



2019 ATI Monitoring Report

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The International Tax Compact (ITC) is a neutral platform that aims to enhance domestic revenue mobilisation in partner countries, and to promote fair, efficient and transparent tax systems. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched the platform in 2009 and commissioned the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to facilitate the ITC Secretariat.

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Foreword

To deliver the Sustainable Development Goals by 2030 in the “Decade of Action”, joint efforts for mobilising domestic revenues are more crucial than ever. Since the launch of the Addis Tax Initiative (ATI) in the course of the Third International Conference on Financing for Development in 2015, ATI members have reaffirmed their commitment to support financing socio-economic development through domestic revenues, which are considered the most reliable source of funding for sustainable development. In 2021, ATI members launched the ATI Declaration 2025, a new partnership agenda that brings new energy and enthusiasm to the field of domestic revenue mobilisation (DRM). The ATI Declaration 2025 and its four commitments reflect the changing priorities in the tax and development landscape and reinforce our commitment to implement the Addis Ababa Action Agenda.

The 2019 ATI Monitoring Report allows us to assess how ATI members have progressed towards achieving the commitments made in 2015. From 2015 to 2019, ATI development partners have increased their official development assistance for DRM by 69%. ATI developing countries increased their average tax-to-GDP ratio to 15.47% in 2019, up from 14.7% in 2015. Overall, the ATI has played an impartial and constructive role in fostering exchange and inclusive dialogue in the global discussions on DRM. It has made important contributions to increasing available financing for development through agenda setting, donor coordination, peer learning, and enhancing political commitment.

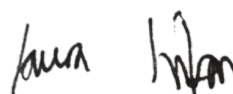
Despite the progress we have made, we must redouble our efforts to build fair, efficient and transparent tax systems to foster sustainable development. With the widening gap between financing needs and available public revenues, the Covid-19 pandemic highlights once again the importance of raising domestic revenues sustainably and equitably in order to fund effective government responses. We need collective leadership and action to ensure we rebuild systems that reduce the human, economic and social inequities exacerbated by the pandemic. By endorsing the new ATI Declaration 2025, ATI members showed their commitment to fill the gaps in DRM cooperation and advocate for tax systems that work for people and advance the SDGs. Let us step up our efforts in response to the urgent challenges we face.



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Glossary

AAAA	Addis Abeba Action Agenda
AEoI	Automatic Exchange of Information
ATI	Addis Tax Initiative
BEPS	Base Erosion and Profit Shifting
BMGF	Bill and Melinda Gates Foundation
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
CATA	Commonwealth Association of Tax Administrators
CbCR	Country-by-Country Reporting
CGD	Centre for Global Development
CEQ	Commitment to Equity Institute
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate income tax
CREDAF	Exchange and Research Centre for Leaders of Tax Administrations
CRII	Commitment to Reducing Inequality Index
CSO	Civil society organisation
DAC	Development Assistance Committee
DFI	Development Finance International
DRM	Domestic revenue mobilisation
DTA	Double taxation agreement
EC	European Commission
EU	European Union
GFG	Good Financial Governance
GFI	Global Financial Integrity
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German development cooperation agency)
IBFD	International Bureau for Fiscal Documentation
IBP	International Budget Partnership
ICTD	International Centre for Tax and Development
IFFs	Illicit financial flows

IMF	International Monetary Fund
IOTA	Intra-European Organisation of Tax Administrations
ITC	International Tax Compact
KSP-TA	Knowledge Sharing Platform for Tax Administrations
LDCs	Least developed countries
NGO	Non-governmental organisation
OBS	Open Budget Survey
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
PCT	Platform for Collaboration on Tax
PIT	Personal income tax
RM-TF	Revenue Mobilization Trust Fund (IMF)
SDGs	Sustainable Development Goals
SGATAR	Study Group on Asian Tax Administration and Research
Sida	Swedish International Development Cooperation Agency
StC	Save the Children
TA	Technical assistance
TIWB	Tax Inspectors without Borders
TP	Transfer pricing
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States of America
USAID	United States Agency for International Development
VAT	Value-added tax
WATAF	West African Tax Administration Forum
WBG	World Bank Group
WHO	World Health Organisation

ATI membership*



ATI partner countries

Afghanistan, Benin, Burkina Faso, Cameroon, Ethiopia, Georgia, Ghana, Indonesia, Kenya, Liberia, Madagascar, Malawi, Mongolia, Namibia, Nepal, Pakistan, Paraguay, Philippines, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, The Gambia, Uganda



ATI development partners

Australia, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Ireland, Italy, South Korea, Luxembourg, Netherlands, Norway, Slovakia, Slovenia, Sweden, Switzerland, United Kingdom, United States



ATI supporting organisations

African Tax Administration Forum (ATAF), Asian Development Bank (ADB), Bill and Melinda Gates Foundation (BMGF), Center of Excellence in Finance (CEF), Centre de Rencontres et d'Études des Dirigeants des Administrations Fiscales (CREDAF), Commonwealth Association of Tax Administrators (CATA), The Executive Secretariat of the Council of Ministers of Central America, Panama and the Dominican Republic (SE - COSEFIN), Global Financial Integrity (GFI), Global Forum on Transparency and Exchange of Information for Tax Purposes, Inter-American Center of Tax Administrations (CIAT), International Budget Partnership (IBP), International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD), Oxfam International, Save the Children, Tax Justice Network Africa (TJNA), United Nations Department of Economic and Social Affairs (UN DESA), West African Tax Administration Forum (WATAF), World Bank

*Status November 2021

Executive Summary

The Addis Tax Initiative (ATI) is a collaborative effort by a range of partner countries, development partners, and supporting organisations to promote progress on expanding the mobilisation of domestic resources in partner countries. The ATI was launched at the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, in July 2015. Since its launch, the number of actors formally supporting the ATI has grown significantly, and today its signatories include: 25 partner countries from across Africa, Asia, South America, and the Pacific; 20 development partners, who collectively provide more than 95% of total ODA in support of DRM efforts; and 19 supporting organisations, including international organisations, private foundations, and research organisations. The members of the ATI collaborate to strengthen the capacities and governance of revenue institutions and make tax systems fairer, more transparent and more efficient, while promoting policies that contribute to DRM efforts. The ATI Declaration 2020 – now supplemented by ATI Declaration 2025, agreed in November 2020 – sets out the following commitments.



ATI Commitment 1

ATI development partners commit to collectively double technical co-operation in the area of domestic revenue mobilisation (DRM) by 2020.



ATI Commitment 2

ATI partner countries commit to step up domestic revenue mobilisation in order to spur development, in line with the ATI key principles.



ATI Commitment 3

All ATI member countries commit to promote and ensure policy coherence for development.

The 2019 ATI Monitoring Report has assessed the performance of the ATI's membership in meeting these commitments in 2019 and since 2015, as well as the gaps remaining to deliver the 2020 commitments. Overall, the results show that there has been notable progress in the area of DRM in partner countries; that overall levels of ODA for DRM from development partners have increased significantly since 2015, although stagnated in 2019, leaving very significant gaps in meeting the 2020 doubling commitment; and that policy coherence for DRM is gaining increased political attention, albeit with significant reforms remaining. The overall message is that further efforts by ATI members are needed to address significant remaining gaps in reaching 2020 targets and in transforming the DRM context. An overview of the findings in this report can be found below:



ATI Commitment 1

ATI development partners provided USD 373.6 million in Official Development Assistance (ODA) for DRM in 2019 (with just USD 3.3 million in loans). This represents an increase of just 1 USD million or 0.3% compared to 2018, although grant ODA for DRM increased by USD 63 million, or 20.5%. ATI development partners have therefore increased their ODA for DRM by 69% since 2015 (the ATI baseline), leaving a gap of USD 67.6 million to the 2020 doubling commitment. Of the 20 ATI development partners, nine have already achieved a doubling of their ODA for DRM during 2015-19, up from six in 2018, and another three have achieved an increase of 50%-100%. By far, the largest recipient country of grant ODA for DRM from ATI development partners in 2019 was Afghanistan (USD 50.67 million), followed by Tunisia (USD 19.15 million) and Niger (USD 13.99 million). Sub-Saharan African countries (34.2% of total ODA for DRM) and Least Developed Countries (43.9% of total ODA for DRM) collectively received the largest proportion amongst regions and country income groups, although this represented a fall for countries in Sub-Saharan Africa (from 40.1% in 2018) and an increase for Least Developed Countries (from 41.3% in 2018).

Project type interventions continued to dominate in terms of delivery modalities for ODA for DRM in 2019 (51.3% of the total, excluding data for the EU, which was not available), followed by contributions to specific purpose programmes and funds (31.7% of the total, excluding data for the EU). Amongst delivery partners for these ODA programmes, donor governments were the most significant actors overseeing ODA for DRM in 2019 (37.2% of the total, excluding data for the EU), with non-governmental organisations (NGOs) in partner countries only managing 1% of this ODA directly (excluding data for the EU). In 2019, 37.1% of ODA for DRM from ATI development partners addressed gender equality as a significant objective, while only 2.2% addressed it as a principal objective, and 58.8% did not target gender equality.



ATI Commitment 2

ATI partner countries increased their average tax-to-GDP ratio marginally to 15.5% in 2019, up from 15.4% in 2018 and 14.7% in 2016. Amongst the 21 countries for which there is data comparing tax-to-GDP ratios during 2015-2019, 14 (up from 13 in 2018) have increased their tax-to-GDP ratios since 2015, including five (down from seven in 2018) by 1-2 percentage points and six (up from three in 2018) by more than 2 percentage points. Taxes on goods and services made the biggest (albeit a declining) contribution to tax revenues (43.9% of the total) for ATI partner countries in 2019, with the second most significant being taxes on income, profits and capital gains, which increased in significance to 37.1% of the total. Taxes on international trade and transactions continued to decline in importance (to 15% in 2019).

Amongst ATI partner countries, 19 have formally applied the Tax Administration Diagnostic Assessment Tool (TADAT), with no additional countries having done so since last year's report. An

additional two ATI partner countries undertook full Public Expenditure and Financial Accountability (PEFA) assessments in the last year, bringing the total that have done so to 19. Although ATI partner countries have been making progress in improving the transparency of the strategies and plans of their tax administrations, progress in transparency related to service delivery standards and results of tax administrations has stagnated. The transparency of tax expenditures in ATI partner countries has been growing slowly, but from a low base. ATI partner countries also face continued challenges in improving the progressiveness of their tax structures and the impact of their tax collection on inequality.



ATI Commitment 3

A growing number of ATI members seems to be engaging with international initiatives aiming to address challenges related to tax evasion and avoidance, and these initiatives are feeding into the policy and legal reforms of development partners. However, many partner countries are struggling to fully engage with and operationalise the agreements emerging from these initiatives, which heightens the risk that better resourced and more powerful countries keep most benefits.

There are signs that ATI development partners are working to better address the challenges Double Taxation Agreements pose for efforts to expand DRM. Partner countries are also placing increasing emphasis on developing strategic approaches to DTAs and assessing the use of tax incentives to promote investment. Efforts to link fiscal policy to green growth challenges are also becoming more prominent, with tax incentives being used to promote renewable energy generation and reduce the use of fossil fuels and environmental degradation.

ATI Commitment 1

“ATI development partners commit to collective double technical co-operation in the area of domestic revenue mobilisation (DRM) by 2020.”

Introduction

This section presents progress against Commitment 1 of the Addis Tax Initiative (ATI). The analysis is based on data reported by the 20 ATI development partners. The starting point is data reported by development partners to the OECD Development Assistance Committee (DAC) on official development assistance (ODA) disbursements and commitments in support of domestic revenue mobilisation (DRM), reported under purpose code 15114 of the OECD DAC Creditor Reporting System (CRS). For the purposes of producing this report, however, ATI development partners are invited to further review this data in order to ensure its completeness.¹

The aim of ATI Commitment 1 is to help realise the commitment made by development partners through the Addis Ababa Action Agenda (AAAA) to increase support for partner countries in the area of DRM, which was agreed upon at the Third International Conference on Financing for Development in 2015 (see box 1 below). ATI members recognise that DRM is the most reliable and sustainable source of finance which can support national development. ATI development partners have committed to collectively double their ODA to partner countries to support their DRM efforts by 2020.²

The AAAA sets out a global framework for financing the Sustainable Development Goals (SDGs), and includes a strong emphasis on DRM, as detailed below:

“We recognize that significant additional domestic public resources, supplemented by international assistance as appropriate, will be critical to realizing sustainable development and achieving the sustainable development goals. We commit to enhancing revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection. We will work to improve the fairness, transparency, efficiency and effectiveness of our tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances. In this regard, we will strengthen international cooperation to support efforts to build capacity in developing countries, including through enhanced official development assistance.” (UN 2015, paragraph 22)

Box 1: The AAAA and DRM

¹ In relation to ODA for DRM in 2019, 14 ATI development partners validated their data, following which 11 of them adjusted their original reporting. Most of these development partners made very minor adjustments, although the European Union (EU) institutions made very significant adjustments and the United Kingdom (UK) made modest adjustments. These adjustments are described in more detail in the report, and the amended dataset underlying this analysis can be found [online](#).

² Most providers have expressed a commitment to double their support, while others, some of whom already have large portfolios, have emphasised that they will increase their support substantially.

The baseline year for this commitment is 2015, which is when the ATI was launched and the commitment first made. The baseline level of ODA for DRM (based on reporting by ATI development partners for 2014³ and 2015⁴) is USD 220.56 million in terms of gross disbursements and USD 187.54 million in term of commitments. Consequently, the ATI development partners will collectively need to increase their ODA for DRM to USD 441.12 million in gross disbursements and USD 375.08 million in commitments by 2020 in order to fulfil the ATI Commitment 1.

Summary of findings

For ATI development partners, gross ODA disbursements for DRM totalled USD 373.6 million and gross ODA commitments for DRM totalled USD 396.1 million in 2019. In the case of disbursements, this level represented an increase of just 0.3% compared to 2018, with commitments falling by 25.9% compared to 2018. Overall, compared to the 2014/15⁵ ATI baseline, ODA disbursements for DRM from ATI development partners have increased by 69%, and their ODA for DRM commitments have increased by 111%.

With the virtual stagnation in their ODA for DRM in 2019, ATI development partners have moved off-track in meeting their collective commitment to double ODA for DRM by 2020. Meeting this commitment will require ATI development partners to increase their ODA for DRM by USD 67.6 million or 18.1% in 2020.

In 2019, only USD 3.25 million (or less than 1%) of total disbursements of ODA for DRM from ATI development partners were provided in the form of loans, as compared to 17% in 2018. Disbursements of grant ODA from ATI development partners therefore increased from USD 307.2 million in 2018 to USD 370.3 million in 2019, representing an increase of 20.5%.

ODA disbursement for DRM from ATI development partners became more concentrated in 2019 compared to previous years. The 10 largest recipients of grant ODA disbursements for DRM from ATI development partners in 2019 – Afghanistan, Tunisia, Niger, Somalia, Ghana, Mali, Libya, Benin, Rwanda, and Tanzania (in order of significance, from largest recipient) – received 40% of the total, up from 34% in 2018. Only two of these countries – Niger and Libya – were new to the top 10 list across the period 2015-19.

As was the case during 2015-18, sub-Saharan Africa remained by far the largest regional recipient of ODA for DRM from ATI development partners in 2019 (34.2% of the total, down from 40.1% in 2018), with other major recipient regions including South and Central Asia (16.6% of the total, up from 12.5% in 2018), North Africa (8.3% of the total), the Caribbean (4.2% of the total), and Far East Asia (4% of the total). It is also the case that the Least Developed Countries (LDCs) increased their share of ODA for DRM from ATI development partners to 43.9% of total disbursements (up from 37.6% in 2018), although this support is not spread evenly across LDCs and some are at risk of being neglected. Overall, middle-income countries received a declining share of total ODA for DRM from ATI development partners in 2019.

³ Belgium and the UK apply a baseline of 2014, as ATI development partners were given the option to use this baseline, reflecting the fact that some had made commitments to increasing ODA for DRM in the run-up of the launch of the ATI in 2015.

⁴ The other 18 ATI development partners apply a baseline of 2015.

⁵ Eighteen ATI development partners use 2015 as their baseline, with the remaining two development partners – Belgium and the UK – using 2014. The total baseline figure is therefore the sum of the individual 2014 or 2015 baseline figure for these development partners.

As noted, ATI development partners need to increase their ODA for DRM by USD 67.6 million in 2020 in order to meet ATI Commitment 1. ATI development partners exceeded this level of annual increase in ODA for DRM in 2016 and 2018, which suggests that meeting their commitment is possible with the required political will. However, delivering these increases in 2020 might have been challenging given that the development community has been responding to urgent needs stemming from the COVID-19 pandemic. Through their responses to the 2019 ATI Monitoring Survey on Commitment 1, three ATI development partners – Denmark, the European Union (EU) institutions, and the United Kingdom (UK) – stated that in 2020 they had reallocated some of their ODA for DRM to the COVID-19 response, although it is possible others will have also done so but did not report it to ATI.

Across other ATI development partners, commitment to achieve a doubling of their official development assistance (ODA) for DRM in 2020 varies significantly. Nine ATI partners already achieved a doubling of their ODA disbursements for DRM (compared to the 2015 baseline) in 2019 – up from six in 2018. In addition, in responding to the 2019 ATI Monitoring Survey, Switzerland stated that it had reached the doubling target in 2020, while Germany and Norway stated that they remained committed to doubling their DRM levels. However, Finland confirmed it would only reach the doubling target in 2022. Sweden stated that it did not meet the doubling target in 2020 (although it increased its ODA for DRM), and the United States of America (USA) stated that its ODA for DRM remained at around 2019 levels in 2020.

Methodology of the 2019 ATI Monitoring on Commitment 1

The monitoring of ATI Commitment 1 is primarily based on data on official development assistance (ODA) collected and published by the OECD's DAC under the CRS. The CRS database is the unique source for official, standard and comparable statistics on ODA, including support for DRM, with data collection from DAC members based on a standard methodology and agreed definitions.

The monitoring exercise focuses on disbursements and commitments of ODA. ODA commitments usually vary considerably from year to year but provide a good proxy for ODA pledges made and reflect development partners' funding intentions. ODA disbursements, on the other hand, record the actual international transfer of ODA in the respective year and therefore provide a more concrete measure of the ODA efforts made by development partners. Data on disbursements of ODA for DRM quoted in this report is largely reported on a "gross" basis, i.e. without taking into account any reflows – e.g. loan repayments or grant recoveries – resulting from these disbursements,⁶ and includes both grants and loans. In contrast to 2018 and 2016, virtually all of the ODA reported by ATI development partners in 2019 was provided in the form of grants.

As part of the monitoring process, ATI development partners were given the opportunity to review and adjust the information they reported to the OECD DAC on ODA in support of DRM. This review and adjustment process is undertaken to permit ATI development partners to update the data provided via the OECD DAC CRS database. ATI development partners may need to make adjustments, either because they have not correctly applied the regulations for reporting ODA for

⁶ Where ODA flows are reported net of reflows from loan repayments or recoveries from grants, this is referred to as "net" ODA.

DRM⁷ or because they account for parts of their ODA for DRM through approaches outside of the CRS (as is the case for the EU Institutions⁸). Fourteen⁹ of the 20 ATI development partners formally verified their ODA for DRM data during this process, with 11¹⁰ of them making adjustments to the data they had initially reported to the OECD DAC. The final data reported by ATI partners through this process is then compiled into a database and used for the analysis in this report; this database can be accessed [here](#).

In addition to reviewing their CRS data, the ATI development partners were sent a survey with four questions on their support for DRM, which 13¹¹ of the 20 ATI development partners completed. The first question requested information on their 2019 portfolio and the future outlook for such support; the second concerned changes in their DRM support strategies; the third invited them to assess the likelihood of fulfilling ATI Commitment 1 by 2020 and to comment on their efforts to reach this goal; and the fourth asked for examples of success stories from their support for DRM.

More detailed information about the ATI monitoring exercise can be found [here](#).

Reporting for the 2019 ATI Monitoring of Commitment 1

The ATI dataset for 2019 (as of July 2020) contained 857 entries (compared to 868 in 2018 and 474 in 2015) for projects funded by ATI development partners in support of DRM efforts in partner countries, amounting to USD 373.6 million in gross disbursements and USD 396.1 million in commitments. During the data validation process, 11 ATI development partners reported adjustments to their data for 2019.

The guidelines for the OECD DAC's CRS define purpose code 15114 as "support to domestic revenue mobilisation/tax policy, analysis and administration as well as non-tax public revenue, which includes work with ministries of finance, line ministries, revenue authorities or other local, regional or national public bodies"(OECD-DAC 2020).

There are also a number of voluntary sub-codes for development partners to apply in reporting ODA for DRM, which include: 15116 (tax collection), 15155 (tax policy and administrative support), and 15156 (other non-tax revenue administration). However, development partners do not consistently report against these voluntary purpose codes, and

Box 2: Definition of ODA purpose code 15114 and donor practices in its reporting

⁷ These regulations were introduced in 2015 and require OECD DAC members to report their ODA for DRM under purpose code 15114 in the CRS. However, some development partners still report some elements of their DRM under other CRS codes. Therefore, the ATI monitoring process attempts to clarify and correct for these discrepancies through the verification phase of its data gathering.

⁸ In 2019, 63% of the ODA for DRM reported to the ATI by EU Institutions consisted of elements of sector and general budget support programmes judged to be contributing to DRM efforts; in 2019, the EU did not report this ODA through CRS code 15114, and in the case of general budget support programmes, the CRS does not allow for sector classification and reporting of such spending.

⁹ Australia, Canada, Ireland, Korea, Luxembourg, and Slovakia did not formally verify their ODA for DRM data. For these countries, the ODA for DRM data they reported to the OECD DAC was used for the analysis.

¹⁰ Belgium, the EU institutions, Finland, Germany, Italy, the Netherlands, Slovenia, Sweden, Switzerland, the UK, and the USA.

¹¹ Including Belgium, Denmark, the EU institutions, Finland, France, Germany, Italy, Norway, Slovenia, Sweden, Switzerland, the UK, and the USA.

