



Tax Equity Initiative

IBP Strategy Note

April 2020

Since its creation twenty years ago, the International Budget Partnership has worked with multiple actors – including civil society, governments and international institutions – to promote citizen engagement with budget policies and processes to make them more equitable and inclusive. Historically, our work has focused mostly on the expenditure side of the budget, supporting civil society groups who advocate for spending policies that seek to reduce poverty and inequality and respond to the needs of the poorest and most vulnerable groups. Increasingly, however, it is clear that we need to pursue a more comprehensive approach, bringing issues of taxation and revenue collection more squarely into our work.

Fiscal policies – including both taxing and spending – are increasingly recognized as a key arena where important battles about the future of development and democracy are being fought. This has become evident in the starkest sense since the onset of the COVID-19 pandemic, as governments across the world are struggling to find the resources to ramp up health spending and keep their economies afloat. Even before the start of the crisis, citizens across many countries were taking to the streets to protest against tax hikes, spending cuts and corruption scandals. Many of them saw governments as distant, ineffective and captured by special interests.

These challenges demonstrate how much the social contracts that bind societies together are under strain, and disagreements about how governments raise and spend public resources are at the core of growing debate and discontent. If decisions around taxes and spending were more transparent, inclusive and fair, citizens' trust in governments and their faith in democratic governance could increase, generating greater public support for taxation and for the role of the state in providing the services that people most need, especially in these times of crisis and during the long period of economic and fiscal recovery that will inevitably follow.

To respond to these challenges in a more effective way, and ensure that our work and the work of our partners does not overlook the importance of taxation in promoting more equitable and inclusive policies, IBP is launching a new Tax Equity Initiative, which builds on and deepens our previous work in this area, and which we introduce and describe in this strategy note.

Why should civil society engage with taxation issues?

Decisions around tax policy and tax administration are fundamental in addressing a number of important development challenges. These range from finding the resources needed to expand basic service delivery and reduce poverty to responding to crises like the current pandemic, and from ensuring that the burden of financing all of these activities is equitably distributed to improving government legitimacy and levels of trust between citizens and the state – the bedrock of social contracts.

Across many developing countries, however, the situation is not encouraging. Governments collect limited amounts of tax revenues – around 15 percent of national income on average for low-income countries, compared to more than double that for high-income countries – and they do so in ways that are often highly regressive, characterized by a heavy reliance on indirect taxes and by limited – and weakly enforced – taxation of wealthy individuals and corporations. Furthermore, a general lack of transparency and accountability results in low tax morale and a lack of trust that governments will use revenues for the public good.

The existence of such ineffective, inequitable and unaccountable tax systems across many countries is not surprising: these systems are supported and perpetuated by elites and powerful interest groups aiming to protect their interests. Rich individuals and large corporations often use their economic and political clout to ensure that they pay as little tax as possible, for example by influencing tax policy debates, pursuing aggressive tax avoidance strategies or lobbying to obtain fiscal benefits and incentives. Reforming these systems is therefore no easy task, but at least the need for reforms is now seen as a top priority, is being more openly debated and is finding new supporters. The urgency of such reforms has only increased as developing country governments face the costs of the COVID-19 pandemic and its economic and fiscal impacts.

The Addis Tax Initiative – endorsed by over 40 governments, as well as key international organizations, regional organizations and funders – embodies this new emphasis, providing a forum for countries to commit to and get support for increasing revenue collection and making it more efficient and equitable. Recent campaigns on the need to reform international taxation systems have called attention to the extent to which existing arrangements allow multinational corporations, for example, to avoid a considerable share of their tax burden, depriving developing countries of much needed revenues. And the role of taxation in addressing increasing inequality has also become a hotly debated topic in academic and policy circles, driven by new data and analyses which have pointed out just how much the wealthy benefit from existing tax systems.

Citizen frustration with inequitable policies and a lack of democratic representation boiled over in 2019 and led to a wave of mass protests in countries all over the world, from Lebanon to France, and from Chile to Hong Kong. Public trust could be further undermined if governments respond to the pandemic with actions that seem arbitrary or that favor certain interests over others. This highlights the urgent need for governments to respond to citizens' needs and concerns not just with appropriate policies, but also with open processes for making policy decisions to ensure the results are not skewed in favor of narrow, powerful interests.

