

# Global Tax Program Multi-Donor Trust Fund

Global Tax Program Virtual Meeting on Tax and Equity, November 30, 2020.

## Meeting Minutes

1. A meeting of GTP Program management and the GTP project task team leaders; colleagues from Poverty and Equity Global Practice; and the GTP development partners was held virtually on November 30, 2020.
2. The complete list of participants is presented in Annex 1.
3. Background for the meeting: One of the GTP Steering Committee Meeting's follow-up actions included a webinar on Tax and Equity in order to deepen the discussion around tax and equity issues and to further discuss how the Bank integrates the equity perspective in its ongoing and future projects in the area of taxation. Together with the GTP Program management and the GTP project task team leaders; colleagues from Poverty and Equity Global Practice; and the GTP development partners, this webinar will explore how the GTP can take equity perspectives into consideration within the GTP Portfolio, discuss how the Bank is measuring impact on equity and explore lessons learned from project leaders.

### Summary of Key Points from Welcoming Remarks by Global Directors

Carolina Sanchez-Paramo, Global Director of Poverty and Equity GP, welcomed the meeting attendees and emphasized that taxes play an important role in the distribution of income. The Poverty and Equity GP's work on taxation is motivated by the idea that fiscal policy has an effect on distributional impact and that pro-poor policymaking must be approached from both the tax and expenditures aspects. While primarily analytical in nature, the work is evolving to include capacity-building in partner countries.

Marcello Estevão, Global Director of Macroeconomics, Trade and Investment GP, opened by thanking donors and participants, and affirming that equity is a key principle in taxation and finance. He noted that equity is a cross-cutting priority central to the GTP and that the World Bank is one of the largest providers of technical assistance and concessional financing for building capacity in tax policy formulation and tax administration. The Global Tax Program, with its USD 72 million allocation for tax related technical assistance, plays a key role in contributing to the WB's work in this domain.

A tax system that taxpayers perceive to be fair commands better compliance and raises more revenue. Mr. Estevão suggested that countries adopt a mix of progressive structures in either direct and/or indirect taxes, taking into account equity, efficiency and revenue considerations. He noted personal income taxes (PIT) are a major source of government revenue in high-income countries, and the primary tool for redistribution via the tax system. He noted that in lower-income countries, taxing individual income and wealth continues to be a challenge, despite substantial efforts to put in place systems of progressive income taxation in developing countries in the second half of the previous century.

International tax cooperation must be part of a set of effective and well-coordinated multilateral actions to respond to the crisis. For example, the WBG, together with partners in the Platform for Collaboration on Tax (PCT), are assisting developing countries in reforming obsolete tax incentives regimes, supporting

governments to improve the design, transparency and administration of tax incentives to enhance the equity of the system and reduce corruption. It's important that we make progress towards a fairer and more equitable taxation of economic activities at the global level.

### [Summary of Key Points from Presentation by Poverty and Equity GP Team](#)

Alan Fuchs, Senior Economist with the Poverty and Equity GP, explained that fiscal policy has the potential to have enormous distributional impacts as taxes place a direct burden on households while social spending can provide direct income support or in-kind transfers that can substantially improve household welfare. Indeed, one of the main roles of fiscal policy is to improve equity, in addition to its role of ensuring macroeconomic stability and promoting efficiency to ensure growth. Understanding the distributional impacts of fiscal policies is even more important now given COVID-19. As countries struggle to recover from this crisis, the distributional impacts of the fiscal policy responses are even more important.

Mr. Fuchs noted policy successes with the CEQ methodology in Ethiopia, India, Indonesia and Latvia and highlighted the work on tobacco taxation in Uzbekistan using Extended Cost-Benefit Analysis. He explained that as poor households allocate larger budget shares to purchase tobacco, taxation may seem regressive in the short-run; however, taxes and high prices discourage tobacco use (price elasticity), offsetting the short-term impact of high prices through reduced medical expenses, averted premature deaths and higher productivity. The team used long-run incidence analysis to assess the distributional impacts of tobacco taxes; the analysis resulted in a tobacco taxation trigger for World Bank Development Policy Operations.

