CHAPTER 4

NON-TAX REVENUES FOR FINANCING SUSTAINABLE DEVELOPMENT

Non-tax revenue to African governments is equivalent to 4.5 per cent of GDP. There is considerable potential for boosting this contribution. Simply improving collection efficiency could raise non-tax revenue by 2 per cent of GDP. Thanks to improving efficiency and increasing diversity of sources, Botswana and Congo recorded non-tax revenue of up to 16 per cent of GDP during 2000 and 2018.

The composition of non-tax revenue varies across countries, depending mainly on each country's efforts to innovate and diversify non-tax sources of revenue. Countries have used a variety of non-tax revenue instruments, from levies on natural resource extraction to pollution fees. Each country should design non-tax revenue sources according to its own economic context, development objectives and target groups.

Because non-tax revenue is volatile, often reflecting fluctuations in natural resources prices, countries need to develop realistic collection targets based on prudent financial management. Challenges to mobilizing more revenue from non-tax sources include the lack of strong institutions, appropriate infrastructure and effective relations between the central government and subnational governments.

INTRODUCTION

Governments raise revenue using tax and non-tax instruments, where non-tax sources include any revenue that do not come from taxes. Non-tax revenue is an important but often under-tapped source of public revenue that is all the more vital in Africa today as countries face declining official development assistance, rising indebtedness, limited domestic resource mobilization capabilities, poor financial management and systemic corruption, among other challenges. Projections indicate that high levels of financing will be required to bring about Africa's structural transformation and to achieve the 2030 Agenda for Sustainable Development and Agenda 2063 (Kedir et al., 2017; UNDP, 2018).

Non-tax revenue instruments are much more varied than tax instruments. They include royalties, fees for mining rights, dividends on government investments in state-owned enterprises and in stock portfolios, sovereign wealth funds and government shares in joint ventures with private operators. Fees for trade licenses for commercial establishments, construction permits and for registering or issuing birth, marriage and death certificates are additional sources. User and service fees are important too and are levied on leases for government buildings or other venues, school and university attendance, hospital admission and tourists visiting museums and parks. Resource-rich countries depend heavily on mining royalties on the extraction and sale of oil and minerals, while mineral-poor countries rely more on administrative fees, fines and other service-related revenue sources.

Non-tax revenue can address some of the structural challenges in revenue collection. For example, most of the practical problems involved in taxing the informal economy do not affect non-tax revenue collection. Non-tax revenue can be collected as readily from economic agents in the informal sector as from those in the formal sector. For instance, user charges (such as for health and education services) and payments for services (such as water, electricity and telecom utilities) can be levied on the services used by all customers.

Country experiences reveal a variety of context-specific non-tax revenue instruments and performance. Africa's non-tax revenue was estimated to be $133 billion in 2017. This is a considerable amount relative to the $230 billion financing gap for development investments for the continent (Coulibaly and Gandhi, 2018) and is greater than the $100 billion Africa loses every year in illicit financial flows (ECA, 2018b). However, countries accounted for widely differing shares of this total, ranging from less than 1 per cent to more than 10 per cent, and the share fluctuated within countries over time.

Non-tax revenue has the potential to become a much greater source of revenue. Their diversity opens opportunities to both increase revenue and achieve other policy objectives. For instance, countries can impose levies on environment-damaging production and consumption and use the revenue to reduce environmental degradation or mitigate its impact. Non-tax revenue can also advance inclusive decentralization by allowing subnational authorities to collect and use non-tax revenue for development. Furthermore, the flexibility of non-tax revenue instruments may circumvent some of the entrenched structural challenges of tax collection, such as taxing multinational firms, by applying more direct levies (ECA, 2018c).

This chapter provides an overview of trends and performance of non-tax revenue, examines the major components of non-tax revenue and discusses the institutional, administrative and regulatory challenges.

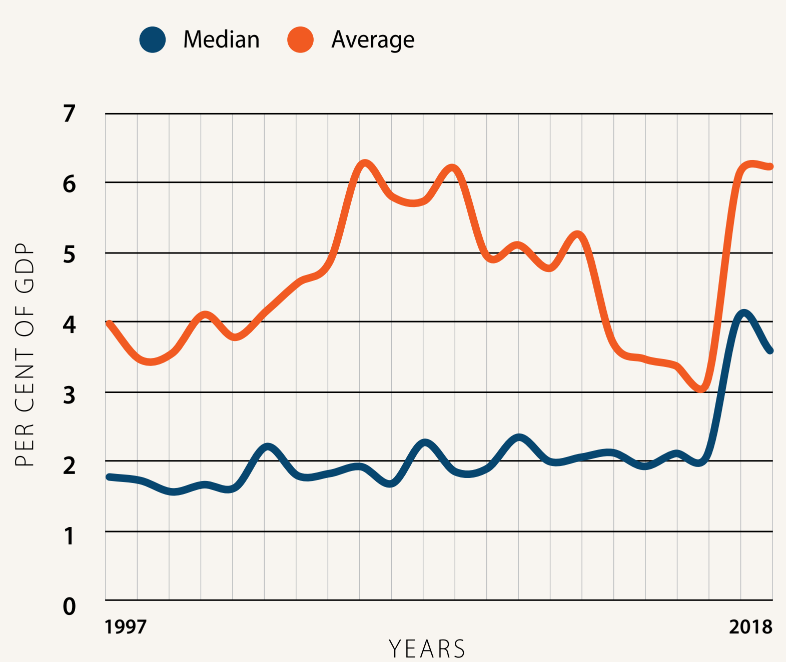
OVERALL ASSESSMENT OF NON-TAX REVENUE

TRENDS AND PERFORMANCE

Average non-tax revenue in Africa increased over 1997–2008, driven largely by commodity price booms, but declined sharply after that, particularly after 2012, as commodity prices plummeted (figure 4.1).[1] Despite this volatility and recent declines, African countries mobilized $133 billion in non-tax revenue in 2017 (6.1 per cent of GDP), but with large variations across countries.

1 The analysis in this section is based on data for the 48 African countries with data in the Government Revenue Dataset of the International Centre for Tax and Development and the United Nations University World Institute for Development Economics Research as of September 2018 (ICTD and UNU-WIDER, 2018). More details on non-tax revenue data are in table A4.1 in the annex.

