



Volunteer Azulu Adeba describes the poor drainage in his community, where he carries out tax monitoring work with the National Taxpayers Association in Kiambiu, Eastleigh, Nairobi, Kenya (2016). Photo: Allan Gichigi/Oxfam

IT'S NOT ALL ABOUT THE MONEY

Domestic revenue mobilization, reducing inequality and building trust with citizens

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This Oxfam briefing paper examines the challenges to the ‘success’ of domestic revenue mobilization (DRM) efforts, raises some questions about how to measure progress, and urges both governments and donors to shift to a more equity-centered approach to DRM. This paper emphasizes that DRM is about more than just increasing revenue; it is about how revenues are collected (i.e. who pays). Oxfam advocates that DRM efforts should reduce inequalities, not reinforce them.

Oxfam is dedicated to ensuring that revenue systems are fair, gender responsive, inclusive, and accountable. Oxfam's Even it Up! campaign and F.A.I.R. (Fiscal Accountability for Inequality Reduction) program challenge the drivers of inequality, and seek to ensure that ‘Citizens are empowered to redress inequality of power and influence, so fiscal systems are more progressive, and governments implement tax and spending policies that benefit the many not the few’. To achieve these ends, Oxfam works closely with partners, governments and other diverse stakeholders at all levels—local to global. In 2018, Oxfam joined the Addis Tax Initiative (ATI) as a Supporting Organization.¹

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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SUMMARY

Governments need more domestic revenue to fund their own development goals, but it won't come from squeezing the poor. It's not only about collecting more. It's about *how* that revenue is collected (i.e. who pays). The path to successful domestic revenue mobilization (DRM) starts with the political commitment to reducing inequality and building trust with citizens.

Low income (LIC) and low-middle income countries (LMICs) are on pace to collect public revenues of about \$444 per person annually by 2020. This is just over \$1 per person per day.² Compared with \$16,200 per person in richer countries (2015), the need for greater DRM is clear. If LICs and LMICs improve revenue-to-GDP by an extra 2 percentage points by 2020, their *annual* public revenues would increase collectively by \$144bn³—more than total development aid in 2016.⁴ This is simple math, but achieving it is no simple task. In most developing countries, DRM remains insufficient and worse, it is becoming less fair. The imperative to improve *how* public revenues are collected has never been more apparent.

In 2017, 82% of all wealth created went to the top 1%, while nothing went to the poorest bottom half of humanity. This kind of extreme inequality intensifies the core challenges for DRM, worsened by the lopsided political power it constructs—which has resulted in laws, policies and loopholes that undermine effective tax systems.

Governments and donors must confront the political-economy obstacles to fairer, more transparent, and more accountable revenue systems. In the end, the big dividends from investing in DRM should not be just more money—but fairer revenue systems and stronger citizen–state compacts.

Without an equitable approach to DRM, it will be just another acronym in the development dictionary.

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1 INTRODUCTION

In 2018, **Uganda spent \$14 per person on healthcare**—but according to Uganda’s own Ministry of Health, the National Minimum Healthcare Package (UNMHCP) requires nearly \$42 per person.⁵ This is particularly worrisome for a country like Uganda, where 60% of the population is under the age of 18 and where income inequality has been on the rise for the past 20 years.⁶ According to Uganda’s Vision 2040, healthcare is just one of many investments it aspires to make—but declining aid and increasing debt costs have generated strong headwinds.

In 2015, Uganda’s budget was equivalent to **\$132 per person**. A large share of this came from debt (\$38 per person). Only \$8 per person was provided by grants (i.e. on budget aid), which have been dwindling in recent years. The remaining **\$86 per person was covered by Domestic Revenue Mobilization (DRM)**.⁷ In Uganda, debt is largely planned to finance infrastructure projects,⁸ which means that funding for healthcare, education, and social protection (including to reduce gender gaps) will depend heavily on Uganda’s ability to mobilize domestic revenues.

Figure 1: How Uganda funds the budget (USD per person)



Sources: Uganda 2015 budget documents and International Centre for Tax and Development (ICTD)/United Nations University World Institute for Development (UNU-WIDER), Government Revenue Dataset 2017.

For decades, Uganda and many other countries have tried to improve their revenue systems with support from various development partners. In 2015, 42 countries and donors increased their collective commitment to DRM by joining the Addis Tax Initiative (ATI). Despite the technical reforms and capacity-building efforts over the years, progress has been insufficient.

Revenue collection in developing countries has been stagnating, and in some cases deteriorating. In Zambia, for example, despite a 60% increase in natural resource revenues between 2001 and 2015, tax collection (as a percentage of GDP) during this period actually fell by 20%.⁹ For a variety of reasons, public revenues are too low in many countries, and failing to keep up with the rising costs of critical public services. But insufficient revenue is only part of the problem.

Revenue systems are becoming less fair. Between 2001 and 2015, the contribution of corporate tax revenues to government budgets actually decreased in developing countries. At the same time, reliance on consumption taxes, which hits poor households hardest, increased. In 2015, consumption taxes contributed three times more to budgets than corporate income taxes (49% compared with 15.5%).¹⁰ This means that the burden of paying for healthcare, schools, and public services has shifted away from those most able to pay.

This situation, compounded by declining aid and increasing costs of debt, is not sustainable for most developing countries. It also threatens to undermine the crux of effective and equitable DRM: the social contract between the state and its citizens. A ‘re-think’ on DRM—and on how development partners support it—is needed.

GLOBAL CONTEXT

The world faces an unprecedented gap between its global development ambitions and the money available to make them a reality. To achieve the Sustainable Development Goals (SDGs), it is estimated that developing countries will need an additional \$2.5 trillion *annually*. This is an intimidating figure—equivalent to all the development aid disbursed between 1960 and 2015¹¹—and has provoked governments around the world to rethink the options for financing development.

The role of aid is diminishing, but remains critical. Development aid budgets are increasingly under pressure or political attack. At the same time, the rising costs of humanitarian and environmental crises have placed more stress on aid budgets. These crises burden developing countries disproportionately. Bangladesh, Pakistan, and Uganda, for example, host some of the largest refugee populations. Haiti and Sri Lanka are two of the countries most affected by climate change. Yet, none of these countries has sufficient resources to respond to such crises: all rank near the bottom globally in terms of domestic revenue collection.¹² Countries taking on such enormous challenges will continue to need strong development partners.

Table 1: Challenges beyond DRM

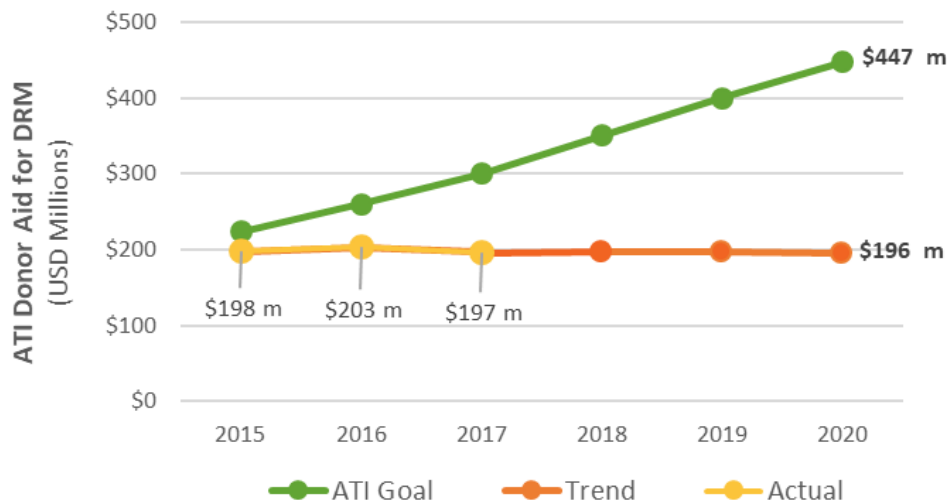
Country	Hosting refugees	Revenue collection (% of GDP)
Bangladesh	5 th most in the world*	4 th lowest in the world
Pakistan	2 nd most in the world	16 th lowest in the world
Uganda	8 th most in the world	9 th lowest in the world
Extreme weather events		
Haiti	1 st most affected in world	13 th lowest in the world
Sri Lanka	4 th most affected in world	10 th lowest in the world

Sources: UNHCR Mid-Year Trends 2016 (Geneva, 2017); ICTD/UNU-WIDER, Government Revenue Dataset; Global Climate Risk Index 2018 (Bonn: Germanwatch, 2017). *Data on Bangladesh refugees based on estimates from the United Nations Office for the Coordination of Humanitarian Affairs.

Governments and donors are placing big bets on other sources of finance. There are high hopes for private sector financing, which can be a valuable contributor if done right.¹³ However, it cannot act as a substitute for public investment. As a result, governments and donors have largely agreed that sustainable and country-owned development cannot be achieved without stronger DRM. Christine Lagarde, Managing Director of the International Monetary Fund (IMF), has declared that ‘domestic revenue mobilization is an imperative for those countries that are seeking to achieve the new Sustainable Development Goals.’¹⁴

While external support to help partner countries raise revenues is not new, commitments to DRM have intensified in the past few years. In 2015, as part of the Addis Tax Initiative (ATI), developing countries and donors made three political commitments to strengthen DRM. Despite the enthusiasm around DRM, as of 2016 (latest available data), most donors are not on track to meet their *quantitative* commitments (see Figure 2). Most importantly, development partners need to find better ways to support and cooperate with developing countries to strengthen equitable revenue mobilization, expanding beyond traditional technocratic interventions.¹⁵

Figure 2: Keeping up with ‘doubling aid for DRM’ commitments?



Source: Oxfam figures, based on 2015 and 2016 Addis Tax Initiative (ATI) datasets and 2017 data from OECD Creditor Reporting System; excludes loans.

The success of DRM will be critical to prevent an overreliance on debt to finance development objectives. Developing countries are gaining greater access to private debt markets. Since 2007, LICs have increasingly turned to nonconcessional debt, which demands higher interest rates than the concessional debt of the past. As a result, interest payments (as a share of tax revenue) have doubled in the past 10 years, while tax revenues (as a share of GDP) have barely grown in this same period.¹⁶ In some countries, interest payments exceed government expenditures on health and education combined.¹⁷ Rising debt increases the imperative of DRM, but also increases the risk that governments will do whatever it takes to raise revenue, resulting in regressive or poorly designed taxes (e.g. social media tax).

