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## Tax revenue mobilization in conflict-affected developing countries

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WIDER Working Paper 2016/155

## **Tax revenue mobilization in conflict-affected developing countries**

Vanessa van den Boogaard,<sup>1</sup> Wilson Prichard,<sup>1</sup> Nikola Milicic,<sup>1</sup>  
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**Abstract:** How does conflict affect tax revenue mobilization? This paper uses a newly updated dataset to explore longitudinal trends of tax revenue mobilization prior to, during, and after conflict periods in a selection of conflict-affected states since 1980. This medium-N trend analysis is complemented by prototypical case study analysis, which provides greater insight into the relationship between tax revenue performance over time and the characteristics of the conflicts in question. Offering detailed snapshots of tax experiences prior to, during, and after conflict, this paper provides an empirical counterpoint to theories about the role of taxation in war-making and state building.

**Keywords:** taxation, revenue mobilization, conflict

**JEL classification:** H20, H11

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## 1 Introduction

Taxation is central to the task of state building in post-conflict states. This reflects the urgent need for revenue during processes of post-conflict reconstruction, as well as the broader governance implications of taxation related to state capacity building and the expansion of governmental responsiveness and accountability. In European states, taxation has also historically been central to enabling ‘war and the means of war’ (Tilly 1990: 15). Correspondingly, a longstanding literature in the field of comparative politics suggests that conflict, or at least the threat of interstate conflict, may lead to increased tax collection. However, this a-priori case for the centrality of taxation in conflict-affected settings is not reflected in existing practice or research. Little remains known about the role of taxation in enabling conflict or in supporting or hindering post-conflict state building today. In practice, tax issues have frequently been given a low priority, while little attention has been paid by researchers to understanding the unique challenges involved in building strong tax systems in post-conflict settings. It is thus unclear whether the theoretical findings about the relationship between conflict and taxation hold in contemporary developing countries, given the prevalence of intrastate conflict, weak national identities, weak states, and access to external sources of funding (Centeno 1997, 2002). In these contexts, it is likely that conflict will, in fact, reduce revenue mobilization on account of conflict’s negative effects on economic activity, the tax base, tax collection efforts in conflict-affected regions, and investment in effective public administration.

While these anticipated findings are intuitive, they have not, to our knowledge, been tested empirically using reliable data that isolates aid and resource revenues and disaggregates tax revenue type. Accordingly, this paper addresses an old question—*How does conflict affect revenue mobilization?*—with newly available, high-quality data on government revenues. The newly updated International Centre for Taxation and Development (ICTD) and United Nations University World Institute for Development Economics Research (UNU-WIDER) Government Revenue Dataset (GRD) allows for a robust analysis of taxation and state building in post-conflict states. Indeed, the GRD has increased the quality, coverage, and reliability of cross-country government revenue data, representing ‘the best possible source of cross-country revenue data for researchers’ (Prichard and McNabb 2016).

Using the GRD, this paper explores longitudinal trends of tax revenue mobilization prior to, during, and after conflict periods in a selection of cases that have experienced significant conflict since 1980. This medium-N trend analysis is complemented by prototypical case study analysis, which provides greater insight into the relationship between tax revenue performance over time and the characteristics of the conflicts in question. In so doing, this paper offers detailed snapshots of tax experiences prior to, during, and after conflict, providing an empirical counterpoint to theories of the role of taxation in war-making and state building. Our survey of recent cases finds that conflict has tended to substantially reduce tax collection, owing largely to the disruption of economic activity (and thus the erosion of the tax base), but also, in at least some cases, to broader destruction of infrastructure and administrative capacity and to the loss of control over important tax bases (Addison et al. 2002; Gupta et al. 2005).

Section 2 summarizes the theoretical foundations of the relationship between conflict and taxation. Section 3 outlines the hypotheses that emanate from this literature, and reviews the methods of the trend analysis exercise. Section 4 explores taxation in contemporary developing countries prior to

and during conflict, reporting the results of the trend analysis and discussing the disjuncture between contemporary conflict and historically grounded theory. Section 5 analyses taxation in post-conflict contemporary cases, focusing on a central area of policy inquiry: how can international actors support capacity building and the strengthening of public administration with respect to revenue collection while recognizing the unique political economy and state building incentives of domestic political actors in post-conflict contexts? Moving from theoretical and analytical to policy significance, this section highlights some of the key challenges of taxation in post-conflict environments based on lessons learned from case studies.

## 2 Theoretical foundations

A longstanding literature in the field of comparative politics suggests that conflict, or at least the threat of interstate conflict, may lead to increased tax collection. Based on the historiography, this literature suggests that, *ceteris paribus*, conflict will increase the desire of governments to raise tax revenues to meet the costs of war, while conflict may make citizens more willing to bear heavy tax burdens (Downing 1992; Ertman 1997; Tilly 1990). Through its link to taxation, state formation in early modern Europe is rooted in war, with European states essentially the by-products of interstate war-making (Tilly 1990: 11).

Particularly in Europe, taxation is central to this process. The theory posits that war leads to a strong state, driven in this process by the need, because of war, for revenues and mass loyalty from subjects, in the form of the foot soldiers populating standing armies (Tilly 1990). Thus, war served as ‘the spur of the risk of survival’ (Bates 2010: 104; Brewer 1989: 13), with the relationship between coercion and capital defining state structures and organizations.

This incentive for taxation had three primary effects on the form of the state that emerged. First, taxation gave rulers a common interest in the economic development of the ruled (Moore 2008; Prichard 2015). Effective extraction alone was insufficient; instead, the promotion of capital accumulation was often necessary to ensure a sufficient resource base for extraction (Bates 2010; Levi 1988; Porter 1994; Tilly 1985, 1990). Second, taxation led to the strengthening of state administrative capacity through the institutionalization of the routine to collect revenues (Brewer 1989; Tilly 1990). This occurred through two primary mechanisms: the centralization of authority, and the expansion of the bureaucracy (Brautigam 2008). Centralization and direct control over taxation minimized corruption and losses associated with antecedent decentralized methods of extraction, including tax farming. At the same time, the fiscal pressures of war enabled the expansion of an efficient, Weberian administrative bureaucracy characterized by meritocracy and professionalism. They also served as an institution-building stimulus, with an expansion of civilian bureaucracies to manage extraction and data collection, strengthening the state’s capacity to ‘see’ those under its dominion (Scott 1998). Finally, taxation led to a more representative and accountable state, as the extraction of revenues created a fiscal social contract between states and citizens, wherein governments were inclined to bargain with taxpayers, exchanging representation and services for increased taxation (Brautigam 2008; Moore 2008; Prichard 2015).

Thus, the development of a fiscal social contract and the civilianization of state institutions resulted from the exigencies of war-making. In short, ‘war made the state’ by making taxation necessary, which in turn aligned the welfare interests of states and citizens, necessitated centralized authority

and a Weberian bureaucracy, and developed a fiscal–social contract between states and citizens that encouraged state accountability and citizen representation. The historical origins of strong state capacity in Europe can largely be understood through these processes. As described by Brautigam (2008: 1), ‘taxation may play the *central role* in building and sustaining the power of states, and shaping their ties to society’.

Yet the question remains as to whether this tax-driven bellicose theory of state capacity building is useful in illuminating the challenges of state formation in contemporary developing countries, particularly outside of Europe. The first challenge is posed by the gap between the global and national political, economic and social realities that are found in Tilly’s seminal work and our sample of states that is chosen from a time-series that differs in a few ways. First, our notion of ‘contemporary’ and what constitutes a contemporary state is in part driven by our dataset, which addresses the very recent past that is covered in a 30-year time series that ranges from 1982 to 2012. This is in contrast to the 1,002-year time frame that Tilly’s seminal work analyses. This distinction, while obvious, is important because a shorter time frame complicates the ability to observe critical junctures relating to war and state making in the comparatively limited time frame covered in our dataset (Pierson 2004). Constructing a dataset for a time series as lengthy as Tilly’s is challenging, given the difficulties associated with collating and monitoring the quality of data from a variety of sources and points across time (Jerven 2015). Nevertheless, as new research expands colonial revenue datasets (see, e.g. Jerven et al. 2012), this paper’s analysis could subsequently be updated. Also, as Tilly’s analysis ends in 1992, shortly after the end of the Cold War and before the western-driven ‘Global War on Terror’ began, all states arguably exist in an international economic, political, and social context that differs from the extended time-series he covered.

