

# INFORMAL TAXATION IN SIERRA LEONE: MAGNITUDES, PERCEPTIONS AND IMPLICATIONS

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Economics of Informality

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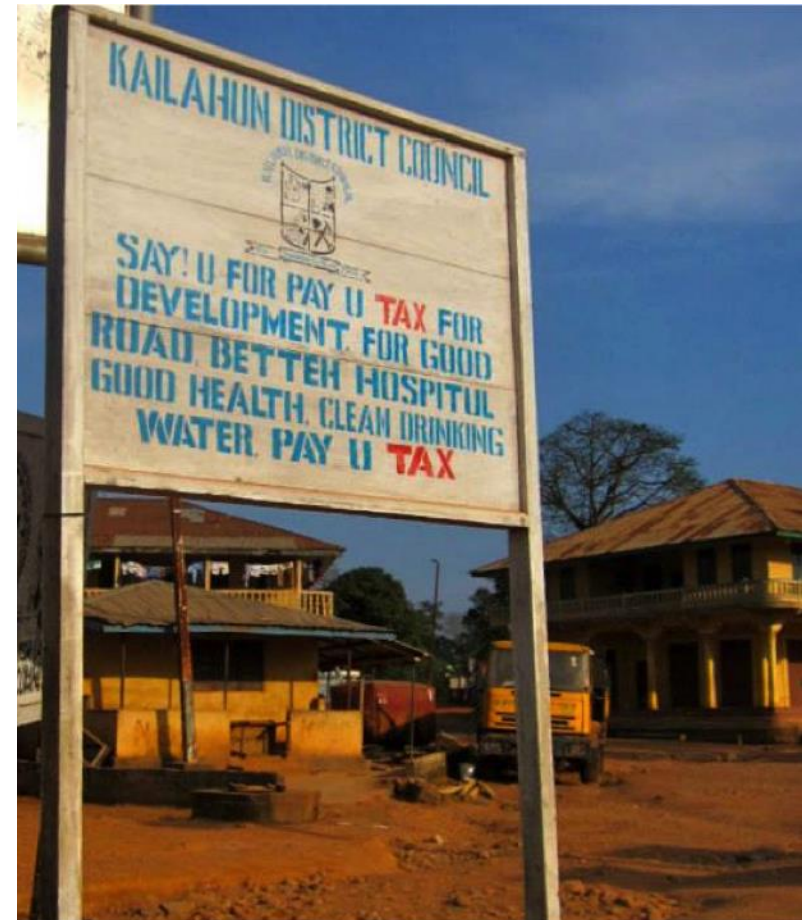
# Outline



- Introduction: Tax, development, and informality
- Case study: Informal fiscal reality in Sierra Leone
- Implications and ways forward

