Domestic Resource Mobilization and the Global Partnership for Effective Development Co-operation

Media Background Paper

Domestic Resource mobilization provides low-income countries with revenues they need urgently to invest in infrastructure and social services. This is even more pressing given the tightening of Official Development Assistance (ODA) or traditional 'aid'. Sub-Saharan African countries in particular will need to mobilize resources to cover funding gaps in infrastructure, health and education. In addition, more effective and transparent tax systems can promote broader governance reforms in these countries.

A focus on Africa

Many African countries' tax revenue collection has improved since the 1990s, but there are still many "gaps" to be plugged.

- In low-income countries tax revenue is below 15% of GDP – the conventional threshold for satisfactory tax performance.
- The International Monetary Fund estimates that an increase in tax revenues of about 4% of GDP is attainable in many low-income countries

ODA as a Catalyst for Domestic Resource Mobilization

Investing ODA in building tax systems can yield impressive returns.

- For example, a USD 15 000 project to support Colombia's tax authority on transfer pricing matters led to an increase in revenue of around USD 2.5 million. Advice provided to Kenya at a cost of around USD 10 000 led to a recent transfer pricing adjustment resulting in additional tax revenue of USD 12.9 million.
- Initiatives that are working to support tax revenue administration in developing countries, including OECD's Task Force on Tax and Development, and its International Center for Tax and Development; the International Tax Dialogue; the African Tax Administration Forum; and the Inter-American Center of Tax Administrations.

Some areas where ODA and development co-operation can help

Tax officials in developing countries need expertise in tax policy analyses and design to develop systems that are appropriate for their country's conditions. Donors can help by building the technical capacity these countries need to make their tax systems more reliable.

Tax policy administration in developing countries is often hampered by lack of capacity, weak organizational structures, and lack of modern, computerized risk-management techniques. While there has been progress in recent years, some developing countries' VAT "gaps" are estimated to be around 50-60% of expected revenues, compared to developed country estimates of about

13%. Donors can help by making tax systems in developing countries more solid.
Multinational firms often avoid tax by assigning profits to branches located in lower tax jurisdictions (a practice called transfer pricing). Although this is a challenge for both developed and developing countries, transfer pricing schemes can result in larger tax revenue losses for developing countries because of their to weaker tax administration capacity. Donors can assist by promoting transparent reporting by multinationals and tax havens to tackle cross-border tax evasion.

Natural resource dependent economies face challenges in mobilizing domestic tax revenues. Lack of transparency and information leads to deals that limit their benefits. ODA can help developing country governments invest in building technical capacity, improving negotiation skills, and learning from international best practices before they negotiate natural resource contracts.

Private sector financing can be leveraged through smarter use of ODA fund bankable projects in developing countries. Multilateral institutions' participation in co-financing arrangements or fund syndications can send reassuring signals to markets, raising greater private sector interest, as well as more favorable terms for loans.

The informal economy makes up about 40% of GDP in many developing countries and the lack of formal financial records for businesses operating in the informal sector presents numerous challenges for tax authorities. The main culprits tend to be intermediate groups between the subsistence producers and the large companies. In Nigeria, for example, when the official registry of companies was compared to the official taxpayers' database, it was found that about 75% of "registered" firms were not in the tax system.

Post-conflict countries face additional challenges. Often, tax revenue institutions and broad tax bases need to be re-established. Countries such as Liberia have seen some broad successes in improving customs administration, raising corporate taxes, reforming tariff policies, and strengthening of tax administration procedures overall. In Mozambique, following the end of the civil war in 1992, similar reforms resulted in tax revenue increases, from about 8.5% of GDP in 1992 to about 15% in 2011.

Supporting knowledge through peer learning platforms and professional networks also provide a setting for sustaining tax reforms in developing countries. Development assistance can support this exchange between tax officials in both North-South and South-South fora.

Civil Society Organizations (CSOs) in developing countries can be strategically supported by donor institutions to promote greater dialogue on tax-related issues. CSOs can demand transparency in tax authorities' operations, require accountability regarding government authorities' use of tax revenues, and monitor performance indicators to assess the progress of national revenue authorities.

The Global Partnership for Effective Development Co-operation

The Global Partnership for Effective Development Co-operation – created in 2011 – recognizes the critical importance of domestic resource mobilization for development. Its co-Chairs – Ngozi Okonjo-Iweala, Coordinating Minister for the Economy and Minister of Finance of Nigeria, Armida Alisjahbana, Minister for National Development Planning of Indonesia and Justine Greening, Secretary of State for International Development of the United Kingdom – have chosen to focus on this topic in the run-up to the Global Partnerships first ministerial-level meeting, to be held in Mexico in early 2014.

The Global Partnership helps nations, business and organizations work together to end poverty. Through the Global Partnership, governments, private companies, civil society and others work to ensure that funding, time and knowledge for development produce the maximum impact. The Global Partnership can help drive progress and support the implementation of the global development agenda that will follow the Millennium Development Goals target year of 2015. It is a forum for advice, shared accountability and shared learning and experiences to support the implementation of principles that form the foundation of effective development co-operation:

ownership by developing countries;

a focus on results;

inclusive development partnerships; and,

transparency and accountability to one another.

These principles were endorsed at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea in 2011. To date 160 Governments and 46 organisations have endorsed the Busan agreement.

The Global Partnership works with partners to complement existing efforts that impact on effective development co-operation. These include the UN Development Co-operation Forum, the Development Working Group of the G20 and the UN-led process of creating a global development agenda for after 2015.

The Global Partnership builds on a range of international efforts, including the Monterrey Consensus (2002,) the Rome Declaration on Harmonisation (2003), the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008.)

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