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# TAXATION, RESOURCE MOBILISATION AND STATE PERFORMANCE

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# Taxation, Resource Mobilisation and State Performance

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This paper presents the findings of research on the political economy of taxation undertaken in several countries by the Crisis States Research Centre.[1] The countries considered in the research are Zambia, Rwanda, Mozambique, Uganda, Tanzania, Democratic Republic of Congo, Afghanistan, the Philippines and Colombia.

The paper has five main aims. First, it will identify how patterns of taxation contribute to state capacity, and in particular how taxation can be a useful indicator of identifying the extent to which a state tends to be more fragile or more resilient. This follows a long line of research that links state formation and consolidation to the capacity of the state to tax (Schumpeter 1918 [1954]; Tilly 1990; Brewer 1990). Second, it will explore the political economy of taxation, and in particular, the relationship between elite bargains and patterns of taxation. While there has been considerable work on the politics of taxation (Lieberman 2003; Bräutigam et al. 2008), much of this literature ignores how processes of maintaining political stability affect taxation capacity and patterns. The Centre's work has focused on how and why the nature of elite bargains is central to understanding patterns of fragility and resilience across polities (e.g. Di John 2010a; Lindemann 2009, 2010; Hesselbein 2009). The main aim here will be to suggest how taxation reflects the nature of elite bargains and, in turn, how the dynamics of elite bargains affect tax patterns and capacity. This type of analysis moves well beyond traditional economic and administrative approaches, which treat taxation as a technical exercise in optimal policy and institutional design, devoid of political economy considerations (Newberry and Stern 1987; Burgess and Stern 1993).

The third aim of the paper is to assess how aid flows and multilateral donor reforms affect patterns of state building. In particular, we will focus on the extent to which aid creates problems of the 'dual-public sector'; that is, when only part of the funds deployed in delivering public goods are channelled through the state, while an important part are channelled directly to sub-national or non-state actors (Boyce 2008: 14). It will also consider the extent to which project aid, which is often delivered 'off-budget', can have a negative effect on the politics of the budgeting and ultimately state legitimacy. Fourth, the paper considers the links between taxation and production strategies; that is, the extent to which taxation is developmental. In particular, it will focus on mining tax regimes and how this affects production, tax collection and the elite bargain. Finally, we will provide policy implications that emerge from the research and suggest areas for further research.

The tax-reform process has been well documented in most IMF staff reports on each of the countries, the Centre's tax-revenue profiles and feature in individual tax papers (e.g. Di John 2010b on Zambia), so will not be the focus here. However, despite differences in timing, the general patterns of tax reform in the cases, as elsewhere, are as follows. Since the mid-1990s, tax reforms were part of economic liberalisation packages. Thus reductions in trade taxes

[1] I would like to thank Bill Byrd, Sean Fox, Harris Gazdar, Antonio Giustozzi, Tom Goodfellow, Joe Hanlon, Gabi Hesselbein, Thandika Mkandawire, Mick Moore, James Putzel and Olivier Ray for helpful comments on an earlier draft of this paper.

were commonly replaced with increases in VAT, though the latter did not often completely replace lost trade taxes.[2] Corporate and personal income tax rates declined from averages of 35-40 percent to 25-30 percent. Following IMF advice, there has also been a trend to simplify and broaden tax bases, particularly with the emphasis on the widening and simplification of value-added taxes (VAT). Semi-autonomous revenue authorities were created in all the African economies in the study, generally under the supervision of the finance ministry. In addition, tax collection changed from being organised around the types of tax collected to types of taxpayers. This is reflected in the creation of Large Taxpayers Offices (LTOs) and offices for small and medium taxpayers. In countries with substantial mining (such as DRC, Zambia or Tanzania), multilateral donors in the 1990s pushed for very investor-friendly mining tax regimes that included very low royalty rates and substantial tax holidays to promote investment (Hesselbein 2009; Di John 2010b).

### Why Taxation Matters for State-Building and Development

The process of tax collection is one of the most powerful lenses in political economy to assess the distribution of power and the legitimacy of the state and of powerful interest groups in civil society. Douglass North (1981: 21), for instance, defines the state in terms of taxation powers: ‘an organization with a comparative advantage in violence, extending over a geographic area whose boundaries are determined by its power to tax constituents’. Long before that Edmund Burke remarked: ‘Revenue is the chief preoccupation of the state. Nay more it is the state’ (quoted in O’Brien 2001: 25).

Taxation is inherently political. In the early twentieth century Joseph Schumpeter ([1918] 1954) wrote: ‘Taxes not only helped create the state; they helped form it’. He also famously observed: ‘The fiscal history of a people is above all an essential part of its general history’. Indeed, there is a long history of thinking in political economy and history that links the process of state building with the capacity of rulers to collect taxation (Tilly 1990; Brewer 1990). Moreover, the collection of tax not only requires substantial coercive power, but more importantly requires a state to be legitimate, since the vast majority of tax is collected when there is a high level of voluntary compliance (Levi 1988). Thus, the manner in which a state collects tax is as, if not more, important than the levels of tax collected. High levels of coercion or even predation in tax collection are often signs of the illegitimacy of the state.

Tax collection reflects basic core capacities of states to collect vast amounts of information, which is essential for the formulation of informed policy decisions. The administrative apparatus required to collect and monitor the information required to develop a tax base is one of the most challenging technical and political functions a state can undertake. Thus taxation has always acted as a key incentive for states to create competent bureaucracies.

Taxation is also one of the few *objective* indices we have that measures the power, authority and legitimacy of the state (in this case, to mobilise resources). Tax data is relatively easy to collect and is generally reliable. Other well known indices of governance such as ‘corruption’ or ‘participation’ are much more indirect and vague as measures and rely on subjective surveys. Moreover, what citizens and governments are prepared to pay for is one of the best indicators of genuine political ownership of development objectives (DFID 2008).[3] Indeed,

[2] However, see Keen and Mansour (2010) for a discussion of the extent to which reductions in trade tax revenue were replaced by domestic revenue sources in Sub-Saharan Africa.

[3] Because of the collection action problem inherent in the financing of public goods, tax collection also requires coercion for it to be effective (Olson 1965: 98-102). Olson (1965: 173) points out that the provision of collective goods can generate divisiveness and conflict in a society. This is because the coercive provision of a collective

much of the discourse on governance and state building has taken place without incorporating analysis as to how states are to finance their most basic functions. Issues of democratisation and transparency are important, but one has to ask where and how the domestic resources to finance public goods and services (both crucial for building state legitimacy) will be generated.

In sum, taxation and tax reform are central to state building for several reasons. First, governments must be able to ensure sustainable funding for social programmes, and for public investments to promote economic growth and development. Because aid generally diminishes over time and is often volatile, domestic resources are necessary to sustain these institutions and programmes. Second, taxation is the main nexus that binds state officials with interest groups and citizens. Not only can taxation enhance government accountability, it also provides a focal point around which interest groups (such as producers groups, labor unions and consumer groups) can mobilise to support, resist and even propose tax policies. In other words, taxation is as constitutive of state formation as it is of interest-group formation. Third, taxation – particularly in the form of land and property taxes, customs and border collection – can help increase the territorial reach of the state. The diversity of the tax base is a telling indicator of the ability of the state to engage with different sectors and regions, and is indicative of the degree to which state authority permeates society. There is a long history of evidence that supports the notion that economic and political development cannot easily happen without a consolidated central state. Fourth, fiscal capacities are needed to build a legitimate state. Democratic elections do not themselves ensure state legitimacy. Neither do 'quick impact projects' in which aid agencies seek to fill urgent needs. Legitimacy comes in large part from government delivery of services that people want and need. Elections provide an avenue for the citizenry to voice demands; responding to those demands requires capacity to mobilise, allocate and spend public resources effectively.

## Taxation as Indicator of State Performance

Tax collection provides a useful (but neglected) lens to assess state authority and capacity to mobilise resources. It also provides a useful objective indicator of governance and legitimacy in the sense that tax collection requires a large degree of voluntary compliance (Levi 1988).[4] In turn tax-collection capacity and the manner in which taxes are collected can give us important clues as to where polities lie on the spectrum between fragility and resilience (for a discussion of fragility and resilience, see Di John 2008; Putzel 2010a). There are several components of tax collection that matter.

### *Monopoly of Tax Collection*

First, the ability of the state to monopolise the collection of tax enhances state resilience. This is because it reduces the prospects of non-state actors financing rebellions and/or challenging state authority in the delivery of social services. Monopolisation of tax collection may reflect the extent of state resilience as much if not more than levels of tax collection per se. This point is often missed in general discussions on the relationship between tax capacity and state capacity. In our cases, in the post-1990 period, there are a range of outcomes in this regard. In Zambia, Rwanda, Tanzania and Mozambique (post-1992), the state has maintained a

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good does not necessarily align with individual preferences, which are likely to be diverse.

4 See Gutierrez et al. (2010) for an example of how taxation, combined with other indicators, can provide an improved measure of state performance than prevailing indicators.

monopoly over tax collection in the country even though there were substantial episodes of smuggling in the 1990s in all four countries.[5]

To take the case of Zambia, there are two main factors that have contributed to the monopolisation of tax collection. First, in colonial times, the British were successful in co-opting local chiefs/native authorities to collect tax as part of indirect rule. In fact, the colonial authorities implicitly provided incentives for native authorities to collect tax since successful tax mobilisation brought material rewards. Indeed, such tax-farming practices led to the rise of the so-called *Boma* class, which accumulated substantial amounts of capital as medium-sized and large-scale farmers (Chipungu 1992). At the same time, tax farming fuelled resentment among the larger population, and was one the focal points around resistance to colonial rule that ultimately led to the independence struggle (Chipungu 1992; Roberts 1976).[6]

Second, the extensive penetration of the state in nearly all sectors of the economy in the post-colonial period prevented non-state rivals from challenging the state's authority to collect tax. This was achieved through the extensive use of marketing boards in agriculture, price controls on key agricultural products such as maize, public enterprise production in mining (principally copper), manufacturing and services, and substantial control of the financial/banking sector (Di John 2010a). State control over most avenues of capital accumulation reduced the incentives for any one group challenging the tax capacity of the state.

