



What Have We Learned About Tax and Governance?

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The Tax-Governance Connection

Expanded taxation may contribute to improved governance in two key ways:

1. Taxation may become leading edge of **building state capacity**
2. Taxation may spur 'tax bargaining' and **expanded responsiveness and accountability**

An Agenda for Action

“We should elevate ourselves from being just tax collectors and tax administrators to being state builders”

- Uganda Revenue Authority Commissioner General Allen Kagina at the launch of ATAF

The Problem

These tax-governance connections are powerful in theory, but they remain relatively abstract:

1. What exactly do these processes look like in practice?
2. What are the policy implications, for those seeking to link tax to broader governance gains?

Critically, these positive connections **are not** guaranteed, but depend on policy and context – and thus explicit efforts to strengthen these links

Tax and Statebuilding

We still have limited evidence on how this works, but several key elements now clear:

- 1. Demonstration effects:** Tax agencies pioneer new processes
- 2. Spillover effects:** Improving taxation requires parallel improvements elsewhere
- 3. Information sharing effect:** Tax data supports better policy, and other data supports tax

Tax and Accountability

Strong evidence of diversity and complexity of relevant processes:

- 1. Direct tax bargaining:** Governments and taxpayers make reciprocal commitments
- 2. Strengthened Civil Society:** Tax spurs organizing and engagement
- 3. Sustained Tax Resistance:** Resistance to unpopular taxation creates reform pressure

Building Local Government

All of these processes can be particularly strong at the local government level, where tax is close to citizens and government capacity limited.

But....

Strengthening cooperative tax collection at local level often particularly difficult owing to weak incentives, elite capture, weak collective action and widespread informality

Policy Implications: Statebuilding

- 1) Build strong links between tax agencies and related branches in government
- 2) Emphasize effective data gathering, and on sharing data across government,
- 3) Emphasize bureaucratic reforms that could be replicated elsewhere in government – like meritocratic hiring, or performance evaluation – rather than making RAs islands;
- 4) Strengthen links between central and local administrations

Policy Implications: Accountability

1. Enhance the political salience of taxation – including via direct taxes
2. Focus on horizontal equity in tax enforcement
3. Expand transparency around taxation and budgeting – including, possibly, some earmarking
4. Directly support popular engagement, including inclusive institutional spaces for tax bargaining

The Road Forward

1. Focus research not on the abstract relationship, but practical implications
2. Scope to further explore the implications of these types of policy measures in practice, including partnerships with governments
3. Expand research increasingly to the local government level as well