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Working Paper 11

Taxation and Livelihoods:
A Review of the Evidence from Fragile and Conflict-Affected Rural Areas

Oliver Lough, Richard Mallett and Paul Harvey

June 2013

A joint paper by the International Centre for Tax and Development (ICTD)
and the Secure Livelihoods Research Consortium (SLRC)

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- State capacity: building effective states that deliver services and social protection in conflict-affected situations
- Livelihood trajectories and economic activity under conflict

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First published by the Institute of Development Studies in June 2013

ISBN: 978-1-78118-119-5

A catalogue record for this publication is available from the British Library.

Available from:
Communications Unit,
Institute of Development Studies,
Brighton BN1 9RE, UK
Tel: +44 (0) 1273 915637 Fax: +44 (0) 1273 621202
E-mail: ids@ids.ac.uk
Web: www.ids.ac.uk/publications
IDS is a charitable company limited by guarantee and registered in England (No. 877338)

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Summary

Despite growing interest in the connections 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 war and violent conflict. Yet, it is in these landscapes that people encounter particularly 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. And it is also in these contexts that questions around public goods provision and state-society relations carry most weight – places affected badly by conflict tend to have urgent service-related needs, and violent conflicts can erode trust in governance actors.

Through a selective review of key literature, we argue in this paper that if we are truly interested in the relationships between taxation and livelihoods, then an exclusive focus on formal taxation is inadequate. Subsequently, we suggest widening our analytical lens to include what might be referred to as 'informal tax' – that is, payments and costs (for example, in relation to labour time) which are incurred outside formal statutory arrangements, the benefits of which may be accrued by a variety of state, non-state and community actors or institutions. In reality, the lines between formal and informal taxation are likely to be blurred. Nevertheless, a broad analytical focus on taxation, which captures both its formal and informal dimensions, may be defined as: all payments – whether cash or in kind, including labour time – that are made as a result of the exercise of political power, social sanction or armed force (as opposed to market exchange). Further research is needed to explore these issues, and this working paper can be considered the first step of an ongoing joint research project by the International Centre for Tax and Development (ICTD) and Secure Livelihoods Research Consortium (SLRC) to address this need.

We hope that this work will have implications for how national and international actors think about both support to livelihoods and processes of state-building in fragile and conflict-affected situations. Projects aimed at supporting livelihoods are usually focused on trying to increase people's income or productive capacities: aid agencies distribute seeds, provide loans to small businesses and try to stimulate value chains. The expenditure side of the equation is largely ignored in attempts to support livelihoods – what people have to spend in order to keep their children in school, get treatment when they are sick, buy and sell produce, travel to and from towns, and establish and maintain businesses. A focus on taxation may therefore open up opportunities for new thinking about how to support livelihoods that takes both expenditure and income into account.

A better understanding of how taxation works at the local level may also contribute to debates around governance and state-building in fragile and conflict-affected situations. These have often been framed around the idea that if the state can be supported to do more for its citizens – for example, by delivering basic services and ensuring security – then legitimacy gains will follow. However, what tends to be neglected in such debates is the question of how state actors could become less predatory and extractive. Indeed, the effects of predatory state behaviour may be just as, if not more, significant in shaping state-society relations than the effects of supportive behaviour and actions. Similarly, the inability or unwillingness of states to regulate extractive behaviour by other actors may be perceived and understood as a visible failure of authority. Thus, a focus on the realities of how people

are taxed at the local level – and an examination of whether extractive state activities could be better linked to the provision of services – may generate important insights into difficult processes of state-building in conflict-affected situations.

Finally, it is hoped that future research into the issues outlined in this paper might help to pinpoint opportunities for positive change in local-level tax policies in fragile and conflict-affected situations. Identifying possible entry points for reform – for example, through applied political economy analysis – would help researchers and policymakers understand in which areas or sectors reforms would be most valuable, what the particulars of their design might look like, and what the political viability of different kinds of reform would be in practice.

Keywords: taxation; livelihoods; informal; fragile and conflict-affected countries; governance

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Contents

Introduction

Tax matters for governance and development. As illustrated by a strong and expanding literature, taxation can play an instrumental role in multiple processes, from resource mobilisation and economic growth to the consolidation of state power and the forging of fiscal or social contracts. However, despite growing interest in the connections between tax, development and governance, surprisingly little attention has been paid to the particular impact of taxation on people's livelihoods. This is true of both academic and policy literature.

It is not clear why this is the case. But there is good reason – or a number of good reasons – to believe that the relationship between tax and livelihoods is an important one. The way in which people make a living – and the success or otherwise of their choices and actions – is dependent not only on the agency of the individual, but also upon the norms and structures of the surrounding institutional context (Carr 2008; Ellis and Mdoe 2003). Therefore, both the existing 'rules of the game' (in relation to gender, ethnicity, class, and so on) as well as the actions of powerful actors (whether they be state, non-state or customary) are likely to have an effect on the ability of individuals and households to either get by or get out of poverty. Further, as hinted above, there is both a theoretical and empirical foundation for the argument that taxation can play a central role in processes of (nation-)state formation, in terms of: i) financing the distribution of public goods; and ii) providing a contractual basis for the relationship between citizens and state (Braütigam et al. 2008). These may be considered first and foremost as governance concerns, but both are also important for protecting, promoting and transforming livelihoods (for example, increasing human capital through the provision of quality education, increasing voice and empowerment through greater citizen participation in local decision-making processes, and reducing vulnerability through greater state responsiveness to risks and shocks).

For all these reasons, it is surprising that very little work has explored the question of tax and livelihoods, particularly in relation to places affected by war and violent conflict. It is in these contexts that people encounter especially fierce challenges to livelihood recovery, often finding themselves operating in a political economy environment that is at once both complex and shifting, as well as brutal and exploitative (Collinson 2003). And it is also in these contexts that questions around provision of public goods and state-society relations carry most weight – places badly affected by conflict tend to have urgent service-related needs, and violent conflicts can erode trust in governance actors (Alemika 2004).

Against this backdrop, this paper reviews the existing literature on taxation and its impact on people's livelihoods, with a particular focus on low-income rural areas in fragile and conflict-affected situations.[1] More specifically, it aims to offer a first step in sketching out a research agenda for exploring the relationship between tax and livelihoods by examining what existing literature tells us about the intersection between the two. It focuses primarily on two questions: what do we know about the kind of taxes people pay and how taxes are collected in fragile and conflict-affected situations, and what do we know about how taxation affects the livelihoods and household economy of people in developing countries. Critically, it also seeks to follow an understanding of taxation that takes into account not just formally-mandated revenue generation, but a wider range of tax-like extraction carried out by state officials, non-state actors and communities grouped together under the umbrella definition of 'informal taxation'.

[1] This contextual focus – which is appropriate to the research agendas of both ICTD and SLRC – is necessary to narrow the focus of the review.

The paper is based on a search of citation databases, search engines and institutional websites, as well as consultation with researchers currently involved in work on taxation (see Box 1).

Box 1: A note on methodology

The literature review was conducted by the lead author under the supervision of the two co-authors over a period of 20 working days. This involved a search of key journal databases (Taylor and Francis, Wiley, ScienceDirect, Oxford Journals, Cambridge Journals, JSTOR and Elsevier), which involved screening titles, abstracts and keywords for the following combinations (in line with the themes highlighted in the original concept note for this paper): tax/livelihoods; tax/poverty; tax/conflict; corruption/livelihoods. In addition, full text searches were conducted for 'informal taxation' and 'informal tax'. 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.

This search process was accompanied by the snowballing of references from key documents, initially from studies used in drafting the project's concept note (Buchanan-Smith and Fadul 2012; Devas 2011; Itriago 2011; Olken and Singhal 2011; Prud'homme 1992; World Bank 2011), and later from existing literature reviews related to issues of taxation in developing countries (e.g. Prichard et al. 2012; Joshi, Prichard and Heady 2012; Fjeldstad, Schulz-Herzenberg and Sjursen 2012; Fjeldstad and Heggstad 2012a). As the study progressed, the publication records of any authors whose work emerged as especially relevant to the study (most notably Kristof Titeca, Odd-Helge Fjeldstad and Frank Ellis) were also reviewed, along with the publication databases of organisations involved in similar research (Tax Justice Network; International Centre for Tax and Development).

Concurrent to the literature search, the authors made efforts to share and discuss the project's concept note with academics, researchers and practitioners in relevant fields. The authors are indebted to Alex Cobham, Frank Ellis, Romeshun Kulasabanathan, Mick Moore, Wilson Prichard, Rachel Slater, Kristof Titeca and Bishnu Upreti for their help in framing the review, refining its concepts, and highlighting potential avenues of inquiry.

The material gathered as a result of these steps was then analysed through an iterative process involving all three authors. This involved its initial thematic grouping into questions of theory, evidence on formal taxation and evidence on informal taxation. These were then broken down and organised into sub-themes as the study's conceptual framework was further refined. The lead author produced an initial draft, and, following valuable input from Mick Moore at ICTD, this was revised by all three authors before submission for peer review.

This review does not claim to be comprehensive or systematic, but rather seeks to highlight significant trends and points of focus in an effort to spark further discussion of the issues at hand. We see this as important because a better understanding of how taxation and livelihoods relate to each other has potential implications for policy and practice in two key areas: livelihood promotion and state-building.

On the first, interventions intended to protect and promote livelihoods predominantly focus on enhancing production, increasing income and creating assets (Jaspars and Maxwell 2009). So, for example, aid agencies distribute seeds, provide loans to small businesses and try to stimulate value chains. Largely ignored in attempts to protect and promote livelihoods is the expenditure side of the equation – what people have to spend in order to keep their children in school, receive treatment when they are sick, buy and sell produce, travel to and from towns, and establish and maintain businesses. A focus on taxation may open up opportunities to create more resilient livelihoods by advocating for changes in how people are taxed (and thus how household expenditure is allocated).

On the second, a better understanding of how taxation relates to livelihoods may also provide a contribution to debates around state-building in fragile and conflict-affected situations. These have often been framed around the idea that if the state can be supported to do more for its citizens – for example, in terms of delivering basic services, ensuring greater security – this will help improve citizens' perceptions of and attitudes towards the state. However, relatively neglected in debates about what creates legitimacy and so strengthens states are questions about how state actors could become less predatory and extractive. A focus on how people are currently taxed at the local level, and whether this could be shifted to be both less predatory or extractive, as well as better linked to service provision, could, therefore, contribute to current and ongoing state-building debates. It may also help to shift the taxation debate away from a focus on expanding taxation into the informal sector, towards a focus on improving the efficiency and effectiveness of how people are already taxed (see Joshi et al. 2012).

Finally, expanding the scope of investigation to systems of extraction (and service provision) taking place outside formally mandated channels – informal taxation – could both allow interventions to take better account of the range of existing practices on the ground, as well as offer a more nuanced way to understand the interaction between taxation and state legitimacy.

