Report

Strengthening domestic resource mobilisation in Australian partner countries

Paddy Carter, Stephanie Sweet, Shakira Mustapha, Cathal Long

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1 Introduction

Taxation has risen to the top of the development agenda. It is the first item on the Action Agenda in the draft Financing for Development (FFD) agreement and the first item on the financing Action Plan agreed at the recent Asia-Pacific FFD regional consultation.[1]

The Sustainable Development Goals, which will be formally adopted in September this year, are hugely ambitious and call for significantly increased domestic revenue capacities to finance an array of developmental investments and recurrent expenditures. The Development Committee of World Bank and IMF has called for a transformation of development finance "from billions to trillions".[2] This escalation of global development ambition does not herald a concomitant increase in official development assistance (ODA). Rather, the FFD negotiations take place against a background of flat or falling ODA commitments.[3]

Hence the onus is on domestic resource mobilisation in developing countries, as the key to self-sufficiency and sustainable development.[4] Private finance is enormously important for economic growth, but whilst governments can create an environment that encourages and shapes private investment, it is not theirs to direct. Public finance has a unique place in FFD because it can be spent at the discretion of government in pursuit of national development strategies, without requiring short-term financial returns.

The most obvious and immediate need for taxation is simply to fund public expenditure. In many developing countries governments simply cannot afford to provide critical public inputs necessary for economic growth and social development. But the importance of taxation goes beyond the money it raises. The tax system must serve national redistributive objectives and it must be conducive to economic growth and increasing private finance for development.

The links between taxation, private finance and growth reach beyond the direct impact of taxes on trade and investment: the whole structure of an economy may be shaped by the desire to raise taxes (or lack of it). A government wishing to raise high levels of tax revenues from a broad base will have to protect property rights, deliver political accountability and foster a market economy, thereby promoting economic development.[5]

Taxation can support development, but badly designed and administered taxation systems can impede development. Here the nature of tax administration can be as important as statutory tax rates. At worst taxation in developing countries can be arbitrary and unpredictable, consisting of deals made with tax inspectors rather than the objective application of rules, and this has strong adverse impact on economic activity.[6]

Tax administrations in developing countries are often under resourced, with staff lacking technical skills and equipment, little capacity to formulate policy, monitor performance and manage basic functions. There is obvious potential for knowledge and resource (manpower) transfers from the international community in

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[1] See Asia-Pacific to pursue action-oriented financing strategy to transform development UN ESCAP

[2] "From billions to trillions: transforming development finance Post-2015 financing for development: multilateral development finance." Prepared jointly by the AfDB, ADB, EBRD, EIB, IADB, IMF and WBG.

[3] Although this will be hotly contested at July's FFD negotiations where developing countries will push contributing nations to meet the 0.7% of GNI ODA target.

[4] Taxation has also risen up the development agenda because of the increasing recognition that developing countries are losing precious tax revenues to aggressive tax practises by multinational corporations and other forms of illicit financial flow.

[5] See for example Bandiera & Blum (2014) and Besley and Persson (2011), which explain the links between state capacity and prosperity.

[6] The harmful impact of 'deals' versus rules is argued in Hallward-Driemeier et al. (2010).

these areas. Although no estimates of the average returns to external interventions in taxation exist, some case studies suggest returns can be remarkable. For example in Kenya, Tax Inspectors Without Borders, a project led by the OECD, found that every dollar spent working with authorities to tackle tax avoidance produced $1,290 in increased revenues.[7]

The importance of taxation is so striking, and the scope for productive development cooperation in this area is so strong, the puzzle is why taxation was not always at the top of the development agenda. Donor support for domestic resource mobilization in developing countries has been on a slightly upward trend, in terms of volume, but still represents a tiny fraction of overall aid flows.[8] However, whilst there is certainly scope for donors to dedicate more resources to developing tax capacity, this is an area where the quality of policy advice matters more than the quantity (and there are limits to the number of tax consultants a country can gainfully employ).

This paper provides a survey of these crucially important issues with the intention of informing the policy of the Australian Department of Foreign Affairs and Trade towards taxation in its partner countries. It will cover the role of taxation in development, and the theory and evidence that underpins the nature of tax reform. The state of taxation in Australia's partner countries will be summarised, with more detailed data presented in an annex. The role of various international actors in the field of taxation will be examined, before taking a more in depth look at the practicalities of international interventions in taxation and lessons from experience. The report will conclude with some potential lessons for Australian policy towards taxation in its development partners.

[7] This example is cited by Angel Gurria and Erik Solheim in their article "Making the most of more aid", Project Syndicate (2015)
[8] Strawson and Ifo (2014)

2 Taxation and development

Summary

- Taxation and development is a slow-moving, two-way street
- Revenue mobilization may require improvements in public service delivery and political accountability
- Broadening the tax base may also drive those improvements; this suggests that base broadening has benefits over and above revenue generation, and has implications for tax policy design and administration.
- Tax reform is an inherently political business, and perceptions about fairness are likely to trump analysis of economic efficiency.
- Politicians face many constraints and may lack incentives to undertake reforms which could undermine the political settlement (or their own incomes)
- Voluntary compliance (or tax morale) may be susceptible to taxpayer education and name and praise or shame campaigns
- The lessons for tax policy from economic theory often neglect the realities of taxation in developing countries, where verifiable information about individual and corporate earnings is lacking.
- Tax policy in developing countries should be designed with economic efficiency in mind, but be tailored to the reality of administrative capacity. Sometimes economic distortions are a price worth paying for ease of collection. Sometimes taxes deemed unnecessary in economies capable of implementing progressive income taxes (such as luxury taxes) may be justified.
- Developing countries have large informal sectors. These can be taxed, but the case for doing so is weak. However potential political improvements from extending the social contract may justify doing so.
- Excessive and inefficient use of tax incentives, notionally intended to encourage investment, is probably the top policy reform priority in many developing countries
- It is not clear what developing countries have to gain from reforms aimed at illicit flows. The biggest potential returns probably come from more effective taxation of extractive industries.
- The nature of tax administration is as important as tax policy. In developing is often arbitrary, unpredictable and onerous; it should be rules-based, predictable and easy to comply with.
- Recommended technocratic reforms to tax administration include establishing semi-autonomous revenue authorities, large taxpayer units and functions-based organizations.
- Moving to risk-based audit and investing in information technology to make paying taxes easier are also popular areas for donor support. More mundane but important issues like HR are often neglected.

Tax revenues are urgently needed to finance development, but development may be required to enable taxation. The only way to tax like an advanced economy is to *become* an advanced economy. Research has shown that an important reason why advanced economies are able to raise such high tax revenues is that the bulk of taxes are gathered by third-parties, such as companies withholding income taxes from wages, and that cash transactions are rare so economic activity is well-documented, helping tax enforcement.[9] The structure of the economy – the mix of agriculture, trade and industry – explains much of the variation in tax

[9] See Kleven (2014)

performance across countries. The level of development (for which the level of income per capita is a good proxy) is the most powerful single statistical predictor of tax revenues.[10]

Taxation is bound up with a broader notion of state capacity that includes public expenditure efficiency and political mechanisms to align the activities of the state with the interests of citizens. These are also aspects of development, associated with higher incomes. The effectiveness and accountability of the public sector can be a constraint on taxation; it may be difficult to raise more tax revenues without delivering improvements on these fronts first.[11]

The central question of taxation and development, according to influential economists, is: "how does a government go from raising around 10% of GDP in taxes to raising around 40%?"[12] Whatever the answer to that question is, moving from 10% to 40% is a slow process. Tax reform is more a matter of small steps than giant leaps. Despite the sometimes intensive efforts of reformers and sweeping changes such as the introduction of VAT, tax performance has often been stubbornly resistant to change. The level of taxation might be best thought of as a political equilibrium, so that reforms that raise revenues from one source may be offset by relaxations elsewhere.[13] Most experts tend to see scope for reforms to raise taxation as a proportion of GDP by 1 or 2 percentage points, in the short-run.

A consideration that gets surprisingly little weight in the discussion around taxation in the context of financing for development is that aggressive attempts to raise taxes may impoverish people and harm the economy. The tendency is to look at poor countries that raise taxes equivalent to around 15 per cent of GDP and assume they can and should tax far more. This may often be the case, but perhaps it should not be unquestioningly assumed.

Section 6 will cover the topic of tax reform in practice; the remainder of this section surveys the theoretical and empirical that should guide the nature of those reforms: political economy, tax morale and culture, and tax policy, administration and enforcement.

2.1 Political Economy of taxation

The relationship between politics and taxation has long-run and short-run aspects. The more immediate difficulties of implementing tax policy in the challenging political environment of a developing country are most relevant for the purposes of this review, but the mechanisms that link taxation and politics over the long run should be kept in mind.

Over the long run, political and economic development is often thought to be driven by the need to raise tax revenues. Many accounts of the development of Western Europe credit the need to extract greater amounts of tax revenue, often to wage wars, with raising the long-run quality of governance. The argument is essentially a "social fiscal contract" wherein, as a quid pro quo for paying taxes, citizens demand political representation via which they will demand better economics institutions and improved economic outcomes. Scholars have found a good deal of empirical evidence to support these arguments. [14]

Perhaps the main implication of these arguments for tax policy advice is that there may be benefits from bringing citizens into the tax base even if the revenues gathered do not alone justify the administrative expenditure. It may be most important to bring businesses into the tax base, on the basis that tax-paying business owners may be best positioned to demand improvements in public services from governments and the 'enabling environment' of economic and legal institutions. The social contract can be strengthened by more explicit linkages between revenues and expenditures, although such "earmarking" is not recommended on pure economic efficiency grounds. For example, not only can transport taxes be earmarked for spending on roads, but some developing countries have established independent roads

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[10] Fenochietto & Pessino (2013) and Le et al. (2012) are examples of recent cross-country empirical research.
[11] See Bandiera, O., & Blum, F. (2014).
[12] Besley and Persson (2013)
[13] Bird (2014) provides an excellent history of foreign tax advice in developing countries, and its impact.
[14] Moore (2008) and Ross (2004) provide overviews of these arguments. Mahon (2005) presents evidence that increases in taxation tend to be followed by improvements in institutional quality. Dincecco and Prado (2012) show that higher fiscal capacity results in higher GDP.

authorities with representation from road users, to give transport taxpayers more visibility of financing requirements and a say in how taxes are spent.[15] Another consideration is 'tax salience', or the extent to which citizens and firms *feel* like they are paying taxes. It can be tempting conceal taxes, in the hope of minimising resistance, but taxpayers may be more likely to demand improvements from government when they more aware of what they pay.[16] Tax administration matters here too: a social contract implies fairness and predictability, not arbitrary and iniquitous taxation.

In the short-run, politics is the main constraint on tax policy and its administration. In a functioning democracy the tax system must be politically acceptable and reforms need political backing; in a dysfunctional government powerful elites and other interest groups can distort the tax system to their advantage. But whilst lobbying and corruption from within the political system is a major issue, it should be kept in perspective: tax researchers tend toward the view that developing country governments do a reasonable job, given the constraints they face.[17]

These constraints may fundamentally impede revenue mobilization. Scholars have emphasised that the ability to tax is accumulated over time, through investments in state capacity. A political system in which governments are reliant on patronage and corruption to maintain power would put its existence in peril by genuinely reforming the tax system. Political instability can also lower the incentive for the incumbent government to invest in administrative capacity. One of the oldest theories of state formation claims that the origins of the state lie in organized banditry. A roving bandit with short time-horizons will extract as much as possible to the detriment of the economy, but a stationary bandit, thinking long-term, will act like a state and encourage production by taking more moderate taxes.[18] But this idea needs some qualification - long-lived autocrats are not more developmental, and if anything seem to be among the most kleptocratic.[19] The political settlement must give governments incentives to plan for the long-run, but citizens must also be able to punish poor performance by removing them from power.

Although the distributional consequences of the tax system are hard to identify and are likely to be poorly understood, perceptions about equity and fairness of taxes may dominate any arguments that are put forth about economic efficiency. Tax reforms rest on how different political groups perceive proposed changes and how they react to them – at a minimum, those within government and the private sector needed to implement a reform must not actively undermine it. Any major tax reform is always and everywhere "an exercise in political legitimation".[20] The political nature of tax reform will be revisited in section 6.

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[15] See "Experience with road financing in EU accession countries, Latin America and Africa" available on the World Bank Roads & Highways webpage.

[16] For example Edgerton (2012) shows how managers are more aware of taxes that affect accounting profits than alternatives that have the same economic impact but do not impinge on reported profits in the same way. Cabral & Hoxby (2012) argue that property taxes are felt particularly strongly by taxpayers.

[17] Besley and Persson (2013) write "Generally, we take the view that governments in poor countries can reasonably be thought of as doing their best in raising taxes, given the administrative structures in place and the political incentives to raise taxes." Gordon and Li (2009) examine competing explanations for observed patterns of taxation in developing countries – political or technical – and find that the limitations in terms of administrative capacity and opportunities for tax evasion explain most of the differences between an ideal tax system and the reality of tax in developing countries.

[18] Olsen (1993)

[19] From Darron Acemoglu's lectures on Weak States and State Building MIT OpenCourseWare

[20] Taken from Bird (2013) citing Lledo et al. (2004.

Domestic Resource Mobilization in fragile, post-conflict or very low capacity states.

Many of the themes emphasized in the political economy of taxation take on greater significance in the context of conflict-afflicted and very low capacity states. State legitimacy, capacity and accountably, and the quality and reach of public service delivery, are widely seen as the keys to making social and economic progress in countries recovering from conflict or suffering from very low state capacity. These things are also vital ingredients for domestic revenue mobilization.

Control over state revenues, particularly natural resource revenues, is often at the heart of conflict (such as the ongoing conflict in South Sudan) so the distribution of the burden and the benefits of taxation and expenditure is of more than economic consequence; it can make the difference between war and peace.

Regarding taxation specifically, the consensus advice is to "keep it simple" in low-capacity contexts, and choose tax policies that are easily understood, use easily-verified tax bases, and are easy to administer. Such considerations are likely to trump concerns about economic efficiency. In situations where state legitimacy is low and certain ethnic or other groups may feel particularly alienated from the state, the importance of consultation and inclusiveness has been stressed, and this is likely to be particularly important during attempts to broaden the tax base.[21]

Fragile and low capacity states are likely to be particularly reliant on resource revenues and a small number of large enterprises (sometimes multinationals) in which case the use of tax exemptions and the taxation of the resources sector are probably going to be policy reform priorities.

In low-capacity situations, donors often set up parallel systems in the interests of short run efficiency. But this often raises concerns that such parallel systems can undermine or forestall improvements in domestic capacity, and may also affect how citizens view the state, to the determinant of tax morale. However, recent research has shown that public services delivery by donors and NGOs can strengthen the relationship between citizen and state.[22]

Nonetheless, the long term goal should be to foster state capacity. This does not always mean working with existing government systems: it can sometimes be worth starting from scratch. For example in Burundi, an Irish Commissioner General was chosen to head the tax office. He started out by dismissing over 400 staff and recruiting qualified replacements, then radically redesigning the system from scratch. In 2012 real tax revenues were 25% higher than in 2009.[23]

2.2 Tax policy

The principle underlying good tax policy is to generate revenue and achieve redistribution objectives whilst doing as little harm as possible to economic productivity. Sometimes changing economic behaviour is an explicit objective of taxation, when doing so will increase efficiency or meet other public policy goals (e.g. health or environmental), but otherwise good tax policy means having as little impact as possible on the decisions of economic actors.[24]

The state of the art in tax policy analysis is probably represented by the UK's recent Mirrlees review, which proposed an ideal of a progressive, neutral tax system. The idea of looking at the fiscal system as a whole is stressed, rather than considering individual taxes (and benefits) in isolation. A neutral tax system is one that treats similar activities in similar ways, for example taxing all forms of earned income at the same rate. Non-neutralities may not only distort behaviour in ways that are hard to justify, but introduce opportunities for tax avoidance and evasion. Recommendations include using flat indirect taxes and achieving progressivity through direct taxes and the pattern of expenditure, equalizing the rates taxation on labour income and capital earnings in excess of a normal rate of return, and taxing wealth transfers between individuals.

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[21] Ghani and Lockhart (2009)

[22] Boyce (2008) raises concerns about 'dual' public sectors whilst Sacks (2012) presents evidence from Africa that shows provision of public services does drive attitudes towards taxation but that donor and NGO delivery seems to strengthen perceptions of state effectiveness.

[23] OECD (2014)

[24] A pioneer of tax theory, Arnold Harberger, was influenced by his early experiences in Indonesia when cars were taxed more heavily than motorcycles, resulting in the construction of eight-seater motorcycles.

A key element of economic theory is tax incidence: the idea that the person who pays the tax is not necessarily the person who bears the burden of it. For example, a tax notionally paid by producers may be partially passed on to consumers in higher prices. A particularly contentious question is the economic impact of taxes on returns to investment, which are a potentially desirable means of taxing the wealthy, but where in theory workers might bear the burden in the form of lower wages. Empirical research often reaches seemingly contradictory conclusions, suggesting that similar taxes have different effects in different contexts. Much of the evidence comes from advanced economies. Nonetheless the consensus is that workers do bear some of the burden from capital taxes and that more distortionary taxes (such as direct taxes) tend to impede growth.[25]

Differential sales taxes are generally regarded as unnecessary when progressive income taxes are available, but if different rates are used theory suggests that activities where behaviour would respond strongly to taxation (elastic) should be tax lightly, whilst activities where behaviour unresponsive (inelastic) can be taxed more. Some activities may be inelastic in the short-run, but elastic in the long-run, such as firm relocation decisions.

Of particular relevance to developing countries is the taxation of mobile factors, particular capital investment, in the globalized economy. International location decisions may be highly responsive to taxation. In some respects these considerations suggest a focus on the efficient taxation of relatively immobile factors (like labour and property) but in many developing country contexts, tax revenues from multinational firms are too large a prize to relinquish without a fight.

But whilst insights from the economic theory of taxation are instructive, they tend to be generated by models that assume away problems with tax administration and enforcement that are pervasive in developing county contexts. Once such constraints are taken into account, good tax policy may look radically different.

2.2.1 Tax Policy in Developing Country Contexts

One central tenet of tax theory is that taxes should not impede efficient production. This allows for taxes on earnings and profits, but precludes taxes on intermediate inputs, turnover and trade. However turnover taxes, for example, are easier to collect than taxes on profit, and may be the best choice when profit taxes are easily evaded.[26] This is an instance of a more general point: tax policy is not easily transplanted from either economic theory or from advanced economies, to developing economies.[27] But whilst there is risk of promoting tax reforms unsuited to context, there is also a risk of going too far in the other direction: it is usually possible to construct a justification for harmful tax practices, based on “the realities of local context.”

Over the decades there have been two waves of policy advice given to developing countries. The first advocated progressive taxation of income (and sometimes consumption). The revenue raised from such taxes has been disappointing, and in many countries income taxes are effectively taxes on public sector workers (hence illusory revenue) and employees of large companies.[28]The second wave, starting in the late 1970s, advocated the introduction of broadly applied value-added taxes (VAT). The move to VAT has been

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[25] On the impact of taxes on growth, see Bleaney et al (2001) and Martinez-Vazquez et al. (2011). On capital taxation in particular, Yagan (2015) finds a large cut to the taxation of returns to investment in the US had no impact on investment or wages, but just raised payouts to shareholders. But Djankov et al.(2010), using data from 84 countries, find a consistent and large adverse effect of corporate taxes on both investment and entrepreneurship. Looking specifically at the relationship between corporate tax rates and corporate tax revenues, Kawano and Slemrod (2014) find no relationship between the two, after accounting for the fact that changes in statutory rates are often accompanied by changes to the tax base. The extent to which workers are found to bear the incidence of capital taxes varies: Fuest et al. (2012) report a relatively low estimates from Germany that a 1% increase in corporate taxes reduces wages by 0.18%, but most estimates are in the range of 0.4-0.8. In theory, in some circumstances workers may bear more than 100% of the incidence. It is sometimes claimed that economic theory says capital taxes should be zero. This is not true. That result arises in some models as the optimal outcome *after* a very long period during which punitive capital taxes have been used to eliminate inequality, or one might use progressive capital taxes. See Straub and Werning (2014) and Saez (2013).

[26] Best et al. (2015) estimate a model of tax evasion in Pakistan and conclude that the system in place, where either a turnover or profit tax is charged (whichever is greater), is justified.

[27] Another result from tax theory says that there is no need to tax different commodities at different rates to redistribute from rich to poor, because that objective can be achieved through the income tax schedule. But enforcing an efficient progressive income tax may not be so easy in a developing country context, whereas items purchased by the better-off may be easily identified. Similarly the conclusion that intermediate good (inputs) should not be taxed may be overturned when it is hard to tax some outputs. See Stiglitz (2013)

[28] See Keen (2013) and Bird (2014)

successful, in the sense that VAT has been widely adopted and seems to have modestly pushed up tax revenues, but remains controversial.[29]

VAT is often objected to on the grounds that it is regressive, but this might nots always be the case in some developing country contexts where the poor are more likely to escape VAT. Most studies have found VAT to be broadly neutral in terms of distribution, and better than the trade and excise taxes it often replaces.[30] Some argue VAT may be actively harmful because it is effectively another tax on the formal sector and may thus encourage economic activity to move into the informal sector, which has a long-run negative impact on wages and economic growth.[31] Also, a prevalence of cash-based transactions makes VAT difficult to administer. VAT usually entails rebates for firms that record negative value add and rebates on exports. When the potential for fraud is high in a cash-based economy, governments may even pay our more in rebates than they collect in revenues. Conversely if governments do not offer such rebates, they discourage legitimate activities, such as loss-making start-ups.

A priority in developing countries is to avoid complex systems that provide opportunities for avoidance and evasion. The use of tax bases that can be easily verified may help reduce opportunities for corruption. Tax policy that is easier to implement can ease the burden on tax administrations and free up resources for further investments in improving tax administration.[32] Simplification can make tax policy more immune to political pressure. A policy of uniform tax rates across industries or goods may be less vulnerable to lobbying than using discretionary differentiated rates. In developing countries, tax authorities may be less able to police common tactics, such as falsely claiming eligibility for tax exemptions, which suggests governments should think carefully before introducing non-neutralities into the system. On the other hand, special taxation of certain goods may be justified if they are particularly easy to enforce.[33]

Some experts have suggested that, contra Mirrlees, a dual personal income system is sensible in developing country contexts, with progressive taxes on labour income but flat taxes on personal income from own-businesses and other forms of capital income.[34] A flat tax on capital income would be easier to administer, and reduce incentives for avoidance.

Taxation can also be used to correct market failures, the classic case being an ‘externality’ such as pollution, where a tax on polluting activities can ensure the cost to society is reflected in prices, promoting efficiency. In developing country contexts, market failures may be more pervasive. For example developing economies may be less able to cope with volatile international capital flows. Although capital controls need careful design to encourage flows that fund productive investment whilst moderating those flows that have been shown to be more destabilising than growth enhancing, taxes are part of the policy toolbox.

2.3 Revenue Administration

The distinction between administration and policy is often hard to make because even the best tax policy is worth little if it cannot be implemented effectively.[35] Tax agencies will be more effective if their tasks are made more simple, stable and predictable. It is estimated that better administration of tax legislation may increase revenues by more than 30 percent in many countries in Sub-Saharan Africa.[36] Simplification of tax legislation and improved revenue administration are closely linked, and one must take into account the other.

During the last two decades, strengthening revenue administrations has been an important area of donor support in developing countries. The content of administrative reform has varied widely across countries and has depended mostly on what was already in place. Some of the more widespread areas of reform have included increasing autonomy; moving towards a function-based organization; establishing offices for

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[29] Keen (2007, 2013)
[30] Keen (2013)
[31] Stiglitz (2013) There is a counter argument that VAT can sometime encourage formalization (or at least VAT registration) to benefit from rebates.
[32] This point is due to Abramovsky et al. (2014)
[33] See Abramovsky et al. (2014) for a discussion of how lessons from the Mirrlees review translate into less-developed contexts.
[34] Bird and Zolt (2011)
[35] Bird (2004)
[36] Hadler (2000)

different categories of taxpayers (especially large taxpayers); simplifying the collection process and making them more 'user-friendly; and modernizing information and technology systems.

2.3.1 Institutional arrangements

A revenue administration must be effective but also fair and impartial. A degree of autonomy from central government is generally reckoned to be needed, if tax administrations are to exercise their powers and fulfill their legislated roles. Semi-autonomous revenue authorities (SRAs) – which have more autonomy than standard government departments but fall short of full independence – are touted as a possible solution to poor revenue performance, partially on the basis of reduced vulnerability to political interference. The evidence is mixed but the most successful cases suggest that the impact can be substantial: in Mozambique the tax share increased from 14 per cent of GDP in 2006 to 19 per cent in 2010, after the introduction of an SRA.[37] More autonomy can also foster accountability, improved service to taxpayers, and more flexible human resource management options that allow the revenue administration to recruit, retain, and promote staff by paying salaries above the civil service regulations.

There are no sharp distinctions here - various organizational forms exist along a continuum, with some closely following the rules of civil service and housed under the Ministry of Finance, while others have enjoyed greater autonomy. Though no guarantee of success, the establishment of an SRA does appear to be associated with improved performance.[38] It is also widely agreed that establishing an SRA can catalyze broader administration reform.

Once typically a standalone operation, customs functions are increasingly being integrated into central tax administrations, in response to the challenges of globalization. The degree of integration has varied widely, but the rationale for the alignment of tax and customs operations includes exploiting synergies on the collection of VAT on imports, perceived economies of scale by combining operational functions in revenue collection (e.g. HR and IT functions), lower compliance and administrative costs, and improved competitiveness of domestic firms.

But the integration of customs and tax administration has proved to be problematic in several countries, partly because some functions are unique and partly because of different working cultures between the two organizations. As of 2009, it is estimated that nearly 40 revenue administrations contain customs functions[39,] but 36 OECD countries still have separate bodies for tax and customs administration.[40] Regardless of the institutional arrangement, cooperation between customs and tax administration is important and efforts should be made at increasingly the efficiency of customs administration together with tax administration.

2.3.2 Internal organization

Organizational structures of tax administration are mainly based on three main criteria: type of taxes collected, functions performed, or type of taxpayer (or some type of 'hybrid' of the three). Over the past 15 years, more and more tax administrations have evolved from a type-of-tax model to a functional model. Under the function-based approach, dedicated process-oriented centers (or regional offices) have been established to deal with the core processes that apply to all taxpayers, e.g. registration, processing of tax returns and payments, collecting delinquent accounts, processing administrative appeals, tax audit, and providing basic information services. The rationale behind this approach is that most of the processes performed by the tax administration should be the same regardless of the tax type. For example, the processes followed by auditors should be the same up until the actual audit because which taxpayers are selected for audit depends on risk, not tax type.

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[37] Fjelstad (2013)
[38] IMF (2015)
[39] Yasui, Tadashi (2009), WCO Research Paper No. 5, 'Taxation between Customs and Tax administrations: Lessons Learned from Revenue Authorities", Worlds Customs Organization.
[40] Tax Administration in OECD and non-OECD Countries: Comparative Information Series (2010). *Center for Tax Policy and Administration, OECD.*

While it is considered good practice to be function-based, it is also considered good practice to establish dedicated units focused on the various taxpayer segments (e.g. large taxpayer unit - LTU). LTUs are conceived as full-fledged offices when they encompass all relevant core business processes of tax administration including tax collection, tax audit, legal services, tax arrears management, and taxpayer assistance for large taxpayers. There has been an increased focus on large taxpayers given: (i) their contribution to overall revenue; (ii) their engagement in complex, specialized, and international operations; and (iii) their high compliance risks.[41] All these considerations have greatly contributed to the spread of LTUs in many countries, both developed and developing ones.[42]

2.3.3 Managing and Improving Taxpayers' Compliance

Developing countries exhibit a wide variety of tax compliance levels, reflecting not only the effectiveness of their tax administrations, but also tax morale. To this end, tax administrations must foster taxpayer compliance, not only enforce it. Merely strengthening powers of enforcement can backfire by enabling corrupt tax inspectors to extract more money from the private sector for their own benefit.[43]

Improving compliance requires a mix of both facilitating and monitoring, as well as measures to deter non-compliance. Facilitating compliance involves improving services to taxpayers such as providing clear instructions, simple forms, and assistance as necessary. Effective progressive personal income taxation of non-wage income requires some form of self-assessment (perhaps bolstered by withholding and third-party reporting) that tax authorities struggle to achieve.[44]

Monitoring compliance requires the establishment and maintenance of information technology (IT) systems that cover both taxpayers and third-party agents (such as banks). Deterring non-compliance requires establishing procedures to detect and follow up on non-filers and delayed payments as well as implementing effective penalties. In sum, the optimal enforcement strategy is likely to include both rewards for compliers and penalties for non-compliers.

Improving taxpayer audit has been a leading priority in many developing countries, but in many cases considerable resources are devoted without a comprehensive plan to target audits based on risk. Many developing countries focus excessively on comprehensive (or intensive) audits compared to simple mass audits, and often cover small and medium enterprises more than large taxpayers, which remit most of the revenue. There is little use of third party information and ex-post evaluations of the effects of audit action.[45] Such misdirection is common in low-income countries, in part because more expensive skills required to audit larger and more complex enterprises, but also due to political linkages with large taxpayers.

In recent years, reforms have usually involved some form of modernization of IT systems, in an effort to improve compliance by easing the burden on taxpayers and reducing administrative costs. In successful cases reforms involved not only computerizing antiquated processes but also redesigning and streamlining basic systems and procedures (for example, simplifying and consolidating returns). Technology must be carefully integrated into the tax administration and accompanied by a change management strategy - new computer systems have often been developed in parallel by IT experts, not recognizing the skills and needs of the tax officials who will be using the systems. IT can help, but cannot do the job alone: only well-trained people, with adequate political support, can administer taxes effectively.

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41 On average, large taxpayers secure 60-80 percent of domestic taxes in developing economies (more in island economies). *Revenue Mobilization in Developing Countries, IMF, 2011.*
42 OECD (2009) study cited earlier found that 33 out of the 43 countries surveyed had established LTUs. Additionally, the International Tax Dialogue (2010) study on *Revenue Administration in Sub-Saharan Africa* found that all revenue bodies expect Botswana had established a LTU. (International Tax Dialogue, 2010, "Revenue Administration in Sub-Saharan Africa".)
43 Stiglitz (2013)
44 Keen (2013)
45 IMF (2015), 'Current Challenges in Revenue Mobilization: Improving Tax Compliance,' IMF, Washington, DC.

