

# DEVELOPMENT STRATEGY, TAX POLICY AND CHALLENGES FOR GROWTH IN AFRICA AND SOUTH-AFRICA

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# Outline

- Introduction
- I Some basic facts
- II Development strategy: main change in the 80's
- III Implications for tax policy and tax performance
- IV Challenges for growth
- Conclusion

# Introduction

- South Africa (SA) is a major economy on the African continent
  - SA is the most diversified economy and the most advanced
  - SA is also well connected to rest of the world
- Countries in Sub Saharan Africa (SSA) are changing fast
  - These changes may have some significant impacts on SA
  - Many countries are now exploiting natural resources
  - Some countries are close to become “emerging” economies : Kenya, Ghana, Senegal, Cote d’Ivoire, Nigeria,...
  - Few countries are still reliant on ODA
- Focus on tax policy as it experienced important and comprehensive changes over the past two decades
  - Tax transition
  - Better tax policy may help to have better spending and greater accountability

## I – Basic facts : real GDP growth rates

	1970 - 1980	1980 - 1990	1990 - 2000	2000 - 2010	2000 - 2005	2005 - 2013	2005 - 2008	2008 - 2013
South Africa	3,1	1,4	2,1	3,9	3,8	2,7	5,0	2,2
World	3,8	3,3	2,9	2,8	2,9	2,1	3,3	2,2
Developed economies	3,4	3,2	2,7	1,7	2,1	0,7	1,9	0,9
Developing economies	5,8	3,5	4,9	6,1	5,4	5,7	7,0	5,4
Africa	4,3	1,8	2,6	5,3	5,3	4,2	5,9	3,5
Eastern Africa	2,8	2,6	2,9	5,4	4,2	6,6	6,4	6,9
Central Africa	2,5	2,5	1,4	8,3	7,5	6,4	10,6	4,8
Northern Africa	7,0	2,8	3,0	5,0	4,9	2,9	5,3	1,4
Southern Africa	3,2	1,5	2,3	3,9	3,8	2,8	5,0	2,3
Western Africa	3,8	-0,5	2,6	6,6	8,1	6,0	5,5	6,4
South America	6,0	2,2	3,1	4,3	2,9	4,1	5,9	3,6
Asia	6,2	5,3	6,2	7,2	6,6	6,7	7,9	6,3

Sources: UNCTAD database

# I Basic Facts: Real GDP per capita growth rate

	1970 - 1980	1980 - 1990	1990 - 2000	2000 - 2010	2000 - 2005	2005 - 2013	2005 - 2008	2008 - 2013
South Africa	0,5	-1,0	0,1	2,5	2,3	1,6	3,6	1,2
World	1,9	1,4	1,4	1,6	1,7	0,9	2,0	1,0
Developed economies	2,6	2,6	2,0	1,1	1,5	0,2	1,3	0,4
Developing economies	3,4	1,3	3,1	4,7	3,9	4,3	5,6	3,9
Africa	1,5	-1,0	0,1	2,8	2,8	1,6	3,3	1,0
Eastern Africa	-0,2	-0,5	0,1	2,6	1,4	3,3	3,5	3,2
Central Africa	-0,1	-0,4	-1,5	5,3	4,4	3,5	7,5	2,0
Northern Africa	4,4	0,2	1,1	3,2	3,2	1,6	3,5	0,7
Southern Africa	0,5	-0,9	0,2	2,5	2,4	1,6	3,6	1,3
Western Africa	1,1	-3,1	0,0	3,8	5,3	3,2	2,7	3,5
South America	3,6	0,1	1,5	3,0	1,6	3,0	4,7	2,5
Asia	3,9	3,2	4,7	6,0	5,3	5,5	6,7	5,2

Sources: UNCTAD database

# I Basic Facts : Total revenue

## Total revenue: international trends and comparison

*Unit: % of GDP*

	1980/1982	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	19.7 (72)	19.8 (86)	20.5 (106)	22.3 (116)	23.9 (101)
<b>Sub-Saharan Africa</b>	19.6 (41)	19.0 (43)	19.6 (44)	21.1 (45)	23.4 (44)
<b>Latin America</b>	17.5 (12)	18.8 (16)	19.1 (20)	21.8 (21)	23.1 (16)
<b>East Asia and Pacific</b>	16.8 (10)	18.7 (15)	19.7 (21)	19.2 (26)	19.7 (20)
<b>MENA</b>	26.5 (7)	22.8 (8)	27.2 (8)	26.8 (9)	25.6 (8)
<b>LICs</b>	16.6 (26)	14.8 (28)	13.5 (30)	14.0 (32)	17.8 (28)
<b>Lower MICs</b>	21.1 (24)	20.3 (30)	21.6 (39)	23.2 (41)	24.3 (39)
<b>Upper MICs</b>	21.9 (22)	24.3 (28)	25.1 (37)	27.6 (43)	28.3 (34)
<b>South Africa</b>	19.7	25.8	26.7	24.5	27.7
<b>South Africa</b>	16.8	19.1	21.5	21.8	24.6

(.): Sample size.

