European Centre for Development Policy Management
ecdpm

Discussion Paper

No. 125
October 2011

Fiscal challenges, development opportunities?

20 key questions on domestic resource mobilisation

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www.ecdpm.org/dp125

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Acknowledgements

This Discussion Paper takes the form of a scoping paper whose purpose is not to bring definite answers, but rather to identify key research questions for further examination. It should be seen as part of ECDPM's new stream of work on economic governance and domestic resource mobilisation in particular, and follows in this context a special issue (July-August) of ECDPM-ICTSD's *Trade Negotiations Insights* on the fiscal implications of Economic Partnership Agreements (EPAs) and domestic resource mobilisation. ECDPM will continue to work and stimulate informal dialogue on these questions and will release in the coming weeks a discussion paper on the revenue impact of trade liberalisation (in the context of EPAs) and possible reform options to compensate for the revenue loss from foregone trade taxes.

This paper profited from useful feedback from ECDPM staff members. The authors would particularly like to thank Isabelle Ramdoo, Sanoussi Bilal and Jan Vanheukelom for their useful inputs and comments. Appreciation also goes to Alexandra Beijers for her support. The views expressed in this study are those of the authors only, and should not be attributed to any other person or institution.

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Acronyms

ACP	African, Caribbean and Pacific
AEO	African Economic Outlook
AfDB	African Development Bank
AFRITACs	Africa Regional Technical Assistance Centers
ATAF	African Tax Administration Forum
ATI	African Tax Institute
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
BRICs	Brazil, Russia, India, China
CATA	Commonwealth Association of Tax Administrators
CIAT	Inter-American Center of Tax Administrations
CMI	Chr. Michelsen Institute
CFA	Committee on Fiscal Affairs (OECD)
CREDAF	Centre de Rencontres et d'Etudes des dirigeants des Administrations Fiscales
CTPA	Centre for Tax Policy and Administration (OECD)
CTPG	Centre for Taxation and Public Governance
DfID	Department for International Development (UK)
DG	Directorate General
DRM	Domestic Resource Mobilisation
DTC	Double Tax Conventions
EAC	East African Community
EC	European Commission
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EITI	Extractive Industry Transparency Initiative
EP	European Parliament
EPA	Economic Partnership Agreement
EPZs	Export processing zones
EU	European Union
EURODAD	European Network on Debt and Development
FDI	Foreign direct investment
GEFG	Good Economic and Financial Governance
GFI	Global Financial Integrity
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IBFD	International Bureau of Fiscal Documentation
ICT	Information and Communication Technology
ICTD	International Centre for Tax and Development
IDB	Inter-American Development Bank
IDS	Institute of Development Studies
IFA	International Fiscal Association
IMF	International Monetary Fund
ITC	International Tax Compact
ITD	International Tax Dialogue
KfW	Kreditanstalt Für Wiederaufbau (German Development Bank)
MNC	Multinational Corporations
MTEF/PBB	Medium-Term Expenditure Framework/Programme-based Budgeting

NGO	Non-governmental organisation
NORAD	Norwegian Agency for Development Co-Operation
NSI	North/South Institute
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OECD/DAC	Organisation for Economic Cooperation and Development / Development Assistance Committee
OfS	Oil for Development
PAF	Performance Assessment Framework
PE	Political Economy
PEA	Political Economy Analysis
PFM	Public Financial Management
PwC	PricewaterhouseCoopers
RMI	Raw Materials Initiative
RTACs	Regional Technical Assistance Centers
SME	Small and Medium size Enterprises
SSA	Sub-Saharan Africa
TIEA	Tax Information and Exchange Agreements
TJN	Tax Justice Network
UEMOA	Union Economique et Monétaire Ouest Africaine (West African Economic and Monetary Union)
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
US	United States
VAT	Value-Added Tax

Executive Summary

In the current economic context, marked in particular by the continuing global financial crisis, the issue of domestic resource mobilisation (DRM) has received increasing attention from developing country governments and donors alike. The stakes are enormous. For one, relying increasingly on domestic resources could allow developing countries to distance themselves from the vagaries and volatility of external finance such as official development assistance (ODA) – an objective which appears all the more critical at a time where donor country governments have to deal with fiscal constraints and public sector cuts at home. It also holds the potential of increasing the *policy space* of developing countries, opening up opportunities to strengthen accountability relations between governments and citizens and achieve greater country ownership of their own development strategies.

Amidst an abundance of literature, research initiatives and work programmes on Domestic Resource Mobilisation, this *scoping paper* lays out the current state of knowledge on taxation in the development discourse. Focussing on the relations between taxation and development in particular, it takes stock of where we stand in the area of DRM and identifies some key research questions for further examination. In raising these questions, the paper looks at the challenges faced by developing countries in improving their revenue performance while pursuing other objectives such as poverty reduction, economic growth, strengthened state capacity and the provision of social public goods.

The relations between taxation and development have been examined from different perspectives, often in isolation, according to the focus of particular researchers and policy analysts. This paper identifies five such perspectives or focal points emerging from the literature: (i) taxation and public financial management (PFM); (ii) taxation and state-building; (iii) taxation for economic growth; (iv) extractive resource taxation; and (v) international taxation. From these five perspectives, this paper shows that the main issues at stake are increasingly well documented with some important research being conducted on both the nature of the challenges developing countries must overcome and the technical and governance aspects of tax reforms. The review also raises the need to look more closely at the intersection of these different perspectives, in particular with regards to the issue of how to align the more long-term strategic goals of fiscal policy with the practical implications of short-term revenue requirements.

Further, the review identifies twenty critical questions calling for further enquiry. These are as follows:

1. How can we learn most and derive implementable policy recommendations from a political economy analysis of government institutions and tax policy design and implementation?

2. How can PFM system reforms be designed to align revenue imperatives with the dual long-term goals of promoting equitable growth through private sector development and a strengthened state? How can the process of revenue target-setting be improved or used to take better account of its potential impact on tax policy implementation and these longer-term goals?

3. Can aid, including new aid modalities such as incentive-based budget support, provide positive support to tax reforms? If so, how could it be better used to provide “fiscal space”, notably for implementing tax policy reforms?

4. What innovative strategies can be used to attain a “fiscal contract” and greater willingness to pay, beyond increasing budgetary transparency? What are the effects of expenditure earmarking on fiscal legitimacy?

5. How can one ensure that fiscal decentralisation enhances the “fiscal contract” between taxpayers and public authorities?

6. How can the growing middle-classes be tapped for greater revenue creation on income and assets and to strengthen equity and the fiscal contract more generally? Is there room for “nudging” rather than coercion? Can this be used to create more socially equitable tax systems?

7. Can we design tax reforms that align with existing elite incentives whilst also promoting pro-poor development objectives? Alternatively, can one think about possible domestic reforms that would help shift interests of elite towards a pro-poor tax and development system?

8. Does the current fashion for encouraging “public-private” dialogue actually bear any fruit in terms either of tax policy reform, or of bringing the private sector into the current “fiscal contract”?

9. How effective are tax amnesties and should these be used as a tool to “reset” tax relations with consumers and firms?

10. What are the implications, the potential impact, and the feasibility of implementing a land value tax in developing countries, particularly given existing land-laws in many Sub-Saharan African countries?

11. What are the underlying drivers of regional tax harmonisation efforts and what are the administative and economic implications? Would a regional approach bring economies of scale in tax administration and revenue collection for smaller countries?

12. Can we use the growing evidence of the unequal treatment of firms under the tax system to propose new ways of ensuring effective, just and inclusive tax systems, which also promote growth and employment? What aspects of tax policy design and implementation can be improved to achieve such a goal?

13. How can ICT, new media, mobile phone-banking and other such technologies be effectively used to encourage tax compliance in Africa? What could be the role of the private sector in the efforts made to improve tax services in this way?

14. Beyond country-specificities, are there any lessons from high growth developing countries (in Africa and outside) that can be drawn to examine tax and development issues in weaker economies? Can we use comparisons of differences between “tax cultures” in other countries to bring some new angles for viewing the “tax problem”?

15. To what extent does a focus on the tax aspects of the World Bank’s Doing Business indicators effectively improve the taxation environment for the private sector while also raising revenues?

16. What specific actions can help developing countries get a better deal from natural resource extraction in different political contexts? How important is transparency and how well are current initiatives (e.g. EITI, Publish what you pay/receive) really working?

17. Is it possible to compare and contrast the tax systems and share of revenues collected on resource extraction across the resource-rich countries? i.e. is it just corporation tax, or turnover tax, or royalties? And what does it change depending on which tax is used in terms of the implications for the taxation authority, and the economic impact of taxing resources in different ways?

18. Although countries such as Botswana are often held up as examples of good governance in the natural resources sector, to what degree does this still mask underlying political rent-seeking and corruption? How much can be learned and translated from more developed countries?

19. How can we strengthen the position of developing countries in halting abuse of tax havens and transfer pricing – is there anything more than capacity building and international coordination that would be effective?

20. Are tax matters a priority for developing countries? How can one ensure a more focused approach on the part of donors, and one which ties-in with national concerns? Is the concentration of donors' in specific countries and thematic tax areas a demand-side issue; or does it rather translate a weak implementation of the Division of Labour agenda on the supply-side; or is it both?

As the number and nature of these questions suggest, there is no easy solution to breaking out of the "low revenue trap" equilibrium in which many developing countries seem to find themselves. Ultimately, the success or failure of tax reforms is likely to depend on political economy considerations, within and beyond national governments.

Public resource mobilisation is above all a political issue with inevitable winners and losers from tax reforms. Some political and economic elites may not have an interest or incentive in pursuing efficient and equitable DRM strategies. Indeed, there is a growing consensus that how tax policy is ultimately *implemented* matters as much as its formal design. Determining feasible reform options then requires an understanding not only of the relationships between involved individuals, groups and institutions, but also the historical context of their relations, the incentives they face institutionally and individually, the accountability relations in place, the economic and political power relationships. Once we better understand the underlying political economy, at the domestic, regional, and international level (i.e. including in partners/donors countries and by foreign/multinational companies), there is a greater likelihood of effectively addressing the problems.

In examining the issues in this way, ECDPM is committed to facilitating future dialogue and conducting research on this vast and complex theme.

1. Introduction

Although the question of domestic resource mobilisation (DRM) has never been off the development agenda, not least in developing countries, it is increasingly the focus of renewed interest from developing and developed countries alike. This is particularly so since the Monterrey Consensus (2002) and the Doha Declaration on Financing for Development (2008), which highlighted the need to foster stable and efficient mechanisms to generate public domestic resources in developing countries, through tax policy in particular. As further illustration, the Organisation for Economic Cooperation and Development (OECD), the African Development Bank (AfDB) and the UN Economic Commission for Africa (UNECA) chose to focus the 2010 edition of the African Economic Outlook on '*Public Resource Mobilization and Aid*'. While African governments have been committing to good governance and improving tax performance in national budgets, two recent European Commission Communications, on EU Development Policy and Budget Support respectively, both prominently mention the need to help to improve domestic revenue mobilisation in developing countries.[1]

Amidst an abundance of literature, research initiatives and work programmes on DRM and on the relations between taxation and development in particular, this *scoping paper* lays out the current state of knowledge on taxation in the development discourse. It takes stock of where we stand in the area of DRM, and identifies some key research questions for further examination. In raising these questions, the paper looks at the challenges faced by developing countries in improving their revenue performance while pursuing other objectives such as reducing poverty and inequality, raising economic growth, strengthening state capacity and providing social public goods.

Domestic Resource Mobilisation can be defined as "the generation of savings from domestic resources and their allocation to socially productive investments[2]". This therefore includes both public and private resources. At the outset, it is important to note however that the issue of private resource mobilisation has deliberately been excluded from this paper to focus exclusively on public sector revenue-generation, notably taxation. Moreover, Domestic Resource Mobilisation in essence comprises a revenue side and an expenditure side - two interrelated ends that should be jointly examined. Consequently, although this paper confines itself to examining the taxation challenge, particular attention is also brought to the expenditure side of the equation.

The relations between taxation and development have been examined widely and from various perspectives, often according to the focus area of the researcher. This paper identifies five such perspectives or focal points emerging from the literature, around which the main issues are examined here. These are: i) taxation and public financial management; ii) taxation and "state-building"; iii) taxation for economic growth; iv) extractive resource taxation; and v) international taxation.

While these five perspectives group the different ways in which taxation has most frequently been viewed in the literature, taken individually, each is limited in how far it can take us in isolation. Of course, there are

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1 See European Commission, 2011, "Increasing the Impact of EU Development Policy: An Agenda for Change", Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions, COM(2011) 637 final, Brussels 13.10.2011; and European Commission, 2011, "The Future Approach to EU Budget Support to Third Countries", Communication from the Commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of the Regions, COM(2011) 638 final, Brussels 13.10.11.

2 Culpeper 2008, Enhancing Domestic Resource Mobilization. G-24 Policy Brief No. 25. Also quoted by Ernest Aryeetey (2009). The Global Financial Crisis and Domestic Resource Mobilization in Africa. African Development Bank Working Paper Series.

important lessons to be learnt from each perspective and some clear overlaps, but many interesting and important questions also lie at the intersection of these five areas. Moreover, underlying each of them is the need to address issues of political economy. As it has been put, “People can’t change the way they use resources without changing their relations with each other”.[3] Taxing incomes, profits and transactions is no exception. There is therefore increasing recognition of the importance of understanding not only the relationships between involved people, groups and institutions, but also the historical context of their relations, the incentives they face institutionally and individually, the accountability relations in place, the economic and political power relationships, the main beneficiaries from existing arrangements, and the existing momentum and drive for reform, if any.

Adopting a political economy approach also requires critically addressing the underlying assumptions of proposed reforms and examining the issues from new and perhaps unfamiliar perspectives. This relates to state-citizen relationships – domestic accountability – but also inter-governmental and other relations. Once we can better understand the underlying political economy, there is a greater likelihood of effectively addressing the problems related to raising sufficient public revenues.