Amongst the ATI development partners, those making the largest number of changes to their reporting of DRM projects for 2019 were the EU institutions (added 176 projects, removed 2 projects¹²), the UK (added 9 projects) and the Netherlands (added 3 projects). In total, ATI development partners requested that an additional 198 projects were reported as supporting DRM over and above those already reported through the OECD DAC's CRS, and two projects already reported through the CRS were removed from the data (by the EU institutions). The ATI has encouraged development partners to share these reporting changes with the OECD DAC retrospectively in order to improve the completeness of their reporting of ODA-funded DRM activities.

The data underlying Commitment 1 of this ATI Monitoring Report can be accessed [here](#).

Findings

**USD 373.6
million**

*were disbursed by ATI
development partners as
ODA for DRM.*

Overall flows of ODA for DRM from ATI development partners to partner countries

In 2019, levels of gross ODA disbursed by ATI development partners for DRM reached USD 373.6 million, representing an increase of just USD 1 million (or 0.3%) compared to 2018 and an increase of USD 153 million (or 69%) compared to the 2015 baseline. This level is marginally below the peak achieved in 2016 (when the total reflected some substantial loan-financed projects).

This level of performance means that ATI development partners have strayed off-track in achieving their 2020 target to double ODA for DRM (see figure 1 below). As a result, in 2020, ATI development partners will need to increase their annual levels of gross ODA disbursements for DRM by USD 67.7 million (or 18.1%) over 2019 levels if they are to achieve ATI Commitment 1.

In 2019, only USD 3.25 million¹³ (or less than 1%) of gross ODA disbursements for DRM from ATI development partners were provided in the form of loans, down from USD 65.3 million (or 17% of the total) in 2018. As a result, in 2019, grant ODA disbursements for DRM from ATI development partners increased by USD 63 million (or 20.5%) from 2018 levels (USD 307.2 million), to reach USD 370.3 million, their highest level ever.

In 2019, ODA commitments by ATI development partners to support DRM reached USD 396.1 million, representing a decrease of 25.9% compared to 2018, but remaining 111% above 2015 baseline levels. Gross ODA disbursements for DRM were therefore 94% of the committed levels in 2019, a figure comparable to the period 2015-17, and far above that from 2018 (when only 70% of committed funding was disbursed). This suggests that the predictability of ODA for DRM from ATI development partners against annual commitments improved in 2019.

¹² These reporting changes led to the level of ODA for DRM reported by the EU institutions to increase from USD 13.4 million (value reported to the OECD DAC under the CRS purpose code 15114) to USD 110.08 million (the value of its relevant spending stated in this report).

¹³ This consisted of one loan provided by South Korea for a project in Laos.

ATI development partners move off-track to deliver on the doubling target, with significant increases required in 2020

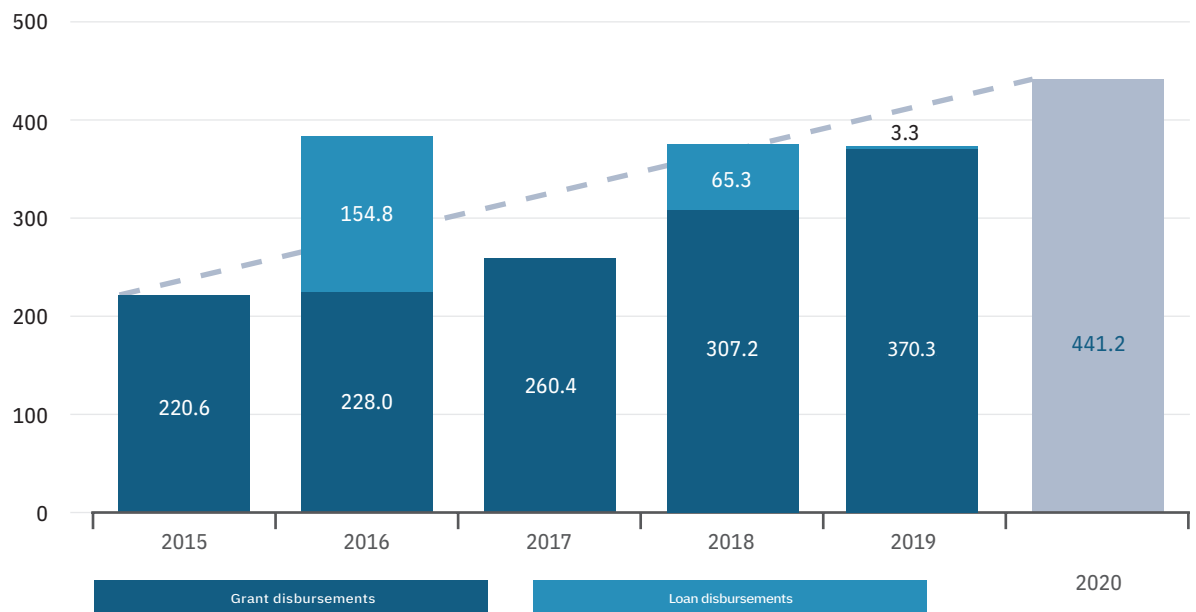


Figure 1: Gross ODA disbursements for DRM, 2015-2019, and in comparison to the 2020 target (USD millions)

Source: ATI database on ODA for DRM.

Note: The 2015 total includes 2014 disbursement figures for Sweden and the UK (which apply a 2014 baseline).

ODA for DRM commitments from ATI development partners in 2019 were more than double their level in 2015, but fell by 25.9% compared to 2018

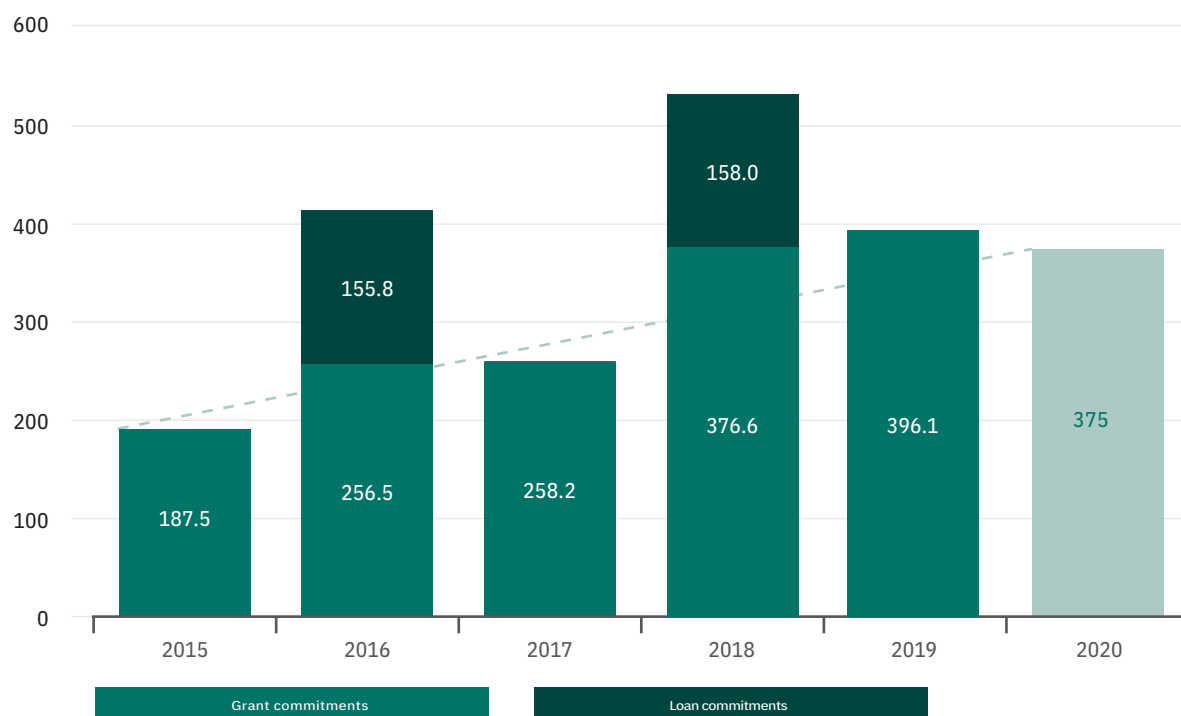


Figure 2: ODA commitments for DRM, 2015-2019, and in comparison to the 2020 target (USD millions)

Source: ATI database on ODA for DRM.

Note: The 2015 total includes 2014 commitment figures for Sweden and the UK (which apply a 2014 baseline).

In 2019, gross ODA disbursements in support of DRM by ATI development partners accounted for 98.3% of total gross ODA disbursements for DRM reported by all OECD DAC donors under CRS purpose code 15114. This share is notably higher than in 2018 (92.5%) and 2017 (93.1%), and comparable to levels in 2016 (98.0%) and 2015 (97.7%). Development partners that reported DRM projects under CRS purpose code 15114 and are not ATI members are Austria, Hungary, Japan, and Spain.

Trends in ODA for DRM across ATI development partners

Disbursements

Amongst individual ATI development partners in 2019, the EU institutions accounted for the highest level of gross ODA disbursements for DRM (USD 110.1 million¹⁴) for DRM, followed by Germany (USD 52.2 million), the UK (USD 44 million), and the USA (USD 36.2 million). Since 2015, the EU institutions have been the largest contributors of ODA to support DRM.

The highest absolute increase in gross ODA disbursements for DRM by an individual ATI development partner since the 2015 baseline was reported by the EU institutions (USD 64.1 million), followed by Germany (USD 20.8 million) and Norway (USD 20.4 million). In percentage terms, the highest recorded increase in gross ODA disbursements for DRM over the period 2015-19 was reported by Luxembourg (369%), followed by the Netherlands (167%) and Norway (148%). As of 2019, nine ATI development partners¹⁵ doubled their ODA for DRM as compared to their 2015 baseline figure, and another two¹⁶ achieved an increase of more than 80%.

On the other hand, some ATI development partners have seen declines in their support for DRM since 2015. Three ATI development partners had lower levels of gross ODA disbursements for DRM in 2019 than they had in 2015 – Belgium (USD 0.61 million, or 23%, lower than 2015), Slovakia (USD 0.02 million, or 86%, lower than 2015) and the USA (USD 0.19 million, or 0.5%, lower than in 2015).

Commitments

Amongst individual ATI development partners, the most significant ODA commitments for DRM in 2019 were reported by the EU institutions (USD 108.1 million¹⁷), Germany (USD 64.5 million), and Norway (USD 57.5 million).

The highest absolute increases in gross ODA commitments for DRM by an individual ATI development partner during 2015-19 were reported by the EU institutions (USD 65.2 million), Norway (USD 43.4 million), and Germany (USD 32.8 million). In percentage terms, the largest increases in ODA commitments for DRM over the period 2015-19 have been reported by South Korea (2032%), Slovakia (1228%), and Luxembourg (369%).

The highest absolute decreases in ODA commitments for DRM during 2015-19 were reported by Sweden (a reduction of USD 3.4 million), Switzerland (a reduction of USD 3.3 million), and Belgium (a reduction of USD 2.7 million). In percentage terms, the largest decreases in ODA commitments for DRM during 2015-19 were also reported by Belgium (-100%), Sweden (-90.3%), and Switzerland (-42.4%).

¹⁴ Of this ODA, 63% was reported in the form of budget support indicators, a portion of which is general budget support (in addition to sector budget support); it is important to note that the OECD-DAC CRS does not allow for sector classification and reporting of general budget support).

¹⁵ Australia, Denmark, the EU institutions, France, Ireland, Korea, Luxembourg, the Netherlands, and Norway.

¹⁶ Sweden (89.1%) and Switzerland (89.5%).

¹⁷ See footnote 15.

Future outlook

Although nine ATI partners already achieved a doubling of their ODA disbursements for DRM (compared to the 2015 baseline) in 2019 – up from six in 2018 – the virtual stagnation in overall levels of ODA for DRM from ATI development partners poses a significant challenge for achieving the ATI target in 2020. The level of annual increase required – USD 67.7 million – has previously been achieved in 2016 and 2018 (albeit with the help of loans in both cases), which demonstrates that ODA allocation processes can allow for such annual increases.

Nevertheless, it is the case that ATI development partners have faced numerous challenges with their aid programmes as a result of the COVID-19 pandemic in 2020, which are likely to have affected DRM programmes. In some cases, donors have redirected assistance (permanently, or temporarily with projects delayed) from DRM programmes to respond to COVID-19 emergency needs, and in other cases the implementation of DRM programmes has been slowed or paused due to the challenging operating environment caused by the pandemic. In their responses to the 2019 ATI Monitoring Survey, three development partners – Denmark, the EU institutions, and the UK – indicated that they reduced their support for DRM in 2020 in order to redirect funding to the COVID-19 response, with Denmark noting it would be cutting its support for DRM by 86%. Sweden also stated that, although it expected to increase its ODA for DRM in 2020, it would not meet the doubling commitment. The USA stated that its ODA for DRM would remain at around 2019 levels in 2020. Finally, Finland confirmed it was planning to meet the doubling target only in 2022.

On the positive side, France stated that, on the basis of a new DRM strategy agreed in mid-2020, it plans to increase its ODA for DRM over the coming years. Switzerland stated that it met the doubling target in 2020, and Germany and Norway stated that they remained committed to the doubling target.

Of the 20 ATI development partners, 11 increased their disbursements of ODA for DRM in 2019 and nine already achieved a doubling of their ODA for DRM during 2015-19

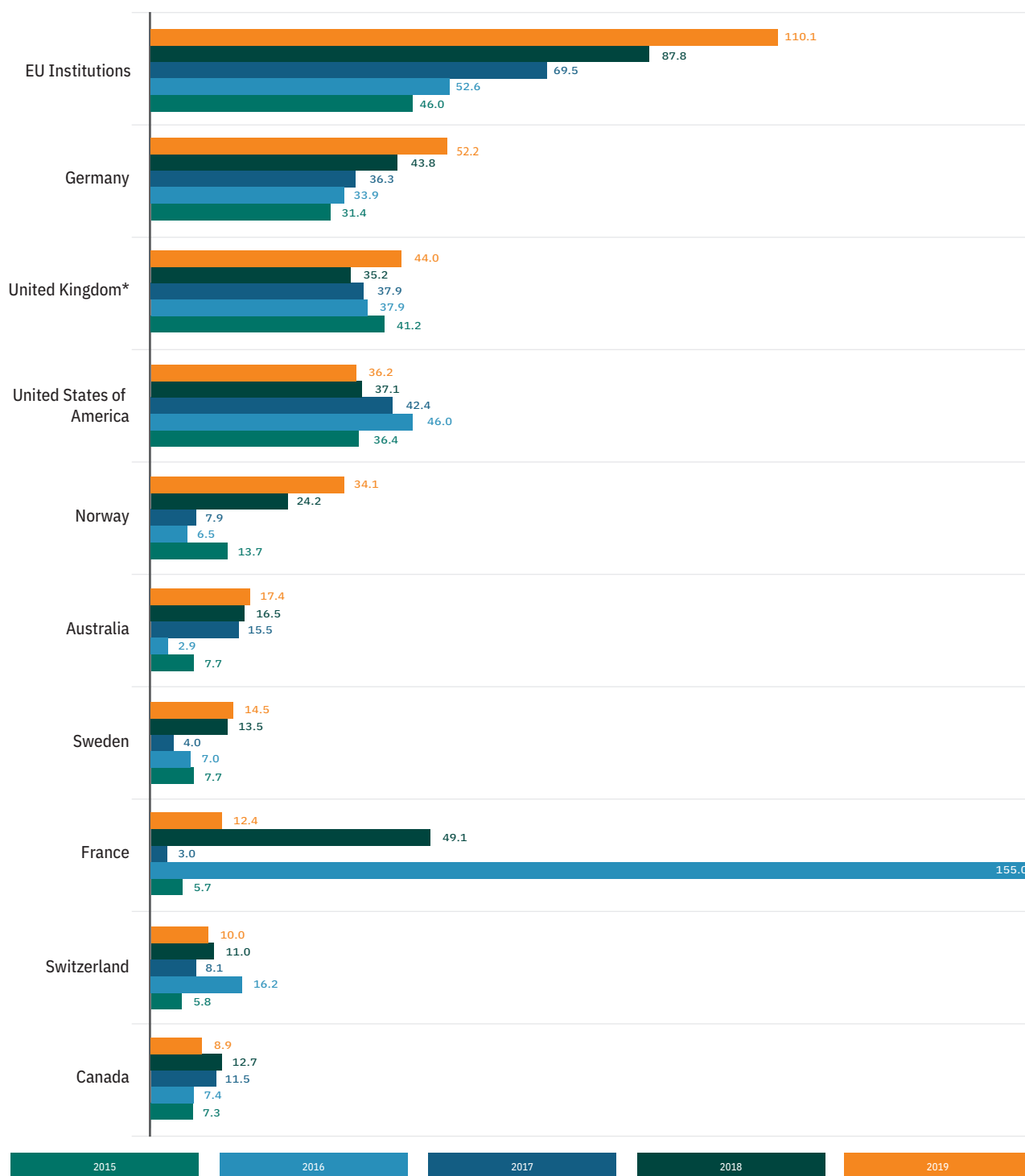


Figure 3: ATI development partners' support to DRM (gross disbursements, USD millions, 2015-19)

Source: ATI database on ODA for DRM.

*Note: Belgium and the UK apply a 2014 baseline, so their figures for 2015 are based on reporting for 2014.

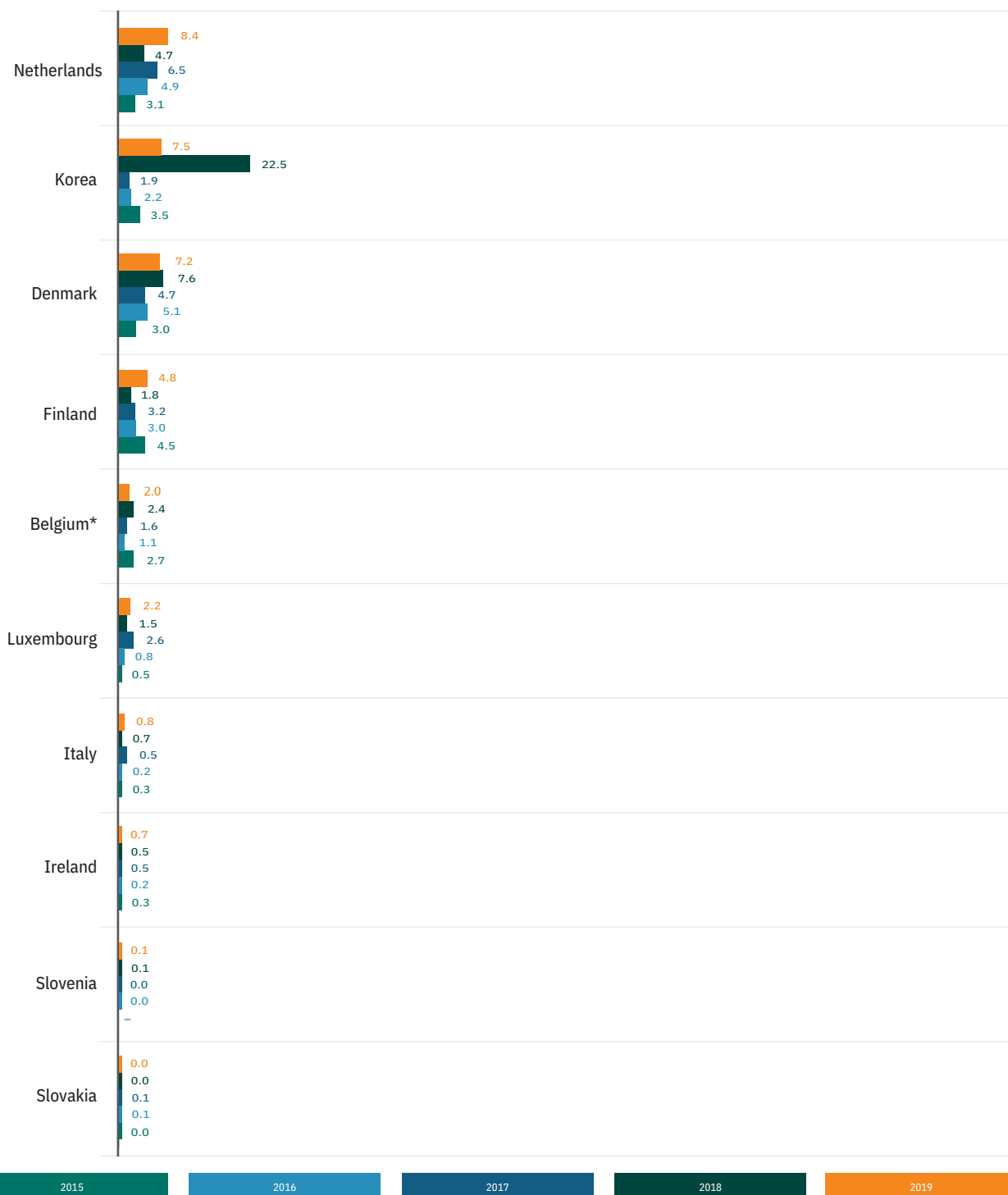


Figure 3 (cont.): ATI development partners' support to DRM (gross disbursements, USD millions, 2015-19)

Source: ATI database on ODA for DRM.

*Note: Belgium and the UK apply a 2014 baseline, so their figures for 2015 are based on reporting for 2014.

