" Tax gaps and the financing of Sustainable Development Goals: case studies from sub-Saharan African countries"

Call for papers – Submission by March 15th 2024

The inter-ministerial strategy to support Domestic Resource Mobilization (DRM) in developing economies, published in June 2020, confirmed France's commitment at the Addis Ababa conference (2015) to support DRM in developing countries. The French DRM strategy has three objectives: 1/ Develop effective tax policies; 2/ Modernize tax and customs administrations in partner countries; 3/ Optimize international cooperation on DRM. This strategy was made operational through the Strategic Investment Plan for Development (PISD). The PISD supports the effective mobilization of domestic tax and non-tax resources in fragile countries, in order to increase fiscal space for public development policies and to ensure their greater financial resilience to various crises.

In order to ensure the effective implementation of this strategy, the Ministry for Europe and Foreign Affairs (MEFA) and the French Treasury have set up the Exchange and Coordination Platform on the mobilization of domestic public resources (MRIP), bringing together the French public and private actors involved in supporting DRM in developing countries. The MRIP platform has decided to fund the production of research papers, aimed at generating knowledge and providing food for thought for the members of the DRM platform in defining future projects.

This third call for papers focuses on tax gaps and the financing of sustainable development goals in sub-Saharan African countries.

Context

To finance their Sustainable Development Goals (SDGs), climate transition, and overall developmental challenges through at least 2030, Emerging Market Economies (EMEs) and Low Income and Developing Countries (LIDCs) require a collective annual sum of $3 trillion (Piergiogio et al., 2023). Specifically, LIDCs need to mobilize an additional 16.1 percent of their 2030 GDP to achieve their Millennium Development Goals (MDGs), a substantially higher proportion compared to other groups. Sub-Saharan Africa (SSA) shoulders the largest additional expenditure burden, requiring 19.4 percentage points of GDP to achieve their goals.

Consequently, nations must fully leverage their tax capacity to fund their SDGs (IMF, 2023). Nevertheless, tax revenue mobilization has leveled off over the past decade after 20 years of sustained growth. LIDCs alone generate revenue equivalent to less than 15 percent of GDP, trailing EMEs by five percentage points and advanced economies by more than 15 percentage points. A tax-to-GDP ratio of 15% has long been considered as a critical threshold, beyond which genuine economic growth tends to gain momentum. This ratio serves as a gauge indicating the necessary direction of tax efforts, particularly for LIDCs. However, the disparity between current tax revenues and this 15% benchmark varies significantly across LIDCs (Gaspar et al., 2016; WBB, 2018). Consequently, LIDCs must actively seek and capitalize on opportunities to elevate their tax-to-GDP ratios along a sustainable trajectory.

Recent research papers indicate that enhancing revenue mobilization capacity in LIDCs could collectively raise their tax-to-GDP ratio by an average of approximately 9 percentage points of GDP (Benitez et al., 2023).

Unlocking a significant portion of this potential can be achieved through essential reforms, with a primary focus on tax administrations, expanding tax bases, enhancing governance within tax administrations, improving the management of tax reforms, and fostering inter-institutional coordination for tax reforms, among other measures. Partners have made some progress in LIDCs, particularly in Sub-Saharan Africa (SSA), through sustained technical and capacity-building efforts (World Bank, 2019). However, there is no one-size-fits-all solution for taxation in LIDCs, as each country faces unique circumstances. These include political cycles influencing taxation-related political economy issues, cultural nuances shaping taxpayers' varied responses to similar incentives and constraints, and economic and labor market structures that vary widely.

Justification and objectives

In this context, there arises a need to examine the positioning of countries benefiting from the Strategic Investment Plan for Development (PISD) and the Domestic Resource Mobilization (DRM) platform concerning their tax-to-GDP ratios and their financing needs to achieve the SDGs.

The aim of this study is to assess the tax potential and compare it with the funding needs for country-specific SDGs in several Sub-Saharan African countries and formulate recommendations on how the countries selected could narrow the revenue-financing needs gap. These recommendations would aim to inform support programs carried out in the context of the PISD. The number of case studies and the composition of the set of countries included in this study, among the list of countries in which PISD projects are implemented or not[1], will be discussed during the study scoping phase and validated with MRIP members.

More precisely, this study aims to accomplish <u>three main objectives</u>:

(1) Assess the tax gap for each of the selected countries, distinguishing between the policy gap and the compliance gap. Following the presentation and discussion of these concepts, it will be crucial to highlight the challenges and limitations in practically implementing and measuring these gaps before proceeding with the empirical assessments. Indeed, if global approaches - using stochastic frontiers for example - to measure tax potential remain very imprecise and sensitive to the choice of sample, approaches using tax administration data come up against availability and quality of data, particularly concerning tax expenditures.

