PLENARY SESSION 2: Partnering for Effective Taxation and Domestic Resource Mobilisation for Development

15 April 2014, 16:30 – 18:00, Plenary room

Objective

This session explored how development co-operation can strengthen institutional capacity for domestic revenue mobilisation (DRM), improve tax transparency and accountability, and tackle tax avoidance and illicit financial flows (IFF). The panel discussed challenges and opportunities for development co-operation to support developing countries in harnessing domestic revenue and improve public service delivery for development.

Participants

Moderator: **Krishnan Guru-Murthy**, Channel 4 News, UK

Minister Ngozi Okonjo-Iweala, Minister of Finance, Nigeria

Dr Albert Mabri Toikeuse, Minister of Planning and Economic Development, Côte d'Ivoire

Mr Angel Gurria, OECD Secretary General

Dr Anthony Mothae Maruping, Commissioner for Economic Affairs, African Union Commission

Mr Andrew Bone, Global Head of Government and Industry Relations, De Beers Group

Mr Mercedes de Freitas, Executive Director at Transparencia Venezuela

Ms Julie Bishop, Minister of Foreign Affairs, Australia

Key issues discussed

Minister Ngozi Okonjo-Iweala's keynote address highlighted the importance of DRM for developing countries to determine their own future. Building efficient tax systems, reducing IFF and tackling corruption are essential to meet the financial needs of the post-2015 development agenda. Effective taxation can also foster accountability, enable service delivery and strengthen the citizen-state relationship. Progress can be made as Africa's tax collection currently outstrips annual aid inflows by ten to one. In parallel, donors need to deliver on their commitments and provide a more targeted support to developing countries to increase DRM, including through South-South co-operation, technical assistance and concerted international action to stem IFF. She called on the Global Partnership to: 1) double aid in support of tax systems; 2) endorse *Tax Inspectors Without Borders* and the IMF-led *Tax Administration Diagnostic Assessment Tool*; 3) tackle IFF and subscribe to the UN Convention Against Corruption.

Dr Maxwell Mkwezalamba presented the outcome of the African regional and continental preparatory consultations, which stressed that DRM is a top development priority for African countries as they aim to lower their dependence on development partners by gradually increasing their domestic resources. DRM must be considered within a broader package of sustainable financing tools (such as PPP, bonds, trade agreements, stock-exchanges, remittances). Barriers to DRM include an underdeveloped financial market with limited access to banking facilities and a narrow tax base with low tax contributions by businesses despite a growing private sector.

Dr Albert Mabri Toikeuse agreed that more and better development co-operation to support tax administration and capacity building in developing countries will be required for many years ahead to ensure tax collection is efficient, fair and can finance the delivery of good public services. Tackling IFF would require stronger co-operation between judiciary and oversight institutions at national and international level.

Angel Gurria reiterated that only 0.1% of total ODA is going in support of tax matters and that an increase is both necessary and achievable. Examples from significant rates of return from support to tax systems in Rwanda, Colombia, Solomon Islands and El Salvador support the case for more ODA to tax matters. Establishing fair international tax systems that promote international trade and limit poor practices by Multinational Enterprises is a challenging task. He pointed to the strong progress made on the G20/OECD Action Plan on Base Erosion and Profit Shifting (BEPS) and the Automatic Exchange of Information to demonstrate that where there is a strong political will, change is possible.

Julie Bishop suggested that development co-operation is on the cusp of a new aid paradigm, moving towards partnerships that focus on long-term lasting improvements, rather than short-term 'quick wins'. This requires innovative thinking in complement to increasing support. The G20 development Working Group needs to ensure that developing countries can contribute to the international tax agenda and establish a roadmap for them to adhere and benefit from the opportunities that arise. This will require a significant capacity increase in tax administrations.

Anthony Mothae Maruping reiterated African countries' political will to strengthen DRM. This implies not only improving public sector capacity but also tax structures and the wider financial sector to maximise revenues from diverse sources, including state-owned assets.

Andrew Bone emphasised the importance of a win-win relationship between the private sector and government and took as example the relationship between the mining company De Beers and the Government of Botswana. Through coherent and persistent negotiations Botswana has successfully managed to obtain a fair return on its natural resources. This supported its democracy and the socio-economic development of its people, while allowing the company to remain profitable.

Finally, **Mercedes de Freitas** underscored the difficulties governments face to turn rhetoric into action and support transparency to tackle corruption and build public trust. Sharing data and information is a positive first step, which needs to be followed by creating effective complaint systems, protection for whistle-blowers, improving judiciary powers to allow for effective scrutiny by civil society and parliaments and exposure of corrupt practices.

Interventions from the floor included: identifying strengths and weaknesses of tax administrations through the IMF-led "Tax Administration Diagnostic Assessment Tool" to tailor international assistance to existing capacity; the role local governments could play in the post-2015 financing discussions; the importance of strengthening parliamentary institutions and civil society for holding their governments accountable; strengthen negotiating skills in developing countries to ensure a fair share of their natural resource wealth and the importance of engaging with incorporating developing countries in international tax discussions (e.g. through discussions with the G20).

Conclusions

Minister Ngozi Okonjo-Iweala concluded that DRM constitutes an essential pillar of a true global partnership, where every stakeholder has a clear role to play. To ensure the follow-up on the issues mentioned in this discussion she called upon the Global Partnership members to actively support the voluntary initiatives included in the Mexico Communiqué:

1. Forming a Coalition for "Sustainably Resourced Public Service Delivery"
2. Increasing aid going to tax systems

3. Endorsing the OECD’s “Principles for International Engagement in Supporting Developing Countries in Revenue Matters”
4. Welcoming and endorsing “Tax Inspectors Without Borders” as an example of innovation to address international tax avoidance
5. Endorsing the IMF-led “Tax Administration Diagnostic Assessment Tool”
6. Committing to perform risk analyses against exposure to illicit financial flows