Briefing

Aiding domestic revenue mobilisation

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Development Initiatives exists to end extreme poverty by 2030

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Summary

Increasing domestic revenue mobilisation is an important priority for developing countries. International actors have recently committed to scale up aid for domestic revenue mobilisation through the Addis Tax Initiative. Yet, despite the growing importance of aid for domestic revenue mobilisation, there is little comprehensive information available about the cooperation and types of partnerships that are already in place or the success and results of different models of support.

As donors prepare to scale up the provision of aid for domestic revenue mobilisation, it is vital that more is known about the overall picture if it is to be scaled up effectively. Such assistance has the potential to make an important contribution by helping countries overcome some of the challenges of raising revenues. The success or failure of cooperation in this area should be measured by the impact it is having, but if we cannot answer questions about how much is spent, where and how, then it is difficult to monitor and evaluate this impact. This briefing estimates some of the key dimensions of aid for domestic revenue mobilisation and makes some recommendations about how to ensure that it is used effectively as it increases in scale in coming years.

Recommendations

- Ensure that delivery of aid for domestic revenue mobilisation aligns to country ownership under strong political commitment to reform within government, particularly for technical cooperation, its key modality
- Create a system for transparent reporting so that there is a clear picture of what cooperation is happening by creating a purpose code within the Organisation for Economic Co-operation and Development (OECD) reporting systems
- Focus on results: build on this growing clarity about what is being spent as a basis for enhanced knowledge sharing and understanding results
- Link aid for domestic revenue mobilisation to the wider principles of progressive, sustainable domestic revenue mobilisation articulated in the Addis Ababa Action Agenda.

This briefing is based on a forthcoming report, *Aiding domestic revenue mobilisation*, by Development Initiatives. It is provided as background for the DCF Belgium High-level Symposium (6-8 April 2016), *Rethinking development cooperation for the SDGs: country-level perspectives*. The views presented here do not necessarily represent those of the United Nations or the Government of Belgium.

What is aid for domestic revenue mobilisation?

Aid for domestic revenue mobilisation is one tool to support developing countries in the goal of increasing revenue mobilisation. It encompasses cooperation in areas such as capacity building for revenue authorities, use of new technology in revenue collection or financial management, and the introduction and enforcement of new tax policies. Sitting alongside policy coherence in areas such as illicit finance and trade, it has the potential to help countries as they aim to increase revenues through progressive, sustainable models.

Aid for domestic revenue mobilisation projects are often small in value – indeed technical cooperation is the primary modality – and can be grouped into two broad types (Box 1). Yet despite the low cost, aid for domestic revenue mobilisation can help countries achieve significant results if designed and implemented effectively and in line with the principles of country ownership.

Mozambique, for example, was able to more than double real per capita revenue in six years between 2008 and 2013, in part due to the support of the international community for tax reform projects.

A recent initiative of governments and international actors, the Addis Tax Initiative (Box 2), may galvanise growth in aid for domestic revenue mobilisation. Addis Tax Initiative donors committed at the Third International Conference on Financing for Development in 2015 to "collectively double their technical cooperation in the area of domestic mobilisation/taxation by 2020".[1]

How much aid for domestic revenue mobilisation is there, who provides it, who receives it and how?

In 2013, aid to core projects totalled an estimated US$92.5 million in 232 projects. In the same year, aid to wider projects totalled US$600.5 million in 371 projects.

BOX 1

Aid for domestic revenue mobilisation in 2013: Key figures

Core projects: US$92.5 million went to 232 'core' aid for domestic revenue mobilisation projects. Core projects are defined as those for which the primary objective is supporting countries' domestic revenue mobilisation. Example project: Cooperation between the Swedish Tax Agency and the Botswana Unified Revenue Service covering tax administration, forecasting, auditing, IT systems and more.

Wider projects: US$600.5 million financed 371 'wider' aid for domestic revenue mobilisation projects. Wider projects are where supporting countries' domestic revenue mobilisation is an identifiable objective in a broader public financial management, public sector administration, governance or decentralisation. Example project: technical assistance and training cooperation between USAID and Lebanon to strengthen a wide range of sub-national government functions from revenue raising and budgeting to community planning and law enforcement.

