



African Development Perspectives



Yearbook 2024/25

FISCAL CAPACITY AND RESOURCE MOBILIZATION IN AFRICA – NEW STRATEGIES AND NEW INSTRUMENTS

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**Fiscal Capacity and Resource
Mobilization in Africa –
New Strategies and New Instruments**

African Development Perspectives Yearbook

Edited by the

Research Group on African Development Perspectives Bremen:

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The Research Group on African Development Perspectives Bremen

The uneven growth in Africa, the lack of inclusive development in most of Africa, and the aggravating social, political, and economic crisis in some countries of the African continent require new policy initiatives. These developments force institutions, organisations, researchers, development practitioners, ad hoc working groups, and networks being active on Africa, and all others involved in African development affairs to intensify the analytical and conceptual work on alternative development visions and designs for Africa. There exist so many development plans and restructuring programmes, strategy conceptions, research outlines on specific issues, and ideas for coherent policy action and innovative projects in Africa. Publications on Africa's development perspectives are focussing on the role of specific African crisis factors and structural impediments, but also on the new forces which are working towards inclusive growth and sustainable development. There is new emphasis on Africa's recent growth dynamics, and there is great interest to understand the opportunities and chances for structural adjustment and transformation. Now, the major theme for Africa is how to shoulder the digital transformation. Also, the issues of revitalizing development planning in Africa, of managing deep structural change beyond caring merely for macroeconomic policy adjustment, and of responding to the new globalisation trends are intensively discussed. The discussion which is referring to Africa's development problems and perspectives is indeed widening - as new digital media are becoming more important, as Africa heads towards the African Continental Free Trade Area (AfCFTA), and as African sources get a greater global influence. However, it is difficult to get an overall view of the different approaches, initiatives, and proposals and, subsequently, to make the discussion useful for the coordination of development policies and for moving towards new avenues in development cooperation. So, there is still a need for a comprehensive publication that compiles, evaluates, and analyses the scattered material and the often not easily available sources on Africa's development. Most important, it is necessary to present a balanced view of the medium to long-term developments facing Africa.

To fill this gap, the *Research Group on African Development Perspectives Bremen*, established at the University of Bremen, Faculty of Economics and Business Studies, is presenting the *African Development Perspectives Yearbook*, being published since Volume 1 on "Human Dimensions of Adjustment" in 1989. Research activities of the group members comprised over the years country case studies and comparative country analyses; studies on macroeconomic policies and strategies, on aspects of labour market policies and

informal sector activities, on human development policies and strategies, on agriculture and food security policies; studies on natural resources development and on environmental policies, but also researches on the promotion of small-scale industries, on private sector development policies, on entrepreneurship development, and assessments of sector and structural adjustment policies, of trade and regional integration policies, as well as reviews of economic diversification and alternative development options. The issues of science, technology, and innovation (STI) policies were also considered in various volumes, but the volumes 20 (2018) and 21 (2019) of the *African Development Perspectives Yearbook* gave a comprehensive analysis of the importance of these STI policies for Africa. The volume 22 (2020/2021) was on the policies to implement the Sustainable Development Goal Nine (SDG 9) in Africa. This volume 23 (2022-2023) is on Digital Transformation in Africa, on the rise of digital entrepreneurship, and on the forthcoming digital business opportunities.

In 2019, the thirty years (1989-2019) anniversary of the *African Development Perspectives Yearbook* project was celebrated by the Research Group in Bremen; a Festschrift was published and was distributed to the many contributors and supporters of the project, to media and academia people, to experts of donor agencies and NGOs, and to key policymakers and international experts in Africa. The Festschrift is in its second edition available online. The *African Development Perspectives Yearbook* has become an Open Access Publication, and all the contributions are peer-reviewed. For volume 24 (2024) it was decided by the Editorial Committee to give the focus on the fiscal capacity in Africa, as resource mobilization is increasing in importance (for domestic resource mobilization and for the global components of the resource base). The global changes since the aggression war of Russia against Ukraine impact on energy and food prices, but also affect severely the inflation rates and the perspectives of inclusive growth.

The *African Development Perspectives Yearbook* is now the leading English-language periodical which is published in Germany, and which is relating to the key development problems, development successes, and development perspectives of Africa. African, European, Asian, and American experts from universities, research institutes, international and regional organisations, from the consulting business, from the media, and from non-governmental and donor organisations are reporting on problems and on possible solutions, on new political and economic approaches, on specific economic programmes, and on visions for alternative development paths for Africa. Country cases, sector cases, and project cases highlight the issues of implementing sustainable policies and innovative ventures in Africa. The growing interest of experts from Africa to contribute to the success of the *African Development Perspectives Yearbook* is highly appreciated.

Africa's future will depend on both, on its economic and political connections with the international community at the Pan-African, sub-regional, national, provincial, and sectoral levels, and on local projects and development efforts at the micro and sector level. Most important are own African development visions, programmes, strategies, and policies. The *African Development Perspectives Yearbook* contains information and analyses regarding these various dimensions. Global analyses, regional and country studies, sectoral studies, and individual project evaluations are published in the *African Development Perspectives Yearbook*, as well as statements and declarations on Africa's development perspectives which are submitted as the result of international and regional African conferences. Important documents of African regional organisations, of regional economic communities, of individual African states, of important programmes, projects, and initiatives of African civil society organisations, of African cooperatives, businesses, and social enterprises, and of African self-help groups are also presented.

The *African Development Perspectives Yearbook* has an analytical, comparative and documentary character, but the editors successfully established over the more than three decades of work an extensive network for the exchange of news and information. Thereby the editors of the *African Development Perspectives Yearbook* develop relations with expert networks which are working on Africa, and are connecting with key development organisations, professional associations, and research institutions that are working in and for Africa. The members of the *Research Group on African Development Perspectives Bremen* are interested to deepen the contacts with partners in and outside of Africa who are sharing similar objectives. The *African Development Perspectives Yearbook* is targeted to political and executive decision-makers, to project and research personnel in development policy institutions, and to experts and staff members in project development offices, consultancies, media, research and development agencies, donor agencies and aid institutions, and to all others being interested in Africa's development perspectives.

The *African Development Perspectives Yearbook* offers comprehensive analyses and information about recent developments regarding the African continent, but the central focus is on Africa's development perspectives. Thus, the *African Development Perspectives Yearbook* is reporting on

- visions and conceptions regarding the long-term development strategies for Africa,
- strategies that emphasize a longer-run planning process that goes beyond conventional structural adjustment policies,
- successful projects and programmes concerning countries, regions, institutions, or specific sectors of African economies, by analysing the conditions of their success,

- resourceful and creative activities of socio-economic interest groups, of local development initiatives, and of NGOs, which could serve as models being of relevance for other regions,
- innovative strategies for structural change, digital transformation, and prospects of regional integration in Africa, and on
- economic, social, and political trends in Africa's sub-regions, nation-states, provinces, municipalities, and local communities.

The *African Development Perspectives Yearbook* uses sources and information from all relevant levels of action, policymaking, planning, academic discussion, and scientific research, i.e., from international, regional, and national organisations and institutions, committees, working groups, and NGOs, but of key relevance for the research work are those ideas and approaches which are originating from Africa.

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Selection of Projects of the Research Group on African Development Perspectives Bremen: http://www.iwim.uni-bremen.de/africanische_entwicklungsperspektiven_research_group/

Access for Download to the Festschrift “Thirty Years of the African Development Perspectives Yearbook (1989 – 2019):

To the Library System of the University of Bremen:

<https://media.suub.uni-bremen.de/handle/elib/4652?locale=de>

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Foreword and Acknowledgements

This Volume 24 (2024/2025) of the *African Development Perspectives Yearbook Volume* with the title “Fiscal Capacity and Resource Mobilization in Africa – New Strategies and New Instruments” focusses on the issues of fiscal states in Africa, on taxation and resource mobilization, and on strategies to increase the fiscal capacity of African countries. In four Units (parts of the Yearbook volume 24) key issues of fiscal development and reconstruction in Africa in times of multiple world crises are presented.

Unit 1 on General Issues presents six essays, starting with an introduction, then an analysis of precolonial, colonial and postcolonial taxation systems in Africa, followed by three country case studies on fiscal capacity development (Tunisia, Cameroon, and Uganda), and the Unit 1 is concluding with an essay on new instruments and tools for assessing and monitoring the finance of social expenditures in North Africa. We are very thankful to the co-editor of the unit, Walid Abdmoulah, the Deputy Director and Senior Researcher at the Arab Planning Institute in Kuwait City, Kuwait State. We are also very thankful to the authors Abel Gwaindepi, of the Danish Institute of International Studies (DIIS) and Lund University; Patrick Sunday Kayongo of the Universität Duisburg-Essen, Germany; Ngo Tong Chantal Marie of the University of Garoua, Cameroon; Awah Ambe Harvey of the University of Garoua, Cameroon; Niranjan Sarangi of the United Nations Economic and Social Commission for Western Asia (UN-ESCWA); Dana Hamdan of the Shared Economic Prosperity Cluster at UN-ESCWA; and Nathaniel Martin of the Shared Economic Prosperity Cluster at UN-ESCWA for their contributions.

Unit 2 on the Fiscal State of Senegal presents six essays which are focussing on various aspects of fiscal capacity development in the country, covering an introduction and five essays on the potentials of domestic resource mobilization in African countries, on the tax and revenue structures of Senegal, on new approaches to streamline the “tax expenditures” in Senegal towards development priorities, and on policies for extending good governance to local fiscal authorities in Senegal. We are very thankful to the unit editors Seydi Ababacar Dieng a professor at the Cheikh Anta Diop University in Dakar, Senegal and the Director of the “Laboratoire de recherches économiques et monétaires (Larem)”, and Ulrike Schuerkens a professor at Université Rennes 2, Rennes, France and Research Coordinator of “ManaGlobal: Globalized Governance Norms and Local Business Practices”. We are also very thankful to the authors Mbaye Diene of Cheikh Anta Diop University in Dakar Amath Diago of the University of Dakar and the National Agency for Statistics and Demography of Senegal; Issa Faye of the Cheikh Anta Diop University in Dakar; Dame Thiam of the Forecasting and Economic Studies Department in Dakar; and Ousmane Ly of the Virtual University of Senegal in Dakar.

Unit 3 has two contributions on the *Special Theme “COVID-19 and Fiscal Policy in Africa”*, to discuss the role of fiscal policy and of other policy interventions to overcome the impacts of COVID-19 and to restore the fiscal capacity in Africa after the pandemic. Highlighted are the different clusters in Africa when looking at the initial conditions and the policy interventions to respond to the shock of COVID-19. The fiscal policy interventions differ by countries and regions and along the identified clusters. The introduction to the *Unit 3* presents a discussion about the various avenues of development research and policy actions on the pandemic in Africa, while the major essay on the *Special Theme* presents a methodological frame for cluster identification. We are very thankful to the editors and authors Philippe Burger, Professor, Dean of the Faculty of Economic and Management Sciences and Deputy Vice-Chancellor at the University of the Free State in Bloemfontein, South Africa and *Samantah Joy Cinco*, PhD Researcher at Fulda University of Applied Sciences, Germany and University of the Free State in Bloemfontein.

Unit 4 presents *book reviews and book notes* for publications in the context of fiscal states in Africa, but it also covers major publications on Africa in the global, regional, and national contexts. There are book reviews and book notes of publications on vital issues of Africa’s development perspectives, and on major global and regional economic development reports. As usual, the *Unit 4* presents major studies and documents from the global to the local economic developments. The reviewers relate the content and the main arguments from the publications and the research works to policy lessons for the benefit of Africa’s policymakers in nation states and regional economic communities and of ODA staff. We are very thankful to the co-editor *Samia Satti Osman Mohamed Nour* a Full Professor at University of Khartoum, Sudan and currently Visiting Professor at Fulda University of Applied Sciences, Germany. Since the publication of Volume 1 in 1989 we have reviewed the international African reports from global and African sources in Volume 24 we update this collection with 5 key reports (Economic Report on Africa, Economic Development in Africa, African Economic Outlook, Africa’s Development Dynamics, Africa Sustainable Development Report) this analysis on the key reports was welcomed by readers journalist and authors. These five reports show the policy focus of international development for Africa the African development perspective yearbook is in this context of great interested because all the 24 issues are related to the international African reports.

Volume 24 (2024/2025) of the *African Development Perspectives Yearbook* is an important publication as it gives an overview of the characteristics of the fiscal state in Africa; the contributions allow the reader to better understand the structural characteristics and the policy initiatives in African fiscal states. In country case studies the issues of domestic resource mobilization and the fiscal policy reactions of African countries to the multiple crises impacting the continent are discussed. Key issue in these times of crises is it to make the fiscal policy framework more

resilient in the process of strengthening the fiscal capacity. The book is available as a hardcopy, as an E-book, and in an Open Access format.

In the name of the Editorial Team:

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List of Abbreviations and Acronyms

3FPT	Vocational and Technical Training Financing Fund
AAAP	African Agricultural and Agribusiness Policies
ABMS	Agreement on Bio-risk Management Standards
AD	Anno Domini
ADB	Asian Development Bank
ADEPME	Agency for the Development and Support of Small and Medium-sized Enterprises
ADF	Augmented Dickey-Fuller test
ADM	Agence De Développement Municipal
ADPY	African Development Perspectives Yearbook
AECID	Agencia Española de Cooperación Internacional para el Desarrollo/Spanish Agency for International Development Cooperation
AEHN	African Economic History Network
AfCFTA	African Continental Free Trade Area
AFD	Agence Française de Développement
AfDB	African Development Bank Group
AFOLU	Agriculture, Forestry, and Other Land Use
AFSMF	Arab Food Security Monitoring Framework
AGIL	Société Nationale de Distribution des Pétroles
AGRICA	Climate risk analyses for adaptation planning in sub-Saharan Africa
AI	Artificial Intelligence
AIBD	Aéroport International Blaise Diagne/ Diamniadio and Blaise Diagne International Airport
AIC	Akaike Information Criterion
AMMC	Autorité Marocaine du Marché des Capitaux/Moroccan Capital Market Authority
ANOVA	analysis of variance
ANPEJ	Agence Nationale pour la Promotion de l'Emploi des Jeunes
ANPJ	National Agency for the Promotion of Young People

ANSD	Agence Nationale de la Statistique et de la Démographie/ National Agency of Statistics and Demography
APA	African Press Agency
API	Arab Planning Institute (in Kuwait City)
ARD	Regional Development Agencies
ARD-K	Agence régionale de développement (de Kolda)
ASYCUDA	Automated System for Customs Data
ATAF	African Tax Administration Forum
AU	African Union
AUC	African Union Commission
AVSF	Agronomes et Vétérinaires Sans Frontières
BAD	Banque Africaine de Développement
BBB-	Specific equity risk rating
BBC	British Broadcasting Corporation
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest Central
BCI	Consolidated Investment Budget
BEAC	Banque des Etats de l'Afrique Centrale
BEPS	Base Erosion and Profit Shifting (project)
BIS	Bank for International Settlements
BMJ	British Medical Journal
BRICS	Brazil, Russia, India, China, South Africa (group of countries)
BRT	Bus Rapid Transit
BTA	Bons du Trésor Assimilables
BTP	Building and Public Works
BTU	British Thermal Units
BUPED	Bulletin de Politique Economique et Développement
CAMAIR-Co	Cameroon Airlines Corporation
CAPEC	Cellule d'Analyse de Politiques Economiques du Cires. Côte d'Ivoire
CAR	Central African Republic
CARI	Consolidated Approach for Reporting Indicators
CASE	Central African Stock Exchange
CATG	Central Africa Tax Guide

CBAM	carbon border adjustment mechanism
CBoWAS	Central Bank of West African States
CBS	Copenhagen Business School
CBT	Central Bank of Tunisia
CCRI	Children's Climate Risk Index
CD	Code des Douanes, Customs Code
CD	Communicable diseases
CDC	Cameroon Development Corporation
CEDIMES	Centre d'Etudes sur le Développement International et les Mouvements Economiques et Sociaux
CEE	Central and Eastern European (countries)
CEEAC	Communauté Économique des États de l'Afrique Central
CEMAC	Communauté Economique et Monétaire de l'Afrique Central/Central African Economic And Monetary Community
CEP	Council on Economic Policies
CEPI	Cameroon Economic Policy Institute
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CEPR	Centre for Economic Policy Research (London, UK)
CEQ	Commitment to Equity (model)
CERDI	Centre d'Etudes et de Recherches sur le Développement International
CET	Common External Tariff
CETOM	Committee for the removal and processing of household waste
CFA	Community Financiere Africain
CFA Franc	Franc de la Communauté Financière d'Afrique
CFAF	Communauté Financière d'Afrique Francs
CFPB	contribution foncière des propriétés bâties/ Flat-rate contribution for built-up properties
CFPNB	contribution foncière des propriétés non-bâties/ Property tax on non-built properties
CGE	Computable General Equilibrium (model)
CGEM	Computable General Equilibrium Model
CGI	Code Général des Impôts/ General Tax Code

CGU	Contribution Globale Unique/ Global Unique Contribution
CH	Cadre Harmonise
CIDA	Canadian International Development Agency
CINAFIL	Comité Interprofessionnel des Acteurs de la Filière Lait Local
CIP	Centre for Public Integrity
CIT	Corporate Income Tax
CLE	Center for Large Enterprises (Senegal)
CMI	Chr. Michelsen Institute
CNN	Cable News Network, Atlanta
CNX	OpenStax CNX (cnx.org) content platform for free and open use of materials
CO2	Carbon dioxide
COFOG	Classification of the Functions of Government
COMESA	Common Market for Eastern and Southern Africa
COP	Conference of the Parties (in climate negotiations)
COP15	Conference of Parties 15 (to the Climate Agreements)
COVID-19	Corona Virus Disease 2019
CPIA	Country Policy and Institutional Assessment
CRE	Centre régional d'Excellence
CROP	Comparative Research Programme on Poverty
CRZ	Centre de Recherche Zootechnique
CRZ-K	Centre de Recherches Zootechniques de KOLDA
CSE	Cameroon Stock Exchange
CSF	Collective Security Framework (CSF)
CSO	Civil Society Organisation
CT	Corporate Tax
CTDs	Collectivités Territoriales Décentralisées
DAC	Development Assistance Committee (of OECD)
DAI	Digital Adaptation Index
DCFTA	Deep and Comprehensive Free Trade Agreement
DD	Douanes et Droits
DEF	Decentralisation Endowment Fund

DEFI	Documentos de Economía y Finanzas Internacionales
DER	Rapid Entrepreneurship Department
DGB	Direction Générale du Budget
DGCPT	Direction générale de la Comptabilité Publique et du Trésor/ General Directorate of Public Accounting and Treasury
DGD	Direction Générale des Douanes
DGI	Direction Générale des Impôts
DGID	Direction des Impôts et Domaines/ Directorate General of Taxes and Domains
DGT	Directorate General of Taxation
DGTCFM	Directorate General of the Treasury, Financial and Monetary Cooperation
DGTD	Directorate General of Taxes and Domains
DIIS	Danish Institute of International Studies
DIRFEL	Directoire Régional des Femmes en Elevage (de Kolda)
DOI	Digital Object Identifier
DP	Democratic Party
DPEE	Direction de la Prévision et des Etudes Economiques/ Directorate of Forecasting and Economic Studies
DR Congo	Democratic Republic of Congo
DRC	Democratic Republic of Congo
DRM	domestic resource mobilization
DRM	Domestic Revenue Mobilization
DRMS	Domestic Revenue Mobilization Strategy
DSA	Debt Sustainability Analysis
DSGE	Dynamic stochastic general equilibrium (model)
DTS	Digital Tracking Solution
E. Asia	East Asia
EAC	East African Community
EADI	European Association of Development Research and Training Institutes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EC	European Commission
ECA	Economic Commission for Africa

ECAM	Enquête Camerounaise Auprès des Ménages
ECCAS	Economic Community of Central African States
ECDPM	European Centre for Development Policy Management
ECF	Extended Credit Facility (by IMF)
ECI	Economic Complexity Index
EDAR	Economic Development in Africa Report
EEC	European Economic Community
EFF	Extended Fund Facility (by IMF)
EFG	Overall fiscal effort
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
EFVi	Time-invariant fiscal effort
EFVit	Time-varying fiscal effort
EGP	Egyptian Pounds
EHCVM	Enquête harmonisée sur les Conditions de Vie des Ménages
EIC	Economic Interest Grouping
EITI	Extractive Industries Transparency Initiative
ENDA	Environnement et développement Tiers Monde/Environnement, Développement et Action dans le Tiers Monde
EOC	Economic Opportunities Commission
EPIC	établissement public à caractère industriel et commercial/ Industrial and Commercial Public Establishments
EPRC	Economic Policy Research Centre
ERA	Economic Report on Africa
ERF	Economic Research Forum
ESCWA	United Nations Economic and Social Commission for Western Asia
ESDR	Europe Sustainable Development Report
ESID	Effective States and Inclusive Development (Research Centre)
ESP	Emerging Senegal Plan
ESPS	Enquête de Suivi de la Pauvreté au Sénégal/ Senegal Poverty Monitoring Survey
E-tax	electronic tax
ETP	Energy Technology Perspectives

ETR	Ecological Threat Report
EU	European Union
EUROMOD	tax-benefit microsimulation model for the European Union
EV	electric vehicle
FAO	Food and Agriculture Organization of the United Nations
FAT	Financial Activities Tax
FCFA	Franc de la Communauté Financière d'Afrique/Franc of the Financial Community in Africa, currency of the West African CFA franc
FCHS	Fourth Cameroon Household Survey
FCT	Federal Capital Territory (Abuja, capital of Nigeria)
FDD	Fonds de dotation de la décentralisation/Decentralization Endowment Fund
FDI	Foreign Direct Investment
FE	fiscal expenditures
FECL	Fonds d'Equipement des Collectivités Locale/ Local Government Capital Fund
FECT	Fonds d'équipement des collectivités territoriales
FEDEMU	Federal Democratic Movement of Uganda
FELD	Food, Environment, Land and Development
FEPS	Foundation for European Progressive Studies
FERDI	Fondation pour les études et recherches sur le développement international/ Foundation for International Development Study and Research
FES	Friedrich-Ebert-Stiftung
FEWS NET	Famine Early Warning Systems Network
FF	Fiscal potential
FIPECO	Finances Publiques et Economie
FMI	Fonds Monétaire International
FMNR	Farmer Managed Natural Regeneration (programme)
FOLU	Food and Land Use (Coalition)
FP2P	From Poverty to Power (blog)
FPE	Final Prediction Error (criterion)
FSIN	Food Security Information Network

FUNA	Former Uganda National Army
FY	Fiscal Year
G20	Group of Twenty
G7	Group of 7 economic powers
GAFF	Global Alliance for the Future of Food
GCC	General Customs Code
GDC	General Directorate of Customs
GDP	Gross Domestic Product
GDS	gross domestic savings
GDTD	General Directorate of Taxes and Domains
GESP	Growth and Employment Strategy Paper
GFA	Global Financial Architecture
GFS	Government Finance Statistics (data series of IMF)
GFSM	Government Finance Statistics Manual
GHG	greenhouse gas (emissions)
GICAM	Groupement Inter-Patronal du Cameroun
GIZ	Gesellschaft für Internationale Zusammenarbeit/German International Cooperation Corporation
GMM	Generalized Method of Moments
GNI	Gross National Income
GOBs	Government Bonds
GPG	global public good
GPI	Global Peace Index
GPS	Global Positioning System
GPT	Graduated Personal Tax
GRD	Government Revenue Dataset (data series of UNU-WIDER)
GRFC	Global Report on Food Crises
GRIP	Global Research Programme on Inequality
GSC	global supply chain
GST	Goods and Services Tax
GTC	General Tax Code
GUC	Global Unique Contribution/
GUCE	Guichet Unique Des Operations du Commerce Exterieur

GW	gigawatt
GWh/year	Gigawatt-Hour per year
H	hypothesis
HCCT	High Council of Territorial Authorities
HCLA	High Council of Local Authorities
HDI	Human Development Index
HDR	Human Development Report
HES	Health, education, and social protection
HICs	high-income countries
HIPC	Heavily Indebted Poor Countries (initiative)
HLABEM	High-Level Advisory Board on Effective Multilateralism
HNO	Humanitarian Needs Overviews
HQ	Hannan-Quinn criterion
HWCT	Household waste collection tax
IATI	International Aid Transparency Initiative
IBP	International Budget Partnership
IBRD	International Bank for Reconstruction and Development
ICG	International Crisis Group
ICT	information and communication technologies
ICTD	International Centre for Tax and Development
IDB	Inter-American Development Bank
IDS	Institute of Development Studies
IEA	International Energy Agency
IEP	Institute for Economics and Peace
IEPR	Institute of Economic Policy Research
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFIs	international finance institutions
IfW	Kiel Institute of World Economics
IIRR	International Institute of Rural Reconstruction
IITRMP	Improving Integrated Tax Revenue Management Procedures (Project)
ILO	International Labour Organisation

IM	impôt minimum
IMF	International Monetary Fund
IMF METAC	IMF Middle East Regional Technical Assistance Centre
INS	Institut National de la Statistique du Cameroun/National Statistics Institute of Cameroon
IOM	International Organization for Migration
IOP	Institute Of Physics, Bristol, UK
IPC	Integrated Food Security Phase Classification IPC
IPCC	Intergovernmental Panel on Climate Change
IPPIS	Integrated Payroll and Personnel Information System
IR	Impôt sur le Revenu
IRA	Inflation Reduction Act
IS	Impôt sur les sociétés
ISBN	International Standard Book Number
ISC	International Science Council
ISER	Institute for Social and Economic Research
ISIMIP	Inter-Sectoral Impact Model Intercomparison Project
ISO	International Organization for Standardization (codes)
ISSN	International Standard Series Number
IT	Income Tax
ITC	International Trade Centre
ITIE	Initiative pour la transparence dans les industries extractives
JRC	Joint Research Centre (EU Science Hub in Seville)
K-means	Clustering method to partition n observations into k clusters
KPMG	Klynveld, Peat, Marwick, Goerdeler (founders of international advisory company KPMG)
KPSS	Kwiatkowski-Phillips-Schmidt-Shin test
KY	Kabaka Yekka (KY) party in Uganda
LAC	Local Authorities Code
LAEF	Local Authorities Equipment Fund
LAWS	Lethal Autonomous Weapons Systems
LC	Local Community
LDCs	Least Developed Countries

LED	Local economic development
LI	low income (country group)
LICs	Low-income countries
LLC	Limited Liability Company
LMI	lower middle-income (country group)
LMICs	lower-middle income countries
LNG	liquefied natural gas
LogL	log-likelihood
LONASE	Loterie Nationale Sénégalaise
LPG	Liquified Petroleum Gas
LPI	Logistics Performance Index
LPI	Living Planet Index
LR	likelihood ratio
LSE	London School of Economics
LT	Long Term
LTC	Local Tax Commission
M&E	Monitoring & Evaluation
m ³	cubic metre
MCA	Millennium Challenging Account ((Senegal Compact/Senegal II)
MCS	Matrice de comptabilité sociale
MDA	Municipal Development Agency
MDAs	Ministries, Departments and Agencies (of government)
MDGs	Millenium Development Goals
MDL	Maisons du Développement Local (in Louga)
MEFP	Ministry of the Economy, Finance and Planning/ Ministère de l'Economie et des Finances et du Plan
MEGC	modelo de equilibrio general computable
MENA	Middle East & North Africa
MICs	middle-income countries
MIGA	Multilateral Investment Guarantee Agency
MIMIC	Multiple indicators multiple causes model-based
MINEPAT	Ministry of Economy, Planning and Regional Development (of Cameroon)

MINFI	Ministry of Finance (Cameroon)
MINUSMA	Multidimensional Integrated Stabilisation Mission in Mali
MIT	Massachusetts Institute of Technology (in Cambridge, Massachusetts, USA)
MITR	minimum international tax rate
MoF	Ministry of Finance
MoFPED	Ministry of Finance, Planning and Economic Development
MPE	microentreprises et petites entreprises
MPI	Multidimensional Poverty Index
MPO	Macro Poverty Outlook (MPO for Cameroon)
MPRA	Munich Personal RePEc Archive (Paper)
MPs	Members of Parliament
MSEA	Micro and Small Enterprises Authority
MSEs	Medium and Small Enterprises
MSIs	Multistakeholder Initiatives
MT	metric tons
MT	Minimum tax
mtcars	dataset documentation on motor car functions
MTP	Multistakeholder Transparency Platform
MTRS	Medium-Term Revenue Strategy
n. a.	Not available
n. d. a.	no date available
NAO	National Agricultural Observatory
NASD	National Agency of Statistics and Demography
NATO	North Atlantic Treaty Organization
NB	Nota Bene
NBER	National Bureau of Economic Research
NCC	National Consultative Council
NCD	Non communicable diseases
NDC	Nationally Determined Contributions
NDS	National Development Strategy
NDV	National Development Vision (2035)
NEF	National Employment Fund

NENA	Near East and North Africa
NGO	Non-Governmental Organization
NHC	National Hydrocarbons Corporation
NIS	National Institute of Statistics
NJC	National Joint Council
NPI	Nkafu Policy Institute
NRA	National Resistance Army
NRM	National Resistance Movement
NTPs	net taxable profits
N-W/S-W	North-West and South-West Regions (of Cameroon)
NZEs	net zero emissions
OAT	Obligations Assimilables de Trésor
OBEMA	L'observatoire de l'émergence en Afrique
OCDE	Organisation de Coopération et de Développement Économiques
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OFCE	Observatoire Français des Conjonctures Economiques
ÖFSE	Österreichische Forschungsstiftung für Internationale Entwicklung
OHADA	Organization for the Harmonisation of Business Law in Africa
OLS	Ordinary Least Squares (regression)
OMVS	Organisation pour la Mise en Valeur du fleuve Sénégal
OOP	Out-of-pocket
OPD	Occupation of the public domain (taxes on OPD)
OpenStax CNX	a global repository of educational content
OPM	Oxford Policy Management
OSBP	One stop Border Post
OUP	Oxford University Press
PABs	Private Activity Bonds (Qualified)
PADEL	Projet d'appui au développement économique local/Local Economic Development Support Project

PAMA	PROGRAMME D’APPUI A LA MODERNISATION DE L’ADMINISTRATION
PAMFIP	Programme d’Appui à la Modernisation des Finances Publiques
PAP 2A	Adjusted and Accelerated Priority Action Plan (PAP 2A 2021-2023)
PAP 3	Priority Action Plan 3
PBB	programme-based-budget
PCA	Paris Climate Agreement
PCI	Power Concentration Index
PDEC	PROJET DE DEVELOPPEMENT ECONOMIQUE DE LA CASAMANCE
PDI	Programme de Développement Intégré
PDM	Public Debt Management
PDU	Plan directeur d'urbanisme/Urban Master Plan
PER	Public Expenditure Review
PES	Plan for an Emerging Senegal
PESD	Prevention and Economic Studies Department
PF	Fiscal frontier
PFM	Public Finance Management
PFMA	Public Finance Management Act
PIK	Potsdam Institute for Climate Impact Research
PISA	Programme for International Student Assessment
PIT	Personal Income Tax
PITFs	private international transfer flows
PNBSF	Programme National de Bourses de Sécurité Familiale/ National Programme of Family Security Grants
PNDL	Programme national de développement local/National Local Development Programme
PNUD	Programme des Nations Unies pour le développement
PolSett	Political Settlements (Dataset for Analysis)
PP	Phillips-Perron test
PPI	Private Participation in Infrastructure
PPP	Public Private Partnership
PPPLRC	Public-Private Partnership Legal Resource Center (of the World Bank)

PPR	Positive Peace Report
PRAME	Le Pôle de recherche sur l'Afrique et le monde émergent
PREAC	Business Environment and Competitiveness Reform Program for Senegal (phase three)
PRED A	A local public-private sector dialogue framework within the Regional Development Agency
PREM	Poverty Reduction And Economic Management
PROD AC	Community Agricultural Areas Programme
PRWP	Policy Research Working Paper
PSA	Political Settlements Analysis
PSE	Plan Sénégal Emergent/ Emerging Senegal Plan
PSF	Priority Social Fund
PSI	Political Stability Index
PTAs	preferential trade agreements
PUF	Presses Universitaires de France
PV	photovoltaic
p-value	probability of the occurrence of a given event/within a statistical hypothesis test
PwC	PricewaterhouseCoopers (international advisory company PwC)
Q	Quarter
R	R programming language
R&D	Research & Development
RDF	Revenue Development Foundation (system)
RDI	Revenue Data Integration
RECs	Regional Economic Communities (in Africa)
RePEc	Research Papers in Economics
REPowerEU	Renewable Energy Power European Union (plan)
RGPH-5	General report on the fifth general census of the population, housing, agriculture and livestock
RGPHAE	Recensement général de la population, de l'habitat, de l'agriculture et de l'élevage (General Census of Population, Housing, Agriculture and Livestock)
RN	Route Nationale
ROSCAs	Rotating saving and credit associations
RPM	Regional Programme Manager

RS	Redevance Statistique
RSF	Resilience and Sustainability Facility (of IMF)
RTI	routine-task intensity
RTS	Reference Tax System (Senegal)
S&P	Standard & Poor's (indices and credit ratings)
SADCC	Southern African Development Coordination Conference
SAFE	Sustainable Architecture for Finance in Europe
SAM	Social Accounting Matrix
SAP	Structural adjustment programme
SARA	Semi-Autonomous Revenue Administration
SARAs	Semi-Autonomous Revenue Authorities
SC	Schwarz (Information) Criterion
SCF	Strategic Climate Fund
scf	standard cubic feet
SDG	Sustainable Development Goal
SDR	Sustainable Development Report
SDSN	Sustainable Development Solutions Network
SEF	Situation Economique et Financière/ Economic and Financial Situation
SEM	Social Expenditure Monitor
SF	Statistical Fee
SFA	Stochastic Frontier Approach
SFS	Social foundation size
SGBV	Sexual and gender-based violence
SGC	Single global contribution
SIDS	Small Island Developing States
SJBMS	Saudi Journal of Business and Management Studies
SL	Statistical levy
SMEs	Small and Medium Enterprises
SMSs	Special municipal surtaxes
SNA	System of National Accounts (of the United Nations)
SND	Stratégie Nationale de Développement-Cameroun 2030
SNH	Société Nationale des Hydrocarbures

SOCX	social expenditure measure (of OECD)
SOEs	State-Owned Enterprises
SONARA	Société Nationale de Raffinage (de Cameroun)
SRMT	STRATEGIE DE MOBILISATION DES RECETTES A MOYEN TERME
SSA	Sub-Saharan African
SSE	sum of squared errors
SSRC	Social Science Research Council
SSRN	Social Science Research Network
ST	Short Term
STEG	Société tunisienne de l'électricité et du gaz
SVAR	Structural Vector Autoregression Model
SWANA	South and West Asia and North Africa
TAF	Taxe sur les Activités Financière
TAG	Transparency and Governance
TC	Tax Compliance
TCA	Tax on Insurance Agreements (on assurance companies)
TE	Tax Expenditures
TEOM	taxe d'enlèvement des ordures ménagères/ Household waste collection tax
TER	Express Regional Train
TFA	Tax on Financial Activities/
TFP	Total Factor Productivity
TGC	Transparency and Governance Commitment
TIMSS	Trends in International Mathematics and Science Study
TJN	Tax Justice Network
TMF	Tunisian Ministry of Finance
TMI	Tunisian Ministry of Industry
TND	Tunisian Dinar
TOSSD	Total Official Support for Sustainable Development
TPC	Tax Policy Center
TR	Tax Revenues
TRIMF	taxe représentative de l'impôt du minimum fiscal/ Tax representing the fiscal minimum

TSA	Treasury Single Account (system)
TSR	Taxe Spéciale sur le Revenue
TT	Turnover Tax
TVA	Taxe sur la Valeur Ajoutée
UAE	United Arab Emirates
UBOS	Uganda Bureau of Statistics
UCLG	United Cities and Local Governments
UEMOA	Union Économique et Monétaire Ouest Africaine
UFM	Uganda Freedom Movement
UGLT	Urban governance and local taxation
UGX	Ugandan Shilling (Code)
UK	United Kingdom
ULR	Urban Land Register
UMI	upper middle-income (country group)
UMOA	Union Monétaire Ouest Africaine
UN	United Nations
UN/DESA	United Nations/Department for Economic and Social Affairs
UNCTAD	United Nations Conference On Trade And Development
UN-DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNESCWA	United Nations Economic and Social Commission for Western Asia
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund, formerly the United Nations Fund for Population Activities
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNLA	Uganda National Liberation Army

UNLF	Uganda National Liberation Front
UNLF/A	Uganda National Liberation Front/Army
UNRF	Uganda National Rescue Front
UNRISD	United Nations Research Institute for Social Development
UNSC	UN Security Council
UNSDG	United Nations Sustainable Development Group
UN-SDSN	UN Sustainable Development Solutions Network
UNU	United Nations University
UNU-INWEH	United Nations University Institute for Water, Environment and Health (Hamilton, ON, Canada)
UNU-WIDER	United Nations University World Institute for Development Economics Research
UNVDA	Upper Nun Valley Development Authority
UP	Uganda Parliament
UPC	Uganda People's Congress
UPDF	Uganda People's Defence Force
UPM	Uganda Patriotic Movement
URA	Uganda Revenue Authority
US	United States
US\$	United States Dollar
USA	United States of America
USAID	United States Agency for International Development
USD	United States Dollar
USP	universal social protection
USP2030	Global Partnership for Universal Social Protection
VA	Value Added
VAR	Vector Autoregressive Model
VAR(2)	VAR 2 lag model
VAT	Value Added Tax
VECM	Vector Error Correction Model
VNR	Voluntary National Reviews
VoA	Voice of Africa
VPN	Virtual Private Networks
VRM	voluntary review mechanism

WAEMU	West African Economic and Monetary Union
WASH	water sanitation and hygiene
WB	World Bank
WDI	World Development Indicators
WEF	World Economic Forum
WEI	West-East-Institute
WFP	World Food Programme
WGI	Worldwide Governance Indicators
WHA	World Health Assembly
WHO	World Health Organization
WHR	World Happiness Report
WITS	World Integrated Trade Solution
WP	Working Paper
WRI	World Resources Institute
WTO	World Trade Organization
WWF	World Wildlife Fund for Nature
ZBB	Zero-Based Budgeting
Z-score	Statistical measure for the distance between a data point and the mean of a dataset

Unit 1: Fiscal Capacity and Domestic Resource Mobilization - General Issues

Fiscal Capacity and Domestic Resource Mobilization in Africa – An Introduction

Walid Abdmoulah¹ and Karl Wohlmuth²

1 The Issues

Increasing the Fiscal Capacity - An important policy issue for Africa in times of multiple crises

With only six years till 2030, African countries appear to be facing significant obstacles in reaching the sustainable development goals (SDGs). According to the SDGs Report (United Nations, 2024) and Sachs et al. (2024), Africa has shown the least progress, with several nations lagging in regard of the SDGs. We are at a crucial crossroad in Africa's SDG agenda, necessitating accelerated action across all SDG pillars. This includes achieving measurable progress in implementation and localization frameworks, as well as scaling up and aligning financial resources with transformative goals. This situation is due to a variety of factors, including the planning difficulties associated with fully integrating SDG targets into national plans, as well as the challenges associated with implementing ambitious policies, regulatory frameworks, and investments that are compatible with achieving the required transformations and mobilizing the necessary funding for these tasks.

The call for efficient mobilization of domestic resources is not new. It was well articulated in the Third International Conference on Financing for Development in Addis Ababa in 2015³, which also called for promoting the role of the private sector and domestic and international private financing, as well as strengthening international cooperation to overcome the difficulties associated with implementing the Millenium Development Goals (MDGs). Most African countries still face difficulties in improving their ability to mobilize domestic and international resources, due to low savings rates, often inefficient and discriminatory tax regimes, tax evasion, a large informal sector, and too often an inefficient tax administration. These realities vary considerably between resource-rich and

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³ See on the United Nations information about this conference and the Financing for Development Agenda: <https://www.un.org/esa/ffd/ffd3/index.html>

resource-poor countries, as well as between low-income and middle-income countries (UNECA, 2019).⁴

Resource mobilization in Africa requires a multi-faceted strategy involving local initiatives, international collaboration, new financing methods, and strong institutional reforms. African nations can create the resources needed for sustainable development and improved well-being by tackling obstacles and capitalizing on opportunities, but also by taking account of the new realities of the sustained decline in official development assistance (ODA), the rising cost of international debt, the restricted access to international bond markets, and the tightening of IMF lending conditions. With debt levels having almost doubled in the aftermath of the COVID-19 pandemic, debt servicing will remain a major burden for the foreseeable future, while many nations are also suffering from a severe shortage of domestic savings. In June 2024, the African Development Bank (AfDB) called for a new global financial architecture that benefits Africa.⁵

Furthermore, it is worth noting that “fiscal space” is not only about the ability to improve revenues, but also to efficiently manage public expenditures. A stream of literature focussing on the measurement and drivers of public spending efficiency, based on the idea that public spending aims to improve development outcomes and sustainability, argues for efficient resource mobilization and utilization and a sound institutional framework to improve public spending efficiency. Empirical findings show that several African countries demonstrate high public spending inefficiencies (Gupta and Verhoeven, 2001; Adegboye and Akinyele, 2022; Sikayena et al., 2022), calling for better allocation policies, digitalization, and the transfer of non-core activities to the private sector. External shocks further disrupted African governments because of the falling oil and commodity prices in 2014, the COVID-19 pandemic, the Russian war against the Ukraine, and other mega disruptions such as climate change, the fourth industrial revolution, and the

⁴ See about the UNECA private sector financing focus: <https://www.uneca.org/private-sector-development-and-finance>. ECA describes their role as follows (<https://www.uneca.org/private-sector-development-and-finance>): “Supports member States in their endeavor to achieve accelerated job creation, sustained economic growth and prosperity through leveraging the role and resources of the private sector, promoting innovative financing solutions and creating the environment in which private sector investments for agribusiness, energy, infrastructure, and other sectors can become viable.”

⁵ See the respective Call for Action (30 May 2024): “African Leaders Join African Development Bank’s Call for Action to Reform the Global Financial Architecture at its 2024 Annual Meetings”; link: <https://www.afdb.org/en/news-and-events/press-releases/african-leaders-join-african-development-banks-call-action-reform-global-financial-architecture-its-2024-annual-meetings-71373>. It is interesting and important that “At the institution’s 2024 Annual Meetings in Nairobi, six African Presidents joined the Group’s President Dr. Akinwumi Adesina’s call for action to reform the global financial architecture to unlock more resources to scale up Africa’s economic transformation.”

advent of artificial intelligence (AI), asserting that fiscal capacity and resource mobilization are unquestionably the most crucial aspects of Africa's sustainable development and resilience.

Five major issues are of particular interest in this context. The discussion of these issues should be driven by the search for reforms and the assessment of new approaches that some countries have successfully implemented, and it is time to prove their relevance to other countries and to analyse the conditions for their success.

Fiscal capacity and resource mobilization – defining key concepts

“Fiscal space” is defined as the amount of money in a government's budget that may be used for a certain purpose without affecting the government's financial sustainability or economic stability. The premise is that fiscal space must exist or be created to make additional resources available for worthwhile government spending. A government can create fiscal space via raising taxes, selling assets or resources, receiving outside grants, cutting lower-priority spending, and borrowing funds from local or international lenders. However, it must do so without jeopardizing macroeconomic stability and fiscal sustainability, ensuring that it has the immediate and long-term capacity to pay its intended public expenditure plans while also servicing its debt. Similarly, increased short-term expenditures, as well as any linked future expenditures, such as recurring spending on operations and maintenance, required by an infrastructure investment or the development of a school or a hospital, can be funded with current and future earnings. If debt-financed, the expenditure should be evaluated in terms of its impact on the country's underlying growth rate and on the revenue-generating capability. The government must ensure that increasing spending in one useful area, such as health care, does not eventually drown out beneficial investment elsewhere.

Although “fiscal capacity” is strongly correlated with economic progress, it is also an essential enabler that needs to be deliberately created. Tax regimes may stimulate economic growth by funding public goods, infrastructure, and investment, as well as increasing the economy's productivity and government responsiveness to public requirements. Clearly, African countries need to strengthen their fiscal capacity by establishing effective control, administration and compliance agencies, and by broadening their revenue base. But why have some countries not invested in strengthening their fiscal capacity? There are several obstacles to efficient domestic resource mobilization, including the inability to tax informal sectors and weak financial development, which weighs on savings, taxation, and fiscal stabilization. These obstacles are limiting fiscal deficit financing and are making it costly, thereby limiting the room for new spending, in addition to increasing the magnitude of the crowding-out effect and thus hampering economic growth. Moreover, government behaviour is determined by its revenue bargaining power, which Moore (2008) defines as “the exchange of fiscal funds for institutionalized

control of public policy". The existence of non-tax profits, particularly in resource-rich countries, further complicates revenue negotiation. In addition, widespread tax evasion and tax avoidance undermine national tax bases in most African countries, as the degree of tax compliance is hampered by a lack of trust and power in many countries. Kjær et al. (2024) place the analysis of revenue bargaining in Africa within a theoretical framework that takes account of macro- and micro-level power structures.

Debt sustainability and macroeconomic stability – the problem of balancing these objectives?

The sustainability of public debt has emerged as one of the most pressing concerns confronting developing countries, including most African countries. These countries are being compelled to dedicate an increasing share of their public budgets to debt service rather than to the essential investment in physical and human resources that would support development. In certain circumstances, this even affects their capacity to ensure food security for their citizens, not to mention the difficulties to achieve macroeconomic stability.

Debt is not intrinsically bad, but it is often necessary, and its "benefit" or "harm" depends on how it is used. However, a country may default on its debt payments and may fail to meet its existing and future financial commitments to lenders, resulting in arrears that force it to renegotiate debts and to borrow again. The IMF defines sustainability as a condition in which a borrower can service and repay its obligations without having to make "unrealistically large" adjustments to the management of public spending and revenues in the future (IMF, 2002). Fiscal sustainability necessitates that the state budget has no cumulative deficits that would compel it to restructure and to prioritize expenditure in the future, as well as to seek new financial revenues to settle its obligations. In a more specific definition, the IMF considers public debt sustainable when the primary balance of the general budget required to achieve debt stability is "economically feasible," which means that the level of debt is consistent with the size of low and acceptable financing risks while maintaining satisfactory levels of growth (IMF, 2013). Some economists define debt sustainability in terms of economic growth. According to Blanchard and Das (2017), debt sustainability is a policy that maintains the stability of the public debt-to-GDP ratio. Borrowing is deemed praiseworthy if new debt is directed towards initiatives that contribute to increased output and economic growth, and if it has no detrimental impact on economic development, even when the public debt-to-GDP ratio is high. Debt, on the other hand, is regarded as unsustainable if it is utilized for current expenses, such as salaries and pensions, regardless of its low relation to GDP.

Accordingly, an often-debated concern for each borrowing country is whether public debt imposes a significant burden that could hinder economic and social progress. Another major concern is the extent to which debt can be considered

sustainable, and how governments can safely meet their financial obligations to lenders while financing their development needs. In general, debt sustainability indicators can be studied from three different angles: First, the ability to repay the loan, which is determined mostly by economic development, export competitiveness, and the financial situation. Second, it considers the public debt portfolio, as well as the loan criteria of the portfolio, the quality of the debt portfolio, and the costs of debt included in the portfolio. Third, the debt's future sustainability is considered in view of its potential vulnerability.

Borrowing must meet certain requirements to be beneficial, including (i) being sustainable and not resulting in debt problems; (ii) having the availability of a relevant debt institution or agency to ensure that borrowing is directed to the intended purpose and that it is able to analyse the loan advantages and risks in accordance with a defined institutional framework. This institution covers the following areas for successful work: transparency, a medium-term financial framework, the quality of government procurement processes, and the quality of the country's public financial management system; (iii) ensuring that debt service from loans does not compete with spending on core social services such as health and education; and (iv) realizing that debt servicing does not limit future capital development and access to capital markets. If these prerequisites for government borrowing are satisfied, the country's economic development will improve. However, if borrowing is used in an unplanned way to finance development and if it leads to the accumulation and servicing of debt, the result will be an unsustainable financial situation, likely to cause economic and financial crises in the country, leading to a collapse in GDP, of the exchange rate, and resulting in rising inflation.

From the pandemic to climate change and geo-political crises: impacts and additional challenges

Africa's growth averages 4.2% between 2010 and 2019, outperforming numerous other regions in the world, although the continent was vulnerable to economic shocks. Growth average rate did fall to 2.8% over the 2020-2024 period (IMF, 2024a). The UNECA's 2019 Economic Report on Africa (ERA) concluded that Africa needs double-digit growth rates to meet the SDGs, which requires an investment rate of 30-35% (out of GDP). Prior to the COVID-19 outbreak, the continent struggled to raise sufficient funds to support the development objectives, with a total financial gap of around 614-638 billion dollars. However, there are different volumes mentioned by different author groups and research teams.⁶ New

⁶ See on these estimates the study by UNEP 2018, page 29: "Considering the efforts required to achieve the SDGs, we assume Africa to weigh one third of total global investment needs, or US\$ 1.5 trillion. Assumptions about African investment needs vary from one study to another. Schmidt-Traub & Sachs (2015) estimates US\$ 614 – 638 billion annual incremental financing needs related to the SDGs. Chinzana et al. (2015) estimate that Africa

ideas for innovative financing of development and SDGs in Africa are discussed at the level of IMF and other international finance organisations (see: IMF, 2024b).

With the pandemic, African countries have faced even greater challenges because of increased health-care spending and support for individuals and small businesses, as well as the need to take out more loans as their tax bases have narrowed. Along with the reduction in economic activity and the lockdowns, the financial situation has deteriorated, raising debt payments and severely limiting budgetary flexibility. According to the IMF World Economic Outlook (2024a), the debt-to-GDP ratio would rise from 30% between 2000 and 2019 to reach 44% by 2020-2024. Similarly, Sub-Saharan Africa's foreign debt to exports has increased from 120% to 175%, respectively. The fiscal condition deteriorated further as government revenue-to-GDP ratios decreased from 18.4% to 17.2%, owing to negative savings and falling foreign direct investment (FDI).

The COVID-19 epidemic, along with the impact of the Russian - Ukrainian war on energy and food expenses, has exacerbated the continent's overall development finance situation, due to the limited availability of international resources and the significant increase in interest rates. Geopolitical risks play an increasing role, as we can see since the Russian war against the Ukraine which started in February 2022, the conflicts in Near East since October 7, 2023, the conflicts in Sudan and in the Sahel region, and the tensions around the island of Taiwan. Studies show that the longer the conflicts and wars persist and the greater the geopolitical risks are, the greater will be the impacts on the finance situation in Africa, and the repercussions on the development prospects (see David Korsah et al., 2024).⁷ Studies by the IMF on the impacts of the Russian war against the Ukraine also show that the longer the war lasts, the deeper will be the consequences for the world economy and for Africa (IMF, 2024c). The short-term impact was due to disruptions of supply chains and a higher price volatility, to follow in the medium-term with threats to energy and food security, leading to inflation and global losses in output, and now for the long-term we see the danger of increasing geopolitical

will require a GDP growth rate of 16.6% over 2015-2030 to realize the SDGs, equivalent to an investment-GDP ratio of 87.5% per year, or US\$ 1.7 trillion (UNCTAD, 2016). These figures provide an insight on the remaining potential gap or incremental SDG investment needs, but not on total SDG investment needs in Africa.”

⁷ Various other studies confirm the negative impact of geopolitical risks on the world economy and Africa, especially on finance and development; see the various links: <https://www.resbank.co.za/content/dam/sarb/publications/occasional-bulletin-of-economic-notes/2024/the-importance-of-geopolitics-april-2024-01.pdf>, and: <https://www.eiu.com/n/campaigns/africas-operational-risk-outlook-aug-2023/>, and: <https://www.weforum.org/agenda/2023/07/why-africa-will-become-a-prominent-player-in-global-geopolitics/>, and: <https://www.sciencedirect.com/science/article/pii/S2468227623004039>, and: <https://www.econstor.eu/bitstream/10419/303508/1/190351343X.pdf>

risks because of the call of Russia and China for a “new world order”, with new blocs of power and spheres of interest, a competition and confrontation based on new rules and modalities of international relations.⁸ Furthermore, the present situation fails to address the significant physical and financial risks posed by climate change. In recent years, these risks have already begun to have a significant impact, mainly through drought and lower food production. However, if no immediate action is undertaken, the economic and social consequences would undoubtedly worsen with time.

Climate change has the potential to significantly worsen the financial situation in Africa, as budget and debt difficulties combined with the challenges of climate change represent a double burden. Indeed, combatting climate change often requires significant investment in infrastructure and technology to adapt energy and water supplies, as well as production processes, especially in agriculture. These investments come at a high cost and can widen budget deficits. The problem of funding climate change is a multidimensional issue for developing countries, especially for African nations, and is based on four fundamental factors: (i) despite the commitment made by developed countries since COP15 in Copenhagen in 2009 to provide financial support to developing nations for climate change mitigation and adaptation, these commitments have only been partially fulfilled and fall short of meeting the needs of the developing countries, particularly in Africa; (ii) as previously noted, the huge increase in the debt load of many African countries, particularly in non-oil-producing ones, has severely limited their fiscal space and their borrowing capabilities. Furthermore, these countries face challenges at accessing global financial markets when their credit ratings deteriorate; (iii) most African countries are struggling with their financial sectors, which involve legal, institutional, and human resources challenges, as they hinder their ability to successfully mobilize domestic and foreign savings; and (iv) African nations have planning problems, as the flaw in planning impedes the transition from agriculture and natural resource-based economies to knowledge-based and industrial ones. The planning problems also impede the development and implementation of policies that balance economic, social, and environmental goals. Given these complex and interconnected four issues discussed here, African countries have substantial hurdles in acquiring the funding needed to conduct climate change mitigation and adaptation programmes (Abdmoulah and Labidi, 2023).

⁸ Russia and China consider their cooperation as one “without limits” and “without conditions” against each other. The document was published by the President of Russia days before the war started against the Ukraine. See: “Joint Statement of the Russian Federation and the People’s Republic of China on the International Relations Entering a New Era and the Global Sustainable Development. February 4, 2022”; link to the document: <http://www.en.kremlin.ru/supplement/5770>

Measurement issues for fiscal space and country and regional patterns in diversity

Fiscal space measurement presents significant challenges. The risk associated with contingent liabilities, maturity and exchange rate risks, the proportion of debt in foreign currencies and held by non-residents, creditworthiness and borrowing costs are some of the dimensions it involves (Calderon et al. 2018). In 2018, the IMF proposed a comprehensive new methodology for measuring fiscal space to provide more precise advice to countries on ensuring the countercyclicality of their fiscal policies, as well as the need to expand fiscal space or to build up safety buffers, recognizing the task's complexity. The IMF goes through four stages of the fiscal assessment framework, which indicate linked concerns that need to be addressed when examining budgetary sustainability: (i) the economy's cyclical and structural situation; (ii) the availability of financing on favourable terms, as well as the risk that market perceptions will significantly increase financing costs; (iii) the long-term sustainability of the amount and trajectory of public debt and deficits; and (iv) the sensitivity of fiscal sustainability in terms of debt and financing needs during normal stress events and expansionary fiscal scenarios.

Kose et al. (2022) proposed a comprehensive database on fiscal space for 202 nations over the 1990-2020 period. The database includes 30 fiscal space indicators grouped into four categories: governmental debt sustainability; balance sheet composition; external and private sector debt; and market perception. They analyse the behaviour of fiscal space under a variety of unfavourable circumstances. The findings reveal that some of these occurrences correspond with a long-term decrease in fiscal space, whilst others have temporary repercussions. The database, which has been updated in 2024, provides a unique chance to examine the evolution and sensitivity of fiscal space in African nations from several perspectives.

African countries present different profiles, depending essentially on their degree of economic diversification, the importance of natural resources, the state of governance and institutions, and the economic group to which they belong. Although net public lending/borrowing relative to GDP, the basic indicator of fiscal balance, deteriorates on average over the periods 2010-2019 and 2020-2023 (from -3.3% to -4.3%, respectively), some countries show a marked improvement in this key indicator, signifying an increase in their fiscal room for manoeuvre. This is notably the case for Equatorial Guinea, Libya, Algeria, Angola, and South Sudan, all of which derive substantial rents from natural resources, which account for over 15% of GDP, a behaviour which, in the region, is closely linked to the commodity price cycle. Other countries, such as Seychelles, Malawi, Ghana, Rwanda, Comoros, Burkina Faso, Uganda, Zambia, and Tunisia, have seen their fiscal room for manoeuvre, as measured by net public lending/borrowing, to fall dramatically. These countries are characterized by rents below 11% of GDP, but some of them have been hit by political instability in addition to being affected by the external shocks mentioned above.

Building on these developments, different methodologies could be used to accurately measure the fiscal capacity of African countries, as well as the patterns that may emerge from the continent's various economic groupings and sub-groupings, their relevance to member countries, and the policies that can help them to overcome their difficulties, particularly in terms of coordinating fiscal, monetary, and trade policies.

Alternative financial instruments are of increasing relevance for the fiscal space

Given the massive financing needs to trigger the green transition in the energy and transport sectors, not to mention other traditional needs in health, education, water, sanitation, digitalization, and other development sectors and issues, Africa needs to explore additional and innovative mechanisms based on models that combine public and private sources of domestic and international funding, and which go beyond the traditional separation in development financing, i.e. private investments financed exclusively by the private sector and public projects financed exclusively by public resources, so as not to place an additional burden on the budget. Pension funds, mixed funds, sovereign wealth funds, debt swaps, green bonds⁹ and sukuks¹⁰, impact investments, crowdfunding, public-private partnerships, and diaspora bonds¹¹ are just some of the innovative approaches. Several countries have already demonstrated promising expertise in implementing these alternative financial tools, including diaspora bonds in Ethiopia, green bonds in Egypt, and PPPs in Morocco. These innovative instruments as well as the changing role of regional financial institutions in this regard reflect the transformation observed among their global counterparts. These innovations and improvements raise awareness of the prospects for long-term lucrative investment in new sectors related for example to the green transition, so accelerating the structural transformation of African economies. With technical advancements, the potential for development in these sectors is immense. This progressive landscape provides ideal ground for the private sector to flourish. Regional financial institutions are contributing by establishing and managing financial instruments, such as green bonds, green sukuks, and carbon certificates, which energize the market.¹² These

⁹ See on the definition and volume of green bonds: https://en.wikipedia.org/wiki/Green_bond

¹⁰ See on the definition of sukuks: <https://www.investopedia.com/terms/s/sukuk.asp>

¹¹ See on the definition of diaspora bonds: <https://www.investopedia.com/articles/investing/012815/how-diaspora-bonds-work.asp>

¹² The Sustainable Bond Programme of the African Development Bank (AfDB) was strengthened in 2023; see about the respective innovations: <https://www.afdb.org/en/financial-information/investor-resources/capital-markets/sustainable-bond-program>. The AfDB writes: “The African Development Bank has been issuing green bonds since 2013 and social bonds since 2017. The new Sustainable Bond Programme, established in 2023, combines and updates the previous Green Bond Programme and the Social Bond Programme,

initiatives not only improve regional cooperation between African countries, but also facilitate worldwide partnerships by fostering the interchange of technology, information, research and expertise.

On the African continent, it is evident that these new alternative financial products have yet to receive the attention they deserve. The lack of interest in such financing forms can be linked to insufficient financial resources, reluctance on the part of some governments, weak governance structures, and human resource issues. Furthermore, it appears that financial markets should be empowered in two ways: the first is to improve market efficiency by diversifying financial instruments, by implementing hedging tools, by improving disclosure, by simplifying the mechanism for issuing and trading equity and debt, and by increasing the efficiency of financial mediation and market-making. The second is to renew the business models, the capabilities, and the incentives by launching major projects in key productive sectors with diverse and renewable financing requirements, as well as strengthening the capabilities of financial institutions that support market efficiency, particularly by establishing investment banks, by expanding the role of investment funds, and by linking monetary, fiscal, trade, and industrial policies to investment incentives and financial market functions. All these crises discussed above give a push to alternative financing methods.

2 The Contributions

In five essays major topics of fiscal capacity and resource mobilization in Africa are discussed. This is done first by looking at historical assessments of the functioning and the resilience of colonial and postcolonial tax systems, second through country case studies for Tunisia, Uganda and Cameroon, and third via presenting new indicators, tools and instruments to anchor core revenues and expenditures, such as social expenditures, in budget and fiscal policy frameworks. The three case studies have different methodological approaches (conventional fiscal space analyses for Tunisia, political settlement analyses for Uganda, and text/content analyses based on government of Cameroon visions and strategies and recommendations from international donors and creditors to the country). The essay on new analytical tools for investigating public expenditures is related to North African countries, but the replicability for Sub-Saharan African countries is considered. This essay is followed by country cases using the fiscal policy-social policy toolbox.

enabling the issuance of green bonds, social bonds, and sustainability bonds. These ESG bonds contribute to the fight against climate change and reinforce socio-economic development in the Bank's Regional Member Countries.”

In the first essay of **Unit 1 “Fiscal Capacity and Domestic Resource Mobilization - General Issues”** of the African Development Perspectives Yearbook (2024/2025, Volume 24) there is an introductory study looking back to colonial history and forth on colonial inheritances in the current African tax systems. This **first essay of the Unit 1** has the title **“African fiscal capacity building historicised: Colonial legacies and postcolonial challenges”**, and it was written by **Abel Gwaindepi**¹³. It gives an account of the tax system and tax policy legacies in Africa from colonialism to postcolonial times in regard of their structure, their functions, their performance, and their changes and reforms. In this essay the author uses new data and insights from the existing literature to document the type of taxes collected by colonial and postcolonial African states; this is done by exploring major sources, types, and patterns for the collected revenues. The colonial and postcolonial periods are rarely considered in one analytical investigation framework, but only then the different conditions for taxation systems in these periods can be explored. The author adopts this strategy of differentiation with a quantitative descriptive analysis. This allows him to reveal Africa’s progress in developing its taxation systems over a long time rather than simply recording indicators of stagnation or failure. Africa’s taxation systems are measured on its own merit; the phases of colonial exploitation, the colonial legacies, the structural transitions, and the region’s current inclusion into the international system, especially the international financial system, are considered. The analysis shows a duality in colonial economies which imposed “modern” and “native” forms of taxes; the duality of taxes was more burdensome to Africans than to non-Africans. In the post-colonial period, African countries leaned disproportionately towards consumption taxes, with slow and heterogeneous progress on direct taxes on individuals and corporations. Most important in the study is it to see what had been left out in terms of tax policies in the post-colonial period. A major observation is that the most profitable sectors for taxation in the colonial and postcolonial periods, namely the extractive sectors and various segments of high- income businesses, remained largely untaxed or undertaxed, while small businesses and informal sectors were highly taxed. Reforming and improving such colonially shaped tax systems in Africa has, according to the author, an internal and an external dimension. Internally, structural change-focussed and reform-friendly institutional setups are necessary for

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effective and resilient tax systems. Internationally, the global financial architecture is relevant and needs to be reformed to produce a fairer international tax system to facilitate domestic revenue mobilization (DRM) in Africa. The OECD, the IMF, the World Bank, and various African regional organisations are now cooperating on the internal and the external dimensions of a more resilient taxation in Africa. Obviously one can learn a lot from the history of colonial tax systems, despite of the differences due to the involved colonial powers who did operate in Africa. Also, the essay reveals that comparative analyses for colonial and post-colonial periods and for countries and country groups are useful to get information about (more or less) resilient tax systems. It is also interesting to see from the essay that historical views on African tax systems are becoming more and more important for reforms and adaptation of tax systems; all this helps to formulate realistic reform options.

The quantitative descriptive analysis of African tax systems shows that it is not true to speak only of lost decades in Africa's taxation systems. After two "lost decades" from 1980 to 2000, the years of the post-2000s show that the tax systems are restructured (what is shown already in the section 1 of the essay), and this gives hope for development and growth because of the role of taxes for domestic resource mobilization (DRM). It is useful (as it is done in section 2) to relate the principles of taxation to the dual taxation systems in the colonial period. This allows it to understand better the deficiencies of the colonial taxation systems and the need for structural changes in the post-colonial periods. Also, the many differences between native and modern taxes in the colonial era can then be better assessed. Section 3 of the essay reveals how the fiscal capacity gap was introduced, implemented and created in Africa by the colonizers with the European tax systems. The relation of the large fiscal capacity gap in African countries to the difficulties for developing functioning fiscal states in Africa is considered by the author in various steps of his analysis; this is done mainly by looking carefully to pre-colonial and then to colonial and post-colonial taxation systems. The structural changes of tax systems between 1900 and 2015 for some African case countries are interpreted with the ambition to show the progress in developing functioning tax systems over time and to give illustration of the differences between the three types of colonial economies in Africa (cash crop economies, concession company economies, and labour reserve economies). Section 4 of the essay is then a deep look on postcolonial reforms of taxation systems, and the reader can see what has survived from one period to the other. Despite of some convergence and progress in regard of Africa's taxation systems, important challenges are remaining. The analysis of the author leads to a number of still relevant colonial legacies which have to be overcome; and four major issues of current taxation systems are raised in this context and filled with evidence (first, the tax bases are only partly known; second, managing the so-called large taxpayers is a central issue; third, the lack of accountability when the tax is raised is a great problem; and fourth, Africa's

structural change and growth will require deep tax system changes). The author views some colonial legacy factors in this list of challenges, so that resilient tax system reforms in Africa should start here. Obviously all these four challenges have to do with specific colonial legacies, so that resilient tax policies are impacted by and must address very specific structural transformations in Africa. Section 5 of the essay brings out some policy recommendations for international and regional and for national and local action on taxation systems, and these recommendations have to do directly with the four remaining challenges. Thereby, we see that simple reforms of the tax administration or of single taxes in the overall tax structure cannot work effectively if these interrelated and complex factors and challenges are not considered.

In the **second essay of Unit 1** with the title **“Climate Change and Public Financial Distress in Tunisia: Causes, Impacts, and Sustainable Solutions”** the author **Walid Abdmoulah**¹⁴ analyses in a case study for Tunisia how the country can use new strategies, policies, and instruments to raise the fiscal capacity of the country and to exploit the fiscal space for climate change mitigation and adaptation. The essay provides therefore new insights regarding public finance distress in Tunisia in times of climate change threats. Tunisia is not only suffering from an economic crisis and a public finance crisis but is also threatened by the impacts of climate change (on arable land, pollution, forests, water, and on many other policy areas). The essay explains that political instability and external shocks, a failing growth strategy, structural weaknesses in economic sectors, and unsustainable fiscal policy choices - relating to high subsidies and an increasing public employment - are the main causes of Tunisia’s financial challenges. It also highlights the consequences of climate change effects on the economy as a whole and on the public budget if not adequate actions are taken by the government, the civil society, and the economic actors in enterprises to mitigate the climate change. To get forward with the analysis, the channels were discussed in the essay through which climate change could create extra burdens on public finance. A new dimension of the public finance crisis is brought into the analysis to highlight the severe fiscal capacity limits and the erosion of the fiscal space.

Although based on a conventional fiscal space analysis, the essay contributes to the analysis by reviewing the public finance choices related to the issues of climate change and to the causes of Tunisia’s economic crisis. To meet all these challenges, the author argues that Tunisia needs to work on several aspects at once (presenting a holistic strategy for reforms), to put the economy back on the path of a sustained and resilient growth (based on the SDGs), to reform public finance

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management (at all governance levels), to work on the “greening” of fiscal and monetary policies, and to move seriously towards alternative financial instruments (being of help for cleaning up the high debt stock, for greening the economy, and for achieving the energy transition). A new approach is also needed according to the author to get forward with concrete policy actions. To overcome institutional inertia and to get confronted with the realities of policy implementation, Tunisia needs to reach a broad consensus on the roadmap to be put in place, what is possible through more participation on public finance choices at all governance levels. Such a roadmap (“Agenda for Sustained Action”) needs to value its positive externalities (when the territorial periphery in the country and the poor and vulnerable segments of the society benefit) and to minimize its negative spillovers (such as the cost of reforming the subsidy and public employment policies).

Already the introduction (section 1) presents the major economic (and political) problems of Tunisia and the crucial fiscal policy choices which the country faces. The section 2 highlights the primary factors that contribute to the sharp deterioration of the public finance situation in Tunisia. These primary factors relate to the Economic Growth Strategy (a strategy not being inclusive), the Fiscal Space Area (with so many problems on the expenditure and the revenue side), the Indebtedness Ratios (by sources and changes, and prospects for sustainability), and the Twin Deficits Position (with unsustainable Budget and Trade deficits). Reviewing these factors allows the author to give a better understanding of the reasons behind the sluggish progress of the ecological transition. In section 3 the author discusses the exposure of Tunisian public finances to the main climate change trends; the key channels are discussed through which climate change can exert pressure on fiscal policy and ultimately pose a heightened risk to sovereign debt. Innovative is the analysis of the public finance implications through the “concept of cascading climate change risks”; focus is on agriculture and the climate vulnerability, and emphasis is also on the need for adequate and coherent policy responses to impact on the climate crisis – with concerted action from the Tunisian authorities and from the European partners. The section 4 of the essay offers major groups of policy innovations; these recommendations are addressed to the “policymakers” (president, government, parliament, administration at all governance levels, civil society institutions, professional organization, and parties). The policymakers should effectively manage the distress faced by public finances, through enhancing fiscal space and ensuring debt sustainability, through implementing good governance practices and adopting the use of non-debt alternative financial instruments for financing climate change adaptation and mitigation, and through “greening” fiscal and monetary policies. It is obvious that these areas of policy innovations need courageous action from all levels of the governance system of the country. If the “Agenda for Sustainable Action” is translated into reality by the policymakers, new finance and debt instruments could lead to a “green deal” in Tunisia and may help to overcome the severe economic and environmental crises.

Section 5 of the essay gives the Conclusions and Policy Recommendations. Reemphasis is on the elements of a coherent economic, fiscal, and ecological reform strategy. It is an ambitious strategy but shows that public finance choices and climate change mitigation and adaptation actions can no longer be separated.

In a third essay of Unit 1 with the title “**Tax Performance and the Political Settlement in Uganda: 1962-2023**” the author **Patrick Sunday Kayongo**¹⁵ presents a case study for Uganda which is based on a new approach – reflecting on the political settlements in Uganda since independence. The task is to combine a historical economic analysis with a political economy analysis for interpreting the changes, challenges and perspectives of the fiscal capacity and the fiscal space of Uganda. This essay addresses an often-ignored perspective in most tax policy evaluations - the power of political institutions to direct economic activity, economic policies, and the state’s taxation capacity. Political institutions and the taxation capacity are always seen as interrelated, but in developing countries and especially in Africa political regime changes lead quite often to new power coalitions of (old and new) elites. New elites come up and they tax in other ways than the old elites, even using informal taxation. To do this research for Uganda, an alternative approach, the political settlement analysis (PSA), is used. Although it is based on a historical socio-economic-political framework, it is comparing the governance regimes by their taxation capacity which depends on the actual coalitions of prevailing power groups. Uganda is an interesting case because of the many regime changes in its history as an independent country.

The PSA model uses the Effective States and Inclusive Development PolSett Dataset (2022)¹⁶; this is an innovative approach as it analyses and categorizes the

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¹⁶ See the major publications and references of the research group esid, headed by Nicola Schulz and Tim Kelsall: Researching the Politics of Development. The political settlements dataset: An introduction with illustrative applications; Link to esid (Effective States and Inclusive Development): <https://www.effective-states.org/working-paper-165/>. The research group esid describes their approach as follows: “The social sciences have long been invested in answering the question of whether and how different configurations of de facto political power affect economic, political and social development. So far, however, a lack of adequate data has made it difficult to test the validity of contending frameworks and hypotheses across time and space. The Political Settlements (PolSett) dataset aims to fill this gap. This original expert-survey-based dataset covers over 200 political economy variables coded for 42 countries in the Global South from 1946 or independence to 2018 (totalling 2,718 country-years). Allowing the detailed mapping of countries’ configurations of power, it captures information on the relative size, strength and social composition of

ruling power groups according to various criteria and characteristics. Uganda's tax performance record is analysed over 61 years (1962-2023), by reviewing 12 political settlements which the country has had since its independence. The findings (done also through a regression analysis) show that more than 50% of Uganda's weak tax performance is tied to Uganda's fragile political settlements, and to the country's weak governance systems over this long period since independence. However, the essay also presents, based on the PSA model findings, critical advice how the taxation system could be improved. Four key issues emerge from the analysis which could be used by policymakers to increase the tax revenues: First, taxation should be seen in Uganda as a political bargain to reach strong commitments by the actors in the taxation chain to reach a politically inclusive politico-fiscal contract; second, because Uganda has a history of political fragilities, replacing the soft budgetary constraints by strong rules plays a role in any reform to enable the state to become a reliable partner when negotiating a fiscal contract; third, as Uganda's tax policy framework had been captured by political clientelism and by patronage, this problem has to be addressed through specific political measures; and fourth, as the currently ruling regime in Uganda is politically fatigued, deep political reforms are required to avoid actions similar to its pre-1986 civil strife. The country's tax revenue mobilization strategy needs a credible, stable, and inclusive political settlement to become effective, and the essay gives also various useful proposals how to learn from the taxation history of the many political settlements since 1961.

The essay is structured accordingly. After the Introduction in section 1 on Uganda's development problems there is in section 2 a conceptual review of the PSA approach and of the study variables and their measurement; a relatively new analytical approach is presented in a very clear form. Section 3 discusses Uganda's taxation and political landscape, followed by evaluations of the different political settlements which Uganda has had in the period 1962-2023. It is analysed how each political settlement has affected Uganda's capacity to raise tax revenues; new evidence on this part of economic history is presented. Section 4 presents a simple OLS PSA-Taxation regression model for Uganda, followed by a 4-country PSA-taxation comparative analysis for African countries; this reminds the readers that the diversity of economic and fiscal conditions in Africa is quite huge. Section 5 presents the key issues which emerged from the analysis and outlines the tax policy

contending political blocs in society, their internal cohesion, accountability relations and benefit distribution. The dataset further adds novel variables related to systemic threats, the strength of domestic capitalists, and the character of social and economic policy. Following a description of the dataset's major features, validity and limitations, the paper applies one of its key indices – the Power Concentration Index – to five distinct political and economic outcomes to illustrate its potential.”

recommendations resulting from the analyses, while section 6 concludes. The tax policy recommendations are of great importance as a “politically inclusive socio-fiscal contract” is proposed in the essay; this is a much wider concept of a fiscal contract than the one used in the classical tax system/tax administration reform literature on Africa. Although the PSA approach is of great importance for redesigning tax systems, especially those of politically fragile African countries, there is a great need to do further comparative research based on the methodology which was developed by the esid research group.

In a fourth essay of Unit 1 with the title “**Fiscal Capacity and Domestic Resource Mobilization in Cameroon in Times of Global Crises**”¹⁷ the two authors **Ngo Tong Chantal Marie**¹⁸ and **Awah Ambe Harvey**¹⁹ analyse with a text/context/content interpretation analysis the performance of the tax system and of the fiscal policy in Cameroon in regard of strategies for strengthening domestic resource mobilization (DRM). This is done by looking at the Main Documents for Cameroon on the National Development Vision 2035 and the National Development Strategy 2020-2030 and at the Main Recommendations for Cameroon from IMF and World Bank, and to assess if there is an alignment of the content of these documents with the national economic and fiscal policy which is practised in Cameroon. Cameroon’s economy has been hit hard by major shocks such as the Boko Haram insurgencies, the “anglophone crisis”, the COVID-19 pandemic, the climate crisis, and the war of Russia against the Ukraine, crises which have destabilised the economy and some regions within the country, and which have interrupted supply chains (for food supplies, for commodity markets, and for fuel supply) and have pushed up prices (requesting policy responses in key policy areas). And in this context of multiple crises, it became even more difficult to mobilise domestic resources and to improve the fiscal capacity and the fiscal space. Despite of the negative impacts of all those crises, the government of Cameroon tried to continue the reform of the tax system, and to develop strategies to reach a higher level of performance of the fiscal system in terms of the mobilization of domestic resources at all governance levels. This essay explores the opportunities and the

¹⁷ The authors are indebted to the anonymous referees and to Professor Karl Wohlmuth, the Volume Chief Editor. Professor Wohlmuth has massively contributed to this essay by so many suggestions on methodology, comments on various drafts, proposals for literature research, and he has given encouragement at various crucial points of work on the essay. He was a great supervisor and inspirator for our research work. We are very thankful for this huge commitment; he showed great interest in the economic and fiscal problems of our country.

¹⁸ Ngo Tong Chantal Marie, Ph.D. in Political Science, Senior Lecturer at the University of Garoua, Cameroon

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challenges of those strategies and evaluates their efficacy and efficiency, looking at the alignment of policies with own visions and with external recommendations.

This essay starts in the introductory section 1 by looking at the context of increasing the fiscal capacity of the state of Cameroon, a situation that has become extremely difficult during a period of multiple domestic and international crises from the year 2013 onwards. Section 2 gives a review of the relevant literature, mainly with a focus on Cameroon's fiscal policy, and presents a critical evaluation of the primary and secondary data which were used in these studies. The methodology which is used in the study, and which is laid down in this section, is based on a content analysis of important documents on Cameroon's economic and fiscal strategies which were presented by the government of Cameroon and by international financial organizations like IMF and World Bank. The content analysis is the base of the methodological approach and looks at the alignment of the current fiscal policies of the country with the national strategies and visions and with the recommendations of the international financial agencies (IMF and World Bank). The intensive advisory role of international financial actors in relation to national strategies and policies is highlighted. In section 3, the fiscal capacity in Cameroon is considered in the face of multiple crises; the fiscal policy interventions applied to react to these crises are described and analysed specifically. This is done by looking at the various causes of these crises and how they impacted and interacted. This is the first step to see if the national visions and strategies could be held up by the policymakers since 2013; the role of the international finance organizations is brought in and reveals that the dialogue with the government of Cameroon was quite intensive in all these years. Section 4 is introducing the public finance system as part of the fiscal policy framework of Cameroon. Focus is on the integration of the public revenue system into a good governance system to speed up the tax reforms, to change the tax structure, to streamline the tax exemptions and tax incentives for large companies and for individual households, to control the oil sector and the state-owned companies as co-determining the fiscal capacity, and to overcome confiscatory tax systems and corrupt decisions and practices in the public revenue and expenditure systems, as such behaviours are affecting negatively growth, employment, and inclusive and sustainable development. This is the second step to check for the alignment with national strategies and international policy recommendations. This section is also reviewing the major defects of the taxation and spending systems. Section 5 then discusses the necessary actions to develop a consistent public revenue and expenditure reform agenda for Cameroon; this is the third step to look at the alignment of the fiscal policy reform agenda with the national strategies and the international recommendations. It is becoming obvious that successful reforms require a holistic approach as all these factors mentioned are interrelated. A resilient strategy based on sustainable policies is envisaged. The fourth step to check for the alignment of policies with strategies and recommendations is presented in section 6, as the decentralisation strategy for

local resource mobilization is a cornerstone of the Vision 2035 for Cameroon. The local government's fiscal system and its interaction with that of the central government is analysed, and the essay looks at major reforms for the local government fiscal system which are at an infancy level of progress. Section 7 has conclusions and policy recommendations, by summarising what these four steps of the analysis of alignment have shown. It is very interesting to see for this country case how this text/context/content/alignment analysis of fiscal systems in essay 4 contrasts with the conventional fiscal space analysis of essay 2 and with the political settlements analysis on fiscal systems of essay 3. It is a great advantage to have three different methodological approaches applied for these country case studies.

In the fifth essay of Unit 1 with the title “**Social Expenditure Monitor: A New Framework of Assessing Social Expenditures and Fiscal Policy Options in Selected North African Countries**” the three authors **Niranjan Sarangi**, **Dana Hamdan**, and **Nathaniel Martin**²⁰ analyse a new framework and a tool to assess social expenditures and fiscal policy options in North African countries. The new framework, the Social Expenditure Monitor (SEM), is applied to North African countries. It is useful to look at the relevance of the new framework and tool. Public social expenditures support massively the well-being and the economic potential of individuals and societies, and the role of social expenditures is directly linked to the realization of the Sustainable Development Goals (SDGs). Although social expenditures are so important for development processes, in North Africa and in other regions of Africa, the pressure to cut social expenditures is strong, despite of the increasing need to compensate the negative effects of multiple crises on fiscal revenues. The impacts of the multiple global and regional crises (COVID-19, conflicts and wars, and the climate crisis) are increasingly severe. With fiscal space under intense pressure from the rising debt service burden, from the costs of disruption of global and regional supply networks, and from global inflation and rising interest rates, the financing of the SDGs has remained a challenge for most developing countries. The COVID-19 pandemic, the war of Russia against the Ukraine, and the climate crisis effects have widened the SDG financing gaps, as almost all SDGs were affected. Therefore, improving efficiency in fiscal management is critical for enhancing social expenditures, and for preserving macroeconomic and social stability. Quality monitoring tools are increasingly

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important to improve the efficiency in fiscal policy decisions for the allocation of public expenditures. UN-ESCWA has produced such a new tool in the form of a Social Expenditure Monitor (SEM). Important is the relevance of such a new tool when applying it for budgetary choice decisions.

This essay presents the Social Expenditure Monitor (SEM) as an innovative framework of measuring social expenditures in seven dimensions and with over 50 indicators, and this is done by considering critical social development priorities if they are aligned with the SDGs. The SEM helps policymakers to better understand the configuration of budget allocations to social programmes, facilitates them to assess efficiency and effectiveness of budget allocations, and enables them to make “smart spending” decisions through providing all the information needed to reallocate resources to priority sectors and vulnerable population groups. The essay presents a discussion of the usefulness of the SEM for selected North African countries and proposes the adoption of such tools in planning and budgeting exercises by other developing countries. All this can contribute to improved fiscal policy choices to finance the SDGs and to reorganize public financial management (PFM). But, when applying SEM, it must be clear that the countries face often difficult questions and quite different conditions around the fiscal sustainability of enhanced social expenditures. A better assessment of social expenditures is critical for optimizing resource allocation toward improving both growth and distributional outcomes, and aiming at inclusive and sustainable growth and development. Governance plays a critical role in this context, but policy choices on social budgets and targeting social expenditures to vulnerable population groups are important steps to welfare increases in all societies. SEM is helpful in this context.

The Social Expenditure Monitor (SEM) was developed over some years by UN-ESCWA and is a new framework of measuring social expenditures in seven dimensions, and it is a tool to look if critical social development priorities are aligned with the SDGs (UN-ESCWA, 2019). The SEM helps countries to better understand the configuration of social expenditures to align the allocation decisions to the sustainable development goals (SDGs) (IMF-METAC & UN-ESCWA, 2022). The data, the methodology, and the policy recommendations in this essay are drawn from the recent publications of UN-ESCWA, including the SEM Dashboard (UN-ESCWA, 2024), the Social Expenditure Monitor Report (2022) (UN-ESCWA, UNDP, UNICEF, 2022), and other relevant literature. The assessment of the efficiency of expenditures is also an important function of the SEM (Gaska et al., 2021), but the issue is beyond the scope of analysis in this paper. Further research by UN-ESCWA will work in this direction.

The analysis in this essay has the following structure: The introductory section 1 gives the background for the development of SEM by UN-ESCWA, while the section 2 presents the concept of the SEM as a new framework for measuring public social expenditure to finance the SDGs; the data and the methodology of the SEM framework are discussed in this section in detail. The section 3 analyses

important trends of public social expenditure according to the SEM in selected North African countries and discusses achievements and shortfalls in critical social policy areas. The case of Tunisia is analysed in a detailed form in the sections 4 and 5. Section 4 is on tracking the expenditures by the indicators of the SEM dimensions, while section 5 is on targeting the main beneficiaries of social public expenditures. This is done to identify and to better understand gaps in budget allocations to different social purposes and population groups in Tunisia. The section 6 discusses the replicability of the SEM tool to other African countries, and the final section 7 presents the conclusions and some policy recommendations. The country case study for Tunisia highlights the use of the new tool for designing, implementing and monitoring social policy via the Social Expenditure Monitor (SEM).

3 The Strategy

Five important strategic conclusions follow from the five essays:

On Further Tax System Reforms in Africa - Colonial and Postcolonial Experiences are relevant

The first point of strategic relevance for current tax reforms in Africa relates to the fact that the tax base is not fully known in many low-income African countries. This is partly a colonial legacy. The placing of Africans into infertile land and mining towns meant that many people could not rely on self-sufficient farming and needed other informal livelihood strategies, especially in Southern Africa. This had long-lasting effects on how informal the economies were and continue to be till now. The talk about taxing the informal sector to increase the tax base is too often expressed in a superficial way, and a careful analysis of the various fractions of the informal sector is needed before starting with a generalized taxation of the sector. Indicators for assessing the informal sector base are often not useful or not precise, and e-taxation of informal sector transactions via mobile phone create new inequalities among taxpayers.

The second point of strategic relevance refers to the so-called group of large taxpayers, such as high net-worth individuals, large domestic private and state-owned companies, and international corporations which are mostly operating in extractive mining industries, but more and more also in the services sectors and in industry. Also state-owned companies in the utilities sector and private industrial conglomerates are such large-scale and often under-taxed economic actors. All these actors have a strong bargaining position vis a vis the tax offices and can block completely or will change fundamentally any intended tax reform. This is partly a colonial legacy as well, mainly in regard of the extractives. The colonial strategies were directed towards raw material extraction zones with minimal to

no taxation, and the current rush for strategic minerals reinforces colonial style extractivism. So many decades after the independence of African countries we see that the elite circles of leaders of big state-owned, foreign-owned, and domestic private corporations and politically connected business tycoons too often constitute a strong barrier to tax reform at the local level and at the central government level. The high degree of connectivity between politics and businesses facilitates this bias in taxing so many mighty actors. Tax reforms need to reach these groups of actors, what was not possible so far. New networks of participation and control are requested to go ahead.

The third point of strategic relevance is the lack of accountability when the tax is raised, as the taxpayers too often do not see the benefit of paying taxes in terms of public services. This lack has also a colonial dimension and legacy. Most of the Africans who are paying taxes have no voice on the spending of their tax money. After independence these mechanisms of taxing the people and the small firms without supplying public services to them were often used by African leaders, by the new elites. Fiscal capacity building must therefore be linked with the political will to deliver public goods and services at reasonable quality. For business actors in the formal sector this link is part of a fiscal contract, and for informal traders and producers a service-first approach may be a good starting point for establishing trust and adapted fiscal contracts. Service delivery and participation of the taxpayers in any fiscal contract are thus part of an effective tax system. But, too often the concept of a fiscal contract has not a great relevance in African economies. The fiscal contract has to be established and strengthened at all governance levels.

The fourth point of strategic relevance is related to the African economy's structural change and growth. The colonial legacy is that Africa's global value chains remain strongly based on raw materials and low levels of processing. African countries can however only catch up on levels of taxation with advanced economies if these countries go through a process of structural transformation via higher economic complexity of production that raises income levels. The level and type of taxation are directly related to issues of economic structure. The Economic Complexity Index (ECI) is an indicator of the evolving taxation capacity of an economic system, and shows the potential of the fiscal capacity. When economies improve their production systems for supplying complex high-value-added manufactured goods, parts and services, then the number of taxable transactions and the transaction values will increase. The information about these transactions will also increase and so higher tax revenues will emerge. The tax administration will be adjusted to the increasing level of complexity. Static views of taxation have prevented to look at the huge fiscal potential associated with increasing complexity through structural transformation.

Extending the Fiscal Space Analysis to Sustainable Development Goals – Climate Finance in Tunisia

A coherent fiscal space analysis is requested for realizing the sustainable development goals (SDGs), but also for mitigating and adapting to climate change through adequate finance. This is an important strategic move as North African countries and Sub-Saharan African countries depend on agriculture, agribusiness, and on agricultural processing industries, sectors which are more and more affected by the climate crisis. Droughts and flooding impact on the usability and the quality of arable land. The scarcity of water resources is affecting urban and rural areas, and also this issue requests that resource mobilization is strengthened and new financing instruments are developed - to protect non-irrigated and irrigated arable land, the sources of drinking water, and the water resources for so many other uses in industry and services sectors. Six strategic imperatives matter, especially for North African countries, to increase the fiscal capacity and to use the fiscal space:

First, designing a pro-active growth strategy based on a sound macroeconomic policy, is requested to overcome the many structural imbalances of the economy and to dynamize the pace and the pattern of economic growth. Based on a sound macroeconomic strategy a new agro-industrial and technology-centred strategy is needed to intensify the structural transformation, through targeting higher value-added sectors and through growing medium and high technology activities to support improved productivity and sustainable inclusive growth. Part of this pro-growth strategy is related to climate change mitigation and adaptation. An incentive package may be directed to investment and financing opportunities in relation to renewable energy and green economy projects; such interventions are likely to accelerate growth, to create more jobs, and to help mitigate climate change challenges. Such incentives may also include new fiscal and monetary measures, such as green stimulus measures, renewable energy investment tax incentives, and carbon pricing mechanisms. Pro-growth strategies include in many African countries new climate policies and access to climate finance.

Second, reforming public financial management should help to improve the public financial performance and to increase the ability to respect budgetary discipline (via controlling budget deficit levels and public debt stocks) and to guarantee the mobilization and collection of public resources. Digitalization will play an increasing role at local and national levels and can become a driver of a pro-active growth strategy. Important policy measures relate to imposing financial rules and budget ceilings to control budget deficits and public debt levels, to adopt medium-term public expenditure frameworks, and to promote the use of programme and performance budgets. To increase the fiscal space, providing in-depth risk analysis is needed, especially on public revenues and debt, and this complex analysis requires a focus on capacity-building in the public sector. Such a deep risk analysis requests the availability and the dissemination of data, especially of

public revenue and public debt data, because of its significant impact on building confidence and trust, and enhancing accountability. New public expenditures, such as for mitigating and adapting to climate change, can only be mobilised by strict policies to increase the fiscal space via a more effective public finance management.

Third, a strategy of fiscal consolidation refers to the application of fiscal policies to raise the fiscal capacity and to increase the fiscal space, what requires to prioritize public spending and to restructure taxation. Often recommended reforms include the rationalization of government spending by eliminating non-targeted food and energy subsidy programmes and replacing them with targeted social safety nets and transfers for the poor and the vulnerable groups. Such programmes of substituting general subsidy programmes by targeted social transfers had been often applied in developing countries, but with limited effect. There was no medium to long-term strategy behind and the political economy of this substitution did not easily work; too often it was not made possible to identify the poor and the vulnerable by improved data collection, and too often it was not clarified to the public and not communicated to the concerned groups what the objectives of such measures were. The direction of the strategies to increase the fiscal space, to reduce budget deficits, and to raise new finance for mitigation and adaptation of climate change, was not credibly presented by the policymakers to the public and to the concerned social groups. Evidence shows that a policy of saving on fuel and food subsidies can work only if the measures are carefully phased out and if the funds saved are used fully for the proclaimed purposes (social protection and climate change adaptation and mitigation). Climate change losses and damages can be compensated, and social protection schemes can be strengthened with saved funds. But more finance is needed to work in this direction.

Fourth, an important new area of intervention refers to the need for providing additional and sustainably invested funding to allow for investment efforts aiming at efficient economic and ecological adjustment, by structural transformation of key value chains and by improving the capacity to react to the climate change. This additional finance base may be used for improving existing infrastructure or for building new ones, for the greening of the economy, and for achieving the energy transition. However, to avoid further debt accumulation and higher risks for the credit position of the country, alternative and non-credit financial instruments may be used to provide the financial support in times when fiscal space is limited. Various instruments are discussed and could be used for such a transformation (climate-debt swaps, green bonds, green sukuk in Arab countries, public-private partnerships, diaspora bonds, crowdfunding, etc.). All these instruments have their inherent strengths and weaknesses and depend on a stable domestic financial system. But in various African countries such instruments work already and have impact on certain policy objectives, like addressing climate change, employment creation and training, and social protection.

Fifth, an area of intervention refers to the necessity of “greening” the budget which is conceptually the intensified use of public policy tools to achieve environmental and climate objectives. This is a strategy to work for the sustainable development goals (SDGs) directly and to link the public expenditure reviews (PERs) to important policy objectives which were neglected for a too long time. Greening of the budget aims at the challenges of resource mobilization, by increasing the level of the fiscal space by non-debt finance instruments and by ensuring the finance of the energy transition while avoiding the risk of unsustainable debt. Avoiding the wastage of water and energy resources by adequate public and private pricing mechanisms is another example of re-examining the budget positions in African countries. However, the finance laws need to take up fully the environmental and climate-related issues, what requests another form of cooperation between budget and environment departments. The greening of the budget can become a success story if the fiscal authority sets its objectives in terms of transition to a green economy, puts in place the tools to promote these objectives in terms of public investments and alternative financing tools, and installs performance targets and key performance indicators to ensure efficiency and sustainability. Monetary policy by central banks and by governments can support the greening strategy via the budget in various ways, and some countries and some regional currency central banks in Africa have already started to work in this direction.

Learning from Tax Reforms since Independence – Political Settlements in Uganda

Based on an analysis of the political settlements in Uganda since independence, one can see that tax reforms and changes of the tax administration were not neglected but driven through the lens of the prevailing political system (by the coalition of power, by the contract between powerful groups, and by the incumbent regime). It is necessary to look in African countries to the past, prevailing and upcoming political settlements as we see that the power relations between the leaders of important socio-economic and ethnic groups and their views on the social and fiscal contract determine the outcome of tax policies and tax reforms. Strategic conclusions follow, which are relevant also for other Sub-Saharan countries and even for North African countries. Uganda is an interesting case as so many political settlements emerged over the decades since independence.

What are then the strategic conclusions?

First, it is necessary to build a politically inclusive socio-fiscal contract. It can be confirmed that taxation is a “give-and-take contract” between the State and its Citizens, a contract that is only enforceable under an inclusive, broad-based, and legitimately negotiated political settlement. Such a contract should equitably share the (socioeconomic and political) benefits and costs to all the involved and concerned parties. Beside of sharing the benefits and costs between the various socio-

economic and ethnic groups, it is as well important to share the benefits and costs also at the level of the power elites (business elites, political elites, military elites, administrative elites, religious elites, etc.). If only the socioeconomic and ethnic groups are considered in the sharing process, the political system will be fragmented, and tax reforms will not work. New tax measures and innovations, such as E-Tax Systems to broaden the tax base via digital tools, will fail no matter how well-intentioned these approaches are, if the sharing of benefits and costs is not practised between the groups and leaders. To improve tax collection, there is need for a politico-fiscal paradigm shift from prevailing patronage systems with measures having a short-term time horizon to future-oriented contractual systems which are based on measures with a long-term horizon. Such new systems give clear orientation to state-taxpayer bargains in which sincere promises can be made to all parties.

Second, it is imperative to establish systems of strict fiscal discipline. Given the serious fiscal capacity and fiscal space limitations of African countries, it is requested to cut public expenditures in national budgets if these funds are financing programmes and projects of low social and economic priority, such as funds for representation, power consolidation, general administration, prestige projects, and for political control. Power consolidation is too often practised by giving access to public funds through rents, patronage, and political buyouts, through irrational appointments to key positions of government, and through the spread of inefficient and expensive tax advantages and tax exemptions. To guarantee access to social services, to infrastructure, and to other types of public goods and services, such costly political patronage systems are the reason why the bargains in the fiscal contract are failing, what is the case in very fragmented political settlements. Therefore, fiscal discipline has to be given priority, by cutting down wasteful government expenditures, by eliminating discretion in the formulation and implementation of budgetary allocations, by strict adherence to budgetary allocations (so ending the culture of adding from time to time supplementary budgets), by restructuring and rationalising MDAs (executive budget proposals by Ministries, Departments and Agencies of government) to avoid the duplication of functions and the practice of uneconomical double spending, and by avoiding excessive borrowing and debt accumulation. Such funding practices are widespread in African countries and so the potential for savings is huge.

Third, it is necessary to strengthen the tax policy framework against appropriation by specific political elites. Uganda's tax policy making process has recently been captured by the highest-level of political elites (by the president and his inner circle), who now use tax policy as a tool for power consolidation. While there are good and unambiguous laws providing for how tax policy is formulated, debated, passed, implemented, and administered, the prevailing political settlement no longer facilitates adherence to these rules. The tax policy department has been rendered completely useless, as the tax policies no longer come from the

mandated department but rather from the State House (the president). Clashes of the tax policy department with presidential orders on tax policies create uncertainty and biases with high economic cost. The fight against corruption in the tax administration system is no longer possible because of this appropriation.

There is now a proliferation of oversight institutions, leading to a loss of power for real control. The staffing of the tax policy department is inadequate, the relations between the revenue authority and the tax policy department have deteriorated, and there is insufficient funding of tax policy research. The reporting system between the URA (Uganda Revenue Authority), the MoFPED (Ministry of Finance, Planning and Economic Development), and the President's Office is unclear. The analysis of political settlements tells us that it is possible to disentangle the politics from this strategically crucial and highly technical policy-making role; this was possible during the economic recovery era of the 1990s. Government needs to commit itself to a longer-term, more forward-thinking tax policy research agenda to inform scientifically each and every decision it takes on tax matters, to invest in building technical capacity of those charged with the role of the tax policy development, and to streamline the relationship between the URA, the tax policy department, other responsible MDAs, the private sector business community, the CSOs (civil society organizations), and other key stakeholders. Scaling up participation and public debate and ensuring statutory independence of all state organs being responsible for the different stages across the tax policy life cycle (e.g., the URA, the tax policy department, the parliament, the Office of Solicitor General, and the judiciary) are important policy recommendations. Other possible corrective courses of action, being of relevance for most African countries, could be to streamline more effectively the tax system chain, to integrate the revenue and expenditure planning throughout the budget cycle, to restructure the tax policy department organisation, and to emphasize the renewed focus on tax policy making. The political settlements approach gives insights how the balancing of tax reforms between institutions of the tax system chain, between socio-economic and ethnic groups, and between power elites can be exercised and managed.

Fourth, deep political reforms may be necessary to strengthen domestic resource mobilization. Due to the continued fragmentation of the ruling coalition in Uganda since the late 2010s the tax system value chain was broken, so that it is no longer possible to implement new tax policies without any suspicion. The rising anti-tax reform movement in the country could throw the country back into renewed violence, regardless of how well-meaning the reforms may be. As the widespread corruption in Uganda's government MDAs contributes to the continued political fragmentation, the prevailing political settlement is eroding. Uganda's poor tax performance is now a direct victim of this weakening political settlement, which survives on a patronage system by using and distributing rents (via tax advantages and tax incentives from the state). The top business elites in Uganda are financing election campaigns with huge financial contributions, to get in exchange

rents, such as tax waivers to businesses owned by these elites. Annual public revenue collection targets cannot be reached without the use of excessive army-aided force; the weak and the vulnerable groups are then overtaxed. Therefore, it is recommended that the government of Uganda starts a national dialogue from which mass political reforms would emanate. As political freedoms (like the right of assembly, protest, association, and free speech) have also been grossly curtailed and the respect for rule of law has sharply deteriorated, a fiscal socio-political contract is no longer relevant. The government cannot any longer effect its mandate to collect taxes. New political proposals, like a move to a federal system of government, where each region or major ethnic grouping would form their local/regional government based on a fiscal identity and sovereignty, are now discussed. These proposals are considered to correct historical ethnic cleavages and to restore step by step the fiscal capacity by raising the tax performance. This means that a new and more inclusive political settlement is proposed to restore public trust in government's ability to keep its fiscal responsibilities. The case of Uganda is requesting deep political reforms to increase the fiscal capacity, but it is an experience that various African countries could not improve their fiscal capacity by more fiscal federalism; such a system has important preconditions. When these preconditions are met, by restoring a functioning fiscal socio-political contract, fiscal federalism will work. Political participation at all governance levels will help to reach this new governance system.

Fiscal reforms depend on national visions and on international advice – the case of Cameroon

While the case of Tunisia was methodologically based on an extended fiscal space analysis and the case of Uganda on a political settlements approach to derive strategic conclusions, the case of Cameroon is built on an analysis of the alignment process in regard of policies to increase the fiscal capacity and to strengthen the domestic resource mobilization, an alignment process on the one side with the national development vision and the national development strategy of Cameroon and on the other side with the international policy advice from IMF and World Bank to the country. Cameroon has a National Vision 2035 and a National Strategy 2020-2030, and over the recent four years the dialogue about new strategies was intensified, and this was relevant at all governance levels, from the central government down to the local governments. The alignment process was not continuous, but it is important to look at the fields of progress and the fields of gaps in this process. Such position checks in regard of the alignment process are also relevant for other African countries.

Various strategic conclusions follow from the analysis:

First, it is necessary to address carefully the financial and the fiscal risks of the country. Despite of updated regular debt sustainability analyses and continuous

advice through country reviews from IMF and World Bank the responses of the government of Cameroon were not considered as sufficient. Cameroon's fiscal policy framework has not recognized the urgency of addressing the financial and fiscal risks associated with the multiple crises confronting the country and the need of planning for a long-term inclusive growth and sustainable development path through determined reforms of the taxation system and the fiscal policy framework. The alarming situation of the State-Owned Enterprises (SOEs) was not considered with a deep concern, and managing the risks associated with the high debt stock and the new debt of the SOEs deserves a higher priority. The toxic debt situation of the SOEs in the oil and gas sector and in related services companies accelerates the risks for the fiscal and financial situation. These entities in the oil and gas sector play a crucial role in the economy, and new forms of control and guidance from the state are requested. Related to these fiscal and financial risks is the urgent need to improve the Public Debt Management (PDM) of Cameroon. Efforts were made to strengthen public debt management via clear objectives and better operational practices, but the outcomes are not satisfactory. Limiting non-concessional borrowing is critical to maintain fiscal sustainability, but also the concessional financing window is confronted with severe problems. The need for a new level of Transparency and Governance Commitment (TGC) is seen at all governance levels. Although issues of transparency, accountability, good governance, and fighting corruption are always on the agenda in the dialogue of the government with international actors, concrete tasks and sustained reforms are still ahead at all governance levels. These key issues are essential for an effective fiscal policy framework. Although the government has reacted by some fiscal reform actions in the recent Finance Laws, the impression by businesses and by households is held that this has not led to enough change to generate inclusive growth. Beside of data gaps to make informed policy decisions, some actions could complicate the oversight of institutions. The development of new debt instruments through public bonds is a welcomed instrument to finance public expenditures, but more control is needed. Also, cross-firm and cross-border transactions of state-owned companies are creating new risks for the financial space.

Second, the Logic of Tax System Reforms and of Debt Policy Reforms in Cameroon is questioned. It is not seen that these reforms are based on clear objectives and appropriate instruments to implement them. The current taxation and fiscal reform logic of Cameroon's government is described as multifaceted, aiming to enhance revenue mobilization while promoting equitable and effective public spending. But there is an increasing number of critical evaluations of the fiscal system questioning to what extent this is valid. The tax base remains relatively small, but the issue is arguably addressed through reforms of the taxation system, especially by including small and informal enterprises. The tax structure has evolved over time, but this issue is now part of new reforms, mainly by intentions to increase the shares of the (personal and corporate) income taxes in the overall

tax revenue volumes. Focus is also on digitalization to improve tax efficiency and tax compliance and on improving the tax administration to handle the problems of inadequate tax collection enforcement and of substantial tax evasion; the outcomes are not considered as very promising. At best, the reforms of the tax base, of the tax structure, and of the tax administration are considered as a start in scope and depth; acceleration and sustainability of the process will matter. The unsustainable high debt stock of the SOEs requests urgent action, necessitating a careful prioritization of public expenditures for the restructuring of the SOEs to support a resilient and sustainable growth process. Because of cross-border activities of the SOEs in the oil and gas sector the risks of an external debt accumulation increase, and data on these debt stocks are not reliable or not known. Cameroon's fiscal policy mix of high overall corporate tax rates, associated with many tax exemptions and tax incentives for large domestic and foreign enterprises, needs to be reviewed. The tax exemptions and the tax incentives play a great role among Cameroonian policymakers in the field of industrial policy to stimulate growth and development. While tax revenues are vital for government investment and economic growth, high overall company tax rates can impede development by discouraging work and prompting economic actors to relocate their activities. However, the great number of tax exemptions and tax incentives for large companies reduces the volume of tax revenues, and suffering are obviously the small and medium-sized enterprises. Warnings about "confiscatory taxation" abound in Cameroon and then lead to pleas for further tax exemptions and tax incentives. Tax exemptions for specific sectors and selected activities can lead to destructive forms of lobbying by business groups and should be rationalized and streamlined. Tax reforms for inclusive and resilient growth are now discussed by the policymakers in Cameroon and in other African countries, but so far in Cameroon these are first ideas brought into new strategic planning documents.

Third, public spending priorities of Cameroon need a reassessment. Despite of various public expenditure reviews from the side of the IMF and the World Bank, a clear prioritization of expenditures was not done in recent years. Since 2018 (before the Corona-19 crisis) such proposals were discussed, but not implemented. In times of multiple crises which are affecting the economy and the society, the financial pressure to support the households and the businesses increases the need to reprioritize the public expenditures. Roadmaps for such a reprioritization are available since 2018, but in no strategic field concrete forms of implementation are becoming visible. Reducing the large share of central state general and financial administration expenditures in total public expenditures is a key point, beside of restructuring the expenditures for SOEs and targeting more carefully the social safety nets. Another issue is the reform of the education and the health sector, as both sectors have failed to respond to the requested reforms; staff located in some urban areas is mainly financed, while vulnerable persons and peripheral areas are neglected. It is an open question if the reform of the fuel subsidies will

create fiscal space for other categories of public expenditures. Since 2018 the actions on public spending priorities did not really change the crucial role of the fuel subsidies and of the expenditures for restructuring the SOEs and financing the oil and gas sector.

Fourth, digital tools are increasingly used to improve Tax Administration, but it may be questioned that they are used widely, correctly, and effectively. The reforms of the tax system in Cameroon include the use of tools from the ICT technologies. The penetration of ICT tools into the taxation system can be helpful for the government which makes efforts to mobilize tax resources via electronic means. The idea is to facilitate tax administration, to increase the tax base, and to reduce corruption in the process of collecting taxes. Evidence from Africa shows that the adoption of ICT tools can increase the mobilisation of tax revenues in Africa. The lessons of using digitalization for reaching good governance outcomes in Africa are not so promising, as most observers argue that the quality of leadership and the power structure of political settlements decide about a good governance behaviour when using such tools. The fiscal socio-political contract is relevant. Political processes decide about the impact on good governance, and digitalization can contribute to transparency of the tax system if properly and widely applied. In the case of Cameroon some progress is possible if the national visions and strategies are accepted by the leadership and if the citizens can see a regular supply of public services in exchange for their taxes paid. International advice plays a great role to lead to finance laws which are transparent, implemented, and continually reformed, including the proper use of digital tools. The case of the SOEs in the oil and gas sector of Cameroon shows that digitalization could not help so far to restructure these companies and to avoid problematic cross-firm and cross-border transactions. The companies and the public offices have the capacity to apply digital instruments for management, but over the years no progress could be achieved towards good governance and transparency in the oil and gas sector of Cameroon. The scenario of online submissions of income tax declarations was seen at times as a quite troubling process, and this weakness has affected mainly small businesses and individual households, but not in a similar way the large private and state-owned companies. Confiscatory taxation is a problem for small businesses, and the use of digital tools by the tax administration can create new problems for them, as these businesses are automatically taxed while the large businesses are benefitting from exemptions and incentives in self-declaration systems. At customs offices the digital procedure of payments may have contributed to reduced corruption by suppressing the handling of cash by customs agents, and it seems to have increased the performance of customs stations. Digital technologies support the intra-African trade in various ways, and the impact on reduced corruption is obviously one of the positive outcome factors, besides of speeding up customs processes and reducing transaction costs. But it is not so clear if digital tools have such positive outcomes on corruption at higher office and staff levels

of customs authorities. Therefore, the outcomes of digital technologies on good governance are sector-specific and level-specific; the outcomes may change dynamically the governance mechanisms of the country, and a functioning fiscal socio-political contract will be a main determinant.

New Instruments to support Domestic Revenue Mobilization (DRM) in Africa – the Social Expenditure Monitor (SEM) has a significant role

Because of the severe social situation in many African countries after the pandemic and after other global and regional crises it is necessary to develop new instruments to increase the fiscal capacity and to reorganize the social safety nets in Africa. A new framework of “Assessing Social Expenditures and Fiscal Policy Options in Selected North African Countries” is made available by UN-ESCWA and has relevance also for Sub-Saharan African countries. There was long way from the Sustainable Development Goals (SDGs) to the Social Expenditure Monitor (SEM), as the design elements are complex and critical. To use such an instrument fully, the strategic options and conditions need to be understood. Five strategic conclusions follow:

First, the Social Expenditure Monitor (SEM) introduces an innovative analytical framework that assesses social expenditures across seven dimensions. The dimensions are aligned with the Sustainable Development Goals (SDGs), as the SEM framework considers the following areas: education; health and nutrition; housing, connectivity, and community amenities; labour market interventions and employment generation; social protection, subsidies, and support to farms; arts, culture, and sports; and environmental protection. All these seven key dimensions are priority areas, and so the policymakers need data to identify the groups who receive social expenditures. The SEM first helps to align public expenditure choices with macroeconomic objectives; second, the instrument lays the foundations for improved statistics; and third, it supports advocacy for essential fiscal policy reforms toward improving the financing for SDGs. When combined with new instruments to raise the fiscal capacity, SEM will help to improve medium to long-term planning. Visions and strategies can be better followed to see if the outcomes are on the right path of development. SEM gives information what the society and vulnerable groups get in terms of allocations of funds for key sectors such as education and health. To provide the information is a huge task for institutions working on data collection and dissemination.

Second, there are serious gaps and imbalances identified by SEM in critical social policy areas. The SEM identifies gaps in critical social policy areas which are important for progressing towards achieving the SDGs, such as developing housing and connectivity, generating employment, promoting creativity through arts, culture and sports, and protecting the environment. These issues need more attention to improve the resilience over climate-related shocks, to build capacity for the benefit of the youth, and to enhance the productivity of the workforce over

lifetime. SEM informs also about the distribution of social expenditures between uses for current and investment purposes. In North Africa around 80 per cent of the social expenditures are current expenditures; infrastructure and equipment are neglected. This is a great imbalance which needs correction.

Third, via the SEM one can check if targeting of public expenditures for the beneficiaries does work effectively or not. The SEM reveals that there is a major challenge in targeting the main beneficiaries of public social expenditures. Accurate data on beneficiaries of public expenditure are needed and have to be improved to better analyse equity and solidarity. A large share of the beneficiaries is not clearly identified, so that the social expenditures do not reach the people who need support. Beneficiaries are then households and families who are not the targeted persons and households of programmes (as examples, of cash transfers and/or subsidies), so that only small resources do target older persons, women, and specific vulnerable population groups. The SEM can therefore advance the analysis of policy choices and improve the targeting of social expenditures to vulnerable population groups. It is so much easier to map the funds for the various types of dimensions and for the vulnerable groups of beneficiaries.

Fourth, the SEM is of strategic importance as it supports the data analysis, the data use, the governance of social sectors, and the accountability of social expenditures. The SEM allows it to improve the financial statistics, what follows from the deeper disaggregation of the specific purpose of social expenditures, which connects better with the indicators and targets of SDGs. The indicators, which are part of the SDGs, are so confronted with the dimensions of SEM. Improving financial statistics lies at the centre of improving fiscal management, and therefor SEM contributes to a better public expenditure and resource management. SEM can also be used to target the management of investments in social sectors, but also to improve the budget execution, the transparency, and the oversight and accountability mechanisms. All this increases overall efficiency and effectiveness of public budgets; a higher level of fiscal transparency and governance is an important potential outcome of this new tool. This enables countries to progress on measures of human well-being and SDGs. Although the SEM tool was applied to be used in North African countries, there are good chances to apply the tool also for uses in Sub-Saharan African countries.

Fifth, with SEM moving towards an Agenda for a New Social Policy in Africa is possible. The Social Expenditure Monitor (SEM) supports proper analysis to inform fiscal policy choices and allows countries to take concrete steps towards “smart spending” across social development priorities which are aligned with the SDGs. Along the SEM project an 11-point agenda for action was outlined to make budgets more equitable, more efficient and more effective to achieve the SDGs. This helps to replicate the SEM in other African countries with a still lower level of development, with weaker social safety nets, and with more modest conditions on data availability. Also, in these countries SEM can act as a cornerstone in

driving fiscal policy reforms. Given the current challenges of fiscal space for financing SDGs, the SEM informs governments to better understand the landscape of social policy programmes and social expenditures, and to reprioritize the public budgets towards critical social policy areas and towards the citizens' needs. SEM also suggests to undertake corrective policy action to address critical challenges in national development contexts, so that alternatives to expenditures for social safety nets can be found, such as expanding employment generation programmes or incentivizing start-up businesses for self-employment. The SEM advocates "smart" investments that promote equity within society, via ensuring that resources are directed to those being most in need. This leads to efficiency gains so that the fiscal space is increased; the available resources can then be used more effectively to address the needs of vulnerable population groups and to promote sustainable development. Fiscal discipline can also be realized by using the SEM for simulation exercises which are informing policymakers of how public social expenditure policies will align with macro-fiscal policies and with inclusive development strategies.

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African fiscal capacity building historicised: Colonial legacies and postcolonial challenges

Abel Gwaindepi¹

1 Introduction

“The total debt of this country stands at £55 421 000, and the interest payable on the loans is £1 905 000. This is an unsatisfactory feature that we sent such an amount over the water to Europe every year” (Cape Parliament, 1908, cited in Gwaindepi, 2018, p. 173). The above quote was by Mr. Merriman, the last Prime Minister of the Cape Colony, a major British settler colony in the southmost tip of Africa before the unification of South Africa in 1910. Foreign debt and its servicing had crippled the Cape Colony in the face of dwindling domestic tax revenues. The Cape’s diamond-based economy had been extractive and depended heavily on the metropolitan capital markets in London (Gwaindepi, 2022b). Diamond extraction, mainly done by non-Africans, was barely taxed, neither locally through income taxes nor its export, while Africans could get their cattle seized or huts burnt for failing to pay hut tax. This was also true for agricultural-based colonies such as Uganda (Jamal, 1978; Tuck, 2006). When produced by Africans, cotton, cocoa, tea, coffee and other farm produce were heavily taxed in East and West Africa (Tuck, 2006). The effect was that Africans were heavily taxed with a colonial strategy that saw the taxation of Africans as a method to encourage labour supply and productivity or civilization. In contrast, lower taxes for non-Africans and foreign capital were seen to encourage business.

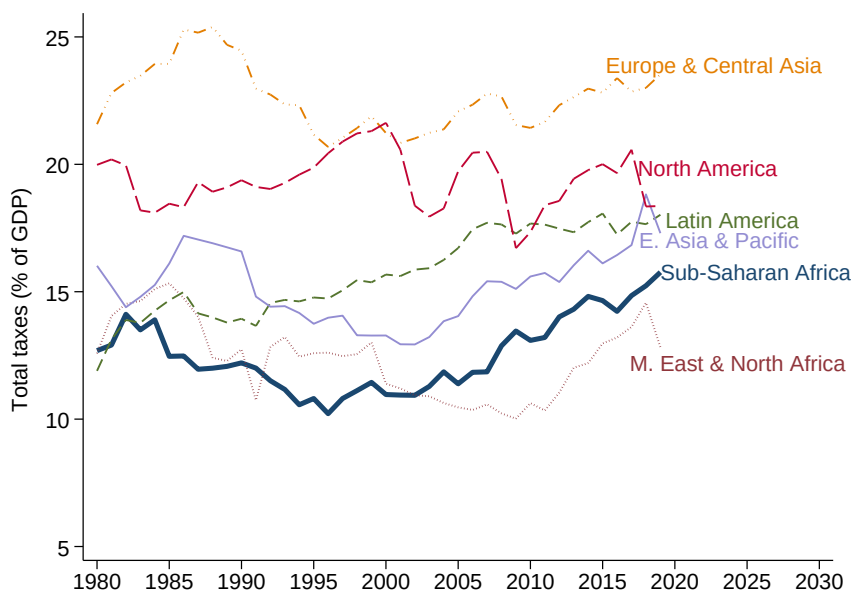
A century later, the story has not changed for most African economies. The accumulation/development model in most developing and previously colonized countries is similar, anchored by exports of mostly raw commodities and imports of finished products, leading to poor terms of trade, trade deficits and balance of payment challenges. The extractive economies also have undiversified tax bases, with rudimentary capital and financial markets. Reliance on foreign borrowing is as inevitable now as it was over 100 years ago. The current taxation challenges need to be understood in this historical context. The structural challenges in

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African economies, such as dependence on primary sectors, high levels of informality, and the unfair insertion into the global financial architecture, have continued to limit domestic revenue mobilization.

African countries raise very low tax revenues today and lag to other regions, even developing regions such as East Asia and Latin America. It is expected that poor countries raise low absolute amounts of tax revenues compared to rich countries, but the issue is that African countries raise a smaller proportion of revenue as shares of their incomes than other regions. Since the 1980s, when data are comparable worldwide, the average tax to gross domestic product share in Sub-Saharan Africa has barely reached 15% and remains at the bottom with the Middle East and North African regions (see figure 1 below). Policy and research debates continue to seek an understanding of why African governments perform relatively poorly in raising taxes.

Figure 1. Comparative tax to GDP shares (%), 1980-2020.



Source: Computed with data from UNU-WIDER (2021). **Note:** Tax data excludes natural resource revenue and social contributions.

Figure 1 shows that the developing regions were not different by a great magnitude in tax shares in the 1980s but decline and stagnation were pronounced for decades in Africa. For taxes, it seems that rather than talking of the lost decade (Easterly,

2001; Bates et al., 2007), two decades were lost, with recovery coming in the years post-2000s. Continuous research is needed because, in the face of dwindling aid (UNCTAD, 2024), domestic revenue mobilization (DRM) is the only reliable means African countries can use to raise the revenue needed to fund public goods and services, such as health care, education, infrastructure, and maintaining law and order.

Many reasons for the persistent low fiscal capacity in Africa are given. One challenge is that many African countries were previously colonized and whether this low fiscal capacity has colonial origins remains open for research. At the very least, it remains essential to acknowledge that while other nations were developing their capacity to tax, colonization put this on hold in Africa, which altered the path of African progress. Unpacking what colonial states taxed or did not tax and the socio-economic conditions that shaped tax decisions remains important. In addition, it is important to trace what taxes introduced during the colonial times were adopted by the postcolonial states. This tracing of continuity and change between colonial and postcolonial state's types of taxes and motivation of who and what was taxed provides a window into the historical (colonial) development of taxation in Africa. This focus on colonial and postcolonial taxation also allows consolidation of our knowledge of African taxation, an important undertaking that should precede comparative studies with other regions.

This chapter builds on existing and latest empirical evidence to discuss taxation in Africa from the 1900s to the present day. The main objective is to explore the political economy of colonial taxation and its antecedents and role in understanding postcolonial taxation. The colonial and postcolonial periods are rarely put into a long-term framework, but recent empirical work in economic history allows such attempts (Jerven, 2022; Albers et al., 2023). Separating the two periods has caused an unfair narrative on the “collapse” / “failure” of African states in post-colonial times, especially when the flawed colonial foundations are not dealt with in such debates (Mamdani, 2005). The main hypothesis is that colonial foundations of taxes in Africa were defective and gave African states the difficult task of undoing the legacies while concurrently trying to build fiscal capacity on colonial remnants. In a historical analysis of taxation with a long-term framework, the study achieves its aim by collating evidence on what was taxed, the types of taxes, and the socio-political contexts informing these taxes. This reveals what the imperial powers and colonial administrators were trying to achieve for the colonial period, including the local and international dimensions of tax systems they left for the postcolonial governments to face.

The chapter's main message is that the colonial foundations of African tax systems were structurally weak and were based on colonial extractivism. This was undergirded by dual economic systems – defined by a sharp divide between a modern, urban sector serving colonial/imperial interests and a traditional, rural sector focused on subsistence economic activities, leading to unequal development

pathways with tax burdens skewed against poorer African taxpayers. In the post-colonial period, the tax system expanded without departing from the extractive developmentalism underpinning colonial systems. Without a fundamental transformation of African economies to move up the ladder of global value chains and necessary institutional/administrative capacities, the tax bases will remain rudimentary. The international financial architecture is a bigger area that, when reformed, can produce an international tax system compatible with domestic revenue mobilization in Africa.

Following the introductory section one, the following section two examines some of the basic principles of taxation and documents how the colonial tax systems in Africa disregarded many of the principles, laying weak foundations for postcolonial states to build on. Section three discusses colonialism and taxation, highlighting how taxation in the colonial territories resulted from developments in the metropolises and local constraints that shaped what was taxed. This section also briefly highlights general theories of fiscal capacity building, distilled from Western experiences, including their limitations in the colonized regions where local conditions dictated actions and tax innovations that suited the logic of colonial rule. Section four will discuss fiscal capacity in the postcolonial period, highlighting unique colonial legacies on taxation and new challenges that emerged during the decades of decolonization. Section five concludes the chapter with some current taxation issues and some policy recommendations.

2 Principles of taxation and the dual colonial tax system

Countries need to target taxes that raise more revenues (revenue yield principle) and treat taxpayers equally (equity principle). These principles refer to broad-based taxes rather than to those affecting only sections of the economy. The equity principle says that people with similar incomes should pay equal taxes (horizontal equity) while those with higher incomes ought to pay more taxes (vertical equity) (Alm 1996, p. 117). The third principle is that taxes should reduce distortions in economic decisions or should not discourage people from doing business (efficiency principle) (Mirrlees, 1971). The third principle is guarding against punitive tax rates, which may push businesses to stop producing. In colonial times this was recognized but pushed to its limit as those in the lucrative economic activities overstated their importance. In South Africa's Cape Colony, the argument can be shown by the Diamond Commission, which argued that: "It is a notorious fact that the amount of money invested in Mining Companies is far beyond the community's resources; as a remedy for this, it is absolutely necessary that European and foreign capital should be introduced. ...heavy taxes will most seriously hamper such undertakings, and such a tax is absurdly disproportionate to the just dues of Government (Diamond Commission 29, 1881, p, 144)". Ultimately, the mining

profits were not taxed, setting a precedent and fierce debates about when other taxes would be introduced economywide. The taxation of non-Africans in agriculturally based colonies such as Uganda was also premised on this need not to “scare” away capital (Tuck, 2006; Young, 2012). The fourth principle is that taxes should not be administratively burdensome or costly for taxpayers and tax authorities (simplicity principle) (Alm, 1996). In seeking simplicity, the colonial system heavily relied on poll taxes charged per adult and taxes such as hut taxes on each hut (more in the next section). The colonized Africans paid these unique taxes and thus have been aptly called “native” taxes.

One way the taxation principles manifested itself in the colonial period was the dual system, especially in the settler colonies of Southern Africa where a significant number of Europeans settled (Gwaindepi, 2022a). The differential treatment between Africans and settlers determined who and what was taxed. Some taxes were uniquely African (“native” taxes) because they were levied on the indigenous people only. The other category was conventional (“modern” taxes), which were paid by everyone. “Modern” implies those taxes that had become widespread worldwide from the late 19th century, “testifying to a high degree of control and coordination of resource flows by a central political entity (i.e. the state) and the existence of a tax code that applies equally to all state inhabitants (i.e. citizens)” (Frankema & van Waijenburg, 2021, p. 3). So, modern taxes were introduced in Africa along with other local taxes, such as hut taxes (Seelkopf et al., (2021). The exploitative and oppressive nature of the colonial regimes implies that the taxes on the indigenous population were not always progressive or based on principles of fairness. Africans paid native and modern taxes, while the settlers paid only modern taxes (Tuck, 2006). For instance, the settlers had more sophisticated houses on which they never paid taxes, while the Africans paid taxes on their huts (see table 1).

The next section starts with the colonial system and a synthesis of how the European tax system rose and spread through imperialism that brought new taxes from the metropolises but also introduced unique colonial taxes.

3 Colonialism and taxation

The desire to explain the fiscal capacity gap between rich and poor countries has absorbed many efforts. The central question in these kinds of enquiries originated with Nicholas Kaldor, who had asked in 1963 whether underdeveloped countries would ever learn to tax (Kaldor, 1963). In a recent recast, Besley and Persson asked, “Why do developing countries tax so little?” (Besley & Persson, 2014). Implicitly, these questions privilege fiscal states in high-income countries as ideal benchmarks for African countries. To the extent that these studies sometimes gloss over colonialism and its structural legacies, the comparison has no equal footing

in that the accumulation of the capacity to tax in some of the major European countries cannot be separated from the pillage and colonial extraction that they enacted in Africa. For one, the colonial states were not even “African”, and many comparative studies (with long time frames) do not bother pausing to engage with the fundamental flaws in the colonial foundations of taxation in Africa.

Table 1: Differences between native and modern taxes for Sub-Saharan Africa.

<i>Attributes</i>	Native taxes	Modern taxes
<i>Tax authority</i>	Colonial governments	Colonial and national governments
<i>Taxpayer</i>	Indigenes	All Citizens
<i>Non-compliance measures</i>	Imprisonment, forced labour, cattle seizure, burning of huts, etc.	Fines, penalties and legal action
<i>Purpose</i>	Support native administration and colonial governments	Support colonial and postcolonial governments
<i>Format of taxes</i>	Cash, goods, labour, etc.	Cash and direct transfers
<i>Examples</i>	Corvée labour, hut tax, poll tax, prison labour, etc.	Income tax, sales tax, trade tax, value-added tax (VAT), etc.

Source: Author’s table, adapted from Gwaindepi (2023).

Precolonial taxation systems

Taxation history inevitably touches on the origins of states themselves. From the foraging stages of human development, groups of humans have emerged, and humans became territorial. Those with more resources could mobilize better armies and wage wars with neighbours, absorbing them and forming even greater organized and autonomous units or kingdoms, which could be regarded as proto-states. As known today, African countries were organized in communities ranging from villages under village heads to powerful kingdoms constituted by various ethnicities under one king/or chiefs in different forms of elaborate traditional political administration systems. Tribute was a popular way so that chiefs received taxes. Tribute was a transfer of commodities to chiefs, usually grains or domesticated animals, hoes, cowrie shells, and backcloths, but chiefs could also get their land worked on by their subjects as a form of in-kind taxes (Tuck, 2006). The

monetization of the African economies came mostly through the colonial system. Power centralization and tribute were a form of political organization that allowed traditional leaders to provide public goods, such as traditional courts and the protection of lives, crops, and any business operating under them.

The more homogenous and bigger ethnic groups were likely to have centralized and strong polities, with the capacity to collect tribute and to function as proto-states (Gennaioli & Rainer, 2007; Michalopoulos & Papaioannou, 2013; Bandyopadhyay & Green, 2016). This observation is consistent with the arguments that colonial authorities took advantage of what was working when they came and capitalized on it so that in indirectly ruled colonies these institutions were regarded as beneficial (Bolt & Gardner, 2020). But for taxation, what matters is probably the persistence of wealth since powerful and centralized polities were likely to be wealthy.

While the precolonial system of taxation might have had problems, there is a wide consensus that the precolonial tax institutions under the chieftaincy system were generally egalitarian (Amanor, 2022). In Nigeria, for instance, precolonial taxes were imposed on a “persuasive basis and appealing to the sense of collective belonging” (Ayodele, 2022, p. 13). Colonialism brought alterations, mainly through the new roles given to chiefs and the creation of new chiefs where none existed. For instance, Ghana's acephalous territories had to be given new paramount chiefs, creating seeds of chieftaincy conflict that affect Ghana even today (Amanor, 2022). Precolonial taxation in Africa carried a similar logic when compared to the European centralized power systems which were legitimated by public service provisioning. This process was not allowed to evolve organically in Africa as slavery and colonization brought a new logic to taxation. The European tax systems were refined while African countries were under colonial subjugation that brought some of the metropolitan taxes but mixed them with repressive (colonial) taxes in a dualized system that treated the colonized and the colonizers differently.

Colonial taxation systems

The colonial system completely changed the economic, social, and political lives of the Africans. One area of importance for taxation is the monetary system. As prescribed at the Berlin Conference, the colonial administrators had to extract taxes from the people to show effective control and an expression of power (Gwaindepi, 2022). In Uganda, Tuck (2006) describes the “rupee disease” that brought much suffering to Ugandans who now had to enter the cash economy to earn money for taxes, occasioning a completely new way of living under the commercialization and commodification of production systems. From using hoes, cowrie shells, and other forms of barter and in-kind payment systems, using cash only was limiting in many ways and less flexible (Tuck, 2006; Gardner, 2018). The introduction of currency was forceful and was premised on the thinking that “tax will prove to be the making of the country – because of the habit of work it

inculcates” (Jamal, 1978, p. 420). This was also the dawn of further hierarchization of societies, with huge implications on inequalities of race and class. The incomes of Europeans in Africa outstripped those of Africans by a factor of 20 or more (Frankema et al., 2023, p. 6).

Colonial African states enjoyed metropolitan backing, especially on territorial defence that was funded by the metropolises. This implies that their fiscal umbilical code remained attached to the metropole, giving them a unique identity of weak and strong. This is captured well by Cooper (2002, p. 5) when he argues that “They had weak instruments for entering into the social and cultural realm over which they presided, but they stood astride the intersection of the colonial territory and the outside world.” Nonetheless, the colonial states were compelled to raise taxes, so that they did not burden taxpayers in the metropolises. This financial self-sufficiency goal was important to the extent that chartered companies were partly used to outsource the cost of empire-building in Africa. The chartered companies had only limited success because they could not reconcile governing territories and making profits. The push for colonial self-sufficiency was prevalent in both the British and French colonies. Colonies needed to be financially self-sufficient (Gardner, 2012; Huillery, 2014). This meant that they had to tax effectively for public goods. For French Africa, for instance, Huillery (2014, p. 34) notes that “...many Africans believe they owe French colonizers for their schools, hospitals, roads, harbours, railways, and various other infrastructures. Yet they financed 98% of the cost...”.

What and who was taxed and why matters for the colonial state, which treated the settlers and the colonized differently. One element that absorbed the collected tax revenue in the colonial states was the huge public wage bill because the colonial officers were paid very high salaries. Most Africans were thus forced to foot the public wage bill for “safeguarding the interests of foreign administrations, foreign enterprises and foreign settlers” (Frankema and van Waijenburg, 2021, p. 2). Colonialism was thus a black man’s burden (Huillery, 2014). The revenue hunger caused the same coercive mechanism for the settler colonies and those which largely had an indirect rule. In settler colonies, reasonably good administrative capacity meant that tax officers were appointed to enforce the tax laws, often ruthless when the taxpayers were Africans. For instance, cattle seizure and burning of hearts were inflicted at the Cape Colony whenever the Africans did not pay hut taxes (Gwaindepi, 2021, p. 355).

In indirectly run colonies, chiefs were recruited in what has been termed decentralized despotism where “Chiefs ruthlessly took cattle, goats, crop produce ... Those who failed to raise taxes such as widows were forced to cultivate the chief’s land” (Mamdani, 1996, p. 56). In Uganda, chiefs could be removed from their chieftaincy for not collecting enough taxes (Tuck, 2006, p. 228). Such practices changed even egalitarian customary chieftaincy traditions to serve the colonial project (Amanor, 2022). In Nigeria, for instance, the precolonial tradition was that

widows were exempt from taxes, and the colonial authorities wanted to change this, resulting in the largest colonial disruption in West Africa - The Aba women's riot of 1929 (Ayodele, 2022). Generally, the "native" taxes tended to be punitive with exorbitant rates, causing widespread tax revolts. Some examples include the Gun War in Basutoland (1880), the "Hut tax war" in Sierra Leone (1898), the Bambatha rebellion in Natal (1905), and Mau Mau revolts in Kenya (1952). These revolts and other threats of tax revolts across colonial Africa show how the legitimacy of the colonial state remained very fragile around taxation (Gardner, 2012, p. 8).

The tax base was also crucial for colonial times. These colonial economies were essentially limited to mining, farming, and trade. It follows that the "tax handles" were limited and largely dictated what could be taxed (Mkandawire, 2010). The French and British colonial tax systems did not follow any metropolitan blueprints, but where local conditions were similar the taxes were also similar, and pragmatic responses to local contexts can be mistaken for metropolitan blueprints (Frankema & van Waijenburg, 2014). Whatever tax strategy could balance the colonial budgets with minimal protests was adopted. Some of these sources had to mirror how the local indigenous people lived. For instance, while the hut tax became popular in most African colonial states (Gardner, 2012), in French Muslim countries the traditional Muslim Zakat tax was also adopted and became important in a few countries. In Mauritania, it was the most important direct tax (Frankema & Booth, 2019b, p. 178, and based on: Frankema & Booth, 2019a). The dominance of trade as the main wealth-generating activity meant that it was the biggest aspect of the tax base, especially for those coastal regions which were important trading hubs. It also became natural that coastal colonies relied on trade taxes while hinterland colonies had to rely on other taxes, mostly direct ones (Frankema, van Waijenburg & Booth, 2019). In West Africa, a booming trade in cocoa and palm products was a notable source of tax revenue (Gardner, 2012, p. 44), yet this was not the case where elite power existed. For instance, at the Cape Colony, diamond trading was not significantly taxed (Gwaindepi, 2018).

The general patterns of colonial tax systems are that they were extractive in that they were collected from people who did not benefit from the taxation, and they were mostly regressive in that they did not consider the ability of taxpayers to pay and the fairness of treatment. It is acknowledged that the creation of grain marketing boards and monopolies introduced price regulation by the colonial states. In practice, these controls and market fees constituted hidden taxes for many African farmers (Tuck, 2006; Young, 2012). The British imperial authorities worried more about tax-driven instability than about fairness on tax. Where the settlers and non-Africans could, they made sure to pay minimal taxes, and in proportion to their higher incomes, they tended to get away with lower taxes than the Africans (Gwaindepi & Siebrits, 2020). For the colonial period, one needs to be careful of overall total tax revenue, such as per capita revenues, because they mask

important differences regarding who bears more tax burden between the settlers and the indigenous people (Gwaindepi, 2022a).

Table 2 (below) shows the compendium of taxes collected during colonial times, some of which persisted into the postcolonial era. Of all the hard-to-collect direct taxes, the hut tax was regarded as the most important “innovation” in “native” taxation. It was charged on every hut found at an African homestead. It was first introduced in the Natal Colony (South Africa) in 1849 and grew up to contribute 75% of all Natal revenues. Naturally, a man with many wives (polygamy) had to have many huts and, therefore, paid more in hut taxes.

Table 2: Main sources of colonial government tax and non-revenue
Indirect taxes

Direct taxes	Internal	External	Non-tax revenue
Hut tax	Excise duties	Import duties	Property and land sales
Poll/ Head tax	Transfer duties	Export duties	Office fees
Land Quit Rent	Stamp duty		Fines and forfeitures
Tithes on grain and wine	Auction duties		Rent
Income tax	Mining license fees		Grants
Zakat	Banknote duty		State-owned entities:
	Inheritance tax		Railways
	<i>Other invisible taxes:</i>		Postal, Telegraphs
	Corvée labour		
	Prison labour		

Source: Authors’ table from existing studies (e.g., Gwaindepi & Siebrits, 2020; Gardner, 2012; van Waijenburg, 2018; Archibong and Obikili, 2020)

Taxes such as hut taxes were one way by which the colonial states took advantage of how Africans organized their lives. Other colonies such as Nyasaland (Malawi) (1891), Gambia (the late 1890s), Kenya and Southern Rhodesia (Zimbabwe) (in the early 20th century) followed in adopting the hut tax (Gardner, 2012, p. 47). Since not all adult males had huts, poll/head tax, a direct tax on every adult male, was added. Direct income tax remained limited to some countries, such as South Africa and Southern and Northern Rhodesia. Unlike huts, which are visible, the biggest challenge for direct income tax was assessing taxpayer incomes. Therefore, external indirect taxes, such as trade taxes (import and export duties), and an array of internal indirect taxes and fees as seen in table 2, had their big role.

Colonial taxation also served other purposes, such as the “civilization” of the Africans through Anglo-Saxon values (Bush & Maltby, 2004, p. 25). In Uganda, taxation was a principal incentive for labour and production (Jamal, 1978). This was, at times, just a solution for colonial labour supply problems. In Southern

Africa, for instance, people were dispossessed of their land and put in labour reserves where they had no option but to supply labour for self-sustenance and to get money for taxes (Mkandawire, 2010). With the modernization of the economy, it was inevitable that Africans would become part of the cash economy.

The colonial state also used other “invisible” taxes, such as in-kind taxes paid in other forms of non-cash ways. The most common is the *corvée* labour system, a form of unpaid, forced labour usually meant for public works such as for railway or road construction. This implies that the actual tax revenues raised by the colonial states underestimate the actual resources raised (van Waijenburg, 2018). If tax revenues were needed for road construction, getting people to work directly on the roads was also a means of taxation. In some cases, such as in Nigeria, colonial incarcerations were deliberately used for colonial labour needs since people could be deployed in different colonial projects once they received the “prisoner” tag (Archibong & Obikili, 2020). For labour needs, the colonial state could thus arbitrarily arrest and imprison people and send them to work on various projects.

The structure of colonial and postcolonial taxation

One feature of taxation in Africa is diversity. While there is convergence on tax types, several factors dictate the revenues collected in each country. In table 3 below, some common features in the structure of taxes are demonstrated for a few countries; the structure of taxes is presented to showcase country-specific and generic cross-country patterns. The table shows the real tax collected, expressed in terms of how many days an unskilled worker in an urban area needed to work to pay their yearly taxes. In colonial times, the biggest expenditure of governments was their wage bills, making nominal wages most suitable to deflate the nominal revenues² (Albers et al., 2023). This is done to deal with currency variations that stifle any meaningful comparisons. Countries or colonies being more effective in tax collection would collect the value of more labour days than those with low taxing capacity. Further details of the countries and the dataset are in Albers et al. (2023).

² To get to real figures, Albers et al. (2023) take the nominal tax revenue divided by nominal daily wage and the result is also divided by population to get to the per capita figure.

Table 3. The tax structure of selected African countries, 1900-2015 (real tax revenue per capita)

	Country	Direct tax	Trade tax	Indirect tax (excl. Trade tax)	Non-tax revenues	Resource revenues
1900-1929 (averages)	Angola	3	3.8	0.0	5.3	0.1
	Botswana	3.7	1.8	0.5	1	0.0
	South Africa	6.5	9.3	2.4	12.5	2.6
	Benin	1.8	4.8	0.7	1.6	0.0
	Cameroon	1.4	2.6	0.3	0.8	0.1
	Nigeria	0.4	1.2	0.3	1.1	0.0
	Gabon	5.1	4.4	1.4	1.2	4.3
	CAR	3.2	1	0.9	1	0.1
	D.R. Congo	3.6	2.9	0.1	3.0	0.9
	Angola	5.6	5.8	0.7	5.3	0.1
1930-1959 (averages)	Botswana	7.5	5.3	0.9	5.3	0.2
	South Africa	23.8	9.3	5.7	10.4	2.3
	Benin	2.6	3.7	2.0	1.5	0.0
	Cameroon	4.2	6.3	1.6	1.7	0.1
	Nigeria	1	4	0.3	1.7	0.0
	Gabon	6.1	15.9	4.5	2.2	3.0
	CAR	3.2	3.9	1.3	1.3	0.1
	D.R. Congo	11.4	14.9	0.7	7.9	0.0
	Angola	2.9	2.8	2.9	4.6	10.2
	Botswana	17.4	23.9	2.2	21.7	36.5
1960-1989(averages)	South Africa	54.8	11.5	23.2	13.7	9.9
	Benin	2.9	8.4	1.9	1.2	0.0
	Cameroon	11.1	19.9	12.5	6.8	10.8
	Nigeria	1.7	5.1	1.1	1.7	21.9
	Gabon	27.1	51.3	17.1	6.2	94.3
	CAR	5.9	8.1	5.0	1.9	0.1
	D.R. Congo	8.6	11	5.4		12.5
	Angola	10.9	5.1	7.7	5.3	100
	Botswana	77.6	100.6	42.2	52.9	192.7
	South Africa	96.1	5.1	58.3	3.3	0.3
1990-2015 (averages)	Benin	7.5	10.5	11.6	3.8	0.0
	Cameroon	14.2	10.1	29.5	4.0	21.8
	Nigeria	4.9	4.3	3.7	1.7	52.3
	Gabon	35.5	48.1	25.2	11.3	155.3
	CAR	3.1	3.4	6.0	2.1	0.0
	D.R. Congo	3.2	2.9	4.0	3.4	0.6

Source: Authors' table using data from Albers et al. (2023). **Notes:** CAR stands for Central African Republic. All the figures are expressed in real values (per capita labour days)

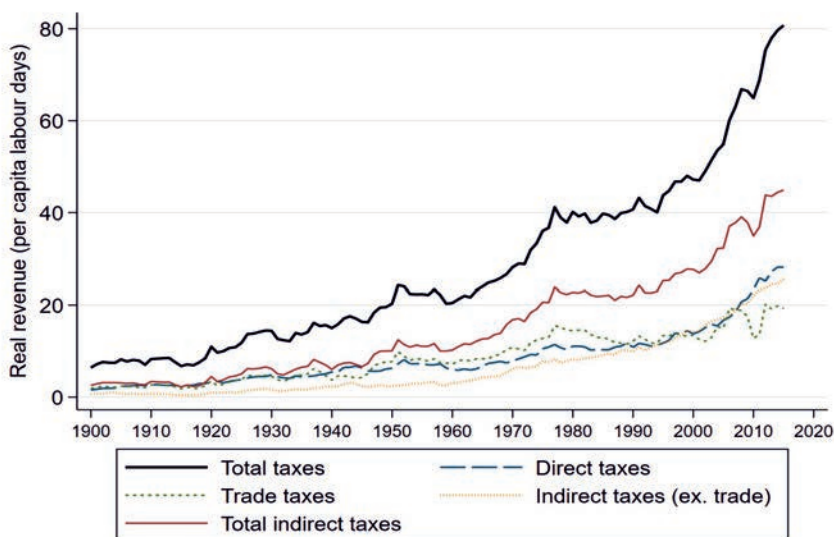
A few issues stand out. First, the 1900-1930 period shows that countries have comparable tax structures except for South Africa, which stands out in the non-tax revenue category. Second, the mineral-rich economies of Botswana, Angola, Gabon, and Nigeria collect modest revenues until they discover minerals, which immediately constitutes a major source of government revenues. These mineral-rich economies also have significant tax revenues collected from the trade. In this, there is variety, too, based on the ownership structure. For instance, Botswana is known for its government involvement in the diamond sector, making it effective in escaping the natural resource curse. Third, hard-to-collect taxes, such as direct taxes (Zolt and Bird, 2005), are still connected to the existing tax handles. Mining economies can stimulate economic activities and industrial progress, thus creating more taxable capacity and income. Only Botswana and South Africa seem to defy the alternative revenue hypothesis - stating that states with access to natural resource rents do not exert much effort in taxation by taxing the economies in direct ways. On the contrary, Nigeria has not maximized the economic revenues from the oil industry to boost government tax revenues. Its revenues remain modest, especially considering that it is one of Africa's big economies.

To show the more general pattern, acknowledging the diversity discussed above, Figure 1 (below) shows Africa's long-term patterns since 1900. This is with the caveats above regarding what the tax data count and that they potentially miss on in-kind taxes and prison labour; one should reflect about the many other ways how the colonial state extracted fiscal resources. It is impossible to do justice to every African country, and so the focus is on general patterns, paying attention to unique country experiences where necessary. It is also fair to acknowledge that the data are at the national level and preclude analyses at the local level, what is necessary for stimulating debates about precolonial institutions and their tax capacity. Total taxes are the sum of direct and indirect taxes, but we also show the subcategories.

Three observations on patterns and structures can be made:

First, the long-term trend in Africa is progress rather than failure or stagnation in taxation. This is important in the light of recent research criticising the "why Africa taxes so little" explanations (Jerven, 2022; Frankema, 2021). The long term was surely punctuated with slow phases, but progress has been made when you look at Africa on its own merits.

The second pattern is that before the 1960s, trade taxes largely constituted the indirect tax category since other indirect taxes remained low when trade taxes were excluded. Indeed, the 1950 tax data show that trade taxes positively correlated with total tax revenues. Countries which traded more gained higher total tax revenues because trading was the main tax base, and the more trade happened, the more trade taxes could be raised. Trade volumes also widened the tax base to enable tax collection in other categories. The international economic environment thus directly and indirectly affected what could be taxed (Albers et al., 2023).

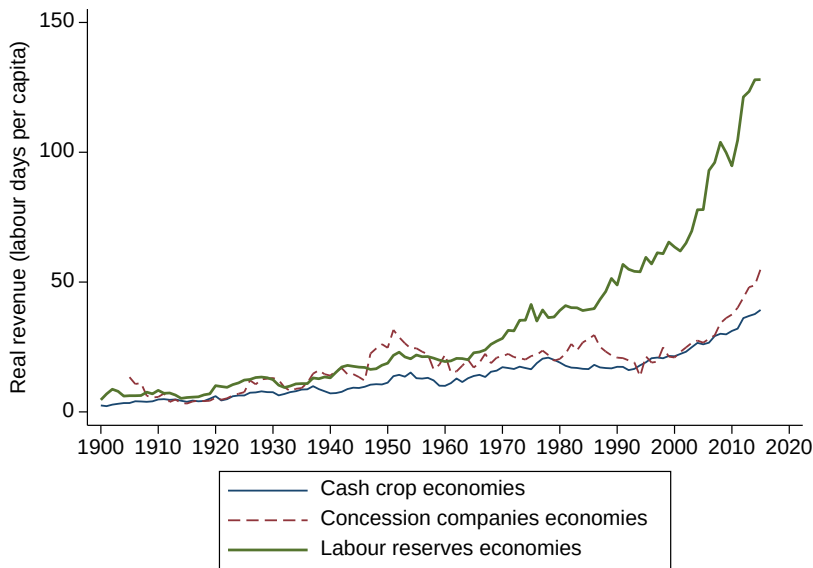
Figure 1: Tax revenue: long-run trends for the African continent

Source: Authors' graph using data from Albers et al. (2023). **Notes:** Based on the average of 46 African countries.

The third pattern is the decoupling of indirect taxes and trade taxes. Considering the entire indirect tax category, one can see that trade taxes have declined and were replaced by other indirect taxes, mainly consumption taxes, especially in the post-colonial period. This was difficult to manage for many African countries since they relied also administratively on trade taxes.

One way to classify African economies from colonial times onwards was by grouping colonies into cash crop economies, concession company economies, and labour reserve economies (Amin, 1972, Mkandawire, 2010). The colonial incorporation of the state and of the tax system created how the tax system would evolve into the postcolonial period of state formation. This is based on the fiscal inertia argument stating that 'how fiscal systems develop depends significantly on how they start' (Bird and Zolt, 2005: 24), and for Africa, the colonial origins are essential. Labour reserve economies operated on a different logic than cash crop economies or plantation (concession companies) economies. In figure 2 (below), the total taxes of these economies are shown.

Figure 2. Total tax revenues by colony type



Source: The data used are for the average total revenues. Authors’ graph was done by using data from Albers et al. (2023)

The times of economies are comparable in the early colonial period but it becomes clear that labour reserve economies take off faster after the 1960, the modal year of African independence. A compelling argument for this postcolonial divergence is that the labour reserve economies had substantial numbers of settlers who demanded a formidable state system that would protect their interests and provide protection from the indigenous people. For instance, there was a “racial union in South Africa with high levels of inter-and intra-class solidarity” (Lieberman 2003, p. 59), or what Mkandawire (2010, p. 1651) termed a “racist welfare state”, prioritizing the needs of the settler enclave. The colonial labour reserve systems in Zimbabwe and in South Africa, for instance, had a robust system of segregation that favoured the settlers by spending more on them than on the Africans (Mkandawire, 2010). At independence, labour reserve economies had more elaborate state structures and higher regulatory reach, which allowed them to be more effective. The challenge is that many countries did not maintain the systems well for the benefit of the entire population. The systems worked well for the enclaves, but the expansion of the systems to serve the interests of all people meant stretching the system

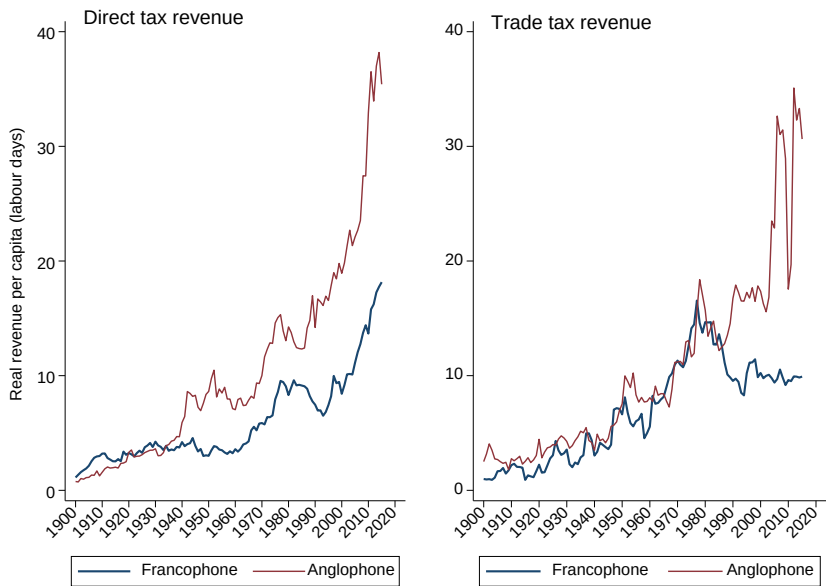
beyond its initial focus, leading to more fiscal and debt problems that affected African countries in the 1980s.

The decolonization decades (1950s-1970s) experienced slow growth and a decline in taxes. Decolonization caused uncertainties that caused people to relocate and to close down some businesses or even to move their headquarters (via disinvestment and capital flight). Inevitably, the tax volume that could be collected was also diminished. Many colonial governments had not absorbed and trained adequate tax collection personnel of African descent, except in a few colonies such as Mauritius. For instance, education was adopted to the extent that it helped to supply the colonial labour needs, mostly manual work, since highly skilled jobs were preserved for the settlers, making most Africans economically less capable of contributing to payment of taxes. Over time, some of the challenges were eased as more Africans got training that allowed better tax reforms and tax administration, especially in the post-1980s.

A popular line of research inquiry has been the differentiation between Anglophone and Francophone Africa (Frankema & van Waijenburg, 2014; Cogneau et al., 2018). Such inquiries sought to find out if colonial identity matters for the types of taxes imposed and their implications for socio-economic outcomes in the colonial and postcolonial periods. Figure 3 below presents trade taxes and direct taxes of the groups of Anglophone and Francophone African countries.

Figure 3 shows that, on average, the French countries raised more direct tax revenues than the British colonies before the 1940s. Beyond that timeline, the British colonies decisively did better than the Francophone countries. For trade taxes, the difference between the two groups of countries was not much from 1900 to the 1980s, when the Anglophone countries also performed better than the Francophone countries. However, these averages, though parsimonious, hide diverse patterns in revenue collection. It is not as if grand blueprints for revenue collection were identifiable with the Anglophone and Francophone, but in fact pragmatic responses to local commercial, environmental, and socio-political circumstances led to certain taxation policies (Frankema & van Waijenburg, 2014). Prosperous colonies were those in economically viable regions such as coastal lines compared to the hinterland, which also influenced the amounts raised in tax revenues. The fact that the British managed to control most of the prosperous coastal colonies meant that their revenues became more buoyant, as shown. The degree of embeddedness of the colonial economies into the international markets explains much of the heterogeneity within the Anglophone countries and between the countries in the groups of Anglophone and Francophone Africa (Albers et al., 2023, p. 96).

Figure 3. Direct taxes and trade taxes in Francophone and Anglophone Africa



Source: Authors’ graph using data from Albers et al. (2023)

4 Postcolonial reforms and remaining challenges

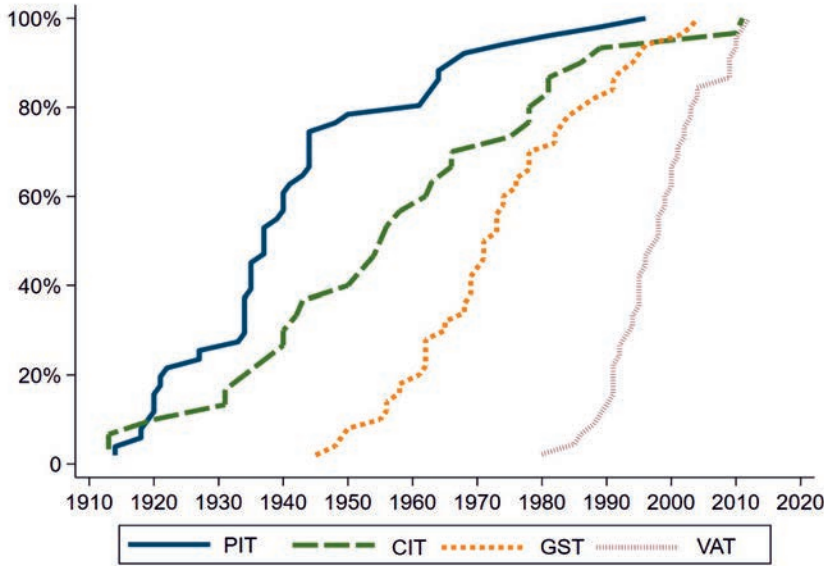
Tax introductions

While some taxes introduced during the colonial times survived the decolonization period, some were discontinued. The introduction of taxes that have become dominant today (modern taxes) has gained prominence since it tells a story about the time and the conditions when the modernization of tax systems progressed in Africa (Seelkopf et al., 2021). As shown in section 2, the colonial revenue mix had “modern taxes” and “native” taxes. With diffusion and demonstration effects, there is a strong convergence across African countries regarding the main types of taxes. Figure 4 below shows four main taxes considered among the group of “modern taxes” and the main sources of revenue resulting today from the tax systems.

The vertical axis shows percentages of African countries adopting these modern taxes over time (horizontal axis). When one country adopts a tax and realizes more revenue, neighbouring countries may also follow. The work of international financial institutions, such as the World Bank, has also played an important role in the types of taxes imposed in these countries. This has happened through various

capacity development initiatives and training of tax authorities in national treasury departments. Personal income tax (PIT), corporate income tax (CIT) and general sales tax (GST) were introduced during colonial times. Notably, once introduced in the 1980s, VAT did not take time to spread and get adopted rapidly by all countries, as shown by the steep VAT line. It is more broad-based than other taxes, such as income taxes. Due to lower salaries or unemployment, many people do not pay income tax but still consume goods and services on which VAT is collected, although its regressive nature, with equity implications for the poor, continues to be a subject of debates (Thomas, 2022).

Figure 4: Percentages of tax revenue sources changing over time for countries adopting different taxes



Source: Gwaindepi (2023, p. 11); **Notes:** Personal income tax (PIT), corporate income tax (CIT), general sales tax (GST) and value added tax (VAT)

Colonial legacies and other remaining challenges

The confounding colonial legacies and challenges highlighted here should be contextualized in the broader patterns of considerable progress African countries have made on taxation. This progress is often overshadowed when Africa is compared to other regions. Four remaining challenges are of relevance in this context.

The first remaining challenge we want to highlight is that the tax base is not fully known in many low-income African countries. This is partly a colonial

legacy. The regimentation of Africans into infertile land and mining towns meant that many could not rely on self-sufficient farming and needed other informal livelihood strategies, especially in Southern Africa (Feinstein, 2005; Harvey, 2017). This had long-lasting effects on how informal the economies were and continue to be. Informality has geographic dimensions in that those in previously disadvantaged regions and, most importantly, in cities which faced an influx of people soon after independence, continue to earn informally (Todaro and Smith, 2020). States also hardly have any means to punish tax evaders in such circumstances. Part of the problem and legacy is that African countries' GDP statistics has remained of poor quality (Jerven, 2013). Only formal activities are recorded, but the hidden or shadow economy remains unknown, making tax shares in GDP unreliable for many low-income and highly informal African countries.

Estimates vary, but some countries have 80% of their population working informally (ATAF, 2021). Presumptive (crudely estimated) taxes are often imposed, based on assuming what informal traders make. Indicators such as the carrying capacity (taxi and mini-bus business) and having a room or office in commercial hubs (for hair salons, etc.) are used for taxation, but these assessments are usually badly designed and often lead to unfair outcomes, especially for women who are overrepresented in the informal activities (ATAF, 2021, Gwaindepi, 2022a). Technology has partly brought solutions through e-taxes on mobile transactions and transfers that digital technology can easily capture through automatic deduction. While helpful, the use of ICT does not solve other qualitative issues in tax administration and risks of reversing other development goals, such as digital financial inclusion, as taxpayers see these as instruments to tax them (Gwaindepi, 2022a). While computerization may increase real-time monitoring and will help to raise fast information-intensive taxes, the institutional environment in which this happens matters.

A second remaining challenge is managing the so-called large taxpayers, such as high net-worth individuals and international corporations which are mostly operating in extractive mining industries. This is partly a colonial legacy as well. The imperial strategies were not to make colonial territories manufacturing hubs but raw material extraction zones with minimal to no taxation at all applied to the firms involved, as the opening quote of this chapter indicates. The current hunger for strategic minerals reinforces colonial-style extractivism. The international community/partners hardly push for Africa to be dynamic and to export finished goods, with implications for the externalization of capital accumulation. Despite the creation of large taxpayer units within national treasuries, their bargaining power is enormous. Governments are often pressured to negotiate with these companies, creating room for tax exemptions, complicating the tax systems and reducing tax revenues. It has, for instance, remained a puzzle why personal income taxes bring more revenue in many countries than corporate income taxes. Big firms and corporations often have considerable political sway over ministers and presidents

and stifle meaningful tax reforms. Bird (2008, p. 178) argues that “what any developing country does to reform either its tax structure or its tax administration generally depends less on the economics of taxation than on the politics of taxation”. The technocratic approaches of relying on skilled tax bureaucracy seem to reach low plateaus that can only be unlocked with political will and commitment (Joshi et al., 2014). The elite circles of leaders of big firms and politically connected business tycoons often constitute a strong barrier to tax reform at the local level and at the central government levels (Jibao & Prichard, 2015). Tax fraud and exploiting overseas tax havens also thrive in such environments.

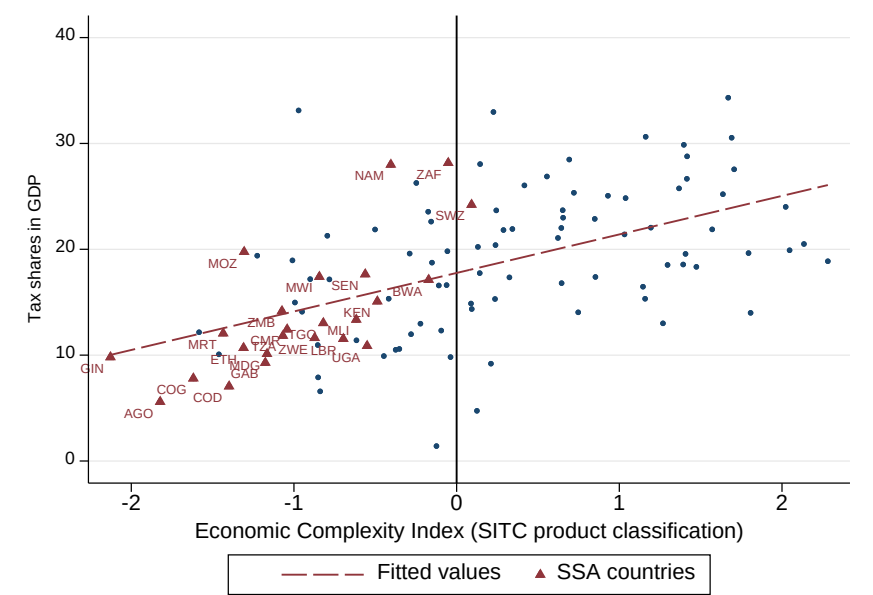
The third remaining challenge, being a key issue for policymakers, is the lack of accountability when the tax is raised. Building the capacity to collect more tax revenue is a noble goal, but it counts what money is spent on matters of relevance for taxpayers. This also has a colonial dimension and legacy to it. Most Africans were paying taxes with no voice on what the money could be used for (Huillery, 2014). Such coercive mechanisms were often accessible to African leaders soon after independence, especially in regimes that turned autocratic (Young, 2012). The obsession with taxing and dealing with urban informalities as chaotic sites of disorder is a continuation of the colonial-type of exclusive urban managerialism, characterizing the continual struggle in the imagination of what African cities need to look like (Guha-Khasnobis, 2006; Kamete, 2013; Moore, 2023).

Fiscal capacity building must be done together with the will to deliver public goods and services. Taxpayers are demoralized when they cannot see any benefit in paying taxes. For most informal traders and their places of trade, even a service-first approach or a quid pro quo can be a good starting point for nurturing fiscal contracts (Robinson, 2023). The state has a role in winning the hearts of the taxpayers by demonstrating that the raised tax revenue is put to good use. This is why the phrase “no taxation without representation”, though American in origins, has resonance with the African taxpayers, despite the form of democracy or state system adopted. Ultimately, political consensus is necessary before new tax reforms create an elite buy-in. Tax morale (perceptions and attitudes towards paying taxes) is generally low in some African countries where taxpayers cannot see the benefits of their taxes. Linking revenues to expenditures transparently is necessary for states to gain taxpayers’ trust. Service delivery and paying some attention to the taxpayers are thus part and parcel of durable and effective tax systems.

The fourth remaining challenge, probably the most important point, is related to the African economy’s structural change and growth. The colonial legacy is that Africa got locked into the periphery, and its role in global value chains remains basically as a source of raw materials. African countries cannot catch up on levels of taxation with advanced economies without a transformation that raises incomes. The question of taxation is thus partly an economic structure question. To illustrate the importance of the economy’s structure, figure 5 below uses the Economic Complexity Index to clearly show that when economies improve their production

systems for complex high-value-added manufactured goods, the tax handles increase and, eventually, also the tax revenues. This is better at showing a detailed picture than income levels (e.g. GDP per capita), which hide details about where the taxable capacity lies in the economy. Oil-rich economies may have higher income per capita but perform poorly on tax collection, as discussed above for Nigeria. The kinds of products each country exports to international markets tell a lot about its value chains and the taxable capacity.

Figure 5: Taxation and economic complexity



Source: Authors’ own presentation with data from UNU-WIDER (2021) and Economic Complexity Index data from the World Bank (2021). **Notes:** This figure is meant to show the overall picture and demonstrate that SSA countries cluster in the low tax and low complexity quadrant without any reference to specific countries.

Low-income countries cluster in low complexity levels and low tax levels. In figure 5, the SSA countries are shown with their ISO (International Organization for Standardization) codes. The more complex the production processes are the more high-value addition activities will occur, which, among other things, require patents and banks’ financial intermediation. This grows third-party information trails that states can access for taxation purposes. At low complexity, production and trade are mainly in low-value addition and raw material trade, avenues where

informality prevails. High levels of informality and of self-employment imply that the availability of information trails is limited. For instance, tax enforcement is bound to be successful if “third-party information covers a large fraction of taxable income” (Kleven, 2014). This remains a challenge in African countries.

Efforts on tax reforms will achieve little in the context of slow growth and dependence on the export of raw commodities which face volatile prices. For this reason, the famous sociologist Rudolph Goldscheid argued that “states reigning over pauperdom were, throughout history, the foremost paupers of those nations” (Goldscheid, 1958, p. 211). It is not necessarily the case that Africa is poor. Its wealth exists in natural resources, but the exploitation of the resources has remained stuck in the colonial mode of extractivism (Easton & Gwaindepi, 2021). The new forms of “green grabs” for strategic minerals have barely departed from this colonial style of extractivism, especially if Africa remains at the bottom of the global value chains. Table 3 below shows a detailed breakdown of the revenue composition in four selected countries for which data are available between 2005 and 2020.

Table 3. Detailed tax and non-tax composition, 2005-2020 (% shares of GDP).

Tax and Non-tax revenue details	South Africa				Zambia				Côte d'Ivoire				Senegal			
	2005	2010	2015	2020	2005	2010	2015	2020	2005	2010	2015	2020	2005	2010	2015	2020
Revenue	23,3	22,6	25,5	23,4	21,4	16,6	19,9	21,3	11,6	12,3	13,2	12,7	14,3	17,5	19,9	20,8
Taxes	22,7	22,0	24,2	22,4	14,8	12,8	14,4	16,4	10,0	10,4	11,2	11,8	12,6	15,0	15,8	17,5
Taxes on income, profits, & capital gains	12,6	12,4	13,7	12,9	6,5	6,6	6,7	8,7	2,6	2,5	2,8	3,1	3,0	4,1	4,1	5,3
Taxes on income, profits, & capital gains: individuals	6,9	7,5	8,8	8,8	5,3	4,1	5,1	5,8	1,4	1,1	1,4	1,5	1,5	2,4	2,1	2,6
Taxes on income, profits, & capital gains: corporations	5,7	5,0	4,9	4,1	1,2	2,5	1,6	2,9	1,2	1,1	1,4	1,5	1,2	1,3	1,4	2,7
Taxes on income, profits, & capital gains: other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3	0,0	0,1	0,4	0,4	0,6	0,1
Taxes on payroll & workforce	0,3	0,3	0,3	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	0,0	0,1	0,2	0,1
Taxes on property	0,0	0,0	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,5	0,5	0,0	0,3	0,1	0,1
Taxes on goods & services	8,8	8,4	9,0	8,4	6,3	4,9	6,4	6,2	2,3	2,6	4,5	5,2	7,8	8,7	9,4	9,4
General taxes on goods & services	6,8	6,3	6,7	6,2	4,3	3,3	4,6	4,5	1,4	1,0	3,0	3,1	6,4	6,5	6,1	6,1
Excise taxes	1,9	1,9	2,1	2,0	2,0	1,4	1,7	1,4	0,2	0,6	0,9	1,6	1,3	1,5	1,8	1,8
Taxes on int trade & transactions	1,0	0,9	1,0	0,8	2,0	1,3	1,0	1,1	5,1	5,2	3,4	2,9	4,2	2,3	2,2	2,4
Other taxes n.e.c.	0,1	0,0	0,0	0,0	0,0	0,0	0,2	0,5	0,0	0,0	0,1	0,1	0,2	0,6	0,3	0,2
Grants	0,0	0,1	0,1	0,0	6,2	2,2	1,6	1,7	0,8	0,9	1,0	0,5	1,2	2,0	2,2	2,3
Grants from foreign govts	0,0	0,1	0,1	0,0	0,4	1,7	0,6	0,0			0,6	0,2	2,0	2,1	2,2	2,2
Grants from int orgs	0,0	0,0	0,0	0,0	5,8	0,5	1,0	1,7			0,5	0,3	0,0	0,1	0,1	0,1
Other revenue	0,6	0,5	1,3	1,0	0,4	1,5	3,9	3,2	0,8	1,1	1,0	0,3	0,6	0,5	1,9	1,1
Property income	0,4	0,3	0,2	0,4	0,1	0,9	2,4	2,6	0,4	1,1	0,9	0,2	0,4	0,5	0,8	0,8
Sales of goods & services	0,0	0,0	0,0	0,0	0,2	0,2	1,3	0,5	0,1	0,0	0,1	0,1	0,0	0,2	0,1	0,1
Fines, penalties & forfeits	0,2	0,0	0,0	0,0	0,1	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other transfers	0,0	0,2	1,1	0,6	0,0	0,1	0,0	0,0	0,4	0,0	0,0	0,1	0,1	1,1	0,2	0,2

Source: Computed with IMF'S Government Finance Statistics (GFS) (2024)

The three major sources in table 3 are the income taxes from individuals and corporations and the taxes on goods and services, which include VAT. Other types of taxes, such as property taxes, remain minor sources. The table shows that in countries with good tax systems (e.g. South Africa), the total revenue is close to tax revenues, while in other countries with underperforming tax systems, such as in

Zambia, the government has to rely on other sources. Part of the broader observation is that alternative revenue sources can reduce tax efforts, but this is also true for countries relying on natural resource revenues as an alternative to tax revenues (Besley & Persson, 2014). In the oil-rich Nigeria (not shown), for instance, taxes hardly exceed 4 per cent of GDP for the period from 2005–2013, where data are available. Again, this speaks to the important heterogeneity to highlight the conditions across the continent. As shown for Zambia, reliance on external grants is a colonial legacy, which continues even for today, defining extraversion of the colonial and postcolonial state (Albers et al., 2023).

5 Conclusions and Policy Recommendations

Knowledge of what needs to be done is rarely scarce, but the real challenges are in each country's political economy processes of tax reforms. The second aspect, probably also more important than local issues, is the international financial architecture within which the changes must occur. Internal and external factors must work together to produce long-lasting changes in domestic revenue mobilization in Africa. Refining tax laws locally in an unfair international tax environment will not solve the problems.

The international financial architecture poses many taxation challenges to African countries. I highlight a few issues that need urgent focus below.

Dealing with the neo-colonial international tax system. The colonially rooted international financial system has continued to limit domestic revenue mobilization. Reforms of the international tax systems are necessary with increased urgency. The recent UN tax convention for rule-based democratic governance of tax issues is welcome. Representation of African countries in the core Bretton Woods institutions (the IMF and the World Bank) remains essential for the debt architecture. The meagre tax revenues raised are disproportionately absorbed by debt servicing.

Support for structural changes in Africa. African economies have remained trapped in colonial development models of exporting unprocessed commodities. This has kept the tax bases very rudimentary. Long-term structural transformation for long-term industrial growth is necessary. The lessons from the structural adjustment programmes show that the liberalisation policies were neither economically nor theoretically sound for Africa (Easterly, 2019). Prospects of a developmental state approach with support for key industrial sectors are still relevant for Africa (UNCTAD, 2024)

Illicit capital flows and extractive industries. Combatting illicit flows from Africa, especially in extractive sectors, requires extensive work. International organisations and companies need to collaborate fairly in places where they do mining, and the local leaders have oversight responsibility.

Long-term commitment. The revenue issues in Africa are also economic issues. Development assistance needs to focus on issues of long-term importance. Debt needs to be long-term to allow productive assets to generate returns before fiscal commitment to repayment is effective. There is a risk that development finance may shift to greener investments without focussing on outstanding fundamental investments in education, infrastructure, and health systems.

Local factors are also important when international factors are addressed. What needs to be done here is rarely new, and we show below some pressing issues that African countries can deal with.

Improving tax administration. There is a need for continuous improvements, including the shift to technology that reduces corruption and makes tax filing processes smooth, but with continuous monitoring of the equity implications. This needs to include taxpayers' education that can yield long-term fiscal compliance and strengthen fiscal contracts. Sustainable solutions matter, as short-term successes are not enough. Administrative efficiency can also ultimately wane in the face of political meddling, as this was the case for the Semi-Autonomous Revenue Authorities (SARAs), which only produced results in the short run (Dom, 2019)

Informal sectors. While there has been a registration obsession for those belonging to the informal sector (Moore, 2023), partly driven by international organizations, it is necessary to work with the informal sector actors as they are. This may include mechanisms that allow a gradual approach since the abolitionist approach has proven not to work. In addition, the brutality used by the colonial governments to remove informality is neither necessary nor beneficial in the context of high unemployment being experienced in most African countries.

Transparency in the use of tax revenues. Many of the people, especially those in the informal sectors, hardly know how the tax money is spent, and they experience out-of-pocket expenditures for health, education, and for refuse collection. Building trust is essential for boosting tax morale, even by bringing the quid close to the pro quo with visible service delivery.

Regional integration and collaboration. This has become essential to uniting African countries for a stronger voice on international tax issues, but collaboration on the continent can allow treaties that are mutually beneficial to economic stimulation, which can lead to bigger tax bases.

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Climate Change and Public Financial Distress in Tunisia: Causes, Impacts, and Sustainable Solutions

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1 Introduction

Tunisians' socio-economic problems have worsened, in stark contrast to the aspirations for equality and prosperity that were expressed during the 2010 uprising. The perilous social environment, coupled with security issues and political instability, has contributed to dismal growth rates, persistent unemployment, and decline of key industries, such as phosphate and tourism. The budget deficit in Tunisia has soared to unprecedented levels, accompanied by a substantial increase in public spending, primarily aimed at meeting the social demands of the population in the aftermath of the revolution. Consequently, the government has been forced to borrow extensively from domestic and foreign sources to finance these expenditures. Disturbingly, between 2010 and 2023, the public debt ratio has increased dramatically, rising from 40% to more than 83% (of GDP). This alarming trend poses a significant threat of crowding out private sector investments, and the potential risk of falling into a debt trap increases as borrowed funds are being utilized to cover wage bills, debt service, and non-productive expenditures instead of being allocated to economically viable and productive projects (Klai, 2021; Ben Youssef, 2023).

The current situation can be attributed to a combination of factors, including the political instability that the country has experienced since 2011, the recession triggered by the Covid-19 outbreak, and the impact of the Russian-Ukrainian war on energy and food prices. The country's credit rating has experienced a gradual decline as both Fitch and Moody's downgraded it from BBB and BAA in 2010 to CCC- and Caa2-, respectively. These downgrades reflect the alarming state of the Tunisian public finances and the eminent risk of default which inherently lead to raising interest rates on future debt. Thus, the 2022 budget could not even be closed properly, mainly due to the lack of foreign financing resulting from the absence of an agreement with the IMF, despite the measures taken in including increasing fuel and electricity prices, freezing public sector pay, and imposing new taxes (TMF, 2022). A similar scenario is expected to recur in 2023.

Unfortunately, the current intricate situation, which stems from practices that will be discussed below, fails to address the significant physical and financial risks

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posed by climate change. These risks have already begun to weigh heavily in recent years, notably through drought and diminished harvests. However, if immediate action is not taken, the consequences on both the economy and people's lives will undoubtedly intensify in the coming years. It is imperative to acknowledge that climate change can potentially have a dramatic impact on the fiscal deficit itself.

Therefore, the combination of budget and debt difficulties with the challenges of climate change represent a double burden for Tunisia, a country that has been in turmoil for the last 13 years. These issues are closely intertwined. Indeed, addressing climate change often requires significant investments in infrastructure, technology, and other measures to adapt energy and water supply as well as production processes. These investments come at a high cost and have the potential to widen budget deficits. Tunisia, like many developing nations, particularly those constrained by a limited fiscal space, often encounters greater challenges in addressing climate change due to scarce financial resources and competing priorities. Additionally, these countries often lack the technological and institutional capacity to implement effective climate change mitigation and adaptation strategies.

This chapter aims at explicitly acknowledging the policies that have hindered Tunisia's ability to effectively manage its finances in a sustainable manner since 2011. Furthermore, it emphasizes the additional threats and risks of climate change which Tunisian authorities must confront in the coming years, as it seems evident that Tunisia can no longer rely solely on its reactive strategy, particularly concerning the critical areas of water, food, or energy supply, without also making systematic institutional reforms to finance it whilst maintaining infrastructure and regulating the demand side.

After this introduction in section 1, the section 2 highlights the primary factors that contribute to the sharp deterioration of public finances in Tunisia. Reviewing these factors allows us to have a better understanding of the reasons behind the sluggish progress of the ecological transition. In section 3 we will discuss the exposure of Tunisian public finances to the main climate change trends, and we will present the channels through which climate change can exert pressure on fiscal policy and ultimately pose a heightened risk to sovereign debt. The section 4 of the chapter offers several recommendations for policymakers to effectively manage the distress faced by public finances, ultimately enhancing fiscal space and ensuring debt sustainability, mainly through implementing good governance practices and adopting the use of non-debt alternative financial instruments for financing climate change adaptation and mitigation whilst greening fiscal and monetary policies. Section 5 gives the Conclusions and Policy Recommendations.

2 Budget deficit and indebtedness: roots and manifestations

2.1 Economic growth strategy overview

Table 1 shows the main economic indicators regarding economic growth, economic structure, investment, productivity, and unemployment. Undoubtedly, Tunisia has enjoyed a strong growth record till 2010. Unlike other MENA countries its growth was driven more by productivity than by factor accumulation. The combination of low wages and large-scale unskilled and semi-skilled labour has played a crucial role as well mainly since the early 1970s when the new offshore investment law (Law 72-38 of April 1972; PIST, 1972) led to an unprecedented acceleration of growth rate through attracting foreign investments in new sectors, such as tourism, textile, agri-industry, and other manufacturing industries. However, amongst the many drawbacks of the Tunisian growth strategy have been the declining growth rates and the declining total factor productivity (TFP) (World Bank, 2020). Another drawback has been the diversion of investment from productive sectors to more rentier sectors, particularly from the 1990s onwards, especially to real estate, telecommunications, and retail sectors, resulting in “jobless growth” leading to a frozen unemployment rate exceeding 15% on average since the 1980s, particularly affecting graduates, hence defying Okun’s law³ (Grumiller et al., 2018 and Riahi/Hamouchene, 2020). These results are particularly due to the great complexity of the investment and incentive framework, which has increased bureaucracy and discretions, and on the other hand due to the labour market regulation policies, which have strengthened the incentives for companies to pursue low value-added activities, thus exacerbating graduate unemployment and job insecurity (World Bank, 2014).

Besides, labour market regulation has kept wage levels in general, and minimum wages in particular (in industry and agriculture, and even in some services sectors such as tourism), relatively low for a long time, despite the relative improvement in average GDP per capita. This was done to encourage local and foreign investment to maintain price competitiveness for decades without moving towards productivity gains, driven by innovation and technology and by greater diversification of the economy and markets (Riahi/Hamouchene, 2020). France, Italy and Germany account for almost 95% of Tunisian exports, and these same countries represent also the main foreign investors in Tunisia for a long time (ITC, 2023), leading to an evenly loss of purchasing power on the one hand, and a growing need to subsidize food, energy and other public goods and services, such as education, health, transportation and housing, on the other hand, which would

³ Despite its many shortfalls the negative Okun’s relationship between employment and output usually behaves as expected (Kenton, 2022).

have structurally increased the budget deficit and deprived the country of the means to invest in better infrastructure and technology.

This growth strategy became considerably more complicated in the mid-1990s, notably after signing the Free Trade Agreement with the EU and joining WTO in 1995, as freeing foreign trade did not deliver its promises after removing tariffs on most industrial products⁴. Indeed, Tunisia figured out that most Tunisian companies could not compete on equal terms. Official statistics talk about thousands of bankruptcies since 1995, which led a large part of the labour force to informality (estimated between 30% to 45% of GDP according to the used methodology), mainly due to persisting unemployment and missing opportunities in the official economy (Ghrissi, 2021). In the 2000s, the strategy ran out of steam due to the country's glaring inequalities, leading to the 2010 uprising to demand fairness and freedom (World Bank, 2014 and Jemmali, 2023). Table 1 (below) summarizes the trends of the Tunisian economy by presenting important economic indicators.