According to the IMF, the number of countries in debt distress, or facing high risk, has nearly doubled since 2013. Increasing debt burdens, declining aid, and insufficient DRM have resulted in shrinking fiscal space in 70% of low-income countries.¹⁸ This means less space to improve health and education, less space to make social protection more inclusive and gender-responsive, and less space to fight poverty and inequality in all its forms.

The persistence of large-scale tax avoidance undermines progress on DRM. The race-to-the-bottom on corporate taxation, the acceleration of tax competition, and the shifting of high levels of profit to tax havens deprive developing countries of critical revenues needed to fund their own development. At the same time, these harmful tax practices squeeze shrinking aid budgets. Each year, tax avoidance costs developing countries an estimated \$100bn while also costing the United States approximately \$135bn.¹⁹ Donors provide support for tax capacity building, but treaties and policies in donor countries neutralize or even undermine these efforts. A number of reforms, such as reviewing all tax incentives or adopting defensive measures against harmful tax practices, can move things in the right direction. Nevertheless, tax competition and avoidance practices—and all the factors that enable them—remain a principal roadblock to policy coherence on DRM.

In 2017, 82% of all wealth created went to the top 1%, while nothing went to the poorest bottom half of humanity. Extreme inequality like this reinforces one of the greatest challenges for the success of DRM: an overreliance on a narrow tax base,

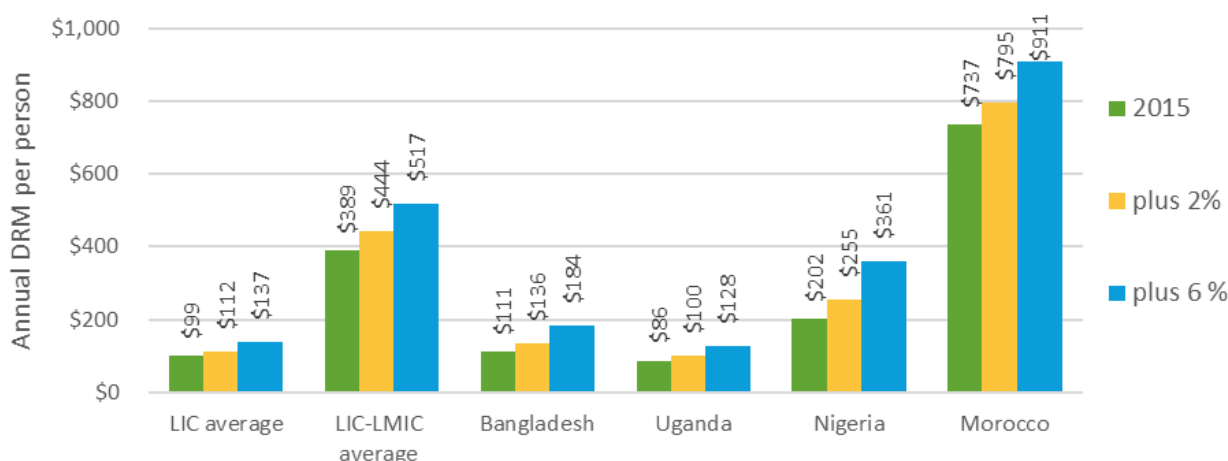
consisting of a few wealthy individuals and companies. This is worsened by the disproportionate political power it constructs in both democratic and non-democratic states—which has often resulted in laws, policies and loopholes which further erode the tax base, reinforce gender biases and weaken the citizen–state compact.

Most important, political barriers are in part responsible for a reliance on narrow technocratic reforms, which are not getting the job done. Stronger tax administrations are crucial, but strictly technocratic reforms can act as window dressing and delay key political decisions, or excuse them all together. The big challenges, and potential, for DRM are in the political sphere: inequity and gender bias in revenue systems, tax incentives for corporations and investors, lack of tax on wealth, revenue transparency, and citizen trust in public institutions.

2 SHOW ME THE MONEY: DRM POTENTIAL

What is the potential of strengthening DRM? In 2015, low-income and lower-middle-income countries (LICs and LMICs)²⁰ collectively mobilized more than \$1.4 trillion in domestic revenues. That is a significant number, but compared with the size of the populations in LIC and LMICs, this sum amounts to about \$389 per person annually. That is barely more than \$1 per person per day. If these countries increase their DRM by 2 percentage points by 2020, which some are on pace to do, this would increase resources to \$444 per person annually. And if governments could boost DRM/GDP by 6 percentage points, public coffers in LICs and LMICs could increase to \$517 per person (see Figure 3 below).

Figure 3: Potential of DRM: A lot from a little?



Source: Oxfam calculations based on data from ICTD/UNU-WIDER, Government Revenue Database; World Bank population and GDP statistics.

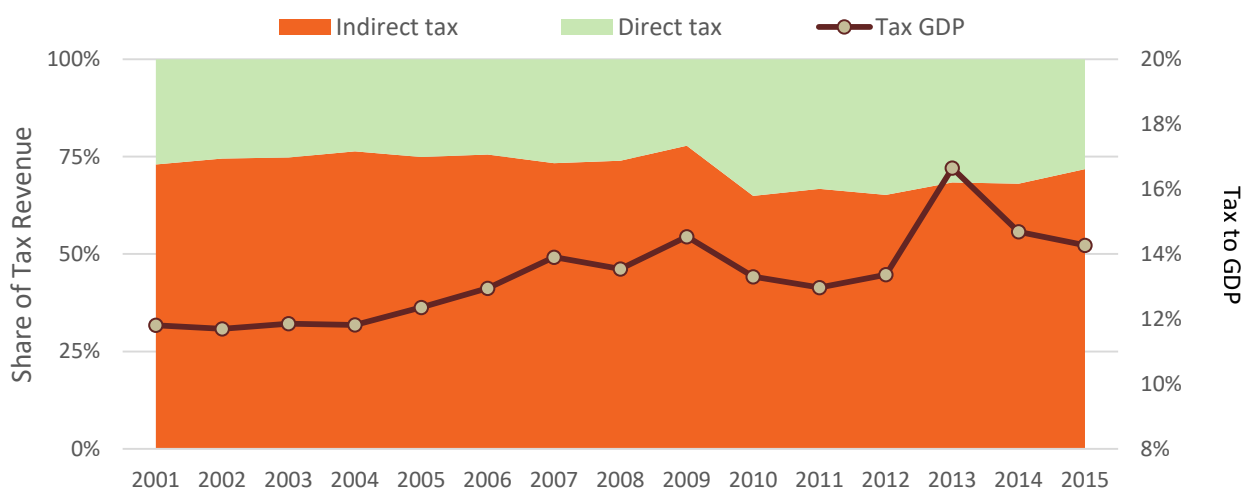
Compared with the OECD average of \$16,200 per person annually, \$517 per person feels far from sufficient—but this jump from the current \$389 per person would represent an **additional \$433bn annually in government coffers: more than three times the aid disbursed by OECD donors in 2015.**²¹

Unfortunately, this is highly improbable by 2020, and it may not even happen by 2030. It is more plausible that low-income and lower-middle-income countries could increase their DRM effectiveness by 2%, mobilizing an additional \$288–\$335 billion annually. In Indonesia, for example, increasing effective tax collection by 2% could more than double spending on health. In a country facing a crisis of economic inequality—where the four richest people have more wealth than the poorest 100 million people combined—more effective and equitable DRM is critical.²²

Achieving even a 2% increase will not be a simple task. DRM in low-income and lower-middle-income countries improved only marginally between 2001 and 2015, and trends in the last four years suggest that the progress may be stagnating. For example, Tanzania is projected to barely increase its tax-to-GDP ratio over next few years (from 13.2% in 2016 to 13.9% in 2020).²³ As of 2015, the tax-to-GDP ratio in 35 LICs and LMICs was less than 15%.²⁴ However, more worrisome is that tax systems remain

inequitable. In Africa, heavy reliance on indirect taxes barely changed between 2001 and 2015 (see Figure 4). Indirect taxes are generally regressive, taking a larger percentage of income from low-income earners than from high-income earners. A heavy reliance on indirect taxes can make combating inequality even more difficult—especially if tax revenues are used ineffectively and inequitably.

Figure 4: Quantity and composition of DRM in African LICs and LMICs



Source: Oxfam figure based on ICTD/UNU-WIDER, Government Revenue Dataset, 2017.

Why is the potential of DRM not materializing? It is important to acknowledge that the potential of DRM is different for every country owing to factors such as income per capita, size of informal economy, reliance on commodities, strength and governance of public institutions, and citizen trust in government. Some resource-rich countries, like Angola and Timor-Leste, already collect between 35% and 60% of revenue-to-GDP. This may seem like plenty of revenue, but this dependence on natural resources heavily distorts countries' capacity to collect more tax revenues in fairer, more sustainable and less volatile ways. That is reflected in Oxfam and Development Finance International's 2018 Commitment to Reducing Inequality Index (CRII) Index,²⁵ where Angola's tax collection effort ranks 89th (of 157) and 125th in progressive spending—a reminder that tax-to-GDP ratios alone are not an indicator of 'DRM success'.

Many LICs are still developing their revenue authorities and related institutions. Liberia, for example, launched the Liberian Revenue Administration (LRA) in 2014. Early political leadership resulted in the LRA co-chairing the Addis Tax Initiative (2017–2018) and crafting a DRM strategy with broad input from diverse domestic stakeholders. Liberia faces many protracted challenges related to DRM, but its new president has a foundation to build on. In countries like the Democratic Republic of Congo (DRC), weak citizen trust in public institutions is a major obstacle. A DFID-funded study in the DRC estimates that nearly 80% of 'tax' payments are paid to non-state actors (and thus never reach government budgets) owing in part to low levels of citizen trust.²⁶

Kenya, in contrast, has developed one of the more sophisticated tax administrations in Africa, but it still faces numerous technical and political challenges, such as renegotiating double taxation treaties and capturing oil revenues. Despite an increase in its tax collection, declining aid to Kenya means that its bottom line has barely changed between 2001 and 2015 (total revenue-to-GDP in Kenya declined from 18.95% to 18.21%).²⁷ Of course, this trend is not limited to Kenya. Declining aid has outpaced increasing DRM in

other countries, for example, Uganda and Zambia (see Table 2).

