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SWEDEN'S DEVELOPMENT SUPPORT TO TAX SYSTEMS

Klas Markensten

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EBA Working paper

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Summary

This is an overview of the Swedish experience of aid to taxation. More financing, including taxes, is needed to reach the Sustainable Development Goals. At the Addis Ababa conference 2015 the Addis Tax Initiative was launched, in which donors were asked to double their technical assistance to taxation by 2020. This commitment has been accepted by Sweden.

Tax systems are complicated and not easy to reform. There is normally a need for new policies and legislation, reforms of tax administrations, better service to taxpayers and more engagement of society at large. In addition, developing countries need to participate in international efforts to combat tax leakages and profit shifting and to increase reciprocal information for tax purposes.

Swedish support to taxation has mainly been channelled through the Swedish Tax Agency, STA. The total annual cost for around five long-term projects has gradually risen to the level of 30 MSEK per year. In 2018 Sweden will also finance two major projects for international cooperation in tax matters and an international tax conference with focus on capacity development in tax systems.

STA in Sweden has made a major change from control and punishment to a service mode towards the taxpayers. This has made STA the most popular public authority in Sweden. These experiences are in the forefront in practically all of the STA development projects.

The first STA project started in Tanzania in 1985. Projects in South Africa and Botswana were great successes. STA did also for some years work with countries in Eastern Europe preparing to enter the European Union. STA's normal method is to have a preparatory phase with study visits to Sweden, find out the priorities of the partner tax authority, put a long-term advisor in place and then send short-term experts to work in a practical manner together with partner personnel to achieve the desired changes. The tasks have often included risk management, IT systems, tax audit, taxpayer service and voluntary tax compliance.

The STA projects have normally led to collection of more revenue and recruitment of more taxpayers. There have been also perhaps more important positive effects in the form of better efficiency in the tax organisations and increased voluntary compliance by taxpayers. Few STA projects have been evaluated. When compared to the success factors in the literature for capacity development and institutional cooperation, the STA method scores well.

STA could have given more priority in project preparation to political and institutional factors that could stifle the development of the projects. Sida is recommended to finance more evaluations of tax projects. Sida is also recommended to finance "sustainability funds" to enable small-scale continued STA support to newly terminated projects.

1. Background

This working paper is commissioned by the Swedish Expert Group for Aid Studies, EBA. It is an overview of the Swedish development aid in the taxation area, which has mainly been channelled through the Swedish Tax Agency, STA. The purpose is to present experiences that can be of interest for the on-going discussions on taxation and development, especially as concerns institutional cooperation.

Only some 0,15 per cent of development assistance is used for taxation projects (PCT 2016a). However, taxation issues have lately drawn more interest. At the Financing for Development Conference in Addis Ababa in 2015, a major focus for the discussions was how to increase domestic financing for the realization of the Sustainable Development Goals (SDGs). SDG 17.1 is also about improving domestic resource mobilization. At the conference, the Addis Tax Initiative was launched in which commitments were made to double aid for tax and fiscal management capacity, and to combat tax evasion and tax avoidance.

The G20 and international organisations have also pushed for other issues in the international taxation agenda, for example in the form of the Base Erosion and Profit Shifting (BEPS) project, and the Automatic Exchange of Information (AEOI). In 2016, the IMF, OECD, UN and the World Bank Group established the Platform for Collaboration on Tax (PCT). PCT has worked on different tool kits for taxation, and has given special emphasis to the elaboration of Medium Term Revenue Strategies (MTRS) in partner countries. It held its first Global Conference in February 2018 under the theme "Taxation and the SDGs". Other international and regional organisations have also intensified work on taxation issues, and more international conferences are planned for 2018.

Sweden has adhered to the Addis Tax Initiative and the commitment to double the support for technical cooperation in the area of taxation/domestic revenue mobilization by 2020. Sida has been asked by the government in the annual appropriation letter for 2016 to present how this objective will be reached. The Swedish government presented in 2016 a programme in ten (now twelve) points to counteract tax evasion, tax avoidance and money laundering. One of the points is about support to capacity building in developing countries to detect tax evasion, collect taxes, and participate in international efforts to counteract capital flight and tax avoidance. Sida and the Swedish Tax Agency have been tasked by the government to organize an international conference in Stockholm in May 2018 on capacity development for taxation.

This working paper has used data from the very few evaluations/reviews made of tax projects supported by Sweden; project documents and reports mainly from STA during the last two decades; information from interviews with representatives for STA and Sida, and information in the general literature on tax issues and institutional cooperation (see the reference section).

2. Taxation systems

If tax revenues are less than 15 per cent of GDP, lasting growth is considered difficult (PCT 2016a). The average in the European Union was 40 per cent in 2016. In 2013, the median tax ratio in low-income countries was around 13 per cent. Lower middle-income countries had a median ratio of 18 per cent.

Personal income taxes account for less than 10 per cent of tax revenues in most low-income countries, and the tax base is often narrow (Fjeldstad 2014). For example, in 2010 in Tanzania less than 400 large taxpayers contributed 80 per cent of total domestic revenue collection.