These data are weighted arithmetic averages calculated over three-year periods (1980-1982, 1988-1990, 1996-1998, 2003-2005, 2010-2012).

Sources: Mansour (2014), ICTD (2014), GFS (International Monetary Fund), national data; authors' calculations.

# I Basic Facts : Non Resources tax revenue

## *Non-resource tax revenues: international trends and comparison*

*Unit: % of GDP*

	1980/1982	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	14.2 (69)	13.9 (95)	14.3 (120)	15.3 (122)	16.1 (75)
<b>Sub-Saharan Africa</b>	13.4 (43)	12.4 (45)	12.6 (46)	14.1 (45)	15.3 (44)
<b>Latin America</b>	18.2 (8)	13.2 (19)	15.6 (26)	16.7 (25)	21.5 (7)
<b>East Asia and Pacific</b>	10.9 (14)	13.7 (22)	12.8 (25)	12.5 (26)	14.4 (17)
<b>MENA</b>	17.4 (5)	14.9 (7)	15.7 (8)	14.4 (10)	14.6 (4)
<b>LICs</b>	11.2 (26)	10.2 (29)	10.1 (31)	11.0 (31)	14.0 (27)
<b>Lower MICs</b>	14.9 (23)	14.1 (33)	14.1 (39)	14.5 (42)	15.6 (23)
<b>Upper MICs</b>	17.3 (20)	17.1 (33)	17.0 (50)	18.7 (49)	19.0 (25)
<b>South Africa</b>	13.6	17.0	20.5	20.0	23.8

(.): Sample size.

These data are weighted arithmetic averages calculated over three-year periods (1980-1982, 1988-1990, 1996-1998, 2003-2005, 2010-2012).

Sources: Mansour (2014), ICTD (2014), GFS (International Monetary Fund), national data; authors' calculations.

## I – Basic facts : corruption

	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	2,81(84)	2,76(86)	2,02(85)	2,15(86)
<b>Sub-Saharan Africa</b>	2,96(31)	2,49(32)	1,99(31)	2,03(32)
<b>Latin America</b>	2,77(20)	2,98(21)	2,18(21)	2,09(21)
<b>East Asia and Pacific</b>	2,64(15)	2,88(15)	1,70(15)	2,22(14)
<b>MENA</b>	2,74(11)	2,89(11)	1,95(11)	2,03(11)
<b>LICs</b>	2,80(22)	2,31(23)	1,87(22)	1,82(23)
<b>Lower MICs</b>	2,47(26)	2,91(28)	1,90(30)	2,07(30)
<b>Upper MICs</b>	3,20(33)	3,00(34)	2,10(36)	2,20(37)
<b>South Africa</b>	5	4,55	2,16	2,78

(.): Sample size. The indicator varies from 0 (high corruption) to 6 (low corruption)

These data are weighted arithmetic averages calculated over three-year periods:

1988-1990, 1996-1998, 2003-2005, 2010-2012.

*Sources: ICRG; authors' calculations.*

## I – Basic facts : bureaucratic quality

	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	1,93(69)	1,82(82)	1,83(76)	1,88(77)
<b>Sub-Saharan Africa</b>	1,93(26)	1,54(29)	1,41(25)	1,54(25)
<b>Latin America</b>	1,86(14)	1,86(20)	2,00(20)	2,00(20)
<b>East Asia and Pacific</b>	2,24(11)	2,14(15)	2,21(14)	2,21(14)
<b>MENA</b>	1,56(11)	1,74(11)	1,70(10)	1,73(11)
<b>LICs</b>	1,64(15)	1,21(19)	1,46(15)	1,57(15)
<b>Lower MICs</b>	1,83(19)	1,77(28)	1,67(29)	1,71(29)
<b>Upper MICs</b>	1,99(32)	2,04(34)	1,94(35)	1,93(37)
<b>South Africa</b>	4	2,8	2	2

(.): Sample size. The indicator varies from 0 (poor bureacratic quality) to 4 (high quality)

These data are weighted arithmetic averages calculated over three-year periods:

1988-1990, 1996-1998, 2003-2005, 2010-2012.

