Taxation, accountability and the poor

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Seminar Report

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Introduction

This seminar seeks to improve our theoretical and institutional capacity to link taxation, accountability and pro-poor efforts in developing countries. The challenge is to learn from, but not depend on, developed country experiences; broaden our focus beyond narrow technical criteria; and avoid fragmented implementation among multiple donor and governmental institutions. Failure to overcome these challenges has complicated past attempts to attain fiscal objectives and obstructed political and distributive aims in developing countries. The current seminar brings bilateral and multilateral donors together with the academic community in an effort to overcome these obstacles. The chief goal is to share experiences and insights and to design tax policy advice that encourages greater attention to accountability and the poor.

The background to the current seminar was a highly successful 2001 event in Washington, D.C. In that gathering, multilateral and bilateral donors met to share experiences and seek greater coordination in their tax policy advice. This seminar is the second such gathering. This time, we laid out a more ambitious plan of focusing discussion on accountability and poverty, while extending the range of participants to include multilateral donors, bilateral donors, developed country tax officials, developing country tax administrators, and academics. The resulting discussion offered a range of best (and worst) practices, and we mobilised support for cooperation that is to begin with an International Tax Dialogue to be coordinated by the IMF, World Bank, and OECD.

The seminar highlighted the political economy of taxation, which places revenues in the context of larger economic transformations and political dynamics. Developing countries find themselves at an historical moment in which their capacity is limited by structural factors not entirely of their own making. Their citizens, especially the poor, find themselves excluded from decisions about taxation. What measures can be introduced to privilege the poor and enhance national development capacity? Here the politics of taxation enters view. Mechanisms of accountability, if successful, may be a step towards incorporating the poor and enhancing development capacity. Formal, representative institutions that incorporate the poor can enhance their ability to articulate their interests and advance a progressive system of public finance, both in taxation and expenditures. If combined with administrative capacity, this also strengthens national institutions, and allows governments to mobilise resources for development.

In the first five sessions of the seminar, academic experts in the field of taxation offered presentations based on their research. An abstract of each presentation is presented in this report. Following each abstract, a sample of the discussion provides an overview of the debate that occurred. The discussion was rich, and no highlighted summary can do justice to the numerous valuable interventions. Still, this document serves as a record of current thinking and a guide to future collaboration.

Session 1: Politics of taxation and accountability in developing countries

During this session, the presentation and the discussion focused on the political characteristics of taxation. The presenter made the case for a new conceptualisation of taxation based on the governmental requirements of developing countries. In particular, he emphasised the relationship between taxation and accountability.

The New Politics of Taxation and Accountability in Developing Countries
Presented by Professor Mick Moore, Institute of Development Studies

The history of state formation in Western Europe suggests that the dependence of governments for income on tax revenues levied on their own subjects played a critical role in the construction of good government – both the creation of effective state bureaucracies and the emergence reciprocal bargaining relations between rulers and organised groups of citizens. A wide range of evidence suggests that the low dependence of states on such tax revenues is an important cause of bad governance in the contemporary South. Aid, minerals, and oil revenues may lead to serious political problems. How far will current and likely future shifts towards greater tax dependence in much of the South alleviate the governance problem? And what scope is there for constructive intervention by aid and development agencies?

Discussion highlights

- The way in which taxation systems are governed is becoming a major barrier for many countries in moving forward with credibility to achieve effective poverty reduction. Paying attention to accountability in taxation would link taxation to broader processes of political development.

- The accountability of taxation may depend critically on the kinds of taxes implemented. Links between taxes and services have encouraged accountability in developed countries. In developing countries, however, Ivor Beazley, Governance Department of DFID UK, noted that the individuals who pay broad-based taxes are not always the ones who receive services.

- Another link to accountability is based on the ease of administration. Judith Tendler of the Massachusetts Institute of Technology argued that some of the taxes traditionally considered as "bad" are easier to levy than "good" taxes, and hence generate short-term resources. Governments, practitioners and researchers would be well advised to analyse how to make "good" taxes easy to levy and administer.

- Poor administration can edge into coercion if the right protections are not put into place. Revenue targets placed by donors may accelerate this process by forcing tax authorities to increase extraction by any means. Mrs Lineo Tshabalala, Chairman of the Revenue Board of Lesotho, pointed out that revenue authorities must also aim to promote citizens' rights.

- Stephen Tye, Pricewaterhouse Coopers, specified three options that might decrease or stop coercion in tax-collection. First is good management; second is legislation for taxpayers' and tax-collectors' rights; and third is a fair judicial system.

