

# Taxation and livelihoods: evidence from fragile and conflict-affected situations

## Key messages

- In developing countries - particularly those affected by conflict - people and small businesses often have to make a variety of payments to a range of actors. These payments take the form of both formal and informal taxes.
- A narrow focus on formal tax (administered by governments through official channels) does not capture the complex, multi-layered reality of taxation.
- The cumulative economic impact of formal and informal taxes on poor people is often significant, but the implications for state-building and governance are unclear.

## Evidence Brief

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SLRC Evidence Briefs discuss the geographical, methodological and thematic nature of the evidence base, summarise key findings, what the research means for policy-makers, and links to relevant empirical material. This and other SLRC Evidence briefs are available from [www.securelivelihoods.org](http://www.securelivelihoods.org). Funded by DFID, Irish Aid and EC.

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## Introduction

Despite growing interest in the linkages between taxation, development and governance, surprisingly little attention has been paid to the relationship between taxation and people's livelihoods, particularly in places affected by conflict. Yet, it is in these contexts that people encounter fierce challenges to livelihood recovery, often finding themselves operating in a political economy environment that is at once complex and shifting, as well as brutal and exploitative. People affected by conflict tend to have urgent service-related needs, and violent conflicts can erode trust in governance actors.

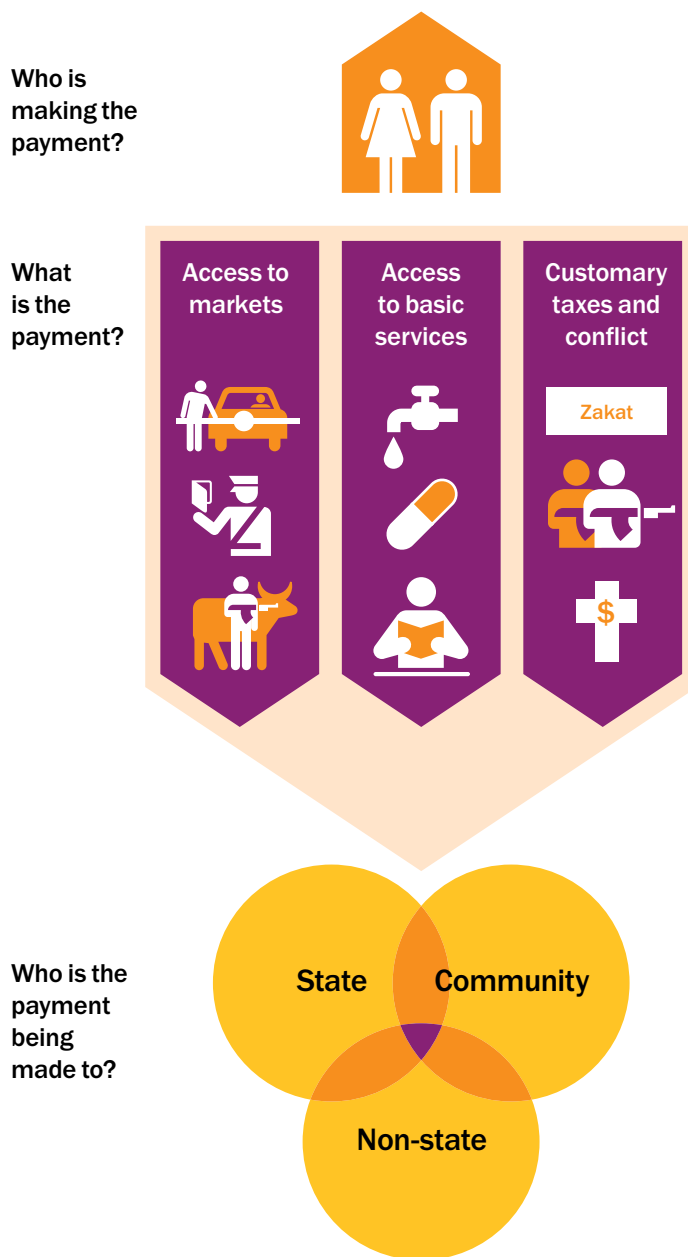
Drawing on a recent working paper ([Lough et al., 2013](#)), this evidence brief provides an overview of the evidence base when exploring the relationship between taxation and livelihoods in conflict affected situations. It discusses the geographical, methodological and thematic nature of the evidence base, summarises key findings, clarifies what the research means for policy-makers, and provides links to relevant empirical material.