FIGURE 4.1. NON-TAX REVENUE IN AFRICA, 1997-2018



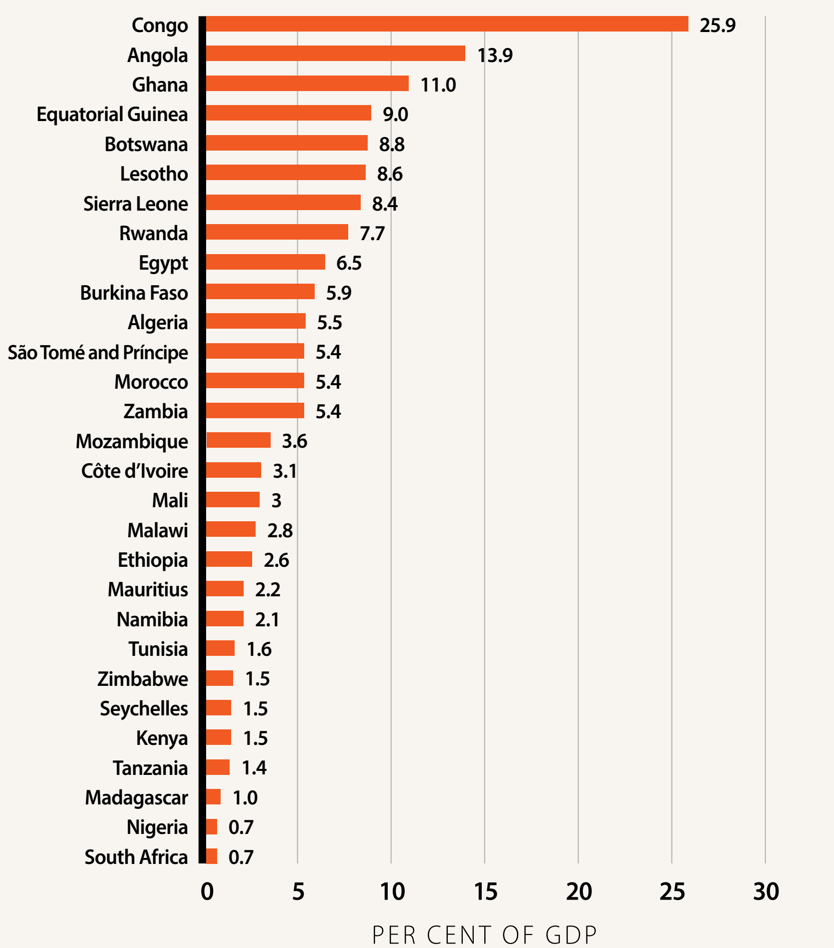
Source: Based on data from ICTD and UNU-WIDER (2018) for 1997–2016, accessed in September 2018; IMF (2018a) for 2017; and ECA (2018k) forecasts for 2018.

Only 10 countries collected non-tax revenue of at least 6 per cent of GDP in 2018.

Only 10 countries collected non-tax revenue of at least 6 per cent of GDP in 2018 (figure 4.2). At the lower end, 8 countries collected less than 2 per cent. There were also some surprises. Chad, though not in the top 20, collected CFAF 76.92 billion, more than double its target of CFAF 35.29 billion, a 117.9 per cent increase over 2016 (ECA, 2018a).

In 2018, the top performers were oil-exporting and mineral-rich countries, although this has not always been the case. Oil-exporting countries' non-tax revenue peaked at 15 per cent of GDP in 2008, followed by the mineral-poor group, at 8 per cent in 2008 (figure 4.3). Since 2008, non-tax revenue has declined sharply in both country groups, to lows of 2–4 per cent of GDP. In the past 18 years, non-tax revenue was 3–4 per cent of GDP in mineral-rich countries and below 3 per cent in oil-importing countries.

FIGURE 4.2. NON-TAX REVENUE COLLECTION, BY COUNTRY, 2018



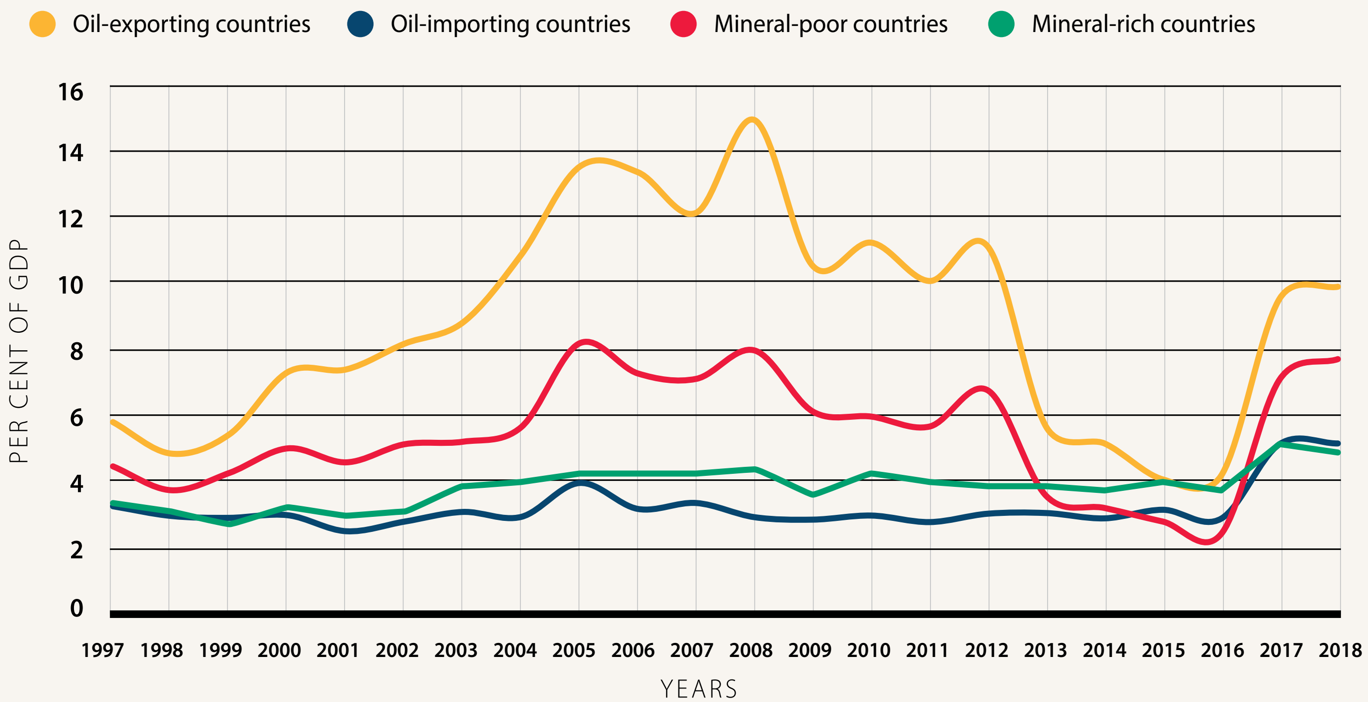
Source: ECA (2018k) forecast.

Central Africa has been the best performing subregion since 2000, with non-tax revenue peaking at 16 per cent of GDP in 2005, followed by North Africa (excluding Libya) and Southern Africa. Non-tax revenue in North Africa reached 7.3 per cent of GDP in 2008 but then fell to about 4.7 per cent in 2018. For East and West Africa this ratio averaged around 3 and 2 per cent, respectively, between 1997 and 2018, with a notable upward trend in recent years.

Africa's non-tax revenue mobilization over 1997–2016 was moderated compared with that of other developing regions. Africa performed better than Latin America and the Caribbean, about as well as South Asia, but worse than the Middle East, Europe and Central Asia, and East Asia and the Pacific. The Middle East collected about twice as much (as a share of GDP) as any of the other regions.

