

# Effectiveness of tax reform interventions

---

Laura Bolton

Institute of Development Studies

13.03.2017

## Question

*Which interventions have had the largest impact on increasing tax revenues and under what conditions?*

## Contents

1. Executive summary
2. Political will and the political economy context
3. Supporting a culture of paying appropriate taxes
4. Value-added tax and property tax
5. Taxing the informal sector
6. Local taxation
7. Aid modalities and aid-funded goods and services
8. Tax administration capacity development
9. References

## 1. Executive summary

The academic and practitioner literature on tax reform, and comments from several experts contacted in connection with this report, emphasise that improving the performance of tax systems is highly complex and context-specific, without simple or direct answers. Improvements are only likely to come from combinations of large and small changes made with close and detailed knowledge of particular circumstances. Case studies reported by ITC-OECD (2015) report many different elements to reforms and difficulty in attributing improved results. A joint IMF, OECD, UN, and World Bank Group report acknowledges that building tax capacity in wealthy countries “has been the work of centuries” and that “no easy or quick fixes for establishing broad fiscal capacity” should be expected, although “patient, focused reform can achieve a great deal” (IMF et al. 2016, pp. 10-11).

---

*The K4D helpdesk service provides brief summaries of current research, evidence, and lessons learned. Helpdesk reports are not rigorous or systematic reviews; they are intended to provide an introduction to the most important evidence related to a research question. They draw on a rapid desk-based review of published literature and consultation with subject specialists.*

*Helpdesk reports are commissioned by the UK Department for International Development and other Government departments, but the views and opinions expressed do not necessarily reflect those of DFID, the UK Government, K4D or any other contributing organisation. For further information, please contact [helpdesk@k4d.info](mailto:helpdesk@k4d.info).*

**Political will and the political economy context** are broadly seen as crucial for reforms to increase tax revenues. Politically-informed approaches are likely to have the best results. Tax reform can encounter strong vested interests resistant to reform, especially from elites who may bear the greatest burden of taxation. Political economy analysis can help identify opposition to reform and 'windows of opportunity' for reform such as can occur during periods of fiscal crisis or political transition. Successful strategies which work with the political economy context include: phasing in tax increases gradually; obscuring the impact of tax reforms; appealing to fairness and equity; linking reform to specific benefits; engaging with networks and institutions; building reform coalitions; and a flexible, pragmatic approach.

**Supporting a culture of paying appropriate taxes:** Tax morale and tax compliance are improved by public perceptions of fairness in the tax system and the belief that tax money will be well spent. Efforts to support a taxpaying culture include outreach and education, improving payment and processing services, and credible tax evasion deterrence and enforcement. Tax morale is significantly correlated with tax effort and tax compliance in both high-income and developing countries (Daude et al., 2012; OECD, 2013a), but evidence on increasing tax morale to create a culture supportive of taxpaying is primarily based on econometric analysis using public opinion surveys, with few rigorous evaluations of efforts to create a taxpayer culture.

**Value-added tax** is already widespread, but its introduction was a highly effective tax reform across Africa the 1990s and 2000s. VAT is now widely used, but there may still be scope to improve its effectiveness. **Property taxes** are widely regarded as progressive, efficient, and equitable, but there are challenges both with technical implementation and popularity.

**Taxing the informal sector** has potential to broaden the tax base and there is evidence that it may contribute to a better business environment and even to productivity and growth, but is unlikely to generate significant tax revenue.

**Local government taxation** has received relatively little attention to date, but because the links between taxation and spending at the local level are potentially more direct, tax reform at this level may contribute to statebuilding and state-society relations. Various approaches have been suggested, but there is little robust evidence of the impact of local taxation reform.

**Aid** can either reinforce or undermine tax systems, depending on how it is channelled. Donor coordination on tax reform is important, along with national government ownership and alignment with priorities and transparency. There have been strong calls to end **tax exemptions on aid-funded goods and services**, in order to reinforce norms of tax compliance and reduce administration costs.

Experts agree that building a well-functioning **administration capacity** is crucial to tax reform. Key elements include capacity building with a focus on staff training and retention, improvements in data management and information technology, incentives for automatic enrolment, and varying approaches to enforcing tax compliance. Reorganisation of revenue administration according to taxpayer size rather than tax type has also been a successful innovation. Countries vary widely in tax capacity and different countries will require different capacity building strategies for increasing revenue.

## 2. Political will and the political economy context

Tax reform can encounter strong vested interests resistant to reform, especially from elites who may bear the greatest burden of taxation. Political economy analysis<sup>1</sup> can help to identify opposition to reform from powerful elites and lobbies (de Souza, 2013), and to identify 'windows of opportunity'<sup>2</sup> for reform such as can occur during periods of fiscal crisis or political transition (Prichard et al., 2012).

Political will is considered crucial to increasing revenues from tax policy reforms (Giulia Mascagni 2017, personal communication) and politically informed approaches are likely to have the best results (Rhiannon McCluskey 2017, personal communication). Political will is also required to ensure revenue collection procedures are fair and that there is enforcement to instil trust (Monkam and Moore, 2015).

Jibao and Prichard (2013) highlight the centrality of political will for successful reform in their study of rebuilding local governance finance in Sierra Leone. They determine three factors affecting strong political leadership: “the relationship between political and economic elites, the relationship between local and central political parties, and the extent of local-level political competition” (p. 3). These relationships vary between contexts and different taxes. Jibao and Prichard also promote the need for strategies to be contractual so that political will is sustained and reforms can increase revenue long-term. On the other hand, a case study of Cameroon highlights where lack of political will led to failure in tax reforms (Raballand and Rajaram, 2013). A World Bank funded project aimed to develop public financial management and strengthen accountability. Delays in building consensus within the Ministry of Finance led to hampered progress as did organisational deficiencies and lack of leadership. The imposition of development, in this case, appears to be a factor in failure and highlights the need to consider behaviour change strategies.

Emerging evidence from regional and country case studies suggests several strategies that have helped to minimise resistance to reform, and to align reform with the political economy context (Fairfield, 2013; Hassan & Prichard, 2013; Jibao & Prichard, 2013; Booth, 2014; Fjeldstadt, 2005):

- phasing in tax increases gradually
- obscuring the impact of tax reforms
- appealing to fairness and equity

---

<sup>1</sup> ‘Political economy analysis aims to situate development interventions within an understanding of the prevailing political and economic processes in society – specifically, the incentives, relationships, distribution and contestation of power between different groups and individuals – all of which greatly impact on development outcomes.’ (Mcloughlin, 2012, p.5). For further information on political economy analysis see Mcloughlin, C. (2012). *Topic Guide on Political Economy Analysis*. Birmingham, UK: GSDRC, University of Birmingham. <http://www.gsdrc.org/go/topic-guides/political-economy-analysis>

<sup>2</sup> ‘Windows of opportunity’ occur when political economy factors align so as to enable progress’ (Rao, 2013, p.14). For further information on ‘windows of opportunity’ see section 4.2 Flexibility, pragmatism, and being vigilant for opportunities in Rao, S., (2013). *Civil service reform: Topic guide*. Birmingham, UK: GSDRC, University of Birmingham. <http://www.gsdrc.org/go/topic-guides/civil-service-reform>

- linking reform to specific individual, general, and/or elite benefits
- engaging with both formal and informal (e.g. family) networks and institutions
- modest and targeted international support
- central government support in the case of local taxation
- high-level leadership to overcome powerful elites
- building reform coalitions
- strategies of negotiation and bargaining with taxpayers rather than simply relying on coercion
- focusing on flexible goals and feasible reforms, rather than pursuing ideal reforms and predetermined blueprints.

