

WBG's Technical Assistance Programs and Tax Reform: Lessons Learned



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The five WBG institutions



World Bank Group

International Bank
for Reconstruction
and Development

International
Development
Association

International
Finance
Corporation

Multilateral
Investment
Guarantee Agency

International Center
for the Settlement of
Investment Disputes



1944



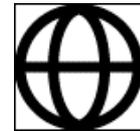
1960



1956

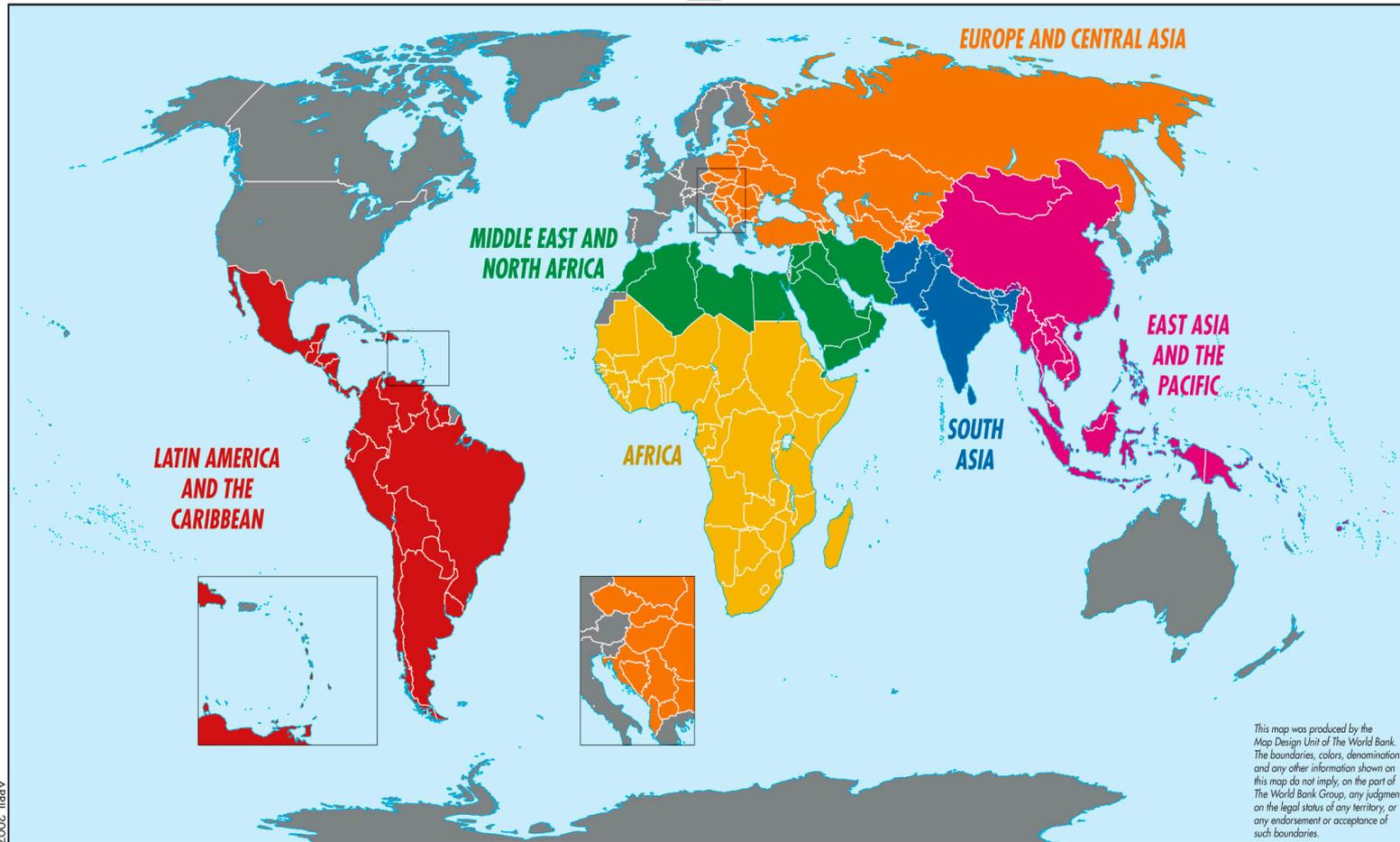


1988



1966

Countries where we work



Scale of operations



- As of April 2011, around **105 WBG operations** (credits and loans and TA advisory programs) have components involving **tax policy and revenue administration reform**. These operations occur in *61 countries and 5 regional areas*.
 - Of the 104 operations, 66 are WB-funded projects and 38 are TA advisory services provided by the IFC
- The total number of operations broken down by **regions** is as follows: 28 operations in Sub-Saharan Africa, 17 in East Asia and Pacific, 24 in Europe And Central Asia, 29 in Latin America and Caribbean, 5 in South Asia, and 2 in Middle East and North Africa.