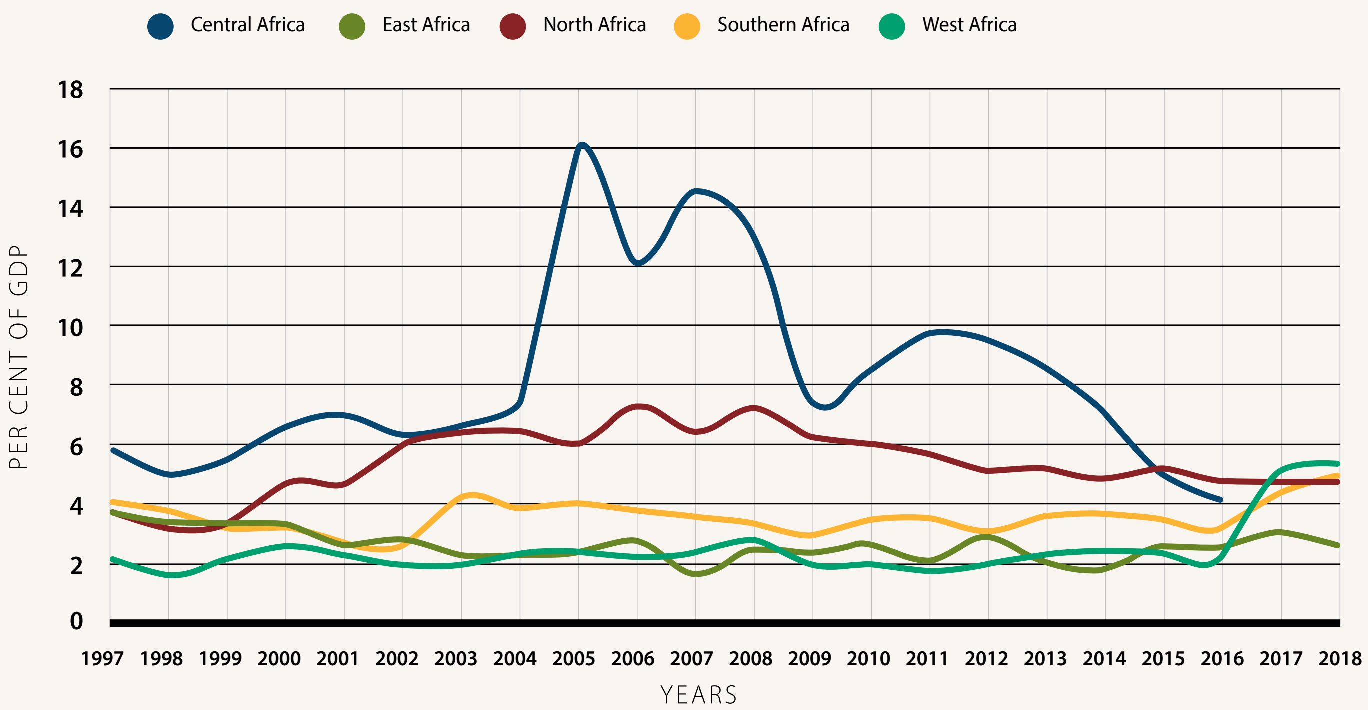
Africa's moderate performance in non-tax revenue mobilization suggests that there is room for further improvement. However, some strands of the public finance literature claim that the higher non-tax revenue is, the lower tax revenue is, suggesting a negative correlation

FIGURE 4.3. NON-TAX REVENUES IN AFRICA BY ECONOMIC GROUPING, 1997-2018



Source: Based on data from ICTD and UNU-WIDER (2018) for 1997–2016, accessed in September 2018; IMF (2018a) for 2017; and ECA (2018k) forecasts for 2018.

FIGURE 4.4. NON-TAX REVENUES IN AFRICA BY SUBREGIONAL GROUPING, 1997-2018



Source: Based on data from ICTD and UNU-WIDER (2018) for 1997–2016, accessed in September 2018; IMF (2018a) for 2017; and ECA (2018k) forecasts for 2018.

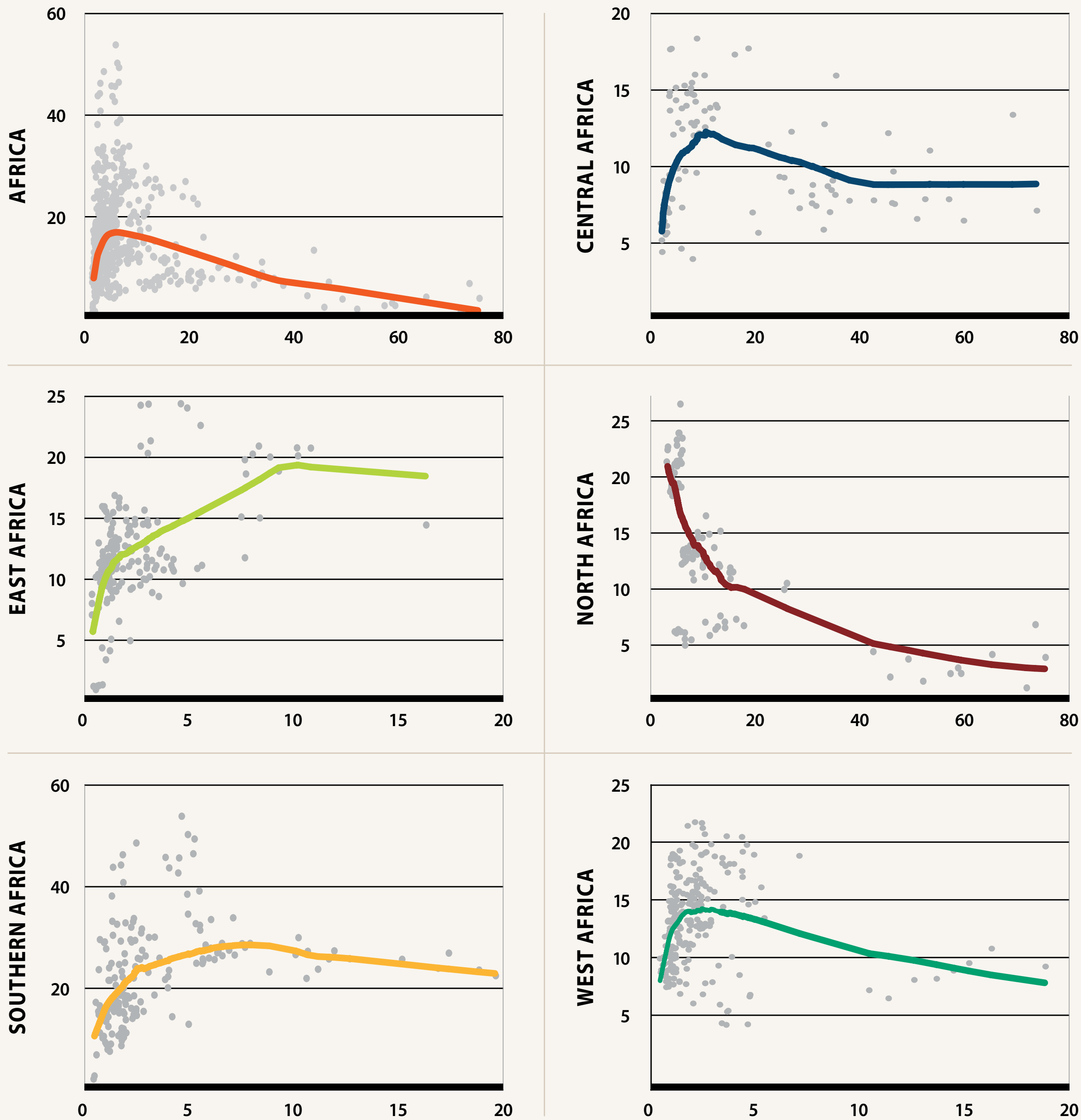
BOX 4.1.

