Briefing

Aid for domestic resource mobilisation: how much is there?

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2014
February

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Mobilising domestic resources is crucial in developing countries. Increasing tax revenue boosts resources available for governments to drive development and tackle poverty, and is more stable than other resource flows. There are also strong linkages between taxation, accountability and broader state-building goals.

Official development assistance (ODA) that supports domestic resource mobilisation (DRM) is gaining increasing attention as discussions about financing the post-2015 agenda progress. Donors are playing important roles in aiding tax reforms, and there are calls to scale-up this assistance. But while the role of ODA in individual reform projects is well documented, little is known about the overall, aggregate picture of international assistance in this area. Our Investments to End Poverty report argues that a greater awareness of all resources available to developing countries is essential to ending extreme poverty by 2030. This briefing uses analysis of the DAC's Creditor Reporting System project level database to answer the question: how much aid goes towards domestic resource mobilisation?

Key findings

- We identified projects totalling almost US$700 million of official development assistance (ODA) with a domestic resource mobilisation (DRM) element in 2011, including:
    - US$104.6 million of ODA for projects with DRM as a primary objective, or 'core' ODA for DRM.
    - US$579.0 million of ODA projects where DRM was an identifiable component, or 'wider' ODA for DRM.
- Core DRM projects account for less than one percent of total ODA (0.07% in 2011).
- Most ODA for DRM goes to countries with low domestic capacity levels, but not all low domestic capacity countries receive ODA for DRM.
- Any scaling up of development cooperation that supports DRM in coming years should be rooted in a comprehensive understanding of the existing landscape of this form of ODA. Better recording and reporting of tax-related activities by donors will help ensure aid is effective and enable better coordination between institutions working in this area.

Defining DRM

We define DRM as mobilising public resources in developing countries, primarily through taxation. It refers to generating funding from domestic resources and allocating these to economically and socially productive investments. The private sector has an important role to play, but this paper focuses on the public sector and its role in generating taxation and public revenue, and the growing discussions around international aid as a catalyst for increasing taxation.

DRM: important but little-understood

Interest in DRM has increased in recent years. The international community has created initiatives such as the International Tax Dialogue,[1] the International Tax Compact (ITC)[2] and an IMF Topical Trust Fund[3] for strengthening tax systems in the developing world. In the Global Partnership for Effective Development Cooperation's High-Level Meeting in Mexico in April, a session will be devoted to the topic, to "promote more and better development co-operation to strengthen developing countries' tax policies and administration".[4]

But very little is known about how much ODA currently goes to DRM. OECD (2008) estimated that in 2006 only 0.073% (US$88 million) of ODA was dedicated to tax and revenue related tasks, though it is unclear how this figure was calculated.[5] Mapping studies conducted by the ITC (2010) and Michielse & Thuronyi (2010) show the wide variety of donors, agencies and institutions working in this area. However, the ITC (2012) also draws attention to the difficulty in quantifying the amount of international assistance in DRM with the current sources available.

Part of the difficulty is that there is no specific purpose code for taxation and revenue activities in the OECD's comprehensive project-level database, the Creditor Reporting System (CRS). Tax-related and revenue-related assistance often come as part of broader projects, and are nearly impossible to accurately quantify.

We calculate our estimates by searching for keywords in the project details listed in the CRS database. This allows us to capture projects with DRM as either a primary objective – 'core' DRM projects – or projects with an identifiable and relevant component – 'wider' DRM projects.

Methodology

How much ODA goes towards DRM? To answer this question we developed a detailed methodology for identifying projects (see Annex for more detail). We focused initially on the four project purpose codes most likely to cover DRM projects. Projects with prominent references to "tax" and "revenue" were classified as core DRM. Where detailed project descriptions referenced these terms, projects were classified as wider DRM, along with projects uncovered by a further review of the entire CRS database for narrower search terms such as "domestic resource mobilisation" and "tax reform". Matching records were examined and verified manually.

[1] http://www.itdweb.org/Pages/Home.aspx
[2] http://www.taxcompact.net/
[3] http://www.imf.org/external/np/otm/2011/100110.pdf
[4] Global Partnership for Effective Development Co-operation http://effectivecooperation.org/wordpress/wp-content/uploads/2013/10/DocumentRevisedagendaandconceptnoteforMexicohighlevelmeetingproposalthehostandcochairs.pdf
[5] This estimate is higher than our estimate of core DRM in the same year. However, it is not clear whether the OECD's estimate covers projects where DRM is a primary objective, where it is an objective of a wider project, or both.

