eJournal of Tax Research

Volume 9, Number 1 July 2011

CONTENTS

UNSW
THE UNIVERSITY OF NEW SOUTH WALES
SYDNEY • AUSTRALIA

eJournal of Tax Research (2011) vol. 9, no. 1, pp. 5-37

Benchmarking Tax Administrations in Developing Countries: A Systemic Approach

Jaime Vázquez-Caro and Richard M. Bird

Abstract
Benchmarking as a way of establishing standards for evaluating the performance of tax administrations has become increasingly popular in recent years. Two common approaches to benchmarking are 'benchmarking by numbers' – the quantitative approach -- and 'benchmarking by (presumed) good institutional practice' – the qualitative approach. Both these approaches consider each component or aspect of the tax administration separately. This paper suggests a contrasting approach to benchmarking, the purpose of which is less to allow others to assess the performance of a tax administration than it is to permit an administration to understand and improve its own performance. This systemic approach is more conceptually and operationally difficult because it requires considering how all aspects of the administrative system function as a whole in the context of the environment within which that system is embedded and operates. On the other hand, it is also more directly aimed at understanding and improving the key operational strategies that define good, better and best tax administrations.

1. INTRODUCTION

Benchmarking as a way of establishing standards for evaluating the performance of tax systems has become increasingly popular in recent years.[1] The concept of benchmarking, which emerged from management literature, can be thought of as a systematic process for identifying and measuring 'performance gaps' between one's own outputs and processes and those of others, usually those recognized as leaders in the field. Alternatively, in some instances the gap assessed is that between actual performance and some hypothetical 'ideal' performance. In either case, the motivation underlying such studies is presumably that by identifying such gaps one

The authors are, respectively, an economic consultant in Bogotá, Colombia, and Professor Emeritus of Economics, University of Toronto, Canada. They are grateful to Raul Junquera-Varela and Jackie Coolidge for helpful comments on an earlier version of this paper, which was originally presented at the 9th International Conference on Tax Administration, Sydney, April 2010. Corresponding author: Richard M. Bird, Rotman School of Management, University of Toronto, 105 St. George Street, Toronto, ON, Canada M5S 3E6. Email: rbird@rotman.utoronto.ca

[1] See Gallagher (2005) as well as the database and discussion to be found on the website http://www.fiscalreform.net/. For examples of benchmarking in developed countries, see Australian Tax Office (2001) (an example of international benchmarking with respect to a major administrative change), and Canada Revenue Agency (2008) (an example of benchmarking performance against established service standards over time). For an overview of comparative tax administration practices in (mainly) developed countries, see OECD (2009); similar data for a number of African countries may be found in International Tax Dialogue (2010). Robinson and Slemrod (2009) is a first attempt to incorporate some of the useful information collected by the OECD into a more systematic cross-country study. The OECD data, though very valuable, must be used very carefully for such purposes owing to the many comparability problems that remain to be sorted out.

Performance is usually defined as the relationship between what an institution does – its outputs – and what it uses to do it with – its inputs. What most benchmarking exercises do is essentially to consider (some) inputs --for example, money, people and the extent and nature of IT (information technology) -- and (some) outputs -- for example, revenue collection, arrears and evasion detected – with respect to a particular set of activities packaged within a particular organizational structure. In addition, benchmarking exercises may sometimes also consider a few aspects of the rather dark box within which policy design (architecture), implementation systems (engineering), and operations (management) combine to turn inputs into outputs. Even the most extensive benchmarking study, however, can neither tell the whole story nor permit direct inferences about causality.

As noted earlier, the information obtained from such exercises is more likely to be useful if it is in the interest of those who provide the information to do so accurately. It is also more likely to result in meaningful change if it is in sufficient detail (for example, setting out clearly the relative importance of non-reporting, underreporting and non-payment as components of the tax gap by economic sector) to help managers identify risks and deal with them. To put this point another way, as we develop in more detail later, the objectives that are benchmarked must be congruent with the real strategic objectives of the organisation. In addition, in principle input from clients (taxpayers) with respect to the level and quality of service and compliance costs should also be included in benchmarking exercises.[4] Finally, international benchmarking comparisons must take into account at least the key relevant aspects of the different environments (income level and distribution, growth rate, inflation rate, degree of 'informality,' etc.) within which the activities being compared take place.[5]

Much real-world benchmarking of tax administrations is deficient in one (or sometimes all) of the respects just mentioned. Nonetheless, the basic logic of benchmarking is sound and should in principle be both attractive and useful even to those who are being benchmarked: if other organizations deliver similar services better than you do, why not learn from them? Modifying and adapting the successful practices of others has always been an important way in which individuals and organizations improve their performance. Indeed, tax administrations around the world are currently increasing the extent to which they share information with other administrations in an effort to improve both their own performance and to control tax evasion and avoidance practices that have become increasingly 'globalized' in recent