A similar story would be applicable to Tanzania except for one factor, namely the ability of the ruling party, the CCM party to appropriate significant amounts of revenue, particularly at the municipal and regional level, and in various forms of agricultural marketing boards across the country (Fox, forthcoming 2010; Interview, IMF officials, Tanzania, September 2009). This has undermined the state's capacity to deliver core state functions and undermines its authority and legitimacy in the eyes of citizens, though not so far as to represent a challenge to state authority. This is because the polity is effectively a one-party state so the same organisation, the CCM, rules over tax appropriation though it does so in varied ways.

In Uganda, Colombia and the Philippines, there is significant tax collection capacity (especially in Colombia) and monopoly of tax collection in most part of the country, though there are territorially limited but significant episodes of non-state actors collecting or attempting to raise revenue. In the case of Uganda, the continued project of the Buganda Kingdom to build its own fiscal system by stealth, based on corporate, household and individual voluntary contributions operates as a potential rival to the state's monopoly over taxation. While this Bugandan initiative has not progressed very far, it is linked with the state's faltering ability to win a hegemonic position for state institutions over rival institutions, particularly those of the Buganda Kingdom (Putzel 2010a). Moreover, the Lord's Resistance Army in the North of the country has, in the past decade, been active in extracting tax from agricultural and cattle herders to finance armed insurgencies (Interview, Ugandan Revenue Authority officials, June 2010).

[5] See Di John (2010b) on gemstone smuggling in Zambia.

[6] In the post-colonial period, the authority and legitimacy of native authorities was greatly reduced because they were seen as collaborators of colonial rule. The decline of native chiefs' authority was further undermined when political party leaders in the post-colonial government reduced their role in the national government.

The Philippine state, while maintaining its authority under competitive politics from 1946 to 1972, during the dictatorship from 1973 to 1985 and since democratic restoration in 1986, has never enjoyed a full monopoly over taxation. Successive communist insurgencies throughout almost the entire period have established important revenue and taxation powers in the hinterland, and during their strongest moments were able to extract taxes from major landowning families and corporations. Muslim organisations struggling for autonomy in Mindanao have also developed their own forms of taxation. What is more, there has at times been a fine line drawn between major 'political bosses', who have occupied elected positions within the national and local state, having privileged access to rents through the state and having their own protection rackets and quasi-taxation powers sometimes used to finance private security, which while not deployed to overthrow the state, has given them leverage vis-a-vis other state actors (Putzel 2010b).

In Colombia, since at least the early 1990s, the failure of the state to control large parts of the territory has led to significant non-state rivals. Until recently, the Colombian Revolutionary Armed Forces (FARC) is reported to have issued a decree imposing a 2 percent wealth tax on those with net worth of more than US$1m, enforced through the threat of kidnapping for non-compliance. The National Liberation Army (ELN) collects a virtual toll fee on the use of the Bogota-Medellin highway by providing prepaid passes to allow use for trucking companies (Ramos 2010).

It should be noted while there is significant smuggling in the Philippines and Colombia, its effect on the conflict and violence (and ultimately resilience) is different than in Zambia or Rwanda. When communities, enterprises or those moving goods through the country are forced to buy protection from political organisations determined to challenge the authority of the state (Philippines and Colombia), this becomes an important source of conflict (Putzel 2010a). In Zambia, Tanzania, Mozambique and Rwanda there is no evidence that smuggling is linked to such organisations and thus has less negative impact on state resilience.[7]

Finally, in the cases of the DRC and Afghanistan, the state is far from having a monopoly over taxation, and as a result are the least resilient – that is, the most fragile – states. In the case of Afghanistan, warlords control many of the border cities and smuggling operations are controlled by many of the same groups (Giustozzi 2009). In fact, very little of the low tax base in Afghanistan is collected outside of the capital, Kabul though this has begun to change since 2007. In the case of the DRC, regional armed groups and local political bosses control much of the substantial smuggling of gemstones because there is a weak presence of the central state in border towns. As in Afghanistan, because smuggling is controlled by political organisations determined to challenge the state, substantial violence and conflict emerges (Putzel 2010a). Moreover, there is substantial evidence that high level state officials themselves have appropriated substantial amounts from secretive mining contracts with multinationals (Tax Justice Network 2010). It is thus important to remember that illicit activities of public officials can be a source of rival tax collection. In this case, the lack of any institutional checks on state officials is one source of the problem, though we will later argue that they may be part of the multiple elite bargains operating in the DRC (Hesselbein 2009).

[7] For an analysis on how economic policies affect the incentives for smuggling in the diamond sector, and how these outcomes affect tax revenue collection in Sub-Saharan Africa, see Oomes and Vocke (2003).

### *Territorial Reach of the State in Tax Collection*

The second sense in which tax collection both reflects and contributes to state resilience is through the territorial reach of the state. Once again, we have a range of outcomes across the cases. In Zambia, Tanzania, Mozambique, Rwanda, Colombia and the Philippines, there is near total control of most border stations, which allows the state to collect most customs/trade taxes though smuggling does continue. There are also tax offices present in all provinces and at all levels of government throughout the respective countries (Di John 2010b; Putzel 2010b, 2010c; Ramos 2010). This has clearly not been the case in Afghanistan and the DRC, where state control over customs collection has been much more limited and concentrated geographically in the capital city.[8]

The historical background to this territorial reach in taxation is closely related to previous agricultural policies. For example, even where marketing board policies were relatively ineffective, such as in Tanzania and Zambia, they have played an important role in increasing the territorial reach of the state, developing state-rural interest group links, and in providing social infrastructure and services. In these two countries, the reach of the state was a by-product of the development of nationally based political parties, which developed an inclusive system of patronage across all agricultural regions (Hesselbein et al. 2006; Di John 2010a). There is also evidence that the inclusive reach of marketing boards contributed to the maintenance of political stability and nation building in both these cases.[9]

Despite the widespread reach of the tax authorities, it is important to note that, apart from customs collection, in many of the countries the bulk (80 percent or more) of economic activity is largely concentrated around the capital city in most of the cases (e.g. Tanzania, Mozambique, Uganda, Rwanda) while in the DRC and Afghanistan, the capital city likely contributes more than 90 percent of total tax revenues. In this light, there are important links with the Centre's work on cities and its relationship to state building.

There are some interesting exceptions. In Zambia in 2009, the capital city, Lusaka, contributed 67 percent of tax collection while the Copperbelt region contributed nearly 25 percent (Di John 2010b). In Rwanda, the capital Kigali contributes approximately 50 percent of tax collection with the rest of the provinces contributing the other half in recent times (2007-8). In the middle-income country cases, Colombia and Philippines, tax collection is more geographically spread due to greater regional development in each of the latter two cases (Ramos 2010; Putzel 2010b).

### *Tax Effort and the Direct Income Collection*

State resilience is enhanced by its ability to maintain relatively robust levels of tax collection. This is because greater tax-revenue mobilisation increases the prospects of financing broad-based service delivery, and enhances the prospects of financing the security apparatus of the state. It also increases the scope of patronage spending towards political powerful constituents.

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[8] In Afghanistan since 2007, the state has extended its territorial reach in customs collections to most border stations, which may signal a gradual improvement in the state-building process.

[9] Further comparative historical work is required to assess the differential impacts marketing boards have had in state building and in enhancing the territorial reach and legitimacy of the state.

In addition to the levels of tax collection, the diversity of tax-revenue sources also matters for state resilience. There are several reasons for this. First, a state may have very high tax collection due only to mineral or fuel abundance. In this case (e.g. Angola) state leaders may not necessarily be accountable to their citizens because such revenues are ‘unearned’. This is because revenues flow into state coffers without leaders having to bargain with domestic interest groups over tax policy and tax collection. This can sever state-society links and lead to predatory behaviour on the part of state elites (Moore 2004). Second, increasing the diversity of the tax base, and not just relying on VAT, has been central to keeping tax revenues from collapsing in the face of trade liberalisation (IMF 2005). Finally, diversifying tax revenue towards personal and corporate income tax has important consequences for state resilience since it is a direct tax that is particularly effective in institutionalising state-citizen relations. This is because direct taxes tend to be most effective activating ‘voice’ among citizens (Lieberman 2002).

In our cases, there again is a wide range of performance in terms of both the levels of tax collection and the diversity of its sources (see Table 1). Zambia, a resilient state, is not only a relatively high tax-collection state, it also has a well diversified tax base with direct taxes contributing around one-third of all taxes. In more recent years, the share of direct taxes has reached 45 percent of total taxes (see Table 2). This is not only or mainly due to copper revenues as it has one of the highest rates of personal income tax as well (Di John, 2010b). In the period 2001-2005, total tax revenue in Zambia declined slightly, but still averaged over 17.5 percent of GDP (ibid.). However, the relationship between level and diversity is not straightforward. Tanzania, another resilient state, historically has had low tax collection, but a well diversified tax base with direct taxes contributing over 30 percent of revenues in the period 1984-2004 (Table 1) and 32 percent in 2007 (Table 2).