*Sources: ICRG; authors' calculations.*

## I – Basic facts : accountability

	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	2,78(86)	3,21(85)	3,47(85)	3,57(84)
<b>Sub-Saharan Africa</b>	2,38(32)	2,92(31)	3,22(32)	3,26(32)
<b>Latin America</b>	3,13(21)	3,90(21)	4,45(20)	4,34(20)
<b>East Asia and Pacific</b>	3,14(15)	3,60(15)	3,15(2,01)	3,64(14)
<b>MENA</b>	2,71(11)	2,48(11)	2,98(11)	3,03(11)
<b>LICs</b>	2,07(23)	2,58(28)	2,75(23)	3,11(22)
<b>Lower MICs</b>	2,07(23)	2,58(22)	2,75(23)	3,11(22)
<b>Upper MICs</b>	3,46(33)	3,65(34)	3,86(35)	3,99(36)
<b>South Africa</b>	5	4,5	4,5	5

(.): Sample size. The indicator varies from 0 (low accountability) to 6 (high accountability)

These data are weighted arithmetic averages calculated over three-year periods:

1988-1990, 1996-1998, 2003-2005, 2010-2012.

*Sources: ICRG; authors' calculations.*

## I – Basic facts : trends in FDI (millions of USD)

	1970 - 1980	1980 - 1990	1990 - 2000	2000 - 2010	2000 - 2005	2005 - 2013	2005 - 2008	2008 - 2013
South Africa	83	6	854	3 903	2 903	5 461	5 256	6 223
Developed economies	20 641	81 648	358 398	753 915	604 598	805 672	991 570	719 525
Developing economies	6 066	22 071	132 567	396 565	248 106	605 296	508 554	680 368
Africa	1 058	2 260	7 003	32 732	18 436	48 988	44 344	53 799
Eastern Africa	132	172	813	3 682	1 928	7 634	4 540	9 465
Central Africa	191	275	777	4 419	3 398	4 659	3 923	5 471
Northern Africa	181	919	2 125	12 863	6 069	17 548	20 439	16 556
Southern Africa	121	112	1 161	4 766	3 490	6 668	6 419	7 515
Western Africa	433	782	2 127	7 002	3 550	12 479	9 023	14 792
South America	1 882	3 711	29 452	53 420	37 751	90 188	63 152	108 747
Asia	1 781	12 851	78 207	246 143	152 695	366 145	322 630	400 135
Ghana	21	9	114	785	118	1 986	676	2 731
Nigéria	223	486	1 477	4 353	2 317	6 735	6 053	7 441

Sources: UNCTAD database

## II – Development strategy: major change in the 80's

- **After independence :**
  - Interventionist State through public companies (parastatals)
  - Planning State
  - High Protection through tariffs (lack of competitiveness of local producers)
  - Exemptions reducing the revenues (exemptions to compensate a poorly designed system: demand from government on parastatals, high rates of taxation, ...)
- **Disillusion in the 80s: States often ineffective**
  - poor growth
  - no reduction of poverty
  - low levels of revenue

## II – Development strategy: major change in the 80's

- Berg's Report (1981) showing development strategy had to be changed drastically:
- Necessity to open up the economies
- Refocusing the State on its main “role” : providing public goods/services, crucial factors for development
- Incentive for greater efficiency in the provision of public goods/services