Of the 20 ATI development partners, 10 increased their commitments of ODA for DRM in 2018 they committed and seven exceeded their commitments

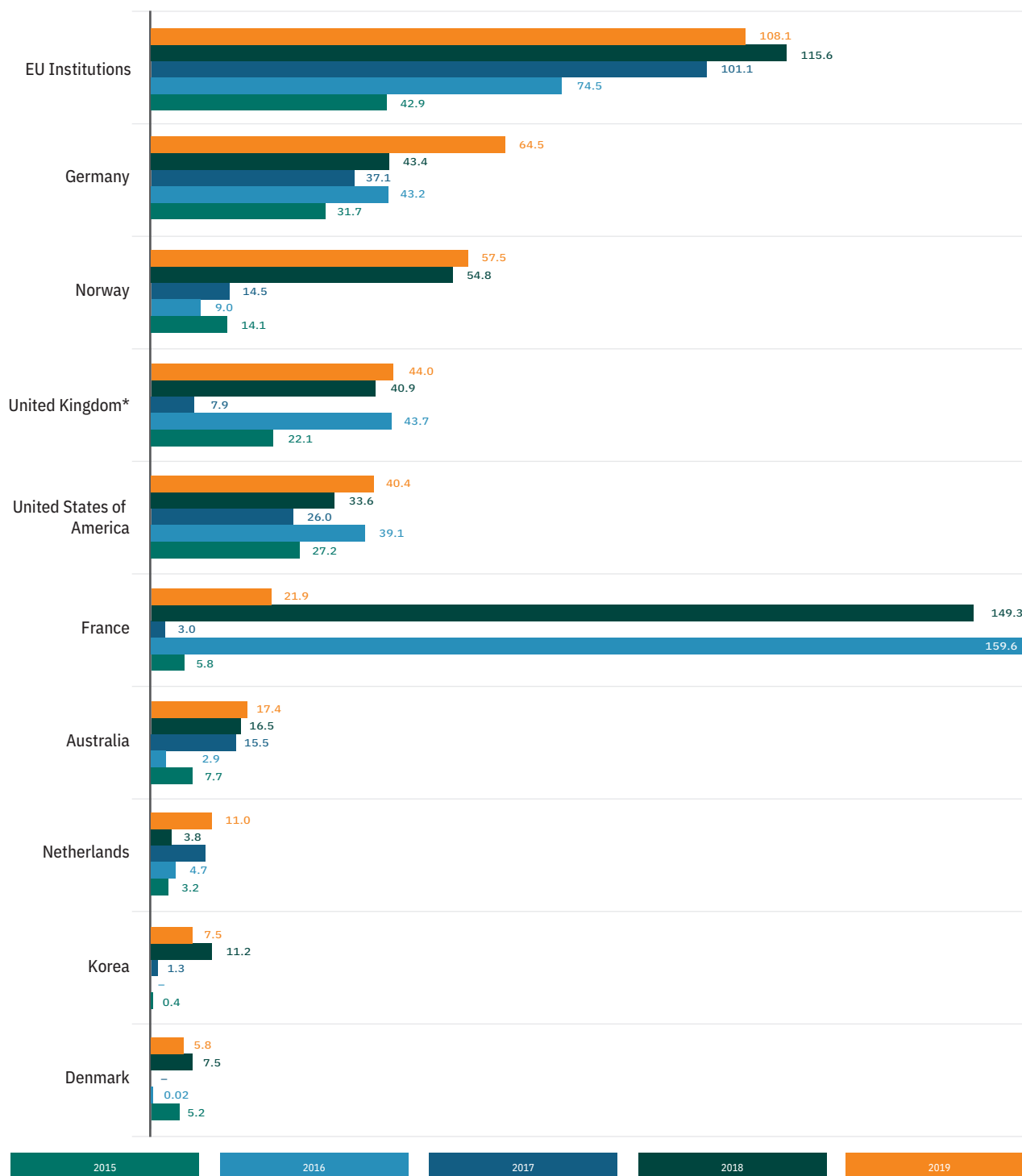


Figure 4: ATI development partners' support to DRM (gross commitment, USD millions, 2015-19)

Source: ATI database on ODA for DRM.

*Note: Belgium and the UK apply a 2014 baseline, so their figures for 2015 are based on reporting for 2014.

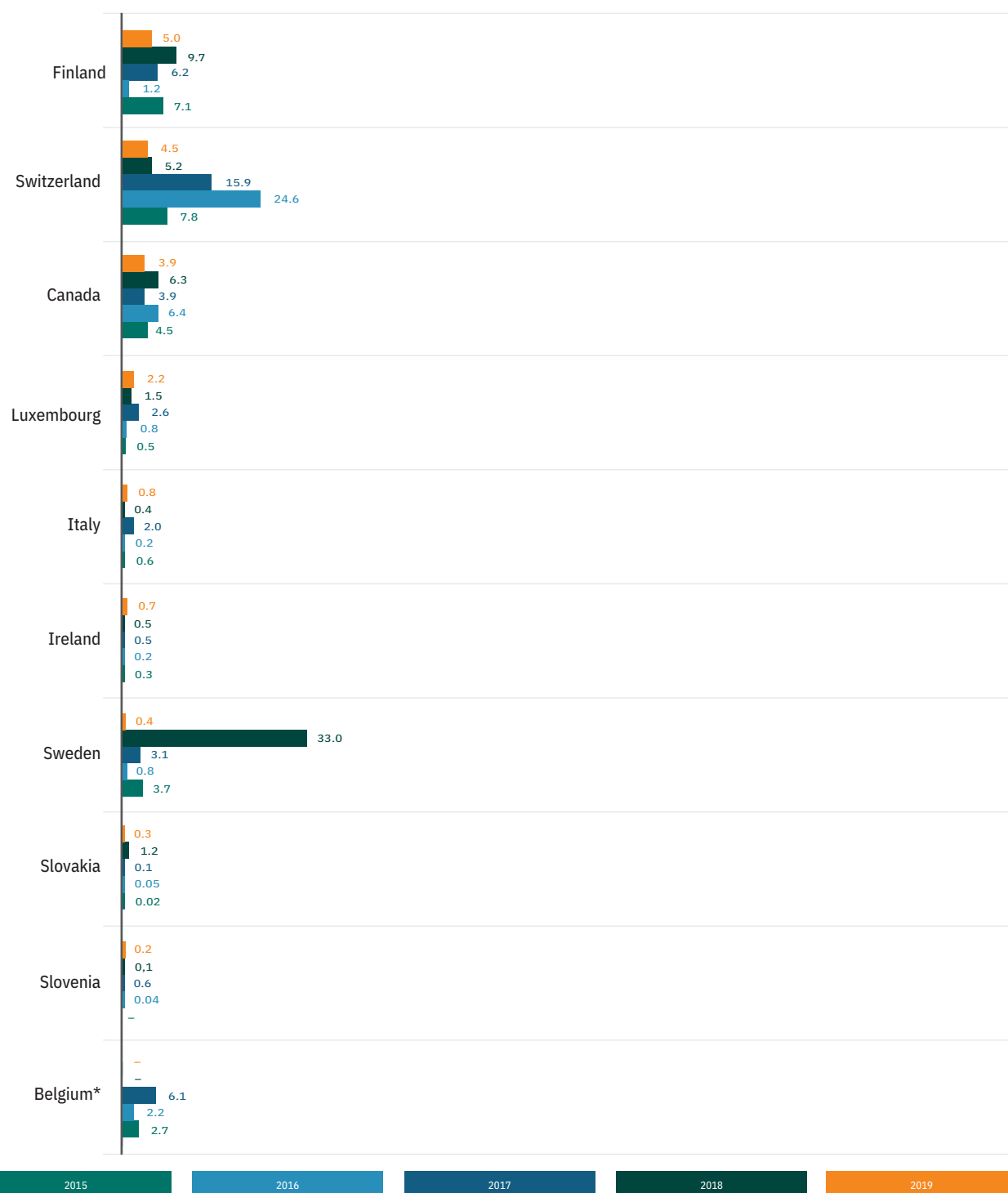


Figure 4 (cont.): ATI development partners' support to DRM (gross commitment, USD millions, 2015-19

Source: ATI database on ODA for DRM.

*Note: Belgium and the UK apply a 2014 baseline, so their figures for 2015 are based on reporting for 2014.

Insights on the evolving strategic, policy and programmatic approaches to DRM of ATI development partners

This section presents some insights from individual ATI development partners on the characteristics of their portfolio of DRM programmes and the major strategic, policy and programmatic developments in relation to their support for DRM. These insights are based on responses to the 2019 ATI Monitoring Survey on Commitment 1, and therefore focus on the 13 development partners that responded to the survey.

Australia

Australia provides ODA for DRM through supporting a number of multilateral channels (including IMF and World Bank trust funds, and the OECD), as well as through bilateral programmes. Australia's main bilateral programmes are implemented by the Australian Taxation Office (ATO). In 2019, the ATO managed DRM support programmes in Indonesia (supporting the modernisation of the tax system and administration), Papua New Guinea (supporting the Internal Revenue Commission to address IMF reform recommendations) and the Philippines (on Automatic Exchange of Information, alongside the OECD and the Asian Development Bank).

Belgium

Belgium puts a significant emphasis on supporting multilateral initiatives responding to DRM challenges, including the IMF's Revenue Mobilisation Thematic Fund (RMTF), the World Bank's Extractives Global Programmatic Support (EGPS), and the Extractive Industries Transparency Initiative (EITI). The Belgian Government is in the process of preparing new multiannual commitments for the RMTF, EGPS and EITI, with the aim of further increasing its support to DRM. Another key element of Belgium's support for DRM is its programme of capacity development activities, which are implemented by the Belgian Federal Public Service Finance, focussed on countries such as Benin, Côte d'Ivoire and Malaysia.

Denmark

In 2019, Denmark made a new commitment of approximately USD 2.2 million to the IMF RMTF as well as a new commitment of approximately USD 3 million to the Global Tax Program of the World Bank. One of Denmark's longest-standing DRM partnerships is in Tanzania, where it has been providing support in this area since 1998. In this country, its most recent programmes of support have contributed to the broadening of the tax base from 1.02 million registered taxpayers in 2016/17 to 3.2 million in 2019/20 and helped to increase revenue collection by 88% during 2013/14 to 2017/18. In addition, it also committed approximately USD 0.5 million to the Ghana Integrity Initiative. However, Denmark's support for DRM was cut by 86% in 2020 to approximately USD 1 million due to reallocations made to the aid budget to respond to the COVID-19 pandemic.

EU institutions

The EU provides support for DRM through a very wide range of channels, including global DRM initiatives (such as IMF trust funds, the Public Expenditure and Financial Accountability assessment (PEFA), the Tax Administration Diagnostic Assessment Tool (TADAT), the OECD Global Fo-

rum, revenue statistics, and the UN Tax Committee), regional initiatives (such as IMF Regional Technical Assistance Centres, a pan-African programme on illicit financial flows or the support to fiscal transition in West Africa), and bilateral programmes, which makes up the biggest part of the provided support. In 2019, the EU supported DRM activities in at least 57 partner countries. It provided support to partner countries through projects and budget support operations, the latter increasing to 63% of its total ODA disbursements for DRM (its highest level to date).

Finland

In 2019, Finland began drafting a new *Taxation for Development Action Programme* covering the period 2020-2023. Launched in 2020, this programme shifts the regional focus of Finland's DRM support to Africa and aims to guide an increase in Finland's ODA for DRM in order to achieve the doubling target by 2022. The programme focuses on three main pillars: strengthening the taxation capacity of partner countries; ensuring the tax responsibility of companies supported with development cooperation funding; and enhancing and better recognising the position of partner countries in international tax policy.

France

France has supported the OECD's Tax Inspectors Without Borders (TIWB) initiative since it was established. It has recently scaled up its support for this initiative and deployed experts in Cameroon, Central African Republic, Chad, Congo, Madagascar, and Mali, to develop local skills and strengthen expertise in the field of tax auditing. In June 2020, France launched a new inter-ministerial strategy of *"Support for improved domestic resource mobilisation in developing economies"*.

Germany

Germany's ODA for DRM in 2019 funded 54 projects, 51 of which were bilateral and regional programmes implemented directly by German development cooperation agencies, while three projects were implemented through global bodies supporting DRM efforts. Of the 54 projects supported in 2019, 37 were implemented in support of African partner countries. Germany also contributes to the international tax agenda through financial support to the secretariats of a number of relevant international organisations, including the ATI, the Network of Tax Organisations (NTO), regional organisations and multilateral trust funds (e.g. the IMF's Revenue Mobilisation Thematic Fund and African Regional Technical Assistance Centres), as well as the OECD Tax and Development Programme.

Italy

Italy's largest allocation in financial terms (USD 0.42 million, half the total) in 2019 was its contribution to the World Customs Organization's Customs Co-operation Fund, which will support the delivery of technical assistance and capacity building to developing countries on customs systems. Italy's other notable allocations include its annual contributions to the Inter-American Center of Tax Administrations (CIAT) and the OECD Global Relations Programme on Taxation; its support through the EU to Moldova providing technical assistance to harmonise border control, customs and trade standards with those of the EU; exchanges of experience with Cuba (local taxation) and China (environmental taxation); its support by the Italian Revenue Authority to Armenia to address transfer pricing, aggressive tax planning and tax fraud in the framework of the

Tax Inspectors Without Borders; and the hosting of tax administrations from North Macedonia and Azerbaijan to exchange experiences and knowledge. Furthermore, Italy contributed to various training programmes for fighting against illicit financial flows and financing of terrorism and organised crime both at the International Academy for Tax Crime Investigation in Rome and in developing countries (Sudan, Guinea, Ethiopia, Uganda, Nigeria, Argentina).

Norway

In 2019, Norway provided significant support to multilateral initiatives supporting DRM efforts, including to the OECD/G20 Inclusive Framework on BEPS (Base Erosion and Profit Shifting), Tax Inspectors Without Borders, and the African Tax Administration Forum (ATAF). During 2020, the Norwegian development assistance in support of DRM has had to adjust to the challenging context of the COVID-19 pandemic, with its technical assistance programmes having to move from providing access to experts, to engaging through digital training and capacity building support.

Slovenia

Slovenia's bilateral support for DRM remains request-based and is provided mostly in the form of study visits. Only one such visit took place in 2019, involving capacity building for the Economic Community of West African States (ECOWAS) in Macroeconomic Fiscal Modelling, including DRM aspects. Slovenia's multilateral support for DRM focuses on providing assistance to the Center of Excellence in Finance (CEF), an international organisation based in Slovenia and ATI supporting organisation, which aims to strengthen the capacity of finance officials in South East Europe through training and courses.

Sweden

There were no changes in Sweden's strategic approach in relation to the support to DRM in 2019. The portfolio continues to include support to programmes implemented by multilateral (including the OECD/G20 Inclusive Framework on BEPS) and civil society partners. The Swedish Tax Agency is the implementing partner for a number of mostly bilateral technical assistance programmes with its sister organisations in countries in Africa, Asia, Central and Eastern Europe and Latin America. The selection of partner countries continues to be based on DRM being given priority in a *Swedish Development Cooperation Strategy*, and on the basis of demand from a developing country.

Switzerland

In 2019, Switzerland supported DRM through a range of global programmes (the World Bank's Global Tax Program (GTP), the IMF's Managing Natural Resource Wealth Trust Fund and Revenue Mobilisation Thematic Fund, the Extractive Industries Transparency Initiative (EITI), and the OECD Centre for Tax and Policy Administration), regional programmes (CIAT and ATAF), and bilateral programmes (delivered mainly through a single-donor Trust Fund with the World Bank's GTP, through an IMF sub-account, as well as bilateral programmes in Ghana, Peru, and Burkina Faso). In 2020, Switzerland adjusted some of its DRM projects in order to support partner countries to manage the revenue mobilisation issues raised by the COVID-19 pandemic, which included supporting a second pillar in the World Bank's GTP programme focussing on relevant fiscal adjustments.

United Kingdom

In 2019, the UK Foreign, Commonwealth and Development Office (FCDO) established a tax and development policy portfolio to complement the FCDO's programmatic offer. FCDO's overarching goal is to shift tax and development efforts away from a sole focus on increasing revenues to one which considers both modernisation and equity goals. The policy work being carried out aims to highlight key themes which are either under-utilised (wealth taxation, climate taxation, digitisation of revenue authorities) or where ill-conceived tax policies have been pushed through (e.g. when there is no consideration of negative gender impacts of tax reforms or ineffective tax expenditures have been introduced). The FCDO also recruited four tax professionals to take up roles as regional advisers in Asia, Southern Africa, West Africa, and East Africa. The advisers work with FCDO embassies supporting the implementation of bilateral programmes and work closely with the Capacity Building Unit in Her Majesty's Revenue and Customs (the UK's revenue and customs authority), which delivers peer-to-peer capacity building.

United States

In 2019, the United States Agency for International Development (USAID) provided substantial levels of bilateral technical assistance to national tax authorities in ATI (the Philippines, Paraguay) and other (Bosnia, El Salvador, Guatemala, Jordan, Kosovo, Tunisia) partner countries. It also assisted the mobilisation of non-tax revenue (in Bosnia, Libya) and/or more effective mobilisation of local government revenue (in Bosnia, Haiti, Senegal, Tanzania). Most of the larger USAID projects (in El Salvador, Guatemala, Bosnia, Jordan, Tunisia) have been assisting the introduction and improvement of a broad range of information technology functions or applications in the tax administration, while others have focussed more narrowly upon improved e-filing and e-payment systems and their wider adoption by taxpayers (in Liberia, the Philippines) or upon basic billing and collection systems for tax or non-tax revenue (in Libya, Paraguay).

Case study 1: Norway's work to enhance DRM in partner countries

Norway is a founding member of the ATI and has a long-standing commitment to support the mobilisation of domestic revenues in partner countries. Initially established in 2011, Norway's Tax for Development (TFD) programme gained traction when it was later revived by the government as a response to the Addis Ababa Action Agenda on Financing for Development (AAAA). This increased emphasis on policy and strategy on DRM issues helped to facilitate a significant increase in Norway's ODA for DRM, which amounted to USD 35 million in 2019, more than double its 2015 baseline figure.

In 2020, the Norwegian Government introduced a new Tax for Development (TFD) Strategy, covering the period 2020-2025. In designing this strategy, it drew on conclusions from institutional cooperation on tax administration during the period 2011-2015. These conclusions included an emphasis on the need for engagement from leadership in partner institutions, the value of practical 'shoulder-to-shoulder' cooperation, and the importance of pre-studies and diagnostics. At the portfolio level, the Government also highlighted the benefits of using a mix of actors and channels to deliver programmes, such as through bilateral, multilateral, civil society, and research institutions.

The TFD programme is currently working with 21 partners in 68 countries to support tax systems changes. The overall goal of the programme is to enable developing countries to increase finance for national development goals and the SDGs through increased tax revenue and strengthened social contracts. This goal is supported by two outcome objectives: 1) domestic tax systems in target countries are more efficient and equitable; and 2) global tax collaboration and standards reflect the needs and capacities of developing countries. The outcome objectives are upheld by three strategic pillars: accountability, capacity building and knowledge-based development. Norway's TFD programme also emphasises the value of lessons learnt and includes a learning plan to explore key learning questions as part of the portfolio management procedure.

Recipients countries of ATI development partners' support to DRM

This section sets out an analysis of the pattern of disbursements of ODA for DRM provided by ATI development partners across partner countries. It begins by analysing the pattern of such disbursements in 2019, before exploring their trends across the period 2015-19. In analysing the multi-year trends, data on "grant" ODA is utilised rather than total "gross"¹⁸ ODA disbursed. This is done because in 2016 and 2018 significant ODA "loans"¹⁹ were provided by some ATI development partners to a small group of partner countries, thereby distorting the pattern of disbursements in those years and for those countries. Utilising ODA grants for the analysis therefore provides a more consistent metric on which to compare disbursements across years and countries.

In 2019, at least 107 countries received ODA support for DRM from ATI development partners,

¹⁸ Reporting ODA on a gross basis does not take into account any reflows – e.g. loan repayments – from these disbursements.

In 2016, USD 154.8 million in ODA loans (43% of gross ODA disbursements for DRM to all ATI development partners) were disbursed to two ATI partner countries; in 2018 USD 65.3 million in ODA loans (17% of gross ODA disbursements for DRM to all ATI development partners) were disbursed to three ATI partner countries.

down from 112 in 2018, but above the 98 that received support in 2017. Amongst the recipients in 2019, by far the largest was Afghanistan (USD 50.67 million, or 13.6% of the total), followed by Tunisia (USD 19.15 million), Niger (USD 13.99 million), Somalia (USD 11.82 million), and Ghana (USD 11.33 million). The top 10 recipients of ODA disbursed by ATI development partners to support DRM are listed in Table 1 below. These include four ATI partner countries (Afghanistan, Benin, Ghana, Rwanda), which collectively received 40% of the total ODA, up from 34% in 2018. This suggests an increase in the concentration of ATI development partner support for DRM in 2019.

It is also the case that in 2019 only two countries (Niger, Libya) in the list of the ten largest recipients of ODA for DRM had not been in this list before (during 2015-18), which indicates that in 2019 there was only a limited degree of diversification of these flows.

<i>Recipients</i>	<i>Gross ODA Disbursements, (Millions, USD)</i>
1. Afghanistan*	50.67
2. Tunisia	19.15
3. Niger	13.99
4. Somalia	11.82
5. Ghana*	11.33
6. Mali	10.80
7. Libya	10.07
8. Benin*	8.59
9. Rwanda*	8.52
10. Tanzania*	5.73
<i>Total top 10 recipients</i>	<i>160.25</i>

** ATI partner country*

Table 1: Top 10 recipients of gross ODA disbursements for DRM from ATI development partners, 2019

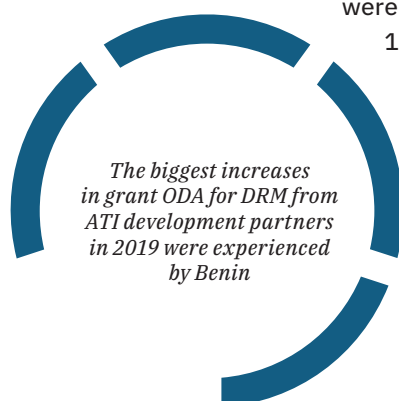
Source: ATI database on ODA for DRM.

ODA for DRM to ATI partner countries

In 2019, USD 132.5 million of the total ODA support for DRM from ATI development partners went to the current group²⁰ of 25 ATI partner countries, down from USD 167.2 million (including USD 48.8 million in loans) in 2018. However, in grant terms, support to this group of countries has increased annually since 2015, expanding by 20.5% in 2019 and by 70% across the period 2015-19.