## What is this Evidence Brief based on?

The working paper on which this evidence brief is based emerged through a selective review of key literature on taxation and livelihoods in low-income rural areas (particularly those affected by conflict) in more than 20 countries. The review involved a search of key journal databases using pre-determined search strings and, for retrieved documents, full text searches for key words. The same process was repeated using Google Scholar and the standard Google search in order to capture institutional and non-academic literature on the topic. Snowball sampling was also used, with the starting point determined by references from key documents and existing literature reviews. As the study progressed, the publication records of any authors whose work emerged as particularly relevant were also reviewed, along with the publication databases of organisations involved in similar research. The authors also shared and discussed the project's concept note with academics, researchers and practitioners in relevant fields.

How does taxation really work in fragile and conflict-affected situations?

- Individuals, households and small businesses are taxed, not just by central and local government by a range of actors, from military officials and insurgent groups to customary managers of common-pool resources and local authority figures. Those to whom the payments are being made often overlap.
- Taxes that are enforced exhibit varying degrees of formality. Informal taxes can be heavily institutionalised and may fund public services when the state cannot. Some are administered within codified frameworks and through official channels, while others are imposed on an informal, less regulated and potentially more coercive basis. Examples of such informal taxes include customary levies and tithes, payments made at checkpoints and roadblocks, and money elicited in exchange for functions that should be provided free at the point of service.
- The burden of informal taxes on households in low-income rural areas may be just as, if not more, substantial than the burden of formal taxes.
- Multiple taxation – both formal and informal – can have powerful cumulative effects on household and business economies. Taxes not only directly affect spending, but they can also influence economic behaviours and activities – for example, by deterring individuals from pursuing particular livelihood options. As the number of taxes rises and the overall burden becomes heavier, households may find themselves unable to accumulate assets, thereby slowing post-conflict economic recovery at the micro level.
- In many cases, taxation does not work in the interests of those paying the taxes. Taxation can be used to fund basic services, social protection transfers, and other vital public goods. But these benefits are not always realised, possibly due to a number of reasons, including: 1) the impact of informality, coercion, and social networks on processes of distribution and exchange; 2) a disconnect at the district level between revenue collected and services provided; 3) the existence of regressive tax regimes; and / or 4) the loss of revenues as a result of inefficiencies within the collection system.

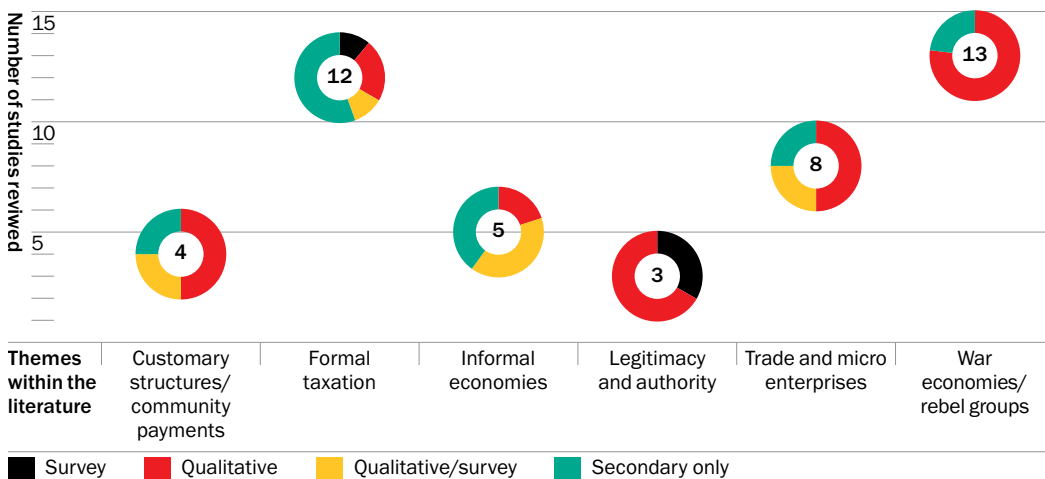


Some illustrative examples

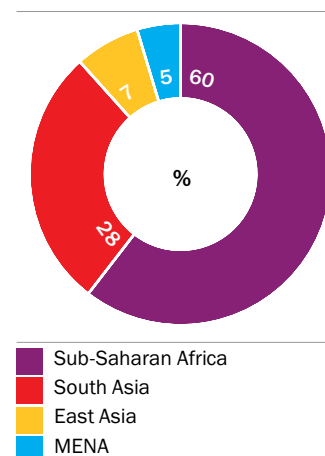
	<b>Sudan</b> (Buchanan-Smith et al., 2012)	<b>Somalia</b> (Hedlund et al., 2013)	<b>Uganda</b> (Bahiigwa et al., 2004)
<b>Who is making the payment?</b>	A livestock traders in Darfur	A refugee in a Somali refugee camp	A poor household in rural Uganda
<b>What is the payment?</b>	Protection money Payment of checkpoint fees for market access Increased trading costs	Rent payments Percentage payment on all cash transfers and food aid received (typically between 5% and 10% per transfer)	Various local government taxes First quartile (lowest income) pay 12% of total household income; second quartile pay 6%; third quartile pay 4%; fourth quartile (highest income) pay 3%
<b>Who is the payment being made to?</b>	Private armed guards People at checkpoints Local authorities	Local authorities; Camp gatekeepers	Local government