### III Tax policy and tax performance

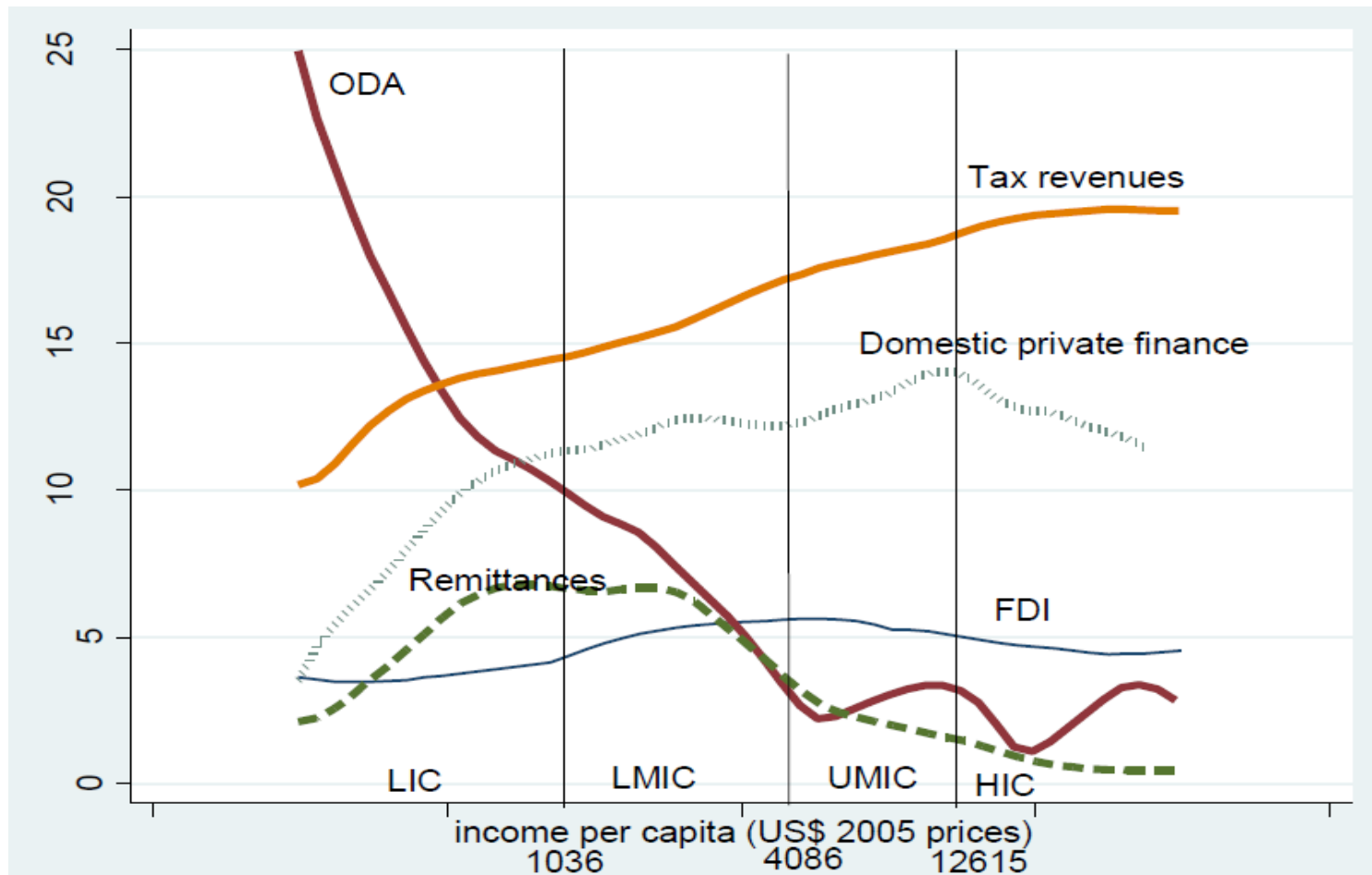
- Shift in development strategy had a major consequence for tax policy
- Tax transition in a Narrow acceptance
  - Reduction of the relative contribution of tariffs (causing distortion)
  - Increase in domestic taxation (VAT + excise duties/direct taxation)
  - Increase or stabilization of government revenue (fuzzy criteria)
- Tax transition in a broader acceptance
  - Reduction of all tax distortions and therefore of the social cost of the government levies – more neutral taxation
  - Reduction of the instability of revenue to avoid Dutch disease (eg the case of mining revenue and booms/busts)
  - Convergence of the level of tax revenue towards an “optimum”

## III Tax policy and tax performance

- Tax instruments for tax transition
- Main instruments
  - Modern single-rate VAT with the effective refund of VAT credits and control of fraud
  - Modernized excise duties (telecommunication,....)
  - promoting tax compliance (tax administration reform)
- Complementary instruments
  - Direct taxation system with sometimes specific treatment for rent activities (telecommunications, extractive industry activities) and dual tax
  - Reduction of tax exemptions