The second challenge relates to the Eurocentrism of applying Tilly’s argument to non-European countries. Although there is an influential literature that examines the European state-building experience, there is a comparatively smaller evidence base examining experience in other parts of the world and snapshots in time. Moreover, much of the literature takes the European, and to a lesser extent the Chinese and Ottoman, experience as something of the benchmark by which to compare state building in other regions. This limits understandings of state formation in both Europe and non-European contexts as there are a smaller number of counterfactuals and a potential bias towards a select type of social phenomena that might contribute to state building, such as conflict or the threat of conflict, in this instance. This is in part because it is not clear that non-European states were consolidated in quite the same way as European ones. And it is also because of the dominance of intrastate conflict, weak national identities, weak states, and access to external sources of funding in contemporary cases (Centeno 1997, 2002). For one, there is some reason to think that the ‘risk of survival’ (Bates 2010: 104) or ‘systemic vulnerability’ (Skocpol 1979) remains an important spur for state action (Doner et al. 2005). Thies (2004, 2005) argues that external threats and rivals, if not war itself, have been important to state building in the twentieth century, while Herbst (2000) sees the relative absence of existential threat as an important explanatory factor of state weakness in Africa.

However, a brief glance over recent state conflicts makes clear that most contemporary conflict-affected states are not strong, effective, or representative (Fukuyama 2014: 79). This is embodied in the central puzzle: ‘*How can war decisively help to make states in one part of the system and more or less systematically help to destroy states in another?*’ (Sørensen 2001: 342). Shedding light on the empirical realities of this puzzle’s intermediary mechanism—taxation—the following sections explore the link, if any, between the foundational fiscal pressures of war and tax mobilization in contemporary conflict-affected states, consider various explanations for why the conflict–taxation–state building

relationship no longer holds, and highlight modern challenges of creating incentives for taxation in divided and fragile contexts.

### 3 Methods

A number of expectations emerge from the theoretical literature, driving the following two sets of competing hypotheses regarding the relationship between contemporary conflict in low- and middle-income countries and tax revenue mobilization. First, *(H1a) Tax revenues will increase prior to conflict*, as conflict creates incentives for governments to raise tax revenues to meet the costs of war, while making citizens more willing to bear heavy tax burdens (e.g. Tilly 1990). Alternatively, *(H1b) Tax revenues will remain stable or decrease prior to conflict*, as the fiscal pressures of ‘war and the preparations for war’ (Tilly 1990: 15) are no longer causally related to the necessity of taxation, and *(H1c) Tax revenues will decrease during conflict* on account of conflict’s negative effects on economic activity, the tax base, tax collection efforts, and investment in effective public administration. Second, *(H2a) Taxation will increase following conflict* on account of positive feedback loops of tax collection and the links between taxation and the expansion of state capacity and administration (Brautigam et al. 2008; Moore 2004; Prichard 2015). Alternatively, *(H2b) Taxation will remain neutral or will decline following conflict*, as an effect of the path dependent institutional and political economic legacies of conflict.

The GRD makes it possible to compare trends in tax mobilization in conflict-affected states against these hypotheses, allowing for a more robust analysis of key theories of taxation and state building, and key issues of taxation specific to post-conflict states. In using this dataset, a simple measure of tax revenue is employed to analyse longitudinal trends of domestic tax revenue mobilization prior to, during, and after conflict for a selected sample of conflict-affected case countries: the variable ‘total taxes excluding social contribution’ clearly isolates tax data from social contributions and non-tax revenue, including aid and resource rents. Cases include all low- and middle-income countries that, since 1980, have experienced at least one year of significant conflict, defined by the Uppsala Conflict Data Program/Peace Research Institute Oslo (UCDP/PRIO) Armed Conflict Dataset 4.0 (UCDP/PRIO 2015a) as resulting in at least 1,000 battle deaths per at least one year.<sup>1</sup> To this group of conflicts, cases were added which did not exceed 1,000 battle deaths per year after 1980, but that, since the onset of conflict, exceeded 1,000 battle-related deaths.<sup>2</sup> This takes into account the temporal dimension of conflict, recognizing that long-term, low-level conflict may have significant effects on state capacity and popular support for revenue mobilization.

These criteria include countries that have experienced multiple conflicts as well as different episodes of the same recurring conflict; these are treated independently within the analysis.<sup>3</sup> Cases were

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<sup>1</sup> This cut-off was used as it distinguishes between a minor armed conflict and war (UCDP/PRIO 2015b).

<sup>2</sup> From this group of cases that are defined as ‘cumulatively intense’, three were excluded that represented short flare-ups of decades-old conflicts. These are Cameroon 1984, Paraguay 1989, and Laos 1989–90. Additionally, the case of Russia contra the Caucasus Emirate is excluded, as the relevant period of conflict and tax revenue decline aligns with the global financial crisis, rendering it difficult to assess the impact of conflict.

<sup>3</sup> Except for cases that, for the same conflict (e.g. identified by the same conflict identifier) that have less than one-year formal breaks between conflicts. It is anticipated that these formal breaks are too short to be reflected in revenue data; accordingly, they are considered as the same episode of conflict.

subsequently excluded for which revenue data are not available at the general or central government level for the period of study either before or after the conflict,<sup>4</sup> or the conflict was of low intensity relative to the size of the country.<sup>5</sup> Cases from the former Soviet Union and former Yugoslavia were excluded, as reliable data are not available during the period of dissolution and independence movements.<sup>6</sup> Additionally, countries that experienced multiple conflicts over an overlapping time period have been excluded on account of the difficulty of isolating correlative relationships between conflict and revenue trends in these cases.<sup>7</sup> Ongoing conflicts are included, though, evidently, post-conflict trends are not captured. Likewise, conflicts are included even if they commenced before data availability (1980), though pre-conflict trends are not captured. In both cases, revenue mobilization trends are captured for the years during which data are available, resulting in different sample sizes for ‘pre-’, ‘during’, and ‘post-’ conflict periods: 26, 34, and 31 cases, respectively.

What follows provides an overview of the key tax revenue mobilization trends that emerge before, during, and after conflict periods. Defining absolute criteria for inclusion in different categories is difficult due to variability in tax revenue from year to year, and problems of deciding what the relevant time frame should be. Our heuristic for ‘stability’ has been to include cases that experienced revenue changes (i.e. rate of change from the previous year) less than 1 per cent in either direction in the years before, during, or after conflict. All larger increases or decreases in tax revenue are considered positive or negative trends, respectively.

The goal of this trend analysis exercise is not to gain a deep understanding of individual cases; instead, the aim is to provide a broad overview of contemporary experiences in order to identify key issues, emerging hypotheses, and interesting cases. This process to some extent mirrors a review carried out by the International Monetary Fund (IMF) (Gupta et al. 2005), but is more extensive in its coverage and, more importantly, is aimed not at describing specific technical interventions, but at highlighting key trends and issues that may warrant greater policy and research attention, including more in-depth case studies. Recognizing the limitations of a medium-N survey of this sort, brief case analyses are incorporated throughout to probe apparent trends and illustrate key findings.

Even with these basic objectives, there are a handful of shortcomings with the dataset that are important for this analysis. One of these relates to the reality that the data sources for the dataset are likely to be drawn from formal revenue sources rather than informal revenue sources, such as those collected by militias or other non-state actors. This distinction is important because it results in an intrinsic bias in our analysis towards changes in the revenue generated by the state rather than that generated by non-state actors who, at least in some of the cases, are likely to have collected taxes during the conflicts in question. Another factor related to the state-orientation of this paper’s analysis is that it focuses on formal, exclusively monetary, forms of revenue generated by the state. This is significant because there is evidence from recent conflicts in countries outside of our sample, such as South Sudan, whereby non-monetary forms of revenue such as grain were collected by rebel

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<sup>4</sup> This includes Libya, Iraq, North Yemen, South Yemen, Iran, Afghanistan, Colombia, Ukraine, Azerbaijan, Israel, Nigeria, the Philippines, Somalia, South Sudan, Syria, Uganda, and Algeria.