However, this picture is patchy – without a system for reporting aid for domestic revenue mobilisation projects, these estimates rely on a keyword-based methodology for identifying relevant spending.[2] Providing nearly a third of the total, the donor providing the most aid for core projects in 2013 was the United Kingdom (UK), which ran projects in 11 developing countries. The UK Department for International Development (DFID)'s largest disbursement in 2013 was to a large bilateral technical assistance project in Afghanistan, worth US$11.3 million; other key UK partners are Tanzania and Bangladesh.[3] The second most significant provider of aid for domestic revenue mobilisation in 2013 was Norway, disbursing US$10.5 million to 18 projects in 11 developing countries, including Tanzania (US$3.0m), Mozambique (US$2.3m) and Zambia (US$1.3m). Norway also supports international initiatives, such as research on tax and capital flight in developing countries, and provides funds for the African Tax Administration Forum. The third largest provider was the European Union (EU), which disbursed US$9.5 million to core projects. It had the highest number of projects (30), and projects in more developing countries (19) than any other donor. The EU's focus is mainly regional, often aimed at supporting EU accession states harmonise tax policies: over half the EU's aid for core projects in 2013 went to European countries.

The US is the fourth largest provider of core aid for domestic revenue mobilisation. By a significant margin it is also the largest provider of aid for wider projects totalling US$479.3 million in 2013, though it is not possible to know how much of this spending was for revenue mobilisation and how much was for other objectives. Over half of US aid for wider projects went to those aimed at decentralisation and support to subnational government.

BOX 2

The Addis Tax Initiative

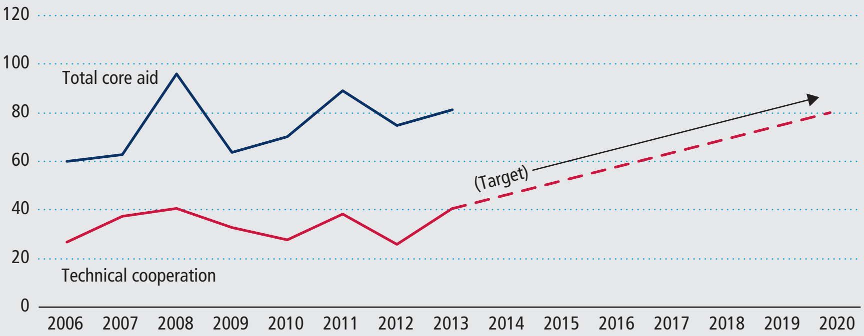
The Addis Tax Initiative, a partnership in capacity building around domestic revenue mobilisation and taxation, was launched at the Third International Financing for Development Conference in Addis Ababa in 2015. It is the key initiative in the aid for domestic revenue mobilisation area and aims to drive both increases in cooperation and strengthening of the systems for monitoring and ensuring effective cooperation. Donor signatories have committed to double technical cooperation in tax/domestic revenue mobilisation by 2020.

The 19 donors that have signed up to the initiative collectively disbursed US$81.2 million to 205 core projects in 69 developing countries in 2013. This includes at least US$40 million of technical cooperation support, the focus of the initiative. These signatories have been expanding aid for domestic revenue mobilisation in recent years (Figure 1), but meeting the commitment by 2020 will require an increase in the pace of growth. Over the seven years from 2006 to 2013 technical cooperation for domestic revenue mobilisation grew 52%, and total aid for core projects grew 36%.

FIGURE 1

Meeting the Addis Tax Initiative commitment will require increasing the rate of growth of technical cooperation for domestic revenue mobilisation

Core aid for domestic revenue mobilisation and technical cooperation provided by ATI signatories, constant 2014 US$ millions, 2006–2013 and target for 2020



Source: Development Initiatives' calculations based on OECD DAC

Notes: Signatories to the Addis Tax Initiative have committed to collectively double technical cooperation for domestic revenue mobilisation by 2020. Note that these figures represent Development Initiatives' estimates of a baseline for the Addis Tax Initiative commitment, not an official baseline. Total core aid for domestic revenue mobilisation is shown as context.