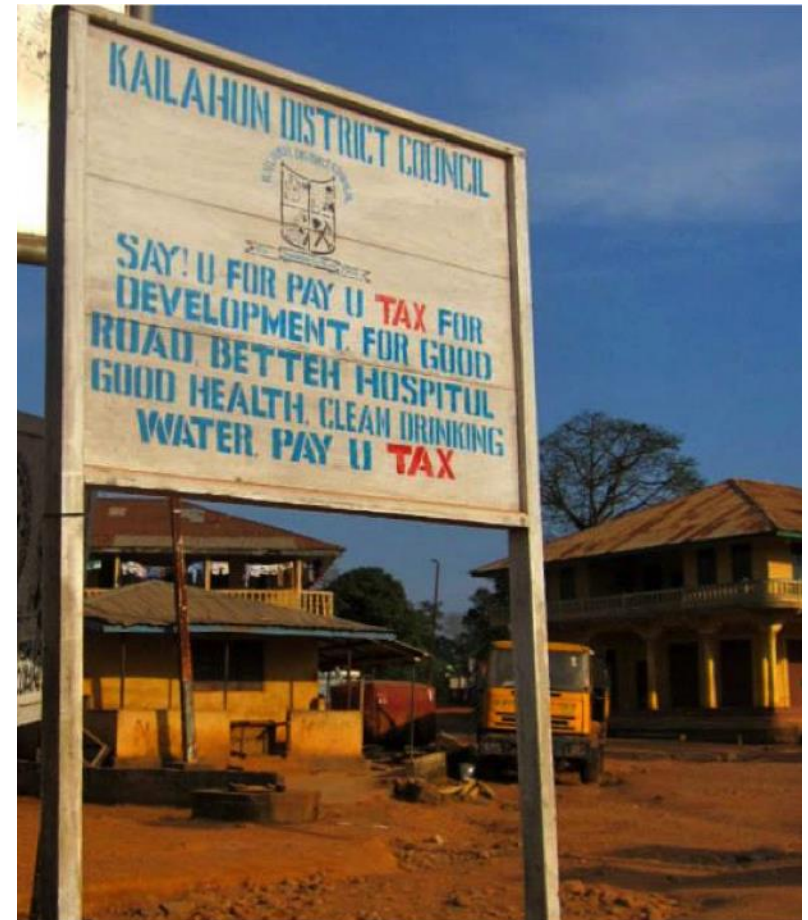
# I. INTRODUCTION

# Taxation and state-building



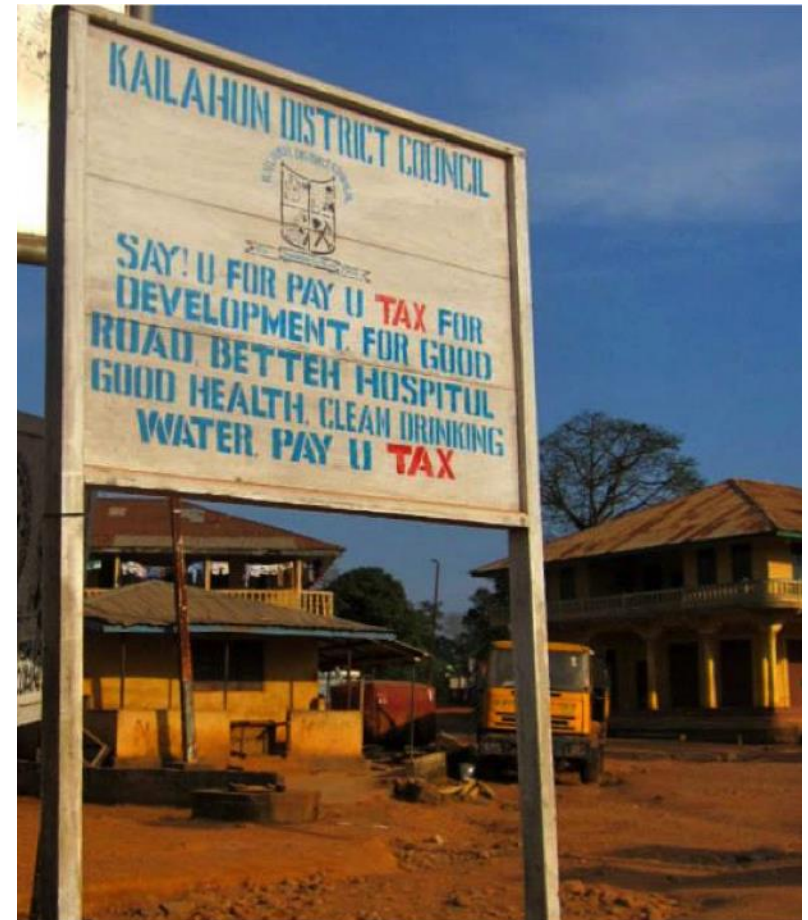
# Taxation and state-building

- Sustainable development



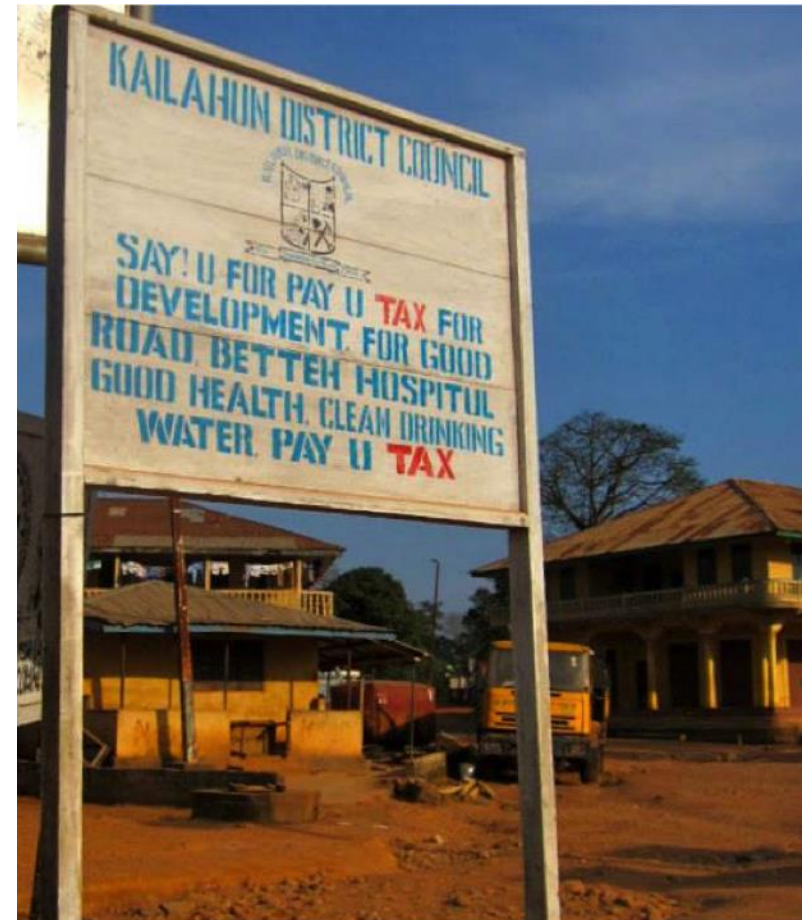
# Taxation and state-building

- Sustainable development
- State capacity



# Taxation and state-building

- Sustainable development
- State capacity
- State-society accountability processes





# Theory vs. practice





# Theory vs. practice



- Limited capacity and poor incentives

# Theory vs. practice



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- Predatory taxation

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- Obstacles to collective action

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- 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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- Informal tax
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- Informal tax
  - ▣ Contributions from individuals, households and businesses
  - ▣ Enforced through means outside of the formal legal system
  - ▣ May finance local public goods in the absence of strong state institutions
- Importance of user fees