The remainder of the paper is organised as follows. Section 1 sketches out some basic conceptualisations of livelihoods and taxation. Section 2 presents evidence on ways in which taxation is seen to impact on livelihoods, focusing on formal and informal taxation by state actors, taxation by non-state actors, and customary taxation within communities. It then goes on to examine cross-cutting issues of inclusion/exclusion and gender. Finally, Section 3 summarises the review's conclusions and sketches out a tentative research agenda.

1 Concepts

Drawing on the broader development literature, we begin with some basic conceptual definitions of livelihoods and taxation.

1.1 Livelihoods: a question of scale

In the broader development literature, the understanding of livelihoods has revolved around the capabilities, assets (material and social) and activities that households require to sustain a living. This has often been coupled with a political economy approach that seeks to embed the options and strategies available to individual households in wider social, political and economic dynamics at a local, meso and macro level (compiled from Mallett and Slater (2012)). In viewing taxation through a livelihoods lens, the main lines of inquiry in this study are threefold:

- What proportion of overall household economies and business expenses is taken up by taxes?
- What impact do tax rates and tax practices have on people's livelihood options and strategies?
- What positive outcomes are achieved as a result of taxation?

In theory, an effective tax system should provide significant support to livelihoods by providing public goods and redistributing resources to the poorest. The ability to access basic services such as health and education, transport goods along roads that are well maintained, and make a living in a secure environment, are all critical components in constructing a sustainable and resilient livelihood. Thus, to the extent that taxes enable governments to deliver services, ensure security, create a regulatory environment for business, redistribute wealth and provide safety nets, they can clearly have a positive impact on livelihoods.

However, in many instances this positive impact may be outweighed by taxation's negative consequences, especially if – as is often the case – it is not accompanied by the robust delivery of services or other benefits. First, the direct impact of any tax payment on the household economy is by necessity negative, since it reduces the amount of assets at their immediate disposal. When people have to pay fees to run a market stall or trade livestock, this reduces household income. In-kind labour contributions to community initiatives restricts household labour supply. Second, taxes can significantly constrain livelihood options, curtailing the viability of diversification strategies that households use to disperse risk and drive accumulation. Taxes on market access (Haver 2012), and payments at various geographical and administrative boundaries (Upreti 2013), can reduce the profitability of producing goods for market, engaging in petty trade or starting small businesses. Third, taxes may also distort economic activity, creating adverse effects on resource allocation and economic growth. For example, variations in taxes between different commodities can distort relative prices and influence the decisions that people make about what to produce. As well as varying by commodity, tax rates can vary widely between districts, creating spatial distortions in markets and prices (Bahiigwa et al. 2004). Fourth, at a broader level, many tax systems are – whether in practice or by design – regressive in nature, imposing a proportionally heavier burden on poorer households, and transferring wealth into the pockets of the rich and powerful.

As hinted above, adopting a livelihoods lens may also help us make sense of the ways in which taxation may feed into broader processes of governance and development (via sets of transmission mechanisms present at the local level). While much of the tax literature observes practices at the macro, aggregate or central state level, studies into livelihoods tend to zone in on the micro (albeit with a continued appreciation of the wider context at various scales) (Mallett and Slater 2012). By exploring the local-level effects of tax – on individuals, households, communities and businesses – it is possible to generate insights into how the micro-foundations of processes such as economic growth are affected by tax policy and practice. This focus on micro-foundations and transmission mechanisms has been applied elsewhere – for example, by studies into the links between conflict and poverty (Justino 2006) – and is useful for providing a tangible illustration and explanation of the impact of taxation.

1.2 Taxation: beyond the statutory

At a basic level, tax is generally defined as the levying of an involuntary fee backed up by some form of sanction. In practice, many approaches de facto limit this definition to taxes levied by the state. As this tends not to include user fees, several studies – often in the context of examining decentralisation and local government taxation – have extended their definition to include permits, licensing and other 'non-tax instruments' that impinge specifically on traders and businesses (e.g. Devas 2011; Fjeldstad and Heggstad 2012a).[2] A large and growing body of work on formal taxation in developing country contexts has focused in depth and at length on the role it plays in processes of state-building, governance,

[2] While many authors often place fees and other non-tax instruments in a separate category, in practice the two are often analytically lumped together.

growth and development (see, for example, the work of the International Centre for Taxation and Development).[3]

Generally speaking, however, this literature pays comparatively little attention to the various types of revenue collected on a non-statutory basis (either by state or non-state actors). These processes have been studied – sometimes extensively – through a variety of other lenses and often using different classifications, for example, in work on corruption (Olken 2007; World Bank 2013); on informal social protection and safety nets (Kabeer 2002; Devereux 1999; Rubio and Soloaga 2003); or in political economy work focusing on fragile and conflict-affected situations (Collinson 2003; Di John 2010). However, these differing approaches often produce quite disparate insights, and they are rarely drawn together and applied to debates on formal taxation.

This means that, especially where taxation's impact on livelihoods and legitimacy is concerned, less formal kinds of revenue generation may represent something of an analytical blind spot. For example, studies focused on taxation through formal channels, such as income tax or Value Added Tax (VAT), have concluded that poorer people are not taxed, since they are either formally exempt or participate in 'hard-to-tax' informal sector activities. However, this analysis – and policy interventions that may stem from it – misses the wide variety of other tax payments people may already be making, such as on legal non-tax instruments like business licences, payments to corrupt officials, or payments to customary providers of public goods. Similarly, studies that seek to link questions of state legitimacy to rates of formal tax payment may miss the potentially complex role that payments via other institutions may have in mediating this process.

The evidence reviewed in section 2 of this paper suggests that, in many developing country contexts, a variety of forms of taxation take place at once, involving multiple actors, operating at formal and informal levels – with differences often rendered moot in fragile or conflict situations – and accorded varying degrees of legitimacy by the population on which they are levied. Since these practices are likely to exist and interact within the same overarching institutional context, we argue that it makes sense to study them under a single umbrella. Similarly, from the perspective of individuals or households, the question of who extracts taxes (however such processes are labelled) makes little difference in terms of their material impact on livelihoods. Consequently, we propose a working definition of taxation in a broad sense as:

> All payments – whether cash or in kind, including labour time – that are made as a result of the exercise of political power, social sanction or armed force (as opposed to market exchange).

For the sake of analytical simplicity, we make a distinction between formal taxation – defined as an involuntary fee backed up by some form of legal sanction, and, building on the work of Prud'homme (1992) and Olken and Singhal (2011) (see Box 2), informal taxation – defined as tax or tax-like payments collected outside of statutory legal frameworks.[4]

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[3] The body of research covering the relationship between formal taxation and processes of state-building, governance, growth and development has been discussed extensively elsewhere, so we do not provide an overview here. A selection of good overviews include Braütigam et al. (2008); D'Arcy (2012); Di John (2010); Everest-Phillips (2010); Pritchard et al. (2012); and Tilly (1992).

[4] We consider informal taxation to be connected to, yet distinct from, corruption. To an extent, the exercise of informal taxation may, in some cases, be enabled by corruption. However, informal taxation is a broader concept: while corruption is associated with a specific abuse of power by those in official positions of authority, informal taxes can be administered by a range of actors and encompass numerous types of payments and costs. Further, the concept of informal *tax* implies an element of exchange in the relationship. That is, people are given something in return for their payment, such as protection, market access or group membership.

Box 2: Earlier discussions of 'informal taxation'

While the term 'informal taxation' is to be found scattered across the literature, it has meant different things to different authors. An early and oft-cited elaboration of the term is provided by Prud'homme (1992), who describes it simply as any 'nonformal means utilized to finance the provision of public goods and services'. However, Prud'homme sets the benchmark for the definition of public goods extremely low. Specifically, he argues that all the state has to do in order to provide a public good is to exist, on the grounds that by doing so it provides a basic measure of security and order. As a consequence, activities that would otherwise be viewed as bribery or extortion are here seen as informal tax, on the grounds that they supplement meagre official salaries and hence provide public goods. In contrast, Olken and Singhal (2011) explicitly exclude bribery-spectrum payments from their analysis of informal tax, focusing exclusively on the provision of concrete forms of public goods such as roads, schools or irrigation projects through the actions of informal self-help groups. More often, however, the idea of informal tax is used flexibly, and is applied – sometimes haphazardly – in different ways, to different activities, and according to different contexts.

2 Evidence

The evidence base on tax and livelihoods in low-income rural areas – particularly those affected by fragility and conflict – is extremely thin. Although not systematic, this review found very few studies devoted to exploring the link between taxation and livelihoods in such contexts thoroughly, either at a theoretical level or through empirical research. A rare exception to this is a group of papers that emerged from the DFID-funded Livelihoods and Diversification Directions Explored by Research (LADDER) project (Ellis, Kutengule and Nyasulu 2003; Ellis and Mdoe 2003; Ellis and Bahiigwa 2003; Freeman, Ellis and Allison 2004; Ellis and Freeman 2004). Conducted in Kenya, Uganda, Tanzania and Malawi in the early 2000s, this project documented the constraints taxation could place on household livelihood strategies, and highlighted a need to pay greater attention to the impact of tax on livelihoods in future research and programming.[5]

Less directly, the studies reviewed here do touch on a number of issues of relevance to any research proposing to explore the relationship between tax and livelihoods. For example, a small number of the studies reviewed have attempted to address issues of taxation specifically through a poverty lens, including macro overviews (Gemmell and Morrissey 2005; Itriago 2011) and a number of local-level case studies. Of the latter, the majority focus on the poverty impacts of taxation on traders or small businesses (e.g. World Bank 2011; Pimhidzai and Fox 2012; Titeca with Kimanuka 2012), with a few examining its effects at the household level (LADDER studies; Bahiigwa et al. 2004; Ellis 2005).

One possible reason for the relative lack of focus on livelihood issues in some areas of the taxation literature may be the assumption that, since they fall below minimum income tax thresholds and are protected by VAT exemptions on key consumer goods, the poor are minimally taxed, at least by the state (assumptions cited or presented in Fjeldstad and Heggstad 2012b; Train4Dev 2009; D'Arcy 2012; Itriago 2011). However, a growing body of literature highlights the very real impact that local-level taxation can have on small businesses and low-income households. While it is recognised that many of the issues below are receiving increased coverage from a governance or development perspective (see, for

[5] More information on LADDER, along with a broad selection of more detailed working papers, is available at <http://www.uea.ac.uk/international-development/People/staffresearch/ladder> (accessed 17 March 2013).

example, Fjeldstad and Heggstad (2012a) for a comprehensive review of literature on local revenue mobilisation in anglophone Africa), they have nonetheless rarely been examined through a livelihoods lens, and a review from this perspective thus remains productive.

This section presents evidence on the connection between taxation and livelihoods, with particular reference to low-income rural areas in fragile and conflict-affected situations, and is split broadly into four parts. The first part offers a brief reflection on the nature of the evidence base uncovered by this review, highlighting methodological and thematic focal points. The second focuses on formal taxation, covering the actions of local state authorities and processes of decentralisation. The third forms the bulk of this section, and focuses on informal taxation. It is split into three further sub-sections: informal taxation by state actors; informal taxation by non-state actors; and customary taxation at the community level. The final part explores two important cross-cutting issues: how taxation can intersect with political practices of inclusion or exclusion; and the role of gender in determining how people experience taxation.

