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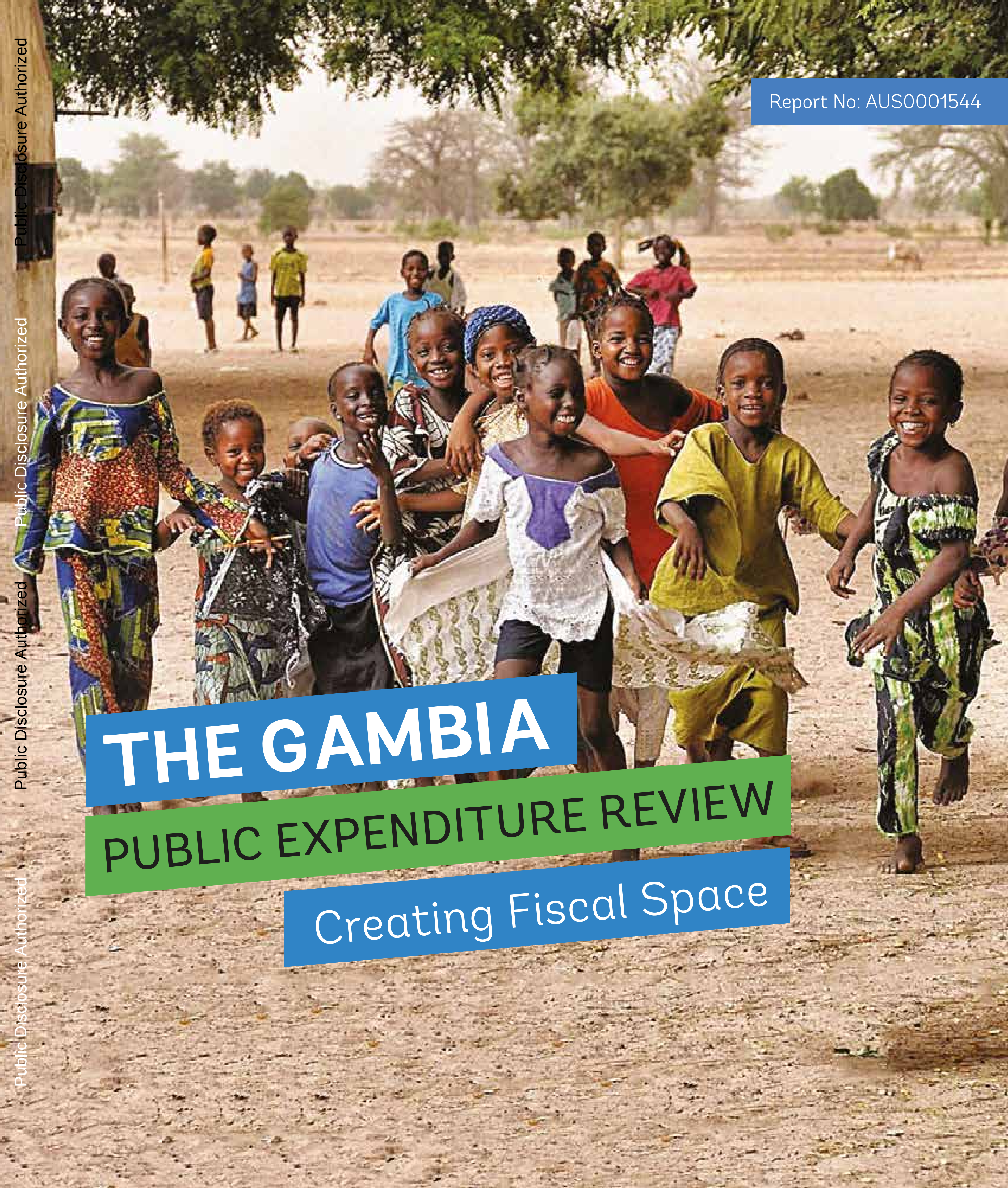

THE GAMBIA

PUBLIC EXPENDITURE REVIEW

Creating Fiscal Space

WORLD BANK GROUP

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Creating Fiscal Space

June 2020

Macroeconomics, Trade and Investment Global Practice
AFCF1 Country Management Unit
Africa Region

WORLD BANK GROUP

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Abbreviations and Acronyms

AGD	Accountant General's Department
AMP	Aid Management Platform
ANC	Antenatal care
ASYCUDA	Automated Systems for Customs Data
BCS	Basic Cycle School
CEQ	Commitment to Equity
CET	Common External Tariff
CIT	Corporate income tax
CoA	Chart of accounts
CPI	Consumer price index
DAC	Directorate of Aid Coordination
DEA	Data envelopment analysis
DLEAG	Drug Law Enforcement Agency
DSA	Debt Sustainability Analysis
DTD	Domestic Taxation Department
EAC	East African Community
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
ETLS	ECOWAS Trade Liberalization Scheme
EU	European Union
GAF	Gambian Armed Forces
GAMCEL	Gambia Telecommunications Cellular Company Ltd
GAMTEL	Gambia Telecommunications Company Ltd
GAMWORKS	Gambia Agency for the Management of Public Works
GDP	Gross domestic product
GGC	Gambia Groundnut Corporation
GIEPA	Gambia Investment and Export Promotion Agency
GLF	Gambia Local Fund
GMD	Gambian dalasi
GNA	Gambian National Army
GNHSP	National Health Strategic Plan
GPF	Gambia Police Force
GPPA	Gambia Public Procurement Agency
GRA	Gambia Revenue Authority
GSRB	Gambia Strategy Review Board
GRSD	Global Revenue Statistics Database
HCI	Human Capital Index
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
ICT	Information and communications technology

IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IHR	International Health Regulations
IHS	Integrated Household Survey
IMF	International Monetary Fund
IT	Information technology
ITFC	Islamic Trade Finance Corporation
IVAT	Income and Value Added Tax Act (2012)
LBS	Lower Basic School
LDC	Least developed country
LGA	Local Government Area
LIC	Low-income country
LTU	Large Taxpayers Unit
MDA	Ministries, departments and agencies
MICS	Multiple Indicator Cluster Survey
MMR	Maternal mortality rate
MOFEA	Ministry of Finance and Economic Affairs
MoH	Ministry of Health
MTDS	Medium-term debt strategy
MTEFF	Medium-Term Economic and Fiscal Framework
NAO	National Audit Office
NAWEC	National Water and Electricity Co. Ltd
NDP	National Development Plan
NFSPMC	National Food Security, Processing and Marketing Corporation
NGO	Non-governmental organization
NHIS	National Health Insurance Scheme
NPL	Non-performing loan
OOP	Out-of-pocket
PAYE	Pay As You Earn
PCU	Project Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public financial management
PIM	Public investment management
PIMA	Public Investment Management Assessment
PIT	Personal income tax
PIU	Project Implementation Unit
pp	Percentage point
PPP	Public-private partnership
R&D	Research and development
RBF	Results-based financing

RHD	Regional Health Directorate
SCD	Systematic Country Diagnosis
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SGO	Statement of Government Operations
SMP	Staff-Monitored Program
SMT	Small and medium-sized taxpayer
SSA	Sub-Saharan Africa
SSA-LIC	Sub-Saharan African low-income country
SSS	Senior Secondary School
SOE	State-owned enterprise
STR	Student-teacher ratio
TADAT	Tax Administration Diagnostic Assessment Tool
TPU	Tax Policy Unit
TSA	Treasury single account
UBS	Upper Basic School
U5M	Under-five mortality
UAP-V	Unitary average price of vehicles
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
VAT	Value-added tax
WDI	World Development Indicators
WHO	World Health Organization

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Revenue Mobilization

The Gambia lags its peers in revenue mobilization, with tax revenue averaging 10 percent of GDP over 2008–2019, despite various initiatives implemented through successive budget acts. The structural tax gap is assessed at 4–6 percent of GDP, and tax sources across the board are under-utilized compared to peer countries. Its ability to enhance its tax-to-GDP ratio is, however, profoundly constrained by extremely limited tax policy and administrative capacity, including a lack of the data needed to support sound policy elaborations.

This chapter identifies several reform areas, aiming at partially closing the tax gap over the medium term. These include rolling back some of recent softening of income taxation, particularly in personal income tax, as well as rationalization of tax expenditures, at the border and in domestic taxation; and expanding the domestic excise tax base. Improving institutional capacity by creating a tax policy unit in the Ministry of Finance and Economic Affairs, enhancing capacity in tax administration through digitization, and elaborating a medium-term revenue strategy should be short-term priorities. These reforms could increase tax collection to the tune of 3.0-3.3 percent of GDP.

This chapter is organized as follows. The first section analyzes The Gambia's tax performance, benchmarked against peer countries, and considers its tax potential. The next section discusses the profile and trends of key direct and indirect taxes. The last section outlines reform options to improve revenue mobilization.

3 Revenue Mobilization

Taxation in the Gambia and Peer Perspective

The Gambia needs to improve revenue mobilization to finance its significant investment needs and address its public debt vulnerabilities. Investment as a share of GDP is low compared to structural and regional peers. The extent and quality in service delivery in critical areas, such as education, health, and electricity, needs improvements. Moreover, servicing the public debt consumes a large share of domestic revenues. Creating fiscal space through higher levels of domestic revenue mobilization, among other measures, will be critical to help it address its massive development needs and debt vulnerabilities. Total government revenue, including grants, stood at 19.7 percent of GDP in 2019 (Figure 3.2 and Annex III, Table A3.1).

Grants have been very volatile. Foreign assistance from major multilateral and bilateral donors was minimal in the twilight years of the previous regime. Although grants averaged 3.3 percent of GDP and 20.7 percent of total revenue over the period 2008–2019, the figure was driven upwards by large amounts of grants in 2012 and during 2017-19. There was a significant spike in grants in 2017, to 8 percent of GDP, reflecting a "bandwagon effect" as the democratic transition opened opportunities for fiscal reform and international donors were quick to provide budget support grants.