[4] An important question that is not explored here is the extent and manner in which surveys with respect to how the public perceives the revenue administration should be explicitly factored into the discussion. For example, in an interesting early Indian study of public sector agencies such as hospitals and electricity distributors, perceptions with respect to staff behaviour (eg, with respect to corruption) and the amount and reliability of the information provided to the public were found to overlap strongly with perceptions of the quality of the service provided

decades. Such information exchanges are obviously useful and are likely to become even more important in the future.[6]

One common aim of benchmarking tax administrations is of course to improve their operation, for instance, by allowing consultants and international agencies to provide somewhat more objective 'grading' or 'ranking' appraisals of tax administrations in developing countries than they might otherwise be able to do.[7] However, if, as is often the case in developing countries, the intended objective at least in principle is ultimately to provide some useful guidelines for restructuring a particular tax administration – as it were, to lay the basis for a 're-engineering' strategy so

2. APPROACHES TO BENCHMARKING

Three broad approaches to benchmarking may be found in practice and in the literature. The first, and by far the most popular, is 'benchmarking by numbers' – the quantitative approach. The second, also popular, is 'benchmarking by (presumed) good institutional practice' – the qualitative approach. In practice, mixed varieties of these two approaches are also commonly found. It is easy to mix them because both approaches share an important common characteristic: they consider each component or aspect of the tax administration separately. In contrast, the third approach -- the systemic approach set out later in this paper -- requires considering how all aspects of the administrative system function as a whole in the context of the environment within which that system is embedded and operates.

2.1 Benchmarking by Numbers

As a simple example of (prescriptive) benchmarking by numbers, a recent World Bank study (Le, Pham and De Wulf 2007) suggested that the following quantitative benchmarks might be used (along with other indicators) to measure 'success' in revenue administration reform projects such as those that have been financed by the Bank[9]: (1) administrative cost should decline by 30% over project period and (2) compliance cost should be reduced by 2% of tax revenue over project period. These numbers were based largely on a number of different and not always directly included the existence of a fiscal analysis unit as an example of good practice on the assumption – subjective, but based on considerable cross-country experience -- that the non-existence of such a unit made it less likely that there was either a sustained high-level commitment to change or a coherent strategy for change (Bird and Banta 2000). A somewhat similar approach is carried to an extreme by the European Commission (2007) in a document that lays out the 'fiscal blueprint' against which the tax administration in countries applying for admission to the European Union (EU) is to be assessed.

The EU example is particularly noteworthy because point-values are established for several different components of each of 14 different aspects of tax administration with pass marks ('desired scores') set for each. In other words, not only are a large number

the best practices applied in countries like those just mentioned that have demonstrably high compliance levels and appear on the whole to control evasion and avoidance strategies by large taxpayers fairly well.[14] Assuming that this rather vague 'standard' is taken as a starting point, two questions then need to be answered: (1) What constitutes best practice in tax administration? (2) What is the optimal international standard? Both questions are complex.

Often, international practice – as set, for instance, by what 'good' administrations are doing -- is proposed for implementation in a particular country on the assumption that the selected practice fits all situations. However, although segregated large taxpayers units (LTUs) and integrated management systems as well as such features as voluntary compliance, bank collection and returns processing, withholding, and the like are common in 'good' tax administrations, they are not always or necessarily good prescriptions for developing countries.

For such practices to become integral parts of ongoing tax administration systems in particular developing countries they often need careful and sometimes substantial development and context modification. As an example, the implementation in Uruguay of a model of large taxpayers' administration originally designed to cope with the Bolivian crisis of the mid-eighties has been viewed by many as a good example of 'technology transfer' (Silvani and Radano 1992). On the other hand, both the staff of the tax administration and many small and medium taxpayers in Uruguay at the time complained that while the large taxpayers unit (LTU) may have resulted in better services for large taxpayers, it created chaos for the rest. Since presumably, tax administrations should be equitable in satisfying their legal mandate, providing excellent service to those with money and no service (or bad service) to those that are poorer hardly seems an appropriate outcome. This does not mean that the LTU approach is wrong per se or even that it was the wrong thing to do in Uruguay at the time.[15] But it does suggest that a good revenue administration also needs to consider how to improve services to 'non-large' taxpayers as well -- or perhaps in some instances even to exclude them from being expected to meet all the legally required formal tax obligations.[16]

Three distinctions may help identify 'best' practices more precisely: between strategic and operational practices; between explicit and implicit practices; and, finally, between good, better and best practices. We discuss each in turn.

3.1. Strategic and Operational Practices

What constitutes a complete, congruent and modernized tax administration system?[17] A framework that captures both levels and processes is needed to identify specific country gaps in tax administration strategy and managerial practices against any reference base. We use the concepts of *strategic* and *operational* practices to

---

[14] Though of course even the 'best' remains far from perfect, as discussed recently for Canada by Larin and Duong (2009).

[15] As Baer, Benon and Toro (2002) argue, LTUs have proven to be useful in a number of countries.

[16] The two points mentioned in the text, for example, are suggested by the emerging literatures on the 'state-capacity building' importance of good tax administration (Brautigam, Fjeldstadt and Moore 2007) and on the appropriate tax treatment of small and micro enterprises (International Finance Corporation 2007) – literatures that, it should be noted, are by no means always in agreement.

