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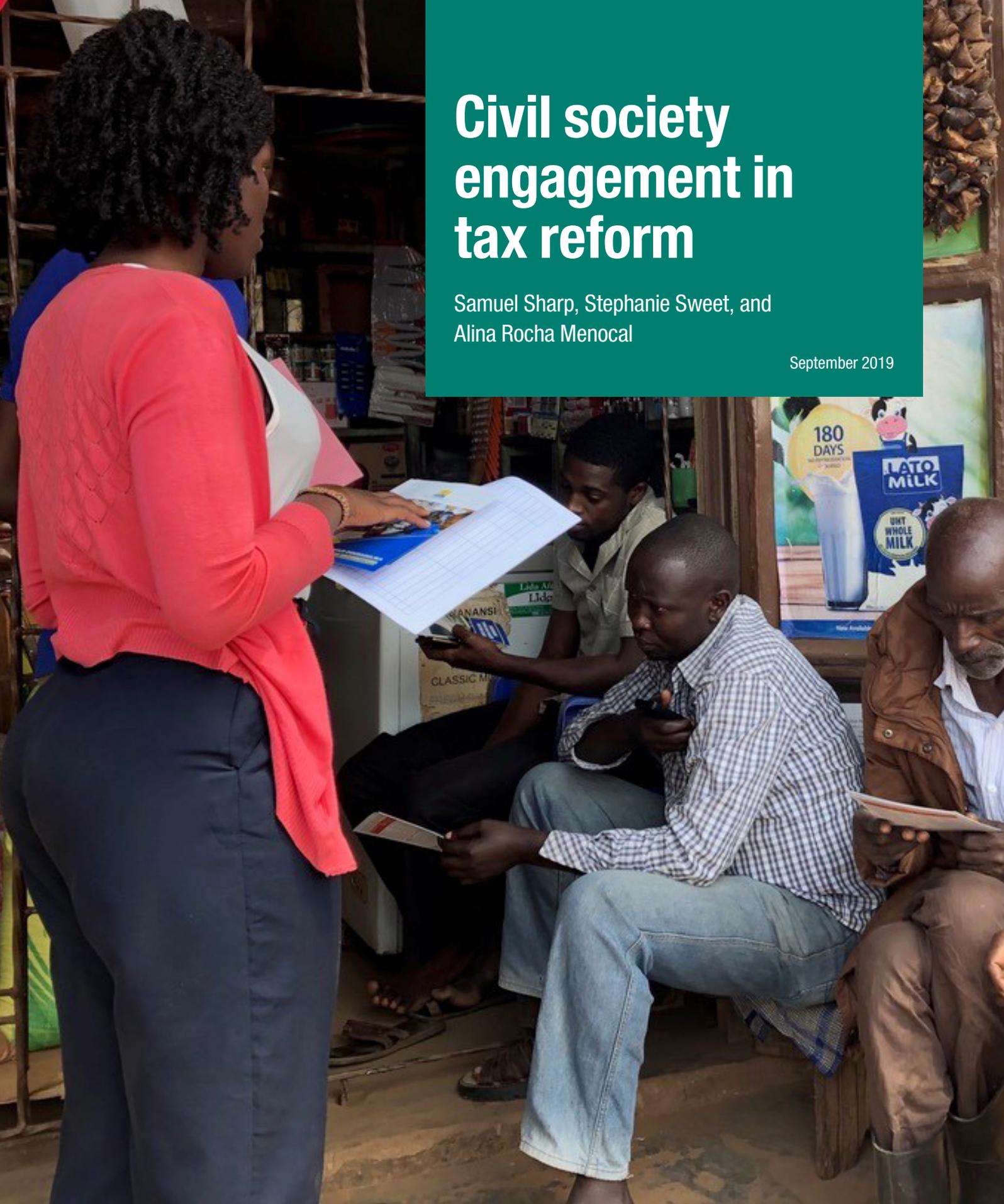


Summary

Civil society engagement in tax reform

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Cover photo: Tax education efforts in Uganda. Photo: Stephanie Sweet, ODI.