# Why does this matter?



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- Misunderstanding of dynamics of local governance  
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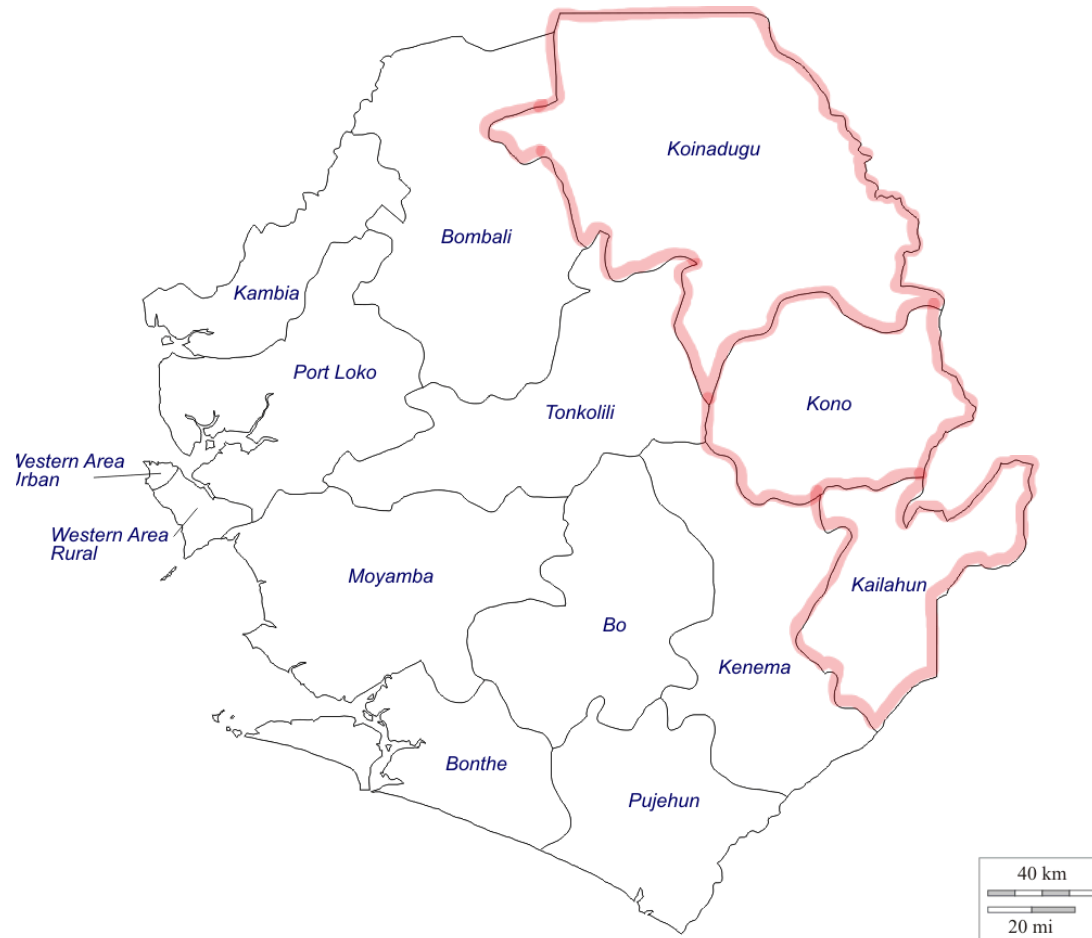
# Why does this matter?

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- 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

	Definition	Examples
<b>User fees</b>	Fees charged directly for government services	School fees  Public health fees

# Informal Fiscal Realities

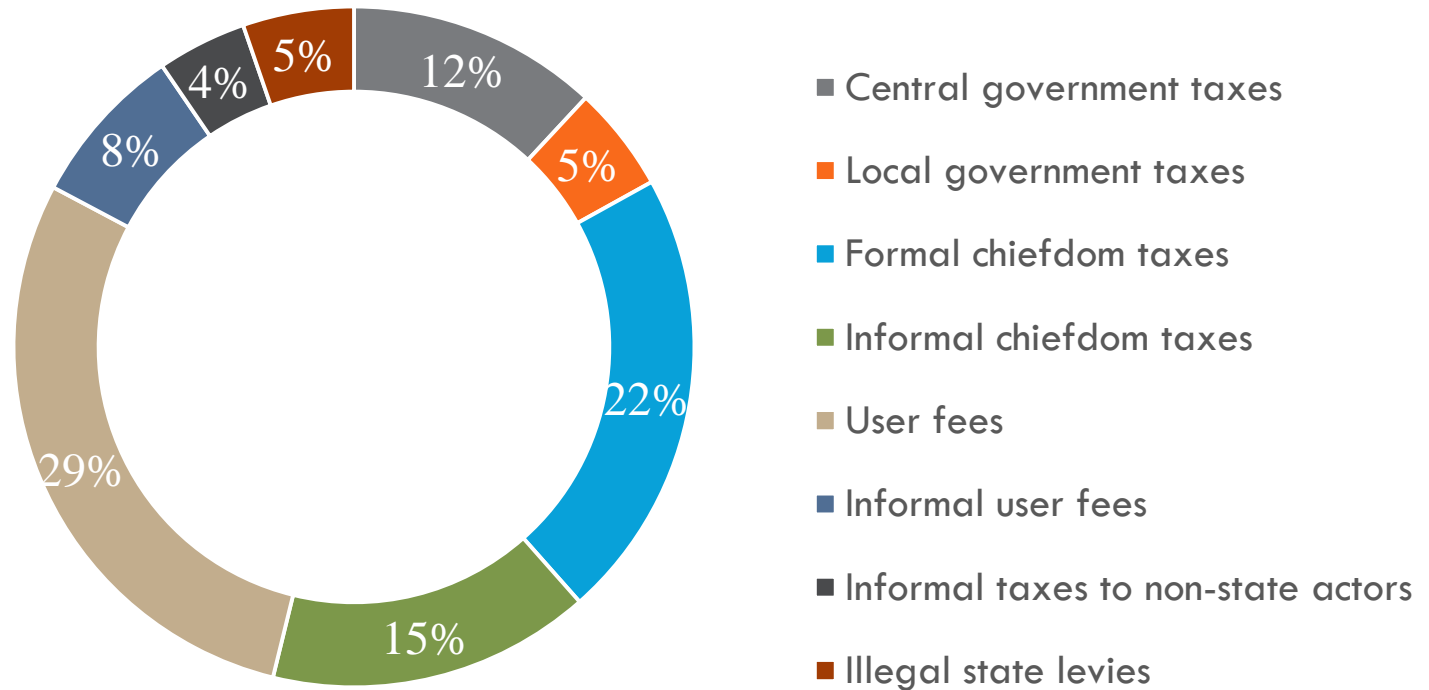
	Definition	Examples
<b>User fees</b>	Fees charged directly for government services	School fees  Public health fees
<b>Informal user fees</b>	Fees charged to finance a local, non-governmental public good, or to provide supplemental financing to a governmental public good	Contributions to support community teachers  Payments to caretakers of water wells  Payments to service providers (nurses, police, etc.)

