

## Taxation and State-Building: Poor Countries in a Globalised World

Odd-Helge Fjeldstad and Mick Moore

**WP 2007: 11**



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## 1. Introduction\* \*\*

Some institutions do not transfer easily and effectively from one environment to another. Some do. Public finance institutions are mostly in the latter category: governments generously borrow ideas and institutional technologies from one another. While social welfare systems differ widely from one country to the next, national tax systems, like central banks, seem more like members of a global family. Their family resemblances have become stronger over the past two or three decades. Most governments have participated in a genuinely global process of tax reform, affecting rich and poor countries alike. Participation has required them first to change attitudes to the tax system. It should no longer be seen as an instrument to be employed in an active way to achieve a wide variety of socio-economic policy goals through fine-tuned interventions.

In developing countries in particular, governments have been urged to desist from using taxation to try to mobilise savings or to transfer resources from agriculture to non-agriculture; to rely less for revenue on 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; V. Tanzi, 2000; Tanzi and Zee, 2000; Thirsk, 1993). The overall message is that, if used too eagerly and frequently, taxation becomes a blunt, ineffective or perverse policy instrument. Governments should concentrate on establishing simple, predictable, neutral tax systems that will not discourage private enterprise and minimise interference with market signals. Most governments have followed this advice to some extent. We can usefully talk of a global reform program. In addition to the general shift away from actively using the tax system to pursue other socio-economic goals, this global reform program has three main substantive elements: (i) the introduction of broad based consumption taxes (VAT), (ii) simplified tax design, and (iii) improved tax administration.<sup>1</sup>

(i) Value-added taxes (VAT) have 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. During the 1990s, the number of African countries levying a VAT increased from 2 to 30. Although it has not been introduced in the United States, VAT accounts for around a quarter of the world's tax revenue (Ebrill, et al., 2002). In richer nations, it has in part replaced other sales and consumption taxes. Because it is such an efficient means of sucking in revenue from economies with good written or electronic records of economic transactions, VAT has facilitated trade liberalisation, by replacing import and export taxes, and also contributed powerfully to the steady increases in governments' shares of rising national incomes. In poorer nations, where governments have traditionally been especially dependent for revenue on trade taxes, the promotion of VAT has been even more closely tied to trade liberalisation.<sup>2</sup>

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\*\* Odd-Helge Fjeldstad, Research Director, Chr. Michelsen Institute; and Director, U4 Anti-Corruption Resource Centre, Bergen, Norway. E-mail: [odd.fjeldstad@cmi.no](mailto:odd.fjeldstad@cmi.no)  
Mick Moore, Professorial Fellow, IDS, and Director, The Centre for the Future State, Institute of Development Studies, University of Sussex, Brighton, UK. E-mail: [m.p.moore@ids.ac.uk](mailto:m.p.moore@ids.ac.uk)

<sup>1</sup> This list, or something similar, appears in many publications. For example, James Mahon found that, in Latin America "the definition of 'tax reform' has been remarkably similar across the region, with less progressivity, fewer exemptions, and new leading role for the value-added tax (VAT), and the strengthening of tax administration" (Mahon, 2004: 3).

<sup>2</sup> For an extensive discussion of VAT in poor countries, see Bird and Gendron (2005).

(ii) There has been a strong emphasis on ‘simplification’: on trying to make taxes clearer, more transparent, more predictable, easier and cheaper to administer and less vulnerable to extortion and corruption. In practice, simplification means reducing a lot of things: the discretion of tax administrators or politicians to decide on tax liabilities for particular companies, types of investment projects or category of imports; the number of different taxes; the number of schedules or rates for each type of tax; tax exemptions; the extent of progressivity of tax rates; high marginal tax rates; and the number of procedures required to assess and collect taxes and adjudicate disputes.<sup>3</sup>

(iii) There has been a related emphasis on reforming tax administration, often under the slogan of ‘tax administration is tax policy’. The content of administrative reform in specific countries has depended a great deal on what was already in place (Bird, et al., 2004; Owens and Hamilton, 2004). Some of the more widespread components are: exploiting the potential of new information and communication technologies; moving from a system organised around different taxes to one organised around localities and/or industries, so that individual taxpayers have to deal with fewer tax officers; introducing unique identification numbers for each individual taxpaying unit; establishing different offices and procedures for different categories of taxpayer, typically starting with the creation of a Large Taxpayer Unit focusing on big companies; trying to make the collection process more ‘user-friendly’; in Latin America in particular, using commercial banks as collection agents; using audit units more selectively and strategically to check on the performance of the primary tax collectors; and, as we discuss in more detail below, giving tax collection agencies the status of semi-autonomous revenue authorities. The logics of simplification and of improving tax administration are closely linked, through the argument that tax agencies will be more effective if their tasks are made more simple, stable and predictable.

Our purpose in this paper is to assess how far this global wave of tax reform has contributed to state building. Our summary conclusion mirrors other arguments about globalization more generally: there are a large number of good things to report, but worrying problems in the poorest and most dependent countries. The governments of those countries have little choice but to go along with a reform agenda that is not strongly rooted in their particular circumstances. The choice of policy problems, and of the means of dealing with them, reflect too much the enthusiasms of the more powerful actors in the international system. More important perhaps, the global reform agenda does not address some of the more urgent problems that the poorest countries face. The contemporary global tax reform agenda is least appropriate to those countries most in need of the state-building to which the taxation process has contributed at other places and times. We develop that argument in Section 3, after first exploring how this global reform agenda has been shaped.

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<sup>3</sup> There is a current trend toward ‘flat taxes’ – i.e. the use of a single rate for each tax – which has been especially powerful in Central Europe. It represents an extension of the principle of simplification.