2.4 Principles of tax policy and administration

- Guiding principles for tax policy and administrations are symmetry (if gains are taxable, losses are deductible), inclusiveness (a broad tax base), simplicity, neutrality and equity.[46]
- The ideal tax system exhibits neutrality, meaning that it distorts economic decisions as little as possible, especially the efficiency of production, with the exception of cases where affecting behavior is policy goal. However when the realities of developing country economies are taken into account, particularly difficulties in gathering verifiable information and other challenges of tax administration, appropriate tax policy may stray quite far from this ideal.
- The equity of the taxation and expenditure system should be evaluated as a whole rather than considering each element in isolation. Distributional objectives can be achieved by combining regressive and progressive taxes and expenditure patterns. However in developing country contexts such flexibility is limited by what is feasible, and taxes that would be considered unnecessary in advanced economies, such as taxes on luxury goods, maybe needed to achieve progressivity.
- The taxation of extractive industries and multinational enterprises is disproportionately important in developing country contexts. Inefficient and costly use of tax exemptions is likely to be a policy reform priority.
- There is no ideal tax composition, either in terms of tax type or tax burden across income groups, because the former is too context-specific to generalize and the latter is a political choice. A 'standard package' typically recommended by the IMF and others includes a broad-based low-rated VAT, progressive taxes on wage and capital income, and reduced reliance on trade taxes.
- There are arguments for broadening the tax base for the sake of instilling a sense of citizenship and promoting political accountability. However clumsy attempts to tax the informal sector risk impoverishing people.
- It is often said that in developing countries tax administration *is* tax policy, with the implication that administrative capacity all but dictates tax policy and that tax policy reform is meaningless without tax administration reform.
- Tax policy must be designed to minimize opportunities for evasion and avoidance by taxpayers and for arbitrary and subjective implementation application by tax officials. Investors in particular like predictability.
- Tax administrations need insulation from political pressure and "semi-autonomous tax authorities" are often advocated. These can have the additional advantage of allowing staff recruitment and compensation to be unshackled from the civil service norm.
- Organization around functions (registration, audit, collection etc.) and taxpayer type (i.e. large taxpayers) is regarded as best practice, as is the use of rules-based auditing based on risk.
- Tax administrations should treat taxpayers more like clients whose needs are to be met and less like criminals to be caught. The economic cost of compliance borne by taxpayers is as important as the cost of collection borne by tax administrations. Tax administration should be transparent and engage in taxpayer education and consultation.

2.3 Culture and tax morale

Tax takes vary across countries of similar income levels and economic structure, and a significant part of that variation is thought to reflect citizen's willingness to pay tax, or 'tax morale'. The largest influence on tax compliance rates is still thought to be a rational calculation based on the probability of being audited and the severity of penalties. But taking these factors as given, people are still less likely to attempt to avoid and evade taxation if there is a strong social expectation that taxes should be paid, and conversely in some cultures tax evasion resembles a game that everybody plays. Some argue that heavy-handed enforcement crowds-out voluntary compliance, but there is little evidence of that.

[46] A good overview is provided by Tanzi and Zee (2001)

Voluntary tax compliance can vary for many reasons; culture is just one of them. For example tax morale may reflect people's perceptions of the quality and responsiveness of public services (reciprocity), whether taxes are perceived as fair, or whether government officials are seen as using taxes for their own enrichment. In East Asia, regimes such as those of Suharto and Ferdinand Marcos may have done lasting damage to tax morale. More educated individuals are generally found to be more willing to pay taxes. Educating taxpayers about the objectives and rationale behind tax systems has been shown to have a positive impact on willingness to pay taxes – a number of developing countries have established taxpayer education units.[47]

Culture also matters for more than tax morale. Which taxes are perceived as fair may have cultural roots. In some cultures a tax official that did not exploit opportunities to extract side payments would be regarded as failing in their responsibilities to their extended family network. Many East Asian countries have a culture of gift giving.

Evidence on the quantitative importance of tax morale is hard to find, mainly because separating tax morale out from other factors that explain compliance is difficult. One innovative approach is to look at the tax returns of otherwise-similar immigrants and attribute differences to cultural norms in their countries of origin. These studies find substantial effects.[48]

There is little evidence on the policy question of whether tax morale can be manipulated more cost-effectively than other investments in tax administration and enforcement. Some countries have taken to either publically 'shaming' non-compliers, or honouring good taxpayers. In some countries tax publicity campaigns stress the patriotic nature of taxation, or attempt to make connections with national heroes.[49]

2.4 The informal sector

In the context of developing economies, one of the most important questions is how the tax system affects the decision to join the formal sector or shelter from tax in the informal economy. In isolation taxes discourage formality, but of course advanced economies have both higher effective tax rates and higher levels of formality, because in these economies the relative benefits of formality, such as access to the legal system and financial services, are so much greater, in part because governments are well-resourced. Aside from the forgone revenue, the extent of informality is important because informal firms tend to be small, pay lower wages and contribute little to economic growth.

However, research shows that whilst the avoidance of taxes and regulations is an important reason for informality, the productivity of informal firms is usually too low for them to thrive in the formal sector. Hence efforts aimed a 'formalising' informal firms rarely succeed in great numbers or stimulate economic growth. Informal firms rarely join the formal economy; instead they tend to disappear as the formal economy grows; the formal sector is the source of growth. This suggests a cautious approach towards policies to tax or regulate informal firms: "rather than encourage informal firms to become formal, such policies may have the effect of driving them out of business, leading to poverty and destitution of informal workers and entrepreneurs"[50]

Some argue a focus on informal sector per se is unhelpful and that it is better to prioritise tax avoidance and evasion wherever it is greatest.[51] For example, tax evasion and avoidance by professionals such as doctors and lawyers can be material in developing countries, whereas the informal sector consists of small traders with small tax liabilities.[52]

One response to the risk of encouraging informality is to impose lower taxes on industries that can most easily shift into the informal sector. A relatively high rate of inflation (which acts as a tax on holding cash

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[47] Fjeldstad and Heggstad (2012)
[48] See studies cited in Luttmer and Singhal (2014).
[49] Luttmer and Singhal (2014).
[50] This quotation and the preceding paragraph is drawn from Porta and Shleifer (2014).
[51] This point is made by Keen (2012) among others
[52] Keen (2013)

balances) resulting from a reliance on seignorage revenues (printing money) can be seen as a way of taxing the informal sector and reducing the relative penalty firms suffer by joining the formal sector. Because formal sector firms can access bank accounts that pay interest on cash balances, they do not pay an "inflation tax" on their cash balances, as they would in the informal sector.[53]

The informal sector can be taxed, just not by means that require detailed record keeping. This may involve taxing on the basis of cash accounts, turnover, or non-financial indicators like number of employees. A simple business fee is often used, and taxation can also be delegated to informal sector associations or unions.[54] A gradualist approach, which starts by establishing a norm of small basic payments before attempting more sophisticated taxes, may work best, when complemented by efforts to extend the benefits of formalization to small firms. It is not obvious whether the potential political economy arguments for widening the tax base, based on the idea of a social contract, outweigh the risk of putting informal firms out of business by attempts to tax or regulate them.

There is also such a thing as informal taxation, at community level, outside of the taxation system. In Indonesia, for example, under a system known as gotong royong (mutual assistance) people are expected to contribute money and labour toward development projects. Informal taxation is sometimes motivated by a desire within communities to link contributions to ability to pay, although research suggests informal taxes are often regressive.[55]

2.6 Tax incentives and exemptions

Tax incentives including exemptions and other inducements can be a legitimate instrument of national development strategies to encourage domestic and foreign direct investment (FDI) as well as promote equity and social benefits. On the other hand, they can also be a conduit for corruption or, even if applied with good intentions, costly and ineffective.[56] Incentives for international investors tend to attract the most attention, but it should not be forgotten that tax incentives are an important domestic issue and often benefit firms owned by politically-connected elites. However, if domestic firms are not granted tax incentives, they can be left at a major competitive disadvantage to multinational firms, which have a range of options to minimise their tax liabilities.

Tax incentives are particularly popular in the East Asian and Pacific region and are thought to have played a part in the industrialisation of the 'Asian Tigers'.[57] Evidence suggests that tax incentives do attract FDI, although surveys of executives regularly show that tax incentives are very low down their list of concerns when evaluating investment opportunities.[58] Surveys also often reveal that incentives are often redundant – for example one study in Thailand found that 81% of investments would have been made without incentives. But even if offering tax deals does have some impact on investment on average, countries may be engaged in a 'race to the bottom' to the detriment of all. This dynamic suggests that tax incentives will lose their ability to attract investments over time, as effective rates become low everywhere. Statutory corporate tax rates have fallen in most countries, and the evidence also shows increasing use of special regimes to reduce effective rates.[59] Governments can come under intense pressure from multinational

[53] Gordon and Li (2009)
[54] Joshi et al. (2014)
[55] Olken and Singhal (2011).
[56] See Gugl and Zodrow (2006) and Abramovsky et al (2014b). One study by the African Development Bank found that tax incentives account for up to 6 per cent of GDP in Tanzania.
[57] G20 (forthcoming) and Tanzi and Shome (1992).
[58] See Van Parys and James (2010) and Abbas and Klemm (2013) for evidence of the impact of tax on FDI flows. There are numerous surveys of investor priorities – economic, political and legal risks, market size and labour costs typically dominate concerns. Karimi et al. (2010) provide analysis from the Association of Southeast Asian Nations member states. Suzuki (2014) computes effective corporate tax rates, accounting for incentives, for major Asian economies (including Indonesia, The Philippines and Vietnam). James (2013) provides evidence that incentives are more often used in the East Asia and Pacific region, and survey evidence that many are redundant.
[59] Evidence is provided by Abbas and Klemm (2013).

companies who can threaten to relocate, and smaller economies are particularly vulnerable.[60] Regional cooperation may be needed to arrest this dynamic.

If government do wish to use incentives, credits for investment are regarded as preferable to tax holidays, and where possible incentives should be rules-based, public information and with a well-articulated economic rationale, rather than discretionary. Regular and public evaluations of tax incentives are recommended. Incentives aimed at new investors or at technologically advanced investments are more likely to be beneficial, as are incentives for export-oriented industries, which are permitted in low-income countries under WTO rules. Incentives for small or medium businesses may discourage company growth.[61] It has been suggested that because efforts to persuade governments to foreswear incentives have been so fruitless, more attention should be paid to ensuring that incentives are used in a more open and transparent way, and hence perhaps reduce the harm they do over time.[62]

2.7 International Taxation Issues

Over the past several decades, the rise of global trade and cross-border foreign direct investment (FDI) has led an increase in the economic importance of multinational enterprises, pushing international taxation issues towards the top of the tax agenda. In developing countries, and particularly in many resource-rich countries, there are strong concerns about transfer mispricing, inefficient tax incentives, tax evasion/avoidance, as well as illicit financial flows. There is a wide international consensus that the current system of taxing international economic transactions is in need of substantial reform. In effect, while countries' tax sovereignty is confined to their territories, individual taxpayers and companies are able to operate globally. This imbalance, together with differences in national tax systems, opens up opportunities for tax abuse. The key policy action must strike a balance between curbing tax evasion/avoidance and facilitating the flow of productive domestic and foreign direct investment.

Tax evasion and avoidance is an old agenda to many development partners, but there has been a renewed focus on preventing tax evasion/avoidance and illicit financial flows, in particular after the financial crisis of 2008, when tax revenues plummeted around the world. These issues are of great significance to developing countries, which are disproportionately reliant on corporate taxes. Under Australia's Presidency in 2014 the G20 tax agenda is focused on three related objectives: addressing BEPS; promoting international tax transparency through the automatic exchange of information; ensuring developing benefit from these measures.

International taxation reform has also gained momentum in recent years because of the OECD/G20 Base Erosion and Profit Shifting (BEPS) agenda which aims to tackle tax avoidance that exploit gaps in international tax rules to shift profits to low-tax locations and reduce corporate taxes. The global tax agenda only partially overlaps the OECD/BEPS agenda, where engagement by developing countries remains relatively low, despite recent efforts to promote their inclusion.[63] While some actions are of high priority to developing countries (e.g. treaty abuse, the implementation of transfer pricing), many developing country priorities have been left out of the action plan all-together (e.g. tax incentives and natural resource taxation). In many counties, tax evasion and illicit financial flows is most prevalent in resource industries. A bad deal struck with a mining company, perhaps resulting from corruption or incompetence, or the under-reporting of production, can lose a country many millions. Contracts may need to be renegotiated, and measures to verify production data (such as satellite imagery in the logging industry) are increasingly popular. These issues may fall under the IFF agenda, but have long been a focus of attention. Of relevance here is the

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[60] Donald Kaberuka, President of the African Development Bank, recounts his experience as Rwanda's finance minister: "The multinational comes to you and says we want to invest in your country, but we need a 5 year tax holiday and this long list of requirements. And by the way, we only have 6 hours, and then our plane is taking us to your neighbour, who will probably agree to all of our demands." From Poverty to Power blog 2015.

[61] This section draws on G20 (forthcoming)

[62] Bird (2013)

[63] There are 44 countries involved in this project directly: 34 OECD countries, two OECD Accession countries, Colombia and Latvia, and eight G20 countries which are not part of the OECD. They are China, India, Brazil, Russia, South Africa, Indonesia, Argentina and Saudi Arabia. Others are indirectly involved. Singapore, for instance, has observer status at some of the meetings and the OECD has sought input from developing countries. A report by KPMG "G20-OECD BEPS Action Plan Taking the pulse in the Asia Pacific region" concludes many developing countries in the region have shown very little interest in the project

Extractive Industry Transparency Initiative, for which Papua New Guinea and the Philippines are candidate countries (but Indonesia has been suspended).

Improving tax transparency via increased cooperation and exchange of information between tax administrations provides a means to fight tax evasion. Major gains have also been made in fighting tax evasion through the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) process and the expansion of access and exchange of information. More than 90 countries have committed to begin cross-border exchange of account data from 2017 through the Automatic Exchange of Information (AEOI) standard, helping law enforcement detect tax evasion and proceeds from criminal activities.[64] The Global Forum and G20 leaders intend to work with developing countries to help them implement AEOI as well. To date, six developing countries (Albania, Colombia, Morocco, Pakistan, Philippines, and Uganda) have indicated interest in a pilot project.[65]

Bilateral tax treaties, which are used to prevent double taxation of corporate profits (by country of residency and by the country where the profit was generated) but also as a tool for attracting investment, are also coming under increased scrutiny. The concern is that developing countries give away too much for too little in return. Treaties are generally either based on an OECD or a UN model, the latter designed with the interests of developing countries explicitly in mind. These treaties can involve complex rules that determine what developing countries are able to tax, that can offer scope for avoidance. Treaties also have a bearing on incentives – if taxes paid in the host country are deducted from taxes paid in the resident country, the incentives offered by the host can become ineffective.

[64] See Table 2 of the OECD Secretary-General report to G20 finance ministers, April 2015.

[65] The first projects are taking place in Albania and Colombia, with Italy and Spain collaborating as partners, respectively. Australia plans to work with the Philippines with visits and feasibility studies already taking place. France will partner with Morocco, and the proposed projects with Pakistan and Uganda are still being evaluated and developed country partners have yet to be identified.

3 Taxation in Australian partner countries

Summary

- Australia's partners are a highly diverse collection of countries
- The Pacific Island states tend to have much higher tax takes, as a share of GDP, than larger partners whose taxes average under 15 per cent of GDP.
- Countries on an upward trend include Afghanistan, Cambodia, Lao PDR, and Solomon
- Countries with flat of declining taxes, relative to GDP, include Kiribati, Papua New Guinea, Tonga and Vietnam.
- A number are highly reliant on revenues from extractive industries, including Timor-Leste, Burma, Vietnam, Indonesia, Laos, PNG, and Philippines. Kiribati, Samoa, and Tonga are reliant on other forms of non-tax revenue.
- Most tax administrations are still within the Ministry of Finance, but many have adopted function-based organizational forms and large taxpayer units.

This section provides an overview of the state of taxation in Australia's partner countries. To provide some context, it starts by summarising the nature of taxation in developing countries worldwide.

Since 1990, average government revenue in low-income countries worldwide has increased from 15 to 20 percent of GDP, with more modest increases for middle-income countries. But current levels of domestic revenues fall short of what is needed to finance sustainable development goals. On average, developing countries extract about half as much tax, as a proportion of the economy, as advanced economies. Developing countries tend to have a narrow tax base, relying on a relatively small number of large taxpayers. They have large informal sectors which largely escape taxation, weak administrate capacity and a lower willingness of population to pay taxes.

In advanced economies personal tax revenues are often 3–4 times greater than corporate tax revenues, but in developing countries corporate taxes account for the larger share, and the share from income taxes has generally declined. Personal income taxes on capital income are often practically non-existent. VAT and excise taxes are relatively more important.[66] Trade taxes have historically been more important in developing countries, but have long been the target of reform and their importance has diminished.

One of the most important differences between developed and advanced economies is the extent of reliance on resource revenues. No OECD country was ever as reliant.[67] Resource revenues (and revenues from commodity exports) can be extremely volatile, which is another reason to diversify the tax base. Some developing countries do not have full control over their territories, and may be constrained by the need to avoid aggravating internal tensions.

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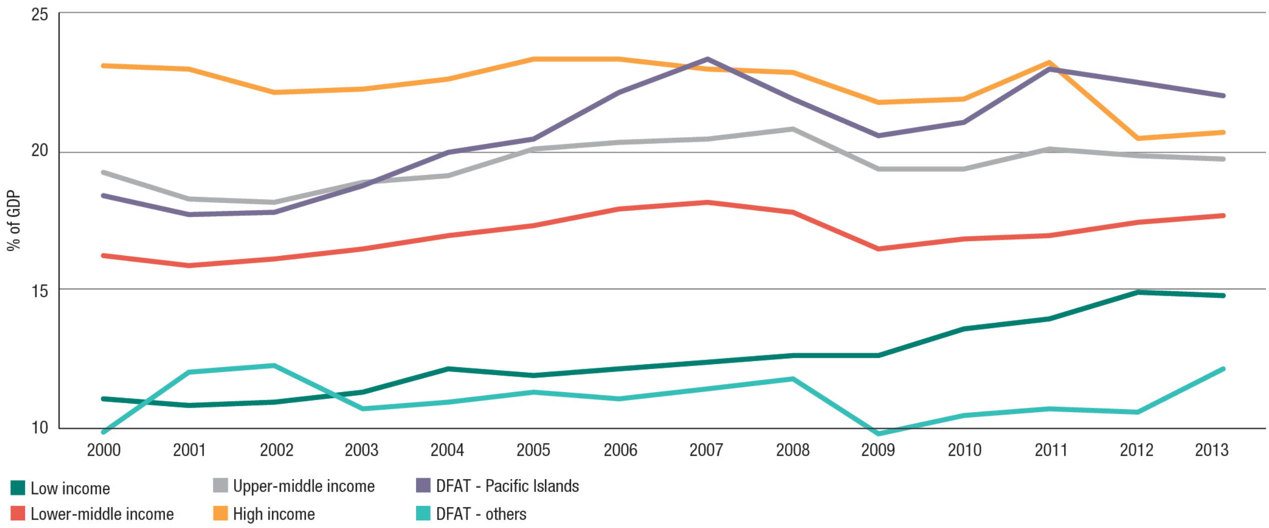
[66] Keen (2013), Fjeldstad (2013), Bird (2012)

[67] This point is made by Deborah Brautigam, cited by Keen (2013), who questions whether some, like Timor-Leste, need a domestic tax system at all.

3.1 Summary of partner countries' tax systems

Figure 1: Tax Revenue Trends (% of GDP)[68]



Source: IMF FAD, ICTD, ADB

Across DFAT's 16 partner countries, average tax revenues grew steadily since 2000, but have fallen in some since the financial crises and remain low in comparison to the lower-middle income country average (see Figure 1). Average tax to GDP for DFAT's 16 partner countries was roughly 15 percent of GDP in 2012 and 2013; however the range is quite large with Afghanistan at 6.7 percent and Papua New Guinea at almost 25 percent of GDP (see Figures 2 and 3).[69]

Some of these countries have made impressive gains since early 2000s including Afghanistan, Cambodia, Lao PDR, and Solomon Islands. This is partly explained by the fact that these four countries, particularly Afghanistan and Cambodia, started the period from a very low base. [70] Among these countries, the Solomon Islands, Fiji, and PNG currently enjoy a tax to GDP ratio that is significantly above the average of all the countries (i.e. above 24% of GDP) for which there is data in 2012/2013. In stark contrast, the tax to GDP ratio remains very low in Timor-Leste, Afghanistan, and Burma (i.e. less than 7% of GDP). Moreover, tax as a percentage of GDP has been declining for a few countries since the mid-2000s, particularly Kiribati, Tonga and Vietnam.

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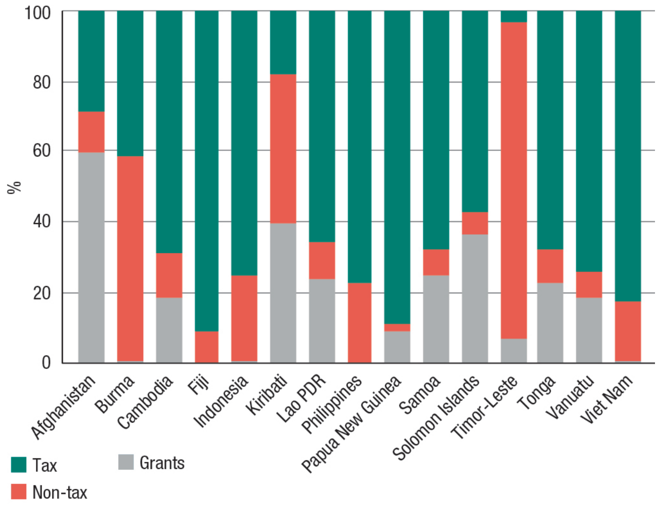
[68] Pacific Islands included in this average are Fiji, Kiribati, Nauru, PNG, Samoa, Solomon Islands, Tonga, and Vanuatu. All other DFAT partner countries (Afghanistan, Burma, Cambodia, Indonesia, Lao PDR, Philippines, Timor-Leste, and Vietnam) are included in Others.

[69] This average excludes Nauru, Samoa and Vanuatu.

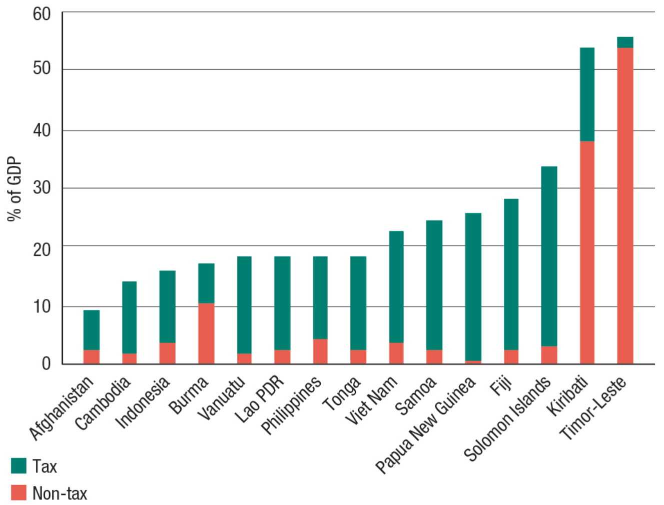
[70] In 2003 the taxes were 2.5% of GDP in Afghanistan.

Figure 2: Total Revenue Composition, 2013



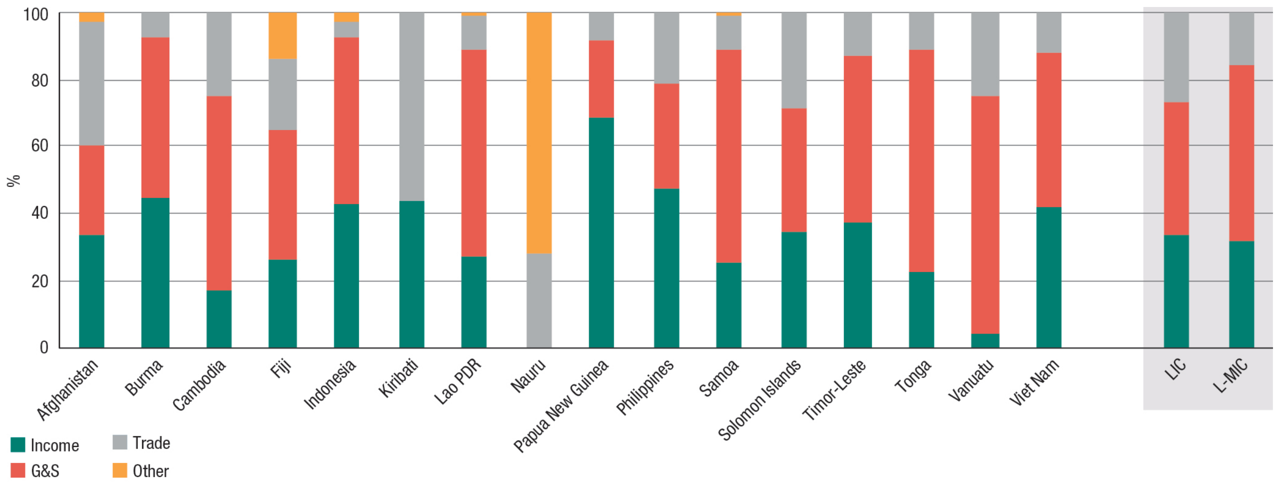
Source: IMF Article IV reports. Note: Samoa, Vanuatu is 2012 data; Fiji non-tax includes non-tax and grants

Figure 3: Domestic Revenue (% of GDP), 2013



Source: IMF Article IV reports. Note: Samoa, Vanuatu is 2012 data

Figure 4: Tax revenue composition of L-MICs



Source: FAD ICTD, ADB, IMF Article IV, other. Note: All 2012 except Cambodia (2011), Nauru (2010/11), PNG (2009), and Vanuatu (2010)

The manner in which these countries raise taxes differs as widely as do the amounts they raise. Like most low- and middle-income countries, indirect taxes (VAT, excise, etc.) are the most important source of tax revenue for the majority of DFAT's client countries with the exception of Papua New Guinea, and Philippines which rely on direct taxes (income taxes) to a larger extent (see Figure 3). A clear trend emerging from these countries is the declining importance of trade taxes as a source of government revenue. Nonetheless, it appears to remain an important source of revenue in several countries, particularly Afghanistan, Fiji, Kiribati, and Nauru.

Given the significance of indirect taxes and the particularly strong push for Pacific Island countries to implement VAT since the early 2000s (as a way to counter-act the revenue impact of countries phasing out import tariffs and duties), it is worth examining these countries VAT rates and performance more closely. Ten of these countries have adopted a single VAT rate ranging from 10 to 15% which is broadly in line with comparator countries and international trends.[71][72] However, some of these countries fall behind in collection and compliance. While Vietnam is an exception at almost 84 percent VAT productivity, the average VAT gross compliance ratio for this group falls below 50 percent and Philippines is as low as 21 percent, more than half of the ratio of other lower-middle income countries.[73]

Taxonomy, Structure, and Trends of Tax

Direct taxes include personal income tax, corporate income tax, wages, property tax, and taxes on extraction of natural resources. Indirect taxes are on uses and transactions and include sales tax, Value Added Tax (VAT), excises or sin taxes, stamp duties, export duties, and import duties.

High-income countries rely more on direct taxes, especially PIT, as compared to low-income countries, which tend to rely more on indirect taxes like trade and excises where fewer collection points are needed.

The relative importance of different taxes for developing countries has changed over the last few decades. There has been an increased reliance on consumption taxes, and specifically VAT. There has also been an increase in the share of revenues raised from direct taxes, especially personal income taxes. In contrast, although small, corporate taxes are relatively less important. There has been a reduction in both top PIT and CIT rates. There has been a significant decline in taxes on international trade.

While it can be useful to understand global trends or averages, there is no ideal composition of taxes because the pattern of taxes for any country depends upon its economic structure, history, geography (landlocked or island), existence of natural resources and so forth. Whilst one might compare a country's tax/GDP ratio to a comparator group to assess its performance against peers, there is no sense in which tax composition can be compared against other countries and interpreted as better or worse (other than perhaps as evidence of reliance on a too narrow tax base).

Resource revenue from extractives industries (oil, gas, and mining) is an important source of revenue for Timor-Leste, Burma, Vietnam, Indonesia, Laos, PNG, and Philippines.[74] Moreover, it can potentially be an important source of revenue in Afghanistan and Fiji, but will require progress on these countries' regulatory and legislative framework for their extractive industries. Tonga is also considering introducing a regime for taxing extraction of natural resources while Samoa was recommended by the IMF to develop a new natural resource tax in anticipation of any future development of deep sea mining and exploitation of subterranean water resources. Figure 5 shows the split between resource and non-resource revenue for Australia's partner countries.

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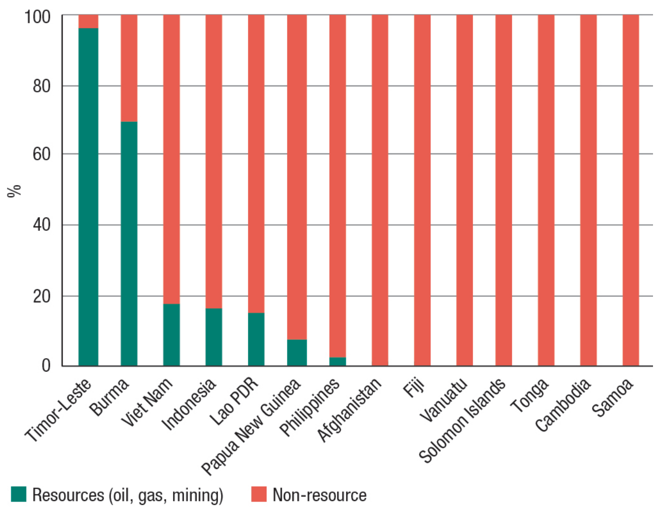
[71] Average VAT rates for high-income, u-MIC, l-MIC, and LICs are 18%, 16%, 14% and 16%, respectively

[73] Authors' calculations

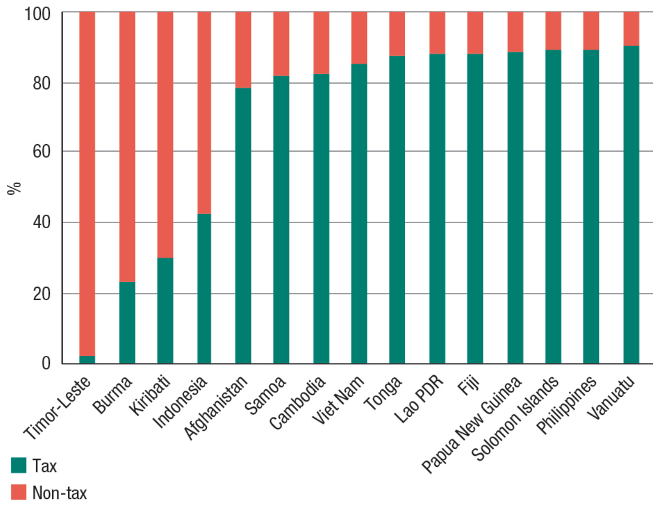
[74] The exact share of Burma's resource revenue is difficult to measure because (i) tax revenue collected by IRD includes aggregated taxes paid by companies in the extractive sector and tax payments from SOEs, as well as taxes not related to natural resources; (ii) payments, royalties and fees collected by the SOEs, line ministries, and subnational entities are not all uniformly recorded and/or made public.

Figure 5: resource revenue as a share of total revenue



Source: IMF Article IV reports, EITI reports, MoF websites, PITAA report.
Note: (1) All 2012 or 2013 data except Afghanistan and Cambodia (2011);
(2) Burma is tax vs. non-tax because resource revenue data not available

Figure 6: non-tax revenues as a share of total government revenue[75]



Source: IMF Article IV reports.
Note: data not available for Nauru

Many of DFAT's partner countries are highly dependent on natural resource revenue from other industries such as fishing or forestry, for which price and output volatility can wreak havoc on these countries' economies due to non-diversification, like the extractives industries. Kiribati, Samoa, and Tonga all have a significant portion of their revenues coming from fishing licenses and other non-tax revenues. These islands' remoteness and exposure to climate change pose major challenges to the economies and government revenue. Figure 6 shows this split for Australia's partner countries.[76]

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[76] Data on these revenues are hard to find, but some indication can be gleaned from the split between tax and non-tax revenues in total government revenue (excluding grants). Non-tax revenues may include items like income from state own enterprises or land sales, but primarily consist of royalties and other forms of resource income such as fishing licenses, etc.