Table 2: DRM and declining aid: The bottom line for government budgets

Change from 2001 to 2015	Burkina Faso	Kenya	Senegal	Tanzania	Uganda	Zambia
Change in DRM only (without aid, as % of GDP)	+ 45%	+ 5%	+ 32%	+42 %	+ 11%	+3%
Change in total revenue (including aid, as % of GDP)	+ 7%	- 4%	+35%	+36%	- 27%	- 17%

Note: 'DRM only' refers to taxes, social security contributions, and other domestic revenues. 'Total revenue' includes grants.

Source: ICTD/UNU-WIDER, Government Revenue Dataset, 2017.

It will take more than just stronger revenue administrations. A study looking at the tax potential in 114 countries (71 of which are LICs and LMICs) suggests that 'inefficiency in taxation depends more on policy decisions than on tax administration performance.'²⁸ More research is needed, but there is increasing evidence and recognition that the potential of DRM cannot be unlocked through technical capacity building alone. The World Bank's 2017 report on DRM finds that the 'experience of many countries shows that, even after the formal tax structure and tax administration are reformed, levels of tax collection remain unchanged unless there is sustained political will and local ownership.'²⁹

Countries need support to build their capacity to renegotiate treaties, rewrite tax codes, analyze the impact of taxes, assess tax incentives, conduct forensic auditing of large corporations, and take advantage of automatic exchange of information (AEOI) practices or beneficial ownership disclosures. But these technical capacities alone will be insufficient.

Governments and donors must take on bigger and more politically sensitive challenges than strengthening information technology (IT) systems and tax administrations. In sub-Saharan Africa—the region that receives the most aid for DRM—the IMF Regional Economic Outlook report suggests that the average tax gap (or potential) is between 3% and 5% of GDP. The report noted that 'while improvement in the function of tax systems can help close tax gaps, this may not be enough.... Additional revenue mobilization would also require reforms to tackle the underlying structural factors—notably corruption, government effectiveness, and inequality.'³⁰ These challenges can be addressed, in part, through fairer revenue systems, which the IMF and other development partners should prioritize through policy advice, technical assistance, and engagement with civil society.

Without a different approach to DRM, this moment of increased political momentum behind DRM may be wasted. We need an equitable approach to DRM that is not confined to technical reforms and discussions. DRM should put countries on a path toward fairer and gender-responsive revenue systems with strong citizen–state compacts. There is an increasing emphasis on broadening the tax base, but governments must first broaden the tax debate—which means an inclusive and accessible dialogue with citizens.

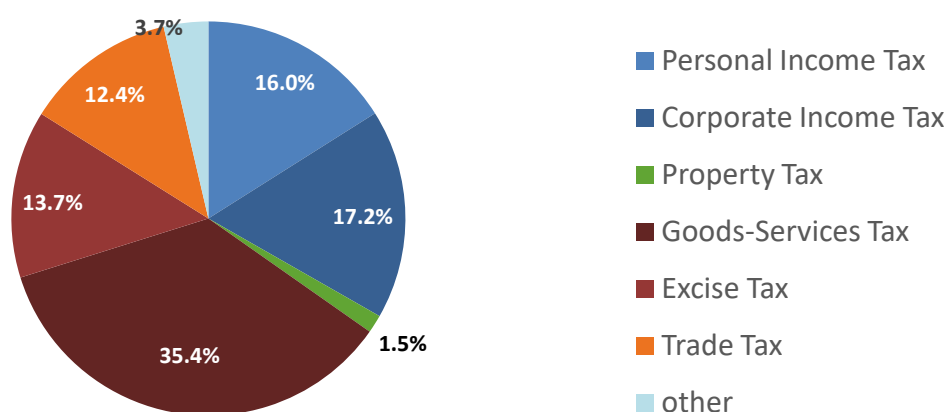
DRM is not about just collecting more, it is about collecting better. This means more equitable, gender-responsive, and transparent revenues. It means that individuals and companies pay their fair share. The big potential for DRM will come more from fairer tax systems and less from squeezing average taxpayers. Increasing indirect taxes may be an easier path to raise revenue, but this approach hits poor households and women the hardest. Fortunately, there are better ways for governments to mobilize domestic revenues.

3 COLLECT BETTER TO COLLECT MORE

Governments must decide to make the two goals of more money and more equity mutually reinforcing.

There is great potential to capture more revenue in better ways: by eliminating wasteful tax incentives or improving the effectiveness of direct taxation, such as property, wealth, or corporate taxation. Many developing countries collect twice as much from consumption taxes as they do from corporate income tax, while wealth and property taxes are nearly nonexistent in most countries, where a small group of ruling elites own the majority of wealth such as property.

Figure 5: Who pays? Composition of domestic revenues in LICs and LMICs (2015)



Source: ICTD/UNU-WIDER, Government Revenue Dataset, 2017.

In the past two decades, much of the increase in tax collection in developing countries has come from the introduction of value-added tax (VAT) systems, ushered in by technical assistance from donors. In Mali, the IMF explained that the increase in tax revenue was ‘almost entirely due to indirect taxes, especially VAT.’³¹ This broad shift to consumption-based taxation has helped increase revenues in some countries, but this has shifted the responsibility of funding public services away from wealthier taxpayers onto women and low-income households.

As an International Centre for Tax and Development (ICTD) briefing explains, ‘The impact of consumption taxes on poorer groups is shaped very substantially by whether basic commodities, particularly food, are exempted from taxation.’³² Many countries use exemptions, as well as budget expenditures, to reduce the negative impacts of consumption taxes. Some have success—but these measures are less effective where spending does not reach the poor, or transfer systems are weak or nonexistent. Under these circumstances, which exist in most LICs, fighting inequality through tax policy may be even more important.



Shanaj Parvin, a garment factory worker in Bangladesh, buying food at the market. (2016)
Photo: Saikat Mojumder/Oxfam Novib

Furthermore, tax exemptions and spending priorities change with politics, and those who may benefit from pro-poor policies (e.g. women and other marginalized groups) often have little political power to influence these decisions. While consumption taxes (such as VAT) are a key part of any revenue system, governments must pursue more equitable ways to raise public revenues. To do so, they must confront several political barriers, ranging from harmful tax treaties, political capture and lack of fiscal transparency, decreasing corporate taxation, poor governance of tax incentives, and shrinking civic space for accountability stakeholders.

MORE FAIRNESS AND MORE REVENUE

Political commitment to fighting inequality is essential to improving revenue systems. Pursuing one path of tax reform over another (e.g., increasing capital gains tax or consumption tax) is a political decision. These decisions, which are negotiated among those in power (and those with power to influence), determine whether capacity-building efforts and policy reforms will be used to address inequality. As of 2017, the political commitment to reduce inequality was far too low. According to the 2018 Commitment to Reducing Inequality (CRI) Index, 71% of countries are doing 'less than half of what they could to tackle inequality'.³³

The context and opportunities are different for every country, but there are many ways that governments can collect domestic revenues more equitably, such as: reducing wasteful tax incentives, strengthening the integrity of personal income tax systems, establishing effective wealth taxes, improving subnational finances, or ensuring gender equity in revenue systems. There are two key benefits to more equitable DRM: (1) more sustainable public revenues that can be used to fight inequality and poverty; and (2) a stronger citizen–state compact, which improves the quality of tax governance and accountability for public expenditures.

Improving the collection of personal income taxes, for example, faces structural and technical challenges, such as large informal sectors. Nevertheless, some LICs and LMICs have been able to improve personal income tax collection. Between 2001 and 2015, personal income tax revenues (as a share of GDP) increased by 71% on average and became a greater share of total tax revenue (see Table 3). However, such improvements in personal income tax collection must be based on progressive

structures or they will also undermine equitable DRM. The political obstacles to this cannot be understated. Political power and influence can result in many successful professionals and high-net-worth individuals (HNWI) missing from taxpayer registries. According to independent assessments of tax administrations in 62 countries, the 'integrity' of taxpayer registries is an endemic problem.³⁴

Table 3: Tax trends in LICs and LMICs (2001–2015)

Public revenue as:	Personal income tax	Corporate income tax	Tax on goods and services	Trade tax
Share of GDP				
2001	1.5%	1.9%	5.1%	2.7%
2015	2.6%	2.3%	7.5%	2.0%
Change	+ 71%	+ 25%	+ 46%	- 25%
Share of total tax revenue				
2001	14%	17%	46%	24%
2015	17%	16%	49%	13%
Change	+ 26%	- 8%	+ 7%	- 45%

Source: ICTD/UNU-WIDER, Government Revenue Database, 2017.

The problems with political capture are even trickier for the ultra-wealthy (those with annual income greater than \$30m), who are increasing in number in developing countries. According to the 2017 *Wealth Report*, of the 20 countries where the number of ultra-wealthy has grown most rapidly in the past decade, 11 are in Africa.³⁵ Despite this surge in multimillionaires, wealth is undertaxed or completely untaxed in most countries.

Table 3 also reveals that revenues from corporate income tax (as a share of total tax revenue) has actually declined since 2001. Capturing corporate income tax is a daunting task for even the most advanced tax administrations, owing to manipulation of transfer pricing, sophisticated avoidance (and evasion) schemes, treaty shopping, and sector-specific accounting gimmicks. These problems are well documented by academics, civil society, and international financial institutions, and they need urgent attention from governments, donors, corporations, and the 'gatekeepers' (accounting, banking, and legal professions).³⁶ While curbing illicit financial flows and reducing profit shifting and base erosion is essential for developing countries to realize their full DRM potential, other important areas of domestic revenue need attention.

Reducing wasteful tax incentives and strengthening property tax systems are two paths decision makers can pursue that will make national tax systems fairer while simultaneously increasing DRM. In addition, many countries face important political decisions about **strengthening subnational governments** and **gender equity**—two areas where there is significant potential to improve both DRM and the citizen–state compact. The following section provides a brief overview of these four opportunities, as illustrative examples. This is by no means an exhaustive list, as governments and donors must give equal attention to other core challenges discussed in this paper (i.e., corporate income tax, personal income tax, and all types of wealth taxation).

