World Bank Support for Domestic Revenue Mobilization

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ATTRIBUTION
Please cite the report as: World Bank. 2023. *World Bank Support for Domestic Revenue Mobilization*. Independent Evaluation Group. Washington, DC: World Bank.

COVER PHOTO
Adobe Stock/gudinny

EDITING AND PRODUCTION
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GRAPHIC DESIGN
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An Independent Evaluation

May 24, 2023

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Abbreviations

ASA	advisory services and analytics
CPF	Country Partnership Framework
DPF	development policy financing
DPO	development policy operation
DRM	domestic revenue mobilization
FY	fiscal year
GDP	gross domestic product
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
PCT	Platform for Collaboration on Tax
SDG	Sustainable Development Goal
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	value-added tax

All dollar amounts are US dollars unless otherwise indicated.

Acknowledgments

This evaluation was prepared by an Independent Evaluation Group team led by Željko Bogetić (lead economist), Raghavan Narayanan (senior evaluator), and Jeffrey Allen Chelsky (manager). Core team members included Amshika Amar (consultant), Dung Thi Kim Chu (program assistant), Patrick Hettinger (senior economist), Soren Jensen (consultant), Sengphet Lattanavong (consultant), Johan Manuel Lopez (consultant), Dominik Naeher (consultant), Daniel Nogueira-Budny (public sector specialist), Felix Oppong (economist), Saniwattan Nikki Tan (consultant), and Aline Weng (consultant). The evaluation benefited from advice on methodology from Qihui Chen, Marie-Noelle Lantin Roquiz, and Jozef Vaessen. The evaluation was prepared under the guidance and supervision of Jeffrey Allen Chelsky, manager, Economic Management and Country Programs Unit. Oversight in the final stages was provided by Carmen Nonay, acting director, Human Development and Economic Management, under the overall direction of Oscar Calvo-Gonzalez, Acting Director-General, Evaluation.

External peer reviewers were Ruud De Mooij (head of the Tax Policy Division, Fiscal Affairs Department, International Monetary Fund); Ben Dickinson (head of the Global Relations and Development Division in the Organisation for Economic Co-operation and Development's Centre for Tax Policy and Administration); and Nora Lustig (director of the Commitment to Equity Institute and professor, Tulane University).

The team is grateful for useful discussions with staff across the World Bank and their feedback provided throughout the evaluation. Finally, the evaluation team thanks the World Bank Group country offices and staff, government officials, development partners, academics, and civil society who gave generously of their time for interviews and support during remotely executed country visits to Chad, Colombia, Guatemala, Kenya, Madagascar, Pakistan, and Rwanda.

Overview

Domestic revenue mobilization (DRM) has become an increasingly important part of international and country-level development policy agendas. Since the 2015 International Conference on Financing for Development in Addis Ababa, DRM has risen in importance in the international policy agenda, figuring prominently in successive International Development Association (IDA) replenishments and the International Bank for Reconstruction and Development capital package commitment. In the years leading up to the COVID-19 pandemic, high fiscal deficits and already high and rising debt levels made enhancing DRM a significant priority for developing economies, particularly lower-income countries. Since the onset of the pandemic, tax revenues have dropped by 12 percent in real terms and, in many countries, ratios of tax to GDP have fallen below 15 percent (considered the minimum necessary to finance a state's basic functions).

This evaluation assessed the relevance and effectiveness of World Bank–supported strategies and interventions between fiscal year (FY)16 and FY19 to help client countries enhance DRM. The period of analysis, though relatively short, covers a major elevation in the importance assigned to DRM by the international community. The period of analysis also allows for a comparison of performance with the previous period of FY12–15. After the 2015 deadline for attainment of the Millennium Development Goals, the World Bank and the development community recognized that official development assistance was unlikely to be adequate to achieve the newly articulated and more ambitious Sustainable Development Goals, and resources from other sources would be needed, including domestic revenue.

Main Findings

The World Bank has intensified its DRM work, particularly since 2018 and especially to IDA-eligible countries and to Sub-Saharan Africa. The increase in support was greatest in countries with lower ratios of revenue to GDP. This has been especially pronounced in development policy operations (DPOs), in which prior actions frequently supported changes in tax rates (value-added taxes, corporate income tax, and personal income tax) or reductions in tax expenditures. Much of the increase in DRM analytical support was due to the Global Tax Program, established in June 2018 with funding from development partners. The program enabled a significant increase in World Bank engagement in DRM, with about 81 percent of its resources supporting expansion and improvement in the quality of DRM country-level work and the remaining resources supporting development of tax diagnostic tools, assessment frameworks, and research.

The availability of Global Tax Program funding has allowed the World Bank to increase its analytical support for DRM, and that has intensified pressure on limited staff and an increasing large cadre of short-term consultants. Significant turnover in staff and management working on tax issues has exacerbated these pressures, along with several shifts in responsibility for tax between units within the World Bank Group. On the positive side, collaboration with development partners improved markedly over the evaluation period, aided by the establishment of the Platform for Collaboration on Tax.

Green and corrective health taxes on harmful products became more prominent in the evaluation period, though from a low level. The work of the Global Tobacco Control Program has had particular impact, making extensive and effective use of collaboration across Global Practices and with external partners (for example, the World Health Organization) to provide leadership on the role of tobacco taxation in offsetting the costs of tobacco use to health systems. This work informed country-level policy advice and operations in an integrated way and in a growing number of countries.

World Bank interventions and priorities in support of DRM at the country level were generally well grounded in analytical and diagnostic work, which identified major country-specific constraints to DRM. The number of tax tools and diagnostics has increased significantly in recent years both from within and outside the World Bank. Each focuses on a distinct dimension of DRM and has potentially important value added in informing policy dialogue, operational design, and priority setting, but their proliferation presents challenges for task team leaders (many of whom are not tax experts) to effectively identify and prioritize the reforms and constraints with the greatest impact at the country level. Medium-term revenue strategies prepared under the

Platform for Collaboration on Tax provide a potentially valuable framework for improving DRM over the medium term through a whole-of-government approach, although they have been completed for only a few countries. Therefore, they fall short of providing a regular and practical framework to set priorities across tax objectives and promote progressivity of fiscal systems to directly inform Country Partnership Frameworks, Country Partnership Framework updates, and the identification of prior actions in DPOs.

Attention to the expected distributional implications of DRM interventions has increased, particularly in low-income countries, but less so in middle-income countries, and ex post impact is rarely discussed in completion reports. This increase in attention was partly a result of greater focus on the progressivity of tax systems in the 20th Replenishment of IDA and the Bank Group's more recent Green, Resilient, and Inclusive Development initiative. However, a clear framework and consensus for assessing the most effective channel for achieving progressive distributional impact in individual countries are lacking, and so is significant analytical work at the country level on the incidence of proposed tax reforms (that is, which groups are most likely to shoulder the effective burden of proposed tax reforms). In addition, it is important to ensure that the incidence of taxes supported by World Bank advice and operations is understood and that distributional impact is assessed at the level of the fiscal system rather than on taxes alone.

Results from investment projects supporting DRM were generally favorable. The share of projects rated satisfactory was 41 percent, and 35 percent of projects were rated moderately satisfactory. Performance of tax administration projects was generally better in IDA-eligible countries than in non-IDA-eligible countries. (Too few projects were completed and evaluated in countries facing fragility, conflict, and violence to draw clear conclusions.)

There was a marked improvement in achievement of DRM-related objectives in DPOs, although the indicators used to measure impact were often inadequate. Targets for DRM-related results indicators were largely achieved, and the achievement of DRM-related objectives increased markedly. However, the results indicators measuring impact were often too high level or did not adequately capture either the impact of prior actions or progress toward objectives.

Case study evidence suggests that tax policy reforms supported by DPOs were often reversed after disbursement, even for operations that recorded significant achievements shortly after closing. Project documents identified related risks (with varying degrees of specificity); risks often materialized, even though project preparation regularly involved political economy analyses. Although informed risk taking should not be discouraged, this suggests the need to articulate and put in place more concrete mitigating measures. For example, sequencing and complementarity of instruments supporting DRM need to be considered more strategically, and prior actions should be designed with an eye to making their reversal more difficult.

Policy reversals were particularly notable for prior actions supporting reductions in tax expenditures or tax exemptions (which account for about one-quarter of DRM-related prior actions). Of these, 30 percent required the publication of the inventory of tax exemptions and expenditures or a tax expenditure statement (ostensibly to strengthen accountability in granting tax exemptions), and 40 percent required a specific reduction or elimination of tax exemptions and expenditures. Most of the rest required changes to the governance framework for granting new exemptions. Case studies suggest that the formulation of a prior action can have implications for how easily the associated reforms can be reversed. For tax exemptions, changes in governance frameworks that made it more difficult to grant exemptions tended to be the most resilient, whereas eliminating specific exemptions was frequently overridden over time under pressure from vested interests.

The ease with which some World Bank–supported tax policy reforms can be reversed points to a possible tension between countries that fail to make concrete and sustained progress on DRM and the successive provision of budget support to those countries. Specifically, the provision of budget financing can reduce how urgently and ambitiously clients approach DRM and the importance they assign to avoiding backsliding. This suggests that a failure to make and sustain progress on DRM should be considered more explicitly in deciding on the size and frequency of subsequent DPOs, at least outside the context of countercyclical support during a crisis.

Staff self-evaluations of operations and projects yielded few DRM-related lessons: only 3 of 60 closed operations and projects that focused on DRM had

DRM-specific lessons. Moreover, when reported, the lessons were relatively generic, suggesting minimal value added in informing future interventions supporting DRM. This suggests scope for greater attention on learning from experience with DRM-focused projects and operations.

Recommendations

Given the central role of DRM in achieving national and global development objectives, reducing debt stress, and recovering from the COVID-19 pandemic, the Independent Evaluation Group makes the following recommendations to improve and enhance the impact of World Bank support to client countries. These recommendations are consistent with and build on the "IBRD/IDA Board Briefing on Domestic Resource Mobilization (DRM): Supporting Green, Resilient and Inclusive Development (GRID)," as presented to the World Bank Board of Executive Directors in June 2021. World Bank management pointed to the need to increase human and financial resources dedicated to DRM. More resources may be warranted, but there is scope for the World Bank to make better use of the resources it currently has for supporting DRM. In this spirit, the following recommendations are made:

1. On a country-by-country basis, regularly take stock of the findings of the broad range of tax diagnostics tools and instruments to (i) identify knowledge gaps and (ii) more systematically inform priority setting for country-level policy dialogue, capacity building, and operations to improve DRM. Rigorous analysis and diagnostics are needed to inform country-specific DRM strategy and operational priorities, particularly in IDA-eligible countries. The range of specialized DRM tools and diagnostics from within and outside the World Bank is wide and increasing. Each may serve a useful purpose, but their proliferation risks complicating the ability of task team leaders (many of whom are not tax experts) to distill and set DRM reform priorities for inclusion in country strategies and budget support operations. Therefore, there is a need for a periodic country-specific stocktaking of diagnostic findings to identify information gaps and set priorities for analytical and operational World Bank support to improve DRM. The outcome of this exercise should be timed and used to inform Country Partnership Frameworks, Country Partnership Framework updates, and the articulation of prior actions in DPOs.

2. Given the potentially large and regressive fiscal impact of tax exemptions, the World Bank should regularly assess the effectiveness and efficiency of tax exemptions in achieving country-specific policy objectives, with an eye to more actively supporting the sustainable reduction of regressive tax exemptions through policy advice and prior actions in DPOs. World Bank staff should be equipped with and regularly make use of tools to assess the merits of the existing stock of tax exemptions and tax expenditures in individual countries—particularly those with low ratios of tax to GDP—and the results should inform policy priorities in Country Partnership Frameworks, policy analysis, and prior actions in DPOs.

3. The frequency with which tax policy reforms are reversed calls for strengthening incentives for sustaining reforms and making reversal more challenging. As part of this effort, the World Bank should seek to support not only the publication of tax exemptions and expenditures but also ways to control the future proliferation of new tax expenditures and exemptions that undermine longer-term growth, equity, and accountability objectives. In efforts to reduce tax exemptions, and where feasible, prior actions should prioritize measures that improve the governance framework for granting exemptions. These efforts would also help alleviate the potential tension between the incentives for a country with a low ratio of tax to GDP to improve DRM performance and the repeated provision of significant budget support by the World Bank.

4. Provide clearer guidance to staff on the choice of results indicators to measure the impact of DRM support, facilitate learning from experience, improve monitoring of progress toward DRM-related objectives, and promote an outcome orientation in the World Bank's support for DRM. Given how often shortcomings were identified in results indicators intended to capture progress on DRM, the World Bank staff needs more concrete and targeted guidance on good practice in defining results indicators for tracking the impact of World Bank DRM interventions at the country level. Improving the quality of DRM results indicators will facilitate learning from experience and strengthen the outcome orientation of World Bank support in this area.

Management Response

Management of the World Bank thanks the Independent Evaluation Group for the report *World Bank Support for Domestic Revenue Mobilization*. The multiple crises in recent years have placed considerable stress on domestic revenues in several countries, and domestic revenue mobilization (DRM) remains a priority area for World Bank support during the crisis recovery period. The World Bank's growing commitment to support DRM over the past years has manifested through increased financial and technical assistance operations, decentralization of staff to strengthen client dialogue, and streamlining of the knowledge and partnership agenda supporting DRM. The World Bank Group evolution process reiterates the commitment to further strengthen the World Bank's DRM engagement. This report will inform those efforts. Management thanks the Independent Evaluation Group for the constructive cooperation throughout this evaluation.

World Bank Management Comments

Overall

Management welcomes the report's recognition of the World Bank's increasing support to DRM, better targeting of countries with lower tax-to-GDP ratios, and collaborating effectively with the International Monetary Fund (IMF). The report notes that during FY16–19, the World Bank supported 116 countries to improve DRM through lending and analytics, with an increased focus on countries with less than 15 percent tax-to-GDP ratio, and it was underpinned by country-level analytics, including through the Global Tax Program (GTP). The report also notes a 25 percent increase in the number of development policy operations (DPOs) with at least one DRM-related prior action. Management welcomes the report's recognition that such heightened support was provided though good collaboration with the IMF, exemplified by the cross-attendance in meetings of the governing bodies of the respective DRM trust funds, and through information sharing that gives World Bank staff access to IMF technical assistance reports whenever needed.

Management is pleased to highlight that the scale of World Bank's DRM engagement continues beyond the evaluation period. At the end of fiscal year (FY)22, World Bank project financing commitments for DRM stood at $3.4 billion ($1.6 billion for International Development Association [IDA] and blend and $1.8 billion for International Bank for Reconstruction and Development). The *2021 Development Policy Financing Retrospective: Facing Crises, Fostering Recovery* shows that in countries affected by fragility, conflict and violence (FCV), the share of DPO prior actions related to revenue management and tax policy doubled between FY11–15 and FY16–21, from 11 percent to 22 percent. In non-FCV IDA countries, this share increased from 17 percent to 25 percent between the two periods. Over the past decade, on average, 88 percent of revenue-DPO mobilization targets have been achieved or partially achieved. DPOs have targeted a variety of country outcomes, such as increases in tax revenue, either in nominal terms or as a share of GDP, for specific tax types, such as value-added taxes, corporate or personal income taxes, excise taxes, or resource revenues.

Management underscores that World Bank support to DRM is broad-based, with 14 of the 18 Global Practices involved. The report places a strong focus on resource mobilization through fiscal efficiency measures but considers only taxes, not subsidies (a negative tax). The report emphasizes the effective use of green and health taxation as prior actions, given they appear to be the third-largest type of policy areas supported by World Bank DPOs. While welcoming this acknowledgment, management notes that this is only one aspect of the broader World Bank strategy that combines traditional and nontraditional approaches to DRM. Management thus regrets that World Bank support for subsidy reforms, utility reforms, and innovative financing instruments that support resource mobilization fell outside the scope of this evaluation. Repurposing subsidy spending in natural resource sectors, such as fossil fuels, fisheries, and agriculture can free up substantial domestic revenues to spend with productive purposes (for example, infrastructure, public services). World Bank support for utility reforms in energy and other sectors helps avoid unproductive depletion of public resources. Management notes that the Bank Group also has a record of supporting client countries with the development of non-debt financing instruments that help mobilize resources and strengthen resilience to shocks. Disaster risk financing and insurance, catastrophe bonds, or derivatives are part of the financing instruments supported by the World Bank to finance prevention, preparedness, or recovery associated with shocks (including climatic ones).

While reaffirming the centrality of DPF in World Bank's support to DRM, management emphasizes that the World Bank's programs supporting DRM include a mix of financing, knowledge, and convening services. The report analyzes mainly prior actions related to tax policy in DPOs but misses the contributions of Program-for-Results (PforRs), investment project financing (IPF), diagnostics, and technical assistance deployed in country programs to engage simultaneously on tax policy and administration reforms in client countries. IPF and PforR are particularly important in addressing underlying tax and customs administration challenges, which impact the effectiveness of tax policy changes supported by DPOs. Delivering effectively on all aspects of the theory of change for DRM presented in this report, which comprises tax revenues, tax efficiency, tax equity, and royalty management, requires a mix of carefully sequenced instruments over the long term. The 2022 GTP annual report illustrates how the World Bank follows a comprehensive approach to DRM that goes beyond DPOs, and includes advisory services and analytics (ASA), technical assistance, PforRs, and IPF. In one technical note, the use of PforR is specifically identified alongside technical assistance and IPF to strengthen tax and revenue administration, and the Sustainable Development Finance Policy incentivizes DRM in IDA countries. Finally, the World Bank's convening power provides a foundation for partners in the public and private sectors to work together on DRM issues, for example, to advocate for developing countries in global and regional forums such as the Platform for Collaboration on Tax. The Independent Evaluation Group Evaluation Insights Note on DRM offers a more holistic account of World Bank approach to DRM than this evaluation and is therefore a good complement to it (World Bank 2023).