How much ODA goes to DRM?

ODA to domestic resource mobilisation through core projects and as a part of wider projects

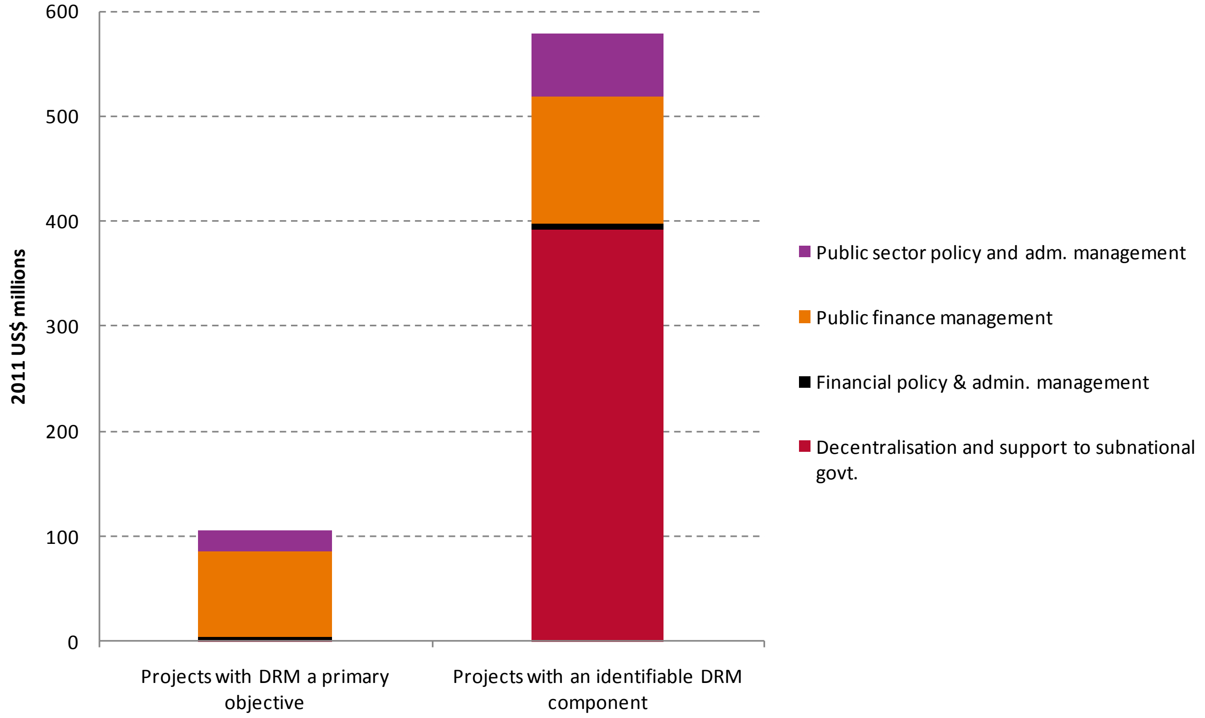

Figure 1: Estimates of ODA disbursements from all donors to projects in 2011 for which DRM is a core or wider objective (source: Development Initiatives calculations based on OECD CRS data).

In 2011 US$104.6 million was disbursed to 269 core DRM projects. While the average amount disbursed to these projects was around US$388,800, there were 12 projects larger than US$2 million. Donors use different purpose codes for these projects, but the majority of this spending (US$80.6 million) came under “public finance management”, while most of the remainder came under “public sector policy and administrative management”.

A further US$579 million of funding went to wider DRM; projects with an identifiable component that addressed taxation or revenue issues. As with core DRM ODA, this was spread across the project codes. Over two-thirds was classified as “decentralisation and support to sub-national government” purpose code. The US gave around US$361.8 million to 205 projects to address “local revenue raising”,[6] alongside other subnational government functions. Funding to subnational government in this area is particularly important; it is suitable way of collecting some taxes, such as property taxes, but there is often a lack of capacity to do so effectively. US$121.2 million of wider DRM ODA was classified as “public finance management”.

While it is impossible to quantify the DRM component of these wider projects, these estimates indicate that there is a significant amount of funding in this area from projects with a broader scope.

[6] This quote is taken from the descriptions of these projects in the CRS database.