2.1 The nature of the evidence base

The primary research examined for this review is quite uneven, tending to cluster around certain geographical locations, objects of study and methodologies. Studies reviewed focus overwhelmingly on Sub-Saharan Africa – most notably on Uganda, Tanzania and the Democratic Republic of the Congo (DRC) (e.g. LADDER studies; Bahiigwa et al. 2004; Ellis 2005; Fjeldstad 2006; Titeca and de Herdt 2010; Titeca with Kimanuka 2012), with a smaller number focusing on South and South-East Asia (e.g. Ogra and Kundu 2011; Beard 2007).

As mentioned above, of the studies reviewed, only the LADDER papers looked directly at the tax-livelihood link. Indeed, through incorporating both formal and informal levies, they represent what appears to be the most comprehensive work on the issue to date (although they offer relatively little in the way of quantitative data). Beyond this, studies focusing on how people are taxed tended to focus largely on traders and micro enterprises as their unit of analysis. Of these, the majority involved quantitative surveys of traders' perceptions and some collection of related budget/financial data (e.g. Ogra and Kundu 2011; World Bank 2011; Fjeldstad, Kolstad and Nygaard 2006). A smaller number involved varying degrees of mixed qualitative/quantitative methods, delving further into issues of market governance, power relations, etc. (e.g. Bahiigwa et al. 2004), including most of the small number of studies reviewed that focused specifically on informal taxation (Juul 2006; Titeca and de Herdt 2010; Titeca with Kimanuka 2012). Within the overall trade/microfinance literature, a number of studies also focused specifically on cross-border trade (e.g. World Bank 2011, Titeca with Kimanuka 2012; Titeca and de Herdt 2010). A small number of largely qualitative studies explored the nature of taxation within conflict situations, focusing to varying degrees on the role played by militia groups and various non-state actors (Holterman 2010; Haver 2009; Van Damme 2012; Titeca 2011). Only a very small handful of studies explicitly analysed the quantitative impact of taxation at household level (for formal taxation: Bahiigwa et al. 2004; Ellis 2005; for informal taxation at the community level: Thomas 1987; Beard 2007), representing a potentially significant gap.

Finally, a number of studies focused specifically on the relationship between taxation and legitimacy, largely in the apparently well-established form of quantitative taxpayer perception surveys devoted to understanding the nature of taxpayer compliance (see Fjeldstad, Schulz-Herzenberg and Sjursen (2012) for a review of the literature on Africa; also Fjeldstad 2006). These were accompanied by a few qualitative studies focusing on competing discourses of legitimacy among states and their citizens (Roitman 2007; Juul 2006; Titeca and De Herdt 2010).

2.2 Formal taxation

Debates on how best to raise taxes at the local level have been an important feature of the wider decentralisation agenda that has emerged over the past two decades. Arguments in favour of decentralised revenue collection have emphasised that, if done right, it can encourage local governments to raise their own revenue and thus increase revenue generation as a whole; increase efficiency since local governments are likely to be able to define revenue requirements better on the basis of improved information regarding local needs; respond more productively to bargaining with the population and thus strengthen official accountability and the social contract; and strengthen the capacity of both civil servants and civil society (Bird 2010; Ellis 2005). However, there are clear risks that issues such as weak capacity, unfavourable politics, or poor coordination and design can make attempts at local revenue collection highly problematic in practice.

However, despite drives towards fiscal decentralisation, relatively little policy attention has been devoted at either national or international level to issues of local taxation. This may be related to the fact that local taxation tends to form such a small proportion – sometimes as little as five per cent – of total national revenue (Devas 2011; Prichard and Jibao 2010; Prichard with Bentuum 2009), and often a similarly small proportion of local government revenue (Devas 2011) (in the latter case, often in the form of fees or other charges traditionally viewed as non-tax instruments). But local-level taxation may be important in other respects. Local government taxation is often the main medium through which citizens experience taxation by the state, and the local population may be more likely to judge state performance based on the link between local revenue collection and local performance (Prichard with Bentuum 2009). Furthermore, lower income groups may be heavily exposed to locally-levied taxes and fees, even though they fall below income thresholds for national taxes (Prichard and Jibao 2010; Prichard with Bentuum 2009). As Ellis, Kutengule and Nyasulu (2003: 1508) point out, poorly implemented local taxation is especially problematic from a livelihoods perspective since it can 'suppress cash generation at the very point where it can make the most difference', preventing poor households from investing in productive assets that could help build resilience and forge a path out of poverty.

The literature documents a number of ways in which the nature of local revenue collection may be problematic. It is important to note that many of the issues discussed here long predate the current decentralisation drive, dating back in some instances to colonial-era tax practices (Ellis and Freeman 2004). However, as the studies cited below point out, the specific dynamics of decentralisation have often served to expand and intensify the constraints placed by tax on livelihood strategies.

First, there is the question of local government priorities in the face of a changed revenue environment. In many instances, decentralisation reforms have resulted in a reduction of centrally-allocated revenue available to local authorities, while at the same time ramping up the scope of functions they are expected to perform (Devas 2011; Ogra and Kundu 2011). This has resulted, in many instances, in the (re)production of local authorities whose main priority is the generation of enough revenue to stay afloat, with little regard for either poverty impact or the long-term health of the local economy (Ellis and Freeman 2004; Buchanan-Smith et al. 2012). As Buchanan-Smith et al. (2012) highlight in the case of Sudan, this tendency may be exacerbated in conflict or post-conflict scenarios, as local governments assume de facto control of tax responsibility and a reduction of central funding. One of the few studies to consider the taxation burden in a conflict context, this recent work by Buchanan-Smith and colleagues examines the livestock trade in Darfur, Sudan. It found that the formal taxation burden had almost doubled between 2002 and 2011, and traders now have to pay for armed guards to accompany their herds and numerous checkpoint fees to ensure safe passage (Buchanan-Smith et al. 2012). They found that individual taxes had increased, and a number of new taxes had been introduced. This was partly a consequence of the decentralisation of responsibility for livestock marketing to the local level, and they found some evidence of traders and producers selecting the market where they will do business according to the local tax regime. Traders are also adjusting the trekking routes for livestock in order to avoid the localities that are charging the highest taxes. Previously, taxes were paid only in the market where the animals were purchased; now localities are charging taxes all along the trekking route.

Second, even as they are expected to collect more tax, the capacity of local authorities often remains extremely weak, whether in terms of planning, collecting and monitoring revenue generation, or of converting revenue generated into tangible public goods (Zaidi and Paracha 2011; Prichard and Jibao 2010; Fjeldstad 2001; Juul 2006; Ellis and Freeman 2004).

Third, despite the expansion of their roles, there is often a perception among local authorities that their primary function is as an enforcer of rules, rather than as a provider of services in contract with their population (Joshi, Prichard and Heady 2012). This often leads to local authorities having an especially negative perception of the informal sector – and sometimes by extension the poor – as living in perpetual violation of these rules (Ogra and Kundu 2011; Suharto 2011; Pimhidzai and Fox 2012; World Bank 2011; Titeca with Kimanuka 2012).

What might explain these impacts? A series of possible factors emerge from the literature. To begin with, it appears that local-level revenue instruments are rarely designed with equity in mind, meaning that poorer households and businesses will often bear a disproportionately heavy tax burden. Often restricted by central government policy in terms of the number and rates of taxes they can levy on their population as individuals (Devas 2011), many local authorities have responded creatively in order to generate as much revenue as they can, as quickly and easily as possible. Likely reflecting a tendency towards rule enforcement, they are often reliant in large part on ad hoc and often highly complex systems of non-tax revenue instruments such as licence fees, market dues and service charges in order to generate income. Due to poor design and low collection capacity, many of these instruments end up eradicating any revenue generated due to their high collection costs. This makes them straightforward 'nuisance taxes', which increase transaction costs and often significantly raise the bar for market entry without any discernible benefit to either side. In addition, the fact that such fees are often imposed at a flat rate may make them essentially regressive in nature (Devas 2011; Bahiigwa et al. 2004; Pimhidzai and Fox 2012; Freeman, Ellis and Allison 2004; Ellis and Freeman 2004). One-off fees on market transactions may implicitly penalise smaller trade volumes and hence often place more burdens on smaller, poorer traders (Bahiigwa et al. 2004; Ellis and Freeman 2004; see also Box 4).

Furthermore, the nature of many licensing and access fees makes them hard for many informal businesses to avoid, although this will differ according to the sectoral placement of the business involved – highly visible businesses such as taxi services are likely to be more liable (see Fjeldstad et al. 2006). In a non-representative survey of Ugandan nano enterprises, for example, Pimhidzai and Fox (2012) observed that the vast majority of firms covered did pay at least one, and often multiple, local government fees. This raises an important point: many informal enterprises – even those that would be designated too small to be taxed – do end up meeting some kind of fiscal obligation to local governments and could therefore be considered formal. This stands in stark contrast to the prevailing view among many local authorities that informal firms are tax evaders, meaning their contributions are unlikely to be recognised or factored in to future tax interventions. As a consequence, Pimhidzai and Fox note that, if not properly coordinated, top-down formalisation drives may simply end up adding an additional layer on top of the fragmented and arbitrary set of local taxes and fees already paid by many small businesses. This would end up raising effective tax rates to levels that could 'threaten the viability of the smallest enterprises and push people into poverty' (Pimhidzai and Fox 2012: 1). There is thus a strong argument to be made that processes of formalisation need to take existing levels of informal taxation more into account.

The complexities of local revenue systems also generate their own problems. As discussed above, opaque systems are likely to be especially hard to navigate for those without the education or, in the case of micro and nano enterprises, the resources to do so. In addition, low government capacity may also mean that tax collectors themselves are unaware of the rules of the game. This set-up means double or multiple payments are more likely, as are conflicts between citizens and revenue officers, opportunistic extortive practices by state agents, and the negotiation of simplified, informal settlements as an alternative (see section 2.3 for more details) (Ogra and Kundu 2011; Suharto 2011; Titeca with Kimanuka 2012). Badly-designed, cobbled-together tax systems may also be internally incoherent, imposing multiple charges at different points in the value chain, or creating distortions through often arbitrary decisions on the nature or size of fees (Bahiigwa et al. 2004; Ellis and Freeman 2004). Incoherence at the local level is often matched by a lack of coordination between different local authorities, or with central government taxes, leading to similar impacts in terms of distortion or double taxation (see Box 3 for an example of this from Nepal). In this respect, poorly coordinated timing of tax collection can also create problems for consumption smoothing: one tax survey in Ghana detailed complaints among poor women of excessive tax burdens as demands for central and local taxes arrive within a week of each other (Caroll 2011).