## 2. The Global Drivers of Tax Reform

There is little doubt about the identity of the No.1 driver of the global tax reform agenda: the International Monetary Fund (IMF). Whether or not policymakers from developing countries go to the IMF for advice about tax, the IMF comes to them, in a rather authoritative way. Actual decisions about substantive tax reform are especially likely to be made at moments of economic stress or crisis. These are exactly the occasions when IMF teams are likely to be in town and able to exercise influence. James Mahon (2005) has demonstrated a strong statistical connection between the incidence of tax reform and the existence of explicit IMF performance conditions in Latin America from 1977 to 1995. But crisis and pressure are not the only or even the main channels through which the IMF exercises its influence. Public finances and monetary policy are its mandate. It has been a major source of expertise, ideas and publications on tax reform for poor countries for several decades. A high proportion of the professional literature on the topic emanates from the IMF, with the World Bank, the Organisation for Economic Cooperation and Development (OECD) and the World Trade Organisation (WTO) playing complementary but smaller roles.<sup>4</sup>

This is enough information to generate a strong hypothesis: that the global tax reform agenda has been set by the international financial institutions – the IMF, the World Bank, regional development banks, aid agencies and the like – in pursuit of the same kinds of objectives that they have putatively been advancing worldwide by other means, notably the neo-liberal agenda of strengthening markets and weakening states, trades unions, popular political movements and other loci of organised political power. There is sufficient supportive evidence that we cannot dismiss the hypothesis out of hand. Look again at the main components of the global tax reform agenda. The replacement of trade taxes by VAT has resulted in significant losses of revenue for the governments of the poorest countries (Baunsgaard and Keen, 2005). The most prominent single reform in tax administration – the creation of semi-autonomous revenue authorities independent of finance ministries and manned by highly paid professionals, often recruited from the private sector – looks like an attempt to curb state power, and is perhaps a step on the road toward the privatisation of tax collection?

It is, however, hard to sustain the argument that the global tax reform agenda constitutes a significant neo-liberal project to weaken the state. One piece of counter evidence is that there have been few serious attempts to outsource or privatise the tax assessment and collection processes.<sup>5</sup> The granting of a degree of managerial and strategic autonomy to tax administrations by creating semi-autonomous revenue authorities is in line with standard public sector reform practices in many countries; there is no reason, in logic, experience or intention, to see it as a prelude to privatisation. A second, more powerful, piece of counter-evidence is that the IMF and other international financial institutions often actively encourage governments of poor countries to increase their tax revenues.<sup>6</sup> As we mention later in this paper, IMF pressure to raise revenues sometimes appears

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<sup>4</sup> These organisations do not always see eye to eye. For example, the IMF is concerned principally with the immediate fiscal and macroeconomic impact of decisions about tax, while the World Bank is more likely to raise less pressing issues, such as the micro-economic implications for the efficiency of resource allocation.

<sup>5</sup> There are marginal exceptions. As we mentioned above, in some Latin American countries, commercial banks have been sub-contracted to receive tax dues. For some years, the collection of customs revenues in Mozambique has been sub-contracted to Crown Agents, a not-for-profit British company owned by a number of public agencies. That arrangement is, however, to be terminated, mainly because the reforms have achieved few lasting results - the transfer of skills by foreign contractors has been limited and the contract has been very expensive for the government. There is no compelling evidence that the privatisation of tax collection is a feasible means of dealing with corruption and other problems.

<sup>6</sup> Increasing government revenue was a major objective of two-thirds of projects to reform taxation and customs that were financed by the World Bank in the 1990s (World Bank, 2000: 1).

excessive. That is quite consistent with the role of the IMF in the global financial system. It has a strong mandate to ensure that governments can raise sufficient revenue, in a reliable and sustainable fashion, to continue to pay interest on their loans, repay their debts, and borrow again. From the fiscal perspective at least, the IMF prefers strong rather than weak states (Mahon, 2005: 25).

To understand the global character of the tax reform agenda, we need to look more closely at the sociology of organisations, knowledge and the diffusion of institutional innovations. James Mahon makes the point in a nutshell: "... tax officials in the western hemisphere (and especially those from Latin America) constitute an increasingly distinct social network and epistemic community, perhaps best exemplified by the activities of CIAT (Centro Interamericano de Administraciones Tributarias), founded in 1967 and based in Panama" (Mahon, 2005: 24-5). The processes to which Mahon points appear to be especially intense in Latin America, but are increasingly evident elsewhere in the world. Tax administration and law are highly specialised subjects. Tax professionals naturally talk to one another when they can. The same technological changes and political and economic processes that have supported globalisation generally in recent decades have strengthened international professional networks and institutions in the tax business. In 2001, CIAT joined a number of other regional professional groups to create a global professional forum, CIOTA (the Committee of International Organizations of Tax Administrations).<sup>7</sup> The World Customs Organization, an intergovernmental organisation founded in 1952 and currently claiming 169 members, is also an important global forum for tax professionals. Taxpayers too have begun to organise at the global level.<sup>8</sup>

The political and intellectual impetus behind global tax reform does not come only from international organisations like the IMF. There is also an increasingly-organised epistemic community of tax professionals, which includes employees of national tax administrations and of international organisations like the IMF, and economists, accountants and lawyers specialising in taxation in academia and in consultancy organisations including, increasingly, the big transnational consultancy companies. The coherence and simplicity of the global reform agenda seems to result from a strategic selection process. A group of actors who have little direct political power but a claim to highly specialist expertise are better able to exercise influence if they are united around a policy agenda that is comprehensible, coherent and convincing to those who do hold political power.<sup>9</sup> In this case, the process of strategic selection has been successful in effecting real policy change. There is strong contrast between the contentiousness, especially in Latin America, of the overall neo-liberal (or 'Washington Consensus') economic reform agenda and the fact that the tax

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<sup>7</sup> The African Association of Tax Administrators (AATA), the Caribbean Organization of Tax Administrators (COTA), the Centre de Recontres et d'Etudes des Dirigeants des Administrations Fiscales (CREDAF), the Commonwealth Association of Tax Administrators (CATA), the Intra-European Organization of Tax Administrations (IOTA), the Organisation for Economic Cooperation and Development (OECD), and the Study Group on Asian Tax Administration and Research (SGATAR).

<sup>8</sup> The World Taxpayers Associations was established in 1988, in the US, with a militantly anti-tax mission statement. Its web-site currently lists 55 member organisations in 41 countries. 21 of those member organisations were founded between 1990 and 1999, and another 19 between 2000 and 2005. <http://www.worldtaxpayers.org/>.

<sup>9</sup> This interpretation of the global tax reform agenda is informed by contemporary political science research on the international diffusion of institutional innovations. Where the reform impacts on specialised organisations like tax administrations, the key decisions about reform design typically are made by small bureaucratic, professional and political elites. Their perceptions of what is desirable and possible are key. Weyland (2005: 23-4) explores the role in such cases of "the three principal heuristics documented by cognitive psychologists": *availability* (i.e. disproportionately powerful impact of close, vivid events, including experiences from neighbouring countries); *representativeness* (i.e. the tendency to see clear patterns in very limited data), and *anchoring* (i.e. the way in which initial clues strongly condition later judgements, leading, among other things, to a tendency to import foreign models with little adaptation.). Weyland (37-8) concludes that Bolivia adopted the Chilean 'neo-liberal' pensions system because Bolivian elites convinced themselves of its appropriateness through the kind of reasoning outlined above, and in the face of some opposition from the IMF and other international financial institutions.

policy components have been widely adopted with little protest or overt debate.<sup>10</sup> Given a relatively united front between the tax professionals, the IMF and other international financial institutions and the tax economists, much tax reform passes as necessary modernisation of an essentially technical character.