Technical Expertise

Management continues enhancing World Bank technical skills for DRM through an approach that combines global and country-level expertise. Global teams and programs such as the GTP are meant to support operational teams, and therefore, efforts to strengthen staff capacity at the frontlines are central to improving World Bank effectiveness on DRM. GTP is an important platform to pool resources and knowledge in support of DRM and has financed ASAs in 64 countries in support of lending operations. The Macroeconomics, Trade, and Investment Global Practice and the and Governance Global Practice are increasingly supporting staff in country offices to enhance their technical skills through more systematic training. Local staff expertise ensures that the World Bank uses country-level knowledge in DRM discussions with clients for more effective policy dialogue. The mix of staff and consultants engaged in DRM on interrelated topics (from fiscal and tax policy to tax and customs administration) reflects the need for combined global, regional, and country-level expertise.

Recommendations

Management agrees with the recommendation to regularly take stock of the findings of the various tax diagnostics tools and is introducing a new core ASA. The World Bank is introducing Public Finance Reviews (PFRs; to replace Public Expenditure Reviews) as core ASA. Because of this, country teams will update PFRs each Country Partnership Framework cycle to provide strategic guidance for DRM by offering policy recommendations on how fiscal space can be better generated. The new core ASA will also integrate existing tools of more specific technical scope, such as TADAT [Tax administration Diagnostic Assessment Tool]; helpful for diagnostics of the strengths and weaknesses in tax administrations; Tax DIAMOND, to generate evidence on distribution effects, and the Commitment to Equity (CEQ), to supplement household survey data, among others. Management will complement the new core ASA with a knowledge program for staff and additional learning resources managed by the Macroeconomics, Trade, and Investment Global Practice. This includes the World Bank Tax Revenue Dashboard, the World Bank Revenue Academy PFR Guidance, and a Resource Center with tools and databases of focal points and publications to ensure relevant, high quality, and impactful PFRs. With GTP support, the World Bank developed the VAT Digital Toolkit for the Asia-Pacific Region, providing customized tools to task team leaders.

Management agrees with recommendation 2 to assess the effectiveness and efficiency of tax exemptions in achieving country-specific policy objectives. As part of the evolution process, management is exploring proposals to support client countries in their DRM efforts to pursue development outcomes. The new PFR will support this goal by systematically assessing various tax policies, including tax exemptions and their impact, supplemented by microsimulations that would cover all major taxes (personal income tax, company income tax, and value-added tax). These assessments, complemented by other relevant core ASA, will inform Country Partnership Framework priorities.

Management agrees with recommendation 3 that reversals of policy reforms require continuous attention, yet notes that they are less widespread than indicated in the report. Management believes that the report understates the role of DPOs in advancing fiscal reforms and overemphasizes policy reversals based on a few case studies (covering 7 of 54 countries where DPOs had DRM-related prior actions during the evaluation period). Management closely monitors policy reversals and takes corrective action as needed, yet this is not reflected in the report. The DPF retrospective did recognize the challenge of policy reversals in the context of worsening policy environments in FCV countries that received DPFs during the FY16–21. However, as pointed out earlier, focusing exclusively on DPOs discounts the longer-term country-level results achieved through the mix of financing, knowledge, and convening instruments deployed in country programs to support both tax policy and administrative reforms.

Management agrees with recommendation 4 to provide clearer guidance to staff on the choice of results indicators to measure. Management recognizes the need for more robust indicators to measure DRM efforts, and notes that it is conducting further work as part of the new Bank Group Corporate Scorecards, after recent improvements in Results Measurement Systems on DRM indicators in the 19th and 20th Replenishments of IDA. Specifically, management is exploring the introduction of two new indicators for corporate reporting and alignment in operational results frameworks: (i) countries with increased tax fairness and progressivity and (ii) unweighted average increases in the tax-to-GDP ratio in countries with tax revenues below 15 percent of their GDP for three consecutive years. Developing project-level indicators that can be aggregated across countries is particularly relevant because this agenda is scaled-up as part of the World Bank Evolution process. The Equitable Growth, Finance, and Institutions Practice Group is leading an initiative to strengthen monitoring and evaluation capacity among staff, especially country economists. These efforts are informed by other recent evaluations, such as the external midterm evaluations of the GTP and the IMF's Revenue Mobilization Thematic Fund, which have shown that the measurement of DRM efforts is a widespread challenge.

Report to the Board from the Committee on Development Effectiveness

The Committee on Development Effectiveness met to consider the Independent Evaluation Group report *World Bank Support for Domestic Revenue Mobilization* and the World Bank management response.

The Committee welcomed the evaluation and noted the timeliness of the subject in the context of the Bank Group's evolution road map, which prioritizes domestic revenue mobilization (DRM) as a core focus area for increased Bank Group support. They underscored the importance of DRM as a reliable pillar of finance for countries' development goals that deserves a long-term approach, and they called on the World Bank to consider providing a more systematic and streamlined approach to DRM and develop a DRM framework.

Members appreciated management's response to the report's recommendations, including plans to introduce a new core advisory services and analytics instrument, Public Finance Reviews (replacing Public Expenditure Reviews), to address knowledge gaps and set priorities for analytical and operational World Bank support to improve DRM and to support client countries in their DRM efforts by systematically assessing various tax policies. They concurred with management about the need for more robust indicators to measure DRM efforts and welcomed the focus on improving the use of results indicators at the project level as well as part of the new Bank Group Corporate Scorecards. They highlighted that this would strengthen corporate incentives and create the foundations to implement the recommendations. In addition, members noted some concerns related to the Independent Evaluation Group's findings that tax policy reforms supported by development policy operations were often reversed, and they encouraged the World Bank to implement recommendations 2 and 3 and address other related issues to avoid tax policy reforms reversals.

Members urged management to strengthen recruitment efforts and ensure that the right incentives are established to increase the in-house expertise on DRM and to possibly lower the reliance on short-term consultants or extended term consultants. They further emphasized the need for greater incentives for sustaining tax and structural reforms and called on the World Bank to enhance its support for capacity building for tax administration in this regard. They underscored the importance of continued collaboration with development partners and effective cross-use of existing resources in the organizations. In addition, some members and nonmembers inquired about the World Bank's perspective and plans to help countries tackle illicit financial flows, tax evasion, and asset recovery. They also inquired about the World Bank's plans to formalize informal economy activities that have market value to help expand countries' tax base and boost DRM and asked management to provide a Board seminar on informality to improve the Board's understanding and discuss appropriate policy interventions.

1 | Background and Context

Domestic revenue mobilization has become increasingly important to the development policy agenda. In many developing economies, revenue mobilization is below the minimum required to finance basic government functions. As such, it is an explicit part of two Sustainable Development Goals and had become a priority for World Bank client countries facing rising fiscal deficits and debt burdens even before the COVID-19 pandemic.

Domestic revenue mobilization has received increased attention from the international community. But despite this attention, the ratio of tax to GDP for low- and middle-income countries has been on a declining trend over the past decade, falling by almost 1 percent of GDP between 2010 and 2019 to reach its lowest level since 2005.

The COVID-19 pandemic had a negative impact on economic activity in many countries, and thus on tax revenues, at the same time as needs have increased. This has heightened the importance of strengthening domestic revenue mobilization to contribute to building fiscal space and resilience.

Financing to reach global development goals, such as the Sustainable Development Goals (SDGs), derives from several sources: public sector borrowing, private capital and investment, official development assistance, and domestic revenue mobilization (DRM). The Independent Evaluation Group (IEG) has recently undertaken evaluations of the World Bank Group's support for the first two sources: public sector borrowing (the 2021 evaluations *World Bank Support for Public Financial and Debt Management in IDA-Eligible Countries* and *The International Development Association's Sustainable Development Finance Policy: An Early-Stage Evaluation* and the 2023 evaluation *The World Bank's Role in and Use of the Low-Income Country Debt Sustainability Framework*) and private capital and investment (the 2020 evaluation *World Bank Group Approaches to Mobilize Private Capital for Development* and the 2019 evaluation "*Creating Markets*" *to Leverage the Private Sector for Sustainable Development and Growth: An Evaluation of the World Bank Group's Experience through 16 Case Studies*). This evaluation assesses the World Bank's support for DRM.

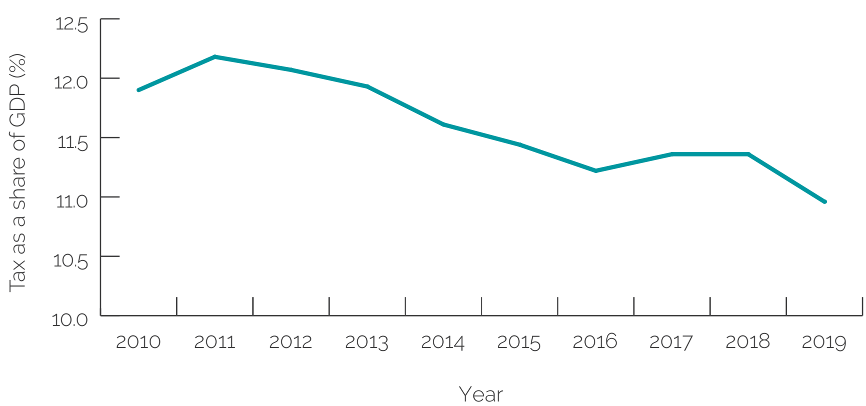
DRM has become an increasingly important part of international and country-level policy agendas. Since the 2015 International Conference on Financing for Development in Addis Ababa, DRM has risen in importance in the international development policy agenda, forming part of 2 out of the 17 SDGs and figuring prominently in successive International Development Association (IDA) replenishments. In the years leading up to the COVID-19 pandemic, high fiscal deficits and already high and rising debt levels made enhancing DRM a significant priority for developing economies. The challenge has been particularly pressing for lower-income countries, given their weak capacity in tax administration. Since the onset of the pandemic, tax revenues have dropped by 12 percent in real terms, and the ratios of tax to GDP in many countries have fallen below 15 percent (considered the minimum necessary to finance a state's basic functions).

DRM has also become increasingly important in the context of successive IDA replenishments. The evaluation period includes the 18th Replenishment of IDA (July 2017 to June 2020), which committed to a shift to more ambitious and broader policy, institutional, and financing initiatives to help low-income countries achieve their development goals. Subsequently, the 19th Replenishment of IDA placed greater emphasis on DRM, with the IDA

Results Measurement System tracking the number of countries that have raised their revenue-to-GDP ratios above 15 percent and the number of IDA countries that have had substantial World Bank tax engagements and have achieved an increase in the number of registered taxpayers. The 20th Replenishment of IDA, which falls outside of this evaluation period, maintained and refocused attention on DRM, introducing a more explicit mandate to promote progressivity in tax systems.

Despite the increasing attention on DRM, tax yields have been on a declining trend over the past decade. This trend began to reverse in 2016, but the improvement was short lived, peaking in 2018 at 11.4 percent of GDP, declining sharply to 10.9 percent in 2019, and falling further to 10.7 percent in 2020 with the onset of COVID-19 (figure 1.1).

Figure 1.1. Tax as a Share of Gross Domestic Product in Low- and Middle-Income Countries



Source: World Development Indicators database.

Note: GDP = gross domestic product.

In 2016, World Bank management produced *Strengthening Domestic Resource Mobilization: Moving from Theory to Practice in Low- and Middle-Income Countries* (Junquera-Varela et al. 2017). This report, prepared by the Governance Global Practice, was intended to support the role of the World Bank in the context of the Addis Tax Initiative and the SDGs. Additionally, it intended to help the Bank Group find new entry points and reinforce its commitment to tax reform to enhance and expand its tax agenda.

The importance of acknowledging the multidimensional nature of tax issues (and, by implication, the importance of collaboration within the Bank Group) was recognized in an internal 2016 position paper that called for a holistic approach to support to DRM, with clear links between tax and expenditure. The paper indicated that revenue and expenditure reforms should be embedded in broader public financial management reforms. This would ensure that DRM becomes a development tool to generate revenues for sustained and inclusive development.

This evaluation assesses the relevance and effectiveness of World Bank strategies and interventions between fiscal year (FY)16 and FY19 to help client countries enhance DRM.[1] The period of analysis, though relatively short, covers a major elevation in the importance the international community assigned to DRM. After the 2015 deadline for attainment of the Millennium Development Goals, the Bank Group and the development community recognized that official development assistance was unlikely to be adequate to achieve the newly articulated and more ambitious SDGs. The realization that achieving the SDGs would require a more concerted effort on DRM was reflected in several major reports and documents. These include the World Bank's *Financing for Development Post-2015*; the United Nations' *Transforming Our World: The 2030 Agenda for Sustainable Development*; a joint publication, "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance," by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund (IMF), and the Bank Group; and the United Nations' "Addis Ababa Action Agenda of the Third International Conference on Financing for Development."

The COVID-19 pandemic has had a negative impact on economic activity in many countries, and thus on tax revenues, at the same time as needs have increased, both from the standpoint of demands on health systems and in the need to undertake countercyclical spending to preserve jobs and save lives. Together, this has heightened the importance of strengthening DRM to contribute to building fiscal space and resilience. The challenge for most developing economies is to strengthen DRM without creating regressive or growth-impeding distortions to tax systems. This will require action on both the tax policy and administration fronts, improving the efficiency of tax administration, reducing inefficient and regressive tax expenditures, adapting tax policies to reinforce climate change and health objectives, and expanding the generation of revenue from fast-growing digital activities. Governments will also need to recognize the close link between taxpayer compliance and the quality of government spending (and especially the provision of adequate and good-quality public services). Without the latter, the public will have little incentive to pay taxes.

Reflecting the importance that the Board of Executive Directors assigns to improving DRM, in June 2021 World Bank management presented to the Board "IBRD/IDA Board Briefing on Domestic Resource Mobilization (DRM): Supporting Green, Resilient and Inclusive Development (GRID)." This presentation recognized that, with the pandemic exacerbating preexisting DRM challenges, the World Bank needed to take a leading role in representing developing economy views on international tax issues at the global level and to increase human and financial resources dedicated to DRM. The presentation expressed World Bank management's intention to

1. Scale up country support to reshape fairer, equitable, and greener tax systems based on country priorities and demands[;]
2. More actively advocate for developing countries at the global level to ensure that their interests and challenges are addressed, including at the G20 and G7 [Group of Twenty and Group of Seven] level; and
3. Continue fostering international cooperation to address current and new challenges to support inclusive and greener growth, help reduce inequality and eradicate poverty. (World Bank 2021b)

To achieve this, management's presentation identified potential interventions to improve the scope of success, which included the following:

1. Introducing DRM-related activities into [World] Bank operations, from the CPFs [Country Partnership Frameworks] and SCDs [Systematic Country Diagnostics] to lending operations and TA [technical assistance], and

2. Increasing [World] Bank's human and financial resources to timely respond to greater demands from countries for support to address current revenue challenges, as well as to help them prepare ahead for future challenges. This could involve mainstreaming DRM experts in regional EFI [Equitable Growth, Finance, and Institutions] units. (World Bank 2021b)

Evaluation Scope

This evaluation addresses three evaluation questions:

» How relevant were World Bank strategies, activities, and interventions to enhance DRM in World Bank client countries?

» To what extent has the World Bank been effective in supporting client country efforts to broaden tax bases, improve tax structures and equity, and strengthen tax administration? In achieving results at the country and intervention levels, what worked, what did not work, and why?

» Were World Bank interventions to support client DRM complementary? Was complementarity with development partners pursued and achieved?

Appendix A contains a detailed description of the methodology and data sources underpinning this evaluation.

[1] The Independent Evaluation Group has assessed World Bank support for tax reform on several occasions. Appendix B summarizes some of the past findings and lessons.

2 | World Bank Interventions in Support of Domestic Revenue Mobilization

The World Bank increased its support for domestic revenue mobilization (DRM) between 2016 and 2019, especially since 2018 and to International Development Association–eligible countries and to countries in Sub-Saharan Africa. The increase was greatest in countries with lower ratios of revenue to GDP. DRM-related investment projects in middle-income countries were scaled up significantly in the evaluation period. The World Bank made greater use of development policy operations to support DRM during the evaluation period compared with the previous three-year period, placing increased emphasis on tax policy reforms while improving its collaboration with development partners through the Platform for Collaboration on Tax.

World Bank interventions and priorities in support of DRM at the country level were generally well grounded in analytical and diagnostic work that identified major country-specific constraints to DRM. The number of diagnostic tools on DRM has increased recently. Each has potentially important value added in informing policy dialogue, operational design, and priority setting, but their proliferation may present challenges for task team leaders (many of whom are not tax experts) in identifying and prioritizing reforms at the country level and within operations systematically and efficiently.

Green and health taxes received greater attention in the evaluation period, though from a low level. Much of this attention was due to the work of the Global Tobacco Control Program, which drew experts together from across Global Practices and external development partners to influence operations design and prepare assessments on many countries, including with respect to tobacco taxes.

Analytical work on the distributional implications of tax policy increased compared with the previous three-year period. Attention on the expected distributional implications of DRM interventions increased in low-income countries. Less attention has been given to the distributional impact of DRM support to middle-income countries. However, reporting on the ex post impact of tax reform in Implementation Completion and Results Reports was infrequent, particularly in development policy operations.

Portfolio of Domestic Revenue Mobilization–Related Interventions

During the evaluation period, FY16–19, the World Bank supported 116 countries to improve DRM through lending operations and projects and through advisory services and analytics (ASA; table 2.1). Half of the countries were IDA eligible, one-third were borrowers from the International Bank for Reconstruction and Development only, and the remainder were blend borrowers. Countries with revenue-to-GDP ratios below 15 percent tended to receive higher levels of World Bank support for DRM than those above this threshold.