Non-tax revenue remains marginal, driven by government services and charges as well as telecommunications license fees. In 2019, non-tax revenue amounted to 3.0 percent of GDP and 15.4 percent of total revenues, demonstrating their relatively limited contribution. Revenues come from government services and charges from the Gambia Revenue Authority (GRA) and from customs, telecommunications licenses, and rent revenue from the Domestic Taxation Department (DTD). The increase in non-tax revenue—from 0.9 percent of GDP in 2017 to 2.2 percent in 2018—is due to the sale of government land and planes, as well as the recapture of government funds from the former political regime amounting to 1 percent of GDP.[27] In 2019, the receipts of nearly 0.9 percent of GDP in signature bonuses from the prospecting petroleum companies (BP and FAR Gambia Limited) helped boost non-tax revenue.[28]

At 11.2 percent of GDP in 2019, tax revenue remains insufficient to meet service delivery needs. Tax revenue averaged 10.1 percent of GDP during 2008–2019, accounting for 70.7 percent of total revenue (Figure 3.2 and Annex III, Table A3.2).[29] The Gambia's tax revenue ratio is below the level needed to perform its most basic state functions and finance development programs. This ratio is

27 IMF (2018a, 2019).
28 IMF (2020).
29 In 2017 and 2018, tax revenue contributed only 55 percent of total revenue as grants increased substantially.

also well below the SSA average of 17 percent of GDP (Table 3.2).[30] Low revenues are generally a result of weak tax administration capacity, such as difficulties in enforcing tax collection and ensuring compliance, and weak tax policy design, including too many exemptions in the tax bases.

Benchmarking

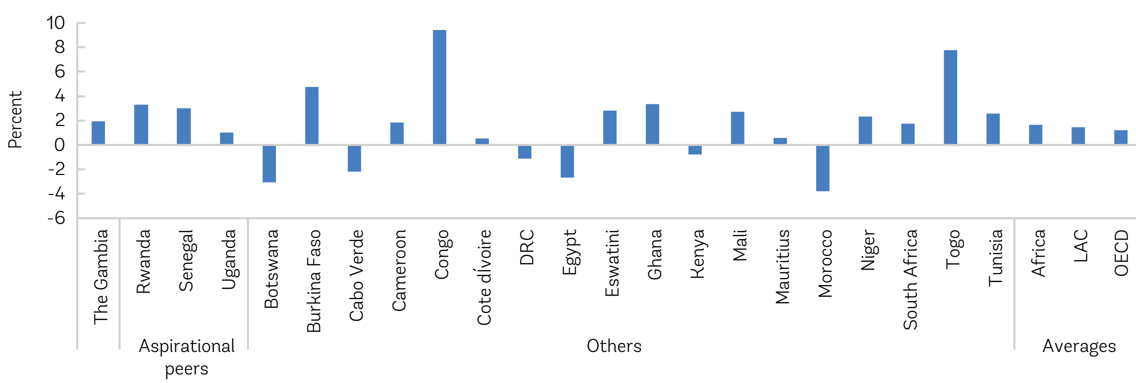
Grants play a significant role in the revenue envelope of peer countries (Figure 3.5). Grants to The Gambia amount to 3.3 percent of GDP, higher than in Mauritania (1.1 percent), Eritrea (1.9 percent), Senegal (2.1 percent) and Uganda (1.7 percent). Rwanda and Guinea-Bissau receive significantly more grants, averaging 8.3 percent and 7.5 percent of GDP respectively.

Non-tax revenues in The Gambia are lower than in all its aspirational peers except Uganda. The average non-tax revenue over the period under review was 1.3 percent of GDP in The Gambia, while for the period 2008–2016,[31] non-tax revenue amounted to 1.6 percent of GDP in Rwanda, 1.4 percent in Senegal, and 0.2 percent in Uganda. These countries employ a variety of non-tax revenue instruments, including royalties, dividends on government investments in state-owned enterprise (SOEs), pollution fees, telecommunications fees, and levies on natural resource extraction.[32]

The Gambia's tax revenue increased by 1.9 percent of GDP between 2008 and 2019. This was less than most of its aspirational peers, which increased their ratio of tax to GDP by 3–5 percent in the last decade with the exception of Uganda (Figure 3.1). Countries like the Republic of Congo and Togo saw tax-to-GDP increases of 8–9 percent. Only Mauritius and Cote d'Ivoire experienced zero-growth situations while for some countries it has fallen.

All peer countries, except Eritrea, display a greater dependency on indirect tax sources (Figure 3.4). Only in The Gambia do taxes on goods and services fetch less than international trade taxes, averaging 2.5 percent of GDP against 4.7 percent of GDP. Goods and services taxes are higher in all its aspirational peers, averaging 8.1 percent of GDP in Senegal, 7.1 percent in Rwanda, and 6.5 percent in Uganda. The shares are lower among its structural peers: 1.6 percent of GDP in Eritrea and 3.5 percent in Guinea-Bissau. Conversely, trade taxes are considerably lower in all peer countries, particularly Eritrea (1.2 percent), Rwanda (1.2

Figure 3.1: Change in Tax-to-GDP ratio in African Countries (2006–2016) and The Gambia (2008–2019)



Source: OECD Global Revenue Statistics Database (GRSD) 2018; Statements of Government Operations (SGOs) for The Gambia.

30 IMF (2018b).
31 Data on non-tax revenue in aspirational peers is obtained from the OECD Global Revenue Statistics database.
32 Economic Commission for Africa (2019).

Table 3.1

Benchmarking Tax Revenues, 2019 or Latest Available

	Tax- to- GDP (%)
The Gambia	11.2
Guinea-Bissau	9.3
Eritrea	10.9
Mauritania	18.5
Senegal	16.0
Rwanda	15.8
Uganda	13.6
SSA average	17.0

Source: World Development Indicators (WDI), SGO for The Gambia.

percent), and Uganda (1.1 percent). Higher revenues from goods and services taxes are mainly due to value-added tax (VAT) reforms which improved the design and compliance ratio (in Mauritania, Rwanda, Senegal, and Uganda) and reforms of excise taxes (in Mauritania and Uganda).

The Gambia collects relatively little in direct taxes. The contribution of direct taxes has fallen by 8 percentage points from 34.3 percent of total tax collection in 2008 (3.2 percent of GDP) to 26.3 percent in 2019 (3 percent of GDP). Personal income tax (PIT) amounted to 1.2 percent of GDP on average and corporate income tax (CIT) averaged 1.4 percent of GDP. Capital gains (on individuals and corporations) and payroll taxes underperformed, both averaging 0.1 percent of GDP over the period 2008–2019. The Gambia raised less in direct taxes than all its structural peers except Guinea-Bissau, and less than all its aspirational peers (Figure 3.4).

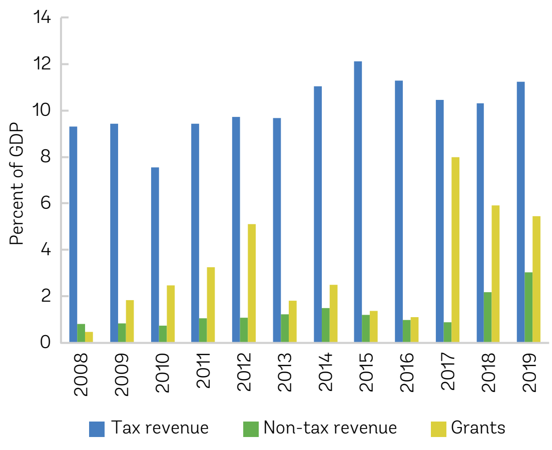
Tax Capacity

The Gambian economy has a limited tax base and the active tax base is structurally narrow. Agriculture in The Gambia is largely subsistence based and farmers are below the level for tax liability, eroding the agricultural tax base.[33] The international trade tax base has also fluctuated due to developments in imports and import duties over the years, as well as the lack of diversification of exports. The Hirschman-Herfindahl indices of export products and market concentration demonstrate exports are less diversified than in its aspirational peers (demonstrating few exports), and merchandise exports are concentrated in a small number of markets. The tourism tax base is non-existent, with no active tourism tax strategy developed along the tourism value chain, despite being a tourism-dependent economy. Fully exploiting the tax potential of tourism will depend on levels of political stability and ensuing (in)security in the country, health pandemics, and economic trends in tourists' countries of origin.[34]

A structural tax gap of 4–6 percent of GDP has emerged which indicates that tax revenues could reach 15–17 percent of GDP. In addition to administrative constraints, there are structural, institutional, and political features of the economy that influence its tax capacity and potential. These include economic factors (per capita GDP, sector shares of value added in GDP, private

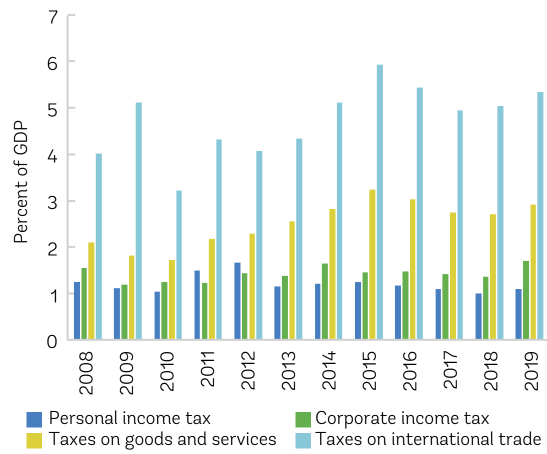
33 World Bank (2020 forthcoming).
34 World Bank (2020 forthcoming).

Figure 3.2: Revenue Performance in The Gambia, 2008–2019



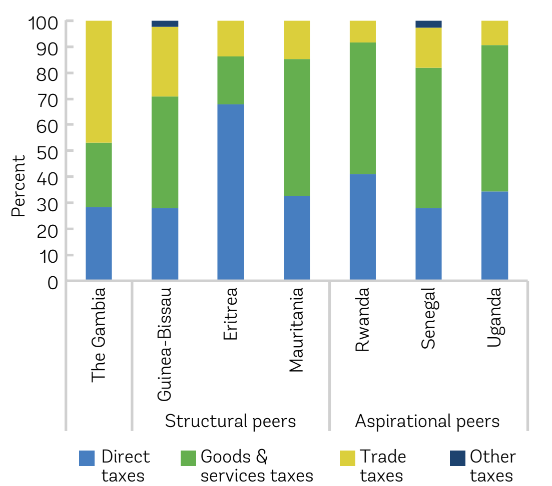
Source: SGOs, Ministry of Finance and Economic Affairs (MOFEA).

Figure 3.3: Tax Composition in The Gambia, 2008–2019



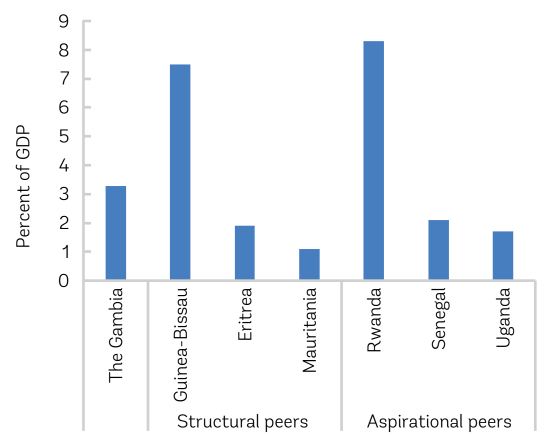
Source: SGOs, Ministry of Finance and Economic Affairs (MOFEA).