<sup>5</sup> This includes six internal conflicts in India, the India–Pakistan conflict, and the China–Vietnam conflict.

<sup>6</sup> This includes Bosnia and Herzegovina, Georgia, Russia (Soviet Union), Serbia (Yugoslavia), and Tajikistan.

<sup>7</sup> This includes multiple overlapping conflicts in Chad, Ethiopia, Indonesia, Iran, Myanmar, Sudan, Turkey, Pakistan, Thailand, and Sri Lanka.



administrations during the country’s civil wars (Johnson 2016; Rolandsen 2005). Another challenge posed by our dataset, and in part by our focus on the recent past, is that it is difficult to isolate the impact of war from other factors such as broader economic shocks, given a reliance on non-tax revenue sources such as natural resources or international loans. These factors are potentially interrelated in many of the countries under review, given the tendency, which was strengthened by European colonization, for the economies of many newly independent countries to be highly dependent on commodities or natural resources, which were in turn susceptible to international economic shocks. This limitation is exacerbated on account of the national focus of this study, which is in part because of the challenge of obtaining accurate regional or subnational revenue trends within all of the countries in our sample. Consequently, it is difficult to determine the extent to which the parts of the country that were most affected by conflict in our sample were significant to the overall tax base of the economies in question. In other words, war might not have affected revenue generation in the countries in our sample because the parts of the country that were severely impacted by war may have been of marginal significance to the country’s overall revenue base prior to conflict.

## 4 Tax revenue mobilization prior to and during conflict

### 4.1 Trends

What is the relationship between conflict and tax revenue mobilization in contemporary conflict-affected countries? Looking at trends over available years prior to the onset of conflict, the general pattern appears to be positive (Table 1).

Table 1: Rate of change of taxes excluding social contributions prior to conflict (all available years)<sup>8</sup> (N = 25)

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Liberia 1989–90	-2.22	Burundi	-0.34	Eritrea	4.36
Kuwait	-1.52	Nicaragua	0.63	Liberia 2000–03	5.45
Libya	-1.07	Rwanda 1990–94	0.46	Peru 2007–10	2.59
Rwanda 2009–12	-1.48	Mali 2012 to present	0.50	Nepal	1.92
Senegal 1990–2003	-4.92	Congo-Brazzaville 1997–99	-0.18	Rwanda 1996–2002	3.11
Peru 1982–99	-2.92			Mali 2009	4.09
Sierra Leone	-4.08			Senegal 2011	1.71
DRC 1996–2001	-7.00			Congo-Brazzaville 1993	4.71
				Congo-Brazzaville 2002	1.77
				DRC 2006–08	1.56
				DRC 2012 to present	2.43
				Angola 98–2002	1.47

Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

<sup>8</sup> Indicates all data years available prior to conflict. If there was a previous episode of conflict, indicates all data years until that conflict.

However, when differentiating between the trend of long-run revenue mobilization and the trend in the years immediately prior to conflict, any evidence of a trend towards increasing tax revenue mobilization prior to conflict is more ambiguous (Table 2).

Table 2: Rate of change of taxes excluding social contributions three years prior to conflict ( $N = 25$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Liberia 1989–90	-3.9	Burundi	0.82	Nepal	2.33
Eritrea	-1.12	Nicaragua	0.63	Liberia 2000–03	5.45
Rwanda 1990–94	-1.59	Kuwait	-0.92	Peru 2007–10	2.47
Rwanda 2009–12	-1.48	Libya	0.88	Rwanda 1996–2002	3.11
Mali 2009	-1.86	Mali 2012 to present	0.50	Congo-Brazzaville 2002	1.77
Senegal 2011	-1.44	Senegal 1990–2003	-0.24	Sierra Leone	1.85
Peru 1982–99	2.92	Congo-Brazzaville 1997–99	-0.18	DRC 2012 to present	2.43
Congo-Brazzaville 1993	-1.8	DRC 2006–08	0.82	Angola 1998–2002	1.47
DRC 1996–2001	-1.62				

Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

In addition to the surface-level ambiguity, of the eight cases in which tax revenue increased immediately prior to the onset of conflict, six represent relapses into conflict after a relatively brief period of peace (Liberia, Rwanda, Congo-Brazzaville, Democratic Republic of the Congo (DRC), Angola, Peru). As such, the revenue gains prior to renewed conflict in these countries may reflect what we refer to as a 'revenue peace dividend' at the cessation of the earlier round of hostilities, rather than 'normal' tax increases, or exceptional ones related to the preparation for war.

Taking this into account, it is only in two cases (Nepal and Sierra Leone) that tax revenue increased relative to a 'normal', non-conflict, level prior to the outbreak of conflict. However, in the case of Sierra Leone, an increase in tax revenue in the three years prior to conflict represents only a marginal increase from an absolute low in 1986 of tax revenues at 1.8 per cent of gross domestic product (GDP). Immediately prior to conflict, tax revenues only increased to about 5 per cent of GDP, still a very low figure and not indicative of real state mobilization efforts in preparation for conflict. Rather, this period of absolutely and relatively depressed tax revenues in Sierra Leone was a symptom of the broader weakening of the state, and the increasing potential for the growth of rebel groups (Prichard and Jibao 2010), contributing to the rise of civil conflict itself (Keen 2005).

Accordingly, the apparent positive trend does not withstand a deeper assessment of the cases: *prior to conflict, the general pattern is of decreasing or stable tax revenue*, in line with (H1b). This trend of declining or stagnant revenue prior to the onset of conflict is striking, but should perhaps not be surprising given the preponderance of civil wars in our sample.<sup>9</sup> As in Sierra Leone, declining revenue is likely to be a signal of the growing weakness of the state or of growing ineffectiveness and corruption, thus increasing the feasibility and motivation for civil conflict. The fact that this trend seems to apply

<sup>9</sup> Of the 25 cases, only Eritrea and Kuwait were interstate armed conflicts.

more broadly indicates that, despite fiscal pressures of the threat of war and the preparations for war, governments do not face the incentive to tax citizens, in contradiction to the classic theoretical foundations of conflict, taxation, and state building in postmodern Europe (Addison and Murshed 2001).

During conflict, the general pattern of tax revenue mobilization likewise appears to be positive at first glance (Table 3), in support of a Tillian understanding of conflict as increasing the incentives for tax mobilization. Perhaps, as Thies argues, civil war drives increases in taxation by central government, with ethnic challenges in particular rallying support for increased taxation within the ruling group, similar to the dynamics in the case of ‘classic’ interstate wars (Thies 2005: 54). It is moreover plausible that states may be required to act on account of the revenue pressure resulting from an aid exodus during conflict. For example, in Burundi, government revenue was significantly affected by the decline of foreign aid transfers in reaction to the 1993 and 1996 coups d’état (Ndikumana 2001; Nkurunziza 2004, 2005), plausibly providing incentives for state revenue mobilization, indicated by a positive revenue trend during conflict (Table 3).