The remainder of this paper is organised as follows. The following section presents a general background to the importance of taxation and development. Section 3 then gives a brief overview of some approaches that have been adopted before presenting these in a more detailed manner from five different perspectives. Each perspective leads to a number of questions. Section 4 presents some recent initiatives and donor programmes, which go some way towards addressing the issues identified in Section 3 in an effort to identify some of the gaps, and where the principle interests lie among donors. Finally, Section 5 concludes by highlighting some key lessons learned from this scoping exercise.

2. Background

Although not a new issue for development policy, particularly in developing countries themselves, domestic resource mobilisation and the question of how to raise tax revenues in particular, are the subject of a growing attention from donors and developing country governments alike. There are a number of reasons for this. Chief among these is the recent global economic and financial crisis, which has not only led to short-term strains on already fragile fiscal balances in developing countries, but which has also increased pressure on aid budgets in donor countries, underlining the risk for African countries of relying too heavily on external sources of financing.

On the one hand, fiscal constraints and political pressure on development finance in the face of public sector cuts at home have led donor country governments to re-examine the prospect of reducing the aid dependency in developing countries by requiring them to raising their own revenues. Moreover, the capacity of developing countries to mobilise domestic resources has recently also become an important factor in the decision to grant budget support, through which an increasing amount of development finance is now disbursed, and which is often under close scrutiny by national parliaments and domestic constituencies in donor countries.[4]

3 Stretton, 1976, quoted in Leftwich, A., 2000, *States of Development: On the Primacy of Politics,* Polity Press, Cambridge, UK

4 The linkages between budget support and DRM are examined further below. The emphasis on domestic revenue mobilisation in budget support decisions should also be understood in view of the fact that ill-designed budget support by donors could reduce the onus on developing countries government, which may risk crowding out domestic resource mobilisation and undermine the underlying objective of reducing aid dependency.

On the other hand, the need to increasingly raise domestic resources rather than rely on more volatile external finance such as official development assistance (ODA) is all the more acute since it holds for developing countries the potential of increasing their *policy space.* This then opens up opportunities to strengthen accountability relations between governments and citizens and achieve greater country ownership of development strategies[5]. Increased recognition of this fact has essentially combined with donor country imperatives to push the issue of tax policy and development up the development agenda.

This growing interest also relates to a number of more long-term dynamics. Firstly, increasing public expenditures on the social sectors and infrastructure to achieve the Millennium Development Goals requires the generation of considerable revenues. As such, the need to mobilise domestic financial resources was the first of six areas in the Monterrey Consensus on Financing of Development in 2002, and was raised again in Doha in 2008, which called for reform to "make tax systems more pro-poor". Secondly, on-going trade liberalisation processes (in the context of multilateral, bilateral or regional agreements) mean that developing country governments are increasingly constrained in their ability to raise revenues at the border, where a substantial share of revenue has traditionally originated[6].

In addition, since the mid-1990s many African countries have experienced strong economic growth and macro-economic stabilisation, raising the potential for increased revenue collection. Sub-Saharan Africa grew at an annual rate of nearly 6½ per cent in the years 2002 to 2007 leading up to the global financial crisis[7]. Notably, a recent study highlights 17 countries in Africa, none of which are oil exporters, which have experienced GDP growth rates averaging 3.2 per cent per capita, a decline in the poverty headcount since the mid-1990s; increasing school enrolment, completion and literacy rates; and declining population growth and fertility rates.[8] There is also increasing recognition of an expanding middle class in many African countries, suggesting an increasing potential for expanding domestic revenues. The opportunities these dynamics create for domestic resource mobilisation are increasingly recognised by African countries. The decision in 2009 to launch the African Tax Administration Forum (ATAF) and the explicit goal of some countries such as Rwanda to gradually replace aid with domestic taxation is a good illustration in this respect.

Despite these positive dynamics, there is a range of more enduring structural factors that undermine the ability of developing country governments to raise their own revenues. Tax revenues in non-oil producing countries tend to be relatively low and stagnant as a share of GDP despite waves of reforms dating back at least as far as independence.[9] Some of the reasons for this are structural, such as the high levels of income inequality of potential taxpayers, the high share of small-scale agricultural in the economy and the large share of informal economic activity. Furthermore, competition among countries to attract foreign direct investment (FDI) may lead in some instances to a race to the bottom via the adoption

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5 See for instance Roy Culpeper and Aniket Bhushan (2010). Why enhance domestic resource mobilisation in Africa? Trade Negotiations Insights, Volume 9, Number 6, July 2010. www.acp-eu-trade.org/tni

6 See Bilal, Dalleau, Lui (2011) Trade liberalisation and fiscal adjustments: The case of EPAs in Africa. ECDPM. Discussion Paper 122, www.ecdpm.org/dp122

7 International Monetary Fund (2009), "Regional Economic Outlook: Sub-Saharan Africa. Weathering the Storm", World Economic and Financial Surveys, October 2009

8 Radelet, S., 2010, Emerging Africa: How 17 Countries are Leading the Way, Center for Global Development, Washington DC. The 17 countries are: Botswana, Burkina Faso, Cape Verde, Ethiopia, Ghana, Lesotho, Mali, Mauritius, Mozambique, Namibia, Rwanda, São Tomé and Príncipe, Seychelles, South Africa, Tanzania, Uganda and Zambia.

9 This is highlighted, for example in the African Economic Outlook 2010 (OECD/AfDB/UNECA.2010)

of tax incentives. These bear the risk of narrowing an already narrow tax-base, at least in the short-term. Time-bound tax incentives may be useful instruments of industrial policy with a promise of future increased revenues in the long-term, but it is not clear that this has systematically happened, particularly as there is little evidence that such tax incentives are determining factors for investment decisions[10].

Other factors are of a more institutional nature, such as the weak capacity of the public administration, widespread corruption, weak law enforcement, and generally low tax morale. Many of these factors are of course related. Further, while weak capacity can be, and is often, attributed to a lack of financial and human resources and historically poor education levels, it has been posited that limited taxation capacity may also be a deliberate result of elite bargains, reflecting clientelistic rather than developmental governments.[11]

More systemic cultural and historical factors may also be important. Differences in tax regimes and the options for tax reforms are sometimes bound by constitutional restrictions, which may result from a country's historic inheritance[12]**.** Moreover, colonial experience of highly coercive taxation in most Sub-Saharan African countries is likely to have implications for how taxes are regarded today. To illustrate, in its first tax reform following independence, the Mozambican government explicitly stated its aim as being to change the perception of taxes from a "colonial instrument of domination" to "the duty of each citizen to contribute […] to the costs of the programmes of the Popular State in order to create the conditions for the introduction of socialism".[13] This statement of course relates to a specific historical context. Yet still now, in spite of recent improvements in revenue performance in Mozambique, the government is still battling to encourage citizens to contribute and to raise tax-morale.

Consequently, developing countries often end up in a low-revenue trap. A vicious circle of low revenues is unable to boost administrative capacity or provide public goods and services, leading to low tax morale and high levels of tax evasion as well as poorly designed tax policy and enforcement, forcing the tax administration to focus revenue extraction on the softest targets, thereby punishing the formal sector and creating incentives for more tax evasion, leading to continuing low government revenues (Figure 1). Revenue-raising efforts are then focused on a small sub-sector of the economy – essentially those who cannot escape – with implications for social expenditures on public goods, economic growth, job creation and ultimately poverty reduction.

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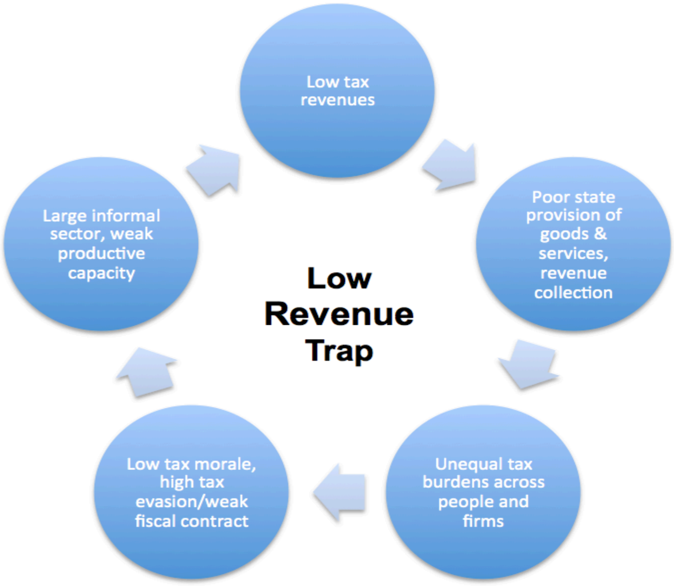
10 Indeed, it has been demonstrated that other factors such as, *inter alia*, market size, political and economic stability, and quality of infrastructure matter a great deal in investment decisions. See for instance, OECD (2008), "Tax Incentives for Investment: A Global Perspective Experiences in MENA and Non-MENA Countries", in OECD, Making Reforms Succeed: Moving Forward with the MENA Investment Policy Agenda, OECD Publishing.

11 This view is highlighted in the 2010 DfID publication based on IDS-led research: The Politics of Poverty: Elites, Citizens and States – Findings from ten years of DFID-Funded Research on Governance and Fragile States 2001-2010, available at http://www.dfid.gov.uk/Media-Room/News-Stories/Politics-of-Poverty/

12 See for instance Michael Keen (2010). Presentation at LSE IGC Growth Week 2010 public discussion. 22 September 2010

13 Government of Mozambique, 1978, Lei 2/78 (Código do Imposto de Reconstrução Nacional), Boletim da República, No.20 Série I, 16 de Fevereiro de 1978, quoted in Byiers, B., 2009, "Post-independence Tax Policy and Revenue Performance in Mozambique" Chapter 3 of Taxation in a Low Income Economy, Ed.s Arndt, C. and Tarp, F., Routledge Studies in Development Economics.

Figure 1: The low revenue trap in developing countries



Two overriding, interrelated questions follow from the above: (1) How does such a low-revenue equilibrium impact developing countries' growth trajectories and development? (2) What can be done to break out of this equilibrium? These broad questions have been addressed from a number of different standpoints, discussed below.

3. What are the issues?

3.1. An Overview

Tax reforms in developing countries focused for a long time on technical issues such as the design of the tax, the tax rates, and technical aspects of the administrative systems. Often led to some degree by donors, notably the International Monetary Fund (IMF), tax reforms have so far broadly focused on i) simplification of tax design; ii) introduction of broad-based consumption taxes; and iii) improvement of tax administrations.[14] The first of these led in particular to reforms of direct taxes although not always with the desired degree of simplification, while the widespread introduction of VAT has been the clear focus of the second area. In improving tax administrations, important changes include the introduction of unique identification numbers for taxpayers, the re-organisation of tax administration and systems from a focus on tax by type to locality and/or sectors, the establishment of separate offices and procedures for large taxpayers, and ultimately, the creation of (semi-) autonomous revenue authorities. This latter reform has gained momentum on the basis that greater autonomy allows better incentives for tax authorities, more efficiencies in tax administration, more information sharing across departments, and generally a more professional approach to tax administration.

[14] From Fjeldstad and Moore, 2008, "Tax Reform and State-Building in a Globalised World", Chapter 10 in Bräutigam, Fjeldstad and Moore (Eds), 2008, *Taxation and State-Building in Developing Countries: Capacity and Consent*, Cambridge University Press.

At the same time, public financial management (PFM) reforms have been widely implemented. These have aimed at improving financial systems, budgetary formulation, and medium term public expenditure planning with the goal of better collecting revenues and distributing these according to poverty reduction strategies. The overriding goal has ostensibly been to improve the efficiency of government finances in order to better finance and target social expenditures. While these reforms may have improved many aspects of budgeting and the workings of tax departments or authorities, the reality of the planning and budgetary processes can in some circumstances have perverse effects on *how* tax policy is implemented, with concerns for budgetary targets overriding other government objectives such as social equity, economic growth, or strengthening state-capacities.

Going beyond technical measures, the role of taxation in strengthening governance and creating effective 'public authority[15]' has been the subject of a widening field of research. Based on the argument that a reduced need to tax citizens and firms domestically can often lead to poor governance[16], and a historical understanding of the formation of nation states in Western Europe, research on the linkages between taxation and "state building" suggests that there must be a "fiscal contract" between the government and its people for a virtuous circle of consent to pay taxes and efficient, representative, legitimate states to emerge. As such, governments and their citizens must reach an agreement on what constitutes a reasonable amount of tax and what people can expect in return from government, much as early polities provided resources and money to their king in return for defence from outside enemies.[17] This is an attractive idea. However, it is not clear to what degree the small sample of countries from which this is drawn are representative, or how applicable this might be for African states which emerged from a very different historical process. Indeed, some authors suggest that the lack of defence imperatives in creating African states due to the colonial drawing of boundaries is precisely the reason for the geographical concentration of state control, the limited reach of the state, and the focus on clientelistic relations in many modern-day African countries.[18]

Further, the long-term goal of strengthening state capacity sits uneasily with the short-term need to raise revenues to fulfil budgetary requirements. The long-term objective of arriving at a "tax consensus" or "fiscal contract" rests on building trust and transparency in the workings of government, with the knock-on effect of permitting fairer taxation and further increasing tax morale. One strategy put forward is to explicitly highlight to constituents the linkages between taxes and expenditures.[19] Even assuming this can work, breaking out of the low-revenue equilibrium and into a virtuous circle of increasing trust, tax morale and revenues, will take time. The annual budget, revenue targets and the day-to-day requirements of a tax officer may therefore struggle to take this into account

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15 Unsworth, S. (ed.), 2010

16 See for instance Frankel, Jeffrey A. 2010. The Natural Resource Curse: A Survey. HKS Faculty Research Working Paper Series, RWP10-005, John F. Kennedy School of Government, Harvard University. http://www.hks.harvard.edu/m-rcbg/heep/papers/FrankelHEEPDP21.pdf and Rosser, A. (2006), The Political Economy of the Resource Curse: A literature survey, IDS Working Paper 268.