2.2 Fiscal space: expenditures

Fiscal space is defined as the “availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government’s financial position” (Heller, 2005, page 3). Usually, fiscal space is approximated by the primary fiscal balance, which can be calculated by excluding interest expenditures from the calculation of net lending/net borrowing. In the Statement of Operations, net lending/ net borrowing is the basic indicator of the fiscal balance, measured from “above-the-line” as revenue minus expenditure (IMF, 2014). Figure 1 (below) shows a significant increase in expenditures since 2010 which rose from 15.8 to 50.9 billion dinars in 2022 and expected to reach 54 billion dinars in 2023 (in this figure net lending/ net borrowing indicator is represented due to inaccurate interest data before 2009)⁵. This increase has been faster than the increase in revenues, which has led to a larger deficit than in the previous period. It should be noted that this deficit showed a downward trend over the 1990-2010 period. In fact, public finances were sound until 2010, and the exchange rate was rather stable. Since 2011, the trend has clearly reversed, with the deficit reaching a peak of -8.7% in 2020 (figure 1).

⁴ This is why the Deep and Comprehensive Free Trade Agreement (DCFTA) aiming at opening the agreement to services and agricultural sectors negotiated by the EU in the 2015 has been deadlocked by the Tunisian authorities concerned with the disastrous effects on the Tunisian economy. Grumiller et al. (2018) and Riahi/Hamouchene (2020) warn of adverse effects of such a DCFTA on the Tunisian economy.

⁵ These figures do not account for debt principal repayments.

Table1: Selected Economic Indicators over 1960 - 2021

	1960-1969	1970-1979	1980-1989	1990-1998	2000-2009	2010-2019	2010-2021
GDP growth (annual %)	4.7	7.2	3.6	5.1	4.3	1.9	1.0
GDP per capita (constant 2015 US\$)	1124	1540	1960	2352	3260	3938	3910
GDP per capita growth (annual %)	2.2	4.4	1.0	3.3	3.3	0.8	0.2
Gini index	n.a.	n.a.	43.4	41.0	39.3	34.3	34.3
Investment (% of GDP)	23.7	24.8	27.5	25.0	23.5	21.6	20.7
Investment, private sector (% of GDP)	n.a.	10.5	13.5	15.7	19.8	n.a.	13%
Agriculture, forestry, and fishing (% of GDP)	17.7	17.7	13.8	13.3	9.0	8.6	8.8
Industry (% of GDP)	20.1	24.2	31.5	28.1	27.3	26.6	25.9
Manufacturing (% of GDP)	8.3	9.9	14.4	17.3	16.5	14.8	14.6
Services (% of GDP)	49.2	44.8	42.1	46.3	55.5	58.4	58.7
Unemployment rate (% of total work) force)	n.a.	n.a.	16.1	15.6	13.6	15.6	15.6
Unemployment with advanced education	n.a.	n.a.	n.a.	6.0	18.2	27.8	27.8
Unemployment with intermediate education	n.a.	n.a.	n.a.	n.a.	13.3	16.7	16.7
Unemployment with basic education	n.a.	n.a.	n.a.	19.0	11.9	10.3	10.3
Contribution of Labor Quantity to GDP growth	n.a.	n.a.	n.a.	1.0	0.7	0.3	0.2
Growth of Total Factor Productivity	0.9	4.8	-0.1	1.7	0.6	-0.2	-0.9
FDI, net inflows (% of GDP)	1.44	1.83	2.05	3.77	2.10	1.96	1.44
FDI, net inflows (current US\$, million)	n.a.	55	157	357	1272	961	895

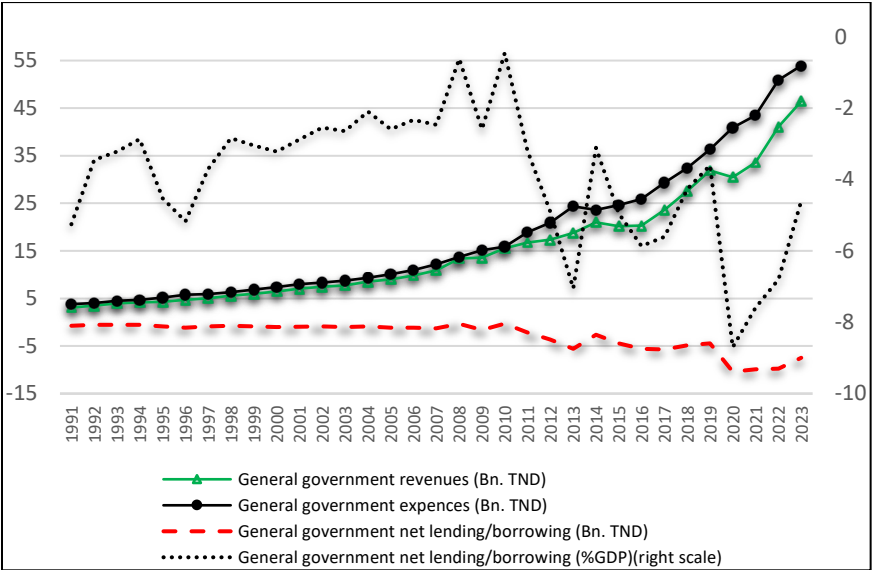
Source: Prepared based on WDI, World Bank, 2023.

The prevailing perception is that the political instability witnessed by Tunisia since 2011 has largely contributed to the current situation (10 governments in 12 years). The World Bank's index of political stability and absence of violence/terrorism has deteriorated from 0.18 over the period 1996-2009 to -0.75 since 2010 (World Bank Governance Indicators, 2023). However, it is crucial to examine the extent to which this political instability has influenced economic decision-making and exacerbated the situation, as the level of wages and subsidies bill began to place an unmanageable burden on public finances since 2010 (figure 1).

The following table 2 summarizes the main budget elements including those necessary for debt sustainability analysis. It shows the net lending/ net borrowing in detail from 2009 (items from 1 to 3), in addition to debt service and the additional financial needs to fill the corresponding fiscal deficit (3+4-1). Without a

doubt, the most significant factor contributing to the escalation in spending is the dramatic surge in the wages bill since 2011, which has soared from 6.7 in 2010 to 21.8 billion dinars in 2022 (expected to reach 22.7 billion dinars in 2023). This accounts for 53% of the nation's resources in 2022 as opposed to 45% in 2010, and 16% of the GDP, which is among the highest in the world, instead of 10.8% in 2010. According to official data from the Finance Ministry, this dramatic increase is the result of a 47% increase in the number of public employees (to 661,703 in 2022, including 16,831 unaffected, per the Budget Law 2022, which equates to 311 public employees per 1000 citizens, which corresponds to the highest ratio among OECD countries, while the corresponding figure for the United States of America stands only at 70 per 1000 citizens). In addition, the gross wage of public employees has witnessed a staggering 100% increase, climbing from 1,298 dinars in 2010 to 2,608 dinars in 2021.

Figure 1: General government revenues, expenses and net lending/borrowing over 1991-2023



Source: Prepared by using IMF (2023) and TMF (2023a, b, c, d).

The sharp increase of the wages bill also had several unfavourable effects. Since it was implemented under extreme social pressure following the 2010 uprising, it was not really indexed to inflation. As a result, by pumping such liquidity into the economic system and through comparable wage increases into the private sector, it would have increased inflation pressure. Additionally, there was no

accompanying improvement in productivity or economic growth to cover this salary increase (as showed in table 1), notably because of the detrimental effect on private investment caused by the increase in interest rates by the central bank to combat this inflation (a rise from 4.5% in 2011 to 8% in 2023; CBT/Central Bank of Tunisia, 2023). In fact, it expanded more quickly than the whole economy throughout that time (with a 4.5% increase versus a 1% annual GDP growth rate). Furthermore, this increase in the wages bill has not been accompanied by an improvement in public services quality because of the increase in the workforce and the poor organizational practices (for instance the Logistics Performance Index deteriorated from the 61th rank in 2010 to the 105th rank in 2018; LPI, WB); the government effectiveness score has fallen from 0.17 in 2010 to -0.16 2021 (WGI, WB); the Digital Adoption Index (DAI) score deteriorated from 0.56 in 2014 (69th) to 0.59 in 2019 (71st) (DAI, WB)). Unfortunately, this situation contrasts with what has happened in many developing countries, particularly in Africa, which have succeeded in modernizing the civil service and in improving the investment environment.

Added to this is a significant increase in subsidies spending, rising from 2.3 in 2010 to 18.7 billion dinars in 2022 (including 11.9 billion dinars of indirect subsidies to energy, transport and food), indicating that in addition to rising international prices, fiscal policy has been largely guided by a desire to exchange political and social stability for financial aid with no real economic counterpart, and with the growth rate well below that of previous decades (table 1). This loss of growth can be explained in part by a reduction in state development spending (from 9.5% to 8.5% over total expenses), and a corresponding drop in private investment (20.11% of GDP in 2009 versus. 13% of GDP in 2021, INS/NIS and WDI, 2023).

This reckless policy seems to be suicidal, because the saturation of the civil service since 2010 would have allowed for a much better use of national resources in the interest of more sustained growth, allowing for more important investments, wealth creation, and productive rather than idle employment and a soaring debt (Nabi, 2021). But, another way to look at it could be motivated by the findings of Ali and Elbadawi (2012) and Elbadawi (2016), arguing that resource rents are generally used as an instrument for greasing the authoritarian bargain, as proved through a game-theoretic political economy model, by proving that there exists a threshold of rent per capita above which the dominant strategy for an authoritarian regime will be to spend on public employment and other public goods and services, while instead, for less-endowed countries (below the threshold), elites will rely on political repression as the main strategy for holding on power. This approach would apply perfectly to the Tunisian case since 2011, even though the regime in place was not authoritarian, but the fragility of the democratic transition with regards to the social demands made the first choice the only possible choice, given the impossibility of the second.

Table 2: Budget revenues, expenses, and debt service over 2010-2023 (million dinars)

	2010	2015	2016	2017	2018	2019	2020	2021	2022	2023*
1-Revenues including	14823	20185	20119	23891	26826	30188	30494	33547	41130	46424
Direct taxes	5032	7822	7576	8560	9065	12648	12068	12680	15001	16209
Indirect taxes	7666	10723	11125	12626	15438	16252	15078	17724	21039	24246
Nontaxes revenues	2124	1640	1417	2704	2323	1287	2568	3098	3975	5534
2-Expenses including	14267	22248	24112	27286	29822	32672	40894	43441	50914	53921
Salaries	6785	11581	13163	14352	14776	16765	19200	20182	21832	22772
Direct and indirect subsidies	2374	4600	4178	5967	7694	8043	11223	12592	18707	17222
Investment	1429	2355	2795	2570	2792	2713	4186	4506	3567	4692
3-Balance (corresponding to net lending/borrowing)	555	-2062	-3993	-3395	-2995	-2484	-10400	-9894	-9784	-7497
4-Debt service	3 616	4 613	5 199	7 004	7 928	9 601	11 134	14 798	14 351	21300
Domestic debt	1 566	2 748	2 995	2 384	3 399	2 784	5 270	7 118	8 264	-
Foreign debt	2 049	1 864.5	2 204.0	4 620.5	4 529	6 816	5 864	7 680	6 087	-
4.1-Principal	2464	2968	3212	4745	5126	6397	7943	11591	9906	15793
Domestic debt	1 009	1 791	1 829.8	1 128.8	1 880	1 163	3 107	4 952	5 552	9121
Foreign debt	1 454	1 177	1 382.9	3 616.5	3 246	5 233	4 290	6 144	4 473	6672
4.2-Interest	1 152	1 644	1 986.4	2 259.6	2 801	3 204	3 736	3 701	4553	5307
Domestic debt	557	956	1 165.3	1 255.6	1 519	1 621	2 162	2 165	2 712	-
Foreign debt	595	687	821.1	1 004.0	1 282	1 582	1 573	1 535	1 614	-
5-Debt	25 639	46 108	56 311	68 287	82 971	83 333	93 040	104 298	115959	124568
% GDP	39%	51%	59%	67%	73%	68%	78%	80%	83%	77%
Percentage of domestic debt	39%	35%	35%	31%	27%	30%	34%	40%	36%	36%
Percentage of foreign debt	61%	65%	65%	69%	73%	70%	66%	60%	64%	64%
6-Extra revenues needed to fund operations and debt service (corresponding to the Financial Gap)**	1908	5030	7205	8140	8121	8881	18343	21485	19690	23490

Source: Prepared by using TMF (2023 a, b, c, d). * Projected budget. ** equals to $|3 - (4.1)|$.

2.3 Fiscal space: revenues

On the revenue side, and apart from the fact that Tunisian tax revenues have experienced slower growth compared to expenditures, tax levels indicate the resources which are available to governments to fund public services, to invest in infrastructure, and to redistribute income. The tax over GDP ratio is the basic indicator for analysing the tax levels in an economy. According to the OECD Tax database (2023), Tunisia leads all African and Arab countries in terms of tax collection capacity, reaching 32.5% in 2020, which is equal to the OECD average and therefore well above the level suggested by the 2015 Addis Ababa Conference on strengthening domestic resource mobilization. Although this performance seems positive at first glance, it is not, since it estimates the burden that the tax system places on the formal economy. Table 3 (below) illustrates the speed with which tax revenues have evolved in relation to GDP growth. Revenues and expenditures have moved faster than the real economy, giving an indication of the scale of tax revenues relative to the underlying economy that generated the revenues, a situation which seems counterproductive in a developing country where growth and investment are declining, thus lending credence to the thoughts of Ibn Khaldun⁶, the fourteenth-century Tunisian scholar, who strongly argued that high tax rates shrink the tax base because they reduce economic activity, in line with the Laffer curve (Laffer, 2004)⁷.

Table 3: Revenues and expenditures evolution versus economic growth over 1986 - 2023

	1986-1990	1990-2000	2000-2010	2010-2019	2020-2023
Total reve-	8.5%	7.9%	8.5%	8.5%	9.0%
Total ex- penditures	7.7%	10.8%	8.2%	9.4%	10.8%
GDP	2%	5.2%	4.3%	1.9%	1.1%
Taxes over GDP	n.a.	23.5%	25.9%	n.a.	32.5%

Source: Prepared by using TMF (2023 a, b, c, d) and OECD (2023).

⁶ See the information about his life: https://en.wikipedia.org/wiki/Ibn_Khaldun

⁷ Laffer says "Laffer Curve, by the way, was not invented by me. For example, Ibn Khaldun, a 14th century Muslim philosopher, wrote in his work *The Muqaddimah*: It should be known that at the beginning of the dynasty, taxation yields a large revenue from small assessments. At the end of the dynasty, taxation yields a small revenue from large assessments." (Laffer, 2004).

The breakdown of revenues which is shown in table 4 reflects a worrying trend towards growing inequality and impoverishment for the following reasons. On the one hand, indirect taxes represent the main source of revenue (52% in 2023, although the trend has been downward since the 1990s) and affect the entire population regardless of income differences, especially through the VAT. Customs duties contribution is about 4% only, due to the foreign trade liberalization policy which started in the mid-1990s through the European Union Trade Agreement and the accession to the WTO in 1995 as said previously. On the other hand, the level of personal income tax compared to the corporate income tax reveals the inability to effectively tax the productive sector, notably due to tax evasion and the expansion of the informal sector, and this despite the introduction of online payment facilities in recent years. This is partly caused by the liberalization of foreign trade, which drove many non-competitive businesses into the informal sector, forcing the authorities to overtax the official sector of the economy (Baghdadi and Labidi, 2023). In addition, the slowdown in GDP since 2011 and, subsequently, the acute contraction of the economy due to the COVID-19 crisis, have undoubtedly affected corporate profits and economic activity in general, leading to a drop in direct and indirect tax collection.

2.4 Indebtedness

Since 2011, the Tunisian government has been forced to incur more debt, totalling around 116 billion dinars in 2022 and set to reach 125 billion dinars in 2023, to cope with the increasing social spending as stated previously and to address the challenges linked to the depreciation of the national currency making foreign debt service and food and energy imports to require more and more national funds (the Tunisian dinar depreciated by 113% over the 2010-2022 period, from 1.43 per US\$ in 2010 to 3.05 per US\$ in 2023, as calculated per annual average, UNCTAD 2023). Due to consecutive sovereign debt rating downgrades owing to the high risk of debt distress and the absence of reforms, the country is now facing a restricted access to external financing and an increasing reluctance from donors to support the country, particularly due to the absence of a program with the IMF.

Table 2 shows that for many years, debt interest payments have contributed more to the growth of the public debt than the primary budget deficit. Debt servicing has tripled in 12 years, rising from 3.6 billion dinars in 2010 (1,566 domestic vs. 2,049 foreign) to 14.3 billion dinars in 2022, and should reach 21.3 billion dinars in 2023 due to principal repayments of around 16 billion dinars (6.6 times more than in 2010). This means that the equivalent of 45% of the country's resources are devoted to debt servicing, and that these loans are no longer used for development purposes, but rather to cover salaries and other current expenses, in violation of any debt sustainability guidelines (see Baghdadi and Labidi, 2023 for further details).

Table 4: Revenues breakdown over 1986-2023 (million dinars)

	1986	1990	2000	2010	2019	2020	2023
Total revenues	2,268	3,024	6,532	14,823	30,188	29,715	46,070
1-Taxes	1,632	2,169	5,678	12,699	28,901	27,147	40,536
% of revenues	72%	72%	87%	86%	96%	91%	88%
1.1-Direct taxes	378	403	1,597	5,033	12,648	12,068	16,290
% of revenues	17%	13%	24%	34%	42%	41%	35%
Individual taxes	219	202	1,022	2,600	8,813	8,945	11,215
% of revenues	10%	7%	16%	18%	29%	30%	24%
Corporate taxes	158	201	575	2,433	3,835	3,123	5,075
% of revenues	7%	7%	9%	16%	13%	11%	11%
1.2- Indirect taxes	1,255	1,766	4,082	7,666	16,253	15,079	24,246
% of revenues	55%	58%	62%	52%	54%	51%	53%
including							
Customs duties	278	496	642	564	1,284	1,228	2,060
% of revenues	12%	16%	10%	4%	4%	4%	4%
VAT	433	629	1,792	3,750	7,797	7,201	11,279
% of revenues	19%	21%	27%	25%	26%	24%	24%
2- Nontaxes revenues							
(including oil revenues, participation income, confiscated income, and income from privatization)	636	855	854	2,124	1,287	2,568	5,534
% of revenues	28%	28%	13%	14%	4%	9%	12%

Source: Prepared by using TMF (2023 a, b, c, d).

After 2010, Tunisia benefited from a favourable international political climate that sought to support the country's democratic transition by supporting efforts to boost inclusive growth and to address structural weaknesses, such as those in the banking system and the State-Owned Enterprises (SOEs), by restructuring the pension system, by lowering the massive wages and subsidy budget through public reorganization and an efficient targeting of the poor, and by establishing an appropriate fiscal policy. As a result, the IMF authorized \$1.75 billion and \$2.9 billion loans in 2013 and 2016, respectively, to this end, allowing for more foreign borrowing. Unfortunately, none of the agreed-upon reforms have been implemented as of today, further complicating the work of the authorities, who have turned massively to the domestic market by accelerating borrowing from local banks in dinars and even in foreign currencies owed to depositors (at seven times, the latest in May 2023 of an amount of 120 million euros), which has resulted in the deterioration of the situation of at least four domestic banks for bearing increasing risk, as much as the Tunisian state, not to mention the crushing crowding out effect for Tunisian private companies. The breakdown of the data on interest payments in table 2

shows a steady increase in interest paid against domestic debt, even though it represents only 36%. This shows that the Tunisian government has been forced to turn to national banks, even though the debt is more expensive, and that the banks are playing the game, since it is very profitable for them despite the growing risk and doing this at the expense of debt sustainability. In addition, Tunisia's indebtedness has been structurally fuelled by the country's energy and food supply deficits, which have grown steadily in recent years, not only due to price increases but also due to decreasing crop yields and agriculture productivity - as discussed in the next section - creating an additional burden (from 2.1 billion \$ in 2009 to 3.2 billion \$ for fuels in 2021, and from 1.6 billion \$ in 2009 to 2.7 billion \$ on food in 2021, according to WTO, 2023).

Baghdadi and Labidi (2023), by using a Debt Sustainability Analysis (DSA), show that only the adoption of a proactive, coherent, and holistic reform programme (including the use of fiscal policy, monetary policy, digitalization and regulation instruments allowing for the improvement of economic and financial fundamentals and potential growth along with a considerable financial support from donors to accompany the reform process) would lead to economic resilience with a higher level of growth and a guaranteed debt sustainability in the medium and long term. On the contrary, they show that “business as usual approaches” by continuing along the same path as in the past three years, without an IMF agreement or even with an agreement with the IMF but without considerable progress on the reform agenda, would not lead to improved growth and debt sustainability. Interestingly, the authors recognize, to conclude, the need to reconsider the DSA framework to incorporate climate change, and to broaden the scope of resilience to counter economic and climate shocks, without which the DSA exercise could not deliver satisfactory results.

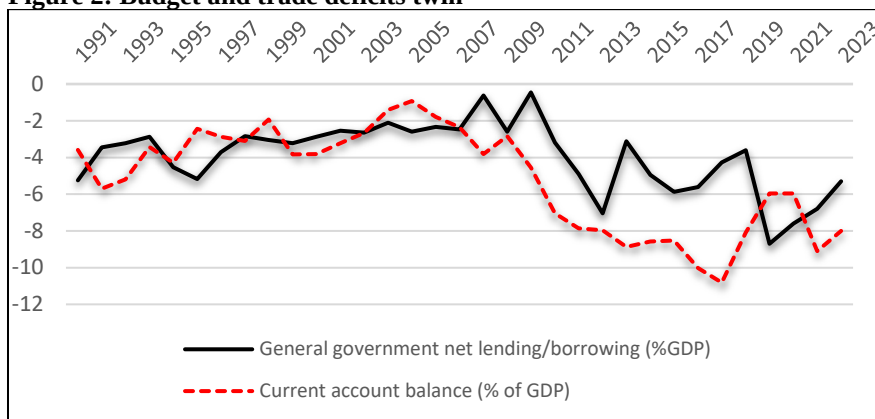
Budget and trade deficits twin

Having been debated for decades in many developed and developing countries (see for example Bluedorn and Leigh, 2011; Feyrer and Shambaugh, 2012; Furceri and Zdzienicka, 2018), it is an interesting aspect to be checked in the Tunisian case. For instance, a government increase in spending on social programmes or infrastructure, could lead to increased imports and to a higher trade deficit. Conversely, a decrease in government spending could lead to a decrease in imports and to a lower trade deficit. Similarly, a higher budget deficit may lead to inflation and to a weaker currency, making exports cheaper and imports more expensive, potentially reducing the trade deficit. As figure 2 shows, the events that followed the 2010 uprising were reflected in deteriorating budget and trade deficits alike. While the budget deficit narrowed to -0.5% in 2010, the trade deficit had narrowed considerably in previous years (reaching -1.7% in 2005 and -3.4% in 2009), indicating a twinning effect between the two. The data clearly show that changes in the size and direction of both deficits were simultaneous, with some interesting clues across the economy which are suggesting a causal relationship. Three

simultaneous events have increased the trade deficit and clearly have contributed to the budget deficit. Since 2011, Tunisia has lost much of its phosphate exports, which have long been a mainstay by supporting the budget and trade balance, (down to 0.222 billion \$ from 1 billion \$ in 2010, INS/NIS, 2023). In addition, due to a significant drop in national agricultural production (notably cereals, which form the basis of the Tunisian diet, as well as oils and other products supplied via monopolists like the Cereals Board and the Oils Public Board). And, Tunisia has had to cope with increased expenditure on fuel imports (supplied also through the public companies STEG, the Tunisian Electricity and Gas Company, and AGIL, the National Petroleum Distribution Company). All this spending on imported products led to the simultaneous widening of the two deficits and to a corresponding increase in indebtedness.

Besides, imported products became more costly because of the depreciation of the Tunisian dinar as stated before. As Tunisia is still mainly exporting low technology and medium low technology products (counting for at least 50%), such as textiles, leather, food products, wood, phosphates, and olive oil at basic prices (despite the “slow but steady rise in medium-high technology products, such as electronic and mechanical components” as highlighted by Diop and Ghali, 2012), a structural imbalance in the terms of trade remains despite all the efforts to diversify the economy and the exports, which unfortunately have not generated sufficient supply capacity to rebalance foreign trade, either in terms of the exports basket or in terms of trading partners (Abdmoulah and Labaas, 2013, Abdmoulah, 2022).

Figure 2: Budget and trade deficits twin



Source: Prepared by using WDI, World Bank (2023) and TMF (2023 a, b, c, d).

Three observations emerge from the above analysis. Firstly, the failure to reform the economy since 2010 for political and popular reasons has caused considerable damage to public finances and to the ability to attract international financing. Secondly, the adoption of piecemeal reforms will not suffice, given that the growth strategy and the public finance challenges are closely intertwined. For example, cuts in capital spending will lead to a deterioration in the quality of public services and infrastructure, which in turn leads to a deterioration in investment and to the business environment, and then to a decline in growth. Thirdly, it is obvious that climate change has not yet been accounted for by policymakers, despite the risks and the threats associated with it, which are increasingly tangible and therefore require rapid and far-reaching action, as the environmental situation could further damage the resilience of the economy, including the public finances. To this end, we propose, in the following, to document ecological risks and to describe the main transmission channels to enlighten the decision-makers of the country.

3 Climate change exposure and impact on budget deficit channels

Like other countries in the region, climate change is affecting Tunisia in a variety of ways, including increased temperatures, water scarcity, desertification, and coastal erosion. According to the World Resources Institute (2023), Tunisia is facing extreme water stress with a ratio superior to 80% of the withdrawals to total renewable supply. Similarly, the latest WEF/World Economic forum Global Risk Report (2023) ranked Tunisia at the most critical water stress levels (> 100%). The latest World Bank (2023) report corroborates this point of view, calling for bold policies mainly in terms of institutions and investment. Given the high-water stress that characterizes Tunisia, which is an arid and dry country, especially in the centre and the south of the country, it is clear that one of the most likely impacts of climate change in Tunisia is the impact on crop yields and agricultural productivity, due to the accelerated desertification in many parts of the country and due to the loss of fertile land, trends which have had a negative impact on the livelihoods of farmers and rural communities, largely dependent on irregular precipitation and being particularly vulnerable to water shortages which are linked mainly to the inefficient management mode, historically based on the construction of dams and drawing water from the water table. According to USAID projections, Tunisia's economy will suffer a reduced output of 2 billion dollars - 2.7 billion dollars between 2000 and 2030 due to the combined effects of increasing global food prices and stagnant agricultural yields (USAID, 2018). Other sectors that are significantly affected by water stress are tourism and agrifood.

According to the World Bank (2023) report, one of the general long-term trends by policymakers in Tunisia and in other MENA countries was to place more emphasis on increasing water supply than on managing demand (through

restricting and regulating use). This trend had led the population to believe that water scarcity is due to supply constraints. The focus on increasing water supply, without equal attention to demand-side measures, to water facilities, and to irrigated agriculture across the country, had led to a significant underestimation of the value of water, and to a subsequent lack of investment in reducing water waste and investing on other measures to improve water-use efficiency. The report states that half of the utilities for which data were collected had reported that more than 30% of the water they produce is not accounted for by customers. The average filling rate of dams is expected to reach 35% at best this year (National Agricultural Observatory, 2023), which has prompted the authorities to desperately attempt to ration the use of water for agriculture and human consumption as the only possible response, making it more difficult for farmers to grow crops and for people to live comfortably. The population has suddenly realized that the country has always relied on dams built several decades ago, as well as on drawing on groundwater, to remedy water shortages. The unusual droughts of recent years have pushed the system to the brink of collapse. Without intervention, the looming water shortages are bound to have severe consequences on livelihoods and agricultural production.

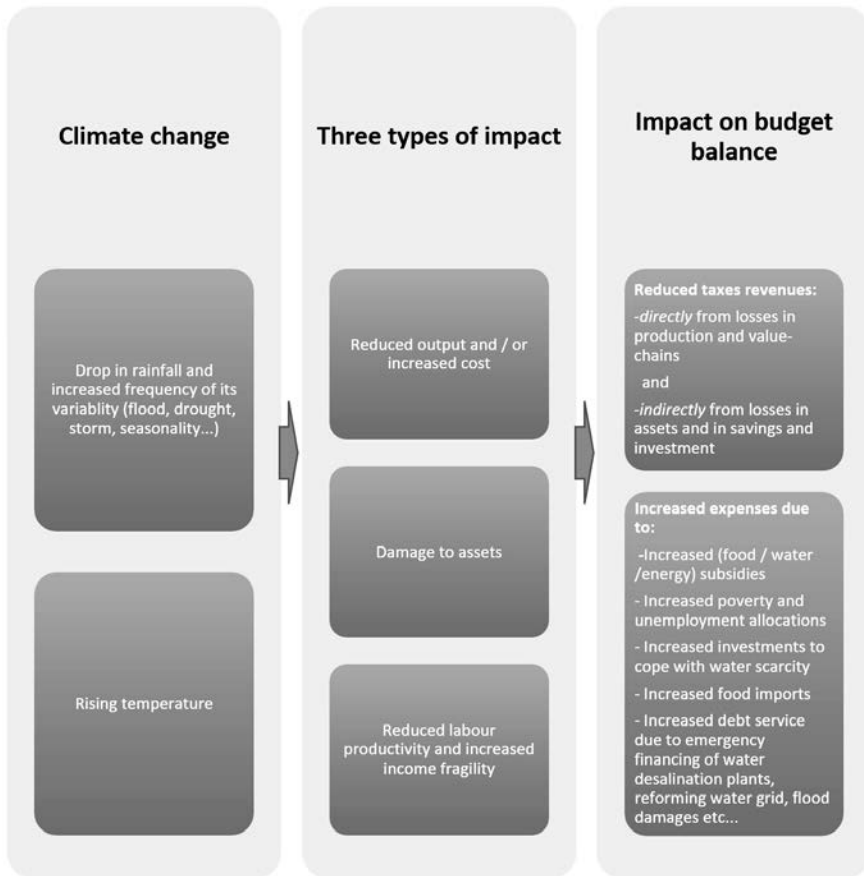
Aside from the complexity of an ex-ante evaluation of such effects, mainly because of factors which include the behaviour of adaptation by farmers, and by firms with regards to crop selection, fertilization etc., the adaptation influences public budgets via sectoral spillovers and macroeconomic feedback effects, which in turn affect both the expenditure and the revenue sides. These effects manifest itself through a broad range of feedback effects, including changes in the tax base, the subsidies, in climate-related investments, and so on. As illustrated in figure 3, the first possible effect of climate change, *ceteris paribus*, would result in a drop in agricultural production, which provides a living for 510,000 Tunisians and is accounting for at least 10% of the country's GDP (WDI, 2023). This will result in an increase in subsidies, poverty funds, and unemployment benefits, as well as a currency equivalent of imports, having in mind from the previous section that agriculture, food, and energy are heavily subsidized and thus they are of very high relevance for public expenditures if the current situation in terms of water scarcity and energy shortage materialize more in the coming years. The World Bank (2023) report highlights such scenarios for the whole MENA region and calls for bold policies and for deep institutional reforms. The increased need for investment expenses to accommodate water scarcity through investing in new desalination plants, for example, is expected. On the other hand, corporate taxes are likely to drop accordingly at the sectoral level in addition to a drop caused by the overall deceleration of economic activity through all the value and supply chains related to agriculture activity. In addition, it is expected that foreign debt goes up to pay for food imports. The second effect is caused by companies and households' loss of assets value which might lead to recognize tax deductible losses, prompt

expenditures and investments to adapt business models, to set out reserves for asset or goodwill impairment or for recognizing irrecoverable inventories losses, and so on. All these climate-related matters caused by assets losses may imply a significant risk of tax losses. The third effect, being of a type which is resulting from the first two elements, is the loss of labour productivity and the increasing income fragility, coupled with migration, necessitating greater efforts by the state in terms of allocation of funds and of social support.

Knaepen (2021) suggested similar three types of climate-related development risks, focussing on the agri-food system in Tunisia. Although not focusing only on budget-related effects, this study introduces the concept of cascading climate change risks, focussing on the agriculture (mainly wheat and olives sectors) and the climate vulnerability, and emphasizing the need for adequate and coherent policy responses not only from the Tunisian authorities but also from European partners. Giovanis and Ozdamar (2022) are investigating the impact of climate change on the fiscal balance and on public debt in the MENA countries, by using a panel data approach over the period 1990–2019, and by showing that temperature changes adversely affect the government budget and do increase debt. More precisely, they find that the average temperature decreases fiscal balance by 0.3% and increases debt by 1.87%. Using projections of temperature and rainfall over the years 2020 to 2099, they also find a significant decrease in the fiscal balance at 7.3% and an increase in the public debt at 16% in the period 2060–2079 and at 18% in the period 2080–2099, under the assumption of a high greenhouse gas emission (GHG) scenario. Under the low GHG emission scenario, the fiscal balance deteriorates by 1.7 % in the period 2020–2039 and by 2.2 % in the period 2080–2099, while public debt rises by 5 % in the period 2020–2039 and by 6.3 % in the period 2080–2099.

Bachner et al. (2019), by suggesting a very useful general framework for modelling public adaptation to climate change effects on the expenditure and on the revenue sides of the public budget, argue that climate adaptation could potentially lead to the generation of additional revenues. Hence, they suggest another dimension to figure 3 that has not been considered so far, by generating revenues through new climate adaptation sectors or projects. Aligishiev et al. (2022) corroborate this point of view, arguing that well-designed and implemented climate adaptation interventions can have large returns, although annual adaptation costs may vary from country to country, as assessed in Bachner et al. (2019), from 1% of GDP for some developing countries, up to 10% in some island states, considering climate effects from both average and extreme events, as well as adaptation policies.

Figure 3: Water stress and effects of rising temperatures on budget balance channels



Source: Author's preparation using the study by UNDP (2021).

4 Fiscal and climate challenges: what reform agenda?

This section proposes six key intervention areas that can address budget and debt challenges while focusing on climate adaptation and mitigation. These areas of intervention overlap with Baghdadi and Labidi's (2023) main idea that reforms must be comprehensive, but we believe that the bulk of financing must come from alternative means other than debt, as described below. We also believe that revising the growth strategy is crucial to tackle the structural roots of the country's fiscal

difficulties, while working to fully integrate large-scale transition projects to a green economy that should breathe new life into the economy. Alongside these elements, the modernization of public finances, good governance and digitization systems are also very necessary, despite the real difficulties of implementing them as seen until now.

First, dealing pro-actively with the growth strategy, confirming the existence of a structural imbalance in the pace and pattern of economic growth in Tunisia and recalling the comparative economic performance of a number of developing and emerging countries, the analysis indicated that although Tunisia has achieved a favourable growth rate on average before 2010, it was not enough to improve income levels and to reduce disparities, nor was it successful for providing a pace or path that offers convergence with the economic and structural patterns prevailing in developed or emerging countries. Tunisia must intensify its structural transformation through targeting higher value-added and rapidly growing medium and high technology activities sought to support improved productivity and sustainable inclusive growth. Aside from typical Washington Consensus policies, which have produced debatable socio-economic and environmental results, we believe that New (functional and selective) Industrial Policies (NIPs) could help Tunisia to boost and to direct foreign and local investment towards the targeted sectors in order to breathe new life into the economy what is essential for solidifying growth and broadening the fiscal base, in line with Rodrik (2008, 2009, 2019) and Abdmoulah (2022), who argued that sustaining growth needs strong manufacturing and exports sectors. Part of the incentives package should be geared to investment and financing opportunities in relation to renewable energy and green economy projects that are likely to boost growth, to create more jobs, and to help mitigate climate change challenges. These incentives include different fiscal and monetary measures such as green stimulus measures, renewable energy investment tax incentives, carbon pricing etc. A crucial industrial policy concern arises from the current planning practice in Tunisia, which suffers from several shortcomings, such as the narrative nature of current five-year plans (lack of quantitative targets, lack of clear key performance indicators and incentives), the inability to align plans with the budget, the absence of long-term planning, and the absence of a proper monitoring system (Abdmoulah, 2014). Another crucial dimension of the new growth strategy should be pursuing a balanced strategy to formalize the informal sector. The goal is twofold; first, reducing the inequalities and the vulnerability among a large portion of the population and the economy who are facing unfavourable working and living conditions especially during crisis times, what has detrimental effects on the budget balance - as discussed above - mainly due to climate-related effects but also due to technological and energetic transitions risks. Second, broadening the tax base to improve tax revenues for making possible downward revisions of the tax rates. Formalization policies should focus on making the formal sector more attractive, what requires improving the business

climate, facilitating access to finance and public procurement for small businesses, building more flexible, resilient, and inclusive social protection systems, and encouraging the expansion of formal enterprises by developing flexible fiscal, regulatory and legal frameworks that are conducive to private-sector development and formal-sector job creation. Policies should also identify and remove barriers that may discourage or impede the formalization of informal enterprises. Lastly, policymakers should put in place mechanisms to strengthen the capacity of tax administrations to control and to combat tax evasion (IMF, 2021, Saoudi, 2022), what is in line with the next area of intervention.

The second area refers to reforming public financial management as this is largely linked to improving governments' financial performance and increasing the ability to (1) respect budgetary discipline (controlling budget deficit levels and public debt) and (2) guaranteeing the mobilization and collection of public resources, particularly through generalized digitalization, and the optimal allocation of resources between different areas to achieve development priorities at local and national levels. And the reforms related to budgeting systems and budget preparation processes should be taken in a way to improve the overall view of the budget and the consequences of financial decisions, in addition to imposing financial rules and budget ceilings to control budget deficit and public debt levels, adopting medium-term expenditure frameworks, and promoting the adoption of programme and performance budgets. Regarding reforms linked to the implementation of budgets and financial control and audit processes, it is important to highlight the need for strengthening public procurement management, internal control, and tax administration, as well as reforms linked to governance mechanisms, such as improving transparency and financial disclosure. In the same field, special attention should be paid to public debt management frameworks. With reference to the guidelines drawn up by experts from the International Monetary Fund and the World Bank, an explicit legal framework that relies on laws rather than regulatory frameworks is highly recommended to ensure its sustainability. Besides, the relationship between the legislative and the executive authorities in public debt management should be clarified to ensure the accountability process, in addition to assigning public debt management to an independent agency contrarily to the current practice that assigns it to the Ministry of Finance, what also requires good coordination and appropriate mechanisms for information exchange and cooperation with the central bank. Furthermore, providing in-depth risk analysis is highly needed, and this requires a focus on capacity-building what is related to risk analysis and is striving to improve the dissemination and availability of public debt data, because of its significant impact on building confidence and enhancing accountability.

As for the third area of intervention, it refers to the possibility of applying deflationary fiscal policies as one of the means of dealing with budget deficits and indebtedness. As known, the traditional justification for following austerity

policies, as advocated by international financial institutions, is that they are one of the measures needed to stop the growth of public debt, where these policies represent a strategy for rebuilding reputation and confidence in the solvency and financial creditworthiness of governments. More specifically, by adopting these policies, authorities can send "signals" about their ability to honour and to bear the burden of future public debt obligations, helping to facilitate access to credit markets and to reduce the cost of borrowing, taking into account a number of rules in the area of austerity policy applications, including the importance of timing the launch of austerity programmes, as the application of financial austerity measures during periods of positive output growth significantly reduces the deflationary impact of these measures on output. Besides, there is a need to ensure that applied studies are carried out to estimate the value of the financial multiplier in general, and the multiplier associated with the various components of spending specifically, and the extent to which these values depend on the nature of the economic structure, as well as designing austerity measures so that they are gradual. This increases the possibilities of their ability to reduce public debt/output rates and limits their deflationary impact on output. Recommended reforms include also rationalizing and coordinating all government spending by eliminating and replacing non-targeted food and energy subsidy programmes with targeted social safety nets and transfers, what necessitates improving data collection to identify the poor and the vulnerable, who are most likely to need and to benefit from targeted social assistance programmes to ensure the sustainability and durability of the financing of this social protection system, and reducing the subsidies bill (Dellas and Niepelt, 2015, Sanchez and Sebastian, 2013, Gros, 2012, Rendahl, 2012, and Truger and Paetz, 2012). These recommendations have been made for years, but apparently, they have only partially worked in Tunisia, as in many developing countries, probably because reducing subsidies is very unpopular in the sense discussed above (Ali and Elbadawi (2012) and Elbadawi (2016). But despite this, Tunisia has managed to gradually reduce energy subsidies for example (2,525 dinars for one litre in September versus 1,370 dinars in 2010, Tunisian Ministry of Industry/TMI, 2023), what shows that it is quite realistic to pursue such a policy to the end when subsidies are carefully phased out and perhaps in particular those that harm the climate.

The fourth area of intervention refers to the need for additional, decisive and sustainable funding for investment efforts aiming at achieving efficient economic adjustment through improving the capacity to adapt to or to mitigate the impact of climate change, whether this involves improving and adapting existing infrastructures or building new ones, greening the economy, or achieving the energy transition, rather through alternative and non-credit financial instruments to

provide the expected financial support particularly when fiscal space is short (Aligishiev et al., 2022), according to the following instruments⁸:

Climate-debt swaps: The debt swap process involves converting foreign debt payments into domestic investment to implement climate-related projects through debtor-creditor cooperation agreements (UN-ESCWA, 2020). This mechanism therefore works by designating projects that can be used for debt relief and allows creditors to participate in the ownership and management of these projects on a sound commercial basis on the one hand, while promoting investment in climate action areas on the other side. Besides, this mechanism offers a way out for countries suffering from a depletion of their hard currency reserves, by exchanging part of their foreign debt for direct investments that support climate action without weighing on the government budget. This mechanism would also strengthen the immunity of the local economy by diversifying investment opportunities into alternative high-value-added green sectors, thereby boosting potential growth, and contributing to the achievement of sustainable development goals (SDGs), as well as to all the treaties linked to climate agreements.

Green bonds: A green bond is a fixed-income instrument which is specifically designed to support environmental or climate-related projects. They are usually accompanied by tax incentives to enhance their attractiveness to investors, and these bonds are usually asset-linked and backed by the budget, so that they generally have the same credit rating as their issuers' other debt securities. The World Bank issued the first official green bond in 2009. Climate bonds specifically finance projects that reduce carbon emissions or mitigate the effects of climate change, while green bonds represent a broader category of instruments linked to projects with a positive environmental impact. According to IFC/International Finance Corporation (2022), Tunisia is lagging compared to other MENA countries, such as UAE, Qatar, Saudi Arabia, and Morocco, as these countries were issuing its first green bond in 2016 after putting in place a well-designed regulatory framework for green bond issuance. An example is the green bond as prepared by the Moroccan Capital Market Authority (AMMC) in cooperation with World Bank – IFC. Egypt has become very active in the green bond market as well, as in

⁸ The OECD (2022) report showed the evolution of total annual levels of climate finance provided and mobilized by developed countries to developing countries over the period 2013-2020, as it showed that \$83.3 billion was jointly mobilized by developed countries for climate action to developing countries in 2020. It rose from around \$52 billion in 2013, although this amount remains below the agreed \$100 billion target. The report showed that financing for climate change mitigation efforts accounts for most of the amount (70% for mitigation efforts versus 30% for adaptation efforts), but adaptation financing continued to grow, in both relative and absolute terms, and loans remained the main tool used to provide public climate finance. On the other hand, the report indicated that most financing targeted Asian and middle-income countries.

September 2020 it had issued green bonds for an amount of 750 million dollars. Egypt thus became the first country in the region to issue sovereign green bonds.

Green Sukuks: Some Arab countries, notably the Gulf states, have seen a more rapid development of green sukuk, given their ability to attract large segments of investors who do not wish to hold fixed-yield bonds, since sukuk are based on the principle of profit and loss sharing, unlike bonds. Sukuk are documents issued in the name of their owner in denominations of equal value and represent ordinary shares in the assets of a particular project or private investment activity to facilitate the purchase and trading of these sukuk. On this basis, green sukuk can contribute to the development of green investments by providing financial resources tailored to these investments, in terms of the timeframe required, the degree of risk involved, the type of the sector, and the appropriate financing method. In other words, sukuk contribute to mobilizing savings and directing investments through a direct link between savings and investment activities based on the profit base and a real return resulting from real contributions made and based on an increase in the development of wealth and of a real income, being the result of real productive activities. Despite the existence of the law governing sukuk issuance promulgated in 2013, Tunisia has failed in its attempts to issue sukuk. The first attempt took place in 2012, when the authorities announced their intention to raise 1000 million dinars, which was cancelled in 2016. Another attempt dates to 2021, when the authorities announced their intention to raise 300 million dinars, but no action has been taken to date. Nabi (2019) explains that the reason for these cancellations is not only technical, consisting of choosing the right asset to back the operation and the type of sukuk, but also has to do with the negative perception of public opinion, as many Tunisians consider the operation as mortgaging public infrastructure in exchange for a foreign loan, leading to fierce opposition fuelled by the fear of seeing assets' ownership transferred to foreign investors in case of default.

Public Private Partnerships (PPPs): The public sector alone would not be able to bridge the infrastructure investment gap without mobilizing the resources and the expertise of the local and the international private sector. Thus, partnership between the public and private sectors is fundamental to promoting investment in climate-friendly infrastructure. At the same time, this type of partnership can pose a challenge to the private sector, as climate change creates uncertainty as to the state of supply and demand, prices, and asset risks in the future, while such partnerships require a degree of predictability to attract investment. Long-term plans compensate for uncertainty about climate change and its impacts, are building options and solutions, and feasibility studies upstream of the public-private partnership cycle will benefit from contractual predictability. However, many countries around the world have managed to put in place attractive capabilities and systems for such partnerships, as private-public partnership operations have multiplied in many countries over the past two decades, given its effectiveness in financing,

building, managing, and operating infrastructure projects and public services. Especially, these partnerships will be beneficial for renewable energy production projects, projects for roads, communications, transport, bridges, airports, ports, railroads, health and education sectors, water, sanitation, and for any climate-friendly projects. These partnerships have developed through various forms of cooperation, such as concession contracts, operating leases, and others, with the aim of promoting the development of the above-mentioned sectors, using them sustainably, and improving the level and quality of services and maintenance. The importance of this type of partnership lies in the financing, operation, management, and maintenance of infrastructure projects, rather than charging the cost of these projects to the general government budget from the capital expenditure item through increased borrowing. It is worth noting that, compared with other MENA countries, Tunisia is lagging behind in the development of PPPs (according to WB, 2023b, Tunisia recorded a total of 4.78 billion dollars, while Morocco, Egypt, Jordan, and Algeria recorded 22.67, 18.5, 10.58 and 9.18 billion dollars, respectively), and can therefore not take full advantage of the private sector's ability to implement public projects more efficiently and rapidly, at lower cost, and to improve the level and quality of execution and service to citizens, at reasonable prices, thereby strengthening and activating the role of the private sector, and enabling the state to focus more on issues of supervision and regulation. Numerous forms of partnership contracts between the private and public sectors, including concessions, management contracts, and leasing contracts, as well as new green-field projects, are practised worldwide. Many contracts have been concluded between the public and private sectors in the above-mentioned forms, such as buy-build-operate, build-operate-transfer, build-own-operate-transfer, and build-lease-own-transfer. Pioneering international experience in this field has demonstrated the imperative to establish a set of initial requirements for the success of public-private partnerships, the most important of which are (1) to draw up the legislation and the laws needed to ensure transparency, fair competition, monitoring and control, (2) to establish institutional frameworks for monitoring partnerships and contracts, (3) to carry out the feasibility studies needed to select the projects that will be the subject of partnership operations, and (4) to lay down the rules and procedures for choosing the investor and selecting the best bids, and tightening the bases of evaluation in line with the nature of these projects from a financial, technical and operational point of view. Finally, and (5), raising public awareness on the importance of partnerships with the private sector in the financing, development, and operation of such projects, as well as about the positive effects of these partnerships on economic and social development, is of paramount importance if we are to maximize the benefits of this useful mechanism in the financing and operation of national climate change projects.

Diaspora bonds: Diaspora bonds are an important source of financing for some countries, as they are the best way of transforming remittances into an

investment tool for financing development on a regular and efficient basis, notably by issuing bonds allowing to allocate immigrants' remittances to finance specific projects instead of final consumption. Since 1991, diaspora bonds have been widely used to finance development in India. Bradlow (2008) notes that South Africa has also adopted diaspora bonds, originally designed to involve immigrants in the process of national reconciliation and development. These bonds have thus become a tool for mobilizing funds from residents and expatriates to finance small and medium-sized enterprises to create jobs, and to provide for services and opportunities in disadvantaged areas. As pointed out by Ketkar and Ratha (2009), these bonds are comparable to sukus, except for the fixed yield, and generally appeal to a sense of patriotism and a desire to contribute to the development of the country of origin. Given Tunisia's growing financing needs and the 3.09 billion dollars of remittances per year on average over 2021-2022, corresponding to 6.6% over the GDP (according to WDI, 2023), diaspora bonds could represent an effective tool for mobilizing part of these substantial remittances. It should be noted that diaspora bonds differ from the foreign currency deposits that Tunisia as many developing countries use to attract foreign currency, given that diaspora bonds are long-term securities that are only redeemed at maturity. On the other hand, foreign currency deposits are not investment tools, but rather savings deposits. They can be withdrawn at any time, reducing banks' ability to finance investments. Thus, diaspora bonds are an unexpensive way for countries to mobilize reliable financing for certain projects or sectors, in addition to their ability to motivate immigrants to seize feasible investment opportunities with acceptable risks, representing an additional source of hard currency for these countries. Agunias and Newland (2012) have identified important conditions for building trust with immigrants, including (1) providing legislation and a transparent framework by clearly including national development plans and investment opportunities, particularly climate-friendly projects; (2) ensuring the transfer of benefits and allowing them to benefit freely from pensions; and (3) providing tax incentives, duty exemptions and other fiscal incentives to promote productive investment over final consumption.

Crowdfunding: Climate-friendly projects and other projects can be funded by collecting money from a great number of citizens. There are many types of crowdfunding, including reward-based, equity-based, debt-based, and real estate-based crowdfunding. Crowdfunding is subject to strict institutional and legislative arrangements that guarantee, on the one hand, a high level of transparency to organize fund-raising operations through dedicated platforms on the Internet, or through a financial intermediary registered by the Markets Authority, and on the other hand the rights of investors. There are hundreds of crowdfunding platforms worldwide, with funding reaching billions of dollars annually, with the USA having the largest volume of funds raised in 2020 (73 billion \$), followed by UK (12.6 billion \$) (Statistica, 2023). In recent years, many digital platforms dedicated to

crowdfunding have appeared in various Arab countries, such as Yomken⁹ and Madad¹⁰ in Egypt, Liwa¹¹ in Jordan, Smala¹² in Morocco, BuildPalestine¹³ in Palestine, and Smart Crowd¹⁴ in the UAE. These platforms were allocated to financing private projects with the aim of combating youth unemployment and strengthening the role of small and medium enterprises. It is worth noting that Tunisia ratified the crowdfunding law in July 2020, which includes participatory financing to finance the capital of start-ups, particularly in renewables that lack financial resources due to their risky nature. This Law has been designated to help finance private and non-governmental projects, and is still awaiting actual launch, including the inauguration of the digital platform dedicated to this purpose.

It is worth noting that the suggested alternative financial instruments require a well-developed financial system. Therefore, Tunisia should consider implementing various measures to strengthen its financial system, as the country is showing an average score of 0.237 on the IMF financial development index in 2020, a score of 0.405 on banking development, and a score of 0.06 only on financial markets development. In particular, the capacity of banks to mobilize savings in general needs to be strengthened by improving financial access and the efficiency of lending and risk assessment mechanisms, what requires that the level of competition in the banking and financial sector is increased (OECD 2023b; Abdmoulah, 2021). Also, it is necessary to strengthen the capacity to mobilize bank finance for sustainable development and to integrate green finance into the whole financial system. These measures include priority lending requirements and below-market-rate financing by subsidizing the interest rate and adopting clear performance indicators for green lending volumes and areas as discussed in the recommendations below. However, these actions carry risks as they can also lead to a misallocation of financial resources. In addition, these measures can create financial risks that need to be considered when designing them (UNEP, 2016).

The fifth area of intervention refers to the necessity of greening the budget which is conceptually the use of public policy tools to achieve environmental and climate objectives. It aims to meet the challenges of resource mobilization by improving the level of fiscal space and ensuring the process of financing the energy transition while avoiding the risk of unsustainable debt. For example, reforming the subsidy system by reviewing water pricing to reduce wastage of water resources by liberalizing freshwater pricing, while considering the situation of

⁹ See: <https://www.yomken.com/>

¹⁰ See: <https://www.madad.com.eg/en/about-mission/>

¹¹ See: <https://liwwa.com/>

¹² See: <https://www.happysmala.com/crowdfunding>, and: <https://www.devex.com/organizations/happy-smala-110250>

¹³ See: <https://buildpalestine.com/>

¹⁴ See: <https://smartcrowd.ae/>

vulnerable segments of society, is the best guarantee to reduce the public expenditure to subsidize water prices and to preserve water resources. Similarly, accelerating the energy transition requires investment in renewable energies and sustainable infrastructure. It would also help to improve the state of public finances by reducing hydrocarbon subsidies and maintaining a sustainable environment. Given the absence of an integrated vision for the greening of public policies, and the insufficient depth required to expedite environmental transformation in the procedures proposed in the finance laws, the OECD (2020) has developed a framework for greening the budget, which consists of four pillars: (1) a strong policy framework; (2) tools to generate evidence of policy coherence; (3) disclosure to facilitate accountability and transparency; and (4) an enabling framework for budget management. It is important to highlight that fiscal greening policies in Tunisia have not yet attained the recognition and status they deserve, apart from a few borderline renewable energy schemes. This situation can be attributed to the inability to take ecological issues seriously, given the structurally restricted fiscal space and the fact that the fiscal authority is overwhelmed by the traditional short-term issues of paying salaries and meeting the population's basic needs.

To ensure the success of greening the budget, the fiscal authority is called upon (1) to set its objectives in terms of transition to a green economy; (2) to put in place the tools to promote these objectives in terms of public investments and incentives, and in terms of alternative financing tools emphasizing the importance of attracting private sector investment in this area; and (3) to set performance targets and key performance indicators to ensure efficiency. Lessons can be drawn from Egypt's 2024 budget, which allocates 30% to green investments in transport, water, wastewater, irrigation, and electricity. The financing of these initiatives relies mainly on mechanisms such as the issuance of green bonds and PPPs.

The sixth area of intervention pertains to the integration of climate considerations into the monetary policy. Many central banks around the world have embarked on a proactive assessment of the risks associated with climate change. Indeed, climate change cannot be ignored by central banks because of its repercussions on price stability (excessive increases in food prices, for example) and financial stability (threat of physical and transitory risks to the banking, insurance, and money markets). Central banks are therefore called upon to face these negative repercussions, and to become involved in greening the economy by using their monetary tools on the one hand, and their authority to supervise the banking sector on the other. However, their involvement remains dependent on their ability and willingness to green the tools of monetary policy to direct economic financing towards environmentally friendly projects and to accelerate the ecological transition (Brzeski, 2021). Similarly, central banks are called upon to abandon the principle of "market neutrality", when they are buying treasury or banks bonds which account for the environmental footprint of the projects financed. Besides, monetary policy tools need to be enriched with mechanisms to stimulate an

environmentally friendly economy (such as using differentiated interest rates and the greening of collateral in refinancing operations). Similarly, banking supervision systems need to be developed (such as the greening of banking supervision standards) to stimulate the financing of environmental transformation. Climate-related risks should be accounted for in lending decisions, by increasing the risk ratios applied to loans intended to finance projects with a high carbon footprint when calculating the capital adequacy ratio.

5 Conclusions and Policy Recommendations

Tunisia faces unprecedented fiscal challenges. Over and above considerations of political instability and external shocks, this essay has shown that structural weaknesses in the growth strategy, together with fiscal policy choices relating to subsidies and public employment, as well as the lack of governance and effectiveness of tax administration, are at the root of this situation, which leaves the authorities little room for manoeuvre on both sides of the budget. Added to this is the issue of climate change and its effects, which have begun to be felt strongly in recent years, and which will undoubtedly have a devastating impact on the economy as a whole and on the budget through the various channels presented in this study, not least because of the impact of water shortages on a sector vital to the Tunisian economy, namely agriculture.

To tackle all these problems, Tunisia needs to work on several aspects at once, to put the economy back on the path of growth sustained by high productivity and innovation, but also to reform public finance management, to work on greening fiscal and monetary policies, and to move seriously towards alternative financial instruments being so useful for greening the economy and achieving the energy transition.

Given that institutional inertia, lack of good governance, and political instability are among the main causes of the current situation, the following elements are meant to reduce the gaps between the reform agenda and the realities of implementation, by going forward. Firstly, a wide-ranging debate is needed to reach a consensus among the various stakeholders on the policies needed and the roadmap to be put in place. Secondly, the negative spillovers of the reform should be minimized, especially those relating to the reform of subsidy and public employment policies. Thirdly, the positive externalities from the integration of the informal and green sectors should be rapidly valorised to consolidate support from the different stakeholders, mainly the local and the international investors, to move forward, and fourthly, as the success of all these reforms is contingent on the modernization of public finances, governance, and digitization, they should not be overlooked at any time.

Six policy recommendations are urgently on the agenda for immediate policy action in Tunisia. First, revisiting the growth strategy; second, reforming the public financial management system; third, applying specific forms of deflationary fiscal policies; fourth, developing alternative and non-credit financing instruments for economic adjustment and climate change mitigation and adaptation; fifth, greening the budget; and sixth, integrating climate issues into monetary policy. These six elements are part of a coherent strategy and so need to be seen in a holistic frame of action, and this approach requests reforms of the governance systems at all levels of government.

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Tax performance and the Political settlement in Uganda: 1962-2023

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1 Introduction

Despite the increasing tax research in Africa, the study of the political dimension to the challenges of today's tax systems in most sub-Saharan Africa (SSA) countries has remained limited. The general agreement in most taxation literature on SSA is that the low tax revenues in the region are a result of weak economic institutions. Economic institutionalists have over the years advised that to improve tax performance, economic institutions should be strengthened. However, a new alternative view —political institutionalism - attempts to attribute challenges of development to the nature of political institutions. According to this new school of thought, the power of political institutions is what directs economic policy, institutions and state capacity. With over 70% of SSA ranking below the global average political stability index², the study of its economic phenomena ought to incorporate the analysis of the political factors that shape how the managers/officials/bureaucrats of the state run the economy. It is for this reason that this study used Kelsall et al.'s (2022) political settlements analysis (PSA) approach. Grounded in a historical framework, its findings suggest that over 50% of the variation in Uganda's tax performance for the period 1962-2023 could be explained by the nature of its political settlements during this period. The study used the Effective States and Inclusive Development (ESID) Research Centre's Political Settlements (PolSett)³ dataset for Uganda, covering a period of 56 years (1962-2018). Using imputations for the 56 years and estimates for an additional 5-year period (2019-2023) which are forecasted. So, it is possible to include additional

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² See on the political stability index (PSI) details here: https://www.theglobaleconomy.com/rankings/wb_political_stability/.

³ The PolSett. dataset is an original expert-survey-based dataset mapping configurations of power, on the relative size, strength, and social composition of contending political blocs in society, their internal cohesion, accountability relations, and benefits' distribution. The dataset covers 42 countries in the Global South (including Uganda), spanning from 1946, or independence, to 2018. It is publicly available (open access) online at: <https://www.effective-states.org/working-paper-165/>.

five years in the model. The results are then corroborated by various published evidence on Uganda's political economy, and statistics from reputable databases by international development agencies (e. g., the World Bank, the International Monetary Fund (IMF), and the African Development Bank/AfDB) for the period under review. Like other similar low-income countries (LICs), Uganda is yet to recover from the adverse effects of the Covid-19 crisis. Reversing these effects will require ambitious public spending on various socioeconomic recovery infrastructure. However, without earnest political willpower to creatively calibrate tax policy in such a way that more revenues are raised while at the same time business activity and national aggregate investment are stimulated, economic recovery remains only a wishful, but implausible dream. As the dataset does not cover this crucial period, this extension for five additional years helps to fill this gap, to widen the scope of analysis to this crucial period.

The paper is organised as follows: Section 2, after the Section 1 on Introduction, is a brief conceptual review of the approach and of the study variables, their measurement and the essay's scholarly contribution. Section 3 briefly discusses Uganda's taxation and political landscape. It then evaluates in detail the different political settlements Uganda has had for the period 1962-2023, and how each settlement affected Uganda's capacity to raise tax revenues. Section 4 is a simple OLS PSA-Taxation regression model for Uganda, augmented by a 4-country PSA-taxation comparative analysis. Section 5 presents the key issues emerging from the analysis and policy recommendations based on them, while Section 6 concludes.

2 Conceptual review and measurement of variables: The PSA and Tax Performance

In the analysis, tax performance and strength (or nature) of political settlement are the dependent and explanatory variables, respectively. The subject matter of tax performance – what it means and how it is best measured - has been exhaustively studied (Caldeira, Compaore, Dama, Mansour, & Rota-Graziosi, 2019). Bird's (1976) seminal paper summarises 'tax performance' as meaning, either a reasonable tax level or structure achieved in a specific set of circumstances or an average standard of 'tax effort' to be achieved in comparison with progressive neighbours in a similar political and socioeconomic environment (Bird, 1976). The essay adopts the latter meaning and in line with Besley & Persson (Besley & Persson, 2014), measured by the volume of tax collected, expressed as a percentage of the gross domestic product (GDP), i. e., the tax-to-GDP ratio. Taxation is a form of settlement between government and the governed (Umar, Derashid, & Ibrahim, 2017), and according to the Organisation for Economic Co-operation and Development (OECD), the percentage of tax revenue to GDP effectively measures the

size of national output paid by the citizens (OECD, 2023) through the settlement. Because tax is a burden, the willingness of the citizens to bear it depends on either the citizen's willingness to surrender to government the control of their resources, or the power which the government uses to coercively control the resources (Kjær & Ulriksen, 2020). The PSA framework is about measurement of how a country's political leadership uses authority to execute its mandate at all levels of government (Poteete, 2009). Since the tax-to-GDP ratio relates to government as a whole (OECD, 2023), the suitability of its use in the study of tax performance and political settlements cannot be overemphasised.

On the other hand, a review of political economy literature shows that political settlement as a concept has no universal definition and as such, may suffer from definitional ambiguities (Kelsall, et al., 2022). While Lindemann (2014) presents the concept to mean 'an elite bargain to ending civil war and conflict (Lindemann, 2014)', Rocha et al. (Rocha Menocal, Fritz, & Rakner, 2008) see a political settlement as 'the expression of a negotiated agreement (at least in principle) binding together state and society and providing the necessary legitimacy for those who govern'. The authors, in agreement with Laws & Leftwich (Laws & Leftwich, 2012), stretch the concept further to point out its process dimension. According to them, political settlements are a 'two-level game': horizontal negotiations between elites and vertical relations between them and their followers. In addition to defining the concept, Khan (Khan, 2018) explains the point at which it occurs. According to him, political settlements emerge 'when the distribution of benefits supported by its institutions is consistent with the distribution of power in society, and the economic and political outcomes of these institutions are sustainable over time'. This view is further supported by Kelsall et al. (2022). These authors, however, argue that the settlements are '(1) continuous processes (not a happening at a point in time), amongst a country's most powerful groups with authority over (2) political and economic institutions expected to generate for them (3) a reasonably acceptable level of benefits, which stops or avoids general civil war and/or political and economic disorder'. As per the foregoing conceptualisation above, political settlements as a study variable can be confusing. To avoid this, this study adopts Kelsall, et al.'s (2022) definition—which, in my opinion, is the most comprehensive and unambiguous. As proxies for measuring the strength of political settlements, we use ESID's power concentration index (PCI) and the social foundation size (SFS). PCI represents the degree to which power is concentrated in the ruling coalition. SFS, on the other hand, measures the democratic potential in the ruling coalition's own membership (i.e., the number of those with the power to rearrange the political settlement – through competitive internal re-organisation, rival-infighting, or exit). In the ESID PolSett dataset, the estimates for the PCI and the SFS are grouped for each political settlement (e.g., 3 year, 5 years, 7 years, etc). However, most datasets that report on the world economic indicators, like the tax-to-GDP ratio (the dependant variable) and the GDP Per Capita growth rate

(control variable), are not so ambiguous in their foundation. The essay, therefore, does “back of the envelope” calculations for the averages that match each settlement. For instance, for the 1962-1965 Obote-Mutesa political settlement, during which single PCI and SFI estimates are reported for the four-year political regime, a three year-average tax-to-GDP ratio and a GDP Per Capita growth rate have been computed. Similarly, the 1966-1970 Obote-I political settlement reports single PCI and SFS estimates for the entire five-year period. So, the tax-to-GDP-ratio and the GDP Per Capita growth annual rates have each been averaged into a single five-year average. And so on...

This essay does not seek to oppose the economic institutions approach to studying taxation challenges but complements it, or rather expands it by providing an additional dimension of what could explain the variation of tax performance in developing countries, especially in SSA. Its contribution belongs to a relatively new strand of taxation literature that traces taxation outcomes from the perspective of how the different political factors influence the way economies are managed. It is one of the very few of its kind in the literature that analyses a country's tax performance by using the PSA framework. It borrows from the argument that the nature of a country's political settlement has the power to significantly influence its capacity to produce robust development outcomes—as first emphasised by Poteete's contribution (2009). This study reported that, due to its broad and stable political settlement, Botswana was able to avoid the “resource curse” from its diamond wealth, despite of the country's fragile economic institutions. Taxation forms an important part of a country's development agenda, and by studying how the strength of political settlement drove development outcomes from Botswana's diamond wealth, it can be argued that taxation was implicitly covered by the study. However, Poteete's (2009) findings are, at best, only suggestive to the possibility that Botswana's nature of political settlement has influenced how much the country could collect in tax revenue. Next was Khan's study (2018) — on the effects of political settlements for a country's industrial policy outcomes. Concluding that the country's political settlement directs how the rents from its industrial policy are shared to derive varied development outcomes, this study provided some applied hints on how tax policy results could be affected by the nature of political settlements on which a country is governed. Just as Poteete's study (2009), Khan's (2018) findings, too, cannot be said to authoritatively hold true for taxation policy, let alone its efficiency or effectiveness. Other studies that have extended the PSA framework to the evaluation of development include Hickey and Izama (2016), Behuria et al. (Behuria, Buur, & Gray, 2017), Leftwich & Lyne (2018), Khan (2018), Kelsall, et al. (2022) — all these studies are listed in Hickey (Hickey S. , 2023) and in Ricciuti et al. (Ricciuti, Savoia, & Sen, 2019). Hickey & Angelo (Hickey & Angelo, 2020) — like Poteete (2009) – are doing a PSA of the management of natural resource wealth, while Behuria et al. (2017) concentrate on

clearing the ambiguities over the conceptualization of the PSA framework. Meanwhile, Leftwich & Lyne (2018), and Kelsall et al. (2022) both tackle the aspect of how the nature of politics, e.g., the political power configuration and the leadership style, influences development outcomes. Kjaer & Ulriksen (Kjær & Ulriksen, 2020) use the PSA to show why — using the fiscal contract theory - voluntary tax compliance in Uganda is low. But all these contributors to the debate do not include the subject of taxation as an important component of their analyses. It is only Ricciuti et al. (2019) who study the fiscal capacity in the context of political institutions. However, different from this essay that uses a pure PSA approach, Ricciuti et al.'s (2019) study appraises the effects of political checks and balances on executive power in the administration of impartial tax systems to extract revenues. While this is related to the PSA, it concentrates on the strength of state institutions that check executive power, like the legislature and the judiciary. The fact that the configuration of political power in the ruling coalition — which Kelsall et al (2022) calls the 'political settlement' - influences the way how the government runs its affairs, has implications for the tax performance. Any political settlement can yield different taxation outcomes what is not adequately salient for the proponents of the PSA in their fiscal capacity analysis. Apart from Ricciuti et al (2019), other related political economy studies that explore the relationship between politics and taxation are: Fauvelle-Aymar (Fauvelle-Aymar, 1999) provide a positivist politico-economic model of political and tax capacity of government in developing countries; Acemoglu and Robinson (2010) provide a review of Africa's political and economic institutional history for the continent's high poverty levels; Garcia & Haldenwang (Garcia & Haldenwang, 2016) give an investigation of how political democracy influences taxation; Goodfellow (Goodfellow, 2017) presents a comparative PSA of Urban Transformation. The most recent studies being Savoia et al. (Savoia, Sen, & Tagem, 2023), Kabongo & Samy (Kabongi & Samy, 2023), and Hickey (Hickey S. , 2023) have a link to taxation. The first two analyse the role which democracy plays on influencing taxation, while the latter study analyses the role of politics on the performance of revenue administration. Like their predecessors, these studies also do not directly employ the PSA framework as it is used in this essay, to explain directly the taxation outcomes. Moreover, many of the PSA studies are largely qualitative analyses, e. g. Poteete (2009), Khan (2018), Lindemann (2014), Goodfellow (2017), Hickey and Izama (2020), and most recently, Hickey (2023); all these studies are qualitative analyses. The ESID PolSett. dataset provides a quantitative framework by which different development phenomena may be comprehensively analysed. By deploying this framework, to quantitatively evaluate—aided by a simple OLS multi-variate regression analysis - Uganda's tax performance, this essay makes a methodological contribution to this strand of literature.

3 Explaining Uganda's tax performance through its political settlements: 1962 - 2023

3.1 Overview of Uganda's fiscal and political landscape

Uganda's current tax system was introduced by the British colonial government through the 1900 [B]Uganda Agreement, which made it mandatory for every Mukopi-hut– household (ordinary household of the non-ruling class) to pay three Rupees cash per annum, as a contribution toward the provision of public services. Five years after, an additional poll (or head) tax was introduced for every able-bodied male adult. Later in 1925, native local authorities were also permitted to collect local taxes by converting hard labour obligations into cash (Jamal, 1976). Tax collected by the local authorities, however, did not constitute a serious tax obligation until the introduction of the graduated personal tax (GPT) in 1954. At the national level, all non-indigenous persons remained tax-exempted until 1940, just five years before the poll tax was replaced by an income tax-proper through the Uganda Income Tax (Amendment) Ordinance No. 8 of 1945 (Bräutigam, Fjeldstad & Moore, 2008). Very characteristic of this income tax system was its regressivity and inequity against the indigenous taxpayers. The colonialists' justification for the regressivity was that the indigenous population had to be 'forced' into the monetary economy – as their subsistence farming at the time sufficiently met almost all their basic needs: food, shelter, herbal medicine, and backcloth-clothing (Jamal, 1976).⁴ Despite the colonial tax system being regressive and inequitable, it is reported as having been highly effective (Reid, 2017). By 1947, the overall tax yield had increased five-fold, and Africans who previously had been living on only subsistence farming had been actively electrified into the money economy (Jamal, 1976). This is the tax system that was inherited by the inaugural (African) government at Uganda's independence in 1962 and was kept until changing to what the current modern structure is (URA, 2020).

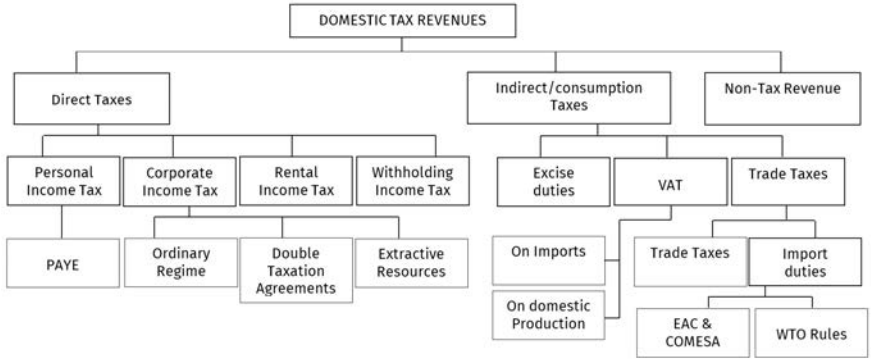
Today, Uganda boasts of a modern revenue administration agency, the Uganda Revenue Authority (URA), which runs on the international semi-autonomous revenue administration (SARA) model, established in September 1991 (URA, 2016). According to a 2020 advisory report, Uganda's tax system is broadly conventional from a structural perspective. It provides for a significant number of taxes on imported goods (international trade taxes), as well as those produced locally (domestic taxes). This has helped revenues to grow considerably in nominal terms over recent years (Wales & Lees, 2020). Over the last three decades, URA

⁴ Backcloth is a century-old material used for making ceremonial clothing for royals in Uganda, and it is made from bark cut from mulberry trees. Link: <https://www.facebook.com/chinaplusnews/videos/uganda-backcloth/433333653996977/>

has registered an average annual tax revenue growth of 17.8%, with the tax-to-GDP ratio rising from 7.6% in 1991 (Mansour, 2014) to 13.9% in 2023 (The World Bank, 2024). The tax system was built during the era of the structural adjustment programme (SAP), engineered by the World Bank and the IMF, as a prerequisite for economic reforms and funding it (Golooba - Mutebi, 2020). The SAP was to rejuvenate the economy through strict fiscal discipline and economic reforms. Accordingly, Uganda implemented various fiscal reforms to improve budgeting, tax management, and to encourage economic self-reliance.⁵ URA has also implemented various tax administration reforms to ease tax compliance and to reduce performance inefficiencies in tax administration. This includes the roll-out of the E-tax system, its sister customs’ equivalent, the Automated System for Customs Data (ASYCUDA), the building of One stop Border Posts (OSBPs), the building of a “state of the art” data warehouse, the introduction of smart digital tax enforcement solutions, e.g. the Digital Tracking Solution (DTS), the Electronic Fiscal Receipting and Invoicing Solution (EFRIS). Also, tax administration was strengthened by building integrated single points of service systems with other government agencies to facilitate information exchange and third-party reporting (URA, 2016).

In figure 1, a summary of Uganda’s current tax structure is presented. Excluding social security contributions and other non-tax revenues such as fines, fees, and other statutory charges, Uganda’s highest tax revenue contributor, as of 2021, were trade taxes (VAT excluded) with 34%; followed by value added taxes (VAT) with 31%; Personal income taxes with 25%; Corporate income taxes with 9%, and lastly, other miscellaneous taxes at only 1% (OECD, 2023).

Figure 1: Uganda’s Tax Structure



Source: Adapted from (Bachmann, Gebhardt, & Kayongo, 2022)

⁵ Details of the SAP and the different fiscal reforms are discussed later in Section 3.2, in the evaluation of the 1986-95 Broad-based NRM political settlement.

However, the non-tax revenues are also collected centrally by URA. These constituted in 2021 about 2% of Uganda's GDP, compared to the average for 33 African countries of 5.8%. With a tax ratio for Uganda in 2022 (tax revenue in % of GDP) at 12.5%, the median tax ratio for SSA in 2022 is with 13% in the same range, although the tax ratio for 33 African countries is at 15.6% in 2021 (OECD 2023, The World Bank 2024, IMF Media Centre 2023)⁶. Uganda had a reasonably impressive economic performance in the last three decades. According to McAuliffe et al. (McAuliffe, Saxena, & Yabara, 2012), Uganda has been the fastest high growth country in East Africa, with an average growth rate of 3.4% (a year Real GDP per Capita growth rate); this is a track record it had maintained for over 20 years (1990-2010); with Kenya—EAC's largest of the five economies - averaging at a growth rate of minus 0.2% for the period 1990–2004 and of only 1.9% for the period 2005-2010. This is confirmed by Ssewanyana et al. (Ssewanyana, Matovu, & Twimukye, 2011), who had reported that Uganda, during this period, had achieved a remarkable turnaround in economic performance, with an annual economic growth of about 7.7% per year over the 1997–2007 period, and a sharp 15 percentage point-decline in general poverty rates (Ssewanyana et al., 2011: page 51). Despite these, Uganda's average tax-to-GDP ratio has for over the last three decades stagnated at about 11%, lower than even the 1966-1971 Obote-I political settlement's track record (Chelliah, Baas, & Kelly, 1975). This, in comparison to the same EAC regional neighbours, is still the lowest. An evaluative analysis (by Bachmann et al., 2022) of Uganda's tax system, ranks Uganda's average tax revenues below all its EAC neighbours' and SSA averages (i. e., EAC: 13.11% SSA: 19.32%; Uganda: 10.58%). The study of such tax underperformance, especially in developing countries, is adequately represented in the literature (see Besley & Persson's 2014 review, for example, or Bachmann et al.'s 2022 analysis). Cited are as some of the key explanations unrealistic tax expenditures, corruption, poor governance, low tax morale, overdependence on international trade tax revenues, and structural tax system weaknesses (Bachmann et al. 2022: page 424). However, apart from Hickey (2023), who attempts to study this issue politically, by assessing URA's role in it for Uganda's case, no other study has made attempts to explicitly trace the country's weak tax performance to its political settlement for as far back as 1962, as this essay does. In the discussion that follows, this research gap is

⁶ See the data from the OECD revenue statistics for Uganda and Africa: <https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-tax-revenues/revenue-statistics-africa-uganda.pdf>, and the data sources from the World Bank: <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=UG>, and the data sources from IMF Media Centre: <https://mediacenter.imf.org/news/imf---sub-saharan-africa-s-regional-economic-outlook/s/f49aa94a-c5ca-489f-bfba-46523ff3d1bc>

filled. From the ESID PolSett dataset, and the author's own "back-of-the-envelope" imputations, there emerge, from the history of Uganda's political economy, 12 distinct political settlements (see table 1).

Table 1: Political settlement strength and Tax performance in Uganda: 1962-2022

Political settlement	PCI (%)	SFS (%)	Tax-to-GDP (%)	GDP Per Capita growth (%)
1962-65 Obote-Mutesa settlement	32	43	12.50	16.70
1966-70 Obote-I settlement	19	29	13.00	4.07
1971-73 Transitory-Amin settlement	13	20	5.00	7.81
1974-78 Amin exclusionary settlement:	4	7	5.16	5.58
1979-80 UNLF Near-no settlement	0	0	1.70	-28.37
1981-83 Obote-II settlement	13	13	5.70	21.57
1984-85 Okello Near-no settlement	0	0	7.90	25.86
1986-95 NRM broad-based Settlement	52	40	6.34	4.81
1996-2000 Narrowing NRM settlement	54	61	10.26	-1.37
2001-05 Narrow NRM settlement	42	57	10.58	5.48
2006-18 NRM exclusionary settlement	32	46	11.64	8.34
2019-23 NRM-in-Crisis settlement	37	27	12.51	4.04

Source: Author's, based on Kelsall et al. (2022); Chelliah et al. (1975); United Nations (1979); Bigsten & Kayizzi-Mugerwa (2001); and Macrotrends (2024)

Note: PCI for "power concentration index" and SFS for "social foundation size"; NRM for National Resistance Movement; UNLF for Uganda National Liberation Front

Before delving into the analysis, however, there are three important political factors to consider that define Uganda's political fragility which cut across all the 12 political settlement periods. Dating as far back as 1884 when Britain made Uganda (then only Buganda Kingdom) its colonial protectorate, and through the country's pre- and post-independence politics, they include: (1) a high tribal fragmentation (Reid, 2017), the fact that the country has been an artificial creation by its colonial masters (Museveni, 1997), who lumped up unrelated tribes with differing customs, belief, value and governance systems, (2) the colonial divide-and-rule system that worsened a historical inter-tribal enmity (Haynes, 2007), and (3) divisions based on religions (Protestantism, Catholicism, and Islam) and economic classes (African peasants and Asian/European business elites) (Jamal, 1976). As will be noted in the analysis, each one of these three factors has featured prominently in every political settlement.

3.2 Political Settlements and Tax Performance in Uganda

3.2.1 1962-65 Obote-Mutesa political settlement

This was the political settlement that led Uganda to Independence, and it lasted only three years. It was made between Kabaka Edward Mutesa-II, King of Buganda and leader of the Kabaka Yekka (KY) party, and Milton Obote's Uganda People's Congress (UPC) party (both Protestant-leaning) (Museveni, 1997). The UPC/KY coalition had been formed to remove Benedicto Kiwanuka's (Catholic-leaning) Democratic Party (DP) from power (Welbourn, 2013). Mutesa opposed Kiwanuka's Catholic (commoner) Premiership while Obote, though not a monarchist, wanted a win for his Protestantism-leaning UPC. With the Obote/Mutesa alliance, Kiwanuka lost and Obote became the Prime Minister, while Mutesa became the President of the country (Lindemann, 2010). The Obote/Mutesa alliance had no common ideological interest besides defeating the DP. While Mutesa wanted a powerful monarchy, UPC wanted a nationalist republic. Meanwhile, KY had continued demanding for greater benefits (Ebyaffe) from the coalition (Reid, 2017). UPC, on the other hand, insisted that KY's share was already more than sufficient, especially when Mutesa had become the President amidst strong opposition from all other monarchists from the rest of Uganda (Museveni, 1997). Subsequently, this conflict grew stronger, eventually weakening the political settlement — until it collapsed.

Economically, the political settlement had, in comparison to others over the period of review, the strongest fiscal capacity as evidenced by the ability of the state to collect in tax revenue, achieving a rate of almost 13 per cent of the country's GDP. This is in accordance with the PSA prediction that stronger political settlements are likely to be more effective to build and to run effective fiscal institutions with which the government can impose higher taxes and to collect them with relative ease (Ricciuti et al., 2019). This is so because a stronger political settlement implies higher levels of democracy and, therefore, easier tax enforcement supported by popular leaders as reasoned in Garcia & Haldenwang (2016). Alternatively, the other possible explanation is the point of view of the effectiveness of the inherited colonial administration (Jamal, 1976; Acemoglu & Robinson, 2010). It is possible that the Obote-Mutesa settlement just took over effective fiscal institutions as already explained in Section 3.1.

3.2.2 1966-70 Obote-I political settlement

From the onset, this settlement started off badly with an automatic enemy: Buganda, whose Kabaka had been deposed and exiled. Those opposed to Obote included other monarchists in Ankole, Bunyoro, Tooro, Busoga; and their sympathisers (Lindemann, 2014). Different from the repealed independence constitution, there was no power-sharing formula in the new political settlement (Reid, 2017),

in addition to lacking legitimacy (Museveni, 1997). However, in 1967, Obote legitimised it in a parliamentary debate and an approval. To reduce stiff opposition from the Baganda, Obote co-opted a good number of them. This did not come without cost, as this meant reducing the representation of other tribal groups (see table 2).

Table 2: Tribal representation during Obote-I Political Settlement vs. past political settlements

Composition of the core government⁷				
Tribe	(% in colonial era)	(% in 1966)	(% in 1968)	(% in 1970)
Baganda	16.3	17.1	17.2	18.3
Iteso	8.1	10.1	6.1	10.0
Banyankole	8.1	11.9	1.4	10.0
Basoga	7.8	8.2	1.9	1.7
Bakiga	7.1	6.4	1.9	1.7
Banyarwanda	5.9	0.0	0.0	0.0
Langi	5.6	8.6	1.1	10.0
Bagisu	5.1	1.9	1.9	1.7
Acholi	4.4	4.1	4.9	3.3
Lugbara	3.7	3.7	3.0	3.3
Batoro	3.2	2.2	1.6	11.7
Banyoro	2.9	4.1	5.6	5.0
Karamaiong	2.0	1.9	1.9	1.7
Alur	1.9	0.0	3.0	3.3
Bagwere	1.7	4.1	0.0	0.0
Bakonzo	1.7	1.9	3.0	3.3
Japadhola	1.6	1.9	5.6	5.0
Banvole	1.4	0.0	0.0	0.0
Madi	1.2	6.0	5.6	5.0
Others	10.3	6.0	5.6	5.0
Total	100.0	100.0	100.0	100.0

Source: Author's, based on Lindemann (2014).

With a moderated opposition, Obote's remaining challenge was on controlling the economy, which visibly was still Asian/European-controlled (Jamal, 1976). To address this, he introduced the 'Common Man's Charter,'⁸ to restructure the economy and to redistribute with it the economic power. This increased African participation in the economy, while at the same time giving a 60% government stake

⁷ Throughout this paper, the term 'core government' includes the top-most key government positions which yield strategic political, military and economic power of the central government to the office bearers.

⁸ Details of the Charter are freely accessible here: <https://otoascrapnotes.wordpress.com/2012/05/22/dr-apollo-milton-obotes-common-mans-charter/>

in all key enterprises in the country (Sejjaaka, 2004). As Obote's official code for his leftist government, which aimed at achieving the full realisation of what it meant for Ugandans to be really independent (Obote, 1970); the implementation of the Charter achieved the following: (1) For the first time in Uganda's history, the ordinary citizen witnessed the meeting of national economic development with a rise in personal private real income (Section 22 of the Charter), (2) encouraged African participation in the production process and the wealth creation, (3) sensitising and rallying the masses to engage actively in the various sectors of the economy (Section 36 of the Charter), (4) introduced national compulsory saving (up to the village level), and (5) refocussed all foreign investments to national priority projects (Sections 29 – 32 of the Charter). However, this came at a heavy political price. In 1971, the unhappy capitalist elites joined the opposition and conspired with remnant dissenting Baganda, their sympathisers, and capitalist Britain (and allies) and overthrew Obote on 25 January 1971 through a coup d'état, led by Idi Amin (Reid, 2017).

In terms of economic strategy, Obote-I's Uganda has been described by political economy commentators as a thriving one (Golooba-Mutebi, 2020). This, however, is in contrast with Kelsall et al.'s (2022) prediction, since Obote's weakening political settlement did not negatively affect the performance of the economy. By regional standards, Uganda has during Obote-I economically outperformed all its regional neighbours—leading in relation to them with an annual GDP growth rate of 6.7%, followed by Tanzania: 4.2%; Burundi: 2.7%; Rwanda: 1.4%; and Kenya: -4.7%.

As a result of the mixed economy approach, Uganda's fiscal performance also paced ahead of its peers at 13%, against 12.2%, 11.1%, 10.3%, and 7.9% for Kenya, Tanzania, Burundi and Rwanda, respectively (Chelliah et al., 1975; United Nations, 1979). However, this variation does not render the PSA theory inapplicable here. For example, it is reported that during this period, public revenue administration was being centrally managed by the East African Community (EAC), formed in 1967 (Ogola, Njenga, Mhando, & Kiggundu, 2015). Therefore, the weak Obote-I political settlement could not affect tax collections. In addition, it could further be argued that the EAC factor reinforces the PSA predictions — as a PSA-influencing “geopolitical extended effect” can play a role, meaning that a country's political settlement could be strengthened (or weakened) by the geopolitical dynamics beyond its national borders, as it is demonstrated here by this example.

3.2.3 1971-73 Transitory-Amin settlement

Amin's initial years characterised him as a man of peace, reconciliation, and national unity (Lindemann, 2014: 106). In a reconciliatory gesture, Amin had ordered the release of all Obote's political prisoners; even appointing some to his

17-member cabinet. He also co-opted six permanent secretaries from the predecessor government—including Obote’s Private Secretary, Henry Kyemba (Peterson, 2021). To garner further support, he declared a system of ‘The-Wananchi-is-Supreme,’ under which political supremacy was moved from the bureaucrat-professionals to the ordinary day-to-day person (Reid, 2017). In the same spirit, an economic war against the Asian business elites, whom he accused of exploiting the Wananchi, was announced. This peaked on 04 August 1972, when all Asians were ordered to leave the country in 90 days (Jamal, 1976). Although this earned Amin massive Wananchi support (Nyeko, 1986), the same is said to have laid the foundation for his enmity with the West—the very allies that brought him to power: the UK, USA and Israel (Peterson, 2021). It is this enmity to which the collapse of the transitory political settlement is attributed (Reid, 2017). Immediately it collapsed, and Amin rescinded all earlier forms of power-sharing agreements, fastened his grip on the Army, the only institution that has run his government (Lindemann, 2014). Uganda’s economic situation, during this political settlement, was one of deterioration, continuing to worsen throughout the 1974-78 Amin exclusionary political settlement (see table 3).

3.2.4 The 1974-78 Amin exclusionary political settlement

The 1974-78 Amin exclusionary political settlement as its name suggests, was one of total exclusion and elimination of whoever had different views from his own (Lindemann, 2014). This political settlement comprised as actors mostly Amin’s own tribesmen (the Kakwa and the Nubians), and fellow Muslims. With international support from Arab/Muslim allies like Libya and Saudi Arabia, and the brutal force of the army, he managed to consolidate his dictatorship (Lindemann, 2014). As a direct consequence of Amin’s economic war, Uganda’s economy deteriorated—so much that economic growth crossed to the negative side (Golooba-Mutebi, 2020). By 1978, the country that Churchill had once described (in 1908) as “The Pearl of Africa” (Churchill, 2015) had turned into what some political scientists have described as a “pariah state” (Mutengesha, 2006). Table 3 below illustrates the economic deterioration during this settlement.

Due to the collapse of the economy, there arose a spike in citizen anti-government uprisings (Museveni, 1997). These were responded to by tighter military repression, killings (Reid, 2017), and further exclusion (Lindemann, 2014). Religiously, Amin made Islam to become Uganda’s official religion. Christian missionaries were expelled from the country, church-based organisations were outlawed and closed, and their property was either taken over by government or given away as gifts to regime loyalists (Museveni, 1997). With these actions, Amin’s fall became more eminent. With increasing domestic civil uprisings, Amin’s political settlement continued to grow weaker and weaker. When, therefore, the invading Tanzania-backed Ugandan exile forces—the Uganda National Liberation

Front/Army (UNLF/A)—invaded Uganda, from the country’s south, they fought an already enfeebled side, toppling it on 11th April 1979 (Reid, 2017).

Table 3: The collapse of Uganda’s economy between 1971 and 1978

Parameter of analysis	1971	1972	1973	1974	1975	1976	1977	1978
GDP growth (in %)	6.7	0	0	0	-1.3	0	1.4	-4
GDP Per Capita growth (in %)	9	3	12	20	9	1	17	-19
Tax revenue (% of GDP)	13	10	8	7	7.0	5	3.8	3
Exports (% of GDP)	19	18	16	14	8	11	8	4
Domestic savings (% of GDP)	11	13	11	10	5	7	7	3

Source: Author’s, based on Chelliah et al. (1975) and United Nations (1979)

3.2.5 The 1979-80 UNLF Near-no political settlement

When the UNLF took power, an 11-member Executive Council was formed, with Yusufu Kironde Lule as President and Akena P’Ojok as deputy (Museveni, 1997). General elections were announced for December 1980, and a temporary parliament, the National Consultative Council (NCC), was formed (Reid, 2017). Although the NCC had been elected from the representatives of all the anti-Amin groups, the political wrangles and hostilities between them continued. As Lule, for instance, was being accused of autocracy, tribalism, conservatism and political inexperience (Museveni, 1997), Godfrey Lukonga Binaisa (who took over from him, in barely three months) did not survive Paulo Muwanga’s 11 May 1980 coup. Muwanga is also accused of attempting to block Obote’s return, when he banned all political party activity (Nyeko, 1986). It is also reported that Muwanga mismanaged the elections—a mistaken action to which some political analysts have attributed the 5-year National Resistance Army (NRA) war in Uganda’s Luwero triangle (Nyeko, 1986). No wonder that Kelsall et al (2022) report no scores for this political settlement.

3.2.6 The 1981-83 Obote-II political settlement

The main contest in the December 1980 elections had been between UPC and DP (Nyeko, 1986), the latter comprising mainly Roman Catholics and those who feared Obote’s return. UPC, on the other hand, included powerful Obote-I government stalwarts, led by (besides Obote himself) Muwanga. Reports say Muwanga had used his incumbency to rig Obote back to power (Museveni, 1997). To express their dissatisfaction with the election results, the election ‘losers’: (1) Baganda and other DP members; (2) West-Nilers, and (3) Museveni’s Uganda Patriotic Movement (UPM), decided to challenge UPC militarily (Lindemann, 2014). Despite this, UPC went ahead to form its government, the ‘Obote-II’ political settlement.

As unsurprising as one would expect of a non-coalition government, the UPC cabinet comprised only UPC members—a government which was dominated by Northern ethnic groups - the Langi and the Acholi (see table 4).

Table 4: Ethno-regional composition of Obote-II's government, 1981-1983

Ethnic region	Overall civil service representation (%)	Core-government (%)	Cabinet-ministers (%)	Deputy-ministers (%)
Buganda (Southern)	16	32	18	0
Eastern	28	25	29	31
Northern (home-region)	32	33	35	32
Western	24	10	18	37
Total	100	100	100	100

Source: Author's, based on Lindemann (2014).

As an anti-rebel strategy, UPC recruited more Acholi and Langi youths into the national army. These soldiers often attacked the Bantu-speaking civilian population for alleged rebel collaboration (Museveni, 1997). This led to untold loss of lives by so many innocent people, losses that outnumbered those in Amin's 8-year deeply exclusionary regime (Reid, 2017). Diplomatically, the Obote-II political settlement maintained good relations with the West⁹, from where the post-Amin era development aid funds for Uganda's economic recovery came (Golooba - Mutebi, 2020). Faced with immense military pressure from the rebels, however, Obote committed a diplomatic miscalculation—involving the North Korean Army in the fight against the rebels (Museveni, 1997). When the UK and the US (or more generally, the “West”) learned of it, they retaliated by withdrawing their aid. This hit hard the economy which was already overburdened by the costs of the ongoing civil war (Golooba-Mutebi, 2020). Faced with a collapsing economy, a group of the high-ranking Army officers suggested a negotiated political settlement with the rebels to end the civil war. Unfortunately, Obote, instead of cooperating, misconstrued this for a connivance with the rebels. He ordered for the arrest of the group leader, Brig. Bazilio Olara-Okello (Museveni, 1997). But, Olara-Okello retaliated by mobilizing his loyalists, and by toppling the government in a coup on 27th July 1985 (Reid, 2017).

It is reported that Uganda's economy during Obote-II was moderately stable, despite the political settlement being by far the weakest of all since Uganda's independence. It is observed that foreign geopolitical factors protected the Obote-II

⁹ The ‘West’ in this context includes Uganda's foreign allies in West Europe and North America.

economy from being pulled down from the turbulences of a weak political settlement. This was especially evident before the UPC government fell out with the West. Accordingly, the GDP growth rate had resurrected from Amin's -4% in 1978 to 5.74% in 1983. Correspondingly, GDP Per Capita growth had also greatly improved from -19% in 1978 to 22% in 1983. The funding through aid also helped to revive the administrative fiscal capacity of the state to improve taxation, with a tax-to-GDP ratio rising from 2.7% in 1978 to 9.4% in 1983 (Bigsten & Kayizzi-Mugerwa, 2001; Mansour, 2014).

3.2.7 The 1984-85 Lutwa Near-no political settlement

Lutwa's presidency lasted slightly less than six months. Immediately after the coup, Bazilio Olara-Okello invited all rebel groups for forming a negotiated broad-based government, a call which was heeded by all the warring rebel groups besides Museveni's NRA. These went on to form a coalition government with Gen. Tito Okello Lutwa as President (Museveni, 1997). These included the Federal Democratic Movement of Uganda (FEDEMU), the Uganda Freedom Movement (UFM), the Uganda National Rescue Front (UNRF), and the Former Uganda National Army (FUNA). With Museveni's group still fighting, Lutwa's political settlement could not stabilise. He, therefore, sought Museveni out once again, for fresh negotiations. The fresh negotiations with NRA were mediated by Kenya, a country which Museveni considered as neutral (Lindemann, 2014). In the agreement that later came to be known as the 'Nairobi Peace Accord', the parties agreed that the 20 seats of the core government were to be shared as follows: eight seats for UNLA (with Okello as President): seven to NRA (with Museveni as Vice President), three to FEDEMU, and two each to UFM and FUNA (Museveni, 1997). Although the agreement was signed on 17th December 1985, it did not see the light of the day, as no sooner Museveni had left Nairobi, his rebels resumed their fighting (Lindemann, 2014). It is speculated that Museveni used the negotiations as to tactically obstruct the UNLA and to launch a surprise offensive against it; in just about five weeks from the date of the "Nairobi Peace Accord", Okello was toppled on 25th January 1986 (Museveni, 1997).

3.2.8 NRM's changing political settlements: 1986-2023

When Museveni was sworn in as President on 26th January 1986, he promised a fundamental change in the political and socioeconomic affairs of Uganda (Museveni, 1997). Part of this change was to put back the country on the path of modern democracy in which change of government would no longer need to be violent (Matembe, 2020). In his inaugural speech as President, and later in a publication he co-authored with Mwalimu Julius Nyerere, Museveni observes that generally, Africa's problem and Uganda's in particular, was a class of leaders who overstay in power (Muhumuza, 2009). However, if or if not, the promised change was delivered remains a subject of debate, still to-date. Museveni has remained in power

for now, nearly four decades, and he shows no signs of handing over to another leader. Five political settlements have, over the years, characterised Museveni's NRM government, and these are shortly discussed in the analysis below.

The inaugural political settlement was the '1986-1995 Broad-based NRM Political Settlement'. In this political settlement, Museveni did run a broad-based transitional government formed under a 'no-party' National Resistance Movement (NRM), or just the 'Movement', a system of government by involving leaders from almost all rival political parties and other interest groups (Lindemann, 2014). These included, DP's Paul Kawanga Ssemogerere, UPC's Edward Kakonge, DP's Robert Kitariko, DP's Sebana Kizito, CP's Mayanja Nkangi, UNRF's Moses Ali, and FEDEMU's David Lwanga (Muhumuza, 2009). Despite this, critics argue that its being broad-based was only a strategy for creating diplomatic appeal of his government (Golooba-Mutebi, 2020). For example, the establishment of a one-party state meant that the new government would face no political competition since all political parties had been banned (Muhumuza, 2009). It was, therefore, unsurprising when rebel groups like the Acholi's Uganda People's Democratic Army, Alice Lakwena's Holy Spirit Movement, Joseph Kony's Lord's Resistance Army, Otai's Uganda People's Army in Teso, UNRF-II and the West Nile Bank Front in West Nile, and the Allied Democratic Forces in Western Uganda, started fighting against the government. This disorganised the broad-based political settlement, giving rise to a narrower one, the "1996-2000 Narrowing NRM political settlement" (Lindemann, 2014).

The period 1996-2000 called "1996-2000 Narrowing NRM political settlement" marked a shift from inclusive and broad-based politics to exclusionary and neo-patrimonial politics. In this settlement, Museveni's attention shifted from national reconciliation to power consolidation (Muhumuza, 2009). After being in power for over a decade, NRM's concern was no longer gaining popularity. Therefore, sticking to the elusive broad-based government formula was no longer necessary. Because of this, however, Museveni started losing some of his key allies—as they complained that NRM was straying from the principles for which the "Bush War"¹⁰ was fought. The details of these and more facts are contained in published memoirs authored by Museveni's former colleagues, e.g., Matembe's insider report (2020). That notwithstanding, Museveni smartly laced a semblance of formal-legal democratic institutions, that kept the NRM settlement strong, locally and abroad, with values for PCI of 54% and for SFS of 61% — in fact, the highest political settlement strength score ever registered for Uganda since independence (Kelsall et al., 2022), before it again narrowed into the "2001-2005 Narrow NRM political settlement".

¹⁰ See on the Ugandan Bush War: https://en.wikipedia.org/wiki/Ugandan_Bush_War

The “2001-2005 Narrow NRM political settlement” is a political settlement which is defined by one key political development: Museveni’s contest against Kizza Warren Besigye, his former “Bush War” personal physician during the 2001 elections. The feud between the two had first come to the public when Besigye published a white paper, explaining how the President had deviated from NRM’s original objectives (Muhumuza, 2009). This was the first public signal that cracks of weaknesses had started developing in the previously solidly walled NRM political settlement. In addition to the paper, Besigye also publicly spoke of his former boss’ lack of respect for democracy and other principles of modern governance—during the campaign trail (Matembe, 2020). As a result of this, more members, who, until then, had been instrumental in the NRM core government left the NRM, joining Besigye (Muhumuza, 2009)—further weakening the NRM political settlement. Consequently, the scores of this political settlement fell to PCI: 42% and SFS: 57%, down from 54% and 61%, respectively (Kelsall et al., 2022), giving way to the “2006-18 Exclusionary NRM political settlement”.

The “2006-18 Exclusionary NRM political settlement” brought significant changes. To many political analysts, it appears that Museveni’s promised ‘fundamental change’ has, over the years, turned into ‘no-change’ (Muhumuza, 2009). With decreasing support and more internal discordance, the NRM has resorted to undemocratic practices as a means of retaining power (Matembe, 2020). These include the persecution of political rivals, state capture of key governance institutions, election violence, voter bribery and outright election rigging, abduction of opponents and torturing them in safe houses, and militarisation of government (Tangri & Mwenda, 2013). In terms of power-sharing, NRM has become completely exclusionary, with the presidency internally ring-fenced for Museveni in every forthcoming election (Ahluwalia, 2021). Rivals are either ‘bought’ out of rivalry or given powerless ministerial appointments to illude them as being part of the ‘high table’ (Tangri & Mwenda, 2013). Ethno-regionally, political power in the NRM has since become lopsided (Lindemann, 2014: page 140), when we consider the fact that “consolidating national unity and eliminating all forms of sectarianism” was among the top 3 objectives of NRM’s 1986 10-point programme (Golooba-Mutebi, 2020). Majority core government positions continued to be occupied by Museveni’s own Ankole-Kiga ethnic group (EOC, 2023), with the rest of tribes represented meagrely or not at all being represented. The same applies to the army, which, arguably, is still the fulcrum of real power in Uganda. However, the Ankole-Kiga ethnic group is only about one-quarter of Uganda’s population, as shown in table 5 below. Using this hegemony, Museveni maintains a vast majority in parliament (Parliament of Uganda, 2021), with which he amends the constitution to facilitate his continued stay in power.

If it were not for the outbreak of the global coronavirus pandemic, this should have been the settlement still in force. However, the pandemic, like elsewhere around the world, caused lots of changes in the country. The government’s poor

management of the coronavirus outbreak, both during and after, and more especially the corruption scandals around its relief efforts have caused more dissent, leading to the current “2019-2023 NRM-in-Crisis political settlement”.

Table 5: Ethno-regional distribution of NRM’s core-government: 2006-2018

Parameter of analysis	Share of representation (%)
Population share - Western	25.62 (44% being Ankole-Kiga)
Population share - the rest of Uganda	74.38
Core government - Western	60.50 (92% being Ankole-Kiga)
Core government - the rest of Uganda	39.50
Top army command - Western	62.5 (97% being Ankole-Kiga)
Top army command - the rest of Uganda	37.50
Number of army Generals - Western	60.00 (78% being Ankole-Kiga)
Army Generals - the rest of Uganda	40.00
Elite Special Forces - Western	56.00 (82% being Ankole-Kiga)
Elite Special Forces – the rest of Uganda	44.00

Source: Author’s, based on multiple sources (Lindemann, 2014; Kasasira, 2014; Ugandafacts, 2022).¹¹

The “2019-2023 NRM-in-Crisis political settlement” has to do with the multiple crises affecting Africa and the world, and the management failures in responding. Uganda’s electoral cycle spans five years, and the last election had been in 2016 as explained above. The problem of Covid-19 has become serious in Uganda at the end of March 2020 (Government of Uganda, 2020), less than one year to the next general election—which had been scheduled for January 2021 (Basajjanaku, 2018). It suffices to say that the pandemic found the country amidst the political heat. Political commentaries argue that the pandemic worked in favour of the ruling NRM government (Wilkins & Vokes, 2023). First, Museveni weaponised the pandemic to curtail the ability of opponents to reach out to the electorate, especially through the lockdowns. While NRM politicians enjoyed unfettered movement liberties, the incarceration of opposition politicians for the breach of lockdown rules became the order of the day (Grasse, Pavlik, Matfess, & Curtice, 2020). Secondly, the NRM also used the distribution of Covid-19 relief services as a campaign vehicle to its advantage. Lastly, but more strategically important, the pandemic also politically demoralised the population as citizens were more concerned about surviving the coronavirus than the question who will occupy which political

¹¹ High quality official data on the ethno-regional distribution of NRM’s core-government, especially in sensitive MDAs, like Security Agencies, is difficult to access, as it is classified by the Uganda government as “*highly security-sensitive information*”. Accounting for this, the discussion and/or distribution of information thereof, has been criminalized in the country.

office. This not only worked against NRM's opposition but also within the NRM itself in favour of Museveni (Wilkins & Vokes, 2023). In demonstrating how physical exercises were important in the fight against the Covid-19 virus, for example, he recorded a video of himself doing in-house physical drills (VoA, 2020). It is argued that this video, which went viral on various social media platforms, was a campaign tool to demonstrate to those who were agitating for his retirement on account of his advanced age, that he was still physically fit to continue leading the country (Wilkins & Vokes, 2023). Settlement-wise, however, power concentration as well as the size of social foundation within the NRM continued to shrink during this period. Whereas there are no official PCI and SFS scores for this period's settlement, judging from NRM's despondent performance in the 2021 elections, and more particularly in the central (Buganda) region—in which most of the incumbent NRM MPs lost to their opposition rivals, all this shows that the ruling coalition is continuing to lose its grip on political power (Parliament of Uganda, 2021).¹² This, unsurprisingly, is in agreement with this paper's "back-of-the-envelope" imputed values based on NRM's past trend analysis, of PCI with: 37% and SFS with: 27%.

In fact, as shown in table 6, the distribution of political, military and economic power of NRM's current political settlement seems to suggest a kind of political power crisis management. As the regime continues to lose citizen support, Museveni has resorted to the use of the armed forces (the UPDF and Police) to silence political dissent. The composition of the UPDF top command, with himself a commander-in-chief, deputised by Gen. Muhoozi Kainerugaba, his own son as Chief of Defence Forces, shows that a whopping 63% of the top military organ belongs to his own tribesmates from the West—and no one is coming from the central region's Baganda tribe (see UPDF Top Command). This is a situation confirming this argument of an ethnically biased UPDF command (UPDF, 2024). When in most SSA states the ruling political party loses popularity, the party is usually fused with either the military or an elite force, a highly specialised unit, in which the power of the national army is vested. This force is then used to diffuse all political threats by all forms of persecution (Wilkins & Vokes, 2023).

¹² The Covid-19 related incarceration of the opposition politicians is said to have greatly contributed to NRM's poor election performance in Buganda in the 2021 general elections—in which all the 13 cabinet ministers from Buganda were defeated by opposition candidates. Out of Buganda's 110 parliamentary seats, the NRM managed to win only 31 of them. Only 28%, compared to over 80% parliamentary national score. It should be noted that given the low levels of democracy, it is rare that a sitting incumbent is defeated in an election. In this specific case, the 13 were not only incumbent MPs but also powerful members of the NRM core government, with lots of state resources at their disposal for use during the campaign. Their defeat, therefore, was a serious dent in the ruling coalition.

Such weak political settlements are also likely to concentrate all positions of political and economic influence in ethnic and family cleavages. This, again, is also clear from the composition of the accounting officials of government ministries, departments and agencies (MDAs). The mainstream civil service has been disenfranchised by the establishment of semi-autonomous departments and agencies, that are run by the president’s close associates he personally appoints from mostly his tribesmates. These wield considerable economic power used in ensuring regime survival, as evidenced by the 47% of the MDA heads coming from Museveni’s ethnic Ankole-Kiga group from Western Uganda, as the North trails in a second position with only 20%. One may argue that the NRM cabinet is relatively evenly distributed (see the Cabinet). However, as already argued above, most of NRM’s cabinet ministers are merely ceremonial political appointments made to hoodwink the unsuspecting population that their own tribespeople are also included at the high table of national leaders (Tangri & Mwenda, 2013).

Table 6: Composition of Core Government for the NRM-in-Crisis settlement: 2019-2023

Regional Share (%)	East	West	Central	North
National Population	25	25	28	22
Heads of MDAs	15	47	18	20
UPDF Top Command	13	63	0	25
The Cabinet	23	35	19	23

Source: Author’s, based on: (UBOS, 2024; Uganda Government, 2024; UPDF, 2024; EOC, 2023)

NRM’s taxation landscape has been changing since 1996, hand-in-hand with the different political circumstances in each political settlement. For example, the “1986-95 NRM broad-based political settlement” is described by many as the political settlement in which the pillars on which Uganda’s economy stands today were built (Golooba - Mutebi, 2020). In 1986, Uganda’s economy was in total tatters (Bigsten & Kayizzi-Mugerwa, 2001): Investment growth had shrunk by more than 50% to 0.3% per year; gross domestic savings totally wiped out to 0.01% of GDP; headline inflation had risen to an unprecedented three-digit (240%) level; while tax collections sharply dipped by more than 50% to 3.6% of the GDP, down from Obote-II’s 8.3% of the year 1984 (Mansour, 2014). To reverse this trend, the NRM promised to implement mass socioeconomic reforms following what it called the ‘Ten-Point Programme’. One of the most important points of the programme was the building up of an independent, integrated and self-sustaining economy (Museveni, 1997). To do this, several major economic reforms of broad policy objectives had to be implemented in all major macroeconomic areas (Golooba-Mutebi, 2020). This was possible through the balance of payments and development support from the IMF and World Bank (Sejjaaka,

2004). Part of these reforms were those for revenue mobilization, by which a sweeping fiscal policy overhaul was started, aimed at: (1) increasing domestic revenue mobilisation, (2) improving tax administration, (3) reducing dependency on external borrowing and donor-aid, and (4) improving budget planning and general fiscal discipline (Golooba-Mutebi, 2020). It comprised a number of enactments, including the Investment Code, 1991 (as a foreign direct investment (FDI) attraction and promotion vehicle through a generous tax incentives regime); the Uganda Revenue Authority (URA) Act, 1991 (establishing a tax agency managed on the SARA model in order to shield revenue administration from undue political interference, and to weed out from revenue administration the inefficiencies of the mainstream civil service); the Value Added Tax (VAT) Act, 1996, the Income Tax Act, 1997, the Tax Appeals Tribunal Act, 1997 (jointly, for lowering and rationalizing the various tax rates, widening the tax base and easing the tax compliance procedures) (URA, 2020). With the creation of the semi-autonomous URA, it became possible to remunerate its staff uniquely generously from a substantial budget that had been guaranteed by Museveni personally — given the pivotal place revenue mobilisation occupied in the economic reconstruction agenda.

With these reforms, the revenue authorities were able to plan and to implement, with considerable independence, new tax administration projects that would turnaround the tax performance (Bräutigam et al., 2008). These changes proved successful in helping Uganda, a country previously in tatters, get back on a steady development track (Golooba - Mutebi, 2020), as well as to build a robust tax system — as explained in section 3.1 above. However, as will be confirmed by the PSA-Taxation regression model in section 4, it is quite hard to achieve higher fiscal capacities with a weakening political settlement. For example, NRM's first decade, the strong and broad-based settlement, helped to grow tax revenues as demonstrated by an almost 60% jump in average tax performance (see figure 2 below). However, as the NRM political settlement started fragmenting, the trend reversed. For the last two decades, the increase of tax performance has slowed down, and the economy has slumped down.¹³

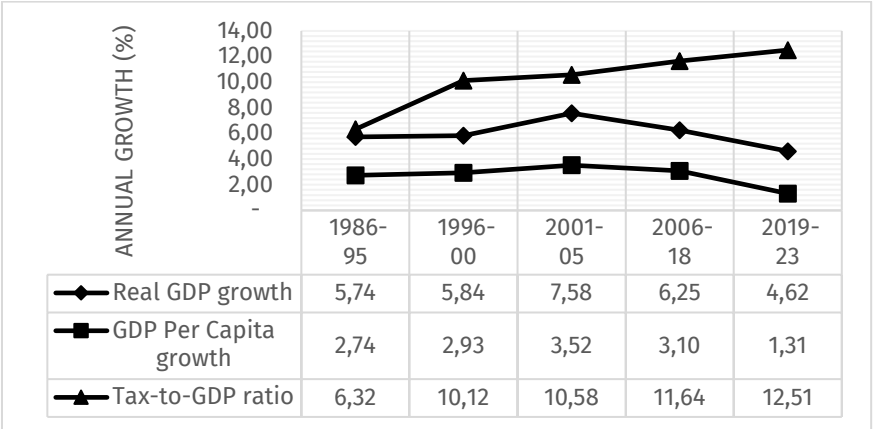
4 A Taxation-PSA Regression Model for Uganda: 1962-2023

In this Section, the PSA-taxation analysis is extended more quantitatively using a simple regression model. The estimates used are: PCI, SFS, Tax-to-GDP ratio, and GDP Per Capita, as presented in table 1. The tax-to-GDP ratio is the dependent

¹³ For a detailed overview of Uganda PSA-taxation discussion of the different phases of political dynamics played out to study the trend of fiscal performance, see Hickey's (2023) ESID Working Paper No. 174 with the link here: https://www.effective-states.org/wp-content/uploads/esid_wp_174_hickey.pdf

variable. Of course, more (or even better) control macroeconomic variables could have been used, as it was the case in Ricciuti et al. (2019), or the Harvard’s Growth Lab’s Economic Complexity Index (ECI)¹⁴. There may also be more robust proxies for tax performance, such as the tax effort index as successfully employed in Caldeira et al., 2019 (Caldeira, Compaore, Dama, Mansour, & Rota-Graziosi, 2019). Unfortunately, data for most of these variables and proxies is unavailable and where it is, it does not cover a statistically adequate time lengths worthy of consideration in the paper’s scope. Hence, in as much as the results from this analysis may not be causatively conclusive, given the above data limitations, they are the best improvised extension that exists to give foundation to the existing qualitative analyses on the subject.

Figure 2: Uganda’s Economic Performance under NRM’s changing political settlements: 1986-2023



Source: Authors’ compilation based on (Mansour, 2014; The World Bank, 2024; IMF, 2024)

4.1 Regression Model Specification

The model examines the relationship between tax performance (proxied by the tax-to-GDP ratio) and the political settlement strength (proxied by PCI and SFS), with GDP Per Capita taken as a control variable. The general form of the OLS regression estimator takes the following form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

where:

... (1)

¹⁴ See on the Economic Complexity Index (ECI): <https://atlas.cid.harvard.edu/rankings>, and: https://prosperitydata360.worldbank.org/en/indicator/HU+AEC+hs_eci

- Y represents the tax performance, proxied by the tax-to-GDP ratio.
- X_1 represents PCI (one proxy for political settlement strength).
- X_2 represents SFS (another proxy for political settlement strength).
- X_3 represents GDP per capita (control variable).
- β_0 is the intercept term.
- $\beta_1, \beta_2, \beta_3$ are the coefficients for each explanatory variable.
- ϵ is the error term.

Specifically, the above regression model in equation (1) can be expressed as:

$$\text{Tax\_to\_GDP}_t = \beta_0 + \beta_1 \text{PCI}_t + \beta_2 \text{SFS}_t + \beta_3 \text{GDP\_per\_capita}_t + \epsilon_t \quad \dots (2)$$

where:

- Tax_to_GDP_t is the tax performance at time, t .
- PCI_t is the political settlement strength proxied by PCI at time, t .
- SFS_t is the political settlement strength proxied by SFI at time, t .
- GDP Per Capita_t is the GDP per capita at time, t .
- ϵ_t is the error term at time, t .

4.2 Explanation of Components of the Model

The Intercept term (β_0) is the baseline level of the tax-to-GDP ratio when all explanatory variables (PCI, SFS, and GDP per capita) are zero. It provides the starting point of the model. The Coefficients ($\beta_1, \beta_2, \beta_3$) are the estimates that measure the expected change in the tax-to-GDP ratio for a one-unit increase in PCI, holding SFS and GDP per capita constant; that the tax-to-GDP ratio for a one-unit increase in SFS, holding PCI and GDP per capita constant; and of the tax-to-GDP ratio for a one-unit increase in GDP per capita, holding PCI and SFS constant; respectively. The Error term (ϵ_t) on the other hand, captures the variation in the tax-to-GDP ratio that cannot be explained by PCI, SFS, and GDP per capita. It includes all other factors that influence the tax-to-GDP ratio but are not included in the model. As is usually the case in most OLS estimators, the model assumes linearity, independence, homoscedasticity, and normality. The Coefficients ($\beta_1, \beta_2, \beta_3$) can be estimated using OLS regression, which minimizes the sum of the squared differences between the observed and predicted values of the tax-to-GDP ratio. Therefore, by fitting this model, one can assess the impact of political settlement strength (PCI and SFS) and GDP per capita on tax performance, measured by the tax-to-GDP ratio, as presented in table 7, subsection 4.3 below.

4.3 Summary Statistics and Results

The summary results in table 7 below show that Uganda’s tax performance and the nature (strength) of the different political settlements have a 72.9%-degree relationship, with 53.5% of the tax-to-GDP ratio closely tied to the nature of the political settlements (if controlled for the GDP Per Capita).

Table 7: Statistical Summary

Panel A: Regression Variables

Variables	N	mean	sd	min	max
Dependent Variable					
Tax-to-GDP ratio	61	8.52	3.72	1.70	13.00
Explanatory variables					
PCI	61	24.83	19.34	0	54.00
SFS	61	28.58	21.15	0	61.00
GDP Per Capita (control)	61	6.21	13.50	-28.86	25.86

Panel B: Summary of Results

Regression statistics	
Multiple R	0.729
R Square	0.532
Adjusted R Square	0.357
F-statistic	3.036
Prob (F-statistic)	0.0929
No. of political settlements/Observations	12
Coefficients:	
Intercept (const.): 4.8158 (p-value: 0.014); PCI: -0.0381 (p-value: 0.746); SFS: 0.1432 (p-value: 0.207); GDP Per Capita Growth: 0.0904 (p-value: 0.213)	

Source: Author’s, based on Mansour (2014), Hickey (2023), and The World Bank (2024)

Note: N for number of observations; sd for Standard deviation; R for regression; prob for probability

Although the findings are statistically insignificant to confirm statistical causal relationship (on account of low data quality, limited number of controls, or multi-collinearity), they are consistent with those reported in the literature. For instance, Garcia & Haldenwang (Garcia & Haldenwang, 2016) study the effect of democracy on taxation and find the highly democratic regimes are likely to possess higher tax capacities than less democratic ones. Similarly, Kjær & Ulriksen’s (2020) findings, which, through the fiscal contract theory, report that tax voluntary tax compliance in Uganda is low because the citizens have lost touch with the state

and therefore have no morale for paying taxes implies low SFS scores. Low SFS levels, according to the above findings, are associated with low tax collections. Ricciuti et al.'s (2019) study as well as Hickey's (2023) study, showing interest in the effect of political institutions on tax performance, also find that weaker political institutions lead to low tax revenue collections. When a country has weak political institutions, it is unlikely for the ruling coalition to control the political dynamics that influences public policy. If it is not in charge, it means that the PCI is shaky and weak.

The above findings prove exactly this—that the higher the PCI, the higher the tax performance and vice versa. Lastly, the above findings are also consistent with the other general strand of literature which uses the PSA theory to investigate economic phenomena other than taxation e.g., Poteete (2009), Khan (2018), and Kelsall et al. (2022), and all agree that the strength of the ruling political settlement influences how efficient the government in power runs the state to produce varied development outcomes. Since development is closely linked to taxation from which public finance is mobilized to fund different development programmes, then it goes without saying that their findings confirm the findings presented above.

To concretise the findings further, a pick of some specific cases in view of this essay's specific context is done here. During the Obote/Mutesa settlement, for example, the politico-fiscal arrangement was that the Baganda chiefs who had been the colonial tax agents (Jamal, 1976), by virtue of the truce between Obote and Mutesa, were entitled to continue collecting taxes on behalf of the new KY/UPC government. This, as reported by Jamal (1976), could not facilitate smooth tax collection, as other tribes perceived it as an extension of the pro-Buganda colonial policy. Likewise, the KY/UPC coalition government had, for fear of opposition from the business elites, also failed to reduce the unfair tax advantages to the Asians/Europeans, which the colonial administration had introduced to help to 'push' Africans into the monetary economy (Sejjaaka, 2004). On the other hand, UPC's strong foreign policy with Uganda's neighbours, Kenya and Tanzania — as part of its political settlement's integration agenda - helped to increase tax administration efficiency through the centralised East African Community (EAC) revenue administration framework which became more pronounced in the Obote-I political settlement (Jamal, 1976).

The effect on tax performance, of UPC's strong diplomacy within the EAC, can be observed more clearly when Idi Amin took over and failed to maintain these relations. When this happened, tax performance suffered as presented in table 3. During the Obote-II political settlement, the story is not any different. When UPC won the disputed December 1980 elections, some economic reconstruction occurred, given UPC's good diplomacy record. With donor support, the economy recovered from Amin's era of economic mismanagement and tax performance rose rather quickly from 2.7% in 1980 to 7.5% in 1985 (Bigsten & Kayizzi-

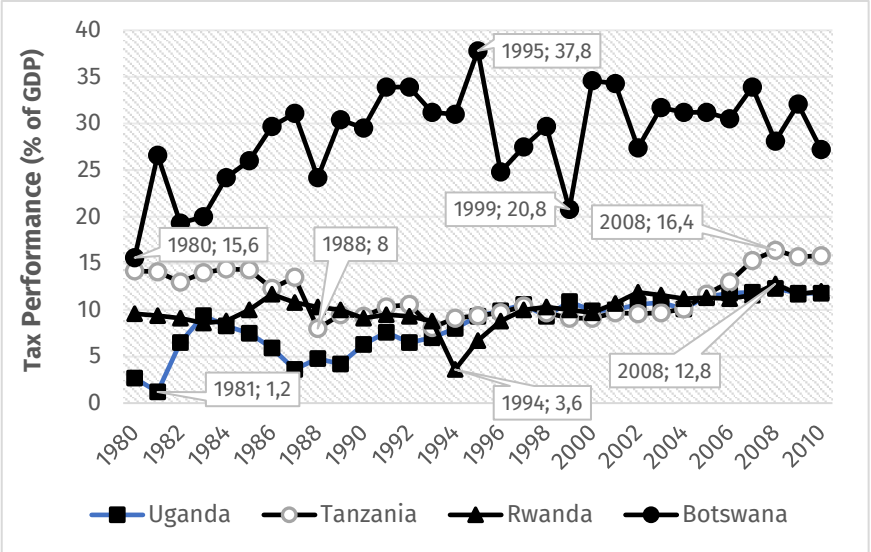
Mugerwa, 2001). Due to UPC's failure to strengthen its political settlement, this recovery did not last long due to increased civil unrest from the Guerrilla war. This same positive relationship trend between the nature of political settlement and tax performance is seen to continue through even Museveni's changing settlements post-1986 through the early 2000s until to date. Hence, as indeed argued by Hickey (2023), tax performance and the nature of political factors created by the ruling coalition's nature of political institutions go hand-in-hand. Following below in subsection 4.4, there is an extension of this analysis, using statistical tax performance data from four different SSA countries of varied political settlements between 1980 and 2010 — to give an inter-country comparative perspective to the discussion.

4.4 A 4-country comparative perspective of the Tax performance-PSA relationship

In subsections 4.1 to 4.3 above, a simple OLS regression model has revealed how Uganda's tax performance over the years has varied hand in hand with the changes in the strength of political settlements over the years. In this subsection, this finding is illustrated by comparing Uganda's tax performance with that of a selection of three other SSA peer countries: Tanzania, Rwanda, and Botswana. Tanzania and Rwanda are Uganda's immediate neighbours and are members of the East African Community (EAC), a regional customs union where Uganda is a founder member (Jamal, 1976). These two countries share almost the same socioeconomic and geographic characteristics except the time-varied political settlements, over the 30-year period of analysis. Botswana (known locally by its nationals, as Bechuanaland), on the other hand, is not Uganda's immediate neighbour. Relative to Uganda, it is also small both in population size and in land area. Politically, however, it got its independence around the same time—just three years after Uganda (Poteete, 2009). It is also a landlocked country and a former British protectorate. Just like Uganda, Botswana was formed by merging tribal chiefdoms into a multi-party democracy presidential republic. Besides the similarities, the choice for its inclusion in the comparative analysis is, unlike Uganda's, its visibly steady political settlements since independence. Botswana has, despite being a resource-rich country, which—unlike many resource-rich SSA countries such as the Democratic Republic of Congo, Angola, Mozambique, or Nigeria, all of which have suffered from the idiomatic resource-curse - has been able to remain an exceptional pocket of democratic and governance excellence (Sebudubudu & Mooketsane, 2016). For long, the country has maintained the highest political stability index in SSA country rankings with a score of 1.08 (TheGlobalEconomy.com, 2022). Similar to Tanzania, Botswana has changed political leadership strictly through democratic elections from the very day the Bechuana nation was born (The BBC, 2017). This creates a good comparative contrast with its counterparts, Uganda and Rwanda,

whose politics for the greater part of their independent history has been characterised by civil strife, politics of patronage, and bloodshed (Museveni, 1997; Golooba-Mutebi, 2020). Botswana enjoys a thriving democracy, peace, and a well-managed economy—which, for the first two decades on from independence (between 1966 and 1989), has been among the fastest growing economies of the world for over two decades (The World Bank, 2022). In figure 11 below, we present a comparative analysis of Uganda’s tax performance statistics of four countries – Uganda, Tanzania, Rwanda, and Botswana - over a 30-year period (1980-2010).

Figure 11: Tax performance-PSA relationship from a 4-SSA country comparison: 1980-201



Source: Authors’ compilation based on Mansour’s (2014)

From figure 11 above, we see that Uganda’s tax performance is the lowest (1.2%) in 1981 when, as already explained in subsection 3.2.6, Uganda had nearly no political settlement at all—shortly before the country was plunged into another wave of civil strife, series of armed rebellion, and a general breakdown of the state. The PSA-tax performance of this period is adequately discussed in subsection 3.2.7 above. In comparison, Tanzania, Rwanda and Botswana were enjoying peace and stability, brought about by the stable political settlements, carefully woven by their respective governments in power, during the same period. This should explain their relatively better tax performance (Botswana: 15.6%; Tanzania: 14.2%,

and Rwanda: 9.4%). However, when Botswana's performance is analysed independently, it is noted that the 15.6% record is the poorest in the 30 years (The World Bank, 2024). Interestingly, reports indicate that this was the period when Botswana's historically stable political settlement was shaken, following the death of its founding President, Sir Seretse Khama (The BBC, 2017). When the presiding vice-president took over as Khama's successor, the government lost support and loyalty from sections of the ruling elite.

In addition, Botswana during the same time got entangled in the geopolitical conflicts of Southern Africa, when it spearheaded the creation of the Southern African Development Coordination Conference (hereafter SADCC), a 9-country grouping that sought to lessen economic reliance on apartheid South Africa by her neighbours (see Sebudubudu & Mooketsane, 2016, and Embassy of the Republic of Botswana in Washington, D.C., 2022). This enraged South Africa, igniting economic and political hostilities in the region and destabilizing further the political dynamics of the member countries. These occurrences weakened the previously strong political settlement, consequently affecting the state's taxation capacity. In 1997 through to 1999, the country again experienced political volatilities giving rise to the cutting of the presidential tenure to only two-5-year terms and lowering the presidential age to 18 from 21 years (The BBC, 2017). Consequently, 1998 saw President Masire resign and the ruling party splitting to give birth to a new (and much stronger) political opposition. In the same year, the ruling government declared a six-day state of emergency to resolve grievances over the voters' register and the general elections. This phase of political dynamics destabilised the equilibrium of the country's political settlement as a result of which tax performance nose-dived to a historical low of 20.8% in 1999, down from 37.8% in 1995 (Mansour, 2014).

Looking at Rwanda, its poorest tax performance record in the 30 years was in 1994 (3.6% of GDP), when the country suffered one of the most notorious genocides in modern history, in which an estimated million people are reported to have been massacred due to tribal clashes between the Tutsis and Hutus (Straus, 2008). The ethnic clashes arose from a failure by the Hutu-led government to negotiate a political settlement being satisfactory to all stakeholders (Bhalla, 2019; Straus, 2008).

Similarly, Tanzania's story is not any different. Its worst tax performance recorded for the 30-year period was 8% in 1988, when the country experienced political tensions between the mainly Christian mainland Tanzania and the mostly-Muslim Zanzibar. Zanzibar accused mainland Tanzania of a politics of marginalization and a unilateral ideological shift from Socialism to Capitalism (Tanzanian Affairs, 1988).

On the other hand, the best tax performance posted by each of the four countries (Uganda and Rwanda: 12.8%; Tanzania: 16.4%, all in 2008, and Botswana: 37.5% in 1995) was during times of their socio-political stability in each case.

Lastly, the 30-year average tax performance for each of the countries – Uganda: 8.45%, Tanzania: 11.58%, Rwanda:10%, and Botswana: 28.69% - also reflects how stable or fragile a country's political settlement has been during the period of review. Uganda, which historically is known for its highly fragile politics, has the lowest tax performance average with 8.45% (The World Bank, 2024). Botswana, which, in complete contrast, is praised for its solidly stable and peaceful politics, and is an efficient state governance champion of sub-Saharan Africa countries (The Global Economy, 2022), has the highest tax performance average of 28.69%. With this inter-country comparative analysis, the plausibility of the PSA prediction is confirmed that the nature of the political settlement partly explains the variation in tax performance between the countries.

5 Tax Policy Recommendations from Uganda's Political Settlements Analysis

The problem of low tax revenues is not unique to Uganda. Many of its SSA countries and indeed, most of the developing world are today grappling with the challenge of how to mobilize more revenues (Besley & Persson, 2014). From the above analysis, the following are the salient policy considerations, which if implemented would help improve, from a political settlement lens, Uganda's tax performance. We propose:

Build a firm politically inclusive socio-fiscal contract: In agreement with Umar et al. (2017) and Kjær & Ulriksen (2020), our findings confirm that taxation is a give-and-take contract between the State and its Citizens, one that is only enforceable under an inclusive, broad-based, and legitimately negotiated political settlement. Such a contract should equitably apportion (socioeconomic and political) benefits and costs to the parties thereto. The current NRM political settlement is so much fragmented that almost every new tax measure, no matter how well-intentioned, is met with stiff opposition. The recent tax protests directed against the EFRIS (Electronic Fiscal Receipting and Invoicing Solution) system, that is meant to save traders of high tax compliance costs, is a good example (VoA, 2024). Moreover, with the prevalent corruption where top NRM officials are accused of living opulent lifestyles at the expense of poor taxpayers, while public services are continuously dilapidated, the masses no longer believe that the collected taxes will be put to good use by the government. Thus, if Uganda is to improve tax collections, there is need for a politico-fiscal paradigm shift from the current NRM's patronage politics, where tax policy is haphazardly swayed by short-term ends, to a contractual system based on a sincere state-taxpayer bargain in which sincere promises are made and met by both parties.

Establish a system of strict fiscal discipline: Given the low taxes and the recent trend of reducing development aid to LICs like Uganda (IIRR, 2023); it is obvious

that national budgets for countries like Uganda will face cuts. With the visibly clear regime fatigue for Museveni's protracted rule (38 years since January 1986), power consolidation has often been maintained by giving state access to rivals and through rents, patronage and political buy-outs, irrational appointments to key positions of government, and the award of uneconomic tax advantages (Kjaer et al., 2023). Given the small budget vis-à-vis the needed public spending to guarantee mass access to social services, infrastructure, or other types of public goods and services, such costly political patronage is deep dent into the state capacity to deliver its part of the bargain in the fiscal contract. It is recommended, therefore, that improving Uganda's fiscal discipline is given priority, by cutting down wasteful government expenditures, by eliminating discretion in the formulation and implementation of budgetary allocations, by strict adherence to budgetary allocations (ending the culture of supplementary budgets that is the order of the day in Uganda), by restructuring and rationalising MDAs (to avoid duplication of functions and its related uneconomical double spending), and by avoiding excessive borrowing and debt accumulation.

Strengthen the tax policy framework: Uganda's tax policy making process has recently been hijacked by the political elite manoeuvres by the president and his inner circle, who now use it as a tool of politicking (Wales & Lee, 2020; Hickey, 2023). According to URA's (2020) guide to taxation in Uganda, there are good and unambiguous laws providing for how tax policy is formulated, debated, passed, implemented, and administered, e.g., the 1995 Uganda Constitution, the VAT Act (1996), the 1997 Income Tax Act (1997), and the Public Finance Management Act (PFMA) 2015. The law also defines clearly who does what and how (Wales & Lees, 2020). However, the political environment no longer facilitates adherence to these rules. The tax policy department has been rendered completely useless. Tax policies no longer come from the mandated department but rather the State House (in principle, the president). It is common practice for official decisions taken by the rightful technocrats on tax matters like the granting of tax incentives, the appointment of key officials in revenue administration, and in the administration of other oversight institutions to clash with presidential orders (Hickey, 2023). For instance, the President recently (out of nowhere) created a new oversight unit to oversee URA operations, especially the fight against corruption in the tax administration system, called the State House Revenue Intelligence and Strategic Operations Unit (Mugabi, 2024). This, to many, is just wastage of taxpayers' money on the already bloated president's office budget (Muhindo, 2023).¹⁵ There are already several oversight agencies like the Inspectorate General

¹⁵ According to official records presented to the Uganda Parliament (UP) for the financial year (FY) budget allocations between 2016/2017 and 2022/23, the daily expenditure of the State House (Uganda's equivalent for USA's White House) stood at about UGX (code

of Government, the Auditor General, the Financial Intelligence Authority, and the State House Anti-Corruption Unit, to which this role of oversight should have been assigned. The other pressing issues which have to do with Uganda's tax policy framework include the skeletal staff structure of the tax policy department, the strained relations between URA and the tax policy department, the insufficient funding of tax policy research, the unclear reporting system between the URA (Uganda Revenue Authority), the MoFPED (Ministry of Finance, Planning and Economic Development), the President's Office, and the ad hoc nature of tax policy measures (Hickey, 2023). Thus, there is urgent need for government to tactfully disentangle its politics from this strategically crucial and highly technical policy-making role — like it was during the economic recovery era of the 1990s. Government needs to commit itself to a longer-term, more forward-thinking tax policy research agenda to inform each and every decision it takes on tax matters, to invest in building technical capacity of those charged with the role of tax policy development, to streamline the relationship between the URA, the tax policy department, other responsible MDAs, the private sector business community, the CSOs (civil society organizations), and other key stakeholders, to develop a culture of comprehensive citizen consultation and a honest engagement rather than a practice of threats, coercion and brutal force (Wales & Lees, 2020: page 17), by scaling up public debate and understanding on both intensive and extensive margins and by ensuring statutory independence of all state organs being responsible for the different stages across the tax policy life cycle (e.g., the URA, the tax policy department, the parliament, the Office of Solicitor General, and the judiciary). Other possible corrective courses of action could be to streamline more effectively the tax system chain, to integrate the revenue and expenditure planning throughout the budget cycle, to restructure the tax policy department organisation structure, and to emphasize the renewed focus on tax policy making (Wales and Lee, 2020: page 55).

Mass political reforms: The PSA analysis in subsection 3.8 showed that considerable socioeconomic progress and political stability had been ushered in by the NRM government in 1986—through to the 1990s and 2000s. However, due to the continued fragmentation of the ruling coalition because of the regime fatigue, this was since the late 2010s slowly being undone. The NRM government at its ascension to power had succeeded winning the trust of most Ugandans. It was, therefore, easy for it to propose and to implement new tax policies without any suspicion. Today, this has changed as too many of the Ugandans feel that the NRM leadership has overstayed its welcome (Wilkins & Vokes, 2023). Yet, as explained

for Ugandan Shillings) 2.8 billion (approx. USD 75,000). This is considered grossly extravagant for Uganda, a LIC with a GDP Per Capita of as low as 964.40 USD for the same period.

in subsection 3.1, Uganda is traditionally a politically fragile country. Consequently, the rising anti-tax reform dissent could throw the country back into renewed civil strife — regardless of how well-meaning the reforms may be. It is argued that even the widespread corruption in government MDAs is partly due to the continued political fragmentation of the NRM political settlement (Watchdog, 2021), following the increasing need by NRM politicians to illegally amass wealth with which to buy themselves into power through rigged elections (Tangri & Mwenda, 2013). This essay argues that Uganda's poor tax performance is a direct victim of this political fatigue resulting from a clearly weak political settlement which survives on costly patronage using rents (tax advantages and other economic goodies from the state). It is reported in Kjaer et al. (Kjær, Ulriksen, & Bak, 2023), for example, that the NRM solicits considerable financial contributions from Uganda's top business elites like Sudhir Ruparelia, Charles Mbire, Hassan Basajjabalaba, Patrick Bitature, and others to fund its election campaigns which are associated with electoral fraud; the financial contributions are by regional standards, compared with its EAC neighbours like Tanzania, considered as luxuriously big (Kjaer et al. 2023: page 205). In exchange for this electoral funding, government grants several rents—including millions of US dollars in tax waivers to businesses owned by these elites. Tangri & Mwenda (Tangri & Mwenda, 2013) support causality to this claim by identifying a disproportionate tax payment behaviour trend exhibited by Sudhir, possibly Uganda's richest businessman, who is ranked as low as the 28th in the list of top taxpayers in Uganda. With these behaviours it is not surprising therefore that the URA is finding it hard to achieve its annual revenue collection targets without the use of excessive army-aided force. As a way forward, given this context, it is recommended that government as a matter of urgency institutes a national dialogue from which mass political reforms would emanate. For example, there are complaints over the excessive presidential powers that have arisen following the removal of term limits, which had been provided for in Sections 105(1), 102(b) (Matembe, 2020). It is feared that Uganda is in a free passage to Museveni's life presidency (Wilkins & Vokes, 2023). The president also appoints the Electoral Commission, which makes it partisan (Matembe, 2020). In addition, political freedoms like the right of assembly, protest, association, and free speech have also been grossly curtailed. The respect for rule of law has sharply deteriorated with those aligned to the NRM becoming super-citizens, acting above the law.

With this characterising of the country's political economy, how then does the government effect its mandate to collect taxes? New political proposals like a change to a federal system of government — where each region or major ethnic grouping would form their local/regional government - should be considered as this would not only reduce the excessive presidential powers but would also help to correct historical ethnic cleavages created by Tangri & Mwenda (Tangri & Mwenda, 2013). A firmer and all-inclusive political settlement, perhaps like the

one of 1986-1995, is also needed to restore public trust in government's ability to keep its fiscal responsibilities. It is this essay's considered opinion in agreement with Hickey (2023) that Uganda's current political economy needs to be reformed if URA is to effectively grow tax revenues, so that the government can spend it productively.

6 Conclusions

The overarching takeaway from the PSA-Taxation analysis presented in this essay is that it is not sufficient for the DRMS (Domestic Revenue Mobilization Strategy) in especially a LIC like Uganda to prescribe only economic institutionalist approaches, while ignoring those that are entrenched in the political systems which form the foundation on which modern states are run. It is for this reason that this essay's analysis, different from the others interested in tracing out the root causes of low tax revenues by a purely economic perspective, employs a new and innovative PSA framework, and by so doing filling this research gap. In agreement with existing literature on the political economy of taxation, the paper argues that taxation is a socio-political contract between the State and its Citizens. This contract is effectively enforceable only if an inclusive, broad-based, and legitimately negotiated political settlement – one that equitably apportions socioeconomic and political benefits as well as costs to a country's major stakeholders - is used by the government in power. From the essay's taxation-PSA analysis, findings have revealed that a country with a shaky and weak political settlement finds it difficult to mobilise tax revenue while one with a stable and strong one should find it often easy to do so. This is true especially for Uganda where tax performance varied historically, and proportionately directly with the strength of political settlement, from the country's independence in 1962 to 2023. These findings were also found externally valid, when it was observed that the same pattern held true when a 30-year inter-country comparison was done for three additional SSA countries.

From Uganda's local context, five key issues emerged that need consideration as urgent matters of fiscal policy, and these are: (1) Uganda's taxation should be seen as a political bargain by which sincere promises are made and met by all parties to the bargain (Kjaer et al., 2023), and so, domestic revenue mobilization should stop being only a set of technical formulae, but rather a highly engaging and inclusive socioeconomic and political dialogue through which government should build and consolidate a politically inclusive fiscal contract. Without such a contract, increasing tax revenues will remain a toll order; (2) Uganda, by virtue of its historical political fragilities has not been able to grow its economy substantially. It therefore, suffers from recurrent budgetary constraints, that urgently need redressal; (3) Uganda's tax policy framework needs review and reinforcing. The short-term policy measures proposed in a fire-fighting mode, by overriding the set

rules, is not sustainable in the long run; and (4) The NRM regime in Uganda is politically fatigued and so if mass political reforms are not undertaken, Uganda could easily revert to its pre-1986 civil strife. Lastly, and (5), these findings are robust to the best capabilities of the essay's methodological scope, data availability, and data quality. They make a considerable contribution to the PSA literature and more particularly to its application to tax policy evaluations—where all past research has been largely qualitative. The essay extended this by innovatively deploying the PolSett dataset to a quantitative estimation using a simple OLS multivariate regression model. Due to data constraints, however, this remained rather preliminary. Future research could explore ways of how to add to this work more statistical rigour.

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Fiscal Capacity and Domestic Resource Mobilization in Cameroon in Times of Global Crises¹

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1 Introduction

Development financing of public policies against poverty to provide social security for everyone poses some challenges faced by the state which needs to increase the capacity of the public sector to mobilize tax revenues. Tax revenues are the main source of revenues for the state, and the tax system is an instrument for public action, providing resources needed to promote and to improve the well-being of the society. For the OECD (2015), the taxes serve as “the primary means for financing public goods such as maintenance of law and order and public infrastructure”². Considering this context, it is important for a country to develop a good tax system, and it is very necessary for this system to be productive and to ensure that the revenues received are adequately utilised. A good tax system is evaluated in the OECD/G20 Base Erosion and Profit-Sharing Project by the OECD (2015) as one which follows various important principles like: “neutrality, efficiency, certainty and simplicity, effectiveness and fairness, as well as flexibility”³. Cameroon's tax system includes direct taxes, indirect taxes, and para-fiscal charges. Direct taxes include the following tax components: corporate tax, personal income tax; permits; licenses; and the property tax. Indirect taxes are the following: value-added tax (VAT); registration fees and stamp duties; the special tax on petroleum products, and the special income tax. Para-fiscal charges comprise the following tax components: audio-visual fees; the contribution to the Strategic Climate Fund (SCF); the contribution to the National Employment Fund (NEF); municipal taxes;

¹ As authors of this essay, we express our thanks to Professor Karl Wohlmuth for the assistance he gave us in all phases of the research work on the study. He discussed with us the concept, the methodology, the literature, and the policy recommendations which follow from the analysis. He convinced us to look at the fiscal capacity of Cameroon from a specific viewpoint: is the fiscal strategy and policy aligned to the vision and strategy documents of Cameroon and to the policy and strategy recommendations of IMF and World Bank? He was a great supervisor of our research work, and he motivated us to give a profound and critical evaluation of the current economic situation of Cameroon with regard of the fiscal capacity and the fiscal space. Thanks a lot!

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² OECD (2015), pp. 29-30

³ OECD (2015), op. cit.

and social contributions. Some of these taxes are easily collected, such as para-fiscal charges, which are directly collected at the source. Mobilising the financial resources at any level (national and local) is a very great challenge in Cameroon. Many reforms have been implemented to improve the capacity of the tax administration to collect domestic resources in accordance with the economy's potential. Despite some positive results, the performance of the tax system remains still low and unsatisfactory, and the political crises and the insecurity challenges since 2013 have not facilitated the process of taxation reform.⁴

This essay mentions in the introductory section I the context of increasing the fiscal capacity of the state of Cameroon, what is seen as extremely difficult during a period of multiple domestic and international crises. Section 2 gives a review of the relevant literature, a critical evaluation of the primary and the secondary data, and a content analysis of important documents on Cameroon's economic and fiscal strategies. The critical content analysis is the base of the methodology which is used in the essay. In section 3 the fiscal capacity in Cameroon is considered in the face of multiple crises; the fiscal policy interventions applied to react to these crises are described. Section 4 is on the integration of the public revenue system into a good governance system to overcome confiscatory and corrupt decisions and practices in the public revenue and expenditure system, as such a behaviour affects negatively growth and sustainable development. Section 5 discusses the necessary steps to develop a conclusive and coherent public revenue and expenditure reform agenda for Cameroon, while section 6 is going deeper on the local government's fiscal system and its interaction with that of the central government. Section 7 has conclusions and recommendations.

2 Literature Review and Methodology

2.1 Literature review

Cameroon's fiscal policy seeks to foster economic growth and development while maintaining fiscal sustainability. Its fiscal policy focusses on various policy objectives: increasing tax revenues to fund governmental investments and social programmes; enhancing public financial management and transparency; and reducing

⁴ The ongoing political protest by opposition parties and by social movements in Cameroon led to many arrests, injuries, and deaths, especially after the presidential elections of 2018; the Boko Haram insurgency in the Far North region of Cameroon, and the "Anglophone Crisis" that began as a strike in 2016, have handicapped businesses and have caused fear among tax administrators who are unable to recover taxes from the few operating companies, for example in the North-West and the South-West Regions of Cameroon due to the high levels of insecurity.

the budget deficit and the national debt. The government has over the years already taken steps to extend the tax base, to enhance tax administration, and to streamline the tax expenditures. Faced with multiple crises internally, regionally, and with global crises, severe economic impacts on Cameroon were unavoidable. However, research suggests that fiscal policy can effectively address the negative economic repercussions of a crisis. The IMF argues that Cameroon needs to continue the implementation of structural reforms to improve the effectiveness of its fiscal policy, by ensuring that it broadens the tax base to boost its revenues; by digitizing public sector delivery; by improving governance and transparency; and by restructuring and privatizing state-owned enterprises (SOEs).

Faced with multiple crises, the adverse economic effects on Cameroon led to a rethinking on the role of fiscal policy in Cameroon. Research suggests that fiscal policy can effectively address the negative economic repercussions of a crisis. Murarășu et al. (2023) in their study assessed the efficiency of fiscal measures which were implemented by fiscal authorities in selected Central and Eastern European (CEE) countries during the COVID-19 pandemic. They found that expenditure-side measures had a stronger impact than revenue-side ones in mitigating the economic repercussions of the crisis. Additionally, their time-varying parameter model revealed that fiscal multipliers are higher during times of crises. Their results highlight the importance of fiscal policy in limiting adverse effects during socio-economic crises. Hossain (2019) in his paper on the U.S. monetary policy and its role in the Global Financial Crisis of 2007 – 2009 primarily focusses on monetary policy. It acknowledges the interplay between monetary and fiscal policies during the 2007 - 2009 financial crisis. It emphasizes the need for coordinated fiscal and monetary actions to sustain global financial stability.

Furthermore, Ngambo A. (2023) in his study analysed fiscal policy during the COVID-19 crisis in Cameroon. As COVID-19 has emerged, several forecasts were revised downward for the country's macroeconomic framework, including a growth rate forecast dropping from 4% to 0.6%. The public finance situation was also impacted. Budgetary authorities responded with a restrictive policy on public expenditures (-12.3%), and reallocating public expenditures primarily towards the health sector. This was done in Cameroon despite the recessionary context, and against the advice of the economic literature which recommends increasing public spending in times of crisis to stimulate economic activity, echoing the Keynesian principles of intervention. Ngambo's (2023) study verified this hypothesis and suggests that an expansionary fiscal policy should be used to revive economic growth, with a focus on demand-side measures, particularly through consumption. The study outlined that an expansionary fiscal policy could be beneficial for reviving economic growth in Cameroon, especially in the aftermath of the COVID-19 pandemic.

The Nkafu Policy Institute/NPI (2023) in Cameroon examined the impact of "tax exemptions" in Cameroon, particularly in the light of the recent economic

challenges, such as the COVID-19 pandemic and the War of Russia against the Ukraine. The study discusses how crucial tax revenues are for government investment and economic growth, but also considers the fact that high taxation can hinder economic development. It highlights the introduction of new tax exemptions in the 2023 finance law, aimed at sectors like agriculture, industry, education, health, and technology, to foster economic growth. However, the paper notes that the effectiveness of these tax exemptions has been limited in the past, with poor tax administration and an unfavourable investment climate being contributing factors.

The fiscal policy of Cameroon has been a subject of extensive analysis and discussion, particularly in the context of the country's economic growth and development. Authors such as Balasundharam V. et al. (2023) from the IMF have provided a comprehensive survey for developing countries of fiscal consolidations, shedding light on the pre-existing conditions, on the impact, and on the design aspects of past consolidation episodes. This study is full of lessons and advice for successful action and is therefore particularly relevant for Cameroon, a country which has faced challenges such as a decelerated economic growth, rising inflation, and ongoing internal conflicts. The World Bank's reports on Cameroon's public finance situation (World Bank 2024b, 2024d, 2023, 2019, 2010) highlight the need for bold fiscal reforms to unlock the country's full potential, emphasizing the importance of fiscal instruments for sustainable development in the country, also including promising economic sectors such as forestry and the role of governance in the forestry sector (World Bank 2024c). Furthermore, the United Nations Economic Commission for Africa's annual report for 2019 (UNECA 2019) suggested general lessons for reforming fiscal policy in Africa, being of relevance also for Cameroon, just before the COVID-19 crisis emerged. These insights for Cameroon align with the findings of Balasundharam V. et al. (2023) which underscore the significance of fiscal institutions and of capacity development for successful fiscal consolidations. Cameroon's fiscal policy should therefore focus on increasing tax revenues, on improving public financial management, and on reducing the fiscal deficit and the public debt to foster growth and to meet the sustainable development goals (SDGs). The synthesis of all these sources provides a nuanced understanding of the fiscal policy landscape in Cameroon and of the critical factors that influence its success and sustainability.

Furthermore, the fiscal policy is in Cameroon a critical tool for addressing economic challenges through transparency and accountability and for comprehensive strategies for promoting inclusive growth. The World Bank (2010, 2016, 2022, 2024a, 2024b, 2024d) emphasizes for long (since 2010) that the government has the ability and the responsibility to employ fiscal policy in a way to address sustainable development, governance, inclusive growth, and distribution challenges while still providing important basic public services at high quality. The IMF emphasizes the role of fiscal policy in managing public debt and maintaining

long-term economic growth (as the IMF survey by Balasundharam V. et al., 2023, reminds the policymakers in Africa). The IMF gave a lot of advice to and recommendations for Cameroon in its more recent reviews since 2020 to improve the fiscal policy and the debt policy strategies of the country (see: IMF 2020, 2021a, 2021b, 2022, 2023a, 2023b, 2024). The advice also covers key aspects of the taxation system and for the non-tax revenues of the country.

The International Monetary Fund (IMF), in exploring the economic consequences of conflicts in Sub-Saharan Africa (Fang et al., 2020), argues that the concept of a “conflict trap” underscores the danger of a vicious cycle for a country with ongoing conflicts, as such conflicts are decelerating economic growth and are raising the likelihood of further conflicts. Cameroon is obviously in such a vicious cycle. The research by Fang et al. (2020) underscores the importance of fiscal policies for mitigating the impact of armed conflicts on economies. These authors collectively underscore the critical role of fiscal policy during armed conflicts, but also in times of global crises (like the COVID-19 pandemics, global and regional armed conflicts, climate change-related conflicts, etc.), emphasizing the need for effective fiscal measures to address economic repercussions and to promote stability.

Cameroon’s tax revenue system is characterized by restricted tax bases and by insufficient enforcement, resulting in widespread tax fraud and tax avoidance, mentioned since decades by the World Bank (World Bank 2010, 2024d). Economic perspectives matter also for raising the fiscal capacity, and there are some positive signs. According to the World Bank, boosting fiscal capacity requires improving budget administration and tax collection. Cameroon’s real GDP growth is estimated at 4.0% in 2024 and is projected to reach on average 4.5% over 2025-2027, driven by improved energy supply and by stronger public investment. Inflation is expected to slow down to 3.0% by 2027, and the fiscal deficit is anticipated to remain around 1.0% of GDP in the medium-term, with public debt declining to 36.3% of GDP by 2027. Cameroon’s fiscal consolidation initiatives have centred on increasing revenue collection and decreasing state expenditure inefficiencies (although the IMF often requires more effort in both directions). In this regard, workshops have been held at different levels, such as one which was organized by the Regional Delegate in charge of taxation for the North Region in collaboration with the University of Garoua in March 2024, aiming to educate lecturers and staff of the university community on the method of tax declaration, the deadlines, the merits for timely payments, and the demerits of non-declaration and non-payment. But much more reform and training activity is needed, and IMF and World Bank write clearly about further steps needed (the report World Bank 2024d is of exemplary importance in this direction).

According to World Bank studies (such as: World Bank, 2024d), Cameroon’s fiscal capacity is constrained because of its huge public debt, the decline of public investment, the lack of transparency, and the ongoing internal conflicts. These

factors explain the growth and inflation record over past years. Cameroon's economic growth decelerated to 3.3% in 2023 from 3.6% in 2022, affecting all economic sectors due to lower-than-expected public investment, rising prices, and the ongoing internal conflicts. Inflation rose to 7.4% in 2023 from 6.3% in 2022, driven by high food prices and increasing transportation costs (repercussions from the war of Russia against the Ukraine). But, as mentioned above, there are some signs of optimistic expectations.

However, strategic fiscal changes, such as those in the forestry sector, can boost revenue and can free up budgetary space (World Bank, 2024c). Cameroon's fiscal reforms aim to improve revenue collection and expenditure efficiency also by fiscal system innovations. Recent World Bank assessments therefore emphasize the significance of improved governance in areas such as forestry to ensure higher public revenues, higher investment, and to attract climate finance, which is critical to Cameroon's long-term growth trajectory (see World Bank, 2024c). Despite the abundance of forest resources, Cameroon struggles to maximize fiscal revenue from the sector which currently contributes only 3.8% to GDP and has about 45,000 jobs, although the sector has a huge potential for export and fiscal revenue. The IMF also emphasizes the need for comprehensive budget management changes to address concerns such as tax evasion and inadequate social expenditure (IMF, 2024).

Neighbouring Sub-Saharan African (SSA) countries face similar fiscal challenges, including narrow tax bases, weak tax collection, and high public debt. For instance, Nigeria, Africa's largest economy, has faced numerous fiscal challenges over the years just like Cameroon, including high public debt, narrow tax bases, tax collection problems, and economic volatility. To address these issues, the Nigerian government has implemented a series of fiscal reforms aimed at stabilizing the economy, diversifying revenue sources, and improving public financial management, by widening the tax base; by bringing more persons and business entities into the tax net; by increasing the VAT rate from 5% to 7.5% to boost revenue; by introducing the Treasury Single Account (TSA) system to consolidate all government revenues into a single account, thereby improving transparency; by reducing leakages via the Integrated Payroll and Personnel Information System (IPPIS) to eliminate ghost workers from the public payroll, by ensuring that only legitimate employees receive salaries; by removing fuel subsidies; by introducing the Zero-Based Budgeting (ZBB) system which requires ministries, departments, and agencies to justify all expenditures from scratch; and by promoting a more efficient allocation of resources (World Bank, 2024f). The African Development Bank (AfDB) emphasizes in its African Economic Outlook (AEO) for Africa and for Cameroon the need for regional cooperation and for capacity building to address

all these issues (AfDB Group, 2024, AfDB 2024).⁵ Cameroon's fiscal reforms can also be compared with those of other Sub-Saharan African (SSA) countries like Ghana and Kenya. These countries have also implemented measures to diversify their revenue sources and to improve public financial management. Ghana, for example, has used computerized tax filing systems to improve tax compliance, and Kenya has prioritized public debt reduction through fiscal consolidation efforts. These reforms can serve as models for Cameroon as it continues to redefine its fiscal policies (see AfDB Group, 2024).

Fiscal policy, fiscal capacity, fiscal consolidation, fiscal space, and fiscal reform are interconnected aspects, being crucial for Cameroon's economic stability and growth. By learning from regional experiences and by implementing strategic reforms, Cameroon can enhance its fiscal capacity and can create a sustainable economic future.

2.2 Methodological framework

The main hypothesis in this essay is to present evidence for the assumption that fiscal policies in Cameroon are aligned with the National Development Vision (NDV) 2035 (see: MINEPAT, 2009) and the National Development Strategy (NDS) 2020-2030 (Republic of Cameroon, 2020) on the one side and with the recommendations for macroeconomic and structural reforms of the international and regional financing organisations (see the cited documents in the references: IMF, World Bank, AfDB) on the other side. Some preliminary evidence seems to support this hypothesis. But the next sections will give the possibility to prove if this hypothesis is really verified. This is important as Cameroon's Development Vision and Cameroon's Development Strategy and the recommendations of IMF, World Bank and AfDB for Cameroon are strongly related to each other and are interacting in concepts, objectives, analyses, and in implementation operations.

Cameroon, like many other countries, faces significant economic challenges, especially in times of crisis. The period since 2019 has been marked by various crises, including the COVID-19 pandemic and various other socio-economic disruptions from internal, regional and external origins. In response, Cameroon's fiscal policy has undergone policy adjustments to address these challenges. In this study, we explore the key aspects of Cameroon's fiscal policy framework during this period. It is of interest to see if Cameroon has taken on the active fiscal policy role towards handling the multiple crises. As well it is discussed in the essay how

⁵ See the AEO/African Economic Outlook 2024, Link: <https://www.afdb.org/en/knowledge/publications/african-economic-outlook>, and the CEO/Cameroon Economic Outlook of the African Development Bank (AfDB): <https://www.afdb.org/en/countries-central-africa-republic-cameroun/cameroon-economic-outlook>

the fiscal capacity can be strengthened by new policies in Cameroon. This is necessary to mobilize enough resources to plan actions for the many crises affecting the country in such a way that the economy of Cameroon becomes more resilient. The methodology employed in this study is mostly based on empirical evidence by reviewing and interpreting texts on objectives and policies from both sides (government of Cameroon and international/regional financial actors). Synthesized is the information from various sources, made up of primary and secondary data from the government of Cameroon, including legal texts, IMF reports, World Bank reports, AfDB documents and reports, and research studies and policy documents on Cameroon.

Cameroon's fiscal policy has evolved over time, shaped by a variety of economic, social, and political issues. Initially, Cameroon's fiscal strategy concentrated on public spending to stimulate economic growth, particularly through infrastructure and public works programmes. However, difficulties such as the country's rising debt burden, social and political conflicts, and the impact of external shocks, such as the COVID-19 epidemic, have prompted changes to fiscal policies (see the overview in: CEPI, 2024). There has been a shift toward rethinking fiscal policy to alleviate debt and to strengthen economic resilience. In the face of different shocks, the government has increasingly relied on public (domestic and foreign) debt to meet development goals and to increase economic resilience. This move has generated concerns about the efficiency of Cameroon's fiscal policy, prompting an examination of the country's budgetary status, and of the role which the fiscal policy of the country might play for decreasing the debt burden and for promoting economic development and resilience. These issues have increased the interest of researchers in re-examining the consistency of Cameroon's fiscal policy with the government long-term plans and with the IMF/World Bank/AfDB advice.

In July 2021, the International Monetary Fund (IMF) had approved three-year arrangements under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) for Cameroon (see: IMF 2021a, 2021b). These arrangements aimed to support the country's economic and financial reform programme. The key objectives of these arrangements included: Post-COVID-19 Recovery, as the programme aimed to facilitate a rapid recovery from the pandemic's impact; Fiscal and External Sustainability, as efforts were directed toward restoring fiscal stability and external balance; Inclusive and Private Sector-Driven Growth, as the focus was on unlocking growth opportunities while ensuring inclusivity. Also, these recommendations led to a further review of the consistency with domestic policy visions and strategies in Cameroon.

Despite progress in reducing the deficit and strengthening the fiscal position through increased oil revenue, worries remain regarding rapid debt build-up, a lack of transparency in state-owned firms, and the government's strong reliance on the oil sector for generating revenue. However, Cameroon's fiscal policy had to accommodate newly developing issues while aiming to remain consistent with the

country's economic goals. The government is still navigating the intricacies of fiscal management, debt sustainability, and economic diversification to achieve long-term budgetary stability and economic progress, especially in the light of achieving the National Development Vision (NDV) 2035 and the National Development Strategy (NDS) 2020-2030. The Cameroonian government's response to fiscal challenges, as outlined in its National Development Vision 2035 and its National Development Strategy 2020-2030, demonstrates a multi-dimensional approach aimed at attaining long-term economic growth, eliminating poverty, and strengthening the country's industrial capability. The National Development Vision 2035/NDV 2035 (MINEPAT, 2009) articulates a pro-active approach to transforming Cameroon into an emerging, democratic, and inclusive nation by 2035, with objectives such as achieving near-double-digit economic growth rates, significantly reducing poverty incidence to less than 10% of headcounts, and increasing the manufacturing sector's share of GDP to 25%. The National Development Strategy 2020-2030/NDS 2020-2030 (Republic of Cameroon, 2020) acts as a roadmap for realizing these objectives in a decade. It focusses on structural reforms, human capital development, job creation, and governance enhancement. The National Development Strategy 2020-2030 (NDS 2030) replaces the Growth and Employment Strategy Paper (GESP)⁶ and addresses the macroeconomic ramifications and the strategic administration of the state. To support these aspirations, the government has used a multifaceted fiscal approach. This approach involves increasing domestic revenue mobilization through tax reforms and strengthening governmental expenditure management to ensure resource efficiency. To promote long-term economic growth, the government prioritizes in its documents investments in infrastructure, education, and healthcare (see about the relevant issues: Republic of Cameroon, 2020).

Simultaneously, the government's engagement with international financial institutions like the IMF and the World Bank has led to the adoption of recommendations that emphasize fiscal prudence, economic resilience, and structural reforms. The IMF's Extended Credit Facility (ECF) programme granted in 2021 (IMF, 2021a and 2021b) seeks to promote macroeconomic stability and long-term growth, thereby supporting structural transformation. IMF funding can also more directly relate to global shocks which are affecting Cameroon since years. The Resilience and Sustainability Facility/RSF (IMF, January 29, 2024), which was an arrangement for Cameroon and approved in 2024, is an example how international financial actors can support the country's efforts to adapt to and to mitigate the impact of climate change, while also promoting fiscal reforms that align with the

⁶ See the text of the GESp:

https://www.cameroonembassyusa.org/main23/images/documents_folder/quick_links/Cameroon_DSCE_English_Version_Growth_and_Employment_Strategy_Paper_MONITORING.pdf

broader goals of national development strategies and the Sustainable Development Goals (SDGs) of 2030. These international finance institutions' key recommendations include maintaining fiscal discipline, increasing openness in public financial management, and tackling the economy's structural obstacles (IMF, 2022). Among the major structural obstacles were found by the IMF the following: the impact of state-owned enterprises (SOEs) on distortions in economic sectors; the problems with financial access and financial inclusion of the population; and the gap between actual and potential growth because of neglected reforms in many areas being relevant for long-term growth (IMF, 2022).

The World Bank has early considered the long-run aspects of fiscal policy for growth among its Poverty Reduction and Economic Management (PREM) programme (World Bank, 2010; Brahmhatt M. & Canuto O. 2012). The World Bank has always stressed the need to link public spending with the aims of the Cameroun Vision 2035 (see: Tsouck Ibounde, R. E. & Francisco G. Carneiro. 2019, World Bank, 2022; World Bank, 2024c; 2024d, 2024e). These programmes link up with more recent IMF programmes for Cameroon to support actions on climate change by providing adaptation and mitigation finance. The World Bank approach includes choosing investments with strong economic returns and is ensuring that public spending is efficient and equitable. The World Bank's Public Expenditure Review (PER) for Cameroon identifies five areas for improvement: increasing revenue collection, rationalizing public spending, improving public investment management, strengthening social protection systems, and fostering good governance (see specifically: World Bank, 2024d).⁷ These five issues matter when looking at the alignment of Cameroon's fiscal policies with its own planning documents and with the international and regional advice.

The synergy between the national development plans of the government of Cameroon and the recommendations from the IMF and the World Bank to the country is dependent on the government's efforts to balance immediate fiscal challenges with long-term strategic goals. The pressures from actual fiscal challenges are too often conflicting with the long-term strategic goals. The long-term strategic goals of the National Development Strategy 2020-2030 comprise: the emphasis on structural transformation of the economy, the development of human capital, the employment promotion, and the regional economic integration. These strategic

⁷ The most recent public finance review report for Cameroon by the World Bank is highlighting the new developments for aligning public spending with the Cameroun Vision 2035; see the relevant report in this context: World Bank. 2024. Cameroon Public Finance Review - Collect More, Spend Better to achieve Vision 2035 Goals. Washington, D.C.: World Bank. March 2024. Link: <https://openknowledge.worldbank.org/server/api/core/bitstreams/83f6879c-f16d-4a8e-b876-307b06130f5b/content>, and: <https://openknowledge.worldbank.org/entities/publication/2f573af8-e0a7-4bef-adeb-44da6fd3418f>.

goals mirror widely the IMF's and World Bank's advice on improving public finance management, increasing non-oil revenues through diversification of the economy, and implementing anti-corruption and governance reforms. However, the emphasis on governance reforms and improving public finance management has become much deeper in the IMF and World Bank recommendations over the years. This alignment suggests that a coherent strategy is possible insofar as the government's fiscal policies are not only reactive to the current economic situation but also proactive in setting the stage for achieving the ambitious targets of the National Cameroun Vision 2035 and following the international advice.

The government of Cameroon's fiscal policy response is obviously a complex interplay of national aspirations and of international guidance, especially as Cameroon takes references to the characteristics of other emerging countries such as Tunisia, Indonesia, Malaysia, and Morocco in its National Development Vision 2035.⁸ The proactive measures outlined in the National Development Vision 2035 and in the National Development Strategy 2020-2030 can be seen as complementary to the IMF's and the World Bank's action programmes for the country, which add a framework and a roadmap for fiscal stability and structural reforms. However, the programmes from various sides need to be coordinated at all levels (design, execution, implementation, evaluation, and monitoring). This collaborative approach can help to position Cameroon on a path towards becoming an emerging, democratic, and socially inclusive nation by 2035, with a robust and resilient economy being capable of first, withstanding global economic fluctuations, and second, achieving sustainable and inclusive development. The government's commitment to these dual objectives is crucial for the realization of its long-term vision and the immediate improvement of the living standards of its citizens.

This introduction to the methodology of the essay reveals that the main hypothesis needs careful analysis to see if there is enough evidence that fiscal policies in Cameroon are aligned with the National Development Vision 2035 and the National Development Strategy 2020-2030 on the one side and with the recommendations for macroeconomic and structural reforms of the international and regional financing organisations on the other side. The next sections will prove if this is really the case.

⁸ MINEPAT/Ministry of Economy, Planning and Regional Development. 2009. Cameroun Vision 2035. June 2009. Link: https://www.cameroon-embassy.nl/wp-content/uploads/2022/11/Cameroon_VISION_2035_English_Version.pdf. See also the references to the "National Development Strategy 2020-2030" in: Republic of Cameroon, 2020 and MINEPAT, 2020.

3 The Fiscal Capacity in Cameroon in an Era of Multiple Crises

This section should answer the question if the fiscal policies of Cameroon have been aligned with the strategic development visions and the planning documents of the country and with the recommendations of IMF and World Bank in times of the multiple crises. The multiple crises have impacted strongly on economic policies, and specifically on fiscal policies, and so the uncertainty of the environment facing the economic actors requested a strong fiscal policy framework being adapted to the causes and characteristics of the multiple crises.

3.1 From Crisis to Crisis since 2013 – Erosion of the Fiscal Capacity

Since 2013, Cameroon is facing several crises which impact negatively and profoundly on the socio-economic fabric. First, in 2013 began the Central African Republic's crisis, and many pastoralist communities took refuge in Chad and Cameroon. Cameroon welcomed more than 150,000 Central African Republic's refugees in 2013. This number increased in 2021 when the insecurity rose further in the Central African Republic (CAR), following the presidential election there in December 2020. This has had adverse effects on activities along the Douala-Bangui economic corridor.⁹ It has equally inflated the humanitarian crisis with a surge of refugees in the Eastern and Adamawa Regions of Cameroon¹⁰.

After the beginning of the CAR's crises, Cameroon was confronted with the Boko Haram terrorist attacks. And in 2014, in response to several attacks from Boko Haram to the Far-North region of Cameroon, the President of the Republic, Paul Biya, declared at the Paris Summit for Security in Nigeria in May, the 17th of 2014¹¹: "we are here to declare fight against Boko Haram". Since the time of this declaration, Cameroon is specifically involved in the Boko Haram Crisis, with a disastrous effect on the economy in the Far-North region¹².

Furthermore, Cameroon was plagued again with another crisis in 2016, and this time it was a severe socio-political crisis in Cameroon. The "anglophone crisis" began in 2016 with trade union actions of lawyers and teachers of the anglophone region of Cameroon; they criticised the "francophonisation" of the Anglophone system of justice and education. The demonstrations became violent, being the result of the central government's reactions and because of the arrest of some

⁹ See on the recent developments along the Douala-Bangui Corridor: <https://cemac-eco.finance/douala-bangui-corridor-regains-steam-after-covid-19-imposed-recess/>

¹⁰ See on the various regions of Cameroon: <https://discover-cameroon.com/en/cameroon-regions/>

¹¹ See on the Declaration of the Paris Summit for Security in Nigeria of 17 May 2014: <https://www.consilium.europa.eu/media/25760/142708.pdf>

¹² See about the Far-North Region of Cameroon: <https://discover-cameroon.com/en/cameroon-regions/>

of the leaders of the protests. The tensions in the North-West and the South-West (N-W and S-W) Regions of Cameroon¹³ further escalated when some groups picked up arms to fight against the central government, known as “Amba Boys” or “Amba Fighters”¹⁴, organised in different camps or groups, but the most prominent movement were the “Ambazonian Defence Forces”¹⁵. This has led to many deaths, injuries, and a complete shutdown of commercial activities in many parts of the affected rural areas and even in the urban areas of the N-W and S-W Regions. Seven to eight years later, Cameroon has yet to find a sustainable road to long-term peace, and the violence continues unabated. The N-W and S-W regions are two key economic regions of Cameroon, and in fact were contributing up to 20% of the GDP of Cameroon prior to the crisis. The negative spillovers on other regions are evident.

In 2017, the country saw a reduction in industrial production performance of more than 30%, a drop in exports of 5.3%, a drop in consumption of 3.4%, and a drop in investment of 10.2% compared to the pre-crisis period (see: Nembot et al., 2023). Cameroon was recording over 6,000 refugees and over 900,000 internally displaced persons, with over 2,000,000 people losing their livelihood resulting from the conflict (Bang and Balgah, 2022). A lot of manpower has been lost, leading to the collapse of businesses, a drop in tax revenue, and an increase in poverty (Nembot et al., 2023). Public and private enterprises, like Cameroon Development Corporation (CDC)¹⁶, PAMOL¹⁷, Cameroon Tea Estates¹⁸, and the Upper Nun Valley Development Authority (UNVDA)¹⁹, which jointly employed about 80,000 Cameroonians, dwindled and suffered losses of jobs of over 60,000 persons with a significant effect on the country’s tax revenues. Cameroon recorded a total value of destroyed assets of around US\$ 64 million, with approximately US\$ 35 million being destroyed in the agribusiness sector and approximately US\$ 27 million being destroyed in the energy sector. According to a 2018 Cameroon Doing Business report, Cameroon’s government lost around CFA-F 5.9 billion in taxes resulting from this conflict (Nembot et al., 2023). According to World Bank estimates, if the

¹³ See on these regions: <https://discover-cameroon.com/en/cameroon-regions/>

¹⁴ See about this group: <https://www.cameroonintelligence.com/amba-fighters-warn-things-will-get-out-of-control-in-december/>

¹⁵ See about this separatist group:

<https://cisac.fsi.stanford.edu/mappingmilitants/profiles/ambazonia-defense-forces>

¹⁶ See more on the Cameroon Development Corporation (CDC): <https://www.cdc-cameroon.com/index.html>

¹⁷ See more on PAMOL: <http://www.pamol.net/aboutus.php>

¹⁸ See more about the Cameroon Tea Estates:

<https://cm.linkedin.com/company/cameroon-tea-estates-at-cameroon-tea-estates>

¹⁹ See about the history and the activities of the Upper Nun Valley Development Authority (UNVDA): <https://www.ajol.info/index.php/njeh/article/view/36478>, and: https://www.paidafrica.org/paidwa/images/data/DOGO_NELSON_NFORNIWE.pdf

conflict lasts until 2025, national GDP of Cameroon will fall by 9%, and family welfare will fall by 5%, preventing Cameroon from fulfilling its development goals.²⁰ Cameroon had in the Cameroon Doing Business report 2018 the rank of 163 and the overall score of 47,23, and in the Cameroon Doing Business report 2020 one can see the deterioration with the rank 167 and the overall score of 46,1. This means that there was no improvement, but a further deterioration of the economic situation.²¹ The multiple crises, the policy reactions, and the socio-economic transformations had adverse impacts on the economic and social side in Cameroon, but also the business sector suffered as the doing business conditions and regulations were affected negatively. The fiscal situation deteriorated.

In 2020, the whole world and Cameroon were facing the Corona Crisis. In this year, the GDP in Cameroon was forecasted to decline from 4% to 0.6%. The pandemic affected over 40% of all types of companies in Cameroon negatively (see: Soppo Ntoubu, 2020). The measures taken by the government in response to COVID-19 had several effects on the fiscal policy of the country. Ngambo (2023), when analysing the fiscal policy for Cameroon in this context, underlined the necessity for the government to take budgetary measures with the objective to face the impacts of the Corona crisis. It was obvious that the crisis would have strong impacts on growth and on tax revenues, and that restrictive budgetary policies would not work in such a severe crisis, even when combined with a reallocation of funds to the health sector. The applied Computable General Equilibrium Model (CGEM), based on 2019 macroeconomic data, revealed that an expansionary policy was indeed requested to revive growth via consumption. Strengthening the consumption side was seen as important in this crisis period, instead of pursuing a restrictive budgetary policy.

The Ukraine-Russia Crisis (starting in February 2022) and the Climate Crisis (escalating in losses and damages in the last decade) also affect the country negatively. Globally, the ongoing war between Russia and Ukraine has impacted the

²⁰ See on the “Anglophone Crisis” in Cameroon and on recent data the reports and the information by the World Bank:

<https://documents1.worldbank.org/curated/en/795921624338364910/pdf/The-Socio-Political-Crisis-in-the-Northwest-and-Southwest-Regions-of-Cameroon-Assessing-the-Economic-and-Social-Impacts.pdf>, and:

<https://www.worldbank.org/en/country/cameroon/overview>

²¹ See on the two ranks and scores in the two Cameroon Doing Business reports for 2018 and 2020, and on these data the full report on Doing Business 2018 the links:

<https://openknowledge.worldbank.org/server/api/core/bitstreams/7ea90997-4842-5999-822d-42e4731d8608/content>, and:

<https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>, and:

<https://archive.doingbusiness.org/content/dam/doingBusiness/country/c/cameroon/CMR.pdf>

CEMAC (Communauté Economique et Monétaire de l'Afrique Centrale) economies in 2022 especially in the oil and gas sector. It has brought with it inflation through the fossil energy sector (fuel prices), and the governments were on the pressure to suppress the often quite high fuel subsidies. In Cameroon, while maintaining the subsidies and even increasing the budget allocation for the subsidies, the corrective policy changes in 2023 had consequences for the users of fuel, as it was decided to increase the price of the oil products in the sector, such as that of fuel from 630 F CFA to 730 F CFA per litre.²² The government of Cameroon now even plans to reduce the total amount of the fuel subsidies. Despite this effect on the consumers, the price increases of crude oil and natural gas on the international market led to positive financial repercussions for the CEMAC countries. But for the non-oil sectors, inflation rose to an annual average of 5.6% and 6.7% year-on-year in 2022, compared to 1.7% and 2.6% respectively a year earlier in 2021, because various CEMAC countries depend on Russian wheat and on construction raw materials from Ukraine.²³ The government of Cameroon has reacted to the various crises, but sometimes late and in small doses, so that it was forced to re-appraise their decisions from time to time.

The climate change crises have also affected Cameroon more and more.²⁴ The IMF reports that climate change is a threat to the people and to the economy of Cameroon. Expected are severe output losses, increasing poverty and inequality, rising food insecurity, and higher conflict risks, so that population displacements will occur. The export capacity will be affected, and imports will increase to cope with food, sanitation, and health needs during crises and/or to invest in rebuilding these sectors after the crises. Climate change will therefore increase the balance of payments problems and will require fiscal space to manage the negative developments. Social and economic impacts will affect human capital accumulation and will impede inclusive growth. Therefore, the IMF and the Government of Cameroon have decided about a Resilience and Sustainability Facility/RSF (see: IMF, January 29, 2024), to manage adaptation and mitigation of climate change in a resilient, sustainable, and inclusive form.

²² See about this price increase: <https://cameroonnewsagency.com/government-announces-increase-in-fuel-prices-reconsiders-minimum-wage/>

²³ See about the consequences of the war of Russia against the Ukraine for the CEMAC countries: <https://www.cameroonintelligenceportal.com/myth-or-reality-beac-speaks-of-consequences-of-the-russia-ukraine-war-on-cemac-countries/>

²⁴ See the IMF study from 20 February 2024; link: <https://www.elibrary.imf.org/view/journals/002/2024/052/article-A003-en.xml>, and the World Bank study from the Climate Change Knowledge Portal, 2021 The World Bank Group, link: <https://climateknowledgeportal.worldbank.org/country/cameroon>

3.2 Fiscal Consolidation and Inclusive Growth – New Priorities are emerging with the Multiple Crises

While the First Fiscal Consolidation and Inclusive Growth Development Policy Financing Project of 2017 from the World Bank was a reaction to the internal and regional crises and to the decline of the oil prices, the following Fiscal Consolidation Loans had become different tasks.²⁵ The \$200 million Second Fiscal Consolidation and Inclusive Growth Development Policy Financing Loan (World Bank, 2019) was intended to provide for budgetary sustainability and to improve public sector management. The economic downturn and the security concerns prompted a focus on increasing fiscal discipline and improving governmental financial management to ensure an optimal use of the limited resources. The loan also sought to strengthen social protection and competitiveness, and to address current socio-economic issues while building the framework for long-term growth (World Bank, 2019). However, these loans could not be fully utilised to meet their objectives because of the numerous crises having affected the country (see World Bank, 2022). By 2022, Cameroon was dealing with the aftermath of the COVID-19 pandemic and with global economic uncertainty. The pandemic had a significant impact on the country's economic activities, resulting in lower tax and non-tax revenues and in increasing investment uncertainty. The war of Russia against the Ukraine since February 2022 and the ongoing conflicts in the Anglophone and Far North regions of Cameroon also increased economic uncertainty, strained public finances, and diverted resources from development projects. It became more and more difficult to follow paths of inclusive growth through economic policies.