[17] For a full discussion of the notion of "congruence" in this context, see Gill (2000).

differentiate two related but quite different levels of practices determining tax administration performance.

Most important are strategic practices that shape tax administration and that are themselves shaped both by those who design administrative structures (legislatures and top executives) and by those who execute them – for example, the top management of the Australian Tax Office (ATO) or Canada Revenue Agency (CRA). The broad rules of the tax game are set by legal mandates in the form of specific substantive laws as well as by procedural law and administrative law in general. Management interprets these rules by creating institutional, technological and operational ways to secure compliance. The strategic practices that tax administration management adopts in addressing particular issues ultimately become operational practices.

To put this point another way, underlying any operational practice in principle there is presumably either some element of the legal mandate or an identifiable response to specific environmental conditions. If the results observed in any particular operational area are unsatisfactory, this approach to benchmarking suggests that the root cause may be either the absence of appropriate laws and regulations or an inappropriate managerial approach addressing the specific issue. It is obviously important to know which of these problems exist.

In practice, many benchmarking efforts even in developed countries focus on such *operational practices* as audit and taxpayer service. For example, the Canada Revenue Agency (CRA) reports that in 2006–07 only 36% of actuarial valuation reports met its 'service standard' of being completed within nine months, compared to the expected target of 80% (Canada Revenue Agency 2008). If this 'target' makes sense, then presumably what this suggests is that CRA is not doing a terribly good job in this area. However, neither the target nor the reported performance can be meaningfully interpreted except in the context of the underlying strategic practices. This point emerged clearly in an early benchmarking exercise in Colombia in the mid-1970s, when area directors were directed to create performance tables for their respective areas and comparative tables were then constructed to compare the performance of administrative units of similar size and complexity with respect to such factors as the percentage increase of taxes generated by audit interventions, efforts to control tax arrears, and the number of appeals. This exercise proved useful in making regional tax administrators aware that their results were being assessed and compared, and has remained a regular part of tax management in Colombia. However, it soon became clear that any given result could almost always be explained not only by managerial performance but also by such 'exogenous' factors as legal loopholes or changes, budgetary problems, and commodity booms or busts and even the weather.[18] Even within the context of one country with a uniform legal system many of the questions that emerged from benchmarking often need to be answered in strategic rather than simply operational terms.

[18] For an interesting and much more systematic quantitative attempt to compare the 'productive efficiency' of tax offices (in Belgium), see Moesen and Persoon (2002); other relevant country studies of aspects of this issue, with varying degrees of sophistication, include Hunter and Nelson (1996) on the United States, Klun (2004) on Slovenia, Serra (2005) on Chile, Forsund et al. (2006) on Norway, von Soest (2007) on Zambia, and HMRC (2010) on the United Kingdom.

On the international level, even more factors come into play. In some countries, for instance, the person responsible for VAT is considered an agent (like a withholding agent) whereas in others—like most Latin American countries at the end of the 20th century—the person responsible for VAT is considered to be a taxpayer. The first definition is much more stringent because it assumes that if the money is not deposited, the person responsible for VAT is stealing the money. He is committing a criminal offense. Obviously, these two approaches may generate completely different attitudes toward delinquent VAT taxpayers.

Similarly, the statute of limitations differs from country to country in terms of time limits and consequences. For example, in most developed countries there is no time limit in evasion cases where there is fraud. Even when there is no fraud, taxpayers may sometimes be audited up to 10 years later. In contrast, many developing often with annexes to further explain individual base situations based on qualitative profiling of the taxpayer.[20]

In contrast, in most developing countries little or no effort is made to capture detailed base information as part of the sworn return. The emphasis is on the payment part, not the tax base part, of the form. Indeed, in practice tax administrations in many developing countries are happy to accept payments even when mandatory forms are not submitted or when most required fields on forms have not been completed.

Such implicit, accepted but largely invisible practices as how forms are designed (and distributed, and dealt with once received) may be more important than more *explicit practices* (such as audit frequency) in explaining success or failure. If a tax administration has no reliable information on the reported tax base -- let alone meaningful estimates of the potential tax base -- it has no real basis for assessing its performance. Unless such practices are clearly recognized, comparison between administrations, let alone the transfer of knowledge from one tax administration to another is unlikely to be very useful.

For example, many low-income developing countries seem unlikely to be able to pursue the ‘no return’ policies currently in place, or advocated, in a number of developed countries.[21] The latter can follow this path – as, to a limited extent, have a few medium-income countries like Chile and Singapore (Bird and Oldman 2000) – largely because they have both developed financial structures and good tax administrations. When countries are not so fortunate as to be able to ‘ride’ on a basically well-developed financial system that encompasses most of the potential tax base (Gordon and Li 2009), however, they must work much harder to gather the information needed to improve their tax systems – and of course they have fewer resources with which to do so. Close attention to the nature, quantity and quality of the information flowing into the tax administration is especially crucial in poor countries. Equally, however, it is especially difficult for such countries to deal with this issue. Before one can ‘protect’ the revenue base, one must have a good idea of what that base consists and where it is located.

