WIDER Working Paper No. 2013/010

Taxation and development

A review of donor support to strengthen tax systems in developing countries

Odd-Helge Fjeldstad*

February 2013

Abstract

Recent years have seen a growing interest among donors on taxation in developing countries. This reflects a concern for domestic revenue mobilization to finance public goods and services, as well as recognition of the centrality of taxation for growth and redistribution. The global financial crisis has also led many donor countries to pay more attention to the extent and effectiveness of the aid they provide, and to ensuring that they support rather than discourage the developing countries' own revenue-raising efforts. This paper reviews the state of knowledge on aid and tax reform in developing countries, with a particular focus on sub-Saharan Africa. Four main issues are addressed: (1) impacts of donor assistance to … /

Keywords: tax policy, tax administration, tax effort, technical assistance
JEL classification: F35, H20, O23

*Chr. Michelsen Institute, Bergen, and International Centre for Tax and Development, Brighton. Email: Odd.Fjeldstad@cmi.no

This study has been prepared within the UNU-WIDER project 'ReCom—Research and Communication on Foreign Aid', directed by Tony Addison and Finn Tarp.

UNU-WIDER gratefully acknowledges specific programme contributions from the governments of Denmark (Ministry of Foreign Affairs, Danida) and Sweden (Swedish International Development Cooperation Agency—Sida) for ReCom. UNU-WIDER also gratefully acknowledges core financial support to its work programme from the governments of Denmark, Finland, Sweden, and the United Kingdom.

ISSN 1798-7237 ISBN 978-92-9230-587-1

….. strengthen tax systems, including what has worked, or not, and why; (2) challenges in 'scaling up' donor efforts; (3) how to best provide assistance to reform tax systems; and (4) knowledge gaps to be filled in order to design better donor interventions. The paper argues that donors should complement the traditional 'technical' approach to tax reform with measures that encourage constructive engagement between governments and citizens over tax issues.

Acknowledgements

The author would like to thank Eva Beuselinck, Rachel Gisselquist, Jan Isaksen and Ingrid Sjursen for excellent comments on earlier versions of the paper.

UNU World Institute for Development Economics Research (UNU-WIDER)
Katajanokanlaituri 6 B, 00160 Helsinki, Finland

Typescript prepared by Janis Vehmaan-Kreula at UNU-WIDER.

1 Introduction

Recent years have seen a growing interest among donors on taxation in developing countries. The importance of strengthening domestic revenue mobilization was emphasized by the G20-leaders at their summit in November 2010. The link between taxation and development is highlighted by the European Commission (EC 2010) and by the OECD Development Assistance Committee (OECD 2011). The renewed interest in taxation reflects a concern for domestic revenue mobilization to finance public spending, as well as recognition of the centrality of taxation to growth and redistribution. An effective tax system is considered central for sustainable development because it can mobilize the domestic revenue base as a key mechanism for developing countries to escape from aid or single natural resource dependency. The global financial crisis has also led many donor countries to pay more attention to the extent and effectiveness of the aid they provide, and to ensure that they support rather than discourage the latter's own revenue-raising efforts.

At the same time, there is a growing recognition that taxation and state-building are linked (Braütigam et al. 2008).[1] There is a strong argument in the literature that a substantial governance 'dividend' can be gained from mobilizing domestic financial resources through the tax system. The tax system may contribute to improved governance through three main channels (Moore 2008; Prichard 2010):

(i) Common interest processes which ensure that governments have stronger incentives to promote economic growth since they are dependent on taxes and therefore on the prosperity of taxpayers.

(ii) State capacity processes which require states to develop a bureaucratic apparatus for tax collection because of their dependence on taxes. This is also expected to lead to broader improvements in public administration.

(iii) Fiscal bargaining by engaging citizens in the political process. Taxpayers have a legitimate right to expect something in return for taxes paid, and are more likely to hold their government to account if it underperforms. This idea of fiscal bargaining and negotiation over taxes is central to the concept of a *social fiscal contract.*

Although these tax-governance linkages are complex and context-specific, and much of the evidence is anecdotal, it is clear that there are strong synergies between tax reforms and governance (OECD-DAC 2012). If tax reform is undertaken in a way that promotes greater responsiveness and accountability, alongside improvements in the state's institutional capacity, then tax reform can become a catalyst for broader improvements in government performance. Seen in this light, taxation is not just an administrative task for governments and citizens. It is also about politics and power, and the way that authority is exercised in a country through its formal and informal institutions.

How can donors assist in building effective tax systems in developing countries? This paper reviews the state of knowledge on aid and tax reform with particular attention to cases and

[1] State-building can be defined broadly as 'increasing the capacity of governments to interact constructively with societal interests, to obtain support and resources from those interests, and to pursue consistent lines of action' (Moore 2008).

experiences from sub-Saharan Africa (SSA). While much has been written about overall reform trends and progress (Drummond et al. 2012; Keen 2012; Bird 2008; IMF 2011), less attention has been paid to questions about how donors could better support the strengthening of links between tax reform and broader governance and state-building goals (Prichard et al. 2012a). This includes the development of the local government tax system which is likely to impact large segments of the population and thus the shaping of accountability relations between citizens and the state (Fjeldstad and Semboja 2001; Fjeldstad 2001; Fjeldstad and Therkildsen 2008; Jibao and Prichard 2012). A key argument in this paper is that donors should complement the traditional 'technical' approach to tax reform with measures that encourage constructive engagement between governments and citizens over tax issues.

Section 2 of the paper reviews experiences with donor assistance to strengthen tax systems in developing countries. It draws lessons for both tax policy and administration on what has worked—or not—and why. Section 3 assesses main challenges in 'scaling up' donor efforts, focusing on how donors best can provide assistance to reform tax systems. Knowledge gaps and issues for further research in order to design better donor interventions are discussed in section 4. Finally, section 5 concludes. The conclusion cautions against potential problems of donor duplication and fragmentation, which may undermine reform efforts by diverting local capacities, reducing local ownership and undermining the coherence of reform programmes.

2 Donor assistance to taxation: what has worked, or not worked, and why

Donor involvement with tax reform in developing countries is not new. The Shoup mission to Japan in 1949 is often referred to as the birth of foreign technical assistance on taxation to developing countries (Keen 2012: 9; Gillis 1990). Over the next three decades, Carl Shoup together with other leading fiscal economists advised tax reform packages in countries as diverse as Japan, Liberia, Venezuela, Korea, Taiwan, and Bolivia. Much of the early efforts focused on the development of income tax as the centrepiece of a 'modern' tax system.

In the 1960s, a period when a number of African countries gained their independence from the colonial powers, leading economists argued that the new states should give the development of effective tax systems priority (Kaldor 1963). An economic survey mission organized by the International Bank for Reconstruction and Development at the request of the Governments of Tanganyika and the United Kingdom in 1959/60, provided detailed advice on tax reforms (IBRD 1961). The survey mission agreed that the Tanganyika authorities were justified in their preference for a relatively low company tax (IBRD 1961: 325), and concluded that greater tax revenues should be sought not through higher tax rates, but through expansion of taxable economic activity. The study also proposed the introduction of a low and uniform tax on exports, in line with many other developing countries at that time which relied rather heavily on export taxes as a source of revenue (IBRD 1961: 327-8).

In the 1980s and 1990s the reform of trade taxes was a major component of donor funded structural adjustment reforms (Bird and Oldman 1990; Thirsk 1997). According to Gillis (1990: 77-8), the impetus for tax reform during this period did not come from those responsible for assessment and collection of tax, but rather from a donor government or from the ministry of finance in the specific country advised by the IMF and/or the World Bank. The general advice was to abolish export taxes and lower import duties.

After a period of declining funding beginning in the latter part of the 1990s, funding for tax-related assistance appears to have increased recently, though it remains relatively modest as a

share of total donor programmes (ITC 2012).[2] Whereas tax reform has traditionally been the preserve of the IMF and, although to a lesser extent, the World Bank, recent years have seen expanding interest in taxation amongst a wide range of bilateral donors, regional development banks, and other international agencies (Fjeldstad and Moore 2009; ITC 2012). At the same time, the content of the tax reform agenda has broadened. Where earlier reform efforts focused strongly on the reduction of trade taxes, their replacement with value added tax (VAT), and the lowering of direct tax rates, contemporary reform efforts focus increasingly on improving tax administration (Bird 2008; IMF 2011). There is also a growing interest in the links between taxation, accountability and broader state-building goals (Keen 2012; Bird 2012; Prichard et al. 2012a).

Against this backdrop, donor support to taxation can be grouped into three broad working areas:[3] (1) improving tax policy and design; (2) creating more effective tax administrations; and (3) encouraging constructive state-society engagement around taxes. In the following paragraphs I discuss key features and outcomes of each of these broad donor supported reform areas.[4]

2.1 Improving tax policy and design

Technical assistance has included reforms of tax legislation, simplification of tax structures and abolishment of some taxes and introduction of new ones. The overarching objective has been to raise revenues. Until the mid-1980s income redistribution considerations also played a significant role in shaping many of the decisions on tax reform (Gillis 1990: 81). As noted above, much of the early efforts focused on the development of a progressive personal income tax system.

Progressive income taxation has not become the major tax base as initially anticipated. Personal income tax accounts for less than 10 per cent of all tax revenue in most low-income countries, compared to an average of more than 25 per cent in OECD-countries (Keen 2012: 10). It comes almost entirely from wage withholding (pay-as-you-earn) tax on public sector and large enterprises employees. Commonly, less than 5 per cent of the population pay personal income tax, compared to nearly 50 per cent in developed countries (IMF 2011: 31). Zolt and Bird characterize the current personal income tax regime as follows: '… in most developing countries, the global personal income tax long advocated by experts is in fact neither global or progressive, nor personal, not often even on income'. The reasons for the

2 According to unpublished OECD data, less than 0.1 per cent of official development assistance was allocated to identifiable tax activities in 2009 (OECD-DAC 2012: 38). This figure is at odds with the current level of international interest in domestic revenue mobilization.