Historically, citizens and civil society groups have had limited engagement in fiscal policy decisions. This is particularly true for tax issues, which are seen by most governments as in-house matters. Some interesting experiences of civil society engagement with tax reforms already exist, spearheaded both by country-level groups and by international NGOs and networks, often in partnership with local groups. Yet, in most low-

and middle-income countries there is still limited tax analysis and advocacy being done by CSOs, and the work done by international NGOs has tended to focus more on critical international issues such as the taxation of multinationals or financial secrecy, giving less attention to much needed domestic tax reforms, like reducing the over-reliance on indirect taxes and improving the overall progressivity of tax systems.

There is therefore a clear need to further strengthen civil society capacity and engagement on tax issues in developing countries, in order to ensure that the drive to mobilize additional domestic resources goes hand in hand with addressing equity concerns, and that new spaces are opened for a better informed and more inclusive debate on the role of taxation in promoting development. Civil society engagement in domestic tax reforms is needed to strategically address power imbalances and seek ways to mobilize coalitions of actors that can help shift the balance of power and open windows of opportunity for reforms aimed at establishing more equitable tax systems. This is likely to become even more important given the enormous fiscal challenges that governments are facing – and will continue to face in the coming years – as they grapple with the effects of the COVID-19 pandemic.

IBP is well placed to play an important role in these efforts, based on its 20 years of experience in supporting civil society budget work and its large network of partner organizations across the world. Over this period, IBP has developed a unique approach that combines technical expertise in public financial management, the capacity to link national and global processes and a focus on building independent local institutions. As part of its new strategic plan, IBP is launching a new initiative to promote tax equity and broaden its work to encompass taxation as a fundamental – and until recently often neglected – area of public finance, seeking ways to build on existing efforts, deepen its impact and support this growing field of work.

Why and how will IBP work in this new field?

IBP started looking at tax issues more than a decade ago. In 2006, we published “[A Guide to Tax Work for NGOs](#)” as a first attempt to bring together evidence, examples and approaches relevant to civil society tax analysis and advocacy. In subsequent years, we have regularly covered tax transparency issues in our Open Budget Survey, and we documented a few case studies of successful CSO tax work. Deeper engagement on tax issues, however, started with the [Latin America Tax Expenditure Research, Analysis and Learning \(LATERAL\) project](#). Since 2016, LATERAL has worked with ten organizations from across Latin America to build their capacity to analyze and influence tax expenditure policies in their countries, and their impact on inequality. Our partners identified tax expenditures as an important and under-researched policy area in their countries, and IBP has been providing them with research and advocacy support, peer learning opportunities and linkages to regional actors and events. The approach has proven to be very fruitful and is leading to some interesting results, improving transparency practices and increasing public debate and scrutiny on this opaque area of public finance.

The Tax Equity Initiative will build on these past activities but take them to another level of effort and engagement, through a dedicated team and a more comprehensive strategy which we outline in this document, aimed at shifting existing policy debates and at creating better conditions for civil society to engage with and influence domestic taxation reforms.

As a starting point to develop a strategy, over the past two years IBP has spent considerable time assessing how to engage in tax policy and advocacy activities in a way that would complement the efforts of other actors in this area. We interviewed country partners in Africa and other regions, INGOs, donors, academics

and others in the field. These consultations produced a clear consensus that IBP should intensify engagement on taxes. Support for civil society engagement with domestic tax reforms and a specific focus on tax equity were identified as areas in particular need of attention – given the focus of many other actors on international taxation reforms and on increasing domestic resource mobilization.

