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## ABOUT THE AUTHOR

**SHAELA RAHMAN**

is a strategic communications expert with the Strategy and Analysis unit of the Investment Climate Department. She leads the project's communications component, with support from colleagues based in Sanaa and Cairo. Shaela co-authored the toolkit *Strategic Communications for Business Environment Reforms: A Guide to Stakeholder Engagement and Reform Promotion*.

**APPROVING MANAGER**

Richard Stern, Program Manager, Business Taxation, Investment Climate Advisory Services of the WBG; and Cecile Fruman, Manager, Strategy and Analysis, Investment Climate Advisory Services of the WBG.

# IFC SmartLessons

*real experiences, real development*

## Changing the Minds of Skeptics: How Strategic Communications Can Build Momentum for Tax Reform

*How do you make tax reform palatable to a private sector that is very untrusting of the government? That's one of the challenges the Yemen Tax Simplification project took on in working to streamline and modernize the country's cumbersome tax system. In an unusual move for an Advisory Services project, we made communications—including monitoring and evaluation (M&E) and analysis of stakeholder perceptions—a key component in this effort. Even without a large budget, the communications component of Phase I went a long way toward assessing perceptions of the existing tax system, engaging stakeholders, and neutralizing opposition early enough to begin building consensus and identifying local champions for more sustainable reform. The lessons enumerated below share the communications and stakeholder outreach that worked well to lay a foundation for Phase II. They also discuss how we might do some things differently next time.*

### Background

The project, a joint initiative of the Investment Climate Department and IFC Advisory Services in the Middle East and North Africa, was launched in response to the Yemeni government's request for assistance with tax reform, a central part of its broad reform plan. The 18-month Phase I, which ended in June 2009, focused on the groundwork—including process mapping, drafting of the Income Tax Law, a compliance cost survey, and so on, as well as preparation of a communications strategy—to support the work of Phase II, which just began in FY10.

### Project Overview

**Purpose:** To improve Yemen's business-enabling environment by introducing a modern, efficient, and effective tax system that reduces the time and financial cost of complying with tax requirements. The ultimate objective is to broaden the tax base, encourage economic growth and investment, and combat corruption and tax evasion.

### Specific goals:

- Streamlining and automating the entire tax system
- Making it more accessible—making the payment of taxes less cumbersome
- Basing taxes on self-assessment, to reduce avenues for corruption and build trust between the Tax Authority and taxpayers
- Introducing a small and medium enterprise (SME) tax system
- Introducing a goods and services tax (GST)—as opposed to a sales tax, which has a cascading effect and leads to double-counting
- Aligning the legal framework with best practice

### Points of resistance from the private sector:

- Objection to the tax rate as being too high
- Past performance of the government in tax reform—promises, but little change
- Contentment with the status quo—

*blaming the government for corruption, while continuing to bribe officials and evade taxes*

## Lessons Learned

### 1) Engage opposing stakeholders in open dialogue.

In Yemen, tensions ran high between the two main stakeholders: The Tax Authority welcomed the project, but the private sector was divided, with the overwhelming majority not supportive of the initiative. So our first move was to reach out to the private sector via the main businessmen's organizations—the Sanaa and Aden Chambers of Commerce and the Federation of Chambers.

In March 2008, we held a series of stakeholder workshops jointly with the Tax Authority and the Chambers of Commerce in the key cities of Sanaa and Aden. These workshops introduced the project to a range of players, including the private sector, members of Parliament, tax auditors, and donors. (To encourage candid dialogue, we did not invite the press.) Events opened with keynote addresses from the leadership of both the Tax Authority and the Chambers of Commerce, setting a collaborative tone.

Result: The workshops helped neutralize some private sector opposition, and laid the foundation for open dialogue. They also helped us begin to understand the range of attitudes toward reform.