The governmental handling of public finance contributed to these problems. All these crises hindered the work of the Tax Administration offices in Cameroon, but despite all these crises the government aimed to increase the resilience of the Cameroonian economy, especially through Tax System reforms and Fiscal Consolidation Measures. The government could achieve (although with great difficulties) some of the proclaimed policy objectives, but the mechanisms of the tax reform were affecting negatively some of the small- and medium-sized enterprises (SMEs), and so objectives such as the development of the industry and the strengthening of the private sector were hampered. The major reason is that there were non-inclusive steps in the formulation and implementation of the fiscal and tax reform policies, as SMEs and small formal and informal enterprises and their households were not integral part of the tax reforms. They were directed to larger

²⁵ See on the First Fiscal Consolidation and Inclusive Growth Development Policy Financing Project of 2017:
<https://documents.banquemonddiale.org/fr/publication/documents-reports/documentdetail/346241513998096170/cameroon-first-fiscal-consolidation-and-inclusive-growth-development-policy-financing-project>

and formal companies and to middle class households in urban areas. The Fiscal Consolidation Loans to Cameroon should therefore also aim at key aspects of Inclusive Growth, as the tax reforms of Cameroon since 2013 did not work in this direction. The poverty headcount ratio increased slightly since 2014.²⁶ Also the unemployment rate increased slightly since 2014.²⁷ The rate of informality in the labour market is at around 90%, and less than 3% of the people are covered by adequate social health protection.²⁸ The argument is strong to relate policies of fiscal consolidation and of inclusive growth much better to each other in Cameroon.

In recent years, several studies have established a link between fiscal policies and inclusive growth, mostly by IMF and OECD, by the ADB (Asian Development Bank) and by policymakers of various Asian countries.²⁹ But now this link is also on the agenda with policymakers in African countries, including also the government of Cameroon. Cameroon is benefitting since 2017 from a World Bank “Fiscal Consolidation and Inclusive Growth Development Policy Financing Project”. Despite of some non-inclusive government measures at tax reforms and COVID-19 support measures, so that small enterprises suffered from high taxes and arbitrary and late government support actions, something is now moving in tax and expenditure policies towards fiscal consolidation and inclusive growth policies. The government of Cameroon, as part of its Action Plan, has attempted to improve the fiscal capacity of the state by progressively reducing the “tax expenditures” since 2020, as these “tax discounts” have benefitted mainly large and formal enterprises and middle-class households in urban areas. Fiscal consolidation should create some fiscal space for inclusive growth, so that small enterprises and poor households can be supported. Several measures had been implemented at the proposal of the World Bank, such as reducing the VAT exemptions for life and health insurance contracts and commissions, limiting the VAT exemptions for

²⁶ See: Macrotrends, 2024, Cameroon Poverty Rate 1996-2024; link: <https://www.macrotrends.net/global-metrics/countries/CMR/cameroon/poverty-rate>; the rate is higher than that of North African and developing countries.

²⁷ See from Macrotrends, Cameroon Unemployment Rate 1991-2024; link: <https://www.macrotrends.net/global-metrics/countries/CMR/cameroon/unemployment-rate>

²⁸ See data from ILO; link: <https://www.social-protection.org/gimi/gess/ShowCountryProfile.action?iso=CM>

²⁹ Studies link now fiscal policies with inclusive growth. See as exemplary examples the following studies which give an impression of the importance of the new link: the study for Pakistan: <https://www.jstor.org/stable/26616731>; the study by the Asian Development Bank/ADB: <https://www.adb.org/sites/default/files/publication/150415/ewp-423.pdf>; the study by the IMF: <https://www.elibrary.imf.org/view/journals/001/2020/271/article-A001-en.xml>; and the study by the OECD: <https://www.oecd.org/g20/Tax-policies-for-inclusive-growth-in-a-changing-world-OECD.pdf>

households with moderate consumption, limiting the VAT exemptions for local timber processing, and lowering the discounted tax base for beer duties from 25% to 10% (see for the details in: World Bank, 2019). Also, the government has increased the non-oil revenues through administrative reforms, such as joint tax and customs controls, improved taxpayer databases, cross-checking of data, and requiring business taxpayers to register in the tax administration's database for customs clearance. Accelerating the settlement of tax arrears will also boost non-oil revenue. And the government is streamlining recurrent costs to create room for increasing social investment. The government is also removing phantom (ghosts) personnel off the payroll, and is cutting the spending on goods and services by limiting mission allowances. Prioritizing domestic capital spending and monitoring internationally financed projects will also improve the investment budget's efficiency (World Bank, 2019, World Bank, 2022). However, it needs to be proved and documented that this new fiscal space is used for the vulnerable groups in Cameroon. There is not yet evidence for this turnaround. Anyway, the multiple crises have forced the government to accelerate such reforms on revenue and spending policies.

Already in 2016 first steps were taken to reorient economic policies towards inclusive growth in Cameroon (World Bank, 2016).³⁰ Cameroon is however not yet so far to go with its tax and spending reform policies strictly along this path. The country suffers from unfavourable structural conditions which are associated with public investment (what is described in the Doing Business reports). Expectation is that Cameroon will use its abundant domestic resource potential also to follow an inclusive growth path, but the political will has to be strengthened. Critical research on inequality in Cameroon was undertaken from 2018 to 2020 by the French cooperation partner, the AFD/Agence Française de Développement.³¹ The results show that a long road towards inclusive growth is ahead. Non-inclusive growth is due to high and not fast enough declining poverty rates. In the case of Cameroon, this has to do with even further increasing inequalities between rural and urban areas and within rural and urban areas, but also with highly ineffective redistribution policies.

After 10 years since the fourth household survey ECAM4 of 2014 (FCHS, 2014), the new and fifth household survey (ECAM5, 2024) for Cameroon will

³⁰ See the reporting by the World Bank (2016) on the issue of inclusive growth and poverty reduction for Cameroon since 2016: <https://www.worldbank.org/en/results/2016/07/12/cameroon-creating-opportunities-for-inclusive-growth-and-poverty-reduction>

³¹ See for AFD-funded research on inequality and growth under the title "Structural Change, Growth Models and Inequalities in Cameroon"; the project started on 1/1/2018 and ended on 31/1/2020; Link: <https://www.afd.fr/en/carte-des-projets/structural-change-growth-models-and-inequalities-cameroon>

provide new evidence and orientation for policies on inclusive growth.³² Also, infrastructure problems are mentioned as a barrier for inclusive growth (see the study by Kouam, 2022). Debt management policy is crucial for sustainable and inclusive growth in Cameroon, as external debt and public debt distress are assessed as high, and because severe inflation risks are associated with the Russian war against Ukraine, which may impact on the debt situation of Cameroon.³³ Overall, Cameroon has - under certain conditions of policy commitment - still a sustainable debt situation (IMF 2023a). To maintain this position, it is important to push firmly forward the reform process of the country to ensure debt sustainability in view of negatively affecting external shocks and domestic (shock) factors. There is a need for government and for citizens to come together and to find common solutions to poverty, income inequality, and unemployment. Participatory development is important for inclusive growth in Cameroon.

Fiscal consolidation has also a specific meaning for tax administration. In July 2021, the Ministry of Finance (MINFI) of Cameroon reported that the number of taxpayers grew by 58% from 2015 to April 2021, so that the number of taxpayers has increased from 89,741 to 140,000. This is the result of several actions undertaken by the tax administration, and because of a coalition between the tax administration and taxpayer groups. To improve the organization and the functioning of the tax administration, and to increase its capability to manage the tax system, the government has made many reforms since 1990. The DGT's Ten-year Report 2010–2020 Cameroon (DGT/DGI, 2020) emphasizes that tax administration was involved in a great process of modernization, as fiscal administration was strengthened and as the system of taxation was reformed. Some observers however doubt that the Directorate General of Taxes (DGT) has since the beginning of the reform process performed well in the tax system mobilization, as the criteria selected for measuring success are rather simple (growth of tax bases, reaching proclaimed revenue targets). For example, during the January–March 2023 period, tax revenue collected by the tax administration reached CFA-F 818.5 billion out of a target of

³² See on the fifth household survey (ECAM5) on Cameroon (January 2024) the main results and methodologies; links: <https://ins-cameroun.cm/wp-content/uploads/2024/04/Communique-de-presse-ECAM5-DG-du-30-avril-2024-ok.pdf>, and: <https://ins-cameroun.cm/document/resultats-de-la-5eme-enquete-camerounaise-aupres-des-menages-ecam5-communique-de-presse/>, and: <https://ins-cameroun.cm/document/resultats-de-la-5eme-enquete-camerounaise-aupres-des-menages-ecam5-communique-de-presse/>

³³ See on the IMF 20/3/2023 third reviews report on Cameroon (IMF 2023a) with the title: “IMF, 2023, Third Reviews Under The Extended Credit Facility And The Extended Fund Facility Arrangements, And Requests for Waivers For Performance Criteria Applicability, Nonobservance Of Performance Criteria, And Modification Of Performance Criteria – Debt Sustainability Analysis”; link: <https://www.elibrary.imf.org/view/journals/002/2023/114/article-A002-en.xml>

CFA-F 761.5 billion. This implies an achievement rate of 107.5% (DGI News, 2023). Impressive data on the progress of tax collection are presented in the DGT Ten-Year Report. But when looking at the website of the DGT (Directorate General of Taxation), one can see that the page for the presentation of the Tax System is still under construction, and that therefore this information source is not yet available. There are reports about the case of the Directorate General of Taxation (DGT) being in the centre of the current fight of Cameroon against corruption (see: Aboudi, 2024).

We see that Cameroon has managed the fiscal system in times of multiple crises, but obviously much deeper reforms of the revenue and expenditure systems are requested. The response to the many crises was often late and ineffective. Some progress had been achieved in propagating the link between fiscal consolidation and inclusive growth, and the country waits for results. The fight against corruption and for better fiscal management is still severe, also in the tax administration system. It can be concluded that the fiscal policies of Cameroon could not meet fully the objectives of the strategic development vision of the country and the expectations of the international finance funding organizations. However, the huge tasks ahead which are needed for future policy reforms in Cameroon became visible.

4 The System of Public (Tax and Non-Tax) Revenues in the Fiscal Policy Framework of Cameroon

This section should answer the question if the tax and non-tax revenue systems of Cameroon were changed and reformed in such a way that they align with the strategic development visions and the planning processes of Cameroon and with the recommendations and expectations of the international finance organizations IMF and World Bank.

4.1 The Characteristics of the Tax System of Cameroon

Reports on the tax system of Cameroon, by the government of Cameroon itself and by international advisory companies, such as KPMG (KPMG, 2020) and PwC³⁴, argue that the system of taxation in Cameroon is based largely on income taxes, on corporate income taxes (CIT) and on personal income taxes (PIT). But the fiscal guides on the country show that value added taxes, excise duties and customs duties also play a role.

³⁴ See the overview by PwC from 12 August 2024 about the taxation system of Cameroon: <https://taxsummaries.pwc.com/republic-of-cameroon>

The Corporate Income Tax (CIT) is levied immediately on all corporate earnings made over the fiscal year’s 12-month period. However, if a corporation has only been in operation for six months prior to the end of the fiscal year, it may file its first report 18 months later. A corporate tax only applies to enterprises generating money in Cameroon. The transaction must be carried out inside an institutional framework, such as by a representative whose professional profile is indistinguishable from that of the corporation. The corporate tax rate is 33%, consisting of a basic rate of 30% plus a 10% municipal rate tax (Ambe, 2019, and KPMG, 2020). Resident corporations in Cameroon are taxed on their worldwide income; non-resident corporations are taxed exclusively on income generated in Cameroon. Profits subject to the Corporate Income Tax (CIT) are calculated solely on profits generated by entities located in Cameroon (for residents) or based on transactions which are completed in Cameroon (for non-residents with a permanent establishment/PE in Cameroon). The net taxable profits (NTPs) are calculated after deducting all charges directly related to the performance of activities subject to taxation in Cameroon. For enterprises with a turnover of more than 3 billion CFA Francs, the overall Cameroon CIT rate is 33% (30% plus 3%). The tax rate is set at 27.5% (25% plus 2.5%) for enterprises with a revenue of less than 3 billion CFA Francs that meet the additional criteria stipulated by law.³⁵ Corporate bodies are taxed according to the following tax regime methods (see the overview below), which are decided by the amount of revenue generated. The Tax Regime applied to those companies is as following, referring to non-salaried activities with some exemptions:

Overview: The various Tax Regimes in Cameroon

Tax Regime	Revenue (CFA-F)
Discharge tax	Less than or equal to 10 million
Simplified	More than 10 million and less than 50 million
Actual earnings	Over 50 million
Non-Profit organizations	No revenue limitation

Source: CATG/Central Africa Tax Guide, 2023

These tax regimes are differentiated by turnover level, and the lower the revenue level the less restrictive is the tax regime. The first one is a flat rate taxation system, the second one is a simplified taxation system, and the third one is an actual earnings taxation system, incorporating most new companies and new taxpayers. Non-Profit organizations are - with their tax system - not bound by revenue

³⁵ PwC, 2024. Republic of Cameroon, Taxes on corporate income, 28 February 2024; Link: <https://taxsummaries.pwc.com/republic-of-cameroon/corporate/taxes-on-corporate-income>

limitations.³⁶ There is also a minimum tax of 2.2% or 5.5% on the turnover, depending on the tax regime or the business type.³⁷

The Personal Income Tax (PIT) is a direct tax levied on the earnings of all natural persons who have their fiscal domicile in Cameroon or who earn income from Cameroonian sources, such as: wage earners, pensioners, and annuitants; traders, farmers, and craftsmen; landlords; and liberal professionals (see the overview below on changes of PIT rates).

Overview: Personal Income Tax - Rate Changes from 2020 to 2023

Net income (CFA-F)	PIT rate (%) in 2020	PIT rate (%) since 2023
0 to 2,000,000	10	11
2,000,001 to 3,000,000	15	16.5
3,000,001 to 5,000,000	25	27.5
more than 5,000,000	35	38.5

Source: MINFI/Ministry of Finance. 2020. Personal Income Tax in brief. Link: <https://minfi.gov.cm/en/personal-income-tax-in-brief/>; and: PwC/PricewaterhouseCoopers, 2023, Worldwide Tax Summaries, Taxes on Personal Income, Cameroon. Link: <https://taxsummaries.pwc.com/republic-of-cameroon/individual/taxes-on-personal-income>

Comparing the data for 2020 and 2023 we see that there is a moderate increase of PIT tax rates in Cameroon since 2023, and some observers assume that this increase is due to the economic crisis with inflation and increasing food prices caused by the Russia-Ukraine war. The government intensifies its strategies to mobilise more resources to respond to the population’s demands for key public goods. But there may be other causes also (such as avoiding additional debt sustainability problems and securing funds for realizing the SDGs). This is part of the fiscal consolidation effort of the government (discussed in this essay).

Taxpayers are required to submit the annual return of revenue obtained from their business venture to the tax administration during the tax period on or before March 15 of each year. This return must be filed out in accordance with the OHADA (Organization for the Harmonisation of Business Law in Africa³⁸) accounting system. Despite Cameroon’s declaratory tax system, the tax

³⁶ See on this distinction the explanation in the guide by PwC, 2024: <https://taxsummaries.pwc.com/republic-of-cameroon/corporate/taxes-on-corporate-income>

³⁷ See on the minimum tax: PwC, 2024, World Tax Summaries, Corporate Tax Cameroon; Link: <https://taxsummaries.pwc.com/republic-of-cameroon/corporate/taxes-on-corporate-income>

³⁸ See for information about this organization the website of OHADA: <https://www.ohada.org/en/>

administration may send a pre-completed return of collected revenue or any other taxable item, along with the tax amount owed, to any natural or legal person paying taxes or duties in accordance with the rules and regulations in force. This system may have unintentional or intentional consequences on transparency. There may be confiscatory elements in this system.

The Value Added Tax (VAT) is levied on natural persons or corporate bodies who carry out taxable transactions consisting of the provision of services or the sale of commodities automatically, routinely, or infrequently. Cameroon's total VAT rate is 19.25%. Exports are not taxed. Unless otherwise noted, VAT paid upstream is recoverable. It should be noted that VAT is invoiced only by natural and legal persons with a turnover (taxes excluded) of CAF-F 50 million or more and who are subject to the tax regime of "actual earnings" (see above on this system).³⁹

Customs charges of 5% to 30% are paid on the customs value, depending on the nature of the imported products. Goods purchased electronically and imported into Cameroon are subject to customs charges and taxes in accordance with specific regulations. An interest rate of 1.5% per month (maximum at 50%) was put in place starting from 1st January 2018 as a fine for those who fail to pay taxes and custom charges within 30 days of the computation of the detailed declaration of their goods.⁴⁰ There may be confiscatory elements also in this system of placing fines.

In Cameroon like in most countries, if not in all countries, the revenues on taxes come from both sources, direct and indirect taxes. Direct taxes include corporate taxes, personal income taxes, permits, licenses, and property taxes, whereas indirect taxes include VAT, registration fees and stamp duties, a special tax on petroleum products, and a special income tax. The country also imposes fiscal charges on audiovisual fees, National Employment Fund (NEF) contributions, municipal taxes, and social contributions. Cameroon operates a declaratory tax system, allowing the taxpayers to do a self-assessment and declaration of their taxes. But there are exceptions to this general requirement of self-declaration which may also involve confiscatory elements.

The total tax and non-tax revenue (see on the total volumes for 2013-2021 table 1a and on the tax-to-GDP ratio for 2013-2023 the table 1b) is experiencing an upward curve since 2013, with two exceptions, despite the multiple crises affecting Cameroon since 2013 (see: OECD Data Explorer, 2024 and OECD/ATAF/

³⁹ Link to this information: PwC, World Tax Summaries, taxes on corporate income, Cameroon. Link: <https://taxsummaries.pwc.com/republic-of-cameroon/corporate/taxes-on-corporate-income>

⁴⁰ Link to this information: PwC, World Tax Summaries, taxes on corporate income, Cameroon. Link: <https://taxsummaries.pwc.com/republic-of-cameroon/corporate/taxes-on-corporate-income>

AUC, 2023). The ratio of non-tax revenues to GDP for 2013-2021 shows some fluctuations, but also a downward trend (see table 1c).

Table 1a: Total tax and non-tax revenue in CFA Franc BEAC, billions, 2013 - 2021

Year	2013	2014	2015	2016	2017
	2,981.3	3,153.9	3,409,7	3,254.2	3,561.3
Year	2018	2019	2020	2021	2022
	3,864.3	4,046.3	3,561.4	4,025. 8	3,419.3
Year	2023	2024			
	3,965.5	n.d.			

Source: OECD Data Explorer (2024). Data on Public Revenues. Statistics/Data. **Note:** 1 Euro = 656.32 CFA Francs and 1 CFA franc = 0.0015 EUR; 1 US Dollar = 601,96 CFA francs and 1 CFA franc = 0,0017 US Dollar

If only tax revenues are considered, one can see that the volume of taxes has tripled within 10 years. The tax revenues have first surpassed CFA 1,000 billion at the end of FY2012, have exceeded CFA 2,000 billion in 2022, and are projected to reach just over CFA 2,900 billion in 2024. It is mentioned that the Cameroonian government had since 2013 consistently exceeded its tax revenue collection targets for 11 consecutive years.⁴¹ This is attributed to the modernization and digitalization of the tax administration. Also the increase of the taxpaying population from 23,930 taxpayers in 2010 to 234,511 taxpayers in 2023 is a key factor. All this success raises the question if there is confiscatory taxation in Cameroon.

Table 1b: Tax-to-GDP ratio, 2013 - 2023

Year	2013	2014	2015	2016	2017	2018
	11.52 %	12.28 %	12.11 %	11.65 %	11.87 %	12.34 %
Year	2019	2020	2021	2022	2023	2024
	12.02 %	10.80 %	11.34%	12.50 %	12.70 %	n. d.

Sources on data: Data were compiled from OECD, World Bank, IMF, Ministry of Finance of Cameroon, and African Economy Outlook. **Note:** There are some differences between the reports of OECD and of World Bank concerning the tax-to-GDP ratio.

The decline of the public revenues in 2016 (see table 1a) is explained by the fact that it was in this year that the political crisis in North-West and South-West Cameroon became an armed conflict between the national army and the

⁴¹ See: Business in Cameroon, 15 July 2024, Cameroon Triples Tax Revenues in 13 Years, Boosted by Expanded Tax Base; link: <https://www.businessincameroon.com/finance/1507-14013-cameroon-triples-tax-revenue-in-13-years-boosted-by-expanded-tax-base>

secessionist militias. This was followed by a sudden cessation of economic activities in those regions. In 2020, the Coronavirus (COVID-19) has brought entire economies to a sudden stop of economic activities; Cameroon registered in this year again a decline of its public revenues. For the World Bank, “Cameroon’s fiscal situation has improved due to lower fuel subsidies, increased oil revenues, and spending reductions. Non-oil tax revenues grew slightly in the first half of 2023, driven by corporate income tax and VAT collections” (World Bank, 2023, citation pages 218-219). The reduction of the fuel subsidies in 2023 (see World Bank 2023, 2024b) had an effect on fiscal consolidation, but also other factors played a role, like the reduced public capital spending and the improved tax collection.

Table 1c: Non-Tax-Revenue-to-GDP ratio 2013-2021

Year	2013	2014	2015	2016	2017	2018
	4.9 %	4.2 %	3.8 %	/	3.0 %	3.2 %
Year	2019	2020	2021	2022	2023	2024
	3.5 %	2.3 %	2.7 %	/	/	/

Source: OECD/ATAF/AUC (2023), Revenue Statistics in Africa 2023

4.2 The Oil Sector, the State-Owned Companies, and the Fiscal Capacity of Cameroon

The oil sector is of great importance for Cameroon’s fiscal position, and the oil and gas sector-related public companies play a great role for improving the fiscal capacity and are of crucial importance for Cameroon’s fiscal consolidation. Concerning the data on the oil sector revenues, the production of oil and gas, and the role of natural gas which is supplied to thermal power plants for electricity generation, the state-owned company Société Nationale des Hydrocarbures/National Hydrocarbons Corporation (SNH/NHC)⁴² releases key data.⁴³ The website also presents data on the revenues transferred to the state, on the payments of corporate income tax, and on the payment of other taxes. Also, the revenues generated from the Chad/Cameroon Pipeline are recorded, as well as the revenues from transit

⁴² Link to the Website of Société Nationale des Hydrocarbures/National Hydrocarbons Corporation (SNH/NHC): <https://www.snh.cm/index.php/en/>

⁴³ Source for SNH/NHC on the Key Figures: <https://www.snh.cm/index.php/en/26-contenu-en/hydrocarbures-in-cameroon/key-data>. Informative are the data on the quantity of natural gas sold to the Kribi Thermal Power Plant for electricity generation (measured in standard cubic feet (scf) at 1000 British Thermal Units (BTU/scf), Also the data on the quantity of domestic gas (LPG/Liquified Petroleum Gas) delivered to supply the local market (measured in metric tons (MT), and the data on the quantity of liquefied natural gas (LNG) exported on behalf of Cameroon (measured in cubic metres) are relevant for policymakers.

fees. In accordance with its mission, the National Hydrocarbons Corporation/Société Nationale des Hydrocarbures (NHC/SNH) transfers to the State revenues from the sale of hydrocarbons, after deduction of expenses. On its website, one can find data on production, sales, and payments per fiscal year since 2007. The quantities of hydrocarbons sold on behalf of the State were since on the increase. The government of Cameroon dominates the sector and generally operates a revenue-sharing business model with foreign investors. The company was however since 2009 an own-operator in the oil sector with the commissioning of the M'via field, but in 2018 the field was decommissioned.⁴⁴ Beyond the presentation of some key data the release of reliable data is limited.

There is now an important critical and policy-focussed discussion about the transactions of the oil and gas company NHC/SNH. The company is now in the centre of controversies (see Mundi & Mealvatin, 2023, and: Njume, 2023). The NHC/SNH is obviously involved in non-transparent purchases/sales of companies, and it is practising quasi-fiscal-spending (for example, on security measures and on cross-border activities). It is also accused of bribing actors in the value chain and in the government and of not paying social security contributions. The role of Cameroon as a member of the global extractive industries organization (Extractive Industries Transparency Initiative/EITI) is thereby damaged. Also, other companies of the oil and gas sector, such as SONARA⁴⁵, the national refining company Société Nationale de Raffinage, are in the centre of political discussions, because of unsustainable debt levels, lack of transparency, and not ending efforts of the government at reconstructing and restructuring the conglomerate. In most of the IMF reports to the government of Cameroon such actions are requested under urgency. It is demanded to reorganize SONARA and other companies of the oil and gas sector at all levels in the value chain (downstream and upstream), and especially at the level of the two major companies (NHC/SNH and SONARA). It is a matter of urgency because of the high debt stock of the companies and the fact that the exact numbers and volumes of transactions are unknown.

4.3 Limits to Fiscal and Financial Transparency in Cameroon

Despite the efforts of the government to mobilize fiscal resources, some state-owned enterprises (SOEs) were not identified in budget documents, and only few state-owned enterprises (SOEs) produced financial statements. This is a main

⁴⁴ See the information about the onshore crude oil M'via project and the importance for the company and for Cameroon: <https://www.offshore-technology.com/marketdata/mvia-conventional-oil-field-cameroon/?cf-view>, and the report of decommissioning the oil field in 2018: <https://www.woodmac.com/reports/upstream-oil-and-gas-mvia-557996/>

⁴⁵ See the website of SONARA: <https://sonara-cm.cm/en/home/>

critique when looking at the fiscal transparency progress which is addressed by international creditors to the policymakers of Cameroon (see as an example: US Department of State, 2023a). During the year 2023 the country has obviously made some progress on fiscal transparency, but this does not refer to the financial transparency of the SOEs of the oil and gas sector, but mainly to the transparency of the state budgets. The Open Budget Survey 2023 for Cameroon shows some improvements on public participation and transparency, although there are still rather weak budget oversight institutions (IBP, 2023). The public enterprises and companies in Cameroon absorb substantial state resources and are regularly identified as unprofitable, and in such a way that they have been qualified as “financially at risk” by the International Monetary Fund (IMF). According to the IMF, public companies usually perform poorly and do not provide dividends to the shareholder-state, and they are living for the most part on subsidies by the state. Many of those companies have an abyssal debt level, such as the Société Nationale de Raffinage (SONARA)⁴⁶ and the Cameroon Airlines Corporation (CAMAIR-Co)⁴⁷. They accumulate a massive share in debt of CFA-F 826 billion, out of the total debt of Cameroonian public enterprises which amounts to CFA-F 833 billion in 2020 (see: Nsoesie, 2020). The situation on debt is still alarming. The urgency to solve the huge debt problems of SONARA are highlighted in the third reviews report of the IMF (2023a). The situation of highly indebted company giants in key economic sectors contributes to a fragile fiscal system in Cameroon, and there is a strong argument to close some public companies and to restructure others with the objective to reinforce the fiscal capacity of the country and to restore the fiscal transparency in the handling and execution of the budget. The SOEs in Cameroon are still a black box for observers of fiscal transparency in budgets and debt positions.

4.4 The Argument about the Confiscatory Tax System in Cameroon

Cameroon’s tax system has been criticized as being confiscatory and thus being unattractive for domestic and foreign investors. Cameroon imposes a 33% company income tax rate, with a minimum amount payable even in cases of losses. This minimum tax amounts to 2.2% of revenue, regardless of profitability. Such a high tax burden may discourage investment and stifle economic growth, if not tax exemptions and tax incentives favour certain (selected) companies in selected

⁴⁶ See about the web information by the Société Nationale d’Investissement (SNI) du Cameroun about SONARA; link: <http://www.sni.cm/index.php/en/secondary-sector-en/101-national-refining-company.html>

⁴⁷ See the website of Camair-Co; link: <https://www.camair-co.cm/>

sectors. Such advantages create uncertainty about the locational conditions, and this uncertainty is bad for investment.

Confiscatory attitudes are also possible in other tax categories. One critical issue faced by businesses in Cameroon revolves around the refund of Value-Added Tax (VAT) credits. For over two decades, private sector representatives have mentioned the processing of VAT refunds as a significant obstacle to economic activity in the country (see Muñoz, 2023). The dimensions of this problem stem largely from a specific feature of the tax system in Cameroon, namely VAT withholding at source. This mechanism allows the state to modify the normal operation of VAT by entrusting tax collection tasks to public agencies and to selected large companies. While not technically optimal, it enables tax authorities to cope with administrative challenges related to VAT collection. However, it has unintended consequences for businesses. The heart of the issue lies in the form how withholding categorizes businesses into taxpaying groups, and here it is shown how the procedure works. First, there is a Sorting of Businesses: Withholding systems sort out businesses based on their commercial might and managerial standards. Economic might and sound managerial standards are equated. These criteria are then couched in terms of civic morality. Unfortunately, this results in a deeply discriminatory tax system that treats all companies beside of a small group of large businesses as untrustworthy. Second, the Business-State Relations are fundamentally changed: The business community's dissatisfaction with the tax system has escalated. The "Groupement Inter-Patronal du Cameroun" ("GICAM"), the key business association, openly expressed concerns about the "confiscatory" nature of taxes (Muñoz, 2023). The issue of VAT credits remains a significant problem, affecting businesses' liquidity and financial stability. Small and medium enterprises are suffering.

The consequences of this confiscatory tax system are far-reaching. High tax rates, including a 33% corporate income tax rate, discourage foreign and domestic investment. The minimum tax, which amounts to 2.2% of revenue, even in cases of losses, adds to the burden. Investors seek stability and predictability, and Cameroon's tax regime falls short in this regard. And the VAT refund system discriminates most of the companies in Cameroon as they are not considered as trustworthy. A modern, coherent, and attractive tax system is essential for the emergence of a business-friendly environment, but it is not the sole factor for the emergence of such an environment (Kouam and Wouapi, 2022). Cameroon's tax system hinders growth, but investment is related to the long-term growth potential of a market.

According to the African think tank "Observatoire de l'Émergence en Afrique", Cameroon ranks in the penultimate group of countries with the potential for emergence to the position of a developed country (see: Gazibo and Mbabia, 2023). Cameroon is behind nations like Algeria, Senegal, Benin, and those that have already achieved emergence to a higher income status, such as Mauritius,

Rwanda, and Ghana (see: Marly and D'Almeida, 20/07/2018). Cameroon therefore needs to adapt its legal framework to address the inadequacies of its tax system; but more than this, the overall business-state system needs an overhaul. This includes revising the tax laws and the tax administration to encourage industrial transformation and to attract foreign investment. Striking a balance between tax revenue collection and investor-friendly policies is crucial, and Cameroon has a lot to do in this direction. Streamlining tax procedures, creating stable macroeconomic and fiscal policies, reducing administrative hurdles, and ensuring transparency will enhance investor confidence.

4.5 Improving the tax structure of Cameroon towards resource mobilization with inclusive growth, equity and efficiency

In the early 1980s, Sub-Saharan African (SSA) tax regimes, including Cameroon's, relied heavily on trade taxes, particularly on import levies. This was mostly owing to the simplicity of collection and the substantial revenues so provided. However, these systems were frequently inefficient and regressive, putting a disproportionate burden on low-income groups (as studied carefully by Tanzi et al., 1981). Key changes of the tax structure in Africa, and as well in Cameroon, have taken place over the decades in the following manner:

First, there was a transition from Trade Taxes to Domestic Taxes: One of the most visible developments has been the steady shift from trade taxes to domestic taxes. This shift was motivated by the need to diversify revenue sources and to lessen the reliance on volatile foreign trade. Cameroon and other countries in the region were implementing value-added taxes (VAT) and excise taxes as more reliable and less volatile revenue sources. The implementation of VAT was a fundamental change in several Sub-Saharan African (SSA) countries; and the VAT is regarded as more efficient and as less distorting than trade taxes. But as we have seen above, the administration of the VAT refund system is benefitting larger companies.

Second, various Income Tax Reforms took place: There have been significant reforms to company and personal income taxation. Initially, income taxes were aimed exclusively at major enterprises and government personnel. Over time, attempts have been undertaken to broaden the tax base with the ambition to encompass a greater proportion of the population and to include also smaller companies into the tax system. These measures intended to improve equity and to raise public revenue. We have seen above that taxing small and informal enterprises and lower-middle class households can have negative and regressive taxation impacts. The tax base was considerably enlarged, but with some confiscatory elements in it.

Third, the Tax Administration system was continually improved: Improving tax administration was considered also in Cameroon as another essential area of

reform. An efficient tax administration is critical to effective tax collection and to tax compliance. Many nations in the region have invested in updating their tax administration systems, including promoting the use of digital technologies and the formation of independent revenue authorities. We have however seen above that the tax administration authorities can contribute to unfriendly business-state relations by outsourcing the collection of taxes, what may lead to a lower investor confidence and even to confiscatory taxation.

Cameroon has experienced some significant achievements resulting from its tax reforms. The implementation of domestic taxes, particularly of VAT, has greatly enhanced revenue mobilization. This has given governments access to additional resources to invest in public services and in critical infrastructure, hence promoting economic development. In addition, income tax reforms and tax base expansion have enhanced tax equity. These measures have helped to share more evenly the tax burden by involving a wider proportion of the population and of the companies into the taxation system. Again, less reliance on trade taxes has boosted economic diversification. By lowering the tax burden on foreign trade, these measures have aided local industry growth and have reduced vulnerability to external shocks. Despite the advances, obstacles remain. Tax evasion and tax avoidance remain serious challenges, and continual reforms are needed to improve tax administration and tax compliance, also by overcoming confiscatory taxation. Furthermore, the informal economy is mostly untaxed, which complicates public revenue mobilization. Strengthening informal sector enterprises is important as a precondition for effective informal sector taxation. However, all these changes depend on a future-oriented tax strategy and on a flexible and effective tax administration. Many examples for Cameroon show that further tax reforms are needed. If the enterprises feel that the tax system is confiscatory, tax compliance will vanish.

Public revenue mobilization in Africa did change considerably (see UNECA 2019). Africa's weighted average tax to GDP ratio was 17 per cent over 2000–2018. There was an improvement from 17.9 per cent in 2000 to 19.9 per cent in 2005, the highest ratio of the period, but then the trend was downwards, reaching the lowest level of the period with 12.9 per cent in 2016 and then increasing to 14.6 per cent in 2018. This trend was reflected in both direct taxes and indirect taxes, which peaked at 5.5 per cent and 12.6 per cent, respectively, in 2004 (UNECA, 2019, p. 51). Resource taxes followed the general trend, rising from 1.5 per cent in 2000 and peaking at 3.2 per cent in 2006, before gradually falling to 0.35 per cent in 2016, with a slight recovery to 1.9 per cent in 2017 and 2018 (UNECA, 2019, p. 52).

Cameroon had according to the average weighted ratios of Tax Revenue to GDP between 2000–2004 and 2014–2018 an increase of this ratio from 11% (2000) to 13% (2018), but for the two sub-periods 2000–2008 and 2009–2018 the increase was only from 11% to 12% (UNECA, 2019, p. 53). The tax-to-GDP ratio

is an important measure of a country's tax performance. It calculates the percentage of a country's GDP that is collected in taxes. Cameroon's tax-to-GDP ratio has gradually increased over time, reflecting improved tax collection and taxation management. According to the OECD, Cameroon's tax-to-GDP ratio rose from 11.5% in 2010 to 13.3% in 2021 (OECD/ATAF/AUC, 2023). This increase reflects some first attempts to enlarge the tax base and to strengthen tax compliance (but this may also have to do in some cases with confiscatory taxation as described above). Despite this small improvement, Cameroon's tax-to-GDP ratio remains even below the African average, which was 15.6% in 2021 (OECD/ATAF/AUC, 2023).

The composition of tax revenue in Cameroon, as introduced in the preceding sections, is diversified, with various types of taxes contributing to total tax revenue. The principal sources of tax revenue include value-added taxes (VAT), taxes on goods and services excluding VAT, personal income tax, corporate income tax, and social security contributions. The VAT is Cameroon's main source of tax collection, accounting for 32% of overall tax revenue in 2021 (OECD/ATAF/AUC, 2023). The VAT is regarded as an efficient tax because of its large base and because of the low rates of evasion. The high percentage of VAT in overall tax revenue demonstrates its significance in Cameroon's tax system. Taxes on goods and services, excluding VAT, are the second-largest source of tax revenue, contributing 28% to the total tax revenue. These taxes include excise duties and other consumption taxes, which are relatively easy to collect and to administer. Personal income tax and corporate income tax together make up a sizable share of total tax revenue. Personal income tax provided 14%, while corporate income tax generated 8% of total tax revenue in 2021 (OECD/ATAF/AUC, 2023). These taxes are critical for guaranteeing equity in the tax system because they are often progressive and may target higher-income individuals and prosperous businesses (if not tax exemptions change the picture). Social security contributions also play a role in Cameroon's tax structure, albeit in a smaller proportion than other taxes. In 2021, social security contributions represented 7% of overall tax revenue (OECD/ATAF/AUC, 2023). These payments are critical to sustaining social welfare services and to providing a safety net for the populace.

These shares in total tax revenue give only an idea about proportions and achieved structural changes in the taxation system, but they cannot inform about elements of confiscatory taxation, about the state of following equitable taxation principles, and about failed and unfair tax exemption and tax incentive policies. Looking at the shares of taxes in relation to Africa (of 33 countries) one observes that the income taxes (corporate and personal) have (in the year 2021) a far lower share in Cameroon - 14% relative to 19% and 7% relative to 17% (see: OECD/ATAF/AUC, 2023). In 2021, Cameroon's non-tax revenues amounted to 2.7% of GDP, what was lower than the average non-tax revenues for the 33 African countries of 5.8% of GDP. In Cameroon, rents and royalties represented the largest

share of non-tax revenues in 2021, amounting to 1.8% of GDP and reaching 69.2% of all the non-tax revenues generated (OECD/ATAF/AUC, 2023). This may also be a sign of generous resource tax incentives and resource tax exemptions. The structure of tax revenues and of non-tax revenues is therefore an issue for further public sector research and for a policy and strategy debate in Cameroon.

4.6 Summary: Cameroon's Fiscal Performance and Changes of the Revenue Structure

In recent years, Cameroon's fiscal performance has been shaped by a combination of internal and external factors, thereby embracing certain changes. Cameroon's real GDP increased by 3.6% in 2022, owing to a resurgence in the services and agriculture sectors (IMF, 2024). However, growth slowed to 3.3% in 2023, owing to lower-than-expected public investment and because of rising prices (World Bank, 2024e). Inflation increased from 6.3% in 2022 to 7.4% in 2023, driven mostly by high food and transportation costs. The fiscal deficit has been manageable in recent years, averaging approximately 1.0% of GDP (World Bank, 2024e). However, public debt has been a source of concern, with the debt-to-GDP ratio projected to reach 45.8% by 2023 (IMF/International Monetary Fund, 2024). The government has therefore been focussing on fiscal system changes to improve the revenue collection and to better manage the public expenditures. The figures above do not show that structural fiscal changes were introduced. The fiscal performance may be agreeable, but the tax structure remains a problem in comparison to other African countries.

Cameroon's public revenue system has been characterised by its restricted tax bases and by its insufficient tax enforcement, resulting in widespread tax fraud and tax avoidance (World Bank, 2024e). On the expenditure side, there has been a considerable allocation for "common expenses", which are frequently administered with minimal transparency and accountability (World Bank, 2024e). Education and health spending continue to be less than 5% of GDP, underscoring the need for more focus and more resources spent in these areas (World Bank, 2024e).

As a result of all these tax reforms, Cameroon's fiscal deficit position has improved in 2022 to -1.1% of the GDP, while the current account balance had only a small improvement to -3.5% of the GDP. In the years 2023 (with estimates) and 2024 (with forecasts) there is the expectation of a further improvement of the fiscal balance to -0.8% (2023) of the GDP and to -0.7% (2024) of the GDP (World Bank, April 2024b), although the improvement in Cameroon has largely to do with the reduction of the volume of fuel subsidies and some planned increases of public revenues (World Bank, April, 2024b). However, the regional economy's reliance on oil and other extractive industries makes the country vulnerable to the fluctuations of the commodity market. Fiscal balances have improved, but the increase

of the public revenues (with tax and non-tax revenues reaching 13.3% and 2.7% of the GDP) is still insignificant. Most important is therefore, beside of an increase of the tax-to-GDP ratio, an increase of the non-tax revenues to GDP ratio, and an improvement of the tax structure in Cameroon.

Looking ahead, Cameroon's fiscal outlook appears cautiously optimistic, with several key projections and reforms expected to shape the country's economic trajectory. Real GDP growth is expected to average 4.5% between 2025 and 2027 (World Bank, 2024e). This expansion will be fuelled by increased energy supplies, greater public investment, and a gradual increase in domestic gas production (AfDB Group, 2024). Inflation is predicted to fall to 3.0% by 2027 as the Bank of Central African States (BEAC/Banque des Etats De L'Afrique Centrale) tightens monetary policy (AfDB Group, 2024). The budget deficit is expected to stay around 1.0% of GDP in the medium term, owing to continued efforts to improve fiscal discipline (World Bank, 2024e). Fiscal reforms and enhanced revenue collection are expected to help to reduce public debt to 36.3% of GDP by 2027 (World Bank, 2024e). The government intends to develop a Medium-Term Revenue Strategy (MTRS) to expand the tax base and to strengthen tax enforcement (World Bank, 2024e). Significant adjustments are expected in crucial areas, especially so in the forestry sector. The forestry sector has the potential to create more public revenue through improved governance, climate-friendly fiscal policies, and enhanced value addition in the wood industry (World Bank, 2024e). These reforms are critical for promoting sustainable growth and for attracting climate finance. However, these are ideas, plans and policy suggestions, not even solid projections; important is how quickly actual changes of the fiscal system are introduced.

The tax structure of Cameroon has several implications for the country's economic development and fiscal sustainability: First, on revenue mobilization, as an increasing tax-to-GDP ratio indicates improvements in revenue mobilization, a trend which is crucial for funding public services and infrastructure projects. But there is still room for improvement to reach the average levels of other African countries or to surpass the average. Second, on equity and efficiency, as the relatively low share of income taxes suggests a need to enhance the progressivity of the tax system to ensure equity. Third, on economic diversification, as the changes in the composition of overall tax revenue will support economic diversification; the dependency on any single tax source is reduced, what enhances fiscal stability.

According to the analysis the tax and non-tax revenue systems of Cameroon were not reformed in such a way that they align with the strategic development visions and the planning processes of Cameroon and with the recommendations and expectations of the international finance organizations IMF and World Bank.

5 Fiscal Fragility, Fiscal Capacity, and Fiscal Space – A Guide for Reforms in Cameroon

Is the public revenue strategy of Cameroon aligned with the National Development Vision 2035 and with the National Development Strategy 2020-2030 on the one side and with the recommendations of IMF and World Bank on the other side? And are fundamental factors at work in Cameroon to reproduce fiscal fragility and to create an insufficient and vulnerable fiscal space and a volatile and low fiscal capacity? Some key factors are discussed in this context below:

5.1 Addressing the financial and fiscal risks of the country

Cameroon's fiscal policy framework has not recognized the urgency of addressing the financial and fiscal risks associated with the multiple crises confronting the country and with the need of planning for a long-term inclusive growth and sustainable development path through determined reforms of the taxation system and the fiscal policy framework. Specific priorities included in this context connect with three issues: first, the alarming situation of the State-Owned Enterprises (SOEs): Managing the risks associated with SOEs remain a high priority, especially because of the toxic debt situation. These corporate entities in the oil and gas sector play a crucial role in the economy and need new forms of control and guidance from the state. Second, related to these fiscal and financial risks is the need to improve the Public Debt Management (PDM) of Cameroon. Efforts were made to strengthen public debt management via clear objectives and better operational practices, but the efforts are not satisfactory. Limiting non-concessional borrowing is critical to maintain fiscal sustainability, but also the concessional financing window is confronted with severe problems (as the IMF reports cited and the World Bank assessments cited) show. Third, related with the first and the second issue is the third issue, the need for Transparency and Governance (TAG). Commitment to transparency, good governance, and fighting corruption are on the agenda, but many tasks and reforms are still ahead at all governance levels. These three key issues are essential for an effective fiscal policy framework.

Some actions from the side of the government of Cameroon started with the 2022 Financial Year (see: Republic of Cameroon, 2021) to impact on these risks. The 2021 finance law for the 2022 Financial Year, together with its Circular of Implementation (link attached to reference: Republic of Cameroon, 2021), brought in several striking changes and controversial issues. Obviously, these changes are related to the need for a stricter public debt management and to the need to attract foreign investors for the oil and gas sector. Some of these actions *inter alia* included:

- A tax on money transfer operations ("Money Transfer Tax") was established at the rate of 0.2% for the amount transferred or withdrawn.

- A reduction in the rate of the special income tax (Taxe Spéciale sur le Revenu - TSR) from 5% to 3% was decreed.
- An exemption from the TSR for the benefit of holders of petroleum contracts and their subcontractors in the research and development phase (exploration phase) was decided, with respect to the remuneration for assistance, the rental of equipment and material, and all the other services rendered to them in connection with oil operations by foreign services providers, assuming that the foreign service providers do not have a permanent establishment in Cameroon and provide the service at cost price.
- A tax rate of 10% on dividends, interest on bonds with a maturity of less than five years, and on other proceeds from stocks listed on the Central African Stock Exchange (CASE) was introduced.

From the concept presented and the actions proposed in the Finance Law 2021 and in the two documents of the following years (see: Republic of Cameroon, 2022, Republic of Cameroon, 2023) it is not clear if these actions will help to consolidate the fiscal situation, to strengthen the public debt management, and that these actions will be effective enough to revitalize foreign investments for the oil and gas sector and for other economic sectors so that the fiscal and financial risks can be controlled and reduced.

5.2 The Logic of Tax System Reforms and Debt Policy Reforms in Cameroon

The current taxation and fiscal reform logic of Cameroon's government is described as multifaceted, aiming to enhance revenue mobilization while promoting equitable and effective public spending. But there is increasing critics to what extent this is valid. The tax base remains relatively small, but the issue is arguably addressed through reforms of the taxation system. The tax structure has evolved over time, but it is now part of the reform to change the structure by increasing the shares of the income taxes through new tax policies. Focussing on digitalization to improve tax efficiency and tax compliance and improving the tax administration to handle the problems of inadequate enforcement and of substantial tax evasion show that these issues are now on the agenda of the tax system reform. The ongoing reforms of the tax base, of the tax structure, and of the tax administration are considered at best as limited in scope and depth. There is not a holistic approach at work.

The process of restructuring the debt of public enterprises like SONARA is critical, given its significant debt stock. The government has been working on debt restructuring agreements to alleviate financial burdens and to ensure long-term sustainability of the state-owned enterprises (SOEs). Nonetheless, the fiscal space for public investment remains constrained, also because of the unsustainable high debt stock of the SOEs, necessitating a careful prioritization of public expenditures

for restructuring the SOEs to support growth and resilience. Because of cross-border activities of the SOEs in the oil sector the risks of external debt accumulation rise, and data on these debt stocks are not reliable or not known. Debt policy carries inherent risks, including the danger of increasing debt service burdens and the resulting higher vulnerability to external shocks. The government's approach has been to seek a balance between leveraging debt for development and maintaining debt sustainability, but the IMF reviews on debt (cited in this essay) reveal that the actions of the government are not considered as adequate and effective.

Tax exemptions and tax incentives play a crucial role in attracting investment and in stimulating economic activities. Cameroon offers various tax incentives, such as tax exemptions from certain taxes and duties, to encourage investment in prioritized sectors and to support business development. These incentives are designed to foster a conducive environment for both local and foreign investors, contributing to the country's economic growth and to development. Cameroon's fiscal policy of compensating high overall corporate income taxes, particularly by tax exemptions and tax incentives, plays according to the government a crucial role in shaping the country's economic landscape. While tax revenues are vital for government investment and economic growth, high taxation can impede development by discouraging work and prompting economic actors to relocate their activities. The level of the overall corporate tax rates and the extent of tax exemptions for companies need to become better balanced. The introduction of so many new tax exemptions in 2023, aimed at sectors such as agriculture, industry, education, health, electricity, water, technology, and land ownership (Republic of Cameroon, 2022), needs a critical look. These tax exemptions are part of Cameroon's broader development strategy, which includes the National Development Strategy 2020-2030, while the annual finance law outlines in this context the proposed tax system changes, the tax innovations, and the public spending priorities. It is not clear to what extent the great number of tax exemptions is aligned to the proclaimed visions and strategies of Cameroon.

There is a limited impact of the tax exemptions on the business environment and the investment climate of Cameroon. The challenges posed by the poor performance of the tax administrations are not really considered. While these tax exemptions aim to enhance the economic well-being of some citizens and businesses, their effectiveness to revive the investment climate and to stimulate the consumption of the middle class remains limited. Strengths of the system include the government's commitment to sectoral development programmes and to fiscal policies aimed at fostering higher economic growth. However, weaknesses are evident because of more and more tax exemptions in a system with high overall taxation rates. While the tax exemptions favour some corporations and some sectors, the high overall tax rates discourage work and investment, leading potentially to low growth and diversification. Opportunities lie in the potential for tax exemptions to benefit the business environment if they are properly implemented and monitored;

this requests a continuous streamlining and rationalization of such tax actions (such a discussion started in Cameroon with Nkafu Policy Institute, 2023).

Cameroon needs to find a balance between incentivizing economic activities through taxes and ensuring the effectiveness of the tax administration. The IMF and the World Bank have given advice, especially since 2016; the IMF did this in the form of preconditions for credit and fund facilities, and the World Bank did this in the form of public expenditure reviews (PERs) and agreements on fiscal consolidation finance (see: Tsouck & Carneiro, 2019, as a summary of the World Bank, Public Expenditure Review, 2018⁴⁸). The PERs play a great role for policy consistency. It is asked in the PERs for Cameroon how the public spending policies can be aligned with the Cameroun Development Vision 2035. The orientation of the donors' funding is on speeding up structural transformation for aligning with Cameroon's aspirations to become an upper middle-income country by 2035 (World Bank, 2022).⁴⁹ The World Bank has also financed projects for Cameroon to support structural transformation at the project level, such as the Logone Valley Development and Investment Project (VIVA LOGONE), the Emergency Project to Fight the Food Crisis (PULCCA), and the Adaptive Social Net Project and Economic Inclusion (MINEPAT, 2022).⁵⁰ These projects are complementary and aim at addressing immediate socio-economic challenges while contributing to long-term fiscal stability.

Key achievements of the IMF and World Bank contributions have helped to improve domestic tax collection, to reduce dependency on external funding, and to create budgetary space for development initiatives. The support has also improved Cameroon's public expenditure efficiency and transparency, ensuring that resources are allocated to key areas. These contributions have enlarged the space for social protection programmes, creating a safety net for vulnerable communities, and promoting inclusive growth. Despite these positive impacts, Cameroon

⁴⁸ See the full PER report at the link:

<https://documents1.worldbank.org/curated/en/501141543353309471/pdf/124725-REVISED-Cameroon-public-expenditure-review-2018-FINAL.pdf>

⁴⁹ World Bank. 2022. World Bank Group supports Cameroon to promote inclusive and robust growth and economic resilience. Press Release, December 19, 2022: World Bank. Washington D.C. Link: <https://www.worldbank.org/en/news/press-release/2022/12/19/world-bank-group-supports-cameroon-to-promote-inclusive-and-robust-growth-and-economic-resilience>. The link to the programme document for the third fiscal consolidation operation is:

<https://documents1.worldbank.org/curated/en/270841619143289743/text/Cameroon-Third-Fiscal-Consolidation-and-Inclusive-Growth-Development-Policy-Financing.txt>

⁵⁰ MINEPAT/Ministry of Economy, Planning and Regional Development. 2022. Cameroon-World Bank cooperation: Three projects receive financing from the World Bank. November 18, 2022. Link: <https://minepat.gov.cm/en/2022/11/18/cameroon-world-bank-cooperation-three-projects-receive-financing-from-the-world-bank/>

faces still several challenges in its fiscal consolidation efforts. These include the many structural bottlenecks, including inefficient state-owned firms and inadequate governance systems, the sensitivity of the country's fiscal stability to exogenous shocks, such as commodity price changes and global economic downturns (see the related assessments by these institutions: IMF, 2024; World Bank, 2022). Future donor projects should focus on deepening structural reforms, enhancing resilience to external shocks, and promoting sustainable and inclusive growth. Overall, Cameroon's fiscal reforms and changes of tax policies should be geared towards creating a more resilient and dynamic economy; this is necessary despite of some changes to the fiscal policy framework since 2016 and more so because of the internal and external challenges since 2019. However, the effectiveness of these measures will depend on the government's ability to implement coherent and holistic reforms, to address administrative challenges, and to navigate the complexities of domestic and international economic landscapes.

5.3 Public Spending priorities of Cameroon: Higher military and security expenditures or support for critical sectors like health and education?

It is curious to see that none of the five recommendations of the World Bank's public expenditure review (PER) of 2018 to align public spending of Cameroon with the 2035 vision was implemented in the following years, despite of the critical situation of the country with regard of fiscal capacity and fiscal space limits. The report and the summarising blog on the PER mentioned 5 areas to handle the public spending process in Cameroon (see: Tsouck & Carneiro, 2019):

First, it was requested to get the macro fundamentals right, by specifically and sharply reducing the large share of general and financial administration expenditures in total public expenditures. This meant reducing the spending on representation, missions, ceremonies, fuel, travel, and on external service fees. All this was not really done in a substantial way. Such actions could have created fiscal space to support funding for social spending and for public investments.

Second, it was proposed to reduce drastically the debt of state-owned enterprises (SOEs) and to manage public investment well. But it was not made possible to determine the losses and the real debt stock of the SOEs. Public investment projects were in some cases started, but not timely finished and not transparently accounted for. The existing projects were not given priority in funding, and the project cycle was not improved.

Third, it was demanded to increase the efficiency in the education sector. Proposed were financing mechanisms to fund directly the schools at the district level and not via the central administration. A more equitable distribution of education resources and of teachers through revising teacher recruitment, compensation and deployment was part of the proposed new strategy. The reality is however that teachers are not at schools where they are needed most. Priority education zones

are rarely equipped with teachers and funds. The data on the education budget are not reliable, and the sums allocated are very volatile.⁵¹

Fourth, it was considered as necessary to spend more and better for health. Instead of indirect funding the health facilities via the central administration the key points of health service delivery should have been financed directly. To reach the vulnerable and the poor regions a new financing mechanism should have started to work in this direction. Areas and facilities with the most pressing health needs are not served by the existing health budget allocation mechanisms. Data on health budgets are not reliable and not informative for policymakers and for health personnel.⁵²

Fifth, it was requested to strengthen the social protection system and the social safety nets by more funding and more adequate funding mechanisms. But still large shares of the social protection expenditures (a figure of more than 90 per cent was mentioned in the PER Cameroon 2018) subsidize the public pension scheme and the fuel prices. This distribution of the funds does not care for the poor and the vulnerable, not for the areas with the highest need for support, and not for the categories with the major lifetime risks.

However, the security sector got more funding and a higher priority in public spending. The allocation to the defence ministry has steadily increased over the past decade. While national security is undoubtedly crucial, the disproportionate growth in defence spending raises questions about equity and resource distribution. Because of the insecurity, military spending increased from CFA-F 175.3 billion in 2010 to CFA-F 238.9 billion in 2018 and to CFA-F 348.9 billion in 2022, representing 10.80% of the country's total budget (but this is only a 1.02% share of the GDP).⁵³ The allocation on defence and security (considered together) has remained at its all-time high level since then. Unfortunately, this focus on defence and security comes at the expense of other critical sectors. The health and education systems suffer when resources are disproportionately and not transparently allocated to military and security budgets. The health sector struggles due to inadequate funding. Insufficient resources lead to suboptimal healthcare services, limited medical facilities, and restricted access to essential drugs. Education funding remains insufficient, affecting teacher training, compensation, and deployment,

⁵¹ See on the data: <https://tradingeconomics.com/cameroon/public-spending-on-education-total-percent-of-gdp-wb-data.html>

⁵² See on the data: <https://www.macrotrends.net/global-metrics/countries/CMR/cameroon/healthcare-spending>.

⁵³ It is important to look at the total expenditures for the military and for security purposes in the country. For the defence ministry, the data show an increase of the burden since 1960, although the share in GDP is small; see by Macrotrends and by the World Bank the data on the sector: <https://www.macrotrends.net/global-metrics/countries/CMR/cameroon/military-spending-defense-budget>, and: <https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?locations=CM>

educational infrastructure development, and overall educational quality. But also various other critical sectors are suffering from insufficient funding (infrastructure, digitalization, agriculture, etc.).

As noted by Njamen Kengdo (2023) “this growth in military spending raises the question of its financing in the context of the government budget deficit (3.3% of GDP from 2018 to 2020, 3.1% of GDP in 2021)”. In response to this situation, “the Cameroonian government is currently planning to gradually increase the tax-to-GDP ratio from 11.80% in 2021 to 12.5% in 2022 and then to 13.55% by 2024” (see: Mbodiam, 2023). But the plans of the government to increase the ratio are not convincing and not rational, because of the biased spending priorities and because of the many (mostly small) enterprises suffering from high tax pressure. Considering this incertitude about the budget deficits and the tax-to-GDP ratios in the future, Célestin Tawamba, President of the Employers’ Unions of GICAM, states that “Cameroon’s tax system is outright confiscatory” (see Omer Mbadi, 2018). Joseph J. Darby (1990), speaking quite early about “confiscatory taxation”, warns that “confiscation implies a compulsory transfer of private property to public ownership without compensation”. His argument is however related to the parliamentary and legislative system of the USA, so that pathways for change are politically feasible. In Cameroon, any form of “confiscatory taxation” may be much more difficult to handle, as the whole governance system is part of the complex reform process.

Therefore, the issue of spending priorities is related to the security situation in Cameroon and to the risks spreading over from regional and global shocks. Cameroon has received useful advice from IMF and World Bank, but to align public spending with the Vision 2035 will depend on the political will of the government to start with drastic reforms.

5.4 Debt Policy and Sustainability Risks, and the Restructuring of SONARA and of other Public Enterprises

In addition to the problems of rebalancing the spending priorities and of reducing the budget deficits, the situation of Cameroonian’s debt is alarming. According to International Monetary Fund (IMF), although the country’s debt remains sustainable, Cameroon is at high overall risk of public debt distress, and public enterprises like SONARA play a role in this scenario (IMF 2023a, 2023b, 2024). This situation fragilizes the fiscal system as it is considered by the enterprises as an obstacle to development and growth because of a potentially further increasing high tax pressure. Cameroon has over the years relied on foreign donations and loans. Over the last decade, it has benefitted from loans from the IMF, from the World Bank, from the AfDB, and from China (concessional and commercial debt). It has benefitted from concessional debt from these creditors, and too from debt cancellations, but Cameroon requires further loans to meet its development goals by 2035. In

2022, Cameroon's Government Debt to GDP ratio was 46.40 percent (debt volume as a share of the country's GDP). From 1990 to 2022, Cameroon's government debt to GDP averaged 44.97 percent of GDP. Cameroon's national debt is expected to rise steadily in the coming years by 1.7 billion US dollars (+8.44 percent) between 2023 and 2028. After the fifth straight year of growth of the debt stock, the national debt is expected to reach 21.88 billion US dollars, a new highest value in 2028 (O'Neill, 2024).

Cameroon's 2023 budget was \$10.1 billion, a 4% increase over the 2022 mid-term revised budget, and it is mostly funded by tax hikes for businesses and households, and this occurs despite rising living costs for Cameroonians. The budget for 2023 is considered as consistent with the National Development Strategy 2020-2030 and with the IMF programme, and it sets a target for reducing the budget deficit (US Department of State, 2023b). This leads to the assessment of a positive investment climate. A most important element for this assessment of consistency is the planned reduction of the fuel subsidies which is envisaged by the government for 2023. The overall high corporate tax rates are a problem, but the government prefers new tax exemptions to incentivize investments.

There is also a (theoretical) consistency of the budget with the IMF advice to Cameroon's government to announce deep structural changes in regard of the public expenditures. The IMF programme for 2017-2020 (IMF, 2020) focussed on the debt problems in the context of SONARA, pressuring for a solution to SONARA's debt stock problem. Progress in this regard was however minimal. While the IMF's three-year (2021–2024) \$689.5 million hybrid Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements (IMF, 2021a) were helping to mitigate some of the negative effects of the exogenous shocks, rising fuel prices have led the government to ease its fuel subsidy policy, what substantially added to the fuel subsidy costs. But in 2023 the government had to cut the fuel subsidies from a volume of 1.7 billion dollars in 2022 to a volume of 1.0 billion dollars in 2023, and a further cut was announced in December 2023 for the fiscal year 2024 (Africanews, 1/1/2024), what had also to do with the high inflation rate of 7.8% at September 2023.⁵⁴ This was decided also to get approval for an extension of the IMF programme for 1 year (IMF 2023c). The high fuel subsidies with a share of 2.9% of the GDP in 2022 had further fragilized the fiscal system and was no longer sustainable as this situation was considered by the enterprises as an obstacle of development because of a further increasing high tax pressure.

⁵⁴ The price increases for food and transport services of 12.8% and 11.5% were given as the main reason for the new and much stricter subsidy policy (Africanews, 1/1/2024).

5.5 Creating New Debt Instruments and generating New Tax and Non-tax Revenues – New Policies for Debt Sustainability

New (commercially based) public debt instruments were developed in Cameroon to increase public revenues and to avoid an even higher tax pressure on businesses. Already in 2010, Cameroon launched the call for public savings through OAT (Obligations Assimilables de Trésor)⁵⁵ as fungible Treasury bonds, and BTA (Bons du Trésor Assimilables)⁵⁶ as fixed-rate Treasury bond loans and Eurobonds. These financing instruments were intended to improve the performance of the government to mobilise resources and permitted it to service an important part of the domestic and international public debt. So, in the ten years of 2010-2020, the country mobilised thereby 3112,751 billion of CFA-F, and it paid back debt with a total volume of 1943,686 billion of CFA-F (MINFI, 2020a). The importance of government bond markets was underlined by World Bank and IMF who consensually assumed quite early that “the development of domestic bond markets deserves high priority on the financial sector development agenda” (World Bank/IMF, 2001); this priority issue was taken up by Cameroon in 2010. In this perspective, Cameroon’s government is now involved in developing bond markets, and in the years between 2020 and 2024 the government of Cameroon made it an essential part of the financial market, of budget finance, and of debt policy (see the box below).

Box: Developing Bond Markets in Cameroon

Bond markets are the bedrock of public development finance. Bonds are issued and sold to the investing public, and the proceeds are typically made available to finance the costs of a capital project. There are two types of tax-exempt bonds: Government Bonds (GOBs) and Qualified Private Activity Bonds (PABs). In 2001, the World Bank and the IMF (see: World Bank/IMF, 2001) published a handbook on “Developing Government Bond Markets”. According to the handbook, there are two main actors in the government’s bond markets: first, the senior policymakers, and second, the civil servants as the state’s agents. Senior policymakers are official members of the government, being responsible for developing the strategy for the government bond market. Civil servants as the state’s agents are responsible for guiding the market

⁵⁵ See the document on the creation of the OATs/ Obligations Assimilables de Trésor by the DGTCFM/ Directorate General of the Treasury, Financial and Monetary Cooperation, link:

<https://dgtcfm.cm/dernieres-publications/document-dinformation-emission-des-obligations-du-tresor-assimilables-ota-par-adjudications/>

⁵⁶ See on the definition of the BTAs/Bons du Trésor Assimilables the link: <https://www.ejara.io/blog/quest-ce-quune-obligation>

development process at the operational level. This category of actors needs to understand the policy issues and the operational framework in which they are involved. So, for an effective impact on this mechanism, it is important for the government to reinforce capabilities of the policymakers and the civil servants who are involved in developing the government bond market. These capabilities are crucial because of the risk that these financing instruments could undermine debt sustainability. The risk for debt sustainability can be increased with the development of bond markets if the function and the complexity of this instrument is not understood (Ton, 2016). Therefore, it is important to qualify the senior policymakers and the responsible civil servants so that they understand and balance out the objectives of fiscal capacity development and of debt sustainability. Regrettably, this balance needs to be re-established in Cameroon (and see the experiences Africa-wide: Mu/Phelps/Stotsky, 2013). Corporate bond markets would lead to a next stage of development. However, first the debt problems of the SOEs have to be solved.

Source: Authors

Obviously, the government of Cameroon has followed the instructions of World Bank and IMF for developing its government bond markets. These efforts are due to the high-risk situation regarding debt distress of Cameroon. A prudent debt management strategy and a coherent fiscal consolidation policy are requested, and new debt instruments can play a positive role, but the creation of new debt instruments is not a solution to the fundamental problems of debt in Cameroon. The IMF reports (cited above) reveal that structural problems need to be solved first, such as a move towards sound spending priorities which were not followed over the last years and the reduction of the high debt stock of state-owned companies like SO-NARA which could not be handled in the last years. Sound debt policies are requested to manage the fiscal space, so that a continual adaptation of policies for structural transformation and for reactions to the global, regional, and domestic shocks is possible. The most recent debt sustainability analyses (DSA) for Cameroon show the trends and challenges. The most recent DSA from the IMF is connected to the Resilience and Sustainability Facility (RSF).⁵⁷ Also the last debt

⁵⁷ See: IMF/International Monetary Fund, January 16, 2024, Cameroon: Request for an Arrangement Under the Resilience and Sustainability Facility-Debt Sustainability Analysis; link: <https://www.elibrary.imf.org/view/journals/002/2024/053/article-A002-en.xml>. For comparison it is useful to look also at the prior Joint World Bank/IMF DSAs, the most recent Joint IMF/World Bank debt sustainability analysis (DSA) of August 2021 and the previous one of October 2020: <https://documents1.worldbank.org/curated/en/424521629738064238/pdf/Cameroon-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf>, and: <https://documents1.worldbank.org/curated/en/170881608337704130/pdf/Cameroon-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf>

sustainability analysis (DSA) from IMF of February 2023 and the Joint IMF/World Bank DSAs since 2020 give information on the high-risk status for external and public debt, the overall sustainability status, and information about the unsolved issues regarding the debt stock of state-owned enterprises (SOEs) and of public-private partnerships (PPPs). Their contingent liabilities (not all potential losses and debt stocks are yet assessed and cleared!) are a danger for the whole finance and fiscal system of Cameroon and for its international market position.

Therefore, the government is looking out for new taxes, for higher tax rates, and for more taxpayers to keep the financial/fiscal situation under control. Some new measures affecting companies were implemented on 1 January 2024 and they were lastly reviewed on 12 August 2024, also comprising changes with regard of the deductibility of expenses, fees, and losses. The establishment of a tax regime for non-professional taxpayers may be an important change too (PwC, 12 August 2024). In 2021, the government of Cameroon seized the opportunity to collect taxes from non-profit organizations (or “régime des organismes à but non lucratif” in French). A non-profit organization is a group organized for purposes other than generating profit and in which no part of the organization’s income is distributed to its members, directors, or officers. They are legal entities organized and operated for a collective, for public or social benefit, as opposed to an entity that operates as a business aiming to generate profits for its owners. They include some political organizations, schools, business associations, churches, social clubs, and consumer cooperatives. The plan to start collecting on the proceeds of those non-profit organization has become in 2022 the subject of public debates when the citizens realized that the rotating saving and credit associations (ROSCAs), such as the “njangi” (tontin) groups, will also be concerned by this new taxation project. In fact, ROSCAs are informal financial institutions which are found all over the world (see: Besley et al., 1993), but in the developing world the ROSCAs are one of the most popular and widely documented informal financial arrangements (Sudhanshu and Claremont, 1999). They are serving the financial needs of many people (also poor and vulnerable ones) and so provide an alternative through which small entrepreneurs can raise funds to support their business operations. In Cameroon, as demonstrated by Tchuindjo (1999), ROSCAs have become the most widespread type of informal finance institutions. ROSCAs are formed by a group of participants who make regular contributions to a fund; finance is given to each contributor in turn until each member has received the funding. Such systems are important for small entrepreneurs, and so taxing these ROSCAs is considered as part of a confiscatory taxation system, now addressing negatively the weak but large informal sector. Therefore, this is not a strengthening, but a weakening of the taxation system in terms of incentives for businesses.

5.6 Digital Tools to improve Tax Administration – are they used widely, correctly, and effective?

The reforms of the tax system in Cameroon included the use of tools from the ICTs revolution. The penetration of ICT tools into the taxation system is helpful for the government which makes efforts to mobilize tax resources via electronic means. The idea is to reduce corruption in the process of collecting taxes.⁵⁸ Oyebola Okunogbe and Fabrizio Santoro (2023) have demonstrated that the adoption of ICT tools increases the mobilisation of taxes in Africa. The lessons of using digitalization for reaching good governance outcomes in Africa are manifold (Newiak/Segura-Ubiergo/Wane (2022). Political processes decide about the impact on good governance, and digitalization can contribute to transparency of the tax system if properly applied. In cooperation with the German International Cooperation organization (GIZ), a Project was launched on “Improving Integrated Tax Revenue Management Procedures” (Project IITRMP)⁵⁹. The DGT (Directorate General of Taxation) has now used a RDF (Revenue Development Foundation) system for online submissions of annual tax returns (“Déclaration Statistique Fiscale”).⁶⁰ The objective of the project was to increase Tax Compliance (TC) by Revenue Data Integration (RDI). RDF stands for Revenue Development Foundation; it is an advisory service equipped with a method of collecting taxes which includes E-declarations, but the contributors to this tool were confronted with a slew of problems when they filed their tax returns online at the DGT/DGI website. This scenario of online submissions was at times quite troubling, and this weakness has concerned also the Cameroonian Association for the Defence of

⁵⁸ According to IMF studies there is some empirical confirmation for this view if governments do not interfere into the use of the Internet by shutdowns and manipulations of e-platforms. Link:

<https://www.elibrary.imf.org/display/book/9781513584058/CH015.xml>

⁵⁹ In French, “Programme d’Appui à la Modernisation des Finances Publiques (PAMFIP)”. The project was launched at the beginning of 2015. Partners in Cameroon are: Ministère des Finances (MINFI), Ministère de l’Economie, de la Planification et de l’Aménagement du Territoire (MINEPAT), Direction Générale des Impôts (DGI), Direction Générale des Douanes (DGD), and the Direction Générale du Budget (DGB).

⁶⁰ The RDF gives expertise on tools to mobilise tax collection. Link:

https://revenuedevelopment.org/wp-content/uploads/2020/08/RDF_BROCHURE_EITImainstreaming_Jul20.pdf. RDF has currently projects in Ghana, Liberia, Sierra Leone, Guinea, Mali, Cameroon, Senegal, Malawi, Zambia, and in Afghanistan. Most important, also for improving domestic resource mobilization (DRM) in Cameroon, is the EITI (Extractive Industries Transparency Initiative) Mainstreaming Concept as all transactions, all payments, and all declarations are considered in one place.

Contributable Rights.⁶¹ Confiscatory taxation is a problem for small businesses despite or because of the use of digital tools, as these businesses are automatically taxed while the large businesses are benefitting from exemptions and incentives upon direct interventions.

In 2013, the customs revenue collection platform was in its digital version instituted through the (electronic) e-GUCE/Guichet Unique Des Operations du Commerce Extérieur-GIE, the electronic platform of the single window for foreign trade operations, bringing together all the actors of foreign trade, including the Public Treasury.⁶² This procedure contributed to reduced corruption by suppressing the handling of cash by customs agents, and it increased the performance of Customs Stations. Digital technologies support the intra-African trade in various ways, and the impact on reduced corruption is obviously one of the positive outcome factors, besides of speeding up customs processes and reducing transaction costs.⁶³ It is however not clear if small-scale corruption has shifted to large-scale corruption at the upper governance levels of the customs authorities.

5.7 Summary: Towards a Roadmap and Guidelines on Coherent Tax Reforms

It is now the task to put together all these experiences to increase the financial stability and to reduce financial fragility by measures to increase the fiscal capacity and to strengthen domestic resource mobilization. The policymakers in Cameroon did work on the factors which impeded fiscal stability and created better frameworks for increases of fiscal capacity and of fiscal space. However, insecurity in the country and impacts from global and regional crises did not support their actions. Also, internal factors worked against fiscal stability, like the high debt burden of the major SOEs, the risks for debt sustainability, some forms of confiscatory taxation which were affecting the formal and the informal sectors of the economy, the belated reforms of the tax system, and the slow speed of tax chain digitalization. The revenue policies of the country were deficient in major areas and therefore not strongly aligned to the national visions and strategies and to the international and regional recommendations from major financial actors.

⁶¹ See on the Human Rights Agenda in Cameroon, also related to the rights of the tax contributors:
<http://www.minjustice.gov.cm/index.php/en/legalis/publications/download/64/287/18?met hod=view>

⁶² See how to connect with the platform: <https://www.guichetunique.org/webguce/>

⁶³ See on the issues of trade and export promotion through uses of digitalization technologies: Sofilidin Kere/Amoro Zongo, May 2023

6 Local Resource Mobilization in Cameroon – The Fiscal Interaction between the Local Communities and the Central State

Is local resource mobilization in line with the visions and strategies of Cameroon and with the recommendations of IMF and World Bank? This is, 15 years after the start of the decentralisation process in Cameroon, an important question. Lack of data and of surveys may be a limiting factor to answer the question, and since 2013 the security situation, the internal conflicts, and the external shocks may have impeded the continuation of the decentralisation process.

In 2009, going on in the process of decentralization, the government adopted the Law No. 2009/019 of 15 December 2009 on the Local Fiscal System. This Law determines the various taxes and duties that constitute the resources of the CTDs (Collectivités Territoriales Décentralisées). In fact, local government taxes comprise the business license fee, the license tax, the livestock tax, the firearm tax, the taxes on the certification of vehicles and other machines, the direct municipal taxes, and the royalties levied on forestry exploitation. But in the process of collecting those taxes, there are obviously some serious misunderstandings and administrative problems between the local authorities and the central tax administration. The application of this law is constrained by some difficulties. For Samuel Fambon (2006), “local taxation remains embryonic, and tax resources are still basically the exclusive responsibility of central government, both in terms of collection and allocation of tax resources”. The main reason for this situation is the ineffectiveness of the financial side of the decentralization processes. Some taxes, such as the special municipal surtaxes (SMSs), which are annexed to certain national taxes, are collected by the State and redistributed among the CTDs (Collectivités Territoriales Décentralisées). In his study, relative to these special municipal surtaxes (SMSs), Samuel Fambon (2006) noted that SMSs are presently appended on taxes, such as the personal income tax (10 per cent), the corporate tax (10 per cent), the turnover tax (10 per cent), the land or property tax (25 per cent), the tax on gaming (10 per cent), the tax paid by traders and professionals (10 per cent), and the business license fee (25 per cent). These SMSs constitute the most important source of revenue for the Cameroonian municipalities (on average 20 per cent of the budgetary receipts). To get the funds in time and completely to the local authorities is a problem of administration, of transparency, and of accountability, but this process of transfer has also to do with the central budget situation. The recipient has also commitments, such as to report on the transparent use of funds which were transferred from the central budget institutions. Gaps in the transfer process are on both sides.

Khan Teyim Pila (2021) underlines the fact that for Cameroon to achieve its vision to be an upper-middle-income country by 2035, according to the “Cameroon Vision 2035”, it is necessary to implement reforms to harness domestic resources (MINEPAT, 2009). Identified are in an analysis of resource mobilization

of Cameroon three types of weaknesses (policy weaknesses, the narrowness of the tax bases, and the inefficiencies of tax administration and governance). Decentralization was supposed - with the reforms of the taxation system - to improve the mobilization of taxes by removing some of these weaknesses, and to reduce the corruption in the whole governance system at all levels. But the persistent deficiencies in the collection and allocation processes do not lead to much higher taxes. The effects of all these weaknesses on the collection of taxes, on the transfer of taxes, and on the allocation of expenditures are still significant, and obviously corruption is seen as a major factor. In fact, according to the 4th household survey (ECAM 4), carried out by the National Institute of Statistics (INS/Institut National de la Statistique du Cameroun), “overall, 91% of the Cameroonian population (subjective approach) report that police officers or tax officials are involved in corruption” (FCHS, 2014). The new household survey may have new data in this regard (ECAM5, 2024). The customs officers are also among those being widely accused by the Cameroonians for a corrupt behaviour. In fact, police officers, customs officers, and tax administrators form – according to the view of the Cameroonians - the most corrupt groups of state employees⁶⁴, what is quite regretful as these are those entrusted with the task of collecting the state revenues.

But the more invisible forms of corruption at higher levels of the bureaucracy (“large-scale corruption”) affect also the local communities. The discussion about the failures of controlling the SOEs and the PPPs in Cameroon leads to the large corruption issues. If, as argued by most authors, corruption hinders the governments to increase the public revenues and to widen the fiscal space, it is necessary to quantify the losses through both types of corruption (small and large forms of corruption). However, there is not one report from the government or from IMF and World Bank which gives concrete figures for the losses generated by corruption, but some reports from the government and from IMF and World Bank give measures of the losses of SOEs and give reference to the “contingent liabilities”. Hermann D. Yohou (2020) was analysing the impact of corruption on the fiscal space in emerging and developing countries, and he stated that the capacity of the governments to effectively collect taxes and to mobilise domestic resources depends on their level of corruption control. Rogers Tabe Egbe Orock and Oben Timothy Mbuagbo (2012) argue that “pervasive corruption” led citizens to perceive fiscality as an instrument of “state’s swindle”, so that most of them avoid paying taxes or are trying to hide the reality of their (taxable) activities what results in paying less than what they have to pay. This behaviour also leads to tax evasion. Added to corruption, tax evasion is also a real challenge for the tax system in

⁶⁴ Harvey Ambe Awah. ‘The Age-old Fight of Governments: The Legal and Institutional Mechanisms for Combatting Corruption in Cameroon.’ In: National Journal of Criminal Law. 2022; 5(2): pp. 33–44. Link: <https://lawjournals.celnet.in/index.php/njcl/article/view/1145>

Cameroon. The phenomenon is described by Samuel Tanjeh Mukah and Michael Forzeh Fossung (2019) as “efforts (...) made by individuals, firm’s trusts and various other entities to avoid paying taxes by illegal and unfair means”. From the connection of local taxation to the central government actions on revenue mobilization and revenue spending we see how “grand corruption” and “small corruption” interact. It is not possible to separate the causes, the characteristics, and the impacts. The reports from the government and from IMF and World Bank are not revealing these complexities, and the countermeasures of central and local government institutions and the recommendations of the international financial actors are still too weak and too soft. The whole tax chain matters, from the central state to the local authorities at all levels and directions of interaction, and the decentralisation process is not guaranteeing an endogenous local economic development (LED) process if not the whole socio-economic system of Cameroon is working.

The local resource mobilization policies are not aligned with the visions and strategies of Cameroon and with the recommendations of the international financial institutions. This is the result of the transfer mechanism for local tax shares and the impact of system-wide policy failures and institutional weaknesses. All the points on the agenda for reforms of the fragile fiscal system discussed in the last section matter also for the local fiscal conditions.

7 Conclusions and Policy Recommendations

7.1 Conclusions – What has Cameroon achieved?

Are the fiscal policy and the domestic resource mobilization (DRM) strategy of Cameroon aligned to the National Development Vision 2035 (MINEPAT 2009) and to the National Development Strategy 2020 - 2030 (MINEPAT 2020) of the country, and are they in conformity with the IMF and World Bank recommendations for Cameroon (see the IMF documents from 2020 to 2024 and the World Bank documents from 2010 to 2024)? This is the issue of the essay, and various documents from the Government of Cameroon and from the IMF and the World Bank were reviewed in this context. The review raises important questions which are discussed in various key sections.

As previously discussed, Cameroon’s economy has been hit hard by major shocks, such as the Boko Haram insurgencies, the “anglophone crisis”, the COVID-19 pandemic, and the Russian war of aggression against the Ukraine, crises which have interrupted global and regional value chains, which have impacted food, commodity, and fuel supply links, and which have pushed up transport costs and prices. While the IMF hybrid Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangements for Cameroon are helping to mitigate some of the negative effects of these shocks, rising fuel prices have finally forced the

government to change its fuel subsidy policy. The fuel price increases would have required too high subsidy volumes. But many fiscal policy measures were not targeted strongly enough or were implemented too late so that the strategy of domestic resource mobilization (DRM) was not sustainably reformed and implemented.

Cameroon has also benefitted from foreign credits and from debt cancellations, yet it still requires huge foreign loans to meet its development goals by 2035. From 1990 to 2022, Cameroon's government debt to GDP ratio averaged 44.97 percent. Cameroon's national debt is expected to rise steadily by 1.7 billion US dollars (+8.44 percent) annually between 2023 and 2028 (O'Neill, 2024). Cameroon's 2023 budget was at a volume of \$10.1 billion, what is a 4% increase over the 2022 mid-term revised budget, and the budget is considered widely as being funded by forms of confiscatory taxation which are affecting small businesses and low- and middle income households, while larger firms and richer households benefit from tax exemptions and tax incentives. The tax pressure is high and has serious consequences for small and informal businesses and for so many Cameroonians who suffer from rising living costs in the country.

This essay mentioned in the introductory section I the context of increasing the fiscal capacity of the State of Cameroon, what is extremely difficult during a period of multiple domestic and international crises. Section 2 gave a review of the relevant literature, a critical evaluation of the primary and secondary data, and a content analysis of important documents on Cameroon's economic and fiscal strategies. The content analysis is the base of the methodology which is used in the essay. Then follow four sections (sections 3 to 6) to test the alignment of fiscal policy and of domestic resource mobilization (DRM) with the Cameroon Vision 2035 and the Cameroon Strategy 2020 - 2030 and with the recommendations of IMF and World Bank in their reviews. Section 3 discusses the issue of fiscal capacity in a situation of multiple crises; the fiscal policy interventions applied to react to these crises were analysed, and reveal a disparate picture. Section 4 was on the integration of the public revenue system into a good governance system to overcome confiscatory taxation and corrupt decisions and practices in the public revenue and expenditure system, as such a defect system and such a criminal behaviour would affect negatively growth and sustainable development. Cameroon is obviously on the way to clear-up some of these defects. Section 5 has discussed the necessary steps to develop a consistent public revenue and expenditure reform agenda for Cameroon, which is found quite ambitious and urgent, while section 6 was adding important content on the local government's fiscal system and its interaction with that of the central government. These four sections revealed that various deviations from the alignment process to national visions and strategies and to international and regional recommendations were discovered, although policy corrections are on the agenda. In the section 7 there are the Conclusions, Recommendations, and remarks on Further Research Issues.

7.2 Policy Recommendations and Further Research Issues

Policy recommendations matter in the essay, and an agenda for tax reforms and economic policy reforms is presented to overcome the fragility of the fiscal and financial system of Cameroon. Some key issues for Further Research Issues are mentioned below.

The budgets for 2023 and for 2024 are considered by the government as being consistent with the National Development Strategy 2020-2030 and with the ongoing IMF programme for the country, and the argument is that the budgets do set clear targets for reducing the budget deficit (see the Finance Laws: Republic of Cameroon, 2021, 2022, and 2023). The macroeconomic and the fiscal framework are seen as improving, and so the country may stimulate domestic investment and may attract international investors to Cameroon (see the study: US Department of State, 2023b). The reality is however different and more diverse, as the evidence in this essay reveals. Also, based on voices from Cameroonian business associations, it is noticed that the fiscal situation is not aligned with the vision and the strategy of the country. Reforms of the tax system and of the debt strategy are overdue. It was not easy to finance adaptations to the many internal and external shocks and to the ongoing internal, regional and global conflicts which were affecting the country. But the taxation reforms need - according to the essay - drastic adaptations and corrections. The case of Cameroon shows that taxes increase insufficiently at a still small tax base and at a biased tax structure, that the public debt strategy is incomplete and risky, and that the streamlining process of tax exemptions and tax incentives is not yet finalized. The attempts to reduce the budget deficit and to align the spending priorities to sectors such as education and health were not fully successful yet. Reforms of the taxation system and new strategies for domestic resource mobilization (DRM) in line with the Vision and the Strategy of Cameroon are still ahead and are instruments to increase the fiscal space and the fiscal capacity in a long-term view.

In 2020, Cameroon has ratified the African Continental Free Trade Agreement (AfCFTA). The AfCFTA is expected to pave the way for the establishment of a continent-wide free trade zone, capable of uniting Africa's 1.2 billion people in a \$2.5 trillion economic bloc and fostering economic growth and development through trade, structural transformation, productive employment, and poverty reduction. In this light, the country has tax treaties with Canada, France, Morocco, South Africa, Tunisia, the United Arab Emirates (UAE), and with other CEMAC (Communauté Économique et Monétaire de l'Afrique Centrale) countries, such as Gabon, Equatorial Guinea, Republic of Congo, Chad, and the Central African Republic (CAR). Cameroon is also a party to the OECD Inclusive Framework Two-

Pillar Solution to Worldwide Tax Challenges⁶⁵; a treaty which includes a world-wide minimum corporate tax for a globalised and digitalised economy.

The 2023 Finance Law (Republic of Cameroon, 2023) is seen by policymakers in Cameroon as one of Cameroon's most comprehensive tax incentive programmes ever established to encourage private investment. It provides tax exemptions to all enterprises which are operating in agriculture (including stockbreeding and fisheries), during both the investment and the operational phases of their businesses. Companies may benefit from many tax breaks during the investment phase, including exemptions on staff salary, farm input purchases, loan agreement fees, and property acquisition. Waivers for business and income taxes are offered throughout the operational period during the first five years of operation. After five years of operation, the business tax exemption is retained, but income is taxed at a fixed rate of 0.5 percent, plus a 10% increase for the additional income tax. It is not made clear what the effects will be of such generous tax exemptions – on growth, employment, poverty, and inequality in the country. Obviously, a reduction of the overall corporate tax rates is not considered as a better alternative to the selective tax exemptions. The debate in Cameroon is still ongoing, and to adapt the tax system via a more rational system of tax exemptions is seen as an instrument to align policies with the National Development Vision and the Strategy (Nkafu Policy Institute, 2023). It is also necessary to look at the tax system reforms in Cameroon in terms of regional cooperation and growth for the whole ECCAS region. The Preferential Tariff (PT) of the Economic Community of Central African States (ECCAS)⁶⁶ entered into force in Cameroon on 1st January 2018; it permits Cameroonian goods which are exported into the countries of the ECCAS to be exempt from customs duties. Goods from those countries shall be subject to zero-rate customs duties. Trade policy issues should be seen as an integral part of tax policy reforms, and there is still room for widening the discussion in Cameroon towards such an integral approach to tax reforms.

The list of tax advantages is long in Cameroon and encompasses diverse forms, levels, and sectors. This raises questions which groups of companies and which groups of households then are excluded and for what reason. The excluded groups may consider their situation as a type of confiscatory taxation, being due to their weak economic and socio-political power so that they cannot enforce tax

⁶⁵ See about the Two-Pillar-Solution of OECD to respond to global digitalisation/Global Anti-Base Erosion Model Rules, Materials on the topic from 2021 to 2024: <https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>

⁶⁶ Countries of the Economic Community of Central African States (ECCAS)/Communauté Économique des États de l'Afrique Centrale (CEEAC) include Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Republic of Congo, Rwanda, and São Tomé and Príncipe. Link: <https://ceeac-eccas.org/en/2023/05/28/eccas-in-brief/>

exemptions and tax incentives at a comparable level. Furthermore, tax exemptions according to the recent Fiscal Law refer to companies whose ordinary shares are listed on the Cameroon Stock Exchange (CSE); these companies shall be entitled to the following tax reductions: first, a reduced CIT (Corporate Income Tax) rate of 25%, and second, a reduced rate of 1.5% of the downpayment and the minimum corporate tax which is collected. Companies that issue stocks on the Cameroon Stock Exchange (CSE) benefit not only from the reduced CIT rate of 25%; they have an overall rate of 27.5% (instead of 33%), when including a 10% additional municipal council tax. This advantage is for a period of three years, with effect from the year of issue of shares. It is not made clear if financial development is the main objective of this measure, or pressure from powerful corporations. All these issues have to be clarified.

And beyond of this, enterprises are benefitting from various other tax incentives and promotion measures, and the list of advantages is very long: first, measures for enterprises which are involved in transactions on real estate which are located in areas subject to the official list price; second, measures for the promotion of youth employment; third, measures to support members and promoters of approved management centres; fourth, measures to promote education, vocational training, and health establishments; fifth, measures to support new investments carried out in economic disaster areas; sixth, measures of support for companies involved in agriculture, stock-breeding, and fisheries; seventh, measures of support for public establishments which are promoting local building materials; eights, measures of support for enterprises when they are producing and packaging new beverages in case they use exclusively local raw materials; ninth, measures such as incentives for expenses on research, development and innovation; and tenth, measures to give funds for the promotion of the digital economy. All such enterprises and activities may benefit from specific tax incentives, but the criteria for giving advantages may be undefined. The use of such widely applied tax incentives needs to be evaluated critically and monitored carefully to increase the fiscal capacity of a country like Cameroon sustainably. So far, the list of tax exemptions and tax incentives is very large, and arbitrary allocations of such advantages can become a great problem for the excluded enterprises and sectors and for generating fiscal capacity and fiscal space. Households may be affected negatively when the fiscal space for social protection funds is reduced. There are attempts in Cameroon to include the informal sector into the main economy via tax reforms, so that micro and small enterprises are then taxed. The economic outcome for Cameroon would be highly negative if the informal sector has to pay for extended tax exemptions and tax incentives for the larger economic actors.

Regarding all these situations and developments, the Government of Cameroon needs to strengthen its strategies to increase its capacity to mobilize domestic resources. The mobilization of domestic resources is a theme since new strategies were put in place, such as the Cameroon Development Vision 2035 and the

Cameroon National Development Strategy 2020 - 2030. The challenges are now to rationalize the taxation systems and to improve the use of all these newly generated resources to supply public goods and social services in an efficient way for the well-being of all Cameroonians. A more equitable distribution and allocation of all those resources is a key aspect to be followed by the policymakers. Also, Cameroon's fiscal transparency needs to be improved, and to achieve this the process of tax declarations and the processing of tax revenues in the whole tax chain need to become clear, accountable, integrated, and simple. The government needs to institute an effective system for fighting against fiscal fraud and fraudulent illegal activities at all governance levels.

For global action, there is a need to reinstate the “fiscal culture” by providing information which is available to all the actors concerned. Also, “fiscal civisme” is necessary to raise taxpayer compliance; citizens need more explanations to understand the way how the resources which are mobilized are then used. This is a necessary action to create accountability in the country (OECD, 2021). Still there is great room for operational improvement in Cameroon over the whole tax chain. The Cameroon – CPIA (Country Policy and Institutional Assessment) Efficiency of Revenue Mobilization Rating (1=low to 6=high) was reported at 3 in 2021, according to the World Bank (World Bank, 2024a). The rating for Cameroon decreased/deteriorated since 2006 from 4 to 3 in 2021, although for many years in this long period the rating stood unchanged at 3.5. Efficiency of revenue mobilization assesses the overall pattern of revenue mobilization – when regarding the tax structure and the revenue actually collected from all sources. Despite of some efforts made by the government, the formalisation and legalisation of informal economic activities remains an important challenge to increasing the tax collection. Such a move needs empowerment of the small and informal actors through innovative policies and advantages. It is questionable if the formalisation of informal enterprises can work in the current taxation environment. An additional taxation of informal enterprises and of small and medium formal ones cannot be part of an inclusive growth strategy. Empowerment and social protection strategies matter; starting with promotional measures for the small and informal enterprises will in the long-term raise the fiscal capacity.

What are then the perspectives for Cameroon? Fiscal policy and domestic resource mobilization are not yet inclusive, and the high fiscal pressure on more and more enterprises does not facilitate the development of a dynamic economy. At the meeting of the group of enterprises called GICAM in September 2024, the president of this group plead for a “fiscal pause” in 2025 because of the fiscal pressure affecting more and more enterprises.⁶⁷ It is important for the government to work

⁶⁷ See: Business In Cameroon, 2024, Cameroon's Business Leaders Express Concerns Over Economic Shortfalls and Rising Poverty, link: <https://www.businessincameroon.com/public-management/1909-14156-cameroon-s->

“hand in hand” with enterprises to determine the best way and the best practices for efficient strategies to mobilize domestic resources and to dynamize economies via an endogenous growth process. Also, if the decentralisation strategy - via decentralised territorial collectives (CTDs/*Collectivités Territoriales Décentralisées*) - is followed by the government of Cameroon seriously, it should contribute to the reconstruction of the North-West and the South-West regions of Cameroon. It is imperative that all the regions of the country can determine the scope of their local fiscality and are given all the means they need to mobilize their own local resources. Furthermore, all the regions and municipalities need to be involved in the processes of mobilizing local resources, providing public services at local level, and organizing for a redistribution of public investments towards the development of the local economies. Future research should be done along these lines of taxation reform and development to reach the National Vision 2035 and the National Strategy 2020 - 2030.

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business-leaders-express-concerns-over-economic-shortfalls-and-rising-poverty. His words are as follows: “Tawamba called for a “tax pause” in 2025, advocating for economic recovery policies that would expand the tax base without placing additional burdens on already heavily taxed companies. He also suggested reforms to property taxes and other fiscal measures.”

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Social Expenditure Monitor: A New Framework of Assessing Social Expenditures and Fiscal Policy Options in Selected North African Countries

Niranjan Sarangi¹, Dana Hamdan², Nathaniel Martin³

1 Introduction

Public social expenditures are critical means for implementing the 2030 Agenda on sustainable development. They are essential investments in human capital, drivers of greater productivity, and correctors of inequity. While enhancing social expenditure is a common objective of most governments, they differ in their implementation due to limited fiscal capacities and inadequate understanding of the landscape of social expenditures, that can help progressing on achieving the Sustainable Development Goals (SDGs) at national and sub-national levels.

Governments in the North Africa region face significant challenges to enhance fiscal space for social expenditures due to macroeconomic shocks, repercussions of COVID-19, rising debt, and the high cost of financing in the current global economic situation. Lack of adequate fiscal space often forces them to adopt ad-hoc measures and restricts their options for a countercyclical fiscal response.⁴ Improving fiscal space through various financing mechanisms is critical for sustainable increase in social expenditures.⁵ However, lack of a framework for understanding the budget allocations to social policy programmes often leads to inefficiency in resource allocation and ineffective outcomes. Assessing social expenditures in the context of the overall fiscal situation is crucial for governments to strike a balance between providing essential social services and managing fiscal constraints. A lack of mechanisms to monitor targeting of the budget allocations to the poor and vulnerable population is another critical challenge for several governments in the North Africa region. It is often harder for the poor and vulnerable to access public services while public budgets are squeezed. The effectiveness of public expenditure depends upon how informed public expenditure choices are,

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⁴ Sarangi and von Bonin (2017).

⁵ Sarangi, N., and others (2021b)

and it depends on the quality of delivery of social services to peoples' needs and aspirations.⁶ Mapping the budget allocations to the main beneficiary population, including the poor and the vulnerable segments of the population, can support analysing the equity, efficiency, and effectiveness of public social expenditures toward achieving the SDGs.

The Social Expenditure Monitor (SEM), designed and produced by ESCWA, fills this gap. This paper presents the SEM as a new framework of measuring social expenditures in seven dimensions, by capturing critical social development priorities aligned with the SDGs.⁷ As argued by the IMF and ESCWA (2022), the SEM helps countries to better understand the landscape of social expenditures, to assess efficiency and effectiveness of expenditures, and to provide them with the information needed for "smart spending" across seven dimensions of social policy areas which are aligned with the SDGs⁸. The assessment of the efficiency of expenditures is an important function of the SEM⁹, but the issue is beyond the scope of analysis in this essay.

The analysis in this paper is structured as follows: After the introductory section 1 which explains why the SEM was developed as a new framework for measuring public social expenditure to finance SDGs, the following section 2 presents the concept of SEM; the data and the methodology of the SEM framework are discussed in detail. The section 3 analyses important trends of public social expenditure according to the SEM in selected North African countries and discusses achievements and shortfalls in critical social policy areas. The case of Tunisia is presented in sections 4 and 5. Section 4 is on tracking the expenditures by the indicators of SEM dimensions, while section 5 is on targeting the main beneficiaries of social public expenditures. This is done to better understand gaps in budget allocations to different social purposes and population groups in Tunisia. The section 6 discusses the replicability of the SEM tool to other African countries, and the final section 7 presents the conclusions and some policy recommendations.

The Social Expenditure Monitor (SEM): A new framework for measuring public social expenditure to finance the Sustainable Development Goals (SDGs)

2.1 Measuring public social expenditure by using the framework of the Social Expenditure Monitor (SEM)

The notion of social expenditure varies across countries and depends upon a country's progress in social development priorities. One of the global measures of

⁶ ESCWA (2017).

⁷ ESCWA (2019).

⁸ IMF METAC (Middle East Regional Technical Assistance Center) and UN ESCWA (2022).

⁹ Gaska et al. 2021.

social expenditure is on-budget Government spending on health, education, and social protection (HES), produced by the International Monetary Fund.¹⁰ The IMF acknowledges that some types of spending may also have a social component but are often seen as “inferior” to well-designed public spending, such as the public sector wage bill or the subsidies that may be poorly targeted. Comprehensive cross-country data on these types of expenditure are not available. The Organisation for Economic Co-operation and Development (OECD) calculates social expenditure for OECD countries by recording spending at programme level in nine broad social policy areas, such as old age; survivors; incapacity-related benefits; health; family; active labour market programmes; unemployment; housing; and other social policy areas.¹¹ While the OECD social expenditure measure (SOCX) is one of the most comprehensive definitions, it does not capture several social policy areas that are important for developing countries toward achieving the SDGs, such as education and environmental protection.

The Social Expenditure Monitor (SEM), produced by ESCWA, is broader in scope. Aligned with the SDGs and adaptable to national specificities, it comprehensively maps all public social services and their beneficiaries. The SEM defines social expenditure as including goods and services provided to individuals, households, or communities, primarily on a non-market basis but also through subsidies,¹² grants, tax relief, and other transfers. The SEM classifies social expenditure in seven dimensions (see table 1 below). Each dimension of the SEM has a series of indicators of social policy expenditure that are essential in achieving several SDG targets in which the 2030 Agenda aims for improvement or universal access. The indicators show the purpose of expenditure (or type of social service), and these can be mapped to their main beneficiary population, including children, older persons, and others. Furthermore, classification of current and capital expenditures for each indicator (and dimension) helps analysing the type of expenditures and their linkage to immediate development needs vis-a-vis productivity and growth in a macroeconomic context. For instance, education expenditures can be analysed in terms of their composition of salaries and the construction of research facilities and other education infrastructure. The former is important for providing

¹⁰ IMF (2019b).

¹¹ OECD (2019).

¹² Irrespective of poor targeting of general subsidies, these are used from public budgets for a social purpose. Rationalizing subsidies and targeting them to people in greatest need is key to social expenditure reform, but this is not a sufficient reason to discount subsidies as social expenditures. See ESCWA, 2017.

teaching and education services, while the latter is important for improving education enrolment and facilities that can improve the quality of education.

The SEM addresses the critical gap of both HES and SOCX that the on-budget public transfers for social purposes need to be broader to consider achieving the SDGs, to which all member states are committed. Public expenditure is an important means to ensure universal access to resources and services and equal opportunities for all, to leave no one behind. It is also explicit in the SDGs framework that strategic investments in social sectors are important for driving inclusive and sustainable growth.¹³ Therefore, the SEM emphasises that any measure of social expenditure must take into consideration two guiding objectives: (a) targeting expenditure to ensure social justice and inclusive development, to reduce poverty and inequality, and to improve human development; and (b) targeting expenditure to enhance human capital and innovation, to promote gender equality, and to foster sustainable economic growth.¹⁴ For instance, social expenditure on human capital, such as education and research, skills training, promoting art and sports, are important for strengthening human capital and promoting innovation and productivity. This, in turn, permanently increases people's participation in the growth process. Fiscal policy should therefore not be restricted to mere redistribution in the form of social assistance, social insurance, and general subsidies; it should play a much larger role in building advanced societies and economies. At the same time, rationalizing social expenditures and finding the right mix to meet different objectives are crucial for improving macroeconomic and social stability to enhance human wellbeing.¹⁵

The seven dimensions and the indicators (as seen in table 1 below) correspond to the SDGs 1 through 17 (see table 2). Within each dimension, there are common indicators for all countries and some indicators can be tailored to national specificities. The dimensions aim to capture crucial social development priorities in the region. In almost all of them, a direct link can be established with the SDGs. For example, the "education" dimension measures expenditures that drive equal education opportunities for all and the advancement of modern education and scientific research to foster innovation and to respond to the labour market. The level and effectiveness of expenditure on this dimension contribute to progress on several SDGs, such as SDGs 4, 5, 8, 9, 10 and 17. Similarly, the dimension on "health and nutrition" measures expenditure on access to health care, nutritional support, and quality health-care services for healthy living conditions. The level and effectiveness of expenditure on the dimension of health and nutrition contribute to

¹³ See on the SDGs framework of 2015: United Nations Department of Economic and Social Affairs (UN-DESA)

¹⁴ ESCWA (2019).

¹⁵ ESCWA (2017).

achieving SDGs 2, 3, 5 and 10. Similarly, other dimensions contribute to different SDGs¹⁶.

2.2 Data and methodology for the SEM and its alignment with Government Finance Statistics

The indicators of the SEM are explained in the methodology paper on SEM, Annex II¹⁷. The indicators are coded according to the expenditure classifications of the Government Finance Statistics (GFS), especially the Classification of the Functions of Government (COFOG) codes which were developed in the International Monetary Fund (IMF) Government Finance Statistics (GFS) 2014 manual. In case of countries that follow the programme-based-budget (PBB) approach but not the COFOG codes, such as Tunisia, the budget lines are bridged with explanations of COFOG codes to follow consistency in application of methodology for mapping budget lines to the indicators of the SEM. The COFOG allows analysing government expenditures by specific functions or policy purposes for which expenditure is incurred. The COFOG codes present classification of expenditures by functions of government according to divisions (3-digit), groups (4-digit), and classes (5-digit) of expenditures. The divisions include General Public Services, defence, public order and safety, economic affairs, environmental protection, housing and community amenities, health, recreation, culture and religion, education, and social protection. The 4-digit classification provides group level information in each division, and the 5-digit classification provides further classification of groups into different classes of expenditures. The SEM indicators and their beneficiaries are best explained by using the 5-digit level of classification of COFOG. For instance, expenditure under early childhood education is COFOG 70911, primary education is 70912 and so on¹⁸. All indicators follow one or more specific COFOG or relevant programmes in a programme-based-budget (PBB) system of budgets. This alignment with the IMF COFOG system is a crucial methodology for consistency of financial statistics and for the comparability across countries and regions.

¹⁶ ESCWA (2019).

¹⁷ ESCWA (2019)

¹⁸ ESCWA (2019)

Table 1 - Social Expenditure Monitor: Dimensions and Indicators

1. Education 1. Early childhood education 2. Primary education 3. Secondary education 4. Post-secondary skill training 5. Tertiary education 6. Education for adults 7. Research and use of technology on advancing education 8. Administrative and Institutional Support 2. Health and nutrition 1. Outpatient services (including residential care) 2. Inpatient hospital services 3. Reproductive health care 4. Discrimination against women and gender-based violence¹⁹ 5. Public health services 6. Expenditure on medicines, medical products, appliances, and equipment 7. Research and use of technology which is related to Health and Nutrition 8. Administrative and Institutional Support 3. Housing, connectivity, and community amenities 1. Housing 2. Water supply network and reservoirs 3. Quality of water supply 4. Urban commuting 5. Rural road connectivity 6. Street lighting 7. Community development 8. Research on housing and amenities 9. Administrative and Institutional Support 4. Labour market interventions and employment generation programmes 1. Incentives to encourage female employment 2. Training and skills upgrading, including on technology (on the job) 3. Grants and other incentives to private enterprises/start-ups for job creation 4. Employment generation programmes 5. Research on labour market programs and policies 6. Administrative and Institutional Support	5. Social protection, subsidies, and support to farms 1. Support towards achieving basic income, housing, and food security 2. Unemployment benefits 3. Support to family and children, including maternity benefits 4. Subsidies to food processors 5. Subsidies to fuel (oil and gas) 6. Subsidies to electricity 7. Subsidies and other support to farms 8. Research on social protection and food security 9. Other nationally defined sets of goods and services 10. Administrative and Institutional Support 6. Arts, culture, and sports 1. Cultural facilities and events 2. Promoting individuals and organizations in art and cultural fields 3. Sports facilities and services 4. Promoting athletes and teams 5. Research on advancing sports, culture, and art 6. Administrative and Institutional Support 7. Environmental protection 1. Solid waste management 2. Wastewater management and sanitation facilities 3. Incentives for renewable energy supply (hydro-electricity, solar, wind, biomass) 4. Protecting biodiversity/combating desertification/land degradation 5. Research on environmental protection 6. Administrative and Institutional Support

Source: ESCWA (2019).

¹⁹ Sexual and gender-based violence (SGBV) refers to any act that is perpetrated against a person's will and is based on gender norms and unequal power relationships. It encompasses threats of violence and coercion. It can be physical, emotional, psychological, or sexual in nature, and can take the form of a denial of resources or access to services. It inflicts harm on women, girls, men, and boys (UNHCR, n.d.).

The SEM maps 69 COFOG codes out of the total 109 codes by the IMF COFOG classification system at the 5-digit level, classified under the seven SEM dimensions (see table 2 below).

In addition, the COFOG-based codes of the indicators are also cross-classified into economic classification of GFS, which provides detailed information to assess the types of expenditures incurred by economic processes that are associated with each indicator, such as salaries and wages, use of goods and services, interest expenses, subsidies, grants, social benefits in the group of current expenditures, and non-financial assets in the group of capital expenditures. The aggregate of each category is tallied and synchronized with statistics reporting as per the GFS. This is a critical step in the preparation of the SEM dataset to analyse expenditure trends as well as its linkage to budgeting and fiscal policy reforms toward improving financing the SDGs. Due to such robust mapping of the data for the SEM, there are some indicators in the SEM for which disaggregated expenditure data are not classified in the GFS, and the SEM aims to improve disaggregation of COFOG in discussion with IMF (ESCWA 2019, Annex II). For instance, expenditure on “subsidiary services” to education, as per COFOG 70960, should be disaggregated by level of education to account for the “Education for adults” level indicator, for example. Similarly, expenditure on “basic research”, as per COFOG 70140, should be disaggregated by function to account for the specific level indicator at each dimension level.

Furthermore, there exist some challenges in disaggregating functions of the government due to shared expenditure or administrative expenditure. Consider Tunisia as an example, where the Ministry of Agriculture incurs expenses crossing various dimensions, including Education (through educational programmes for agricultural guidance), social protection and subsidies (via subsidies to small farms), housing and community amenities (through water programmes), and environmental protection (via marine life conservation programmes). When a ministry's expenditure overlaps across multiple functions, determining the appropriate allocation for its administrative expenditure becomes a crucial question. According to GFS Manual (IMF 2014), if administrative expenditures on general services, such as personnel services, accounting and auditing services, and computer and data processing services overlap two or more functions, an attempt should be made to apportion expenditure between the functions concerned. If this approach is not feasible, the total should be allocated to that function that is accounting for the largest part of the total expenditure. Therefore, in alignment with the GFS, the administrative expenditure of the Ministry of Agriculture in Tunisia is allocated to

the SEM dimension that represents the largest share of expenditures, which is the group of social protection, subsidies, and support to farms.

Table 2 – Bridging SEM Dimensions with Government Finance Statistics and SDG Targets

SEM dimensions	Alignment with SDGs	SDG targets	Alignment with COFOG
1. Education	4,8,9,10	4.1,4.2,4. A,4.C, 4.3, 4.6,8.5, 9.5,10.2,17.6	70911, 70912, 70921, 70922, 70930, 70941, 70942, 70950, 70960, 70970, 70980, 70140
2. Health and nutrition	1,2,3,5,10, 11,16	1.4,2.1,2.2,3.1,3.7, 3.8,3. A,3. B, 5.1, 5.2, 5.3,5.6, 10.3, 11.7,16.1,16.2,16.3	70721, 70722, 70723, 70724, 70731, 70732, 70733, 70734, 70740, 70711, 70712, 70713, 70750, 70760, 70140
3. Housing, connectivity, and community amenities	1,6,11	1.4,6.1,11.1, 11.2,11.3,11. A	70610, 70620, 70630, 70640, 70650, 70660, 70451, 70485, 70140
4. Labour market interventions and employment generation	5,8,9,10	5.5,8.2,8.3,8.5, 8.6,9.2,10.4,10.7	70412, 70481, 70140
5. Social protection, subsidies, support to farms	1,2,3,10	1.3,2.3,3.8, 10.1,10.2,10.3	71011, 71012, 71020, 71030, 71040, 71050, 71060, 71070, 71080, 71090, 710432, 710435, 70421, 70140
6. Arts, culture, and sports	4,8,11,16	3.5,3.9,4.7,10.2, 10.3,11.4,16.1,16. A	70810, 70820, 70840, 70850, 70860, 70140
7. Environmental protection	2,6,7,9,11, 12,14,15	4.1,4.2,4. A,4.C, 4.3, 4.6,8.5, 9.5, 10.2,17.6	70510, 70520, 70436, 70422, 70530, 70540, 70550, 70560, 70140

Source: ESCWA (2019), UN SDG (UN DESA, 2015), IMF (2014).

3 Important trends and highlights of public social expenditure by the SEM: Selected North African Countries²⁰

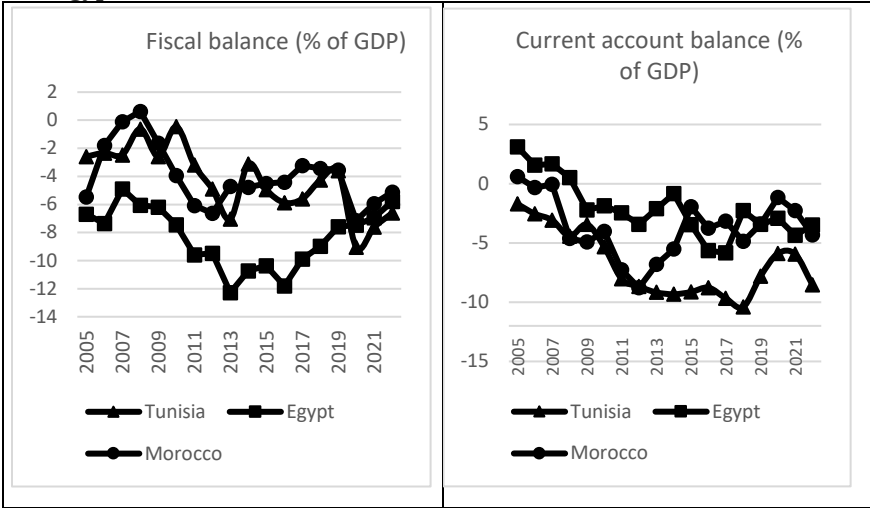
3.1 Macro-fiscal situation in North African countries

The economies in the North African countries have been hit by multiple shocks in recent years, which has adversely affected their fiscal performance and sustainability. Tunisia, for instance, has witnessed political pressures, social pressures, and demands for increases in quality public services and job creation. Socioeconomic

²⁰ The Social Expenditure Monitor (SEM) has data available for three middle-income countries in the North Africa region: Egypt, Morocco, and Tunisia. SEM data for Tunisia are actual expenditures from the Ministry of Finance of Tunisia while data for Egypt and Morocco are based on publicly available budgets, not actuals, for the respective years.

pressures have continued to grow following the COVID-19 pandemic as the Tunisian economy witnessed a major 8.7 per cent contraction in 2020. In the subsequent years, the increases in commodity and oil prices and high interest rates of borrowing have further amplified fiscal and liquidity challenges and increased debt servicing, which poses a significant burden on the budget as well as external sector balances. Fiscal balance and current account balances remained persistently negative over the past decade in Tunisia, but also in Egypt and Morocco (see figure 1 below), leading to increased pressure on public finances affecting the availability of resources for social services. In addition, inefficiency of spending is among the main challenges to finance social expenditures.²¹ Given this background, the essay presents important trends of social expenditures from the SEM dashboard.

Figure 1 - Trends of fiscal and current account balance in Tunisia, Morocco, and Egypt



Source: Authors' calcuations based on IMF data.

²¹ Gaska, J., et al. (2021).

3.2 Trends of public social expenditure

All SEM data refer to central government budgets. The SEM data are in line with the GFS. It focuses solely on expenditures from the public budget, and it does not include other expenditures by private or non-government organisations.²² It also does not include consumption of fixed capital or implicit expenditures. The results of the SEM should be interpreted in this perspective.

Tunisia's public social expenditure was about 28.5 billion TND out of total public expenditure of 42.6 billion TND in 2021²³. It was about 22 percent of GDP in 2021, as compared to 18 per cent in 2014 (see figure 2 below). The increase is primarily driven by the social protection, subsidies, and support to farms dimension, representing the largest dimension, accounting for 7.1 percent of the GDP in 2021. It is evident that areas of social spending such as environmental protection, arts, culture and sports, and labour market programmes constituted less than one per cent of GDP, what is indicating the critical shortfalls in public budgets to allocate resources to these areas. However, during the last five years, the share of public social expenditure in GDP has hardly increased except for the pandemic year in 2020. Moreover, in real terms, the per capita social expenditure in Tunisia has declined from 1,617 TND (Tunisian Dinars) in 2017 to 1,515 TND in 2021.²⁴

In Morocco, social expenditure accounted for 13.2 percent of GDP in 2019, with the largest shares allocated to two areas: education and social protection, subsidies, and support to farms (see figure 3 below).²⁵ Between 2018 and 2019, there was a slight increase in social expenditure as a share of GDP, also in per capita real terms.²⁶ However, it is important to note that due to data limitations, only two years' worth of data are available. Most of these data are not available in a format that can be easily compiled. We will discuss the data challenges later in the paper. In 2019, education received 5.5 percent of GDP, indicating significant investment in the sector. Social protection, subsidies, and support to farms accounted for 4.4 percent of GDP, of which pension schemes and food and energy subsidies made up a large part. However, social expenditures in other key areas were relatively

²² See ESCWA, UNDP and UNICEF (2022).

²³ The results of the Social Expenditure Monitor (SEM) of Morocco are based on the regional methodology. ESCWA envisages to discuss the results with the Government of Morocco for tailoring and improving the SEM for Morocco's national context and having more disaggregated indicators of social expenditures.

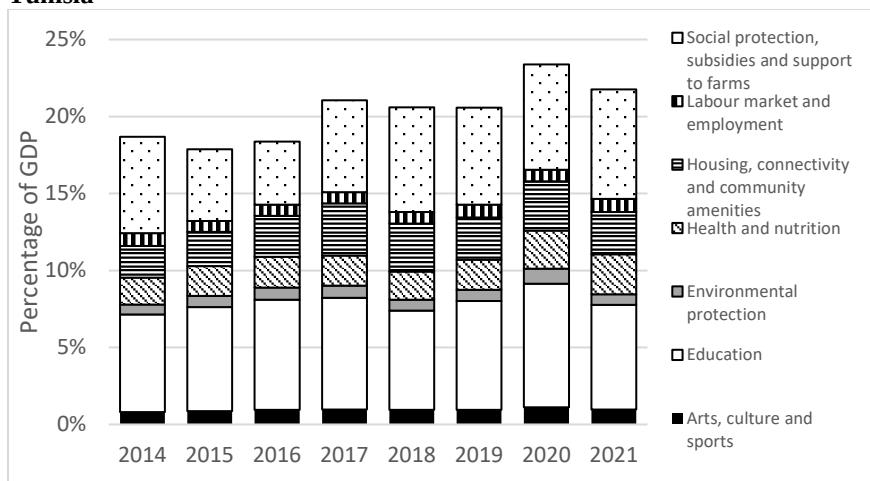
²⁴ ESCWA Social Expenditure Monitor dashboard (n. d. a.)

²⁵ The results of the Social Expenditure Monitor (SEM) of Morocco are based on the regional methodology. ESCWA envisages to discuss the results with the Government of Morocco for tailoring and improving the SEM for Morocco's national context and having more disaggregated indicators of social expenditures.

²⁶ ESCWA Social Expenditure Monitor dashboard (n. d. a.).

low. Environmental protection and labour market support, when combined, amounted to less than half a percentage of GDP.

Figure 2 – Social expenditure and its seven dimensions, as a share of GDP, Tunisia



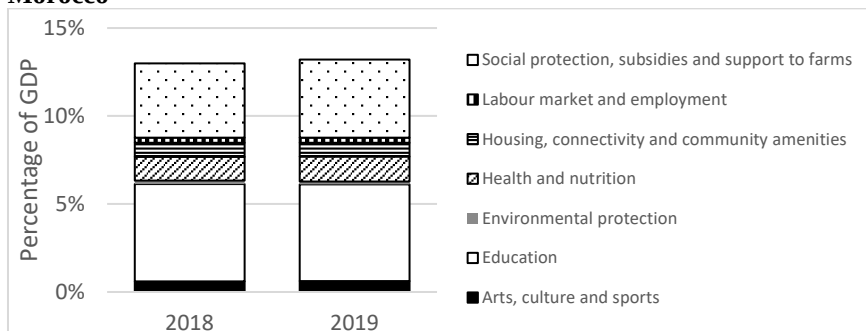
Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.)

Egypt's social expenditure, as a share of GDP, has experienced a decline over time between 2013/14 and 2022/23 budgets, according to the SEM estimates²⁷ (see figure 4 below). In the fiscal year 2022/23 budget, approximately 10 per cent of GDP was allocated to social expenditure, marking a significant decrease from the 25 per cent allocated in 2014/15. The decrease can be largely attributed to the social protection, subsidies, and support to farms dimension, which declined from 17 percent to 4.5 percent of GDP over the same period. The reduction of subsidies has been complemented by an increase in social assistance transfers. However, it is well below compensating for the decline in subsidies. Given the continuing pressure on public budgets, allocations to labour market support, arts, culture and sports, and

²⁷ The results of the Social Expenditure Monitor (SEM) of Egypt are based on the regional methodology. It is being discussed with the Government of Egypt for tailoring and improving the SEM for Egypt's national context and having more disaggregated indicators of social expenditures.

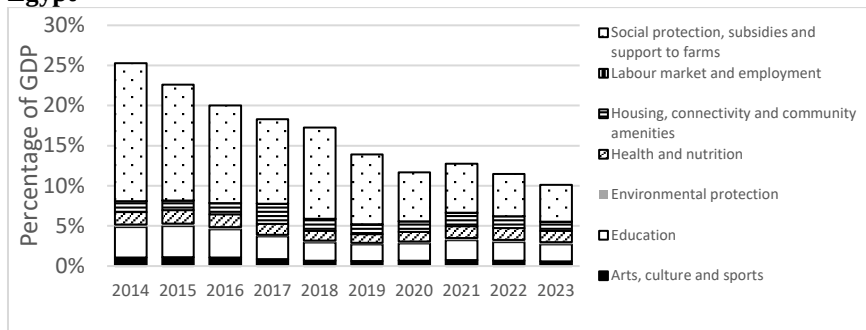
environment protection are much smaller, and remained at less than 1 per cent of GDP. These findings underline the challenges Egypt faces in enhancing social expenditure amidst fiscal pressures, potentially impacting the quality of social services and the overall well-being of the population. In per capita real terms, the social expenditure per person declined by over fifty percent from 12,550 EGP (Egyptian Pounds) in the 2013/14 budget to 6,100 EGP in the 2022/23 budget.²⁸

Figure 3 – Social expenditure and its seven dimensions, as a share of GDP, Morocco



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.)

Figure 4 – Social expenditure and its seven dimensions, as a share of GDP, Egypt



Source: ESCWA Social Expenditure Monitor Dashboard. **Note:** The year 2014 refers to the budget data for the fiscal year 2013/14, etc. Expenditure on the labour market and employment dimension ranges between 0.01 and 0.03 per cent of GDP and therefore is not visible in the figure.

²⁸ ESCWA Social Expenditure Monitor dashboard (n. d. a.).

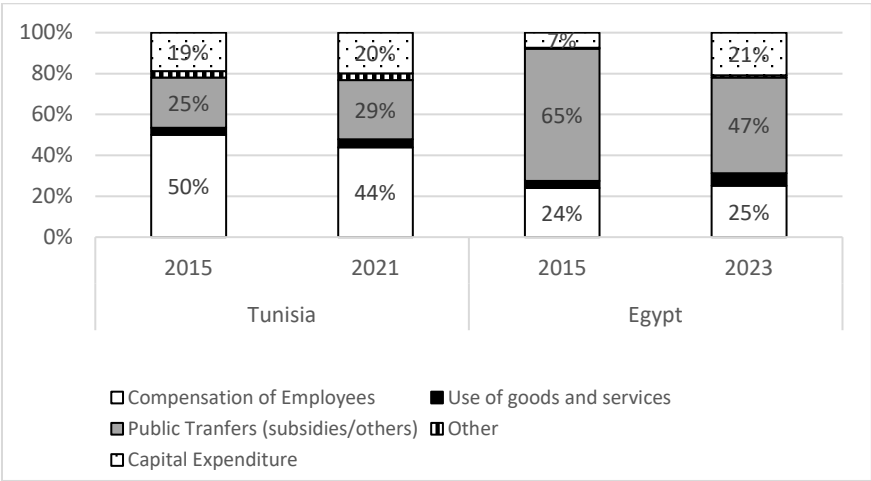
3.3 Shortfalls in public social expenditure in critical social policy areas

The Social Expenditure Monitor (SEM) highlights critical areas of shortfall in allocation of public budgets. The findings suggest that areas that improve productivity and job creation, such as investment in human capital, skill training and supporting startups, areas that create capacity among youth, such as art and sports, and areas that build climate resilience and improve gender equality, are often remaining at margins of public budgets. Social policies on these issues need to be translated into budgetary allocations to materialise the goals, and so the SEM can be supportive in monitoring and planning such budget allocations.

(a) Capital expenditure on social development is low

Public wage bill constitutes about 44 per cent of total public social expenditure in Tunisia in 2021 and about a quarter of total public social expenditure in Egypt in 2022-23, as per latest available public budgets. Public transfers constitute about 30 percent of total public social expenditure in Tunisia and nearly half of total public social expenditure in Egypt. In fact, the share of public transfers in total public social expenditure in Egypt declined from 65 percent in 2015 to 47 percent in 2023, which is due to the fuel and electricity subsidy reforms (see figure 5 below). Capital expenditure in the form on non-financial assets in the social sector remained at around 20 percent of total public social expenditures in both countries in the latest years. In Egypt, the increase from 7 per cent in 2015 to 21 per cent in 2022-23 suggests a higher focus on investment projects in recent years mainly in the housing sector. In Tunisia, it is a combination of different investment projects in housing and connectivity, employment generation programmes, and environment protection-related programmes. The low capital spending shares show the limited longer-term investment role of social spending, which is a structural challenge faced by several countries in the North Africa region. Current expenditures make up the dominant share of social expenditures, what undermines investment in infrastructure, investment, and job creation.

Figure 5. Social expenditures divided into current and capital in Tunisia and Egypt



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.). **Note:** In Tunisia, the "Other" category in expenditure includes the treasury funds. On the other hand, in Egypt, the "Other" category includes miscellaneous expenses and interest payments. In the case of Egypt, the year 2015 refers to the budget data for the fiscal year 2014/15, etc.

(b) Research and development expenditure on social issues is negligible

One indicator of a lack of a long-term investment vision is the marginal amount spent on research and development on social issues, which is classified under other expenditures for each relevant dimension. This limits prospects for developing new and lasting solutions to development challenges in the region. Social-related expenditure on research and development has decreased as a share of GDP in Egypt and Tunisia, accounting for about 0.1 per cent of GDP in Egypt and about 0.4 per cent in Tunisia. In health, these expenditures covered issues such as disease and drug control and social protection research on vulnerable populations. Despite generous public funding for universities, expenditure on research and development towards advancing education remains low. Consequently, innovative technologies have not been developed. suggesting a need to prioritize developing endogenous research communities where output is determined by societal demand.

(c) Expenditure that builds climate resilience and improves capacity of youth remained at the margins of public budgets

Despite the region’s high vulnerability to climate change and the growing urgency of investment in climate action, expenditures on environmental protection are less than 1 per cent of GDP in the countries with available data. Areas of labour market

support, such as employment generation programmes, incentives to start-ups/support to SMEs also remain at the margins of public budgets, which is particularly concerning given the high unemployment, the weak job generation, and the shortages of essential skills in many countries. Where data is available, expenditures that build resilience for the most vulnerable are also low and constrained, including those on social insurance, early childhood development, and female employment.

4 Tracking expenditures by the indicators of SEM dimensions: The Case of Tunisia

The indicators of SEM are defined in each dimension of SEM. These refer to expenditures on specific programmes for social purpose or class of expenditure at five-digit level of COFOG. This section discusses the trends and patterns of expenditures on indicators of SEM across the seven dimensions, using Tunisia as a case study for which data are available for most indicators of SEM.

4.1 Education

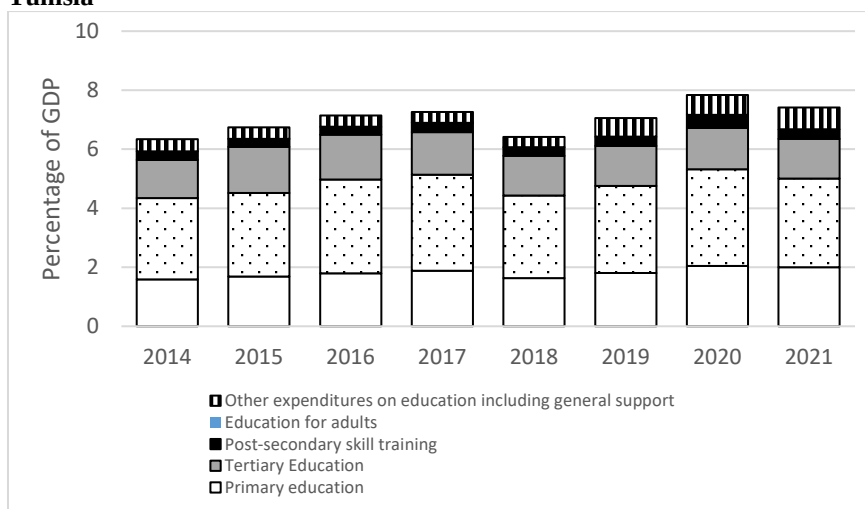
Expenditures on education have accounted for between 6-8 per cent of GDP in Tunisia since 2014. More than half of education spending goes to lower levels, with 2.0 per cent of GDP on primary education and 3.1 per cent of GDP on secondary education in 2021 (see figure 6 below). However, other critical areas receive minor shares of the budget, as with early childhood education, post-secondary skill training, education for adults, and research and use of technology. Other expenditures in the education dimension, such as administrative and institutional support, receive relatively little allocation from the budget. Such findings reveal some important areas of attention, in particular early childhood education, as 58 per cent of children between 3 and 5 years old do not access kindergartens and 11.5 per cent do not benefit from the preparatory year, even though the 2016–2020 development plan highlights the importance of supporting the kindergarten attendance rate and upgrading universities into scientific and technological institutions.²⁹

However, it is not only the adequacy of expenditures that is important but also their efficiency and effectiveness. Despite the significant share of GDP allocated

²⁹ Egypt, Ministry of Planning and Economic Development, VNR/Voluntary National Reviews (Egypt), 2021.

to the education sector, quality of education remains an issue in Tunisia, as local and international data show a gradual decrease in the system's performance. The Programme for International Student Assessment (PISA) and the Trends in International Mathematics and Science Study (TIMSS) ranked Tunisia among the bottom ten countries. This is evidence of the pressing need to improve the quality of the education system for language and mathematics in communication, writing and problem-solving. Furthermore, student to teacher ratios in primary and secondary education did not show a significant improvement over the period 2011–2019, although Tunisia succeeded in reducing the ratio at the pre-primary level. Since 2010, repetition rates remain relatively high with a large magnitude in secondary education, reaching 20 per cent in the most underprivileged interior regions;³⁰ and dropout rates are also significant. Figure 6 summarises the trends for various levels of education.

Figure 6 – Trends of education expenditure by different education services, Tunisia



Source: ESCWA Social Expenditure Monitor Dashboard.

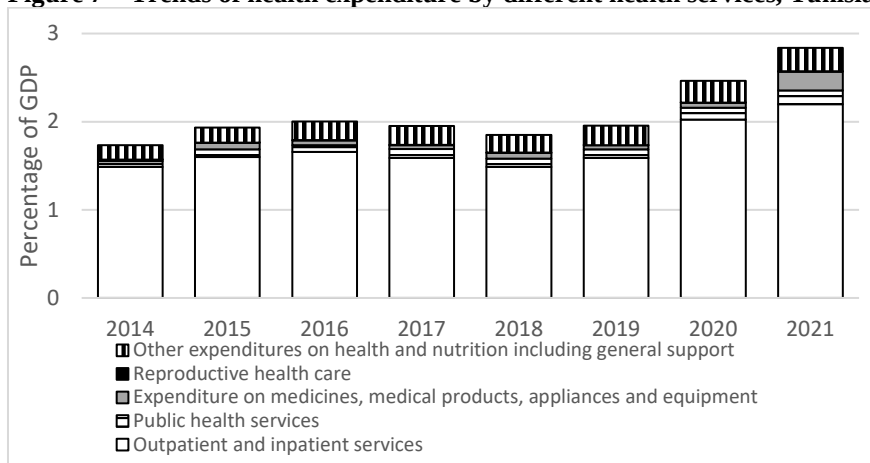
³⁰ World Bank, 2019.

4.2 Health and nutrition

Health expenditures in Tunisia remained relatively stable between 1-2 per cent of the GDP from 2014 to 2019 but increased in response to the COVID-19 pandemic to reach nearly 3 per cent of GDP. The spending on health and nutrition are mainly in four broad health-related services (see figure 7). Outpatient and inpatient services account for most of the spending on this dimension, varying from 1.5 per cent of GDP in 2014 to 2.2 per cent in 2021 (see figure 7 below). Expenditures on the public health services have been historically low but increased substantially since the onset of the pandemic, from 0.11 to 0.19 per cent of GDP between 2019 and 2021. Expenditure on medicines, medical products, appliances, and equipment followed a similar pattern, rising from 0.05 per cent of GDP to 0.26 per cent in two years. Spending on reproductive health, a key public service to enhance gender equality, is negligible in Tunisia. The country devotes only 0.19 per cent of total spending on health and nutrition to reproductive health care, even as the National Development Plan 2016-2020 has intensified efforts to provide single mothers with training and awareness on reproductive health.³¹ There are several health-related services, such as research and use of technology related to health and nutrition and general administrative support, where spending is marginal and therefore clubbed into other expenditure on health.

While Tunisia has made budgetary allocations to improve health infrastructure (basic health care, hospitals), many challenges persist such as the increasing burden on households of out-of-pocket (OOP) expenses, the low quality of health care services provided, unequal access across regions to health services and the lack of medical equipment, hospital capacities, and the availability of beds, oxygen, drugs, and vaccines. Furthermore, although the health infrastructure covers almost the entire country, there are still inequalities in the provision of health services between different regions, and the density of physicians and equipment is much lower in the poorest regions. Despite these challenges, Tunisia has succeeded in preventing communicable diseases (CD) and non-communicable diseases (NCD) and in reducing infant and maternal mortality. Life expectancy at birth in 2019 increased to 76.5 years against 75 years in 2013, which outperforms the average for middle-income countries globally. Figure 7 gives information on the shares of expenditures for various types of health categories. So, we see that the pandemic has changed considerably some of the expenditure shares and the volumes of expenditures

³¹ Tunisia (2021a)

Figure 7 – Trends of health expenditure by different health services, Tunisia

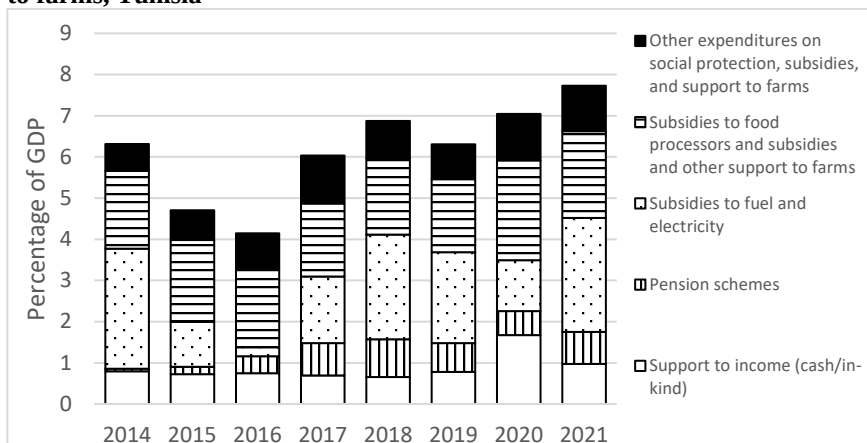
Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.). **Note:** Spending on reproductive health care in Tunisia is less than 0.01% of GDP and therefore it is not clearly visible on the graph.

4.3 Social protection, subsidies, and support to farms

The social protection, subsidies and support to farms dimension represents the largest share of social expenditure in Tunisia in 2021 at about 7 per cent of GDP (see figure 8 below). Food and energy subsidies are responsible for most of the spending on social protection, subsidies, and support to farms in Tunisia. Subsidies to fuel and electricity accounted for 2.8 per cent of GDP in 2021, while food processing subsidies and support to farms represented 2.1 per cent of GDP. By 2022, the impact of the Russia-Ukraine war on food and energy prices had increased subsidy bills in import-dependent countries when trying to maintain subsidy schemes. Given the regressive nature of energy subsidies, it is concerning that they occupy a large share of public social expenditure in many countries, including Tunisia. Expenditure on financial assistance is relatively low in Tunisia, at less than 1 per cent of GDP. However, this indicator shows an increase in 2020 during the pandemic to about 1.7 per cent of GDP. Pension schemes also account for significant spending, at about 0.8 per cent of GDP. Critically, though, pension schemes cover the formal sector, which can mean that persons employed informally remain vulnerable. Other expenditures on this dimension, such as support to housing and research on social protection, receive relatively little allocation from the budget. Figure 8 gives information on the major shares of expenditures on social protection, subsidies, and support to farms. The Russia-Ukraine war had

already impacts and will have in the future more drastic effects which need further policy adaptations.

Figure 8 – Trends of expenditure on social protection, subsidies, and support to farms, Tunisia



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.).

4.4 Housing, connectivity, and community amenities

Housing and community amenities play a fundamental role in various aspects of human development, including education, employment, health, and social identity. Examining the SEM data reveals that spending on housing, connectivity, and community amenities in Tunisia varies between 2 to 4 percent of GDP (see figure 9 below). The greatest share of expenditures is directed towards urban commuting and rural road connectivity, representing 1.3 percent of GDP in 2021. Tunisia's National Development Plan for 2016-2020 has focused on infrastructure development and cost reduction through the expansion of the road network, particularly in rural areas, connecting ports and coastal regions. Community development, involving planning and administration of communities, has experienced a steady increase over the period 2014-2021, rising from 0.14 to 1.4 percent of GDP. Investments in water quality supply have remained modest and stable. Tunisia has implemented initiatives to promote socioeconomic inclusion and to support vulnerable and poor households in disadvantaged areas. These initiatives include the regional development programme 'Programme de développement régional', which

addresses issues related to drinking water supplies, rural electrification systems, employment creation, and raising living conditions in areas with high unemployment and poverty rates.³² Other expenditures on this dimension, such as street lighting and general administrative support, receive relatively little allocation from the budget and therefore are clubbed into other expenditures on housing, connectivity, and community amenities.

However, despite the increased spending and infrastructure development efforts, Tunisia's infrastructure quality ranking deteriorated in 2019, compared to previous years.³³ Challenges in the transport infrastructure (roads, railroads, air, and sea infrastructure) as well as electricity and water services contributed to this decline. Structural and financial difficulties faced by service providers, along with regional disparities in access, have negatively impacted the quality of water and transport services. The water sector faces challenges, such as deteriorating water quality, excessive water mobilization, high consumption rates, significant network losses, inefficient investment, and the adverse effects of climate change.³⁴ These issues highlight the need for continued efforts to address infrastructure deficiencies and to ensure the provision of quality services in Tunisia's housing, connectivity, and community development sectors. Figure 9 gives details on the major expenditure shares on housing, connectivity, and community development. Obviously, the share for community development has increased in recent years.

4.5 Labour market interventions and employment generation

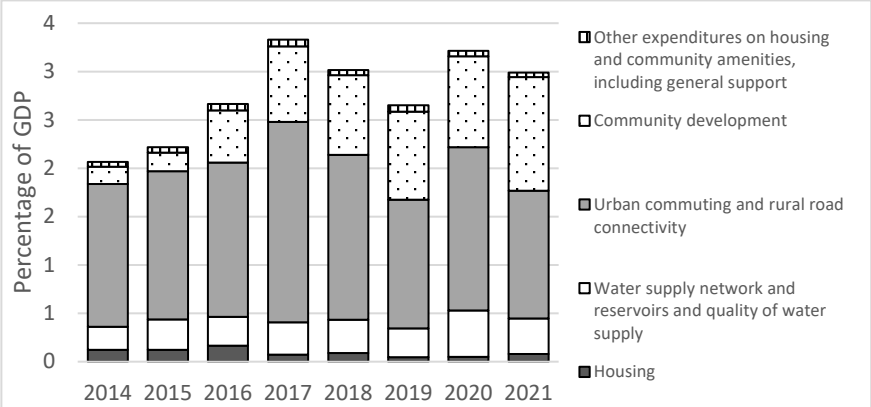
Tunisia has spent close to one per cent of GDP on employment-related programmes. Since 2015, Tunisia has steadily increased expenditure on employment generation through public sector employment creation programmes and through grants and incentives to businesses for job creation. In 2021, spending on employment generation programmes accounted for 0.55 per cent of GDP, while grants and incentives to enterprises represented 0.23 per cent (see figure 10 below). Less emphasis is placed on training and skills upgrading and research on labour market policies, which account for very small shares of expenditure on this dimension. Other expenditures on this dimension, including encouraging female employment, promoting equal opportunities for women, and general administrative support, receive relatively little allocation from the budget.

³² See on this programme for Tunisia: «Programme de Développement Intégré» (P.D.I.); link : <https://cgdr.nat.tn/fr/index.php?rub=260&srub=318>, and on the perspectives to 2025: <https://lapresse.tn/145353/developpement-regional-la-tunisie-en-2025-vers-limitation-dun-plan-marshall-regions/>

³³ WEF/World Economic Forum (2019)

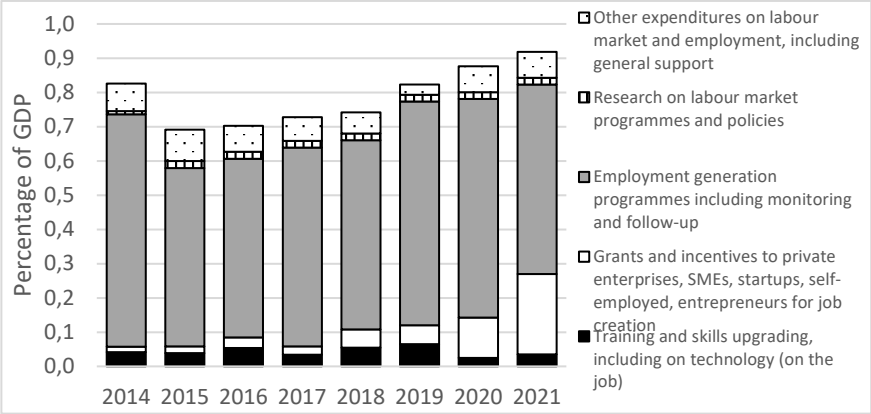
³⁴ World Bank (2019)

Figure 9 – Trends of expenditure on housing, connectivity and community development, Tunisia



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.).

Figure 10 – Trends of expenditure on labour markets and employment generation programmes, Tunisia



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.).

Despite the overall increasing trend in social expenditures on employment generation, the labour market in Tunisia faces various challenges, in particular a high unemployment rate and a weak job creation record stemming from low economic growth. This particularly affects higher education graduates and women.

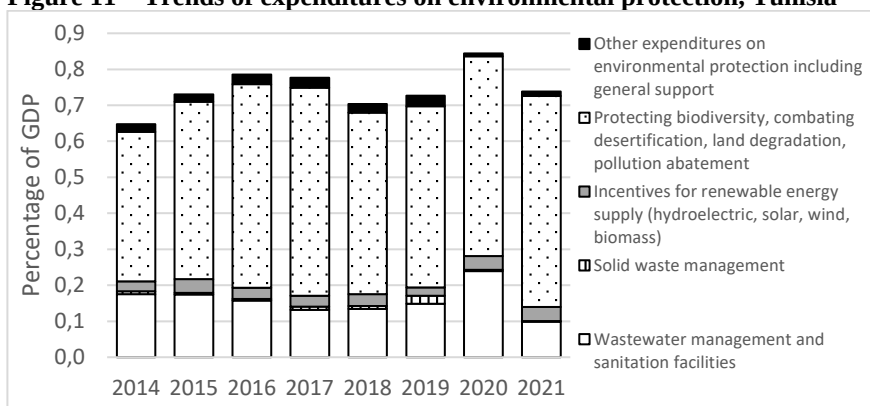
Furthermore, challenges persist to easily integrate young people aged 15–24 (at an unemployment rate of 42.8 per cent) with low levels of schooling, even though Tunisia has implemented several labour market and vocational training policies. The country has as well an employment fund that aims to ensure quick integration of young people and a ready access to the job market. Given these facts, more support is needed for the labour market and to improve the effectiveness of interventions and programmes there. If the fiscal environment is still fragile and employment funds cannot absorb the large number of unemployed, Tunisia needs to focus and to spend more on other areas, in particular training and upskilling, including in technology, to facilitate entry into the private job market.

4.6 Environmental protection

Environmental protection is important to many other dimensions, in particular health. Unsafe water and poor sanitation and hygiene increase the number of deaths and the spread of illnesses, particularly among children. Improving health in Tunisia requires several environmental policies to mitigate the adverse impact of pollution, such as strengthening the water supply and sanitation projects and informing the population of possible sources of pollution, including those of indoor air pollution as well as their impact on health, especially of children.³⁵

Environmental protection spending in Tunisia was stable but very limited, ranging between 0.6 and 0.8 per cent of GDP since 2014 (see figure 11 below). Concerningly, allocations for environmental protection have not meaningfully increased despite the growing need for investment in the areas of climate, biodiversity, waste management, and renewable energy. The small share of the budget is mainly distributed to protecting biodiversity, combatting desertification and land degradation, and supporting pollution abatement, which amounts to 0.59 per cent of the GDP only in 2021, while the share for wastewater management and sanitation facilities amounts only to 0.1 per cent of the GDP. Spending on renewable energy and on other expenditures on environmental protection, including research and general support, accounted for only a small share of expenditures.

³⁵ Tunisia (VNR/Voluntary National Review Tunisia (2021b).

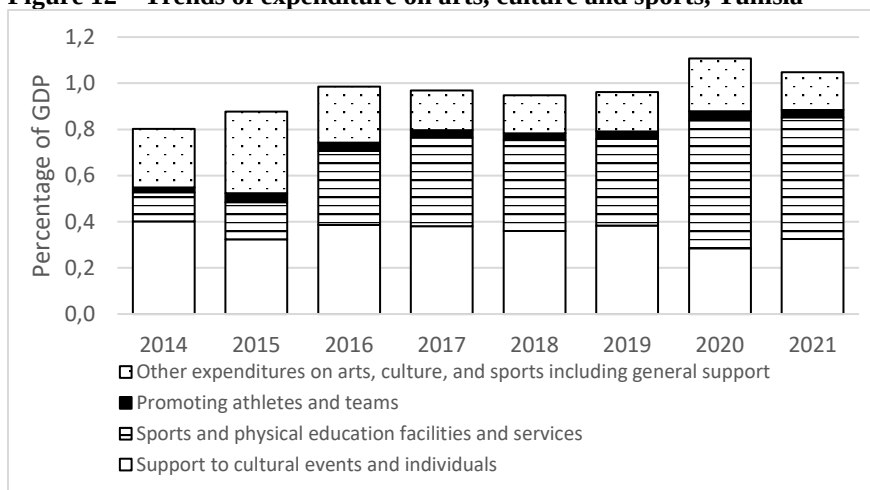
Figure 11 – Trends of expenditures on environmental protection, Tunisia

Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.). **Note:** Solid waste management expenditure is very minimal in 2020 and 2021 and therefore their corresponding percentage-share of GDP is minimal. The category appears in 2020 and 2021 in a very thin orange line in figure 11.

4.7 Arts, culture, and sports

Public expenditures on arts, culture, and sports help to incentivize and to cultivate talent and creativity in youth, and therefore they are essential long-term investments in the population. However, as pressures on public budgets increase in many countries, spending on these sectors comes under strain.

In Tunisia, spending on arts, culture, and sports has remained relatively low since 2014 (see figure 12 below). The central budget has allocated only 1 per cent of the GDP toward overall arts, culture, and sports activities in 2021, with cultural facilities and events and sports and physical education facilities and services benefitting from around 95 per cent of the expenditures on this dimension. Other expenditure categories on this dimension, including research on arts, culture, and sports and promoting athletes and general administrative support, receive little allocation from the total budget. Although these programmes target a wide population, more spending on arts, culture and sports would benefit children and young people by developing their creativity, by helping them to achieve their full potential, and by giving rise to talents in disadvantaged regions in Tunisia. Combined with education, this would contribute to improving human development.

Figure 12 – Trends of expenditure on arts, culture and sports, Tunisia

Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.).

5 Targeting the main beneficiaries of public social expenditures: The Case of Tunisia

The SEM provides a framework to tag budget lines to main beneficiaries³⁶ who benefit directly from the expenditure policy. By doing so, the SEM helps in assessing gaps in equity and targeting expenditures to vulnerable population groups and informs policy for improving resource allocation to the neediest population groups. It may be noted that the relative size and the features of national social policies and programmes and the demographic structures would drive the variation in expenditure allocation to different population groups across countries. The main beneficiaries from different expenditure policies are grouped as the following:

Households/families benefit from various forms of social protection spending such as support to income, support to housing, support to families, subsidies to food processors, subsidies to fuel, subsidies to electricity, and subsidies and other support to farms.

Children (up to age 17 years) represent the main beneficiary from education expenditures, particularly from spending on early childhood, primary and

³⁶ Certain expenditures may indirectly benefit different population age groups within and across households or within and across communities, but such disaggregated data are unavailable to undertake equity analysis.

secondary education. They can also benefit from social protection spending in the form of support to children.

Youth and Adults (age group between 18 and 64 years) benefit from various government expenditures. They could benefit from spending on tertiary education; education for adults; post-secondary skills training; training and skills upgrading, including on technology (on the job); unemployment benefits; promoting individuals and organizations in art and cultural fields; promoting athletes and teams.

Older persons (above age 64 years) benefit primarily from spending on social protection as they represent the main benefitting parties of government's pension schemes. As demographics evolve and the population includes a greater proportion of older persons, a crucial challenge becomes how to support increasingly aging populations without compromising contributions to other groups.

Specific vulnerable populations include persons with disabilities, sickness, and survivors, as well as socially marginalized persons or those at risk of social exclusion, refugees, and immigrants. Public expenditures targeted towards these specific vulnerable population groups depend on the country and occur in the form of education, health, and social protection spending.

Community at large benefits from the spending that is not exclusive to a particular population group but benefits the whole community. The spending generally represents investments in non-financial assets and public goods and services, which constitutes spending on housing and community amenity, and on environmental protection.

Institutional development and administrative support are the only benefitting parties of the administrative and institutional support spending that constitute each of the seven (7) SEM dimensions.

Table 3 examines how social policies benefitted each of the main beneficiary groups and who are less likely to be left behind. For example, households and families are the main beneficiaries from expenditures on social protection and subsidies and support to farms. One third of benefits to households and families came from programmes related to social assistance, 47 per cent through food subsidies, and 15 per cent through other subsidies for fuel, electricity, and farms. Primary and secondary education spending accounted for about 97 per cent of total support to children, while only 0.25 per cent came through early childhood education. Children also benefitted from various programmes, including the expansion of centres for children's social inclusion, and the support to children's entertainment centres and clubs.³⁷

³⁷ Sarangi et al. (2021a).

Expenditures on tertiary education and employment generation comprised 80 per cent of the support to youth and adults. Of the total spending targeted at older persons, 97 per cent came from pension schemes, which implies that the benefits were to those in formal sector employment. The older persons in large informal sector remained out of it. Other benefits were marginal that came through public health services, grants to older persons residing in care centres, and the preparation, restoration, and equipment of care centres for older persons. Support specifically targeted toward vulnerable population groups included programmes to train and to rehabilitate prisoners, for immigration support, and, to a lesser degree, to provide cash and in-kind benefits. Other social expenditures benefitted the community at large rather than a targeted beneficiary group. Roughly 70 per cent of expenditures benefitting the community were on housing and infrastructure, while 17 per cent were on environmental protection.

Table 3 – Distribution of benefits from social expenditure programmes in Tunisia by beneficiary group, 2021

	Arts, culture, and sports	Education	Environmental protection	Health and nutrition	Housing, connectivity, and community amenities	Labour market and employment	Social protection, subsidies, and support to farms	Total
Households and families	0	0	0	0	0	0	100	100
Children	0	97.8	0	0	0	0	2.2	100
Youth and adults	18.0	53.6	0.0	0.3	0	28.1	0	100
Older persons	0	0	0	0	0	0	100.0	100
Specific vulnerable population groups	0	2.7	0	0	0	0	97.3	100
Community at large	7.8	2.6	17.5	0.4	71.0	0	0.5	100
Institutional development and administrative support	12.5	46.4	0.8	17.9	3.3	3.4	15.8	100
Multiple population categories	0	0	0	100.0	0	0	0	100
Total	4.4	31.3	3.1	12.0	12.6	3.9	32.7	100

Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.).

The pattern of public social expenditure of Tunisia suggests, in 2021, that about 5.1 per cent of the GDP was targeted to children, while about 6.2 per cent of the GDP was targeted at households and families (see figure 13 below). The share of social expenditure accruing to young people and to adults is about 3.1 per cent of

GDP. Expenditures targeted as specific vulnerable population groups was only 0.43 per cent of GDP. The SEM noted also that a large share of the public budget, about 2.6 per cent of the GDP, was not possible to tag to any specific population groups, due to inadequate information about the expenditure policy, where the beneficiary is noted as multiple population categories. Spending on community at large is 4.17 per cent of the GDP which helps the society at large, while the administrative and institutional support constitutes 1.3 of the GDP as part of the social expenditures.

Between 2014 and 2021, there have been some changes in expenditures targeting at population groups. The expenditure on children, as a share of GDP, has improved slightly and so too the public transfers that support households/families. Tunisia is one of the countries that exceeds international benchmarks in meeting education expenditures as a share of GDP. The expenditures that are targeted at specific vulnerable population groups has improved marginally, as a share of GDP, but they still are remaining minimal. The share of expenditure to older persons, mostly from spending on government social pension schemes, increased slightly but it remained low in overall terms.

In 2021, social expenditures specifically targeted towards vulnerable population groups accounted for less than half a percentage point of GDP in Tunisia. This is much less than would be needed, given the existing spatial and socioeconomic disparities. For example, 0.8 per cent of the population (representing 97,000 people) is multidimensionally poor, and another 2.4 per cent is considered vulnerable to multidimensional poverty (293,000 people).³⁸ Rural population groups in Tunisia are more than three times as likely to experience multidimensional poverty, and those in large households are more than five times more likely to be multidimensionally poor than those in small households.³⁹ Social protection coverage is low. Only about half of the population in Tunisia is covered by at least one social protection benefit.⁴⁰ Specifically, the less poor but fragile population groups, especially women in rural areas and previously non-poor population groups that have experienced losses in income as a result of the COVID-19 crisis, represent people that could benefit from improved coverage.⁴¹ Addressing these disparities and ensuring that social expenditures are more equitably distributed is essential for reducing poverty and promoting greater inclusivity in Tunisia's social services.

³⁸ UNDP (2023)

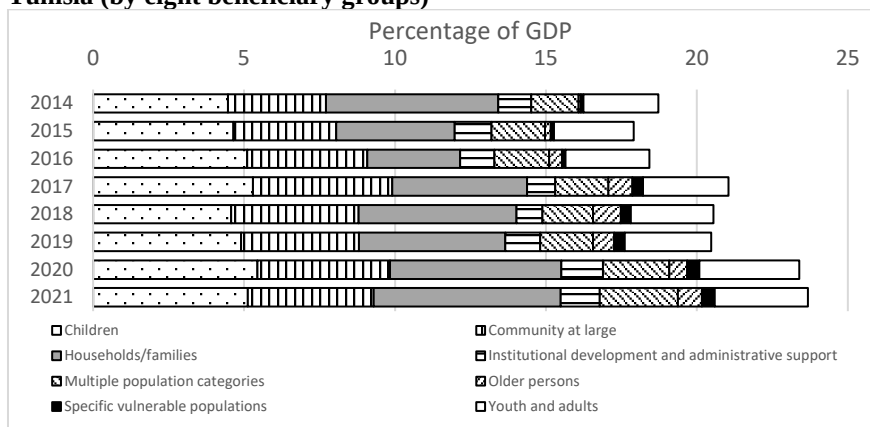
³⁹ ESCWA et al. (2023)

⁴⁰ ILO, World Social Protection Database (2023)

⁴¹ ERF (2022)

In this exercise, the targeting framework of SEM can be a useful tool in planning and budgeting exercises toward improving equity and effectiveness of expenditures.

Figure 13 – Trends of social expenditures targeted to main beneficiaries in Tunisia (by eight beneficiary groups)



Source: ESCWA Social Expenditure Monitor Dashboard (n. d. a.)

6 Replicability of the SEM to other African countries

Producing the SEM requires compiling information from the budgets in a systematic way by identifying and mapping the budget lines to social services and to beneficiaries, in line with the GFS (Government Finance Statistics) of the IMF⁴². However, the budget systems and the reporting of GFS⁴³ are diverse across countries. The level of details that the budgets provide to policy analysis also differs a lot across countries. Countries employ various approaches, such as result-based or programme-based budgets (with or without COFOG/Classification of the functions of government)⁴⁴, COFOG-based budgets, or they may use their own classifications for public budget preparations. When conducting a detailed mapping of public budgets of countries in the Arab region, including North African countries, several challenges were noted in classifying public expenditure for social services

⁴² See on the GFS data of the IMF: <https://data.imf.org/?sk=a0867067-d23c-4ebc-ad23-d3b015045405>

⁴³ IMF (2019a)

⁴⁴ See on COFOG: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Classification_of_the_functions_of_government_\(COFOG\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Classification_of_the_functions_of_government_(COFOG))

(to build the SEM indicators and targeting the groups of beneficiaries) due to variations in the availability of budget records for analysis⁴⁵.

The challenges in analysing budget records for building the SEM are as follows:

- The level of disaggregation often does not allow clear identification of social services and their target beneficiaries: Some countries use COFOG with data disaggregation of up to 5 digits, which identifies the purpose of the expenditure and thus helps to build several indicators for the SEM. For instance, separating expenditures on early childhood, primary education, and higher education requires more detailed data. The data disaggregation by sex also poses a challenge for most indicators of the SEM. A clear disaggregation of social services and their beneficiaries requires results-based or programme-based budgeting, which is practiced by few countries in the region.
- The economic classification of social services is often not reported: While countries reporting Government Finance Statistics (GFS) by COFOG provide total expenditure by purpose, the breakdown of current and capital expenditure by COFOG is often unavailable. IMF's Government Finance Statistics Manual (GFSM) provides a cross-classification of economic classification of the budget and the COFOG; however, it is practically difficult to cross-classify the available budget data without having access to more detailed records. In Morocco, for instance, the compensation of employees under the education dimension is grouped under "administrative programme" without any disaggregation of the wages by specific purpose, such as primary, secondary and so on. This limitation restricts us in building social expenditures at the indicator level.
- The sources of expenditure are not consolidated – General versus Central Government: The source of expenditure, whether it is the Central Government budget or the General Government budget, is another important aspect in order to understand budget expenditures and their comparability over time. Calculating the social expenditure of General Government is more costly and time intensive since the current data infrastructure does not allow that easily. The General Government entities are not consolidated in Government budgets in many countries across the region.
- Detailed budget documents are not publicly available for several countries: Across the Northern Africa region, only Egypt, Morocco, the Sudan, and

⁴⁵ ESCWA (2020)

Tunisia have published budget data. Often, countries with published budget documents do not have records available for all years. Even the published budgets are not available in a format that can be easily compiled in excel. It is often published in pdf formats that makes data compilation hugely laborious and requires a lot of cross-checks to make it error free. In addition, many countries do not publish reports of actual expenditure regularly.

- The comparability of budget classifications over time may not be coherent: The government finance reporting system may change over time, which requires examining and reclassifying budget lines over time for comparability purposes. The coherence between programme-based and COFOG-based classifications is another issue that may emerge while looking into the expenditure data over time.

Table 4 presents the classification of public budgets across selected countries. The classification of public budgets is composed of six different types (of structuring the data) that are relevant to the SEM framework and that aims to provide the Member States with a table preview that includes missing value categories. The type of classification identifies whether an indicator of SEM can be defined and adequately disaggregated according to the programme or COFOG; the main beneficiaries; the current and capital expenditures; the relationship between programmes and dimensions, indicators, or beneficiaries.

Overcoming these challenges requires access to improved statistics. In some cases, it may require working with government authorities, including sectoral ministries, to access detailed budget records and to classify the budget lines in the SEM framework. The heterogeneity in reporting finance statistics across countries, along with data comparability challenges over time, highlights the importance of building better financial statistics for assessing the landscape of social expenditures and their beneficiaries, and improving fiscal management.

Table 4 – Different types of public budgets across countries

	Type I	Type II	Type III	Type IV	Type V	Type VI
COFOG or Program	defined	defined	not defined	not defined	Administrative services that cannot be split directly.	Not Applicable
Key Beneficiaries	defined	defined	not defined	not defined		
Current and Capital Expenditure	dis-aggregated	not dis-aggregated	may or may not be dis-aggregated.	may or may not be dis-aggregated		
One-to-one relationship between programme and indicator	defined	defined	defined	not defined	Occurs for dimensions, but not for a specific indicator.	

Source: ESCWA (2020).

7 Conclusions and Policy Recommendations

The Social Expenditure Monitor (SEM) introduces an innovative framework that assesses social expenditures across seven dimensions aligned with the Sustainable Development Goals (SDGs). The framework encompasses the following areas: education; health and nutrition; housing, connectivity, and community amenities;

labour market interventions and employment generation; social protection, subsidies, and support to farms; arts, culture, and sports; and environmental protection. The SEM also helps to align expenditure choices with macroeconomic objectives, lays the foundation for improved statistics, and supports advocacy for essential fiscal policy reforms toward improving financing for SDGs.

Social expenditure, as measured by the 7 SEM dimensions, accounts for about 22 per cent of GDP in Tunisia in 2021, 13 per cent of GDP in Morocco in 2019, and 10 per cent of GDP in Egypt in 2022-23, as per latest data. In all these countries, social protection, subsidies and support to farms is a major component of social spending along with education. In Egypt, expenditures in both the dimensions, as a share of GDP, have declined over the years - the largest decline is due to significant subsidy reforms since 2013-14. In Tunisia, expenditures in both the dimensions remained around 7 per cent in 2021. The expenditures on health and nutrition, as a share of GDP, have remained relatively low in all the three countries.

The SEM highlights shortfalls in several critical social policy areas that are important for progressing towards achieving the SDGs, such as housing and connectivity, employment generation, arts, culture and sports, and environmental protection. These areas need more attention to help for improving resilience over climate-related shocks, building capacity of youth, and enhancing the productivity of the workforce over lifetime. Another striking result from the SEM is that around 80 per cent of the social expenditures are current expenditures. This reveals insufficient expenditures on building essential infrastructure or investing in more productive sectors that contribute to growth and human development, such as building schools, hospitals, and roads. There is need for carefully balancing social protection-related expenditures that are immediate needs of people while also investing in long-term growth multipliers. These efforts should build on evidence-based monitoring of social expenditures, policy impact evaluations, and assessments of the economic growth multiplier effects of social spending.

The SEM reveals a major challenge in targeting main beneficiaries of expenditures. Accurate data on beneficiaries of public expenditure need to improve to better analyse equity. The findings suggest that a large share of budget lines do not clearly identify the beneficiaries, which hinders associating the expenditures to impact on people. Most programme beneficiaries are households/families who are by default beneficiaries of programmes of cash transfers and/or subsidies. Social programmes from budgets have allocated minimal resources to target older persons, women, and specific vulnerable population groups. The SEM provides an effective framework to tag budget lines to main beneficiaries, based on the expenditure policy, which can advance analysis of policy choices and improve targeting of expenditures to vulnerable populations.

The SEM also suggests improving financial statistics with more disaggregation of the specific purpose of expenditures, which connects with the indicators

and targets of SDGs. While a great number of indicators can be mapped from the budgets through 5-digit COFOG codes, there are some indicators for which disaggregated expenditure data are not classified in the GFS. For these indicators, which are part of the SDGs, the SEM suggests an improvement of COFOG. Improving financial statistics lies at the centre of improving fiscal management. In addition, reforms should target the management of investments in social sectors, budget execution, transparency, and oversight and accountability mechanisms toward improving overall efficiency and effectiveness of public budgets. A combined effort of improving efficiency and effectiveness of social spending would likely help countries toward progressing on measures of human wellbeing and SDGs.

In conclusion, the Social Expenditure Monitor (SEM) supports proper analysis to inform fiscal policy choices and helps countries to take a concrete step towards “smart spending” across social development priorities which are aligned with the SDGs.⁴⁶ As outlined in the 11-point agenda for action reported in the SEM regional report entitled *Social Expenditure Monitor for Arab States: Toward making budgets more equitable, efficient and effective to achieve the SDGs*,⁴⁷ the SEM is a cornerstone in driving fiscal policy reforms. Given the current challenges of fiscal space for financing SDGs, the SEM, as a dashboard, informs governments to better understand the landscape of social policy programmes and expenditures and the reprioritization of public budgets, ensuring resource allocation to critical social policy areas and to citizens’ needs.

By improving assessment of social expenditures with outcomes, the SEM informs policy choices to rebalance resource allocations between social protection expenditures that are essential for protecting the poor and the vulnerable at present; it drives growth in the long-run by investing in human capital, such as skills training, improving quality of education, promoting creativity in arts and sports, and developing climate-resilient infrastructure. It also helps governments to identify the areas of shortfall in expenditure allocations and suggests corrective policy action to address critical challenges in national contexts, such as in expanding employment generation programmes or incentivizing start-up businesses versus other social expenditures. Overall, the SEM advocates for “smart” investments that promote equity within society, ensuring that resources are directed where they are most needed.

⁴⁶ IMF and ESCWA (2022).

⁴⁷ ESCWA, UNDP and UNICEF (2022)

Through the deployment of SEM, countries can greatly benefit from efficiency gains in public expenditure, allowing countries to save significant resources while achieving the same outputs, or to channel savings into social priority areas with potentially greater results. An assessment suggests that raising the efficiency of public spending could provide additional liquidity, between 1.5 to 3.5 per cent of GDP for the Arab region.⁴⁸ This efficiency gain not only frees up fiscal space but also ensures that available resources are used more effectively to address the needs of vulnerable population groups and to promote sustainable development. This calls for improving efficiency through a combination of policies associated with overall Public Financial Management (PFM). Greater fiscal discipline can come through simulation exercises informing policymakers of how public social expenditure policies align with macro-fiscal policies.

Finally, given multiple shocks and levels of vulnerability of North African countries, it is vital for governments to develop carefully designed PFM (Public Finance Management) systems with credible fiscal frameworks to enhance fiscal capacities to finance the SDGs. As an expenditure-tracking tool, the SEM helps informing priority-based budgeting and medium-term expenditure needs in developing effective fiscal frameworks and supporting thereby PFM reforms.

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⁴⁸ Ibid.

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Unit 2: Fiscal States in Africa – The Case of Senegal

Fiscal States in Africa – The Case of Senegal: An Introduction¹

By Seydi Ababacar Dieng² and Ulrike Schuerkens³

1 The Issues

Sub-Saharan African (SSA) countries still face the challenge of economic and social development. Development needs remain largely unmet. Indeed, various economic and social indicators such as the Human Development Index (HDI) of the United Nations Development Programme (UNDP) reveal the significant progress these countries must make to achieve satisfactory levels of performance. In fact, the Human Development Report (HDR) reveals that SSA has average human development with an HDI of 0.547 in 2021, while the global average is 0.732 (UNDP, 2022). Only three sub-Saharan countries have scores of “High Human Development”. These are the Seychelles with an HDI of 0.785, South Africa with an HDI of 0.713, and Gabon with an HDI of 0.706. These top-performing SSA countries are respectively ranked 72nd, 109th, and 112th out of the 191 countries.⁴

Addressing the challenge of development necessarily requires the availability of substantial financial resources. Financing economic and social development remains one of the major concerns of SSA countries. Indeed, mobilizing financial resources is essential to boost economic growth and to significantly improve the

¹ The Unit Editors and Unit Authors of this Unit 2 for volume 24 of the African Development Perspectives Yearbook are thankful for the many suggestions and recommendations received by the anonymous referees and by the Chief Editor of the African Development Perspectives Yearbook, Professor Karl Wohlmuth from the University of Bremen in Germany. Professor Karl Wohlmuth has acted as an inspirator and as a supervisor for our research papers to the Unit on the “Fiscal States in Africa – The Case of Senegal”. All the six papers (the Introduction and the five Essays) have benefitted from his careful editing.

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⁴ The HDI is compiled as a single number between 0 and 1.0, with 1.0 being the highest possible human development. The HDI is divided into four tiers: very high human development (0.8-1.0), high human development (0.7-0.79), medium human development (0.55-.70), and low human development (below 0.55). See the most recent Human Development Report 2023/2024 (UNDP 2024): <https://hdr.undp.org/content/human-development-report-2023-24>

living conditions of African populations. The central question concerns the financing methods to be favoured by these countries, especially since several authors, including Kalecki and Sachs (1966), Berr (2007), and Melonio and Naudet (2023), have highlighted the scope and the limitations of various modes of financing economic and social development.

As a reminder, two sources of development financing are available to countries: internal financing and external financing. External financing sources include Official Development Assistance (ODA), Foreign Direct Investment (FDI), international borrowing, and migrant remittances. ODA is a commitment by countries with a high standard of living, gathered around the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), which must allocate 0.7% of their Gross National Income (GNI) to poor countries. Among the instruments of international financing, ODA is, according to Melonio and Naudet (2023), "the best known and most influential." International financial aid, a main component of ODA, is often intended to support the implementation of specific projects related to health and education infrastructure, in particular. Given the limitations of ODA, particularly in terms of unrecorded flows, a new measure was proposed in 2016, under the impetus of the OECD. This is the Total Official Support for Sustainable Development (TOSSD), which is an aggregate that accounts for all international contributions to sustainable development and to global public goods - international public flows contributing to the sustainable development goals (SDGs), spending on global public goods (GPGs), and private international transfer flows (PITFs) mobilized by public action of OECD countries - in favour of developing countries (Melonio and Naudet, 2023). These authors recognize limitations to TOSSD⁵, particularly methodological inaccuracies and lack of reported data.

According to the United Nations (2023), ODA reached an unprecedented level in 2022 at \$206 billion USD, with a large portion going to refugees and to the Ukraine. Only \$34 billion USD was disbursed to African countries, representing a significant decrease of 7.4% compared to 2021. However, alongside ODA, private philanthropic organizations also contribute to development financing, with funding increasing, according to the OECD (2023), from approximately \$5.8 billion USD in 2010 to \$9.6 billion USD in 2020 (+65%). The main limitations of ODA are often its tied nature and the waste of funds, the misuse of funds, the misappropriation of funds (Brunel, 1993), its volatility, its dependence on the political strategies of donor countries, and above all its unpredictability. Indeed, according to the OECD (2022), the unpredictability of aid does not facilitate the achievement of results in terms of sustainable development.

⁵ However, according to Melonio and Naudet (2023), TOSSD struggles to establish itself as a reference figure among development actors.

FDI, the second source of external financing, is made by foreign companies through the creation of subsidiaries, majority stakes in companies in SSA, and long-term loans. They constitute a private financing source for development through state-owned and private companies with proven growth potential. These FDI flows have advantages, especially for industry and infrastructure, as they contribute to increased wealth and job creation. According to UNCTAD (2023), global inflows of FDI into developing countries reached a record \$916 billion USD in 2022, representing over 70% of global flows. However, the distribution of these FDI flows is very unequal, benefiting a small group of emerging countries, while Africa's share has stagnated, with \$45 billion USD in 2022, being at the same level as in 2019 (UNCTAD, 2023). FDI flows are not always advantageous for recipient countries. Indeed, they are favourable to recipient countries, according to Kalecki (1954), only if they are less costly than loans, that is, when the amount of repatriated profits remains lower than the cost of loans; all depends on the FDI inflows and outflows. However, a high level of FDI results in a loss of economic sovereignty for recipient countries and can provoke political problems.

International borrowing is an important source of external financing. Indeed, countries can borrow from international private banks, from sub-regional and regional development banks, and especially from international markets to finance their development projects. For example, the African Development Bank (AfDB) has granted African countries loans totalling \$1,697.28 billion USD⁶ in 2023, of which \$392.03 billion USD was for Senegal⁷. External borrowing can play a major role in economic growth and social development if it is used to increase productive investment and to ensure coverage of essential needs of the population, including education and health. Recent statistics show the predominance of borrowing from international markets.

The last source of external financing consists of migrant remittances. According to the World Bank (2024), personal remittances received by SSA countries were 2.6% of GDP, while they are 10.9% of GDP for Senegal. These remittances are significantly important but are mainly intended for the consumption of families remaining in the country (Dieng, 2000). However, a substantial portion of these flows of remittances can be channelled to local financing structures by creating financial tools adapted to the needs of migrants; this mobilization of a portion of these transfers of remittances will allow the

⁶ See on AfDB funds for African countries: IATI/International Aid Transparency Initiative, Country Development Finance Data. Accessed 2024. Link: <https://countrydata.iatistandard.org/>

⁷ See on the AfDB funds for Senegal: IATI/International Aid Transparency Initiative, Country Development Finance Data. Accessed 2024. Link: <https://countrydata.iatistandard.org/>

migrants to contribute to the economic and social development financing of their country of origin (Dieng, 2008).

The main problem with external financing remains the sustainability of external debt. Indeed, an excessive increase in external borrowing makes loan conditions more restrictive and interest rates higher. This situation can lead to debt unsustainability, highlighting the importance of judicious and efficient use of borrowed funds. Already in the 1960s, several authors including Kalecki and Sachs (1966) have argued that external financing was used more to finance current account deficits than to increase the productive capacities of developing countries. Another problem of high external debt is the creation of a situation of financial dependence that undermines the economic sovereignty of indebted countries.

In summary, the various sources of external development financing share a common characteristic: international financial flows, including ODA, experience a significant decrease during periods of international economic and financial crisis. The recent COVID-19 crisis is a perfect illustration of this, as confirmed by the OECD (2023). Building on Nurkse's thesis (1953), Melonio and Naudet (2023) acknowledge that "the emphasis on external financing for several decades (...) contradicts the experience of industrialized countries that developed in the 19th century with little capital and without external aid." Since most SSA countries aspire to greater political and economic independence, they must rely more on internal financing of their economic and social development.

Internal sources of development financing consist of taxes, savings, and loans granted by the national banking and financial system. Domestic savings should be encouraged as its growth will greatly facilitate investment financing for development. SSA is among the regions of the world with the lowest ratios of gross domestic savings (GDSs) to GDP. In 2022, the gross domestic savings rate stood at 11.7% of GDP compared to 22.2% for OECD countries and 38.5% for North Africa and the Middle East (World Bank, 2024)⁸. Over the decade 2013-2022, the average gross domestic savings rate as a percentage of GDP in SSA is 13.9%, while it is respectively 22.2% and 33.1% for the countries of the OECD and of North Africa and the Middle East⁹. Over this decade, the highest gross domestic savings (GDSs) rate recorded by SSA is 20.7% of GDP in 2014, a rate that has steadily declined thereafter¹⁰.

⁸ World Bank (2024), World Development Indicators (WDI) Database, World Bank, Washington, D.C. Link: <https://databank.worldbank.org/source/world-development-indicators>. Percentages were calculated by the authors.

⁹ Percentages were calculated by the authors, based on WDI data from the World Bank (2024), Link: <https://databank.worldbank.org/source/world-development-indicators>.

¹⁰ Percentages were calculated by the authors, based on WDI data from the World Bank (2024), Link: <https://databank.worldbank.org/source/world-development-indicators>.

Another internal source of development financing comes from the national banking and financial system. Indeed, an efficient banking and financial system can mobilize resources to finance development projects. However, it is evident that domestic credit to the private sector - financial resources provided to the private sector, such as loans, purchases of securities other than equity securities, and credits - remains much lower in SSA than in other regions of the world. Indeed, over the past ten years from 2013 to 2022, domestic credit to the private sector averages 26.6% of GDP in SSA, while it is 51.3% for the North Africa and Middle East region, 80.7% for the OECD, and 89.4% for the countries of the European Union (EU)¹¹. The highest rate achieved by SSA over this decade was 27.2% in 2016 and 2022.

Taxes and fiscal policies constitute the last internal source of development financing. Since Musgrave (1959), it has been recognized that fiscal policy can and should play several roles: economic, financial, and social. The state, to finance its expenditures - for investment (development infrastructure) and for operating purposes - collects taxes from economic actors, such as businesses and households. It can use fiscal policy to steer the economic situation in a desired direction, to reduce taxes to promote consumption, investment, and employment, or to increase taxes to avoid an overheating of the economy. The state can also use taxation as an instrument for income redistribution to promote social equity.

In SSA, fiscal policy is far from satisfactory unlike most of the other regions of the world, according to World Bank statistics. As a reminder, the "fiscal policy" indicator evaluates, according to the World Bank, the short- and medium-term sustainability of fiscal policy - considering monetary policy, exchange rate policy, and public debt sustainability, and its impact on growth. Indeed, with an average value of 3.07 for the "fiscal policy indicator"¹² over the period 2013-2022, the value is higher than that of the North Africa and Middle East region (2.58), so that fiscal policy in SSA can be considered average¹³, meaning that it is moderately sustainable in the short and medium term and meaning that it moderately affects economic growth. In 2022, the value of this indicator stands at 3.04 for SSA compared to 2.25 for the North Africa and Middle East region (World Bank, 2024). The best performance in terms of fiscal policy over the last decade for SSA was achieved in 2013 with a value of 3.26 (World Bank, 2024).

¹¹ Percentages were calculated by the authors, based on WDI data from the World Bank (2024), Link: <https://databank.worldbank.org/source/world-development-indicators>.

¹² See on the "fiscal policy indicator" of the World Bank, with the CPIA (Country Policy and Institutional Assessment) fiscal policy rating (of 1 is low and 6 is high): <https://data.worldbank.org/indicator/IQ.CPA.FISP.XQ>

¹³ Calculations made by the authors, based on WDI data from the World Bank (2024), Link: <https://databank.worldbank.org/source/world-development-indicators>.

Numerous theoretical and empirical studies have been conducted on the existence of fiscal states and on the mobilization of domestic revenues in SSA. Based on a critical review of the relevant literature on different conceptions of the fiscal state, Bak et al. (2021, p. 7) define the fiscal state as a state whose public revenue base is dominated by tax revenues and borrowing, and where the relationship between taxation and external and internal borrowing is balanced, sustainable, and characterized by interdependence. Unlike other types of states proposed by these authors — taxation state, indebted state, and rentier state — the fiscal state requires the fulfilment of certain economic prerequisites. Their results reveal that most Sub-Saharan African (SSA) countries are not fiscal states due to the absence of these economic prerequisites. Based on the history of taxation in SSA, Moore (2021) asserts, contrary to a widely held perception, the proven competence of SSA states in tax collection. Contemporary, SSA governments perform better on average than those in South Asia, in Latin America, and in the Caribbean in terms of tax collection relative to potential income and in terms of the efficiency of national tax administrations (Moore, 2021). From 1900 to the advent of the Covid-19 pandemic, a growing number of Sub-Saharan African (SSA) countries were becoming fiscal states with sufficiently reliable tax bases (Moore, 2021). According to this author, internal revenue sources generally financed colonial and independent governments. Although rarely achieving the status of fiscal states, Sub-Saharan African (SSA) countries, according to Moore (2021), have regularly increased the share of taxes in GDP since 1900, with significant fluctuations between the mid-1970s and mid-1990s.

In contrast, Albers et al. (2023) have focussed on quantifying the "substance" of 46 political entities in Africa by measuring their "fiscal capacity" and the factors influencing this capacity by using a comprehensive dataset on tax and revenue collection from 1900-2015. They consider taxes as the "backbone of an effective state", as taxes are essential for fulfilling its core functions. These authors view building fiscal capacity as a process, justifying their historical perspective to understand better the current levels of fiscal capacity in African countries. Their results reveal, among other things, the ability of African states to achieve significant real gains in total revenues since independence and to mobilize even revenues from hard-to-collect taxes. However, there is substantial heterogeneity over time and between countries (Albers et al., 2023). The historical analysis also reveals that the formation of fiscal capacities was influenced by the international environment — by world wars, decolonization, and access to external financing. Thus, according to Albers et al. (2023), fiscal capacity experienced strong growth during the world wars.

However, the national environment and, above all, fiscal policies also significantly affect states' fiscal performance. Moore (2021) has shown that implementing fiscal reforms — such as adopting VAT, promoting quasi-voluntary compliance, and integrating various tax functions and collection organizations —

has not produced the expected results as, for several decades, the tax-to-GDP ratio has remained broadly constant for many Sub-Saharan African (SSA) countries. He cites the following reasons: difficulty of effectively taxing transnational corporations, particularly in the mining and energy sectors, lenient treatment of the wealthy, and overestimation of the taxation potential of small informal businesses. Moore (2021) believes that this situation is likely to persist as the economic structure changes hardly to facilitate revenue collection. According to Bak et al. (2021), the absence of economic prerequisites explains the relative failure of tax system reforms because, in many African countries, the introduction of VAT and administrative reforms have not substantially increased tax revenues. For these authors, the emergence of fiscal states in SSA requires economic transformation and diversification that can generate a taxable surplus, thus facilitating the success of fiscal revenue mobilization strategies. The case of several countries in Africa lacking favourable economic structures, including Senegal — with the predominance of the low-productivity agricultural sector — was mentioned in these studies, and these authors call the outcome a "debt trap." Indeed, like many Sub-Saharan African (SSA) countries, Senegal had benefitted from substantial debt relief around 2005; however, debt had accumulated over time to reach 70% in 2023 (Republic of Senegal, Directorate General of the Treasury, 2023)¹⁴.

