Deutsches Institut für Entwicklungspolitik
German Development Institute

Greater mobilisation of domestic revenue in developing countries – a key issue for the post-2015 agenda

By Christian von Haldenwang &
Armin von Schiller,
*German Development Institute /
Deutsches Institut für Entwicklungspolitik (DIE)*

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Bonn, 2 February 2015. Development requires money. In July of this year the international community of states will meet in Addis Ababa to agree the financing of the new post-2015 agenda. The mobilisation of domestic revenue in the developing countries and the fight against illicit financial flows are high on the agenda. In his Synthesis Report on the post-2015 Agenda, published at the end of 2014, the Secretary General of the United Nations urged the establishment of an intergovernmental committee on tax cooperation. International organisations, particularly the OECD, but also associations of states such as the G20 and G7, view the subject of domestic revenue as lying at the centre of the debate on financing and development. Developing countries are called upon to make greater efforts in the collection of taxes and levies. A further issue is that of greater transparency and fairness in the national and international tax systems.

So how should these requirements be realised within the scope of the post-2015 process? We see **five central aspects** that require consideration:

Firstly, trends are more important than absolute levels. Some proposals call for developing countries to commit themselves to achieving specific tax revenues. Figures quoted here include 20 per cent of gross domestic product, or 17 per cent for the poorest countries. However, targets such as these are unsuitable as generally-valid objectives, as even within specific country groupings (such as low-income countries or resource-rich countries) the heterogeneity of conditions influencing taxation is too great. Instead, the focus should be upon the long-term development of public revenues, especially for the group of "low tax performers" with weak or undemocratic governance structures. A further criterion is the willingness of governments to carry out the necessary reforms to their tax systems and tax administration. In future, the *Tax Administration Diagnostic Assessment Tool* (TADAT) will help to provide reliable and comparable information in this respect.

Secondly, tax fairness and equity should be central parameters in the assessment of tax systems within the context of the post-2015 agenda. The composition of the tax regime (the so-called "tax mix"), particularly the relative burden of direct taxation on private income and assets, has a significant effect on the progressivity of taxation. In addition, transparency with regard to tax expenditures (i.e. tax revenue foregone as a result of subsidies, specific asset write-down rules or tax holidays) is a central requirement for enabling questions of tax equity to be discussed and resolved in a way commensurate with the common good. The way in which the tax system is perceived by citizens and companies is decisive. Increasing numbers of surveys (e.g. *World Value Survey*, *Afrobarometer*, *Doing Business Report*) provide information on this subject. This data should be systematically analysed and used to assess tax systems.

Thirdly, the stability of public revenue is as important as short term hikes in tax collection. Stable revenues are key for the effective planning of public policies and investments – especially in countries where the planning capacity is already low. Diversified tax systems with a broad tax base are less susceptible to external shocks (e.g. fluctuations in terms of trade) and offer greater opportunities to react to unexpected revenue losses. This is a further argument in favour of paying particular attention to the tax mix.

Fourthly, more consideration needs to be paid to subnational taxes and levies. Thus far, the debate on taxes and development has concentrated on the level of central government. However, the collection of taxes by municipalities or the intermediate level can also play an important role in activating tax potential. The governments should take the first step here by collecting and publishing reliable information on tax revenues at subnational levels. In addition, state transfer systems should also be examined to determine what incentives they offer for subnational tax collection.

Fifthly, international co-operation on tax matters needs to receive more support than has previously been the case. In future, states need to co-operate better in the drafting and implementation of international standards such as the automatic exchange of information, reporting obligations for companies, transfers pricing guidelines, identification and recovery of stolen assets and the introduction of a common corporate tax base. This represents a major challenge to the governments and public administrations of poorer states. It is therefore important to provide particular development policy support to such co-operation. It should also be *demanded* more emphatically when states (or major corporations) enrich themselves at the expense of the world community by dodging international agreements.