3 International Tax Compact categorizes donor support to taxation and development into four broad working areas (ITC 2010: vii): (1) tax policy and reform (e.g. different types of taxes, tax systems reform, simplification of tax structures); (2) tax administration and organizational reform (e.g. integration and establishment of revenue authorities, institutional efficiency, large taxpayer units); (3) tax law (e.g. legislation, procedural law); and (4) tax procedure (e.g. auditing, enforcement, automation). In this paper, I have included tax legislation in the first working area on tax policy and design, while auditing and enforcement are part of the reform of tax administration. Encouraging constructive state-society relations around taxation is not explicitly addressed by ITC.

4 There have been no systematic assessments of the success of this broad tax reform agenda. Barbone et al. (1999) reviewed tax related assistance by the World Bank. Such assistance was also covered by the 2008 evaluation of the World Bank's support to public sector reform (IEG 2008). These studies, however, focused on World Bank experiences.

failure of personal income taxation reflect both administrative and political weaknesses, including a very narrow set of taxpayers, poor capacity to expand the tax base to the self-employed, and resistance from the elite and wealthy individuals with ample opportunities to conceal their income.

By the 1980s, donor funded technical assistance had come to encompass a standard set of recommendations and priorities (Prichard et al. 2012a).[5] The popularization of these 'best practices' has led Fjeldstad and Moore (2008) to refer to a 'global tax reform agenda'. Governments in developing countries have been urged to desist from using taxation to try to mobilize savings or to transfer resources from agriculture to non-agriculture; to rely less on revenue from easily-taxable imports and exports; and to place less emphasis on using high marginal tax rates in the effort to reduce income and wealth inequality (Bird and Zolt 2003; De Mooij and Ederveen 2003; Goode 1993; Stewart 2002; Tait 1990; Tanzi and Zee 2000; Tanzi 2000; Thirsk 1993). Governments are advised to concentrate on establishing simple, predictable and neutral tax systems that will not discourage private enterprise and minimize interference with market signals. Specific tax policy changes associated with these reforms have included: (a) simplification of tax structures and procedures; (b) the elimination of export taxes; (c) reduced tariffs and less reliance on trade taxes; (d) a dual income tax system with a simplified progressive tax on labour and a simple, often flat, and fairly low corporate tax; and (e) expanded reliance on goods and services taxes, in particular the VAT.

VAT has emerged rapidly to become one of the main modes of revenue raising worldwide. First introduced in France in 1948 and in Brazil in 1967, VAT is now in place in more than 130 countries. Currently, around 80 per cent of the countries in SSA levy a VAT, typically raising about one-quarter of all tax revenue (Keen 2012: 11). Because it is such an efficient means of extracting tax revenue in countries with good written or electronic records of economic transactions, VAT has facilitated trade liberalization by replacing import and export taxes, and also contributed strongly to the steady increases in governments' shares of rising national incomes. In poor countries, where governments have traditionally been especially dependent on revenue from trade taxes, the promotion of VAT has been even more closely tied to trade liberalization.[6]

In poorer and more agrarian environments where effective 'tax handles' are relatively scarce, governments find it easier to raise revenue by concentrating their tax collectors on customs posts at their borders. Because so many developing countries have fitted into the global division of labour as exporters of primary products, international trade has been the obvious place for their governments to gather revenue. In 1975, trade taxes were a very minor source of government revenue in high income countries, but were significant in both middle and low-income countries. An important component of the global tax reform agenda, backed by economists' denunciations of this tax bias against international trade, was the reduction of trade taxes and an increasing emphasis on broad based consumption taxes such as the VAT. Total trade tax revenue to governments of low-income countries began to decline in the mid-1980s. Baunsgaard and Keen (2005) estimate that by 2000 governments of middle-income countries had found other means to replace about 45-60 per cent of the trade revenues they had foregone, while for low-income countries the figure was at best around 30 per cent.

---

5 Goode (1993) provides a review of advice until the early 1990s. He observes (p. 37) that '...experts often uncritically recommend transplanting the systems of their home countries, perhaps with modifications they have unsuccessfully proposed at home'. My own experiences from Tanzania, Uganda and other countries in East and Southern Africa over the last two decades indicate that Goode's observation still is relevant.

6 See Bird and Gendron (2007) for an extensive discussion of VAT in low-income countries.

With regard to total government revenues, the tax reform agenda has not lived up to the promise of delivering the revenues that the poorer countries undoubtedly need through replacing trade taxes with VAT and by broadening the income tax base while lowering the rates. Why they have failed is less clear. The most direct explanation is that in many developing countries VAT is harder to collect—unless it is collected at the border like a trade tax. Governments that face civil conflict and a variety of other challenges to their authority, in general do not have the organizational capacity to make a successful transition to a more demanding revenue source. Moreover, the VAT base is often undermined by extensive exemptions and zero-rating. The effectiveness of VAT depends in large part on thorough bookkeeping and reliable self-assessment. Specialists have long been warning that it would not work well in countries where these conditions are not in place. Even within high income countries, VAT provides opportunities for fraud and corruption. This does not imply that VAT is a wrong tax for poorer countries, but it has probably been extended too widely and too fast. The issue now, however, is not whether to remove VAT, but how to improve it.[7]

A major challenge for building effective, transparent and accountable tax systems are the current tax policies in relation to exemptions and tax incentives. Generous investment incentives to specific companies, institutions and sectors lead to large revenue losses and distorted competition (Keen and Mansour 2010). According to the OECD, tax incentives tend to reduce government revenues by 1-2 per cent of GDP (TJN-AA 2012: 14). However, this figure is probably at the lower end. A recent study on Tanzania, for instance, suggests that exemptions and tax incentives could account for up to 6 per cent of GDP (AfDB 2011: 242). In addition to undermining the tax revenue base, a high occurrence of tax exemptions creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion (Zee et al. 2002).

Proponents of tax incentives often argue that it is imperative to provide tax incentives to attract investors, given the generally poor investment climate in poorer countries. This position is disputed. In a study using data from a cross section of 80 countries, van Parys and James (2009) find that for countries that have a poor investment climate it is ineffective to lower the tax rate to compensate for the bad investment climate. Instead, they argue, the countries should focus on improving the basic investment climate. A joint report by the IMF, OECD, UN and the World Bank (2011) reaches the same conclusion (p. 19): where governance is poor, corporate income tax exemptions 'may do little to attract investment', and when they do, 'this may well be at the expense of domestic investment'.

While the IMF, OECD, and other multilateral agencies have engaged in the policy dialogue on tax exemptions in developing countries, few bilateral agencies are involved, possibly due to the fact that they also are benefitting from the current exemption regime. Generally, transactions associated with foreign development assistance are exempted (Fjeldstad and Moore 2009). Poor countries are often forced to administer a myriad of exemptions that typically vary from donor to donor. This places unnecessary burdens on already weak tax administrations. Even worse, it fuels a tax-exemption culture and promotes corruption. The removal of tax exemptions granted to aid agencies and their employees would help boost the credibility of both the government and of donors in relation to building taxpaying cultures. It

7 Although the VAT is thought of as a regressive tax, most studies find it to be distributionally neutral (Keen 2012: 11). According to Zolt and Bird (2005: 1639), VAT is likely to be less regressive than the trade and excise taxes it has replaced, and in some developing countries it may be as progressive as the income tax.

would also contribute to widening the revenue base and simplifying the tax system. It might further improve both budgetary transparency and resource allocation by fully accounting for public investment costs. Thus, a step forward would be to abolish exemptions granted donor projects and programmes.

Donor support to tax reform has largely focused on the national tax systems. Due to the overall fiscal constraints, the reform of the sub-national tax system has not been a priority over the mobilization of central government revenues. Local government tax systems in many low-income countries, especially in Africa, have remained largely unchanged since independence (Brun et al. 2012).[8] A widely found characteristic of local government revenue systems in Africa is the huge number of revenue instruments in use (Fjeldstad and Heggstad 2012b; Brosio 2000; Fjeldstad and Semboja 2000). They are often distortive, costly to administer, exacerbate inequity, and have an inhibiting effect on the start-up of new enterprises and the achievement of economic growth (Bahiigwa et al. 2004). Moreover, there is little or no co-ordination with respect to taxation between various levels of government. This has partly to do with lack of capacity at any level. At the local level the serious shortage of qualified staff at the treasury and planning departments is particularly critical.

2.2 Creating more effective tax administration

Ineffective tax administration is often seen as one of the main constraints on the ability of states to collect revenues in general and direct taxes in particular (Fjeldstad and Semboja 2001). Hadler (2000: 10) estimates that better administration of existing tax legislation may increase revenue by 30 per cent or more in many countries in SSA. In a famous statement, Casanegra de Jantscher (1990) claimed that 'in developing countries, tax administration *is* tax policy'. However, the opposite is equally true (Keen 2012: 17). Simplification of tax legislation and improved tax administration are closely linked. Tax agencies will be more effective if their tasks are made more simple, stable and predictable. On the other side, questionable options in tax policy sometimes lead to equally questionable administrative practices. Exemptions, for instance, not only pose control problems for the tax administration, but create opportunities for corruption. In practice, the distinction between administration and policy is often hard to make (IMF 2011: 19). But there is no doubt that weak and often corrupt revenue administration remains a fundamental barrier to effective and fair taxation and to building wider trust between government and citizens in many countries (Fjeldstad and Tungodden 2003; Fjeldstad 2009).

During the last two decades, support to tax administrations has been an important part of foreign technical assistance to public sector reform in developing countries (von Soest 2007; 2008; Kloeden 2011). The content of administrative reform in specific countries has depended a great deal on what was already in place (Bird et al. 2006; Owens and Hamilton 2004). Some of the more widespread components are: exploiting new information and communication technologies; moving from a system organized around different taxes to one organized around localities and/or industries so that individual taxpayers have to deal with fewer tax officers; introduction of unique taxpayer identification numbers; establishing different offices and procedures for different categories of taxpayers, typically starting with

8 Among the exceptions are reforms in East-Africa which have led to the abolishment of so called 'nuisance' taxes, including poll (head) taxes in Tanzania and Uganda, and simplification of the local tax structure (Fjeldstad et al. 2010; Fjeldstad and Therkildsen 2008).

focus on big companies;[9] trying to make the collection process more 'user-friendly'; in some countries using commercial banks as collection agents; using audit units more selectively and strategically to check on the performance of tax collectors; and, creation of revenue authorities across much of Latin America and anglophone Africa (Kloeden 2011; Keen 2012).

