

<p style="text-align: center;">GLOBAL FORUM ON DEVELOPMENT 28.01.2010 DOMESTIC RESOURCES MOBILISATION FOR DEVELOPMENT: THE DOMESTIC DIMENSION OF TAXATION CHALLENGE</p>
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1. TAXATION MATTERS FOR SUSTAINABLE DEVELOPMENT

- *Achieving the Millennium Development Goals* requires *significant public investments*. Official public aid (ODA) alone will not suffice to meet the financial needs of developing countries. To bridge the gap, developing countries have to *improve domestic resource mobilization*. This has been stressed already by the “*Monterrey Consensus*”. But in the current context of the economic and financial crisis, this becomes particularly relevant.
- *Reforming tax systems* is central to increase tax collection and domestic resource mobilization. Improving tax systems and increasing domestically generated resources bring *important benefits*. Let me mention some of the most significant:
 - Firstly, it *reduces dependency on external flows*, which can be volatile. It provides governments with a more predictable and sustainable source of financing. Governments will have more policy space to implement reforms that will contribute to put their economies on a *long-term sustainable growth track*. Indeed, inadequate revenue mobilization is a risk to long-term macroeconomic stability; it also constrains spending that is essential for development and poverty reduction.
 - Secondly, the quality of fiscal policies shapes the business climate. This is important to mobilize *more domestic and foreign direct investment*. It is easier to expand the small and medium business sector and to *broaden the tax base*, when taxes are non-distorting and compliance costs are low.
 - Thirdly, tax reforms have the potential to *generate governance benefits*. Tax reforms encourage the *accountability of the state* towards its citizens. Tax reforms clarify fiscal law and regulations and thus contribute to *strengthening the rule of law*.
- The point I would like to stress here is that tax systems are key to support the efforts of developing countries to retain their domestic resources and to *fight against tax evasion and avoidance*. We discussed earlier today the improvements in transparency at the international level. What is critical to enable developing countries to benefit from these improvements is to address the domestic causes of tax evasion and tax avoidance. These causes are often due to poor domestic tax systems.

2. SOME LESSONS LEARNT AND CHALLENGES FROM TAX SYSTEMS REFORMS

What are the lessons that have been learnt so far in reforming tax systems?

- A first lesson – that cannot be emphasized enough - is the importance of having, from the part of governments, a *clear reform strategy* and, from donors, harmonized and coordinated support.
- Then, to improve tax collection and build sustainable revenue systems, it is important to get the basics right: *principles of modern and effective tax administration* have to be put in place. Let me

mention – among other elements – that taxes have to be simple and transparent with minimal exemptions. Taxes have to be more equitable, ensure a fairer treatment of all taxpayers and minimize administrative costs.

- Another important lesson is that *tax systems reforms are complex*. They need time and they need *long-term political support*. For reforms to succeed, it is important to understand the political economy of reform. It is central to *build fiscal legitimacy and establish a social contract* between the state, civil society and the private sector. To this end, better taxation and increased revenues should translate into the delivery of quality public services that meet the demand of citizens, such as good schools and hospitals and care for the most vulnerable.
- *Fiscal decentralisation* is another issue that remains high on the policy agenda of many countries. It generally reflects a desire for *greater voice of local taxpayers* in the allocation of budgetary resources to make sure that they will get the public goods and services that they most need. The success of fiscal decentralisation is heavily dependent on the political economy at the national and local levels. Intergovernmental fiscal arrangements will have to be put in place. Expenditure functions will have to be assigned, but also the capacity to raise revenues must be developed.
- Yet, in general, a major challenge is that in low income countries, technical, institutional and human capacity is limited: at the local as well as at the central level, both *systems and skills* will have to be improved. *Donors* can play an important role in supporting governments' efforts in designing and implementing successful tax reforms.

3. ROLE OF ODA IN SUPPORTING TAX REFORMS

- Let me turn now to the role of ODA in supporting tax reforms. *ODA*, which may have a negative impact on the mobilization of fiscal resources, increasingly recognises the central role of tax systems for development financing and promoting sustainable growth.
- The importance given to ownership and alignment in the Paris declaration have led to a wider use of *general budget support*. In this context, it is extremely important to emphasize the need for a greater mobilization of domestic resources along with the discussions on public expenditure efficiency. I consider very positive that tax policy and tax administration reform have become an integral part of the *policy dialogue* with partner countries.
- I would like to mention *two examples of joint donor initiatives* that have substantially contributed to support the tax reform momentum:
 - The first example refers to *Mozambique*: there, a joint donor initiative was launched for assisting the tax reform program developed by the Ministry of Finance. It facilitated the introduction of the corporate and income taxes and provided training to the newly created Central Revenue Authority.
 - In *Ghana*, a joint program has enabled to establish a Tax Policy Unit, strengthening government's capacity to pursue a more accountable, transparent and sustainable tax policy. Such a policy offers less opportunities for tax avoidance, non-compliance and reduces tax expenditures.

- Finally, besides these bilateral initiatives, the coordination of efforts within facilities, which are supported both by donors and IFIs should become more and more important. The *Topical Trust Fund on Tax Policy and Administration* recently launched by the IMF and a small group of bilateral donors is such an example. It will deliver technical assistance to low income countries with the biggest revenue problems and strong interest in a comprehensive reform approach. Such an initiative can become a powerful instrument for strengthening the capacities of partner countries to mobilize internal resources to achieve the MDGs.
- With this, let me conclude and turn to Mr. Kettani, who will share with us the Moroccan experience on tax reforms.