Almost half of core DRM ODA is technical cooperation, while almost a third is cash grants

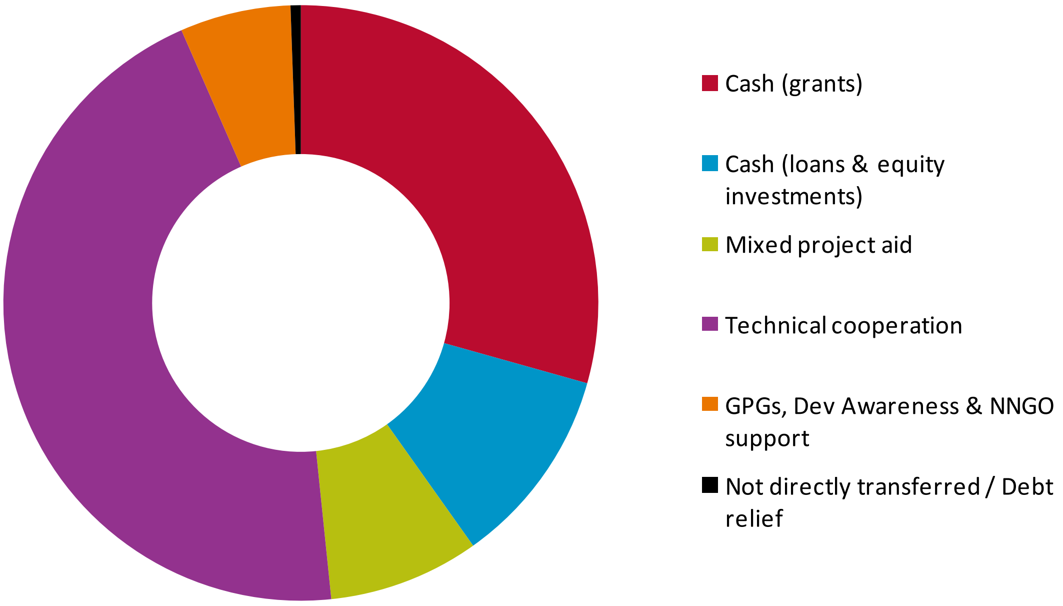

Figure 2: Aid bundle breakdown of core DRM ODA in 2011 (source: Development Initiatives based on OECD CRS data).

The form in which core DRM ODA is provided varies. Around 45% of projects in 2011 were given as technical cooperation, 29% were given as cash grants and 11% as loans.

There is significant variation in the types of projects captured, including bilateral projects aiding the reform of revenue authorities, twinning arrangements with donor institutions and contributions to international institutions or pooled funds, such as the IMF's Tax Policy and Administration Topical Trust Fund. Projects also cover issues surrounding tax policy and design, tax administration as well as encouraging state-society engagement around tax.

Funding for projects with domestic resource mobilisation as a primary objective has fluctuated in recent years, but was on an upward trend in 2010 and 2011