Average long-run tax buoyancy, or responsiveness of tax revenue growth to GDP movements, over the past decade is below 1 for most of DFAT's client countries. Most of the countries have buoyancy well below 1, which means tax revenue is growing much slower than GDP. Kirabati and Tonga are outliers with negative coefficients, which means tax revenues have in fact declined relative to increases in GDP in the last decade.[77] There are three countries, however, where buoyancy figures are above 1 including Afghanistan, Fiji, and Solomon Islands. This is not surprising given the impressive gains they have made in tax collection in the 2000s. Burma is an outlier but with a very high buoyancy mainly because it began from a very low base and because it had a recent high jump in revenues. This will likely smooth out in a few years.

Table 1: Tax Buoyancy[78]

Afghanistan	**1.12**
Burma	2.84
Cambodia	0.82
Fiji	1.28
Indonesia	0.17
Kiribati	-1.79
Lao PDR	0.72
Nauru	Not available
Papua New Guinea	0.19
Philippines	0.08
Samoa	0.46
Solomon Islands	1.55
Timor-Leste	0.33
Tonga	-0.37
Vanuatu	0.36
Vietnam	0.19

Source: Author's calculations

[77] Kirabati and Tonga have both seen declines from over 20 and 18 percent tax to GDP ratios, respectively, to less than 16 each, but have had increases in real GDP.
[78] Tax Buoyancy is calculated using a regression of the log of tax revenue on the log of GDP for last 10 years.

3.2 Characteristics of Tax administration in DFAT countries

Most of the tax revenue agencies in these 16 countries are not independent of the Ministry of the Finance, but are a division of the finance ministry. The exceptions are Fiji, Papua New Guinea, Samoa and Tonga. Furthermore, in terms of internal organisational structure, majority of the 16 countries appear to be function-based, which means that departments and divisions are structured according to business functions, such as audits, taxpayers' account management, arrears collection, and taxpayer consultation. Many tax administrations have also adopted a LTU, which is a division dedicated to taxpayer services, audits, and other tax affairs of large taxpayers, typically large enterprises. Finally, 10 out of these 16 countries' tax bodies do not appear to perform a customs administration function.

Table 2: Tax administration summary

Country	Semi-Autonomous	Function-based	LTO	Customs function
Afghanistan	No	Yes	Yes	No
Burma	No	No[79]	Yes	No
Cambodia	No	Yes	Yes	No
Fiji	Yes	No	Yes	Yes
Indonesia	No	Yes	Yes	No
Kiribati	No	No[80]	No	No
Lao P.D.R	No	Hybrid[81]	No[82]	No
Nauru	No	Yes[83]	No	Yes
PNG	Yes	Yes	Yes[84]	No
Philippines	No	Yes	Yes	No
Samoa	Yes	Yes	No	Yes
Solomon Islands	No	Yes	No	No
Timor-Leste	No	Hybrid[85]	Yes	Yes
Tonga	Yes	Yes	Yes	Yes
Vanuatu	No	No	No	Yes
Vietnam	No	Hybrid[86]	Yes	No

Source: MoF and Tax Authority websites; Araki and Claus 2014; Author's knowledge; Other government websites

[79] LTO is function-based, but HQ is not
[80] Government authorities surveyed noted that they are in the process of adopting a function-based structure
[81] Government authorities surveyed noted that they are function-based, but the organogram demonstrates they have a hybrid model. There are 7 divisions within headquarters (organization-administration; invoice and forms management; audit-internal control; legislation; land tax register and fee; tax revenue collection management; ICT).
[82] While they do classify taxpayers by size, the Ministry website does not mention a LTU. Government authorities surveyed noted that the 'Tax Revenue Collection Management Division'' is a LTU, however it could not be verified whether this unit is dedicated only to large taxpayers or whether the unit has unique processes and procedures of the main tax functions tailored towards large taxpayers.
[83] Government authorities surveyed noted that they are function-based, but this could not be verified
[84] Recently established a LTO and employees identified, but not yet in operation
[85] Directorate General for Revenue is divided by tax-type (resource and non-resource revenue) but the two sub-directorates (National Directorate of Petroleum and Mineral Revenue and the National Directorate of Domestic Revenue) are function-based
[86] Government authorities surveyed noted that they are function-based, but the organogram demonstrates they have a hybrid model.

4 Development agencies and DRM

Summary

- The share of global ODA allocated to DRM is very low and the trend is flat, although rising recently. There is a strong case for allocating more resources to DRM, but it will never account for a large share of ODA because financing needs are modest.
- The UK is the largest DRM donor worldwide, followed by the EU and Germany.
- Spending on DRM seems to be well-targeted at lower income countries
- The IMF's Fiscal Affairs Department and the World Bank Group are the most active and most influential agencies on tax matters.
- Despite its regional presence, the Asian Development Bank is relatively inactive in regional tax matters.
- There are numerous regional tax organizations, but East Asia Pacific is regarded as lacking a regional organization as powerful as those in Africa and Latin America.
- The UK is mostly focused on Africa, but its largest tax projects are Afghanistan and Pakistan.
- Australia is the second-largest donor in the EAP region.

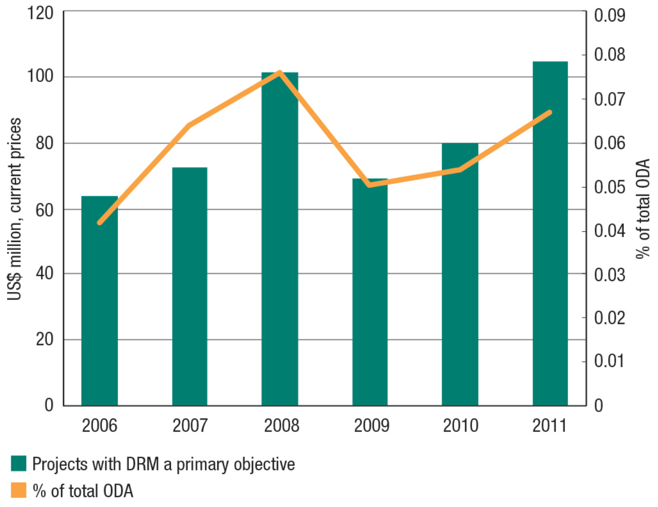
This section provides an overview of recent trends in development assistance targeted at domestic revenue mobilization (DRM). It starts by summarising activity at global level, then covers the activities of international organizations like the IMF and those bilateral donors that are particularly active in this area. This section provides high level information about donor activities in Australian partner countries. Further information is provided in the Country Portraits annex.

4.1 Global trends in aid for DRM

Domestic revenue mobilization (DRM) may be at the top of the development agenda, but this is yet to be reflected in spending patterns, although there has been a modest upward trend recently (see Figure 7). The United Kingdom is the largest funder of tax projects, by a substantial margin, although these data are measured with error so the activities of some donors may be underestimated (see Figure 8).[87] DRM projects are concentrated in the poorest countries, something of a rarity in the aid world (Figure 9).

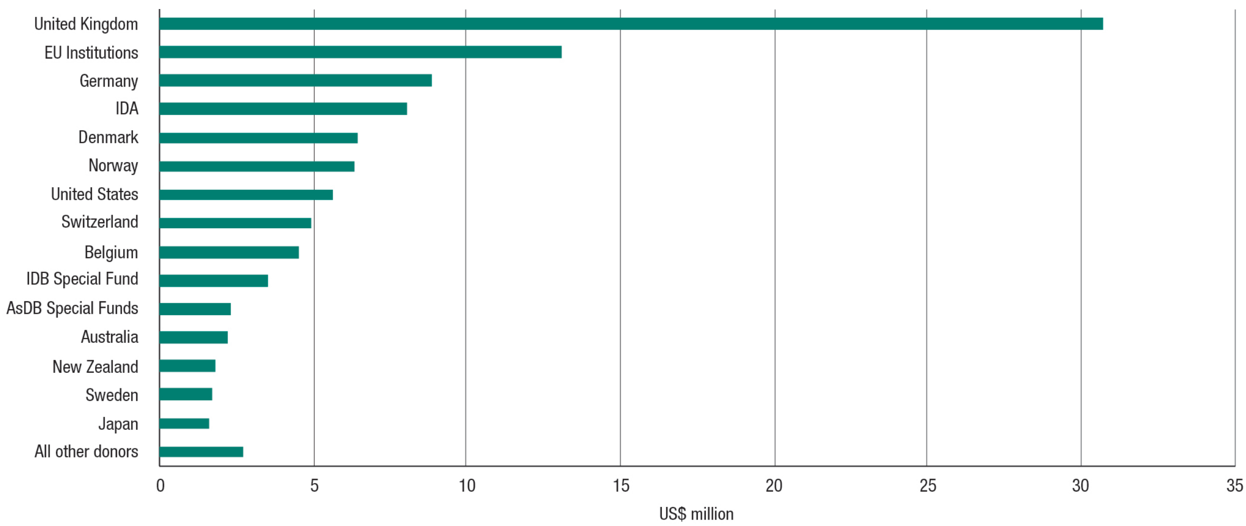
[87] There is no official reporting of DRM projects. This section draws on Strawson and Ifan (2014) who identify aid projects with a primary purpose of helping countries mobilize domestic revenues, based on keyword searches in project descriptions in the OECD Creditor Reporting System database.

Figure 7: Global ODA dedicated to DRM



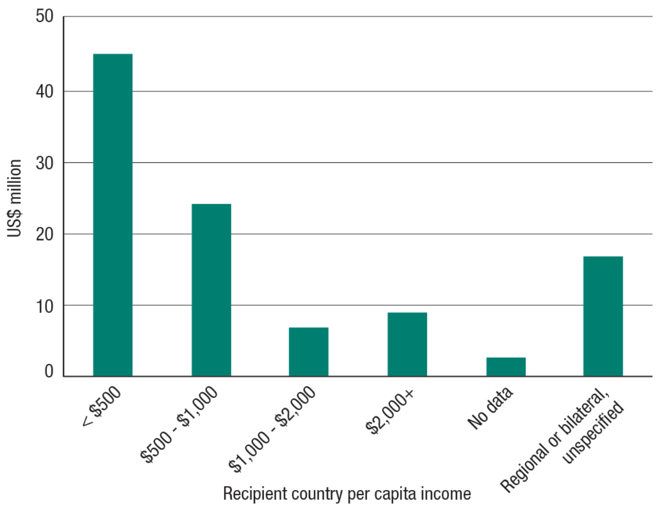
Source: Strawson and Ifan (2014).

Figure 8: Who is funding DRM projects?



Source: Strawson and Ifan (2014).

Figure 9: DRM projects are concentrated in the poorest countries



Source: Strawson and IFO.

4.2 Role of IFIs and other global/regional institutions

International financial institutions (IFIs) have been providing support to strengthen tax systems in developing countries for more than fifty years. The International Monetary Fund (IMF) and the World Bank Group (WBG) work in more than 180 countries on a global basis and are the main providers of technical assistance in tax policy and administration. Many would say that these organizations are the pre-eminent repositories of technical expertise in respect of these issues in developing countries. This section provides a description of their approach, areas of assistance, and presence in DFAT's partner countries. Information on other key players including the Organisation for Economic Co-operation and Development (OECD) as well as regional or global initiatives are also included below.

4.2.1 International Monetary Fund

The Fiscal Affairs Department (FAD) of the IMF is the leading source of fiscal policy and management expertise worldwide. FAD monitors and analyzes global and regional fiscal trends; provides advice and technical assistance to member countries on fiscal issues; and contributes to the design and implementation of IMF-supported programs. The bulk of FAD support is provided in the areas of Public Financial Management and Taxation Policy and Revenue Administration. FAD undertakes missions and helps deliver follow up assistance and support implementation of reforms proposed via a network of advisors that are either resident, short-term, peripatetic (i.e., repeat visits), or are fielded from the IMF's eight Regional Technical Assistance Centers (RTAC).

FAD receives financial support from donors such as Belgium, Canada, Germany, the European Commission, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States, as well as from other donors, supporting the IMF's Regional RTACs and two multi-donor Topical Trust Funds in Tax Policy and Administration (TPA TTF) and Managing Natural Resource Wealth (MNRW TTF). The assistance financed through these trust funds benefits from the IMF's technical assistance infrastructure and proven expertise. It also provides a vehicle for donor coordination and commissioning focused policy development in these areas.

The Pacific Financial Technical Assistance Centre (PFTAC) is one of eight RTACs established by the IMF that provides technical assistance and training in macroeconomic management. It is a collaborative effort between the IMF, the recipient countries, and multilateral and bilateral donors including ADB, Australia, and New Zealand, among others. All technical assistance is backstopped by IMF headquarters. PFTAC, which is based in Fiji, works in sixteen countries including Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tokelau, Tonga, Tuvalu and Vanuatu.

In the area of revenue policy and administration, PFTAC engages in recipient countries based on lessons learned and by benchmarking exercises of national tax administrations developed through the regional tax administrators association, Pacific Islands Tax Administrators Association (PITAA). PFTAC holds workshops, conducts training, and provides technical assistance via resident advisors or short-term advisors. Revenue policy and administration represents around a fifth of PFTAC's workload and budget. Over the period 2002 – 2012, donors invested more than US$6 million on PFTAC's revenue activities.

4.2.2 World Bank Group

The WBG has long been engaged in supporting tax and customs administration as well as revenue policy in a number of countries. Their main thrust has been reforms in tax policy and tax laws; streamlining of core technical processes, such as taxpayer registration, processing of returns and payments, tax audit and border operations; modernization of information technology system; organizational strategy; reorganization of structures on functional lines; establishment of Large Taxpayers Units; and technical training. The WBG also supports developing countries to expand knowledge and coordination on these issues including diagnostics of existing systems.

The WBG has three main Global Practices that work on tax policy and administration reform in developing countries including (i) Macro Fiscal Management which oversees most of the work on tax policy; (i)

Governance which oversees tax administration, customs, transparency, and non-tax revenue issues; and (iii) Trade and Competiveness, formerly the International Finance Corporation (IFC), which focuses on corporate taxation issues. Other global practices also tangentially work on tax issues including include Energy and Extractives (natural resource taxation) and Health (excise taxation).

The WBG currently has more than 300 projects with a Tax Policy and Administration component of which 22 are tax-only. About one half of World Bank projects are lending instruments, one quarter are knowledge projects which are analytical reports intended to inform programs and policies in client countries, and one quarter are non-lending technical assistance projects. The WBG is currently engaged in all of DFAT's 16 partner countries except Fiji, Nauru, and Vanuatu. It has 27 projects spread across these countries.

4.2.3 Asian Development Bank

The Asian Development Bank (ADB) has been supporting developing countries in governance and public management since 1995. Similar to the WBG, it provides its partner countries with different financing options. However, the ADB is not a major actor in the area of tax policy and administration reform. Its work mostly focuses on taxation at the local level, enhancing transparency, and supporting e-government and fiscal decentralization. In relation to DFAT's 16 partner countries, ADB is only working in Indonesia and the Philippines in the area of tax policy and administration, although Indonesia is the only recipient country with a technical assistance project dedicated to tax revenue administration modernization, but at the local level. The Philippines is receiving support in broader public financial management issues and local government reform.

4.2.4 OECD

The OECD plays an important role formulating tax policy and produces influential tax convention and transfer pricing guidelines. Although the organization does interact with non-OECD countries its policies does not represent the views of developing countries.

The aforementioned Global Forum is the principal framework within which both OECD and non-OECD countries work in the area of transparency and exchange of information on taxation. There are currently 125 members committed to adhere to international standards. The OECD runs a peer review processes to evaluate compliance with international standards of transparency and exchange of information.

The creation of the OECD Task Force on Tax and Development in 2010 was one of the early signs that taxation was rising up the global development agenda. Primarily a forum for international cooperation, the OECD also has a modest program assisting developing countries directly, with transfer pricing legislation, audit capacity and tax incentives being areas of focus. A recent initiative, Tax Inspectors Without Borders, has been established to help countries audit large companies and after a successful pilot phase is now seeking core funding.

4.2.5 Other global initiatives

A number of other global and regional organizations are also active in tax issues that develop research, foster collaboration, and engage in technical assistance and training in developing countries.[88] Two are discussed below.

The International Tax Dialogue is a joint initiative by a number of actors including the European Commission, Inter-American Development Bank, OECD, IMF, and WBG. In 2002, after increasing internationalization and focus on taxation during the Monterrey Financing for Development initiative, ITD was established to facilitate technical discussion and knowledge sharing. The ITD is a forum of government tax officials, international and regional organizations, and a range of other key stakeholders to

[88] These organizations include the International Centre for Tax and Development (ICTD), the African Tax Administration Forum, African Tax Institute, Inter-American Center of Tax Administrations, Tax Justice Network (TJN), Chr. Michelsen Institute, the University of Oxford Centre for Business Taxation, the World Customs Organization and the Oceania Customs Organization, Pacific Islands Forum, the International Tax Dialogue (ITD), and the International Tax Compact (ITC).

communicate news, research, and upcoming events and other activities. It provides information on worldwide activities and organizes global and regional conferences to the benefit of developing and developed countries alike. Five global conferences and six regional conferences have been held to date. The ITD also issues a number of publications and comparative regional studies on topics in international tax, tax administration, informal sector, natural resource tax, taxpayer compliance and perceptions, among others. It also provides technical assistance information via an online knowledge-sharing platform with more than 3000 documents currently available. The Secretariat is currently hosted by the OECD.

The International Tax Compact is an initiative to strengthen international cooperation with developing countries to enhance domestic resource mobilisation. It was established at the initiative of the German Federal Ministry for Economic Cooperation and Development (BMZ) at the 2008 Financing for Development Conference in Doha, and the interim secretariat is currently hosted by GIZ. It mostly focuses on promoting fair tax systems and combatting tax evasion and inappropriate tax practices on a global scale. The ITC is an informal platform supporting partners by pooling knowledge, resources and capacities. The ITC Secretariat coordinating activities such as workshops on BEPS, a conference on taxation of extractives, and analytical work such as estimating tax noncompliance in Latin America. It has produced a Handbook on Administration of Double Tax Treaties with the United Nations.

4.2.6 Regional Organizations

The Pacific Islands Tax Administrators' Association (PITAA) emerged in 2003 as the main regional organization for cooperation similar to the African Tax Administration Forum (ATAF) or Inter-American Center of Tax Administrations (CIAT). As mentioned under the IMF discussion, this association works closely with PFTAC to hold workshops and conferences with its members. The PITAA had followed a rotating secretatiat model but since a review in 2012, the Fiji Revenue and Customs Authority has hosted the interim secretariat. Unlike ATAF and CIAT, however, since the PITAA relies heavily on PFTAC instead of its member countries for resources, its long-term sustainability is unclear.

The rest of Asia lacks a proper regional organization for tax administrations that is comparable to ATAF and CIAT. The Study Group on Asian Tax Administration and Research (SGATAR), which dates back to 1970, provides networking opportunities tax administration bodies in the region, but has a minor role in capacity development and policy coordination.[89] SGATAR lacks a permanent secretariat and uses an annual rotation, and has little visibility within with WBG and IMF.

Other bodies in the region include the ASEAN Forum on Taxation, which has a particular focus on tax treaties, and the South Asian Association for Regional Cooperation (SAARC) also deals with some tax issues, with a focus on double taxation and mutual administrative assistance. The outcome of the recent Asia-Pacific regional FFD consultation called for the creation of a new regional tax forum, repeating earlier recommendations by UNESCAP.

4.3 Survey of bilaterals

In this section we focus on the bilateral donors that work on DRM issues in DFAT partner countries, their methods of delivery, and main technical areas of reform.

4.3.1 United Kingdom

The Department for International Development (DFID) is the largest donor of "core" ODA for DRM projects worldwide in terms of monetary support. Most of DFID's portfolio is based in sub-Saharan African and to a lesser extent Asia. However, its two largest recipients of assistance are Afghanistan (USD 11.8 million) and Pakistan (USD 6.6 million). DFID primarily supports its partner countries either via NGOS or consulting firms such as Adam Smith International, or channelling funding through the World Bank Group (WBG).

[89] See Satoru Araki "Enhancing cooperation among tax administrators in Asia-Pacific," International Tax Review (2014)

DFID supports a number of national revenue authorities to improve collection of principal taxes (personal, corporate, and VAT). The UK tends to engage in explicit tax projects, but also supports tax components within larger projects. To date DFID has had much less involvement in support for collection of local taxation, including property tax.

The UK is also particularly active in improving the regulatory environment in more than 20 countries. These efforts include increasing the predictability of regulations, reducing the cost of compliance, enhancing property rights, improving business registration and licensing, and streamlining customs procedures. In many cases DFID works closely with the World Bank Group to deliver these improvements. In the area of customs administration, DFID is supporting countries through the WTO "aid for trade" initiative. This includes providing support through bilateral programs but also in creating new institutions (e.g. TradeMark) and facilities (multi-donor trust funds) to help trade facilitation efforts in developing countries. DFID has an Asia Regional programme in this area that covers Afghanistan, Bangladesh, India, Nepal, and Pakistan.[90]

DFID also provides funding to HMRC for the new Developing Countries Capacity Building Unit.[91] The unit will deploy HMRC staff to developing countries to provide technical expertise in support of DFID efforts to increase the capacity of tax policy and administration in partner countries. The first four programmes will be in Ethiopia, Pakistan, Tanzania and a regional programme in Southern Africa.

The UK also supports international and regional initiatives that support research on DRM including for example the International Centre for Tax and Development (ICTD) and the Centre for Economic Policy Research (CEPR). The ICTD is jointly funded by DFID and the Norwegian development ministry under a 5-year program with a theme on taxation. With regard to CEPR, DFID has funded a Private Enterprise Development in Low Income Countries (PEDL) program (£15 million) which focuses research on informality and entrepreneurship of SMEs.[92]

The UK is also an active supporter of the Extractives Industries Transparency Initiative (EITI). DFID provides funding support to the Secretariat and the EITI multi-donor trust fund, which provides technical assistance to encourage countries to join and implement the Initiative. DFID bilateral programmes also support EITI candidacy and/or implementation, for example in two of DFAT's partner countries: Afghanistan and Burma.

With the growing importance of international taxation issues under G8, and now G20, DFID has recently launched a number of new initiatives to enhance tax transparency. The £6 million program will be delivered jointly by the OECD's Tax and Development Programme, the secretariat of the Global Forum, and the WBG.[93] First, DFID is providing funding (£3 million) to the OECD and WBG to provide technical assistance to developing countries on transfer pricing and BEPS. Funding is also being provided to the OECD to carry out reviews of partner countries' tax incentives for investment (£0.2million). Secondly, DFID is supporting the provision of technical assistance on exchange of information to developing countries that have joined or are seeking to join the Global Forum (£2.6million) via the OECD and WBG. Third, DFID is supporting the secretariat of the Tax Inspectors Without Borders (TIWB) (£0.2million).

4.3.2 United States

The United States provides assistance to developing countries via three main agencies: the United States Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), and US Treasury's Office of Technical Assistance (OTA). Globally, the United States spends approximately US$30 million per year on DRM-related bilateral programs.[94] While the US has the largest global footprint

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[90] DFID (2011), United Kingdom's Support for Trade Facilitation.
[91] UK Parliament (2014), 'Tax in Developing Countries: Increasing Resources for Development – Government Update on implementation of recommendations, 'Commons Committee.
[92] Ibid.
[93] DFID (2013), Business Case and Intervention Summary: Tax Transparency.
[94] US Congress DRM for Development Note, March 2015

in support of taxation activities in terms of geographical spread, its presence is low in Southeast Asia and the Pacific regions.

USAID has a number of tax-specific projects as well as tax activities that are generally carried out as components of larger Economic Growth or Public Financial Management projects. USAID's engagement in tax projects tends to be relatively large and long term. It is further noted that these projects are characterized by their breadth of activities including "everything from tax policy design, legal drafting, public communications, aspects of tax administration, training, computerization".[95] Similar to DFID's in-country programmes, USAID projects are carried out by consulting firms or NGOs under publicly bid contracts. USAID does not channel funds to the WBG or other multilaterals.

USAID mostly focuses more on administration reforms than tax policy in its partner countries. These efforts have included modernizing IT systems, mitigating corruption, simplifying procedures, redesigning tax processes, and establishing new units (e.g. tax policy reform units or large taxpayer units). However, in DFAT partner countries, USAID is currently only implemented tax or tax-related projects in Afghanistan and the Philippines. USAID is also working in Laos and Vietnam, but on trade-only programs.[96]

OTA is another key US actor that supports revenue policy and administration in developing countries. OTA provides technical assistance to its counterparts over a period of 3 to 5 years. Technical assistance is provided via resident advisors, intermittent advisors, or a combination of both. OTA engagement is conditional on reform commitment and projects are closed out where there is deemed to be insufficient commitment to reform. A proportion of OTA funding comes from other US agencies including USAID, but the bulk of its funding is a direct appropriation from the US Congress under Treasury International Affairs Technical Assistance (TIATA).

OTA provides cross-disciplinary technical assistance in the areas of legislative drafting, tax processing, human resource management, IT system development, and tax auditing, among others. Currently OTA is involved in 88 projects worldwide of which 15 are revenue administration and revenue policy projects. Of these, 3 are based in DFAT's partner countries: Burma, Cambodia, and Philippines. OTA was recently working in Afghanistan and Vietnam, and is currently looking to enter PNG.

MCC was created by the U.S. Congress in 2004 to deliver 'smart' U.S. foreign assistance by focusing on good policies, country ownership, and results. MCC only provides support to specific and well-performing countries that have become eligible based on an independent performance evaluation. Countries are either awarded grants via a threshold program or a five-year compact under a Millennium Challenge Account (MCA) based on priorities developed by the government and US government. In the Asia Pacific region, MCC is only engaged in the Philippines under a five-year US$54 million program

4.3.3 Australia

Australia is the second largest donor to the East Asia and Pacific region. In 2014/15, countries in the Indo-Pacific region will receive an estimated 92 per cent of country and regional program funding from DFAT with the remaining going to sub-Saharan Africa.[97] Papua New Guinea and Indonesia receive the majority of ODA, but the Philippines, Afghanistan, Vietnam, and Solomon Islands also receive substantial support. DFAT's bilateral country programs are delivered by NGOS, Australian volunteers, businesses and government agencies, and international organisations.[98] Australia also supports developing countries in tax programs via the WBG, IMF, and ADB.

While Australia has a large governance portfolio, direct bilateral support in tax policy and administration reform in developing countries is limited. As previously noted, Australia provides a considerable amount of its support to developing countries in the Pacific region via the PFTAC which is implemented by the

[95] Michielse and Thuronyi (2010).
[96] Interviews with USAID officials
[97] DFAT 2014/15 Development Assistance Budget Summary
[98] Ibid

IMF. Australia appears to be more involved in trade and customs administration at present time. DFAT supports sound macroeconomic policy that encourages investment, including in the extractives industry. Like DFID, DFAT is supporting 'aid for trade' to facilitate trade agreements and increase capacity.

A second key Australian actor in the area of tax assistance is the Australian Tax Office (ATO). Through its international engagement strategy, ATO works together with DFAT to provide capacity assistance to a number of countries in the region. DFAT funds the placement of ATO tax experts to consult, mentor, and train counterparts in foreign government tax administrations, similar to the US's OTA and UK's new unit within HMRC. ATO officials provide advice and capacity assistance across a range of tax administration and technical areas including audit, law interpretation, tax awareness, transfer pricing, among others.[99] It has placed a number of resident and short-term advisors in several partner countries.

4.3.4 New Zealand

The New Zealand Aid Programme (NZAID) under the Ministry of Foreign Affairs and Trade provides technical assistance on taxation within the framework of its priority of leadership and governance enhancement. Assistance is through a variety of means including the hiring of international experts through procurement procedures. Similar to Australia, the majority of its portfolio is in the Asia Pacific region, though it has some funding allocated to Afghanistan, Africa, and Latin America and Caribbean. Similar to Australia, NZAID has funded most of its tax programs in its partner countries via PFTAC.[100] New Zealand has also provided direct reform support to Samoa and Solomon Islands with smaller contributions to Cook Islands, Kiribati, Niue, and Tonga.

The New Zealand Inland Revenue Department (IRD) also assists developing countries within the Pacific region by deploying advisors (resident and short-term) to the tax authorities. Its assistance mostly focuses on building local capacity by deploying technical staff through secondments. NZIRD has provided this type of support to Niue, Samoa, Solomon Islands, and Tonga in the last decade.

4.3.5 Others

Japan provides continual support to tax and customs administrations. Japan's activities in the field stand out in that they are explicit tax projects, rather than components of larger programs, and are regionally concentrated in Asia.[101] Japan's in-country programs have involved three of DFAT's countries: Cambodia, Indonesia, and Vietnam. It is beginning support in Burma. Much of this activity is carried out through the Japan International Cooperation Agency (JICA), an independent institution that provides bilateral aid directly to developing countries. This aid is provided by JICA in form of technical cooperation, concessionary loans (Japanese ODA Loans) and grant aid. JICA focuses on long-term technical assistance projects. These are mostly carried out in cooperation with relevant institutions of partner countries with additional expertise being provided by short-term technical experts from Japan. Additionally, training of the counterpart's personnel in Japan is organized through the Policy Research Institute which is part of the Japanese Ministry of Finance. Japan also supports tax programs in partner countries by channelling funds through the WBG.

Korea is also active in the Asia-Pacific region. The Korean government helps developing countries by producing a number of lessons learned and knowledge sharing products in taxation based on its own success story in development and growth. Korea, often through the Korean Development Institute School, hosts a number regional workshops and conferences and provides some direct bilateral technical training to countries in the region. Korea also supports the region through non-lending technical assistance projects managed by the WBG on DRM issues but they are small in number and amounts (e.g. one DRM trust fund is $325,000).

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[99] OECD (2013), 'Final Report on the Feasibility Study into the Tax Inspectors Without Borders Initiative,' Task Force on Tax and Development, June 2013.
[100] Murray, Wyatt, and Oliver (2013), 'Topography of tax reform in the Pacific Islands in the period 2002 – 2012,' Report prepared for the Ministry for Foreign Affairs and Trade, Sapere Research Group.
[101] ITC 2010

5 Tools of the trade and good practice

Summary

- There are a number of different tools available to evaluate tax systems, covering both policy and administration.
- These are valuable for the identification of potential areas for reform, but they can descend into checklists and they do not in themselves identify the best route for getting from where a country is to where it wants to be.
- To get the best out of these tools, the involvement of local actors and orientation around local priorities is crucial.
- Conditionality is an increasingly popular tool for incentivizing reform, and evidence suggests it tends to encourage tax performance.
- However there is also a risk of harmful unintended consequences and the metrics commonly targeted leave a lot to be desired.
- Tax reform must engage with all other branches of government and be mindful of the implications for cash management and forecasting. Raising the visibility of taxation should be a core concern and chimes with political economy arguments.

This section surveys some of the tools that development partners use in the design and implementation of tax reforms: performance measurement, the practice of tying aid to tax-related targets (conditionality). It also examines the interaction of tax reforms with broader public financial management (PFM) concerns.