17 This is the focus of a lot of work being carried out at the International Centre for Taxation and Development at the Institute of Development Studies, UK. For an overview, see Prichard, 2010, "Taxation and State-Building: Towards a Governance Focused Tax-Reform Agenda" IDS Working Paper Vol.2010, No.341: http://www.ids.ac.uk/files/dmfile/Wp341.pdf

18 Herbst, J., 2000, *States and Power in Africa: Comparative Lessons in Authority and Control*, Princeton Studies in International History and Politics.

19 For a thorough exposition of this view see Prichard, 2010, "Citizen-State Relations: Improving Governance through Tax Reform", OECD /DAC Governance Network, Paris.

Irrespective of the approach to raising tax revenues, development-minded governments generally seek to simultaneously promote private sector investment, jobs and industrial development. Yet, even where increased economic growth may lead to increased tax revenues, this may again face a time-inconsistency problem. Short-term needs to raise revenues can lead to practices that punish the very firms which are expected to invest and provide new jobs and which in the long-term could produce higher revenues, particularly since tax authorities find it difficult to tax very small firms. On the other hand, although tax incentives may, if properly designed, targeted and implemented, hold some benefits in terms of growth and tax revenues[20], these are likely to be reaped in the longer term. Moreover, tax incentives offered to foreign and domestic investments for industrial development and natural resource extraction often allow rents to be accumulated with little benefits to the host government. Depending on the labour-intensity of the investment, even employment impacts may be low, thereby contributing little through income tax revenues. Studies confirm that revenue administrations have often focused on a small number of medium to large formal sector firms, giving a large disincentive for firm growth and private sector development in general. [21]

In addition to the tax incentives they often receive, multinational firms frequently use the international financial system to avoid paying taxes. While donor countries are keen to see developing countries strengthen their domestic resource mobilisation, they are at the same time often the culprits in allowing profits to be whisked out of the host country to donor-country tax havens and secrecy jurisdictions. Further, transfer mispricing and accountancy measures allowing profits to accumulate in low-tax domains, while losses accumulate in high-tax domains. While developed economies also suffer from this system, this is an area which is rapidly gaining attention from NGOs and the media[22], and which is addressed in international arenas such as the OECD.[23] Nonetheless, there is scepticism among some NGOs that the OECD is the best place for such work to be carried out.

3.2. The "Political Economy" approach: a key analytical tool

As the above suggests, there is no easy answer to the question of what can be done to break out of the "low revenue trap" equilibrium. Ultimately, the success or failure of tax reforms is likely to depend on political economy considerations, within and beyond national governments.

While governments are generally characterised as wishing to raise revenues and the private sector to minimise their tax obligations, this kind of simplification overlooks some important distinctions. Within governments, the Ministry of Finance, the Revenue Authority, and the Ministries of Industry and Commerce, Mines and Natural Resources and Agriculture all have different objectives and may face different incentives. This can impact on how tax policy is implemented, often far more important than tax policy itself.

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[20] See for instance, Easson, A.J. & Zolt, E.M. (2003).

[21] See Everest-Phillips, M, 2008, "Business Tax as State-Building in Developing Countries", *International Journal of Regulation and Governance*, Vol 8:2: http://www.itdweb.org/documents/Philips_IJRG_Dcmbr_2K8.pdf

[22] See notably the work of the Tax justice Network (TJN), works conducted by EURODAD, ActionAid.

[23] EC recently launched a report on the topic carried out by PwC: "Transfer Pricing and Developing Countries – Final Report", Europeaid: http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/transfer_pricing_dev_countries.pdf. Another useful publication on the topic is Shaxon N., 2011, *Treasure Islands: Tax Havens and The Men who Stole the World*, Bodley Head.

Although the process of tax policy formulation varies across countries, generally the revenue authority must achieve a revenue target set by the Ministry of Finance. While this target is ostensibly based on macro-economic growth forecasts, the Ministry of Finance and the budget department in particular may have in some countries incentives to provide optimistic GDP growth forecasts, and/or set high revenue targets to cover an expansionary budget (see below), increasing the pressure on revenue authorities to increase additional revenues. In other countries, tax revenue authorities are directly involved with the Ministry of Finance and Planning in the formulation of revenue targets and tax policy. Yet, as Fjeldstad and Heggstad (2011) point out, " when the tax collection agency becomes involved in the process where its own performance targets are sets, some moral hazards problems may arise". Elsewhere, the Ministries of Industry, Commerce, Mines and Agriculture generally aim to promote investment in their sector and often will push for tax incentives and exemptions for their respective sectors. As such, the relationships within government itself are important.

Similarly, within the private sector there is evidence in many countries that many firms would like to pay taxes, perhaps to avoid extortion, but wish to do so quickly, in accordance with simple, transparent and predictable rules. Moreover, and as importantly, it is critical to recognise that the private sector itself is made up of a wide range of actors, including transnational corporations, small and medium size enterprises (SME), micro enterprises, all of which operate in different sectors and contexts. Added to this, state agencies engage with international and national civil society organisations, political parties, local authorities, bilateral and multilateral donors, none of which are homogenous themselves and each of which has different interests and incentives.

As such, one might ask, who benefits from the current state of affairs? What is stopping wider reforms taking place? In whose interest is it to maintain a narrow tax-base, and offer wide tax incentives for large FDI, if indeed it is in anybody's best interest? Who would win and who would lose from improving the taxation of natural resources? Can we find a healthy balance between revenue objectives, "state-building" objectives, and promoting economic growth and job creation? Thinking of policy reforms requires the analyst to first and foremost ask herself "useful questions directed towards understanding the underlying, informal processes that could encourage or inhibit constructive relationships and bargaining between key actors"[24]

Answering these questions requires a foray into the field of political economy. This entails contextual analysis of the structures, processes, frameworks and external elements affecting the issue at stake, a mapping of the actors involved, their role, importance, interests and incentives, as well as the bond of accountability between those actors. Who are the elites involved? What is shaping their interests and relations? What might motivate other actors to influence outcomes? What structural, institutional and relational factors influence and shape government-citizens interactions?[25] It also requires a historical understanding of how the present context arose.

Based on the above discussion, we provide a closer examination of taxation in developing countries from five perspectives. These correspond to the most frequent angles adopted by researchers, policymakers and officials when addressing tax aspects of domestic resource mobilisation.

24 Unsworth, S. (ed.), 2010
25 Ibid.

These are:

1. A Public Financial Management perspective
2. Taxation as a tool for state-building
3. Taxation for economic growth and industrial development
4. Natural resource taxation
5. International aspects of taxation

3.3. Five perspectives to study taxation and development

Public Financial Management

PFM focuses on the systems in place relating to three components: (i) resource generation, (ii) resource allocation and (iii) expenditure management. This section focuses on the first of these components. The linkages between the three aspects are examined in more detail in the discussion of taxation and state-building.

The literature looking at taxation through a PFM lens tends to focus on planning, payment and administrative systems. However, there is a need to go beyond technical approaches to taxation to understanding the relations and incentives faced within governments, which therefore affect how those systems, operate in relative. In particular, there is a need to examine the relations between the Ministries, departments and other institutions involved in formulating the national budget and tax policy, the processes around which they inter-relate and the reality of how these processes are followed by individuals. A political economy analysis of government itself may go some way to highlighting some of the underlying problems with improving tax policy implementation.

As described above, Ministries of Finance, and budget departments in particular, tend to view taxation as an issue of budget and planning. Tax policy generally tries to adhere to the objectives of raising revenue in an administratively efficient manner whilst maintaining neutrality across different sectors, while the overall objective is to channel expenditures towards poverty-reducing public goods.[26] From this point of view, tax policy is then a technical issue of modernizing tax laws under support/advice of the World Bank and/or the IMF in a constant battle to maintain momentum in increasing tax-ratios, particularly as the impact on revenues of tax reforms are often short-lived. Importantly, in this view, the informal sector is administratively too expensive to tax.

Budget processes vary depending on the country considered, as emphasized above. Some countries have already adopted the Medium-Term Expenditure Framework and Programme-based Budgeting (MTEF/PBB), which in some cases have led to improved management of public finance. Others have done so only superficially or not at all. In some countries, budget processes can therefore often simply imply setting revenue targets calculated to be high enough to cover the budget objectives. This can become an arithmetical exercise, depending on the degree of reliability of GDP forecasts, and the level of political desire to present an expansive budget. Further, budget formulation is often based on poor data

[26] It has been said that even the principle of neutrality may not be useful for developing countries as it is based on an assumption of efficient allocation of resources in an economy which it would be inefficient to distort through taxation. If, however, resource allocation is inefficient then distortionary taxes may even be a laudable objective. C. Heady, 'Taxation policy in low-income countries', cited in Ruiz, Sharpe, Romero, 2011, "Approaches and Impacts: IFI Tax Policy in Developing Countries", EURODAD and Actionaid.

and data analysis on the impacts of tax policy and as such, the process of revenue target setting often takes little account of the reality of tax collecting and its economic impact.

Although often under the tutelage of the Ministry of Finance, the Revenue Authority or Tax Department generally has the objective of meeting the revenue target set by the Ministry of Finance. Indeed, some studies suggest that Ministries of Finance may intentionally set high revenue targets to ensure effort on the part of the revenue collection authorities.[27] While they increasingly operate with different units focusing on different types of tax-payer (for example, large taxpayer units, sectoral focuses) and are focused on improving tax administration through improved incentives for staff, the overriding focus on achieving revenue targets may push tax inspectors to focus on the most visible sources of revenue, generally borders where this is permitted, and medium-sized firms which are too large to escape the net, and too small to benefit from special incentives or political advantages. As the Commissioner General of the Uganda Revenue Authority recently put it, "[collecting taxes from the informal sector] is labour intensive, and I would rather spend the money I have and my staff resources on auditing and inspecting companies… then it's easy money to get".[28] This then is the growth-revenue trade-off, with implications for how equitable the resulting tax system is.

Further, while taxation issues are gaining attention for budget support purposes, there are question marks about how this is done. The Public Expenditure and Financial Accountability (PEFA) framework often used to benchmark PFM systems refers to taxes in only four out of 26 indicators.[29] These focus on whether or not revenue targets were reached, the transparency of taxpayer obligations, the effectiveness of measures for taxpayer registration and tax assessment, and the effectiveness of tax collection, although this latter indicator focuses on tax arrears. These are necessarily subjective, but nonetheless in terms of the above discussion, fail to capture some important aspects of how tax policy is implemented.

There are also important questions about the interaction between budget support and other aid modalities with governments' tax effort. While well-targeted budget support or other aid modalities may hold the potential to strengthen capacity for effective tax reforms[30], there is a potential trade-off in terms of the incentives to raise domestic revenues. While this is an empirical question, it highlights the need to manage aid flows to ensure that these strengthen tax systems.

KEY QUESTIONS

Some key questions that emerge from the above discussions might be as follows:

1. How can we learn most and derive implementable policy recommendations from a political economy analysis of government institutions and tax policy design and implementation?

2. How can PFM system reforms be designed to align revenue imperatives with the dual long-term goals of promoting growth through private sector development and a strengthened state? How can the process of revenue target-setting be improved or used to take better account of its potential impact on tax policy implementation and these longer-term goals?

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27 Danninger, 2005, "Revenue Forecasts as Performance Targets" IMF Working Paper WP/05/14. Available at: http://www.estimacionestributarias.com/archivos/paper%20del%20FMI%20sobre%20proyecciones%20II.pdf

28 Allen Kagina - Commissioner General for the Ugandan Revenue Authority, speaking at "Tax and the End of Aid Dependence in Africa", Overseas Development Institute, London, 15 June 2011: http://www.odi.org.uk/events/details.asp?id=2680&title=tax-end-aid-dependence-in-africa

29 See Eckardt and Schickinger, 2011, "Taxation in PEFA Assessments", International Tax Compact Draft Discussion Paper.

30 See the forthcoming ITC paper on "Appropriate Aid Modalities for Supporting Tax Systems".

3. Can aid, including new aid modalities such as incentive-based budget support, provide positive support to tax reforms? If so, how could it be better used to provide "fiscal space", notably for implementing tax policy reforms?

Taxation and "State-building"

Related to the previous 'perspective' that looks at taxation through a Public Financial Management lens, an increasing body of literature and research focuses on the link between taxation and "state-building". The basic premise is that government reliance on tax revenues may create positive pressure for more accountability and state responsiveness to its citizens. Thus the focus is on how tax policy can increase the legitimacy of the government, strengthen public authority, and promote democratisation and domestic accountability by focusing on stakeholder engagement in tax policy and greater transparency in how revenues are spent. There is an explicit link here with "*the PFM approach"* in that public expenditure and therefore public expenditure systems are also important for tax policy, as taxpayers need to feel that the tax system is just and effective and that their money is put to good use in order for them to comply themselves. This and other measures are then expected to raise tax morale, and build a "sense of duty" around tax-compliance.

There is also a clear link with the aid effectiveness debate, with suggestions that an over-reliance on aid may lower the need for states to be accountable to their people. An interesting recent example of this relates to Somaliland, where its ineligibility for foreign aid has been said to have facilitated the development of accountable political institutions and contributed to the willingness of Somalilanders to engage constructively in the state-building process.[31] Although there may be competing narratives, it is clearly a potentially illustrative case.

According to this state-building view, the informal sector ought to be taxed, despite the high administrative costs. Bringing these taxpayers into the fiscal contract, it is thought, will encourage greater compliance by others who see the system as more just, and will encourage compliance as micro enterprises expand within the tax net. Under this approach the sources of revenue are also important for political bargaining, with taxation leading to greater representation of specific groups, therefore requiring an understanding not only of the economic impact of tax policy and reforms, but also the political economy aspects.

Although this perspective is gaining increasing attention, it is important to translate theory into practice and examine the implications of these long-term objectives for day-to-day tax administration. If, as discussed above, economic growth objectives suffer under PFM mechanisms, then the short-run revenue objective of the revenue authority may not allow for such nebulous objectives as *state-building*. Indeed, the point has been made that many long-term potential government objectives such as state-building are of a collective action nature, requiring a degree of coordinated bargaining around the resources at stake and involving all key actors.[32] Given this inherent need for coordinated action and the likely risk associated with individual efforts to achieve such objectives as a first-mover, it becomes clearer why short-term goals may often come to dominate these longer-term objectives.