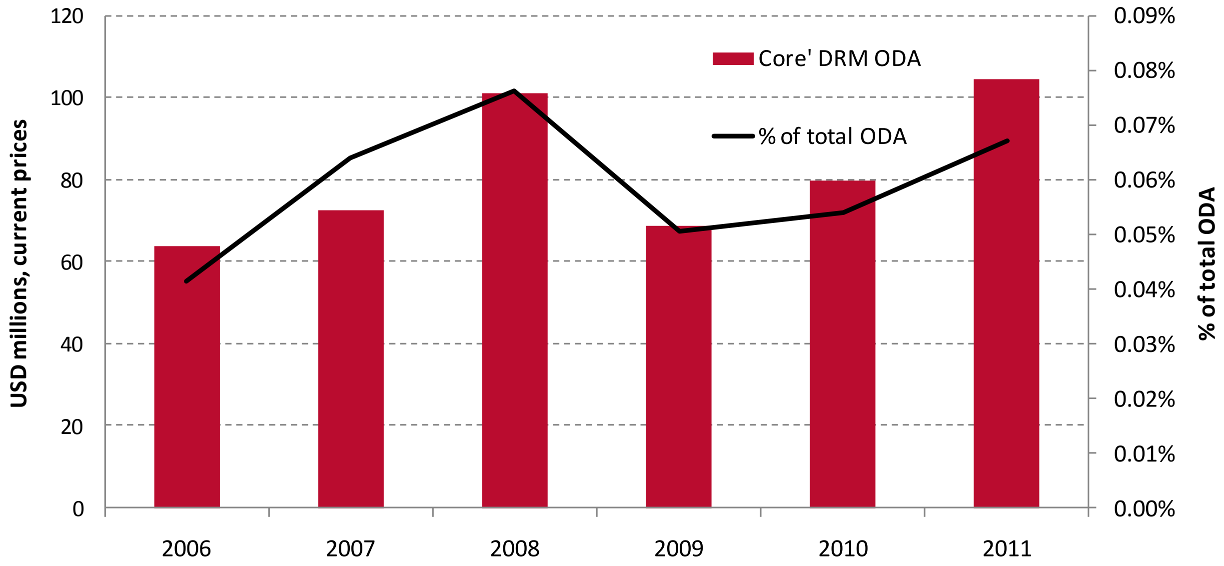

Figure 3: Trends in ODA to core DRM from 2006 to 2011, USD millions and as a percentage of total ODA (source: Development Initiatives calculations based on OECD CRS data).

Applying the same methodology to previous years, we can see that ODA funding for projects with domestic resource mobilisation as a primary objective has increased as a share of total ODA from 0.04% (US$64.1 million) in 2006 to 0.07% (US$104.6 million) in 2011.

The spike in 2008 is due to a single US$38 million project from the European Development Fund to reform Morocco's tax system. During this period an average of US$541 million went each year to wider projects that had a domestic resource mobilisation component.

Who gives and receives core DRM ODA?

The UK is the most active donor of core DRM, followed by the European Union

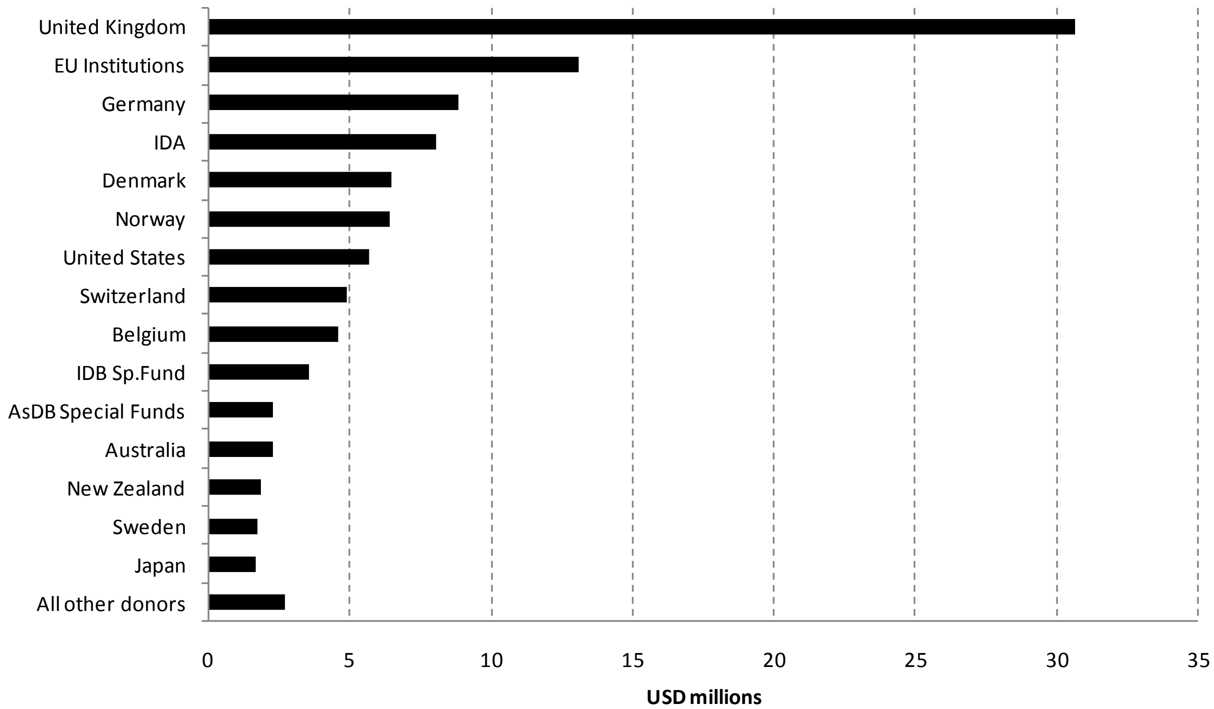

Figure 4: The 15 largest donors of ODA to core DRM, 2011 (source: Development Initiatives calculations based on OECD CRS data).

Although traditionally thought of as the preserve of the World Bank and the IMF,[7] our analysis shows that many donors are active in providing tax-related assistance. In 2011, 23 donors had core DRM projects. Sixteen of these also had wider DRM projects, while Portugal had only wider projects registered in our data.