Table 2.1. Source and Volume of World Bank Support to Domestic Revenue Mobilization

Instrument	Commitments Approved during FY12–15		Active Portfolio at the Start of the Evaluation Period		Commitments Approved during FY16–19	
	(no.)	(US$, millions)	(no.)	(US$, millions)	(no.)	(US$, millions)
Investment projects focused on DRM	20	1,020	15	616.4	31	1,488
Development policy operations with at least one prior action focused on DRM	65	n.a.	17	n.a.	84	n.a.
Trust-funded projects	8	128	5	47.7	9	68.5
Advisory services and analytics	425	47	425	47	322	88

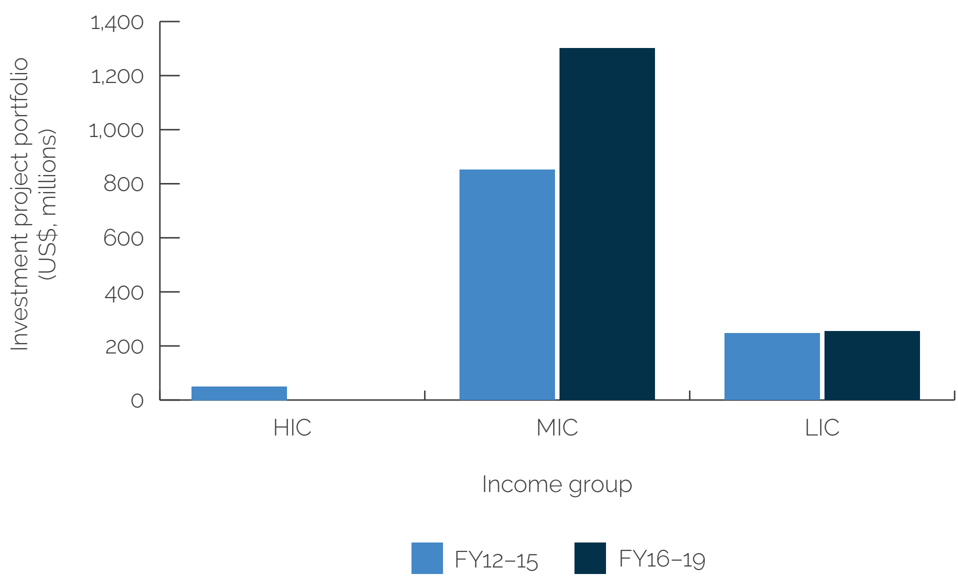
Source: World Bank Business Intelligence database, May 2021.

Note: Trust-funded projects presented do not include those under the Global Tax Program. DRM = domestic revenue mobilization; FY = fiscal year; n.a. = not applicable.

Investment Project Financing

DRM-related investment projects in middle-income countries and in Africa and South Asia were scaled up significantly in the evaluation period (figure 2.1).[1] The World Bank approved $1.5 billion to support 40 DRM-related investment projects in FY16–19, covering 28 countries, an increase from $1.1 billion in FY12–15 for 28 projects in 25 countries (with the average project size about the same between periods). The typical project was a tax administration project with objectives focused on improving or increasing efficiency and effectiveness of revenue management, taxpayer compliance, and modernization of the tax system. South Asian countries received the largest share of commitments for DRM-related investment projects during the evaluation period (table 2.2). This was concentrated in large projects in India (5) and Pakistan (5).

Figure 2.1. Investment Project Portfolio by Income Level, FY12–15 and FY16–19



Source: World Bank Business Intelligence database, May 2021.

Note: FY = fiscal year; HIC = high-income country; LIC = low-income country; MIC = middle-income country.

Table 2.2. Regional Breakdown of Domestic Revenue Mobilization–Related Investment Projects Approved, FY16–19

Region	DRM-Related Investment Projects (no.)	Value of DRM-Related Investment Projects (US$, millions)	Average Value of DRM-Related Investment Projects per Country (US$, millions)
AFR	17	652	38
SAR	12	727	61
ECA	4	88	22
EAP	4	20	5
LAC	1	55	55
MENA	1	15	15
Total	39	1,557	196

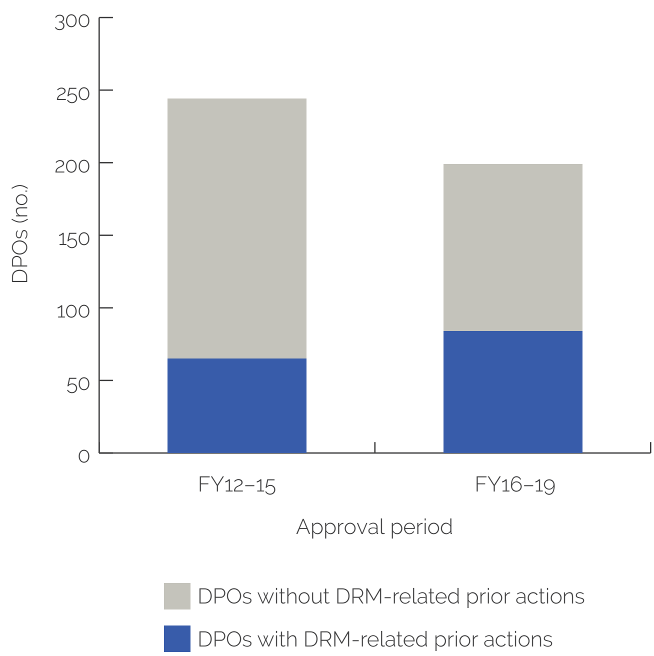
Source: Independent Evaluation Group.

Note: Total value includes trust-funded projects. AFR = Africa; DRM = domestic revenue mobilization; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FY = fiscal year; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SAR = South Asia.

Development Policy Financing

DRM played a larger role in development policy financing (DPF) in the evaluation period than in the previous three-year period. The number of development policy operations (DPOs) approved with at least one DRM-related prior action increased from 65 to 84 between FY12–15 and FY16–19, and the number also increased as a share of DPOs from 27 percent to 42 percent. This pattern was more pronounced in IDA-eligible countries (figures 2.2 and 2.3). In total, there were 133 DRM-related budget support operations across 54 countries. In the previous period, there were 112 DRM-related budget support operations across 36 countries.

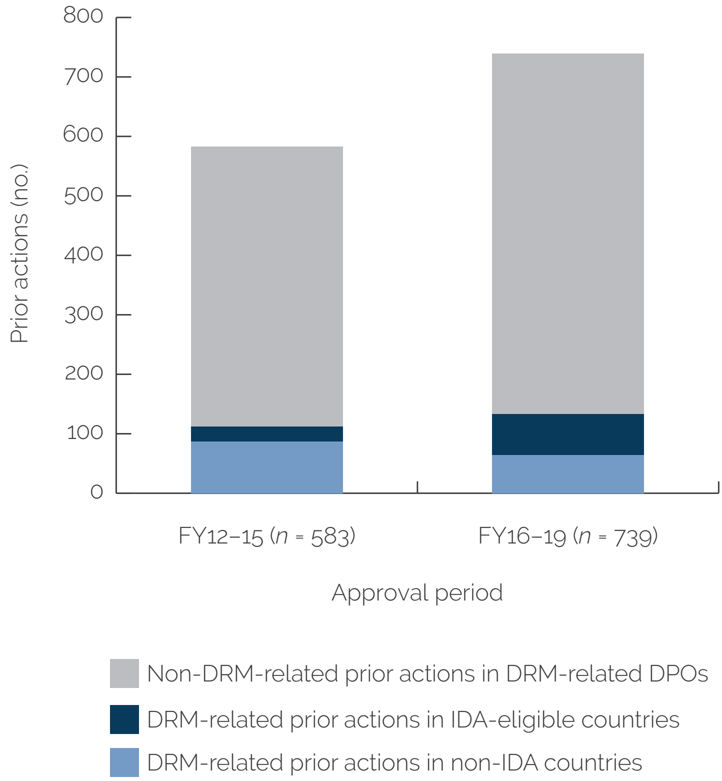
Figure 2.2. Development Policy Operations with Domestic Revenue Mobilization–Related Prior Actions



Sources: World Bank Business Intelligence database; Operations Policy and Country Services Prior Actions database, World Bank, Washington, DC, April 2021.

Note: DPO = development policy operation; DRM = domestic revenue mobilization; FY = fiscal year.

Figure 2.3. DRM-Related Prior Actions in DPOs with at Least One DRM-Related Prior Action, by Borrowing Group, FY12–15 and FY16–19



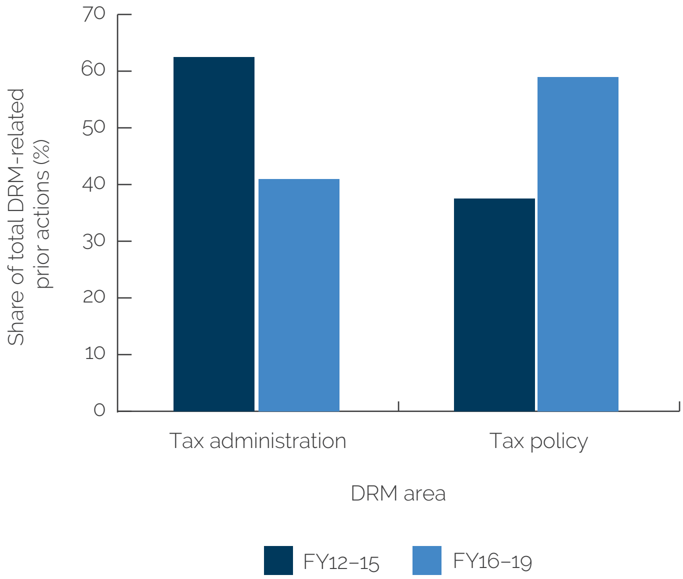
Source: Independent Evaluation Group.

Note: DPO = development policy operation; DRM = domestic revenue mobilization; FY = fiscal year; IDA = International Development Association.

Domestic Revenue Mobilization–Related Prior Actions

DRM-related prior actions have been shifting toward greater focus on tax policy (figure 2.4). In FY12–15, prior actions were focused on tax administration, particularly to improve operational efficiency. In FY16–19, the focus of DPOs shifted to tax policy, particularly reforms related to changes in tax rates (for example, value-added taxes [VATs], corporate income tax, and personal income tax). Given the increased use of DPOs relative to the earlier period, this implies an increase in attention to tax policy in World Bank operations.

Figure 2.4. Domestic Revenue Mobilization–Related Prior Actions by Area



Source: World Bank Operations Policy and Country Services Prior Actions database, April 2021.

Note: DRM = domestic revenue mobilization; FY = fiscal year.

Most DRM-related prior actions were one of three types: changes in tax rates, reductions in tax expenditures, and improvements in the ease of paying taxes.[2] The share of these three types rose from a little more than half in the FY12–15 period to two-thirds in the evaluation period. Prior actions supported green and health taxes more frequently in the evaluation period, though from a negligible base, and digitalization of taxes rose significantly as a share of the total. Prior actions intended to improve operational efficiency of tax administration became less important between the two periods (figure 2.5).

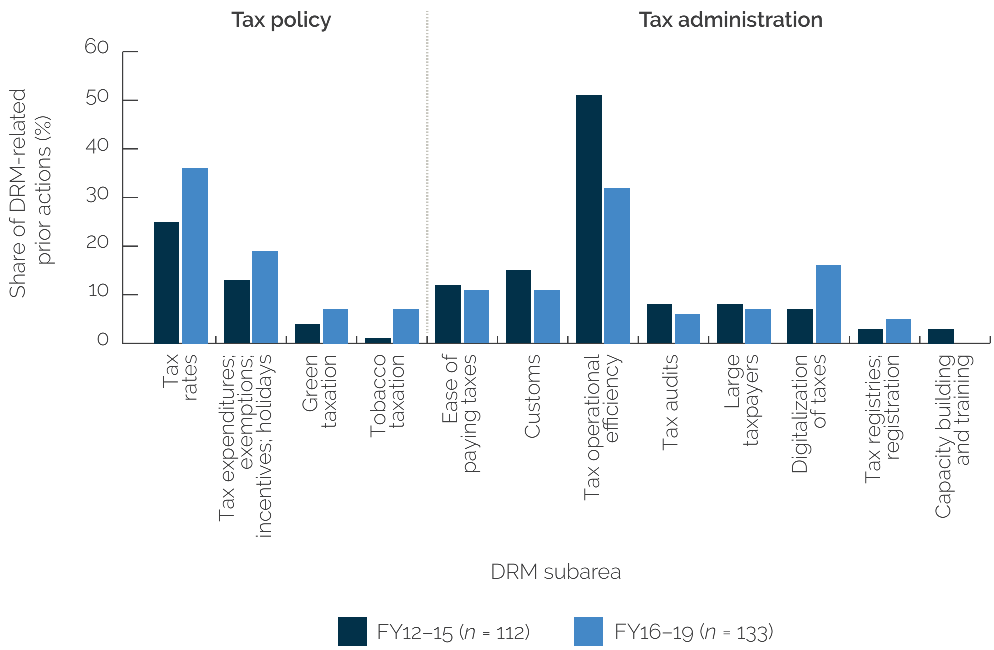
A little less than one-quarter of DRM-related prior actions in the evaluation period sought to address tax expenditures or tax exemptions.[3] Of these, 30 percent required the publication of the inventory of tax exemptions and expenditures (ostensibly to strengthen accountability in granting tax exemptions) or a tax expenditure statement, and 40 percent required an outright reduction or elimination of tax exemptions and expenditures. Most of the rest required changes to the governance framework for granting new exemptions. Program documents rarely explained the motivation for the approach chosen to reduce inefficient and regressive tax exemptions.

However, case studies and other evidence show frequent reintroduction of significant new exemptions. This suggests a benefit in giving greater attention to measures to strengthen the governance framework for granting exemptions. In Pakistan, after initially declining starting in 2014, tax exemptions were reintroduced in advance of 2018 elections, increasing from 1.6 to 2.5 percent of GDP between 2017 and 2019. As a result, tax collection deteriorated from 12.9 to 11.6 percent of GDP. In Panama, elimination of tax exemptions proved more difficult than envisioned amid strong political headwinds in domestic tax reform outside the executive branch of government. In Madagascar, the World Bank supported disclosure of a summary of all tax expenditures in the annual budget law, but this did not contribute to a significant increase in revenue. Far from a targeted reduction of about $24.8 million in tax exemptions, tax expenditures eliminated during the Public Finance Sustainability and Investment DPO series (2016–18) were less than $0.4 million, and in 2017, the government approved additional tax benefits for special economic, industrial, and agriculture zones.

Attention to the establishment and functioning of large taxpayer units in DPOs was modest, and outcomes were weak. Although large taxpayer units are often seen as potentially effective in improving taxpayer compliance and raising revenue, their establishment received little attention in World Bank–supported operations.[4] In each period, nine DPOs with at least one DRM-related prior action sought to establish or strengthen large taxpayer units. However, only about half of the targets for results indicators related to them were achieved for DPOs approved between FY16 and FY19. Only about half of the DPOs approved during the evaluation period with prior actions related to these units have closed. For those that have, three-quarters of targets for the associated results indicators have been achieved.

Program documents often discussed the expected progressive distributional impact of DRM measures, but Implementation Completion and Results Reports rarely reported ex post impact. The time frame of a stand-alone DPO may not allow for such reporting because of data availability, but it is unclear if and at what point the World Bank intends to assess the distributional impact at the country level of the tax reform it supports.

Figure 2.5. Domestic Revenue Mobilization–Related Prior Actions by Domestic Revenue Mobilization Subcategory, FY12–19



Source: World Bank Operations Policy and Country Services Prior Actions database, April 2021.

Note: Tax operational efficiency refers to prior actions supporting activities that aim to improve tax administration processes and effectiveness. Percentages add up to more than 100 percent because some prior actions fit into more than one category. DRM = domestic revenue mobilization; FY = fiscal year.

An assessment of the relevance of results indicators in DPOs to measure progress in improving DRM suggests room for improvement.[5] Results frameworks tracking progress with DRM have often proved problematic, undermining opportunities for course correction and learning from experience. Close to half of all DRM-related results indicators in DPOs were overall and tax-specific revenue-to-GDP indicators, and more than 40 percent were tax inspection–related indicators. The DRM-related indicators were often too high level or too weakly related to prior actions (for example, use of the revenue-to-GDP ratio to capture the impact of an increase in corporate tax rates), and the tax inspection–related indicators were often too output oriented to measure impact. These findings are consistent with those of IEG's Evaluation Insight Note on domestic revenue mobilization, which observed that the quality of DRM-related indicators was often an issue, limiting the ability to monitor the impact of a project or operation (World Bank 2023).

Some results indicators had little or no link to the operation's specific DRM components (such as in Liberia and Pakistan or in Croatia, which also had no baselines or targets).

Green and Health Taxation

Prior actions to encourage green and health taxation emerged in the FY16–19 period as the third largest group of tax policy actions supported by budget support operations (table 2.3). For green taxes,[6] prior actions included measures to increase VAT collection for land, sea, and air vehicles and services and for mining. For health taxation, prior actions focused on increasing general sales and excise taxes for alcohol, sugary drinks, and tobacco.

» Green taxes. Compared with the previous period, the evaluation documented a slight increase in the share of prior actions supporting green taxation. The total number of relevant prior actions increased from 4 out of 112 in FY12–15 to 9 out of 133 in FY16–19. Despite this increase, there was only one associated results indicator (which measured an improvement in revenue from petroleum taxes during the later period; table 2.3). Its target was achieved.

» Health taxes. Health taxes gained attention in the evaluation period with the help of initiatives such as the Global Tobacco Control Program: nine DRM-related prior actions (7 percent) supported increases in health taxes.[7] Results indicators measuring the impact from health tax prior actions were more prominent in FY16–19, including measures of excise tax collection from alcohol and tobacco. Four of five targets for these results indicators in closed operations were achieved. During the earlier period, only 1 out of 107 indicators measured an increase in excises from tobacco (Philippines Third DPF, approved in FY15).