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<b>Informal taxes</b>	Contributions collected by non-state actors to finance local public goods or support non-state institutions	Contributions for community development projects, community security, hosting guests

# Magnitude of informal tax

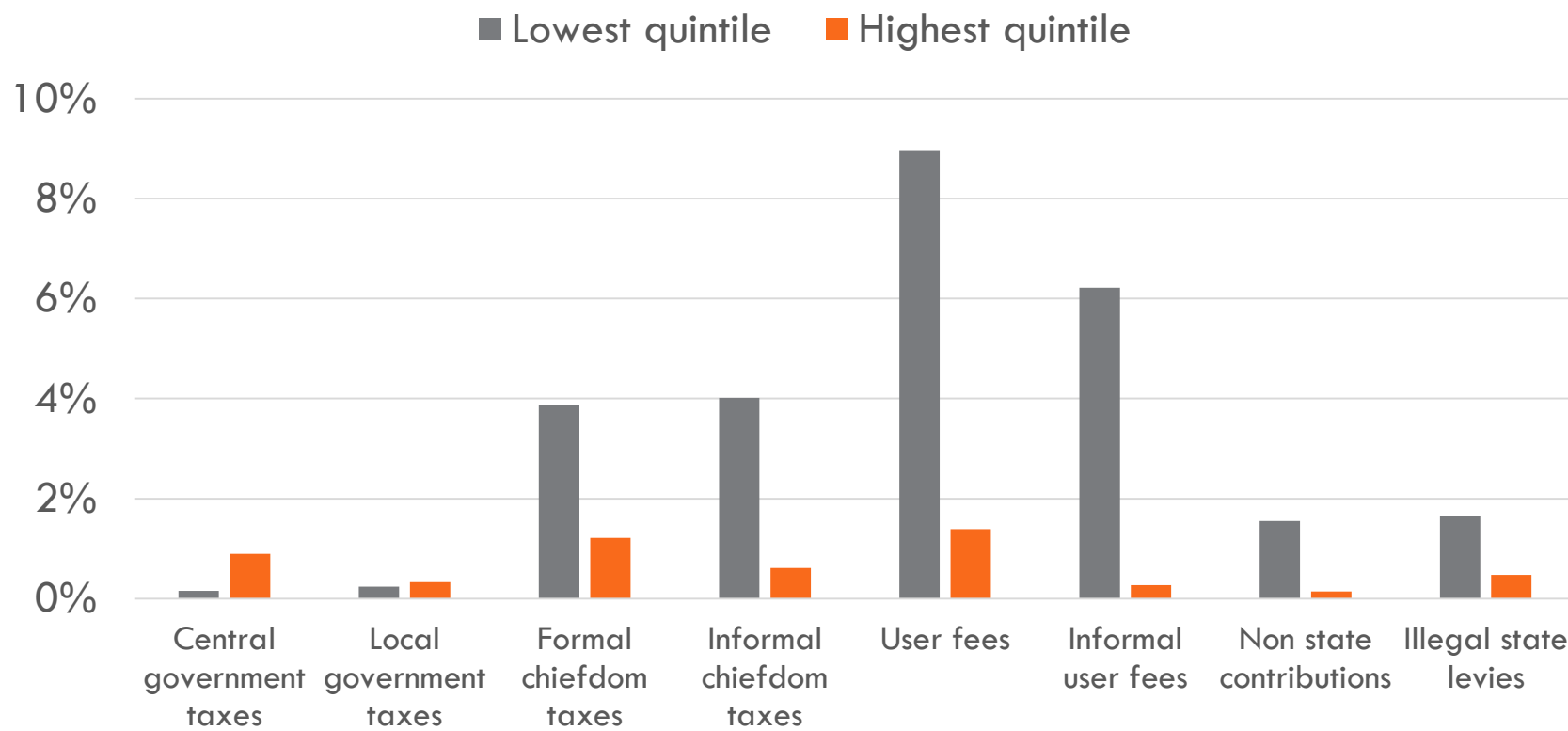
**Mean proportion of expenditures on tax per annum, average for tax type**