Figure 3.4: Benchmarking Tax Composition, Average for 2008–2019 or Latest Available



Source: WDI for peer countries; SGOs for The Gambia.

Figure 3.5: Benchmarking Grants, Average for 2008–2019 or Latest Available



Source: WDI for peer countries; SGOs for The Gambia.

sector development, trade openness), institutional factors (corruption, government effectiveness, bureaucratic quality) and political factors (preferences of the bureaucracy and the political elite). Based on a panel regression of structural variables of 91 countries over 2000–2017, The Gambia's tax potential is estimated at 17.3 percent (see Annex IV for details on the methodology). Achieving this ratio would raise the country over the threshold for sustainable tax revenue. This is safely over the "tipping point" of 12.9 percent of GDP, below which a state will experience difficulties in carrying out its most basic functions and financing development programs.[35]

35 Gaspar, Jamarillo and Wingender (2016).

Profile and Drivers of Tax Revenue Performance and Tax Policy[36]

Direct Taxes

Corporate Income Tax

The 2012 Income and Value Added Tax (IVAT) Act imposed a statutory corporate income tax rate—charged on the taxable profits of companies—of 35 percent. It also introduced an alternative minimum tax—charged on gross revenue or turnover—of 1.5 percent for audited firms and 2.5 percent for unaudited firms. Other corporate taxes include a capital gains tax levied on the disposal of assets by companies and a withholding tax which applies to companies' dividends. Successive budget acts have reduced the CIT rate over years to attract investment (usually in specific sectors and regions), ease the tax burden on the formal sector, and improve compliance. In addition, the Gambia Investment and Export Promotion Agency (GIEPA) Act of 2015 governs the fiscal incentives available to investors and exporters.

Corporate income taxes are the main sources of direct taxation, averaging 1.4 percent of GDP in the period under review (Figure 3.6). The ratio of CIT revenue to GDP has been reasonably stable over this period—increasing by just 0.1 percentage points from 1.6 percent in 2008 to 1.7 percent in 2019—albeit with fluctuations. The ratio steadily declined from 2016 onwards (although it peaked in 2019), reflecting a slowdown in economic activity due to political turmoil, as well as the likely impact on CIT revenues of reductions in the CIT statutory rates.[37] Further explanations for changes in CIT revenue are difficult to provide, due to the lack of revenue data such as developments by sector.

The importance of corporate income taxes—both as a share of GDP and total tax revenue—varies considerably across peer countries (Figure 3.7). On average, CIT revenues in Africa amount to 2.8 percent of GDP, similar to the OECD average. The Gambia's average of 1.4 percent of GDP is lower than all its peers barring Uganda (0.8 percent). On average, countries in Africa, and Latin America and the Caribbean, collect higher CIT receipts as a share of total tax revenue—16.3 and 17.2 percent, respectively—than OECD countries (8.4 percent). The ratio is lower in The Gambia than in its peer countries, except for Uganda (7.1 percent) and Senegal (8.1 percent).

CIT productivity[38] is low, reflecting exemptions in the tax base, as well as tax compliance issues. CIT productivity measures the revenue collected as a share of GDP for every one percent of the corporate income tax rate. CIT productivity in The Gambia has oscillated between 3.3 percent (in 2009) and 6.4 percent (in 2019), averaging 4.6 percent over the period. Thus, for every one percent of the CIT rate the Government collects only 0.05 percent of GDP on average, which is effectively a very low buoyancy. The Gambia's CIT productivity is lower than for all peer countries except Uganda at 3 percent (Figure 3.7).

36 The absence of granular information and data on tax sources constrains the depth of the review and discussions in the section, as well as the authorities in their efforts to improve revenue mobilization. Income tax data are not available at the taxpayer level, and information on the specific products and services in the consumption taxes is also missing. Due to data insufficiencies, any interpretation of CIT productivity ratios, in a single country or across countries, needs to be undertaken cautiously. Country data in cross-country CIT data bases vary in terms of validity (issues related to the correct interpretation of country data in the context of the specific corporate income tax code), as well as reliability issues, such as differences in the capture of tax expenditures in the tax declaration.

37 The IMF review of income taxation in the Gambia (IMF, 2013) highlighted similar views, noting that rate reductions in the corporate as well as the personal income tax eventually should be accompanied by safeguarding the tax base, including rationalization of the tax incentives schemes.

38 Estimation of CIT productivity by percent of tax rate could yield inconsistent results when used for a single fiscal year. Some non-linear features of CIT systems, such as investment depreciation and loss carry over, entailing the need to use several fiscal year periods as baseline for productivity estimations. The choice of multi-year periods for analytic purposes, both for individual and peer country estimations, entails many complexities to reach a stable basis for international comparison. On the other hand, lack of CIT data severely limits the undertaking of drill-down analytics.

Tax incentives are offered on a range of areas and sectors. The government grants generous incentives through GIEPA. These tax incentives offer different fiscal regimes for different sectors, significantly narrowing the tax base. GRA data on large corporate taxpayers in 2019 can be used to assess the impact of these tax incentives.[39] Approximately 43 percent of the 244 large corporate taxpayers[40] are eligible for incentives, indicating that their use is pervasive.

GIEPA data show that 84 percent of the investment incentives in 2016 were in priority sectors (Figure 3.8).[41] Depending on how big these firms were, and whether they were domestic or foreign, they would have been eligible for tax incentives although the size of these incentives cannot be determined without more granular data. Furthermore, four companies were approved for the award of Special Investment Certificates and three companies were approved for an Export Processing Zone License in 2016.[42] The businesses were all Gambian owned, showing that domestic as well as foreign firms and investments can access the array of incentives. While no data are available on the allocation of incentives, the broad criteria for accessing them leave the impression that the schemes may be too generous and would eventually lead to excessive revenue loss. The low CIT productivity ratio points in the same direction.

Due to capacity constraints, cost-benefit analyses of specific requests for incentives are not being prepared.[43] However, companies are required to identify the benefits of the investment in the business plan being scrutinized by GIEPA before any incentive package can be awarded. Furthermore, the profitability of the investment is encouraged at the margin, by exempting to a relatively large extent the costs of the investment. Tax incentives are awarded by MOFEA, following the recommendations of GIEPA which in turn follow the recommendations of the Investment Incentive Awards committee. Giving MOFEA a more proactive role would be preferable, including setting upfront fiscal targets of revenue loss per year, by priority sectors.

Personal Income Tax

The personal income tax regime has eased in recent years, with rate reductions and threshold increases. The IVAT Act also allows for income tax to be imposed on a person who has chargeable annual income—business, employment and property. PIT in The Gambia is progressive and payable on gross employment income using the Pay As You Earn (PAYE) scheme. There are six income brackets; the bottom marginal rate is 5 percent and the top marginal rate 25 percent (Table 3.2). Income from immovable property is taxed using the same rate structure while residential and commercial properties are subject to a final tax rate of 10 percent. Capital gains tax is also levied on the disposal of assets by individuals; payable at 15 percent of the gain, or 5 percent of the consideration, whichever is greater.

Recent alleviations in the PIT rate and threshold include:

- The top maximum marginal tax rate was reduced from 35 to 30 percent in 2013 alongside the intermediate marginal rates. The six income brackets, as well as the income range of GMD10,000 were maintained. The threshold was also increased from GMD7,500 to GMD18,000 per year, reflecting an increase

39 Unfortunately, data are not available to estimate the effective tax rate on corporations, with a view to assessing the relative impact on revenue (revenue loss) due to tax exemptions. Nor are CIT tax payments by economic sector available, preventing any discussion of the relative tax burden across economic sectors.

40 Of the total, 104 have investments in priority sectors: 4 in agriculture, 1 in fisheries, 27 in tourism, 5 in manufacturing, 14 in energy, 13 in mining exploration and exploitation, 8 in financial services, and 32 in other services.

41 They were in agriculture (7), tourism (7), energy (9), manufacturing (6), fisheries (3), mining exploitation (2), and other services (8).

42 Three of these investments were in agriculture, two in manufacturing, and one each in tourism and financial services.

43 An IMF Technical Assistance report (IMF, 2015b) raised similar concerns. The technical assistance mission abstained from assessing revenue loss due to tax expenditures in the Gambia, since only a very partial view could be obtained based on the data at customs. For that reason, the they could not further assess the cost-benefit of current portfolio.

Table 3.2

Personal Income Tax Rates in The Gambia, 2012 and 2018

IVAT Act, 2012		Budget Act, 2018	
Taxable Income (GMD)	Rate	Taxable Income (GMD)	Rate
0 – 7,500	0%	0 – 24,000	0%
7,501 – 17,500	10%	24,001 – 34,000	5%
17,501 – 27,500	15%	34,001 – 44,000	10%
27,501 – 37,500	20%	44,001 – 54,000	15%
37,501 – 47,500	25%	54,001 – 64,000	20%
Above 47,500	35%	Above 64,000	25%

Source: Relevant legislation.

in the prices of essential goods and services. In 2018 the top maximum marginal rate was further reduced from 30 percent to 25 percent, while maintaining the intermediate rates. The threshold was increased from GMD18,000 to GMD24,000. These changes were a bid to lower the tax burden by increasing the disposable income available to personal income taxpayers.

- The residential and commercial property tax rate was also reduced from 10 percent to 8 percent in 2018.

The Informal Sector Regulation Act, passed in 2007, governs taxation in the informal economy, i.e. the taxation of small self-employed individuals. All small self-employed individuals with no permanent place of business or proper business records are categorized as informal sector operators. Additionally, all taxpayers with a turnover below GMD100,000 are considered small self-employed individuals for whom tax payments are mandatory. The rates and charges applied differ by sector or trade, and are applied as absolute values, ranging from GMD1,000 to GMD30,000. The GRA also introduced a presumptive tax regime in 2013: taxpayers with an annual turnover over GMD100,000 but below GMD500,000 pay a 3 percent flat rate.[44]

Informal sector taxpayers are not required to file annual income tax returns—unlike VAT, CIT, and PIT taxpayers. Informal sector operators pay a final lump-sum tax with no deductions allowed for business expenses. However, the GIEPA Act 2015 provides small self-employed businesspeople with enterprise support (capacity building) including support for research and development (R&D), income tax deposit waivers, matching grants, and market survey support, as well as incentives to formalize. No information about the costs, including revenue loss, is available.