5.1 Measuring tax performance

Several tools have been developed to assess the performance of tax systems, based on internationally accepted standards. These can help tax administrations and development partners measure high-level performance indicators.

The EU Fiscal Blueprints are practical guidelines for benchmarking customs and tax administrations based on EU best practice. According to the EU, there are two main purposes to the blueprints: (i) to provide a set of best practices and recommendations for tax administrations, and (ii) to serve as a tool for the tax administration to provide a clear identification of its strengths and weaknesses. The blueprints were developed in 1999 and reformed again in 2007. They have primarily been used as a tool for candidate countries for accession to the EU, and are used to analyze gaps between the existing situation and the blueprint standards, and thus provide a basis to undertake fiscal reforms in preparation of their membership.

In 2012/13, the WBG developed the Integrated Assessment Model for Tax Administration (IAMTAX) to analyse the quality of the tax system which includes 198 scored indicators plus an addition 32 informational indicators. In addition to identifying the strengths and weaknesses in operational performance of a tax administration, it also identifies the root causes of these inefficiencies. For example, IAMAX not only determines the quality of the tax audit program via the rate/coverage of tax audits, but it also assess why a country may have a low rate of tax audits, i.e. constraints and impediments posed by a legal framework, absence of a sectoral approach to large taxpayers' tax audits, lack of risk-based criteria, low human resource capacity, or widespread corruption. Furthermore, IAMTAX assess the support areas of a tax administration in addition to the core business areas not included by other tools including IT internal control, and human resource management, among others. It also covers international taxation issues.

The IMF has developed a number of tools to assess tax administrations: IMF Revenue Administration Fiscal Information Tool (RA-FIT), and IMF Revenue Gap analysis, primarily VAT (RA-GAP) and most recently IMF Tax Administration Diagnostic Assessment Tool (TADAT). RA-GAP aims to estimate the tax gap (compliance and policy gaps) and identify which groups of taxpayers are contributing to the tax gap and some of the underlying causes for the gap. The tool has already been implemented in a range of developed and developing countries with an initial focus on VAT gaps, but it is now moving into other major taxes. RA-FIT is an initiative to generate a set of standardized data. It is basically a survey covering 62 questions on general organizational type and responsibilities, revenue data, tax administration characteristics, and customs administration. It allows tax administrations to measure reform progress over time and make cross-country comparisons. As of 2013, RA-FIT has received information from 85 countries. Cooperation is being established with the Inter-American Center for Tax Administrations (CIAT), the Intra-European Organization for Tax Administration (IOTA), the World Customs Organization (WCO) and the OECD.

TADAT, which was recently established in 2014, is a standardized tool for evaluating the performance of tax administrations. It is similar to IAMTAX, but smaller in scope and therefore less burdensome to tax administrations. Nine high-level performance outcome areas drill down to 27 indicators, and ultimately to 60 scored dimensions. It provides a detailed and evidence-based scored assessment that identifies the strengths and weaknesses. It is it a tax-side equivalent to the expenditure tool PEFA. It is financed with donor support and led by a secretariat in the IMF. Piloting continues but plans for full release are set for November 2015.

All of these efforts at assessing tax administrations should be applauded, but challenges remain. First, there has been a proliferation of benchmarking exercises both within and across development partners. It is important for donors to work cooperatively, and ensure that the tools are complementary to one another so that tax administrations are not overburdened. Second, it is key that these indicators do not devolve into an endless checklist of requirements that are largely disconnected from particular contexts and needs of developing countries.

Lastly more need to be done to connect benchmarking exercises to an appropriate reform program. Diagnostic or assessment exercises can illuminate the strengths and weaknesses of existing systems, and allow both domestic and external actors to develop a more nuanced view of reform needs and priorities. However, these assessment tools often become excessively focused on ranking tax systems in order to facilitate cross-country comparison and producing simple quantitative measures, which can distort and undermine broader effectiveness. Seen in this light, an assessment focused only on gathering discrete pieces of data is likely to be useful to external actors, but much less useful to domestic actors. It is important to ensure that the data gathering exercise forms part of a locally embedded assessment and diagnostic process that is closely linked to the immediate reform challenges confronting different tax administrations rather than the goals of external actors.

5.2 Conditionality

Tax-related conditionality has increased in recent years, but the concept is not new. Both the IMF and World Bank have included varying forms of tax policy and administration conditionality as part of their structural adjustment and technical assistance supported programs since the 1980s. In the last 20 years, some form of revenue conditionality has been included in 441 approved IMF-supported programs.[102] Between 2006 and 2010, more than 100 tax policy conditions were found in IMF programs. Rather than being structured as a simple yes/no condition for receiving funds, conditionality can be more akin to continuous incentive payments. For example the use of country systems (or more crudely, the quantity of budget support) can be linked to the quantity of tax raised, or other metrics.

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[102] Crivelli and Gupta (2014), 'Does Conditionality in IMF-supported programs promote revenue reform?' IMF, Washington DC. Under the IMF, revenue conditionality may be either quantitative and specific (e.g., increasing the CIT rate to 25 percent) or structural and general (e.g., submitting legislation to parliament for VAT introduction). Specific revenue conditionality can be identified with a tax type and is associated with a specific revenue target while the main objective of general conditionality is usually to support the initial steps in a wide-ranging tax reform or to strengthen aspects of the revenue administration

Conditionality may simply be a tool to promote domestic resource mobilization, but it may also be motivated by donor concerns that giving aid relaxes a government's incentives to mobilize domestic revenue. There is little evidence that aid displaces tax on average, a finding which may in part reflect the success of conditionality and revenue targets.[103] But the risk that aid will substitute for taxes is likely to vary from country to country and according to aid modality; the lack of evidence for tax displacement on average does not mean it is an issue donors can forget about.

Conditionality, however, has also long been controversial. On one hand, conditionality is one of few tools available to generate pressure and monitor reform progress; on the other it may undermine local ownership of development initiatives. There is even a danger that in setting targets donors may unwittingly harm the relationship between citizens and the tax administration by prompting malpractice: "When governments are under strong pressure from the IMF and donors to meet revenue targets … administrations [often] respond with some combination of a) and even tighter squeeze on registered taxpayers b) quasi-military 'raids' on other businesses".[104]

These concerns lead to the question of whether conditionality is effective. Broadly, evidence suggests that revenue conditionality has helped to advance tax reform efforts. Conditionality has been more successful where it effectively supports the strategies of local reform leaders, rather than imposing purely external priorities.[105] That said, even where local leadership has been limited, conditionality has still led to improvements in tax policy and administration. Research indicates that IMF-supported programs have been associated with higher revenue collection in low- and middle-income countries, with the strongest improvements on goods and services taxes, including the VAT.[106] However, while higher revenue collection is a form progress, it is less clear whether these achievements were beneficial from a development perspective and research into the possibility of harmful side-effects of revenue drives is lacking.

The specific lending conditions or project performance measurements that development partners should target are not well established. Many have overwhelmingly relied on indicators such as the adoption of VAT or an increase in the reported tax to GDP ratio, but tax specialists tend to object to reliance on such blunt instruments. Tax/GDP data is poor quality and easily manipulated, the tax treatment of resource revenues is not consistent across countries, and tax collections are influenced by many factors outside government control. More research is need to establish appropriate targets that measure meaningful, verifiable improvements whilst being realistic, accounting for context, and less likely to have adverse consequences.

The idea of setting fiscal targets is controversial, even if no explicit funding conditionality is attached. The draft Financing for Development agreement encourages countries to set national domestic revenue targets. Whilst such targets have no conditionality attached, some donors may use them to guide resource allocation decisions or adopt them in their own program conditionality. Some tax experts are opposed to the idea of setting targets, not only because of potentially harmful administrative practises but also because in some developing countries even well-administered tax increases may actually impoverish the poor.

5.3 Tax and PFM

Public perceptions about how taxes are spent can constrain revenue mobilization. But there are also more immediate links between tax reform and public financial management (PFM) that donors must address. Good tax advice requires much closer attention to what is to be done with the revenue than is usually recognized.[107] Tax reforms are often part of a broader PFM package, and there are pragmatic considerations, such as the need to keep the parts of government that spend the money informed about changes to the supply of it, as well as opportunities to increase the benefits of tax reforms by, for example, improving cash management. In general, tax reformers should ensure they contribute to the broader objective of PFM strengthening.

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[103] Carter (2013) and Morrissey at al. (2014)
[104] Fjeldstad (2013)
[105] Ibid
[106] Crivelli and Gupta (2014)
[107] Bird (2013),

The first requirement is to gather basic information about PFM in partner countries. The most common benchmark is the Public Expenditure and Financial Assessment (PEFA), a multi-donor initiative that grew out of the international aid effectiveness agenda. PEFA examines aggregate fiscal discipline, strategic resource allocation, and efficient use of resources for service delivery. The elements most relevant to tax reformers are cash management, forecasting, and the transparency of public revenues and expenditures.

5.3.1 Cash Management

Cash management is about getting the money where it is needed. Most cash management and PFM specialists argue cash should end up in the government consolidated fund, which in more advanced PFM contexts will be some version of a treasury single account (TSA).[108] In countries with fragmented government banking arrangements, the establishment of a TSA is generally regarded as a priority. A TSA prevents government from being mistakenly cash constrained, which prevents government from unnecessarily borrowing. This does not imply attempting to move straight to a TSA is advisable, but tax reform must support effective cash management. If DRM reform increases collections but fails to increase remittances to the government, these reforms are likely to be extremely unpopular.

Ideally tax collections are remitted using commercial bank *transit accounts*, which are “swept” frequently into the TSA, with reconciliation between the tax authorities, the treasury, and the commercial bank, although in some contexts the banking system might not be sufficiently developed. Collecting taxes in cash significantly raises the risk of collections outstripping remittances both through accounting errors and fraud.[109] Efficient procurement of third party services to strengthen revenue collection can be an important component of DRM reform, which may be challenging in contexts where the allocation of government contracts is a significant tool of patronage.[110]

5.3.2 Forecasting

Revenue authorities need to support short term cash forecasting, contribute to forecasts of the annual budget, and prepare their own expenditure budgets. During DRM reform, the relationships between these three components and PFM becomes even more critically important. Putting systems in place to gather revenue data broken-down by tax type and source, and improving the flow of information from the revenue authorities across government, should be a key component of tax reform. The temptation is to computerise as much as possible – sometimes without due regard for the needs of other parts of government.

There is also a political dimension to longer term forecasting. Tax reform is of great interest to politicians who wish to make political promises increased spending or deficit reduction. Reformers must ensure that optimistic revenue targets do not become forecasts. Unfulfilled promises are likely to damage the social contract taxpayers and government and undermine revenue mobilization. Tax administrators are best placed to challenge unrealistic forecasts, and must be given protection to deliver unwelcome messages.

The Ministry of Finance also needs to keep an eye on the revenue administration, so that it is not underperforming against its targets. Revenue collection agencies may be incentivised to underreport and withhold proportions of their collections when oversight is weak.

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[108] Pattanayak & Fainboim (2010) and Williams (2010).

[109] Keen (2013) and Fjeldstad (2013) note the role commercial banks can play in reducing fraud.

[110] Though this is not explicitly stated Pattanayak & Fainboim (2010) cite the case of Columbia where commercial banks have been given a 15 window within which to remit revenues to the TSA.

5.3.3 Transparency

The regular publication of information about the tax system and public scrutiny may help limit malpractice, such as corruption and excessive use of tax incentives. There is also evidence that more transparent tax authorities are better forecasters and are associated with improved public budgeting.[111] Tax reforms are part of a broader development agenda, and government accountability and citizen engagement are part of that process. More visible links between taxation and service delivery can strengthens the social contract, and getting information into the public domain should be part of the tax reform agenda.

[111] Danninger et al (2005)

6 Tax reforms: lessons from experience

Summary

- Some technocratic fixes can have a large short-run impact but more generally meaningful reform is a political problem.
- This may require donors to bide their time and be opportunistic, and become versed in the dark arts of political salesmanship.
- There is a risk of pushing through reforms that could end up destabilizing the government. The political consequences of reform must be carefully considered.
- A locally-led, problem-driven approach is more likely to have a real impact, in contrast to imposing pre-designed reforms which can lead to 'mimicry' rather than real change.
- It is widely recognized that a systematic approach that considers the tax system as a whole is desirable, but projects still sometimes fail in this regard.
- In addition to needing political backing, successful reform will require engagement with other stakeholders, such as the private sector
- It is important to manage expectations and coordinate between different actors. A dedicated project manager may help.
- The appropriate balance between short and long-term TA is important, but it is impossible to generalise. The right combination depends on context.
- Funding modalities must be compatible with a improvisation
- More mundane tasks that nonetheless offer high returns are often neglected. Chief of these are HR issues.

Donors often find themselves in the awkward position of seeking short-term results in a field where progress is likely to be erratic and gradual. In the words of tax expert Richard Bird: "what people want to hear is … that they can simply bolt on this or that new feature to an existing system without making more basic changes, and still get good, quick and preferably quantifiable results." Such hopes are usually dashed - although Bird adds that "even in the most hopeless situations, something can usually be done to improve matters." Of course tax reform can mean many things and donor interventions can range from the potentially transformational, like advocating major new tax legislation, to the mundane, like helping improve record keeping in the land registry. What results can be expected and when, in terms of revenue mobilization, and how donors should approach their partnership with government, depends on the nature of the task in hand.

Tax reforms can sometimes have dramatic effects. Tax-to-GDP ratios increased rapidly within a few years of establishing SRAs in Uganda, Rwanda, and Burundi, with the support of DFID.[112] Support to the Afghan Revenue Authority (ARD) coincided with a 183% improvement from 5.4% of to 9.5% of GDP, exceeding IMF targets, over the 4 year period from 2008/09 to 2011/12. In the Philippines the introduction of a tax on tobacco in December 2012 raised USD 1.2 billion in 2013. After 15 percent is taken by programs that benefit tobacco farmers, 80 percent of the remainder was earmarked for subsidizing universal healthcare.

[112] Uganda's tax-to-GDP ratio increased from 6% of GDP in the early 90's to 12% of GDP in the late 90's

These examples are encouraging, but the big picture is less so. Tax-to-GDP ratios remain stubbornly low in many developing countries despite decades of tax advice, and are stagnating in countries which have recently been held up as examples to follow, having implemented the "standard package" of reforms. Also, as mentioned previously, tax to GDP ratios are controversial as performance measures.

This section summaries current thinking on some practical questions about how development agencies should approach taxation in their partner countries, drawing on academic research and lesson from case studies.

6.1 The importance of politics

Appraisals of tax interventions generally conclude that more attention to political and institutional analysis is required, with both the World Bank and IMF identifying political will as a key determinant of success.[113] Some observers maintain that tax advisers continue to be insensitive to different economic and political structures, despite the longstanding acceptance that awareness of local context is of paramount importance.[114] This may indicate that navigating local context is easier said than done. It is sometimes observed that countries must get their politics right before they can expect to get their tax systems right, but political dynamics are hard to predict: what seems impossible one moment becomes possible the next. Economists sometimes assumes that politicians have incentives to choose sensible economic policies, once made aware of them, or they regard politics as too unpredictable to incorporate into their analysis. More recently economists have recognised that the failures economic policy advice often seeks to correct may actually be the foundations of the political equilibrium. Worse, there may be "systematic forces that sometimes turn good economics into bad politics".[115] Put bluntly, replacing what appears to be an iniquitous or inefficient tax system could sometimes risk the breakdown of the political order and the emergence of something worse.[116] These arguments suggest that tax reformers should attempt to think through the political ramifications of their actions, although they also risk being used to justify the status quo.

Lessons from evaluations of failed governance and public finance reforms also apply to tax. The emerging consensus blames the imposition of pre-determined plans that specify "deliverables", causing governments to mimic reforms but fail to make fundamental changes, and advocates a locally-driven "problem-led" approach to reform instead.[117]

Tax reform suffers from the problem that the 'winners' tend to be diffused and disorganized, whereas the 'losers' tend to be acutely aware and mobilized. Success may be more likely in moments of crises or political transition. Donors must foster local ownership, which means "openness to local priority-setting and some degree of heterodoxy in reform objectives and strategies."[118] Donors may need to invest effort in understanding political dynamics, and be opportunistic rather than pushing for reforms when there is no appetite. Reforms that pay attention to gaining the trust of the public may be more successful.

"Those who want serious tax reform need to understand not only tax theory and practise but also the dark art of political salesmanship" according to Richard Bird. One example of what this might mean in practice is earmarking of taxes, almost universally condemned as a bad idea by economists. Earmarking ties the budget up in knots if taken seriously, encourages a proliferation of special taxes for various purposes, and if not taken seriously, misleads taxpayers. On the other hand, making links between revenues and expenditure can help solve the problem of ensuring the right level of revenue is gathered for the right level of spending, on the right things. Bird asks: "if calling a new tax a 'health tax' makes it more marketable, provided the tax is better than the alternatives and spending is not affected, should economists object to mislabelling?"

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113 Prichard et al. (2012)
114 Stiglitz (2013) make this criticism.
115 Acemoglu and Robinson (2013)
116 Acemoglu and Robinson (2013) provide examples of well-intention policies bringing down governments when implemented.
117 Andrews et al. (2012)
118 Prichard et al. (2012)

Scholars now urge development agencies to move beyond a technical approach to taxation, and attempt to encourage constructive engagement between governments and citizens over tax issues. This means integrating tax reforms with the broader governance and accountability agenda. It has also been suggested that donors should stop demanding tax exemptions on their own activities, to enhance their credibility.[119]

6.2 A systematic approach to taxation reform is important

A recent evaluation of taxation reform in the Pacific distinguishes between "systematic" reforms which look at the tax system more holistically, and "episodic" reforms which focus on a single reform such as VAT implementation.[120] This observation, that a holistic approach is more likely to fundamentally change how the tax system operates, is not new. While it is almost self-evident that good tax policy also requires good tax administration, this is sometimes neglected in practice. Some major actors in tax can at times still work in silos, for example that IMF Fiscal Affairs Department has tax policy and revenue administration units, although they are generally regarded as coordinating effectively, whilst the WBG has the Governance Global Practice and the Macroeconomics and Fiscal Management Global Practice where coordination can be more of a challenge.[121]

Samoa provides an example where progress in terms of introducing new tax legislation in the 1990's was not accompanied by strengthening of the administration around these reforms, and the tax system did not improve until administrate reforms almost a decade later. Similarly, in Kiribati there has been a failure to coordinate taxation and customs reforms, putting the implementation of VAT, scheduled for the 1st of April 2014, at risk. This arose because of a wait-and-see policy during the passage of the legislation. In Afghanistan, delays passing VAT legislation also resulting in the Afghanistan Revenue Department holding out on the rollout of their stakeholder engagement plan, which led to lack of engagement with Customs.[122] The clear message from case studies is that successful tax reform requires tracing the implications for all branches of government and ensuring the necessary support is put in place. Tax reform does not take place in a vacuum.

6.3 There is no single path to reform

Real world reforms require a combination of policy and administrative reform but the sequence can vary. If the policy reform window is shut due to political constraints progress it may be possible to make progress on less sensitive administrative reforms (although some administrative reforms can be extremely political sensitive).[123] While there was little appetite for implementing the "standard package" of reforms in the Solomon Islands, a significant achievement was the passing of the Customs Act. Whereas in Tonga the need for "systematic" reform recognised at the highest levels of government and policy reform was complemented by administrative reform. However, it was also recognised that this "top down approach" resulted in compromises, such as last minute agreements on tax exemptions.

It is a commonplace that tax reforms need political backing, but in some cases political leadership is not enough. The Tongan top down route cannot always be taken; there often needs to be bottom up pressure for reform as well. This was the experience of the Philippines in passing its "sin tax" on tobacco. Despite strong Presidential support this was achieved "against the odds", following a very sustained campaign against the law by the tobacco lobby and its allies in Congress, which in the end was defeated by an alliance of reformists, albeit at the cost of considerable compromises, including earmarking revenues to be transferred to the regions of tobacco farmers. The work of a few dedicated individuals and a particular civil society organisation, Action for Economic Reforms (AER), supported by USAID and Australian aid working with the Asia Foundation, has been credited with tipping the balance in favour of this reform. [124]

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119 This need not cost donors anything, if they are making other grants to governments than can be reduced to offset taxes remitted.
120 Murray et al. (2014)
121 Based on author interviews.
122 See the second annual review of DFID's Revenue Strengthening Project Afghanistan
123 For example the use of risk-based audit selection has been blocked by the Courts in Pakistan in favour of the use of random balloting, reducing the chances of politically connected large taxpayers being selected (author interviews).
124 Booth (2014).

Donors and consultants should listen to what their country counterparts are telling them about what is likely to work in the local context. In particular the "standard package" or aspects of it may not be acceptable within the reform space available.[125] A case in point was Samoa's resistance to the establishment of a LTU, and its scaling back of the original Institutional Strengthening Project, and rejection of IMF proposals on presumptive taxes, to what they felt could be realistically achieved. While a counterfactual is not possible the view from the case study was that this local ownership of the reform path contributed to the eventual success of those reforms that were taken forward.[126]

6.4 Inclusive Policy dialogue is important

While engagement with politicians on tax reform is often key, changing behaviour requires policy dialogue with the private sector and other stakeholders as well. If no existing channel for such engagement exists, donors should consider supporting it.

Private sector engagement was found to be lacking in the Solomon Islands, particularly identifying and fixing technical problems that use up scarce resources and alienate the private sector. One of the successful inputs to the reform process in Tonga, was the use of a private consultant to support the Minister on political issues.

On the other side of the policy dialogue, evaluators have suggested that's DFAT support to the Solomon Islands Chamber of Commerce on engagement with the tax administration should be replicated elsewhere.[127] There is precedent for the donor funding of civil society to bring about progressive reform in tax legislation as exemplified in the case of the Philippines Tobacco Law. The AER received funding from several sources including two arm's length aid grants from USAID and AusAid via The Asia Foundation. Both of these grants supported the concept "development entrepreneurship" i.e. allowing the AER to get on with its frontline reform activities rather than requesting reporting on progress and outcomes, while minimizing political risk by using the Asia Foundation as a buffer.

6.5 Management of the reform path

A key recommendation from the evaluation of Pacific Island interventions is that the reform team should include a project manager who can manage the reform path as well as expectations of key stakeholders.[128] However in cases where a number of donors are engaged, including the IMF and WB, one of these entities can take on this role and the issue of coordination between donors becomes more important. Somebody must also be responsible for more strategic coordination of long-term and short-term technical assistance. In most of the pacific island countries, PFTAC takes on this role.

In the case of Kiribati, the reform team model included a long term technical advisor, funded through Australian aid, and short term TA from PFTAC, coordinating with their counterparts through a steering committee. However, the lack of a project manager to coordinate activities meant the technical advisor was overloaded. In particular, reforms became ad-hoc, steering committee meetings broke down, and implementation became an afterthought. The lack of clarity resulting from the failure to manage expectations left different stakeholders with inconsistent approaches to the reform. Eventually the steering committee broke down at a critical time when coordination between taxation and customs was need during the implementation of VAT.

This contrasts with the case of Samoa where the Ministry of Revenue hired a project manager using Public Sector Improvement Facility funds to manage the reform path. The project manager came with extensive personal contacts in the region and particularly with New Zealand, and was therefore effective in using

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[125] The 'standard package' includes Value Added Tax ("VAT"), cutting trade taxes, and a comprehensive income tax, administrative reforms.

[126] Reforms taken forward included the introduction of a corporate plan, a compliance improvement plan, a compliance improvement committee, and a risk management framework, as well as the upgrade of IT systems and the introduction of public information seminars. The establishment of a LTU was resisted in favour of a modern functional structure within the Ministry of Revenue comprising three divisions: taxpayer services; audit & investigations; collections & enforcement. Responsibilities were assigned on the basis of distinctions between large, SME and "specials".

[127] Murray et al. (2014)

[128] Murray et al. (2014)

short term TA inputs effectively. The provision of a full time project manager to function as a neutral interlocutor between DFID and Rwanda Revenue Authority (RRA) management was found to be an effective means of managing the reform path and expectations in the case of Rwanda.[129] It also enabled both DFID and RRA management to take a more critical and strategic look at the organisation's development.[130] Over time RRA management has been better able to absorb technical advice and to reach its own decisions on how best to advance the reform process.

In other countries, there are no project managers, but rather a lead technical advisor(s) on the ground. He/she maintains relations with the main development partners to ensure the reform path is both in line with the government needs as well as not duplicated by other donors. In the case of Burma, for example, the division of labour between donors has been well-defined amongst one another and with the government, and coordination is maintained on a regular basis. The IMF is working with headquarters on strategic planning and organizational design, and core process design, the WB is working with headquarters on tax audit and IT, and the US is working with the large taxpayer function. This only works with donor coordination is effective.

6.6 Balance short and long-term technical advisors

Tax reform is a long term process, so the TA needs to plan for the long term as well. The appropriate use of short-term TA and long-term advisors was often highlighted, but it is impossible to generalise because the right mix depends on the technical issues being addressed and local context, including government absorptive capacity. Sometimes resident advisors can inhibit local capacity building and it may be better for short-term TA to leave domestic organizations with work to do and develop self-reliance. Long term TA does not necessarily require residence in the country. An effective presence can be achieved through regular missions of 2-3 weeks at a time.

In Tonga it was recommended that at least a 2-3 year commitment was necessary by an individual who works well with officials and listen to local views. The success of this "trusted advisor" to the Minister and the administration was evident in subsequent evaluations that reported "every senior tax official we interviewed cited his contribution." The decision to withdraw long-term TA in 2012 was criticized by a subsequent PFTAC review and continuing secondments from New Zealand and Australian tax authorities have been recommended.

This is not to say that short-term TA does not have an important role to play. Some highly specialised TA, such as legislative drafting, is best provided through short term contributions. Legislative expertise and short term PFTAC missions for diagnostics and agenda setting had a significant impact on the reforms of Pacific Island countries.[131] A promising emerging mechanism for high-impact short or medium-term TA is the OECD's Tax Inspectors Without Borders initiative, which supplies tax experts to help governments with live audits, where the experience from pilot studies has demonstrated high returns.

6.7 Flexible funding

A funding mechanism that allows for a certain amount of improvisation was often found to be valuable. In Kiribati, unlike for other larger countries in the region, there was no "bucket of donor funding". Lack of core funding, and funding tied to particular outcomes, were seen as contributing to the failure to adequately plan and fund the implementation phase.

This contrasts with the reform experience in other countries where the amount of funding was programmed over longer periods and was more flexible. In the case of Samoa, funding for tax reform was made available through the Public Sector Improvement Facility (PSIF) as part of the Institutional Strengthening Project (ISP). This facility was jointly funded by Australia, New Zealand and Samoa itself over the period 2008 to 2013.

[129] Land (2004)
[130] Land (2004)
[131] Murray et al. (2014)

DFID funding to the Rwanda Revenue Authority was substantial in both the amount provided and the length of the commitment (15 years). In 2003 DFID support accounted for 34% of the RRA's budget, falling to 11% by 2008. In all phases of the project a "flexible fund" to achieve "broad goals" was employed. The open-ended nature of this support is in contrast to previous projects where a focus on a specific instrument or department led to a pattern of "unbalanced development", leading to new funding requests.

At present, tax projects are funded by combinations of loans, technical assistance programs that are limited to funding advisors, and more comprehensive projects that can fund a broader range of costs (advisors, IT equipment etc.). The appropriate mix of funding modalities is under review at the WBG but no general lessons emerge from case studies.[132]

Of course adequate resourcing is central to sustainability: countries are often resistant to allowing revenue authorities to retain a sufficient proportion of the revenues they collect. A synthesis of evaluations for DFID laments the fact that tax administrations are often unable to protect "critical revenue services from the vagaries of budgetary releases which undermine other departments."[133]

6.8 HR issues

The loss of core personnel is a significant risk to reform process and sustainability. Staff losses are an inevitability that must be actively managed – failure to do so can result in hard-fought progress being lost. In particular donors need to think carefully about when to exit.

In Kiribati frequent losses to key personnel was noted as a reason why reforms were not more successful. Similarly, the risk of staff losses was identified as a threat to the sustainability of reforms in Samoa. In Tonga it was difficult to find and retain people with the capacity to make technical decisions. As well as technical capacity, insufficient staff numbers were a problem in both the Solomon Islands and Tonga. This can result on an over reliance on a core number of staff that are open to "poaching" by other ministries as well as the private sector. In Tonga, over the course of the reform period 15 of its 41 staff that had been newly recruited were lost.[134] Tax administrations must address the challenge of succession and building up the 'missing middle' - a cadre of managers who can eventually take over. This will require investment in developing their capabilities, exposing them to greater responsibility as well as providing appropriate incentives for performance and accountability.

HR issues are sometimes neglected in favour of more exciting policy or major administrative reform projects, but they can offer some of the greatest returns.[135] They can also be the most political difficult to deliver, because it can mean dismantling a system of civil service appointments based on patronage and favours. For example in Vietnam there are no job descriptions or performance measurements for the tax administration staff. Hiring and promotion is based on social affiliation and party politics.[136]

One of the perceived advantages of SRAs is freedom from civil service salary structures, increasing the chances of attracting and retaining the best people. Experience in Zambia, Uganda and Rwanda, and more recently in Burundi, supports this argument, however salary differentials often became eroded over time. Revenue authorities can be victims of their own success – the better regarded they are, the more sought-after their staff, as seems to have been the case in Rwanda. Capacity building in the Afghan Revenue Department was deemed a success because the project tackled critical remuneration issues. A project-led salaries study was used to lobby the President's Office for a salary top-up scheme.

[132] Author interviews.
[133] Gray & Chapman (2001).
[134] Murray et al. (2014)
[135] Author interviews.
[136] Author interviews

6.9 Do not neglect maintenance

Successful modern tax administrations embed the process of making continuous improvements and carrying out routine repairs and maintenance in terms of administration. In the case of Samoa, despite strong progress on reforms, overall progress was undermined by a backlog of repairs and maintenance work to be carried out on administrative databases and key legislation that required updating.

Like the unglamorous business of HR reform, support for doing the basics right on an ongoing basis should be a critical area for donor intervention, as these processes affect everything else. In some cases, such as the Solomon Islands where many basic improvements still need to be made, this should take priority over major reforms as such.

Similar issues were noted in the Pacific countries. In particular there are concerns that critical but less obvious functions, currently being carried out by TA and funded by donors (e.g. IT, awareness raising, and training) would not be sustained. Donors must find ways of ensuring continued funding for such functions.

6.10 There are economies of scale in regional cooperation

Despite the apparent proliferation of regional entities, the perception remains that the Asia-Pacific region does not cooperate as effectively as other regions, and could benefit from an organization capable of coordinating, for example, tax harmonization, and putting resources in to capacity building. Any organizational reform would need to be led by governments in the region, but this is an obvious potential area for donor support.

7 Conclusions

The case for greater donor effort on domestic resource mobilization is easy to make – it is harder to identify exactly where such efforts should be focused. To a great extent these questions must be answered in dialogue with the developing countries themselves, to identify needs and opportunities, and cannot be answered by analysis from afar. Assessments and evaluations of tax systems by external experts have an important role, but they risk leading to reforms that "mimic" best practice without changing anything fundamental.[137] The first thing donors should do is ask tax officials and politicians what they perceive their most pressing problems to be. Simply increasing the resources dedicated to identifying gaps and opportunities, providing technical assistance and building capacity, without preconceived ideas about where support is most needed, seems likely to yield returns.