The UK was the largest donor to core DRM projects in 2011, with projects in 13 developing countries. The largest recipients of those projects were Afghanistan and Pakistan, but the UK was also the largest donor to countries in sub-Saharan Africa.

The second largest donor in 2011 was the European Union (EU), which distributed around US$13.1 million, primarily through the European Development Fund. Around 45% of EU ODA was targeted towards European neighbourhood countries. This regional orientation was even higher in 2009 (84%). Germany, the third largest donor, provided significant technical cooperation to developing countries, and significant amounts to international pooled funds and organisations. This included US$1.64 million to the International Tax Compact, US$1.59 million to the IMF Topical Trust Fund on Tax Policy and Administration, and US$0.4 million to the African Tax Administration Forum.

[7] The IMF does not feature in our data because they report only General Budget Support from its Concessional Fund to the CRS. However, for 2011, the IMF was the stated channel of delivery for 10% of ODA to core DRM projects that had a specified channel of delivery.

Only three donors gave more than 0.25% of their total aid to the core DRM projects captured in our search: New Zealand (0.55%), the United Kingdom (0.35%) and Denmark (0.29%).

These results reflect the differences in the focus and reporting of projects. Some donors, such as the UK, have many independent tax reform programmes while others, such as France, have generic, uniform descriptions of all its public financial management projects. The ITC (2012) note that France is active in this area and that the agency ADETEF internally recorded DRM ODA of up to €1.5 million in 2009. But due to their reporting procedures to the CRS this activity does not register in our search.

75 developing countries received ODA for core DRM projects, with Afghanistan and Pakistan receiving the most

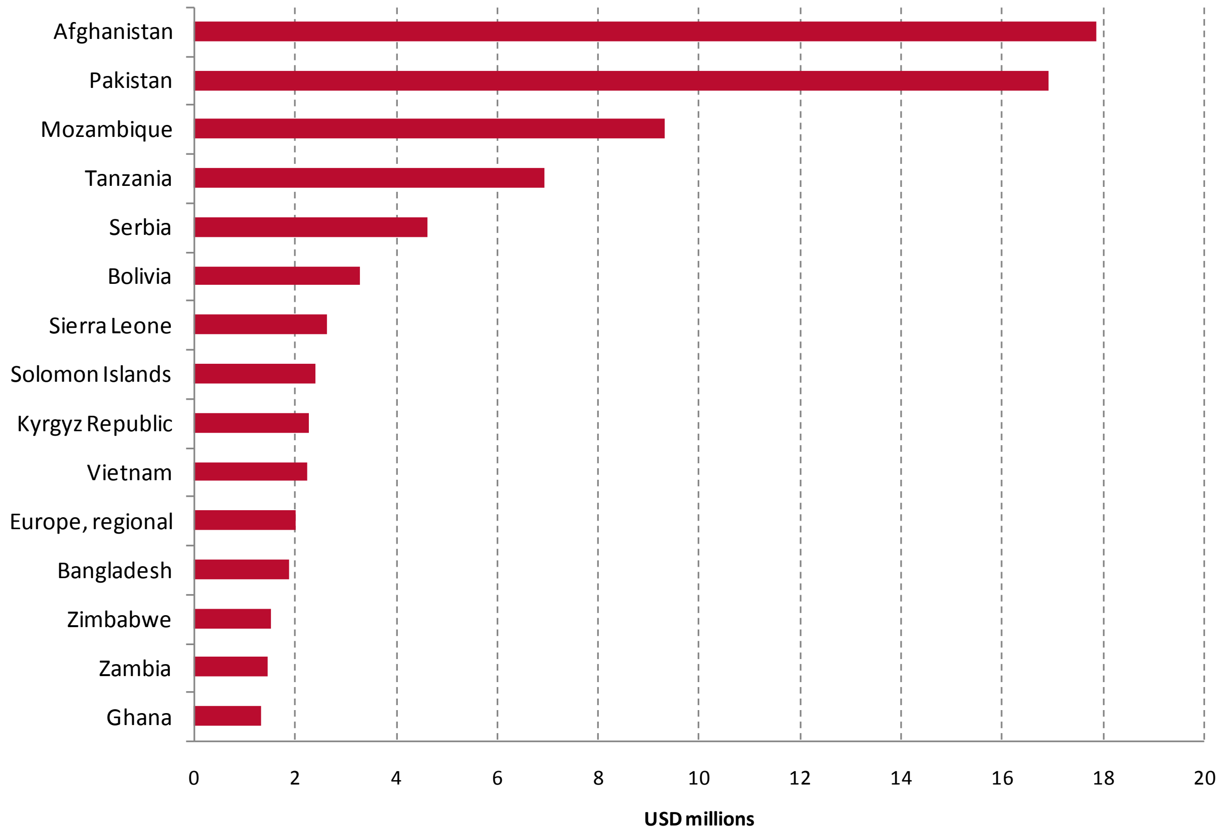

Figure 5: The 15 largest recipients of ODA to DRM, 2011 (source: Development Initiatives calculations based on OECD CRS data).