Early reforms of the tax systems in developing countries focused mainly on reduction of import and export duties. These were often replaced with value-added taxes (VAT). Increasingly, tax administrations have been set up as more autonomous government institutions.

Rapid reforms of tax systems are not easy. Taxes in developing countries are often collected in complex economic structures and within a complicated organizational network, which leads to what Mick Moore calls the "stickiness" of tax collections (Moore 2014). And there are many other constraints. Wealthy people and companies influence tax policies and tax administrations to ensure that they pay less taxes. Tax collectors often take bribes, also intended for their political masters. This leads to less willingness in general to pay taxes, and the link between taxes and public expenditure is also often opaque. Large informal sectors are difficult to tax.

Also, tax exemptions or incentives for investments, sometimes made for political purposes, lead to less revenue. Taxation of international companies, for example in the natural resources sector, is difficult as the companies can shift profits to other countries with lower tax ratios or evade taxes. Land and property are often not sufficiently taxed, partly depending on lack of data on holdings but also on elite resistance.

3. Taxation reforms

There are three major areas for reforms of the tax systems in developing countries: tax policy and legislation, tax administrations, and constructive state-society engagement around taxes. To be successful, tax reforms need support from ministries of finance, parliaments and the judiciary: the link to public expenditures and reasonable revenue targets is important, parliaments need to understand the importance of tax reforms, and the judiciary has an important role in adjudicating tax cases.

Reforms of *tax policies* generally include simplification of tax structures and procedures, less reliance on trade taxes, simpler progressive personal taxes, often lower and flat corporate taxes, and more taxes on goods and services, especially the Value Added Tax

(VAT). In Sub-Saharan Africa VAT is now levied in 80 per cent of the countries, typically providing one quarter of all tax revenue (Fjeldstad 2014).

Reform of tax policies and systems needs strong and sustained political commitment – it should be a whole-of-government strategic priority (PCT 2017). Through broad consultations, the reforms of the tax system can be accepted as legitimate. There is also a need to establish with the public a clear and credible link between the revenue that is raised and the services it finances.

Reforms of *tax administrations* can be easier when these are autonomous government institutions. Direct political influence can be reduced for autonomous institutions, and the possibility to have higher salaries and better working conditions can minimize staff turnover and rent seeking. But administrative reforms of tax authorities will often take a long time and involve deep changes in registry systems, IT systems and attitudes.

More focus on service to taxpayers has become more common in reforms of tax systems. Simplified tax rules can increase compliance by citizens and companies. The tax authorities progressively use websites to support taxpayers to file returns. But a real change of behaviour by the tax authority can sometimes be very difficult (Fjeldstad 2014):

> "Yet is evident that much of the new 'user friendliness' of many tax administrations is so far mainly window dressing: taxpayers continue to experience extortion, bribery and obstructiveness rather than willing, responsive service. It is also clear that 'user-friendliness is most widely practiced in the relations between tax administrations and their larger corporate clients."

Engagement with society is very important. Taxes concern citizens and economic actors directly. It is useful to build relations of accountability and mutual rights and obligations between the state and society. In many countries public information and inclusion of tax issues in school curricula have had positive effects, and also a dialogue between government and businesses and civil society. One way to engage more citizens is to non-aggressively broaden the tax base. A transparent system of levying taxes can lead to a better taxpaying culture (see further section 6 for the Swedish example). This might also in the long run contribute to better institutions and democracy (Broms 2014, Fjeldstad 2014).

In addition to national tax reforms, developing countries need to participate in *international tax-related reforms.* Many final products are nowadays the result of combined production in many countries, and half the global trade now occurs within related corporate structures. By exploiting differences in tax legislation, international companies can minimize their taxes. One way of doing this is to use internal pricing of goods and services within corporations to shift profits to low-tax countries or tax havens. Developing countries normally get a large proportion of their revenue from corporate taxes and suffer relatively more from corporate tax avoidance and evasion. The total corporate income tax losses for developing countries due to profit shifting can be one third of corporate income taxes due, in total USD 100 billion per year (ITC 2017).

International institutions drive the work with international tax reforms. Developing countries are progressively participating in these efforts to address cross-border tax issues. However, it is a very difficult area (Molander 2016). Even developed countries need to build more competence in these areas.

4. Swedish financial support to taxation projects

The Swedish development aid to taxation has been channelled mainly through the Swedish Tax Agency. Already in 1985, STA started a long-term project in Tanzania. The annual costs for STA projects during the last decade were as follows:

Table 1: The annual costs for STA projects 2006-2017

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cost (MSEK)	9	9	15	16	18	14	12	11	27	35	31	32

Source: STA

Other actors than STA that have received support through Sida have been NGOs such as Tax Justice Network-Africa (3 MSEK 2016) and a tax organisation in Guatemala, ICEFI (10 MSEK 2011-2014). During the period 2013-17, 26 MSEK was disbursed to a joint donor fund in Mozambique, financing for example IT equipment for the tax authority.

In the Swedish government's results strategy for global action on economically sustainable development 2014–2017, which guides Sida´s funding decisions, one area mentioned is ”Enhanced capacity of countries to implement effective tax legislation”. The increased focus on taxation issues after the Addis financing conference has also contributed to Sida preparing support for more international tax projects.