## Key readings

**Fairfield, T. (2013). Going Where the Money Is: Strategies for Taxing Economic Elites in Unequal Democracies. *World Development*, 47, 42-57.**

<http://dx.doi.org/10.1016/j.worlddev.2013.02.011>

This peer-reviewed journal article, based on a literature review and qualitative analysis, identifies six strategies that help facilitate tax reform by mobilising popular support or moderating antagonism by economic elites: (1) a ‘foot-in-the-door’ approach of gradually phasing in taxes or incremental increases; (2) reducing taxpayers’ awareness of the tax burden by using taxes with less visibility, such as social security taxes deducted at source rather than direct income taxes; (3) emphasising fairness or equity, such as implementing progressive and targeted taxes and ensuring that everyone of similar means bears similar tax burdens; (4) linking tax reforms and increases to the provision of popular benefits; (5) linking reforms to broad public goods such as national security or prestige, socio-political stability, or economic stability; and (6) compensating elites by providing targeted benefits such as tax cuts or subsidies that benefit them.

Case studies of reforms in Latin America provide some evidence about how these strategies have played out in reality. In Chile, the success of reforms in 2001 and 2005 that broadened the tax base was attributed to successful appeals to legitimacy in spite of businesses’ strong political power. In Argentina in the 1990s, obfuscating the impact of taxes helped build support to circumvent resistance from financial-sector elites, although not permanently. In Bolivia in 2003, failure to adequately emphasise fairness and equity contributed to confusion and eventually anti-tax protests. The study concludes that in general, reforms are more likely to succeed if they are incremental rather than comprehensive, if they are supported by multiple strategies applied simultaneously, and if they are tailored to the particular context at hand.

**Hassan, M. & Prichard, W. (2013). *The Political Economy of Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform*. Working Paper 14. International Centre for Tax and Development (ICTD). Brighton: Institute of Development Studies. <http://www.ictd.ac/sites/default/files/ICTD%20WP14.pdf>**

This literature review and case study of Bangladeshi tax reform over the last two decades emphasises the importance of understanding both informal and formal institutions, as well as the

micro-level incentives which shape tax negotiation. The study finds that the Bangladesh tax system is characterised by high levels of discretion and corruption underpinned by robust informal institutions. These serve the core interests of political, economic and administrative actors across society and include elites, as well as rank and file revenue staff. The paper notes there are risks for certain actors from the continued informality, and that recent shifts in the influence of informal networks, and instances in which the tax system has been deployed against political opponents, may strengthen support for tax reform.

**Jibao, S. & Prichard, W. (2013). *Rebuilding Local Government Finance After Conflict: The Political Economy of Property Tax Reform in Post-Conflict Sierra Leone*. Working Paper 12. International Centre for Tax and Development (ICTD). Brighton: Institute of Development Studies. <http://www.ictd.ac/sites/default/files/ICTD%20WP12.pdf>**

This literature review and case study of relatively successful local property tax reforms in the four largest city councils in Sierra Leone highlights three key messages about the determinants of successful reform. The paper argues that: (1) modest and targeted support from the international community and the central government has been critical; (2) success is dependent on high-level leadership to overcome resistance, particularly from large property owners; and (3) reform strategies that are comparatively contractual (i.e. characterised by institutionalised, negotiable methods of assessing and collecting revenue) can contribute to a virtuous cycle of improved governance, and help to build sustainable political support for continued reform. The paper also notes that tax reform depends on long-term, hands-on, local-level partnerships.

**Booth, D. (2014). *Aiding Institutional Reform in Developing Countries: Lessons from the Philippines on what works, what doesn't and why*. The Asia Foundation and the Overseas Development Institute. <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8978.pdf>**

This literature review and case study analysis on the effects of reforms to alcohol and tobacco taxes and property law in the Philippines in 2012 highlights the role of reform coalitions. The paper argues that a core group of actors within and outside government were able to address the coordination problems that normally afflict broad-based campaigns, make tactical decisions about how to divide the opposition, and make alliances without the need for consensus other than on the reform objective itself. Key recommendations from the paper are building tacit coalitions in a pragmatic way, avoiding being trapped in a predetermined blueprint of reform, avoiding reforms that are likely to meet greatest resistance, and pursuing the best possible policy changes, given the context.

**Fjeldstad, O-H. (2005). *Corruption in Tax Administration: Lessons from Institutional Reforms in Uganda*. CMI Working Paper 2005:10. <http://www.cmi.no/publications/2005/wp/wp2005-10.pdf>**

A case study in Uganda looked at why tax reform efforts failed to remedy falling revenue levels and increased perceptions of corruption in the Ugandan Revenue Agency. Reforms that stressed monetary rewards and incentives may have failed because of the importance of family networks. Increased salaries may mean officials pay out more to meet extensive social obligations, and in some cases actually result in a net loss to the individual. Effective reforms may need to work with, or interrupt, the influence of kin-based networks. One such approach could be in-kind benefits which the author suggests are popular with civil servants partly because they are harder to share.

### 3. Supporting a culture of paying appropriate taxes

Tax morale<sup>3</sup> is significantly correlated with tax effort and tax compliance in both high-income and developing countries (Daude et al., 2012; OECD, 2013a). Evidence on increasing tax morale to create a culture supportive of taxpaying is primarily based on econometric analysis using public opinion surveys, with few rigorous evaluations of efforts to create a taxpayer culture.

Public perceptions of fairness in the tax system and the belief that tax money will be well spent are highlighted in many studies as being important to tax morale and compliance (Fjeldstad & Heggstad, 2012; Ali, Fjeldstad, & Sjursen, 2013; OECD, 2013a). Tax morale tends to be correlated with support for democracy, age, claiming a faith or religious identity, higher education, and being employed full-time; there is also weak and contested evidence that women may have higher tax morale than men (OECD, 2013a). Afrobarometer survey data in Kenya, Tanzania, Uganda and South Africa shows that tax morale and compliance are positively associated with credible enforcement, satisfaction with public service provision and avoidance of payments to non-state actors, perceptions of other people's compliance, a sense that one's ethnic group is fairly treated, and tax knowledge and awareness (Ali et al., 2013). However, the significance of these factors varies from one country to another. Another study in Mozambique, Tanzania, and Zambia also noted the importance of: a sense of a moral obligation to pay; the magnitude of the tax burden; ease of compliance; speed and accuracy of detection of non-compliance and corrective measures; and severity of deterrent measures (Fjeldstad & Heggstad, 2012). Many of the factors associated with compliance are interconnected.

Key measures to improve compliance are outreach and education, improving payment and processing services, and credible deterrence and enforcement (OECD, 2013a; 2013b). Outreach can be through business or civil society associations which allow discussion or bargaining between government and citizens on tax issues. Education can be through different forms of media and schooling, and can involve teaching tax payers their responsibilities, how to pay their taxes, and how tax money will be spent. Modernising tax administration can improve tax related processes; credible deterrence requires accurate identification of tax evaders and appropriate punishment. Identifying the range of citizens' attitudes towards tax can improve targeting of tax compliance programmes.

A pilot project in Rwanda examined the use of information letters on whether or not taxpayers would voluntarily correct their tax declarations, and found that voluntary compliance increased and negative revisions were reduced. The effectiveness of different messages and delivery methods on compliance behaviour was tested, and the best responses were found to be from more friendly messages – gentle reminders of deadlines or information on the importance of tax for public services. Emails and Short Message Service (SMS) messages were found to achieve good results and to be cost-effective means of reaching large numbers of taxpayers. (McCluskey, 2016a)

Reliance on the population in the form of self-assessment is an attractive idea for reform. Moore (2013) notes that although this is beginning in Africa there is “little hard information on the extent of progress” (p. 30). Bird (2011) notes some success in self-assessment for property tax in Bogota, Colombia but cautions this method. There may be failure to capture the value of publicly-provided amenities, and increased yields that occur are unlikely to be sustained without enforced

---

<sup>3</sup> 'The motivation of a country's citizens to paying taxes, in addition to legal obligations' (Daude et al., 2012, p.9).

assessment (ibid). Analysis of tax compliance attitudes in Kenya, Tanzania, Uganda, and South Africa finds tax knowledge and awareness to be important and beneficial (Ali et al., 2013).