Table 2.3. Domestic Revenue Mobilization–Related Indicators for Green and Health Taxation

Period	DRM-Related Prior Actions (no.)	DRM-Related Results Indicators (no.)	Green Tax			Health Taxes		
			Green tax prior actions (no.)	Green tax–related results indicators (no.)	Results indicator achievement rating	Health tax prior actions (no.)	Health tax–related results indicators (no.)	Results indicator achievement rating
FY12–15	112	107	4	0	0	1	1	Achieved
FY16–19	133	124	9	1	Achieved	9	5	1 = not achieved 4 = ongoing operations, thus not yet rated

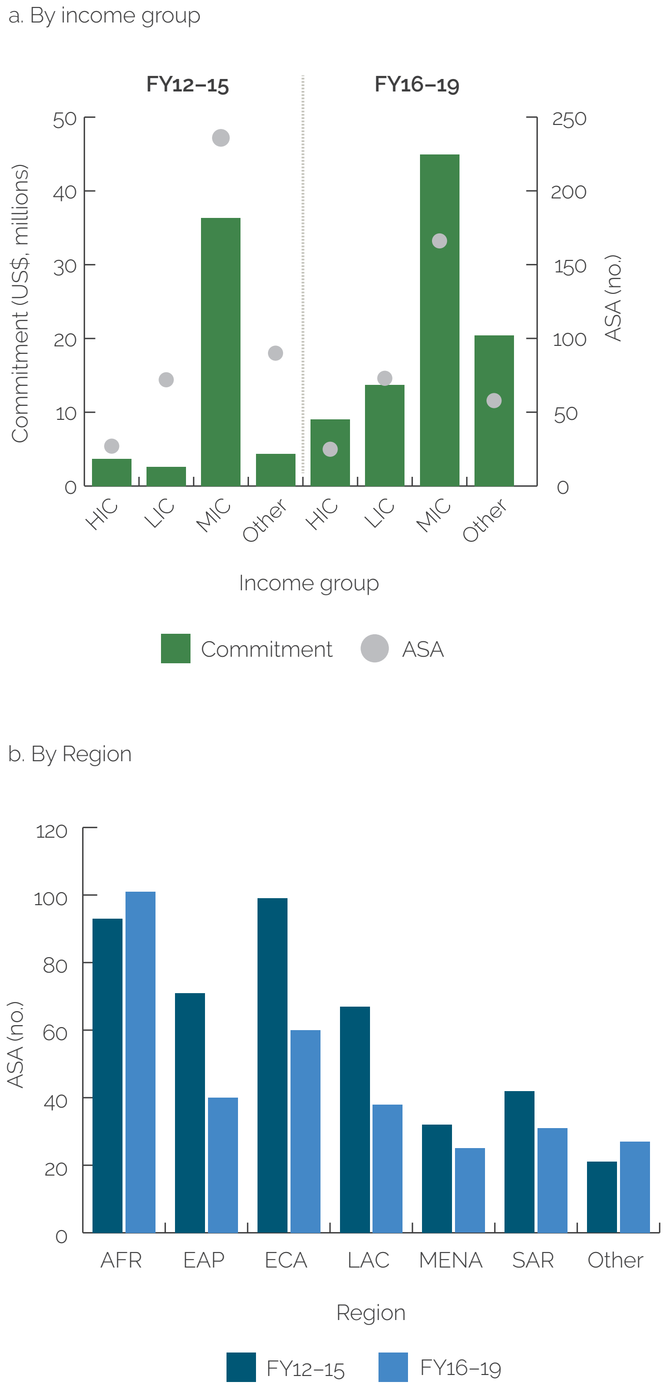
Source: World Bank Business Intelligence database, April 2021.
Note: DRM = domestic revenue mobilization; FY = fiscal year.

Nonlending Portfolio

The total number of DRM-related nonlending activities declined over FY16–19, from 425 to 322, but the average size increased significantly. Total spending doubled from $47 million in FY12–15 to $88 million for 117 countries, including multicountry activities (figures 2.6 and 2.7). This was part of an effort to increase selectivity, strategic use, and resourcing of ASA. During both periods, 60 percent of activities were delivered to middle-income countries. By thematic area, DRM-related ASA was focused on tax administration, particularly improving tax operations and services (figure 2.7). About 8 percent of ASA in the evaluation period included some discussion of green taxation, compared with 25 percent in the previous period. Relatively few ASA were undertaken on tax expenditures and exemptions or the use of large taxpayer units. Medium-term revenue strategies were introduced in 2016 and are intended to be a government-led comprehensive approach to tax system reform over the medium term through a whole-of-government approach. Although not a World Bank product, the World Bank—along with the IMF, the Organisation for Economic Co-operation and Development (OECD), and other development partners—is a contributor to this promising initiative. However, as of the end of February 2023, only five countries had completed a medium-term revenue strategy and were implementing it.[8]

Over the evaluation period, there was increasing analytical work on green and tobacco taxation (although from a low base). The Global Tobacco Control Program supported analytical work at both the global and country levels on tobacco taxation and provided technical assistance and analytical inputs into tobacco tax policy reforms that were adopted in at least 13 countries.[9]

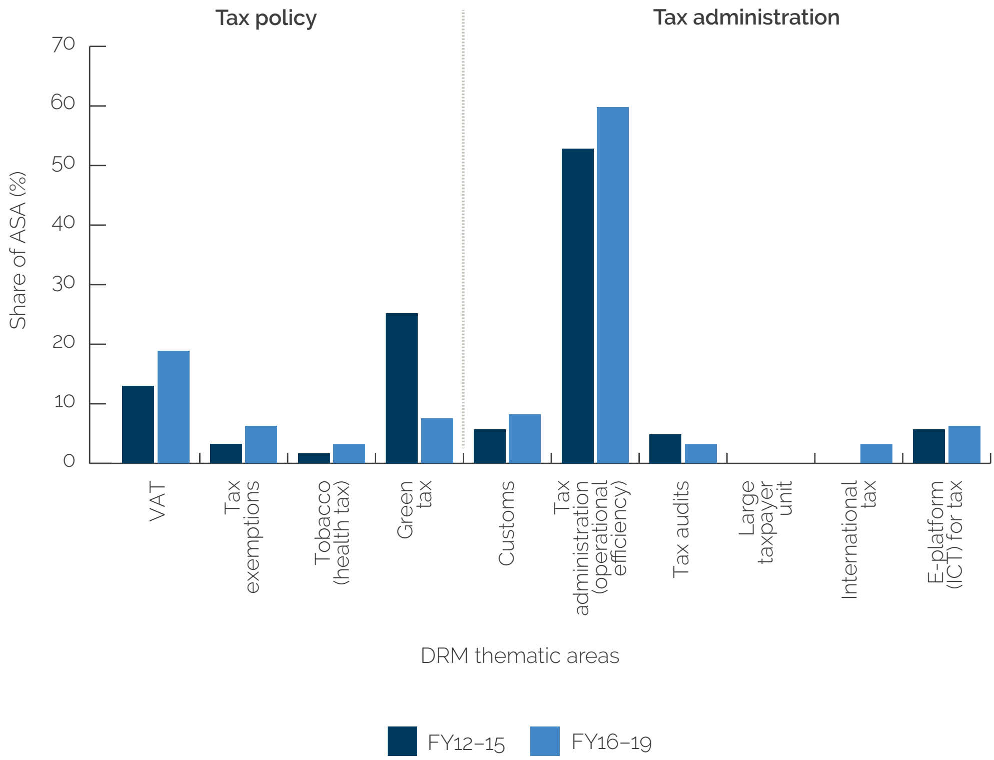
Figure 2.6. Advisory Services and Analytics



Source: World Bank Business Intelligence database, April 2021.

Note: Other refers to regional or multicountry ASA. AFR = Africa; ASA = advisory services and analytics; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FY = fiscal year; HIC = high-income country; LAC = Latin America and the Caribbean; LIC = low-income country; MENA = Middle East and North Africa; MIC = middle-income country; SAR = South Asia.

Figure 2.7. Advisory Services and Analytics Activities by Theme, FY12–19



Sources: World Bank Business Intelligence database, April 2021; Independent Evaluation Group calculations.

Note: Shares add up to more than 100 percent because some ASA activities addressed more than one theme. ASA = advisory services and analytics; DRM = domestic revenue mobilization; FY = fiscal year; ICT = information and communication technology; VAT = value-added tax.

A considerable range of DRM-related tools, diagnostics, and analytical work has been developed since 2015, both from within and outside the World Bank. These include the Tax Administration Diagnostic Assessment Tool (TADAT), the Tax Policy Assessment Framework, three new tool kits on international tax, tax treaty explorers, the Innovations in Tax Compliance Conceptual Framework, Commitment to Equity Assessment Diagnostic Framework tools, Tax DIAMOND, microsimulation models, tax gap models, and tax incentive analyses. Each one focuses on a distinct dimension of DRM and has potentially important value added in informing policy dialogue, operational design, and priority setting, but their proliferation presents challenges for task team leaders (many of whom are not tax experts) to identify and prioritize reforms effectively at the country level. To date, there is no consolidated assessment that provides a framework to prioritize tax reforms and capacity-building efforts *across* tax objectives that can be updated and easily drawn on to inform priorities in CPFs, CPF updates, and the identification of prior actions in DPOs.

The World Bank is a partner for TADAT, which evaluates a country's tax administration systems in nine performance outcome areas based on 26 indicators (box 2.1).

Box 2.1. The Tax Administration Diagnostic Assessment Tool

The Tax Administration Diagnostic Assessment Tool (TADAT), introduced in 2015, is a diagnostic tool for country tax administrations. TADAT was introduced by development partners, including the International Monetary Fund; the World Bank; and bilateral development aid agencies of France, Germany, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom, in response to the 2015 Addis Ababa commitments to improve domestic revenue mobilization in developing countries. The European Commission provided initial financial support to the TADAT trust fund in agreement with the International Monetary Fund and the World Bank. TADAT assessments are usually commissioned by international agencies, such as a multilateral development bank or the International Monetary Fund. The report is finalized after securing the country's feedback.

TADAT indicators are scored to identify a country's strengths and weaknesses to help country tax administrations identify areas that need improvement. As of August 2022, 135 assessments have been prepared, including 33 subnational assessments, not all of which have been made public. The World Bank has jointly led or participated in 31 TADAT assessments. TADAT assessments are carried out by teams of accredited assessors. Issues addressed include emerging issues, such as digital taxation, green taxes, and gender imbalances in tax administration. The field guide was updated in 2019, learning from stakeholders' experience and feedback.

Evidence from case studies for this evaluation indicates that TADAT assessments have been influential in shaping World Bank operations and government reforms in tax administration during the evaluation period in Chad, Madagascar, Rwanda, and, to a lesser extent, Guatemala (see chapter 4 and appendix C).

Sources: BrightScreenProds 2021; World Bank 2021a; evidence from this evaluation's case studies and semistructured interviews of stakeholders.

Note: The World Customs Organization has developed a parallel diagnostic process for customs. For more information about TADAT, see https://www.tadat.org/home#overview.

The Global Tax Program, launched in June 2018 with funding from development partners, supports advisory services and technical assistance to improve and strengthen tax institutions and revenue mobilization (box 2.2). The program represented a significant expansion of World Bank engagement in DRM, with about 81 percent of its resources supporting expansion of and improvement in the quality of DRM country-level work, with the remaining resources supporting development of diagnostic tax tools, assessment frameworks, and research. As of October 2022, the Global Tax Program has funded engagements in 69 countries, two-thirds of which were IDA eligible.

The FY21 annual progress report of the Global Tax Umbrella Program provides an update on the progress of the activities undertaken by the Global Tax Program between July 2020 and June 2021. An important outcome indicator is the number of reform recommendations endorsed by the respective governments. Of the 201 recommendations made since inception, 73 have already been endorsed, 28 of which were endorsed in FY21. Another outcome indicator—number of reform recommendations (to improve procedures, practices, and standards) endorsed—achieved 11 recommendations against a target of 17 (World Bank 2021a).

Box 2.2. Global Tax Program

The Global Tax Program, established in 2018, helps support, leverage, and coordinate domestic revenue mobilization–related World Bank work, including lending and advisory services and analytics, at the international and country levels. It is organized in relation to four pillars:

» The global tax activities and global public goods pillar supports development and application of tax diagnostic tools, such as tax policy assessment frameworks and Tax DIAMOND, which identify weaknesses and recommendations for improvements.

» The country-level work pillar supports countries in improving revenue collection through medium-term revenue strategies based on prior tax diagnostic work, mainly using the Tax Administration Diagnostic Assessment Tool, tax policy assessment frameworks, or Tax DIAMOND.

(continued)

Box 2.2. Global Tax Program (cont.)

- The third pillar (actionable research, data, knowledge, and learning) supports domestic revenue mobilization–focused research and data work with the potential to yield operational actions leading to domestic revenue mobilization improvements.
- Pillar four (program implementation and supervision) administers the program and manages single and multidonor trust funds supporting Global Tax Program activities.

The Global Tax Program secretariat is housed in the World Bank's Global Tax Unit. The number of tax experts varies over time, and the program relies significantly on the use of consultants. It has contributed to high-profile, flagship, and other research of the World Bank, including the recent World Development Report on digital taxation and work on digital services taxation.

Source: Independent Evaluation Group.

Domestic Revenue Mobilization and Equity

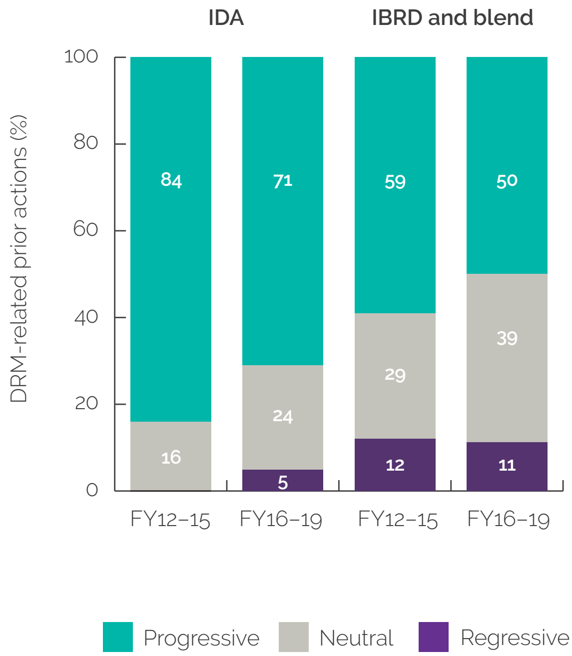
The World Bank has increased its attention to equity considerations in its DRM work. Building on the 20th Replenishment of IDA (IDA20) commitment to support IDA-eligible countries "to bolster their domestic resource mobilization capacity through equitable (fair and progressive) revenue policies" (World Bank 2022a, x, para. xx.b), World Bank staff are in the process of articulating a set of progressivity metrics to encourage assessment of "equitable (fair and progressive)" policies at the country level, which could potentially result in operations giving greater attention to promoting tax equity. This issue received considerable attention in the June 2021 Executive Board briefing on DRM (World Bank 2021b).

During the evaluation period, the World Bank increased analytical work on the distributional impact of tax reform. This was spearheaded partly by the Commitment to Equity Institute in close collaboration with the World Bank. A finding that emerged from many of these studies is that poor people get taxed more and receive less in public services so that fiscal systems (overall) often show very limited or no progressivity. These findings are increasingly reflected in World Bank analytical and diagnostic work (particularly for low-income countries), which often advocate for more progressive tax policies. However, the progressivity of tax systems is taken up to a lesser extent in middle-income countries and in World Bank DRM-related operations than the number of studies of distributional impact would suggest.

Most DPO program documents discuss the expected distributional implications of DRM-related reforms, but actual impact was discussed infrequently in Implementation Completion and Results Reports.[10] Evidence was collected from poverty and social impact analyses in program documents and ex post poverty and social impacts identified in Implementation Completion and Results Reports and Implementation Completion and Results Report Reviews. The expected distributional impact of reform supported by DRM-related prior actions was discussed in more than 90 percent of cases.

Most tax-related prior actions in DPOs over the evaluation period were expected to have either a neutral or a progressive distributional impact (figure 2.8). This result was similar to that of the previous three-year period. In both periods, about 1 in 10 DRM-related prior actions in International Bank for Reconstruction and Development countries was expected to have a regressive impact. Relatively few potentially regressive tax measures were supported through DPO prior actions in IDA-eligible countries in the evaluation period. Regressive tax measures supported through DPO prior actions included increased fuel excise tax and increased excise tax on tobacco and alcohol. From an equity standpoint, this finding is not particularly problematic. In most cases where expected DRM-related impact was regressive, targeted actions were identified on the spending side to protect poor people, implying the need for caution in assessing the expected distributional impact of World Bank–supported tax reforms in isolation from the broader fiscal system.

Figure 2.8. Expected Impact on Equity of Tax-Related Prior Actions by Income Group, in FY12–15 and FY16–19 Periods



Sources: World Bank Operations Policy and Country Services Development Policy Financing Prior Actions database, April 2021; Independent Evaluation Group Implementation Completion and Results Report Review database, August 2022.

Note: DRM = domestic revenue mobilization; FY = fiscal year; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

Collaboration with Development Partners

Collaboration with development partners over the evaluation period improved considerably, driven largely by the Platform for Collaboration on Tax (PCT),[11] established in April 2016 at the start of the evaluation period. The PCT is a joint initiative of the IMF, the OECD, the United Nations, and the World Bank to strengthen collaboration on DRM.[12]

The quality of collaboration on DRM between the World Bank and the IMF was very good. Interviews and case studies pointed to strong collaboration on DRM issues at the country level (facilitated by the PCT and annual reports on interagency collaboration). There was cross-attendance in meetings of the governing bodies of the respective DRM trust funds (the World Bank's

Global Tax Program and the IMF's Revenue Mobilization Trust Fund). Information sharing between staff working at the two institutions was good, benefiting from the preexisting agreement between the IMF and World Bank on information sharing that gives World Bank staff access to IMF technical assistance reports on request.

The World Bank's relationship with the OECD on tax issues is evolving. The OECD has been ramping up its engagement in the tax space over the past decade, and it has been particularly noticeable in terms of its work on global taxation. The World Bank has engaged actively with the OECD through the PCT and international forums, such as the Group of Twenty. Much of this engagement has been to bring the perspective of developing countries into discussions with the OECD in its role as a global standard setter. More recently, the OECD has begun to move beyond that role to one of de facto provider of technical assistance to many World Bank clients. It will be important to ensure that this work benefits from existing arrangements on collaboration and coordination.

[1] "Investment projects" include investment project financing and trust-funded projects. Domestic revenue mobilization–related investment projects are those defined using standard World Bank theme codes and are tagged with at least one of two theme codes: tax policy or domestic revenue administration. Projects with significant domestic revenue mobilization content were defined as those with more than 6 percent tax content based on independently assigned World Bank theme codes. The objectives of the operations, pillars and components, and prior actions implemented (in development policy operations) were reviewed to ensure that enough material on taxation was available to be evaluated.