What is striking in Table 1 is that many of the low tax states (including those beyond the case studies such as Sierra Leone) have been vulnerable to episodes of political violence. These would include Mozambique, Rwanda, DRC and Uganda. It is also the case that Angola, a high tax oil state, has experienced prolonged civil war, though the extent to which oil states are more prone to political violence is debatable (Di John 2007). What is also striking is that successful cases of post-war or post-genocide reconstruction have been accompanied by improvements in tax collection and tax diversity. This has been the case in Rwanda, Mozambique and Uganda. In Rwanda, the tax take increased from 9 percent of GDP in 1994 to over 14 percent in 2008. In Uganda, the tax take increased from 7 percent of GDP in 1986 to 12 percent in the 2005, though it has stagnated since. In Mozambique, the tax take increased from 9.5 percent of GDP in 1995 to over 16 percent in 2008.

**Table 1: Level and Structure of Taxation in selected African Countries (Average 1984-2004)**
Source: adapted from Mkandawire (forthcoming)

| Country | Tax share | Trade Tax | Domestic Tax | Nontax Revenue | Direct Tax | Indirect tax |
|---|---|---|---|---|---|---|
| **Higher Tax States** | | | | | | |
| Angola | 32.08 | 4.73 | 12.82 | 10.24 | 71.34 | 18.42 |
| Botswana | 34.34 | 15.32 | 56.30 | 20.47 | 47.76 | 31.78 |
| Kenya | 18.75 | 17.10 | 17.96 | 14.69 | 29.38 | 50.68 |
| Malawi | 16.87 | 16.06 | 34.79 | 14.43 | 50.19 | 35.38 |
| South Africa | 23.14 | 3.62 | 34.33 | 7.01 | 54.26 | 38.51 |
| **Zambia** | **18.23** | **30.08** | **32.56** | **4.93** | **32.38** | **62.64** |
| Zimbabwe | 23.13 | 10.91 | 36.15 | 9.13 | 46.66 | 44.22 |
| Nigeria | 18.85 | 9.67 | 6.90 | 44.88 | 38.08 | 16.52 |
| **Lower Tax States** | | | | | | |
| Cameroon | 13.56 | 16.03 | 36.37 | 12.41 | 30.67 | 53.15 |
| **Congo. Democratic Republic** | **5.34** | **23.76** | **26.58** | **29.66** | **27.29** | **50.34** |
| Ghana | 14.15 | 25.90 | 36.33 | 14.13 | 22.09 | 62.83 |
| **Rwanda** | **9.89** | **31.83** | **39.63** | **56.12** | **24.79** | **72.14** |
| Senegal | 15.83 | 22.08 | 49.87 | 10.24 | 22.75 | 67.01 |
| Sierra Leone | 8.73 | | 17.34 | 5.06 | 22.45 | 66.29 |
| **Tanzania** | **11.36** | **25.15** | **28.58** | **8.66** | **31.86** | **53.73** |
| **Uganda** | **8.51** | **49.80** | **28.68** | **7.31** | **14.21** | **78.48** |
| **Mozambique** | **10.52** | **17.30** | **47.77** | **13.52** | **18.38** | **68.11** |

**Table 2: Share of Direct Taxes as a Percentage of Total Taxes, 2007**
Source: OECD (2010a)

| Country | Share of Direct Taxes (%) |
|---|---|
| South Africa | 55% |
| Zambia | 45% |
| Rwanda | 37% |
| Mozambique | 33% |
| Tanzania | 32% |
| Uganda | 26% |
| DRC | 18% |

The effort to diversify the tax base takes time as direct taxes in non-oil/mineral activities are among the more difficult types of taxes to collect both in technical and political terms. Both in historically resilient states (Zambia and Tanzania) and in the increasingly resilient post-war states (Rwanda, Mozambique), one sees relatively high shares of direct tax collection (see Table 2). Uganda has been less successful in diversifying its tax base towards direct taxes, and this coincides with prolonged insurgency and war in the North of the country. Despite these obstacles, the Ugandan state has increased the share of direct taxes from an average 14 percent percent of total taxes in the period 1984-2004 (Table 1) to 26 percent of total taxes by 2007 (Table 2).

In cases where the state remains fragile, the tax take has remained relatively low. The extreme case is Afghanistan where the tax take averaged 4.7 percent of GDP in the period 2003-5, though this ratio increased to 7 percent , in 2009 and is estimated to reach 8.8 percent , in 2010 (World Bank 2010).[10] In the DRC, the tax take averaged 6.5 percent of GDP in the period 2000-3 but increased to an average of 10 percent in the period 2004-5. However, the DRC remains ineffective in diversifying its tax base, as indicated in the very low share of direct taxes in 2007 (Table 2). In any case, a discussion of tax-base diversity becomes more trivial the lower the tax take is.

Finally, another more revealing way to assess the tax performance of the African cases is to examine their tax effort. A high tax ratio is not necessarily a good measure of a country's tax capacity and does not necessarily mean that a country with high tax share is exerting itself more than one with a lower one. This is 'because a higher share may be the result of "windfall gains" or accounted for by favourable structural variables or "tax handles" other than a government's own efforts, with the consequence that a country with a higher tax ratio may actually be collecting less tax than is warranted by these structural determinants'. A better index of a country's performance is tax effort, which measures the relationship between actual and potential levels of taxation (Mkandawire forthcoming).

Tax effort is defined as the ratio between actual tax share and the expected or predicted tax share. An index greater (or less) than one suggests that a country is collecting more (or less) than would be predicted given its economic structure.[11] Consider Table 3, which presents the tax effort of our cases, but excludes mineral-resource rents from the calculation.

**Table 3: Tax Effort in African Case Studies, 2007**
Source: OECD (2010a)

| Country | Fiscal Revenue per capita (US $) | Tax Effort Index (excluding resource rents) |
|---|---|---|
| Zambia | 219.2 | 1.29 |
| Uganda | 66.7 | 1.19 |
| Rwanda | 57.1 | 1.17 |
| Mozambique | 66.1 | 1.02 |
| Tanzania | 70.6 | 0.96 |
| DRC | 30.7 | 0.88 |

The exclusion of mineral and fuel revenues has several advantages. First, it allows us to examine the non-mineral/fuel components of tax collection: that is, domestic taxation. Second, it removes huge oscillations in revenue collection that occur during mineral and fuel price shocks. The evidence suggests that tax effort varies considerably across the countries

[10] In the case of Afghanistan, throughout most of the 2000s the state has been unable to raise enough revenue to fund even its own security-sector institutions (Manthri 2008).
[11] Other example of tax-effort calculations are Stotsky and Wolde-Marian (1997) and Cheibub (1998). For a discussion of some of the shortcomings of using tax-effort measures, see Bolnick (1978)

with Zambia, Uganda and Rwanda ‘overachieving’, while Mozambique and Tanzania are ‘performing as predicted’, with the DRC ‘underachieving’. The ranking of tax effort is not inconsistent with our notional ranking of state resilience and fragility. The DRC, being the most fragile, has the lowest tax effort while the other historically resilient states (Zambia, Tanzania) or increasingly resilient states (Rwanda, Mozambique) all have higher or even substantially higher tax efforts. That Tanzania does not score higher underscores that one indicator is never enough in assessing resilience; rather a combination of indicators is likely to create a more accurate picture of the extent of state resilience. In any case the very recent tax performance in Tanzania has been encouraging, as the tax take in 2008 increased to over 15 percent of GDP.

The two middle-income countries among our cases, the Philippines and Colombia, are viewed as resilient states but with pockets of political violence, suggesting fissures of fragility. The tax evidence on these countries is instructive of the limits of using any indicator, such as taxation, in isolation. The general picture in Colombia is that the state maintained tax takes in the range of 12 to 15 percent of GDP for long periods, with Colombia historically being a relatively low tax collection state in the Latin American context. In the Philippines, the tax take in the 1990s averaged around 17 percent of GDP, but declined to an average of 16 percent of GDP in the 2000s, which still placed it at about average in the South East Asian context (Di John 2006). In both countries, there is considerable diversity of the tax base.

### *Compliance and Coercion in Tax Collection*

Finally, the manner in which tax is collected and the degree of participation in the budgeting process enhances state legitimacy and thus can contribute to state resilience. The extent to which tax is collected through quasi-voluntary compliance is a sign that the tax regime has at least a broad passive legitimacy among the population (Levi 1988). In Zambia, there have been very few large-scale protests over tax collection in the past decade, although there was substantial rebellion over the first introduction of VAT in the mid-1980s. Second, tax has been generally collected in a non-coercive manner as there have been no significant episodes of tax raids involving the police or military. Finally, the government began to invite budget-policy proposals from non-state actors and began to publish submissions of these proposals (and the decision made regarding each) on an annual basis in 2008. This has both increased access of interest groups and organisations to the budget process and has made the process more transparent (Bwalya et al. 2009). The picture is similar in Rwanda, Tanzania, the Philippines and Colombia. There is, however, evidence that episodes of tax raids involving the police or military has been the case in Uganda in the 1990s (Fjeldstad 2005) and into the 2000s (interviews, Ministry of Finance officials, June 2010).

### *Conclusion*

In sum, no one tax indicator on its own is a reliable indicator of state resilience. However, examining several indicators together – such as the extent to which the state monopolises tax collection, the territorial reach of the revenue authority, tax levels, tax effort, the diversity of tax revenues and the manner in which tax is collected – all contribute to identifying the likelihood of state resilience. One needs to consider the limits of any one component. For instance, tax levels and diversity in Colombia and the Philippines have not prevented armed challenges to the state, though this has remained territorially limited in each case; and the tax performance in Tanzania is lower on some indicators (e.g. tax effort, tax levels) than its historical state resilience would suggest. In this respect, a identifying a combination tax indicators is central to obtaining an accurate picture of state resilience.