## Key readings

**OECD. (2013a). *What drives tax morale?* Draft for consultation. Paris: OECD.**

[http://www.oecd.org/ctp/tax-global/TaxMorale\\_march13.pdf](http://www.oecd.org/ctp/tax-global/TaxMorale_march13.pdf)

This draft policy brief is based on a literature review and econometric analysis using global public opinion surveys. The brief suggests that civil society, business organisations and the international development community could support the efforts of governments to improve tax morale and tax compliance by: strengthening and clarifying the links between revenue and expenditure, analysing citizens' attitudes and perceptions towards tax, understanding the informal sector better, increasing the transparency of tax policy making, modernising tax administration procedures and aligning efforts in different areas to avoid negative interactions among the drivers of taxpayer compliance behaviour (opportunity, economy, social norms, fairness and trust, and deterrence)<sup>4</sup>.

**OECD. (2013b). Overview: A new era for taxpayer education. Chapter 1 in *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education*. Draft for consultation. Paris: OECD. <http://www.oecd.org/ctp/tax-global/sourebook-taxpayer-education.pdf>**

This background chapter is based on a review of academic and policy literature and is an introduction to a book of 28 case studies on taxpayer education, mostly from developing countries. Taxpayer education includes government programmes to encourage tax-compliant behaviour, efforts by business organisations to mobilise and represent the interests of their members, and civil society initiatives to bring citizens into tax policy debates. To build a tax culture, it is important to teach taxpayers how to file their taxes, keep them informed of changes in tax laws, encourage people to pay their taxes, and educate schoolchildren and university students in tax literacy. Taxpayer education can be conducted via internet-based technologies, television and entertainment media, and outreach to the informal sector. The chapter recommends exchanging knowledge and sharing best practices on taxpayer education; measuring the impact of taxpayer education initiatives in terms of enhanced compliance; expanding regional co-operation following the Latin America and Caribbean model; and increasing development co-operation support on taxpayer education.

**Fjeldstad, O-H., & Heggstad, K. K. (2012). *Building taxpayer culture in Mozambique, Tanzania and Zambia: Achievements, challenges and policy recommendations*. CMI Report, 2012(1). <http://www.cmi.no/publications/publication/?4499=building-taxpayer-culture-in-mozambique>**

This study, based on a literature review and interviews, examines citizen attitudes to tax, taxpayer education, and government-citizen tax engagement measures. Enhancing compliance is generally though taxpayer education and outreach to ensure that taxpayers are aware of their

---

<sup>4</sup> For further information the drivers of taxpayer compliance behaviour see Forum on Tax Administration: Small/Medium Enterprise (SME) Compliance Subgroup (2010). *Information Note Understanding and Influencing Taxpayers' Compliance Behaviour*. OECD. <http://www.oecd.org/ctp/administration/46274793.pdf>

obligations; taxpayer services to ensure that tax payment and processing are simple and easy; and credible deterrence and enforcement. The paper does not evaluate these approaches. Factors affecting compliance include: people's sense of moral obligation to pay; the extent to which taxpayers believe that the government spends their tax money wisely; fair and transparent treatment of taxpayers; the magnitude of the tax burden; the ease of tax compliance; the speed and accuracy of detection of non-compliance and corrective measures; the severity of deterrents; perceptions of whether others are paying their fair share; and taxpayer knowledge.

**Ali, M., Fjeldstad, O.-H., & Sjørnsen, I. H. (2013). *To pay or not to pay? Citizens' attitudes towards taxation in Kenya, Tanzania, Uganda and South Africa*. Afrobarometer Working Paper no. 143. East Lansing: Afrobarometer.**

[http://www.afrobarometer.org/files/documents/working\\_papers/Afropaperno143.pdf](http://www.afrobarometer.org/files/documents/working_papers/Afropaperno143.pdf)

Based on the 2011/12 Afrobarometer survey data, this econometric analysis identifies factors that determine citizens' attitudes towards tax-compliance in Kenya, Tanzania, Uganda and South Africa. The factors varied between countries, but attitudes to paying taxes were found to be more favourable when people perceive that there is credible enforcement to prevent tax evasion, are satisfied with provision of public services which they feel are important, do not have to pay non-state actors (e.g. criminal gangs) for services, perceive others to be tax-compliant, and have tax knowledge and awareness. Citizens' perception of how their ethnic group is treated by the government was associated with tax compliance in South Africa and Tanzania, but not in Kenya or Uganda. The study found no strong evidence of a relationship between tax compliance and trust in government and political legitimacy.

## 4. Value-added tax and property tax

Mick Moore of the International Centre for Tax and Development argues that the most effective single reform has been the introduction of **value-added taxes (VAT)**, which are now in operation in virtually every country where it is feasible to do so (Moore 2017, personal communication). The introduction of VAT stimulated common approaches among revenue administrators across Africa, promoted and benefited from the spread of ICTs in business and government, required tax agencies to invest in recruiting and training skilled accountants, and marked a trend towards more cooperative tax collection and increasing compliance on the part of taxpayers (Moore 2013b). VAT has been challenged as being regressive, but in most countries reductions or exemptions for basic consumption items such as food lessen the burden on the poor (Fjeldstad and Iversen 2015, p. 2). VAT is now widely used; for example, about 80% of sub-Saharan African countries levy a VAT, contributing about one quarter of total tax revenue (Fjeldstad and Iversen 2015, p. 2). However, there is still scope to improve its effectiveness (Moore 2017, personal communication).

**Property tax** is widely regarded as progressive and equitable because the sum due is determined by wealth rather than being a percentage on transactions (Monkam and Moore 2015, p. 3). It is the most viable, efficient, and progressive means of raising local government revenue, but property tax collection remains very low in the developing world, and academic research on the topic is limited (McCluskey 2016b). In contrast to consumption taxes such as VAT, where payments are made by a small number of businesspeople and are spread across many transactions, an annual property tax is highly visible to ordinary taxpayers, which may promote accountability but does not make it popular (Monkam and Moore, 2015).



Effective property taxation requires established and well-organised property markets which can be a problem, particularly with property valuation. This type of taxation can be expensive to administer, scope for discretion can be a problem and the confrontation required for collection makes it less attractive (Bird 2011). Area-based (as opposed to value-based) assessment is one way to simplify this as administrative burden is reduced but it is regressive and the likelihood of underpayment is increased (Monkam and Moore, 2015). Jibao and Prichard (2013) find successful property tax reforms in Sierra Leone enabled by modest and targeted support from the international community, high-level reform leadership to overcome resistance, and strategies that are contractual helping to build sustainable political support.

## 5. Taxing the informal sector

The informal sector consists of firms and individuals who are not fully registered and regulated, and therefore not in the standard tax net. Taxing the informal sector can be through registration and formalisation to push these firms and individuals into the tax net, or it can be through taxing them indirectly. In most countries there are several types of business registration and varying degrees of formalisation.