Table 3: Rate of change of taxes excluding social contributions during conflict ( $N = 33$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Eritrea	-3.49	Nepal	0.41	South Africa	3.44
El Salvador	-4.39	Kuwait	-0.92	Burundi	1.48
Liberia 2000–03	-5.57	Mali 2012 to present	0.34	Morocco	1.79
Nicaragua	-10.96	Guatemala	-0.88	Lebanon 1989–90	1.47
Libya	-2.68	Senegal 2011	0.31	Mozambique	3.52
Rwanda 1990–94	-6.51	Peru 2007–10	-0.45	Rwanda 1996–2002	5.18
Peru 1982–99	-1.98	Angola 1985–95	-0.54	Rwanda 2009–2012	1.67
Congo-Brazzaville 1993	-3.14	Congo-Brazzaville 2002	-0.96	Cambodia	2.28
Congo-Brazzaville 1997–99	-3.64	DRC 2012 to present	0.76	Bangladesh	1.31
				Mali 2009	1.47
				Senegal 1990–2003	4.46
				Angola 1998–2002	8.8
				Sierra Leone	3.97
				DRC 1996–2001	2.29
				DRC 2006–08	3.21

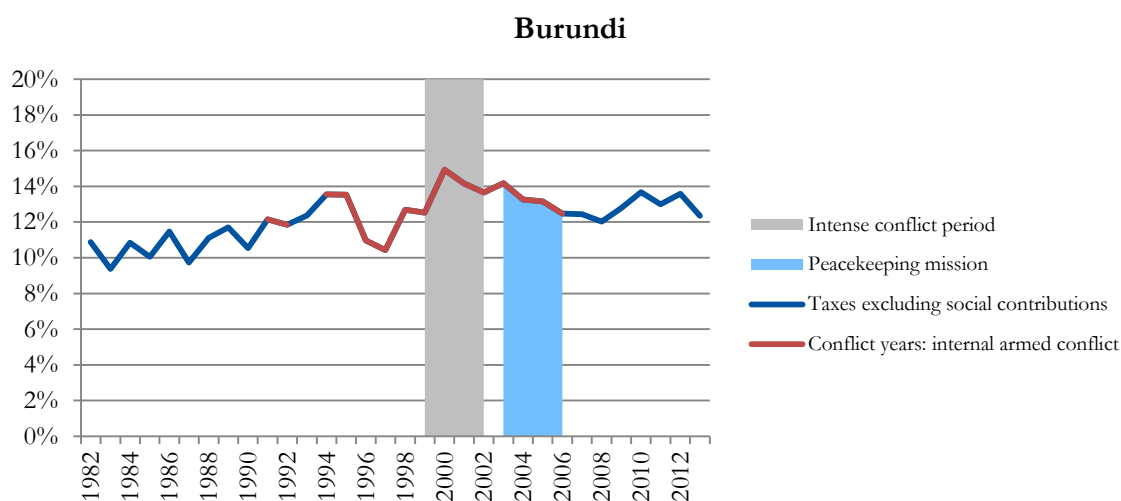
Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

Overall, however, this apparently positive trend is deceiving for four reasons. First, more localized conflicts can reasonably be expected to have less of an impact on the economy as a whole, with a correspondingly reduced impact on government revenues and capacity to tax. Of the 33 cases, five

are localized conflicts (Eritrea, Senegal, Morocco, Bangladesh, and South Africa), four of which (Senegal 1990–2003, Morocco, Bangladesh, and South Africa) experienced an increase in tax revenue during the period of conflict.<sup>10</sup> These conflicts do not accurately reflect the experience of more generalized conflict, as experienced by other cases. By contrast, conflict that is geographically dispersed, or directly affects major economic centres, is particularly destructive, and correspondingly devastating to state revenues. Particularly important is the situation in capital cities, where a large share of tax revenue is typically collected and where administrative functions are centred, while the loss of control of international borders and ports can have a major impact on tax revenues as well. For example, repeated conflicts in the Republic of the Congo (1993, 1997–99) were relatively brief, but were particularly destructive of property, state institutions, and economic infrastructure because their impact was concentrated in the capital Brazzaville—home to 25–30 per cent of the population at the time of conflict (Addison and Murshed 2001; IMF 2004).

Second, relatively small increases in tax collection over time masks greater volatility during conflict in certain cases (e.g., Burundi, Mozambique, Sierra Leone). Returning to the case of Burundi, for example, we see that despite showing a positive trend of tax revenue mobilization over the entire conflict period, the civil war in Burundi had a significant negative impact on economic performance and provoked an ‘unprecedented’ decline in government revenue (Nkurunziza 2004, 2005). The overall growth rate of revenue collection remained positive, though with significant fluctuations in line with significant periods of conflict, particularly in the tumultuous years of 1996 and 1997.<sup>11</sup>

Figure 1: Tax revenues excluding social contributions as a percentage of GDP, Burundi



Source: the ICTD/UNU-WIDER GRD.

<sup>10</sup> Degree of localization is defined according to whether the conflict is coded by UCDP/PRIO 4.0 as being primarily a conflict over a specific territory. Despite being categorized as such, Kuwait is not considered localized, given the relatively extensive impact of the interstate conflict.

<sup>11</sup> These fluctuations are also telling in terms of the dependence of the tax system on trade taxes (AfDB 2010). For instance, the 1996 embargo on international trade resulted in a reduction of the volume of taxes on international trade by 41 per cent in absolute terms and by 34 per cent as a percentage of GDP (AfDB 2010).

Third, when we further specify the period of conflict under examination, to only consider the period(s) of intense conflict within the formal conflict period, the overall trend reverses substantially (Table 4).<sup>12</sup> For example, looking at the case of Sierra Leone, we see that the periods of increased intensity of conflict (1995 and 1998–99) unsurprisingly have a much more detrimental effect than the formal period of conflict as a whole, which sees an overall increase in tax revenue (Figure 2). Likewise, in Rwanda total tax revenue as a percentage of GDP, low in the conflict years leading up to the genocide, was virtually decimated in 1994 (Figure 3). This is unsurprising, given a loss of approximately 11 per cent of the country’s population (Prunier 1995: 255), with a further four million displaced internally or internationally (Magnarella 2005: 816).

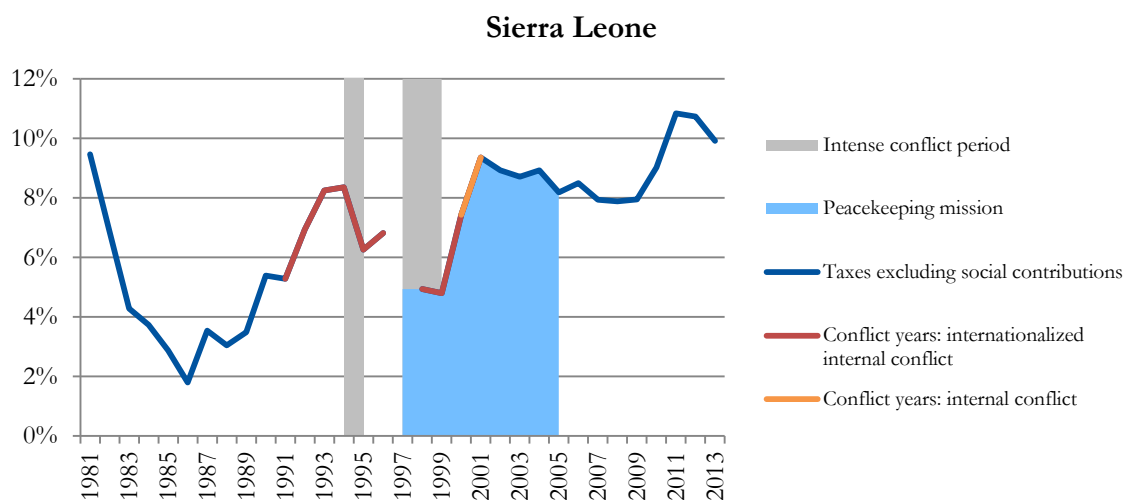
Table 4: Rate of change of taxes excluding social contributions during periods of intense conflict ( $N = 24$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Eritrea	-3.49	Nepal	0.38	Burundi	1.13
El Salvador	-5.7	Kuwait	-0.92	Peru 1988–91	5.03
Liberia 2003	-2.61	Rwanda 1990	-0.94	South Africa	3.44
Nicaragua 1983–88	-1.88	Rwanda 1998	0.29	Mozambique	1.97
Libya	-2.2	Congo-Brazzaville 1997–98	-0.41	Rwanda 2001	1.06
Rwanda 1994	-5.24	DRC 1996–2000	-0.16	Rwanda 2009	1.59
Peru 1983–99	-3.98			Angola 1992–94	10.94
Angola 1985–90	-5.26			Angola 1998–2001	15.33
Sierra Leone 1995	-2.1				
Sierra Leone 1998–99	-2.03				

Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

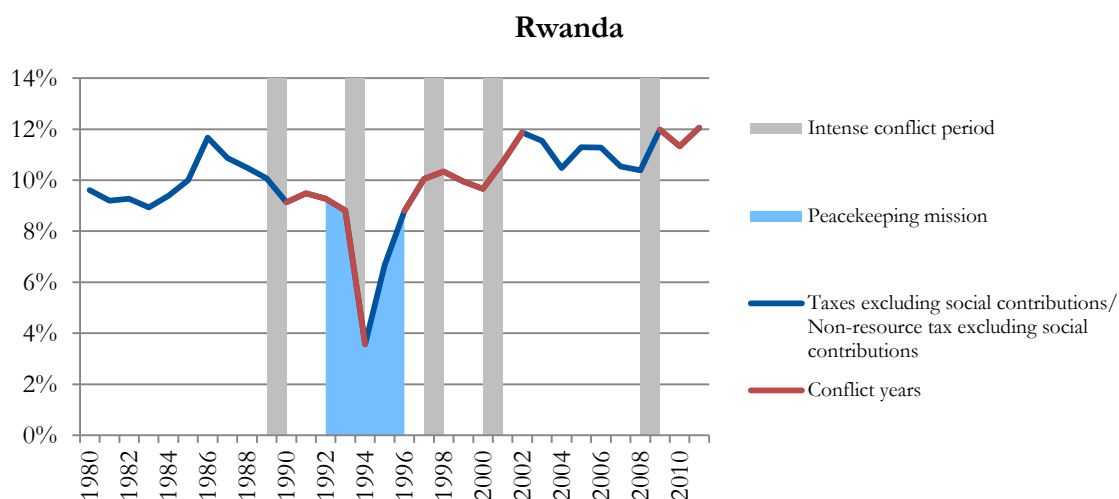
<sup>12</sup> 'Formal' conflict periods are defined according to UCDP/PRIO start and end dates, which capture the years of observation of the conflict. Periods of 'intense' conflict are defined as 'war' rather than as 'minor armed conflict' by UCDP/PRIO 4.0, based on having exceeded the threshold of 1,000 battle-related deaths that year.

Figure 2: Tax revenues excluding social contributions as a percentage of GDP, Sierra Leone



Source: the ICTD/UNU-WIDER GRD.

Figure 3: Tax revenues excluding social contributions as a percentage of GDP, Rwanda



Source: the ICTD/UNU-WIDER GRD.

Finally, when considering non-resource tax revenues, the negative trend of tax revenue growth during periods of conflict intensity is amplified (Table 5).<sup>13</sup> Looking only at non-resource tax revenues offers a clearer sense of whether an expansion of taxation corresponds to a deepening of direct taxation on citizens, or simply to short-term revenue gains from taxable resource rents.<sup>14</sup> An increase in the former relative to the latter is expected to correspond to a greater extent to a

<sup>13</sup> Using the GRD variable ‘non-resource tax excluding social contributions’, which excludes tax revenue associated with resource rents, there are nine cases for which this is a relevant distinction (two periods of conflict in Angola, three in Congo-Brazzaville, one in Sierra Leone, and three in the DRC).

<sup>14</sup> A further measure, ‘non-resource component of taxes on income, profits, and capital gains’, was considered, but was not consistently available across cases and was thus excluded as a reliable comparative measure.

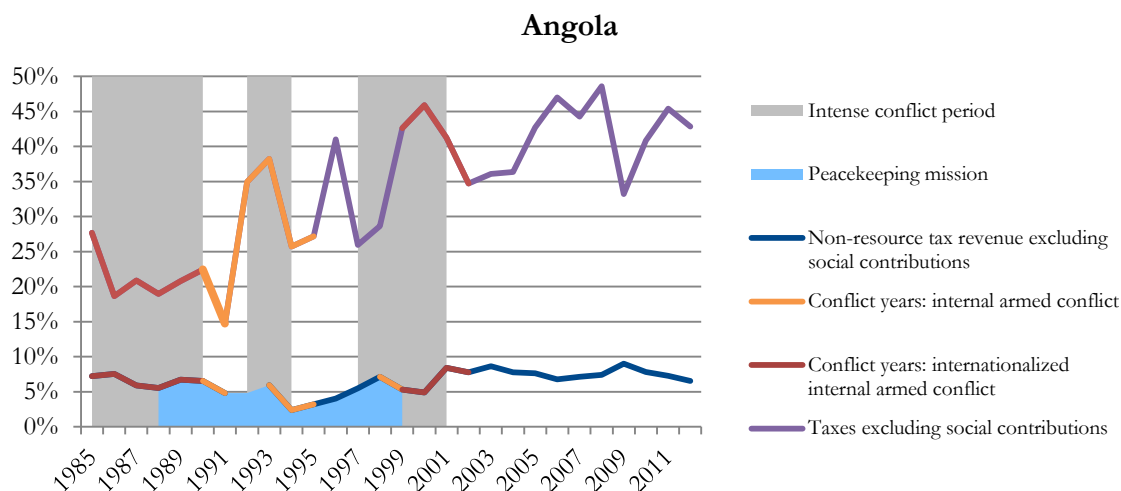
deepening of state–society bargaining and development of institutional taxing capacity; accordingly, the intensification of the negative trend indicates that in certain resource-rich cases, post-conflict gains in tax revenue do not actually reflect an expansion of tax mobilization capacity or effort, but rather revenue gains from a narrow portion of the economy. The case of Angola is particularly indicative in this regard (Figure 4). Angola’s civil war severely damaged the country’s fiscal, monetary, and public administrative infrastructure (Addison et al. 2001; Aguilar 2000; Jerome and Busari 2008), with many commentators pointing to the ‘resource curse’ in limiting broad-based taxation outside of resource rents and associated royalties (Frynas and Wood 2001; Jerome and Busari 2008; Mkandawire 2002).

Table 5: Rate of change of non-resource tax revenues excluding social contributions during periods of intense conflict ( $N = 24$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Eritrea	-3.49	Nepal	0.38	Burundi	1.13
El Salvador	-5.7	Angola 1985–90	-0.67	Angola 1998–2001	1.24
Angola 1992–94	-3.54	Congo-Brazzaville 1997–98	-0.36	Peru 1988–91	5.03
Liberia 2003	-2.61	Kuwait	-0.92	South Africa	3.44
Nicaragua 1983–88	-1.88	DRC 1996–2000	-0.16	Mozambique	1.97
Sierra Leone 1995	-1.88	Rwanda 1990	-0.94	Rwanda 2001	1.06
Sierra Leone 1998–99	-2.04	Rwanda 1998	0.29	Rwanda 2009	1.59
Libya	-2.2				
Rwanda 1994	-5.24				
Peru 1983–99	-3.98				

Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

Figure 4: Tax revenues excluding social contributions as a percentage of GDP (top line) and non-resource tax revenues excluding social contributions (bottom line), Angola

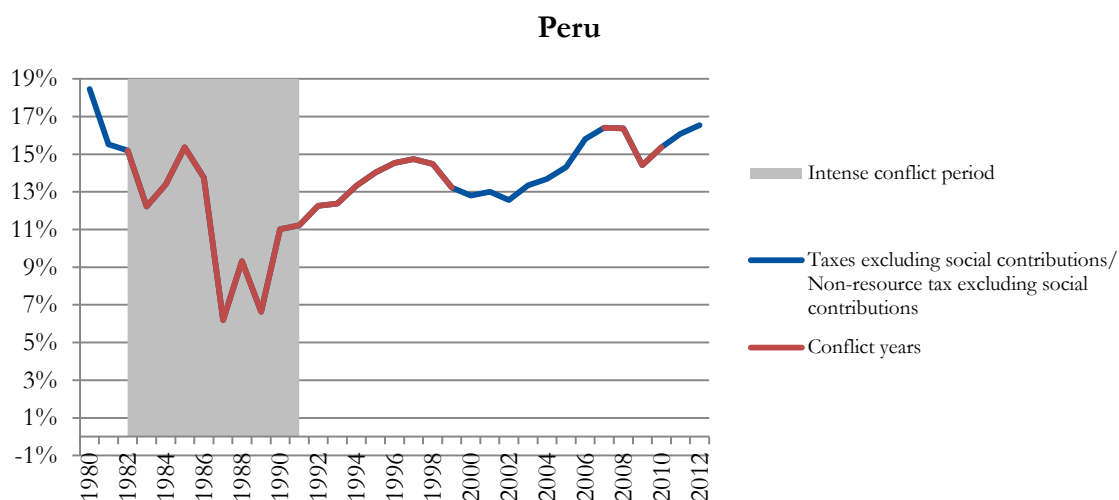


Source: the ICTD/UNU-WIDER GRD.

