


***Do Revenue Authorities have the correct  
incentives to promote private investment and  
raise tax revenue?***

***The political dimension***



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# Tax as governance:

- tax systems must be accountable, fair, and effective to build trust between state and society
- compliance depends on an emerging sense of political citizenship, as well as delivering useful public goods – security and economic growth



# *Broadening the tax base essential for an effective state*

critical for:

- **Fiscal social contract** – a responsive and accountable government strengthens legitimacy and encourages tax compliance. This in turn generates the tax revenue necessary to deliver services
- **State legitimacy** - essential for sustainable growth
- **Accountability** – only when governments need to raise revenue, requiring bargaining with citizenry/private sector (“no taxation without representation”)

## *Beyond Efficiency: Towards a 'Growth fiscal contract'?*

- Developing country context
  - Most tax paid by business not general citizenry : therefore enormously important for political stability and development goals
  - BUT no-one currently has practical operational ideas for how to do this combined with efficiency and effectiveness of revenue mobilisation



## *Technical improvements and administrative incentives not enough...*

- Improving tax systems challenges incumbent vested interests
- Need political champions for growth
- “Growth coalitions” must champion ‘tax for growth’ reforms: not just efficiency and effectiveness but political bargaining



## *The political dimensions...*

Effective tax reform requires:

- Political leadership: eg. to eliminate exemptions
- Good understanding of the policy choices
- Better accountability – e.g. legislative oversight
- Good MoF/RA cooperation
- Better coordination between Central and Local Govt
- Operationalising the ‘social fiscal contract’
  - Public-Private dialogue’
  - Taxpayer services
- Culture of compliance – RA incentives for upholding taxpayer rights

# *Strengthen political direction of policy around tax for growth and the Investment Climate*

Political leadership 'own' the commitment to the state delivering on the broad efficiency, effectiveness and equity dimensions to a well-designed tax system.

- Tax-Payer education and information: contributes to change in political attitudes towards governance and accountability mechanisms and provides an important contribution to broader public sector reform objectives



# *Administrative incentives to support Growth and Investment Climate*

- Capacity building for overall efficiency of the administration *and* facilitating voluntary compliance
- Strategic planning and results monitoring: multi-year strategic plan, outlining results to be achieved and commitments to taxpayers in service standards
- Better performance indicators for tax administration: not just tax collection results: evaluate all operational areas, including the improvement of taxpayer services
- Human resource management more performance-oriented / compensation system / training
- More attention to tax policy capabilities match tax administration capacity

## *Conclusion*

- Put political / state-building incentives into taxation – aimed at sustainable economic growth
  - Strengthen policy capacity
  - Incentives that give tax administration broader governance impact – compliance and ‘social fiscal contract’ through:
    - Strategic planning
    - Better performance measures
    - Improve human resource management

