Summary of the Series Evaluation
“Tax systems and revenue authorities in developing and transition countries as an instrument of poverty reduction”
Synthesis Report

The opinions presented in this study are those of independent external experts
Summary

The GTZ has for some time been conducting projects concerned with taxation (tax policy and revenue authorities) as part of German development co-operation. Five projects from this field were evaluated as part of a serial evaluation in spring 2003. The serial evaluation is, in turn, part of the meta evaluation of the priority area “poverty focus in German development co-operation”. This takes as its starting point the German government’s Programme of Action 2015.

The aim of a cross-sectional evaluation is to draw together the main findings and recommendations from the individual evaluations and to arrive at general conclusions on the current value of taxation projects (tax systems and revenue authorities) and the contribution they make to poverty reduction within development co-operation. It should also make recommendations on how future projects of this type should be designed, linked with other activities and integrated into the system of priority areas within which the BMZ operates in order for them to have a greater impact on poverty.

Despite the heterogeneity of the projects evaluated in Bosnia-Herzegovina, the Dominican Republic, Nepal, Nicaragua and Tanzania in terms of the focus of advisory activities, the cross-sectional evaluation does also allow some general findings/conclusions to be drawn and recommendations made with regard to “classic” evaluation aspects.

As far as poverty focus is concerned, there is a consensus that the projects evaluated have no direct poverty impact. That they had an indirect impact on poverty is undisputed; that impact depends, however, on a number of very specific conditions. Since their impact on poverty is only indirect, it is absolutely vital for taxation projects to be integrated into a larger package of advice in the public finance sector so as to ensure a poverty focus. This can either take place within a bilateral programme or by donors co-ordinating and sharing out tasks. Independently of the potential for greater networking, stringent demands should be made of the political, economic and social environment, particularly in the public finance sector, in order to ensure that projects have a pro-poor environment within which to operate.

Generally speaking, taxation projects are of great relevance for the economic development and good governance of a country.

Findings

Where the project executing agency also functions as implementing organisation, the implementing organisation’s low status within the overall hierarchy can sometimes stand in the way of successful project operations.

Donor co-ordination takes very different forms in the various countries and usually fails to achieve its real aim, which is to exert a joint, co-ordinated influence on the tax system and/or other policy areas. In two cases, a lack of donor co-ordination led to major problems in the implementation of the project.

As yet, the potential for linking up with other German bilateral projects has not been fully exploited. Projects that can be of great relevance in connection with tax projects – particularly in terms of increasing poverty impact – include those in the fields of expenditure management, public administration, decentralisation, budget, control of accounts, and regional and urban development. There cannot be said to be any co-operation between the GTZ and InWEnt.
One of the aspects most in need of improvement was the weakness of the overall goal structure (including outcomes); this is especially true of indicators. Staff deployment plans in particular were not always free of problems in terms of both time and professional considerations. All projects had deficits with regard to the instruments used and/or the intensity with which they were managed. It was shown that the quality of project work can be improved if a monitoring and evaluation system is used. Impact monitoring is not (yet) in place in any of the projects.

Because reporting was not always adequate, it could not always be used as a management instrument. Assessment of the management influence exerted by the implementing organisation both in-country and from headquarters is ambivalent, with assessments ranging from fairly negative to good. The same applies to the BMZ’s management qualities.

There is little mention of the reasons for the lack of success in achieving the goals. Reading between the lines, the whole range of possible planning, implementation and management errors is evident. Where activities have had a positive impact on the implementing partner, this has made a direct contribution to good governance. There is general agreement that the conditions for effectively combating corruption – particularly at operational level – have at least been created. Very little impact at target group level, at partner level or within the sector can be discerned.

Assessments of the sustainability of all projects and of individual aspects vary very widely, as do assessments of the significance of the projects.

Two out the BMZ’s ten defined priority areas are relevant in terms of categorising the tax projects: that of “democracy, civil society and public administration” and that of “economic reform and development of the market system”.

All of the individual reports record that projects have had no direct impact on poverty. It is also generally agreed that tax projects do not have a direct impact on poverty reduction. Opinions diverge regarding the significance of the impact of tax projects on poverty reduction. Some evaluations take a cautious view, others are more optimistic.

The key argument used to show that the projects evaluated have an indirect impact on poverty is that they have helped to generate additional revenue. Another argument that is often used refers to the improvements made to the economic environment as a result of project activities. There is, however, little analysis of the conditions under which even this indirect contribution to poverty reduction can be expected.

**Recommendations**

The ministry of finance should be involved as project executing agency in tax projects – and most certainly in programmes concerned with public finance. Vigorous efforts must be made to establish donor co-ordination, with a sharing out of tasks. To increase the significance of the projects, closer links should be established with other bilateral projects.

Greater efforts should be made to establish impact monitoring and monitoring and evaluation systems. It is also recommended that basic indicator catalogues and measurement methods be developed as a guide for evaluators and project staff.

Representatives of the target group – in addition to the staff of the project executing agency or implementing organisation – should be involved to a greater extent in project planning.

There is a need for those responsible to demand considerable improvements in reporting if it is to function as a management instrument.

The responsible parties within the development co-operation system should keep a close eye on developments in order to ensure that developing and transition countries do not become an “economic testing ground”. Under the priority area of “economic reform and development of the market system”, the sub-category of public finances should be added to the financial sector.
From the **point of view of poverty reduction, tax projects should always be made part of a wider advisory programme**. This can either be based on donor co-ordination, with tasks divided between the various donors, or be part of GTZ programmes. It is important that they be incorporated (to some extent) into the areas of budget, expenditure management and/or control of accounts. As regards the revenue side, the focus is on the classic fiscal function of taxation and not on its role in distribution or its impact on poverty. This also applies to projects at regional or local level (decentralisation). The debate that is now beginning at both practical and theoretical level about the **role of taxes in poverty reduction** should be carefully observed and, where appropriate, an active contribution made.

**As regards local taxes**, the advisory services offered should not be in isolation either. Rather, efforts or demands should be made for them to be incorporated into projects/programmes that are being implemented in such sub-sectors as the promotion of public administration, regional planning and/or urban development.

**Conclusions**

Given that tax projects have only an indirect impact on poverty, the political, economic and social **conditions** that exist, especially in the sector of public finances, are of enormous importance. A project should only be initiated when the general environment indicates that a credible poverty reduction policy is in place and/or the recipient country can show that it has a transparent budgeting procedure that includes a target-oriented system of expenditure management and initiatives to combat corruption and that it is decentralised. Alternatively, it should be shown that other donors are working on these areas. Where there is any uncertainty, the planned project may have to be postponed until the necessary conditions are in place.

**Basic data:**

Organisation charged with implementation: GTZ