Is there actually a united front? Not entirely. In particular, there is some disjuncture between actual tax reform practices and some of the nominal policy implications of the set of new, big theoretical ideas about tax that have animated most academic economists' discussions of the topic in the two recent decades: 'optimal tax policy'. The core ideas behind optimal tax policy are that all taxation distorts market incentives, and that tax policy and reform should be significantly or largely driven by the search for systems that minimise these distortions through treating similarly placed economic actors in similar ways (Ahmad and Stern, 1991; Slemrod, 1990; Stern, 1987). Optimal tax policy is highly congruent with the emphasis on reducing the heavy revenue burden borne in many poor countries by trade taxes. However, most potential practical applications of the principles of optimal tax policy require a level of detailed information and calculation about the behaviour, actual and prospective, of different categories of taxpayers that is inconsistent with a practical emphasis on administrative simplicity. While the research publications of the IMF might suggest that notions of optimal taxation drive its approach to revenue issues, its operational advice is much more pragmatic.

Because the global tax reform agenda reflects a degree of compromise, some contradictions are organised into it. That concerns us less than the fact that a substantial number of issues – those more or less specific to the poorest and least influential countries – are to a large extent organised out of it. We would not argue that the global reform agenda is intrinsically wrong for the poorest developing countries. But it is certainly not entirely appropriate. We can best make this point by examining the various ways in which tax reform might contribute to state building.

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<sup>10</sup> It is true that there have been anti-VAT riots, with deaths, in both Ghana and Uganda. The structural reason is that VAT imposes major tax compliance costs on small businesses. In Ghana at least, the riots can be attributed to political mismanagement: too rapid an introduction, with inadequate consultation with the small traders most adversely affected (World Bank, 2001). In addition, because VAT can provide an effective way of reducing tax evasion in wholesale activities, larger traders may also be opposed. Organised networks of wholesalers and retailers fought a long rearguard action against the introduction of VAT in India.

### 3. The Potential Contributions of Tax Reform to State Building

Let us define state building 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. Tax reform might contribute to state building through four main channels: through (1) providing revenue; (2) shifting toward more appropriate revenue sources; (3) creating more effective tax administrations; and (4) encouraging constructive state-society engagement around taxes. We examine separately the impact of the global tax reform agenda on each of these potential channels for state building.

#### 3.1 Providing adequate revenue

Except in times of war and crisis, government revenues tend to be very sticky: they change little from one year to another.<sup>11</sup> They tend in the longer term to increase as incomes increase. Currently, the average 'tax take' in high income countries, at around 37% of GDP, is more than twice the figure for low income countries – 14%. Taking all countries for which there are reliable data, the average 'tax take' changed little between 1975 and 2000. The differences between the trends for high, middle and low income country groups are however significant. The 'tax take' increased steadily in the high income group, declined very slightly in the middle income group, and declined more markedly in the low income group (Baunsgaard and Keen, 2005 :7). Why?

Poorer countries historically have depended heavily on taxes on imports and exports ('trade taxes'). 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 program, 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% of the trade revenues they had foregone, while for low income countries the figure was at best around 30%. And the presence of a VAT seemed not to have helped at all.

We can conclude that, in respect of total government revenues, the global tax reform agenda has failed the poorer countries. It has not lived up to the promise of delivering the revenues that they 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 poorer 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 organisational capacity to make a successful transition to a more demanding revenue

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<sup>11</sup> Recent exceptions comprise mainly cases of rapid recovery from sharp declines in revenue during periods of acute economic and political crisis. For example, after President Museveni re-established political order in Uganda, the tax take rose from 7 per cent of GDP in 1991 to 12 percent in 1996 (Katusiime, 2003).

source. Moreover, the VAT base is often undermined by extensive exemptions and zero-rating.<sup>12</sup> The effectiveness of VAT depends in large part on good 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 rich countries, VAT provides great opportunities for fraud and corruption. VAT is not the wrong tax for poorer countries, but it has probably been extended too widely and too fast.

### 3.2 Shifting toward more appropriate revenue sources

Leaving aside the impact on overall revenue levels, does the global tax reform agenda represent a shift of the tax burden toward more appropriate revenue sources? Predictably, the bulk of the discussion has focused on the ways in which the reforms might have affected income distribution and economic incentives. Reductions in the degree of progressivity of income tax rates should favour the rich, and a shift toward any consumption taxes, like VAT, will tend to bear relatively heavily on the poor. Conversely, the proponents of the reforms tend to argue that simplified systems are more efficient at raising money from those who should pay, and therefore tend to reduce inequality (Bird, 1992; Khalilzadeh-Shirazi and Shah, 1991; Tanzi and Zee, 2000; Thirsk, 1993). Having reviewed the evidence recently, Gemmill and Morrissey (2005) find no clear patterns, and conclude that there is no evidence that the tax burden has in general been shifted toward the poor.

The distributional impact of those tax reforms that have been introduced is a significant, unresolved issue. We focus here on those taxes and policy measures that are or could be especially important to poor countries, but do not feature on the global tax reform agenda, either because the poorest countries had little influence on constructing it or because the actors and situations that most influenced it – taxation professionals, the international financial institutions, transnational consultancy firms, and debates about tax policy in richer countries – gave priority to other concerns. There are three such issues: the informal sector, urban property taxes, and tax exemptions for aid funds.

