

# ***The role of customs (and taxation) in the social contract in developing countries***

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# Main messages

- Tax agencies (starting from customs) in developing countries greatly contribute (or not) to a stronger fiscal contract and increased revenue collection (or not),
- For the time being, tax fairness has been forgotten
- It is time to put back at the centre of the agenda – how you tax is more important than how much.
- Customs should/can play a major role to contribute to more tax fairness in developing countries (prevent more illicit financial flows and refocus controls to large and colluding taxpayers).

# What is a fiscal contract?

- Old concept of social contract— back to Rousseau (1762 Du Contrat Social); Importance of a ‘fair’ (juste) social organization,
- Citizens consent to pay taxes because they receive public goods in return (Levi, 1988; Schumpeter, 1991; Tilly, 1990; Timmons, 2005, Brautigam et al., 2008;).
- Taxation expected to constitute a major and crucial part of the social contract between the citizens and the state (Pritchard 2019)

# Why does it matter for taxation?

- **Tax acceptance/compliance** depends on:
  - Service delivery (or the perception of it related to the expectations)
  - State legitimacy (or perception of it)
  - But also the level of corruption (Jahnke 2019)/illicit financial flows/problem of unfairness of taxation (wealthiest do not pay what is expected/poor are unfairly taxed)

=> Tax unfairness will lead to low tax compliance and ultimately low revenues.

# Why is it relevant for customs?

- Since it mainly collects indirect taxes (price is borne by the consumer but not paid directly to the state), it does not contribute directly to the fiscal contract,
- But, in developing countries, between 30% to 50% of revenues are collected by customs => can play a major role in terms of fairness (behavior with importers/large traders (who are citizens), corruption/integrity...),
- Customs is the face of the state in many places (especially in remote regions)

=> How customs officers behave impacts the perception of state fairness (and then revenue collection) (how you tax is more important than how much you tax (Fjeldstadt et al. 2019)).

# What is the reality of customs collection in some developing countries?

- Paradox: (large) traders are the biggest contributors BUT also do not pay what should be their fair share. ***Biggest contributors are usually the biggest evaders (and block reforms).***
- In consequence, (supposed) crackdown on the ‘informal sector’ (obsession registration, Moore 2021),
- Largest contributors are not necessarily the ones that should be (luxury cars vs. basic food products).
- Customs are also ‘enablers’ in some countries of illicit financial flows (Cobham 2022).

# What should be done to increase tax compliance and contribute to the fiscal contract?

- Think about the impact of officers' behaviors on state perceptions,
- Review respective taxation levels between 'normal' taxpayers and 'exempted/partially exempted' ones,
- Review sectoral contributions and compute effective tax rates across sectors,
- Tackle more aggressively tax evasion (for the largest evaders and not necessarily 'small fish'),
- Be even more cautious with 'small' importers on staff behaviors.

# Some concluding remarks

- Not a problem of capacity/lack of financing-equipment for customs,
- More an issue of being aware of the importance of staff behaviors on compliance and revenue collection (enforcement impact is limited and can be a (double) source of problem),
- Need to develop more evidence and discuss between tax agencies/departments the importance of tax (un)fairness.

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- Thank you for your attention!