- The private sector has a role in promoting these measures. Dieter Kattermann, GTZ, added that foreign and local investors are important pressure groups to increase the rule of law. It is these private and foreign investors who pay taxes and they expect service delivery from governments.

- Another issue that should be considered in terms of its effects on accountability is the role of aid. This is especially the case in places that are extremely dependent on aid, such as many countries in Africa, where current patterns of external assistance may undermine internal mechanisms of accountability.

- The kind of aid given and the way it is absorbed can influence its impact, noted Rupert Bladon of DFID Rwanda. Direct budget support, which has been increasing, often represents a bypass of legislative processes in developing countries. If it is brought into formal processes, however, it could potentially improve incentives for democratic processes and elections.

- Another aid consideration is the bias towards the national level. Tim Williams, DFID Uganda, commented that more attention should be paid to the way aid influences local level authorities, as they often affect the majority of the population.

- In particular, these local authorities are often different from those at the national level, especially in accountability relationships. The relationship between tax and accountability must consider what groups can organise to protect the public and where they will have the capacity to do so. The groups and actors who dominate at the local level may be different than those at the national level.

Session 2: Taxation, intergovernmental relations, and natural resources

The second session focused on a conundrum facing many developing countries: natural resource revenues. Such revenues create unusual dilemmas about how to tax and distribute windfalls from resource rents without falling into the "resource curse" of unaccountable and inefficient revenue administration.

Centralisation/Decentralisation of Natural Resource Revenues
Presented by Professor Alexander G. Kemp, University of Aberdeen

This paper examines the issues involved with respect to decentralisation of natural resource revenues taking petroleum as the example. It discusses the various instruments that may be employed to collect economic rents to the state from petroleum exploitation. The paper then discusses the various ways by which the revenues may be allocated among different tiers of Government, including (a) sharing from a rigidly centrally-determined scheme, (b) various degrees of flexibility within a centralised scheme, and (c) substantially devolved tax/royalty powers to different tiers of Government. The equity and incentive effects of the various schemes are examined. These include poverty and inequality alleviation, alienation reduction, and compensation for disruption/pollution. The effects of the various schemes on the transparency of revenue management and on the risks facing investors are also examined.

Discussion highlights

- Despite the many risks associated with resource dependence, there are examples of relative success. Norway is one example where oil revenues are linked to accountability and good governance. One explanation is that oil revenues in Norway were linked to an already developed revenue authority. Stig Sollund, Ministry of Finance of Norway, added that two issues are central to the Norwegian case. First, the benefits from natural resources are distributed to the entire population; and second, the benefits from resources are also for the benefit of future generations, meaning that part of the budget is used to maintain the capital stock.

- Keith Bezanson, Director of the Institute for Development Studies, noted that there were also successful cases from among developing countries, for example, Botswana.

- Part of the difficulty posed by natural resources is the powerful interests at play. Tuan Minh Le of the World Bank explained that many oil companies complain about heavy taxes being levied on the extraction of natural resources. From their perspective, governments defend higher tax rates on the grounds of depletion of stocks and externalities such as pollution. Key to the negotiation between governments and firms is transparency in transactions. In Angola, British Petroleum opened its accounts and published the payments that had been realised to the Angolan government.

- An additional player in these negotiations is the country that hosts extraction firms. Countries that possess natural resources, countries that host international extracting firms, and the firms themselves must find ways to agree on the division of revenues arising from extraction. Participants noted that a more even distribution of revenues from natural resources was necessary.
- An additional discussion focused on natural resources in governments with multiple levels. According to Professor Normal Gemmell, University of Nottingham, theories advise collecting revenues centrally and transferring resources downwards. In practice, however, transferring mechanisms in developing countries may be non-existent or inefficient, and this means we should consider the possibility of collecting revenues at the local level.
- In addition to the transfer system, other problems arise in decentralised systems. Central government political interventions and the evolution of decentralisation may lead to incentives to pursue local fiscal choices that contradict economic policies pursued at the centre.

Session 3: Taxation and accountability in sub-Saharan Africa

Sub-Saharan Africa presents an incredibly diverse array of experiences, yet similar challenges face many governments in enhancing capable and accountable tax administration. The regional focus of this session allowed comparisons of countries with similar historical legacies and identified innovations that might be exported as best practice from successful countries to others within the region.