In a broader sense, it is important to keep in mind that tax is only one part of revenue mobilisation. The mainstream economic literature on tax, however, does not consider the wider resource-mobilisation question, which was a concern of earlier development economists (e.g. Lewis 1954). As indicated in Table 4, while tax revenues in Sub-Saharan African and Latin American countries from the mid-1980s to 2000 were collected at a similar proportion to GDP as in East Asia, there were dramatic differences in the savings rates between the regions. The East Asian savings rate average were more than double as a percentage of GDP compared with South Asia and sub-Saharan Africa and two-thirds higher than in Latin America.[12]

**Table 4: Resource Mobilisation and Economic Growth in Developing Countries: Regional Comparisons**

Sources: World Bank, World Development Indicators (1985-2002); IMF Government Financial Statistics (1985-1988; 1997-2000) and calculations done by the author; World Bank (2004).

| | GDP p.c. growth | Tax revenues (% GDP) | | Gross Savings (%GDP) | | |
|---|---|---|---|---|---|---|
| **Regions** | **(1985-2002)** | **1985-1988** | **1997-2000** | **1980-1990** | **1990-2000** | **1990-2002** |
| Sub-Saharan Africa | -0.4 | 21.7 | 16.3 | 13.9 | 12.5 | 12.7 |
| South Asia | 3.3 | 12.8 | 12.2 | 13.5 | 16.7 | 16.8 |
| East Asia & Pacific | 6.1 | 15 | 15.6 | **30.8** | **31.6** | **31.2** |
| Latin America | 0.8 | 15.2 | 15.9 | 21.7 | 18.9 | 18.9 |

The state's capacity to mobilise resources beyond taxation is one important feature of developmental success stories that the economic literature on tax (e.g. Burgess and Stern 1993) misses. In particular, high levels of gross domestic savings have supported robust investment rates. The East Asian economies were in a class of their own in terms of savings rates, though the Philippines is one exception in that its savings rates were far closer to the Latin American average. The East Asian developmental states (e.g. South Korea, Taiwan and Malaysia) were largely achieved through the coercive power of the state, which was deployed to mobilise resources through various forms of forced savings (Wade 1990; Huff 1995). Among the coercive elements in East Asian economies were restrictions on consumer credit, financial restraint, mandatory provident pension contributions (used in Singapore and Malaysia) and encouragement of postal savings. Although state actions to increase savings are clear in East Asia, the high and sustained growth rates may have also had an important feedback effect on income growth and therefore on sustaining savings. The main point is that while tax patterns may help us understand state resilience, they are far less adequate in helping us understand why some resilient states become more developmental than others.

## Taxation, State Resilience and the Elite Bargain

Beyond being a means for establishing administrative reach and authority, a given tax regime, particularly in less developed countries, is also embedded in patterns of state-created rent allocation. The creation and deployment of economic rents and privileges to powerful elites is the essence of an elite bargain. In turn, exploring tax patterns can illuminate important insights into the shape and character of the elite bargain, which has been argued to be important in generating state resilience in general (North et al. 2007) and across our cases in

[12] Kriekhaus (2002) argues that higher public savings as a percentage of GDP is correlated with higher growth rates in less developed countries.

particular (e.g. Lindeman 2009, 2010; Di John 2010a). At the same time, the nature of elite bargains provides a window into the political limits of expanding tax capacity. The most general case is that increasing taxes and/or enforcing tax collection may become difficult if it substantially reduces the income flows of elite and allied upper-income groups.

The logic of the elite bargain is as follows. North et al. (2007) argue that models of state building make two assumptions that lead to misunderstanding with respect to how and why polities form. The first is that the state is modelled as a single actor. Insights from the discussion of political settlements make clear that the state rather is founded on a historically determined balance of power between contending interests. The second mistake is the assumption that the state has a monopoly on violence. Well known examples include Olson's (1993) stationary bandit model, and North (1981) and Levi's (1988) revenue-maximising monarch, as well as standard theories of rent seeking (Buchanan et al. 1980). Following the insights of Thomas Hobbes, North et al. (2007) argue that a more realistic place to begin is to assume that violence potential is prevalent throughout society rather than being concentrated. That is, it is necessary to *explain* rather than *assume* that the state has a monopoly on violence. The establishment of political order and peace in the model requires the creation of incentives for groups to compete for resources through non-violent mechanisms – that is, to reach a political settlement.

The principal solution through history to the classic Hobbesian problem of endemic violence is the creation of what North et al. (2007) call 'limited access orders' (as opposed to the much rarer, open access orders, which characterise advanced market economies). The limited access order creates limits on the access to valuable political and economic functions as a way to generate rents. The dominant coalition within a political settlement creates opportunities and order by limiting the access to valuable resources (land, labour and capital) or access and control of valuable activities (such as contract enforcement, property-rights enforcement, trade, worship and education) to elite groups. When powerful individuals and groups become privileged insiders and thus possess rents relative to those individuals and groups excluded (and since violence threatens or reduces those rents), the existence of rents makes it in the interest of the 'privileged insiders' to cooperate with the coalition in power rather than to fight. In effect, limited access orders create a credible commitment among elites that they will not fight each other. This is the basis for a stable elite bargain.

In terms of elite rent creation, tax exemptions, low income tax rates and the systematic toleration of tax evasion can create rents for particular companies – public or private. What follows is a sample of analyses illustrating how taxation patterns reflect elite bargains, and how, in turn, the nature of elite bargains affect tax-collection outcomes.[13]

*One of the common patterns that emerge in most cases is that high levels of tax evasion are tolerated.*

This is the case in nearly all types of taxes, such as personal and corporate income tax, trade taxes and VAT. Interviews with revenue officials suggest that tax evasion ranges from 30-50 percent of total revenue collected. If one includes the substantial amount of assets held abroad by economic elites, a common feature in sub-Saharan African economies (Collier et al. 2004), as well as suspected high levels of capital flight through transfer pricing by multinationals (often with domestic elites as junior partners), then the level of income-tax evasion (and tax

[13] See Di John (2010b) on Zambia for a more detailed discussion of these issues.

avoidance) rises further.[14] The one exception seems to be Rwanda where revenue officials suggest that tax evasion, particularly income-tax evasion, is not a significant problem (Putzel 2010c). This may be one of the reasons why Rwanda's tax effort is particularly high (see Table 3), though it cannot explain why the tax effort in Zambia and Uganda (both of which appear to have higher levels of tax evasion than Rwanda) have a higher tax effort than Rwanda.

While administrative shortcomings are surely part of the reason why tax evasion persists, it is not the only reason. Much of this toleration for tax evasion is linked to the fact that big business groups are important financers of political parties, as in the Philippines. According to Putzel (2010b), elites have remained powerful enough to maintain a systematic evasion of taxation. In addition, the strength of elite lobbies has insulated businesses by watering down tax reforms with a multiplicity of exemptions introduced usually through congress. Elite leverage over the justice system has led to a systemic failure of the courts to convict those brought up on tax-evasion charges. Important lobbies of big business interest that finance political campaigns have also beaten back efforts to increase 'corrective taxes' – on tobacco, alcohol and petroleum.

In the case of Zambia, for example, elites may be earning substantial rents through the almost complete lack of taxation of the gemstone sector. At present, the government keeps unreliable production and sales statistics and has limited capacity for tracing gemstone trade, let alone monitoring production on major sites (which is the main way it would be able to estimate the taxable base for gemstones such as emeralds and amethyst).[15] Because of massive under-reporting of production, and the generally secretive nature of this sector, the evidence of this claim is difficult to verify; but interviews with ZRA officials and other experts on mining in the country suggest both that the sums involved are vast and that very high level politicians, state officials and allied businessmen are involved (Di John 2010b). Mpande (2009) estimates that the value of Zambian gemstones sold abroad in the 2000s was between $US10 and 15 billion, yet the highest export values reported by the Zambian government was only US$40 million in 2002. He further estimates that nearly 60 percent of gemstones mined in Zambia are stolen, most of which is smuggled.[16] Formally licensed export companies comprise around 30 percent of production, and even here it seems that the taxation of such exports is well below potential due to transfer-pricing mechanisms on the part of companies.

Again, while it may be the case that ineffective tax administrative capacity is behind the lack of taxation in the gemstone sector, the potentially large sums involved suggest that there may be a purposeful decision not to tax the sector. This would particularly be the case if it is benefiting political and economic elites. Moreover, because economic liberalisation, and particularly the privatisation of the copper mines, has reduced the scope for rent creation, the purposeful neglect of the seemingly lucrative gemstone industry may be providing an alternative path of rent creation to help finance the elite bargain. The fact that the industry seems to benefit particular individuals and not broader groups is consistent with the more targeted/particularistic nature of patronage in the post-1991 period in Zambia (Levy and Palale 2007: 8).

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[14] In this perspective, income-tax evasion has an important international dimension. This is because tax havens and off-shore centres facilitate tax evasion and tax avoidance practices (NOU 2009).
[15] Most of the gemstones are mined by small-scale artisan miners with about eight highly mechanised mines.
[16] Much of the smuggling goes through Katanga into the Democratic Republic of Congo (DRC).

*A second common pattern that emerges in all our cases (and elsewhere) is the negligible collection of urban and rural property taxes.*

This provides a large benefit, especially to elites who own valuable property assets. While this tax (which is collected by municipal governments) is small in general, it tends to be a regressive tax since wealthy urban elites and rural landowners pay similar nominal rates as do less wealthy households. In Zambia, for instance, in the period 2001-2005, property taxes averaged 32 percent of local government revenues, which is miniscule since local revenues as a percentage of GDP averaged 0.4 percent of GDP. Thus property taxes comprised a mere 0.13 percent of GDP (Di John 2010b). This low property-tax collection both limits the degree to which local governments can fund public goods and social spending, but also reflects the highly centralised revenue system in Zambia.[17] This in turn is consistent with the highly centralised nature of patronage throughout the polity (Di John 2010a). A similar story applies in Rwanda (Putzel 2010c).