(i) *Taxing the informal sector.* In many poor countries, economic activity is increasingly located within the informal sector. That sector is hard to tax. Tax administrations tend to give it little priority, because, in cash terms, returns to effort may be low. Their employees will avoid it if they can, because it is certainly unrewarding in terms of income supplementation, and likely to be unpleasant, difficult, or even dangerous. Yet, as Joshi and Aye (forthcoming) explain, there are good public policy reasons for paying more attention to taxing informal urban economic activity, both in terms of governance concerns about the spread of the tax net and in order to explore alternative ways of building the capacity to tax the sector more effectively in the long term. Joshi and Aye explore unorthodox tax collection mechanisms that, at least initially, do not require existing tax collectors to engage closely with informal sector operators. Finding better ways of taxing the informal sector is in practice not on the global tax reform agenda. There are frequent mentions of the need to ‘broaden the tax base’, but this seems to refer more to reducing exemptions and closing loopholes than to any notion that the informal sector needs to be tackled as a generic issue. Implicitly, it is hoped that the informal sector will be brought into the tax net through the

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<sup>12</sup> However, there may be another element to the story. Over the same period, from the 1980s, development aid has increasingly been focused on poorer countries, especially in Africa. Many found themselves receiving aid that amounted to a large fraction of their GDP, and the bulk of government spending. The most careful analyses we have suggest that high levels of aid do tend to reduce governments’ own revenue raising efforts (Brautigam and Knack, 2004; Moss, et al., 2006). It is possible that VAT failed to replace trade taxes in part because simultaneous increases in aid left governments less motivated to make a success of the new VAT than they would otherwise have been. We know that the governments of many countries implement VAT in half-hearted ways (Baunsgaard and Keen, 2005: 23). It is not possible to test the main proposition through statistical analysis of data from a large number of countries, because, for poorer, aid-dependent countries, data on public finances tend to be patchy and unreliable.

gradual expansion of the scope of VAT, which has a very ‘thin’ coverage in many poorer countries (Bird and Wallace, 2003; Terpker, 2003).

(ii) *Taxing urban property.* The governments of most developing countries should be actively concerned with improving their urban property taxation systems and using them as a means to raise more revenue.<sup>13</sup> There are three reasons for this. One is that property incomes and property wealth are significantly under-taxed, and thus an important source of inequity. The second is that property taxation is one of few potential sources of significant income for many of the municipal and metropolitan authorities to whom central governments have devolved increased responsibilities without commensurate increases in fiscal transfers (Bird and Slack, 2002; Dillinger, 1992; Mikesell, 2003). The third is that the digital data bases that provide the core of modern property registers create strong synergies between urban property taxation and urban planning. From a logistical perspective, taxing urban property is much easier now than in the past. Yet, property taxation does not feature significantly in the global tax reform agenda, or in the various tax policy guidelines emanating from the IMF. Although some of the operational staff of international development institutions have shown more interest in this issue recently in the context of the need to finance decentralised urban administrations, there has been little practical progress. Why so little concern with this issue? There are three plausible explanations; each probably plays some role. One is that property taxation is the domain of sub-national governments, and the IMF in particular, with its strong mandate to deal with macro-economic issues, relates almost exclusively to central governments. The global tax reform agenda applies almost exclusively to central government revenues. Second, the establishment of effective property tax systems is a long term enterprise that requires considerable early investments.<sup>14</sup> This has been much less attractive a focus than the introduction of VAT, that generates more revenue in relation to effort in the medium term. The third is that the content of the global tax reform agenda is directly influenced by the recent experiences and practices of the OECD countries, especially the Anglophone OECD countries. Property taxes have historically been more important in the US and the UK than in most OECD countries. But they have in recent decades been increasingly unpopular with wealthy and articulate taxpayers, and have diminished in importance (Heady, 2002). According to Richard Bird, possibly Latin America’s most distinguished expert on public finance, this hostility has spilled over into the development policies of the rich countries:

“Consider, for instance, the sad story of property taxation in North America. Once seen as the bulwark of local democracy and accountability, this tax has, over time, come to be considered by the public at large as regressive and unfair, thus fostering elite interests in lowering the tax burden on an asset base they disproportionately control. The spillover of the anti-property tax rhetoric into even more unequal societies to the south has made it even more difficult to institute .... even the low-rate effective property taxes needed to finance local governments (Bird, 2003: 44).

(iii) *Tax exemptions for aid funds.* One of the more murky aspects of the development aid business that has effectively been kept off public development policy agendas, including the global tax reform agenda, is the fact that aid agencies successfully demand substantial tax exemptions in the

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<sup>13</sup> In most poor countries, the scope to tax most rural and agricultural properties is very limited for a combination of practical and political reasons (Skinner, 1993). While there are possibilities for more effective taxation of larger and corporate agricultural enterprises through income taxes in particular, there seems to be little potential in agricultural property taxes.

<sup>14</sup> McCluskey and Franzsen (2005) have recently examined in detail property taxation in 53 countries, mainly in the developing world. They point to the high level of under-performance of the tax. One reason is that many countries employ systems of property valuation that are far too complex. In India in particular, some urban authorities are moving toward more simplified, practical valuation systems.

countries they assist: exemptions from customs duties for imports earmarked for aid projects or the in-country use of aid agency staff; exemptions from income taxes for expatriates employed by aid donors; and exemptions from VAT and a range of taxes for foreign companies, like construction companies, employed in-country by aid donors. This is not principally an issue about the amount of income coming to the recipient government: since most aid goes to governments, they will receive the money either as aid or as taxes – provided the exemption system is not exploited and used as a cover for fraudulent tax exemptions for non-aid activities.<sup>15</sup> However, it seems likely that in some cases it is abused in this way. It matters more that this practice sets a bad example: it encourages other people also to demand tax exemptions. We know, although we lack good data, that many of the successes of the global tax reform agenda in simplifying tax systems and abolishing exemptions are continually being undermined by the granting of fresh exemptions by politicians. The exemptions for aid inflows are implicated in that, at least indirectly. Equally, the collective decision by aid donors to provide money to recipient governments as grants or loans when they could choose to allow it to be transferred as tax revenue represents a missed opportunity to encourage recipient governments to strengthen their tax systems and wean themselves off aid more quickly. However, aid agencies appear to prefer to maximise their own budgets and to avoid parliamentary questions at home about why some of ‘our’ aid intended to help poor people is going in taxes to (undeserving) governments.<sup>16</sup>

### 3.3 Creating more effective tax administrations

#### (i) Nuts-and-bolts organisational reform

The notion of ‘improving tax administration’ is so open and ill-defined that it may be difficult to imagine how it could have become one of the pillars of the global tax reform agenda. That openness may be part of its attraction. It is nevertheless not empty rhetoric. Over the last two decades, there has been a real interest in tax administration among tax professionals worldwide, and considerable actual reform. This is probably in part because of the simultaneous spread of digital information and communication technologies which, in tax administration as much as in other organisational arenas, have made possible a range of new ways of organising and working. Some of the more significant changes facilitated by digitalisation include:

- (a) introducing unique identification numbers for each individual taxpaying unit; (b) moving from a system organised around different taxes to one organised around localities and/or industries, such that individual tax payers have to deal with fewer tax officers;
- (c) establishing separate offices and procedures for different categories of taxpayer, typically starting with the creation of Large Taxpayer Units focusing on big companies; and

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<sup>15</sup> In Tanzania in 2005, 17% of the gross value of customs duty exemptions was directed to aid donors, and another 3% to NGOs. It is possible that, in addition, some of the exemptions granted to private companies were for aid-funded activities. (Data kindly provided to Fjeldstad by the Tanzania Revenue Authority).