RELATIONSHIP BETWEEN NON-TAX AND TAX REVENUES

The box figures show differences in the correlation between non-tax and tax revenues by subregion. For Africa as a whole, there is a non-linear relationship between non-tax revenue and tax revenue: non-tax revenue rises with tax revenue until it reaches a certain threshold (non-tax revenues of about 10 per cent of GDP); after that, it declines with increases in tax revenue. For subregions, there is a positive correlation for East and Southern Africa, a negative correlation for North Africa and a non-linear relationship for Central and West Africa.

BOX FIGURE 1 Tax and non-tax revenue, 2000–2016

Left axis: Tax revenue (Per cent of GDP). ***Bottom axis:*** Non-tax revenue (Per cent of GDP)



Source: Based on data from ICTD and UNU-WIDER (2018), accessed in September 2018.

between the two, with further implications for the degree of democracy in the countries. The relationship was studied empirically for this report for African economies using non-parametric regression (locally weighted regression). The results show a more nuanced picture. The correlation between non-tax revenue and tax revenue for Africa as a whole shows that tax revenue rises with non-tax revenue until a certain threshold, after which it declines as non-tax revenue rises. The correlations differ by regional subgroups (see box 4.1).

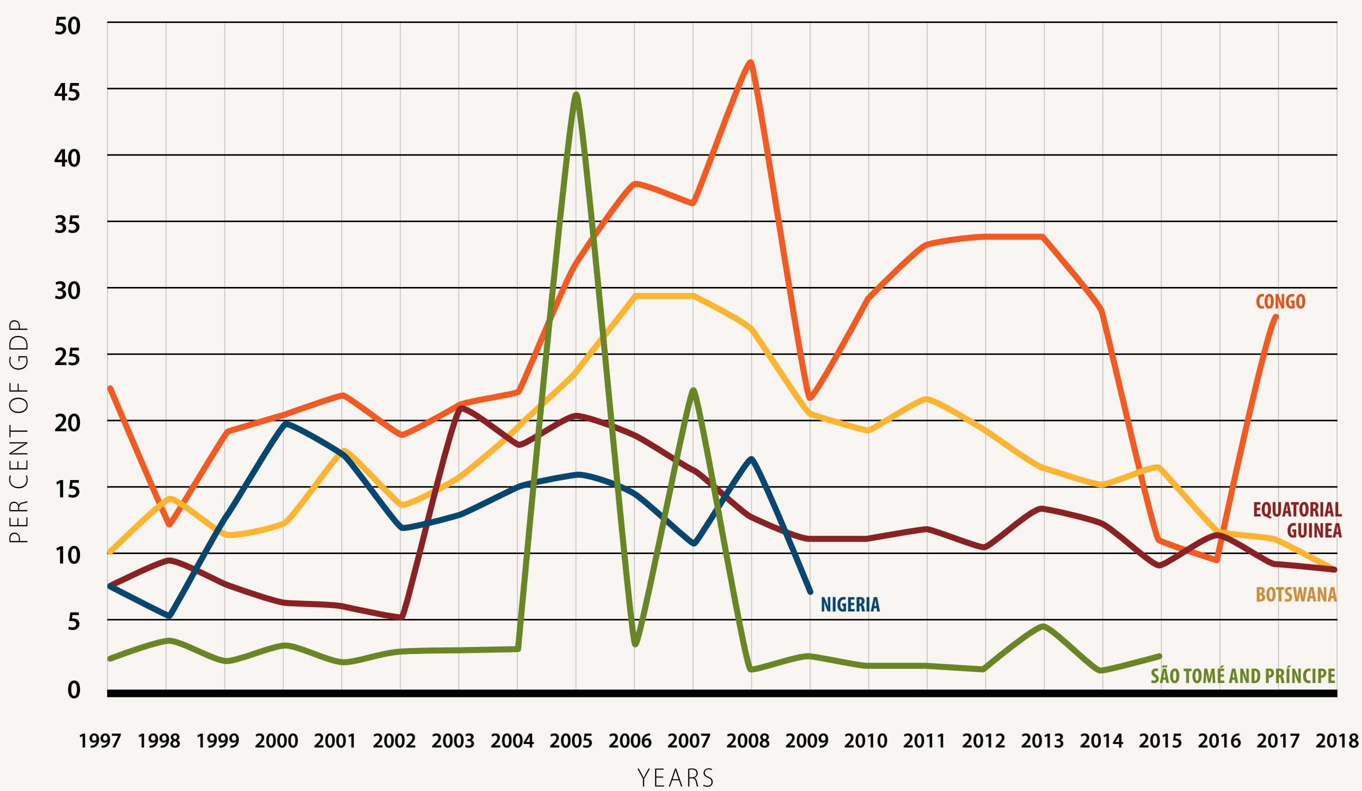
VOLATILITY OF NON-TAX REVENUE

In contrast to the low to moderate volatility of tax revenue, non-tax revenue in African countries has been highly volatile (see table A4.1 in the annex). Volatility leads to uncertainty in annual projections of fiscal revenue and spending and is thus a source of risk for public finances, especially in countries with high public indebtedness. Figure 4.5 shows countries with high non-tax revenue volatility over 1997–2018. For instance, Congo's non-tax revenue ranges from 9.5 per cent of GDP to 47 per cent of GDP.

Resource-rich countries were the worst performers in terms of volatility due to their almost exclusive reliance on resource rents: when commodity prices fall, so does non-tax revenue. Some oil-importing countries, including Ethiopia and Tanzania, also performed poorly in non-tax revenue collection.

At least some volatility may arise from poor design and management of non-tax revenue as a policy tool. Algeria, Comoros, Cabo Verde, Mozambique, Morocco, Rwanda, Senegal and Zambia took advantage of high growth in the past decade to increase non-tax revenue. By contrast, Cameroon,

FIGURE 4.5. NON-TAX REVENUE IN SELECTED COUNTRIES WITH HIGH VOLATILITY, 1997–2018



Source: Based on data from ICTD and UNU-WIDER (2018) for 1997–2016, accessed in September 2018; IMF (2018a) for 2017; and ECA (2018k) forecasts for 2018.