Taxation in sub-Saharan Africa
Presented by Dr. Lise Rakner, Chr. Michelsen Institute

Can improved revenue collection and tax policies provide for more democratically accountable government? There is a complex relationship between taxation and accountability in the context of tax reforms currently undertaken in a number of sub-Saharan African countries as part of larger structural adjustment programmes. In order to assess whether the tax reforms have provided a "governance bonus" in terms of greater responsiveness in state-society relations, we focus on three interrelated issues affecting the relationship between taxation and accountability.

First, we consider the *internal accountability* of the tax system and ask whether the tax reforms have resulted in a system of taxation with greater reach, higher level of efficiency, and transparency. Second, we ask whether the tax reforms have created closer links between African governments and their citizens and thereby increased *democratic accountability*. Third, we discuss to what extent and in what ways *external accountability* relations between African governments and international donors affect domestic accountability relations.

Discussion highlights

- We were privileged in our discussion to have representatives from developing country revenue authorities. Berlin Msiska, Commissioner General of the Revenue Authority, Zambia, explained that the Zambian revenue authority has sought operational autonomy, including fiscal coordination, hiring and firing practices, and competitive wages for qualified personnel. The goal is a cost-effective administration that also provides taxpayers with education about their rights and obligations.

- Of course, tax reform is more than the creation of autonomous, or semi-autonomous, revenue authorities. For some, tax administration is about leadership, management systems, tax participation, how to use technology, and how to develop staff and accountability systems.

- In addition to these short- and medium-term problems, longer-term goals may include a different dynamic. In fact, there are potential conflicts between one-off changes to achieve immediate revenue goals, and long-term measures that create a sustainable revenue authority.

- Many factors can only be addressed with a long-run perspective, such as structural conditions facing developing countries. Matthias Witt, GTZ, pointed to the existence of large informal sector and heavy involvement agriculture. One approach might be to assign taxation of certain sectors to different levels of government and create systems of transfers between them. This has been the practice in Kenya and Tanzania. To make it function efficiently, however, Lise Rakner of the Chr. Michelsen Institute in Norway suggested that local government structures would have to increase the capacity of their administrations.

- Administrative capacity requires protection from powerful interests, however, and even national governments have been pressured into multiple exemptions for multinational corporations. These exemptions are not transparent, and developing country governments end up giving up revenues they need for service delivery.

- Paradoxically, protecting administration actually means balancing autonomy and protection with transparency, accountability and embeddedness. Martin Grote, Ministry of Finance in South Africa, pointed out that parliamentary demands for information and accountability are one of the main driving forces for efficient administration. The key is to design a strong constitution that supports parliamentary oversight while protecting the bureaucracy from capture.

- David Hesketh, of HM Customs and Excise, reiterated the importance of protecting administration, this time with reference to customs. In some developing countries customs are the largest collectors of revenue. Problems of corruption lower the revenue generated, decrease overall trust and reliability, and erode transparency.

Session 4: The impact of taxation on inequality and poverty: a review of empirical methods and evidence

Any improvements to tax systems in developing countries must pay special attention to the poor. Though most taxes do not target the poor, many taxes indirectly affect them by altering the price of goods they consume or produce. Choosing a tax structure that privileges the poor calls for close analysis of incidence and enhancing the political and economic role that poor citizens play in developing countries.

Taxation and Poverty: What do we Know About the Incidence of Taxes on the Poor in Developing Countries?
Presented by Professor Norman Gemmell, University of Nottingham

The examples drawn from developing countries have led researchers to adjust theoretical paradigms to fit new contexts. What guidance does the theory of taxation offer for tax reform in developing country contexts? What are the lessons that tax theory offers on incidence, poverty, and equity, and how do these lessons fit the developing country reality?

Discussion highlights

- As might be expected, the discussants were virtually unanimous in wanting greater attention to the poor and poverty impacts in taxation. The participants noted that the choice of tax instruments affects poverty and income inequality, and were surprised to find that sales taxes were not as regressive as previously thought and export taxes could be significantly progressive. Of course, the progressivity of taxes depends on the context. Keith Wood of DFID Zambia explained that in some contexts, export taxes fall on richer, large-scale farmers. Of course, in countries with poorer, small-scale exporters, the effects would be different.

- The participants were well aware of the difficulty of creating progressive tax regimes. Odd-Helge Fjeldstad of the Chr. Michelsen Institute in Norway noted that too much tinkering with tax systems to achieve purely distributional effects has often resulted in a very complicated, non-transparent tax system. The end result might be less redistribution than a more simple system.