The establishment of semi-autonomous revenue authorities (ARAs) has been a widely noted tax administrative innovation during the last two decades. Several aid agencies and international financial institutions have concentrated much of their tax work on support for the creation and development of ARAs. In particular, the British Government, first through Overseas Development Administration (ODA) and later through the Department for International Development (DFID), has been influential in the establishment of revenue authorities in anglophone Africa. ODA/DFID have funded UK experts from the British revenue administration, Crown Agents and various consulting firms to provide technical assistance to tax administrations (Kloeden 2011: 11). Germany (GIZ) has provided technical assistance to tax administrative reforms in Ghana, Tanzania and Zambia; the US Treasury to Liberia, Nigeria and Uganda; Norway to Mozambique, Tanzania and Zambia; Sweden to Botswana; Denmark to Tanzania; the European Union to The Gambia and Seychelles; and the African Development Bank to several countries, including Liberia and Swaziland. The World Bank has been heavily involved in the Tax Modernization Programme in Tanzania (Fjeldstad and Heggstad 2011).[10]

Currently, there are more than 30 autonomous revenue authorities (ARAs) in the developing world.[11] There is no clear definition of ARAs and they are relatively diverse. Their defining feature is (some) *autonomy* (Taliercio 2004a; b). The choice of the revenue authority model aims to remove the revenue collection function partly or fully from the direct control of the Ministry of Finance by integrating tax operations into a single purpose agency, and to free the tax administration from the constraints of the civil service system (Fjeldstad et al. 2003; Fjeldstad and Moore 2009). It is assumed that the revenue authority model will be less vulnerable to political interventions in its operations. Moreover, a semi-autonomous revenue authority can, in principle, recruit, retain and promote quality staff by paying salaries above the civil service regulations, and also more easily dismiss staff. It is expected that such steps will provide incentives for greater job motivation and less corruption. In addition, it is assumed that the merging of two or more tax agencies that previously have each dealt only with one category of revenues can integrate tax operations and focus efforts on collecting revenues better than what is possible under civil service rules. A shift to a semi-autonomous

9 The IMF has strongly advocated the importance of strengthening large taxpayer administration (Kloeden 2011: 27).

10 On occasion the World Bank has been a salesman for ARAs. A review of the 83 projects to reform taxation and customs that were financed by the World Bank in the 1990s concluded that: 'Few projects, however, addressed the need for better customer service or tested promising new approaches to taxation, such as presumptive taxes, privatized collection or inspection services, or performance-linked bonuses or administrative budgets. An exception to this was the support for independent revenue authorities ….' (World Bank 2000).

11 In Latin America and the Caribbean, revenue authorities have been established in Jamaica (1981), Argentina (1988), Bolivia (1987, re-established in 2001), Peru (1988/1991), Colombia (1991), Venezuela (1993), Mexico (1997), Ecuador (1999), Guatemala (1999), and Guyana (2001). In Africa, the revenue authority model has been instituted in Ghana (1985; integrated in 2010), Uganda (1991), Zambia (1994), Kenya (1995), Malawi (1995), Tanzania (1996), South Africa (1997), Rwanda (1998), Zimbabwe (2001), Ethiopia (2002), Sierra Leone (2002), Lesotho (2003), Gambia (2005), Mauritius (2005), Mozambique (2006), Burundi (2010), and Swaziland (2011). Angola is in the process of establishing a revenue authority, while Namibia is considering. It is likely that the revenue authority model will spread further, especially to francophone Africa.

revenue authority model has also been attractive to donors and senior politicians because it opens opportunities for more widespread reforms of tax administration (Therkildsen 2004).

Although no formal evaluations exist, there seems to be consensus that the experiences with ARAs have been mixed (Kidd and Crandall 2006; Keen 2012: 12; Devas et al. 2001).[12] First, some ARAs have made impressive advances, for instance Rwanda Revenue Authority, South African Revenue Service, Autoridade Tributária de Moçambique (Mozambique Tax Authority), and to some extent Tanzania Revenue Authority (House of Commons 2012; Fjeldstad and Heggstad 2011). In Mozambique, the tax share increased from 14.1 per cent of GDP in 2006 to approximately 19 per cent in 2010 (exclusive non-tax revenue), despite reduced import duty rates during the period. Other revenue authorities have seen little progress, like in Sierra Leone, or progress has been followed by stagnation like in Zambia, or by resurgence like in Uganda (Keen 2012). This may understate real improvements, as revenue has largely been sustained despite a decline in both trade tax revenue and income tax rates, but it also appears to reflect the relative persistence of corruption and politicization, particularly in low-income countries (Fjeldstad 2006; Bird 2008).

The diversity of ARAs is one reason why it is difficult to say whether they are a good thing. A second reason is that most are still relatively new and evolving. A third is that, because they have been introduced in part at the urging of aid donors and international financial institutions, impressionistic interpretations of the evidence for or against them may be somewhat tainted (Fjeldstad and Moore 2009). One can understand why autonomous agencies were introduced. In environments characterized by large scale corruption and politicization of the taxation process, radical institutional reform is very appealing. However, we do not know how far this was the right kind of reform. We do know that it has raised problems of its own. Anecdotal evidence suggests that managerial and staff capacities often have improved (IMF 2011: 20). But the integration of Customs and domestic tax administration has proved to be problematic in several countries, partly because some functions are unique and partly because of different 'working cultures' (Kloeden 2011: 16). In Mozambique, for instance, it has proved difficult to effectively integrate Customs, which is a uniformed, paramilitary entity, and the domestic tax department (Fjeldstad and Heggstad 2011). Further, even substantial increases in the salaries of tax officers compared to other parts of the public sector still leave these dwarfed by the potential gain from corruption (Fjeldstad 2003; Fjeldstad 2006).

Another feature of donor supported tax administrative reforms in recent years is a shift in the tax administrations' attitudes toward taxpayers. Partly stimulated by research on determinants of tax compliance, conducted first in the US (Slemrod 1992) and later in other OECD countries, including Australia (Braithwaite 2003), 'customer service' and 'user friendliness' have become the norm. National tax administrations have been eagerly opening customer-friendly 'one-stop shops', simplifying procedures, making possible on-line filing of returns, and providing extensive information for taxpayers in printed and digital form. Some administrations, for instance in Mozambique, Rwanda, South Africa and Tanzania, have developed innovative methods to deliver key messages to the public, including the use of school curricula, secondary school tax clubs, road shows, and media such as radio and television (Fjeldstad and Heggstad 2012b). Most administrations have websites, varying from outdated static general information through to more dynamic tools (Kloeden 2011: 35). Yet,

[12] For some case studies, see Chand and Moene (1999), Devas et al. (2001), Fjeldstad (2003, 2006), Talierico (2003, 2004b), Terpker (1999), Therkildsen (2004) and Zuleta et al. (2006).

it is evident that much of the new 'user friendliness' of many tax administrations is so far mainly window dressing: taxpayers continue to experience extortion, bribery and obstructiveness rather than willing, responsive service (Fjeldstad and Moore 2009). It is also clear that 'user friendliness' is most widely practiced in the relations between tax administrations and their larger corporate clients.

For smaller and middle-sized formal sector businesses, tax enforcement strategies applied by revenue officers are perceived to be a major problem in many countries. Frequent and uncoordinated tax audits are considered to be harassment and intimidation tactics to force taxpayers into extra-legal compliance (von Soest 2006). Discretion leads to unpredictable tax bills, arbitrary fines, and corrupt practices. Some foreign-owned enterprises also report such tax administrative practices. In a study on tax reform and business environment in Mozambique, Nathan Associates (2004: 36) report '… rampant negotiations with tax officers; companies driven out of business by competitors who pay bribes in lieu of taxes; a company that sought clarification from one tax official only to be fined by another; a foreign enterprise that was hit with an enormous fine for a violation that did not exist, according to his attorney; and businesses that encountered unexplained re-assessments and penalties'.

What is the rationale behind the discretionary implementation of the tax code? Observers believe that tax officers levy arbitrary assessments in order to meet revenue targets. Structural and administrative features of the tax system add to the problem. Many smaller, but also many middle-sized enterprises, lack the skills required to provide minimally acceptable accounts and accurate information on total sales. This is an open invitation for discretion and negotiation by tax officers. In particular, frontline staff in the customs and the domestic revenue departments are exposed to and involved in corruption. According to the Bribe Payers Index 2008, the customs administration is perceived by business executives to be one of the most corrupt sectors of government in many African countries (TI 2008). This is supported by the Afrobarometer survey, covering a large number of sub-Saharan African countries, which finds that the most discredited institutions are the police and the tax administration, including customs (Lavallée et al. 2008). This situation is partly compounded by the fact that, in spite of comprehensive tax reforms over the last decade, the tax structures and administrative procedures are still complex and time consuming for businesses in many countries. This facilities corruption and extortion, and contributes to retard the process of building a tax culture based on transparency and accountability.

These observations highlight a wider problem—the extent to which improvements in revenue performance results from a focus on formal sector corporations by the tax administrations, at the potential expense of genuinely broadening the tax base. Thus, improvements in revenue collection may not reflect the development of a broad-based fiscal contract between the state and society, but the fact that the revenue administration is targeting its efforts towards the few most revenue productive taxpayers.

The argument made above is all the more pointed in situations where national governments are under strong pressure from the IMF and donors to meet revenue targets. Often the tax administrations respond with some combination of (a) an even tighter squeeze on registered taxpayers; and (b) quasi-military 'raids' on other businesses on which they do not have detailed information. By pushing for unrealistically high revenue targets, the Ministry of Finance, the IMF and donor agencies may contribute to undermine the reputation and credibility of the tax revenue administration in the eyes of the public. Attempts to meet

externally set tax-to-GDP targets may undermine democratic accountability if legal processes and taxpayers' rights are set aside in response (Luoga 2002).