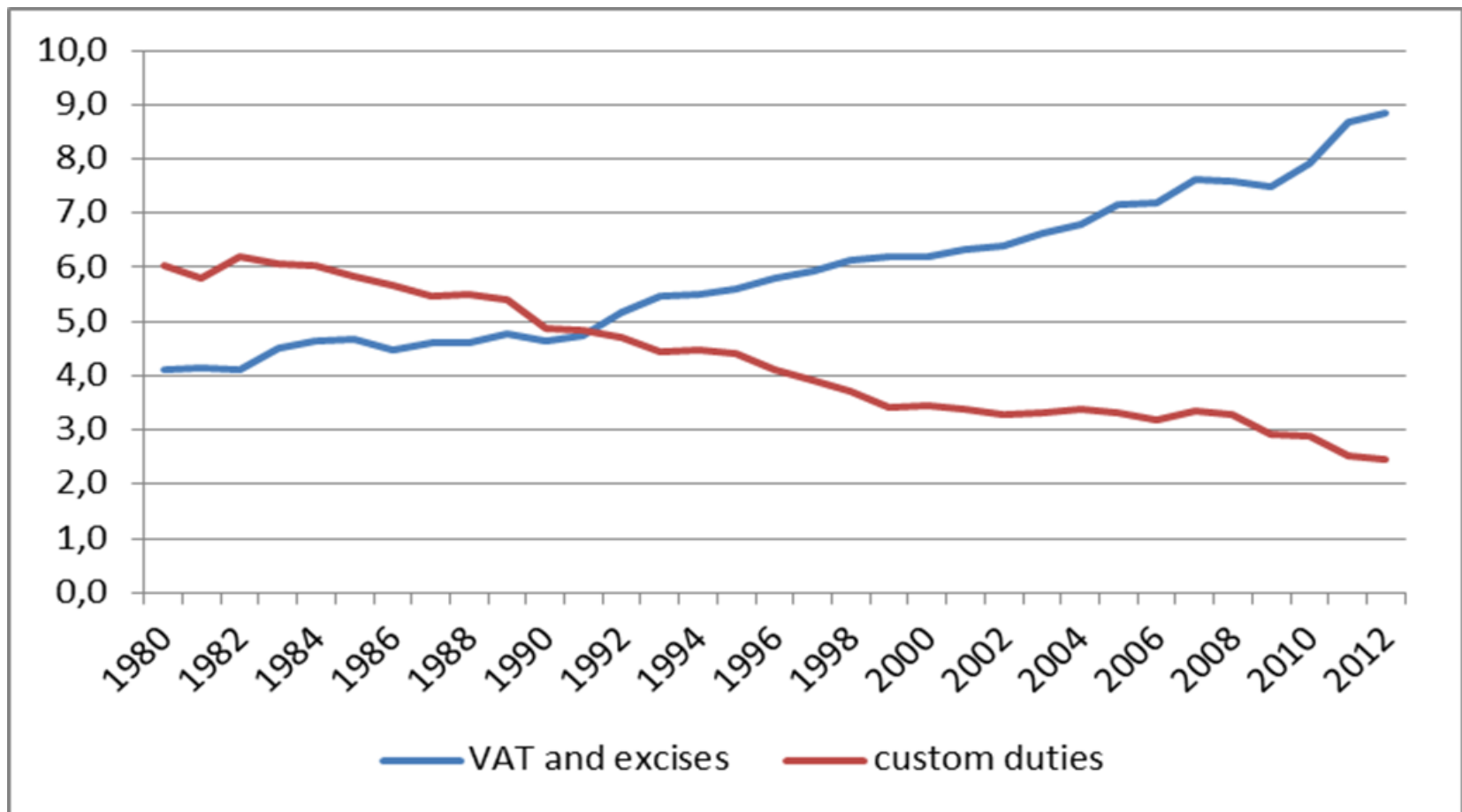
### III Tax policy and tax performance

#### Financial flux (% GDP) by income level



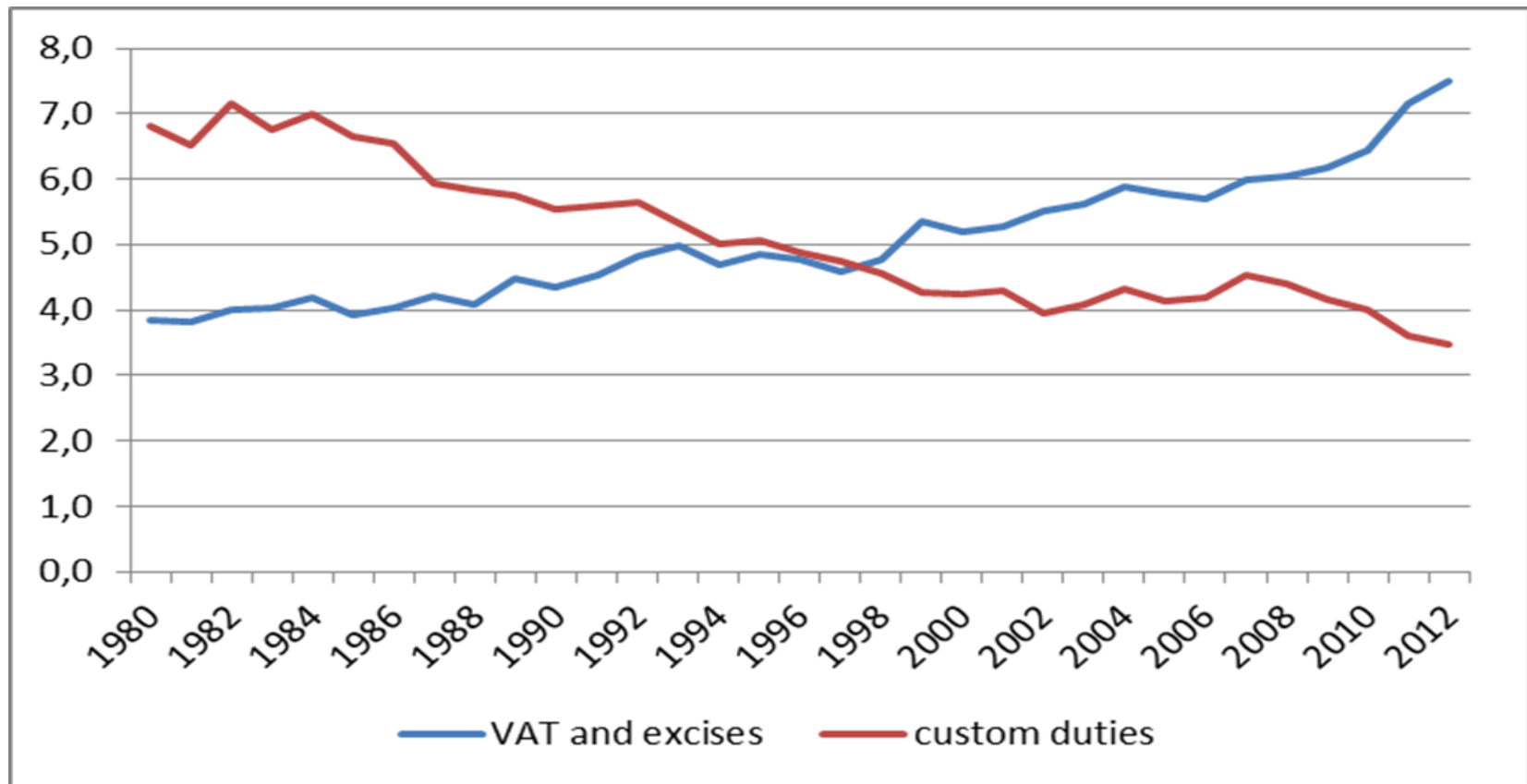
### III Tax policy and tax performance

#### Tax transition in developing economies



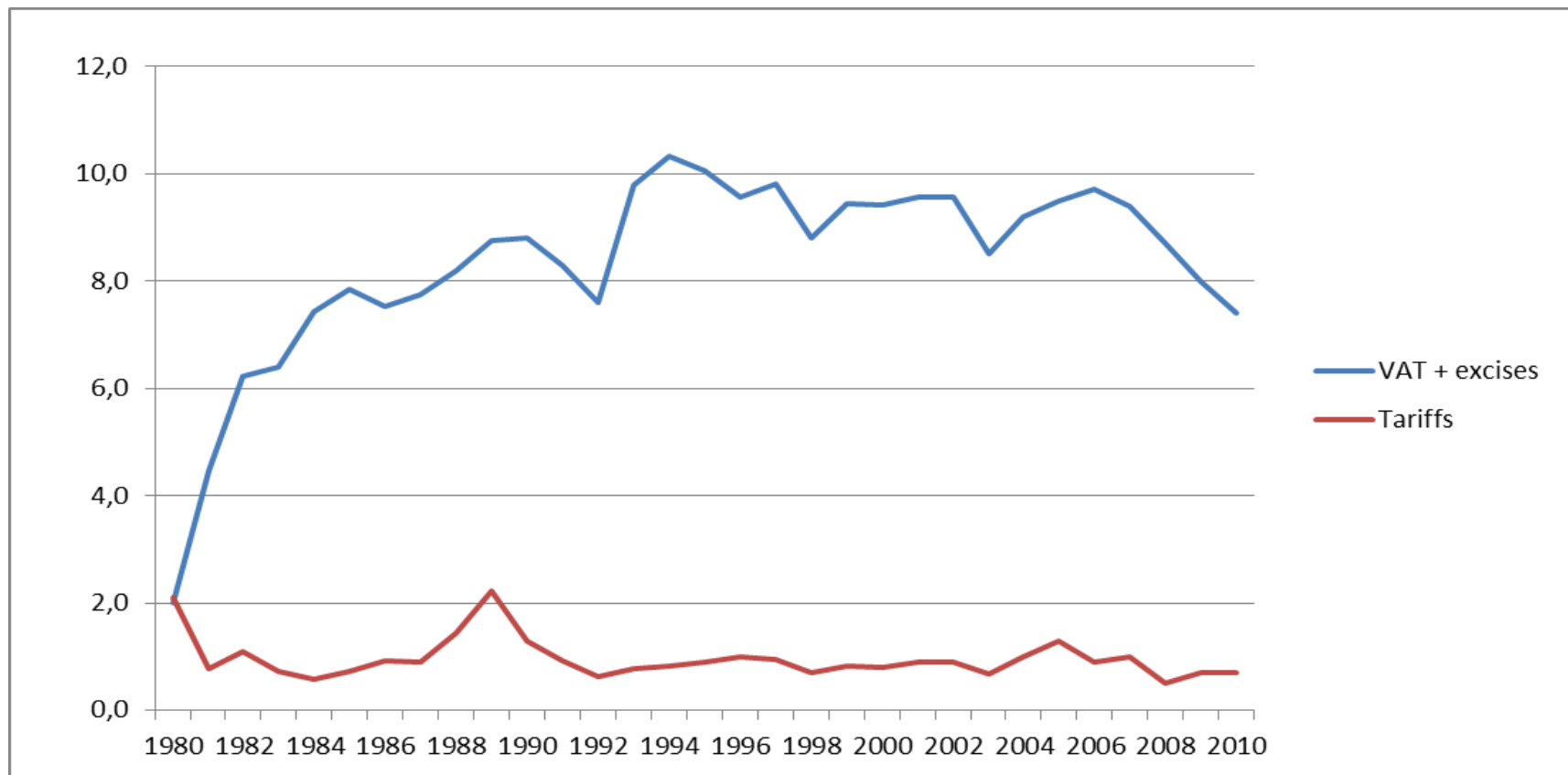
### III Tax policy and tax performance

#### Tax transition in Sub-Saharan economies



### III Tax policy and tax performance

#### Tax transition in South Africa



# III Tax policy and tax performance

## Revenues from tariffs

*Unit: % of GDP*

	1980/1982	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing Countries</b>	6.0 (65)	5.2 (81)	3.9 (101)	3.3 (102)	2.6 (78)
<b>Sub Saharan Africa</b>	6.9 (42)	5.7 (44)	4.7 (45)	4.2 (45)	3.5 (45)
<b>Latin America</b>	4.4 (8)	3.7 (15)	2.5 (17)	2.3 (15)	1.8 (7)
<b>East Asia &amp; Pac</b>	4.9 (10)	5.7 (15 )	4.4 (20)	3.6 (21)	1.3 (9)
<b>MENA</b>	5.0 (6)	3.7 (7)	3.6 (8)	2.2 (9)	1.4 (6)
<b>LDCs</b>	6.1 (31)	4.9 (36)	3.8 (37)	3.3 (38)	2.8 (35)
<b>LICs</b>	4.9 (24)	4.2 (27)	3.1 (28)	3.0 (29)	2.6 (27)