This survey of donor support to DRM has highlighted the political dimensions of tax reform, which suggests that a locally-led, entrepreneurial approach, as followed by the Asia Foundation in the Philippines, is worth backing on the basis that it has the potential for large gains at relatively low cost. But efforts to secure the occasional policy reform "big win" should be complemented by the less glamourous work of building and maintaining administrative capacity.

The lessons of experience are that a systematic approach to taxation is needed, encompassing not only policy and administration but also reaching across all branches of government to ensure both that their needs are catered for and that they support tax reforms. Seeing the tax system from the perspective of supporting good public financial management is also advisable, promoting better cash management, forecasting and transparency.

The case studies reviewed here suggest that the long-term tasks of training and developing staff, doing the basics of systems maintenance and strengthening, is relatively neglected. Domestic resource mobilization is a long-term project, but at times development cooperation has tended to be episodic and organization around reform opportunities rather than delivering a program of sustained support.

Whilst international policy initiatives on illicit financial flows are potentially important, developing countries will not see the benefits without the capacity to make use of, for example, information provided under AEOI schemes. Similarly, heavyweight legal and technical capacity will be required to review arrangements in extractive industries, renegotiate terms and bolster monitoring, as appropriate. Some specific potential areas of activity could include:

- Support investments in complying with AEOI and then translating that information into tax enforcement
- Help develop improved monitoring of extractive industries output (for example satellite monitoring of forestry) and provide legal expertise to review existing resource contracts.
- Perform TADAT or IAMTAX assessments in countries that lack them, in collaboration with the WBG/IMF, and develop systematic reform strategies together with domestic government.
- Support East Asia to consider a regional tax organisation along the lines of ATAF or CIAT (Korea is a potential partner here)

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[137] Krause (2013) discusses the differences between learning from others, adapting external advice to local needs and the superficial pretense of reform to please donors.

- Improve the sustainability and operational prowess of the Pacific Regional Tax Association

- Provide core funding for Tax Inspectors Without Borders to build capacity in the region, using Australian tax experts.

- Supply long-term resident advisors where appropriate to project manage long-run reform and better utilize short-term advisors from IMF.

- In countries with relatively little existing donor presence on tax (such as Cambodia and Laos) there is scope to design larger scale projects that are 4-5 years in length. This could involve a WBG trust fund or be implemented subcontractor in the DFID/USAID model.

- In countries with many donors already present (such as Burma) an entry point could be supporting the back-end functions of tax administration like HR, internal audit, and systems maintenance.

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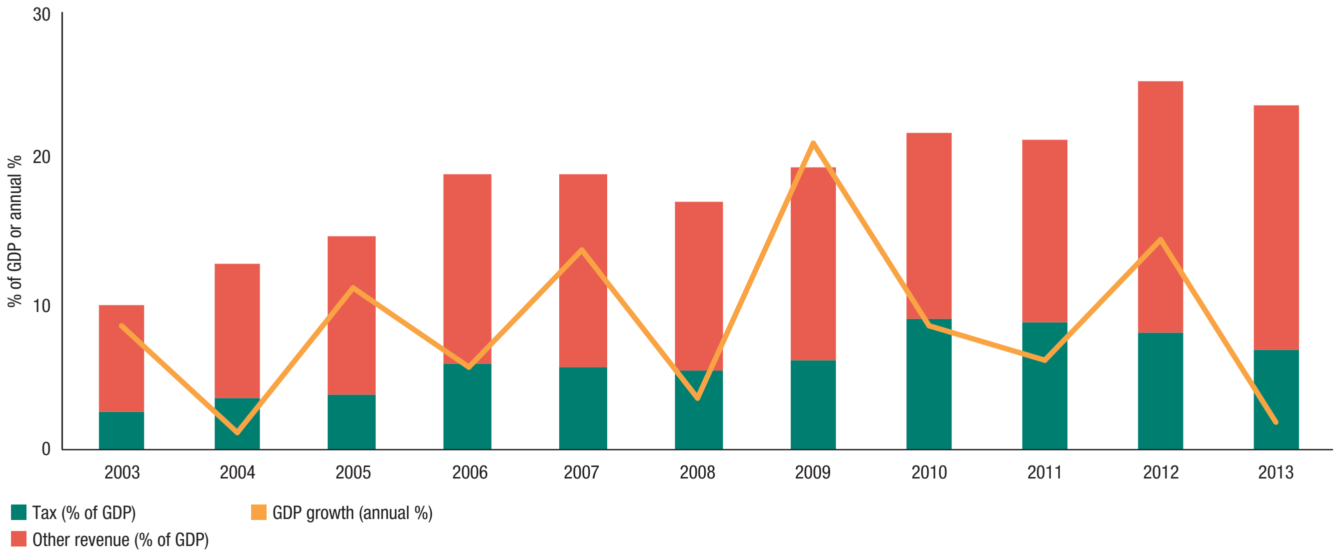
9 Appendix: Country profiles

Afghanistan

Afghanistan has one of the lowest tax revenue collections in the world, with an average of about 7% of GDP in 2006–13 compared to about 21% in low-income countries (IMF 2014). Factors behind this poor performance include a very low starting point, low compliance, opposition to new taxes, and a limited set of taxes. Afghanistan relies heavily on trade-related taxes, though its importance appears to be declining. The introduction of the Value Added Tax (VAT), which is being discussed in parliament, and excise taxes in the medium term would broaden the tax base and rebalance the composition of revenues (IMF, 2014). In the medium term, extractive industries (copper, iron, and lithium), with an estimated value ranging from $1-3 trillion, can also be a source of considerable revenues, but will require progress on the regulatory and legislative framework (NRGI website).

Government revenue and GDP growth, 2003-2013



Source: IMF FAD 2015 and WDI

Donor DRM-related activities

Since 2002, DFID (via Adam Smith International) has had the largest tax policy and tax administration project in Afghanistan. DFID has been involved in policy and legal reform including revenue trend analysis, and more recently VAT implementation. With regard to tax administration, the work included establishment of a Large and Medium taxpayer office, reorganization along functional lines, self-assessment, human resource management, and automation of several processes. Recently, DFID has been involved in provincial reform and supporting the development of a small taxpayer office. VAT implementation is proceeding slowly.

USAID and OTA have implemented a series of tax and customs projects since 2002. OTA is no longer present in Afghanistan but for many years its advisors focused on two main areas: (i) internal audit training of MoF and line ministries, and (ii) non-tax revenues. With regard to the latter, OTA assisted the government to design and publish airport fees (landing and over flight) as well as to set up automated collection processes (direct deposit instead of manual collection of fees on the tarmac). USAID (via Chemonics) currently has a $75 million Trade and Revenue project that focuses mostly on customs reform, regional trade integration, and risk-management at borders.

The IMF and WBG are not active players on tax reform in Afghanistan. Since 2002, the WBG has been working in Afghanistan under a number of Afghanistan Reconstruction Trust Funds (ARTF), some of which include broad civil service reform projects (and PEFA assessments), but no WBG project has a tax policy and administration component in the 2000s.* The IMF currently provides some technical assistance (TA) on customs reform. A legislative framework has been also prepared for with IMF technical assistance to establish an effective and transparent fiscal regime for natural resources in full compliance with the Extractive Industries Transparency Initiative. The European Development Fund also supports custom administration in Afghanistan.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2003/05	2011/13
	-1.82	-0.36
Tax (% of government expenditure)	2006	2012
	22.14	11.48
Public debt (% of GDP)	2011	2013
	6.9	6.1
Agriculture, value added (% of GDP)	2002	2013
	38.5	24.0
Manufacturing value added (% of GDP)	2002	2013
	18.75	12.10
Prop of pop < national poverty line	2008	
	36	
Gini	n/a	

Source: IMF WEO Oct 2014; GFS; IMF 2014

Tax revenue by type (% of GDP), 2003-2012

Source: IMF FAD 2015

* One ARTF has an Incentive Program in priority areas including public sector reform (pay & grade), private sector development (corporatization & mining regulatory environment), and economic governance (such as tax policy), but it is not actively providing technical assistance in tax.

Statutory tax rates

Type of tax	Rate
Corporate income tax	20% (vs. 31% LIC average)
Capital gains tax	20%
Business receipts tax	2, 5, or 10%**
Withholding tax	20%
Personal income tax	0-20%; 4 tranches
VAT	n/a
Sales tax	2%
Import duty	2.5-50% (2012)
Export duty	2.5-25% (2013)

** This is essentially a turnover tax, which is imposed on total gross revenue before deductions.

Characteristics of Afghanistan Revenue Department

Autonomous	No; Directorate of the Ministry of Finance
Function-based organisation	Yes
Large taxpayer unit	Yes
Customs function	No; Separate directorate in Ministry of Finance.
Ratio of population to tax administration staff	-
Cost of collection ratio	-
Number of tax payments by businesses per year	20 (vs. South Asia 31.4; OECD high income 11.8)
Time to comply with taxes (in hours)	275 (vs. South Asia 325.3; OECD high income 175.4)

Source: Afghanistan Revenue Department website; Doing Business 2014 rankings

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Commodities not specified according to kind	56%
Petroleum oils, other than crude	12%
Peat (including peat litter)	11%
Wheat or meslin flour.	4%
Setts, curbstones and flagstones, of natural stone (except slate)	3%
Other	15%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Commodities not specified acc. to kind	52%
Carpets and other textile floor coverings, knotted…	16%
Grapes, fresh or dried	7%
Seeds of anise, badian, …	7%
Vegetable saps and extracts; pectic substances	5%
Other	12%

Source: UN Comtrade

Afghanistan references

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Interviews with USAID, OTA, IMF, and World Bank

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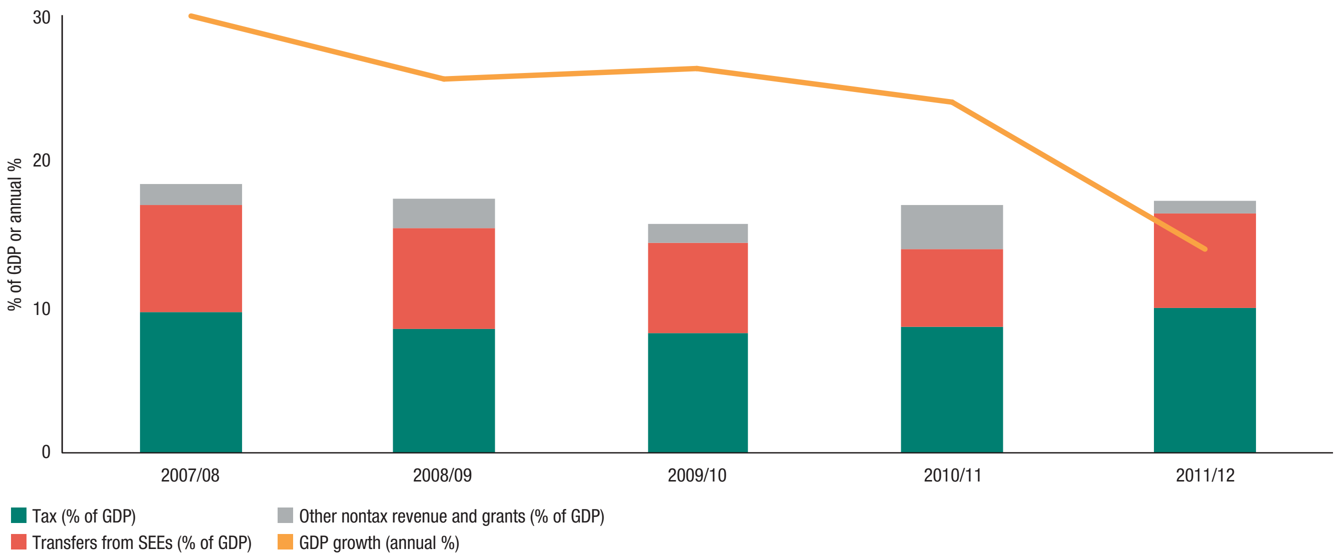
Burma

Burma relies heavily on non-tax revenue that comes from state-owned economic enterprises (SEEs)* and natural resources (gems, industrial minerals, oil, and offshore natural gas reserves). Tax revenues are very low, making up less than one third of total Union Government revenues today, and the tax base remains narrow, in part due to widespread exemptions.** The 2014/15 taxation bill reduced revenue potential and complicated administration by introducing numerous exemptions and a new reduced rate for the commercial tax. According to the IMF, tax policy should focus on cutting back exemptions, unifying the commercial tax rate, and introducing an excise tax which would lay the foundation for a VAT in the medium term (IMF 2014). Burma's tax administration is primitive. Most processes are performed manually across the country including even banking transactions. Most of the staff working in the Internal Revenue Department (IRD) are ex-military and require significant capacity building.

Union Government Revenue, 2007/08 - 2011/12



Source: Perry et al., 2013 and WDI

* Transfers of earning from SEEs to the general government of Myanmar are far more important that CIT revenue, and was projected to reach 5.4% of GDP for FY 2012/13 compared to total tax revenue which will amount to 3.3% of GDP (IMF 2013).

** Revenue foregone from exemptions in 2011/12 as share of total collections: 6.9% and as a share of GDP: 0% (Perry et al., 2013).

Donor DRM-related activities

There are a number of donors currently working with the IRD. The IMF, OTA, and the WBG are the three major donors but OECD, JICA, Koreans, and Norway have all reportedly operated on an ad hoc basis. Currently, both the IMF and OTA have dedicated resident advisors. The US Treasury advisor has been working since 2013 to establish the large taxpayer function. Since its establishment, the support has focused on designing tax returns, assisting in self-assessments, developing a basic IT system to record tax returns, and beginning taxpayer awareness on rights/obligations. It plans to move into risk-based tax audit and other training programs in 2015. The FAD advisor is based in Naypyidaw working with the tax administration headquarters on organizational design (moving from tax-type to function-based), strategic planning, performance monitoring, and core process design. Through the tax policy group, FAD is also working on the tax procedures code and supporting legislation drafting. The International Tax and Investment Center (ITIC) is working on excise legislation. Through a MDTF, the WBG is implementing a 'Modernization of Public Financial Management' project valued at $50 million (DFAT provided $5 million of this). The tax component, estimated at about $10 million is focused on tax audit and IT modernization. The WBG will put a resident advisor on the ground within the next 8 or 9 months. The AsDB special fund also has an 'Improving Fiscal Revenue Mobilization' project while the Australian government provides support to improve resource management and revenue transparency through the Myanmar Economic Governance project, which broadly aims to help strengthen democratic institutions in Myanmar.

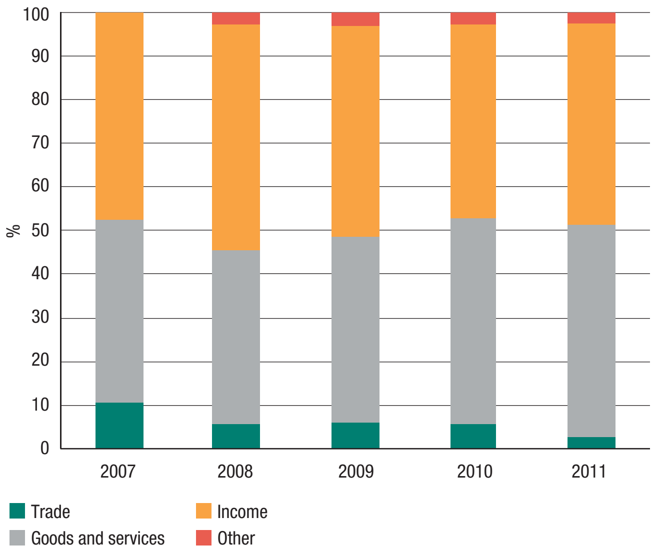
While the donor community is quite active and numerous in Burma, there are areas within tax reform that still need support. According to interviews, human resource management, public administration reform, and other support or back-end functions of the tax administration have not been targeted by donors. However, it was also reported that the authorities are overwhelmed and absorption capacity should be considered before new donors design programs.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2006/08	2011/13
	-3.1	-2.7
Tax (% of government expenditure)	2000	2013
	55.6	20.9
Public debt (% of GDP)	2006	2013
	90.5	39.8
Agriculture, value added (% of GDP)	2000	2004
	57.2	48.4
Manufacturing value added (% of GDP)	2000	2004
	7.2	11.6
Prop of pop < national poverty line	2010	
	25.6	
Gini	n/a	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2007/08-2011/12



Source: Perry et al. 2013. Myanmar Tax Policy for Growth, Fairness and Sustainable revenues. IMF.

Statutory tax rates

Type of tax	Rate
Corporate income tax	25% (vs. 31% LIC average)
Capital gains tax	10 (residents) or 40% (non-residents)
Withholding tax	0% (dividends); 15% (interest for non-residents);20% (royalties for residents or nonresidents)
Personal income tax	0-25%, 6 tranches
Property tax	n/a
VAT	n/a
Commercial tax	5-100% on goods; 5% on services
Excise tax	8-100%***
Customs duty	0-40% with 22 bands
Stamp duty	0.3-5%

*** Applies to tobacco and tobacco products, alcoholic beverages, light motor vehicles, and petroleum products and natural gas. Based on Commercial Tax Law, and MOFR Notification No. 116/2012, March 15, 2012.

Characteristics of Internal Revenue Department

Autonomous	No; Directorate in Ministry of Finance
Function-based organisation	No (HQ is by tax-type; LTU is function-based)
Large taxpayer unit	Yes (established in 2014)
Customs function	No (separate Customs Department within MoF)
Ratio of population to tax administration staff	16,475
Cost of collection ratio	0.40 (2011)
Number of tax payments by businesses per year	31 (vs. South Asia 31.4; OECD high income 11.8)
Time to comply with taxes (in hours)	154.5 (vs. South Asia 325.3; OECD high income 175.4)

Source: MoF and IRD websites; Araki and Claus 2014; Doing Business 2014 rankings

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	22%
Self-propelled bulldozers, angledozers, graders, levellers, scrapers	5%
Light-vessels, fire-floats, dredgers	4%
Palm oil and its fractions	4%
Medicaments	4%
Other	61%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Petroleum gases and other gaseous hydrocarbons	39%
Precious stones (other than diamonds) and semi-precious stones	24%
Dried leguminous vegetables	12%
Wood in the rough	7%
Fish, fresh or chilled, excluding fish fillets	3%
Other	15%

Source: UN Comtrade

Burma references

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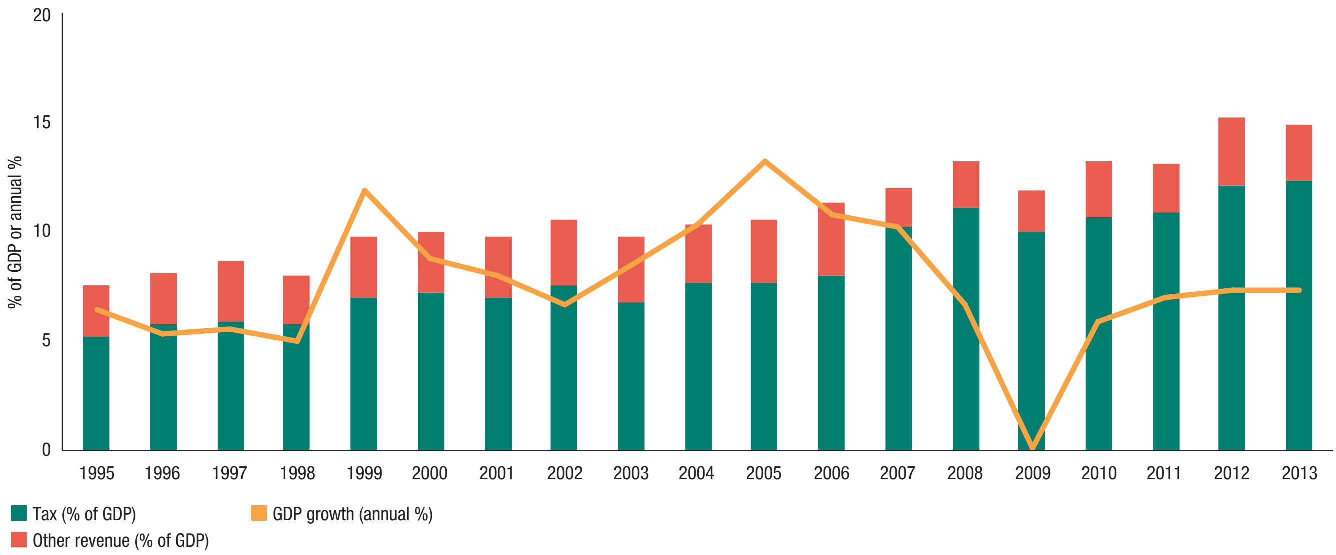
Interviews with USAID, OTA, IMF, and World Bank

Cambodia

Despite recent improvement in tax revenues due to buoyant economic activity and improvements in tax administration, Cambodia still has one of the lowest tax-to-GDP ratios in the region at 12% in 2013. The government has therefore developed a Revenue Moblisation Strategy (2013-2018), which aims to increase the tax-to-GDP ratio by 0.5 percentage point annually until 2018. The Government's immediate priorities are to reform excise taxes and the VAT, expand the base of the formal (non-estimated) tax regime, and rationalise exemptions and tax holidays (IMF, 2014). In the medium term, the introduction of income tax and expansion of property tax base would further improve fiscal performance. Cambodia's oil and gas potential remains untapped with oil and mineral reserves currently accounting for only a small fraction of government revenues and less than 1% of exports (NRGI website). Exploration and production will increase in the near future as the government starts projects, but it is moving cautiously in order to maintain natural resource sustainability and good governance in the extractives industries. Furthermore, despite Cambodia having the lowest effective tax rates on capital in the region, its investment levels as a share of GDP are the lowest among the ASEAN countries (Norregaard, 2014).

Central government revenue and GDP growth, 1995-2013



Source: ADB Statistical database; WDI

Donor DRM-related activities

A multi-donor trust fund (MDTF)* managed by the WBG, PFM Modernization Project in Cambodia, has been implemented since 2004 with the Ministry of Economy and Finance. Stage two (2013-2016) is an investment loan with a $2 million tax component. As part of this reform program, a Revenue Mobilisation Strategy was developed in November 2014. The WBG has also assisted Cambodia via a number of Economic Sector Work projects that have small tax policy components including assistance on the 5-year development strategies, Vision 2030, etc. The IMF has had a small program (Japan funded) in Cambodia for the last 6 years that runs through 2018. There is a technical advisor based in Kathmandu that rotates between Nepal, Cambodia, and Laos. This advisor has provided TA to the Cambodian large taxpayer office, tax audit, compliance risk management, as well as some support on strategic planning.

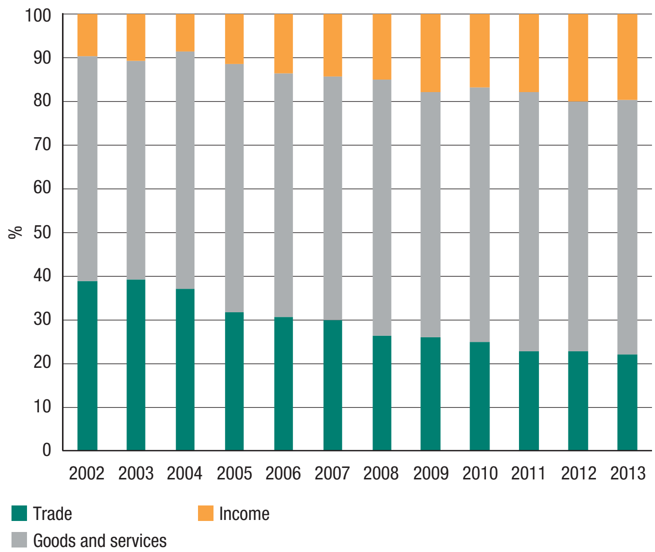
OTA has been engaged with the General Directorate of Tax since 2009 on revenue administration reform. In earlier years, OTA assisted in drafting regulations for oil and gas as well as developing tax audit tools. In subsequent years, the intermittent advisors have worked on training in tax audit and the development of audit manuals. The project also included some work on taxpayer education and guidance on arrears collection, which resulted in a reduction of arrears balances. More recently the advisors have started on anti-corruption assistance, which will include a code of contact, internal audit reform, and human resource development. Korea also has projects that aim to share Korean experience and knowledge regarding the development of taxation system.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2004/06	2010/12
	-1.4	-3.6
Tax (% of government expenditure)	2005	2012
	58.7	56.6
Public debt (% of GDP)	2005	2012
	36.0	28.7
Agriculture, value added (% of GDP)	2005	2012
	32.4	35.6
Manufacturing value added (% of GDP)	2005	2012
	18.8	16.0
Prop of pop < national poverty line	2012	
	18.9	
Gini	2012	
	31.8	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2002-2013



Source: IMF FAD (2014 database)

* Australian contributions to the MDTF between 2004 and 2015 totals $3.3 million.

Statutory tax rates

Type of tax	Rate
Corporate income tax (Tax on profit)	20% (30% for oil/gas) (vs. 31% LIC average)
Capital gains tax	Same as income
Withholding tax	Non-residents: 14%; Residents: 15%
Personal income tax**	0-20%, 5 tranches
Property tax	0.1%
VAT	10% (vs. 16% LIC average)
VAT compliance	46.84%
Excise tax	3, 10, or 20%
Import duty	0-35%; 4 bands
Export duty***	2, 5, or 10%

** Tax on Salary (from residents and non-residents) payable by employer.

*** Levied on a limited number of items such as timber and certain animal products.

Characteristics of tax administration

Autonomous	No
Function-based organisation	Yes
Large taxpayer unit	Yes
Customs function	No
Ratio of population to tax administration staff	5,809
Cost of collection ratio	-
Number of tax payments by businesses per year	40 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	173 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: MoF website, Araki and Claus 2014; Doing Business 2014 rankings

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	11%
Other knitted or crocheted fabrics	10%
Knitted or crocheted fabrics of a width	8%
Other woven fabrics of synthetic staple fibres	7%
Unused postage, revenue or	4%
Other	60%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Unused postage, revenue	27%
Women's or girls' suits	14%
Men's or boys' suits	9%
Jerseys, pullovers, cardigans, waistcoats	9%
T-shirts, singlets and vests	8%
Other	32%

Source: UN Comtrade

Cambodia references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

Interviews with USAID, OTA, IMF, and World Bank

IMF. 2014. 2013 Article IV Consultation Report. IMF Country Report No. 14/33. February. http://www.imf.org/external/pubs/ft/scr/2014/cr1433.pdf

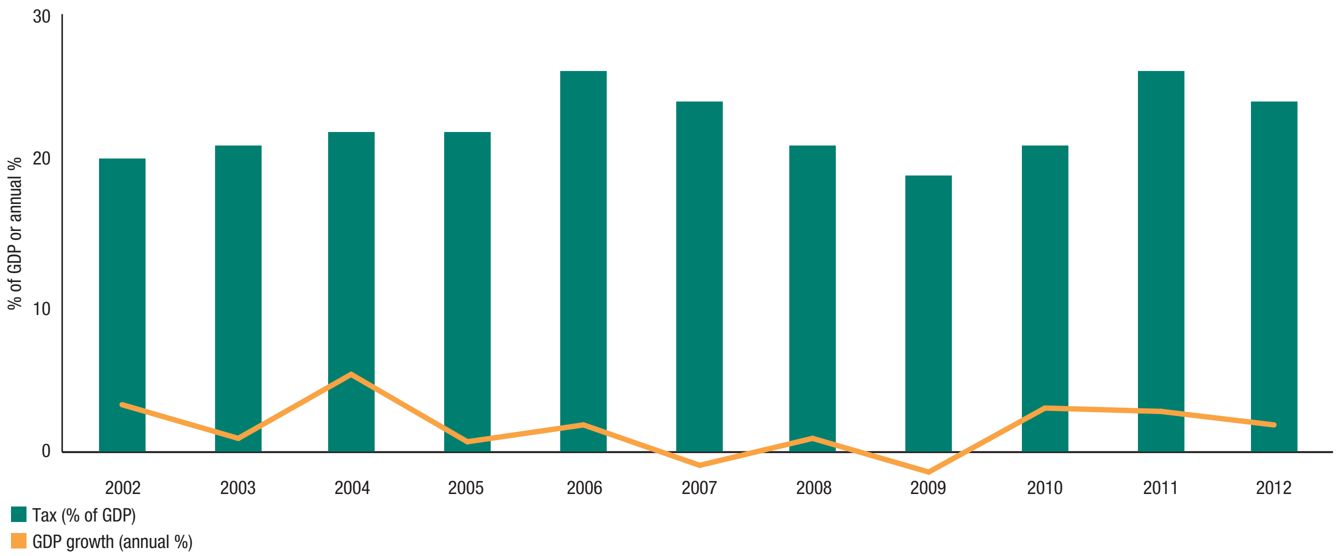
Natural Resource Governance Institute website: http://www.resourcegovernance.org/countries/asia-pacific/cambodia/overview

Norregaard, J. , S. Caner, and D. Wentworth. 2014. The Revenue Mobilization Strategy as an Opportunity to Reform the Tax System. IMF Fiscal Affairs Department.

Fiji

Since Fiji's independence, income and trade taxes have not constituted a large percentage of total tax revenue owing to policies towards investment promotion and trade liberalisation, respectively (FRCA 2012). Recent tax reforms by Fiji include raising the tax free threshold for income tax and cutting the corporate tax rate. The revenue mix has changed in favour of the VAT and has remained the same way over the last 10 years. The VAT regime was reformed in 2012 through an increased registration threshold and emphasis on escalating VAT refunds. Whilst tax revenues are very buoyant, reforms have the potential to increase collections further. According to the IMF, base-broadening revenue measures are needed such as curtailing income-tax holidays and tax incentives (IMF, 2014). There is also a wide consensus that the underground economy or tax gap is high in Fiji and appropriate reforms are required in the future to minimise tax evasion (FRCA, 2012).

