



Report Summary

Study on Donor Coordination in Domestic Revenue Mobilisation

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The International Tax Compact (ITC) is a neutral platform that aims to enhance domestic revenue mobilisation in partner countries, and to promote fair, efficient and transparent tax systems. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched the platform in 2009 and commissioned the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to facilitate the ITC Secretariat. Since April 2017, the European Union supports the International Tax Compact through a co-financing agreement. The Ministry of Foreign Affairs of the Netherlands (BZ) provides in-kind support.

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International Tax Compact (ITC)
c/o GIZ Office Bonn
Friedrich-Ebert-Allee 36
53113 Bonn, Germany

T +49 228 44 60-3352

E secretariat@taxcompact.net

I www.taxcompact.net

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This study explores the need for donor coordination in the field of international support for domestic revenue mobilisation (DRM). It was commissioned by the International Tax Compact (ITC), with funding from the German Ministry for Economic Cooperation and Development (BMZ) and the European Commission. This printed version contains the summary report. The study can be found on the [*ATI Website*](#).

Purpose and methodology

Through the Addis Tax Initiative (ATI), a group of development partners have committed to doubling their funding for domestic revenue mobilisation by 2020, from a baseline of US\$222 million in 2015.¹ This commitment was made in recognition of the importance of DRM to the achievement of the Sustainable Development Goals (SDGs). As funding for domestic revenue mobilisation scales up, the potential for overlaps and contradictory approaches among development partners increases, while partner countries may find it more challenging to align donor support to their own needs and priorities.

There has been important progress on coordinating DRM support in recent years – from the creation of international forums such as the Addis Tax Initiative to the development of joint diagnostic tools. This study explores what coordination needs remain outstanding and what additional mechanisms might be helpful. It is intended to inform discussions within the Addis Tax Initiative.

The study is desk-based, drawing on publicly available literature and data, supported by telephone interviews. It involved telephone interviews with a selection of ATI members and partners, and light-touch country case studies of Afghanistan, Ghana and Uganda – selected from among the top recipients of DRM financing in 2016 and as presenting a range of coordination challenges. In each country, government officials and development partner representatives were interviewed on their experience with coordination.

¹ Addis Tax Initiative, 2018, ATI Monitoring Brief 2016: ATI Commitment 1, see [*link*](#).

A conceptual framework for DRM coordination has been developed based on established principles of development effectiveness – particularly ownership, alignment, harmonisation and managing for results.² The framework helps to identify areas where development effectiveness principles might be applied to the DRM sector, at both national and international levels.

Coordination at the international level

At the international level, we explored coordination needs in three areas.



Partner country voice on international policy on DRM support (ownership)

In recent years, significant effort has been made to increase partner country engagement in international fora where DRM support is discussed. The Addis Tax Initiative brings together development partners, partner countries and other organisations for dialogue on DRM support, working closely with other policy-setting bodies such as the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and regional tax organisations. The recently launched Network of Tax Organisations (NTO) also brings together regional tax organisations under one umbrella to support capacity development, promote internal collaboration, and provide a global platform for international tax dialogue. It has set itself the ambitious goal of not only giving a stronger voice to partner countries in the international tax debate, but to operate as an inclusive and broad forum for tax dialogue and to develop a leading role in shaping the international approach to DRM. The Platform for Collaboration on Tax (PCT), launched in 2016 by the IMF, the OECD, the United Nations and the World Bank, also supports the participation of developing countries in global dialogue on tax matters, including DRM support.

² 2005 Paris Declaration on Aid Effectiveness, 2008 Accra Agenda for Action and 2011 Busan Partnership Agreement, see [link](#) and [link](#).

While they welcomed these opportunities to participate in international dialogue, the partner country representatives we interviewed also pointed to barriers to their effective participation – due partly to their own time constraints. Both partner countries and development partners expressed an interest in enhancing the Addis Tax Initiative itself, both through expanded membership and increased engagement by existing members.



A fair allocation of DRM support across partner countries (alignment)

As donor funding for domestic revenue mobilisation increases, there are unresolved questions as to how to ensure that it matches partner country need. There are two ways of thinking about fairness in the global allocation of DRM support:

- Whether it is based on objective need, avoiding aid orphans and darlings;
- Whether it is allocated to the countries where it is most likely to be effective.