Mr. Fuchs also spoke to the frontier topics of the Poverty and Equity GP, namely adding a gender lens to fiscal incidence analysis and scaling this analysis up to be a standard part of CEQ analysis taking place across the globe. He also noted health taxes, with an emphasis on SDGs—taxation is a significant factor in 10 of the 17 SDGs with emphasis on fiscal and health risks of COVID-19.

Mr. Fuchs detailed the challenge of tax compliance in developing countries, noting that while tax is a cornerstone of state formation and survival, tax compliance is extraordinarily low. Typically, these countries are only able to collect between 10 and 20 percent of their GDP in taxes. In high-income countries, the average is 40 percent. World Bank researchers are exploring behavioral insights, “nudging” taxpayers to change their behavior with simple tweaks that cost little or nothing to implement.

Gabriela Inchauste, Lead Economist with the Poverty and Equity GP, supported Mr. Fuchs' observations and explored how the Poverty and Equity GP is providing customized simulation tools so that counterparts can use them on their own and build capacity to conduct this work with regularity. Ms. Inchauste explained the Personal Income Tax (PIT) micro-simulation model and how to assess PIT regime's progressivity, including absolute and relative incidence of PIT tax expenditures. In these simulations, the team asks who benefits from exemptions and deductions. This same question is asked in regards to value-added taxation in context of micro-simulation tools.

Ms. Inchauste shared micro and macro-simulation models that model alternative shocks in the wake of COVID-19, sharing the Sectoral GDP-to-consumption/income growth models, ADEPT macro-micro-simulation models and CGE to micro-simulation models.

### Q&A

Q: Geert Holterman, Netherlands. Equity and tax is even more relevant after ATI's 'declaration 2025', where they state the equity of tax systems is more prominent than before. I thought CEQ has argued for an expanded focus on the poverty impact of taxes and spending on cash incomes – thus excluding the implied benefits to the poor of public services (schools, hospitals, etc). Is it possible and useful to take that also in account?

A: Matthew Wai-Poi, World Bank. Yes, the new SDG indicators exclude the non-cash health and spending benefits, which make up most spending benefits in many developing country (and are arguably not worth as much to households as it costs the government to deliver). So you can look at cash-only (taxes + direct transfers, subsidies, etc), excluding non-cash transfers. This is important for poverty analysis in particular. The CEQ framework allows the analysis both ways.

Q: Berni Smith, United Kingdom. Does the CEQ (or any other) methodology look at informal taxes – i.e. taxes paid to local authorities, market fees, user fees, etc.?

A: Matthew Wai-Poi, World Bank. It does not, although it could be modified to do so. One question would be who the fee goes to. If it is to non-governmental operators, it is not really part of the fiscal system. If it is to local government, it could be included if it was measured in the household survey. However, to the extent it is corruption rather than covering the cost of market access, we would like exclude. In general, the CEQ framework easily accommodates local government taxes and spending. Indonesia is a good example where we have done this, down to the 500+ district level. The problem is data (on both fiscal and household survey side). Data is the big practical issue to addressing it, whether within a fiscal incidence framework (such as CEQ) or a SME business environment lens.

## [Summary of Key Points from GTP TTL Panel on How Equity Issues are addressed in the GTP Project Portfolio](#)

### **Innovations in Tax Compliance**

Anna Custers, Economist and TTL of the Innovations in Tax Compliance (ITC) project, explained that the ITC work has two streams: i. conceptual and ii. the operationalization of conceptual framework at the country level. In the ITC approach, the idea of equity and fairness is central, perceived through the lens of "Trust". Ms. Custers spoke about operationalizing trust in four dimensions: fairness, equity, reciprocity, accountability. Tax systems should be fairly designed and administered, tax revenue should be translated into public goods and services and governments administering tax systems should operate in an open and transparent manner. The team has published a conceptual framework as a World Bank Policy Research Working Paper, developed a note on how the Innovations in Tax Compliance approach can contribute to managing compliance across the 3 phases in response to COVID-19, finalized the operational toolkit "Applying the Enforcement-Facilitation-Trust Conceptual Framework" and adapted country-level work to respond to compliance issues in the wake of the COVID-19 crisis.