Furthermore, Albers et al. (2023) also simultaneously tested, using a fixed-effects panel specification, the canonical theories of fiscal capacity — by highlighting the importance of democracy, the role of governmental instability, and the danger of international conflicts — and the theories of extraversion — by stipulating the substitution of investments in domestic fiscal capacity by external resources (foreign aid, foreign debt, and resource exports). According to Albers et al. (2023), the canonical variables have limited the ability to explain divergent growth trajectories of fiscal capacity. However, these authors assert that governmental instability can reduce investment in fiscal capacity, particularly in states that can easily access foreign aid. Also, for significant levels of resource exports, the effect of democracy on fiscal capacity is particularly high (Albers et al., 2023). As for extraversion variables, access to external credit and foreign aid validates the substitution effect hypothesis, while the increase in resource exports

¹⁴ Republic of Senegal, Directorate General of the Treasury (2023). Economic and Financial Update, October 2023, Economic and Financial Situation of Senegal, link: https://www.finances.gouv.sn/app/uploads/20230926_Flash_mensuel_octobre-vf-en.pdf; see also the most recent World Bank Update on Senegal from June 12, 2024: Senegal Economic Update 2024: Seizing the Opportunity. Link: <https://www.worldbank.org/en/country/senegal/publication/afw-senegal-economic-update-2024-seizing-the-opportunity>

generally does not reduce the fiscal capacity. However, these authors recognize the normative implications of the concept of fiscal capacity, affirming the need to mobilize fiscal resources to ensure the rise of vital public services in Africa.

Resource mobilization necessarily involves implementing adequate reforms. However, the standard approach to tax reform in recent decades has been mixed according to Moore (2021); it has been relatively successful for Anglophone countries and remains inappropriate for some stable countries like Senegal and for countries with political instability, armed conflicts, and cross-border insurgencies. Moore (2021) also highlights the objective limitations of tax systems in some Sub-Saharan African (SSA) countries such as: low transparency, often unfair distribution of tax burdens, inefficiency in registration, assessment, and collection procedures, extortion, and corruption in assessment and collection.

According to Yaru and Raji (2022), among the governance indicators only corruption has a negative and significant impact on tax revenue performance in Sub-Saharan Africa (SSA). Sobrinho and Thakoor (2019) discussed the harmful role of corruption, particularly for Sub-Saharan African (SSA) countries. They noted that by hindering effective tax collection, creating an atmosphere of uncertainty and mistrust, and consequently an unstable and unreliable environment, corruption reduces tax revenues (Sobrinho & Thakoor, 2019). According to these authors, combatting corruption is essential for improving tax revenue mobilization in Sub-Saharan Africa. Sobrinho and Thakoor (2019) have identified the key factors in successfully reducing corruption in countries like Botswana, Chile, Estonia, and Georgia, which include political will, measures to reduce opportunities for corruption, such as reducing bureaucracy and trade barriers, measures to limit corrupt behaviour, and the improvement of fiscal institutions. Digitalization is seen as an innovative way to fight corruption, offering an opportunity to improve service delivery and governance, while enabling greater transparency and accountability (Sobrinho & Thakoor, 2019). They claim that digitalization, through the electronic processing of tax returns and refunds, reduces opportunities for corruption, lowers costs, and saves time by speeding up the processing of tax claims.

In short, to sustainably increase the tax-to-GDP ratio, Sub-Saharan African (SSA) countries should provide relevant solutions to these objective limitations, particularly by improving fiscal transparency to promote accountability and taxpayer trust, by strengthening their collection capacity, by combatting tax fraud and evasion, and by diversifying revenue sources — for example, by taxing digital services and natural resources, and by implementing environmental taxes. The World Economic Forum/WEF (2021) provided examples of successful tax reforms in several African countries by looking at measures such as: the introduction of new taxes on goods and services in The Gambia, taxes on hotels and financial services in Burundi, increased taxes on telecommunications in Mauritania, taxes

on tourism services in Cape Verde, and the reduction or simplification of corporate taxes in the Democratic Republic of Congo (DRC), Kenya, and Rwanda.

Tax revenue mobilization also requires fruitful international cooperation. In this context, over 130 countries and jurisdictions, including many African nations, have developed a new two-pillar plan in July 2021 to reform international tax rules and to compel multinational companies to pay their fair share of taxes, regardless of where they are located (World Economic Forum/WEF, 2021). Pillar 1 (Base Erosion and Profit Shifting/BEPS) aims to ensure a fairer distribution of profits and tax rights among countries concerning the largest multinationals, while Pillar 2 proposes a minimum international tax rate (MITR) to protect tax bases and to mitigate tax competition among countries (World Economic Forum/WEF, 2021). Therefore, African countries must unite and adopt a common position in international negotiations to fully benefit from the potential increase in corporate tax revenues offered by Pillar 1.

It is evident that a reasoned combination of these different sources of development financing must be enforced, but above all, a judicious use of the mobilized resources remains the cornerstone for achieving harmonious economic and social development. However, given the situation of most SSA countries characterized by heavy indebtedness and the existence of a proven fiscal potential and torn between an increasingly asserted desire for sovereignty - political, monetary, and economic - and a patent deficit of internal financial resources as evidenced by the statistics mentioned above, mobilizing fiscal resources through an effective and equitable tax regime becomes imperative.

This observation is the more plausible as most SSA countries are heavily indebted (United Nations, 2023). This debt constitutes a major handicap for these countries, especially the poorest countries, as affirmed by the United Nations (2023), due to high interest rates resulting from loans taken out in the fight against the COVID-19 pandemic. The burden of this debt - high loan repayment amounts - limits spending on essential public services such as health and education. Also, taxation constitutes the main source of financing for public services in several countries worldwide, especially in developed countries, while most SSA countries are characterized by a low level of tax pressure due, among other factors, to an under-taxed informal sector, despite its significant contribution to wealth and job creation (AfDB, 2010; Niang, 2020). This thematic unit thus focuses on fiscal policy in Africa, including the mobilization of fiscal resources and their efficient utilization, with a particular emphasis on the case of Senegal. Indeed, fiscal policy tops the list of priorities for international donors such as the World Bank, which recommend that countries, especially developing countries, better utilize their fiscal potential to improve the tax burden.

Although Africa primarily mobilizes its domestic resources to finance its development, these resources represent no more than half of its financing needs for the Sustainable Development Goals/SDGs (Jacquemot and Rafinnot, 2018).

This is mainly due to low tax mobilization. According to these authors, the tax burden in Africa ranged between 16% and 22% of GDP in 2017. There is significant room for greater tax mobilization, particularly through improved tax collection and increased new tax revenue sources. The central question remains that of better collection and efficient use of fiscal resources to promote the economic and social development of the African continent.

2 The Contributions

This unit is structured around five chapters.

The first essay examines the successful experiences in mobilizing fiscal resources to draw lessons for African countries with strong fiscal potential. The authors – **Seydi Ababacar Dieng and Mbaye Diene** – address in their essay “**Successful experiences in mobilizing tax resources: What lessons for high-potential fiscal countries in Africa?**” the issue of reducing the fiscal potential gap in African countries that have the capacity to increase their currently low tax revenues. The objective is to explore the most effective fiscal strategies for countries by identifying tax sources where they can increase their revenue. They first present successful experiences in fiscal policy to draw lessons for African countries. The main lesson is that tax increases must be accompanied by improvements in tax administration and must take place in a stable political and economic environment. Then, using the Stochastic Frontier Analysis (SFA) method, they measure the fiscal potential of African countries, determining to what extent each country is far from optimizing its tax capacity. They find that developing the agricultural sector, government efficiency, public education, and the quality of education are the main factors influencing a country's fiscal capacity.

The policy implications are as follows: for better revenue mobilization, countries must improve government efficiency, reduce the weight of the informal sector, develop the agricultural and foreign trade sectors, and increase investment in public education. Additionally, countries with low levels of tax collection must undertake comprehensive reforms to improve the efficiency of their tax systems. Those with moderate levels of tax collection must reduce their fiscal expenditures. Finally, in seeking ways to generate additional revenue, the authors note that governments must better assess transfers within multinational corporations, by taxing repatriated profits from mining companies. They should also increase excise duties, reduce tax expenditures for investors, improve VAT enforcement, and tax the incomes and assets of wealthy individuals.

The second essay, written by **Seydi Ababacar Dieng and Amath Diago**, examines in the essay “**The structure of tax revenue and its impact on economic growth in Senegal**” the structure of tax revenues and its impact on economic growth in Senegal. Descriptive statistics reveal a similarity in the

evolution of tax revenues and the main wealth indicator, GDP, in Senegal. The overall objective of this chapter is to highlight the existing relationships between the structure of tax revenues and economic growth in Senegal. The Vector Autoregressive Model (VAR) is used to analyse the causality between the two variables of interest. This modelling addresses the potential endogeneity problem of variables being inherent in structural models and allowing for the assessment, through response functions, of the propagation and historical decompositions of shocks. The results indicate that taxes on wages and labour remain the only type of tax to have a negative effect on real GDP. This result corroborates the theoretical conception of tax as being detrimental to economic activity. The results also show that any increase in real GDP and investments leads to an increase in taxes from foreign trade and international transactions.

These results suggest two major economic policy implications. The first economic policy implication is to broaden the tax base of wages and labour taxes, particularly by improving the tax collection rate and promoting a job policy through adequate incentives for job-creating enterprises. The second implication is to strengthen economic policy measures being favourable to investment and maintaining a low inflation rate. These measures will strengthen the dynamism of economic activity, will contribute to wealth creation and, consequently, will increase tax revenues, especially those from foreign trade and international transactions.

The third essay, contributed by **Issa Faye, Seydi Ababacar Dieng, and Dame Thiam**, on **“Impacts of tax expenditures on the economy, poverty, and inequality in Senegal”** attempts to evaluate the impacts of fiscal expenditures on the economy, on poverty, and on inequality in Senegal. This chapter evaluates the economic and social effects of fiscal expenditures in Senegal. To this end, a dynamic computable general equilibrium model (CGEM) with microsimulation was implemented to complement the previous assessment in 2016 of the budgetary cost of fiscal expenditures by estimating revenue losses. The results, based on a counterfactual scenario, reveal that fiscal expenditure measures generate a short-term economic growth gain of around 4.11 percentage points, associated with an 8.5 percentage point decrease in poverty incidence. These performances are mainly attributable to exemptions from customs duties, followed by those related to the value-added tax (VAT) and the financial activities tax (FAT), and to a lesser extent to direct taxes (Personal Income Tax/PIT and Corporate Income Tax/CIT).

However, the long-term use of revenue recovered through the elimination of fiscal expenditures for public investments would contribute to a slight improvement in economic performance, with an average net growth gain of 1.72 percentage points over ten years, as well as a modest positive social impact. The scenario of gradually rationalizing fiscal expenditures leads to a decrease in activity of 0.08, 0.12, and 0.18 percentage points respectively, following respective reductions of 10%, 15%, and 20% in the exemptions applied to PIT and

CIT. Additionally, the progressive reduction of fiscal expenditures related to VAT, applied to products in the secondary sector, is expected to result in economic growth losses of around 0.06, 0.09, and 0.11 percentage points respectively.

The fourth essay is on the rationalization of fiscal expenditures in Senegal and was co-written by **Seydi Ababacar Dieng and Issa Faye** in their study on **“Streamlining tax expenditures in Senegal: Towards efficient public resource management”**. Fiscal expenditures (FE) amounted to 846.1 billion CFA francs in 2020 in Senegal, equivalent to 5.9% of GDP. These exemptions mainly affect indirect taxes, accounting for 89.6% of the total cost, with the majority attributed to Value Added Tax (VAT), reaching 743.27 billion CFA francs. This chapter applies a rationalization of fiscal expenditures (FE) to 10 specific products, targeting VAT. Microsimulation results from the dynamic intertemporal computable general equilibrium model (CGEM) reveal that, if rationalization focusses on VAT borne by households, this may have a slightly negative impact on the economy and social aspects. However, if it targets VAT borne by businesses, the economic impact would be positive, with negligible social effects. The combination of both options would generate positive economic effects but would have a negative impact socially.

The authors recommend targeting products for rationalization without major negative effects, accompanied by transfers to households or public investments based on the tax burden. For imported decorticated rice, rationalizing VAT would encourage local production while generating significant tax revenues. This chapter thus proposes ways to recover over 100 billion CFA francs annually through the rationalization of FE, while minimizing adverse effects on the economy and social sphere.

In the fifth and final essay, **Ousmane Ly and Ulrike Schuerkens** discuss in their study **“Promoting local public finance in Senegal: strategies for mobilising tax resources to meet the challenges of local economic development (LED) in the communes of Saint-Louis and Kolda”** the context of decentralized taxation in relation to local economic development (LED) dynamics in Senegal. This is done by analysing resource mobilization strategies in the municipalities of Saint-Louis and Kolda. The aim of this research is to systematize resource mobilization strategies and ongoing fiscal innovations in the regions of Saint-Louis and Kolda, as well as their impact and their generative effects in terms of promoting local economic development (LED). Compared to the theoretical and methodological framework, the authors argue that classical economic analysis of taxation is no longer sufficient to explain the relevance of fiscal procedures: it must be supplemented by the socio-political dimension of fiscal sociology, which includes social, political, and territorial functions. Local taxation must therefore place territorial issues at the heart of its concerns, seeking new possible connections with the socio-economic dynamics of local communities.

To test this hypothesis, the study was mainly conducted in two Senegalese municipalities: in Saint-Louis and in Kolda. These two case experiences show that, despite the strong potential that exists, local taxation still struggles to provide municipalities with real financial autonomy. The revenues generated locally and via transfers from the central government are far from sufficient to cover all the costs. Local taxation still seems very disconnected from the real issues and challenges faced by local areas, particularly in terms of producing viable areas being favourable to LED. Based on their various observations and conclusions in the field, the authors propose several policy implications, three of which are outlined below. Firstly, local taxation should be more closely linked to current LED challenges by introducing new budget lines for a better implementation of programmes and by creating specific development funds within municipalities which are fuelled by their own resources to finance certain local economic initiatives. Secondly, the traditional method of local authority management should be replaced by a more pragmatic, resilient, and effective form of management, focussing on LED, to better address the needs and challenges of local areas and to improve the living conditions of the local population. Thirdly, and finally, the state must ensure that local authorities receive a fair transfer of the resources they need to carry out their tasks, meaning that transfers of competencies should be followed by adequate financial transfers. However, all the areas have different conditions, endowments, and actors, so that LED needs adjustment to the site.

3 The Strategy

The five essays presented in this Unit on the development of the fiscal state in Africa with the case of Senegal have highlighted various issues of taxation and resource mobilization in African countries. Through rigorous in-depth analyses, the fiscal situation of African countries was considered by looking deeply at the case of Senegal. The essays consider also rather neglected topics in research on the fiscal state of sub-Saharan African (SSA) countries. New strategies have been suggested by the authors for a better mobilization of national resources to significantly increase the fiscal capacity of African countries in general and of Senegal in particular. The authors consider how the fiscal capacity can be increased; the conditions for such successes are outlined. Some policies and strategies which are applied in Senegal, and which are reported in these five essays can benefit - when applied - neighbouring and other African economies and their population to realize sustainable economic benefits.

What is concretely the relevance of the Unit for the Plan Sénégal Emergent (PSE), for the Senegalese government programmes, for the economic policies of Senegal, and for improving fiscal federalism in Senegal?

The new political authorities in Senegal, recognizing the weak results of the PSE, have proposed a new economic policy direction called the "National Development Strategy/Stratégie Nationale de Développement 2025-2029 (SND)", aimed at achieving a "sovereign, just, and prosperous Senegal" (Republic of Senegal, 2024, p. 13). Implementing the SND over the next four years should result in a systemic transformation of the Senegalese economy, fostering job-creating economic growth and leading to better living conditions for the population.

How relevant is the Unit for the reconstruction of the fiscal system and the fiscal reforms in Senegal?

This Unit is particularly relevant to the economic policies of public authorities as it highlights the sub-optimality of Senegal's tax system and proposes improvements. The SND document corroborates the results obtained in this Unit, particularly regarding the estimated annual tax revenue losses of 161 billion CFA francs due to tax fraud and evasion (Republic of Senegal, 2024). The SND also acknowledges, as suggested by this Unit, the need to broaden the tax base and to reduce the dominance of the informal sector to significantly increase domestic tax revenues. Furthermore, Senegal's current public debt level – 73% of GDP (Republic of Senegal, 2024) – and its high cost underscore the critical need to mobilize fiscal resources, especially considering the country's significant untapped tax potential.

What are the main strategic outcomes of the five essays?

The relevance of strategic implications becomes obvious when considering the three groups of issues discussed in the Unit (basic lessons for Senegal to become a high-performing tax country; basic lessons on the role of tax exemptions and tax incentives and the volume of cost reduction by streamlining the systems; and the basic lessons on local economic development (LED) funded by genuine local taxation)? It is important to highlight the basic lessons from the three topics addressed in this Unit.

For the first topic, covering the first two essays, two basic lessons emerge for African countries to achieve a strong tax performance. The first lesson suggests that states must undertake urgent and deep reforms to improve the efficiency of their tax systems. The second lesson reveals that optimizing tax capacity necessarily requires increased tax revenue mobilization, particularly by broadening the tax base for payroll and labour taxes, while also improving government efficiency and reducing the size of the (untaxed) informal sector.

The findings of the second topic, covering the third and fourth essays, also suggest two key lessons. The first lesson highlights the importance of carefully

targeting fiscal expenditures, favouring measures such as customs duty exemptions, which have a positive impact on economic growth and contribute to reducing poverty and inequality. The second lesson reveals that states should prioritize rationalizing tax expenditures on VAT borne by businesses, given its positive economic effects and negligible social impacts.

As for the third topic, related to the fifth essay, the results suggest two basic lessons. The first lesson indicates that the current local taxation framework, despite the existence of a proven potential for taxation at local levels, remains inadequate for meeting the challenges of LED in Senegal. The second lesson underscores the need for innovative management by municipalities – having inherited new responsibilities – and the necessity for substantial financial support from the (central) state.

What is the relevance for other African tax reformers?

The essays presented in this Unit underscore, through an in-depth analysis, the fiscal situation of these countries, particularly comparing them with Senegal. This Unit is of considerable relevance for nearly all sub-Saharan African (SSA) countries, especially those seeking to reform their tax systems. Indeed, the results from the first essay show that sub-Saharan African (SSA) countries are far from optimizing their tax capacity. The authors have suggested new strategies for better mobilizing national resources to significantly increase the tax capacity of African countries in general and of Senegal in particular. It is believed that these contributions – as described – would benefit African economies and their populations by achieving sustainable economic advantages.

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Successful experiences in mobilizing tax resources: What lessons for high-potential fiscal countries in Africa?¹

Seydi Ababacar Dieng² and Mbaye Diene³

1 Introduction

African countries collect relatively less tax revenue compared to those in other regions of the world. The average tax burden on the continent was 16.6% in 2019, as opposed to 22.9% in Latin America and 33.8% in the Organization for Economic Co-operation and Development (OECD) countries. This rate increased by 1.8 percentage points of the Gross Domestic Product (GDP) between 2010 and 2019 in Africa. Value-added tax (VAT) and personal income tax are the primary components explaining this increase. However, there are significant disparities. While tax burdens are approximately 6% in Nigeria and 7% in the Democratic Republic of Congo (DRC), the tax burden exceeds 30% in Tunisia. The highest rates are found in Maghreb and Southern African countries, such as South Africa and Lesotho. The urgency for African countries to broaden their tax bases is reinforced by declining commodity prices and reduced foreign aid. Nevertheless, the risk of this expansion is a reduction in investments and economic growth, presenting these countries with a dilemma that necessitates finding non-disruptive ways to increase tax revenue.

What explains the low tax revenues? Firstly, there is the narrow tax base, primarily linked to the lack of economic diversification, regulatory and governance issues, and the significant presence of the informal sector. For example, the average size of the informal sector in sub-Saharan Africa (SSA) is 38% of the total GDP. Secondly, in many of these countries, taxes on production and the sale of

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goods and services represent a significant portion of tax revenue (more than 50% on average across the continent in 2019, with VAT accounting for approximately 29.3% of these revenues). These taxes tend to discourage investments, leading to a decrease in tax revenues, creating a vicious cycle.

What are the alternatives in this situation, and which are the non-distortive sources to replenish state budgets? African countries often rely on rents or taxes from natural resource exploitation, but these sources are prone to depletion, not to mention the volatility of tax revenues from them. However, some resource-poor countries, like Ethiopia, Togo, and Malawi, have successfully increased their tax revenues through policies aimed at expanding the tax base. There is hope because some countries, such as Rwanda, have managed to increase tax revenues through smart reforms while reducing foreign dependency through efficient resource investments. On the contrary, Nigeria struggles to bridge its fiscal gap, and the country has adopted a new national fiscal policy to mobilize missing tax resources and broaden the tax base.

Reform efforts are widespread in Africa, but success depends on potential, resource mobilization capacity, and tax administration adaptability. In terms of growth, countries that have reformed their tax systems have become relatively more efficient than those with abundant natural resources. However, some countries have not yet tapped into all their resource potentials, especially in fossil fuels, such as Senegal and Ivory Coast.

Given that traditional sources of budget funding are becoming less effective (aid, grants, rents, royalties, VAT, etc.), states are compelled to adopt optimal fiscal policies. What is their potential for domestic revenue mobilization, and what are the constraints they face? Various questions arise in this context: What are the most effective fiscal strategies that do not distort economies? To answer these questions, we must draw lessons from successful experiences, and we need to identify the conditions for success.

What are the elements of these reforms, and what are the conditions for success? In some countries, ongoing reforms aim to formalize and to regulate the informal sector to create non-disruptive tax bases. Suitable conditions are required for these reforms to succeed, and Small and Medium Enterprises (SMEs) must operate in a conducive commercial and competitive environment to reduce the size of the informal sector. If commercial activities are concentrated in a few large enterprises, broadening the tax base becomes more challenging. Other countries implement measures to control and to crack down on illicit trade flows (which account for more than 7.5% of the volume of trade flows in Sub-Saharan Africa/SSA).

What are the constraints, opportunities, and prospects to consider the conditions for the success of fiscal strategies? First, it needs to be acknowledged that urbanization must be accounted for. Infrastructure spending on basic social services in cities, linked to high urbanization rates in Africa, implies increased taxes.

Therefore, taxing land in major cities is an opportunity if real estate markets are dynamic. Second, demographic changes are also essential in the attempt to pursue any new fiscal strategy. The youth segment of the population, combined with increased life expectancy, can either be a barrier or an opportunity for revenue mobilization. Third, the growth of the African middle class, much of which operates in the informal sector, could inspire hopes for expanding the tax base. Factors determining the viability of New Fiscal Strategies need to be considered. Tax increases and fiscal consolidation, to be viable, must take place in an environment of political and economic stability, respect for property rights, accountability, transparency, and universal access to energy, especially electricity.

Therefore, this research intends to be analytical rather than technical, and aims to achieve the following objectives:

- First, we identify African countries capable of increasing their revenues by broadening the tax base without introducing distortions into the economy.
- Second, we draw lessons from successful resource mobilization strategies.
- Third, we determine the conditions for success for countries that have increased their tax burdens.
- Fourth, we identify public policies and domestic market characteristics that enable meeting the fiscal challenges while safeguarding countries from resistance and social unrest.
- Fifth, we propose fiscal policies that can be implemented within regional integration frameworks to maximize resource mobilization efficiency.

This paper consists of five sections. After the introduction in section one, we examine in the second section the evolution of tax pressures and fiscal structures in Africa. In the third section, we analyse fiscal potentials and measure tax efforts using stochastic frontier methods. In the fourth section, we identify public policies and domestic market characteristics that can help to overcome the fiscal challenges. In the fifth section we give conclusions and policy recommendations.

2 Tax Pressures and Fiscal Structures in Africa

Let us define taxes as compulsory transfers made without any corresponding services provided to public administrations. Fiscal structure, on the other hand, refers to the distribution of different categories of taxes within the total volume of tax revenues. In Annex 1, we present the types of taxes which are generally applied by countries, with slight variations. In this section, we analyse tax pressure in Africa and the structure of the tax systems. In the box below we give the most important definitions for our study (Box 1).

Box 1: Definitions of Concepts Used for the Research

Fiscal capacity: The per capita income that a country would obtain if it applied a pre-established average tax rate to its tax bases.

Tax base: Amount to which a tax rate applies.

Tax pressure: The ratio of compulsory taxes to GDP.

Fiscal potential: The distance between the fiscal frontier and the actual level of fiscal revenue. Fiscal potential can be achieved through higher taxation or more efficient revenue collection, which may result from certain policy choices.

Tax gap: The difference between the tax potential and the tax pressure.

Source: Authors

2.1 Fiscal Transitions in Africa

Imposition sources capable of strengthening the development processes of African countries exist, and regional integration organizations are aware of this, as reflected in their common economic programmes. The African Union's Agenda 2063 incorporates the exploitation of the African countries' tax potential. African countries have diverse experiences in taxation, but broadening the tax base, enhancing the efficiency of tax administrations, and reducing the size of the informal sector are measures that can increase public financial resources. This is especially significant because the primary source of financing the African state is tax-based. Tax revenues, in fact, far exceed financial support from multilateral/bilateral aid and cooperation, foreign direct investments, and remittances from expatriates.

The question is whether African countries have exhausted all their possibilities for fiscal transitions. In the 1980s, waves of economic liberalization, reduction of some tax rates and of customs duties, and rationalization of public spending led to tax revenues being more derived from foreign trade and the activities of formal economic agents. The first fiscal transition aimed to boost foreign trade by reducing customs duties and increasing indirect taxation, particularly VAT. Variable tax rates by sectors were adopted to stimulate demand (lower rates, for example), to discourage consumption (excise taxes on tobacco and alcohol), or to support production (exemptions). Weaknesses in tax administrations and dysfunctions in taxation policies and instruments led to an expansion of tax expenditures, particularly exemptions. The inefficiency of fiscal policies quickly became evident, and reforms were deemed to be necessary from the early 2000s onwards. A second wave of transitions occurred with reforms aimed at greater efficiency and equity, including the removal of tax exemptions, the reduction of tax rates, and the broadening of tax bases. This wave was implemented, to varying degrees of flexibility, as part of regional tax harmonization programmes. However, tax exemptions continue to exist, especially for foreign investors and multinational corporations, who often demand tax breaks despite generating substantial profits and repatriating them.

2.2 Tax Pressures

Figure 1 below presents the share of tax revenues in the GDP of African countries in 2020. The total tax and para-fiscal revenues – including Social Security Contributions – in Africa were estimated as a percentage of GDP at 22.2% in 2018, 22.5% in 2019, and 22.8% in 2020 (OECD, 2022). This apparent stagnation hides several disparities, with some countries experiencing high tax pressure (Lesotho, Morocco, South Africa, Republic of Congo/Brazzaville, Tunisia), and others showing very low tax pressure (Nigeria, Democratic Republic of the Congo).

Many sub-Saharan African countries have tax pressures that are generally lower than the African average. Countries grappling with security issues tend to have relatively low tax pressures, ranging between 17% and 22.2% (Mali, Niger, Burkina Faso, Chad). This reflects more the difficulties in tax collection and the fact of a small formal economic sector rather than a lack of willingness to expand tax bases. Issues related to weak and inefficient tax administrations also contribute to this situation. These circumstances also imply significant revenue losses due to tax avoidance and tax evasion. Both these phenomena have cost the continent approximately \$17.1 billion USD in 2021, according to a report by Tax Justice Network (2021). While this is just a fraction of the \$483 billion USD lost globally, Africa is relatively more affected when considering these losses as a percentage of GDP. It is worth noting that in 2020, these losses were around \$25.4 billion USD.

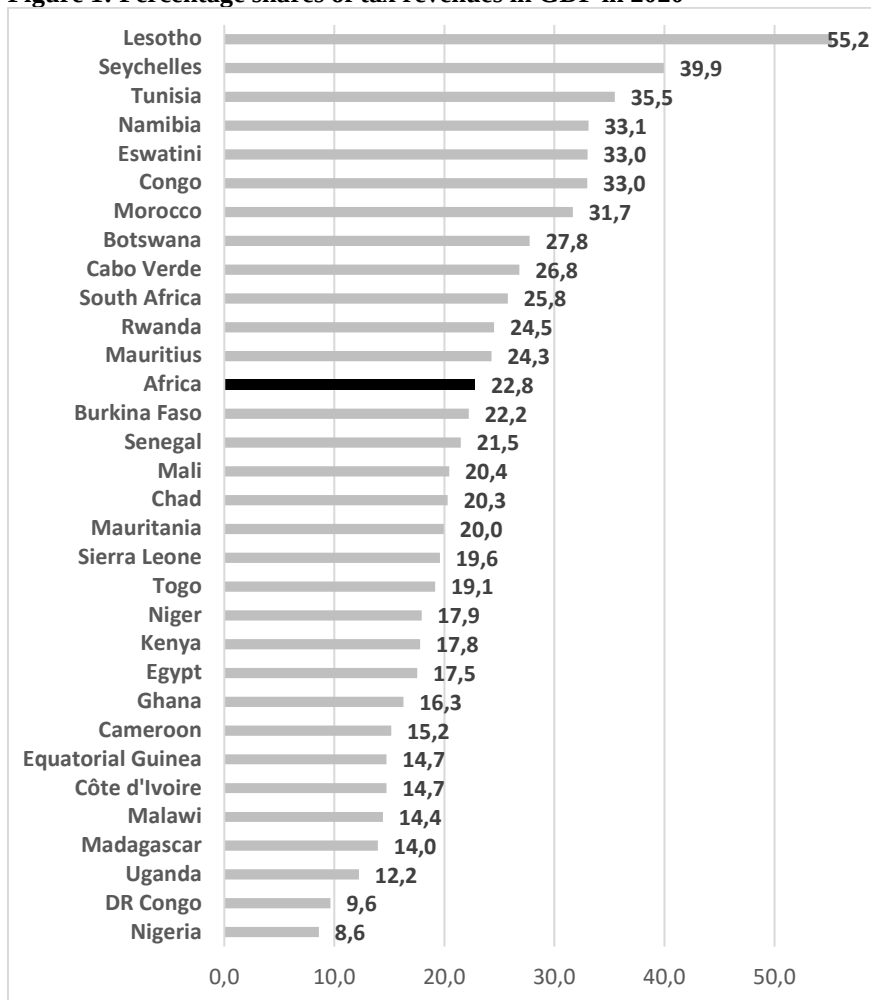
Increasing tax revenues, when they are directed towards productive sectors in the form of investments or subsidies, can promote Africa's development. However, tax pressure rates have been evolving slowly for years, with some reluctance to reduce tax rates and to expand the tax base. This strategy has the advantage of bringing more equity to taxation systems and reducing income inequalities. It is therefore desirable to increase tax pressure while adhering to socioeconomic conditions that have a positive effect on the redistribution of living standards and for creating conditions of competitiveness. But how can this increase be achieved given various constraints, including administrative, economic, and even political ones? What roles are expected from the various stakeholders?

2.3 Explanatory Factors for the Evolution of Tax Pressures

A trend analysis shows that tax pressure has increased slightly since 2010, from 22% to 23% in 2015, and then decreased in the following years until 2020. The observed increase can be linked to a certain economic optimism, particularly due to economic programmes and improved living conditions. It should be noted that efforts to formalize the informal sectors have also yielded results. Endowments in natural resources (such as oil and gas) have increased opportunities for tax revenue mobilization for many African countries. Tax pressure is an indicator for measuring a country's tax efforts, but its evolution depends on several factors, including

the diversity of productive sectors and their contributions to wealth creation, good governance of tax administration, and external openness.

Figure 1: Percentage shares of tax revenues in GDP in 2020



Source: OECD (2023)

It also relies on the willingness of economic agents to cooperate, with or without constraints, with public authorities through better traceability of their activities, resulting in taxation efficiency.

This means that in a situation of full transparency, tax pressure would be at its optimal level, given the means of the tax administration, fiscal policies, and economic performance. This ideal optimal situation is achieved when the gap between it and the actual tax pressure is minimized. Therefore, there is a fiscal effort to be made between actual taxation and potential taxation. It should be noted that this effort is not straightforward, especially if a country is part of economic integration organizations that may impose suboptimal fiscal measures externally. This constraint can add to the difficulties of implementing fiscal efforts. Thus, finding the right taxation thresholds is as crucial as finding the proper utilization of revenues.

A rather common technique for assessing this gap is by estimating the stochastic frontier, where the error term is decomposed into two components, one following a centred normal distribution, and the other following a normal distribution. It allows for comparing a country's fiscal performance with the average performance of a reference set. Using this method, a tax pressure of 15% or 20%, respectively, should be considered as a minimum threshold, according to the International Monetary Fund (IMF) and the West African Economic and Monetary Union/ Union économique et monétaire ouest-africaine (WAEMU/UEMOA), for a state to function normally.

2.4 Tax Structures

Recall that the tax structure refers to the distribution of various tax categories within the total tax revenues. In the following table 1, we classify countries based on their tax structures, which will facilitate the analysis of their efforts to reduce tax gaps.

If we read this table 1 according to the types of revenue, we see that in South Africa the Personal Income Taxes are the leading source of tax revenue (36%), while this is the last source in Cameroon (7%). These taxes do not have a great weight in countries like Cape Verde and Burkina Faso, where they account for just 10%. Corporate Income Taxes account for a very large share of tax revenues in Botswana (61%), but these taxes have little weight in South Africa (14%), Burkina Faso (14%), and in Congo (12%). Social Security Contributions account for just 1% of revenue in South Africa and are low in Cameroon (8%) and in Burkina Faso (12%). Value Added Taxes (VAT) are the first source of tax revenue in Cape Verde (38%), Cameroon (31%), and in Burkina Faso (29%), and are the second largest source of tax revenue in South Africa (24%), Botswana (35%), and Congo (26%).

Table 1: Classification of Tax Structures by Country in 2020

Sources Taxes	First source	Second source	Third source	Fourth source	Fifth source	Sixth source
Personal Income Taxes	South Africa (36%)		Republic of Congo (18%)	Cape Verde (10%)	Burkina Faso (10%)	Cameroon (7%)
Corporate Income Taxes	Botswana (61%)		Cameroon (15%) Cape Verde (20%)	South Africa (14%) Burkina Faso (14%) Republic of Congo (12%)		
Social Security Contributions			Burkina Faso (12%)		Cameroon (8%)	South Africa (1%)
Value Added Taxes (VAT)	Cape Verde (38%) Cameroon (31%) Burkina Faso (29%)	South Africa (24%) Botswana (35%) Republic of Congo (26%)				
Taxes on Goods and Services Other than VAT	Burkina Faso (29%) Republic of Congo (38%)	Cameroon (27%) Cape Verde (27%)	South Africa (14%) Botswana (4%)			
Other Taxes				Cameroon (11%) Republic of Congo (11%)	South Africa (8%)	Burkina Faso (3%) Cape Verde (5%)

Source: Authors, based on OECD data (OECD 2023). **Note:** “Other Taxes”: This group of taxes includes taxes levied on bases other than those already indicated. They include flat-rate taxes, stamp duties not linked to real estate or securities transactions, and unidentifiable tax revenues.

Taxes on Goods and Services (other than VAT) are also the leading source in Burkina Faso (29%) and in Congo (38%). They are second as a source of tax revenue in Cameroon (27%) and in Cape Verde (27%). Other taxes as sources have a minor weight, ranging from 3% to 11%. Looking at the six sources and at the various countries of Africa which are considered, we see the great diversity of tax structures, especially for the first source (personal income taxes) and for the second source (corporate income taxes). The reasons for these differences are manifold (historical/colonialist/structural/procedural/operational, etc.)

3 Measurement of Fiscal Potentials

This section aims to measure the fiscal potentials of the considered African countries. To achieve this, it is useful to briefly present the Stochastic Frontier Approach (SFA) method first. In the second part, we will calculate and analyse the fiscal efforts of these countries.

3.1 Brief Description of the SFA Method

Proposed by Aigner et al. (1977), Meeusen and Van Den Broek (1977), and further improved by Jondrow et al. (1982), the parametric approach complements and enhances the validity of the non-parametric approach's results (Fouopi and Song, 2016). The Stochastic Frontier Approach (SFA) is the most frequently used method among parametric approach methods. Additionally, the SFA method has other major advantages, such as being less sensitive to outliers, considering the multiple interdependencies among explanatory factors, and having no restrictions on the form of the objective function. In the SFA method, the parametric frontier is specified based on a stochastic frontier, considered as the frontier of best practice. In this specification, the error decomposition into two terms allows distinguishing between the inefficiency of units through the inefficiency component (one-side term error) and random effects through the "random error" component (two-side term error). The latter component simultaneously accounts for measurement errors and exogenous shocks (Benzai, 2016). The random component follows a symmetric normal distribution, while the inefficiency component follows an asymmetric distribution whose sign depends on the nature of the function (Kumbhakar et al., 2014). The latter introduced an improved version of the stochastic frontier model. They accounted for individual heterogeneity within the sample, attributed to hidden time-constant factors. Moreover, they decomposed inefficiency into two parts: one that persists over time and another that evolves with time.

Furthermore, there are several econometric estimation methods for the stochastic frontier. These include maximum likelihood (Aigner and Chu, 1968;

Timmer, 1971), least squares (Tauer and Belbase, 1987), and the method of moments. In the quest for more reliable estimators of individual inefficiencies (Benzai, 2016), a plurality of extensions of stochastic frontier models has been proposed (Orea and Khumbakar, 2004; Battese and Coelli, 1988, 1992, 1995). The use of panel data models that incorporate different sources of heterogeneity (Benzai, 2016) aligns with this perspective and is applied in various economic sectors, including taxation. According to this author, there is a growing interest in modelling this heterogeneity. According to Hsiao (2006), the use of this modelling approach offers many advantages, such as reducing the estimation bias and the multicollinearity risk, considering unobservable heterogeneity, conducting more comprehensive tests, and using cross-sectional data distributions under less restrictive conditions.

In the context of this work dedicated to the analysis of taxation, the goal is to measure the fiscal potentials of the countries under review. More specifically, we will determine the frontier of fiscal efficiency and the fiscal gap or the fiscal potential. Thus, in accordance with the theoretical foundations, the fiscal efficiency frontier represents the set of the most efficient countries in terms of tax mobilization of all kinds. The distance of each country from this fiscal frontier represents its degree of fiscal inefficiency. After this brief description of the SFA method, it is important to proceed with the calculation and analysis of the fiscal effort of the African countries under review. The multiple advantages of the formalization by Battese and Coelli (1992) justify the choice to use this modelling, done in a similar way as Fenochietto and Pessino (2010, 2013), and the IMF (2018). However, the chosen estimation technique is that of Kumbakhar et al. (2014).

3.2 Calculation and Analysis of Fiscal Efforts and Potentials

3.2.1 The Measuring Approach

According to the IMF (2017, p. 58), the fiscal frontier is the "theoretical maximum level of fiscal revenue - expressed as a percentage of GDP - that a country can collect under certain underlying structural conditions (level of development, openness to trade, sectoral composition, income distribution, institutional factors, etc.)." And then action is needed to assess the gap between the fiscal frontier and the fiscal potential. "The fiscal potential corresponds to the distance between the fiscal frontier and the actual level of fiscal revenue. Fiscal potential can be achieved through higher taxation or more efficient revenue collection, which may result from certain policy choices" (IMF, 2017, p. 58). As for the fiscal effort, it refers to "the ratio of actual fiscal revenues to those corresponding to the fiscal frontier" (IMF, 2017, p. 58).

In this section, the model specification is based on that of Battese and Coelli (1992), as adopted by Fenochietto and Pessino (2010, 2013), and the IMF (2018). It is a revised and augmented model with four new variables. The variables in the

revised and augmented model consist of variables used by Fenochietto and Pessino (2010, 2013) and the IMF (2018), as well as new variables. The variables used by these authors include fiscal revenues as a percentage of GDP, trade openness, GINI coefficient, agricultural value-added as a percentage of GDP, and public education spending as a percentage of GDP. The new variables include GDP per employee, political stability, government effectiveness, and informal production as a percentage of GDP (MIMIC/Multiple Indicators Multiple Informality Causes model-based estimates of informal output).⁴ Variables measuring corruption and the efficiency of public authorities are also included to assess the impact of institutions.

This model, based on the formalization proposed by Battese and Coelli (1992), is formulated as follows:

$$y_{it} = \alpha_i + \beta' X_{it} + \vartheta_{it} + \mu_{it}$$

where:

y_{it} is the log of the fiscal revenue-to-GDP ratio for country i in year t

X_{it} is a vector of independent variables that influence y_{it}

ϑ_{it} is the error term, following a normal distribution with $N(0,1)$

μ_{it} is inefficiency, which is correlated with X_{it} , but independent of ϑ_{it} .

The estimation strategy consists of three successive steps. First, the fiscal frontier is estimated using a panel data approach for 22 African countries for which data are available. Second, the fiscal effort is determined, which is the ratio of actual fiscal revenues to those corresponding to the fiscal frontier. Third, the fiscal frontier and fiscal potential will be determined.

1st step: Estimation of the fiscal frontier:

In this step the approach of Kumbhakar et al. (2014) is used. As mentioned above, these authors adopted a decomposition of inefficiency into two parts: persistent inefficiency and transitory inefficiency. This decomposition is justified by the fact that stochastic frontier models assume that the inefficiency of a firm - in this case, a country - at a given moment has no connection to its level of inefficiency in the past. However, it seems more plausible that a firm - a country - can reduce some

⁴ The MIMIC model stands for the “multiple indicator multiple causes” complexity phenomenon and is used for measuring the underground economy/the informal economy and informality issues. See on the abbreviations: <https://jasp-stats.org/2022/02/01/multiple-indicators-multiple-causes-mimic-model-in-jasp/>. JASP is an abbreviation for: Jeffreys’s Amazing Statistics Program.

of its inefficiency by overcoming certain short-term constraints, while other sources of inefficiency may prevail over time.

The equation of the model becomes:

$$y_{it} = \alpha_i + \beta' X_{it} + u_i + \vartheta_{it} - w_i - \mu_{it}$$

where:

u_i represents individual heterogeneity,

ϑ_{it} is the error term,

w_i represents inefficiency that is time-invariant,

μ_{it} is inefficiency that varies over time,

Overall inefficiency is derived from ω and μ .

2nd step: Calculation of the fiscal effort:

- Time-varying fiscal effort: $EFV_{it} = e^{(-\mu_{it} \text{ estimated})}$
- Time-invariant fiscal effort: $EFI_i = e^{(-w_i \text{ estimated})}$
- The overall fiscal effort (EFG) of country i at date t is determined by the product of time-varying fiscal effort (EFV) and time-invariant fiscal effort (EFI):

$$EFG_{it} = EFV_{it} \times EFI_i$$

3rd step: Determination of the fiscal frontier and the fiscal potential:

The fiscal frontier indicator and the fiscal potential are calculated as follows:

$$PF_{it} = FF_{it} - y_{it} = \frac{y_{it}}{EFG_{it}} - y_{it}$$

After specifying the model and outlining the estimation strategy, statistical and econometric results need to be presented and discussed.

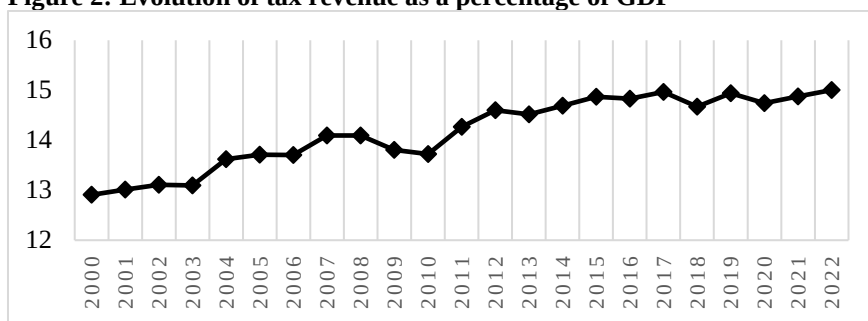
3.2.2 Data Sources

All data are sourced from the World Bank. Specifically, data pertaining to the variables Tax revenues/GDP, Trade Openness, GINI coefficient, GDP per Employee, Agricultural Value-Added/GDP, Public Education Expenditure/GDP, and Informal production/GDP (MIMIC) are extracted from the World Development Indicators (WDI) database of the World Bank. For the other variables – Government Efficiency and Corruption Control – the data are derived from the Worldwide Governance Indicators (WGI) database of the World Bank. Initially, the study was intended to cover all countries in sub-Saharan Africa (SSA). However, considering the availability of data for the period 2000-2022, only the following 22 countries have been selected: Ethiopia, Republic of the Congo, Malawi, Uganda, Liberia, Côte d'Ivoire, Cameroon, Rwanda, Togo, Burkina Faso, Guinea-Bissau, Senegal, Mali, Egypt, Ghana, Zambia, Kenya, Cape Verde, Tunisia, Morocco, South Africa, and Namibia.

3.2.3 Analysis of the evolution of the variables being of interest and the descriptive statistics of the model's variables

In this section, we first examine the evolution of the main variables being of interest in the model. Then, we analyse the descriptive statistics of the model's variables. The figure 2 below shows the evolution of tax revenues as a percentage of GDP for all countries in the sample over the period 2000-2022. A visual examination of this figure reveals a highly fluctuating trend over the period under consideration, although the overall trend of the tax revenues/GDP curve is upward. Indeed, four sub-periods can be identified. The first sub-period, 2000-2007, is characterized by a gradual increase in tax revenues/GDP, rising from about 12.9% to 14.1%. For the second sub-period, 2008-2010, there is an unfavourable trend, with the percentage of tax revenues relative to GDP experiencing a decrease of nearly 0.5%. This decline in performance can be attributed to the difficult international economic situation caused by the subprime crisis.

Figure 2: Evolution of tax revenue as a percentage of GDP



Source: Authors, based on WDI data provided by the World Bank. **Note:** We see in the figure the Tax Revenue/GDP share on the ordinate and at the abscissa the years 2000 to 2022 along the time axis. Concerning the four subperiods we identify the first sub-period, 2000-2007, the second sub-period, 2008-2010, the third sub-period, 2011-2017, and the fourth sub-period, 2018-2022 to identify specific developments.

The third sub-period, 2011-2017, is characterized by an improvement in the tax revenues/GDP ratio, with an increase of about 0.8%. As for the last sub-period, 2018-2022, the countries in the sample experience a sawtooth pattern of evolution, with an average of $\pm 0.3\%$. Overall, the dynamics of tax revenue evolution relative to GDP in the sample countries remains relatively weak. In fact, the percentage increase over the period 2000-2022 averages only about 2%. Furthermore, table 2 below presents the descriptive statistics for all the variables in the model.

Table 2: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
Tax Revenue / GDP	506	14.168	5.5	4.331	34.629
GDP per Employee	506	13631.465	11764.187	1700.055	48920.034
Trade Openness	506	28.066	15.524	0	78.431
GINI	506	43.2	8.414	26.85	64.8
Agriculture Value Added / GDP	506	20.707	13.337	1.927	79.042
Public Education Expenditure / GDP	506	4.362	1.935	.266	13.948
Government Efficiency	506	-.567	.524	-1.792	.695
Corruption Control	506	-.478	.565	-1.581	1.203
Informal Production / GDP (MIMIC)	506	37.692	5.297	25.953	49.775

Source: Authors, based on WDI and WGI data provided by the World Bank. **Notes:** Obs. for number of observations; Std. Dev. for Standard Deviation; Min. for Minimum and Max for Maximum.

The average value of tax revenues as a percentage of GDP is relatively very low, standing at 14.17%. With a standard deviation of 5.5, the variable "Tax Revenues/GDP" shows relatively strong dispersion. Over the period considered, Ethiopia has the lowest percentage of tax revenues/GDP at 4.33%. Namibia is the most virtuous country in terms of tax collection, with a tax revenue rate of 34.63% of its GDP. It is worth noting that the West African Economic and Monetary Union (WAEMU) requires its member countries to have a tax collection rate of 35% of GDP, and none of the sample countries has reached this threshold.

The average GDP per employee is \$13,631.46 USD, with a high dispersion as the standard deviation is \$11,764.19 USD. Ethiopia has the lowest GDP per employee (at \$1,700.05 USD), while Egypt has the highest (\$48,920.03 USD).

The average trade openness rate of the countries considered is 28.07%, with a high dispersion of 15.52%. The Republic of the Congo has the highest trade openness rate (78.43%).

The average Gini index is 43.2, with a dispersion of 8.41. South Africa remains the most unequal country with a Gini coefficient of 64.8, and Guinea-Bissau has the lowest coefficient (26.85).

The average "Value Added Agriculture/GDP" ratio is 20.71% for all the countries considered, but with significant dispersion (13.34%). This average value highlights the importance of the agricultural sector for these countries compared

to the low shares of public education spending. The weight of the agricultural sector in the economy is higher in Liberia (79.04%) and lower in South Africa (1.93%).

The variable "public education spending/GDP" has an average of 4.362% for all sample countries. This average is very low compared to the "Value Added Agriculture/GDP" variable. However, it shows much less pronounced fluctuations (1.935) than the "Value Added Agriculture/GDP" variable (13.337). Tunisia is the most virtuous country in terms of education spending as a percentage of GDP at 13.95%, while Liberia is at the bottom with 0.266%.

Both institutional variables (government efficiency and corruption control) have negative average values for all sample countries. The "Government Effectiveness" variable shows poor performance, with an average value of -0.567 and a high dispersion (0.524). Citizens in the sample countries believe that their government provides poor-quality public services and is not independent from political pressures. Tunisia has the best performance in the group, with a score of 0.695, while Liberia has the worst performance (-1.792). The "Control of Corruption" variable has a negative average value, which corresponds to overall negative perceptions from citizens in these countries. However, due to the high dispersion, which is greater than the average in absolute value, some sub-Saharan countries still have a long way to go to eradicate - or at least to significantly reduce - corruption. In terms of corruption control, Guinea-Bissau is the country with the worst score (-1.581), and Cape Verde is the most virtuous country with a score of 1.203.

The informal sector makes a significant contribution to wealth creation in the sample countries, as the average contribution of the "Informal Production/GDP (MIMIC)" variable is 37.69%, with relatively low dispersion of 5.3%. The contribution of this sector is much higher in Zambia, at 49.78%. Egypt has the lowest contribution of the informal sector at 25.95%.

Furthermore, table 3 below presents the correlation matrix between the model variables. All the explanatory variables are positively correlated with the endogenous variable "Tax Revenues/GDP". The explanatory variables are also correlated with each other. However, overall, there is no risk of autocorrelation since the level of correlation among these variables is relatively low. Discussion of the econometric results will be presented and interpreted in the following section.

The results of the parameter estimations for the dynamic model are presented in table 4 below. The estimations are conducted for the period 2000-2022, and generally they reveal significant results. Four issues matter in this context:

First, the coefficients of the control variables "GDP per employee", "GINI coefficient", and "Control of corruption" are positive but not significant. Therefore, these variables do not exert any influence on the endogenous variable. The "Control of corruption" variable does not have a significant effect on the "tax revenues/GDP ratio". This result contradicts theoretical predictions. However, the

IMF (2017) establishes a negative and significant effect of the GINI coefficient on the tax revenues as a percentage of GDP in sub-Saharan countries.

Table 3: Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Log Tax Revenue/GDP	1.000								
(2) GDP per Employee	0.699*	1.000							
(3) Trade Openness	0.447*	0.416*	1.000						
(4) GINI	0.460*	0.263*	0.307*	1.000					
(5) Agriculture Value Added/GDP	-0.490*	-0.659*	-0.588*	-0.432*	1.000				
(6) Public Education Expenditure/GDP	0.652*	0.509*	0.459*	0.193*	-0.457*	1.000			
(7) Government Efficiency	0.659*	0.622*	0.291*	0.275*	-0.547*	0.605*	1.000		
(8) Corruption Control	0.556*	0.417*	0.254*	0.260*	-0.407*	0.554*	0.799*	1.000	
(9) Informal Production /GDP (MIMIC)	-0.525*	-0.511*	0.005	-0.195*	0.255*	-0.384*	-0.503*	-0.310*	1.000

Source: Authors have made these calculations.

Second, the coefficients associated with the variables “Value Added Agriculture/GDP” and “Government Efficiency” are positive and significant (at the 10% threshold). Thus, a 1% increase in “Value Added Agriculture/GDP” leads to a 0.003 percentage point increase in the “Tax Revenue/GDP ratio”. This result demonstrates the relative weakness of the agricultural sector's contribution to tax revenues in the countries of the sample. Unlike the first mentioned institutional variable (“Control of corruption”), an improvement in “Government Efficiency” leads to an increase in “Tax Revenue/GDP”.

Third, “Informal Production/GDP (MIMIC)” has a highly significant negative effect (at the 5% threshold). In fact, a 1% increase in the weight of informal activities leads to a 0.013% decrease in the “Tax Revenue/GDP ratio”. This result confirms the detrimental nature of the informal economy on tax revenue mobilization in the considered countries.

Fourth, the results indicate that the variables “Public Education Expenditure/GDP” and “Trade Openness” have a highly significant positive effect (at the 1% threshold) on the “Tax Revenue/GDP ratio”. Thus, a 1% increase in “Public Education Expenditure/GDP” results in a 0.038% increase in “Tax Revenue/GDP”. “Public Education Expenditure/GDP”, therefore, positively influences the “Tax Revenue/GDP ratio”. A 1 percentage point increase in Trade Openness leads to a 0.006 percentage point increase in the “Tax Revenue/GDP ratio”. However, the influence of “Public Education Expenditure/GDP” on “Tax Revenue/GDP” is much more significant than that of “Trade Openness”.

Table 4: Estimation Results of the Model

Log Tax Revenue / GDP	Coeff.	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Log GDP per Employee	.43	.429	1.00	.317	-.411	1.27	
Log GDP per Employee 2	-.015	.023	-0.64	.521	-.061	.031	
Trade Openness	.006	.001	4.21	0	.003	.008	***
GINI	0	.002	0.22	.826	-.003	.004	
Agriculture Value Added / GDP	.003	.002	1.68	.093	0	.006	*
Public Education Expenditure / GDP	.038	.007	5.72	0	.025	.051	***
Government Efficiency	.083	.049	1.71	.088	-.012	.178	*
Corruption Control	.028	.045	0.63	.531	-.061	.117	
Informal Production / GDP (MIMIC)	-.013	.005	-2.56	.01	-.022	-.003	**
Constant	.046	2.009	0.02	.982	-3.891	3.983	
Mean dependent var.	2.581			SD dependent var.	0.372		
Overall r-squared	0.608			Number of obs.	506		
Chi-square	183.695			Prob > chi2	0.000		
R-squared within	0.196			R-squared between	0.719		

*** p<.01, ** p<.05, * p<.1

Source: Authors, based on WDI and WGI data provided by the World Bank. **Notes:** Coef. for Coefficient, St. Err. for Standard Error, Conf. Interval for Confidence Interval, Sig. for Sign, SD for standard deviation, var. for variable, prob for probability.

In conclusion, the obtained results validate most of the research hypotheses put forward and remain broadly consistent with those of the IMF (2017). Indeed, over the period considered (2000-2022), the results have revealed the need to reduce the importance of the informal sector, to increase government efficiency and openness to external trade, but also to strengthen the agricultural sector and, especially,

the education sector, considering the weight of its contribution to the “Tax Revenue/GDP ratio”.

Furthermore, the table 5 below provides the results of the estimations of the equation, using the basic stochastic frontier model (SFA), to obtain persistent inefficiency.

Table 5: Estimation of Persistent Inefficiency

Dependent Variable α	Coef.	St. Err.	t-value	p-value	[95% Conf.	In-ter-val]	Sig
Constant	.224	.009	25.91	0	.207	.241	***
Sigma2_u	-5.84	.267	-21.87	0	-6.363	-	***
						5.316	
Sigma2_w	-2.589	.088	-29.56	0	-2.76	-	***
						2.417	
Mean depend-ent var.	0.000		SD dependent var			0.167	
Number of obs.	506.000		Akaike information Crite- rion (AIC)			.	
*** p<.01, ** p<.05, * p<.1							
Sustained fiscal effort over time 0.8092117 (Mean)							

Source: Authors, based on WDI and WGI data provided by the World Bank. **Notes:** Coef. For Coefficient, St. Err for Standard Error, Conf. Interval for Confidence Interval, Sig. for Sign, SD for Standard Deviation, and AIC for Akaike Information Criterion.

The results of the estimation of persistent inefficiency reveal that the persistent tax effort over time averages 80.92% for all the countries considered. This represents the contribution of tax administration services to their performance in tax revenue mobilization. These services must enhance their performance for their country to move closer to the tax frontier.

Table 6 below provides the results of the estimations of the equation, using the basic stochastic frontier model, to obtain transient inefficiency.

As for the estimation of transient inefficiency, Table 6 above indicates that the average transient tax effort over time is 88.46% for the sample countries. This result is attributed to the relevance of fiscal policy measures and the organizational mode of tax administration services. Therefore, these countries must further enhance their fiscal policies to achieve tax efficiency. Table 7 below is summarising the estimation results.

Table 7 presents the overall tax effort and its two components. It reveals that the overall tax effort - corresponding to the average tax burden rate - stands at 71.64% of the fiscal potential of all the countries in the sample, over the period 2000-2022. The breakdown of this overall tax effort shows that the contribution of fiscal policy measures and the organizational mode of tax administration services is higher (88.46%), while that of the performance of tax administration services is 80.92%.

In conclusion, the level of overall tax effort urges the sample countries to intensify their efforts to harness their fiscal potential to achieve tax efficiency.

Indeed, the gap separating them from tax efficiency is relatively high (28.36%). Countries must strive to strengthen their fiscal policy through bold reforms and to motivate tax service agents to achieve optimal resource mobilization.

Table 6: Estimation of Transient Inefficiency

Dependent Variable ε estimated	Co ef.	St. Err.	t-value	p-value	[95% Conf	Inter- val]	Sig
Constant	.127	.015	8.54	0	.098	.156	***
Sigma2_μ	-4.264	.139	-30.77	0	-4.535	-3.992	***
Sigma2_v	-3.656	.222	-16.45	0	-4.092	-3.22	***
Mean dependent var.	-0.000		SD dependent var		0.154		
Number of obs.	506.000		Akaike Information Crite- rion (AIC)		.		
*** p<.01, ** p<.05, * p<.1							
Transitory fiscal effort over time 0.8845884 (Mean)							

Source: Authors, based on WDI and WGI data provided by the World Bank. **Notes:** Coef. For Coefficient, St. Err. For Standard Error, Conf. Interval for Confidence Interval, Sig. for Sign, SD for Standard Deviation, AIC for Akaike Information Criterion.

Table 7: Summary of the Estimation Results for Inefficiency

	Value
Sustained fiscal effort over time	0.8092117 (Mean)
Transitory fiscal effort over time	0.8845884 (Mean)
Total fiscal effort	0.7163967 (Mean)

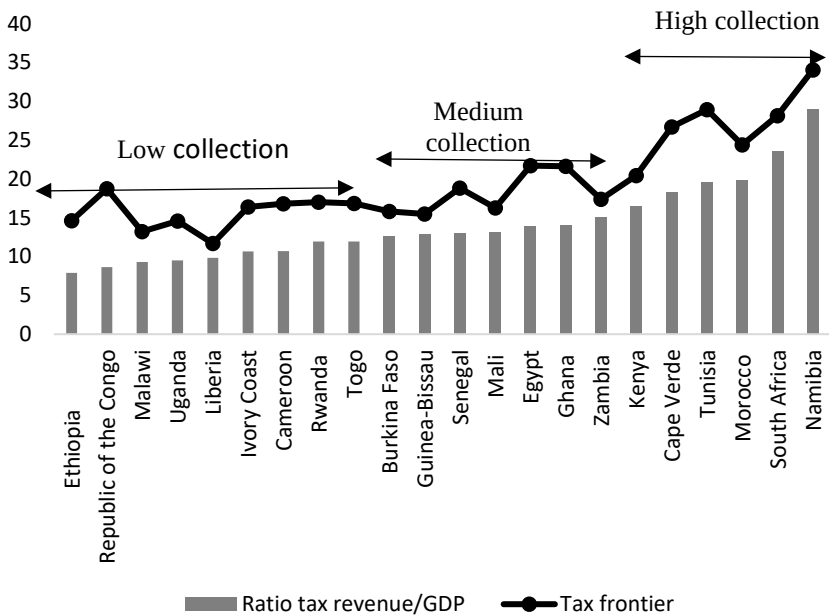
Source: Authors, based on WDI and WGI data provided by the World Bank

As for the situation of the sample countries regarding tax revenue, fiscal potential, and the tax frontier, the figure 3 below shows that it varies significantly from one country to another.

The countries in the sample are grouped into three categories based on the level of tax revenue collection for the period 2000 - 2022. The first group consists of countries with a low level of tax revenue collection (tax-to-GDP ratio below 12%). These countries include Ethiopia, the Republic of the Congo, Malawi, Uganda, Liberia, Côte d'Ivoire, Cameroon, Rwanda, and Togo. The second group consists of countries with a moderate level of tax revenue collection, ranging from 12% to 16% of the GDP: Burkina Faso, Guinea-Bissau, Senegal, Mali, Egypt,

Ghana, and Zambia. The third group comprises countries with a high level of tax revenue collection (tax-to-GDP ratio above 16%): Kenya, Cape Verde, Tunisia, Morocco, South Africa, and Namibia.

Figure 3: Tax Revenue/GDP Ratio and Tax Frontier, over the period 2000-2022



Source: Authors, based on WDI and WGI data provided by the World Bank

The average level of the tax frontier for countries in the first two groups and one country from the third group, Kenya, is generally below 22% of GDP, while for the other countries in the third group, it ranges from 24.39% to 34.07% of the GDP. This result can be explained by a higher level of economic and institutional performance in these countries (Cape Verde, Tunisia, Morocco, South Africa, and Namibia).

Most of the countries rich in natural resources belong to the first two groups of countries. They have a low or moderate level of tax revenue collection (less than 16% of GDP). Apart from Zambia, none of the countries in these two groups is reaching the minimum threshold of tax pressure required for a state to function normally, as mentioned above, which is set at 15% or 20% by the IMF and the West African Economic and Monetary Union (WAEMU). These countries also have the lowest average level of the tax frontier (below 22% of GDP). This observation suggests that countries rich in natural resources are less efficient than others in terms of tax collection and the tax frontier.

However, the analysis of the fiscal potential or average fiscal gap reveals more nuanced results regarding the assessment of tax revenue mobilization. Beyond

structural factors hindering tax collection, some countries in the low-revenue group may be more efficient than those in the other two groups. For example, Liberia, a member of the first group, is the closest country regarding its fiscal frontier. It is the most efficient country since it has the lowest average fiscal gap (1.83% of GDP) over the study period. It is followed by Zambia with a fiscal potential of 2.32% of GDP and by Guinea-Bissau (2.61% of GDP). Other countries with a fiscal gap of less than 4% of GDP include Mali (3.22%), Burkina Faso (3.17%), Malawi (3.93% of GDP), and Kenya (3.99%).

On the other hand, all other countries have a fiscal gap of more than 4% of GDP. The Republic of the Congo (10.11% of GDP) and Tunisia (9.36% of GDP) remain the countries farthest away from their fiscal frontier and are the least efficient in terms of tax collection. They are followed by Cape Verde (8.49% of GDP), Egypt (7.87% of GDP), and Ghana (7.64% of GDP). However, countries in the first group, such as the Republic of the Congo and Ethiopia, have a higher cost in terms of tax collection inefficiency, given their low total tax revenue levels.

In conclusion, the analysis of the various results obtained shows that most countries in the sample need to significantly improve the functioning of their tax systems not only to substantially reduce or eliminate fiscal gaps, but also, and above all, to mobilize substantial resources to finance their economic and social development programmes and projects. Furthermore, a strong mobilization of tax revenues inevitably requires addressing underlying structural factors, particularly reducing the informal sector's weight in the economy, increasing government efficiency, and opening the country up to international trade.

4 Resource Mobilization and Fiscal Potential

The task is to understand how to increase the tax revenues without negatively affecting economic activities, while respecting criteria such as fairness, justice, efficiency, and trust. States are obliged to find strategies to establish sustainable tax systems. However, they face difficulties in increasing tax revenue growth. According to the OECD, two-thirds of developing economies struggle to increase their taxes to more than 15% of the GDP, the minimum required rate for the proper functioning of an economy. In this section, we will discuss successful experiences and possible mobilization strategies, focussing particularly on the mining and minerals sector, as the African continent is a major exporter of these natural products.

4.1 Successful Experiences with tax reforms by Countries

This involves explaining the objectives and methods of implementing tax policies and presenting possible mobilization strategies based on the countries and sectors with successful experiences.

4.1.1 Objectives and Methods of Implementing Tax Policies

We can identify the objectives of tax policy measures and the usual methods of implementation observed in countries:

Objectives: Countries take measures, among other things, to promote the environment, to give access to social goods, credit, education, security, to protect against erosion of the tax base, and to facilitate the movement of goods and people.

Methods: In particular, the adoption of technological support facilities, the introduction of new taxes (such as VAT in Saudi Arabia and in the United Arab Emirates in 2018), the transformation of business taxation, the modernization of international tax rules, and mobilizing increased revenue from specific sectors, are the key areas for action.

We present here the cases of certain countries whose tax policies fall within these series of objectives.

Morocco: The country has reformed its business taxation by reducing VAT to 12.5% and transitioning to cascade sales taxes. Additionally, taxes that were previously recoverable for businesses have become non-recoverable. The corporate tax rate of 30% has become progressive, with rates of 31%, 20%, and 10%, which will have a positive effect on prices.

Gambia: Tax reforms were adopted in 2018, not only to increase tax revenue but also to promote the environment and to give access to social goods. Excise duties on alcoholic beverages increased from 10% to 75% since 2019. In 2021, taxes on social benefits decreased from 35% to 27%. A national education tax of 0.75% is also levied on annual incomes. In 2023, the environmental tax increased to 5%, and a security tax is applied to all insurance premiums.

Guinea: Although the minimum flat tax rate was reduced from 3% to 1.5%, the minimum amount of flat tax to be paid by large companies has increased.

Senegal: In 2023, the finance law introduces measures in taxation by raising the rate of the Tax on Insurance Agreements (TCA) and by modifying levies on insurance companies. The rate is now 0.5% of the turnover instead of 1% on life insurance premiums, excluding reinsurance companies. The expected effect is to increase revenue from the sector while reducing taxation on holders of policies.

Ghana: Since 2018, a reform has been implemented to modify the rates applied to recoverable and non-recoverable VAT, aiming to collect resources for healthcare and education.

India: India's successful experience in this regard is noteworthy. In 2017, the country introduced a multi-rate taxation system for goods and services called the Goods and Services Tax (GST) to facilitate the movement of goods and people and to improve access to credit. This tax reform, which does not affect small businesses, led to an increased income tax and to simplified tax procedures. GST is applied with electronic invoicing, resulting in more effective fraud prevention and leading to a gradual formalization of the economy.

United States: In 2017, the United States underwent a major tax reform, the most significant in about three decades, by reducing tax rates for businesses and individuals and modernizing the country's international tax rules. This resulted in a reduction of the overall corporate tax rate and of the income tax rate, from 35% to 21%. Incentives were introduced to combat base erosion.

4.1.2 The Importance of New Technologies in Taxation

The introduction of electronic tax declaration and payment systems began in the United States in 1986, and the number of countries using them has been steadily increasing. Indeed, modern technologies present an opportunity for fiscal policy, although they also pose certain challenges. Some countries seek to increase their tax revenues through a combination of rate reductions (such as VAT) and the introduction of new taxes. This latter action can make compliance with tax obligations more challenging for taxpayers. It is worth noting that despite their efforts, sub-Saharan African (SSA) countries are lagging in the adoption of online tax filing and payments. This is due to the time it takes for tax authorities and taxpayers to adopt electronic tax systems, as well as the weakness of technological infrastructure and the lack of trained human resources in managing these systems. However, investing in information and communication technologies (ICT), along with an efficient electronic system, makes a tax administration more productive and reduces the time and effort required by taxpayers to fulfil their tax obligations. Indeed, this investment in connections, human resources, and electronic payments, is paying off as it:

- facilitates communication between taxpayers and the tax administration.
- makes it easier to declare and pay taxes, as electronic payments for taxes gain popularity.
- streamlines the management and automation of data, even when it comes from numerous taxpayers.
- contributes to strengthening public-private partnerships as the government collaborates with other entities to implement taxation (such as banks, telecommunications operators, etc.).

New technologies (Blockchain, Artificial Intelligence, Big Data) offer significant opportunities for archiving, real-time tracking, information-sharing on business activities, and allowing for more efficiency of tax authority inspections. Changes in tax rates become more easily applicable, and future revenues can be anticipated with greater precision. Obviously, as systems become more sophisticated, there will be costs associated with training human resources and with maintaining and securing tax platforms and their technological supports.

Some sub-Saharan African (SSA) countries, such as Côte d'Ivoire, Kenya, Mauritius, Senegal, and Togo, have still managed to improve the efficiency of their tax administrations by introducing online tax declarations and payment systems. In this regard, the experience of Côte d'Ivoire is instructive. The tax

administration made online tax declarations mandatory for medium and large enterprises on a system platform whose reliability and security were tested first. Collaboration with banks to facilitate online payments was crucial for the smooth operation of the system. In some countries, like Kenya, these payments are even mandatory for certain taxpayers, particularly for social security contributions. In Senegal, a new payment platform allows taxpayers to avoid visiting tax offices to pay their taxes, including VAT, resulting in time and cost savings for them. We see that really there are several advantages to adopting online payments because, apart from specialized software to install or to master, no new infrastructure is required. Companies' accounting systems do not necessarily need to be modified to adapt to tax authority platforms. Moreover, there are virtually no installation and maintenance costs borne by the taxpayer or the government, which, furthermore, has a greater capacity to combat tax fraud and to verify information.

4.2 Possible Mobilization Strategies by Countries and Sectors

The question at hand is where to find additional revenue, how to improve tax administration, and what new tax policies should be adopted at the national and international levels? Let us recall the grouping of the countries:

The first group is made up of the countries whose tax-to-GDP ratio is below 12%. The second group has a ratio between 12% to 16%. The third group comprises countries with a ratio above 16%.

4.2.1 Tax Potential by Types of Taxes

We assumed that any tax source that weighs less than 20% of the country's total tax revenue can be enhanced. We have already identified the weight of the different tax sources for each of the countries in table 1. Based on that, we show which countries can improve one these six tax categories: Personal income tax, Corporate Income tax, Social Security contributions, Value added tax (VAT), Other consumption taxes, and Other Taxes. We assume that when a tax accounts for less than 20% of a country's total tax revenue sources, it is possible to increase its percentage by redistributing the weight within the tax structure. Based on the rankings provided in the previous tables, especially the table 1 with the tax revenue shares which are raised for certain categories of taxes by different African countries, we can identify the types of taxes that could be increased in some countries:

- Personal income tax refers to taxes levied on the net income (gross income minus allowable tax deductions) and on capital gains of individuals: Congo (18%), Cape Verde (10%), Burkina Faso (10%), and Cameroon (7%).
- Corporate income tax refers to taxes levied on the net profits (gross profits minus allowable tax deductions) of businesses. It also includes taxes on corporate capital gains: Cape Verde (20%), Cameroon (15%), South Africa (14%), Burkina Faso (14%), Congo (12%).

- Social security contributions encompass all mandatory payments made to public administrations that entitle individuals to future social benefits (allowances for accidents, illness, retirement pensions, disability and survivor benefits, family allowances, reimbursement of expenses, etc.): Burkina Faso (12%), Cameroon (8%), South Africa (1%).
- Value-added tax (VAT) and Other consumption taxes refer to taxes levied on the production, extraction, sale, transfer, lease, on the delivery of goods and the provision of services, or on the use of goods or the authorization to use goods or carry out activities; this mainly includes value-added taxes and sales taxes: South Africa (14%), Botswana (4%).
- Other taxes: these are not part of the exercise.

More specifically, we can identify the following tax policies to address the questions raised:

1 Where to find additional revenue?

- Assessment of the transfers within multinational corporations: These corporations often employ strategies to circumvent the taxation of their products. They engage in internal entity loans, knowing that the interest payments on these loans are often not subject to taxation or are subject to low taxation in the countries where the funds will be transferred. This practice is now under scrutiny by African states like Sierra Leone and Kenya.
- Tax profits repatriated by mining companies: These profits are not only undervalued by companies but are sometimes outside the scope of taxation due to clauses agreed upon during negotiations on investments, especially in the mining sector. These are funds outside the tax base, and so are lost by the states.
- Increase of the excise duties: These duties are applied to specific products that states may want to discourage consumption of. It is an expandable field of taxation, and states, with a well-structured tax administration, can collect more revenue from it.
- Reducing the tax expenditures made for the benefit of investors: States are sometimes engaged in tax competition by reducing their tax rates or granting exemptions to certain types of investments. These are tax expenditures, resulting in revenue losses.
- Improving the enforcement of value-added tax (VAT): Control of purchase and sale operations is essential, based on accurate and transparent invoicing. To do this, an efficient tax administration is always necessary, equipped with sufficient human resources. Generally, states tend to combine VAT and the taxes on goods and services (GST). The economic efficiency of both types of taxes is already proven, but VAT is more economically efficient as it is charged to the final consumer of the goods. However, it is more complex to

manage and exposes itself to competition and fraud due to the refunds it grants. Therefore, some states take measures to make it non-refundable and to regulate it through new technologies. Nevertheless, the tax on goods and services increases the purchasing costs of goods and services for businesses.

- Taxing even more the resources (income and assets) of the wealthiest citizens: This is not yet a widespread form of taxation in African countries, but significant revenue losses are observed continent-wide.
- Increasing the taxation on urban real estate property: Real estate is booming due to increasing urbanization. Tax revenues can be collected with more control over the sector, especially as profits from real estate activities are steadily rising.

These strategies can help countries to enhance their revenue collection and to improve their fiscal policies.

2 How to Improve Tax Administration?

- Harnessing the integration, centralization, and transparency opportunities offered by digitization to better manage operational processes (from declarations to the accounting of tax revenues).

3 Adopt New Tax Policies at the National and International Levels

- Supplement corporate profit tax with a turnover tax.
- Reduce bilateral international tax treaties.
- Strengthen sub-regional cooperation in tax policy.

4.2.2 Taxation Strategies for Extractive Industries

It is possible and necessary to reduce tax evasion in the African mining sector and so to increase state tax revenues. Africa is abundantly endowed with natural resources, such as being the world's second-largest gold producer. However, it fails to derive fair benefits from these resources. Sub-Saharan African countries, which hold 30% of global mineral reserves, suffer significant annual tax revenue losses in the mining sector. The reason is that multinational corporations investing in this sector often find ways to avoid paying high taxes. According to the IMF (2021), these countries lose \$450 to \$730 million in annual corporate tax revenues due to profit-shifting by these companies and tax cuts granted by states. For the 15 most resource-rich countries in the region, only six heavily tax mining activities, and mining revenues represent only 2% of GDP on average.

African states collect revenue from these companies through royalties, corporate taxes, and through dividends from their participation in mining projects. However, they grant privileges by applying lower tax rates than statutory rates. As another ploy to avoid paying high taxes, companies repatriate their profits by transferring them to low-tax countries through, for example, interest-bearing loans between different subsidiaries. The interest charges on the loan are deducted from

taxes in African countries. They also use subtle exploitation techniques to under-value extracted minerals, or they use subcontractors to transfer profits to other countries. Increasing the difference in corporate tax rates between the producing country and other countries with lower taxation rates reduces declared profits by mining companies by 3.5 percentage points.⁵

To address these issues, strategies include:

- Blocking profit transfer circuits of multinational corporations.
- Strengthening transfer pricing protection, as seen in Guinea, Liberia, and Mali.
- Eliminating or reducing interest deductions, as done by South Africa and Nigeria.
- Tightening the regulation of tax treaties to reduce opportunities for tax base erosion, as seen in Kenya.
- Ending tax incentives.
- Adhering to the global minimum tax of 15% to reduce competition-related tax erosion.

In conclusion for this section, the importance of new technologies in taxation should be emphasized. Some sub-Saharan African countries can introduce electronic systems for tax declaration and payment to increase their tax revenues. However, as it requires investments in technological infrastructure and human resources, this may not be feasible for all countries. Among countries with low or moderate levels of tax collection (first and second groups), the need for technology is very high. Investments in technology can be realized for countries such as Uganda, Egypt, Ghana, Cameroon, Rwanda, and Zambia. It can be noted that Senegal, Côte d'Ivoire, and Togo have already introduced online tax declaration and payment systems. Since installation and maintenance costs are low, the other mentioned countries can seize the opportunities offered by tax technologies, although it may be somewhat more challenging for Guinea-Bissau. The security situation in countries like Burkina Faso, Mali, and Niger makes it urgent to increase revenue mobilization capacity through technology.

We have presented possible revenue mobilization strategies by countries and sectors. Using the tax boundaries as presented in the previous section 3, we can already say that countries with low tax collection levels should mainly resort to

⁵ This means that mining companies benefit from tax differences. They declare 3.5% less of their real profits if the difference in tax rates increases between the producing country and other countries. The reference value is the profit in the case of no increase in the difference between tax rates. As soon as this difference varies, the companies take advantage of and change the amount of their declared profits.

personal income tax, social security contributions, and corporate profit tax, notably Congo, Burkina Faso, and Cameroon. Among countries with high tax collection levels, social security contributions and corporate profit tax are sources of revenue increase and potential gap reduction, such as Cape Verde and South Africa.

5 Conclusions and Policy Recommendations

This research addresses the problem of reducing the fiscal potential gap in African countries. Despite their overall low tax revenues, these countries have the capacity to increase their fiscal revenues. Consequently, states are compelled to adopt optimal tax policies to compensate for the underperformance of traditional sources of budgetary income. Given the diversity of fiscal revenue sources and the unequal distribution of potentials and collection capacities, we sought the most effective tax strategies for each country that would not create economic distortions. Specifically, this study identified and ranked African countries that can increase their tax pressure, and it has proposed conditions for the success of these policies. The methodological approach began by presenting successful tax policy experiences to draw lessons for African countries. We then identified opportunities for successful tax strategies, recognizing that tax increases should be accompanied by improvements in tax administrations in a stable political and economic environment.

Concerning the quantitative results, we measured the fiscal potential of African countries using the Stochastic Frontier Analysis (SFA) method to evaluate their tax effort. This method allowed us to determine the distance of each country from the fiscal potential to see how far away the country is from maximizing its fiscal capacity. The regression results reveal the importance of certain fundamental macroeconomic variables and institutional factors. These results indicate that the agricultural sector, government efficiency, public education spending, and trade openness have a positive and significant effect on the tax revenue-to-GDP ratio, while the informal sector has a negative and significant effect on the tax revenue-to-GDP ratio. Institutional factors, through the Government Efficiency variable, make the greatest contribution to increasing the Tax Revenue-to-GDP ratio. The other variables that follow in terms of contribution to the increase in Tax Revenue-to-GDP ratio are, in descending order of importance, education spending-to-GDP, trade openness, and the value added of the agricultural sector-to-GDP. Agriculture therefore contributes positively, albeit weakly, to increasing tax revenues in the sample countries. Conversely, an increase in Informal Production-to-GDP leads to a decrease in the Tax Revenue-to-GDP ratio. The informal sector thus poses an obstacle to revenue mobilization in the sample countries.

The results suggest four types of economic policy implications:

The first concerns almost all the sample countries and follows from the regression results. These countries must raise their fiscal frontier to hope for greater tax mobilization. Specifically, for better tax revenue mobilization, these countries need to improve government efficiency - a key institutional factor; they need to reduce the weight of the informal sector; and they need to strengthen macroeconomic fundamentals - by developing their agricultural sector, by increasing public education investments, and by expanding their foreign trade. The other three types of economic policy implications concern tax revenue mobilization and depend on the level of tax collection in countries.

The second type of economic policy implications requests the countries with a low level of tax collection (tax-to-GDP ratio below 12%), such as Ethiopia, the Republic of the Congo, Malawi, Uganda, Liberia, Côte d'Ivoire, Cameroon, Rwanda, and Togo, to undergo profound reforms to improve the efficiency of their tax system. Specifically, these reforms should allow them to significantly improve their tax collection rate while implementing adequate means to expand their fiscal frontier.

The third type of economic policy implications refers to countries with a moderate level of tax collection (between 12% and 16% of GDP), like Burkina Faso, Guinea-Bissau, Senegal, Mali, Egypt, Ghana, and Zambia, as these countries are generally in a situation being comparable to countries with a low level of tax collection. However, almost half of this group, with the countries Senegal, Ghana, and Egypt, records higher tax gaps. Implementing relevant reforms could significantly reduce their tax inefficiency. A significant reduction in tax expenditures, particularly exemptions, could increase efficiency gains and bring them closer to their fiscal frontier.

Finally, the fourth type of economic policy implications, refers to countries with a high level of tax collection (tax-to-GDP ratio above 16%), such as the countries Kenya, Cape Verde, Tunisia, Morocco, South Africa, and Namibia, and these countries have a much higher fiscal frontier than other countries, except for Kenya. However, their tax gaps are larger, notably for Cape Verde and Tunisia, with the smallest gap in the group being around 4% of GDP. These countries seem to have better-organized tax systems and better governance systems, but they still need to further improve their tax systems to increase the tax revenue mobilization.

Drawing lessons from successful experiences, we have identified ways to generate additional revenues, by better assessing transfers within multinational corporations, taxing profits repatriated by mining companies, increasing excise duties, reducing tax expenditures for investors, improving the application of value-added taxes (VAT), taxing the incomes and assets of wealthy individuals, and by increasing urban property taxation. To improve tax administration, we found that adopting new tax policies at the national and international levels is necessary. Strategies for taxing extractive industries have also been proposed. Reforms of the tax system in Senegal require huge investments. Investment in information and

communication technologies, along with an efficient electronic system, are needed to make the tax administration more productive. This will help to seize the opportunities given by the new technologies (Blockchain, Artificial Intelligence, Big Data). That will lead to more accuracy in all fiscal information and to enhanced efficiency of tax inspections. Changes in tax rates will also be more easily implemented.

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Annex: Different Types of Taxes

Income Tax

- Taxes on income, profits, and capital gains of individuals and corporations.

Corporate Tax

- Taxes on income from securities, financial instruments, and movable capital,
- Taxes on capital gains,
- rental income.

Capital gains taxes and Social Security Contributions

- Paid by employers
- Paid by self-employed

Social Security Contributions (based on salary)

- Paid by employees

Property Taxes

- Periodic taxes on real estate ownership (land tax, residence tax, property tax on households and other entities),
- Periodic taxes on the net assets of individuals and corporations.

Taxes on Transfers, Successions, and Donations

- Registration and land registration fees

Taxes on Goods and Services

- Taxes on production, sale, transfers, etc.,
- General taxes,
- Gross VAT receipts,
- VAT refunds,
- Sales taxes,
- Turnover tax,
- Tourist development tax,
- Excise taxes: taxes on beverages, coffee, tea, cola nuts, tobacco, and matches,
- Taxes on petroleum products, and on non-biodegradable plastic packaging and bags.

Profits from fiscal monopolies

Customs Duties and Import Duties

- Computer and statistical fees,
- Customs duties,
- Regressive protective tax.

Export Taxes

Livestock Sector Taxation

Contribution Equipment Taxes

- Airline ticket tax,
- Specific tax on telecommunications companies,

- Tax on insurance contracts,
- Tax on games of chance.

Taxes on the Use of Goods

- Incurred by households: motor vehicles,
- Tax on motor vehicles, patent contributions,
- Forest products, wildlife, and fishing,
- Revenue from hydraulics,
- Authorization to operate hotels and restaurants,
- Mobile phone licenses,
- Consumption sale license,
- Licenses for tourist agencies and guides,
- Community preferential tax,
- Tax for television development,
- Stamp duties.

Other Taxes

- Flat-rate taxes,
- Stamp duties not linked to real estate or securities transactions,
- unidentifiable tax revenues.

The structure of tax revenue and its impact on economic growth in Senegal

Seydi Ababacar Dieng¹ and Amath Diago²

1 Introduction

Tax policy, like financial policy, constitutes tools that, in government action, intervene in all sectors of the economy. Tax policy encompasses all measures relating to the level and structure of tax revenues and public spending. It therefore refers to the use of revenues and expenditures by the state to achieve the highest possible level of economic balance. It also includes decisions regarding the sources of tax revenues and how to spend them. Tax policy is thus divided into two types: the first being expenditures and the second type being taxation. In this article, emphasis will be placed on tax revenues in general and their structure in particular. Tax revenues constitute the greatest part of the state's budget revenues and are composed of compulsory levies from which taxpayers cannot escape. Tax revenues are forming what neoclassical economists call "taxation in the broad sense", with taxation defined as a compulsory levy without direct counterpart performed by the government to meet public expenditures and to regulate the economic activity of a state (Silem and Albertini, 2012). It also includes taxes which are pecuniary payments required from individuals for services rendered.

The role of fiscal measures lies in increasing private savings or reducing the public deficit. As Alkasasbeh and Haron (2018) have reminded us, economic growth is the continuous and cumulative increase in real income over time, which must exceed population growth. The analysis of the relationship between budget revenues, especially tax revenues, and economic growth through fiscal policy is an important subject of debate in economics. Theoretical literature indicates an

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influence of fiscal policy on economic growth. However, the nature of this influence depends on the schools of thought. For classical authors, especially supply-side theorists such as Gilder (1981) and Laffer (1980), an expansionary fiscal policy, accompanied by an increase in public spending, hampers private investment through the crowding-out effect and thus impedes economic growth. In contrast, Keynesians argue that an expansionary fiscal policy can stimulate economic growth in the short and in the long term.

According to Besley and Persson (2013), the transition for a developing country from a low level of public revenues of about 10% of income to a higher level of about 40% entails a process of changing the tax structure – moving from commercial taxes and excises to labor income and value added tax. This process thus involves a modification of incentives and constraints, and therefore will have, depending on the countries, a certain – positive or negative – effect on activity and thus on economic growth. Empirical studies reveal mixed results on this relationship. Some authors such as Chambas (1994), Nourzad and Vrieze (1995), Engen and Skinner (1996), Heitger (2001), and Hauptmeier and al. (2007) validated the classical thesis, while others such as Kofi Ocran (2011), Akanbi (2013), Djelloul and al. (2014), Riera-Crichton and al. (2016), Geerolf and Grjebine (2018), and Tendengu and al. (2022) rather supported the Keynesian position. Several articles have proposed a review of research conducted on fiscal policies and economic growth, highlighting the complexity of this relationship. Most of these works relate to a panel of countries. The examination of the relationship between fiscal policy and economic growth has thus been the subject of several empirical studies using different methodological approaches and leading to equally different results.

Economic activity within the West African Economic and Monetary Union (WAEMU) has remained dynamic in recent years, especially in 2023 with an economic growth rate of 5.7% (Central Bank of West African States/Banque Centrale des Etats de l’Afrique de l’Ouest /CBoWAS/BCEAO), (2023). Growth prospects are also good according to the BCEAO (2023) as the expected economic growth rate in 2024 is 6.5%. The main explanatory factor for this favourable economic situation is the strength of domestic demand. However, the security and socio-political situation in the member countries and the evolution of international prices of energy products may compromise the growth prospects of the Union (BCEAO, 2023).

In Senegal, significant economic progress has also been noted. The real gross domestic product (GDP) growth rate has shown an upward trend since 2000, although its evolution is irregular. Indeed, the country has at times recorded low economic growth rates with 0.1% in 2002 and 1.3% in 2011 and 2020 (BCEAO, 2024). The period from 2000 to 2013 is characterized by an average annual GDP growth rate of 3.3%. In contrast, notable performances were achieved between 2014 and 2018, corresponding to the first phase of the Emerging Senegal Plan/Plan Sénégal Emergent (PSE), with an average annual GDP growth rate of 6.5%

(BCEAO, 2024). The period 2019-2023 recorded a lower growth rate than the previous period with 4.1% (BCEAO, 2024); this weak performance being justified by the adverse effects of the Covid-19 crisis. The recent evolution of tax revenues reveals an increase in them with a greater contribution from domestic taxation. Regarding corporate taxes, three major phases can be distinguished over the study period. The period from 1999 to 2005 was marked by an intense upward growth of revenues from corporate taxes, with an average annual growth of 13.8% (General Directorate of Public Accounting and Treasury/ Direction générale de la Comptabilité publique et du Trésor - Ministère des Finances et du Budget (DGCPT), 2024). For income tax, it can be observed that it more than doubled between 2014 and 2022, rising from 234.7 billion FCFA to 617.5 billion FCFA, what is an average annual increase of 12.9% (DGCPT, 2024). As for taxes on goods and services (including VAT on imports), it should be noted that these taxes are the most important in terms of contribution to tax revenues. Indeed, they reached over 1,220 billion FCFA in 2019, representing approximately half of total tax revenues (DGCPT, 2024). After this overview of the evolution of domestic taxation, it would be interesting to focus on border taxation. The data highlights an irregular movement of border tax revenues over the period 2015-2022. Nevertheless, the general trend is also upward, with the peak reached in 2021, around 372.9 billion FCFA (DGCPT, 2024).

This brief presentation of the literature review and the evolution of the two variables of interest – economic growth and tax revenues in Senegal – show the focus of the essay. The fact that the two variables show a similar evolution of these two macroeconomic variables, leads to legitimate questions about the influence of the structure of tax revenues on economic growth. A main question is: Is there a unidirectional relationship between the structure of tax revenues and economic growth in Senegal? The objective of this article is to highlight the existing relationships between the structure of tax revenues and economic growth in Senegal. To achieve this, the analysis is divided into three specific objectives:

- To elucidate and to analyse the structure of the tax revenues in Senegal,
- To determine the share of each component of tax revenues in total tax revenues and its influence on growth,
- To examine the relationship between different types of tax revenues and other macroeconomic variables which are affecting growth, such as investment, exports, and imports.

In view of the literature and the results of empirical studies and in considering the economic situation in Senegal, two research hypotheses are favoured. The first suggests that the structure of tax revenues does indeed influence growth. The second hypothesis states that a shock to a category of taxes leads to a variation in national wealth. Country-specific studies seem more appropriate than cross-sectional ones as they can provide robust results (Odhiambo, 2009). As for the methodology adopted, the Vector Autoregressive (VAR) modelling is used to analyse

the causality between the two variables of interest. The advantages of this modelling are numerous. In addition to solving the potential endogeneity problem of the variables inherent in structural models, VAR modelling allows for several different applications including causal analysis and simulation of economic policies, based on response functions reflecting the propagation of shocks. This article therefore aims to examine the impact of the structure of tax revenues on economic growth in Senegal. To our knowledge, no empirical work on this relationship has been conducted in Senegal to date. The data used are quarterly and cover the period 2015-2022. The interest of this article lies in considering the structure of tax revenues to assess their effect on economic growth. Also, the results of this work should help to pronounce on the opportunity for tax administration reforms, or even a complete overhaul of Senegal's tax system.

The rest of the article after section 1 on Introduction will be structured around six further sections. The section 2 provides a review of both empirical and theoretical literature. The section 3 presents the general structure and descriptive analysis of tax revenues in Senegal. In section 4, an analysis of their impact on economic growth will be conducted. In section 5, we find the conclusions and the policy implications.

2 Literature Review

This section highlights the main theoretical and empirical works related to the relationship between fiscal policy and economic growth, particularly focussing on the structure of tax revenues and economic growth.

2.1 Theoretical Review

Classic authors such as Smith (1776) and Say (1803) have always considered excessive taxation as harmful to wealth creation activity. Tax pressure should not reach a level that could demotivate economic agents. Indeed, high tax rates have detrimental effects on the economy as they discourage companies from investing and households from offering their labour force, consequently reducing consumption. Therefore, any increase in mandatory levies – taxes and social contributions – can lead to a decrease in productive investment and consumption, and subsequently, to economic recession. This decrease in economic activity systematically leads to a decrease in tax revenues. In this scenario, the state must abandon certain public investment programmes and/or limit the proper provision of certain public services, unless it opts to increase the public deficit. Conversely, a decrease in business and household taxation would result in increased business investment because their profits are less taxed, and in increased household labour supply and consumption volume because their disposable income has increased. This

dynamism would boost economic activity and promote economic growth, benefiting all economic actors, including the state, which would generate much more tax revenue than before the tax cuts.

In the 1980s, the idea of the harmful role of excessive taxation was further developed by Laffer (1981), a leading figure in the liberal movement called "supply-side economics." Laffer demonstrated, through a curve called the "Laffer curve"³, that "too much tax kills tax". This curve establishes a relationship between the tax burden or tax rate and the amount of tax revenue. It shows the existence of an optimal tax rate beyond which tax revenue decreases. Specifically, a state can increase the tax rate until this optimal threshold and record an increase in its tax revenue. However, beyond this optimal threshold, any increase in the tax rate leads to a decrease in the tax yield, i.e., a decrease in tax revenue. This tax rate threshold naturally depends on several factors, particularly the fiscal trajectory of countries and the evolution of state needs. This decrease in tax revenue beyond the optimal tax rate is explained by the slowdown in economic activity. The implementation of a tax rate higher than the optimal rate triggers the so-called substitution effect: economic agents are discouraged from work and savings, and there is a change in the structure of relative prices. Households would prefer leisure to work or engage in other activities with lower taxes. This situation can also promote the emergence or growth of informal economic activities and tax evasion. As mentioned above, this situation is characterized by a loss of tax yield due to the narrowing of the tax base. Ultimately, Laffer's proposition (1981) deeply questions the principle of tax neutrality advocated by classical theory and acknowledges the existence of distortions due to an inadequate tax system. It ultimately reveals that reducing the tax burden stimulates economic activity and promotes an increase in state tax revenues.

However, Barilari (2019) argues that the Laffer curve is more of a clever storytelling tool than a scientific truth, as it is difficult to verify scientifically and empirically. Additionally, the concept should not be attributed solely to Laffer, as several authors, including Ibn Khaldun in the 14th century, Adam Smith in the 18th century, and Jean-Baptiste Say in the 19th century, proposed similar ideas (Barilari, 2019). According to Minea and Villieu (2009), the theoretical literature is very mixed regarding the existence of the Laffer curve. They question the concavity of this curve's shape. Some studies reveal the possibility of discontinuity in the curve and the existence of a maximum, while others suggest the possibility of multiple maxima (Minea and Villieu, 2009).

³ This curve was drawn by Laffer during a dinner in 1974 at a restaurant in Washington to illustrate a simple but widespread idea: "too much tax kills tax" or "the rate eats the base". However, this curve was first presented by Wanniski in 1978 in an article titled "Taxes, Revenues, and the Laffer Curve", published in *The Public Interest Journal*.

In contrast to classical economists who limit the economic role of the state to its sovereign functions, Keynes (1936) advocates state intervention, justified by price stickiness preventing the coordination of economic agents' actions. Through economic policy, the state can and must regulate economic activity. Among the instruments of economic policy, the state can mobilize fiscal policy to achieve a desired level of macroeconomic equilibrium. By reducing the income tax rate, the state can promote an increase in household consumption levels. Specifically, the most effective tax cuts for economic activity are those targeting the disposable income of agents with a high marginal propensity to consume their incomes. It is worth noting that the fiscal multiplier of the basic Keynesian model is negative. Thus, any increase in taxes penalizes economic activity. Indeed, this increase in taxes reduces households' disposable income and negatively affects their consumption levels. This decrease in consumption leads to a slowdown in productive activity, which in turn leads to economic recession.

Furthermore, proponents of endogenous growth theory, such as Romer (1986) and Lucas (1988), acknowledge that taxation can be a tool to promote economic growth. According to them, better fiscal policy plays a role in encouraging business investment in physical capital and innovation. Thus, better fiscal policy leads to increased wealth creation, jobs, and additional tax revenues due to the broadening of the tax base. Several studies have been conducted to identify the link between the level of taxes and economic growth. Most of them have concluded that there is a robust correlation between these two variables. However, while these results have been empirically demonstrated, they generally do not indicate the direction of causality. Therefore, it is wise to examine research on the causality between these two variables.

2.2 Empirical Review

Following the theoretical literature review, it is important to delve into empirical research to better understand the subject. Harberger (1964) was one of the first authors to study the impact of taxation on economic growth. He showed that the structure of taxation – direct and indirect taxes – is a significant determinant of economic growth. Based on the assumption of a constant marginal rate of capital productivity, he showed that transfers between indirect taxation and direct taxation affect the growth rate through their effects on savings. Assuming a marginal rate of capital productivity of 10%, an increase in net investment (= net savings) from 8% to 9% of national income results in a 0.10% annual growth rate in output. "Influencing the rate of growth by 0.10 or 0.20 of a percentage point may seem small, but it is not negligible in the sense that I have labelled the impact on growth via the labour-leisure choice as negligible" (Harberger, 1964, p. 65). Most of the research dedicated to analysing the impact of the structure of tax revenues on growth concerns Western countries. It is important to recall that, according to

theoretical models, tax rates generally have adverse effects on economic growth. Engen and Skinner (1996) used three approaches to examine the impact of a major tax reform – a 5-percentage-point reduction in marginal tax rates – on long-term economic growth rates. Their results reveal modest effects, ranging from 0.2 to 0.3 percentage points difference in growth rates. However, the accumulation of these modest effects following a major tax reform can, according to these authors, have a significant impact on living standards.

By correcting substantial biases associated with an incomplete specification of the government's budget constraint, Kneller and al. (1999) studied, among other things, the relationship between the structure of tax revenues and the economic growth rate at the steady state, using Barro's (1990) endogenous growth model on a panel of 22 OECD countries over the period 1970-1995. They distinguish between distorting taxation – taxes on income and property – and non-distorting taxation – taxes on consumption. Their results show that distorting taxation reduces economic growth, while non-distorting taxation does not. Furthermore, Fölster and Henrekson (2001) sought to empirically verify the negative relationship between government size and economic growth. Government spending and tax revenues are the measurement tools for the size of a government. Using panel data from 23 OECD countries considered wealthy over the period 1970-1995, these authors systematically used robustness tests such as extreme bound analysis to examine various relationships. They show that the more econometric problems are resolved, the more robust the relationship between government size and economic growth becomes.

Analysing the effects of fiscal changes on economic growth by using annual panel data from 19 European countries over the period 1965-2003, Furceri and Karras (2009) find that the effect of tax increases on real GDP per capita is negative and persistent. Indeed, their results show that an increase in the total tax rate – total taxes as a percentage of GDP – of 1% of GDP has a long-term effect on real GDP per capita of -0.5% to -1%. However, the intensity of this negative effect depends on the type of tax revenues. Their results also reveal that an increase in social security contributions or taxes on goods and services has a more significant negative effect on GDP per capita than an increase in income tax. According to Myles (2009), there is a strong correlation between taxation and economic growth. In the framework of the Solow growth model, he shows that the tax on capital income is ineffective in the long term. Regarding endogenous growth models, he indicates that taxation can affect the choices of economic agents – households and businesses – which have an impact on economic growth. Thus, business research and development expenditures and household education expenditures may be sensitive to taxation. Indeed, taxation of businesses and household incomes can reduce the returns on innovation and education, which can negatively affect the optimal amount of research and development and capital accumulation. Analysing the impact of corporate profit taxes, domestic investments, foreign investments,

and business incentives to invest in innovative activities on production, the OECD (2009) concludes a negative impact between these variables and production.

Based on a narrative approach using various archival documents such as presidential speeches, executive branch documents, and congressional reports, Romer and Romer (2010) analysed the causes and consequences of changes in fiscal policies on economic activity in the United States during the post-war period. They distinguish between legislative tax changes and "exogenous" tax changes, i.e. those independent of economic conditions. Their results show, among other things, that tax increases following exogenous changes are very unfavourable to productive activity. On the other hand, tax cuts promote economic growth. Indeed, according to their results, a 1% reduction in taxes as a percentage of GDP would lead to a 2% to 3% increase in GDP within 3 years. Arnold and al. (2011) concluded that certain fiscal changes, such as reducing sales taxes, particularly in the form of exemptions and reductions, and property taxes, are detrimental to economic growth. Conversely, reducing income tax – including social security contributions – especially for low-income households, is, according to them, the most appropriate fiscal change to increase economic growth as it stimulates demand, increases work incentives, and reduces income inequalities. Comparing the effect on economic activity of a reduction in income tax with a reduction in corporate tax, Mertens and Ravn (2013) reveal that the effect on investment of a reduction in income tax is significantly greater – almost double – than that of a reduction in corporate tax. This result thus highlights the predominant role of demand as an explanatory factor in business investment. From this perspective, Riera-Crichton and al. (2016) showed, based on a study of 14 OECD countries, that a 1-percentage-point reduction in VAT results in a 3.7% increase in GDP. Also, Geerolf and Grjebine (2018) demonstrated that a reduction in property tax for agents with a relatively high marginal propensity to consume has a positive effect on economic activity. Zidar (2018), measuring the heterogeneous impact of income tax cuts according to income levels, establishes the existence of a significant positive effect on employment growth from income tax cuts for lower-income groups. At the same time, he finds a weak effect on employment growth from tax cuts for the top 10% richest.

Furthermore, the debate on the true role of fiscal policies in developing countries began in the 1980s. Skinner (1987), for instance, starts from the assumption that tax increases reduce public deficits and budget pressure, favouring long-term growth, although they create distortions. He tests this hypothesis on a sample of 31 sub-Saharan African countries from 1953-1973 and from 1974-1982. Skinner's (1987) results show that, during the 1965-1973 period, the benefits of public investments outweigh the effects of taxes needed to finance them. As for the 1974-1982 period, the results reveal a decrease in the marginal productivity of public investments. Also, consumption taxes and customs duties positively affect economic growth. Thus, a reshaping of the tax revenue architecture is necessary in

these countries if they wish to accelerate the process of economic growth. However, studying the incidence of direct taxes on the economies of sub-Saharan countries, Chambas (1994) shows that tax rates have harmful effects on productive activity. Also, the very architecture of the tax system – characterized, among other things, by excessive taxation of foreign trade, significant tax evasion, and inadequate tax incentive mechanisms – is hardly conducive to economic development. Yet, by examining the impact of taxation – direct and indirect – on Nigerian economic growth, Ogundana et al. (2017) found that both direct and indirect taxes have a positive impact on Nigeria's economy.

However, several authors, including Tendengu and al. (2022) and Djelloul et al. (2014), have affirmed that fiscal policy has a positive effect on economic growth. Djelloul et al. (2014), using a Generalized Method of Moments (GMM) as a dynamic panel data analysis from 1980-2007, established a long-term relationship between fiscal variables and economic growth in MENA countries (Algeria, Egypt, Jordan, Iran, Tunisia, Morocco, Bahrain, Oman, Kuwait). Indeed, they show that the correlation between the Gross Domestic Product per capita and types of budgetary revenues expresses a positive causality relationship between economic growth and tax revenues. Tendengu and al. (2022), using a distributed lag autoregressive model over the period 1988-2018, showed that fiscal policy instruments such as tax revenues have a positive influence on South Africa's GDP growth rate.

Kim and al. (2021) analysed the relationship between fiscal policy variables and economic growth over the period 1985-2015 in China, marked by profound economic and social changes and major reforms in the fiscal policy framework. These authors used a structural vector autoregression (SVAR) model and a vector error correction model (VECM) to analyse fiscal policy shocks, distinguishing between automatic and discretionary fiscal policy. Their results reveal that the impact of local expenditures on production growth is more significant than that of central expenditures or net taxes. They also show that liquidity constraints hinder the reaction of production growth to anticipated tax changes. However, other authors have established that fiscal policy hampers economic growth. Analysing the impact of tax burdens on economic activity in Côte d'Ivoire, Keho (2010) establishes the existence of a negative short-term relationship between taxes on goods and services, trade taxes, and per capita GDP growth. He shows, however, that growth is not hindered by taxation in the long term and that there is a positive correlation between tax revenues and GDP and between them and GDP components.

According to Ebeke and Ehrhart (2010), the high instability of tax revenues in many developing countries negatively affects economic growth. Indeed, this instability in tax revenues leads to instability in public investment and consumption and causes a decrease in the volume of public investment, hence the detrimental effect on economic activity. Examining the impact of tax revenue on

economic growth in Morocco from 1980 to 2013, Ben Kablia et. al. (2019) used a VAR model and found an absence of a trend effect. On the other hand, they found a cyclical effect indicating the existence of a negative impact between economic growth and tax revenues reported to GDP with a lag.

Regarding the Laffer curve, empirical studies yield very different results. Using a Computable General Equilibrium (CGE) model to explore the relationship between direct labour income tax rates, government revenue, and economic performance from a Laffer curve perspective, Lin and Jia (2019) find a maximum at around 40%. They strongly recommend that the Chinese government reduces taxes to benefit from the positive implications for the economy and the tax revenues.

Using a neoclassical growth model with "constant Frisch elasticity" preferences, Trabandt and Uhlig (2011) compare Laffer curves for the United States, fourteen European Union countries (EU-14), and individual European countries. These authors show, among other things, that the tax rate maximizing tax revenues for the United States is 30% for labour taxes and 6% for capital taxes. For the EU-14, these maximum rates are 8% and 1%. They do not find a maximum for the Laffer curve concerning consumption tax. They also reveal that human capital accumulation and endogenous growth have a quantitative effect on their results. Badel and Huggett (2017) proposed a formula for the maximum tax rate on any income category, applicable to various models—static models, steady states of dynamic models, and quantitative human capital models. This formula could thus guide future empirical work estimating elasticities (Badel and Huggett, 2017). Furthermore, Ait Benhamou (2018) observes the sensitivity of the Laffer curve to the extent of underground economic activities and tax collection costs. For emerging and developing economies, the baseline model results are counterintuitive, as they can levy higher tax rates and revenues compared to developed countries. Additionally, accounting for the share of underground activities shifts the Laffer curve downward, while tax collection costs cause the maximum tax rate to shift to the left.

In conclusion, this literature review reveals a complexity in the relationship between fiscal policy and economic growth, particularly between tax revenues and economic growth. The mixed nature of the results observed in the above-mentioned works confirms this complexity. This observation implies further research to better understand this relationship, particularly in the context of Senegal, where there is a rather specific structure of tax revenues.

3 Structure and Evolution of Tax Revenues

The tax system in Senegal is defined by the General Tax Code/Code Général des Impôts (GTC/CGI), which compiles and updates the texts determining taxes. The Senegalese tax administration comprises three entities: the General Directorate of Customs/Direction Générale des Douanes (GDC/DGD), the General Directorate of Taxes and Domains/Direction Générale des Impôts et des Domaines (GDTD/DGID), and the DGCPT (Direction Générale de la Comptabilité publique et du Trésor). All these directorates fall under the oversight of the Ministry of Finance and Budget.

This section first presents the detailed architecture of the Senegalese tax system, both domestically and at the border. Then, it highlights the evolution of different series during the study period, from 2015 to 2022.

3.1 Structure of Tax Revenues

The Senegalese tax system, harmonized with the rules of the West African Economic and Monetary Union (WAEMU)/Union Economique et Monétaire Ouest Africaine (UEMOA), is essentially declarative. Different taxes and duties can be classified into direct and indirect, but within the scope of this article, we distinguish between domestic taxation, under the responsibility of the DGID, and border taxation collected by the DGD.

3.1.1 Domestic Taxation

Domestic taxation consists of direct taxes and import duties and taxes.

3.1.1.1 Direct Taxes

Direct taxes are generally levied on capital or income. They are due solely based on the existence of this capital or income. The taxpayer pays them without being able to shift the burden to another person. Direct taxes can be related to a specific taxpayer and can be structured progressively, based on the growth of taxable income and/or the personal situation of each taxpayer, accounting for the taxpayer's family responsibilities. Senegal applies a system of direct taxes on income, which applies to both commercial and non-commercial profits, as well as wages and salaries. In this category, the following taxes are primarily cited:

- Global Unique Contribution/Contribution Globale Unique (GUC/CGU)
- Corporate tax
- Income tax
- Flat-rate contribution (borne by employers).

3.1.1.2 Indirect Taxes

Indirect taxes consist of four elements:

- Value-added tax
- Turnover tax
- Tax on financial activities
- Other indirect rights (specific taxes).

3.1.2 Border Taxation

This refers to customs duties. Senegal, as a member of the WAEMU, applies the Common External Tariff (CET), which has been effective since January 1, 2000. Border taxation has two aspects: import duties and export taxes.

3.1.2.1 Import Duties and Taxes

Import duties and taxes consist of:

- Customs duties/Douanes et Droits (CD/DD)
- Statistical fee/Redevance Statistique (SF/RS).

3.1.2.2 Export Taxes

The statistical fee (SF/RS) applies to the export of products harvested, manufactured, or produced in Senegal, as well as the re-export of foreign products, excluding transit products.

3.1.3 Composition of the Senegalese Tax System and the Evolution of Its Structure

First, the share of each category of tax revenue in the total fiscal revenue and the evolution of this structure over the study period (2015-2022) will be analysed. Then, the share of tax revenue in the total state revenue, on the one hand, and the share of tax revenue in GDP, on the other hand, will be examined.

Taxes on goods and services (IBS) have represented, on average, more than 50% of total tax revenues since 2015. The significant share of the ratio of taxes on goods and services to total tax revenues is mainly due to VAT, which alone contributed an average of 36% over the period 2015-2022. Thus, taxes on goods and services remained the primary source of tax revenue during the study period. However, it is important to note a gradual decrease in the share of this type of tax from 2015 to 2018, in favour of the income, profits, and capital gains taxes, which increased from 27.3% of total tax revenues in 2015 to 30.3% in 2018, what is a rise of 3 percentage points. This significant increase in the share of income, profits, and capital gains taxes in total tax revenues could be explained by the fact that between 2014 (the first year of PSE implementation) and 2018, Senegal had achieved record economic growth rates with an average annual real GDP growth rate of over 6% (see the graph 1 below). In 2022, taxes on income, profits, and capital gains accounted for nearly a third of total tax revenues, making them the second most important source of revenue after taxes on goods and services, which represented slightly less than 50% during the same year.

Table 1: Share of Each Type of Tax in Total Tax Revenue (in %)

YEAR	IREV	ISAL	IPAT	IBS	IPOINT	IAUTRE	TOTAL
2015	27,3	1,3	0,1	55,4	14,2	1,7	100,0
2016	28,7	1,0	0,3	55,0	13,1	1,9	100,0
2017	29,5	0,8	0,2	53,4	14,4	1,7	100,0
2018	30,3	0,3	0,2	52,8	14,6	1,8	100,0
2019	29,5	0,4	0,2	53,3	15,2	1,6	100,0
2020	30,3	0,3	0,3	53,4	14,3	1,5	100,0
2021	29,8	1,1	0,2	51,9	15,3	1,7	100,0
2022	32,1	1,2	0,1	49,7	15,5	1,4	100,0

Note: IREV = Income, Profits, and Capital Gains Taxes; ISAL = Taxes on Wages and Labour; IPAT = Property Taxes; IBS = Taxes on Goods and Services; IPOINT = Taxes on Foreign Trade and International Transactions; IAUTRE = Other Tax Revenues.

Source: DGCPT, 2023, authors' compilations.

Taxes on wages and labour (ISAL) represent about 1% of total tax revenues. However, this share was less than 0.5% between 2018 and 2020. This decline could be explained by tax relief measures taken by the state authorities to ease the burden on workers during the COVID-19 pandemic. Property taxes (IPAT), on the other hand, are the smallest contributor to tax revenues, with an average contribution of 0.2% over the entire period considered.

The share of taxes on foreign trade and international transactions (IPOINT) in total tax revenues increased from 13.1% in 2016 to 15.5% in 2022, an increase of 2.4 percentage points over the period. However, in 2020, due to the slowdown in international trade following the COVID-19 pandemic, there was a slight decrease compared to other years of the study period. This situation is consistent with the trend in exports, the main base for this type of tax, during this period. From 2015 to 2022, there was a general upward trend in exports, except in 2020, when there was a noticeable decline in the export of goods and services due to the COVID-19 pandemic in the country during that year (see the graph 2 below).

Furthermore, it is noteworthy that the structure of taxes on wages and labour is the most unstable over the study period, with greater variability compared to the structure of other types of taxes. After the adoption of a new general tax code in 2018, the share of taxes on wages significantly decreased in the following years. It was only in 2021 that its structure returned to its initial level with the adoption of the 2021 general code. One of the reforms initiated during that year was the simplification of the calculation and the reduction of the rates of the Single Global Contribution (CGU). To facilitate the determination of the tax owed, the progressive rate scale by tranche was abolished in favour of a calculation method

consisting of applying a 2% rate to the annual turnover for the merchants and a 5% rate for service providers, which would improve the level of tax collection. In table 2 (below) the tax and the non-tax revenues are presented as a percentage of GDP.

Table 2: Tax and Non-Tax Revenues as a Percentage of GDP

Year	Tax Revenues (as a % of GDP)	Non-Tax Revenues (as a % of GDP)
2015	15,2	4,1
2016	15,9	4,8
2017	15,0	4,3
2018	15,1	3,3
2019	17,1	2,7
2020	16,4	3,3
2021	16,6	2,7
2022	17,9	2,3

Source: DGCPT, authors' compilations.

Overall, the tax revenues account for between 15% (in 2017) and 18% (in 2022) of Senegal's GDP. This low proportion is explained by a limited tax base, which needs to be expanded further by identifying and promoting all high value-added activities, as well as by formalizing the numerous businesses operating in the informal sector (97% of economic units according to the latest general business census in Senegal). Moreover, the non-tax revenues constitute a small share of GDP, averaging less than 5% over the entire study period.

3.2 Evolution of Different Types of Tax Revenues and Macroeconomic Aggregates

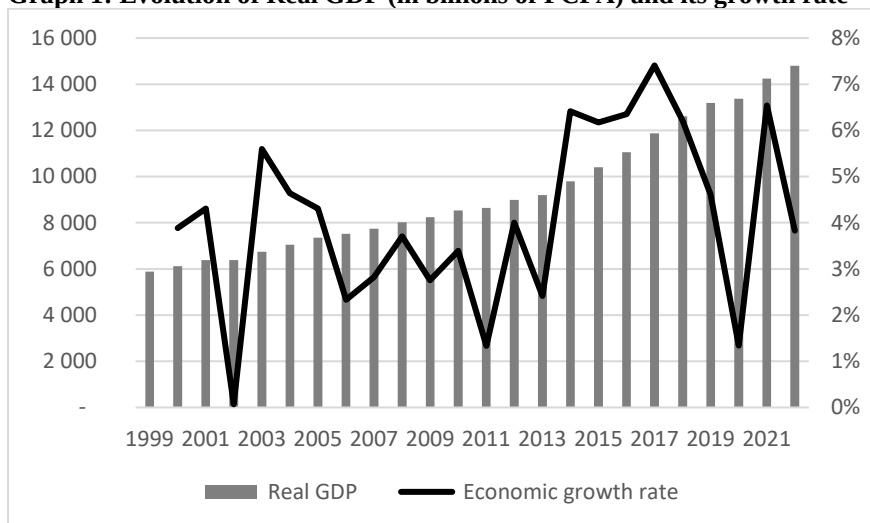
This section analyses the evolution of macroeconomic indicators from 1999 to 2022 and that of tax revenues in Senegal, specifically the evolution of different types of tax revenues from 2015 to 2022.

3.2.1 Evolution of Macroeconomic Aggregates from 1999 to 2022

The preliminary examination of the data involves analysing their movements throughout the period under consideration. This analysis will provide an insight into the evolution of the series. Firstly, the evolution of the main characteristics of the Senegalese economy is examined. To do this, the evolution of GDP, exports, and investments is studied.

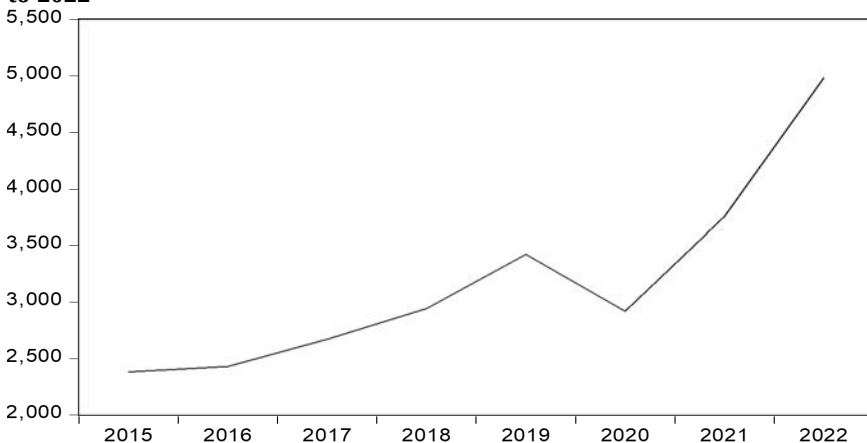
Senegal's real GDP growth rate, as shown in Graph 1 below, has experienced an irregular evolution between 2000 and 2022. Since the year 2000 the growth rates of the country were positive, but it nevertheless reached relatively low levels in 2002 (0.1%), 2011 (1.3%), and 2020 (1.3%). These low growth rates could be explained, respectively, by the change in the political regime in 2000, leading to new economic directions, by the energy crisis of 2011, and by the COVID-19 pandemic in 2020. However, Senegal achieved record growth rates between 2014, the first year of implementing the Emerging Senegal Plan (ESP)/Plan Sénégal Emergent (PSE), and 2018, with an average annual growth rate of over 6%.

Graph 1: Evolution of Real GDP (in billions of FCFA) and its growth rate



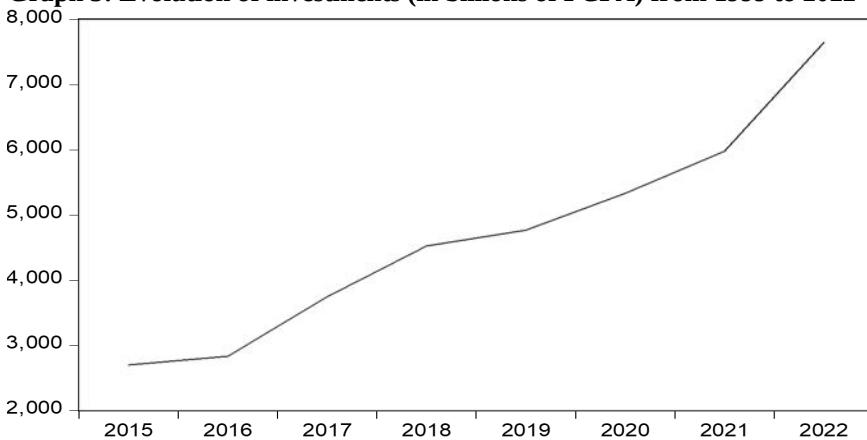
Source: National Agency of Statistics and Demography/Agence Nationale de la Statistique et de la Démographie (NASD/ANSD), authors' compilations.

As for exports, a general upward trend can be observed during the period under review, except for 2020, where a notable decline in goods and services exports was observed due to the occurrence of the COVID-19 pandemic in the country during that year. However, a recovery in exports has been observed since 2021, as shown in graph 2 below.

Graph 2: Evolution of exports (in thousands of billions of FCFA) from 2015 to 2022

Source: ANSD, authors' compilations.

Investment, like GDP and exports, has, according to the graph 3 below, experienced a general upward trend over the past 7 years. From 2,698.3 billion FCFA in 2015, it reached 7,648.1 billion FCFA in 2022, representing an average annual increase of 16.1%.

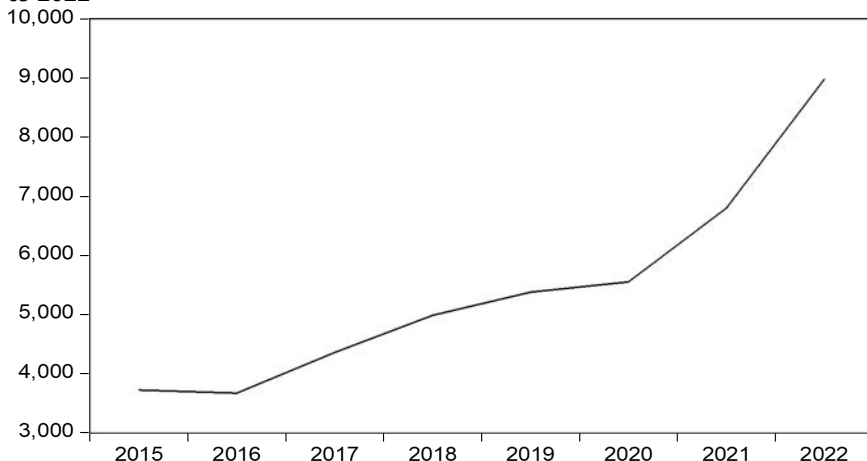
Graph 3: Evolution of investments (in billions of FCFA) from 1999 to 2022

Source: ANSD, authors' compilations.

As for imports, after a slight decline between 2015 and 2016, dropping from 3,723.5 billion FCFA in 2015 to 3,672.4 billion FCFA in 2016, they have steadily

increased since 2017 (see graph 4 below). Like exports, imports have recorded an average annual increase of 16.1%.

Graph 4: Evolution of imports (in thousands of billions of FCFA) from 2015 to 2022



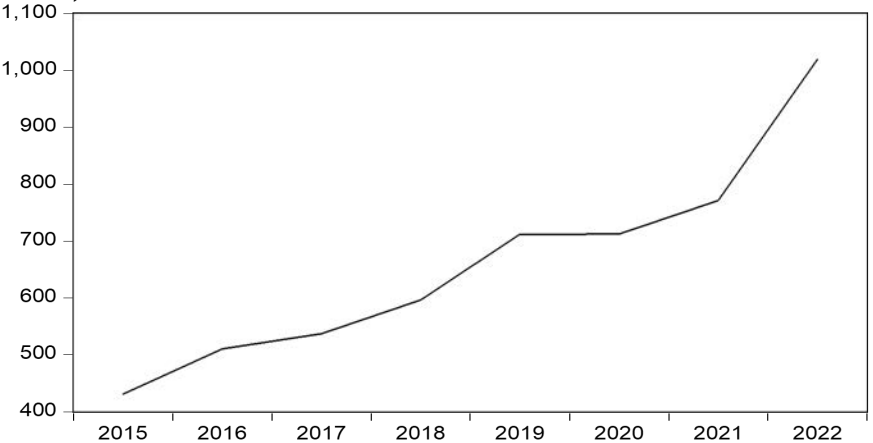
Source: ANSD, authors' compilations.

3.2.2 Evolution of Tax Revenues from 2015 to 2022

Tax revenues constitute an important source of domestic financing for the Senegalese state budget. It is therefore important to study the evolution of major tax categories, including income, profits, and capital gains taxes, taxes on salaries and labour, wealth taxes, taxes on goods and services, taxes on foreign trade and international transactions, and other tax revenues. Regarding income, profits, and capital gains taxes, as shown in the graph 5 below, it can be noted that these have more than doubled between 2015 and 2022, increasing from 431.0 billion FCFA to 1,019.6 billion FCFA, representing an average annual increase of 13.1%. However, quasi-stability was recorded in 2020.

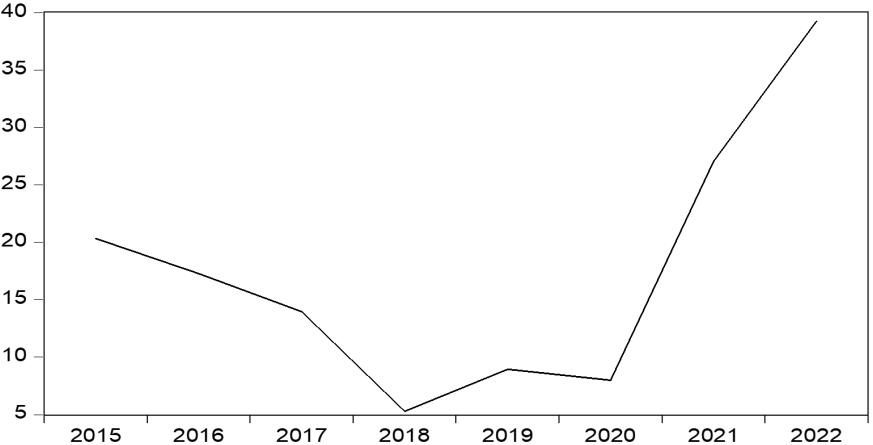
As for taxes on salaries and labour, the graph 6 below suggests distinguishing three main phases over the period under consideration. The period from 2015 to 2018 was marked by a drastic decline in revenues from salaries and labour, dropping from 20.3 billion FCFA in 2015 to 5.3 billion FCFA in 2018, representing an average annual decrease of 36.2% over this period. This was followed by a slight increase between 2018 and 2020. Finally, from 2020 onwards, taxes on salaries and labour have experienced a sharp increase, reaching their highest level during the period under review, at 39.3 billion FCFA in 2022.

Graph 5: Evolution of income, profits, and capital gains taxes (in billions of FCFA) from 2015 to 2022



Source: DGCPT, authors’ compilations.

Graph 6: Evolution of taxes on salaries and labour (in billions of FCFA) from 2015 to 2022

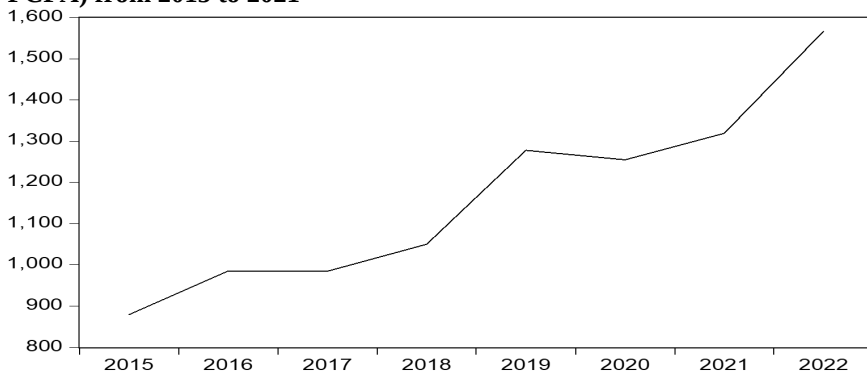


Source: DGCPT, authors’ compilations.

As for taxes on goods and services (including VAT on imports), it is worth noting that these taxes are the most significant in terms of contribution to tax revenues (see graph 7). In fact, they reached 1,566.1 billion FCFA in 2022, approximately half (49.5%) of total tax revenues. However, due to the COVID-19 pandemic, which led state authorities to implement tax relief measures to support of

households and businesses, taxes on goods and services decreased between 2019 and 2020, dropping from 1,277.6 billion FCFA to 1,254.7 billion FCFA. In 2021, they were estimated at 1,318.9 billion FCFA.

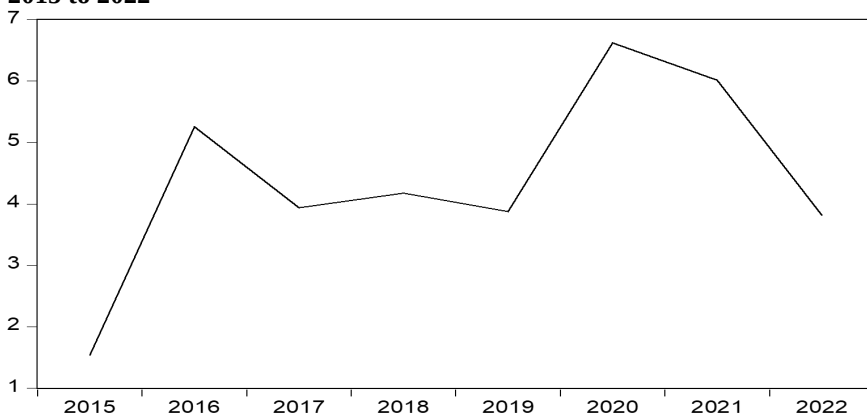
Graph 7: Evolution of taxes on goods and services (in thousands of billions of FCFA) from 2015 to 2021



Source: DGCPT, author's compilations.

In the architecture of Senegalese taxation, wealth tax has the lowest contribution to tax revenues, less than 0.3% over the entire period studied (see graph 8). A quick examination (of the graph 8 below) reveals that the wealth tax reached its highest level (6.6 billion FCFA) in 2020 and its lowest level (1.5 billion FCFA) in 2015.

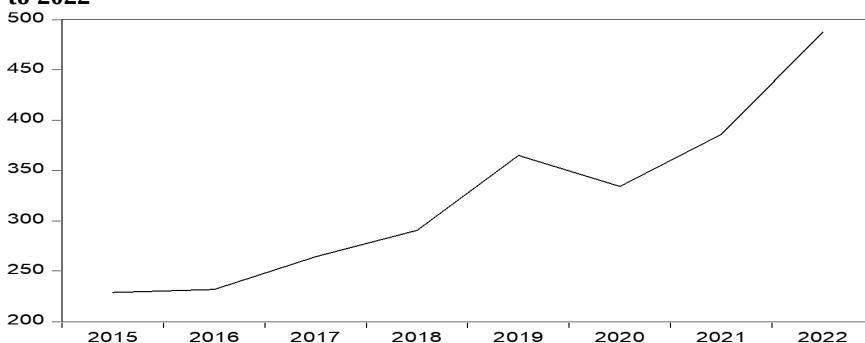
Graph 8: Evolution of wealth taxes (in thousands of billions of FCFA) from 2015 to 2022



Source: DGCPT, authors' compilations.

After this overview of the evolution of domestic taxation, it would be interesting to focus on border taxation. This specifically refers to taxes on foreign trade and international transactions. The graph 9 below shows a general upward trend over the period 2015-2022, except for the year 2020, where an 8.4% decrease was observed compared to 2019. In 2020, taxes on foreign trade and international transactions were estimated at 487.3 billion FCFA, accounting for 15.4% of Senegal's total tax revenues.

Graph 9: Evolution of border tax revenues (in billions of FCFA) from 2015 to 2022



Source: DGCPT, author's compilations.

Following this brief overview of the evolution of different types of tax revenues, it is crucial to assess the effective contribution of each category of tax revenue, as this preliminary examination of revenue shares leads to an exploration of the performance of the Senegalese tax system, highlighting both its shortcomings and advantages.

4 Analysis of the Impact of the Structure of Tax Revenues on Growth

In this section, we will proceed in two steps. Firstly, the adopted methodology will be explained. Secondly, we will present and discuss the econometric results.

4.1 Methodological Approach

The econometric methods used in this article are based on VAR modelling. There are numerous advantages to this modelling compared to traditional approaches of structural equations. Besides solving the potential endogeneity problem of variables inherent in structural models, VAR modelling allows for four different applications: forecasting, causality analysis, economic policy simulation based on

response functions reflecting shock propagation, and historical decompositions of shocks.

4.1.1 Model Specification

Implementing the model requires following several steps. These steps are successively outlined below:

4.1.1.1 Specification of the Model

Before any treatment of time series, it is important to analyse the seasonality and stationarity of the study variables. This step is crucial for the methodology of processing and model specification. It should be noted that there is a wide variety of stationarity tests. However, for the purposes of this article, the tests to be conducted are the Augmented Dickey-Fuller (ADF) test, the Phillips-Perron (PP) test, and the Kwiatkowski-Phillips-Schmidt-Shin (KPSS) test. The ADF and PP tests have the null hypothesis of unit root presence and are biased towards negative lows, while the KPSS test assumes the stationarity of the studied series. Thus, a test statistic lower than the critical value at the 5% level for the respective ADF and PP tests leads to the rejection of the null hypothesis. As for the KPSS test, a statistic lower than the critical value at the 5% level leads to the acceptance of the null hypothesis.

4.1.1.2 Johansen Cointegration Test

When the series are integrated of order one and cointegrated, estimating a VAR in first differences is not appropriate; it is necessary to re-parameterize the model in the form of a vector error correction model (Engle and Granger 1987, Granger 1988, Johansen 1988). The existence of a cointegration relationship suggests causality in at least one direction. Sequential procedures thus allow for testing causality in the short-term dimension and testing in the long-term dimension (Toda and Phillips, 1993).

4.1.1.3 Determination of the Optimal Number of Lags in the VAR Model

This step will involve determining the optimal number of lags p . Firstly, by examining the residuals, secondly, based on information criteria, and finally, based on the likelihood ratio test. The combination of these three methods will ensure the statistical adequacy of the obtained number of lags. Then, the model will be estimated using the Ordinary Least Squares (OLS) method.

The variables to be used are presented in the following table 3:

Table 3: List of Variables

VARIABLES	LABELS
GDP	Real Gross Domestic Product
INV	Investment
EXPORT	Exports of Goods and Services
IMPORT	Imports of Goods and Services
IREV	Taxes on Income, Profits, and Capital Gains
ISAL	Taxes on Wages and Labour
IPAT	Taxes on Wealth
IBS	Taxes on Goods and Services
IPORT	Taxes on Foreign Trade and International Transactions
IAUTRE	Other Tax Revenues

Source: Authors

The specification of the model to be estimated is given by:

$$\begin{pmatrix} GDP_t \\ INV_t \\ EXPORT_t \\ IMPORT_t \\ IREV_t \\ ISAL_t \\ IPAT_t \\ IBS_t \\ IPORT_t \\ IAUTRE_t \end{pmatrix} = [C] - \varphi_1 \begin{pmatrix} GDP_{t-1} \\ INV_{t-1} \\ EXPORT_{t-1} \\ IMPORT_{t-1} \\ IREV_{t-1} \\ ISAL_{t-1} \\ IPAT_{t-1} \\ IBS_{t-1} \\ IPORT_{t-1} \\ IAUTRE_{t-1} \end{pmatrix} - \varphi_2 \begin{pmatrix} GDP_{t-2} \\ INV_{t-2} \\ EXPORT_{t-2} \\ IMPORT_{t-2} \\ IREV_{t-2} \\ ISAL_{t-2} \\ IPAT_{t-2} \\ IBS_{t-2} \\ IPORT_{t-2} \\ IAUTRE_{t-2} \end{pmatrix} - \dots - \varphi_p \begin{pmatrix} GDP_{t-p} \\ INV_{t-p} \\ EXPORT_{t-p} \\ IMPORT_{t-p} \\ IREV_{t-p} \\ ISAL_{t-p} \\ IPAT_{t-p} \\ IBS_{t-p} \\ IPORT_{t-p} \\ IAUTRE_{t-p} \end{pmatrix} + \begin{pmatrix} \varepsilon_{1,t} \\ \varepsilon_{2,t} \\ \varepsilon_{3,t} \\ \varepsilon_{4,t} \\ \varepsilon_{5,t} \\ \varepsilon_{6,t} \\ \varepsilon_{7,t} \\ \varepsilon_{8,t} \\ \varepsilon_{9,t} \\ \varepsilon_{10,t} \end{pmatrix}$$

With:

$$\phi^i = \begin{pmatrix} \phi_{1,1}^i & \phi_{1,2}^i & \dots & \phi_{1,n}^i \\ \phi_{2,1}^i & \phi_{2,2}^i & \dots & \phi_{2,n}^i \\ \dots & \dots & \phi_{j,k}^i & \dots \\ \phi_{n,1}^i & \phi_{n,2}^i & \dots & \phi_{n,n}^i \end{pmatrix}, i = 1, \dots, p$$

the coefficient vector, p the optimal lag length of the VAR,

$$\varepsilon_t = \begin{pmatrix} \varepsilon_{1,t} \\ \varepsilon_{2,t} \\ \varepsilon_{3,t} \\ \varepsilon_{4,t} \\ \varepsilon_{5,t} \\ \varepsilon_{6,t} \\ \varepsilon_{7,t} \\ \varepsilon_{8,t} \\ \varepsilon_{9,t} \\ \varepsilon_{10,t} \end{pmatrix} \text{ the innovation vector (error term).}$$

4.1.1.4 Diagnostic Tests

This section will include three tests, namely:

The test for autocorrelation of the model residuals through the Lagrange Multiplier test,

- The test for heteroscedasticity through the White test,
- The test for normality of residuals, which will be conducted using two tests: the Shapiro-Wilk test and the Shapiro-Francia test.
- After these steps, we can interpret the impacts that variables have on each other, but we cannot infer causality direction. Therefore, it is necessary to have an idea of it.

4.1.1.5 Granger Causality Test

The notion of causality generally used, and which we adopt here, is that of Granger: a variable Y Granger causes a variable X if past values of Y help to explain the current value of X compared to only past values of X. Statistically, the Granger causality test is equivalent to a test of the overall significance of the coefficients associated with the lagged values of the causal variable in the equation of the caused variable. However, the theoretical framework of this statistical inference assumes that the variables are stationary. Two broad families of sequential causality tests in the Granger sense are conceivable. The procedure involves precisely studying the stationarity of the series at play and the potential presence of a cointegration relationship before conducting the causality test. In the absence of a cointegration relationship between the variables in the study, causality is directly examined on the short-term stationary variables. However, when the series are integrated of order one and cointegrated, estimating a VAR in first differences is not appropriate; the model must be reparametrized in the form of a vector error correction model (Engle and Granger 1987, Granger 1988, Johansen 1988). The existence of a cointegration relationship suggests causality in at least one direction. In this case, a causality test will be conducted on the short-term dimension and another on the long-term dimension (Toda and Phillips, 1993).

4.1.1.6 Analysis of the Impact of Economic Policies on the Selected Variables

To measure the impact of a structural shock on short-term variables, the impulse response function will be used. Then, for calculating the contributions of each innovation to the variance of the error, the forecast error variance decomposition will be the appropriate tool. This variance decomposition quantifies the interactions between the selected variables. It determines to what extent the variables interact with each other and answers the question of which direction the shock has the most impact.

4.1.2 Data Source and Variable Selection

The data used in this analysis are quarterly series for the period Q1-2015 to Q2-2023. They come from the DGCPT and the National Agency of Statistics and Demography (ANSD). These two sources are public institutions. The list of selected variables is suggested by the literature presented above. To effectively measure the impact that the tax structure would have on real GDP, we introduced control variables, namely investments and external trade (imports and exports), given their importance in explaining economic growth. Studies such as those by Amiri and Gerdtham (2012) and Brahim et al. (2019) have indeed shown that imports and exports have an impact on economic growth. The choice of the period is based on data availability. The variables GDP, INV, EXPORT, and IMPORT come from the ANSD, while the other variables IREV, ISAL, IPAT, IBS, IPORT, and IAU-TRE come from the DGCPT (see table 1 for the variables). The data series are used being infra-annual, and a study of seasonality was conducted through statistical tests using the JDemetra software⁴. Following these tests, variables exhibiting seasonality were corrected for seasonal variations before any econometric modelling.

4.2 Presentation and Discussion of Econometric Results

Before any econometric modelling, it is important to look at the correlation between the study variables. The analysis of empirical correlations between the variables (see table 4 below) highlights a strong positive correlation between the volume of real GDP and tax revenues. While these correlations help to understand the instantaneous changes in variables, they are insufficient to inform about the direction of causality between variables. Therefore, it is useful to go beyond this descriptive analysis to better understand the relationships between variables using explanatory models.

4.2.1 Stationarity and Cointegration Tests

The results of the various stationarity tests for each variable are presented in table 5. According to the ADF and PP tests, it appears that real GDP (GDP), investments (INV), exports (EXPORT), imports (IMPORT), taxes on income, profits, and capital gains (IREV), taxes on salaries and labour (ISAL), and taxes on wealth (IPAT) are not stationary at the 5% level. Indeed, the test statistics of ADF and PP report values higher than the 5% critical values, leading to the acceptance of the null hypothesis of the presence of a unit root. This result is confirmed by the KPSS test

⁴ The use of this JDemetra software is justified by the fact that it offers a wide range of choices for correcting seasonal variations, whether based on Tramo-Seat, X11, or X12 ARIMA models. See for a short description: <https://jdemetradocumentation.github.io/JDemetra-documentation/>

only for the IMPORT, IREV, and ISAL series, for which the KPSS test statistics take values higher than the respective critical values at 5%. For the other four series (GDP, INV, EXPORT, and IPAT), the KPSS test does not reject the null hypothesis of stationarity. As for the stationarity of the tax on goods and services (IBS), the tax on foreign trade and international transactions (IPOINT), and the other tax revenues (IAUTRE), all three tests are consistent: the test statistic has a value lower than the critical value for the ADF and PP tests, and a lower value for the KPSS test.

Table 4: Empirical Correlation Matrix

	GDP	ISAL	IREV	IPOINT	IPAT	INV	IMPORT	IBS	IAUTRE	EXPORT
GDP	1,000									
ISAL	0,474	1,000								
IREV	0,910	0,652	1,000							
IPOINT	0,928	0,619	0,942	1,000						
IPAT	0,366	0,386	0,525	0,319	1,000					
INV	0,919	0,494	0,833	0,909	0,078	1,000				
IMPORT	0,914	0,658	0,919	0,935	0,291	0,947	1,000			
IBS	0,917	0,586	0,937	0,956	0,387	0,860	0,892	1,000		
IAUTRE	0,734	0,554	0,773	0,762	0,353	0,663	0,693	0,746	1,000	
EXPORT	0,856	0,724	0,917	0,895	0,390	0,839	0,934	0,847	0,688	1,000

Source: Authors' compilations.

The tests performed on the first differences of the non-stationary variables are consistent insofar as they all conclude the rejection of the non-stationarity hypothesis at the 5% level. Finally, it is established that the first seven series are integrated of order one. The others are stationary in level. The annual growth of real GDP per capita is then stationary, as are the annual growth rates of investment, exports, imports, taxes on income, profits, and capital gains, taxes on salaries and labour, and taxes on wealth.

We will now examine the presence of a cointegration relationship among the seven integrated order one variables. This analysis will be carried out according to the Johansen cointegration test procedure (1988), which is more efficient than the two-step Engle and Granger procedure (1987). The result of the cointegration test is summarized in table 6 below. The test procedure leads to the conclusion, according to the trace statistic, that there is at most one cointegration relationship, in the case of the specification with trend. However, some studies have shown that the Johansen test statistic is biased in small samples towards too frequent rejection of the null hypothesis of no cointegration. We have adjusted the critical values

according to the monotone correction factor proposed by Cheung and Lai (1993). The application of this correction factor indeed mitigates the risk of spurious cointegration. Table 6 below presents the results of the Johansen cointegration test.

Table 5: Stationarity Test Results⁵

Variable	In levels			Differenced first-order		
	ADF	PP	KPPS	ADF	PP	KPPS
GDP	-2,441 (-3,553)	-2,510 (-3,553)	0,106 (0,146)	-5,647* (-3,558)	-5,900* (-3,558)	0,121 (0,146)
INV	-3,348 (-3,558)	-2,243 (-3,553)	0,047 (0,146)	-3,862* (-3,558)	-3,887* (-3,558)	0,009 (0,146)
EXPORT	-2,553 (-3,553)	-2,465 (-3,553)	0,129 (0,146)	-6,971* (-3,558)	-7,062* (-3,558)	0,098 (0,146)
IMPORT	-2,318 (-3,553)	-2,316 (-3,553)	0,1461* (0,1460)	-4,093* (-3,612)	-4,790* (-3,558)	0,113 (0,146)
IREV	-1,210 (-3,558)	-2,661 (-3,553)	0,148* (0,146)	-6,301* (-3,563)	-10,136* (-3,558)	0,071 (0,146)
ISAL	-1,063 (-3,558)	-2,028 (-3,553)	0,195* (0,146)	-11,434* (-3,558)	-12,003* (-3,558)	0,050 (0,146)
IPAT	1,290 (-1,95)	0,373 (-1,95)	0,428 (0,463)	5,371 (-1,95)	5,371 (-1,95)	0,379 (0,463)
IBS	-4,721* (-3,552)	-4,801* (-3,553)	0,100 (0,146)			
IAUTRE	-5,055* (-3,553)	-5,041* (-3,553)	0,090 (0,146)			
IPOINT	-4,068* (-3,553)	-4,135* (-3,553)	0,101 (0,146)			

NB: The numbers in parentheses are the critical values at 5%. * indicates the rejection of the null hypothesis at 5%

Source: Authors' compilations

Using this correction factor, the test statistic does not reject the null hypothesis of no cointegration. Indeed, the value of the trace statistic is lower than the corrected 5% critical value. Therefore, we conclude that there is no cointegration relationship among real GDP, investment, exports, imports, taxes on income, profits, and capital gains, taxes on salaries and labour, and taxes on wealth. In conclusion, the various tests conducted lead to the specification of first differences for the first

⁵ The principle involves first studying the stationarity of the series in levels (non-differenced). In a second step, the non-stationary series are differenced (order 1) before performing the stationarity test again on these first-difference series. Then, the non-stationary first-difference series are differenced to the second order, and the test is repeated on the second-difference series. The process continues until all the series are stationary.

seven variables and in level for the others, except for the tax on wealth which is not stationary in first differences, let alone in second differences.

Table 6: Johansen Cointegration Test

H0	Unadjusted Trace statistic	5% Critical Values	
		Unadjusted value	Adjusted value a
r=0	131,245	117,708	136,705
r ≤ 1	74,851	88,804	103,136
r ≤ 2	45,599	63,876	74,185

NB: a/ Adjustment of asymptotic critical values is made according to the correction factor proposed by Cheung and Lai (1993).

Source: Authors' compilations

4.2.2 Causality Analysis and Impulse Response Functions

We now test the causality between GDP and the different categories of tax revenues based on estimating a VAR model (see table 7 and table 8 below). One of the important steps in constructing this model is selecting the number of lags. Thus, the usual information content measurement criteria are used based on a 2-lag scan.

Table 7: Determination of VAR Lag Length

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1246.325	NA	1.20e+24	80.98870	81.40502*	81.12441
1	-1132.688	153.9603	1.82e+23	78.88307	83.04625	80.24016
2	-997.662	8104.5353*	2.75e+22*	75.39760*	83.30766	77.97608*

Source: Authors' compilations

According to the above table 7, the Final Prediction Error (FPE), the Akaike Information Criterion (AIC), and the Hannan-Quinn (HQ) information criteria all indicate an optimal lag of 2, even though for the Schwarz Information Criterion (SC) the optimal lag is 1. Furthermore, a likelihood ratio (LR) test showed the optimality of the 2-lag model. Therefore, a VAR (2) model is retained for estimation purposes. The results of the various causality tests are provided in table 8 below.

These results indicate, except for taxes on salaries and labour, that no other tax category has a significant short- and long-term effect on real growth rate and investment in Senegal. Indeed, causality tests report values lower than critical values, thus not rejecting the null hypothesis of non-causality of growth rate and investment by the study variables. This result contradicts the predictions of theoretical models suggesting a significant effect of certain types of taxes on growth.

Table 8: Causality Test Results

Causal Variable	Caused Variable								
	GDP	INV	EX-PORT	IMPORT	IREV	ISAL	IBS	IAUTRE	IPOINT
GDP	-	0.7086 (0.5015)	0.4566 (0.6384)	4.7086* (0.0179)	1.0625 (0.3601)	0.4347 (0.6520)	1.3252 (0.2830)	1.4804 (0.2460)	2.8961** (0.0731)
INV	0.9211 (0.4106)	-	0.8041 (0.4582)	0.4174 (0.6630)	0.0946 (0.9100)	0.3651 (0.6975)	1.3959 (0.2655)	0.6853 (0.5128)	12.6886* (0.0001)
EX-PORT	2.1405 (0.1378)	0.1001 (0.9050)	-	0.3959 (0.6770)	2.4314 (0.1076)	0.2424 (0.7864)	1.1523 (0.3315)	0.6878 (0.5115)	1.8614 (0.1755)
IMPORT	0.0143 (0.9857)	3.3051 (0.0526)	2.2462 (0.1259)	-	0.4216 (0.6603)	1.0679 (0.3583)	1.6161 (0.2179)	1.8544 (0.1766)	5.8320* (0.0080)
IREV	0.4544 (0.6397)	2.2467 (0.1258)	1.9345 (0.1647)	2.3140 (0.1188)	-	3.8448* (0.0344)	1.4819 (0.2457)	0.1406 (0.8694)	0.0198 (0.9803)
ISAL	4.2928* (0.0244)	0.2448 (0.7846)	0.79759 (0.4611)	1.2918 (0.2918)	1.2779 (0.2955)	-	4.1380* (0.0275)	0.0298 (0.9705)	0.9284 (0.4078)
IBS	1.1392 (0.3355)	0.17460 (0.8407)	0.8430 (0.4418)	0.0959 (0.9088)	1.9769 (0.1587)	2.4660 (0.1045)	-	6.9864* (0.0035)	0.4311 (0.6541)
IAUTRE	0.0816 (0.9218)	0.0876 (0.9163)	2.0468 (0.1494)	0.7402 (0.4867)	2.1272 (0.1394)	0.98217 (0.3879)	2.9560** (0.06904)	-	1.4171 (0.2598)
IPOINT	1.660 (0.2095)	0.2657 (0.7687)	1.8629 (0.1753)	0.0609 (0.9410)	2.2094 (0.1299)	4.6071* (0.0193)	4.1804* (0.0262)	6.1492** (0.0063)	-

NB: The reported statistics are Chi-2. Values in parentheses are p-values. * indicates significance at 5% and ** at 10%.

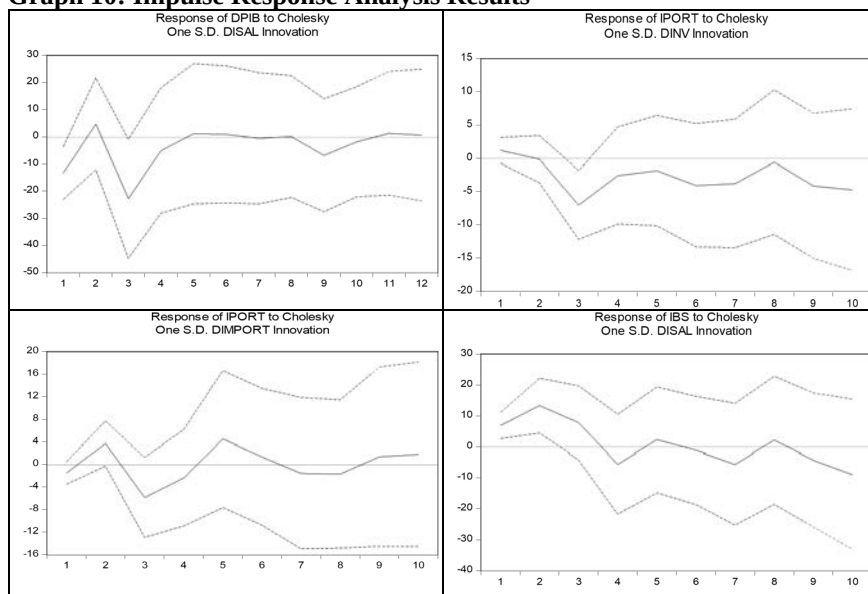
Source: Authors' compilations

Furthermore, the test results show causality from:

- GDP growth to imports (growth causing imports),
- GDP growth and investments to taxes on foreign trade and international transactions (growth and investments causing port revenues).

We will now analyse the impact of a structural shock on the variables in the short term through the impulse response function⁶. The canonical residuals from our models represent shocks whose propagation results in fluctuations in the dynamic system. However, these innovations represent only the unpredictable part given the information contained in the past realizations of the system variables. The results of the impulse response functions from a shock on variables causing others are recorded in the following graph 10.

⁶ See as an introduction to the Impulse Response Functions (IRFs) and on the Cholesky innovation: <http://faculty.ndhu.edu.tw/~jlin/files/impulse.pdf>

Graph 10: Impulse Response Analysis Results

Note: Response of variable A to Cholesky One S.D. Variable B Innovation = Response of variable A following a positive shock on variable B according to the Cholesky decomposition / S.D. = Standard Deviation / Innovation = Error term of the estimation equation.

Source: Authors' compilations

More specifically, it can be said that any positive shock to taxes on salaries and labour leads to a negative effect on GDP. However, this effect fades after a year, stabilizing thereafter. On the other hand, a positive shock to port revenues initially positively impacts investments. However, this situation only lasts for two quarters. Indeed, the positive effect from this shock gradually diminishes until becoming negative after two quarters.

4.2.3 Discussion of Results

Overall, the results reveal that the structure of tax revenues only influences the real GDP growth rate through taxes on salaries and labour. Thus, other types of taxes have no significant short- and long-term effect on real GDP. Therefore, taxes on salaries and labour are the only type of tax to negatively affect real GDP. This result contradicts the theoretical position asserting the detrimental effect of taxes on the economy. Also, this result partially corroborates that of Mertens and Ravn (2013), who highlighted the positive effect on economic activity of a reduction in income tax, demonstrating that the effect on investment of an income tax cut is higher than that of a reduction in corporate tax. It also corroborates that of Arnold

and al. (2011) stating that reducing income tax is the most suitable fiscal change to boost economic growth. It also supports the findings of Tendengu and al. (2022) and Djelloul and al. (2014).

The results also show that real GDP and investments influence port revenues. Thus, increases in real GDP and investments lead to an increase in revenues from foreign trade and international transactions.

The causality results between the structure of tax revenues and the real GDP growth rate must be analysed by considering Senegal's situation, which is characterised by fiscal inefficiency despite the fiscal reforms of 2013 (DGID, 2013). These reforms have made the fiscal framework clearer and have adapted it to the objectives of government policy.

Also, the corporate tax rate was raised while the income tax rate decreased. Indeed, with a tax revenue to GDP ratio of 12.9%, Senegal is among the group of sub-Saharan countries with a moderate level of tax revenue collection, ranging from 12% to 16% of GDP (Dieng and Diène, 2024). Senegal's average fiscal frontier level is below 18.8% of GDP over the period 2000-2022 (Dieng and Diène, 2024). Improving the functioning of the tax system could therefore substantially reduce, or even eliminate, fiscal gaps and mobilize substantial resources to finance economic and social development. To increase efficiency gains and to approach its fiscal frontier, Senegal must significantly reduce its tax expenditures, especially exemptions. Indeed, the budgetary cost of tax expenditures was estimated at around 846.1 billion FCFA in 2020, representing 31.6% of the currently collected tax revenues and 5.96% of GDP (DGID, 2023). These exemptions mainly affect indirect taxes, accounting for 89.6% of the total cost, with the majority allocated to value-added tax (VAT). Rationalizing VAT borne by households would have a positive impact on the economy and social aspects (Faye and Dieng, 2024). However, if targeted at VAT borne by businesses, the economic impact would be positive, with negligible social effects.

Moreover, regarding control variables, the test results show causality from GDP growth to imports. Thus, an increase in real GDP favours an increase in imports and, consequently, mechanically increases port revenues. This result also confirms the Keynesian conception of the relationship between imports and GDP.

5 Conclusions and Policy Recommendations

In Senegal, examination of descriptive statistics reveals a similar trend in tax revenues and the main wealth indicator, GDP. These two macroeconomic variables have shown an upward trend since the year 2000. This observation suggests examining the causal relationships between the structure of tax revenues and economic growth in Senegal. VAR modelling was used to analyse the causality between these two variables of interest based on quarterly data for the period 2015-

2023. This methodological approach allows for assessing, through response functions, the propagation and historical decomposition of shocks.

The results of econometric estimations partially support the two research hypotheses. Firstly, these results indicate that the structure of tax revenues effectively influences economic growth, although it concerns only one type of tax revenue. Secondly, any positive shock to taxes on salaries and labour causes a negative effect on GDP; this effect fades after one year. Indeed, the results show that the structure of tax revenues influences real GDP through taxes on salaries and labour. Other types of taxes have no significant short- and long-term impact on real GDP. Taxes on salaries and labour remain the only type of taxes to have a negative effect on real GDP. This result corroborates the theoretical concept of tax being harmful to economic activity. The results also indicate that real GDP and investments have a positive effect on port revenues. Thus, any increase in real GDP and investments leads to an increase in revenues from foreign trade and international transactions.

These results suggest two major economic policy implications. The first is not to increase but to broaden the tax base of taxes on salaries and labour, particularly by improving tax collection rates and promoting a job policy through appropriate incentives for job-creating companies. This proposal is justified by the inefficiency of Senegal's tax system despite the 2013 fiscal reforms. The second economic policy implication is to strengthen economic policy measures being favourable to investment and maintaining a low inflation rate. These policy measures will help to strengthen economic activity dynamics and to increase wealth creation and, consequently, tax revenues, especially those from foreign trade and international transactions.

In conclusion, this article reveals that the structure of tax revenues affects economic growth in Senegal through only one type of tax, namely taxes on salaries and labour. However, there is a limitation to be noted, namely the length of the series used in this study, which remains relatively short (from the first quarter of 2015 to the second quarter of 2023, i.e., 34 points). Longer series would lead to better estimator convergence.

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Impacts of tax expenditures on the economy, poverty, and inequality in Senegal

By Seydi Ababacar Dieng¹, Issa Faye², and Dame Thiam³

1 Introduction

Tax (or Fiscal) Expenditures (TE), or "tax breaks", encompass all legislative and regulatory provisions that result in tax deductions, reductions in tax rates, as well as any subsidies granted through the tax system to alleviate the tax burden on businesses and households. These are special provisions that deviate from the common law governed by the General Tax Code (CGI), the Customs Code (CD), and the applicable laws in certain strategic sectors. Consequently, all types of taxes and fees, including value-added tax (VAT), customs duties, income taxes, and registration fees, can be exempted for specific social and/or economic objectives.

Thus, tax expenditures are considered as instruments of fiscal policy aimed at alleviating constraints in the economic sphere or improving the living conditions of households. According to Hefnaoui and El Garouaz (2022), fiscal redistribution remains one of the key instruments of economic policy, operating through progressive taxation to establish equity and to reduce income inequalities. For example, the government may decide to exempt or reduce corporate taxes for new or struggling businesses for a limited period to create conditions for their growth. Such measures should contribute to enhancing the country's attractiveness and improving the competitiveness of local companies.

Moreover, improving households' purchasing power and combating poverty can be targeted through tax expenditures, such as targeted actions to reduce VAT on certain products or income tax. In this regard, tax expenditures can have a redistributive effect on income through the application of progressive tax brackets and special regimes for the poorest. Institutions such as non-governmental organizations (NGOs) also benefit from tax expenditures to facilitate the implementation of programmes that improve living conditions for the population.

However, tax expenditures can sometimes have a high budgetary cost and may even compromise effective resource mobilization, especially in the context of developing countries where the informal sector, which is difficult to integrate into

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the tax system, plays a significant role in economic activities. This situation, combined with extensive reliance on tax expenditures, largely contributes to the narrow tax base and the failure to mobilize sufficient budgetary resources.

Senegal, like other countries in the West African Economic and Monetary Union (UEMOA), struggles to achieve a tax-to-Gross Domestic Product (GDP) ratio of 20% while facing numerous financing needs for development projects that require abundant budgetary resources. In this regard, rationalizing tax expenditures could offer interesting perspectives.

Furthermore, using tax expenditures as a policy instrument can face a dilemma related to conflicting objectives. It is challenging to envision an effective and neutral tax system that contradicts any form of subsidy, while simultaneously seeking an equitable and incentive-based fiscal framework relying on exemptions. Thus, tax efficiency and neutrality translate into optimal mobilization of tax resources solely for financing the production of public goods and services (Valenduc, 2004).

Such an approach prioritizes expanding the tax base by increasing the number of taxpayers to apply lower tax rates. On the other hand, a policy accompanied by tax expenditures tends to reduce the tax base and generally requires other measures to offset revenue losses, often involving higher tax rates that penalize taxpayers not benefitting from exemptions. However, derogatory provisions can be essential instruments for regulating and redistributing income in a context of market imperfections and disparities (Hefnaoui and El Garouaz, 2022).

In Senegal, an annual evaluation of the budgetary cost of tax expenditures is carried out by government services in accordance with Directive No. 01/2009 of March 27, 2009, on transparency in public finance management within the UEMOA (Union Economique et Monétaire Ouest Africaine). This evaluation also allows the government to have control over the various lines of tax expenditures in the context of implementing the Emerging Senegal Plan (ESP), where mobilizing domestic resources plays a significant role in facilitating the financing of socio-economic projects and programmes, combating poverty, and achieving the Sustainable Development Goals (SDGs).

This article is situated in a context where Senegal is implementing a fiscal policy governed by the Medium-Term Revenue Strategy (MTRS), aiming to improve the efficiency, effectiveness, and transparency of the tax system. The MTRS aims to increase the tax-to-GDP ratio from 15.3% to 20% (excluding hydrocarbons) by 2024. The year 2020 was particularly marked by the COVID-19 pandemic, which had detrimental effects on economic activity, leading the State to implement support measures for households and businesses, including tax waivers. For the year 2022, the Government of Senegal intends to review or even eliminate exemption schemes for products or services that are inherently regressive. This includes the "elimination of the corporate tax exemption for cement factories, projected at 4 billion Francs of the Financial Community in Africa (FCFA); revision of the exemption for social consumption of water and electricity deliveries,

projected at 10 billion FCFA; revision of the exemption for rice (effective taxation of so-called 'luxury' rice), projected at 0.5 billion FCFA; revision of the tax reduction for dependents, projected at 5 billion FCFA; and the elimination of the exemption granted for non-medical hospitalization services provided by private healthcare centres, projected at 0.5 billion FCFA" (Annex to the 2022 Amended Budget Law). Furthermore, to maintain the performance of customs services, the State plans to strengthen control over suspensive regimes, post-clearance audits, and the recovery of suspended VAT.

The Evaluation Report on Tax Expenditures for the year 2020 reveals that their budgetary cost is estimated at 846.1 billion FCFA, approximately 31.6% of the actual tax revenues collected and 5.96% of the GDP. These statistics show that tax expenditures represent a significant loss for the public treasury. Thus, a thorough evaluation of the effects of tax expenditure lines on macroeconomic aggregates, poverty, and inequality is necessary to assess their effectiveness and sustainability. Based on the facts and literature elements mentioned above, it is important to examine the economic and social consequences of tax expenditures in Senegal. This article aims to evaluate the economic and social impacts of tax expenditures in Senegal and to propose scenarios for rationalization. Specifically, it seeks to determine and to analyse their effects on macroeconomic aggregates, such as economic growth, as well as poverty and inequality. In this regard, two hypotheses are favoured. The first hypothesis suggests a positive impact of tax expenditures on economic growth. The second hypothesis states that tax expenditures have favourable consequences for poverty and inequality. To achieve this objective, the methodological approach is based on the use of a dynamic computable general equilibrium (CGE) model with microsimulation.

The rest of the article after the section 1 with the introduction is organized into five further sections. The second section reviews the theoretical and empirical literature on tax expenditures. The stylized facts are presented in section 3. Section 4 outlines the methodological approach. The results and their interpretation are presented in section 5. Finally, section 6 is dedicated to the conclusions and to the implications for economic policy. In the Annexes 1-8 very important material is attached.

2 Literature Review

The effectiveness and importance of tax expenditures have been the subject of debates in economic theory. Many theorists share the idea that any fiscal policy is based on a trade-off since taxation is an instrument with often contradictory objectives. According to Maldague and Valenduc (1999) and Van den Noord and Heady (2001), the efficiency and neutrality of taxation are not compatible with a fair and incentive-based fiscal system.

The efficiency and neutrality of taxation imply the use of fiscal resources with minimal losses to finance the production of public goods and services (Valenduc, 2004). In this case, fiscal policy is based on broadening the tax base to achieve the lowest possible tax rate, which contradicts a policy that includes exemptions. Exemptions tend to reduce the taxable base and generally require other measures to offset losses, often involving increased tax rates.

Furthermore, theorists of optimal fiscal policy such as Stiglitz (1988), Gilbert (1996), and Ecalle (2019) argue that fiscal expenditures reduce the tax base and often undermine the efficiency of taxation by making it less uniform. They can also pose a problem of budget transparency since the budget law generally does not consider the forecast of fiscal expenditures, unlike direct subsidies.

However, an evaluation of fiscal expenditures is usually carried out annually by governments and appended to the budget law to enhance budget transparency. Nevertheless, this evaluation is done *ex post* and often delayed by several years with several omissions (Ecalle, 2019). Other critics of providing subsidies through the tax system, including Jurion (2004), Guillaume et al. (2011), and Redonda, A./T. Neubig (2018), argue that certain exemptions create windfall effects and result in a substantial loss of tax resources, causing the final economic incidence to deviate significantly from the initial state. Investment incentives or employment bonuses for companies do not necessarily encourage the use of these benefits to increase the company's capital or employment volume. Instead, they can serve as additional income for shareholders and reduce the effectiveness of the subsidy.

Tax reductions related to real estate often benefit owners rather than tenants or buyers. Additionally, a decrease in value-added tax (VAT) can increase producers' profit margins with a minimal impact on household welfare and can have a significantly negative impact on government revenue (Valenduc, 2004). Regarding incentive tax regimes based on fiscal expenditures to attract investors, some authors such as Tanzi and Zee (2000), Sabaini and Velasco (2010), and International Monetary Fund/IMF (2015) have indicated that these initiatives should not rely solely on exemptions as they tend to promote profit shifting rather than the creation of new businesses. Indeed, in the literature, the fiscal instrument is considered as the seventh factor attracting foreign direct investment (FDI), behind factors such as market size, real income level, labour cost and skill level, and political and economic stability (Globerman and Shapiro, 1999 and 2001).

Certain exemptions related to the financial activities tax (TAF), usually implemented to support domestic savings, often have the effect of increasing the profit of financial intermediaries (Caminada and Goudswaard, 2008). Additionally, fiscal expenditures can go against the criterion of horizontal equity by sometimes treating individuals with the same ability to contribute differently (OECD, 2013; Queisser and Whitehouse, 2006). On the other hand, other authors argue that tax exemptions can be used as a medium to attract new investors and to retain

existing companies to improve the business environment (Redonda, A., et al., 2019; Muet and Avoyi-Dovi, 1987; Bagchi, 1974). Thus, most countries have adopted preferential tax regimes for foreign companies and new investors to facilitate their integration into the market by resorting to cost-related exemptions or value-added tax credits. Furthermore, reducing the tax burden on credits granted to companies and compensating individual savings promotes private initiative and facilitates investment financing. Finally, a reduction in corporate tax can be incentivizing in certain circumstances by increasing the company's equity capital.

For several authors, including Hefnaoui and El Garouaz (2022), fiscal expenditures are an essential mechanism, especially in a context of externalities and market imperfections, for pursuing equity, incentives, regulation, and income redistribution. Thus, according to Van Pottelsberghe De la Potterie, et al. (2004), they can be used to internalize the costs and benefits of external effects through price adjustments in the market. For example, to promote Research and Development (R&D), environmental protection, or rational energy use, tax reductions can be offered to lower labour and capital costs to integrate these dimensions into the functioning of the economy and to promote the green economy.

Furthermore, the thesis that any fiscal expenditure policy violates tax neutrality and efficiency rests on the assumption of perfect markets, according to Legros (2004). Thus, for many authors, fiscal expenditures are a corrective factor for market imperfections (Legros and Newman, 1996; Collie, 2000). Small and medium-sized enterprises (SMEs), for instance, generally do not have the same access to financial markets as large corporations. Therefore, for these authors, a tax relief could help alleviate difficulties related to credit rationing or acquiring capital at a high cost. Fiscal expenditures can also play an important role in income redistribution (Valenduc, 2004; Burman, Toder, and Geissler, 2008). For example, the progressive income tax scale and exemptions for social expenses of the poorest are instruments that pursue these objectives. From this perspective, fiscal expenditures that encourage the use of inferior goods through VAT exemptions can have similar effects. Tax benefits on savings income, property prepayments, and family allowances are also advantages to combat inequalities.

Benabbou and Radi (2022) have highlighted the difficulties in evaluating fiscal expenditures in Morocco due to their large number and the absence of quantified data on their impact. The major concern regarding any derogatory fiscal arrangement is the assessment of the budgetary cost of fiscal expenditures to ensure effective financial transparency of the general state budget and better rationalization of resource allocation (Benabbou and Radi, 2022). As for empirical studies, several types of methodologies have been used with mixed results. However, most studies have referred to microsimulation and micro-econometric impact evaluations, with a lesser extent of CGE (Computable General Equilibrium) models.

To measure the redistributive effects of fiscal expenditures related to real estate, health insurance, and retirement savings in the United States, Toder et al.

(2012) used the TPC (Tax Policy Centre) microsimulation model (Nunns, 2012; Rosenberg, 2013). Their results reveal that the tax exemptions for retirement savings and real estate do benefit higher-income individuals more, while those for health insurance do benefit low- and middle-income taxpayers more. The adoption of health insurance exemptions leads to a 0.6% increase in income for the top quintile. As for real estate and savings, it would result in a 0.7% increase in income for the wealthiest quintile. Indeed, high-income taxpayers have more capacity to benefit from tax relief programmes, homeownership, and retirement savings programmes.

In the same vein, Barrios et al. (2016) conducted an impact study on the elimination of these same tax exemption provisions and those related to education on inequality and tax revenues in 27 European Union (EU) countries, using the microsimulation model of the tax-benefit system called Euromod (Sutherland and Figari, 2013). In this regard, the elimination of tax subsidies for retiree pensions is expected to increase inequality levels in all countries (with an increase of over 0.5 percentage points in the GINI index), except for Cyprus, France, and Slovenia, with a very small impact on tax revenues. Suspending fiscal expenditures related to housing could lead to an increase in revenues of less than 5 percentage points and to a decrease in inequality in all countries. However, fiscal expenditures related to the education sector represent nearly one percentage point of income tax revenues in Latvia, 0.6 percentage points in Portugal, and much less in other countries, while those related to healthcare are close to 2 percentage points of income tax revenues in Latvia, 1.5 percentage points in Portugal, 1 percentage point in Ireland and Italy, and 0.5 percentage points in Germany and Greece. The impact on inequality is negligible for these two lines of fiscal expenditures.

Using the same Euromod model, Avram, S. et al. (2013) found that tax allowances have no significant impact on inequality in six EU countries, except for Germany, where the GINI index would have increased by 1.2 percentage points. Moreover, tax credits would generally be too low to have a significant impact on inequality. The only exception would be Italy, where they would reduce inequality by 2.4 percentage points. Toder et al. (2016), using the TPC microsimulation model, determined the total cost of income tax exemptions and their redistributive effects in the United States. They estimated that fiscal expenditures related to income tax are at \$1,170 billion in 2015. Furthermore, the rich (income earners) benefit more from these tax exemptions, as more than 13% of tax reductions would be granted to the top 1% of individuals, while the bottom 25% would only benefit from 6.7% of total fiscal expenditures.

Using the Commitment to Equity (CEQ) model (Lustig et al., 2018), a macroeconomic model with microsimulation based on income distribution and fiscal policy, Jellema and Tassot (2018) estimated the impact of fiscal benefits on household incomes and inequality in Togo. They showed that income-related tax subsidies could reduce inequality in Togo, as measured by the GINI index, by up to 5

percentage points, but they generally would worsen poverty among the poorest households. In a different context, Bilsborrow and Porter (1972) analysed the implications of exemptions on investments of Colombian industrial firms using the ratio between gross investment and equity after tax, including exemptions. When the ratio is less than 1, investment is lower than equity, and they assume that the additional liquidity due to the exemption would not be used to finance investments. When the ratio is greater than 1, investment exceeds equity, and in this case, the additional liquidity would have, at least marginally, made this investment possible. They found that out of a sample of 78 firms, 64 recorded a score lower than 1, while the other 14 obtained a score higher than 1.

Using the double-difference microeconomic impact evaluation method, Harju and Kosonen (2012) studied the effect of reduced tax rates applied to small businesses in Finland. For the latter, lighter taxation for small businesses leads to an increase in turnover. Turnover increases by 5% in the treatment group, which consists of small businesses benefiting from tax relief. Sari et al. (2015) described the evolution of foreign direct investment (FDI) in Indonesia with preferential tax regimes. Their results reveal that fiscal expenditures granted to new investors for a period ranging from 2 to 5 years could lead to a 12% increase in FDI in Indonesia, and that the long-term revenue losses would be negligible.

As for general equilibrium models, such as CGE (Computable General Equilibrium) models, they are generally used in economic literature to determine the impacts of tax reforms. However, fiscal expenditures are rarely considered, although some authors have based their analysis on this tool. Indeed, Boccanfuso, D. et al. (2010) analysed the consequences of abolishing VAT exemptions in Niger, using a CGE (Computable General Equilibrium) model with microsimulation. They considered broadening the tax base to all consumer goods and applying a 10% VAT rate on all products, which would result in a 40.3% increase in VAT revenues and a 0.05% increase in economic growth. However, households living in rural areas and deriving their income from agriculture would be negatively affected, with a 7.92% increase in poverty incidence. Nevertheless, by considering a more realistic tax base and maintaining low taxation on subsistence agriculture, the variation in poverty incidence among rural households would decrease from 7.92% to 3.37%. The same methodology was used by Hamadache (2015) to study the repercussions of exemption reforms on the wheat market in Algeria. The removal of these exemptions would have led to a decrease in wheat consumption due to higher domestic prices. However, overall household income, consumption, and private investment would have increased by 1.16%, 0.24%, and 1.31% respectively, being the result of redistributing tax revenues from the rationalization of fiscal expenditures in the wheat market.

Furthermore, Hefnaoui and El Garouaz (2022) studied the impact of introducing fiscal expenditures on tax progressivity and equity in Morocco by using math-

ematical formalization. Their results indicate a neutral effect on the corporate income tax (IS/impôts sur les sociétés), a relatively progressive nature of the VAT and customs duties, and a regressive nature of the effect on the individual income tax (IR/impôts sur le revenu). Indeed, the introduction of fiscal expenditures has a negative impact on equity, as they increase with income level, thereby altering the progressivity of the tax system and its ability to reduce income inequalities. In the literature, authors have either used only macroeconomic models, notably CGE models, which do not consider social indicators, or solely microsimulation models such as TPC or Euromod, which do not assess variations in macroeconomic aggregates. Furthermore, the CEQ is a macroeconomic model with microsimulation that does not incorporate the behaviour of economic agents, particularly that of firms.⁴ The model is based on the evolution of gross national income and disposable income to incorporate them into microsimulation.

Therefore, to address these limitations in this article, a CGE model with microsimulation will be used. Indeed, this type of model considers the rational behaviour of economic agents, the accounting relationships of different macroeconomic aggregates, and the sector-specific aspects. Moreover, the main lines of the tax system are integrated into the modelling through parameters calibrated from data from the Social Accounting Matrix (SAM)⁵, provided by ANSD⁶. These parameters will provide data for conducting ex-ante simulations and obtaining results on macroeconomic aggregates, public revenues, as well as poverty and inequality through microsimulation exercises.

3 Stylized Facts

This section first analyses the evolution of the number of identified derogatory measures and those "evaluated," as well as their distribution according to the nature of the tax and the beneficiaries. Next, a diagnosis of the level of fiscal expenditures and their weight in GDP and tax revenues is conducted to assess the size of

⁴ See on the CEQ model: <https://commitmenttoequity.org/whatisceq.php>

⁵ See the link for the SAM used ANSD 2020: https://www.ansd.sn/Indicateur/matrice-de-comptabilite-sociale-mcs?field_types_de_document_value=3

⁶ ANSD of Senegal adopted, in 2018, a new base year (2014) for national accounts. At the same time, it migrated to the new United Nations System of National Accounts of 2008 (SNA 2008) (United Nations 2009). In this regard, to meet the increased demand from various stakeholders wishing to conduct simulations of shocks and macroeconomic policies, ANSD embarked on the development of a Social Accounting Matrix (SAM) for the year 2014. The methodology implemented for this purpose was replicated for the development of social accounting matrices from 2015 to 2019. Link: <https://www.ansd.sn/Indicateur/matrice-de-comptabilite-sociale-mcs>.

exemptions and their trends in relation to socioeconomic indicators such as poverty, imports, final consumption, private investment, and household incomes. Finally, the structure of fiscal expenditures by beneficiary and tax nature is highlighted through a description of the distribution of derogatory measures benefitting economic agents, as well as the different lines of taxes and taxes, and their relevance in the evolution of certain macroeconomic aggregates and of household well-being.

The data used are collected from the annual reports on fiscal expenditures prepared by the Ministries of Economy and Finance through an Evaluation Committee established since 2012. In Senegal, the "revenue loss, all else being equal" calculation method is adopted to estimate the total amount of the tax exemptions. It involves determining the tax value of all evaluated derogatory measures. The budget evaluation report of fiscal expenditures in 2020 reveals an increase in the coverage rate of evaluations, which went from 77.3% in 2019 to 79% in 2020 (with 339 identified measures, of which 270 were evaluated). Households remain the main beneficiaries of fiscal expenditures, receiving 382 billion CFA francs, accounting for 45.08% in relative value, followed by businesses with 205.38 billion CFA francs, or 24.27%, and public authorities with 169.51 billion CFA francs, or 20.03%. In 2020, fiscal expenditures related to the regular regime predominate with 559.7 billion CFA francs, ahead of those related to derogatory regimes with 286.39 billion CFA francs. The distribution of fiscal expenditures by type of tax shows that 88.2% relate to VAT, equivalent to 743.27 billion CFA francs, 5.0% to income tax, or 42.45 billion CFA francs, and 4.9% to customs duties, or 40.98 billion CFA francs. Considering the available data for the comparative analysis of fiscal expenditures and its components for certain UEMOA countries, including Senegal, the period selected here is 2010-2016.

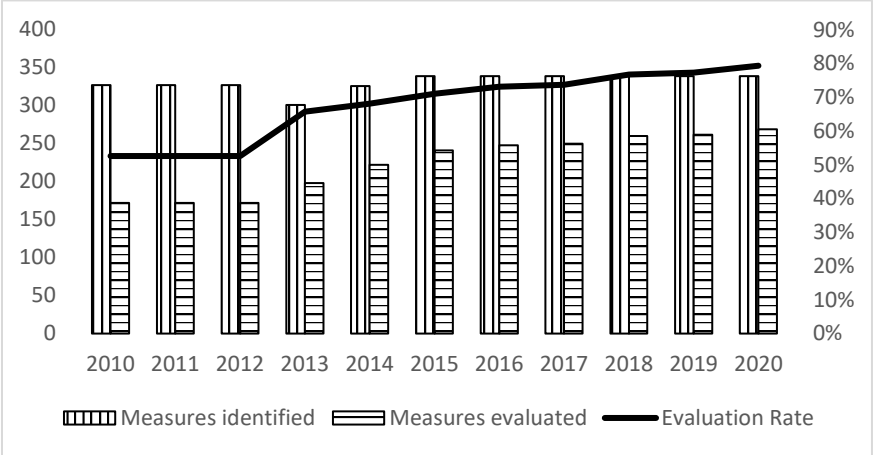
3.1 Identified and Evaluated Measures

They are identified based on reference standards, including provisions from the General Customs Code (GCC), the General Tax Code (GTC), the Mining and Petroleum Code, the Investment Code, as well as the files of taxpayers registered with the Centre for Large Enterprises (CLE). Measures that deviate from these standards and are motivated by economic or social considerations are identified and classified as sources of fiscal expenditures. Regarding evaluation, some tax exemptions have been estimated using statistics provided by the National Agency of Statistics and Demography (ANSI). This is the case, for example, with VAT exemptions on residential rent, educational and training services, as well as public transportation services.