3.3. Good Practices and Best Practices

To identify the *best* strategic (implicit or explicit) practices that may provide a useful standard for assessing operational practices in any country is at least a four-stage

To do so, one has to compare good practices and establish that there is a qualitative or quantitative relative advance (beyond 'normal' improvement or the past average of the tax administration). Finally, one has to compare best country practices within a holistic view of the tax system in the country being benchmarked in order to establish a target that is appropriate for that country, given its capacities and the problems it faces.

To do all this requires the collection and analysis of information on each process being benchmarked in its specific context in order to be able to compare them both quantitatively (if data are available) and qualitatively, while at the same time trying to understand the logic behind the practices in each environment. In particular, one needs to consider what factors appear to determine the success of any good (let alone best) practice. To do so, one needs a clear view with respect to three distinct aspects of the practice being benchmarked: first, *reality* in the sense of how the practice is adjusted to the specific circumstances of the case in hand as well as how it might be customized; second, *capacity* in the sense of the available operational implementation capacities in terms of resources such as staff; and third, the environmental (legislative, cultural) *setting*. The flavour of what needs to be done is nicely captured in CRA's statement that "performance targets are established by our management teams through analysis of affordability constraints, historical performance, the complexity of the work involved, and the expectations of Canadians" (Canada Revenue Agency (2009, p.15).

Summing up, in the approach suggested here, best practice benchmarks should reflect the application of the most advanced knowledge of the state of the art in the sector, the response to specific pressures that may have forced creative solutions which respond to a systemic view, and, not least from a dynamic perspective, the capacity to alter paradigms through innovation and risk taking. This is obviously both a demanding and to some extent an inherently 'fuzzy' task. In the remainder of the paper we describe how such systemic benchmarking might work.

4. FINDING THE POLAR STAR

For centuries, navigators have used the polar star for guidance.[22] Is there an equivalent 'pole star' that may be used as a reference point for reforming tax administration management? An appropriate starting point for developing countries that wish to improve (modernize) their revenue administration may perhaps be found in a set of underlying values that are found in 'good' tax administrations in developed countries such as Canada and Australia. These values, which unfold as strategic practices that in turn structure operational practices arguably include the following:

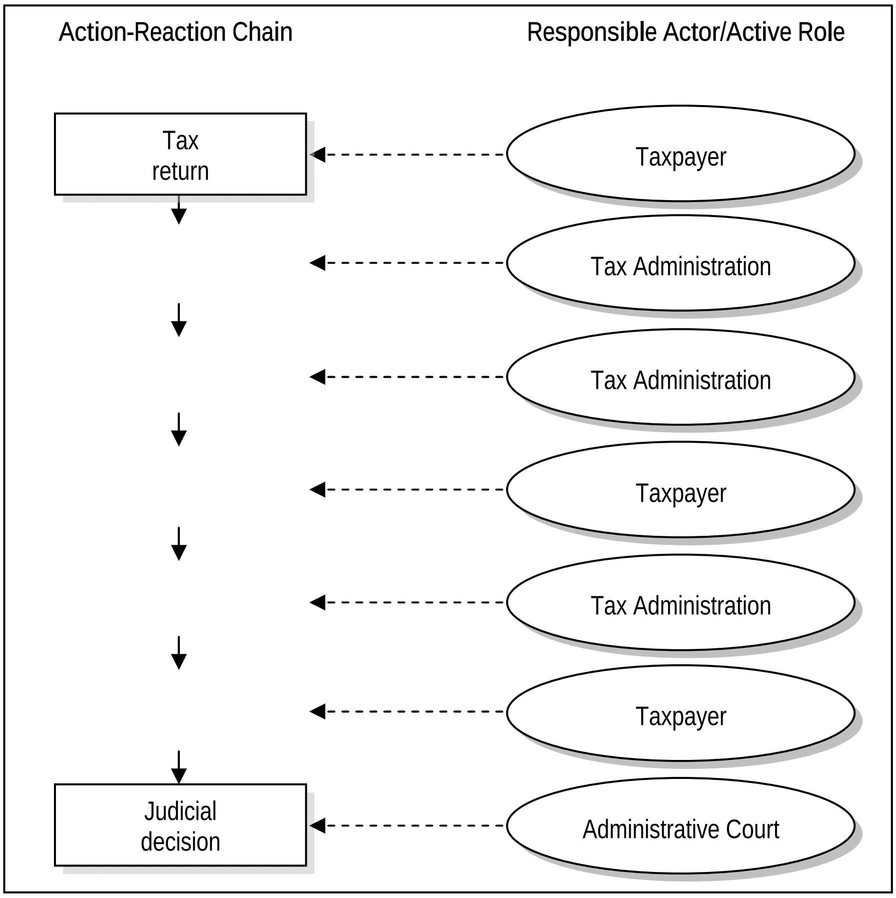
A high level of commitment to protect the tax base

A cooperative (or collaborative) compliance model

Concern for equity above maximization of collection

[22] Potentially, there are both north and south polar (or pole) stars, depending on the stellar configuration, but most attention was historically paid to the north star in celestial navigation. While stars' positions change throughout the night, the pole star's position in the sky does not, so it is a dependable indicator of the direction north.