- Complex structures, noted Christopher Heady, of OECD, create difficulties in measurement and in administration, especially in direct taxes, such as income taxes. The distinction between personal and corporate income, for example, creates distributional effects that are not always easy to measure.

- Even if an efficient and progressive system could be devised, it would be important to remember the expenditure side of the budget. Susan Ulbæk, Ministry of Foreign Affairs in Denmark, encouraged us to include the distributional effects of outlays when considering the impact of changes to the tax structure. The impact on distribution depends on the amount spent, the proportion spent on social programmes, and the delivery of services. Measuring tax incidence alone is probably not sufficient.

- There is also a need for an accurate measure of the political incidence of taxation, especially for accountability and governance concerns. Aaron Schneider, Fellow of the Institute of Development Studies, suggested that political incidence includes several dimensions of state-society interaction. "Visibility" measures the interaction that occurs in paying taxes – writing a cheque to the government for income tax is different than the same amount being withheld at source from a paycheque. "Openness" measures the interaction that occurs in deciding taxes – taxes that require periodic legislative or public approval are qualitatively different than those that do not attract debate or discussion. Participants added "legitimacy" as a third dimension of political incidence. Taxes vary in terms of the degree to which they are popularly accepted.

- Mario Sanginés, World Bank, informed the audience that the World Bank has been working on some of the political characteristics of taxation by developing a set of 20 indicators that has been used in Central America. Among other characteristics, the indicators pay special attention to the administrative capacity of government institutions.

Session 5: Reforming tax administration – the case of revenue authorities

The first session of the second day picked up the issue of tax administration with a focused look at independent revenue authorities. Structural factors, historical legacies, interest group pressures, and international exigencies have often resulted in tax administrations that are porous, corrupt, and at times coercive. Reforms to tax institutions cannot ignore the broader causes of weak administration, but certain innovations offer valuable lessons. Independent revenue authorities are one such innovation, and their successes and failures deserve attention.

Controlling Fiscal Corruption: Lessons from the Tanzania Revenue Authority
Presented by Dr Odd-Helge Fjeldstad, Chr. Michelsen Institute

Tax administration has come to the core of tax reforms in poor, aid dependent countries. These reforms, reflected in the establishment of revenue authorities, are driven by two main objectives: improved revenue performance and enhanced accountability. The choice of the revenue authority model aims partly to limit direct political interference into the operations of the tax administration, and partly to free the administration from the constraints of the civil service system, particularly with respect to salaries, and hiring and firing of staff. What do focused case studies tell us about how such reforms actually work? Moreover, what kind of risks and opportunities do revenue authorities represent for poor countries in their tasks of controlling corruption?

Discussion highlights

- A serious problem facing developing countries is the high level of corruption, which works against the potential tax collection of the country. Some of the World Bank's tax and customs reform projects have supported the development of Risk Maps to identify areas and networks of corruption.

- In economics terms, corruption has two sides: demand and supply. Joe Kelly of HM Customs and Excise noted that for every bribe that is taken, someone paid. He argued that the solution to corruption is to build partnerships in development.

- In addition, Simon Gill of the Governance Department DFID UK suggested that we should be looking at complementary reforms in the judiciary with the aim of increasing the probability of detection and punishment of corruption.

- Moses Adhola, Asia Regional Economics and Policy Department of DFID UK, emphasised the positive links between corruption and education. He encouraged providing education to public servants, tax officers and citizens on moral issues surrounding corruption.

- Allen Kagina, Commissioner of Customs in Uganda, added that corruption could not be solved with a simplistic approach, but must be understood in terms of the specific situation of each country and then attacked with a holistic approach.

- Participants noted that the fiscal budget in most African countries cannot be financed solely through taxes at the present time. In highly aid-dependant countries, Frans-van Rijn, Ministry of Foreign Affairs of The Netherlands, noted that the negotiations about taxes often include donors and international development agencies.

- One of the resulting patterns is that tax reforms set targets for tax collection measured by the tax-GDP ratio. One problem, however, is that the tax-GDP ratio may be a poor indicator of performance. For example, a change in tax rate or new tax codes, can affect the revenue collection in the short-term, without any change in the administrative performance. In addition, circumstantial events can lead to fluctuation in performance that make it difficult to set benchmarks. If there has been a windfall or an unusual event, such as one-off payments of back taxes, the tax-GDP ratio will appear inflated. Periodic revision of targets is probably a better approach.