Roel Dom, Economist and team member of the Innovations in Tax Compliance project team, explored the operationalizing of the conceptual framework discussed by colleague, Anna Custers. He presented an example of applying the Innovations In Tax Compliance Conceptual Framework to a country context, with the objective of assessing VAT compliance among medium-sized firms through technical analysis, political economy analysis and taxpayer survey.

Mr. Dom detailed the survey, which includes questions on various dimensions of trust. Previous experience has shown that taxpayer's perception is strongly linked to tax behavior. The survey explored equity through asking about tax burden and competition; and measured fairness through questions around competency, consistency, corruption and transparency.

## Q&A

Q: Geert Holterman, Netherlands. Thank you, so equity captures the extent to which the tax burden is felt to be fairly distributed across different taxpayers. So the word 'felt' is important because that makes clear it is also about communication and transparency. Are there examples/opportunities where the WB is working or planning to work on communication and transparency to enhance trust/equity in developing countries?

Q: Niels Richter, Denmark. There may be strong political economy factors militating against formalization of informal operations. Market capture, monopolies and quasi monopolies could also motivate that. These need to be dealt with also.

A: Anna Custers, World Bank. Thanks for the questions; on the political dimension, the political economy assessment is one part of the overall methods we use. As part of the assessment team, we work with a political economy expert who understands the risks and the grounds. We didn't get into full detail during this presentation about the different assessment modules we use, but when there is a range of possible reform options, we ask 'what are the most binding ones'? Which specific reform options may be most viable, taking the political economy into account?

Q: Erik Feiring, Norway. To management: Overall, where would you say the WB is on addressing equity through tax technical assistance? On a scale from "we see good examples here and there" to "consistently assessed, documented and applied"? (tongue-in-cheek, but I would like to hear the management's bird's-eye view on where you are and where you want to go).

## Kosovo Tax Registration

Jonas Arp Fallov, Senior Public Sector Specialist and TTL of the Kosovo Tax Registration project, explained how the work in Kosovo is enhancing the quality and scope of the taxpayer register through technical assistance to the Tax Administration on data sharing arrangements, digitalization of registration processes, implementation of changes to the regulatory framework and IT system upgrades. He affirmed the natural equity component of this project: supporting the government in making the tax registration more complete and more accurate, which is a foundation for a more equitable system.

The team has since established a Data Sharing Forum with six Heads of Administrations, complete with a work plan and assigned working groups, focused on data collection and data sharing. The team continues to work in conjunction with the government on tax gap analysis and e-archiving, as well as data-sharing for targeting and risk assessments.

## Q&A

Q: Berni Smith, UK. There seems to be some debate about whether 'broadening the tax base' by registering very small companies is good for revenue raising. Mick Moore recently published a [paper](#) about this which I'm sure you have read. The paper seemed to suggest more focus on HNWIs and is part of a larger volume of work found [here](#).

## Ethiopia Tax Policy TA

Tuan Minh Le, Lead Economist and and TTL of the Ethiopia Tax Policy TA, explained that Ethiopia's tax collection revenues have been less than 10% of GDP for decades. When the team structures the program, the team also seeks to balance equity and efficiency. What is key is translating this commitment to equity into policy change as a package in the most effective and pragmatic manner targeting various objectives: enhancing revenue, efficiency and equity. Tangible impact at policy-making level can be exerted by working closely with development partners to further this evidence-driven message and ingrain it in the thoughts and actions of government authorities. As such, the team is considering the implementation of distributional impact in two major components: trade reform (integrating the welfare impact analysis from reducing the scope of exemptions and furthering the tariff reforms) and domestic taxation (injecting fiscal incidence analysis).

## Q&A

Q: Waewnet Sukkasem, World Bank. Tuan, can you please explain more regarding the tax incidence in Ethiopia?

A: Tuan Minh Le, World Bank. The tax incidence analysis is to be conducted, based on the existing structure of tax policies and options to reforms (to be derived from comprehensive review of all major direct and indirect taxes). One alternative is to expand tax incidence analysis to fiscal incidence analysis – updating the recent piece conducted by Poverty GP.