Gabon, Ghana, Guinea, Nigeria and Zimbabwe failed to mobilize expected non-tax revenue due to poor fiscal discipline.

NON-TAX REVENUE INSTRUMENTS AND PERFORMANCE

Individual countries use only a small subset of the wide array of non-tax instruments. For example, Kenya's non-tax revenue instruments include property income; business permits; social security contributions; fines, penalties and forfeitures; and interest and other income from lending (ECA, 2018d). Chad is overhauling its non-tax revenue instruments. It abolished its charges for motor vehicles and replaced them with a special tax on petroleum products. It replaced its flight boarding charge with a flat airport modernization fee in 2016 that varies by ticket class (ECA, 2018a). Chad also abolished a series of levies (including on mobile phones and audio-visual products, used to finance the National Sports Development Fund and anti-retroviral drugs, and various stamp duties on contracts and SIM cards) and replaced them with an 18 per cent excise duty on the turnover generated by mobile network operators and a per-minute fee on incoming international calls. Finally, it added a 0.2 per cent levy on imports to finance the African Union (ECA, 2018a).

Some non-tax revenue instruments, such as road tolls, can be used to finance infrastructure, while user charges for health and education can finance improvements in health care delivery and education (Bird, 2001). However, user charges need to be introduced cautiously because of their equity implications.

MAJOR SOURCES BY COUNTRY

An Organisation for Economic Co-operation and Development (OECD) data set of 21 African countries was used to assess the performance of individual non-tax instruments (OECD, 2018).[2] Disaggregated data are unavailable for a majority of African economies, including large economies such as Ethiopia and Nigeria. Governments need to be more transparent in reporting their non-tax revenue to improve their fiscal management. Better reporting can also help them identify the revenue sources that are lumped in the residual category of miscellaneous and unidentified revenue, which can aid in fiscal planning.

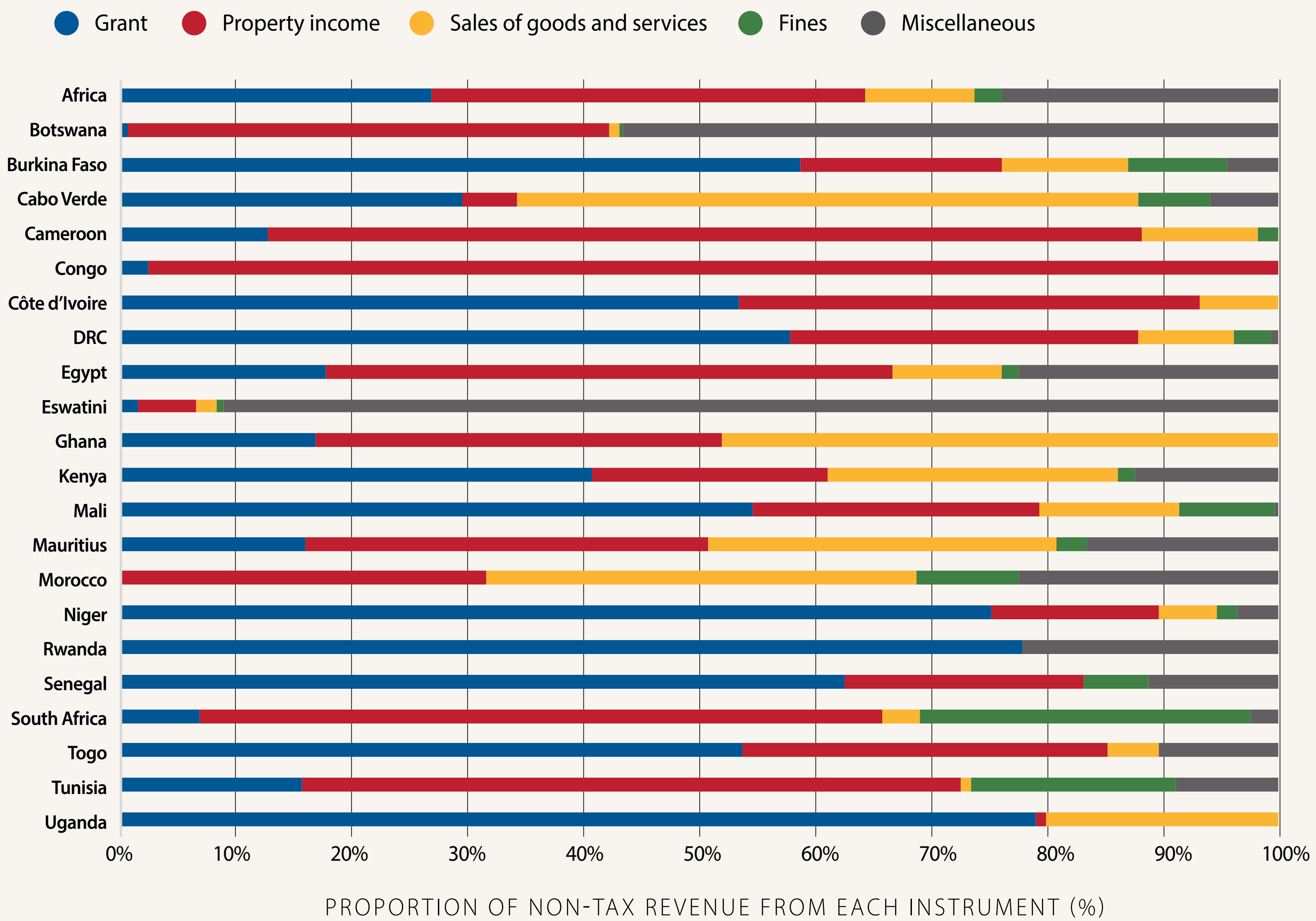
Non-tax revenue instruments were diversified across countries in 2018, but they were limited within countries, implying a need to broaden the non-tax revenue base (figure 4.6). Property income and grants were the largest contributors to non-tax revenue in 2018 across the 21 countries considered. For example, Côte d'Ivoire, Democratic Republic of the Congo, Niger, Rwanda, Togo and Uganda received a majority of their non-tax revenue from grants, whereas Cameroon, Congo, South Africa and Tunisia received a majority from property income. For Ghana the main source of non-tax revenue was sales of goods and services and for Eswatini its was miscellaneous and unidentified income.

In Egypt, Kenya, Mauritius, and Morocco no single instrument accounted for a majority of non-tax revenue. A majority of non-tax revenue came from grants and property income combined in Egypt; grants and sales of goods and services in Kenya; and property income and sales of goods and services in Mauritius and Morocco.

Over 2000–2018 property income (2.9 per cent of GDP) was the most important source of non-tax revenue, followed by grants (2.3 per cent of GDP), miscellaneous and unidentified income (1.5 per cent of GDP) and sale of goods and services (0.6 per cent of GDP). Fines, penalties and forfeits (0.1 per cent of GDP) contributed the least to non-tax revenue. The pattern for 2018 was the same.

2 Because the ICTD and UNU-WIDER (2018) Government Revenue Dataset is not very well disaggregated, the analysis in this section draws on an OECD data set that breaks non-tax revenue down by instrument used for 21 African countries (OECD, 2018).