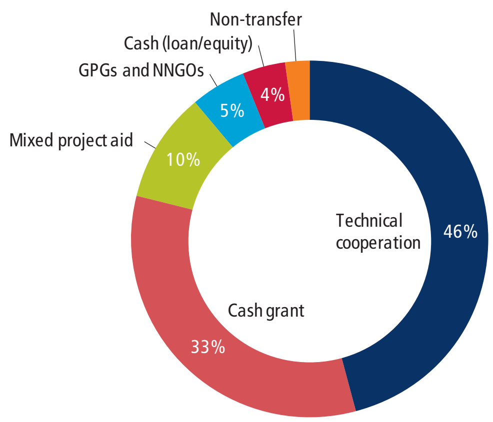
How is aid for domestic revenue mobilisation delivered?

Technical cooperation is the most significant modality for delivering aid for domestic revenue mobilisation (Figure 2). Technical cooperation accounts for 130 of the 232 core projects identified, though these range in scope and size. Most are small, relating to technical assistance in specific areas such as introducing a new form of taxation or improving an IT system. However, some technical cooperation projects are broader in their aims. For example, cooperation between the Swedish Tax Agency and the Botswana Unified Revenue Service covers a wide range of areas including administration, forecasting, auditing, IT systems and more.

FIGURE 2

Technical cooperation accounts for almost half of core aid for domestic revenue mobilisation

Core aid for domestic mobilisation by bundle, %, 2013



Source: Development Initiatives' calculations based on OECD DAC

Note: GPGs: global public goods; NNGOs: national non-governmental organisations.

Another key modality is **cash grants**, which accounted for disbursements of US$30.6 million (approximately one-third of the total) across 38 projects in 2013. The majority of grants are directed to countries with lower pre-existing levels of domestic revenue mobilisation. Most grants went directly to governments, typically ministries of finance or revenue authorities, though some went to international and multilateral initiatives.

Who receives aid for domestic revenue mobilisation?

Three countries – Tanzania, Afghanistan and Mozambique – together accounted for more than a third of all aid for domestic revenue mobilisation in 2013, each receiving between US$9 million and US$12 million. These three have been among the main recipients for several years, reflecting the continued, long-term focus of donors on improving domestic revenue mobilisation in these countries. A fourth country, Pakistan, which was the focus of major aid for domestic revenue mobilisation cooperation from 2007, had a significant long-term project terminated in 2012. In regional terms, sub-Saharan Africa received over a third of the total (US$33.29m) in 2013, followed by South and Central Asia with 22% (US$20.17m) of the total. Additionally, aid directed towards non-country-specific international initiatives and research relating to domestic revenue mobilisation, such as the International Monetary Fund's Tax Policy and Administration Topical Trust Fund and the African Tax Administration Forum, has increased significantly in recent years and accounts for more than 15% of the total.

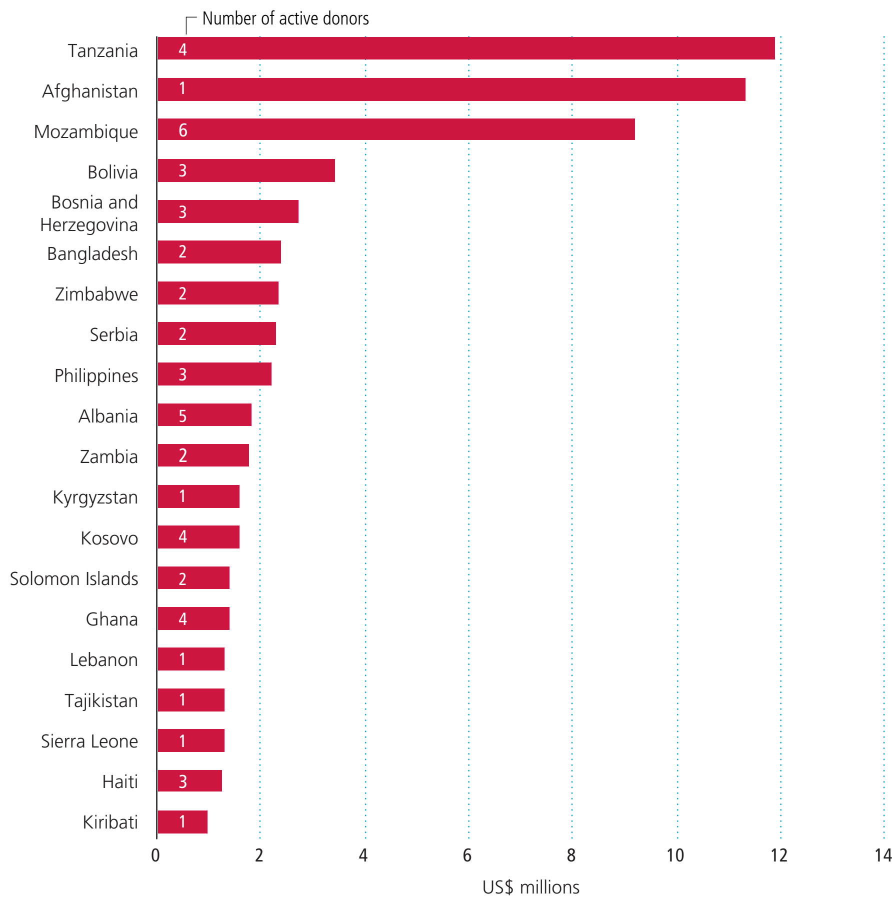
What factors determine how aid for domestic revenue mobilisation is allocated?