Personal income tax contributes relatively little to tax revenues in The Gambia, averaging 1.2 percent of GDP and 8.6 percent of total revenue (Figure 3.9). PIT as a share of GDP has fluctuated over the years due to changes in tax policy and extant tax bases, coinciding with the successive reductions in the top marginal tax rate, and increases in the PIT threshold.

The underperformance of payroll (expatriate) taxes contributes to low PIT performance in The Gambia. Payroll taxes are imposed on employers that employ non-Gambian nationals and are charged at GMD40,000 for each employee who is not from an Economic Community of West African States (ECOWAS) country and at GMD10,000

44 The introduction of a flat rate in the presumptive tax scheme was aligned with the recommendations of the IMF (IMF, 2013).

for ECOWAS employees. Payroll taxes averaged 0.08 percent of GDP over the period under review, reflecting the scarcity of expatriates employed in the formal sector.

The reductions in PIT rates and the increases in the PIT threshold in 2013 and 2018 had a negative impact on PIT performance. PIT productivity[45] in The Gambia was at its lowest in 2009 (3 percent) and highest in 2012 (6 percent), averaging 4 percent over the entire period (Figure 3.9). Thus, for every one percent of PIT rate the government collects 0.04 percent of GDP on average. PIT productivity in The Gambia is lower in all peer countries except Togo (3 percent) (Figure 3.10).

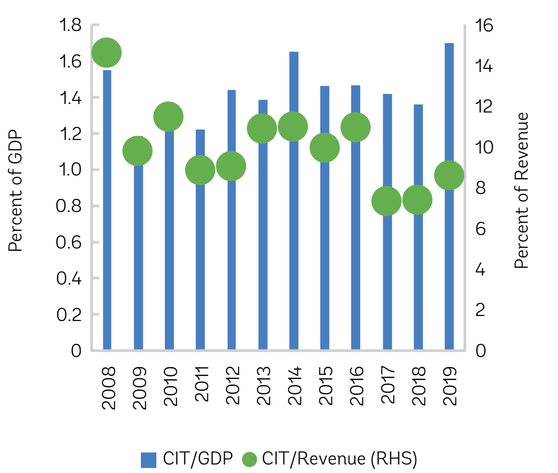
The level and significance of personal income taxes—as a share of both GDP and total tax revenue—varies greatly across countries (Figure 3.10). The OECD average ratio of PIT revenue to GDP is 8.5 percent, more than three times the African average (2.6 percent of GDP). The ratio is highest in South Africa, averaging 8.6 percent of GDP, and is also considerably higher among The Gambia's aspirational peers, at 3.3 percent of GDP in Rwanda, 2.7 percent in Senegal and 3.1 percent in Uganda. Personal income tax makes up a smaller share of total tax revenues than in all peer countries; in Rwanda it is 22.4 percent, Senegal 15.2 percent, and Uganda 23.4 percent.

Indirect Taxes

Value-added Tax

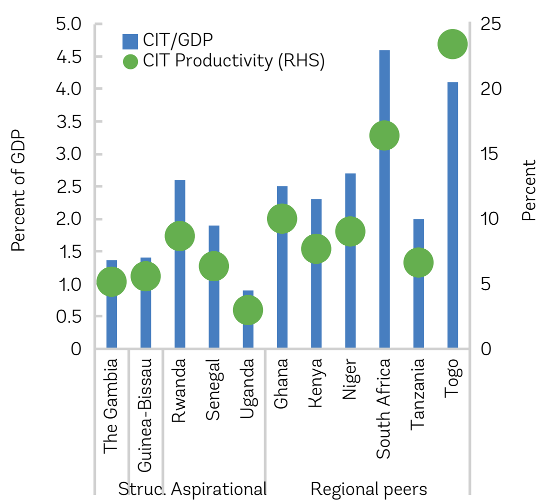
The IVAT Act abolished the sales tax, which was levied at 15 percent, and replaced it with a value-added tax, effective from January 1, 2013. VAT applies to the taxable supply of goods and services, specifically supply within the country, and the importation of goods and services. There are two rates of VAT in The Gambia: the standard rate, charged at 15 percent and the zero rate, charged at 0 percent. The standard rate is at the lower boundary of the ECOWAS protocol which allows for standard rates of 15–20 percent and reduced rates of 5–10 percent on certain goods and services. The latter option has not been applied in The Gambia. The system also allows for a raft of exemptions and zero-rated goods, with registration mandatory for businesses with a turnover of over GMD1 million.

Figure 3.6: CIT Performance in The Gambia, Average for 2008–2019



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

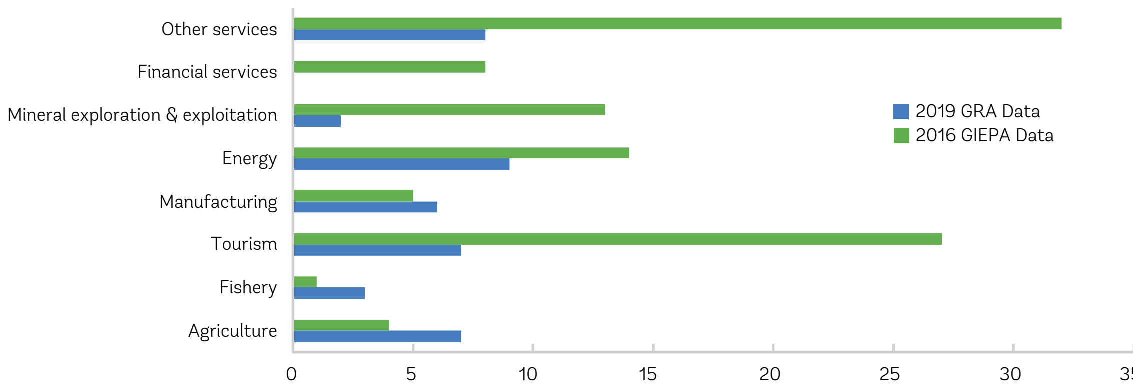
Figure 3.7: Benchmarking CIT Performance, Average for 2008–2019 or Latest Available



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

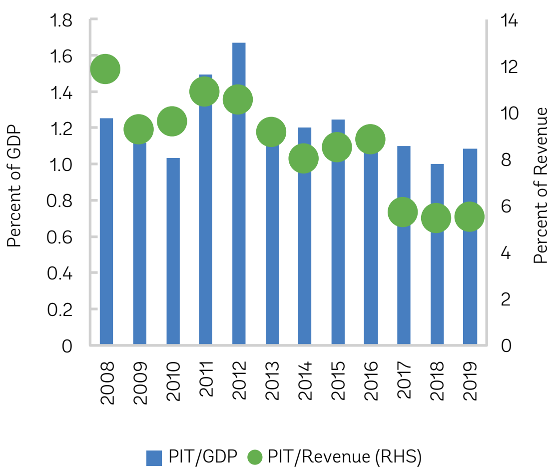
45 PIT productivity measures the revenue collected from personal income tax for every one percent of the personal income tax rate, as a share of GDP.

Figure 3.8: Prevalence of Incentives in The Gambia, 2016 and 2019



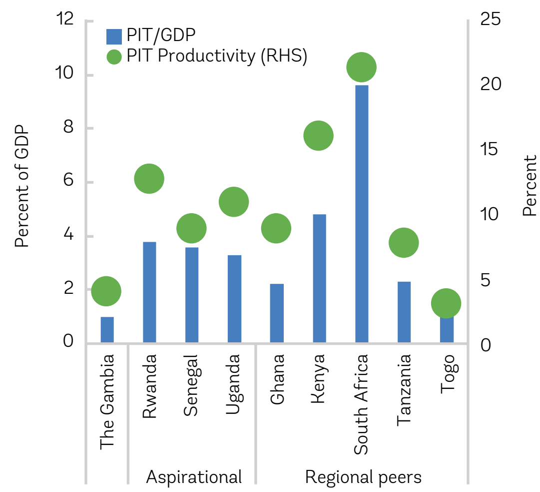
Source: GRA Large Taxpayers Data; GIEPA Annual Report.

Figure 3.9: PIT Performance in The Gambia, Average for 2008–2019



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Figure 3.10: Benchmarking PIT Performance, 2016 (or Latest Available Year)



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Various initiatives have been implemented to improve VAT revenue collection. These include:

- The Finance Law of 2017 introduced a withholding tax on VAT, applied at 50 percent of the VAT invoiced by suppliers of goods to public enterprises, SOEs, semi-public enterprises, mining and oil companies, and phone companies. This contributed to increasing revenue from domestic VAT as a share of both GDP and total revenue.
- VAT on telecommunications was introduced in 2013 at the standard rate of 15 percent.
- Tax departments were separated by function, distinguishing the Large Taxpayers Unit (LTU) from other units with different mandates. Establishing an LTU has become standard practice in most revenue administrations. Since most domestic revenue is collected from large taxpayers, it is important to set up an office which can handle the needs of this group easily.
- Improved VAT audits and verification measures.

Value-added tax is divided into domestic VAT and VAT on imports, which in turn is sub-divided into oil and non-oil components. Since

2013, VAT has contributed on average 22.5 percent of revenue, with domestic VAT accounting for 8.8 percent of revenues and import VAT 13.7 percent (Figure 3.12). These low levels of domestic VAT are attributable to the level of final household consumption as a share of GDP, the proportion of exports of goods and services relative to GDP, and tax administrative issues, including taxpayers' compliance.

The VAT to GDP ratio is higher and similar among peer countries (Figure 3.13). Togo and Senegal had the highest VAT/GDP ratios in 2016, at 8.0 and 7.4 percent respectively. Ghana, Kenya, and Rwanda all mobilize similar levels of VAT as a percentage of GDP albeit with different rates and exemptions. VAT as a share of revenue also varies significantly by country, with very high contributions in Togo (43.6 percent), Senegal (36.7 percent), and Uganda (32.7 percent).

The VAT threshold is often a reflection of a country's tax administrative capacity, or lack thereof. A high threshold is prescribed so the revenue administration can focus on large taxpayers over businesses whose revenue potential is far outweighed by the administrative and compliance costs incurred in pursuing them. More advanced and efficient revenue administrations can deliberately choose a lower threshold in order to broaden the tax base. In The Gambia, mandatory VAT registration is based on a business's turnover or projected turnover. The VAT threshold is very low at US$20,149 (GMD1 million) and the turnover must be attained within 12 months. If a trader projects that their turnover for the next 12 months will be over VAT threshold, they must also register for VAT. VAT thresholds in many of The Gambia's peers are considerably higher. Togo has the highest threshold at US$83,806, while in Uganda it is US$40,541, Tanzania US$44,843, Kenya US$50,505, and Ghana US$36,969 (Figure 3.13).