2.3 Encouraging constructive state-society engagement around taxes

Tax systems can potentially contribute to shaping accountability relationships between the state and citizens, and strengthening state capacities (Braütigam et al. 2008; Ayee et al. 2010). Taxation is one of the few objective measures of the power and legitimacy of the state. First, taxes are the primary platform for political negotiations amongst the country's stakeholders. Second, bargaining over taxes is central to building relations of accountability between the state and citizens based on mutual rights and obligations. This implies that taxes should be levied as consensually and as transparently as possible. Third, for taxation to have a positive effect on accountability taxes must be 'felt' by a majority of citizens, to secure that tax issues become prominent on the public political agenda (Moore 2008). This is about building a taxpaying culture (Fjeldstad and Heggstad 2012a). However, while donors and tax practitioners seem to acknowledge the importance of these issues, they have yet to be translated into a clear-cut governance focused tax reform agenda in practice.

Common features of the tax systems in many developing countries are that the number of registered taxpayers is small and relatively few medium-sized and large enterprises account for the majority of tax revenue. In Tanzania, for instance, with a total population of more than 45 million people, the number of taxpayers registered in the Taxpayer Identification System (TIN) was about 400,000 in 2008 (Fjeldstad and Heggstad 2011). In November 2010, less than 400 large taxpayers contributed about 80 per cent of total domestic revenue collection. The revenue base generally excludes the large number of small and micro enterprises, as well as many professionals, such as lawyers, doctors, and private consultants. Furthermore, the political and economic elite generally do not pay taxes.

A large share of the economic activity in poor countries is located within the informal sector.[13] That sector is hard to tax (Tendler 2002; Bird and Wallace 2003; Kloeden 2006). Tax administrations tend to give it little priority, because returns to effort may be low in cash terms, and collection is likely to be difficult and unpleasant (Fjeldstad and Moore 2008). From economic and administrative perspectives, it makes a great deal of sense *not* to tax multitudes of poor people. The VAT system generally exempts basic goods consumed heavily by the poor, and the income tax code generally excludes individuals earning less than a certain amount per year. As a matter of administrative reality, informal entities with incomes below this threshold are not in the tax net.

One should not expect that large amounts of revenue can be raised by taxing micro enterprises. A study by Ernst & Young, for instance, notes that more than 13,000 enterprises were registered for the normal VAT regime in Mozambique in 2004, and more than 10,000 were registered for the simplified regime, while nearly 12,000 were recorded in the exempt regime (Nathan Associates Inc. 2004: 27-28). Yet, those filing under the simplified regime accounted for just 0.4 per cent of the revenue. Thus, Terkper (2003) and others argue that the tax system can be improved by having tax officers concentrate on handling a few thousand

[13] The size of the informal economy is hard to estimate. Recent estimates from West Africa suggest that more than 80 per cent of total employment is informal and up to 60 per cent of GDP is produced by informal activities (Benjamin and Mbaye 2012: 48).

files efficiently, rather than trying to cover tens of thousands of very small taxpayers. According to the IMF, there is a strong case for raising the thresholds for tax coverage, which would actually narrow the coverage of the tax base, but with little effect on revenue (Keen 2012; IMF 2011).

However, the removal from the tax net of taxpayers who generate little net revenue is contrary to the emphasis within the tax reform programme to broadening the tax net. A wider tax net is not always a good thing, but there is reason for concern that tax reforms have been driven by an economic calculus that emphasizes the advantages of excluding marginal payers. The political arguments for inclusion have not been heard. This would be less of a problem if the actual tax burdens in poor countries were fairly and effectively distributed. But they are not. In particular, as noted above, they often fall heavily on a small number of registered, formal sector companies. Thus, it makes sense to question the dominance of economic arguments for excluding smaller taxpayers from the tax net on pure efficiency grounds, and to explore the potential political advantages of widening that net. From a state-building perspective broadening the revenue base is vital to building the social fiscal contract. It is also central to creating an equitable tax regime.

A major challenge for many developing countries is to broaden the revenue base and thus increasing public income without raising the tax levels. In this perspective, there are good public policy reasons for paying more attention to taxing informal urban economic activity, both in terms of broadening of the tax net and exploring alternative ways of building the capacity to tax the sector more effectively in the long term (Fjeldstad and Moore 2008). Finding better ways of taxing the informal sector, however, is in practice not high on the tax reform agenda in most revenue authorities in developing countries. There are frequent mentions of the need to 'broaden the tax base', but this seems to refer more to closing loopholes than to any notion that the informal sector needs to be tackled as a generic issue.

3 Improving donor efforts: challenges and priorities

The broad tax policy and administrative reforms discussed in the previous section have been widely adopted with little protest or overt debate.[14] The reforms have passed as 'necessary modernization' of an essentially technical character. The adaptation of the tax reform agenda by many developing countries reflects both donor pressure and the growth of global epistemic communities of tax professionals with shared ideas about reform priorities (Stewart 2002). The reforms mirror a significant convergence in the features of developing country tax systems (IMF 2011). This convergence indicates a degree of success of external support. It is important, however, to recognize that the more successful aspects of recent tax reform efforts have not just been externally driven. Yet, there seems to be a broad acceptance of the need for greater attention to local leadership, locally designed solutions and donor approaches that are sensitive to each country specific socio-economic environment.

While donor support has contributed to 'broad' reform and convergence over time, some observers question the 'depth' of these reforms (Prichard et al. 2012a). In spite of advances in many respects, substantial deficiencies in terms of (a) realization of the revenue potential; (b)

[14] It is true that there have been anti-VAT riots, with deaths, in both Ghana and Uganda (Fjeldstad and Moore 2008). The structural reason is that VAT imposes major tax compliance costs on small businesses. In Ghana the riots can be attributed to political mismanagement: too rapid an introduction, with inadequate consultation with the small traders most adversely affected.

administrative capacity to taxing growing sectors; and (c) governance remain in many developing countries. A range of factors contributes to these deficiencies. They include a legacy of coercive and centralized tax systems; weak tax compliance by elites; large, untaxed informal sectors; ineffective local government tax systems; inconsistent patterns of business taxation; and limited administrative experience and expertise to effectively tax growing sectors such as extractive industries, tourism, telecommunication, banks and finance institutions. The picture that emerges of reform efforts is that they have yielded significant formal changes in tax regimes across the developing world, but more modest changes in tax practices.

Addressing these challenges would not represent an abandonment of existing strategies. It would, however, imply changes in the priorities of donor supported tax reform efforts. Questions about inclusiveness, equity, transparency, and local government taxation should have a more prominent role in reforms (Prichard et al. 2012a: 7-8). Achieving such a reordering of priorities will require (a) an effort to 'open-up' tax reform processes to new stakeholders, and (b) the development of a broader range of performance indicators against which tax reform efforts are measured. As long as tax performance is judged largely by comparatively short-term changes in the tax-to-GDP ratio, these 'softer' elements of the reform agenda are unlikely to be given priority. There is a need for reform programmes that explicitly prioritize a broader range of issues, including transparency, inclusiveness and equity, if external actors are to foster positive connections between taxation and broader governance outcomes (Prichard et al. 2012a).

How can donors support developing countries' efforts to enhance domestic revenues efficiently, effectively and equitably, and contribute to develop tax systems that promote economic growth and good governance? Such an agenda would include efforts to strengthening (i) tax policy design; (ii) tax administrative capacity; and (iii) governance, including fairness, predictability, transparency and accountability. I now discuss each of these in turn.

3.1 Strengthening tax policy

Tax policy represents a main obstacle for the development of effective tax systems in many developing countries. Tax policy challenges include:

Exemptions and tax incentives

Generous *investment incentives* to specific industries have led to large revenue losses and distorted competition in many poor countries (see section 2.1). In particular, influential corporations and wealthy individuals constantly seek ways to take advantage of special tax breaks to shelter income that should be fully taxed. However, rather than uniting to demand fair deals with investors, developing countries, particularly in SSA, are competing with each other to see who has the best business climate, the most generous tax holidays, the best investor protection and other fiscal incentives. Challenges related to international taxation include the impacts of preferential tax regimes and special economic zones on private investment, and on the legitimacy of national tax systems. Tax holidays, which are time-limited exemptions from corporate income tax, are open to abuse, undermine tax revenue by providing corporations with a strong incentive to use transfer mispricing and financial

arrangements. Even the most developed tax administrations have difficulties dealing with such abuse.

Experience shows that a high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion. Obstacles to address these challenges are frequently rooted in politics, rather than in the absence of local understanding or donor funding. Hence, the extent of tax exemptions is often an indication of a government's political will to strengthen the fiscal contract and fight fiscal corruption and tax evasion. Strong will and commitment by the political leadership is a pre-requisite to achieving this shift in culture. However, due to resistance from the benefiting elite, political leaders and businesses, the exemption regime is likely to remain a major challenge in the short to medium term. Co-ordinated efforts from the international community should therefore focus particularly on supporting and encouraging local efforts to overcome these political barriers. Currently, ordinary citizens and enterprises in donor countries are subsidising the political and economic (tax exempted) elite in developing countries through their tax payments. The removal of tax exemptions granted to aid agencies and their employees would help boost the credibility of donors' efforts to reduce exemptions and strengthen the tax systems in poorer countries.

Informal sector and sub-national taxation

There are good public policy reasons for paying more attention to taxing informal urban economic activities and to strengthening sub-national tax systems. This is essentially about fostering more broad based engagement around tax issues while also providing the fiscal foundation for successful decentralization and the development of small businesses. Recent years have witnessed increasing attention to the question of how to effectively tax large and growing *informal sectors* in the developing world (Prichard et al. 2012b). While this has been driven in part by the desire to raise greater revenue, in reality the revenue potential of the small informal business sector will remain modest. Many national tax administrations know that, and in effect do not really pursue the issues with much vigour—beyond introducing new types of presumptive tax regimes for small business, that may or may not be implemented on the ground. This is understandable from their perspective. But more effective taxation of the informal sector is an important long term goal, for reasons of equity and broader 'tax morale', to protect existing revenue bases, and to encourage formalization in a way that supports economic growth and broader governance gains.