The implication of low property taxation may be very important for the prospects of state building at the local level. The role of land taxes is especially important as local governments seek to raise revenues in the context of decentralisation reforms. The same is true for local governments in urban areas. However, in this case, the relevant tax would be the urban property tax. There are several reasons why governments, particularly at the local levels, should focus on this tax. First, urban property tax is one of the most underutilised forms of taxation in LDCs and can potentially provide the financing of urban infrastructure investment, which is central to improving the production and export capacity of light manufacturing plants, many of which are located in urban centres. Second, urban property taxes provide one of the few potential sources of taxation for municipal governments, which have received increasing responsibilities in the delivery of services but so far have been unable to generate sufficient local revenue collection.

Third, property taxes can provide the impetus for the creation of urban property databases, which could help improve the synergy between municipal taxation and urban planning. Until now, urban property taxes have not received sufficient attention because IMF reforms focus on national taxation reform, and not municipal tax reform; and also because urban property-tax reform requires long-run investments in capacity, which is often downplayed compared to the quicker returns initiating VAT can provide. To the extent that tax capacity is an investment in the long-run capacity of the state, and to the extent that decentralisation is a political and economic reality, urban property taxation needs to be given a much higher priority than it has been given in the past.

Fourth, urban property tax provides one of the few mechanisms through which progressive taxation can be developed in LDCs. This can be particularly important in post-war economies where some re-distributive policies may be required to reduce past grievances and horizontal inequalities (Stewart et al. 2007). Fifth, recurrent taxes on land and buildings have a small adverse effect on economic performance (Johansson et al. 2008). This is because these taxes do not affect the decisions of economic agents to supply labour, to invest in human capital, to produce, invest and innovate to the same extent as some other taxes. Also, as real estate and land are highly visible and immobile these taxes are more difficult to evade.

[17] It is important to consider that there has been a general resistance to property taxes since they are associated with exploitative colonial rule (Roberts 1976: 177-193). In particular, the protest around the colonial ‘hut’ tax has created a legacy of resistance to property taxation.

Finally, urban property taxes can contribute to making property rights more secure. This is because the development of a property tax requires a simultaneous government and private effort in property registration and the official titling of property deeds. It is well known that secure property rights are central to promoting long-run investments and economic growth (North 1990). Secure titles on properties would also increase the prospects of property owners in securing loans for business expansion.

*A third pattern that emerges in some of the cases (Zambia, Rwanda, Mozambique, and Tanzania) is the relatively low rates of taxation on agriculture which (while part of investment incentives) may be seen to benefit elite landowners and particularly large farmers and agro-processors.*

In all four cases, the corporate tax rates on agriculture and agro-processing businesses average 15-18 percent percent compared with 30 percent corporate tax rates in most other sectors. In Zambia, for instance, fertiliser subsidies and historically low tax rates on agriculture have been mainstays of promoting production in the sector. However, since economic liberalisation, large farmers have benefited considerably more from low taxes as they have technological capacity, the most fertile soil, and access to infrastructure (along the 'line of rail') to benefit from growth opportunities (Di John 2010a). In Rwanda, farm inputs and outputs are VAT exempt, with the first 12 million RWF incomes being exempt from income tax in farming. There are also credit subsidies to invest in farming, including for large farmers (Putzel 2010c).

*Fourth, there has been a significant decline in the corporate tax burden on big business, which has benefited both foreign firms (particularly in mining) and political and economic elites.*

This has taken place through several mechanisms. First, there is evidence of substantial evasion of taxation as discussed earlier, which is rife in most of our cases. Second, there has been a decline in corporate taxes in most of our cases from average of 35-40 percent in the 1980s and early 1990s to around 25-30 percent since the late 1990s. It should be noted that much of this decline in corporate tax rates have been the result of worldwide trends and influential IMF advice and conditionality, but has nevertheless enhanced the profits accruing to big businesses.

Third, and of great importance, tax regimes in mining and for other large 'mega-projects' have tended to be extraordinarily investor-friendly through such mechanisms as low royalties, tax holidays, and VAT and import tariff exemptions among others. As we shall see, it is debatable whether these tax incentives have been necessary to revive mining sectors. In any case, they were implemented initially because of a myriad of factors including World Bank and IMF pressure, the desperate state of many leading mining sectors (e.g. Zambia), or the need to attract foreign direct investment in the aftermath of prolonged civil war, which left a collapsed war economy and a weak domestic private sector (e.g. Mozambique). In addition, many of the mining contracts have remained secret, which substantially increases the opportunities for political leaders to receive substantial kickbacks and bribes. Let us consider some examples from the cases.

In Zambia, the copper industry has gone through three distinct phases in the post-independence-era Zambia in terms of its tax regime. The period 1964-1972 was perhaps the most successful as the state maintained a nearly 50 percent equity share with foreign firms, a period that coincided with the highest tax take in the country's history (between 25 and 30 percent of GDP). The period 1972-1998 saw the complete nationalisation of the industry, which while increasing the state's tax take also coincided with substantial politicisation of the industry (and massive mismanagement) and a slow but dramatic decline in tax revenues as production plummeted (by 1990, the overall tax take declined to around 19 percent of GDP). However, the period 1985-1990 still saw a relatively high corporate tax share of 5.5 percent of GDP, mostly due to the copper industry's contribution. The copper industry was one of the main sources of patronage, but its dreadful performance meant that the rents to share among elites were becoming smaller. It is important to note, however, that the by the late 1990s the copper industry had ceased to contribute to net government revenues, as it was, for example, losing nearly $1 million a day in the year prior to privatisation in 2000.

Structural adjustment loans became conditional on the privatisation of the industry, which was undertaken in the context of desperation: namely historically low world copper prices, declining copper production and an unsustainable debt burden. With the privatisation of the copper industry in the period 1998-2000 there was a substantial change in the tax regime, which reflected the desperate macroeconomic situation of the country and the copper industry itself.[18]

The basic outcome of privatisation was the instalment of one of the most investment-friendly mining deals known (Sardanis 2003). In return for assuming the industry's debt and reviving deteriorating mines, the foreign mining companies received: a reduction in the corporate tax rate from 35 to 25 percent; exemption from customs duty on inputs up to US$15 million; reduction of the mineral royalty from 2 percent to 0.6 percent; exoneration from excise duty on electricity; an increase from ten to twenty years in the period for which losses could be carried forward; and exemption from tax on interest, dividends, royalties and management fees (Fraser and Lungu 2007). Moreover, the mining contracts stipulated that companies were exempt from VAT payments. This meant that the sector had the lowest tax burden in the economy and were thus creating large rents for the companies.[19]

In sum, the mining companies effectively paid almost no income taxes in the period 2000-2006. In the period 2001-2008, the copper-mining sector paid around 5 percent of total tax revenues despite being the leading sector in the economy and despite positive trends in copper export prices (increasing from an average of average of $US 1,800 per ton in the period 1998-2004 to an average of over $6,000 per ton in the period 2005-2009). The effect of these so-called incentives was that it would be decades before the government received substantial revenue from the new mining companies. There is no doubt, however, that the tax incentives, whether overly generous or not, have had a positive effect on production, which increased from 250,000 tons in 1998 to well over 600,000 tons by 2008.

[18] The reasons for the decline in Zambian economic performance are complex, but include a combination of the disruption of regional trading routes, the nationalisation of the copper industry before the development of skilled workers and managers emerged on the domestic scene, and mismanagement of the state-owned copper industry (see Weeks et al. 2004). Copper production declined from 600,000 tons in the 1960s to just over 300,000 tons by the end of the 1990s.

[19] Tax exemptions can create rents for particular companies – public or private. However, this can be considered a rent only if there are no tax exemptions in most of the sectors of the economy and/or if there are not high levels of tax evasion in non-exempted sectors. If neither of these conditions holds, then the tax exemption is not potentially creating a super-profit and therefore a rent for the enterprise in question since the exemption does not necessarily create a greater profit rate compared to other sectors or companies.

While the Zambian government considered raising the royalty rate to 2.5 percent in 2008 with the support of the IMF, this rate is still low by the standards of Zambia's neighbours – an IMF survey of tax and royalty rates in developing countries found no other African country charging royalties of 2 percent, and some have royalties as high as 20 percent (Baunsgaard 2001). As a result, taxes as a percentage of GDP declined from 18.4 percent in 1996 to 17 percent in 2005. In 2006, the government received just \$25 million in copper royalties out of a \$US 2 billion turnover in copper sales.[20] This substantially hampers the extent to which the government can finance improvements in physical infrastructure, which are essential for reviving productive capacity and growth in non-copper agricultural and light manufacturing sectors.

Since 2000, copper privatisation and the copper-mining tax regime have had several implications for tax capacity and the elite bargain. First, changes in tax regulation have decimated the contribution of corporate income tax in the economy, which since 2002 has been below 2 percent of GDP (compared with over 5 percent in 1990). Zambia has kept up a high direct income tax collection principally because it has maintained very high rates of tax collection on labour income (Di John 2010b). Second, the tax capacity of the state operates well below potential, which is one of the reasons the government is attempting to renegotiate contracts. Third, it has brought substantial economic rents to a new and important partner of the MMD government, namely foreign copper firms from Europe, Canada, India and, increasingly, China. Indeed, privatisation has reduced the patronage possibilities of the MMD to place high-level party cadres in managerial posts. Fourth, the privatisation process has brought some benefits (and therefore some rents) to the executive and close MMD party allies. The privatisation contracts were not disclosed publicly and there were allegations that substantial bribes were passed to the Chiluba administration (Interviews, Revenue Authority and Finance Ministry officials, March 5-7, 2010). The state also still maintains a share of between 10 and 15 percent in most of the privatised mining companies, which are managed by Zambia Consolidated Copper Mines – Investment Holding. While this holding company also 'inherited' large amounts of debt from the privatised companies as part of the privatisation deal, they represent a potentially valuable asset as the industry rebounds. Most interesting is that these equity shares remain off-budget; that is, they are not systematically or routinely reported to the Ministry of Finance, further indication that they are valuable and represent a substantial rent income for MMD party leaders and the executive.