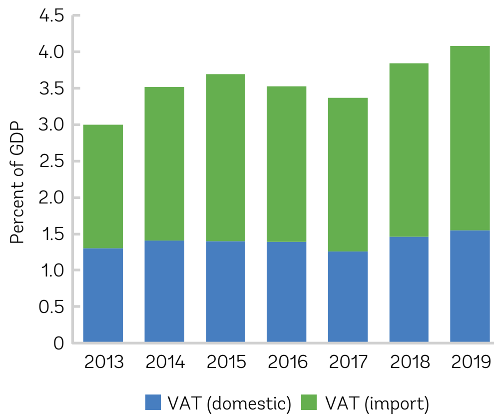
A more accurate measure of the VAT threshold is as a ratio of per capita GDP, allowing for cross-country comparisons. Adjusting for income level, The Gambia's VAT threshold is 39 times per capita GDP, implying a narrow VAT base, limited coverage (low VAT participation), and that it affects a limited number of companies or businesses. Measured in absolute US dollars the differences in VAT thresholds across countries might not be particularly stark. However, the ratio of the threshold to per capita GDP displays marked differences. For example, Ghana and Uganda have similar thresholds in absolute terms, but when their income levels are factored in, the threshold in Ghana is much lower than in Uganda (Figure 3.14).

VAT efficiency[46] in The Gambia improved to an average of 22.8 percent over 2013–2017 with the introduction of domestic VAT in 2013 (Table 3.3). Its C-efficiency has increased steadily and ranges from 10.4 percent to 25.1 percent. Prior to the introduction of domestic VAT, the average C-efficiency of sales tax stood at 14.2 percent, and with an overall increase in total VAT revenues collected, the C-efficiency increased considerably from 16.8 percent in 2012 to 22 percent in 2013. The average between 2013 and 2017 stood at 24 percent. As with VAT efficiency and C-efficiency, the compliance ratio displays major differences before and after the introduction of domestic VAT. Between 2008 and 2012, the average compliance ratio was 15.8 percent while for the period 2013–2017, it was 27 percent.

VAT C-efficiency in The Gambia is lower than its aspirational peers (Figure 3.15). In all the peer countries, each percentage point of the VAT rate collects less than 0.5 percent of GDP, reflecting the design and enforcement issues plaguing VAT implementation in developing countries. The gross compliance ratio in The Gambia is also lower than in all peers.

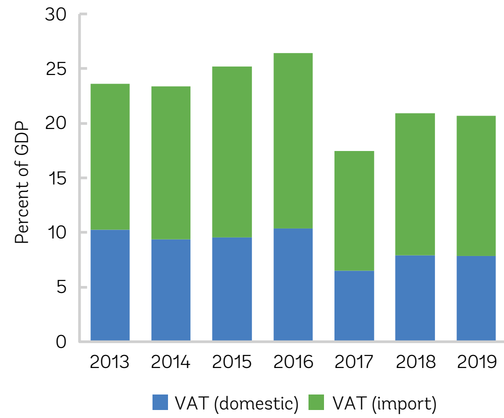
46 The VAT performance measures are defined as follows: VAT efficiency = (VAT revenue as a share of GDP)/(VAT rate). VAT C-efficiency = (VAT revenue)/(total final consumption net of VAT revenue * VAT rate). Gross compliance ratio = (VAT revenue)/(total household consumption net of VAT revenue * VAT rate). In situations where government expenditure is exempt, the gross compliance ratio and VAT C-efficiency will be the same value since the latter will be calculated with final private consumption instead of total consumption.

Figure 3.11: VAT Performance in The Gambia, 2013–2019 (% of GDP)



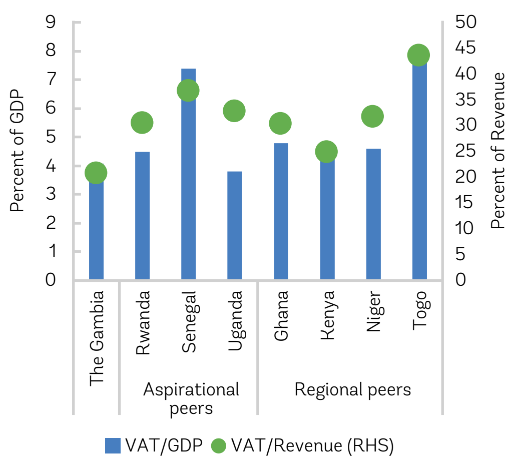
Source: SGOs, MOFEA.

Figure 3.12: VAT Performance in The Gambia, 2013–2019 (% of Revenue)



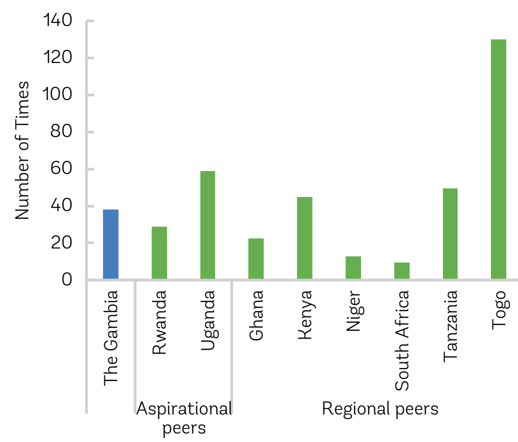
Source: SGOs, MOFEA.

Figure 3.13: Benchmarking VAT Performance, 2016 or Latest Available



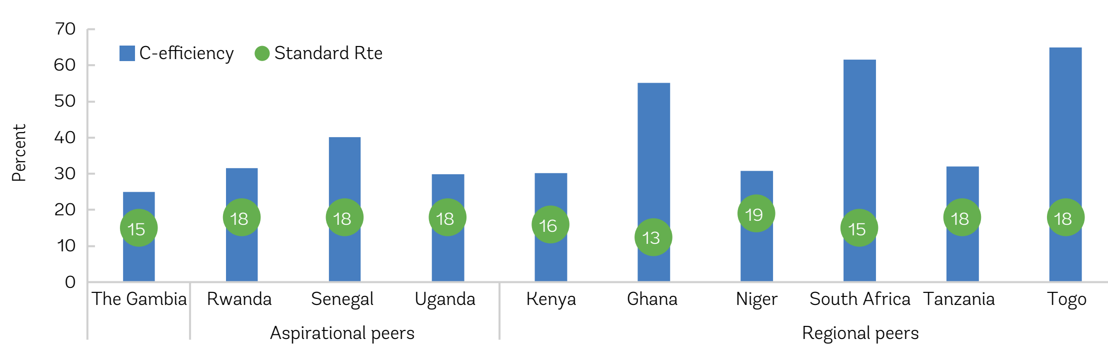
Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Figure 3.14: Benchmarking VAT Threshold Relative to GDP



Source: IMF Regional Economic Outlook, Crowe (2018).

Figure 3.15: Benchmarking VAT C-Efficiency and Standard Rates, 2016



Source: OECD GRSD for comparator countries; SGOs for the Gambia; Crowe (2018) for VAT rates.

Table 3.3

VAT Efficiency Metrics in The Gambia

Year	Efficiency	C-Efficiency	Gross compliance ratio
2008	12.7	12.8	14.2
2009	14.0	14.8	16.4
2010	10.0	10.4	11.6
2011	15.3	16.4	18.2
2012	14.0	16.8	18.6
2013	20.0	22.0	24.5
2014	22.7	23.9	26.9
2015	24.7	25.1	28.6
2016	24.0	25.0	28.4
2017	22.7	23.5	26.6
Average	**18.0**	**19.1**	**21.4**

Source: Authors' calculations.

Table 3.4

Potential VAT Base on Exempted Imported Items, 2015

IHS Code	CET rate	Description	Customs value (GMD)	VAT forgone (GMD)
101 – 106	15%	Rice	9,593,674	9,593,674
110	0%	Cereal and cereal products: Findi	-	27,854
111 – 116	-	Flour	-	152,162
124	35%	Imported chicken	2,817,287	1,207,409
126	35%	Eggs	986,422	422,752
128 – 133	35%	Meat	8,954,254	3,837,538
134 – 151	10%	Fish	3,499,886	5,249,829
152	5%	Milk	171,686	515,057
162, 163, 166,168	20%	Oil (groundnut, palm, vegetable, palm kennels)	7,226,357	5,419,768
173, 182, 193	20%	Fruits and nuts	639,350	479,513
197	35%	Starchy roots and tubers	1,782,017	763,721
202 – 225	20%	Vegetables	9,869,881	7,402,411
837 – 847, 962	25%	Health care	-	373,758
Total			**45,540,814**	**35,445,446**

Source: GRA Data; Integrated Household Survey (IHS) 2015/2016 and authors' calculations.

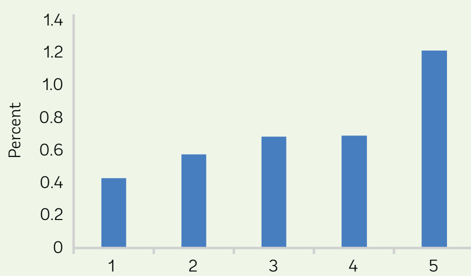
Box 3.1

Progressivity in the PIT and VAT taxation

The impact of taxes on poverty and equity depends on the tax code and other codes, such as the investment code or code on agriculture, as well as individual and household behavior and the level of tax enforcement. This box contains preliminary results from the Gambia Fiscal Incidence Analysis 2015 for personal income tax (PIT) and value-added tax (VAT), with both taxes simulated based on the Integrated Household Survey (IHS) survey data and the Commitment to Equity (CEQ) methodology.[a] In the case of PIT, the analysis concentrates on taxes paid by formal employees with available earnings data and employment characteristics; this represents the major source of PIT collected as a withholding tax from employees in the formal sector. In the case of VAT, taxes are estimated based on the tax code and expenditure data at the product level; local technical insights were used to make assumptions about informality for certain products and sectors.

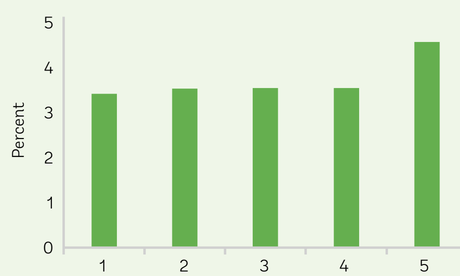
Preliminary results suggest that the PIT is progressive since PIT incidence increases by quintiles based on market incomes and pensions (Figure B3.1).[b] This result is consistent with a tax code with six income brackets and increasing marginal tax rates ranging from 0% (for individual annual income up to GMD18,000) to 35% (for individual annual income above GMD64,000).[c] The preliminary findings from the fiscal incidence analysis also suggest that VAT is progressive in The Gambia, as VAT incidence as a share of household consumption increases by quintile[d] (Figure B3.2). This contrasts with findings from other countries where indirect taxes are often regressive.