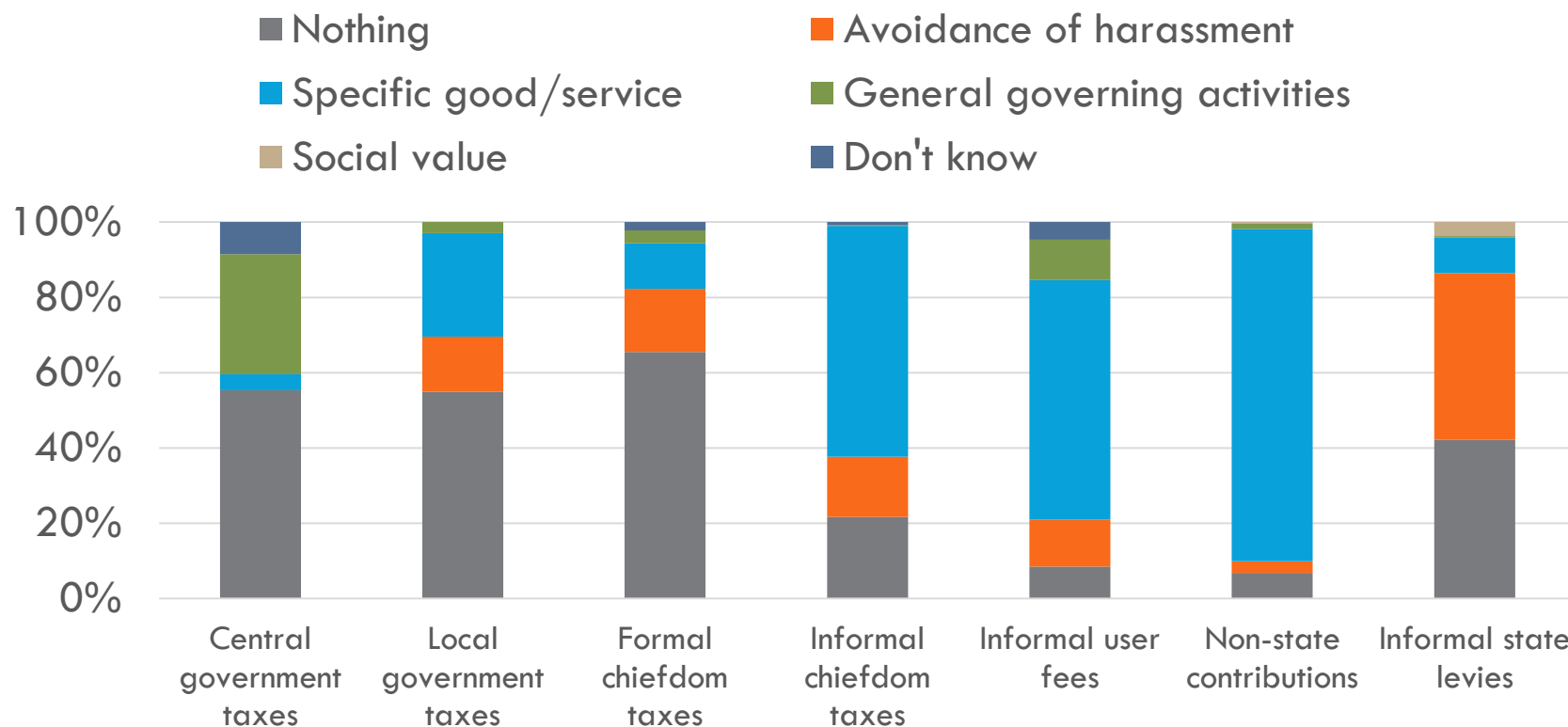
# Distribution of informal tax

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



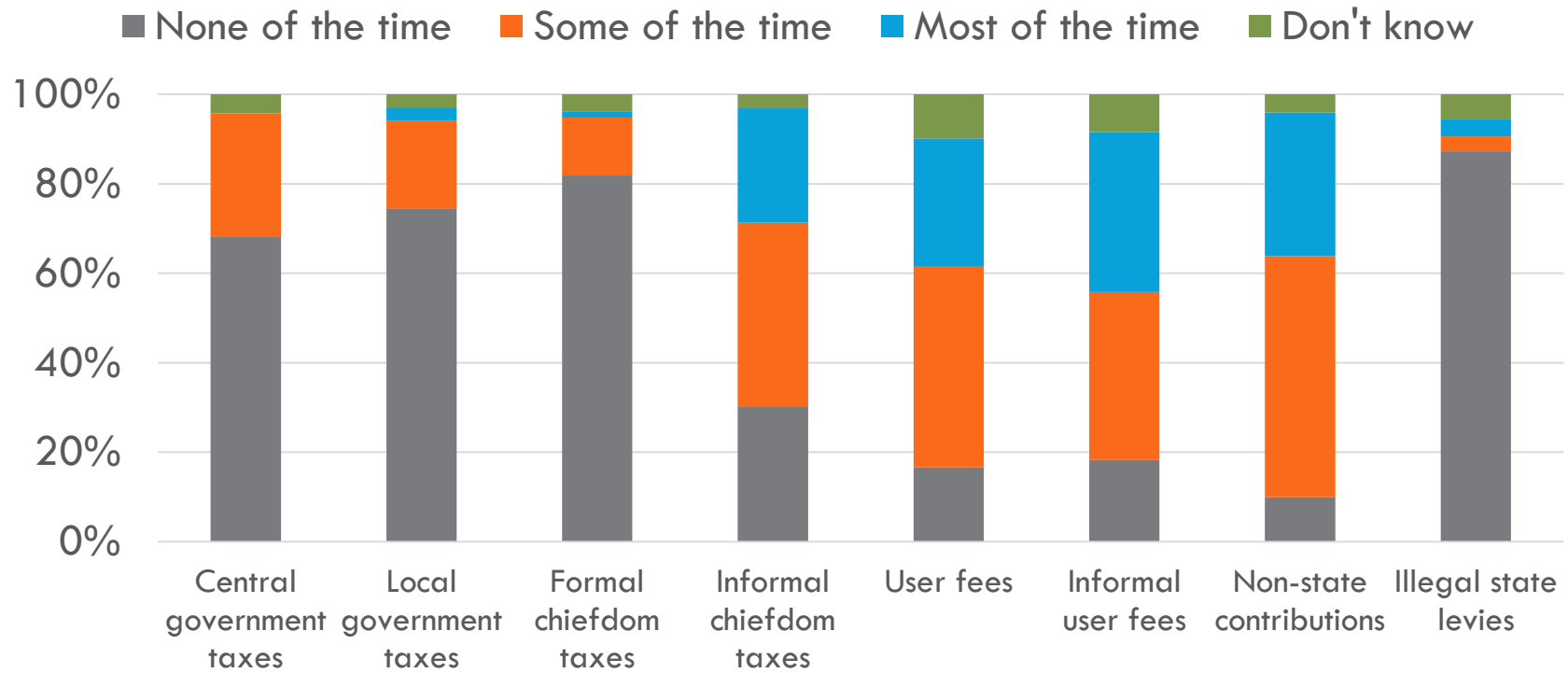
# Utility of informal tax

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



# 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**



# III. IMPLICATIONS AND WAYS FORWARD



# Implications



“[Informal tax] is normal... it helps communities to be self-reliant...because it takes development where government cannot reach.”

Local government official, Koinadugu district, Sierra Leone

# Implications

- Recognize that the informal is critical to the reform of the formal