In the case of Mozambique, a similar story emerges in its 'mega-project' investment, particularly in aluminium, natural gas, cement, coal, dams, roads and other heavy industries dominated by multinationals. The leading project in this process is Mozal, a large aluminium smelter (completed in 2000) on the outskirts of the capital city, Maputo. Mozal cost \$2.4 billion to build and produces 512,000 tons of aluminium ingots. South African mining interests control two-thirds of the project, as is the case in many mega-projects in Mozambique. As of 2004, Mozal contributes 75 percent of manufacturing exports, and 42 percent of Mozambique's total export revenues (Castel-Branco 2004). Aluminium represents nearly half of total manufacturing output.

Tax policy has been central in attracting foreign investment in mega-projects. Mozal was given Free Industrial Zone status. This means that it is exempt from paying duties on imports of material inputs and equipment. It is also exempt from value-added taxes, and corporate

[20] In the 2000s, as little as 2-5% of the total export value accrued to the government in the form of tax and direct ownership (minority), whereas best performers like Botswana, Chile and Norway ensured a government take of between 50-75% (Norwegian Embassy in Zambia 2008).

income taxes are limited to 1 percent of sales. The failure of the government to develop a more revenue-enhancing tax package was the result of it not seriously considering the offers of rival aluminium producers (Kaiser, a US multinational, made initial offers in the late 1990s but was rejected by the Mozambican government on the grounds that it did not have enough of an influence on world markets to succeed).

The importance of very low corporate income taxation to developing 'mega-projects' is not isolated to Mozal. A similar story applies to a range of heavy industrial and infrastructure projects in natural gas (developed by the South African producer, Sasol), coal (developed by the Brazilian company Vale do Rio Doce) and the Maputo-Wittbank toll road, among many others. While it is generally agreed that, for the first three mega-projects that dominated the investment landscape (the Maputo-Witbank toll road, the Mozal aluminium smelter and SASOL natural gas pipeline) in the post-war period, the government had to offer generous fiscal benefits to attract at least the first two of these showcase projects, and that these concessions were of high strategic value for a very poor country recovering from a long period of conflict; it is apparent that the many subsequent tax incentives developed were unnecessary to attract FDI into the country, as business leaders claimed they would have undertaken investments without lucrative tax breaks (Bolnick 2009).

The generous tax breaks in heavy industry and big businesses generally does not just benefit multinationals as there is evidence that political elites, particularly from the ruling party FRELIMO, have accumulated substantial capital, particularly since the late 1990s. They have done so in several ways. First, much of the 1990s involved a large land grab by high party cadres using their links with the party to acquire land deeds. This ultimately translated into large profits as all multinationals needed a Mozambican group to acquire the land to develop 'mega-projects'. This often resulted in political and economic elites sitting on the boards of mega-projects' thus deriving profits from the ventures. Second, there are extensive holding companies in telecommunications, mining, construction, tourism, grain terminals, power stations, electricity, petrochemicals among others that are owned by FRELIMO political and military leaders, and in particular the current president, Armando Guebuza (Hanlon 2009).

While it may be the case that these ventures are producing a more 'developmental' elite, they are being aided by a negligible rate of corporate income tax, which is unsurprising in the sense that there is little reason for state elites to tax themselves. The corporate tax take in Mozambique averaged 0.7 percent of GDP in the period 1999-2005, which was below the personal income tax take, which averaged 1.7 percent of GDP (USAID 2009). To get an idea of the magnitude of these tax breaks, it is estimated that if only Mozal and Sasol had paid a normal corporate tax on its income in any year in the 2000s, it would yield one-half of the amount in the general government budget (Castel-Branco and Ossemane 2010: 170).[21] It is thus not surprising that business chambers representing small and medium firms are beginning to clamour for tax increases on large firms, who bear a disproportionally low brunt of corporate tax. It remains to be seen how and if the government responds to this challenge, which has the potential of creating a politically destabilising factionalisation of business by firm size.

[21] The corporate income tax take increased to an average of 2.3 percent of GDP in 2007-8, which was much closer to the personal income tax take of 2.4 percent of GDP in the same period. The main reason for this drive has been a growing government plan to reduce aid dependency, which is still well over 50 percent of government expenditures.

In sum, in both Zambia and Mozambique, the corporate tax regime is closely linked to the dynamics of the elite bargain and to the dominant production strategies in each country. In particular, party elites have likely received large economic rents, which have benefited them personally, increased the prospects of dispensing patronage to important constituents and enabled party leaders to finance their respective political parties. Indeed, the taxation business is closely related to party financing in Mozambique, as a FRELIMO business controls customs collection through a company that provides scanners at ports of entry throughout the country.[22] In Zambia, parastatals are thought to provide party financing to the MMD. More generally, these patterns of corporate taxation contribute to state resilience in each case because they help secure economic rents to party and affiliated business elites and have contributed to financing the two dominant political parties (MMD and FRELIMO), which underpin the institutionalisation of the elite bargain in each case, and thus, as has been argued in the Centre's work, contribute to state resilience.

In the DRC, the picture in mining taxation is more difficult to quantify since a large part of the mining is undertaken by nearly two-million informal workers, and because most of the mining contracts of even the large companies are secret. Moreover, World Bank audits on the restructuring of Gécamines, the state-owned copper- and cobalt-mining enterprise, have never been made public (Tax Justice Network 2010). A 2004 audit by Ernst and Young found that Gécamines did not receive any share of the profits made by its joint ventures with private mining companies due to the terms of the mining contracts it negotiated with private companies. Of course, the president and senior mining officials were responsible for drafting these contracts so the implication is obvious Tax Justice Network 2010: 32).

Given the mineral wealth in the DRC and given the secrecy of most contracts, it is very likely these are benefiting a set of national and regional elites. However, the rent creation in this case has not led to a more resilient state because there is no national organisation (such as national political party) underpinning elite rent creation. This makes the enrichment process more exclusively personalistic, chaotic and subject to contestation. It also involves a set of multiple elite bargains at different levels of the state, which – instead of creating a chain of command, or creating a national political organisation – tends to lead to a factionalisation of elites that makes the state considerably more fragile (Hesselbein 2009). The ongoing violence in DRC, exacerbated by the entry of foreign armies and states, is a telling manifestation that the central authority is too weak to organise a peaceful (if unjust) distribution of rent creation, which is characteristic of Zambia and Mozambique.

The problems emanating from historically low tax-collection levels, and particularly low income-tax collection, in Colombia (a middle-income case) are different. In technical terms, the Colombian tax authority is widely viewed to be rather advanced as is its general macroeconomic management. Low income-tax collection is closely related to political bargains not only among elites but also the middle classes. For business owners (of all sizes) there is an array of tax exemptions. For instance, in 1990, income from stock-market exchanges, mutual and investment funds were exempted from taxation. In 1992, further exemptions were given to public companies, companies with mixed public-private participation, financial cooperatives and telecom companies (Ramos 2010), which likely benefited elite groups more. That combined with levels of tax evasion for corporate and

[22] It is also thought that Chinese and South African companies help contribute to FRELIMO campaign financing, though this is difficult to verify. It is also strongly rumoured that FRELIMO earns substantial sums by 'taxing' the illegal but lucrative heroin trade in the country.

personal income tax in the range of 20-33 percent was likely generating economic rents for elites but also other smaller groups.

However, tax policies were clearly benefiting the middle and working classes. For personal income taxes, Colombia has among the highest thresholds of taxable salary in the developing world and this has had the effect of reducing the number of taxpayers. The thresholds were increased in 1983, 1986 and 1995 reforms, along with a reduction of average tariff rates at each range of taxable income. Even individuals with an income below three times the average per capita income are currently exempt (Ramos 2010).

The effect of low income-tax collection has led the Colombian government to rely much more on VAT, which is a more regressive tax than income tax more generally. In the context of a country with very high levels of income inequality (with a Gini coefficient around .53) and land inequality, and the source of considerable grievances, political instability and political violence; the prospects of using the fiscal system to redistribute income is negligible. In this sense, political bargains the state makes with both elites and the middle and working classes have had important effects on the tax system, which in turn has consequences for addressing historically destabilising levels of income and asset inequality. This underscores that economic development does not necessarily generate political stability even in states that are resilient in many spheres. The Colombian case also underscores a major theme of the Centre's work, namely that state capacities across function can vary widely in the same polity. For instance, the Colombian state has been much better at macro-management than at securing a monopoly of violence over its territory.

### *Conclusion*

The nature of elite bargains and political settlements has important implications for the patterns of taxation and the extent to which a state is and/or will remain resilient (see also Di John and Putzel 2009). However, it is still important to explain why an elite bargain that generates an unjust tax incidence, particularly when it permits elites to systematically evade taxation and avoid paying personal and corporate taxes, can survive serious political challenges. One of the reasons may indeed be the rate of economic growth. While high rates of long-run economic growth is not a necessary condition for a state to remain resilient (e.g. Zambia, Tanzania), it generally enhances state resilience.[23] If this were not the case, then there would be many more civil wars in rich countries. For instance, the elite bargain, while unjust in many respects in Zambia and Mozambique, remains durable because it has coincided with relatively rapid rates of economic growth (around 6 percent per year) in the past decade.