<sup>16</sup> International Tax Dialogue, representing mainly international organisations – the IMF, the Inter-American Development Bank, the OECD and the World Bank – recently produced a detailed paper on this issue, making the case for trying to reduce exemptions (International Tax Dialogue, 2006). The paper was discussed at the United Nations Committee of Experts on International Cooperation in Tax Matters, where it appears to have been effectively buried due to the resistance of bilateral aid donors.

(d) beginning to physically separate ‘back office’ functions of assessing tax liabilities and auditing and cross-checking records from ‘front office’ functions of actually collecting money, to reduce the scope for direct extortion and bribery.<sup>17</sup>

In addition, there has been a very substantial shift in the attitudes of tax administrations toward taxpayers. Stimulated in part by research about factors affecting tax compliance conducted first in the US (see Slemrod, 1992) and later in other OECD countries, including Australia (see Braithwaite, 2003), ‘customer service’ and ‘user friendliness’ have become the norm. National tax administrations have been eagerly emulating one another in opening customer-friendly ‘one-stop shops’, simplifying procedures, making possible on-line filing of returns, providing extensive information for taxpayers in printed and digital form, and trying to explain themselves to their ‘customers’. The mission statement of the Tanzania Revenue Authority – *To be an effective and efficient tax administration which promotes voluntary tax compliance by providing high quality customer services with fairness and integrity through competent and motivated staff* – might have come from any of several dozen tax administrations in the Anglophone world. The South African Revenue Service, one of the more successful of the new tax administrations, widely advertises that ‘your taxes paid for this road/school/hospital’ – while simultaneously and publicly working with the Scorpions, a tough special crime investigation unit attached to the National Directorate of Public Prosecutions, to deal with suspected high profile tax defaulters.

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. It is also clear that ‘user friendliness’ is most widely practiced, and most appropriate, to the relations between tax administrations and their larger corporate clients. However, although we have no basis on which to measure improvements in tax administration, there are very clear signs of progress with the kinds of detailed, nuts-and-bolts innovations mentioned above.

## (ii) The big hit: autonomous revenue authorities

Only a small amount of the current literature on reforming tax administrations in developing countries deals with these nuts-and-bolts reforms. The focus is rather on the major visible change: the creation of new (semi-) autonomous revenue authorities (ARAs), like the URA (Uganda Revenue Authority), SARS (South African Revenue Service), SUNAT in Peru (National Superintendancy of Tax Administration) and many others. Aid agencies and international financial institutions have in practice tended to concentrate their tax work on support for the creation of ARAs.<sup>18</sup> As of March 2006, there were about 30 autonomous revenue authorities in the developing world, largely in Africa and South America, most of them recent creations.<sup>19</sup>

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<sup>17</sup> Bergman’s (2003) comparative study of Argentina and Chile illustrates how differences in the organisation of tax collection, including the internal separation of functions and the appropriate use of audit units, impact in the long term on tax collection capacity and taxpayer compliance.

<sup>18</sup> For example, 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: 3). The staff of the World Bank tend to deny that the organisation has ever urged the ARA model on developing countries, or made acceptance a condition of assistance. It is hard to establish the truth, but quite clear that, at the very least, the World Bank has on occasion been a persuasive salesman for ARAs.

<sup>19</sup> 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), Uganda (1991), Zambia (1994), Kenya (1995), Malawi (1995), Tanzania (1996), South Africa (1997), Rwanda

What are ARAs? There is no clear definition. They are relatively diverse. Their defining feature is (some) *autonomy*: the revenue collection function typically is removed partly or fully from the direct control of the Ministry of Finance, and those who direct the ARA have more or less independence to structure and manage it, including hiring and firing of staff.<sup>20</sup> As we explain below, the notion of *autonomy* is contested and potentially misleading, both conceptually and practically. In many cases, the creation of ARAs involved (a) a major internal restructuring and recruitment of new staff, from the private sector or the central bank; and (b) the merging of two or more agencies that previously had each dealt only with one category of taxes, e.g. customs, income tax, sales tax, etc.

The diversity of ARAs is one reason why we cannot clearly 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, and sometimes justified in rather doctrinaire terms, impressionistic interpretations of the evidence for or against them may be somewhat tainted. One can understand why autonomous agencies were introduced. In environments characterised by large scale corruption and politicisation 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. To understand why, it is helpful to step back from the immediate policy debate and, building on the ideas put forward by Julia Strauss (forthcoming), think about the taxation function from the perspective of organisation theory.

Strauss argues that the core functions of a tax administration – the assessment and collection of tax dues – virtually require, for both positive and negative reasons, a stereotypical Weberian bureaucracy characterised by hierarchy, close oversight of work performance by superiors, adherence to clear formal procedures, work discipline, long term career orientation, and meritocratic recruitment and promotion. The positive reason is that the core tasks – assessing and collecting taxes – are highly measurable, quantifiable and divisible, and so are very amenable to a strongly programmed and hierarchic pattern of work organisation. The negative reason is that the ever-present threat of corruption and extortion in the relationship between tax collector and taxpayer places a high premium on organisations which, through combinations of internal vigilance, strong discipline and the establishment of a powerful organisational culture, are able to minimise the incidence of these damaging behaviours. It is undoubtedly the case that well-managed Weberian organisations, administered separately from the rest of the public service and enjoying substantial independence to establish their own organisational routines, have sometimes been very effective tax gatherers. The Sino-Foreign Salt Inspectorate about which Strauss writes is one historical example. An even older one is the British eighteenth century Department of Excise. Organised on similar Weberian lines, with strong elements of internal discipline, oversight, meritocratic recruitment and promotion, this may be the earliest modern tax bureaucracy on which we have detailed records (Brewer, 1989: 101-14).

If these historical British and Chinese tax administrations were doing a job very similar to that required of a modern tax authority, then one could see even more strongly the appeal of the ideas behind the ARA model: a radical shift to a new organisation independent of other agencies – and therefore independent of ‘politics – that would be able both to create a strong organisational culture

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(1998), Zimbabwe (2001), Ethiopia (2002), Sierra Leone (2002), Lesotho (2003), Gambia (2005), and Mauritius (2005). Burundi is planning a revenue authority and several West African countries may follow.