## What does the evidence base look like?

This figure classifies the evidence into six thematic areas. It shows how many studies were retrieved and reviewed, and what kinds of methodology were employed



Geographical focus of evidence



### So, what does this all mean?

#### Informal taxation is a policy and research blindspot.

If researchers, international actors and governments are interested in the relationship between taxation and livelihoods, then an exclusive focus on formal tax by state actors is inadequate. By limiting academic and policy attention to taxes administered through official statutory frameworks, the detrimental effects of multiple taxation on individuals, households and small businesses will be missed. What we are left with is an incomplete picture of how people make their livelihoods at the local level, why particular economic activities continue to be pursued or avoided, and how particular institutional contexts either enable or constrain the potential for wealth accumulation. Against a backdrop of significant donor support for economic recovery in conflict-affected situations, these issues represent striking analytical and policy blindspots.

#### To support pro-poor economic recovery, reform of formal and informal taxation regimes is needed.

However, alleviating the pressures of taxation regimes – particularly those which do not benefit the taxpayer – is not straightforward. In many cases, informal taxes operate as part of a protection racket set-up, meaning that finding realistic ways to change the incentives for those who gain from such behaviours is a difficult and politically sensitive task. Formal taxation systems need to be both able and willing to regulate extractive behaviour by other actors.

**We know that multiple taxation exists – and that its economic effects can be significant – but our current understanding does not go far beyond this.** Further research into the types and nature of payments made by individuals, households and businesses, and the kinds of institutional contexts that enable their existence, will help those with the mandate and capacity to engineer reforms to decide where and how to do so.

### If you only read five things, make them...

- 1 Titeca, K. and Kimanuka, C. (2012) [‘Walking in the Dark: Informal cross-border trade in the Great Lakes Region’](#). London: International Alert. *This report analyses the dynamics of small cross-border trade in eastern DRC, and between Burundi and Rwanda.*
- 2 Bahiigwa, G., Ellis, F., Fjeldstad, O-H. and Iversen, V. (2004) [‘Rural Taxation in Uganda: Implications for growth, income distribution, local government revenue and poverty reduction’](#). Kampala, Uganda: Economic Poverty Research Centre. *This study uncovers serious flaws in the design and practice of existing local government tax regimes in rural areas of Uganda.*
- 3 Prud’homme, R. (1992) [‘Informal local taxation in](#)

- 4 [developing countries’](#). *Environment and Planning C: Government and Policy* 10(1): 1-17. *This paper attempts to apply to the area of local taxation in developing countries the concept of ‘informality’ which has been so successfully utilized in other areas.*
- 5 Olken, B. and Singhal, M. (2011) [‘Informal taxation’](#). *American Economic Journal: Applied Economics* 3: 1-28. *This paper uses microdata from ten countries to establish on the magnitude, form, and distributional implications of this informal taxation.*
- 6 Juul, K. (2006) [‘Decentralization, local taxation and citizenship in Senegal’](#). *Development and Change* 37(4): 821-46. *This article deals with the politics of revenue collection in the small village of Barkedji in the pastoral region of Senegal.*

Reviewed studies forming the evidence base, by country

**Afghanistan**

Brick, J. (2008) *The Political Economy of Customary Village Organizations in Rural Afghanistan*, Madison, WI: University of Wisconsin

Collinson, S. (ed) (2003) *Power, Livelihoods and Conflict: Case studies in political economy analysis for humanitarian action*, London: Overseas Development Institute

Felbab-Brown, V. (2006) 'Kicking the opium habit? Afghanistan's drug economy and politics since the 1980s', *Conflict, Security and Development* 6.2: 127-49

Giustozzi, A. (2010) *Negotiating with the Taliban: Issues and prospects*, New York, NY: The Century Foundation

Jackson, A. and Giustozzi, A. (2012) *Talking to the Other Side: Humanitarian engagement with the Taliban in Afghanistan*, London: Overseas Development Institute