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[31] Eubank, N. (2010), "Peace-Building Without External Assistance: Lessons from Somaliland", Center for Global Development, Working Paper 198: http://www.cgdev.org/content/publications/detail/1423538.

[32] This point is made more generally by Booth, D., 2011, "Aid Effectiveness: Bringing Country Ownership (and Politics) Back In", Africa Power and Politics, ODI Working Paper 336: www.odi.org.uk/resources/download/4928.pdf

An important aspect in this regard relates to local taxation and the potential this holds for improving accountability and the citizen-state fiscal contract. Indeed, beyond the benefits fiscal decentralisation and local taxation may entail in terms of mobilisation of additional resources (eg. urban property tax, land-valuation tax, etc.), these are potentially able to create stronger tax morale as local public authorities are better able to match policy with tax-payer preferences[33]. Taxpayers are then in theory better able to assess the supply of public goods. The results of research on this subject are however ambiguous, with some suggesting that in fact revenue raising for local government may be more associated with coercive taxation.[34] The benefits of local taxation will probably ultimately depend on a number of factors, such as the degree to which fiscal decentralisation also reflects political decentralisation, administrative and financial capacity at the local level, adequate fiscal mechanisms for revenue generation, substantial local government spending responsibility, strong coordination between the central and local level, and the existence of appropriate local tax legislations, among others[35].

More fundamentally, there is a question about whether or not this historical view of Western state formation can be applied to African states that emerged from a different process and have a very different historical relationship with taxation as noted above. This brings in a potentially useful application of political economy analyses to add to economic analyses of tax systems, both at the local and the national levels. Work by the Institute of Development Studies (and the International Centre for Tax and Development[36]) has warned against the recreation of "Western" blueprints in developing countries whose history, institutions and sources of public authorities might be very different, and argues for a change of focus from "state building" to "effective sources of public authority […] that can undertake core governance *functions*[37] " (emphasis added), be they formal, informal, or the result of the interactions between formal and informal institutions.

KEY QUESTIONS

1. What innovative strategies can be used to attain a "fiscal contract" and greater willingness to pay, beyond increasing budgetary transparency? What are the effects of expenditure earmarking on fiscal legitimacy?

2. How can one ensure that fiscal decentralisation enhances the "fiscal contract" between taxpayers and public authorities?

3. How can the growing middle-classes be tapped for greater revenue creation on income and assets and strengthening equity and the fiscal contract more generally? Is there room for "nudging" rather than coercion? Can this lead to more socially equitable tax systems?

4. Can we design tax reforms that align with existing elite incentives whilst also promoting pro-poor development objectives? Alternatively, can one think about possible domestic reforms that would help shift interests of elite towards a pro-poor tax and development system?

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33 Lockwood, 2005. Fiscal Decentralization: A Political Economy Perspective. Warwick Economic Research Papers.

34 See, for example, Moore, M., 2008, "Between Coercion and Contract: Competing Narratives on Taxation and Governance", Chapter 2 in Brautigam, D., Fjeldstad, O.H., and Moore, M., *Taxation and State-Building in Developing Countries: Capacity and Consent*, Cambridge University Press.

35 Boschmann, 2009. Fiscal Decentralization and Options for Donor Harmanisation. DPWG-. LGD, Berlin

36 See Annex 1 more information.

37 Unsworth, S. (ed.), 2010 *An Upside Down View of Governance*, Brighton: IDS

Taxes, Private Sector Development and Growth

Beyond issues of tax rates, treatment of taxation from a private sector and growth point of view in the literature tends to focus on the issues of tax incentives and administrative simplification to ease compliance. This is generally considered an important part of promoting private sector development, encouraging industrial development and diversification, and a general improvement of the business environment. Growth imperatives, and the need to encourage investment often lead governments to provide tax incentives and create export-processing zones (EPZs), particularly for export-oriented FDI. While this may promote employment, promote exports, and encourage investment in priority sectors or geographical areas for greater diversification, as tax reforms in Mauritius appear to have done, this can also lead to regional competition on tax issues, with neighbouring countries competing to attract specific investments in a race to the bottom. This is also despite growing evidence that tax regimes play only a minor role in the investment decisions of multinational firms, even if they are always happy to receive tax advantages. One potential solution to this may come in the form of greater regional tax harmonisation. This is being experimented in some regions, the EAC being one good example, but the impact it has and indeed how it is implemented will be important to monitor.

The implications of some of the PFM-related issues described above are often that there is unequal treatment of similar firms in terms of how they are taxed. This is made clear by recent enterprise survey data, which shows a wide range of firm experiences with tax and other regulatory authorities.[38] Combined with corruption, the variable enforcement of rules operates as a disincentive for tax compliance, lowering tax morale, much as the case of the informal sector discussed in the context of state-building, and generally reducing the degree of private sector compliance. There is a high degree of heterogeneity in the private sector, with different sizes and types of firms, with different ownerships, in different sectors and regions, facing different degrees of competition, focusing on different markets, all behaving in different ways. This heterogeneity is also important for understanding how businesses relate to governments and to tax policy in particular, and has implications for economic efficiency as well as broader state-building goals.

The policy focus in the private sector and industrial development perspective has often been on simplification. This is justified by the argument that in some cases the private sector would like to pay taxes if only the system were simple and trouble-free. Overall, the goal is to make tax compliance as easy as possible by simplifying forms, minimizing procedures, lowering the number of payments required and encouraging the treatment of firms as “clients” rather than taxpayers. ICT and increasing access to technology may offer opportunities to lower the burden of compliance. But the question remains whether or not there is genuine enthusiasm for tax reform, whether or not political and economic elites are genuinely willing to widen the tax net, and therefore the degree to which tax reform will indeed have the desired effect.

The target of simplification can also be exaggerated. For example, the World Bank’s Doing Business indicators on tax tend to favour countries with low corporate tax rates, which has led some to criticize this “one-fit-all” approach that benefits tax havens and potentially punishes individual taxpayers[39]. A focus on simplification, for example through a flat tax rate, can also potentially increase the degree of equity in the

[38] Pritchett, L., Hallward-Driemeier, M., “How Business is Done and the Doing Business Indicators: The Investment Climate when Firms have Climate Control”, World Bank Policy research Working Paper No.5563, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2011/02/07/000158349_20110207132555/Rendered/PDF/WPS5563.pdf

[39] Ruiz M, Sharpe R and Romero M.J (2011). Approaches and Impacts. IFI tax policy in developing countries. Eurodad and ActionAid. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Approaches%20and%20impactsTAX_June11.PDF?n=8277

system. These are issues that merit further investigation, particularly given the high-profile of rankings such as that of the World Bank.

An additional aspect receiving increasing attention and with potential consequences for private sector land-use is a land valuation tax. Rather reflecting the potential rental value of land or premises, the land valuation tax is based on the unimproved land value. It thus reflects the access to public infrastructures of a parcel of land and encourages more efficient and productive use of land. Although not limited to land with economically productive use, it may be important to understand the consequence of such a tax for developing countries where state-owned land policies mean that land value is not subject to market pricing but where such a tax on a non-movable asset such as land may be particularly valuable.

KEY QUESTIONS

1. Does the current fashion for encouraging "public-private" dialogue actually bear any fruit in terms either of tax policy reform, or of bringing the private sector into the current "fiscal contract"?

2. How effective are tax amnesties and should these be used as a tool to "reset" tax relations with consumers and firms?

3. What are the implications, the potential impact, and the feasibility of implementing a land value tax in developing countries, particularly given existing land-laws in many Sub-Saharan African countries?

4. What are the underlying drivers of regional tax harmonisation efforts and what are the administrative and economic implications? Would a regional approach bring economies of scale in tax administration and revenue collection for smaller countries?

5. Can we use the growing evidence of the unequal treatment of firms under the tax system to propose new ways of ensuring effective, just and inclusive tax systems that also promote growth and employment? What aspects of tax policy design and implementation can be improved to achieve such a goal?

6. How can ICT, new media, mobile phone-banking and other such technologies be effectively used to encourage tax compliance in Africa? What could be the role of the private sector in the efforts made to improve tax services in this way?

7. Beyond country-specificities, are there any lessons from high-growth, developing countries (in Africa and outside) that can be drawn to examine tax and development issues in weaker economies? Can we use comparisons of differences between "tax cultures" in other countries to bring some new angles for viewing the "tax problem"?

8. To what extent does a focus on the tax aspects of the World Bank's Doing Business indicators effectively improve the taxation environment for the private sector while also raising revenues?

Extractive Resource Taxation

For those countries endowed with resources such as oil, gas and minerals, taxing their extraction could potentially offer an important source of revenues. High world prices caused by surging demand imply high profits and increased rents that might be taxed once the costs of exploitation have been recovered. However, past policies to promote FDI into extractive sectors when prices were low coupled with rather opaque revenue transactions between the companies and the states, have often left host countries and their citizens with very little benefits from their resources.

Driven by the desire to improve their revenue from extractive resources, many countries in Africa are in the process of conducting fiscal reforms. These include reviewing mining and petroleum legislation, raising tax levels, in particular on windfall gains due to the resource boom, and in some cases, renegotiating existing contracts.

In terms of practical reforms, some countries have attempted to increase their tax rates. Australia for instance, has approved a "super-tax" on some extractive industries. The tax was largely debated, caused important political tensions (costing the Prime Minister his job) and was finally adopted, with a rather diluted outcome. In other developing countries, Tanzania and Peru have recently looked at raising similar taxes. Again in Peru, the final outcome was much below expectations, given the intense pressure from the mining sector. Although the idea of a "super-tax" seems popular in resource-rich countries, it is not clear how this will operate and whether it will have a significant impact, in particular as many companies have negotiated stabilisation agreements with governments, making them immune to any changes in legislation.

Complementary to the fiscal reforms is how to address the issue of governance and promote transparency at all levels including on the terms and conditions of contracts, taxes paid by companies to government and the revenue received and expenditure made by the government. How contracts are designed and managed, and how the initial rights are sold, whether it is through an auction or bids all have an impact on the level of revenue a government can expect from exploiting its extractive resources. With increasing discoveries of important minerals and other natural resources across Africa, the importance of addressing this is quickly rising up the agenda, with much of the policy agenda focusing on transparency, discussed further below.

KEY QUESTIONS

1. What specific actions can help developing countries get a better deal from natural resource extraction in different political contexts? How important is transparency and how well are current initiatives (e.g. EITI, Publish what you pay/receive) really working?

2. Is it possible to compare and contrast the tax systems and share of revenues collected on resource extraction across the resource-rich countries? i.e. is it just corporation tax, or turnover tax, or royalties? And what does it change depending on which tax is used in terms of the implications for the taxation authority, and the economic impact of taxing resources in different ways?

3. Although countries such as Botswana are often held up as examples of good governance in the natural resources sector, to what degree does this still mask underlying political rent-seeking and corruption? How much can be learned and translated from more developed countries?

International Capital Taxation

While domestic tax reforms may raise domestic revenues, there is increasing recognition of the enormous potential revenue sources which exit countries through illicit capital flows, abuse of transfer pricing and the use of tax-havens. A 2008 paper suggests that over the period from 1970 to 2004, $420bn left the 40 Sub-Saharan African states and that for every dollar borrowed, 60 cents then leaves the country in the same year.[40] A more recent paper estimates that over the shorter period from

[40] Ndikumana, L., Boyce, C.J., 2008, "New Estimates of Capital Flight from Sub-Saharan African Countries: Linkages with External Borrowing and Policy Options", Political Economy research Institute (PERI), University of Massachusetts Amhurst, Working Paper Series No.166.

1990 to 2008, a total of $369bn left developing countries.[41] While the precise methodology used to arrive at these estimates might be open to discussion, the issue of capital flight and its negative impacts on domestic resource mobilisation in developing countries cannot be ignored.

While some of this capital flight may be legitimate profit repatriation, some also relates to abusive transfer-pricing practices by Multinational Corporations (MNCs). By setting up branches in low-tax jurisdictions, it is possible for MNCs to sell their own products to themselves through transfer pricing, thus allocating all their profits in low-tax countries, while avoiding taxes where their real economic activity takes place. While this might be addressed through better auditing and capacity to value goods and services in developing country tax administrations, and therefore detect of transfer mispricing, this is only part of the story.

More broadly, it appears that transparency is key. There is a move to demand country-by-country as well as project-by-project reporting by MNCs so that the location of a companies activities and the level profit and loss can be more explicitly linked to activities in each host country, something that would lower the potential for abuse of the system. This would then make clear what profits have been made in a developing country, thereby allowing the national tax authority to claim their revenues.

Indeed, domestic firms in many African countries now increasingly also send funds offshore before re-investing in the home country as a foreign investor, thus benefiting from any incentives available to attract FDI. While this underlines the importance of harmonising the treatment of domestic and foreign firms, it also highlights the challenge of raising more revenue domestically while this "round-tripping" approach remains untackled.