The average number of derogatory measures in Senegal is estimated at 331 per year on average for the period 2010-2020 (figure 1). However, between 2012

and 2013, the new GTC (General Tax Code) abolished and revised numerous exemptions as part of a policy to control fiscal expenditures. On the other hand, from 2014 to 2020 an average of 337 lines of exemptions were identified per year, reflecting the considerable efforts made by the tax administration to improve the quality of statistics related to tax expenditures/TE (figure 1). Furthermore, the number of evaluated derogatory measures increased from 172 to 269 between 2010 and 2020, resulting in an evaluation rate of 53% in 2010 and 79% in 2020 (figure 1). These statistics demonstrate that Senegal has a satisfactory evaluation rate compared to other UEMOA countries, particularly Ivory Coast, Burkina Faso, and Benin, where the number of evaluated measures compared to those identified is estimated at 35.4%, 56.5%, and 40.1% respectively for the year 2016. These results can be attributed to the authorities' commitment to modernize customs, tax, and treasury administrations, as well as the establishment of an Evaluation Committee for Fiscal Expenditures consisting of officials from tax and treasury administrations, economists, and statisticians (see figure 1 for details).

Figure 1: Evolution of Identified Measures, of Evaluated Measures, and of the Evaluation Rate (% - secondary axis) from 2010 to 2020



Source: DGID (Direction Generale Des Impots Et Des Domaines/General Directorate of Taxation and Domains), Fiscal Expenditure Reports

Derogatory measures are included in both common law regimes and derogatory regimes. Regarding the structure of the exceptional measures identified according to the nature of tax, common law regimes are more numerous than exceptional regimes. The common law regimes govern the TE recorded on the CGI/General Tax Code and the CD. On the other hand, the exceptional regimes regulate TE included in other texts such as ministerial decrees. In fact, 170 and 177 common

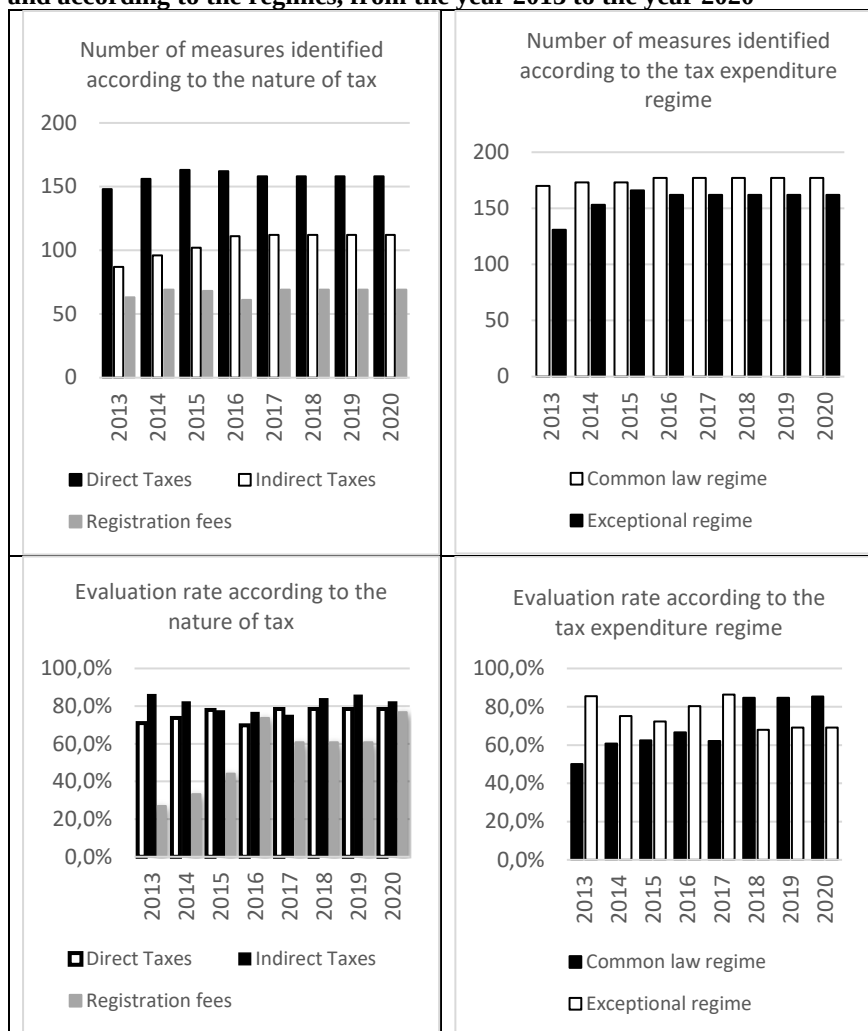
law measures were identified in 2013 and 2020, respectively, compared to 131 and 162 derogatory regime measures (figure 2). However, the share of derogatory regime provisions has increased over time, from 43.5% in 2013 to 47.8% in 2020.⁷ This shows that just under half of the fiscal expenditures are not recorded in the General Tax Codes. On the other hand, the number of evaluated measures related to derogatory regimes is significantly higher than that of common law regimes, with evaluation rates estimated at 75.7% and 69.6% on average between 2013 and 2020 (figure 2), respectively. Indeed, most of the derogations related to other texts are requested by the taxpayer, which facilitates the upfront registration of information.

Exemptions related to direct taxes are more numerous than other types of taxes. The number of derogatory measures related to direct taxes increased from 148 in 2013 to 158 in 2020, while the identified measures related to indirect taxes numbered 87 in 2013 and 112 in 2020 (figure 2). The number of tax expenditures (TE) related to registration fees is lower and in a stagnating trend, with 63 measures in 2013 compared to only 69 in 2020. However, derogations related to indirect taxes have a higher evaluation rate, averaging 81.2% between 2013 and 2020, although its evolution varies over the period of study (figure 2). Indeed, from 2013 to 2017, the evaluation rate of derogations related to indirect taxes has decreased, and then has increased in 2018 and in 2019 to reach 82.1% in 2020 (figure 2). Meanwhile, the evaluation rate of tax expenditures (TE) related to direct taxes averaged 75.8% over the same period (figure 2). Exemptions on registration fees have experienced a significant increase in the number of evaluated measures during the first four years of the period under study, with an evaluation rate increasing from 27% in 2013 to 73.8% in 2016. Then, this rate decreased and stabilized at 60.9% from 2017 to 2019 before sharply increasing in 2020 to reach 76.8% (see figure 2 below). This situation can be explained by the fact that indirect taxes and registration fees are easier to evaluate as they sometimes do not require a taxpayer's tax declaration (e.g., VAT), unlike direct taxes, particularly corporate income tax (CIT) and non-salaried income taxes.

Regarding the number of identified measures for beneficiaries (see Annex 1), companies have the highest number of exemptions, averaging 173 measures per year between 2013 and 2020, followed by households with an average of 66 measures per year between 2014 and 2020. Companies are generally more affected by exemptions which are included in the common law regime and in various codes, such as those related to investments, mining, and oil, while those concerning households are only included in the common law regime.

⁷ These percentages are calculated as follows: $[\text{Number of Exceptional regime measures} / (\text{Number of Exceptional regime measures} + \text{Number of Common law regime measures})] * 100$.

Figure 2: Structure of the identified and evaluated measures by type of tax and according to the regimes, from the year 2013 to the year 2020



Source: DGID, tax expenditure reports

Furthermore, an average of 36 measures were identified for public authorities, 14 for international agreements, and 10 for private organizations of general interest (Annex 1). During the same period, the number of evaluated measures is almost

the same for companies, households, international agreements, and public authorities, with an evaluation rate averaging around 68%. However, over the period studied 2013-2020, the evaluation rate for international agreements (58%) is the lowest, and that for households is the highest (81%). In the box below there is an explanatory review of the distinction between the General Regime and the Special Regime.

Box 1: Distinction between General Regime and Special Regime

The Reference Tax System (RTS) chosen corresponds to the common law regarding the current legal provisions on taxes and duties which are managed and codified in the CGI and in the CD. Senegal makes a distinction between the common law exemption regimes originating from the CGI and the CD, and the derogatory regimes to the common law (special tax regimes) which are including all exemptions related to codes, laws, regulations, or agreements containing tax-related provisions, likely to induce the application of a more favourable tax rate or tax base to those in common law.

Derogatory measures of common law appearing in the CGI/CD include:

- Exemptions from income, transactions, goods, acts, or individuals from the scope of taxation,
- Allowances, reductions, and deductions from the tax base,
- Reductions in tax rates,
- Deferral of tax payment deadlines, and
- Tax credits.

Specific derogatory measures, derogatory to common law, result from:

- The Mining Code,
- The Industrial Domain Law,
- The Free Export Zone Company status,
- The Petroleum Code,
- The Industrial Free Zone Law,
- Conventions, treaties, and international agreements,
- Establishment agreements,
- Headquarters agreements,
- Financing agreements, and
- Specific agreements signed with the State.

Source: Authors

3.2 Evolution and impact of tax expenditures (TE) on Gross Domestic Product (GDP) and on tax revenues (TR)

The situation of Senegal over the period 2010-2020 will be examined before turning to a comparative perspective involving Senegal and some WAEMU/UEMOA countries in 2020. For the case of Senegal, table 1 below provides the amount of

TE over the period 2010-2020. This table 1 shows that TE have consistently increased throughout the period under review. Indeed, in Senegal, the amount of TE has increased significantly in recent years, from 220 billion in 2010 to 846 billion in 2020 (see table 1). Several factors may contribute to the explanation of these facts, particularly the increase in the number of evaluated measures, population growth, and the increase in the number of businesses.

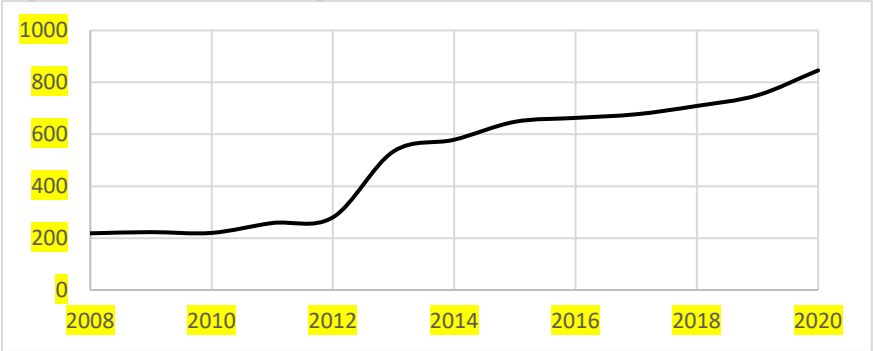
Table 1: Evolution of Senegal's TE, from 2010 to 2020 (in billions of FCFA)

Years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Amount	220	258	280	534	579	648	663	677	709	750	846

Source: DGID (General Directorate of Taxation), Fiscal Expenditure Reports

Figure 3 below also reveals a growing weight of fiscal expenditures, with two phases of similar evolution but of different magnitudes. The first phase, from 2010 to 2012, is characterized by a slow progression of TE (tax expenditures). The second phase is characterized by a stronger and continuous increase in fiscal expenditures.

Figure 3: Evolution of Senegal's TE, from 2010 to 2020 (in billions of FCFA)

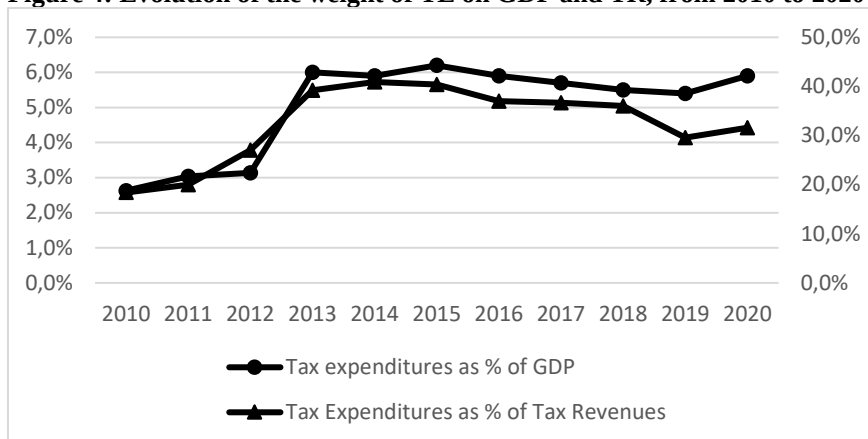


Source: Authors, as based on Fiscal Expenditure Reports

To assess the relative evolution of the tax expenditures, it is important to calculate and to analyse the significance of the tax expenditures in relation to tax revenues and GDP. Figure 4 below shows the evolution of the weight of fiscal expenditures on TR (tax revenues) and GDP (Gross Domestic Product). Overall, two major phases can be distinguished regarding the ratio of tax expenditures (TE) to tax revenues (TR). The first phase, from 2010 to 2014, is characterized by an increase in this ratio, with a significant rise of more than 12,2 percentage points between 2012 and 2013. The second phase, from 2015 to 2019, shows a decrease in the ratio of TE to TR, with a decline of more than 6.4 percentage points between 2018

and 2019. At the end of the period under consideration, this ratio increases by 2 percentage points in 2020, reaching 31.6%.

Figure 4: Evolution of the weight of TE on GDP and TR, from 2010 to 2020



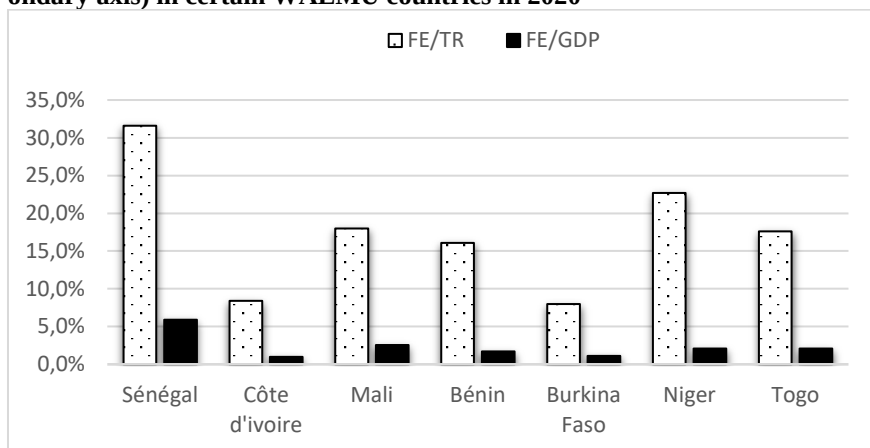
Source: Authors, based on data from the Fiscal Expenditure reports. **Note:** TE as % of GDP (on left side) and TE as % of TR (on right side)

Furthermore, the amount of TE as a percentage of GDP has consistently increased between 2010 and 2013, with a notable jump between 2012 and 2013, representing an increase of approximately three percentage points from 3.14% in 2012 to 5.82% in 2013. However, since 2013, the volume of derogatory measures has averaged around 6% of GDP, which is very high compared to other countries in the WAEMU (West African Economic and Monetary Union).

As an illustration (figure 5), in Ivory Coast, Mali, Benin, and Burkina Faso, exemptions are evaluated, in 2020, at 1%, 2.6%, 1.7%, and 1.1% of GDP, respectively, while they are at 5.9% in Senegal. Although the evaluation rate is higher in Senegal, the amount of TE remains significant. Indeed, the size of these tax exemptions (TE) is estimated on average at 40% of tax revenues (TR) over the period 2013-2020 (figure 4). In 2020, tax exemptions (TE) represent 31.6% of tax revenues (TR) in Senegal compared to 8% in Burkina Faso, 8.4% in Ivory Coast, 16.1% in Benin, and 18% in Mali (figure 5).

Despite the significant size of TE, Senegal has recorded an average economic growth rate of over 6% between 2010 and 2020 (see Annex 2). However, the country has made slow progress in improving the living conditions of households, as the Human Development Index (HDI) increased only marginally from 0.47 to 0.5 between 2010 and 2020 (see Annex 2), and the poverty rate remains high, estimated at 37.8% in 2018/2019 (ANSD, 2021).

Figure 5: Weight of TE/FE on TR (primary axis) and of TE/FE on GDP (secondary axis) in certain WAEMU countries in 2020



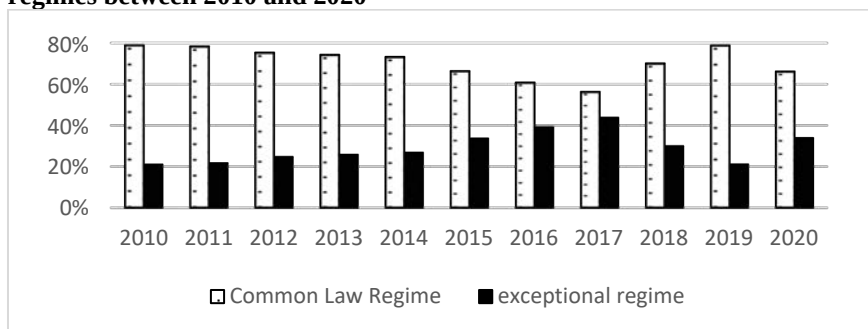
Source: DGID, fiscal expenditure reports. **Note:** Abbreviation of TE (Tax Expenditures) as FE (Fiscal Expenditures) in figure 5

3.3 Structure of tax expenditures (TE) according to tax regimes and the nature of taxation

Exemptions related to the common law regime are structurally higher than those related to derogatory regimes, as an average of 70.8% of tax expenditures (TE) are granted based on the common law regime (figure 6). However, the two categories evolve in opposite directions over the entire period studied. Indeed, over the same period, the share of TE related to derogatory regimes increased by 22.7 percentage points, from 21% in 2010 to 43.7% in 2017, while those related to the common law regime decreased by 22.7 percentage points, from 79% in 2010 to 56.3% in 2020 (Figure 6).

This significant decrease in exemptions registered under the CGI and the CD demonstrates that the objectives of rationalizing TE pursued through the 2012 CGI had implications for the volume of TE related to the common law regime. However, the increase in tax exemptions under derogatory regimes has overshadowed the results achieved under the common law regime.

However, over the last three years, the trend has been reversed as TE related to the Common law regime increased in 2018 (70.1%) and in 2019 (78.9%) before decreasing in 2020 (66.2%), while those related to the Exceptional regime decreased in 2018 (29.9%) and in 2019 (21.1%), and increased in 2020 (33.8%) (figure 6). This observation reveals that Senegal must redouble its efforts if it wants to reduce TE significantly and sustainably.

Figure 6: Distribution of TE between the common law regime and derogatory regimes between 2010 and 2020

Source: DGID, fiscal expenditure reports

3.4 Structure of tax expenditures by type of tax

The VAT (Value Added Tax) accounts for an average of 63.9% of exemptions over the period 2010-2020, reaching 87.8% in 2020 (Annex 3). The shares of exemptions related to Corporate Tax (CT) vary between 11% (in 2020) and 17.3% (in 2010), except in 2018, which are estimated at 0% (Annex 3). The Income Tax (IT) represents an average of 12.5% of the exemptions over the same period. The share of exemptions concerning the Income Tax (IT) is very fluctuating over this period; it went from 8.3% in 2010 to 5% in 2020, with a peak of 22.9% in 2015 (Annex 3). The exemptions related to Customs Duties (CD/Code des Douanes) have generally decreased over time, from 16.7% in 2010 to 4.8% in 2020 (Annex 3).

On the other hand, exemptions for FAT (Financial Activities Tax) have experienced a remarkable increase, reaching 8.5% of TE in 2016, compared to 0.3% in 2010. Subsequently, they sharply declined to settle at 1.2% in 2020. Thus, a significant portion of TE is dedicated to reducing the prices of goods and services, providing access to energy for the social stratum, and promoting agriculture through VAT reductions. Furthermore, the increase in VAT-related TE has been accompanied by a moderate increase in final consumption, averaging 3.6% between 2010 and 2020 (Annex 2).

Other factors have contributed to explaining this increase, notably population growth (the intercensal average annual growth rate being estimated at 2.9% (ANSD, 2023)). Nevertheless, the inflation rate remained very low during this period (Annex 2), and VAT exemptions could play an important role in price stability. Additionally, the private investment rate experiences significant fluctuations during this period, ranging from -8% in 2010 to 3% in 2020 (Annex 2).

In this regard, the decrease in TE related to CT (Corporate Tax) during this period did not necessarily affect private sector investment demand. However, it coincided with a considerable increase in FDI, averaging 27.1% per year between 2010 and 2020 (Annex 2). Paradoxically, the decrease in exemptions related to customs duties was accompanied by an annual increase in imports, averaging 7.3% between 2010 and 2020 (Annex 2).

Regarding the distribution of TE among beneficiaries (Annex 4), households benefit more from tax reductions compared to other economic agents. In fact, an average of over 33% of TE is allocated to households, although this share has decreased from 59% in 2013 to 45% in 2020 (Annex 4).

On the other hand, companies have benefited on average from 17.3% of TE during the same period, reaching 24.3% in 2020 (Annex 4). Furthermore, the share of exemptions related to international special agreements is estimated to be an average of 6.9%, while those related to public and private entities of general interest represented only 2.3% per year between 2013 and 2020, with 0.9% in 2020 (Annex 4).

Moreover, households benefit more from exemptions related to VAT and IT, while companies have received more exemptions related to CT and customs duties. These facts are illustrated in Annex 5, which highlights the distribution of TE by tax type and beneficiaries in 2020. In this regard, households and companies account for 45% and 24.3% of VAT-related TE, respectively.

Public authorities, private organizations, and public entities of general interest respectively benefited from 20% and 0.9% of the TE. In addition, 100% of exemptions related to IT are allocated to households, while 24.9% of those related to customs duties benefit companies and 66.5% are attributed to international special agreements.

4 Methodology

In the box below the methodology is summarised, and especially the model (a CGE model) is covered. In the following text also the data situation is considered.

Box for the Methodology Summary

A dynamic intertemporal Computable General Equilibrium (CGE) model with a microsimulation module was chosen as the methodological approach. The goal is to determine the impacts of fiscal spending policy on the economy and on the social indicators. The model accounts for the different behaviours of economic agents, such as households, firms, government, rest of the world, as well as considering sectoral aspects. The model specification is based on determining the behaviour of each economic agent.

The *representative household* seeks to maximize its utility by choosing an optimal allocation for saving and consumption. Income of the households comes from dividends from firms, labour, government transfers, and from the rest of the world, but is taxable. The consumer seeks to maximize their intertemporal utility function.

The *representative firm* produces a composite good using different factors of production, such as labour, capital, and intermediate goods. Each composite good is a combination of value-added and intermediate goods. The firm has dynamic and static behaviours. Regarding its dynamic decisions, it seeks to maximize its intertemporal profit, which is the discounted sum of dividends subject to the capital dynamics. Its static choices focus on minimizing production costs and maximizing value-added.

The *government* acts on the dynamics of the economy through its two components: public consumption expenditures and public investment expenditures. It spends on investment goods towards different sectors according to a determined share. These expenditures directly affect total factor productivity through the accumulation of public capital. Government revenue is composed of taxes on consumption, investment goods, exports, imports, household income, dividends, taxes on intermediate consumption, and transfers from the rest of the world.

The *rest of the world* pays for its imports, receives income from exports to partner countries, makes transfers to the government and to the households. Thus, foreign savings are determined through the trade balance and the net transfers from the government and the households to the rest of the world.

Simulations are performed by modifying the parameters of the tax system such as consumption taxes, import taxes, household income taxes, and corporate profits taxes. The results are analysed to understand the impacts on the economy and on the social indicators such as poverty and inequality.

Source: Authors

The methodological approach is based on dynamic intertemporal Computable General Equilibrium (CGE) models with a microsimulation module. Indeed, this type of a CGE model accounts for the rational behaviours of all economic agents (Households, Enterprises, Government, and Rest of the World), the accounting relationships of different macroeconomic aggregates, and various sectoral aspects. Furthermore, the main lines of the tax system are integrated into the modelling through parameters calibrated from Social Accounting Matrix (SAM) data. These parameters serve as inputs for conducting ex ante simulations and collecting results on all macroeconomic aggregates. In this regard, simulations on fiscal expenditures will be carried out by modifying parameters of the tax system, such as consumption tax rates, import taxes, household income taxes, and corporate profits

taxes. Additionally, microsimulation is a tool integrated with the CGE model to incorporate changes in the prices of goods and household consumption expenditures based on household survey data to determine the impacts on social indicators, including poverty and inequality.

4.1 Presentation of the Multi-Sector CGE Model

The dynamic intertemporal CGE model considers a small open economy with four agents (households, firms, government, and rest of the world), with j sectors of activity, and with several goods i produced by local firms and by the rest of the world. The households do own firms (from which they receive dividends), consume, and supply labour. They also pay external debt and taxes to the government. Firms ensure production. They also pay taxes to the government and distribute dividends to households. The rest of the world provides part of the financing for private investment, pays taxes to the government, and makes transfers to households and the government. The government collects taxes, grants exemptions, and makes transfers to households, consumes, and invests.

Economic agents are assumed to have access to a global capital market where they can borrow and lend at an interest rate r . Households and firms are assumed to have an unlimited lifespan and exhibit forward-looking behaviours. In other words, they are capable to incorporate intertemporal trade-offs into their consumption and savings decisions. The population growth rate also includes technological progress related to labour use. All the variables in the model are expressed per capita.

4.2 Model Specification

Households:

In each period, the economy is populated by a finite number of identical households that grow at a constant annual growth rate N . The representative household maximizes its utility derived from consumption (C_t) and leisure. Household income in the current period comes from dividends received from firms, labour income, transfers from the government, and from the rest of the world. Labour income and dividends are taxable. The household seeks an optimal allocation of savings and consumption at each period.

The consumer maximizes their intertemporal utility function.

$$U_o = \sum_{t=0}^{\infty} \left(\frac{1+N}{1+\rho} \right)^t [\ln(C_t) + \gamma * \ln(1 - LS_t)]$$

With U_0 representing the utility of the representative household, ρ denoting the rate of time preference, N representing the demographic growth rate, γ representing the weight of leisure, and LS_t representing the labor supply, under the following constraint:

Where F_t represents the household's financial wealth, t_L corresponds to the tax rate on labour income, W_t is the wage rate, LS_t , $TRGH_t$ denotes government transfers to households, ER_t represents the nominal exchange rate, $TRROWH_t$ denotes transfers from the rest of the world to households, t_k is the tax rate on capital income, and $Div(j, t)$, represents the dividends paid by firms to households.

This maximization process yields the following two first-order conditions:

$$\frac{C_{t+1}}{C_t} = \frac{1+r}{1+\rho} * \frac{PC_t}{PC_{t+1}} \quad (1)$$

$$F_{t+1} * (1 + N) = (1 + r) * F_t + (1 - t_L) * W_t * LS_t + TRGH_t + ER_t * TRROWH_t - PC_t * C_t - t_k * \sum_j Div(j, t) \quad (2)$$

The first condition corresponds to the Euler equation, which expresses the growth rate of total consumption as a function of the rate of time preference, the real interest rate, and the growth rate of consumer prices. This equation, along with the financial wealth equation or budget constraint, illustrates the forward-looking behaviour; current total consumption incorporates expectations about future prices.

Furthermore, the intertemporal budget constraint or "No Ponzi Game" condition, also known as the transversality condition, requires equality between the present value of household consumption and the sum of its discounted incomes. Thus, the household is unable to indefinitely accumulate debt.

Once the household has determined its level of aggregate consumption expenditure, it allocates it among different goods to determine demand and price functions.

Firms:

The representative firm produces a single good i using capital, labour, and intermediate consumption goods. Its decisions are both dynamic and static, based on profit maximization and cost minimization programmes.

Dynamic decisions

The firm's problem is to maximize its intertemporal profit, which is the discounted sum of dividends, subject to the dynamics of capital. Indeed, the firm's intertemporal arbitrage involves choosing the level of investment INV_{jt} and the capital stock $K_{j,t+1}$.

Thus, the firm maximizes its value $V_0 = \sum_t \left(\frac{1+N}{1+r} \right)^t DIV_{jt}$

subject to the constraint:

$$(1 + N)K_{j,t+1} = (1 - \delta k_j)K_{jt} + INV_{jt}$$

With, $DIV_{jt} = PVA_{jt} * VA_{jt} - W_t LD_{jt} - PK_t * J_{jt}$

The first-order conditions correspond to the following equations:

$$(1 + N)K_{jt+1} = (1 - \delta k_j)K_{jt} + INV_{jt} \quad (3)$$

$$J_{jt} = INV_{jt} * \left(1 + \frac{\beta_{vj}}{2} * \frac{INV_{jt}}{K_{jt}} \right) \quad (4)$$

$$JTOT_t = \sum_j J_{jt} \quad (5)$$

$$\frac{INV_{jt}}{K_{jt}} = \frac{1}{\beta_{vj}} \left[\frac{Q_{jt}}{PK_t} - 1 \right] \quad (6)$$

$$Q_{jt}(1 + r) = PVA_{jt+1}RK_{jt+1} + (1 - \delta k_j)Q_{jt+1} + PK_{t+1} \frac{\beta_{vj}}{2} \left[\frac{INV_{jt+1}}{K_{jt+1}} \right]^2 \quad (7)$$

It is assumed that investment J_{jt} includes adjustment costs or installation costs that the firm incurs each time it decides to renew its capital to obtain the investment demand of the firm j expressed in terms of the Tobin's q ratio, which is the implicit rental rate of capital relative to the capital acquisition price, and the Tobin's q and capital movement equations.

Static decisions

The firm's static choices involve cost minimization and value-added maximization.

Thus, the firm's minimization problem is as follows:

$$\text{Min } PXTS_{jt} * XTS_{jt} = PVA_{jt} * VA_{jt} + PINT_{jt} * INT_{jt}$$

Subject to the constraint:

$$XTS_{jt} = AP_{jt} \left[\alpha p_j VA_{jt}^{\left(1 - \frac{1}{\sigma p_j}\right)} + (1 - \alpha p_j) INT_{jt}^{\left(1 - \frac{1}{\sigma p_j}\right)} \right]^{\frac{\sigma p_j}{\sigma p_j - 1}}$$

This programme allows determining the composite price of production, $PXTS_{jt}$, as well as the demand functions for value-added, VA_{jt} , and intermediate consumption, INT_{jt} , of branch j . XTS_{jt} represents the production of firms in branch j .

With AP_j , the overall factor productivity in the production function; αp_j , the share of value-added from branch j in production; and σp_j , the elasticity of substitution in the production function, these are the other terms.

Furthermore, the aggregate intermediate consumption of branch j is specified according to a Leontief technology.

$$V_{ijt} = INT_{jt} * a_{ij}$$

$$PINT_{jt} = \sum_i a_{ij} PC_{it} * (1 + tv_{ij})$$

The problem of maximizing firm's value-added can be written as follows:

$$\text{Max } PVA_{jt} * VA_{jt}$$

Subject to the constraint:

$$VA_{jt} = AV_j \left[\alpha v_j K_{jt}^{\left(1 - \frac{1}{\sigma v_j}\right)} + (1 - \alpha v_j) LD_{jt}^{\left(1 - \frac{1}{\sigma v_j}\right)} \right]^{\frac{\sigma v_j}{\sigma v_j - 1}}$$

This programme allows determining the value-added and the labour demand function.

Sector-specific investment:

The firm optimizes its investment expenditure, which is a Cobb-Douglas function of investment demands for good *i*. Thus, the firm's optimization problem is as follows:

$$\text{Min } PK_t \cdot JTOT_t = \sum_i P_{cinv_{it}} \cdot Din_{it}$$

Subject to the constraint:

$$JTOT_t = AINV \prod_i Din_{it}^{\alpha_{inv_i}}$$

The first-order conditions allow obtaining the dual price, the investment demand for good *i*, and the price with tax.

Government:

The government influences the dynamics of the economy through its two components: public consumption expenditures and public investment expenditures. It spends on investment goods in various sectors according to a predetermined share. These expenditures directly affect total factor productivity through the accumulation of public capital.

The government minimizes total consumption expenditures and aggregates expenditures by product using a Cobb-Douglas specification through the following programme:

$$\min_{G_{it}} GCTot_t = AG \prod_i PCG_{it} G_{it}^{\alpha_{G_i}}$$

Subject to the constraint:

$$PG_t GCTot_t = \sum_i PCG_{it} G_{it}$$

This programme allows determining government consumption expenditures by product and the composite price. The prices PCG_{it} are evaluated including the tax. Similarly, government investment expenditures by product and the composite price are determined through the programme of minimizing total investment expenditures. Government revenue consists of taxes on consumption, investment goods, exports, imports, household income, dividends, taxes on intermediate consumption, and transfers from the rest of the world.

Rest of the World:

Aggregate production XTS of firms is allocated across different market types in each period. In other words, each firm allocates its production XTS_{it} between domestic sales XDS_{it} and exports EX_{it} according to a Constant Elasticity of Transformation (CET) specification. Optimization is carried out by maximizing its revenue:

$$\text{Max } PXTS_{it} * XTS_{it} = PEX_{it} * EX_{it} + PD_{it} * XDS_{it}$$

Subject to the constraint:

$$XTS_{it} = AX_i \left[\delta_{Xi} * EX_{it}^{-\left(\frac{\sigma_{Xi}-1}{\sigma_{Xi}}\right)} + (1 - \delta_{Xi}) * XDS_{it}^{\left(\frac{\sigma_{Xi}-1}{\sigma_{Xi}}\right)} \right]^{-\left(\frac{\sigma_{Xi}}{1+\sigma_{Xi}}\right)}$$

The maximization programme yields the dual price as well as the quantities offered for export and domestic consumption.

Furthermore, the Armington assumption⁸ is formulated as follows: the total demand for each good i is composed of imports and local production.

$$\text{Max } PC_{it} * XTD_{it} = PM_{it} * M_{it} + PD_{it} * XDD_{it}$$

Subject to the constraint:

$$XTD_{it} = AM_i \left[\delta_{Mi} * M_i^{\frac{\sigma_{Mi}-1}{\sigma_{Mi}}} + (1 - \delta_{Mi}) * XDD^{\frac{\sigma_{Mi}-1}{\sigma_{Mi}}} \right]^{\frac{\sigma_{Mi}}{\sigma_{Mi}-1}}$$

The rest of the world pays for its imports, receives income from exports to the partner country, and makes transfers to the government and to the households. Thus, foreign savings are determined through the trade balance and the net transfers from the government and households to the rest of the world.

Equilibrium Conditions:

In this model, in addition to the equilibrium condition between total supply and total demand in each sector, the total supply of the composite product in each sector is equal to the sum of intermediate demands, household final consumption, government consumption, public investment, and changes in stock (Equation 8). In the labour market, total supply equals total demand (Equation 9). The equilibrium between savings of economic agents and the rest of the world with total investment is described in Equation 10. Additionally, the firm's value is determined by the discounted sum of capital stocks (Equation 11).

$$XTD_{it} = C_{it} + G_{it} + DINV_{it} + GINV_{it} + \sum_j V_{ijt} + DSTK_{it} \quad (8)$$

$$\sum_j LD_{jt} = LS_t \quad (9)$$

⁸ See for a short description of the Armington assumption:
<https://wits.worldbank.org/wits/wits/witshelp/Content/SMART/Demand%20side%20the%20Armington.htm>

$$XDD_{it} = XDS_{it} \quad (9')$$

$$F_t = WK_t - ER_t BF_t \quad (10)$$

$$WK_t = \sum_j Q_{jt} * K_{jt+1} \quad (11)$$

4.3 Microsimulation

Microsimulation involves using the price levels of goods and consumption volumes obtained from the MEGC (Modelisation_en_Equilibre_General_Calculable) simulations⁹ as inputs in the household utility function to determine new consumption expenditure profiles through the concept of equivalent income. This approach is defined as the assessment of a level of household consumption expenditure for each good based on new price and consumption volume profiles while maintaining the same level of utility. Thus, it allows for the evaluation of variations in household consumption expenditure as well as poverty and inequality indicators for the new series of prices and consumption volumes. The recorded poverty level after simulation is compared to the poverty line defined in the household survey to assess its impact.

The procedure for evaluating equivalent income first involves assessing the volume consumption expenditures for each household for a specific good, denoted as good I , derived from the household survey and adjusted by the new price profile:

$$C_{HIT} = \frac{C\_ENQ_{HIT}}{PC.L_{IT}} \quad (12)$$

with C_{HIT} : volume of consumption expenditure for good I per household; C_ENQ_{HIT} : consumption expenditure for good I from the household survey; $PC.L_{IT}$: the new price profile obtained from the results of the MEGC model.

In addition, the total volume consumption expenditure per household (reference total consumption expenditure) is determined by the following equation:

$$C\_TOTO_{HT} = \sum_I C_{HIT} \quad (13)$$

After determining the level of reference consumption expenditure for households, the following equation is used to evaluate households' consumption expenditure for each period after the shock, C_TOT1_{HT} , accounting for the changes in volume of consumption expenditure derived from the results of the MEGC:

$$C\_TOT1_{HT} = C\_TOTO_{HT} * \left[\frac{C.L_T}{CO} \right] \quad (14)$$

⁹ See on the MEGC simulations: https://www.researchgate.net/publication/330115035_La_modelisation_en_equilibre_general_calculable

$C.L_T$ represents the level of consumption derived from the simulations of the macroeconomic model. The price elasticities of consumption for each good are determined from the programme of minimizing consumption expenditure:

$$\min_{C_{HIT}} PC_{HT} * C_{HT} = AC_H \prod_i PC_{HIT} (C_{HIT})^{\alpha_{c_{Hi}}}$$

Subject to the constraint:

$$PC_{HT} * C_{HT} = \sum_I PC_{HIT} C_{HIT}$$

which allows determining the demands for good I, which are thus defined:

$$C_{HIT} = \frac{\alpha_{c_{Hi}} PC_{HT} C_{HT}}{PC_{HIT}}$$

This results in: $\alpha_{c_{Hi}} = \frac{PC_{HIT} C_{HIT}}{PC_{HT} C_{HT}}$.

(15)

The equivalent income is determined based on the assumption that the utility function remains constant despite the changes in price and volume consumption profiles, using the following equation:

$$REV_{EQ_H} = C_{TOT1_{HT}} * \prod_I \left[\frac{PC_{OHI}}{PC_{LHIT}} \right]^{\alpha_{c_{Hi}}} \quad (16)$$

This indicator is compared to the poverty line determined from the Senegal Poverty Monitoring Survey (SPMS II 2011) to calculate the effect of the tax expenditures (TE) on poverty.

4.4 Model calibration and data sources

The model is calibrated to reflect the Senegalese economy in its reference situation represented by the 2015 Social Accounting Matrix (SAM). This is a crucial step which consists of assigning a value to each variable and each parameter of the model at the initial state. Indeed, the CGEM is characterized by functional forms which reflect the behaviour of the different economic agents described in the SAM. The SAM is a double-entry table which summarizes all the transactions taking place in an economy and constitutes the main source of data for the Computable General Equilibrium Model (CGEM). This is why, despite the use of functional forms for the determination of certain variables and parameters, the calibration must be able to reproduce the SAM while maintaining all its equilibrium conditions. It is from the calibration that the reference situation of the model is generated. It can be done in several ways depending on its method of determination. Depending on the case, the variable can be read directly from the SAM, evaluated from an optimization programme of a functional form or determined from the regular state where all the variables of the model evolve constantly.

Some parameters are initialized. As for parameters, they are determined in the same way as variables. However, some are taken from the econometric estimation

literature. These are the free parameters of the model. It should also be noted that a parameter cannot be read from the SAM.

The data used to conduct simulations of fiscal changes are sourced from reports on TE, which can be found on the website of the Extractive Industries Transparency Initiative (EITI)¹⁰, or on the website of the DGID¹¹.

4.5 Institutional sources of data related to tax expenditures (TE)

Automatically captured information from taxpayers' declarations and tax forms produced by taxpayers and their representatives constitute the main data source. For several measures, databases from financial and statistical administrations have also been utilized. For certain less widely applicable TE, physical sources include all forms of media through which information is provided: tax returns, Treasury checks, credit notices, response letters to requests for tax benefits, tax databases, statistical databases from non-tax administrations, etc.

Additionally, to assess their cost, a compilation was made from a sample of income tax (IT) returns or tax forms or simply from correspondences. Other sources of information were also used when tax data were non-existent or insufficient.

Thus, the main data sources used primarily come from the following structures: DGID, ANSD, Insurance Companies, and Commercial Banks.

5 Results and Interpretations

The simulations conducted with MEGC to assess the impact of fiscal expenditures on the Senegalese economy are based on two scenarios. The first scenario involves a counterfactual simulation, assuming the elimination of fiscal expenditures for one year to measure the impact on macroeconomic aggregates and social indicators, including poverty and inequality. Building on the previous evaluation conducted in 2016 of the budgetary cost of fiscal expenditures, this study seeks to estimate revenue losses by quantifying the implications of these fiscal measures on economic activity. It also accounts for the induced effects on the behaviour of economic agents and the interrelationships among different sectors of the economy. Furthermore, the removal of fiscal expenditures applies exclusively to direct taxes (corporate income tax and personal income tax) and to indirect taxes (value-added tax, excise tax, and customs duties), totalling 656.82 billion CFA francs.

¹⁰ See the documentation on tax expenditures by EITI: <https://itie.sn/documentation/>

¹¹ See the documentation by DGID on tax expenditures: <https://www.dgid.sn/>

These taxes represent the largest share, accounting for 98.9% of the overall amount estimated in the 2016 budgetary cost evaluation.

The second scenario involves utilizing the additional revenue generated by the state through the elimination of these tax exemptions for investment purposes, aiming to increase the stock of public capital in the economy. The second scenario proposes a gradual reduction of fiscal expenditures by 10%, 15%, and up to 20%, to assess their impacts on economic activity and social indicators.

Scenario 1: Overall Impact of Lifting Fiscal Expenditure Measures on Economic Activity and Social Indicators

The simulation results reveal that in the short term¹² (one year after the shock), the counterfactual scenario representing the complete removal of fiscal expenditure measures related to direct and indirect taxes would have a highly significant negative impact on economic activity and the social indicators. Specifically, it would lead to a decline in real GDP growth by approximately 4.11 percentage points (table 2). This significant decline can be attributed to the adverse effects of such a measure on aggregate demand, particularly on consumption and private investment. The final consumption of households would be significantly affected by a substantial increase in indirect taxes, especially VAT and the Tax on Financial Activities/Taxe sur les Activités Financière (TAF). The resulting increase in prices of goods and services would discourage household consumption, leading to a decrease of approximately 7.92%. This decline is also influenced by a decrease in household incomes due to higher direct taxes associated with personal income tax. The impact on private investment would be even more significant due to the increase in customs duties. A substantial portion of fixed capital formation in businesses and the inputs involved in the production process are imported.

In this regard, the counterfactual scenario indicates a significant increase in import taxes, resulting in higher costs of private investment. As a result, private investment demand would experience a significant decrease of about 15.33%. This decline is also associated with an increase in corporate income tax (CIT), which, to a lesser extent, discourages private investments. Overall, government revenue would experience an increase of approximately 45.94%. However, this would have a negative impact on economic activity in the short term, resulting from inflationary pressures caused by increased production and investment costs, as well as higher prices of goods and services intended for final consumption. Specifically, the consumer price index would experience a sharp increase of 10.54% due to the tax hike. This inflationary effect, combined with a decrease in household incomes, would discourage overall demand in the short term. Moreover, cost-driven inflation resulting from the elimination of fiscal expenditure measures

¹² By assumption, it has been considered that the short term pertains to a one-year horizon after the shock, and the long term extends over a period of ten years after the shock.

would also have negative effects on foreign trade. This would lead to an increase in imports by approximately 5.69% and a decrease in exports by 6.70% in the first year following the shock. This situation, attributed to a more externally oriented overall demand and a loss of competitiveness among exporting companies, would result from a simultaneous increase in production costs and prices of goods and services produced locally due to the tax hike. Thus, in the short term, the local economy would be less competitive compared to the rest of the world.

However, in the long term, such a measure of lifting fiscal expenditures would have a positive impact on economic activity. It is assumed that the 45.94% increase in government revenue resulting from the elimination of fiscal expenditures would be allocated to financing public investments. With this hypothesis, the stock of public capital would be increased over the ten years following the shock, leading to positive externalities in the economy, particularly through overall factor productivity. Thus, the negative short-term impact would be offset by the dynamics of public investments with their positive externalities, ultimately resulting in a net gain of economic growth averaging 2.94 percentage points over the ten years following the shock. This performance would also be attributed to the gradual recovery of overall demand, as confidence among households and businesses is restored over time, considering that the elimination of fiscal expenditures was a temporary measure. The reintroduction of tax exemptions from the second period, combined with increased public investments, would boost confidence among households and businesses. These cumulative long-term effects would lead to average increases in consumption expenditure and private investment of approximately 1.04% and 2.94%, respectively. Additionally, average inflation would be more controlled, at 0.83% over the ten years after the shock. Regarding foreign trade, the dynamic effects would also manifest itself in the long term with average increases in exports and imports of 3.58% and 2.68%, respectively, thereby enhancing the local economy's competitiveness on the global stage.

In analysing the sectoral level, the results show that in the short term, the counterfactual scenario of applying fiscal expenditure measures would lead to a more significant decline in value added in the services sector (-3.68%), followed by the primary activities sector (-2.28%) (table 3). Indeed, the Senegalese economy is dominated by services, which account for more than 45% of GDP. At the same time, the tertiary sector benefits from significant exemptions which help to support its activity, thereby strengthening its weight in the economy. Thus, this explains the fact that the lifting of exemptions has a more negative impact on service activity than on other sectors. The sharp decline in the tertiary sector would be mainly attributed to accommodation and food services (-8.40%), finance and insurance (-8.20%), healthcare (-9.37%), and education (-4.4%) (see Annex 7). Similarly, within the primary sector, the overall activity decline would be driven by agriculture (-3.19%) and fishing, fish farming, and aquaculture (-6.15%). On the other hand, the secondary sector would experience a short-term increase in

value added of around 1.6%. This would be primarily due to the highly significant positive impact of lifting the TE measures on branches related to Agri-food (15.65%), Construction Materials (10.0%), and Construction (12.99%).

Table 2: Impact of Lifting Tax Expenditure (TE) Measures Related to Direct and Indirect Taxes on Economic Activity

Macroeconomic aggregates		Real GDP growth (Variation in percentage points)	Household consumption (Variation in %)	Private investment (Variation in %)	Inflation (Variation in %)	Exports (Variation in %)	Imports (Variation in %)	Government revenue (Variation in %)
Impact of lifting FE measures	Static (over one year)	-4.11	-7.92	-15.33	10.54	-6.70	5.69	45.94
	Dynamic (on average over ten years)	2.08	1.04	2.94	0.83	3.58	2.68	4.92

Source: Authors' Calculations

In the long term, the dynamics of public investments combined with the removal of fiscal expenditure measures would mitigate the negative effects observed in the services and primary sector in the short term, with respective average changes of around -0.18% and -0.23%. Additionally, the secondary sector would continue to show a positive and somewhat significant impact, with an average increase in value added of approximately 1.82%. The analysis of the results can also be extended to the labour market, as one of the objectives of fiscal expenditure measures is to promote job creation by encouraging companies to hire labour. In this regard, the removal of fiscal expenditure measures would generally lead to a negative impact on job creation in the short term, with a decrease in labour demand averaging around 1.82%.

At the sectoral level, like the observed changes in value added, the negative short-term effects on the employment market would be more pronounced in the services sector, followed by the primary sector, with a decline in hiring by approximately 4.82% and 2.98%, respectively, while the demand for labour from secondary sector companies would increase by 2.33%. The sub-branches that would be most affected by these changes remain the same as those observed in the value-added evolution (see Annex 8). Likewise, the long-term effects are consistent with those on value added (see table 3).

Furthermore, the positive impact observed in the secondary sector, both in terms of value added and job creation, can be explained by the resource reallocation or restructuring movements undertaken by companies and households to adjust to the increase in taxes. This adjustment would be more pronounced in the services and primary activities sectors than in the secondary sector, particularly benefitting sub-branches in agri-food, construction materials, and construction, which would capitalize on the repercussions of the removal of fiscal expenditure measures.

Table 3: Sectoral Impacts of Lifting Tax Expenditure/Fiscal Expenditure (TE/FE) Measures on Value Added and Employment

Sectoral impact of the lifting of FE		Sectors			Average
		Primary	Secondary	Tertiary	
Evolution of Value Added by sector (%)	ST	-2,28	1,60	-3,68	-1,45
	LT	-0,18	1,81	-0,23	0,47
Evolution of employment by sector (%)	ST	-2,98	2,33	-4,82	-1,82
	LT	-0,48	1,82	-0,56	0,26

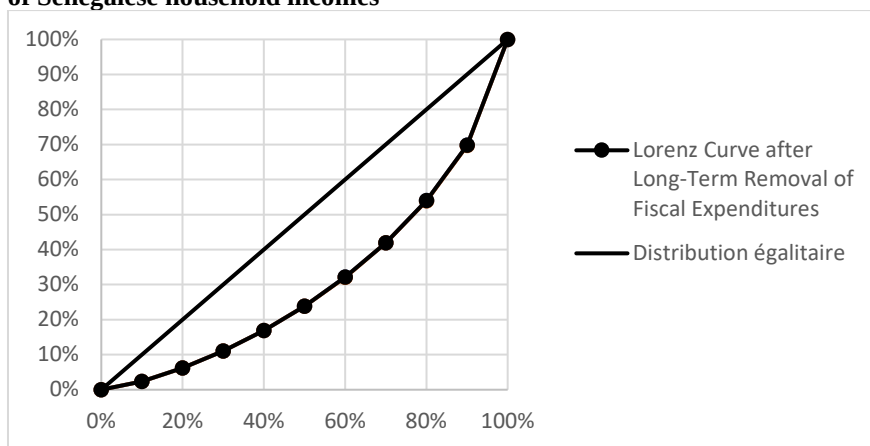
NB: ST = Short Term (in one year); LT = Long Term (in 10 years); TE or FE for Tax Expenditure and Fiscal Expenditure. **Source:** Authors' Calculations

Furthermore, the cancellation of tax expenditure (TE) measures would also result in a negative impact on social indicators in the short term. Thus, this counterfactual scenario would lead to an increase in the poverty incidence by approximately 8.53 percentage points. Similarly, the depth and severity of poverty would worsen resulting from such a policy, with respective increases of 4.34 percentage points and 2.25 percentage points. However, in the long term, these negative effects on poverty indicators should be mitigated due to the dynamics of public investments and the restoration of tax expenditure (TE) measures. Over the ten years following the shock, the incidence, depth, and severity of poverty would almost return to their reference levels with attenuated but not significant effects, representing respective changes of -0.51, -0.17, and -0.1 percentage points.

The impact on inequality would be negative but negligible when considering the Palma ratio, which measures the ratio of income between the top 10% richest

and the bottom 40% poorest.¹³ In the reference state, this ratio shows that the income of the top 10% richest is 1.78 times higher than that of the bottom 40% poorest in Senegal. After the removal of fiscal expenditure measures, this ratio did not experience a significant change, as it stood at 1.79 in the short term before returning to its reference value (1.78) in the long term. This effect on inequality could be supported by the Lorenz curve below, which illustrates the distribution of household incomes before and after the adoption of the counterfactual scenario of implementing tax expenditure (TE) measures. Figure 7 shows that the three curves deviate only slightly from income equality, indicating a negligible impact of the adoption of tax expenditure (TE) measures on inequality in Senegal. This result could be explained by the fact that tax exemptions benefit all income classes in aggregate terms. Thus, it would be difficult to close the inequality gap with these tax measures.

Figure 7: Analysis of inequality through the Lorenz curve of the distribution of Senegalese household incomes



Source: Authors' Calculations. **Note:** Not all curves are visible as they are juxtaposed due to the negligible impact of fiscal spending policy on inequalities. This explanation was provided in the interpretation of results in the text. Curves could only be viewed separately if the impact on inequalities were significant.

However, the counterfactual scenario could be analysed through marginal effects based on the nature of taxes to identify those that would have a greater impact on economic activity and on social indicators. In this regard, the removal of tax expenditure (TE) measures related to customs duties would result in a more pronounced negative impact on economic activity and on social indicators of poverty

¹³ See on the Palma ratio: <https://ourworldindata.org/grapher/palma-ratio-s90s40-ratio>

in the short term (see table 4). Thus, the economic growth losses attributable to such an option would be estimated at 2.48 percentage points. However, if the measure had been applied to indirect taxes, such as VAT (TVA) and FAT (TAF), the negative impact on real GDP growth would have been smaller, with a decrease of 0.98 percentage points. This decline would be even less pronounced if the measure targeted direct taxes such as corporate tax (CT) and income tax (IT), resulting in a growth loss of 0.84 percentage points. In terms of poverty indicators, it is also the abandonment of tax expenditure measures related to customs duties that would increase the incidence, depth, and severity of poverty in the short term by approximately 3.44, 1.94, and 0.96 percentage points, respectively. This could be explained by the significant decline in economic activity (-2.48 percentage points), leading to significant income losses for households.

If the negative impact on the economy and on poverty is more pronounced through the removal of tax expenditure (TE) measures limited to customs duties, it is due to the more deterrent effects it has on private investment demand. In the short term, private investment would experience a significant decline of approximately 9.73% with the removal of customs duty exemptions, compared to 3.02% and 2.89% for the removal of exemptions related to indirect taxes (VAT and FAT) and direct taxes (CT and IT), respectively. On the other hand, final consumption demand would experience a larger decrease of about 4.89% in the short term if the cancellation of fiscal expenditure measures was limited to indirect taxes (VAT and FAT). This decrease in final consumption of goods and services would be 2.46% and 0.69% if it involved the removal of tax exemptions related to indirect taxes (customs duties) and to those related to direct taxes (CT and IT), respectively. In this context, the removal of tax expenditure (TE) measures limited to VAT and FAT would also lead to more inflationary pressures, with a consumer price increase of approximately 6.4% in the first period. This inflation would lead to a decrease in households' purchasing power, explaining the decline in final consumption of goods and services and, consequently, a decline in living standards, resulting in an increase in the incidence, depth, and severity of poverty by approximately 3.07, 1.72, and 0.85 percentage points, respectively. However, inflation should be less pronounced (+2.93%) in the case of the removal of customs duty exemptions and more attenuated (+1.04%) if this measure was restricted to direct taxes (CT and IT).

For external trade, the removal of exemptions applied to VAT and FAT would result in a shift in demand towards imports (+3.55%), compared to an increase of 0.15% and 2.01% if the removal concerned customs duties and direct taxes (CT and IT), respectively. However, the loss of competitiveness for exporting companies would be more pronounced in the case of the removal of measures related to customs duties, resulting in a decline in exports by approximately 4.51%. Regarding public finances, tax revenues (TR) would experience a more significant increase in the short term with the abandonment of measures related to VAT and

FAT. This option would raise the government's revenue by approximately 22.23%, compared to 14.21% and 8.44% respectively for the abolition of exemptions related to customs duties and direct taxes (CT and IT). Furthermore, in the long term, the results indicate that the economy would react positively and that the social indicators would improve with the removal of fiscal expenditure measures on indirect taxes (VAT and FAT), customs duties, and direct taxes (CT and IT). Thus, the economic activity would gain growth, averaging 1.49, 0.34, and 0.41 percentage points over a period of ten years for the three types of taxes, respectively. These net growth gains, resulting largely from public investments made, would lead to reductions in the poverty level by 0.61 and 0.21 percentage points, respectively, if the removal of tax exemptions concerns VAT and FAT on the one hand and direct taxes on the other hand. Moreover, for these two types of taxes, the overall impact would be positive (see table 4 below) on other macroeconomic aggregates and poverty indicators. However, the impact on social indicators would remain negative in the long term with the removal of fiscal exemptions associated with customs duties, despite the increase in the stock of public capital.

In the following box a summary of the results for scenario 1 is presented in terms of an adoption of fiscal expenditure measures.

Summary Box: Interpretation of the results in terms of an adoption of tax expenditure (TE) measures

In summary, the results of the simulations conducted with the assumptions made in the counterfactual scenario show that the implementation of fiscal expenditure measures contributes overall to supporting economic activity (+4.11 percentage points of real GDP growth) and reducing poverty (-8.5 percentage points). However, the adoption of tax exemptions has no significant effect on inequality. Furthermore, the budgetary cost of fiscal expenditures is estimated at a revenue loss of 45.94% for the government. This evaluation accounts for the behavioural changes of economic agents in response to the fiscal expenditure policy.

At the sectoral level, the services sector benefits much more from the adoption of tax exemptions, followed by activities in the primary sector with increases in value-added of approximately 3.68% and 2.28%, respectively. On the other hand, these fiscal measures have no positive impact on the secondary sector as they lead to a decrease in value-added by about 1.6%, benefiting other sectors instead. In other words, the savings obtained from tax exemptions granted to certain branches of activities in the secondary sector have not been reinvested. Similarly, the incentive for job creation is more effective in the services sector than in other sectors, with an increase in labour demand of 4.82% compared to 2.98% in the primary sector. However, in the secondary sector, the implementation of fiscal expenditures would result in a decrease in employment of about 2.33%. Overall, tax exemptions would result in an average increase in employment of approximately 1.82%.

Specifically, exemptions related to customs duties would generate more positive effects on the economy, particularly through the larger gains in real GDP growth

(+2.98), private investments (+9.73), and poverty reduction (-3.44%). These positive implications are due to the reduction in investment costs associated with the decrease in taxes on imports of goods and services, particularly those used for fixed capital formation or inputs in the local production process.

Furthermore, fiscal expenditure measures related to VAT and FAT, as well as those concerning direct taxes (CT and IT), also contribute, albeit to a lesser extent, to supporting economic activity with net gains in real GDP growth of approximately 0.98% and 0.84% respectively. However, tax exemptions linked to VAT and TAF have a more significant impact on improving household living standards than those related to direct taxes (CT and IT). By preventing consumer prices from rising, up to 6.4%, exemptions on VAT and FAT help to maintain household purchasing power and to reduce poverty.

Source: Authors

Table 4: Overall impact of the cancellation of TE on economic activity and social indicators according to the nature of taxes

Impact of lifting of FE measures		Indirect taxes				Direct taxes		Indirect and Direct Taxes	
		VAT &TFA		Customs duties		Corporate tax and income tax		Together	
		ST	LT	ST	LT	ST	LT	ST	LT
Economic activity	Real GDP growth (Variation in percentage points)	-0.98	1.49	-2.48	0.34	-0.84	0.41	-4.11	2.08
	Household consumption (Variation in %)	-4.89	0.71	-2.46	0.17	-0.69	0.28	-7.92	1.04
	Private investment (Variation in %)	-3.02	2.18	-9.73	0.36	-2.89	0.57	-15.33	2.94
	Inflation (Variation in %)	6.40	0.52	2.93	0.23	1.04	0.06	10.54	0.83
	Exports (Variation in %)	-0.41	2.50	-4.51	0.54	-1.99	0.62	-6.7	3.58
	Imports (Variation in %)	3.55	1.74	0.15	0.49	2.01	0.6	5.69	2.68
	Government revenue (Variation in %)	22.23	1.72	14.21	1.24	8.44	0.91	45.94	4.92
Poverty Indicator	Incidence (Change in percentage points)	3.07	-0.61	3.44	0.00	0.76	-0.24	8.5	-0.5
	Depth (Change in percentage points)	1.72	-0.21	1.94	0.07	0.6	-0.04	4.3	-0.2
	Severity (Change in percentage points)	0.85	-0.12	0.96	0.01	0.27	-0.05	2.2	-0.1

NB: ST = Short Term, LT = Long Term, FE is fiscal expenditure (equivalent to TE); TFA (Tax on Financial Activities, or FAT/Financial Activities Tax, or TAF/Taxe sur les Activités Financière). **Source:** Authors' Calculations

Scenario 2: Impact of a gradual reduction in fiscal expenditures on economic activity and social indicators

Based on the results from scenario 1, scenario 2 proposes that the government sets a goal of cautiously rationalizing fiscal expenditures through a progressive reduction of approximately 10%, 15%, and 20%. This reduction would be applied, on the one hand, to direct taxes (CT and IT), and on the other hand, to VAT on products in the secondary sector. The simulation results show that the rationalization of tax expenditures (TE) with a gradual reduction of approximately 10%, 15%, and 20%, being applied to direct taxes (CT and IT), is expected to result in a slight decline in economic activity, with corresponding economic growth losses of approximately 0.08, 0.12, and 0.18 percentage points (see table 5). This decline would still be attributed to the decrease in overall demand, particularly in final household consumption and private investment, being a consequence of increased direct and indirect taxes.

In exchange for this minor economic underperformance, government revenue should experience a progressive increase in line with the level of rationalization adopted. Thus, for a 10% reduction in exemptions related to direct taxes (CT and IT), state tax revenues (TR) are projected to increase by 0.82%. They would increase by 1.18% and 1.75% respectively, with a 15% and 20% decrease in tax expenditures (TE) related to CT and IT.

Table 5: Impact of a gradual reduction in TE applied to direct taxes (CT and IT)

Macroeconomic aggregates	Real GDP growth (Change in percentage points)	Household consumption (Change in %)	Private investment (Change in %)	Inflation (Change in %)	Exports (Change in %)	Imports (Change in %)	Government revenue (Change in %)	Incidence (Change in percentage points)	Depth (Change in percentage points)	Severity (Change in percentage points)
Effects of a 10% reduction in Tax Expenditure	-0.08	-0.07	-0.29	0.1	-0.2	0.2	0.82	0.06	0.09	0.02
Effects of a 15% reduction in Tax Expenditure	-0.12	-0.1	-0.41	0.15	-0.28	0.28	1.18	0.06	0.11	0.03
Effects of a 20% reduction in Tax Expenditure	-0.18	-0.14	-0.61	0.22	-0.42	0.42	1.75	0.12	0.15	0.05

Source: Authors, based on simulation results

The simulation results also show that the reduction in tax exemptions related to VAT, being applied to products in the secondary sector, is expected to result in minor economic growth losses of approximately 0.06, 0.09, and 0.11 percentage points, respectively (see table 6). In return, government revenues would also experience respective increases of approximately 0.71%, 1%, and 1.28%, depending on the chosen level of rationalization.

Similar related to the first scenario, the increase in taxes would lead to slight inflation in terms of costs and final demand. This rise in prices and production costs would slightly discourage final consumption demand and private investment, making the local economy slightly less competitive compared to the rest of the world. As a result, exports are expected to decrease, while imports would increase due to a somewhat outward-oriented demand configuration (see table 6).

Table 6: Impact of a gradual reduction in TE related to VAT when applied to products in the secondary sector

Macroeconomic aggregates	Real GDP growth (Change in percentage points)	Household consumption (Change in %)	Private investment (Change in %)	Inflation (Change in %)	Exports (Change in %)	Imports (Change in %)	Government revenue (Change in %)	Incidence (Change in percentage points)	Depth (Change in percentage points)	Severity (Change in percentage points)
Effects of a 10% reduction in Tax Expenditure	-0.06	-0.17	-0.16	0.21	-0.11	0.04	0.71	0.06	0.1	0.02
Effects of a 15% reduction in Tax Expenditure	-0.09	-0.25	-0.22	0.3	-0.15	0.05	1	0.06	0.13	0.04
Effects of a 20% reduction in Tax Expenditure	-0.11	-0.32	-0.27	0.39	-0.19	0.07	1.28	0.06	0.13	0.04

Source: Authors, based on the simulation results

On the social front, the scenario 2 of a cautious reduction in tax expenditures (TE) would result in a very minor negative impact on poverty reduction (see tables 5 and 6). For example, the poverty incidence in Senegal is estimated to experience a slight increase of 0.6 percentage points, if the government considers reducing tax exemptions by 10% or 15% when applied to direct taxes.

6 Conclusions and Policy Recommendations

In Senegal, the budgetary cost of tax expenditures (TE) is estimated to be around 31.6% of the collected tax revenues (TR) and 5.96% of the GDP (according to the 2020 Evaluation Report on Tax Expenditures). This significant revenue loss seems underestimated due to the calculation method used, which considers "revenue loss, all else being equal", and fails to shed light on the implications of such fiscal provisions on economic activity and on certain social indicators. To address this insufficiency, this article utilizes a CGE model with microsimulation, allowing for an examination of the impacts of fiscal expenditures on the economy, on poverty, and on inequality.

The main findings of this counterfactual scenario reveal that tax expenditures (TE) contribute to supporting economic activity and job creation, particularly in the services and primary sectors, while also improving the living standards of the population, even though they do not have a significant impact on income inequality. However, tax expenditures (TE) related to import duties, due to their significantly more positive effects on private investment, contribute more to boosting the economy and alleviating poverty. Furthermore, the use of revenue from the elimination of tax exemptions for public investments could have a positive long-term impact on the economy. However, the short-term underperformance on the economic and social fronts, which is resulting from the abandonment of tax expenditures (TE), outweighs the anticipated long-term benefits from an increased public capital stock.

Based on the results obtained in the first scenario, the second scenario suggests a cautious rationalization of tax expenditures (TE), with a gradual reduction of approximately 10%, 15%, and 20%, applied to direct taxes (CT and IT) and to VAT on products in the secondary sector. The results indicate that this scenario would lead to slight economic underperformance coupled with a progressive increase in tax revenues based on the chosen level of rationalization. Thus, government income would experience respective increases of approximately 0.82%, 1.18%, and 1.75%, following the reduction of exemptions on direct taxes, and of approximately 0.71%, 1%, and 1.28%, following a gradual rationalization related to VAT on products in the secondary sector.

The scenario results suggest four main policy implications that would better guide fiscal expenditure policies to generate greater economic and social impacts:

Firstly, the government should consider tax exemptions as a powerful policy tool that helps to boost economic activity, to create jobs, and to fight poverty, even though they result in a significant revenue loss. However, they are not an effective means to reduce income inequality. Secondly, on a sectoral level, the government should prioritize tax exemptions for services, particularly accommodation and

food services, finance and insurance, healthcare, and education, as well as for activities in the primary sector, such as agriculture, fishing, fish farming, and aquaculture.

Thirdly, considering marginal effects by tax type, the government should prioritize fiscal expenditure measures applied to import duties, followed by those related to VAT and the FAT, especially in the services sector and for activities in the primary sector.

Fourthly, in terms of foreign trade, the government could also utilize tax exemptions, particularly those related to import duties, to make the national economy more competitive on the global stage.

In conclusion, this essay has provided a more comprehensive evaluation of the impact of fiscal expenditures in Senegal by highlighting their economic and social implications. Consequently, it offers better guidance to authorities in making informed choices regarding fiscal exemption policies. However, there are some limitations related to the absence of more recent data, particularly when reflecting on the use of the 2011 poverty survey, which informed the results on social indicators.

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Annex 1: Distribution of identified and evaluated measures by beneficiaries between 2013 and 2020

Pe- riod		International Agreements	Public Au- thorities	Enter- prises	Enterprises, Households	House- holds	Private Non-Profit Or- ganisations
2013	Identified	10	29	164	24	59	9
	Evaluated	6	19	121	11	32	4
	Evaluation rate	60,0%	65,5%	73,8%	45,8%	54,2%	44,4%
2014	Identified	14	29	163	21	64	10
	Evaluated	10	21	107	15	46	4
	Evaluation rate	71,4%	72,4%	65,6%	71,4%	71,9%	40,0%
2015	Identified	24	29	172	21	64	10
	Evaluated	13	17	121	13	54	3
	Evaluation rate	54,2%	58,6%	70,3%	61,9%	84,4%	30,0%
2016	Identified	14	35	177	22	64	12
	Evaluated	12	25	139	9	40	8
	Evaluation rate	85,7%	71,4%	78,5%	40,9%	62,5%	66,7%
2017	Identified	11	29	177	21	64	10
	Evaluated	5	18	144	5	52	4
	Evaluation rate	45%	62%	81%	24%	81%	40%
2018	Identified	12	46	176	19	70	10
	Evaluated	6	28	123	21	67	10
	Evaluation rate	50%	61%	70%	111%	96%	100%
2019	Identified	12	46	176	19	70	10
	Evaluated	6	28	127	18	68	10
	Evaluation rate	50%	61%	72%	95%	97%	100%
2020	Identified	12	46	176	19	70	10
	Evaluated	6	30	131	18	69	10
	Evaluation rate	50%	65%	74%	95%	99%	100%

Source: DGID (General Directorate of Taxation), fiscal expenditure reports

Annex 2: Evolution of selected socio-economic indicators

	Eco- nomic growth	Final con- sumption (Change)	Private in- vestment (Change)	Foreign Direct Invest- ment	Im- port	Index of hu- man devel- op- ment	Infla- tion
2010	3,4%	2,3%	-8%	14,0%	-1,4%	0,47	1,2%
2011	1,3%	1,5%	31%	5,0%	4,9%	0,48	3,4%
2012	4,0%	2,9%	4%	-18,1%	5,2%	0,49	1,4%
2013	2,4%	2,8%	15%	22,2%	6,8%	0,50	0,7%
2014	6,2%	4,8%	12%	35,1%	11,0%	0,49	-1,1%
2015	6,4%	4,6%	4%	20,4%	7,7%	0,50	0,2%
2016	6,4%	5,1%	0%	-34,1%	6,7%	0,50	0,8%
2017	7,4%	4,7%	17%	99,4%	16,7%	0,5%	2,2%
2018	6,2%	4,5%	24%	50,3%	9,0%	0,5%	0,5%
2019	4,6%	4,4%	22%	31,9%	6,8%	0,5%	1,0%
2020	1,3%	2,1%	3%	72,5%	7,0%	0,5%	2,5%
Source: World Bank, WDI, ANSD, DPEE							

Annex 3: Distribution of TE by type of tax

		VAT (Value Added Tax)	Customs Duty	Income Tax	Corporate Tax	Banking Operations Tax
2010	Amount	121,9	36,8	18,3	38,1	0,6
	%	55,4	16,7	8,3	17,3	0,3
2011	Amount	151,2	42,1	22,1	36,5	0,5
	%	58,7	16,3	8,6	14,2	0,2
2012	Amount	163,8	46,7	23,1	41,3	0,5
	%	58,6	16,7	8,3	14,8	0,2
2013	Amount	254,7	53,6	111,6	94	2
	%	47,7	10	20,9	17,6	0,4
2014	Amount	269,3	57	132,3	83,5	21,8
	%	45,8	9,7	22,5	14,2	3,7
2015	Amount	321,408	44,7	148,4	84,9	42,8
	%	49,6	6,9	22,9	13,1	6,6
2016	Amount	470,7051	45,1	74,4	12,6	56,4
	%	70,9	6,8	11,2	1,9	8,5
2017	Amount	451,4 4	57,92	131,5 9	10,37	19,94
	%	66,63	8,55	19,42	1,53	2,94
2018	Amount	569,947	56,362	37,756	0,8	8,806
	%	80,6	7,97	5,34	0	1,25
2019	Amount	606,2	43,1	39,9	8,3	10,8
	%	80,79	5,75	5,31	1,1	1,44
2020	Amount	743,27	40,98	42,45	8,3	10,8
	%	87,84	4,84	5,02	1,1	1,2
Source: DGID (General Directorate of Taxation), fiscal expenditure reports						

Source: Authors

Annex 4: Distribution of TE by beneficiaries

		Specific International Agreements	Public Authorities	Public Authorities, Private Non-Profit Organizations	Enterprises	Enterprises , Households	Households
2013	Amount	39,7	26,4	6,3	136,7	5,1	315,6
	%	7,40%	4,90%	1,20%	25,60%	1,00%	59,10%
2014	Amount	56,3	30,8	6,9	120,5	10	363
	%	9,60%	5,20%	1,20%	20,50%	1,70%	61,70%
2015	Amount	100,1	145,7	7,5	141,5	7,7	234,2
	%	15,40%	22,50%	1,20%	21,80%	1,20%	36,10%
2016	Amount	61,4	0	118,9	214,5	1,5	256,6
	%	8,80%	0,00%	17,10%	30,90%	0,20%	37,00%
2017	Amount	81,38	107,3	10,79	166,96	3,35	243,62
	%	12,01%	15,84%	1,59%	24,64%	0,49%	35,96%
2018	Amount	63,943	141,447	12,069	166,624	23,159	292,734
	%	9,00%	20,00%	1,70%	23,60%	3,30%	41,40%
2019	Amount	39,9	172,3	4,1	144,1	23,4	357,2
	%	5,31%	22,97%	0,55%	19,21%	3,12%	47,61%
2020	Amount	69,73	169,51	7,75	205,38	3,43	381,46
	%	8,24%	20,03%	0,92%	24,27%	0,41%	45,08%

Source: DGID (General Directorate of Taxation), fiscal expenditure reports

Annex 5: Distribution of TE by types of taxes and beneficiaries in 2020

	Customs Duty	Income Tax	Corporate Tax	Banking Operations Tax	VAT (Value Added Tax)	Authers	Overall total	% of the cost of tax expenditures
Seat agreements	0	0	0	0	5,12	0,00	5,12	0,61%
Special international agreements	27,26	0			42,47	0,00	69,73	8,24%
Special national agreements	0	0	0	0	2,66	0,00	2,66	0,31%
Public collectivities	0	0	0,03	4,74	164,74	0,00	169,51	20,03%
Public collectivities, private organizations of general interest and households	3,51	0			4,24	0,00	7,75	0,92%
Companies	10,22	0	3,3	1,42	188,8	1,64	205,38	24,27%
Companies, Households		0		2,99		0,44	3,43	0,41%
Households		42,45		1	335,24	3,86	381,46	45,08%
Overall total	40,98	42,45	3,33	10,15	743,27	5,94	846,12	
% of the cost of tax expenditures	4,84%	5,02%	0,39%	1,20%	87,84%	1%		

Source: Authors

Annex 6: Meaning of labels in Annexes 7 and 8

AGRIC	Agriculture and Related Activities
ELEVCHASS	Livestock, Hunting, and Related Activities
SYLV	Forestry and Logging
PECHPISAQ	Fishing, Aquaculture, and Related Activities
EXTRACT	Extraction of Extractive Industries
AGROALIM	Agro-food Products
RAFF	Refining and Coking Products
CHIMIE	Basic Chemicals
MATCONST	Cement and Other Construction Materials
AUTMANUF	Other Manufactured Products NCA
ELECGAZ	Electricity and Gas
EAUASS	Water Supply, Sewerage, Waste Management
CONSTRUC	Construction and Construction Works
COMMERCE	Retail Trade
TRANSP	Transport Services
HBR	Accommodation and Food Services
INFCOM	Information and Communication Services
FINASSUR	Financial and Insurance Services
IMMO	Real Estate Services
SCTECH	Specialized, Scientific, and Technical Services
ENSEIGN	Education
SANTE	Human Health and Social Action Services
AUTRES	Others

Source: Authors

Annex 7: Impact of the lifting of FE measures on value added by sector of activity

	1	2	3	4	5	6	7	8	9	10
AGRIC	-3,19	-0,98	-0,62	-0,37	-0,18	-0,05	0,04	0,11	0,16	0,19
ELEVCHASS	2,60	-0,63	-0,30	-0,07	0,10	0,22	0,31	0,36	0,41	0,43
SYLV	-0,12	-0,62	-0,31	-0,08	0,07	0,18	0,26	0,31	0,35	0,38
PECHPISAQ	-6,15	-0,62	-0,27	-0,03	0,15	0,27	0,37	0,42	0,48	0,50
EXTRACT	-10,28	1,54	1,72	1,82	1,85	1,87	1,85	1,85	1,81	1,80
AGROALIM	15,65	-1,41	-0,87	-0,49	-0,18	0,01	0,19	0,28	0,38	0,42
RAFF	-4,82	3,66	3,54	3,43	3,31	3,22	3,13	3,08	3,02	2,98
CHIMIE	-8,82	4,82	4,95	5,00	5,00	5,00	4,97	4,96	4,93	4,92
MATCONST	10,00	2,41	2,35	2,28	2,21	2,16	2,11	2,07	2,04	2,02
AUTMANUF	0,07	0,80	0,94	1,02	1,06	1,09	1,09	1,10	1,09	1,09
ELECGAZ	-1,16	-0,92	-0,57	-0,32	-0,14	-0,02	0,07	0,13	0,17	0,20
EAUASS	-3,70	-1,04	-0,70	-0,45	-0,29	-0,16	-0,08	-0,02	0,02	0,05
CONSTRUC	12,99	1,57	1,61	1,63	1,63	1,62	1,61	1,60	1,59	1,59
TRANSP	-1,79	0,26	0,46	0,59	0,67	0,72	0,76	0,78	0,79	0,80
HBR	-8,40	1,37	1,38	1,37	1,34	1,32	1,29	1,27	1,24	1,24
INFCOM	-2,53	-0,26	-0,02	0,15	0,26	0,34	0,38	0,42	0,44	0,46
FINASSUR	-8,20	-0,12	0,13	0,29	0,41	0,48	0,53	0,57	0,59	0,61
IMMO	-2,34	-0,59	-0,29	-0,07	0,08	0,19	0,26	0,31	0,35	0,37
SCTECH	0,88	0,79	0,91	0,99	1,02	1,04	1,05	1,06	1,05	1,05
ENSEIGN	-4,49	-2,14	-1,80	-1,55	-1,37	-1,25	-1,16	-1,10	-1,06	-1,03
SANTE	-9,37	-1,72	-1,40	-1,17	-1,00	-0,89	-0,81	-0,75	-0,71	-0,68
AUTRES	-0,25	-0,87	-0,57	-0,36	-0,21	-0,11	-0,03	0,02	0,05	0,07

Source: Authors

Annex 8: Impact of the lifting of TE measures on employment by sector of activity

	1	2	3	4	5	6	7	8	9	10
AGRIC	-4,21	-0,71	-0,58	-0,49	-0,42	-0,37	-0,33	-0,30	-0,28	-0,27
ELEVCHASS	3,47	-0,27	-0,20	-0,15	-0,11	-0,08	-0,06	-0,04	-0,03	-0,02
SYLV	-0,16	-0,26	-0,21	-0,17	-0,14	-0,12	-0,10	-0,09	-0,08	-0,08
PECHPISAQ	-8,07	-0,26	-0,17	-0,12	-0,06	-0,03	0,01	0,02	0,05	0,05
EXTRACT	-13,39	2,46	2,19	1,99	1,80	1,68	1,55	1,48	1,40	1,36
AGROALIM	21,35	-1,27	-0,90	-0,65	-0,42	-0,30	-0,17	-0,12	-0,04	-0,03
RAFF	-6,35	5,15	4,38	3,82	3,40	3,11	2,88	2,73	2,61	2,54
CHIMIE	-11,51	6,57	6,01	5,58	5,24	5,00	4,81	4,69	4,57	4,51
MATCONST	13,52	3,58	2,97	2,53	2,20	1,98	1,81	1,70	1,62	1,56
AUTMANUF	0,09	1,53	1,28	1,09	0,94	0,84	0,76	0,71	0,66	0,64
ELECGAZ	-1,54	-0,63	-0,52	-0,43	-0,37	-0,33	-0,30	-0,28	-0,27	-0,25
EAUASS	-4,87	-0,78	-0,67	-0,59	-0,53	-0,49	-0,46	-0,43	-0,42	-0,41
CONSTRUC	17,64	2,50	2,08	1,78	1,56	1,41	1,30	1,22	1,17	1,13
TRANSP	-2,36	0,85	0,70	0,59	0,51	0,45	0,41	0,38	0,36	0,35
HBR	-10,98	2,26	1,81	1,50	1,25	1,09	0,96	0,88	0,81	0,78
INFCOM	-3,34	0,20	0,14	0,10	0,06	0,04	0,02	0,02	0,00	0,00
FINASSUR	-10,73	0,38	0,31	0,26	0,22	0,20	0,18	0,17	0,16	0,15
IMMO	-3,09	-0,23	-0,19	-0,16	-0,13	-0,11	-0,11	-0,09	-0,09	-0,08
SCTECH	1,18	1,53	1,25	1,05	0,90	0,80	0,71	0,66	0,62	0,60
ENSEIGN	-5,91	-2,15	-1,96	-1,82	-1,71	-1,64	-1,58	-1,54	-1,52	-1,50
SANTE	-12,23	-1,63	-1,49	-1,39	-1,31	-1,25	-1,22	-1,18	-1,17	-1,15
AUTRES	-0,33	-0,57	-0,52	-0,48	-0,45	-0,43	-0,41	-0,40	-0,39	-0,38

Source: Authors

Streamlining tax expenditures in Senegal: Towards efficient public resource management

By Issa Faye¹ and Seydi Ababacar Dieng²

1 Introduction

In a context of ongoing search for resources to finance economic and social development, the issue of streamlining tax expenditures occupies a central place in public policies. According to the Conseil Supérieur des Finances (1984) of Belgium, tax expenditure is defined as "a decrease in revenue resulting from tax incentives arising from an exemption from the general system of a specific tax in favour of certain taxpayers or certain economic, social, cultural activities, and which could be replaced by a direct subsidy" (Valenduc, 2004). The latter argument considers that "fiscal expenditures have an incentive purpose; they result from exemptions to the 'general tax system' and there is equivalence between fiscal expenditure and direct subsidy". By definition, a tax expenditure is a transfer of public resources achieved by reducing tax obligations compared to a reference tax system, rather than through expenditures like direct subsidies (OECD, 2003).

Indeed, tax expenditures encompass fiscal measures aimed at encouraging specific economic activities, such as investment in research and development, the growth of small businesses, or the development of special economic zones. The process of evaluating tax expenditures is the starting point of a process aimed at their rationalization (Caldeira and Geourjon, 2020). This process involves analysing the costs and benefits of each tax expenditure and assessing whether it is the most efficient and effective means of achieving the strategic objective for which it is designed.

The initial phases of streamlining tax expenditures³ involve reviewing the tax code to determine if these provisions have a legal basis or are in line with community texts. Subsequent phases seek to establish clear objectives and measures for each tax expenditure and regularly to assess whether these objectives are being met. This process can help to identify tax reliefs that are no longer necessary or effective, as well as those that may have unintended consequences. Ultimately, this may involve establishing specific performance objectives based on legal foundations and monitoring progress towards these objectives, as well as conducting periodic cost-benefit analyses to determine if the tax expenditure produces sufficient benefits to justify its cost. Overall, streamlining tax expenditures is crucial

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³ Caldeira and Geourjon (2020) have outlined a diagram that illustrates all the steps.

to ensure that the tax code is fair and effective in achieving policy goals. By regularly evaluating and justifying these tax reliefs, policymakers can ensure that they are using taxpayers' money in the most efficient and effective manner possible. Efficient management of public resources will create budgetary leeway, enhance citizens' trust in the tax system, and promote a more equitable distribution of tax benefits.

In Senegal, one of the fundamental aspects that motivated the reform of the General Tax Code (CGI) in 2013 (DGID 2013) concerns the consideration of tax expenditures within a framework of an incentive common law regime aimed partly at eliminating certain derogatory provisions (DGID, 2013). Thus, based on evaluations of tax expenditures (TE), it was observed that not all of them were effective in achieving the economic and social objectives they were intended for. However, the question of the effectiveness and efficiency of tax expenditures is crucial to ensure optimal management of public resources. In addition to the common law regime, there is also the derogatory regime, which is a special tax regime governed by other texts, besides the general tax code, to encourage specific industries or to promote investment in certain regions of the country. In 2020, according to the evaluation report on tax expenditures by the Ministry of Finance and Budget, tax exemptions amounted to 846.1 billion FCFA and represented 5.9% of Senegal's GDP. Furthermore, under common law texts, they amounted to 559.77 billion in absolute value in 2020, accounting for 66.1% in relative value of total tax expenditures. Regarding the derogatory regime, they accounted for 286.35 billion in 2020, or 33.8% in relative value of total tax expenditures.

Over some past few years, Senegal has experienced a strong economic performance, with a growth rate exceeding 6% between 2014 and 2018 (ANSD)⁴, driven in part by the implementation of the Emerging Senegal Plan (PSE) (SEF5, DPEE, 2019). However, the country's economic performance was negatively affected starting from 2020 due to the Covid-19-related health crisis, as well as inflationary effects stemming from the Russian-Ukrainian conflict. These two crises disrupted fiscal budget management due to the necessity and urgency of implementing a response plan to make the economy more resilient, particularly by supporting incomes of businesses and households. Moreover, these global crises exacerbated the scarcity of resources and of external financing, underscoring the importance of further enhancing domestic resource mobilization.

In this context, it is essential to question the effectiveness and efficiency of these tax expenditures to maximize their impact on economic growth, on inequality reduction, and on poverty alleviation. Streamlining the tax expenditures thus

⁴ Data from the national accounts of the National Agency of Statistics and Demography (NASD).

⁵ The Economic and Financial Situation (SEF) is a macroeconomic analysis document published by the Directorate of Forecasting and Economic Studies (DPEE).

emerges as an essential approach to improve the management of public resources and to ensure an efficient allocation of funds. However, this process is not without challenges, as its implementation may encounter complexities related to uncertainties about the reactions of current beneficiaries of tax benefits and the need to strengthen institutional and technical capacities to ensure the effective management of this streamlining process. Also, given major constraints such as the signing by the State of (investment and taxation) agreements with certain industrial and extractive industries in particular, the rationalization of tax expenditures would be easier to implement for indirect taxes (VAT and Financial Activities Tax/FAT) than for direct taxes. It is from this perspective that the essay emphasizes to review the tax loopholes which are linked to the indirect taxes (VAT and FAT). However, all the other tax exemptions need to be considered in the future work on tax exemptions. Only then can the streamlining process be finished.

The objective of this article is to propose scenarios for streamlining tax expenditures in Senegal that do not compromise the socio-economic objectives they aim to achieve, particularly in terms of growth, poverty reduction, and inequality. The economic and social context in which this streamlining process is carried out will be explained, highlighting the factors that made it necessary, especially by investigating the results of the socio-economic impact assessment of tax expenditures. Furthermore, the justifications for this approach will be presented, emphasizing the potential benefits it can bring in terms of maximizing public resources, tax fairness, economic efficiency, and tax transparency.

The rest of the article after the introduction in section 1 is organized into five sections. The section 2 reviews the literature based on controversies related to streamlining tax expenditures. Section 3 will focus on stylized facts. The methodology will be presented in section 4. The results and their interpretation will be addressed in section 5. Finally, section 6 will be dedicated to the conclusion and recommendations.

2 Literature Review

The rationalization of tax expenditures remains a complex and often contentious subject, sparking debates among researchers and policymakers. While some, like Appiah-Kubi et al. (2021), argue that rationalization is necessary to enhance tax efficiency and equity, other authors such as Diamond and Zodrow (2021) express concerns about potential adverse consequences on certain economic sectors or social groups. This literature review focuses on the controversial ideas of authors regarding the rationalization of tax expenditures, highlighting the arguments and the differences of the opinions. Tax expenditures are designed as incentive policies to attract more investment or to boost specific sectors of the economy. From this perspective, authors who are advocating for their rationalization challenge their

effectiveness in terms of tax incentive policies that often do not yield the expected results. For instance, according to the OECD's 2021 report on investment policy perspectives in the Middle East and in North Africa, tax incentives can have contradictory effects. Tax expenditures may result in subsidies granted to firms that would have invested anyway, leading to a high cost for the state in terms of foregone tax revenue. However, when carefully designed and targeted, these tax incentives can be beneficial. They can help address market failures and promote the achievement of specific development goals, such as promoting renewable energy or enhancing skills and technologies (OECD, 2021). In this way, they can amplify the positive effects of investments.

But the OECD report (2021) suggests progressively replacing broad-based tax exemptions with more targeted tax benefits that take costs into account and align with public policy priorities. The idea is to shift from a system where certain taxes are not applied on a large scale to a system where specific benefits are granted based on policy objectives and identified needs. This would help to better control tax costs, to ensure greater transparency, and to make it that tax benefits are granted where they are truly necessary and useful for achieving certain policy objectives (OECD, 2021). The concept of streamlining tax expenditures through better targeting to attract investors, particularly foreign investors, has also been supported by other authors. For example, in a World Bank report on developing countries, Andersen, Kett and Von Uexkull (2018) argued that governments should take unilateral measures, including targeting incentives toward investors who are genuinely influenced by them. These authors noted in their study that tax incentives primarily attract FDI which are seeking to reduce production costs. However, they also incur costs for countries, such as tax revenue losses, rent-seeking behaviours, tax evasion practices, administrative costs, and economic distortions (Andersen, Kett and Von Uexkull, 2018). In a similar vein, some authors have delved deeper into the very nature of tax expenditures to identify those that do not yield favourable results in attracting FDI. For instance, Appiah-Kubi et al. (2021) used panel data from 40 African countries spanning from 2000 to 2018 and applied an econometric model to analyse the effect of four types of tax incentives on FDI while controlling for other variables. Their results indicate that reducing corporate income tax has a positive impact on FDI in Africa. Furthermore, according to these authors, FDI is more significant in African economies that offer for longer time tax exemptions and longer withholding periods. However, the tax reliefs themselves do not have a significant impact on FDI in Africa (Appiah-Kubi et al., 2021). In summary, the findings of this study suggest that to achieve goals such as poverty reduction, sustainable economic growth, Africa's integration into the competitive global economy, and women's empowerment, it is necessary to restructure tax incentives in response to governmental policy gaps in Africa (Appiah-Kubi et al., 2021). This would help to improve the business environment and to promote FDI in the region.

However, some authors argue that streamlining tax expenditures could lead to economic underperformance, even if implemented through targeted measures that may seem judicious and generate more revenue for the tax administration. For instance, Diamond and Zodrow (2021) employed an economic model, called the Diamond-Zodrow Computable General Equilibrium model, to simulate the macroeconomic effects of a fiscal policy change in the United States aimed at streamlining certain categories of tax expenditures. The policy entails several modifications, including an increase in the corporate tax rate to 25%, the reinstatement of the corporate minimum tax, the elimination of the deduction for most depreciable assets, the removal of the 20% deduction for certain business income, an increase in the highest individual income tax rate to 39.6%, the taxation of capital gains and dividend income at ordinary rates for high-income taxpayers, and the taxation of unrealized capital gains at death. The authors primarily focus on the effects of individual tax increases and assume that all revenues generated from these increases are used to finance an increase in government transfers. They note that this use of revenues has little feedback and distortion effects on the economy. The results of their simulation showed that such a policy change would increase government revenues but also would entail economic costs. For instance, in their model, policy changes result in a short-term decrease of 1.7% in capital investment, a decrease of 1.0% ten years after implementation, and a decrease of 1.2% in the long term. Employment decreases by 0.7% in the short term, by 0.1% ten years later, and remains unchanged in the long term (Diamond and Zodrow, 2021). According to these authors, the net effects on GDP are reductions of 0.5% in the short term, 0.3% ten years later, and 0.4% in the long term.

In a different context, authors argue that for tax expenditure rationalization to be successful, it should be accompanied by a broader reform of the tax system itself. Coelho (2021) studied the Brazilian tax system, which, due to its complexity, has led to numerous cumulative indirect taxes and to high payroll contributions. Consequently, many tax incentives have been put in place to alleviate the tax burden for taxpayers and productive activities. Currently, federal and subnational tax expenditures in Brazil represent more than 5% of GDP (Coelho, 2021). Based on transnational experiences, the author suggests that rationalizing these expenditures can only be achieved within the framework of a broader tax reform, implemented sequentially. Furthermore, such rationalization could lead to better resource allocation, reduced income inequalities, and towards generating new revenue (Coelho, 2021).

Indeed, in terms of tax equity and wealth redistribution, some authors believe that tax expenditures can favour specific interests and can lead to an unequal distribution of tax benefits. Hines (2020) examined the design of a tax system in an economy characterized by significant income inequalities, focusing on the impact of provisions such as tax deductions and credits that provide benefits to some taxpayers but not all. Thus, by examining U.S. tax data, Hines (2020) demonstrated

that many tax expenditures benefit high-income taxpayers and run counter to tax progressivity. The evidence indicates that the greatest share of tax expenditure benefits in the United States primarily accrue to taxpayers within the top 20% of the income distribution (Hines, 2020). Therefore, it is reasonable for many to conclude that exclusions, deductions, and tax credits have an anti-progressive effect on the tax system.

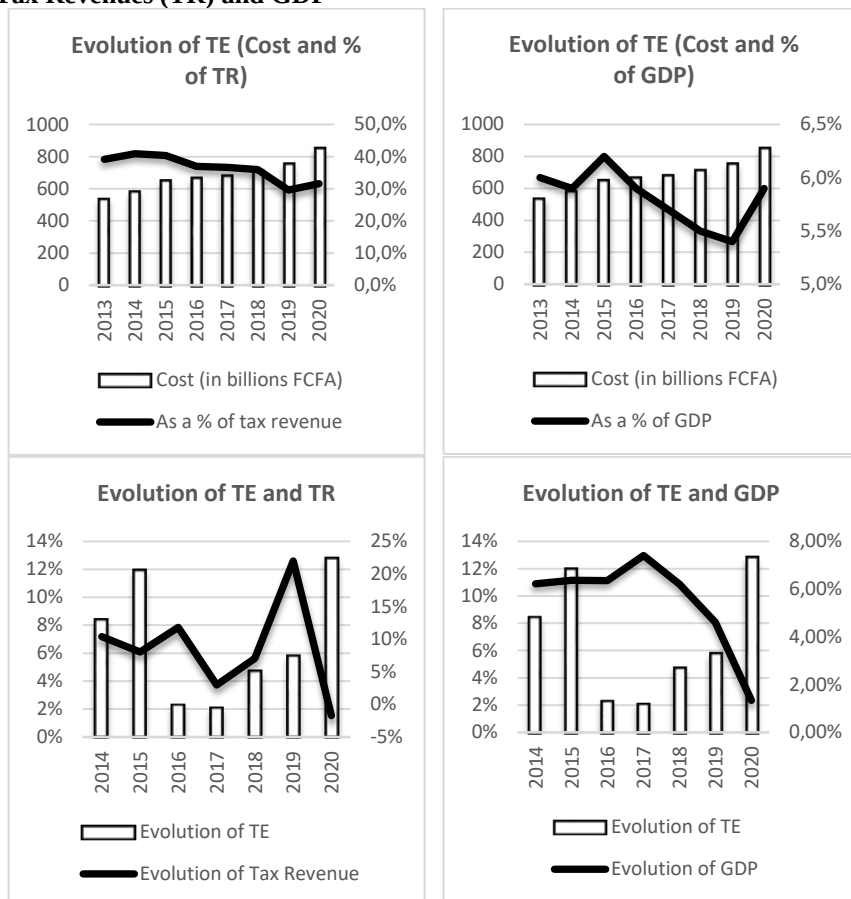
However, other authors emphasize the importance of a country-specific, thorough examination for each type of tax expenditure to ensure the usefulness of rationalization. For example, Barrios et al. (2016) quantified the fiscal and equity effects of tax expenditures in 27 European countries by using EUROMOD, the EU-level microsimulation model.⁶ The authors focused on four specific categories of preferential tax treatments which are affecting individual income tax, related to housing, retirement, education, and healthcare. Barrios et al. (2016) found a variety of effects, in terms of sign and magnitude, among member states and within them, among household types and population generations. Overall, their results suggest that the impact of tax expenditures on state revenues and income inequalities can be substantial. The redistributive impact of eliminating tax expenditures can go in either a progressive or a regressive direction, depending on the country and the specific tax expenditure considered (Barrios et al., 2016).

In conclusion, the rationalization of tax expenditures is a subject that triggers intense debates and differing views among authors. The controversial ideas discussed in the literature highlight the complex issues associated with tax reform and underscore the need for in-depth consideration and open dialogue to arrive at balanced solutions. Compromises, transparency, and regular evaluation emerge as key aspects for effective and equitable tax expenditure rationalization. This observation thus reveals the relevance of the evaluation work proposed in this article.

3 Stylized Facts

The rationalization of tax expenditures is a process that requires regular evaluation of existing fiscal measures to understand their budgetary cost as well as to assess their socio-economic impacts. This phase in the process is crucial as it ensures the relevance of the tax expenditure policy, particularly in terms of effectiveness relative to set objectives. In this regard, as highlighted in the literature, the effectiveness of tax expenditures could depend on their nature, the targeting in terms of sectors involved, as well as the selection of the beneficiary individuals. Thus, this section focuses more on the nature of tax expenditures, their components, and their destination, based notably on data from budget evaluation reports provided by the Ministry of Finance and Budget.

⁶ See the link to the homepage of Euromod: <https://euromod-web.jrc.ec.europa.eu/>

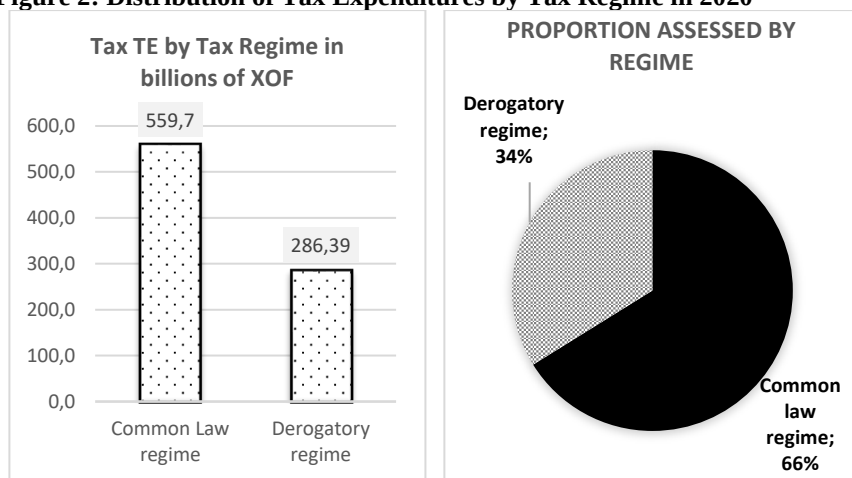
Figure 1: Evolution of Tax Expenditures (TE) in Cost and as a Percentage of Tax Revenues (TR) and GDP

Source: Authors, based on data from DGID, ANSD, and DPÉE

Figure 1 above shows that the cost of tax expenditures has seen a growing trend in recent years, increasing from 534.1 billion FCFA in 2013 to 846.1 billion FCFA in 2020. However, in relative terms when evaluated as a percentage of tax revenues, the weight of tax expenditures decreased from 39.2% in 2013 to 31.6% in 2020, what is a decrease of 7.6 percentage points. This decrease was particularly noticeable from 2016 to 2019. It can be explained that during this period there was an observed improvement in tax revenue collection with an average increase of

10%, compared to an average increase in tax expenditures of only about 4%. During the same period, the performance of economic activity, with an average growth rate of around 6.15% between 2016 and 2019, combined with a lesser growth of tax expenditures by about 4%, what has helped to mitigate their impact on GDP. Indeed, tax expenditures represented 5.4% of GDP in 2019 compared to 6% in 2013, a decrease of 0.6 percentage points. In 2020, the Senegalese economy experienced an economic underperformance due to the adverse effects of the Covid-19 pandemic, resulting in a significant slowdown in growth from 4.61% in 2019 to 1.34% in 2020, what is a decrease of 3.27 percentage points. Simultaneously, in the response plan to mitigate the negative effects of the crisis, authorities increased tax expenditures to support the households and the businesses. Thus, this situation naturally led to an increase in the weight of tax expenditures on GDP to 5.9%, while the tax revenues experienced a slowdown in the growth rate of tax collection in the year 2020.

Figure 2: Distribution of Tax Expenditures by Tax Regime in 2020



Source: DGID, Tax Expenditures Report in 2020

According to the tax regime, figure 2 shows that most tax expenditures are granted under the common law regime for an amount of 559.7 billion in 2020, compared to 286.39 billion for the derogatory regime. Thus, in relative value, the common law regime accounts for 66% of the total cost of tax expenditures, while 34% is allocated to the derogatory regime (see the Box 1 below about the various tax regimes).

Box 1: Distinction between a General Regime and a Special Regime

The Reference Tax System (RTS) chosen corresponds to the common law, regarding the current legal provisions on taxes and duties managed and codified in the General Tax Code (CGI) and in the Customs Code (CD). Senegal makes a distinction between the common law exemption regimes, originating from the CGI and the CD, and the derogatory regimes to common law (special tax regimes), including all exemptions related to codes, laws, regulations, or agreements containing tax-related provisions, likely to induce the application of a more favourable tax rate or a tax base to those in common law.

Derogatory measures of common law, appearing in the CGI/CD, include:

- Exemptions from income, transactions, goods, acts, or individuals from the scope of taxation,
- Allowances, reductions, and deductions from the tax base,
- Reductions in tax rates,
- Deferral of tax payment deadlines, and
- Tax credits.

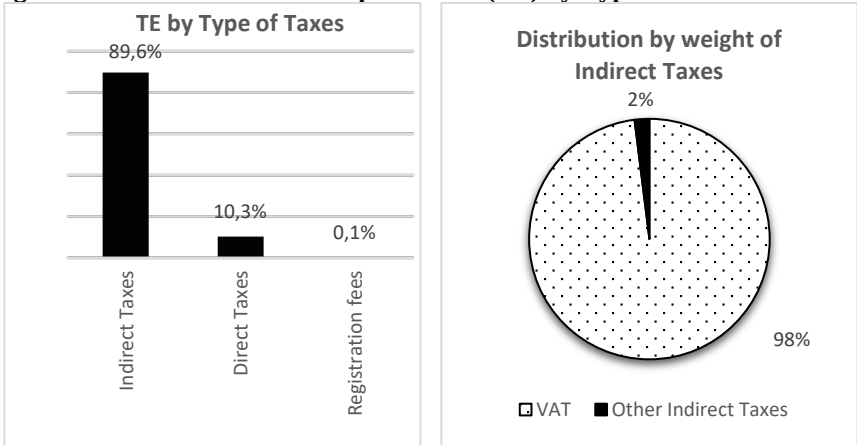
Specific derogatory measures, derogatory to the common law, result from:

- The Mining Code,
- The Industrial Domain Law,
- The Free Export Zone Company status,
- The Petroleum Code,
- The Industrial Free Zone Law,
- Conventions, treaties, and international agreements,
- Establishment agreements,
- Headquarters agreements,
- Financing agreements, and
- Specific agreements signed with the State.

Source: Collected by the Authors

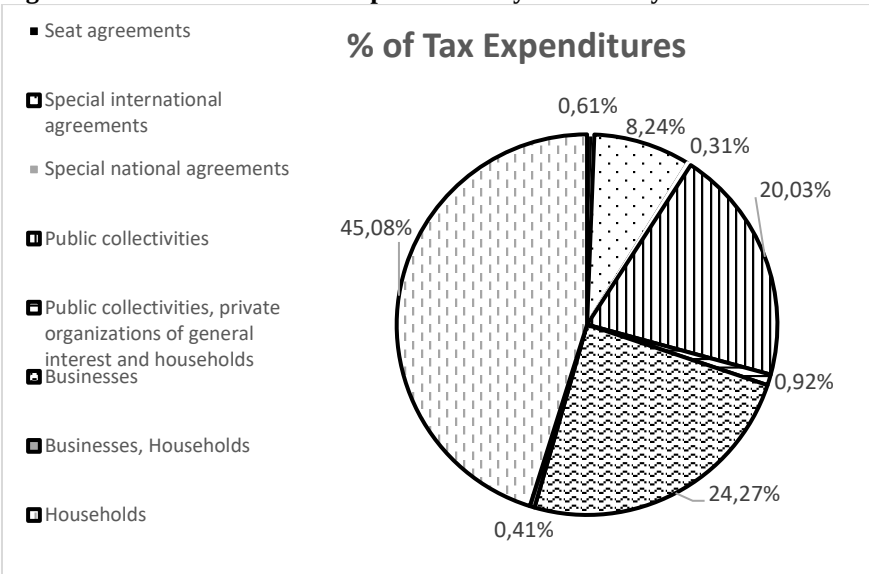
Regarding the distribution of tax expenditures by type of taxes, figure 3 below indicates that they are largely composed of indirect taxes, accounting for 89.6% of the total cost in 2020. Thus, in absolute value, tax expenditures related to indirect taxes are estimated at 759.27 billion FCFA. Direct taxes account for only 10.3% of the total cost of tax expenditures, amounting to 86.77 billion FCFA in absolute value. The smallest share is allocated to registration duties, amounting to 1.09 billion FCFA, or 0.1% of the total cost of tax expenditures. As for indirect taxes, the related tax expenditures are mainly granted in the form of VAT, accounting for 98%. Exemptions related to other indirect taxes represent only 2% of this type of taxes.

Figure 3: Distribution of Tax Expenditures (TE) by Type of Taxes in 2020



Source: DGID, Tax Expenditure Report in 2020

Figure 4: Distribution of Tax Expenditures by Beneficiary



Source: DGID, Tax Expenditure Report in 2020

The distribution of tax expenditures by beneficiaries is predominantly in favour of households, followed by businesses and public entities, with respective shares of 45.08%, 20.27%, and 20.03% of the total cost of exemptions (figure 4).

This observation corroborates the idea that the Senegalese government, through its tax expenditure policy, seeks to enhance the purchasing power of households and to promote business growth. In absolute terms, households and businesses benefit from 381.46 billion FCFA and 205.38 billion FCFA, respectively, out of the total amount of 846.12 billion FCFA in tax expenditures assessed in 2020.

Furthermore, the beneficiary categories with a very small share, less than 1% of the total fiscal expenditures, are international special agreements⁷, seat agreements⁸, and the mixed⁹ category of businesses and households as well as that of public collectivities¹⁰, private organizations of general interest¹¹, and households.

In a different context, figure 5 below indicates that, under the general tax regime, the most expensive exemptions are estimated at 147.84 billion FCFA and concern sales and service provisions carried out by administrative services or bodies, except those performed by Industrial and Commercial Public Establishments (EPICs/établissements public à caractère industriel et commercial) or those similar in nature to those carried out by a private enterprise. Exemptions for services provided in the field of primary or higher education by public or private institutions, or by similar entities, come in second place with a cost of 116.91 billion FCFA.

⁷ The “international special agreements”, also known as “bilateral conventions for the avoidance of double taxation”, are agreements concluded between two countries to avoid double taxation of income of individuals and legal entities residing in either country. In Senegal, these agreements define the tax rules applicable to income generated in both signatory countries, ensuring that taxpayers are not subject to double taxation.

⁸ The “seat agreements” is a convention concluded with the State of Senegal. The conclusion of a headquarters agreement grants consular and diplomatic privileges to non-Senegalese personnel during the validity period of the investment plan. A Foreign Non-Governmental Organization (NGO) can conclude a headquarters agreement with the Government of Senegal.

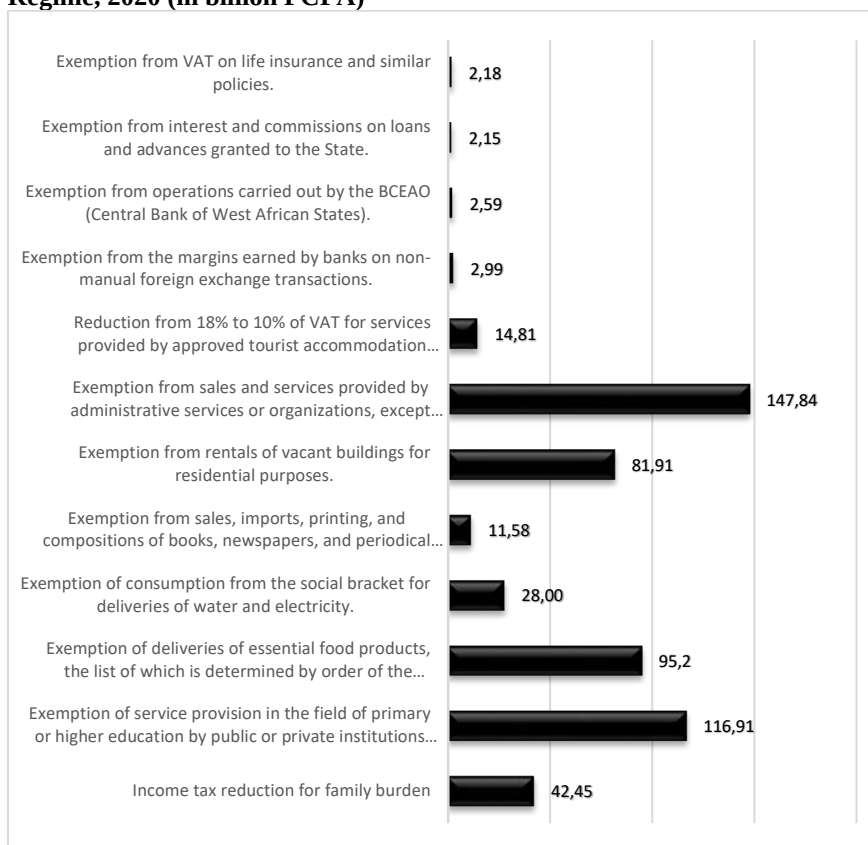
⁹ Fiscal expenditures for “mixed types of households and businesses” can exclusively benefit either businesses, households, public authorities, or concurrently target the same entities at the same time. Thus, it is important to note the existence of measures common to both businesses and households.

¹⁰ In Senegal, public authorities refer to administrative and territorial entities that exercise functions of local governance and management of public affairs at the regional or local level. These authorities include regions, departments, municipalities, arrondissements, and rural communities. They are responsible for providing basic public services, planning local development, and ensuring the management of resources and infrastructure within their respective jurisdictions.

¹¹ Private organizations of general interest refer to private sector entities that fulfil functions of general interest or public utility but are not directly managed by the government. These organizations can be associations, foundations, NGOs, non-profit institutions, social enterprises, or other private entities that have a mission to address social, environmental, educational, cultural, or public health needs.

Other categories of exemptions with significant costs include deliveries of essential food products, the list of which is determined by a decree of the Minister being responsible for finance, and exemptions covering rentals of residential immovable property, with respective amounts of 95.2 billion FCFA and 81.91 billion FCFA. The tax reduction for dependents is also noteworthy, amounting to 42.5 billion FCFA. Furthermore, by nature of taxes, these exemptions primarily pertain to VAT, excluding the tax reduction for dependents, which is related to a direct tax concerning the income tax (see Annex 1).

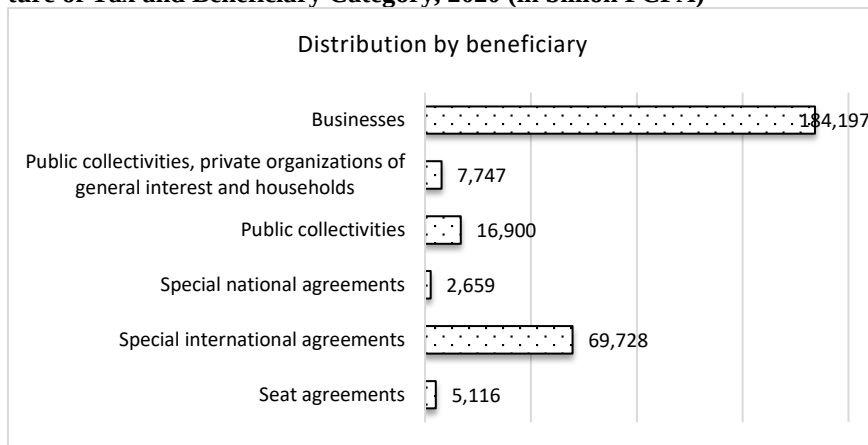
Figure 5: Cost of the Most Significant Tax Expenditures under the General Regime, 2020 (in billion FCFA)



Source: DGID, Tax Expenditure Report in 2020

Regarding the derogatory regime, the distribution of tax expenditures primarily favours businesses, followed by agreements with international individuals/actors, with respective significant budgetary costs of approximately 184.197 billion FCFA and 69.728 billion FCFA (figure 6, and see also Annex 2).

Figure 6: Total Cost of Tax Expenditures under Derogatory Regimes by Nature of Tax and Beneficiary Category, 2020 (in billion FCFA)

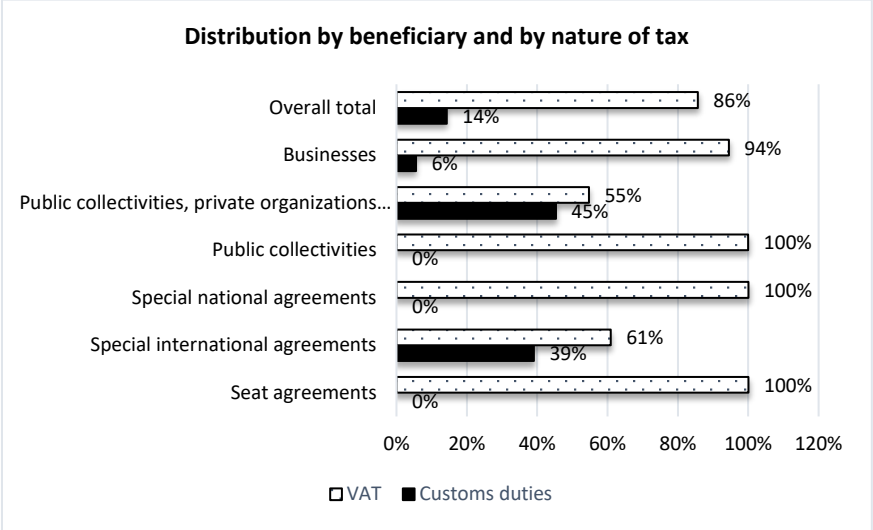


Source: DGID, Tax Expenditure Report in 2020

Furthermore, in terms of the nature of taxes, exemptions granted under the derogatory regime are exclusively related to Value Added Tax (VAT) and customs duties (figure 7). Indeed, these exemptions are mainly composed of VAT, accounting for 86% of the total cost, with customs duties accounting for the remaining 14%. Thus, for businesses, out of the total cost of their derogatory exemptions, 94% pertain to VAT on purchases of goods and services, while only 4% relate to customs duties. As for agreements with international individuals, the distribution is split between 61% of tax expenditures allocated in the form of VAT and 39% in the form of customs duties.

Public authorities, agreements with domestic individuals, and agreements with company and holding headquarters, on the other hand, benefit from exemptions solely related to VAT. Only in the category of public authorities, private organizations of public interest, and households, the distribution of fiscal expenditures between VAT (55%) and customs duties (45%) is less disproportionate.

Figure 7: Total Cost of Tax Expenditures under Derogatory Regimes by Nature of Tax and Beneficiary Category, 2020 (as a percentage)



Source: DGID, Tax Expenditure Report in 2020

4 Methodology

4.1 The methodological approach: A synopsis

The methodological approach used in this study employs a dynamic intertemporal Computable General Equilibrium (CGE) Model with a microsimulation module, as detailed in the article assessing the impacts of fiscal expenditures on the economy, poverty, and inequality in Senegal (Dieng et al., 2023, forthcoming in volume 24, Essay 3 in Unit on Senegal). The framework below (see the Box 2) summarizes this methodological approach. The selection of this approach is justified by the fact that, analogues to the impact assessment, it also enables a more accurate quantification of the socio-economic effects that may arise from the adoption of any scenario for rationalizing fiscal expenditures. This helps us to ensure the relevance and validity of such a policy.

Box 2: Summary of the Methodology

A dynamic intertemporal Computable General Equilibrium (CGE) Model with a microsimulation module has been chosen as the methodological approach. The objective is to determine the impacts of rationalizing fiscal expenditures on the economy and regarding the social indicators. The model accounts for the

behaviour of economic agents such as households, firms, the government, the Rest of the World, and considers sectoral aspects. The model's specification is based on determining the behaviour of each economic agent.

The representative household seeks to maximize its utility by choosing an optimal allocation for savings and consumption. Income comes from dividends from firms, from labour, through government transfers, and from the Rest of the World, but is taxable. The consumer seeks to maximize their intertemporal utility function.

The representative firm produces a composite good using different factors of production, such as labour, capital, and intermediate goods. Each composite good is a combination of value-added and intermediate goods. The firm has both dynamic and static behaviour. In terms of its dynamic decisions, it seeks to maximize its intertemporal profit, which is the discounted sum of dividends, under the constraint of capital dynamics. Its static choices involve minimizing production costs and maximizing value-added.

The government influences the economy's dynamics through its two components: public consumption expenditures and public investment expenditures. It spends on investment goods in various sectors according to a determined share. These expenditures directly affect total factor productivity through the accumulation of public capital. Government revenue is composed of taxes on consumption, investment goods, exports, imports, household incomes, dividends, taxes on intermediate consumption, and transfers from the Rest of the World.

The Rest of the World pays for imports, receives income from exports to partner countries, makes transfers to the government and to the households. Thus, foreign savings are determined through the trade balance and net transfers from the government and households to the Rest of the World.

Simulations are conducted by altering parameters of the tax system such as consumption tax rates, import duties, household income, and corporate profits. The results are analysed to understand the impacts on the economy and regarding the social indicators such as poverty and inequality.

Source and Reference: See the contribution by Dieng et al, 2023 with details on the modelling. The study is published as essay number 3 in the Unit on Senegal in this volume 24 of the African Development Perspectives Yearbook, 2024/25

In other words, the dynamic intertemporal computable general equilibrium (CGE) model with microsimulation allows for a clear assessment of whether the chosen rationalization scenarios are counterproductive, by quantifying the direct and the induced effects on growth, poverty, and inequality.

4.2 The model calibration – to reflect on the Senegalese Economy

The model is calibrated to reflect the Senegalese economy in its reference situation represented by the 2015 Social Accounting Matrix (SAM)¹² provided by the National Agency for Statistics and Demography (ANSD)¹³. This is a crucial step which consists of assigning a value to each variable and each parameter of the model at the initial state. Indeed, the CGE models are characterized by functional forms which reflect the behaviour of the different economic agents described in the SAM. The SAM is a double-entry table which summarizes all the transactions taking place in an economy and constitutes the main source of data for the CGE model. This is why, despite the use of functional forms for the determination of certain variables and parameters, the calibration must be able to reproduce the SAM while maintaining all its equilibrium conditions. It is from the calibration that the reference situation of the model is generated. It can be done in several ways depending on its method of determination. Depending on the case, the variable can be read directly from the SAM, evaluated from an optimization programme of a functional form, or determined from the regular state where all the variables of the model evolve constantly.

Some parameters are initialized. As for parameters, they are determined in the same way as the variables. However, some are taken from the econometric estimation literature. These are the free parameters of the model. It should also be noted that a parameter cannot be read from the SAM.

The data used to conduct simulations of fiscal changes are sourced from reports on fiscal expenditures, which can be found on the website of the Extractive Industries Transparency Initiative (EITI)¹⁴ or on the website of the General Directorate of Taxes and Domains (DGID)¹⁵.

¹² See on the Social Accounting Matrix for Senegal/SAM for Senegal:

https://www.ansd.sn/Indicateur/matrice-de-comptabilite-sociale-mcs?field_types_de_document_value=3

¹³ ANSD of Senegal adopted, in 2018, a new base year (2014) for national accounts. At the same time, it migrated to the new United Nations System of National Accounts of 2008 (SNA 2008). In this regard, to meet the increased demand from various stakeholders wishing to conduct simulations of shocks and macroeconomic policies, ANSD embarked on the development of a Social Accounting Matrix (SAM) for the year 2014. The methodology implemented for this purpose was replicated for the development of social accounting matrices from 2015 to 2019. Link: <https://www.ansd.sn/Indicateur/matrice-de-comptabilite-sociale-mcs>.

¹⁴ See on Extractive Industries Transparency Initiative/EITI/Initiative pour la Transparence dans les industries Extractives du Sénégal/ITIE: <https://itie.sn/>, and: <https://itie.sn/documentation/>

¹⁵ See on Direction General Des Impôts Et Des Domaines/DGID: <https://www.dgid.sn/>

4.3 Institutional sources of data which relate to the Fiscal Expenditures

Automatically captured information from taxpayers' declarations and tax forms produced by taxpayers and their representatives constitutes the main data source. For several measures, databases from financial and statistical administrations have also been utilized. For certain less widely applicable tax expenditures, physical sources include all forms of media through which information is provided: tax returns, Treasury checks, credit notices, response letters to requests for tax benefits, tax databases, statistical databases from non-tax administrations, etc.

Additionally, to assess their cost, a compilation was made from a sample of income tax returns or tax forms or simply from correspondences. Other sources of information were also used when tax data were non-existent or insufficient.

Thus, the main data sources used primarily came from the following structures: DGID, ANSD, Insurance Companies, and Commercial Banks. Various other agencies (public and private) were conducted.

5 Results of the Analysis

The evaluation of the economic and social impacts of fiscal expenditures (see Dieng et al., 2023, forthcoming as essay 3 of the Unit on Senegal in the volume 24) indicates that they are less effective if they concern direct taxes (corporate income tax and personal income tax), and specifically when granted to the secondary sector. Based on their findings, a scenario was simulated that encourages the government to set a goal for a cautious rationalization of fiscal expenditures, with a gradual reduction of 10%, 15%, and 20% applied, firstly, to direct taxes (corporate income tax and personal income tax), and secondly, to the value-added tax (VAT) related to products from the secondary sector.

However, this scenario does not specify precisely which products or branches of activities the rationalization should target. To better serve as a decision-making tool, this article proposes a more precise scenario of cautious rationalization by targeting products or branches of activities for which the collection of tax revenues would not face major constraints. Thus, through the dynamic intertemporal computable general equilibrium (CGE) model with microsimulation used in the impact study, a rationalization scenario has been proposed. This scenario aims to optimize government revenue while seeking to limit negative economic and social impacts. This scenario is based on the rationalization of fiscal expenditures related to indirect taxes such as VAT (value-added tax) and FAT (financial activities tax) which are applied to the products identified in the table 1 below. The choice of the indirect taxes is based on two arguments. Firstly, we are not currently favouring direct taxes due to certain constraints related to agreements signed by the state with certain industries in sectors where streamlining fiscal expenditures is considered more

relevant, such as extractives. Secondly, as mentioned earlier in section 3, especially with data in figure 3, almost all tax expenditures are based on indirect taxes, accounting for 89.6% of the total cost in 2020, of which 98% are linked to VAT.

5.1 Evaluation of the potential VAT recovery from rationalizing fiscal expenditures on ten products

Table 1 below provides an assessment of potential VAT revenues to be recovered through the rationalization of fiscal expenditures on ten products, including one from the primary sector, six from the secondary sector, and three from the services sector. The evaluated amounts are distributed among potential VAT on final household consumption, VAT on imported de-husked rice, which must also be borne by households, and VAT that businesses must pay, considering that the principle of deductibility does not apply to the chosen products used for intermediate consumption. In total, the potential revenue amount to be recovered by the government through this rationalization has been estimated at 112.93 billion FCFA. VAT to be borne by businesses using these products as inputs in their production process accounts for the largest share (47%), followed by VAT on imported de-husked rice (38%), and by that on other products used for final consumption by households (15%). Moreover, the choice of products has been made to mitigate negative effects on the economy and social aspects that would result from the rationalization policy. Regarding de-husked rice, the idea is to gain a significant fiscal niche on imports while promoting local production and consumption to contribute to the reinforcement of the already initiated state policy of rice self-sufficiency.

For example, concerning electricity (see on the discussed streamlining efforts for electricity in table 1), it is important to note that general domestic consumers or clients in Senegal are divided into three main tiers: the social tier, tier 2, and tier 3. The social tier pertains to households with low income or in economic precarious situations. They generally benefit from subsidized electricity tariffs or special discounts to make electricity more accessible for them. Tier 2 is for households that do not meet the criteria of the social tier but are still general domestic clients. Tier 3, on the other hand, concerns general domestic households with higher incomes or greater electricity needs compared to the social tier and the tier 2. Thus, electricity tariffs for tier 2 and tier 3 are higher than those for the social tier. In this regard, the choice of general clients in tier 2 aims to shield the poorest households in the social tier from the negative effects of fiscal expenditure rationalization, which results in price increases reducing purchasing power. The choice did not focus on general domestic clients in tier 3 because they do not benefit sufficiently from fiscal expenditures.

Table 1: Potential non-deductible VAT to be recovered from the Rationalization of Fiscal Expenditures on Ten Products

Average Non-deductible Potential VAT between 2014 and 2018 assessed in millions of CFA francs.					
Business sectors	Products	Potential VAT borne by households	Potential non-deductible VAT borne by companies	Potential VAT on imports	Total potential VAT to be recovered
Primary	Chicks and Eggs	2 477	2 325		4 802
Secondary	Dried, Salted, Smoked, and Frozen Fish, Crustaceans, and Mollusks	3 042	61		3 103
	Imported Decorticated Rice			43 366	43 366
	Compound Animal Feeds	41	12 794		12 836
	Other Basic Chemical Products	-	16 239		16 239
	Other Chemical Products	1 384	14 477		15 861
	Electricity for General Customers Tier 2	3 904	-		3 904
Tertiary	Life Insurance Services and Pension Funds	2 130	-		2 130
	Non-life Insurance and Reinsurance Services	1 391	3 788		5 179
	Services of Financial and Insurance Auxiliaries	2 304	3 205		5 509
	Total	16 675	52 890	43 366	112 930
	Total Share (in %)	15%	47%	38%	100%

Source: DPEE, Authors' calculations. **Note:** VAT: If it concerns financial products or services, the Financial Activities Tax (FAT) is considered; in the General Tax Code in Senegal, non-deductible VAT refers to the portion of VAT paid on goods or services acquired by a business but cannot be recovered or deducted from the VAT collected on the sales of goods or services made by that business.

Furthermore, to further mitigate the negative socio-economic impacts, it was considered in a first scenario that the revenue gains from the policy of rationalizing tax expenditures should be redistributed to households in the form of transfers in cases where they would bear the increase in VAT. These transfers could be intended to further support the National Programme of Family Security Grants¹⁶ or to increase the amount or number of beneficiaries of family allowances. On the other hand, in case that the increase in VAT is borne by enterprises, the assumption

¹⁶ The National Programme of Family Security Grants in Senegal (PNBSF/Programme National de Bourses de Sécurité Familiale) contributes to the fight against vulnerability and social exclusion of families through integrated social protection aimed at facilitating their access to social transfers and strengthening, among other things, their educational, productive, and technical capacities. See the link: <https://socialprotection.org/discover/programmes/programme-national-de-bourses-de-s%C3%A9curit%C3%A9-familiale-pnbsf-national-programme>

would be to allocate the additional state revenues to public investments that accompany the process of structural transformation of the economy, such as strengthening human capital and transportation and energy infrastructure.

These two schemes for rationalizing tax exemptions were simulated using the dynamic intertemporal Computable General Equilibrium (CGE) Model with microsimulation, namely: VAT borne by households (including VAT on imports); and VAT paid by businesses. Another rationalization scenario combining the first two was also simulated.

5.2 Results of simulations of the rationalization of tax expenditures on VAT borne by households

The results (see table 2) indicate a relatively insignificant negative impact on economic activity and on the poverty indicators if the rationalization focusses on tax expenditures related to VAT borne by households. In a box 3 presented below there are some definitions of poverty measurement explained, as they are used to quantify the impacts of the rationalization of tax expenditures on poverty. The economic growth loss resulting from this policy over the first ten years would average around 0.1 percentage points due to a decrease in final consumption by about 0.6% on average over the same period. Indeed, the increase in VAT resulting from the elimination of tax expenditure measures would lead to an average increase in consumer prices of approximately 0.7%. As a result, this inflationary effect would deter demand from households for the goods and services targeted by the rationalization. Furthermore, external trade would also feel the repercussions of this policy, but with a certain improvement in the trade deficit, as exports are expected to experience a much smaller average decrease (-0.2%) over the first ten years compared to imports (-1.1%).

On the social front (see the box 3 about the various measures for social indicators in the text above), there would also be a negative impact, with an average increase in the poverty incidence of about 0.7 percentage points over the first ten years of simulation. The depth and severity of poverty would also be slightly exacerbated by this policy of rationalizing tax expenditures targeting VAT borne by households, with respective average increases of about 0.4 and 0.2 percentage points. Furthermore, this policy would tend to slightly accentuate income inequalities, as the Palma and Gini indices would increase by approximately 0.2% and 0.1% respectively, on average. In exchange for these socio-economic underperformances, the government's revenue should see an average increase of 2.2% over the first ten years. These additional revenues would be directed towards increasing transfers to households, which would help mitigate the negative effects of rationalizing tax expenditures on VAT collected on goods and services intended for final consumption.

Table 2: Socio-economic Impacts of the Rationalization of Tax Expenditures applied to VAT borne by households for ten products (averaged over a 10-year period)

Impact of the rationalization of Tax Expenditures (TE)		Rationalization of TE on the VAT borne by households
Economic activity	Growth of real GDP (Change in percentage points)	-0,1
	Household consumption (Change in %)	-0,6
	Private investments (Change in %)	0,0
	Inflation (Change in %)	0,7
	Exports (Change in %)	-0,2
	Imports (Change in %)	-1,1
	Government revenue (Change in %)	2,2
Poverty Indicator	Incidence (Change in percentage points)	0,7
	Depth (Change in percentage points)	0,4
	Severity (Change in percentage points)	0,2
Inequality	Change of the Palma index (in %)	0,2
	Change of the Gini index (in %)	0,1

Source: DPEE, Authors' calculations

Box 3: Definition of Terms Related to Social Indicators

Poverty Incidence

Poverty incidence refers to the proportion of the population living below the poverty line, that is, those whose consumption or income falls below the poverty line.

Depth or Poverty Gap

The depth or intensity of poverty is an indicator that assesses how far the standard of living of the poor population is from the poverty line.

Severity

It is a measure of the severity of poverty that focusses more on the poorest among the poor. This index increases in parallel with the gap between the poverty line and the consumption expenditures of the poor.

Gini Index

The Gini index of inequality is a statistical indicator used to measure the degree of inequality in the distribution of income or wealth within a given population. Specifically, it measures the dispersion of income or wealth among individuals

or households in a society. The Gini index ranges from 0 to 1, where 0 represents a perfectly equal distribution (all individuals have the same income or wealth) and 1 represents a completely unequal distribution (one individual holds all the income or wealth, while others have nothing).

Palma Index

The Palma index is an economic indicator that measures income inequality by comparing the share of national income of the top 10% with that of the bottom 40%. Unlike the Gini index, which accounts for the entire distribution of income, the Palma index specifically focusses on the disparity between the richest and the poorest.

Source: Presented by the authors

5.3 Results of simulations for the rationalization of tax expenditures on VAT borne by enterprises

Considering the option of rationalizing tax exemption measures related to VAT borne by enterprises, with additional government revenues allocated to public investment, economic activity would experience positive performance, resulting in a net growth gain of about 0.4 percentage points on average over the first ten years. This positive impact on the economy would stem more from the positive externalities derived from increased public investments, including an improvement in overall factor productivity. The increase in the stock of public capital in the economy would instil confidence in enterprises, explaining the average increase in private investments of around 0.3%, despite the dissuasive effects stemming from increased production costs for products targeted by the tax increase. Furthermore, with this choice of rationalization policy, the purchasing power of households would not be negatively impacted due to the non-deductibility principle of VAT. Thus, the demand for final consumption by households would experience a small increase of about 0.1% on average over the first ten years. Inflation would also be more controlled, resulting in a lesser average increase in consumer prices of about 0.3%, driven by the increase in public investments. However, from the perspective of foreign trade, this rationalization policy choice would contribute to worsening the trade deficit, with exports decreasing on average by 0.3% over the first ten years, coupled with a similar average increase in imports over the same period. Despite the positive effects of increased public capital in the economy, exporting companies would not benefit from it, as they would be more affected by the rise in production costs due to increased VAT on targeted inputs under the rationalization of tax expenditures. The increase in imports can be attributed to the significant share of goods and services from abroad in public capital (see table 3).

Table 3: Socio-economic Impacts of Rationalizing Tax Expenditures applied to VAT borne by enterprises for ten products (averaged over a 10-year period)

Impact of the rationalization of Tax Expenditures (TE)		Rationalization of TE on VAT borne by enterprises
Economic activity	Growth of real GDP (Change in percentage points)	0,4
	Household consumption (Change in %)	0,1
	Private investments (Change in %)	0,3
	Inflation (Change in %)	0,3
	Exports (Change in %)	-0,3
	Imports (Change in %)	0,3
	Government revenue (Change in %)	2,5
Poverty Indicator	Incidence (Change in percentage points)	0,0
	Depth (Change in percentage points)	0,1
	Severity (Change in percentage points)	0,0
Inequality	Change of the Palma index (in %)	0,1
	Change of the Gini index (in %)	0,1

Source: DPEE, Authors' calculations

On the social front, this choice of rationalizing tax expenditures at the expense of enterprises would yield neutral effects on the incidence and severity of poverty, while the depth would be slightly worsened, averaging about 0.1 percentage points. This negligible impact on poverty indicators could be explained by the non-deductibility of VAT borne by enterprises, which would have no effect on household purchasing power. Additionally, to some extent, income inequalities would be accentuated, with the Palma and Gini indices experiencing a slight increase of 0.1%. Regarding government revenue, this rationalization policy, in addition to its positive effects on economic growth, would contribute to an average increase in tax revenues of about 2.5% over the first ten years.

5.3 Results of simulations for the rationalization of tax expenditures on VAT borne by households and enterprises

Overall, by combining the first two rationalization options, the impact would be positive on economic activity and negative on the social front. The economy would experience a net growth gain of about 0.3 percentage points on average over

the first ten years. Private investments would also see an average increase of 0.3% over the same period, due to the growth of the public capital stock. However, inflation, resulting in an average increase in prices of about 1 percentage point, would lower household purchasing power, thus discouraging final consumption demand (-0.5%). Poverty indicators would be somewhat degraded due to the increase in VAT borne by households, which would also explain the rise in consumer prices. Therefore, this rationalization policy would have a negative impact on the social front, with an average increase of 0.7 percentage points in poverty incidence and, to a lesser extent, on income inequalities, with the Palma and Gini indices increasing by 0.3% and 0.2% respectively. As for foreign trade, exchanges would also be negatively affected, with exports and imports decreasing by approximately 0.5% and 0.8% respectively, on average. The negative impact on exports could be explained by the increase in production costs borne by exporting companies for targeted products, while the decrease in imports would be more linked to a dissuasive effect on the consumption of imported products through the rise in import VAT, particularly on dehulled rice (see table 4).

Table 4: Socio-economic Impacts of Rationalizing Tax Expenditures applied to VAT borne by households and enterprises (averaged over a 10-year period)

Impact of the rationalization of Tax Expenditures (TE)		Rationalization of TE on VAT borne by enterprises
Economic activity	Growth of real GDP (Change in percentage points)	0,3
	Household consumption (Change in %)	-0,5
	Private investments (Change in %)	0,3
	Inflation (Change in %)	1,0
	Exports (Change in %)	-0,5
	Imports (Change in %)	-0,8
	Government revenue (Change in %)	4,7
Poverty Indicator	Incidence (Change in percentage points)	0,7
	Depth (Change in percentage points)	0,5
	Severity (Change in percentage points)	0,3
Inequality	Change of the Palma index (in %)	0,3
	Change of the Gini index (in %)	0,2

Source: DPPE, Authors' calculations

Regarding government revenue, the overall impact of this rationalization of tax expenditures on VAT borne by both households and enterprises would result in an increase in tax revenues of approximately 4.7% on average over the first ten years.

6 Conclusions and Policy Recommendations

The rationalization of tax expenditures refers to the process of evaluating, revising, and adjusting preferential tax measures granted by the Senegalese government. The main objective of this rationalization is to enhance the efficiency and equity of the tax system while ensuring that tax expenditures effectively serve the country's economic and social objectives. In Senegal, there are significant tax loopholes related to tax expenditures, with a total budgetary cost estimated at 846.1 billion FCFA in 2020. These expenditures are largely associated with indirect taxes, accounting for 89.6% of the total cost of exemptions, which is 759.27 billion FCFA in absolute value. Furthermore, these tax expenditures related to indirect taxes are primarily composed of VAT, accounting for 98%.

This article presents a practical case targeting ten (10) specific products for which the rationalization of tax expenditures related to VAT could be applied. The results indicate that if the rationalization focuses on VAT borne by households, this may lead to a slightly negative impact on economic activity and the social aspect. Conversely, if the option of rationalization is applied to VAT borne by enterprises, the economy would respond positively, while the social effects would be negligible due to the non-deductibility principle of VAT borne by enterprises on the considered goods and services. However, combining both options of rationalization, where the increase in VAT would be borne by both households and enterprises, this may have a positive impact on economic activity and a negative impact on the social situation. The economy would experience a net gain in growth of around 0.3 percentage points on average over the first ten years, accompanied by an increase in the poverty incidence of about 0.7 percentage points. Nevertheless, government revenue would register an increase of about 4.7% on average over the same period.

In terms of recommendations, the Senegalese government could more precisely target products or branches of activities for which the rationalization of tax expenditures would not significantly affect economic activity and the social aspect. In this regard, this policy could be accompanied by using the revenue gains from rationalization in the form of transfers to households in cases where they would bear the tax increase. Conversely, if the tax increase is borne by enterprises, it would be more appropriate to allocate the additional government revenue to public investment. Regarding imports of de-husked rice, the government could secure a significant tax niche by rationalizing tax expenditures in the form of VAT

on these imports, while promoting local production and consumption to contribute to strengthening food self-sufficiency.

In conclusion, this article has identified avenues for rationalizing VAT-related tax expenditures on certain products and services, which could enable the government to recover over FCFA 100 billion annually. Furthermore, the selection of products and the rationalization policy have been designed to minimize negative effects on the economy and the social aspect. However, other options for rationalization could be considered for other VAT products or for direct taxes, especially corporate income tax, the main constraint of which is often related to agreements that the state signs with companies in sectors such as extractives. In the same vein, this subject also opens another research perspective focussed on tax incentives for investment to assess their relevance for the case of Senegal and whether they could broaden the possibilities of rationalizing fiscal expenditures.

Finally, this research gives ideas on streamlining fiscal expenditures in Senegal. Currently, no policy for rationalizing fiscal expenditures is being pursued by the Government of Senegal, arguing that it does not yet have sufficient elements with scientific arguments stemming from studies that would allow it to consider such a policy. However, there is an annual report evaluating the budgetary cost conducted by a committee led by the Directorate General of Taxes and Domains (DGTD/DGID), which is linked to the budget law. Hence, the article constitutes a proposal for a rationalization policy and so opens the way to support the research for a full streamlining effort for tax expenditures in Senegal.

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Annex 1: Cost of the most significant tax expenditures under the common law regime, 2020 (in billions of CFA francs)

Nature of the exemption	Tax	Amount (billion)
Income tax reduction for family burden.	IT	42,45
Exemption of service provision in the field of primary or higher education by public or private institutions or similar organizations.	VAT	116,91
Exemption of deliveries of essential food products, the list of which is determined by order of the Minister responsible for finance.	VAT	95,2
Exemption of consumption from the social bracket for deliveries of water and electricity.	VAT	28,00
Exemption from sales, imports, printing, and compositions of books, newspapers, and periodical publications, by exception of advertising revenues as well as sales or imports of newsprint and other printing papers used in the production of newspapers and other periodicals.	VAT	11,58
Exemption from rentals of vacant buildings for residential purposes.	VAT	81,91
Exemption from sales and services provided by administrative services or organizations, except those carried out by public industrial and commercial establishments (PICE/EPIC) or those resembling those performed by a private enterprise.	VAT	147,84
Reduction from 18% to 10% of VAT for services provided by approved tourist accommodation establishments.	VAT	14,81
Exemption from the margins earned by banks on non-manual foreign exchange transactions.	FAT	2,99
Exemption from operations carried out by the BCEAO (Central Bank of West African States).	FAT	2,59
Exemption from interest and commissions on loans and advances granted to the State.	FAT	2,15
Exemption from VAT on life insurance and similar policies.	TT	2,18

Source: DGID, Report on Tax Expenditures

Promoting local public finance in Senegal: strategies for mobilising tax resources to meet the challenges of local economic development (LED) in the communes of Saint-Louis and Kolda¹

Ousmane Ly² and Ulrike Schuerkens³

1 Introduction

This chapter analyses strategies for mobilising tax resources in Senegal, based on two experiments which were carried out in Saint-Louis and Kolda (Commune/City).⁴ This study provides a comparative and critical analysis of these areas, which are genuine testing grounds for observing the dynamics of LED (local economic development) in progress. This enables us to visualise and better grasp the full diversity of practices and experiences in terms of mobilising tax resources in Senegal's regional areas. Since the end of 2012 and until 2023, the innovations brought about by Act III of decentralisation have strengthened the role of local authorities, especially in terms of improving the framework for local governance, increasing the value of local taxation, and promoting LED. The adoption of Laws 2013-10 of 19 December 2013, on the Local Authorities Code, and 2012-31 of 31 December 2012, on the Tax Code, led to the creation of a local tax commission and to a greater involvement of the local executive boards in the local tax collection process, the creation of a framework for dialogue between the various players in the tax chain, and the improvement of local authority revenues. At the same time, the greater flexibility of financing methods has helped to strengthen the economic viability of local authorities, thanks to the introduction of innovative financing methods for local authorities. Innovative financing of local authorities, such as through direct external financing (i.e., via the bond market and public-private partnerships) took off in Senegal.

The main aim of all these innovations and changes has been to introduce corrective measures to boost internal or own-source fiscal revenues and to improve the public services provided to citizens at local levels. Above all, these innovations

¹ We thank the anonymous reviewers for their comments on this chapter and Professor Karl Wohlmuth from the University of Bremen for his many editorial suggestions and for all the support provided during the work for the various drafts.

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⁴ Fieldwork was done for the thesis in sociology submitted by O. Ly in 2019, and it was actualized by another field study in August 2023.

seek to promote balanced economic development based on the level of local territories. The repositioning of local authorities as the key players in development will be an opportunity to inject a new dynamism into the modernisation of local territorial areas. This new framework seeks to break with the traditional context of local finances because, as should be recalled, in Senegal the decentralisation process has always been marked by considerable discrepancies between the powers transferred and the resources available to provide the tasks allocated to them. Indeed, financial resources are characterised firstly by their weakness, secondly by the difficulties associated with their mobilisation, and thirdly by the absence of a framework for dialogue between the different categories of actors in the tax chain (from the household and the firm to the different taxation and governance levels).

Three issues are relevant in this context:

Firstly, the lack of a policy for mobilising local financial resources at local authority level results in inconsistent and often sharp variations in collected revenues from one year to the next, and lead to "fanciful" forecasts that generally result in realisation rates of more than 100%, but sometimes also to insignificant (less than 50%) realisation rates.

Secondly, observed is the persistence of an ineffective organisational framework, reflected in a shortage of high-quality human resources and of substantial material resources. Both deficits matter strongly.

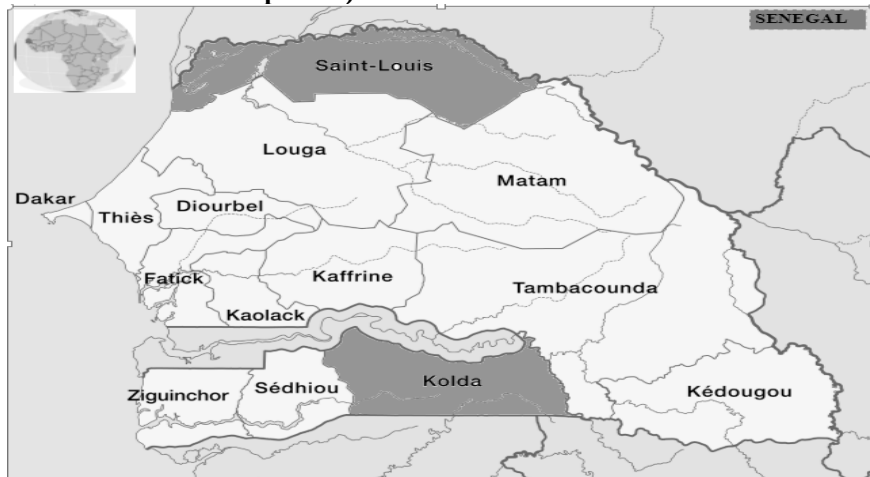
Thirdly, the lack of communication between the authorising offices and officers and those actors who are involved in development means that the budget remains a document that is inaccessible to the various players, especially to the public. Taxpayers are unfamiliar with the texts relating to the mobilisation of resources (payment of instalments, for example), while a great deal of opacity surrounds budget management due to the lack of reporting on the use of taxes and duties paid. These problems have always been a blow to the effectiveness of local taxation in financing local public needs, and for improving local governance and promoting economic growth and investment in communes.

Senegal is a Sahelian country in the extreme west of the African continent, covering an area of 196,712 km² (2024).⁵ The country is known as one of the most stable political entities on the African continent. Since independence in 1960, it has considerably strengthened its democratic institutions. The constitutional referendum held on 20 March 2016 aimed to strengthen the country's political system by shortening the presidential term of office from seven to five years, creating a

⁵ According to the website: <https://www.sng-wofi.org/country-profiles/senegal.html>.

High Council of Territorial Authorities (HCCT)⁶, allowing for independent candidates to take part in all types of elections, and by recognising the official status of the leader of the opposition. Map 1 below shows the two provinces being considered in the analyses of this paper as former regions (Saint-Louis in the north and Kolda in the South). Map 2 shows the departments of Senegal, which are divided into communes.

Map 1: The regions of Senegal, where the two study areas are placed (the communes and municipalities)



Source: Inspired by Africa Map, 2023

Senegal has a low urbanisation rate (48.1% of the population are living in urban areas), and Dakar, the country's capital, stands out from the rest of the country with a density of 7,277 inhabitants per km². Senegal's overall population is currently estimated at around 18,032,473 inhabitants, of whom 8,900,614 are women (49.4%) and 9,131,859 are men (50.6%), according to the latest general population census (ANSD, 2023).

On the macroeconomic front, Senegal posted solid results. Senegal's economic growth slowed in 2022 in a complex context, characterised by strong inflationary pressures, rising global commodity prices, an unfavourable rainfall pattern, and an overall economic slowdown linked to Russia's invasion of Ukraine. After a strong recovery of growth in 2021 to 6.5% of GDP, real GDP growth slowed in 2022 to 4.2%, following a decline in private investment and exports, as well as a

⁶ See also about the High Council of Local Authorities (HCLA), a body intended to bring a new facet to Act III of the decentralisation process in Senegal; Link: <https://www.presidence.sn/en/institutions/high-council-local-authorities>

contraction in industrial production (DPEE, 2023). Public debt increased at an accelerated pace, driven by COVID-19 shock mitigation measures and additional borrowing by state-owned enterprises to finance investment in the oil and gas sector. It reached 69.1% of GDP in 2020, 73.3% in 2021 and 76.6% of GDP in 2022. Global monetary tightening, triggered by inflation following the Russian invasion of Ukraine, has led to higher borrowing costs on domestic and international markets.

Map 2: The departments of Senegal



Source: https://de.wikipedia.org/wiki/D%C3%A9partements_des_Senegal

The outlook is favourable, with anticipations of strong economic activity, reflecting the dynamism of the secondary sector and mainly industrial production. In 2023, economic growth reached 4.7%, driven by a rebound in the secondary sector thanks to the normalisation of international commodity prices, a favourable institutional environment, the use of public-private partnerships to finance public investment, and increased foreign direct investment in hydrocarbon exploitation. Hydrocarbon revenues and revenue mobilisation efforts should help to reduce the budget deficit to 3% of GDP by 2025. However, in the short term, the impact of the war in Ukraine will continue to be felt on the prices of basic foodstuffs, although this will be mitigated by the fall in the prices of basic products produced in

the country. The domestic economic environment will be supported by the revival of structuring investments as part of the continued implementation of the projects and programmes of the PES (Plan for an Emerging Senegal)⁷ which are included in the Adjusted and Accelerated Priority Action Plan (PAP 2A 2021-2023).⁸ The consolidation of the gains made through the implementation of reforms relating to phase III of PREAC⁹, the second phase of the "Compact with Africa"¹⁰, the medium-term revenue strategy (SRMT¹¹), the modernisation of the administration (PAMA¹²), and the development of PPPs (Public Private Partnerships)¹³ will help to maintain the dynamism of economic activity.

In 2023, domestic economic activity was marked by geopolitical tensions, notably the war between Russia and Ukraine in Europe and the security situation in the West African sub-region. It was also affected by social tensions, which prompted the authorities to take restrictive measures that resulted in a slowdown in the supply of services. Overall, economic activity is expected to grow by 4.1% in 2023, compared with 4.2% in 2022. While the services sector grew moderately (+3.9%), the primary and the secondary sectors are expected to record quite different growth rates of 5.7% and 2.8% respectively.

The primary sector (16.5% of GDP, employing 50% of the working population) remains particularly exposed to the vagaries of the weather and the volatility of world commodity prices. The authorities want to develop agricultural activity along the Senegal River, where sugar cane is already grown, with a view to increasing rice production so that Senegal is able to become self-sufficient, and to intensify market gardening for domestic consumption or export. The secondary sector (25.6% of GDP) is based mainly on gold mining, phosphates, cement, agri-

⁷ See about the PES (Plan for an Emerging Senegal): <https://www.presidence.sn/en/pse/presentation>

⁸ See about the planning process in Senegal: <https://www.afdb.org/en/documents/senegal-country-strategy-paper-2021-2025>

⁹ PREAC is the Business Environment and Competitiveness Reform Program for Senegal; see the link: <https://www.senegal-emergent.com/en/reformephare/recovery-of-attractiveness-rankings/>

¹⁰ See about Senegal and "G20 Compact With Africa": <https://www.compactwithafrica.org/content/compactwithafrica/home/compact-countries/senegal.html>

¹¹ SRMT (STRATEGIE DE MOBILISATION DES RECETTES A MOYEN TERME) is designed to assure finance for the PES to contribute by this tool to the economic and social development of the country; link: <https://www.senfinances.org/reformes/srmt/>

¹² PAMA (PROGRAMME D'APPUI A LA MODERNISATION DE L'ADMINISTRATION) has a great role to make the economy more efficient and to support the private sector; see the link: <https://www.fonctionpublique.gouv.sn/Programme-d-appui-a-la-modernisation-de-l-Administration-114>

¹³ The World Bank has supported via its PPPLRC (Public-Private Partnership Legal Resource Center) this instrument to mobilize funding for development; see the link: <https://ppp.worldbank.org/public-private-partnership/country-profile-senegal>

food, and construction. Recent discoveries of oil and gas fields should increase this percentage soon. Tertiary activities (57.9% of GDP, including 20% for public services), in which telecommunications play a predominant role, are still heavily dominated by the informal sector.¹⁴

Economic activity in 2024 should be consolidated by the expected effects of oil and gas production and the various measures to support the national economy as part of the implementation of the priority structuring projects included in the third phase of the Priority Action Plan (PAP 3¹⁵). Continued implementation of the second phase of the MCA-Senegal compact (Millennium Challenging Account Senegal II)¹⁶ would also make a considerable contribution to economic recovery. In addition, the national economy would benefit from the positive spin-offs of restructuring projects in the services sector, notably the deployment of 5G and the commissioning of the Bus Rapid Transit (BRT) and the Express Regional Train (TER) line on the Dakar-International Airport Diamniadio-AIBD axis.¹⁷ Overall, the real GDP growth rate is projected at 9.2% in 2024, compared with a forecast of 4.1% in 2023 (DPEE, 2023). These are high expectations, which may have political reasons in the context of election plans and power games.

Today, Senegal's main development challenge lies in implementing the PES. Despite efforts to improve the quality of public investment, the structural effects of the PES risk falling short of expectations or being delayed by technical constraints or changes in priorities. The acceleration of public investment could compromise fiscal discipline in a context of rising public debt, while private investment could stagnate if the investment climate does not improve quickly enough. As for exogenous risk factors, a faster-than-expected rise in oil and food prices is likely to impact on Senegal's external balance. In addition, the current difficulties encountered by its main trading partners (Europe and China), could lead to a deterioration of Senegal's exports, and could have a negative impact on its international financing position. Rising interest rates within the WAEMU (West African Economic and Monetary Union) could also increase the cost of public debt.

Four points will be addressed in this text: After the introduction in section 1, we present the general framework of our study in section 2. Then, in section 3 the mobilisation of local tax resources in Senegal is analysed, by a look at the history and the system of taxation in Senegal. In the section 4, we present the theoretical framework and the research methodology on the mobilisation of local tax revenues

¹⁴ See: <https://www.diplomatie.gouv.fr/fr/dossiers-pays/senegal/presentation-du-senegal/>

¹⁵ See about the PAP 3 objectives formulated by the main partners: <https://www.senegal-emergent.com/en/the-pse/dad/>

¹⁶ See about MCA Senegal II: <https://mcasenegal.sn/>

¹⁷ See about this infrastructure project: <https://www.boad.org/en/our-financing/projects/regional-express-train-construction-of-infrastructure-and-systems-for-the-diamandio-aibd-section>

in Senegal. In the section 5, we discuss local taxation and local economic development dynamics in the communes of Saint-Louis and Kolda (Commune/ City). Finally, in section 6, we present our general research conclusions, and we also propose policy recommendations.

2 General presentation of the study framework

2.1 Presentation of the Communes of Saint-Louis

At regional level, very small businesses are quite important in Saint Louis. In 2021, 53.9% of all businesses in the region were “very small businesses”. “Small businesses” account for 35.3% of all businesses in the region, while “medium-sized and large businesses” account for 7.8% and 3% respectively (ANSD, 2023). Compared with 2020, there will be a fall of 1.8 percentage points in the share of “very small businesses” and of 0.4 in the case of “large businesses”. At the same time, the share of “small and medium-sized businesses” has increased by 1 and 1.3 percentage points respectively. In 2021, businesses in the formal sector in the Saint Louis region generated a turnover of 231,936,494,150 F-CFA (ANSD, 2023). In 2021, as in 2020, the production of wealth in the Saint-Louis region remained highly concentrated: the industrial sector alone generated more than 90% of the value added (VA) of the modern sector, and almost 70% of the turnover and at least 87% of personnel costs were paid out in the industrial sector. The industrial sector also accounts for around 96% of “Earnings Before Interest, Taxes, Depreciation and Amortization” (EBITDA). The presence of major agribusiness groups may explain this dominance of the sector. The retail sector accounts for almost a quarter of the regional sales but generates only a small proportion of value added (less than 2%), as in the sector are low personnel costs. However, sales in this sector have been rising since 2019. The Building and Public Works (BTP) sector remains the weakest link, making the smallest contribution except in terms of Gross Operating Surplus (EBITDA).

Regional industry appears to consume few inputs (energy, raw materials, spare parts, etc.). Its share of value added is significantly higher (47.1% in 2020 and 45.5% in 2021) than that of other sectors (particularly those whose activity requires few inputs, such as services). However, there was a decline in the share of value added in industry between 2020 and 2021, while the other sectors improved their shares. The added value produced by companies is divided between the various players (public and private) in the economy. A proportion of the value added is therefore used to pay for the factors of production (labour, capital, etc.). In 2021, personnel costs made up 41.5% of the value added, while the state's share (in the form of taxes and social security contributions) and the share of capital (via

gross operating surplus) accounted for 51.6%. The proportion of value added allocated to staff remains very high in the construction (77.9%) and services (86.3%) sectors. Trade and industry follow behind with 57.3% and 46.0% respectively. Compared with 2020, the share of Value Added allocated to staff fell in all sectors, particularly in trade (by 26 percentage points).

Again, according to ANSD data (2023), in the budget year 2021, tax revenue collected by the communes of the Saint Louis region totalled 14,324,998,480 F-CFA. This financial windfall breaks down as follows: F-CFA 4,296,300,504 for the communes in the department of Dagana, FCFA 6,248,834,522 for those in Podor, and F-CFA 3,779,863,454 for those in Saint Louis. The commune of Saint Louis (the regional capital) alone accounted for 18.8% of collections, or 2,688,608,336 F-CFA. It is followed by Richard Toll (11.0%, or 1,575,627,965 F-CFA) and Ndiayene Pendao (3.4%, or 493,158,034 FCFA). By contrast, the communes with the lowest financial resources collected are in the department of Podor. These are Bodé Lao (F-CFA 95,962,471), Aere Lao (FCFA 117,198,759), Guédé Chantier (FCFA 117,134,086), and Walalde (F-CFA 126,587,983). The weakness of the local economic fabric in the department of Podor is due to its very informal nature and the low population density, but these factors partly explain this situation. In relation to the primary budgets (voted), collection rates are higher in the department of Podor (except for the communes of Mbolob Birane, Guédé Village and Ndioum), with performance exceeding 90% in some communes. In the departments of Saint Louis and Dagana, completion rates barely exceeded 50% in some communes (Ndiébène Gandiol, Ross Béthio and Ndombo Sandjiry). In addition, almost half of the communes in these two departments collected less than 70% of the revenue forecasted in their initial budgets. This situation raises the issue of the sincerity of the preparation of the budgets of certain local authorities, and this is not conducive to the proper implementation of the commune's development programmes and projects.

Total expenditure by the communes in 2021 amounted to 8,594,118,173 F-CFA, of which 3,041,471,545 F-CFA was spent by local authorities in the department of Dagana, 3,004,113,770 F-CFA by those in Podor, and 2,548,532,858 F-CFA by those in Saint Louis. As for revenue in the region of Saint Louis, the communes of Saint Louis in the department Saint-Louis (20%) and Richard Toll in the department Dagana (14%) alone account for almost a third of the expenditures. Compared with the overall budget, the rate of implementation (44.6%) is relatively low. More generally, the expenditure implementation rate is below 50% in more than 2/3 of the region's communes. Moreover, this rate is very low (below 25%) in certain communes, such as Ndioum, Demette, Goléré, Gamadji Saré and Médina Ndiatbé. Furthermore, the ratio of expenditure to revenue generated by the communes shows unsatisfactory implementation rates. In fact, more than half of the communes are unable to execute 2/3 of the sums recovered by the treasury

departments. This situation raises the problem of the capacity of some local authorities to spend the funds made available to them, and its corollary is the failure to execute the commune's programmes and projects. Map 3 shows the commune of Saint-Louis by district, and there may be heavy consequences of the low implementation rates. Important projects and programmes may be delayed or will stay unfinished.

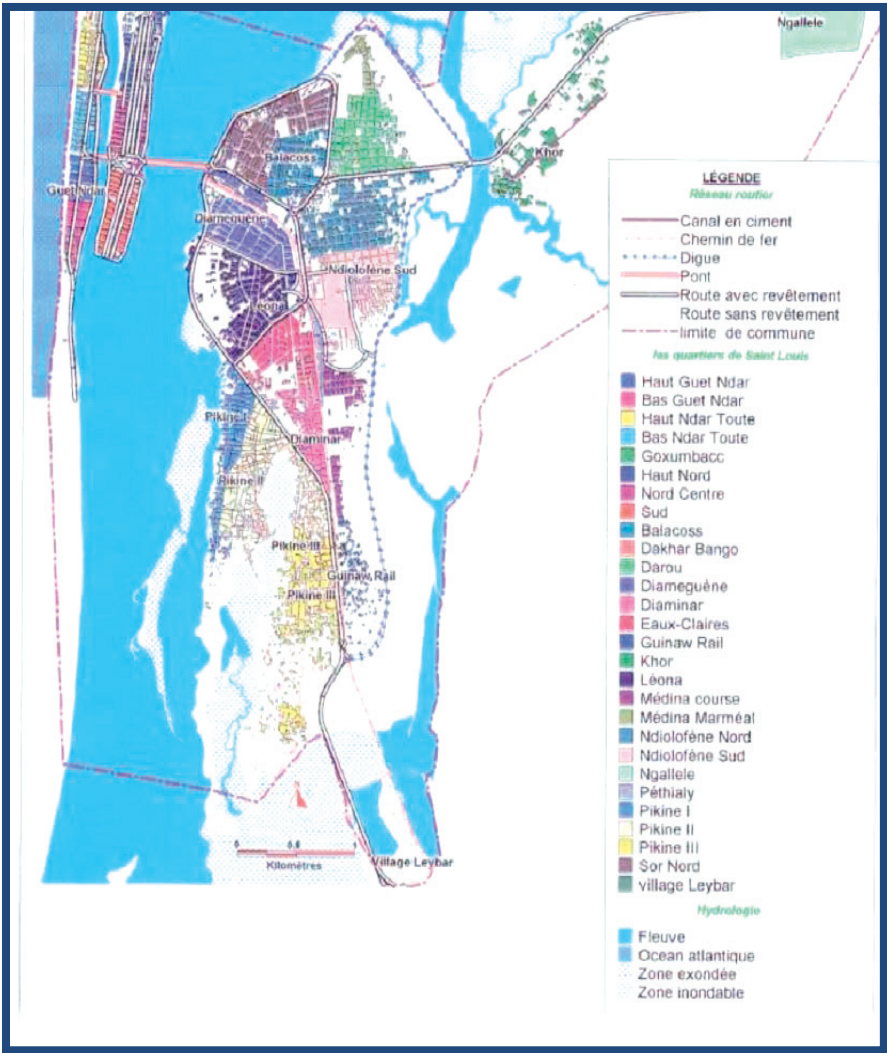
Situated on the northern edge of Senegal, on the border with Mauritania, the town of Saint Louis is 270 km away from Dakar and can now only be reached from the capital by road, after a journey of around 4 hours. From the seafront to Ngallèle, inland, the town of Saint-Louis (Commune/City) stretches over 10 km. Bordering the Atlantic Ocean and being located at the junction of the Sahara Desert and the sub-Saharan bush, the town of Saint-Louis is part of the Sahelian zone. The vast landscape of the river delta in which Saint Louis lies is part of the city's very identity, giving it an extraordinary dimension and strength. Water is omnipresent, the lifeblood of a rich ecosystem. The river delta covers an immense area where the fresh, silty waters of the river merge with the fertile, floodable land at its mouth and the brackish, fish-filled waters of the ocean. It was in the heart of this natural environment that the city was born, first on the island of N'Dar, renamed Saint Louis by the French merchants, then spreading out along the Langue de Barbarie, the last coastal strip, and finally spreading upstream on the large island of Sor, gradually forming an "archipelago city"¹⁸, in symbiosis with the river delta, but always exposed to the excesses of the river and the ocean.

The town's twenty-two (22) districts cover an area of 1,133 hectares, or 24.7% of the municipal perimeter (see map 3 above on the districts). The city has an impressive public and private heritage. Today, Saint-Louis is known for its dynamism in the field of local development (Africities prize, 2001) on the one hand, and for the sustained development of the fishing sector and its reputation for tourism on the other hand. However, the city is currently facing several problems, including high levels of poverty, recurrent flooding, uncontrolled occupation of urban space, heavy dependence on external support, and a lack of control over and exploitation of local resources. Saint Louis is estimated to have a population of 246,767 in 2024, of which 120,718 are estimated to be men (49%) and 126,049 women (51%)¹⁹. Saint-Louis is the fourth largest city in Senegal after Dakar, Touba and Thiès. If the current rate of population growth, which is estimated at 2.4%, continues, the city's population should double by 2030.

¹⁸ "Archipelago City" is an important concept related to the planning and the future of cities; see the link: <https://fcl.ethz.ch/research/fcl-phase2/archipelago-cities.html>

¹⁹ According to the website dedicated to global population data; link: <https://fr.zhujiworld.com/sn/1231326-saint-louis/>

Map 3: Saint-Louis by districts



Source: Municipal Development Agency (MDA) Saint-Louis, 2023

It should be noted that the Urban Development Plan²⁰ assumes a much higher growth rate of 4% up to 2025, which extrapolates to almost 500,000 inhabitants by 2030.

It is worth highlighting the wide variations in density between the different neighbourhoods (see map 3), one of the characteristics of the urban fabric: on the Langue de Barbarie, the fishermen's neighbourhoods have 45,950 inhabitants²¹ on an area of around 70 ha, giving a very high density of over 650 inhabitants per hectare. In the Guet N'Dar district, the most densely populated, there are up to 8 families per 150 m² and 15 people per room. In these extremely dense conditions, the street becomes the space for daily life and domestic chores, shared by the community of fishermen. The island of Sor, on the other hand, has a population of 85,347, but offers significant potential for densification. The average density for the town is estimated at 232 inhabitants per hectare. One of the main assets of Saint Louis is its position on the border, both naturally as a seaport, geographically between desert and savannah, and administratively between Senegal and Mauritania. Since its foundation, the city has been irrigated by commercial and migratory flows, becoming the point of convergence of caravans from the desert, convoys sailing on the river, the sea routes of European traders and colonisers, the tracks along the West African coast, and during the 20th century it became the railway line to Dakar and the first commercial air links. Saint Louis has always had the status and the economy of a cosmopolitan, international city, open to the world - essential qualities in this age of globalisation.

The inclusion of the Island of Saint Louis on UNESCO's World Heritage List in 2000 boosted the city's international reputation, making it a world-class tourist destination. The presence in the delta of the Djoudj nature park, ranked as one of the world's most beautiful ornithological sites, the richness of its secular and cosmopolitan culture and its fishing traditions, the quality of its seaside resorts, the proximity of the desert and the new cruise opportunities offered on a mythical river, all add to the many attractions of an area that has many assets to become a first-rate tourist destination, benefiting moreover from a modern airport accessible to charters. Sea fishing is the town's main economic activity and has always been a major component of its identity. Organised into family structures, the fishermen of Saint Louis own more than 3,000 pirogues, ranging from 10 to 25 metres in

²⁰ See about the urban development plan for Saint-Louis; link: <https://www.idom.com/en/project/sustainable-city-and-urban-development-plan-for-saint-louis/>

²¹ ADM/Agence De Développement Municipal, Rapport d'enquêtes socioéconomiques des populations de la Langue de Barbarie implantés dans la bande des 20 mètres sur 3,5 km, Février 2018. Rapport Final, Avril 2020; link: <https://documents1.worldbank.org/curated/en/563401588360092073/pdf/Plan-dAction-de-R%C3%A9installation-de-la-Langue-Barbarie.pdf>

length, each with a crew of 10 to 20 sailors. Eight ice-making factories are present to meet the needs of the 500 pirogues that set sail every day. However, there is no on-site freezing capacity, and the only access road to the Langue de Barbarie means that some 70 lorries and many cars loaded with fish must pass through the town centre every day (and smell) as they cross the Faidherbe bridge. Unloading the fish, which is nowadays concentrated on the river side, is still rudimentary and involves simply unloading the fish by hand on the riverbank. The small river port recently built at the Hydrobase Saint-Louis²² is not an appropriate response: its quay is used neither by fishermen nor by women, no doubt because of its remoteness and the fact that it is ill-suited to the local small-scale fishing boats.

Saint Louis also boasts the Université Gaston Berger²³, founded in 1990 on a vast campus in the north-east of the city, close to the airport. Second only to Dakar in terms of higher education, this renowned university now welcomes almost 10,000 students from all over Senegal and abroad.

The construction of two dams on the Senegal River, the Manantali dam in Mali and the Diama dam in the north of Saint Louis, by the riparian states belonging to the OMVS (Organisation pour la Mise en Valeur du fleuve Sénégal)²⁴, ensures significant electricity production thanks to an 800 GWh/year hydroelectric power station at Manantali, as well as the regulation of the river's flow to maintain a minimum flow for crops and to improve the river's navigability during periods of low water. The main function of the Diama dam is to prevent brackish water from rising from the delta above Diama, a phenomenon known as the salt tongue, and to prevent salt from sterilising the fertile soils of the valley. These major developments, completed in 1988, have enabled thousands of hectares to be irrigated and intensive crops to be grown near Saint Louis, including sugar cane, tomatoes, onions, and rice. However, the city benefits very little from processing these crops, most of which flows directly to Dakar.

Tax revenues play an important role in promoting local development in the commune of Saint-Louis. It accounts for 40-50% of the municipality's income. They help to improve the quality of life and the upkeep of the commune, as well as promoting the town's economic growth. The commune of Saint-Louis has real assets in terms of resources. These include a range of revenues that the municipality can exploit and manage, and which can provide reliable investment in the city. This applies to communal land, operating income and taxes and fees (see table 1).

²² See about the history of the Hydrobase Saint-Louis for air traffic between France and Africa; link: https://de.wikipedia.org/wiki/Hydrobase_Saint-Louis

²³ See the website of this university in Saint-Louis: <https://www.ugb.sn/>

²⁴ See about OMVS: <https://www.omvs.org/>

Table 1: Operating revenue for the Commune of Saint-Louis (City) over the period 2019 - 2021

Type of Revenue/Type of Tax	2019			2021		
	Forecasts	Recovery	Rates	Forecasts	Recovery	Rates
CHAPTER 70: Operating income	222 841 500	62 578 117	28,08	203 089 992	89 432 594	44,04
CHAPTER 71: State revenues	552 744 000	346 910 800	62,76	581 672 338	356 246 678	61,25
CHAPTER 72: Local Taxes	810 225 000	513 282 398	63,35	851 409 489	444 881 451	52,25
CHAPTER 73: Municipal Taxes	285 374 731	190 358 361	66,70	284 257 064	207 784 488	73,10
CHAPTER 74: Miscellaneous Income	40 076 672	49 245 387	122,88	46 849 872	54 312 669	115,93
CHAPTER 75: Operating Grant	95 000 000	95 000 000	100,00	98 000 000	98 000 000	
CHAPTER 76: Repayment/ Participation	2 700 000	0	0,00	52 700 000	50 000 000	94,88
TOTAL	2 009 297 658	1 257 375 063	65,68	2 122 372 756	1 300 657 880	65,88

Source: Survey data for the Commune of Saint-Louis, 2023

The Commune's operating revenue has risen from F-CFA 1,257,375,063 in 2019 to F-CFA 1,300,657,880 in 2021, at a constant growth. This amount is mainly driven by local tax revenues, which make up the largest contribution with 444,881,451 F-CFA in 2021. This is followed by state revenues (356,246,678 F-CFA) and municipal taxes (207,784,488 F-CFA) in the same year. On the other hand, income from reimbursements/participation and miscellaneous income contribute the least to the Commune's operating income, with F-CFA 50,000,000 and F-CFA 54,312,669 respectively in 2021. However, it must be said that the Commune's operating revenues are not yet being sufficiently exploited, as shown by the still too low collection rates and the very wide gap between forecasts and actuals. Also, the investment revenues have to be considered (see table 2).

We note above all the difficulties associated with the collection of investment income in the Commune of Saint-Louis (see table 2). They are particularly marked by their occasional nature. The amounts vary considerably from one budget year to the next, which completely distorts the forecasts (55,000,000 F-CFA in forecasts and 65,283,315 in actuals in 2020, or 0 F-CFA in forecasts and 26,000,000 in actuals in 2021). This situation is severely hampering the implementation of the Commune's budget. In addition, the amounts recovered are low compared with the Commune's investment needs. The "other subsidies" were only collected in 2019 and 2021, again for relatively small amounts (F-CFA 60,000,000 and F-CFA

25,000,000). This low level of investment income forces the municipality to make financial movements to balance the budgets. These represent, to a large extent, the bulk of the Commune's investment revenue contributions.

Table 2. Investment revenue in the commune of Saint-Louis (City) between 2019 and 2021

Wording	2019			2021		
	Forecasts	Recovery	Rates	Forecasts	Recovery	Rates
Fond de Concours de LAEF		9 000 000		0	26 000 000	
Other grants	0	60 000 000		0	25 000 000	
Tax loss carried forward	0			26 000 000		
Financial movement	0	39 568 545		420 377 202	102 231 398	
TOTAL	0	108 568 545		446 377 202	153 231 398	

Source: Survey data, 2023. **Note:** Concerning the forecasts, they refer to extraordinary revenues and their allocations to the municipalities are rather random. They depend on an evaluation by the Central State. So, most of the Communes just put 0 as a forecast during the budgetary vote so as not to create budgetary problems at the time of execution.

Since the advent of Act 3 of decentralisation, the Commune has been working hard to mobilise its local resources. Through the "urban governance and local taxation" project, with the NGO "Le Partenariat"²⁵ as the main operator, various initiatives are noted in the Commune, such as the introduction of tax forms and the creation of mechanisms for the discussion between local authorities, the commissioners, the people, and other stakeholders. The aim of this policy is to enable municipalities to capture the tax resources they need to finance some of their projects. The local tax commission is an essential element of the governance established by Act 3 of decentralisation. Its aim is to territorialise public policies. In addition to the subsidies/transfers paid by the State to the local authorities, the issue of innovative financing is becoming more and more a reality, especially with the tool of Public-Private Partnerships (PPP), which can enable town halls and departmental councils to carry out structural projects. For this reason, this new mechanism is so important for raising local revenue. It places the players (the State, the partners, and the people) at the heart of the fiscal management process, in a transparent and inclusive approach to taxation.

The main problem facing local authorities is their inability (due to a lack of high-quality human resources) to explore all the opportunities for increasing local taxes. For the players/stakeholders involved, the development of local authorities

²⁵ See about this NGO: <http://pfongue.org/Le-Partenariat-43.html>

requires a degree of autonomy, and the tax resources that are generated will provide more predictable and sustainable funding. The creation of viable, competitive, and growth-generating territories, as stipulated in the General Code of Local Authorities²⁶, requires the financial autonomy of communes, which must above all exploit the opportunities offered by local taxation. However, the restrictive nature of the State's framework for these revenues, the obsolete nature of their tax rates, the lack of optimum coverage of the tax base, the lack of technical, financial and human resources being capable of supporting the mobilisation of local revenues, the lack of fiscal civic-mindedness in the city, and the inadequacy of communication tools in the context of awareness campaigns, significantly limit the scope of these resources and place the local authority in a situation of dependence on external funding. These factors are currently weakening local resource mobilisation; the local communities are therefore underperforming in terms of meeting the city's investment needs.

2.2 Presentation of the Commune of Kolda

At regional level, the Regional Statistics and Demography Service registered 1,241 establishments in 2021, as in 2020. In 2021, nearly 60% of registered businesses were sole proprietorships and 21.1% were Economic Interest Groupings (EIGs). The spatial distribution reveals that more than a third of businesses are in the department of Kolda (67.5%), compared with less than a quarter in Vélingara (23.7), and less than a tenth in Médina Yoro Foulah (8.8%) (ANSD, 2023). In Kolda (region), the typology in terms of the size of formal businesses is essentially made up of small businesses or very small businesses in both 2020 and 2021, with around 97 of formal businesses in these categories. The typology of formal businesses is the same in 2020 and 2021. In fact, the region's formal businesses are very small businesses (60.0) and small businesses (36.5), compared with a few medium-sized businesses (3.5) and no large businesses (0.0). The same typology is observed in 2020. The analysis of value added reveals the rate of formal businesses in the region: for a sale of 100 F-CFA, approximately 33 F-CFA of value added is generated in 2020 (33.3) and 2021 (33.4).

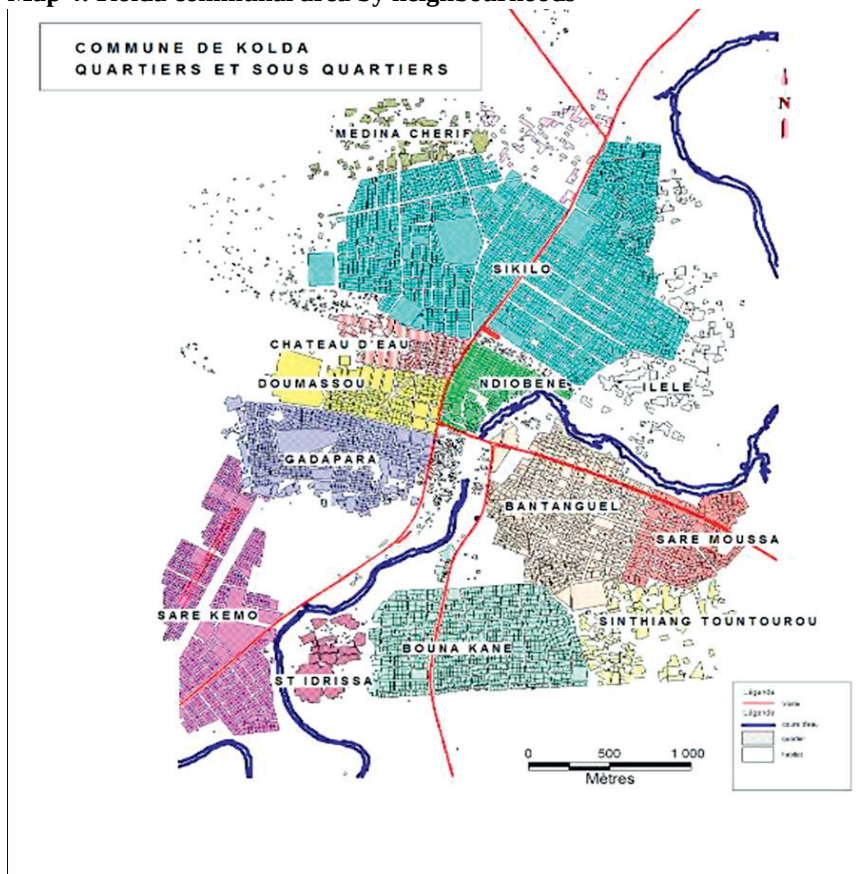
This situation in regard of the “value added” share varies according to the sector of activity, with virtually the same structure in 2020 and 2021. Trade (39.9 in 2020 and 40.0 in 2021) and “other services” (44.2 in 2020 and 44.2 in 2021) account for more value added than construction (21.2 in 2021 and 2021) and industry (12.6 in 2020 and 2021). The turnover of formal businesses is estimated at F-CFA 11,850.1 billion in 2021, essentially generated in trade (10,389.5) and close

²⁶ See about this Code: <https://www.sec.gouv.sn/publications/lois-et-reglements/code-general-des-collectivites-locales>

to 90 % of the total turnover is generated by formal businesses in the region. Compared with 2020, sales are up by 740.5 billion in 2021. The gross operating surplus of formal businesses increased by 9.2 billion, rising from 175.9 billion F-CFA in 2020 to 185.1 billion F-CFA in 2021, with the industrial sector recording a gross surplus deficit (-8.7 in 2020 and -9.1 in 2021). In addition, the overall staff costs of formal businesses will have increased by more than a quarter (26.2) and value added by more than a third (35.4) in 2021.

Local taxes, grants and subsidies, and resources from decentralised cooperation are just some of the sources of funding for local authorities. These revenues fall into two main categories: operating revenues and investment revenues. In 2021, the total amount of operating revenue combined is estimated at F-CFA 3,574,257,151 in 2020 compared with F-CFA 4,066,385,485 in 2021. An analysis of the breakdown of revenue by department in 2021 shows that the department of Kolda accounts for the largest share (42.2%), followed by Vélingara (38.0%) and Médina Yoro Foulah (19.8%). Local authority expenditure is made up of operating and investment expenditure. In Kolda, the volume of local authority operating expenditure combined has risen from F-CFA 2,744,154,273 in 2020 to F-CFA 693,727,619 in 2021. The breakdown of expenditure by department is very similar to that of revenue, with the department of Kolda accounting for 41.2% of expenditure, Vélingara 39.4%, and Médina Yoro Foulah 19.4% (see maps 1 and 2). In the following map 4 there is a presentation of Kolda communal area by neighbourhoods.