Kantor, P. and Pain, A. (2010) *Securing Life and Livelihoods in Rural Afghanistan: The role of social relationships*, Kabul: Afghanistan Research and Evaluation Unit

Savage, K., Delesgues, L., Martin, E. and Ulfat, G. (2007) *Corruption Perceptions and Risks in Humanitarian Assistance: An Afghanistan case study*, London: Overseas Development Institute

**Chad**

Roitman, J. (2007) 'The Right to Tax: Economic Citizenship in the Chad Basin', *Citizenship Studies* 11.2: 187-209

**Democratic Republic of Congo**

Haver, K. (2009) *Self-Protection in Conflict: Community strategies for keeping safe in the Democratic Republic of Congo*, Oxford: Oxfam GB. (Unpublished)

Tegara, A. and Johnson, D. (2007) *Rules for Sale: Formal and informal cross-border trade in Eastern DRC*, Goma: Pole Institute

Titeca, K. (2011) 'Access to resources and predictability in armed rebellion: the FAPC's short-lived "Monaco" in eastern Congo', *Africa Spectrum* 46.2: 43-70

Van Damme, S. (2012) *Commodities of War: Communities speak out on the true cost of conflict in eastern DRC*, Oxford: Oxfam International

Titeca, K. with Kimanuka, C. (2012) *Walking in the Dark: Informal cross-border trade in the Great Lakes Region*, London: International Alert

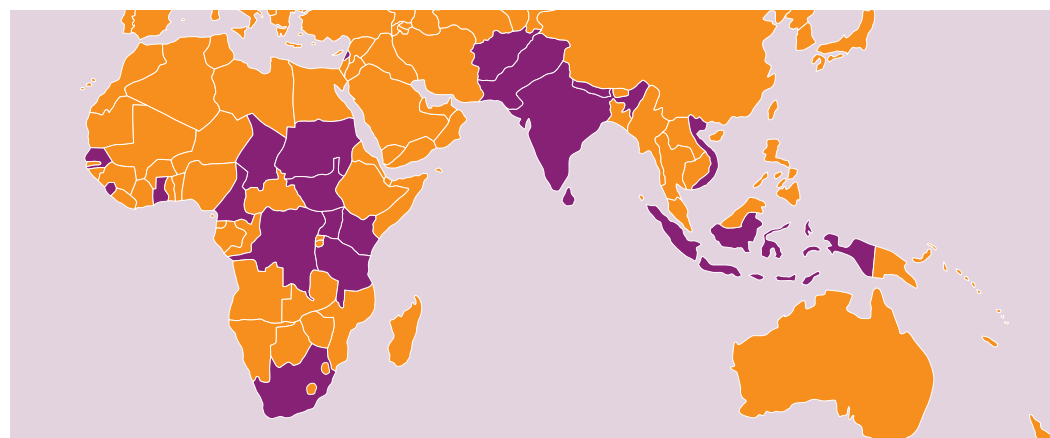
**Ghana**

Caroll, E. (2011) *Taxing Ghana's Informal Sector: The experience of women*, London: Christian Aid

Prichard, W. with Bentum, I. (2009) *Taxation and Development in Ghana: Finance, equity and accountability*, Chesham, Bucks: Tax Justice Network/ISODEC

**India**

Ogra, A. and Kundu, D. (2011) 'Local taxation of informal economies: a



case study of two Indian states', in N. Devas (ed), *Local Taxation and Informal Economies*, Budapest: Local Government and Public Sector Reform Initiative of the Open Society Foundations

**Indonesia**

Beard, V. (2007) 'Household contributions to community development in Indonesia', *World Development* 35.4: 607-25

Suharto, E. (2011) 'Opportunities and challenges of taxing the urban informal economy in Indonesia', in N. Devas (ed), *Local Taxation and Informal Economies*, Budapest: Local Government and Public Sector Reform Initiative of the Open Society Foundations

**Kenya**

Perouse de Montclos, M-A. and Kagwanja, P. (2000) 'Refugee camps or cities? The socio-economic dynamics of the Dadaab and Kakuma camps in Northern Kenya', *Journal of Refugee Studies* 13.2: 205-22

Thomas, B. (1987) 'Development through Harambee: Who wins and who loses? Rural self-help projects in Kenya', *World Development* 15.4: 463-81

**Lebanon**

Pascovich, E. (2012) 'Social-civilian apparatuses of Hamas, Hizbullah and other activist Islamic groups', *Digest of Middle East Studies* 21.1: 126-48

**Nepal**

Holtermann, H. (2010) *Economic Development and Insurgent Revenue Mobilization in Nepal* [DRAFT], Oslo: PRIO/University of Oslo