In addition to transfer pricing, the international flow of money out of developing countries is also assisted by secrecy jurisdictions. By making it nearly impossible to trace funds and attribute these to individuals, developing (and developed) countries are denied the ability to tax incomes made within their territories. However, some of the worst culprits in allowing these secrecy jurisdictions to exist include countries such as the UK and the US. As such, efforts to improve transparency in this regard will only work with their assistance. This is well recognized, with the EC's 2009 Communication on "Promoting Good Governance in Tax Matters" calling for more transparency, improved information exchange, and an avoidance of harmful tax competition.[42] More explicitly, the 2010 Communication on "Tax and Development" proposes to "promote the principles of good governance in tax matters, and support developing countries to fight against tax evasion and other harmful tax practices", by supporting: [43]

- closer cooperation between relevant OECD and UN bodies when developing international standards of tax cooperation, taking into account the specific needs and capacities of developing countries;
- inclusion of a specific reference to strengthening tax systems and to the principles of good governance in the tax area in all development cooperation agreements with third parties;

[41] Kar, D., 2011, "Illicit Financial Flows from the Least Developed Countries: 1990-2008", United Nations Development Programe Discussion Paper, May, New York.
[42] Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, "Promoting Good Governance in Tax Matters", COM(2009) 201 final, Brussels 28.04.2009: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0201:FIN:EN:PDF
[43] Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, "Tax and Development: Cooperating with Developing Countries on Promoting Good Governance in Tax Matters", COM(2010) 163 Final, Brussels 21.4.2010: http://ec.europa.eu/development/icenter/repository/COMM_COM_2010_0163_TAX_DEVELOPMENT_EN.PDF

- technical cooperation to developing countries committed to the principles of good governance in the tax area to enable them to conclude and implement Tax Information and Exchange Agreements (TIEA) and, where appropriate, Double Tax Conventions (DTC);
- the adoption and implementation of the OECD transfer pricing guidelines in developing countries;
- on-going research on a country-by-country reporting requirement as part of a reporting standard for multinational corporations, notably in the extractive industry.

The African Tax Administration Forum (ATAF) and the OECD are also looking into this area, with ATAF reportedly initiating moves to set up the required tax agreements between countries to allow for coordinated audits of MNCs working within several countries in order to compare tax returns.

KEY QUESTIONS

1. How can we strengthen the position of developing countries in halting abuse of tax havens and transfer pricing – is there anything more than capacity building and international coordination that would be effective?

4. Key external actors supporting tax and development objectives: Who does what in the area of DRM?

While the above sections have presented some of the main issues and questions that emerge from the literature on domestic resource mobilisation, a wide range of on-going donor initiatives and programmes address these, at least to some degree. Building on the results of the mapping survey on taxation and development conducted by the International Tax Compact (ITC), Annex 1 presents an indicative list of the main actors in the field of DRM and taxation, beyond governmental authorities.

Most initiatives and programmes in the area of taxation and development are fully or partially supported by donors, reflecting to some degree their principal area of interest with regards to supporting tax reforms in developing countries. Examples include the International Tax Dialogue, the International Centre for Tax and Development, the African Tax Administration Forum, the International Tax Compact or the Extractive Industry Transparency Initiative (EITI). Nonetheless, it is useful to summarise where the main donors' interests seem to lie, and therefore where their actions on tax policy might be heading. What follows is a summary of the main areas of interest for the principal donors active in the area of tax policy.

4.1. International organisations and financial institutions:

The IMF has generally been considered the "custodian" of tax policy in developing countries. Whilst it has been primarily technical in approach, as an institution it is becoming more aware and accepting of other approaches, such as for instance the linkages between taxation and state-building. In this respect, the publication in March 2011 of the *Revenue Mobilization in Developing Countries* by IMF's Fiscal Affairs Department is particularly telling, with the reference to the 'No taxation without representation' argument[44].

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[44] IMF (2011). Revenue Mobilization in Developing Countries. Paper Prepared by the Fiscal Affairs Department. http://www.imf.org/external/np/pp/eng/2011/030811.pdf

In terms of specific activities, the IMF is notably providing tax-related technical assistance in Africa, the Pacific and the Caribbean, through its Regional Technical Assistance Centers (RTACs), working closely with the African Development Bank (AfDB) in this respect. The IMF also launched at the end of 2010 a topical Trust Fund aimed at providing technical assistance to low and lower-middle income countries to help strengthen their tax systems and improve tax policy and administration and effective since May 2011[45]. In the same vein, the IMF have also set up a Trust Fund on Managing Natural Resource Wealth, providing approximately US$25 million over five years to finance technical assistance on effectively managing natural resource wealth in some low-income and lower-middle-income countries with resource endowment[46].

The World Bank is also very active in the area of taxation, focusing on both the revenue and expenditure side of the equation. As far as tax policy is concerned, its approach is again fundamentally technical in nature, focusing *inter alia* on the institutional framework of tax policy and tax administration, the design of tax structures, and on frameworks for evaluation of tax performance.

In terms of country-specific activities, the World Bank has been financing numerous programmes in developing countries where taxation was one specific component. Geographically, however, its involvement in African, Caribbean and Pacific countries has been relatively limited, despite some notable exceptions. These include involvement in Kenya, Ethiopia and Sao Tome and Principe, in the context of institutional reforms and capacity building projects; the support brought by the Bank to Mineral Resources Projects in Madagascar and Uganda; and the financing of specific tax reform/modernisation projects, such as in Tanzania for instance[47].

The African Development Bank is also particularly active in supporting efforts to strengthen domestic taxation in Africa. A strategic partner of the African Tax Administration Forum (ATAF[48]) right from the start, the African Development Bank supports efforts by African countries to reinforce the institutional capacity of their tax administrations. The Bank is also active in the area of tax reform and improved tax governance notably through its involvement in initiatives such as the IMF RTACs in Africa or the EITI[49]. Although the AfDB focuses mainly on technical cooperation and assistance, the Bank also supports tax activities trough general budget support and by providing loans and grants for tax related specific projects. The approach of the Bank in terms of good economic and financial governance revolves around the following priorities: (i) Strengthening African Tax Systems, (ii) Establishing Transparent and Comprehensive Budgeting Procedures, (iii) Accountability, Transparency and Enhancing Budgetary Control, (iv) Increasing Accountability for Revenues from Extractive Industries , (v) Supporting Fiscal Decentralisation, (vi) Enhancing Capacities for Governance in Fragile States and Situations and finally (vii) ensuring good governance within the Bank[50].

See also: Tax Justice Network, *Is the IMF starting to get it on tax and development? 17 Mrch 2011. http://taxjustice.blogspot.com/2011/03/is-imf-starting-to-get-it-on-tax-and_17.html*

45 See IMF Press Release No. 10/500. IMF Launches Trust Fund to Help Countries Improve Tax Policy and Administration. Press Release. December 17, 2010

46 IMF Press Release. IMF Launches Trust Fund to Help Countries Manage Their Natural Resource Wealth Press Release No. 10/497 December 16, 2010. http://www.imf.org/external/np/sec/pr/2010/pr10497.htm

47 Kohnen, Kundt and Schuppert (2010). Mapping Survey. Taxation and Development. http://taxcompact.net/documents.html

48 See Annex 1 for more information

49 Bank Supports Efforts to Strengthen Domestic Taxation in Africa. Press Release. 19 November 2009. http://www.afdb.org/en/news-and-events/article/the-bank-supports-efforts-to-strengthen-domestic-taxation-in-africa-5411/

50 Good Economic and Financial Governance (GEFG) – Overview. http://www.afdb.org/en/topics-and-sectors/sectors/economic-financial-governance/overview/

As a donor, the EU has financed some explicit tax projects, but until 2010 only one in Africa[51]. Until very recently, the involvement of EU institutions on tax matters has been somewhat limited. This picture seems however to be changing as evidenced by the 2010 European Commission publication of its Communication on Good Governance in Tax Matters[52], and increased discussions of taxation matters in budget support criteria.

Although it is not a donor *per se*, the role of the OECD cannot be overlooked in this exercise, given the significant involvement of this organisation in support of DRM efforts. The OECD is notably committed to promote international cooperation on transfer pricing and exchange of information, tax treaties and on tax policy and administration more generally[53]. The OECD tries to strengthen democratic institutions and domestic accountability and works with partner countries to increase their ability to collect revenues[54]. Both the Committee on Fiscal Affairs and the Centre for Tax Policy Administration deserves some attention. Their specific activities and areas of priorities are described in Annex 1. Critically, one should also mention the creation by the OECD of the *Informal Task Force on Tax and Development* which seeks to (i) optimise the resources to help build tax systems in developing countries, (ii) increase the capacity of developing to efficiently and fairly tax MNCs, (iii) support countries in the implementation of tax information exchange agreements and (iv) favours tax transparency[55].

The OECD is also particularly involved on tax matters in Africa through the International Tax Dialogue. This is a joint project of the European Commission (EC), Inter-American Development Bank (IDB), the IMF, the World Bank and the UK. The organisation also supports African initiatives, and notably the African Tax Administrators Forum, notably by providing technical input on events and research.

The United Nations is also an important player with regards to support to tax matters, notably through its Committee of Experts on International Cooperation in Tax Matters. More information on UN activities is available in Annex 1.

4.2. Bilateral donors

Most bilateral donors (including EU member states) are engaged in the area of taxation through their support to multilateral efforts. This includes financial and/or technical participation in the activities of the World Bank, the IMF (including RTACs and the Topical Trust Fund on tax issues), and involvement in various initiatives, such as the EITI. Bilateral donors also take part in international fora, such as the UN and (some of them) in the G8/G20, where the issue of DRM has been high in the agenda over recent years.

[51] According to Kohnen, Kundt and Schuppert (2010), indeed, only one country in Africa, Botswana receives some specific bilateral support from the EC in relation to tax administration reform.
[52] European Commission (2010). Cooperating with Developing Countries on Promoting Good Governance in Tax Matters" (COM(2010)163 final). April 2010
[53] http://www.oecd.org
[54] http://www.oecd.org/document/19/0,3746,en_2649_34897_43848851_1_1_1_1,00.html
[55] http://www.oecd.org/document/35/0,3746,en_2649_34565_45958051_1_1_1_1,00.html

Germany

Germany is particularly dynamic in the area of tax and development. It has notably launched the International Tax Compact (ITC), an informal platform of bi- and multilateral development partners aimed at promoting more effective measures to fight tax evasion and inappropriate tax practices through enhanced development cooperation. More specifically:

(a) *GIZ* 's primary areas of focus include the design of tax policy and the review of tax legislation, tax administration efficiency as well as fiscal decentralisation[56]. Recently, GIZ has also worked on SME taxation, international taxation, regional tax issues, taxation in fragile states, as well as tax reform in the context of public finance reform[57].

(b) *KfW Entwicklungsbank's* role in the area of taxation is mainly being developed through General Budget Support (where tax reform is often an important element of the PAFs), through multi-donor-basket financing, through sectoral Budget Support (for fiscal decentralisation/local taxation) and trough specific projects[58]".

KfW's activities have so far focused on tax policy and reform (roughly 30%), tax administrations and organisational reform (30%), tax procedure (30%) and tax law (10%), while GIZ's activities mainly cover the first two areas[59]. Both GIZ and KfW tend however to examine primarily domestic taxation rather than international taxation issues[60].

UK

Historically focusing on tax policy design, tax administrations and tax issues more generally, DFID has been active for quite some time in the area of taxation. The review of its work undertaken in 2006 showed that DFID's major focus has primarily been on reinforcing tax and customs administrations, with specific attention on governance and human resources development, amongst others. More recently, the UK has tried to broaden its approach to focus on other topics such as trade facilitation, the linkages between tax and the investment climate, fiscal decentralisation and the issue of tax and state building through support to academic research such as the Center for the Future State and the International Centre for Taxation and Development (ICTD)[61]. The latter area is notably considered as being DFID's "comparative advantage[62]". DFID's recent work has also included a focus on the impact of African Revenue Authorities on business.

Overall, DFID's areas of research priorities encompass a broad range of topics. This includes the challenges that exist to increase tax compliance in developing countries, tax reforms in post-conflict and fragile states, the scale of tax evasion and solutions to this problem, as well as the linkages between tax morale, political governance and economic growth. The emphasis across-the-board is on the importance of

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56 David Nguyen-Thanh (2011). Taxation and Development. The role of German Development Cooperation. Presentation made in the context of the IMF Conference on Revenue Mobilization and Develoooment. 17-19 April 2011.

57 Ibid.

58 See KfW (2010). Strengthening Tax Systems in Developing Countries. Competence Centre Governance. Frankfurt, January 2010, and Kohnen, Kundt and Schuppert (2010).

59 Kohnen, Kundt and Schuppert (2010)

60 Before the creation of GIZ, InWent was one of the only German agencies to dedicate half of its activities to international taxation issues.

61 Everest-Phillips and Nellist (2007) Tax for Growth and Poverty Reduction in Africa. Paper realised in the context of the Donor Committee for Enterprise Development. Africa Regional Consultative Conference, Accra, 5-7 November 2007. http://www.businessenvironment.org/dyn/be/docs/159/Nellist.pdf

62 Why Tax Matters for international Development and what DFID is doing about it. DFID Briefing Note. May 2009. http://somo.nl/files/extern/ttd/why-tax-matters-for-international-development

adopting a Political Economy Approach: " Tax must be understood as a 'system' – of policy, administration, politics and the political economy of each sector and the private sector[63]".

France

France's strategy for bilateral cooperation on taxation revolves around three main axes:[64]

(a) *The fight against tax fraud.* This is to be achieved by supporting capacity building for tax administrations, encouraging improved cooperation between administrations in the same country, helping in the streamlining of tax legislations, and by working with the OECD in the context of ATAF to fight against transfer pricing.

(b) *Tax design.* The overall objective here is to broaden the tax base and find new tax options. Two main avenues for engagement have been underlined in this respect: (i) promoting local taxation; (ii) ensuring a better use of tax exemptions.

(c) *Cooperation in tax matters at the regional level* (with a regional focus in Central and West Africa. eg. UEMOA's 'Programme de Transition Fiscale'). This third aspect is probably one of the most innovative aspects of the French orientations as the issue of DRM at the regional level seem to have been a bit overlooked by other donors, including multilateral donors.

International taxation issues are also a French priority. This is particularly so with regards to reinforcing transparency in tax matters (notably when it comes to MNC's operations) or promoting exchange of tax information. These are to be achieved at the multilateral level, in relevant fora, and when possible through enhanced coordination with other donors[65].

Norway

Norway has also been particularly active in supporting DRM in developing countries. Its activities have mainly been targeted towards issues related to natural resource management and taxation. Its **Oil for Development (OfD) programme** provides – on demand -- assistance to developing countries to manage petroleum resources and revenues[66]. Through the ICTD, Norway is also financing research on mineral taxation.