## Afghanistan Customs

Jose Eduardo Gutierrez Ossio, Senior Public Sector Specialist and TTL of the Afghanistan tax and Customs TA program explained that the GTP's programmatic approach seeks to help Afghanistan build strong and accountable institutions to deliver services to its citizens and encourage the growth of the private sector in the country's Fragile, Conflict and Violence context. In a fragile context the rule of law is weak and therefore the taxpayers/traders' rights are not guaranteed. The redress processes are not yet there. It perceives equity through two lenses: customs, which helps revenue collection, and indirect taxation which is regressive. Mr. Gutierrez emphasized that Afghanistan is a difficult context for taxpayers and that equity merits further analysis in this context.

Equity is complex especially when Customs in Afghanistan is collecting around 30-40 percent out of the total tax revenue. This reflects domestic tax leakages difficult to address and therefore borders are used to ensure the duties and taxes collection. The main issue with that is the business climate is affected because the burdensome processes at the border to release the goods. Discretionary decisions amplify the transaction costs and the equity of the system is questioned. It has evidenced in other parts of the world that the largest taxpayer not necessarily is the largest trader. In fact, small traders pay in some cases up to 80 percent of the value of imports in duties and taxes. This situation is explained because larger traders mostly are benefited by duties and taxes exemptions. The question is then who pays the taxes? Probably, the small and medium companies. This clearly plays against the equity of the tax system.

This work is achieved through supporting the Afghanistan Custom Department (ACD), focusing on key customs business processes, and supporting the 5-year plan for implementation of the Fiscal Performance Improvement Plan (FPIP), including the roll-out of the AYSCUDA World system, which streamlines core

business processed across various customs points. The objective is to ensure that duties and taxes paid at the border will be proportional to the size of the companies and imports.

## Q&A

Q: Berni Smith, United Kingdom. In Ethiopia, as in Afghanistan, there is an issue with massive import taxes. Tuan's team has been asked to review these. But how will they balance equity with pro-business drivers?

A: Jose Eduardo Gutierrez Ossio, World Bank. This is an excellent question. This should be addressed through the modernization of the customs administration. Modern customs use modern risk assessment techniques targeting risky consignments and traders even before the cargo arrives to the country. Complaint traders/taxpayers should be benefited with expedite release of goods at the border. Controls should be focused and carry out post entry through post clearance audits. In this way it could be balanced the equity and the pro-business objectives.

## Fiscal Policy Responses to COVID-19: Armenia

In May 2020, the GTP Steering Committee (SC) created a temporal Fiscal Policy Pillar to accommodate rapid responses to address the economic and fiscal impact of COVID-19, providing just-in-time advice to governments on fiscal policy measures designed to contribute to sustainable and inclusive growth.

Alan Fuchs, TTL of the the FPP project in Armenia and Senior Economist with the Poverty and Equity GP, asserted that the objective of the program is to equip the Government of Armenia with the necessary knowledge and technical inputs to implement fiscal policy measures to effectively and efficiently mitigate the short and medium-term social and economic consequences of the COVID-19 pandemic and promote economic recovery. The World Bank is uniquely equipped to assist the government with these challenges, utilizing CEQ methodology to produce an analytical product to diagnose affected populations and assess poverty impacts. High frequency monitoring surveys, which provide projections as well as real time information, stand to complement this analysis and provide more updated information for the government.

## [Summary of Key Points from A Conversation with Practice Managers and Development Partners](#)

Chiara Bronchi, Practice Manager of Fiscal Policy and Sustainable Growth Unit, acknowledged the equity in fiscal policy agenda is more important than ever and that there are some interesting questions raised on Political Economy and whether technical assistance is enough in this context.

Erik Feiring, Norway, suggested equity can be political and asked the TTLs and Poverty colleagues to reflect on how the WB deals with this in practice. Mr. Feiring asked, can making equity concerns explicit help change the system because it is 'technical'? Or does the system warrant more implicit or behind-the-scenes assessments of equity, to not raise any flags?

In response to Mr. Feiring's question, Ms. Bronchi asserted that advancing equity is often on a one-to-one basis, with much of the work done behind the scenes and over an extended period of time.

