SECURING DEVELOPMENT

# Radical Methods Key to Resolving Modern Day Conflicts

Afghanistan. Bosnia. Haiti. Liberia. Rwanda. Sierra Leone. Southern Sudan, Timor Leste. Iraq. Although each is different, they have all struggled to move beyond conflict and fragility to secure development. Paul Collier's book The Bottom Billion highlighted their recurrent cycles of dangers. Not one low income country coping with fragility or conflict has yet achieved a single Millennium Development Goal.

These countries stir our shared interests and values. They have called on soldiers and monies from countries that have then struggled to counter violence that overflows the borders of fragile states, because conflicts feed on narcotics, piracy, and gender violence, and leave refugees and broken infrastructure in their wake. Their territories can become a breeding ground for far-reaching networks of violent radicals and organised crime.

Yet as we are now seeing again in the Middle East and North Africa, violence in the 21st Century differs from 20th Century patterns of interstate conflict and methods of addressing them. Stove-piped government agencies have been ill-suited to cope, even when national interests or values prompt political leaders to act. To offer some ideas and practical recommendations, the World Bank Group is releasing a World Development Report, Conflict,

Robert Zoellick

Security, and Development that looks across disciplines and experiences drawn from around the world.

As the report makes clear, the old ways won't work. The overriding objective is to build legitimate institutions that can provide a sustained level of citizen security, justice, and jobs. Progress in these core areas, and coordination among the activities, build a foundation for broader and better change. At the earliest stages, countries need to restore public confidence in basic collective action before even rudimentary institutions can be built or transformed.

A fragile state cannot restore confidence through government alone. It needs to build cooperative, "inclusive-enough" coalitions drawing on groups that bring political legitimacy, financial and technical resources, and which will continue to press for deeper institutional transformation. These may include business, labour, women's or other civil society groups. The push for inclusion need not include every group. And inclusion needs to be balanced with efficiency, results, and — where it is important to signal a break with the past — justice and legitimacy.

Early wins — actions that can generate quick, tangible results — are critical to building confidence that will enable the extension of national capacity over time. In Kosovo, highway security paved the way to increased trade and consequently jobs. In Liberia, basic improvements in security and electricity, along with steps against corruption, were central. These quick successes must be compatible with, rather than undermine, longer-term efforts to strengthen institutions. If services and public works are delivered only through well-meaning international partners or top-down national programs, the country will not build the local institutions or support that are key to sustaining recovery through inevitable challenges and changing conditions.

> These quick successes must be compatible with, rather than undermine, longer term efforts to strengthen institutions

Early wins also need to be pragmatic "best-fit" reforms that allow for flexibility and innovation; they need to adapt to local conditions rather than being technically perfect. In some cases, "best-fit" may entail "second best" implications. A good example is Lebanon's decision to rely on small private sector networks of providers to restore electricity following the civil war — a trade-off between using a non-governmental capacity with high unit costs but getting fast results.

International agencies and partners from other countries must adapt procedures so that assistance can be swift enough to provide for early wins and pragmatic enough to allow for best-fit reforms. Integrated assistance, especially through multi-donor trust funds, enables countries with weak capacity to connect help to priorities, reinforce mutual gains across topics, and build national ownership. Coordinated international help is vital to counter external stresses that can fuel fragility and violence, such as trafficking and illicit financial flows, food insecurity and resource shocks.

We also need to fill in major structural gaps. There are places where fragile states can seek help to build an army, but not police forces or corrections systems (although the UN has had an initial trial). The World Bank could help by doing more to build civilian justice systems. We also need to place more emphasis on early projects to create jobs, especially through the private sector.

We need a better "handoff" between humanitarian and development agencies, too. All these projects involve risks. If legislatures and inspectors expect only the upside, and just pillory the failures, institutions will steer away from the most difficult problems or strangle themselves with procedures and committees to avoid responsibility.

Lastly, we need to be realistic; historically, even the fastest transformations have taken a generation. New technologies may accelerate the timeline, either through improved service delivery options (such as using cell phones to deliver payments) or greater transparency and access to information through social networking (as we have seen most recently in the Middle East). But we still need to measure progress in terms of decades rather than years. Even at this pace, the results can make a huge difference.

*The writer is the President of the World Bank Group*

GUEST COLUMN

# Why Tax Incentives Should Be Accounted For

The taps of seemingly never-ending aid are drying up, and lower and middle income Kenyan households are increasingly facing economic deprivation due to ever-raising food, transport, and utility costs. Perhaps one of the only good things to emerge from the global financial crisis has been the renewed attention paid to taxation as a sustainable source of development finance. Domestic resource mobilisation has become the latest buzz word in development circles and even the G20 is weighing in on the issue. Those of us concerned with the creation of fair and efficient tax systems are finally being vindicated. Tax incentives represent a case in point.

At long last, the government subsidies granted to (mainly foreign) investors (aka tax incentives) are on their way out in Kenya.

One of the major outcomes of last month's meeting on domestic resource mobilisation hosted by the IMF in Kenya is that Kenya's Minister of Finance, Uhuru Kenyatta, has said the KRA is in the process of reviewing the current bag of tax incentives that Kenya offers with a view to removing 'obsolete incentives' before the end of June.

Vera Mshana

It is expected that this process will raise over Sh60 billion. The IMF is reported to also support this process.

Actually, IMF staff have supported the rationalisation of tax incentives at least as far back as 2002.

They pointed out that more often than not, tax incentives have resulted in unnecessary revenue loss, as a result of abuse of provisions, or in cases where investors would have invested in projects even without receiving tax breaks.

Resource allocation is also distorted, since investors decide to invest in certain projects due to the tax incentives they receive rather than the economic merits of the projects.

Further, tax incentives create opportunities for corruption and rent-seeking. More alarming was their finding that contrary to popular opinion, investors are far more influenced by a country's broader economic features rather than the tax incentives it offers, and even in those cases where such incentives have attracted investment (although proving this link is very difficult); they have not been cost-effective.

What is puzzling is why it has taken so long for Kenya to reconsider the merit of tax incentives, particularly since as in many other African countries, the IMF has been leading in advising government on tax policy design issues and tax reform has been to a large extent externally formulated, being part of structural adjustment programmes and included in the economic restructuring agreements with international financial institutions.

> That Kenya is finally listening raises hopes of a ripple effect in the region and intensified efforts to tackle harmful tax competition

It is also not clear how the KRA is going to determine which incentives have been obsolete and which have not, and the extent to which this review process will be public.

On this too, IMF staff have been very clear: export processing zones, indirect tax incentives, tax holidays exact the most damage to a country's tax system, and any subsidies should be granted based on objective and simple criteria that will be easy to administer and leave little room for discretion. And, as with other subsidies and spending programmes, tax incentives should be accounted for through tax expenditure analyses, and their revenue impact assessed and publicly debated (for example through Parliament).

It is commendable that Kenya is finally listening. Hopefully this will have a ripple effect throughout the region and step-up efforts to tackle harmful tax competition in the East African Community, as we move towards creating a common market.

They say the best time to plant a tree is twenty years ago and the second best time is now. Perhaps the same can be said of (sup) planting those pesky tax incentives.

*The writer is the Policy and Advocacy Officer, Tax Justice Network-Africa*