



Governance

Government capacity

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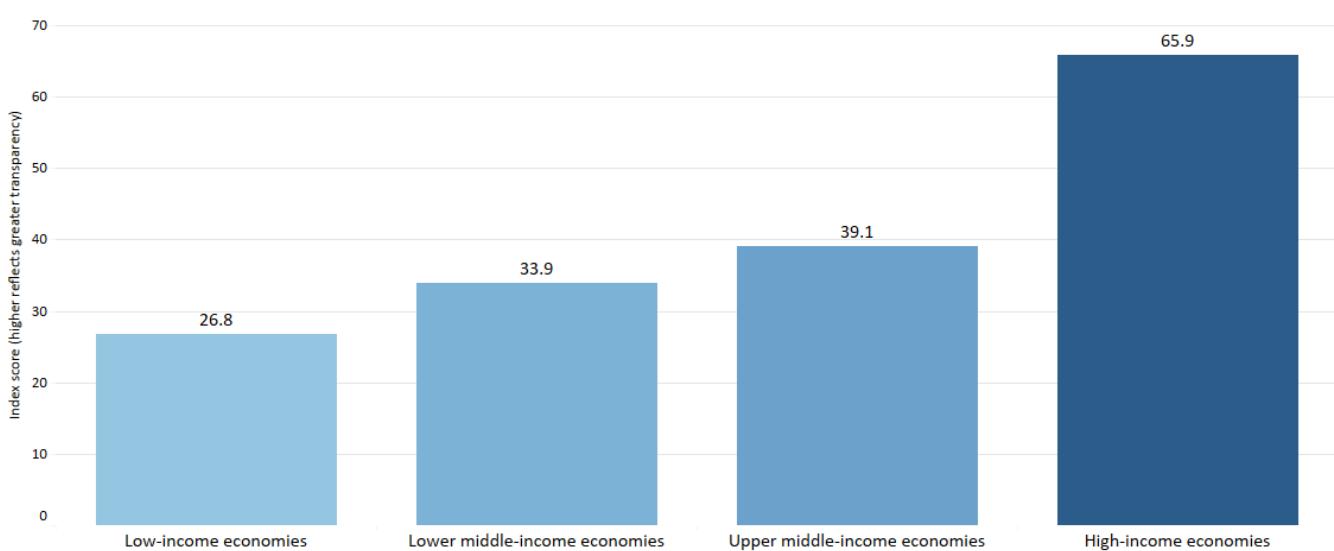
Government capacity

Government capacity is reflected in the mobilisation and effective use of government revenues. Wagner's law reflects the well-established tendency of states to mobilise and use a progressively higher share of the gross domestic product (GDP) as they develop economically and build professional public administrations. As a result, the share of public expenditure increases relative to national income.^[1] The [World Bank](#) calculates that a tax-to-GDP ratio of 15% is a rough minimum level to help countries generate sufficient domestic resources to invest in health, education, and infrastructure. The unweighted average tax-to-GDP ratio for the 33 African countries for which the OECD had data in 2021 was 15.6% in 2021, and recorded no change relative to 2020. The average of 15.6% for countries with data in Africa is below the averages of Asian and Pacific economies (19.8%), Latin America and the Caribbean (21.7%), and the OECD (34.1%), reflecting low government capacity.

The effective use of government revenues is, of course, undermined by corruption which can be used as a proxy to reflect the capacity to manage these resources. The best known public index that compares levels of corruption between countries is the Corruption Perception Index (CPI) from Transparency International.

Chart 10 presents the average CPI score for each global country income group. Results are normalised to a scale of 0-100, where 0 equals the highest level of perceived corruption (and the lowest level of transparency) and 100 equals the lowest level of perceived corruption (and the highest level of transparency). Low-income countries invariably score poorly since public service, institutions and systems function poorly. Rich countries, with ample resources, inevitably score well.

