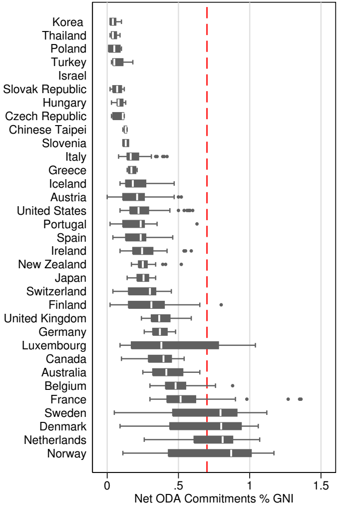
Tax Aid Curse? International Taxation Assistance in Developing Countries

Laura Seelkopf and Ida Bastiaens

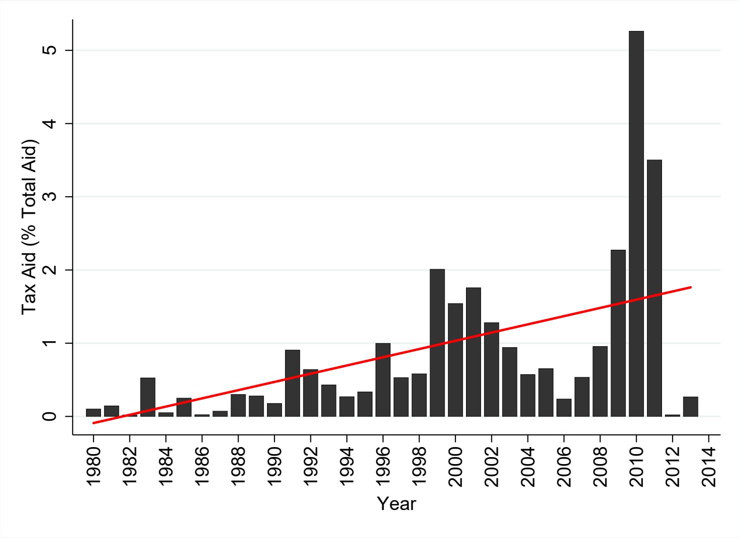
DIE Bonn, 28-29 November 2017

Why do developing countries need more revenue?

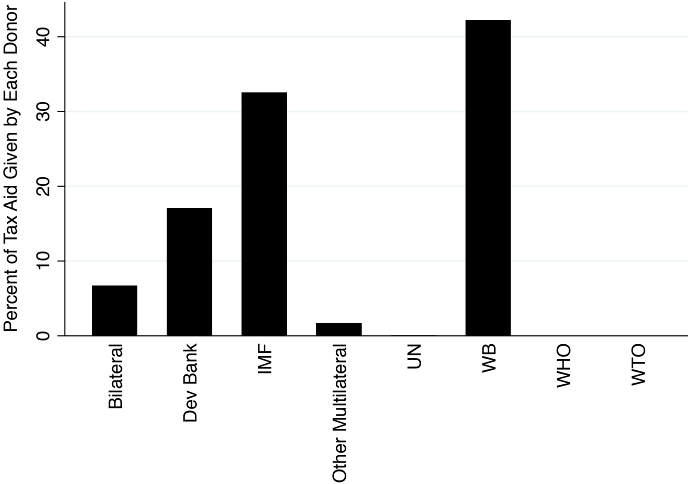
Why is development aid not enough?



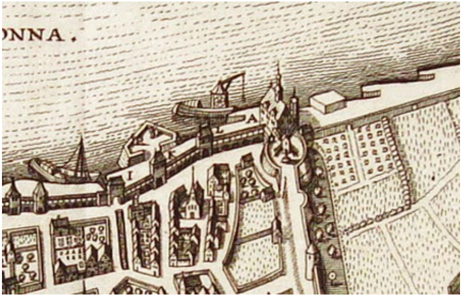
The rise of tax aid



Who gives tax aid?



Tax aid in practice - a quest for efficiency



- Strengthen tax administrations
- Focus on biggest tax payers
- Introduce the VAT

Data and method

- UoA: 127 developing countries, 1972-2013
- Dependent variables (DVs):
  - Tax revenues % GDP: total, domestic, trade, goods, income
  - Informality: Informal employment, firm formally registered
  - Regime type and public education expenditure
- IV: Tax aid % GDP
- Controls: ODA, growth, trade, GDPpc, regime type, agriculture
- Method: OLS and 2SLS with FE and YE

Empirics: the effect of tax aid

- Tax aid increases domestic tax revenue overall
  - It decreases income (and trade) tax revenue
  - It increases goods tax revenue
- Tax aid increases informality - both for firms and individuals
- Tax aid does not solve the aid curse
  - Income tax revenue increases democracy and education spending
  - Via its negative effect on income taxes, tax aid has potentially negative effects on both
  - Goods tax revenue has no effect

The future of tax aid

- The good news: Tax aid is effective
- The bad news: The efficiency focus is bad for equality and democracy
- Tax aid curse: Back to Kaldor (1963)?!