Figure B3.1: The Gambia: PIT Incidence



Source: Authors' (preliminary) calculations.

Figure B3.2: The Gambia: VAT Incidence



Source: Authors' (preliminary) calculations.

a. The World Bank is currently preparing a fiscal incidence analysis for The Gambia which describes the distributional impact of taxes and transfers on poverty and equity. Findings are based on the CEQ methodology and draw from a careful analysis of the nationally representative IHS 2015/16. Under this approach, tax payments and transfers are either directly observed or simulated from the survey data. The methodology also ensures a comprehensive assessment of many interventions on the tax and transfer side and thereby describes the combined effect of the fiscal system. Results measure the welfare consequences of fiscal policy for different groups of the population, which could inform policy reforms.
b. Quintiles defined based on "real market income plus pensions per capita", because market income is the relevant indicator for assessing incidence of direct taxes. Market income plus pensions was calculated as: consumption minus direct transfers plus direct taxes. For real per capita, the indicator is divided by household size and spatial-time deflator.
c. The PIT was focused on labor income from formal employees. The exemption considered is the one defined in the 1st income bracket (the zero percent rate). PIT from other income sources (business, investment) was not modelled given that the IHS did not have these income sources at the individual level.
d. Quintiles are defined based on "real household consumption per capita", because consumption is the relevant indicator for assessing incidence of indirect taxes. Household total consumption (total and real per capita) were available in the IHS.

Box 3.1

It is important to highlight that many tax exemptions (granted by tax policy) and high levels of informality increase the progressivity of taxes, but also reduce the amount of revenue collected, which is needed for investments in human and physical capital. The progressivity of VAT could be linked to the large number of tax exemptions for basic food items and services, which constitute a large share of household expenditure, especially among poor households. Furthermore, many households in rural areas consume home-produced goods which are not brought to the market, and so not subject to consumption taxation. Similarly, the progressivity of PIT in The Gambia could be linked to the large share of the labor force who are either self-employed or work informally; in the agricultural sector, contributing family workers support income generation in rural areas but, based on their employment status, they neither pay taxes nor receive any benefits.

While stricter enforcement of PIT and VAT could create fiscal space for pro-poor expenditure, it will be crucial to consider how vulnerable households could be protected against welfare losses. A large part of the redistribution of the fiscal system happens via direct and indirect transfers, after collecting enough revenue through an efficient tax system (which, in the case of VAT, means fewer exemptions). This is an area where The Gambia still has work to do, given that the social protection system to target cash transfers to poor households is not yet fully developed. A microsimulation tool such as the CEQ currently being developed could be used to assess the distributional impact of alternative tax and transfer reforms.

Revenue loss due to tax expenditure on VAT appears to be a core driver behind low VAT efficiency in The Gambia. VAT revenue losses at the border and in the domestic market may be estimated using the list of exemptions on basic items, intended to support consumption among the poorest households (Table 3.4).[47] Domestic VAT for 2015 amounted to GMD819 million while import VAT amounted to GMD1,346 million, totaling GMD2,165 million. The customs value of the selected exempt items, obtained by applying the Common External Tariff (CET) rates on imports, amounted to GMD45.5 million. The revenue forgone for domestic VAT—applying the standard 15 percent rate on all goods—amounted to GMD35 million. This represented 4.3 percent of the domestic VAT collected, 0.5 percent of tax revenue, 0.4 percent of total government revenue and 0.06 percent of GDP in 2015 (see Box 3.1 for a discussion on progressivity of PIT and VAT).

Excise Taxes

The Fifth Schedule of the Customs and Excise Act, 2010 governs how revenue from excise—domestic and imported—is generated. Excise duties apply to certain domestically produced goods and telecommunications services at ad valorem rates. Excise tax rates are imposed on imported goods, with specific rates for some products and ad valorem rates for others.

Since 2013, the GRA has introduced reforms to excise taxes, with resulting revenue

47 These data only allow a broad estimate of revenue impact. A social accounting matrix is not available in the National Accounts statistics which would be required for assessing the revenue impact more precisely for the items reviewed here, but also the VAT base more broadly.

enhancements. These included:

- A specific excise on tobacco products, changing the excise tax base for cigarettes from the weight of the products to the number of packs. The rate was increased over successive years, reaching GMD20 per pack by 2017. The GRA simultaneously introduced a weight-based excise on non-cigarette tobacco products (GMD37.5 per kg), preventing consumers from switching to cheaper tobacco products and following international best practice.[48] This excise tax has also increased over the years, reaching GMD330 per kg in 2017. These measures allowed excise revenues from tobacco products to increase from 0.3 percent of GDP in 2012 to 0.8 percent of GDP in 2014 (Akitoby et al., 2019).[49]
- A telecommunications excise was introduced in 2013 at a rate of 5 percent.
- Fuel subsidies in The Gambia have been relatively high, resulting in forgone revenue (broadly estimated at 0.8 percent of GDP in 2011). The government has taken steps to eliminate fuel subsidies and regulate domestic petroleum prices towards reflecting international prices through the application of a price adjustment formula administered by MOFEA.[50]
- In 2018, the excise tariff on new cars was reduced from 25 percent to 20 percent, reverting to 25 percent in 2019. The standard excise tariff of 15 percent for used cars was also reduced to 10 percent for cars up to five years old.

Excise duties have underperformed significantly, averaging 0.8 percent of GDP over the period under review (Figure 3.16). Excises comprise excise taxes on domestic goods and excise taxes on imported goods, the latter loosely referred to as excise duties. The average ratio of excises to GDP was relatively stable at 0.5 percent of GDP between 2008 and 2012. In 2013, following reforms to the excise tax base, the ratio increased to 0.7 percent of GDP (a 0.2 percentage point increase from its value in 2012). The ratio increased consistently thereafter, averaging 1 percent of GDP over 2013–2019. Excises as a share of total revenue follow a similar pattern: stable at 3.6 percent over the period 2008–2012, then increasing by 2.5 percentage points to 5.9 percent in 2013, and averaging 6.6 percent between 2013 and 2019 (Figure 3.17).

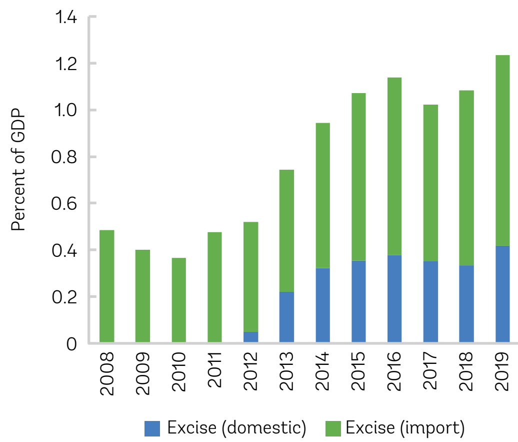
Compared to other countries, The Gambia underperforms significantly on revenues generated from excises (Figure 3.18). Excise revenue averaged 1.7 percent of GDP in SSA, 1.8 percent in Senegal and 2.5 percent in Uganda. Uganda has the highest excise revenues among the aspirational peers, owing to the large number of excise reforms it undertook after 2012. There are no data on tax revenue collected by excise items that can be benchmarked across peers.

Excises on imported goods contributed 0.7 percent of GDP over 2012–2019, more than double the amount from taxes on domestic goods at 0.3 percent of GDP. Domestic excises relative to GDP increased from 2012 to 2019, peaking at 0.4 percent of GDP between 2015 and 2019 except in 2018. International excises also increased as a share of GDP between 2012 and 2016. The dependence on excises on imported goods reflects a narrow excise base for domestic products, itself a reflection of the country's small and undiversified production base.[51]

The excise base in The Gambia is relatively narrow in comparison to its peers. Its peer countries—structural, aspirational and ECOWAS—have more diversified excise tax bases, allowing them to tax more items. For example, the Customs and Excise Act 2010 does not make provisions for excises on petroleum products, weapons and ammunition, perfumery, or cosmetics. ECOWAS directives on coordination in excise taxation prescribe higher excise tax rates for most goods, especially tobacco products than are levied in The

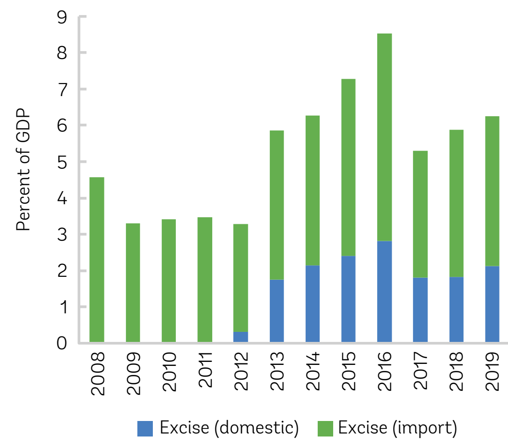
48 Le *et al.* (2016).
49 Akitoby *et al.* (2019).
50 Akitoby *et al.* (2019).
51 World Bank (2020 forthcoming).

Figure 3.16: Excise Performance in The Gambia, 2008–2019 (% of GDP)



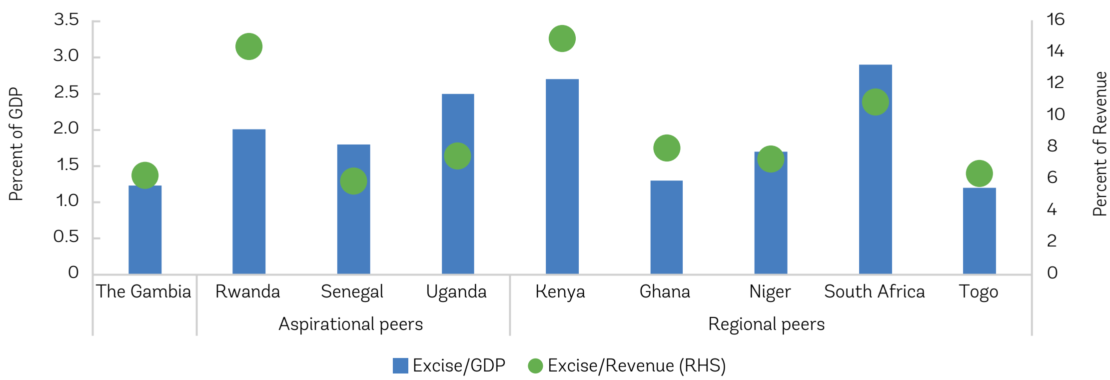
Source: SGOs, MOFEA.