FIGURE 4.6. MAJOR NON-TAX REVENUE INSTRUMENTS USED IN 21 AFRICAN COUNTRIES, 2018



Note: Shares are based on the revenue from each instrument as a share of GDP. Figures for Uganda are for 2016.
Source: Based on data from OECD (2018).

Non-tax revenue has been volatile, due largely to fluctuations in commodity prices that have affected resource rents (figure 4.6). The short duration and low predictability of grant flows also create volatility, as do the largely unknown and often non-recurring nature of miscellaneous and unidentified non-tax revenue sources.

Non-tax revenues have been volatile, due largely to fluctuations in commodity prices that have affected resource rents.

POTENTIAL TO INCREASE NON-TAX REVENUE

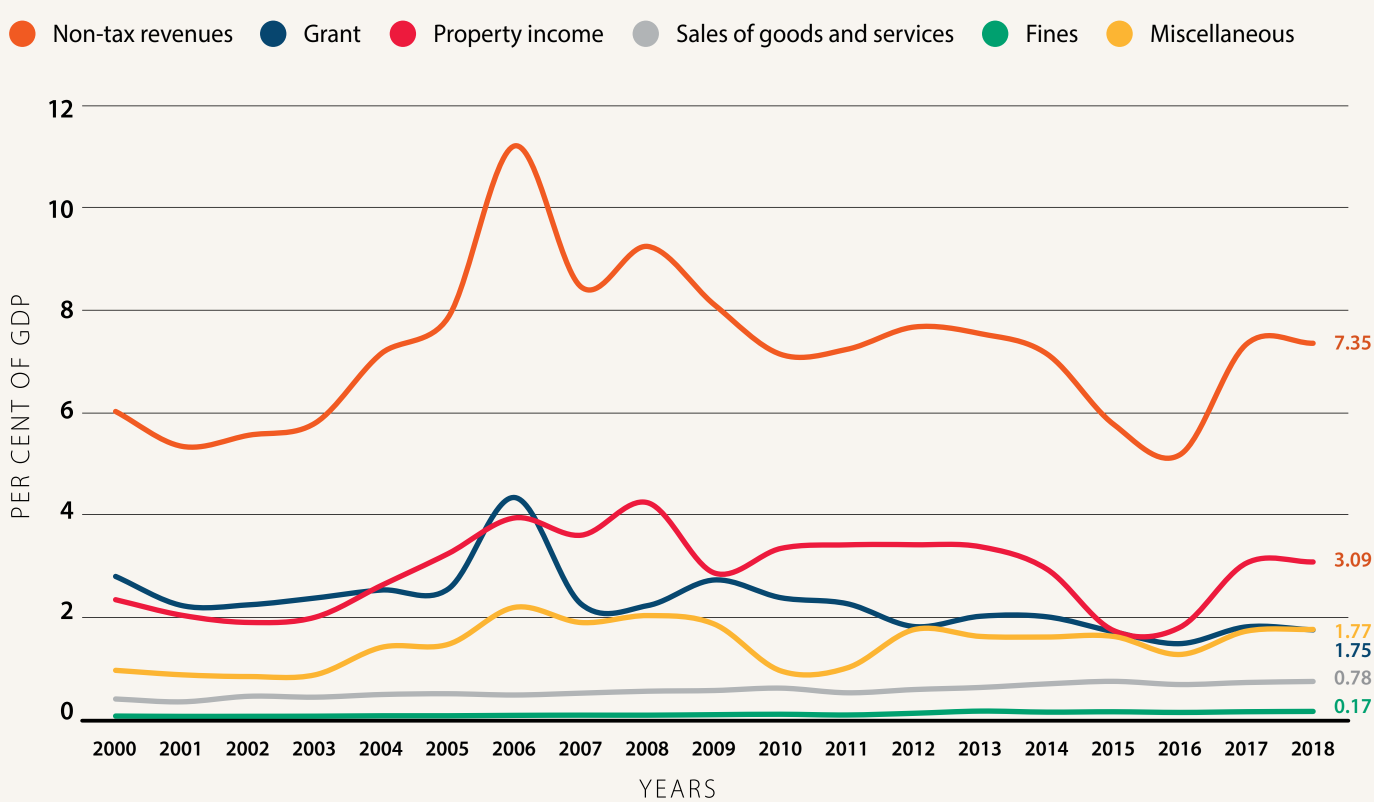
Both intra-Africa and international comparisons reveal considerable room to increase non-tax revenue in Africa. So does an analysis of non-tax revenue capacity, which measures how well a

Improving collection efficiency could boost average non-tax revenues for low-collecting countries by up to 4.5 per cent of GDP, an increase of about 2 per cent of GDP from the current non-tax revenue collection.

country is doing in non-tax revenue collection relative to what it could be expected to do given its economic potential. That analysis—using the ratio of actual non-tax revenue collection to potential non-tax revenue collection assuming the average performance of non-tax revenue in Africa—shows a range of national non-tax revenue effort of 0.09 to 4.0. More than half the countries collected below their potential, with an average effort index of 0.64 of potential collection, while others collected more than they would be expected to collect, given their economic potential.

Improving collection efficiency could boost average non-tax revenue for low-collecting countries to 4.5 per cent of GDP, an increase of about 2 per cent of GDP from the current non-tax revenue collection of 2.6 per cent. African countries

FIGURE 4.7. MAJOR NON-TAX REVENUE INSTRUMENTS USED IN 21 AFRICAN COUNTRIES OVER TIME, 2000-2018



Source: Based on data from OECD (2018).

with higher potential could improve their non-tax revenue collection to 15.7 per cent of GDP, about the average in Botswana and Congo.

INSTITUTIONAL, ADMINISTRATIVE AND REGULATORY CHALLENGES

Countries that are well governed anchor their revenue collection activities in transparency. They specify why each type of revenue is collected and how it will be allocated. Regulatory bodies monitor revenue reporting and allocation. Public finance management incorporates non-tax revenue planning into the budgetary process, ensuring that the revenue collected is efficiently allocated (IMF, 2018b). Strong political will is required to develop expertise in core departments and fiscal units. Consistent development of institutions over time lays the foundation for more efficient and effective collection and allocation of non-tax revenue.

Many of these conditions are absent in African countries, where increasing revenue collection from non-tax sources requires addressing a host of challenges (IMF, 2015). Revenue institutions are generally weaker in Africa than in emerging market and advanced economies, making for an unfavourable administrative and regulatory environment for non-tax revenue. Unlike the case for tax mobilization, there are often no systematic processes for non-tax revenue administration. In most countries, it is unclear where non-tax revenue originates, who pays them and when. In addition, friction between central and subnational government authorities is common, especially in the retention and transfer of non-tax revenue.