In 2015, a support of 4,9 MSEK was granted to OECD for technical cooperation within the framework of the BEPS (Base Erosion and Profit Shifting) project. Within the BEPS, a new project was prepared to enable developing countries to participate actively in the Inclusive Framework established within BEPS. A decision was taken by Sida in December 2017 to support this project with 40 MSEK during four years. The project will finance participation by developing countries in the framework, support to implementation of BEPS in the countries and at the regional level, and strengthening of capacity at the country level. At the end of 2017, the number of countries participating in the Inclusive Framework was 111, out of which 50 were developing countries.

Another international tax project decided in December 2017 was support of 40 MSEK for four years to the Revenue Mobilization Trust Fund (RM-TF), managed by IMF. The fund will support capacity development in developing countries to reform tax systems and policies and to develop tax administrations.

The international conference in May 2018 in Stockholm on capacity development for taxation will cost 20 MSEK.

As the dominant part of the Swedish aid to taxation hitherto has been channelled through the Swedish Tax Agency, we will here concentrate on looking at experiences from their projects. But first the story about the transformational change within this agency.

5. The transformation of the Swedish Tax Agency (STA)

The Swedish Tax Agency is the most popular public authority in Sweden. 70 per cent of their "customers" are satisfied with their work and the way they are treated by STA. This seems counter-intuitive – who likes to pay high taxes?

The transformation made by STA is described in the book "From feared tax collector to popular service agency" (Stridh 2015). For a long time, collecting more tax and controlling taxpayers was the main objective for STA. Results were considered equal to amounts of tax collected.

STA had over the years long internal debates over if this understanding of the desired result was right. An alternative proposed was that the best result was when everything was right from the beginning. It could be better to help the taxpayers to fill in the forms correctly than to hit them afterwards with controls and corrections.

The debate between the advantages of control versus service resulted in 1987 in a STA policy, which said both were needed. Control leads to more taxpayers wanting to do what is right, and they need help to do that. Better service leads to fewer mistakes and less need for control. At this time, STA also started to tell the public on beforehand which areas would be subject to special controls during the following year – which could lead to more taxpayers doing it right from the beginning.

In 1998 STA formulated a new vision that is valid also today: *"A society where everyone is willing to do their fair share"*. STA also formulated objectives about becoming more trusted and about better treatment of customers. Catchwords used were "Trustworthy", "Helpful", "Right from the start", "Easy to comply" and "Difficult not to comply". It was found that most important for taxpayers was to encounter a positive and helpful attitude when contacting STA.

In 2005, an internal STA report presented research findings saying that the direct monetary effect of control was very small. It is calculated that control gives only 1-2 per cent more in payment of taxes. But knowing that there was control of taxpayers could influence citizens to do the right thing. And according to the study, the existence of control underlines that cheating is against the norms in the society. The conclusion was that control is most effective when it is used to reinforce positive norms, rather than as a tool to scare people into obedience. Voluntary compliance by taxpayers is likely to give better quantitative result in the form of more taxes paid than does control.

Apart from being positive and empathic in contacts with taxpayers, STA has also helped taxpayers with technical support. It started with pre-printed forms, which with time now include so much data that most taxpayers can just accept at least the annual income tax form in a simple way. Also, most taxpayers can now revise the forms online and they can get competent telephone advice.

The successful transformation of STA has guided its continued institutional cooperation with counterpart institutions in developing countries. These are often more in the control and punish mode, but study visits to STA and an active dialogue has helped in introducing more of taxpayer service into the projects. Sweden can after all boast that it has among the highest taxes in the world and probably the most popular tax authority and content taxpayers.

6. Swedish Tax Agency projects

The first project managed by STA started in 1985 with support to building up the Institute of Tax Administration in *Tanzania.* There was a need for basic training in accounting. Eventually also more advanced training in taxation and customs issues was given, benefitting the Income Tax Department and the Customs Department. The project ended in 1993. As Tanzania did not finance maintenance of the buildings, a new project phase started in 1999 with a renovation of the institute.

The next large project in Africa was in *Zimbabwe* 1988-2000. It started as an ID registry project and developed to other areas such as IT development, collection systems and management issues. Revenue increased substantially, but with the economically destructive policies under the Mugabe regime STA found it less attractive to continue in Zimbabwe.

In 1991 a project started in *Vietnam* that lasted ten years. Vietnam had at the time an old tax system with collectors still walking the streets. Old tax categories were rationalized and simpler taxes were introduced for companies, properties and individuals. Efforts were made to introduce a strong vertical structure but met some resistance at the local level. Strong IT systems were successfully introduced and also STA ideas about service to taxpayers.

