



DfID SDG16 Event | 9 December 2015

Taxation, PFM, and SDG 16

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- 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)