Domestic Resource Mobilization

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What is DRM?

- The process in which countries raise their own funds to provide for their people
Why DRM?
The trend of ODA for health is now flat.
ARV Needs in Zambia: The Projected Resource Gap
DRM Impacts

- Reducing external dependence
- Building accountable states
- Stability and predictability
- Ownership and governance
Success in DRM

- Rwanda
- Tanzania
- El Salvador
DRM in El Salvador
Building a Modern Tax Service

• Enhanced taxpayer services
  – Taxpayer assistance center and walk-in offices
  – Taxpayer advocate unit

• Risk-based, automated audit selection
  – No longer at the discretion of tax officials
  – More than $100 million in underreported taxes assessed in the first six months
Building a Modern Tax Service

• Criminal investigation team
  – Increased cases sent to Auditor General
  – Sanctioned 24 employees and prosecuted 12 cases

• Technology-enhanced compliance
  – Initially from mail to robo-call system
  – Upgrades in 2013 saw $12.4 million from 27,000 pre-filled tax bills
El Salvador: Dollars to Results

- $5.8 million in total USAID support
- $350 million increase in annual revenue
- $160 million increase in annual social spending
DRM Elsewhere

• Also success in middle income countries
  – Georgia: Raised revenue from 17% to 24% of GDP
  – Bulgaria: Raised revenue from 26% to 31% of GDP
• Only in a few USAID Mission have substantial resources for DRM
Emerging new themes in the DRM space

• Spillovers from international corporate taxation
  – Targeting avoidance by multinationals
  – Base erosion and profit shifting (BEPS)

• Combatting illicit finance

• Target-setting
  – The quest for 20%
  – Reducing losses due to trade “mis-invoicing”
Other Definitions of DRM

- Credit Guarantees
- Local Financing
- Public Private Partnerships (PPPs)
- Reallocation of Resources
Final Thoughts

• Tax Administration Programs are cost-effective
  – They return many times what is invested in them
• Help counties meet their own needs
• Lead to more transparent, equitable, predictable governments
• Good for business, investment and citizens
Thanks!
DRM: Benefits

- Increased resources for education, healthcare, social services
- Independence and stability
- Government accountability
How much do spillovers matter?

ORDERS OF MAGNITUDE

Foreign affiliate contributions to government revenues: ~730
Other revenues: ~300
Other taxes and social contributions: ~210
Corporate income tax component: ~220

Tax revenue losses due to tax avoidance: ~100
Revenue "slippage" due to tax incentives*: ~130
Total potential value at stake: ~960

*External estimate

Source: UNCTAD estimates; estimates for revenue losses due to incentives from ActionAid.
Impacts of DRM

• Instills responsibility
The road to improved DRM starts with the “big fish”

In the short run:
Prioritize the greatest risks to revenue

In the medium and long term:
Build fiscal legitimacy through quality services
Possible Impacts of DRM

• Can yield significant returns
• Can help to:
  — Enhance transparency,
  — Streamline tax compliance, and
  — Reduce costs for business
• Increases with duration and intensity
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