Seventy-five countries received ODA for core DRM projects in 2011. Afghanistan was the largest recipient with just under US$17.8 million. Over two-thirds of this (US$11.8 million) was part of a four-year DFID-funded project to reform and develop an “effective, modern and broad based” tax system.[8]

Pakistan, the second largest recipient, also received a large amount from DFID (US$6.6 million).This was channelled through the International Bank for Reconstruction and Development, along with contributions from the World Bank’s concessional finance arm, International Development Association.

Mozambique is the third largest recipient and received funding from six different donors. Denmark was the largest donor to Mozambique, contributing a cash grant disbursement to develop and implement e-Tributacao, a tax-related IT software programme.

[8] Project description and documentation from DFID’s Development Tracker tool can be found here: http://devtracker.dfid.gov.uk/projects/GB-1-113362/

Our analysis cannot capture in-country coordination among donors, but the danger of multiple donors undermining coherent reform efforts in this area has been highlighted. The United Nations Economic and Social Council (ECOSOC) (2010) points towards Tanzania as an example: the World Bank, USAID, GTZ, DFID and the EU were all engaged in different parts of reform projects in the country. This led to problems in implementation, such as IT systems and taxpayer identification numbers not being coordinated when introduced. In Tanzania in 2011, we found projects funded by seven different donors. Twelve countries received assistance in this area from more than two donors.

In light of recent calls to scale-up assistance, a better understanding of donors' activities will be vital to ensure coherence.

Interestingly, over US$16.8 million of ODA captured in core projects were either regional projects, or unspecified bilateral projects. These projects included contributions to international organisations, as well as funding for research at universities in this area.

Is spending well targeted?

The majority of ODA for core DRM targets developing countries with low levels of domestic resources

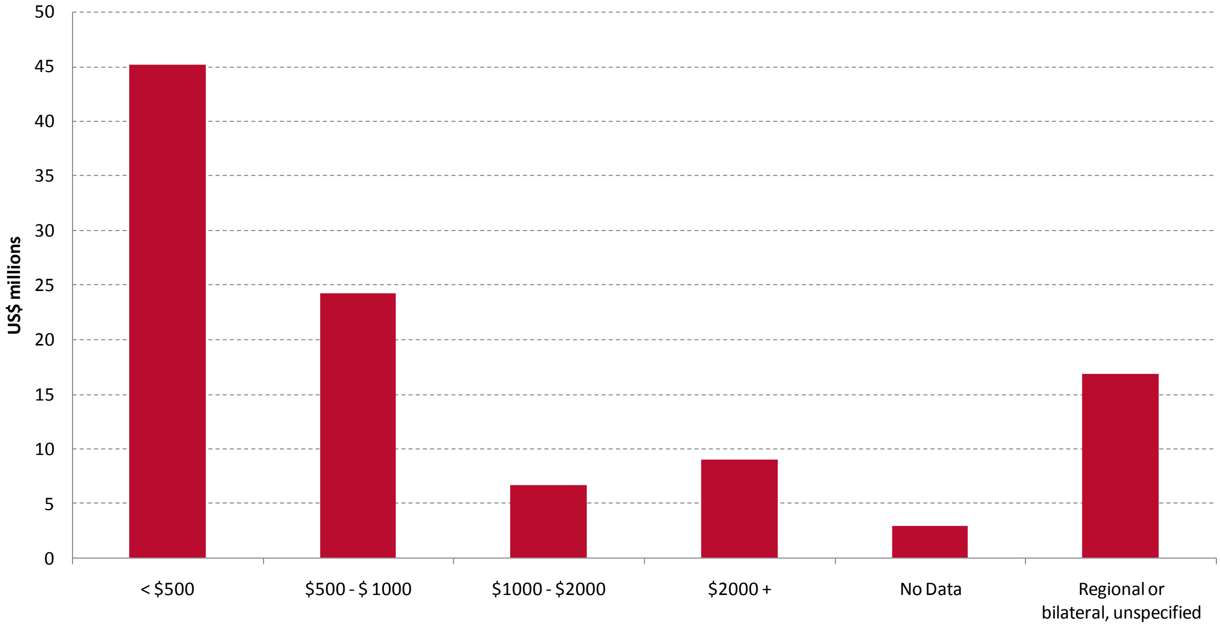

Figure 6: ODA to core DRM in developing countries, by level of domestic resource, 2011 (source: Development Initiatives calculations based on OECD CRS data and IMF WEO data).