Box 3: Decentralisation and the creation of complex tax regimes in Nepal

Processes of decentralisation can themselves create new tax burdens on people's livelihoods. Upreti (2013) describes the impact of Nepal's 1999 Local Self Governance Act, which empowered different forms of local government to collect taxes at the local level. While the Act represented a promising and much-needed step towards greater decentralisation in Nepal, it has also helped create a complicated and confusing regime of tax laws that has not been accompanied by effective monitoring mechanisms.

One of the consequences has been that multiple taxes are imposed on small-scale subsistence farmers attempting to transport goods to markets. Farmers living near big cities and town centres produce milk, vegetables, potatoes, eggs, chicken, honey and vegetable seeds, often with the intention of selling them in urban markets. Technically, according to the tax-related acts and provisions of the government of Nepal, small-scale farmers do not need to pay tax for their agricultural commodities while transporting them within the country. But the reality is very different. From the point of origin of their produce to its final destination, farmers are stung with multiple taxes enforced by a range of local government organisations, from municipalities to Village Development Committees (VDCs) to District Development Committees (DDCs). Acting autonomously, these various forms of local government have the power to decide exactly how much tax is imposed on agricultural commodities – and how many times it is charged. For example, a farmer passing through, say, five collection posts will be taxed an equivalent five times on the same produce. And it doesn't stop there. When farmers go to collect their produce from neighbouring districts, the local government collects *nikasi kar* – essentially an export tax – when the produce crosses a district boundary. Further, drivers transporting commodities are forced to pay a road tax, which they will often simply charge back to farmers.

Faced with a severe lack of alternative livelihood options, poor farmers are thus effectively left with little or no choice but to pay the multiple taxes in order to sell their produce at markets. In a promising move, this is an issue which has been presented to Nepal's Supreme Court. However, while the Court reached the decision to outlaw any imposed taxes except those collected at a commodity's origin, the implementation of this ruling has proven difficult to enforce.

Source: Upreti (2013)

Studies also point to the varied roles local politics may play in mediating the impact of local tax collection. Local authorities may attempt to impose taxes with as low a political cost as possible. In some instances, this may result in tax burdens falling hardest on the poor, since they are likely to offer the least resistance, being the group with the least power or organisational capacity (Prichard and Jibao 2010; Devas 2011). By contrast, richer constituencies have been shown to mobilise effectively to block the implementation of inherently more progressive property taxes (Devas 2011; Prichard and Jibao 2010). On the other hand, other studies have highlighted a tendency among politicians competing for seats in democratically-elected local authorities to lower or even erase taxes to secure votes from poor (as well as better-off) constituents (Fjeldstad 2001; Zaidi and Paracha 2011; Juul 2006; Tendler 2002). If, as is often the case, local authorities lack the capacity and resources to secure legitimacy through the delivery of public goods, then the process of collecting taxes may in itself become a political struggle. In places where state power is relatively strong, this may lead to harsh – and poverty blind – methods of coercive extraction such as police roadblocks or tax raids (Prichard and Jibao 2010; Fjeldstad 2001; Bahiigwa et al. 2004). However, in other instances a lack of trust in public institutions may simply lead to an almost complete collapse in local revenue inflows, with potentially serious consequences for long-term development (e.g. Juul 2006).

A final point to discuss in relation to methods of local government taxation is the state-sanctioned collection of tax by agents outside of the formal bureaucracy. In certain contexts, this is manifested in the practice of local governments tendering out tax collection to private contractors. In theory, this system could offer a way to lower collection costs and increase efficiency by placing the responsibility for tax collection in the hands of profit-incentivised, specialist private agents instead of under-trained and under-resourced local bureaucrats (Ellis and Freeman 2004; Fjeldstad and Heggstad 2012a). However, a number of studies focusing on Uganda (Bahiigwa, et al. 2004; Fjeldstad and Heggstad 2012a) have highlighted problems with this approach. In particular, the process of successfully assessing the revenue potential of tax bases to be contracted out is heavily contingent on local government capacity, and may be vulnerable to manipulation by officials in collusion with private companies. In practice, disparities between agreed tenders – representing the amount to be passed on to local government – and the actual amounts collected were vast. Such practices effectively represent nothing more than a transfer of wealth from the poor to the pockets of private tax farmers.

Another important dynamic to consider here is the local-level tax collection carried out by government-mandated traditional leaders in many parts of Sub-Saharan Africa. In several countries – Sierra Leone will be taken as an example here – colonial authorities incorporated existing local leaders (chiefs) as the lowest level of government as a means of indirect rule, a system subsequently adopted by post-colonial governments (Acemoglu, Reed and Robinson 2013). Among their other responsibilities, chiefdoms are mandated with collecting local-level taxes, retaining a portion to spend locally while remitting the remainder to the next layer up of government. However, in some instances this revenue may in fact be retained locally, possibly due to a combination of weak oversight and collection capacity, and political conflict between the various actors involved. In such cases, revenue thus risks being diverted into the pockets of chiefs and their tax collectors, instead of providing benefits to local communities (although evidence on the dynamics of this process is sparse – see Prichard and Jibao 2010). More broadly, research points to widespread historical instances of chiefs imposing arbitrary and extractive additional taxes, using coercive collection mechanisms, and displaying a lack of concern or accountability regarding taxpayers' needs (Prichard and Jibao 2010). In this respect, grievances over chieftaincy-level taxation practices have been cited as one of the drivers of the country's civil war in the 1990s (Farnthorpe 2003; Acemoglu, Reed and Robinson 2013). In effect, the institution of chieftaincy represents a hybrid set-up in which the lines between state/non-state and formal/informal are often blurred. On the one hand, chiefs derive statutory authority from the government and are thus upwardly accountable to it. On the other, the office may still retain the respect and support of local citizens as a legitimate institution of traditional community governance (see, for example, Afrobarometer results cited in Acemoglu, Reed and Robinson 2013). Their role in local taxation is thus a potentially complex one, and appears in many cases to be under-studied.

At worst, local tax systems, characterised by excessive, complex and regressive taxation, high barriers to market entry, and price distortions, thus create a 'disabling institutional context'[6] (Ellis and Mdoe 2003: 1381) that places severe constraints on household livelihoods and the wider economy, while offering little or nothing in the form of public goods that might mitigate this. The series of problems described above are likely to differ according to context, but may still point to a systemic tendency towards anti-poverty bias in local taxation regimes (Bahiigwa et al. 2004). However, quantifying the impact of taxation on household economies across different contexts remains exceedingly difficult (see Box 4 for a rare example of this from Uganda), due to an apparent lack of data on the issue.

Box 4: Livelihood impacts of local taxation in Uganda

A 2004 study by Bahiigwa et al., focusing on the poverty impacts of Uganda's (since reformed) local taxation system, represents a rare attempt to provide a systematic overview of how taxation affects markets, firms and households. In doing so, it synthesises both qualitative and – critically – quantitative data on firms (collected first-hand) and households (via the University of East Anglia's 2001 LADDER dataset). While not nationally representative, data from this study paints a stark picture of both the highly regressive nature of the local tax system, and its significant impact on households and firms.

At the household level, the study found that taxation accounted for between 9 and 12 per cent of household income for the bottom quartile of households in the four villages studied (while accounting for between one and five per cent for the top quartile). Meanwhile, taxation occupied around 47 per cent of gross margins of small rural businesses in the lowest sales quartile (compared to five per cent for the top quartile). The latter set of results is also supported by a later study by Pimhidzai and Fox (2012), whose regression analysis of World Bank data points to significantly higher effective tax rates among nano enterprises when compared to larger firms, coupled by high rates of tax compliance.

Bahiigwa et al. (2004) also offer an important concluding point regarding the relevance of tax in any discussion on poverty:

> It is not a sufficient rebuttal of these data to say that the amounts involved are too small to really matter. This is to distort the very meaning of poverty, which is that people's consumption is already below the minimum acceptable level.

2.3 Informal taxation

As mentioned earlier, there is some debate about defining what counts as informal taxation. However, if employed in its broadest possible sense to mean any tax or tax-like payment collected outside of statutory legal frameworks, it may prove helpful in understanding tax's link with livelihoods for a number of reasons. Specifically, it helps tie together the different literature on taxation, corruption, social provision, etc., and also reflects the fact that different tax practices coexist and interact within the same overarching political economies.

[6] Often in tandem with other non-tax factors such as weak land tenure or the broader dynamics of market liberalisation (Ellis and Freeman 2004).

This sub-section is split into three parts: informal taxation by state actors; informal taxation by non-state actors; and customary taxation at the community level. It should be pointed out that, as empirical research has shown time and again, hard distinctions between groups of actors are often highly blurred in reality (see, for example, Box 5, or the issues of chieftaincy taxation discussed above). Categorisations may be helpful from a descriptive and analytical perspective, but the clean lines often disintegrate when faced with the messiness of the actual situation. Thus, when we talk about non-state actors, for example, it should be recognised that this may also refer to agents and structures that straddle state/non-state and public/private divides.

2.3.1 Informal taxation by state actors

Much of the literature focusing (explicitly or otherwise) on informal taxation deals with the question of informal taxation by state actors. A key dynamic in this respect is the role that state agents and institutions play in accidentally or deliberately perpetuating systems of informal taxation. One widely-observed feature across developing country contexts is the complexity of formal taxation and wider regulatory environments. Especially at the local level, these often feature dense, poorly thought-out and arbitrary tax codes, sometimes accompanied by punitively high rates of taxation (Devas 2011; Titeca with Kimanuka 2012).[7] These place potentially prohibitive burdens of time and expense on small firms and traders, and are often poorly understood by taxpayers and tax collectors alike (Zaidi and Paracha 2011; Ogra and Kundu 2011; Titeca with Kimanuka 2012). As a consequence, many of these systems contain a built-in tendency towards informality. In some instances, an inability to comply with either rates or regulations forces individuals to pay bribes to state agents in order to avoid often harsh, punitive action – essentially paying informal tax as a form of protection (Ogra and Kundu 2011; Suharto 2011).[8] In other instances, state agents and taxpayers may choose to strike a more consensual bargain in which informal payments to state officials are proffered in return for a discount on the formal rate of the tax in question – so-called 'fraud among consenting adults' (Tegara and Johnson 2007: 7).

These practices themselves raise the question of why such prohibitive and inefficient tax regimes exist in the first place. First, there is the obvious issue of the low capacity of state agents – especially at the local level – to design an effective tax system (see above). Second, there is the question of how state actors view the informal sector, or small businesses and traders in general. As mentioned above, studies across multiple countries cite a tendency among local government actors to view the informal sector in a negative light (such views are also likely to cross-cut with other negative biases concerning gender, ethnicity and nationality). These perceptions are likely to lead to harsh or extractive behaviour on the part of state officials – Ogra and Kundu (2011) point to cases where even formally registered and tax-compliant small traders have to pay bribes in order to feel safe. More importantly, however, they will result in little impetus to change the status quo, since from the perspective of the state there will be few apparent rewards for doing so.