### 2) Partner with the press.

Since we didn't invite the press to the stakeholder workshops, we organized a separate informal lunch for select representatives, mainly from media sources considered to be unbiased. (Yemen has a lot of government-run media outlets, as well as others run by prominent private sector groups.) We introduced the project, explained its objectives, and then asked for advice on how to engage our target audiences effectively, given the political economy of Yemen. The media have excellent knowledge of the stakeholder landscape, including the conflicting agendas and motivations of the private sector and the government.

Result: The media participants appreciated our efforts to engage them and to seek their input at an early stage, and they were eager to share insights. For example, they gave us a sense of the type of advertising previously done by the Tax Authority—primarily using state-run papers, which made it clear that taxpayers were not being widely reached. They also gave us an idea of the ownership of the different media outlets (state versus private) and which ones were popularly patronized by different groups (such as businesses, students, government agencies, and so on).

### 3) Involve the client in developing a communications strategy that can continue beyond the life of the project.

Strategic communications was a smart investment for our project, because it provided a framework for engaging stakeholders early to address the risks and barriers to tax

reform. We worked with the client to outline a clear and comprehensive stakeholder-outreach plan in the first few months, which we felt was critical, given the tenuous and potentially explosive relationship between the private sector and the government. (See Box 1.)

#### Box 1: Importance of a Communications Strategy

Most World Bank Group investment climate advisory projects engage and communicate with stakeholders, but often not in a methodical way. Communications are often viewed as an add-on rather than as an integrated mechanism for proactively engaging stakeholders and applying communications best practices.

Lack of structure, strategy, and analytical rigor of stakeholder engagement and communications can expose the reform efforts to a high degree of risk: Well-designed and well-intentioned reforms can be derailed by a lack of political will, unforeseen opposition, or unexpected adversaries, or by overlooking core constituencies critical to effecting enduring reform.

This is especially true where, as in the case of Yemen, you have tensions between the Tax Authority and the private sector on taxation rates, lack of information and transparency, corruption in the current system, and lack of dialogue or participation of the private sector in policymaking.

The outreach plan went beyond simply putting together a communications campaign. It looked at the existing capacity, processes, and systems of the customer-services operation of the Tax Authority, and recommended several changes to ensure that this function would be carried out more effectively. Also key was keeping the client (both mid-level officials and the leadership) involved at every step of developing the strategy—and making it clear that the responsibility for implementing the strategy was with them, while assuring our support. We also provided training in media relations and communications to senior and mid-level tax officials in order to better equip them to work with the local media and to implement the recommendations of the strategy.

Result: We got buy-in from within the Tax Authority, gained some strong champions and allies in customer services, and were able to place a stronger emphasis on sustainability beyond World Bank Group (WBG) involvement. The client contributed staff time, was satisfied with the content, and is currently working to implement some of our recommendations, particularly regarding the types of media to be used for outreach (private versus state-owned outlets).

### 4) Take the pulse of local participants.

We wanted to know how the main stakeholder groups feel about the current system of taxation in Yemen? Are they supportive of the proposed reforms? What are the main issues and concerns? The stakeholder workshops provided a few answers to these questions, but we wanted more structured feedback. In particular, we wanted perceptions information that could feed into the design of a pilot communications campaign. In other words, we

wanted a sounding board for the materials and ads we were developing.

In December 2008, we arranged for a series of detailed interviews with small focus groups of stakeholders: with seven businessmen representing medium and large firms, with five small-scale entrepreneurs, and with nine employees of the Tax Authority and intermediaries (tax consultants). We showed them the slogan—"Paying taxes helps build and develop the country"—and drafts of ads using such key terms as *mutual trust*, *simplified procedures*, and *fairness*. We asked what they liked or disliked, and invited suggestions for improvements.

Result: They gave us some good feedback on the design of the campaign ads. For example, they thought the ads should be in classic Arabic and avoid the use of dialects. They asked that we emphasize the development link to taxes. And they liked the slogan.

Caveat: Focus groups provide soft, anecdotal information that can yield helpful insights for the design of a campaign. But they are not scientific, and their results do not feed into a system for M&E of a project's effectiveness. (See Lesson 6, below.)