Formalisation can encourage business growth, create a better business environment, and help build a culture of tax compliance (Joshi, Prichard & Heady, 2014). An economic modelling study suggests that full enforcement of taxation on the informal sector would increase labour productivity and output through reducing economic distortions (Leal Ordóñez, 2014). However, it is unlikely that taxing the informal sector through formalisation of all firms would bring in significant tax revenues at least in the short- and medium-term (de Mel, McKenzie & Woodruff, 2013; Bruhn & McKenzie, 2014; Joshi et al., 2014). In general, a firm's decision whether to formalise or not is based on an analysis of the costs (which can include higher taxes) and benefits (such as growing the business through official advertising and access to credit markets) (de Mel et al., 2013). For some firms, especially small and micro-enterprises, formalisation would not be beneficial (McKenzie & Sakho, 2010), even when formalisation is cheap and straight-forward. Simplifying and lowering the cost of registration was found to have little or no effect on getting small firms to formalise, according to a review of econometric evidence (Bruhn & McKenzie, 2014).

To tax firms while they remain informal, the guidance literature, based on econometric analyses and literature reviews, suggests taxing the goods and services that they buy and sell (through sales or value-added taxes) or through 'presumptive'<sup>5</sup> or withholding<sup>6</sup> taxes (Joshi et al., 2014). Another approach is to delegate the role of collecting tax to trade unions, business or other associations (Joshi & Ayee, 2008). Tax administrations may need to reorganise, as the informal sector can be difficult to reach through large bureaucracies (Joshi & Ayee, 2008).

---

<sup>5</sup> Examples of presumptive taxes include fixed lump sums depending on the tax entity's occupation or sector, a minimum tax based on the assumed minimum income level, or a lump-sum minimum plus a percentage of gross receipts (TJN-A, 2012).

<sup>6</sup> Where 'larger firms [are] required to withhold taxes on their transactions with small firms, which is then remitted to government and credited against the future tax liabilities of those small firms' (TJN-A, 2012, p.3)

## Key readings

**Joshi, A., Prichard, W., & Heady, C. (2014). Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research. *The Journal of Development Studies*. Advance online publication. <http://dx.doi.org/10.1080/00220388.2014.940910>**

This literature review provides an overview of the benefits and challenges of informal sector taxation through formalisation, taxing goods and services, withholding taxes and presumptive taxes. A “growing body of research” suggests that formalisation of firms, which allows them to be taxed, may have “significant benefits for growth, or, at the very least, may not hinder growth” (p. 5). Formalisation can enable access to credit, offer opportunities to engage with larger firms and the government, reduce harassment by police and government officials, and improve access to training and support programmes. Taxing the goods and services informal sector firms trade, for example through import and export taxes, may undermine country comparative advantage but would not impose compliance costs on informal sector firms. Neither would there be difficulties imposed by limited education on tax matters and capacity to deal with tax issues. While some countries gain significant revenue from withholding taxes they can be administratively burdensome, create incoherence in the tax system and discourage tax reform. A presumptive tax regime can mean firms pay substantially lower tax rates than the standard regime. This can mean forgone revenue as well as providing a disincentive for firms to graduate onto the standard regime.

**Joshi, A. & Ayee, J. (2008). Associational taxation: a pathway into the informal sector? In Brautigam, D., Fjeldstad, O.-H. & Moore, M. (eds). *Taxation and State-Building in Developing Countries: Capacity and Consent*. Cambridge: Cambridge University Press. <http://shebacss.com/ndsp/docs/cases/ndsp042.pdf>**

This literature review outlines the associational taxation approach – delegating tax collection to unions, business or other associations – and identifies ways to improve informal sector taxation. Using this approach depends on the type of tax, the extent of revenue pressure on the government, the degree and nature of associationalism within the informal sector, and the channels of interaction with state institutions. To improve compliance it may help to shift away from organising tax administrations by locality and type of tax (sales taxes, property taxes and income taxes), towards organisation by type of taxpayer (e.g. large, middle and small taxpayers). Compliance can also be improved by reducing rates or offering rewards to firms that maintain effective records.

**de Mel, S., McKenzie, D. & Woodruff, C. (2013). The Demand for, and Consequences of, Formalization among Informal Firms in Sri Lanka. *American Economic Journal: Applied Economics*, 5(2), 122-50. <http://dx.doi.org/10.1257/app.5.2.122>**

This randomised controlled field trial in Sri Lanka looked at incentives for companies to register formally and the impacts of formalisation. The study found that providing informal firms with information about the registration process and reimbursement of direct costs did not increase registration. On the other hand, larger payments to informal firms in return for formalisation (equivalent to one-half to two months of profits) did lead to increased registration with the authors concluding formalisation is attributable to rational cost-benefit calculations. Land ownership issues were the most common reason for not registering. Follow-up surveys found that the firms that formalised only showed modest profit increase (except for a few rapidly growing firms which

profited more), but their owners had a more favourable attitude towards government as a result of formalisation.

**McKenzie, D. & Sakho, Y. (2010). Does it Pay Firms to Register for Taxes? The Impact of Formality on Firm Profitability. *Journal of Development Economics* 91(1), 15-24.**

<http://dx.doi.org/10.1016/j.jdeveco.2009.02.003>

Using a quantitative analysis, this paper estimates the impact of tax registration on firms in Bolivia, the country with the highest levels of informality in Latin America. The study finds that tax registration can increase mid-sized firms' profits, but lowers profits for smaller and larger firms. The mechanism seems to be that registration allows firms to issue tax receipts, which attracts customers who can claim tax refunds. Very small microenterprises often benefit least from tax registration, as registration costs often outweigh potential profits.

## 6. Local taxation

Local taxation – local government collecting and spending locally revenue from taxes, fees and charges –has until recently received little attention from the national tax agencies, aid agencies, and international organisations that have shaped the tax reform agenda (Moore, 2013a). However, at the local government level links between taxation and spending are potentially more direct, taxpayers are closer to government, and tax reform can be the leading edge of needed construction of state capacity (Prichard 2016).

Local governments generally receive most of their funds from central government, but property taxes, business licenses, market fees and user charges can provide substantial and reliable revenue (Fjeldstadt, Chambas & Brun, 2014). Furthermore, local taxation can improve state-society relations, at least at the local level. For example, a Sri Lankan randomised controlled study found that business owners whose firms formalised and paid local taxes showed increased trust in the provincial and municipal governments with whom they interacted with during registration, but no change in trust in central government (de Mel et al. 2013).

There is little robust evidence of the impact of local taxation reform on revenue and state-building processes, or of the factors supporting reform efforts. Suggested approaches to reform include: (1) simplification of systems and processes (e.g. property valuation, business licences, fee structures); (2) increasing transparency; (3) improving payment compliance (e.g. of user fees); (4) improved provision of information on taxation and fees; and (5) adopting a more pragmatic approach to local taxation, such as through segmentation<sup>7</sup> (Fjeldstadt et al., 2014; Fjeldstadt & Heggstadt, 2013). It is important to take account the limited capacity of urban councils to undertake valuation and enforcement, and to ensure harmonisation between central and local government so as to avoid double taxation and inconsistent policies (Fjeldstadt et al., 2014; Fjeldstadt & Heggstadt, 2013).

Barriers to strong tax-governance linkages at the local level include: weak government incentives and capacity to collective revenue; significant risk of elite capture and coercive taxation; the

---

<sup>7</sup> Tailoring legislation and administration of tax collection to different segments of the tax base. For example, if the tax base is segmented by firm size, small enterprise tax collection can involve simplifying related legislation and adapting administration to be as cost-effective as possible keeping in mind that revenues are likely to be comparatively small (Fjeldstadt et al., 2014).

difficulty of local level collective action; and the frequent pervasiveness of informality in local tax systems – including “informal taxation” by non-state actors (Prichard 2016).