NORAD also set up very recently a **"Tax for Development programme**", focusing on the four following areas[67]:

- capacity-building to improve tax systems and support tax authorities in developing countries (including support to ATAF)
- knowledge generation and dissemination on tax policies and illegal capital flight
- participation in international cooperation efforts related to issues of taxation and capital flight support to civil society to reinforce the capacity of these organisations to participate in discussions on tax issues (eg. Norway supports for instance some activities of the Tax Justice Network)

This list of bilateral donors is of course not exhaustive. Other states, such as Sweden, Denmark, Switzerland, the US or the Netherlands, have also supported projects and/or initiatives in the area of tax policy.

[63] Everest-Phillips and Nellist (2007)

[64] Reference document: French Ministry of Foreign and European Affairs. 2011. Orientations for French cooperation in Tax Matters. Working Paper.

[65] Ibid.

[66] http://www.norad.no/en/Thematic+areas/Energy/Oil+for+Development/Oil+for+Development.127154.cms

[67] http://www.norad.no/en/Thematic+areas/Macroeconomics+and+public+administration/Tax+for+Development

4.3. The need for greater coordination and division of labour

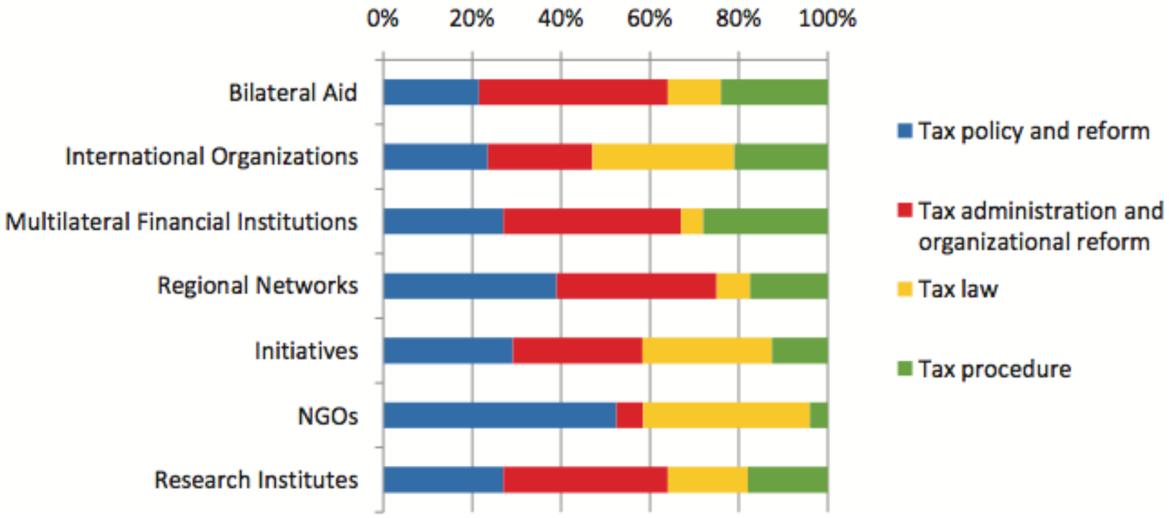
In summary, although the scope of engagement differs depending on the donor considered, the number of organisations and donors engaged in promoting domestic resource mobilisation is already quite large. Moreover, to have a comprehensive picture of the main actors in the field, one must also take into account the important role of other initiatives, programmes, NGOs and research institutes that directly and indirectly shape outcomes. The topic is therefore clearly very high on the international development agenda.

Nonetheless, quantitatively, assistance in tax reforms does not represent a substantive part of total ODA. According to the African Economic Outlook 2010, in 2008, public sector financial management represented 2% of aid spent on technical cooperation in Africa, suggesting that there was some space to increase aid in this area[68]. The relation between aid and domestic resource mobilisation has been the subject of heated debates among researchers with some inconclusive outcomes. While some have warned against the risks of aid crowding out domestic mobilisation of resources, others, such as Paul Collier (2006)[69], have insisted on the idea that much depends on the ways and means through which aid is delivered[70]. That said, an increase or rebalancing of aid towards tax priorities might be worth considering, provided however that those priorities are identified as such by development partners and reflected in their development strategies (national/regional strategy papers,).

Moreover, to ensure win-win situations, the question of "How" financial support is provided to public resource mobilisation matters perhaps more than "How much". In this respect, the ITC's recent survey mapping has however shown that donors are not only present in the same countries and regions, but also focus on the same aspects of tax issues (mainly tax policy and reform and tax administration and organizational reform)[71] This approach therefore risks neglecting some sectors and countries to the benefit of others, with no clear underlying rationale. In particular, Africa seems to be overlooked in relation to other regions, despite its low tax ratios as a percentage of GDP[72]. Furthermore, as can be seen from Figure 2 below, the division of labour between types of actors is very weak as most tend to be involved in all aspects of taxation.

68 OECD/AfDB/UNECA (2010). African Economic Outlook 2010. Special Theme: public resource mobilization and aid.
69 Collier, Paul (2006), "Is Aid Oil? An Analysis of Whether Africa Can Absorb More Aid", World Development 34:9
70 See for a review of the academic debate with regards to the linkages between aid and DRM. OECD/AfDB/UNECA (2010). African Economic Outlook. pp99-100.
71 Kohnen, Kundt and Schuppert (2010)
72 ITC Secretariat (2010).

Figure 2: Topical mapping - involvement of different actors according to working areas.



Source: Kohnen, Kundt and Schuppert, 2010.

At the country level, there are of course good examples of donor coordination through joint programming and/or co-financing. For instance, in Mozambique, the UK, Switzerland, Belgium, Germany and Norway have coordinated their activities through the use of a *Tax Common Fund* aimed at supporting tax administrations[73]. Across-the-board, however, it is clear that the level of coordination and the division of labour among donors could be improved.[74] In this respect, one can only hope that initiatives such as the IMF Topical Trust Funds will help coordinate donors' initiatives in the area of DRM and taxation.

KEY QUESTIONS:

1. Are tax matters a priority for developing countries? How can one ensure a more focused approach on the part of donors, and one which ties-in with national concerns? Is the concentration of donors' in specific countries and thematic tax areas a demand-side issue; or does it rather translate a weak implementation of the Division of Labour agenda on the supply-side; or is it both?

5. Conclusion

Although it is by no means new, the issue of domestic revenue mobilisation in developing countries has gained a lot of momentum in the last decade. This has come, most notably with the realisation that external sources of financing alone cannot bear the burden of financing social expenditures geared towards achieving MDGs, or closing Africa's infrastructure gap[75]. Not surprisingly therefore, in recent years there has been an abundant literature on domestic resource mobilisation which has become all the more prolific in the context of the recent global crises.

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[73] Fjedlstad and Heggstad (2011). The tax systems in Mozambique, Tanzania and Zambia: Capacity and constraints. Bergen: Chr. Michelsen Institute (CMI Report R 2011:3)

[74] See French Orientations for Cooperation in Tax Matters (Report 2011)

[75] OECD/AfDB/UNECA (2010). African Economic Outlook. 'What is public resource mobilisaton and why does it matter?'

In an attempt to review the current state of knowledge on taxation in the development discourse, this paper has singled out five different perspectives to look at DRM, based on the profuse literature on the topic. The main issues at stake are increasingly well documented with some important research being conducted on both the nature of the challenges developing countries must overcome and the technical and governance aspects of tax reforms. Whatever the angle one takes to approach the issue, however, one clear message is that beyond the technicalities, public resource mobilisation is first and foremost a political issue. There are inevitably winners and losers from tax reforms. Besides, domestic political and economic elites may not have interest or incentive to pursue efficient and equitable DRM strategies. Determining feasible reform options consequently requires one to understand not only the relationships between involved people, groups and institutions, but also the historical context of their relations, the incentives they face institutionally and individually, the accountability relations in place, the economic and political power relationships. Once we understand better the underlying political economy, at the domestic as well as international level (i.e. including in partners/donors countries and by foreign/multinational companies), there is a greater likelihood of genuinely addressing the problems.

The number of actors currently involved in the field of DRM and taxation is significant. This has given rise to a multiplicity of projects, programmes, and research initiatives focusing on this issue. Although this traction holds some clear benefits as it contributes to feed the political momentum, it also stresses the importance of coordination among all actors to avoid an ineffective duplication of efforts. This is true for donors, as emphasized in Section 4.3; but this is also true for researchers and experts

In this context, it will be critical to build further on already existing knowledge and on other initiatives. To some extent, by taking stock of where we stand in the area of DRM, this scoping paper intends to provide some directions. Recognising the fact that there are important lessons to be learnt from each of the five perspectives identified here (taxation and public financial management; taxation and state-building; taxation for economic growth; natural resource taxation; and international taxation), the review of the state of knowledge on DRM also suggests a number of remaining critical questions calling for further enquiry.

At the same time, however, it is clear that by itself each perspective is limited in how far it can take us. All five angles are necessarily interconnected. In an attempt to systematically reconcile all five perspectives, working on the intersections of these five areas may therefore be critical. One such point is the idea of "fiscal legitimacy" that links public authorities and citizens through an implicit fiscal contract. Defined by Schneider, Aaron, Ledo and Moore (2004) as the "negotiations between organized societal and political interests around substantial, consensual changes on both sides of the fiscal ledger and in the nature of governance – taxes, patterns of public expenditure, and mechanisms of representation and rights[76]", these fiscal pacts highlights the importance of looking at both the revenue and expenditure sides of domestic resource mobilisation. This also ultimately relates to the notion of domestic accountability[77]

[76] Aaron Schneider, Victor Lledo and Mick Moore (2004). Social Contracts, Fiscal Pacts and Tax Reform in Latin America. (Paper realised for the Inter-American Development Bank). Mimeo, Inter-American Development Bank. Washington D.C.http://www2.ids.ac.uk/gdr/cfs/pdfs/IDBSocConChap7Feb04.pdf

[77] This has also been at the core of some of ECDM's work.

Box 1. ECDPM: Who are we and what do we do?

The European Centre for Development Policy Management (ECDPM) is an independent foundation, legally constituted in the Netherlands, and began operations in 1986. Its focus is to help build an effective partnership between the European Union (and its Member States) and Africa, the Caribbean and Pacific (ACP), particularly related to development cooperation. ECDPM engages in research, facilitating policy dialogue, creating understanding of processes and institutions and building capacity.

ECDPM is a non-partisan policy process facilitator and knowledge broker. Our added value - the ECDPM 'acquis' - is built on a tried and tested approach where we bring together knowledge and expertise, animate and moderate multi-perspective dialogue and networking, facilitate policy processes, reinforce and leverage capacities, and communicate and share the learning and information arising from all of this.

With its 25 years of experience, ECDPM has positioned itself as a centre of excellence and built a strong expertise in many thematic areas, including among others: economic and trade cooperation issues, regional integration, governance and sector operations, financial instruments for development cooperation, EU external actions, policy coherence for development.

As part of its work, ECDPM contributes to the search for homegrown governance strategies at local, national, regional and continental levels in Africa and strengthens the EU capacity to programme, implement, monitor and evaluate governance support. In this respect, ECDPM has acquired over time a strong knowledge base on political economy approaches, putting the emphasis on domestic context and change processes and actors, and applied it in the context of the substantive work it has carried on budget support and other so-called “new aid modalities”, on domestic accountability and aid effectiveness, as well as decentralisation and local governance.

Recently, ECDPM has conducted some important work on the revenue impact of trade liberalisation (in the context of the Economic Partnership Agreements being negotiated between the EU and African countries) and possible options for reform to compensate for the revenue loss from foregone trade taxes.

ECDPM also published together with the International Centre for Trade and Sustainable Development (ICTSD) a special issue of its monthly ECDPM-ICTSD’s magazine *Trade Negotiations Insights* on the fiscal implications of EPAs and domestic resource mobilisation, asking experts on the topic to highlight possible strategies for African governments to improve the generation of domestic resources, as well as the role the international community could play in this regard[78].

Furthermore, following request by the African Union Commission and the ACP Secretariat to provide briefs and technical analysis on the impact of the EU Raw Materials Initiative (RMI), ECDPM is also increasingly working on questions related to **natural resources management and extractive industries**, providing insights to African countries on ways to harness the benefits of their resources.

In this context and in order to capitalize on its vast expertise, ECDPM is currently in the process of further developing its work programme on the issue related to economic governance and notably domestic resource mobilisation.

For more information on our activities: http://www.ecdpm.org

[78] ECDPM-ICTSD. 2010. Special Issue on the fiscal implications of EPAs and Domestic Revenue Mobilisation. Trade Negotiations Insights. Vol.9, No.6, July-August 2010. Geneva: International Centre for Trade and Sustainable Development / Maastricht: European Centre for Development Policy Management. http://www.acp-eu-trade.org/tni

Multi-dimensional in essence, domestic resource mobilisation is also a multi-level issue and while both the national and international aspects of DRM have attracted a lot of attention, the local and regional aspects are increasingly recognised as critical elements of DRM that deserve further attention. A large number of developing countries have launched a new generation of decentralisation programmes and in this context issues of local taxation and resource mobilisation have come to the forefront of the debate on development and accountability at the subnational level. If it is well known that fiscal decentralisation and local taxation hold the potential to impact positively *fiscal legitimacy, "*how" to realise this potential is a question deserving particular attention[79]. Similarly, Regional Organisations may have a critical role to play in supporting domestic resource mobilisation and fiscal reforms to help their respective member countries diversify their tax mix[80]. To what extent can the DRM agenda be taken up at the regional level could be a matter for further research.

In navigating through the challenges of DRM and taxation for development in Africa, this scoping paper has shown that although the road towards improved domestic resource mobilisation in developing countries may be rough and difficult, the journey remains worth undertaking as it holds, for all, the potentials of win-win gains. With this in mind, ECDPM is committed to facilitate future dialogue and conduct research on this vast and complex theme.

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79 AfDB/OECD (2010). African Economic Outlook.