The ATI partner countries seeing the largest increases (in absolute terms) in grant ODA for DRM from ATI development partners in 2019 included Afghanistan (increased from USD 25.6 million in 2018 to USD 50.7 million in 2019), Rwanda (increased from USD 2.9 million in 2018 to USD 8.5 million in 2019), the Gambia (increased from USD 0.7 million in 2018 to USD 3.4 million in 2019), and Indonesia (increased from USD 3.2 million in 2018 to USD 4.9 million in 2019). The biggest falls (in absolute terms) in grant ODA for DRM from ATI development partners in 2019 were experienced by Tanzania (decreased from USD 17 million in 2018 to USD 5.7 million in 2019), Ghana (decreased from USD 16.6 million in 2018 to USD 11.3 million in 2019), and Sierra Leone (decreased from USD 4.5 million in 2018 to USD 2.1 million in 2019).

Comparing average levels of ODA for DRM received during 2018-19 and 2015-16²¹, the biggest increases (in absolute terms) in grant ODA for DRM from ATI development partners in 2019 were experienced by Benin (from an annual average of USD 1.5 million during 2015-16 to USD 9 million during 2018-19), Afghanistan (from an annual average of USD 9.1 million during 2015-16 to USD 14 million during 2018-19), and Burkina Faso (from an annual average of USD 1 million during 2015-16 to USD 5.1 million during 2018-19). The biggest falls (in absolute terms) in grant ODA for DRM from ATI development partners over this period were experienced by the Philippines (from an annual average of USD 11.3 million during 2015-16 to USD 1.7 million during 2018-19), Pakistan (from an annual average of USD 9.2 million during 2015-16 to USD 4.4 million during 2018-19) and Kenya (from an annual average of USD 6.5 million during 2015-16 to USD 2.3 million during 2018-19).



²⁰ The number of partner countries which have formally been members of the ATI has increased over time, with 19 countries members in 2015, 21 countries members in 2016, 23 countries members in 2017 and 25 countries members in 2018 and 2019.

²¹ Averages across two years are used in order to partially control for any anomalies in received levels of ODA in individual years.

Of the 25 ATI partner countries, 12 received increased levels of ODA for DRM in 2019 with three of them (Afghanistan, Rwanda, the Gambia) seeing increases of at least USD 2 million; meanwhile, 12 ATI partner countries received decreased levels of ODA for DRM in 2019, with three of them (Tanzania, Ghana, Sierra Leone) seeing decreases of at least USD 2 million

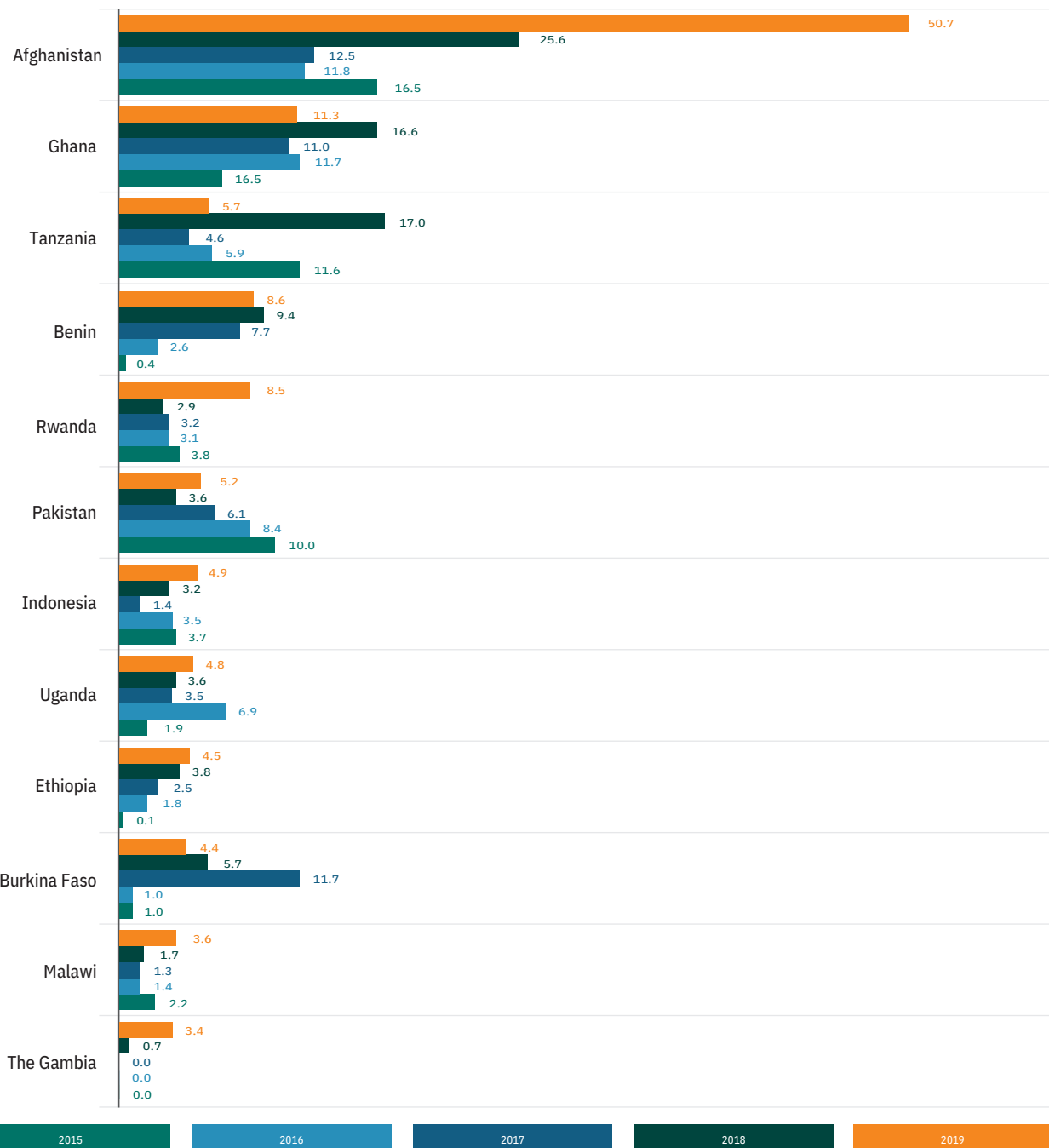


Figure 5: ODA support from ATI development partners to ATI partner countries (grant disbursements, USD millions, 2015-19)

Source: ATI database on ODA for DRM.

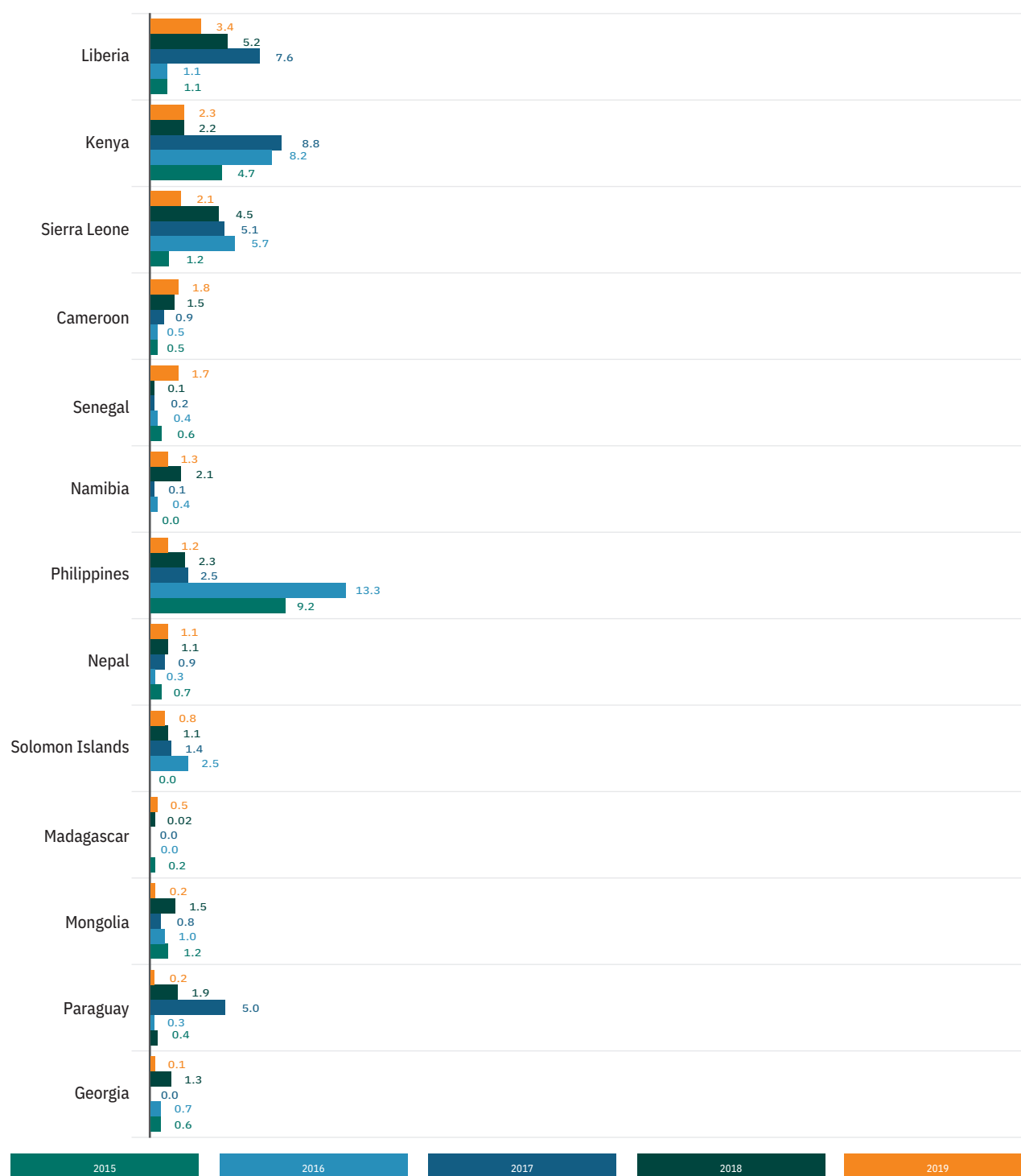


Figure 5 (cont.): ODA support from ATI development partners to ATI partner countries
(grant disbursements, USD millions, 2015-19)

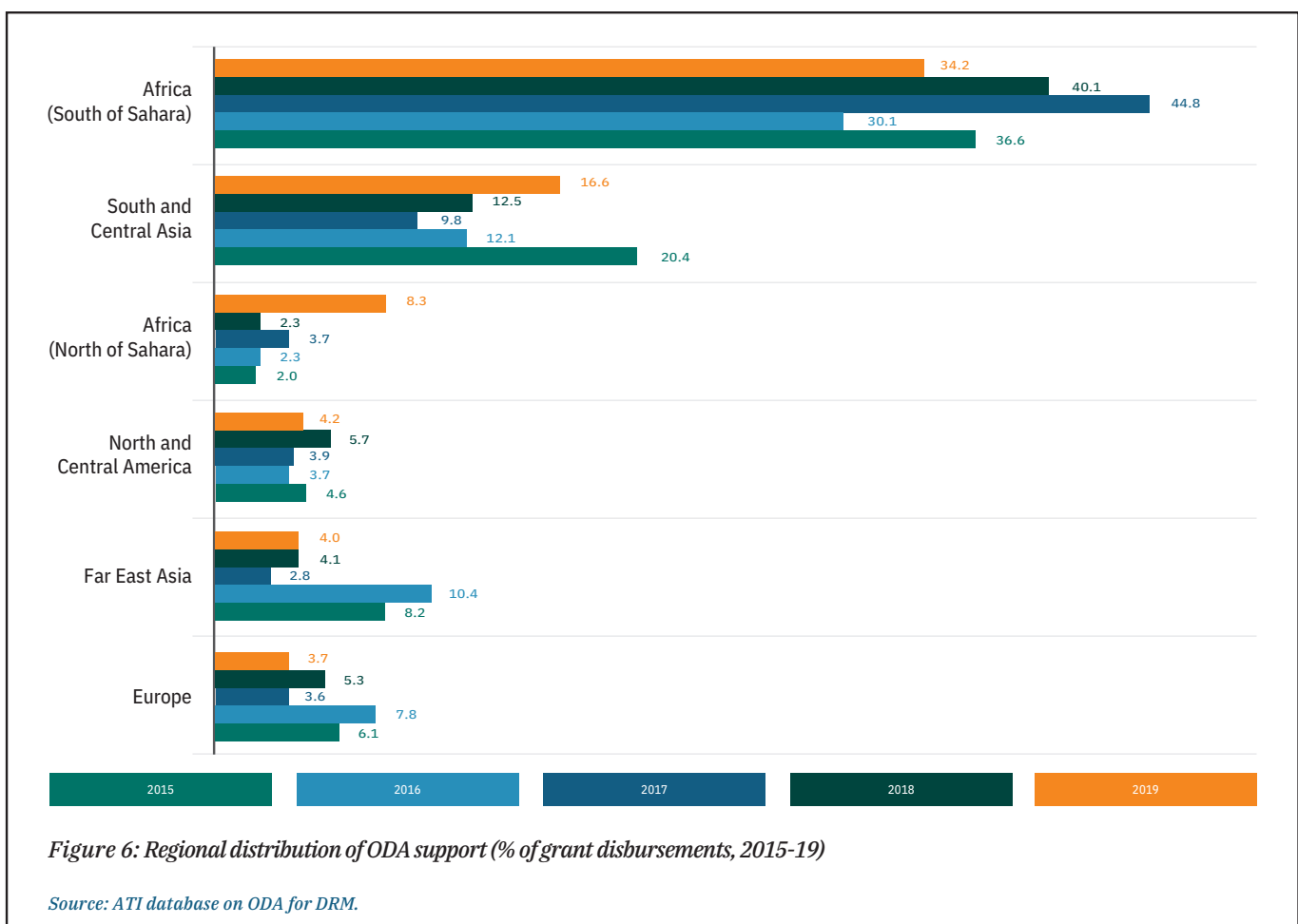
Source: ATI database on ODA for DRM.

Patterns of ODA for DRM by ATI development partners across other key characteristics

Regional distribution of support

As in previous years, in 2019, sub-Saharan Africa was by far the most significant recipient region of ODA in support of DRM from ATI development partners (34.2% of the total), although its share continued a fall which began in 2017 (when it was 44.8%). In 2019, the second largest recipient region was South and Central Asia (16.6%), whose share of ODA in support of DRM from ATI development partners maintained its increasing trend, which began in 2017 (when it was 9.8%). In 2019, significant grant finance for DRM also went to North Africa (8.3% of the total, up from 2.3% in 2018), North and Central America (4.2% of the total, down from 5.7% in 2018), Far East Asia (4% of the total, down marginally from 4.1% in 2018), and Europe (3.7% of the total, down from 5.3% in 2018). As in 2018, the prominence of the Middle East as a recipient region declined in 2019, when it received just 1.8% of ODA grant disbursements for DRM from ATI development partners, down from 2.5% in 2018 and 4.7% in 2017. In addition, as in previous years, Oceania's share of grant ODA for DRM from ATI development partners remained low, at just 1.8% of the total.

Sub-Saharan African countries are still by far the largest recipients of ODA for DRM in 2019, despite reductions in their share, with South and Central Asia seeing increases in its share



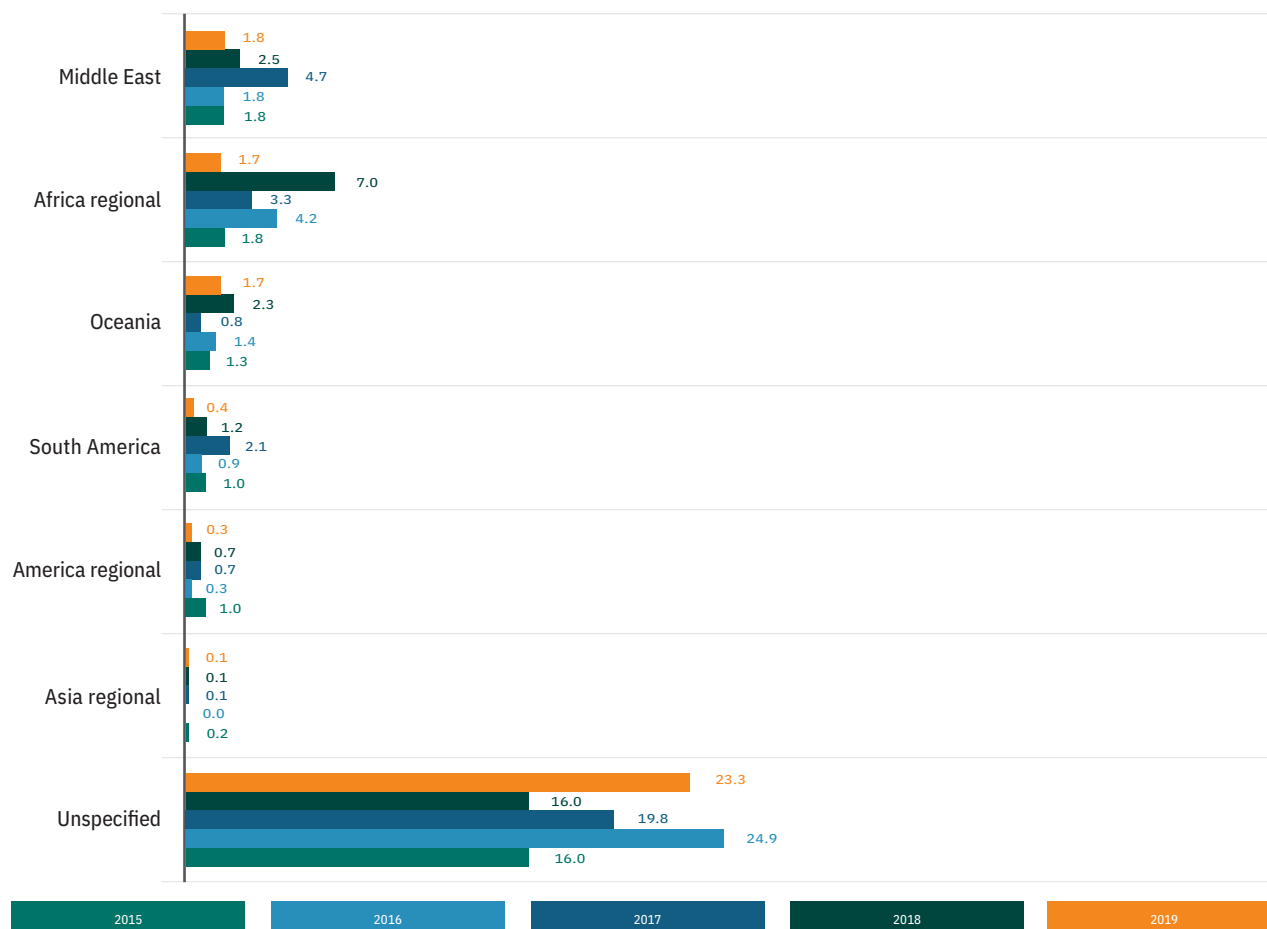


Figure 6 (cont.): Regional distribution of ODA support (% of grant disbursements, 2015-19)

Source: ATI database on ODA for DRM.

Support by income group

As was the case in 2018, Least Developed Countries (LDCs) were by far the largest recipients of ODA for DRM from ATI development partners, with their share seeing consistent increases since 2016. In 2019, LDCs received 43.9% of ODA grant disbursements for DRM from ATI development partners, up from 37.6% in 2017 and 28.9% in 2016. Lower Middle-Income Countries (LMICs) are the next biggest group, receiving 20% of ODA grant disbursements from ATI development partners in 2018, down from 21.4% in 2017 and 31.8% in 2016. Upper Middle-Income Countries (UMICs) received 6.6% of ODA grant disbursements from ATI development partners in 2019, down from 7.2% in 2018 and 9.3% in 2017. Looking across the period 2016-19, there has therefore been a significant reorientation of ODA for DRM from ATI development partners towards LDCs and away from middle-income countries.

In 2019, LDCs saw increases in their share of ODA for DRM, suggesting a growing pro-poor emphasis by ATI development partners

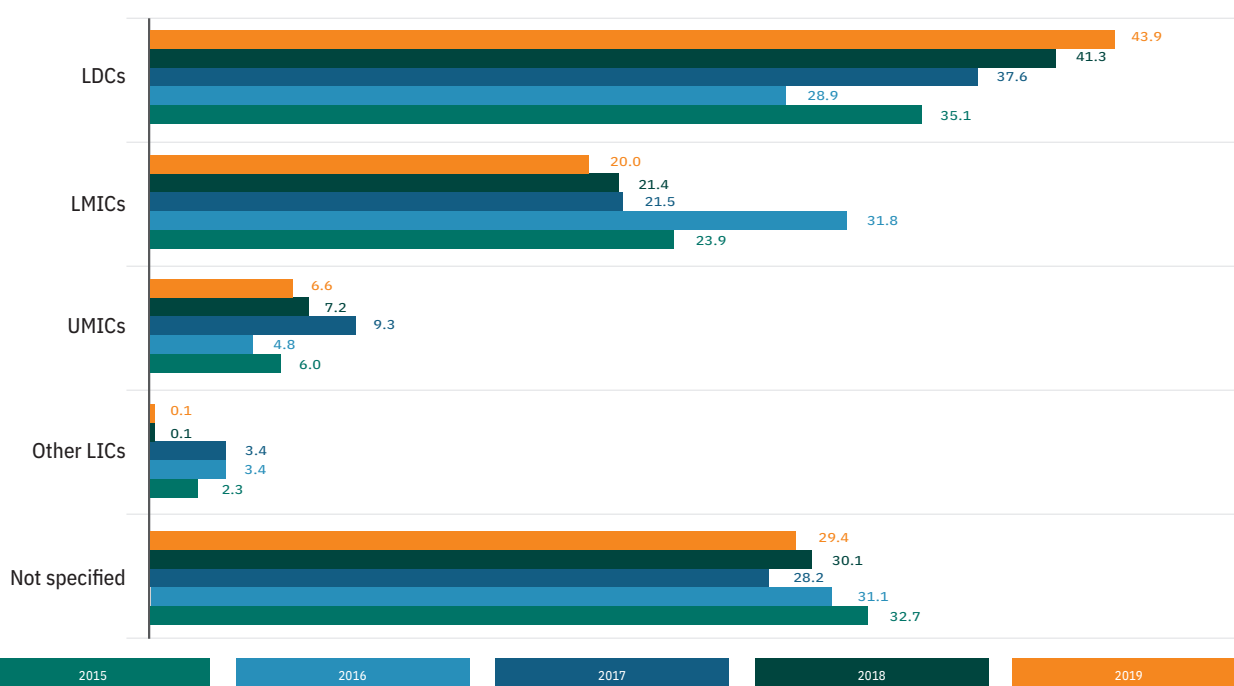


Figure 7: Distribution of ATI support by income group (% of disbursements, excluding loans, 2015-19)

Source: ATI database on ODA for DRM.