Table 2. STA projects financed by Sida

Years	Country	Years	Country
1985-2003	Tanzania1	2008-2010	Kosovo 1
1988-2000	Zimbabwe	2008-2010	Mozambique 1
1991-2001	Vietnam	2010-2012	Indonesia
1992-2008	Russia	2010-2014	Botswana 1
1993-1994	Latvia 1	2014-2016	Botswana 2 (financed by Botswana)
1993-1994	Lithuania 1	2013-2016	Moldova 1
1993-2002	Poland 1	2015-2016	Cambodia 1
1995-1997	Eritrea	2015-2017	Bosnia & Herzegovina
1998	Guinea Bissau	2013-2017	Kosovo 2
1998-2008	South Africa	2014-2019	Kenya
1999-2004	Tanzania 2	2016-2021	Mozambique 2
2001-2002	Namibia	2016-2019	Cambodia 2
2005-2006	Sri Lanka	2017-2020	Bosnia & Herzegovina
2003-2009	Laos	2018-	Moldova 2(planned)
2004-2012	Albania 1	2018-2020	Kosovo 3
2007-2010	Philippines	2018-2020	Albania 3
2007-2009	Indonesia	2018-	Ukraine

Source: STA

With the fall of the Soviet Union, Baltic and Eastern European countries wanted support for their process towards becoming members of the European Union. Some countries got support from STA in the tax area. Swedish government agencies had especially strong contacts with the authorities in the newly independent Baltic countries. Sida financed in the beginning a few projects, but thereafter they were mainly financed by EU funds for twinning. *Latvia* had three projects. *Lithuania* had four projects with STA participation with main focus on updating of legislation and introduction of IT support systems for control. *Bulgaria*, Slovakia and *Montenegro* had smaller projects, mainly on service to the public.

All twinning projects were short-term, normally two years, and were nearly always focussed on specific requirements for EU membership. The last EU twinning projects with STA participation started in 2009 and thereafter STA did not enter into new EU projects.

Table 3. STA projects financed by EU

Years	Country	Years	Country
1997-1998	Slovakia	2004-2006	Lithuania 3
1999-2001	Poland 2	2004-2005	Latvia 3
1999-2001	Latvia 2	2006-2007	Poland 6
2000-2002	Poland 3	2007-2008	Lithuania 4
2001-2003	Bulgaria	2008-2009	Czech Republic
2001-2003	Poland 4	2009-2010	Montenegro
2002-2004	Lithuania 2	2009-2012	Albania 2
2002-2004	Poland 5		

Source: STA

Poland was a special case. Sweden and Poland had a joint interest in cooperation. In 1991 the Polish authorities contacted the regional tax authority in Malmö in southern Sweden and asked for cooperation in view of the rapidly increasing commercial traffic between Poland and southern Sweden. There were issues of tax avoidance in the building and transport sectors. STA got finance from Swedish aid funds 1993-2002 and also participated in different EU twinning projects in Poland, together with countries like Great Britain and France. The Polish twinning projects focused on control and enforcement, and adaptation to EU legislation.

In *Russia,* local Swedish tax authorities made limited efforts to build capacity in tax administrations in Western Russia for example in St Petersburg, Murmansk, Archangelsk, Karelia and Kaliningrad. The Swedish-Russian Cooperation Programme run by the Ministry of finance in Sweden included reciprocal visits between STA and central Russian authorities.

A number of projects have been started but terminated for external reasons. Projects in *Eritrea* and *Guinea-Bissau* were terminated because of outbreak of wars. In *Sri Lanka* STA/Sweden ended support to a population register when the Sri Lanka authorities wanted to register ethnic group and religious affiliation. Slow assessment within Sida of a project document worked out by STA for *Rwanda* lead to DFID instead financing the project. A project proposal was worked out for *East Timor* but for language reasons East Timor instead turned to Portugal. Smaller projects ending in reports with recommendations have been financed in *Namibia, Uganda, Ukraine and Guatemala*.

From around 2000, the main focus of STA has been to work with larger long-term projects based on broad institutional cooperation, financed by Sida. The star project in the STA portfolio has been the institutional cooperation with the *South African Revenue Service*, SARS. With a charismatic leader of the newly independent institution and close collaboration with the leadership and staff at STA, SARS had a very positive development during the project period 1998-2008.

Larger bilateral projects have been started in *Laos, Albania, Kosovo, Mozambique, Botswana, Moldova, Cambodia, Kenya and Bosnia-Hercegovina.* There have been also more technical projects in *Indonesia* and the *Philippines* and one together with SIPU in *Mongolia*, financed by the World Bank.

7. STA project approach

Over time, STA has through experience developed a working procedure for projects, which is stated in the different project documents:

> "In the execution of cooperation projects, STA works on an institutional basis, authority to authority. The concept relies on providing long- and/or short- term experts to the recipient organisation complemented with study visits, training, seminars and workshops. STA uses its own employees to nearly 100%. This is the key for keeping the project together and the capacity building within the authority instead of transfer of knowledge to individuals only. Nevertheless, the work between individuals, as colleagues, is extremely important and by building up trust and close relations between individuals, the knowledge will stay and spread within the institution.
>
> Experience from earlier projects and cooperation has shown that a long term institutional cooperation built on mutual trust and confidence ensures sustainable development. It should also be clear that STA focuses on capacity building and tries to avoid all kinds of "gap-filling". This means that the work would include exchange of ideas and experiences, new methods and ideas that have to be discussed at different levels within the tax administrations. It will be important to discuss and agree within the tax administrations before deciding and implementing the agreed new ideas. This can be time consuming, but ensures sustainability and ownership of the ideas by the tax administrations…
>
> Even if the Project has set results, the way of reaching the results is a result on its own. This is actually the whole idea with institutional cooperation." (From project proposal for Bosnia/Herzegovina 2017)

During the project preparation, which is paid by Sida, a study visit to STA in Sweden is normally made, followed by visits by STA to the country. The country identifies its needs, and STA responds with what they think they can provide. The preparation normally takes two years and also serves to build mutual trust and personal relations. STA nowadays insists on starting with few areas, which can be added to later.