On the whole, the cases surveyed here suggest that even where civil conflict has led to expanded revenue raising prior to or during conflict, this has tended to be of a short-term nature, rather than resulting in sustained gains in revenue and governance. However, this has not been a universal experience. Perhaps the most notable exception to this trend is Peru (Figure 5). In Peru, the onset of civil war with the *Sendero Luminoso* led to almost a decade of declining revenue. However, as the threat posed by the rebels mounted, the central state made transformative investments in tax capacity, leading to sharply rising revenue beginning in 1989–90. These reforms included the establishment of a semi-autonomous revenue agency, which was given the necessary political support and resources to stop tax delinquency, and a reform of the previously arcane and complex tax code, simplifying taxes and removing many tax exemptions (Kay 1996). While these reforms had many motivations, Durand and Thorp (1998) cite the need to reassert state authority in the face of growing collection of ‘revolutionary taxes’ by the rebels as a significant issue.



Figure 5: Tax revenues excluding social contributions as a percentage of GDP, Peru



Source: the ICTD/UNU-WIDER GRD.

Despite notable exceptions, we find no evidence of a general sustained, positive impact of civil conflict on revenue collection prior to or during conflict, in contrast to the theory that revenue raising prompted by conflict may lead to gains in taxation and state capacity. Overall, the trend of decreased tax revenue collection during periods of conflict, and especially during periods of conflict intensity, is intuitively unsurprising. Civil conflict may: undermine economic activity, and thus the tax base; prevent tax collection in conflict-affected regions; or force the government to divert resources away from effective public administration. In the most extreme cases, conflict may disrupt public infrastructure, prevent the execution of government activities, or lead to the destruction of public records, thereby dramatically undermining the potential for taxation. These trends are reflected empirically in our data.

## 4.2 Discussion

Why does the Tillian expectation of increasing revenue mobilization prior to and during conflict no longer hold in contemporary conflict-affected countries? We offer two potential explanations: contemporary developing countries are insulated to some degree from (a) external threats and (b) the need for domestic taxation. These contemporary differences disrupt the key causal processes that forced early modern European rulers to constrain their authority in exchange for tax revenue, fundamentally representing a shift from *internal* to *external* state formation (Jackson 1991; Spruyt 2009; Tilly 1985).

Following the destruction of the World Wars, the norm of territorial sovereignty became an accepted and constitutive fact of the international system. Former colonial states, many of them the creations of colonial powers, ‘superimposed on heterogeneous populations’ (Spruyt 2009: 223), were ‘internationally enfranchised’. These states were granted the same external rights and responsibilities as all other sovereign states, but many had not been empowered domestically and lacked the institutional features of sovereign states defined by classical international law (Jackson 1990). The accepted norms of territorial sovereignty in international relations have changed the strategies that states employ to accumulate wealth, with territorial aggrandizement no longer a prerequisite or a viable strategy (Bates 2010; Jackson 1995; Jackson and Rosberg 1982; Sørensen 2001; Spruyt 2009).

Consequently, the competition for controlling the means of coercion is essentially internal, with contemporary conflict primarily occurring at the intrastate level. This type of conflict does not hold the same risks of survival for the nation-state and its boundaries as earlier European wars did (Leander 2002; Moore 2008; Spruyt 2009). Critically, interstate wars hold the potential to rally the nation in favour of expanded taxation while creating minimal domestic disruption of tax capacity, whereas civil wars are more likely to destroy domestic tax capacity, and also signal sharp internal divisions that may undermine support for taxation. In the contemporary context, where state survival is guaranteed, systemic threat is more likely to lead to state plunder than to state–society bargaining or institution building (Moore 2008).

Second, the contemporary global economic context—which, for low-income countries is characterized by development aid, pressures from international financial institutions, and mobile capital—endows contemporary states with different incentives relative to those faced by early European states. Contemporary states, reliant if not dependent on international transfers of aid revenues, may face reduced incentives to tax (Brautigam and Knack 2004; Remmer 2004). Indeed, international aid flows and the availability of economic rents from natural resources may suppress the pressures felt by rulers to engage with citizens (Chaudhry 1997; Moore 2008; Ross 2001, 2004, 2012). This reliance on external financing often corresponds with an ‘externalisation of political accountability’ (Clapham 1996: 187). Further, while state mobilization for interstate war in early modern Europe had the effect of creating, mobilizing, and consolidating internal markets, modern states face pressures related to the globalization of trade and capital markets, with disincentives to tax for fear of capital flight, in what Moore (2008) describes as ‘the disciplining power of mobile capital’.

The context for contemporary developing countries, including the norms of international law and the pressures of economic globalization, fundamentally alter the causal relationship between conflict and state revenue mobilization predicted by bellicose theories of state formation. The overall effect of this new context is that rulers do not face the same pressures to centralize the means of coercion and capital or to enter into bargains with their citizens to tax domestically. Thus, they do not construct the centralized and effective administrative structures or civilianize the state. Indeed, wars in contemporary developing countries tend to trigger a further dismantling, decentralization, privatization, and criminalization of administrative structures, in contrast to the centralized and hierarchical structures of Europe (Leander 2002). The insulation enjoyed by contemporary rulers from both external threat and domestic taxation underpin ‘the drift from “internal” to “external” state formation’ (Tilly 1990: 195) in a way that fundamentally alters the central processes of taxation linking war and state building in early modern Europe.

## **5 Tax revenue mobilization after conflict**

### **5.1 Trends**

What are the effects of conflict on tax revenue mobilization following conflict? Do post-conflict countries benefit from a ‘revenue peace dividend’ following recent conflicts or suffer limited growth as a result of persistent institutional and political economic legacies of conflict? This scoping exercise finds very few countries that have experienced negative rates of tax revenue collection after conflict (Table 6). This finding holds even when considering non-resource taxes rather than total

taxes, and also holds, though is attenuated, when considering periods following intense conflict (Table 7).

Table 6: Rate of change of taxes excluding social contributions after conflict ( $N = 31$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Liberia 1980	-2.22	Burundi	-0.42	El Salvador	5.43
Rwanda 1996–2002	-1.48	Eritrea	0.66	Nepal	6.56
		South Africa	0.33	Liberia 1989–90	5.45
		Kuwait	0.35	Liberia 2000–03	10.44
		Mali 2009	0.50	Morocco	5.59
		Senegal 2011	-0.62	Nicaragua	7.2
		Congo-Brazzaville 1993	-0.18	Peru 1982–99	2.59
		Congo-Brazzaville 2002	0.76	Peru 2007–10	1.18
		Sierra Leone	0.56	Lebanon 1989–90	13.09
				Mozambique	12.16
				Rwanda 1990–94	3.11
				Cambodia	5.8
				Bangladesh	3.56
				Guatemala	2.34
				Senegal 1990–2003	1.71
				Angola 1998–2002	8.13
				Congo-Brazzaville 1997–99	1.77
				DRC 1996–2001	1.56
				DRC 2006–08	2.43
				Angola 1985–95	1.47

Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

Table 7: Rate of change of taxes excluding social contributions after a period of intense conflict ( $N = 23$ )

Decreased	Percentage change	Remained stable	Percentage change	Increased	Percentage change
Burundi	-1.3	Eritrea	0.66	El Salvador	6.74
Nicaragua 1983–88	-3.59	South Africa	0.33	Nepal	6.16
Angola 1985–90	-7.69	Kuwait	0.35	Liberia 2003	10.44
Congo-Brazzaville 1997–98	-1.65	Rwanda 1990	-0.33	Morocco	1.79
		Rwanda 1998	-0.68	Peru 1983–99	5.32
		Rwanda 2001	-0.33	Mozambique	13.46
		Rwanda 2009	0.08	Rwanda 1994	6.48
		Angola 1992–94	0.23	Angola 98–2001	1.6
		Sierra Leone 1995	0.56	Sierra Leone 1998–99	5.12
				DRC 1996–2000	10.41