<sup>20</sup> Grindle (1997: 491) explains the degree to which managerial autonomy over personnel matters is crucial to organisational autonomy more broadly.

and operate in Weberian mode. The problem is that the job of a modern national tax administration is not quite that simple, in two important respects.

First, even the most reformed modern tax systems are more complex than the simple salt production tax (China) or the single excise tax (eighteenth century Britain). Contemporary tax administrations are required to administer several taxes simultaneously. More important, they spend much of their time dealing with relatively large corporate clients who operate on the basis of complex accounting systems and do business with other similarly complex enterprises, often at arms length or in other countries with different currencies, laws and accounting systems. The tax relationships of many contemporary enterprises are not simply between an owner or manager and the taxman. Lawyers, accountants, tax consultants and other (overseas) branches, subsidiaries or affiliates of a complex corporate organisation may also be involved. The exercise of some discretion in interpreting accounts is inevitable. The formal tax rules do not determine final assessments, but rather establish the context in which those assessments are bargained. Many tax liabilities today are not as clearly definable and measurable as in the case of the Chinese salt tax.

The second difference follows closely. Tax reform is typically a continuous and mainly technical process. Rules and procedures are being amended steadily. To the extent that changes need to be embodied in law or in budgetary policy, the government agencies responsible require a great deal of detailed information and feedback on the tax collection process. That feedback inevitably has to come from the tax collection agency. The task of tax collection cannot in practice be entirely divorced from the tasks of making tax and budgetary policy. These tasks can be accomplished by different organisations, but they need to cooperate with one another.

Two potential problems with the creation of ARAs are signalled in the two previous paragraphs. First, because contemporary tax collection always involves some exercise of discretion, the creation of a powerful, autonomous ARA not subject to adequate external constraints could expose the taxpayer to extortion. The tax relationship will only work well if the taxpayer has some kind of protection against extortion, notably substantive taxpayers' rights. Second, if the autonomy of the ARA from the Ministry of Finance is established in conditions that create ill-feeling between the two, or provide few incentives to cooperation, then tax and budgetary policy may be compromised. A third problem is embedded in the application of the concept of *autonomy* to an organisation that handles large sums of money. Managerial autonomy – to run a tax agency on a day to day basis in ways that make sense from a perspective of its special functions – seems very sensible. The problems lie at the level of political control. The top managers of a tax agency cannot be left free to dispose of its income as they wish. They should be responsible to someone or, preferably, to some institution. The problem with ARAs in some developing countries is that the label *autonomy* has in practice disguised the fact that they have been answerable to only one person, often the President.

There is no typical ARA story to tell.<sup>21</sup> We can illustrate the points made above from the experience of the first contemporary ARA to be established: Peru's National Superintendancy of Tax Administration (SUNAT).<sup>22</sup> SUNAT was established in 1991, under President Fujimori, at a time when political crisis, widespread insurgency and a period of hyperinflation had reduced the government's tax take to around 4-6% of GDP,<sup>23</sup> a critically low figure. Fujimori had recently been elected, from outside the established party system, on the strength of his promises that, as a successful business man who would brook no nonsense, he would turn Peru around. Fujimori mandated the first Superintendant of SUNAT to take the revenue collection function out of the

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<sup>21</sup> For some case studies, see Chand and Moene (1999); Devas, et al. (2001); Fjeldstad (2003, 2006); Taliercio (2003, 2004); Terpker (1999); Therkildsen (2004); and Zuleta, et al. (2006).

<sup>22</sup> For more detail on the SUNAT experience, see Durand (2002), Estela (2000) and Mostajo (2004).

<sup>23</sup> The figures vary a little, as one might expect in a period of hyperinflation.

hands of the Ministry of Finance, and do what was needed to re-establish an effective tax agency. Many of the existing tax collectors were dismissed. New staff were recruited, mainly from the Central Bank and the private sector. To attract good people and diminish the temptation to be corrupt, they were paid well above the old rates for Ministry of Finance staff. SUNAT quickly established a reputation for honesty, efficiency, and for willingness to use high profile methods to squeeze tax dues even out of business people who could claim political influence. The Superintendent reported directly to the President. For a while, SUNAT was lauded as a great success. Its experience undoubtedly strengthened the view of some people in international financial institutions that they had an institutional innovation that worked. Although none of the international financial institutions ever committed themselves publicly to the policy of establishing ARAs, developing countries were strongly advised to think along these lines.

What happened to SUNAT? Several things led to considerable disillusion within a few years. There was resistance from the business sector to SUNAT's high profile tax collection techniques. While the organisation continued to be used against specific political opponents of the President, and as a general threat against potential opponents, Fujimori seems to have withdrawn support both from the policy of pressuring business to pay its dues and from the Superintendent personally. The Ministry of Finance attempted to re-establish control over tax raising. There were open conflicts and changes of staff. One Superintendent fled the country and was later arrested abroad and charged with corruption. And SUNAT's performance in raising revenues, that had been so impressive for the first few years, plateaued at a level that was clearly too low from a developmental perspective. Critics of ARAs have cited these later experiences of SUNAT as evidence of flaws in the basic model. It is, however, too early to tell.

The Uganda Revenue Authority was similarly very successful in its early years, but then its performance as a revenue raiser plateaued. Some observers see a link with the fact that it has in practice been directly responsible to President Museveni (Therkildsen, 2004). At one point, before the democratic revolution of 2005, the revenue authority in the Ukraine, which was directly under the control of the President, refused to give any information to the legislature, effectively excluding it from the process of making tax policy. By contrast, the South African Revenue Service, which has an impressive record of tightening up tax collection and appreciably increasing the total tax take, has tended to work closely with other relevant agencies, including the Treasury (Moore and Schneider, 2004). It is run by one of the leading figures within the ruling African National Congress. In Tanzania, revenue targets are set on the basis of negotiations between the Tanzania Revenue Authority (TRA) and the Ministry of Finance. Once the total tax revenue budget has been agreed, the Research, Policy and Planning Department of the TRA sets collection targets for the TRA's revenue departments (Fjeldstad, et al., 2003). While this arrangement helps exclude politicians from delicate decisions, the involvement of a tax administration in setting its own performance targets also implies moral hazard. ARAs and Ministries of Finance need to cooperate, but cooperation also raises problems.