(2) Conduct a comparative analysis of the situation in the selected countries to derive potential recommendations for reforms that countries could undertake in the medium to long term. This involves identifying lessons learned from countries that have significantly increased their DRM and sustained it over time, assessing the transferability of those lessons and the required conditions for such a transferability, or identifying country-specific approaches adopted in successful cases that may not be transferable. Additionally, the comparative analysis will present an opportunity to identify, to the extent possible, non-economic factors that influence DRM in the selected countries, such as social norms of compliance and political business cycles with their connections to political economy issues (Murphy et al., 2019).

(3) Compare the tax potential with the financing requirements for the SDGs up to the 2030 horizon. This analysis involves assessing the capacity of the countries' tax systems to generate revenue and comparing it with the estimated financial needs for implementing the SDGs. There exist multiple estimations of financing needs for achieving the SDGs from different organizations

[1] On an indicative basis, the Strategic Investment Plan for Development (PISD) 2020-2023 focuses on the following countries : Benin, Cameroon, Central African Republic, Côte d'Ivoire, Gambia, Guinea, Guinea Bissau, Mauritania, Senegal, Sudan, Chad, Togo

and researchers that differs in terms of methodologies, assumptions, and data sources. The United Nations produces regular reports on sustainable development financing, offering global, regional, and national-level estimates. The World Bank's World Development Reports and Sustainable Development Financing reports provide additional perspectives on financing requirements, often with a focus on specific sectors or regions[2]. Academic researchers also contribute to estimating the financing needs for the SDGs. Vorisek et al. (2020) review studies estimating the cost of achieving the SDGs and shows that typical cross-country costing exercises may be misleading due to factors such as double counting, sensitivity to assumptions, and overlooking policy and institutional roles. This project should provide the most robust estimates for the countries selected in the study.

Deliverables

Four deliverables are expected for this study:

(1) A critical review of the literature on tax gaps and SDGs financing. On the one hand, this review will introduce the concept and theoretical principles for measuring tax potential and gap, distinguishing between the policy gap and the administrative gap. It will assess existing studies and highlight their limitations and practical challenges. On the other hand, it will examine efforts undertaken to quantify SDGs financing needs. This review will allow for the identification of a robust methodology for analysis and the required data for conducting the study. This review is due **on June 15th 2024.**

(2) A scoping note for the remainder of the study will propose a more in-depth analysis of key issues that may have emerged during the literature review. This note will present the proposed methodology, the selection of countries included in the study and its justification, the timeline, the documentary references and data sources, as well as the limits of the analysis. This scoping note should be submitted for validation **on July 1st 2024.**

(3) An interim report should be submitted by 15th September 2024. This report should contain:

- the critical literature review;

- the result of the analysis arising from the proposal of the scoping note, validated following the presentation of the scoping note;

- the comparative analysis and recommendations for reforms;

- a brief note summarising the main conclusions and recommendations of the study in light of the challenge of reaching the SDGs with narrower and sustainable financing gaps (maximum 5-6 pages). This note will be intended for dissemination to a wider audience.

(4) A final report, considering the comments made on the interim report, should be submitted by October 15th 2024 at the latest.

A meeting seminar to present the results, mainly aimed at highlighting the operational implications of the study, will be organised during the last quarter of 2024. The format of this event - webinar, feedback seminar, or other - will be determined at a later stage of the study.

[2] There also exists reports from the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD).

Validation of deliverables

The deliverables will be submitted to the Monitoring Committee of the call for contributions which will provide comments and reasoned opinions that the contractor will have to consider.

Focal points: Audrey-Anne de Ubeda - a-anne.de_ubeda@ferdi.fr (Ferdi) and Antonin Perriot - antonin.perriot@diplomatie.gouv.fr (Ministry for Europe and Foreign Affairs).

Expertise required

The team must include at least one senior economist (minimum 10 years of experience) and must meet the following qualifications and criteria:

- have published research articles on taxation in peer-reviewed journals;
- have published or at least have a good knowledge of issues related to tax gaps and/or development financing.

A solid working knowledge of taxation in developing countries will be appreciated.

Modalities of response, budget and timetable

Contributors are invited to submit in French or in English:

(1) A technical proposal including

- A presentation of the candidate including a maximum of 10 references relevant to this study (similar services carried out by the candidate over the last 10 years). The relevance will be analysed according to the nature of the references presented and the subject matter.
- The understanding of this call for papers and any comments on it.
- The envisaged methodological approach, a timetable and the CV(s) of the expert(s).

(2) A financial proposal showing all detailed costs. The maximum budget available for this study is € 35.000 including VAT

These proposals should be sent **by March 15th 2024** via email to Audrey-Anne de Ubeda, Research programs coordination officer at Ferdi: a-anne.de_ubeda@ferdi.fr

Contributors whose proposals have been selected will be contacted by the end of March 2024 for a **start in April 2024**.

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