It is also important to note that the current era of economic liberalisation has changed the game of rent creation and the dynamics of patronage distribution to elites. Before liberalisation reforms, standard ways of distributing patronage were through state-created rents such as infant industry protection (tariff and non-tariff), subsidised credit, high-level jobs in parastatals and marketing boards. Economic liberalisation has meant that these instruments have become far less salient as a form of rent deployment simply because the state now has less discretionary authority to intervene in markets and create rents. As such, providing rents through the taxation system, in the ways indicated above, may now be more central to the process of elite rent creation than in the past.

[23] It is important to remember that in Zambia, long-run rates of economic decline did terminate a long period of one-party rule in the late 1980s (Di John 2010a).

## Aid and its Effects on Taxation and State Building

In this section, I present the insights emerging from research on how aid flows and multilateral donor reforms affect the patterns of state building. First of all, little evidence has been found that aid is crowding out domestic tax collection in the period 1990-2010. Four of the aid-dependent cases (where aid is around 50 percent of government expenditure) – Rwanda, Mozambique, Tanzania and Uganda – have experienced increases in tax collection. Where aid dependence has declined, as in Zambia, the tax take has not increased. For most of this period, the DRC had a tax take below 6 percent of GDP, but that was due to long periods of civil war in the period. Even in the DRC since 2007, the tax effort has increased to over 11 percent of GDP while aid flows have increased. Colombia and the Philippines have very little aid as a percentage of government spending so they are less relevant; but even in this case Colombia has increased its tax take to nearly 15 percent of GDP while receiving historically high military aid from the United States through Plan Colombia. It is only in Afghanistan where increased aid flows did not lead to significant increases in the tax take, at least in the period 1990-2005. Even here, where major civil war continues, the tax take increased to 7 percent of GDP in 2009 and is estimated to reach 8.8 percent of GDP in 2010 despite increased aid flows (World Bank 2010) This overall picture contradicts some arguments (e.g. Gupta et al. 2003) that aid flows reduce the incentives for domestic tax collection.

There are, however, important policy lessons that have emerged that are relevant to the process of state building. The first concerns Large Taxpayer Offices (LTOs). In Rwanda, DRC and Afghanistan, IMF assistance to ministries of finance in designing and reforming tax administrations seems to have made at least some contribution to improving efficiency (Hesselbein et al. 2006). In the case of Rwanda, DFID has also made a decisive contribution by providing technical assistance, under Rwandan management. The introduction of targeting and integrated tax collection through the model of (LTOs has contributed to important improvements in revenue collection in the best performer (such as Rwanda) as well as in the worst performers like Afghanistan and the DRC. In Rwanda, the LTO was responsible for collecting 47 percent of the overall tax take in 2007, while in Afghanistan the LTO collected one-third of total revenues and has now been rolled out to five provincial offices.

There were four important elements to the Rwanda Revenue Authority strategy (which has underpinned its relative success to date) worth noting (Putzel 2010c). First, they suggested that the principle objective of revenue policy is to promote economic growth, rather than simply maximising revenue collection. Second, they have followed the general trend advocated by the IMF of moving from models of collection based on tax type to models based on types of taxpayers; therefore after studying tax collection in Tanzania, they organised tax collection in the cities on a geographical basis. Third, they sought to widen the ownership of the tax effort beyond the revenue authority, establishing Tax Advisory Councils at the provincial and district levels involving parliamentarians and chaired by a governor, mayor or security institution. In the same vein, they organised a national Tax Appreciation Day where the RRA accounts publicly for what it has done and hears from people what they would like to see done. The 'best taxpayers' are given an award by the head of state. Fourth, they gradually phased out technical assistance from line positions within the authority and took control of technical- assistance contracting and management, moving from long-term technical assistance to short-term contracts around very specific needs.

In assessing donor intervention, Rwandan tax officials claim that central to the positive role played by the major bilateral donor was its flexibility and willingness to support the RRA's own plans, once clearly spelled out. The biggest worry expressed by donors was that the tax administration had become too efficient and that the high rates of taxation (30 percent corporate income tax) could dampen investment. The Rwandan authorities are conscious of this danger and plan to lower the corporate rate to 25 percent as they expand the tax base. They hold regular consultations with the Private Sector Federation, and these have led to reforms in the administration making it easier for businesses to comply. Reforms have all gone in the direction of simplifying and streamlining taxation (Putzel 2010c).

The second concerns the extent to which aid is by-passing the state in the delivery of social services. The main dilemma donors face is providing assistance that makes the state work – essential to its legitimacy – and creating sustainable systems and practices in the multiple organisations that underpin the state's capacity to respond to social expectations, which take time before they can work effectively. Ghani et al. (2007) and Boyce (2008) suggest that the most damaging impact of aid on processes of state building may well be the way in which foreign assistance gives rise to a 'dual public sector'. By this they mean that only part of the funds deployed in delivering public goods are channelled through the state, while an important part are channelled directly to sub-national or non-state actors (Boyce 2008: 14). When this occurs incentives both for tax raising and paying can become perverse. Moreover, this reinforces the tendency for qualified people to be recruited to non-state organisations to which resources are being channelled (Boyce 2007). The establishment of a dual public sector has important consequences far beyond the efficiency or effectiveness of public financial management. Most importantly, if power to decide on spending is located in NGOs or private contractors, those who wish to make a claim on these resources will look to and interact with those NGOs and contractors and not the state (OECD 2010b). This can leave the central state weaker, giving much more room to organised rivals to emerge as more important actors than the state. In our cases, the following results emerged.

In the DRC, OECD (2010b) estimates that 146 parallel management units existed in 2009, which is four times the 2006 number. Donors explain that they had little choice in setting up these management structures when they restarted their aid in 2001 as the public administration was too weak and there was an urgent need during these early years to administer aid. Many of these structures are managing multi-year programmes, and some stakeholders agreed that it would be both difficult and harmful to quickly dismantle these units. The parallel management structures most often used by donors are under the formal auspices of the relevant ministry and many have been created by presidential and ministerial decrees. The structures are composed of local and international consultants who administer the programmes and who are expected to report to both the ministry and the donor. The terms of reference and recruitment process are developed and managed in most instances by the donor. In many cases, the government counterpart has been too weak to provide clear leadership to the management structures and the donor has thereby become the main driver of the programmes. In the end, these parallel structures fail to strengthen the capacity of public administration and instead often replace them. In addition, the research pointed to significant amounts of aid going to non-state actors (such as churches and NGOs). Apart from being unable to trace let alone monitor this type of aid, workshops and interviews with government officials suggested that these initiatives weaken the state and fail to leverage opportunities to strengthen its relationship with society (OECD 2010b).

In Afghanistan, research suggests that the problem of the dual public sector in aid delivery can be overcome by through setting up 'dual-control oversight mechanisms' that can reduce corruption and still ensure resources flow through the state. The Afghanistan Reconstruction Trust Fund (ARTF), which was World Bank-funded, seemed to play this role. The ARTF allows donors to put their money into a pooled bank account subject to certain minimum fiduciary oversight. ARTF also allows for donors to earmark or 'preference' funds for specific purposes. These funds are allocated to core recurrent or the core development budget. To the extent that the state is seen more directly involved in social service delivery, it makes it more of a focal point for pro-poor social spending, which enhances the prospects of greater inclusivity in the growth process. This sort of process ensures that decision-making rights stay within the state, but also guarantees financial probity. The growing endorsement for channelling aid resources through budget-support instruments is a positive trend and conducive to fighting against the evolution of a dual public sector (OECD 2010b).

The third concerns the high levels of project aid that wind up 'off-budget' – that is, not reported to finance ministries. In most of our cases (apart from Colombia and the Philippines where aid is negligible), nearly two-thirds of aid is project aid, most which is not 'on-budget'. Interviews with finance ministry officials across the African cases suggest that this exacerbates problems of macroeconomic planning and the coordination of aid.

In Zambia, for instance, there are rumoured to have been thousands of unaccounted for bank accounts pertaining to project aid floating in the domestic banking system in the mid-2000s (Interviews, Ministry of Finance officials, March 6-7, 2010). This may be one of the factors behind the country's poor record in the misuse of state resources, problems of budget control and project execution (Von Soest 2007: 628). While it is possible to suppose that some of this money winds up in the hands of line ministers (and therefore a form of rent deployment), a big problem is that a significant portion of fiscal spending is not accountable to parliament and therefore democratic processes.[24]

The problem of 'off-budget' aid is most concerning for very fragile states that have yet to build sound fiscal systems, such as the DRC and Afghanistan. In the latter, our research suggests that one important mechanism to avoid off-budget aid is the sector-wide approach (SWAp) where donors pool funds to be applied to an integrated sectoral programme designed by the government. There is also evidence that some advances are being made in coordinating aid, aligning it with government policies in ways more conducive to state-building (OECD 2010b).

OECD (2010b) finds more generally that in Afghanistan, Bolivia, DRC, Nepal, Rwanda and Sierra Leone, both state and donor officials found SWAps the most important intermediate instrument (between disaggregated project support and full blow budget support) for improving state capacity and keeping the locus of decision making within the state when a concerted effort is made to run the SWAp through state systems. According to the OECD study, the process of setting up a SWAp encourages sectoral planning, by pooling donor resources reduces administrative duplication, and, due to the size and complexity of programmes, requires significant monitoring and evaluation – all of which contributed to positive capacity building within the state. Further, these processes allow for varying degrees of societal participation, including private sector consultations (as in the SWAp being established in the energy sector in Rwanda) and community participation (as in SWAps in the

[24] It could also be argued that off-budget items provide another avenue for elites to appropriate some income in an era where economic liberalisation limits state patronage.

health and education sectors in most of the case-study countries). These have positive implications for the evolution of state-society relations in the state-building process. Thus, one big challenge for the polity is to bring more of aid on-budget, which would help deepen the 'fiscal social contract'.