By not being gap-fillers, the STA short-term consultants serve more as partners and mentors, "not wearing suit and tie". When they leave after a visit, the staff is supposed to do "home-work" until the next visit. As the STA method is "learning by doing", enough time is left to let the staff use the new knowledge and document it, so that it will survive changes of personnel – which happen in many countries. Between visits, the Swedish and the country participants in the respective working groups continue to have close contacts via mail and telephone.

The tasks have often included risk management, IT systems, tax audit, taxpayer service and voluntary tax compliance. STA does normally not use local consultants. STA also tries to avoid including equipment in the projects so as to escape procurement processes that can be tedious and take a long time and delay the project.

The international work of STA is influenced by its own journey ”from feared tax collector to popular service agency”. The short- and long-term experts from STA try to ”spread the gospel” to the project countries. Practically all projects contain elements of service to the taxpayers, education for citizens, and simplifications through IT systems or reduced demands on filling out forms.

STA projects typically have a steering committee headed by the partner with participation by STA and sometimes the Swedish embassy. The committee meets twice a year to discuss project reports. The country tax organisation provides a project manager and working group team leaders and members. STA organises project management from STA through their international unit and provides a number of short-term experts and normally a long-term resident advisor.

8. Success criteria for institutional cooperation

The projects managed by STA are nearly exclusively in the form of institutional cooperation and focused on capacity building. Under which conditions are such projects successful?

There are a number of studies on support to capacity development in developing countries, which broadly agree on what is important. According to a recent major Nordic evaluation of capacity development (NIRAS/Indevelop 2016), some of the success factors are:

1. A sound understanding of the context, to understand the institutional and political drivers and obstacles and the relation between individual, organisational and institutional levels of capacity development
2. Strong ownership and commitment by all stakeholders
3. Partners have capacity to manage capacity development processes and use the capacity acquired
4. Donor support is flexible
5. Joint clear visions of objectives and results, and good monitoring
6. Long-term commitment to enable relationships of trust and absorption of new capacities, preferably combined with stepwise ”quick wins” to maintain motivation
7. Target groups affected by the partner’s activities are involved

These success factors for capacity building are relevant also as concerns more specifically institutional cooperation. It is important that the cooperating partners define key concepts such as institutional development and sustainability, that management is involved, and that the quality of the pre-project analysis of the recipient partner's institutional and governance context is high (World Bank Institute, 2004). Ownership is a key factor, also at the political level. The partner organisation should have a certain maturity and clear mandate, and the organisation in the developed country should also have maturity in the sense of having experience of working in developing countries. STA and other Swedish authorities with larger development projects have also found it effective to have a long-term advisor in place (Markensten 2014).

Having a long project period of 3 years or more makes it more likely that the changes are given time to be embedded into the partner organisation. And it is also important that the preparatory and inception phase is given time, normally up to two years. Building strong partnerships with mutual interest takes time. Another factor that sustains ownership and partner engagement in the project is cost sharing (Markensten, 2013). For example in the case of the STA project in Botswana, the government paid half the cost, and even added a prolongation for two years where they paid 100 per cent of the costs. However, not all countries can afford such financing.

It is important that the cooperation is based in the partner organisation and does not only copy the solutions of the other organisation. This also implies that the organisation from the developed country must adapt to the actual development in the host organisation and show a high degree of flexibility within the framework of the agreed main objectives.

To sum up, the ideal institutional cooperation is well prepared, continues for a long time, engages the leadership in both organisations, is flexible, has a long-term advisor, and leads to changes that become embedded in the partner organisation and its routines.

9. Evaluations and reviews of STA projects

Out of 29 STA projects financed by Sida since 1985, only 6 have been evaluated or subject to some type of review (see the reference section). This is much less than normal, and there is no explanation why. Of the 15 projects financed by EU, it seems that none has been evaluated. This paucity of evaluations makes it difficult to draw firm conclusions on the results of the STA projects.

9.1 South Africa

One of the longest and largest (29,5 MSEK) STA projects, the support to the South African Revenue Service (SARS), was not reviewed or evaluated during three project phases 1998-2008, but in 2009 a post-project evaluation was made (Bottern and Christensen 2009). SARS had a very positive development during the project period:

> ”SARS has evolved from a bureaucratic and rather inefficient organisation to become one of the top performing government agencies in South Africa, as revenue collector, employer and as service provider. As such, SARS has become a role model for the public administration in South Africa and for other tax agencies on the African continent and beyond.”