**5) For the campaign—the heart of the communications activity—incorporate stakeholder feedback, and get the timing right.**

The taxpayer outreach campaign not only had to create awareness of the reform, but it also needed to impart messages that would resonate with the local market and address the concerns of taxpayers. So we used the stakeholder feedback from the focus groups and workshops to develop three overarching messages: "building trust," "a simple and transparent new system," and "taxes as a means of enhancing Yemen's long-term growth and development." We created themes and characters that the average taxpayer could identify with (see Figure 1) and used short, powerful slogans and simple language.

The pilot campaign ran for one week in the cities of Sanaa and Aden. Based on our research, we used the most cost-effective and widely viewed media in Yemen, mainly in print form—full- and half-page ads in prominent national and business newspapers, billboards (150 in Sanaa and 50 in Aden), and 2,500 fliers distributed to businesses and chambers of commerce—as well as some radio ads. The campaign was deliberately short, since it was a pilot for a larger campaign in Phase II, and since a lot of the technical work on the reforms is still under way and we did not want to overadvertise but rather inform taxpayers that changes are coming.

The timing and duration of the campaign also responded to local circumstances. Although the designs and materials were ready to go by March 2009, the Tax Authority suggested that launching a campaign on a topic as sensitive as tax reform so close to election time (April 2009) would interfere with the re-election campaign and fuel opposition attacks. So we launched the pilot campaign in August 2009, after all election-related concerns had died down.

Result: The campaign pleased the leadership of the Tax Authority, who also appreciated our flexibility on the timing. Our responsiveness on the timing also gives us more leverage to negotiate with the client to fund a greater proportion of the next, more comprehensive campaign that will run in Phase II.

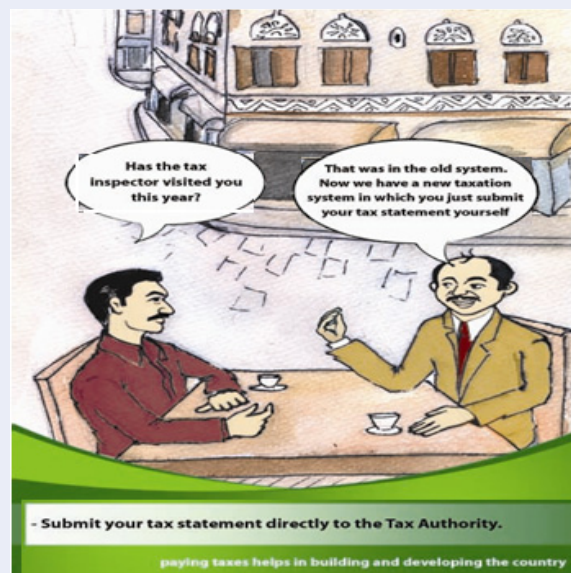


Figure 1: Ad on the new tax system, published in Yemeni newspapers. The ads were published in Arabic. This example has been translated into English.

**6) Incorporate M&E into your communications plan.**

Advisory projects are increasingly incorporating sound M&E frameworks to gauge results, but often they do not encompass communications activities. In fact, apart from an output indicator that measures the number of media reports and appearances, the standardized Advisory Services M&E system includes no tools to assess communications results or changes in perceptions that can occur from communications efforts. Also, since communications activities typically have very limited budgets, the addition of robust M&E (requiring collection of data, surveys, and so on) can be a challenge.

On the Yemen project, we had a budget for communications activities (about \$50,000), which included M&E. Due to budgetary constraints, the evaluation of the Phase I test campaign—to provide an M&E baseline for the larger campaign planned in Phase II—was carried out by the public relations (PR) firm that ran the campaign. Typically, a project would hire an independent firm for M&E, but in our case it made sense for the firm that will execute the Phase II campaign to be involved in the analysis of what did or didn't work.