[2] "Payment of taxes" includes simplification of tax payments, tax compliance, amalgamation of taxes, tax returns, and tax payment schedules and procedures.

[3] Tax expenditures are the revenue losses from exclusions, exemptions, deductions, tax credits, preferential tax rates, and deferrals. Although tax expenditures can have positive effects on inclusive growth when they are targeted appropriately, they are frequently used to benefit well-connected or politically influential individuals and entities. For this reason, it is important that the granting of tax exemptions is accompanied by rigorous analysis of their costs, benefits, and distributional impact.

[4] See Baer (2002) for a summary of the uses and benefits of large taxpayer units.

[5] The "relevance" of results indicators in a development policy operation is defined as the extent to which an indicator tracks progress to the associated objective as a result of the prior action or prior actions.

[6] "Green taxes" as used in this evaluation is synonymous with "environmental taxes" and refers to taxes designed to tax behavior that is harmful to the environment. They include taxes on pollution, energy, carbon emissions, fuel consumption, waste production and disposal, use of natural resources, and motor vehicles and other transport.

[7] Including tobacco taxation policy reforms as prior actions in development policy operations for Armenia, Colombia, Gabon, Moldova, Mongolia, and Montenegro.

[8] A list of countries in the medium-term revenue strategy process can be found here: https://www.tax-platform.org/medium-term-revenue-strategy/countries.

[9] The 13 countries are Azerbaijan, Belarus, Ethiopia, Indonesia, Lesotho, Moldova, Nigeria, the Philippines, Senegal, Sierra Leone, Tonga, Ukraine, and Uzbekistan (World Bank 2019b), with

technical assessments provided to an additional 9 countries plus the Organisation of Eastern Caribbean States.

[10] Distributional impact is largely a policy issue and as such is infrequently relevant to investment projects. This discussion therefore focuses on development policy financing.

[11] For more information about the Platform for Collaboration on Tax, please see https://www.tax-platform.org.

[12] The governments of France, Japan, the Netherlands, Norway, Switzerland, and the United Kingdom also support the Platform for Collaboration on Tax.

3 | How Effective Was World Bank Support for Domestic Revenue Mobilization?

Results from investment projects supporting domestic revenue mobilization (DRM) were generally favorable. The share of projects rated satisfactory was 41 percent, with 35 percent of projects rated moderately satisfactory. Performance was generally better for tax administration projects in non–International Development Association–eligible countries than in International Development Association–eligible countries. Performance was rated poorly in one-quarter of cases, attributed to overambitious results indicator targets and challenging contexts, including in countries facing fragility, conflict, and violence.

Development policy operations (DPOs) showed a marked improvement in achievement of DRM-related objectives, although the results indicators used to measure impact were often inadequate. Those indicators were often too high level and did not adequately capture either the impact of prior actions or progress toward objectives.

Case study analysis suggests that tax policy reforms supported by DPOs were often reversed under pressure from vested interests. Project documents usually flagged risks from vested interests (with varying degrees of specificity), but without sufficiently concrete mitigating measures, risks often materialized. Although informed risk taking should not be discouraged, this suggests that prior actions should be designed with an aim of making their reversal more difficult.

Bank performance was rated satisfactory for two-fifths of all DRM-related investment projects and one in five DPOs with at least one DRM-related prior action. Bank performance for three-quarters of investment projects and DPOs was rated moderately satisfactory or higher.

Staff self-evaluations of operations and projects yielded few DRM-related lessons, and those were insufficiently specific. Only 3 of 60 closed operations and projects that were focused on DRM had DRM-specific lessons. The relative absence of DRM-related lessons at the project or operation level (in Implementation Completion and Results Reports and their validations) suggests scope for greater attention to learning from DRM-focused projects and operations.

This chapter reviews the effectiveness of DRM interventions based on evidence from Implementation Completion and Results Report Reviews, semistructured interviews, seven in-depth country case studies (Chad, Colombia, Guatemala, Kenya, Madagascar, Pakistan, and Rwanda), and IEG evaluations and validations of projects and operations with significant DRM content.[1]

Performance of Domestic Revenue Mobilization–Related Investment Projects

Results from investment projects supporting DRM were generally favorable. The share of investment projects rated satisfactory was 41 percent, with 35 percent rated moderately satisfactory. Twenty-two DRM-related investment projects closed during the evaluation period. IEG validated the ratings of three-quarters of those. DRM-related investment projects were more likely to have satisfactory outcome ratings than other World Bank investment projects (table 3.1). On average, performance was better for tax administration projects in IDA-eligible countries than in non-IDA-eligible countries (figure 3.1). Eighty-six percent of DRM investment projects in IDA-eligible countries were rated moderately satisfactory or higher versus 67 percent for projects in non-IDA-eligible countries, but a higher share of non-IDA projects was rated satisfactory (44 percent) compared with 29 percent for projects in IDA-eligible countries.[2]

Table 3.1. Independent Evaluation Group Outcome Ratings of Domestic Revenue Mobilization–Related Investment Projects, FY16–19

IEG Outcome Ratings	Share of DRM-Related IPF (%)	Share of Non-DRM IPF (%)
Highly satisfactory	0	3
Satisfactory	41	32
Moderately satisfactory	35	42
Moderately satisfactory or above	76	78

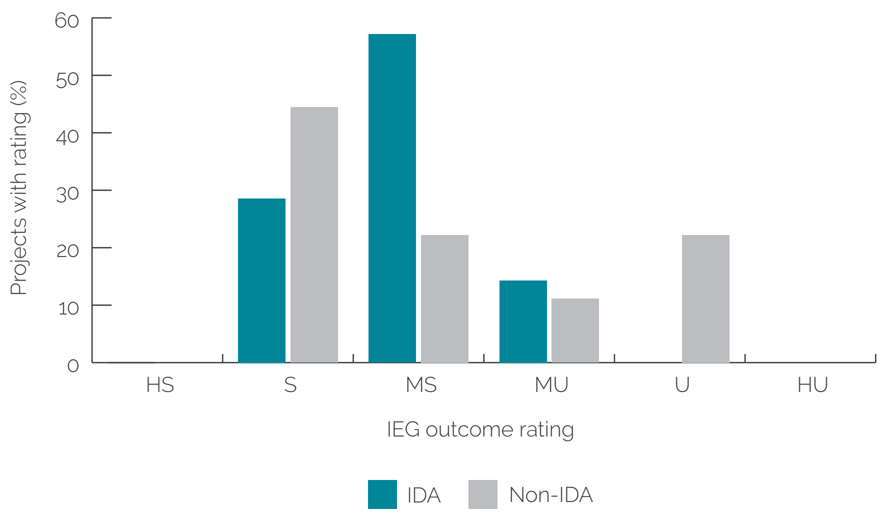
(continued)

IEG Outcome Ratings	Share of DRM-Related IPF (%)	Share of Non-DRM IPF (%)
Moderately unsatisfactory	12	12
Unsatisfactory	12	7
Highly unsatisfactory	0	2
Moderately unsatisfactory or below	24	22
Total	100	100

Source: Independent Evaluation Group DataMart, April 2021.

Note: DRM = domestic revenue mobilization; FY = fiscal year; IEG = Independent Evaluation Group; IPF = investment project financing.

Figure 3.1. Outcome Ratings for Domestic Revenue Mobilization–Related Investment Projects in IDA-Eligible and Non-IDA-Eligible Countries, FY16–19



Source: Independent Evaluation Group DataMart database, May 2021.

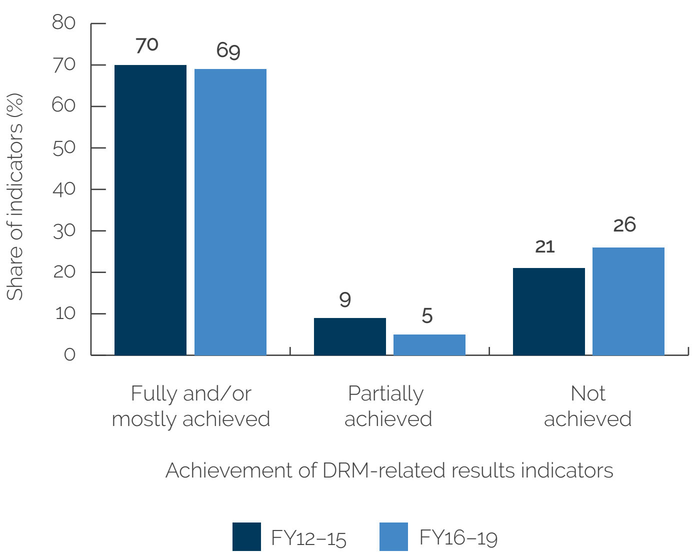
Note: FY = fiscal year; HS = highly satisfactory; HU = highly unsatisfactory; IDA = International Development Association; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.

Performance of Development Policy Operations with Domestic Revenue Mobilization–Related Prior Actions

Achievement of Targets for Domestic Revenue Mobilization–Related Results Indicators

Targets for a significant majority of DRM-related results indicators in DPOs approved during the evaluation period were at least mostly achieved. IEG rated four-fifths of DRM-related DPOs approved during the evaluation period. Targets for 70 percent of DRM-related results indicators were fully or mostly achieved, similar to the share in the previous three-year period, although the share of indicators that were not achieved in the evaluation period increased modestly (figure 3.2). Performance of results indicators related to tax policy reforms was better than for tax administration reforms both in the evaluation period and in the earlier three-year period (figure 3.3). However, case study evidence suggests that these results were often not sustained after operations were closed.[3]

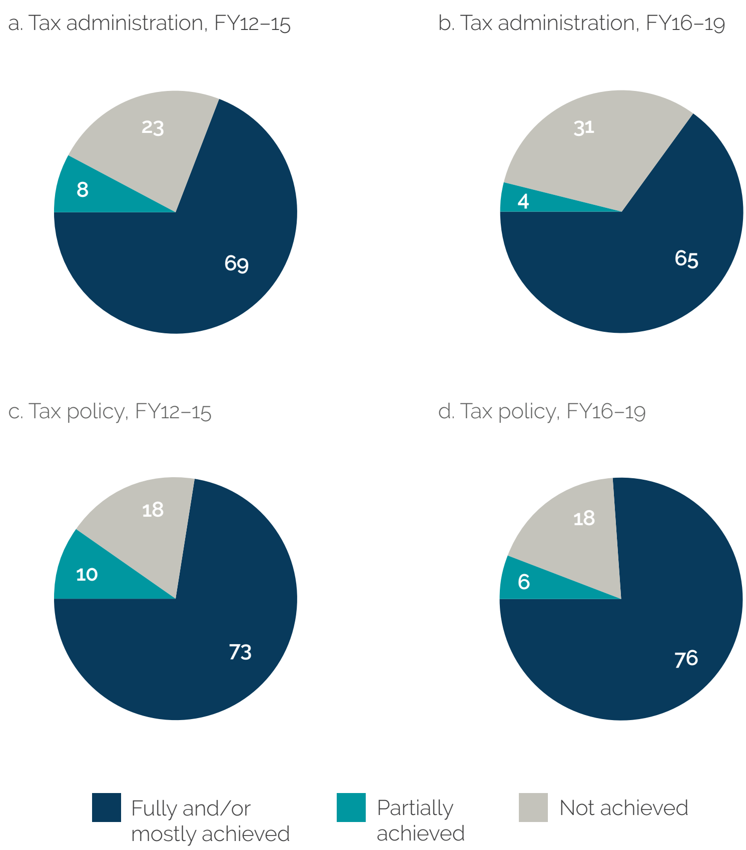
Figure 3.2. Achievement of Targets for Domestic Revenue Mobilization–Related Results Indicators



Source: Independent Evaluation Group Implementation Completion and Results Report Review database, August 2022.

Note: DRM = domestic revenue mobilization; FY = fiscal year.

Figure 3.3. Achievement of Domestic Revenue Mobilization–Related Targets by Theme (percent)

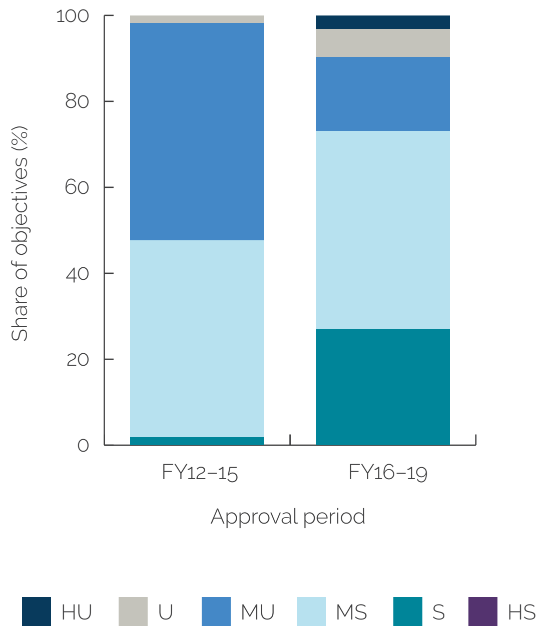


Source: Independent Evaluation Group Implementation Completion and Results Report Review database, August 2022.

Note: FY = fiscal year.

The achievement of DRM-related objectives in DPOs improved significantly in the evaluation period (compared with the previous period). Figure 3.4 shows significant increases in the shares of objectives rated satisfactory (from 2 percent over FY12–15 to 27 percent over the evaluation period). The share of objectives with achievement rated moderately unsatisfactory or lower was reduced by half between the two periods.

Figure 3.4. Efficacy Rating for Domestic Revenue Mobilization–Related Objectives in Development Policy Operations



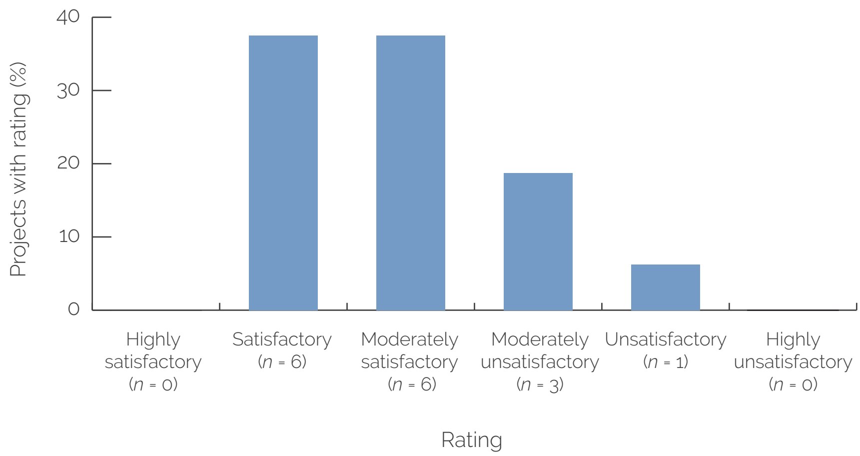
Source: Independent Evaluation Group Implementation Completion and Results Report Review database, August 2022.

Note: FY = fiscal year; HS = highly satisfactory; HU = highly unsatisfactory; MS = moderately satisfactory; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.

Bank Performance Ratings and Lessons from Projects and Operations

Bank performance was rated satisfactory for two-fifths of all DRM-related investment projects and moderately satisfactory or higher in three-quarters of investment projects. About one-quarter of investment projects were rated moderately unsatisfactory or lower (figure 3.5).

Figure 3.5. Bank Performance Ratings for Domestic Revenue Mobilization–Related Investment Projects, FY16–19



Source: World Bank Business Intelligence database, April 2021.

Note: FY = fiscal year.

Only 3 of 60 Implementation Completion and Results Report Reviews of DRM-related projects and DPOs had lessons that addressed DRM explicitly. All were for operations in IDA-eligible countries. These lessons were as follows:

» The need for sustained focus on tax administration improvements, which may lead to improved compliance in fragility, conflict, and violence setting (Burkina Faso)

» The need for political economy analysis and political support to avoid reversal of difficult tax-related policy reforms; technical assistance can also help (Guinea)

» The importance of collaboration with the IMF and coordination with IMF technical assistance on DRM issues (Madagascar)

[1] The findings of in-depth evaluations of six DRM-related projects and operations are described in domestic revenue mobilization Evaluation Insight Note (World Bank 2023). This note contains a detailed review of six Independent Evaluation Group Project Performance Assessment Reports. The underlying interventions were selected from among closed operations with significant DRM content, covering a diverse group of countries. Performance ratings (which the Independent Evaluation Group assigns independently) were not considered in the selection process. The interventions assessed were from five countries—Croatia, Guatemala, Liberia, Pakistan, and Panama—and one state, Rio de Janeiro in Brazil. The International Bank for Reconstruction and Development financed four of the interventions, the International Development Association financed one, and one used a blend of concessional and nonconcessional World Bank financing.

[2] The World Bank supported 12 DRM-related investment projects in 11 of 39 countries facing fragility, conflict, and violence over the evaluation period. Only 1 project had closed and had its rating validated by the Independent Evaluation Group (Liberia), too few to draw meaningful conclusions.

[3] Achievement was gauged at the country level using results indicators in country strategies and interventions. Also, broader indicators (for example, ratio of revenue to GDP in low-income countries and other indicators of revenue performance) were used to gauge outcomes in groups of countries, compared with long-term averages before the evaluation period (before 2016). At the intervention levels, evaluative evidence from Implementation Completion and Results Report Reviews, Project Performance Assessment Reports, and reviews of ongoing operations was used and combined with additional evidence from semistructured interviews of stakeholders at the corporate, development partner, and country client and staff levels.

4 | Insights from Country Case Studies

This evaluation undertook in-depth case studies of World Bank–supported domestic revenue mobilization (DRM) interventions in seven countries (Chad, Colombia, Guatemala, Kenya, Madagascar, Pakistan, and Rwanda). This was augmented by a review of Project Performance Assessment Reports undertaken by the Independent Evaluation Group for six DRM-related interventions. The findings were used to help identify examples of good practice and areas where there may be scope for improvement.

The World Bank mostly identified major constraints to improved DRM correctly in case study countries, drawing on a range of analyses, including the Tax Administration Diagnostic Assessment Tool (tax administration), Public Expenditure and Financial Accountability, and International Monetary Fund analysis.

