End of project popular science description

Introduction

Academics, governments, and development practitioners have increasingly turned their eyes on domestic revenue mobilization in low-income countries, not least in Africa. The huge financing gap needed to reach the ambitious Sustainable Development Goals, rising debt, and domestic as well as external pressure to deliver public services point to the importance of raising domestic revenue. And indeed, the share of collected tax revenue to GDP on average across Africa has, according to IMF estimates, increased from 14 percent in the 1990s to an average of about 18 percent in 2016.

It is widely assumed that increased taxation could lead to more engagement between the state and society. As individuals experience a higher fiscal burden, they are expected to make demands for a return such as better services and more political accountability. In theory, states would then seek to accommodate these demands because it is less administratively and politically costly to tax people if they are themselves more willing to pay. Over time, such interactions around taxation have been theorized to create a social contract, whereby the state delivers public goods and services in return for tax compliance and revenue.

In reality, however, we know little of how citizens respond to increased taxation. Do they protest, do they demand services in return for the tax, or do they accept increased tax burdens? This research programme has studied a series of micro-level revenue bargaining processes. On this basis, our research has widened/deepened our theoretical and empirical knowledge about revenue bargaining processes in low-income countries with a view to identifying both what triggered the bargaining processes, how the processes evolved and whether they resulted in a sort of contract or agreement between the parties. Theoretically, we have developed and applied a framework inspired by fiscal sociology, which has focused the role of revenue mobilization in state-building processes, combined with political settlement theory, which has a more explicit and applicable focus on relations of power.

Our many case studies zoom in on many different aspects of revenue bargaining; including whether and when revenue providers mobilize, whether they are able to get state actors to negotiate, how the bargaining evolves, or what the outcome is. All case-studies build on extensive field research and interviews with concerned revenue providers, relevant state actors, and experts. Some case studies also draw on participant observation data, original survey data, or data from primary and secondary sources such as news articles, reports, and legal texts. Based on extensive empirical knowledge of the cases and their contexts combined with our own original data, the research teams present the cases of revenue bargaining in qualitative narratives of different forms. This is an instrumental means of uncovering the dynamics of revenue bargaining, how positions and relations of power may change, and whether and under what conditions instances of revenue bargaining lead to some sort of agreement in the form of a (micro-level) fiscal contract.

Results

Our theoretical framework enabled us to unpack a series of revenue bargaining processes. We found that three main types of triggers of bargaining: (i) a new tax legislation, (ii) efforts on behalf of revenue authorities to better enforce existing tax legislation, (iii) changes in citizen awareness of taxes, or a combination of these. A trend across the case studies was that bargaining occurred more frequently around a push to increase taxes (whether in new taxes, tax reforms or administrative efforts to implement exiting policies) rather than people reacting to existing taxes by demanding better services or political accountability.

Once revenue bargaining is set in motion, we find that the various individuals and groups who provide revenue are important to the ruling elite not merely because of their actual or potential fiscal importance but also because of their political importance. Across the cases of revenue bargaining, ruling elites prove to be keenly aware of revenue providers' ability to maintain or threaten the ruling coalition. The ruling parties in Tanzania and Uganda very clearly prioritized the party's own political campaigns over government revenue in providing big businesses tax exemptions in exchange for political funding. In Tanzania, the government also avoided protest from the security forces, an important political ally, by pre-emptively introducing a compensation pay at the time when the VAT-exemptions of army shops were removed.

As we pay attention to the variety of political, economic, and organisational sources of revenue providers' bargaining power, we have examined the comparative significance of these different sources of power. We show not only that power matters for revenue bargaining, but also how it sometimes changes during the process. In some cases, bargaining power changed when a governments' initiative to increase taxation pushed a group of revenue providers to cooperate better to gain a foothold in the negotiations. In other cases, bargaining power was strengthened when a targeted group of revenue providers were able to create alliances with non-sector stakeholders or got assistance from external or third parties. Such alliances changed both how the bargaining processes unfolded and, sometimes, their outcomes as well.

Elections too can shape the course of the revenue bargaining process as the relative bargaining positions of revenue providers vis-à-vis the ruling elite shift. For instance, elections are costly to the ruling elites. They need revenue not only to run campaigns, but also to mobilize support and to deliver and promise public goods. At the same time, elections are political windows that may give disgruntled groups of citizens an opportunity to raise their grievances. This implies that during election times, the bargaining position of ruling elites is weakened and may therefore prompt them to be more willing to concede to demands raised in revenue bargaining processes.

Conclusions

In many of the case studies carried out, revenue bargaining ended with a return to status quo; in others, existing tax legislation was changed but implementation and expansions in actual tax collection remained limited; and finally, some efforts to effectuate existing tax regimes in fact led to formalisation of waivers or tax exemptions. In all these cases, the need for political support from revenue providers overruled the potential revenue gains. What this implies is a recognition that as a result of effort to expand domestic revenue mobilization state-society engagement and reciprocity does take place. However, the result of this reciprocity is that revenue mobilization efforts become 'sub-optimal'. Consequently, and as suggested in fiscal contract theory, we should continue to think of taxation as a driver of state-society reciprocity, but it is important to look beyond macro-level correlations. If we see a broad variety of reciprocal engagements between state and revenue providers evolving and institutionalising at and, particularly, between elections, such interactions may in time increase accountability and induce a society-wide fiscal social contract.

Recommendations

These findings and conclusions have a number of implications for policy. In fact, the most important recommendation would be to be careful about expanding the revenue base too fast. A debate on 'services first' has taken hold in the taxation literature, and this research programme's findings certainly point toward focusing on improving the delivery end of the social contract as much and in parallel with the revenue side. This would also mean taking a much more incremental approach to the expansion of domestic revenue mobilization.