## Key readings

**Fjeldstad, O-H., Chambas, G. & Brun, J. (2014). *Local government taxation in Sub-Saharan Africa: A review and an agenda for research*. CMI Working Paper WP 2014:2. Chr.**

**Michelsen Institute (CMI). <http://www.cmi.no/publications/file/5098-local-government-taxation-in-sub-saharan-africa.pdf>**

This literature review on local government revenue systems in Africa concludes that there is a need for consistent domestic tax legislation, a clear boundary between local and central taxation, and the principle of segmentation to be applied in local taxation as it has been at the national level. There is potential to increase local revenues from other types of taxes (e.g. consumption of utilities) and non-tax revenue sources (e.g. fees, levies) but tax legislation must be kept as simple as possible to prevent overburdening local governments. Sharing revenues between local and central government can ensure better service provision but this must not introduce uncertainties for local governments on the amounts they expect and/or on the timing of the transfers.

**Fjeldstad, O-H. & Heggstad, K. (2013). *Local Government Revenue Mobilisation in Anglophone Africa*. ICTD Research in Brief. Issue 5. Brighton: International Centre for Tax and Development (ICTD). [http://ictd.ac/sites/default/files/ICTD\\_RiB\\_%235\\_3.1.pdf](http://ictd.ac/sites/default/files/ICTD_RiB_%235_3.1.pdf)**

This literature review examines opportunities and constraints facing local revenue mobilisation in Anglophone Africa. The paper finds that local government taxation not only brings in revenue, but can also play an important role in shaping state-society relations because it brings many people into direct contact with public authorities. The main sources of revenue for urban municipalities, other than central government transfers, are usually property taxes, business licenses, market fees and various user charges. For property tax, constraints include weak capacity to implement accurate valuation practices; poor collection; lack of clear ownership titles; and lack of political support for enforcement. Business licenses create high compliance costs due to complex procedures; may not reflect ability to pay; provide opportunities for rent seeking; and are often poorly administered. User fees may encourage efficient use of public sector resources but also suffer from defects including inequitable burdens on low income users, ineffective collection and billing arrangements, poor quality services and persistent resistance to payment.

**Moore, M. (2013). *Obstacles to Increasing Tax Revenues in Low Income Countries*. ICTD Working Paper 15. <http://ictd.ac/sites/default/files/ICTD%20WP15.pdf>**

Why do the governments of low income countries not raise more tax revenues? This literature review looks at various approaches, particularly highlighting the potential of property taxes, which globally are the dominant form of local taxation. Property taxes do not significantly distort investment decisions, and tend to fall on those better able to pay. They are consistently underused in low-income countries, and have been declining in relative importance even in those countries where they were historically relatively important. There are challenges to implementing property taxes as they tend to fall most on politically active and influential social groups.

### **Case Study: (Semi-)autonomous revenue authorities ((S)ARAs): Mixed outcomes**

A study on local tax collection in Peru found that municipalities with semi-autonomous revenue agencies (SARAs) collect more revenue than those with conventional tax administrations (von Haldenwang et al., 2014). The results also indicate that local revenue is more stable in municipalities with SARAs, which is good for budget policy and planning.

Evidence, overall on (S)ARAs has been mixed (Fjeldstad, 2013). While some have made impressive advances, other revenue authorities have seen little progress, or initial progress followed by stagnation. This is attributable to (S)ARAs being quite diverse in terms of revenue authority model; being mostly new and evolving; and having been introduced in part at the urging of aid donors and international financial institutions.

**von Haldenwang, C., von Schiller, A., & Garcia, M. (2014). Tax Collection in Developing Countries – New Evidence on Semi-Autonomous Revenue Agencies (SARAs). *The Journal of Development Studies*, 50(4), 541-555.**

<http://dx.doi.org/10.1080/00220388.2013.875534>

**Fjeldstad, O-H. (2013). Taxation and development: A review of donor support to strengthen tax systems in developing countries. *UNU-WIDER Research Paper WP2013/010*. <http://www.cmi.no/publications/file/4720-taxation-and-development.pdf>**

## **7. Aid modalities and aid-funded goods and services**

Aid can either reinforce or undermine tax systems and tax culture, depending on how it is channelled. International guidance suggests that donors should combine different aid modalities, adjusting them to local conditions (OECD, 2013c). These should be coherent and coordinated, and ensure ownership and alignment with partner country government preferences. Guidance also suggests that donors ensure transparency within the recipient country regardless of the aid modality employed, and make more use of graduated funding mechanisms with revenue-related triggers (variable tranches, cash-on-delivery) (OECD, 2013c). Donors should be prepared to disengage when aid for tax support does not achieve results, but there should be realistic expectations to avoid suddenly cutting off support. No single aid modality is always most effective in shifting elite incentives in relation to taxation. There are concerns that general budget support may weaken incentives for revenue mobilisation, although empirical evidence of this is inconclusive.

The use of tax exemptions on aid-funded goods and services has long been discussed in the international community (UN, 2005; ITD, 2006) and there is a strong consensus that they are undesirable (Diallo, 2013; Prichard et al., 2012; Fjeldstad, 2009; MFA, 2013). While there is evidence on the impact of tax exemptions in general (see section 2.1) there is limited evidence specifically on tax exemptions of aid-funded goods and services. Prichard et al. (2012) argue that by paying tax on aid-funded goods and services, donors can reinforce the norm of tax compliance, reinforce the quality of tax systems and reduce administration costs in developing countries. Diallo (2013) notes that removing tax exemptions could help to make tax systems simpler, reduce management costs, minimise the risk of tax fraud and strengthen the neutrality of sales taxes, such as VAT. On the other hand, tax exemptions for aid funds can help ensure that

the funds achieve their intended purpose, and removing them would require coordinated action by all donors to avoid price, cost and access disadvantages which would impact on development outcomes (O'Brien, in International Development Committee, 2012). Some bilateral (Denmark, Norway) and multilateral (World Bank) donors no longer require tax exemptions (MFA, 2012).

## Key readings

**OECD. (2013c). *Tax and Development: Aid Modalities for Strengthening Tax Systems*. Paris: OECD. <http://dx.doi.org/10.1787/9789264177581-en>**

This OECD publication provides practical guidance for policy makers and practitioners based on the results of a literature review, a survey of aid agency officials and six country case studies (Ghana, Guatemala, Liberia, Mali, Mozambique, and Tanzania). The study examined seven aid modalities for supporting tax programmes and highlights the following strengths and weaknesses: (1) General budget support is useful in conditions of good public financial management capacity, it aligns support with national priorities, but may weaken incentives for domestic revenue mobilisation. (2) Sector budget support has similar strengths and weaknesses similar to general budget support, it creates direct links between funding and PFM performance, and is highly effective for coordinating donor work on revenue issues (3) Basket financing is well suited to coordinating multi-donor funding for tax programmes, but is less closely aligned with country systems than budget support. (4) Other multi-donor instruments such as multi-donor trust funds can be used for coordination though basket funding is preferable where there is adequate local management capacity. (5) Bilateral projects or programmes carry risks of lack of coordination among donors, and of being donor- rather than country-led, but can be effective if the recipient country exercises strong ownership and leadership. (6) Triangular cooperation can be comparatively lower in costs than other forms of technical assistance, although there are limits to countries' absorptive capacity. (7) In-kind support can be more responsive to recipient country needs than donor-led interventions.