Note: The country-income group categories are based on the OECD DAC's definition (OECD, 2017). LDCs=Least Developed Countries, Other LICs=Other Low-Income Countries, LMICs=Lower Middle Income Countries and Territories, UMICs=Upper Middle Income Countries and Territories.

Although LDCs are the most significant recipients of ODA for DRM from ATI development partners overall, this support is not spread evenly across LDCs. In 2019, just six LDCs received 64% of the total volume of ODA for DRM disbursed by ATI development partners to this group of countries, whilst another eight²² LDCs (none of which were ATI partner countries) were not recorded as recipients of bilateral ODA for DRM by any ATI development partner. Amongst the 15 ATI partner countries which are LDCs, two (Madagascar, Solomon Islands) were recorded as receiving less than USD 1 million in ODA disbursed from ATI development partners in 2019, and another two (Nepal, Senegal) received less than USD 2 million. **However, in general, LDCs that are members of the ATI receive more ODA for DRM from ATI development partners than those which are not members.**

Nevertheless, not all LDCs face the same level of need in terms of support for DRM, and it is also the case that LDCs do receive additional support will be available to LDCs from regional and international programmes funded by ATI development partners (for which ODA levels are not reported by country). However, it is also likely to be the case that some LDCs (and other countries facing significant DRM needs) are being neglected by ATI development partners; an issue that deserves more attention.

²² These included Angola, Burundi, Comoros, Djibouti, Eritrea, Sao Tome and Principe, South Sudan, and Sudan.

Support to DRM reported to the ATI by modalities of support and channel of intervention

ATI development partners utilise a range of aid modalities for delivering their ODA to support DRM. Figure 8 illustrates how this ODA is distributed across different modalities.²³

Project type interventions are the most significant form of ODA support for DRM, specific-purpose programmes and funds are a growing form of support, and sector budget support is a declining form of support

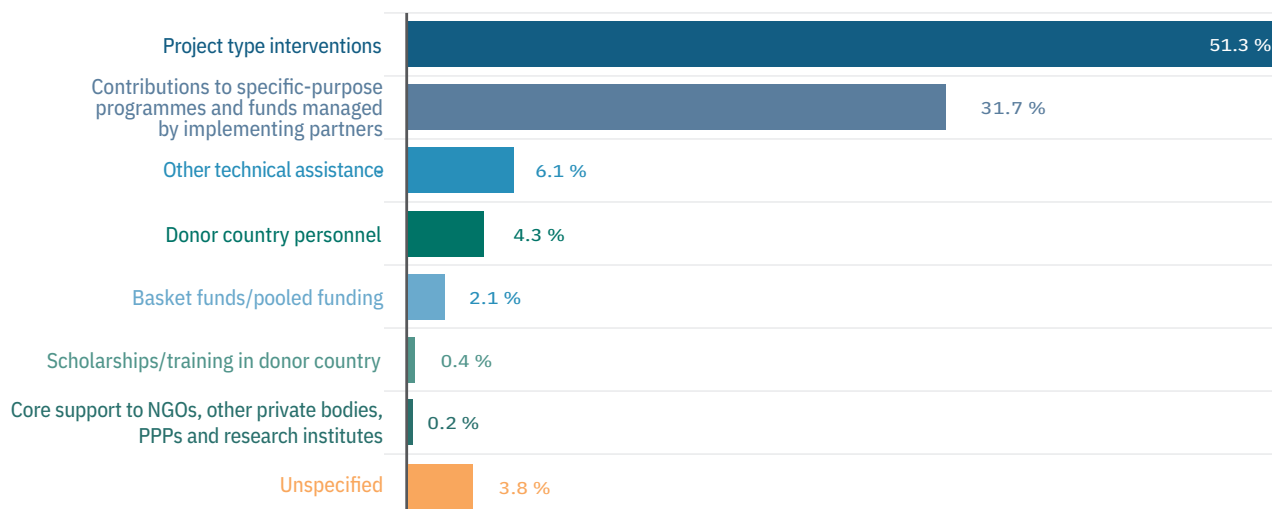


Figure 8: Support to DRM by type of support (% of grant disbursements 2019)

Source: ATI database on ODA for DRM.

As illustrated in Figure 8 above, in 2019, the largest category of DRM programmes from ATI development partners (excluding the EU institutions) was “project-type interventions”. This type of support accounted for 51.3% of the total support from ATI development partners. The second most significant type of support was “contributions to specific-purpose programmes and funds managed by implementing partners”, at 31.7% of the total. Other significant types of DRM programmes include “other technical assistance” (6.1% of the total) and “donor country personnel” (4.3% of the total).²⁴

²³ Figure 8 does not include data for the EU institutions (29% of total disbursements in 2019), as this information was not reported in the revised set of DRM projects submitted to the ATI Secretariat.

²⁴ Although full reporting on the modalities through which EU institutions delivered their ODA for DRM was not submitted to the ATI, the European Commission confirmed that 63% of its ODA for DRM was disbursed through budget support. This is a modality which is not used for disbursing ODA for DRM by any other ATI development partner.

ATI development partners also channel their ODA for DRM through a range of implementing partners. Figure 9 illustrates how this ODA is distributed across these implementing partners.²⁵

Multilateral institutions, followed by donor country government institutions and private sector actors in donor countries, are the most significant actors managing ODA for DRM projects; partner country institutions only manage a limited portion of DRM projects

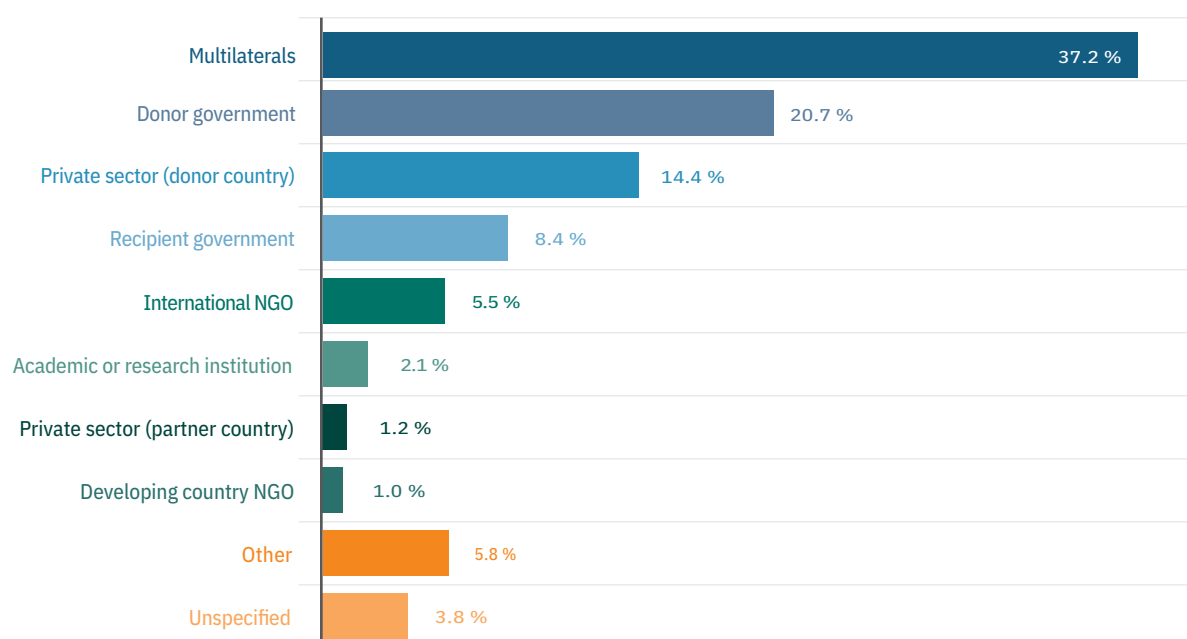


Figure 9: ODA for DRM by channel of support (% of disbursements, excluding loans, 2019)

Source: ATI database on ODA for DRM.

As illustrated in Figure 9, the most significant channels for managing the support of ATI development partners (excluding the EU institutions) in 2019 were multilateral organisations (37.2% of the total), followed by donor government institutions (20.7% of the total) and private sector organisations in donor countries (14.4% of the total).

In general, partner country actors – e.g. recipient governments (8.4% of the total) and local non-governmental organisations (NGOs) (1% of the total) – play only a minor role as channels for DRM support. This may point towards the neglect of opportunities to allow partner country institutions stronger ownership over ODA-funded DRM programmes.

²⁵ Figure 9 does though not include data for EU institutions (29% of total disbursements in 2019), as this information was not reported for their revised set of DRM projects submitted to the ATI Secretariat.

DRM programmes still only weakly address issues relating to gender equality

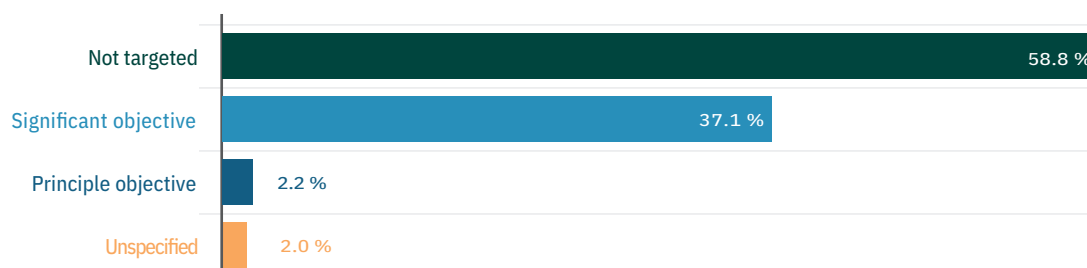


Figure 10: Scoring of DRM projects against the OECD-DAC gender markers (% of disbursements, 2019)

Source: ATI database on ODA for DRM.

As illustrated in Figure 10, in 2019, only 2.2% of disbursements of grant ODA for DRM delivered by ATI development partners²⁶ supported projects that promoted gender equality as a principal objective, 37.1% promoted gender equality as a significant objective and 58.1% did not target gender equality. Furthermore, 5.1% of disbursements supported projects for which there was no reporting on efforts to promote gender equality.

It is therefore clear that there are opportunities for ATI development partners to improve the mainstreaming of a gender perspective across their DRM support, as well as their reporting on the extent to which their DRM work promotes gender equality.

Conclusion

Although disbursements of ODA for DRM from ATI development partners stagnated in 2019, their levels of grant ODA disbursements for DRM increased by 20.5%, and this assistance was increasingly focussed on the LDCs. Nevertheless, the prospects that ATI development partners have achieved their collective commitment to double their ODA for DRM by 2020 seem limited, in part due to the fact that some donors have redirected some of their DRM programmes to respond to the COVID-19 pandemic.

It is also the case that, in 2019, the pattern of ODA for DRM in ATI partner countries became less concentrated regionally (with Asia receiving more and Africa less than previous years). This ODA continued to be delivered mainly through project modalities (see figure 8, above), was managed predominantly by development partner institutions and organisations (see figure 9, above), and had only a limited emphasis on promoting gender equality (see figure 10, above).

The fact that Afghanistan was by far the largest recipient of ODA for DRM in 2019, and may receive considerably less ODA for DRM in the future, increases the imperative for ATI development partners to further diversify their DRM portfolio.

²⁶ The EU institutions are not included here, since this data was not reported to the ATI Secretariat in the revised list of DRM projects.

Expert piece

Taxing more and taxing better: what can development partners do to support reforms

Giulia Mascagni, International Centre for Tax and Development (ICTD)

In recent years, development partners increased substantially their support to domestic revenue mobilisation (DRM), although overall levels of ODA for DRM stagnated in 2019. In this context of increased aid, it is particularly important to reflect critically on how development partners can further support both increased revenue mobilisation and better tax systems. The ATI Declaration from 2015 set a key priority on “boosting revenue”. While increasing revenue was – and still is – needed, a primary focus on the quantity of revenue also presents some risks.

In the run up to the Third International Conference on Financing for Development, held in Addis in July 2015, a group of leading academics argued that focussing on meeting a specific – and somewhat arbitrary – target on the desired tax to GDP ratio, comes with the risk of losing sight of how revenue is raised.²⁷ In practice, this might result in weak progress on improving transparency, accountability, equity, and trust in the citizen-government relationship, as those aspects do not immediately count towards the target. This weak progress could undermine tax morale, a key driver of voluntary compliance.²⁸ Both development partners and partner countries are, of course, aware of this risk and have been working to mitigate it. Despite the presence of qualitative targets in ATI reports, the focus in the past remained more on increasing revenue than improving systems more generally. Importantly, this focus on increasing revenue, without sufficient attention to the “how”, could even hamper progress towards achieving the SDGs. Taxation could make poor people poorer, even if that happens by accident, because of slow reform processes, rather than by design.²⁹

Fortunately, much progress has been made in recent years in the way development partners think about DRM. This progress happened gradually over the years and culminated in the formulation of the ATI Declaration 2025, which represents a clear shift in language and a stronger focus from boosting revenue to improving tax systems. This shift places the attention squarely on the “how” of tax collection, with equity, trust, transparency, and accountability, now featuring prominently. But what does all this mean in practice, and how exactly can development partners support better tax systems? We have some excellent principles, validated by history and experience, that can guide practical decisions on priorities for reform and action – and the way development partners can help. These principles are discussed in more detail in a recent paper from the World Bank,³⁰ and summarised below.

²⁷ <https://www.ictd.ac/blog/the-sustainable-development-goals-reject-tax-targeting/>.

²⁸ OECD, *Tax Morale: What Drives People and Businesses to Pay Tax?*, OECD Publishing, 2019 Paris, <https://doi.org/10.1787/f3d8ea10-en>.

²⁹ Kalle Hirvonen, Giulia Mascagni, and Keetie Roelen, *Linking taxation and social protection: Evidence on redistribution and poverty reduction in Ethiopia*, *International Social Security Review*, 2018, vol. 71(1): 3-34, <https://onlinelibrary.wiley.com/doi/abs/10.1111/issr.12159>.

³⁰ Wilson Prichard, Anna Custers, Roel Dom, Stephen Davenport, and Michael Roscitt, *Innovations in Tax Compliance: Conceptual Framework* (World Bank Group, 2019), <https://documents1.worldbank.org/curated/en/816431569957130111/pdf/Innovations-in-Tax-Compliance-Conceptual-Framework.pdf>.

1. **Fair enforcement of existing tax rules.** Too often enforcement is uneven in ways that make some individuals or businesses bear the full burden of taxes, while others get away with paying very little. This happens particularly for taxes that affect the better off in society, such as taxes on property, rental income, capital gains, and other incomes from investment – which typically generate much less revenue than they could be expected to. But uneven enforcement also affects major tax types like corporate income taxes or the VAT: due to a mix of administrative practices and compliance costs, they often end up bearing more heavily on the smallest firms.³¹
2. **Facilitation of taxpayer compliance.** Compliance costs borne by taxpayers can be reduced with simplified procedures, by improving communication between taxpayers and the revenue administration, and by investing in taxpayer education. Recent research has shown that small taxpayers often find it difficult to navigate complex tax systems, which in turn affects their ability to comply and even to benefit from existing tax rules.³²
3. **Trust.** Governments need to make themselves fully transparent and accountable, in terms of both the revenue they collect (and from whom) and the ways in which they spend those resources. Governments spending that is transparent and focussed on shared priorities is likely to foster relationships of trust that can benefit tax compliance and, in turn, tax collection.³³

Supporting tax reform along these lines would allow for concrete progress towards more equitable and transparent tax systems. This, in turn, would avoid alienating citizens and businesses, for example because of complex procedures and unfair practices, and instead encourage trust and perceptions of fairness around the tax system. In the longer term, better tax systems will also allow for sustainable improvements in the level of tax collection. Both development partners and accountability stakeholders can play an important role in encouraging and supporting reforms along the direction outlined above.

³¹ Giulia Mascagni and Andualem Mengistu, *Effective tax rates and firm size in Ethiopia*, Development Policy Review, Overseas Development Institute, 2019, vol. 37(S2): 248-273, <https://onlinelibrary.wiley.com/doi/10.1111/dpr.12400>; Giulia Mascagni, Roel Dom and Fabrizio Santoro, *The VAT in Practice: Equity Enforcement and Complexity* (Institute of Development Studies, 2021), <https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/16603>.

³² Youssef Benzarti, *How Taxing is tax filing? Using revealed preferences to estimate compliance costs*, American Economic Journal: Economic Policy, 2020, vol. 12(4): 38-57, <https://www.aeaweb.org/articles/pdf/doi/10.1257/pol.20180664>; Giulia Mascagni, Denis Mukama, and Fabrizio Santoro, *Teach to comply? Evidence from a taxpayer education programme in Rwanda*, (Institute of Development Studies, 2019), <https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/14364>; Jarkko Harju, Tuomas Matikka, and Timo Rauhanen, *Compliance costs vs. tax incentives: Why do entrepreneurs respond to size-based regulations?*, Journal of Public Economics, 2019, vol. 173, <https://doi.org/10.1016/j.jpubeco.2019.02.003>.

³³ Mick Moore, Wilson Prichard, and Odd-Helge Fjeldstad, *Taxing Africa: Coercion, Reform and Development* (London: Zed Books, 2018).

ATI Commitment 2

“ATI partners countries commit to step up domestic revenue mobilisation in order to spur development, in line with ATI keys principles.”

Introduction

Increasing levels of DRM – from taxation and other similar sources – is vital for development and advancing the SDGs, as domestic revenues enable governments to invest in public goods and services that improve citizen welfare and secure sustainable growth. In addition to its impact on growth and development, expanding DRM is integral to securing democracy and creating responsive governments that engage their citizens on the role and priorities of the government.

By participating in the ATI, partner countries signal their commitment to explore and pursue opportunities to mobilise domestic revenues that support their efforts to achieve national development goals and the SDGs. The following chapter explores the progress ATI partner countries have made over the period 2015 to 2019 in pursuing these overarching goals by expanding their tax revenues, diversifying their revenue base, strengthening their tax administrations, promoting transparency in relation to tax exemptions and administration, and improving the equity impact of their tax policies. These issues reflect the full range of themes related to DRM that partner countries committed to address in the AAAA (see Box 1).

It is important to note at the outset that expanding tax revenues is a deeply challenging undertaking, and progress often takes time to emerge. In fact, deliberate and steady progress may be the best way of achieving sustainable reforms. The progress made by ATI partner countries in the limited period since the ATI was formed needs to be seen in this light.

This chapter first presents the methodology, indicators, and data sources used to assess the progress of partner countries in responding to Commitment 2 of the ATI. It then presents an analysis on the performance of ATI partner countries in 2019 and (where possible) since the launch of the initiative in 2015. The monitoring exercise is complemented with examples of good practices and lessons learned from the responses to the 2019 ATI Monitoring Survey on Commitment 2. Although more ATI partner countries responded to the survey as compared to 2018, the number of responses remains limited.

Summary of findings

The average tax-to-GDP ratio in 2019 for the 21 ATI partner countries for which data is available across the period 2015-19 was 15.47%, representing a slight increase since 2018 (from 15.43%), and continuing the consistent increase in this ratio since 2015 (when it was 14.7%). In 2019, 12 ATI partner countries increased their tax-to-GDP ratios compared to 2018, and 14 ATI partner countries have increased this ratio since 2015.

The revenue structure of ATI partner countries is dominated by taxes on goods and services, which in average contributed to 43.9% of the total tax revenue in 2019 (a decrease from 44.4% in 2018, and 44.8% in 2015). Taxes on income, profits and capital gains remained the second most important source of tax revenue for ATI partner countries, which saw an increase of their share in relation to the overall tax revenues to 37.1% in 2019 (from 35.7% in both 2018 and 2015). The share of revenues ATI partner countries mobilised from taxes on international trade and transactions decreased slightly in 2019 to 15% (from 15.7% in 2018 and 15.4% in 2015).

Improving the effectiveness and efficiency of tax administration is vital to ensure that tax revenues can be increased. To date, 19 of the 25 ATI partner countries have formally applied the Tax Administration Diagnostic Assessment Tool (TADAT) and 20 have undertaken Public Expenditure and Financial Accountability (PEFA) assessments, helping to track progress in improving the administration of their tax systems. It is also the case that over the period 2015-19, an increasing proportion of ATI partner countries have published strategic plans, annual business/operational plans, and annual reports of their tax administration, helping to promote transparency and accountability. In addition, data was available for 2019 (from the Open Budget Survey) on the transparency of tax expenditures of 23 of 25 ATI partner countries.

Ensuring that tax revenue expansion occurs in a way that helps to reduce inequality was identified as an emerging priority for ATI partner countries in the 2018 ATI Monitoring Survey. Partner countries made improvements to the progressivity of their tax structures in 2018, although no discernible progress was made in 2019. This indicates that partner countries face significant challenges in making their tax structures more equitable.

Replies to the 2019 ATI Monitoring Survey on Commitment 2 suggest that ATI partner countries are focussing ongoing reforms to their tax system on issues such as the design and implementation of online/electronic tax administration systems, the expansion of their tax bases, and the capacity strengthening of their revenue institutions.

Methodology of the 2019 ATI Monitoring on Commitment 2

Based on official publicly available data sources, the analysis presented in this chapter focuses on partner countries' efforts to increase their tax revenues and improve their tax systems. The indicators used in this report attempt to cover the period up to and including 2019, in order to compare trends to previous ATI monitoring results and to the baseline performance in 2015, when the ATI was launched.

