

## **“A comparative view on the tax performance of developing countries: regional patterns, non-tax revenue and governance”**

The paper is a timely effort to understand tax performance, given the renewed global attention to tax matters, not least through recent efforts by the G-20 to call on higher effectiveness for improved tax systems. It is well and thoroughly researched. However, it could be sharper with regards to the conclusions, in particular the way the country clusters are being established and the alternative ways in dealing with underperformance.

### **1.) Assessing progress in tax performance**

- The paper could differentiate better the different types of tax performance which can be established and measured: (i) tax revenue collection; (ii) efficiency and growth; (iii) equity. Most research has been researched in area (i) while more international effort is now dedicated to numbers (ii) and (iii), particular in the aftermath of the global crisis and uncertain macro environment. It would be useful to differentiate these goals more clearly when the authors claim that not sufficient analysis on tax matters is available.
- Regarding (ii), and in order to have a more differentiated discussion of tax performance, it would be useful to provide insights into different levels of performance in different taxes (VAT versus trade etc). Recent data from the IMF show that there is no substitution effect with aid resources in countries which have raised more taxes from trade.
- The paper’s critical view about benchmarking should be differentiated in that it should not be the only measure to assess tax performance. Related, it is worth noting that the G-20 intends to start out from benchmarking, but develop “a core set of indicators” to measure progress. The authors are right that simple tax-GDP ratios can provide a distorted picture (it requires similar levels of income and similar economic structure); and that a comparison by per capita GDP can provide further insights (the differences across countries can become larger).
- The discussion about the measurement problems (page 3 forward) is very substantial. In this respect, the author’s argument to measure marginal gains (footnote 8) is absolutely critical. This is one of the key challenges in measuring performance—and for the development community more broadly to have a credible policy dialogue on this matter. It would be highly innovative and a substantial contribution if such marginal gains could be assessed. But this would require an assessment of tax effort. The paper rises expectations that such methodology is being established and measurement being conducted (which it does not).
- Customs is part of modern revenue management. Collection targets can be improved by establishing cross-checks and integration among these different agencies. The World Bank is promoting this through integrated assessment tools like IAMTAX, which would allow

benchmarking on tax administration. It would be useful to discuss such integrated approaches and its potential to improve revenue.

- Regarding aid, it would be necessary to have a consistent line of argument throughout the paper. On page 14 it is argued that “low tax performers do not receive a great deal of foreign aid”. This is not entirely true in all countries. But on the other hand, there is displacement of domestic tax revenues in countries with weak institutions—hence the importance of the governance aspect.
- Regarding the analysis of taxation and governance, the paper could be more explicit that causation can run both ways. Not only is tax performance related to the governance levels; but strengthening domestic resource mobilization also encourages good governance.
- Levels of government. The paper usefully distinguishes between tax revenue at central and subnational government. The paper should make it more explicit that GFS not only does have coverage problems which are well documented in this review, but also do not discern between levels of responsibility with regards to subnational governments, both on the expenditure as well as revenue side. For revenues, there are some cases where subnational governments are subject to earmarking of their own taxes (Colombia is a case in point: only about a third of the department’s revenue is freely allocated-the rest is earmarked). These should be mentioned as a separate problem.

## **2.) Conclusions of the Paper**

- The conclusions of the paper need to be sharpened. The paper starts proposing three different country groups. It is not entirely clear how these groups are being formed. It is clear that several analysis are being done (GDP per capita; governance), but the paper does not explain well how these criteria finally drive the selection of the countries.
- The conclusions start out discussing the country typology but then they fall back into regional patterns—which was precisely considered by the authors not to be a useful unit of analysis in tax performance.
- Regarding the country patterns the paper could offer more discussion and guidance for a possible way forward in dealing with different levels of performance.
  - To this end, it would be good to have a consistent argument in the paper about the question “should one care about underperformance?”, when it mentions that countries have their own, legitimate right in choosing the tax system they want.
  - In light of the paper’s findings, should assistance on tax systems continue to be region-specific? What is then the role of region-specific organizations, for instance

the African Tax Administration Forum; *Centro Interamericano de Administraciones Tributarias*? The findings of the paper at least cast some doubt about continuing with region-specific assistance.

- How would the author's findings compare to other possible groupings of countries? (i) Fragile states (there, a well functioning tax administration is critical to building up trust); (ii) small states (or islands) which can establish taxes at the border with more ease; (iii) "Successor states" following the break-up of sovereign states which could strive to be as investor-friendly as possible. In addition, it would also be useful to learn more about implications in dealing with natural resource-rich countries (page 16).
- The paper could provide more guidance on how the international community (and emerging efforts such as the International Tax Dialogue) could deal with these problems, particularly on the three cases which were identified. The G-20 has proposed south-south cooperation, shared knowledge platforms, among others, to strengthening assistance for improved tax systems. Would these be appropriate approaches in light of the findings of the paper?

### **3. Structure of the paper**

- The paper could be much improved with regards to the storyline. In its current style, it provides for quite a difficult reading. Often the reader is guided through several of the alternative measures which were performed. In certain sections, they communicate to the reader several analysis which were performed (for instance paragraph [i] on page 9; or second paragraph on page 11). This gives one the assurance that this is a well-researched document, but it does not help to get across the main messages. Such analysis should be moved either to the footnotes or an Annex.