- To increase their tax base, there are increasing pressures for governments of developing countries to tax the informal sector. However, Commissioner Msiska (Zambia) mentioned that it must be cost-effective for the revenue authority to tax the informal sector, otherwise scarce resources would be used inefficiently.

Session 6: Taxation, administration, and politics

In many developing countries, a large informal sector combines with weak democratic institutions to create special tax problems. Tapping into this sector would provide revenues, and perhaps more important, would allow formalisation of precarious economic conditions. Incorporating the informal sector without stifling pockets of vibrant activity is no easy task, however, and mechanisms of accountability will be an important component of any solution.

Small Firms, the Informal Sector, and the Devil's Deal
Presented by Professor Judith Tendler, Massachusetts Institute of Technology

These days, everybody loves small firms and their clusters. Some characterise small firms as the proper subject of social policy and safety nets, while others see small firms as the stuff of serious development. Unfortunately, the combination of the social-policy view with the inevitable local politics of small firms generates a brew that inadvertently undermines not only the development agenda but also certain aspects of the social policy agenda. This presentation explains how this happens, and shows that things don't always need to turn out that way, especially if donors and others pay attention to the histories lying behind today's thriving small firm clusters in developing countries.

Discussion highlights

- The "devil's deal" refers to a tacit agreement between firms who wish to remain informal and politicians who want to secure their votes. The result is a low tax, low regulation environment. A "match made in heaven" would exchange tax payment from the informal sector for government services firms need (infrastructure) and government regulation to manage competition (including restraint on environmental degradation and poor working conditions). Such an improved deal would promote growth by making investment more attractive.

- Of course, this does not ignore the fact that the actors involved in the informal sector include a variety of large producers, small producers and individuals. The latter, in many instances, pay taxes via consumption as long as there are not many exemptions, according to Paul Wilby, HM Customs and Excise.

- Bringing firms into the net is delicate. Small firms demand services and infrastructure from government and should expect to pay a fair share. Still, tax rates have to take into account the ability to pay. To determine appropriate rates, there should be coordination between government and small firms.

- John McGinley of IR International Assistance noted that they are adopting an enabling approach between small firms and the government in which the taxpayer is seen as a customer of the services of the government. For the agreement to truly be "made in heaven", it would have to include more than firms and government, however. It also has to find a way to incorporate those concerned with other impacts of the informal sector, such as impact on the environment and workers. The agreement that is made is more than an exchange, it is a social contract in which government, firms, workers, and civil society decide what tax and production regime they want to enjoy.
- One way in which this social contract is developing is through the growth of taxpayer organisations. This enables the government to get closer to each segment and understand their realities. Richard Highfield of IMF mentioned that this seems to be a trend emerging in different countries.

Session 7: What have we done, what are we doing, what will we do?

The final afternoon of the seminar was dedicated to a review of individual country experiences and observations based on the previous sessions. In particular, the participants wanted to take stock of how they would apply notions of taxation, accountability and the poor to their current work.

Discussion highlights

- There are good reasons to believe that fiscal transparency in developing countries can be a very powerful mechanism for empowering political parties, politicians and societal organisations to hold governments accountable. Taxation generates a degree of accountability between the government and civil society with respect to the resources being used on the budget.

- A challenge is posed to donors, who provide non-tax revenues but also wish to enhance accountability. To accomplish this, there must be a clear understanding of the meaning of the concept "accountability".

- This is especially important, as many of the goals of donors are associated with accountability. Countries with high levels of accountability also possess high levels of order, functioning judicial systems, and harmonised tax systems. Eva Busse of GTZ noted that it is important also to understand the connections between accountability and these other goals.

- One mechanism that has attracted much attention was the independent revenue authority. Of course, independent revenue authorities are not enough by themselves to tackle the fiscal problems of developing countries. There is also the need to change the policy framework, change corrupt practices and take into consideration cultural issues and the environment in the tax reform.

- According to Dr Fjeldstad, one of the main problems of revenue authorities is the judiciary. Tax violators have to reasonably know that they will be punished. Similarly, citizens should also be able to bring the revenue authorities to court too.

- In this line of discussion, some participants favoured supporting taxpayers' associations. Anna Hanson, National Tax Board of Sweden/International Consulting Office, has done significant work on taxpayers' associations, in particular in providing taxpayers with education about their rights and obligations.