Erik Feiring, Norway, inquired where is the WB on addressing equity through tax technical assistance? On a scale from "we see good examples here and there" to "consistently assessed, documented and applied"?

In response to Mr. Feiring's question, Benu Bidani, Practice Manager of the Global Unity in the Poverty and Equity GP, affirmed that coming from the Poverty and Equity perspective, everything is geared towards

goals of reducing poverty and enhancing shared prosperity. Ms. Bidani reasserted that evidence-based policymaking is central to the Bank's work. Making an impact is not just a function of good technical work—it is about showing evidence. Ms. Bidani agreed that political economy is an important consideration and asked her colleague, Matthew Wai-Poi, to share why evidence is so crucial when considering the political economy realities on-ground.

Matthew Wai-Poi, Senior Economist with the Poverty and Equity GP, clarified that technical analysis is a tool for making decisions but more importantly, communicating those decisions. If a government doesn't want to implement reform, policymakers can use data to publish reports with partners, civil society, etc. to move the needle on these issues and gain the trust of civil society. Mr. Wai-Poi cited a PIT reform project in Jordan, where the data was not made available to the public and the reform ended up bringing people out into the streets in protest. The policy change sought to broaden the tax base, extending the base from 2.5% to 5%, but the reform was directed specifically at high-income earners. This was not made clear to the public and people in unaffected tax brackets were part of the wave of protests, believing their earnings would be impacted. Subsequently, data analysis is a communications tool and can change the outcome and reform success, when conducted carefully and with consideration.

### [Closing Remarks](#)

Chiara Bronchi and Benu Bidani closed with a promise to continue to center equity in fiscal policy as an SDG indicator and core component of project work. Ms. Bronchi agreed that evidence-based analysis is very important across projects and that in every project, there is a commitment to conducting a poverty analysis. The World Bank is no longer focusing on just efficiency, but equity, and doing so by broadening the tax base, emphasizing public expenditure reviews (PER), better defining poverty, enhancing data collection and collaborating across practices. Erik Feiring, SC, Norway, stated that during IDA19 negotiations, equity was noted as an area to work on but not a focused commitment. As such, the development partners are hopeful leading up to IDA20 discussions, believing the GTP is in a much better place in advancing the equity issue. This seminar is a testament that this focus will be very different for IDA20, leaving a footprint on equity. This was seconded by Berni Smith, SC, United Kingdom. While tax will not fix poverty alone, it is a necessary component in advancing equitable outcomes.

## [Annex I: Participants list](#)

### ***GTP Development Partners***

Berni Smith, Public Finance and Tax Senior Regional Advisor, FCDO, UK  
Erik Feiring, Tax for Development, NORAD, Norway  
Geert Holterman, Policy Advisor, MoFA, The Netherlands  
Niels Richter, Chief Consultant; Governance Team/Dept. for Multilateral Cooperation, Denmark

### ***World Bank***

Alan Fuchs, Senior Economist, Poverty and Equity GP  
Anna Custers, Economist and TTL, Innovations in Tax Compliance  
Benu Bidani, Practice Manager of the Global Unit in the Poverty and Equity GP  
Carolina Sanchez-Paramo, Global Director, Poverty and Equity GP  
Chiara Bronchi, Practice Manager, Fiscal Policy and Sustainable Growth, MTI  
Gabriela Inchauste, Lead Economist, Poverty and Equity GP  
Jonas Arp Fallov, Senior Public Sector Specialist and TTL, Kosovo Tax Registration  
Jose Eduardo Gutierrez, Senior Public Sector Specialist and TTL, Afghanistan Customs  
Marcello Estevão, Global Director, Macroeconomics, Trade and Investment GP  
Matthew Wai-Poi, Senior Economist, Poverty and Equity GP  
Roel Dom, Economist, Innovations in Tax Compliance  
Tuan Minh Le, Lead Economist and TTL, Ethiopia Tax Policy TA

### ***GTP Secretariat***

Brittany Walters, GTP, Consultant  
Ceren Ozer, GTP, Program Manager

\*We are very grateful to the 55 Total Participants, of which 46 were World Bank staff and 9 were Development Partner Representatives, for their generous participation.