Tax revenue and GDP growth, 2002-2012



Source: FRCA Annual Report 2012; WDI

Donor DRM-related activities

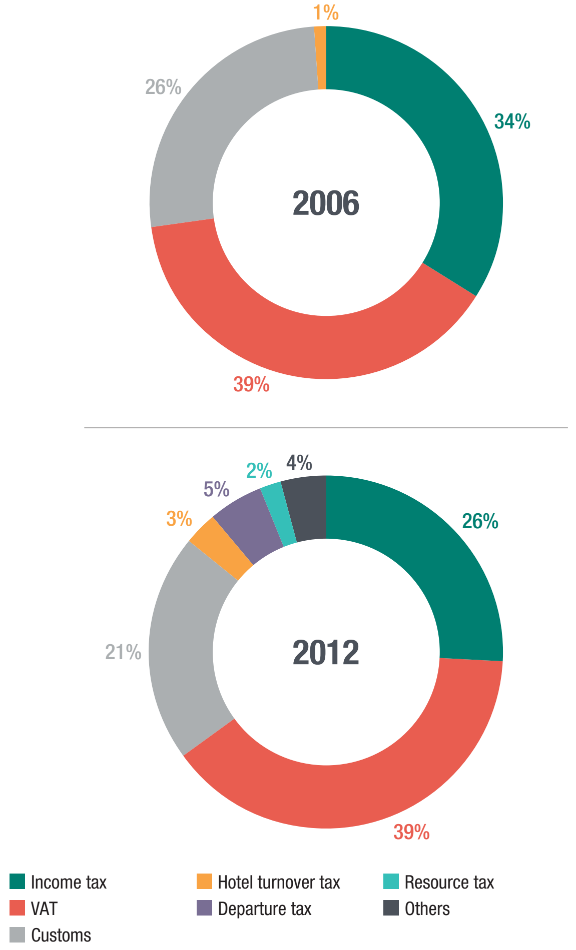
Fiji has been PFTAC's largest recipient of revenue TA in recent years, mostly since headquarters are located here. The IMF is the major development partner in Fiji under the PFTAC program. There is one resident advisor and several short-term advisors that support Fiji as well as other pacific island countries. Support from the advisors in Fiji have focused on strategic planning, data analysis, debt/arrears management, tax audit, and IT reform. A new IT system is being currently tendered. Some tax staff at the WBG have provided training to government officials via the PFTAC program but there is no formal WBG project in Fiji. A TADAT assessment was also recently performed. There is no bilateral support from Australia, New Zealand, or the United States.*

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2002/04**	**2010/12**
	-4.9	-1.6
Tax (% of government expenditure)	**2000**	**2012**
	69.7	85.6
Public debt (% of GDP)	**2002**	**2012**
	47.4	53.3
Agriculture, value added (% of GDP)	**2002**	**2012**
	15.3	12.0
Manufacturing value added (% of GDP)	**2002**	**2012**
	14.9	14.4
Prop of pop < national poverty line	**2009**	
	31	
Gini	**2009**	
	42.8	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2006 vs. 2012



Source:FRCA Annual Report 2006 and 2012

* Many donors opted out when the coup happened.

Statutory tax rates

Type of tax	Rate
Corporate income tax	20% (vs. 26% I-MIC average)
Capital gains tax	10%
Withholding tax:	Dividends: 15% (non-residents); Interest: 10% (non-residents),20% for residents; Royalties: 15% (non-residents)
Personal income tax	0-20% for residents, 20% for non-residents
VAT	15% (vs. 14% I-MIC average)
VAT Compliance	….
Other significant taxes	5% (service turnover); 20% (fringe benefit)
Excise tax	Varies
Import duty	5-15%

Characteristics of Fiji Revenue and Customs Authority

Autonomous	Yes
Function-based organisation	No
Large taxpayer unit	Yes
Customs function	Yes
Ratio of population to tax administration staff	1096 (2012)
Cost of collection ratio	2.01% (2012)
Number of tax payments by businesses per year	38 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	195 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: FRCA website, Doing Business 2014 rankings; FRCA Corporate Plan and Annual reports

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	27%
Other aircraft (for example, helicopters, aeroplanes)	6%
Fish, frozen, excluding fish fillets	4%
Wheat and meslin	3%
Telephone sets, including telephones	1%
Other	59%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	27%
Fish, frozen, excluding fish fillets	8%
Waters, including natural or artificial	7%
Gold (including gold plated with platinum)	7%
Cane or beet sugar and	6%
Other	44%

Source: UN Comtrade

Fiji references

FRCA. 2006. Annual Report 2006. http://www.frca.org.fj/annual-reports/

FRCA. 2012. Annual Report 2012. http://www.frca.org.fj/annual-reports/

Interviews with USAID, OTA, IMF, and World Bank

IMF. 2014. Fiji Article IV Consultation. IMF Country Report No. 14/321. http://www.imf.org/external/pubs/ft/scr/2014/cr14321.pdf

Indonesia

Tax revenue as a share of GDP in Indonesia has stagnated and today it has one of the lowest tax to GDP ratios (11.9%) among its regional peers (Viet Nam, China, Thailand, India, Malaysia and Philippines) (IMF, 2013). Between 2009 and 2013, oil and gas tax revenues (tax and non-tax) have roughly been about 17-21% of total revenues. According to the IMF, more nonoil tax revenue needs to be mobilised through strong administration, enforcement, and compliance, reaping the benefit of the rapid rise in registered taxpayers over the past decade (IMF, 2013). To further mobilize revenues, Indonesia would need broader, complementary reforms, including rationalizing corporate tax rates, strengthening the property tax regime, and raising the VAT rate and select excises.

General government revenue and GDP growth, 2000-2013

Source: IMF FAD 2015 and WDI

Donor DRM-related activities

Australia has been the most active development partner in Indonesia. The Australia Indonesia Partnership for Economic Governance (AIPEG) facility provides technical and capacity building support, a component of which supports revenue reform and improved tax administration. Australia also supports Indonesia through two partnerships under the Government Partnership Fund. ATO provides a number of international technical advisors to the Indonesian Directorate General of Tax (DG Tax) that work to strengthen institutional linkages between the partner agencies and to assist the DG Tax on its path of modernization. In 2015, the key focus of support through the partnership will be on service delivery and operations support, administration and governance and improving compliance and technical capacity. The second partnership program, which provides technical advisors from ATO to the Indonesian Fiscal Policy Agency (FPA), aims to improve the capacity of its staff to carry out its core function of providing high-quality economic policy analysis and advice to the Indonesian Minister of Finance. In 2015, part of the support will be in revenue, macroeconomic policy, and forecasting.

There have been a number of WBG projects that are tax-specific or economic growth projects with tax components in Indonesia, but many have faced political constraints resulting in minimal success. A $110 million loan for Indonesian Tax Administration Reform (PINTAR), which began in 2009 was cancelled in 2014.* About 90 percent of the loan was targeted at the roll out an integrated tax IT system, which was one of four components of the project. The WBG, through the Institutional, Tax Administration, Social and Investment (INSTANSI) DPL, has supported some tax reform (10% component). According to the project report, the MoF has taken a number of steps to modernize core business processes.** The WBG has also assisted on a number of other small tax policy and non-tax revenue management non-lending TA engagements, for example, to assist the government to use revenue analytics and evidence based-approaches to inform tax non-tax policy especially around the natural resource sector.

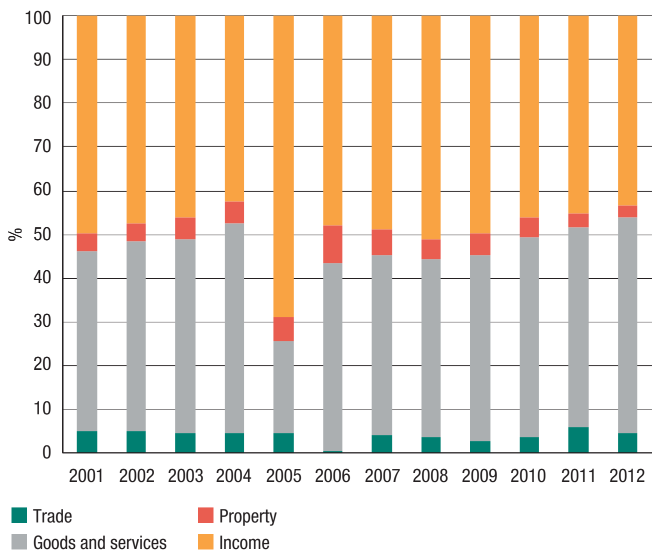
Canada has a programme which trains and advises tax officials in the areas of compliance, taxpayer services, and the management of natural resource sector revenues while Korea seeks to foster capacity development of government officials in the field of tax policy and tax administration through its ‘Economic Development Strategy for Asian Countries’ project.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2000/02**	**2011/13**
	-1.5	-1.5
Tax (% of government expenditure)	**2000**	**2013**
	52.7	65.4
Public debt (% of GDP)	**2000**	**2013**
	95.1	26.1
Agriculture, value added (% of GDP)	**2000**	**2013**
	15.6	14.4
Manufacturing value added (% of GDP)	**2000**	**2013**
	27.7	23.7
Prop of pop < national poverty line	**2013**	
	11.4	
Gini	**2011**	
	38.1	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2001-2012



Source: IMF FAD 2015

* While the WBG made several attempts and assisted with procurement training/workshops, the Bids Evaluation Committee repeatedly concluded that all bidders failed to comply with the bid requirements. The WBG eventually cancelled the entire loan.

** Centralization of the core tax system, implementation of e-registration and e-filing systems, improving the e-payment system, and piloting an e-invoice system to facilitate VAT refunds for tourists. DG Tax has also established an inbound and outbound call center. It has also deployed a number of tools to assist tax offices in the profiling and identifying non-compliance and tax gaps.

Statutory tax rates

Type of tax	Rate
Corporate income tax	25% (vs. 26% I-MIC average)
Capital gains tax	Same as income tax rate (residents); 20% (non-residents)
Withholding tax	15% (residents); 20% (non-residents)
Personal income tax	5-30%; 4 bands
Property tax (Land and Building tax)	Max of 0.3%
VAT	10% (vs. 14% I-MIC average)
VAT Compliance	57.96%
Luxury goods sales tax (charged once)	10-125%
Excise tax	Varies
Import duty	0-40%***
Export duty	0-40%
Other taxes (e.g. motor vehicle tax, hotel tax)	1.5-35%

*** Essential oils and resinoids are taxable at rates up to 150% but currently the highest applied rate is 40%. All other groups of goods (automobiles, footwear, electronic goods, textiles, etc.) are taxed at 0 to 40%.

Characteristics of tax administration

Autonomous	No; Directorate in the Ministry of Finance
Function-based organisation	Yes
Large taxpayer unit	Yes
Customs function	No; Separate directorate in the Ministry of Finance
Ratio of population to tax administration staff	7,692
Cost of collection ratio	0.55% (2011)
Number of tax payments by businesses per year	65 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	253.5 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Araki and Claus 2014; Doing Business 2014 rankings

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	15%
Petroleum oils and oils obtained from bituminous minerals, crude	6%
Telephone sets, including telephones for cellular	3%
Other aircraft (for example, helicopters, aeroplanes); spacecraft	2%
Parts and accessories of the motor vehicles	2%
Other	73%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Coal; briquettes, ovoids and similar solid fuels manufactured from coal	12%
Petroleum gases and other gaseous hydrocarbons	10%
Palm oil and its fractions, whether or not refined, but not chemically modified	9%
Petroleum oils and oils obtained from bituminous minerals, crude	6%
Natural rubber, balata, gutta-percha, guayule, chicle	5%
Other	58%

Source: UN Comtrade

Indonesia references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

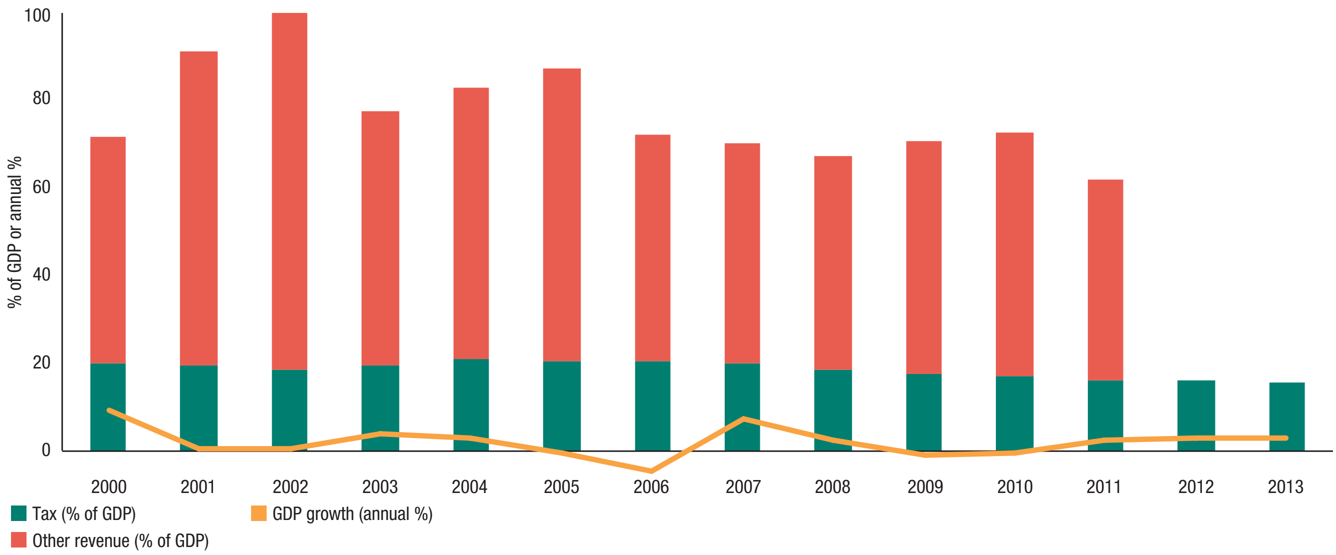
IMF. 2013. Indonesia. Staff Report for the 2013 Article IV Consultation. IMF Country Report No. 13/362. http://www.imf.org/external/pubs/ft/scr/2013/cr13362.pdf

Interviews with USAID, OTA, IMF, and World Bank

Kiribati

Tax revenues amounted to only 14 percent of total revenue in Kiribati in 2013 while fishing license revenues were about 45 percent of total revenue. Recently, in 2014, Kiribati implemented VAT and excise taxes, which should put it on a more equal footing with the tax structures of other Pacific nations and will ensure that Kiribati complies with the provisions of the trade agreement PACER Plus which promotes free trade in the Pacific region (IMF 2014).

General government revenue and GDP growth, 2000-2013



Source: IMF FAD 2015; WDI

Donor DRM-related activities

Under the Tax Improvement and Reform Program, Australia is providing AUS$2.5 million over 4.5 years to assist in expanding the revenue base and improving tax compliance. Australia also provides funding for a long-term international tax adviser in the Ministry of Finance and Economic Development as well as six additional temporary local staff to assist the Taxation Unit. Australia recently provided funding for technical assistance to the Tax Department to introduce a VAT and an upgraded Revenue Management Information System.

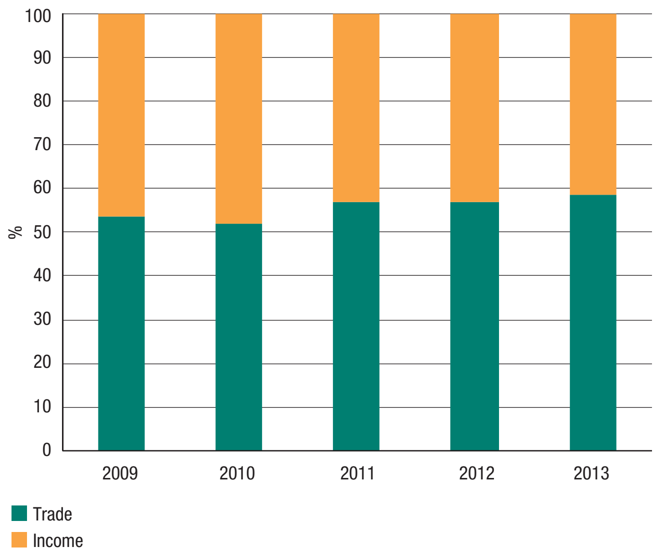
The IMF has been supporting Kiribati via short-term tax technical advisors on an IT strategy, procurement processes, legal drafting and policy design, compliance risk management, and organizational reform. The WBG has been providing assistance to Kirabti through a DPL on economic reform since 2014 but support is only tangentially related to tax. The project supports fiscal policy including revenue and debt management as well as SOE reform.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2000/02	2011/13
	-5	-5.9
Tax (% of government expenditure)	2000	2012
	24.6	27.2
Public debt (% of GDP)	2003/05	2011/13
	11.5	18.0
Agriculture, value added (% of GDP)	2000	2010
	22.5	25.3
Manufacturing value added (% of GDP)	2000	2010
	5.0	5.5
Prop of pop < national poverty line	2006	
	21.8	
Gini	n/a	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2009-2013



Source: IMF Article IV 2014

Statutory tax rates

Type of tax	Rate
Corporate income tax	Resident: 20-35%; 4 bands; Non-resident: 30% (vs. 26% I-MIC average)
Withholding tax	30% for non-residents
Personal income tax	Progressive; top rate 30% over $30,001; 4 bands
VAT	12.5% (vs. 14% I-MIC average)
VAT Compliance	-
Excise tax	15-60%
Custom duty	0-80%, with an average of 15-20%
Hotel tax	10%

Characteristics of tax administration

Autonomous	No; Division of the Ministry of Finance
Function-based organisation	No*
Large taxpayer unit	No
Customs function	No; Separate division in the Ministry of Finance
Ratio of population to tax administration staff	3937 (2014)
Cost of collection ratio	1.73% (2014)
Number of tax payments by businesses per year	7 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	120 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: MFED 2013; Doing Business 2014 rankings; Questionnaire

* Government authorities surveyed noted that they are in the process of adopting a function-based structure

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	19%
Rice	10%
Other manufactured tobacco and tobacco substitutes	4%
Cane or beet sugar and pure sucrose, in solid form	4%
Wheat or meslin flour	3%
Other	61%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Coconut (copra), palm kernel or babassu oil	54%
Fish, dried, salted or in brine	11%
Petroleum oils, other than crude	9%
Yachts and other vessels for pleasure or sports; rowing boats and canoes	4%
Copra	3%
Other	19%

Source: UN Comtrade

Kiribati references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

IMF. 2014. Kiribati Article IV Consultation. IMF Country Report No. 14/138. May.

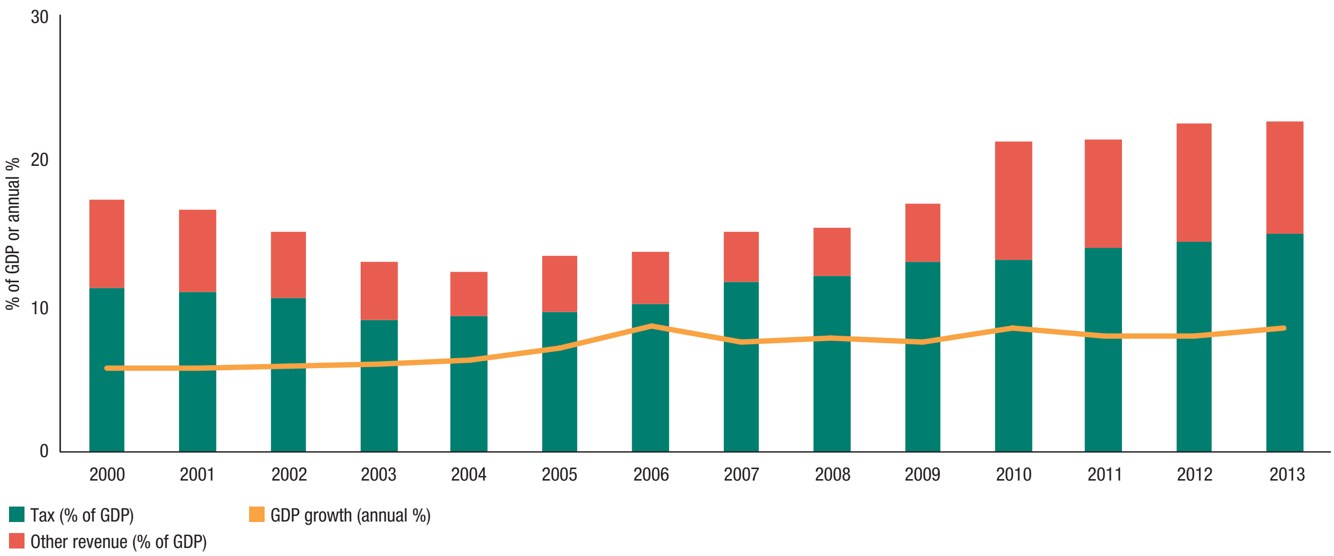
Interviews with USAID, OTA, IMF, and World Bank

Ministry of Finance and Economic Development (MFED). 2013. Annual Report. http://www.mfed.gov.ki/wp-content/uploads/2014/08/MFED-Annual-Report-2013.pdf

Lao People's Democratic Republic

Overall Lao PDR's revenue performance was strong in FY2012/13, mostly from non-resource revenue gains. Mining revenue weakened from lower commodity prices, with resource tax revenues falling from 3.1% of GDP in 2011/12 to 2.4% in 2012/13 (IMF, 2015). In contrast, non-resource tax revenue increased from 12.4% of GDP to 13.4% over the same period. Tax-base broadening and administration improvement have the potential to yield substantial additional revenues in Lao PDR (IMF, 2015). Proposed revenue measures include: (i) broadening the tax base by eliminating exemptions (mainly in CIT and VAT), flattening the PIT rate schedule; and introducing taxes on property value; and (ii) strengthening administration, notably by establishing a large taxpayer unit and increasing technical capacity to raise mining revenues. Notably, despite a similar VAT rate as regional peers of 10 percent, revenue collection is substantially poorer due to a low tax registration base and widespread use of exemptions and zero ratings.

General government revenue and GDP growth, 2000-2013



Source: IMF FAD 2015 & WDI

Donor DRM-related activities

The IMF has been supporting Laos for the last 6 years via the same Japan funded IMF program that supports Nepal and Cambodia, but its contributions have been small. In Laos, the main focus has been on customs reform, strategic planning, VAT improvements, and internal audit. Currently technical assistance from the advisors is being provided on business process improvement. The WBG currently is providing non-lending technical assistance to advise the government on revenue management arrangements of revenues generated by the hydro sector. There is also a WBG Tax Simplification (formerly under IFC) project that is focused on SME tax reform and VAT implementation valued at $1.9 million. Previously the WBG, via the WBG Public Financial Management Strengthening Program Support (PFMSP) in 2007/08 through 2013/14, supported revenue policy and administration, as well as expenditure management. Australia contributed AUS$2 million over seven years to Laos under this project. Sweden was also mentioned as being an active bilateral partner in Laos, but no project or monetary information is available. Korea has a project that seeks to establish a tax revenue information system for efficient taxation.

According to development partners working in Laos, the country requires significant assistance in tax reform and there is open space for a variety of work. Both the multilaterals and bilaterals play a small role in tax reform in Laos compared to other countries in the region. Emphasis on language translation is key for project success in Laos.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2000/02	2011/13
	-4.5	-2.6
Tax (% of government expenditure)	2000	2013
	51.0	51.1
Public debt (% of GDP)	2001	2013
	110	61.3
Agriculture, value added (% of GDP)	2000	2013
	45.2	26.5
Manufacturing value added (% of GDP)	2000	2013
	6.3	8.2
Prop of pop < national poverty line	2010	
	26	
Gini	2012	
	36.2	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type* (% of GDP), 2006-2012

Source: IMF FAD 2015

* Based on budgetary government data.

Statutory tax rates

Type of tax	Rate
Corporate income tax	24% (vs. 26% I-MIC average)
Capital gains tax**	-
Withholding tax	10%; 10%; 5%
Personal income tax	0-24%; 7 bands
Property tax	Varies***
VAT and Business turnover Tax (small businesses)	10% (vs. 14% I-MIC average)
VAT Compliance	41.14%
Excise tax****	5-150%
Import duty*****	0-40%

** The tax law does not provide for the taxation of capital gains derived from the transfer of tangible assets. However, income from the sale of shares is subject to income tax at a rate of 10%.

*** Land taxes vary (LAK 80 to 180 per square meter) depending on the location and the type of the land.

**** Excise tax applies to the import and sale of certain luxury products. Excisable goods include alcohol, beer, cigarettes, perfume, cosmetics, motor vehicles, soft drinks, mineral water, and many types of electrical equipment.

***** Depending on whether the goods are ASEAN or other sources.

Characteristics of tax administration

Autonomous	No; Directorate is in the Ministry of Finance
Function-based organisation	Hybrid******
Large taxpayer unit	No*******
Customs function	No
Ratio of population to tax administration staff	2,681 (2014)
Cost of collection ratio	0.45% (2014)
Number of tax payments by businesses per year	35 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	362 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: MoF website, Araki and Claus 2014; Doing Business 2014 rankings; Questionnaire

****** Government authorities surveyed noted that they are function-based, but the organogram demonstrates they have a hybrid model. There are 7 divisions within headquarters (organization-administration; invoice and forms management; audit-internal control; legislation; land tax register and fee; tax revenue collection management; ICT).

******* While they do classify taxpayers by size, the Ministry website does not mention a LTU. Government authorities surveyed noted that the 'Tax Revenue Collection Management Division" is a LTU, however it could not be verified whether this unit is dedicated only to large taxpayers or whether the unit has unique processes and procedures of the main tax functions tailored towards large taxpayers.

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	19%
Rice	10%
Other manufactured tobacco and tobacco substitutes	4%
Cane or beet sugar and pure sucrose, in solid form	4%
Wheat or meslin flour	3%
Other	61%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Coconut (copra), palm kernel or babassu oil	54%
Fish, dried, salted or in brine	11%
Petroleum oils, other than crude	9%
Yachts and other vessels for pleasure or sports; rowing boats and canoes	4%
Copra	3%
Other	19%

Source: UN Comtrade

Lao People's Democratic Republic references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

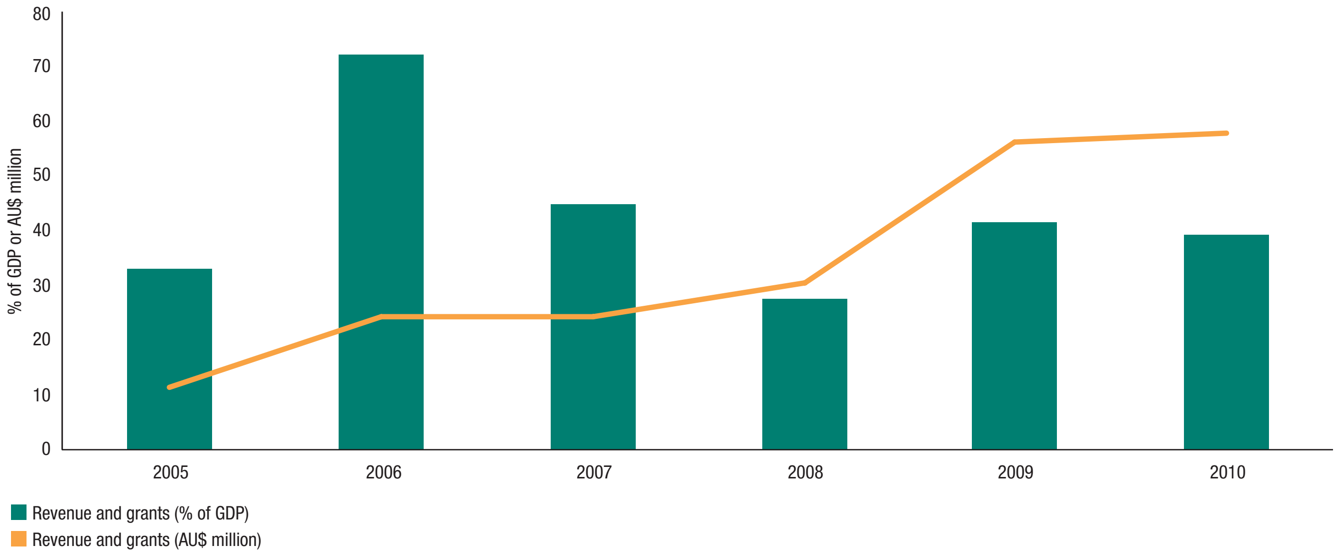
Interviews with USAID, OTA, IMF, and World Bank

IMF. 2015. 2014 Article IV Consultation–Staff Report;Press Release; and Statement by the Executive Director for the Lao People's Democratic Republic. February.

Nauru

The Government of Nauru lacks significant tax revenue, largely as a result of the narrow tax base, and therefore relies heavily on foreign development grants as well as revenue from the state-owned enterprises (SOEs) that manage the production of phosphate (ADB, 2014). The government also collects significant revenues from fuel. It is worth noting that despite the introduction of customs duties, and bed taxes in FY2006, Nauru has only recently established its tax regime with two taxation laws* coming into effect in October 2014 (GON, 2014). Other limitations include relatively weak regulatory and administration systems for revenue management as well as limited statistics on taxation.

Central government revenue and grants, 2005-2010



Source: ADB Key Indicators for Asia and Pacific 2014

* Employment & Services Tax Act, and Revenue Administration Act

Donor DRM-related activities

Australia's Nauru Public Sector Reform Initiative supports the government on public sector reform as well as economic governance and financial management. The initiative totals $22.5 million over 7 years, from 2009/10 to 2016/17, and includes a component that aims to develop and implement policies that reduce fiscal risks and improve revenue generation, including through a tax reform TA adviser. The advisor has successfully introduced Nauru's first tax regime, including an income tax and business tax systems.

Nauru has been a relatively light user of PFTAC TA. This reflects the fact that Naura's Revenue Office is very small with only about 7 or 8 persons, which includes an expat commissioner as well as DFAT's expat advisor. PFTAC supported the authorities to establish the revenue office and policy framework. In 2012, PFTAC stated that it aimed to work closely with the DFAT financed revenue advisor to improve revenue policies and processes in 2012 and 2013, with a view to ultimately implement a basic consumption tax. PFTAC planned a policy mission in 2012 with follow up on corporate planning and processes in 2013 (PFTAC, 2012).

Due to the small number of personnel and high number of expats present, FAD's support to the government has been minimal. The short-term technical advisors have been providing the government assistance on legislation of new taxes as well as core process design and organizational design of the tax administration.

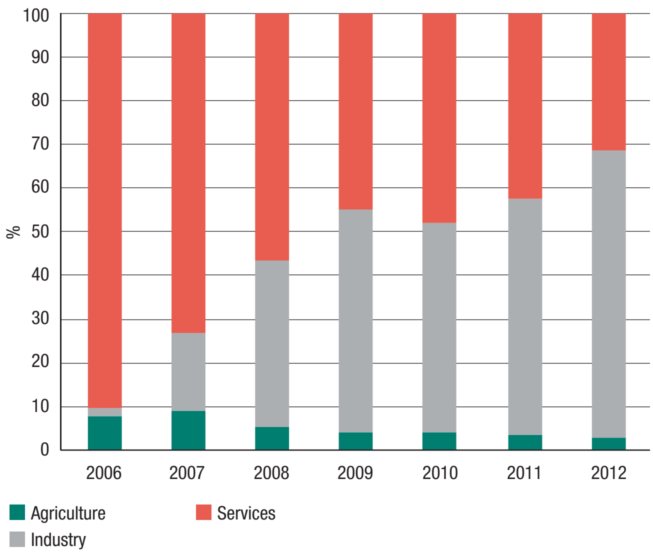
Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2010	2012
	6	-1.2
Tax (% of government expenditure)	n/a	
Public debt (% of GDP)	n/a**	
Prop of pop < national poverty line	2006	
	25.1	
Gini	n/a	

Source: ADB 2014

** Total external debt was 95.8% of GDP in 2010 (ADB, 2014).

Structure of output (% of GDP), 2006-2012



Source: ADB Key Indicators for Asia and the Pacific, 2014.

Statutory tax rates

Type of tax	Rate
Employment tax***	0% and 10%; 2 bands
Customs and excise duty	10%****
Fishing license fee (per vessel per day)	US$6,000 (2014)*****

*** Applies to monthly, fortnightly and weekly employment income. Rates for any other pay periods will be advised by the Secretary of Finance.