Third, there is, in many instances, evidence that state actors wilfully perpetuate obscure or ambiguous tax systems in order to further their own interests. This may be especially true in contexts where local state officials are paid unrealistically low wages, and hence consciously favour tax codes conducive to informality in order to supplement their incomes (Tegara and Johnson 2007; Titeca with Kimanuka 2012). In instances where there are multiple and competing interests within the state architecture – for example, where local governments are

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7 Fjeldstad et al. (2006) also suggest that cities may be more susceptible than rural areas to this problem, due to the greater institutional complexity inherent in municipal governance.

8 In several instances, the formal tax literature highlights the reluctance of state agents to bring the informal sector into the formal tax net, since doing so would be time-consuming and degrading (see Devas 2011; Joshi, Prichard and Heady 2012). This provides an interesting contrast to their continued extraction of rents from the informal sector on an informal basis.

required to pass on revenue to the centre, or where formal tax regimes make use of non-state intermediaries such as local chiefs as tax collectors (Prichard and Jibao 2010) – informalising taxation under the guise of opaque formal systems can help protect revenue generated directly by local actors from claims made upon it by other authorities. In this context, Titeca and de Herdt (2010) highlight how under a weak central state (in this instance, DRC), state actors can either use their political influence within the state structure (the military, for example), or more passive forms of resistance (such as feigning ignorance of central government edicts), to continue to extract taxes where no statutory basis for doing so exists. Roitman (2007: 191) argues that, in weaker states, these dynamics amount to an effective 'pluralisation of economic regulatory authority'. In practice, this can result in a regulatory environment so obscure and fragmented that even state agents are unsure of its workings.

Van Damme (2012) found that, in eastern DRC, the extension of state authority into previously rebel-held and insecure areas can actually lead to an increase in levels of informal taxation. It is reported that increased security often brings a greater presence of a variety of state actors (army, police, national intelligence services and departments responsible for taxes, migration, health, land and other issues), which alters the scale and multiplicity of state actors involved in extortion. As the author notes, 'Respondents reported that the vast majority of state services collect illegal taxes, arbitrarily arrest or illegally detain people for money or demand large payments just to do their job (Van Damme 2012: 15).

From another angle, Schomerus and Titeca (2012) explore how powerful central state and business actors involved in trade across the Uganda-South Sudan border collude to keep regulations opaque in order to pursue their own interests. This itself has the indirect knock-on effect of rendering small traders highly vulnerable to exploitative taxation by border agents. Similarly, a World Bank study (2011: ii), looking at cross-border trade between the DRC and its neighbours, found that 'the livelihoods and activities of the primarily female traders are currently being undermined by high levels of harassment and physical violence at the border and the prevalence of unofficial payments and bribes'.

Finally, taxpayers themselves may sometimes have an active role to play in keeping taxation informal, albeit often from a weaker negotiating position than their counterparts in the state. Several studies point to a preference among businesses and traders for informal taxation, due to the lower rates and simpler procedural steps on offer (Titeca with Kimanuka 2012; Titeca and de Herdt 2010; Tegara and Johnson 2007). In cases where the population does not trust the state to provide public goods, there will also be little incentive to make sure funds make their way into state coffers, when bargaining informally with officials will yield a lower tax rate without noticeably impacting the provision of services (see, for example, Tegara and Johnson 2007). However, as will be discussed below, while apparently a win-win situation in the short term, this set-up is in reality a classic example of Tendler's 'Devil's Deal', in that it ultimately hurts taxpayers' interests in the long term (Tendler 2002).

A critical point raised by Titeca is that although systems of informal taxation lack statutory basis, this does not mean they are unregulated. Rather than involving isolated bargaining with, or extraction from, individuals, informal taxation often generates a wider order with its own norms and rules of the game. In some instances, state regulations and social norms form the basis for negotiations between taxpayers and state agents, and may often form the basis for practical norms that determine in practice what is taxed, when, how heavily, and in what fashion. At a very basic level, social norms may contribute in many cases to a 'moral economy' of informal tax, in which exceptions are made for essential foodstuffs, or for pregnant women, the disabled and other social categories deemed worthy of assistance

(Titeca with Kimanuka 2012; Tegara and Johnson 2007).[9] However, it is also clear that the precise composition of the practical norms that emerge in any given context will be in large part a result of the nature of the relationships and power balances that exist between taxpayers and state agents.

In contexts where the state is weak and/or taxpayers are well-organised, this can result in better treatment for taxpayers – witness the presence of well-run, 'one-stop shops' for the payment of exclusively informal taxes at the DRC-Burundi border, which even issued (informal) receipts for payments rendered (Titeca with Kimanuka 2012). In some circumstances, this may result in the population dictating terms regarding what taxes are extracted and how, essentially 'disorganising' the state (Titeca and de Herdt 2010: 585). However, in other instances, taxpayers – and especially the poor – are likely to have much more limited room for manoeuvre. In this respect, the very institutional complexity that drives informal taxation may also contribute to weak organisational capacity among businesses and traders, for example by making small business organisations difficult and expensive to register (Titeca with Kimanuka 2012). In addition, many taxpayers may have little power to determine the character of informal systems generated largely by collusion between the state and powerful market actors, many of which may actively work to their detriment (Schomerus and Titeca 2012; Titeca 2011). In extreme circumstances, a concentration of coercive power in the hands of state actors (especially the military), coupled with the collusion of powerful private interests, can result in highly exploitative systems of often brutal extortion.[10] In such situations taxes are often arbitrary and unpredictable, and, as Haver (2009: 15) points out, it becomes 'difficult to distinguish illegal "taxes" from simple theft'. Overall, the relative balance of power between the state and taxpayers, across different groups of taxpayers, and within the state architecture itself, is likely to contribute to highly context-specific sets of practical norms, as well as determine the overall balance between the formal and informal components within any given tax system.[11] Finally, given the often weak presence of formal rule of law, such systems are likely to be inherently unstable, with external shocks or shifting internal dynamics resulting in sudden and perhaps violent paroxysms of change (Titeca and de Herdt 2010).

The diversity and complexity of the practices described above suggests a range of possible livelihood outcomes. In some circumstances, it may be that informal taxation will have a reduced impact relative to going through the formal state channels, at least in the short term. If on-the-books tax rates are excessively high, informal negotiation with state actors may result in more realistic effective tax rates. One Congolese taxpayer cited in Tegara and Johnson (2007: 34) noted that 'If everybody paid all their tax, everything would become too expensive for anybody [sic]', while a Burundian border guard in Titeca with Kimanuka (2012: 31) felt that 'if we wanted to apply the rules of the [Burundian revenue authority], there would be no small traders left!' The flexibility offered by the informal system and the moral economy of taxation observed in some studies could in some circumstances also lead to reduced rates on basic commodities and exemptions for especially vulnerable groups (Titeca with Kimanuka 2012; Titeca and de Herdt 2010). Coupled with the reduced hassle involved in some informal systems, these factors may account for why taxpayers in certain circumstances (Titeca with Kimanuka 2012; Tegara and Johnson 2007) expressed a preference for informal systems over formal ones. Finally, it is important to consider that, in

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9 These exceptions may themselves create their own distortions: Tegara and Johnson (2007) highlight the use of the disabled as mules to smuggle goods across the DRC border untaxed, while Titeca and de Herdt (2010) describe loads of (informally) tax-liable goods being covered by non-liable basic goods. Furthermore, these distortions may then lead to periodic crackdowns and the removal of exemption rights, thus highlighting the inherent instability of informal systems.

10 See, for example, the enforced impoverishment of artisanal miners in the DRC described by Tegara and Johnson (2007), or the 'commodification' of entire Congolese communities as sources of revenue by both rebel forces and the Armed Forces of the DRC (FARDC) as documented by Van Damme (2012).

11 In multiple case studies of trade border posts in different countries across Africa's Great Lakes region, Titeca with Kimanuka (2012) found widely contrasting mixes of informal and formal taxes paid by traders, including some instances where payment was almost entirely informal.

many cases, collecting taxes informally represents a livelihood strategy for state officials whose formal rates of pay may be minimal to non-existent (Prud'homme 1992).

However, it is important to be realistic about just how far these benefits extend. In several studies, information and power imbalances meant that negotiated informal tax rates were actually higher than their formal equivalents (Ogra and Kundu 2011; Suharto 2011), while in other instances favourable rates had to be negotiated multiple times, with multiple officials, on multiple taxes that often had no statutory basis in the first place (Titeca with Kimanuka 2012). In this respect, small traders and nano enterprises are likely to have substantially less bargaining power in informal tax systems than larger operators, meaning that they may shoulder a disproportionate burden of revenue generated. On a broader level, while informal deals may offer a short-term win-win return for taxpayers and officials, and may even take place in systems that are subject to a greater or lesser degree of informal regulation, they are still likely to result in negative outcomes in the long run due to the degree of unpredictability they generate. While moral economies may exist, informal tax rates are still dependent to a large extent on the individual whims and attitudes of state officials (see, for example, the harsher treatment of 'difficult' women and foreigners at various DRC border posts studied in Titeca with Kimanuka 2012), and may vary significantly from location to location. And while businesses and traders may genuinely be able to secure lower effective tax rates on a day-to-day basis, constant negotiation and re-negotiation of rates means that their profit margins will always be unpredictable, reducing the incentive to make riskier, more long-term, productive investments. These factors may explain why, in contrast to the preference for informal tax in some quarters, small enterprises expressed a willingness to be taxed more, more formally, in order to secure a clear-cut set of rules of the game (Ogra and Kundu 2011; Suharto 2011; Prichard and Jibao 2010). And, while informal taxation may be instrumental in supporting the livelihoods of state actors, the power imbalances involved mean that while it might at best involve a mutual negotiation of subsistence, it is more likely to tend towards predatory extraction from the weak by the strong (e.g. Haver 2009; Van Damme 2012).

In light of these issues, the studies reviewed pointed to numerous concrete examples of the detrimental livelihood impact of informal taxation. Titeca with Kimanuka (2012) and the World Bank (2011) document how informal taxation at the DRC border impacts the activities of small traders, many of whom are entirely dependent on their business to support large households. The unpredictability of the system means that trade is in many instances reduced to a coping strategy, rather than a route out of poverty.[12] The World Bank also notes that multiple informal levies on both sides of the DRC border may significantly inflate commodity prices and restrict the amount of goods flowing across the border, with potentially serious knock-on impacts for food security during times of scarcity. Evidence also suggests that more coercive, less regulated instances of informal taxation can have a potentially devastating impact on livelihood outcomes. Schomerus and Titeca (2012) indicate that aggressive and arbitrary taxation by military officials at the Uganda-South Sudan border has effectively choked off small-scale trade across the border, cutting off a potentially vital livelihood option for local residents. Other studies also document instances where taxation at military roadblocks reduces smaller traders' profit margins to essentially nil (Tegara and Johnson 2007; Van Damme 2012). Thus, while the livelihood outcomes of informal tax systems are likely to be highly sensitive to context, it appears that on balance they can have a potentially significant negative impact, in both the short and the long term.