BAD INCENTIVES

The benefits of globalization are heavily debated, but there is no question that the rise in the number of open economies has led to an increase in the mobility of international capital. Theoretically, this could make investment decisions more sensitive to taxation—but in reality, this is not the case. The IMF recently concluded that ‘in Guinea, Rwanda, Tanzania and Uganda, more than 90 percent of the investments would, it seems, have been made even without the incentives.’³⁷ Nevertheless, the false narrative that ‘tax incentives attract investments’ has led to a proliferation of tax giveaways in many countries.³⁸ Not all tax incentives are harmful. Tax breaks for renewable energy or small female-owned businesses can help a country shape its economy positively, but far too often tax incentives are wasteful, ineffective and have mainly benefited only a few individuals, investors, or sectors.

The costs to government finances are often quite high. According to the North-South Institute, these represent ‘a staggering opportunity cost ... in terms of revenue forgone. These typically favor the wealthy [who are predominantly men] and should be greatly reduced or preferably abolished.’³⁹ The World Bank estimates that reducing the use of tax incentives could raise revenue collection by as much as 2–3% of GDP⁴⁰—potentially generating more than \$193bn in additional revenue that could fund education, healthcare, and other essential public services.⁴¹

Careless tax incentives contribute to the increasing race to the bottom that is undermining sustainable financing for government budgets. A revenue commissioner at the Uganda Revenue Authority (URA) was candid about this in a 2017 background paper for a medium-term revenue strategy (MTRS)—a product being pushed by donors, especially the IMF and World Bank: ‘As countries internationally compete more aggressively to attract foreign investment, Uganda will likely be forced to reduce corporate income tax rates and taxes for other key sectors such as mining, and oil and gas to remain competitive. The tax base needs to be broadened to minimize the impact of these policies on tax revenue.’⁴²

This is not a new problem by any means, but it remains a huge barrier to the success of DRM. From 1999 to 2012, Nigeria lost out on \$3.3bn as a result of special tax breaks granted to some of the world’s largest oil and gas companies—Shell, Total, and ENI.⁴³ In 2006 in Burundi, 60% of imports were partly or fully exempted from paying tax or duties, resulting in a loss in tax revenue equivalent to 10.7% of GDP, or 65% of revenues. And in 2007 in Ethiopia, customs exemptions amounted to 4.5% of GDP.⁴⁴

In 2015, the World Bank estimated that tax incentives in **Cambodia** were equivalent to 5.7% of GDP, or more than \$1bn. The amount of revenue forgone in Cambodia was greater than Cambodia’s combined spending on education and health in 2016.⁴⁵

In **Vietnam**, revenue mobilization fell from around 27% of GDP in 2010 to 22% in 2015. Part of this decline is due to lower crude oil revenues, but according to the IMF, the expansion of tax incentives in recent years has also been a central factor.⁴⁶

In **Tanzania**, the IMF’s projections for revenue growth based on proposed DRM measures amount to only 0.33% of GDP,⁴⁷ or an additional Tsh 400bn(\$188m). While modest, this amount would allow the Government of Tanzania to increase health spending by 21% or even double its 2016/2017 social protection expenditures.⁴⁸ However, there is potential to do more. With strong political commitment, reviewing and reducing tax incentives could unlock an additional Tsh 670.5bn (\$300m).⁴⁹

Box 1: Tax exemptions in the mining sector in Mali

In 2011, the mining sector accounted for 21.6% of the country's total tax revenue, making it a crucial sector for DRM. However, civil society organizations pointed out that 'gold does not glitter for all Malians,' given the numerous tax exemptions granted to extractive industries. The Malian branch of the Publish What You Pay (PWYP) coalition says that tax exemptions for the mining sector, including 'excessively generous' stability clauses in mining codes, represent a loss of several billion CFA francs per year. In 2015, tax exemptions—some granted by ministers to individuals—cost the government of Mali CFAF 203.45bn (\$364m), preventing the Mali revenue authority from reaching its revenue targets. Where ministries have discretion to grant tax breaks, the governance of tax exemptions—including parliamentary oversight and publishing requirements—is crucial.

Source: Oxfam France, 'Mobilising Domestic Resources to Help Mali's Poorest Populations: The Role of French Development Aid,' Briefing Note (Paris, 2017).

Understanding the costs of tax incentives is important, but it is not the end game.

The benefits of tax exemptions and incentives are difficult to ascertain. Often the promised benefits of jobs and economic growth do not materialize—and neither do the tax revenues. The first and necessary hurdle is for governments to publish all their tax incentives. Otherwise, there can be no public dialogue. Some countries are beginning to publish 'tax expenditure' reports, but reviewing and removing harmful tax incentives will require sustained political commitment.⁵⁰

Countries like the **Dominican Republic** are taking on the critical task of conducting cost-benefit analysis of tax incentives, including the opportunity costs (such as forgone revenue that could have been invested in education or health).⁵¹ Such assessments must also identify who benefits, including analysis of inequities between sectors and genders (e.g. do tax incentives benefit women-owned businesses?). This takes political courage and leadership. Strong citizen engagement in public finances is vital to empower political leaders with the legitimacy needed to review incentives—and more important, to remove incentives judged to be harmful.

TAXING WEALTH: START ON THE GROUND

Wealth and capital taxation make up one of the most common gaps for LICs and LMICs. Taxation on inheritance, capital, and other assets is important for both mobilizing revenues and reducing inequality, but political obstacles, including a lack of transparency and poor data, complicate this task. For many LICs and LMICs, a smart place to start would be to strengthen the taxation of more tangible assets, such as real estate. In 2017, for the first time ever, real estate became one of the top three asset classes for high-net-worth individuals (HNWIs).⁵²

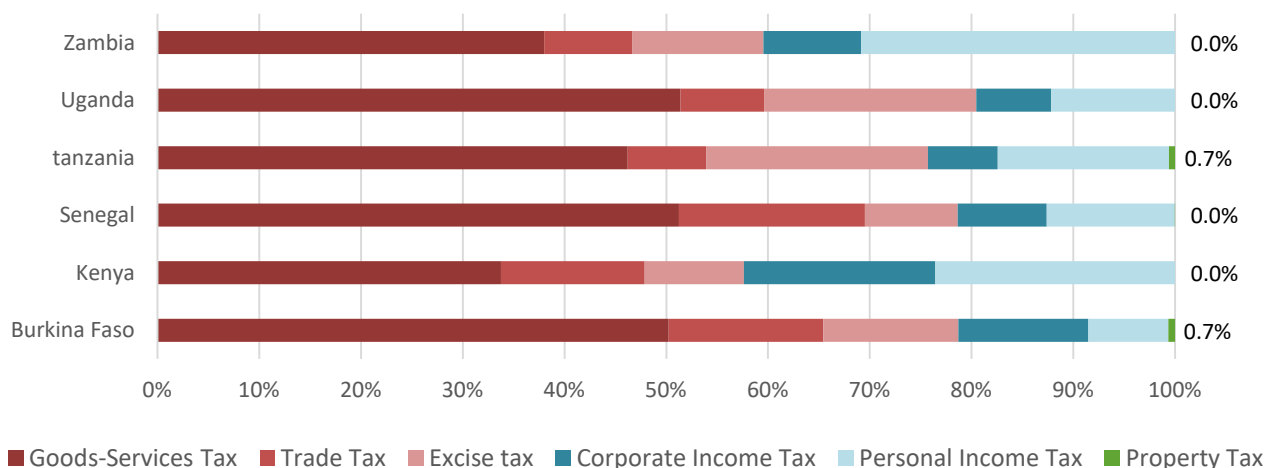
*'Wealth in India is extremely concentrated and real estate accounts for the bulk of household assets.'*⁵³—OECD



A slum next to highrise residences for the upper middle class in the Chandivali area, in the western suburbs of Mumbai, India, showing a common contrasting lifestyle in the city (2018). Photo: Atul Loke/Panos

There is broad consensus that property tax could be one of the most effective, efficient, and fair taxes.⁵⁴ And because women lag behind men in landownership, it also has the potential to be a gender-responsive tax. Yet in most LICs and LMICs property tax has failed to contribute in any meaningful way to revenue collection (see Figures 5 and 6). On average, property taxes in these countries are only 0.24% of GDP. By comparison, advanced economies collect about eight times this amount (property tax accounts for 1.91% of GDP in OECD countries).⁵⁵

Figure 6: Where do tax revenues come from? Not property tax



Source: ICTD/UNU-WIDER, Government Revenue Database, 2017; most recent data available for each tax category

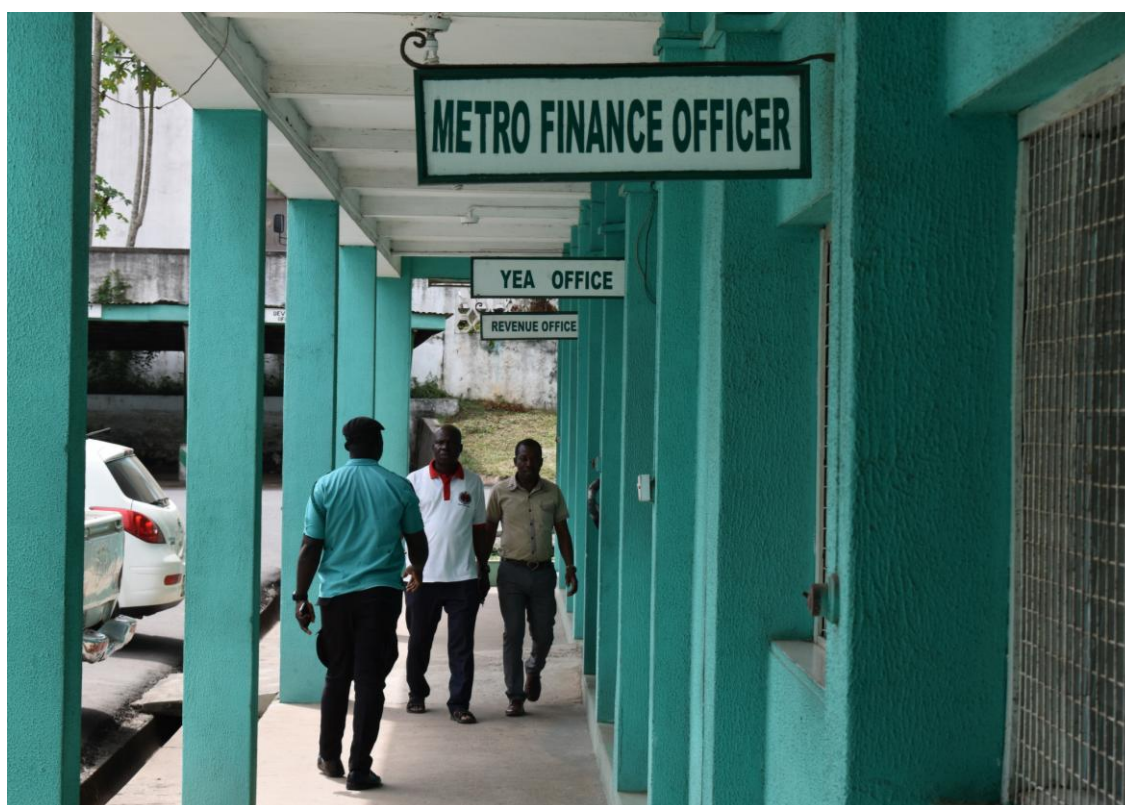
Why is this? Is it technically too difficult to implement property tax systems in developing countries? No. In fact, property taxes (as a share of tax revenue) were 30% higher on average in LICs and LMICs in 2001 than in 2015.⁵⁶ The technical knowledge to put in place fair and effective property tax systems exists, but it requires resources (from the budget or donors) and sustained political commitment to taxing all property owners, especially those with economic and political power.