In contrast with important progress at the national level, *sub-national taxation* has been relatively neglected and requires further attention in most poor countries. Despite significant moves towards decentralization in several developing countries, fiscal decentralization has been limited and not very successful (Fjeldstad and Heggstad 2012a). This effectively reduces the decision-making power and autonomy of local governments. Recent research also highlights the absence of links between local revenue raising and the responsiveness or accountability of local governments in Africa (Brun et al. 2012). While the introduction of semi-autonomous revenue authorities in much of anglophone Africa has had significant positive impacts in terms of public sector institution building, there is no equivalent progress in relation to local government revenue rising. In this perspective, a major challenge is how to improve co-operation between central and local governments on tax issues, including sharing of data and information, to simplify revenue collection and avoid duplication and inconsistencies.

Weak links between tax reforms and other public sector reforms

Commonly, several public sector reforms are on-going in developing countries. They include political, electoral, civil service, legal, judicial, local government, budgetary and tax reforms. The problem is that there often is a weak link between tax reforms and other public sector reforms (Ayee et al. 2010). Such a link is necessary to ensure a holistic approach which is needed for co-ordination, information sharing and good practices. One of the principal reasons for the limited success of many reforms is the implicit presumption that the weakness of public administration is managerial and could be remedied in a straightforward technocratic manner through a combination of organizational overhaul and financial support to procure the requisite specialist technical advice, training and hardware. However, a central lesson is that public administrations are embedded in a complex, interdependent system (Levy 2004). This system incorporates not only the bureaucratic apparatus as a whole, but also political institutions and social, economic, and political interests more broadly.

Better understanding of the political nature of taxation is required

While the technical aspects of tax reform are crucial, a better understanding of the sustainability of tax reforms is not possible without a better understanding of how reforms become legitimate. Because taxation affects incentives and distribution simultaneously, tax reform requires either a degree of social consensus that taxation is in the collective interest and/or it requires a state with the ability to coerce those who challenge its allocations. The focus therefore on institutional designs and other technical issues is incomplete since it ignores the political nature of taxation. More emphasis on the political economy of taxation is required for designing and implementing effective tax systems.

3.2 Strengthening tax administrative capacity

Donor support to tax administrations has contributed to build capacity in a range of areas, including human resources, internal audits and integration of tax departments. Currently, the need for further technical assistance is particularly related to the development of expertise within areas such as specialized audit functions of large taxpayers in growing sectors, such as extractive industries, telecommunications, the banking and finance sectors, and tourism. Further, there is a need to strengthen efforts measures that aim to improve voluntary compliance, including taxpayer education, dialogue forums between taxpayers and the tax administration, e-taxation, as well as measures to improve the integrity of tax officers.

International taxation and capital flight

It is increasingly recognized that the effectiveness of tax systems in the developing world is shaped by the broader international context. It is well documented by research that illicit capital flows from developing countries—mainly to tax havens and Western financial institutions—are huge. The proceeds of commercial tax evasion, mainly through trade mispricing, are found to be by far the largest component (Kar and Cartwright-Smith 2010). Challenges of taxing extractive industries have been exposed in the literature (Daniel et al. 2010). The problems are also serious in renewable sectors such as fisheries, forestry and wildlife, although these have received limited attention.

Transfer mispricing is a challenge that adversely affects domestic resource mobilization. This challenge is linked to current reporting standards for transnational corporations, and international information sharing arrangements between tax administrations. Most extractive industries companies operate internationally and have extended dealings with affiliated companies. This increases the opportunities for transfer pricing and lowers the tax liability. This further complicates the task of tax administration and creates a challenge that needs specific skills to deal with. Although the tax laws may have legal provisions to address the issue, that is not sufficient. Tax administration needs better training on how to recognize the transfer mispricing opportunities in mining operations and stronger capacity to detect and respond to this problem. There is also a need for more in-depth knowledge of the extent and impacts of capital flight at the country levels. The issue of abusive transfer pricing is sophisticated and complex in nature. International collaboration and treaties are required to make inroads against the problem. There are opportunities for donor support to increase international co-operation among tax agencies and to change the accounting rules for transnational business, in order to reduce the degree of tax evasion that takes place, which is evident in natural resource rich developing countries.

Information and communication technology (ICT) to enhance administrative efficiency

The revenue administrations in many developing countries have initiated—with donor support—an array of initiatives to exploit ICT with a view to enhancing efficiency in tax administration. These include, for instance, the ASYCUDA++ for customs; eFiling for domestic revenue; computerized registration of motor vehicles and drivers; and introduction of electronic cash registers for VAT. Such initiatives are at different stages of implementation in different countries. However, the effectiveness of such systems depends on building and maintaining technical and professional capacity to operate and maintain the systems. At present, these systems are commonly not being implemented using an integrated framework. This can be blamed on the technical and managerial challenges this approach poses, but also on poor donor co-ordination. Yet, in the absence of integration, the use of the systems will remain sub-optimal. In particular, it is difficult to have a single view of the taxpayer outside an integrated system.

'Balancing' the performance indicators

A more comprehensive diagnostic tool for tax administrations, based on performance indicators and agreed benchmarks, is required. The uncompromising focus on revenue target in the tax administrations implies that achieving the collective target becomes not 'everything', but the 'only thing'—sometimes also at 'any cost', to the detriment of other goals of the tax administration. The increasing emphasis by governments and donors on domestic revenue enhancement, as well as the establishment of regional bodies such as the African Tax Administration Forum (ATAF), aiming to support the development of effective tax systems, underlines this need. Performance measurement is important for both accountability and to promoting a culture of effectiveness in the tax administration. This issue is also raised by the *Public Expenditure and Financial Accountability* (PEFA) Secretariat,[15] which in 2010 commissioned a feasibility study on a tool to assess tax administration performance (Crandall 2010). In particular, there is a need for striking a balance between

15 PEFA is a partnership programme of the World Bank, the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Norwegian Ministry of Foreign Affairs and the International Monetary Fund.

revenue and service targets (Nathan Associates Inc. 2009; Kariuki 2012). Performance criteria should be linked to taxpayers' satisfaction with the revenue administration, number of declarations processed by type of tax, processing time per declaration, processing time for refund requests, number of audits per audit staff and type of contributor; per cent of audits finalized and accepted by taxpayer without contest, the number of taxpayers enrolled in the tax bases, etc.

A standardized assessment system, if properly implemented, can be used to (i) compare a country's tax system with a regional or international set of norms or comparators, and (ii) compare the condition and performance of a country's tax system over time. This may lead to better structured reform programmes that properly address issues of performance. It may also facilitate collaboration and better co-ordination between donors, as well as enhanced ownership of reform efforts by countries. There are, of course, risks involved, in particular with respect to complexity and inflexibility of performance measures, which may lead to incorrect conclusions or distort the behaviour of tax officers.[16]

3.3 Strengthening tax governance

A key challenge is to strengthen accountability between government and taxpayers. The channels through which governments hold themselves accountable to citizens, and citizens communicate their demands for better government, are still highly dysfunctional in many developing countries.

Strengthening taxpayers' rights

An important element of administrative accountability is the rights of taxpayers vis-à-vis the tax authority. Though still in their infancy in many developing countries, tax appeal boards and tax tribunals are important institutions to secure taxpayers' rights and to establish fair and transparent procedures to address tax disputes. To make these institutions accessible for a wider segment of taxpayers, there is a need to simplify the procedures for instituting appeals, and to disseminate more accessible information to the general public on the roles and functions of the appeal board.

Fighting corruption in tax collection

Generally, the issue of integrity is high on the agenda of revenue administrations. Institutional mechanisms are often established to prevent, reveal and curb corruption. However, the critical tasks are to ensure that the systems, policies, regulations and procedures are not only established, but also filter down throughout the organization. There also seem to be an endemic tax avoidance culture in many tax administrations, and some tax officers seem to encourage or fall victim to this culture. Therefore, continuous vigilance on the part of revenue administrations' leadership will be crucial to minimizing corruption in tax collection.

16 Serra (2003) reports that evaluation of tax auditors in Chile based on the level of fines issued led to many doubtful tax assessments that caused huge costs to taxpayers during the early 1990s. Thus, the implementation of simplified performance measures should be preceded by a thorough analysis of their implications on tax officers' behaviour.

Poor taxpaying culture

The tax-paying culture in most low-income countries is generally weak. Some of the reasons for this attitude are the legacy of taxation being seen as coercive and the inability of taxpayers to see the relationship between provision of public goods and services and taxes paid. There seems to have been a general lack of concern for the historical evidence about the connection between taxation and state-building. There is a need to construct tax systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state (Fjeldstad and Moore 2008: 259).

A large proportion of the economic active citizens in poor countries belong to the informal sector, both in rural and urban areas. This has affected 'tax literacy' as many people are not able to comprehend the technical issues involved in tax administration and reform. Many revenue authorities in Africa have undertaken vigorous taxpayer education interventions, but they have had a limited outreach since most of them have been concentrated in the urban centres. Similarly, some elites are tax illiterate because they are not interested in tax issues. They regard taxation as a form of coercion and one that will erode their privileges. They therefore turn a deaf ear to the taxpayer education campaigns of tax administrations. How to establish a constructive dialogue with elites on taxation and development remains an unsettled challenge.

Securing better links between taxes paid and public service provision

This involves asking the question: why should people pay taxes? For taxpayers, paying taxes to the state is a *quid pro quo*, that is, they expect public services to be provided. It is basically 'tax for services'. People are more likely to pay taxes if they felt that the government was providing services equitably, collecting revenue fairly and using the revenue to provide services (Fjeldstad 2004). Still, there is a tendency for the revenue and expenditure sides of the public finance equation to be treated as separate silos. The links between tax payment and public service delivery is generally weak in many developing countries, which is reflected in widespread resistance to pay taxes. Citizen surveys conducted in various African countries commonly reflect the view that people perceive they receive little in return for taxes paid (Fjeldstad et al. 2012). Poor service delivery, in taxpayers' view, legitimizes tax evasion and avoidance. The weak link between taxes paid and services provided is likely to erode citizens' trust in government.