Situated in Upper Casamance, the Commune of Kolda (City) developed on the banks of the river Casamance at the beginning of the 20th century, as a trading town and headquarter of trading houses. It lies at the southernmost tip of Senegal and is largely isolated from the rest of the country. Kolda is mainly accessible via national roads No. 4 and No. 6: it is 465 km from Dakar, the country's capital, 189 km from Ziguinchor, 88 km from Sédhiou, and 223 km from Tambacounda. The city is also landlocked in relation to neighbouring countries, what has a negative impact on the level of trade with the sub-region (Gambia, Guinea-Conakry, and Guinea-Bissau). The roads linking Kolda to neighbouring countries consist of dirt tracks of poor quality. The region's road infrastructure consists of 2,181 km of roads, of which only 500 km (23%) are surfaced. These roads consist mainly of Route Nationale No. 4 (RN4), which passes through the northern part of the Sédhiou department, and Route Nationale No. 6 (RN6), which links the towns of Ziguinchor-Kolda-Vélingara and Tambacounda in an east-west direction. This road, which has a strong structural role for the region, has the disadvantage of being off-centre. In terms of hydrography, the town of Kolda is located on the land levees bordering the Casamance River and flood depressions. The river crosses the town from north-east to south-west, dividing it into two parts.

Map 4: Kolda communal area by neighbourhoods

Source: Kolda Regional Development Agency²⁷, 2023

The current municipal perimeter is that set by decree no. 886 APA of 6/02/1952²⁸. It is made up of a 3 km square with the Abou Diallo bridge at its centre. It covers

²⁷ See: Agence régionale de développement de Kolda (ARD); link: <https://m.facebook.com/people/Agence-R%C3%A9gionale-de-D%C3%A9veloppement-de-Kolda-ArdK/100078819317167/>

²⁸ Link to APA (African Press Agency) News: <https://apanews.net/senegals-constitutional-court-reinforces-its-role-in-the-balance-of-powers/>

an area of 9 km². At present, this communal perimeter has been largely overtaken by galloping urbanisation. This poses spatial and legal constraints on the expansion of the town. However, the Commune extends into its hinterland. Since 1989, when the Urban Master Plan (PDU/Plan directeur d'urbanisme) was drawn up²⁹, the town has comprised six official districts: Doumassou, Gadapara, Sikilo, Bantagnel, Bouna Kané and Saré Moussa. According to the zhujiworld website³⁰, devoted to global demographic data, the population of the city of Kolda in 2024 is estimated at 95,409 people, of which 46,674 (49%) will be men and 48,735 (51%) women. Today, the population of the commune is estimated to be close to 100,000 people, due to immigration caused by the conflict in Lower Casamance and the political turbulence in Guinea- Conakry and in Guinea- Bissau. This population and housing dynamics means that the municipality needs to find new areas to satisfy the high demand for housing plots. But the possibilities for extending the municipal perimeter are limited by the legal and spatial constraints involved. The town of Kolda is dominated by Fulani and Mandingo people. There are also Wolofs, Diolas, Soninkés, Mancagnes and Balantes. There is a tiny minority of Kognakii and Bassari. The main religions are Islam and Christianity, and their followers live in perfect harmony. The Escale (central district) is the original core of the town. Between 1960 and 2020, the population grew at an average annual rate of 5.8%. This rate of growth is high because of the problems of the war in the neighbourhood countries, which caused many people to flee the cities to escape army recruitment. The city has become an attractive place to live, with many migrants from Guinea-Conakry passing through or settling there.

An analysis of the population structure by age shows that the 16-34 age group accounts for more than 50% of the total population of the municipality. This makes it that a young population is living in the town. The gender structure shows that the sex ratio is in favour of men, unlike in most other towns of Senegal. In fact, the sex ratio (the number of men for every 100 women) is 105%. This gender imbalance can be explained by the low level of emigration, which in other secondary towns is much higher among men. Added to this is the city's border location, which makes it a destination for male migrants looking for work or escaping recruitment and war in other countries.

The city of Kolda plays several roles at regional, national, and sub-regional level. At the regional level, the city acts as a focal point for its hinterland through the transport system, industry, administration, trade, education and training, and health. At the national level, Kolda (City) plays an important role in the supply of

²⁹ See on the process of planning: https://www.pseau.org/outils/ouvrages/ede_onas_plan_directeur_d_assainissement_de_la_ville_de_kolda_au_senegal_2017.pdf

³⁰ According to the website dedicated to global demographic data: <https://fr.zhujiworld.com/sn/1234028-kolda/>

wood and non-wood forest products, like honey, and livestock (Ndama breed³¹). On a sub-regional level, the regional hospital is helping to improve access to healthcare for the Bissau-Guinean population who comes here for treatment.

The Commune's agricultural, pastoral, and forestry resources are all valuable assets. Although Kolda is an urban commune, direct farming by the local population is a reality. Many people living in the town of Kolda still have strong ties to the villages where they come from and continue to farm plots of land there and keep livestock of varying sizes. The main food crops are maize, millet, sorghum, and rice. For cash crops, people grow groundnuts and cotton. Farming takes place mainly on the land of the surrounding rural communities (Dioulacolon, Saré Bidji, Bignarabé) and on the land of the Centre de Recherche Zootechnique (CRZ³²). As everywhere in the region, agriculture is suffering from insufficient production due to falling yields. According to local people, this is due to the extensive nature of production. Women grow market garden produce on the banks of the Casamance river. At present, with the river drying up early, women are developing market garden plots in the major riverbed. The main crops are oiselle, okra, chilli peppers, tomatoes, and so on. The women do not have any market-gardening areas, specially set aside for this purpose, yet the market is real. In addition to peri-urban production, the Kolda market is used to sell market garden produce from villages in neighbouring villages. This market contributes to improving the nutritional quality of the population, as well as generating municipal revenues through the taxes collected on trade in produce.

Livestock farming is an important activity in the commune of Kolda. It is practised by everyone. The rural nature of the commune explains the development of this activity. Livestock includes large cattle, small ruminants (sheep and goats), and pigs. Cattle are traditionally reared in the hinterland, i.e. in the surrounding rural communities. Small ruminants and pigs are more common in peri-urban areas. Pig farming is practised by the Mancagnes³³ and the Balantes³⁴.

Crafts are an activity that is developing in the city and playing an important role in the economic fabric. Crafts are part of the informal sector. They include textiles and sewing, food, mechanics, construction, arts and crafts, blacksmithing, and various repairs. It is practised around markets and in neighbourhoods. The categories of craftwork in which the population engages are art crafts (pottery,

³¹ See about this breed from West Africa: <https://en.wikipedia.org/wiki/N%27Dama>

³² See about the CRZ-K/Centre de Recherches Zootechniques de KOLDA: <https://www.facebook.com/crzkolda/>, and: <https://www.youtube.com/watch?v=RIaOUeHhKzA>

³³ See about this ethnic group: <https://fr.wikipedia.org/wiki/Mancagnes>

³⁴ See about the ethnic group of the Balantes and about other ethnic groups in Senegal: <https://www.bouelmogdad.com/ethnic-groups-and-religions/>

sculpture, and painting), utilitarian or production crafts (carpentry, welding, tapestry, sewing, etc.), and service crafts (mechanics, plumbing, bricklaying, laundry, car mechanics, bicycles, motorbikes, etc.). Craftspeople have infrastructure to support training and production: a craft village, a regional crafts centre, a tool house, and a regional multi-purpose training centre, but the craft village is not functioning currently.³⁵

Tourism in Kolda is essentially geared towards hunting tourism, which benefits from the region's abundant wildlife resources. Tourism is seasonal, lasting around 6 months. There are four (4) hotels (Firdou Hotel, Hotel Hobbe Chasse, Hotel Relais De Kolda, and Hotel Moya). Despite efforts by hoteliers to expand, the capacity of the reception facilities is still low. Despite this, the town of Kolda has the potential to become a major tourist centre (circuits to Gambia and to Guinea-Conakry), thanks to its forest resources, wildlife, and cultural diversity.

Poultry farming is practised in two forms: traditional and modern. For modern poultry farming, the women, with support from DIRFEL Kolda (Directoire Régional des Femmes en Elevage de Kolda³⁶), run a poultry complex in the Bouna Kane neighbourhood. As well as producing poultry on site, the complex provides access to chicks and feed for women members of the board and affiliates. Many of the women are well trained in veterinary techniques. Elsewhere, several of them have become veterinary auxiliaries. This has enabled them to complete the poultry projects they manage either collectively or individually with the support of DIRFEL. Livestock farming is exploited and developed through trade in animals and the processing and preservation of milk. Together with Agronomes et Vétérinaires Sans Frontières (AVSF³⁷), the women run a dairy processing unit. Alongside this unit, there are several MPEs (microentreprises et petites entreprises) in the commune which are involved in processing and adding value to dairy products. SODEFITEX³⁸ also supports the peri-urban dairy belt, which supplies most of these units. The commune of Kolda has eight processing units dedicated to this product, and an inter-professional committee of local milk sector players (CINAFIL/Comité Interprofessionnel des Acteurs de la Filière Lait Local)³⁹.

Industry is present through the cotton ginning plant which was set up in the town by SODEFITEX. The factory plays an important role in the economic and social fabric of the town through the jobs it creates. 80% of the seasonal staff come from the commune of Kolda. On the social front, SODEFITEX is committed to

³⁵ See about the artisanal workers and the guilds as guardians of crafts traditions in Senegal: <https://www.icwa.org/artisanal-guilds-senegal/>

³⁶ See about DIRFEL: <https://dirfel.org/>

³⁷ See about AVSF: <https://www.avsf.org/>

³⁸ See about SODEFITEX: <https://sodefitex.sn/>

³⁹ See on the role of CINAFIL: <http://www.iedafrique.org/Le-role-des-organisations.html>

supporting cereal production through its support activities: technical training, literacy, and management training. Women, through their groups, are the main beneficiaries of these activities. SODEFITEX has also invested in setting up the Kolda dairy belt. In addition to SODEFITEX, Kolda has an electricity production unit. What needs to be emphasised here is the city's very low level of industrialisation, which severely limits job creation opportunities for young people.

The mobilisation of local resources is now a fundamental issue in the Commune of Kolda. When it comes to development, taxes and the economy are inextricably linked. However, despite its strong potential in terms of resources, the Commune of Kolda is marked by an endemic weakness in its economy: no industry, production activities are largely informal, jobs and incomes are insecure, and there is only a limited capacity to produce wealth. This has a major impact on the level of local economic development (LED) and on the Commune's ability to adequately meet the basic needs of the local population. Commercial facilities and the provision of local public services are very inadequate in the town in relation to the ever-increasing demand.

In the Commune, the budget is essentially funded by ordinary revenue (taxes, local levies, and income from the rental of commercial infrastructure) and by extraordinary revenue made up of funds from the State (decentralisation endowment fund) and from development partners. The “decentralisation endowment fund” enables the municipality to assume responsibility for the transferred functional areas of education, health, culture, youth, and sport.⁴⁰ In terms of the budget implemented, investment income makes a significant contribution to the local authority. These revenues come from endowments and grants. Tables 3 and 4 give evidence on the operating revenue and the investment revenue for the Commune of Kolda.

Revenues have not really changed over the last five years (see table 3). Instead, there is a significant drop from 2019 onwards, from F-CFA 472,731,442 to F-CFA 399,839,408 in 2020, before rising slightly in 2021 to F-CFA 419,555,634. In this case, it is mainly state revenue that will contribute the most - from external sources - to the Commune's budget, with 114,030,256 F-CFA in 2021. This confirms the city's character of many young people living there. They are closely followed by operating grants with 98,000,000 F-CFA. The commune is genuinely dependent on these funds, as it can never do without these, what is significantly limiting its financial autonomy and its ability to provide the basic minimum services. Local taxes are the third largest contributor, with 77,993,448 F-CFA.

⁴⁰ See about the principles governing the “decentralisation endowment fund” and other sources and funds according to Decentralisation Act III; link: https://www.presidence.sn/en/newsroom/the-main-principles-of-decentralisation-act-iii_2860

Table 3: Overall summary of operating revenue for the Commune of Kolda (City) over the period 2019 - 2021

Type of Revenue/Type of Tax	2019			2021		
	Forecasts	Recovery	Rates	Forecasts	Recovery	Rates
CHAPTER 70: Operating income	146 500 000	28 894 600	19,72	146 500 000	38 856 411	26,52
CHAPTER 71: State revenues	186 100 000	106 355 200	57,15	182 387 670	114 030 256	62,52
CHAPTER 72: Local taxes	149 500 000	121 649 564	81,37	224 500 000	77 993 448	34,74
CHAPTER 73: Municipal taxes	45 550 000	6 206 816	13,63	45 819 920	36 541 126	79,75
CHAPTER 74: Miscellaneous IN-COME	344 329 713	55 872 278	16,23	275 014 050	51 698 649	18,80
CHAPTER 75: Operating grants	95 000 000	95 000 000	100,00	98 000 000	98 000 000	100,00
CHAPTER 76: Repayment/Participation						
TOTAL	1 025 732 697	472 731 442	46,09	974 657 354	419 555 634	43,05

Source: Survey data for the Commune of Kolda, 2023

As in Saint-Louis, here again we note the very low level of return-on-investment revenue in the Commune (see table 4). LAEF assistance funds have increased significantly from 2020 onwards, with an amount of 25,000,000 F-CFA for 2020 and 26,000,000 F-CFA in 2021. Other assistance funds are characterised by their very occasional nature in the Commune. Their recovery also has increased between the 2019 and 2020 periods, with 18,000,000 F-CFA for 2019 and 41,307,700 F-CFA for 2020 respectively, before falling sharply in 2021, with only 13,342,500 F-CFA realised. The Commune derives most of its investment revenue from financial movements.

However, it should also be noted that, unlike for Saint-Louis, here in Kolda it is operating revenue that comes last in terms of contributions to the municipal budget, with only 38,856,411 F-CFA. The Commune has no major infrastructure,

and its capacity to provide local services is very limited. In the same vein, there seems to be little control over taxation, with a base that is too small and with a very low tax yield, a collection rate that varies around 40%, and a very wide gap between forecasts and actual figures. There is also a real problem with the collection, due to a shortage of staff in the tax and treasury departments (one agent for 47 Communes!), there is a low level of civic-mindedness reinforced by the low level of investment in the Commune, and there is the low social development level of the population.

Table 4: Development of investment revenue in the commune of Kolda (City) between 2019 and 2021

Type of Revenue/Type of Income	2019			2021		
	Forecasts	Recovery	Rates	Forecasts	Recovery	Rates
Fond de Concours de LAEF ⁴¹	0	9 000 000	100,00	26 000 000	26 000 000	100,00
Other grants	0	18 000 000	100,00	0	13 342 500	100,00
Financial movement	404 287 078	77 000 000	19,05	303 750 809	39 617 000	13,04
Tax loss carried forward	1 077 298	1 077 298	100,00	39 612 566	39 612 566	100,00
TOTAL	405 364 376	105 077 298	25,92	369 363 375	118 572 066	32,10

Source: Data from the survey for the Kolda Commune, 2023

Other budgetary constraints on the municipality have been identified, such as the council's lack of initiative in identifying niches and mobilising potential resources. As a result, potential niches, such as taxes on companies (e.g. telephone operators, LONASE⁴², and some “financial structures” for servicing the tax system⁴³), impound fees, the (still undeveloped) property tax, licences, and the rental of gargotes (these are small and cheap eating places) and restaurants, are not being exploited. In addition to these untapped niches, there are other niches that are only marginally

⁴¹ LAEF is the abbreviation for Local Authorities Equipment Fund, created in 1977. LAEF is intended to ensure investments at the municipal level. In Senegal, local authorities' revenues are organized into Chapters according to their nature (investment - operation), category or form.

⁴² See about LONASE (Loterie Nationale Sénégalaise); link: <https://www.lonase.sn/>

⁴³ In Kolda, the “financial structures” are the same as in all municipalities: the tax base office of the town hall, the municipal revenue and collection services, the treasury office, the tax and property services, and the Chamber of Commerce.

exploited, such as the minimum tax/impôt minimum (IMF4), taxes for occupying the public domain (OPD), etc.

With regard to the constraints on the mobilisation of the commune's tax revenues, we can note the low level of collection of budgetary resources, the lack of involvement of councillors in the mobilisation of budgetary resources, the absence of huts for the collection agents, the inadequacy of the operating resources of the tax departments, the low level of tax civic-mindedness linked to the lack of communication on the importance of the tax, the difficulties of access to buildings and markets due to the inadequate level of development of the market, the lack of security for collection agents, the inadequate organisation of the city's collection system, etc.

3 Mobilising local tax resources in Senegal: A look at the History and the System of Taxation

Local taxation in Senegal today is taking place in a context marked by the decentralisation of public authorities, which has led to extensive local development planning at national level and at all governance levels. Senegal was one of the very first experimental laboratories for the decentralisation of governance in West Africa (see table 5 for the significant stages in decentralisation).

Table 5: Significant stages in decentralisation in Senegal

Law	Strategic areas
Law of 13 August 1926	Introduction of a few taxes for the benefit of local authorities on circles, societies, and meeting places, on paid admissions to racecourses, velodromes and autodromes, and on nightclubs.
Law of 18 November 1955	The main resources provided for in the previous law have been taken over, and the law sets out the main taxes and levies that municipalities may create. The desire to provide local authorities with the resources they need to operate was illustrated by the creation of annual tax reductions. These initially benefited the communes.
Law no. 61-17 of 10 March 1961	The law will determine the method of payment of the quotas and the quality of the taxes to be paid to the communes (85% of the minimum tax, patents, and licences, and 70% of the property tax).
1960	Full municipality status is extended to all municipalities.
Law no. 66-64 of 30 June 1966	Creation of the Code de l'Administration Communale, which definitively established the status of communes in Senegal by specifying the organisation, operation, and tasks of communes. This Code brought together, in a single reference text, the various laws governing the communal institution.

Law no. 67-0021 of 28 February 1967	Law on the repayment of part of the direct taxes collected on behalf of the State, modified by the law n° 69-034 du 19 Junr1969.
Law no. 69-54 of 16 July 1969	This law established the general status of the municipal civil service.
Law no. 72-25 of 25 April 1972	Law creating rural communities. Decentralisation reached the rural world: a major step forward in the decentralisation process.
Law no. 72-59 of 12 June 1972	With the creation of the rural community, a rural tax was introduced and paid to the rural community (implementing decree no. 72-699 of 16 June 1972). However, to enable the new community to function and meet the aspirations of the rural population, the quotas will be paid to it (100% of the collections on its territory in respect of minimum tax, business tax and its supplements, and the licence duty, as well as 25% of the property tax on built-up properties). They will be entitled, at the same time as the communes, to rebates on the proceeds of taxes on animals (law no. 72-60 of 12 June 1972).
Law no. 72-52 of June 1972	The municipality's resources have been enhanced by the levying of the household waste collection tax, provided for in article 156 of the municipal administration code, which sets the maximum rate and determines the assessment and the collection procedures.
Law no. 78-24 of 21 June 1978	Other rebates have been granted on fractions of the property tax on built-up and non-built-up properties (application decree no. 79-323 of 9 April 1979).
Law no. 79-60 of 25 June 1979	This vertical tax equalisation also concerned investment, with the introduction of a levy on taxes and turnover for the benefit of the Caisse d'équipement des collectivités locales. This has made it possible to consolidate and to strengthen the resources earmarked for local authorities.
Law no. 83-60 of 03 June 1983	The introduction of a schedular tax on property income (implementing decree no. 85-319 of 25 March 1985).
Law no. 90-35 of 8 October 1990	The law again amended the Code de l'administration communal and created a particular status for communes. Law 90-37 of the same date removed the management of rural communities from the hands of sub-prefects and placed it in the hands of the presidents of rural councils.
1994	A new local authority has been created, in this case the Region.

Law no. 96-06 and law no. 96-07 of 22 March 1996	The policy of decentralisation was enshrined in Senegal through the adoption of fundamental texts on decentralisation and regionalisation by the National Assembly (six laws and 22 decrees). Law 96-06 of 22 March 1996 on the Local Authorities Code: This reform of decentralisation marks a decisive stage with the establishment of communes, rural communities, and regions as local authorities, with legal personality and financial autonomy; the creation of the city and district communes; the transfer of State powers in nine (9) areas to local authorities (law no. 96-07 of 22 March 1996); a posteriori control of legality becomes the principle and a priori control of legality the exception. However, it should be noted that the modification of the financial framework in 1996 with the advent of the Local Authorities Code did not enable each category of local authority to be provided with its own resources, as the new decentralised entity of the region did not have any, despite the fact that major reforms had been underway for several years in the decentralisation policy, and that the political and administrative areas had been set up very quickly and without any major problems. On the other hand, there have been difficulties in implementing the financial aspects of decentralisation. Senegalese local authorities very quickly found themselves obliged to finance their operations and investments from their own resources.
1998	Creation of Regional Development Agencies (RDAs).
2000	The political changeover that has taken place has enabled significant progress to be made, in particular the reform of the Local Authorities Equipment Fund (LAEF), the decentralisation of the internal implementation of the Consolidated Investment Budget (BCI), the restructuring of the Regional Development Agencies (ARD), the substantial increase in local executives' allowances, the harmonisation of partners' interventions through a unifying programme (the National Local Development Programme: PNDL), and the start of discussions on provincialisation.
Law Decree 2008-517 of 20 May 2008	This decree gives PREDA the status of a local public administrative body. PREDA is thus placed under the technical supervision of the Ministry responsible for decentralisation and the financial supervision of the Ministry responsible for finance.
Law 2013-10 of 19 December 2013	The Senegalese state has just embarked on a new phase of decentralisation, commonly referred to as "Act 3 of decentralisation", the institutional basis of which is based on the generalised communalisation of the territory with the abolition of the rural community, the erection of departments as local authorities, the emergence of development centres, and the territorialisation of local authorities, which provides for the reduction of regions and the grouping of territories into specialised wealth-producing entities.

Source: Inspired by the doctoral thesis in sociology by Ousmane Ly, 2019.

With a long tradition of local institutions and reforms, the innovations introduced in Senegal in 2013 have strengthened the weight and the role of the local authorities in economic, health, educational, and social development. Among other things, this has resulted in the establishment of the department as a new level of local authority, the creation of territorial development hubs, and the strengthening of the financial framework for local authorities. The financial framework for decentralisation has evolved since independence. The law of 13 August 1926 has introduced a certain number of taxes for local authorities, based on circles, societies, on meeting places, on paid admissions to racecourses, velodromes, and autodromes, and on nightclubs. These taxes were also included in the law of 18 November 1955, which set out the main taxes and duties that municipalities could create. The desire to provide local authorities with the resources they need to operate was regulated by the creation of annual rebates (refunds). These rebates benefitted the communes. This was the case with law no. 61-17 of 10 March 1961, which established the method of payment of quotas and the taxes rebated to the communes (85% of the minimum tax, patents and licences, and 70% of the movable property contribution), while law no. 67-0021 of 28 February 1967 regulated the payment of a portion of direct taxes collected on behalf of the State, amended by law 69-034 of 19 June 1969.

In 1972, the commune's resources were enriched by the collection of the household waste collection tax provided for in article 156 of the Code of Municipal Administration, for which law no. 72-52 of June 1972 set the maximum rate and determined the assessment and collection procedures. Other rebates were granted on portions of the property tax on built-up and unbuilt properties (by law no. 78-24 of 21 June 1978 and its implementing decree no. 79-323 of 09 April 1979) and on the schedular tax on property income provided for by law no. 83-60 of 03 June 1983 (implementing decree no. 85-319 of 25 March 1985). In 1972, with the creation of the rural community, a rural tax was introduced and rebated to the rural community by law no. 72-59 of 12 June 1972 (implementing decree no. 72-699 of 16 June 1972). However, to enable the new community to function and to satisfy the aspirations of the rural population, the quotas are paid accordingly (100% of the collections within its territory in respect of the minimum tax, the business tax, the supplementary tax, and the licence tax, as well as 25% of the property tax on built-up properties). They will be entitled, at the same time as the municipalities, to rebates from the proceeds of the tax on animals (by law no. 72-60 of 12 June 1972).

The vertical tax equalisation also covered investment, with law no. 79-60 of 25 June 1979 instituting a levy on turnover taxes for the benefit of the Local Authority Equipment Fund (LAEF), which consolidated and strengthened the resources intended for local authorities. However, it should be noted that the change in the financial framework in 1996 with the advent of the Local Authorities Code did not provide each category of local authority with its own resources, as the new

decentralised entity of the region did not have any, even though for several years there have been major reforms in the decentralisation policy, and the implementation of the political and administrative areas has been carried out very quickly and without any major problems. On the other hand, there have been difficulties in implementing the financial aspects of decentralisation. Senegalese local authorities very quickly found themselves having to finance their operations and investments from their own resources.

According to data from a study by the Local Finance Observatory of the Partnership for Municipal Development⁴⁴, local authorities in Senegal, and particularly the communes, are less dependent on the State to finance their development than municipalities in Western countries, such as Canada (47% subsidy), the United States (39%), and France (36%), or in Africa, such as Ghana (75%) and Swaziland (over 80%). However, a real increase in the Decentralization Allocation Fund (FDD⁴⁵) between 2004 and 2006 and the implementation of the test phase of the decentralisation of the execution of the Consolidated Investment Budget (in 2006) could lead to a significant revision of this overall assessment. In the same way, this assessment is better contrasted with an examination of the case of each level of local authority (commune, rural community, department, and region). Figure 1 (below) gives an overview of the municipal revenues, based on internal and external sources, based on taxation and non-tax revenues for the internal revenues and based on various external sources, such as borrowing, financial transfers, private partnerships, and decentralised cooperation.

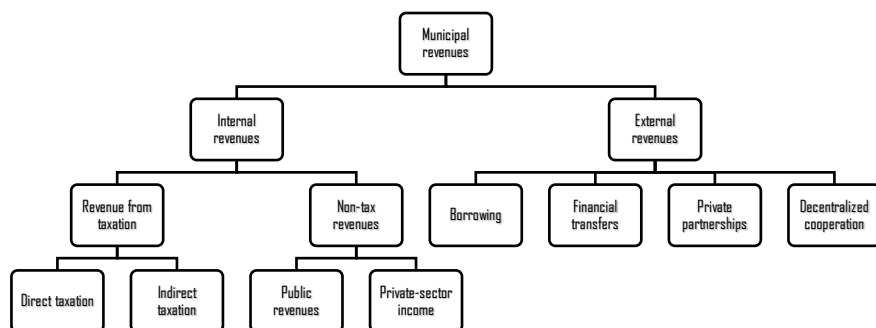
Local taxation is highly varied, but only a small minority of taxes and charges provide the bulk of local tax resources. There are two reasons for this: firstly, the lack of realism in the tax system itself does not encourage a better relationship between the level of taxation and the level of local wealth; secondly, the assessment system based on estimates from previous years (the penultimate year method) means that errors of assessment are repeated from one year to the next. As a result, the revenue from local taxation remains below what is possible. The level of collection of own-source taxes is low for several reasons. The local taxes are diverse, they are not very profitable, and some taxes are not collected at all. The low profitability is due to the predominance of direct taxes, which have a low economic elasticity; in other words, they have a limited capacity to increase or decrease their revenue depending on their degree of dependence on fluctuations in economic activity. Added to this is the fact that local taxation is unevenly distributed, with rural areas having a taxation capacity well below the norm due to a lack of economic activity and poverty. The taxation in rural areas shows, among other

⁴⁴ Survey on local taxation in Senegal, carried out by the Louga Regional Council team and the Louga Regional Development Agency (July 2012).

⁴⁵ See on the FDD the briefing note by UCLG (United Cities and Local Governments) and OECD, October 2016: <https://www.oecd.org/regional/regional-policy/profile-Senegal.pdf>

things, that the absence of a tax register contributes to an underestimation of revenues; the other causes being of material nature and relating to the poorly controlled cost of tax expenditures (TE). In fact, tax waivers (tax allowances, tax exemptions, or tax reductions) reduce the local tax potential, whatever their justification (although often the motive is to give investment incentives). Since 2004, changes to the General Tax Code (GTC) have made it possible to simplify the taxation system while strengthening the financial capacity of the local authorities. Figure 2 gives an overview of the various taxes on which local government territories rely on.

Figure 1: Main municipal revenues

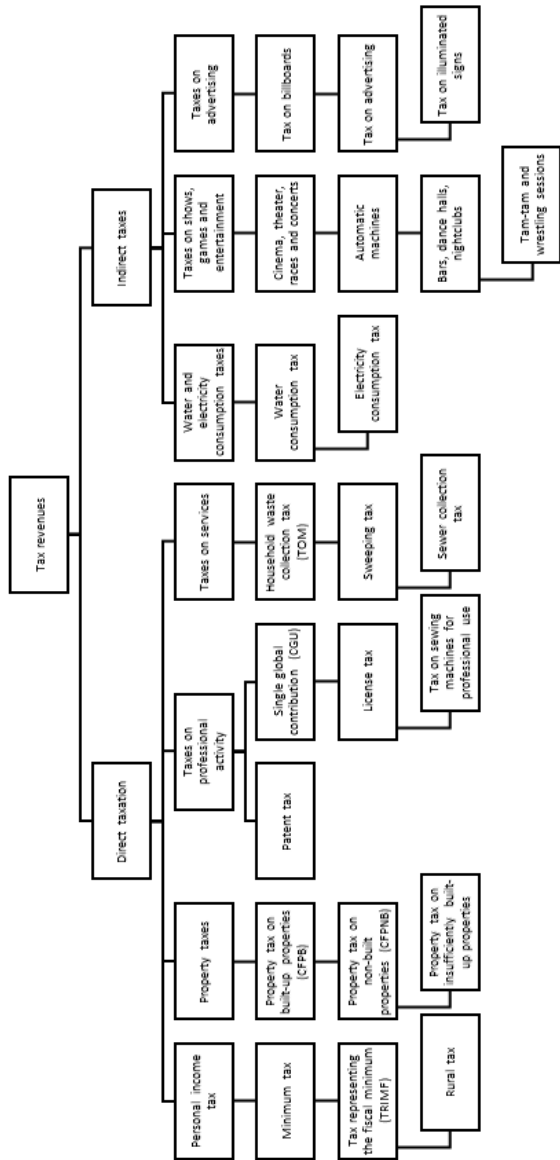


Source: Information is inspired by the Cahier "Mobilisation des ressources financières", PADEL/PNDL, 2015⁴⁶

Shared taxation is collected by the State that pays the local authorities their share. One of the problems with shared taxation is the delay in making these payments. For example, the State is required to transfer 50% of the proceeds of the annual vehicle tax and of the tax on property gains to the local authorities. In 1996, the State was due to pay F-CFA 8 billion to the communes in respect of these taxes. However, the State has only paid F-CFA 1.5 billion. And even then, the operation was only carried out in 1998, two years after the tax was collected. Examples of this kind abound in other areas of shared taxation. The proceeds of the taxes are also very unevenly shared. The Dakar metropolitan area alone sometimes collects more than half of the tax revenues of the country. It should be possible to mitigate this low share of tax resources of other territories through financial transfers from the State.

⁴⁶ PADEL/PNDL (2015), Cahier "Mobilisation des ressources financières", annexe du régime financier des collectivités locales, drawn up as part of the "capitalisation of the experience of the Maisons du Développement Local (MDL)" in Louga.

Figure 2: Presentation of the municipality's tax revenues



Source: Inspired by the Cahier "Mobilisation des ressources financières", 2015

Note for Abbreviations of figure 2: Tax representing the fiscal minimum (TRIMF); TRIMF is the abbreviation of « taxe représentative de l'impôt du minimum fiscal » ; Property tax on built-up properties (CFPB); CFPB is the abbreviation for « contribution foncière des propriétés bâties » ; Property tax on non-built properties (CFPNB); CFPNB is the abbreviation for « contribution foncière des propriétés non-bâties » ; Single global contribution (CGU); CGU is the abbreviation for « contribution globale unique»; Household waste collection tax (TEOM) ; TEOM is the abbreviation of « taxe d'enlèvement des ordures ménagères »

But this is not the case, because even though the Decentralisation Endowment Fund (DEF/FDD)⁴⁷ has been increased significantly in recent years, and the Local Authority Equipment Fund (LAEF/FECT)⁴⁸ to a lesser extent, their contributions are not enough to make up for the shortfall in operating expenditure and of investment needs.

The Decentralisation Endowment Fund (DEF) and the Local Authority Equipment Fund (LAEF) are underestimated in relation to the costs arising from the transferred powers. These costs are not assessed in accordance with the provisions of Article 58 of Law 96-07. In addition, the lack of a system of equalisation and solidarity between local authorities is being severely felt by the poorest territories among them.

To make up for these shortcomings, many projects have been implemented since 1999, providing substantial financial support to local authorities (in 2002, for example, 40% of local financial resources came from development aid, and over the period 1995-2005, financial flows to local authorities totalled F-CFA 200 billion). Since 1998, the Senegalese government has been trying to resolve the problem of local taxation by commissioning a study in 1998 in collaboration with CIDA (the Canadian International Development Agency). The results of this study were examined at an inter-ministerial council meeting held on 29 April 2003. Based on the proposals in the introductory report submitted by the Minister of Finance (proposals for the integrity of the tax base, the simplification of the tax system, the property valuation method, the decentralisation of the tax chain, and the relationship between the State and the local authorities and between the local authorities), reforms were undertaken with Act no. 2004-12 of 6 February 2004 by amending certain provisions of the General Tax Code (GTC). As a result, in terms of the property tax on built-up properties, the rental value is now determined, firstly, by using the cadastral method and, secondarily, via direct assessment and by means of comparison. The rate of 15% is reduced to 5% for buildings other than factories and to 7.5% for factories and similar industrial establishments. In the case of the business property tax, the proportional duty is based on the rental

⁴⁷ FDD or Fonds de dotation de la décentralisation

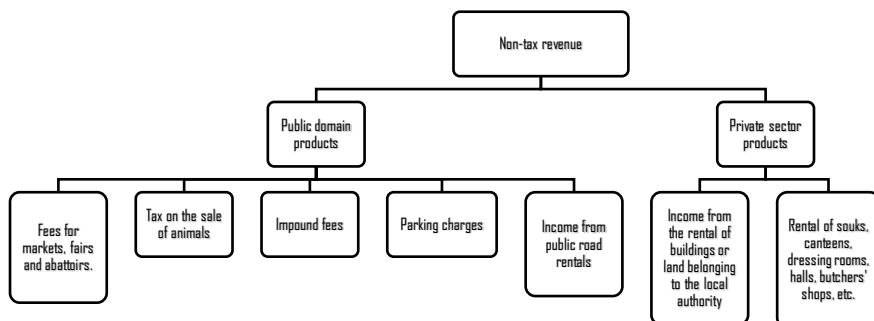
⁴⁸ FECT or Fonds d'équipement des collectivités territoriales

value, which is now determined by using the cadastral method, and when failing, then the valuation is made either by comparison or by direct assessment.

The supplementary tax on patents at a rate of 5%, which was applied to the total amount of value for the patent, has been abolished. The tax on the rental value of business premises at a rate of 6% has also been abolished. The flat-rate business property tax for small taxpayers has also been abolished. It was incorporated into a new synthetic tax, the “single global contribution” (CGU), which combines local taxes (TRIMF, patent, and licence) and State taxes (income tax on industrial and commercial profits, VAT, and the flat-rate contribution payable by employers). It is therefore levied on behalf of the State and the local authorities. Its introduction is intended to broaden the tax base and to adapt taxation to small economic units; it responds to the desire to encourage tax compliance. In terms of financial capacity-building, the new Mining Code allows local authorities to benefit from the financial spin-offs from exploration sites by making deductions to feed an equalisation fund.

However, despite this series of major reforms, there are still problems associated with the so-called local tax, which is not really a tax at all. In fact, the automatic allocation of tax revenues by the decision of the central government is like a tax-based endowment, which is little different from an endowment fund, the amount of which is set in the Finance Act. The principle of free administration and its corollary, financial autonomy, require that local authorities have a limited, but real and necessary fiscal power that gives them the freedom to determine the tax base and the tax rate. There is insufficient regressivity in the tax benefits granted, especially for long-term tax exemptions under the Investment Code, and there are inequalities in the assessment of the tax base or the rental value. There is also the question of the distribution of the proceeds of the single global contribution (CGU). In essence, the local tax reform should be continued by decentralising the tax chain. As for the weakness of the resources absorbed by way of public aid to local authorities, the State had undertaken certain measures to remedy this, including the “budget support mechanism”. This mechanism consists of placing the aid intended for a local authority directly in its respective budget. This means that the local authority is responsible for implementing the investment expenditure arising from external financial support. The legal basis can be found in directive n°05/97/UEMOA/Union Économique et Monétaire Ouest Africaine (Article 8), which advocates the mechanism of budgeting for long- and medium-term loans. It is also a means of assessing financial flows to local authorities.

In terms of the non-tax revenues, the following figure 3 gives details. Two types are considered, namely public domain products and private sector products.

Figure 3: Presentation of non-tax revenues

Source: Inspired by the Cahier "Mobilisation des ressources financières", 2015

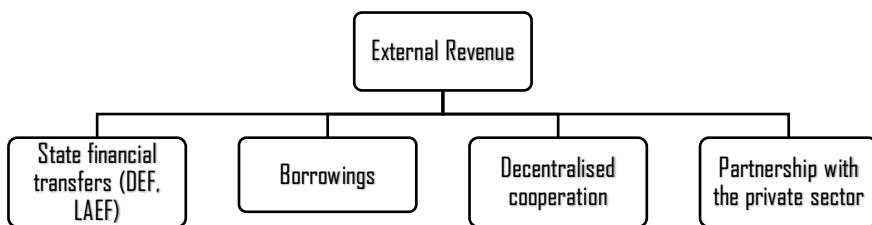
Local authority budgets are modest in relation to the need for community facilities. Financially, local authorities have little weight in the Senegalese economy. Their contribution to overall State finances is marginal. Local revenue from all communes, including all categories, represents on average only 6% of State revenue. In terms of direct taxation, local authorities collect the equivalent of only 4% of State tax revenues. The budget revenues of communes, already precarious due to poor collection, are severely dented by wage costs that leave not much room for investment. At the level of rural communities, the rural tax, that is their main budget resource, is virtually no longer collected. The rigidities of local taxation mean that decentralised authorities are totally dependent on the State. This is even more marked for the regions, where the absence of an own tax system means that they are subject to the vagaries of the State's cash flow.

The proceeds of the single global contribution (SGC/CGU) are currently divided between the State and the local authorities (communes and rural communities), based on the shares of 40% and 60% respectively. It should be noted that the patent tax, the most productive component of the CGU, was until the advent of this single global tax an exclusive revenue of the local authorities, and its sharing with the State has significantly reduced the financial possibilities of the local authorities. This is why it is proposed that 80% of the CGU should be transferred to the regions, which would turn the CGU into a quasi-local tax. The property gains tax benefits the municipalities in the form of a rebate of 50% on property transactions, with the remaining 50% cashed in by the State. However, given that the region is part of the area in which the operation takes place, it should benefit from the spin-offs of the operation. For this reason, it is proposed that the State shares its part with the region at the rate of 25% for each party.

The rebate on registration, stamp, and land registration fees, which has not been transferred, poses a problem, because the size and number of deeds subject to registration are indicative of the level of socio-economic activity in a region,

but up to now only the State has benefitted. So, in the name of the mission of an integrated development of its territory that the region assumes, it should benefit from the revenues which are induced by its dynamism and attractiveness. As for the compensation mechanisms created by the State to ensure that local authorities properly can assume the responsibilities transferred to them, they have also shown their limitations (see figure 4 on external financing for the local authorities). For example, the decentralisation endowment fund (DEF/FDD), despite its constant evolution, is unable to cover the costs for all of the transferred responsibilities. Moreover, its distribution does not seem to follow any objective predefined criteria.

Figure 4: Presentation of external revenue



Source: Inspired by the Cahier "Mobilisation des ressources financières", 2015

The law stipulates that the financial costs incurred by each local authority, because of the transfer of governance powers, shall be subject to the allocation by the State of resources of an amount being at least equivalent to the said costs. The calculation is based on the expenditure incurred by the State to meet the same costs during the year preceding the date of the transfer. Transfers of resources are becoming more systematic, but their content is still considered insufficient in relation to the costs arising from the exercise of the new local governance powers they are supposed to cover.

However, an endowment fund was intended to provide compensation for the new costs incurred by local authorities. The Local Authorities Code mentions, among the region's operating revenues, the resources provided by the State as part of the annual distribution of the Decentralisation Endowment Fund (DEF/FDD). The Finance Act defines an annual percentage of the State's budgetary revenue, excluding loans and external aid, which corresponds to the minimum amount of this allocation. From this floor, the amount of the grant must itself correspond to a percentage of the VAT being collected for the State. The budget thus freed up for allocation to local authorities is distributed among all the local authorities according to criteria set annually by decree after consultation with the National

Council for Local Authority Development⁴⁹. Transfers under the DEF/FDD constitute the regions' main operating resource. The resources to be allocated to the running of the Economic and Social Committee and the Regional Development Agency are paid to the region each year. Despite significant annual increases, the DEF/FDD remains well below the operating expenditure requirements of local authorities. In addition, payments are made very late, which limits the implementation of a free budgetary policy by local authorities. At present, fiscal decentralisation is certainly a very important issue for local development and the viability of the decentralised local entities. In this context of financial crisis, the consequences of which will have a heavy impact on the central state in Africa, the question arises if local authorities can hope for significant transfers from central budgets to ensure their prerogatives. If not, how can they negotiate a better distribution of tax resources? How can they broaden their own tax base and improve tax collection? The answers to these questions should enable local authorities to act more effectively to mobilise tax resources and thus to ensure a better supply and quality of services for the population. To investigate all these options, the research was undertaken along the strategy which is developed in section 4.

4 Theoretical framework and research methodology for local tax revenue mobilisation in Senegal

Richard Musgrave (1959) assigned three essential functions to the state: resource allocation, income redistribution, and economic stabilisation. Indeed, the justification for state intervention to meet people's social needs is mainly linked to social recognition of the imperfect way in which the market operates. While the resource allocation function makes it possible to achieve greater economic coherence within a given society, income redistribution seeks to correct the inequalities which are generated by the primary distribution of income, in the interests of social justice. As for the stabilisation function, it differs from the previous ones in that it results from the vagaries of the economic situation, which risk causing inflation and unemployment.

Unlike state taxation, the origins and foundations of local taxation are linked to the history of decentralisation in Senegal. The classical economic analysis of taxation is no longer sufficient to explain the relevance of tax procedures. It must be complemented by the socio-political dimension, which includes the social, political, and territorial functions (Leroy, 2002). In this respect, local taxation must place territorial issues at the heart of its problems, by seeking new possible links with the socio-economic dynamics of local communities. Thus, it must analyse the

⁴⁹ See also on the role of the National Joint Council (NJC) for Local Government Services as a social partnership council: <http://www.local.gov.uk/our-support/workforce-and-hr-support/local-government-services>

political legitimacy of decentralised territories, the fiscal democracy through direct consent to taxation, the fiscal civic-mindedness, and the place of citizens' tax-contribution in the financing of policies of general interest. The analysis should also focus on the legal competence of the territory, the fiscal inequalities of the territories, the territorial development policies through the financing of expenditure, the tax exemptions for certain 'fragile' areas, the incentives for 'competitive' areas, the policies to support private initiatives, the promotion of priority sectors in the territory, the preservation and enhancement of the environment, and so on. Many of these factors are lacking in current research and in policies for Senegal.

Fiscal decentralisation has important implications for the size of government. Specifically, assuming that government is a benevolent agent that responds to the needs of its constituents, the 'first generation' of fiscal federalism argues that in the presence of heterogeneous preferences and needs in different jurisdictions, fiscal decentralisation can increase the efficiency and quality of government (public services) because it allows for a better match between residents' preferences and the bundles of public goods and services provided by local governments (Tiebout, 1956; Oates, 1972; Weingast, 2009). Therefore, greater decentralisation can be envisaged to strengthen local accountability and residents' trust in government, which motivates them to demand more public goods and services, thus leading to a larger size of government (Golem, 2010). Assuming government as a monolithic Leviathan with selfish public agents to maximise revenue, the 'second generation' of fiscal federalism argues that, to attract mobile tax bases/payers, tax competition between governments under the decentralised system destroys Leviathan's monopoly on taxation and brings public spending closer to residents' preferences. This potentially leads to less bureaucratic waste of resources and to a reduction in the size of public spending (Weingast, 2009; Golem, 2010).

The postulate of congruence between funders (taxpayers) and decision-makers (bureaucrats) is based on the principle of fiscal equivalence, in other words on institutional congruence. In economic theory, this means that the circle of beneficiaries coincides with that of funders and decision-makers. This principle could be expressed by the formula: "who pays, commands". Lack of coincidence can lead to misallocations and inefficiencies. Given that it is often difficult to clearly delimit or to allocate the benefits of public services, it is particularly decisive for decision-makers and funders to coincide (Breton, 1965).

Local taxation provides information on the dynamics of co-production and management of territories. It expresses a form of structuring and developing endogenous potential and of stimulating local initiatives through taxation. By linking local territories with national regional planning policies, decentralisation is helpful as it provides greater internal coherence by considering the specific characteristics of each area. At the same time, decentralisation defines a framework for dialogue at governance levels, for the expression of local democracy, and for the regaining of autonomy and territorial legitimacy. In this way, it enables local authorities to

be structured as project areas, with the definition of a coherent and concerted vision, linking the area's fiscal potential with socio-economic development projects. Its generative and innovative effects will help to revitalise the area, to promote endogenous initiatives, to structure local economies, and to promote an area that is conducive to business. So, it will give more power to local authorities, positioning them as the relevant levels for planning and driving forward local economic development dynamics.

However, local taxation has been slow to establish itself as a promising field of research in the social sciences, at a time when the demands of stakeholders and the issues at stake in terms of the funding and development of Senegal's decentralised territories are becoming increasingly apparent. It has attracted little interest from either researchers or public authorities (Ly, 2019). And yet, against this backdrop of demands for legitimacy and territorial autonomy, local taxation appears to be a genuine instrument of democratisation, and a source of dynamism and socio-territorial innovation. However, it seems to have little connection with the current context and the issues facing local authorities which are seeking to emerge, due to its still obsolete institutional and legal frameworks (Zaki, 2014). The relationship of local taxation with the processes of building viable and autonomous territories remains little studied by researchers, especially so for Senegal.

The demands for the decentralisation of national economies had finally given impetus to thinking about local economic development strategies (Ndiaye, 2012). The emergence of local services at territorial level is helping to restructure and to recompose the way in which territories are regulated. Local authorities have become the driving force behind the modernisation of public services. The growth in the powers of local authorities has had the effect of introducing a new framework for thinking about the issue of modernising public services to meet the new demands of the contemporary economy (Amada, 2005). This new framework breaks with the national and state logic, which has become a simple regulatory framework instead of acting in a developmental way. The new partnership and agreement procedures between the national and the local government for implementing local public services are new guarantees of modernisation and efficiency. But the challenges of financing, of organisational governance of local resources, of improving the institutional framework of local public finance, and finally, of linking it to the current context and dynamics of local economic development remain to be clarified. This issue has been little studied in Senegal and has given rise to only few questions and reflections on the part of public authorities and of development thinkers (Ly, 2019).

Furthermore, the highly centralised institutional framework for territorial management has not kept pace with the forces at work in Senegal (Diagne, 2000). This mismatch between traditional institutional expression and governance and the needs and expectations of stakeholders, who are now more diversified, is a problem as it destroys effective management, and at the same time creates tensions

and costly competition which undermine the economic development of the territories. Territorial structures and the funding system for policies led by local authorities have not adapted as quickly to economic and social change as might seem desirable. But the complexity of procedures and of funding does nothing to clarify responsibilities, to facilitate the rapid development of projects, or to ease the burden on users of public services. Competition between state and local services providers too often results in the misuse of public funds (Sané, 2016).

The context of the reorganisation of the institutional architecture of Senegal's territories, marked by Act III of decentralisation, and the new funding arrangements brought about by these policies, are somewhat removed from specialists' analyses, and have given rise to little political debate, which is also often very poorly structured (Ly, 2019). Yet this context marks a profound change in the direction of development policies applied since then in Senegal. It seeks to promote balanced economic development based on territories, as well as to strengthen the financing mechanisms of Senegal's local authorities, and to stimulate private economic initiatives and local governance. In this way, local taxation is seen as a lever for democratisation, legitimisation, and empowerment of decentralised authorities, as well as for strengthening local economic development. Local taxation offers real opportunities in terms of structuring local economies, of supporting local initiatives, of launching a framework conducive to business, and of creating jobs and wealth to improve people's living conditions.

However, the primacy often given to the use of budgetary expenditure, which triumphs over the manipulation of taxation because it is considered less effective by some specialists, leads to a reduction in the role of taxation to the sole function of covering public expenditure (Monnier, 2017); this strategy significantly neglects any fiscal interventionism, as well as its capacity to act on current territorial dynamics. By virtue of their dual legal and socio-economic nature, compulsory taxation is essential to the proper democratic functioning of modern states. From a legal point of view, the taxation creates compromises between central authorities, local players, and different social groups, encourages a form of citizen and democratic participation in the decision-making process, and determines the choices and priorities for socio-economic development through a participatory and inclusive approach. From a socio-economic point of view, the levies provide information on the choices made by local players to determine their own income distribution mechanisms, may lead the fight against social inequalities, and will highlight their savings, investment, and consumption choices.

Added to these findings is the overly technical, restrictive, complex, and inaccessible framework of local authority tax systems, which limits research on local taxation. This lack of theoretical renewal of approaches and procedures in local tax systems has led to the obsolescence of tax systems and local taxes, resulting further in low tax revenue mobilisation. A manager from the tax collection office of the commune of Saint-Louis explains: "The municipality's tax yield is still very

low compared to its existing potential. When I arrived here in 2010, local taxation was in a critical state. But we fought hard to get the tax system back on track. Despite all the efforts we've made, we still have a lot of room for improvement in the municipality. We've started to collect advertising and we're gradually moving towards broadening the tax base with property and real estate taxes. But we are seriously understaffed and the resources available (logistical, material, and financial) are very inadequate (Survey data, August 2023).

Yet, taxation now should play a central role in local government. It guarantees their institutional, political, and economic legitimacy. The mobilisation of local tax resources thus appears to be a promising dynamic tool; it will have to demonstrate its institutional leadership in relation to local authorities that are often clinging to their prerogatives, by ensuring its functionality, efficiency, and organisational governance. Lastly, the legal and financial framework for tax services, for local taxes, and for similar charges deserves particular attention to produce more convincing results. The funding provided by governments in Africa is highly inadequate when we consider the prerogatives of local authorities, since a large proportion of funding relies on external (to the local territory) resources and the development aid programmes (Ndiaye, 2007). Questions are: Is not there an urgent need to promote other, more flexible, and accessible means of funding, capable of meeting the expectations and the new challenges currently facing decentralised territories? To attract funding, local authorities themselves can seek partners through decentralised cooperation. Senegalese local authorities have very little investment capacity, which is essentially limited to local facilities (market infrastructure and equipment, social centre, stadium, or a municipal field, etc.) and to social assistance infrastructure. The collection of local taxes is becoming an important objective for Senegal's local authorities, but here too there is observed a lack of knowledge of the terrain, and of its assets and constraints, on the part of the tax authorities.

The aim of this research is to systematise tax resource mobilisation strategies and tax policy innovations being underway in Saint-Louis and Kolda (Commune/City), as well as analysing their impacts and generative effects in terms of promoting LED (local economic development). To this end, our research question is whether local taxation is a means of regaining territorial autonomy through a more endogenous and concerted definition of local financing mechanisms, a shared vision of the territory translated into a project territory, and finally, whether local taxation is a tool, by considering the specificities, the issues, and the real problems of the territory, to promote local economic development (LED) in the Communes of Saint-Louis and Kolda (Commune/ City),

We formulate our research hypothesis as follows: local taxation is no longer a simple instrument for controlling the way in which the local authorities of Saint-Louis and Kolda (Commune/ City) and their economies are managed, but it is in-

creasingly rooted in current socio-territorial dynamics. It demonstrates a real capacity to include the endogenous potential, as well as the territorial management methods, by strengthening the local authorities' powers of action through making them the relevant levels for planning and implementing local economic development (LED) policies. It provides a framework for the expression of local initiatives and the construction of a coherent, shared vision of the territory, translating it into a project territory. Seen from this angle, local taxation is a real lever for stimulating socio-territorial dynamics by encouraging the creation of a space for dialogue, consultation, and partnership, the promotion and revitalisation of local economies, the creation of a framework conducive to business and territorial marketing, the enhancement of the endogenous potential, the promotion of local private initiatives, and so on. But its low level of resource capitalisation (limited taxation volume), its often complex and restrictive institutional framework, and the way it manages the revenue generated, are factors which significantly limit its real potential and its capacity to intervene in the local dynamics being underway.

To test this thesis, we conducted this study mainly in two Senegalese municipalities: Saint-Louis and Kolda (Commune/ City) in August 2023. These two municipalities were chosen because we wanted to gain a better understanding of the diversity of practices, current innovations, and strategies for promoting local taxation and local economic development (LED) in Senegal's local authorities. The methodological approach adopted is therefore based on a participatory, comprehensive, and systematic approach involving the broad participation of all stakeholders in the implementation process (tax departments, the Town Hall, the Municipal Council, the Treasury, and the Regional Programme Manager (RPM) departments, the decentralised stakeholders, the technical and financial partners and, lastly, the civil society and the taxpayers). The data collection tools, based on a logic of triangulation of both qualitative and quantitative data, are developed according to the targeted objectives and for each category of targeted stakeholder. This methodological orientation is just one of the consequences of our concern to understand and to grasp the social phenomena which are associated with local taxation and all the related epiphenomena (Denzin and Lincoln, 1994). Various tools have been used during this study (semi-structured interviews, focus groups, questionnaires). The data collection instrument must guarantee the objectivity of the data. Thus, it is by implementing appropriate collection strategies that the researcher can guarantee the objectivity of the facts studied (Miles and Huberman, 1991).

The aim of these tools was to provide diversified and very in-depth information on the situation under study. Firstly, this approach enabled us to conduct interviews and to work with focus groups to involve the managers and the administrative staff from the tax department, the treasury, the local council, and as well some development partners in each of the two communes (towns), to gather detailed data on the phenomenon under study. Secondly, to analyse the relationship

between local taxation and the dynamics of local economic development in these two communes (towns), we covered via the questionnaire⁵⁰ a sample population (P) of 120 people out of 300, chosen according to well-defined criteria ($P = \frac{120}{300} = 40\%$)⁵¹. However, as we did not have very precise information on the actual size of the target population (the number and the composition of strata), we had to choose an exhaustive sample from each group, by interviewing all the people who were accessible or likely to provide us with essential information for our study (to cover the stakeholders for the research) (Mendras, 1996). More specifically, for our questionnaire, which was administered to a sample of 120 people (60 people per commune), the selection criteria focused mainly on three fundamental elements in each group: age, gender, and socio-professional category. The aim was to ensure that each group was as representative as possible in our study and that we were able to improve the quality of the field data. The average age of the people we met was around 35 in both communes, as most of them had entered the world of work a little 'late', which had a major impact on their ability to pay taxes. The table 6 below gives the field variables and the indicators for the questionnaire.

Compared to the respondents of our questionnaire (60 people met in each municipality), we can see that there was a slight difference between the two communities in terms of gender representation (Question No. 8). There was a slight difference between the two communities in terms of gender representation. In Saint-Louis (City), women accounted for 28.3% of our respondents, compared with 71.7% of men, whereas in Kolda (City), only 15% of respondents were women, compared with 85% of men. This situation can be explained by the low representation of women in the economic activities of the communes, which are largely dominated by men. In Saint-Louis, the presence of women seems to be relatively higher, and they are most often active in petty trade, fish sales, and small-scale processing. In Kolda, however, they are more present in small-scale market gardening and the sale of fruit and vegetables.

⁵⁰ See for an access to the full Questionnaire the Appendix to this Essay (with two access tools available).

⁵¹ The aim was to reach 40% of the respondents (among local government staff, economic operators, decentralised services, and grassroots community players) out of a total population of 300 people, a figure we have chosen by estimating the size of the local government staff in the two townships in which we have surveyed the various key socio-economic players mentioned above.

Table 6: Field variables and indicators for the questionnaire

Study variables	Selected themes	Elements of analysis or indicators
Local taxation and the dynamics of local economic development in Senegal	I. Promoting the municipality's financial autonomy	- Capacity for self-financing and local management of projects. - Improving the tax revenues and the tax collection levels. - Improving the budget, controlling forecasts, and expenditure. - Improving access to tax assessment and facilitating tax collection. - Building the capacity of stakeholders and improving the framework for action by local authorities. - Promoting tax revenues and financing local needs. - Promoting good tax citizenship and combatting tax evasion and fraud.
	II. Strengthening local governance and territorial marketing	- Capacity building and empowerment of local stakeholders. - Promoting good governance, local democracy, partnership, and consultation between stakeholders. - Promoting local marketing, improving the investment climate, and developing local economic initiatives. - Extending of the partnership network and strategic positioning in relation to central government. - Setting up local economic information and improving knowledge of the area. - Promoting economic growth and investment. - Promoting and enhancing local resources. - Supporting local economic initiatives, entrepreneurship formation and local economic development.
	III. Promoting the local economy	- Creating and maintaining jobs, services offered, building dynamism and development of economic activities, promoting alternative economic activities. - Increasing the capacity for self-promotion and mobilisation (responding to members' local requests), increasing the capacity for negotiation with the outside world and with development partners, impacting and generating effects at local and inter-municipal level, inducing innovations, and increasing the viability of programmes through the development of assets.

Source: Authors

In terms of the socio-professional categories of the people we met (Question No. 23), white-collar workers made up the largest proportion of our sample in Saint-Louis (City) (26.7%), closely followed by blue-collar workers (21.7%). Next came

the civil service and the business executives' categories, with 16.7% and 15% respectively. This situation can be explained by the high level of urbanisation in the city, with a satisfactory presence of administrative structures and commercial infrastructures, which constitute a real lever for social inclusion and growth in economic activities. Lastly, we have tradesmen/craftsmen (11.7%), the economically inactive persons (5%), and students (3.3%). In Kolda (City), we have shopkeepers/craftsmen, students/pupils, and blue-collar workers accounting for the largest shares of our sample, with 30%, 20%, and 18% respectively. This can be explained by the still fragile situation of the local economy. These three categories are followed at a distance by civil servants (11.7%), white-collar workers (8.3%), business executives (3.3%), and the economically inactive persons (3.3%).

5 Local taxation and the dynamics of local economic development in Senegal

Our field data reveal a very positive perception of tax payment on the part of the population of Saint-Louis (City) and Kolda (City) (Question No. 45). This could be explained mainly by the existence of a certain relationship of trust between them and the local authorities, their good perceptions of the use of local taxes and their level of understanding of the role of local taxation. Added to this is the people's sense of attachment to their localities, which has an impact on the level of willingness to pay taxes. Paying local taxes is even seen as a moral duty (by 49% of the people in Saint-Louis (City) and 53.6% in Kolda (City)). People attach a great deal of importance to taxation, which they see as a *quid pro quo* for the many services they enjoy in the commune. According to A. E., a metal worker who works near the old bus station in the commune of Kolda (City), the following is assessed: "One day last year I was listening to a radio programme about tax, and it made a big impression on me. I'd never understood the whole point of paying taxes, but now I've realised that it's very important to pay your taxes, and it's up to all of us to pay them properly, because the survival or efficiency of local government depends on it. It is thanks to this money that we can send our children to school or treat ourselves when we fall ill, or even benefit from certain services. Because the local authorities don't have the means, we must give them the means." (Survey data, August 2023)

In addition, 11.2% of the people in Saint-Louis (City) and 11.6% of the people in Kolda (City) see local taxation more as a form of honour or civic duty, by contributing to the funding of local public services. Even if they do not benefit directly from these services, as long as the use of tax remains noble and for a good cause, the contribution is justified. Other people go so far as to regard their contribution as a kind of privilege. They see paying tax as a patriotic act that every taxpayer must honour to demonstrate their civic duty and attachment to the common cause

(Saint-Louis City: 4.1% and Kolda City: 5.8%), or as moral satisfaction for contributing to a general cause (11.2% in Saint-Louis City and 5.8% in Kolda City). However, these various appreciable conceptions of taxation coexist with other positions that are more resistant to consent to local taxation in the communes. We noted two other forms of non-conformist logic regarding local taxation: as a form of constraint imposed by the local administration (Saint-Louis City: 15.3% and Kolda City: 7.3%), and as a form of domination imposed by the political class to assert their supremacy over other classes deemed weaker (Saint-Louis City: 5.1% and Kolda City: 4.4%).

From a social point of view, the function of redistribution is above all to guarantee a better distribution of wealth to ensure social justice in society. Redistribution can take two different forms, depending on the objective pursued by the central or local government: it can be vertical, when it seeks to improve the situation of the poorest households by levying taxes on the richest, or horizontal, when it is carried out within the same social stratum or income stratum, and its aim is not motivated by the hierarchy of income or wealth. In the communes, local taxation does fulfil this wealth redistribution function (Question No. 47) thanks to the many investments in local public services and thanks to the introduction of social protection programmes (Saint-Louis City: 51.7% and Kolda City: 46.7%). However, some people do not recognise the existence of this tax redistribution function in the communes, because of the many perceived misappropriations of public funds, especially as they are essentially borne by the poorest social strata (Saint-Louis City: 11.7% and Kolda City: 25%). The social function of taxation can take different forms, depending on the nature of the tax system in place and the objectives pursued by local authorities. But whatever its definitive nature or the form it takes, it must imperatively contribute to greater equity and to social justice between all members sharing the same territory.

In Senegal's communes, the redistribution of wealth generated locally by taxation takes several forms (Question No. 49): In the opinion of our respondents, the fight against social inequalities to achieve greater social justice is very important. It accounts for 24.8% of the people in Saint-Louis City and 39.7% of the people in Kolda City. Here, tax acts as a buffer against the enormous differences that can occur in the distribution of wealth within a given territory. The tax collected from the richest people is used to provide a minimum of public services to vulnerable groups (healthcare, school education, access to water and electricity, etc.). In addition, the protection of the most vulnerable social strata in local authorities also appears to be another form of redistribution of wealth through taxation. Among the people surveyed, it accounted for 35.8% in Saint-Louis City and 31.2% in Kolda City, and it was most often part of local social protection projects/programmes.

In Senegal, these programmes include universal health cover and family security grants, as well as the programmes for the protection of women and children,

but also the programmes for the fight against flooding and early marriage, etc. The objectives of all these programmes are above all to ensure good social justice, but also to ensure national unity and solidarity. We can add the moral dissuasion of certain social practices which are considered undesirable as another form of wealth redistribution that local taxation can take (Saint-Louis City: 11.9% and Kolda City: 15.4%). Examples include penalties for incivism or tax reassessments, over-taxation of cigarettes or of consumer products that are harmful to health, fines on deforestation activities, fines for soil and sea pollution, fines for road traffic, and so on. The aim of these forms of action is above all to ensure the proper management of public goods and the equitable sharing of available resources between all present and future members of the community.

Finally, we have support for activities and for behaviour that are considered highly desirable, as another form of redistribution of wealth through taxation. Here, support can be as simple as a subsidy for operations or activities undertaken by private individuals, such as public health awareness campaigns, reforestation programmes, community education measures, or they can take the form of a tax reduction, especially for businesses with a strong community development focus (confirmed by respondents: Saint-Louis City: 27.5% and Kolda City: 12.8%).

However, there are a few factors that constitute real constraints to this function of redistributing wealth through local taxation in local authorities (Question No. 54). In the opinion of local people, there are several factors or constraints to the effectiveness of this social function of taxation. These include a range of degrading situations, undesirable behaviour and actions, and social needs or demands that have not been resolved by the public authorities, leading to forms of reluctance on the part of the population to consent to taxation and, by the same token, to its capacity to redistribute wealth among the members of the community. B. E., who is responsible for the municipal tax base in Saint-Louis City, explains this point: "Today, if you want to promote local taxation, you must start at the top, i.e., the State. So, we need to review the law on local taxation. We need to review certain taxes that have gone up, to revalue certain activities, and to consider certain activities that are not taxed, such as fishing and the parking of pirogues in all the local authorities. And, maturity, responsibility is the right of the State." (Survey data, August 2023)

For some people, the inefficiency of the redistribution of wealth through taxation is the result of a lack of transparency in the management of local public finances (Saint-Louis City: 28.7% and Kolda City: 27.7%). The low level of public access to information about local authority budgets, the use of the tax revenues, and the poor governance that very often surrounds local finances are all factors that cause taxpayers to become "inward-looking" and reluctant to pay taxes. For still others, this inefficiency could be caused by a lack of involvement of the local people, who are often left out of the decision-making process for local policies and

for budgetary choices (Saint-Louis City: 18.7% and Kolda City: 21.5%). This limits the participation of the people in efforts to finance development projects in local authorities. In addition, another factor cited concerns inequalities in the tax treatment of taxpayers (Saint-Louis City: 17.5% and Kolda City: 13.1%). Some people feel that they must bear more of the burden of taxes than others, which leads to feelings of revolt and outright refusal to pay taxes. According to most of the people we met, the tax burden of the communes is borne more by the poor than by the rich, because of the many tax exemptions or reductions the latter receive from the public authorities. Another factor in respondents' explanations concerns the poor provision of local public services in the communes (Saint-Louis City: 12.3% and Kolda City: 16.2%). Observations show that the more people think they are satisfied with local public services, the more willing they are to pay taxes despite the level of fiscal pressure.

Thus, the poor quality of local public services is either seen as the result of incompetence on the part of the administration to manage the municipality properly, or as a sign of misappropriation of the municipality's revenue. This is a major reason for taxpayers' incivism.

A final factor is the low level of investment in the communes (Saint-Louis City: 22.8% and Kolda City: 21.5%). As with the previous factor, the people understand that the taxes they pay are intended to finance local investment. The lack of visibility of what has been achieved in the municipality, as a counterpart to the payment of taxes, makes people however very reluctant to pay taxes. This is especially true when the need for commercial, road and sports infrastructure, etc., is more acute in the local authority. All the factors mentioned above constitute real obstacles to the effectiveness of the social function of redistributing wealth through taxation in local authorities, either by failing to carry out this function properly, or by failing to create the necessary conditions for its implementation because of a lack of consent to taxation.

5.1 Local taxation and local fiscal governance in the two communes

The involvement of the local population in the various tax operations has a scope that goes beyond compliance, i.e., there is a voluntary consent to taxation. Indeed, it is also seen as a guarantee of local democracy because it puts local players back at the very heart of the decision-making process on budgetary choices and local revenue management methods. At the same time, it puts public fiscal action under the citizen's control and ensures good governance and transparency in the conduct of fiscal actions. This is why the involvement of the local population in the various tax operations becomes an essential factor in any process of building a LED dynamic in Senegal's territories.

Above all, we note a low level of involvement of local people in the communes on tax operations (Question No. 152). More than half of the people we met

considered this level of involvement to be very low, or even non-existent (Saint-Louis: 73.3% and Kolda: 50%). Local taxation remains very much 'on the fringes' of the day-to-day lives of people in the communes. This makes them even more reluctant to use this institution. The percentage of the population claiming to have felt some form of involvement remains very low (Saint-Louis City: 11.7% and Kolda City: 11.7%). This situation can also be explained by the lack of means of communication or awareness-raising on the part of those involved in taxation on the many issues relating to local taxation in the communes. The percentage of the population who said they had no information at all about this issue was however much higher in Kolda City (38.3%) than in Saint-Louis City (15%).

Among the people who acknowledged to have a certain involvement on the part of the authorities in the various tax operations, we noted several activities in which they admitted of having participated at least once during the last five years (Question No. 153). The most important is the preparation of the municipal budget (Saint-Louis City: 1.6% and Kolda City: 6.4%). This is an essential phase in the process of mobilising local resources, as it determines, after assessing the commune's fiscal potential, the share allocated to the operating and investment revenue and expenditure sections for the actual financial year. This phase, if carried out properly, requires a great deal of consultation and mobilisation of local players. A second area of involvement of the people is the participation in public debates on the commune's investment priorities (Saint-Louis City: 1.6% and Kolda City: 4.8%). This is another very important step in the process of mobilising resources. The aim here is to ensure that the tax instrument is properly anchored in the issues and challenges facing the region. A third area of involvement of the people is during the establishment of the municipal tax base (Saint-Louis City: 1.6% and Kolda City: 3.2%). Above all, it makes it possible to carry out a rigorous assessment of the tax base and to clean up the commune's tax base. For this reason, the involvement of the local population is essential to the success of the operation. It guarantees the smooth running of activities, the cooperation of taxpayers, and the reliability of the data collected in the field. As a fourth area of involvement, we have the collection of local taxes (Saint-Louis City: 4.8% and Kolda City: 3.2%). Like the establishment of the tax base, the involvement of the local population increases the compliance and helps to ensure that operations run smoothly. And finally, in a fifth area of involvement, communication/awareness campaigns play a role (Saint-Louis City: 6.4%). The aim of these campaigns is to inform the people about the timetable for tax operations and to raise their awareness of the real significance and the stakes of paying tax.

In addition, participation in the vote on the municipal budget is an important indicator of the level of citizen involvement in the socio-political life of the commune. It demonstrates the good relationship that exists between citizens and administrators, and it guarantees a good transparency and an efficient governance of

local public finances, and as well, a good level of consent to local taxation. However, the level of participation by local people in the vote on the communes' budgets is still too low. The number of people who said they had never taken part in this vote is very high (Saint-Louis City: 61.7% and Kolda City: 88.3%). This can be explained by the population's lack of information on activities or operations linked to local taxation, the many reservations they have about local government, or the lack of transparency in the management of local finances. The number of people who said they had participated at least once in voting on the commune's budget over the last five years remains rather low (Saint-Louis City: 38.3% and Kolda City: 11.7%). This shows the weakness of local economic development (LED) mechanisms in the communes.

In addition to the low turnout at voting sessions, people's level of access to information about the budget is very low (Question No. 155). In fact, an impressive number of the people of the communes declare that they have no knowledge/information about the local budget. Analysis shows that the number of people who said they had never had access to budget information remains very high in the communes (Saint-Louis City: 83.3% and Kolda City: 66.7%). The local budget document is still very difficult to access because of its technical complexity and the fact that the data are difficult for local people to decipher. Only a rather small number of people in the communes (Saint-Louis City: 16.7% and Kolda City: 33.3%) admit to having had access to this information at least once in the last five years. This further confirms the level of de-compartmentalisation between local taxation and grassroots people.

At local authority level, there are several media formats available on the budget (Question No. 157). The challenge is above all to achieve better media coverage in terms of communication, but thanks to an effective targeting of the actors, and a better specialisation and adaptation of the content of the information in relation to the targets it is possible to ensure the best possible result on budget awareness. When asked about the information media available locally on the budget, we can clearly see that radio broadcasts are by far the most widely used ones in the communes to share the information on the budget (Saint-Louis City: 59% and Kolda City: 87.3%). For the most part, they are hosted periodically by the tax departments, in collaboration with the town halls. The themes revolve around tax collection and payment methods. Then there is the Internet, which is also an effective channel of communication these days in the communes (Saint-Louis City: 10.8% and Kolda City: 9.5%). The use of social networks (X, Facebook, Instagram, YouTube) and of local news sites (ndar info⁵², Kolda (city) news⁵³) is also an excellent way of reaching a very large population at a low cost.

⁵² See: <https://www.ndarinfo.com/>

⁵³ See: <https://www.senenews.com/tag/kolda>, and: <https://www.senenews.com/category/actualites/regions/kolda>

Although not very representative of the data collected, we can also note the presence of other means of communication, such as physical documents (Saint-Louis City: 16.9% and Kolda City: 1.6%), which can be consulted at town halls or tax offices, or at televised debates (Saint-Louis City: 6% and Kolda City: 1.6%). These have been used only very occasionally over the past five years.

Regarding the level of satisfaction with the conduct of the budget, i.e., the financial management of the communes, we can finally note a real difference in the appreciation on the part of the local population (Question No. 158). For example, according to the data collected, the number of people who gave a response was much higher in the commune of Saint-Louis City (66.7%) than in the commune of Kolda City (21.7%). Similarly, and conversely, the number of people who said they were not satisfied with the way the budget was managed in the commune of Kolda City (63.3%) has far exceeded that in the commune of Saint-Louis City (16.7%). This situation may be reflected in the specific issues and needs of each area: in the commune of Saint-Louis City, there is more reluctance and lack of information on the part of the population with regard to taxation or local administration, although the level of governance was obviously considered as comparatively better, whereas in the commune of Kolda City, in addition to this lack of information, the people feel more of an urgent need to clean up the governance of local finances and to improve the provision of local public services.

However, in these same two communes, we can see very similar, if not identical, low percentages in terms of the number of people who said they were satisfied with the way the local budget was managed (Saint-Louis City: 15% and Kolda City: 15%). Finally, B. K., an official at Saint-Louis city town hall, said: "We are not yet in the economic or development field. Because that's for the State. Today, the new theory launched by Act III of decentralisation consists of creating development centres with a flat-rate allocation. The economic development of Saint-Louis city is the fusion of fishing, tourism, and agriculture. This is what the department has in common. Saint-Louis city has a beach and a sea. We also have land and agri-business. So, it's the combination of these three elements that make it for the development of Saint-Louis city. This is the factorial endowment that nature has bestowed on Saint-Louis city. But this potential is not overly exploited (Survey data, August 2023). For Kolda city, it is the general weakness of governance and the low level of supplied public services resulting in the low value of credibility for the management of the local budget.

5.2 Local taxation and the financing of local public services by municipalities

In political and economic terms, taxation is a central element in the mobilisation of the financial resources needed to fund local government. But its true scope is not limited simply to this regulatory function. Taken in its socio-spatial dimension,

local taxation provides a framework for the expression of local democracies and the participation of local players in the life of the local authorities. It creates a space for an ongoing dialogue between stakeholders to define a coherent and shared vision of the society, through rigorous identification of the issues at stake and the resources to be mobilised to adequately address the constraints. It also creates a favourable environment for business development and the promotion of local economic initiatives, the creation of local jobs and wealth, the promotion of local resources, and for socio-territorial marketing, etc., all of which contribute to the revitalisation of local areas.

An analysis of the trends emerging from the various responses given by local people reveals that the financing of territorial administrations through taxes occupies in the view of the people a prominent place in the communes (Question No. 56). It comes first in the commune of Kolda City (32.2%) and second in the commune of Saint-Louis City (22%), just after subsidies from the State and finance from development partners, which come first in the commune of Saint-Louis City (with 26.5%, compared with 18.1% in Kolda City). This situation is explained by the importance of decentralised cooperation and the role of development partners in the city. Saint-Louis is also a historic city that has been a UNESCO World Heritage site since 2004, and so it benefits from several forms of decentralised cooperation, such as with the city of Lille, which has developed a major local development programme in the commune, with several achievements to its credit.

It should also be pointed out that there are other ways of financing local authorities besides taxation. This is the case with borrowing, which is often seen as an alternative to taxation or as a solution to the multiple fiscal pressures on communes to meet their financing needs. More people in Kolda city (14.1%) than in Saint-Louis city (6.4%) are favouring to borrow, perhaps because of the lower income level of the population, the high level of insecurity in the area, and because of the lack of decentralised forms of cooperation at the local level or the lack of forms of external cooperation. In addition, some local public services are priced in the form of fees paid to the local authority (Saint-Louis city: 8.1% and Kolda city: 9.4%). Examples include household waste collection, rubbish emptying, and urban transport services. But this method can only be fully effective in local authorities that have a satisfactory level of development, with good equipment and facilities, and with a sufficient infrastructure. Many of Senegal's local authorities do not meet these criteria.

Reducing waste and optimising management of municipal resources are also seen as a means of financing public service needs (Saint-Louis city: 17.9% and Kolda city: 16.8%). The explanation here is to ensure a better allocation of the commune's revenue to achieve an optimum use of the resources available in terms of operations and investments. This will also have the effect of banishing all forms of corruption and misappropriation of public funds for other purposes. Privatisation, although only a small part of the respondents has commented on it (Saint-

Louis city: 4.6% and Kolda city: 2%), is another means of making financing available to local authorities. This financing strategy can involve anything from the simple development of public spaces to which access is made subject to a charge (such as the Place Abdoulaye Wade is transformed into a paying car park in Saint-Louis city) to the transfer of public property to private operators. No information is available on such transactions at local level.

Finally, we have the allocation of loans or subsidies, in return for interest paid to the local authority (Saint-Louis city: 14.5% and Kolda city: 7.4%). This method of financing has a dual purpose: first, to promote local economic initiatives by improving access to finance for individuals, and second, to improve local authority revenues through fees and interest paid. However, for its implementation, the municipality certainly needs a sound financial base and a good monitoring and control system, to avoid cases of misappropriation and of refusal to repayment. The experience developed by the Agence régionale de développement de Saint-Louis city, in partnership with the Association pour la coopération et le développement in the department of Podor, is a very clear example of this form of financing for communes.

Analysis of the level of appreciation of the place given to local taxation in the communes' budgets is also very revealing of its economic function in Senegal's local authorities (Question No. 58). What is at stake here is the public's understanding of the importance of tax revenues for the financing of local authorities. Thus, we note that a small proportion of the people considers that tax does not yet play a sufficient role in the commune's budgets as in Saint-Louis city (16.7%), compared with a very large role assigned to in the commune's budgets like in Kolda city (51.7%). The sharp difference in views in the two communes can be explained by the importance of needs in terms of the provision of local public services, if we consider the fact that a large proportion of the local people think that these services should be financed by taxes. So, the greater the unmet need for public services, the more important is assessed the role of taxation. This interpretation must also consider another fact: the lack of provision of quality local public services could be perceived by the population as a public finance management problem (because of corruption, misappropriation of funds, and problems in choosing the commune's priority sectors). According to A. F., an employee of the Kolda city Regional Development Agency, the situation is assessed as follows: "The share of local taxes in the financing of the Commune's various activities is still far below the existing fiscal potential. Kolda city is a commune with a lot of potential, but it is not being exploited because of technical constraints or a lack of political will. The material means, the financial resources or the personnel are not sufficiently available, or the mayor doesn't want to frustrate people at times, and this can have a big impact on the Commune's revenue. As a result, the Commune is obliged to call on external funds to ensure its operation." (Survey data, August 2023)

In addition, there is a high proportion of people who think that the tax system is not sufficiently developed (Saint-Louis city: 53.3% and Kolda city: 45%). This shows both the high demand for public services in the communes and the limited resources available to provide them. The lack of quality staff in the face of ever-increasing demand, the poor quality of the public services available, and the low level of revenue in relation to the investment needs, are all reasons that could justify the large number of people with this viewpoint in the communes. However, the percentage of people who consider the tax to be an adequate part of the budget remains very low in Kolda city (3.3%), compared with 15% in Saint-Louis city, which also records almost 13.3% who think it is very adequate.

Furthermore, as mentioned above, as well as being an instrument of social justice through the redistribution of wealth to ensure greater social equity and to combat poverty, taxation also has an economic function. In fact, it can take the form of structuring the market and stimulating local economic initiatives, of managing public spaces, and of implementing territorial powers (Question No. 59). Analysis of the data shows that the economic role of taxation is concentrated more in the operational running of the communes (Saint-Louis city: 28.3% and Kolda city: 21.1%). The heavy tasks and the responsibilities that local authorities must carry out mean that most of their revenue goes directly into operating costs, to the detriment of investment costs. These include municipal staff costs (which are in excess volume because of the weight of political decisions in the management of local government), costs of office equipment, costs of road maintenance, etc., all of which are budgetary burdens for local authorities. However, we can also note another economic role of local taxation: the assumption of responsibility for investment expenditure in the communes is widely shared (Saint-Louis city: 24.2% and Kolda city: 29%). This is part of a strategy to improve infrastructure and facilities in the communes, such as roads, bus stations, urban markets, etc., or to construct social facilities, such as classrooms, nurseries, water provision, public lighting, etc., with the aim of improving the living conditions of the local population. In addition, the promotion of the local economies through tax revenues plays a significant role in the economic function of taxation (Saint-Louis city: 25% and Kolda city: 21.9%). This mainly concerns the development of resources through fiscal interventionism, through the promotion of entrepreneurship, and through local economic initiatives, such as protectionist measures, allocation of subsidies, and tax reductions. This is a genuine strategy for promoting employment and wealth in the communes. Finally, we have the fight against poverty as another economic function of taxation in the communes (Saint-Louis city: 22.5% and Kolda city: 28.1%). Here, tax plays the role of stimulating local economic dynamics to effectively combat unemployment and the lack of sustainable jobs in the communes through the creation of a business-friendly environment.

However, despite the importance of the economic dimension of taxation, there are still several constraining factors that limit its scope and real effects on the processes of building local authorities in Senegal. These constraints are defined here as a set of facts or situations that hamper the effectiveness of the economic function of taxation (Question No. 64). Firstly, there is the poor quality of local economic information (Saint-Louis city: 14.6% and Kolda city: 16%). This is characterised by a lack of knowledge of the area, its local potential, its endogenous dynamics, and its major challenges and constraints. This limits any fiscal intervention and does not encourage local and foreign companies to set up in the area. There is also a lack of transparency in the tax administration system (Saint-Louis city: 27.9% and Kolda city: 23.4%). It is characterised by a low level of management of local public finances or by a lack of fairness in the tax treatment of taxpayers (Saint-Louis city: 11.4% and Kolda city: 10.3%): favouritism towards some groups of individuals and strong tax pressures on other groups of individuals, lack of transparency in tax assessment rules, lack of fairness in the treatment of tax credits, rebates, tax concessions and exemptions, which may nevertheless have a political objective of territorial economic promotion or development.

Another factor constraining the effectiveness of the economic function of taxation is the low level of involvement of the local administration in the management of the local market (Saint-Louis city: 15.8% and Kolda city: 11.4%). This manifests itself in the lack of presence of the administration in the local market, either in terms of investment or market facilities, in terms of promotion of local economic initiatives, job creation or wealth creation, etc., or in terms of fiscal interventionism: creation of a favourable business environment, protection of local businesses, etc. This fact can have a strong impact on the local economy and can have a major impact on the economic viability of local authorities.

The lack of involvement of the local population in the decision-making processes is also seen as a factor hindering the effectiveness of the economic function of taxation (Saint-Louis city: 10.1% and Kolda city: 14.9%). This means that the needs of the local population are not adequately considered in local economic development (LED) projects. This limits the level of ownership on which the success and the sustainability of these projects depend. B. F., a debt collector stationed at the Khar Yalla market in Saint-Louis city, explains: "Sometimes it's very difficult to get people to pay, because they say that the local authority does nothing in return for them. We waste a lot of time convincing people that they must pay their taxes, it's their duty. We even must go so far as to negotiate the amount, which is not at all normal. I understand that there are people, especially some women vegetable sellers, who don't have a great capacity to pay taxes, and it's normal for them to be granted tax exemptions from time to time, but paying tax should really be a reflex for them. We all know that the market situation is very complicated, especially when it comes to tax relief, but if they don't pay how can they expect us to manage all that? When we come, people start closing their canteens or others tell you that

they didn't know we were coming and so they're not ready. As you can see, it's a very difficult job.” (Survey data, August 2023) The poor quality of local public services and the low investment into the local infrastructure come last to be considered as constraints, with 7.6% and 12.7% respectively in Saint-Louis city and 12.6% and 11.4% in Kolda city; only few respondents see some adequacy in this regard. These constraints can be explained above all by the low tax yield they generate due to the many reluctances on the side of the local population to consent to taxation. This also limits any fiscal intervention in the communes.

In addition to the economic function, the territorial and environmental functions of local taxation are very important in developing the municipalities. Indeed, the territorial sovereignty of taxation seeks to determine the real effects of tax competition between local authorities, or the inequalities resulting from taxation. Seen from this angle, the territory becomes a tax jurisdiction that determines the level of attractiveness through taxation, the space for the development of economic activities, or, even more, the strategies for promoting local economic initiatives, territorial marketing, the promotion of local resources, the fight against poverty, and so on. In short, tax competition determines the configuration of areas, both geographically and socio-politically, giving them a unique singularity. Since each territory is unique in terms of its appearance, its own personality, its potential, its resources, and its vision of development, tax sovereignty gives a practical dimension to this uniqueness through tax policies that differ from one territory to another (Question No. 66). An analysis of the field data shows that there is a positive perception of tax sovereignty on the part of the communes (Saint-Louis city: 31.7% and Kolda city: 40%). Here, fiscal sovereignty refers more to the competence of local authorities to tax, in terms of the specificities of taxation: making the most of revenue niches specific to the territory, promoting alternative resources, strengthening local businesses, marketing, and territorial attractiveness, etc., with a view to ensuring financial autonomy and sustainable local economic development.

However, in the opinion of others, this territorial sovereignty seems to be almost non-existent because of the low level of autonomy of local taxation (low level of decentralisation of the tax chain, inability to create taxes, failure to take account of the challenges and the specific characteristics of local authorities in terms of taxation, low level of control over the tax base and the tax collection processes, etc.). This situation severely limits any capacity for fiscal intervention, especially in terms of structuring the local market (Saint-Louis city: 33.3% and Kolda city: 35%). Territorial fiscal sovereignty can take the form, firstly, of political autonomy, manifested in the ability of local government decision-making bodies to resist multiple injunctions from central government or any other external player. Although this form has only been recognised in the commune of Saint-Louis city (10%), it should be emphasised that in Senegal, despite a strong decentralisation policy that grants specific powers and competences to locally elected

bodies, the latter are subject to enormous pressure from the central state. There is real central state interference in the internal policies of local administrations, despite legal recognition of their political autonomy, because of their heavy dependence on funds allocated by the State.

And secondly, local taxation can strengthen the negotiating capacity of local authorities to free themselves from the yoke of the central state by granting them a degree of financial power (Question No. 67). A significant proportion of our respondents (Saint-Louis city: 22.1% and Kolda city: 35.9%) recognised the financial sovereignty of local authorities through taxation. This manifests itself above all in the strengthening of local authorities' self-financing capacities through the revenue collected, to limit their dependence on external funds (State, NGOs, development partners, or decentralised cooperation). B. G., a senior official at the Saint-Louis (City) Regional Development Agency, explains: "Today, the only way to achieve financial autonomy for the communes is to mobilise their own local resources to ensure that local public action is effective. We've been working towards this for a few years, with the support of the Partnership Project and the Tax Services Centre, in five communes: two in the department of Podor (Doungalaw and Gamadji Saré), one in the department of Dagana (Gniit), and two in the department of Saint-Louis (Fass Ngom and Djébène Gandiol). So, in each commune, there is a Tax Revenue Enhancement Project that we have carried out, with related economic investment activities, such as the development of market gardening areas, the construction of chicken coops, and the setting up of local development funds. The aim was above all to strengthen the financial power of these communes to increase their autonomy and to impact on local development." (Survey data, August 2023)

Territorial autonomy, thirdly, comes last as a form of fiscal sovereignty (Saint-Louis city: 7.4% and Kolda city: 7.8%). It is characterised by the relative freedom of communes to manage their areas. In this way, each commune or territory, depending on its specific challenges, its endogenous potential, or its local economic development (LED) projects, defines its own vision for the future, free from any external injunctions.

5.3 Local taxation and the promotion of local economic development (LED) in municipalities

The health of local economies is a good barometer for assessing the fiscal efficiency of local authorities, because it is based essentially on their economic performance, especially in terms of wealth generation. These two elements are inextricably linked. This is why the health of local economies is a key factor in observing current economic dynamics, and why it is so important to assess the quality of the tax policies which are implemented at local authority level. It is necessary to look carefully at their implications in terms of LED (Question No. 149). Analysis

of the field data reveals a low level of performance in the local economies of the communes (Saint-Louis city: 25% and Kolda city: 73.3%), or even a very low level (Saint-Louis city: 16.7% and Kolda city: 23.3%). This situation can be explained by the weakness of economic activities in these communes, which are unprofitable and dominated by petty trade or family farming, especially in the commune of Kolda; the lack of local businesses, job insecurity, high youth unemployment, and the lack of infrastructure and commercial facilities matter in this context. This prompted B. K, an official at Saint-Louis city town hall, to say: “Our tax system does not finance development. So, for development, we need to rely more on the State through the assistance funds and on decentralised cooperation. A few years ago, we wanted to boost taxes to generate enough revenue to make small investments in the commune, but, as you know, people are political, institutions are political, and the team that took that decision left, and another team came in. So, we refuse to do it. The money that was supposed to be used for this is now being used to pay salaries. So, the local authority is generally faced with this problem.” (Survey data, August 2023)

However, there is a degree of optimism on the part of some people who feel that the situation is improving (Saint-Louis city: 46.7% and Kolda city: 3.3%), or even significantly improving (Saint-Louis: 1.7%), but the necessary resources will have to be made available. The great difference in the levels of perception observed in the two communes can be analysed as the result of the wide gap between their levels of socio-economic development. According to the local population (Question No. 151), strengthening local infrastructure is the primary means of improving the health of the local economies (Saint-Louis city: 34.8% and Kolda city: 33.6%). The aim is to make it easier for local businesses to set up there, to create local jobs, and to boost economic activity. In addition, financing local economic initiatives appears to be another means of strengthening the economic health of local authorities (Saint-Louis city: 28.3% and Kolda city: 23.8%). It has the effect of absorbing the over-abundance of workers for non-salaried staff positions in the communes and making economic activities more fluid. Training or supervision of young people is also a part of the same group of measures for a more dynamic economy (Saint-Louis city: 23.9% and Kolda city: 31.2%). The aim is to strengthen the capacities and the skills of the local players to improve public service provision and local competitiveness. Finally, we have noted the strategy for a reduction of the tax burdens to improve the competitiveness of local businesses (Saint-Louis city: 13% and Kolda city: 11.5%).

Regarding the current capacity of local taxation to ensure real financial autonomy for the communes, observation of the results of the field data is revealing on this issue (Question No. 90). Analysis of the data from the field shows that the revenue generated by the communes is far from sufficient to cover all their operating and investment expenditure (Saint-Louis city: 50% and Kolda city: 58.3%). This situation can be explained by a few factors: poor decentralisation of the tax

chain, lack of involvement of local executives in the process of raising tax revenue, low tax yield due to the narrowness of the tax base, and the often-insignificant rate of local taxation. The percentage of the people who believe that local taxation can guarantee the autonomy of the communes remains low. However, it does point to a few conditions: having a good strategy for mobilising available resources, increasing the value of the tax base, better communication, using awareness campaigns, and improving tax collection systems (Saint-Louis city: 15% and Kolda city: 16.7%). The other category of responses is made up of people who answered: "don't know", which also accounts for a significant proportion (Saint-Louis city: 35% and Kolda city: 25%). A few reasons can be put forward to explain the low capacity of local taxation to ensure a degree of financial autonomy for communes, despite their relatively high fiscal potential. They are largely due to the many administrative constraints and the opacity that surrounds the management system of local authorities in Senegal (Question No. 91).

As factors hindering financial autonomy, the lack of involvement of the local executives in the process of mobilising local tax revenue comes in the first place in the two communes (Saint-Louis city: 19.3% and Kolda city: 22.8%). There is little decentralisation of the tax chain in Senegal, with many revenues being still outside the control of the local authorities (Saint-Louis city: 17.7% and Kolda city: 14.9%). Taxes on water, electricity, minimum tax, etc. are collected directly by the State, through the DGID (Direction Générale des Impôts et des Domaines)⁵⁴, and are then passed on to local authorities without providing any knowledge of the tax base or the collection procedure. Due to staff shortages in the tax departments, local authority taxes are often relegated to a second place in terms of collection priorities. The failure to take account of the specific characteristics of local areas comes second as a factor constraining the financial autonomy of local authorities (Saint-Louis city: 19.3% and Kolda city: 21.9%). Local taxation is still having a great deal of trouble of integrating the issues, the constraints, and the potential of local authorities into its tax revenue mobilisation strategies. For example, the commune of Saint-Louis is renowned for its fishing activities, but there is still no tax on this activity (for parking of pirogues, for using landing quays, for working with fishing equipment, etc.). The only existing taxes relate to companies or lorries supplying the fishing products. This represents a huge loss of revenue for the commune. The same situation can be observed in Kolda with forestry products, as it supplies the entire national or even sub-regional market. The communes' limited capacity to create locally (new and other) taxes is the third and final factor for constraining their financial autonomy (Saint-Louis city: 18.5% and Kolda city: 18.4%). The only existing possibility is to act on local tax rates, whose scales are predefined in advance for the central government, to boost tax yields.

⁵⁴ See more about DGID: <https://www.dgid.sn/>

Another level of assessment of the effectiveness of local taxation in the construction of the LED refers to the capacity of the communes to provide quality basic public services. As we saw above, there is a strong relationship between tax efficiency and access to quality local public services. But here too, the observations made on the ground are not very reassuring (Question No. 127). We note a low level of appreciation of the quality of provision of local public services in the communes. In terms of the percentage of the people who think that it is “very poor”, we observe similar values for the two communes (Saint-Louis city: 16.7% and Kolda city: 15%). However, there is a big difference in the percentage of people who think that the service is “simply poor”: Saint-Louis city (6.7%) and Kolda city (43.3%). This can be explained by the different levels of development in the two communes, and the high demand for local public services in Kolda that has not yet been met. In terms of the proportion of the people who think that the quality of public services is “fair”, the findings for the two communes are almost identical, with a slight variation: Saint-Louis city: 51.7% and Kolda city: 40%. However, the percentage of the population who think that the quality of services is “good” is much higher in Saint-Louis city (23.3%) than in Kolda city (1.7%). What is more, not one person in Kolda city responded with the view that public service provision is “excellent” in this commune, compared with 1.7% in Saint-Louis city. These different perceptions on the quality of local public service provision largely reflect the level of efficiency of local taxation, if we know that the more efficient it is, especially in terms of its capacity to mobilise and to allocate tax revenues, the greater is the capacity to satisfy the social demand for local public service provision. Not forgetting also the fact that the feedback effect of the phenomenon matters, as people are more inclined to pay their taxes when they see that there is a real effort on the part of the local public authorities to satisfy their social demand.

In addition to the quality of the public services supplied, another observation can be made about the coverage of these same services at the level of the communes to have a more detailed appreciation of the situation (Question No. 128). Observation of field data shows a low level of coverage of local public services in the two communes (Saint-Louis city: 80% and Kolda city: 76.7%). The proportion of the people who say that they have sufficient access to these services remains well below the communal average of Senegal (Saint-Louis city: 20% and Kolda city: 23.3%). This shows the inadequacy of local public services, which are often very precarious in Senegal's communes.

However, certain solutions are often formulated to ensure that these local public services are performed well. They are part of a drive to ensure both the quality and the coverage of local government interventions towards the provision of local public services (Question No. 129). We can see that, among the people who already think that coverage of local public services is poor in the communes, especially in view of the high social demand, some feel that more should be done to improve coverage (Saint-Louis city: 25.4% and Kolda city: 22.3%). Others felt

that local public services should be made more accessible (Saint-Louis city: 30.7% and Kolda city: 24.3%). For still others, the quality of the public services needs to be improved at commune's level (Saint-Louis city: 33.3% and Kolda city: 39.8%).

In addition to the provision of local public services, the level of effectiveness of local taxation can be analysed in relation to the degree of involvement of local authorities in supporting local economic development (LED) initiatives. An efficient tax system must guarantee an environment that is conducive to the development of local authorities' socio-economic activities, thanks to support and guidance policies for those who are involved in innovative projects. As well as being a genuine means of promoting local economic development (LED), the involvement of town councils in subsidising/financing the socio-economic activities of grassroots players is also a good indicator for assessing the level of wealth redistribution and reinvestment of revenue generated by local taxation. Analysis of field data shows that town halls are involved in promoting local economic development (LED) initiatives in the communes. However, this involvement is assessed at very different levels in the two communes (Question No. 133).

In Saint-Louis city, the percentage of the population who recognised the involvement of the town council, in the form of subsidies or aid allocated, to local economic development (LED) initiatives, is somewhat significant (33.3%), unlike in Kolda city where it remains very low (5%). This also means that the percentage of the people who did not recognise any form of subsidy/aid from the town hall in the commune of Saint-Louis city remained very low (6.7%), whereas it was very high in the commune of Kolda city (58.3%). Lastly, a large percentage of the people said they had no information about the situation (Saint-Louis city: 60% and Kolda city: 36.7%).

We can also identify the main sectors or areas in which most Town Hall interventions are directed (Question No. 135). According to an analysis of the data, subsidies to associative movements (sports and cultural associations, associations of young returning migrants, associations of young political supporters, etc.) account for the largest share of council funds allocated to the local population (Saint-Louis city: 32.6% and Kolda city: 47%). They are closely followed by community movements such as "tontines", "dahiras", "gamou" or "maggal"⁵⁵ (Saint-Louis city: 32.6% and Kolda city: 37.9%). These two sectors alone account for almost all the support funds allocated by the town halls to the population of the two Communes. This situation can be explained by their strong political leanings. However, there is also a third sector: support for local entrepreneurship (Saint-Louis city: 15% and Kolda city: 7.6%), but these subsidies remain very small and ad hoc.

⁵⁵ These are community savings, credit, and social investment associations, as well as religious and cultural associations. Unlike associations, which are more formal, community movements are based on voluntary commitment and aim to provide cultural, social, and religious activities.

In addition to subsidies/financing for socio-economic activities, town councils can provide other forms of support for local people (Question N. 137). These include training for young people and women to improve their skills (Saint-Louis city: 34.2% and Kolda city: 17.1%). The areas in which most investment is important are processing, marketing, financial management, fund-raising, etc. Another form of support is the provision of local economic information to local players (Saint-Louis city: 18% and Kolda city: 39.5%). Although awareness of its importance in the development processes of local authorities is recent, it is currently attracting a great deal of interest from the side of the local executives. However, its poor quality and the lack of availability severely limit its effectiveness in local authorities. Still another form of support provided to the local population by town councils is the mentoring for project owners (Saint-Louis city: 19.7% and Kolda city: 15.8%), as well as the monitoring and giving advice (Saint-Louis city: 14.5% and Kolda city: 2.6%) and giving guidance (Saint-Louis city: 9.4% and Kolda city: 15.8%). The aim is to ensure the effectiveness and the viability of local economic initiatives by setting up a local monitoring, guidance, and advice system for economic operators. However, these support mechanisms are often non-existent or very weak at local authority level, mainly due to a lack of resources (financial and human). Finally, there is also the networking of economic players to improve the sharing of experience, to pool means and resources, to strengthen skills, and to improve local productivity (Saint-Louis city: 0.9% and Kolda city: 2.6%).

Regarding the funding of youth and women's projects, we can also see that the local people have different views on the level of involvement or support from town councils (Question No. 139). Analysis of the field data shows a low level of funding for young people and women in Senegal's municipalities. Indeed, a very large number of people think that these subsidies are "insufficient" in relation to all the needs (Saint-Louis city: 53.3% and Kolda city: 53.3%), or even "very insufficient" (Saint-Louis city: 38.3% and Kolda city: 41.7%). This situation reveals the poor capacity for wealth redistribution in Senegal's communes. Revenues are often very low and can in no way create and finance a social security system in the communes. The number of people who think that this funding or subsidy is "sufficient" (Saint-Louis city: 5% and Kolda city: 3.3%) or even "very sufficient" (Saint-Louis city: 3.3% and Kolda city: 1.7%) is very low.

Still about access to funding allocated by local councils, most of the people we met still criticised the lethargy of the local authorities in supporting young project holders in the communes. Often facing stiff competition from outside, they very rarely receive financial support from the local authorities (Question No. 140). We can see that most of the people we interviewed said that they had never received a subsidy or funding from the town hall to launch or to develop their activities, whatever the sector or the area involved: social, economic, cultural, or religious (Saint-Louis city: 81.7% and Kolda city: 93.3%). Only a small number of people - it was claimed by the respondents - have benefitted from these funds, at

least once in the last five (5) years (Saint-Louis city: 18.3% and Kolda city: 1.7%). The same observation can also be made about the personal knowledge the people have of a person who has benefitted from these subsidies as part of his or her economic activities (Question No. 141). In terms of people's immediate environment, few people in the two communes (Saint-Louis city: 25% and Kolda city: 8.3%) claimed to have known anyone who had received funding in the last five years. Otherwise, most people interviewed said that they had never known anyone in their immediate environment who had received a grant or funding for their socio-economic activities.

In addition to granting financial support for young people with innovative projects, the promotion of employment is a major component of the LED dynamics in Senegal's communes. It is part of a policy to improve access to decent and sustainable employment for young people through training, supervision, and socio-professional integration. Emphasis will therefore be placed on self-employment and the promotion of local entrepreneurship to make better use of the commune's endogenous resources and potential (Question No. 142). Our field data show that local authorities are increasingly involved in policies to promote youth employment (Saint-Louis city: 46.7% and Kolda city: 21.7%). This situation can be explained by the growing presence, since 2012, of various players (state and development partners) in the local authorities, who are working to promote the employment sector: CRE⁵⁶, ADEPME⁵⁷, ANPEJ⁵⁸, PADEC⁵⁹, etc. They have a very wide agenda, depending on the specific needs and challenges of each area: training, advisory support, guidance, funding of equipment, networking, support for market access, etc. However, the poor coverage of these different programmes in relation to the scale of demand, the cumbersome administrative procedures for accessing funding in relation to an under-trained population, and the many constraints linked to the supervision of the project holders, will lead to doubts concerning the effectiveness of these programmes in ensuring a genuine policy to promote youth employment in the communes (these doubts are expressed by the respondents: Saint-Louis city: 16.7% and Kolda city: 48.3%). Many respondents say they were never

⁵⁶ See: Centre régional d'Excellence (CRE) ; Link <https://isra.sn/lisra-heberge-le-centre-regional-dexcellence-cre-sur-les-cereales-seches-de-la-cedeao/>

⁵⁷ See: Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises (ADEPME); Link: <https://adepme.sn/>

⁵⁸ See: Agence Nationale pour la Promotion de l'Emploi des Jeunes (ANPEJ); Link : <https://anpej.sn/accueil/>

⁵⁹ See: Programme d'Appui au Développement Economique de la Casamance (PADEC) ; Link: <https://w05.international.gc.ca/projectbrowser-banqueprojets/project-projet/details/a032792001?Lang=fra>, and for PDEC (PROJET DE DEVELOPPEMENT ECONOMIQUE DE LA CASAMANCE): <https://documents1.worldbank.org/curated/en/099605001272230045/pdf/Stakeholder0En0Project000P17532501.pdf>

aware of the existence of programmes or policies to promote employment in the communes (Saint-Louis city: 36.7% and Kolda city: 30%).

Among the people who recognised the existence of real efforts to promote employment for young people and women in the communes, the views about such programmes are differing (Question No. 143). According to the data, young people are the most targeted by employment promotion strategies in the communes (Saint-Louis city: 16.8% and Kolda city: 15.7%), closely followed by women (Saint-Louis city: 18.8% and Kolda city: 8.6%). Project owners accounted for 9.7% in Saint-Louis city and 4.3% in Kolda city as regards targeting by such programmes. Disabled people accounted in targeting for 14.2% in Saint-Louis city and 1.4% in Kolda city, while unemployed or inactive people accounted for 4.4% in Saint-Louis city and 2.9% in Kolda city. Only the commune of Saint-Louis city provides employment for people in vulnerable situations (8%). Among the strategies used to promote employment (Question No. 145), recruitment into local government occupies a preferred position (Saint-Louis city: 30.7% and Kolda city: 21.9%). This is the most popular means of professional integration of people into the labour market of the communes. However, it should be noted that this form of recruitment is often based on political clientelism, with the effect that a great number of the local administrative staff has little experience or professional skills.

The public/private partnership is another strategy for promoting local employment, thanks to the introduction of incentives for the professional integration of young people in companies or organisations of the private sector (Saint-Louis city: 14.8% and Kolda city: 34.3%). To this we can add the creation of new socio-economic activities in the communes with a high potential for integrating young people (Saint-Louis city: 28.4% and Kolda city: 21.9%). This type of activity still faces the problem of securing or sustaining the jobs created because of the periodic nature of the activities/projects. Financing youth-related employment projects appears to be a strategy for the promotion of employment in the communes (Saint-Louis city: 22.7% and Kolda city: 20.6%). However, the weakness of local resources and the lack of support systems for project leaders limit the potential of this form of financing to be a real lever for promoting employment in local authorities.

Ultimately, reflecting on these experiences we see that financing of local development in Senegal centres mainly on covering operating costs rather than on structuring investments. Local taxation is still struggling to link up with the dynamics of promoting LED at the level of Senegal's territories. It is still slow to fit in with the logic of structuring local economies as areas of wealth production and growth. It still seems very disconnected from the real issues and challenges facing local areas that can drive economic development locally. Senegal's local economies are still marked by a serious lack of local businesses, insecure jobs and incomes, high youth unemployment, and a lack of infrastructure and commercial facilities in viable areas to produce wealth and growth. However, this level of

health of the local economies is a good barometer for assessing the fiscal efficiency of the communes because it is based essentially on their economic performance, especially in terms of wealth production.

An analysis of capital expenditure by local authorities provides two major pieces of information about how it has evolved in recent years. The first is that there is still a great gap between forecasts and actual expenditure, a situation which is explained by the exceptional nature of this expenditure, which local authorities find extremely difficult to control. The second is linked above all to the low level of this expenditure, which is largely financed by transfers and by external aid. This significantly limits the investment capacity of Senegal's local authorities. In 2021, roads were the leading sector for the allocation of these funds in the Commune of Saint-Louis city, followed by the acquisition of major equipment and administrative facilities. In contrast to these allocations, other sectors such as health, hygiene and social services have not received any investment. What is more, no budget line has been set aside for the promotion of local economic initiatives, a situation which limits the productive link between local taxation and LED in the Commune. If the communes are to play their role to the full, corrective measures must be taken to improve internal or own-source revenue with a view to improving the level of services provided to citizens.

However, observation of the questionnaire data shows that a very large proportion of the revenue collected is used to ensure the day-to-day up-keep of the communes, without any real capacity to finance local economic initiatives. In fact, analysis of the communes' expenditure balance sheet provides essential data for understanding the role of local taxation in building a LED-dynamics at local authority level in Senegal. It gives a clearer idea of how tax revenues are allocated, in terms of operating and capital expenditure. While the former largely relate to the day-to-day up-keep of the Commune, i.e. the various expenses associated with maintaining the provision of local public services, the latter refer above all to efforts to improve the economic dynamics of the commune. Both types of expenditure are intended to ensure that socio-economic activities are properly developed and that the quality of life of the local population is improved.

However, analysis reveals a real gap between forecasts and actual figures. This is reflected, above all, in the inadequacy of operating revenue to cover operating expenditure. In addition, it is possible to note the presence, in the operating expenditure of the communes, of services that are highly budget-intensive and which, over the years, have accounted for very large shares. These include the secretariats and the offices, which are the main absorbers of the communes' operating revenue, as well as the local tax collection departments and the offices of the Chairmen of the Councils. These various offices capture the bulk of the revenue generated in the communes. On the other hand, certain services, which are crucial to the development of the communes' economic activities and to improving the

living conditions of the local populations, are often relegated to the bottom of the budgetary expenditure priority and scale, as in the case of markets and roads.

In addition, despite its strong potential, local taxation is struggling to provide real financial autonomy for the communes. The revenue generated by the communes appears to be far from sufficiency to cover all their operating and investment costs. This situation can be explained by various factors: poor decentralisation of the tax chain, lack of involvement of local executives in the process of mobilising tax revenues, low tax yield due to the narrowness of the tax base, and the often-insignificant rate levels of local taxation.

The ability to provide quality basic public services is also a major component and a criterion for assessing the effectiveness of local taxation in building LED. As we saw above, there is a very close relationship between tax efficiency and access to quality local public services. But here too, the quality of local public service provision at the level of the communes remains very low and struggles to ensure optimum coverage of the needs of local populations. About the degree of involvement of local authorities in supporting local economic initiatives, it should be noted that an effective tax system must necessarily guarantee an environment that is conducive to the development of local authority socio-economic activities, thanks to support and guidance policies for players with innovative projects. As well as being a genuine means of promoting LED, the participation of town councils in subsidising/financing the socio-economic activities of grassroots players is also a good indicator for assessing the level of wealth redistribution and reinvestment of the revenue generated by local taxation.

Observation of the data on the ground shows that town councils are involved in promoting local economic initiatives. Associations are the most concerned by these subsidies granted to local economic initiatives. In addition to subsidies/financing for socio-economic activities, local councils also provide other forms of support for local populations, such as support for training for young people and women, mentoring or guidance for young people with projects to help them build their capacities. However, the level of funding for young people and women with innovative projects is still very low in Senegal's communes. This situation reveals the low capacity for wealth redistribution in the communes, with revenues often very low and unable to ensure the establishment of an Innovation Fund to support local economic initiatives. As for the promotion of employment, which is also a major component of the LED dynamics in Senegal's communes, we have observed a certain positive impetus on the part of local authorities in supporting young people.

Moreover, the involvement of the local population in the various tax operations has a scope that goes beyond compliance, i.e. means voluntary consent to taxation. Indeed, it is also seen as a guarantee of local democracy because it puts local players at the very heart of the decision-making process on budgetary choices and local revenue management methods. At the same time, it puts public fiscal

action under the citizen's control and ensures good governance and transparency in the conduct of fiscal actions. For this reason, the involvement of the local population in the various tax operations becomes an essential factor in any process of building a LED dynamics in Senegal's territories. However, observations in the field reveal a low level of involvement of local people in the communes in regard of tax operations. This further reinforces the reluctance towards this institution.

The same applies to participation in the vote on the municipal budget, which is an important indicator of the level of citizen involvement in the socio-political life of the commune. It demonstrates the good relationship that exists between citizens and administrators, guarantees good transparency and efficient governance of local public finances, and finally, signals a good level of consent to local taxation. But also, the level of access of the population to information relating to the budget of the communes does not make it possible to guarantee optimal consent to the payment of tax. At local authority level, it is possible to see several formats of support available on the budget. The challenge is above all to achieve better media coverage in terms of communication, thanks to effective targeting of players, specialisation, and adaptation of the content of information in relation to the targets to ensure the best possible results. It is also worth highlighting the low level of satisfaction among local people with the way budgets are run, i.e. the financial management of the communes, mainly due to the lack of means of communication. This impacts on the budgetary choices made in terms of investment and operating expenditure, and results in the poor quality of equipment or supplies of local public services.

6 Conclusions and Policy Recommendations

6.1 Conclusions

The aim of this research was to systematise tax resource mobilisation strategies and tax innovations underway in the Saint-Louis city and Kolda city areas, as well as their impact and generative effects in terms of promoting LED (local economic development). The choice of the theoretical and the methodological framework has epistemological significance. We believe that the classical economic analysis of taxation, which focuses on the financial, the economic regulation and the redistribution functions of taxation, is no longer sufficient to explain the relevance of tax procedures. It needs to be complemented by the socio-political dimension of fiscal sociology, which includes the social, political, and territorial functions. Local taxation must therefore place territorial issues at the heart of its problems, by seeking new possible links with the socio-economic dynamics of local authorities.

To test this hypothesis, we conducted the study mainly in two municipalities in Senegal: Saint-Louis city and Kolda city. These two communes were chosen to gain a better understanding of the diversity of practices, of current innovations, and of strategies for promoting local taxation and local economic development in Senegal's local authorities. The methodological approach adopted is therefore based on a participatory, comprehensive, and systematic approach involving the broad participation of all stakeholders in the implementation process (tax departments, the Town Hall, the Municipal Council, the Treasury and the RPM/Regional Programme Manager departments, decentralised stakeholders, technical and financial partners and, lastly, civil society and taxpayers). The data collection tools, based on a logic of triangulation of both qualitative and quantitative data, are developed according to the targeted objectives and for each category of targeted stakeholders. Various types of tools have been used during this study (semi-structured interviews, focus groups, and questionnaires). The aim of these tools is to provide a wide range of in-depth information on the situation being studied. Furthermore, the general context of the national situation regarding decentralisation policies, of local taxation and local economic development, reveals the uncertainties, the ambivalence, and the rarely certain and productive policies of the Senegalese State. The failures observed in the post-1990 period anticipated the recognition and renaissance of the 'local' not as a receptacle for projects and programmes, but rather as the relevant scale for development. Ultimately, the place of LED in public policy reflects the difficult strategic repositioning of territories within the Senegalese regulatory system being under reconstruction. Senegal's experience shows that, despite the institutional reforms, the State is no longer the only actor in the territories, but it remains the predominant actor in both national and territorial public action.

In other words, the subordination of the "local" to the "national" has remained a constant in public policies, and the State seems to be more content with implementing a territorialised local development policy than with boldly supporting territorial policies and initiatives which are initiated and/or led by territorial players. Such an issue sheds light on the nature of relations between the State and the local authorities, and on the preponderance of the sectoral approach subject to the paradigm of the tutelary function and the hierarchical logic. However, the restructuring that has taken place in the construction of public policies and in establishing the new position of local authorities, as well as the latter's expression of their need for greater autonomy, especially in the financial sphere, are sufficient to justify the renewed interest in local taxation and local economic development.

It is therefore, thanks to this process, on the one side institutional (linking local economic development to decentralisation) and on the other side budgetary (securing solid financial resources and self-promotion), that local tax financing and management becomes a necessity. From the outset, it appears to be a possible way of addressing the issue of the legitimacy of territorial policies and of creating an

instrument for generating wealth in response to the different levels of constraints posed by the financing of local authorities.

In Africa, we are seeing a shortfall in the funding provided by governments, considering the prerogatives of local authorities. A large proportion of funding is based on external resources and on development aid programmes. It is not only necessary, but even urgent, to promote other, more flexible, and more accessible means of funding, capable of responding appropriately to the expectations and the new challenges currently facing decentralised territories. To attract funding, local authorities themselves can seek partners through decentralised cooperation. Senegalese local authorities have very little investment capacity, which is essentially limited to local facilities (market infrastructure, social centre, stadium, or municipal field, etc.) and to small funds for social assistance. To ensure their viability, inter-municipal cooperation is a promising way forward, but it has yet to demonstrate its ability to structure local authorities into project areas, through the pooling of resources, through a coherent and shared vision of the area, and through the co-production of services. However, the plethora of local authorities in Senegal, which often have few resources and little capacity for action, are incapable of carrying out their missions properly and therefore become "empty shells", could well justify the relevance of this approach.

These two experiments carried out in the communes of Saint-Louis and Kolda reveal that, despite the strong potential that exists, local taxation is still struggling to provide real financial autonomy for the communes. The revenue generated is far from sufficient to cover all costs and tasks. This situation can be explained by several factors: the lack of decentralisation in the tax chain, the lack of involvement of local executives in the process of raising tax revenue, and the low tax yield due to the narrowness of the tax base and the often-insignificant rate of local taxation. There is also a discrepancy between taxation forecasts and the actual mobilisation, resulting in a lack of control over the tax base and the local tax collection. This has a significant impact on the municipality's ability to provide quality public services to the local population. Focused more on covering operating costs than on structural investment, local taxation is still struggling to tie in with strategies to promote LED at a regional level in Senegal. Much of the revenue collected is used to ensure the day-to-day upkeep of the communes, without any real capacity to fund local economic development (LED) initiatives. Because of its obsolescence, taxation provides little financial return and is still slow to become part of a rationale for structuring local economies as areas for wealth production, growth, and development. It still seems very disconnected from the real issues and challenges facing local areas, especially in terms of producing viable areas that can drive local economic development (LED). Senegal's local economies are marked by a lack of local businesses, by insecure jobs and incomes, by high youth unemployment, and by a lack of infrastructure and commercial facilities.

6.2 Policy Recommendations

Based on our observations and findings in the field, we believe that major reforms are needed to reduce the enormous problems facing local authorities, with a view to improving the performance of local taxes and putting local authorities on a more sustainable footing, so that a more dynamic development of the communes can take place. Local taxation should be more closely linked to the current challenges of local economic development (LED), by introducing new budget lines for better implementation and the creation within the communes of specific development funds fed by their own resources to finance certain local economic initiatives. This is why, to guarantee the effectiveness of national development policies, local authorities must be placed at the heart of the current institutional reforms initiated by the State of Senegal in its Act III of decentralisation. The traditional way of managing local authorities, limited solely to cover their operating costs, seems highly unproductive in the face of an ever-changing world that has become more demanding in terms of the quality of its services and development actions. It must be superseded by a more pragmatic, more resilient, and more efficient management approach, geared towards LED, to better meet the needs and challenges of local areas and to improve the living conditions of local populations.

Institutional adaptations for local governance systems matter: To ensure a greater financial autonomy and a better performance of local economic action by Local Councils (LCs), the State must strengthen the institutional framework of the territories, mainly by ensuring a match between the resources and the responsibilities, to enable them to fulfil the powers transferred to them. The State must ensure that LCs receive an equitable transfer of the resources which they need to carry out the tasks entrusted to them, i.e., that transfers of powers are followed by transfers of adequate financial resources. What's more, decentralisation in Senegal has to be based on the principles of a single cash register and of the separation of authorising and accounting officers. In other words, it is necessary that the decentralised government departments themselves manage the local authorities' finances. In fact, the monopoly of the tax departments over the collection of local tax revenue is producing insufficient results. To ensure that the centralised system⁶⁰ can better respond to the concerns of the communes, the following institutional improvements must be made:

⁶⁰ Centralization is a system of administration in which all powers are concentrated in the hands of the State, which, through its powers, resolves the problems relating to the country as a whole and the problems which are specific to the population of a given geographical area.

Decentralisation of the tax chain: This is possible via creation of specialised local offices to process tax rolls⁶¹ to limit time constraints and file errors; extension of the remit of the local tax commission (LTC) to cover all the local revenues; greater involvement of local players in the various tax operations to mitigate the problems of administratively controlling local tax revenues and the consequences of the remoteness of tax departments.

Strengthen the dialogue and the cooperation between all the decentralised stakeholders and the local authorities: This is to improve the mobilisation of local resources and the efficient management of local economic development (LED) initiatives.

Strengthen the local administration support and the supervision of local authority initiatives: This refers to staff recruitment, training, appropriate equipment, support for local initiatives, etc., to ensure that development projects are carried out to a high standard.

Improve the financial framework of the communes: This will give the communes sufficient room for manoeuvre by reducing the State control in the long term, so that they have real autonomy in decision-making; it is necessary to strengthen the power of the tax authorities at all governance levels to enforce their decisions, and to encourage the coming-up of more civic-minded taxpayers.

Increase local authority equipment funds: This is possible by reallocating 5% of the VAT revenues to improve the local authority investment funds; it is also necessary to redefine the criteria for distributing assistance funds so that they are based on more objective factors, such as the total operating costs, the real needs in terms of local public services, the size of the local authority's population, etc.; and, it is imperative revalue the local tax rates, as some of these rates are very outdated and are unable to respond adequately to the current challenges facing local authorities.

Supervision and support for local authorities' access to loans to raise additional funds for structural investment in local authorities: Despite the strengthening of local authorities' financial powers under the new Local Authorities Code (LAC), particularly in terms of mobilising resources through the introduction of innovative funds, they are still finding it extremely difficult to use this method of financing because of administrative constraints.

Strengthen the investment power of the local authorities: It is necessary to define a binding framework for local investment, to allocate a minimum share of 20% of local revenue to be used to finance development projects, and to set up a support and guidance system for local investment.

⁶¹ This work is currently centralized at the central office in Dakar, which handles all the processing and the preparation of the tax rolls. This leads to red tape and to enormous delays in the collection of local revenue, with some rolls arriving even 10 months after they have been compiled.

Implementation issues matter: Local officials should make every effort to substantially improve the level of tax revenues by gradually broadening the tax base and by stepping up collection efforts. In this respect, it would be wise to distinguish between high-yield and low-yield communal taxes. High-yield taxes must first have a broad base, growing steadily, be easy to count and to estimate in value, and should have a basis that is understood and accepted by the taxpayers. Next, their collection rate must be truly consistent; and finally, their collection must be easy and inexpensive. In addition, tax collectors must be motivated as much as possible in their tasks to increase the yield of these taxes. Low-yield taxes are largely made up of the refuse collection tax, the tax on shows, games and entertainment, and the tax on motor vehicles and horse-drawn vehicles. Their tax yield should be increased by identifying and constantly monitoring taxpayers who are liable to pay them by using adequate processing software. A special collection policy needs to be developed to improve the level of these low-yield taxes. This will involve, for example, organising communication/awareness-raising campaigns to explain the rationale behind these taxes; it is also needed to constantly update the tax rolls (the list of taxpayers and their amounts to be paid) to ensure a proper control of the tax base, and to step-up the collection efforts to reduce the tax evasion and the incivism (lack of civic-mindedness and/or lack of patriotism).

Structural measures to improve the local tax system: In addition, there are other measures that need to be considered, such as broadening the tax base by implementing a strategy to control the informal economy to maximise its tax benefits. This sector, which is growing steadily, has a real fiscal potential in the communes. But also, the updating of the bases of the local taxes through a periodic census of new taxable matters/niches/activities could help to raise local taxes. Subsequently, strengthening the capacity of agents involved in the management of tax revenues is needed, especially through the training of staff involved in the mobilisation of financial revenues for the benefit of the communes. Because of the lack of expertise of the tax offices personnel, this would help in the overall implementation process along the tax chain. And the implementation of a regular control system for the agents in charge of tax collection is also highly important to overcome corruption, tax fraud, and tax evasion. An appropriate policy for allocating bonuses and allowances must be adopted to encourage and to facilitate deserving managers in the light of their performance. Regular staff training is essential for the sound and efficient performance of administrative and financial services. In this case, it is important to draw up a specific training programme for local council managers and staff.

Investigation methods play a great role also at the local taxation level: These are the procedures used to search for and to collect information and other clues revealing taxable matters or tax fraud networks. The modernisation of investigation methods involves the development of the Urban Land Register (ULR), the

introduction of a computerised system to detect suspects, and the creation of a sectoral study service. The Urban Land Register (ULR) is a simplified form of a land registry which is responsible for recording all the landed properties, finding their apparent or real owners, recognising them, and defining the cadastral boundaries of these properties, describing them, and valuing them. The implementation of a computerised system capable of analysing and managing the data makes it easier to detect suspect companies. This is true of many companies that report losses every year. Despite accumulated losses over several years, these companies continue to operate and are not even audited, whereas other companies have been audited once or several times since they were set up. The creation of sector study services and the preparation of monographs by sector of activity are useful tools for strengthening the taxation system. The sector study and the preparation of monographs will enable comparisons to be made between companies working in the same sector of activity and would help to learn about their problems. This study will also provide information on the main companies in the market, their management and production resources, the main customers, and the relevant suppliers in the sector.

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Appendix: Access to the Questionnaire Used in the Fieldwork

Title of the Questionnaire: "Survey on local taxation in Senegal - Local Economic Development in the Communes (cities) of Saint-Louis and Kolda in 2023"; see the link: <https://drive.google.com/file/d/11OkVQSCeghhTxogKTsBmblQo2j1Yp-bOx/view?usp=sharing>

Box: Structure of the Questionnaire

1. Sociological identification
2. Social representation of the taxes
3. Social functions of the taxes
4. Economic functions of the taxes
5. Territorial and environmental functions of the taxes
6. Social representation of the local administration
7. About Tax Citizenship
8. Relationship to economic development and local governance

Unit 3: Special Theme on “COVID-19 and Fiscal Policy in Africa”

COVID-19 and Fiscal Policy in Africa – New Research Approaches and Policy Recommendations for Africa¹

By Philippe Burger and Samantha Joy Cinco

1 The Issues

The Context: Fiscal Policies in Africa in Times of the COVID-19-Crisis

Traditionally, fiscal policy focusses on the three Musgravian objectives² of economic stability, typically interpreted as countercyclical policy, a better distribution of income and wealth through progressive taxation and the size of the social wage, and better efficiency allocating resources to support economic growth. With the advent of development economics, sustainable economic development also became an objective, particularly in countries with less advanced economies. All these objectives focus on structural approaches to policy making. A question such as whether time inconsistency plagues fiscal policy, where a policy run today will in all probability be reversed in the future, is one example of such structurally related questions. Another question typically debated is whether a redistribution policy implemented by the government undermines economic growth and the efficiency with which fiscal resources are allocated. Thus, some of the Musgravian policy objectives might conflict with others. Trade-offs might be needed. The approach, though, is still structural and the goal is to implement a policy that is consistent across time and space.

But so often, the problem faced by a government is not structural, especially when a temporary crisis occurs. If not properly addressed, such a crisis holds the danger of causing permanent damage to the economy and the country. The fallout from wars, direct or indirect, is one such case. In 2022 the impact of the Russian invasion of Ukraine reverberated globally when food and fertiliser prices rose significantly as fears spread globally that the war will introduce food supply-chain disruptions. However, the most disruptive event, in the last couple of decades globally, was the COVID-19 pandemic. As the death toll rose in every country, no country escaped the consequences. Companies went bankrupt, workers lost their jobs, and public and private debt levels ballooned globally.

¹ Professor Karl Wohlmuth, the Chief Editor of the African Development Perspectives Yearbook, has supported this Introduction with many suggestions and recommendations. The authors are thankful for this valuable input.

² Named after Richard Musgrave, the father of public finance theory, who originally defined the three objectives in the 1950s.

Limited healthcare spending and supply-chain disruptions in Africa: Implications for policy action

The COVID-19 pandemic exposed vulnerabilities in the healthcare systems world-wide. In Africa, the challenge of COVID-19 was compounded by the preexisting burden of other infectious diseases, constrained fiscal capacity, and inequality in healthcare access. African governments faced the dual pressure of responding to the immediate and evolving health crisis while also operating with tight budget constraints relying heavily on international aid. This fiscal strain limited the ability to procure essential medical supplies, to scale up healthcare infrastructure, and to sustain other public health programmes.

With global lockdowns the disruptions to supply chains caused significant financial distress to companies and individuals alike. Since the 1980s, with the increasing use of software and digital networks, just-in-time inventory management allowed companies worldwide to save significant costs holding inventory. Depleted stocks could be filled up in minimum time, sometimes daily, meaning that companies needed to hold much less stock. Although this led to large cost savings, the downside was that companies were exposed to significant supply chain risk. Africa and its companies were severely affected, mostly in medical equipment, medicine, digital services, but also in food supplies and spare parts. At the onset of the pandemic, with very little information on this very infectious disease, global lockdowns caused disruptions to supply chains and significant financial distress to companies and individuals alike also in Africa. Only resilient and larger African companies could continue with their supplies.

The COVID-19 pandemic introduced one of the largest global disruptions since World War II. Production by large numbers of downstream producers simply came to a halt because they could not obtain the necessary inputs for their production. These disruptions also led to a significant shift in demand patterns, and some of these shifts did not revert to pre-pandemic levels once the pandemic had passed. The significant move to online retail platforms, such as Amazon, away from trips to the mall, is probably here to stay. Similarly, the move to work-from-home in many industries, if only partially, is probably here to stay too. That left many office buildings empty even after the pandemic. All these trends were marked also in African countries. While there has been some resurgence in trips to the mall, also in urban African regions, the online business flourished.

Unequal income effects within and between countries in Africa: Responding to COVID-19

The economic impact of the pandemic also registered in millions of people losing their jobs during the pandemic. The COVID-19 pandemic also triggered a significant decline in household incomes globally due to job losses, business closures, and overall reduced economic activity. In Africa these losses were associated with increasing poverty; coping strategies for livelihood security helped the people out,

but the state support in times of lockout was often only minimal and allocated only for short periods. Often the people who lost their jobs were those in lower-paying jobs, meaning that the pandemic also had a distributional income effect, exacerbating income inequality and pushing millions into poverty. While there were government stimulus measures, there was also unequal access leading to disparities even in recovery. Moreover, the distributional effects were not limited to the population within countries. As the research for this special theme in this Unit 3 shows, distributional differences also were registered among countries, with the poorest, weakest countries being less able to deal with the fallout from the crisis than economically stronger countries. The map of Africa shows a large degree of unevenness between and within African countries.

Addressing the social and economic shock brought on by an event such as the pandemic is unlike the more structural, permanent or longer-run policy objectives related to allocation, distribution and economic stability, or economic development. Events such as the pandemic are unexpected, and typically involve enormous instability. However, though the shock might be unexpected and large, the ability to manage the fallout from that shock depends on the structural readiness of a country or an economy to deal with that fallout. It depends on the institutional strength of the state. The ‘state’ in this context means more than the government. The state in this context is a collective term for the government, society, governmental and non-governmental institutions, and ultimately the citizens. In addition, and closely related, are political stability, the level of transparency, the independence of the judiciary and the press, the absence of corruption, and ultimately the protection of and respect for human rights.

It also depends heavily on the financial robustness of an economy in general and a government in particular, as well as on the financial robustness of the financial institutions in the country to assist individuals and companies with fragile balance sheets. An economy characterised by high levels of poverty, weak institutions, and a small, narrow tax base that limits the ability of the government to collect revenue, will find it very difficult to deal with a shock. The same goes for a society characterised by deep political divisions, a lack of legitimacy of its government, and high levels of corruption. If aspects of an event such as the pandemic are politicised (as, for instance, happened in the United States), it undermines the legitimacy of steps to address the crisis. And if corruption diverts resources meant to alleviate the crisis, one could likewise see the legitimacy of such steps being eroded.

There is increasing discussion in Africa about the implications of COVID-19 for the health sectors and for the development policies in Africa. The Box “COVID-19: New Research Approaches and Policy Recommendations for Africa” below discusses some of the new studies undertaken in Africa and for to understand the wider consequences of the pandemic. These studies also reveal that the Special Theme of Unit 3 has relevance for the design of new fiscal policies for the

times of crises in Africa. As Africa is affected by various global and regional crises, this Special Theme is an important addition to the literature on COVID-19 and Africa.

Box: COVID-19: New Research Approaches and Policy Recommendations for Africa

It cannot be understated how the COVID-19 pandemic reshaped global dynamics. African countries faced unique challenges due to social inequalities, limited resources, and economic vulnerabilities. Herein, research direction and policy recommendations across several dimensions are discussed.

Economic Impacts

The African Development Bank (AfDB) estimated that economic growth in Africa shrank by 2.1% in 2020. However, there are stark differences in the regional effects of the pandemic that the overall African average fails to capture. Southern Africa was the hardest hit region in terms of economic growth. Moreover, natural resource dependent economies, specifically oil-exporting or mineral-exporting countries, were particularly affected. Steepest decline was that of Libya where the estimated GDP growth in 2020 fell by 60.3%. Moreover, there were large currency depreciations across Africa resulting from the disruption in financial flows (Anyanwu & Salami, 2021).

On the other hand, the COVID-19 pandemic has accelerated the adoption of digital technologies. The shift to remote work posed a challenge for economies unprepared for rapid technological change. However, some countries, like Rwanda, are exceptions, as they positioned themselves as tech-driven service economies that could thrive in the aftermath of the pandemic (Obayelu, Edewor, & Ogbe, 2021).

For all these reasons, the focus of the Special Theme of Unit 3 on a clusters methodology and on new fiscal policies was appropriate.

Political Dimensions, Good Governance, and Critical Resource Gaps

Inasmuch as COVID-19 was a health problem, it has been posited that it should be treated as a social and political problem because of the informal nature of urbanism in Africa. Over half of Africa's population is known to live in slums where people have limited access to basic amenities. The outbreak of the pandemic and the resulting lockdowns highlighted systemic inequality and underdevelopment in relation to access to water, sanitation, and hygiene. It also exposed exclusion of the urban poor who are daily wage earners and who do not have access to institutional benefits like health insurance and paid leaves. Because of these unique conditions, the COVID-19 pandemic shows the need for collaboration among non-state actors and community groups with that of formal institutions to better assist the urban poor in the informal sector (Onyishi, et al., 2021).

As mentioned, COVID-19 was a health problem, but the scale of it being a health problem was also very much influenced by good governance, economic growth, and universal health care. In a study conducted for all African economies, it has been found that the more economically developed countries tended to have a higher number of cases resulting from the ability to test for the disease. Moreover, access to universal healthcare and good governance were huge factors in reducing fatalities and limiting the spread of COVID-19. Measures for sustainable economic growth, improved governance practices, and a general increase in health care sector funding are crucial to mitigate the risks of similar pandemics in the future (Gebremichael, et al., 2022). Relatedly, it has been found that the efficiency of pandemic

management was the best in Europe and the Americas and the worst for those in Asia and Africa. Factors reducing efficiency include poor compliance with rule of law, aging populations, and those with vulnerable economies and labour markets before the pandemic. Much can be improved in terms of management of resources and budgetary constraints. Policymakers and political leaders must focus on how to provide the best service even with limited finances (Martínez-Córdoba, Benito, & García-Sánchez, 2021).

While COVID-19 is not the first pandemic that Africa has faced, in general, responses to epidemics in the continent have been challenged by limited infrastructure and weak healthcare facilities (Rosenthal, et al., 2020). Despite this, the COVID-19 pandemic has also given way to some innovations. The first of these is community health worker engagement. In South Africa, organizations that previously worked in silos pooled resources to form collaborative networks. In Tanzania, financial and non-financial incentives as well as general community campaigns of togetherness were shown to be effective in uplifting the spirit of health care workers. Some African countries also utilized mobile phone patterns due to the high mobile phone penetration in Africa to better understand the dynamics of the outbreak. While investment in better health data is essential, the creative use of whatever data is available and the use of that for better pandemic response has been pivotal in disease response (Gebremeskel, Otu, Abimbola, & Yaya, 2021).

Agan, the cluster methodology of the Special Theme lays the foundations for a differentiated analysis of initial conditions and policies in Africa.

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2 The Contribution to the Special Theme “COVID-19 and Fiscal Policy in Africa”

From the above what is relevant is not only the impact of a crisis like the pandemic, but also the ability to react to a crisis, and to learn more about the impact of that reaction. The essay by Samantha Joy Cinco with the title “Clustering the Impact: How Economic Realities and Political Institutions shaped COVID-19-related Fiscal Policy in African Countries” deals primarily with the ability of a country to react to the crisis. The approach in the essay is evidence-based. Cinco draws on a detailed data analysis of African countries, to identify what distinguishes countries’ ability to spend on crisis alleviation. She demonstrates that it is not only economic factors that play a role, i.e. it is not only about the question whether the government has the resources to address the crisis. Her analysis highlights especially four relevant factors, among a list of others she considered. Three of these factors are largely non-economic. These are the current account balance, government effectiveness, political stability and absence of violence, and the number of COVID-19 cases.

In this context, government effectiveness, political stability and absence of violence, point to the structural strength of the state. Where governments institutionally are weak, they were also found wanting in addressing the challenges of COVID-19. Her analysis found that governments that are stable, more democratic, in societies with less violence and therefore also with more respect for human rights, spent more on addressing the challenges created by the COVID-19 crisis. Indirectly, her finding that a country with higher numbers of COVID-19 cases tended to spend more on dealing with the crisis, points not necessarily to the incidence of the pandemic, but also to institutional strength. Countries with weak health systems likely did not record as many cases as a country such as South Africa, which has a stronger (though certainly not problem-free) health system, not because they really had fewer cases (as underreporting was also very widespread), but because their systems were simply unable to record the actual cases to the same extent as the countries with stronger health systems. Thus, the number of COVID-19 cases recorded, instead of being a true indicator of the impact of the pandemic, might be a proxy for institutional strength. Relative to this, the number of reported cases also highlights unequal access to COVID-19 testing. While high-income countries were able to rapidly scale up diagnostic capacity which was crucial to control the spread of COVID-19, many lower-income countries struggled to even secure sufficient testing kits. Moreover, costs associated with laboratory infrastructure and reagents hindered testing in resource-constrained settings.

When comparing the extent of fiscal stimulus extended during the COVID-19 pandemic, it is apparent that high-income countries ran, as percentage of GDP, much larger stimulus packages, incurring much higher debt, than middle-income countries. And middle-income countries, in turn, spent much more than low-

income countries. Clearly economic strength played a role. Samantha Joy Cinco included several economic variables in her analysis, but one turned out to proxy economic strength, namely the current account balance. Higher-middle-income African countries were able to spend more than lower-middle-income countries, which, in turn, were able to spend more than low-income countries. The ability to spend was directly linked to the ability of these governments to borrow internationally, which, in turn, is reflected in the current accounts of these countries. Thus, countries that had better credit ratings, higher incomes and stronger economies, could borrow more internationally, which in turn was reflected in current account deficits. These countries could react better to the COVID-19 crisis. The opposite held true for countries that had weaker or no credit ratings, lower incomes and weaker economies. These countries cannot borrow and need to run current account surpluses to generate the funds that typically flow out on the financial accounts of their balance of payments. These countries were constrained in their ability to react to the COVID-19 crisis.

3 The Strategy to Use Fiscal Policy in Times of COVID-19 and Beyond

No one-size-fits-all solution for fiscal policy reactions to COVID-19 is existing for Africa

What follows from the essay for the strategy to realign the fiscal policy in Africa after COVID-19? Samantha Joy Cinco is correct, there is no one-size-fits-all solution, simply because the ‘all’ includes such a diverse collection of countries. Differences in fiscal capacity, governance structures, and preexisting health system resilience, among others, shape a country’s ability to respond effectively. While high-income countries can rely on robust healthcare systems and expansive stimulus programmes, many low- and middle-income countries tend to navigate crises with limited resources and heavier reliance on international aid. COVID-19 brought with it more interest to compare the structures of health systems in the low- and middle-income countries. These countries now are in focus, as in the case of a pandemic no country in the world can be left out of securing a careful attention by international and regional actors.

Africa is a continent, not a country. It is a collection of very different countries and not a single country. A country such as Botswana has been characterised by political stability and economic growth since independence in 1966. North African countries such as Algeria, Egypt, Morocco, and Tunisia, not necessarily paragons of democracy, are nevertheless in general more stable than institutionally weak countries such as Sudan, Mali, Mozambique or Niger. The latter group of countries is composed of countries with vast no-go areas for their own governments, characterised by insurgencies which are destabilising those areas.

Stronger institution-building and health system build-up are requested to tailor strategies for Africa

If one size indeed does not fit all, Samantha Joy Cinco's analysis points to the need for stronger economic development, stronger institution building, and specifically stronger health systems. Moreover, strategies must be tailored to account for local contexts and specific vulnerabilities to address shocks equitably and efficiently. Samantha Joy Cinco's analysis points to the need for more international solidarity to deal with global health crisis. We might live on a planet with political borders, but pandemics, unfortunately, do not recognise these borders. And not dealing with a health crisis in one country, can literally infect another. It is in everyone's interest to deal with such crises as global and not local problems.

Cluster Analysis with a new mapping methodology is supporting key policymakers in Africa

Samantha Joy Cinco's cluster analysis is not just a mere methodological instrument to classify countries empirically. The groups identified share certain characteristics that guide policy makers in all countries to recognise the factors that contribute to a country's resilience. What is of importance is that the characteristics of those countries that were able to support their populations better and responded to the pandemic better, are, unlike the crisis itself, not once-off characteristics. These characteristics point to the need to strengthen economic growth, development and resilience, and improve creditworthiness and the effectiveness of government, as well as building political stability. These are all important structural developments that in and of themselves are important objectives, with, as a byproduct, the ability to deal better with any future crisis like that of COVID-19.

The purpose of this special theme (Unit 3) was to lay the foundations for a clustering of countries in Africa to guide policymakers in their short-term, medium-term and long-term policy actions and towards recognizing the interactions and spillovers between countries which all are affected by a crisis such as the pandemic.

Clustering the Impact: How Economic Realities and Political Institutions shaped COVID-19-related Fiscal Policy in African Countries

Samantha Joy Cinco*

1 Introduction

The emergence of a novel coronavirus and the subsequent declaration of the COVID-19 pandemic in 2020 (CNN Editorial Research, 2023) marked the beginning of a big change. It was a change that significantly altered how people all around the world lived their lives for the next two to three years (Alzueta, et al., 2020; Budayová, Pavliková, Samed Al-Adwan, & Klasnja, 2022). Firstly, the pandemic led to an unprecedented health crisis (WHO, 2022). At the onset, the virus was novel with no vaccine or known treatment protocol. It spread quickly around the world and affected millions of people and strained global healthcare systems. Secondly, due to the highly contagious nature of the virus, stringency measures such as strict lockdowns and stay-at-home orders were implemented (Philpps, Zhang, & Petherick, 2021). These measures implemented to contain the spread of the virus led to a global recession (The World Bank, 2020).

Notwithstanding, while the above-mentioned were global challenges, countries faced different variations and degrees of these problems. These varying problems merited varying solutions. Countries responded differently not only because the pandemic affected each country differently but also because of the existing situations within each country that affected their ability to respond (Bavel, et al., 2020; Milani, 2020; Nair & Selvaraj, 2021). As such, an understanding of the factors that shape the response of countries, specifically enacted fiscal policy, provides insights into strategies and policy responses for the future against similar shock events.

This study looks at the relationship between a country's economic situation and political institutions before the pandemic and its enacted fiscal policy in response to COVID-19, with a specific focus on countries in the African continent. To investigate, a machine learning methodology called K-means clustering is used

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to categorize countries into cluster groups based on economic and political indicators prior to the pandemic. Parametric tests are then used to get insights into the differences and similarities in the cluster group's COVID-19-related fiscal policy. Moreover, further observations are also made about the various country cluster groups created. This study contributes to the evolving discussion on pandemic response and preparedness. Moreover, it furthers research into clustering and its various applications. Complementarily, it also underscores that countries in similar situations could respond similarly to external shocks. As such, this study provides insight into the possibility of regional cooperation and targeted resource allocation and capacity building among countries within the same cluster groups.

2 Literature Review

This literature review begins with a discussion of theories in fiscal policy. This is followed by a section covering empirical literature on fiscal policy responses to the COVID-19 pandemic.

2.1 Theory

Firstly, as per the Keynesian school, in times of recession, it would be desirable for governments to spend more, accrue deficits, and lower taxes to boost aggregate demand. This strategy is called countercyclical fiscal policy (Alesina & Passalacqua, 2016). This policy assists governments in stimulating income and consumption, offsetting negative changes in private behaviour resulting from economic downturns (Eisner, 1989; Fatás, Ghosh, Panizza, & Presbitero, 2019). It is worth noting here that because of the economic effects of the COVID-19 pandemic, many governments around the world adopted Keynesian discretionary policies to support their respective economies (Wood, Ausserladscheider, & Sparkes, 2022; Beland, Cantillon, Hick, & Moreira, 2021).

Contrary to these actions, governments may also use fiscal deficits during periods of low growth to preserve constancy in tax rates (Barro, 1979). Building on the Ricardian equivalence, Barro suggests that increased spending financed through taxes does not impact aggregate demand due to the equivalent offset in private savings (Seater, 1993).

Similarly, the neoclassical school tends to be more sceptical of the use of budget deficits because it can have adverse economic effects like the crowding out of private investment (Mankiw & Elmendorf, 1999; Blanchard, 2019). More emphasis is given to long-term growth as opposed to combatting times of recessions, specifically in decreasing the natural rate of unemployment (OpenStax Economics, 2016). In terms of fiscal policy, this belief would translate to lower

tax rates and limited government spending, thereby focusing more on market-driven resource allocation (Bernheim, 1989; Mankiw & Elmendorf, 1999).

Lastly, the role of politics in fiscal policy cannot be denied. Political economy theories suggest that politics and the quality of institutions influence fiscal programmes (Eslava, 2010; Alesina & Perotti, 1995; Yared, 2019). Studies on political budget cycles have found that politicians tend to decrease taxes and increase deficits for a better chance of re-election (Alesina & Passalacqua, 2016). Relatedly, governments may also use spending as a form of strategic manipulation against political rivals. Alesina & Tabellini (1990) found that governments who knew they would stay in power would be less likely to increase deficits whereas governments who knew they would not be re-elected would likely increase deficits so they would not internalise the cost of borrowing. Other studies have also found that conflicts (Pancrazi & Prospero, 2020) and resource finds (Ruzzante & Sobrinho, 2022) could increase deficit spending.

2.2 Empirical Studies

Fiscal policy in response to COVID-19.

At the onset, fiscal response to COVID-19 is determined by the incidence of the pandemic. More COVID-19 infections generally resulted in a larger negative economic effect requiring more fiscal spending (Alberola et al., 2021).

Yet, political factors can also affect fiscal outcomes. Using data from 98 countries covering the first six months of the pandemic, Aizenman, Jinjark, Nguyen & Noy (2021) recognized that political influences were pivotal in deciding the size and composition of fiscal policy. Their research showed that more united governments were able to deploy more and announce more substantial fiscal programmes. Likewise, fiscal spending tends to be higher in more democratic countries. Highly democratic countries on average spent 7% of GDP on COVID-19 fiscal spending versus 4.5% spent in less democratic countries (Chen, Shi, Zhang, & Ding, 2021).

In terms of economic performance, Yeyati & Filippini (2021) observed that, on average, countries that have lower per capita income and face higher borrowing costs disbursed relatively smaller fiscal programmes. These countries also tended to implement more stringent containment and mobility restrictions.

Relatedly, according to Benmelech & Tzur-Ilan (2020), a country's credit rating is a very important determinant of fiscal spending during the pandemic as this affects access to credit markets. Among the 85 countries in their sample, countries with poor credit history tended to be lower-income countries and were not as able to implement fiscal programmes as successfully. Research by Apeti, Combes, Debrun & Minea (2021) also revealed that countries with higher sovereign ratings and lower debt-to-tax ratios were able to implement larger fiscal programmes.

They concluded that having a larger fiscal space was able to support national fiscal programmes.

On the other hand, monetary policy can complement fiscal policy in combating the economic effects of any external shock. Alberola et al. (2021) found that at the start of 2020, policy rates of emerging economies were higher compared to those of advanced economies, on average 4.9% compared to 0.4%. Because of this, emerging economies had a lot more room to cut policy rates in response to the pandemic. Additionally, the result of their research also showed that among advanced economies, those that had stronger safety nets tended to disburse fewer discretionary fiscal measures.

Fiscal situation and challenges in Africa prior to the COVID-19 pandemic.

It should be noted that while the COVID-19 pandemic did lead to challenges, countries in Africa were already experiencing problems, specifically with debt, even before the pandemic hit. In 2019, the IMF categorized 18 countries in Africa as either being in debt distress or at a high risk of it. Moreover, it has been estimated that countries in sub-Saharan Africa (SSA) allocated more money to external debt servicing compared to healthcare (The Economist, 2020). Many countries that were at risk of defaulting before the pandemic, eventually defaulted when the pandemic hit, i.e., Ethiopia, Zambia, and Ghana (Reuters, 2023). Additionally, after the Heavily Indebted Poor Countries (HIPC) Initiative in 2012 which greatly reduced debt for African countries, China has now become the bilateral creditor to the continent which deals with forgiveness on a case-to-case basis (The Economist, 2020).

Debt management is important as it can affect a country's ability to respond to a crisis. Because of the ongoing debt distress prior to the pandemic, many poorer countries in Africa were limited due to higher borrowing costs. Most of the funds spent in response to COVID-19 came from international support (World Bank Blogs, 2023). It should also be noted that automatic stabilizers in the form of tax policy are less effective in African countries owing to tax evasion and the tendency for movement from the formal sector to the informal sector (Bondzie & Armah, 2022). Tax buoyancy has also been found to have a larger effect during economic contractions as opposed to economic expansions as inflation and volatility reduce tax collections (Jalles, 2017).

Moreover, it has been observed that many countries in Africa conducted a monetary policy response because of high debt constraints prior to the pandemic (Adam, Alberola, & Pierres, 2022). Complementary to this, data from 2019-2020 show that tax collections decreased in Africa (OECD/AUC/ATAF, 2023). This situation further impaired existing problems with debt burden as this limits the ability of countries to disburse funds in response to the COVID-19 pandemic. The pandemic exacerbated an already dismal trend in fiscal fundamentals in many African countries. Recovery post-pandemic would likely be dependent on fiscal discipline and efficient management of expenditures (Adam, Alberola, & Pierres, 2022).

Fiscal policy in African and developing countries.

Various literature pieces on the determinants of fiscal behaviour, in general, is also reviewed. These give insight into variables to be used for the forthcoming analysis. Special attention is given to studies with a geographic focus on African countries, but studies on other developing countries are also reviewed. Looking at the determinants and the cyclicity of fiscal policy in the East African Community (EAC) countries, Mawejje & Odhiambo (2022) confirmed that fiscal deficits are positively affected by the current account balance, the real per capita GDP, and the interest rates; and negatively affected by the GDP deflator, the grants, and the debt service. They also found that government spending is procyclical; however, tax efforts are countercyclical. Related to this, budget deficits and interest rates have been found to be cointegrated in South Africa. Further, Granger causality exists between the two variables when using quarterly data, but not when using annual data (Uwilingiye & Gupta, 2009).

Accordingly, Cevik & Teksoz (2014) observed from a sample of advanced and developing countries that discretionary fiscal policy is heavily affected by policy rigidity, the public debt level, and the output gap between advanced and emerging market economies. Various macro-financial variables, e.g., asset prices and real exchange rates, and institutional variables, e.g., institutional quality, also affect fiscal policy behaviour. Moreover, their research also showed that the direction of the effect of these variables differs between advanced and emerging market economies. In a study by Lledo & Poplawski-Ribeiro (2011) that takes a deep dive into institutional limitations on fiscal programmes in Sub-Saharan Africa, it was found that fiscal expansions are less likely to be implemented when institutions are weaker, when the rule of law is more fragile, and when the planned expansion is large. Shifting to fiscal policy determinants in West Africa, Umoh, Onye, & Atan (2018) ascertained that fiscal programmes are more determined by political and institutional factors such as corruption, government effectiveness, and rule of law as opposed to economic considerations. Consequently, Agnello & Sousa (2009) determined using a panel of advanced and developing countries that volatility in public deficits is associated with higher levels of political instability and less democracy.

In summary, empirical studies reviewed herein provide insight into the factors affecting the fiscal policy undertaken because of COVID-19. Moreover, information on specific country situations in African countries before the pandemic gives a better understanding of the limitations that some countries faced that affected their COVID-19 spending. Specific variables affecting fiscal behaviour, in general, were also reviewed. Overall, the variables and the corresponding direction of their effect on COVID-19 spending as well as the general fiscal behaviour form the basis of the variables to be tested in the forthcoming analysis.

3 Data

This section discusses the variables and the corresponding data used in the study. Data was collected for 54 African countries¹.

3.1 Economic Indicators

Data for the year 2019 was compiled for economic indicators outlined in table 1. Data for 2019 were used to baseline pre-pandemic levels. These variables were chosen based on the literature review above.

Table 1: Economic Indicators and Sources
Economic Indicators

Indicator		Source
GDP Per Capita USD	GDPpc	The World Bank (2023)
Current		
GDP Deflator (computed using based 2015)	GDPdef	The World Bank (2023)
Debt Service	debtservice	The World Bank (2023)
Current Account Balance	cab	The World Bank (2023)
Interest Rate	ir	The World Bank (2023)
Grants	grants	The World Bank (2023)
Debt-to-GDP Ratio	debt_GDP	The World Bank (2023)
Credit Ratings	cratings	Trading Economics (2023)

Source: Author-compiled; see appendices for full list and definitions

3.2 Political and Institutional Indicators

Data for the year 2019 were compiled for political and institutional indicators and are outlined in table 2. Data for 2019 were used to baseline pre-pandemic levels. These variables were chosen based on the literature review above.

¹ See Appendices for the list of countries considered.

Table 2: Political and Institutional Indicators and Sources

Political and Institutional Indicators		
Indicator		Source
Control of Corruption	corruption	The World Bank (2023)
Government Effectiveness	governeffect	The World Bank (2023)
Political Stability and Absence of Violence	policstab	The World Bank (2023)
Regulatory Quality	regu	The World Bank (2023)
Rule of Law	ruleoflaw	The World Bank (2023)
Voice and Accountability	accoun	The World Bank (2023)

Source: Author-compiled; see appendices for full list and definitions

3.3 COVID-19 Indicators

This study aims to ascertain the relationship between the economic situation and the political institutions before the pandemic on COVID-19 fiscal policy response. For this study, the COVID-19 fiscal policy response is primarily measured through the “Above the line COVID-19 spending” dataset of the International Monetary Fund/IMF (hereinafter referred to as “COVID-19 spending”). These figures represent increases in expenditure and decreases in taxes in response to the COVID-19 pandemic in USD billion (Potter & Diamond, 1999; Tran, 2020). Further, other fiscal and monetary data and the extent of the pandemic severity measured through 2020 data on COVID-19 cases were also compiled. These are summarized in table 3.

Table 3: COVID-19 Indicators and Sources

COVID-19 Indicators			
Indicator	Definition	Source	
Above the line COVID-19 spending (absolute)	atl_ab	IMF Fiscal Affairs Department	(2021)
Total fiscal spending	total_fiscal	Porcher	(2023)
Policy rate	policyrate	Porcher	(2023)
COVID-19 Cases	c19_cases	Mathieu et al.	(2023)

Source: Author-compiled; see appendices for full list and definitions

4 Method

4.1 Clustering Variable Selection

Based on the above review of empirical studies on the determinants of fiscal policy and fiscal behaviour during the COVID-19 pandemic as discussed in 2.2, a

shortlist of economic and political indicators was compiled. The purpose of the shortlist is to maximize the country sample size. Simple multivariate regression analyses were then conducted to estimate the effect of the predicted variables on the COVID-19 spending. The variables that were deemed to significantly affect the COVID-19 spending were the ones eventually used to determine the country clusters (final variables used for clustering are shown in table 4 below). Multivariate regression is used to measure how linearly various independent variables are related to a chosen dependent variable. It is an extension of the ordinary least squares (OLS) regression in that it uses more than one independent variable.

Regression model for economic indicators.

To test for economic indicators, this study primarily adapted results from Mawejje and Odhiambo (Mawejje & Odhiambo, 2022). The formula used is as follows:

$$Y = \beta_0 + \beta_1\omega + \varepsilon$$

Where:

Y is the response variable of “Above the line COVID-19 spending”,

β_0 is the y intercept,

β_1 is the coefficient for each explanatory variable,

ω is a vector of the following explanatory variables: GDP per capita, GDP deflator, debt service, and current account balance, and

ε is the error term.

For this study, keeping a sample as large as possible was important to maintain representation. As such, any variable for which data are not available for 20% or more of the countries was dropped from the analysis. For the economic indicators, the following variables were dropped from the analysis: interest rate, grants, debt-to-GDP, and credit ratings.

Regression model for political and institutional indicators.

To test for political and institutional indicators, this study primarily adapted results from Umoh, Onye, and Atan (Umoh, Onye, & Atan, 2018). The formula used is as follows:

$$Y = \beta_0 + \beta_1\omega + \varepsilon$$

Where:

Y is the response variable of “Above the line COVID-19 spending”,

β_0 is the y intercept,

β_1 is the coefficient for each explanatory variable,

ω is a vector of the following explanatory variables: estimates of control of corruption, government effectiveness, political stability and absence of violence, regulatory quality, rule of law, and voice and accountability, and ε is the error term.

For this study, keeping a sample as large as possible was important to maintain representation. As such, any variable for which data was not available for 20% or more of the countries was dropped from the analysis. All political and institutional indicators mentioned above were retained.

The methodology and discussion on regression analysis used for this study are adapted from Wooldridge (2010, pp. 51-82). Regression analysis for this study was conducted using R.

4.2 K-means Clustering

After the variables for clustering were selected, K-means clustering was conducted to partition the African countries into groups with similar economic situations and political institutions.

K-means Algorithm.

K-means is a non-hierarchical unsupervised data mining technique that divides data into one or more clusters or groups. The aim is to create groups wherein the data points within the same cluster have a high degree of similarity, and those data points in different clusters have a low degree of similarity. K-means clustering provides the advantages of effectiveness and ease of implementation, allowing it to be used for a variety of fields.

The steps of the approach are as follows:

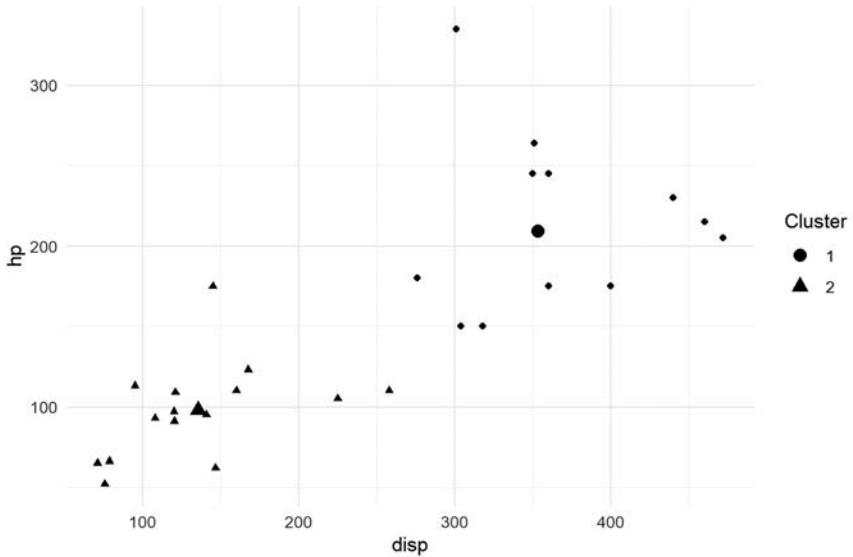
1. Determine the number of cluster groups (Elbow method is used for this study to determine the number of clusters, and it is discussed below).
2. Randomly choose the initial centroid points.
3. Allocate the data points to the nearest centroid point, using the Euclidean formula, i.e., a data point will be a member of Cluster A if the Euclidean distance between the data point and the centroid of Cluster A is the smallest compared to the centroids from all other Clusters.
4. Recalculate the mean of the cluster to determine the new centroid points.
5. Repeating the steps 3-4 until a point is reached where no data changes groups and where the centroid values remain the same, or until convergence.

For a dataset with n number of variables to be used for clustering, the Euclidean distance is computed as follows:

$$d(i, j) = \sqrt{(i_1 - j_1)^2 + (i_2 - j_2)^2 + \dots + (i_n - j_n)^2}$$

This is essentially computing for the distance between i ($i_1, i_2, \dots, i_n$) and j ($j_1, j_2, \dots, j_n$) in an n -dimensional Cartesian space. Figure 1 below shows a sample visualization for a dataset grouped into two clusters.

Figure 1: Cluster Visualization (Two Clusters)



Source: Author-generated, using preloaded mtcars dataset in R. Variables used were horsepower (“hp”) and displacement (“disp”). The bigger circle or triangle for each cluster shows the respective centroids.

For this study, the cluster groups are determined using the chosen economic and political indicators identified, using the methodology discussed in 4.1. Number of COVID-19 infections was also used to determine the clusters as a control variable.

K-value Selection using Elbow Method.

The number of clusters in a K-means algorithm is dependent on the K-value setting. This study uses the Elbow method to determine the K-value. The elbow method employs the square of the distance between the sample points in each cluster and the centroid of the cluster to determine the K-value. The sum of squared errors (SSE) is calculated for each possible K-value and is computed as follows:

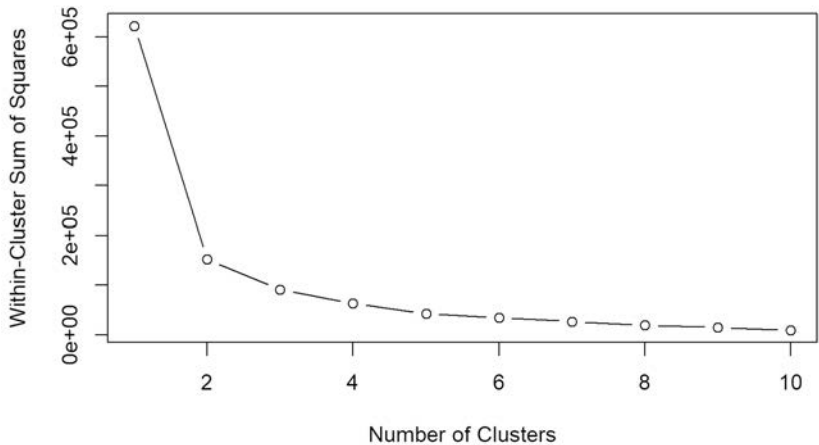
$$SSE = \sum_{i=1}^n d^2$$

Where:

d is the distance between the data point and the centroid. This study uses multiple variables to determine the number of clusters. As such, the d in this formula also represents the Euclidean distance for multidimensional space as discussed above.

In general, as the number of clusters increases, the SSE would decrease indicating that the groups are more localized. This is shown graphically in figure 2 below. The number of clusters to be used is determined by the inflection point in the graph or the elbow bend. This is the point where increasing the number of clusters does not provide further benefit in terms of decreasing the squared distance between the sample points and the centroid. Put differently, as the K-value approaches the optimal number of clusters, the SSE decreases rapidly. After that point, the decrease in SSE happens more slowly.

Figure 2: The Elbow Method Showing Optimal K



Source: Author-generated, using preloaded mtcars dataset in R. Optimal K is two clusters.

It should be noted that there are other possible approaches to determine the optimal K. These include the gap statistics algorithm and the silhouette analysis. For this study, the elbow method was used to determine the appropriate number of clusters due to its simplicity and its ease of interpretation. The methodology and discussion on K-means clustering and the elbow method used for this study are adapted from

Selvida, Zarlis, & Situmorang (2020); Nainggolan, Perangin-angin, Simarmata, & Tarigan (2019); Yuan & Yang (2019); Zhang, Liu, Chen, & Luo (2019). Clustering analysis for this study was conducted using R.

4.3 Kruskal-Wallis Test and Further Analysis

Once the cluster groups had been created, a Kruskal-Wallis Test² was conducted. It is a non-parametric test to compare three or more groups in terms of a quantitative variable. In this case, it is used to compare the cluster groups in terms of their COVID-19 spending. The null and alternative hypotheses of the test are as follows:

H_0 : All groups disbursed equal COVID-19 spending

H_1 : At least one group is different from the other two groups in terms of COVID-19 spending

Compared to an Analysis of Variance (ANOVA) test, the alternative hypothesis for a Kruskal-Wallis test is not that all groups are different in COVID-19 spending. The test would only tell us that at least one group is different from the others. As such, a post-hoc Dunn's Test using the Holm method³ is also conducted to determine which cluster group is different from another in terms of their COVID-19 spending. A Dunn's Test conducts several pairwise comparisons among all the cluster groups and determines which pairs are statistically different from each other.

Lastly, due to the limitations imposed by the small sample size, for further insights, additional descriptive comparisons were done among groups. The methodology and discussion on tests used for this study are adapted from Ostertagová, Ostertag, & Kováč (2014); Hecke (2012); and Dinno (2015). Various tests for this study were conducted using R.

² As a caveat, ANOVA was originally intended to be used; however, an ANOVA test assumes normally distributed residuals within each cluster group. After clustering, some groups ended up with country members that the normality assumption did not hold. Further, it should be noted that a Mann-Whitney Test, as opposed to the Kruskal-Wallis Test, would have been used had there only been two cluster groups.

³ See about the Holm method: <https://www.google.com/search?client=firefox-b-d&q=holm+method>

5 Results and Discussion

5.1 Model Results

Regression and Clustering Results

Regression models for both economic and political indicators were run using the complete sample and results are found below.

From these results, the final list of indicators used for the clustering algorithm are shown in Table 4. For the clustering, the countries for which the indicators shown in Table 4 were not available were dropped, leaving a final sample of 37 countries for clustering.

Regression Results for Economic Indicators

Coefficients:

	<i>Estimate</i>	<i>Std. Error</i>	<i>t value</i>	<i>Pr(> t)</i>
(Intercept)	-2.855e-01	6.254e-01	-0.457	0.651
GDPpc	2.397e-04	2.136e-04	1.122	0.269
GDPdef	-1.092e-04	2.648e-04	-0.412	0.683
debt service	5.607e-02	9.096e-02	0.616	0.541
cab	-5.021e-10	1.048e-10	-4.793	2.82e-05 ***

Significant Codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Multiple R-squared: 0.4741, Adjusted R-squared: 0.4156

Regression Results for Political and Institutional Indicators

Coefficients:

	<i>Estimate</i>	<i>Std. Error</i>	<i>t value</i>	<i>Pr(> t)</i>
(Intercept)	1.9851	0.5938	3.343	0.00168 **
corruption	-1.7247	1.3275	-1.299	0.20050
govern effect	3.9677	1.7614	2.253	0.02921 *
polic stab	-1.6337	0.6597	-2.476	0.01709 *
regu	-1.6181	1.5975	-0.387	0.70063
rule of law	-1.0467	2.0131	-0.520	0.60565
account	1.7418	0.8944	1.947	0.05773 .

Significant Codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Multiple R-squared: 0.2331, Adjusted R-squared: 0.1309

Regression Results for COVID-19 Cases

Coefficients:

	<i>Estimate</i>	<i>Std. Error</i>	<i>t value</i>	<i>Pr(> t)</i>
(Intercept)	4.322e-01	2.238e-01	1.931	0.0592
covid cases	1.567e-05	1.378e-06	11.370	1.79e-15 ***

Significant Codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Multiple R-squared: 0.7211, Adjusted R-squared: 0.7155

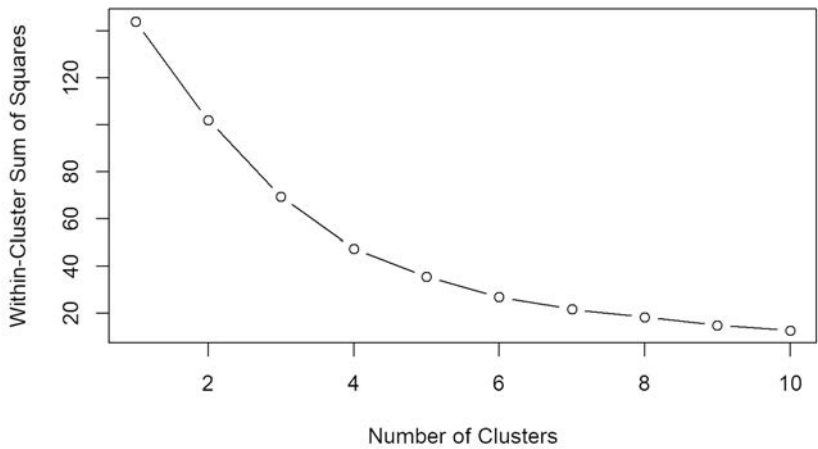
Table 4: Indicator list used for clustering

Indicator	
Current Account Balance	cab
Government Effectiveness	governeffect
Political Stability and Absence of Violence	policstab
COVID-19 Cases	c19_cases

Source: Author-compiled

For comparability and to avoid any one variable being considered relatively more important by the model, the values for the above indicators were scaled to have a mean of 0 and a standard deviation of 1. The elbow method⁴ was carried out and results are shown in figure 3. The results show that the appropriate number of clusters for the abovementioned variables is 4.

Figure 3: Results of Elbow Method Showing Optimal K



Source: Author-generated results

The K-means clustering methodology was implemented, and the resulting country groups are shown in table 5.

⁴ See about the Elbow Method: <https://www.geeksforgeeks.org/elbow-method-for-optimal-value-of-k-in-kmeans/>

Table 5: Country Cluster Results

Cluster	Countries
1	South Africa
2	Algeria, Egypt, Arab Rep., Ethiopia, Kenya, Morocco, Nigeria, Tunisia
3	Angola, Benin, Burkina Faso, Cameroon, Congo, Rep., Cote d'Ivoire, Djibouti, Eswatini, Gambia, The, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Sudan, Togo, Uganda, Zambia, Zimbabwe
4	Botswana, Cabo Verde, Ghana, Mauritius, Rwanda

Source: Author-generated results

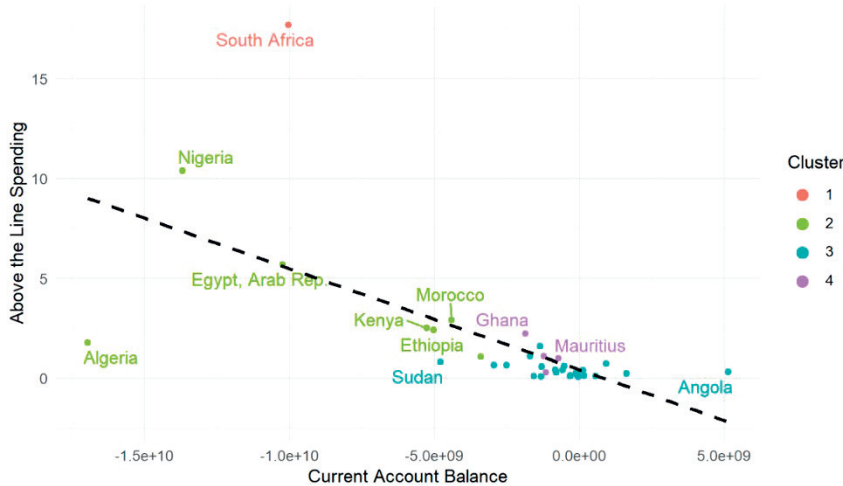
For the cluster groups (see figure 4 below), it is noteworthy that South Africa is the only country that is part of Cluster 1. As seen in panel d, South Africa has the largest reported number of COVID-19 cases. Further, South Africa is one of the largest economies in Africa by nominal GDP (Galal, 2023), and its government also implemented several strict lockdown measures that limited the movement of what they considered non-essential workers (IMF, 2022). This shows that South Africa is one of the countries that did have the capacity to allocate more on COVID-19 spending, and this response was also necessitated due to the overwhelming number of COVID-19 cases and equivalent stringency measures. Fiscal policy in South Africa in response to COVID-19 primarily went to unemployment insurance, tax credits for health workers, food for parcels for distribution, assistance to tourism and hospitality SMEs, and loans for eligible businesses (IMF, 2022).

Except for Ethiopia, Nigeria, and Kenya, Cluster 2 is mostly composed of northern African countries. Moreover, when again excepting Ethiopia, Cluster 2 is also mainly composed of lower middle-income countries (UN/DESA, 2016). Countries in Cluster 2 also notably maintain a negative current account balance, like Nigeria, Egypt, and Algeria. These countries are some of the bigger economies in Africa by nominal GDP (Galal, 2023), and they have a greater ability to borrow. Concerning this, Cluster 2 also prominently has countries that were in debt distress or have already defaulted, namely Egypt, Kenya, Tunisia, and Ethiopia (Reuters, 2023). Political stability and government effectiveness also tended to be weak for countries in Cluster 2 with values generally in the negative range.

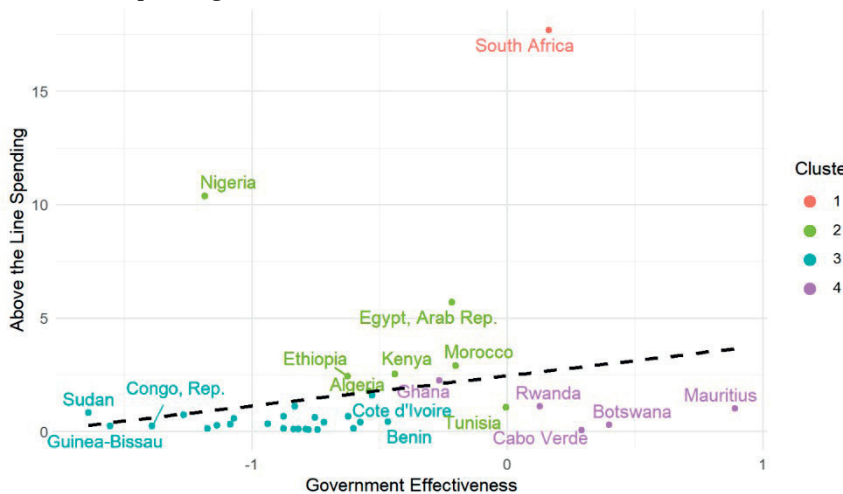
Clusters 3 and 4 are composed mostly of sub-Saharan countries and, when excepting Mauritius, are a mix of lower-middle-income to low-income countries (UN/DESA, 2016). Countries in Cluster 3 generally maintained a positive current account balance which is complemented by the fact that they generally have a limited ability to borrow with half of them not even rated by S&P, and those rated have a score of BBB- and below (S&P, 2019). Countries in Cluster 3 also tended to have a weak political stability and government effectiveness.

Figure 4: Regression analysis and cluster groups: Relationship between cluster variables and the “above the line COVID-19 spending”

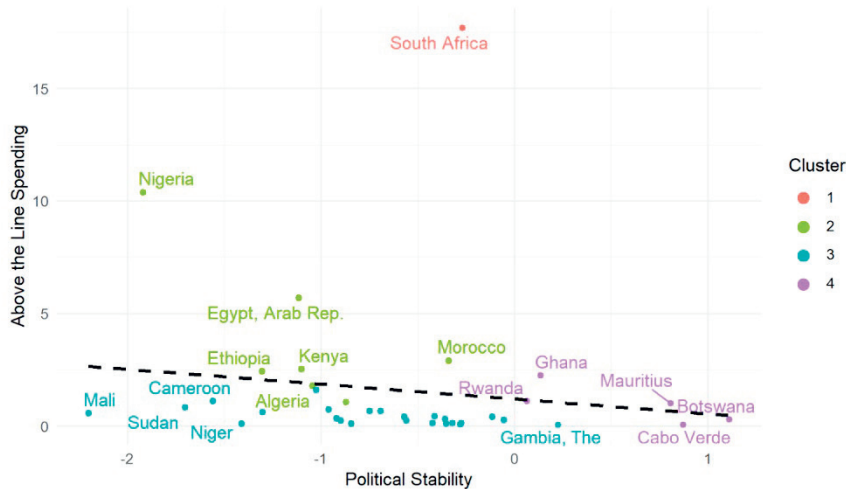
a) Relationship between “current account balance” and the “above the line COVID-19 spending”



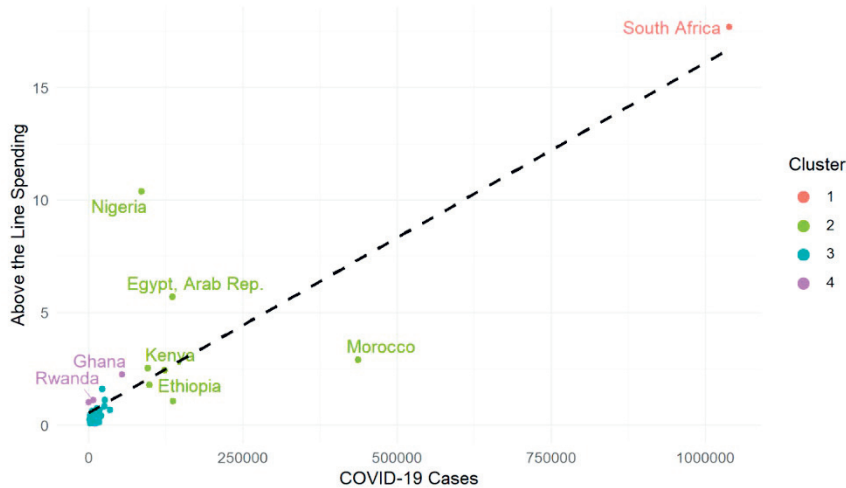
b) Relationship between “government effectiveness” and the “above the line COVID-19 spending”



c) Relationship between “political stability” and the “above the line COVID-19 spending”



d) Relationship between “COVID-19 cases” and the “above the line COVID-19 spending”



Source: Author-generated results

Countries in Cluster 4 generally have positive scores for government effectiveness and political stability. Moreover, countries in this group are mixed in terms of income and credit ratings (UN/DESA, 2016; S&P, 2019).

Figure 4 shows four panels, illustrating the cluster groups along with the relationship between the variables used in clustering and “above the line COVID-19 spending”. Figures above in graphs a) to d) show the inclusion and exclusion of South Africa. As it is a very visible outlier, the purpose of the figures a) to d) that exclude South Africa is just to better visualize the other countries.

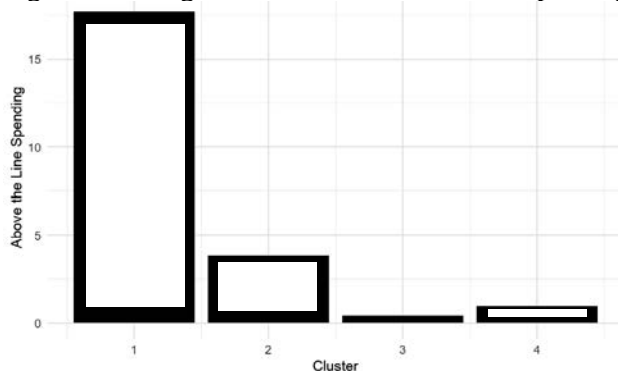
The results show that:

- There exists a strong positive relationship between COVID-19 cases and COVID-19 spending (panel d). This is in line with the literature that says that a greater pandemic incidence would lead to a greater negative economic effect and hence require a greater fiscal response (Alberola et al., 2021).
- There also exists a positive, albeit weaker, relationship between government effectiveness and COVID-19 spending (panel b). This is in line with the results observed in literature where government effectiveness has been seen to negatively affect fiscal persistence or dependence of current fiscal behaviour on past behaviour. Fiscal authorities have been found to be less responsive to recessions or booms if fiscal policy is more persistent (Umoh, Onye, & Atan, 2018). As such, if government effectiveness affects fiscal persistence negatively, it implies increasing government effectiveness leads to more discretion in fiscal policy. This and the result presented above indicate that as a country’s government effectiveness increases, i.e., with better quality of public and civil services, and with more independence from political pressures, among others (The World Bank, 2023), a country’s fiscal authorities are more likely to implement discretionary counter-cyclical fiscal policy, such as in response to an external shock like the COVID-19 pandemic.
- There also exists a negative relationship between COVID-19 spending and current account balance and, to a lesser extent, political stability (panel a and c). For the current account balance, literature suggests that it should have a positive relationship with fiscal deficit (Mawejje & Odhiambo, 2022; the twin deficit hypothesis). As noted above, fiscal policy (funding) in African countries in response to COVID-19 mainly came from international support due to the countries’ inability to borrow. As such, for the countries that could borrow, notably those in Cluster 1 and 2, there is a negative current account balance associated with a higher fiscal response to COVID-19. For the rest of the countries, there was lower COVID-19 spending and a more positive current account balance.

The results pertaining to political stability are somewhat contrary to literature where it has been seen to negatively affect fiscal persistence (Umoh, Onye, & Atan, 2018). Similarly to the discussion above on government effectiveness, if political stability affects fiscal persistence negatively, it implies that increasing political stability leads to more discretion in fiscal policy. In general, the countries in the sample tended to have lower political stability scores versus government effectiveness scores. This implies that countries with lower political stability, or countries with the presence of political violence or terrorism, can still be able to disburse funds if necessary and may still have a somewhat “effective” government. This is something that can be further explored in the future, especially for the sample of African countries.