The second approach would concentrate aid in countries with an enabling environment, including country leadership of DRM reform and absorption capacity for technical assistance. This approach is implicit in the design of the Addis Tax Initiative itself, which as a membership-based body enables partner countries to signal their interest in DRM reform. However, it is also important that partner countries that are yet to establish a track record of successful DRM reforms are given opportunities to do so.

At present, there is no active mechanism to match DRM support to absorption capacity. Diagnostic tools such as the *International Survey on Revenue Administration (ISORA)* could potentially help with assessing absorption capacity, but are not generally set up for this purpose. There has been good progress made in developing reliable statistics on DRM support, through the *ATI DRM* and *OECD CRS* databases. These support the monitoring of the ATI scaling up commitment, but the data is not currently used to inform allocation decisions.

As DRM support has increased, the number of partner countries receiving grant-based aid for domestic revenue mobilisation has also grown, with 20 new countries receiving support in 2016.³ Around half of all DRM support in 2016 went to ATI partner countries, which suggests that, through its membership, the Addis Tax Initiative is helping to match development partners with interested partner countries. However, some ATI partner countries still receive very little DRM finance. For example, Paraguay received just US\$290,000 in gross disbursements in 2016 (down 31% on the previous year), while Nepal received US\$340,000 (down 50%). Our feedback from partner countries suggests that there are unmet financing needs – perhaps linked to a lack of absorption capacity.

A number of multi-donor trust funds provide DRM support across multiple countries. For example,

- The World Bank’s **Global Tax Programme (GTP)** (2018-2022) includes support for capacity building on tax at the national level, as well as research and evidence collection.
- The IMF’s **Revenue Mobilisation Trust Fund** (2016-2023 for the current phase) has US\$77 million to allocate to strengthening tax capacity.

In principle, these multilateral funds could help to even out imbalances in country allocation. At present, however, they are not designed for this function, and there is some debate as to whether these trust funds are allocating support to the right places. Some of the development partners we spoke to stated that their efforts to steer MDTF allocations had been unsuccessful. This may reflect the varying geographical priorities among ATI development partners and the resource choices that MDTF governing bodies ultimately have to make.

³ Oxfam, 2018, Doubling Down on DRM: Are We Making the Right Bet?, see [link](#).

*The International Organisation of Supreme Audit Institutions (INTOSAI) has experimented with mechanisms to align development partner support with country need. It established a **Capacity Development Fund** to which partner countries could submit proposals, which was discontinued for lack of adequate funding. It also set up a portal that matches requests for support from eligible organisations with potential donors. Proposals are subject to quality checks to ensure adequate country ownership and leadership.*

Box 1: Examples from the field of support for Supreme Audit Institutions

Due to their proximity to tax administrations around the globe and the wealth of data and information on DRM reforms in partner countries at their disposal, regional tax organisations and the Network of Tax Organisations are well positioned to contribute to a fair distribution of aid among partner countries. They can flag needs and help to identify partner countries where reforms are likely to be effective. Moreover, involving regional tax organisations and especially the Network of Tax Organisations in allocation processes, could introduce a more objective and independent stakeholder with no politically motivated agenda.

Overall, there is no consensus as yet among ATI partners as to whether the current alignment of DRM support is a matter of concern, and, if so, what the potential solutions might be. However, the Addis Tax Initiative is in the process of establishing a ‘matchmaking’ facility that will match requests for support with potential donors. This may provide a means of directing early, small-scale support to partner countries that are yet to demonstrate their absorption capacity.



Coordination of approaches among development partners (harmonisation)

Development partners bring a diversity of approaches to DRM support. This can be healthy, creating a marketplace in ideas and allowing them to provide complementary support. But there is also a risk that they will promote contradictory approaches to DRM reform, raising transaction costs and undermining country ownership. We looked at a number of potential solutions to harmonising development partner approaches at the international level.

- **Information sharing:** Free flow of information about DRM support is a foundation for any coordination, enabling development partners to plan more effectively. The Addis Tax Initiative has played an important role as a forum for information sharing, and is mapping DRM support through its database. The PCT is also developing a database to share information among its multilateral partners. Information is shared internationally through regional tax organisations and the Network of Tax Organisations, for which the International Tax Compact provides the secretariat. However, there is still scope to improve the consistency and timeliness of information flows, to support real-time coordination.
- **Diagnostics:** A number of joint diagnostic tools on domestic revenue mobilisation have emerged in recent years, including:
 - the Tax Administration Diagnostic Assessment Tool (TADAT);
 - the International Survey on Revenue Administration (ISORA);
 - the Tax Policy Assessment Framework (TPAF);
 - the Revenue Administration Gap Analysis Program (RA-GAP).