Is earmarking of taxes required to enhance compliance and build a taxpaying culture? The attraction of tax earmarking is that it can regularize spending on essential tasks and create greater transparency about the connection between taxation and public spending. However, much of the public finance literature and many fiscal experts advise against earmarking (Bird 1992; Bird and Jun 2005).[17] One reason is that tax earmarking reduces fiscal flexibility in the long-term. Perhaps more importantly, in practice, many tax earmarks serve a political purpose, but do not actually affect spending patterns or improve monitoring. The most common problem arises from the fact that revenues are highly fungible, meaning that newly earmarked revenues can be offset by shifting existing revenues to other priorities, thus

[17] In practice, many countries use tax earmarking to some degree. Bird (1984) found that over half of all central government revenue in Colombia was earmarked. According to Rajkumar (2004), the percentage of national revenues earmarked for specific purposes in Brazil rose from 30 per cent a few decades ago to almost 80 per cent by the end of the 1990s.

leaving the aggregate pattern of spending unchanged (Prichard 2010). Such behaviour can actually undermine public confidence in the tax system if it is perceived to be manipulative.

Despite these critiques, there may be a strong case for the use of tax earmarking in developing countries. From a governance perspective, tax earmarking could be a useful strategy to build trust between the state and citizens, achieve important revenue and spending objectives, improve monitoring of tax and expenditures, and encourage public engagement.

Strengthening parliaments' capacity

Although the legislature plays a role in designing tax policies through debating budget statements and tax bills, the disturbing aftermath of passing the bills has raised questions as to whether legislators in poorer countries really understand tax policies and the implications of tax reforms for their constituents. Through co-ordinated efforts donors should consider providing advice, training and research support to improve the technical capacity and basic skills of Members of Parliament in public finance and tax policy. Priority should be given to members of the Finance and Economic Affairs Committee and the Public Accounts Committee. Second, there is a need to increase the time available for scrutiny of the budget proposals. Third, more user-friendly information on tax reforms should be provided at an earlier stage of the budget cycle. For instance, the Economic Association of Zambia (EAZ) and Revenue Watch in Tanzania, with donor support, have organized training seminars for Parliamentarians on the 'basics of taxation' and how to read and understand budgets. This model could be extended to include a range of tax related issues.

Encouraging civil society engagement

Civil society actors are likely to be crucial intermediaries in fostering state-society bargaining around taxation. An important opportunity for building political support for reform lies in more emphasis on the 'demand side', i.e. in building broader citizen engagement around taxation. Public debates on taxation in many developing countries are to a large extent limited to taxation of multinational companies. While this is important, a broader engagement about the tax and public expenditure system is missing. This is also reflected in Parliamentary debates on taxation. Through co-ordinated efforts, donors should consider to enhance their support to domestic civil society organizations engaged on tax issues. There is also demand for technical assistance to building tax capacity/knowledge in the business communities, especially for small and medium enterprises.

Building local research capacity

Building local research capacity to inform policy reforms should be one component in donor efforts on tax and development. There is a need to strengthen the more general analytical capacity within the revenue authorities in many countries. African Tax Administration Forum (ATAF), which is supported by development agencies, might be a productive entry-point in the African context. In the short term this will require the involvement of external/international researchers since only few researchers in developing countries at present are specialized on taxation. A natural extension of this would be to build regional, and in some cases national, academic courses or degrees on natural resource management and taxation. This could be done by the International Centre for tax and development (www.ICTD.ac) in partnership with the African Tax Institute (ATI) at the University of

Pretoria (www.ati.up.ac.za); with national and regional research institutions like the African Economic Research Consortium (AERC) in Nairobi (www.aercafrica.org).

A longer-term strategy to increase knowledge and dialogue on tax issues at a more advanced level is to inspire students to choose topics related to taxation for their university degrees. Student organizations and/or other civil society organizations can promote tax and capital flight as important areas to study. Thus, the seeds for increased and improved knowledge on taxation can be planted. Experiences from entrepreneurship and innovation studies in Western Europe show that the academic staff in many colleges and universities has been drawn into the field by the keen interest of the students they are supervising.[18]

4 Knowledge gaps and issues for further research

Although specific tax policy decisions normally are—and should be—debated and contested, there is considerable agreement at the international level about what are the important tax issues and appropriate tax policy directions for developing countries.[19] Much of this relative consensus is reflected in the IMF's latest policy statement 'Revenue Mobilization in Developing Countries' (IMF 2011). Some of the main components are:

- The governments of many developing countries need to increase domestic revenues substantially to fund major social and infrastructure needs.

- Revenue is not the sole concern; it is important to take into consideration the impacts the level and composition of taxes can have on economic efficiency and long-run growth (via investment, human capital acquisition, and innovation) and equity.

- The general direction of recent national level tax reform, including the relative shift from trade taxes to VAT and the emphasis on improving tax administration, is broadly correct.

- The process of improving tax systems will continue to be slow and incremental.

- In many countries, poorer citizens bear too much of the tax burden and the very wealthy bear too little.

- Tax exemptions, and especially tax holidays which are time-limited exemptions from the corporate income tax, are among the most damaging single bad tax practice. A high occurrence of tax exemptions reduces the tax base, creates room for bribery and corruption, and increases the appearance of loopholes for tax evasion.

- Private investment is more likely to respond positively to more predictable, unambiguous tax policies and practices than to specific changes in tax regimes.

- Globalization continuously provides new opportunities for tax avoidance and evasion. In particular, profit-shifting by multinational companies is an increasing concern.

---

18 Tax Justice Network–Norway uses this approach to encourage Norwegian students to focus on tax and capital flight in their bachelor and master studies.

19 This section has benefitted substantially from discussions with and inputs from my research colleagues Mick Moore and Wilson Prichard at the International Centre for Tax and Development (ICTD).

- Tax policy and practices may have significant implications for the quality of governance. More efficient, fairer, and less corrupt tax systems can spearhead improvement in wider governance relations.

The most important single thing that we do not know is how to implement the kinds of policy changes listed or implied above in the environments typical for poor countries. The consensus summarized above is largely among tax policy experts over what, from a technical perspective, governments should do. That leaves open the practical question of what can be done, in the face of opposition from interest groups of various kinds, and through tax administrations that are themselves often inefficient and resistant to change.

Current major knowledge gaps can be grouped into three broader areas that aim to achieve better understanding of (a) the politics of tax reform; (b) relations between taxation, governance and state-building; and (c) links between taxation and economic growth. More specifically:

(a) *The politics of tax reform*

Understanding the politics of reform is essential to effectively pursue the goals associated with it: promoting economic growth, raising revenue, expanding equity and strengthening governance. Research should aim to examine what reforms and reform strategies seem to have been most successful, and why. How can donors best support national revenue raising activities? Another key question is how the governments of poorer developing countries can capture a larger fraction of the significant rents that accrue from the exploitation of petroleum, mining, forestry and fisheries resources. What are the best ways of aligning tax systems with the needs of the private sector without undermining the capacity to raise adequate revenue? How viable are current proposals to reduce international tax evasion through changes in the reporting rules for transnational businesses and improvements in information exchange between tax authorities? What advice can researchers offer reformers, drawing not only on country specific knowledge, but also on comparative experiences and frameworks? Surprisingly little is known about taxpayer perceptions and experiences in low-income countries (Fjeldstad et al. 2012). In particular, there is a need to acquire more knowledge of the élites willingness to pay taxes in developing countries. Do ordinary citizens and élites have similar perceptions of taxation in a given country? The tax behaviour of the elite is likely to have a much bigger impact on tax morale than their low absolute numbers in terms of the taxpaying population would suggest, if their behaviour influences the attitudes of all. Work in this area should focus on enhancing our understanding of taxpayer experiences, through a combination of survey and case study evidence. This information will not only inform tax reform strategies, but will also provide a lens into differences in taxpayer experiences across groups (e.g. gender or ethnicity) and into understanding the micro basis for connections between tax payment and broader demands for improved governance. How can tax systems best be reformed to increase equity in specific countries? Issues that rarely are addressed in debates about taxation and equity, include gender impacts of tax practices, particularly unintended ones. These may have a significant effect on inequality and its persistence, and need to be considered.

(b) *Taxation, governance and state-building*

It is increasingly understood that effective tax systems can be a catalyst for improvements in broader state capacity and strengthen ties between governments and citizens. However, the specifics of these relationships remain underexplored. Research should aim to provide concrete and policy relevant evidence about the nature of these connections, when they are likely and how they can be strengthened, including: How to design and implement effective revenue raising systems for sub-national governments? The issue has received little serious policy attention. How to design and implement effective revenue raising systems for the large informal sectors populated by small and micro-enterprises? While taxation is not the only obstacle for business formalization, high tax rates and compliance costs are commonly listed among the core reasons for working in the informal economy. What can be done to change these incentives? What scope is there for progress in reducing the administrative burden? What are the barriers to doing so in tax administrations?

(c) *Taxation and economic growth*

While we know quite a lot about the ways in which tax policy and practices might undermine economic growth, there is little evidence on the ways in which tax systems might be designed positively to accelerate growth. It is important to avoid the temptation to seek general conclusions about how taxation might affect growth—or any other policy objective—without paying close attention to its interaction in specific contexts with other economic policy instruments, with politics and with the financial conditions under which private investment decisions are made. Empirical research on tax and growth should include: (i) efforts to mobilize new empirical evidence on the impacts of different corporate tax policies, and tax incentives and exemptions, (ii) understand the impacts of taxation, and informal sector and local government taxation in particular, on growth and formalization among small and medium enterprises, (iii) extend work looking at the implications of tax administration and tax related corruption, and (iv) explore the political incentives for policymakers to promote economic growth that are created by alternative revenue structures, particularly at the local government level.

5 Concluding remarks

This paper has reviewed experiences with donor support to strengthen tax systems in developing countries. Challenges and priorities to improve donor efforts are discussed. Knowledge gaps are identified and issues for further research on tax for development are suggested. The paper has argued that the challenge for many developing countries is not only to tax more (i.e. to increase the tax to-GDP ratio), but to tax a larger number of citizens and enterprises more consensually and to encourage constructive state-citizen engagement around taxation. This is not easy for various reasons, including economic structure and history. Nonetheless, historical and contemporary experiences show that taxpayers' behaviour can be transformed by reforming the tax and expenditure system, leading to both a greater willingness to pay and an increased propensity to mobilize demand for better public services. The paper emphasizes the importance of local leadership, locally designed solutions and donor approaches that are sensitive to each country specific socio-economic environment. In setting priorities, the starting point for donors must be an understanding of the context in which tax reforms are being pursued and donor support is being provided.