<b>Lower middle income</b>	6.9 (22)	5.4 (28)	4.0 (39)	3.1 (39)	2.9 (27)
<b>Upper middle income</b>	6.2 (19)	5.9 (26)	4.4 (34)	3.7 (34)	2.3 (24)
<b>South Africa</b>	0.9	1.8	1.0	0.8	0.7

(.): Sample size.

Data are un-weighted arithmetic averages calculated over three years period (1980-1982, 1988-1990, 1996-1998, 2003-2005, 2010-2012).

Sources: GFS (International Monetary Fund), national data; author's calculation..

# III Tax policy and tax performance

## Revenues from VAT + excises

*Unit: % of GDP*

	1980/1982	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing Countries</b>	4.1 (67)	4.6 (82)	5.9 (102)	6.9 (106)	8.1 (84)
<b>Sub Saharan Africa</b>	3.8 (43)	4.2 (44)	4.7 (45)	5.8 (45)	6.6 (45)
<b>Latin America</b>	5.3 (8)	4.6 (15)	7.7 (17)	7.7 (18)	9.5 (10)
<b>East Asia &amp; Pac</b>	4.1 (10)	4.5 (15)	5.1 (20)	5.9 (22)	7.6 (11)
<b>MENA</b>	3.9 (6)	5.6 (7)	6.3 (8)	5.9 (9)	7.5 (6)
<b>LDCs</b>	3.7 (32)	4.1 (37)	4.5 (37)	5.1 (39)	6.3 (35)
<b>LICs</b>	4.1 (25)	3.9 (27)	4.4 (28)	5.2 (29)	6.9 (27)