In our case study countries, we found that these had helped build a shared understanding of reform needs. However, the proliferation of tools with different areas of focus has given rise to some confusion among stakeholders. There is also a risk that development partners will fund competing assess-

ments, with contradictory results. Some stakeholders also expressed the view that the available tools were too narrow in scope – for example, by excluding political economy factors or the sequencing of DRM with other governance reforms. The Government of Norway is currently undertaking a review to categorise DRM diagnostic tools. This will include ‘a comparison of scope, coverage and any other relevant aspects that are important to understand their differences, similarities and comparative advantages.’⁴

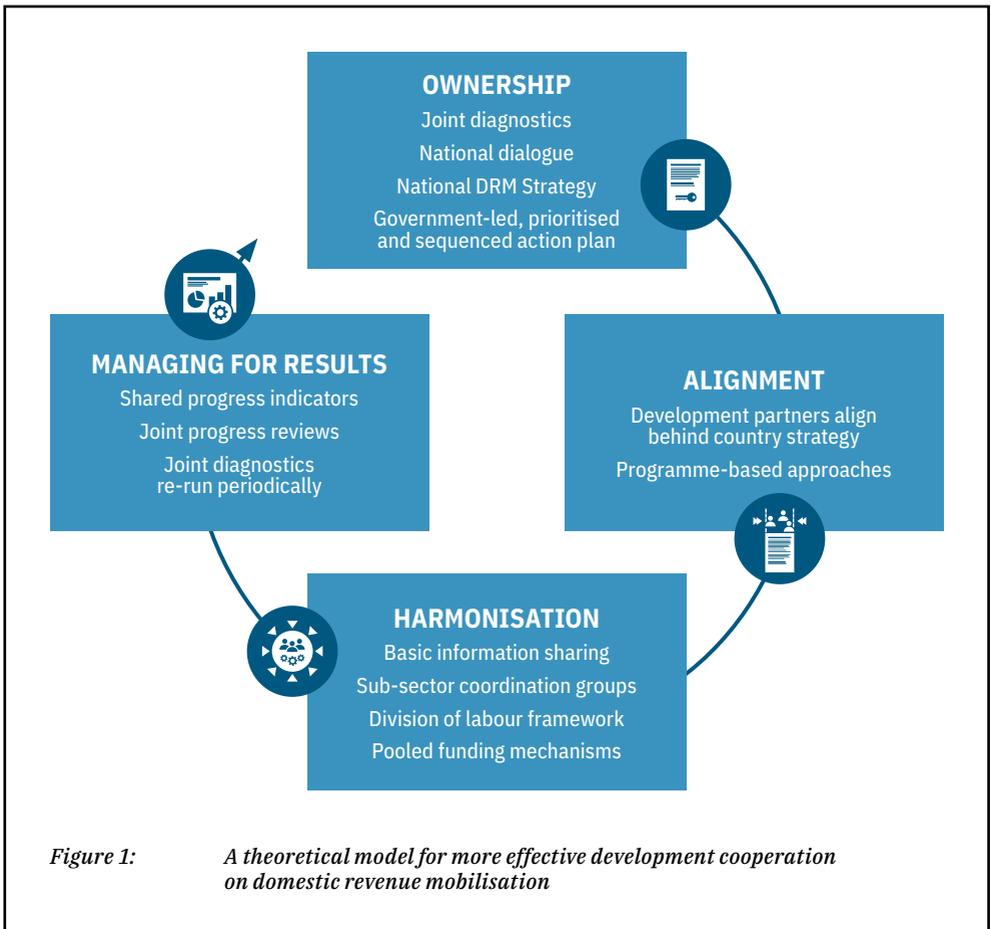
- Knowledge and evidence: One way of promoting consistent approaches to DRM support is to build a common understanding of what works. The Addis Tax Initiative supports discussion of these issues, and the OECD also hosts a number of forums that share best practice. Various development partners are investing in the piloting of innovative approaches and in research and evidence collection. While we have not undertaken a full review of the state of the evidence on DRM support, some stakeholders were of the view that there is still much to be learned – particularly about the sequencing of DRM reforms and how they integrate with broader economic and administrative reforms. Some development partners also expressed the view that not enough attention had been paid to the complex politics of DRM reforms. Political economy factors have proved to be a significant constraint on reform in related areas, such as public financial management. More politically informed approaches to capacity building – for example, the *Thinking and Working Politically (TWP)* approach and the *Problem-Driven Iteration Adaptation (PDIA)* approach⁵ – have not yet been applied extensively to DRM support.