There is now a much wider appreciation of the importance of taxation in development, and many more development agencies and governments are active in the field. Unfortunately, this poses serious problems of duplication and fragmentation, which may undermine reform efforts by diverting local capacities, reducing local ownership and undermining the coherence of reform programmes. Thus, donor co-ordination and co-operation should be supported. International Tax Compact argues that development agencies need to increase the level of information sharing to secure that assistance is complementary and aligned (ITC 2012: 50-4). Information exchange and co-ordination would also allow for an improved division of labour between donors. The fact that multiple organizations work in the same country or regional context or on identical thematic issues indicates that there is a high potential for a more focused approach. An improved division of labour may also contribute to build up more in depth expertise with respect to the regional or country-specific background, as well as in terms of technical knowledge.

References

AfDB (2011). 'Domestic Resource Mobilization for Poverty Reduction in East Africa: Lessons for Tax Policy and Administration'. Tunis: The Knowledge and Information Center (KVRC), African Development Bank.

Ayee, J., O.-H. Fjeldstad, L. Marais, and A. Keanly (2010). 'Good Tax Governance in Africa'. Prepared for the project Towards an African Declaration on Good Financial Governance. Pretoria: African Tax Administration Forum (ATAF), CABRI/ATAF.

Bahiigwa, G., F. Ellis, O.H. Fjeldstad, and V. Iversen (2004). 'Rural Taxation in Uganda: Implications for Growth, Income Distribution, Local Government Revenue and Poverty Reduction'. EPRC Research Series No. 35 (January 2004). Kampala: Economic Policy Research Centre.

Barbone, L., A. Das-Gupta, L. de Wulf, and A. Hanson (1999). 'Reforming Tax Systems: The World Bank Record in the 1990s'. World Bank Policy Research Working Paper 2237. Washington, DC: World Bank.

Baunsgaard, T. and M. Keen (2005). 'Tax Revenue and (or?) Trade Liberalization'. Washington, DC: IMF.

Benjamin, N. and A.A. Mbaye (2012). 'The Informal Sector in Francophone Africa: Firm Size, Productivity, and Institutions'. *Africa Development Forum Series.* Washington, DC: World Bank.

Bird, R. (1984). *Intergovernmental Finance in Colombia: Final Report of the Mission on Intergovernmental Finance*. Cambridge: Law School of Harvard University.

Bird, R.M. (1992). *Tax Policy and Economic Development*. Baltimore/London: The John Hopkins University Press.

Bird, R. (2008). 'Tax Challenges Facing Developing Countries'. *Institute for International Business Working Paper 12* (March). Toronto: University of Toronto.

Bird, R. (2012). 'Taxation and Development: What Have We Learned from Fifty Years of Research?'. ICTD Working Paper 1. Brighton: International Center for Tax and Development.

Bird, R. and P.-P. Gendron (2007). *The VAT in Developing and Transitional Countries*. Cambridge: Cambridge University Press.

Bird, R. and J. Jun (2005). 'Earmarking in Theory and Korean Practice'. International Tax Program Working Papers 0513. Joseph L. Rotman School of Management, University of Toronto.

Bird, R.M., J. Martinez-Vasquez, and B. Torgler (2006). 'Societal Institutions and Tax Effort in Developing Countries'. In J. Alm, J. Martinez-Vazquez and M. Rider (eds), *The Challenges of Tax Reform in a Global Economy*. New York: Springer Science+Business Media, Inc.

Bird, R. and O. Oldman (1990). *Taxation in Developing Countries*. Baltimore and London: The John Hopkins University Press.

Bird, R.M. and S. Wallace (2003). 'Is it Really so Hard to Tax the Hard-to-Tax? The Context and Role of Presumptive Taxes'. *International Tax Program Working Papers 0307*. Rotman School of Management, University of Toronto.

Bird, R.M. and E.M. Zolt (2003). 'Introduction to Tax Policy Design and Development'. Paper for Course on Practical Issues of Tax Policy in Developing Countries. Washington, DC: World Bank.

Braithwaite, V. (ed.) (2003). *Taxing Democracy: Understanding Tax Avoidance and Evasion*: Ashgate Publishing.

Braütigam, D., O.H. Fjeldstad, and M. Moore (2008). *Taxation and State-building in Developing Countries: Capacity and Consent*'. Cambridge: Cambridge University Press.

Brosio, G. (2000). 'Decentralization in Africa'. Paper prepared for the Africa Department, International Monetary Fund. Washington, DC: International Monetary Fund.

Brun, J.-F., G. Chambas, and O.-H. Fjeldstad (2012). 'Local Government Taxation in Africa: A Comparative Study of Anglophone and Francophone Countries'. ICTD Working Paper (forthcoming). Brighton: International Center for Tax and Development.

Casanegra de Jantscher, M. (1990). 'Administering the VAT'. In M. Gillis, C.S. Shoup and G.P. Sicat (eds), *Value Added Taxation in Developing Countries.* Washington, DC: World Bank.

Chand, S.K. and K.O. Moene (1999). 'Controlling Fiscal Corruption'. *World Development*, 27, 1129-40.

Crandall, W. (2010). *Revenue Administration: Performance Measurement in Tax Administration.* Washington, DC: International Monetary Fund.

Daniel, P., M. Keen and C. McPherson (2010). *The Taxation of Petroleum and Minerals: Principles, Problems and Practice*. Abingdon: Routledge.

De Mooij, R.A. and J.P. Ederveen (2003). 'Taxation and Foreign Direct Investment: A Synthesis of Empirical Research'. *International Tax and Public Finance*, 10, 673-93.

Devas, N., S. Delaym and M. Hubbard (2001). 'Revenue Authorities: Are They the Right Vehicle for Improved Tax Administration?'. *Public Administration and Development*, 21, 211-22.

Drummond, P., W. Daal, N. Srivastava, and L.E. Oliveira (2012). 'Mobilizing Revenue in sub-Saharan Africa: Empicial Norms and Key Determinants'. *IMF Working Paper WP/12/108*. Washington, DC: International Monetary Fund.

European Commission (EC) (2010). 'Tax and Development: Cooperating with Developing Countries on Promoting Good Governance in Tax Matters'. Communication from the

Commission to the European Parliament, COM(2010)163 final (21 April). Brussels: The Council and the European Economic and Social Committee, European Commission.

Fjeldstad, O.-H. (2001). 'Taxation, Coercion and Donors: Local Government Tax Enforcement in Tanzania'. *The Journal of Modern African Studies*, 39, 289-306.

Fjeldstad, O.-H. (2003). 'Fighting Fiscal Corruption: Lessons from the Tanzania Revenue Authority'. *Public Administration and Development*, 23.

Fjeldstad, O.-H. (2004). 'What's Trust Got to do With it? Non-payment of Service Charges in Local Authorities in South Africa'. *The Journal of Modern African Studies*, 42, 539-62.

Fjeldstad, O.-H. (2006). 'Corruption in Tax Administration: Lessons from Institutional Reforms in Uganda' (Chapter 17). In S. Rose-Ackerman (ed.), *International Handbook on the Economics of Corruption*. Cheltenham, UK/Northampton MA,USA: Edward Elgar.

Fjeldstad, O.-H. (2009). 'Vers plus d'éthique dans les douanes en Afrique subsaharienne' ['The pursuit of integrity in customs: Experiences from sub-Saharan Africa']. *Afrique Contemporaine*, 230, 33-54.

Fjeldstad, O.-H. and K. Heggstad (2011). 'The Tax Systems in Mozambique, Tanzania and Zambia: Capacity and Constraints'. *CMI Report R 2011:3*. Bergen: Chr. Michelsen Institute.

Fjeldstad, O.-H. and K. Heggstad (2012a). 'Building Taxpayer Culture in Mozambique, Tanzania and Zambia: Achievements, Challenges and Policy Recommendations'. *CMI Report R 2012: 1*. Bergen: Chr. Michelsen Institute.

Fjeldstad, O.-H. and K. Heggstad (2012b). 'Local Government Revenue Mobilization in Anglophone African Countries'. CMI Working Paper WP 2012: 6. Bergen: Chr. Michelsen Institute.

Fjeldstad, O.-H., L. Katera, J. Msami, and E. Ngalewa (2010). 'Local Government Finances and Financial Management in Tanzania: Empirical Evidence of Trends 2000-2007'. *REPOA Special Paper No. 10-2010 (October)*. Dar es Salaam: Research on Poverty Alleviation.

Fjeldstad, O.-H., I. Kolstad, and S. Lange (2003). 'Autonomy, Incentives and Patronage: A Study of Corruption in the Tanzania and Uganda Revenue Authorities'. CMI Report R 9: 2003. Bergen: Chr. Michelsen Institute.

Fjeldstad, O.-H. and M. Moore (2008). 'Tax Reform and State Building in a Globalized World'. In D. Braütigam, O.-H. Fjeldstad and M. Moore (eds), *Taxation and State Building in Developing Countries*. Cambridge: Cambridge University Press.

Fjeldstad, O.-H. and M. Moore (2009). 'Revenue Authorities and Public Authority in sub-Saharan Africa'. *The Journal of Modern African Studies*, 47, 1-18.

Fjeldstad, O.-H., C. Schulz-Herzenberg and I.H. Sjursen (2012). 'Peoples' Views of Taxation in Africa: A Review of Determinants of Tax Compliance'. CMI Working Paper, WP 7. Bergen: Chr. Michelsen Institute.

Fjeldstad, O.-H. and J. Semboja (2000). 'Dilemmas of Fiscal Decentralization: A Study of Local Government Taxation in Tanzania'. *Forum for Development Studies*, 27, 7-41.

Fjeldstad, O.-H. and J. Semboja (2001). 'Why People Pay Taxes: The Case of the Development Levy in Tanzania'. *World Development*, 29, 2059-74.

Fjeldstad, O.-H. and O. Therkildsen (2008). 'Mass Taxation and State-society Relations in East Africa'. In D. Braütigam, O.-H. Fjeldstad and M. Moore (eds), *Taxation and State Building in Developing Countries.* Cambridge: Cambridge University Press.

Fjeldstad, O.-H. and B. Tungodden (2003). 'Fiscal Corruption: A Vice or a Virtue?'. *World Development*, 31, 1459-67.