FIGURE 1: ADVERSARIAL MODEL OF ADMINISTRATION-TAXPAYER INTERACTIONS



As tax systems become more complex, however, this sequential model becomes increasingly limited. For example, when different jurisdictions are claimants for a multinational tax base, or there is general hostility against taxes, it becomes difficult (for both sides) to manage tax obligations and may be quite costly for whoever loses out in the process. All too often, the adversarial approach results in a relatively unproductive tax administration and substantial tax evasion.

4.2. The Cooperative Approach

For these reasons, most developed country tax administrations have largely rejected the adversarial approach and moved towards cooperative compliance as a new way to relate with taxpayers, particularly with large taxpayers and those with international operations. This evolution towards cooperative schemes, especially but not exclusively with respect to large taxpayers, is evident in Canada and Australia, for example. Payroll taxes, personal income tax withholding, corporate taxes, sales taxes, excise taxes – in every instance a relatively small number of organizations are directly responsible for channeling most taxes to governments.

The distinguishing characteristic of this model is that, instead of being sequential like the adversarial approach, there is now some degree of conscious interaction between administration and taxpayer at each step of the taxing process in an attempt to find agreement and closure, within legal parameters. The party primarily responsible for

agreement on the interpretative determinants of the information to be included in tax returns.[27]

When this system works well, each party has both increased knowledge of the other party's attitudes and expectations and greater clarity in the rules of the tax game. With continuous interaction, taxpayer and tax administration get to know each other better. The tax administration maintains protection of the tax base via a sort of regulated consensus between the tax administration and the taxpayer throughout the different steps of the tax process.[28] For example, the administration develops credible evasion and avoidance risk analysis to back up and guide the discussion as well as the necessary built-in transparency to deal with corruption risks.[29] For taxpayers certainty is increased by greater clarity in the rules and procedures of the tax relation, as the tax administration's specific positions on the application of the tax law are extensively discussed and conveyed through various mechanisms.

5. IMPLEMENTING COOPERATIVE C

5.1. Risk Analysis

Risk analysis is how modern organizations commonly conceptualize and define managerial actions. How tax administrations manage tax evasion risks, for instance, obviously depends in part on the accuracy of accounting records. As the world has just learned with respect to the financial sector, however, even the best accounting records do not provide a complete picture of risk, so tax administrations have developed other techniques to control risks such as risk-based auditing.[32]

If the cooperative compliance approach is to be effective, a new operational setting with central units focusing on different compliance risks is needed. In effect, with this approach the headquarters function becomes a complex (and usually heavily automated) 'back office' intended to improve and support audit delivery at the operational 'front end' of the tax system.

Risk analysis starts with the segmentation of clients and the identification of the type of risks each client or group of clients poses. In some countries such risk analysis is developed jointly with taxpayers, as in some Brazilian states (Pinhanez 2008). More often, risk analysis is developed internally but shared to some extent with taxpayers.[33] When this level of risk analysis is carried out appropriately, and the riskier points are identified and closely monitored, tax administrations obviously increase their ability to protect the revenue base.

From the perspective of the tax administration, risks may be classified as relatively *controllable* or *non-controllable*. Non-controllable risks may or may not be *insurable*. Risks arising from the basic design and vulnerability of the law and its interpretation fall into the uninsurable non-controllable category from the perspective of the tax

Taxpayers, like tax policy makers, may also change the rules of the game. For example, if enough people play the tax 'lottery' and evade in the expectation that they will escape audit, then over time this becomes the game being collectively played and the environment for tax administration has changed for the worse.

Good risk analysis requires the administration to have a deep understanding of the taxpayer population. As noted earlier, good tax administrations have developed many

FIGURE

without much care about their implications for either revenue collection or avoidance and evasion practices. At the level of interpreting tax law, the possibilities are even more open-ended. Exemptions and explicit and implicit loopholes embedded in tax laws invariably generate a complex system that requires considerable interpretation by tax officials in order to be applied to the almost infinitely varied real life situations of taxpayers.

5.4. Consultation

Considerable specialized human capital on both the public and private sides of the tax relation may be required to deal with such issues. For example, at the OECD as well as in the United States, Canada, Australia, and elsewhere extensive and sometimes prolonged discussions carried out in various internal and external 'knowledge groups' have at times driven developments in dealing with tax avoidance, particularly international tax avoidance. Australia and New Zealand in particular have made major efforts to engage 'stakeholders' in the tax system in discussions of a wide range of issues including tax policy and assessments of administrative performance.[39]

5.5. The International Dimension

In recent years, a key aspect in protecting the tax base at the country level has increasingly been the establishment of a complex and increasing international network of more or less formal arrangements intended to cross check and/or monitor increasing volumes of international trade and financial transactions. Many such arrangements have taken place under the aegis of the OECD (Eccleston 2010). The internationalization of the tax base has thus increasingly resulted in the 'internationalization' in many ways of both tax policy and tax administration. In particular, tracing financial transactions (e-financial transactions) has become a major strategic concern of tax administrations everywhere, although as yet it is not clear that such activities have significant results in terms of improving outcomes.