<b>Lower middle income</b>	3.4 (22)	5.1 (28)	6.2 (39)	6.8 (40)	8.1 (29)
<b>Upper middle income</b>	4.8 (20)	4.9 (27)	6.9 (35)	8.3 (37)	9.2 (28)
<b>South Africa</b>	5.3	8.5	9.7	8.8	7.4

(.): Sample size.

Data are un-weighted arithmetic averages calculated over three years period (1980-1982, 1988-1990, 1996-1998, 2003-2005, 2010-2012).

Sources: GFS (International Monetary Fund), national data; authors' calculation.

### III Tax policy and tax performance

Equation of the tax potential of developing countries (random effects)

<b>Dependent variable: <i>non-resource</i> tax revenues</b>			
<b>Explanatory variables</b>	<b>Coefficients</b>	<b>t-Student</b>	<b>P-value</b>
<b>Constant</b>	-3.044	1.41	0.158
<b>Trade openness ratio (X+M)/GDP</b>	0.011	2.76	0.006
<b>Logarithm of lagged GDP per capita</b>	2.752	10.0	0.000
<b>Agricultural value added/GDP</b>	-0.096	8.62	0.000
<b>Total <i>resource</i> revenues/GDP</b>	-0.136	9.14	0.000
<b><math>R^2 = 0.30^*</math></b>	<b>NT=2727</b>	<b>N=124</b>	
	<b>(Observations)</b>	<b>(Country)</b>	

