



TAXES PROVIDE PLATFORM FOR SUSTAINABLE DEVELOPMENT,
ROUND TABLE ON DOMESTIC RESOURCE MOBILIZATION TOLD

Taxes -- “the lifeblood of government services” -- provided the platform for sustainable development, Angel Curria, Secretary-General of the Organisation for Economic Cooperation and Development (OECD) said today during a round table on “Looking ahead: Mobilizing domestic financial resources for development”.

He said poor countries often lacked the resources and capacity to build effective tax collection systems and poor people were often already burdened with an equivalent tax in the form of bribes. Tax havens, with estimated assets of trillions of dollars, most of them from developing countries, deprived Governments of revenues and undermined the tax base of both developed and developing countries. The Organization for Security and Cooperation in Europe (OSCE) had developed standards of transparency and information exchange that had been universally accepted.

There was a need for a renewed focus on enhancing domestic revenues through broadly based taxation, alongside higher aid flow, he said. There was also a need to help countries retain and tax the profits attributable to them from multinational companies and to expand cooperation between international organizations active in the tax area.

Today’s round table was one of six discussions scheduled to take place during the Conference. The other five will focus on: mobilizing international resources for development: foreign direct investment and other private flows; international trade as an engine for development; external debt; and addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

Moderated by Justin Lin, Chief Economist and Senior Vice-President at the World Bank, the round table’s panel comprised Azizul Islam, Minister for Finance of Bangladesh; Assane Diop, Executive Director of the Social Protection Section at the International Labour Organization (ILO); Michael Keating, Director of the Africa Progress Panel; Princess Maxima of the Netherlands, a member of the United Nations Advisers Group on Inclusive Financial Sectors; and Vito Tanzi, former State Under-Secretary for Economy and Finance of Italy.

Mr. Lin stressed that developing countries needed to invest now in order to prepare for growth when the economic situation returned to normal, noting that the most important source of domestic finance was the tax system. To generate taxes, it was important to have a simple and transparent tax system. Many developing countries lacked tax systems that encouraged investment and their tax collection was not efficient.

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Stressing the importance of transparency and good governance in using revenues from natural resources, he said those countries also faced issues of corruption and tax evasion. Guaranteeing interest rates was the most important way to support domestic entrepreneurship. It was important to invest in sectors with a comparative advantage and in labour-intensive sectors, which could enlarge the tax base.

Mr. Islam, speaking on behalf of the Least Developed Countries, stressed that they suffered constraints in mobilizing domestic resources. The liberalization of imports had caused a decrease in the value of currencies and in important sources of revenue for the least developed countries. Many people in least developed countries lived on a subsistence base and were beyond the tax base. Development partners should support the national efforts of those countries in modernizing their tax-collection systems. Also, developed countries should take steps to reduce the transmission costs of migrant remittances, which should be tax-exempt in the countries of origin. Support was needed in fighting corruption through the strengthening of institutions, and the transfer of profits from corruption must be prevented.

Mr. Diop warned that, because of the current financial crisis, 20 million jobs could be lost between now and 2009 and the number of people living below the poverty line could increase by 100 million. The ILO had called for urgent measures to support productive enterprises so as to save jobs, guarantee the flow of credit, strengthen social protection, improve the environmental aspects of growth, and continue social dialogue. Decent work was the way to emerge from the crisis. Creating decent employment led to development and increasing consumption created stability. Raising salaries made savings possible and the growth of revenue led to expansion of the taxation base.

Mr. Keating said that, in the long term, mobilizing domestic financial resources depended on investment in resources, energy and people. Financing for development in Africa after Monterrey had been a success story, but the current financial crisis was hampering the continent's development while underscoring its vulnerabilities, such as high fuel prices and the failure of governance in rich countries.

He said most African countries had problems with constraints in energy, infrastructure and dependence on primary commodities. Better and more efficient use of infrastructure, sustainable energy generation, unblocking barriers to trade, improving the investment climate, and marketing Africa's "real economic opportunities" could make the continent "open for business".

Princess Maxima said a strong, accessible financial sector in a country promoted growth and reduced inequality, adding that the Advisers Group had adopted key messages and recommendations for Governments, regulators, development partners and the private sector, which had been presented to the Secretary-General just one hour ago.

Noting that 2 billion people were "unbanked", she said savings had not received the same level of attention as credits, but they were equally important. Only 20 per cent of the world population had savings accounts. Poor people could and did save, often by putting money in a mattress or investing in risky commodities such as livestock. If they had good saving instruments, they were also encouraged to save more. Attracting savings was also the way for microfinance institutions to fund their operations. Governments must stimulate savings and educate the public on

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savings. Lending practices must be fair. Aggressive marketing of inappropriate loan products to uneducated consumers had been one of the causes of the current crisis.

Mr. Tanzi said that mobilizing domestic resources could consist of borrowing, fees, income from mineral resources and taxes. Borrowing often led to problems, and fees for Government services should be used more. Revenues from natural resources depended on commodity prices, the tax arrangements of foreign enterprises and the accountable use of earnings. The United Nations could play a larger role in helping countries contract foreign companies and by addressing such issues as tax evasion and international cooperation on tax matters with an international dimension. There was a need for caution regarding incentives for foreign companies to invest, as that would reduce the tax base, but income from capital should not escape tax regulations.

Numerous high-level Government officials participated in the ensuing discussion as several country representatives described their national experiences. The round table's Co-Chair, John Michuki, Minister for Finance of Kenya, said that, through reforms, his country's revenues had been reduced with the result that revenues had increased more than before. The cost of doing business had been reduced considerably along with improvement in capital markets.

In the ensuing discussion, some speakers, including a representative of the non-governmental organization Oxfam International, drew attention to illegal capital flows, which were detrimental to development. Some \$160 billion had been diverted from developing countries, which was half of the total amount needed to eradicate half the world's poverty. Germany's representative announced a proposal for an international global compact on taxes.

The Minister for Foreign Affairs of Bolivia described his country's experience over the last couple of years in increasing State revenues by nationalizing the extractive sector. Some 82 per cent of profits went to the State and 15 per cent to foreign companies. That aspect was not emphasized sufficiently in the draft outcome document.

Speakers agreed that countries should be in the "driver's seat" regarding their own development policies and that strengthening fiscal discipline offered the opportunity to incorporate such issues as climate change and employment generation. They also stressed the need to reduce the transaction costs for remittances.

The round table on "Mobilizing international resources for development" will convene at 10 a.m. tomorrow.

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