5.6. New Technology

Finally, information technology (IT) is increasingly a key support of cooperative compliance strategy. In Canada, for example, initial automated audits, including source deduction and information crosschecks, are followed by subsequent reviews, verifications, examinations and audits with the objective of promoting the accurate reporting of income and trade data, with the aim of reducing problems arising from insufficient tax remittances as well as facilitating the early detection of reporting errors. The idea is to avoid unproductive audits and to focus resource-intensive efforts on higher risk segments while at the same time reducing the compliance burden for individuals and businesses.

---

[39] Although Canada has done less in this respect (Arnold 2011), a particularly explicit statement on this issue was made in Canada some years ago: "We will accelerate our work with interested provinces, territories, and First Nations to create new opportunities for co-operation and partnerships. We will strengthen partnerships with other government departments and governments to provide single-window service. We will collaborate with tax professionals to promote compliance. We will work with the private sector to build links to CCRA programs and services where it is in our mutual interest (Canada Customs and Revenue Agency (CCRA) 2003). (CCRA became CRA, Canada Revenue Agency, in 2004.) South Africa has perhaps done more along these lines than most developing countries, as discussed by Bentley and Klue (2010) and Smulders and Naidoo (2010).

TABLE 1: STRATEGIC OBLIGATIONS IN M

improvements based on the best practices observed in well-functioning administrations.

TABLE 2: BENCHMARKING MANAGERIAL P4(153ET1q i 531.4 651.3274.0 60TD6reW n1 T27.0 6531.4 653(602 Td) T

Copying even the best practices of the best systems is of course not a guarantee of success when the systemic context in which the practice is embedded is fundamentally different. To be useful as a guide to systemic improvement of any particular country's revenue administration, benchmarking needs to be reformulated as a system-to-system comparative exercise. There is still much to be learned with respect to how to carry out such exercises. Consider, for example, how much one would need to know about all the systemic aspects highlighted in Table 2 in order to be able to understand or make productive use in any particular country of the valuable (but often rather baffling) comparative information on tax administration so usefully compiled in recent years by the OECD (2009). Even if one does understand, in depth, just what is being done (and why it is being done) in any particular country, one may of course still be properly skeptical of how useful it really is to think of transferring ways of doing things from one country to another, particularly when the two are very different—for example, Australia and Papua New Guinea.[42] An analogy might be trying to improve a bicycle by studying a Boeing 747.

Nonetheless, one conclusion seems clear from experience to date with attempts to benchmark revenue administrations in developing countries. The best way to transfer 'best practice' is to begin by being clear about the conceptual approaches to tax administration underlying different systems. Whether or not such approaches are explicitly recognized as such by those who actually run the tax administrations in question, every administration is shaped by a set of on-going strategic practices. These practices need to be singled out and assessed in order to understand both how their interdependence affects outcomes and what outcomes are relevant measures of 'success.' While we still have much to learn about how best to do this, future efforts at tax administration reform in developing countries may prove more useful and successful in the long run if they take the broader systemic approach suggested here rather than narrowly focusing on such particular institutional features as the degree of autonomy of the revenue administration or

3. It is important to gather information also on such critical 'soft' elements of organisational 'culture' as management philosophy, behaviors and style, the degree of participative management, communication and recognition, empowerment, and 'ownership.'[44]

4. Even those in international agencies or elsewhere who may be unable (or unwilling) to go very far along the path suggested in the last point need to understand clearly that to be meaningful benchmarking must at a minimum be clearly linked to the overall strategic plan or strategy of the administration. As Casanegra and Bird (1992) noted some years ago, when there is no such strategy attempts to reform tax administration, with or without benchmarking exercises, are almost inevitably a waste of time.

Of course, it is also essential that those who are politically and managerially responsible for tax administration both understand and support any benchmarking exercise if it is to have any useful effects. To illustrate this point, the country study in the course of which much of the argument above was originally developed turned out to be not particularly productive. The reason is simple. The objectives of the client country's operational team were different and focused within a different management paradigm. They did not want to hear that to be able to implement 'best practices' some developing countries—attempts to improve fiscal outcomes by modernizing administration are unlikely to be rewarding, although they are all too likely to be costly. In addition to the quality (and quantity) of substantive tax laws, many other legal aspects need to be critically benchmarked against good practice to determine the extent to which they provide adequate underpinnings for such critical activities of a good revenue administration as risk management, service standards, web-based administration, and the implementation of cooperative compliance.