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# Implications

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- Look at existing forms of revenue raising, rather than introducing new ones

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# Implications

- 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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# Formal-Informal Partnerships

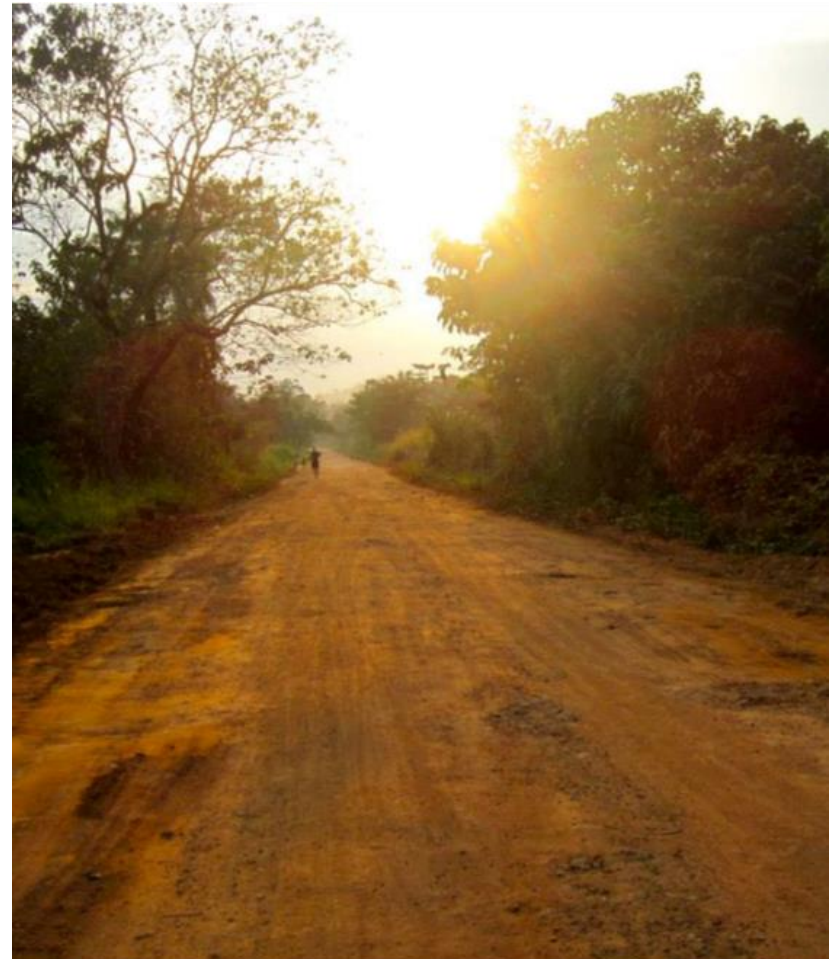


“Our role now as councils is to give oversight and a supervisory role over these [informal] facilities and structures set up in the form of committees... the lines between formal and informal taxes are getting thinner [within communities].”