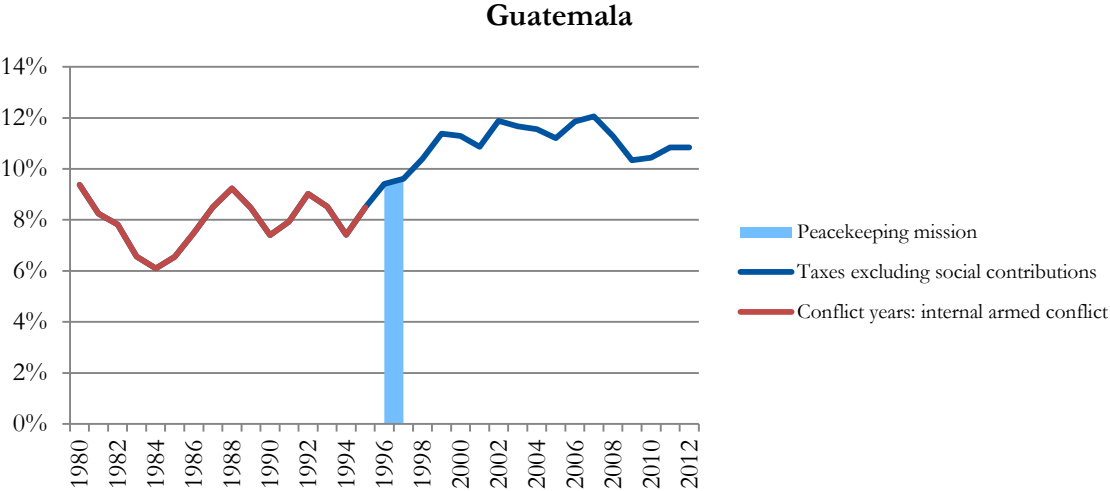
Source: authors' calculations based on the ICTD/UNU-WIDER GRD.

More interesting in our sample is the distinction between countries that experienced only modest revenue gains, if any, and those that experienced more transformative revenue gains at the conclusion of conflict. First, there are several states that experienced a sharp decline in revenue during conflict and only very modest recovery of revenue afterward (e.g., Nicaragua, Congo-Brazzaville, Eritrea, Kuwait, Sierra Leone). These cases are indicative of the unique tax challenges that may arise in post-conflict environments. For example, in the post-conflict period in Sierra Leone, tax collection is often arbitrary and coercive, especially at the local government level, with widespread corruption and evasion, and little trust in the government (Jackson 2005; Jibao 2010). We also see a range of countries in which revenues sharply increased immediately following the cessation of hostilities, though without structural transformation of the underlying capacity to mobilize taxes.<sup>15</sup> Many of these cases experienced dramatic revenue declines during conflict, with the gains at the end of hostilities representing primarily a recovery of pre-war tax capacity, rather than an expansion in tax mobilization, with overall tax collection remaining relatively low. In Guatemala, for example, there were significant revenue gains after achieving peace in 1996, but only to a level slightly above 10 per cent of GDP—about the same level achieved during periods of high revenue during the civil war (Figure 6). This is despite the fact that the peace accords specifically outlined the tax policy and administrative measures to be adopted as mechanisms to pay for new government services. In reality, actual collection lagged behind expectations owing to weak administration, legal challenges to the constitutionality of various tax measures, and the political difficulty of reform in divided societies (Arana 2001). A similar story plays out in Bangladesh, where tax revenues increased after the cessation of conflict in 1991, but remain only slightly above 8 per cent of GDP. Meanwhile, other cases, like the DRC and Angola, appear to have positive growth trends after periods of conflict, but both continue to have very low levels of non-resource tax revenues in absolute terms. While the DRC introduced a number of significant fiscal reforms following the return of peace in 2003 (IMF 2005), continued poor performance can in part be

<sup>15</sup> This includes cases wherein conflict eventually resumed.

attributed to persistent legacies of conflict, including the rise of informal taxing authorities, the institutionalization of corruption, and the overwhelming focus on resource rents. Cases such as these speak to the existence of an important ‘revenue peace dividend’, but also suggest that the legacy of conflict poses enduring challenges to tax revenue collection.

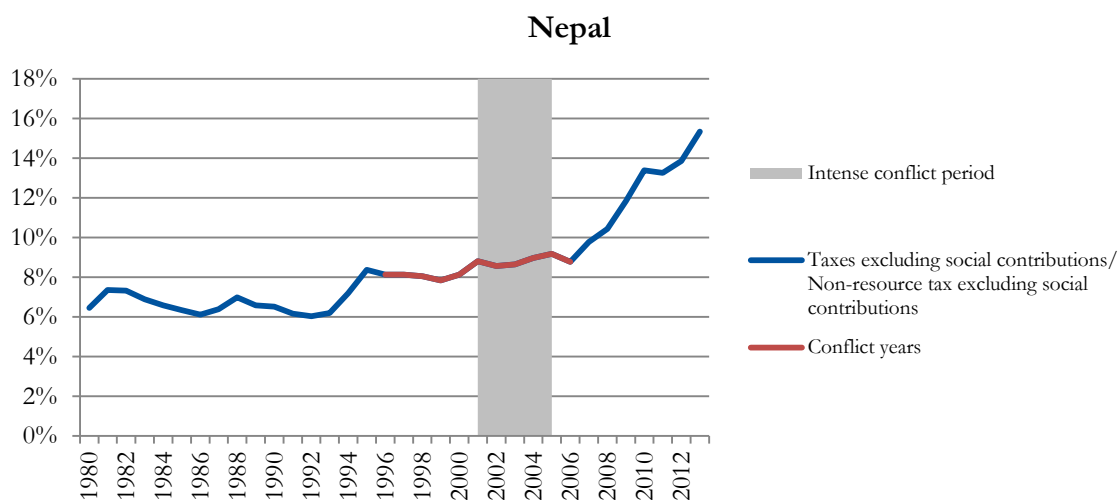
Figure 6: Tax revenues excluding social contributions as a percentage of GDP, Guatemala



Source: the ICTD/UNU-WIDER GRD.

By contrast, there are a handful of cases in which the end of fighting led to more transformative tax reforms, which then contributed to administrative and economic modernization and unprecedented revenue gains. As noted earlier, Peru began to see an upsurge in revenue during the later stages of conflict, but then saw continued revenue growth above and beyond earlier levels as the conflict declined in intensity, due in part to a sustained political commitment to reforming the revenue authority and tax code. Likewise, Nepal experienced rapidly rising tax revenue following the peace treaty and Maoist electoral victory in 2006 (Figure 7), in spite of continuing political uncertainty. For example, after the genocide and civil war in 1994, Rwanda implemented ambitious tax reforms, supported by the international community, leading to significant revenue gains. Such cases speak to the potential opening for reform that can be provided by the ‘post-conflict moment’, sometimes referred to as the ‘golden hour’ of post-conflict transformation (Mendelson-Forman and Marshatt 2007).

Figure 7: Tax revenues excluding social contributions as a percentage of GDP, Nepal



Source: the ICTD/UNU-WIDER GRD.

## 5.2 Discussion

Despite the foundational importance of taxation to broader development goals, within post-conflict settings tax issues have often been given a low priority. This frequent (though not universal) lack of attention may reflect several factors: the prioritization of immediate humanitarian and service delivery goals; the absence of effective tax handles in the wake of conflict; a reluctance to impose new tax burdens on already struggling communities; the political difficulty of imposing taxes; and/or the existence of large aid flows that obviate the short-term need for tax revenue. Despite the reality that engagement on taxation in post-conflict states should be broadly similar to that in low-income countries more generally (Gupta et al. 2005), there are unique characteristics of tax in post-conflict settings that warrant greater attention from international actors. While conflict-affected countries are by no means a homogeneous group, certain common challenges necessitate distinctive policies. Building upon a significant body of literature that deals with this issue at a broad level (Addison et al. 2002; Boyce and Forman 2010; Carnahan 2007; Di John 2010; Gallagher 2007; Gupta et al. 2004, 2005), as well as drawing on lessons from our scoping exercise and case studies, we briefly highlight four key points: the enduring impact of the legacies of conflict; post-conflict capacity constraints; the challenge of reconciling economic and political objectives in periods of uncertainty; and the possibility that an influx of international funding will create distortive incentives for policy makers.