Finally, to end as we began, one must always remember that benchmarking and diagnosis are very different. Even the best benchmarks, however useful, can never replace the educated eye of an expert in providing a diagnosis of a given situation—although they can certainly help by directing that eye to problematic areas. Just as medical doctors must interpret test results (which, incidentally, are also usually 'benchmarked' against presumably relevant and reliable information), those who wish to improve the dark art of revenue administration must understand in depth not only exactly what is meant by specific benchmarks but also (and equally in depth) the context within they are interpreted in order to provide sound recommendations. Better diagnostic tools may improve diagnosis, but even the best tool cannot replace a good doctor. Similarly, even the best designed tax administration in any particular context is unlikely, in the end, to function well unless it has both adequate political support (including resources) from the top and a good management team in place.

In conclusion, benchmarking can be a useful tool for tax administration modernization efforts (Gallagher 2005; Crandall 2010). However, it seems more than time to reconsider the appropriate reference standard to which administrations in emerging countries are benchmarked. Over the last few decades tax administration management in countries such as Australia and Canada has altered in important ways from the old coercive tradition still found in most developing countries towards the new cooperative compliance approach discussed above, in addition to broadening their horizons to include the international aspect and substantially advancing their use of technology. As yet, however, few emerging countries (even countries like Chile and Mexico that have made substantial modernization efforts in terms of the technology they employ) have as yet moved very far in this direction.[45]

No doubt countries will never be able to improve their tax administrations much in advance of the changes in the underlying political, economic, and social environment that are ultimately needed to support and sustain such improvements. Since taxation is one of the principal interfaces between state and society, however, some significant environmental factors themselves depend on how the tax system is designed and implemented.[46] Indeed, it may not be too much to say that the improvement of many developing countries may in the end depend to a substantial extent upon the improvement of their revenue administrations.[47] A more comprehensive approach to 'systemic benchmarking' along the lines sketched in this paper may perhaps play a critical role in facilitating that improvement.

REFERENCES

Aberbach, Joel D. and Tom Christensen (2007) "The Challenges of Modernizing Tax Administration: Putting Customers First in Coercive Public Organizations," *Public Policy and Administration*, 22 (2): 155-82.

Altman, Zvi D. (2006) *Dispute Resolution Under Tax Treaties*

Besley, Timothy and Torsten Persson (2010) "Pillars of Prosperity: Peace, Easy Taxes and the Rule of Law," Unpublished; December.

Biber, Edmund (2010) *Revenue Administration: Taxpayer Audit—Development of Effective Plans*, Technical Guidance Note, Fiscal Affairs Department, International Monetary Fund, April.

Brautigam Deborah, Odd-Helge Fjeldstad, and Mick Moore M, eds. (2007) *Taxation and State-Building in Developing Countries* (Cambridge: Cambridge University Press).

Canada Customs and Revenue Agency (CCRA) (2003) "Service Improvement in the CCRA, Strengthened Partnerships and Co-operation (2003)," updated October 29 of 2003 [no longer available on-line].

Canada Revenue Agency (CRA) (2008) *Performance Report on Sustainable Development 2007-2008* < http://www.cra-arc.gc.ca/gncy/sstnbl/prfrmnc/menu-eng.html>

CRA (2009) *Annual Report to Parliament 2008-2009* < http://www.cra-arc.gc.ca/gncy/nnnl/menu-eng.html>

Cardenas, Mauricio and Daniel Tuzeman (2010) "Under-Investment in State Capacity: The Role of Inequality and Political Instability," Brookings Institution, Washington, September.

Casanegra de Jantscher, Milka and Richard M. Bird (1992) "The Reform of Tax Administration," in Richard M. Bird and Milka Casanegra de Jantscher, eds. (1992) *Improving Tax Administration in Developing Countries* (Washington: International Monetary Fund), pp. 1-15.

Crandall, William (2010) *Revenue Administration: Performance Measurement in Tax Administration,* Technical Guidance Note, Fiscal Affairs Department, International Monetary Fund, June.

Das Gupta, Arindam (2002) "Central Tax and Administration Reform in the 1990s: An Assessment", in M. Govinda Rao, ed. *Development, Poverty, and Fiscal Policy* (New Delhi: Oxford University Press), pp. 139-73.

De Paula, Aureo and Jose A. Scheinkman (2009) "The Informal Sector: An Equilibrium Model and Some Empirical Evidence from Brazil," PIER Working Paper 09-44, University of Pennsylvania, Philadelphia.

De Paula, Aureo and Jose A. Scheinkman (2009a) "Value Added Taxes, Chain Effects and Informality," Second Version, PIER Working Paper 09-041, University of Pennsylvania, Philadelphia.

Eccleston, Richard (2010) "Institutionalising International Cooperation in Tax Administration: The Evolution and Effectiveness of the OECD Forum on Tax Administration," Paper presented to 9th International Tax Administration Conference, 7-9 April 2010, Sydney.

European Commission (2007) *Fiscal Blueprints, A path to a robust, modern and efficient tax administration* (Brussels).