80 See for more information on the regional dimension of DRM. Bilal, Dalleau, Lui (2011) Trade liberalisation and fiscal adjustments: The case of EPAs in Africa. ECDPM. Discussion Paper 122. http://www.ecdpm.org/dp122

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Annex 1: Who does what in the area of DRM/tax and development?

This Annex presents an indicative mapping of the different actors that are particularly active in the area of "taxation and development". Actors have here been classified according to their nature, using a simple typology used in Kohnen, Kundt and Schuppert (2010), and differentiating between bilateral donors, multilateral financial institutions International organisations, initiatives, NGOs and research/training institutes. Fjeldstad and Heggstad (2011) provide a similar mapping[81].

1) Key Bilateral Aid Donors

Actor	General Approach	Main Thematic Focal points
Germany	- particularly involved in the area of taxation. BMZ is notably behind **the ITC initiative** (see below)	
KFW	- Taxation is mainly dealt with within the **General Budget Support approach (PAF)**. At least in Africa so far, all activities were components of budget support programmes (eg. BF, Ghana, Madagascar, Mozambique, Rwanda, Tanzania,) or a sub-programme on decentralisation (eg. Cameroon, and Zambia)	- Tax policy reform (30%) - tax administrations and organizational reform (30%) - tax procedure (30%) - tax law (10%). KfW focuses almost entirely on domestic taxation issues, overlooking on purpose international taxation issues[82].
GIZ	- **technical cooperation and technical assistance** - Germany is notably particularly involved at the regional level (eg. Part of the programme on strengthening the ECOWAS Secretariat comprises a Tax component. Germany is also currently involved in a project aimed at promoting tax administrations in the EAC)	- design of tax policy - review of tax legislation - tax administration efficiency - fiscal decentralisation. And more recently: - international taxation issues - regional tax issues - taxation in fragile states - tax reforms in the context of public finance reform.
DFID	DFID major focus has historically been on reinforcing tax and customs administrations, with specific attention on governance and human resource development. But Is currently broadening its approach to encompass new themes (including tax and state building) - DFID has been developing/financing some specific tax programmes/projects, such as the " Tax Systems for Poverty Reduction", which notably helped financed the ITD as well as some specific activities from TJN (see below). - DFID also finance some explicit support for national revenue authorities in African countries (such as in Rwanda and in SL)	- (across the board) Political economy approach of taxation *More recent focal points include:* - Linkages between tax and investment climate - fiscal decentralisation - tax and state building

[81] See Fjeldstad and Heggstad (2011). pp86-90
[82] Kohnen, Kundt and Schuppert (2010)

Actor	General Approach	Main Thematic Focal points
France	- notably provides technical assistance in French-speaking African countries - Also sometimes delivered financial support through France's Solidarity Priority Fund	France's strategy for bilateral cooperation on taxation revolved around three main axes: - fight against tax fraud - tax design - cooperation in tax matters at the regional level International taxation issues are also a priority (eg. reinforcing transparency when it comes to MNCs operations) and promoting exchange of tax information[83]
Norway	- NORAD recently created a specific programme on " Tax for development", focused on 4 areas[84]: - capacity building to improve tax systems and support tax authorities in developing countries (incl. support to ATAF) - knowledge generation/dissemination on tax policies and illegal cap flight - participation in international cooperation efforts - support to civil society	- International aspects of DRM (illicit cap. Flows) - Also recent focus on tax and state-building

[83] http://www.diplomatie.gouv.fr/en/ministry_158/publications_2288/global-challenges-international-cooperation_2289/sectorial-strategy-documents_7243/orientations-for-french-cooperation-in-tax-matters_15588.html
[84] http://www.norad.no/en/Thematic+areas/Macroeconomics+and+public+administration/Tax+for+Development

2) International Organisations

Actors	General Approach	Recent Activities
European Union	- the EU finances projects related to tax and development through the EDF for ACP countries (via national/ and /or regional programmes) - EC is also involved in regional tax administration networks - In ACP: notably provided support to regional technical assistance centers supporting public finance management[85]	Key Documents: - EC Communication on Tax and Development. "Cooperating with Developing Countries on Promoting Good Governance in Tax Matters" (COM(2010)163 final). 21 April 2010 - The EC Communication has recently been criticized by the EP in the Joly Resolution (adopted in March 2011) that has been adopted very recently, notably because it overlooked the fact that EPAs **reduced the customs revenues of low-income countries.** - Also: read the Report from the Commission to the Council, the European Parliament , the European Economic and Social Committee and the Committee of the Regions : Operation of Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market - Recent study published in July 2011 on "Transfer pricing and developing countries- Implementing the Tax and Development Agenda (study by PwC) "[86] - forthcoming DG Markt Communication and Impact Assessment on financial reporting by multinational companies on a country-by-country basis, due in September 2011 Past Events: - EC/EP Event on Taxation and Development (EP' Development Committee strong support for the topic (notably under the impulsion of Eva Joly) - Support of the Spanish Presidency to the ITC.

[85] Source: Kohnen, Kundt and Schuppert (2010),
[86] http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/transfer_pricing_dev_countries.pdf

Actors	General Approach	Recent Activities
UN		
Committee of Experts on International Cooperation in Tax Matters	- subsidiary body of the Economic and Social Council - The Committee reviews and updates, the *UN Model Double Taxation Convention* between Developed and Developing Countries and the *Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries*. - It provides a platform for dialogue to enhance tax cooperation among national tax authorities makes recommendations on capacity-building and the provision of technical assistance to developing countries[87] - The UN Tax Committee of Experts on International Cooperation in Tax Matters comprise many subcommittees and working groups (on the UN Model Tax Convention, the Tax Treatment of Services, Dispute resolution, transfer pricing, negotiation of tax treaties, capacity building, capital gains and the concept of beneficial ownership).	Publication release of the DRAFT UN *Practical Transfer Pricing Manual for Developing Countries*
Financing for Development Office	- FfDO acts as the secretariat that ensure within the UN system follow-up on the commitments taken at International Conferences on Financing for Development, and financing for development-related aspects of other economic and social UN conferences (eg. development goals set out in the UN Millennium Declaration) - The office also conducts research and evaluation. It provides training, and in the area of financial cooperation is particularly active with regards to general budget support.[88]	Events: The seventh Session of the Committee of Experts on International Cooperation in Tax Matters will occur from 24-28 Octobe 2011 in Geneva. It will focus on the revision of the UN United Model Double Taxation Convention, transfer pricing issues and capacity building in national tax systems[89].
*Tax Trust Fund (*Trust Fund for International Cooperation in Tax Matters)	- The fund was established in July 2006, in order to support the activities of the Committee of Experts on International Cooperation in Tax Matters.	Website: **http://www.un.org/esa/ffd/tax/trustfund.htm**

[87] http://www.un.org/esa/ffd/tax/
[88] Kohnen, Kundt and Schuppert (2010),
[89] http://www.un.org/esa/ffd/tax/seventhsession/index.htm

Actors	General Approach	Recent Activities
OECD		
OECD's Informal Task Force on Tax and Develop-ment[90]	- The task force was set up at the 2010 Global Forum on Development - It involves business, NGOs, civil society, developing countries and OECD countries. - It Works to (i) "optimise the internationally available resources to help **build tax systems in developing countries**, (ii) help developing countries build their capacity to ensure they can tax multinational enterprises fairly through **effective transfer pricing regimes**, (iii) help developing countries agree and implement **tax information exchange agreements**, (iv) examine the case for and against reporting relevant **financial data by multinational enterprises** on a country-by-country basis[91]"	<u>Specific activities</u> - redaction of a scoping paper on Country-by-country reporting - has worked with ITD, ITC and other interested international organisations to work on the mapping of international assistance and developing country needs - has worked with the ITC, developing countries and civil society on tax and state building and on mechanisms for linking tax revenue to expenditure
OECD's Committee on Fiscal Affairs	- mainly directed towards OECD Member Countries (with Emerging players such as BRICS, often coming as regular observers in the Committee - The work of the Committee is mainly carried out by working groups (eg: group on tax treaty issues, group on the taxation of multinational enterprises, group on consumption taxes, group on tax evasion, on tax and environment…) - Its mandate is to "enable OECD and non-OECD governments to improve the **design and operation of their national tax systems**, to promote **co-operation and co-ordination** among them in the area of taxation and to **reduce tax barriers to international trade and investment."**[92] The CFA notably seeks ways to encourage the involvement of non-OECD economies into the fora that discuss the Committee's standards, guidelines and best practices. The CFA also (*inter alia*) conducts analyses of tax policy issues, comparative statistics and comparisons of country experiences in the design of tax systems[93].	- Creation of the Global Forum on Tax Treaties and Transfer Pricing (engaging to some extent non-OECD economies)…

[90] The OECD's Informal Task Force on Tax and Development is one of the groups of national experts in charge of carrying out the OECD's Centre on Fiscal Affairs' work programme
[91] http://www.oecd.org/document/35/0,3746,en_2649_34565_45958051_1_1_1_1,00.html
[92] http://www.oecd.org/dataoecd/38/17/1909369.pdf
[93] ibid.

Actors	General Approach	Recent Activities
OECD's Centre for Tax Policy and Adminstration	- The CTPA supports and assists the Committee on Fiscal Affairs (technical expertise). It focuses on all aspects of taxation other than macro-fiscal policy, international and domestic tax issues, tax policy and tax administration, taxation design, etc. - The CTPA works intensively with/on non-OECD economies - It also provides technical support for the Co-ordinating Body of the Convention on Mutual Administrative Assistance in Tax Matters, the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Network on Fiscal Relations Across Levels of Government, the Task Force on Tax and Development and the International Tax Dialogue.	
OECD's Development Centre	- The OECD's Development Centre acts as the "interface between OECD member countries and developing and emerging economies" to "help decision makers find policy solutions to stimulate growth and improve living conditions" in the latter countries[94].	- The OECD's Development Centre was notably in charge, with the African Development Bank and other partners, of the realisation of the African Economic Outlook (AEO) 2010, whose focus was on DRM and aid. - The Development Centre is also focusing on the expenditure side of DRM. 'Pro-Growth Expenditures' will indeed notably be the focus of the next Global Forum on Development 2011 to be held in Paris in the fall of 2011.

[94] http://www.oecd.org/document/61/0,3746,en_2649_33731_1899645_1_1_1_1,00.html

3) IFIs

Actors	General Approach	Main Thematic Focal points
IMF[95]	- IMF provides tax-related technical assistance to ACP countries, notably through the Regional Technical Assistance centers. - Launch of two Topical Trust Funds (one on Managing Resource Wealth, the other to Help Countries Improve Tax Policy and Administration[96].) - The IMF also organises conferences and trainings	- the IMF Fiscal Affairs Department provides technical assistance on every aspects of taxation : tax administration and organisation reforms (approximately 40%), tax policy and reform (20%), tax laws (5%) and tax procedures (35%)[97]. In a recent publication on *Revenue mobilization in Developing Countries* by the Fiscal Affairs Department, the IMF is going beyond its traditional technical focus to also consider the "No taxation without representation" argument.
World Bank	- The World Bank is supporting and conducting numerous tax and development projects across the world. Most of them are components of broader programmes, but the Bank also supports explicit tax projects, such as the Tax Modernisation Project in Tanzania[98]. - The World Bank also produces each year the *Doing Business Report*, which notably includes indicators measuring the easiness for firms to comply with different tax laws and regulations.	
African Development Bank	- focuses mainly on technical cooperation and assistance. - The AfdB also support tax activities through general budget support. - Also provides financing (loans and grants) for tax-related projects/components (The AfDB co-finances AFRITACs)	The approach of the Bank with regards to good economic and financial governance is described as revolving around the following priorities: - Strengthening African Tax Systems - Establishing Transparent and Comprehensive Budgeting Procedures - Promoting Accountability, Transparency and Enhancing Budgetary Control - Increasing Accountability for Revenues from Extractive Industries - Supporting Fiscal Decentralisation - Enhancing Capacities for Governance in Fragile States and Situations - Governance throughout the Bank [99] Publications: the AfDB is notably engaged in research with the OECD (Co-author of the African Economic Outlook)

[95] See section 4 of the main paper for more information on the IMF and on the World Bank's activities
[96] http://www.imf.org/external/np/sec/pr/2010/pr10500.htm
[97] These figures come from the mapping realized by the ITC: Kohnen, Kundt and Schuppert (2010).
[98] See Kohnen, Kundt and Schuppert (2010).
[99] Source: http://www.afdb.org/en/topics-and-sectors/sectors/economic-financial-governance/overview/

4) Global Initiatives, Civil Society organisations, Forums and Networks

In addition to the key bilateral and multilateral actors mentioned above, there are also a number of international organisations, civil society organisations, global initiative, forums and networks that have been particularly active in the area of DRM. This section enumerates a few of them. The list is of course non-exhaustive, but aims at providing a general overview of the different actors involved as well as global initiatives and campaigns. This list is of course non-exhaustive. Among active NGOs, one could also have for instance mentioned: Christian Aid, ActionAid, Transparency international, Oxfam international, Tax Justice NL; or at the national level: the National Taxpayers Association (NTA) in Kenya, etc.
The list below is organized by alphabetical order:

Initiative	Description	Recent Activities
African Tax Administra-tion Forum (ATAF)[100]	- The ATAF comprises 34 African tax administrators - This Initiative is particularly supported by the donor community, notably AfDB, OECD (CTPA/Task force), GTZ, IMF, Netherlands Foreign Ministry, DFID, and IrishAid… - platform for African tax administrators to articulate African tax priorities, share best practices, and build capacity in African tax policy and administration, notably through peer learning and knowledge development[101]. mandate: ATAF shall: - improve the capacity of African Tax Administrations to achieve their revenue objectives - Advance the role of taxation in African governance and state building - provide a voice for African Tax Administrations - Develop and support partnerships between African countries and development partners[102]	**Report/projects:** - ongoing 2-3 years research projects on 'Analysis of Current Tax Administrations and Proposed Framework for the Future (with OECD/ITD/IMF) - plan to extend the scope and approach of the AfDB/Korea-sponsored Study on DRM and Informal Economies (already done for EAC countries) **Meetings** - 1st Meeting of the ATAF General Assembly, July 2011, Mauritius - ATAF Technical Event on Exchange of Information, Pretoria, South Africa, May 2011 - Joint ATAF – Korea Conference on Domestic Resource Mobilisation: Challenges to African Tax Policy and Administration. 4 - 7 April 2011. Cape Town, South Africa - ATAF Transfer Pricing Working Group Meeting- Pretoria, South Africa, April 2011 - Large Business Taxpayers Workshop. 14 - 18 February 2011, Nairobi, Kenya
End tax haven secrecy Campaign	- coalition of civil society organisations - Public advocacy to fight against tax have secrecy for the benefit of developing countries and influence the G20 meeting in November 2011 - Organisations that have joined the campaign include: ActionAid, ChristianAid, Eurodad, TJN, and many others.	Website: http://www.endtaxhavensecrecy.org/en