**Pakistan**

Zaidi, M. and Paracha, S. (2011) 'Local taxation and the informal sector in Pakistan: Increasing local government revenues in the Faisalabad and Sukkur Districts of Pakistan', in N. Devas (ed), *Local Taxation and Informal Economies*, Budapest: Local Government and Public Sector Reform Initiative of the Open Society Foundations

**Senegal**

Juul, K. (2006) 'Decentralization, local taxation and citizenship in Senegal', *Development and Change* 37.4: 821-46

**Sierra Leone**

Acemoglu, D., Reed, T. and Robinson, J. (2013) *Chiefs: Elite control of civil society*

and economic development in Sierra Leone, Cambridge, MA: National Bureau of Economic Research

Prichard, W. and Jibao, S. (2010) *Building a Fair, Transparent and Inclusive Tax System in Sierra Leone*, Chesham, Bucks: Tax Justice Network/Budget Advocacy Network/National Advocacy Coalition on Extractives

**Sri Lanka**

Sarvananthan, M. (2007) *Economy of the Conflict Region in Sri Lanka: From embargo to repression*, Washington DC: East West Center

**Sudan**

Buchanan-Smith, M. and Fadul, A. with Tahir, A. and Aklilu, Y. (2012) *On the Hoof: Livestock trade in Darfur*, Nairobi: UNEP/Tufts University Feinstein International Center

**South Africa**

Van Kessel, I. and Oomen, B. (1997) "'One Chief, One Vote": The revival of traditional authorities in post-apartheid South Africa', *African Affairs* 96: 561-85

**South Sudan**

Milner, C. (2012) *Crossing the Line: Transhumance in transition along the Sudan-South Sudan border*, Cambridge, UK: Concordis International

**Tanzania**

Fjeldstad, O-H. (2001) 'Taxation, coercion and donors: local government tax enforcement in Tanzania', *The Journal of Modern African Studies* 39.2: 289-306

**Uganda**

Bahiigwa, G., Ellis, F., Fjeldstad, O-H. and Iversen, V. (2004) *Rural Taxation in Uganda: Implications for growth, income distribution, local government revenue and poverty reduction*, Uganda: Economic Poverty Research Centre

Pimhidzai, O. and Fox, L. (2012) *Taking from the Poor or Local Economic Development: The dilemma of taxation of small informal enterprises in Uganda*, Washington DC: World Bank

Titeca, K. and de Herdt, T. (2010) 'Regulation, cross-border trade and practical norms in West Nile, North-Western Uganda', *Africa* 80.4: 573-94

Werker, E. (2007) 'Refugee camp

economies', *Journal of Refugee Studies* 20.3: 461-80

**Vietnam**

Akram-Lodhi, H. and van Staveren, I. (2003) *A Gender Analysis of the Impact of Indirect Taxes on Small and Medium Enterprises in Vietnam*, The Hague: Institute for Social Studies

**Cross-Country**

World Bank (2011) *Facilitating Cross-Border Trade Between the DRC and Neighbours in the Great Lakes Region of Africa: Improving conditions for poor traders*, Washington DC: World Bank

Flanigan, S. (2008) 'Nonprofit service provision by insurgent organizations: the cases of Hizballah and the Tamil Tigers', *Studies in Conflict & Terrorism* 31.6

Fjeldstad, O-H. and Heggstad, K. (2012) *Local Government Revenue Mobilisation in Anglophone Africa*, ICTD Working Paper 7, Brighton: Institute of Development Studies

Gemmill, N. and Morrissey, O. (2005) 'Distribution and poverty impacts of tax structure reform in developing countries: how little we know', *Development Policy Review* 23.2: 131-44

Itriago, D. (2011) *Owning Development: Taxation to fight poverty*, Oxford: Oxfam International

Joshi, A., Prichard, W. and Heady, C. (2012) *Taxing the Informal Economy: Challenges, possibilities and remaining questions*, ICTD Working Paper 4, Brighton: Institute of Development Studies

LADDER reports.

Olken, B. and Singhal, M. (2011) 'Informal taxation', *American Economic Journal: Applied Economics* 3: 1-28

Prichard, W. with Benson, M., Milicic, N. and van den Boogaard, V. (2012) *Building Effective Tax Systems in Post-Conflict States: Questions, challenges and trends* (unpublished draft)

Schomerus, M. and Titeca, K. (2012) 'Deals and dealings: inconclusive peace and treacherous trade along the South Sudan-Uganda border', *Africa Spectrum* 47.2-3: 5-3