The collection of tax revenue increased from 25 per cent of GDP in 1998 to 33 per cent in 2008, and the tax base was broadened from 2,5 million taxpayers in 1996 to 8,3 million in 2008. According to the evaluation, the cooperation with STA has had a large impact on the fast development of SARS in areas such as strategy development, segmentation of taxpayers, introduction of IT systems used in STA, using best practice in STA for e-governance, establishment of Large Business Centres and call centres, making the organisation more horizontal and team based, and combatting corruption through phasing out use of cash and personal contacts.

The results of the cooperation have been integrated in SARS's organisation, work plans and strategy. “This is due to SARS's high involvement in the implementation and SARS's co-funding of activities e.g. for IT licenses, air tickets and accommodations.”

Not everything was a success. Sometimes changes in priorities were made hastily, for example implementing too many IT systems at the same time. And SARS did not manage to implement single tax payer registration. High turnover of staff in SARS and a number of organisational changes reduced efficiency in implementation.

9.2 Poland

After initial cooperation between Swedish and Polish tax authorities motivated by joint interests, a total of 6 MSEK was financed by Swedish aid funds 1993-2002. This was complemented by EU twinning projects.

The use of the Swedish funds for the first three phases 1993-1996 was evaluated (the document has not been made available but is reported in later documents (Eduards 2000, Schmidt 2003). The conclusion was that the plans were fulfilled and that both partners had implemented the activities professionally. The results had been documented and spread to the local tax administrations in Poland.

The fourth and last phase 1998-2002 was evaluated in 2003 (Schmidt and Gisle 2003). The objectives were largely met except for having system users being responsible for IT development. The joint interest in project success was prominent for example in a project component developing tools permitting Polish and Swedish authorities to avoid double taxation, and this joint interest will promote sustainability of project results.

The success of the project was attributed by the evaluators to strong political support, Polish ownership, cost sharing by Poland, low personnel turnover, and the use of permanent Swedish staff of which some did speak Polish. The method of identifying and implementing quick results did also contribute.

9.3 Laos

After two years, a mid-term review was made in 2006 of a tax project in Laos (Söderlund and Shulz 2006). The review made a number of critical observations. The review states that the project had not shown any results in revenue collection and that STA has tried to implement the project too quickly in an environment with few national staff and low absorption capacity. The capacity development had produced limited effects, the project had not been allowed to participate in certain activities in the work plan, political commitment was low, and the project was not sufficiently adapting to the complicated traditions, values and power structures in Laos. It was according to the review very possible that several risks identified in the Laotian structures would materialize for example continued high staff turnover. Sida was recommended not to finance a second phase of the project.

The review report was strongly contested by the Laotian counterpart and by STA for getting facts wrong and not understanding the long-term nature of the interventions. The observations by the review of low absorption capacity and the need for slowing down the pace of provision of STA consultants were accepted, as well as the importance of more autonomy for the tax administration. The project continued with prolongations until 2009 to a total cost of 29 MSEK. At this time the Swedish aid to Laos was being phased out.

9.4 Albania

In 2007, an in depth review was undertaken of the *first phase* of a tax project (of 6MSEK) in Albania 2004-2007 (Bottern and Braho 2007). The evaluators state that an extension of the project is highly recommendable. This was based on the positive cooperation between STA and the Albanian authorities and the results achieved, both in growing tax income and increased number of taxpayers and in increased efficiency of the Albanian tax administration. A new phase would also increase sustainability of results achieved although many improvements had already been documented in manuals and were widely used – which offset the many changes of personnel during the project.

The Albanian ownership had been a problem. Senior managers were changed 3-4 times in all three tax offices participating in the project, and many tax officials were dismissed. The review also notes that the project should have been more restrictive in adding new activities and should have put on hold some of the originally planned activities, for example a training centre for which the institutional location was never determined. The project should also have had a longer preparation period to ensure a good project design with objectives and indicators, and "procedures of monitoring should be established from the start like in any other project".

In 2013, an evaluation was made of the *phase 2* (for 8 MSEK) of the project in Albania 2008-2012 (Gustafsson et al., 2013). The evaluation recommended continued support from Sida for a third phase. The project had continued to have a positive impact on the effectiveness and efficiency in revenue collection. How strong this impact had been was difficult to ascertain, as the introduction and measurement of clear indicators for the project were not made in this phase either. Demonstrating the need for more service orientation was also a positive contribution of the project.

The involvement of the top management of the Albanian tax authority was lacking also for this phase, shown for example in lack of financing for continuation of gender equality activities or taxpayer information campaigns. The method of having short-term advisors from STA coupled with study visits to STA in Sweden worked well, but proactive coordination on the Swedish side could according to the evaluation have been better, particularly by employing a resident senior advisor from STA.

9.5 Kosovo

A successful project in Kosovo on taxation of buildings was followed by a new phase to develop also a land tax. The land tax project (ProTax2) has been active 2014-17 and spent 41 MSEK. An evaluation was made in late 2016 to support a mid-term review of the project (Hedvall and Kurtishi 2016).