Executive summary

Introduction

In recent years, the international development community has been paying more and more attention to domestic resource mobilisation (DRM) in developing countries as a means of meeting the Sustainable Development Goals (SDGs) and reducing their dependence on aid and foreign borrowing. Consequently, donors have also begun to think about the role that civil society organisations (CSOs) can play in domestic efforts to strengthen tax systems. To date, this has been a decidedly limited area of engagement, with only 3% of donor funding for DRM from Organisation for Economic Co-operation and Development (OECD) countries going to local civil society. However, the literature on civil society engagement in tax reform is sparse, too, largely comprising isolated donor programme reports. What's more, international support has been based on a number of assumptions – for example, that the key constraint on the engagement and influence of CSOs in tax reform is weak technical capacity. This assumption, and others, need to be tested.

This research project aims to provide a more politically informed understanding of civil society in relation to domestic tax reform (as opposed to the better documented international tax justice movement) and to explore how international development actors can lend more effective support to CSOs engaged in this space. From a rapid survey of tax civil society in eight countries – Brazil, El Salvador, Kenya, Nigeria, the Philippines, Uganda, the United States (US) and Zambia – the report seeks to answer the following research questions:

- What is the appetite for civil society engagement on tax issues and why?
- What is civil society's capacity for engagement (if there is appetite) and what is its influence on tax issues?

- What kind of support do international development actors provide to civil society on tax issues?
- What form might more effective support to civil society actors take? How could current mechanisms of support to civil society become more effective?

While our findings are not intended to be comprehensive or to provide a rigorous evaluation of civil society engagement in taxation, they offer some insights into the role, influence and capacity of some civil society actors in DRM in different contexts.

The roles, influence and capacity of civil society

Roles

CSOs tend to play three broad roles in tax debates, often in combination: *analysis* of tax policy, *advocacy* for or against policy proposals, and *awareness* raising on tax rights and obligations. In most cases, analysis and advocacy are primarily reactive, responding to existing tax policies or proposals for reform rather than proactive civil society-led reform.

The most common form of civil society advocacy tends to be in opposition to unpopular taxes. Organising public protest against taxation seems to be easier than galvanising advocacy for revenue mobilisation. In all of our cases, business associations are active in pursuing the reform of taxes relevant to them, but usually with the aim of reducing the tax burden. In contrast, non-governmental organisations (NGOs) and think tanks in our eight country cases tend to target fairer and more progressive tax systems. Their work in this area focuses, in particular, on excise duties and international taxation, both of which offer the potential for collaboration between government and civil society against industry lobbies.

Our findings suggest that there is considerably less NGO and think-tank engagement on issues related to the main domestic taxes, including value-added tax (VAT) and income tax, especially personal income tax. There can be a lack of societal pressure – and, hence, incentives for NGOs and think tanks – to work on raising revenue from these taxes, perceived as falling more directly on individuals. In our case studies, while business associations play an active role in tax administration reforms, we found few, if any, instances of NGOs and think tanks working in this area. Interestingly, civil society engagement in awareness-raising also appears limited at the national level, which is surprising given current thinking on the importance of civil society’s role in education and communication around tax issues and tax reform.

Influence

Two key factors emerge from our research as regards the influence of CSOs on tax reform. First, civil society influence on tax policy largely reflects the nature and quality of broader state–civil society linkages. In certain cases, governments can disregard civil society fairly easily. In others, more formal engagement exists, but does not necessarily translate into influence. Elsewhere, where civil society has been stronger historically, CSOs are perceived as legitimate actors and their engagement in passing (or blocking) tax legislation has been significant.

Second, substantial civil society-driven policy successes come when they align with other powerful interests in raising revenue. In our case studies, this alignment of interests is most common on international taxation and excise duties, where there are examples of coalition building between government and civil society to overcome opposition from other actors. However, our cases also suggest that civil society opposition to government policy, when coordinated and typically involving mass mobilisation, can play an important role in securing policy concessions.

Capacity

Our research shows that the technical capacity to deliver sophisticated analysis of tax policy remains a considerable challenge for many CSOs and there is clear demand for capacity building in this

regard. However, our findings also suggest that the more fundamental challenges to civil society participation in and influence on tax reform are non-technical. Engaging in taxation is not an easy task for CSOs due to the political sensitivity of the domain, especially in contexts where the connection between taxation and citizenship is weak and where taxation is viewed as an unwelcome intrusion by unaccountable governments.