- Of course, in any taxpayer association, care has to be taken that it operates as an advocate of accepted tax principles, and does not turn into a lobbying organisation for particular interests. One factor in preventing taxpayers' associations becoming a lobby group is to place them under continuous scrutiny and observation. A mechanism for this is the legislature, which should legislate and oversee exemptions. Commissioner Msiska (Zambia) urged decreasing the powers given to commissioners and ministers; and increasing the powers of congress.

- In making reforms, however, Commissioner Kagina (Uganda) felt that advice should pay greater attention to local environments. There is a tendency to generalise prescriptions for developing countries, even when significant differences exist.

- One contextual characteristic that has to be taken into account is the dualism with regards to rural and urban poor, and which of these groups bear the burden of taxes. Local taxes and local governance, in particular, affect the rural poor. Tim Williams (DFID) suggested the need to recognise local taxation as a separate category and to make it particularly sensitive to poor people.

- Ivor Beazley (DFID) gave three areas where further analysis will be required: (i) understanding tax incidence and the links of taxation to poverty and inequality; (ii) taxation of local governments; (iii) the dynamic and long-run process of tax reform.

Session 8: Where do we go from here? How can we cooperate in the future?

The final session focused on concrete steps for collaboration and laid out a framework for a network that could pool resources, skills, and information while coordinating development efforts.

The International Tax Dialogue

Discussion led by Richard Highfield, IMF, Christopher Heady, OECD, and Tuan Minh Le, World Bank

Discussion highlights

- Donors felt that they needed to learn from the experiences presented, especially with respect to the potential negative side of external accountability. Marit Strand, NORAD, emphasised that accountability requires transparency in data, and the current taxation statistics of developing countries are far from being transparent.

- To assist in remedying this, The World Bank, IMF and OECD proposed the creation of an interactive network. This network would exchange technical assistance and share information, perhaps even to actors outside of government.

- Ivor Beazley (DFID) welcomed the initiative and proposed continued personal contact between practitioners and policy-makers in different countries. For this purpose, he suggested the organisation of many regional events in which there is interaction among participants of several countries and donors.

- In addition, larger gatherings like this seminar were encouraged. In particular, participants were eager to stage a conference in which developing countries presented their ideas on taxation policies and reforms. This conference would express the ideas of different countries about what to do and how to do it. Academics could participate by giving their own perspectives. A conference including this type of exchange could be incorporated into the programme of work of the International Tax Dialogue, with particular emphasis on the efficiency of tax systems.

- In general, practitioners, advisors, and academics found it very helpful to gather, and hoped to do so again in small, regional groups. This could form partnerships with the academic community to undertake research and to inform policy.

- Issues of accountability and poverty were re-emphasised as major outputs of the current conference. At present, issues of taxation and tax incidence are not in the agenda of Poverty Reduction Strategies in the poorest countries. Participants suggested that if tax policies were left out of future Poverty Reduction Strategy Programmes, future poverty reduction strategies would be incomplete.

- To include attention to poverty in taxation, it is necessary to see it as a political issue of creating accountability and representation for the poor, according to Max Everest-Phillips, Governance Department DFID.

- James Donovan, Swedish International Development Cooperation Agency, noted that the Swedish Government traditionally viewed taxation in terms of decreasing long-run dependency on foreign aid and empowering government. Following the conference, however, he would be keen to add accountability as a major goal of tax reforms. An interesting project promoting accountability was carried out by a Non-governmental Organisation called the Institute for Democracy in South Africa, that monitors the budget process and informs both citizens and the parliament.

- The national and donor practitioners were encouraged by the possibility of using conferences like this one to coordinate common financial management improvements, such as formulating, financing, and implementing good budgets. Future cooperation would include the main actors in taxation – governments, citizens and donors. First, there is a need to educate taxpayers in terms of the changes that are occurring, their rights and their obligations. Citizens in Zambia, for example, did not make a distinction between the newly created revenue authority and the government; they wanted to see immediate results. Second, it is necessary to increase professionalism of public servants; and third, taxation goals must be proposed under more realistic socio-economic scenarios.

- To achieve these more contextually specific reforms, Commissioner Kagina (Uganda) argued for a more bottom-up approach to tax reforms. This does not rule out help from donors and international agencies but implies that the ownership of the reform stays within and belongs to the country.

- One example of such bottom-up cooperation is in collaboration on the issue of customs. Countries have formed strategic partnerships in customs in which there is mutual support, exchange of information and use of technology, among other benefits. More generally, there is the need to coordinate efforts in taxation in terms of policy, technical assistance, and strategic management.

