

Symposium on Fiscal Capacity, Tax Compliance, and Development

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1. Introduction

Taxation and state capacity lie at the heart of economic development and governance. Effective fiscal systems are vital not only for mobilizing revenue but also for fostering trust in public institutions, reducing inequalities, and enabling sustainable development. Yet, the challenges of revenue mobilization—stemming also from increasing government deficits and further exacerbated by economic downturns and the COVID-19 pandemic—remain pressing in many developing and emerging economies, where weak institutions, limited state capacity, and pervasive informality hinder revenue collection and redistribution efforts (Acemoglu et al. 2001; Besley and Persson 2009; Besley et al. 2013).¹

Recent estimates suggest that achieving the UN Sustainable Development Goals (SDGs) in low-income countries will require an increase in domestic revenues equivalent to roughly 15 percentage points of GDP (Gaspar et al. 2019), a projection made prior to the revenue loss caused by the COVID-19 pandemic.² Since the onset of the pandemic, general government debt in developing countries has also risen by about 5 percentage points of GDP, considerably exacerbating the revenue challenges and calling for many countries (particularly in Africa and Latin America) to implement reforms aimed at improving efficiency in tax administration and increasing compliance.

With the support of International Organizations (for example, the International Monetary Fund, World Bank, and the United Nations) and Research Institutes (such as the Tax Administration Research Centre and the International Centre for Tax and Development in the UK), these reforms range from identifying best practices for

¹ The objective of this introductory note is not to provide a review of the literature but to put the papers featured in this symposium into context. For insightful surveys on resource mobilization and development see, for example, OECD (2008), and IMF (2011). The literature is of course much broader, covering the important issue of taxation, where the experience of developing countries differ vastly. Some aspects of this are covered in the recent symposium (VV.AA. 2024).

² The lack of revenues for developing countries also imply more reliance on external aid and support for the revenues needed for public goods and basic infrastructure (Gaspar et al. 2019). This reliance is also a major concern of many advanced countries, as they must ensure that any aid is utilized effectively by low-income countries rather than it discourages their own revenue-raising efforts.

management and governance arrangements in tax administration to the processes and systems that drive operational performance, including the use of technology (such as e-invoicing) and predictive analytics. Despite significant progress in these areas, the existing evidence suggests that tax enforcement policies in developing countries are still underutilized (see, among others [Mascagni et al. 2019](#); [Almunia et al. 2022](#); [Best et al. 2021](#); [Kotsogiannis et al. 2024, 2025](#)) and there is much more to be done.

2. Structure and Contributions to the Symposium

This CESifo Economic Studies Symposium brings together insightful research exploring the interconnections between fiscal capacity, tax compliance, and development. The contributions span diverse approaches, methodologies, contexts, and policy challenges, offering fresh insights into how tax systems can be leveraged to promote efficiency and equitable growth. The four articles selected for this symposium exemplify the depth and breadth of the field, addressing both theoretical underpinnings and practical applications, and providing direction for future research. Below is a brief summary of the papers, presented in the order they appear in the symposium. We hope the topicality of the issues will encourage research and policymakers to engage thoughtfully with the topics, and this excellent selection of contributions.

The article by [Muñoz-Sobrado et al. \(2024\)](#), lays the theoretical groundwork by conducting a comprehensive literature review on the role of state capacity in economic development. The authors systematically define state capacity, focusing on its fiscal and administrative dimensions, and explore its measurement and historical determinants. They argue that robust state capacity is essential for effective governance, resource mobilization, and public service delivery. By linking state capacity to development, the paper dismisses the one-size-fits-all as policy advise thereby underscoring the importance of tailored approaches that reflect each nation's socio-political context. This foundational analysis provides a critical lens through which policymakers can design strategies to strengthen state institutions and foster sustainable development.

[Doligalski and Rojas \(2024\)](#) shift the focus to the informal sector, analysing its welfare implications through a theoretical framework calibrated to Colombia. The authors reveal the dual nature of informality: while it can enhance labour efficiency, it often undermines redistribution efforts. Their findings highlight the trade-offs between efficiency gains and redistribution costs, emphasizing the need for differentiated policy approaches. One particularly provocative insight from this contribution is the suggestion of tailoring audit efforts based on workers' productivity levels, potentially striking a balance between revenue generation and equity. This contribution challenges traditional views on informality and offers nuanced strategies for policymakers navigating this pervasive challenge.

The contribution by [Ebrahim et al. \(2024\)](#), examines the role of Value-Added Tax (VAT) in Tanzania, focusing on Small, Medium, and Micro Enterprises (SMMEs). Employing machine learning techniques to analyse audited firm data, the authors uncover significant gaps between potential and actual VAT collections. This research highlights the untapped potential of VAT as a revenue tool and underscores the importance of targeted interventions to enhance compliance. By advocating for tailored policies that address the unique challenges faced by SMMEs, the authors not only advance the discourse on VAT administration but also provide actionable recommendations for strengthening fiscal capacity while supporting the growth of SMMEs.

[Tuyishimire and Murorunkwere \(2024\)](#) showcase the transformative potential of Big Data analytics in tax compliance monitoring within Rwanda's VAT system. Utilizing advanced machine learning models, the authors identify patterns of underreporting and propose strategies for optimizing audit processes. Their findings emphasize the value of data-driven approaches in enhancing tax administration efficiency and reducing compliance costs for honest taxpayers.

This contribution not only demonstrates the practical utility of predictive analytics in tax compliance but also highlights their broader implications for revenue mobilization and state capacity.

No doubt there are many challenges for developing countries, not least in terms of the appropriate organizational structure of tax authorities that can address issues of political interference (and corrupt practices) that are seen as fundamental obstacles to compliance. To this effect, considerable effort has been put into the creation of quasi-independent revenue authorities.³ The establishment of such structures—and the autonomy of revenue authorities to carry out tax administration on their own—is thought to enhance revenue collection, reduce tax evasion, and improve taxpayer services. Whether they do is, however, an interesting empirical question.

The contributions also highlight that there is a need for more effective evaluation of policies, lack of which partly reflects weaknesses of data, and partly an understanding by developing (and emerging) governments of how informative these evaluation for policy making they can be. This is something that is however rapidly changing, and there are now many recent examples of useful collaborations between researchers and governments, with the contribution by [Ebrahim et al. \(2024\)](#) in this symposium being one of them.

Collectively, these articles underscore the multifaceted nature of fiscal capacity and its critical role in development. From theoretical explorations of state capacity to empirical analyses of tax compliance and informality, the contributions offer a rich tapestry of insights. Together, they highlight the need for innovative, context-sensitive policies that leverage fiscal systems as instruments for sustainable and equitable growth. We hope this symposium will inspire further research and dialogue on the critical nexus of fiscal capacity, tax compliance, and development, advancing our understanding of how effective tax systems can drive progress in diverse settings.

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Conflict of Interest

The authors declare that they have no conflicts of interest.

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³ In the sense that tax administration functions are separated from the Ministry of Finance.

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