Figure 3.17: Excise Performance in The Gambia, 2008–2019 (% of Revenue)



Source: SGOs, MOFEA.

Figure 3.18: Benchmarking Excise Performance, 2016 or Latest Available



Source: OECD GRSD for comparator countries; SGOs for the Gambia.

Gambia.[52] Excise rates are also low in comparison to its peers, partially explaining the sluggish revenue performance in this area. Major excisable goods, following international best practice include petroleum products, cigarettes, alcoholic and non-alcoholic beverages, motor vehicles, and telecommunications services.[53] The Gambia places taxes and duties on all these products, but at much lower rates than peer countries: it has the lowest rates on beer and cigarettes, and one of the lowest rates on non-alcoholic beverages (Table 3.5).

Customs Duties

Customs taxation in The Gambia is governed by two laws; the Customs and Excise Act, 2010, and the ECOWAS Common External Tariff (CET). The first, third, and fourth schedules of the Act govern the implementation of import duties, import duty exemptions, and export duties respectively. The Gambia has implemented the five-band ECOWAS Common External Tariff since 2017. It applies the CET to all its trading partners without any of the

52 ECOWAS (2017).
53 IMF (2011).

Table 3.5

Benchmarking Excise Tax Rates

Countries	Non-alcoholic beverages	Excise tax rates Beer	Cigarettes
The Gambia	5%, 5%, 5%	10%	20%
Benin	5%, 7%, 10%	20%	40% + 5%
Burkina Faso	10%	25%	30% - 40%
Cote d'Ivoire	12%	15%	35% + 7%
Guinea-Bissau	10%	25%	25%
Niger	10%, 15		
Senegal	3%, 5%	40% + 1500, 5000CFAF	45%
Togo	2%, 5%, 10%	15%	45%
Liberia	2%, 20%, 35%	25%, 45%	80%

Source: GRA Data; OECD GRSD; WEO.

exceptions or supplementary protection measures allowed by ECOWAS. Nonetheless, goods covered by the ECOWAS Trade Liberalization Scheme (ETLS) are not subject to the CET and are thus duty free. Over the years, policy changes to the CET have included increases in import duties on basic products (to protect local consumers), and a temporary increase in the ECOWAS levy from 0.5 percent to 1 percent in 2017.

International trade taxes represent a far more important source of indirect tax revenues than goods and services taxes. The average ratio of trade taxes to GDP is relatively volatile. After 2015, however, the ratio has fallen consistently and only picked up in 2019. Measuring trade taxes as a percentage of total revenue demonstrates their importance for revenue mobilization. On average trade taxes contributed one-third of total revenue over the period, with the lowest shares recorded in 2012 and 2017 (26 percent). These low ratios do not represent a reduction in the importance of trade taxes but occurred in years when development grants increased unexpectedly.[54]

The main international trade taxes include export duties, import duties, and VAT on imports; the latter two can be divided into oil and non-oil components. Other components of international trade taxes, with varying levels of importance over the period under review, include customs processing fees, the ECOWAS Levy (a 0.5 percent tax placed on goods from non-ECOWAS member states), customs penalties and forfeitures, and UNCTAD Automated System for Customs Data (ASYCUDA) and single administrative document forms. Import duties fetch more international trade taxes than VAT on imports, averaging 2.6 percent of GDP compared to 2.1 percent. The trend for import duties has been more erratic than VAT on imports; the former peaked in 2015 at 3.6 percent of GDP, while the latter peaked in 2019 at 2.5 percent of GDP. Import duties contribute more to overall revenue mobilization than VAT on imports, averaging 18.4 percent of total revenue compared to 14.7 percent in the case of VAT.

The prevalence of tax incentives at the border, on customs duties, VAT and excises, is one key explanation for revenue loss from imports. Data on revenue loss due to tax exemptions—in terms of the share of GDP, total exemptions and total revenue—show the scale of the problem (Table 3.6). Total exemptions in 2019 amounted to GMD2,522

54 Moreover, in 2017, lower tax collection and higher grant flows could be explained by the political transition and the Ebola crisis.

Table 3.6

International Trade Tax Exemptions in The Gambia, 2014–2019

Tax Type	2014	2015	2016	2017	2018	2019
Duty waivers (% of GDP)						
Import duty (oil)	0.0	0.0	0.0	0.0	0.0	0.0
Import duty (non-oil)	1.2	1.4	1.2	1.4	0.8	1.1
Import VAT (oil)	0.0	0.0	0.0	0.0	0.0	0.0
Import VAT (non-oil)	1.2	1.2	0.7	1.7	1.4	1.4
Import/export processing fees	0.1	0.1	0.1	0.2	0.1	0.1
Environmental tax on imports	0.0	0.0	0.0	0.0	0.0	0.0
Excise tax on imports	0.1	0.1	0.1	0.3	0.1	0.1
ECOWAS Levy		0.1	0.1	0.2	0.2	0.1
AU Levy				0.0	0.0	0.0
Environmental tax on used cars				0.0	0.0	0.0
Duty waivers (% of total exemptions)						
Import duty (oil)	1.5	0.9	1.6	0.2	0.4	0.2
Import duty (non-oil)	44.8	45.8	53.2	37.0	32.3	40.1
Import VAT (oil)	1.4	0.8	1.5	0.4	0.6	0.6
Import VAT (non-oil)	45.0	40.7	32.4	45.2	53.4	49.5
Import/export processing fees	2.6	3.2	2.8	4.1	2.1	2.5
Environmental tax on imports	0.0	0.0	0.3	0.0	0.0	0.0
Excise tax on imports	4.6	4.5	4.1	8.0	2.3	3.3
ECOWAS Levy		3.9	4.1	4.1	7.4	3.2
AU Levy				0.8	1.5	0.6
Environmental tax on used cars				0.1	0.1	0.0
Duty waivers (% of revenue)						
Import duty (oil)	0.3	0.2	0.3	0.0	0.1	0.0
Import duty (non-oil)	7.8	9.2	9.2	7.3	4.6	5.8
Import VAT (oil)	0.2	0.2	0.3	0.1	0.1	0.1
Import VAT (non-oil)	7.8	8.2	5.6	8.9	7.5	7.1
Import/export processing fees	0.5	0.7	0.5	0.8	0.3	0.4
Environmental tax on imports	0.0	0.0	0.0	0.0	0.0	0.0
Excise tax on imports	0.8	0.9	0.7	1.6	0.3	0.5
ECOWAS Levy		0.8	0.7	0.8	1.0	0.5
AU Levy				0.2	0.2	0.1
Environmental tax on used cars				0.0	0.0	0.0
Cost of tax exemptions (% of GDP)	2.6	3.0	2.3	3.8	2.6	2.8
Cost of tax exemptions (% of revenue)	17.3	20.2	17.3	19.7	14.1	14.4

Source: GRA.

million or 2.8 percent of GDP (and 25.3 percent of tax revenues) and represented a 0.2 percentage point increase from 2.6 percent of GDP (25.2 percent of tax revenue) in 2018. With revenue losses of these magnitudes, for every dalasi of revenue collected, 0.28 dalasi was uncollected in 2019. A review of the beneficiaries indicates that SOEs consistently benefited the most, at 40 percent of total exemptions and 1.1 percent of GDP, followed by the Government and other public agencies (such as GIEPA, MOFEA) – making up three-quarters of the total exemptions granted in 2019. Externally financed projects cut across widely among these beneficiaries, as per the authorities. The data, however, are not disaggregated enough to confirm this claim.

Most of the revenue is lost due to tax incentives on the non-oil components of import VAT and import duties. Duty waivers on non-oil import VAT averaged 1.3 percent of GDP, 7.5 percent of total revenue, and 44.4 percent of total exemptions between 2014 and 2019. The corresponding figures for non-oil import duties were 1.2 percent of GDP, 7.3 percent of total government revenue, and 42.2 percent of total exemptions. In contrast, waivers of both duty and import VAT for oil imports averaged only 1 percent of total exemptions, 0.2 percent of total revenue, and a negligible share of GDP. Duty waivers on the ECOWAS Levy were more substantial, amounting to 0.1 percent of GDP, 0.6 percent of total revenue, and 3.8 percent of total exemptions.

Tax Administration and Tax Policy Capacity

The institutional framework for taxation and the related tax policy and administrative capacity are rather weak. Relatively infrequent tax policy assessments and reviews are conducted by either MOFEA or the GRA. The medium-term tax-to-GDP target is not underpinned by bottom-up assessments of revenue potential, by tax source, including action plans to achieve revenue improvements. The April 2018 Tax Administration Diagnostic Assessment Tool (TADAT) assessment found some key strengths in tax administration, including improvements in taxpayer education, the use of withholding at source for income taxes, and a relatively strong tax dispute resolution system. However, entrenched weaknesses still impede the GRA from achieving its revenue potential. These include deficiencies in improving compliance, the low integrity of the taxpayer registration base, and relatively weak core tax administrative systems, processes and procedures, including insufficient refund systems (see Box 3.2).

Summary of Main Findings and Reform Options

The Gambia has a clear need to increase its revenue mobilization. At 11.2 percent of GDP in 2019, its tax ratio is well below the SSA average of 17 percent. The Gambia has a tax gap of around 4–6 percent of GDP compared to the potential it could raise based on economic, institutional, and political factors. It currently depends on indirect sources for its tax revenue and significantly underutilizes its tax bases, particularly in income tax. The main recommendations, summarized in Table 3.7, aim to partially close the tax gap by enhancing revenue by 3.0-3.3 percent of GDP over the medium term. The formulation and implementation of such reform agenda, however, is profoundly constrained by extremely low tax policy and administrative capacity, including the lack of data needed to support of sound policy elaborations.

Rolling back some of recent softening of income taxation, particularly in personal income tax, as well as rationalization of tax expenditures, at the border and in domestic taxation, may provide an estimated improvement of 1.2 percent of GDP. Additional revenue may be achieved in other tax sources, including excises, to the tune of 0.3-0.6 percent to GDP. Tax administrative capacity building should be prioritized over the short-term, since improved tax systems, procedures and modern audit approaches traditionally result in strong revenue gains. In the case of The Gambia, an impact of 1.5 percent to GDP through digitization is estimated.