Chief Administrator, Koinadugu District Council, Sierra Leone

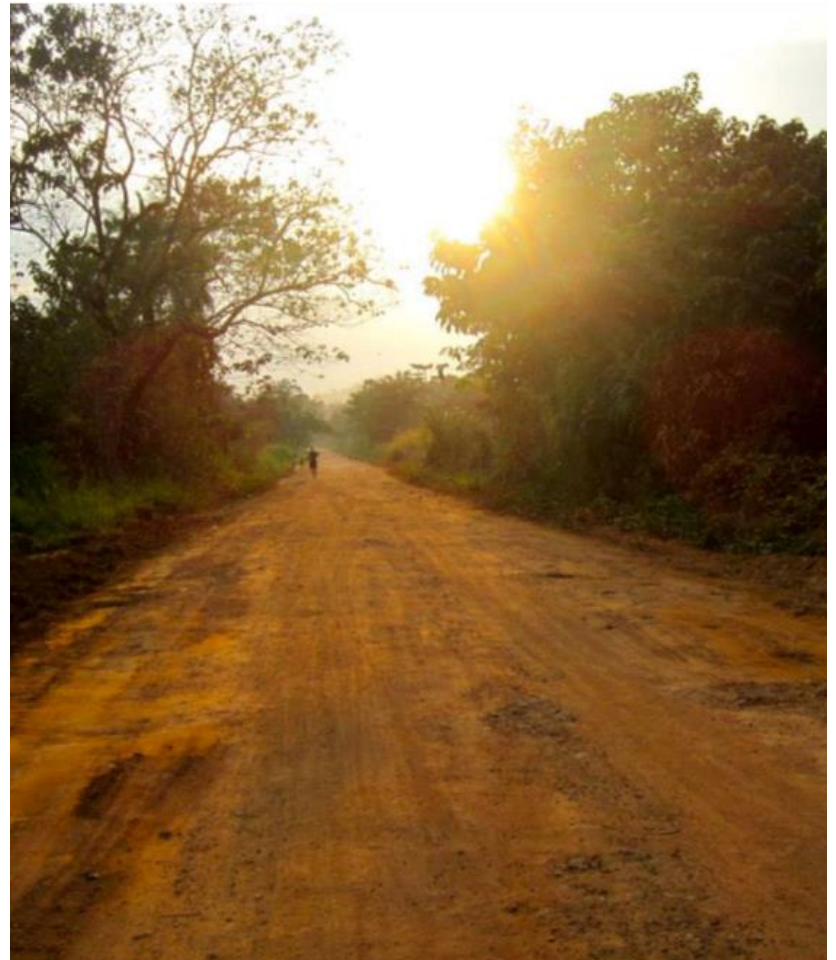
# Risks and remaining questions

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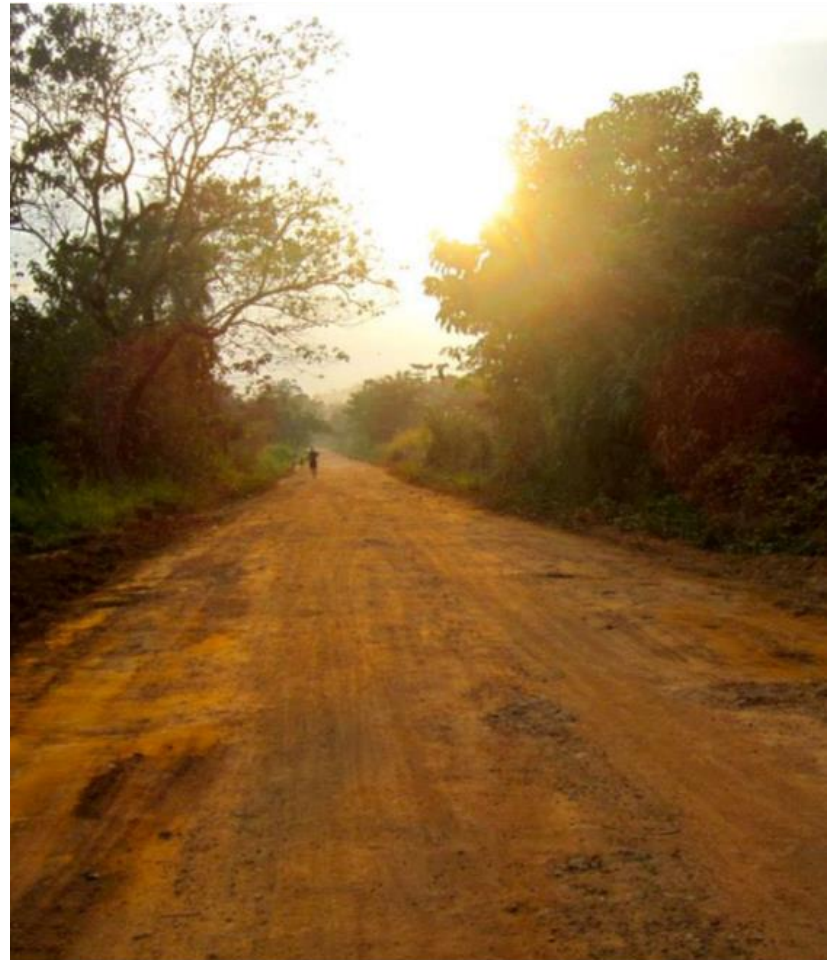
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- Accountability and transparency