We might expect to see more aid for domestic revenue mobilisation focused on countries where domestic revenues are currently lower. In terms of volumes, this is broadly the case: 44% of the aid analysed here goes to countries that raise less than PPP$500[4] in government revenue per person per year. Nearly half goes to least developed countries. However, much of this is driven by the largest three recipients (Tanzania, Afghanistan and Mozambique). Excluding these, aid for domestic revenue mobilisation is spread across countries with wide-ranging levels of domestic revenues. Notably, the type of cooperation also varies according to the country context. There are more (typically smaller) projects in countries with higher pre-existing levels of domestic resources, and these often focus on more specific elements of the revenue raising process. In countries with lower domestic revenues, donor support is often broader ranging, covering many aspects of the revenue mobilisation process, and functions of key institutions.

FIGURE 3

Tanzania, Afghanistan and Mozambique account for more than a third of core aid for domestic revenue mobilisation

The 20 largest recipient countries of core aid for domestic revenue mobilisation
US$ millions, 2013



Source: Development Initiatives' calculations based on OECD DAC

This reflects the fact that current levels of domestic revenue are just one consideration in the allocation of aid for domestic revenue mobilisation investments. Donors also consider whether the country has the potential to grow revenues, for example if the demand for assistance and political will to implement changes are clear. Aid for domestic revenue mobilisation may also play an important role in cooperation with countries that are transitioning away from concessional forms of financing. As the case of the EU indicates, geo-political and regional political considerations also influence allocations: many of the EU's largest recipients of aid for domestic revenue mobilisation are countries covered by the EU Neighbourhood Policy.

BOX 3

Linking to impact

The ultimate goal of aid for domestic revenue mobilisation is to help countries overcome the constraints to growing revenue mobilisation in order to increase their fiscal space. As systems for monitoring aid for domestic revenue mobilisation are developed it is important to focus on these results to enable knowledge and lesson sharing about what has worked where and to drive effectiveness of aid for domestic revenue mobilisation as a whole. While there are no mechanisms that comprehensively capture the results of aid for domestic revenue mobilisation currently, evidence from country examples shows a wide array of outcomes, highlighted by the examples of Pakistan and Mozambique.

Mozambique is widely regarded as one of the most successful models of aid for domestic revenue mobilisation.[5] Reforms including establishing the Mozambique Revenue Authority in 2006 have helped to significantly increase and diversify Mozambique's revenue mobilisation, modernise the tax administration, widen the tax base, improve taxpayer services and provide better public information on the tax system. These reforms undertaken by the Mozambique government, with the strategic use of aid for domestic revenue mobilisation,[6] have helped the country more than double domestic revenue mobilisation in six years.[7]

Pakistan was one of the key recipients of aid for domestic revenue mobilisation until 2012, when a major reform programme led by the World Bank was finished. The programme had broad objectives to strengthen the revenue collection system in Pakistan, yet it failed to meet its objectives. During the lifetime of the project, Pakistan's tax-to-GDP ratio fell from 11.5% to 8.6% and the World Bank's own evaluation classified the project and its outcomes as 'moderately unsatisfactory'. Problems including a lack of auditing and under use of new systems[8] underscore the importance of strong domestic political support for reforms, without which projects are unlikely to succeed.

Key recommendations

Aid for domestic revenue mobilisation is at a turning point. It is set to grow in volume and has the potential to make an important contribution to the Sustainable Development Goals by supporting developing countries to increase the revenues they have available.