The combination of poor governance and inadequate infrastructure for collecting revenue at different government levels presents a major hurdle to effective resource mobilization, especially outside the main urban centres. For instance, Angola is a large country with extremely limited infrastructure and under-supported education and health systems except in small pockets where the elite live. Infrastructure is a barrier to mobilization of both tax and non-tax revenue in Angola (ECA, 2018f) and inhibits outreach to taxpayers and compliance with revenue collection (ECA, 2018e). Other common challenges include lack of capacity and ethical standards in institutions. Structural challenges include corruption, political instability, lack of government effectiveness, widespread inequality and large informal sectors. Forgone non-tax revenue is enormous in countries with a large informal sector, such as Benin. Angola is working to formalize more of the informal sector and increasing decentralization of revenue collection (ECA, 2018f).

INSTITUTIONAL AND ADMINISTRATIVE ISSUES

Inefficient collection of non-tax revenue and its misallocation are common in some African countries, reflecting a lack of systematic, transparent, accountable, coordinated and regularly monitored data compilation (Hodler and Raschky, 2015). This results in a lack of clarity about the amount of revenue collected and its allocation and increases the potential for misuse and corruption, thus weakening incentives to better report non-tax revenue. Resource-rich economies, in particular, often suffer from bad governance and low tax revenue because they can rely on their natural resources for non-tax sources of revenue.

A severe weakness in many non-tax revenue systems is the failure of some agencies to report all the non-tax revenue they collect. In Sudan, where non-tax revenue accounted for just 3 per cent of government revenue in 2017, a government-commissioned report found that the major constraint affecting the proceeds of fees, royalties and other charges was revenue retention within collecting units (ECA, 2018g). The report recommended levying heavy penalties on government units and individuals that abuse their position and mishandle revenue. A lack of efficient and standardized oversight and an absence of well-coordinated public financial systems mean that the revenue contributions of the more than 40 public corporations are negligible.

In South Africa, despite a multitude of non-tax revenue instruments (interest and dividends from state enterprises and other public entities, administrative charges, driver licences, fees on sales of goods and services, mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets), non-tax revenue constituted only about 2.6 per cent of consolidated budget revenue in 2017 (ECA, 2018i).

In Ghana, non-tax revenue collection has been rising in amount and as a proportion of public revenue, surpassing 14 per cent every year since 2000 (ECA, 2018j). According to public officials, non-tax revenue is the future of government revenue. A recent policy change allows public authorities to retain 66 per cent of non-tax revenue collected to finance agency operations and requires them to transfer the rest to a common account. Ghana managed to boost revenue collection without unduly burdening residents by introducing flexible payment arrangements for fees, fines and charges (ECA, 2018j). Setting predictable and realistic non-tax revenue targets and monitoring collections can also improve revenue performance, and so can setting a regular schedule of rate reviews, as is done for taxes, to rationalize and streamline complex non-tax revenue systems (ECA, 2018a).

FISCAL DECENTRALIZATION

Fiscal decentralization, which devolves varying degrees of revenue mobilization and spending powers to lower levels of government, could contribute considerably to non-tax revenue mobilization (Bird and Vaillancourt, 1998). Greater revenue autonomy for subnational governments could enhance public service delivery by increasing the accountability and transparency of policy makers and service providers and making them more responsive to local preferences and needs (Elhiraika, 2007; see box 4.2 on fiscal decentralization in South Africa). In developed economies, revenue decentralization facilitated the move from an emphasis on taxes to more reliance on user charges, which function as a price signal that helps to improve the economic efficiency of public service delivery and government resource allocation (Feld, Kirchgasser and Schaltegger, 2003).

There is a lack of coherence, coordination and commitment to the smooth and efficient administration and management of non-tax revenue among levels of government, as the country case studies and the literature show (Burgess et al., 2015; Hodler and Raschky, 2015; Ilorah, 2009). The relationships among these centres of power are often warped by nepotism and favouritism along political party lines, ethnic affiliation, commercial ties and the like. There are also inefficiencies due to capacity constraints, lack of regulatory frameworks and failures in policy direction. For instance, there are often delays in sending funds to other levels of government, disturbing budgetary processes and service delivery at the subnational level, which relies heavily on transfers from the central government to finance infrastructure and services. There

BOX 4.2. FISCAL DECENTRALIZATION IN SOUTH AFRICA

The South African federal system has devolved considerable expenditure responsibilities and administration authority to provincial and municipal governments. However, owing to acute historical imbalances across provinces and municipalities, constitutional and institutional arrangements allow for extremely limited revenue autonomy. For instance, provincial governments are responsible for 43 per cent of public sector expenditure, while their own-source revenue represents only 4 per cent of their total revenue and 2 per cent of total public revenue.

In other developing countries globally, own-source revenue accounts for an average of 58 per cent of subnational government revenue.

Accordingly, own-source revenue does not play the expected positive role in stimulating efficiency in public service delivery. Increased fiscal decentralization and greater revenue autonomy could lead to improved service delivery by enhancing transparency and shifting accountability from the central government to the local level, which is closer to the people being served.

Source: Elhiraika (2007).

are also communication and coordination failures between government departments at the same level. The lack of clarity, consultation and cooperation erodes trust in public institutions and thus weakens their authority.

Lack of clarity about the degree of autonomy granted to local government authorities exacerbates the arbitrariness of non-tax revenue collection. Absent sound management structures, local governments have used multiple fees, fines and charges almost at will, opening up opportunities for mismanagement and arbitrary action by corrupt bureaucrats. Thus, in addition to building institutional, administrative and regulatory mechanisms for the efficient collection and allocation of non-tax revenue, governments need to establish a strong legal framework to work against corruption.

In Zimbabwe local authorities sometimes retain revenue that is intended to flow to the central government (ECA, 2018h). Among the reasons for this behaviour are the absence of appropriate legal arrangements and the failure of the central government to transfer resources intended for local authorities. In addition, Zimbabwe levies a range of fees and other charges on citizens for basic utilities and services that should be free—and that are often substandard in quantity and quality. Consumers who object to the poor delivery or refuse to make further payments until service improves are often assessed penalties.

The design of a well-functioning subnational revenue system is complex but could be rewarding for local development. An amicable and fair relationship between levels of government is essential for the smooth transfer of grants and other funds from the centre (Bird and Smart, 2002; Martinez-Vázques and Smoke, 2010). Most efforts at fiscal decentralization have focused on devolution of taxing and spending power, so there is limited evidence on the impact of decentralization of non-tax revenue collection and spending.

Greater revenue autonomy for subnational governments could enhance public service delivery by increasing the accountability and transparency of policymakers and service providers.

GOVERNANCE OF REVENUE FROM NATURAL RESOURCES

An encouraging development in revenue management is the number of African countries that have signed on to the Extractive Industries Transparency Initiative (EITI), which seeks to increase the transparency of government revenue collection and spending and thus to increase public understanding of how revenue is collected and spent. The initiative, which relies on voluntary compliance, sets standards for revenue disclosure primarily for non-tax revenue sources such as royalties, dividends, license fees, rental fees, entry fees, and any other substantial payments and material benefits to government. The focus on extractive industries has been instrumental in increasing revenue disclosure by resource-rich countries.