**Diallo, I. (2013, March 14). *Tax exemptions for aid-funded projects: reasons for change*. International Centre for Tax and Development (ICTD) Blog. <http://www.ictd.ac/en/tax-exemptions-aid-funded-projects-reasons-change>**

This opinion piece by a Senegalese tax official outlines the use of, and problems with, tax exemptions of aid-funded goods. Tax exemptions for aid-funded projects are mainly VAT, customs duties, excise duties, and registration fees. For recipient countries, granting tax exemptions are effectively a conditionality tied to aid rather than a political choice. While the aid helps provide public goods with economic and social benefits, there is still a forgoing of significant tax revenue. Tax exemptions, including those for aid-funded projects, result in more complex tax systems, additional management costs both for tax payers and tax administrations, risks of tax fraud, and restrictions on the right to refunds affecting the neutrality of VAT. Paying taxes on aid-funded goods and services essentially acts as budget support, which is widely agreed by donors to be the preferable modality as it allows funds to be used to finance national priorities and reinforces public financial management systems. The official concludes that reviewing tax exemptions for aid-financed projects should be a priority.

## 8. Tax administration capacity development

The importance of building administrative capacity is strongly emphasised in the literature and by experts. Giulia Mascagni of the International Centre for Tax and Development notes that there are many small, incremental reforms that would be quite effective in increasing tax capacity and the overall performance of the system, such as building better data management systems, making sure datasets from different institutions and within the same institution are connected and communicate with each other, and introducing automatic enrolment incentives such as a legal requirement to present tax registration information for services like taking out a loan, buying a house, and opening a bank account (Giulia Mascagni 2017, personal communication). Relevant government departments must be linked effectively (Rhiannon McCluskey 2017, personal communication). Reorganisation of revenue administration according to taxpayer size rather than tax type has also been a successful innovation (Kloeden, 2011; Rhiannon McCluskey 2017 personal communication).

Draft proposals for strengthening tax administration capacity from the Effective Institutions Platform (EIP, n.d.) include: basing efforts on comprehensive analysis; adapting to context; supporting national priorities, ownership and leadership; addressing international, national and sub-national levels; engaging with a broad range of stakeholders both inside and outside government; and supporting principles of accountability, transparency, and participation. The EIP highlights training, South-South cooperation, and natural resource taxation as being particularly relevant for developing countries.

Countries vary widely in tax capacity and different countries will require different capacity building strategies for increasing revenue (Moore et al., 2015). A range of case studies from different countries has shown a diversity of approaches being used to varying effect.

- Experimental evidence from **Ethiopia** finds electronic sales registry machines result in significantly higher tax payments as firms are less able to evade (Ali et al., 2015).
- In **Paraguay**, modernisation of procedures and improved enforcement of collection improved compliance and increased revenues (ITC-OECD, 2015).
- Setting up tax units specifically for high net worth individuals is currently being explored in **Uganda** (Kangave, 2016).
- In **Rwanda**, tax revenue as a share of GDP rose by about half between 2001 and 2013 (ITC-OECD, 2015) when new income tax laws were introduced and customs reform put in place. The increases were enabled by improved legislation and strengthened administration as well as a broadening of the tax base.
- The success of customs reform in **Cameroon** were thought to hinge on enhanced administration and systems (Raballand and Rajaram, 2013). Communications between the head of customs and frontline officers were improved, information communication technology modernised, and performance contracts (using non-financial incentives to avoid corruption) put in place.

Barriers to administrative reforms may arise partly because of political will and partly because staff are not sufficiently equipped or are overwhelmed with other more pressing issues such as achieving immediate revenue targets. Retention of staff with important IT, accounting, and forensic auditing skills is important (Moore et al., 2015) but high demand for skills in the private

sector tends to lead to high staff turnover in tax administrations (Rhiannon McCluskey 2017, personal communication). There is some danger that businesses may evade taxes by moving to the informal sector (Morrissey, 2015).

In Uganda, for example, the past few years have been characterised with increased movement of senior revenue officials from the Uganda Revenue Authority to other government agencies. This is partly due to better pay in other agencies, but also because in some cases contract terms (for commissioners) require that the person cannot serve for more than a certain number of years. This increases the need for building capacity, particularly of lower level staff. There is also a feeling within the Uganda Revenue Authority itself that staff are not allowed to develop capacity because they can be moved from one position to another with little warning. Management perceives these movements as necessary to guard against corruption, but there is also a need to balance this with the objective of capacity building (Kangave, personal communication, 2017).

Interest in South-South cooperation for capacity building in tax administration has been growing recently. A recent OECD report describes South-South cooperation as a “low-cost, high-value channel” and recommends “strong support from the international community” although noting that there can be limits to partners’ absorptive capacity (OECD, 2013, p. 15). The UN’s South-South Sharing of Successful Tax Practices for Development (S4TP) initiative aims to identify and disseminate successful Southern practices in tax policy and administration, identify opportunities for cooperation, and build awareness of the value of South-South exchange, particularly in working on illicit financial flows, tax training, transfer pricing, and taxation and climate change. The Capacity Development Programme on International Tax Cooperation is another UN programme, overseen by the Financing for Development Office, for strengthening the capacity of ministries of finance and national tax authorities in developing countries (UN, 2013b). It organises training and guidance material on international double taxation agreements, broadening the tax base and transfer pricing (UN, 2014).

## Key readings

**Holmes, K., Ndiokubwayo, D. & Ruvakubusa, C. (2013). *For State and Citizen: Reforming Revenue Administration in Burundi*. Policy Voices Series. Africa Research Institute.**  
<http://www.africaresearchinstitute.org/newsite/wp-content/uploads/2013/10/For-State-and-Citizen-Reforming-revenue-administration-in-Burundi-Final.pdf>

This case study was produced by current and former senior officials of the semi-autonomous tax collection institution of Burundi (Office Burundais des Recettes, OBR), which was set up in 2009. The paper describes how tax collection and administration was reformed in Burundi to reduce corruption, improve services, implement legislative reforms and widen the tax base. Conclusions and recommendations for the OBR are: closer co-operation between the OBR and local authorities in order to widen the tax base in the regions; provisions for offering revenue exemptions should be collated and re-examined; improvement of OBR communications; a comprehensive transparency and anti-corruption campaign, supported by government agencies as well as the OBR; a more diversified external funding structure to help the OBR to pursue multiple objectives simultaneously; and the denial of access to public services and tenders to anyone who is not tax compliant.



**Bennet, R. (2012). *A Change Agent in the Tax Office: Nigeria's Federal Inland Revenue Service, 2004-2009*. Policy Note ID184, Innovations for Successful Societies, Princeton University. <https://www.princeton.edu/successfulsocieties/policynotes/view.xml?id=184>**

This case study examines the reform of the Nigerian Federal Inland Revenue Service in 2004. A new executive chairperson was appointed and tasked with reforming the agency and diversifying tax collection to reduce dependence on oil revenue. The case study describes how the chairperson overcame opposition from private consultants who benefited from the existing system, defeated institutional inertia, and reduced corruption. Steps toward capacity development included establishing control over staff recruitment independently from the Federal Civil Service Commission, improving training using a mix of domestic and international consultants, reorganising and integrating departments and offices, simplifying interactions with taxpayers, increasing automation, working with banks to process payments, upgrading computer equipment, and setting up a new internal unit to fight corruption.