Corporate Income Tax

- Corporate income tax performance lags peer countries, influenced by a slowdown in economic activity in the later years of the review period due to political turmoil, and the impact of successive reductions in statutory CIT rates.
- Significant tax-base reductions abound, including exemptions and preferential rates in investment and export incentives, and zero tax rates in the Export Processing Zone.
- A rationalization review of tax expenditures is recommended, with the objective of broadening the tax base and thus safeguarding CIT revenues. Further reductions in the statutory tax rate would not appear prudent without a parallel broadening of the CIT tax base. In numerous business surveys, tax incentives traditionally rank low on the list of the ten most important elements attracting foreign direct investment.
- The framework on international taxation is only vaguely articulated, if at all, and the authorities are encouraged to establish a roadmap for capacity building in this area over the medium term.

Box 3.2

Implementation of Tax Administration Diagnostic Assessment Tool Reform Plan

The IMF assessed the tax administration system of The Gambia during April 10–25, 2018 using the TADAT diagnostic tool. This assessment aimed at providing a baseline of tax administration performance and help determine reform priorities. It identified substantial weaknesses across all nine critical performance outcome areas which undermine the credibility of tax data. These weaknesses include: (i) an inaccurate taxpayer registration database; (ii) weak compliance risk management; (iii) inadequate support to taxpayers to optimize compliance; (iv) uncertain on-time filing and payment rates; (v) lack of documented procedures and internal controls; (vi) an ineffective internal audit function; (vii) inaccurate taxpayer ledgers; (viii) an inadequate integrated tax administration system (GAMTAXNET); and (ix) an ineffective transparency and accountability framework. As a result, all 28 TADAT high-level indicators scored D (lowest score) except two: the use of efficient collection systems, which scored, B and the use of electronic payment methods, which scored C. The taxpayers' information delivery methods, income tax payment methods, the availability of electronic payment facilities, and the legal framework for the dispute resolution mechanism were identified as areas of strength.

To address these weaknesses and elaborate a medium-term reform plan, the IMF under an EU funded program recruited a long-term expert for 2019 to support GRA in addition to the regular IMF support in strengthening tax collection. With this support, GRA approved the TADAT reform plan and developed a 2020–2024 strategic reform plan by end-2019. GRA has started cleansing the tax registry, created new tax collection centers, enhanced the GAMTAXNET, and improved compliance on tax filing and payments. It has also developed tax audit capability especially in the telecom sector that has helped boost sector compliance and tax contributions. Other reforms such as the establishment of a credible tax ledger and an efficient tax arears management system require a good IT system and are expected to start after the launch of the core modules of GAMTAXNET in mid-2020. The recruitment of a new long-term expert, the migration to ASYCUDA World with UNCTAD support, and World Bank support to revamp the GAMTAXNET will significantly contribute to accelerating the implementation of the post-TADAT reforms (Table B3.1).

Box 3.2

Table B3.1: The Post-TADAT Reform Plan Activities

Sr. No.		Recommended Actions	Status
1	POA 1– Integrity of the Registered Taxpayer Base	Review the functionality of GAMTAXNET to ascertain system capability requirements.	Done
		Address system configuration weaknesses and required enhancements.	Ongoing
		Assign registration function to dedicated Unit to ensure maintenance of clean register.	Done
		Cleanse taxpayer registration details starting with all large taxpayers and the top 100 small and medium-sized taxpayers (SMTs).	Large taxpayers completed, SMTs pending
		Develop a robust end-to-end process and procedure for registration of taxpayers.	Done
2	POA 4 – Timely Filing of Tax Declarations	Process all returns on GAMTAXNET.	Ongoing
		Establish filing compliance baselines. Report and monitor filing compliance.	Baselines established but to be refined
		Develop a robust end-to-end process and procedure for filing.	Done
		Establish clear strategy for filing compliance which should include outreach support programs.	Ongoing
		Develop a road map to implement electronic filing.	Ongoing
		Develop a simplified return for small taxpayers.	Done
		Implement a comprehensive performance management framework for the filing function.	Pending
3	POA 5 – Timely Payment of Taxes	Establish a project to reconstruct taxpayer ledgers.	Done
		Reconstruct ledgers starting with the large taxpayers and the top 500 SMTs.	Pending
		Develop end-to-end process and procedure to update taxpayers' accounts with payment transactions within 3 business days.	Done
		Strengthen the current payment processes by timely identification and processing of payments.	Done
		Establish payment compliance baselines using existing data.	Baselines established but to be refined
		Develop a roadmap to expand the use of electronic payment methods.	Ongoing
		Develop end-to-end procedures for payment processing and procedures.	Done
		Develop end-to-end procedures for arrears management.	Done, implementation pending
		Review the legislation to provide wider debt collection tools, including writing off uncollectable debt.	Ongoing
		Improve the consistency and accuracy of penalty application and adopt a more structured approach to the approval of payment plans.	Ongoing

Box 3.2

Sr. No.		Recommended Actions	Status
3	POA 5 – Timely Payment of Taxes	Adopt a risk-based approach to the management of the stock of arrears.	Pending
		Strengthen the HQ function to provide adequate oversight of debt management.	Ongoing
4	POA 9 – Accountability and Transparency	Develop a post-TADAT reform plan, submit to GRA top management and board for approval.	Done
		Develop an operations management framework that includes a monitoring and evaluation framework.	Pending
		Develop comprehensive business and operational plans aligned to the strategic plan.	Strategic plan in place, cascading remains
		Develop key performance indicators and monitoring mechanisms	Ongoing
		Revise the GRA strategic plan with defined outcomes and publish the approved plan.	Done

Source: GRA.

Personal Income Tax

- The reductions in PIT rates and increases in the PIT threshold in 2013 and 2018 had a negative impact on PIT revenue performance in the period under review. The tax base was reduced and the marginal rates in the PIT brackets were lowered.
- The ratio of PIT revenue to GDP is amongst the lowest in SSA and has been further aggravated by the weakening of tax policy design in recent years.
- In addition, the lump-sum tax framework for informal sector agents generates only very modest revenue, despite the high prevalence of informal sector activities and agents. As seen in other countries, low and generous tax liabilities for informal agents tend to keep them from graduating to the higher tax rates in the formal sector.

Value-Added Tax

- VAT performance and productivity are low in comparison to aspirational and regional peers, with 76–80 percent of potential VAT revenues uncollected. This ineffectiveness is driven mainly by the proliferation of VAT exemptions, difficulties in taxing government institutions, and the prevalence of zero-rated goods.
- The revenue loss from tax expenditures on VAT is a core driver of the low VAT productivity. In 2015, the revenue forgone on exempted imported items amounted to GMD35 million, representing 0.06 percent of GDP and 0.5 percent of tax revenue.
- VAT was introduced in 2013 and has been fully operational since 2017. The statutory rate of 15 percent and the threshold of GMD1 million of turnover for VAT registration are both low compared with majority of The Gambia's peers. Mainstreaming the statutory rate to 16–18 percent, while simultaneously increasing the threshold, would enhance revenue collection. Such a move would also improve compliance and efficiency in VAT collection, by including mainly only large and medium-sized enterprises in the VAT system.

Excise Taxes

- Given its relative ease of implementation, wider social benefits, and the absence of political resistance to such taxes, excise tax performance in The Gambia is relatively poor. This performance is attributable to comparatively low rates and a narrow domestic excise tax base.
- Standard rates on key excises such as tobacco, alcohol, non-alcoholic beverages and vehicles (used and unused) have been increased significantly; new items have been introduced; and fuel subsidies have been eliminated. While these reforms will potentially contribute to narrowing the excise tax gap, further tax capacity building related to administration and control of the excises seem needed, in order to establish robust and enhanced revenue collection of this tax source.

Customs Duties

- International trade taxes have been relatively successful in mobilizing tax revenue. This performance is driven mainly by import duties and VAT collected at the border.
- Generous tax expenditures at the border still constitute a major source of revenue leakage, amounting to GMD2,522 million in 2019 (2.8 percent of GDP and 25.3 percent of tax revenue). In addition to private sector firms inside and outside the economic zones, the main beneficiaries are SOEs, the Government and other public sector agencies. A thorough review of the efficiency of the tax expenditures at the border is recommended.

Institutional and Capacity Development

- A Tax Policy Unit (TPU) should be created within MOFEA. The unit should be adequately staffed in the short term to be able to cover revenue forecasting, and the preparation of tax policy initiatives. It will need to collaborate closely with existing capacity at the GRA. The government could also transfer that capacity to the proposed TPU.
- Enhancing tax administration capacity will be essential to support the implementation of the TADAT recommendations. A roadmap needs to be established reflecting the additional efforts that would be needed to replace the technical assistance currently provided by the IMF such as IT systems and the modernization of business processes. A simulation analysis on low-income developing economies suggests that reducing the distance to the digitization frontier in revenue administration by half can raise VAT and tariff revenues by 1.5-2 percent of GDP.[55]
- The elaboration of a medium-term revenue strategy would have an impact on the capacity requirements of MOFEA and the GRA, thus the TPU should be established ahead of the launch of such a strategy.

55 IMF (2018c).

Table 3.7

Recommended Policy Measures

Actions	Timeframe
Value-added tax	
R1. Consider mainstreaming the statutory VAT rate to the range of 16–18%, along country practices in SSA.	Medium-term
R2. Increase the threshold to focus on larger taxpayers, in combination with improved taxation of SMEs in the informal sector tax scheme.	Medium-term
Excises	
R3. Adjust key excise rates.	Short-term
R4. Expand the domestic excise base.	Short-term
R5. Build tax capacity to administer and control excises.	Short-term
Tax expenditures	
R6. Improve the efficiency of tax expenditures at the border.	Short-term
R7. Enhance the efficiency of domestic VAT by phasing out exemptions.	Short-term
R8. Rationalize corporate tax incentives.	Short-term
R9. Strengthen the fiscal oversight of tax expenditures.	Short-term
Corporate income tax	
R10. Limit further reductions in the statutory tax rate without a parallel broadening of the CIT tax base.	Short-term
Personal income tax	
R11. Revert the PIT rate structure to earlier practice in the Gambia, aligned more closely to country practices in SSA.	Short-term
R12. Improve the personal income taxation of self-employed professionals such as lawyers, doctors and accountants.	Short-term
Capacity development	
R13. Create a Tax Policy Unit (TPU) in MOFEA with a mandate to forecast revenue and prepare tax policy initiatives.	Short-term
R14. Enhance tax administration capacity by modernizing business processes and IT systems.	Short-term
R15. Develop a Medium-Term Revenue Strategy, guiding efforts to close the tax gap, as well as outlining strategic directions of work program for proposed TPU.	Short-term

Source: GRA.

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