In terms of the size of COVID-19 spending, figure 5 shows the average “Above the line COVID-19 spending” among the cluster groups. This is followed by figure 6 which shows the country income group distribution by cluster. Cluster 1 (South Africa) spent the most in response to COVID-19, followed by Cluster 2, and then followed by Clusters 4 and 3. In conjecture with what is shown in figure 6, Clusters 3 and 4 are composed mostly of lower-middle-income to low-income countries, highlighting that countries with larger income capacity tend to allocate more to government services.

Figure 5: Average Above the Line COVID-19 Spending per Cluster



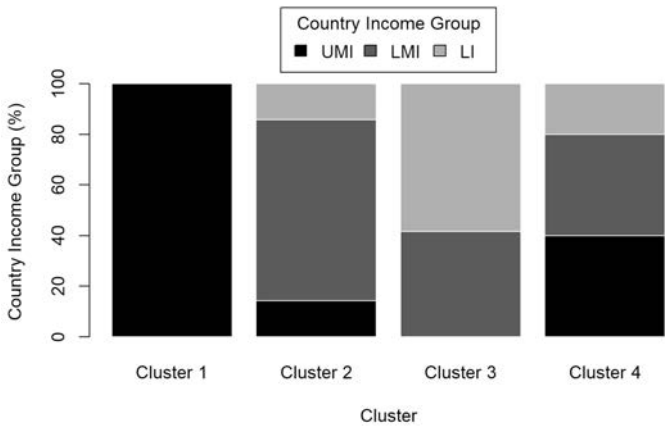
Source: Author-generated results

Non-Parametric Test Results

The Kruskal-Wallis Test was implemented, and results are seen in table 6. As mentioned, this test compares the “above the line COVID-19 spending” by cluster (atl_ab by Cluster). The p-value (0.0004509) of the results indicates

that there is a significant difference between at least two of the clusters in terms of their “above the line COVID-19 spending”.

Figure 6: Country Income Group per Cluster



Source: UN/DESA, 2016; UMI = upper middle-income, LMI = lower middle-income, LI=lower income

Table 6: Kruskal-Wallis Test

Kruskal-Wallis Rank Sum Test

data: atl_ab by Cluster

Kruskal-Wallis chi-squared = 17.948, df = 3, p-value = 0.0004509

Source: Author - generated results

To complement this, table 7 shows the result of the Dunn’s Test. The results indicate that there is a highly significant difference between Cluster 2 and Cluster 3 in terms of their “Above the line COVID-19 spending”. This is shown by the Z-score and the p-value. It should be noted that the table shows two p-values wherein the adjusted ones have been modified to account for several comparisons to avoid false positives. Further, the Holm-adjusted p-value shows that the difference between the two groups remains significant after adjusting for multiple comparisons.

Table 7: Dunn's Test

Comparison	Z	P.unadj	P.adj
Cluster 1 - Cluster 2	0.4073971	0.6837163870	0.6837163870
Cluster 1 - Cluster 3	2.0592780	0.0394676146	0.1973380729
Cluster 2 - Cluster 3	3.8788689	0.0001049433	0.0006296597
Cluster 1 - Cluster 4	1.4674273	0.1422598585	0.4267795755
Cluster 2 - Cluster 4	2.0015032	0.0453381899	0.1813527594
Cluster 3 - Cluster 4	-1.0054104	0.3146992791	0.6293985582

Source: Author - generated results

5.2 Further Observations and Discussions

Note on country outliers

Several countries are noticeably outliers in terms of their COVID-19 spending as tested using the 1.5 times interquartile range rule⁵. As such, for purposes of additional comparison, the same clustering methodology was implemented without the outliers from the sample. The results in table 8 show that the cluster groups remained fairly the same even in the absence of the outliers (country outliers are stricken out in the table).

Table 8 Country Cluster Results with and without outliers

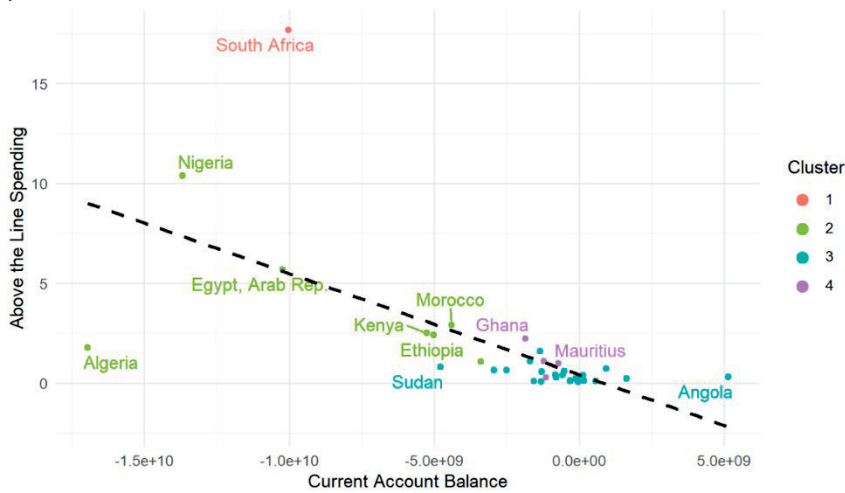
	Country Clusters (w/ outliers)	Country Clusters (w/o outliers)	
1	South Africa	~~South Africa~~	N/A
2	Algeria, Egypt, Arab Rep., Ethiopia, Kenya, Morocco, Nigeria, Tunisia	~~Algeria, Egypt, Arab Rep., Ethiopia, Kenya, Morocco, Nigeria, Tunisia~~	2
3	Angola, Benin, Burkina Faso, Cameroon, Congo, Rep., Cote d'Ivoire, Djibouti, Eswatini, Gambia, The, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Sudan, Togo, Uganda, Zambia, Zimbabwe	Angola, Benin, Burkina Faso, Cameroon, Congo, Rep., Cote d'Ivoire, Djibouti, Eswatini, Gambia, The, Guinea, Guinea-Bissau, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Sudan, Togo, Uganda, Zambia, Zimbabwe	3
4	Botswana, Cabo Verde, Ghana, Mauritius, Rwanda	Botswana, Cabo Verde, Ghana, Mauritius, Rwanda	4

Source: Author-generated results

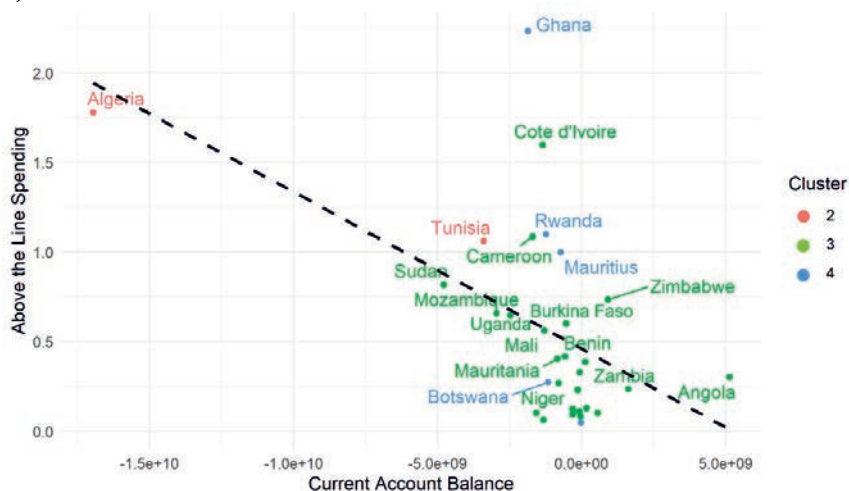
⁵ Values which are equal to 1.5 times the interquartile range above the third quartile or below the first quartile are considered outliers.

Moreover, figure 7 shows the clusters with and without the outliers along the relationship between current account balance and COVID-19 spending. While the sign of the relationship did not change from the original clustering, there was some variation in the strength of the relationship among the variables in the absence of outliers. The same can be observed for the other variables (i.e., government effectiveness, political stability, and COVID-19 cases). As a distance-based algorithm, K-means clustering can be significantly impacted by outliers. This is one of the reasons why the dataset was scaled prior to clustering. However, in the case of our sample, it appears that the outliers did not inappropriately “pull” any of the other data points as the groupings remained largely the same.

Figure 7: Regression with cluster groups (with and without outliers)
a) w/ outliers



b) w/o outliers



Source: Author-generated results

Further cluster comparisons

Figure 8 shows the maximum, minimum, and mean values for several indicators among the clusters, namely, 2019 GDP per capita and debt service, and pandemic response measured in total fiscal disbursement and mean change of the policy rate during the pandemic.

There is no clear observable pattern among the clusters in terms of these other variables. Further, Kruskal-Wallis tests were also conducted, and results showed that the clusters were not able to significantly explain differences in the same variables. As the original clustering was based on indicators that were seen to affect “Above the line COVID-19 spending”, no clear pattern can be observed when other variables are compared among clusters. Further analysis can be undertaken in this regard using the cluster methodology to determine determinants of fiscal policy in general or fiscal policy specifically in times of recession or external shock.

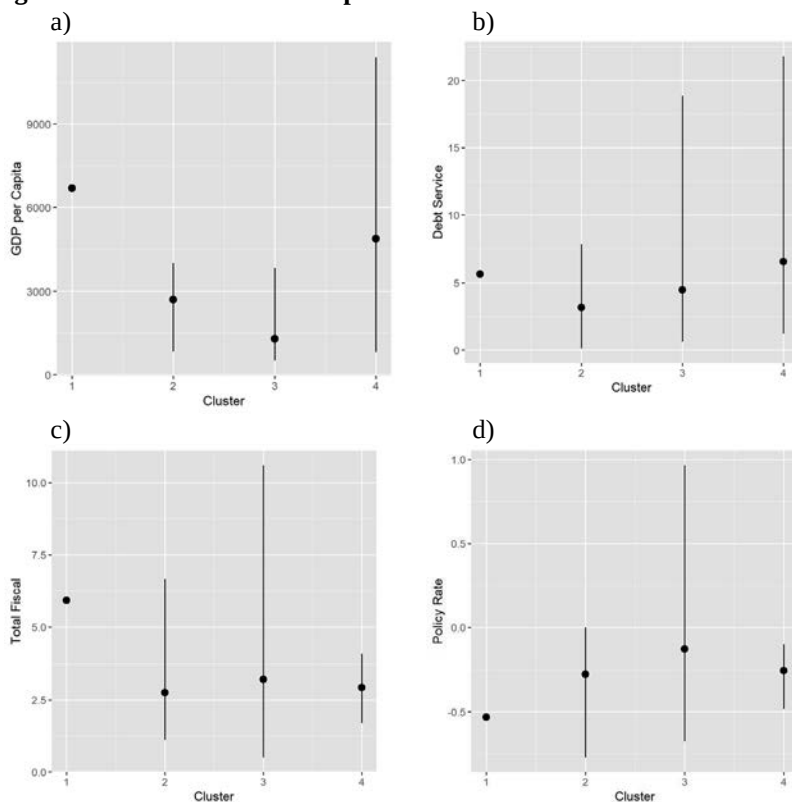
6 Conclusions and Policy Recommendations

This study delved into the relationship between the African countries’ economic situation and its political institutions before the pandemic and the subsequent size of fiscal policy (funding) implemented in response to COVID-19. I employed K-means clustering to categorize the countries into cluster groups

using data on current account balance, estimates on political stability and government effectiveness, and COVID-19 cases. This resulted in four cluster groups with varying fiscal response to the COVID-19 crisis.

Kruskal-Wallis and subsequent Dunn's tests showed that the differences among the groups in terms of their COVID-19 spending could be explained by the clusters. This demonstrates that economic and political variables do influence the fiscal strategies of the governments in the sample. The analysis revealed that COVID-19 spending was positively affected by the number of COVID-19 cases and the degree of government effectiveness. Moreover, spending was negatively affected by the level of current account balance and the degree of political stability. Moreover, the discussion revealed various similarities among the cluster groups that give insight into the size of funding disbursed to counter the effects of the pandemic.

The clustering exercise undertaken highlights two contrasting points. Firstly, there is significant variation in the size of fiscal policy (funding) disbursed by countries in response to COVID-19 which is affected by the degree they were affected by the pandemic and by their respective situations before the pandemic. But secondly, while there is variation, the cluster groups also show that there are similarities in the ways countries responded and in the economic and political characteristics of those countries before the pandemic. The variation and similarities in the response of the countries to the pandemic pinpoint that there is no one answer to dealing with a crisis such as COVID-19. Each cluster represents countries with a unique combination of political and economic factors that affect how they will respond. These nuanced differences and similarities between countries must be considered when designing plans for future external shocks. To check for the possible impact of outliers, the same K-means clustering methodology was also conducted while removing the outliers from the sample. The countries within the specific clusters remained the same. The sign of the relationship between notable variables and COVID-19 spending also remained the same.

Figure 8: Further Cluster Comparisons

Source: Author-generated results

Based on the findings, several policy recommendations can be made. Firstly, countries should build and maintain strong economic and political foundations. A more resilient economy coupled with a society that cultivates public trust can better respond to shocks. Secondly, regional cooperation and capacity building could be conducted among countries within the same cluster. Countries that have had better success can share their best practices with other countries within the same cluster and government-to-government collaboration should be promoted especially since the countries within the same cluster act similarly or had similar prior economic and political characteristics. Further, policy response varies and there is no “one-size-fits-all” solution. The response

should be tailored to the specific needs of the countries concerned. An understanding of similar situations could allow for targeted resource allocation and health measures among those groups with similar needs.

Overall, this study contributes to the evolving discussion on the pandemic and the equivalent appropriate response should similar shocks occur. Additionally, it demonstrates the importance of economic and political variables in shaping fiscal policy response to COVID-19. Insights from this study can be useful for policy formulations that can help governments to better prepare for future crises and to ensure the well-being of their people and the stability of their economies.

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Appendices

Appendix 1: Africa Country List

1. Algeria	28. Liberia
2. Angola	29. Libya
3. Benin	30. Madagascar
4. Botswana	31. Malawi
5. Burkina Faso	32. Mali
6. Burundi	33. Mauritania
7. Cabo Verde	34. Mauritius
8. Cameroon	35. Morocco
9. Central African Republic	36. Mozambique
10. Chad	37. Namibia
11. Comoros	38. Niger
12. Congo, Dem. Rep.	39. Nigeria
13. Congo, Rep.	40. Rwanda
14. Cote d'Ivoire	41. Sao Tome and Principe
15. Djibouti	42. Senegal
16. Egypt, Arab Rep.	43. Seychelles
17. Equatorial Guinea	44. Sierra Leone
18. Eritrea	45. Somalia
19. Eswatini	46. South Africa
20. Estonia	47. South Sudan
21. Gabon	48. Sudan
22. Gambia, The	49. Tanzania
23. Ghana	50. Togo
24. Guinea-Bissau	51. Tunisia
25. Guinea	52. Uganda
26. Kenya	53. Zambia
27. Lesotho	54. Zimbabwe

Note: This study adapts the country naming convention of The World Bank.

Appendix 2: Data List and Definitions

Indicator		Definition	Source
GDP Per Capital USD Current	GDPpc	GDP per capita (current US\$) – “GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars.”	The World Bank (2023)

GDP Deflator (computed using based 2015)	GDPdef	Author computed using the following formula: $\frac{GDP \text{ per capita (current US\$)}}{GDP \text{ per capita (constant 2015 US\$)}} \times 100$	The World Bank (2023)
Debt Service	debtservice	Total debt service (% of GNI) – “Total debt service is the sum of principal repayments and interest actually paid in currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF.”	The World Bank (2023)
Current Account Balance	cab	Current account balance (% of GDP) – “Current account balance is the sum of net exports of goods and services, net primary income, and net secondary income.”	The World Bank (2023)
Interest Rate	ir	Deposit interest rate (%) – “Deposit interest rate is the rate paid by commercial or similar banks for demand, time, or savings deposits. The terms and conditions attached to these rates differ by country, however, limiting their comparability.” Real interest rate (%) – “Real interest rate is the lending interest rate adjusted for inflation as measured by the GDP deflator. The terms and conditions attached to lending rates differ by country, however, limiting their comparability.”	The World Bank (2023)
Grants	grants	Grants, excluding technical cooperation (BoP, current US\$) – “Grants are defined as legally binding commitments that obligate a specific value of funds available for disbursement for which there is no repayment requirement. Data are in current U.S. dollars.”	The World Bank (2023)
Debt-to-GDP Ratio	debt_GDP	Central government debt, total (% of GDP) – “Debt is the entire stock of direct government fixed-term contractual obligations to others outstanding on a particular date. It includes domestic and foreign liabilities such as currency and money deposits, securities other than shares, and loans. It is the gross amount of government liabilities reduced by the amount of equity and financial derivatives held by the government. Because debt is a stock rather than a flow, it is measured as of a given date, usually the last day of the fiscal year.”	The World Bank (2023)
Credit Ratings	cratings	“Credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments” (Fitch Ratings, 2023).	Trading Economics (2023)

Government Effectiveness	governeffect	Government Effectiveness: “Estimate - Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.”	The World Bank (2023)
Political Stability and Absence of Violence	policstab	Political Stability and Absence of Violence/Terrorism: Estimate – “Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5”.	The World Bank (2023)
Regulatory Quality	regu	Regulatory Quality: “Estimate - Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.”	The World Bank (2023)
Rule of Law	ruleoflaw	Rule of Law: Estimate – “Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.”	The World Bank (2023)
Voice and Accountability	accoun	Voice and Accountability: Estimate – “Voice and Accountability captures perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.”	The World Bank (2023)
Above the line COVID-19 spending (absolute)	atl_ab	Above the line measures, subtotal health and non-health sector - These figures represent increases in expenditure and decrease in taxes in response to the COVID-19 pandemic in USD billion (Potter & Diamond, 1999; Tran, 2020).	IMF Fiscal Affairs Department (2021)

Total fiscal spending	total_fiscal	Fiscal – “This is the global amount spent on a given date, which is then divided between various categories. Fiscal includes additional or foregone revenues that had been specifically targeted at dealing with COVID-19. It does not account for delayed revenues such as tax deferrals and off-budget measures that do not directly affect the annual fiscal deficit. The breakdown of fiscal includes wage support, cash transfers, in-kind transfers, sectoral support, tax cuts, and credit schemes.”	Porcher (2023)
Policy rate	mean_policyrate	Policy rate – “rate is meant to capture the evolution of policy rates set up by the Central Bank. The values taken by the variable translate the nominal evolution. For example, a decrease of 1% will be coded -100.”	Porcher (2023)
COVID-19 Cases	c19_cases	Refers to confirmed COVID-19 cases as reported by the corresponding national governments. It should be noted that countries differ in criteria used to define and report cases. Moreover, some countries have changed their reporting methodologies over the course of the pandemic (Mathieu, et al., 2023).	Mathieu, et al. (2023)

Unit 4: Book Reviews and Book Notes

A Guide for Readers of the Unit 4 on Book Reviews and Book Notes

By Samia Nour¹ and Karl Wohlmuth²

The Unit 4 on Book Reviews and Book Notes includes three parts. Part A presents the reviews and notes of books and reports with a global perspective (global studies), Part B provides the reviews and notes of books and reports with a regional perspective (regional studies), and Part C provides the reviews and notes of books and reports with a national perspective (country studies). In Part D we find a synopsis of major African Development Reports as it is usual for all volumes of the African Development Perspectives Yearbook.

The reviews and notes of books and reports cover a wide range of important global topics, including the assessment of progress towards the achievement of the United Nations Sustainable Development Goals (UN-SDGs) at global, regional, and national levels. The Unit also includes issues such as energy transition, trade and environment, climate change and mitigation, ecological threats, and resilience, vulnerability, inequality, social protection in labour markets, food security, water security, social expenditure, monitoring social costs of climate change, digital citizenship, migration, smuggling, as well as the measurement of world happiness. The Unit covers with reference to developed countries issues such as global challenges, including the achievement of the SDGs, paths to energy transition, agreements on trade and environment, and studies on the consequences of climate change, while the topics covered with reference to developing countries address inequality, social protection in labour markets, food security, water security, social expenditure, monitoring social costs of climate change, and migration. The studies were selected to consider policy reports, analytical essays, and comparative analyses.

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Interestingly, the reviews and notes of several books and reports confirm the relevance of global common challenges confronting most of the world's countries. These global common challenges are related to global commitments to the achievement of the United Nations Sustainable Development Goals (UN-SDGs) by 2030, the impacts of the COVID-19 pandemic, the impacts of the Russian Federation's invasion of Ukraine, and the issues and programmes related to energy transition, environment, climate change, and inequality. For instance, at the global level, the Sustainable Development Report (SDR) reviews each year the progress made on the SDGs and indicates that since the outbreak of the pandemic in 2020 and other simultaneous crises, the SDG's progress has stalled globally. In addition, at the global level, the World Happiness Reports (volumes for 2023, 2022) explain the impact of the COVID-19 pandemic and of other crises on the measurement of world happiness.

Furthermore, at the global level, the report by the International Energy Agency (IEA) on "Energy Technology Perspectives" (2023) shows that the Covid-19 pandemic and the Russian Federation's invasion of the Ukraine have critically disrupted global energy and technology supply chains, leading to soaring gas, oil, and coal prices, as well as to shortages of critical minerals, semiconductors, and other materials and components needed to manufacture clean energy technologies. In addition, the report by the International Energy Agency (IEA) (2023) on 'Renewables 2022' indicates that the first truly global energy crisis, triggered by Russia's invasion of the Ukraine, has sparked unprecedented momentum for the development of renewables sectors. The report also finds that fossil fuel supply disruptions have underlined the great energy security benefits of domestically generated renewable source electricity, leading many countries to strengthen the policies for supporting the renewables sectors. Moreover, the International Energy Agency (IEA) shows in 'The Africa Energy Outlook 2022: World Energy Outlook Special Report' that in the last two years the global economic landscape has drastically changed. The Covid-19 pandemic has destabilised the global economy and continues to cause supply chain disruptions that have lasting effects on project timelines and prices. The report indicates that, notably, the Russian Federation's invasion of the Ukraine in February 2022 has sent global food and fuel prices soaring, hurting households, industries, and entire economies – most severely in the developing world where people can least afford it. Energy has been at the centre of many of the unfolding crises, with global demand for oil and gas falling during the onset of the COVID-19 pandemic, only to whipsaw with the restart of major economies, and now we see that the world economy is thrown into increased uncertainty, caused by Russia's invasion of the Ukraine.

In addition, the Global Report on Food Crises (GRFC, 2023) shows the impact of the war of Russia against the Ukraine on food crises around the world, and it indicates that the war of Russia against the Ukraine has had an outsized impact on global food systems due to the major contributions that the Ukraine and the

Russian Federation make to the production and trade of fuel, fertilizers, and essential food commodities like wheat, maize, and sunflower oil. The report indicates that the timing of the war also contributed to this impact, as higher international commodity prices in the first half of the year 2022 compounded the macro-economic challenges that countries continued to face after the COVID-19 pandemic.

Moreover, at the regional level the European Progressive Report (2023) indicates the strong impact of Russia's invasion of the Ukraine and shows that this war has not only pushed various EU policies onto a new track, from the field of defence as well as to the field of energy, but the war has also sent shockwaves around the rest of the world. The report shows that when we look back at 2022, the consequences of the major crises that took place still need to be further assessed, including those of the COVID-19 pandemic. In addition, the Europe Sustainable Development Report (2022) indicates that both crises, the COVID-19 pandemic and the global ramifications of the war on Ukraine, have created challenges to achieve progress towards the SDGs both in Europe and worldwide. Moreover, at the regional level the UNICEF Office of Research – Innocenti argues in its report (2022) that the impact of climate change is creating major socio-economic challenges for low- and middle-income countries, further exacerbated by the COVID-19 crisis, which tipped an additional 100 million children into poverty worldwide and is undermining progress towards the SDGs. The costs of climate change are already becoming clear and visible for economies which are struggling to recover from COVID-19. The recent policy responses to COVID-19 have stalled progress on the move towards climate-friendly fiscal policies. The conflict on the Ukraine has triggered a new challenge, placing pressure on energy prices due to increased gas and oil prices. In addition, at the global level, the Ecological Threat Report (2022) released by the Institute for Economics and Peace (IEP, Sydney, Australia) shows that the world's population became less concerned about climate change. This may be partially explained by COVID-19 and concerns regarding more immediate issues, such as health and livelihoods. The report argues that ecological threats will continue to create humanitarian emergencies, with the effect to increase conflicts, and to result in forced migration, unless there is a sustained effort to reverse the current trend. Ecological threats are becoming more pronounced and will affect more people than ever. Building resilience to these threats will increasingly become more important and will require substantial investment now and into the future.

As Africa is so much affected by these crises, the global and regional implications for the continent are of greatest relevance. Africa should have a louder voice on all these issues, as we see that crises are affecting more and more the continent. Therefore, the reviews and notes have a focus on policies and impacts

of multiple crises affecting Africa as a continent and Africa by regions and countries. In the Parts A, B, and C we present a lot of information on Africa based on the reviews and notes for books and documents, and we give also an evaluation about which books and documents may be useful for Africa's policymakers and for media people and researchers who work on Africa. Part D has a synopsis on major African Development Reports since 2022. These major reports were reviewed in all former volumes of the African Development Perspectives Yearbook, and in this volume 24 we report on the Economic Report on Africa by UNECA et al., the Economic Development in Africa Report by UNCTAD et al., the African Economic Outlook by the AfDB et al., the Africa's Development Dynamics Report by OECD et al., and the Africa Sustainable Development Report by UNDP et al., as all these reports have impact on policymakers in Africa and on policymakers who are supporting Africa (from governments, media, NGOs, donor agencies, research communities, business associations, etc.)

A: Reviews/Notes of Books and Reports from a Global Perspective (Global Studies)

Brandi, C., and Morin, J-F. (2023), 'Trade and the Environment: Drivers and Effects of Environmental Provisions in Trade Agreements', Cambridge University Press, 2023. Published online by Cambridge University Press, 07 December 2023, in the Series: Cambridge Elements, Elements in Earth System Governance, An Open Access Publication, Paperback and Hardback; ISBN 978-1-009-46187-0 Hardback/ISBN 978-1-009-46183-2 Paperback/ISSN 2631-7818 (online)/ISSN 2631-780X (print), 93 pages; DOI: <https://doi.org/10.1017/9781009461825>; 104 pages; Information on this title: www.cambridge.org/9781009461870; Download PDF: <https://www.cambridge.org/core/services/aop-cambridge-core/content/view/8DDFCD193957CD11C185572CB0D61B11/9781009461870AR.pdf/trade-and-the-environment.pdf>; Further link: <https://www.cambridge.org/core/elements/trade-and-the-environment/8DDFCD193957CD11C185572CB0D61B11>

This book shows that the rapidly increasing number of trade agreements and their interlinkages with environmental governance call for new research on the trade and environment interface.

The book indicates that in 2015 the global community had achieved for global governance two significant milestones in multilateralism: the Paris Agreement and the 2030 Agenda for Sustainable Development. The Paris Agreement aims to limit the increase in global temperature to below 2°C above pre-industrial levels, with a preference for staying below 1.5°C (UNFCCC, 2015). The 2030 Agenda is centred around seventeen sustainable development goals (SDGs), designed to address

the three pillars of sustainability: social, environmental, and economic (United Nations, 2015). Despite these notable accomplishments, global cooperation is facing tremendous pressure. The progress of multilateral climate negotiations towards implementing the Paris Agreement has been frustratingly slow. Other multilateral approaches dealing with global environmental challenges are also progressing at a sluggish pace, and multilateral trade negotiations at the World Trade Organization (WTO) have encountered significant obstacles. In addition, human interference in the Earth's system has reached an unprecedented scale, posing enormous challenges for scientists and policymakers that call for global cooperation and a shift towards sustainability.

This book argues that the fragmentation of trade and environmental governance can be seen more positively and can be regarded, under certain conditions, as productive in terms of environmental protection, which is contrasted with the prevailing perspective that the fragmentation of the trading system has only negative consequences (Bhagwati, 1995). This book offers a foundation for enhancing the readiness of current trade governance systems to address urgent global environmental challenges and Earth system transformations such as climate change and biodiversity loss. This argument is significant and relevant, because the relationship between trade and the environment has become increasingly important. The issue of whether and how to link trade and the environment in preferential trade agreements (PTAs) is a highly debated topic in both research and policy circles. For instance, major disputes have recently arisen in the context of the EU-Mercosur trade agreement and the WTO agenda on trade and the environment. Furthermore, the introduction of a carbon border adjustment mechanism (CBAM) by the EU – a tariff on carbon-intensive EU imports – has sparked further contentious discussions about trade and environmental linkages. Drawing on insights from law, economics, and political science, this book provides a comprehensive investigation of the governance of the trade-environment interface in the light of the proliferation of environmental provisions in PTAs. This book contributes to Earth System Governance research. This book also provides a comprehensive and nuanced analysis of the relationship between trade and the environment in the context of the PTAs, drawing on both quantitative and qualitative research methods to offer insights into the drivers, effects, and implications of environmental provisions in trade agreements.

The structure of this book includes nine sections. Section 1 provides the Introduction. Section 2 examines the proliferation of PTAs and their environmental provisions in the context of institutional interlinkages, regime complexes, and fragmentation. Section 3 introduces trade and environmental interlinkages, explores the diverse environmental provisions found in PTAs, and discusses their compliance and enforcement mechanisms. Section 4 shows the various drivers of

PTA environmental provisions, which are becoming increasingly frequent and diverse. Section 5 explores the important North-South dynamics of PTA negotiations and the inclusion of environmental provisions. Section 6 examines the global spread of environmental provisions in PTAs. Section 7 analyses the effects of environmental provisions in PTAs from both environmental and economic perspectives, examining the synergies and trade-offs between different dimensions of sustainable development. Section 8 goes beyond the bilateral and regional levels and considers broader implications for greening trade governance at the multilateral level. Section 9 summarizes the potential benefits and pitfalls of environmental provisions in trade agreements and presents policy recommendations.

This book aims to determine whether, why, and how PTAs can contribute to environmental protection, and it demonstrates that well-designed environmental provisions within trade agreements can improve environmental protection and promote the SDGs. The book addresses four key issues, first, the book demonstrates that global governance at the trade-environment interface can mitigate the negative externalities of trade and may increase positive externalities. This indicates that international institutions really do matter, which is a useful reminder in these troubled times as they are increasingly being attacked by nationalists and populists, as well as by cynical and disillusioned activists. Second, the book argues that while governing the trade-environment interface may create trade-offs, it can also create synergies across the different dimensions of sustainable development. For example, environmental provisions that reduce trade barriers for environmental goods can generate economic and environmental benefits. Third, the book recognizes the power dynamics in international relations and emphasizes the need for environmental provisions to be designed in a way that considers the interests of developing countries and their most vulnerable population groups. Fourth, the book acknowledges the challenges posed by the fragmentation of global governance architecture (Bhagwati, 2008; Biermann, 2014; Young, 2012), particularly in terms of coordination and coherence. The book contributes strongly to the issue of the inclusion of environmental provisions in PTAs, provides a framework for experimenting with trade-environment interlinkages, can potentially help to overcome the stalemate in the WTO, and can enhance the adaptability of the global trade system to pressing environmental challenges.

This book examines PTAs and their environmental provisions, and it explores the potential contribution of PTAs to global environmental governance. It argues that some provisions promote the implementation of environmental treaties, facilitate civil society participation, and require the transfer of environmental technologies to developing countries. These provisions cover a wide range of environmental issues, such as limiting deforestation, protecting fish stocks, and mitigating CO₂ emissions. Some PTAs provide for the use of their primary dispute settlement mechanisms, which can ultimately lead to trade sanctions in cases of alleged non-compliance with environmental provisions. The book argues that the proliferation

of PTAs and their environmental provisions necessitates new research on the trade-environment interface. The book indicates the need for new data and methods, including detailed content analysis across multiple treaties to explain the interlinkages and to understand if and how PTAs' environmental provisions can help tackle global environmental challenges.

This book provides therefore important contributions, as it shows the complex and contested relationship between trade governance and environmental governance by analysing its drivers and effects. The book argues that understanding this relationship is critical for several reasons: First, international trade is integral to the modern world economy. Understanding the patterns of resource extraction and consumption requires examining how and why these resources travel across borders. Second, international trade has significant environmental impacts, and trade is highly relevant from an environmental perspective. Third, trade can contribute to addressing environmental problems, and trade can enable more resource-efficient production, the spread of environmental standards, and the diffusion of environmentally friendly technologies. Given these mixed effects, it is not surprising that the relationship between trade and the environment remains controversial. Fourth, the design of trade policies matters for environmental protection. In some cases, trade policies have been poorly designed. Finally, as a fifth point, analysing the interplay between trade and the environment is vital in the context of the modern global governance system, which is characterized by a complex web of institutions with overlapping mandates.

This book delivers significant scientific contributions. Firstly, this book adds to the existing literature on interlinkages by providing a comprehensive and detailed analysis of the drivers and effects of the interplay between trade and environmental governance, it offers a nuanced understanding of the role of trade governance in environmental protection and governance, moving beyond the concepts of synergies and conflicts to highlight the trade-offs between SDGs. Secondly, this book focuses on the role of trade agreements in environmental governance, with a particular emphasis on a broad range of PTAs, it significantly contributes to the understanding of the drivers and impacts of these interlinkages across a larger sample of PTAs. Thirdly, this book contributes to the literature on the trade regime complex and on the benefits and drawbacks associated with such a structure, it shows that the complex interplay between multiple institutions can enhance adaptability and resilience in global governance.

This book also provides key policy recommendations to guide the governance of the trade and environment interplay by focussing on win-win solutions and managing trade-offs; by promoting the participation of non-state actors; by boosting capacity-building and assistance to policymakers; by improving impact assessment, data and knowledge diffusion; by fostering compliance and enforcement; by

making effective use of the trade-environment interface in the WTO; and by focussing on trade, climate change, and development. For policymakers in Africa, especially those working on regional economic community affairs, this publication may be enlightening.

References to this review:

Bhagwati, J. (2008). *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*. Oxford University Press.

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Young, O. R. (2012). Arctic tipping points: Governance in turbulent times. *Ambio*, 41(1), pages 75–84. Link: <https://doi.org/10.1007/s13280-011-0227-4>

By Professor Samia Nour, Khartoum/Fulda

Lewis, D., Dennis, R., Woolcock, M., (Editors) (2022), ‘New Mediums, Better Messages? How Innovations in Translation, Engagement, and Advocacy are Changing International Development’, Oxford University Press, Oxford, UK. An Open Access Publication; ISBN 978–0–19–885875–1 (hbk)/ISBN 978–0–19–885876–8 (pbk); 266 pages; DOI: 10.1093/oso/9780198858751.001.0001. Link: <https://academic.oup.com/book/43944?login=false>; and: <https://global.oup.com/academic/product/new-mediums-better-messages-9780198858768?cc=de&lang=en&#>.

The book argues that it has long been recognized that development influences and is influenced by all aspects of human life, and that, as such, social science is but one representational option among many for conveying the myriad ways in which development is conceived, encountered, experienced, justified, courted, and/or resisted by different groups at specific times and places.

This book shows that there is currently renewed interest in conversations between science, social science, and the humanities around the roles of different kinds of knowledge, stories, and data in apprehending the human conditions, and how they might be more fruitfully integrated. The engagement with development policy and practice is considered. At the level of public policy, there is new enthusiasm for behavioural science, ‘big data’, ‘nudges’, ‘artificial intelligence’, and randomized control trials. Such approaches enable policy professionals to make bold new claims about how to engage with complexity, but this occurs at the risk of compounding the problem by over-relying on technical and instrumental

approaches to problem-solving. The book indicates that, for example, the Covid-19 pandemic has highlighted these kinds of tensions between expert researchers, policymakers, and citizens in finding supportable and implementable solutions.

The book indicates that when it comes to the specific world of global development, it suggests that there is an increasing need to think in new ways about policy and practice. The concept of 'development' has expanded from an earlier emphasis on economic/technical concerns, from narrow Cold War geographies of the 'Third World', and from an emphasis on wealthy countries helping poor ones, to become one of the central organizing ideas of our age. Indicated is also that the concept of development has become broader and includes also philosophical questions of social justice and of the 'good life' (not just in relation to people, but also to nature and the planet more generally). For example, the UN's Sustainable Development Goals (SDGs) now apply to all countries; and the thinking about poverty has widened to embrace 'quality of life' issues; and more nuanced conceptualizations have evolved regarding democratization, poverty, and governance. So, the ways of 'doing' development must also be expanded, going beyond the conventional modalities to include the role of culture, narrative, and emotion, responding to critics of development.

It is argued that development, as an intensely public space, is ideal ground on which to pursue these bigger questions of epistemology—to weigh up the merits of different logics of enquiry and new measures of experience. At the same time, however, this book also explicitly aims to highlight and to investigate how newer areas of development practice actively draw on unconventional and innovative modes of engagement, such as the use of video games, theatre, or photography in order to reach new audiences or to bring new messages, and/or to reflect changing realities and ideas. A critical exploration of these new frontiers of practice supports moving from simply considering alternative representations of development to thinking about more transformative forms of 'doing development differently'.

This book aims to frame and to open the space for popular representation as an important new field of study that has to date been largely neglected by those engaged in research on global development. It aims to contribute to the opening of new avenues for investigation and to pose new questions across these boundaries and disciplines. It argues that understanding the power, potential, and pitfalls of new mediums is essential to understand whether they are better purveyors of fundamental messages about development, or whether they contribute to making it more difficult to highlight these. It aims to stimulate further research into popular representations of development in ways that go beyond simply mapping these out to actively seeking to harness them, to engage the enduring challenges of global development with twenty-first century mediums and sensibilities.

The book identifies three broad issues that will be important for future research agendas to consider in relation to the existence of alternative forms of knowledge about development. These are: (1) How popular representations of development can successfully compete with or (in some cases) even supersede social scientific representations from the perspective of both conceptual and empirical representation; (2) The political economy of popular representations of development, including the differences between 'independent' vs 'mainstream' media, and the way that popular media productions shape debates; (3) The extent to which popular representations of development represent alternative critiques that allow for the articulation of views that would be unacceptable in more orthodox mediums or forums. The book proposes that the three above issues can be thought of more simply as respectively corresponding to processes of 'translation', 'advocacy', and 'engagement'.

The structure of the book is organized in twelve Chapters. Chapter 1 provides an introduction and explains the way that the experience of development, as well as understandings of and responses to it, can be uniquely rendered via music. It discusses the overlap between music and development in five specific domains: the tradition of western 'protest' music; musical resistance in the Global South; music-based development interventions; commodification and appropriation; and, finally, music as a globalized development vernacular. Chapter 2 contrasts the work of two photographers who take up, in very different ways, the subject of African dumping grounds. It builds on a longer tradition of trash as trope in African image production, a tradition that uses the visual iconography of garbage to educate publics and to make political claims. It shows that the different approaches to visualizing trash reflect a broader divide over how photography communicates urgent issues in global development and what photography has to offer in the specific discourses of African environmental and economic futures. It shows different interpretations of the environmental and social politics of waste, and each may call for a different response from the audiences of their work. Chapter 3 indicates that 'doing no harm' with overseas aid was easy considering the clear visibility of poverty and underdevelopment, and the seemingly straightforward possibilities linked to food and material distribution. Chapter 4 explores the dilemmas, challenges, and pitfalls. Chapter 5 considers the nature and reasons for the popularity of the former's 'From Poverty to Power' (FP2P) blog. Chapter 6 describes the story behind the first development-oriented video game, 'Food Force', launched by the United Nations World Food Programme (WFP) in 2005. It explores how the narrative of this game reinforces a mainstream, neoliberal approach to development by framing poor women as responsible for overcoming social, cultural, and economic obstacles to change their lives for the better, arguing that such a narrative increases the burden placed on these women, while erasing the root causes of women's poverty and the expectation of state-based support. It highlights the

potentially problematic nature of the content of popular forms of representation, such as role-playing video games.

Chapter 7 explores new forms of advocating for and representing women's empowerment, one of the key development issues of the last two decades. It seeks to understand some of the popular representations of women and development that are made available through the medium of radio. Chapter 8 explores the collaboration between journalists, academics, and an NGO to carry out and to document a range of development initiatives in Katine village, Uganda, and it points to some of the ways in which Katine offers an alternative way into thinking about and 'doing' development, but also the potential pitfalls of such novel forms of advocacy. Chapter 9 explains the neglect of the arts in engaging with climate change, focusing on the role of cultural resources in informing climate struggles and local initiatives to mitigate the phenomenon in Bangladesh. It argues for considering the importance of culture within climate change policymaking and programme design and enhancing the space for including putative 'non-expert' cultural resources in the form of paintings, theatre, poetry, songs, and literature, which are a repository of local knowledge and practices. It maintains that building implementable and measurable progress towards adaptation or mitigation require policymakers and technical experts to engage with the broadest possible understanding of climate change, with culture being a powerful tool in advocacy. Chapter 10 explores the ways in which contemporary arts festivals in Nigeria and Nepal not only encourage alternative representations and narratives of development, but also provide spaces for contestation and the deliberation of ideas about the country's future development. Chapter 11 deals with a specific popular representation; it highlights how the impact and effect of popular representations can overlap and differ across a range of audiences, arguing that it is critical to take this into account when thinking about the universal appeal, authenticity, and impact of popular representations of development. Chapter 12 considers 'the arts in the economy and the economy in the arts'; it suggests that in turning to less conventional forms of 'doing development' people are not facing potentially negative cost-benefit transactions but rather the possibility of engaging in more holistic, inclusive, and locally legitimate development practices.

It is interesting to see how unconventional forms of "doing development" can inspire action towards new forms of development practice. This is especially relevant for development work in Africa. Innovations in the media sector of Africa play an increasing role, and they can benefit from worldwide examples presented here.

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Mary Ann Manahan and Madhuresh Kuma Brennan, Researchers, and Berrón, G., Drago, M., and Paranhos, L. (Editors) (2021), ‘The Great Takeover: Mapping of Multistakeholderism in Global Governance’, Amsterdam, December 2021, People’s Working Group on Multistakeholderism and its members. ISBN – 9789070563844; 179 pages and Annex Database; link: https://www.tni.org/files/publication-downloads/the_great_takeover_-_updated_14_april_2022.pdf

The book focuses on mapping of multistakeholderism (through an increasing number of Multistakeholder Initiatives/MSIs) in global governance. This book shows that from health to food and agriculture, from education to internet, from environment to public services and human rights, it is understood that decisions made in these MSI mechanisms as well as in captured multilateral institutions have direct impact on people’s health, children’s education, digital rights, access to basic public services and human rights in the territories, including the right to a healthy environment. The experience of this sharing and common analysis provided the certainty that the “systemic” phenomenon of “multistakeholderization” of global governance is taking place. This systemic multistakeholderism is in fact taking over the governance of the world by dislocating the locus of the decisions from the multilateral system into these mixed mechanisms where the private sector rules, with the support of some states, international institutions, and big philanthropists. The book indicates that a map of this complex new global governance was needed to better understand its nature and drivers and confirm its “systemic” character. This text is a first approach to five sectors: environment, education, health, food & agriculture, and internet. It is built in a dialogical way between two researchers and the members of the “People’s Working Group on Multistakeholderism”.

The structure of the book includes a conceptual and analytical introduction that provides also the key methodological decisions made by the researchers; the sectoral chapters bring two dimensions: first, a thorough analysis of the sector, and second, describing the multistakeholder initiatives. The book aims to contribute to a common understanding of global governance and that a public, more democratic, and genuine participatory multilateral system is urgently needed. The book shows that in September 2021 the document “Our Common Agenda”, from the United Nations Secretary General, sets the roadmap of the Multilateral System for the coming years and shows how this partnership with the corporate private sector is presented as the only way out of the multiple crises the world faces. From the impacts on the lives of the people it is obvious that instead of being a solution, multistakeholder mechanisms accelerate the route towards a more undemocratic, unsustainable and unequal world.

The book shows that Multistakeholderism, or multistakeholder governance, has its roots in organisational management theories that depict how a central institution (government, business, etc.) should structurally engage with other public institutions (electorate, shareholders, etc.). It departed from its origins when it undertook more public concerns and public policy issues, such as climate change, internet governance, and sustainable development, among others. The rise of multistakeholderism (through Multistakeholder Initiatives/MSIs) largely coincided with the mainstreaming of neoliberalism. Post 1980s, the world witnessed several developments that contributed to its embeddedness at the global-governance level.

The book used terms such as multistakeholderism, multistakeholder initiatives, and multistakeholder governance interchangeably; it included multistakeholder governance to depict that the cases it identified operate through a mix of formal and informal rules, norms and enforcement that undergird their goals, strategies, activities, and internal relations; the Multistakeholder Initiatives/MSIs create systems of governing that enforce views and discourses peddled by more powerful categories of 'stakeholders'. The book builds on on-going critical work around the World Economic Forum's (WEF's) strong emphasis on corporate-led multistakeholderism (or what it calls stakeholder capitalism). The book examines the major research assumption/hypothesis that there is a growing role and dominance of corporate actors in various multistakeholder initiatives (MSIs), at the centre of which is the WEF. The book also expanded the assumption/hypothesis to cover the roles and involvement of the UN and other important actors that participate in the MSIs, such as international NGOs, Northern governments and their aid agencies, private foundations/philanthropies, international finance institutions (IFIs), and affected communities.

The findings of this study are based on qualitative and quantitative mapping of multistakeholderism, particularly MSIs, in global governance mechanisms within five sectors— food, agriculture and land; global health; environment; internet and data; and education. The qualitative methods are comprised of scoping interviews with key informants, critical discourse analysis and literature review, and fact-checking of information gathered. The quantitative method covers the building of a database containing 21 data entry points, which pertain to crucial information about the MSIs: date of formation, history, description, objectives, sector, theme tackled, governing structure, influential actors, the role of the corporate sector, the role of UN bodies, sources of financing, domicile, categories of approved stakeholders, links to annual reports, reference to international human rights law or standards (if any), issues and controversies surrounding the MSIs, and additional information, sources and weblinks.

The structure of the paper is divided into three parts. The first contains the critical interpretative analyses underscoring converging trends, common threads,

and criticisms of MSIs emanating from the mapping data but also various secondary literature. The second section outlines important features, mainly descriptive, of the 103 Multistakeholder Initiatives (MSIs) which were surveyed. The final part offers some concluding remarks and recommendations for further research and political action. Regarding the structure, the book includes five chapters. Chapter I focuses on Education, a Big Business for Businesses: Multistakeholderism in the Global Education Governance. Chapter II discusses Commodifying and Selling Nature to Save It: Multistakeholderism in Global Environmental Governance. Chapter III discusses The Ebbing Influence of WHO: Rise of Multistakeholderism, Chapter IV discusses Unaccountable and Hegemonic, the Big Tech Threat: Mapping Multistakeholderism in the Global Internet Governance, and Chapter V discusses Probing Multistakeholderism in Global Food and Agriculture Governance.

The publication is very useful because of the theoretical approach (Multistakeholderism) and because of the details on so many Multistakeholder Initiatives (MSIs). Also, policymakers should learn from this study. Most of the issues are of relevance to African countries and to its policymakers, as global big business is involved via MSIs in all spheres of politics, economy and development cooperation in and for Africa. The five chapters of the book outline the major areas (food and agriculture, technology and telecommunication, land and nature, health, and education).

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Melber, H., Kothari, U., Camfield, L., and Biekart, K. (Editors) (2024), 'Challenging Global Development: Towards Decoloniality and Justice', The European Association of Development Research and Training Institutes (EADI), Global Development Series, Palgrave Macmillan Cham, Springer Nature Switzerland AG, 2024. 260 pages. An Open Access Book: ISSN 2947-8529/ISSN 2947-8537 (electronic); EADI Global Development Series: ISBN 978-3-031-30307-4/ ISBN 978-3-031-30308-1 (eBook)/ <https://doi.org/10.1007/978-3-031-30308-1>; links: <https://www.eadi.org/publications/eadi-book-series/challenging-global-development-1>, and: <https://link.springer.com/book/10.1007/978-3-031-30308-1>

This book discusses the challenging global development towards decoloniality and justice. It seems consistent with recent global movements, responding to growing demands to decolonise knowledge. The book aims to contribute to the global attempts to decolonise Development Studies and in so doing introduces ways in which new forms of solidarity, that work towards achieving global social justice, can be promoted. Recognising the historic injustice of global poverty and inequalities, the book addresses how these can be combatted through teaching, research, and engagement in policy and practice, and all the sorts of political challenges

these might encounter. The book examines the contexts in which decoloniality can be developed, analysing these on firm historical, theoretical, epistemological, and empirical grounds. The book aims to provide renewed perspectives, focusing on decoloniality and revealing ideas about solidarity, while also addressing the epistemological and methodological limitations of Development Studies.

The structure of the book includes 14 chapters. Chapter 1 presents an introduction about 'Rethinking Development and Decolonising Development Studies'. Chapter 2 shows essentialist approaches to global issues: the ontological limitations of development studies. Chapter 3 focuses on beyond the Sustainable Development Goals: post-development alternatives. Chapter 4 suggests search of alternatives to development: learning from grounded initiatives. Chapter 5 examines why is development elusive? structural adjustments of Africa in the *Longue Durée*. Chapter 6 explains cultivating post-development: pluriversal transitions and radical spaces of engagement. Chapter 7 focuses on beyond deconstruction and towards decoloniality: pedagogy and curriculum design in SWANA (South and West Asia and North Africa) and South Asia Studies in US higher education. Chapter 8 shows data collection versus knowledge theft: relational accountability and the research ethics of indigenous knowledge. Chapter 9 suggests assuming power in new forms: learning to feel 'with the other' in decolonial research. Chapter 10 shows development and post-development in a time of crisis. Chapter 11 examines South-South cooperation and decoloniality. Chapter 12 discusses decolonising development management: epistemological shifts and practical actions. Chapter 13 shows what is 'development' and the possibility to 'decolonise' it? - some ontological and epistemological reflections. Chapter 14 presents EADI roundtable discussions: recasting development studies in times of multiple crises.

The book proposes that decolonising Development Studies can be achieved by supporting the emergence of a new generation of scholars being able to challenge 'normalised coloniality' in its globalised context by destabilising Eurocentric colonial frames. As such, this book also includes reflections on teaching development in multiple and varied ways and in different settings and engaging with the world outside academia. The book shows that current challenges are interconnected and cannot be addressed in isolation but should be addressed collectively. The book suggests that it seems important to move beyond perceptions of the world as 'them and us', as 'developed and undeveloped', as 'North and South'. The book shows that 'Development' has been founded upon the forging of dichotomies, be they geographical, spatial, material, cultural, or temporal. This has led to identifications, classifications, and categorisations of people and places using racialised, gendered, pseudo-cultural, and ethnic binaries. This book confounds these distinctions by illuminating how they reinforce differences and inequalities.

The book shows that fundamentally, this requires the inclusion of diverse perspectives that have been invisible or marginalised, combined with an explicitly anti-racist lens. The book indicates that development as it is currently practised can never bring about complete and equitable social transformation. The book indicates that thus far, much critical research on development work has emphasised its failings. Either development does not achieve what it sets out to do or is actively complicit in the reproduction of systems of dominance and exploitation. The difficulty with these approaches is that they lead to dead ends: we know what is wrong, but not what might be a better approach towards meaningful change.

The book has documented the contributions to the “EADI Roundtable on Recasting development studies in times of multiple crises”, which has engaged with the challenges we are facing (as a field as part of the annual EADI Directors). The book calls for new perspectives: There is growing frustration with the association of economic growth with development. The book recognises that studying development today often translates into studying crises caused by development processes themselves. Thus, those responsible for causing development problems remain in charge of solving them. While new and critical ideas and concepts may be integrated into mainstream development discourse and practice, they do not necessarily challenge orthodox development. Instead, these radical insights are often co-opted into the mainstream, losing their radical edge and in turn become depoliticised and ahistorical. Thus, the power of definition and implementation remains unchallenged.

The book indicates that with the Millennium Development Goals (MDGs) as a significant marker (Wilkinson & Hulme, 2012³) and the SDGs as the latest reference point on which much Development Studies funding depends, the development discourse has entered a new stage by shifting from a North–South perspective towards a more holistic view of global challenges. But while the SDG-triggered agenda opens new opportunities in the Global North, it also closes others, by reducing the notion of development to a series of goals, targets, and checklists. But recently we see the new and intensive discussion about the perspectives of the “Global South”.

The book shows that indicators and measurements of development continue to fail to capture wider social processes. Instead, what is required is deeper understanding of knowledge production as a process which involves interactions based on respect and recognition of ‘otherness’. Standardising life as data for decision-making processes sacrifices other forms of knowledge founded upon empathy, social justice, and related motives—such as solidarity. If knowledge is no longer a combination of the multiplicity of experiences, it is part of the problem rather than the solution. The book indicates that it remains imperative to examine the nature

³ Wilkinson, R., & Hulme, D. (Eds.). (2012). *The Millennium Development Goals and Beyond: Global Development After 2015*. Routledge.

and intention of the knowledge created and applied. It is important to critically explore and question the conditions, forms, substance, and likely impact of knowledge produced. Additionally, it is necessary to be cognisant of the structural asymmetries of power and interests that reproduce societies and institutions.

The book argues that decoloniality and justice can only be achieved with the acknowledgement of historical wrong doings and with the recognition of the ongoing coloniality of knowledge. The slogan that ‘knowledge is power’ is visible in the landscape we navigate as development scholars and practitioners. While this dictum is not new, it has more pronounced meanings and more extensive reach today through information technologies and social media. It is important to scrutinise not only how knowledge is power, but also how power is effective in terms of knowledge. After all, the definitions and framings of development often remain ‘Western property’, even when presented in a different guise. Despite these pitfalls, however, it is important also to be aware and to recognise that there has always been resistance to colonial forms of knowledge and to the concentration and exercise of power.

The book indicates that organisations such as EADI can encourage robust individual scrutiny among scholars to explore and to question the socialisation, mindset, values, and practice. In this way, the collective efforts can contribute to change by shifting the own perceptions and activities. At the same time, it is important to remain cautious about the form and extent of the current popularity of development as decolonisation. The book shows that development is not only a transactional process of implementing formal knowledge based on a cognitive act. It is also a value-based affair with emotional, moral, and ethical dimensions. Thus, development needs a human core, based on people, on their perspectives, emotions, and their voices. It is important to critically interrogate the cultural and mental foundations of the world views and the framing of knowledge. Perceptions of people and others must be challenged. What people take for granted must be questioned. Only from there it is possible to initiate meaningful efforts to understand. This includes the willingness and ability to vacate the space to the experiences of those marginalised whose voices have for so long been silenced.

The book concludes with various epilogues that reflect on the themes of the volume and add different perspectives. The book highlights the contested nature of ‘development’ and the limitations of middle-range theories that are increasingly used to examine processes of systemic change, for example, in development evaluation. Finally, the book reflects on the centrality of coloniality to academic conceptualisations of development to reveal how decolonising development discourse and practice can move beyond the critical to deliver ‘global social justice’.

It is the great merit of the editors and authors to explain the various aspects, forms, and streams of the “decolonising development discourse”. The book is of

value for recent discussions in and on Africa about decolonization, renaissance, and new development. This publication can inspire the dialogue between Europe and Africa on new models of development and development cooperation.

By Professor Samia Nour, Khartoum/Fulda

Shapiro, J., and McNeish, J-A. (Editors) (2021), ‘Our Extractive Age - Expressions of Violence and Resistance’, Routledge Studies of the Extractive Industries and Sustainable Development, Routledge, New York, 2021, Routledge, the Taylor & Francis Group. 280 pages. ISBN 9780367650520. Link for Open Access Download and for Readers: <https://www.taylorfrancis.com/books/oa-edit/10.4324/9781003127611/extractive-age-john-andrew-mcneish-judith-shapiro>

This book emphasizes how the spectrum of violence is associated with natural resource extraction. This book is also reporting on the increasing rates of brutal suppression of local environmental and labour activists in rural and urban sites of extraction. This volume also focusses on related violence in other unexpected areas, such as infrastructural developments and protected areas for nature conservation. It argues that “extractive violence” is not an accident or side effect, but rather a core logic of the 21st-century planetary experience. This book indicates the symbolic and structural violence that governance, economics, and governmentality of extraction have produced. It indicates that extractive violence is shown not only to be a spectacular event, but an extended dynamics that can be silent, invisible, and gradual. This book also recognizes that much of the new violence of extraction has become cloaked in the discourse of “green development”, “green building”, and by efforts to mitigate the planetary environmental crisis through totalizing technologies.

Regarding the volume structure, the book includes an introduction and five parts:

Part 1 provides a theoretical grounding in the themes of extraction and violence, and of the connections between them. Chapter 1 explains the definitions and concepts (extraction and extractivism). Chapter 2 explores the politics of violence in extractivism, and it refines understandings of “violence,”. Chapter 3 discusses thresholds of injustice; it shows challenging the politics of environmental postponement, and it argues that the hyper-extractivism of the current age has revealed and disrupted the displacement of environmental harm onto the vulnerable and created a wave of resistance.

Part 2 focuses on exacerbated violence at the local level, and it explores the intensification of violence in classic realms of extraction. Chapter 4 discusses empowerment or imposition, and it examines the practice of prior consultation in advancing extractive projects in contrast to its envisioned ideal of enforcing compliance with indigenous and environmental human rights. Chapter 5 discusses

criminalization of agrarian movements, leveraging law and violence against land defenders in Latin America and the World; the chapter contextualizes recent violence against agrarian movements within the divergences and convergences of historical peasant movements. Chapter 6 focuses on extraction and the building boom: deconstructing violence and other social consequences of extraction in the built environment; the chapter documents the ways in which the act of construction depends on violence and extraction and reveals the embedded social and social justice impacts of multiple aspects of a building project's life cycle.

Part 3 focuses on new ways of thinking about extractivism, it reveals new contexts of extraction, expressions of extractivism, and of extractivist innovations. Chapter 7 discusses rethinking extractivism on China's belt and road: on food, tourism, and talent; it highlights the role that a quickly globalizing China is playing in catalysing and intensifying novel forms of extraction and violence. Chapter 8 considers the significance of legal cases that recognize the personhood rights of rivers as means to control illegal mining and as an innovative form of extractivism; it shows the significance of extractivism and governance, and it focuses on granting rights to rivers in Colombia. Chapter 9 provides an analysis of a complex web of extractivism where digital and data extractivism intersect with natural resource extractivism in their underlying logic and processes. Finally, the chapter 10 shows how the concept of hyper-extractivism can help us to understand and to guard against problematic potentials in large-scale carbon removal activities at the level of the planetary atmosphere.

Part 4 and the final section, the Chapter 11, focus on hyper-extractivism and the global oil assemblage to explain the visible and invisible networks in frontier spaces. Focusing primarily on the oil industry in the Arctic, in Nigeria and in Mexico, it provides details on the planetary nature of extractive capitalism, and it reveals its reliance on intertwined legal and illegal logics and actions.

This publication adds to a better understanding of extractive activities in developing countries but has relevance also for regions which are still unexploited (Arctic, Antarctic, and Marine mining). For Africa, crucial messages are derived from the analyses. The new race for raw materials needed for renewable energies to mitigate the global climate crisis leads to new forms of extractivism and to new waves of violence in Africa. Africa is affected by the rush for traditional raw materials and for new materials. Beside of the negative local effects of extractivism there is the risk of disputes along the whole value chains for getting a share of the value added and of the profits. The new geopolitical tensions since the year 2022 exacerbate the dangers that new violence destroys development opportunities in Africa and elsewhere.

By Professor Samia Nour, Khartoum/Fulda and Karl Wohlmuth, Bremen

Gallien, M., and Weigand, F. (Editors) (2022), 'The Routledge Handbook of Smuggling', New York, Routledge, Taylor & Francis Group. An Open Access Publication. 485 pages. ISBN: 978-0-367-48953-3 (hbk)/ ISBN: 978-1-032-15927-0 (pbk)/ ISBN: 978-1-003-04364-5 (ebk)/ DOI: 10.4324/9781003043645; links: <https://www.routledge.com/The-Routledge-Handbook-of-Smuggling/Gallien-Weigand/p/book/9781032159270>; and: <https://www.taylorfrancis.com/books/oa-edit/10.4324/9781003043645/routledge-handbook-smuggling-florian-weigand-max-gallien>

The "Routledge Handbook of Smuggling" argues that smuggling is an economic activity that is politically defined and socially embedded. In its functional essence, smuggling is typically trade, anchored in the demand for certain products and the costs of their movement. At the same time, it is segmented from legal trade through laws, which are, along with their enforcement, deeply political, and tied into processes of state-formation and demarcation, economic regulation and prohibition, and processes related to geopolitics and conflict.

The study of smuggling always has attracted a range of disciplines: anthropology; geography; economics; sociology; history; law; and political science. This handbook aims to bring diverse disciplinary perspectives on smuggling, and to highlight themes that emerge across different areas: the complex relationships among smugglers, states, armed groups, and globalised markets; the role of and the impact on borderland communities; the counterintuitive effects of conflict and 'anti-smuggling policies'; and the drivers of heterogeneous dynamics across goods and routes. It also seeks to reflect on the methods and politics that have shaped the study of smuggling. It seeks to improve the understanding of smuggling by placing smuggling at the centre of a field of study, not casting it any longer at the margins. Presented are key observations in the study of smuggling, highlighting central themes around conceptions, routes, actors, regulations, key developments, and fault-lines in this field of study.

The handbook defines smuggling as the purposeful movement across a border in contravention to the relevant legal frameworks. According to the handbook, smuggling is an activity and is a field of study, and it is fundamentally politically defined. Both, the borders that make smuggling a cross-border trade and the laws that make it illegal are social and political constructs. This of course means that the boundaries of smuggling are movable and embedded as much in the context of an activity, and they are conditional not just in space but also in time. The book highlights the history of smuggling, as this activity is deeply entwined with the processes of border-making, colonialism, and the territorial expansion of states. Smuggling as an activity is an excellent illustration of the dependency on politics.

This book aims to provide the first systematic introduction and comprehensive mapping of research on smuggling in a variety of disciplines, with a view to aiding the formation of a more well-connected field of ‘smuggling studies.’ The book argues that research on smuggling has been produced in various disciplines. Geographic sub-fields have frequently been segmented from each other by disciplinary boundaries, ideological divergences, methodological differences, and linguistic gaps. Hence, the book aims to move the study of smuggling from the edges of different discussions and disciplines to its own centre, creating a cornerstone for a more thorough investigation that draws on the insights of the various disciplines that consider the topic. The book is structured around larger thematic debates. It provides introductions of how selected goods are smuggled around the world, offering empirical texture and comparative insight. In addition, it seeks to link smuggling to central discussions in social sciences, such as the nature and development of the state, the construction of borders, mobility, and armed conflict.

The handbook begins in the first section with a discussion of the methodologies, terms and perspectives that have shaped how smuggling has been studied in different disciplines. After addressing the question of studying smuggling and discussing the way of localising studying smuggling, and it is also argued that smuggling continually shapes its study. A chapter on ‘smuggling ideologies’ traces the distortions that overly ideologically- or programmatically driven perspectives on smuggling lead to. The following chapters discuss different quantitative and qualitative approaches that have dominated the study of smuggling, as well as the ethics, the risks, and the security challenges that are linked to and have influenced the study of smuggling.

The second section of the handbook looks at borderlands and their people. Building specifically on the rich literature on borderland studies, this section takes a closer look at the dynamics of smuggling at the local level to provide an understanding of how borderlands function, how smuggling is understood locally, and how the role of communities, brokers and other actors in the local smuggling economy is changing. The section explains the historical creation of borders and reviews the different concepts (borders, borderlands, and frontiers). After investigating the role of brokers in local smuggling economies, the section looks at the politics of smuggling and the role of the state in the smuggling economy at the local level and it analyses the role of smugglers in their local communities. The following chapters explore local narratives, memories and histories in the context of smuggling, and by unpacking the role of gender in the smuggling economy and how gendered tropes shaped our perception of the topic.

The third section provides an overview on various goods that are frequently smuggled, identifying common routes, practices, and procedures. In doing so, the handbook considers both licit and illicit goods and a range of case studies from

around the world. The section begins with a discussion of goods that are widely considered to be illicit, such as cocaine, opiates, weapons, and wildlife. It then proceeds to a discussion of goods that are commonly viewed as licit, such as cigarettes, petroleum products, and rice. The final chapter of the section investigates the intersection between the flows of different goods.

The fourth section focuses on the smuggling of people and the intersection between mobility and smuggling. It both introduces central concepts in this literature and discusses the effect of restrictions on and the criminalisation of mobility. It provides an introduction to the networked structure and the social organisation of migrant smuggling, and it examines its relationship with wider structures of labour circulation, considering, in particular, its gendered effects. The final chapter of this section uses the effect of the Covid-19 pandemic on borders around the globe to draw out lessons on human smuggling more widely.

The fifth section then explores the role of smuggling and conflict, as the two topics are often portrayed as closely linked. On the one hand, armed conflict and wars are commonly associated with bolstering smuggling economies. On the other hand, illicit trade is often viewed as a driver of armed conflict, providing income opportunities for armed groups and corrupt state actors alike, and incentivising the continuation of war. This section aims at providing a more nuanced understanding of what frequently is called the ‘conflict-crime nexus.’ After looking at the role of smuggling in historical wars the section looks at smuggling and war economies and explores the role of armed groups in smuggling economies. In the conclusion of the section, the handbook analyses the effects of policies aimed at curbing smuggling to fight insurgencies or to reduce armed conflict.

The final section of the handbook engages with how smuggling currently is addressed and could be addressed differently, also providing a stepping stone for policymakers thinking about how to engage with the topic. Following a discussion of maritime borders, the handbook takes a critical look at policing and law enforcement in the context of smuggling. The section and the handbook conclude with a chapter that focuses on the local level, exploring community adaptation and resilience.

While this handbook tries to cover a large range of perspectives and approaches, it has some limitations. The set of goods covered here is limited and selective. The handbook provides an Introduction into the diversity of goods which are smuggled, and it discusses the factors that drive their unique dynamics. One should not diminish the relevance of the smuggled goods which are not covered in the study, such as amphetamines, electronics, alcohol, garments, or works of art and heritage. Crucially, the role of financial flows requires further investigation. There is also a bias regarding the scientific disciplines which are covered in this book – while the authors have originally aimed to bring together different perspectives here, their focus has been largely on the social sciences. This has been shaped both by their own perspective on the field and an intention to seek out literature

that may speak to each other particularly well. This statement is not meant to discard the work on smuggling in the arts and humanities, but some limitations of the study are observable.

Geographically, the handbook engages primarily with smuggling in low- to middle-income countries, while also arguing in a range of chapters for a wider global view of these activities that include the role of consumption markets and networks in high-income countries. As this handbook aims at providing an overview of the entire field of what the authors describe as smuggling studies across disciplines, perspectives, and world views, it also illustrates tensions within this field. Different scholars working in this handbook engage with different types of questions and relate their work to different strands of literature. They take different positions on the frameworks, meanings, and definitions of smuggling, and especially on the role of state and policy actors in relation to these activities. Some chapters in this volume focus on suggesting ways to advance our thinking within the frameworks and languages provided by states and policymakers, especially to develop ways to address pressing issues in a relatable way on the short term. Others focus on a more critical engagement with the assumptions and definitions that are proposed by states, and they make suggestions for how to change our thinking about smuggling – by addressing such questions on “smuggling studies” as how we study it, what we think the problem is, and what answers could be derived – in a more substantial way.

Just the new tensions in the international system, such as the war of aggression from Russia against the Ukraine, the Gaza war, the war in Sudan, and many other conflicts show that non-state actors are becoming more important and that smuggling of weapons and of dual use goods is accelerating at fast pace. Many insights from the handbook can be used by policymakers in countries affected by wars and violence and by researchers in the fields of security studies, peace and conflict studies, and development studies. Because of the many military and violent conflicts in Africa, the policymakers in Africa, the human rights observers, and the peacemakers in international organizations can learn a lot from this report. Also those concerned about the perspectives of regional economic cooperation can use the findings of this report.

By Professor Samia Nour, Khartoum/Fulda and Professor Karl Wohlmuth, Bremen

Helliwell, J. F., Layard, R., Sachs, J. D., De Neve, J.-E., Aknin, L. B., and Wang, S. (Editors) (2023). World Happiness Report 2023. 166 pages. The full text and supporting documentation can be downloaded from the website: <http://worldhappiness.report/>; #happiness2023/ #WHR2023/ ISBN 978-1-

7348080-5-6, New York: Sustainable Development Solutions Network. Link to PDF: <https://happiness-report.s3.amazonaws.com/2023/WHR+23.pdf>.

The World Happiness Report 2023 has now achieved a full decade of publication since the first World Happiness Report was published. There is also a growing consensus about how happiness should be measured. The report finds that this consensus means that national happiness can now become an operational objective for governments.

The World Happiness Report 2023 includes five chapters:

Chapter 1 examines the happiness agenda, and it shows that the natural way to measure a nation's happiness is to ask a nationally representative sample of people how satisfied they are with their lives these days. A population will only experience high levels of overall life satisfaction if its people are also pro-social, healthy, and prosperous. But, any assessment of a society, of a situation, or of a policy should not look only at the average happiness it brings about (including also the prospects for future generations) but should also look especially at the scale of misery (i.e., low life satisfaction) that results. The report argues that to prevent misery, governments and international organisations should establish rights such as those enshrined in the United Nations' Universal Declaration of Human Rights. They should also broaden the Sustainable Development Goals (SDGs) to consider well-being and environmental policy dimensions jointly to ensure the happiness of future generations. These rights and goals are essential tools for increasing human happiness and reducing misery now and into the future. Once happiness is accepted as the goal of government, this has other profound effects on institutional practices. Health, especially mental health, assumes even more priority, as does the quality of work, family life, and community life. All government policies should be evaluated against the touchstone of well-being (per dollar spent).

Chapter 2 shows that the world happiness, trust, and social connections have continued to be remarkably resilient in times of crises, with global averages on happiness in the COVID-19 years 2020-2022 just as high as those in the pre-pandemic years 2017-2019. Finland remains in the top position for the sixth year in a row. War-torn Afghanistan and Lebanon remain the two unhappiest countries in the survey, with average life and happiness evaluations more than five points lower (on a scale running from 0 to 10) than in the ten happiest countries. To study the inequalities of happiness, the report focuses on the happiness gap between the top and the bottom halves of the population. This gap is small in countries where most people are happy but also in those countries where almost no one is happy. However, more generally, people are happier living in countries where the happiness gap is smaller. Happiness gaps globally have been rather stable over time, although there are growing gaps in many African countries. The report also tracks two measures of misery - the share of the population having life evaluations of 4 and below, and the share rating the lives at 3 and below. Globally, both these measures

of misery fell slightly during the three COVID-19 years. To explain this continuing resilience, the report documents four cases that suggest that trust and social support can support happiness during crises. In 2020 and 2021, countries attempting to suppress community transmission, exchange and cooperation had lower death rates and better well-being overall. The report shows the importance of social support, of positive social relations, and of social connections for sustaining resilience of life evaluations during times of crisis.

Chapter 3 explains the well-being and the state effectiveness; it shows that the effectiveness of the government has a major influence on human happiness of the people. The capacity of a state can be well-measured by - its fiscal capacity (the ability to raise money), its collective capacity (the ability to deliver services), and its legal capacity (the rule of law). Also crucial are the avoidance of civil war and the avoidance of repression. Across countries, all these five measures are well correlated with the average life satisfaction of the people. Using the five characteristics (and income), the report classifies states into 3 clusters: common-interest states, special-interest states, and weak states. In common-interest states, average life satisfaction is 2 points (out of 10) higher than in weak states and in special-interest states it is 1 point higher than in weak states. In those countries where average life satisfaction is highest, it is also more equally distributed— with fewer citizens having relatively low life satisfaction.

Chapter 4 focuses on the relationships between altruism and well-being for altruists, beneficiaries, and observers. It shows that a person is being altruistic when he/she helps another person without expecting anything in return. Altruistic behaviours like helping strangers, donating money, donating blood, and volunteering are common. There is a positive relationship between happiness and all these forms of altruistic behaviour. This is true when comparing evaluations across countries and across individuals. The reason is that normally people who receive altruistic help will experience improved well-being, which helps to explain the correlation across countries. The report indicates that there is much evidence that helping behaviour increases also the well-being of the individual helper. This is especially true when the helping behaviour is voluntary and mainly motivated by concern for the person being helped. The causal arrow also runs in the opposite direction. Experimental and other evidence shows that when people's well-being increases, they can become more altruistic. Specifically, when people's well-being rises through experiencing altruistic help, they become more likely to help others, creating a virtuous spiral.

Chapter 5 provides assessments through forecasting the well-being of people who are using social media. It provides timely and spatially detailed well-being measurement to track changes, to evaluate policy, and to provide accountability. Since 2010, the methods to use social media data for assessing well-being have

increased in sophistication. The two main sources of development have been data collection/aggregation strategies and better natural language processing. The improvement in methods addresses various biases that affect social media data, including selection, sampling; addressed are also presentation biases and impact issues. The current generation of digital cohort designs gives social media-based well-being assessment the potential for unparalleled measurement in space and time. Such estimates can be used to test scientific hypotheses about well-being, policy, and population health.

Obviously, these reports on world-wide happiness have impact on global policies and are useful for national and international policymakers, institutions, and thinktanks. Such reports help to assess policy issues, such as displacement and migration, growth and development, poverty and inequality, war and conflict. In times of multiple global crises with a new wave of conflicts between democratic countries and autocratic and dictatorial regimes such studies may be useful to give guidance and advice, and to work out evaluations and assessments of the well-being in countries and being affected by the gaps of well-being in and between countries. For Africa, these reports are of increasing importance, mainly because of the increasing gaps with regard of well-being in and between African countries. The situation of African countries on well-being needs to be assessed also in relation to other developing and developed countries. For African countries, these reports portray useful messages on how to develop strategies towards more resilient economic and social policies.

By Professor Samia Nour, Khartoum/Fulda and Professor Karl Wohlmuth, Bremen

Helliwell, J. F., Layard, R., Sachs, J. D., De Neve, J.-E., Aknin, L. B., and Wang, S. (Editors.) (2022). World Happiness Report 2022. 158 pages. New York: Sustainable Development Solutions Network. The full text and a supporting documentation can be downloaded from the website: <http://world-happiness.report/>; see also: #happiness2022, and: #WHR2022; ISBN 978-1-7348080-2-5; Links: <https://worldhappiness.report/ed/2022/>, and: <https://happiness-report.s3.amazonaws.com/2022/WHR+22.pdf>

The World Happiness Report 2022 is celebrating the tenth anniversary of the World Happiness Report (WHR). The report indicates that this report is now released every year around March 20th as part of the International Day of Happiness celebration. The report explains that although the World Happiness Reports are based on a wide variety of data, the most important source has always been the Gallup World Poll, unique in its range and comparability of global annual surveys.

The World Happiness Report (2022) includes six chapters:

Chapter 1 provides an Overview on the World Happiness Report 2022 (Tenth Anniversary). It reveals that from its first year onwards the report has had a large

and growing readership — reaching over 9 million in 2021. It has been widely cited. But more important have been the messages which the Report has carried. The true measure of progress is the happiness of the people; that happiness can be measured; and that we know a lot about what causes it. Given this knowledge, it is now possible for policymakers to make people's happiness the goal of their policies. And people can live a wiser life. The report takes the tenth anniversary as an opportunity to consider how far happiness research has come, where it stands, and the promising opportunities that lie ahead.

Chapter 2 discusses happiness, benevolence, and trust during COVID-19 and beyond; it contains the national happiness rankings, explores trends over the past ten years, and provides a deeper examination of emotions, behaviour, and life in general during 2020 and 2021. The 2021 data confirm the 2020 finding that average life evaluations, reflecting the net effects of offsetting negative and positive influences, have remained remarkably resilient during COVID-19. For the young, life satisfaction has fallen, while for those over 60, it has risen — with little overall change. Worry and stress have risen — by 8% in 2020 and by 4% in 2021, compared with pre-pandemic levels. On the positive side, the most remarkable change seen during COVID-19 has been the global upsurge in benevolence in 2021. This benevolence has provided notable support for the life evaluations of givers, receivers, and observers, who have been gratified to see their community's readiness to reach out to help each other in times of need. In every world region, there have been large increases in the proportion of people who give money to charity, to help strangers, and to do voluntary work. Altogether the global average of these three measures for the three groups of people was up by a quarter in 2021, compared with before the pandemic, COVID-19 has also demonstrated the crucial importance of trust for human well-being. Deaths from COVID-19 during 2020 and 2021 have been markedly lower in those countries with higher trust in public institutions and where inequality is lower. And, chapter 2 shows that for the future, the prospects for happiness will depend on a whole range of factors, including the future course of the pandemic and the scale of military conflict. But an important contribution will come from improvements in the science of happiness. In this tenth anniversary issue, the report celebrates three major promising developments in the ability to measure and to explain happiness. The first is the new ability to measure the happiness content of printed text; a second major area of progress concerns the relationship between biology and happiness; and the third area of advance is the range of emotions covered in happiness research.

Chapter 3 discusses the trends in conceptions of progress and well-being. It indicates that the interest in happiness and subjective well-being has risen sharply, whether measured by the frequency of those words in books in multiple global languages, or by the scale of published research, or by the number of government

measurement initiatives. By contrast, attention to income and GDP is decreasing, and in books published since 2013, the words GDP (or the like) have appeared less frequently than the word ‘happiness’. The World Happiness Report (WHR) is referred to widely, and it is now mentioned twice as often (in books) as the phrase ‘Beyond GDP’, which itself has also been on a rapidly rising trajectory. Chapter 3 shows that academic research on happiness has exploded and now involves authors from all over the world. When organisations, academics, or governments try to define progress through creating a new set of indicators, they increasingly include measures of happiness. This reflects the strong public appetite for this conception of progress and the growing availability of data on happiness. Thus, the science of happiness has much to offer governments as they are devising better policies. But it can never tell them how to handle inequality or how to tackle questions of long-run sustainability.

Chapter 4 uses social media data to capture emotions before and during COVID-19. It shows that millions of people share their thoughts and feelings online via social media each day. Automated analysis of social media data offers exciting promise for measuring trends in emotions. The methods used include counts of emotional words listed in emotion dictionaries and machine learning methods which also account for the structure and meaning of sentences. Two case studies of tweets on Twitter examined the daily and weekly movements of positive and negative emotions, including sadness and anxiety, before and during COVID-19 in the UK and in Austria. These were then compared with the measurements of these emotions as recorded in standard social surveys of the population. The two measures of emotions (social-media-based and survey-based) tracked each other extraordinarily well, although clear differences between text analysis methods and survey methods for measuring emotions exist. The Twitter measures of emotions were less closely related to survey-based questions on life satisfaction. As regards the impact of COVID-19, Twitter data in 18 countries showed strong increases in anxiety and sadness during COVID-19 (together with decreases in anger). These changes in anxiety and sadness were positively related to the incidence of COVID-19 itself and to the stringency of anti-COVID-19 measures. The report shows that it is becoming increasingly clear that measures of emotions from social media can effectively complement measures based on social surveys when robust methods are applied — a big step forward for happiness research.

Chapter 5 explores the biological basis for happiness. It shows that genetic studies involving twin or family designs reveal that about 30-40% of the differences in happiness between people within a country are accounted for by genetic differences among individuals. The other 60-70% of differences between people result from the effect of environmental influences that are independent of the genes. It reflects an individual’s estimated genetic predisposition for a given trait and can be used as a predictor for that trait. Chapter 5 indicates that some people are born with a set of genetic variants that makes it easier to feel happy, while

others are less fortunate. But genes and environment are generally correlated: genes can affect people's choice of environment and how others react to them. At the same time, genes can influence how people are affected by the world around them — there is a 'gene-environment interaction'. The most consistent finding with respect to the brain areas involved in well-being is that a more active default mode network works. This network is most active when a person is not focused on the outside world, and the brain is at wakeful rest, such as during daydreaming and mind-wandering. Many other processes in the human body are important for explaining individual differences in happiness and well-being among individuals. For example, based on the limited number of available studies, higher positive emotion is probably associated with higher levels of serotonin and lower levels of cortisol, whereas chronic activity of the immune system is linked to lower well-being. Chapter 5 suggests using the findings from genetically informative research to create happiness-enhancing interventions, social policies, activities, and environments that make possible the flourishing of genetic potential and simultaneously offset vulnerability and risk.

Chapter 6 provides insights from the First Global Survey of Balance and Harmony. It shows that among positive experiences, Eastern culture gives special value to experiences of balance and harmony. These are important, low-arousal positive emotions, but they have been relatively neglected in happiness research, which has stronger roots in Western cultures. Chapter 6 shows that the experiences of balance, peace, and calm are more prevalent in Western countries, which also experience the highest levels of satisfaction — and they are less prevalent in poorer countries, including those in East Asia. Most of the people in almost every country prefer a calmer life to an exciting one. But that preference is no higher in Eastern countries than elsewhere. However, it is particularly high in the poorer countries, especially in Africa, where actual calm is low. Chapter 6 shows that both balance and peace contribute strongly to a satisfying life in all regions of the world.

Obviously, these reports on world-wide happiness have impact on global policies and are useful for national and international policymakers, institutions, and thinktanks. Such reports help to assess policy issues, such as displacement and migration, growth and development, poverty and inequality, war and conflict. In times of multiple global crises with a new wave of conflicts between democratic countries and autocratic and dictatorial regimes such studies may be useful to give guidance and advice, and to work out evaluations and assessments of the well-being in countries and being affected by the gaps of well-being in and between countries. For Africa, these reports are of increasing importance, mainly because of the increasing gaps with regard of well-being in and between African countries. The situation of African countries on well-being needs to be assessed also in relation to other developing and developed countries. For African countries, these

reports portray useful messages on how to develop strategies towards more resilient economic and social policies. Policymakers, researchers and media people can use these reports to assess the changes in the well-being of people in African countries.

By Professor Samia Nour, Khartoum/Fulda and Professor Karl Wohlmuth, Bremen

Sachs, J. D., Lafortune, G., Fuller, G., Drumm, E. (2023). Sustainable Development Report 2023. Implementing the SDG Stimulus. Includes the SDG Index and the Dashboards. 545 pages, Paris: SDSN, Dublin: Dublin University Press, 2023. 10.25546/102924. Links: <https://sdgtransformationcenter.org/reports/sustainable-development-report-2023>, and: <https://s3.amazonaws.com/sustainabledevelopment.report/2023/sustainable-development-report-2023.pdf>

The Sustainable Development Report 2023 (SDR 2023) reviews the progress made each year on the Sustainable Development Goals (SDGs) since their adoption by the 193 UN Member States in 2015. Midpoint on the way to 2030, the 2023 edition takes stock of progress so far and discusses priorities to restore and to accelerate SDG progress. More specifically, the 2023 edition focuses on the need to scale up development finance and to reform the global financial architecture to support the SDGs.

The report explains the SDG Index and measures the countries' performance on the 17 SDGs. It both tracks distance to pre-defined performance thresholds (at one point in time) and it evaluates whether countries are on-track or off-track (based on past growth rates extrapolated to 2030). The report also indicates that at the midpoint of the 2030 Agenda all the SDGs are seriously off track. From 2015 to 2019, the world made some progress on the SDGs, although this was already vastly insufficient to achieve the goals. Since the outbreak of the pandemic in 2020 and because of other simultaneous crises, SDGs' progress has stalled globally. In most high-income countries (HICs), automatic stabilizers, emergency expenditure, and recovery plans mitigated the impacts of these multiple crises on socioeconomic outcomes. Only limited progress is being made on the environmental and biodiversity goals, including SDG 12 (Responsible Consumption and Production), SDG 13 (Climate Action), SDG 14 (Life Below Water), and SDG 15 (Life on Land), even in countries that are largely to blame for the climate and biodiversity crises. The disruptions caused by these multiple crises have aggravated fiscal-space issues in low-income countries (LICs) and in lower-middle income countries (LMICs), leading to a reversal in progress on several goals and indicators. Despite this alarming development, the SDGs are still achievable. None of their objectives are beyond the world reach. The world is off track, but that is only reason to double down on the SDGs.

The report shows that at their core, the SDGs are an investment agenda: it is critical that UN Member States adopt and implement the SDG Stimulus and support a comprehensive reform of the global financial architecture. To achieve the SDGs, the world must both alter its current investment patterns and increase the overall volume of investments. The report indicates that the Stimulus' urgent objective is to address the chronic shortfall of international SDG financing confronting the LICs and LMICs, and to ramp up financing flows by at least US\$ 500 billion by 2025.

The 2023 report also highlights six priorities to reform the complex system of public and private finance that channels the world's savings to its investments – what is known as the Global Financial Architecture:

First, greatly increase funding to national and subnational governments and private businesses, especially in LICs and LMICs, to carry out needed SDG investments.

Second, revise the credit rating system and debt sustainability metrics to facilitate long-term sustainable development.

Third, revise liquidity structures for LICs and LMICs, especially regarding sovereign debts, to forestall self-fulfilling banking and balance-of-payments crises.

Fourth, create ambitious, internationally agreed upon criteria for sustainable finance that are mandatory for all public financial institutions.

Fifth, align private business investment flows with the SDGs, through improved national planning, regulation, reporting, and oversight.

Sixth, reform current institutional frameworks and develop new mechanisms to improve the quality and speed of deployment of international cooperation, and monitor progress in an open and timely manner.

The report suggests that all countries, poorer and richer alike, should use the half-way momentum to self-critically review and revise their national SDG strategies and to commit to strengthening multilateralism. National governments must ensure both domestic implementation of the SDGs, including the reduction of negative spillovers, and international implementation – by building a global governance and financial architecture that delivers the SDGs. Building on SDSN's global survey of government efforts and commitment to the SDGs and third-party data, the report highlights major differences across countries, including G20 countries, in their SDG strategies and commitment. Achieving the SDGs requires global cooperation, and investment is needed in statistical capacity and data literacy, to support long-term pathways for key SDG transformations.

The report explains that the SDSN and its global network will double-down on efforts to implement the SDGs by 2030 and beyond. The SDSN was created in 2012 to mobilize the world's universities, think tanks, and national laboratories on

behalf of the SDGs. SDSN's mission was fourfold: scholarly research, educational innovation and partnerships, convening power, and outreach to the public. The report discusses sustainable development to 2030 and to 2050 and indicates that the tasks of sustainable development – ensuring material human well-being and security, social inclusion and justice, environmental sustainability, and global cooperation to secure peace and sustainable development – are not just tasks to 2030. They are the preeminent tasks of the coming generations, enshrined in several documents including the 2030 Agenda (2015) and the UNESCO's Declaration on the Responsibilities of the Present Generations Towards Future Generations (1997). The report concludes by underscoring the vital, life-affirming importance of four key international agreements: the Sustainable Development Goals (SDGs), the Paris Climate Agreement, the Kunming-Montreal Framework for Biodiversity, and the High Seas Treaty. The report indicates that these are signal achievements of humanity, to have come together across all nations to adopt a common set of challenges. The report emphasized that the major challenge today is matching these soaring ambitions with the means to achieve them, most importantly, the financial resources and the regulatory conditions for the investments needed to achieve these goals.

The report argues that at the mid-point of the SDG agenda, the world is far off target. Yet the world has gained ground. Almost all governments have committed to adopting SDG-based action plans; technologies have advanced that can support the goals (such as green energy, green transactions, green jobs, Earth observations, and artificial intelligence); and there is growing regional cooperation to achieve the goals on the ground, through shared investments, knowledge, and policies. The report confirms that achieving the SDGs requires more than “normal politics”. Governments are only now learning how to design integrated strategies that address economic, social, and environmental objectives in tandem. Governments are only now mapping out pathways to mid-century to meet crucial energy, healthcare, and education objectives, among others. Governments are only now establishing R&D funds to promote breakthroughs in key technologies that will expand their power. Governments are only now building the digital platforms and data networks that integrated strategies will depend on. And governments are only now, many years late, turning their attention to the chronic and deep shortcomings of the global financial architecture (GFA).

The report shows that sustainable human development is a multi-dimensional process. The balance between the ecological, economic, social, and cultural spheres, together with political, ethical, and cultural aspects, must be nurtured. Open sharing of data and knowledge across these dimensions is essential to building trust and cooperation. People of good will must choose and act coherently in their private and in their professional lives to further the common good.

The report indicates that for these reasons, the report suggests two urgent and timely calls for action: First, that UN Member States, recommit boldly, strongly,

and proactively to the SDGs, accelerate progress to 2030, and adopt even more ambitious SDG targets and objectives to mid-century, also incorporating recent international agreements on oceans and biodiversity. As the aims of the 2030 Agenda are ever evolving, and linked to many processes, the report calls on academia, civil society, and business to develop proposals on how this agenda can be enhanced and enforced in the decade(s) to come. Second, UN Member States, should adopt an SDG Stimulus to accelerate progress towards the SDGs by 2030 and enhance global governance for enforcing the implementation of the SDGs by all countries.

The structure of the report includes five parts:

Part 1 examines how to achieve the SDGs: The SDSN Framework is presented. Part 2 discusses the SDG Index and the Dashboards; mainly, it examines the SDG status at the mid-point of the 2030 Agenda, concerning “leave no one behind”, international spillovers and policy coherence, and SDG Dashboards by income groups and major world regions. Part 3 explores government efforts and commitments to the SDGs mainly, focusing on political leadership and institutional coordination. Presented are the results from the 2023 SDSN survey of government efforts for the SDGs, and presented is the SDG integration into sectoral policies and pathways. Scorecards for the Six SDG Transformations are given. Presented is also the support for multilateralism under the Charter of the United Nations, and government efforts and commitments for the SDGs are analysed, as overall scores are presented. Part 4 gives the lessons learned and the next steps, mainly. It shows the SDG Index which is a tool for guiding SDG action and strengthening accountability; highlighted are issues of the SDGs’ data cooperation and the innovations, the conclusions, and the next steps. Relevant is also the Annex with the description of the methods and the data series. Most important is Part 5 with the Country Profiles.

For many African countries one finds the following information: Overall Performance (Ranking), Average Performance (per SDG), SDG Dashboards and Trends (with green sign upwards or red sign downwards, green box for SDG achieved, and: International Spillover Index, Statistical Performance Index), SDG Performance by each SDG and each Indicator (with Value, Rating and Trend). We see that this information can be used for pro-active policies, if governments and civil societies are interested in such progressive policies. Interesting is the fact that even African countries can count already on SDGs achieved.

For African countries these annual reports give the frame for further policy action. In sustainable development reports from the national and the regional side, it is possible to draw lessons from more developed countries and from neighbouring African countries. For policymakers, the gathering of information on the state of realising the objectives and targets of the 17 SDGs is a valuable activity. Also,

the further integration of African countries into the global policy network can be enhanced. A fresh view on development bottlenecks can be gained. It is of special value to have with the 17 SDGs the frame for a holistic picture of the situation in African countries.

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International Labour Organization (ILO) (2023), ‘World Employment and Social Outlook: Trends 2023’, 190 pages, First Published 2023, ILO’s Flagship Report, ISBN 9789220372913 (print); ISBN 9789220372920 (web PDF); ISSN 2709-7080 (print); 2709-7099 (online); DOI: <https://doi.org/10.54394/SNCP1637>; International Labour Office, Geneva. Link: <https://www.ilo.org/publications/flagship-reports/world-employment-and-social-outlook-trends-2023>

The International Labour Organization (ILO) (2023) released the World Employment and Social Outlook: Trends 2023 Report which provides a comprehensive assessment of the current decent work deficits at the global level and how these have been exacerbated by multiple, overlapping crises in recent years. It analyses global patterns, regional differences, and outcomes across groups of workers. The report provides labour market projections for 2023 and 2024 and presents trends in labour productivity growth, analysing the factors contributing to its decline.

The report shows that by the end of 2022, the recovery from the COVID-19 crisis was still incomplete and highly uneven across the world, particularly in low income and middle-income countries, and that it was further hampered by the consequences of the conflict in Ukraine, by an accelerating climate change and by unprecedented humanitarian challenges. Projections of a slowdown in economic and employment growth in 2023 imply that most countries will fall short of a full recovery to pre-pandemic levels in the foreseeable future. Worse still, progress in labour markets is likely to be far too slow to reduce the enormous decent work deficits that existed prior to, and were exacerbated by the pandemic. Lack of access to employment, poor job quality, insufficient pay, and major inequalities are only some of the challenges that undermine social justice. The globally observed slowdown in productivity growth is likely to make those challenges even more difficult to address.

The structure of the report is organized in three chapters. Chapter 1 emphasizes that the stalled labour market recovery undermines the social justice at the global level. It shows a challenging macroeconomic environment for labour markets, labour supply, and employment, and a shortage of jobs. It indicates that workers are likely to face deteriorating working conditions, that there are risks to the outlook for economic and social recovery, for renewing the social contract, and for advancing social justice. Chapter 2 discusses employment and social trends by

region: including Africa (Labour market trends in North Africa and in sub-Saharan Africa), the Americas (Labour market trends in Latin America and the Caribbean), the Arab States, Asia and the Pacific, and Europe and Central Asia. Chapter 3 discusses the global productivity trends, and it focusses on reviving growth through the digital economy. There is a discussion of macroeconomic challenges in a global environment of low productivity growth, looking at the productivity trends across the globe and explaining the structural shifts, the technology and labour market linkages, and the available policy options.

The report indicates a multitude of crises are stalling the recovery from the COVID-19 pandemic, which is uneven and still incomplete in many parts of the world. Policymakers face difficult trade-offs (such as that between inflation and continued labour market slack). The cost-of-living crisis threatens household livelihoods. Employment growth in 2023 is projected to falter while global unemployment is expected to rise. The report expects that major decent work deficits, which to a large degree predate the pandemic, are set to persist under these conditions. The report provides a comprehensive assessment of existing decent work deficits and discusses how they were affected by the COVID-19 crisis. It analyses global patterns, regional differences, and outcomes across groups of workers. The report also offers labour market projections for 2023 and 2024, and it shows the trends in labour productivity growth and analyses of the factors underlying its decline.

The report shows that the labour market outlook for 2023 varies considerably by region. The report expects that Africa and the Arab States should see employment growth in the order of 3 per cent or more. However, with their growing working-age population, both regions are likely to see unemployment rates to decline only modestly (from 7.4 to 7.3 per cent in Africa and from 8.5 to 8.2 per cent in the Arab States). In Asia and the Pacific and in Latin America and the Caribbean, annual employment growth is projected to be in the order of 1 per cent only. In North America, there will be no employment gains in 2023, and unemployment will pick up. Europe and Central Asia are particularly hard hit by the economic fallout from the Ukraine conflict; employment is projected to decline in 2023, but unemployment rates should increase only slightly against the backdrop of limited growth in the working-age population. Indeed, in Europe and Central Asia the labour force is set to decline in 2023. Regardless of these trends in headline labour market indicators, each region will continue to face a myriad of decent work deficits that are likely to worsen in the face of global economic conditions and long-term challenges like climate change.

The report finds that the labour markets face enormous challenges, and that the global outlook for labour markets has deteriorated significantly during 2022. Emerging geopolitical tensions, the Ukraine conflict, an uneven recovery from the pandemic, and ongoing bottlenecks in supply chains have created the conditions

for a stagflationary episode, the first period of simultaneously experiencing high inflation and low growth since the 1970s. Policymakers face a challenging trade-off as they deal with elevated inflation in an environment of incomplete recovery of the jobs market. Most countries have not yet returned to the levels of employment and hours worked seen at the end of the year 2019, the year before the outbreak of the COVID-19 health crisis. Yet, a series of supply shocks, predominantly in food and commodities markets, have raised producer prices, causing spikes in consumer price inflation and pushing major central banks into a more restrictive policy stance. The report shows that in the absence of corresponding increases in labour incomes, the cost of living crisis directly threatens the livelihoods of households and the risks of depressed aggregate demand. Many countries have accumulated a significant amount of debt, in part to address the severe fallout from the pandemic. The risk of a global debt crisis therefore looms large, jeopardizing the fragile recovery in many frontier markets.

The report shows that in the time of these challenging circumstances, major decent work deficits persist around the world, undermining social justice. Hundreds of millions of people lack access to paid employment. Those who are employed all too often lack access to social protection and to fundamental rights at work, as so many workers are being informal or unable to express their interests through social dialogue. Incomes are distributed highly unequally, so that many workers fail to escape poverty. Labour market prospects are highly unequal, not only across but also within countries. Gender gaps exist in all areas of the world of work, and young people face specific challenges.

The report finds that informality and working poverty rose further with the COVID-19 crisis. Despite the recovery that started in 2021, the ongoing shortage of decent job opportunities is likely to worsen with the projected slowdown, pushing workers into jobs of worse than before quality and depriving others of adequate social protection. Real labour incomes fall when prices outpace nominal incomes. The resulting downward pressure on demand in high-income countries impacts low- and middle-income countries through global supply chain (GSC) linkages. In addition, persistent disruptions to supply chains threaten employment prospects and job quality, especially in frontier markets, further reducing their prospects of a swift labour market recovery.

The report indicates that in sum, an environment of high and persistent uncertainty has emerged globally, depressing business investment, especially of small and medium-sized enterprises, eroding real wages, and pushing workers back into informal employment. Progress in poverty reduction as achieved over the previous decade has largely faltered, and convergence in living standards and work quality is coming to a halt as productivity growth slows worldwide, making decent work deficits more difficult to overcome. The report finds that more than ever, the convergence of crises and the associated uncertainties are fuelling the sources of inequalities and undermining the already endangered social contract. Beyond the

individual human tragedies they have caused, and their impact on the world of work, these crises have highlighted the interlinkages and dependencies of economies and societies around the world and have shown the crucial need for concerted, coordinated action at all levels. The report confirms the need for both awareness of the necessity to act and finding new ways of translating this awareness into resolute action without further delay. The report argues that in times of crisis, international solidarity is more critical than ever. A new global social contract is needed to narrow the existing deficits in decent work and social justice. To this end, in 2023 the ILO will launch a Global Coalition for Social Justice aimed at strengthening global solidarity and improving policy coherence, to bring about action and investment for decent work and social justice.

This report is of great value for Africa's employment policies, as it argues for new policy directions and more international solidarity. The chances of employment growth in Africa are seen and can draw foreign investors to African countries, especially to those which have good governance systems. As the report presents comparative analyses of employment strategies, best practices from these comparisons can be used for improving policies in Africa. Policymakers, media people, and researchers in Africa will benefit from the data sources, the data series, and the performance and outcome indicators and indices.

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The World Bank (2022), “Charting a Course Towards Universal Social Protection: Resilience, Equity, and Opportunity for All”, 169 pages, International Bank for Reconstruction and Development (IBRD), The World Bank, Washington D.C. Links: <https://openknowledge.worldbank.org/entities/publication/84ba2380-624c-553a-b929-2882e72c7468>, and: <https://hdl.handle.net/10986/38031>, and: <https://www.worldbank.org/en/topic/socialprotectionandjobs/publication/charting-a-course-towards-universal-social-protection-resilience-equity-and-opportunity-for-all.print>

This report focuses on social protection and jobs and the vision of universal social protection (USP). It recognizes that the progressive realization of universal social protection (USP), which ensures access to social protection for all whenever and however they need it, is critical for effectively reducing poverty and boosting shared prosperity. Countries across the globe are increasingly using this vision to guide their policy. Social protection can be defined as policies and programmes that help individuals and societies to manage risk and volatility, to protect them from poverty and inequality, and to help them to access economic opportunity. Social protection aims to achieve this by increasing people's resilience, equity, and opportunity, the three goals of social protection, by means of a range of

instruments in the fields of social insurance, labour market policies and economic inclusion strategies, and in the social assistance and care domains.

The report indicates that, as the world begins to emerge from the COVID-19 pandemic, both the unprecedented crisis that it had caused, and the immediate arrival of new global shocks have reinforced the need for social protection in dramatic ways. At the same time, the crisis has highlighted a new and rapidly evolving set of possibilities for design and delivery of social protection. The report argues that the current World Bank strategy, namely “Resilience, Equity, and Opportunity: The World Bank’s Social Protection and Labor Strategy 2012–2022”, has provided an overarching framework for understanding the value of investing in social protection programmes, and it has outlined how the World Bank would work with client countries to further develop their social protection programmes and systems.

The report shows that before the pandemic, the world had made progress in reducing poverty, but vulnerability and informality remained stubbornly high. In the decade prior to the pandemic, the proportion of people in poverty around the world fell from 39.5 percent to 24.3 percent. As poverty has fallen, there is observed a rapidly growing “vulnerable” class consisting of those who are not poor but have not achieved the comforts included in most definitions of the middle class. In many countries, the poor and the vulnerable face critical risks, but they have few formal ways to protect themselves from those risks as informality remains stubbornly high. Overall, about two-thirds of the labour force in emerging economies remain informal, meaning that traditional social insurance associated with a formal labour contract has not been able to support the poor nor the emerging middle class.

Access to social assistance and to economic inclusion and labour programmes remains limited in many countries. These gaps highlight the need to rethink critical aspects of social protection.

Various global trends (for instance, the existential threat of climate change and its negative effects on human well-being and poverty, the labour markets disruption related to technological innovations, the COVID-19 pandemic, and the invasion by Russia of the Ukraine) are reshaping economies and societies with profound implications for how countries organize their social protection sector.

COVID-19 has hugely disrupted economies and societies across the globe and underscored the crucial importance of effective social protection. As COVID-19 struck, many countries around the world deployed their social protection systems to help to mitigate the economic impact of the pandemic. This followed years of effort in many low- and middle-income countries to build social protection programmes and leveraging innovations in technology to expand them far more rapidly and widely than had previously been thought possible. COVID-19 has undoubtedly proved to be a major catalyst for moving social protection further up the political agenda. As a result of actions taken during the pandemic as well as of

the weaknesses that the response made evident, many countries around the globe are reimagining the design of their social protection systems in ways that they perceived to be impossible prior to the pandemic. Whether this will permanently propel governments towards a deeper commitment to providing more and better social protection will take some years to play out.

Even before the pandemic, evidence of the important role played by social protection in reducing poverty and boosting shared prosperity had grown enormously. Support for building social protection programmes and systems at the country level has increased over the last decade as increasing evidence has accrued about the multiple benefits that can come from investing in the sector. Many of these benefits have been demonstrated in multiple country contexts resulting from the strong emphasis on evaluation in the sector. The first and most direct effect of many social protection programmes is the effect of providing households with more income. The evidence that social protection does indeed directly boost income and reduce current and future poverty is well established. But beyond this, social protection programmes also produce a range of longer-term outcomes, related to building human capital, maximizing its productive use, and protecting it throughout the lifecycle. Beyond the returns to individuals and households, there are also many benefits that accrue at the community and national level, including contributing to economic growth and to reducing inequality.

Recognition of the importance of social protection has led to increased global cooperation in the sector. In 2015, the UN Member States adopted the 2030 Agenda for Sustainable Development that calls upon states to “Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and vulnerable.” This commitment subsequently led to the launching of the Global Partnership for Universal Social Protection (USP2030) under the co-leadership of the World Bank and the International Labour Organization (ILO). USP2030 partners work together to increase the number of countries that provide USP by supporting governments in designing and implementing universal and sustainable social protection systems.

There are several factors supporting the effective achievement of USP at the country level. Universal social protection (USP) refers to a nationally defined system of integrated policies and programmes that provide equitable access to all people, protecting them throughout their lives against poverty and risks to their livelihoods and well-being, and helping them access economic opportunity. When providing coverage to an entire population, not only must people be given direct or contingent support, but the financial protection provided must also be adequate to enable recipients to effectively manage a given risk should it materialize. No individual programme can protect people from the many different risks that they are likely to face throughout their lifetimes, from poverty to ill health, income

losses, unemployment, and to the problems of the old age time. People and households often encounter various risks at the same time. Therefore, comprehensive and effective coverage can only be provided by a suite of programmes that span the domains of social insurance, labour and economic inclusion, and social assistance and care, ensuring that all people are effectively protected at different points in the lifecycle.

The book indicates that how countries make progress towards USP will necessarily vary according to political and economic factors specific to each country, but in all cases building fiscal space and institutional capacity are essential prerequisites. How social protection systems evolve in each country depends on various factors, including the country's level of income and poverty, its risk profile, the structure of its labour market, and, perhaps most importantly, the political and institutional context as well as the social contract. As a result, there is an enormous diversity among countries in terms of the institutional arrangements governing social protection.

Nevertheless, there are two critical needs that must be met in all contexts to make progress – first, fiscal space and second, institutional capacity. Because the lack of fiscal space continues to be an important impediment to increasing the coverage and adequacy of benefits in many countries, it will be essential for governments to develop long-term national financing strategies to secure full and sustainable funding for USP. These strategies are likely to combine actions designed to increase the efficiency of existing social protection spending with those designed to mobilize more domestic revenues. However, neither of these actions will be fully successful in furthering the achievement of USP if countries lack the institutional capacity to deliver the full range of social protection support.

The book indicates that as countries move towards USP, the progressive realization of USP implies the need to start by prioritizing the poorest and most vulnerable for support. Given that it will take time to create the necessary institutional and fiscal capacity for USP, many countries will move gradually towards achieving that goal and as they do, it is important that they adhere to the principle of prioritizing the poorest and most vulnerable for support. This is particularly crucial in the case of social assistance programmes, which can help to ensure that social protection systems maximize both the equity and the efficiency of public spending. Therefore, it will be critical for countries to build their capacity to be able to accurately identify those most in need.

The book discusses the progress towards achieving USP and the challenges that remain, it argues that to determine future strategic priorities, it is first necessary to assess the progress being made towards achieving USP around the world as well as the challenges that remain. The goals of equity, resilience, and opportunity provide a useful organizing framework for this assessment. Different programmes and instruments almost always contribute to more than one of these goals. In the assessment that follows, they are discussed primarily under the goal

to which they most contribute. Delivery systems and financing for social protection are identified as two cross-cutting enabling factors that have underpinned recent progress, and therefore, they merit their own discussion. The book discusses the progress towards the goal of equity, and it argues that the equity objective is essential for ensuring that the poor and the vulnerable are given the support that they need to reach a basic minimum level of consumption and well-being and thus, for fostering equality of opportunity. Social protection has a role to play in reducing both poverty and inequality.

The book argues that despite the low rates of social assistance coverage around the world, these programmes have rapidly expanded in recent years. In developing countries, the coverage of social assistance programmes is still partial. On average, just over one-third of the population and one half of the people in the poorest quintile in their country receive some form of social assistance, with poorer countries having even lower coverage. Nevertheless, over the last two decades, social assistance coverage of those in the poorest quintile has grown by 5.8 percentage points in low-income and lower-middle-income countries, and by 12.7 percentage points in upper-middle-income and high-income countries. In many countries, the establishment or expansion of non-contributory social pension schemes financed from general /revenue was a key element of this increase. Although the focus of social assistance is often on how many people are covered, the value of the benefits provided is crucial for achieving positive outcomes, but this is often inadequate. On average, social assistance benefits represent around 19 percent of the income of the people in the poorest quintile. A particular challenge is that many programmes do not automatically adjust their benefits for inflation or regularly review their adequacy.

The report indicates that over the last decade the World Bank has provided multi-faceted support to countries to help them develop their social protection programmes and systems. The World Bank currently provides support in the sector, through lending, analytical work, or both; this is done in over 118 countries in all regions of the world and at all income levels, with a strong track record of delivering results. The report highlights five broad areas which emerged as priorities for the support provided by the World Bank to countries for social protection. The broad areas of work include the need to: (i) build strong foundational social protection systems; (ii) increase coverage and promote greater inclusion; (iii) build more resilient, adaptive, and dynamic programming; (iv) scale up more effective economic inclusion and labour systems; and (v) create more fiscal space for universal social protection (USP). Women's and girls' empowerment and climate change are also identified as important cross-cutting issues.

For Africa, these analyses and recommendations are useful, as the World Bank can attach social support programmes to their portfolio of loans, credits, advisory

work, analytical work, and can act through their cooperation with other international and regional organisations and through their diversified forms of cooperation with local social policy institutions and initiatives. It is not always clear how important this new thinking of the World Bank is, but the multi-faceted approach is giving hope that more stakeholders are involved in promoting USP strategies. As the World Bank is also strong in training, supplies of course materials matter for the work of the too often and too long neglected ministries of labour and social assistance in African countries.

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International Energy Agency (IEA), ‘Energy Technology Perspectives (2023)’, 464 pages, IEA, January 2023, Paris, France; Link: <https://www.iea.org/reports/energy-technology-perspectives-2023>, and access for the full report: <https://iea.blob.core.windows.net/assets/a86b480e-2b03-4e25-bae1-da1395e0b620/EnergyTechnologyPerspectives2023.pdf>, and the website of IEA: <https://www.iea.org/>

The International Energy Agency (IEA) publishes with the Energy Technology Perspectives (ETP) its technology flagship series of reports. These reports are providing critical insights into key technological aspects of the energy sector since 2006. Clean energy technologies and innovation activities are vital to meet the policy goals of energy security, economic development and environmental sustainability. Cost-effective energy supplies and environmental policymaking must be based on a clear understanding of the potential for deploying these technologies. The ETP reports seek to achieve this goal by assessing the opportunities and challenges associated with existing, new and emerging energy technologies, and by identifying how governments and other stakeholders can accelerate the global transition to a clean and sustainable energy system.

The primary purpose of this edition of ETP is to help government officials and industry decision makers to overcome hurdles in developing and expanding the clean energy technology supply chains which the world needs for the objective to reach net zero emissions by a mid-century perspective (2050). Through the lenses of energy security, resiliency and sustainability, ETP-2023 focusses throughout on the opportunities and risks involved in scaling up clean energy and technology supply chains in the years ahead. It sets out where key clean energy and technology supply chains stand today and assesses how quickly they need to expand for the world to be on track for reaching net zero emissions. It identifies vulnerabilities and risks in adapting them to a net zero world as well as to the emerging opportunities to establish the new global energy economy. It also examines how governments can design more effective policies and strategies to encourage greater supply chain security, resiliency and sustainability.

ETP-2023 builds on the 2020 revamp of this series, aimed at improving its usefulness and relevance for policymakers and for other stakeholders. It draws on and updates the IEA's ongoing analysis of critical minerals and recent detailed assessments of technology supply chains for electric vehicle (EV) batteries and for solar PV (photovoltaic), as well as the IEA's extensive clean energy technology tracking and analytical activities. ETP analysis also benefits from IEA Technology Collaboration Programme expertise and research provided by experts around the world who support this work with technology data and analytical insights.

This 2023 edition of Energy Technology Perspectives (ETP-2023) provides a comprehensive inventory of the current state of global clean energy supply chains, covering the areas of mining; production of materials like lithium, copper, nickel, steel, cement, aluminium and plastics; and the manufacturing and installation of key technologies. The report maps out how these sectors may evolve in the coming decades as countries pursue their energy, climate and industrial goals. And it assesses the opportunities and the needs for building up secure, resilient and sustainable supply chains for clean energy technologies – and examines the implications for policymakers.

The report is seeking to tap into the opportunities offered by the emerging new energy economy, while navigating uncertainties and safeguarding energy security. The report finds that the energy world is in the early phase of a new industrial age – the age of clean energy technology manufacturing. Every country needs to identify how it can benefit from the opportunities of the new energy economy, defining its industrial strategy according to its strengths and weaknesses. The report finds that the new energy economy brings opportunities and risks. Clean energy transitions offer major opportunities for growth and employment in new and expanding industries. But there are potentially risky levels of concentration in clean energy supply chains – both for the manufacturing of technologies and the materials on which they rely. China currently dominates the manufacturing and trade of most clean energy technologies. The world is already seeing the risks of tight supply chains, which have pushed up clean energy technology prices in recent years, making countries' clean energy transitions more difficult and costly. Governments are racing to shape the future of clean energy technology manufacturing. Countries are trying to increase the resilience and diversity of clean energy supply chains while also competing for the huge economic opportunities. There are big dividends for countries that get their clean energy industrial strategies right. Greater efforts are needed to diversify and to strengthen clean energy supply chains. Clean energy supply chains benefit from international trade, as international trade is vital for rapid and affordable clean energy transitions, but countries need to increase the diversity of suppliers.

The report indicates that countries' clean energy industrial strategies need to reflect their strengths and weaknesses. For most countries, it is not realistic to compete effectively across all parts of the relevant clean energy technology supply chains. Energy costs will continue to be a major differentiator in the competitiveness of countries' energy-intensive industry sectors. New infrastructure will form the backbone of the new energy economy in all countries. The report indicates that the story of the "new energy economy" is still being written – supply chains are central to the narrative that industrial strategies for clean energy technology manufacturing require an all-of-government approach, by closely coordinating climate and energy security imperatives with economic opportunities. This will mean identifying and fostering domestic competitive advantages; carrying out comprehensive risk assessments of supply chains; reducing permitting times for applications, including for large infrastructure projects; mobilising investment and financing for key supply chain elements; developing workforce skills in anticipation of future needs; and accelerating innovation in early-stage technologies. Every country has a different starting point and different strengths, so that every country will need to develop its own specific strategy. And no country can go it alone.

The report shows that the COVID-19 pandemic and the Russian Federation's invasion of the Ukraine have critically disrupted global energy and technology supply chains, leading to soaring gas, oil and coal prices, as well as shortages of critical minerals, semiconductors and other materials and components needed to manufacture clean energy technologies. The current global energy crisis poses a threat to near-term economic prospects and is threatening to slow the rollout of some clean energy technologies, but it also strengthens the economic case for accelerating the shift away from fossil fuels by massively raising investments in renewables, and for energy efficiency and other clean energy technologies. The recent spate of extreme weather events across the planet reminds us of the urgent need for radical action to rein in emissions of greenhouse gases. As the IEA has repeatedly stressed, the world does not need to choose between tackling the energy crisis and the climate crisis. The social and economic benefits of accelerating clean energy transitions are as huge as the costs of inaction.

The report argues that secure, resilient and sustainable supply chains for manufacturing clean energy technologies and producing low-emission energy commodities are central to the global energy transition. These supply chains depend largely on minerals and on an array of materials and components derived from them, rather than on fossil fuel supplies. As a result, energy security considerations will increasingly be about access to those resources and goods. Important lessons can be drawn from established markets and technologies, such as solar photovoltaics (PV) in shaping emerging markets for batteries, low-emission hydrogen, and other technologies that are poised to play key roles in the clean energy transition.

As for the structure of the report, Chapter 1 reviews the actual status of the global clean energy transition, and it outlines the extent of the changes required to

achieve clean energy and technology supply chains to put the world on the net zero pathway, as well as to consider some potential risks that could arise in this context. Chapter 2 assesses in detail how the key clean energy and technology supply chains function today and how their vulnerabilities as clean energy transitions advance, focussing on the link between geographic concentration and security, resilience to market shocks, and environmental performance. Chapter 3 quantifies global mineral and material needs for the transition to net zero emissions and analyses the extent to which current expansion plans are compatible with that trajectory. It also discusses the policy and market factors driving investments in key regions, and the main corporate strategies in this step of the supply chains. Chapter 4 assesses prospects for the supply of mass-manufactured and large-scale site-tailored clean energy technologies, focussing on the expansion of manufacturing and installation capacity based on current and announced construction activity. Like Chapter 3, also Chapter 4 discusses the policy and market factors driving investments in key regions, and the main corporate strategies in this step of the supply chain. Chapter 5 analyses how and at what pace energy and CO2 infrastructure need to be transformed to cost-effectively sustain the clean energy supply chains that will be needed for net zero emissions, focussing on electricity, hydrogen and CO2 transportation, transmission, distribution, and storage. Chapter 6 sets out how policymakers can support the development and expansion of secure, resilient and sustainable supply chains, the tools at their disposal, and how best to use them, drawing on recent experience around the world.

For Africa, these trends and analyses matter as Africa is potentially benefitting much from being part of the clean technology supply chains. Africa has tried for long to get a fair share of the energy infrastructure to industrialize and to diversify production and trade, to build an energy infrastructure for urban areas, for connectivity and transport, for governance, and for the necessities of the new digital age. It may be useful to learn from the EU how to cooperate with the IEA. Specific programmes are necessary to attach special programmes to the work programme if the IEA. Africa can benefit from both worlds – from the outgoing fossil energy technology world and from the incoming new clean energy technology world.

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International Energy Agency (IEA) (2023) ‘Renewables 2022: Analysis and forecast to 2027’, 159 pages, January 2023, IEA, Paris, France. Link: <https://www.iea.org/reports/renewables-2022>, and: <https://iea.blob.core.windows.net/assets/ada7af90-e280-46c4-a577-df2e4fb44254/Renewables2022.pdf>. Link to the “Renewables 2023, Analysis and forecast to 2028” report, 11/1/2024, 143 pages: <https://www.iea.org/reports/renewables-2023>,

and: https://iea.blob.core.windows.net/assets/96d66a8b-d502-476b-ba94-54ffda84cf72/Renewables_2023.pdf

The report from the International Energy Agency (IEA) (2023) with the title ‘Renewables 2022’ is the IEA’s primary analysis on the sector, based on current policies and market developments. It forecasts the deployment of renewable energy technologies in electricity, transport, and heat sectors to 2027, while also exploring key challenges to the industry and identifying barriers to faster growth.

The report shows that the current global energy crisis brings with it both new opportunities and new challenges for the renewable energy sector. The report provides analysis on the new policies introduced in response to the energy crisis. The report frames current policy and market dynamics, while placing the recent rise in energy prices and the energy security challenges in context. It provides detailed market analyses and forecasts, and it also examines key developments and trends for the sector, including the more ambitious renewable energy targets which were recently proposed by the European Union: the issue of the windfall profits; the diversification of solar PV manufacturing; the renewable capacity for hydrogen production; and a possible feedstock crunch in the biofuels industry and viable ways to avoid it.

Regarding the structure, the report includes four chapters. Chapter 1 focusses on renewable electricity, and presents forecasts for countries and regions (China, United States, Europe, Asia Pacific, Latin America, Middle East and North Africa, and Sub-Saharan Africa). Chapter 2 discusses transport biofuels, giving forecasts, especially demand, supply and trade projections. Chapter 3 shows renewable heat production capacity, with recent trends and policy updates, and gives an outlook to 2027. Chapter 4 presents trends, and discusses six questions:

1. Is the European Union (EU) on track to meet its RE Power EU goals?
2. Is the renewable energy capacity in the European Union (EU) making windfall profits from high wholesale prices?
3. Will new PV manufacturing policies in the United States, in India and in the European Union (EU) create conditions for a global PV supply diversification?
4. Is the biofuel industry approaching a feedstock crunch?
5. How much will renewable hydrogen production drive demand for new renewable energy capacity by 2027?

6. Is the energy crisis really making the business case for heat pumps?

These questions are addressed in relevant chapters of the report.

The report shows that energy security concerns and new policies lead to the largest ever made upward revision of IEA’s renewable power forecast. The report indicates that the first truly global energy crisis, triggered by Russia’s invasion of the Ukraine, has sparked an unprecedented momentum for renewables. The report finds that fossil fuel supply disruptions have underlined the energy security benefits of domestically generated renewable electricity, leading many countries to

strengthen their policies of supporting renewables. Meanwhile, higher fossil fuel prices worldwide have improved the competitiveness of solar PV and of wind generation against other fuels. The report finds that renewable capacity expansion in the next five years will be much faster than what was expected just a year ago. Renewables are set to account for over 90% of global electricity capacity expansion over the forecast period. The upward revision is mainly driven by China, the European Union (EU), the United States of America (USA), and India, which countries/regions are all implementing for the renewables sectors the existing policies and regulatory and market reforms, while also introducing new ones more quickly than expected in reaction to the energy crisis.

The report finds that renewables will transform the global power mix through 2027, becoming the largest source of electricity. Renewables become the largest source of global electricity generation by early 2025, surpassing coal. Their share of the power mix is forecasted to increase by 10 percentage points over the forecasting period, reaching 38% in 2027. The report finds that solar PV's installed power capacity is poised to surpass that of coal by 2027, becoming the largest in the world, and the global wind capacity almost doubles, with offshore projects accounting for one-fifth of the growth.

The report shows that the improved policies can narrow the gap to net zero by 2050. The accelerated development scenario shows that the global renewable capacity can expand by an additional 25%, compared with the main forecast if countries address policy, regulatory, permitting and financing challenges. Most advanced economies face challenges to implementation, especially related to bureaucratic permitting orders and grid infrastructure expansion. In emerging economies, policy and regulatory uncertainties still are remaining major barriers to faster renewable energy expansion. Finally, in developing economies, weak grid infrastructure and a lack of access to affordable financing hamper the timely commissioning of projects in the main forecast. Should countries address those challenges, global renewable capacity could expand by almost 3,000 GW. This faster increase would significantly narrow the gap on the rates of renewable electricity growth that is needed in a pathway to net zero emissions by 2050.

The report shows that Russia's invasion of the Ukraine is a turning point for renewables in Europe. The war is expediting Europe's clean energy transitions. The energy crisis hit the EU while it was already discussing ambitious renewables targets under the "Fit for 55" packages⁴. After Russia invaded Ukraine in February 2022, energy security emerged as an additional strong motivation to accelerate renewable energy deployment. At the EU level, the European Commission's

⁴ See about the "Fit for 55" package; link: <https://www.consilium.europa.eu/en/policies/green-deal/fit-for-55/>

REPowerEU plan⁵ released in May 2022 proposes ending the bloc's reliance on Russian fossil fuels by 2027. Among other goals, the plan aims to increase the share of renewables in final energy consumption to 45% by 2030, exceeding the 40% previously under negotiation.

The report shows that Europe's renewable electricity expansion doubles over the 2022-2027 period, as energy security concerns add to the climate ambitions. Many European countries passed or proposed action plans to further raise their ambitions, by increased policy support and by addressing non-financial challenges. The report shows that sluggish growth of renewables in the transport and heating sectors holds back higher renewable energy penetration in the EU. The report shows that the policy improvements can drastically increase renewables expansion and put the European Union (EU) in line with REPowerEU goals.

The report shows that China, the United States and India all double their renewable capacity expansion rate in the next five years, accounting for two-thirds of global growth. China is forecast to install almost half of the new global renewable power capacity over the period 2022-2027. In the United States, the Inflation Reduction Act (IRA) is providing unprecedented long-term policy visibility for wind and solar PV projects. In India, new installations are set to double RE capacity over our forecast period. The report shows that new policies in the United States and in India can lead to more diversified global solar PV manufacturing. Solar PV manufacturing investment in India and in the United States is expected to reach almost USD 25 billion over the period 2022-2027, a sevenfold increase compared with the last five years. The global solar PV supply chain is diversifying, but China will continue to dominate manufacturing. At the same time, investment plans also indicate that the supply is significantly exceeding the expected global PV demand, even in the most optimistic forecasts by 2027. In the absence of faster growth in global demand, this could result in plant utilisation factors as low as half today's levels for all manufacturing segments in China. This level of surplus capacity may lead to world trade distortions, to protectionism, and to sanctions.

The report finds that policy efforts are turning hydrogen production from wind and solar PV into a new growth area. Global renewable capacity dedicated to producing hydrogen increases 100-fold in the next five years, offering opportunities to decarbonise industry and transport. The report shows that climate and energy goals underpin robust biofuels forecasts. Total global biofuel demand expands by 35,000 million litres per year, or 22%, over the period 2022-2027 and in the main forecast. The United States, Canada, Brazil, Indonesia, and India make up 80% of the global expansion in biofuel use, as all five countries have comprehensive policy packages that support growth. Meanwhile, rising ethanol and biodiesel use

⁵ See about the REPowerEU plan; link: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

occurs almost entirely in emerging economies as they aim to reduce oil imports while benefitting the local economy by using indigenous resources. The report shows that waste and residues are a key growth area for biofuels but require action to prevent a supply crunch. One-third of new biofuels production is set to come from waste and residues by 2027. Transport greenhouse gas reduction policies in Europe and the United States are fuelling global demand for waste and residues. The report shows that unprecedented demand growth is straining supply chains, but government policies and innovations may yet provide relief. Demand for waste and residue oils and fats is expected to nearly exhaust supplies of the most readily available sources by 2027.

The report also shows that heating with renewables grows but not fast enough to contain fossil fuel use. Modern renewable consumption for heating purposes is expected to increase by almost one-third during 2022-2027, raising the modern use of renewables in heat from 11% to 14% by 2027. The report shows that market interventions must shelter citizens from high costs but without hurting the business case for new renewable energy investments.

For Africa, the renewables sectors are of increasing interest, as clean energy is most important for the continent, for health and climate reasons. Various plans are emerging to stimulate RE production, by policies and by financing investment projects. The IEA series of reports on “Renewables” give a lot of inputs to the policy discussion in Africa.⁶ Africa accounts according to the IEA for just 6% of global energy use but is responsible for less than 3% of the global energy-related carbon dioxide (CO₂) emissions. Priority for Africa is the boosting of access to secure and sustainable energy in Africa, as more than 600 million people on the continent currently live without access to electricity, and nearly 1 billion of the Africans do not have access to clean cooking supplies. The IEA reports can also be of use to donors in their development cooperation activity in Africa.

Also, the report for 2023 (“Renewables 2023”) is of interest for African policy makers, and therefore a book note is added. IEA writes: “At the COP28 climate change conference in Dubai, more than 130 national governments including the European Union (EU) agreed to work together to triple the world’s installed renewable energy capacity to at least 11, 000 GW by 2030. Renewables 2023 provides detailed country-level analysis on the progress towards the global tripling target. Alongside the report, an online dashboard is also available, which maps all the relevant data to measure renewable energy deployment through 2028.” And further on, IEA writes: “In addition to its detailed market analysis and forecasts, “Renewables 2023” also examines key developments for the sector including

⁶ See on the IEA Agenda for Africa: <https://www.iea.org/regions/africa>

policy trends driving deployment; solar PV manufacturing; competitiveness of renewable technologies; energy storage; renewable energy capacity for hydrogen production; the prospects for renewable energy companies; system integration and a special section on biogas and biomethane forecast.”

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Institute for Economics and Peace (IEP). Ecological Threat Report (2022): Analysing Ecological Threats, Resilience & Peace, 81 pages, Sydney, October 2022. Available from: <https://www.visionofhumanity.org/wp-content/uploads/2022/10/ETR-2022-Web.pdf>, and: <http://visionofhumanity.org/resources>; The Institute for Economics and Peace (IEP) has released the Ecological Threat Report/ETR 2023 in November 2023, which is now available with four chapters on 77 pages and has new data for the ETR scores; see the link to the ETR scores: <https://www.visionofhumanity.org/maps/ecological-threat-report/#/>, and the link to the full report: <https://www.visionofhumanity.org/wp-content/uploads/2023/11/ETR-2023-web-261023.pdf>

The third edition of the Institute for Economics and Peace (IEP)’s Ecological Threat Report 2022 (ETR 2022) analyses ecological threats in 228 independent states and territories. The report assesses threats relating to food risk, water risk, rapid population growth, and natural disasters. The research report takes a multifaceted, multidimensional approach by analysing risk at the national, administrative district, and city level, while also assessing these entities by ecological threats, societal resilience, and levels of peace. Additionally, the research report provides projections to 2050. To assist the international community in prioritising its focus, IEP has identified in the research report the countries, the administrative districts, and the cities being most at risk. The IEP report shows that many ecological threats exist independently of the climate change trends. However, climate change will have an amplifying effect, causing further ecological degradation.

The main finding from the ETR 2022 is that without concerted international action, current levels of ecological degradation will substantially worsen, thereby intensifying a range of social challenges, including malnutrition, forced migration, and illness. Current conflicts will escalate and multiply as a result, creating further global insecurity. The report finds that a nexus of interrelated challenges sustains and feeds off each other. Systemic effects compound, ensnaring countries in conflict traps that are difficult to escape. This nexus is explored in the ETR 2022, highlighting the significant impact of high population growth, ecological collapses, weak societal resilience, and all their relationship to conflict.

The report finds that, highlighting the gravity of the situation, 90 per cent of the 20 least peaceful countries face one or more catastrophic ecological threats, while 80 per cent of them have low societal resilience. Ten (12) of the twelve countries with the highest ecological threat rating, in all four domains, currently

suffer from conflict deaths, while eleven (11) of these countries have moderate to high ratings for intensity of internal conflict. The report shows that highly resilient countries better manage their natural resources and their citizens' socio-economic needs. The report finds that resilience includes effective water management, efficient agricultural systems, and better disaster preparedness. The report uses Positive Peace⁷ as a proxy for socio-economic resilience and shows that no single country with a high level of Positive Peace has an extremely low ETR score⁸, underscoring the relationship between ecological fragility, conflict and societal resilience.

Section 1 (Results) of the report presents the Key Findings of the report, the Background to the report, the ETR results, the Country Hotspots, and an analysis of the accelerating ecological threats via temperature and climate change.

Section 2 (Ecological Threats) of the report shows that forty-one (41) countries face extreme food insecurity. In these countries, more than 65 per cent of the population are unable to afford the food for their family at least once in the last year. The report shows that since the onset of the COVID-19 pandemic, food security levels have deteriorated in seven of the nine regions in the world. The largest average deteriorations have occurred in South Asia, South America, and in sub-Saharan Africa (SSA). Sub-Saharan Africa (SSA) has the highest rates of food insecurity. Of the 52 sub-Saharan African (SSA) countries, 37 recorded an extremely high level of food insecurity according to the ETR 2022. Countries that have low domestic food security and low socio-economic resilience will be most affected by the breakdown of the food supply chains. In addition, more than 1.4 billion people live in regions experiencing severe levels of water stress. In these countries, at least 20 per cent of the population do not have access to clean drinking water. While sub-Saharan Africa (SSA) is the most exposed, European countries such as Albania, Estonia, Greece, Italy, Macedonia, Netherlands, Portugal,

⁷ The concept of "positive peace" was introduced by Johan Galtung, the famous Norwegian peace researcher, who distinguished "negative peace" and "positive peace". "Negative peace" is defined by the absence of war and violence but does not capture a society's tendencies towards stability and harmony. "Positive peace" is defined by a more lasting peace that is built on sustainable investments in economic development and institutions as well as societal attitudes that foster peace. It can be used to gauge the resilience of a society, or its ability to absorb shocks without falling or relapsing into conflict. "Positive Peace" opposes what is known as the 'structures and cultures of violence'. These structures and cultures can cause people to behave violently or impose violence on others. See on these definitions: <https://positivepeace.org/what-is-positive-peace>. IEP publishes also on this basis the Positive Peace Report/PPR 2024; see about: <https://www.economicsandpeace.org/wp-content/uploads/2024/04/PPR-2024-web.pdf>

⁸ The scale of the ETR score is from 1-5 with 1 being very low ecological threats and 5 being facing catastrophic threats.

Romania, Turkey, and Kosovo are also projected to have substantial increases in water stress by 2040. Conflicts over water are on the increase, with the number of incidents - where water was a trigger of fatal conflict - having increased by 300 per cent since the year 2000. The countries that are most likely to see a continuance of water-related conflicts are Yemen, Iraq, Somalia and Sudan. Section 2 is also discussing issues of population growth, natural disasters, and disaster and conflict displacement.

Section 3 (Ecological Changes & Megacities) of the report shows that by 2050, 70 per cent of the world's population will live in cities, up from 54 per cent in 2020. Megacities are defined as cities with more than 10 million people. The report analyses the 33 current megacities and the additional 14 cities that will become megacities by 2050, identifying those which are most likely to face the harshest challenges. Cities projected to face the harshest challenges are presented as: Kinshasa, Nairobi, Lagos, Dhaka, Baghdad, Lahore, Kolkata, and Delhi. These cities have high projected population growth rates, poor sanitation, lack of infrastructure, high crime rates, and substantial ecological threats. Cities also face challenges from higher levels of air pollution, with nine (9) megacities having more than 20 times the WHO recommended maximum level of air pollution. These cities include Lahore, Kabul, Delhi, and Agra. The highest number of polluted cities is in South Asia and in China. Ecological threats, societal resilience, and low levels of peacefulness will not be resolved without concerted international action. There are also Case Studies in Section 3.

Section 4 (Policy Recommendations) is on building resilience by community-centred programmes.

The Methodology is described for the indicators also in the Appendices.

The key findings of the report are that ecological threats and high levels of violence form a vicious cycle, whereby the determinants of the systemic dynamics reinforce each other. The degradation of resources leads to violence, and violence leads to the degradation of resources. The report finds that the prevalence of all four ecological threats (food insecurity, water stress, population growth, and natural disasters) increases as countries experience deteriorations in the Safety and Security and Ongoing Conflict domains of the Global Peace Index (GPI). The report finds that 27 hotspot countries face catastrophic ecological threats with extremely low societal resilience. These countries are home to 768 million people. These hotspot countries are clustered in three regions: in sub-Saharan Africa (SSA), in Middle East and North Africa (MENA), and in South Asia. These regions are also the three least peaceful as measured by the GPI. The report shows that seven (7) of the eight (8) most at risk hotspot countries are in sub-Saharan Africa (SSA). These are Burundi, Central African Republic, Chad, Republic of Congo, Somalia, South Sudan, and Uganda, while the eighth country is Yemen.

The report finds that North America and Europe are the two regions with the best ETR scores.

The report estimates that in 2050 around 3.4 billion people will reside in countries facing catastrophic ecological threats, compared to 2 billion in 2022. Their population will account for 34.7 per cent of the world's total population. The greatest increases of these numbers will be in sub-Saharan Africa (SSA). The report also finds that over half of the 228 countries in the ETR 2022 face at least one catastrophic threat. The report shows that neither China nor India do face a catastrophic threat; and most countries have the necessary societal resilience to avoid a societal breakdown.

The report presents the key findings of the climate survey and shows that between 2019 and 2021 the world's population became less concerned about climate change, dropping by 1.5 per cent, to 48 per cent. This may be partially explained by COVID-19 and by concerns regarding more immediate issues, such as health and livelihoods. The three countries with the biggest falls in concern for climate change were Singapore, Namibia, and Zambia, with falls of 24, 21 and 18 per cent respectively. The citizens of the world's biggest polluters, China and Russia, became less concerned about climate change, recording a substantial drop of three per cent each. China is one of the countries least concerned about the impact of climate change over the next 20 years at just 20.1 per cent, while India, the world's third largest polluter, has scores which are poorly at 38.8 per cent. Six (6) of the nine (9) regions of the world recorded less concern, with the South Asia, North America, and Europe regions being the only ones to show improved concern.

The report finds that regions which are exposed to the highest level of ecological threat are on average the least concerned about climate change; only 27.4 per cent of the respondents in MENA and 39.1 per cent of those in South Asia perceive climate change as a very serious threat. Respondents in sub-Saharan Africa (SSA) and in South Asia rank war, terrorism, crime, and violence as greater concerns than climate change. But 55.9 per cent of the Europeans and 55.7 per cent of the North Americans perceived climate change as a very serious threat.

The report's key recommendations include building resilience in a way that is holistic and broadens the range of actors involved. International agencies need new integrated structures that operate systemically, combining health, food, water, refugee relief, finance, agricultural development, and other functions. In addition to empowering local communities, community-led approaches to development and human security initiatives will result in more effective programme design, in easier implementation, and in more accurate evaluation. Many innovative programmes help to build water resilience (sand dams in Kenya, dispensers for safe water in Malawi, and engineered wetlands in China provide examples of programmes that build water resilience, and this is done cheaply and effectively). In addition,

Farmer Managed Natural Regeneration (FMNR) programmes help to regenerate millions of hectares of degraded land in Africa; these programmes have an exceptional potential, due to the moderate cost of implementation and because of the huge potential to improve the lives of tens of millions. The report argues that ecological threats will continue to create humanitarian emergencies, will increase and accelerate conflicts, and will result in forced migration, unless there is a sustained effort to reverse the current trends. Ecological threats are becoming more pronounced and will affect more people than ever. Building resilience to these threats will increasingly become more important and will require substantial investment now and into the future.

The examples in the report related to Africa show how relevant for development it is to devise policies to combat the ecological threat. The concentration on the four threats is of importance for Africa, and African Union (AU), United Nations Economic Commission for Africa (UNECA), and the African Development Bank (AfDB) have strong mandates to support innovative threat resilience programmes. For Africa, the Positive Peace concept is of interest, as building resilience in areas of conflict and violence is the key task to empower people and to develop social and economic structures.

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The World Wildlife Fund for Nature (WWF) (2022) Living Planet Report 2022 – Building a Nature - Positive Society. Edited by: Almond, R. E. A., Grooten, M., Juffe Bignoli, D. and Petersen, T. 118 pages. ISBN 978-2-88085-316-7, WWF, Gland, Switzerland. Link: https://wwfint.awsassets.panda.org/downloads/embargo_13_10_2022_lpr_2022_full_report_single_page_1.pdf; see also: <https://www.wwf.de/living-planet-report>

World Wildlife Fund for Nature's Living Planet Report 2022 focusses on building a nature-positive society. It shows that today the world faces the double, interlinked emergencies of human-induced climate change and the loss of biodiversity, threatening the well-being of current and future generations. As the world future is critically dependent on biodiversity and a stable climate, it is essential that people around the world understand how nature's decline and climate change are connected. The report shows that the nature of these connections, the impacts they have on people and biodiversity, and the building of a positive, equitable, and sustainable future, are key themes discussed in the WWF Living Planet Report 2022. In addressing these complex, interlinked challenges the report recognises that there is neither a one-size-fits-all solution, nor one single source of knowledge.

The report indicates that land-use change is still the biggest current threat to nature, destroying or fragmenting the natural habitats of many plants and animal species on land, in freshwater, and in the sea. However, if the world is unable to limit warming to 1.5°C, climate change is likely to become the dominant cause of

biodiversity loss in the coming decades. The report shows that rising temperatures are already driving mass mortality events, as well as the first extinctions of entire species. Every degree of warming is expected to increase these losses and the impact they have on people.

The report includes three chapters. Chapter 1 focusses on the global double emergency and shows that people are living through climate and biodiversity crises; these are not separate from each other but are two sides of the same coin. Chapter 2 explains the speed and the scale of change, and there are indicators that show both the speed and the scale of change in biodiversity around the world, and we clearly see the impacts of this change. Chapter 3 focusses on building a nature-positive society, and it shows that the reasons of declining health of the planet, but also the knowledge and the means to address climate change and biodiversity loss. The report argues that biodiversity indicators explain how the natural world is changing over time. Tracking the health of nature over almost 50 years, the Living Planet Index (LPI) acts as an early warning indicator by tracking trends in the abundance of mammals, fish, reptiles, birds, and amphibians around the world. The report reveals that the 2022 global Living Planet Index (LPI) shows an average 69% decline in the relative abundance of monitored wildlife populations around the world between 1970 and 2018. Latin America shows the largest regional decline in average population abundance (94%), while freshwater species populations have seen the greatest overall global decline (83%). The report shows that new mapping analysis techniques allow the building up of comprehensive pictures of both the speed and the scale of changes in biodiversity and climate. The report features the new biodiversity risk maps generated for the IPCC (Intergovernmental Panel on Climate Change) Working Group 2 report which was published in February 2022.

The report also confirms that the planet is amidst a biodiversity and climate crisis, and that people have a last chance to act. This task goes far beyond conservation. A nature-positive future needs transformative – and really game changing – shifts in how people produce, how they consume, how they govern, and what they finance. The report shows that transformational change will be essential to put theory into practice. It indicates the need for system-wide changes in how people produce and consume, which technology they use, and how they manage their economic and financial systems. Underpinning these changes must be a move from goals and targets to values and rights, in policymaking and in day-to-day life.

The report shows that the findings give rise to pessimism. While people need to act urgently to restore the health of the natural world, there is no sign that the loss of nature is being halted, let alone reversed. The declining trend for vertebrate populations continues, despite an array of political and private sector commitments. The report shows that data gathered from almost 32,000 populations of

5,230 species across the planet leave no doubt that the UN Decade on Biodiversity, meant to implement broad-based action to transform society's relationship with nature, has fallen far short of what is needed. The report shows that the impacts of the global nature and of the climate emergency are already being felt, evidenced by displacement and deaths from increasingly frequent extreme weather events, increasing food insecurity, depleted soils, a lack of access to fresh water, and an increase in the spread of zoonotic diseases to name just a few impacts. These impacts affect all people but fall disproportionately on the poorest and most marginalised people.

The report gives examples from around the world, ranging from the Amazon to Canada, Zambia, Kenya, Indonesia, and Australia. It presents some case studies which are of particular significance, such as the rates of deforestation being increasing. It explains the loss of 17% of the original extent of the forest and an additional 17% of the forests being degraded. It shows some of the challenges which the world faces, ranging from the direct impacts of land grabbing and habitat conversion on people and wildlife to changes in rainfall and soils and the catastrophic impact these occurrences have on global efforts to avert extreme climate change.

The report confirms the need to urgently ramp up mitigation actions to avert a dangerous rise in global temperatures beyond 1.5°C since advent of industrial times, and to help people adapt to the climate change which people are already experiencing. It confirms the need to restore nature and the environmental services it provides – both the tangible provision of clean air, fresh water, food, fuel, and fibre; and also, the many intangible ways in which nature contributes to people's lives and their well-being. It indicates the need for an inclusive 'whole of society' approach that empowers all people to act, that recognises the plurality of values and knowledge systems that can put humans and nature to a more sustainable path, and which ensures that the costs and benefits from people's actions are socially just and equitably shared. The report is bringing multiple values, voices, and kinds of evidence to bear to show that change is still possible, from our individual, day-to-day choices to actions for global change, especially in our food, finance, and governance systems.

For Africa's policymakers in governments and for managers of enterprises this report is a valuable one, as the continent is richly endowed with natural capital, has a young and ambitious population, and can benefit from global action to save the planet from over-exploitation and from the double crisis of climate change and biodiversity loss. In many international and regional development organizations, we can see that the protection of the planet is a key working objective, and increasingly researchers from Africa are involved. They all know how important the protection of nature is for their development. Also, media people, religious leaders, and impact investors look at the report to understand the challenges and the opportunities for Africa.

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High-Level Advisory Board on Effective Multilateralism (HLAB) (2023), ‘A Breakthrough for People and Planet: Effective and Inclusive Global Governance for Today and the Future’, 84 pages, New York: United Nations University, 2023. Links: <https://unu.edu/cpr/project/high-level-advisory-board-effective-multilateralism>, for info about the report; the key messages of the report are presented in a presentation as synopsis: <https://highleveladvisoryboard.org/breakthrough/>, and the full report is for download: https://highleveladvisoryboard.org/breakthrough/pdf/highleveladvisoryboard_breakthrough_fullreport.pdf

The report indicates that at the 75th anniversary of the United Nations (UN) on 21 September, 2020 the Member States pledged to strengthen global governance to deliver for present and coming generations. An important DECLARATION ON THE COMMEMORATION OF THE SEVENTY-FIFTH ANNIVERSARY OF THE UNITED NATIONS was passed⁹. They requested the UN Secretary-General to offer a pathway for the multilateral system to address this challenge. The report argues that the failure to address the triple planetary crisis (of climate change, biodiversity loss, and pollution) and the inability to address global shocks (from new technologies, pandemics, rapidly changing economies, and increasing poverty and inequalities) put the existence of future generations at risk.

The report indicates that World leaders came together on 21 September 2020 at the 75th anniversary meeting of the United Nations (UN) to advance a vision of strengthened international cooperation in the service of the planet and the people, and the leaders have pledged to pursue this goal with new ambition and moral courage. This report draws inspiration from the UN75 Declaration and seeks to re-imagine global governance for current and future generations. The report indicates that the proposals of the High-Level Advisory Board (HLAB) on “Effective Multilateralism” offer a pathway to revitalize and to reposition the multilateral system at and beyond the Summit of the Future. It suggests that global governance must evolve into a less hierarchical, more networked system wherein decision-making is distributed, and where the efforts of a great number of different actors are harnessed towards a collective mission.

The overall thrust of our report is to rebuild trust in the multilateral system with the United Nations (UN) at its core. The report confirms the twin propositions that effective multilateralism must draw its strength and legitimacy from greater

⁹ See for a download of this Declaration: <https://www.un.org/pga/74/wp-content/uploads/sites/99/2020/07/UN75-FINAL-DRAFT-DECLARATION.pdf>

inclusion and offering to representative majorities meaningful opportunities to shape global decision-making. The report proposes that today's multilateralism should extend beyond States to include and to obligate a broader range of global and local actors who will be crucial in delivering the breakthrough which the world needs. The report proposes that the global governance system needs to be redesigned around equitable access to global public goods, allowing all people and everywhere to benefit from the world collective resource base, knowledge, and security. The report defends investments in issues of global concern, in a healthy planet, in sustainable development for people, in just digital and energy transitions, and in peace — not war. Multilateralism can work, but it must work better and faster. The report is fully aligned with all other international efforts that support the implementation of the 2030 Agenda for Sustainable Development. The report urges that meeting the world collective challenges is possible with greater cooperation, the only path to world's mutually assured survival.

This report outlines ten constituent principles of effective multilateralism: people-centred, representative, transparent, equitable, networked, resourced, mission-focussed, flexible, accountable, and future-oriented. These principles are integrated into six transformative shifts that can help to tackle the challenges facing us today and those on the horizon:

Transformative Shift One: Rebuild trust in multilateralism through inclusion and accountability. To be effective, global governance must become more inclusive, networked, and accountable. This report offers specific steps to ensure that “we, the people” are better represented in the multilateral system by placing gender equality at the heart of the multilateral architecture, creating more meaningful space for the participation of civil society, and by supporting a UN Youth Office with greater accountability structures for youth inclusion; design institutions, policies, and practices that represent and account for future generations; provide formal status to cities, subnational governments, and private sector actors in key multilateral processes; and shift towards qualified decision-making on crucial issues of global concern and agree to a code of conduct on inclusive multilateral processes.

Transformative Shift Two: Deliver for people and planet by regaining balance with nature and providing clean energy for all. The triple planetary crisis is accelerating and intensifying. We now face irreversible tipping points that put our collective future at risk. Based on the principle of common but differentiated responsibilities, the report offers a comprehensive set of steps to put us on track to regain balance with the planet. This report proposes: A call to conclude a pact for people and planet with an ambitious set of measurable targets to address the triple planetary crisis and a means of holding all actors accountable; A decarbonization package to radically increase our investment in clean energy, shift incentives away from carbon-based fuels, and accelerate the transition to a post-fossil fuel era; A set of reforms to the global trade and intellectual property architecture that would allow

for a free flow of the technology necessary for a just, green transition and provide immediate capacities and incentives to developing countries; and: An elevation of the environment within the multilateral system to generate the resources, the accountability, and the networked responses needed for a global shift to a circular economy.

Transformative Shift Three: Ensure sustainable finance that delivers for all. Our ability to deliver for people and planet, to remain resilient in the face of successive global shocks, and to achieve the Sustainable Development Goals (SDGs) requires significant shifts in our global financial architecture. This starts with the recognition that no government, sector, or institution acting alone can underwrite the global investments needed. Drawing on the momentum of ongoing reform efforts, this report proposes: A repurposing of the multilateral development bank system to catalyse a new generation of public and private investments in global public goods; A strengthening of the global financial safety net to offer greater and more equitable access to international funding during times of crisis, including through regular issuances of special drawing rights; Major governance changes at the World Bank and International Monetary Fund to improve representation and legitimacy; Strengthening of the global debt architecture, including through a platform for debt treatment, improvements to debt transparency, and better safeguards on credit rating agencies; and: Strengthened regulatory frameworks for financial flows, and global taxation reforms.

Transformative Shift Four: Support a just digital transition that unlocks the value of data and protects against digital harms. The global digital transformation can bring about important advancements for our collective well-being, but also poses some of the most important risks to our aspirations of safe, inclusive growth and an end to inequalities globally. This report recommends steps to support a just digital transition, including through: The creation of a Global Commission on Just and Sustainable Digitalization; An expansion of the definition of threats to peace and security to include digital harms, and strengthening of the capacity of judiciaries to respond; Convergence on principles for data governance through a Global Data Compact; and: The establishment of a data impact hub to respond more swiftly to global crises.

Transformative Shift Five: Empower equitable, effective collective security arrangements. If the multilateral system is ready to position itself to effectively deliver on peace as a global public good, it must be based upon a definition of “collective security” that reflects the political, economic, social, environmental, and technological threats facing us today. This report proposes: Reforms to the UN Security Council (UNSC) to bring it in line with the principles of legitimacy, equity, and modernization, and to allow a significant expansion of the UN’s peace-building mandates to address the broader range of conflict drivers globally; A

Collective Security Framework (CSF) between the UN and major regional bodies, establishing a more strategic and realistic basis for large-scale investments in peace at the regional level; A Multistakeholder Transparency Platform (MTP) to build trust via a common assessment of security risks; and A renewed commitment to the global norm against the use of nuclear weapons and a commitment to “no first use” by all nuclear States. The report calls for setting a date for total denuclearization, which must translate into a concrete vision of a world without nuclear weapons, and which identifies concrete steps towards strengthening and accelerating denuclearization.

Transformative Shift Six: Strengthen governance for current and emerging transnational risks. Today’s multilateral system is lagging the emerging and fast-moving trends, unable to anticipate and to respond to risks before they escalate beyond our control. To build a more nimble and responsive system, this report proposes: Steps to broaden our understanding of and response to the growing security risks posed by climate change; A global Pandemic Threats Council accompanied by an independent monitoring capacity; A global Agreement on Bio-risk Management Standards (ABMS) and a common scientific advisory process for biological weapons; A timeline for the development of a global architecture for Artificial Intelligence (AI) design, development, and use based on common standards and approaches; An accelerated formalization of regulations on Lethal Autonomous Weapons Systems (LAWS), as well as a ban on non-human control of nuclear weapons platform launches; and A global strategy on transnational organized crime across the multilateral system.

These six transformative shifts have importance for Africa’s future role in the global society and the global economy. Africa is not represented adequately in the multilateral system, as this system is not inclusive, not equitable, and not efficient. This report has a great role to enlighten African policymakers in their global demands, as the six transformative shifts signal the many gaps which exist for an agenda to make the multilateral system inclusive, equitable, and efficient. Africa is still in an extremely weak position, and the report gives the key points and the full agenda how to reform the multilateral system step by step - by involving in a newly coordinated way not only the UN system but also non-state actors, states and regional bodies, NGOs, and global corporations. The recent political developments and violent actions in Europe, Near East, North Africa and Sudan show that there are many organizations at work to mediate peace, but they are not acting in a coordinated way.

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‘Climate Transparency Report (2022)’, Summary Report, G20 Response to the Energy Crisis: Critical for 1.5°C. 32 pages. October 2022. Link: <https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Summary-report.pdf>, and:

climate-performance/g20report2022, and: <https://www.climate-transparency.org/>

The Climate Transparency Report 2022 is the result of a global partnership with a shared mission to stimulate a “race to the top” in climate action in the group of the G20 members through enhanced transparency. The Summary Report is part of the Climate Transparency Report 2022. It shows that climate change impacts are increasing across the world. Heatwaves, droughts, floods, and wildfires are causing devastation: every day, people are dying, others are losing their homes and their livelihoods, and ecosystems are being destroyed. The report finds that energy prices have skyrocketed in many countries. Energy supply is not secure and, on top of that, food prices are steeply increasing, with climate change impacts contributing to the crisis. Some governments are advocating for a pause in climate action, and others are using the energy crisis as an excuse for reducing mitigation efforts and delaying the shift from fossil fuels to renewables.

The report shows that the COVID-19 pandemic could have been a point of transformation, but instead people have returned to business-as-usual attitudes in the way how they generate and use energy. After a short dip in 2020, the G20’s emissions have rebounded in 2021 to nearly the level experienced in 2019 as we saw: not enough renewable energy was added; no speeding up of the coal phase-out; no reduction in deforestation; and no acceleration of the exit from fossil-fuel-based transport systems. What are the reasons for this misery? The Report explains that there are enormous inequalities linked to greenhouse gas (GHG) emissions. The top 1% of individual emitters are responsible for 17% of the global emissions; the poorest half are responsible for only 12% of the emissions. This difference between the rich’s and the poor’s contribution to this global problem applies in most countries. It is therefore difficult to agree on what would be a just solution to the climate crisis, but it is not at all difficult to agree that the present situation is unjust and not sustainable. It is only a question of fairness that those who make the biggest contribution to climate change – countries, companies, and individuals – must drastically reduce their emissions, and must carry a bigger share of the costs associated with those reductions, and they must shoulder a big increase in climate finance. Yet the contributions to climate finance from the world’s richest countries are still dwarfed by the money they pour into subsidising the very product that is causing climate change: subsidies for fossil fuels, a sum that appears to increase every year. The report argues that reducing energy demand is central to reducing emissions, and addressing unsustainable consumption trends requires increased and strengthened demand-side policies. There is a need for global cooperation, despite the economic and political differences.

The structure of the summary report includes five sections:

Section 1 indicates key actions on the energy crisis via measures such as: Including an increase in the deployment of renewable energy and creating sustainable jobs. Ensuring that “stop-gap” measures are reversible and do not undermine climate action. Stopping domestic and international investments in fossil fuel infrastructure to avoid carbon lock-in and stranded assets. Using targeted support for poorer households instead of expanding subsidies for all. Incentivising and promoting energy conservation and making energy efficiency measures mandatory. Maintaining and extending carbon pricing mechanisms. Expanding climate finance for zero-carbon investments, both domestically and through international cooperation.

Section 2 explains key actions on stocktake: Indicating that implementation is the key and therefore all G20 members need to further enhance quickly in ramping up implementation to keep 1.5°C within reach. The current energy crisis must not be used as a reason to delay action, but rather as a driver towards faster, more ambitious implementation.

Section 3 shows key actions on adaptation strategies to establish such strategies across key systems: Including adaptation strategies to food, water, health, and infrastructure sectors. In addition to strengthening Monitoring & Evaluation (M&E) mechanisms to guarantee adaptation implementation, adaptation finance needs to be increased to avoid damages and losses of life, and additional focus has to be put on funding for loss and damage. This is action to build back better if disaster strikes.

Section 4 explores key actions on mitigation via: Including political power to further stimulate and to scale-up growth in renewables, whilst rapidly phasing out fossil fuels, accelerating energy efficiency, improving grid digitalisation and energy savings. In addition to enhance actions on the transport sector to introduce policies and measures aimed at switching fuels to zero-carbon fuels, mass electrification and modal shifting are requested. Banning the sales of internal combustion engine vehicles globally by 2035 at the latest. In addition to actions on the industry sector to increase energy and material efficiency (via switching to zero-carbon sources, such as renewables-based electrification and green hydrogen) actions are requested on material recovery and material recycling. Actions on the buildings sector should focus on the retrofitting and electrification of existing buildings to reduce energy demand, but required are also actions on all new buildings to meet high energy-efficiency standards and to be equipped with heating and cooling technologies that either are, or can be, at zero emission levels. In addition to actions on the land use sector to strengthen policies to reduce deforestation and to implement protected area networks, there is need for deforestation-free supply chains and for forest-friendly infrastructure. In addition to actions on the agriculture sector to improve productivity to feed a growing population and as well to preserve biodiversity, a shift from high-meat diets towards plant-based diets is

requested, and actions are needed to slow the demand for agricultural land by reducing food loss and waste.

Section 5 suggests key actions on finance to consider risk disclosures: Making the disclosure of climate risk mandatory for financial institutions and corporations. In addition to avoiding production subsidies to fossil fuel production with the justification of energy security and revenue generation, clean energy pathways need to be prioritised. The subsidies to support for the cost-of-living crisis must not entail higher levels of fossil fuel consumption subsidies and should, instead, prioritise increasing energy efficiency to lower the energy bills and to encourage the switching to low-carbon energy alternatives. It is necessary to ramp up carbon pricing schemes and to expand their coverage in line with the climate targets. Committing to end public finance for all fossil fuels and scaling up the funding for renewable energy are the imperatives for our time. In addition, the G20 members are obliged to provide climate finance, and they need to increase their contributions based on national income, historic emissions, and the size of population.

African policymakers can learn a lot from the adaptation and mitigation strategies which are discussed in this report. Financing these strategies and implementing them are of importance, and the report gives a lot of examples how all this can be achieved in Africa by strengthening their institutions and policy frameworks. This is a valuable climate transparency report with a focus on solving the energy crisis through a holistic strategy of adaptation, mitigation, finance and implementation.

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The Food and Land Use Coalition (The FOLU Coalition), Core Partner: UN Sustainable Development Solutions Network (UN-SDSN) (2022), ‘2022 Update. From Global Commitments to National Action: A Closer Look at Nationally Determined Contributions from a Food and Land Perspective’, 45 pages; Link: <https://files.unsdsn.org/FOLUbrief-2022NDCanalysis-FELD-Nov2022-hires.pdf> , and: <https://sdsn.bg/en/resources/folu-brief/>

This brief summarises the expanded analysis of Nationally Determined Contributions (NDCs) by the Food, Environment, Land and Development (FELD) Action Tracker team at the UN Sustainable Development Solutions Network (SDSN), on behalf of the Food and Land Use Coalition (FOLU). It aims to provide policymakers and other interested parties at global level and in countries with a systematic analysis and cross-read of current NDCs from a food and land use perspective. This 2022 Update follows the 2021 brief, and builds on it by updating and refining its assessments on the basis of latest NDC updates, with clearer criteria and a stronger focus on actionable elements for the delivery of national commitments;

expanding the set of countries and NDCs to a total of 24 (from the earlier 15), by including all remaining G20 members and additional countries in Sub-Saharan Africa (SSA) and the Middle East; broadening the consideration of NDC statements related to adaptation and financing, both being key issues not only for global discussions but for NDC operationalisation in countries; and integrating elements of valuable NDC analyses conducted by other organisations and initiatives.

This brief is organised as follows: In Chapter 1 it is asked by the editors: Why do NDCs need a closer look from a food and land use perspective? Chapter 2 reviews the content of NDCs for commitments, targets, specific policy actions and interventions related to food and land use; Chapter 3 explores the extent to which NDCs are indicative of a focus on action and conducive to effective policy implementation, intersectoral and institutional follow up; and Chapter 4 provides observations, lessons, and an outlook. This brief shows that over the past year, however, only a fraction of countries revisited their 2030 plans and targets, doing so against the background of growing geopolitical crises and macro-economic challenges. Meanwhile researchers of the Intergovernmental Panel on Climate Change (IPCC) have further reinforced the evidence and need for fundamental shifts to start this decade (UNFCCC 2021a). In the face of this, momentum for ambitious action before 2030 seems to be stalling, even as the number of countries (and companies) announcing new net zero strategies keeps rising.

This brief argues that action on agriculture, food and land use is critical both in the near and for the long term: roughly one third of global net greenhouse gas emissions are estimated to emanate from food systems and related land use. They also drive around 80% of biodiversity loss and consume 70% of our fresh water. Their transformation is therefore not only important for addressing climate change but also for the protection of biodiversity and the achievement of the Sustainable Development Goals (SDGs). And while there is growing scientific evidence and recognition on what is needed to initiate the various critical transitions, attention (and action) from national policymakers has so far been limited (UN 2021a; UN 2021b; FELD 2021; GAFF 2022a; Climate Action Tracker 2022).

This brief shows that the FELD (Food, Environment, Land and Development) Action Tracker was developed as strategic initiative by the Food and Land Use Coalition (the FOLU Coalition) to track and to systematically assess progress on national policies and their implementation, including a closer look at NDCs, their commitments, targets and various domestic policies and plans needed to operationalise them. This brief uses a systematic analysis based on clear criteria and highlights notable country examples regarding their approach to food and land use. The 2022 Update expanded its critical look from the original 15 in 2021 to now 24 NDCs, covering 50 countries including all G20 members. This FOLU brief provides a critical reality check and window into the state of national climate, food, and land use agendas. The majority of the NDCs covered by this analysis was recently updated (since 2020) or newly included (since COP26). Together, they

represent around 80% of the greenhouse gas (GHG) emissions, including the largest emitters (China, the US, and the EU), highly forested countries (Brazil, Indonesia, the Democratic Republic of the Congo) and a large set of countries in SSA/Sub-Saharan Africa (Ghana, Kenya, Ethiopia) which already experience the effects of a warming planet and underline the need for urgent adaptation action.

Overall, the findings of this analysis are sobering: seven years after the Paris Agreement, countries still do not sufficiently and consistently include emissions from, and actions for, their food and land sectors. Many of the world's largest emitters have yet to align their policy action with their actual emission profiles, and they should consider especially the need for shifts toward sustainable diets and consumption; they also need to address food loss and waste. While commitments and references to nature and agriculture are frequent, the extent to which they are substantiated by relevant policy action varies greatly, however. Assessed against FOLU's framework of the 10 Critical Transitions (FOLU 2019) toward sustainable food and land use systems, only a fraction of NDCs consistently identify the most promising evidence-based areas for intervention, especially for demand-side shifts towards healthy and sustainable diets, and system-level action to reduce food loss and waste.

This brief shows that on the positive side of this assessment, it needs to be noted that many NDCs identify priority areas in the agriculture, food, and land sectors as an important contribution to national mitigation targets, or to adaptation goals with mitigation co-benefits. The growing attention to adaptation in the NDCs, including concrete activities and programmes related to agriculture, food, and land use, is remarkable. Relevant actions in the NDCs are mostly directed at the development of productive and regenerative agriculture, the protection of nature, and the enhancement of broader enabling conditions, such as the consideration of gender and access, as well as the improvement of rural livelihoods. This brief indicates that the findings point to the limited focus of NDCs on action, implementation, and domestic policy follow-up to back up headline NDCs commitments. This includes the failure by many NDCs to substantiate what and how they plan to do to achieve the commitments made, and the operational context for cross-sectoral implementation. In contrast to other sectors like transport, only very few NDCs set sectoral targets for Agriculture, Forestry, and Other Land Use (AFOLU).

This report is of great importance for policymakers in Sub-Saharan Africa (SSA), because of the role of agriculture and of land use for wealth creation, and because of the necessity to combine efforts towards climate action and action at increasing competitiveness. The role of agricultural and agribusiness value chains has become more and more important, and the NDCs of SSA countries should play a greater role for action. The NDCs need to be improved and updated to guide implementation and action. These NDCs should not just be a vehicle to generate

donors' money. The SSA countries can benefit from the cross-checking of the NDCs of other developing regions to get ideas how to improve their own reporting for the local benefit. NDCs can support national and regional integrated African Agricultural and Agribusiness Policies (AAAP) and can guide the implementation of the Sustainable Development Goals (SDGs) in Africa.

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The United Nations Research Institute for Social Development (UNRISD) (2022), 'Crises of Inequality, Shifting Power for a New Eco-Social Contract', ISBN 978-92-9085-133-2, 348 pages, October 2022, UNRISD, Palais des Nations, Geneva, Switzerland. Link: <https://cdn.unrisd.org/assets/library/reports/2022/full-report-crises-of-inequality-2022.pdf>

The report shows that the world is in a deep state of crisis, confronted with violent conflicts and entrenched political divisions, a cost-of-living crisis affecting both the Global North and the Global South, and the existential threat of the climate crisis that manifests itself in extreme weather events, all the while still grappling with the devastating consequences of the COVID-19 pandemic. The report shows that there is a common thread that links these crises: growing economic and social inequalities that both drive and are driven by crises. The report supports a world movement toward equality, sustainability and justice.

The report shows that there is perhaps no more telling example of the way in which the current world order is bent toward injustice than the COVID-19

pandemic, being simultaneously so universal and experienced so differently from person to person and place to place. The period since the virus was first detected in early 2020 has been marked by extensive loss of life, severe economic downturn, the rolling back of many human development indicators, and an overall increase in poverty. Yet, at the same time, it also brought significant gains for a very small group of people, as wealth concentration at the top has intensified since the pandemic began. Such an extreme increase in human suffering matched by an equally extreme increase in profit and privilege has been the unfortunate refrain running through the history of recent crises, growing louder with each passing year. With a central focus on inequality, this report starts from the premise that a system in which a global health crisis can double the wealth of the 10 richest men in the world, while sending more than 120 million people into extreme poverty signals a broken social contract, leaving behind far too many people and failing to protect the world planet.

The report argues that this moment of crisis has not arrived in a vacuum but has emerged in the wake of various trends, including globalization, technological progress, demographic change—such as ageing, migration and urbanization—and shifting global power structures. These long-term trends have on the one hand presented opportunities for human progress in terms of growth, poverty reduction and well-being. On the other hand, they have often produced highly unequal outcomes within and between countries and regarding different social groups, as well as new risks and profound environmental impacts. The report argues that this outcome is partly due to the way in which long-term trends were shaped by policy approaches associated with the neoliberal shift that was spearheaded by several countries in the Global North in the early 1980s. This shift has created a context and vicious cycle of rising inequalities, instability and crisis. Benefits were distributed unequally while costs were offloaded onto subaltern groups, the Global South countries and the environment, hollowing out social contracts and destroying the global commons.

To understand how the world got to this moment, the report analyses how the age of neoliberal globalization and related policy choices are at the heart of the present challenges, having paved the way for the current model of unsustainable hyper globalization, which creates an inescapable gravity toward inequality and crises. It reveals how deep fractures run through societies and economies, manifesting it in inequalities, segregation, polarization, conflict and social exclusion, and what their root causes are; it explores how broken social contracts can be reformed and transformed into eco-social contracts to overcome current challenges, to protect people and the planet, and to set the world firmly onto more sustainable pathways. The report aims to provide evidence on the unprecedented rise in economic inequalities and the entrenched nature and reproduction of social and

political inequalities the world witnessed since the 1980s, and how they have led to and been amplified by multiple crises in a vicious cycle. It aims to explore the root causes of this development, which the report argues are mainly related to policy choices supported by powerful elites, and provides examples of the societal consequences, from adverse impacts on social outcomes and the environment, to disparities in economic development, to discontent, protest and an unravelling of social contracts.

The structure of the report includes five chapters. Chapter 1 presents an introduction. Chapter 2 discusses inequalities in times of crisis, it explores ways to overcome inequality, addresses multiple crises and builds a new eco-social contract by analysing how inequalities drive economic, social, environmental and political crises, and how inequalities are amplified resulting from the crises, are undermining resilience, and are threatening to undo past gains, as the COVID-19 pandemic has revealed. Chapter 3 shows the age of inequality, the intersecting inequalities and power relations, the entrenched disadvantages related to economic and social inequalities, their impacts and their links to asymmetric power structures and political inequalities. Chapter 4 is arguing in favour of a new eco-social contract: actors, alliances, and strategies matter, is looking at scrutinizing varieties of social contracts as well as critical junctures when social contracts are renegotiated, is examining current stakeholder views in social contract debates, and is presenting principles for a new eco-social contract grounded in social and climate justice. Chapter 5 is suggesting a new way forward: pathways for social, economic, and environmental justice, is presenting a new eco-social paradigm for equality, equity and sustainability, which is building on three pillars—alternative economies, transformative social policies, and renewed multilateralism and solidarities—and is based on an integrated approach for social, climate and gender justice.

The report's key messages are that the world is in a state of fracture, confronted with severe crises, with increasing inequalities, and with unravelling social contracts. Now is the time to act to secure the world's future and to co-construct a new eco-social contract that delivers for people and the planet. Today's extreme inequalities, world's environmental destruction, and its vulnerability to crises are not a flaw in the system, but a feature of it. Only large-scale systemic change can resolve this dire situation. Inequality is a driver, an amplifier, and a consequence of multiple and overlapping crises—economic, social, political, and ecological. The result is a vicious cycle which is disrupting the basis for human life on this planet and which is eroding prospects for a dignified and peaceful life for all. Vulnerable and marginalized groups, who face multiple intersecting inequalities, are worst affected, falling further behind. Elites, on the other hand, can largely shield themselves from adverse impacts of crises and can often even exploit crises for their own gain. The world can create pathways toward a new eco-social contract based on a vision of justice, equality and sustainability. To do this, the world needs

a new development model with three key pillars: alternative economic approaches that centre on environmental and social justice and on rebalancing state–market–society–nature relations; transformative social policies based on a fair fiscal compact; and reimagined multilateralism and solidarities. Only if people rebalance existing power structures and create new alliances can people achieve transformative change. Progressive political leaders, inclusive coalitions, active citizens, and social movements need to come together to co-create a new eco-social contract for climate and social justice.

The report explores both vertical and horizontal inequalities and their intersections and explains the intersecting inequalities and power structures. The report shows that high levels of economic inequality, often converted into steep power imbalances, undermine sustainable development and prevent transformative change. When intersecting with inequalities related to group identity, such as gender or race, they can lead to protracted situations of marginalization and oppression. Economic inequalities, which have spiralled upward during neoliberal globalization, lie at the heart of power asymmetries and elite domination. While an overall decrease in global inequality between countries has been driven by a small number of large emerging economies, gaps in terms of income and other development indicators have expanded for many developing countries. Social inequalities between groups along lines such as gender, race, ethnicity or caste, age, disability, citizenship and other characteristics are based on and are reproducing hierarchies by applying discriminatory rules and practices. These social inequalities often intersect with poverty and a lack of economic resources, negatively impacting people, the economy and equity. Marginalized groups fare less well regarding to social outcomes, with intersecting forms of inequality compounding vulnerability. Political inequalities and power asymmetries drive and are driven by social and economic inequalities, as elites accumulate influence and power to preserve and to perpetuate a system that benefits the few at the expense of the many. This is a more than challenging context for realizing progressive change and has particularly devastating impacts for vulnerable groups and for the environment. The report finds that increasing inequalities in income, wealth, opportunity, and social outcomes intersect with inequalities in access to rights and participation, which are under threat in many parts of the world. The report shows that taken together, inequalities create a gravity toward multiple crises and shocks and make the effects worse. Each crisis plays out in an existing pattern of inequalities. This inevitably means that those who are already disadvantaged or excluded face the worst impacts, while those endowed with more resources can shield themselves and to recover more quickly. Many people are excluded and disenfranchised and feel that there is one set of rules for them and another for elites.

Africa as a continent suffers most from the “Crises of Inequality”, as political, economic, and social sources of inequalities matter at the level of regions, nation states, and communities. Africa is still impacted by global and regional power hierarchies at all relevant political levels. The report is of interest for African policymakers as they need to establish an eco-social contract so that Africa can benefit from their huge resources and advantages, their skills and abilities, and their natural endowments. The report culminates in the plaidoyer for a new development model for social and climate justice. The key elements are of great relevance for Africa, such as alternative economic approaches and transformative social policies. It is possible to apply such a model for African regions, countries, and localities. The Overview and the Main Report give some examples for the new eco-social contract and for the new development model.

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MacAlister, C./ Baggio, G./ Perera, D./ Qadir, M./ Taing, L./ Smakhtin, V. (2023). ‘Global Water Security 2023 Assessment’ United Nations University Institute for Water, Environment and Health (UNU INWEH), Hamilton, ON, Canada. 128 pages. ISBN: 978-92-808-6115-0. Link: <https://unu.edu/in-weh/collection/global-water-security-2023-assessment>, and: <http://in-weh.unu.edu/publications>

The “Global Water Security 2023 Assessment” Report indicates that sufficient water of adequate quality is an essential precondition for human life, socioeconomic development, and environmental sustainability. However, the security of our finite freshwater resources is threatened by the competing demands of rapidly expanding populations and global economies and made vulnerable by ongoing conflicts and multiple compounding effects of climate change. The report indicates that to accelerate the efforts to meet water security challenges, the United Nations General Assembly declared 2018-2028 the Water Action Decade for Sustainable Development. The report indicates that this coincides with and complements the 2030 Agenda for Sustainable Development (SDGs 2015-2030). This report provides a preliminary quantitative global assessment that evaluates the state of water security for 7.78 billion people living in 186 countries. It is essential to track the progress towards realising a more water-secure world, and to identify where and what more targeted developmental efforts, funding, and policy focus should be to ensure that the most vulnerable and insecure are not left behind. It is a necessary first step to establishing a clearer picture of global water security.

This report applies the United Nations (UN) Water definition of “water security as the capacity of a population to safeguard sustainable access to adequate quantities of acceptable quality water for sustaining livelihoods, human well-being, and socioeconomic development, for ensuring protection against waterborne pollution and water-related disasters, and for preserving ecosystems in a climate

of peace and political stability”. The report shows that the SDGs, and SDG 6 specifically, reflect these holistic dimensions of water security. The SDG targets and indicators are universally agreed means of monitoring and reporting on progress towards achieving water security. Therefore, it should be possible to quantify national water security for all countries worldwide using this framework. The preliminary assessment presented in this report addresses 10 development outcomes as components of water security that should be quantifiable using SDG indicators.

The report aims to quantify and to compare current levels of the primary components of water security, by country, using SDG-defined indicators and available datasets to reveal an explicit picture of global water security in the middle of the Water Action Decade and the Global Agenda 2030. It aims to support the ‘Improved data and information’ acceleration pillar of the UN-Water SDG 6 Global Acceleration Framework, by ensuring that ‘high-quality information on SDG 6 indicators is shared and easily accessible by any decision maker’ (UN Water, 2020). It aims to highlight the overall status of available water data routinely reported by countries within the SDG framework and by indicators and to identify data gaps that need to be filled to support accurate analyses of water security moving forward. This report targets: (i) national water policy actors worldwide, tasked with implementation of relevant SDGs and reporting on progress, allowing assessment and comparison of the components of water security; (ii) UN custodian agencies, supporting water-related national monitoring and reporting efforts globally, highlighting data gaps and facilitating improvement in the reporting process; (iii) NGOs and international donors, for revealing water insecurity hotspots that require priority support; and (iv) researchers and technical staff, who are concerned with design, monitoring, and implementation of metrics of water security.

This assessment applies an inclusive approach to ensure that a maximum number of countries is represented and compared globally by their assessed national water security levels. All countries with sufficient data to assess the 10 water security components are included, regardless of size, population, or geography. The 10 components of water security assessed are: drinking water, sanitation, good health, water quality, water availability, water value, water governance, human safety, economic safety, and water resource stability. These components are assessed and mapped at a national level using indicators with clear metrics and publicly available data. Each water security component is assessed, and each country receives a score out of 10. All national component scores are then mapped for a global comparison. An overall national water security score is calculated from the sum of each 10 components, with a maximum score of 100. National scores are classified as water ‘secure’ (score of 75 and above), ‘moderately secure’ (score of 65–74), ‘insecure’ (score of 41–64), or ‘critically insecure’ (score of 40 or less).

The report argues that access to safe drinking water is critical to all aspects of health, well-being, and development. A safe drinking water supply is the first step to achieving national water security and therefore represents Component 1. It is almost impossible to maintain a safe drinking water supply without safely managed sanitation, as represented by Component 2. Without these foundations, establishing a hygienic environment for human life is impossible, and so the consequences of inadequate water sanitation and hygiene (WASH) on human life are addressed by Component 3.

The report finds that alarmingly, most of the world's population live in water-insecure countries today. Out of 7.78 billion people living in 186 countries, over 0.61 billion people (8%) are critically water-insecure and 5.52 billion (72%) are water-insecure, including 4.31 billion people in the Asia-Pacific region, 1.34 billion in Africa, 415 million in the Americas, and almost 66 million in Europe. And 0.65 billion people (8%) live in moderately water-secure countries and over 1 billion (12%) live in water-secure countries, primarily in Europe (0.7 billion) and the Americas (0.6 billion). The report also shows that mapped globally, there is a sharp disparity in water security across global regions and sub-regions. The least water-secure regions are Africa, including the Sahel, the Horn of Africa, and parts of West Africa, in addition to South Asia, and Small Island Developing States (SIDS) across the world. Europe and the Americas are significantly more water-secure than other global regions. At the sub-region level, Eastern Europe countries are markedly less secure than Northern Europe, and South and Central America are less secure than North America.

The report shows that globally, all regions face a trajectory of low levels of water security due to a range of compounding factors. However, these levels vary in each global region. In Africa, water security scores range from 29 (critically insecure) to 58 (insecure), followed by Asia ranging from 32 (critically insecure) to 81 (secure), the Americas from 52 (insecure) to 80 (secure), Europe from 51 (insecure) to 90 (secure), and the SIDS from 23 (critically insecure) to 67 (moderately secure). The report finds that access to safely managed drinking water and sanitation is still a dream for more than half of the global population. The report finds that globally, significantly more people die from a lack of safe drinking water, sanitation conditions, and basic hygiene services than being a result of a water disaster. The report shows that comprehensive and accurate water quality assessment at the national level remains a challenge despite a dedicated SDG 6 target. The level of industrial and domestic wastewater treatment could not be assessed in all countries as defined in SDG 6, due to insufficient data.

The report shows that abundant natural water availability does not necessarily ensure water security. Many countries in Africa, the Asia-Pacific, and the Americas with abundant freshwater resources have low levels of WASH access and water treatment, high rates of WASH-related deaths, low economic water value, and potentially high losses due to flood or drought impacts. The report shows that high

water values ('Water Use Efficiency') do not always translate into water security. Many national economies dominated by petroleum and mining activities have a high economic value per unit of water used, but this does not necessarily result in increased water security in other components, such as governance, WASH, or storage infrastructure. This is particularly true in countries with high levels of economic water value in African countries being reliant on petroleum and mining industries. The report finds that prosperity is not the main driver of water security. National wealth, measured by Gross National Income (GNI) per capita, is clearly related to the capacity to fund critical water infrastructure and governance. However, national wealth is not the only driver of water security, particularly when there are multiple determinants of water security with reinforcing effects on each other. The report shows that the influence of climate change on water security is not well addressed by the water-related SDGs. Countries with high inter-annual freshwater variability worldwide experience less stable and reliable water availability, impacting livelihoods and all sectors, but the capacity to mitigate this variability through a range of water storage options is poorly represented in global policy agendas. The report finds that water security assessment provides at best coarse national-level estimates that mask water security variability at finer scales. The national data, currently available at a global extent, do not reflect rural-urban disparities, nor gender, age, or social inequalities. Poor data availability and quality were major limitations of this assessment, revealing that it is almost impossible to assess progress in water development indicators accurately at a global level. It may be argued that water data availability itself should be seen as an indicator in future water resources and security assessments.

For Africa, this report is of great relevance to reshape water security policies. African policymakers can learn from the results of this global water assessment. As agriculture is a mainstay of Africa's development, the lessons from this report will help to redraft the water policies at national and regional levels in Africa. It is necessary to follow-up such assessments regularly, as this would help Africa in the process of redrafting its policies. The link of UNU- INWEH to Africa-wide and regional organizations (like the African Union RECs, the AUC, the UNECA, and the AfDB) should be strengthened to benefit mutually from the responses.