Challenges faced in the six World Bank projects and operations reviewed included addressing political economy constraints, learning from experience, matching the right intervention to the problem, leveraging donor support, and preparing an appropriate results framework.

World Bank effectiveness was modest in strengthening tax administration in the case study countries. Progress achieved, particularly from development policy operations, was often reversed over time, even for operations that recorded significant achievements shortly after closing.

The World Bank was more effective in pursuing DRM objectives in the six operations and projects reviewed when (i) it worked in coordination with development partners (and especially the International Monetary Fund) in the context of clear division of labor; (ii) complementary instruments were mobilized (for example, investment project financing and development policy financing); and (iii) tax reforms involved engagement with civil society.

The World Bank was less successful in articulating relevant results indicators to track progress toward DRM objectives as a result of DRM-related prior actions. This was the case in some International Development Association–eligible countries, which had weakly relevant indicators and unrealistic targets.

The Global Tobacco Control Program has proved a useful tool for identifying concrete opportunities to generate revenue and contribute to longer-term health outcomes. Guatemala and Pakistan benefited from assessments of tobacco taxation, including the formulation of recommendations for tobacco tax reform. Global Tobacco Control Program recommendations informed a prior action on tobacco taxation in a development policy operation for Colombia.

Country case studies and Project Performance Assessment Reports provided a more granular picture of World Bank strategies, activities, and interventions to help countries enhance DRM. Seven country cases were selected: Chad, Madagascar, and Rwanda (low-income countries); Colombia, Guatemala, Kenya, and Pakistan (middle-income countries; see appendix A for details on the selection criteria used). These studies sought to assess the extent to which World Bank interventions were appropriate to country conditions and priorities and their impact. Evidence is supplemented with insights from several Project Performance Assessment Reports on tax-centered projects and operations.[1] This chapter reviews the use of diagnostics and analytical underpinnings to inform DRM priorities, the choice of results indicators, World Bank coordination with development partners, and the impact of World Bank support on DRM. The World Bank drew on analysis in Systematic Country Diagnostics, TADATs, Public Expenditure and Financial Accountability assessments, and other ASA to identify DRM constraints. To varying degrees, diagnostics informed World Bank strategy, lending, and nonlending engagements in case study countries (table 4.1).

Table 4.1. Analytical Underpinnings of Domestic Revenue Mobilization Engagement at Country Level

Country	Strategy in Place during Evaluation Period	DRM Assessment in SCD	TADAT	CEM Discusses DRM	PER Discusses DRM	Other World Bank Analytical Inputs into CPF (such as CEQ)	IMF Inputs into CPF	PEFA Available during Evaluation Period
Chad	CPF (2016–20)	Yes	No	No	Yes (2019–06)	No	Yes	2018
Colombia	CPF (2016–21)	Yes	No	No	No	Yes	No	2016
Guatemala	CPF (2017–20)	Yes	Yes (2017–10)	No	Yes (2013–05)	Yes	Yes	2018
Kenya	CPS (2014–18)	Yes	Yes (2017–01)	Yes (2016–03)	Yes (2014–12)	Yes, incl. CEQ	No	2019
Madagascar	CPF (2017–21)	Yes	Yes (2015–06)	No	No	Yes	Yes	2014; 2018
Pakistan	CPS (2015–20)	Yes	No	No	Yes (2013–02)	Yes	Yes	2012; Punjab Province, 2019; Balochistan Province, 2017; Khyber Pakhtunkhwa Province, 2017
Rwanda	CPS (2014–18)	Yes	Yes (2015–08)	No	No	Yes	Yes	2017

Source: Independent Evaluation Group.

Note: CEM = Country Economic Memorandum; CEQ = Commitment to Equity; CPF = Country Partnership Framework; CPS = Country Partnership Strategy; DRM = domestic revenue mobilization; IMF = International Monetary Fund; PEFA = Public Expenditure and Financial Accountability; PER = Public Expenditure Review; SCD = Systematic Country Diagnostic; TADAT = Tax Administration Diagnostic Assessment Tool.

Chad

The World Bank identified major DRM challenges in Chad, drawing on analysis produced by development partners (particularly the IMF). These included overreliance on the oil sector, a lack of capacity to manage petroleum sector revenue in a transparent manner, and broader weaknesses in the capacity of tax administration.

The World Bank approved two DPOs for Chad with DRM content (FY16 and FY17). The objectives were to (i) broaden the tax base by assisting the government with registering taxpayers, (ii) build the capacity of staff to manage oil revenues, (iii) provide tools and information technology systems to increase the effectiveness of revenue collection, and (iv) reduce massive tax exemptions. The FY16 Fiscal Consolidation DPO supported the creation of the taxpayer database to increase the number of taxpaying firms. The prior action supporting this reform required the Ministry of Finance to adopt the results of the nationwide enterprise census for taxpayer identification and registration. The second prior action required Chad's Council of Ministers to adopt and submit a tax code to the national assembly consolidating all tax-related fiscal regulations, leading to a more comprehensive and transparent tax system. This directly addressed constraints on budget instability caused by the narrow tax base.

However, the procedures and systems available for the payment of tax became cumbersome. According to *Doing Business 2020*, firms on average made 54 tax payments a year; spent 834 hours a year on filing, preparing, and paying taxes; and paid total taxes amounting to 63.5 percent of profits (World Bank Group 2020). Efforts to resolve these challenges included the development of an integrated tax management system (Standard Integrated Government Tax Administration System) in 2015 and the provision of unique tax identification numbers. These have not been successful in changing the direction of tax-related indicators.

Elimination of tax exemptions also had little success. Under the Chad Emergency DPO (FY17), the government put a freeze on new exemptions (except for those under the Vienna Convention) and studied tax expenditures. However, the freeze on new exemptions was repealed by the end of 2017, and a prior action under the First Economic Recovery and Resilience DPO to reduce the number of tax exoneration agreements followed in 2018. The government committed to enhancing transparency by issuing an inventory of tax exemptions and derogations as an appendix to the 2020 Finance Law. However, without a results indicator tracking the magnitude of tax expenditures, it is difficult to assess the efficacy of World Bank support to bring about a reduction in tax expenditures. In the end, non-oil revenue increased modestly, from 8.4 percent of non-oil GDP in 2016 to 8.8 percent in 2019. Though some progress was achieved, Chad continued to underperform relative to other countries in the Central African Economic and Monetary Community) with the share of tax revenue to GDP at 7.5 percent in 2018, compared with 9 percent in Central African Economic and Monetary Community countries.

The World Bank, in its annual assessment of the quality of policies and institutions for revenue mobilization in the country (Country Policy and Institutional Assessment), upgraded Chad's CPIA (Country Policy and Institutional Assessment) rating from 2.5 (out of 6) in 2014 to 3.0 in 2017, but its rating returned to 2.5 in 2019.

Colombia

The World Bank identified the main DRM challenges in Colombia as low taxation on high incomes, tax evasion, weakness in custom administration, low overall VAT and excise revenue collection, a shrinking tax base, tax system complexity discouraging formalization with distortions created by the ad hoc granting of favorable tariffs and tax treatment, and overreliance on commodity revenue. Under pillar 3 of the FY16–21 CPF (supporting fiscal sustainability and productivity), DRM-related objectives were to (i) improve fiscal management to increase non-oil revenues and accommodate associated expenditures under the medium-term fiscal framework by 2017, and (ii) improve the business environment and innovation to boost productivity to improve tax registration.

The World Bank produced influential diagnostics on tobacco taxation. These informed prior actions for the Fiscal and Growth Development Policy Loans 1 (FY17) and 2 (FY19). The provision of technical support to strengthen the policy framework for trade facilitation, business regulation, innovation, and green growth led the government to adopt the following tax reforms: (i) implementing the 2016 tax reform, which among other things increased the general sales tax (VAT) rate from 16 to 19 percent, and (ii) increasing the rates of tobacco and alcohol tax. The government also adopted a carbon tax on fossil fuels proportional to their carbon dioxide emissions and a tax on plastic bags.

At the request of the National Directorate of Taxes and Customs, the World Bank, in collaboration with the OECD, provided capacity-building support on transfer pricing under the Colombia Fiscal Consolidation Programmatic Approach (FY16–18). This supported the development of a macroeconomic and fiscal model for the Ministry of Finance with a detailed module to encourage tax compliance and equity and the effectiveness of the tax system to reduce tax evasion, avoidance, and tax base erosion. According to interviews with World Bank staff, the model helped determine tax rates and decrease expenditures. As a result, the Ministry of Finance was in a better position to make improvements to its fiscal rules and fiscal transparency legislation.

The World Bank also contributed to improving tax registration, despite shortcomings in project design. The project Tax Simplification for the City of Cali (FY16–18) modernized the management process and consultation and tax payments for the municipality of Cali, its companies, and its citizens. Among the project's successes were strengthening the security of information, reducing the risk of corruption, shortening the time for the execution of tax processes, eliminating in-person taxpayer lines to receive tax forms, and improving overall attention to citizens and taxpayers.

Guatemala

Guatemala has one of the lowest revenue-to-GDP ratios in the world (10 percent) and widespread tax evasion. The World Bank correctly identified the following DRM constraints limiting fiscal capacity to deliver basic public goods and services: low tax rates, absence of a broader tax base, poor compliance with existing tax laws by firms and individuals, high tax expenditures (exemptions), and weak capacity for tax administration.

These challenges informed the CPF for FY17–20 under pillar 2, which aimed "to improve public resource management and accountability." Under the CPF, the World Bank designed two programs that focused on tax administration: (i) the Improved Governance of Public Resources and Nutrition DPF (FY17–20), which aimed to strengthen the regulatory framework to enhance tax administration, and (ii) the Transparency and Efficiency in Tax Administration Project (FY17–23), which aimed to modernize tax collection processes and strengthen tax and customs procedures. The latter was dropped after Guatemala's legislature failed to approve the project more than 18 months after Board approval. An ASA activity on Guatemala in 2018 addressed the introduction of fiscal rules, tax compliance, and tobacco taxation (World Bank 2018b). A regional ASA, Fiscal Management in Central America (FY15–17), was provided to improve fiscal rules and tax compliance. These projects were aligned with the government's K'atun 2032 National Development Plan to improve the regulatory and institutional challenges impeding improvements in tax administration, transparency, control, and accountability.

World Bank effectiveness was modest in strengthening tax administration. Under the First Improved Governance of Public Resources and Nutrition DPF, a prior action to support amendments to the organic Law of the Tax Administration Superintendence (including provisions to limit bank secrecy to enhance tax collection compliance) helped reduce noncompliance as a share of potential VAT revenues from 34.2 percent in 2015 to 26.3 percent in 2019, surpassing the CPF target of 29 percent. In 2020, tax revenue to GDP was less than 11 percent. As part of technical assistance under the ASA Fiscal Rules in Central America, the World Bank—in partnership with the United Kingdom's Behavioral Insights Team—supported the government in applying behavioral insights to motivate citizens to pay their taxes. Tax reminders sent by the Guatemalan Tax Authority were initially effective at increasing citizen tax declarations and payment, but interviews with stakeholders indicated that results were not sustained.

Guatemala was also the focus of Global Tobacco Control Program–supported analytical work on tobacco taxation, which recommended, among other things, changing the ad valorem excise system for cigarettes to a specific excise system with a uniform excise rate in monetary terms. It also recommended that the specific excise rate be increased annually to ensure a reduction in tobacco affordability and an increase in excise revenues (World Bank 2019b).

Kenya

The relevance of the World Bank's support to address DRM issues in Kenya was low at the outset of the evaluation period. The Country Partnership Strategy (FY14–21) failed to recognize early signs of sliding revenue performance and did not have explicit DRM-focused objectives, pillars, and interventions or associated results indicators. One reason was a view held within the World Bank that the priority at that time was to support a transition from public sector–driven growth toward private sector–driven growth, and that fiscal consolidation should be driven by rationalizing public expenditure. Still, the World Bank pursued extensive analytical and advisory work on DRM. Topics that were tackled later informed lending operations and government reform regarding revenue forecasting and reduction of income tax and VAT exemptions.

In August 2018, at the government's request, a retreat was organized to support research on tax expenditure, simplification of the tax regime, and revenue forecasting. World Bank's knowledge product Kenya Tax Policy Studies on Value-Added Tax and Corporate Income Tax, published in 2017, was effective in driving discussion on tax exemptions and their cost in foregone revenue collection. However, it did not result in increased revenue collection.

Only modest progress was made, despite the World Bank's extensive production of 13 DRM-relevant ASA, to inform operations supporting DRM. The Kenya Petroleum Technical Assistance Project (FY15), which provided training for staff at the Kenya Treasury and the Kenya Revenue Authority in forecasting, collecting, and managing oil revenues, had limited relevance to the DRM agenda. However, according to government officials, the capacity-building activities enhanced revenue collection through withholding taxes from subcontractors working on associated projects. The Governance for Enabling Service Delivery and Public Investment Project (FY18), a Program-for-Results, provided training to 11 staff of the Kenya Revenue Authority on revenue modeling and forecasting. The project aimed to reach a target of 94 percent of domestic revenue collection as a percent of the annual budget, but it fell short, partly because of the COVID-19 pandemic.

The Kenya Inclusive Growth and Fiscal Management DPF was a breakthrough in DRM. The DPF included prior actions to enact the Finance Act 2018 to remove VAT exemptions on petroleum products and adopt a governance framework for granting tax exemptions to avoid the creep in tax exemptions and arrest the decline in tax revenues. The act introduced an 8 percent VAT on petroleum products that yielded additional revenue estimated at 0.15 percent of GDP over the first seven months of implementation. Despite these efforts, according to the IMF, VAT and income tax as percentage of GDP decreased from 11.8 percent in FY18/19 to 10.7 percent in FY19/20, falling short of the 2021 target of 12.1 percent.

Madagascar

The World Bank contributed to modernizing Madagascar's tax and customs administrations, improving revenue collection (particularly from natural resources), and boosting local capacity to manage revenues from mining operations. It identified weak DRM as a major development constraint (World Bank 2015c), with root causes in weak tax and customs administration, noncompliance and tax evasion, a narrow tax base, limited fiscal decentralization, and extensive tax exemptions. The World Bank increased its lending in coordination with the European Union. Two TADAT assessments (2015 and 2021) informed the World Bank's engagement during the evaluation period, and two customs reform ASA activities guided the client's adoption of performance management and risk-based auditing within its customs administration. Other nonlending support included a 2014 DRM Policy Note and influential ASA in 2019 on combating corruption and tariff evasion (World Bank 2022b).

The Public Sector Performance Project (FY16–22) included support to improve and consolidate taxpayer registration and identification, modernize the country's integrated tax administration system, strengthen risk-based audit function and controls, introduce performance-based management to the tax and revenue agencies, and improve revenue collection in the mining sector. The Public Sector Performance Project was instrumental in piloting TADAT. More than 100 tax officers were trained and certified in TADAT, at central and local levels. This increased capacity to conduct TADAT self-assessments led to the design of a strategic tax reform plan, the adoption of an annual review process, and increased ownership of reform efforts. The three-operation programmatic DPO series supported prior actions to disclose the list of enterprises granted tax benefits under the free-zone regime, tighten the scope of customs exemptions, and boost customs administration by expediting the customs clearance process and establishing performance contracts for customs inspectors at Toamasina port.

Several interventions to support DRM were unsuccessful. Although the World Bank supported disclosure of a summary of all tax expenditures in the annual budget law, this did not contribute to a significant increase in revenue. Far from supporting the government in meeting its targeted reduction of about $24.8 million in tax exemptions, tax expenditures eliminated during the Public Finance Sustainability and Investment DPO series (2016–18) were less than $0.4 million, and in 2017, the government approved additional tax benefits for special economic, industrial, and agriculture zones. Additionally, the World Bank dropped the establishment of a single administrative identification number to inform revenue mobilization because of lack of progress on the client side. Implementation was delayed due to difficulties in appointing the entity in charge of managing the identifier during a politically unstable period (elections).

Pakistan

Over several years, both the IMF and the World Bank undertook significant diagnostic work to address persistently low DRM in Pakistan, which was characterized by distortive, inequitable, and tax base–reducing special regulatory orders and exemptions. This was the main mechanism for granting exemptions.

Pakistan's revenue performance improved significantly under two DPOs. The First and Second Programmatic Fiscally Sustainable and Inclusive Growth

Development Policy Credits (FY14–15 and FY15–16, respectively) aimed to "mobilize revenue while expanding fiscal space to priority social needs" (World Bank 2020c, 1). Through a prior action to support a legal amendment to permanently eliminate the discretion of the Federal Board of Revenue in issuing special tax exemptions, overall tax collection reached 12.4 percent of GDP in FY15–16, a significant improvement over the target of 11.5 percent of GDP. The government was also able to curtail the Federal Bureau of Revenue's use of special regulatory orders. IEG found that the Fiscally Sustainable and Inclusive Growth program contributed to a significant improvement in Pakistan's revenue performance over the review period (World Bank 2020c). The Federal Bureau of Revenue no longer had the discretion to issue special tax exemptions, and proposing exemptions was now subject to parliamentary approval. There was a significant reduction in tax concessions and exemptions, as well as improvements in tax compliance and enforcement, both of which caused the tax-to-GDP ratio to increase by nearly 2.5 percentage points over 2013–17.

Building on this achievement, the Competitiveness and Growth DPF operation (FY16–17) included prior actions to eliminate the discriminatory tax concessions granted through statutory regulatory orders, estimated at 1 percent of GDP. These prior actions were as follows: (i) the recipient has posted improved processes to simplify and streamline the payment of taxes on the website of the Federal Board of Revenue, and (ii) the recipient has started to implement a new audit policy that includes risk profiling of taxpayers for improved tax compliance. The Federal Board of Revenue did implement an audit policy that included risk profiling of taxpayers by initiating 40 comprehensive audits of large taxpayers.

The Fiscally Sustainable and Inclusive Growth program contributed to a significant improvement in Pakistan's revenue performance, but this gain was not sustained. The tax-to-GDP ratio increased by nearly 2.5 percentage points of GDP during 2013–17, exceeding the Fiscally Sustainable and Inclusive Growth program target because of a significant reduction in tax concessions and exemptions, increased rates on withholding taxes (income taxes), and improvements in tax compliance and enforcement. Progress in tax policy and administration was made at both the federal and provincial levels.