- The conference ended with enthusiasm for continued cooperation. Frequent meetings of small- to medium-sized groups facing similar challenges were seen as a useful complement to large gatherings of diverse participants. Participants planned follow-up events that could reconnect the actors currently present, update information on progress attained, and continue to divulge best practices.

Appendices

Agenda

Day 1 – 31 October, Institute of Development Studies, Room 221

9.30–10.00 Registration

10.00–10.45 Politics of taxation and accountability in developing countries
The history of state formation in Western Europe suggests that the dependence of governments for income on tax revenues levied on their own subjects played a critical role in the construction of good government – both the creation of effective state bureaucracies and the emergence of reciprocal bargaining relations between rulers and organised groups of citizens. A wide range of evidence suggests that the low dependence of states on such tax revenues is an important cause of bad governance in the contemporary South. Minerals, especially oil, and aid, may lead to serious political problems. How far will current and likely future shifts towards greater tax dependence in much of the South alleviate the governance problem? And what scope is there for constructive intervention by aid and development agencies?

Professor Mick Moore, Institute of Development Studies, '*The New Politics of Taxation and Accountability in Developing Countries*'.

10.45–11.15 Discussion

Chair: Dr Aaron Schneider, Institute of Development Studies

11.15–11.30 Coffee break

11.30–12.15 Taxation, intergovernmental relations, and natural resources
This paper examines the issues involved with respect to decentralisation of natural resource revenues, taking petroleum as the example. It discusses the various instruments which may be employed to collect economic rents to the state from petroleum exploitation. The paper then discusses the various ways by which the revenues may be allocated among different tiers of government, including (a) sharing from a rigidly centrally-determined scheme, (b) various degrees of flexibility within a centralised scheme, and (c) substantially devolved tax/royalty powers to different tiers of government. The equity and incentive effects of the various schemes are examined. These include poverty and inequality alleviation, alienation reduction, and compensation for disruption/pollution. The effects of the various schemes on the transparency of revenue management and on the risks facing investors are also examined.

Professor Alexander G. Kemp, University of Aberdeen, '*Centralisation/Decentralisation of Natural Resource Revenues*'.

12.15–12.45 Discussion

Chair: Matthias Witt, Germany, GTZ.

12.45–2.00 Lunch

2.00–2.45 Taxation and accountability in sub-Saharan Africa
Can improved revenue collection and tax policies provide for more democratically accountable government? There is a complex relationship between taxation and accountability in the context of tax reforms currently undertaken in a number of sub-Saharan African countries as part of larger structural adjustment programmes. In order to assess whether the tax reforms have provided a "governance bonus" in terms of greater responsiveness in state-society relations, we focus on three interrelated issues affecting the relationship between taxation and accountability. First, we consider the *internal accountability* of the tax system and ask whether the tax reforms have resulted in a system of taxation with greater reach, higher level of efficiency and transparency. Second, we ask whether the tax reforms have created closer links between African governments and their citizens and thereby increased *democratic accountability*. Third, we discuss to what extent and in what ways *external accountability* relations between African governments and international donors affect domestic accountability relations.

Dr Lise Rakner, Chr. Michelsen Institute, '*Taxation in sub-Saharan Africa*'.

2.45–3.15 Discussion

Chair: Berlin Msiska, Commissioner General of Zambia Revenue Authority.

3.15–3.45 Coffee break

3.45–4.30 The impact of taxation on inequality and poverty: a review of empirical methods and evidence
The examples drawn from developing countries have led researchers to adjust theoretical paradigms to fit new contexts. What guidance does the theory of taxation offer for tax reform in developing country contexts? What are the lessons that tax theory offers on incidence, poverty, and equity, and how do these lessons fit the developing country reality?

Professor Norman Gemmell, University of Nottingham, '*Taxation and Poverty: What do we Know About the Incidence of Taxes on the Poor in Developing Countries?'*

4.30–5.00 Discussion

Chair: Ivor Beazley, Department for International Development.

Day 2 – 1 November, Institute of Development Studies, Room 221

9.00–9.45 Reforming tax administration – the case of revenue authorities
Tax administration has come to the core of tax reforms in poor, aid dependant countries. These reforms, reflected in the establishment of revenue authorities, are driven by two main objectives: improved revenue performance and enhanced accountability. The choice of the revenue authority model aims partly to limit direct political interference into the operations of the tax administration, and partly to free the administration from the constraints of the civil service system, particularly with respect to salaries, and hiring and firing of staff. What do focused case studies tell us about how such reforms actually work? Moreover, what kind of risks and opportunities do revenue authorities represent for poor countries in their tasks of controlling corruption?