The monitoring of ATI Commitment 2 relies on the following publicly available data sources:

- *Government Revenue Dataset (GRD)*: The GRD is produced by the International Centre for Tax and Development (ICTD) and managed by the United Nations University World Institute for Development Economics Research (UNU-WIDER). It contains data on gov-

ernment revenues from a number of different datasets produced by the IMF and the OECD, whose quality has been corroborated (through a detailed data cleaning exercise), and which have been synthesised into a single dataset. This source is used to analyse tax revenue levels and fiscal structures as it helps to improve the accuracy of data on government revenues (Prichard 2016). As the GRD regularly updates data it has previously published (i.e. due to revisions by reporting bodies or improvements to its methodologies), the tax revenue data for 2015-18 referenced in this report may not correspond with that referenced in previous ATI Monitoring Reports.

- *Public Expenditure and Financial Accountability (PEFA) database*: PEFA is a framework and process for assessing the public financial management systems of countries, which was established by a group of development partners in 2001. Data from PEFA assessments is used here to report on efforts by ATI partner countries to strengthen the effectiveness, efficiency, and accountability of their revenue collection systems.
- *Tax Administration Diagnostic Assessment Tool (TADAT)*: TADAT is a widely applied framework for assessing the performance of tax administrations. The results of TADAT assessments are generally not made public, but it is reported which countries have undertaken such assessments and when.
- *International Survey on Revenue Administration (ISORA)*: ISORA is a joint web-based survey that is governed by four partner organisations: the Inter-American Center of Tax Administrations (CIAT), the IMF, the Intra-European Organisation of Tax Administrations (IOTA) and the OECD. It is hosted on an IMF platform³⁴ and is used here to report on the progress of ATI partner countries in improving the transparency of their tax administrations.
- *Open Budget Survey (OBS)*: This survey has been developed and is regularly carried out by the International Budget Partnership (IBP). It is used here to report on the progress of ATI partner countries in improving the transparency of their tax expenditures.
- *Commitment to Reducing Inequality (CRI) Index*: This index has been developed and is periodically produced by Oxfam and Development Finance International (DFI). It includes indicators that inform how progressive countries' tax structures are and the impact tax collection has on inequality.

In addition, this chapter includes insights from responses to the 2019 ATI Monitoring Survey on Commitment 2. This survey asked ATI partner countries to report on recent progress in their reforms, identify future reform priorities and prospects, and provide examples of successful reforms. As was the case in 2018, the 2019 ATI Monitoring Survey took place at a time when governments and revenue administrations were facing significant pressures as a result of the COVID-19 pandemic. As a result, only nine of the 25 ATI partner countries responded to the survey this year, an increase from seven last year.

³⁴ Since the 2018 survey round, the Asian Development Bank (ADB) also participates in ISORA along with the four partner organisations.

Findings

An overview of the findings from the monitoring exercise on ATI Commitment 2 are presented in the following sections. The results described here are mostly on an aggregate level and provide a general picture of DRM in ATI partner countries. For more detailed information on individual ATI partner countries, please refer to the country sections at the end of the 2019 ATI Monitoring Report.

Tax revenues

Tax-to-GDP ratio

In 2019, the average tax-to-GDP ratio for the 21 ATI partner countries³⁵ for which data is available for each year³⁶ across the period 2015-19 was 15.47%³⁷, up marginally from 15.43% in 2018. This level of performance remains significantly above levels in 2017 (15.1%) and 2015-16 (during which it remained at 14.7%). This trend therefore illustrates a consistent pattern of progress, albeit a modest one, which is to be expected, given that tax reforms and improvements to tax administrations take time to deliver results.

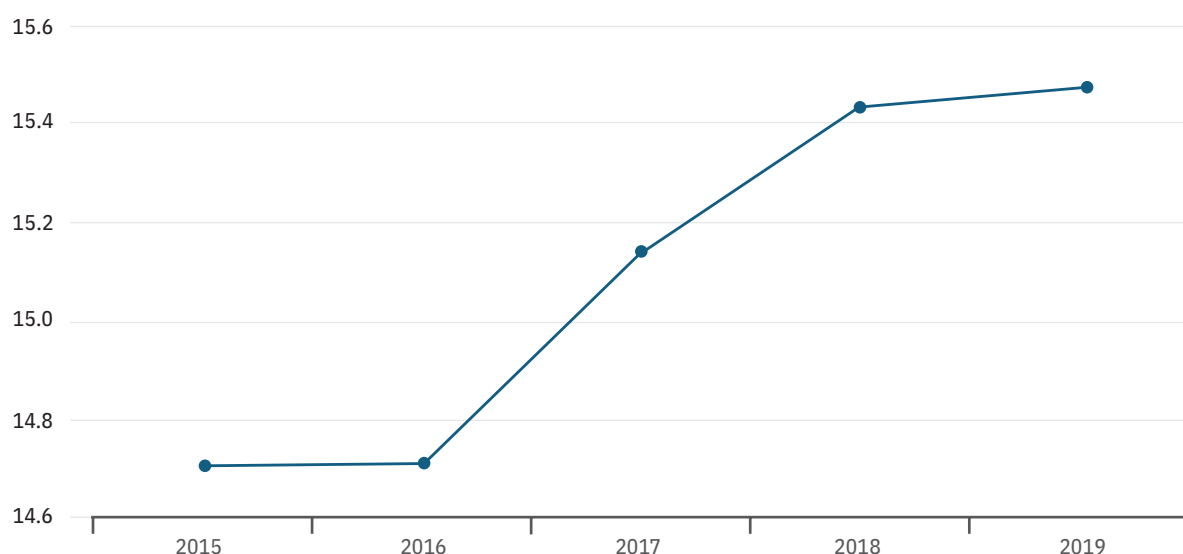


Figure 11: Average tax-to-GDP ratio (%) for ATI partner countries, 2015-19

Source: GRD (ICTD-UNU-Wider)

Note: This average is based on data for the 21 ATI partner countries for which data is available across 2015-19, and is based on the latest data published by the GRD.

³⁵ This data excludes Benin, Cameroon, Pakistan, and Tanzania, for which 2019 tax revenue information is not available. In addition, this data was only available for 2015 in the case of Pakistan.

³⁶ A consistent group of 21 ATI partner countries is used to analyse average tax-to-GDP ratios across the period 2015-19, in order to ensure the comparability of the figures.

³⁷ Individual and aggregate figures may differ from the 2018 ATI Monitoring Report due to updated and added data points.

There has been a diversity of outcomes on tax revenue-raising since 2015 across the 21 countries for which data on their tax-to-GDP ratios for the period 2015-2019 is available. Over this period, six ATI partner countries increased their tax-to-GDP by more than 2 percentage points, including Burkina Faso (from 13.57% in 2015 to 15.93% in 2019), Malawi (from 15.17% in 2015 to 17.28% in 2019), Mongolia (from 17.72% in 2015 to 23.49% in 2019), Nepal (from 14.69% in 2015 to 19.36% in 2019³⁸), Senegal (from 15.29% in 2015 to 17.65% in 2019), and Sierra Leone (from 10.04% in 2015 to 12.28% in 2019). In addition, one country (Rwanda) increased its tax-to-GDP ratio by 1.5-2 percentage points and another four (Madagascar, the Philippines, Uganda, and Tanzania³⁹) did so by 1-1.5 percentage points. Overall, 14 of the 21 ATI partner countries for which there is data have increased their tax-to-GDP ratios since 2015.

By contrast, three ATI partner countries have seen their tax-to-GDP ratios fall by more than 2 percentage points between 2015 and 2019. These countries include Ethiopia (from 12.73% in 2015 to 9.98% in 2019), the Solomon Islands (from 25.76% in 2015 to 22.93% in 2019) and Namibia (from 33.5% in 2015 to 30.25% in 2019), which has the highest tax-to-GDP ratio amongst ATI partner countries. Of the remaining six countries which saw decreases in their tax-to-GDP ratios since 2015, four saw decreases equivalent to less than 1 percentage point.

As noted in the 2018 ATI Monitoring Report, tax-to-GDP ratios are on average lower amongst LICs, followed by LMICs and then UMICs. Amongst the 15 ATI partner countries classified as LICs, seven⁴⁰ had tax-GDP-ratios below 15% in 2019. However, three⁴¹ of the seven ATI partner countries classified as LMICs, and one⁴² of the two that are labelled as UMICs also had tax-to-GDP ratios below 15%. This finding illustrates how DRM challenges can affect countries at all levels of development.

³⁸ Despite Nepal's overall increase in tax revenues between 2015 and 2019, it should be noted that Nepal saw a 2.6 percentage decrease in tax revenue between 2018 and 2019 (from 21.96% in 2018 to 19.36% in 2019).

³⁹ Over the period 2015-18, since no data is available for 2019.

⁴⁰ Afghanistan, Ethiopia, The Gambia, Liberia, Madagascar, Sierra Leone, and Uganda.

⁴¹ Ghana, Indonesia, and the Philippines

⁴² Paraguay.

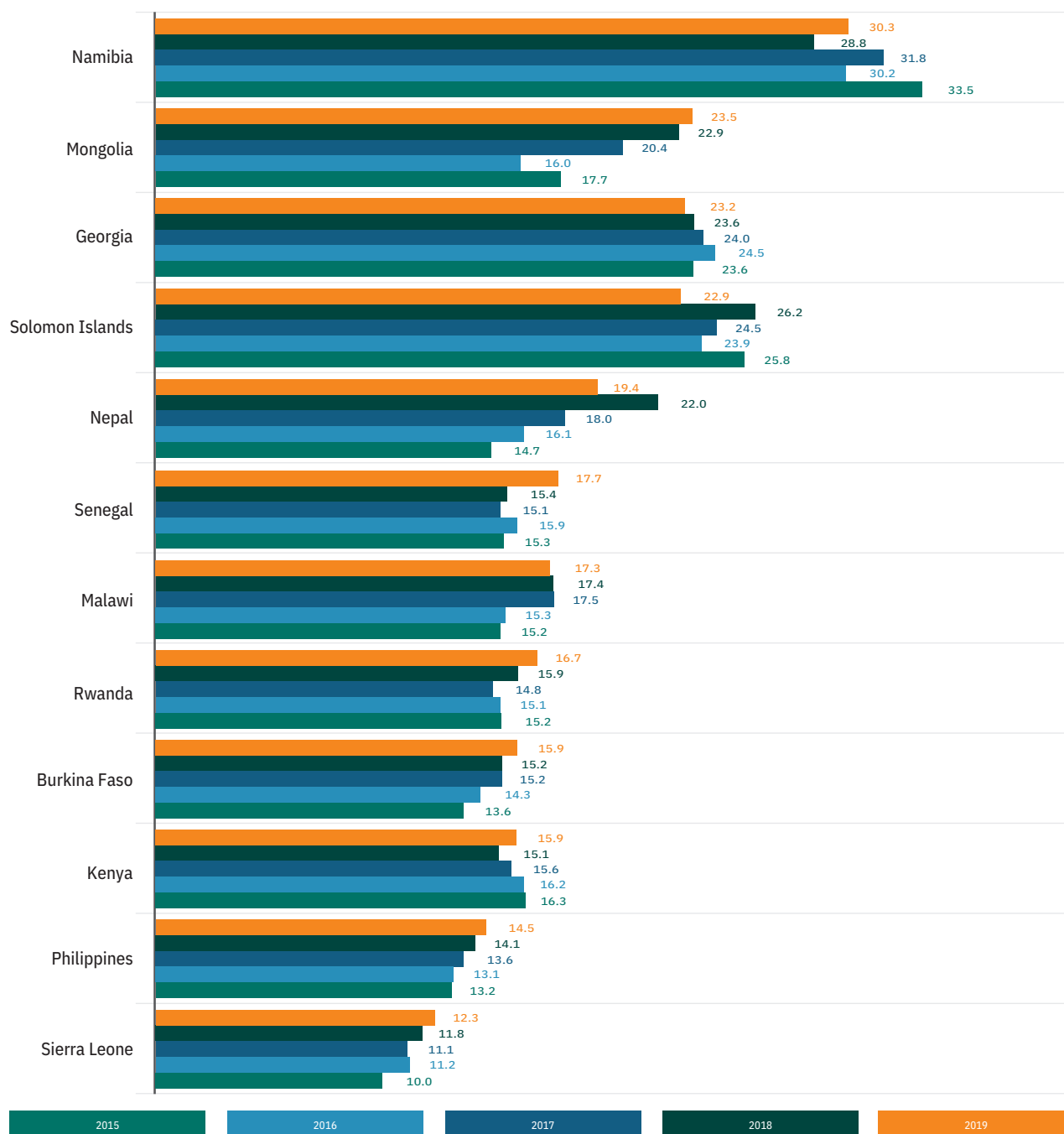


Figure 12: Tax-to-GDP ratios (%) for individual ATI partner countries, 2015-19

Source: GRD (ICTD-UNU-Wider)

Note: The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. taxes on incomes, profits and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

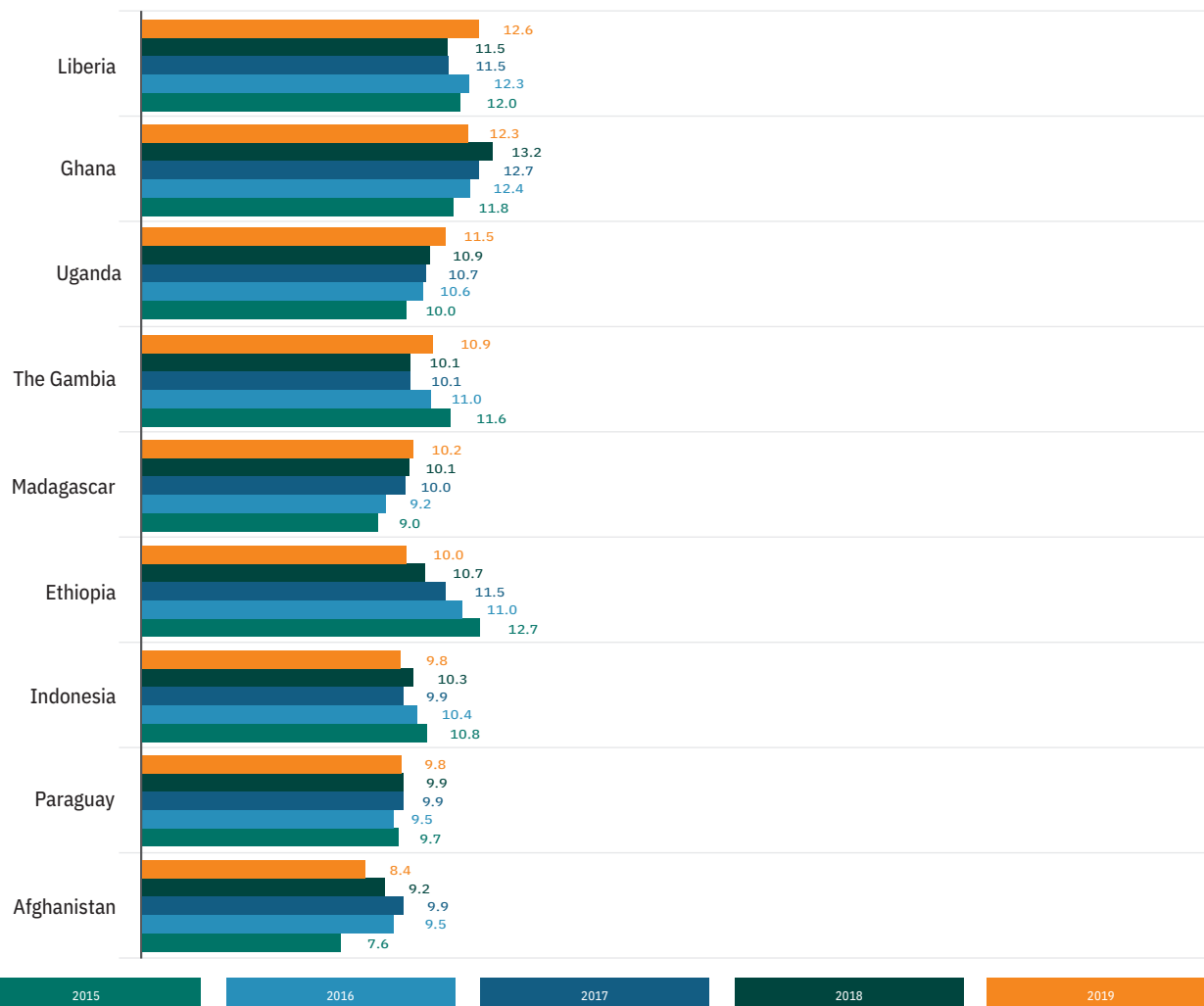


Figure 12 (cont.): Tax-to-GDP ratios (%) for individual ATI partner countries, 2015-19

Source: GRD (ICTD-UNU-Wider)

Note: The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. taxes on incomes, profits and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

Tax revenues remain the most significant source of public revenue across ATI partner countries, although their significance for their DRM efforts has declined marginally during the period 2015-19. Across the 21 ATI partner countries for which data is consistently available between 2015 and 2019, tax revenue as a share of total public revenue fell on average from 88.4% in 2015 to 86.7% in 2019.⁴³ Amongst ATI partner countries, the average share of total public revenues contributed by tax revenues during 2015-2019 varied from lows of 71.7% in Afghanistan, 81.1% in Indonesia and 81.7% in Ghana, to highs of 94.1% in Malawi, 95% in Uganda, and 96.1% in Madagascar.

⁴³ Both tax and total revenue exclude social security contributions.

Tax revenue structure

The GRD analyses tax revenue across four main categories of taxes: (i) taxes on income, profits and capital, (ii) taxes on goods and services, (iii) taxes on international trade and transactions, and (iv) other taxes of less significance. Data disaggregating tax revenues across these four groups of taxes is currently available for 12⁴⁴ of the 25 ATI partner countries.

Figure 13 presents the average proportion of total tax revenues contributed by each of these four categories of taxes across the 12 ATI partner countries for which data is available for all years between 2015 and 2019. It illustrates that, in 2019, taxes on goods and services remain the most important source of tax revenue for these ATI partner countries (43.9% of the total), although its share has fallen consistently over the last two years, from 44.4% in 2018 and 46.2% in 2017. Given that the incidence of these types of indirect taxes often fall more significantly on poorer groups⁴⁵, this trend could potentially indicate that tax systems of ATI partner countries have become more progressive since 2017, but further analyses are needed.

Figure 13 also illustrates that taxes on income, profits and capital gains were the second most important source of tax revenue for these ATI partner countries in 2019 (37.1% of the total), and that their share has increased consistently over the last two years, from 35.6% in 2018 and 33.7% in 2017. Finally, it illustrates that revenues from taxes on international trade and transactions have also become proportionately less important for tax revenues over the period 2016-19, falling from 16.1% of total tax revenues in 2016 to 16% in 2017, to 15.7% in 2018, and 15% in 2019.

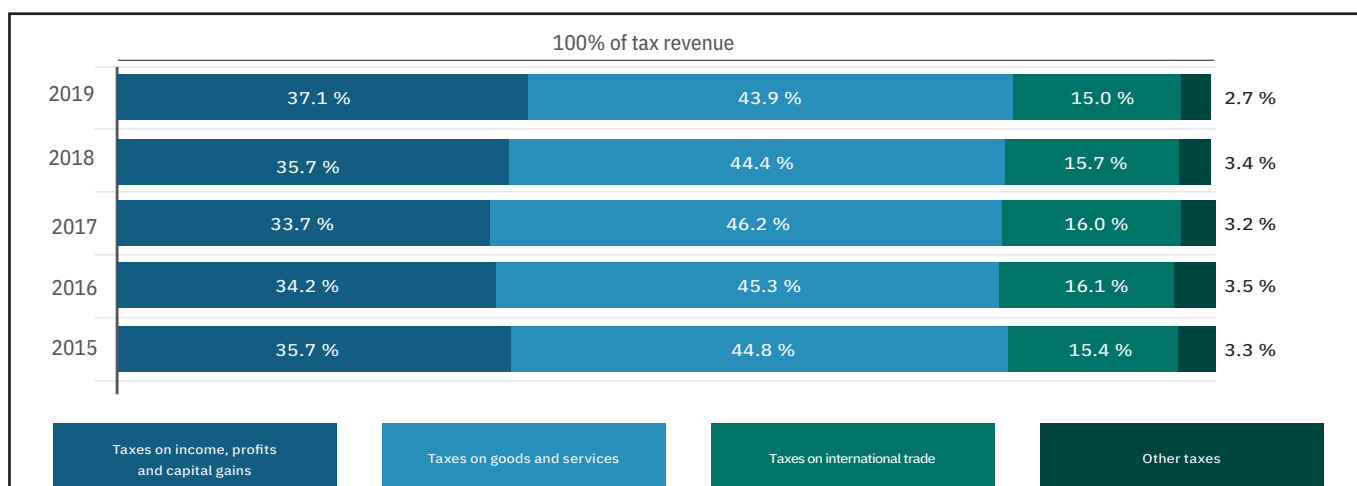


Figure 13: Average tax revenue composition for ATI partner countries, (% of total tax revenues)

Source: GRD (ICTD-UNU-Wider). The 2019 ATI Monitoring Report covers revenue from four core tax sources of ATI members (i.e. taxes on incomes, profits and capital gains; taxes on goods and services; taxes on international trade and transactions; other taxes). Revenue from social security contributions, which are sometimes reported as part of the tax-to-GDP ratio, is not included.

Note: This graph is based on data from 12 of the 25 ATI partner countries and excludes Benin, Cameroon, Ethiopia, The Gambia, Indonesia, Kenya, Liberia, Nepal, Pakistan, Rwanda, Senegal, the Solomon Islands and Tanzania due to data limitations.