IBP's efforts in the Tax Equity Initiative will be guided by the following set of principles and practices:

- 1) We will work to **build the institutional capacities of civil society groups** based in developing countries to influence their countries' tax policies, through tailored technical assistance on both analytical and advocacy aspects of tax-related work, and through the promotion of a network of groups that can learn from each other's experiences. Initially, we will target primarily groups already working on budgets, including tax issues, but we will gradually expand beyond that to bring other organizations into the fold.
- 2) We will focus most of our efforts on supporting civil society groups **engaging with domestic tax reform processes** with the aim of **promoting more equitable tax policies**. We will not directly engage in analysis and advocacy on international tax reforms, even though we may support efforts to better understand and act upon domestic aspects of international tax reforms and look for opportunities to link domestic and international efforts. We will support efforts directed at increasing overall revenues, but with a clear emphasis on the distributional aspects of such efforts. Finally, we will assist our partners in engaging with a broad set of domestic actors, including social movements, human rights groups, trade unions, business associations, academics, and others who may be interested in achieving similar goals.
- 3) Whenever possible, we will work in **partnership with other actors**, including both country-level, regional and international institutions already active in this field. Besides our country CSO partners, this will include government bodies, legislatures and other state and non-state actors in each country, international NGOs, global and regional tax justice networks, regional tax administration bodies, multilateral initiatives and academic institutions. This will allow us to be more effective in building reform coalitions, but also avoid overlap, ensure complementarity and promote broader learning.
- 4) Building on our past experience and partnerships, we will aim to **promote an integrated approach to CSO budget work that links taxation and expenditure**, so as to recognize and exploit the inter-related and complementary nature of revenues and spending in delivering on development goals like the reduction of poverty and inequality.

What exactly will IBP do?

Our work in the Tax Equity Initiative will advance in stages and will be structured across a few different areas of work as we test different approaches. In the first two years of the initiative, our activities will focus on three main areas.

Building (and sharing) a better knowledge base. In order to promote a more systematic approach to strengthening the role of civil society in domestic tax reforms, IBP will create and promote a common repository of knowledge that can help build the field and inform further strategy development. For this purpose, IBP will:

- a) Carry out a comprehensive scan of civil society tax work across the globe, with a view to publishing one or more papers and supporting materials that describe the shape, characteristics and depth of the CSO tax field at present;
- b) Conduct a set of country case studies of civil society engagement with domestic tax reforms, to document successful strategies, tools and approaches adopted by CSOs around the world. The case studies and synthesis will be published in a book and other materials, aimed at informing and promoting a debate on how civil society can more effectively engage in tax debates and influence tax systems to make them more equitable and inclusive. It will also serve as a guide for CSOs who are interested in engaging with domestic tax reforms.
- c) Review the existing literature on the political economy of tax reforms and related areas to reflect on its broad findings and draw lessons for civil society groups.
- d) Create an online presence through a dedicated webpage within the IBP's main website that will function as a resource center for CSOs interested in doing tax work, and through the publication of relevant material in newsletters, blogs and social media.
- e) Convene a gathering of relevant actors in late 2020 or early 2021 to discuss some of the above materials and promote a reflection on the role of civil society in domestic tax reform processes, including not only CSO practitioners, but also academics, donor agencies and other stakeholders.

Fostering tax transparency and participation. Citizen and CSO engagement in tax reforms depends crucially on levels of transparency and participation opportunities around tax policy and administration, areas in which there is limited knowledge and current gaps in international norms and standards. IBP will:

- a) Work with the Global Initiative for Fiscal Transparency (GIFT) to better understand the ways in which CSOs access and use tax information, and the perceived gaps in government practices in this area. This work will inform the development of new international principles around tax transparency.
- b) Document interesting examples and practices from around the world of spaces and opportunities provided by governments to engage citizens in tax policy discussions and decisions (also in collaboration with GIFT).
- c) Prepare one or more publications on the above topics, also drawing on relevant data from the 2019 Open Budget Survey, to promote debate on the status of transparency and participation in tax policy-making, and related reform needs.
- d) Consider developing an additional Open Budget Survey module on taxation, to be tested in future rounds of the Survey.