While further work is required to assess the extent to which aid flows affect domestic tax collection, there are at least three reasons to expect that aid flows may not harm the domestic tax-collection effort. First, the higher the share of aid that remains 'off-budget', the less likely political leaders can confidently calculate resource availability. If there were more aid reported 'on-budget', then the finance ministry could account for such flows with much greater precision. In turn, political leaders could reduce tax-collection efforts in ways they know may not reduce overall public expenditure. Second, the well known volatility and unpredictability of aid flows (Eifert and Gelb 2005; Bulír and Hamann 2007) may make leaders wary of reducing domestic tax collection even when aid levels are high and increasing. Finally, the price that political leaders pay for aid dependence is reduced policy space and the need to placate donors' policy conditionalities, which may not always be politically expedient or feasible. As such, reducing aid dependency through increased domestic revenue collection may be a priority of leaders, especially when aid dependency levels increase.

### Taxation Policies and its Effect on Production

This section considers the relationship between taxation policy and economic development. Too often, tax administrative reforms are designed to increase the tax take and are not coordinated with how taxation affects production patterns. That is, a pro-revenue approach often takes precedence over a pro-growth approach in tax policy.

History provides several examples of the importance of land and property taxes in enhancing the territorial, social and economic reach of the state and in increasing agricultural production. In the case of Japan, Taiwan and Korea, land tax was introduced as part of a production strategy to help improve agricultural production (see Bird 1977; Grabowski 2008). Extensive land surveys were undertaken that mapped all plots of land in the territory and classified it according to type, productivity and ownership. As a result of land surveys, the state in each country secured a revenue base, and was able to finance improvement in agricultural production through investment in roads and irrigation.

In the case of Mauritius, export taxes on sugar, the main export commodity in the nineteenth and most of the twentieth centuries had several positive effects on state-society relations and in increasing the productive capacity of the sugar sector (Bräutigam, 2008). This was achieved through several mechanisms. First, the tax was an effective substitute for income taxes, and was generally progressive as it shifted the burden of taxation and redistributive spending on the wealthy and middle classes. This contributed to the public sense of fairness and solidarity, and thus enhanced state legitimacy. Second, the tax was used by the state to finance research and development, infrastructure and marketing, which enhanced production and productivity growth in the sugar sector. Third, the export tax helped the private sector organise, and it built their capacity to interact with the government over time. Fourth, it helped both the state and society to solve collective action problems they faced in building skills and in supporting research on sugar. Finally, the export tax helped develop the territorial reach of the state since the tax affected the main employer in the countryside, and promoted mutually beneficial rights and obligations between the state and farmers, both large and small.

The case of the Colombian National Coffee Federation (NCF) provides the best evidence that the state can use taxation of agriculture to solve collective action problems in production (such as the provision of funds for storage, distribution and marketing for thousands of dispersed smallholder producers) and help forge strong state-society negotiations and mutual obligations (Thorp 2000; Ramos forthcoming). Moreover, it is an example of success in a polity that has experienced long-running large-scale political violence.

Since the 1930s, the state delegated the right to collect taxes to the private NCF and gave the fund the right to spend the collected funds on rural infrastructure, technical agricultural assistance and provide local social service delivery in health and education. For over eight decades, it has developed into one of the developing world's most successful examples of collective action. The Coffee Fund under its auspices guaranteed internal minimum prices for coffee, acting as a buyer of last resort, which reduced the risks of production. Financed by a small surcharge on members' coffee sales, the NCF has been instrumental in organising improvements in quality, pest control, technical advice, credit and international marketing and branding for nearly 400,000 smallholder producers.

There were several important enabling factors in this case that underscore the importance of politics in influencing tax capacity. The coffee sector in general has been an important political constituency for both main political parties: Liberals and Conservatives. As such, the executive (from either party) has had the political commitment to support growth-enhancing policies in the sector. The political influence of the NCF was also influential as a powerful lobby historically to demand prudent macroeconomic management, particularly the avoidance of exchange-rate overvaluation. Finally, the long-run political violence in the country was territorially limited and did not always or mainly affect the main coffee-growing regions.

In terms of policy lessons, it may be useful if donors could tap the institutional capacity of organisation such as the NCF. Moreover, there should be serious reflection on the importance of production and producer groups as focal points of political capacity. Often, discussions of governance are divorced from the realities of the economic development strategies and the challenges of late development generally. Finally, The NCF case also reflects that growth-enhancing policies require that the state and producers need to have strong political links.

There is much more research required on how tax policy affects production strategies. One of the reasons for the dearth of evidence in this area is that most research has focused on the technical aspects of tax administration as well, more recently, on the political nature of taxation. A political economy approach to taxation will be enhanced when more systematic research on the developmental aspects of tax policy is developed further.

## Conclusion: Policy Lessons and Areas of Future Research

This paper has developed several main points. First, it has attempted to identify how patterns of taxation contribute to state capacity, and in particular how taxation can be a useful indicator of identifying the extent to which a state tends to be more fragile or more resilient. One policy implication is that, because tax is a more objective measure of governance than many prevailing governance indicators, donors and academics might more systematically incorporate it into indicators of fragility, resilience and governance more generally.

Second, we examined how taxation reflects the nature of elite bargains and, in turn, how the dynamics of elite bargains affect tax patterns and capacity. The main policy lesson here is that the tax-reform process requires political analysis to understand what types of reforms are feasible in a given context. In particular understanding how the elite bargain is constructed and how it is related to political stability is central to proposing tax reforms that are politically sustainable.

Such political economy considerations are generally missing in purely administrative and technical approaches to tax collection. Administrative constraints are often identified as the main constraint to the ability of states to collect revenues in general and direct taxes such as income tax in particular. As Bird and Casanegra (1992) argue: 'In developing countries, tax administration is tax policy.'

While identifying administrative constraints needs to be central when designing short-term tax policies, the longer-run goal of improving tax capacity (and therefore state building) also needs to be part of policy interventions. There are many shortcomings to the administrative approach. First, the conception of capacity is static. There is no attempt to explain why and how administrative capacities change. Second, there is no explanation as to why tax capacities differ across countries at similar levels of per capita income. Third, there is often little analysis as to why sound tax policies are not enforced. We have argued that the toleration of large-scale tax evasion is often the result of the logic of elite bargains. Low levels of legitimacy are also often behind a state's inability to ensure compliance (Levi 1988) and the genesis and variation in this legitimacy is not analysed in the administrative approach.

Third, we examined how aid flows and multilateral donor reforms affect the patterns of state building. The main lessons drawn from this analysis are as follows: first, aid dependency has not generally harmed the domestic tax effort; second, the initiative of donors introducing Large Taxpayers Offices have generally been successful in increasing revenue collection; third, we argued that high levels of project aid, which often end up 'off-budget', inhibits aid coordination, macroeconomic planning; and weakens the 'fiscal social contract'; and fourth, we found that that the problem of the dual public sector in aid delivery can be overcome through setting up 'dual-control oversight mechanisms' that can reduce corruption and still ensure resources flow through the state.

Finally, we argued that much more research needs to be undertaken on how tax policy affects production strategies. The case of the Colombian Coffee Federation was presented to provide an example of how this might be achieved. The main policy lesson is that too often, tax administrative reforms are designed to increase the tax take and are not coordinated with how taxation affects production patterns. That is, a pro-revenue approach often takes precedence over a pro-growth approach in tax policy.

In terms of future work, there are several areas that may enhance our understanding. First, more research is required on how tax policy affects production strategies. There is very little systematic research on the developmental effects of taxation.

Second, we need to broaden our understanding of taxation to include voluntary or coerced payments to organisations (e.g. political parties, clans, religious organisations, armed groups, warlords, private township associations, burial societies) that command some sort of social legitimacy or authority. By identifying who people give money to in return for security (personal or property) or services (water, adjudication, etcetera) we can map the diverse entities that compete for authority in a 'fragile state'. For example, in Tanzania, there is some evidence that the CCM party collects a substantial amount of tax paid by citizens to finance its activities. It achieves this, in part, through control of regional and local tax collection on agriculture. Such tax collection generally never reaches the bureaucratic administration of the state. This undermines the state's capacity to deliver core state functions and undermines its authority and legitimacy in the eyes of citizens. It may well be the case that such processes are common in many poor countries. If this is the case, then examining the contestation over tax collection may provide a valuable lens into the anatomy and dynamics of state fragility.

Third, much more work is required on the links between taxation and expenditure. The tax system itself does not generate legitimacy, but rather the manner in which tax is spent is often central to state legitimacy and resilience. If public expenditure does not contribute to providing social order, protecting property rights, or providing at least some adequate social service delivery to the poor, then it becomes more difficult to legitimate tax reforms. There is little evidence on what matters in terms of policy sequencing between tax reform and public expenditure.

Finally, while taxation patterns provide some important clues about the sources of state resilience, there is still much further to go in understanding the political economy of state resilience. In particular, more research is needed to assess how foreign actors, such as multinational companies and international donors, affect both the nature of taxation and the dynamics of elite bargains. Apart from mining deals, policies on mining transparency (such as EITI), initiatives to crack down on tax havens, off-shore centres and money laundering, and the increasing importance of environmental tax initiatives, all may have substantial effects on tax-collection processes in the future.

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