[100] In the same vein, one could also mention the existence of other regional tax networks, such as the inter-American Center of Tax Administrations (CIAT), the Centre de Rencontres et d'Etudes des dirigeants des Administrations Fiscales (CREDAF), the Commonwealth Association of Tax Administrations (CATA).
[101] http://www.ataftax.net/
[102] ATAF. Workplan2011. Available online at: http://www.ataftax.net/SiteResources/documents/ATAF%20Documentation/ATAF%20Work%20Plan1167280_.pdf

Initiative	Description	Recent Activities
EURODAD (European Network on Debt and Development)	- network of 54 non-governmental organisations (NGOs) from 19 European countries working on issues related to debt, development finance and poverty reduction. Southern networks with which Eurodad works very closely include Jubilee South, Afrodad, Latindadd and Third World Network. - The network focuses on debt cancellation, aid effectiveness, World Bank/IMF policy conditionality, and capital flight and financial regulation (with TJN).[103]	- Website (http://www.eurodad.org) is a precious mine of information on Tax and Development issue (mainly international side of taxation : i.e on international tax evasion ; and a lot also on aid effectiveness).
Extractive Industries Transparency Initiative (EITI)	- EITI sets global standards for promoting transparency in extractive industries: "EITI requires companies to publish what they pay, and governments to publish what they receive" - More than 35 countries are well on track in implementing EITI including many African countries, and more than 50 companies support the network. - Civil society can also support the initiative, including through the **Publish what you Pay initiative** - The EITI also offers technical assistance to developing countries[104]	See : http://eiti.org/files/2011-05-03_English_FactSheet.pdf The EITI notably organise seminars and workshops
Global Financial Integrity (GFI)	- Launched in 2006, GFI "promotes national and multilateral policies, safeguards, and agreements aimed at curtailing the cross-border flow of illegal money.[105]" - main area of focus : tax havens and illicit capital flows - notably works with TJN	Website : http://www.gfip.org/ Publications : - UNDP-Commissioned Report from Global Financial Integrity : *Illicit Financial Flows from the Least Developed Countries: 1990-2008* (among others)

[103] http://www.eurodad.org/
[104] Kohnen, Kundt and Schuppert (2010)
[105] http://www.gfip.org/

Initiative	Description	Recent activities
ITC (International Tax Compact)	- informal platform of bi- and multilateral development partners aimed at promoting more effective measures to fight tax evasion, and inappropriate tax practices through enhanced development cooperation. - Launched by BMZ - It has an informal structure and wants to keep it that way – so anyone (multilateral, as well, as bilateral development partners) can join. - In terms of concrete actions: ITC intends to : • Finance studies related to tax losses • Support S./S Cooperation • Enhance capacity of Developing countries to handle the problem of transfer pricing • Pilot tax reform programmes Programmes Components: • at the national level : cooperation on tax matters/dissemination of successful practices /exchange of reform experience in legislation, administration, capacity development and policy coherence. • At the international level: support information exchange • Analytical work and studies on tax evasion and inappropriate tax practices Networking and dialogue on taxation and development between all participants of the initiative.	**Key Documents:** - Study on Transfer Pricing and Developing Countries - Study on Assessing Good Tax Performance - Mapping Survey Taxation and Development (on donor coordination in the area of tax and development **Events:** ITC Workshop Bonn / 12th—14th September 201 **"How to Operationalize the International Tax and Development Agenda"**
International Tax Dialogue (ITD) [106]	- involves : EC, IDB, IMF, OECD (hosting the ITD Secretariat), UK-DFID and World Bank Group - - collaborative arrangement to encourage and facilitate discussion of tax matters among national tax officials, international organisations, and a range of other key stakeholders[107].	**Events:** - 4th ITD Global Conference on Tax and Inequality to be held in India in December 2011. - previous ITD global Conferences were on : VAT (2005), taxation of SMEs (minimizing compliance burden and providing best environment for growth (2007)., and on the taxation of financial institutions (link with global financial crisis). **Publications:** A broad range of publications classified by themes and countries are available at: http://www.itdweb.org

[106] www.itdweb.org: Interesting website, which includes extensive library, and good weblinks (ministry of finance, revenue administration websites, article on tax reforms.) – sharing platform, exchange of good practices.
[107] http://www.itdweb.org/Pages/Home.aspx

Initiative	Description	Recent activities
Kimberley process	- Initiative by governments, international diamond industries and civil society organisations aimed at restricting the flow of "conflict diamonds" - The Kimberley Process certification Scheme, which entered into force in 2003, imposes on Participants stringent requirements to certify that the production and trade of rough diamond are free of conflict diamonds [108]. - the KP has approximately 50 members, including the European Community.	Website: http://www.kimberleyprocess.com/home/index_en html
Publish what you pay (PWYP)	- PWYP is a global network of more than 600 civil society organisations across the world. - Its aim is to make sure natural resources revenues (from oil, gas and mining) contribute to development and poverty reduction in resource-rich countries. PWYP activities notably involve public campaigns and policy advocacy to ensure transparency and disclosure of information with regards to company payments and government revenues, government expenditure and also with regards to contracts and licensing procedures - PWYP also provide technical assistance and training, to help monitor the payments, revenues and expenditures within the extractives sector.[109]	Website: http://www.publishwhatyoupay.org (notably contains a resource centre with information, publication and news stories.)
Revenue Watch Institute	- non-profit and independent policy institute and grant making organisation - RWI "promotes the effective, transparent and accountable management of oil, gas and mineral resources for the public good" (focusing on both the revenue and expenditure side) - RWI provides capacity building, technical assistance, research, funding and advocacy - Funding member of the Publish What You Pay Campaign and leader in the EITI implementation - RWI is based in New York, with offices in London and Accra and with regional presence in other areas of the globe.	- RWI contains an interactive database of research, publication and analysis related to natural resource management - Website: http://www.revenuewatch.org/publications

[108] http://www.kimberleyprocess.com/background/index_en.html
[109] See activities of the PWYP which include capacity building: http://www.publishwhatyoupay.org/activities

Initiative	Description	Recent activities
South South Sharing of Successful Tax Practices (S4TP)	- The S4TP initiative aimed at fostering cooperation and knowledge sharing among developing countries on successful tax practices, notably to increase the voice of "Southern" actors on international tax norms and practices[110]. - Created in early 2008, the S4TP initiative emerged as a partnership of the Special Unit for South-South Cooperation unit of the United Nations Development Programme (UNDP) and the Financing for Development Office of the UN Department of Economic and Social Affairs (UNDESA). New Rules for Global Finance and the Tax Justice Network, are assisting in the implementation of S4TP.	- Website: http://www.s4tp.org The website intends to promote the sharing and practical use of pertinent knowledge related to taxation issues. Key issues include: Transfer Pricing, Double Taxation, Taxation and Climate Change, Tax Modernization and Modern Technology, Informal Sector and Small Taxpayers
Task Force on Financial Integrity and Economic Development	- global coalition of civil society organisations and governments working together to improve transparency and accountability in the global financial system for the benefit of developing countries[111]. - Focuses on five key issues/priorities: • trade mispricing • country-by-country accounting of sales, profits, and taxes paid by MNCs • beneficial ownership in all banking and securities accounts; • automatic tax information exchange; - money laundering laws	Website: http://www.financialtaskforce.org/ Events The 2011 annual conference of the Task Force on Financial Integrity and Economic Development ("Tackling the Shadow Financial System: A Working Plan for the G20") will occur in France in October 2011. It will focus on each of the 5 key issues/priorities of the Task Force.
Tax Justice Network (TJN)	- Independent NGO (based in London with a branch however in Africa) : network of journalists, researchers, academics, economists, and unions… - Activities: research, analysis and advocacy in the field of tax and regulation (tax evasion, tax avoidance, tax competition and tax havens, offshore finance) - objectives: encouraging reform at the global and national levels[112].	Publications: Different reports on illicit capital flows and tax avoidance Website: http://www.taxjustice.net and http://www.taxjusticeafrica.net/

[110] Information comes from: http://www.s4tp.org/about-s4tp/
[111] http://www.financialtaskforce.org/about/overview/
[112] http://www.taxjustice.net/cms/front_content.php?idcatart=2&lang=1

5) Research Centres and Research Institutes

Institute	Description	Recent activities
African Tax Institute (ATI)	The African Tax Institute (ATI) is part of the Department of Economics, University of Pretoria, South Africa. - It focuses on tax policy and tax administration on the African continent. - It provides training, master courses, but also does research.	Research: property tax research project (with the Lincoln Institute)[113] Recent events: African Tax Forum (hosted by the ITIC [114]and ATI): East African Community Taxation Workshop 26-28 April 2011 Kampala, Uganda Website: http://web.up.ac.za/default.asp?ipkCategoryD=11748&subid=11748&ipklookid=3&parenid
Centre for Taxation and Public Governance (CTPG)	- Based in Amsterdam, the CTPG is described as "a knowledge center for tax governance {whose} mission is to contribute to the strengthening of governments in the fields of tax policy, tax administration, tax management and legal drafting" - The CTPG created in 2010 a Tax governance Programme which offers training and courses for tax officials	Website: http://www.center4taxation.org/
International Alliance on Natural Resources in Africa (IANRA)	- The IANRA aims at fostering "sustainable and equitable management of natural resource". The network also focuses on natural resources and environmental legislation at all level (national, regional and international) and promotes good corporate ethical and social responsibility standards[115]. - The network comprises 24 organisations from 8 different African countries and one from the Netherlands.	Recent Activities: - development of the Alternative Mining Declaration' on fair mining in Africa in February 2011[116] Website: http://ianra.org/

[113] See for more information: http://web.up.ac.za/default.asp?ipkCategoryID=11904&sub=1&parentid=11748&subid=11752&ipklookid=3
[114] International Tax and Investment Center (ITIC) – "independent non-profit research and education foundation with offices in Russia, Azerbaijan, Kazakhstan, Jordan, the Philippines, Ukraine, the United Kingdom and the United States. It focuses on tax issues mainly for countries from the ex soviet union, but also Southern Africa, and the Asia Pacific region": http://www.iticnet.org/
[115] http://ianra.org/what-we-do
[116] This declaration is available at: http://ianra.org/images/stories/igallery/Alternative_Indaba_Communique_FINAL.pdf

Institute	Description	Recent activities
International Bureau of Fiscal Documen-tation (IBFD)	- Independent (non-profit) foundation, comprising approximately 70 researchers. The Head Office is located in Amsterdam, NL. - provides information and education on international tax (most are however not free).	Website: http://www.ibfd.org/
International Centre for Tax and Development (ICTD) (led by IDS)	- Led by IDS / with financial support of DFID and NORAD - research consortium set up by DFID for five years (EUR 5M) led by Prof. Mick Moore at IDS. - provides technical expertise (and draws on PEA) , notably focussed on SSA. - Revolves around the OECD's concept of "fiscal legitimacy", which is seen as the main reason for weak tax systems in developing countries[117]. - does research to increase understanding of what works in the area of taxation (incl. thematic focus on taxation for inclusive growth/ pro-poor growth / social inclusion/ good governance and accountability…) - 5 main research themes. These are: • Understanding Taxation in Developing Countries • Extending the Reach and Inclusiveness of Taxation • Re-Thinking Tax Administration and Tax Reform • International Dimensions of Taxation and Tax Evasion • Foreign Aid, Taxation and State-building ➔ across-the-board: favours a political economy approach	Events: ICTD annual conference: held recently in June 2011 Publications - Different publications organized by themes. Database of studies.
International Fiscal Association (IFA)	- Non-governmental and non-sectoral international organisation, based in Rotterdam, NL - The IFA focuses on "international and comparative law in regard to public finance, specifically international and comparative fiscal law and the financial and economic aspects of taxation[118]".	Website: http://www.ifa.nl
North/South Institute (NSI)	- Independent/non-partisan research institute focusing on international development and most notably issues related to finance for equitable growth, governance, reform and effective development, trade and natural resources - The NSI is based in Ottawa, Canada.	Publications/Projects. - the NSI has recently conducted case studies exploring the potential for DRM in Burundi, Cameroon, Ethiopia, Tanzania and Uganda.

[117] http://www.ids.ac.uk/go/idsproject/international-centre-for-tax-and-development
[118] http://www.ifa.nl/organisation/what_is_ifa/pages/default.aspx

The European Centre for Development Policy Management (ECDPM) aims to improve international cooperation between Europe and countries in Africa, the Caribbean, and the Pacific.

Created in 1986 as an independent foundation, the **Centre's objectives** are:

- to enhance the capacity of public and private actors in ACP and other low-income countries; and
- to improve cooperation between development partners in Europe and the ACP Region.

The Centre focuses on **three** interconnected thematic programmes:

- Development Policy and International Relations
- Economic and Trade Cooperation
- Governance

The Centre collaborates with other organisations and has a network of contributors in the European and the ACP countries. Knowledge, insight and experience gained from process facilitation, dialogue, networking, infield research and consultations are widely shared with targeted ACP and EU audiences through international conferences, focussed briefing sessions, electronic media and key publications.

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ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

This publication benefits from the generous support of ECDPM's core and institutional funders: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden, Switzerland and the United Kingdom.

ISSN 1571-7577

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