocks at village access points, crossroads and entrances to regional market and timing collection to coincide with periods of heightened economic activity).

3. **Outsourcing Tax Collection:** Tax administrators may rely on volunteers, private collectors, or local elites and traditional authorities to enable collection.

Tax, accountability and the state in rural areas

There is a fundamental disconnect between taxpayer expectations of what the government should provide and the reality of what tax yields in rural areas can actually finance (which is often only the collection itself). This disconnect suggests a need for a reconceptualisation of the relationship between tax and accountability and between the state and citizens in rural areas.

Fundamentally, there is a need to:

1. **Address low-tax low-capacity traps through a services-First Approach:** If the goal is to 'build' taxpaying culture, policymakers and development partners may consider the ways in which tax morale may be stimulated by tangible, highly visible, and desired service delivery prior to demanding tax payment. Doing so may represent a show of good faith to taxpayers and may help administrations break out of the 'chicken and egg' problem of taxation and service delivery.
2. **Manage Taxpayer Expectations:** A more realistic understanding of what taxation can do for citizens and local development could help to manage taxpayer expectations, in turn strengthening their perceptions of government capacity.
3. **Rethink the Relationship between tax and accountability and the nature of the rural social contract:** Policymakers and taxpayers alike need to disentangle the concept of the social contract from the individual, recognising that basic rights of citizenship are not, or should not be, contingent on paying direct taxes to the government. Instead of an individual contract between the taxpayer and the state, the concept of a collective contract may be more appropriate, focusing primarily on expanding the political voice of marginalised populations, without necessarily expanding tax liabilities.

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Further reading

Beach, R. and van den Boogaard, V. (2022) *Tax and Governance in the Context of Scarce Revenues: Inefficient Tax Collection and its Implications in Rural West Africa*, ICTD Working Paper 139, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2022.005

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Credits

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