2.3.2 Informal taxation by non-state actors

In addition to informal taxation by state actors, another important form of informal taxation to consider is the kind that takes place at the hands of non-state actors – especially insurgent

[12] World Bank (2011) included a survey of trader attitudes, and found that while the vast majority wanted to expand their business, most felt they were prevented from doing so by restrictive tax practices.

groups or rival state regimes – in fragile or conflict-affected situations. In this respect, the political economy literature offers a broad (and growing) array of frameworks for understanding how and why insurgencies and war economies function. These have involved (but are not limited to): dichotomising conflicts into ones of 'greed' versus 'grievance' (Collier and Hoeffler 1998); understanding war economies through the type and nature of resources involved – for example, 'lootable' versus 'unlootable' resources producing non-separatist and separatist wars respectively (Ballentine and Nitzchke 2003); high and low levels of initial resource endowments leading to brutal, 'opportunistic' or more strategic, 'activist' insurgencies (Weinstein 2007); and approaches that attempt to understand the dynamic interrelations between social, political and economic drivers of conflict, such as Goodhand's division of conflict economies into the overlapping domains of war economy (which sustains the war), black economy (which profits from it) and coping economy (which seeks to survive it) (Goodhand 2004; see also Collinson 2003).

A thorough application of these definitions in seeking to explain and predict the types of taxation observed by insurgents and other non-state actors in fragile and conflict-affected situations is beyond the scope of this study. However, they do serve as a useful handle in understanding how and why people are taxed by insurgencies, political organisations and other non-state actors in times of conflict. The remainder of this section briefly reviews evidence of different taxation practices carried out by different non-state groups across different country contexts, showing how the livelihood outcomes they engender can exist on a spectrum ranging from the devastating to the relatively positive.

At the extreme negative end of the spectrum are the brutal extortive practices of both armed militias and poorly disciplined government forces documented in Oxfam reports focusing on conflict areas in eastern DRC (Haver 2012; Van Damme 2012; see also Box 5). Here, communities have essentially become commodities in a wider struggle for land and resources involving mostly non-local groups, with prolonged conflict intimately bound up with potential profit. Taxation in this context regularly takes the form of violent and sometimes fatal extortion of cash and resources with no scope for individual negotiation. Such blanket extraction falls especially heavily on more vulnerable groups, such as widows or the displaced. For example, Van Damme (2012) finds that impoverished communities in DRC can often be one of the most important sources of income for armed groups. Farmers in Masisi reported having to pay 1,000 Congolese Francs (FC) (approx. $1 or the equivalent 2-3kg of beans) to local Mayi-Mayi Nyatura rebel groups for each person wanting to access their fields. In Irumu (Ituri), women market sellers said they had to give wood and straw to the militia when arriving at market, and that every household had to give 500 FC ($0.5) to the militia each month. In addition, kidnapping, forced labour and tax checkpoints on arable land may all contribute to households being unable to devote the amount of effort towards agricultural production necessary to achieve even a basic level of subsistence. In the case of the former, this is again likely to have an especially damaging impact on labour-poor households.

While in some instances community leaders have been able to negotiate with insurgents to secure less arbitrary and more predictable methods of extraction, their effectiveness is limited by the imbalance of coercive power and the minimal impact of social sanction. Furthermore, such deals may themselves expose communities to reprisals from other groups or state forces. However, it is important to note that even within this chaotic and violent context, certain groups and circumstances have been seen to buck the trend (see Box 5).

Box 5: Taxation in eastern DRC: blurred lines and surprising outcomes

Two qualitative examples from eastern DRC illustrate the complex and sometimes counter-intuitive nature of taxation. In the first instance, local people are forced to pay multiple taxes to multiple actors simply in order to go about their everyday lives. The result is an erosion of state/non-state, formal/informal and legal/illegal dichotomies. In the second case, we see how an insurgent group was able to create a more favourable tax environment for local people, leading to greater economic productivity in the area, and proving that insurgencies are not necessarily, or only, associated with violence and extortion.

Blurring the lines

Haver (2012) argues that in eastern DRC, an informal, predatory, almost omnipresent state is continually eroding people's ability to earn a living. It is not so much that the state does not function, but that it functions too much — violently, without rules and without limits. An unpublished 2009 Oxfam report found that:

> for those living in the villages we visited, it is often impossible to carry out daily activities without being taxed. Need to travel to the next village to visit a sick relative? Pedestrians pay \$0.24, those on a bicycle \$0.35. Want to produce some palm oil? For every 20-litre bottle (which can be sold for around \$10), the state takes 7 litres as well as \$0.12, and the military takes 7 litres as well as \$0.25, and there's another \$10 per year to access the trees plus a tax on the machine to extract the oil. Want to buy some food? In one town, the number of tax inspectors (and their agents) had become so high that people were afraid to go to the market.

Haver (2012) notes that it is difficult to distinguish illegal taxes from simple theft. Those who wield more power often justify their theft as an official requirement or payment. Lacking information about what taxes are legal, civilians find it difficult to challenge those making demands, who in any case are often armed. Seemingly everyone collects taxes: agents of the state (including the military (FARDC), the police, the national intelligence agency (ANR) and even 'anti-fraud' agents in one place); customary authorities, such as local chiefs; and armed groups such as the Mayi Mayi and Democratic Forces for the Liberation of Rwanda (FDLR). Armed groups will often justify taxes as payment for their 'protection' of the population, whereas local chiefs will refer to the need to respect tradition. All of these taxes leave people wondering what the government does with the money. As one participant said, 'We do everything for the state, but it does nothing for us'.

'Business soldiers'

In his study on 'business soldiers' in eastern DRC, Titeca (2011) interrogates the assumption that 'opportunistic' (as opposed to 'ideological') insurgencies are necessarily associated with more violence and extortion. Here, a non-ethnic, Ugandan-backed insurgent group worked with local businesses in the market centres of Aru and Ariwara to establish a relatively stable (if brutally enforced) system of taxation in exchange for security and limited public goods provision. By offering a predictable environment and substantially lower effective tax rates than the surrounding area, this resulted for a time in a booming local economy and, significant for livelihood outcomes, a substantial reduction in basic commodity prices. However, it is also worth noting that this system was built around the interests of more powerful market players, and may therefore have been detrimental to the interests of more vulnerable petty traders. Overall, the case demonstrates the complexity of factors determining how any group will behave in a given context. Here, an entirely opportunistic group nevertheless adopted a longer-term approach to accumulation in the context of relative security and a non-existent state as a way to exploit the specific resource (market turnover) at its disposal as efficiently as possible, with relatively favourable implications for livelihoods. In other contexts, however, the same group was found to employ significantly more brutal practices, such as in contested mining areas where precious minerals were the main resource at stake.

Sources: Haver (2012); Titeca (2011)

At the opposite end, non-state regimes, such as Hamas in the Palestinian territories and Hizballah in Lebanon, have historically shown themselves to be more effective than the state with which they coexist in providing public services, while imposing minimal tax burdens on the local population. To begin with, both groups are largely funded through external sources, such as diaspora payments, support from the Iranian government, and, in the case of Hizballah, Lebanese government contracts (Flanigan 2008; Knudsen 2005; Pascovich 2012). They thus have limited need to tax the population directly in order to support themselves. In addition, both have a strong ideological welfare orientation that predates their militant roles, and serves as a major basis for their legitimacy (Flanigan 2008; Knudsen 2005; Pascovich 2012). Several studies have suggested in this respect that a relatively clear separation exists between their social infrastructure and military arms, with evidence suggesting that social provision is not necessarily dependent on active political support or participation, and that social provision accounts for the bulk of overall expenditure (Knudsen 2005; Pascovich 2012; International Crisis Group 2003). However, it should be noted that, in the case of Hamas especially, livelihood outcomes may still be far from ideal. While tax burdens may be minimal, a lack of access to cash as a result of sanctions, the Israeli blockade and other factors means that social provision is often stretched extremely thin, with access dependent on personal connections, if not actual political support (Roy 2011; Pascovich 2012).

In-between these two extremes are a wide number of instances in which non-state groups with a more explicitly militant orientation – exemplified here by the Taliban in Afghanistan and the Liberation Tigers of Tamil Eelam (LTTE) in Sri Lanka – may provide some form of basic social provision, but still damage livelihoods through coercive and inequitable taxation practices. Unlike Hamas or Hizballah, both of these groups have been less able to draw on external sources of support and have thus had to rely on coercive taxation of their population for a large portion of their financing.[14] Evidence on the impact of their tax practices on livelihoods is sparse in both instances – in the case of northern Sri Lanka, it appears that LTTE taxation served, in conjunction with the economic blockade, to dampen broader economic development by imposing restrictions on businesses and generating an uncertain investment environment, as well as inflating commodity prices (Flanigan 2008; Sarvananthan 2007). In addition to aggressively pursuing attempts to tax as much economic activity as possible at a blanket 10 per cent rate (Giustozzi 2010), the Taliban has also attempted to co-opt customary community systems of *zakat*[15] in areas under their control. This is especially problematic from a livelihood perspective, as it appears to have channelled resources out of communities, rather than redistributing them among the needy (Nezami with Kantor 2010; Felbab-Brown 2006; this practice has also been adopted by Al-Shabaab in Somalia, see Mwangi 2012; Vilkko 2011). Moreover, in at least one documented case, *zakat* on livestock and produce was seen to be imposed on all households rather than just the wealthy, severely limiting the livelihood options of poorer households (Nezami with Kantor 2010).

At the same time, evidence suggests that the bulk of revenue in each case is channelled largely towards military, and not civilian, ends. The Taliban has no separate infrastructure for social provision, and while they have been credited for providing security and establishing a more efficient alternative to the state justice system, they appear to show minimal interest in wider welfare objectives (Giustozzi 2010, 2012). Although the LTTE did engage in development indirectly through the Tamil Relief Organisation and approved local non-government organisations (NGOs), their projects have been criticised as largely cosmetic and heavily biased towards political supporters (Flanigan 2008). In practice, both organisations have largely delegated social provision to NGOs (and in the case of the LTTE,

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14 Although the LTTE was initially able to draw on an extensive system of diaspora taxation, access to this funding source was significantly curtailed in the late 1990s as part of Western government crackdowns against the group, and again after 2001 as part of worldwide anti-terror initiatives (Fair 2005; International Crisis Group 2010).

15 While practices vary across contexts, this is most commonly described as an annual 2.5% tax on capital imposed on individuals with assets above a given, socially defined threshold.

the Sri Lankan state), which have also doubled as an additional source of tax revenue. While this kind of diversion is widely cited as a cost of doing humanitarian business in conflict-affected areas (e.g. Hammond and Vaughan-Lee 2012), its impact on livelihoods is unclear. In addition to limiting access, tax rates of between 10 per cent and, in extreme cases, 50 per cent of project costs may also impinge on projects' effectiveness (for examples of rates levied on NGOs in various contexts, see Flanigan 2008; Hedlund et al. 2013; Jackson and Giustozzi 2012). This appears to have been a particular problem with the LTTE, which demanded that any project be run through one of its affiliated NGOs, and could thus exercise even greater control over what part of project budgets went where.