The earlier project on taxation of buildings ended in 2011 but Sweden continued financing some of its activities concurrently with the preparations for ProTax2. The evaluation presents some continued results for the preceding project. Here only the activities related to ProTax2 are discussed.

The evaluation states that ProTax2 has produced planned outputs preparing for the new land tax, but several products are delayed due to external factors. It was too early to make statements about outcomes. One major critical aspect identified was that there is a risk that the legislation on inclusion of land in valuation is not passed, which would make it impossible to reach the project objectives. Also, the staff of the property tax department did not participate much in the project, so consultants and foreign experts did basically run the project. And the department cannot pay salaries to the type of expertise needed to run the complex IT systems being set up.

9.6 Moldova

In 2016, an assessment was made of the reforms 2014-15 in the tax administration in Moldova (Lupusor et al., 2016). The administration was at this time supported by several donors, but mainly by Sida in the form of a STA project 2013-16 for 22 MSEK. The Sida project had three components: General Management, Taxpayer Service and Tax Audit.

The General Management component was focussed on implementing a new law on creating a unified tax administration, but the law was not passed. The Taxpayer Service component focussed on voluntary tax compliance through change of attitudes of employees in the tax services and through information and service to taxpayers. A positive change of attitudes within the tax services and with the public was stated to have taken place. The third component, Tax Audit, has introduced more risk-based selection of controls and more efficient routines. In spite of the advancements in Taxpayer Service, control is still seen as the main task of the tax agencies, corruption is still prevalent, and the assessment states that continued changes of attitudes and work practices will take time.

The final report from the project from 2017 can be read concurrently with the assessment. The final report is more detailed about the problems met in the project and also proposes areas for future reforms. A new project phase is being planned.

10. Takeaways from Swedish Tax Agency projects

This working paper is not a meta-evaluation of the work of the Swedish Tax Agency. A meta-evaluation would be difficult to do not least because of the paucity of evaluations of STA projects. It is rather an overview of the experiences from Swedish tax aid. Some summary observations will be offered here, based on the evaluations/reviews, project documents and reports, and on interviews with staff in STA with long experience of support to taxation authorities. We will start with the DAC evaluation criteria: Relevance, Effectiveness, Efficiency, Impact and Sustainability.

10.1 Relevance

The STA projects are generally very relevant. They are directed towards the core functions of domestic resource mobilization necessary to finance the general development in the countries. There can of course be parts of projects that are less relevant, for example the publication of tax statistics in Albania as books rather than as online databases.

10.2 Effectiveness

All projects have had as an explicit or implicit goal to increase collection of revenue and to broaden the tax base. This has happened in practically all projects, but it cannot always be attributed to the STA support. The focus in the projects has also not been so much on the quantitative targets but rather on changes in the tax administration.

Of course the different components in the projects have been more or less effective. Factors positive for reaching the objectives have been for example strong ownership, mutual trust, good planning and monitoring, clear objectives, flexibility, high staff participation, long-term advisors, and sufficient time for preparation and implementation.

10.3 Efficiency

The cost of the STA short-term experts is calculated as the net cost for the Swedish Tax Agency, and the experts receive no financial incentives for working abroad. The activities are normally well planned and demanded by the partner. Also the study visits have normally been well planned and organised. The flexibility shown by STA, as described for example in the South Africa project evaluation, meant that no funds were spent when SARS was occupied with other activities than the project. High costs for modest outputs in some projects are normally caused by major external factors holding up the project as for example in Kosovo when the land legislation was not passed which was needed for the project to continue.

10.4 Impact

The long-term changes caused by for example the project in South Africa were considerable. Strong ownership in both institutions and a ten-year project period gave a considerable momentum for change. SARS developed "from a bureaucratic organisation to an outward looking service oriented organisation"(Bottern 2009), in a way mirroring the transformation of STA itself. The cooperation with Poland over many years was based on strong mutual interest between Sweden and Poland, and Poland had the EU requisites as clear objectives, which helped to reach long-term impact. In other countries, projects have not been active for so long periods and worked under the same conditions so it is more difficult to discuss the long-term impact.

10.5 Sustainability

The method normally used by STA is conducive to sustainability of project results. The different activities are based on demand from the partner. Short-term experts are mentors helping with learning by doing, not gap-fillers. Sufficient time is left for the partners to test new procedures and document them, resulting in the changes being embedded in the organisation. Cost sharing as for example in South Africa and Poland is also supporting sustainability.

In the project documents, STA inserts a standard clause about what happens after the project: "STA would be amenable to discuss a prolongation of the project in the future. The aim of the cooperation is also for the agencies to develop and maintain a fruitful relationship even after the completion of the project"(Project proposal for Cambodia, 2016). One problem for sustaining the relations is that Swedish government authorities are not allowed to use their own budget for development cooperation, only Sida funds.

Still, for most projects a number of contacts between staff from the two agencies continue after project completion. Mail and telephone conversations are used for continued support. It could be discussed if a financing modality, "sustainability funds", could be established that would promote such continued contacts to increase sustainability of the project results (Markensten, 2014).