**** According to GoN 2011/12 Budget Paper.

***** Large vessels pay a price of 1.5 times standard fee (2014 IMF Article IV).

Characteristics of Nauru Revenue Office

Autonomous	No; Division of MOF
Function-based organisation	Yes******
Large taxpayer unit	No
Customs function	Yes; within Nauru Revenue Office
Ratio of population to tax administration staff	1980*******
Cost of collection ratio	7%********
Number of tax payments by businesses per year	-
Time to comply with taxes (in hours)	-

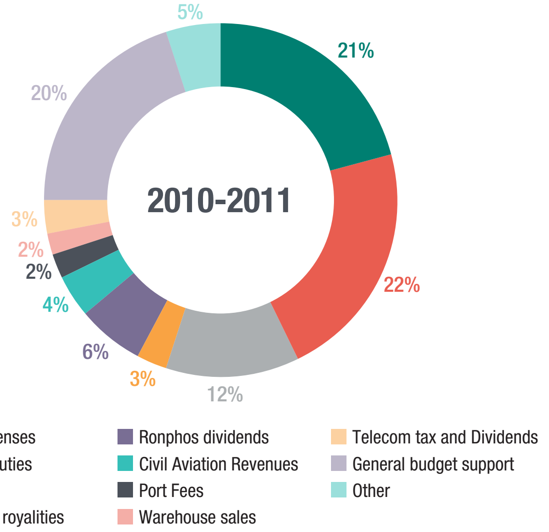
Source: Ministry of Finance website and questionnaire

****** Government authorities surveyed noted that they are function-based, but this could not be verified.

******* Currently 5 full-time staff members in Nauru Revenue Office, but based on questionnaire this number will grow to 10 dedicated officers plus 2 support officers.

******** This is likely to be an overestimate as based on an estimate of net revenue collected that excludes customs.

Government revenue by type (% of GDP), 2010-2011



Source: GON. 2011-12 Budget and the Estimates of Revenue and Expenditure

Nauru references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

ADB. 2014. ADB Country Operations Business Plan: Nauru 2015-2017 http://www.adb.org/sites/default/files/linked-documents/cobp-nau-2015-2017-sd-03.pdf

GON. 2014. Nauru Bulletin. Issue 15-2014/112. September.

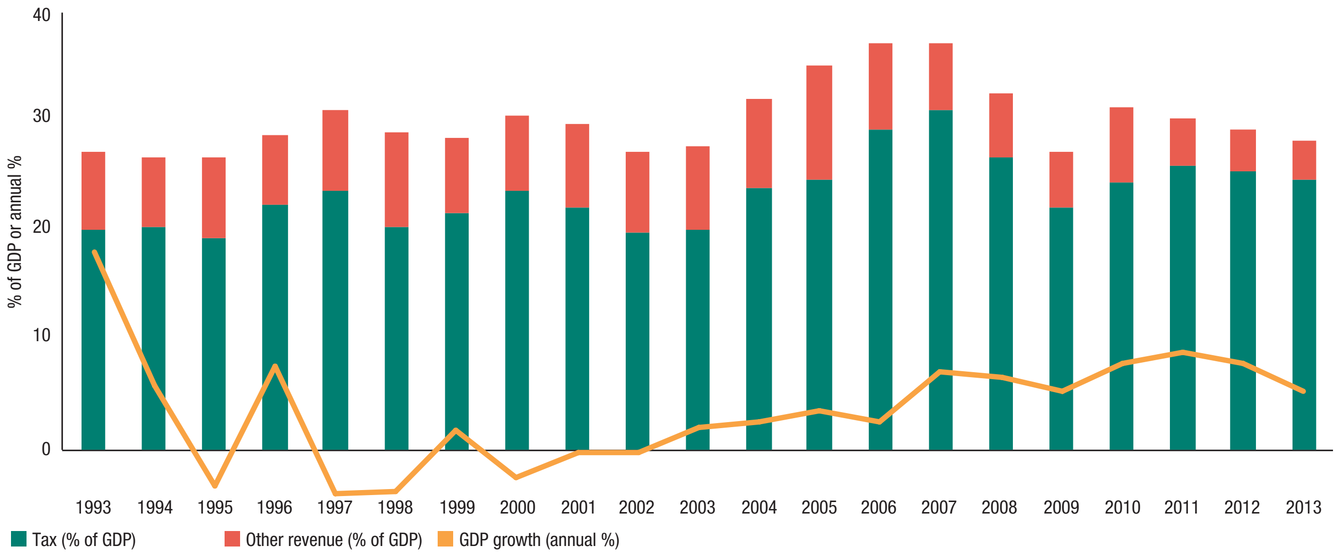
GON. 2011-12 Budget and the Estimates of Revenue and Expenditure. Budget Paper 1.

Interviews with USAID, OTA, IMF, and World Bank

Papua New Guinea

Papua New Guinea's tax system is extremely favourable relative to other developing countries. In particular, it is not plagued by many of the common shortcomings found in the tax regimes of other developing countries such as cumbersome, low-yield taxes (Murray et al., 2013). Nonetheless, there is room for improvement such as increasing the progressivity of PNG's resource revenue regime – moving toward less reliance on dividends from state equity shares and more on rent-based taxes. Scope also exists to limit income tax holidays for new mining projects given PNG's comparatively low collection of extractive industry revenues. IMF staff have also stressed the urgency of conducting mining industry audits to eliminate potential revenue leakages (IMF, 2013). Mining and petroleum tax revenues have fluctuated between 3.6% and 8.3% of non-mineral GDP between 2009 and 2012 (IMF, 2013).

General government revenue and GDP growth, 1993-2013



Source: IMF FAD 2015 and WDI

Donor DRM-related activities

Australia is the main development partner in PNG. Through the Strongim Gavman Program (SGP), Australia supports the Internal Revenue Commission (IRC) with three Australian Government advisers that provide technical assistance on tax compliance, collection, forecasts and analysis and the IRC corporate strategy. The work of these long-term advisers is supported by short term twinning activities, to provide public servants from the IRC with first hand public policy and technical experience from their counterparts in the ATO. Australia also provides advisers to the IRC through the Economic and Public Sector Program (EPSP), one working on organisational change management and one working on tax compliance and internal investigations. In addition, Australia has supported the PNG taxation review with technical advice and support from SGP/Twinning advisers and EPSP advisers.

The role of other donors in PNG is minimal and evidence shows it focuses on revenue of extractive industries only. The WBG has one project with PNG that is implemented through the Energy and Extractives Global Practice with a tax component ($4.2 million) aimed at improving revenue collection of the mining sector. OTA does not currently have a tax project in PNG but is looking to start one in the near future via an Energy initiative with the US State Department.

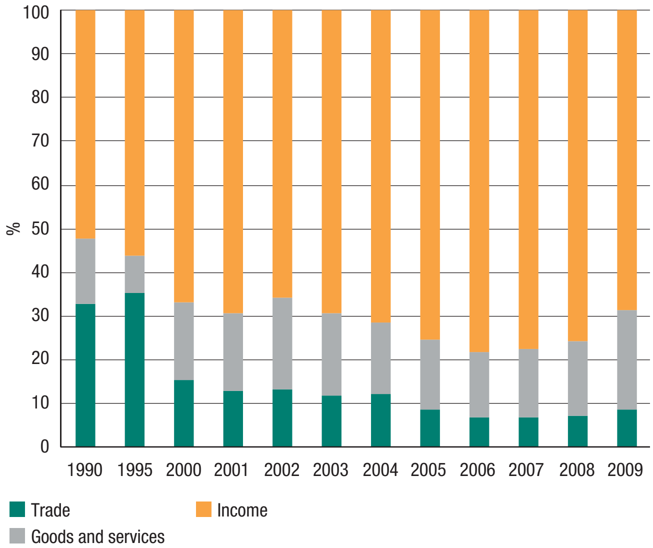
Since 2012, Adam Smith International* has been assisting the Internal Revenue Commission to implement an automated tax administration information system called SIGTAS. This new system will automate all taxes and licences and plans to cover all aspects of the tax management process, including taxpayer registration, assessments, audit and cashing. SIGTAS will also enable e-payments.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2000/02**	**2011/13**
	-2.9	-3.1
Tax (% of government expenditure)	**2000**	**2013**
	72.3	72.0
Public debt (% of GDP)	**2000/02**	**2011/13**
	68.2	28.0
Agriculture, value added (% of GDP)	**2000**	**2004**
	35.8	37.8
Manufacturing value added (% of GDP)	**2000**	**2004**
	7.5	7.0
Prop of pop < national poverty line	**2009**	
	28	
Gini	**1996**	
	50.9	

Source: IMF WEO Oct 2014; ASDB statistical database; WDI

Central government tax revenue by type (% of GDP), 1990-2009



Source: ICTD

* Donor not identified.

Statutory tax rates

Type of tax	Rate
Corporate income tax	30% (residents); 48% (non-residents); 30-50% (petroleum, gas, mining) (vs. 26% I-MIC average)
Capital gains tax	None
Withholding tax	17% (dividends); 15% (interest); 30% (royalties); – reduced rates for treaty members
Personal income tax**	22-42%, 5 bands
Property tax (Land tax)	1.25%
GST	10% (vs. 14% I-MIC average)
VAT Compliance	-
Custom and excise duty	Varies
Stamp duty	2-5%

** Individual income tax has a tax on lower amount or rate on excess. The tax on lower amount varies if a resident or non-resident.

Characteristics of tax administration

Autonomous	Yes
Function-based organisation	Yes
Large taxpayer unit	Yes***
Customs function	No
Ratio of population to tax administration staff	19,943
Cost of collection ratio	0.47 (2011)
Number of tax payments by businesses per year	32 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	207 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Araki and Claus 2014; Doing Business 2014 rankings

*** Legally established LTO and employees identified, but not yet in operation.

TOP 5 IMPORT AND EXPORT COMMODITIES, 2011-2012

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	7%
Petroleum oils and oils obtained from bituminous minerals, crude	6%
Motor vehicles for the transport of goods	3%
Parts suitable for use solely or principally with the machinery	3%
Rice	2%
Other	78%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Base metals, silver or gold	38%
Palm oil and its fractions	11%
Copper ores and concentrates	8%
Coffee, whether or not roasted or decaffeinated	7%
Precious metal ores and concentrates	6%
Other	30%

Source: UN Comtrade

Papua New Guinea references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

Interviews with USAID, OTA, IMF, and World Bank

IMF. 2013. Papua New Guinea Staff Report for the 2013 Article IV Consultation. December. http://www.imf.org/external/pubs/ft/scr/2013/cr13339.pdf

Philippines

Although the tax to GDP ratio has been on an upward trend in the Philippines since 2010 reaching 14% in 2013, significant additional revenue is required to finance government's large recurrent priority spending needs. According to the IMF, mobilising the needed revenue should rely primarily on broadening the tax base by reducing corporate income tax holidays*, and narrowing the VAT gap, supported by further improvements in tax administration. Adopting a new mining strategy is also critical to realize mining's potential contribution to GDP and public finances. Although the Philippines is estimated to possess the 5th largest mineral deposits in the world, valued around US$1.4 trillion, mining accounts for only 1% of GDP. This reflects a moratorium on new projects during 2011 to mid-2013 and lingering uncertainty regarding the new mining tax regime (IMF, 2014). In addition, with low royalty rates and an ineffective fiscal system, the government receives only a small share of this resource wealth (NRGI website).

General government revenue and GDP growth, 2000-2013

Source: IMF FAD 2015 and WDI

* The high statutory corporate income tax rate combined with widespread income tax holidays creates inefficiencies and disproportionately benefits incumbents (IMF 2014).

Donor DRM-related activities

The MCC has a five-year $54.3 million program to mobilize DRM, and involves two main partnerships with OTA and the IMF.** TA under this MCC project is provided to the government of Philippines through two main partnerships with OTA and the IMF. OTA is helping to establish data processing centers (Document Processing Divisions) as millions of returns have gone unprocessed. It aims to automate processes, scan old returns, streamline e-processing of tax returns, and redesign of tax forms. Also via MCC funds, the IMF has provided a resident tax technical advisor to the Bureau of Internal Revenue (BIR) for the last four years to work on redesigning core business processes. The FAD advisor has worked on a reform strategy, performance measurements, compliance improvement (mostly VAT), and arrears collection (all taxes). The MCC project is also working on taxpayer perception and taxpayer education campaigns as well as change management reform via the MCA.

The WBG has been assisting the government on equity impact and revenue analysis on 6 key taxes (PIT, CIT, VAT, capital income tax, excise tax on oil, and property taxes) since 2014. The WBG is also providing assistance via the third Development Policy Loan ($1.1 billion), which has various components including reducing the cost of doing business, fiscal transparency and good governance, as well as consolidating fiscal sustainability through revenue mobilization and risk management. The WBG has worked in close collaboration DFAT on a variety of the project pillars.

USAID via DAI has been implementing a project valued at $13 million (~$7 million dedicated to DRM) since 2013 that is working to establish a tax policy reform unit at the Philippines Department of Finance and improve tax administration procedures and interagency data linkages for the BIR. Under a Facilitating Public Investment project implemented by DAI, USAID has been assisting BIR since 2013 on e-filing, business process mapping, compliance strategy, etc. In addition, USAID through an Integrity project implemented by Deloitte has a small tax component that is working on conflict of interest and fraud issues. Under the Coalitions for Change (CfC) program, Australia has supported reform to 'sin taxes' on tobacco and alcohol (AUD 10 million). Australia has recently agreed to partner with the Philippines to assist them to pilot the Automatic Exchange of Information and set up a Competent Authority Unit. Lastly, the European Development Fund has a project to support the government at national and regional level to enhance capacity of local governments to generate revenue and to allocate and spend public funds more effectively and efficiently.

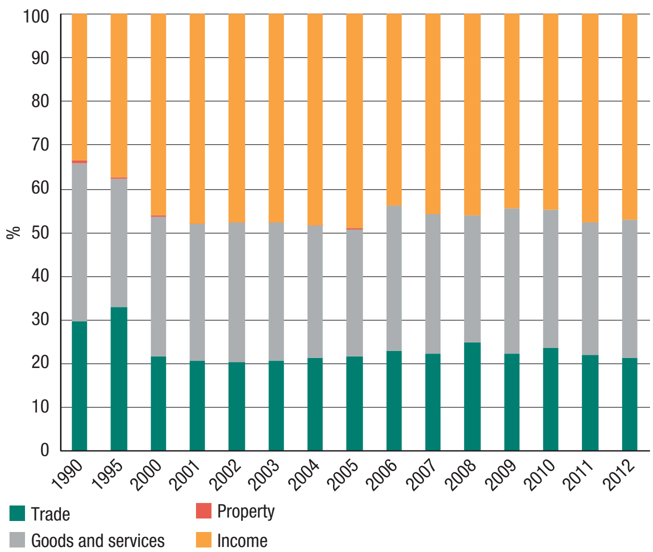
Interviews confirmed that while a number of donors are present in the Philippines, given the high absorption capacity of the government, a well-coordinated program could accommodate a lot of donors. While a number of reforms have been successful, there is much work still to be done in the Philippines including process reform, institutional changes, and HR management. The commissioner will likely change in 2016 with the elections, so any new programs should wait until the change has been made.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2000/02	2011/13
	-3.6	-0.4
Tax (% of government expenditure)	2000	2013
	71	79
Public debt (% of GDP)	2000	2013
	58.8	39.1
Agriculture, value added (% of GDP)	2000	2013
	14.0	11.2
Manufacturing value added (% of GDP)	2000	2013
	24.5	20.4
Prop of pop < national poverty line	2012	
	25.2	
Gini	2012	
	43.0	

Source: ASDB statistical database; IMF WEO Oct 2014; WDI

Tax revenue by type*** (% of GDP), 1990-2012



Source: IMF FAD 2015

*** Based on GFS 2001 Budgetary Government data.

** About $40 million of this is dedicated to the roll out of an IT system for the BIR. The IT system (off-the-shelf system) was significantly delayed, but has now been rolled out in Metro Manila.

Statutory tax rates

Type of tax	Rate
Corporate income tax	30% (vs. 26% I-MIC average)
Branch tax rate	30%
Capital gains tax	6% (real property); 5-10% (sale of shares)
Withholding tax	Residents: 15% (dividends), 20% (interest & royalties; Non-residents: 20% (dividends), 30% (interest & royalties) – reduced rates for treaty members
Personal income tax	5-32%; 7 bands****
Property tax (local government tax)	Max of 1% in province; Max 2% in a city or municipality in Metro Manila
VAT	12% (vs. 14% I-MIC average)
VAT Compliance	21.32%
Excise tax	Varies
Import duty	0-65%
Other taxes (fringe benefit tax; estate tax; accumulated earnings tax)	32%; 5-20%; 10%

**** Includes tax on lower amount and rate on excess.

Characteristics of Revenue Office

Autonomous	No; Affiliated with Ministry of Finance
Function-based organisation	Yes
Large taxpayer unit	Yes
Customs function	No
Ratio of population to tax administration staff	9,068
Cost of collection ratio	0.71 (2011)
Number of tax payments by businesses per year	36 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	193 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: MoF website, Araki and Claus 2014; Doing Business 2014 rankings

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Electronic integrated circuits and microassemblies	15%
Petroleum oils, crude	11%
Petroleum oils, other than crude	7%
Parts and accessories for use with machines	4%
Commodities not specified according to kind	4%
Other	59%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Electronic integrated circuits and microassemblies	15%
Commodities not specified according to kind	12%
Automatic data processing machines and units	7%
Diodes, transistors and similar	5%
Builders' joinery and carpentry of wood	4%
Other	56%

Source: UN Comtrade

Philippines references

Araki, S. and I. Claus. 2014. A Comparative Analysis of Tax Administration in Asia and the Pacific. ADB. http://www.adb.org/publications/comparative-analysis-tax-administration-asia-and-pacific

Interviews with USAID, OTA, IMF, and World Bank

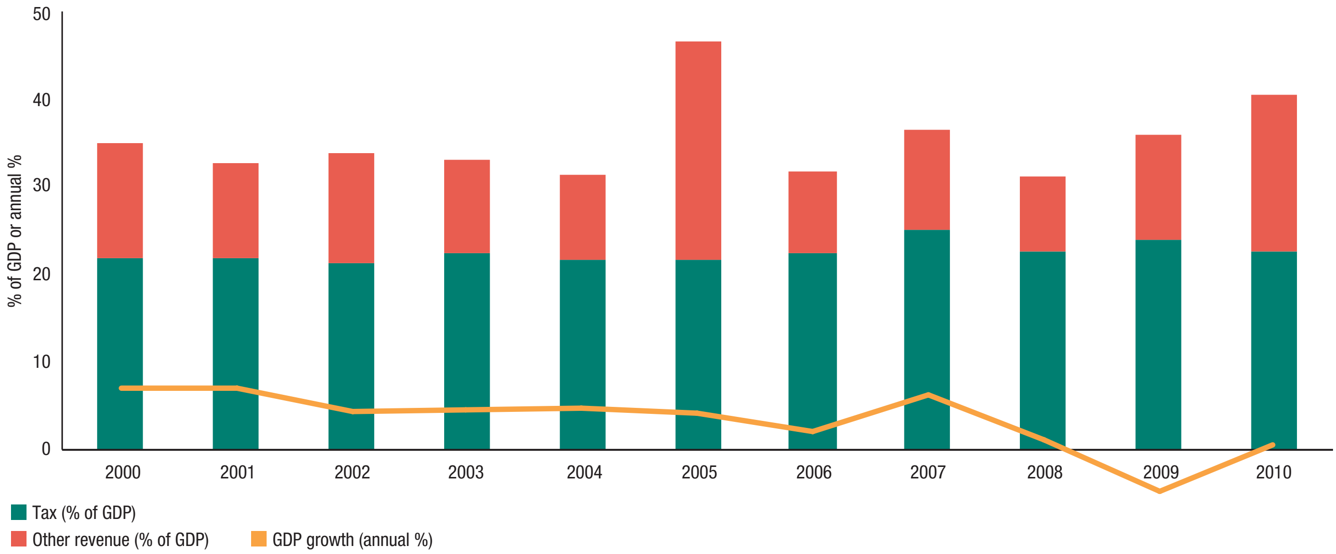
IMF. 2014. Philippines 2014 Article IV Consultation - Staff Report; Press Release. IMF Country Report No. 14/245. http://www.imf.org/external/pubs/ft/scr/2014/cr14245.pdf

Natural Resource Governance Institute website. http://www.resourcegovernance.org/countries/asia-pacific/philippines/overview

Samoa

Samoa has made significant improvements in enhancing its overall administrative capacity through the 2010 – 2012 Institutional Strengthening Project (ISP) while its tax policy settings are perceived to be reasonable (Murray et al., 2014). Its strengths include a very low reliance on taxes on trade, application of consumption and income taxes across reasonably broad bases, avoiding the use of personal deductions in its personal income tax system, and having well-aligned tax rates and structures for personal income tax and company income tax. However, there are areas for policy improvement. For example, exemptions from income tax are wide-ranging, and capital gains are only taxed for assets held less than three years (IMF, 2013).

General government revenue and GDP growth, 2000-2010



Source: ICTD; WDI

Donor DRM-related activities

Interviews indicated that Samoa is the star reformer of the Pacific Islands with regard to progress achieved in tax reform. FAD has provided a number of short-term technical assistance for three to four months at a time via the PFTAC. They have worked on IT reform, compliance risk management, and legislation policy and drafting of income tax and VAT. The WBG has one active project in Samoa, but it is a broader fiscal and economic reform operation (US$7.5 million). One of the 6 proposed pillars includes tax revenue reform. Details of the work have not been confirmed but results objectives in the proposal include improved on-time filing and on-time payment as well as improved arrears collection of large taxpayers.

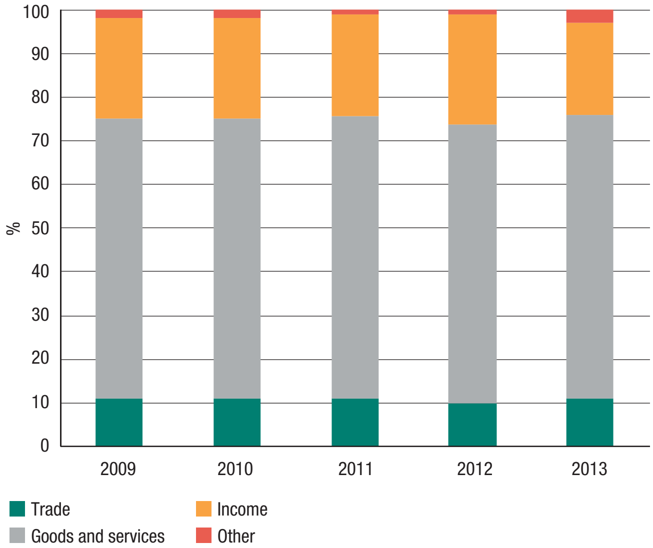
Through the Samoa Economic Reform Program ($7.5 million from 12 April 2013 to 30 June 2017), DFAT uses funds to incentivize reforms by the Government of Samoa included in the Joint Policy Action Matrix (JPAM)— which includes actions around tax administration systems to increase compliance and on-time payment. Along with New Zealand, Australia co-funds the Public Sector Improvement Facility to provide financial and technical support for a continuing program of public sector reform. The facility has supported the Ministry of Revenue Institutional Program to raise revenue collection and compliance rates. A resident advisor, funded by an Australian budget support program, has been working in Samoa for the last 5 years.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2000/02**	**2008/10**
	-1.5	-3.6
Tax (% of government expenditure)	**2000**	**2010**
	66.2	69.8
Public debt (% of GDP)	**2006/07**	**2009/10**
	37.1	53.6
Agriculture, value added (% of GDP)	n/a	
Manufacturing value added (% of GDP)	n/a	
Prop of pop < national poverty line	**2008**	
	26.9	
Gini	n/a	

Source: IMF Article IV 2012; IMF WEO Oct 2014; ASDB statistical database; WDI

Central government tax revenue by type (% of GDP), 2009-2013



Source: Murray et al., 2014

Statutory tax rates

Type of tax	Rate
Corporate income tax	27% (vs. 26% I-MIC average)
Small business tax	0-27%; 4 bands
Capital gains tax (on assets help up to 3 years)	27%
Withholding tax	Dividends: 0%*; Interest: 15%; Royalties: 15%
Personal income tax (PAYE)	0-27%, 4 bands
VAT (VAGST)	15% (vs. 14% I-MIC average)
VAT Compliance	-
Excise tax	Varies
Customs duty (main ad valorem rates)	5%, 8%, 20%

* An exemption for distributions from resident companies for resident and non-resident investors provides shareholder relief for corporate taxes.

Characteristics of Ministry for Revenue

Autonomous	Yes; Ministry for Revenue
Function-based organisation	Yes
Large taxpayer unit	No
Customs function	Yes
Ratio of population to tax administration staff	2759**
Cost of collection ratio	3.70% (2011/12) and 1.78% (2013/14)
Number of tax payments by businesses per year	37 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	224 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 ranking; Ministry for Revenue website; Questionnaire

** Based on the number of technical professional staff: 69, though employs more than 180 staff. http://www.revenue.gov.ws/images/CorpPlan.pdf

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils, other than crude	20%
Meat and edible offal	5%
Motor cars and other motor vehicles	2%
Cane or beet sugar and	2%
Electric motors and generators	2%
Other	69%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Insulated wire, cable and other	51%
Petroleum oils and oils, other than crude	20%
Fish, frozen, excluding	7%
Beer made from malt.	4%
Coconut (copra), palm kernel	4%
Other	14%

Source: UN Comtrade

Samoa references

Interviews with USAID, OTA, IMF, and World Bank

IMF. 2013. Samoa: Revenue Policy and Administration Review, Hayes, Motteram, 2013.

Murray, K. et al. 2014. Evaluation of taxation reform in the Pacific. Report prepared for the Ministry of Foreign Affairs and Trade. Sapere Research Group.

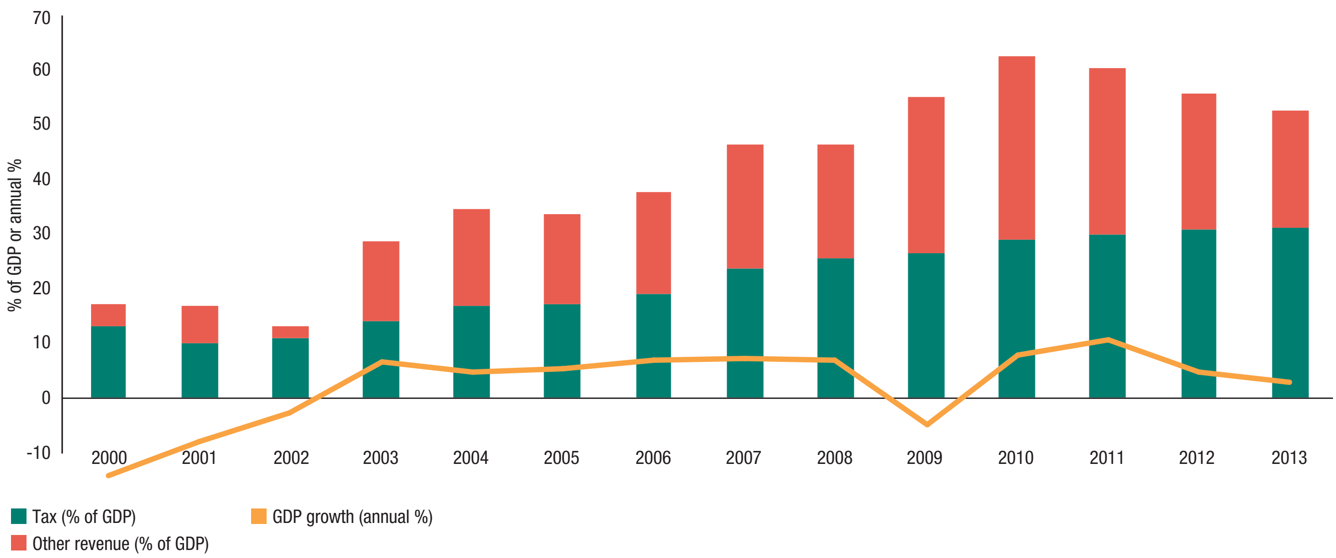
Government of Samoa, Ministry of Revenue website. http://www.revenue.gov.ws/index.php?option=com_content&view=article&id=52&Itemid=189

Government of Samoa. Ministry of Revenue Corporate Plan. Our Future 2012 onwards. http://www.revenue.gov.ws/images/CorpPlan.pdf

Solomon Islands

Revenue collections in the Solomon Islands have made impressive gains in recent years (with tax revenues increasing from 13% of GDP in 2000 to 31% in 2013). This largely reflects tax administration reforms, which were led by the Regional Assistance Mission to Solomon Islands (RAMSI)*. Currently the government is working on a plan to reform tax policy in light of the fact that the revenue system depends too heavily on a narrow set of activities like logging (accounted for 18% of tax revenue in 2012) and needs to be broadened and strengthened to reinforce the tax base (IMF, 2014). The tax reform therefore entails simplifying the existing tax system to distribute the burden more equally (by reducing tax holidays and other exemptions), and a newly developed natural resource tax framework, with a separate fiscal regime for the mining industry. However, weakened staff resources in the Attorney-General's Chambers have delayed legislative reform in respect of the tax changes for mining; the revised National Provident Fund Act; and the new Customs and Excise law (IMF, 2014).

General government revenue and GDP growth, 2000-2013



Source: IMF FAD 2015 and WDI

* The Regional Assistance Mission to Solomon Islands (RAMSI) is a partnership between the people and Government of Solomon Islands and fifteen countries of the Pacific, and was started in 2003.

Donor DRM-related activities

The Solomon Islands has collaborated with New Zealand and Australia significantly in the last decade. In fact, there has been a succession of expatriates from New Zealand heading the revenue authority since 2006 (four in the last 10 years). New Zealand also has provided 4 to 5 permanent technical advisors to work in the revenue authority, and has recently finished a technical review on these achievements to inform a long-term DRM strategy.

Australia supports DRM through the Solomon Islands Economic and Public Sector Governance Program (SIGOV) ($64 million over four years). An Australian funded adviser is providing support in the Economic Reform Unit in the Ministry of Finance and Treasury (AUD 375,000 per year), and is working with other donors to improve tax policy, in particular introducing a mining tax framework, and supporting the Solomon Islands Government to generate revenue forecasts. Australia also funds four long-term advisers in the Solomon Islands Customs and Excise Division (AUD1.27million per year). This work includes the introduction of an automated customs system (ASYCUDA) to increase efficiencies and revenue. A technical advisory group has been engaged through the Centre of Customs and Excise Studies (AUD 85,184 in 2015) to provide high-level strategic advice on modernising custom duties and excise collection and enhancing revenue collection for the country. It is planned that this work will be extended until mid-2017 (pending Australian Government budget considerations).