It is possible that, a few years into the future, the policy of promoting ARAs in poor countries might be viewed as positive. It has the great merit of facilitating the degree of managerial autonomy that many tax administrations need.<sup>24</sup> At this point we can conclude that the ways in which ARAs have been introduced and promoted have led to problems which should have been foreseen. Above all, fascination with the potential of a single new super-agency has distracted attention from the fact that, in tax raising as elsewhere in the public sector, good organisational performance often depends on the nature of the relationships among agencies. In particular:

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<sup>24</sup> Not least because they are often competing for staff with private lawyers and tax advisers. If the tax authority is unable to provide levels of remuneration and job satisfaction to attract high quality staff to its own side, it can easily find itself out-witted by the other side.

(i) Tax administrations need to cooperate with the Ministry of Finance, especially over tax and budgetary policy. If an ARA is established in ways that stimulate rivalry and jealousy with the Ministry of Finance, cooperation might be severely jeopardised.<sup>25</sup>

(ii) If ARAs are not to be abused by powerful Presidents, and used as a private source of income or an instrument to intimidate political opponents, then their high status and managerial autonomy needs to be offset by pluralistic governance arrangements. Political autonomy, in the positive sense of the term, is likely to be maximised to the extent that: (a) an ARA has a guaranteed budget that cannot be changed by the government in power; (b) its status, responsibilities and powers are enshrined in law and can be protected through the police and the courts; (c) appointments to the supervisory board are made by a variety of public agents (e.g. different ministries) and non-state agents (e.g. business or lawyers associations); (d) appointments to the supervisory board are of long-term and fixed duration; and (e) managerial and operational staff are answerable only to the supervisory board.<sup>26</sup>

(iii) As organisation theorists have long argued, sustainable organisational autonomy cannot be granted, but has to be continually earned. It is always under threat. The organisation has continually to demonstrate the value of its autonomy to those who could terminate it.

Let us finally note that the assumptions about organisational behaviour used to justify the establishment of ARAs are often very contestable. For example, it is often argued that ARAs should be financed either through constitutional mandates or through automatic entitlement to a proportion of their own receipts, so that they will not be beholden for their daily bread to politicians sitting in the Cabinet or the legislature. By contrast, we have been impressed by senior Nigerian tax administrators arguing forcefully that their agencies can only get the political support they need to do a better job if they are obliged to explain annually to Parliament what they are doing and why their operational budget requests should be approved.

### 3.4 Encouraging constructive state-society engagement around taxes

Imagine that tax reformers were convinced of the validity of the arguments advanced in this paper, and wanted to encourage constructive engagement between governments and citizens over taxation issues. What would they then do? The details would depend on the specific context. But they would in general try to do two things, simultaneously. First, they would want to engage the attentions and political energies of a substantial fraction of their citizens in taxation issues by raising taxes from them. The felt experience of paying taxes should not be confined to small numbers of companies and very rich people. It should be shared sufficiently widely to secure that taxation issues are become prominent on the public political agenda. Second, the tax reformers would want to levy those taxes as consensually and as transparently as possible. They would want to put an end to arbitrary assessments, forcible collections, and the corrupt use of the tax collectors' power to extort money from citizens and companies, and increase the extent to which taxation becomes a predictable, negotiated process, in which the taxpayer has the right and the power to appeal to law against unjust treatment.

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<sup>25</sup> Therkildsen (2004) suggests that the Uganda Revenue Authority became a target for rivalry, jealousy and political interference, especially over personnel matters, because it offered well paid jobs and considerable rent-seeking opportunities.

<sup>26</sup> We are very grateful to Rob Taliercio for discussion and access to some of his unpublished work on this subject. See also Taliercio (2003, 2004).

These two objectives are not always fully consistent with one another. There is always some element of compulsion in tax collection. The two authors of this paper have slightly differing instincts about the right kind of trade off to be made between, on the one hand, minimising compulsion and the attendant risk of coercion and extortion and, on the other, ensuring that public revenue needs are met and hoping that even somewhat abrasive experiences with the tax collector will help mobilise taxpayers politically in a constructive fashion. Our concern here is not how to balance these differing positions in specific cases, but whether and how the global tax reform agenda has contributed to either of these two goals: mobilising citizens by taxing them; and moving from coercive toward consensual, transparent revenue raising.

The main promoters of the global tax reform agenda are unlikely to think in these kinds of political terms. As we explained in the first section of this paper, the reforms have been framed and driven by the ideas and discourse of various technical specialists. But they nevertheless have political impacts. We do not know in detail what they are, but can sketch out a few of the main apparent trends:

(i) The simplification of tax systems that were often highly complex, and in practice often quite discretionary, is likely to encourage the political mobilisation of taxpayers around taxation issues because the tax system becomes more transparent and accessible to ordinary citizens, and the temptations to pursue the individualistic route of cutting (corrupt) deals with the taxman are somewhat reduced (Moore, 2004). For instance, in Tanzania, the tax grievances of large corporate taxpayers are increasingly being channelled to the legal system, sometimes through collective organisations like trade associations. Government and business are increasingly engaged in a constructive dialogue, and increasingly willing to reach compromises with one another. This is significant in a country where the private sector formally was completely shunned by government until recently, and bribery and private deals played a major role in shaping tax assessments.

(ii) One component of the drive to simplify tax systems and to improve tax administration, justified in terms of reducing both the administrative costs of collection incurred by the tax administration and the compliance costs incurred by taxpayers, has been the removal from the tax net of those taxpayers who generate little net revenue. This is contrary to the emphasis in principle within the global tax reform program on broadening the tax net. We have no overall figures on changes in the global number of taxpayers. However, it seems likely that there has been no big increase, and that, in many countries, the number of registered taxpayers has been reduced. We are not suggesting that a wider tax net is always a good thing. Our concern is that tax reform has been driven by a clear economic calculus that emphasises the advantages of excluding marginal payers from the tax net. The political arguments for inclusion have not been made or 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, they often fall heavily on a small number of registered, formal sector companies.