If LICs and LMICs could match Morocco's rates of property tax collection, there would be an additional \$17.6bn in developing-country government coffers annually.⁵⁷ **This is more than total combined aid disbursed by Canada, Netherlands, and Norway in 2015.** More important, if done right, this step would enhance the equity of revenue mobilization and could strengthen the social contract between citizens and government, particularly at the local level.

OUTSIDE THE CAPITAL: POTENTIAL OF LOCAL DRM

Investing in the capacity of subnational governments and accountability stakeholders at the local level could yield big dividends. Research from ICTD finds increasing evidence that local taxation 'can serve as an important, even if modest source of revenue for financing basic local initiatives' and 'provide incentives for citizens to demand accountability.'⁵⁸

Globally, subnational governments collect little of their own revenue and rely mostly on transfers from national capitals. However, without transparency and strong institutions to decouple budget transfers and politics, even legally mandated transfers to local governments can be unpredictable. In the DRC, for example, distributions are 'rarely, if ever, made in full, thus leaving local governments underfunded.'⁵⁹



Oxfam reviews the public revenue management at the Sekondi-Takoradi Metropolitan Assembly in Ghana. The assembly is one of the few sub-national members of the Open Government Partnership, a global multistakeholder initiative to advance accountable and responsive citizen governance. Photo: Andrew Bogrand/Oxfam America (2018)

At the same time, decentralization efforts in many countries are putting greater pressure on local governments to raise their own revenues, and these localities may turn to informal taxes or user fees to cover costs of various services, such as health and sanitation. Informal taxes, which can (and often do) include in-kind labor as payment, have become a fairly significant source of local public finance. For example, a National Bureau of Economic Research (NBER) study found that in Indonesia, informal

taxes account for an estimated one-third of revenue under local control.⁶⁰ Informal taxes are much more regressive than consumption-based taxation. According to a study in Sierra Leone, informal taxes, which may be collected by local chiefs or other non-state actors, make up ‘a significant proportion of the taxes people pay’ and ‘the burden is often concentrated among lower-income individuals.’⁶¹

In many cases, local public services are provided through informal non-state actors that collect user fees, so revenues may never even make their way to government budgets. Not only does this practice increase inequity in the revenue system, but it discriminates against women and girls.⁶² For example, when user fees for health services were introduced in Ghana, Nigeria, and Zimbabwe, the number of women accessing health services declined, with negative results for female health indicators, such as maternal death.⁶³ In the DRC, where fees for services are common, studies find that the burden for female-headed households is 50% higher than for male-headed households,⁶⁴ perhaps because women pay for higher-quality services or use them more frequently owing to their unpaid care responsibilities for others. Either way, it is important to recognize that reliance on user fees and informal tax revenues can entrench implicit gender biases and worsen gender inequality.

Better sources of local revenue are needed. Some donors are beginning to support the development of stronger property and land tax systems,⁶⁵ and civil society campaigns have led to revenue-sharing mechanisms for extractive sector revenues. Both of these positive developments can lead to more and better revenues for local governments, but they will need to absorb, manage, and allocate these resources effectively. National governments, and development partners, should invest more in the capacity of subnational governments and local accountability stakeholders, like the National Taxpayer Association (NTA) in Kenya.⁶⁶

Stronger subnational revenue mobilization, of course, contributes to DRM goals. Even more important, investments in subnational DRM offer tremendous potential to strengthen the citizen–state compact, increase accountability for public revenues (and service delivery), and make the fiscal system more gender-responsive.

Box 2. Small money in a big money world

Given the estimated \$2.5 trillion gap in needed funding for the SDGs, raising \$15.75m may seem trivial. But for communities in Burkina Faso, this money can catalyze progress on almost every SDG from education to gender equality.

So where might this \$15.75m come from? In 2015, civil society and campaigners worked with the government of Burkina Faso to pass a new mining code requiring mining companies to commit 1% of revenues—equivalent to \$15.75m in that year—to community development funds. The ultimate outcomes from this political decision are still being monitored, as implementation has been delayed. Similar natural resource revenue sharing mechanisms are being designed or implemented in more than 30 other countries.

Ultimately, the success of these processes, in Burkina Faso and elsewhere, may depend on the capacity of civil society and other accountability groups—and their freedom to operate. The Natural Resource Governance Institute concluded in a recent report: ‘Unless there is political consensus on the use of resource revenues and informed civil society and oversight bodies to put pressure on governments to follow their own rules, even the best rules will usually not be followed.’⁶⁷

GENDER EQUITY MATTERS

This is ‘not the teeny tiny, totally irrelevant or trivial discrimination...but major discrimination.’

This is how IMF managing director Christine Lagarde explained the findings of an IMF gender study showing that in 140 countries, discrimination against women is embedded in their legal systems or constitution.⁶⁸ These barriers severely hamper the economic and political opportunities available to women and girls—a situation that in turn restricts the potential for equitable DRM.

Box 3: End gender inequity, reap DRM rewards?

A 2015 study estimated that closing gender gaps (i.e., ensuring that women have equal access to education and are employed and paid similarly to men) could add \$28 trillion to global GDP by 2025.⁶⁹ LICs and LMICs would see a relatively small share of this growth but could still expect an increase of \$2.4 trillion in their GDP. Based on average revenue collection rates in LICs and LMICs, closing gender gaps would unlock about \$518bn in additional public revenues annually.⁷⁰ That is one-fifth of the enormous SDG financing gap. According to a 2018 IMF study,⁷¹ the impact of gender inclusion on GDP could amount to an additional \$1.1 trillion in DRM for LIC and LMIC —nearly half the SDG gap.

But it’s not all about the money, or using gender equity to achieve something else – such as higher economic growth. While this would be an extraordinary boost to DRM (see Box 3)—these estimates are simply a reflection of GDP growth projections. It does not mean that revenue is being collected more effectively, transparently, or equitably. Most important, without also changing the structural causes of gender inequity, women—particularly the poorest women—would not benefit equally from such economic growth, *even where they are driving it.*⁷² Achieving gender equity itself must be a priority, focused on building inclusive and sustainable economies that benefit all—women and men, girls and boys.

To pursue gender equity in the DRM context, both explicit and implicit gender biases within revenue systems must be eliminated. Explicit bias is written into tax codes. For example, the Moroccan tax system automatically assigns ‘allowances for children’ to men, thereby reducing men’s tax burden relative to women. Female taxpayers can claim this exemption, but only if they prove *in a court of law* that they are the head of household.⁷³

Some countries, from Ireland to Malaysia to South Africa, have revised tax laws to remove explicit biases.⁷⁴ In Ireland, where joint filing has been replaced with individual filing, more women have joined the workforce. Other countries have introduced ‘positive discrimination’ into the tax system. In Nepal, a tax exemption for the transfer of assets to women has promoted more land registration in women’s names.⁷⁵ And in India, to encourage more women in the workforce, women receive a higher exemption for income tax than men.⁷⁶ However, because only 0.27% of working-age women in India are actually ‘tax-paying women,’⁷⁷ the transformative power of this policy is rather limited.

Because of the differences that exist between women and men—such as income, access to resources, decision-making power, and caregiving responsibilities—they are affected differently by taxation. Women carry out the majority of unpaid care work and are thus more affected by taxes on the goods and services (such as food, clothing, and

health supplies) needed to care for children, the elderly, or others. Women are also disproportionately affected by government spending cuts, which can result when revenue mobilization is too weak. Smart reforms, including exemptions on basic consumption goods, are essential to help address some of these *implicit* gender biases in tax systems. Of course, such policies must be accompanied by broader changes to economic structures and norms that perpetuate gender inequality.

Box 4: Tax policy and unpaid care work?

A 2017 study called *Infrastructure and Equipment for Unpaid Care Work* surveyed 1,688 households in the Philippines, Uganda, and Zimbabwe to understand which factors influence patterns of unpaid care work. Among the findings was that reducing the cost and time required to access water significantly reduced care work for women, and even increased men's contribution to care work activities.⁷⁸ Governments committed to gender equality should think about how tax policy can help reduce the costs of care work. In this case, governments could test tax exemptions for the equipment that improves access to water. But they should be cautious, taking care not to apply tax exemptions for expensive equipment (e.g., washing machines) that may benefit only wealthier households. More research is needed to better understand how tax policy can reduce burden of unpaid care work on women.