In Nepal, Holterman (2010) found that resource mobilisation by the Maoists during the war varied according to the degree of control they exercised. In one area with a high degree of local Maoist control and organisation, resource mobilisation was very successful, with obligatory contributions of food, labour and shelter from all households. Everyone with a monetary income was taxed, and teachers paid between 5 per cent and 11 per cent of their salary.

The evidence above suggests that taxation practices by non-state groups are highly dependent on the nature of resources accessible to them, the history and ideology of the organisations involved, and the presence and nature of conflict. As Collinson (2003) points out, war economies are fluid processes involving changes across both space and time, with macro-level struggles often overlapping many more micro-level ones. As a consequence, practices are, much like many of the peacetime taxation systems described above, likely to be highly sensitive to context and local power dynamics. In all cases covered, for example, it appears that the worst livelihood outcomes occur in areas where control is contested, with the population subject to more extortive, opportunistic taxation (since timescales of control are uncertain), as well as double taxation by the different parties involved. In all instances, it is perhaps important when assessing non-state taxation systems to consider how livelihood outcomes might compare with livelihoods under state taxation, since in some instances the latter could be at least as predatory.[16]

In addition to the question of taxation paid to non-state groups, one final issue to consider is the more diffuse role of non-state gatekeepers, who are able to use their position mediating access to information and resources to extract tax payments. This is an especially acute issue in refugee camps, and has been extensively documented in Somalia, where direct monitoring of aid delivery has been historically weak (Monitoring Group on Somalia and Eritrea 2012; Hedlund et al. 2013). Here, powerful, and often politically-connected, individuals in refugee camps charge rents to residents and extract a percentage on all cash transfers and food aid (these were estimated by one study at between 15 per cent and 20 per cent, and sometimes as high as half; see Hedlund et al. 2013). In some instances this has been accompanied by the provision of basic security and improved redistribution of aid among the poorest households, but in many cases it has left households on the brink of starvation and been accompanied by brutally coercive collection practices (Monitoring Group on Somalia and Eritrea 2012; Refugees International 2012). A similar situation has been observed in camps in Afghanistan, for example, with effective tax rates (again ranging from 30 per cent to 50 per cent), often varying according to local identity and patronage connections (Savage et al. 2007). In instances of camps with relatively established market systems, camp authorities may impose their own systems of taxation on market activity, even though refugees are often exempt from formal taxation in their host countries (Perouse de Montclos and Kagwanja 2000; Crisp 2000; Werker 2007).

[16] For example: Hedlund et al. (2013); Van Damme (2012); Haver (2009); Titeca (2011); Monitoring Group on Somalia and Eritrea (2012).

2.3.3 Customary taxation at community level

Another important sphere in which informal taxation may take place is at the community level. This can involve payments to individuals, such as customary leaders or managers of common-pool resources, as well as to community groups providing public services, whether indigenous – for example, in the form of self-help groups, tribal institutions, or autonomous governance structures in the absence of a functioning state – or formed through the mediation of the state and/or NGOs. Closely related here is the payment of religious taxes and tithes. Community self-help groups, in particular, tie into the concept of community mobilisation, another key aspect of the decentralisation agenda. This involves an approach to development which places emphasis on 'citizens as essential contributors of knowledge, time and other resources to the development process', and expects households to contribute 'at least nominal resources in order to receive goods and services', even in instances where they may not be liable to any formal taxation by the state (Beard 2007: 607). However, despite the popularity of community mobilisation approaches, studies examining the scale and nature of the tax burden it imposes appear to be relatively sparse.

A number of influential customary figures may levy informal taxes within their communities. In many contexts, leadership figures such as village chiefs in Sub-Saharan Africa may extract an honorarium for the duties they perform, whether cash or in kind as a proportion of agricultural output or labour on the chief's land. Such figures may also be responsible for collecting contributions from community members for redistribution to the poor or spending on community projects (see below). In many instances, these may be seen as a legitimate exercise of power and critical to the functioning of community-level governance institutions. However, such systems are also open to abuse: several studies report instances in which such figures have imposed heavy tax burdens, for example on market activity, and conscripted households into what essentially amounts to forced labour (Haver 2009; Van Damme 2012; Roitman 2007). Similarly, taxes ostensibly for community benefit may be levied in an unaccountable or selective fashion, and again be channelled into leaders' personal coffers rather than be redistributed (van Kessel and Oomen 1997). It is important to note that customary leaders may in many cases derive their mandate from formal state authorities as well as from customary norms, with potentially complex implications for the legitimacy and accountability of their tax activities. As discussed above, they should in such instances be seen as existing on a continuum between formal and informal. Other key figures involved in community-level informal taxation may include customary managers of common-pool resources, for example *gabungas* (fishery managers) in Malawi (Allison 2003) or *mirabs* (water masters) in Afghanistan (Thomas and Ahmad 2009). While payments to such figures may follow well-established rules, such as fixed contributions of a harvest or a catch, Thomas and Ahmad also highlight how these may be subject to change and negotiation during periods of upheaval or conflict.

Olken and Singhal (2011) draw on household microdata from 11 countries[17] to draw a number of stylised conclusions about community-based informal tax systems used to provide community works such as schools or roads.[18] They observe that such systems are likely to be especially widespread in rural areas; tax burdens may take the form of in-kind labour contributions as well as cash payments, especially among poorer households; and compliance is enforced by systems of social sanction (such as peer pressure, public shaming or community ostracism). When looking at the extent of informal tax burdens, they found that such taxes on average accounted for less than one per cent of total household expenditure, and around 15 per cent of household tax expenditure (although they do not provide any disaggregated statistics according to socio-economic status). Significantly, they find that,

[17] Their sample does not, however, include any examples of fragile or post-conflict states.

[18] Note that, as described in Section 1, their definition of informal tax is thus much more restrictive than that of Prud'homme and others.

while the absolute size of tax contributions by poorer households is much smaller than those of richer ones, it tends to occupy a larger portion of total expenditure. This suggests that informal tax in aid of provision of public goods may be more regressive than formal state tax, and thus may have the potential to perpetuate or exacerbate inequalities within communities, even as it ensures the much-needed provision of public goods. Another important issue raised by the study is the fact that contributions of labour (rather than cash) tend to be more prevalent among poorer households. Although not discussed by the authors, this is potentially problematic from a livelihood perspective, since contributing a nominally equal amount of work hours is likely to impose a proportionally larger burden on labour-poor households – which may in certain contexts be among the poorest (e.g. Kantor and Pain 2010; Kamuzora and Mkanta 2000) – relative to labour-rich ones.

Country-level studies of community-based informal tax paint a somewhat complex picture of how such systems work in practice and their possible effects on the poor. Thomas (1987) offers a broadly positive appraisal of the *Harambee* system of community self-help in Kenya. Using the results of a six-district quantitative study, she concludes that the system is 'mildly progressive', and that while many poor households in the study (around 75 per cent of the poorest quintile) were making no contribution at all to *Harambee* projects, the majority (around 65 per cent of the poorest quintile) were able to share their benefits in some way. However, she notes that in poorer communities the system was often more regressive, offered fewer exceptions, and in some cases involved coercive extraction of contributions from non-compliant households. This dynamic she links to the more urgent need in poorer communities to raise the minimum funds necessary to participate in projects involving co-pay agreements with the government. In a similar quantitative study focusing on community self-help in Indonesia, Beard (2007) notices a similar pattern of low contributions of labour or cash among poorer households. However, in her analysis she suggests (albeit based in this case on qualitative observations) that, given the reciprocal nature of many community self-help systems, low contributions may ultimately result in more restricted access to public goods. In contrast to Thomas, her data suggests that richer households may opt out of self-help schemes, potentially leading to more regressive outcomes.

Meanwhile, focusing on Afghanistan, Brick (2008) warns that informal taxation within communities may only produce public goods under certain circumstances, and may in other instances result instead in more predatory forms of extraction. Drawing on multiple village case studies, she argues that the equity of such systems will depend on the existence or absence of separation of powers, and checks and balances between different types of authority within a community (with multiple power centres limiting extractive practices), and an egalitarian distribution of landholdings (leading to more equal distribution of power within the community, driving higher levels of accountability and consensual decision-making within village governance). This approach points to the wider importance of the political economy of any given community to understanding how it taxes its members.

In addition to taxes paid in the pursuit of development or security, another critical form of community-level taxation from a livelihoods perspective comes in the form of more or less institutionalised systems of customary welfare provision or charity. In theory, systems such as the customary payment of *zakat* in Muslim countries should by their very nature impose minimal costs on poorer households and can provide a critical, albeit normally minimal, social floor in times of need (these customary payments should be seen as distinct from its institutionalisation by states such as Pakistan and Sudan, or its coordination/co-option by non-state political groups – see below). However, evidence from Afghanistan suggests that, as payments are dependent on social sanction, they are an unreliable source of support since they may contract in times of collective hardship such as prolonged drought, or as a consequence of social fragmentation during conflict. In addition, the need for recipients to prove themselves 'worthy' may result in a reluctance to pursue alternative livelihood options due to the risk of losing existing benefits, while the social determination of worthiness may itself mean that those most in need are not necessarily placed at the front of the queue (Kantor and Pain 2010).[20] Finally, in some contexts religious contributions may lack a welfare orientation, demanding contributions from poorer households while offering little tangible support in return (e.g. AusAID 2012).

Inevitably, the relatively sparse evidence on these kinds of community-level informal taxation suggests that the kind of impact it has on livelihoods is highly dependent on context. However, it demonstrates that communities can be an important locus of taxation and public goods provision outside of formal state channels. This points to a need to consider how these systems are already working – along with their potential implications for state legitimacy – when designing new interventions or policies.

2.4 Cross-cutting issues: inclusion/exclusion and gender

This section briefly examines two cross-cutting issues that emerge across the literature, which may have an additional bearing on livelihood outcomes. It first discusses how taxation can intersect with political practices of inclusion or exclusion, and then explores the role gender dynamics can have in determining the impact of taxation in different contexts.

2.4.1 Inclusion/exclusion

In many instances, taxation has been used by both formal and informal actors as a way to include allies and exclude opponents. Itriago (2011) highlights the widespread use of tax exemptions in both developed and developing countries as a means to reward political allies. This can, in turn, have a knock-on effect – intended or otherwise – placing other groups at a disadvantage. In a study of livelihood trading in Darfur, Buchanan-Smith et al. (2012) show how tax exemptions for large traders in central Sudan have rendered it harder for Darfuri traders to compete, with negative livelihood implications for the entire regional livestock sector. On top of tax exemptions, there are also instances in which tax has been punitively levied as a way to punish out-groups. Titeca and Kimanuka (2012) report allegations of systematic discrimination by Ugandan officials against Congolese traders on one side of the border, and the reverse situation on the other. Similarly, Schomerus and Titeca (2012) show how widespread resentment of Ugandans in South Sudan has effectively forced Ugandan traders to invest significant resources in securing protection from South Sudanese military actors. At the local level, Juul (2006) also describes attempts by both formal and informal figures to impose harsh levies on recently-arrived migrant herdsmen, while leaving local residents essentially untaxed.