After reaching its peak of 12.9 percent of GDP in FY17–18, tax collection deteriorated to about 11.6 percent in FY18–19 because of a major reemergence of tax expenditures. Critical reforms stalled because of opposition from privileged interest groups, and Pakistan's tax revenue remains substantially below 15 percent of GDP.

Pakistan benefited from analytical work on tobacco taxation though the Global Tobacco Control Program, which recommended, among other things, to increase the excise rates annually by at least 30 percent for lower tier cigarettes and by at least 15 percent for higher tier cigarettes to ensure a reduction in cigarette consumption as well as growth in tobacco revenue.

Rwanda

A 2015 TADAT assessment in Rwanda identified a weak taxpayer database, inadequate risk management practices, weak VAT administration, and tax arrears. TADAT and Public Expenditure and Financial Accountability assessment results informed the Public Sector Governance Program-for-Results (FY15–18). The Program-for-Results supported activities related to the removal of nonfilers and nonpayers, and taxpayers registering under the correct VAT codes broadened Rwanda's tax base and strengthened tax compliance. These efforts led to a 27 percent increase in the number of taxpayers between 2016 and 2019 (Rwanda Revenue Authority 2019).

Program-for-Results support for the implementation of the electronic billing machine improved VAT revenues and tax compliance. According to the Rwanda Revenue Authority (2019), the number of electronic billing machines grew by 45 percent from 2016 to 2019. This helped modernize the tax system, which resulted in a continuous increase in tax revenues during the evaluation period, according to the Completion and Learning Review for Rwanda's Country Partnership Strategy FY14–18. By the end of the project, all 30 districts in Rwanda had adopted the e-tax platform. Between 2016 and 2019, tax revenue increased by 29 percent. Similarly, local government taxes and fee collection increased by 27 percent. The time spent paying taxes was reduced significantly, from 109 hours in 2016 to 91 hours in 2019 (World Bank Group 2019).

[1] See the 2023 Independent Evaluation Group Evaluation Insight Note on domestic revenue mobilization.

5 | Findings and Recommendations

The World Bank scaled up its support for domestic revenue mobilization (DRM) between 2016 and 2019, especially to International Development Association–eligible countries and in Sub-Saharan Africa. An increase in operations supporting tax policy reform was particularly pronounced in development policy operations (DPOs). Recently, the number of diagnostic tools on DRM has increased significantly. Each has potentially important value added in informing policy dialogue, operational design, and priority setting, but there is no clear framework to guide task team leaders in setting priorities for reforms and capacity-building support across tax issues.

The availability of funding through the Global Tax Program has allowed the World Bank to increase its analytical support to client countries for DRM and improve the analytical foundations of DRM work more broadly. At the same time, it presents challenges in ensuring that this valuable analysis is sufficiently well integrated into operational work and priority setting.

Ramping up DRM support has intensified pressure on limited regular staff and an increasing cadre of consultants. Significant staff turnover and several shifts of responsibility for tax issues within the institution have exacerbated the pressures and made continuity more challenging. On the positive side, important improvements were made in collaboration with development partners.

Green and health taxes took on greater prominence in the evaluation period, though from a low level. The work of the Global Tobacco Control Program has been particularly effective, making extensive use of collaboration across Global Practices and with external partners.

Attention to the *expected* distributional implications of DRM interventions has increased in low-income countries, from a low level, but was less evident in operations in middle-income countries. Reporting of the ex post impact of tax reform was infrequent in Implementation Completion and Results Reports.

Results from investment projects supporting DRM were generally favorable. The share of investment projects rated satisfactory was 41 percent, with 35 percent rated moderately satisfactory. DRM-related investment projects were more likely to have satisfactory outcome ratings than other World Bank investment projects.

DPOs showed a marked improvement in achievement of DRM-related objectives, although the indicators used to measure impact were often inadequate. Targets for DRM-related results indicators in DPOs were largely achieved, but results indicators were often too high level or did not adequately capture the impact of prior actions or progress toward objectives.

Case study analysis suggests that results from DPO-supported DRM policy reforms were often not sustained. Even for operations that recorded significant achievements at closing, progress was frequently reversed over time because of policy reversals. This was particularly the case for reductions in tax exemptions and tax expenditures.

Staff self-evaluations at the project and operation levels yielded few DRM-related lessons, suggesting scope for greater attention to learning from experience with DRM-focused projects and operations.

This evaluation finds that the World Bank scaled up its support for DRM between 2016 and 2019, especially to IDA-eligible countries and in Sub-Saharan Africa. Support was greatest in countries with lower revenue-to-GDP ratios and in the South Asia Region. At the same time, the tax-to-GDP ratio for low- and middle-income countries continued its declining trend (even before COVID-19).

The increase in support for DRM has put greater demands on limited regular World Bank staff and an increasing number of consultants—significant staff turnover and several shifts of responsibility for tax issues within the Bank Group over the past decade have exacerbated pressures and made continuity more challenging. The shifting responsibility for tax issues has complicated the World Bank's ability to have a long-term, integrated strategy and vision and budgetary predictability for DRM. The creation of the Global Tax Program in 2018 has improved the predictability of funding, but the heavy reliance on consultants has exacerbated challenges for internal collaboration and continuity, with some exceptions such as work on tobacco taxation.

World Bank interventions and priorities in support of DRM at the country level were generally well grounded in analytical work that identified major country-specific constraints to DRM. At the same time, the number of tax tools and diagnostics from within and outside the World Bank has increased significantly. These include TADAT, three new tool kits on international tax, tax treaty explorers, the Innovations in Tax Compliance Conceptual Framework, Commitment to Equity Assessment Diagnostic Framework tools, Tax DIAMOND, microsimulation models, tax analysis modules (tax policy assessment frameworks), tax gap models, and tax incentive analyses. Each one focuses on a distinct dimension of DRM and has potentially important value added in informing policy dialogue, operational design, and priority setting, but their proliferation puts pressure on the capacity of task team leaders (many of whom are not tax experts) to effectively identify and prioritize reforms and constraints with the greatest potential for impact at the country level. Although medium-term revenue strategies under the PCT have potential to generate an integrated perspective on country-specific needs and reform priorities, the PCT is not yet able to provide a framework to prioritize *across* tax objectives that can be easily drawn on to directly and routinely inform priorities in CPFs, CPF updates, and the articulation of prior actions in DPOs.

The World Bank has significantly scaled up awareness and advocacy for the use of health taxes as a source of revenue, to preserve human capital, and to reduce already heavily burdened health systems in developing economies. The health taxes program has made a significant contribution to analytical work and to raising awareness of the win-win potential of these taxes and reforms in a number of countries. Demand for health tax interventions has grown substantially from a very low base, and it is expected to continue growing rapidly. Green and health taxes took on greater prominence in the evaluation period, though from a low level, reflecting the evolution of the international policy agenda. Although evidence is limited, prior actions in this area have generally been successful in achieving targeted outcomes.

Attention to the expected distributional implications of DRM interventions has increased from a low level in low-income countries but has not gained prominence in middle-income countries. Analytical work on the distributional implications of tax policy increased relative to the previous three-year period, although there is still little work to do at the country level on the incidence of proposed tax reforms (that is, which groups are most likely to shoulder the effective burden of tax reforms). The World Bank has generally paid attention to the *expected* distributional impacts of DRM interventions but has paid less attention to ex post impacts.

Operations have increased emphasis on tax policy reform. This was particularly pronounced in DPOs, where prior actions often supported changes in tax rates (VAT, corporate income tax, and personal income tax) or reductions in tax expenditures and exemptions.

More than two-thirds of DRM-related DPO results indicators achieved their targets, but many of these indicators had weaknesses. Many DPOs approved over the evaluation period have not yet been evaluated, but targets for DRM-related results indicators were generally met, though case study evidence shows that progress was often not sustained. Moreover, many of the results indicators intended to capture the impact of DRM-related prior actions showed several weaknesses, limiting their value in capturing actual impact. Higher-level indicators, such as revenue-to-GDP ratios, may be appropriate for longer-term country strategies and programs, but they are used excessively where more focused alternatives would be better to measure impact at the level of individual operations.

The World Bank increased its use of prior actions in DPOs to support the reduction of tax exemptions over the evaluation period. Approaches varied, with prior actions seeking to increase transparency regarding tax expenditures, eliminate exemptions, and strengthen accountability in granting exemptions. However, case study evidence suggests that tax policy reforms supported by DPOs were often reversed after disbursement, even for operations that recorded significant achievements shortly after closing. Risks often materialized, even though the preparation of projects and operations regularly involved political economy analyses and project documents identified related risks (with varying degrees of specificity). Although informed risk taking should not be discouraged, this suggests the need for more concrete mitigating measures. For example, sequencing and complementarity of instruments supporting DRM need to be considered more strategically, and prior actions should be designed with an aim of making their reversal more difficult. For tax exemptions, changes in governance frameworks that made it more difficult to grant exemptions tended to be more resilient, whereas eliminating specific exemptions was often overridden over time under pressure from vested interests.

How easily some World Bank–supported tax policy reforms can be reversed points to potential tension between the successive provision of budget support to clients that fail to make concrete and sustained progress on DRM. Specifically, the provision of budget financing can reduce how urgently clients approach DRM and the priority they assign to sustaining progress. This suggests that a failure to make and sustain progress on DRM should be considered more explicitly in deciding on the size and frequency of subsequent budget support, at least outside the context of countercyclical support during a crisis.

Staff self-evaluations of operations and projects yielded few DRM-related lessons, and those were insufficiently specific. Only 3 of 60 closed operations and projects that focused on DRM had DRM-specific lessons. Moreover, when reported, the lessons were generic, suggesting minimal value added in informing future interventions supporting DRM. This suggests scope for greater attention to learning from experience with DRM-focused projects and operations.

Recommendations

Given the fungibility of financing, the following recommendations recognize the enabling role that improved DRM plays in promoting a wide range of country-level development objectives across sectors, including health, education, climate adaptation, and infrastructure development and maintenance. As such, efforts to improve DRM should be seen as contributing directly to ensuring the availability of more predictable financing for development priorities such as achievement of the SDGs and the twin goals. They should not be viewed in isolation. That said, support for DRM should also recognize that willingness to pay taxes is partly a function of the degree of confidence taxpayers have in their governments and of the quality and accessibility of the public services they provide.

IEG's recommendations are largely consistent with or build on the World Bank DRM Approach to Implement Green, Resilient, and Inclusive Development as presented to the Board in June 2021, in which World Bank management pointed to the need to increase human and financial resources dedicated to DRM. In the presentation (World Bank 2021b), World Bank management expresses the intention to

- Scale up country support to reshape fairer, equitable, and greener tax systems based on country priorities and demands;
- Introduce DRM-related activities into World Bank operations, from the CPFs and Systematic Country Diagnostics to lending operations and technical assistance; and
- Increase World Bank's human and financial resources to timely respond to greater demands from countries for support to address current revenue challenges, and to help them prepare for future challenges. This could involve mainstreaming DRM experts in regional Equitable Growth, Finance, and Institutions units.

More resources may be warranted, but there is scope for the World Bank to make better use of the resources it currently has for supporting DRM. In this spirit, the following recommendations are made and are particularly relevant in the wake of the COVID-19 pandemic (which has exacerbated preexisting DRM challenges) and because many lower-income countries face mounting risks of debt distress.

The following are the recommendations from this evaluation:

1. On a country-by-country basis, regularly take stock of the findings of the broad range of tax diagnostics tools and instruments to (i) identify knowledge gaps and (ii) more systematically inform priority setting for country-level policy dialogue, capacity building, and operations to improve DRM. Rigorous analysis and diagnostics are needed to inform country-specific DRM strategy and operational priorities, particularly in IDA-eligible countries. The range of specialized DRM tools and diagnostics from within and outside the World Bank is wide and increasing. Each may serve a useful purpose, but their proliferation risks complicating the ability of task team leaders (many of whom are not tax experts) to distill and set DRM reform priorities for inclusion in country strategies and budget support operations. Therefore, there is a need for a periodic country-specific stocktaking of diagnostic findings to identify information gaps and set priorities for analytical and operational World Bank support to improve DRM. The outcome of this exercise should be timed and used to inform Country Partnership Frameworks, CPF updates, and the identification of prior actions in DPOs.

2. Given the potentially large and regressive fiscal impact of tax exemptions, the World Bank should regularly assess the effectiveness and efficiency of tax exemptions in achieving country-specific policy objectives, with an eye to more actively supporting the sustainable reduction of regressive tax exemptions through policy advice and prior actions in DPOs. World Bank staff should be equipped with and regularly make use of tools to assess the merits of the existing stock of tax exemptions and tax expenditures in individual countries—particularly those with low tax-to-GDP ratios—and the results should inform policy priorities in Country Partnership Frameworks, policy analysis, and prior actions in DPOs.

3. The frequency with which tax policy reforms are reversed calls for strengthening incentives to sustain reforms and make reversal more challenging. As part of this effort, the World Bank should seek to support not only the publication of tax exemptions and expenditures but also ways to control the future proliferation of new tax expenditures and exemptions that undermine longer-term growth, equity, and accountability objectives. In efforts to reduce tax exemptions, and where feasible, prior actions should prioritize measures that improve the governance framework for granting exemptions. These efforts would also help alleviate the potential tension between the incentives for a country with a low tax-to-GDP ratio to improve DRM performance and the repeated provision of significant budget support by the World Bank.

4. Provide clearer guidance to staff on the choice of results indicators to measure the impact of DRM support, facilitate learning from experience, improve monitoring of progress toward DRM-related objectives, and promote an outcome orientation in the World Bank's support for DRM. Given how often shortcomings were identified in results indicators intended to capture progress on DRM, the World Bank staff needs more concrete and targeted guidance on good practice in defining results indicators for tracking the impact of World Bank DRM interventions. Improving the quality of DRM results indicators will facilitate learning from experience and strengthen the outcome orientation of World Bank support in this area.

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APPENDIXES

Independent Evaluation Group

World Bank Support for Domestic Revenue Mobilization

Appendix A. Evaluation Design and Methodology

The evaluation covers the activities and interventions intended to enhance domestic revenue mobilization (DRM)—strategies, financing and knowledge products, and collaboration with the International Monetary Fund—of the International Bank for Reconstruction and Development and the International Development Association (IDA). Findings and insights from earlier evaluations that cover DRM before 2016 were used as benchmarks in assessing the World Bank's more recent performance.

Evaluation Questions

The evaluation focused on the following questions:

1. Relevance: How relevant were World Bank strategies, activities, and interventions to enhancing DRM in World Bank client countries? Were World Bank interventions appropriate to individual country conditions?
2. Effectiveness: To what extent has the World Bank been effective in supporting client efforts to broaden tax bases, improve tax structures and equity, and strengthen tax administration? In achieving results at the country and intervention levels, what worked, what did not work, and why?
3. Complementarity: Were World Bank interventions to support client DRM complementary? Was complementarity with development partners pursued and achieved?

The evaluation used a multilevel mixed methods approach. Seven case studies were selected as a purposive sample from World Bank client countries to reflect diverse levels of DRM and of World Bank engagement, and a mix of low- and middle-income countries, with particular emphasis on Sub-Saharan Africa.

Design

The evaluation design matrix (table A.1) shows how different methods apply to different questions and different levels of analysis.

Table A.1. Evaluation Design Matrix

Evaluation Question	Dimensions	Total Portfolio Level	Country Level	Intervention Level/ Outcome Area Level
Background and descriptive analysis		» Literature review, portfolio analysis, theory of change review, statistical analysis of country data and indicators of DRM, and tax administration		» Characterization of typical interventions and their design and use in different country contexts
Relevance	» Alignment of DRM interventions with SCD and CPF » Client-driven, demand-driven approach in country context » Policy coherence of different DRM interventions		» Review of key country strategies, diagnostics, knowledge products, and SSIs with stakeholders in headquarters and during field missions » Template-based comparative analysis and narrative synthesis across cases to strengthen external validity	» Review of documents and SSIs for typical interventions

(continued)

Evaluation Question	Dimensions	Total Portfolio Level	Country Level	Intervention Level/ Outcome Area Level
Effectiveness	» Strategic CPF pillar performance » Project-level performance » ASA influence on government's policy and World Bank strategy and projects » Collaboration and coordination on DRM issues with the IMF at the country and intervention levels	» Review and comparative analysis of project-level validations (ICRRs) » PPAR evaluations of tax-centered operations » SSIs » Manual qualitative analysis, which may be supplemented by qualitative analysis of interview data to compare and seek patterns across cases » Statistical analysis, including DEA, to calculate efficiency scores on DRM across countries at the beginning and end of the evaluation period » Regression analysis to correlate efficiency scores with structural and policy variables and a variable capturing World Bank engagement	» Review of ICRRs, PPARs, CLRRs » SSIs » Narrative synthesis of comparative information across cases	» Develop causal pathways for selected cases » Template-based SSIs and desk review » Develop understanding of effectiveness along the causal pathway using triangulation within and across sources of data; enhance external validity through analytical generalization (finding commonalities in causal factors among typical cases and the broader portfolio)

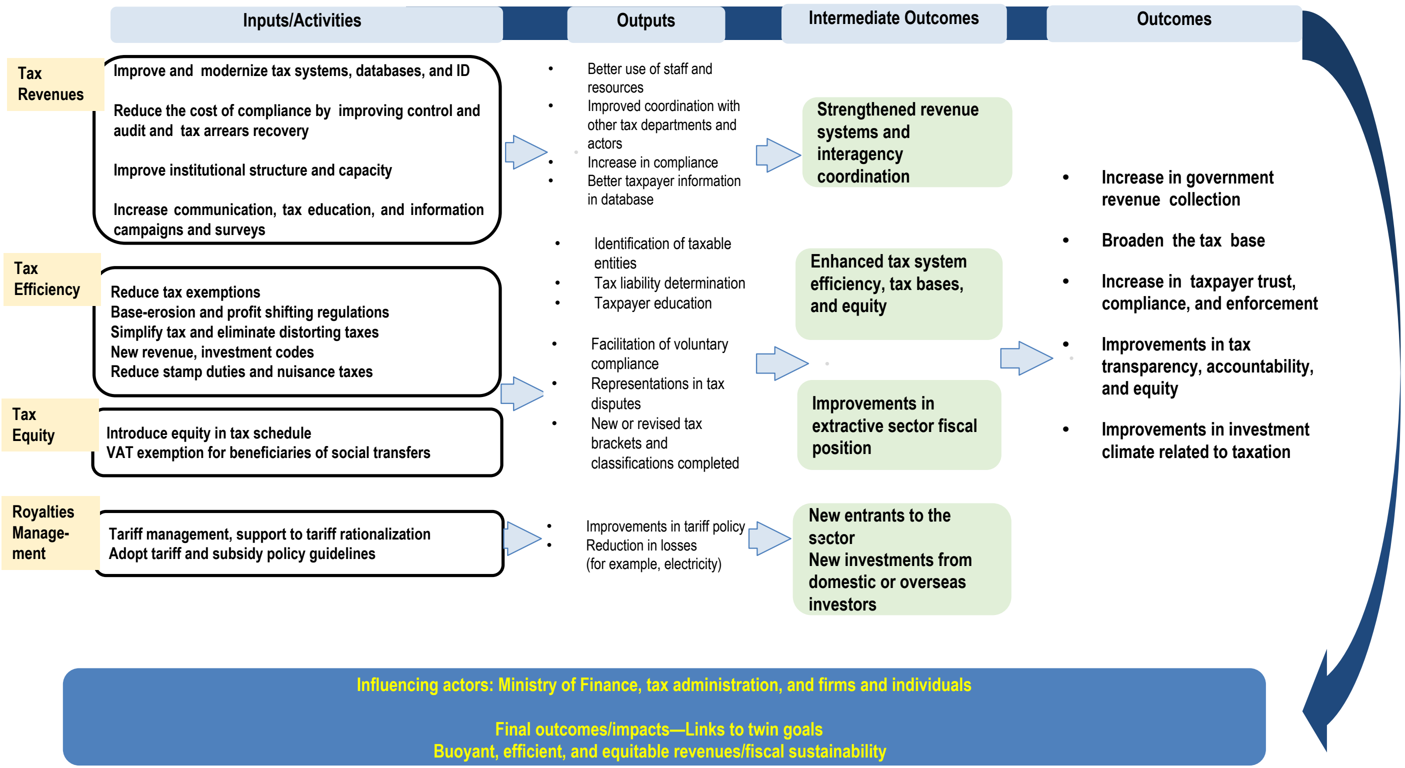
Source: Independent Evaluation Group.