Gender-disaggregated studies and assessments based on incidence analysis and taxpayer surveys are providing some early insights, such as evidence on the horizontal inequities between male- and female-owned business and economic activities. More knowledge building is essential to develop gender-transformative revenue mobilization policies and laws reflecting the different realities of women and men from different groups. Governments will need to collect, manage, and publish sex-disaggregated data on income, consumption, landownership, and unpaid care work. Donors keen to support DRM through statistical capacity building should make this a principal objective. Unfortunately, only about 0.30% of total official development assistance (ODA) is invested in building statistical capacity in partner countries,⁷⁹ and less than 1% of the DRM projects funded by ATI donors include a focus on gender.⁸⁰

Gender-responsive DRM requires a political commitment to evaluating the gender impacts of tax policy (and administration) to see who benefits and who loses. Where revenue policies are found to inflict unfair burdens on women, reforms must follow. Of course, collecting revenue more equitably is only part of the solution. Prioritizing how revenues are allocated is just as important to gender justice. But both are political decisions, made in mostly male-dominated spaces. Strong women's rights organizations, political leaders committed to gender equality, and inclusive spaces for women to participate in decision making and analysis of tax policies are essential to achieving more equitable DRM.

4 CIVIC SPACE AND FISCAL SPACE

Stronger civic space and citizen engagement are necessary to dismantle the political barriers to more equitable and effective DRM.

Increasing the collection of more progressive revenues often requires policy decisions that challenge the interests of powerful political and economic actors. Taking such a step thus requires strong non-state stakeholders to raise awareness, generate political will, and hold policymakers accountable. Public and social accountability is fundamental to building citizen–state trust, the essential ingredient for an effective and fair tax system. This point is intuitive, and evidence backs it up. For example, research in the Democratic Republic of Congo finds that citizens are more willing to pay taxes when they have greater trust in government and are more satisfied with public services.⁸¹ Unfortunately, this same study found that 70% of citizens in the DRC expect government to misuse funds. Surveys across Africa find trust to be slightly higher, but still only half of respondents expressed some trust in parliaments and local councils.



Garment factory workers march in the streets of Phnom Penh. They demonstrate for their democratic rights such as the right to be heard and to demonstrate, and for better wages and working conditions and their rights as employees. Several grassroots organizations, such as United Sisterhood, organized the march. Photo: Kimlong Meng/Oxfam Novib

Building citizen trust in government institutions is a complex and context-specific challenge and will almost always require more than just transparency. It demands strong civil society, women's rights organizations, audit and judicial institutions, and other accountability actors that reduce both the scope and perception of corruption. Improving citizen knowledge and capacity on public finance is essential, but not sufficient. A study in Kenya finds citizen 'action' (e.g. holding public officials accountable for public services) is triggered when they have access to political and democratic spaces.⁸² Such spaces cannot be taken for granted.

Journalism and independent media are also essential to strengthening accountability in public finance. Media's role in taxpayer education is indispensable. In many countries,

citizens get the majority of their information about taxes from media outlets. In Armenia, for example, citizens said 67% of what they learn about taxes comes from TV or radio (according to a USAID-funded survey).⁸³ Norway is supporting programs to build the capacity developing-country journalists to report on a range of DRM topics, from illicit financial flows in Morocco and Tanzania to management of revenues from extractive industries in Iraq and Uganda. With less than half of a percent of aid for DRM dedicated to stronger journalism, there is room for donors to do more.

A country's citizens—like a company's shareholders—need to see a return on their investment. Accountable delivery of high-quality public services at the national and local levels is essential but can be tricky when governments face resource and capacity constraints. Donors can and should support better service delivery, but they can also play a more catalytic role by supporting initiatives that strengthen the relationship between citizens and government institutions – in part by working through government institutions. This work can have positive DRM ripple effects on tax administration efficiency, voluntary compliance, tax morale, and even the formalization of the informal sector.

Box 5: Citizen engagement and revenue mobilization in Ghana

The **Sekondi-Takoradi Metropolitan Assembly in Ghana**, one of the country's fastest-growing regions, provides an example of improved citizen engagement. The expanding oil industry in the region has led to higher costs of living, and thus greater hardship for many citizens in Sekondi-Takoradi. In response, and with support from donors, the twin-city government decided to strengthen property tax systems and increase outreach to citizens. In 2013, to increase local revenues, Sekondi-Takoradi updated its land and property valuation systems. While poor households were protected from higher taxes, they were still included in processes to decide how revenues should be used. The government's Citizens' Report Card program gave citizens a voice to scrutinize public services and identify priorities for the use of tax revenues.⁸⁴ And in 2016, the subnational government developed an Open Government Partnership (OGP) action plan with a primary objective of 'build[ing] citizen's trust and confidence in resource allocation and utilization.' Since then, Sekondi-Takoradi has reported that **citizens increasingly participate in making decisions that affect their lives, and this development has helped raise internally generated funds.**⁸⁵

But civic space is shrinking. According to the CIVICUS Monitor, the civic space in 108 countries is considered obstructed, repressed, or outright closed.⁸⁶ The 2017 Open Budget Survey found that 111 of 115 countries (97%) had too few or zero opportunities for citizens to participate in budget processes.⁸⁷ As already explained, donors have an important role, but governments must lead the way by fostering more open environments, especially when it comes to public finance. Increasing fiscal transparency and access to information is meaningless without a safe space to debate spending priorities and tax policies. As one activist in East Africa put it, a country without strong civic space 'is depriving itself of new ideas and an energized citizen engagement.'⁸⁸

DRM must not be an excuse or tool for repressing civic space. In 2018 the governments of Tanzania and Uganda imposed tax measures limiting freedom of expression and making access to information more expensive. Tanzania's proposed tax would charge bloggers \$920 a year. This is more than four times the one-time registration fee large companies pay to incorporate (around \$200).⁸⁹ In light of

Tanzanians' average annual income of \$873, this fee is excessively repressive. It would be equivalent to a \$60,000 tax on an average earner in the United States. In Uganda, a tax was imposed on more than 50 social media platforms, under the guise of DRM, but later revealed to be a tactic to counter so-called 'rumor-mongering'.

Such taxes are actually counterproductive to DRM goals. Reducing civic space erodes the social contract between citizens and government, which is a crucial component of a strong and fair tax system. Donors, governments, and civil society must defend and support the space in which citizens and accountability actors operate. When they do, there can be positive results for DRM (see Box 5).

5 PRINCIPLES FOR EQUITABLE DRM

Domestic revenue mobilization will play a central role in financing development and the Sustainable Development Goals, but only if revenue collection (and public expenditures) are sufficient, equitable, and effective. To date, DRM efforts have focused primarily on implementing technical and administrative reforms (e.g., training and adoption of new software and technology systems), with the aim of increasing the capacity of tax administrations and overall revenue collection. Furthermore, there has been an overreliance on a technocratic approach to DRM and insufficient attention on *how* revenue is collected. This is driven in part by the lack of leadership on confronting the bigger political economy issues. While more efficient and stronger tax administrations are critical, they have not resulted in greater or more equitable revenue collection.⁹⁰ Therefore, Oxfam urges a shift to **‘equitable DRM’—the political decision to increase equity and government revenue through fair, transparent, and accountable revenue systems.**

All countries should aspire to achieve equitable DRM through the following six principles:

- 1. Increase the net equity of tax structures and the fiscal system:** Reforms to revenue systems and policies must account for how they affect different groups (e.g., women or poor households) and ensure that DRM does not disproportionately burden vulnerable groups. Tax reforms should proactively promote and contribute to greater economic and gender equality. Where regressive tax policies are in place to achieve greater revenue collection, tax and spending policies must also be implemented to ensure net progressive outcomes (e.g., to reduce ‘fiscal impoverishment’⁹¹).
- 2. Ensure the equitable composition of domestic revenues:** Equitable DRM will collect the majority of revenue from those who are most able to pay and reduce the burden on the poorest. Pro-poor DRM will increase government revenues, with a greater percentage of that revenue being derived from fairer taxes (e.g., direct taxation) and sustainable revenue sources, and less from regressive taxes (e.g., consumption-based taxes).
- 3. Fortify gender-responsive budgeting with gender-responsive DRM:** Revenue and tax systems matter for women’s rights and gender justice, especially where gender-responsive spending remains insufficient. Regressive and unfair DRM is particularly unfair for women because they are overrepresented at low income levels and in the informal economy. Tax policy analysis must include social, cultural, economic, and political dynamics that create implicit or explicit gender biases in revenue systems (such as unpaid care work or violence against women and girls). Equitable DRM should reverse gender discrimination that exists explicitly or implicitly within revenue systems, and use revenue systems more proactively to achieve greater gender equity. It is also essential to create space and capacity for women’s rights organizations and groups to monitor and influence tax policy at national and subnational levels.
- 4. Apply a gender-equity and pro-poor lens to technical and administrative reform:** Strengthening tax administrations and related institutions (e.g., judicial system, audit mechanisms, anti-corruption offices) must aim to do more than build

capacity and make efficiency gains; they must support governments in making tax structures and policies more gender-equitable and pro-poor. This effort starts with a political decision on where to focus technical resources (e.g., new software for tax authority versus stronger audit capacity for key economic sectors). The answer will be different for every country, but it should be guided by a strategy for reducing poverty and inequality.

- 5. Pursue more effective corporate taxation and rationalize tax incentives:** There is a need to defend significant *effective* taxation of corporate income and halt the race to the bottom in corporate taxation. When negotiating with neighboring countries or multinational corporations, governments should pursue progressive tax reforms that enable them to increase revenue collection at the national and subnational levels, including the reduction of unproductive or wasteful tax incentives or concessions. Transparent and accountable processes must be in place to govern the granting—and rationalizing—of tax exemptions and incentives, such as strong parliamentary oversight and public reporting of tax expenditures in budget processes.
- 6. Make public revenues more transparent and accountable, especially for significant economic sectors and actors.** Governments must ensure transparency, accountability, and citizen oversight in the revenue chain of key economic sectors such as telecommunications and extractive industries. This includes contract disclosure, publication of tax incentives for companies or sectors (as part of the tax expenditure budget), ex ante cost-benefit analysis, transparency of contracts with fiscal implications (e.g., power purchasing agreements), and citizen oversight of collection, management, and allocation of revenues. Engaging citizens, civil society, women's rights organizations, media, parliamentarians, and other stakeholders is key to ensure that government negotiations with economic actors produce maximum revenue and fairness for citizens.

6 MEASURING PROGRESS: BEYOND TAX-GDP RATIO

There are many ways to measure progress on DRM. Which indicator is used depends on the objectives being prioritized. Reducing poverty and inequality requires better government spending and public services and must be part of any genuine effort to monitor progress on DRM, but on the revenue side, the aim is not simply to increase the quantity of revenue mobilization. The quality (i.e., equity) of DRM is equally important and must also be tracked.