As Juul (2006: 831) notes: ‘Taxation is not only about the extraction of public revenue for public goods. It is also an act of recognition, a sign of belonging with certain rights attached to it’. Tax can thus also serve as a nexus for inclusion and exclusion in terms of the claims to recognition it allows different groups to make. For example, Flintan (2011) describes how sedentary farmers in Kenya, Uganda and Ethiopia have used higher rates of tax compliance to strengthen their case in land disputes against pastoralist herders. Meanwhile, in Ghana, ‘associational taxation’ of informal sector unions at the start of last decade allowed these groups to exploit the legitimacy and ties to the state conferred on them by this system in order to marginalise rival groups and non-members (Joshi and Ayee 2002).

On the other hand, Milner (2012) in South Sudan and Juul (2006) in Senegal both point to instances in which tax payments by pastoralists (at the instigation of revenue-starved authorities in the case of the former and of pastoralists themselves in the case of the latter) have been able to secure access to land, services and political participation. Juul’s

[20] This latter concern has also been raised (along with issues of minimal coverage) in Pakistan, where *zakat* has been formally institutionalised by the state (Toor and Nasar 2004; Clark 2001).

description is especially interesting in that it demonstrates a case of exclusionary tax practices producing inclusive outcomes by providing a basis for demands. In this instance, preferential exemption for locals left newly-arrived migrant herders providing the bulk of local formal and informal tax revenue. This imbalance provided a basis for herders to negotiate for a degree of political representation in return, ultimately strengthening instead of weakening their claim to community membership.

2.4.2 Gender

Writing in 1997, Stotsky argued that tax systems could treat men and women differently through both explicit and implicit gender bias, the former identified as legally enforced differential treatment, and the latter as 'provisions of the law that, because of typical social arrangements and economic behaviour, tend to have different implications for men and women' (Stotsky 1997: 30). While these definitions address formal taxation, it is arguable that they apply just as equally to informal situations. Evidence of explicit gender bias in the formal tax literature is relatively sparse, which may be partly linked to the adoption in many countries of gender-neutral tax codes as part of the wider process of tax reform (Stotsky 1997; Caroll 2011). By contrast, the moral economy of informal tax systems in some cases provided exemptions for more vulnerable women (Titeca and de Herdt 2010), while, conversely, widespread prejudice among male tax collectors at the DRC border resulted in harsher treatment of female traders (World Bank 2011, Titeca with Kimanuka 2012).[21]

There was significantly more evidence of implicit gender bias in both formal and informal systems. At the macro level, Itriago (2011) notes that women may be systemically more exposed to consumption taxes, such as VAT, since they are likely to spend a higher portion of their income on household consumer goods. In addition, Caroll (2011) highlights that, broadly speaking, it is possible that a higher proportion of women than men will be involved in the informal sector (and hence exposed to the tax systems targeting it), since it provides both more flexible hours that can fit around time spent on reproductive labour, and greater opportunities for work in contexts where social norms restrict their access to formal labour markets.

More specifically, multiple studies highlight the gendered division of labour between sectors, meaning that men and women are likely to be exposed to different tax systems according to the work they do. For example, petty traders involved in cross-border exchange of foodstuffs in DRC are overwhelmingly women, while men will generally not become involved in trade if the returns are too low (World Bank 2011; Titeca with Kimanuka 2012). In this particular instance, this leaves women significantly more exposed to the maze of overlapping formal and informal practices described above, and vulnerable to the extraction of even relatively small additional amounts due to their low margins (Tegara and Johnson (2007) describe how getting caught at checkpoints on the way to market can leave female small traders struggling to break even). Buchanan-Smith et al. (2012) describe a similar gendered division of labour within the livestock market in Darfur, in which men trade in livestock and women trade in hides (although their study focuses exclusively on the former).

Even when male and female participation in a given sector is more or less equal, tax systems may also carry an implicit bias due to gendered diversions in practices within that sector. In an analysis of the formal taxation of Vietnamese small and medium sized enterprises (SMEs), Akram-Lodhi and van Staveren (2003) highlight how the assumptions used in setting SME tax rates have resulted in a system biased against female business owners. For example, they highlight how female SME owners tend to access more expensive informal

[21] Although not necessarily higher tax rates. While both the World Bank and Titeca and Kimanuka reported mistreatment of women during the tax process, the latter found that problems encountered were not as severe as initially expected, and cautioned against making any assumptions in this regard without testing them empirically.

credit as a source of finance. However, this is not factored into assumptions regarding the ‘reasonable’ cost of capital used to determine the rate of VAT payments. By underestimating this cost, the designers of the tax code have come up with rates which are in practice unreasonably high when applied to female-run SMEs. Distortions like this may account for the results of Indian studies cited in Ogra and Kundu (2011), which suggest that women street vendors lose proportionally more of their earnings in tax than men. Finally, while studies of informal taxation to fund community development have not examined gender aspects of the process, it seems likely that in instances where access to public goods is determined in a reciprocal manner, poor households without surplus supplies of in-kind male labour may well be the most likely to lose out.

A final but important point to note here is the problem of the gender differential in both formal and informal tax systems between female taxpayers on the one hand, and predominantly male tax collectors on the other. In many instances, this may leave women exposed to extraction not just of money or goods, but of what Goetz (2003: 33) calls the ‘sexual currencies of corruption’ in the form of sexual harassment or abuse (for examples, see World Bank 2011; Titeca with Kimanuka 2012; Van Damme 2012). Coupled with wider accounts of (often bitterly-resented) verbal and physical abuse by tax collectors (e.g. Roitman 2007), this points to a need for sensitivity to the dynamics of taxation as not just a transfer of assets or an institutional constraint, but as a personal interaction between individuals in which power differentials may be heavily skewed.

Conclusion

The way in which people make a living – and the success or otherwise of their choices and actions – is dependent not only on the agency of the individual, but also upon the norms and structures of their surrounding institutional context. As such, both the existing ‘rules of the game’ (in relation to gender, ethnicity, class, and so on), as well as the actions of powerful actors (whether they be state, non-state or customary), are likely to have an effect on the ability of individuals and households to either get by or get out of poverty. Taxation forms a core part of institutional context. However, aside from a few exceptions, the relationship between tax and livelihoods has gone largely unexamined at the micro level. This is particularly the case in places affected by war and violent conflict, which are often characterised by exploitative and obstructive political economy environments.

Through a selective review of available evidence, and a critical conceptual questioning of the nature of taxation, we have argued in this paper that if we are indeed interested in the relationships between taxation and livelihoods, then an exclusive focus on formal tax is inadequate. That is, if we are concerned only with taxes administered and collected through official statutory frameworks and procedures – for example, income tax, VAT, customs and excise tax – then we are likely to generate only a partial understanding of the ways in which taxation and livelihoods are connected. The evidence reviewed here suggests that, in many developing country contexts, a variety of forms of taxation take place at once, involving multiple actors, operating at formal and informal levels, and accorded varying degrees of legitimacy by the population on which they are levied. Since these practices are likely to exist and interact within the same overarching institutional context, we argue that it makes sense to study them under a single umbrella. Thus, a narrow conceptualisation of tax as a statutory practice may be insufficient to capture the full range of extractive payments that individuals and households have to make in order to pursue economic activity.

Subsequently, we propose widening our analytical lens to include what might be referred to as informal tax – that is, payments and costs (e.g. in relation to labour time) which are incurred outside formal statutory arrangements, the benefits of which may be accrued by a variety of state, non-state and community actors/institutions. Of course, in reality the lines between formal and informal taxation are likely to be blurred, as may be the lines between informal tax and practices of corruption. Nevertheless, a broad analytical focus on taxation, which captures both its formal and informal dimensions, may be defined as:

> *All payments – whether cash or in kind, including labour time – that are made as the result of the exercise of political power, social sanction or armed force (as opposed to market exchange).*

By considering both formal and informal taxes, and by not assuming that extractive payments are exclusively levied by state actors, it may be possible to map comprehensively what the broad tax regime surrounding a particular unit of analysis (e.g. individual, household) looks like, and to begin aggregating the effects of this regime on income, behaviour, attitudes and choices. What limited evidence there is suggests these effects can be significant. Empirical research from eastern DRC, Uganda, Nepal, Afghanistan and elsewhere shows, for example, that taxation broadly conceptualised can undermine the economic activity of small-scale traders, substantially reduce household incomes, and entrench the vulnerable position of low income groups relative to higher income ones. That said, at the core of the concept of taxation is the notion of exchange, implying that extractive payments (should) generate something in return – for example, public goods, market access, protection, and so on. Often, however, the issue is that returns on tax may not be seen or enjoyed by the payer – something which may, in turn, have important ramifications for governance relationships and processes of state-building. Further research is needed to explore these problems, and this working paper is a first step in an ongoing joint ICTD/SLRC research project that will conduct empirical research to examine the issues raised here further.

We hope that this work will have implications for how national and international actors think about both support to livelihoods and processes of state-building in fragile and conflict-affected situations. Projects aimed at supporting livelihoods are usually focused on trying to increase people's income or productive capacities: aid agencies distribute seeds, provide loans to small businesses and try to stimulate value chains. The expenditure side of the equation – what people have to spend in order to keep their children in school, get treatment when they are sick, buy and sell produce, travel to and from towns, and establish and maintain businesses – is largely overlooked in attempts to support livelihoods. A focus on taxation may therefore open up opportunities for new thinking about how to support livelihoods that takes both expenditure and income into account.

A better understanding of how taxation works at the local level may also provide a contribution to the debate around governance and state-building in fragile and conflict-affected situations. These have often been framed around the idea that if the state can be supported to do more for its citizens – for example, by delivering basic services and ensuring security – then legitimacy gains will follow. However, what tends to be neglected in such debates is the question of how state actors could become less predatory and extractive. Indeed, the effects of predatory state behaviour may be just as, if not more, significant in shaping state-society relations than the effects of supportive behaviour and actions. Similarly, the inability or unwillingness of states to regulate extractive behaviour by other actors may be perceived and understood as a visible failure of authority. Thus, a focus on the realities of how people are taxed at the local level – and an examination of whether extractive state activities could be better linked to the provision of services – may generate important insights into difficult processes of state-building in conflict-affected situations.

Finally, it is hoped that future research into the issues outlined here might help to pinpoint opportunities for positive change in local-level tax policies in fragile and conflict-affected situations. Identifying possible entry points for reform – for example, through applied political economy analysis – would help researchers and policymakers understand in which areas or sectors reforms would be most valuable, what the particulars of their design might look like, and what the political viability of different kinds of reform would be in practice.

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