Dr Odd-Helge Fjeldstad, Chr. Michelsen Institute, '*Controlling Fiscal Corruption: Lessons from the Tanzania Revenue Authority'*.

9.45 – 10.15 Discussion

Chair: Frans-van Rijn, Netherlands, Senior Advisor Public Finance Management, Ministry of Foreign Affairs.

10.15–10.30 Coffee

10.30–11.15 Taxation, administration, and politics

These days, everybody loves small firms and their clusters. Some characterise small firms as the proper subject of social policy and safety nets, while others see small firms as the stuff of serious development. Unfortunately, the combination of the social-policy view with the inevitable local politics of small firms generates a brew that inadvertently undermines not only the development agenda but also certain aspects of the social policy agenda. This presentation explains how this happens, and shows that things don't always need to turn out that way, especially if donors and others pay attention to the histories lying behind today's thriving small firm clusters in developing countries.

Professor Judith Tendler, Massachusetts Institute of Technology, '*Small Firms, the Informal Sector, and the Devil's Deal*'.

11.15–11.45 Discussion

Chair: Professor Mick Moore, Institute of Development Studies.

11.45 – 1.00 Lunch

1.00 – 2.30 What have we done, what are we doing, what will we do?

Round-table discussion.

Chair: Mrs Tshabalala, Lesotho Revenue Authority.

2.30–3.00 Coffee

3.00 – 3.45 Where do we go from here? How can we cooperate in the future?

International tax dialogue.

Chair: Tuan Minh Le, World Bank.

List of participants

Name	Organisation
Moses Adhola	Asia Regional Economics and Policy Department, DFID, UK
Ivor Beazley	Governance Department DFID, UK
Rupert Bladon	DFID Rwanda
Edie Broomberg	Tax lawyer, South Africa
Tony Burdon	HM Treasury, UK
Eva Busse	GTZ, Germany
Rob Butler	Crown Agents, UK
Alison Cochrane	DFID Uganda
James L. Donovan	Swedish International Development Cooperation Agency, Sweden
Max Everest-Phillips	Governance Department DFID, UK
Professor Norman Gemmell	University of Nottingham, UK
Simon Gill	Governance Department DFID, UK
Martin Grote	Ministry of Finance, South Africa
Anna Hanson	National tax board of Sweden/International consulting office, Sweden
Jonathan Hargreaves	Governance Department DFID, UK
Piers Harrison	Governance Department DFID, UK
Christopher Heady	OECD, UK
Odd-Helge Fjeldstad	Chr. Michelsen Institute, Norway
David Hesketh	HM Customs and Excise, UK
Richard Highfield	IMF, USA
Kieran Holmes	DFID Rwanda
Darryn Jenkins	DFID Consultant (going to Uganda)
Allen Kagina	Commissioner of Customs, Uganda
Dieter Kattermann	GTZ, Germany
Alex Kemp	University of Aberdeen, UK
Tor Lande	Ministry of Finance, Norway
Stephen Lowthorpe	Crown Agents, UK
John McGinley	IR International Assistance, UK

Tuan Minh Le	The World Bank, USA
Mick Moore	Institute of Development Studies, UK
Berlin Msiska	Commissioner General, Revenue Authority, Zambia
Lise Rakner	Chr. Michelsen Institute, Norway
Frans-van Rijn	Senior Advisor Public Finance Management, Ministry of Foreign Affairs, Netherlands
Mario F. Sanginés	The World Bank, USA
Aaron Schneider	Institute of Development Studies, UK
Stig Sollund	Ministry of Finance, Norway
Marit Strand	NORAD, Norway
Sten Ström	Swedish International Development Cooperation Agency, Sweden
Martin Surr	Governance Department DFID, UK
Judith Tendler	Massachusetts Institute of Technology, USA
Lineo Tshabalala	Chairman, Revenue Board, Lesotho
Stephen Tye	Pricewaterhouse Coopers, UK
Susan Ulbæk	Ministry of Foreign Affairs, Denmark
Paul Wilby	HM Customs and Excise, UK
Gosta Wilholm	National tax board of Sweden/International consulting office, Sweden
Tim Williams	DFID Uganda
Keith Wood	DFID Uganda