The majority of core DRM ODA goes to countries with relatively low levels of domestic resources.

Using government expenditure per capita[9] as a proxy for levels of domestic capacity in developing countries, the majority of projects targeted countries with relatively low levels of domestic resources (government expenditure below $500 per capita).

This suggests that most current core DRM ODA is being targeted at countries with greater need for assistance. But there are differences in donor practice. Due to its regional focus, a significant portion of the funding from the EU goes to neighbourhood countries with higher domestic resource levels ($2k+ per capita). In contrast, nearly all the assistance provided by the UK and Denmark goes to countries with the lowest levels of government resources, where spending per capita is less than $500.

[9] These figures exclude ODA for general budget support.

Thirteen sub-Saharan African countries with very low levels of domestic capacity received no funding from the projects captured by our analysis. However, ten of these countries are Francophone and, given that French data is likely to be under-recorded in our data, these countries may receive funding outside that captured by our methodology.

What could be done to gain a clearer picture?

Given growing calls to scale-up ODA for DRM, it is critical that this be based on a thorough understanding of the current landscape.

Our understanding of the sector depends on how donors report projects to the CRS. If donors supply insufficient detail in the long descriptions of projects, any DRM-relevant components will be omitted, and assistance of this nature will be underestimated. Because our analysis is based on the CRS it excludes development cooperation from providers that do not report to the DAC. This includes many emerging and southern donors, as well as most foundations and private actors.

A clearer picture of the trends of international assistance in this area is restricted by donors' internal and external reporting of tax-related expenditures. The ITC (2012) note that only a few bilateral and multilateral agencies tag taxation activities in their internal coding systems. The personnel responsible for reporting data to the DAC are often detached from staff who are familiar with the tax component of projects. There are ways to adapt external reporting through the CRS database to provide more reliable sources of information for the aid that goes towards mobilising domestic resources – markers such as those used for gender or climate change, or the use of keywords or sub-purpose codes specifically for taxation activities would be useful. But this might be difficult and costly to implement, and would not overcome the problem of insufficient internal reporting among donors.

The International Aid Transparency Initiative (IATI) Datastore can shed some light on DRM ODA. Where sufficient information is reported by donors, the Datastore allows funds to be tracked from the donor through the different receiving organisations to the beneficiary. This would give a deeper understanding of the type of assistance that developing countries ultimately receive. For example, it would be possible to see whether assistance is delivered through a private sector consultancy or given as a direct cash grant to a revenue authority. It would allow insight into the ultimate beneficiaries of the ODA captured in this study that goes to international organisations. IATI data can also be downloaded at activity level, allowing multi-sector projects to be broken down to components with different purpose codes. This is different from the CRS, which allows only one purpose code for each project. Providing donor reporting barriers are overcome, this would be a significant step forward for DRM ODA analysis, allowing us to isolate the tax related component of projects.

Another source of information on tax-related activities with potential to be developed further is the International Tax Dialogue's technical assistance database.[10] By focusing solely on taxation, the database can capture assistance from outside the DAC and ODA framework. As it captures only a limited amount of information it may be appealing to donors to keep administrative loads to a minimum. The database currently offers an interactive map of country-specific projects, a potentially useful tool to aid decision making in this area for both donors and developing countries. However, our research from the CRS shows that more donors are active in this area than the eight agencies currently reporting to the technical assistance database. A more comprehensive open access database that could be studied in conjunction with the CRS or IATI would be a powerful tool for improving understanding of DRM support.

Conclusion

Many donors are active in using ODA to mobilise domestic resources, with 75 developing countries receiving core DRM ODA. However, our analysis suggests DRM ODA represents a

[10] International Tax Dialogue http://www.itdweb.org/Pages/TechAssist.aspx?DateRange=0

small proportion of total ODA and that some countries with low domestic resources receive no such funding.

