Taxation, PFM and SDG 16

- 16.4: Reducing illicit financial flows
- 16.5: Reduce corruption and bribery in all forms
- 16.6: Effective, accountable, transparent institutions
- 16.7: Responsive, inclusive, participatory, representative decision-making
- 16.10: Ensure public access to information
Key Questions

1. Effective strategies for improving capacity with respect to taxation and PFM?

2. Ways to strengthen voluntary compliance?

3. How to attract competent civil servants and minimize scope for corruption and collusion?

4. How to empower taxpayers?
Evidence: Taxpayer Compliance

- **Evidence base:** Several large-scale experiments (20,000+) with taxpayers.

- **Treatment(s):** Letters emphasizing audit probabilities or aiming to boost tax morale (e.g. moral or social appeals)

- **Main findings:**
  1. Audit threats significantly increase taxpayer compliance (Kleven et al 2011, Pomeranz 2014, Castro & Scartascini 2013)
  2. Hard to increase voluntary compliance (with letters) (Fellner et al 2010, Castro & Scartascini 2013)
Evidence: Civil Servant Performance

Kahn, Kwaja and Olken (2015)

- **Question**: Do performance incentives for tax collectors increase revenue?

- **Concerns**: (1) Multi-tasking, (2) predatory taxation, (3) collusion.

- **Context**: Experiment with 782 tax circles in Punjab.

- **Interventions**: (1) Revenue-based bonus, (2) Revenue + taxpayer satisfaction/accuracy, and (3) flexible benefits

- **Key results**: Revenue-based bonus treatment worked best with no effect on taxpayer dissatisfaction BUT more collusion.
Evidence: IT and PFM

- Relatively new area for experimental interventions

- Examples of interventions with local governments.

**Examples of findings**

- **E-procurement** increased quality of roads in India and Indonesia (Lewis-Faupal et al 2014).

- **E-governance** and fiscal reforms improved transfers in India (Banerjee et al 2015).
Evidence: Empowering Taxpayers

- Experimental evidence that taxation motivates citizens to punish corrupt officials, be more politically engaged (Paler 2013, Martin 2015).

- Voters use information on corruption (revealed by audits) to punish mayors in Brazil (Ferraz and Finan 2008).

- Monitoring by citizens reduces corruption in fiscal transfers related to education in Uganda (Reinikka and Svensson 2011).
For Discussion

1. Interventions for improving tax/PFM capacity?
   - Auditing/monitoring bureaucrats to mitigate collusion; companies and banks to reduce illicit financial flows.
   - Role for IT in procurement, transfers, etc.

2. Important macro-level questions?
   - Efficiency and accountability effects of revenue decentralization
   - Tax mix (direct vs. indirect) and tax rates
   - National level administrative reforms (SARAs)

3. Role for political economy?
   - Demonstrable improvements in spending, anti-corruption, participation.
   - Empowering taxpayers (info, IT, civil society)