To date, compliance has been uneven. For instance, Nigeria's EITI audits in 2016 revealed inconsistencies and delays in dividend payments on transfers from the state-owned Nigerian National Petroleum Corporation and the government (EITI, 2016). Several countries have been suspended from EITI in recent years for compliance failures, including Central African Republic from 2013 to 2015, Côte d'Ivoire from 2012 to 2014 and Madagascar from 2011 to 2014.

However, compliance by most African countries is improving, including in Côte d'Ivoire since 2014, where peace and economic development are restoring lost gains. Overall, the current situation and future outlook are positive for Burkina Faso, Chad, Ghana, Liberia, Malawi, Mauritania, Mozambique, Niger, Nigeria, Togo and Zambia.

While signing onto the EITI is a good start, for non-tax and other revenue streams to have a transformational impact requires integrity in reporting revenue streams on the part of political leadership, multinational firms and all stakeholders. The payments made to governments by resource-extracting companies should be fully reported and monitored by both parties. Civil society organizations can exert pressure to see that this happens, and their activities should be respected and protected. Governments need to cooperate with civil society organizations to make the initiative more effective.

By addressing institutional challenges (for example, solving the coordination problem among institutions in recording and reporting revenue), building a culture of transparency and accountability and improving reporting of non-tax revenue at a disaggregated level, countries could advance sustainable growth in Africa.

...the current voluntary compliance situation and future outlook are positive for countries such as Burkina Faso, Chad, Ghana, Liberia, Malawi, Mauritania, Mozambique, Niger, Nigeria, Togo and Zambia.

POLITICAL ECONOMY ISSUES

Several political economy issues affect the volume and volatility of non-tax revenue. For example, changing donor priorities can reduce funds for budget support and other development funds, while the suspension or removal of African countries from the Generalized System of Preferences can reduce revenue. Other political economy issues that affect non-tax revenue mobilization are the provisions in complex mineral agreements governing royalty payments and contract renegotiation, capital flight and money laundering.

CONCLUSIONS AND POLICY IMPLICATIONS

African governments are facing rising debt as well as an increased need for financing to achieve the SDGs and Agenda 2063. Efforts to improve revenue collection need to focus on non-tax revenue mobilization as well as taxes in a search for innovative ways to finance development. Many domestic resource mobilization efforts have concentrated on boosting tax revenue and improving the administrative efficiency of tax institutions; little systematic attention has gone to non-tax revenue collection.

Non-tax revenue contributes significantly to government revenue in Africa, averaging 4.5 per cent of GDP, yet a majority of countries collect below their potential, with an average non-tax revenue effort of 0.64. Improving countries' collection efficiency in low-collecting countries in particular could boost their average non-tax revenue to 4.5 per cent of GDP, from the average 2.6 per cent.

Though countries use a wide range of non-tax revenue instruments (from levies on natural resources extraction to pollution fees), innovation and diversification of instruments are inadequate in most countries. The heterogeneity of country contexts and the complexity of non-tax revenue frameworks mean that solutions are best developed on an individual country basis. Countries should design non-tax revenue instruments that best match their economic structure, development objectives and target groups.

Diversification requires attention to consequences. For instance, user charges have wide-ranging welfare impacts. The OECD (1998) has identified best practice guidelines for implementing user charges that can be adapted to the context in which they are introduced: clear legal authority, iterative consultation with users, knowledge of full costs, effective and efficient collection system, monitoring of organizational performance, treatment of receipts, pricing strategies, equity considerations (are the planned instruments regressive or progressive?) and competitive neutrality.

Countries need to establish the right mix in public financing among taxes, grants, intergovernmental transfers and user charges that will result in sustainable and predictable revenue streams. Due diligence, clear guidelines and built-in regulatory systems are needed to design an effective structure of non-tax revenue. Chad and other countries that have recognized the fiscal importance of mobilizing non-tax revenue are putting such policies in place (ECA, 2018a).

Improving countries' collection efficiency could boost their average non-tax revenues to 4.5 per cent of GDP, from 2.6 per cent.

Countries must also prepare for the volatility of non-tax revenue. Commodity prices fluctuate, and grants and miscellaneous sources of non-tax revenue are hard to predict or plan for. Prudent financial management practices can help buffer the impact of volatile non-tax revenue.

Other reforms are also needed to strengthen non-tax revenue mobilization, including investment in infrastructure, better reporting of non-tax revenue collection and clearer relationships between the centre and subnational authorities. Countries need to adapt international standards for non-tax revenue mobilization to their individual context and apply good governance practices to improve institutions, policies, and regulatory and administrative processes.

Countries need to establish the right mix in public financing among taxes, grants, inter-governmental transfers and user charges that will result in sustainable and predictable revenue streams.

ANNEX 4.1 VOLATILITY IN NON-TAX REVENUES

TABLE A4.1. SUMMARY OF TRENDS AND VOLATILITY IN NON-TAX REVENUES AS A SHARE OF GDP, 1997–2018

COUNTRY	*TREND*	*DEGREE OF VOLATILITY*
Algeria	Rising	Low
Angola	Constant and below 5 per cent (not improving)	Low
Cameroon	Declining	Low
Central African Republic	Declining	Low
Côte d'Ivoire	Rising but at low levels	Low
Mozambique	Rising steadily	Low
Rwanda	Steadily rising	Low
Botswana	Declining but still above 10 per cent	Moderate
Burkina Faso	Declining then rising slightly	Moderate
Cabo Verde	Rising	Moderate
Egypt	Declining	Moderate
Eswatini	Dramatic decline	Moderate
Gabon	Slightly rising but at very low level	Moderate
Gambia	Rising steadily	Moderate
Ghana	Rising slightly	Moderate
Equatorial Guinea	Declining steadily	Moderate
Kenya	Declining	Moderate
Lesotho	Erratic and declining recently	Moderate
Mauritius	Declining	Moderate
Morocco	Rising	Moderate
Niger	Rising	Moderate
Nigeria	Sharp decline but few data points	Moderate
Senegal	Rising steadily	Moderate
Sierra Leone	Erratic	Moderate
South Sudan	Rising but only five data points	Moderate
Sudan	Declining recently	Moderate
Tanzania	Declining	Moderate
Zambia	Rising	Moderate
Benin	Erratic but rising the last few years	High
Burundi	Declining	High
Chad	Rising	High
Congo	Declining	High
Comoros	Rising	High
Democratic Republic of the Congo	Rising	High
Djibouti	Rising	High
Eritrea	Declining but with few data points	High
Ethiopia	Declining	High
Guinea	Erratic at low levels	High
Guinea-Bissau	Erratic but mainly on declining trend	High
Liberia	Erratic and declining recently	High
Madagascar	Erratic but rising recently	High
Malawi	Erratic but rising recently	High
Mali	Rising erratically at low levels	High
Mauritania	Erratic but rising	High
Namibia	Erratic and declining recently	High
Seychelles	Declining	High
South Africa	Declining recently and at a low level	High
Togo	Erratic	High
Tunisia	Declining	High
Uganda	Erratic	High
Zimbabwe	Declining	High

Source: Based on data from ICTD and UNU-WIDER (2018), accessed in September 2018.

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