European Commission (2010) *Compliance Risk Management for Tax Administration* (Brussels).

Evans,Chris (2008) "Taxation compliance and administrative costs: an overview," in Michael Lang, C. Obermair, J. Schuch, C. Staringer and P.Weninger, eds., *Tax* *compliance costs for companies in an enlarged European Community* (Linde Verlag, Vienna and Kluwer Law International: London), pp. 447-68.

Forsund, Finn R., Sverre A.C. Kittelsen, Frode Linseth and Dag Fjeld Edvardsen (2006) “The Tax Man Cometh – But Is He Efficient?” *National Institute Economic Review*, no. 197, 106-19.

Gallagher, Mark (2005) “Benchmarking Tax Systems,” *Public Administration and Development*, 25: 125-40.

Gill, Jit B. S. (2000) *A Diagnostic Framework for Revenue Administration* World Bank Technical Papers No 472 (Washington DC: World Bank).

Goodhart, C.A.E. (1975) "Monetary Relationships: A View from Threadneedle Street," *Papers in Monetary Economics* (vol. 1, Reserve Bank of Australia)

Gordon, Roger and Wei Li (2009) “Tax Structures in Developing Countries: Many Puzzles and a Possible Explanation,” *Journal of Public Economics*, 93: 855-66.

HM Revenue & Customs (HMRC) (2010) *Measuring Tax Gaps 2010*. An Official Statistics Release, September.

Huang, Eva (2010) “Should China adopt Australian Summons and Access Powers? A Comparative Study of the Access and Summons Powers of the Revenue Authorities of Australia and China,” Paper presented to 9th International Tax Administration Conference, 7-9 April 2010, Sydney.

Hood, Christopher (2007) Public Service Management by Numbers: Why Does it Vary? Where Has it Come From? What Are the Gaps and the Puzzles? *Public Money and Management*, 27(2): 95-102.

Hunter, William J. and Michael A. Nelson (1996) “An IRS Production Function,” *National Tax Journal*, 49 (1): 105-15.

Institute of Fiscal Studies (18602 Tw[(Hunustrao00B34273 0 TD0.0011 Tc-.0003aTwF “T)5i n

Kwass, Michael (2000) *Privilege and the Politics of Taxation in Eighteenth-Century France* (Cambridge: Cambridge University Press).

Larin, Gilles and Robert Duong (2009) *Effective Responses to Aggressive Tax Planning: What Canada Can Learn from Other Jurisdictions* (Toronto: Canadian Tax Foundation).

Le, Tuan Minh, Duc Minh Tham, and Luc De Wulf (2007) *Estimating Economic Benefits for Revenue Administration Programs*, World Bank PREM Note 112, March.

Manaf, Nor Aziah Abdul , Zuaini Ishak, and Suraya Abdul Warig (2010) "The Acceptance of E-filing among Individual Taxpayers," Paper presented to 9th International Tax Administration Conference, 7-9 April 2010, Sydney.

Moesen, W. and A. Persoon (2002) "Measuring and Explaining the Productive Efficiency of Tax Offices: A Non-Parametric Best Practice Frontier Approach," *Tijdschrift* v*oor Economie en Management*, 47 (3): 399-416.

Nerré, Birger (2008) "Tax Culture: A Basic Concept for Tax Politics," *Economic Analysis and Policy*, 38 (1): 153-67.

Noordegraaf, Mirko and Tineke Abma (2003) "Management by Measurement? Public Management Practices amidst Ambiguity," *Public Administration*, 81 (4): 853-71.

Oldman, Oliver (1965) "Controlling Income Tax Evasion," in Organization of American States, Joint Tax Program, *Problems of Tax Administration in Latin America* (Baltimore: Johns Hopkins Press).

OECD (2009) *Tax Administration Comparative Information 2008* (Paris)

Paul, Samuel (1995) *A Report Card on Public Services in Indian Cities: A View from Below* (Bangalore: Public Affairs Centre).

Pinhanez, Monica (2008) *Reinventing VAT Collection: Industry Vertical Assessment, Revenue Increase, and Public Sector Reliability*, Ph.D. thesis, MIT.

Pinto, Dale and Adrian Sawyer (2010) "Building Bridges between Revenue Authorities: Would a World Tax Organisation be a Key Facilitator?" Paper presented to 9th International Tax Administration Conference, 7-9 April 2010, Sydney.

Pollitt, Christopher (2006) "Performance Management in Practice: A Comparative Study of Executive Agencies," *Journal of Public Administration Research and Theory*, 16 (1): 25-44.

Pomeranz, Dina (2010) "No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax," Unpublished paper; November.

Propper, Carol and Deborah Wilson (2007) "The Use and Usefulness of Performance Measures in the Public Sector," *Oxford Review of Economic Policy*, 19 (2): 250-67.

Radian, Alex (1980) *Resource Mobilization in Poor Countries* (New Brunswick, NJ: Transaction Books).

Reinikka, Ritva (1999) *Using Surveys for Public Sector Reform*, PREM Note Number 23, World Bank, May.