Chart 10: Corruption Perception Index according to global income groups, 2019



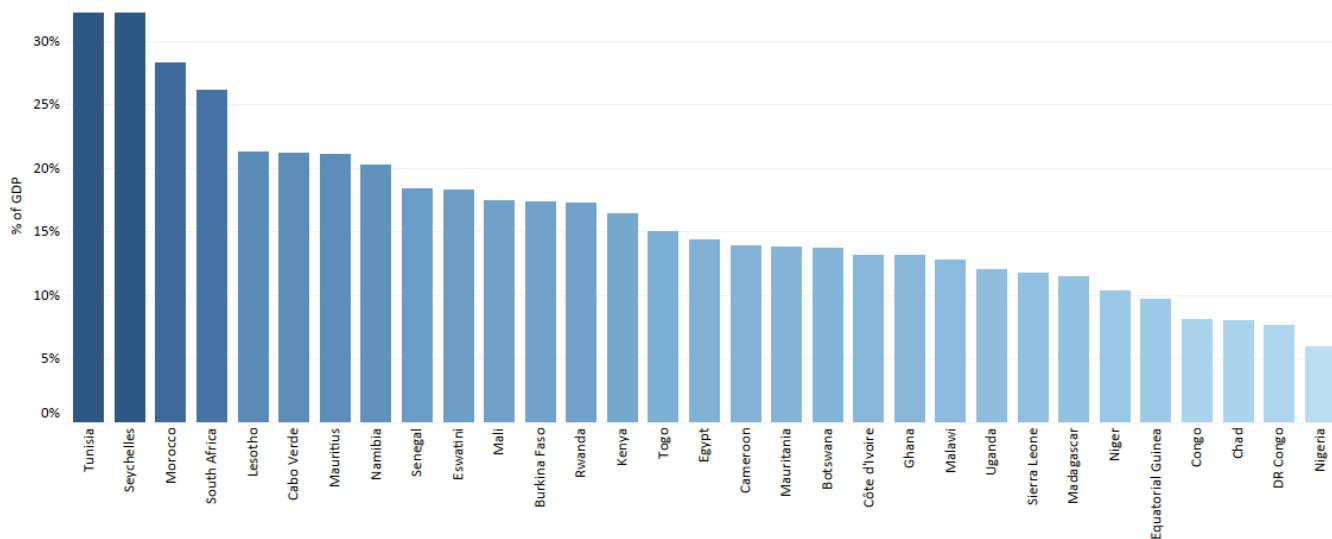
Source: Transparency International, 2020, www.transparency.org/en/cpi/2020/index/nzl.

Chart 11 presents government revenue as a per cent of GDP for each African country in 2019.

Although tax revenue mobilization performance varies widely across African countries, Africa's average tax-to-GDP ratio of 16.5% is lower than other regions such as Asia and the Pacific (19.1%), Latin America and the Caribbean (21.9%), and Organisation for Cooperation and Development (OECD) countries (33.5%).

Important countries such as Nigeria and the DR Congo do very poorly, meaning that governments there have limited resources to spend on education, infrastructure and other social services. In terms of development and stability, larger countries struggle more than smaller ones.

Chart 11: Total tax revenues as % of GDP in selected African countries, 2019



Source: OECD tax statistics, 2022

Tax revenue has progressed in African countries, but most remain below their tax potential, the maximum tax a country can collect given its economic structure and institutions. A [new IMF study](#) suggests that there is still a significant unmet tax potential, especially in low-income countries, implying that a further increase in domestic revenue is achievable with appropriate policies. Higher domestic revenue will improve public finances and help reduce new borrowing while providing fiscal space for well-targeted spending to revive growth.

The emerging picture is concerning. Poor countries score badly because they do not have mature systems and institutions characteristic of rich countries (i.e. they have limited capacity). Furthermore, African states, large countries in particular, are often characterised as neo-patrimonial, reflecting the extent to which patrons use state resources to [purchase support](#).

Endnotes

1. See, for example, RE Wagner and WE Weber, Wagner's law, fiscal institutions, and the growth of government, *National Tax Journal*, 30:1, 1977, 59–68.

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Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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