The PR firm distributed 600 questionnaires in Sanaa and Aden to a defined random sample consisting of educated people between the ages 15 and 65, of whom 85 percent were men and 75 percent were involved in tax matters

directly or indirectly (businessmen, accountants, auditors, university students, and academics). The sample was not preselected for people who had seen the ads. Of the 600 questionnaires, we received responses from 509 people, not all of whom answered every question.

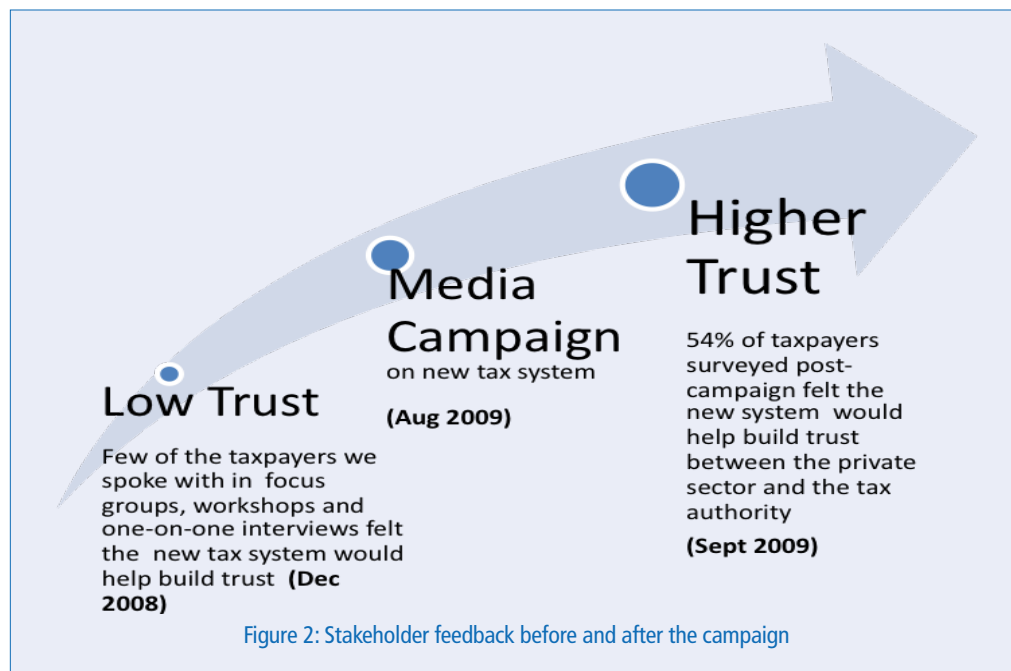
Given the newness of incorporating an M&E element into the communications activities, this was a learning experience for us. For example, our initial information gathering—from the workshops and focus groups—yielded anecdotal insights rather than scientific data. This meant that, although the subsequent survey by the PR firm may provide baseline data for comparison at the end of Phase II, we had no real apples-to-apples data with which to evaluate the effectiveness of the Phase I test campaign. If you have the budget for it, a more scientific M&E approach at the outset will provide valuable baseline data from which to evaluate the early stages of your communications efforts—using the same survey before and after the campaign.

Result: Nonetheless, the survey following the Phase I test campaign not only helped set up a baseline for a more comprehensive

campaign in Phase II, but it also provided encouragement that we were on the right track in communicating the benefits of the new system. The September 2009 survey—which indicated that 54 percent of respondents thought the new tax system would indeed help build trust—compared quite favorably with our earlier evidence that show very little confidence in the new system's ability to build trust.

## Conclusion

Our objective was to support the success and sustainability of the reform effort, which meant our communications activities had to strike a balance between generating awareness for reform, changing perception and thus behavior, and building the capacity of the client so that the reform is increasingly driven by local demand. Our Phase I work in Yemen—to understand and take targeted measures to neutralize private sector opposition and misconceptions on tax reform, shift perceptions favorably toward the proposed new system, and ensure that the client is fully involved and is making the decisions—gives us a solid foundation for the work of Phase II.



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