**Danida & Bhutan Department of Revenue and Customs (2011). *Bhutan: Building capacities to build revenues*. In Woodhatch, T., Casazza, A., Lucas, B., & Werter, F. (eds.), *Capacity Results: Case stories on capacity development and sustainable results*. Learning Network on Capacity Development and IBON Foundation. [http://www.lencd.org/files/group/busan/document/2011/Capacity\\_Results:\\_Case\\_stories\\_on\\_n\\_capacity\\_development\\_and\\_sustainable\\_results/Capacity-Results-web.pdf](http://www.lencd.org/files/group/busan/document/2011/Capacity_Results:_Case_stories_on_n_capacity_development_and_sustainable_results/Capacity-Results-web.pdf)**

This short case study covers Bhutan's attempts to broaden the tax base by introducing personal income tax and improving collection of other direct taxes. The Bhutan Department of Revenue and Customs achieved efficiencies through decentralisation to regional offices, training, upgrading IT systems, and public education on compliance. There was also intensive in-country training and professional development in revenue administration, and the introduction of a new IT system for tax and customs have improved tax administration. Capacity development efforts have been supported by strong and stable leadership within the Department, by Danish financial support which was aligned with the national-driven strategy, and by technical assistance to support the drafting of legislation and the introduction of new IT systems.

**UNDP. (2008). *Revenue's Role in the Quest for Inclusive Development, What Works and What Can Work Better?* UNDP. <http://ww2.s4tp.org/wp-content/uploads/2010/10/InclusiveDev.pdf>**

This publication includes a meeting report and case studies presented at a 2008 conference on 'South-South Sharing of Successful Tax Practices' by experts and administrators from different countries, international organisations and campaigning organisations. The meeting report highlights a number of focus areas for capacity building including: developing a database of recognised tax experts in particular fields; promoting practical case-study-driven training sessions; disseminating successful practices effective in developing skills and keeping expertise within tax administrations; promoting the need to fully understand the impact of tax incentives designed to attract investment; promoting ongoing beneficial exchange of experiences, both what has worked and what has not. The meeting highlighted a need to improve developing country capacity on issues such as transfer pricing, comparative tax law, and countering cross border tax evasion. An international tax appeal tribunal was suggested in place of arbitration clauses in Tax Treaties.

## 9. References

*This report is based partly on chapter 3 of the GSDRC Tax Reform Topic Guide (<http://www.gsdrc.org/topic-guides/tax-reform>), written in 2014 by Sumedh Rao with contributions from Wilson Prichard, Mark Abani, Ritu Dewan, Jo Balsys, Stefan Kossoff, Katherine Newall, Brian Lucas, Claire Mcloughlin, Huma Haider and Heather Marquette.*

*Extracts from the topic guide have been supplemented with additional material collected in 2017 by Laura Bolton, with contributions from Rhiannon McCluskey and Brian Lucas.*

Ali, M., Shifa, A., Shimeles, A. and Woldeyes, F.B., 2015. Information technology and fiscal capacity in a developing country: Evidence from Ethiopia.

[http://cega.berkeley.edu/assets/miscellaneous\\_files/17-ABCA\\_-\\_Information\\_Technology\\_and\\_fiscal\\_capacity.pdf](http://cega.berkeley.edu/assets/miscellaneous_files/17-ABCA_-_Information_Technology_and_fiscal_capacity.pdf)

Ali, M., Fjeldstad, O-H. and Sjursen, I. 2013. To Pay or Not to Pay? Citizens' Attitudes Towards Taxation in Kenya, Tanzania, Uganda and South Africa, *World Development*, 64: 828-42

<https://www.cmi.no/publications/file/5026-1-to-pay-or-not-to-pay.pdf>

Bird, R.M. 2011. 'Subnational Taxation in Developing Countries. A Review of the Literature', *Journal of International Commerce, Economics and Policy*, 2.1: 139-161

<http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-5450>

Booth, D. 2014. Aiding Institutional Reform in Developing Countries: Lessons from the Philippines on what works, what doesn't and why. The Asia Foundation and the Overseas Development Institute. <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8978.pdf>

Bruhn, M., & McKenzie, D. 2014. Entry Regulation and the Formalization of Microenterprises in Developing Countries. *World Bank Research Observer* 29(2), 186-201.

<http://dx.doi.org/10.1093/wbro/lku002>

Daude, C., Gutiérrez, H., & Melguizo, Á. 2012. What Drives Tax Morale? Working Paper No. 315. OECD Development Centre. <http://www.oecd.org/dev/americas/WP315%20AE.pdf>

de Mel, S., McKenzie, D. & Woodruff, C. 2013. The Demand for, and Consequences of, Formalization among Informal Firms in Sri Lanka. *American Economic Journal: Applied Economics*, 5(2), 122-50. <http://dx.doi.org/10.1257/app.5.2.122>

de Souza, S. 2013. The Political Economy of Tax Reform in Latin America: A Critical Review. Woodrow Wilson Center.

<http://www.wilsoncenter.org/sites/default/files/Political%20Economy%20of%20Tax%20Reform.pdf>

Diallo, I. (2013, March 14). Tax exemptions for aid-funded projects: reasons for change. International Centre for Tax and Development (ICTD) Blog. <http://www.ictd.ac/en/tax-exemptions-aid-funded-projects-reasons-change>

Fairfield, T. 2013. Going Where the Money Is: Strategies for Taxing Economic Elites in Unequal Democracies. *World Development*, 47, 42-57.

<http://dx.doi.org/10.1016/j.worlddev.2013.02.011>

Fjeldstad, O.-H. 2005. Corruption in Tax Administration: Lessons from Institutional Reforms in Uganda. CMI Working Paper 2005:10. <http://www.cmi.no/publications/2005/wp/wp2005-10.pdf>

Fjeldstad, O.-H., Chambas, G. & Brun, J. 2014. Local government taxation in Sub-Saharan Africa: A review and an agenda for research. CMI Working Paper WP 2014:2. Chr. Michelsen Institute (CMI). <http://www.cmi.no/publications/file/5098-local-government-taxation-in-sub-saharan-africa.pdf>

Fjeldstad, O.-H. and Heggstad, K., 2012. Local government revenue mobilisation in Anglophone Africa. [https://papers.ssrn.com/sol3/papers2.cfm?abstract\\_id=2408608](https://papers.ssrn.com/sol3/papers2.cfm?abstract_id=2408608)

Fjeldstad, O.-H. and Iverson, T. O. 2015. The Added Value of Value Added Tax: People are more willing to pay tax. CMI Brief vol. 14 no. 2. Chr. Michelsen Institute. <https://www.cmi.no/publications/5513-the-added-value-of-value-added-tax>

Flores-Macías, G. A. 2012. Financing Security through Elite Taxation: The Case of Colombia's 'Democratic Security Taxes', ICTD working paper 3, Brighton: IDS <https://opendocs.ids.ac.uk/opendocs/handle/123456789/2312>

Gadenne, L. 2015. Tax Me, But Spend Wisely? Sources of Public Finance and Government Accountability, IFS [http://www.ifs.org.uk/uploads/publications/mimeos/Gadenne\\_pubfinance.pdf](http://www.ifs.org.uk/uploads/publications/mimeos/Gadenne_pubfinance.pdf)

Hassan, M. & Prichard, W. 2013. The Political Economy of Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. Working Paper 14. International Centre for Taxation and Development (ICTD). Brighton: Institute of Development Studies. <http://www.ictd.ac/sites/default/files/ICTD%20WP14.pdf>

IMF, OECD, UN, WBG. 2016. *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries: Prepared for Submission to G20 Finance Ministers, July 2016*. International Monetary Fund (IMF); Organisation for Economic Co-operation and Development (OECD); United Nations (UN); World Bank Group (WBG). <http://www.oecd.org/tax/enhancing-the-effectiveness-of-external-support-in-building-tax-capacity-in-developing-countries.pdf>

ITC-OECD. 2015. Examples of Successful DRM Reforms and the Role of International Co-operation, Discussion Paper, July 2015 <https://www.oecd.org/ctp/tax-global/examples-of-successful-DRM-reforms-and-the-role-of-international-co-operation.pdf>

