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Owning IFI proposals in developing countries

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Introduction

- Tax reform is central to development and justice
- The global context is increasingly important
- Many tax reforms are externally driven
- Reformers often fail to achieve their goals
- How can we ensure effective and sustainable tax reform that assists in achieving development, justice and poverty alleviation?

External influences on tax reform

- Developed country governments
  - USAid, DFID, AusAID
  - Development Assistance Committee of the OECD
- Tax experts
  - Mostly from leading universities and treasuries
- IFIs and other international institutions

Institutions engaged in tax reform

- United Nations
- IMF
- World Bank
  - Asian Dev’t Bank (African Dev’t Bank?)
- OECD
- WTO
  - Regional free trade zones eg ASEAN or CFA Franc region
- Non-government agencies

Global “norms” of tax policy

- Global tax norms generated in a neoliberal paradigm
- Neoliberal tax norms
  - Reduce engagement of the state in the economy
  - Lower tax on capital; flatten rates; “broaden base”; shift to VAT base
- **But**, for developing countries, a twist:
  - Goal of **increasing** tax revenues by **increasing** the taxing capacity of state

Internal politics of tax reform

- Global norms are “translated” into a specific discourse of tax reform in a particular country context
- Countries aiming to **increase tax revenues**
  - Must deal with domestic political and administrative constraints
  - Involving a broader field of taxpayers
  - Quasi-voluntary compliance needed across key taxpayer sectors
  - Commitment needed in revenue agency

The problem of “ownership”

“The one common theme that runs through perceptions of [the IMF structural adjustment loan] is **a feeling of a loss of control over the policy content and the pace of implementation of reform** ... there is broad agreement that ownership is a necessary condition of successful policy reform.”

Botchwey et al, *Report of the Group of Independent Persons Appointed to Conduct an Evaluation of Certain Aspects of the ESAF* (1998, IMF, Part 2, p. 20)

A suggested solution

"The solution, in our view, lies not in ... simply persuading the country to adopt what others want, but **in finding a middle ground** that enables the country to express its will and **build consensus** behind a program capable of achieving sustainable growth"

Botchwey et al, (1998, p. 21)

Some steps taken/begun

1. Refocus expenditure policies towards poverty relief
2. Shift to governance and institutional reform (not just macro-policy or law)
3. Consultation with stakeholders
4. Increased coordination of international agencies and agendas

1. Expenditure policies

- Reliable expenditure on safety nets and poverty relief
  - Should increase political legitimacy and support for taxation
- BUT, **poverty relief** may not generate consensus from other stakeholders
- Negotiation is required
  - Linking taxing and spending
  - Benefits for the “middle class”
  - Political power sharing

2. Governance reform

- An attempt to take account of domestic processes and state constraints
- Budget transparency
- Public expenditure management
- Anti-corruption projects
- Tax administration reform
- Procedural fairness in rulings, judicial hearings, collection processes

3. Consultation

- “Education” of bureaucrats, politicians and taxpayers
- Consultation with the poor
  - Poverty Reduction Strategy Papers
  - Usually, local and expenditure-oriented
- Consultation with business
  - International forums eg OECD
  - Business/professional associations
- Consultation with ‘civil society’?

The politics of consultation

- Consultation or compromise?
  - Is consultation genuine?
  - Does it generate local expertise?
- Sustainable **increased tax collection** requires a broad **consensus**:
  - Key interest groups (taxpayers)
  - Citizens/civil society
  - International agencies
  - Administrative agencies

4. International developments

- Increased coordination between international agencies
  - IMF/World Bank
  - Regional tax technical assistance networks
  - Cross-country tax cooperation
- Highly indebted poor country debt relief
  - Increases legitimacy of government taxation and spending
- Strengthening UN engagement with fiscal policy?

Some thoughts

A. Develop local expert consensus

B. Acknowledge the importance of tax fairness and understand its complexity in the local context

C. Pay attention to the 'tax citizen' in the local political arena

A. Expert consensus

- Successful reform requires <u>local</u> expert consensus
  - Formation of expert consensus is political not merely “technical”
- Generating expert consensus requires
  - Education of local experts (increasing capacity)
  - Dialogue between local and external experts
  - A combination of non-public and public debate
  - Generating compromise between experts & stakeholders

B. Tax fairness

- Fairness is **important** and **complex**
- Fairness may relate to operation or outcomes of the tax system
  - In light of overall taxes, spending and operation of government
  - Between ethnic/religious/regional groups
  - In taxing high wealth not just low/middle
  - Compared to other countries
  - In procedures, appeals and refunds
- But, the tax system may not itself redistribute much income

Where is the citizen in tax reform?

- Tax politics are “thin” in many developing countries (Moore & Rakner, 2002)
- We need to take the “tax citizen” seriously
  - Taxpayer, labour and business associations
  - Tax linked to fairness
  - Tax linked to expenditures (benefits)
  - Taxing elites linked to political power
  - Tax as a key election issue