⁴ Government of Norway (undated), *Terms of Reference*, shared with the ICT Secretariat by the Government of Norway.

⁵ Matt Andrews et al., 2015, Building capability by delivering results: Putting Problem-Driven Iterative Adaptation (PDIA) principles into practice in OECD, *A Governance Practitioner's Notebook: Alternative Ideas and Approaches*, see [link](#).

Coordination at the country level

At the country level, we explored the potential for improving coordination through the planning and programming cycle, from setting national priorities to aligning development partner programming, harmonising funding modalities and measuring results (see Figure 1).





Country ownership of DRM reform

It is widely acknowledged that partnerships for development are most effective if they are led by developing countries, with development partners tailoring their support to country needs and priorities.⁶ This is clearly essential for domestic revenue mobilisation, where reforms are politically challenging and need strong national leadership. They also need to be sequenced and linked to wider policies on governance reform and economic development. In principle, national DRM strategies should be developed in consultation with the private sector and civil society to ensure broad-based country ownership. To be evidence-based and credible to development partners, it is helpful if they are based on diagnostic assessment using agreed approaches and tools.

Liberia has prepared a government-led DRM strategy, working in consultation with development partners and with an effective national dialogue. The resulting strategy is closely aligned with Liberia's 2018 national development plan, and was launched simultaneously. We are informed by the government that 11 donors are seeking to align their support to the DRM strategy.

Box 2: Alignment behind a country-led DRM strategy in Liberia

In our case study countries, while stakeholders agreed on the importance of country ownership, they felt it was often lacking in practice. Given capacity constraints, some national DRM strategies can be closer to 'shopping lists' than to sequenced action plans, leaving it to individual development partners to decide which reform objectives to support. The Medium-Term Revenue Strategy (MTRS) initiative, developed by the PCT and now being piloted in a number of countries, is attempting to change this dynamic by promoting country-owned, citizen-driven DRM planning.

⁶ Busan High Level Forum (2011), Busan Partnership for Effective Development Co-operation, Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November to 1 December 2011, see [link](#).



Alignment behind country strategies

Even with a national DRM strategy in place, development partners often find it difficult to align their support due to competing priorities and procedural constraints. Alignment also takes time, due to multi-annual programming cycles, creating a risk of loss of momentum following the adoption of a national DRM strategy. If partner countries include development partners in the process of developing their DRM strategy, for example through joint diagnostic work, this can increase the prospects of alignment.

Programme-based approaches (PBAs) involve a number of donors coordinating their support for the implementation of a country-led strategy or plan of action.⁷ PBAs can reduce the fragmentation of assistance, while allowing partner countries to use it more flexibly. They also provide a platform for dialogue on policies and priorities. However, PBAs are not currently in use in the DRM sector, and have become less common generally following the decline of budget support as a modality. While stakeholders in our case study countries were interested in exploring the idea, development partners thought it unlikely to be feasible in the short term.



Harmonisation of DRM support

There are a range of options for development partners to coordinate their DRM support at the country level, from basic information sharing through to a formal division of labour agreement and/or joint funding. Across our case study countries, collaboration on DRM support has been increasing, but information sharing is not as strong as it could be, and there are instances where development partners are more competitive than collaborative. One constraint is that bilateral donors often have limited technical capacity on domestic revenue mobilisation in-country, and many manage their DRM programmes centrally, with experts flown in for short-term missions, which does not facilitate coordination.

Sector coordination groups on domestic revenue mobilisation have been established in a number of countries, although with mixed suc-

⁷ 2005 Paris Declaration on Aid Effectiveness, see [link](#).

cess. They require active support from government and development partners, and tend to lapse if this is lacking. In Ghana, the DRM working group had recently conducted an initial mapping of development partner support and is now planning to use this to reduce overlap.