In Tanzania, with a total population of more than 35 million people, 286 large taxpayers pay almost 70% of the domestic taxes.<sup>27</sup> The revenue base excludes many professionals, such as lawyers, doctors, and private consultants, as well as the more stereotypical, poor informal sector enterprises. Fewer than 1% of the taxpayers pay more than 85% of the direct taxes levied in Peru (Mostajo, 2004). We know from a wide variety of sources that this heavy concentration on a few larger

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<sup>27</sup> The data, relating to June 2005, were kindly supplied by the Tanzania Revenue Authority.

taxpayers can have perverse results.<sup>28</sup> Tax collectors, both institutionally and personally, have stronger incentives to concentrate on trying to extract more revenue from this existing, registered base than to go about broadening the base by bringing more, smaller enterprises and individuals into the net. Identifying, locating and registering new taxpayers can be difficult. And concentrating on the existing base can be more rewarding: larger taxpayers are more likely to be willing to pay larger bribes. Those processes in turn help to keep issues of taxation and extortion off the public political agenda: smaller enterprises may be little affected by tax at all, and larger enterprises may continue to solve their problems through bribery.<sup>29</sup> We are not suggesting that this simple causal model tells anything like the full story. The point is that it is sufficiently valid that 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.

(iii) The argument made in the previous paragraph is all the more pointed in situations where national governments are under strong pressure from the IMF to meet revenue targets, and their 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. In Uganda, operations against smuggling and tax evasion have been staffed by military personnel. Gariyo and Anena (2001) talk of the militarization of the revenue collection. Therkildsen (2004) argues that, by pushing for unrealistically high revenue targets, the Ministry of Finance helped undermine the reputation and credibility of the Uganda Revenue Authority 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). Clearly any blame for such behaviour should be widely shared, and does not lie solely with the IMF. Our point, again, is that a purely economic approach to tax policy may have perverse results, for both polity and economy.

(iv) Finally, and most starkly, the global tax reform agenda has so far been heavily focused on central governments and central revenue raising, notably through autonomous revenue agencies. The highly coercive revenue raising practiced by some local administrations, notably in parts of Africa (Fjeldstad and Therkildsen, forthcoming) and China (Bernstein and Lu, forthcoming), has not been on the radar of the reformers. Ending that coercion implies more attention to local government finance. If the global tax reform program were judged by the degree of attention it has given to trying to reduce the most coercive types of taxation, it would not score highly.

For the structural reasons explained by Moore (forthcoming), taxation tends to be more coercive in poorer societies. In some respects, the global tax reform agenda seems to encourage more constructive state-society engagement around tax issues. In other respects, it seems to do the opposite. We should be concerned.

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<sup>28</sup> In his comparative study of Argentina and Chile, Bergman demonstrates the long term damage to collection capacity that resulted from repeated 'emergency' revenue raising campaigns in Argentina (Bergman, 2003: 623). See also Gløppen and Rakner (2002).

<sup>29</sup> In private communications, Amrita Jairaj has pointed out to us, on the basis of her research in India, that tax consultants often ease the moral burden of being bribe-givers by themselves paying the bribe and cloaking it within their fee charges.

## 4. Conclusion

National tax policy has become significantly more globalized in recent decades. There is no single driver of this trend. The spread of digital technologies has been important worldwide. When looking at the poorer countries, it is generally easy to spot the influence of the International Monetary Fund and other international financial institutions. But their power and influence is generally on the wane. From a long term perspective, a more important factor may be the emergence of an epistemic community of taxation professionals, employed in national tax administrations, in consultancy companies and in international financial institutions, and organised in regional and global professional associations. That epistemic community both shaped and was shaped by a period of unusually radical tax reform in the developing world since the 1980s. A professional consensus was established around a small number of powerful ideas and institutional technologies – notably the Value Added Tax, the notion of a greatly simplified tax system, and a commitment to reform tax administration. Although taxation is conventionally viewed as a highly contentious political process, this professional consensus has made possible a great deal of tax reform that, with some exceptions, has generated little overt resistance. As we indicate at the beginning of this paper, the tax reformers' work appears unending. The need for reform seems to be as great today as in 1980. But there has been considerable progress in the interim.

Has this global tax reform been good for state-building? It is hard to give an unambiguous answer. As we have pointed out, the reforms have not been anti-state in intention. The main single locus of reform, the International Monetary Fund, has an institutional interest in helping governments to tax more effectively and efficiently. Many central tax administrations are more professional and effective today than twenty years ago. The effects of reforms have been sufficiently visible that there is no significant pressure to privatise tax collection. From a state-building as much as from an economic policy perspective, the main emphases within the global tax reform agenda – exploiting the potential of VAT, simplification of systems and improving administration – seem broadly right. The concerns that we have voiced here about the implications of the global reform agenda for state-building in poor countries arise from the fact that the agenda has largely been shaped by people and institutions focused on the situation and needs of richer countries and concerned mainly with the economic rather than the state-building dimensions of taxation. Poorer countries, that are more diverse than the richer nations, have been marginalised in the reform design. Opportunities to devise policies specific to their needs have been missed. We dealt with the following issues:

- The way in which the governments of many poor countries lost revenue because of the rapid reduction in trade taxes when the putative substitute, VAT, was not yet sufficiently bedded down in the difficult environment posed by the prevalence of informal, unrecorded economic transactions.
- The low levels of interest in finding ways of actually taxing the informal sector, exploiting the potential for effective urban property taxes, or tackling the scandal of tax exemptions for aid agencies.
- The promotion of authoritative, privileged autonomous revenue agencies as one-shot, stand-alone solutions to problems of tax administration, when experience in other sectors and basic organisational analysis point to the need to pay attention to the relationships between these agencies and other fiscal institutions.
- The general lack of concern for the historical evidence about the connection between taxation and state-building, notably the need to construct taxation systems that engage citizens in politics in a positive way, and contribute to the legitimacy of the state.

The last point is perhaps the most important. The global tax reform agenda has been effective in part at least because its proponents have been consciously anti-political. They have been able to achieve reforms partly because they have succeeded in presenting them as technical and the inevitable result of globalization and of the need to be efficient and competitive in the global economy. They have not generally wished to engage citizens over taxation issues, and have certainly tried to exclude most politicians. These are all understandable strategies. They have to date produced some successes, and bear responsibility for no disasters. However, we do not think the world should be fully satisfied with that. Tax reform inevitably has political consequences. Reformers who skate over the state-building problem in pursuit of a purely technical agenda are likely to miss opportunities. They are unlikely to contribute to the construction of effective and accountable states, and might even on occasion be undermining that goal.

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## SUMMARY

How far has the recent global wave of tax reform contributed to state building in poorer countries? Our conclusion mirrors other general globalisation arguments: there are good things to report, but worrying problems in the poorest and most dependent countries. The reform agenda is least appropriate to those countries most in need of the state-building to which the taxation process has contributed at in other places and times. Governments in poorer countries have little choice but to go along with a reform agenda reflecting the priorities and needs of the more powerful actors in the international system. The contemporary tax reform agenda does not address the more urgent problems that the poorest countries face.

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