

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!