There may be potential for more use of pooled funding at country level – either through co-funded programmes or technical assistance basket funds. Pooled funds are less ambitious than PBAs, as they are not necessarily sector-wide or tied to a country strategy, but can still help to streamline support. They have been used in all of our case study countries to some degree, and have helped to improve coordination. However, experience suggests that if the basket fund has a wider remit (for example covering public financial management as a whole), there is a risk that DRM support will lose out to other priorities.



Managing for results

Good monitoring and evaluation is needed to track progress, support learning and enable partner countries and development partners to hold themselves and each other to account. In principle, national DRM plans should include results indicators, and development partners should incorporate these into their programme-level results frameworks, to ensure common goals. Periodic joint assessments of progress are also helpful to keep DRM support results-focused.

So far, this has not been a significant focus of effort in any of the case study countries, and joint results frameworks and progress reviews remain the exception. There are common problems with developing coherent results frameworks that link activities and outputs to outcomes in a convincing way, while long-term goals and sustainability of results are often overlooked. There are ongoing discussions within the Addis Tax Initiative on how to measure progress at the country level. Ultimately, if the ATI agrees a new target for the further scaling up of DRM support post-2020, this will need to be accompanied by an agreed framework demonstrating the effectiveness and value for money of the investment.

Conclusions and recommendations

Coordination can be resource-intensive for both development partners and partner countries, and the return (in terms of improvement in development effectiveness) needs to justify the investment. This study suggests that the following areas may be the most promising for the ATI to explore in the coming period.

<i>Coordination challenge</i>	<i>Potential solutions</i>
International level	
A limited evidence base on what works in DRM reform and DRM support, particularly regarding the prioritisation and sequencing of reforms in different country contexts, and the links between DRM reforms and wider economic and administrative reforms.	<p>ATI to commission a review of the state of evidence on DRM reform, to identify gaps and research priorities.</p> <p>ATI to identify an appropriate partner to act as a resource centre, collecting the knowledge and evidence being generated across members and producing and disseminating syntheses.</p>
A lack of reflection on the political economy challenges to DRM reform, and limited take up of new approaches to flexible, adaptive, politically informed support.	ATI to commission a synthesis study on the political economy of DRM reform, and to explore opportunities for applying Thinking and Working Politically principles to DRM support.
A proliferation of DRM diagnostic tools, creating some confusion among stakeholders.	Building on the technical assessment currently being carried out by the Government of Norway, ATI to produce guidance for members outlining the function of each tool and which are more appropriate in different circumstances.
A potentially unfair or inefficient global allocation of DRM support.	<p>ATI and the PCT to explore the case for using multi-donor trust funds to scale up support for partner countries able to demonstrate an enabling environment for DRM reforms – in particular, an effective and well-prioritised national strategy and action plan.</p> <p>ATI to explore whether its proposed Matchmaking Facility could be designed so as to direct support towards underfunded countries that are seeking to boost their absorption capacity for DRM support.</p>

<i>Coordination challenge</i>	<i>Potential solutions</i>
Country level	
Some ATI partner country members still lack national DRM strategies that are strong enough to support donor alignment.	<p>ATI members to prioritise the development of DRM country strategies (whether Medium Term Revenue Strategies or their equivalent), based on joint diagnostic work and national consultations.</p> <p>ATI partner countries to commit to operationalising their DRM strategies with action plans that clearly prioritise and sequence their proposed reforms, to support stronger alignment by development partners.</p>
Harmonisation of funding among DRM development partners in-country is variable, leading to high transaction costs and a risk of contradictory approaches.	<p>In partner countries with substantial DRM portfolios, ATI members to reach agreement on information sharing and division of labour, preferably through country-led working groups.</p> <p>ATI development partners to explore joint funding of technical assistance facilities, able to support the design and implementation of DRM reforms in a flexible manner.</p>
A lack of internationally agreed metrics of progress on DRM, and a lack of strong results frameworks for national DRM strategies.	<p>ATI to develop a menu of indicators for measuring progress on domestic revenue mobilisation, supported by appropriate guidance.</p> <p>At the country level, ATI members to incorporate a selection of these indicators into their results frameworks.</p> <p>ATI members to agree to a regular cycle of joint diagnostic reviews, feeding into the updating of national DRM strategies and action plans.</p>

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