Note: ASA = advisory services and analytics; CLRR = Completion and Learning Review Review; CPF = Country Partnership Framework; DEA = data envelopment analysis; DRM = domestic revenue mobilization; ICRR = Implementation Completion and Results Report Review; IMF = International Monetary Fund; PPAR = Project Performance Assessment Report; SCD = Systematic Country Diagnostic; SSI = semistructured interview.

Theory of Change

The theory of change posits that the Word Bank–supported country strategies; lending, projects, investments, and knowledge services; and coordination and complementarity with development partners—especially the International Monetary Fund—are important to support client countries to improve DRM at the country and global levels. It is based on an examination of past Independent Evaluation Group (IEG) evaluations related to tax issues, related literature on crisis preparedness, and interviews with World Bank (and development partner) staff to understand the World Bank's approach to DRM (figure A.1).

Figure A.1. Theory of Change for Domestic Revenue Mobilization



Source: Independent Evaluation Group.

Note: World Bank interventions interact with influencing actors at all stages of the results chain but are especially important in translating domestic revenue mobilization reforms and intermediate outcomes into final results. ID = identification; VAT = value-added tax.

Portfolio Identification

The identification of the DRM portfolio was done in two stages. The first stage identified a universe of projects that met specific criteria. The second stage involved a manual screening to rule out false positives and select only those with relevant DRM content. The project universe included projects approved or closed during the evaluation period, fiscal years 2016–19. The preevaluation period, fiscal years 2012–15, was used as a benchmark to assess the extent to which the World Bank scaled up its support for DRM activities in response to its international commitments, including at the Addis Ababa Third International Conference on Financing for Development.

Lending Activities

Projects were identified based on theme codes assigned by Operations Policy and Country Services:[1] tax policy (114) and domestic revenue administration (412). For development policy operations, IEG used the Operations Policy and Country Services prior actions database to confirm the use of theme codes at the level of the operation. Development policy operations included in the portfolio were those that had at least one DRM-related prior action. The portfolio was then screened manually to rule out false positives. IEG manually reviewed project development objectives, project components, and prior actions. The confirmed portfolio was divided into one or both of the two DRM themes.

Nonlending Activities

The identification of advisory services or analytics followed the following protocols:

- Approved during benchmark period or evaluation period
- Advisory services and analytics coded with at least one of the two theme codes:
  - 114: tax policy
  - 412: domestic revenue administration

This process yielded a final portfolio of 161 International Bank for Reconstruction and Development (IBRD) and IDA projects and operations: 60 investment projects (including 14 trust-funded activities) and 101 development policy operations with at least one DRM-related prior action. IEG identified 322 advisory services and analytics activities (tables A.2 and A.3).

Table A.2. Source and Volume of World Bank Support to Domestic Revenue Mobilization, FY16–19

	Commitments Approved during Evaluation Period		Active Portfolio at the Start of the Evaluation Period		Total	
	Projects (no.)	Commitment (US$, millions)	Projects (no.)	Commitment (US$, millions)	Projects (no.)	Commitment (US$, millions)
IPF	31	1,488	15	616.4	46	2,104
DPF	84	n.a.	17	n.a.	101	n.a.
Trust funds	9	68.5	5	47.7	14	116
ASA	322	88	n.a.	n.a.	322	88

Source: Independent Evaluation Group staff estimate from the World Bank Business Intelligence database, May 2021.

Note: ASA = advisory services and analytics; DPF = development policy financing; FY = fiscal year; IPF = investment project financing; n.a. = not applicable.

Table A.3. IBRD/IDA and Trust-Funded Projects and Operations with a Focus on Domestic Revenue Mobilization Tax Policy and Administration, FY16–19

Theme Code	Theme	Projects and Operations	ASA Activities
Overall universe total		207	322
114	Tax policy	24	162
412	Domestic revenue administration	47	40
114 and 412	Both	70	120
Non-DRM[a]	Projects not tagged to DRM themes	20	0
Final portfolio		161	322

Source: World Bank Business Intelligence database, April 1, 2021.

Note: ASA = advisory services and analytics; DRM = domestic revenue mobilization; FY = fiscal year; IBRD = International Bank for Reconstruction and Development; IDA = International Development Association.

a. "Non-DRM" refers to projects that were not tagged to either theme code (114 or 412) but were identified to contain DRM-relevant content. A few such projects were identified during the case studies.

Random checks were performed for inclusion and exclusion errors, which resulted in the adjustment of the portfolio by only a few interventions.

Semistructured Interviews

IEG conducted more than 180 semistructured interviews with World Bank staff at the corporate level (headquarters) and country office level; development partners, especially International Monetary Fund staff; and country stakeholders. In-depth interviews were conducted for country case study countries. Meeting notes from interviews were consolidated and analyzed within and across stakeholder groups, triangulating findings and identifying patterns.

Case Study Selection

IEG ranked countries using relevant indicators for the benchmark period (2012–15). Countries were ranked from highest to lowest in terms of average government revenue as a percentage of GDP. IEG identified countries with both investment project financing and development policy financing projects and operations with at least one DRM component or DRM-related theme. Using these criteria, IEG selected the following seven countries, which represent low-, medium-, and high-income countries:

- Madagascar (low revenue to GDP, at 10 percent)
- Guatemala (low revenue to GDP, at 11 percent)
- Pakistan (low revenue to GDP, at 14 percent)
- Chad (medium revenue to GDP, at 19 percent)
- Kenya (medium revenue to GDP, at 19 percent)
- Rwanda (high revenue to GDP, at 23 percent)
- Colombia (high revenue to GDP, at 29 percent)

The assessment of interventions followed the following steps:

1. Review the country portfolio to ensure that it included at least one typical intervention for IDA or the IBRD.
2. If "yes," identify a specific tax administration and advisory project to study at the intervention level based on the project's relative importance to the country's DRM engagement.
3. If "no," one or more selected country cases do not have a typical IBRD or IDA intervention, choose a typical intervention from that country's DRM portfolio.

The evaluation team drew on existing evaluative evidence for these projects (Implementation Completion and Results Report Reviews, Project Performance Assessment Reports). Studies also featured at least one in-depth review of interventions per country. This assessment provided a more granular view of what worked and did not work.

Case study interviews and consultations were conducted remotely because of the COVID-19 pandemic. With the support of World Bank task teams, IEG identified relevant government officials and development partners for interviews. Despite important challenges, IEG adjusted to the new remote environment and delivered all the planned building blocks of the evaluation and the resulting draft report.

Data Envelopment and Regression Analysis

The evaluation also included a nonparametric data envelopment analysis to calculate efficiency scores—gaps between the actual and potential levels of government revenues across countries for which data are available—as comparative and benchmarking evidence on DRM across countries (see Khwaja and Iyer 2014 and appendix C). This formed a basis for quantitative insights into the congruence and correlations between World Bank DRM engagements and efficiency of revenue collection across countries.

Reference

Khwaja, M. S., and I. Iyer. 2014. "Revenue Potential, Tax Space, and Tax Gap." Policy Research Working Paper 6868, World Bank, Washington, DC.

[1] The World Bank's theme coding system serves as the foundation for the analysis of and reporting on World Bank interventions. The World Bank's lending and nonlending support is assigned at least one theme code reflecting its purpose. A project can be assigned up to five theme codes. For lending, each theme code is assigned a percentage indicating the relative importance of the theme to the intervention. Themes can add up to more than 100 percent, reflecting the fact that a single intervention can relate to more than one theme.

Appendix B. Lessons on Tax Reform from Previous Independent Evaluation Group Evaluations

The Independent Evaluation Group has assessed World Bank support for tax reform on several occasions. This appendix summarizes some of the past findings and lessons.

The Independent Evaluation Group published a Learning Note in 2017 that reviewed World Bank support to tax policy and administration reform over the period of fiscal years 2005–15. The review covered 98 World Bank operations, of which 80 were development policy operations and 18 were investment projects. Seventeen International Finance Corporation advisory services on business taxation were also included.

Key Findings

Focus of Operations

Most World Bank interventions focused on tax collection, with only a few directly addressing tax efficiency (12.5 percent). Only two operations specifically sought to improve the tax system's progressivity.

Relevance and Quality of Design

Operations were well informed by analytical and diagnostic work, often drawing on the work of other institutions.

The Independent Evaluation Group rated domestic revenue mobilization–related relevance of objectives substantial or higher, while relevance of design tended to be rated lower.

There was room to improve monitoring of the outcomes of operations related to domestic revenue mobilization, with excessive use of the ratio of tax to GDP, an indicator that was often too broad to capture the impact of specific World Bank interventions. Only one operation included a measure of the direct effect of tax administration improvements on revenue collection.

Effectiveness

Tax administration measures were generally more successful at achieving their objectives than measures that supported tax policy or sought to improve tax system efficiency or equity.

Government support for domestic revenue mobilization reform frequently fluctuated during the life of an operation, with implications for front loading and sequencing reform.

Key Lessons

Government ownership is particularly important for politically sensitive tax reforms.

Because correcting structural issues requires long-term engagement, short-term interventions and stand-alone development policy operations are generally inadequate on their own to support tax reform.

Appendix C. Cross-Country Analysis of Domestic Revenue Mobilization Efficiency

This appendix describes cross-country analysis to estimate countries' domestic revenue mobilization (DRM) efficiency and assess the targeting of World Bank engagement in DRM across groups of countries. A nonparametric data envelopment analysis (DEA) was performed to rate each country's untapped potential in generating government revenue relative to its economic structure and constraints.[1] The DEA accounts for differences in economic fundamentals across countries that the literature has found influence revenue potential.

Summary of Main Findings

1. World Bank engagement in DRM appears stronger in countries with weak revenue mobilization outcomes (low ratios of revenue to GDP). This holds for both projects and operations and for advisory services and analytics.
2. World Bank engagement in DRM is not influenced significantly by revenue efficiency. Many countries with large, untapped revenue potential (low revenue efficiency) have little or no World Bank engagement in DRM.
3. The analysis suggests that overall, World Bank engagement in DRM tended to focus on those countries with the greatest need for intervention in DRM in the period 2016–19. Magnitudes of World Bank engagement in DRM do not seem to be strongly related to client natural resource endowments, tax policy, informal sector activity, or measures of social trust.

Data and Methodology

The analysis focuses on revenue mobilization outcomes in World Bank client countries in the evaluation period 2016–19.[2] The sample includes 118 countries, comprising 25 low-income countries, 45 lower-middle-income countries, and 48 upper-middle-income countries. Part of the analysis includes high-income countries as a benchmark group and data for the years 2008 to 2015 to identify time trends preceding the evaluation period. To limit the role of temporary fluctuations, most of the analysis is based on four-year averages covering the periods 2008–11, 2012–15, and 2016–19.

The frontier is defined as the maximum possible level of revenue for a given level of input. Countries' level of efficiency in mobilizing domestic revenues is then measured according to the distance (efficiency gap) to the estimated frontier. This provides an estimate of the revenue each country should be able to achieve based on what other countries with similar economic characteristics are achieving. Countries that generate more revenue (as a percentage of GDP) with the same economic characteristics (or countries that generate the same level of revenue with less favorable economic characteristics) are considered more efficient than others. Revenue-to-GDP ratios tend to be lower in countries with lower income levels.

The efficiency scores obtained are normalized to range between 0 and 1, where units located on the frontier are assigned the maximum value of 1. Scores close to 1 thus indicate that a country is achieving relatively high levels of revenue, given its economic conditions—that is, the country is efficient in generating revenue. Efficiency scores well below 1 indicate inefficiency or untapped potential.

Four economic variables are commonly identified as important determinants in this context: (i) per capita income levels, (ii) sectoral composition of output, (iii) international trade relative to GDP, and (iv) demographic composition as captured by the age dependency ratio. We aggregate these four main factors into a single composite measure, the DEA input index, which is a proxy of the economic structure that determines a country's revenue potential. To study the empirical relationship between World Bank engagement and estimated efficiency in DRM, we use the obtained DEA scores as the dependent variable in a panel regression, with the regressors listed in table C.1 (panel D).

Table C.1. List of Variables and Data Sources

Indicator	Description	Source
Panel A: Revenues (DEA output)		
Revenue	Government revenue, excluding grants (% of GDP)	ICTD/UNU-WIDER, Government Revenue Dataset
Panel B: Economic fundamentals (DEA input index)		
Per capita income	GDP per capita, PPP (constant 2017 international dollars)	World Bank, *World Development Indicators*
Share of agriculture in GDP	Agriculture, forestry, and fishing; value added (% of GDP)	World Bank, *World Development Indicators*
Trade openness	Trade (% of GDP): sum of exports and imports of goods and services measured as a share of GDP	World Bank
Age dependency ratio	Age dependency ratio (% of working-age population): ratio of dependents (people younger than 15 or older than 64) to the working-age population (those aged 15–64)	World Bank
Panel C: World Bank engagement		
World Bank engagement	World Bank's own commitment (% of GDP): total amount committed for projects related to domestic revenue mobilization by approval fiscal year as a share of the recipient country's GDP (scaled by factor 1,000 for better readability)	World Bank (public and internal data) as reported in Bogetić, Naeher, and Narayanan (forthcoming)
Panel D: Other factors (regressors)		
Tax policy	Score on CPIA indicator "efficiency of revenue mobilization" (values from 1 = low to 6 = high)	World Bank, CPIA database
Control of corruption	Score on "control of corruption" indicator (values from −2.5 = weak to +2.5 = good governance	Worldwide Governance Indicators database
Informal sector	Informal employment (% of total nonagricultural employment); harmonized series	International Labour Organization Department of Statistics

(continued)

Indicator	Description	Source
Technological readiness	Score on GCR 2016–17 indicator "ninth pillar: technological readiness, index" (values from 1 = low to 7 = high)	World Economic Forum, GCR
Trust	Percentage of respondents stating, "Generally speaking, most people can be trusted"; survey waves mapped to four-year periods as follows: survey 2005–09 (period 1), survey 2010–14 (period 2), survey 2017–19 (period 3)	World Values Survey
Natural resources	Total natural resources rents (% of GDP): sum of oil rents, natural gas rents, coal rents, mineral rents, and forest rents	World Bank, World Development Indicators database

Source: Bogetić, Naeher, and Narayanan, forthcoming.

Note: CPIA = Country Policy and Institutional Assessment; DEA = data envelopment analysis; GCR = Global Competitiveness Report; GDP = gross domestic product; ICTD = International Centre for Tax and Development; PPP = public-private partnership; UNU-WIDER = United Nations University World Institute for Development Economics Research.

Results

When DEA is applied to account for differences in countries' fundamental economic structure, the results show that many low-income countries—despite featuring lower revenue-to-GDP ratios—are more efficient in generating revenues than countries from higher income groups. The analysis finds that these ratios are not an adequate indicator of the efficiency of government revenue mobilization, given the economic structure and associated capacity to raise revenues.

At the same time, the results show that countries with large, untapped potential for increasing government revenues are not concentrated in a particular income group or geographical region—all income groups and regions cover wide ranges of DEA scores. Efficient government revenue mobilization appears to be a challenge across income groups (including across countries with different revenue-to-GDP ratios).

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Khwaja, M. S., and I. Iyer. 2014. "Revenue Potential, Tax Space, and Tax Gap." Policy Research Working Paper 6868, World Bank, Washington, DC.

[1] Data envelopment analysis is a nonparametric method for estimating production possibility frontiers based on linear programming, which is used to rate countries' performance relative to that of other countries facing similar conditions. Some methodological background is provided in Bogetić, Naeher, and Narayanan (forthcoming).

[2] For a more detailed presentation of the underlying methodology and results, see the background paper prepared by Bogetić, Naeher, and Narayanan (forthcoming).

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