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The Food Security Information Network (FSIN) and Global Network Against Food Crises (2023), 'Global Report on Food Crises 2023. Joint Analysis for Better Decisions', FSIN and Global Network Against Food Crises. 2023, 213 pages. GRFC/FSIN 2023. Rome. Link: <https://www.fsinplatform.org/global-report-food-crises-2023>, and: <https://www.fsinplatform.org/sites/default/files/resources/files/GRFC2023-hi-res.pdf>

The Global Report on Food Crises (GRFC) (2023) is published by the Food Security Information Network (FSIN) in support of the Global Network against Food Crises, and it is the reference document on global, regional, and country-level acute food insecurity in 2022. The GRFC report provides an overview of the world's worst food-crisis countries for which external humanitarian assistance was necessary in 2022. The GRFC report provides detailed information about regions, countries, and populations experiencing high levels of acute food insecurity in 2022 and gives projections for the year 2023. It examines the main drivers of these food crises and provides analysis of seven years of GRFC data and the latest available information on displacement and nutrition. It is an evidence-based reference document for food security and nutrition analysts, and it aims to inform policy-makers, decision-makers, and donors.

The structure of the report includes special chapters that provide a more in-depth analysis of three major issues: the impact of the war in Ukraine on global food crises; the importance of timely humanitarian action in food-crisis contexts; and the listing of countries of concern with data gaps. Chapter 1 provides a global overview of food crises, and it presents a thematic analysis of the global food crises of 2022 and the projections for 2023, based on the peak estimates for both years. It provides aggregate figures on acute food insecurity, identifies the key drivers and factors contributing to food crises, and presents a focussed analysis of the most severe acute food insecurity situations since the GRFC began the publication in 2017. It provides for 2021, 2022 and 2023 peak estimates for all the GRFC selected food crises. A global brief on displacement and nutrition is also included. Chapter 2 provides the regional overviews of food crises, and it presents a consolidated food security analysis for six regions – Central and Southern Africa; East Africa; West Africa and the Sahel, and Cameroon; Asia; Latin America and the Caribbean; and the Middle East and North Africa – for 2022 and with projections for 2023 where available. It also presents nutrition and displacement analyses. Europe is not included since Ukraine is the only country selected and it is included as a major driver of the food crisis in chapter 3, while the global impact of the war of Russia in the Ukraine is included as a spotlight within chapter 1. Chapter 3 discusses major food crises in 2022, and it features individual analyses of the 42 countries/territories identified as those with “major food crises”. All of them have at least 1 million people or 20 percent of their country population or migrant/refugee population in the Integrated Food Security Phase Classification IPC/CH Phase 3 or above or equivalent. These country briefs present the 2022 peak estimate of populations in IPC/CH Phase 3 or above or equivalent, and the highest available projection for 2023. They include maps, a brief narrative on year-on-year changes, and seven-year trends where possible, also the key drivers, and information on forcibly displaced populations and nutrition.

The Global Report on Food Crises (GRFC) 2023 estimates that over a quarter of a billion people were acutely food-insecure and required urgent food assistance in 58 food-crisis countries/territories in 2022. This is the highest number in the seven-year history of the GRFC. The GRFC assessment of acute food insecurity informs humanitarian and development action. The analysis is based mainly on data obtained through the Integrated Food Security Phase Classification (IPC) or the Cadre Harmonise (CH), which estimate the population number in need of food, nutrition, and/or livelihood assistance. When data from these sources are not available, the GRFC utilizes the Famine Early Warning Systems Network (FEWS NET), the World Food Programme's (WFP) Consolidated Approach for Reporting Indicators (CARI), and country-specific Humanitarian Needs Overviews (HNO). The findings of the GRFC 2023 suggest that achieving the goal of ending hunger by 2030 is ever more challenging as the population facing high levels of acute food insecurity has increased for the fourth consecutive year. The report finds that nearly 258 million people in 58 countries/territories were in Crisis or worse an acute food insecurity (IPC/CH Phase 3 situation (or above, or equivalent) in 2022 – up from 193 million in 53 countries/territories in 2021. The report explains that while there has been an increase in the population analysed, this is the highest on record since the GRFC started reporting these data in 2017. This marks the fourth consecutive year of rising numbers of people in IPC/CH Phase 3 or above or equivalent due to persistently high numbers in some countries, worsening situations in others, as well as increased and deeper analysis of trends. The report shows that more than 40 percent of the population in IPC/CH Phase 3 or above or equivalent as mentioned in the GRFC 2023 resided in just five countries/territories – the Democratic Republic of the Congo, Ethiopia, Afghanistan, Nigeria (21 states and the Federal Capital Territory/FCT), and in Yemen. People in seven countries faced extreme lack of food even after full employment of coping strategies at some point during 2022. More than half of the 376,400 people in Catastrophe (IPC/CH Phase 5) were in Somalia (214,100), but these extreme conditions also affected populations in South Sudan (87,000), Yemen (31,000), Afghanistan (20,300), Haiti for the first time in the GRFC history (19,200), Nigeria (3,000), and Burkina Faso (1,800).

The report finds that around 35 million people were in Emergency (IPC/CH Phase 4) in 39 countries. No disaggregated data by IPC phase were available for Ethiopia or Zimbabwe in 2022. Households in this extremely severe situation face large food gaps, which are either reflected in high acute malnutrition rates and excess mortality or are mitigated by use of emergency coping strategies. Around half of the total population identified in IPC/CH Phase 4 was found in four countries – Afghanistan, Yemen, the Democratic Republic of Congo, and the Sudan. The situation in Sudan is worsening every day since.

The report shows the impact of the war of Russia in Ukraine on food crises around the world, marked by the annual percentage increase (December 2021–2022) in the price of staple foods in GRFC-qualifying countries. The war in Ukraine has had an outsized impact on global food systems due to the major contributions which Ukraine and the Russian Federation make to the production and trade of fuel, fertilizers, and essential food commodities like wheat, maize and sunflower oil. The timing of the war also contributed to this impact as higher international commodity prices in the first half of 2022 compounded the macroeconomic challenges that countries continued to face after the COVID-19 pandemic. This was particularly true for GRFC countries/territories as they were more likely to be exposed to commodity market volatility given the fact that many of these countries held their positions as low-income net food importing countries.

The report indicates that although global food prices had fallen by the end of 2022, they remained well above pre-pandemic levels. Domestic food prices, by contrast, experienced an increase but have yet to decline. In fact, food prices increased in all GRFC countries/territories in 2022, with food price inflation being over 10 percent in 38 out of the 58 countries/territories with food crises by the end of the year. Their governments' abilities to mitigate risks and to insulate citizens from food price inflation through policy measures, such as stimulus payments and subsidies, were limited given their over-extended public budgets after the COVID-19 pandemic. Nearly all the countries whose currencies lost value at an abnormally fast rate in 2022 were GRFC countries/territories. The report shows that the food crises outlined in the GRFC are the result of interconnected, mutually reinforcing drivers – conflict and insecurity, economic shocks, and weather extremes. In 2022, these key drivers were associated with lingering socioeconomic impacts of COVID-19, the knock-on effects of the war of Russia in Ukraine, and repeated droughts and other weather extremes.

The report finds that the magnitude of people facing IPC/CH Phase 3 or above is daunting, but it is so that the scale is the factor that drives urgency. Earlier intervention can reduce food gaps and protect assets and livelihoods at a lower cost than late humanitarian response. Yet too often the international support comes too late. We saw that in Somalia, as the report reveals, the classification as Famine (IPC/CH Phase 5) has not materialized and was not expected in the first half of 2023 due to many factors, including slightly better-than-expected early 2023 agricultural production and scaled-up multisectoral assistance. It is so that the International Community waits for a Famine (IPC/CH Phase 5) classification before mobilizing additional funding. By this stage, livelihoods have already collapsed, lives and futures have been lost, and social networks are disrupted, with deleterious impacts on the lives of an unborn generation.

The report shows that the population in IPC/CH Phase 3 is already unable to meet their minimum food needs or is compelled to protect food consumption by engaging in coping strategies that will harm their future ability to access food and

to sustain their livelihoods. In IPC/CH Phase 4, households face large food gaps, which are either reflected in high acute malnutrition levels and excess mortality or are mitigated by using emergency coping strategies that severely corrode their wellbeing and livelihoods. The report argues that urgent action is needed for households in IPC/CH Phase 3 and Phase 4 to ensure immediate wellbeing, to support their ability to sustain themselves, and to protect families from making choices that are likely to lead to worse outcomes.

For policymakers in Africa, these insights are so important, as late interventions, after a country/territory is then classified as being in Famine, can only be of a reconstruction type as many livelihoods are already destroyed. The country experiences of the report are of great value for a timely intervention, so that feasible public policies and socially acceptable coping strategies can be combined. This study is an important read for all those actors who are interested to reduce the level of hunger in the world by sustainable actions.

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B: Reviews/Notes of Books and Reports from a Regional Perspective (Regional Studies)

Lafortune, G., Fuller, G., Bermont Diaz, L., Kloke-Lesch, A., Koundouri, P., Riccaboni, A. (2022). Achieving the SDGs: Europe's Compass in a Multipolar World. Europe Sustainable Development Report 2022. Sustainable Development Solutions Network (SDSN) and Sustainable Development Solutions Network (SDSN) Europe, December 2022. France, Paris. Link: <https://sdgtransformationcenter.org/reports/europe-sustainable-development-report-2022>, and: <https://s3.amazonaws.com/sustainabledevelopment.report/2022/europe-sustainable-development-report-2022.pdf>

The “Europe Sustainable Development Report” (ESDR 2022) aims to demonstrate the commitment of the European Union (EU) to the leadership on the realization of the SDGs and to contribute to the strengthening of the EU's leadership when implementing the SDGs at home and internationally. The report indicates that in the context of multiple health, security, climate, and financial crises, the SDGs remain the future for Europe and the world as wanted by the International Community. These crises represent major setbacks for the SDGs and for human development globally. Already before the pandemic, progress towards the SDGs was too slow and too uneven, both worldwide and in Europe. Since 2020 it has stalled. The global ramifications of the war of Russia on Ukraine are very likely to even undo progress achieved so far. Yet, in a context of increased geopolitical rivalries and fragmented multilateralism, the SDGs remain the only comprehensive and universal vision for socioeconomic prosperity and environmental sustainability adopted by all UN member states. Failures to implement the bedrock SDG principles of social inclusion, clean energy, responsible consumption, and universal access to public services will lead to a trend towards more crises. In a multipolar world, the EU should use the SDGs more than ever as a compass internally and in its worldwide dialogue and cooperation until 2030 and beyond. The 2023 United Nations' Heads of State Summit on the SDGs presents an opportunity for the EU to renew its strong commitment to the SDGs. At the mid-point in the implementation of the 2030 Agenda, it is now the time for the EU to rise to the occasion and to invest ‘whatever it takes’ – diplomatically, financially, and by means of cooperation and coherence – in the global common good, epitomized and documented in the 2030 Agenda and the SDGs.

The report indicates that the world needs an equitably shared fiscal space for investing in the SDGs. Meeting the SDGs is largely an investment agenda into human capital (including health, education and social protection) and physical infrastructure (such as clean energy or digital technologies). Globally, \$17 trillion USD were mobilized for the COVID-19 recovery, mainly in rich countries, yet it remains an open question as to what extent recovery funds have supported SDG

transformations, including the green and the digital transitions. The EU's own COVID-19 recovery funds face the same coherence challenge, as does its response to the energy challenges linked to Russia's invasion of Ukraine.

The report shows that the SDG Index and Dashboards for Europe provide an overview of the SDG performance of the European Union and of 38 individual European countries (including candidate and partner countries, such as the United Kingdom). The report highlights areas of achievement as well as opportunities for progress and uses the data to benchmark the progress of European sub-regions. The report also discusses the impact of COVID-19 on SDG goals and indicators and shows where there are signs of recovery. Due to time lags in data reporting, this year's edition does not reflect the impact of the Russian invasion of Ukraine, although the report discusses its potential implications in the short term. The report discusses the performance of European countries against the SDGs. The global and European SDG Indices show that SDG progress has stalled since 2019, and SDG progress in Europe has stalled since 2020. The SDG Index provides a measurement of human welfare that - by design - goes beyond GDP, by including 110 indicators covering social and economic prosperity and environmental sustainability. It also penalizes countries for outsourcing negative social and environmental impacts to the rest of the world through unsustainable supply chains and consumption or profit shifting and tax evasion. This year's SDG Index for Europe shows that the EU has made on average very little progress on the Goals since 2020. The COVID-19 pandemic and other international crises have in fact led to reversals in progress in many European countries, notably on SDG 1 (No poverty), SDG 3 (Good health and well-being), and SDG 8 (Decent work and economic growth). The EU has achieved, or is on track to achieve, around 66% of the SDG targets included in the Europe Sustainable Development Report (ESDR), yet progress has been limited on 20% of the indicators and is heading in the wrong direction on 13%. The EU faces its biggest challenges in the areas of responsible consumption and production and sustainable food systems (SDG 2 and SDGs 12–15). There are also important gaps in performance across countries on SDG 9 (Industry, innovation, and infrastructure). Inequalities within countries have increased in several countries over the past two years, as shown by the lack of progress at EU level on many dimensions of the 'leave no one behind' Index presented in this report. Finally, while they top the global SDG Index due to better performance on socioeconomic SDGs, European countries generate significant spillover effects on the rest of the world, notably through unsustainable supply chains. Achievement of SDG 17 (Partnerships for the goals) also faces significant challenges in Europe, partly because only four EU members have met the target of dedicating 0.7% of their gross national income (GNI) to official development assistance (ODA).

The report explains that promoting policy coherence for sustainable development is key to demonstrating and furthering the EU's credibility on the 2030 Agenda. The EU should lead international efforts to implement the 'SDG Stimulus', to promote climate justice, and to live up to the commitments of SDG 17 (Partnerships for the goals). This year's SDG Index shows that only two EU member states have achieved SDG 17 (Partnerships for the goals), and some are even moving backwards on concessional financing. Besides a massive scale-up in SDG financing, the EU should push for a major reform of global governance and international institutions, including the United Nations, the World Bank, and the IMF. By taking bold actions to strengthen international SDG financing, climate justice, and the UN system, the EU can rally other countries to its values centred on human dignity, freedom, democracy and the rule of law.

The report argues that the EU should ensure a pro-active and SDG-oriented foreign and security policy. The EU should avoid the trap of aligning all its external policies with the threats-oriented approach of its new Strategic Compass for Security and Defence, adopted in 2022, which makes no reference to the universal sustainable development agenda and fails to provide an adequate concept of partnership. The EU should also be vocal and rally support in the coming years around the importance of pursuing goal-based global development beyond 2030. The EU must develop and lead multilateral SDG and Green Deal diplomacy through multiple alliances and coalitions. The EU played a leading role in the adoption of the 2030 Agenda and the Paris Climate Agreement (PCA), and in 2019 it became the first regional organization to adopt a bold commitment to achieving net zero emissions (NZE) domestically by 2050. The EU should strengthen its cooperation on the SDGs with large emerging economies. Open dialogue and cooperation with China in areas ranging from the production and distribution of medical supplies and vaccines to infrastructure in Eurasia, as well as supporting a trilateral dialogue between the EU, China, and Africa will be particularly critical for global SDG progress. All these recommendations still wait for action.

The report proposes practical recommendations and five priority actions to accelerate the SDGs in the EU and internationally. These are jointly directed at the European Commission (EC) and the European Council leadership, the European Parliament, and the EU member states. The report recommends the EU to ensure that the 2023 EU voluntary review mechanism (VRM) includes three important elements: internal priorities; international spillovers; and international partnerships and diplomacy for the SDGs. The report discusses the EU commitment to the 2030 Agenda in the context of multiple health, security, climate, and financial crises, along with a renewed commitment towards achieving the SDGs in a multi-polar world. The report recommends the EU to prepare a communication or 'high-level EU SDG implementation strategy' to clarify how the EU aims to achieve the SDGs in Europe, including targets, timelines and roadmaps for environmental and social issues. It could also identify areas where existing policies need to become

more ambitious or coherent as well as areas where additional policies are needed. It could rely on a more operational SDG framework, such as the Six Transformations¹⁰. It can implement and reinforce the commitments made at the G20 Summits supporting the UN Secretary-General's call for an "SDG Stimulus" to address fiscal-space issues in developing countries and to push for the adoption of a global mechanism to share fairly the burden of financing human-induced climate-change adaptation and loss and damage costs among countries most responsible. The report recommends the EU to develop a new mechanism or renew the mandate of the Multi-Stakeholder Platform to foster a structured engagement with civil society, youth organizations, businesses, trade unions, and scientists on SDG policies and monitoring. This would also complement efforts to engage civil society at large in the Conference on the Future of Europe and would contribute to strengthening the inclusivity of EU institutions and policymaking while bolstering public support for the SDGs.

The "Europe Sustainable Development Report 2023/24" is the fifth report in the series and is on European Elections, Europe's Future and the Sustainable Development Goals, and includes the SDG Index for the European Union, its member states, and partner countries. The link to the report is under: <https://eu-dashboards.sdgindex.org/>, and for a direct download the link is:

<https://s3.amazonaws.com/sustainabledevelopment.report/2024/europe-sustainable-development-report-2023-24.pdf>. The report has a Part 1: Towards a new European Deal for the Future: Achieving the Sustainable Development Goals in a Fragmented and Multipolar World, with Ten priority actions for the upcoming European elections and the next leadership of the European Union, and a Part 2: Performance of European Countries Against the SDGs, with the SDG Index score over time, the 2023/24 SDG index ranking and dashboards for Europe, the Leave-No-One-Behind Index and convergence process in Europe, and the International Spillover Index. Annexed are the Methodology and Country Profiles.

For Africa, these two reports are very useful, as a basis for a better bilateral cooperation between the European Union (EU) and the African Union (AU), but also as a starting point for a trilateral cooperation between EU, China, and Africa. The new global and regional developments (BRICS Plus, the rise of the Global South, the re-election of Donald Trump as US president, the intensifying war of Russia against the Ukraine in Europe, the challenges for NATO, the security treaty

¹⁰ See on the Six Transformations: <https://www.unsdsn.org/resources/six-transformations-to-achieve-the-sustainable-development-goals-sdgs/>. The Six SDG Transformations are the modular building-blocks of SDG achievement: (1) education, gender and inequality; (2) health, well-being and demography; (3) energy decarbonization and sustainable industry; (4) sustainable food, land, water and oceans; (5) sustainable cities and communities; and (6) digital revolution for sustainable development.

of February 2022 between Russia and China, and the political fragmentation in the EU) make such new types of cooperation increasingly unavoidable. The reports contain a lot of recommendations how this can be established in Europe and in Africa.

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Foundation for European Progressive Studies (FEPS), "Progressive Yearbook 2023", Foundation for European Progressive Studies (FEPS), Brussels, Belgium, 217 pages, ISBN: 978-2-931233-01-6; Links: <https://feps-europe.eu/wp-content/uploads/2023/01/Progressive-Yearbook-2023.pdf>, and: <https://feps-europe.eu/publication/progressive-yearbook-2023/>

The Foundation for European Progressive Studies (FEPS) presents the fourth edition of the Progressive Yearbook after a year that was dominated by a single unexpected development: Russia's invasion of Ukraine. The report argues that this war has not only pushed various EU policies onto a new track, from defence to energy, but has also sent shockwaves around the rest of the world. The report shows that when we look back at 2022, the consequences of the major crises that took place still need to be assessed, including those of the COVID-19 pandemic. But it is already clear that there has been a major effect on global politics, where progressives have preserved principles and developed new concepts to defend international cooperation, to reform multilateral institutions, and to transform the world order so that effective solutions to the common problems of our societies are now found faster than in the past. The report argues that for this, the conservative barriers to progress need to be dismantled in thinking as well as in political struggles.

The Progressive Yearbook 2023 does not only look back but also forward, as it provides also predictions regarding some of the critical policies of the EU (on economic governance, migration, and the rule of law), and also regarding some of the regions near and far (the Western Balkan and South-East Asia). In addition, the Yearbook continues its series on country case studies, this time with Sweden (holding the Council presidency in the first half of 2023) and with Greece (where economic instability then gave way to political instability, with extraordinary elections being scheduled for the coming summer).

The Yearbook indicates that following a positive cycle of social democratic success in 2021, the dominant trend in 2022 became a shift to the right, and significant gains for the far right have occurred. However, both the Party of the European Socialists and the Socialist International have elected new leaders, which have now opened a new chapter in political action – a chapter of rebuilding our global movement and sharpening our messages to address the key concerns of humanity, from the cost-of-living crisis and the social inequalities to the issues of

climate change. The Yearbook shows that social democrats in the EU institutions are not starting 2023 from an easy position. The report indicates that, starting with the Progressive Yearbook 2023, the movement will contribute to fresh thinking and to a revitalisation of political activity, paving the way for successful European Parliament elections in 2024.

Regarding the structure the Yearbook starts by looking back focussing on the European Chronology 2022, on the European Progressive Observatory 2022, and on Europe in the shadow of war in Ukraine. Then the Yearbook discusses the progress in Europe, mainly, discussing the progressive Europe we want: “Internationalism is the antidote to the myopic politics of trenches and borders”. Next the report discusses the big issues, mainly the cost-of-living crisis and the dimensions of poverty in Europe, gives reflections on the energy crisis in Europe, on the rise and success of the anti-gender movement in Europe and beyond, on social inequalities in mental health in a post-pandemic Europe, and on information operations. Next the report concentrates on the national focus, mainly by focusing on a case study each about Sweden, Greece, and the EU. The Yearbook then concentrates on a global focus, mainly by focussing on a new global deal to transform the global order, for reshaping the global order, on the US mid-term elections, and on the consequences of political dysfunction. Finally, the Yearbook concludes with predictions for 2023, and mainly it presents predictions regarding the challenges of EU economic governance for 2023 and the migration in times of crises. The EU must abandon its crisis mode, needs to move forward with the Western Balkan enlargement, needs to work on the unfinished business, by navigating the great power rivalries of the 2020s and by exploring its Southeast Asia’s options.

For policymakers in Africa, this Yearbook is of some value to understand how the political landscape in Europe is changing, not only from the progressives to the conservatives, but also regarding the themes of political interest in the European Commission, the European Council, and the European Parliament. Therefore, the following reports are also of interest, such as the Yearbook editions for 2024 and the forthcoming one for 2025.¹¹ The case studies in these volumes give some insights how countries solve their problems within the EU.

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Friedrich-Ebert-Stiftung (2022), ‘The Return of the West: 30 Years of the End of History’, Friedrich-Ebert-Stiftung/FES, New York Office, December 2022.

¹¹ See on the new editions for 2024 and 2025 the links: <https://feps-europe.eu/publication/progressive-yearbook-2024/>, and: <https://feps-europe.eu/event/progressive-yearbook-launch-2025/>

34 pages. Link: https://ny.fes.de/fileadmin/user_upload/The_Return_of_the_West_online.pdf

The report indicates that thirty years ago, the political scientist Francis Fukuyama had argued that the end of the Cold War, the fall of the Berlin Wall, and the disintegration of the Soviet Union had signalled the victory of Western liberal democracy. The World was witnessing a conceptional ‘End of History’. The report shows that thirty years on, amidst Russia’s war on the Ukraine, many questions arise whether the global norms and the democratic principles indicated by Fukuyama will be upheld in the emerging multipolar global system. The report raises two major questions: What victory of Western Democracy? Are democratic values not being challenged both from within democracies and from outside? It is argued that at the same time, the political and military responses to the Russian aggression against Ukraine have given ample rise to speculation whether we are witnessing a potent ‘Return of the West’ as a united geopolitical actor.

The report explains that in 1992 Francis Fukuyama had advanced an argument in his milestone work, *The End of History and the Last Man*, that the end of the Cold War, the fall of the Berlin Wall, and the disintegration of the Soviet Union together represented the endgame of ideological conflict and the victory of Western liberal democracy. In late 2021, the Friedrich-Ebert-Stiftung (FES) and the Clingendael International Institute¹² reflected upon the state of these concepts with an eye toward organising an academic debate – thirty years on – of the state of the ideas raised in this influential and controversial publication. In so doing, they noted even before the Russian invasion of Ukraine that Fukuyama’s vision of the victory of Western liberal democracy and the cessation of ideological conflict was far from current reality. Thus, in its final form, the symposium ‘The Return of the West? 30 Years of the End of History’, jointly organized by FES and the Clingendael Institute, has focussed on three key questions. Firstly, can global norms and democratic principles be upheld in the emerging multipolar global system – and at times when democratic values are not only challenged from outside forces but, in many cases, also from within democratic societies? Secondly, will ‘universal values’ be strengthened or eclipsed by the war in Ukraine? And finally, is ‘the West’ returning as a geopolitical actor and, if so, in what form(s)? The notion of the ‘the Return of the West’ in public debate seems, predictably and not unjustifiably, based on the notable revitalisation of NATO. An organization that was previously pronounced as ‘obsolete’ (Donald Trump), as ‘brain dead’ (Emmanuel Macron), or was simply ignored by key leaders of the alliance (Angela Merkel), is obviously experiencing a remarkable renaissance. Even previously neutral European states, such as Finland and Sweden, are now set to join the club. Also, the European

¹² See: <https://www.clingendael.org/>

Union (EU) seems to be closing its ranks. In the process, even Central European nations, previously ostracised for their rule-of-law obstructions, have been increasingly exonerated. The EU is having a moment as a geopolitical entity, offering full membership to Ukraine on an accelerated pathway driven by geopolitical needs. *Zeitenwende* – the turn of the times – has become the keyword, acknowledging the need for new thinking on security and defence due to the shock of Russia's invasion of Ukraine.

The report shows that Fukuyama saw it as inevitable thirty years ago that Western liberal democracy, the last ideological phase of humanity, would prevail. His reasoning, according to Yasha Mounk (2022): 'Only liberal democracy affords individual citizens a great amount of leeway to live life in accordance with their predilections and an ability to determine their collective fate. This is the source of its lasting appeal, and the reason why history ultimately tends toward its triumph.' In predicting the ultimate ideological triumph of the West, a struggle foretold to be won by Western liberal-democratic civilisation, defending universal human rights and the rules-based order alongside a slow but steady trend towards 'enlightened' democratic consumerism, Fukuyama was not assuming stasis/stagnation, that from then onward events would stop occurring. On the contrary, he projected that the conflicts of history would be replaced by 'economic calculation, the endless solving of technical problems, environmental concerns, and the satisfaction of sophisticated consumer demands' (Fukuyama, 1989).

The essays in this collection explore questions of quality from different perspectives, but the objective is not answers, but rather questions, such as: What kind of 'West' has returned? Is 'the West' a geographic concept, a historical, or an economic one? Does it comprise all advanced economies? Or is it first and foremost a normative – or even civilizational – concept? And most importantly: What are the repercussions of these conceptional delineations? Each essay in this publication, in its own way, assesses the geopolitical repercussions of emerging trends and reflects on the consequences, especially for Western actors, whose core values are being challenged both from within and from without. The contributions are instead more like snapshots, written in the fog of the difficult here and now, yet cogently contributing to an urgent debate.

For Africa, this publication has some relevance. As we see now, the "Global South" is waiting with a definite answer how the war of Russia against the Ukraine may be assessed and finally judged. With BRICS Plus the Global South is even demonstrating strength in the sense of articulating an alternative, at least as an ambition. New global rules are discussed, on the financial architecture, on financing the climate change mitigation and adaptation efforts, on assessing dependence and independence, and on revaluing sovereignty and autonomy in the international system. Some changes are already coming forth, with the African Union (AU) as

a member of G20 and the G7, with discussions on the future role of the United Nations and the Security Council, etc.

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Reiners, W., and Turhan, E. (Editors) (2021), ‘EU-Turkey Relations: Theories, Institutions, and Policies’, Palgrave Macmillan, Springer Nature, Switzerland AG. 449 pages. Open Access. ISBN 978-3-030-70889-4/ISBN 978-3-030-70890-0 (eBook). Links: <https://www.idos-research.de/buchveroeffentlichungen/article/eu-turkey-relations-theories-institutions-and-policies/>, and <https://link.springer.com/book/10.1007/978-3-030-70890-0>, and: <https://doi.org/10.1007/978-3-030-70890-0>

This book discusses the relations between the European Union (EU) and Turkey. It argues that more than 60 years after Turkey’s application for an association with the European Economic Community (EEC), the relations between the EU and Turkey exhibit many unique features driven by persistent ambivalences, intricacies, and growing interdependencies across a wide array of issue areas. The book indicates that starting from a broad definition of EU–Turkey relations as ‘the totality of interactions within the international system’, the relationship extends not only to the disciplines of political science, economics, and history but also to legal and sociological aspects. The book argues that the mutual policy sensitivity between the EU and Turkey engenders costs and benefits for both sides across a broad spectrum of areas, including foreign and security policy, trade, migration, energy, and the environment. Beyond that, the EU–Turkey relations impact the wider neighbourhood and the global arena, be it the conflicts in the Middle East and North Africa (MENA) region, the Black Sea security and development agenda, the transatlantic security agenda, or the implementation of the United Nations (UN) 2030 Agenda for Sustainable Development. Building on their respective capacities, Turkey and the EU share the aspiration to shape regional and international developments and bodies alike. In this context, the EU–Turkey relations have facilitated cooperation among a broad set of actors, including state and non-state actors, which operate in a complex multi-level setup and within multilateral frameworks, like the North Atlantic Treaty Organization (NATO) or the Group of 20 (G20). Now Turkey is also approaching the BRICS membership as an associate.

The book indicates that the strategic importance of the EU–Turkey relations in (geo-)political, economic, and societal terms does not exhibit a clear, linear developmental path. Over many decades, the relationship has not only been a complex one but has also featured many stop-and-go cycles. There have been phases of rapprochement and progression, but also periods of indifference or regression — sometimes dominated by dynamic changes, sometimes by slow-moving developments, or by phases of stagnation. Moments of a deeper EU–Turkey cooperation

have thus been followed by periods when the actors drifted apart in non-concerted action — before new developments reminded them of the need to jointly manage their interdependence and, eventually, of their commonalities. Just now, the situation in Gaza, in Syria, in Israel, and in Iran, but also the war of Russia in the Ukraine which is ongoing since February 2022, bind the EU and Turkey together in so many strategic and actual political fields and actions.

The book shows that today, the ebbs and flows in EU–Turkey affairs have started to stagnate. While phases of estrangement have started to last longer, periods of consistent collaboration without major disruptions have practically disappeared. The book indicates the importance of understanding and re-assessment of the EU–Turkey relationship to generate novel reference points for an assessment of the future trajectory of EU–Turkey relations. At the same time, the volume goes beyond a mere update of EU–Turkey relations after critical junctures like the refugee ‘deal’. It is distinct from existing analyses because it examines the EU–Turkey relationship from three-dimensional perspectives: theories and concepts; institutions; and policies. A particular advantage of this design is the opportunity to combine and to contrast different angles of assessment.

The book is accordingly structured in three main parts to unpack the conditions under which the EU–Turkey relations have developed when looking from these three analytical and conceptual perspectives. The first part of the book, ‘Theories and Concepts’, puts together complementary and competing conceptual and theoretical approaches with distinct analytical frameworks to study the overall evolution of the EU–Turkey relations. The chapters cover approaches from major theoretical schools that are typically employed or referenced in EU–Turkey studies, as they show the evolution and key turning points of EU–Turkey affairs through the corresponding theoretical or conceptual spectacles and as they assess the strengths and the limitations of the respective approach in grasping and explaining the EU–Turkey relations. The second part of the book, ‘Institutions’, investigates the institutional machinery of EU–Turkey relations by analysing the roles and perspectives of the EU’s key institutions (European Council, European Commission, European Parliament) being relevant for agenda-setting, external action, enlargement, crisis management, and for the adoption of the European Union’s common norms and values in the context of EU–Turkey relations. The study of these institutions is imperative to get a full picture of the bilateral relationship. Cooperation and competition among them not only shape the Union’s policies; these considerably interdependent, ever-evolving institutions also link the EU to the international community. Finally, the third part of the book, ‘Policies’, aims to explain the EU–Turkey relations from the perspective of the issue areas being most relevant for the relationship: enlargement policy, trade and macroeconomic policies, foreign and security policy, migration and asylum policies, and energy policy.

These policy fields have been repeatedly prioritized in official EU and Turkish documents and statements over the past decade to show the importance of an EU–Turkey partnership. The chapters focus on the major dynamics behind the evolution of the respective policy over time and pay particular attention to phases and conditions of policy convergence and divergence.

This book offers comprehensive coverage and comparative analysis of the interactions between the EU and Turkey, it reveals similarities or differences across the preferences and instruments of key EU institutions in their engagement with Turkey, and it allows for an assessment of the role of institutional actors. It contrasts different periods of EU–Turkey relations, when and how cooperation has developed, and whereas progress might have stagnated in other fields at the same time. It also provides insights into the EU’s and Turkey’s relations with their neighbours and regional or global powers, and sheds light on the conditions for cooperation in international relations more generally.

As the EU and Turkey have a huge policy interest in cooperating with Africa, a trilateral cooperative approach could be beneficial for all the three partners. There are some attempts in this direction, but much more could be done, especially in building infrastructure in Africa. In some country cases (Sudan, North African countries, Sahel countries, East African countries) one can expect much more interest and intensity to develop new trilateral fora for cooperation. May be that such trilateral projects will also further the bilateral relationship between the EU and Turkey.

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Crawley, H., and Teye, J. K. (2024) (Editors), ‘The Palgrave Handbook of South–South Migration and Inequality’, Palgrave Macmillan Cham, Springer Nature Switzerland AG, 2024. Open Access. 765 pages. ISBN 978-3-031-39813-1 ISBN 978-3-031-39814-8 (eBook). Links: <https://doi.org/10.1007/978-3-031-39814-8>, and: <https://library.oapen.org/handle/20.500.12657/86892>

This Handbook examines the phenomenon of South–South migration and its relationship to inequality in the Global South, where at least a third of all international migration takes place.

The Handbook aims to improve the understanding of the nature of South–South migration in general, and its relationship to inequalities in particular. It moves us away from the frequently examined South–North and North–North movements to look instead at human mobility within the Global South, challenging dominant conceptualisations of migration and offering new perspectives and insights that can inform theoretical and policy understandings and will unlock migration’s development potential. It allows for a comparison of findings from different geographical areas, that allows consideration whether South–South

migration, in its forms and processes, outcomes and governance structures, is different from those seen in the Global North. The Handbook indicates that studying South–South migration allows for the testing and either affirmation or modification of theories developed by migration scholars in their effort to understand why people migrate, who migrates, where they choose to migrate to, and why and how well or poorly they integrate into the destination country. It also allows reconsidering the meaning and relevance of other social concepts and variables, and their relationship to other variables. It explains that although the relationships between migration and inequality are profound, they remain largely under-analysed in the context of the Global South, and indeed more generally. It aims to provide an in-depth investigation of the nexus between migration and inequalities by considering the factors behind inequality and migration using both qualitative and quantitative approaches.

The structure of the Handbook is divided into four parts (and it includes 32 chapters), each highlighting often overlooked mobility patterns within and between regions of the Global South as well as the intersectional inequalities faced by those who move. Chapter 1 provides an introduction about South–South migration and inequality. Part 1 (includes Chapters 2 to Chapter 7) focusses on conceptualisations of South–South migration. The contributors in Part 2 (includes Chapter 8 to Chapter 16) unpack “the South” in South–South migration by providing both an overview of migration patterns and trends across the regions of the Global South—Africa, Asia, and South America — and exploring the differences between them. Collectively these chapters highlight the existence of centres and peripheries within the Global South and the ways in which inequalities shape migration patterns and outcomes. Having explored South–South migration patterns and trends, Part 3 of the Handbook (includes Chapter 17 to Chapter 26) turns to the inequalities associated with migration, as it examines inequalities that are associated with poverty, gender, and race from an intersectional perspective. Finally, Part 4 (includes Chapter 27 to Chapter 32) explores responses to South–South migration, returning to a regional perspective to highlight the very significant differences that exist in migration policy approaches in Africa, Asia, and South America where histories of migration, relationships to the Global North, and governance structures vary significantly. The chapters also draw attention to the experiences and responses of migrants, including their ability (or otherwise) to access justice and rights and efforts to mobilise politically and to build new forms of transnational solidarity that bridge both geographical and sectoral boundaries.

The Handbook presents the international literature on international migration that overwhelmingly focusses on movements from the Global South to the Global North, but the orientation of this book is on analysing the South–South migration movements. The Handbook discusses the scale and importance of South–South

migration, and so it indicates a significant share of South–South migration in the global population movements. It shows that North–North and South–South migration showed surprisingly comparable volumes of international migration in 1990 and 2005, before a significant rise in South–South migration occurred in 2020. The Handbook shows that international migration within the Global South appears to be on the rise, and that there are more people migrating from one country to another within the Global South than there are people moving from the Global South to the Global North. In some places, almost all the migration is to a neighbouring country in the Global South. When combined with increasing border controls in Global North, it seems almost certain that intra-regional migration within Africa will continue to rise. Within the Global South, Asia-to-Asia migration, especially that related to migration from slower-growing developing Asia to faster-growing developing Asia, is most significant.

The Handbook shows that South–South migration has been a feature of societies across the Global South since the beginning of human history, however much of the documented history of migration is more recent and coincides with the creation of borders demarcating geographical territories from one another. The Handbook indicates that South–South migration has a long history, albeit under differing economic and political conditions. It shows that although South–South migration has always involved large numbers of people, the nature of these flows has changed over time. The Handbook discusses the different features characterizing South–South migration from South–North migration or migration between the countries of the Global North. It shows that South–South migration has various features that are particular, and reflect the very different social, as well as economic and political, contexts within which migration takes place. Firstly, contemporary South–South migration tends to take place over shorter geographical distances — often within countries or across immediate borders. This is mainly because the costs of migration are lower but also because of bilateral agreements between countries of the Global South. Secondly, South–South migration is often irregular and those who move become undocumented; the absence of documentation and of formal regulation of the flows means that estimations of South–South migration are likely far lower than the reality. Thirdly, a specificity of South–South migration is the nature of borders, as borders in the Global South have historically been less restrictive in terms of migration, not least because of weaker border enforcement capacities. Fourthly, the differences in the average composition of South–South compared with South–North migration flows are great, with the former being characterised by lower skills and lower educational levels (Hujo & Piper, 2007) and generally by a younger age, while the migrants from the south to the North have higher skills and better networks to survive in other cultural environments. A fifth feature is related to the conflict–migration nexus, which is likely to be more present in contexts of South–South migration (Jonsson, 2009). Finally, as the sixth feature, migration takes place in the context of family and community

structures which are often more important to decision-making than in the Global North where these processes are often more individualistic. Religion and spirituality (in varying forms) are also likely to play a more significant role.

The Handbook discusses the relationships between migration and inequality and indicates that there has been rather less focus on the relationships between South–South migration and inequality. The Handbook shows that the potential for migration to reduce inequality and to contribute to development is neither straightforward nor inevitable. Firstly, and perhaps most importantly, not everyone has access to the benefits of migration. The ability to migrate, and the conditions under which migration takes place, often reflects and reinforces existing spatial, structural, and social inequalities including those related to gender, nationality, race, age, and income. Secondly, increased barriers to migration, irregular and precarious journeys, poor labour conditions, and a lack of rights for migrants and their families, can create new inequalities. In other words, vulnerability and violence is not inherent to migration but is also created (or allowed) by states, for example, by refusing or failing to provide access to a legal status and documentation, by failing to provide access to safe and legal migration routes, or by choosing not to effectively regulate employers and businesses who exploit migrant workers. Dis-jointed and top-down policy and legal frameworks can also serve to dehumanise migrants by focussing on economic outcomes to the neglect of human experiences and well-being. Thirdly, the countries of the Global South are locked into unequal relations and unequal exchange with the Global North, and the unequal exchange is a major driver of underdevelopment and global inequality which limits the potential contribution of migration to development. The Handbook shows that the depth and extent of the inequalities facing migrants globally was revealed by the COVID-19 pandemic that served as an amplifier of existing inequalities, including those associated with migration. The pandemic severely disrupted access to the opportunities associated with migration, was undermining the potential developmental benefits and was creating new challenges for policy efforts aimed at securing improved outcomes for migrants and their families. The Handbook concludes that the relationships between migration and inequality are varying and sometimes contradictory. The Handbook indicates that understanding the relationships between South–South migration and inequalities in these contexts is a critical first step in harnessing the benefits of migration for development, and for the well-being of migrants and their families.

For African policymakers, the Handbook has a few very interesting chapters. In Part 2 there is in chapter 9 a useful survey on the dynamics of South–South migration in Africa. In chapters 10 and 11 there are analyses of South–South migration corridors in Africa (cases in East–South and West Africa). Relevant is also chapter 15 with an analysis on Chinese migrants in Ghana. Chapter 16 discusses

African migration to Latin America. Chapter 28 in Part 4 has a survey on policies towards migration in Africa. All these analyses have their lessons for policymakers in Africa. It can be learned that some forms of regulation can be helpful also to modify South-South migration in Africa with development benefits (conflict prevention, empowerment of women, social safety programmes in refugee camps, policies on entrepreneurship for migrants and access of migrants to land and work, better partnership on migration problems with international, regional and national NGOs. The greatest benefit is to learn from country experiences in the Global South how they manage the migration flows towards maximising the development benefits.

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UNICEF Office of Research – Innocenti (2022) ‘Monitoring the Social Costs of Climate Change for Low- and Middle-income Countries’. Innocenti Policy Brief series, Protecting and Transforming Social Spending for Inclusive Recovery, 2022-03, Florence, Italy. Link: <https://www.unicef.org/innocenti/media/3481/file/UNICEF-Monitoring-Social-Costs-2022.pdf>

This policy brief is monitoring the social costs of climate change for low- and middle-income countries. The policy brief aims to add to our understanding of what climate change means for social sector budgets, and the extent to which social sectors are being prioritized in the climate response. It shows ways in which green climate financing policies might help to address the widening social sector funding gap, mainly in areas that require risk-informed adaptation, while ensuring that adaptation measures do not disproportionately affect the poorest. It examines the predicted impact of the climate crisis on gross domestic product growth in low- and middle-income countries. It assesses the extent to which low- and middle-income countries are explicitly factoring in adaptation costs for the social sectors. It shows options for raising domestic and international climate financing for social spending aimed at children in low- and middle-income countries.

The structure of the policy brief includes five sections. Section 1 discusses the impact of the climate crisis on economies in low- and middle-income countries; it is analysed how a squeezing of the resource envelope for social sector investment can be avoided. Section 2 shows the increased investments required for climate change adaptation needed for the social sectors. Section 3 examines if social spending is sufficiently incorporated into climate change adaptation strategies, by looking at the cost of climate change to the health sector and the education sector, and at the costs of social protection to the climate change. Section 4 explains to what extent the adaptation costs for social sectors could be covered by climate finance pledges. Section 5 finally shows how domestic and international climate financing can be raised for social spending, looking at tools like green budgeting,

investing in prevention, forms of carbon pricing, energy subsidy reform, energy subsidies and equity, and green financing initiatives.

The policy brief argues that the impact of climate change is creating major socio-economic challenges for low- and middle-income countries, further exacerbated by the COVID-19 crisis, which tipped an additional 100 million children into poverty worldwide (UNICEF, 2021a). Adaptive, shock-responsive and risk-informed social policies are required to help prevent the climate crisis further increasing child poverty and undermining progress towards the Sustainable Development Goals (SDGs). However, it is essential that these policies are developed through inclusive processes that acknowledge the potential trade-offs between broader climate mitigation measures and development, while protecting the rights and livelihoods of the poorest and most vulnerable groups, and by ensuring an equitable and just transition. The costs of climate change are already becoming clear for economies struggling to recover from COVID-19: in 2021, the International Monetary Fund (IMF) cited climate change as a key threat to the global economic recovery. The IMF also stressed that climate action in the form of green development has the potential to expand the global economy if carbon prices were to rise steadily over the next decade (IMF, 2021). The policy brief shows that recent policy responses to COVID-19 have stalled progress on the move towards climate-friendly fiscal policies. The conflict in Ukraine has triggered a new challenge, placing pressure on energy prices due to increased gas and oil prices.

The policy brief argues that achieving an environment being fit for children will require investment in climate mitigation and adaptation across social sectors, including health, education and social protection services. Social sectors are already integrating critical dimensions to enhance their role in climate adaptation. Social protection systems will need to be strengthened further to prepare effectively for, to mitigate, and to respond to climate risks, while health and nutrition services face new and increasing environmental hazards.

The policy brief's key messages are that the climate crisis has had, and continues to have, a serious economic impact on the poorest countries, and adapting to the impact of climate change will bring added costs. Current estimates of adaptation costs do not include the significant climate bill facing the social sectors. It is crucial that future social sector spending requirements are adequately costed for and financed as part of climate financing mechanisms, including national climate change adaptation plans. Failure to invest adequately in the social sectors can exacerbate poverty and inequalities resulting from climate change and can undermine the potential contributions that these sectors can make to climate change adaptation and mitigation. Climate change disproportionately affects the poorest households and children, with poverty and the lack of access to such essential services as health, education, and social protection, thereby compounding the

negative impact of climate shocks. Adaptation measures need to be designed to support those groups most affected, based on a rights-based approach, with the effective involvement of disadvantaged communities. This policy brief identifies countries where social spending for children may be most at risk due to the combined socio-economic effects of climate change.

It is also shown that in the context of the often-competing priorities of mitigation, adaptation and development, low- and middle-income countries are facing a significant financing gap for planned adaptation measures. In the face of growing evidence of the potential of universal health, education, and social protection policies to help countries prepare for and to mitigate the worst effects of the climate crisis, international climate financing needs to consider enhancing allocations to the social sectors. The cost of inaction will be much higher. Investing in social sectors will be key to managing the effects of the climate crisis, and there are positive opportunities for low- and middle-income countries to be part of this investment. Developing countries now see the opportunity to leverage green technologies in new capital investments, potentially avoiding the costs of economic restructuring faced by industrialized countries. There is potential to reform energy subsidies equitably to bring in much-needed revenue and to support the groups most exposed to climate shocks. Green financing initiatives have the power to bridge more of the adaptation financing gap, while more intentional alignment of national budgets to climate and inclusion goals can make better use of existing resources. An urgent and concerted effort is needed to raise finance and investment now.

African countries have the greatest problems to stem the climate change adaptation and mitigation costs, and their social sectors are too often very weak, mainly because general administration at the central government level consumes a major part of social budgets (for education, health, and social protection purposes). While the policy brief is of a survey type, the figures on countries are revealing. So, we see in table 2 that among the 10 countries most affected by climate change impacts there are not less than 5 countries in Africa (Mozambique, Zimbabwe, Malawi, South Sudan and Niger). The highest losses as percentage of GDP has Mozambique (12.16 percent), followed by Zimbabwe (4.26 percent), Malawi (2.22 percent), while South Sudan and Niger have smaller losses (below 1% of GDP). These figures show that climate change operates unevenly, and so policy measures can be concentrated on the country cases with the greatest losses. Mozambique, South Sudan and Niger are very weak on the UNICEF Children's Climate Risk Index (CCRI) ranking, so that it is necessary to look at economic losses and the CCRI ranking to develop support mechanisms for social sectors. Table 5 shows the adaptation costs for the health sector of Ghana, and we see that the costs for the country are very high and that large parts of the cost depend on international support (conditional finance).

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United Nations (2022), ‘Social Expenditure Monitor for Arab States: Toward Making Budgets more Equitable, Efficient and Effective to Achieve the SDGs’, 206 pages, United Nations 2022: UN-ESCWA, UNICEF, UNDP; link: https://www.undp.org/sites/g/files/zskgke326/files/2022-11/FINAL%20REPORT_22-00020-SEM-16-11-22%20Final%20version%20Eng.pdf

(See also the essay number six in Unit 1 of this volume 24 of the African Development Perspectives Yearbook, as it clarifies the role of SEM for North African countries, especially for the case of Tunisia; UN-ESCWA staff has summarized the findings on the SEM for the North African countries specifically for this volume 24 of the Yearbook on “Fiscal Capacity and Domestic Resource Mobilization in Africa”).

This report on the “Social Expenditure Monitor for Arab States”, jointly produced by the United Nations Economic and Social Commission for Western Asia (UN-ESCWA), the United Nations Development Programme (UNDP), and the United Nations Children’s Fund (UNICEF), offers a pioneering assessment of public social policy spending in the region, asking where it is and where it needs to be. Going beyond the traditionally limited arena of social services and aligned with the broader vision of the Sustainable Development Goals (SDGs), the report maps Government-wide expenditures, providing insights on budget choices that can galvanize progress on the goals. It looks at increasing public expenditure efficiency and rebalancing priorities to improve social protection and to equitably deepen human capital, productivity and growth. The report argues that the role of public social expenditure in achieving macroeconomic objectives and SDGs is crucial, given that it underpins the well-being and economic potential of individuals and societies. It protects poor and vulnerable populations, stabilizes small and medium enterprises and economies, and enhances resilience to cope with and to recover from crises. Consequently, the report makes the case that public social expenditures should not be viewed as optional handouts from governments to people or simply as a financial cost, but rather as essential investments in human capital, as drivers of greater productivity, and as correctors of inequity.

The report includes seven chapters. Chapter 1 explains the importance of public social expenditure, and it shows that in the wake of the devastating COVID-19 pandemic and amid global macroeconomic uncertainties, including the spillover effects from the war of Russia in Ukraine, inflationary pressures and the climate crisis, adequate, equitable and efficient social spending is more important now than ever. Fiscal policy aimed at reducing poverty and inequality can both spur

growth and can accelerate social justice and human well-being. The Social Expenditure Monitor (SEM) helps to optimize links between expenditure choices and macroeconomic objectives. The SEM presents a new framework for measuring social expenditures in the following seven dimensions by capturing critical social development priorities aligned with the SDGs: education; health and nutrition; housing, connectivity and community amenities; labour market interventions and employment generation; social protection, subsidies, and support to farms; arts, culture and sports; and environmental protection. Chapter 2 discusses the issues of measurement to guide smart spending, and it explains that on average, public social expenditure in the Arab region, as a share of GDP, is lower than the global average. Arab Governments devote about 8 per cent of GDP to health, education and social protection, compared with the world's average of 20 per cent. Total social expenditure, capturing the seven dimensions of the SEM, varies across Arab countries between 10 to 20 per cent of GDP. Social spending is dominated by current expenditures, limiting prospects for capital spending. The SEM shows shortfalls in critical areas of social spending that build capacity among young people, that promote start-ups through labour market support, that generate jobs, that incentivize creativity in arts, culture and sports, and that build resilience through greening and protecting the environment. It is necessary to reprioritize public budgets and to steer allocations to critical social policy areas and to the neediest populations. Governments should therefore consider a balanced mix of expenditures. In many cases, this will involve improved targeting of public transfers to social protection programmes addressing poverty and vulnerability of social groups; this also involves investing in human capital that drives greater productivity and economic growth. Chapter 3 focusses on spending choices and equity; it indicates that Arab countries are generally not spending enough on social sectors. The COVID-19 pandemic has had a mixed impact on the adequacy of social spending by sector. Public spending in areas such as health, education, and social protection is inadequate compared with established international benchmarks and comparable regions. Governments should urgently protect and expand, where possible, budgetary allocations to the social sector, which are critical for investment in human capital and ensuring an inclusive post-COVID-19 recovery. Social sector financing in the Arab region depends largely on inequitable financing mechanisms, where the contribution of publicly pooled resources to social sector financing is lagging the global average. Public funding pools should be promoted as the most equitable fund-raising mechanism, with an emphasis on progressive and effective tax systems. Private financing mechanisms can also be utilized to complement the drive for improved equity in access and outcomes. Distribution of social sector benefits, in terms of access and outcomes, tends to be pro-rich. Governments should prioritize the design of social sector policies that aim to benefit poor populations the most, by using research on the services most utilized by vulnerable groups to aid service provision decisions. Focus should be on reducing user fees

for essential services across health and education, while innovating social insurance schemes for vulnerable groups should be explored. Chapter 4 argues for making money work efficiently, as it shows that the overall efficiency of social expenditure in the Arab region is lower than at the global average. Education, housing, and environmental protection are identified as areas where Arab countries have significant inefficiencies that can be eliminated. It is vital to assess the efficiency of public social expenditure, to minimize wastage and to improve investment in development priorities. It is necessary to improve monitoring and governance of social programmes, and to modernize the public transfer system to ensure transparency, to provide efficient and quality service delivery, and to better target vulnerable populations. Chapter 5 focusses on enhancing social expenditure and fiscal sustainability, and it shows that the debt and liquidity challenges are apparent in the region's inability to effectively respond to the COVID-19 pandemic fallout, let alone to jump-start a resilient recovery. Fiscal stimulus was low during the pandemic, both compared with the global average and given the needs arising from dramatic losses in income and jobs and from the strict pandemic containment measures. Credible fiscal frameworks should be developed over the medium term for revenues and expenditures. It is important to improve domestic revenue mobilization by increasing tax collection that should involve investing in quality public services. Chapter 6 discusses the management of public finance to achieve social goals, and it argues that public financial management (PFM) extends to all aspects of managing public resources. It informs policymaking and provides instruments for its implementation. Strong PFM enables sustainable development and inclusive growth through reliable and well-executed budgets, greater spending efficiency, and allocative effectiveness. Because of weaknesses in PFM systems, Arab countries are at risk of misguided fiscal policy decisions and derailed implementation plans in achieving the SDGs. A deep PFM reform is a pressing priority for Arab countries, and key areas for PFM reform in the Arab region are identified to enhance the management of investments in social sectors. Chapter 7 is on an agenda for equipping budgets to achieve the SDGs. Eleven key recommendations are presented to align the SEM for Arab countries with the SDGs. All these eleven strategic recommendations are relevant for Arab countries of different development characteristics.

The report therefore offers various important findings that are highly relevant for policymakers at this critical juncture of the post-COVID recovery. It details how public social expenditures in Arab countries can be enhanced in terms of adequacy, equity, and efficiency. Public budgets are advised of targeting vulnerable population groups, including children, people living with disabilities, refugees and immigrants; social groups should be supported who are facing intense pressures, both cumulative over time and resulting from recent events. Addressing inequality,

vulnerability, and low productivity, and stimulating more social mobility, require expanding the coverage and the quality of services, and demand the development of social security mechanisms also for workers in the informal sector and for older persons being outside the formal pension system.

Even before the COVID-19 pandemic, already the limited fiscal space of Arab countries was under increasingly intense pressure. Today, fiscal space has been further tightened by pandemic responses and by concurrent global shocks from rising inflation and interest rates. Arab countries are therefore facing difficult questions around enhancing social expenditures, while maintaining fiscal sustainability. Nonetheless, solutions that extend beyond the status quo are within reach. Based on the evidence, the report stresses that “enhancing” not only means spending more but also spending smarter. The Arab region could greatly benefit from efficiency gains in public expenditure, allowing countries to save significant resources while achieving the same outputs, or to channel savings into potentially greater output results. There is also a strong call for prioritizing equity in social spending, which entails considering the equity implications of how resources are raised and spent to benefit the poorest and most vulnerable social groups.

The report argues that better monitoring and assessment of social policies, improved allocation of public expenditures to vulnerable populations and overlooked sectors, and sound public finance management (PFM) can all go far in steering social expenditures that contribute most effectively to sustainable and inclusive development. The report’s recommendations can support Arab countries in devising budgets which are equipped for making powerful and lasting contributions to recovery and to the SDGs. It can offer ways to make public budgets work for the well-being of all people across the region. Although relevant for Arab countries and also the north African countries, the SEM tool is also relevant for other African countries south of the Sahara. In essay 1 and essay 6 of Unit 1 of this volume 24 we can find such references for other African countries.

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United Nations Economic and Social Commission for Western Asia (UN-ESCWA) (2022), 'Arab Food Security: Vulnerabilities and Pathways', Document E/ESCWA/CL1.CCS/2020/1, United Nations, Beirut, Lebanon, 70 pages. Link: <https://www.unescwa.org/sites/default/files/pubs/pdf/arab-food-security-vulnerabilities-pathways-english.pdf>

This report focusses on Arab food security, by addressing vulnerabilities and pathways, and it provides sound analyses on food security and nutrition in the Arab region. The report outlines an appropriate course of action through an assessment of challenges, and with an outlook towards 2030. The report indicates that over the last decade many Arab countries have experienced a range of crises, including sociopolitical unrest, armed conflicts, and devastating economic downturns, driven by fluctuating oil prices and currency devaluations among others. The report indicates that political instability has increased and has challenged food stability, while climate change and poor infrastructure in general hinder food production and food supply. It is argued that the COVID-19 pandemic has added to many challenges that have prevailed for decades in the Arab region, including rapid population growth, conflicts and population displacements, poverty and unemployment, food insecurity and malnutrition, and high dependence on external food markets in an environment of growing scarcity of water and arable land. The COVID-19 pandemic thus found fertile ground for weakening the food supply situation and exacerbated the many vulnerabilities of the region, notably within its food system. People's livelihoods and health were harmed, and state budgets were further weakened, challenging the capacity of many middle- and low-income countries to respond accordingly. The report explains that food needs of the Arab region are underpinned by regional and global trade connections and accordingly require a sustainable, well-functioning food system that generates incomes and builds livelihoods while preserving the environment in a situation of fast depleting and degrading natural resources. The COVID-19 pandemic and the measures adopted to stem its spread upended the functioning of food markets. The crisis deepened food security concerns and increased uncertainty faced by policymakers. The disruptions during the pandemic necessitate actions beyond governments, notably by businesses and civil society, which could be pushed to be more flexible and agile in their responses and assume further social and health responsibilities.

The report sheds light on how COVID-19 has impacted food security in the region while highlighting the weaknesses and vulnerabilities underlying local, national and regional food systems and their susceptibility to shocks. Throughout, the report provides options to respond to rising food insecurity, to address the actual status of food and nutrition, to reduce vulnerabilities, and to respond to COVID-19, with a view to highlighting alternative ways to enhance resiliency to

future shocks. In addition, the report informs policymaking and programme planning, and it assists countries to move more confidently towards the achievement of the Sustainable Development Goals (SDGs), particularly as related to SDG 2, along with other targets and indicators supporting the achievement of food security. This report examines the fragility of the region's food security prior to COVID-19 along the four dimensions of availability, utilization, access, and stability. It uses the Arab Food Security Monitoring Framework (AFSMF) as its basis for analysis. The analysis covers the regional, subregional, and country levels.¹³ The impacts of COVID-19 are considered in terms of effects on people's ability to access sufficient and nutritious food. This analysis is needed given rising concerns around the capacity of the region to absorb the fallout of COVID-19 and similar shocks that may arise in the future, especially within a challenging fiscal situation. Vulnerabilities which are limiting the resilience of food security in the region are many, and COVID-19 disruptions are anticipated to add to their pressures, notably those related to rising natural resources scarcity, socioeconomic challenges, import dependency, and protracted conflicts. The disruptions during the pandemic necessitate actions beyond governments, notably by businesses and civil society, which all have a role to play in the response to COVID-19.

As for the structure the report is organized in four sections. Section I of the report examines the fragile food security status pre-COVID-19 at the regional and subregional levels. It defines and elaborates food security trends across the region, focusing on each of the four pillars (availability, access, sustainability, and stability), and closely explores the variables within each. The section ends with suggested interventions to address food security gaps and challenges, and to enhance food security. Section II describes the pandemic and examines its overall impact on the food sector globally and in the region. It examines the disruption of food availability, supply and nutrition. Key policy responses and options are provided to support interventions to address the fallout of COVID-19 for food systems. Section III explores vulnerabilities that impede food security. These encompass the rising scarcity of natural resources, primarily water and arable land, due to over-exploitation and degradation as well as harsh climatic conditions. Socioeconomic pressures, such as population growth, urbanization, high unemployment, and poverty, as well as low investment in agriculture are also highlighted. Given its limited resources, the region depends on trade to ensure its food supply, which puts

¹³ The analysis covers the regional, subregional, and country levels. The report refers to four subregions or country categories: A) Gulf Cooperation Council (GCC) countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. B) Least developed countries (LDCs): Comoros, Djibouti, Mauritania, Somalia, and the Sudan. C) Middle-income countries (MICs): Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia. D) Countries in conflict (CiC): Iraq, Libya, the State of Palestine, the Syrian Arab Republic, and Yemen.

countries at the mercy of volatility within global food markets. The challenge of climate change, which amplifies the rising scarcity of natural resources, and the impact of protracted conflicts in the region further affect food security. The section ends by proposing actions to enhance food security and resilience. Finally, Section IV summarizes lessons from the COVID-19 pandemic in the region and provides ways forward for countries to enhance resilience to shocks and to strengthen all dimensions of food security. In sum, the report provides readers with a good understanding of factors affecting food security in the region before and during the COVID-19 pandemic, recognizing that the impacts are still unfolding. It outlines responses to mitigate challenges associated with food security, such as supporting integrated policymaking at the national level, still not working in most of the Arab countries, and enhancing regional cooperation on food security, also being a central challenge for all Arab countries.

The report's key finding is that prior to COVID-19 the region was plagued by high levels of food insecurity and the prevalence of both undernourishment and obesity: 116 million people faced food insecurity, 43 million people were undernourished, and 115 million people were obese. There are major differences between subregions and country categories. The report indicates that the region is underperforming in all key food security dimensions: In terms of food availability, the wheat yields are insufficient (less than 50 per cent of the potential), and government expenditures on agriculture are low, among other key dimensions affecting availability. In terms of food access, the region is challenged by high and increasing poverty (29 per cent); high unemployment, particularly among women and young people at 20 per cent and 26.5 per cent, respectively; high inflation rates reaching over 45 per cent in Arab low-income countries and this in a situation of high household expenditure on food of 31 per cent. In terms of food utilization, access to basic drinking water and sanitation services are low in Arab low-income countries at 60 per cent and 40 per cent, respectively, and there are high rates of child stunting (22 per cent) and wasting (8.2 per cent) as well as anaemia among women of reproductive age (35.5 per cent). Sustainability and stability of the food systems are reduced by these key dimensions of the food systems (availability, access, and utilization).

The report indicates that there is an urgent need to address food security gaps and challenges. The region will need to act on key issues at the regional and national levels. These will include enhancing trade of agriculture products to secure imports, facilitating exports, and fostering inter-regional trade; re-examining the use of food subsidies, particularly for wheat and sugar in view of their negative impact on nutrition, and promoting value addition in agriculture; making value chains more efficient and resilient; and ensuring greater cross-sectoral cooperation and coordination to address the challenges of the region's food systems, from

production to consumption. Governments will need to assess the effectiveness of their social safety net programmes in view of the pandemic to better cover the most vulnerable people and to draw lessons in terms of critical bottlenecks in the food value chain and for access to inputs and markets. Improvements are critically needed in the collection, availability and dissemination of data to ensure evidence-based policymaking. The rapid spread of COVID-19 worldwide forced countries to enact restrictive measures that interfered with productive activities. This negatively affected food security and the food sector in general. Certain measures directly affected food availability, such as restrictions on exports of certain food items. The impacts of other measures were indirect, such as border closures, movement restrictions including on farm labour, and the closure or reduced working of key components of the economy, such as restaurants, schools, offices, and other institutions. While workers from various sectors worked from home, the vital food sector needed to continue working on the ground. Urgent protective measures were required for farms, food-processing industries, and wholesalers and retailers.

The report finds that the pandemic hit the Arab region at a time of already critical and challenging sociopolitical, economic, and food security constraints, thereby revealing weaknesses in regional food value chains. The greatest impact on food accessibility, however, arose from increased unemployment and poverty. Regional unemployment is projected to reach 15 per cent by 2022, while poverty rates are also expected to increase, and with the impacts still unfolding, uncertainty remains high. Countries need to assess food security and the food sector at the national and local levels to identify needed actions. They also need to strengthen the resilience of the sector while considering the critical role of coordination and cooperation in national actions. The report explains several avenues to enhance the resilience of supply chains to pandemics and other crises, including through the diversification of procurement channels for key food commodities and the adoption of trade facilitation mechanisms. Actions also include increasing food storage capacity at the national and subnational levels. Regional collaboration is critical for enhancing the movement of food and agricultural workers across borders and managing food stocks (notably wheat and cereals) to better manage risks.

The report indicates that addressing food security in the region requires vision and governance mechanisms that enhance the agility, robustness, and functioning of food systems for all. This objective should be embraced by countries and all actors at the regional, subregional, national, and community levels. They should aim to ensure that resilience starts with mitigating regional vulnerabilities through careful assessments, followed by prevention programmes to identify early signs of shocks, and to guide quick action to minimize impacts on food security. The report explains that in the short to medium terms, governments are expected to prioritize addressing macroeconomic difficulties, such as currency devaluation, poverty and unemployment, insufficient social safety nets for the poor, and the high levels of food subsidies, while also acting on natural resource constraints by investing

heavily in technological innovations. In the medium to long term, the private sector needs to focus on food processing to aid the development of a profitable, sustainable, and inclusive regional food industry, and to advocate for further trade liberalization. Developing a monitoring system for food prices, food production, export potentials, and market access will further assist the region in enhancing food security.

The report finds that among the key issues to address urgently a first priority is to ensure that food is available and accessible by all population groups, which implies that food supply chains are working as intended, and that the necessary infrastructure is in place, together with appropriate incentives to ensure that food reaches people and markets everywhere. Also, a second priority is it to promote nutrition programmes to avoid under- and overnutrition through well-balanced diets, while also avoiding excessive food losses and waste, which could further worsen the situation of food insecurity. A third priority action is on leveraging the existing resources at the country and community levels to address rising problems, and to distribute and to reallocate the limited resources. The study is not only relevant for North African countries but has also important lessons for African countries south of the Sahara. The four dimensions of availability, access, sustainability, and stability of food systems refer to all food value chains which supply the various social groups in African countries.

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Food and Agriculture Organization of the United Nations (FAO), IFAD, UNICEF, WFP, WHO & UN-ESCWA (2023), Near East and North Africa – 2022 Regional Overview of Food Security and Nutrition, Trade as an Enabler for Food Security and Nutrition. Cairo, Egypt: 2023. 184 pages. ISBN 978-92-5-137711-6 [FAO]. Access for Download: <https://doi.org/10.4060/cc4773en>, and: <https://openknowledge.fao.org/items/d0c949f1-612c-40f0-915c-00faa5987609>, and: <https://openknowledge.fao.org/server/api/core/bitstreams/c0f548e0-06ae-4788-8a18-56fc3bcb807a/content>

The 2022 Near East and North Africa Regional Overview of Food Security and Nutrition report provides an update on the progress made in the Arab States towards Sustainable Development Goal (SDG) 2 with targets related to hunger, food security, and nutrition, as well as the progress made towards the 2025 global nutrition targets set by the World Health Assembly (WHA). It also discusses the important role of trade as an enabler for food security and nutrition in the region. This report examines the food security and nutrition situation in the Arab/Near East and North Africa (NENA) region. It discusses how international trade can enhance food security and nutrition in a region that is experiencing an array of

external shocks. The COVID-19 pandemic has revealed fragilities in agrifood systems, exacerbated inequalities, and has increased global hunger and malnutrition. The region was already off track to achieving the hunger and nutrition-related Sustainable Development Goal (SDG) targets before the pandemic occurred. The ongoing war in Ukraine is also further disrupting supply chains and is inflating grain, fertilizer, and energy prices. Since the region depends heavily on imported food to meet its food security requirements, these crises have affected Arab countries disproportionately. The pandemic and the war in Ukraine have made apparent many vulnerabilities in global food supply chains.

The report is structured in two parts. Part 1 of this report focusses on trends and statistics, as it presents the latest detailed statistics on the region's food security and nutrition situation. Part 1 of this report provides a clear explanation for how trade can help to achieve the SDG 2, i.e., how trade can enhance food security and nutrition in the region. Four chapters highlight the issues of Part 1 on the Trends and the Statistics. Chapter 1 presents statistics related to SDG 2.1 on undernourishment and moderate and severe food insecurity, while Chapter 2 highlights concerns related to SDG 2.2 with figures and trends in four global nutrition indicators: stunting, wasting, overweight in children under 5 years of age, and anaemia in women aged 15 to 49. Chapter 3 evaluates progress toward three additional global nutrition targets that the World Health Assembly (WHA) endorsed, such as exclusive breastfeeding, low birthweight, and adult obesity. Chapter 4 provides a first assessment of the cost and affordability of a healthy diet in the region since the outbreak of the COVID-19 pandemic.

In Part 2 on "Trade as an Enabler for Food Security" there are also four chapters. Chapter 5 shows that the region faces multiple food security and nutrition-related challenges. It has limited land and water endowments and a rapidly growing population, making the region highly dependent on trade and international commodity markets. The chapter also elaborates on how the COVID-19 pandemic and the war in Ukraine, with their associated economic and trade repercussions, have affected food insecurity, malnutrition, and the cost of healthy diets for revealing the region's many vulnerabilities to global supply and price shocks. The chapter also elaborates more on the role and some examples of trade-offs in the Arab region's agrifood systems transformation. Chapter 6 discusses the regional situation on food production, supply, and trade to assess food production, food supply, agrifood trade, import dependency, and vulnerability to shocks in the NENA countries. Chapter 7 examines the role of trade in enhancing food security in the Arab region; considered are the trade as an important enabler of food security and nutrition and the evolution of the policy and regulatory framework linking food security and trade in the NENA region. Chapter 8 provides the conclusions and policy recommendations.

Part 1 of this report stated that the Arab region is not on track to achieve Zero Hunger (SDG 2) by 2030, as hunger and food insecurity have continued to increase

in the region due to various factors, including the COVID-19 pandemic. The report shows that food insecurity and malnutrition are growing challenges in the Arab/NENA region, which is not on track to meet Sustainable Development Goal (SDG) 2, Zero Hunger. The triple burden of undernutrition, micronutrient deficiencies, and overweight and obesity is accelerating. The report shows that the Arab States continue to face significant challenges in achieving both SDG target 2.1 – ensuring regular access to sufficient, safe and affordable healthy food for all people – and SDG target 2.2 – ending all forms of malnutrition. The report shows that estimates from 2021 show that 54.3 million people in the region, or 12.2 percent of the population, are undernourished. This is a 55 percent increase over 2010, before the region experienced the major shocks of popular uprisings and conflicts. The COVID-19 pandemic, which hit the region in 2020, caused hunger to surge across the region, affecting countries of all income levels regardless of being affected by conflicts or not. Moderate or severe food insecurity has also continued its upward trend, affecting an estimated 154.3 million people in 2021, up from 142.7 million in 2020 – an increase of 11.6 million people over the previous year. The number of food insecure people has been rising steadily since 2014, and in 2021 an estimated 34.7 percent of the region’s population was moderately or severely food insecure and deprived of regular access to sufficient food and nutrition. The number of people exposed to severe food insecurity in 2021 was estimated at 53.9 million, an increase of 5 million from the previous year. Furthermore, the region continued to suffer from multiple forms of malnutrition, including stunting, wasting, overweight among children, and obesity among adults. Around 162.7 million people in Arab countries could not afford a healthy diet in 2020. The war in Ukraine and its effects on international agrifood markets with supply shocks and increasing global food and energy prices are further exacerbating the food security and nutrition challenges of the region, which is highly dependent on imported foodstuffs, including wheat and fertilizers from the Black Sea region.

Part 2 on “Trade as an Enabler for Food Security” of this report has also four chapters related to this issue. It is shown that trade plays an important role in food security, that it presents a significant opportunity as an enabler to achieving the four dimensions of food security and for supporting progress towards achieving the SDGs in the region. However, most of the countries have not mainstreamed trade into food security policies; thus, relevant policies must be redesigned accordingly. The potential for enhancing intra-regional trade is also an area that needs attention, especially considering the recent shocks in food supply chains. The report shows that the region relies heavily on imports to meet food security requirements, and almost all the countries are categorized as net food importers, but some countries export a sizeable quantity of food. This means that international trade plays a vital role in food security in the region. Since the region relies on global

markets to import food, it is more exposed to external shocks. The war in Ukraine and the consequent decrease in exports of food and fertilizers from the Black Sea region has increased the vulnerability of food supply chains in the Near East and North Africa (NENA) region. To reduce the exposure to such external shocks, international trade must be carefully managed, sources of imports should be diversified, and international trade relations must be expanded to include new partners and markets.

The report presents evidence that Arab States face significant challenges in achieving SDG 2 targets related to hunger, food security, and nutrition, as undernourishment, moderate or severe food insecurity, and malnourishment are increasing. Child wasting and overweight are higher, and adult obesity is double the global average. LDCs and conflict-affected countries suffer from even more severe hunger and malnutrition, including child stunting, wasting, and women's anaemia. The report also provides the first assessment of the cost and affordability of a healthy diet since the outbreak of the COVID-19 pandemic, which shows a growing trend in the price of nutritious diets in recent years and that more than half the Arab population cannot afford a healthy diet. The war in Ukraine, which has triggered food shortages and increased food price inflation, further adds to the burden on the region. The report finds that given the current situation and challenges, such as climate change, conflicts, the COVID-19 pandemic, and the war in Ukraine, along with structural issues such as poverty and inequality, the region is unlikely to achieve zero hunger (SDG 2) by 2030. Recent food supply chain problems alongside increasing food prices could worsen the food security situation.

This report concludes with some recommendations. In countries where domestic production is low, yet the diversity of imports is high, trade instability and challenges with food security and malnutrition are less likely. Thus, policymakers are encouraged (i) to reduce trade barriers, to facilitate trade including through digital technologies, to harmonize non-tariff barriers, to improve transparency, to strengthen governance, and to coordinate trade policies; (ii) to develop new free trade areas and/or to expand the commodity and product coverage of existing ones; and (iii) to promote collaboration and coherence among countries and the global community. The NENA region must improve agrifood systems to deliver food security and better nutrition for all, to be economically sustainable, to be inclusive, and to have a positive impact on climate and the environment. The report shows that, if the region is to mitigate the current challenges and to get back on track to meet food and nutrition targets, agrifood systems in the area must be transformed to make them more efficient, inclusive, resilient and sustainable, and trade must be better integrated into food security policies in the region.

For African policymakers and researchers, the report is useful to read, not only for those in North African countries, but also the responsible staff in Sub-Saharan African (SSA) countries can benefit from some recommendations. Integrated policies play a role, holistic programmes matter, and open and competitive markets

are relevant. New technologies and scientific advances are of great relevance to assess the demands and supplies along the agrifood value chains. The fact that various international organizations cooperate on such important food market assessments, like FAO, IFAD, UNICEF, WFP, WHO, and ESCWA, is a good sign. For SSA countries, UNECA, the AUC, and the AfDB are key partners.

Professor Samia Nour, Khartoum/Fulda and Professor Karl Wohlmuth, Bremen

Roberts, T., and Bosch, T. (Editors.) (2023), ‘Digital Citizenship in Africa, Technologies of Agency and Repression’, Africa, Asia and Latin America Studies 2023, Bloomsbury Open Access, London, Zed Books, Digital Africa, First Edition, 257 pages, ZED: London et al., ISBN: HB: 978-1-3503-2446-6/PB: 978-1-3503-2445-9/ePDF: 978-1-3503-2448-0/eBook: 978-1-3503-2447-3, Published Online: 23 May 2023, Link: <https://library.oapen.org/bitstream/handle/20.500.12657/63749/9781350324480.pdf?sequence=1&isAllowed=y>, and: <https://library.oapen.org/handle/20.500.12657/63749>

This book discusses digital citizenship in Africa, with a view on technologies of agency and repression. It shows that since the so-called Arab Spring, citizens of African countries have continued to use digital tools in creative ways to ensure that marginalised voices are heard, and to fight for the rights they are entitled to in law, such as the rights to freely associate, to form opinions, and to express them online without fear of violence or arrest. The authors of this compelling volume have brought to life this dramatic struggle for the digital realm between citizens and governments, by documenting in vivid detail how citizens are using mobile and internet tools in powerful viral global campaigns to hold governments accountable and to force policy change. The potential of digital technologies is made relevant for the political conditions in Africa, by looking at country cases (Nigeria, Ethiopia, Zambia, and Namibia) and at specific aspects of digital technologies (Internet Shutdowns and Counterstrategies of the civil society, African languages and digital technologies).

With contributions from scholars across the continent, this book on digital citizenship in Africa illustrates how citizens have been using VPNs (Virtual Private Networks), encryption technologies (newest technologies to limit decoding of information only to authorized persons and institutions), and privacy-protecting browsers (Browsers with integrated VPN) to resist successfully limits on their rights to privacy and political speech.

This book dramatically expands our understanding of the vast and growing arsenal of technology tools, tactics, and techniques now being deployed by repressive governments to limit the ability of citizens to safely and openly express opposition to government and corporate actions. Artificial Intelligence (AI) plays an

increasing role in this context. AI-enabled surveillance, covertly deployed disinformation, and internet shutdowns are documented in ten countries, concluding with recommendations on how to curb government and corporate power, and how to re-invigorate digital citizenship across Africa.

The book has eight chapters. After the Introduction in chapter 1 there is an essay in chapter 2 on ethno-religious citizenship in Nigeria, while chapter 3 is an essay on continuity and change of digital citizenship in Ethiopia. Chapter 4 is an essay on the role of Internet shutdowns to repress free opinion. Chapter 5 comes back to Nigeria with an essay on feminist digital citizenship. Chapter 6 is on Zambia with an essay about digital citizenship and cyber-activism to use social networks for reaching and gathering followers, for broadcasting messages, and to support movements. Chapter 7 is on Namibia's election of 2019 to investigate the digital citizenship and the political accountability. Chapter 8 is an essay on citizenship, African languages and digital rights.

This book is important for so many social groups in Africa, especially for journalists, publication media, politicians, digital tool regulators, scientists and researchers, party leaders, and for so many other social groups, as this continent is impacted tremendously by foreign political, commercial, military, religious, and cultural actors. These foreign actors often use very aggressive methods and most modern tools in the social media world to support their case and their course and to progress their cause or their movement.

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International Energy Agency (IEA) ‘The Africa Energy Outlook 2022: World Energy Outlook Special Report’, 250 pages, Revised Version, May 2023; IEA: Paris; Links: <https://www.iea.org/reports/africa-energy-outlook-2022>, and: <https://iea.blob.core.windows.net/assets/220b2862-33a6-47bd-81e9-00e586f4d384/AfricaEnergyOutlook2022.pdf>

The International Energy Agency (IEA) has published the Africa Energy Outlook under the IEA World Energy Outlook series, to become a key contribution to developing a better understanding of the trends and the dynamics in African energy systems and their evolution in the coming decades. The Africa Energy Outlook 2022 is a new special report from the International Energy Agency's World Energy Outlook series. It explores pathways for Africa's energy system to evolve toward achieving all African development goals, including universal access to modern and affordable energy services by 2030 and to reach the nationally determined contributions (NDCs) for climate policy objectives.

The Africa Energy Outlook 2022 shows that in the last two years (since the time when the 2019 Africa Energy Outlook appeared) the global economic landscape has drastically changed. The COVID-19 pandemic had destabilised the global economy and continues to cause supply chain disruptions that have had

lasting effects on project timelines and prices. The Russian Federation's (hereafter Russia) invasion of Ukraine in February 2022 has sent global food and fuel prices soaring, hurting households, industries, and entire economies – most severely in the developing world where people can least afford it. Energy has been at the centre of many of the unfolding crises, with global demand for oil and gas falling during the onset of the COVID-19 pandemic, only to whipsaw with the restart of major economies. But since Russia's invasion of Ukraine the global economy was again thrown into increased uncertainty. This was on top of a growing global consensus that global energy systems needed to reach net zero emissions by the middle of this century to limit the severity of rising global temperatures and the climate change. The Africa Energy Outlook 2022 explains that Africa is substantially impacted by these crises. How Africa responds to these crises has huge implications for the world. In Africa access to clean, secure and affordable modern energy services has not kept pace with the continent's expanding needs for energy.

The Africa Energy Outlook 2022 shows that the COVID-19 pandemic has pushed more than 20 African countries into debt distress and has reversed the progress on expanding the access to electricity. These difficulties were compounded by the increases in energy and food prices triggered by Russia's invasion of Ukraine. The overlapping crises are affecting many parts of Africa's energy systems negatively, by reversing the positive trends in improving access to modern energy, as 4% more people are living without electricity in 2021 than in 2019. The Africa Energy Outlook 2022 takes account of these recent developments. It maps a new pathway to show how Africa's collective economic, developmental, and environmental goals can best be achieved in the current global context. It aims to serve as a guidebook for energy decision-makers. A new continent-wide energy strategy is outlined, accounting for the unique characteristics of each country and each region, which necessitates then various pathways at the level of the regions. The scenario projections are to 2050, but there is a strong focus on the period to 2030 as decisions taken over the current decade are crucial to the path which the African energy sector follows in the longer term.

The Africa Energy Outlook 2022 also presents specific case studies of successful policy interventions, financial tools, and business models. The report aims to stimulate all actors in Africa's energy sector and the international community to address the key challenges facing the sector over the coming decade. Focus is on the changes since 2019 and the most pressing questions that energy industry leaders, global financiers, climate change negotiators, and government officials must address. Priority has the unlocking of higher levels of energy sector investment across the continent, as such investment is essential to meet the United Nations Sustainable Development Goal 7 (SDG 7) to provide universal access to clean,

modern, and affordable energy. This task is central to all aspects of Africa's energy development and is a connecting thread for the discussions in this report.

The Africa Energy Outlook 2022 includes four major chapters. Chapter 1 (State of Play) discusses the central challenges facing Africa's energy sector today, focussing on the impacts of the COVID-19 pandemic and the new global net zero emissions commitments. Chapter 2 (Sustainable Africa Scenario) describes in detail a clean energy pathway for Africa and highlights critical milestones. Chapter 3 (Key Areas for Policy Action) analyses in-depth the most complex questions concerning Africa's clean energy transition and the policy responses needed to appropriately respond. Chapter 4 (Implications of a sustainable African energy system) explores the implications of the continent's clean energy pathway for climate change and international trade, economic development, employment, and affordability of energy for households across Africa. These chapters are interrelated. The report finds that today's global energy crisis underscores the urgency and magnitude of the task of transforming Africa's energy sector, and that Africa will benefit from an accelerated shift to more affordable and cleaner sources of energy. The report analyses infrastructure expansion needs, investment requirements, financing options, and energy policy priorities. It also explores a shifting fuel mix that supports resilient development, opportunities for new exports, and just transition issues – including energy access, affordability, and employment. The report offers some insights about Africa's current energy context and its prospects for building a more modern, clean, and affordable energy future for all the people in Africa. Its analysis can help African policymakers to take informed long-term decisions amid the tumult of today's energy crisis while highlighting how global support can play a greater role.

The Africa Energy Outlook 2022 explains that Africa is already facing more severe climate change than most other parts of the world, despite bearing the least responsibility for the problem. With nearly one-fifth of the world's population today, Africa accounts for less than 3% of the world's energy-related carbon dioxide (CO₂) emissions to date, and the continent has the lowest emissions per capita of any region. Africans are already disproportionately experiencing the negative effects of climate change, including water stress, reduced food production, increased frequency of extreme weather events, and lower economic growth – all of which are fuelling mass migration and regional instability. The report shows that urgent action to adapt to the climate change would reduce the severity of these economic effects but would require much more investment. Unlocking more finance remains key to Africa's energy future; achieving Africa's energy and climate goals means more than doubling energy investment this decade.

The Africa Energy Outlook 2022 argues that for all these difficulties, the global clean energy transition holds new promise for Africa's economic and social development. As of May 2022, countries representing more than 70% of the global CO₂ emissions have committed to reach net zero emissions by around mid-

century. This includes 12 African countries that represent over 40% of the continent's total CO₂ emissions. These ambitions are helping to set a new course for the global energy sector amid declining clean technology costs and shifting global investment. African countries – nearly all of which are party to the Paris Agreement on Climate Change – are poised to capture the technology spillovers of these changes and to attract increasing flows of climate finance. The report examines the shifting tides of the global energy landscape, as more countries commit to rapidly cutting their greenhouse gas emissions, with huge implications for Africa's energy sector. The report explores a Sustainable Africa Scenario (SAS) in which Africa rides these shifting tides to achieve all African energy-related development goals on time and in full. This includes universal access to modern energy services by 2030 and the full implementation of all African climate pledges. Realising all these goals is a formidable undertaking. The report argues that African countries need to take the lead with clear strategies and policies, and that African governments need to build a better energy future for their people, while the international community and international institutions must reinforce their commitment to significantly increase their levels of support.

The Africa Energy Outlook 2022 shows that affordable energy for all Africans is the immediate and absolute priority. Universal access to affordable electricity, achieved by 2030 in the SAS, requires bringing connections to 90 million people a year, what means to triple the rate of recent years. Achieving universal access to clean cooking fuels and technologies by 2030 requires shifting 130 million people away from dirty cooking fuels each year. The goal of universal access to modern energy calls for investment of USD 25 billion per year. The report indicates that the demand for energy services in Africa is set to grow rapidly; maintaining affordability remains an urgent priority. Efficiency helps to temper demand growth, to reduce fuel imports and the strain on existing infrastructure, and it keeps consumer bills affordable. As Africa's industry, commerce and agriculture expand, so too does the need for productive uses of energy.

The report shows that electricity will underpin Africa's economic future, with solar-based electricity leading the way. It explains that electricity is the backbone of Africa's new energy systems, powered increasingly by renewables. It indicates that flexibility is key to integrating more variable renewables, with grid interconnections, hydropower and natural gas plants playing notable roles. It shows that gas and oil production focus on meeting Africa's own demand this decade. Africa's industrialisation relies in part on expanding natural gas use. It explains that production of oil and gas remains important to African economic and social development, but the focus shifts to meeting domestic demand.

The Africa Energy Outlook 2022 is a valuable document as it signals to investors and to the international donors that a good strategy with a long-term

perspective can guide the policymakers, the investors, and the energy entrepreneurs in their decisions. In times of multiple crises such a new pathway is a must, as otherwise a new road to poverty and economic decline is initiated. Clearly, the assumptions for the scenario are relevant, but there is no alternative to thinking about the long-term energy future of Africa.

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Fields, Gary S.; Gindling, T. H.; Sen, Kunal, Danquah, Michael; Schotte, Simone (Eds.) (2023): The Job Ladder: Transforming Informal Work and Livelihoods in Developing Countries. By United Nations University World Institute for Development Economics Research (UNU-WIDER) 2023, Provided in cooperation with Oxford University Press, Oxford, UK. 465 pages. DOI: 10.1093/oso/9780192867339.001.0001/ ISBN 978-0-19-286733-9/. Links for information on publishers and downloads: <https://global.oup.com/academic/product/the-job-ladder-9780192867339?cc=de&lang=en&>, and for Open Access: <https://creativecommons.org/licenses/by-nc-sa/3.0/igo/>

This book examines the labour markets in the Global South and investigates the relevance of informal work in different countries. The studies explore the persistence of informal economic activity in developing countries despite rapid economic growth, with a focus on the role of micro, small, informal, and household-run enterprises in providing livelihoods for the poor. A conceptual framework and an empirical methodology are applied, based on theoretical and empirical research about informal versus formal work conditions. Three key questions are raised: “How can workers in the informal sector climb the job ladder and move on to better paid remunerations? How can the livelihoods of informal workers be transformed? What do we know about the policy interventions that can contribute to livelihood enhancement for informal workers and households?” This research is done by examining the heterogeneity within informal work based on studies for a range of countries in the Global South, and by using panel data to study the dynamics of worker transitions between formal and heterogeneous informal work.

The book consists of 465 pages, 14 chapters and 6 main parts, and 3 appendixes are also included. It starts in Part I on “Introduction” with two chapters, a chapter 1 on the job ladder and a chapter 2 on informality and work status. These two introductory chapters review the literature and offer a framework to examine the job ladder perspectives of informal workers in the heterogeneous informal economic activities of the respective countries. Part II is on Asia and considers in three chapters informal work and informality-formality transitions in China, India, and Indonesia. The following Part III has four case studies on Latin America (Costa Rica and Nicaragua, El Salvador and Nicaragua, urban Mexico, and an overview on transitions for Latin America). Part IV on Sub-Saharan Africa has three case studies on West Africa Sahel, on Nigeria, and a comparative study on sub-Saharan Africa. Part V is on North Africa and the Middle East and has one chapter

comparing Egypt, Jordan, and Tunisia. These eleven case studies for countries or groups of countries analyse the available data on informality-formality transitions. The book concludes with a Part VI on Lessons Learnt. This is done by summarizing the main results of the comparative country studies and by providing options for the economic policy. The key question is: "How to transform informal work and livelihoods?" The result of this exercise are lessons learnt and policy options. The great advantage of this study on cases of the Global South is the comparative analysis based on data from a great range of countries and regions, having quite different levels of development, policy orientations, conditions for labour market transitions, and structural characteristics.

According to the definition of the ILO informal work is considered as work that lacks any type of legal recognition or protection and where workers do not have secure employment contracts, workers' benefits, social protection, or workers' representation. The following status characteristics are distinguished to consider the transition between formal and informal work status: formal wage-employees, upper-tier informal wage-employees, lower-tier informal wage employees, formal self-employed, upper-tier informal self-employed, and lower-tier informal self-employed. Based on this framework, the country studies examine the distribution of workers across each of these work statuses; and documented are the transition patterns across different work statuses. Account is taken of the heterogeneity of informal economic activities. For each of the country studies individual- and household-level characteristics are studied which are associated with workers in each work status. Thus, a "job ladder" is constructed for each country. This is the deepest analysis of labour markets by looking at formal-informal work transitions. The book aims at providing a comparative analysis of workers' mobility between the different work statuses, and then to draw the appropriate conclusions for the economic policy. The time span which is covered by the panel data differs from two years to almost two decades. Gathering such data and computing on their basis is a huge task presented successfully by these authors.

The following main aspects are considered and found answers in the book:

What are the key factors contributing to the prevalence of informal employment in developing countries? In what way does informal economic activity serve as a source of employment for marginalized and vulnerable workers in low- and middle-income countries? How does women's participation in informal work differ from men's participation, and what are the implications of this gender disparity? Most of these aspects found in the book new answers, as the large number of case studies and the number of work statuses has allowed to measure the transitions between informal and formal work.

The statistical possibilities between the countries differ a lot, so that consequently not for all countries the six (6) work statuses could be identified. As a

bottom-line, formal wage-employment and formal self-employment could be investigated for all countries, and job ladders could be determined for all countries. In a nutshell, formal wage-employees and formal self-employed are at the top of the job ladder. In most country cases the average wages in these two groups are higher than the average wages in any of the other four informal work status groups. Is the job ladder permeable? Once workers enter a work status on the job ladder, there is little chance of moving up. This is an important message for policymakers, as it is necessary to give specific advice on work conditions and on further upward mobility.

In 12 of 15 countries where comparisons are possible, lower-tier informal self-employment has the first or second highest rates of persistence (where persistence is defined as a relatively high conditional probability of staying in the initial work status). In other words: this status is a dead end for many workers, although there are considerable regional differences. Furthermore, there is evidence that more workers appear to remain 'stuck' in lower-tier informal self-employment status than in lower-tier informal wage-employment. Upper-tier informal wage-employment appears to be a mobile status – it offers workers a realistic option to enter the formal wage-employment sector. The formal wage-employment sector is the most preferred and can be regarded also as a persistent work status in almost all countries. This is true in 13 of 18 countries and consistent with formal wage-employment as the most preferred work status where workers are unlikely to leave voluntarily once they obtained employment in this sector. The high persistence in this status may also be attributed to the nature of the employment relationship—usually defined in terms of having a written, permanent work contract with social security entitlements, indicating higher turnover costs. All these measured results show that the divisions between formal and informal work statuses have some predefined structure which needs to be observed when labour market policies are designed.

Concerning the personal characteristics, there seem to be three key factors associated with upward transitions into better-paying work status groups: education, gender, and age. A possible drawback of this study are the data limitations. The six status groups could partly not be derived from original data, as in some cases secondary sources had to be used, and the existing data were not detailed enough to comprehend the transitions between the different statuses. A reliable data base is a prerequisite for the economic policy to draw appropriate conclusions and to implement suitable measures. On the other hand, an excellent data base is often a function of wealth; such a data base is well developed in the already developed and rich countries and less developed in the developing and poor countries, in which the need for actions of the economic and social policy towards improved work statuses is more pronounced. Panel data are required that follow workers over time, with larger representativeness and over longer periods, especially for low-income countries. This is a great limitation for such labour market

transition analyses, but the authors of the book have done the best to overcome the limitations.

The policy recommendations differ a bit across countries, but in general they refer to the fostering of growth, to raising the earnings of the lower-tier self-employed, to creating more formal jobs, to investing in human capital, to formalizing informal work, as well as to enforcing labour protection systems. It is obvious that the conditions of the labour market also depend on the macroeconomic situation in the African economies, so that policy changes are requested at both sides (macroeconomy and labour markets). As most African exports are raw materials with only little value added, structural change is important, and speeding up the labour market transitions can help to change economic structures. Undoubtedly adding value to raw materials requires more investments and skilled labour, so that labour market transitions play a role for upgrading value added. Many of the African economies are dominated by the service sector, and especially by personal services which are not related to other business activities. These jobs are normally of low productivity and therefore poorly paid. Therefore, the economic policy should concentrate on investments in growing subsectors of the economy that require more productive labour and jobs at the top of the job ladder with positive linkages to other sectors. One of the authors, Michael Danquah (17 October 2023), has written a blog post on the issues of “Stuck at the bottom of the job ladder in Africa”, and there is some room for optimism, as policymakers can do a lot to help them out.¹⁴

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C: Reviews/Notes of Books and Reports from a National Perspective (Country Studies)

Gradín, C., Lewandowski, P., Schotte, S., and Sen, K. (Editors) (2023), ‘Tasks, skills, and institutions: The changing nature of work and inequality’, WIDER Studies in Development Economics, Provided in Cooperation with: Oxford University Press (OUP), Oxford University Press, June 2023. 338 pages. ISBN 978-0-19-287224-1/DOI: 10.1093/oso/9780192872241.001.0001. Links: <https://doi.org/10.1093/oso/9780192872241.001.0001>, and:

¹⁴ Danquah, Michael (2023), Blog Post, “Stuck at the bottom of the job ladder in Africa. The stumbling block to resilient growth and prosperity”; Links: <https://unu.edu/blog-post/stuck-bottom-job-ladder-africa>, and: <https://www.wider.unu.edu/publication/stuck-bottom-job-ladder-africa>

<https://hdl.handle.net/10419/281277>, and: <https://global.oup.com/academic/product/tasks-skills-and-institutions-9780192872241?cc=de&lang=en&>

This book focusses on the tasks, skills, and institutions, regarding the changing nature of work and inequality. It indicates that developed countries have experienced a polarization in earnings and in employment. It is concluded that jobs and earnings in middle-income occupations are decreasing, while low- and high-income occupations conversely see increases. We see a stronger growth in the earnings and jobs for the most skilled and for the least skilled workers at the expense of those in the middle. It is stated in the Foreword: “The ‘lost’ middle jobs, characterized by performing routine tasks at a higher level, are mirrored by a surge in highly creative jobs at the top end and low-skilled service jobs at the bottom end of the pay scale.” This pattern has been attributed to differences in tasks—whether a given job is routine and can be automated or offshored—rather than skills and has reduced employment and incomes in typical middle-class jobs in manufacturing and services. Evidence for developing countries, however, is still scarce and faces bigger challenges, both conceptual and in terms of gathering the necessary data on earnings and task content of jobs. But the book brings light into such cases for developing countries.

This book presents the main results of the UNU-WIDER project ‘The changing nature of work and inequality’, and so it fills the knowledge gap and deconstructs the common assumption that occupations are identical around the world, which tends to lead to an overestimation of the non-routine task content of jobs in developing and emerging economies. It provides a unique, comparative assessment on how the nature of work is changing in eleven (11) major developing countries that experienced strong transformations, and it shows the role that these changes play in shaping earnings inequality in these societies. For three (3) African countries, four (4) Asian countries, and for four (4) Latin American countries we can look at such transformations. The study rejects the most conventional explanations of changes in earnings inequality, based on the relative abundance of skilled and unskilled labour. It discusses recent theories that put the nature of tasks performed by workers in their jobs, rather than their skills, at the centre of the analysis. It examines the trends in earnings inequalities in developing countries to determine the main drivers. It provides a nuanced and context-sensitive developing-country perspective with an in-depth assessment of national trends in earnings inequality, as well as the changes in the occupational structure and the remuneration of tasks, while being mindful of broader macroeconomic trends and institutional developments. This is an innovative approach as skills and tasks have a different dimension and explanatory value in this context.

The structure the book includes 16 chapters. Part I on Introduction has two (2) chapters. Chapter 1 presents an introduction on the changing nature of work and

inequality. Chapter 2 shows data and methodology which are used for the book. Part II on Cross-Country Analysis has also two (2) chapters. Chapter 3 discusses the global divergence in the de-routinization of jobs, while Chapter 4 investigates the cross-country patterns in structural transformation and inequality in developing countries. Part III on Country Studies has eleven (11) chapters. The chapters 5-15 present country studies on employment and inequality trends for Africa, Asia, and Latin America. Chapter 5 shows for Ghana the employment and inequality trends. Chapter 6 explains for South Africa the employment and inequality trends. Chapter 7 shows for Tunisia the employment and inequality trends. Chapter 8 examines for Bangladesh the employment and inequality trends. Chapter 9 explores for China the employment and inequality trends. Chapter 10 explains for India the employment and inequality trends. Chapter 11 examines for Indonesia the employment and inequality trends. Chapter 12 shows for Argentina the employment and inequality trends. Chapter 13 shows for Brazil the employment and inequality trends. Chapter 14 explains for Chile the employment and inequality trends. Chapter 15 shows for Peru the employment and inequality trends. Part IV on Conclusions has one (1) chapter. Chapter 16 provides the conclusions and the policy implications.

The book comes to interesting and important conclusions. A team of country experts and of labour market specialists discovered some trends concerning polarization of earnings and income inequality in a range of economically important emerging countries. This allows a comparison with the situation in developed countries where the “lost middle” is seen as the tragic problem. The study argues correctly that it is implausible to assume that the task-content of occupations is the same in all countries, as this would lead to an overly optimistic view of the nature of work in the Global South and its evolution over time. In such a world the average routine-task intensity (RTI) would decline similarly across countries and this at all levels of development. Three stylized facts show the reason why high-income countries (HICs) continue to be the primary source of non-routine work, while the low-income countries (LICs) and the middle-income countries (MICs) continue to be the primary source of routine work. Therefore, the pace of de-routinization of work in the Global South is slower than in the OECD countries, so that the occupational change is less dis-equalising. Inequality in the global South has more to do with skill premia and less with de-routinization of occupations. We can see that technological change affects skill-intensity and routine-task intensity in different ways.

The country cases of Ghana, South Africa, and Tunisia show how fruitful the new approach is of looking at skills and tasks in relation to employment and earnings. The book is useful to study structural transformations sector-by-sector through skill-content and routine-task intensity of occupations. Although the

methodologies are from US labour research institutions mainly, the adaptation to cases of the global South was successfully done. The comparative approach for Africa, Asia, and Latin America has helped a lot to fill the data gaps. The book is also adding a new dimension to the structural transformation strategy which is discussed for Africa.

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Nébié, G., Emeka-Anuna, C., Fofana N’Zue, F., Delamonica, E. (Editors) (2020), ‘Child Poverty and Social Protection in Central and Western Africa’, The Comparative Research Programme on Poverty (CROP) International Poverty Studies, edited by Thomas Pogge. Copyright: GRIP. Publisher: ibidem-Verlag, Stuttgart 2020. 343 pages. ISBN-13: 978-3-8382-1176-3. Open Access. Bergen Open Research Archive. Links: <https://bora.uib.no/bora-xmlui/bitstream/handle/11250/2753739/Ebook.pdf?sequence=1&isAllowed=y>, and: https://www.ibidem.eu/out/media/vlb_9783838211763_2.pdf

The year 2019 marked the beginning of a transition from CROP (Comparative Research Programme on Poverty) to GRIP (Global Research Programme on Inequality). GRIP is a radically interdisciplinary research programme that views inequality as both a fundamental challenge to human well-being and as an impediment to achieving the ambitions of the 2030 Agenda. The authors of this fifth study of the series discuss child poverty and social protection in Central and Western Africa and indicate that a previous study commissioned by UNICEF in 2003 showed extremely high child poverty rates in Sub-Saharan Africa, especially in Central and Western Africa. The new study shows that fortunately the situation has improved in many countries since then. This is in part due to the expansion of social protection. However, given the rate of population growth, the decline in the incidence of child poverty is too low to make a dent in the total number of children living in poverty. It also seems that the reduction in child poverty has occurred in areas and among groups that are relatively close to those who are better off. Thus, inequalities, social exclusion, and the depth of poverty might have increased. Moreover, this takes place in a context where social protection is still limited and fragmented in most countries.

This book presents the findings of collaborative workshop of the International Labour Organization (ILO), the Economic Community of West African States (ECOWAS), Equity for Children/The New School, the Comparative Research Programme on Poverty (CROP) of the International Science Council (ISC), and UNICEF. The workshop explored the trends, the distribution, and the depth of child poverty, and the types and limitations of social protection in the region, its accomplishments, and social protection policies, and their role to mitigate, to eliminate, and to reduce child poverty, to improve well-being, to promote child protection, and to address inequities.

The structure of the book and the chapters are arranged in four parts. After the introductory chapter, the Part I provides in two chapters the context for the discussion. While the chapter 1 discusses the framing of social protection within the context of growing inequality, the chapter 2 gives a view for the clustering of countries in West and Central Africa for improved policy and technical engagement in social protection. Part II includes three chapters dealing in chapter 3 with the measuring of multidimensional poverty according to national definitions, focussing on target 1.2.2 of the SDGs in Benin, Gabon, Guinea, Liberia, and Mali. Chapter 4 is on Multidimensional Child Poverty and child-well-being in Cameroon, Cote d'Ivoire, and Nigeria. Chapter 5 is on child poverty and inequality in Ghana, reflecting on positive highlights from the new household survey. Part III discusses in three chapters Child Poverty, Humanitarian Crises, and Social Protection. Chapter 6 discusses child poverty and disaster risk in Mauritania, while chapter 7 reports on the impact of social protection programmes on the Ebola scourge in Sierra Leone, with some lessons and recommendations, followed by chapter 8 with a discussion on child poverty and economic shocks in Togo, focussing on policies that matter. Part IV has also three chapters on social protection, social exclusion, and child protection. Chapter 9 gives a different perspective on social protection, by focussing on the importance of considering child poverty in the context of extended families and communities in Burkina Faso, The Central African Republic, and the Democratic Republic of Congo. Chapter 10 addresses the issue of child domestic servitude in Ghana, by exploring the contours of child poverty, child protection, and social protection. The chapter 11 is on the benefit incidence of public spending on social services and child poverty rates in Nigeria. The book has then a final chapter with a Conclusion, and a reprint of the Communiqué of the International Conference on Child Poverty and Social Protection, held in May 2016 in Abuja, Nigeria. At the very end, there are the contributor biographies.

The book gives a deep analysis of the issues related to child poverty and child protection in these key African regions. The authors argue that it is evident that if child poverty is not addressed properly, it leads to more abuses of the rights of children. This would result in more problems, such as child labour and early marriages. Girls, especially adolescent girls, are much more at risk for child marriage and for forced domestic labour, while boys are much more at risk for forced labour, such as in agriculture, mining and forced military service. The authors find that social protection programmes guarantee access to necessary goods and services, such as essential health care, maternity care, nutrition, education, and childcare. These programmes can also provide income security throughout the life cycle. Social protection can be financed via contributory schemes, such as social insurance, or non-contributory social assistance, where taxes are the source of the funding. It is seen as important to explore the link between social protection and other actions

required to protect children, and the link between social protection and the prevention of, and response to, crises and emergencies.

The book gives so many insights and new perspectives for action. But, all the chapters and authors make it clear that still the protection of children is an unfinished business, especially in Africa, and that the danger is great that the tasks ahead are forgotten if not continuously addressed by the international community.

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Riisgaard, L., Mitullah, W.V., and Torm, N. (2022) (Editors), ‘Social Protection and Informal Workers in Sub-Saharan Africa, Lived Realities and Associational Experiences from Kenya and Tanzania’, The Dynamics of Economic Space Series, Routledge, New York. the Taylor and Francis Group. 274 pages. Open Access. DOI: 10.4324/9781003173694. ISBN: 978-1-032-00328-3 (hbk)/ISBN: 978-1-032-00329-0 (pbk)/ISBN: 978-1-003-17369-4 (ebk). First published 2022 by Routledge. Links for Download of the Open Access version: <https://www.taylorfrancis.com/reader/download/3147fc17-d674-4dc3-b1e8-71c4d9e000ac/book/epub?context=ubx>, and: <https://www.researchgate.net/publication/355310109>, and: <https://www.taylorfrancis.com/books/oa-edit/10.4324/9781003173694/social-protection-informal-workers-sub-saharan-africa-lone-riisgaard-winnie-mitullah-nina-torm>

This book discusses the issues of social protection and informal workers in Sub-Saharan Africa (SSA), with particular focus on Kenya and Tanzania. This book seeks to fill this gap for knowledge on Africa by focussing on three important sectors of informal work, namely transport, construction, and micro-trade in Kenya and Tanzania. This book shows that social protection policies and instruments have gained increasing attention amongst many developing countries and donors since the late 1980s. The book also shows that the social protection agenda is now commonly highlighted by development actors and governments alike as the preferred solution to issues of poverty in the Global South. In Sub-Saharan Africa (SSA), the last decade has witnessed an expansion of social protection schemes, such as cash transfers, health insurance, and pensions. The expansion of formal social protection in SSA happens in a context where informal labour markets constitute the norm and where most workers live in uncertain, precarious livelihoods with very limited access to official social protection. Dominant ideas about measures like health insurance and pensions or representation and voice have commonly been based on notions that the attainment of such social protection is linked to institutions and workers associated with formal sector employment.

The dominant social protection agenda and the literature on social protection come with an almost exclusive focus on donor and state programmes. Nonetheless, the coverage of the most formal programmes is limited to small parts of the population and in no way stands as a measure to the real needs. In these circumstances,

people elaborate other means of social protection and of cushioning against risks and vulnerabilities through extended family ties and, importantly, through different forms of collective self-organizing. These latter collective informal bottom-up forms of social protection are notably absent from social protection discussions, and little is known about the extent or the format of these informal social protection mechanisms.

This book sets out to investigate how the global social protection agenda touches down in specific contexts and how it relates to the realities of informal workers. In examining and comparing the social protection models conceptualized and implemented 'from above' by the public authorities in Tanzania and Kenya with what people actually do on the ground, the book uncovers the challenges faced by particular marginalized groups (urban informal workers in three sectors prone to informality) and how their own collective associations seek to address these challenges with what could be called social protection mechanisms 'from below'. With this comparison, the book contributes analytically to essential ongoing discussions of social protection models in a Global South informality context. The research presented in this book is situated in the intersection between the literature available on social protection, on informality, and on collective organizing.

A key contribution of this book is thus to combine relevant insights and adopted conceptual frameworks from three poorly connected literature sources. The book explores how informal workers in different sectors access both formal and informal social protection in the light of dominant perspectives on informality and social protection, and how they are keeping at the centre of attention the role played by informal workers' own collective associations. In doing so, another key contribution of this book is the unravelling of the nexus between formal and informal social protection. Empirically and methodologically the book contributes to filling a gap in the literature by focussing on three important sectors of informal work, namely transport, construction, and micro-trade in Kenya and Tanzania. The study hence takes a comparative approach exploring three different sectors in two countries with different historical development orientations. Based on the findings, the book argues that there is a need to conceptually rethink and to broaden both academic and policy discussions on social protection to recognize and to address the restrictive formal/informal dichotomy and one-sided focus on formalization as this renders most existing formal social protection measures starkly inappropriate for most of the working population. The immense importance of informal workers' collective agency in meeting the social protection needs of association members needs not only to be recognized but should also help to inform efforts to reframe national social protection policies and systems.

The book has eleven (11) chapters, and the structure is as follows chapter by chapter:

Chapter 1 provides an introduction, as it reviews how social protection, informality, and collective organization in the informal economy have been approached in the literature while at the same time identifying and elaborating the conceptual framework. It also provides a brief overview of the methodology, including a snapshot of the informality phenomenon in the two case countries Kenya and Tanzania.

Chapter 2 provides an overview of the relevant formal social protection frameworks in Kenya and Tanzania, focussing on how they relate (or not) to informal workers, including recent advances made in this regard. The chapter also positions the formal social protection schemes in relation to the social protection literature and shows that both countries are undergoing a gradual shift from the mostly residual towards the more universal end of the social protection spectrum, albeit at their own pace. For instance, whilst universal health coverage has become a major policy priority in Tanzania, progress is further ahead in Kenya where a universal health insurance pilot programme was carried out in four counties during 2020. As for pensions, newer models range from being fully government funded to relying on informal worker contributions, with the latter seen as limiting the effectiveness of the schemes. Although social protection coverage has increased for the general population in both Kenya and Tanzania, when it comes to informal workers, the uptake remains limited due to the factors like the cost burden, inflexible procedures, inadequate benefits, and lack of information on the different social protection options.

Chapter 3 is using survey data of informal workers across the three different sectors (construction, transport, trade) and of four urban locations in Kenya and Tanzania. This chapter provides a quantitative assessment of the extent to which informal worker associations facilitate access to formal social protection. This is based on a cross-sector analysis of informal workers in Kenya and Tanzania. Overall and when controlling for key worker characteristics, the analysis shows that association members are significantly more likely to access formal social insurance. Moreover, across sectors and sites, the provision of loans appears to be the main direct mechanism through which this occurs. Finally, the results reveal a substantial earnings-gap between association members and non-members, albeit with differences by sector and country. In sum, the findings suggest that informal worker associations play important roles both in terms of providing direct cushioning and indirectly through enabling participation in formal social insurance schemes.

Chapter 4 explores the emerging collective forms of informal transport workers and their potential for enabling access to social protection measures in Tanzania. Although their structural power is limited by a highly competitive sector, informal transportation workers have formed associations that self-regulate the industry and provide partial preventive and promotive social protection measures such as welfare services, savings groups, access to loans, short-term

unemployment insurance, and ad-hoc representation. Although these associations understand the needs, priorities, and contributory capabilities of their members better than formal social protection sector institutions, capacity-building is required to improve their effectiveness.

Chapter 5 investigates the role of worker organizations in the provision of social protection for informal transport workers in the Kenyan para-transits and motorcycles sub-sectors. The findings reveal that a key benefit of both the para-transits and motorcycles associations is negotiating on behalf of workers when they get into problems with authorities. The main challenge is not the absence of laws but the lack of enforcement and supporting systems.

Chapter 6 reveals that even though the micro-trade sector in Tanzania is poorly coordinated, recently a few attempts at forming broader coalitions and new cooperation forms have taken place pointing towards a future strengthening of representational power. Whilst most informal traders lack access to social protection benefits, their own associations provide a range of social protection services ranging from savings and loans functions, cushioning in cases of sickness or death in the family and at times promoting vocational training and joint business activities. These informal social protection systems are based on reciprocity and although they extend only limited coverage, they nonetheless provide services which, for most informal micro-traders, are difficult or impossible to access elsewhere.

Chapter 7 shows how micro-traders in Kenya access both formal and informal social protection services. The chapter reveals that most micro-traders still lack access to formal social insurance, and it attributes poor enrolment and retention in formal insurance schemes to socio-economic factors such as low and irregular incomes and service provision factors such as cost of premium and cumbersome procedures. Trader associations are revealed to have developed their own forms of social protection to cushion themselves albeit not adequately in terms of meeting all needs. Furthermore, informal micro-trader associations are represented in the governmental Micro and Small Enterprises Authority (MSEA), an aspect which has potential of advancing the status of micro-traders in Kenya.

Chapter 8 shows that, although not many informal construction workers in Tanzania have joined associations, members appreciate the services offered and acknowledge that associations act as cushioning mechanisms to assist workers in a flexible manner during their times of need. By contrast, formal social insurance schemes seem not to respond to construction workers' specific challenges pointing to the need for a more inclusive approach in addressing the low enrolment rate.

Chapter 9 delves into the construction sector in Kenya exploring how construction workers are organized, how workers' associations contribute to labour agency and social protection, and about the role played by both formal and informal institutions in strengthening or undermining workers' organizing capacity for

social protection. The findings reveal deficits in formal social protection and how workers' associations and networks fill the deficit, albeit inadequately. Going forward, providing social protection for construction workers calls for a combination of bottom-up efforts of construction workers and top-down public models, nuancing the strategies of the latter with the former.

Drawing on the preceding chapters, Chapter 10 provides a comparative analysis of the construction, transport, and trade sectors across Kenya and Tanzania, revealing many synergies in respect to the working environment and the importance of associations. The major differences which emerge between the sectors relate to the nature of organizations, in which the trade and transport sectors manifest a higher level of organization compared to the construction sector. Also, in terms of power resources, worker challenges, and associational benefits, most of the differentiation manifests itself on a sectoral basis, underscoring the importance of adopting a sector-specific lens.

The concluding chapter 11 offers overall reflections on the research questions and highlights the book's contributions to the literature and the ongoing discussions around social protection and informal workers. The chapter shows key findings emerging from the comparison between the social protection models conceptualized and implemented 'from above' by public authorities with the models implemented 'from below' by workers own collective associations. This is followed by reflections on the power resources available to informal workers associations.

The book is obviously also of value for policymakers on social policies in other African countries, although such detailed recordings of associations for informal workers as for Kenya and Tanzania are not everywhere available. It is important to learn from the methodology of this book and to look at other cases in Africa towards the successful combination of formal and informal social protection measures for informal workers, and to investigate the "from above" and "from below" forms of social protection associations. Other sectors could also be included beside of transport, trade, and construction, such as agriculture, care and security sectors.

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Nagarajan, C. (Main Author), (Contributing Authors from adelphi and Potsdam-Institut für Klimafolgenforschung/PIK)): Binder, L., Destrijcker, L., Michelini, S., Rüttinger, L., Sangaré, B., Šedová, B., Vivekananda, J., and Zaatou, R. (2022): Weathering Risk, Climate, Peace and Security Assessment: Mali,' adelphi research gGmbH, Berlin, Germany. September 2022. 60 pages. Link for Download: <https://weatheringrisk.org/sites/default/files/document/Climate%2C%20peace%20and%20security%20assessment%20Mali%20Full%20Report.pdf>

The authors argue in this study that Mali is experiencing both rising insecurity and conflict and significant climate change and variability. Violent conflicts take place especially and increasingly in southern and western regions. Over the past decades, the country has been exposed to substantial inter-annual and decadal rainfall variability as well as increasing frequency and intensity of extreme weather events. In the future, climate change impacts will put significant additional pressure on natural resource-based livelihoods, gradually limiting people's ability to adapt. However, the country also experiences wider political, economic, and social challenges. Among a complex set of drivers of conflict dynamics in Mali, poor governance and structural socio-economic exclusion and marginalisation play important roles. Weak governance is both a cause and a consequence of conflict, as people often experience the state as corrupt, exploitative, predatory, and rent seeking; insecurity reduces state presence and service provision even further.

As for the methodology, this study is presenting qualitative and quantitative data analyses of climate security risks in Mali. Using the Weathering Risk methodology, this case study is based on interviews with 87 individuals (28 women and 59 men) in June 2021. The paper further draws on historical analysis and future projections of climate change impacts in Mali conducted at the Potsdam Institute for Climate Impact Research/Potsdam-Institut für Klimafolgenforschung (PIK). These analyses and projections were based on the methodology developed within PIK's AGRICA project, providing regionally explicit information about current and future climate changes and sectoral impacts under different climate change scenarios. The underlying data and analyses were based on PIK's Inter-Sectoral Impact Model Intercomparison Project (ISIMIP) (see: Frieler et al. 2017).

As for the structure of the report, after providing an Executive Summary and an Introduction and Methodology Part A, a brief overview of the country context and key trends is given in Part B. This paper then presents current and future climate change data and selected sectoral impacts in Part C. Building on this background, it then outlines in Part D four key climate security pathways, relating to climate change and violence, to weak governance and corruption behaviour, to increasing competition over natural resources, and to climate insecurity due to existing inequalities and eroding resilience. These climate security pathways are based on the scenario work with the available data. In Part E there is a careful view on the existing responses and the lessons learned. Focus is on the need for caution and evidence, on the combination of state and non-state interventions, on effective conflict resolution and peacebuilding practices that exist in some areas, and on agro-ecological practices that provide alternatives, by leading to more self-reliance, to reduced environmental destruction, and to more conflict-sensitiveness. In Part F there are the Conclusions and recommendations, for the government of Mali, for civil society actors, and for donors, international non-governmental

organizations, and the United Nations agencies. These recommendations should also help the United Nations Multidimensional Integrated Stabilisation Mission in Mali (MINUSMA/Multidimensionnelle Intégrée des Nations Unies pour la Stabilisation au Mali). Although the Mission failed and had to evacuate, the methodology is of value also for other African countries and regions.

This study revealed four broad ways in which climate change and conflict are linked in Mali. First, climate change and conflict, separately and together, impact livelihoods, block adaptation, and affect social cohesion. Second, weak governance, rent seeking and corrupt behaviour negatively affect adaptation, conflict dynamics, and environmental degradation. Third, increasing competition over natural resources contributes to rising (intra- and inter-communal) tensions and violence. Fourth, climate insecurity is caused by and widens the existing inequalities, and thereby erodes the ability to adapt, and is driving conflicts further.

Climate change, through its negative impacts on natural resources availability and quality, is one factor exacerbating competition over land, water, and forest and river resources. Tensions over access, usage, and control of natural resources within and between different livelihood groups are rising and are increasingly escalating into violence. This dynamics in turn affects social cohesion, contributes to stigmatisation of certain groups, and plays a role in escalating cycles of violence. The four pathways show the different ways how climate change exacerbates and interacts with conflict drivers and dynamics, and how conflict undermines the adaptive capacity and the resilience of communities. These links provide entry points for integrated actions that combine climate change action and peacebuilding. The MINUSMA mission has however shown that external forces cannot be a substitute for local action and a cooperation of local actors. Civil society groups have a decisive role in efforts to combine climate change action and peacebuilding.

The study provides some recommendations, for instance, improving the collection and sharing of climate data to enable better weather forecasts, modelling, and predictions, and to communicate this information across government ministries, departments, and agencies, to the civil society, and to the public in the country. In addition to these recommendations, raising the awareness of conflict-sensitive climate adaptation measures is needed so that the people know how to adapt in ways that do not exacerbate inequalities and conflict. A greater understanding of shared challenges and the inclusive and joint process of addressing them can build social cohesion within and between groups. It is recommended to improve inclusivity, accountability, and responsiveness of governance and security provisions. Action is needed particularly around natural resource management, to address current frustrations and grievances, such as over deforestation agro-ecological destruction. All this requires an effective, inclusive, just, and conflict-sensitive governance and natural resources management system. The creation of militias and (localised) histories of contestation and marginalisation play an important role

in translating competition over natural resources into conflict and violence. Climate insecurity is caused by and widens already existing inequalities, is eroding the ability to adapt, and is driving conflict further.

Action to mitigate and to adapt to climate change needs to address the root causes of conflict; it is necessary to tackle the drivers of climate insecurity what is an urgent task. A focus on climate security needs to deal with challenges of improving governance, tackling age, class, gender, and other inequalities, ensuring justice, and addressing other major root causes of conflict. It is necessary to ensure that ongoing and inclusive integrated climate security assessments for Mali and other countries are done. It is necessary to strengthen government, military, and civil society capacity to support the people, particularly those who are socially excluded, to adapt to climate security risks. Addressing underlying inequalities and ensuring inclusive and accountable processes can bolster the social contract between people and the state, can mitigate the impacts of climate security, and can reduce the risks of creating or of even furthering grievances, conflicts, and forms of environmental degradation. Inclusion of all relevant groups is needed in a way which provides them with the resources they require. It is also necessary to prioritise building climate security resilience in southern Mali through actions towards improving social cohesion, addressing material realities, and improving climate resilience. It is proposed to encourage agro-ecological, climate-smart, and conflict-sensitive practices by starting and expanding interventions and communications to improve food security and livelihoods in sustainable and conflict-sensitive ways. All these fine recommendations and suggestions were not implemented in Mali and in other Sahel countries in a way which would have led to more climate security. The Agenda for Action is not irrelevant, but the link between action “from above” and action “from below” was not intact.

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Centro de Integridade Pública (CIP) and Chr. Michelsen Institute (CMI) (2021), Authors: E. Cortez, A. Orre, B. Fael, B. Nhamirre, C. Banze, I. Mapiisse, K. Harnack, and T. Reite, ‘Costs and Consequences of the Hidden Debt Scandal of Mozambique’, Centro de Integridade Pública (CIP), Moçambique, Maputo, and Chr. Michelsen Institute (CMI), Bergen, Norway, May 2021. 144 pages. Link: <https://www.cmi.no/file/4442-Costs-and-consequences-of-the-Hidden-Debt-FINAL.pdf>, and: <https://www.cmi.no/publications/7841-costs-and-consequences-of-the-hidden-debt-scandal-of-mozambique>

It is the story how a \$2 billion hidden and corrupt loan for Mozambique has cost the country and the people around \$11 billion, and how this transaction has

increased poverty in the country tremendously. So, this report is a warning to many other countries to look carefully at offers for credits and at the whole credit chain which is working on such a financial agreement. It is also of analytic value to see how a hidden and corrupt credit chain works, and what authorities, donors, and media can do to make it transparent and, more than this, to prevent similar actions. The same is with foreign-financed development projects; these could also become a source of debt and disaster.

This report is a contribution of the Centre for Public Integrity (CIP) of Mozambique and of the Chr. Michelsen Institute (CMI) of Norway towards the understanding of the greatest corruption scandal in the history of Mozambique, commonly known as the “hidden debt scandal”. The report presents succinctly the financial, economic, political, and social costs of this enormous financial fraud. This report is an inventory of the huge costs and consequences of the hidden debt scandal (HDS) – measuring them in numbers where possible and tracing the chain of harmful events and tendencies resulting from it. The report shows that the impacts were economic (direct costs, economic losses, and damages), social (increasing poverty and reducing social welfare), and institutional and political (by worsening the political trust and the politico-institutional environment).

The report indicates that there are direct costs associated with the loans, mainly past and future costs of interest and repayments. Past direct costs – those incurred up to, and are including 2019 – amounted to USD 674.2 million. To that will be added another USD 3.93 billion that the country will have to pay to service the hidden debt until 2031. The report finds that the direct costs, the economic costs and all the damage that this fraud has inflicted on the Mozambican economy have already exceeded USD 11 billion. In addition to this, Mozambique will have to pay - in line with the current value of the debt – a further total of USD 4 billion in direct costs, plus the difficult to measure (and often incalculable) economic costs and damages. One of the direct consequences of the debt is that they drove millions more people into poverty. The additional number of poor people created is estimated here at 1.9 million over the years up to 2019. The report explains the economic costs and shows that the economic crisis was caused partly by the debt itself, but even more so by the damage that flowed from the secrecy and the corruption, and the following discredit of the government system. And its impact on the Mozambicans was hugely more than the hidden debt. Donors and lenders had in the past kept the country afloat, and they pulled the plug. The IMF halted its programme and donors cancelled direct budget support and other aid to the government – a reduction of USD 831 million in 2016 compared to the year before. The cascade that followed included a fiscal crisis making the government unable to pay its bills, so that there was a major currency devaluation, foreign debt became unpayable, the economy slowed down sharply, real GDP per capita fell, unemployment soared, and poverty increased. This report calculates the damage to the economy and shows that the best and simplest overall measure of it is the decline

in the value of the GDP caused by the debt, which was calculated to be USD 10.7 billion in the four-year period (2016-2019), and there is need of adding to this sum the direct costs of payments (interest and payments up to 2019) of USD 674 million, so that the total economic costs reached USD 11,333 million. Future costs of lost GDP will continue to pile up, since the damage caused by the HDS is perennial.

The report explains also the social costs and indicates that the sudden reduction of external donations after the hidden loans, that were revealed in April 2016, triggered a fiscal and monetary instability that forced the government to reduce public spending severely. In 2016 real public expenditure (in USD) was cut to less than half of what it was in 2014. That reduction in public expenditure has hit mainly the sectors aiming at social welfare. Comparing the three-year average of 2016-2018 to the three previous years, spending on health and education fell by USD 1.7 billion – entirely due to the debt. Put in per capita terms the hidden debt scandal caused for each Mozambican citizen USD 10 less in the education sector each year, and USD 7 less in the health sector each year. There are many indications that poverty increased during the years after 2015, in various ways of measuring it. The report estimated the proportion of the increase in poverty to be explained by the hidden debt and found that, because of the hidden debt scandal (HDS), at least 1.9 million people fell below the line of consumption-based poverty by 2019.

The report explains also the political and institutional costs and indicates that the costs and consequences of the hidden debt scandal (HDS) on the political and institutional landscape in Mozambique were real and severe, yet no single figure or currency captures its full impact. Mozambique's performance deteriorated on all relevant indexes, measuring aspects of democracy, governance, public financial management, and credibility in the decade between 2010-2020. This report goes beyond circumstantial evidence and shows how and why the hidden debt contributed to the deterioration of governance. The report indicates that the hidden debt and the ensuing scandal impacted heavily on politics and institutions and has led to more contradictions and debilitating conflicts within the state and the political system. Also, the worsened governance quality and the weakened state institutions, the disrepute of the regime and government, and the turn to a less democratic and more authoritarian country were the major results of the HDS.

As for the structure of the report, the methodology, and the analytical logic, the report seeks to draw up an inventory, and to calculate, or to estimate the size of the fiscal costs and also the economic, political, institutional, and social costs of the HDS. The methodological framework of the report is based on quantitative, analytical, and descriptive research. An Executive Summary and a Preface give a first information. Chapter 1 provides the Introduction. The following chapters are

divided, in accordance with the effects of the hidden debt, into four areas: Chapter 2 discusses the direct costs associated with the HDS. These are the financial costs for servicing the hidden debt and for other expenditure directly linked to them, including the management of the scandal and the litigation in Mozambican and foreign courts. Chapter 3 examines the indirect consequences and the losses for the Mozambican economy. The scandal unleashed a series of grave reactions almost immediately after the revelation of the existence of the HDS. In the following years, these could be found in the various indices showing the economic situation and the decline of the country's economy – the most central impacts of which were analysed. Chapter 4 explains the consequences for the political and institutional system and the involved costs, since the magnitude of the scandal ensured that the HDS impacted on the core of the political system and on the institutions of governance of the country. The most important indicators in the areas of governance were analysed. Chapter 5 discusses the social impacts and the related costs. The most important indicator is the level of poverty, which was affected severely by the HDS. Furthermore, the HDS had an impact on public expenditure in the social sectors, which in turn had severe impacts on the social welfare system. Chapter 6 provided the Summary of the Conclusions. Section 7 has various Annexes, and in section 8 we find the Literature.

The value of this study lies in the detailed calculation and estimation of the economic, political, and social costs and losses through corrupt deals on debt instruments. A relatively small sum of debt negotiated by corrupt officials and by businessmen led in Mozambique to huge losses and to grave destructions of the economic, political, and social system. From one day to the other the country lost international credibility and reputation. All the crisis factors merged towards a magnified catastrophe. Although some data and some statements sound speculative, the study has the great advantage of analysing the economic decline of the country from the side of debt contracts. More studies should do this job by relating the decline of a country to a project deal and/or to a credit contract. The actors of the HDS should be named offensively and the courts should work as long as necessary to clear up the deeds of the responsible persons and institutions. CIP and CMI should be encouraged to go further with such research and such interesting reports. South-North investigative research cooperation plays an increasing role in development aid relations.

Professor Samia Nour, Khartoum/Fulda and Professor Karl Wohlmuth, Bremen

Ponte, S., Noe, C., and Brockington, D., Editors, (2022), 'Contested Sustainability, The Political Ecology of Conservation and Development in Tanzania', First published 2022, 344 pages. ISBN 978-1-84701-322-4 (James Currey paperback)/ISBN 978-1-80010-562-1 (James Currey ePDF). OPEN ACCESS: This title is available under the Creative Commons license CC-BY-NC-ND.

Link: <https://openaccess.boydellandbrewercms.com/?id=-254245>, and: <https://boydellandbrewer.com/9781847013224/contested-sustainability/>

This book is on political ecology, and so it is important for developed and developing countries. All the actors who are involved in environmental partnerships are investigated by looking at their interests, their political associations and aspirations, their power forces, their resources, their negotiation styles, and their visions. This is done for Tanzania, and there for a specific region and for specific sectors which matter for the protection of natural resources. Interesting and very important are the methodological approach, the work of the research team, the implications for policymakers, and the lessons drawn from the research for the policies on natural resources protection. It is all this what makes it a key publication for those involved in environmental policies at the global level. As there is a “contested sustainability” among the many observable environmental partnerships, the search for “sustainable environmental partnerships” is indeed an important focus of the book.

This book provides valuable insights into the successes and failures of the management and governance of wildlife, forestry, and coastal resources in Tanzania. It provides a detailed and timely study on conservation, development, and sustainability in Tanzania. Responding to the urgent need to examine the outcome of interventions in governing natural resources, this book analyses different types of sustainability partnerships - with donors, governments, business, NGOs and other actors, and, crucially, it assesses which forms of partnerships result in better livelihood and environmental outcomes.

The contributors, coming from a range of disciplines, compare 'more complex' partnerships with relatively 'simpler' ones, and more traditional top-down and centralized management systems with situations and locations where sustainability partnerships are not in place. Within-sector comparisons allow a fine-tuned analysis that is formed of historical, locational, and resource-specific issues, which can be used as input for resource-specific policy and partnership design. Experiences and lessons can be drawn from comparisons across the three different sectors (wildlife, forestry, and coastal resources), which can be applied to natural resource governance more broadly. This is a study done by a great research team, and the work on the theme of “Contested Sustainability” is guided by a common view on sustainable partnerships that are competing among so many development actors.

The book has three parts. In Part I on “Issues, Background, and Methods” we find three chapters. Chapter 1 informs on new partnership for sustainability; chapter 2 is dealing with conservation and development in Tanzania, and chapter 3 gives an overview on Design and Methodology. Part II on “Sectoral Analysis” has also three chapters. Chapter 4 defines the sustainability partnerships in the Wildlife

Sector in South-east Tanzania; chapter 5 argues about Sustainability Partnerships in the Forestry Sector in South-east Tanzania; chapter 6 deals with Sustainability Partnerships in the Coastal Resources Sector in South-east Tanzania. Part III on “Comparative Analysis” has five chapters. Chapter 7 is on The Legitimacy of Sustainability Partnerships in South-east Tanzania; chapter 8 is working on The Governance Complexity of Sustainability Partnerships in South-east Tanzania; chapter 9 discusses the Environmental Impacts of Sustainability Partnerships in South-east Tanzania; and chapter 10 analyses the Livelihood Impacts of Sustainability Partnerships in South-east Tanzania. Chapter 11 is summarising the whole research done by the team under the title of “Contested Sustainability”.

Chapter 11 summarises the issues on the “contested sustainability” in a very useful way. It is shown that “sustainability partnerships” need a much deeper analysis of the involved networks of actors and the impacts on institutions, as the term sustainability has a very complex meaning in such partnerships. Sustainability partnerships can be defined in different ways, first by incorporating the form of legitimacy (if the levels of participation of local people and the role and power of the many actors from state and non-state provenience have a more participatory character or not); second by investigating the re-centralization and militarization context of such partnerships (if sustainable partnerships are incorporated via central order and/or security forces to protect wildlife, and coastal, and forest zones or not); third by regarding the complexity of partnerships (if the complexity of networks is contributing also to a complexity of institutions by including local villagers and stakeholders with less power, or if such regulations are not emerging); fourth by considering the environmental aspects (if the environmental protection impacts are positively related to network complexity and to institutional complexity, or if this is not always the case); and fifth by analysing the real livelihood impacts (if the local villagers are really benefitting from the sustainability partnerships on forest areas, on wildlife areas, and on coastal areas, or if such impacts are only marginal or even not existent). The study found out that the degree of re-centralization of state control about such sustainability partnerships is a key factor in Tanzania, so that the inequality in power relations matters most for the true impact of such partnerships. The case of Tanzania shows that the re-centralization of power relations over such partnerships has gained a strong influence relative to the other criteria when evaluating the sustainability partnerships. It is not easy to find sustainability partnerships with a more egalitarian character and with balanced criteria for sustainability (with less rather than more centralization and militarization of power relations and with a move to more complex institutional regulations which observe legitimacy, environmental protection, and livelihoods improvement).

The study is a masterpiece in development research as the methodology and the results are of great value to so many other countries (developing and developed countries alike) which are promoting their “sustainability partnerships” on forests,

wildlife areas, and marine zones. Too often the implications of such sustainability partnerships are not reflected by the project planners, the financiers, and the government offices.

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Toure, S., Fuller, G., De la Mothe Karoubi, E., Lafortune, G. (2023). Benin Sustainable Development Report 2023 : Strengthening Human Capital and Reducing Inequalities. Paris: Sustainable Development Solutions Network, 2023, 106 pages, Links: <https://s3.amazonaws.com/sustainabledevelopment-report/2023/2023-benin-sustainable-development-report-english.pdf>

Benin Sustainable Development Report (2023) is the second in a series of reports published as part of the corporation between the Government of Benin and the United Nations Sustainable Development Solutions Network (SDSN). In order to support the national system, the country has established a partnership with the United Nations Sustainable Development Solutions Network (SDSN) to assess the progress and efforts made by the Beninese government and to carry out a comparative analysis with other countries in the sub-region, particularly those of the Economic Community of West African States (ECOWAS). The first report under this partnership, published in July 2022, presented the state and the trends of the SDGs in Benin, and policies to achieve them through the “Six Transformations” framework. The report shows that Benin is halfway to achieving the SDGs. The report also shows that Benin is ranked among the countries with a strong political commitment to achieving the SDGs. The same applies to the Government Action Program, which addresses the vast majority of the challenges associated with the SDGs. This second edition of the report aims to show the performance and trends of the SDGs in Benin, and policies to achieve them through the “Six Transformations” framework. The report shows that Benin faces the challenge of pursuing its economic and social development while ensuring that no one is left behind. The report explains that Benin is giving priority to developing human capital and reducing inequalities in its pursuit of the SDGs, with 45.6 percent of its national budget and 49.8 percent of the SDG Eurobond expenditure dedicated to social spending in 2023. The second edition of the report (2023), focused on evaluation of the “Six Transformations”, and focused on the theme of “strengthening human capital and reducing inequalities”, with particular emphasis on Transformation 1 (education, gender and inequalities) and Transformation 2 (health, well-being and demography), which aim to improve human capital and reduce socio-economic and gender inequalities.

The report indicates that this choice is in line with the social orientation of the Government Action Program (2021-2026) through its pillar no. 2 “Improving the social well-being of the population”. The report indicates that the current context, marked by various health and security crises as well as the Russian-Ukrainian war, is threatening countries’ progress towards the Sustainable Development Goals. There are undoubtedly threats to human capital, as well as risks of accelerating inequalities within populations. Through this central theme of the SDSN 2023 report for Benin, the report suggesting an in-depth analysis of the progress made by the country and the gaps that still need to be filled in the social sectors (education, health, etc.), so as to establish targeted adaptation of Benin’s policies in response to various exogenous shocks.

As for the structure the report includes three parts, Part 1 discusses SDG index and dashboard, “Leave No One Behind” index and dashboard, and statistics for sustainable development in Benin. Part 2 focuses on the “Six Transformations” for the SDGs in Benin, it examines Benin’s performance in achieving the “Six Transformations”, with particular emphasis on Transformations 1 & 2: Building Human Capital and reducing inequalities. Part 3 explores the policy monitoring, political and government efforts and commitments to the SDGs, and the 2030 Agenda and the Scorecards for SDG transformations.

Benin Sustainable Development Report (2023) compares performance and trends in achieving the SDGs in Benin and other Economic Community of West African States (ECOWAS) countries. The report shows the following performance and trends for the SDGs: Benin is halfway to achieving the SDGs with a score of 54.4 out of 100, above the population-weighted average for the Economic Community of West African States (ECOWAS), across all 17 SDGs. Benin is achieving SDGs 12 (Responsible Consumption and Production) and 13 (Climate Action). Although major challenges remain to achieving most of the SDGs in the sub-region, Benin is making moderate progress on SDG 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure) and 12 (Responsible Consumption and Production). At the current pace of progress, and although challenges remain, Benin is well on the way to achieving SDG 10 (Reduced Inequalities) by 2030. In Benin, the decreasing trends in SDG 7 (Clean and Affordable Energy) and SDG 11 (Sustainable Cities and Communities) should be monitored.

At the sub-national level, the “leave no one behind” indexes highlight the following observations: Benin’s highest performance is on the dimension of inequality of income and wealth, with a score of 67.8 out of 100 for Benin as a whole. However, this dimension has the most noticeable discrepancies between departments, as measured by the average deviation of index scores. The gap between the most advanced department and the least advanced, which is 52.1 index points, is also the highest of the four indexes. The dimension in which Benin performs least well is accessibility and quality of services, with a score of 44.2 out of 100. This is also the dimension in which discrepancies, as measured by the average deviation

of index scores, are smallest between departments. As for the gap between the most advanced department and the least advanced, it is 41.3 index points. Gender equality scored 60.4 out of 100 nationally. Moreover, this is the dimension for which there is the least difference between the most advanced department and the one with the lowest score (33.9 index points). Benin's score on the poverty and material deprivation index is 52.0 out of 100, and the gap between the most advanced department and the least advanced department is 48.3 index points.

The 2023 Sustainable Development Report again positions Benin among the countries with "strong commitment" to the SDGs, ranked 5th out of the 74 countries globally, emphasising the Government's commitment and efforts in implementing the 2030 Agenda. The evaluation of performance on the "Six Transformations" emphasises the important progress and remaining challenges in attaining the targets for education, health and reducing socio-economic and gender inequalities. The report highlights the major important progress areas including the reduction in poverty and inequality; and the report indicates the persisting challenges including the maternal, neonatal and under-5 mortality rates.

The report shows that the assessment of the institutional framework for the implementation of the 2030 Agenda in Benin has shown the strong institutional capacities for the achievement of the SDGs. Since 2016, Benin has appropriated the SDGs to domesticate the goals and adopt a coherent development strategy. The country institutional arrangement and strong political will could enable it to achieve important outcomes in the coming years. The report indicates that the government keep on initiating policies to transform education, health, and reduce socio-economic and gender inequalities, to address the challenges facing the country and to accelerate its progress towards achieving the SDGs.

"Entreprises, entrepreneurs et travail au Sénégal", édité par Ulrike Schuerkens, Paris : L'Harmattan, 2023, 292 pages. Links to the publication for download: <https://www.editions-harmattan.fr/catalogue/livre/entreprises-entrepreneurs-et-travail-au-senegal/764?srsId=Afm-BOopZ2mOhlW39dEQlswu8eSi2bM1yFoDudM-4YWw6i3B3JMUkzIFAy>, and: <https://rc09socialtransformations.org/member-publications/>

Professor Ulrike Schuerkens returns to us after a first book which was very successful in the world of higher education, entitled "Pour une sociologie du management en Afrique et dans le monde arabe" ("For a sociology of management in Africa and the Arab world"). Now she presents another work that teaches us a great deal about the world of production, titled "Entreprises, entrepreneurs et travail au Sénégal". This 292-page book is published by L'Harmattan. It contains 12 chapters covering the state of the Senegalese economy from the 1980s to the dawn

of the 21st century. It explains the effects of the structural adjustments inspired by the Bretton Wood institutions, the World Bank and the International Monetary Fund. We learn how Senegalese SMEs are managed, with 407,882 businesses in 2017 (formal and informal). Trade, with 53% of this number, remains the most popular activity, both in Dakar and in the inland regions. Self-employment is favoured because of the country's under-industrialisation. Moreover, the bulk of economic players are in the craft and agricultural sectors. But these economic players are faced with problems of access to credit, lack of training, burden of taxation, the unfavourable working environment, and the lack of modern production tools. As a result of all these factors, the public authorities have set up support structures, such as the "Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises" (ADEPME), the "Direction de l'Entrepreneuriat Rapide" (DER), the "Agence Nationale pour la Promotion des Jeunes" (ANPJ), the "Fonds de Financement de la Formation Professionnelle et Technique" (3FPT), and the "Programme des Domaines Agricoles Communautaires" (PRODAC). In 2019, to curb youth unemployment, the government has set up the "XEEWU DAWÉ GNI" programme to create 65,000 jobs in urban and rural areas.¹⁵

Today, financial support for SMEs has developed considerably with the wave of start-ups and high-tech SMEs. This has led to several types of financing, such as nano-credits, finance based on business plans, and credits granted by various ministries. Management also saw a boom in the creation of training schools and institutes from the 1980s onwards, following the Structural Adjustment Programmes (SAPs). The result was the creation of ISM, SUPDECO, IAM, Groupe AFI-L'UE, BEM, ISG, IFACE. and others. They have contributed to the socio-economic development of the private sector in Senegal. In fact, many managers and business leaders have graduated from these institutions, which focus on management, finance, accounting, and auditing. In short, Professor Ulrike SCHUERKENS provides an unprecedented diagnosis of the company, the entrepreneur, the management methods, the innovation processes, but also on information and communication technologies and on digital technology. This 292-page book, published by L'Harmattan, is a real eye-opener. The dedication of this sociologist from the University of Rennes 2 (France), who has devoted part of her academic work to Africa, is to be commended. So many of the recommendations contained in the book are relevant for SMEs all over Africa.

Moustapha TAMBA, Full Professor of the University Cheikh Anta DIOP, Dakar, Senegal

¹⁵ See about the workshops for SMEs of this GNI Digital Growth Programme: <https://newsonair.withgoogle.com/dgp-na>

D: African Development Reports

Five African Development Reports are now advising annually African and the International Policymakers. The following listing and synopsis accounts for the reports which appeared since 2021 under the guidance of UNECA, UNCTAD, African Development Bank, OECD, and African Union. There are some overlapping messages, but the purpose is to demonstrate that Africa as a continent is considered by the major development actors, such as UN, AU, AfDB, beside of the key finance organizations, such as World Bank and IMF, which have their own Africa publications.

United Nations Economic Commission for Africa. (2022). Economic Report on Africa 2021: Addressing poverty and vulnerability in Africa during the COVID-19 pandemic. Link: <https://repository.uneca.org/server/api/core/bitstreams/fc12980a-3497-45d4-bd22-118ee36d1a8e/content>

The Economic Report on Africa is an annual report published by UNECA. In volume 23 of the African Development Perspectives Yearbook reviews of volumes were included for the reports 2019 and 2020. The following reports are presented in volume 24 of the Yearbook. The Economic Report on Africa 2021 (abbreviated as ERA) is on “Addressing poverty and vulnerability in Africa during the COVID-19 pandemic” and was released on 12 May 2022. The message is described as follows: “Addressing poverty and vulnerability in Africa during the COVID-19 pandemic is the theme of the 2021 Economic Report on Africa. The report provides a perspective of the causes and consequences of increased poverty due to the COVID-19 pandemic, as well as from other shocks such as an oil price collapse, within a vulnerability–poverty–resilience framework, providing national estimates of people vulnerable to falling into poverty in different country clusters. The principal messages of this report are that poverty in Africa is highly dynamic and that poor people move into and out of poverty because of consumption volatility arising from exposure to risks caused by shocks like the COVID-19 pandemic and that their inability to manage uninsured risks only increases their vulnerability. Poverty in Africa is also geographically centralized, and two commodity exporting countries, the Democratic Republic of the Congo and Nigeria, account for a large share of the continent’s poverty. The report provides policy recommendations for Member States to devise policies that not only reduce immediate poverty (ex-post) but also reduce vulnerability to poverty (ex-ante). Recommendations do not just aim to expand social assistance but also to build assets and strengthen social infrastructure to promote growth and improve households’ capacity to manage risks

and maintain resilience against future shocks. Such capacity is particularly important for building forward better after the COVID-19 pandemic.”

The Economic Report on Africa (ERA) 2021 is addressing the poverty, vulnerability, and resilience implications of the pandemic. New frameworks for analysis were used. Regrettably the policymakers have not followed much of the advice given. However, there is the ambition to reorganize the health systems in Africa at the continental level. Direct access of health staff to the households in the districts where the poor and the vulnerable live is recommended. Implementation is starting slowly.

United Nations Economic Commission for Africa. (2023). Economic Report on Africa 2023: Building Africa’s resilience to global economic shocks. Link: <https://repository.uneca.org/entities/publication/d5200ab0-c5e6-4785-95a1-6deec99d38ce>

The Economic Report on Africa 2023 is on the theme of “Building Africa’s Resilience to Global Economic Shocks”, and it has the following messages: “The report focuses on the impact of multiple and recurring global shocks on African economies. It examines how these shocks impede Africa’s prospects of reaching the targets set in the Sustainable Development Goals (SDGs), how to achieve inclusive economic transformation and how to build resilience. The analytical and conceptual framework used in the report outlines a typology based on the magnitude of the shocks and on the resilience or preparedness of economies to withstand and buffer the shocks and identify pathways for sustainable recovery. Shocks of various magnitude, duration and recurrence have shaped economic performance in the last several decades. They have undermined Africa’s aspirations for sustained growth and rapid economic transformation and benefiting from demographic (youth bulge) and geographic (urbanization) trends. They have also had scarring effects that make it difficult for African economies to recover fully even after a short-lived shock such as the global financial crisis. More important, their damage could morph into other domains such as political instability and conflict, thus undermining recovery, and the resilience to future shocks. The report also emphasizes the opportunities to implement long overdue structural and public finance reforms and to take full advantage of regional initiatives such as the African Continental Free Trade Area to reduce Africa’s exposure to external shocks.”

United Nations Economic Commission for Africa. (2024). Economic Report on Africa 2024: Investing in a Just and Sustainable Transition in Africa. Link: <https://repository.uneca.org/entities/publication/c7cd2d8b-0652-4059-8170-643444db54c8>

The Economic Report on Africa 2024 has the theme “Investing in a Just and Sustainable Transition in Africa”, and it was released on 24 April 2024. The message brought forward in ERA 2024 is the following: “Amid the fragmented and conflict-prone world, Africa faces many economic, social, and environmental challenges. They are unprecedented in scale, complexity, and interconnectedness, and they impede Africa’s attaining the 2030 Agenda for Sustainable Development and the African Union’s Agenda 2063. These global challenges render business-as-usual strategies unsustainable. A new approach is required to accelerate wealth creation, reduce inequality, and achieve more equitable and sustainable development.” It is also considered as the role of the ERA 2024 to achieve the following: “The report underlines the leapfrogging opportunities stemming from Africa’s early stage of development and generous endowment in natural resources. The latter is key for sustainability transition. The report underscores Africa’s other strengths such as arable land and youthful populations. Making the most of them will require not only a fundamental shift in countries’ policy and planning processes, but also much greater and more effective involvement of the private sector and development partners. This report also highlights the policy and institutional mindset shifts required to catalyse JSTs (for the abbreviation: Just and Sustainable Transitions) in Africa.”

The ERA 2024 should remind the policymakers to identify new approaches for benefitting from new trends and technologies in the developed world, such as the green technologies, the demand for critical minerals for renewable energies, the development and spread of new pharmacy products to Africa, etc. New business opportunities can be gained by innovative and sustainable policies in Africa. It is not obvious that such a role is taken up effectively and collectively in Africa. But the chapter 4 of ERA 2024 makes it more concrete where the opportunities are. The main strategic investment opportunities for Africa are seen in renewable energy, in battery and electric-mobility value chains, in carbon-credit markets, in sustainable infrastructure, and in the circular economy. The minerals sector of Africa, it is argued, can become the basis for a JST towards green(er) value chains. De-risking strategies, building of sustainable infrastructure, and the creation of carbon-credit markets are presented as ways at implementation, but uncertainty about outcomes remains. Greening of fertilizer manufacturing and infrastructure development for green hydrogen and lithium-ion batteries for the global electric-vehicle market are mentioned as potential investment opportunities. Some country cases are presented to show specific positive trends in this direction, but problems for broadening and deepening the trend remain.

United Nations Conference on Trade and Development. (2022). Economic Development in Africa Report 2022: Rethinking the Foundations of Export

Diversification in Africa: The Catalytic Role of Business and Financial Services. UNCTAD. Link: https://unctad.org/system/files/official-document/aldcafrica2022_en.pdf

The Economic Development in Africa Report (EDAR) is an annual publication which is presented by UNCTAD. This publication is leaning to the main competence field of UNCTAD, namely trade, development, and competitiveness. The reports benefit from the research and policy staff working daily on these issues and the global networks of UNCTAD. While the report for 2021 was reviewed in volume 23 of the African Development Perspectives Yearbook, the following reports for 2022 and 2023 are reviewed in this Yearbook volume.

The theme of the Economic Development in Africa Report 2022 is “Rethinking the Foundations of Export Diversification in Africa: The Catalytic Role of Business and Financial Services”. The message of Ms. Rebeca Grynspan, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), about this report is the following: The “Economic Development in Africa Report 2022 serves Africa’s effective integration into high-end global value chains, a key objective for its long-term sustainable development. The African Continental Free Trade Area, which this report analyses in depth, can help foster the growth of a highly competitive, technology-intensive services sector in Africa and thereby drive export diversification. In addition, our report shows how, by addressing barriers to trade in services, boosting relevant skills and improving access to innovative alternative financing, the region’s manufacturing productivity can be enhanced, driving Africa’s economic growth and structural transformation for many years to come.”

The report has four chapters. While chapter 1 informs about the pulse of export diversification in Africa and the role of the African Continental Free Trade Area (AfCFTA), the chapters 2 and 3 are more specific by informing on the trade in services as a niche for export diversification and on the role of financial services and the private sector for export diversification. Chapter 4 has important conclusions and policy recommendations on how to strengthen export diversification in Africa. The report adds to the information on new export fields in Africa. Country cases (Sierra Leone, Kenya, Mauritius, and Uganda) and cases of successful countries on export diversification in Latin America and Asia add to the informative value of the report.

United Nations Conference on Trade and Development. (2023). Economic Development in Africa Report 2023: Rethinking the Foundations of Export Diversification in Africa: The Potential of Africa to Capture Technology-Intensive Global Supply Chains. UNCTAD. Link: https://unctad.org/system/files/official-document/aldcafrica2023_en.pdf

The Economic Development in Africa Report 2023 on the theme “The Potential of Africa to Capture Technology-Intensive Global Supply Chains” is a timely follow-up to the report for 2022, as the opportunities are assessed of Africa to become part of technology-intensive global supply chains by using the capacity of its young labour force and the growing digital competence of its skilled workers. The stated message about the report by Mrs. Oulimata Sarr, Minister of Economy, Planning and Cooperation, Senegal is as follows: “Africa's role in technology-intensive global supply chains is expected to be increasingly important due to the growing demand for specialized materials and given their abundance on the continent. As recent crises continue to disrupt the global economy, relocating some supply chains to Africa is expected to reduce transportation costs, promote environmental sustainability, and supply chain diversification. Thus, high-tech industries, in particular, the manufacture of electric vehicles and mobile telephones, which require a wide range of raw materials and intermediate inputs, can take advantage of the proximity of the African market, and benefit from opportunities for greater added value and job creation, all of which are advantages that help achieve the objectives of the African Union's Agenda 2063.”

Mrs. Oulimata Sarr, Minister of Economy, Planning and Cooperation, Senegal states also in her comment about the report: “I appeal to African decision-makers, governments, financial partners and international organizations, the African private sector, to implement all appropriate means and supply chain network diversification strategies that will increase Africa's competitiveness and attractiveness and will help convince global companies to make Africa a top destination. This is undoubtedly an asset and a challenge in the deployment and implementation of the African Continental Free Trade Area (AfCFTA), with a significant impact on regional value chains.”

The EDAR 2023 report has an Overview, five Chapters, and References. Key issues are the perceived disruption of the global supply chains in times of multiple crises, the comparative advantage of Africa in times of global demographic changes and the digitalization revolution, the resetting of African markets and businesses for mobility and scale, and the need of optimizing supply chain opportunities in Africa through enablers and incentives. All this means that the report is action-focussed and policy-oriented.

United Nations Conference on Trade and Development. (2024). Economic Development in Africa Report 2024: Unlocking Africa's trade potential: Boosting regional markets and reducing risks. UNCTAD. Link: https://unctad.org/system/files/official-document/aldcafrica2024_en.pdf

The EDAR report for 2024 is peer-reviewed¹⁶. It is stated: “The Economic Development in Africa Report 2024 will investigate the various internal and external threats that are prevalent in African countries. It will also assess the measures that companies, including African small and medium-sized enterprises, can deploy to de-risk the impact of such threats on their business, trade, and investment activities at national and regional levels. The report will also advance effective mechanisms through which financial market instruments and regional cooperation (especially intra-African trade) can be leveraged to mitigate the perceived risks in African markets.” If this report finally appears, it would also be related to the main theme and the key competence of UNCTAD, as the threats to global supply chains and the barriers to trade and globalization are on the increase and are impacting Africa in many ways.

African Development Bank Group. (2022). African Economic Outlook 2022. Link: https://www.afdb.org/sites/default/files/documents/publications/african_economic_outlook_2022_web.pdf

The African Economic Outlook, edited and published by the African Development Bank (AfDB), looks at the perspectives of Africa in the near-term and in the medium-term. The African Economic Outlook 2021 on the theme From Debt Resolution to Growth: The Road Ahead for Africa was reviewed in volume 23 of the African Development Perspectives Yearbook 2022/23 (pages 502-505). One can say that this report is the flagship publication of the African Development Bank (AfDB), and that the release of this annual report has strengthened the role of the African Development Bank in relation to the African Union and the UNECA, but also vis-à-vis other international finance organizations.

The African Economic Outlook 2022-23 is presented with the following words: “The theme of the 2022 African Economic Outlook is Supporting Climate Resilience and a Just Energy Transition in Africa. The theme highlights climate change as a growing threat to lives and livelihoods in Africa and mirrors the theme of the 2022 Annual Meetings. Despite having 17% of the current global population, Africa has accounted for a negligible 3% of cumulative worldwide CO2 emissions historically. However, climate change and extreme weather events disproportionately affect Africa, with severe economic, social, and environmental consequences for its people. The African Economic Outlook makes it clear that the pandemic and the Russia-Ukraine war could leave a lasting impression over several years, if not as much as a decade. Meanwhile, around 30 million people in Africa were pushed into extreme poverty in 2021 and about 22 million jobs were lost in the same year because of the pandemic. And the trend is expected to

¹⁶ See on the peer-review process: <https://unctad.org/meeting/peer-review-economic-development-africa-report-2024>

continue through the second half of 2022 and on into 2023. The economic disruptions stemming from the Russia-Ukraine war could push a further 1.8 million people across the African continent into extreme poverty in 2022. That number could swell with another 2.1 million in 2023. The continent's additional financing needs for 2020-22 are estimated at \$432 billion. Financing African countries' nationally determined contributions—public pledges from countries on how they plan to play a part in post-2020 collective action on climate change—will require up to 1.6 trillion between 2022 by 2030. The continent loses between 5% and 15% of the gross domestic product to climate change. Collectively, African countries received only \$18.3 billion in climate finance between 2016 and 2019. This leaves a climate finance gap of up \$1288.2 billion annually from 2020 to 2030.”

So, we see that also the African Economic Outlook 2022 looks in estimations and projections at the next few years and this in view of the consequences of global policies and disruptions. The report has 3 chapters. Chapter 1 is on Africa's economic performance and outlook, and the chapters 2 and 3 deal with Climate Resilience and a Just Energy Transition in Africa (for chapter 2) and with Financing Climate Resilience and a Just Energy Transition in Africa – focussing on Strategies and Instruments. Then the report presents the valuable Country Notes, and we learn about country-specific initiatives on climate resilience and of financing them. The chapter 1 updates on the estimates of the socioeconomic effects of COVID-19 and the Russia-Ukraine conflict in Africa. The report has Highlights and Key Messages to give the policymakers an easy reading. It is quite interesting to see that similar themes are found in reports of the other publishers of annual African Development Reports (such as ERA 2024 of UNECA).

African Development Bank Group. (2023). African Economic Outlook 2023. Link: https://www.afdb.org/sites/default/files/documents/publications/afdb23-01_aeo_main_english_0602.pdf

The African Economic Outlook 2023 is on the theme of Mobilizing Private Sector Financing for Climate and Green Growth in Africa, so that one can say that it is a follow-up to the African Economic Outlook 2022. The African Economic Outlook 2023 report is introduced by the African Development Bank in the following words: “The African Economic Outlook 2023 is being published as African countries are dealing with multiple shocks, including the effects of the COVID-19 pandemic, disruptions to global supply chains due to Russia's prolonged invasion of Ukraine and a tightening of global financing conditions. These shocks have reduced the continent's real GDP growth from 4.8 percent in 2021 to 3.8 percent in 2022. However, African economies remain resilient, with average growth projected to stabilize at 4.1 percent in 2023–24. The growth outlook is subject to

significant downside risks, including i) subdued global growth weighing on Africa's exports, persistence of tight global financial conditions exacerbating debt servicing costs; ii) significant losses and damages due to frequent extreme weather events exacerbating fiscal pressures; iii) the prolongation of Russia's invasion of Ukraine, which is increasing global uncertainty; and iv) persistent disruptions to global supply chains. Other factors include elevated geopolitical risks." But the report has much more to offer, such as a deep analysis of the natural wealth of Africa.

The report has three Chapters and the Country Notes. Chapter 1 is on Africa's economic performance and outlook; Chapter 2 is on Private sector financing for climate action and green growth in Africa; and Chapter 3 is on Natural capital for climate finance and green growth in Africa. Obviously, the chapter 3 is an innovation as it is made clear that the protection of the natural capital is a precondition for sustainable green growth in Africa. Africa's natural wealth is therefore outlined in profound detail. Chapters 1 to 3 also have useful policy recommendations.

African Development Bank Group. (2024). African Economic Outlook 2024. Link: https://www.afdb.org/sites/default/files/2024/06/06/aeo_2024_-_chapter_1.pdf

The African Economic Outlook 2024 with the theme Driving Africa's Transformation – The Reform of the Global Financial Architecture is moving away from specialized topics to a new global financial order and the role that Africa can play in it to speed up Africa's structural transformation. The African Development Bank describes the content as follows: "The theme of the 2024 African Economic Outlook is Driving Africa's Transformation: The Reform of the Global Financial Architecture. Despite strong economic performance and remarkable resilience, structural transformation in Africa has been slow and uneven, and addressing this will require calling bold reforms of the global financial architecture to meet Africa's development financing needs.

The African Economic Outlook 2024 is being published as African countries continue to contend with significant structural challenges and multiple severe shocks, including heightened food and energy prices driven by geopolitical tensions such as Russia's invasion of Ukraine, climate issues affecting agriculture and energy production, and persistent political instability. This challenging environment has led to a slowdown in Africa's real GDP growth, which dropped to 3.1 percent in 2023 from 4.1 percent in 2022. Looking forward, however, the economic outlook is more positive, with growth expected to increase to 3.7 percent in 2024 and 4.3 percent in 2025, highlighting the strong resilience of African economies. This growth rebound will be underpinned by expected improvements in global economic conditions and effective policy measures. With these outturns,

Africa will remain the second-fastest growing region globally, with 40 countries set to achieve post higher growth rates relative to 2023 levels.

Despite these positive trends, Africa still faces challenges in achieving sustainable economic and social transformation. Historical growth rates have been insufficient to offset population increases, leading to minimal gains in per capita GDP. Structural transformation has been limited, with economies heavily reliant on traditional, low-productivity sectors like agriculture or low-skilled services for growth and employment. To achieve substantial structural transformation, Africa needs to focus on strategic investments in key Sustainable Development Goal areas such as education, energy, productivity-enhancing technology and innovation, and productive transport infrastructure. The financing gap for these investments is vast, estimated at about US\$402 billion annually until 2030, and will require scaling up domestic resource mobilization and fostering private sector investment. However, given the enormity of resources, scaling up external financial flows as complementary sources of financing is crucial. In that respect, the report underscores the urgency to reform the global financial architecture to facilitate fair, sustainable, and inclusive resource allocation, essential for financing Africa's development goals.”

The African Economic Outlook 2024 report has three Chapters and the Country Notes. Chapter 1 is on Africa's economic performance and outlook. There is a sub-section on linkages between Africa's transformation efforts and the international financial architecture. Chapter 2 is on Taking stock of Africa's economic transformation progress. The drivers, opportunities, and bottlenecks of structural transformation in Africa are considered. A new development strategy is presented. Chapter 3 is on Financing structural transformation in Africa, focussing on reforms of the global financial architecture. All the important dimensions of financing structural transformation are presented, and the way forward is also brought in with seven key recommendations to accelerate structural transformation in a changing global environment. The Country Notes follow, but the report contains also the Highlights and in all the three chapters we find useful policy recommendations. This is easy reading for the policymakers in Africa.

Organisation for Economic Co-operation and Development. (2022). Africa's Development Dynamics 2022: Regional Value Chains for a Sustainable Recovery. Link: https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/05/africa-s-development-dynamics-2022_8e128a8d/2e3b97fd-en.pdf

The report Africa's Development Dynamics 2022 is a joint venture by OECD and African Union. The theme for the report 2022 is Regional Value Chains for a

Sustainable Recovery. The theme is addressed in the following words: “Africa’s Development Dynamics uses lessons from Central, East, North, Southern, and West Africa to develop policy recommendations and to share good practices. Drawing on the most recent statistics, the analysis of development dynamics aims to assist African leaders in reaching the targets of the African Union’s Agenda 2063 at all levels: continental, regional, national and local.

The 2022 edition of Africa’s Development Dynamics explores how developing regional value chains can help African countries rebound from the socio-economic shocks of the COVID-19 pandemic and accelerate productive transformation. It targets policy areas where private and public actors can support regional value chains when operationalising the African Continental Free Trade Area (AfCFTA). African firms can harness digital innovations to reduce production costs, and governments can design policies for skills development, public procurement and foreign investment to strengthen industrial linkages. Two continental chapters examine related African initiatives and global trends. Five chapters tailor policy recommendations to specific value chains in each region.

Africa’s Development Dynamics feeds into a policy debate between governments, citizens, entrepreneurs and researchers. It proposes a new collaboration between countries and regions, focussing on mutual learning and the preservation of common goods. This report results from a partnership between the African Union Commission and the OECD Development Centre.”

The joint venture between the African Union Commission (AUC) and the OECD Development Centre has advantages for both sides. The African Union (AU) can use the data sources and the staff of the OECD Development Centre, and the views of the African Union (AU) on the African Union Agenda 2063 are specified and applied in important research efforts.

The report has seven chapters, and for the policymakers the introductory chapters 1 and 2 and the sectoral chapters 3 to 7 present a valuable source of information. An Executive summary and an Overview give the policymakers the chance for easy reading.

Organisation for Economic Co-operation and Development. (2023). Africa's Development Dynamics 2023: Investing in Sustainable Development. Link: https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/07/africa-s-development-dynamics-2023_867685ba/3269532b-en.pdf

The 2023 edition of the OECD’s and the African Union’s Africa’s Development Dynamics highlights how African countries can attract sustainable investments to achieve the Sustainable Development Goals (SDGs).

According to this report, Africa’s sustainable financing gap until 2030 is 1.6 trillion US dollars. Africa would need an additional 194 billion US dollars

annually in order to achieve the SDGs by 2030. This annual gap is equivalent to roughly 7% of African GDP and 34% of its investments in 2021.

Africa has a large potential for sustainable investment, however, challenges like high inflation rate and high cost of capital are deterring this. Because of this, investor confidence must be improved and resilience to external shocks must be increased. The report highlights that African policy makers can work with international organizations to mobilise investments towards Agenda 2063 and sustainable development.

The report also highlights three key policy priorities for sustainable development. First, there is a need for more and better data to reduce transaction costs. Improved data can help align risk perceptions with real risks and the use of actual industry data can help governments do appropriate sustainability assessments. Second, strengthening the capacity of African development finance institutions can improve sustainable finance allocation. Lastly, regional integration, specifically through improving free trade areas, will help harmonise the investment landscape.

Additionally, the report also provides specific policy recommendations for African regions for a more catered approach to improving sustainable finance investments.

Organisation for Economic Co-operation and Development. (2024). Africa's Development Dynamics 2024 Skills, Jobs and Productivity. Link: https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/07/africa-s-development-dynamics-2024_80022d4b/df06c7a4-en.pdf

For 2024, the OECD and the African Union now shift their focus on skills, jobs, and productivity. The report highlights that productivity can be greatly improved when there is investment in better skills for better jobs.

The report highlights the potential for Africa due to its highly educated and rapid growing population which is expected to account for a huge change in the global workforce by 2050. Moreover, socioeconomic returns on better education are higher in Africa than in any other world region. Moreover, the African labour market is also quickly adapting to newer technological trends and this is shifting the demand and supply for labour. The number of jobs requiring digital skills is growing.

The report also provides specific recommendations that will not only improve productivity but will also balance it out with goals of employment potential and inclusivity. These recommendations include: ensuring skills strategies are based on data pertaining to each's country's specific national context, increase of education spending through cost-effective interventions and assessments, training

and recognition for female workers, adapting of training institutions to Africa's emerging skills need, and broadening of international partnerships.

Similar to other editions of the report, specific policy recommendations are made for African regions to improve on skills, jobs, and productivity.

United Nations Development Programme. (2022). Africa Sustainable Development Report 2022: Building back better from the coronavirus disease (COVID-19) while advancing the full implementation of the 2030 Agenda for Sustainable Development. Link: https://www.undp.org/sites/g/files/zskgke326/files/2023-06/asdr_2022-en-full_report-final.pdf

The annual Africa Sustainable Development Report published by the United Nations Development Programme (UNDP) reviews Africa's progress on the 2030 Agenda for Sustainable Development and agenda 2063. The 2022 edition is special in that it is at the midway of the implementation of the 2023 Agenda.

For SDG 4 on education, Africa made slow progress with the COVID-19 pandemic reversing some gains. Millions of school-age children remain out of school, specifically in conflict-affected areas while primary and secondary completion rates are still below global levels. For SDG 5 on gender equality, legal protection for women remains weak which countries lacking frameworks to combat violence and discrimination. For SDG 14 on life below water, protected marine areas in Africa exceed the global average, but conservation efforts are hindered by challenges. Lastly, for SDG 15 on life on land, it was noted that some countries show promise in sustainable land practices but threats to specific species like elephants persists.

The report highlights the effect of the Ukraine-Russian crisis on the implementation of the SDGs in Africa, specifically in its effect in the rising prices of food, fuel, and energy.

To improve implementations of the SDGs, the report recommends more investments in education, specifically by improving infrastructure and increased teacher training. Legal frameworks must also be implemented to protect women and girls from violence and to improve gender equality in employment opportunities. For marine ecosystems, awareness should be raised on pollution and governments should invest in coastal development. Land and biodiversity conservation also requires increased funding.

United Nations Development Programme. (2023). African Sustainability Report 2023: Accelerating the recovery from the coronavirus disease (COVID-19) and the full implementation of the 2030 Agenda for Sustainable Development and African Union Agenda 2063 at all levels. Link:

https://www.undp.org/sites/g/files/zskgke326/files/2023-10/undp_africa_2023_africa_sustainable_development_report.pdf

For the 2023 edition, the reports highlights the conclusion of the first 10-year implementation plan of Agenda 2063 and midway of the 2030 Agenda. The report highlights that the success of the implementation of both plans is being impeded global crises and conflicts. Because of this, the reports highlights the need to urgently develop stimulus programs to get the implementation of goals back on track.

For SDG 6 on access to safe drinking water, it has been reported that access is on the rise, however, there is a difference in access between urban and rural areas. Moreover, three out of four Africans still lack access to safe sanitation services. Specifically, North Africa is at high risk of water stress. To address this, the report recommends leveraging synergies with other SDGs and strengthen integrated water resource management capacity.

For SDG 7 on access to sustainable energy, electrification rates are on the rise but there is still a stark difference between in access between urban and rural areas. The shift to renewable energy is slow requiring the need for increased infrastructure funding while universal access to clean cooking fuels remains a top priority.

For SDG 9 on resilient infrastructure, it was noted that Africa is going well on mobile network coverage. However, the continent continues to underperform compared to other global regions in terms of share of GDP from manufacturing. Moreover, natural disasters have heavily impacted cities and human settlements. The report highlights the need to improve waste management in many African cities.

United Nations Development Programme. (2024). Reinforcing the 2030 Agenda and Agenda 2063 and eradicating poverty in times of multiple crises: the effective delivery of sustainable, resilient and innovative solutions. Link: https://www.undp.org/sites/g/files/zskgke326/files/2024-07/asdr_2024_-_en_0.pdf

Overall, the report for 2024 highlights the need for Africa to accelerate progress on SDGs 1, 2, and 17 and reverse the negative trends for SDG 13.

On ending poverty, there have been modest poverty reductions in multiple cities in recent years, however, social protection remains inadequate. There has also been modest access to drinking water and basic sanitation services. On hunger and food insecurity, there has been an alarming increase in the number of people facing hunger and undernourishment. It's also been noted that investments in

agriculture have overall decreased. On combating climate change, Africa still remains the lowest per capita contributor to global carbon emissions, but the country is still highly vulnerable to climate change impacts. This is exacerbated as corruption is still seen as a major hindrance to development in many African countries. Moreover, domestic resource mobilization in Africa remains low and FDIs have also stagnated.

The report highlights several key recommendations. The first is for Africa to advocate for scaled-up access to concessionary development financing and to pursue forward-looking debt sustainability analysis. There is also a need to implement comprehensive economic and institutional reforms to enhance use of resources. Lastly, it's been recommended for Africa to fully implement AfCFTA and to strengthen climate information services.

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International Call for Papers:

Volume 25 (2026/27) of the African Development Perspectives Yearbook with the title “Africa and South-South Cooperation: Pathways to Development, Solidarity, and Global Partnerships”

Invited are contributions for Volume 25 (2026/27) of the African Development Perspectives Yearbook with the title **“Africa and South-South Cooperation: Pathways to Development, Solidarity, and Global Partnerships”**.

Introduction

The rapidly changing global order presents an exciting opportunity to discuss the future of international cooperation. In the face of global challenges such as inequality, climate change, economic instability, and the ongoing effects of the COVID-19 pandemic, the concept of South-South Cooperation (SSC) has gained significant prominence as a framework for sustainable development. The theme is of great importance for Africa in view of the fact that Africa holds immense economic, political, and strategic importance in the global landscape and in shaping the discourse around South-South Cooperation (SSC) due to its diverse economic, social, and political landscapes, vast natural resources, growing markets, and young population. The theme of "Africa and South-South Cooperation" explores the significance of intra-Global South collaboration and how it contributes to Africa's development, solidarity among nations, and the creation of sustainable, inclusive partnerships for the future. In this context, the volume will consider how South-South Cooperation (SSC) plays a crucial role in fostering economic development, technological exchange, and political solidarity among African nations and other developing regions. Through SSC, Africa can benefit from knowledge-sharing, capacity-building, and investment partnerships with countries in Asia, Latin America, and the Middle East, reducing dependency on the North and Western aid. This cooperation enhances regional integration, promotes trade, and supports infrastructure development, ultimately strengthening Africa's position in the global economy. Furthermore, SSC facilitates collaborative efforts to address common challenges such as poverty, climate change, and digital transformation, reinforcing Africa's agency in shaping its development path. By engaging in SSC, African countries can achieve more sustainable and inclusive growth, driven by mutual interests and shared experiences with other Global South partners. The strengthening of Africa's partnerships within the South-South framework is essential for building a more equitable and resilient global community.

The contributions should be evidence-based and policy-oriented. High academic standards are requested and will be reviewed by referees. Non-technical papers with deep analysis, which are readable by practitioners in development cooperation and by media people, have also a high priority in the selection process. The analytical concept of the proposed contribution and the methodological framework of analysis should be outlined in the Abstract which is submitted to the Editors.

Upon acceptance of the paper, the Contributors will receive Editorial Guidelines and

Template. Accepted papers will be grouped into Thematic Units, and the respective Unit Editors will contact the contributors quite regularly during the process of finalization to discuss the drafts. The contributions are peer-reviewed, and the publication is released in the form of a hardcopy, a PDF, and via Open Access.

Scholars, researchers, policy-makers, and practitioners are invited to submit papers that critically examine the evolving role of Africa in South-South Cooperation, the historical, socio-political, economic, and environmental dynamics of Africa's engagement with other Global South regions. Submissions should reflect on how African countries engage in bilateral, regional, and multilateral cooperation with other Global South nations, with a focus on key sectors such as trade, technology, health, education, climate change, infrastructure, and sustainable development. Papers should assess how these collaborations contribute to Africa's sustainable development, capacity building, and socio-economic empowerment.

Main Issues proposed by the Editors for the Thematic Units of Volume 25 (2026/2027) Theme: Africa and South-South Cooperation: Pathways to Development, Solidarity, and Global Partnerships (see below some suggestions of themes for Contributions and Units):

Key Areas of Interest:

We encourage a range of topics that explore Africa's engagement with South-South Cooperation. We welcome papers that explore any of the following thematic areas related to Africa and South-South Cooperation:

1. Historical Context, Evolution and Institutionalization of South-South Cooperation in Africa

– The roots and development of South-South Cooperation in Africa and the evolution of regional and continental institutions that facilitate South-South Cooperation, including the African Union (AU), NEPAD, and regional economic communities (RECs).

- African leadership and foundational role in the creation, expansion and shaping of SSC mechanisms and frameworks.
- Key milestones and achievements of SSC in the African context: Case studies of early South-South partnerships and their long-term impact on Africa's geopolitical and economic trajectory.

2. **Trade, Economic Growth, and Regional Integration**

- Analysis of intra-Global South trade flows, emphasizing the role of African countries in shaping new trade agreements and economic and political alliances with countries in Asia, Latin America, and the Middle East.
- South-South trade partnerships and trade agreements and their impact on Africa's economy, including the African Continental Free Trade Area (AfCFTA) and its implications for regional integration, and the role of Africa in regional and international multilateral South-South forums (e.g., BRICS).
- The role of South-South Cooperation in promoting economic diversification, boosting industrialization, and fostering sustainable growth in Africa.

3. **Technology Transfer, Innovation, and Knowledge Transfer**

- The role of South-South Cooperation in fostering technological transfer, innovation ecosystems, technological development and industrial capacity in Africa.
- Mechanisms for knowledge transfer between Africa and other developing nations, including research collaboration, tech hubs, and knowledge networks.
- Bridging the digital divide: Africa's participation in global technological advancements, including the digital economy, artificial intelligence, and clean technologies, through South-South cooperation.

4. **Health Cooperation: Joint Responses to Global Challenges**

- The significance of South-South health initiatives in Africa, including capacity-building efforts and knowledge exchange on disease prevention, control, and healthcare system strengthening.
- Collaborative health programs and initiatives between African nations and other Global South countries to address public health challenges and to target Africa's specific health challenges, such as HIV/AIDS, malaria, and tuberculosis, in partnership with other Global South countries.
- South-South partnerships in combating pandemics, including lessons from the COVID-19 pandemic joint responses with other developing nations and

the role of the South-South framework in facilitating vaccine access and distribution.

5. Education and Human Capital Development

- South-South Cooperation as a tool for improving education systems across Africa, including exchanges focused on human capital development and capacity-building for teachers, educational exchanges, and scholarships for African students.
- Collaborative efforts in higher education, vocational training, and technical education in response to Africa's skills gap and youth unemployment challenges.
- The role of international networks and platforms in advancing educational outcomes in Africa through South-South partnerships.

6. Climate Change, Environmental Sustainability, and Green Development

- The role of South-South Cooperation in advancing Africa's climate resilience, adaptation, mitigation, climate financing mechanisms and sustainable development goals (SDGs) in Africa.
- South-South initiatives and collaborative efforts in managing natural resources, enhancing food security, and developing sustainable energy solutions, including renewable energy partnerships and green technologies and strategies for enhancing Africa's green economy.
- Cross-border cooperation for environmental protection, including water resource management, desertification, and biodiversity conservation in Africa.

7. Infrastructure Development, Connectivity and Urbanization

- The role of South-South Cooperation in facilitating large-scale infrastructure development projects in Africa, including transportation (roads, railways), energy (solar, wind), and water (irrigation, sanitation).
- Cooperation on urbanization challenges, particularly in the context of growing African cities and the need for sustainable urban development.
- The role of African countries in building regional and continental connectivity (e.g., the African Union's Agenda 2063, African Continental Free Trade Area).
- Public-private partnerships within South-South frameworks that support infrastructure projects and improve public service delivery.

8. Political Diplomacy, Regional Integration, Regional Stability and Peace and Security

- The political dynamics and challenges of South-South partnerships.

- The role of African diplomatic strategies in shaping South-South Cooperation.
- The role of South-South Cooperation in addressing Africa's security challenges, conflict prevention and resolution, peacekeeping, and post-conflict reconstruction, stability, and democratization processes, including collaborative peacebuilding efforts among African countries and Global South partners, with specific attention to the influence of the initiatives led by regional organizations like the African Union (AU), and their South-South engagement strategies.

9. **Challenges, Opportunities, and the Future of South-South Cooperation in Africa**

- Assessing the challenges faced by African countries in maximizing the potential of South-South Cooperation, such as political instability, economic inequality, social barriers, and capacity constraints.
- Opportunities for enhancing the effectiveness, inclusiveness and sustainability of South-South Cooperation (SSC) in Africa, including strengthening partnerships and institutional frameworks.
- Future trends in South-South Cooperation including the role of African leadership in reshaping and advancing South-South Cooperation, collaboration and partnership.

To the Contributors of Volume 25:

Please send an **Abstract** and a **short CV** not later than **May 15, 2026**, to the Volume Editor (see below). Questions concerning organizational matters should be directed to the Managing Editor (see below). The Editors will respond within 4 weeks to your proposal. If you have already contributed to a former volume of the Yearbook, please send only an Abstract.

To the Guest Editors of Volume 25:

Please send a **short CV** and a **Proposal** for one of the **Thematic Units** mentioned above or for a **Thematic Unit** which is chosen by yourself not later than **April 15, 2026**. If you have already contributed to a former volume of the Yearbook, please send only the Proposal.

For the review of books, journals, reports, strategy papers, discussion papers, and other material for Volume 25:

Please send your material directly to the Book Reviews/Book Notes Editor (*see below*).

Timeline for Volume 25 (2026/27):

Deadline for Abstracts by Contributors: May 15, 2026

Proposals for Thematic Units by Guest Editors: April 15, 2026

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African Development Perspectives Yearbook

Research Group on African Development Perspectives University of Bremen

Herkulaas MvE Combrink; Tobias Knedlik; Samia Satti Osman Mohamed Nour; Ulrike Schuerkens; Katinka de Wet; Karl Wohlmuth (Eds.)

Business Opportunities, Start-ups, and Digital Transformation in Africa

vol. 23, 2023, 614 pp., 89,90 €, pb., ISBN 978-3-643-91441-5

Tobias Knedlik; Samia Satti Osman Mohamed Nour; Anthony Ifeanyi Ugulu; Karl Wohlmuth (Eds.)

Sustainable Development Goal Nine and African Development

Challenges and Opportunities

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