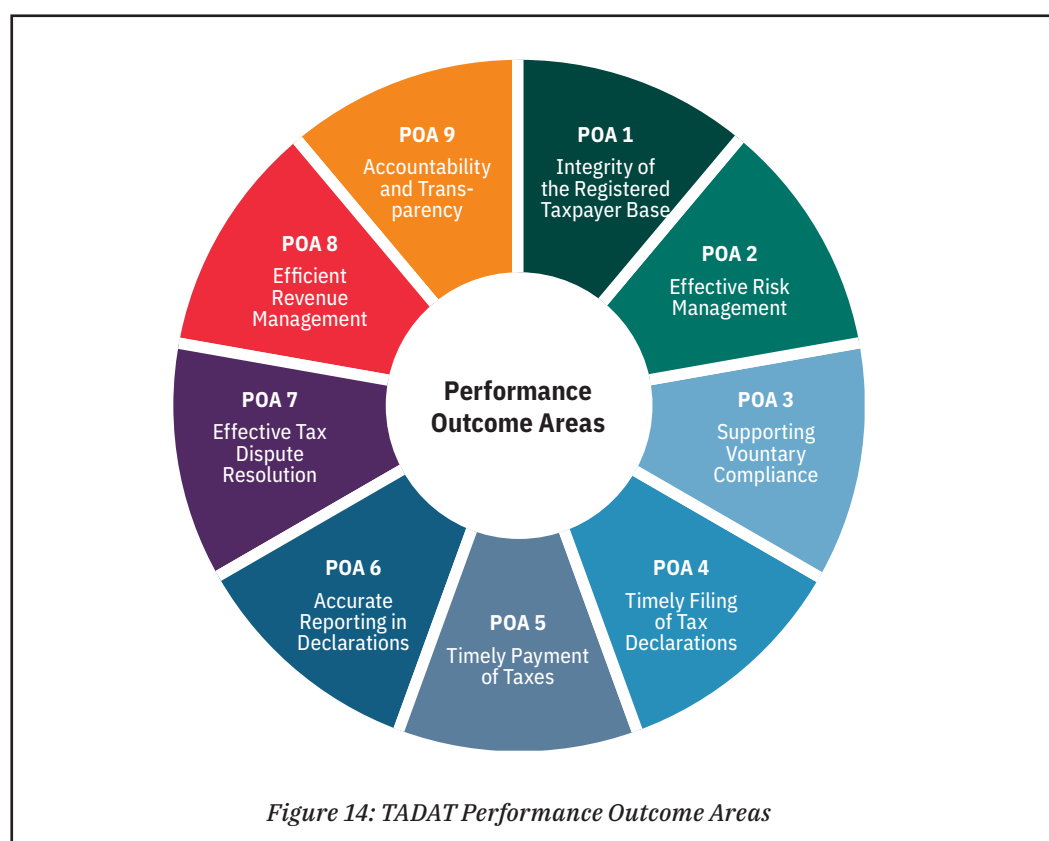
⁴⁴ These countries include Afghanistan, Burkina Faso, Georgia, Ghana, Madagascar, Malawi, Mongolia, Namibia, Paraguay, the Philippines, Sierra Leone, and Uganda.

⁴⁵ A number of studies suggest that indirect taxes can have a negative effect on income distribution (Martinez-Vasquez et al. 2012; Karanfil & Ozkaya 2013), and others suggest that direct taxes are more effective at redistributing income than indirect taxes (Obadic et al. 2014; Weller 2008). This is because indirect taxes usually apply a uniform rate to all payees. It is though the case that the progressiveness of indirect taxes depends on their design, as exemptions and lower rates for certain goods and services can help to address these issues (Grown & Valodia 2010).

Tax administration performance

TADAT assessments

Key challenges that partner countries face in effectively and sustainably expanding their domestic revenues are weaknesses in the technical, governance, and infrastructural capacity of their tax administrations. Efforts across ATI partner countries to better understand these constraints and to effectively address them over time are therefore vital. One tool that is used to assess tax administration capacity in partner countries and to identify areas that need strengthening is the Tax Administration Diagnostic Assessment Tool (TADAT), which assesses the performance of a country's tax administration system by reference to nine outcome areas (see Figure 14). Where multiple assessments of a country have been undertaken, the tool can be used to evaluate the performance of tax administrations over time.

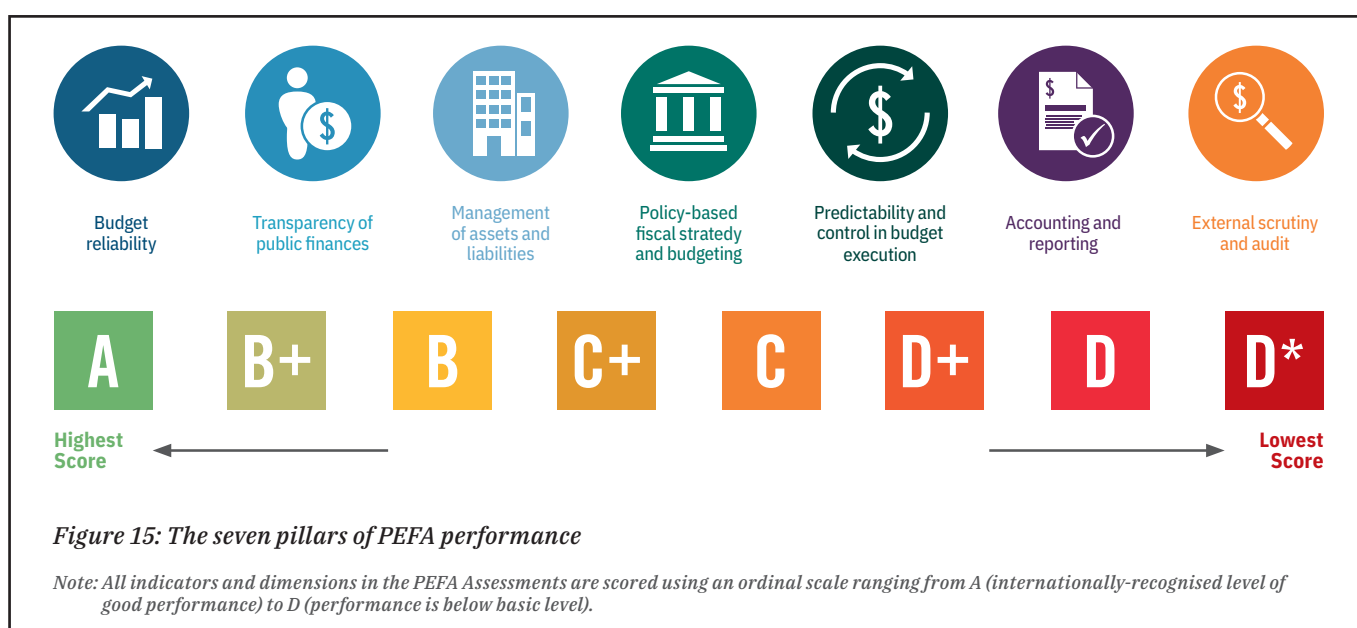


Since the publication of the 2018 ATI Monitoring Report in 2020, no additional ATI partner countries have undertaken TADAT assessments or updates of their assessments. Overall, 19 of the 25 ATI partner countries have now undertaken at least one TADAT assessment⁴⁶ and Rwanda and Uganda have each undergone two assessments. However, because TADAT assessments are not generally made public, with only a few countries choosing to publish the results, it is not possible to obtain an overview of the TADAT assessment results for the respective ATI partner countries.

⁴⁶ The ATI partner countries yet to undertake a TADAT assessment include Afghanistan, Indonesia, Mongolia, Nepal, Pakistan, and Solomon Islands.

PEFA assessments

The Public Expenditure and Financial Accountability (PEFA) assessment is a comprehensive tool used to evaluate the status of a country's public financial management system (including budgeting, public procurement, expenditure and financial transparency, and accountability). The PEFA framework uses a broad range of indicators, including DRM-related indicators, covering the efficiency and effectiveness of revenue collection (indicator P19) and the accountability of revenue collection in general (indicator P20).



The analysis in this section presents the results of the PEFA assessments undertaken for ATI partner countries, focusing on indicators P19 and P20. These indicators consist of several sub-indicators, which are aggregated to obtain a main score. This section will only analyse the aggregate score for each indicator to give an overview of how ATI partner countries are performing in relation to revenue administration and accountability.

Since the publication of the 2018 ATI Monitoring Report in 2020, two additional ATI partner countries (Pakistan and Senegal) have carried out PEFA assessments. However, only Senegal has published the results. In addition, Mongolia has also carried out an Agile⁴⁷ PEFA assessment, and Liberia and Madagascar have both updated their PEFA assessments.⁴⁸ To date, 20 of the 25 ATI partner countries have carried out PEFA assessments (or an Agile PEFA assessment in the case of Mongolia). The results of their assessments in relation to revenue administration and accountability are presented in Table 2.

As illustrated in Table 2, 10 ATI partner countries scored “B” or higher in at least one of the two indicators in their last PEFA assessment, while three (Georgia, Malawi, the Philippines) scored a “B” or higher in both indicators.

⁴⁷ The Agile PEFA report is a more streamlined approach to the PEFA process and PEFA report format. The Agile PEFA still applies the existing PEFA 2016 methodology, indicators set, calibration, and scoring.

⁴⁸ These three PEFA assessments are yet to be published.

<i>ATI Partner Country</i>	<i>Assessment Year</i>	<i>P19: Revenue administration</i>	<i>P20: Accounting for revenue</i>
Afghanistan	2018	D+	C+
Burkina Faso	2017	C	D+
Cameroon	2017	D+	B+
Ethiopia	2019	C+	C+
Georgia	2018	B+	A
Ghana	2018	D+	C+
Indonesia	2017	C+	A
Kenya	2019	D+	D+
Liberia	2016	B+	C+
	2021	Not public	
Madagascar	2018	C	D+
	2021	Not public	
Malawi	2018	B	A
Mongolia	2021 (Agile PEFA)	Not public	
Pakistan	2020	Not public	
Paraguay	2016	B	C+
The Philippines	2016	B	A
Rwanda	2017	C+	B+
Senegal	2020	C	C+
Sierra Leone	2018	C+	C+
Tanzania	2017	C+	B+
Uganda	2017	B	D+

Table 2: PEFA scores for ATI partner countries: Indicators P19 and P20

Source: PEFA assessment scores

Note: Assessed countries receive a grade between A+ (highest) to D (lowest) for each of the assessment criteria, whereby grades for each one of the assessment criteria are based on distinct definitions. See PEFA (2018) for more information.

Public accountability for tax revenues

Improving the transparency of tax policies, administration, and collection is vital to ensure that tax systems are developed effectively, respond to the needs of citizens and that revenues are accountably collected and utilised. A key source available for tracking the transparency and accountability of tax systems is the International Survey on Revenue Administration (ISORA), which is governed by four partner organisations: CIAT, the IMF, IOTA and the OECD. The 2016 and 2018 iterations of the ISORA survey included questions on whether the tax administrations of partner countries promote public accountability by publishing (i) a strategic plan, (ii) an annual business/operational plan, (iii) service delivery standards, (iv) the results of its service delivery efforts, and (v) an annual report.

Data has been collected through ISORA on these indicators for 15 of the 25 ATI partner countries over the period 2015-17. This data suggest that an increasing proportion of ATI partner countries have published strategic plans, annual business/operational plans and annual reports of their tax administration. However, the number of ATI partner countries that publish information on the service delivery standards of their tax administrations has stagnated during 2015-17, and the number of these countries which have published the results achieved in working to deliver these standards has slowly increased, but from a very low base (only four publish such results).

Table 3 illustrates the performance of these ATI partner countries across the five areas of public accountability assessed through ISORA.⁴⁹ The table indicates that Ghana, Kenya, Paraguay and Uganda publish all five information sources assessed in the ISORA survey, whilst three countries (Ethiopia, Indonesia, Malawi) publish four out of the five sources. Eleven ATI partner countries, however, do not publish any of the indicated sources. The table also shows that ATI partner countries are more likely to publish the strategic plan and annual report (all but one reporting country publish these sources). Countries are least likely to report the results they achieve against service delivery standards.

⁴⁹ Responses to survey questions are only available for five ATI partner countries in 2018. For countries where 2018 data is unavailable, 2017 data is used.

	<i>Does the government publish its strategic plan?</i>	<i>Does the government produce and publish its annual business/operational plan?</i>	<i>Does the government produce and make public a formal set of service delivery standards?</i>	<i>Does the government publish the results it achieves vis-à-vis its formal service delivery standards?</i>	<i>Does the government publish its annual report?</i>
Afghanistan	✓	✗	✓	✗	✓
Cameroon	✓	✓	N/A	N/A	✓
Ethiopia	✓	✓	✓	✗	✓
Gambia, The	✓	✓	✗	✗	✓
Georgia	✓	✓	✗	✗	✓
Ghana	✓	✓	✓	✓	✓
Indonesia	✓	✓	✓	✗	✓
Kenya	✓	✓	✓	✓	✓
Madagascar	✗	✗	N/A	N/A	✗
Malawi	✓	✓	✓	✗	✓
Mongolia	✓	✓	✗	✗	✓
Paraguay	✓	✓	✓	✓	✓
The Philippines	✓	✓	✗	✗	✓
Solomon Islands	✓	✓	N/A	N/A	✓
Uganda	✓	✓	✓	✓	✓

Table 3: Results from the ISORA survey on the transparency of tax administrations in ATI partner countries

Source: ISORA

Transparency of tax expenditures

Tax expenditures are provisions in tax rules that allow for reductions or deferrals in taxes for businesses or individuals. This is meant to promote investment in a particular area of the economy or stimulate economic activity amongst particular groups of taxpayers. While these can be useful tools, transparency facilitates cost-benefit assessments and helps to ensure that these tools are applied appropriately.

The Open Budget Survey (OBS) – a biennial survey of global budget transparency – includes an indicator tracking the transparency of the application of tax expenditures by partner countries. In this survey, researchers based in the assessed country respond to 228 questions. The relevant question in this survey asks researchers: “Does the Executive’s Budget Proposal or any supporting budget documentation present information on tax expenditures for at least the budget year?”. Countries are graded “A” to “D” based on the level of transparency of their tax expenditures, with “A” being the highest grade and “D” being the lowest.⁵⁰ IBP has assessed 22, 23 and 23 of the 25 ATI partner countries against this indicator in their surveys in 2016, 2018 and 2019, respectively.⁵¹

Figure 16 illustrates the spread of ATI partner country scores across the four grades in 2016, 2018 and 2019. Across the three years, no countries were awarded an “A”, and only Mongolia received a “B” score in both 2018 and 2019. No countries received a “B” in 2016. The proportion of countries that received a “C” fell from 2016 to 2018, remaining constant in 2019 at 34.8%, and the proportion of “D” grades rose in 2018 and remained constant in 2019 at 60.9%.

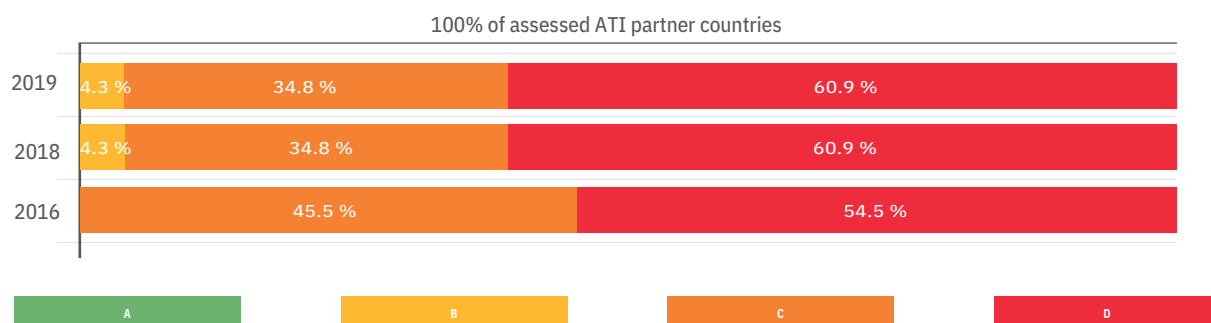


Figure 16: Distribution of scores for ATI partner countries in relation to the OBS question on the transparency of tax expenditures

Source: : Data from the 2016, 2018 and 2019 Open Budget Survey (IBP 2016, 2018 and 2019)

⁵⁰ Possible answers to these questions and corresponding grades include:

- Yes, information beyond the core elements is presented for all tax expenditures (grade A);
- Yes, the core information is presented for all tax expenditures (grade B);
- Yes, information is presented, but it excludes some core elements or some tax expenditures (grade C);
- No, information related to tax expenditures is not presented (grade D).

⁵¹ Ethiopia and Solomon Islands were not assessed in any of the OBS. The Gambia was not assessed in the 2016 OBS.

Overall, transparency in applying tax expenditures amongst ATI partner countries has worsened in recent years, although two of these countries improved their scores by a grade (Mongolia, from C to B, and Senegal, from D to C) in 2019, and seven ATI partner countries maintained a constant “C” grade in 2016, 2018 and 2019.

Progressive taxation to address inequality and poverty

Tax policy and reforms can have significant impacts on who pays taxes within a country. Tax reforms that increase tax incidence on those with higher incomes are considered “progressive”, while reforms that result in a higher burden on the poor are considered “regressive”. Progressive tax policies and reforms are instrumental in efforts to address income and wealth inequality.

To examine the steps ATI partner countries have taken to make their tax systems more progressive, the 2019 ATI Monitoring Report makes use of the Commitment to Reducing Inequality (CRI) Index developed by Oxfam and Development Finance International (DFI). The CRI Index is one of the most comprehensive datasets available to assess efforts made across countries in promoting equitable taxation. The CRI Index incorporates a “Progressivity of Tax” pillar,⁵² which includes several sub-indicators that are used to assess country performance. The ATI monitoring exercise makes use of two of these sub-indicators to monitor performance on equitable taxation.

1. Progressivity of the tax structure, i.e. the degree to which each country is designing its tax system with an intent to be progressive
2. Impact of tax collection on levels of inequality (as measured by the Gini coefficient⁵³), i.e. the degree to which actual tax collection in each country is helping to reduce inequality.

The CRI Index from 2019 includes data on all 25 ATI partner countries. Figure 15 illustrates the scores of ATI partner countries against the two indicators on a scale between 0 and 1, where 1 represents the maximum level of progressivity and impact on inequality, and 0 represents the minimum level.

The ATI partner countries with the most progressive tax structures in 2019 include Pakistan (0.77), Nepal (0.74), Cameroon (0.73), the Philippines (0.69), and Malawi (0.68). Those with the least progressive tax structure were Georgia (0.22), Paraguay (0.36), Mongolia (0.41), Madagascar (0.48), and Solomon Islands (0.50).

The ATI partner countries whose tax collection efforts have the most significant impact on reducing the Gini inequality coefficient in 2019 included Tanzania (0.86), Georgia (0.84), Kenya (0.78), Ghana (0.70), and Ethiopia (0.68). Countries in which tax collection efforts had the least impact on reducing the Gini inequality coefficient in 2019 were the Solomon Islands (0.38), Burkina Faso (0.42), Mongolia (0.44), Madagascar (0.51), and Nepal (0.54).

⁵² The CRI Index consists of three pillars: progressivity of public spending, progressivity of tax, and progressivity of labour policies.

⁵³ The Gini coefficient is a statistical measure of economic inequality. It measures the dispersion of income or distribution of wealth amongst the members of a population.

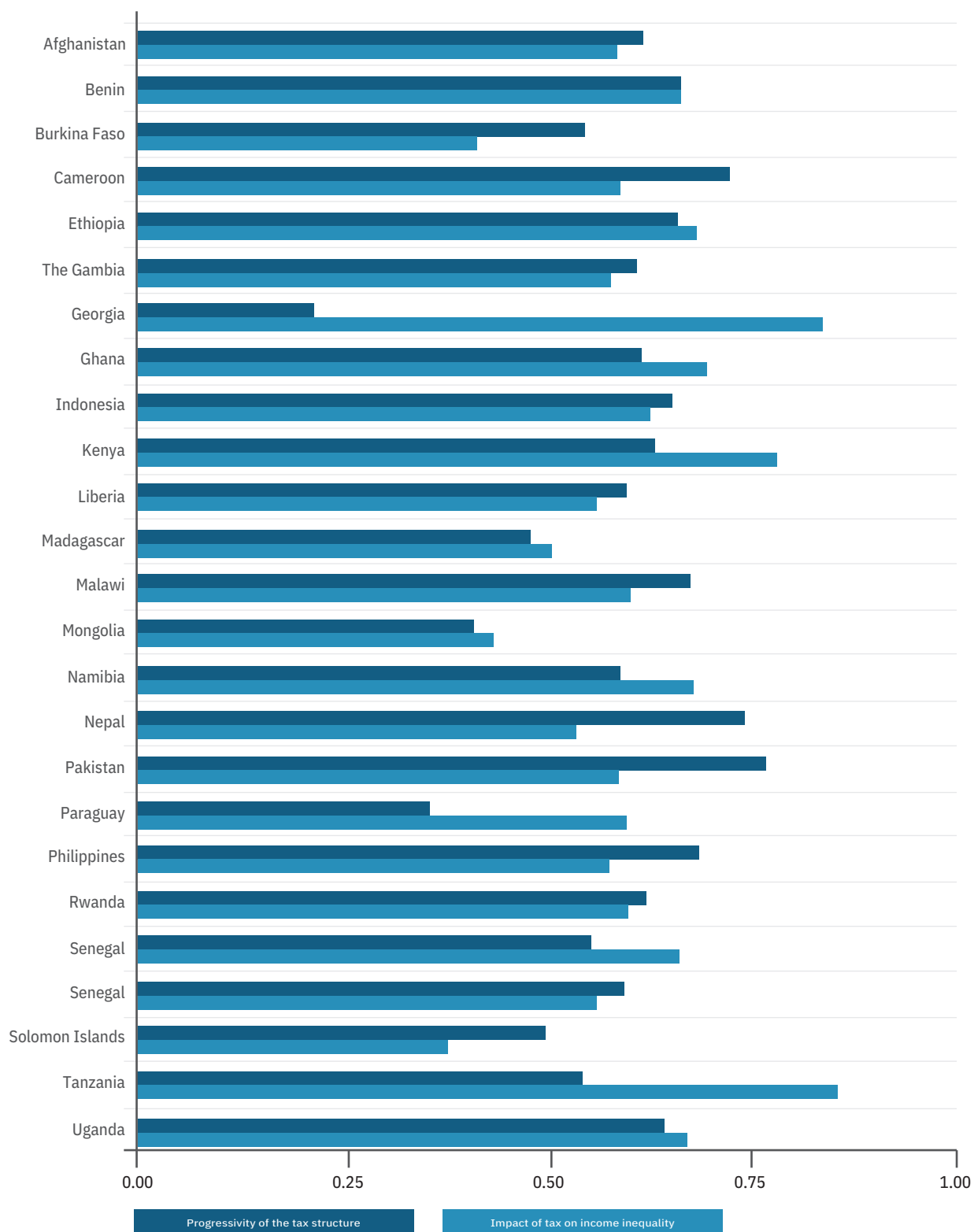


Figure 17: CRI Index scores across ATI partner countries on the progressivity of tax structures and the impact of tax collection on inequality, 2019

Source: Oxfam and DFI (2020)

Amongst the 25 ATI partner countries, those that ranked in the top 10 amongst ATI partner countries for both indicators in 2019 included Benin (6th for progressivity of tax structure and 8th for impact of tax collection on inequality), Ethiopia (7th and 5th), Indonesia (8th and 10th), Kenya (10th and 3rd), and Uganda (9th and 7th). Those that ranked in the bottom 10 for both indicators in 2018 included Burkina Faso (19th for progressivity of tax structure and 24th for impact of tax collection on inequality), Madagascar (22nd for both indicators), Mongolia (23rd for both indicators), Sierra Leone (16th and 20th), and Solomon Islands (20th and 25th).