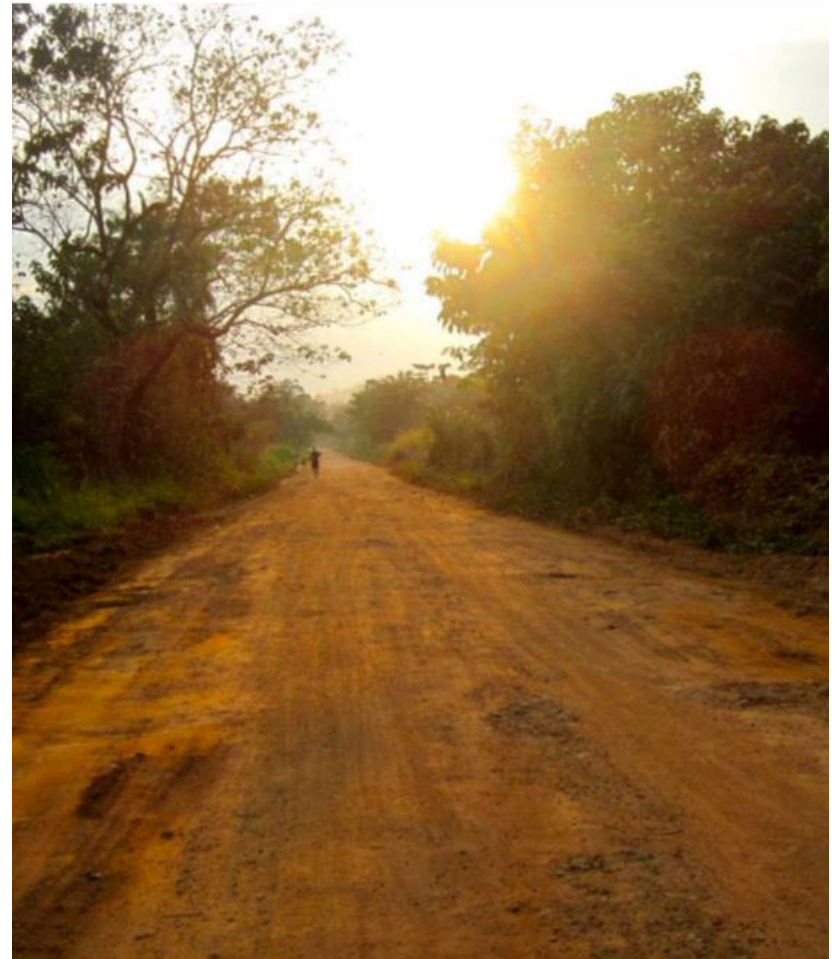
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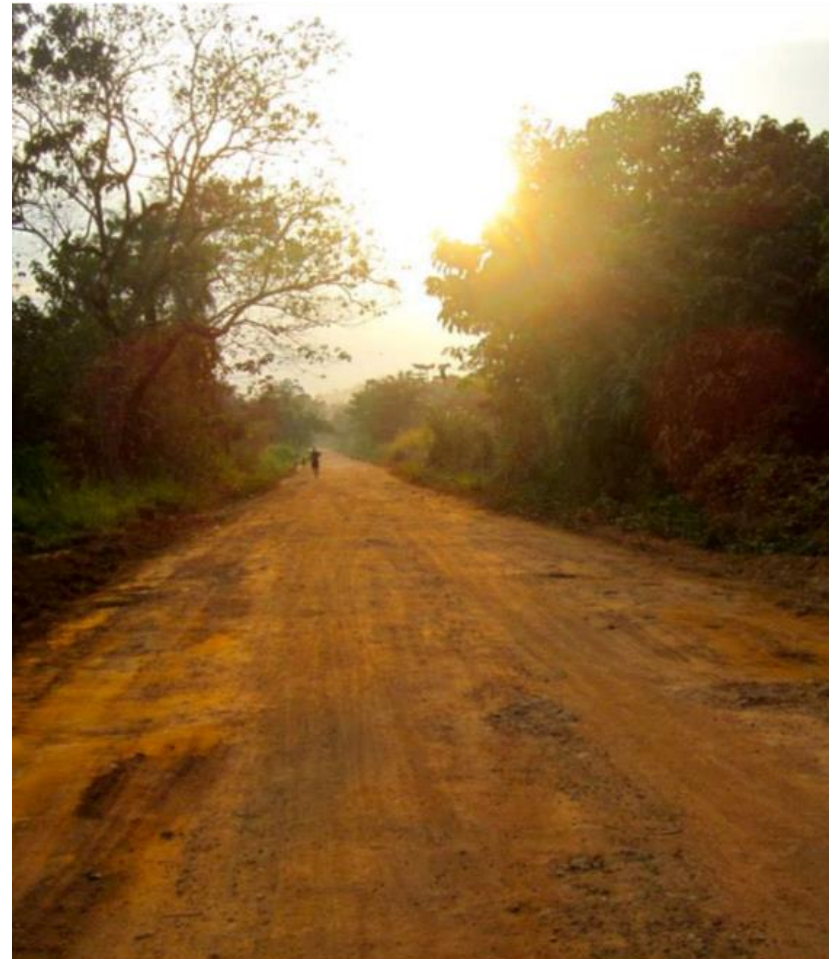
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- Effectiveness
- Capture by local elites





# Risks and remaining questions

- Accountability and transparency
- Effectiveness
- Capture by local elites
- Impacts on long-term sustainability



# THANK YOU

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