Improving tax compliance through enforcement campaigns in the Democratic Republic of Congo

Researchers:

Augustin Bergeron

Sample: 3,000 firms in Kananga, Kasai Central Province

Initiative(s): Governance Initiative (GI)

Target group: Large enterprises

Outcome of interest: Taxation Corruption and Leakages

Intervention type: Incentives Community monitoring

Partner organization(s): Direction Generale des Recettes du Kasai Occidental

Governments with low capacity may struggle to enforce tax policy and promote economic development by improving tax compliance among citizens and firms. In partnership with the Kasai Central Provincial Tax Ministry in the Democratic Republic of Congo, the researcher conducted a randomized evaluation to identify the direct and indirect effects of varying levels of enforcement on firms' tax compliance and their likelihood to pay bribes.

Policy issue

Tax compliance is a key challenge for many governments across the world. Governments may raise revenues to promote economic development and provide public goods to their citizens, which can be a sign of more accountable and responsive governance. However, in many lower and middle-income countries, governments may not raise enough revenue to provide public goods. This, in turn, can limit further revenue prospects as citizens may not see the benefits of paying taxes to the government and, therefore, refrain from paying their taxes. To address this, governments have historically implemented various tax enforcement strategies with little evidence on their effectiveness in increasing compliance with tax policy. Which tax enforcement strategies can be effective to raise revenues in lower and middle-income countries?

Context of the evaluation

The Democratic Republic of Congo has the fourth largest population in Africa, with 91 million inhabitants in 2019, and is considered to be one of the poorest countries in the world with an estimated per capita income of US$500 in 2019. Like the national government, the provincial government of Kasai Central has experienced challenges in raising resources: from 2010 to 2017, its total yearly revenues amounted to less than US$0.30 per capita for its six million citizens. In addition, taxes represent a minority of provincial revenues, which are mostly composed of funds from the national government and revenues from natural resource extraction. In Kananga, the capital city of Kasai Central and the fourth largest city in the country, The Provincial Taxation Ministry registered 3,000 taxable firms in Central Kananga, and only 22 percent of firm owners reported paying their corporate tax in 2017 but actual payment may be even lower. The government has not enforced tax compliance in the past, and the infrequency of official sanctions for delinquent firms could partly explain the widespread level of tax evasion.



Photo: Skinstorm | Shutterstock.com

Details of the intervention

The researcher partnered with the Provincial Ministry of Taxation in Kasai Central to conduct a randomized evaluation to test the direct and indirect impacts of two tax enforcement campaigns on firms' tax compliance and bribe payments. Before the implementation of the tax enforcement campaigns, firms were visited by tax collectors to provide information about corporate taxation, including tax liability, payment deadlines and penalties in case of non-compliance.

The researcher randomly assigned the 3,000 registered firms in Central Kananga to one of two enforcement campaign levels or a comparison group:

1. *Partial tax enforcement*: Two weeks prior to the tax payment deadline, firm owners who did not paid their corporate tax received an additional visit from a tax collector to remind them about the payment deadline and the associated penalties for not fully complying with their tax burden.
2. *Full tax enforcement*: Firms received the same visit from a tax collector two weeks before the tax payment deadline. If they failed to pay their taxes after that visit, they received additional visits from tax collectors and a tax bailiff who would legally sanction them through a monetary fine, asset seizure, or temporary closure of the firm for non-compliance.
3. *Comparison group*: Firms continued with the status quo enforcement strategy and did not receive additional tax enforcement visits.

The researcher surveyed firms to determine their characteristics, identify their beliefs about tax enforcements strategies and measure their links with other firms (i.e., sector of activity, neighborhood, provider or parent-subsidiary relationships, etc.). The Provincial Tax Ministry shared data on tax compliance throughout the evaluation period. After the tax enforcement campaign, the

researcher surveyed firms to monitor changes in their beliefs about enforcement given their experience in the program or of their neighboring firms, and to measure bribe payments as a potential replacement for paying formal taxes. To understand the links between firms in Kananga, direct impacts on firms exposed to the campaign were compared to indirect impacts on neighboring firms which were not exposed to the campaign.

Results and policy lessons

Project ongoing; results forthcoming.