The non-technical constraints highlighted by our research include: (1) the ability to build coalitions between various actors, including those who don’t usually engage on tax issues; (2) CSOs’ ability to apply their understanding of the context to engage strategically in tax debates, identifying entry points and taking advantage of political windows of opportunity; (3) strategic communication skills to convey tax messages in an understandable and persuasive way; (4) legitimacy of CSOs’ standing with government and across civil society; and (5) resource constraints, including funding restrictions and staffing shortages.

Implications for donor support to civil society

Our findings have important implications for international development actors who want to assist CSOs in their work on domestic tax issues as potential allies in support of fairer and more effective tax systems. The findings resonate with broader lessons on how to improve the effectiveness of international assistance. Perhaps the single most important lesson is that the nature of the challenge (for civil society, as well as development more broadly) is not primarily technical, nor even financial; it is fundamentally political. Above all, international development actors need to take a more strategic and pragmatic approach to supporting CSOs that is grounded in thinking politically and, consequently, working differently.

Based on an emerging consensus in the literature and reinforced by the findings of our project, our report highlights some ideas, recommendations and reflections on how those international actors providing support to civil society on tax and DRM issues can become more effective in their assistance.

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1. **Develop a deep understanding of the context.** More in-depth country analysis is needed to better understand domestic pressures for tax reform and the existing interest and capacities of CSOs to engage on tax issues, as well as to identify potentially fruitful entry points for reform.
 2. **Tailor interventions and support programmes accordingly.** Programmatic choices should be made on the basis of contextual understanding, including how different state and civil society actors are positioned on tax issues and why. This calls for in-depth political economy analysis (PEA) or other diagnostic tools to explore domestic pressures for tax reform, existing interests, the incentives and capacity of civil society to engage on tax issues, and the potentially fruitful entry points for reform. Which tax issues to focus on, what activities to support and why, and the type of support that is feasible and realistic will all depend on the context.
 3. **Support a tax ecosystem.** A fairer and more effective tax system results from contestation between diverse actors with diverse interests. We, therefore, encourage international donors to support civil society actors parallel to working with governments. More effective tax policy can't be expected to emerge organically just as a result of increased technical capacity among these different stakeholders, however. Instead, donors should think strategically about which specific actors to support, when, and in what kind of roles (analysis, advocacy and/or awareness) to shift the outcomes of these contestations. This may include support to a wider mix of civil society, including academia and the media.
 4. **Develop approaches that provide technical capacity, but are also politically savvy.** There is space for training to build civil society capacity, but it should be tailored support that is context specific and longer term, involving mentorship rather than a one-off exercise. Simultaneously, and perhaps more importantly, donors should consider how they can encourage political capacity. This could include brokering and convening spaces for locally led reform, encouraging coalition building across civil society and supporting more strategic thinking among civil society to identify and capitalise on entry points and political windows of opportunity.
 5. **Be aware of (unintended) consequences of support for CSOs.** Governments can be smart about dismissing difficult CSOs as mouthpieces of foreign governments. The priority for donor support should be to build local legitimacy for CSOs and fundamentally ensure that visibility of support does not damage it.
 6. **Provide flexible funding over the longer term.** All CSOs cited the unsuitability of highly prescriptive, project-based funding for work on tax, which is highly political and fluid. They need flexible and sustainable funding to maintain legitimacy in society, enabling them to have a voice on the most prominent tax issues and to take advantage of political windows of opportunity. Unfortunately, the trend among donors we interviewed is away from flexible core funding, which could hamper CSO influence in this sphere.
- This research project was intended as a rapid study on the role of civil society in the tax domain and was not meant to be comprehensive. Our findings remain largely descriptive and anecdotal, but they give some insights and identify some potentially fruitful opportunities to support DRM efforts more effectively in what is a nascent area of research and policy engagement. These include exploring similar questions with more in-depth national and subnational analysis, as well as the motivations behind patterns of civil society engagement, and looking at a wider range of civil society actors. More investment is needed in scoping and testing the modalities of donor support to civil society and the ways in which civil society support can be integrated into broader DRM programming to complement work with national revenue authorities.



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