Any scaling-up of development cooperation in support of DRM in coming years should be rooted in a comprehensive understanding of the existing landscape of this form of ODA. This will ensure efficient use of resources and enable better coordination between multiple donors running concurrent projects in the same countries. International initiatives and fora for sharing information, such as the International Tax Compact, the International Tax Dialogue and the African Tax Administration Forum have helped to make progress in this area. But ultimately better internal and external reporting of donor activities will be needed.

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ANNEX: ODA for DRM – CRS analysis methodology

To estimate the amount of ODA that goes to domestic resource mobilisation, we used the DAC's Creditor Reporting System project level database. In doing so, our approach had to take into account that there is no relevant purpose code for tax and revenue related assistance, and that tax and revenue related assistance often comes as part of projects with broader objectives. We developed a methodology using key word searches for the project titles, short descriptions and long descriptions of projects in the database. This captured two types of projects: projects with domestic resource mobilisation as a primary objective (referred to as 'core' DRM projects) and projects with an identifiable component that addresses domestic resource mobilisation (referred to as 'wider' DRM projects).

Purpose codes

The 240,000 project entries for 2011 in the CRS database were filtered down to projects in four key purpose codes.[11] These were chosen to best capture the DRM ODA on the basis of their descriptions (see table below). We also examined the "trade facilitation" purpose code (33120) because it deals with support to customs and tariff reforms, but this code was disregarded as the projects captured did not focus directly on increasing revenues.

Annex table 1: Purpose codes used and their descriptions

Code number	Purpose code	Description
15110	Public sector policy and administrative management	Institution-building assistance to strengthen core public sector management systems and capacities. This includes macro-economic and other policy management, co-ordination, planning and reform; human resource management; organisational development; civil service reform; e-government; development planning, monitoring and evaluation; support to ministries involved in aid co-ordination; other ministries and government departments when sector cannot be specified.
15111	Public finance management	Fiscal policy and planning; support to ministries of finance; strengthening financial and managerial accountability; public expenditure management; improving financial management systems; tax policy and administration; budget drafting; inter-governmental fiscal relations, public audit, public debt.
15112	Decentralisation and support to subnational government	Decentralisation processes (including political, administrative and fiscal dimensions); intergovernmental relations and federalism; strengthening departments of regional and local government, regional and local authorities and their national associations.
24010	Financial policy and administrative management	Finance sector policy, planning and programmes; institution capacity building and advice; financial markets and systems.

[11] Information from the OECD on purpose codes and sector classification is available here: http://www.oecd.org/dac/stats/purposecodessectorclassification.htm

Keyword searches

We followed these steps to identify relevant projects using a keyword search methodology:

1. Project titles and short descriptions were searched for the broad terms “tax” and “revenue” to identify projects with taxation or revenue issues as principal objectives. These terms were decided on after the observation that most of the core DRM projects that we sought to capture had these words in the 150 characters allowed in the project titles and short descriptions. These projects were marked “2” in a column, mimicking the marker codes used in the CRS.
2. Long descriptions (which allow more characters to be entered for each project) were then searched for the same broad terms. Projects captured in the search of long descriptions but not in the search of project titles or short descriptions were marked “1”, on the assumption that DRM was one objective of a wider programme.
3. A secondary search using narrower terms was carried out on the project titles, the short descriptions and the long descriptions of all projects that were not already marked as “2”. These terms, such as “domestic resource mobilisation” and “increase revenue” (and variations of these, such as mobilisation / mobilization) captured a pool of projects which were then examined manually to determine whether DRM was a core objective, or part of a wider programme. 50 projects were examined in this way.
4. In a similar way, narrow search terms such as “macroeconomic”, “fiscal policy”, “budgeting” and “monetary policy” that would suggest wider public financial management programmes were used to identify projects that may have appeared as core DRM in step 1. These projects were examined manually to determine whether they represent wider programmes of which DRM was a part.

The narrow search terms for core projects such as “domestic resource mobilisation” and “increase revenue” were used in a search of all other projects in the whole of the CRS database (including outside the key purpose codes). This captured around 40 projects which were examined manually and marked as core DRM or as part of a wider programme as appropriate. We also accounted for the fact that CRS reporting can be in either of the official OECD languages (English or French). We searched the project titles, short descriptions and long descriptions for a selection of relevant French words: “impôt”, “fiscalité” (and “impot”, “fiscalite” to account for missing punctuation), and “recettes”. The projects that these searches returned were manually marked “1” or “2” as appropriate.

The same methodology was applied to the CRS records for years 2006 to 2010 in order to analyse trends.

For more detail on the approach used to calculate the aid bundle, see DI’s Investments to End Poverty report.