Jibao, S.S. and Prichard, W., 2013. Rebuilding Local Government Finance After Conflict: The political economy of property tax reform in post-conflict Sierra Leone. <http://www.ictd.ac/publication/2-working-papers/80-rebuilding-local-government-finance-after-conflict-the-political-economy-of-property-tax-reform-in-sierra-leone>

Joshi, A. & Ayee, J. (2008). Associational taxation: a pathway into the informal sector? In Brautigam, D., Fjeldstad, O.-H. & Moore, M. (eds). *Taxation and State-Building in Developing Countries: Capacity and Consent*. Cambridge: Cambridge University Press. <http://shebacss.com/ndsp/docs/cases/ndsp042.pdf>

Joshi, A., Prichard, W., & Heady, C. 2014. Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research. *The Journal of Development Studies*. Advance online publication. <http://dx.doi.org/10.1080/00220388.2014.940910>

Kangave, J., Nakato, S., Waiswa, R. and Zzimbe, P.L., 2016. Boosting Revenue Collection through Taxing High Net Worth Individuals: The Case of Uganda. <http://www.ictd.ac/publication/2-working-papers/98-boosting-revenue-collection-through-taxing-high-net-worth-individuals-the-case-of-uganda>

Kloeden, D. 2011. Revenue Administration Reforms in Anglophone Africa Since the Early 1990s, Working Paper WP/11/162, Washington DC: International Monetary Fund  
<https://www.imf.org/external/pubs/ft/wp/2011/wp11162.pdf>

Leal Ordóñez, J. C. (2014). Tax collection, the informal sector, and productivity. *Review of Economic Dynamics*, 17(2), 262-286. <http://dx.doi.org/10.1016/j.red.2013.07.004>

McCluskey, R., 2016a. Africa's First Large-Scale Tax Experiment: Researching Compliance in Rwanda. <http://www.ictd.ac/publication/7-policy-briefing/150-africa-s-first-large-scale-tax-experiment-researching-compliance-in-rwanda>

McCluskey, R. 2016b. Five Questions About Property Taxation in Africa: Insights from the ICTD Roundtable. International Centre for Tax and Development, 31 January 2016. <http://www.ictd.ac/blogs/entry/property-taxation-in-africa>

McKenzie, D. & Sakho, Y. 2010. Does it Pay Firms to Register for Taxes? The Impact of Formality on Firm Profitability. *Journal of Development Economics* 91(1), 15-24. <http://dx.doi.org/10.1016/j.jdeveco.2009.02.003>

Monkam, N. and Moore, M., 2015. How Property Tax Would Benefit Africa. Africa Research Institute. <http://www.africaresearchinstitute.org/newsite/wp-content/uploads/2015/01/ARI-Counterpoint-PropertyTax-download.pdf>

Moore, M. 2013a. Obstacles to Increasing Tax Revenues in Low Income Countries, ICTD Working Paper 15 (Global) <http://www.ictd.ac/publication/2-working-papers/84-obstacles-to-increasing-tax-revenues-in-low-income-countries>

Moore, M. 2013b. Revenue Reform and Statebuilding in Anglophone Africa. IDS Working Paper 428. <https://www.ids.ac.uk/files/dmfile/Wp428.pdf>

Moore, M., Fjeldstad, O.H., Isaksen, J., Lundstøl, O., McCluskey, R. and Prichard, W., 2015. Building Tax Capacity in Developing Countries. IDS Policy Brief. <https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/6522/PB96.pdf?sequence=3>

Morrissey, O., 2015. Aid and domestic resource mobilization with a focus on Sub-Saharan Africa. *Oxford Review of Economic Policy*, 31(3-4), pp.447-461. <https://academic.oup.com/oxrep/article-abstract/31/3-4/447/1800293/Aid-and-domestic-resource-mobilization-with-a>

OECD. 2013a. What drives tax morale? Draft for consultation. Paris: OECD.

[http://www.oecd.org/ctp/tax-global/TaxMorale\\_march13.pdf](http://www.oecd.org/ctp/tax-global/TaxMorale_march13.pdf)

OECD. 2013b. Overview: A new era for taxpayer education. Chapter 1 in Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education. Draft for consultation. Paris: OECD.

<http://www.oecd.org/ctp/tax-global/sourebook-taxpayer-education.pdf>

OECD. 2013c. Tax and Development: Aid Modalities for Strengthening Tax Systems. Paris: OECD.

<http://dx.doi.org/10.1787/9789264177581-en>

Prichard, W., 2010. Taxation and state building: Towards a governance focused tax reform agenda. IDS Working Papers, 2010(341), pp.01-55.

[http://onlinelibrary.wiley.com/doi/10.1111/j.2040-0209.2010.00341\\_1.x/full](http://onlinelibrary.wiley.com/doi/10.1111/j.2040-0209.2010.00341_1.x/full)

Prichard, W. 2016. Taxation, governance and growth. GSDRC Professional Development Reading Pack no. 43. Birmingham, UK: University of Birmingham.

[http://www.gsdr.org/wp-content/uploads/2016/06/Taxation-governance-and-growth\\_RP.pdf](http://www.gsdr.org/wp-content/uploads/2016/06/Taxation-governance-and-growth_RP.pdf)

Prichard, W., Brun, J.F. and Morrissey, O., 2012. Donors, aid and taxation in developing countries: an overview.

<http://www.ictd.ac/publication/2-working-papers/6-donors-aid-and-taxation-in-developing-countries-an-overview>

Prichard, W., Salardi, P. and Segal, P., 2014. Taxation, non-tax revenue and democracy: New evidence using new cross-country data.

[https://papers.ssrn.com/sol3/papers2.cfm?abstract\\_id=2496872](https://papers.ssrn.com/sol3/papers2.cfm?abstract_id=2496872)

Raballand, G and Rajaram, A. 2013. Behavioural Economics and Public Sector Reform: An Accidental Experiment and Lessons from Cameroon, Policy Research Working Paper 6595, The World Bank, Africa Region, Poverty Reduction and Economic Management Unit, September 2013 (Natural experiment, Cameroon)

<https://openknowledge.worldbank.org/bitstream/handle/10986/16046/WPS6595.pdf?sequence=1&isAllowed=y>

Savedoff, W. and Alwang, A., 2015. The Single Best Health Policy in the World: Tobacco Taxes. CGD Policy Paper, 62, p.62.

<https://www.cgdev.org/sites/default/files/CGD-Policy-Paper-62-Savedoff-Alwang-Best-Health-Policy-Tobacco-Tax.pdf>

## Suggested citation

Bolton, L. (2017). *Effectiveness of tax reform interventions*. K4D Helpdesk Report. Brighton, UK: Institute of Development Studies.

## About this report

*This report is based on five days of desk-based research. The K4D research helpdesk provides rapid syntheses of a selection of recent relevant literature and international expert thinking in response to specific questions relating to international development. For any enquiries, contact [helpdesk@k4d.info](mailto:helpdesk@k4d.info).*

*K4D services are provided by a consortium of leading organisations working in international development, led by the Institute of Development Studies (IDS), with Education Development Trust, Itad, University of Leeds Nuffield Centre for International Health and Development, Liverpool School of Tropical Medicine (LSTM), University of Birmingham International Development Department (IDD) and the University of Manchester Humanitarian and Conflict Response Institute (HCRI).*

*This report was prepared for the UK Government's Department for International Development (DFID) and its partners in support of pro-poor programmes. It is licensed for non-commercial purposes only. K4D cannot be held responsible for errors or any consequences arising from the use of information contained in this report. Any views and opinions expressed do not necessarily reflect those of DFID, K4D or any other contributing organisation. © DFID - Crown copyright 2017.*