There is no one indicator. We cannot rely on one indicator, such as tax-to-GDP, to measure progress on DRM. Governments and donors already use a number of indicators, but these are limited to measuring revenue performance (such as compliance rates) or the capacity of tax administrations (such as efficiency rates, the International Survey on Revenue Administration [ISORA], and the Tax Administration Diagnostic Assessment Tool [TADAT]). We need better monitoring for measures like tax effort, which can capture efforts to reduce tax avoidance or rationalize tax exemptions. Overall, current indicators fail to adequately capture the nontechnical aspects of DRM.

Box 6: The problem with the tax-to-GDP indicator

The tax-to-GDP ratio is the most widely available statistic for developing countries. For this reason, this briefing uses the indicator to broadly compare how effectively developing countries collect taxes. However, the tax-to-GDP indicator has various shortcomings: it fails to capture nontax revenues (e.g., oil and gas royalties) and other increasingly important aspects of DRM including equity, gender bias, transparency, trust, and citizen engagement. We need more systematic data collection and reporting on other indicators, such as revenue composition (e.g., degree of dependence on regressive revenues) and tax effort (e.g., the difference between potential revenue and revenue actually collected).

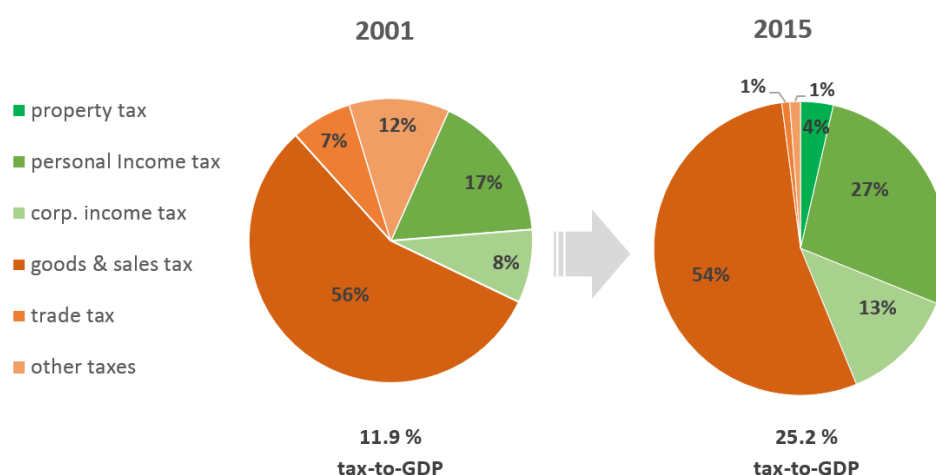
According to the indicators that donors and governments currently rely on, progress is mostly assessed by the quantity of DRM. Donors often use tax-to-GDP ratios for benchmarks in projects and programs. But the narrow goal of increasing revenue can create bad incentives (e.g., to collect taxes wherever politically possible, to the detriment of those with the least voice and power). And when revenues increase, there is no guarantee that they will be used to invest in women and girls, reduce poverty, or even provide basic services.

The quality of DRM—how it is raised and who pays—is key to more effective and equitable revenue systems. Improving the quality of DRM can also strengthen the citizen–state compact and make revenue allocation more accountable. **A more equitable composition of revenue should be a central objective for DRM**, where reforms lead to more revenues, with an increasing share of that revenue derived from progressive taxes, and sustainable revenue sources, such as progressive PIT, effective CIT or wealth taxes.

Box 7: DRM success in Georgia: More than increasing revenue

In 2001, a decade after it declared independence from the Soviet Union, Georgia's tax-to-GDP ratio was just 11.9%, but by 2015 Georgia's rate of collection exceeded 25%. For this reason, many hold up Georgia as remarkable example of successful DRM reform. This is impressive, but doubling the tax-to-GDP ratio is not what makes Georgia a DRM success.

Georgia transformed the composition of its revenue, reducing its reliance on indirect taxation by 33% while increasing the share of direct taxation by 52%. It made a political decision to prioritize the taxation of income and property. Between 2001 and 2015, Georgia increased its effective taxation of personal incomes and corporate incomes by 59% and 63%, respectively. And revenue from property taxation, increased from zero in 2001 to just under 4% of total tax revenue in 2015.



A variety of factors contributed to this, but a renewed social contract following the 'Rose Revolution' should not be overlooked. The political transition (and the new government's crackdown on corruption) may have helped restore citizens' trust in the formal economy, the tax administration and government institutions, at least momentarily.

The 2018 Commitment to Reducing Inequality (CRI) Index ranks Georgia 4th out of 157 countries in the *tax* category. However, Georgia ranks 47th overall, owing to its lower scores for public spending and labor policy—a reminder that tax and revenue policy is only one way that governments need fight inequality.

More equitable composition of revenue is a goal all countries must share. It is not a secondary objective reserved for middle-income or advanced economies. For example, Bangladesh's tax reform strategy includes a goal 'Towards Ideal Tax Composition,' which aims to have direct taxation account for more than 50% of tax revenue by 2021.⁹²

Tracking composition of revenue is not a new proposition. In the first *ATI Monitoring Report* in 2017, the *general* composition of revenue (direct versus indirect) was reported for 15 of 18 partner countries. In addition, the European Court of Auditors (EAC) analyzes revenue composition as one key aspect of DRM, in addition to tax ratios, tax effort, and tax gaps. But the EAC's 2016 report, reviewing DRM support in sub-Saharan Africa, found that composition is not adequately monitored (only 7 countries included this information).⁹³ More transparent, higher-quality data and reporting will be important, and governments and donors must make it as high a priority as increasing the quantity of revenue. Ultimately, a more equitable composition of

revenue is a political decision to strengthen collection of progressive revenue streams and ensure that individuals and corporations pay their fair share.

Box 8: Armenia: Revenue composition and donor policy coherence

In 2007 an IMF study of Armenia's tax system noted that 'the decline in the importance of direct taxes is, to a large extent, a direct consequence of several tax policy reforms that were introduced in mid-2000 and may signify a trend towards a less equitable tax system in Armenia.'⁹⁴ Since then, Armenia has reduced its reliance on indirect taxation from 75% to 59% (in 2015). This shift is attributed mostly to a large increase in collection of personal income tax, because corporate income tax collection actually decreased from 15% to 10% of tax revenue.

So it is concerning that the 2017 IMF Article IV report stated, 'More recently, with Fund TA [technical assistance], Armenia adopted a new Tax Code to overhaul the tax system. The Code's principal goals are to shift the balance from direct to indirect taxation.'⁹⁵ Armenia is one of the largest recipients of DRM support; notably, it received a \$45m loan from France. It is essential that Armenia maintain its commitment to a more equitable composition of revenue and that donors like the IMF and France bolster this goal through their support.

Gender equity

Governments need to address both the explicit and implicit gender biases that exist in tax codes, tax policies, and presumptive tax systems (e.g., fees for services). Public spending can offset some of these biases, but it is not certain that expenditures can successfully correct them. For this reason, it is important to reduce these biases as much as possible, taking into account the cultural, economic, and political factors that reinforce gender inequality. Progress should be measured by the reduction in explicit and implicit biases in revenue systems, but also by using DRM reforms to transform gender equality.

How progress is measured will be different for many countries, but here are several indicators to consider:

- gender-disaggregated data on household consumption or taxpayer perception surveys;
- the impact of tax policy on both paid and unpaid work, such as unpaid care work;
- cases of harassment by tax collectors, sex-disaggregated;
- the gap between tax rates on secondary incomes (which may reduce the incentive for married women to work); and
- tax expenditures reviews with carve-outs for specific goods consumed by vulnerable female households (e.g., the example of Uganda demonstrates that exemptions on salt and paraffin can effectively reduce the vulnerability of low-income female households without significantly affecting total revenue⁹⁶).

While exemptions on specific items can reduce some of the tax burden, presumptive taxes and user fees collected by both state and non-state actors can affect women and men differently. More attention to these taxes and fees must be part of tracking progress on strengthening DRM.

A potential framework to measure progress

There is increasingly consensus that the tax-to-GDP ratio is not an adequate indicator of progress.⁹⁷ How progress should be measured, however, is still being debated. The Addis Tax Initiative is developing its own framework to improve how member countries monitor progress. This framework should track progress around the four pillars in the ATI Declaration: fairness, efficiency, effectiveness, and transparency.⁹⁸ This framework, especially the ‘fairness’ pillar, could be informed by existing efforts and assessments, such as:

- The Fair Tax Monitor (FTM)—a project led by Tax Justice Network Africa (TJN-A) and Oxfam (funded by two ATI members, Netherlands and Sweden)—assesses several key components of revenue systems, including the progressivity of tax structures, the sufficiency of revenues, tax administrations, and governance of tax exemptions.⁹⁹
- The Commitment to Reducing Inequality (CRI) Index assess four components: progressivity of tax structure, impact of tax on income inequality, tax collection effort, and harmful tax practices.

In addition, it will be essential to monitor progress in the areas of tax morale (i.e. taxpayers’ willingness to pay) and gender-responsive budgeting. The broad and simple framework below (Table 7) is not all-inclusive. It is intended to capture the key principles for measuring progress, to help advance the debate and serve as a reminder that progress in DRM is not all about the money.

Table 8: Key components to tracking DRM progress

Fairness	Efficiency	Effectiveness	Transparency
<i>Progressivity of tax structures</i>	<i>Tax and revenue collection systems (not just best practice, but best fit)</i>	<i>Sufficiency of revenues (based on funding needs)</i>	<i>Publishing and governance of tax expenditures</i>
<i>Equitable composition of total revenue</i>		<i>Capacity of tax administration</i>	<i>Transparency of revenue at all levels</i>
Tax morale and civic space		Gender-responsive budgeting	

7 THE ROLE OF DONORS: WHAT SHOULD THEY DO?

1. Strengthen DRM policy coherence by addressing harmful tax practices, increasing commitments to financial transparency, conducting spillover analysis.