As aid for domestic revenue mobilisation grows, cooperation must be designed and implemented around the principle of country ownership and under strong political commitment to reform within government. While cooperation in countries such as Mozambique has helped yield significant results, in other countries, such as Pakistan, the lack of strong country ownership hindered the outcomes of a significant long-term programme.

The success or failure of aid for domestic revenue mobilisation should be measured by the impact it is having, and the systems developed to report and monitor it will have a critical bearing on its overall effectiveness. Without understanding the basics about who is spending what, where and how, it is difficult to move onto the more important question of what impact it is having, or to effectively share knowledge and lessons on what has and has not worked and why. Efforts to improve these systems are underway and discussions should consider the following recommendations:

Create a transparent reporting mechanism

Difficulties with analysing aid for domestic revenue mobilisation flows at the global level are largely due to the lack of an effective reporting mechanism for identifying it as a component of ODA, meaning it is difficult to identify who spends what, where, and with what results. Creating a purpose code in the OECD reporting systems[9] to capture relevant spending would improve the overall picture and provide a mechanism by which donors could identify the relevant components of wider projects. Increasing clarity on what is spent can help shift the focus to the more important question of understanding what impact aid for domestic revenue mobilisation is having.

Focus on results

A focus on the US$ value of investments alone is not enough – evidence shows that projects can have vastly differing results. As systems to clearly track spending are developed it is important to mitigate the risk that these do not over-emphasise spending and create incentives to focus more on the cost of projects than the results they achieve. Greater clarity on what is being spent should become a basis for enhanced knowledge sharing about what works.

Support country-owned efforts to increase domestic revenue

1. Aid for domestic revenue mobilisation should be based on progressive, sustainable principles. While donors should not be prescriptive but rather align with the domestic revenue mobilisation priorities of their partners, global dialogue on aid for domestic revenue mobilisation should consider how to align the intended outcomes of aid for domestic revenue mobilisation with the principles of progressive, sustainable increases in revenue, as outlined in the Addis Ababa Action Agenda.

2. There should be effective technical cooperation. Care needs to be taken to provide technical cooperation, a key modality for delivering aid for domestic revenue mobilisation, in line with principles of development effectiveness (with special attention to good practice in procurement and untied aid). Country ownership and political will are likely to be critical elements of successful aid for domestic revenue mobilisation; these are particularly relevant for technical cooperation projects. Once reporting is improved, it may be useful to focus on how technical cooperation can be delivered to drive better results in aid for domestic revenue mobilisation.

Notes

1 www.addistaxinitiative.net/

2 This is established practice for monitoring spending in areas like aid for domestic revenue mobilisation, such as statistical capacity building, but is imperfect and comes with a margin of error.

3 During peer review of this analysis, we were advised by DFID that Sierra Leone is also a significant partner country for the UK's cooperation on domestic revenue mobilisation. However, this fact was not evidenced in our data analysis. This may reinforce the need for clarity and consistency in reporting of aid for domestic revenue mobilisation.

4 Purchasing power parity (PPP) prices are the rate at which a country's currency would have to be converted into that of another country to buy the same amount of goods and services in each country. PPPs are constructed by comparing the cost of a common basket of goods in different countries.

5 OECD (2013a), Tax and Development: Aid Modalities for Strengthening Tax Systems, OECD Publishing, Paris, http://www.oecd-ilibrary.org/development/tax-and-development_9789264177581-en

6 OECD (2013a), Tax and Development: Aid Modalities for Strengthening Tax Systems, OECD Publishing, Paris, http://www.oecd-ilibrary.org/development/tax-and-development_9789264177581-en

7 See our forthcoming report on which this policy brief is based, *Aiding domestic revenue mobilisation*, for further details.

8 For details see the World Bank's final report on the project, available here: http://documents.worldbank.org/curated/en/2012/06/16489300/pakistan-tax-administration-reform-project, or testimony provided to the UK Parliament International Development Committee, available here: www.publications.parliament.uk/pa/cm201213/cmselect/cmintdev/c751-ii/c75101.htm.

9 WP-Stat, the committee that manages the systems for reporting official development assistance spending to the OECD, is in the process of evaluating how to adapt its reporting structures for the Sustainable Development Goal era.

Development Initiatives seeks to ensure that decisions about the allocation of finance and resources result in the end of poverty and increase the resilience and security of the world's most vulnerable people.

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