

Evaluating Donor Support for Tax Reform in the Pacific



A well functioning tax system is a critical part of any country's financial systems. It provides revenue for government to fund its services. In Pacific countries, taxation ensures greater self-sustainability and less reliance on remittances and aid flow.

The Ministry of Foreign Affairs and Trade commissioned a strategic evaluation of donor assistance for taxation reform in the Pacific from 2002 to 2012. Conducted by the Sapere Research Group, the evaluation provides insights into the process of tax reform and how it might be improved to deliver better results.

Reforms in sixteen Pacific Island countries were studied. There were also detailed case studies of reforms in Kiribati, Samoa, Solomon Islands and Tonga.

The reason for evaluating

The evaluation found that, despite improvements achieved in taxation systems, reform, outcomes still remain fragile. Reforms to date have focused on changing rules and administration infrastructure as opposed to behavioural change. According to the report, the fragility is partly due to donors' focus on short term technically focused projects rather than systematic tax reform.

Significant improvements are predicted from donors moving to more systematic and co-ordinated engagement and dialogue with Pacific countries. This would entail donor countries working with these countries to focus on incremental changes to their whole tax system. In practice, this could mean supporting broad mentoring type engagements between donor country tax departments and their Pacific counterparts.

Broader engagement initiatives with community and private sector organisations similar to those in New Zealand should also be considered. These initiatives could ensure buy-in for tax reform and incentivise voluntary compliance.

Findings from the evaluation will be used to inform and influence future policy and practice of donors, our partners and our stakeholders.

Key findings

> Donor Effort

There has been considerable donor effort to support tax reform in the Pacific.

> Improvements

The support provided has produced improvements to tax systems that are consistent with good international practice.

> Effective

There was effective local ownership and strong policy dialogue between hosts and donors.

> Dialogue

Reform processes have provided for effective dialogue at each stage of reform.

> Benefits

A more systematic and less project based approach to tax reform would yield significant benefits in the Pacific.

The evaluation will be available on the New Zealand Aid website from July 2014