INFORMAL TAXATION IN SIERRA LEONE: MAGNITUDES, PERCEPTIONS AND IMPLICATIONS

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Economics of Informality
May 29, 2018
Introduction: Tax, development, and informality

Case study: Informal fiscal reality in Sierra Leone

Implications and ways forward
I. INTRODUCTION
Taxation and state-building
Taxation and state-building

- Sustainable development
Taxation and state-building

- Sustainable development
- State capacity
Taxation and state-building

- Sustainable development
- State capacity
- State-society accountability processes
Theory vs. practice
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- Limited capacity and poor incentives
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- Predatory taxation
Theory vs. practice

- Limited capacity and poor incentives
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- Obstacles to collective action
Theory vs. practice

- Limited capacity and poor incentives
- Predatory taxation
- Obstacles to collective action
- Focus on formal tax systems
Informal Fiscal Realities
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- Informal tax
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  - Contributions from individuals, households and businesses
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  - May finance local public goods in the absence of strong state institutions
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- Importance of user fees
Why does this matter?
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- Underestimation of tax burdens
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- Misunderstanding of dynamics of local governance – and appropriate policy responses
Why does this matter?

- Underestimation of tax burdens
- Misunderstanding of dynamics of local governance – and appropriate policy responses
- Need to rethink the potential of taxation to provide spur for greater accountability or institutional development
Case study: Sierra Leone
Research Methods
II. INFORMAL FISCAL REALITIES IN SIERRA LEONE
Informal Fiscal Realities

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Magnitude of informal tax

Mean proportion of expenditures on tax per annum, average for tax type

- Central government taxes
- Local government taxes
- Formal chiefdom taxes
- Informal chiefdom taxes
- User fees
- Informal user fees
- Informal taxes to non-state actors
- Illegal state levies
Distribution of informal tax

**Mean tax expenditure as a proportion of income, average for tax type**

- **Central government taxes**
- **Local government taxes**
- **Formal chiefdom taxes**
- **Informal chiefdom taxes**
- **User fees**
- **Informal user fees**
- **Non state contributions**
- **Illegal state levies**

Legend:
- 🅿️ Lowest quintile
- 🍊 Highest quintile
Utility of informal tax

Percent of respondents reporting the primary good or service they get in return for paying the tax, average for tax type

- Nothing
- Specific good/service
- Avoidance of harassment
- General governing activities
- Social value
- Don't know

Central government taxes
Local government taxes
Formal chiefdom taxes
Informal chiefdom taxes
Informal fees
Non-state contributions
Informal state levies
Accountability of informal tax

Percent of respondents believing that the actor uses tax revenues to benefit the community some, most, or none of the time, average for tax type

- None of the time
- Some of the time
- Most of the time
- Don't know

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III. IMPLICATIONS AND WAYS FORWARD
Implications

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Local government official, Koinadugu district, Sierra Leone
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- Recognize that the informal is critical to the reform of the formal
- Look at existing forms of revenue raising, rather than introducing new ones
- Consider “hybrid” options

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Local government official, Koinadugu district, Sierra Leone
“Our role now as councils is to give oversight and a supervisory role over these [informal] facilities and structures set up in the form of committees... the lines between formal and informal taxes are getting thinner [within communities].”

Chief Administrator, Koinadugu District Council, Sierra Leone
Risks and remaining questions
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- Accountability and transparency
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- Effectiveness
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- Capture by local elites
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- Accountability and transparency
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- Impacts on long-term sustainability
THANK YOU