10.6 Planned results and flexibility

For earlier STA projects, less attention was given to results based management with planned outcomes and outputs, and measurable indicators that were monitored. Instead the stated and changed needs and new developments in the partner organisation were guiding the development. This flexibility was appreciated by the partners and it worked relatively well in the case of South Africa, but less so in for example Albania.

With increased demand over time from Sida on results based management, more elaborate results matrices were elaborated. The number of initial components in the projects accepted by STA was kept down to 3-4, but still with flexible adaptation to subsequent changes in the partner situation. The present STA practice fits well with the new international trends on planning of results in development projects, with emphasis on adaptive planning and more flexibility, together with clear objectives and measurable indicators. The issue of results and monitoring issues specifically for tax projects is under development (PCT 2016a, pp. 32-33).

10.7 Tax authorities and the political environment

One lesson from the evaluations of STA projects (Laos, Kosovo, Moldova) is that more effort could be given to map the institutional and political environment. This would include defining for example "killing factors" like the probability of laws being passed about taxes or about autonomy for the tax administration, especially when these laws were prerequisites for success in the projects. The project preparations have typically been more focused on the expressed needs by the partner tax authority and less on looking at the broader picture and formulating a theory of change for reaching the long-term objectives.

10.8 Risk management

Risk issues are somewhat of a specialty of the Swedish Tax Agency. It has a well-developed cycle to map and analyse compliance risks as a strategic management tool in tax administration. Risk management is often a part of the STA projects for example as concerns tax audit. The risk chapter in the STA project documents presented to Sida is normally well elaborated. For example, in the project document for the present project in Kenya, twelve major risks are documented. However, this has of course not insulated the projects from having problems when the risk factors materialized as in for example the Laos project.

10.9 Gender equality and corruption

The two crosscutting issues being actualized in the STA projects are gender equality and corruption. Gender issues are discussed in all recent STA project documents. Efforts are made to have more gender disaggregated tax statistics and more equal representation. However, it is in many environments difficult to advance further than beginning to change attitudes in the tax organisation (as for example described in the evaluation of Phase two of the Albanian project).

Corruption is an issue that can be influenced by tax projects. Tax authorities are among the most discredited institutions in this regard (Fjeldstad 2014). But the introduction of transparent IT systems in the STA projects and removal of the need for personal meetings and manual and cash payments can be very useful in combatting corruption.

10.10 Coordination with other donor financed projects

The relatively long preparation time for new projects and the presence of a long-term advisor in situ makes for a good coordination by STA with other projects, even if the partner has no formal arrangements for donor coordination. In one case a planned STA project was changed by deleting one major component that was appearing also in a new EU twinning project (the only solution available as EU projects are very difficult to change).

10.11 EU twinning projects

After the fall of the Soviet Union, a few projects in Eastern Europe were financed by Swedish aid. From 1997, 15 two-year twinning projects financed by EU were implemented in the region. The projects were not, as other STA projects, focussed on the whole tax organisation but on specific components to adapt to EU rules and regulations. STA has not started work on any new EU twinning project since 2009. One reason was internal Swedish financing issues, which were solved in 2017, but also the fact that EU twinning projects are short-term and inflexible, and that STA considers the process for winning project financing in competition with other major EU member countries to be difficult.

11. Recommendations

1. The *Swedish Tax agency* is recommended to give more attention in the project preparation phase to an analysis of the institutional and political environment and to identify a theory of change for how their input will lead to the desired outcomes of the project.

2. *Sida* is recommended to finance more external evaluations of tax projects implemented by the Swedish Tax Agency and/or finance joint evaluations undertaken by STA and their partners for mutual learning.

3. *Sida* is recommended to grant financing to STA (and similar Swedish authorities working with institutional cooperation) for “sustainability funds”, to enable continued small-scale support to ensure sustainability of project results. The fund could be for example 10 per cent of the total annual project disbursements and be used for all recently terminated projects according to actual needs.

Abbreviations

AEOI	Automatic Exchange of Information
BEPS	Base Erosion and Profit Shifting
EBA	Expertgruppen för biståndsanalys, Swedish Expert Group for Aid Studies
G20	Group of twenty (finance ministers and central bank governors)
ICEFI	Instituto Centroamericano de Estudios Fiscales
MRTS	Medium Term Revenue Strategies
PCT	Platform for Collaboration on Tax
RM-TF	Revenue Mobilization Trust Fund
SDGs	Sustainable Development Goals
SARS	South African Revenue Service
STA	Swedish Tax Agency
VAT	Value Added Tax

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Paulos Berglöf	Sida
James Donovan	Sida
Anders Gerdin	Sida
Thomas Kjellson	Sida
Karin Metell Cueva	Sida
Åsa Palmgren	Sida
Tommy Carlsson	Swedish Tax Agency
Ann Melin	Swedish Tax Agency
Conny Larsson	Swedish Tax Agency
Lars Åke Leijkvist	Swedish Tax Agency
Henrik Lund	Swedish Tax Agency
Sara Olin	Swedish Tax Agency
Tulli Sköld	Swedish Tax Agency
Magnus Wallin	Swedish Tax Agency
Pierre Frühling	Swedish Embassy, Ethiopia
Anders Troedsson	Swedish Ministry for Foreign Affairs