Operations by regions and agencies



Regions	IBRD/IDA	IFC	Total
AFR	10	18	28
EAP	10	7	17
ECA	16	8	24
LCR	27	2	29
SAR	2	3	5
MNA	1	1	2
Total	66	39	105

Business Model (I)



- The WB finances and supports **projects** upon governments' request through credit, loans and donations (grants).
 - In some cases, tax administration or customs reform is the sole focus of the project (e.g. Vietnam, Croatia, and Mexico) while in the majority of projects tax advice is provided in the **broader context of a public sector or public finance management reform** (e.g. Indonesia, Ethiopia, and Colombia,).
 - **Economic and Sector Growth (ESW) and Non Lending Technical Assistance (NLTA)** are also important elements of WB's tax advice portfolio.
 - Support to comprehensive tax reforms has addressed both **tax policy** (China, Turkey, East Europe) and **revenue administration issues**.

Business Model (II)



- The IFC offers advisory services in taxation that intend to help **improve the business-enabling environment** and create investor friendly tax regimes.
- **IFC's tax and development agenda** aims at creating a “culture of taxation”; regularizing the rule of law; increasing the size of the formal sector; and promoting growth (synergies between tax and development policies).
- Work streams include tax administration simplification; small business tax reform; sub-national taxes and regulations; tax legal & appeals reform; risk-based audit systems; tax incentives reform; and international taxation.
 - 14 African countries are recipients of the Global Simplification Tax program. Other examples include Vietnam (SMEs), Yemen, Lao, and Georgia.

Lending instruments



- The main lending instruments **are Sector Investment Loans (SILs) and Development Policy Loans (DPLs)**. Additionally to loans and donations, the WB provides TA and analytical advisory activities at governments' request.
 - Revenue administration reform has been included in around 24 percent of the projects with significant PSR components. Two-thirds of these projects are DPLs.
- *Adequacy of current lending instruments for supporting tax administration reform*
- A new instrument to advance development effectiveness: the **Program-for-Results lending**

This is what the doctor prescribes: reinforcing project preparation and measuring effectiveness



- Quality at entry, especially by **reinforcing project preparation process and conducting diagnostic studies**, is a key ingredient of project success.
- **Pre-project diagnosis can improve project design.** Diagnosis should generally be guided by a framework that covers institutional concerns, including accountability, client services, cost-effective administration, anticorruption efforts, as well as traditional concerns of tax administration.
- **Project design should be based on a strategic vision of the revenue administration.** It should pay attention to good governance, and should be matched to a country's implementation capacity
- **A standard set of performance indicators should be clearly specified**, including pre-project base values and post-project objectives measured against good practices.

Areas in need of improvement according to IEG evaluation (2008)



- **Better upstream diagnosis in order to better understand the context of reforms.**
- **More tangible indicators to measure effectiveness** since the knowledge of outcomes is insufficient because of measurement problems and the long lag between the start of reforms and seeing its full effect
- **Holistic work across sectors.**
- **Reinforce project preparation process especially in regard to ownership and the design of projects.**
 - Three factors to take into account: being realistic about what is politically and institutionally feasible; recognizing that enhancing technology is not enough by itself; and dealing with basics first.

Some lessons learned (I)



- **Cooperation among all bi- and multilateral donors and international organizations** working on tax administration reforms is of the essence
 - Some examples: The Philippines, SEMCAR project in the Caribbean, Honduras.
 - Coordination mechanisms: joint missions, peer-reviews...
- Tax reform packages should be presented as a critical component of a **comprehensive governance reform program or PFM reform**

Some lessons learned (II)



- **Political economy of implementing reforms needs to be taken into consideration**

Comprehensive tax reforms have most often occurred in the midst of a fiscal crisis when non-sustainable fiscal deficits clearly signal the need to mobilize additional resources, or if there has been a change in political regime, or after elections which bring to office a new reform-oriented government (Indonesia)

Successful in-depth tax reforms have addressed both tax policy and tax administration. Alongside revenue-raising objectives, sweeping tax reforms have been accompanied by improved governance, decreased corruption, and an improved investment climate.

Different perspectives of lawmakers impacting reform programs' legal framework should be better anticipated through basic political economic assessment

Need to conduct up-front political and institutional analysis with a view to determining the political economy drivers that underpin tax reform and in particular political obstacles to tax reform

Some lessons learned (III)