Under the ATI policy coherence commitments, donors should clearly identify how their own policies—such as public country-by-country reporting (CBCR), tax treaties, and exemptions—affect efforts of developing-country partners to raise revenues. If donors ask developing countries to review and reduce wasteful tax incentives, donor countries must address their own tax exemptions, treaties, and policies that undermine DRM goals, including the reduction of ODA tax exemptions for donor-financed projects.¹⁰⁰

2. Support governments committed to transparent and comprehensive tax expenditure reviews that go beyond just documenting and classifying tax expenditures.

Governments and development partners should commit to a multiyear process that includes, at a minimum, the following activities: (1) the publication of a tax expenditure report as part of the budget; (2) an independent review of how exemptions (or other special tax treatment) are granted; and (3) an independent evaluation of the costs and benefits of key tax exemptions flagged in the expenditure report. And when conducting estimates of tax expenditures, development partners must build in progressive criterion and disaggregate tax incentives by sectors and beneficiaries.

3. Increase support for civil society organizations and invest in the citizen–state compact.

Building the capacity of civil society organizations and oversight bodies (such as women's rights organizations, universities, independent media outlets, audit institutions, and judicial bodies) must be a core component of aid for DRM. As part of DRM strategies, all donors should commit to helping ensure space for citizens in decision-making processes on fiscal policy. Donors should **increase the DRM aid going directly to civil society organizations and academic/research institutions** (above 2015 baseline of 4.5% of total aid for DRM).

4. Enhance country ownership of DRM reforms and strategies.

Donors must increase country ownership of DRM reforms, design, and implementation. Donors should respect the space for governments to set their own DRM policies and strategies based on citizen engagement, by harmonizing all aid for DRM activities through aid governance structures led by the country. When setting DRM priorities (e.g., new IT systems versus property tax systems), donors should seek input from all relevant government ministries and agencies, as well as external stakeholders—especially small businesses and civil society organizations, including women's rights organizations, which can give insight into opportunities to build tax morale and citizen trust in government institutions.

Development partners should build the capacity of local IT and software development firms so that they can meet the demand and needs of national revenue authorities more

sustainably; reducing reliance on expensive ‘off-the-shelf’ software and systems that are not always best fit.

5. Donors, including international financial institutions, should invest more in the governance of decentralization and the capacity of subnational governments and local accountability stakeholders.

Reform efforts, such as revenue-sharing mechanisms for natural resource revenues, can lead to more and better revenues for local governments—but they will need to absorb, manage, and allocate these resources effectively. Donors should continue to increase their investments in subnational DRM and complement those investments with support for accountability stakeholders and processes. Donors should also support research on and evaluations of decentralization processes and politics, emphasizing the impact on the *quality* of local revenues and spending.

6. All subnational DRM projects must include a gender component.

Generally speaking, all DRM projects should include a gender component, but for local-level DRM initiatives, it is absolutely essential. Local governments are much more likely to rely on revenue from user fees and local taxes on services that disproportionately affect the livelihoods and incomes of women.

7. Reinforce accountable public finance for DRM.

Inequality cannot be fought on only one side of the fiscal system: taxing and spending are equally important levers to reduce economic and gender inequalities. While DRM has garnered important attention, overall donor support for strengthening transparency and accountability in public finances has declined. Although reported aid for DRM increased from 2014 to 2015 (\$150m), donor support for public financial management, decentralization, anti-corruption, and customs administration decreased by much more (\$217m), and these trends have continued. If we include a wider breadth of other vital sectors—like legal systems, civil society, and public sector management—the decline is even greater. Support for these sectors in sub-Saharan Africa fell between 2014 and 2016.

8. Coordinate and harmonize development cooperation.

According to the IMF, 50 development cooperation providers and more than 200 programs were active in 2016 within sub-Saharan Africa alone.¹⁰¹ In 2015, 19 countries had at least four different bilateral donors providing aid for DRM. To avoid duplication and incoherence, donors must coordinate with one another using mechanisms and processes established and led by recipient governments in support of country-owned (by citizens and government) DRM strategies. The MTRS could prove to be a good coordinating mechanism for donors supporting DRM—but only if there is strong country ownership. All support must be transparent, where donors and citizens have access to the same information.

9. Support tax administration and technical cooperation with pro-poor outcomes.

National and subnational tax administrations (and other related institutions, staff, and regulatory and transparency bodies) should be strengthened to clearly pursue increasingly equitable revenue systems. For example, support should go toward the audit capacity of partner countries to ensure that dominant economic sectors report costs and income accurately.

10. Increase support for Southern-led technical cooperation.

This includes support for regional tax organizations (such as African Tax Administration Forum (ATAF) and Inter-American Centre of Tax Administrations (CIAT)) and could include enhancing bilateral South–South cooperation, which may be more effective or practical. For example, since advanced-country models for property taxation may not be appropriate in many developing countries with different norms and institutions,¹⁰² Southern governments with stronger property tax systems may be better positioned to support reforms in neighboring countries.

11. Increase support for research and surveys that build evidence and awareness of taxpayer perceptions and challenges to citizen–state trust building.

For example, DFID’s support for the *Survey on Total Tax Burden in the DRC* increased understanding of the burden of tax payments on the livelihoods of low-income households and businesses.¹⁰³ This research should publish gender-disaggregated data and findings.

12. Support gender equity reviews of tax codes and policies with partner countries that are committed to identifying and reducing the explicit and implicit gender biases in their tax system.

Donors have supported projects like this in past. For example, Germany and the government of Ghana collaborated in 2006 on the Gender Law Project with the stated aim ‘to improve gender equity and establish an environment supportive of the enforcement of gender equity in Ghana.’¹⁰⁴ Donors committed to both DRM and gender equity (e.g., through feminist foreign aid policies) should lead the development of these programs.

13. Support revenue risk assessments, tax gap and policy analysis co-owned by government agencies and accountability stakeholders such as civil society organizations or academic institutions.

14. IMF and World Bank tax policy assessment frameworks (TPAFs) should assess the impacts of tax policy on equity, including explicit and implicit gender biases.

For the International Monetary Fund (IMF):

- IMF multidonor trust funds, technical assistance, and Article IV consultations with member countries should include analysis and staff advice on equitable DRM, where the revenue potential and equity implications of specific tax reforms receive equal attention.
- Given that nearly half of the budget for IMF capacity development activities is funded by donors, the IMF should apply aid effectiveness principles, such as accountability, transparency, and ownership, to all IMF technical assistance and capacity development. At the very least, there must be greater transparency and reporting from the multidonor trust funds.
- **Bring civil society voices into governance of the IMF’s multidonor trust funds and activities**, such as the Managing Natural Resource Wealth (MNRW) and the Tax Policy and Administration (TPA) Topical Trust Funds, as well as Regional Technical Assistance Centers (RTACs).
- IMF conditionalities (e.g., benchmarks, quantitative criteria) should never prevent a

country from prioritizing and pursuing equitable DRM.

- **IMF fiscal transparency assessments should be conducted in consultation with civil society**, promote publication of citizens' budgets, break down public revenue and its sources, and include a strong gender component.
- **The IMF Independent Evaluation Office (IEO) should publish a study reviewing past IMF policy recommendations and capacity development programs related to tax policy and administration**, similar to that published by the World Bank's Independent Evaluation Group in 2017.

For the World Bank Group:

- **The World Bank Group should provide DRM support to member countries, especially the poorest countries supported by the International Development Association (IDA), using the equitable DRM framework** and avoiding projects that rely solely on installation and implementation of technical systems and processes.
- **Adopt the three pillars, as proposed by World Bank staff in 2017, for the future of World Bank DRM work:** (1) Enhance the quality and equity of tax systems; (2) strengthen the capacity of both policy and administrative functions; and (3) strengthen the social contract and civic engagement.
- **The World Bank Group and other international financial institutions should ensure that their corporate clients pay their fair share of taxes to the countries in which they operate.** Beyond ensuring that clients do not evade taxes, this action should also show that they are responsible taxpayers and publish country-by-country reports.¹⁰⁵
- **The World Bank Group and other international financial institutions should abolish the practice of requesting and securing tax exemptions for clients.** In all cases, especially where incentives are secured, tax treatment should be fully transparent, with cost-benefit analysis of the impacts for government revenue (and the broader economy) over the life of project.
- **Assess and encourage countries to adopt policies and systems that support pro-poor DRM efforts and refrain from harming those efforts.** This should be done both directly (e.g., through technical cooperation and analytical work such as systematic country diagnostics) as well as indirectly (e.g., through the *Doing Business* report).
- When involved in negotiations or advice on public–private partnerships (PPPs), the World Bank must do a comprehensive assessment of short-term and long-term fiscal implications, including impact on projected revenues compared with contingent liabilities.

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- 98 ATI Consultative Group 2 was established in early 2018 with a mandate to improve the indicators to monitor progress on ATI Commitment 2: Stepping up DRM to achieve the SDGs. These four categories were presented to the ATI members in Stockholm, Sweden, in June 2018.
- 99 The Fair Tax Monitor approach has been developed between Oxfam and Tax Justice Network–Africa through a participatory process, building on the experience of local and international organizations. The use of a common research framework allows for comparison of tax policies and practices over time as well as between countries. In 2016, Oxfam published the Fair Tax Monitor Composite Report with the overall findings and country reports of Bangladesh, Pakistan, Senegal, and Uganda. Currently, the Fair Tax Monitor is expanding to include developing countries from distinct socioeconomic backgrounds, thereby widening the comparative pool of tax systems and the significance of this project. The next series of country reports, which are expected to be published during 2018, will further include Cambodia, Nigeria, Tunisia, Vietnam, and the OPT (Occupied Palestinian Territory).
- 100 Effective state institution building occurs when the stakeholders who are ultimately responsible for solving a development challenge, including revenue collection, are allowed to design the institution based on their specific needs and requirements, and are given the space for trial and error to essentially follow a problem-driven iterative approach. Aid can support this approach when it is provided in a long-term fashion (time), provided through country systems and empowers those responsible for the institution (ownership), includes all relevant stakeholders from a diversity of places affected by the institution (multistakeholder), provides the ability to adapt (flexibility) to changing contexts based on clear feedback mechanisms supported with full information (transparency). More about the locally driven approach can be found at Oxfam America (2015). To Fight Corruption, Localize Aid. Boston: Oxfam America. <https://www.oxfamamerica.org/static/media/files/CorruptionFINAL-small.pdf>
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