Regulate low, tax high: Development finance through informality and taxation initiatives

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In much of the financing for development discourse, emphasis is placed on integrating informal enterprises into the formal, regulated economy. By comparison, little additional weight is placed on addressing Base Erosion and Profit Shifting (BEPS) initiatives by corporations, as well as by High Net Worth (HNW) and Ultra High Net Worth (UNHW) individuals to avoid tax compliance.

Excessive stress by development practitioners on bringing informal enterprises into the taxable, formal economy neglects the prevalence and impact of tax evasion by the ultra-wealthy and places undue burden on the most vulnerable members of society to “develop themselves.” I argue that the tax havens and international tax evasion – corporate and high-net individuals both – should be included in plans to address the domestic revenue mobilization blocks that impact LI&DCs the most acutely, possibly even in lieu of plans that target informality.

Summarizing and comparing some of these initiatives in an inclusive framework is necessary for optimal financing for poverty alleviation and the Sustainable Development Goals. Over the summer, I worked on a financing report at the Sustainable Development Solutions Network (SDSN) and was able to continue to explore the role taxation policies play in development financing programs and plans through an independent study last semester.