Gillis, M. (1990). 'Micro- and Macroeconomics of Tax Reform: Indonesia'. In R. Bird and O. Oldman (eds), *Taxation in Developing Countries*. Baltimore and London: The Johns Hopkins University Press.

Goode, R. (1993). 'Tax Advice to Developing Countries: An Historical Survey'. *World Development*, 21, 37-54.

Hadler, S.C. (2000). 'Best Practice in Tax Administration in sub-Saharan Africa: A Handbook for Officials' (June). Boston: International Tax Program, Harvard Law School.

House of Commons (2012). 'Tax in Developing Countries: Increasing Resources for Development'. International Development Commiteee, Fourth Report of Session 2012-13. London: The Stationery Office Limited.

IBRD (1961). *The Economic Development of Tanganyika*. Baltimore: International Bank for Reconstruction and Development, The Johns Hopkins Press.

IEG (2008). 'Public Sector Reform - What Works and Why?'. IEG Evaluation Report 2008 (May). Washington, DC: Independent Evaluation Group. World Bank

IMF (2011). 'Revenue Mobilization in Developing Countries'. Policy Paper prepared by the Fiscal Affairs Department (8 March). Washington, DC: International Monetary Fund.

IMF, OECD, UN and World Bank (2011). 'Supporting the Development of More Effective Tax Systems'. Report to the G-20 Development Working Group.

ITC (2010). 'Mapping Survey: Taxation and Development'. Eschborn: International Tax Compact, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

ITC (2012). 'Study on Mapping International Support to Taxation'. Eschborn: International Tax Compact, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

Jibao, S. and W. Prichard (2012). 'Rebuilding Local Government Finances After Conflict: The Political Economy of Property Taxation in Post-conflict Sierra Leone'. ICTD Working Paper (forthcoming). Brighton: International Center for Tax and Development.

Kaldor, N. (1963). 'Will Underdeveloped Countries Learn to Tax?'. *Foreign Affairs* 41(January), 410-19.

Kar, D. and D. Cartwright-Smith (2010). 'Illicit financial flows from Africa. Hidden Resources for Development'. Global Financial Integrity.

Kariuki, E. (2012). 'Performance Measurement in African Semi-autonomus Revenue Authorities: The Case of Kenya, South Africa and Tanzania'. PhD-thesis, University of Bradford.

Keen, M. (2012). 'Taxation and Development - Again'. IMF Working Paper WP/12/220. Washington, DC: International Monetary Fund.

Keen, M. and M. Mansour (2010). 'Revenue Mobilization in sub-Saharan Africa: Challenges from Globalization I - Trade Reform'. *Development Policy Review*, 28, 553-71.

Kidd, M. and W. Crandall (2006). 'Revenue Authorities: An Evaluation of Their Impact on Revenue Administration Reform'. IMF Working Paper 6/240. Washington, DC: IMF.

Kloeden, D. (2006). 'Tax Regimes and Administration for Small Business'. Technical note, Fiscal Affairs Department. Washington, DC: International Monetary Fund.

Kloeden, D. (2011). 'Revenue Administration Reforms in Anglophone Africa Since the Early 1990s'. IMF Working Paper WP/11/162. Washington DC: International Monetary Fund.

Lavallée, E., M. Razafindrakoto, and F. Roubaud (2008). 'Corruption and Trust in Political Institutions in sub-Saharan Africa'. Afrobarometer Working Papers 102 (October).

Levy, B. (2004). 'Governance and Economic Development in Africa: Meeting the Challenge of Capacity Building'. In B. Levy and S. Kpundeh (eds), *Building State Capacity in Africa: New Approaches, Emerging Lessons.* Washington, DC: World Bank.

Luoga, F. (2002). 'Taxpayers' Rights in the Context of Democratic Governance: Tanzania'. *IDS Bulletin*, 33, 50-7.

Moore, M. (2008). 'Between Coercion and Contract: Competing Narratives Around Taxation and Governance'. In D. Braütigam, O.-H. Fjeldstad and M. Moore (eds), *Taxation and State-building in Developing Countries: Capacity and Consent.* Cambridge: Cambridge University Press.

Nathan Associates Inc. (2004). 'Tax Reform and the Business Environment in Mozambique: A Review of Private-sector Concerns'. (December). USAID

Nathan Associates Inc. (2009). PARPA II Review - The Tax System in Mozambique. Volume I: USAID.

OECD-DAC (2012). 'Tax and Development: Aid Modalities for Strengthening Tax Systems'. Paris: Organization for Economic Co-Operation and Development (August).

OECD (2011). *Revenue Statistics,1965-2010: 2011 edition* [Online]. Paris: Organization for Economic Co-Operation and Development. Available: http://www.oecd.org/ctp/taxpolicyanalysis/taxrevenuesstabiliseinoecdcountriesin2010.htm [Accessed 08.10. 2012].

Owens, J. and S. Hamilton (2004). 'Experience and Innovations in Other Countries'. In H.J. Aaron and J. Slemrod (eds), *The Crisis in Tax Administration.* Washington, DC: Brookings Institution Press.

Prichard, W. (2010). 'Taxation and State-building: Towards a Governance Focused Tax Reform Agenda'. *IDS Working Paper 341*. Brighton: Institute of Development Studies.

Prichard, W., J.-F. Brun and O. Morrissey (2012a). 'Donors, Aid and Taxation in Developing Countries: An Overview'. *ICTD Working Paper (forthcoming).* Brighton: International Centre for Tax and Development.

Prichard, W., A. Joshi, and C. Heady (2012b). 'Taxation of the Informal Economy'. *ICTD Working Paper (forthcoming).* Brighton: International Centre for Tax and Development.

Rajkumar, A.S. (2004). 'Tying the Hands of Government in Brazil Through Revenue Earmarking: How Can This be Done Optimally?'. Washington, DC: World Bank.

Serra, P. (2003). 'Measuring the Performance of Chile's Tax Administration'. *National Tax Journal*, 56, 373-83.

Slemrod, J. (1992). 'Why People Pay Taxes: Tax Compliance and Enforcement'. In J. Slemrod (ed.), Ann Arbor: The University of Michigan Press.

Stewart, M. (2002). *Global Trajectories of Tax Reform: Mapping Tax Reform in Developing and Transition Countries.* University of Melbourne.

Tait, A. (1990). 'IMF Advice on Fiscal Policy'. In G. Krause-Junk (ed.), *Public Finance and Steady Economic Growth.* The Hague: International Institute of Public Finance.

Taliercio, R.J. (2004a). 'Administrative Reform as Credible Commitment: The Impact of Autonomy on Revenue Authority Performance in Latin America'. *World Development*, 32, 213-32.

Taliercio, R.J. (2004b). 'Designing Performance: The Semi-autonomous Revenue Authority Model in Africa and Latin-America'. *Policy Research Working Paper* 3423. Washington, DC: World Bank.

Taliercio, R.R. (2003). 'Designing Performance: The Semi-Autonomous Revenue Authority Model in Africa and Latin America'. Washington, DC: World Bank.

Tanzi, V. (2000). 'Taxation and Economic Structure'. In G. Perry, J. Whalley and G. McMahon (eds), *Fiscal Reform and Structural Change in Developing Countries, Vol. 2.* Basingstoke: Macmillan.

Tanzi, V. and H.H. Zee (2000). *Tax Policy for Emerging Markets: Developing Countries*. Washington, DC: International Monetary Fund.

Tendler, J. (2002). 'Small firms, the Informal Sector and the Devil's Deal'. *IDS Bulletin*, 33.

Terpker, S. (1999). 'Revenue Authorities: A Comparison of the Experiences of Ghana and East African Countries'. *Bulletin for International Fiscal Documentation*, 53, 171–9.

Terpker, S. (2003). 'Managing Small and Medium-size Taxpayers in Developing Countries'. *Tax Notes International*, 211-34.

Therkildsen, O. (2004). 'Autonomous Tax Administration in sub-Saharan Africa: The Case of the Uganda Revenue Authority'. *Forum for Development Studies*, 31, 59-88.

Thirsk, W.R. (1993). 'Recent Experience with Tax Reform in Developing Countries'. In R.D.M. Faini (ed.), *Fiscal Issues in Adjustment in Developing Countries.* New York: St. Martin's Press.

Thirsk, W.R. (1997). 'Tax Reform in Developing Countries'. Washington, DC: World Bank.

TI (2008). *Bribe Payers Index 2008* [Online]. Berlin: TI International Secretariat, Transparency International. Available: http://www.transparency.org/news_room/latest_news/press_releases/2008/bpi_2008_en [Accessed].

TJN-AA (2012). 'Tax Competition in East Africa: A Race to the Bottom?'. Johannesburg/Nairobi: Tax Justice Network-Africa and ActionAid International.

van Parys, S. and S. James (2009). 'Why Tax Incentives may be an Ineffective Tool to Encouraging Investment? - The Role of Investment Climate' (December 1).

von Soest, C. (2006). 'The African State and the Capability to Raise Revenue: A Comparative Study of the Tax Administration in Zambia and Botswana'. Dissertation zur Erlangung des akademischen Grades Doctor Philosophiae (Dr. phil.), Universität Leipzig.

von Soest, C. (2007). 'Measuring the Capability to Raise Revenue: Process and Output Dimensions and Their Application to the Zambia Revenue Authority'. *Public Administration and Development*, 27, 353-65.

von Soest, C. (2008). 'Donor Support for Tax Administration Reform in Africa: Experiences from Ghana, Tanzania, Uganda and Zambia'. *German Development Institute Discussion Paper 2*. Bonn: German Development Institute.

World Bank (2000). 'Reforming Tax Systems: Lessons from the 1990s'. Washington, DC: World Bank.

Zee, H., J. Stotsky, and E. Ley (2002). 'Tax Incentives for Business Investment: A Primer for Policy Makers in Developing Countries'. *World Development*, 30, 1497-1516.

Zolt, E.M. and R. Bird (2005). 'Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries'. *UCLA Law Review*, 52 (August), 1627-95.

Zuleta, J.C., A. Leyton, and F. Ivanovic (2006). 'Corruption in the Revenue Service: The Case of VAT Refunds in Bolivia'. World Bank.