Regional cooperation to enhance tax mobilization

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Regional Cooperation on Financing for Development
New York, 15-16 November 2010

Outline

1. Why domestic resource mobilization?
2. Constraints on DRM
3. Role of regional cooperation
4. Conclusion

Why enhance DRM?

- Promotes economic independence and autonomy
- Strengthens development sustainability
- Contributes to state-building and better governance
- Involves public resource mobilization and financial sector deepening

Constraints on DRM

1. Domestic constraints
- Structural bottlenecks
- Administrative and policy challenges

2. External constraints
- Trade liberalization
- Competition for investment
- Transfer pricing
- Illicit financial flows (“capital flight”)

Capital flight estimates

- Ndikumana and Boyce (2008) estimated *total* capital flight from 40 Sub-Saharan African countries between 1970-2004 at $420 billion (in 2004 $) compared to external debt of $227 billion in 2004
- Global Financial Integrity (2009) has estimated *minimal* illicit outflows from *all* developing countries rose from $373 billion in 2002 to $850 billion in 2006, with associated tax losses of $100-300 billion annually

Role of regional cooperation

- Collective efforts can be made to address both domestic and external constraints on DRM:
  - Domestic constraints through peer review and mutual support
  - External constraints via collaboration on tax and other policies

Cooperation on domestic constraints

- Issues of administrative efficiency, effectiveness and integrity confront all revenue authorities
- Designing tax policies to address
  - The informal sector, broadening tax base
  - Introducing new taxes (property tax)
- African Tax Administration Forum as example of a peer support group

Cooperation on external constraints

- To constrain revenue losses and maintain policy coherence:
  - Seek better pace and sequencing of trade liberalization
  - Collaborate on tax incentives for FDI , avoid tax competition
  - Address transfer pricing by foreign transnationals

Limits of regional cooperation

- Easier to address domestic than external constraints
- Larger regional bodies more able to tackle external constraints (trade, tax competition)
- Need to work with UN, WTO, EU, OECD
  - E.g. transfer pricing—country reporting
  - Capital flight issues particularly tricky

Conclusion

- There is considerable scope and a number of good reasons to enhance taxation in developing countries
- Regional cooperation can and is playing a supportive role, but could do more
- There is also scope for regional bodies to collaborate with the UN and other global bodies, as well as the OECD