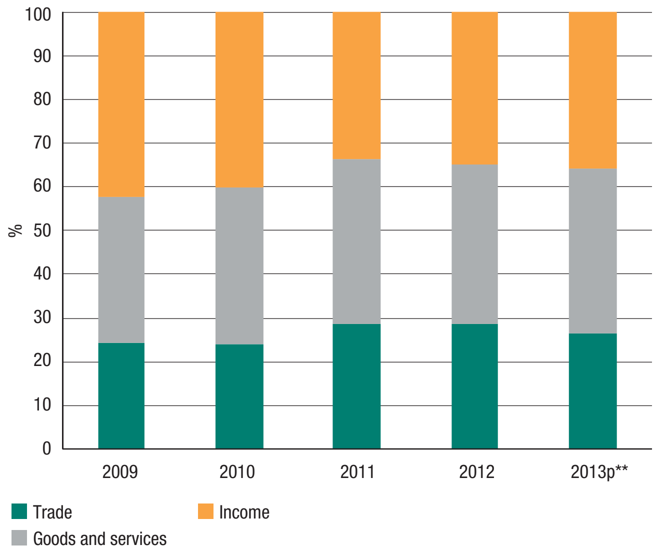
Under a DPL ($2.7 million), which closed in 2014, the WBG provided support in extractive revenue transparency. Under the Recovery Financing DPL ($3.3 million), which closes in 2015, the WBG has supported tax policy and administration (20% component). The work involved assistance on policy changes for SOEs, strengthening management of extractive industries, submission of the Solomon Islands' first EITI report, and legislation advice to the mining tax regime. The IMF has not provided technical assistance on tax administration in recent years, but FAD has been supporting the government on natural resource revenue management. Between 2006 and 2009 there was work on policy and legislation, but there was little progress due to the unstable government.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2000/02**	**2011/13**
	-2.1	5.8
Tax (% of government expenditure)	**2000**	**2013**
	60	84
Public debt (% of GDP)	**2003**	**2013**
	72	15
Agriculture, value added (% of GDP)	**2000**	**2013**
	34.7	35.7
Manufacturing value added (% of GDP)	**2000**	**2006**
	8.0	4.8
Prop of pop < national poverty line	**2006**	
	22.7	
Gini	n/a	

Source: ASDB statistical database; IMF WEO Oct 2014; WDI

Central government tax revenue by type (% of GDP), 2009-2013



Source: IMF 2014 Article IV

** 2013p refers to IMF staff projections.

Statutory tax rates

Type of tax	Rate
Corporate income tax	30% (non-residents – 35%) (vs. 26% I-MIC average)
Capital gains tax	None
Withholding tax: Dividends; Interest; Royalties	Non-residents-30%; 15%; 15% for Residents- 20%; 10%; 10%
Personal income tax	11-40%; 4 bands
Goods tax	10% (15% for imported goods)
Sales tax (a service tax)	10%
Stamp duty	$50 or 2-4%

Characteristics of tax administration

Autonomous	No; Division of the Ministry of Finance
Function-based organisation	Yes
Large taxpayer unit	No
Customs function	No
Ratio of population to tax administration staff	5449 (Based on 103 posts filled in 2014)
Cost of collection ratio	-
Number of tax payments by businesses per year	34 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	80 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 rankings; Inland Revenue Division website

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	25%
Commodities not specified according to kind	20%
Rice	8%
Pasta, couscous, etc.	1%
Self-propelled bulldozers	1%
Other	45%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Wood in the rough	48%
Commodities not specified according to kind	20%
Palm oil and its fractions	8%
Gold	7%
Copra	4%
Other	13%

Source: UN Comtrade

Solomon Islands references

IMF. 2014. Staff Report for 2013 Article IV Consultation and Second Review under the Extended Credit Facility Arrangement and Request for Modification of Performance Criterion. IMF Country Report No. 14/12. http://www.imf.org/external/pubs/ft/scr/2014/cr1412.pdf

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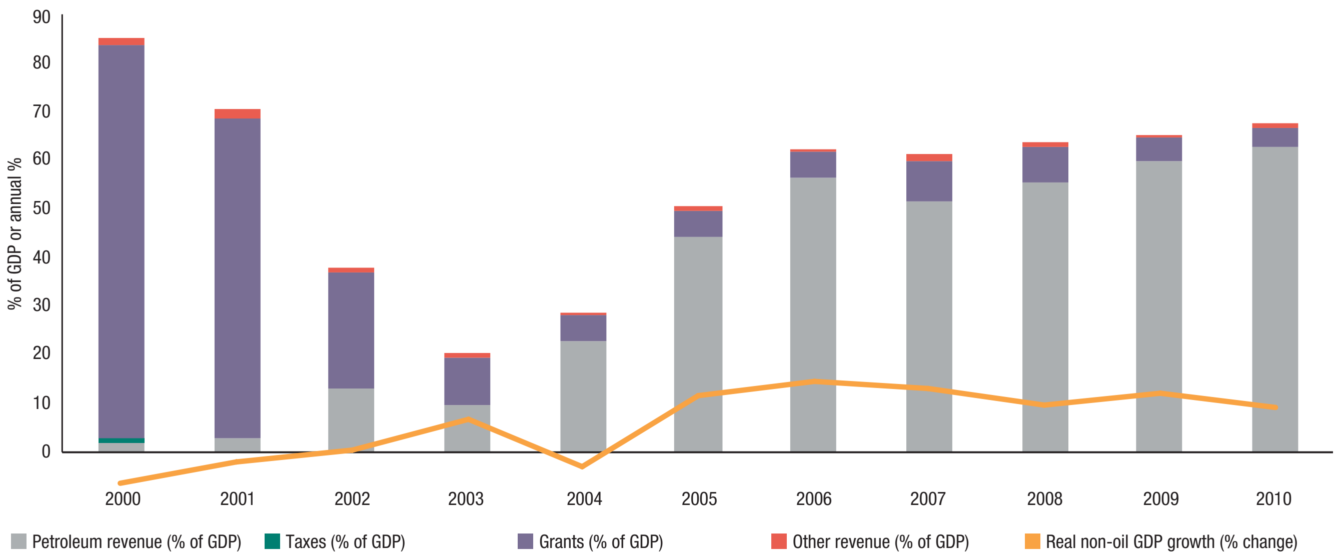
Government of Solomon Islands, Inland Revenue Division http://www.ird.gov.sb/Article.aspx?ID=647

Timor-Leste

There was very little tax reform in Timor-Leste early in the 2000s due to political instability, but in 2008 the tax environment changed considerably. In 2008, parliament passed the Taxes and Duties Act (TDA), providing a single framework for the imposition of tax in Timor-Leste. Since 2006, petroleum revenue has accounted for the bulk of government revenue (90% in 2012). Currently, the main priorities of government are to support revenue diversification and strengthen the capacity in tax administration to limit tax evasion (IMF, 2013). The former would be based on the introduction of new taxes e.g., a VAT in line with recent FAD TA advice. This would broaden the tax base, raise buoyancy, and limit the dependence on (declining) oil revenues. The main impediment to the introduction of VAT so far has been poor capacity at the Ministry of Finance.

General government revenue and GDP growth, 2002-2012



Source: Timor-Leste authorities; and IMF staff estimates

Donor DRM-related activities

Australia is assisting Timor-Leste though a Direct Budget Support Program which supports tax reform in line with the Ministry of Finance's Five Year Plan. DFAT and the EU are working in partnership with the ministry to set and evaluate a work agenda that improves the analytical base for taxation policy reform decisions and improves core tax functions such as taxpayer registration, compliance, transparency and consistency of tax rulings, the tax appeals system and the planning of risk-based tax audits.

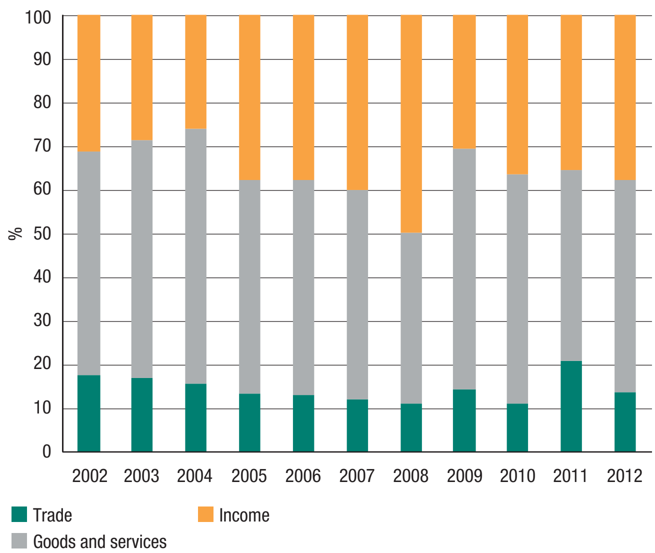
The WBG has one project in Timor-Leste (2014-2017) under the Timor-Leste Economic Management and Governance program, but the tax component is only about 10 percent and specific DRM activity details are not available. The IMF's tax policy group is currently working on building capacity of the Resource Office, but since 2011, the IMF's tax administration division has not been providing any direct TA to Timor-Leste under PFTAC. USAID has a Local Government and Decentralization project which provides technical assistance and training to strengthen sub-national government functions such as local revenue raising. Lastly, the European Development Fund's Support to Public Finance Management Reform project seeks to improve domestic revenue mobilisation by sustainably strengthen the tax and customs administrations.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2009	35.8	2012	52
Tax (% of government expenditure)	2009	4.2	2012	7.1
Public debt (% of GDP)	2009	0	2012	0
Agriculture, value added (% of GDP)	2000	28.1	2012	18.4
Manufacturing value added (% of GDP)	2000	2.8	2012	0.9
Prop of pop < national poverty line	2007	49.9		
Gini	2007	30.4		

Source: IMF Article IV 2013; WDI

Central government tax revenue by type (% of GDP), 2002-2012



Source: Timor-Leste authorities; and IMF staff estimates

Statutory tax rates

Type of tax	Rate
Corporate income tax	10% (30% for oil/gas) (vs. 26% l-MIC average)
Capital gains tax	Same as income tax
Withholding tax	10% (royalties)
Property tax	n/a
VAT	n/a
Services tax	5% (excess of monthly turnover US$500)
Excise tax	Various
Import duty	2.5%

Characteristics of tax administration

Autonomous	No; Department in the Ministry of Finance
Function-based organisation	Hybrid*
Large taxpayer unit	Yes
Customs function	Yes
Ratio of population to tax administration staff	-
Cost of collection ratio	-
Number of tax payments by businesses per year	18 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	276 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 rankings; MoF website

* Directorate General for Revenue is divided by tax-type (resource and non-resource revenue) but the two sub-directorates (National Directorate of Petroleum and Mineral Revenue and the National Directorate of Domestic Revenue) are function-based.

TOP 5 IMPORT AND EXPORT COMMODITIES, 2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	28%
Worn clothing and other worn articles	6%
Motor cars and other motor vehicles principally designed for the transport	5%
Motor vehicles for the transport of goods	4%
Rice	4%
Other	53%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Worn clothing and other worn articles	32%
Coffee, whether or not roasted or decaffeinated	30%
Parts suitable for use with the apparatus of headings 85.25 to 85.28	9%
Parts of goods of heading 88.01 or 88.02	7%
Motor cars and other motor vehicles principally designed for the transport	3%
Other	19%

Source: UN Comtrade

Timor-Leste references

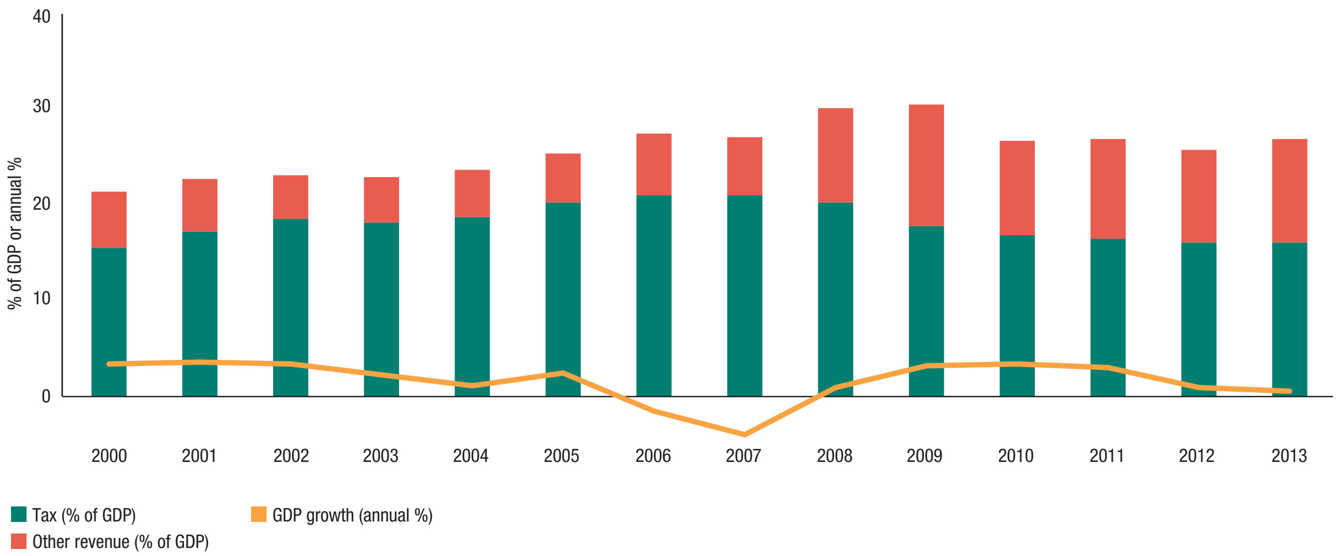
Interviews with USAID, OTA, IMF, and World Bank

IMF. 2013. Timor-Leste 2013 Article IV. December. https://www.imf.org/external/pubs/ft/scr/2013/cr13338.pdf

Tonga

Tonga has been the most active Pacific Island nation in its pursuit of tax reform (Murray et al., 2013). In 2003 Tonga reformed the administration of taxation with the enactment of the Revenue Services Administration Act that provided the foundation for a modern system of revenue administration. In 2005 Tonga introduced a VAT or Consumption Tax, replacing four previous taxes (Port and Services tax, Sales tax, Fuel Sales tax and Room tax). Tonga also introduced a new excise tax regime in 2007 and a new Customs Tariff Schedule in 2008. Notably, in the early stages of the reforms, revenues rose faster than expected. However, recently collections have been anaemic due to the weak economy, decline in remittances and a shrinking share of trade taxes (despite increases in excises). Also zero rating and exemptions in consumption tax and excises are estimated to result in about 4% of GDP loss in tax revenues (IMF, 2014). Going forward, reform is likely to include further policy enhancements, including natural resource taxation and further improvements to administration including, IT development, and risk management and compliance strategies (Murray et al., 2013).

General government revenue and GDP growth, 2000-2013



Source: IMF FAD 2015

Donor DRM-related activities

Since 2005, Australia has provided ongoing assistance to Customs reform as well as the Ministry of Revenue. Australian has provided the government with two tax resident advisers as well as funding for the position of Head of Customs, x-ray technology, a Customs boat for Vava'u, and an automated processing system (Customs Management System). Tonga is also receiving financing from the WBG under the Second Economic Reform Support Operation program which began in 2014. The tax component is 33% of a $6.8 million DPL. Activities include rationalization of tax exemptions and electricity tariff reform. FAD advisors have also supported the government by reviewing the VAT law and contributing to guidance on strategic planning of the revenue department.

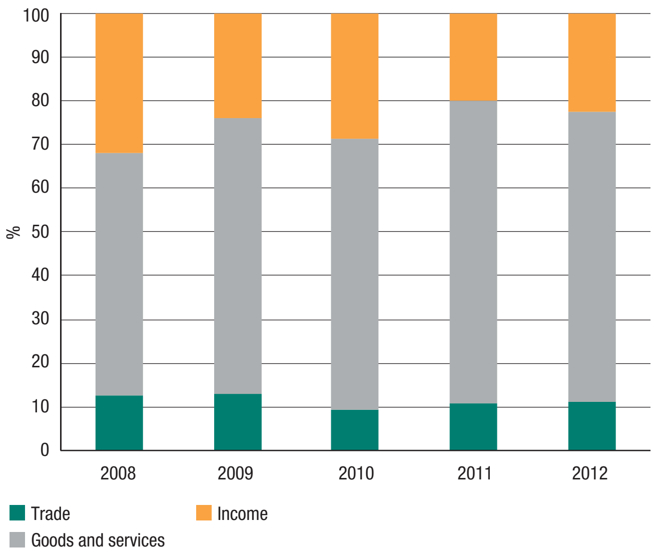
Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	2000/02	2011/13
	2.4	-1.5
Tax (% of government expenditure)	2008	2012
	70	65
Public debt* (% of GDP)	2009	2012
	31.8	41.4
Agriculture, value added (% of GDP)	2000	2012
	22.8	19.2
Manufacturing value added (% of GDP)	2000	2012
	10.5	6.4
Prop of pop < national poverty line	2009	
	22.5	
Gini	n/a	

Source: IMF Article IV 2014; IMF WEO Oct 2014; ASDB statistical database; WDI

* Refers to Public sector external debt.

Central government tax revenue by type (% of GDP), 2008-2012



Source: IMF Article IV 2014

Statutory tax rates

Type of tax	Rate
Corporate income tax	25% (vs. 26% I-MIC average)
Withholding tax: Dividends; Interest; Royalties	Exempt for residents and 15% non-residents; 10% for residents and 15% for non-residents; 15% for non-residents
Personal income tax	0-20%; 3 bands
Small Business Turnover	$100 to 2%
Consumption tax	15%
Consumption tax compliance	-
Excise tax	Varies
Import duty	Four rates: 3% (for capital goods), 10%, 15% and 20%

Characteristics of tax administration

Autonomous	Yes
Function-based organisation	Yes
Large taxpayer unit	Yes
Customs function	Yes
Ratio of population to tax administration staff	2240 (2013/14)
Cost of collection ratio	5.91% (2013/14)
Number of tax payments by businesses per year	29 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	200 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 rankings; Questionairre

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2012

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	22%
Meat and edible offal	6%
Motor cars and other motor vehicles principally designed for the transport	2%
Wheat or meslin flour	2%
Meat of sheep or goats, fresh, chilled or frozen	2%
Other	66%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Fish, fresh or chilled	18%
Molluscs, whether in shell or not	14%
Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes and similar roots	9%
Locust beans, seaweeds and other algae, sugar beet and sugar cane	9%
Plants and parts of plants (including seeds and fruits)	8%
Other	41%

Source: UN Comtrade

Tonga references

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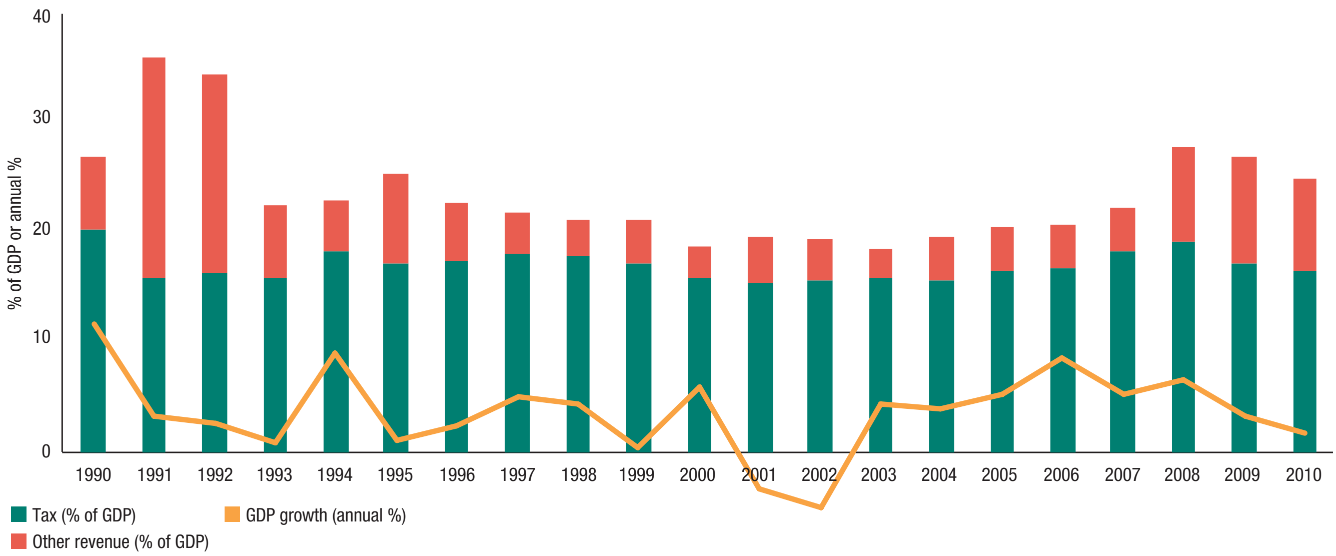
Murray et al. 2013. Topography of tax reform in the Pacific Islands in the period 2002 – 2012. Report prepared for the Ministry for Foreign Affairs and Trade. October.

Vanuatu

Tax revenues in Vanuatu come mainly from import duties and a VAT. A major recent tax-related change has been reductions in custom duties following Vanuatu's accession to the WTO. Vanuatu agreed to bind all of its tariff rates to an average final bound rate of 39.7%, with 85% of tariff lines at either at 35% or 40% (Murray et al. 2013). A recent IMF report noted that tax enforcement would be strengthened with the hiring and training of more staff, the establishment of a VAT tribunal, and prosecution of non-payers. It also recommended the introduction of an income tax, which could potentially yield between 3 and 4% of GDP at modest tax rates, and bring greater equity to the tax system (IMF, 2013). Government authorities, however, seemed more inclined to rely on a combination of a VAT increase and administrative efficiency gains, and increases in business licensing fees.

General government revenue and GDP growth, 1990-2010



Source: ICTD

Donor DRM-related activities

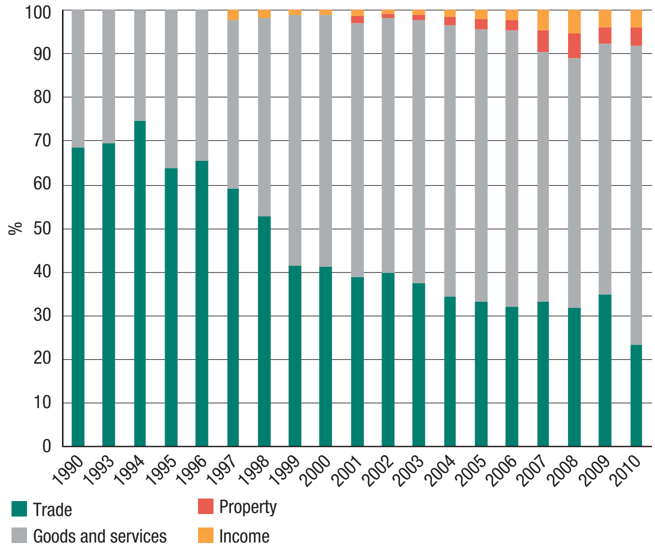
Australia supports Vanuatu to increase revenue collection through the 'Governance for Growth' project (AUD22.6 million). The support is aimed at strengthening administrative systems for VAT and customs collection, including through intensive on the job training. The outcomes from this intervention appear to be good: support to VAT collection systems resulted in 105 per cent of the 2013 revenue target being collected, despite lower than forecast GDP growth. The profile of the Department of Customs and Inland Revenue lifted significantly as a result of key targeted technical support, with a number of VAT related crack down operations successfully completed in 2013. PFTAC has also helped the authorities investigate tax policy options to increase Vanuatu's relatively low tax to GDP ratio. For 3 years, DFAT has also funded a resident advisor who has worked on compliance improvement, compliance risk management, and a compliance strategy. Short-term advisors from the IMF's PFTAC office have been working on improvements to VAT policy, examining the possibility of an income tax, as well developing a new compliance strategy.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**1991/1993**	**2011/13**
	-3.8	-1.3
Tax (% of government expenditure)	**1990**	**2012**
	60	71
Public debt (% of GDP)	**1996**	**2013**
	23.1	20.5
Agriculture, value added (% of GDP)	**1990**	**2013**
	20.9	28.0
Manufacturing value added (% of GDP)	**1990**	**2013**
	5.2	3.6
Prop of pop < national poverty line	**2010**	
	12.7%	
Gini	n/a	

Source: ADB statistical database; IMF WEO October 2014; WDI

Central government tax revenue by type (% of GDP), 1990-2010



Source: ICTD

Statutory tax rates

Type of tax	Rate
Business license	VT 20,000 – 1,000,000 per year
Turnover tax	5% (other professional businesses); 7% (commercial banks)
Municipal property tax	Various rates
National government land tax	Various rates
VAT	12.5% (vs. 14% I-MIC average)
VAT Compliance	-
Customs tariffs	0-50% (most between 5-15%)

Characteristics of Vanuatu Customs and Inland Revenue (CIR) Department

Autonomous	No; Within Ministry of Finance
Function-based organisation	No
Large taxpayer unit	No
Customs function	Yes (Customs and Inland Revenue Department)
Ratio of population to tax administration staff	2808 (upper bound estimate)
Cost of collection ratio	…
Number of tax payments by businesses per year	31 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	120 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 rankings; Ministry of Finance website

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2011

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils, other than crude	15%
Medicaments	6%
Rice	4%
Motor cars and other motor vehicles principally designed for the transport	3%
Commodities not specified according to kind	3%
Other	69%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Coconut (copra), palm kernel or babassu oil	24%
Copra	16%
Locust beans, seaweeds and other algae	12%
Meat of bovine animals, frozen	9%
Cocoa beans, whole or broken, raw or roasted	6%
Other	34%

Source: UN Comtrade

Vanuatu references

Australia Trade Commission website, 2013. http://www.austrade.gov.au/Export/Export-Markets/Countries/Vanuatu/Doing-business/Tariffs-and-regulations#.VQB7Pk1yblU

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Vanuatu Customs and Inland Revenue Department website. 2013. https://customsinlandrevenue.gov.vu/index.php/en/about-us/who-we-are

Vanuatu, Customs and Inland Revenue Department, Harmonized Coding System (2012) http://customsinlandrevenue.gov.vu/images/Customs_Tariff/HS2012_March_2015_version.pdf

Viet Nam

In contrast to regional experience, tax and tariff reductions and exemptions in Viet Nam have contributed to a downward trend in revenues as a share of GDP since 2010. This is despite improved administration measures include reducing tax evasion and arrears, disclosing incidents of tax fraud, and streamlining VAT refund procedures while introducing thresholds (IMF 2014). To reverse this decline, IMF staff have recommended broadening the tax base by eliminating exemptions, reducing incentives, introducing a property tax and including pensions under personal income tax. However, authorities noted that a property tax and personal income tax on pensions would be difficult to enact (IMF, 2014). Consideration is being given to raising excises, while income tax rate reductions are perceived as needed to support growth and competitiveness, which may increase revenues. Notably, a further corporate income tax rate reduction, to 20% in 2016, is planned. Lastly, oil revenues accounted for roughly 18% of total tax revenues in 2013.

General government revenue and GDP growth, 2000-2013

Source: IMF FAD 2015

Donor DRM-related activities

The WBG has had several projects in Viet Nam. The Governance Global Practice established a Tax Administration Modernization Program with the government, but was cancelled in 2015 due to political reasons. It was valued at $85 million which included a large IT component. The WBG is currently working on a Simplified Business Taxation Implementation project in Viet Nam ($1.9 million), specifically focused on VAT threshold implementation, VAT simplification, and SME taxation. The Macro and Fiscal Management Global Practice has an economic management project with a tax component of about 20%. The work includes TA on revision of CIT and VAT laws.

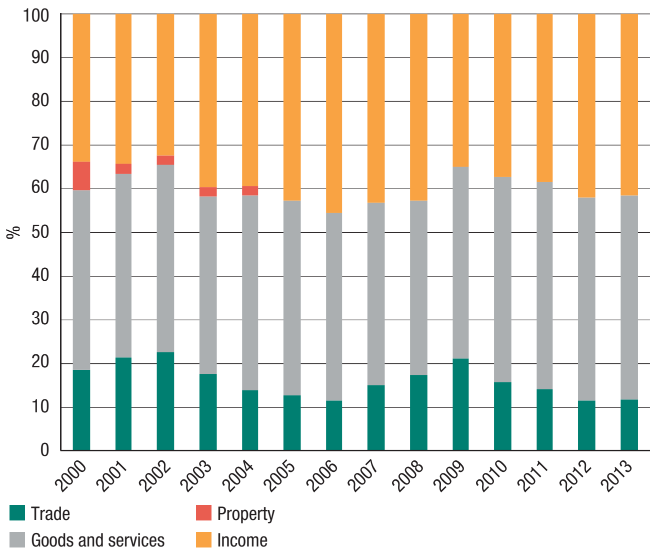
Australia has partnered with the WB in Vietnam, but all of the work has been focused on PFM not tax reform. Similarly, USAID has a Governance for Inclusive Growth project, but it only has a trade and customs reform component. It was reported that JICA is also present in Vietnam, but no information on tax activities was provided. OTA, on the other hand, has been active in Viet Nam for many years working on human resource management reform of the General Department of Taxation. OTA advisors developed job descriptions and performance measurements of the tax audit function as a pilot. In 2015, OTA left temporarily while the government works on developing a work plan, but it will return in 2016 to roll out HR reforms across all departments.

Summary of key fiscal and socio-economic indicators

Fiscal balance (% of GDP)	**2000/02**	**2011/13**
	-2.4	-4.5
Tax (% of government expenditure)	**2009**	**2013**
	65	66
Public debt (% of GDP)	**2001**	**2013**
	32.3	51.6
Agriculture, value added (% of GDP)	**2000**	**2013**
	22.7	18.4
Manufacturing value added (% of GDP)	**2000**	**2013**
	17.1	17.5
Prop of pop < national poverty line	**2012**	
	35.6	
Gini	**2012**	
	17.2	

Source: IMF 2014 Article IV; IMF WEO Oct 2014; ASDB statistical database; WDI

Tax revenue by type (% of GDP), 2000-2013



Source: IMF FAD (using 2014 version of IMF FAD dataset).

Statutory tax rates

Type of tax	Rate
Corporate income tax	22% (32-50% for oil/gas) (vs. 26% I-MIC average)
Capital gains tax	Same as income
Withholding tax	Dividends 0%; Interest 5%; Royalties 10%
Personal income tax	5-35%; 7 bands
Property Tax	0.03-0.15%
VAT	10% (vs. 14% I-MIC average)
VAT Compliance	83.67%
Excise tax	10-70%
Import duty	Varies (ordinary rates, preferential rates and special preferential rates)
Export duty	0-40% (mainly charged on natural resources)

Characteristics of General Department of Taxation

Autonomous	No; Department of Ministry of Finance
Function-based organisation	Hybrid*
Large taxpayer unit	Yes
Customs function	No
Ratio of population to tax administration staff	-
Cost of collection ratio	-
Number of tax payments by businesses per year	32 (vs. East Asia & Pacific 25.9; OECD high income 11.8)
Time to comply with taxes (in hours)	872 (vs. East Asia & Pacific 204.3; OECD high income 175.4)

Source: Doing Business 2014 rankings; Ministry of Finance website

* Government authorities surveyed noted that they are function-based, but the organogram demonstrates they have a hybrid model.

TOP 5 IMPORT AND EXPORT COMMODITIES, 2010-2013

TOP 5 IMPORT COMMODITIES

Commodity	Share of trade value
Petroleum oils and oils obtained from bituminous minerals, other than crude	8%
Electronic integrated circuits	5%
Telephone sets	4%
Flat-rolled products of iron or non-alloy steel	2%
Medicaments	1%
Other	79%

TOP 5 EXPORT COMMODITIES

Commodity	Share of trade value
Telephone sets, including telephones for cellular	11%
Petroleum oils and oils obtained from bituminous minerals, crude	7%
Rice	3%
Footwear with outer soles	3%
Coffee, whether or not roasted or decaffeinated	3%
Other	74%

Source: UN Comtrade

Viet Nam references

Interviews with USAID, OTA, IMF, and World Bank

IMF. 2014. Viet Nam 2014 Article IV Consultation. IMF Country Report No. 14/311. https://www.imf.org/external/pubs/ft/scr/2014/cr14311.pdf

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

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