### *Legacies of conflict*

Contemporary intrastate conflict has a significant negative impact on revenue raising, in contrast to historically grounded, Eurocentric theory. Our evidence supports previous research in this area (Addison and Murshed 2001; Addison et al. 2001, 2002; Gupta et al. 2005), which suggests several possible explanations for this negative impact: infrastructure destruction, weak economies, the erosion of administrative capacity, and the loss of control of important economic centres. Greater attention needs to be paid to the specific channels through which tax revenue declines in unique contexts, which may be understood as part of a country's legacy of conflict. For instance, intense conflict is likely to cause more acute challenges for post-conflict tax reforms on account of infrastructural damage and sustained weak tax bases, as well as greater disruption to bureaucratic

capacity. As noted above, geography and the degree of localization of conflict also matter. Conflicts that remain in peripheral regions have generally had a much smaller impact on revenue, and are likely to leave a different legacy than conflicts that reached capital cities. Likewise, conflicts that affected economically important border regions have a distinct legacy, implying, for instance, a particular need for reconstruction of customs administration rather than revenue administrations as a whole.

At the same time, the often complex reality of tax collection and the informal forms of taxation that can arise or become institutionalized during conflict remains understudied (Jibao et al. forthcoming; van den Boogaard and Prichard 2016). During conflict, parallel systems of ‘taxation’ frequently emerge, ranging from relatively institutionalized and coordinated exactions by rebel groups to comparatively ad hoc, coercive exactions by armed individuals. Accordingly, there may be an urgent challenge to strengthen broader government authority, legitimacy, and rule of law, in addition to strengthening tax administrations.

Understanding the legacies of conflict—in terms of both economic destruction and broader political incentives and divisions—thus warrants greater attention as a starting point for identifying likely priorities for reform, and potential threats to the success of reform. This attention to context may furthermore allow actors to identify ‘windows of opportunity’ that are sometimes enabled by post-conflict environments, facilitating the introduction of politically contentious taxes on account of elite fragmentation (Carnahan 2007).

#### *Capacity constraints*

Conflict-affected countries face unique capacity constraints within the tax administration, as well as the private sector. These constraints limit the feasibility of ambitious reforms in post-conflict settings, suggesting that greater emphasis should be placed on pragmatism, simplification, policy prioritization, sequencing, and flexibility (Gupta et al. 2005). Capacity constraints are particularly important in thinking about decentralization, which is generally promoted with a peacebuilding logic: the desire to ensure a degree of autonomy for rival groups. However, while this peacebuilding logic is clear, it often conflicts with the technical realities of tax collection, as local government capacity is frequently limited. From the perspective of policy makers the goal has simply been to decentralize fiscal responsibilities as quickly as local government capacity can be developed (Gupta et al. 2005); however, developing local government capacity has consistently proven to be a major challenge and an area that has received comparatively little attention from international actors.

Capacity constraints also particularly matter for customs administration reform, given the general emphasis on phasing out trade taxes in post-conflict settings (as in low-income countries more generally) in order to support private sector development (Gallagher 2007; Gupta et al. 2005). The revenue costs of shifting away from trade taxes can be significant, with an uncertain economic benefit (Boyce and Forman 2010), though there is some evidence that placing greater attention on administrative capacity, and not just on tariff rates, can help to offset the impact of this shift. A striking example comes from post-conflict Mozambique, which simultaneously reduced tariff rates and pursued radical reform of customs administration by contracting out certain customs services, with significant customs revenue gains despite a reduction in the average tariff rate (Addison and Murshed 2001; Arndt and Van Dunem 2009).

### *Balancing economic and peacebuilding objectives*

Despite pressing economic concerns in post-conflict settings, there is a need to balance economic goals, and the goals of an efficient tax system, with peacebuilding objectives. Several key risks deserve particular attention. First, there is a risk of unequal treatment, as tax systems may be deployed to deliver particularistic benefits to some individuals and groups through tax policy or administration. Second, there is a more subtle risk of *differential treatment*, as uniformly applied taxes may in practice have a greater impact on some groups than others if former combatants tend to occupy differing economic sectors. Such differential impacts are an inevitable feature of any tax; recognizing them does not imply that such taxes should be abandoned. Instead, recognition of such potential tensions may point towards strategies for minimizing disagreement and encouraging reform. Third, even where taxes are applied fairly, and their effective incidence is not skewed towards any particular group, tax reform may become politically contentious as a result of pervasive mistrust and a perception among rival groups that they are being treated unfairly.

In these contexts, an ‘ideal’ tax policy from a technocratic perspective may need to be forgone if it is antithetical to the overriding need to sustain the peace. However, it is often unclear what this means in practice: while maintaining the peace must be the priority, it is equally essential that short-term measures motivated by security considerations do not undermine longer-term requirements for building effective tax systems (Boyce and Forman 2010). As a foundation, rules-based policy-making and transparency should take priority in order to support the broader goal of equity-based tax policy and administration that are more difficult for particular interest groups to exploit (Fairfield 2011; Gupta et al. 2005; Prichard 2015). Transparency measures can moreover guard against the perception of such abuse, implying that attention needs to be paid to both the actual and perceived equity of the system as an indicator of improvement, rather than simply levels of tax collection. Aside from the strategic value of transparency and equity in making tax reform more viable (Fairfield 2011; Prichard 2015), some research has suggested that such strategies may have the added advantage of strengthening the state building and governance-enhancing roles of taxation (OECD 2010; Prichard 2015), which may have particular value for peacebuilding efforts in divided societies.

### *Incentives of aid*

The influx of aid and international actors in post-conflict settings generates incentives for policy makers and reformers. A body of literature highlights the risk that unusually high levels of aid, particularly in the immediate aftermath of conflict, may discourage investments in tax collection (Bornhorst et al. 2008; Boyce and Forman 2010; Carnahan 2007). While recent research suggests that a negative connection between aid and tax collection is by no means guaranteed, but is rather highly context-specific (Prichard et al. 2012), it is plausible that in post-conflict settings the risk may be especially acute, owing to relatively high levels of aid being introduced over short periods, with relatively weak institutional foundations. Nevertheless, limited research on this topic suggests the need for careful case studies to explore this relationship in greater detail (e.g. Eubank 2012), including consideration of revenue-related aid conditionality (Carnahan 2007). Overall, there is a need for much more careful assessment of the effectiveness of this conditionality, including the types of conditions being employed and the incentives, both positive and negative, that they create (Bolnick and Hadler 2011; Prichard et al. 2012).



## 6 Conclusion

Contrary to theoretical expectations, contemporary conflict is neither a necessary nor a sufficient condition for the rise of the fiscal state. Indeed, our scoping exercise finds that conflict has an overwhelmingly negative effect on tax mobilization during conflict, with significant long-term implications for tax policy and administration reform. Given the vastly different international, security, and economic contexts faced by contemporary developing countries, war ‘at best leaves states where they are and at worst speeds up their unravelling’ (Leander 2002: 14).

Nevertheless, the foundational importance of taxation to broader development goals indicates that strengthening tax systems should figure centrally in strategies for post-conflict state building. While this reflects the urgent need for revenue during processes of post-conflict reconstruction, it is equally important to consider the broader governance implications of taxation. In contexts in which state capacity has been eroded, broader state–society relations are strained, the basic legitimacy of the state is in question, and deep fissures exist between former combatants, efforts to strengthen taxation stand as a potentially unique entry point for rebuilding state capacity, legitimacy, and bargaining over the role and activities of government (Boyce and Forman 2010; Gupta et al. 2005, 2007; Therkildsen 2008). Such processes are likely to be both challenging and conflictual, but reflect the centrality of taxation and budgeting to building effective governance and to strengthening ties between post-conflict states and their citizens.

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