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Governance

Government capacity

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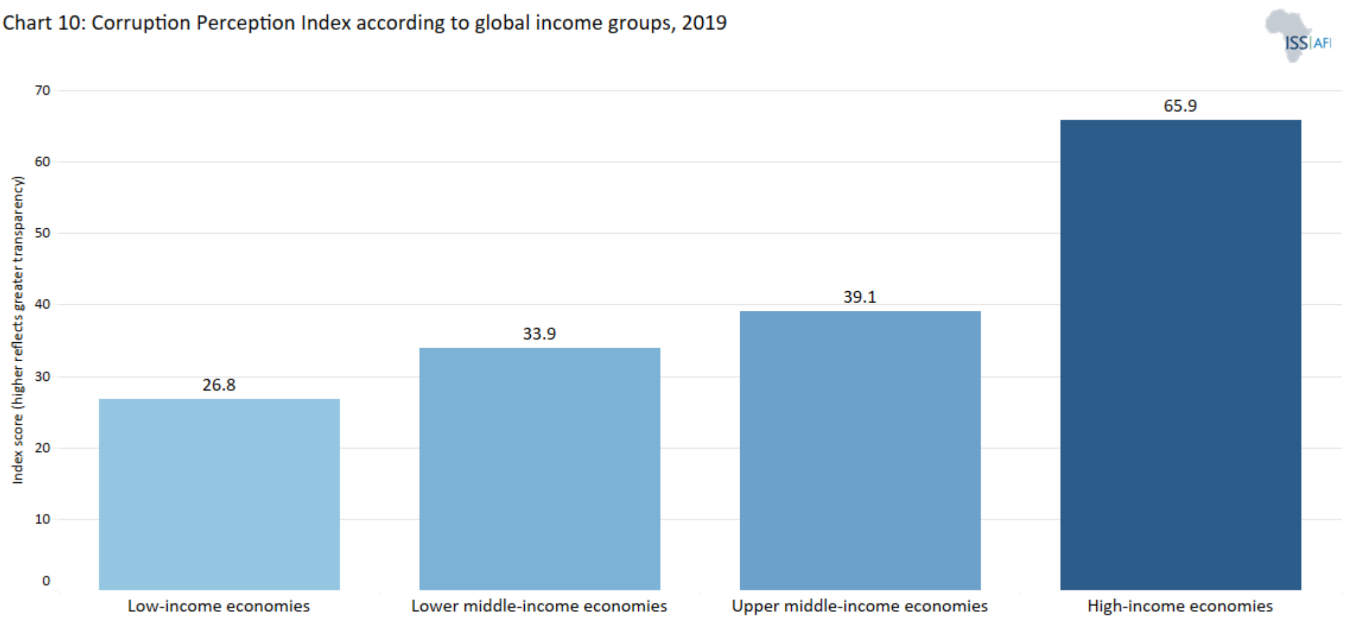
Government capacity is reflected in the mobilisation and effective use of government revenues. Wagner's law reflects the well-established tendency of states to mobilise and use a progressively higher share of the gross domestic product (GDP) as they develop economically and build professional public administrations. As a result, the share of public expenditure increases relative to national income.[1]

The effective use of government revenues is, of course, undermined by corruption which can see 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.[2] 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

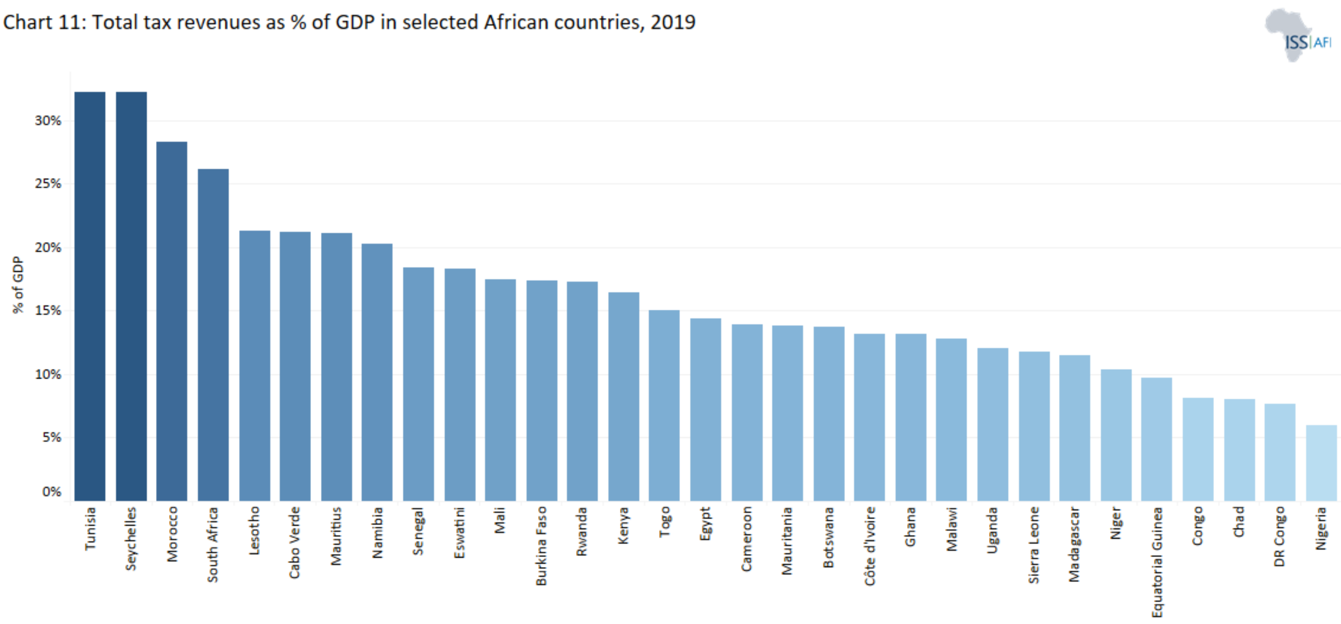


Source: Transparency International, 2020, www.transparency.org/en/cpi/2020/index/nzl.

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.



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 study by the IMF 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.[3] 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.[4]

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.

2. The CPI is a composite index that is constructed from a range of data sources: African Development Bank Country Policy and Institutional Assessment (2018); Bertelsmann Stiftung Sustainable Governance Indicators (2018); Bertelsmann Stiftung Transformation Index (2020); *The Economist* Intelligence Unit Country Risk Service (2019); Freedom House Nations in Transit (2018); Global Insight Country Risk Ratings (2018); IMD World Competitiveness Center World Competitiveness Yearbook (2020); Executive Opinion Survey (2019); Political and Economic Risk Consultancy Asian Intelligence (2019); PRS Group International Country Risk Guide (2019); World Bank Country Policy and Institutional Assessment (2018); World Economic Forum Executive Opinion Survey (2019); World Justice Project Rule of Law Index Expert Survey (2019); and Varieties of Democracy (V-Dem) (2019). See: Transparency International, Corruption Perceptions Index.

3. J C Benitez et al, Building Tax Capacity in Developing Countries, Washington, DC: International Monetary Fund, 2023.

4. N Cheeseman, E Betrand and S Hsaini, *A dictionary of African politics*, Oxford University Press, 2019.

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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 and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. 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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