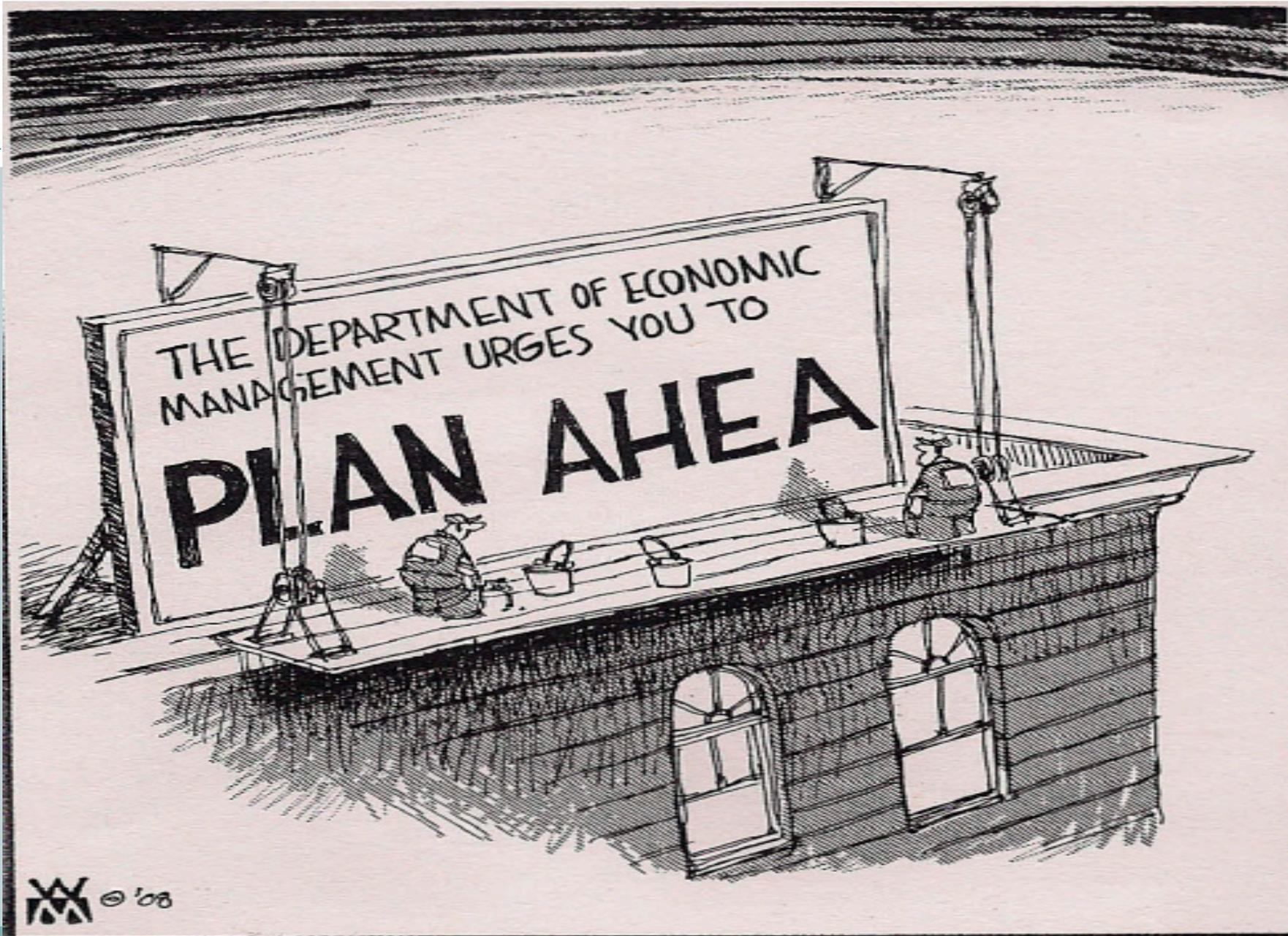


- **Country ownership and commitment** built through intensive participation at project preparation and maintained through implementation are key ingredients for ensuring satisfactory project outcomes.
- For tax administration projects to be successful, **society at large needs to be incorporated in the design process.**
- **Creating mechanisms to channel input from citizens and other stakeholders** can be critical to the success and sustainability of many public sector reforms (Colombia)
- A good understanding of the **absorptive and/or administrative capacity of the tax administration** is critical.
- The need for **immediate gains to enhance program credibility.**

Some lessons learned (IV)



- The most successful tax reforms have benefited from **detailed planning and preparation as well as close monitoring** during and after their implementation
- These programs often reflect an **agreement between the executive and the legislature** (“fiscal pact” in Guatemala)
- **Tax reform programs tend to be adopted at the beginning of a new administration**
- Tax reform is best seen as an ongoing process in which there is continual refinement of the tax system (while tax reform packages should be quickly passed at the start of a new administration, **implementation is a long process especially in tax administration**).
- **Addressing the human/institutional gap is critical** (Vietnam, The Philippines)



Some lessons learned (V)



- **Good data and a reliable empirical analysis** of the impact of pre- and post- reform tax systems are important to garnering public and political support for proposed tax changes
- **Improvements in simplicity and horizontal equity** are strong selling points in favor of tax reform (Tanzania)
- Political support can be garnered when **expenditure priorities of the potential revenue gains are made explicit** (putting forth the expenditure areas that additional revenues would be devoted to can help galvanize political support for the tax reform)
- **Change management** and capacity building to reduce resistance and prepare the administration for reform are critical factors for success (Indonesia)

Some lessons learned (VI)



- Tax computerization projects should be accompanied by a careful analysis of **country's readiness to introduce new technological changes**
- **Re-engineering of any agency's processes** should be conducted prior to their computerization and integrated throughout tax administration.
- Revenue bodies need to be structured **around integrated, automation-based processes**
- While **technology** can be both a facilitator and a driver of change, **it is not a substitute for the development of sound institutional, organizational and operational systems.**
- Successful tax administration reforms must address institutional constraints to tax administration performance, **and not center reforms exclusively on information technology and systems solutions**