Based on new datasets (Mansour, 2014 and ICTD, 2014) isolating revenue coming from non renewable natural resources (minerals and hydrocarbons)

### III Tax policy and tax performance

#### Tax effort (% of GDP)

	1980/1982	1988/1990	1996/1998	2003/2005	2010/2012
<b>Developing countries</b>	1.0 (43)	0.4 (69)	0.0 (106)	-0.5 (118)	1.4 (99)
<b>Sub-Saharan Africa</b>	1.7 (30)	0.7 (41)	0.5 (43)	1.3 (44)	2.6 (42)
<b>Latin America</b>	-4.1 (3)	-3.4 (9)	-3.3 (21)	-2.5 (24)	-2.1 (19)
<b>East Asia and Pacific</b>	-0.4 (7)	-1.7 (11)	-1.0 (19)	-3.1 (23)	-2.2 (20)
<b>MENA</b>	1.2 (4)	0.6 (7)	-0.5 (9)	-2.0 (9)	1.3 (6)
<b>LICs</b>	2.3 (18)	0.8 (25)	1.3 (28)	1.0 (29)	2.8 (26)
<b>Lower MICs</b>	2.3 (14)	0.2 (19)	1.3 (35)	-0.4 (41)	1.6 (34)
<b>Upper MICs</b>	-2.9 (11)	0.1 (25)	-1.2 (43)	-1.5 (48)	0.3 (39)
<b>South Africa</b>	-5.2	-2.04	0.18	-0.22	0.86

(.): Sample size.

These data are weighted arithmetic averages calculated over three-year periods (1980-1982, 1988-1990, 1996-1998, 2003-2005, 2010-2012).

Sources: Mansour (2014), ICTD (2014), GFS (International Monetary Fund), national data; authors' calculations.

## IV Challenges for growth

- For SSA:
  - Change in development strategy and the induced change in tax policy had a positive impact on growth
  - Growth prospects are high, specially in East and West Africa (Senegal, Ghana, Kenya ) but...important threats
  - Resource curse and Dutch disease
- For SA:
  - Slowdown of growth after 2008 (lower demand from trading partners, local weaknesses)
  - Growth prospects are moderate (2% in 2015, 2.5% in 2016)
  - Strong banking system

## IV Challenges for growth

	1970 - 1980	1980 - 1990	1990 - 2000	2000 - 2010	2000 - 2005	2005 - 2013
real GDP						
South Africa	3,1	1,4	2,1	3,9	3,8	2,7
Africa	4,3	1,8	2,6	5,3	5,3	4,2
Eastern Africa	2,8	2,6	2,9	5,4	4,2	6,6
Central Africa	2,5	2,5	1,4	8,3	7,5	6,4
Northern Africa	7,0	2,8	3,0	5,0	4,9	2,9
Southern Africa	3,2	1,5	2,3	3,9	3,8	2,8
Western Africa	3,8	-0,5	2,6	6,6	8,1	6,0
Real GDP per capita						
South Africa	0,5	-1,0	0,1	2,5	2,3	1,6
Africa	1,5	-1,0	0,1	2,8	2,8	1,6
Eastern Africa	-0,2	-0,5	0,1	2,6	1,4	3,3
Central Africa	-0,1	-0,4	-1,5	5,3	4,4	3,5
Northern Africa	4,4	0,2	1,1	3,2	3,2	1,6
Southern Africa	0,5	-0,9	0,2	2,5	2,4	1,6
Western Africa	1,1	-3,1	0,0	3,8	5,3	3,2

Sources: UNCTAD database

## IV Challenges for growth

- Threats on growth in SSA:
  - The main issue is energy/power generation equipment (bad for growth and FDI)
  - Poor quality of infrastructure (telecom, transport, energy,...)
  - Growing inequalities
  - High level of unemployment (in SA: almost 25% and 50% for young people)
  - Economies are vulnerable to various shocks (climate, political, health,...)
  - Weak banking system
- Threats on growth in SA:
  - Energy/power generation
  - Transport infrastructure have to be improved
  - Insufficient human capital
  - Inequalities / dual economy / problem of land distribution
  - Macroeconomic imbalances (budget deficit, inflation,...)
  - High interest rate (negative impact on investment)

## IV Challenges for growth

- Strengthening regional cooperation (SADC, COMESA)
- Attract FDI outside primary sector
- Reduce outage of electricity
- Enough revenues but need to pursue the tax transition process (VAT, direct tax)
- Increasing the quality of public expenditures
- Improving the institutional environment
- Paying more attention to environment

## Conclusion

- Change in development strategy opened the way for growth in SSA
- SA growth is slower than growth in developing world and is slowly recovering from the 2008 crisis
- Demographic transition favorable for increasing GDP per capita
- Some African countries can become competitors to attract FDI
- Sources of growth may also come from the continent

**Thank you for your attention**