Supporting CSO engagement with domestic tax reforms. Arguably the most important part of IBP's work is the provision of direct support to civil society organizations in developing countries which are engaging or intend to engage in budget analysis and advocacy. This usually includes a combination of training, technical assistance, and peer learning, for instance. The nature and content of this support will also be shaped by the needs of civil society groups as they seek to engage with their country governments on addressing the human and economic fallout from the COVID-19 pandemic. In particular, IBP will:

- a) Continue its work on the LATERAL project, supporting partner organizations in Latin America broaden and deepen their work from an initial focus on transparency to areas related to reforming decision-making processes and evaluating the impact of tax expenditures, particularly on equity. This will also include developing a joint funding proposal for the longer-term sustainability of the project.

- b) Design and launch a new program to support CSOs in engaging with domestic tax reform efforts in Africa, building on LATERAL’s achievements and on IBP’s accumulated experience in supporting civil society budget work. Africa was selected as the next site of work because of the challenges that the continent faces in financing development efforts, the commitments made by many African governments as part of the Addis Tax Initiative and the interest expressed by civil society in Africa to deepen work on domestic tax reforms. This program will be collaboratively designed in the coming months building on existing networks and initiatives, and will focus on building stronger independent domestic organizations which can engage in analysis and advocacy aimed at both enhancing revenue collection and promoting tax equity. Given the timing of this new program, issues related to COVID-19 responses will no doubt be a major focus.
- c) Building on existing materials, develop training modules on taxation for civil society groups, to be tested in a set of countries and then be made more widely available for general use.

The above activities will mostly take place in 2020, spilling over into 2021 – although the timing of some may be affected by the COVID-19 crisis and its unfolding impact. Our longer-term work will be based on the lessons that we will have learned from these initial steps. Some initial ideas for longer-term work include: (a) support for tax policy and advocacy work in a broader set of countries and topics – building on the work of IBP’s own network of domestic partner organizations and other existing CSO networks; (b) building a stronger international profile and role for IBP on tax matters, continuing to promote stronger international norms and standards around tax transparency and participation, and working with key international agencies and actors; (c) a targeted, intensive fellowship program to train a cohort of civil society leaders in tax analysis and advocacy; and (d) developing a broader narrative to explain why taxes matter and the need for more equitable and inclusive tax policies and systems. This would include highlighting the limitations of the predominant discourse in favor of low taxes and incorporating communication strategies – i.e. how to talk about tax in a way that gets people engaged – more directly into CSO tax work, as that represents a challenge many groups face.

How are we planning to learn from our efforts?

Much of the learning in the initial stages of the initiative in this new field will focus on stock taking and reviewing existing evidence, both to promote internal reflection and to ensure that relevant knowledge is made available to the field as a whole in a useful and constructive way.

Throughout the initiative, we will use IBP’s past experience building CSO capacity and working on successful public spending advocacy campaigns as a guiding map. At the same time, we will be careful not to apply the lessons learned from these experiences without critical reflection, remaining aware that the political economy of taxation may present a different set of opportunities and challenges from those identified in our previous work with CSOs on other types of budget reforms.

Some of the learning questions that will underpin our efforts in the first phase of the initiative include:

- 1) What does it mean to promote equity in taxation, and what are some of the key reforms that should be supported to promote more equitable outcomes for tax policies? What does this mean in the context of the COVID-19 pandemic response?
- 2) What are the opportunities and challenges facing civil society groups as they engage with and try to influence tax policies and tax reforms? How and when could the political economy of taxation provide meaningful opportunities for civil society engagement? What are the kinds of coalitions of actors that

might be more conducive to successful tax advocacy campaigns? What specific opportunities may arise as part of the post-pandemic recovery, and how can CSOs best take advantage of them?

- 3) What are some of the key enabling conditions that need to be in place for country-based civil society groups to effectively engage with tax policy processes? What skills and capacities do they need? What information and participation opportunities need to exist?
- 4) How can CSOs meaningfully integrate or complement their work on expenditure with work on taxation? What are the linkages between the two that might provide more powerful narratives in support of equitable tax reforms?

Based on the above, and with the support of IBP's learning team, over the coming months we will develop a set of additional learning questions and put in place processes to enable continuous reflection and adaptation.