The scatter plot in Figure 18 shows the CRI Index score for progressivity of tax structures (x-axis) and the impact of actual tax collection on the Gini inequality measure (y-axis) for each ATI partner country. This graph illustrates that most countries have similar scores for both elements of the CRI Index, which suggests that equitable tax collection emerges from an equitable tax structure. However, outliers Georgia and Tanzania (both scoring higher on tax collection than tax structure), as well as Pakistan and Nepal (both scoring higher on tax structure than tax collection), suggest this may not always be the case.

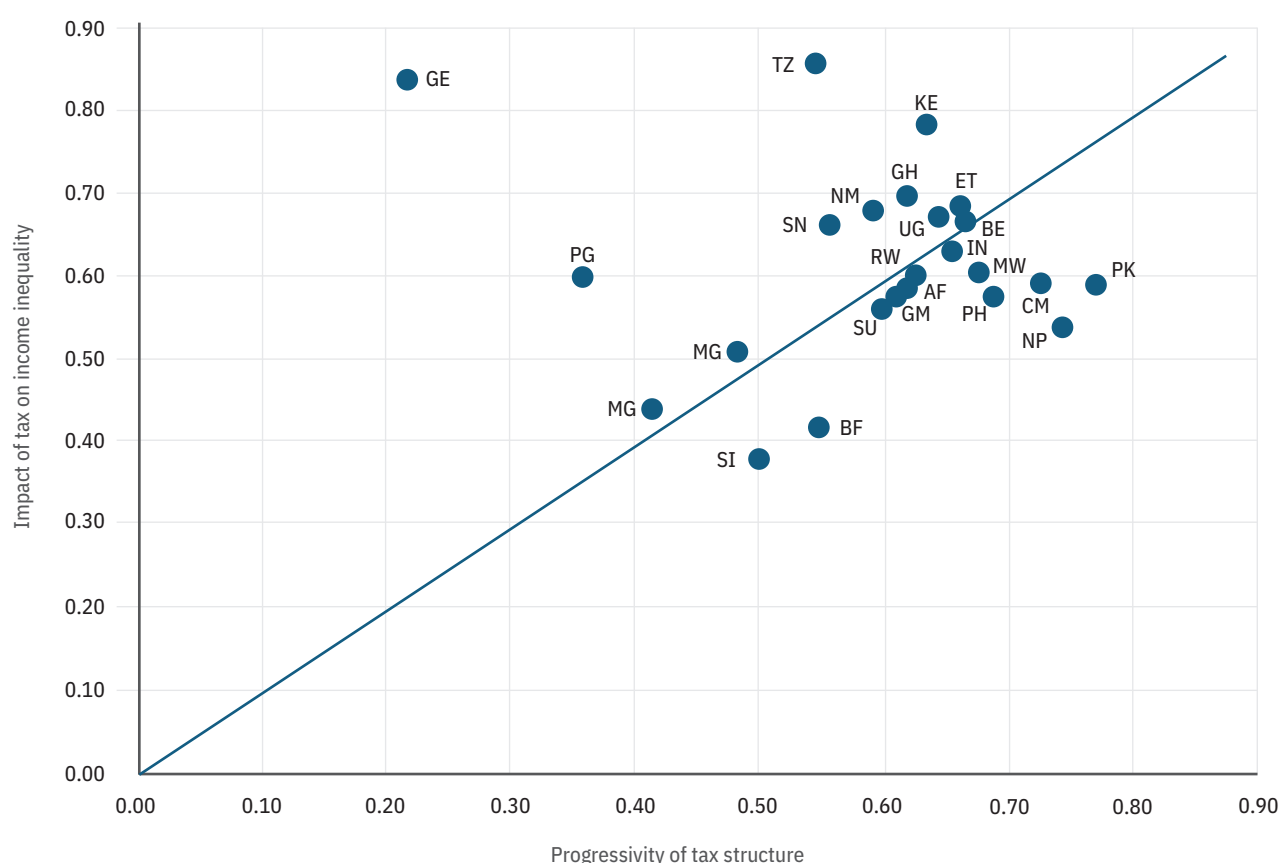


Figure 18: Scatter plot of CRI Index scores across ATI partner countries on progressivity of tax structure and impact of tax collection on inequality, 2019

Source: Oxfam and DFI (2020)

Insights from ATI partner country surveys

This section presents some brief insights from the responses to the 2019 ATI Monitoring Survey on the Commitment 2 from the nine countries that completed the survey.

Afghanistan

The former Government of Afghanistan highlighted its efforts to implement a VAT plan, which has been approved for operation in 2021.⁵⁴ The former Government also credits the expansion of e-filing systems and public awareness campaigns for the recent increase in revenue collection and the overall tax base. It noted that while the country saw impressive increases in revenue collection as a result of these efforts, the COVID-19 pandemic will have a stark negative impact on its collection targets.

Georgia

The Georgian Government highlighted its efforts to introduce tax registration reforms to identify unregistered activity and to ensure accurate categorisation of taxpayers, ensure timely filing and accurate declarations through setting up a dedicated unit to support this work, improve indicators monitoring progress, consolidate a new assessment system for VAT, and establish a unit dedicated to addressing debt management.

Ghana

The Government of Ghana emphasised its commitment to raise the tax-to-GDP ratio to 20% by 2023. This commitment was introduced as part of the Ghanaian COVID-19 Alleviation and Revitalisation of Enterprises Support (*Ghana CARES*) '*Obaatan Pa*' Programme. This is a wide-ranging programme, which aims to guide Ghana's efforts to recover from the COVID-19 pandemic and is to be funded mainly by raising tax revenues. This programme proposes to raise tax revenues by narrowing the scope of tax exemptions, broadening the tax base (including through introducing property taxes), and improving the efficiency of tax administration, including in relation to customs operations, tax compliance, and the use of technology.

Kenya

The Kenyan Government highlighted its efforts to expand the tax base through an expansion programme that aims to recruit new taxpayers and increase the compliance level of new and existing taxpayers. The Kenyan Revenue Authority has implemented several legislative, technological, and administrative initiatives to enhance DRM, including an amendment to the Income Tax Act (2019) to include income generated via digital marketplaces. It has also undertaken efforts to increase compliance in sectors such as construction and real estate.

⁵⁴ The ongoing political uncertainty in Afghanistan means that it is likely that implementation of this plan will have been disrupted.

Madagascar

The Government of Madagascar emphasised the continuation of its digital initiative programme, which includes the expansion of electronic payment of taxes, online declaration of taxes and duties, remote transmission of financial statements, and the declaration and payment of tax by mobile phone. It has also continued reforms focused on broadening the tax base through efforts to formalise the informal economy.

Mongolia

Although no particular DRM strategy has been approved, the Mongolian Government highlighted its efforts to support taxpayers, improve the accuracy of tax returns, and monitor the development of the tax base through online registration and payment initiatives. The Government noted recent amendments to land and mineral laws to provide for increased tax revenues. Additionally, Mongolia introduced tax transparency standards for large multinational corporations and joined the Convention on Mutual Administrative Assistance in Tax Matters.

Pakistan

Pakistan emphasised a number of areas of progress in developing its tax system in 2019. Firstly, it noted how it has introduced amendments to its fiscal laws in order to rationalise its tax rates and exemptions, thereby making its tax system simpler. Secondly, it highlighted that it has created offices dedicated to supporting the administration of tax processes for high turnover taxpayers, in order to support effective audit and enforcement. Thirdly, it emphasised that it has improved the automation of tax process with the intention of lessening the burden of administering taxes. Fourthly, it reported having increased its emphasis on internal audit and inspection, in order to promote adherence to fiscal laws. Finally, it noted that it has increased investments in research and analysis carried out by Pakistan's Federal Board of Revenue for the purpose of promoting evidence-based decision-making on tax policies.

Paraguay

The Paraguayan Government highlighted recent tax reforms made to facilitate citizens' compliance with their tax obligations based on their taxable capacity. Within the first two years of implementation, the tax reforms have allowed for major improvements regarding the expansion of the tax base and equity in the payment of taxes. The Government also highlighted the implementation of electronic invoicing through the SIFEN (Sistema Integrado de Facturación Electrónica Nacional) Project.

Sierra Leone

The Government of Sierra Leone highlighted its efforts to increase its tax base through taxpayer education programmes and the dissemination of information on the work of the Revenue Administration. It is noteworthy that civil society organisations (CSOs) have also engaged in taxpayer sensitisation programmes and have aided in carrying out tax perception surveys. The Government also referenced its efforts to reduce corruption in revenue administration, the automation of tax systems and processes, as well as the enactment of the Finance Act (2019), which contains provisions for enhancing domestic revenue.

Case study 2: Mongolia's efforts to enhance DRM

Mongolia's total tax revenues increased from 17.8% of GDP in 2016 to 23.6% of GDP in 2019, with tax administration revenue increasing from 11.5% of GDP to 15.3%, and customs tax revenue increasing from 6.3% of GDP to 8.3% of GDP over this period. This increase in overall tax revenue has been driven by a number of factors, including growth in value-added tax revenues.

Increases in VAT revenues have emerged as a result of significant new reforms to the administration of this tax. A revised Value Added Tax Law was approved in 2015 and came into force on 1 January 2016. A central feature of these reforms was the introduction of a compulsory Electronic Payment Receipt System which targeted the trade, wholesale and retail sectors in an effort to decrease the hidden economy and better capture the incomes of businesses and individuals. The new policy also aimed to address concerns raised by trade bodies and parliamentarians, who raised the issue that the reforms would be particularly challenging for small businesses, by also increasing the VAT threshold from MNT 10 million to MNT 50 million. Finally, the reforms included a number of incentives to promote compliance, including the refunding of 20% of VAT payments in the quarter after the payments are made, and the introduction of a lottery to which all those registered for VAT are entered and have the opportunity to win cash prizes.

As a result of these legal reforms, the number of value-added tax withholders increased from 32,853 in 2016 to 38,600 in 2019, and levels of VAT collected more than doubled over this period, increasing from MNT 485.2 billion in 2015 to MNT 1,088.3 billion. These reforms are reported to have also helped improve taxpayer's monitoring of the implementation of the tax law and the business environment, and to have reduced the size of the hidden economy.

Conclusion

ATI Commitment 2 focuses on partner countries' actions to expand tax revenues, strengthen tax administration capacity, and improve the transparency and accountability of tax administrations. The data and survey responses collected this year show that ATI partner countries are making progress in some of these areas, although this has been modest in relation to transparency and accountability, and evidence on the equity of tax systems is insufficient.

Average tax-to-GDP ratios across ATI partner countries increased to 15.47% in 2019, as compared to 15.43% in 2018, 15.13% in 2017, 14.71% in 2016, and 14.70% in 2015. This trend is supported by the fact that 15 ATI partner countries have increased their tax-to-GDP ratios since 2015, and that their increases have generally been more substantial than the falls in tax-GDP-ratios experienced by the remaining nine ATI partner countries for which data is available. However, this performance still leaves the average tax-to-GDP ratio for ATI partner countries at just above 15; the minimum thought to be necessary to support sustainable growth (Mascagni et al. 2014).

Tax revenues, particularly those generated from taxes on goods and services, as well as those generated from taxes on international trade and transactions, appear to be less significant for

overall revenue-raising efforts of ATI partner countries than in recent years. Given that the incidence of taxes on goods and services often falls more heavily on people with lower incomes, their decreased significance for ATI partner countries may point towards their tax systems becoming more progressive. In agreeing to address tax equity issues in the ATI monitoring process, ATI partner countries have further signalled that this issue should be given greater emphasis.

Over the last year, a number of ATI partner countries have undertaken or updated TADAT and PEFA assessments, representing continued efforts to diagnose and address tax capacity weaknesses. The analysis also suggests that ATI partner countries have made some modest improvements in the transparency of their tax administrations but have not made progress in improving the level of transparency for tax expenditures.

Expert piece

Broadening the tax base: how and to whom?

Giulia Mascagni, International Centre for Tax and Development (ICTD)

How to increase domestic revenue in low-income countries? Governments across the world have been grappling with this question for a long time and even more so during the COVID-19 pandemic, which further increased the gap between available revenue and financing needs. A common answer to this question is that governments should “formalise the informal sector”.⁵⁵ While there is a sensible rationale behind this suggestion, in practice, implementing it successfully can be more problematic than one might expect.

Low-income countries (LICs) typically have larger shadow economies than their higher income counterparts, which is associated with more widespread tax evasion.⁵⁶ Bringing as many firms and people as possible into the tax net should ensure that everyone contributes their fair share, whether they are large or small taxpayers, and that as many citizens and businesses as possible engage with the taxpaying process as part of their broader relationship with the state – the participation dividend.⁵⁷ In this sense, broadening the tax base has the potential to increase revenue and to potentially trigger a virtuous cycle of citizen engagement, government accountability, and transparency.⁵⁸ This argument is, of course, sensible – at least in theory. Recent research, however, shows that translating it into practice presents unexpected challenges, making things a lot more complex than one might expect. There are at least three considerations to make, to assess whether the benefits of formalising the informal sector are worth the risks.

Firstly, as economists Ravi Kanbur and Mick Keen had already argued in 2015, reducing infor-

⁵⁵ Max Gallien, Mick Moore and Vanessa van den Boogaard, *Taxing the informal economy is not a silver bullet for financing development – or the COVID-19 recovery*, (Institute of Development Studies, 2021), <https://opendocs.ids.ac.uk/opendocs/handle/20.500.12413/16574>

⁵⁶ Friedrich Schneider, *The Shadow Economy and Work in the Shadow: What do we (not) know?*, Discussion paper (Bonn: Institute for the Study of Labour, 2012), <http://ftp.iza.org/dp6423.pdf>

⁵⁷ Jonathan Weigel, *The Participation Dividend: How citizens in Congo engage more with the state when it tries to tax them*, *Quarterly Journal of Economics*, 2020, vol. 135(4): 1849-1903, <https://doi.org/10.1093/qje/qjaa019>

⁵⁸ There is a broader literature on formalisation, which discusses other possible benefits, such as enforceable contracts, access to government subsidies, contracts, and incentives, amongst others. In this piece I only discuss formalisation in relation to issues more directly related to taxation.

formality “may be a great slogan, but it is of little value as a practical objective for tax reform”.⁵⁹ When it comes to its relation with taxation, the concept of informality is sometimes used to refer to those who don’t pay any tax, and sometimes to those who sit entirely out of the tax net. Tax compliance is, in fact, much more complex than the binary distinction between evaders and compliers, or formality and informality. There are at least five steps that define it: 1) whether firms are registered with the tax administration; 2) whether they submit tax declarations; 3) whether they report any meaningful information in their declarations (i.e. they are not “nil-filers”);⁶⁰ 4) whether any amount they self-report in their declaration is accurate; 5) that they pay taxes in full and on time.⁶¹ As a result, the boundary between formality and informality is more blurry than it is generally intended to be, and it is populated by various types of informal actors – from firms that are completely outside the tax net to those who are within the tax administration’s radar but still contribute zero tax. The latter (i.e. non-filers and nil-filers) are the majority of registered taxpayers in many low-income countries.⁶²

Second, and relatedly, formalising the informal sector often means, in practice, conducting mass registration campaigns where large numbers of new taxpayers are recruited into the tax registry – typically small and micro firms. Recent research has shown that these strategies yield little revenue, if any. The main reason is that these new taxpayers are very small and they tend not to be fully compliant, even after they are registered.⁶³ Often they end up being non-filers and nil-filers, as described above. This is not necessarily related to evasion. Recent research from Rwanda shows they might genuinely not be liable to pay any tax if, for example, they fall below the exempt threshold for paying any tax, or if they are recruited before being actually operational.⁶⁴ If formalising the informal sector means recruiting many small taxpayers, it might not yield the expected benefits on revenue generation. On the contrary, it might represent a large cost for the tax administration, both to recruit them and manage them after registration. It might even be counterproductive: if new taxpayers are not given the necessary information about their rights and obligations, they might simply feel confused about the tax system, which could fuel perceptions of unfairness and distrust in government. In this scenario, one cannot expect the virtuous cycle of engagement, accountability, and transparency to occur in practice.⁶⁵

⁵⁹ Ravi Kanbur and Michael Keen, *Reducing Informality*, Finance & Development, March 2015, <https://www.imf.org/external/pubs/ft/fandd/2015/03/kanbur.htm>

⁶⁰ Nil-filers are taxpayers who are registered, file declarations, but report zero sales, zero expenses, and zero tax liability. A large portion of registered taxpayers in many low-income countries are nil-filers. More on the issue of nil filers and non-filers available in: Mascagni, G., F. Santoro, D. Mukama, J. Karangwa, and N. Hakizimana (2020). *Active ghosts: Nil-filing in Rwanda*. Working Paper 106, International Centre for Tax and Development, <https://www.ictd.ac/publication/active-ghosts-nil-filing-rwanda-rra/> ; Moore, M. (2020). *What is wrong with african tax administration?* Working Paper 111, International Centre for Tax and Development, <https://www.ictd.ac/publication/wrong-african-tax-administration/> ; Santoro F. (2021) *To file or not to file? Another dimension of tax compliance – the Eswatini Taxpayers’ survey*, Journal of Behavioural and Experimental Economics (ungated working paper version available here: <https://www.ictd.ac/publication/filing-taxes-another-dimension-non-compliance-eswatini-taxpayer-survey/>).

⁶¹ These five steps might also follow different rules (e.g. thresholds, reporting requirements) depending on the tax type – and typically firms pay more than one tax type (e.g. tax on business profits and VAT).

⁶² See references in footnote 61.

⁶³ Lediga C., Riedel N., Strohmaier K. (2020) *Lediga, Collen and Riedel, Nadine and Strohmaier, Kristina, What You Do (and What You Don’t) Get When Expanding the Net – Evidence from Forced Taxpayer Registrations in South Africa*, available at SSRN: <https://ssrn.com/abstract=3616808> or <http://dx.doi.org/10.2139/ssrn.3616808>

⁶⁴ See Mascagni et al. (2020), referenced above.

⁶⁵ More on the conditions under which the tax-accountability link can occur in practice in: van den Boogaard V., Prichard W., Beach R. and Mohiuddin F. (2020) *Strengthening Tax-Accountability Links: Fiscal Transparency and Taxpayer Engagement in Ghana and Sierra Leone*, ICTD Working Paper 114, <https://www.ictd.ac/publication/tax-accountability-fiscal-transparency-taxpayer-engagement-ghana-sierra-leone/>

Third, when “formalising the informal sector”, governments need to be aware that those small taxpayers who are entirely out of the tax net are usually making several tax-like payments and informal contributions at the local and community level. While some of these informal contributions are not taxes in the formal sense of the word, they are often similar to taxes in the sense that they are compulsory and linked to the provision of public services. For this reason they have often been labelled “informal taxes”.⁶⁶ These contributions are typically highly regressive, bearing unfairly on the smallest firms and poorest households.⁶⁷ The notion that the “informal sector”, intended as small and unregistered taxpayers, is entirely un-taxed is therefore flawed: while it is true that these actors are not registered, they pay taxes and make contributions that do not necessarily require registration with the national tax administration. These often amount to a significant burden.

While the risks of formalising the informal sector might outweigh its benefits, at least in tax terms, one can get a more optimistic picture by broadening the definition of informal sector. Informality should not only be seen in the traditional sense of small and micro unregistered firms. It also concerns pockets of informality in large firms (e.g. informal transactions made by large formal firms), evasion by relatively wealthy individuals (e.g. professionals like lawyers or dentists, who are typically self-employed and self-assessing their taxes) and untaxed incomes of the better-off (e.g. rental incomes, incomes from capital gains and investment, for which the relevant laws exist but are typically enforced very imperfectly).⁶⁸ This type of informality, linked to the better-off in society, has much more revenue potential than strategies to “formalise the informal sector” that focus exclusively on registering small or micro firms that would contribute very little revenue, if any.

⁶⁶ See, for example: Olken.B and M.Singhal (2011) “Informal Taxation”, *American Economic Journal: Applied Economics*, 3: 1-28; Moore M., Prichard W., Fjeldstd O.-H. (2018) *Taxing Africa*, Chapter 7 “Small taxes and Large Burdens: Informal and subnational revenue”, ZED books, available at: <https://www.ictd.ac/publication/taxing-africa-coercion-reform-and-development/>.

⁶⁷ In addition to the references cited in footnote 13, also see Paler L., Prichard W., Sanchez de la Sierra R. and Samii C. (2017), *Survey on Total Tax Burden in the DRC*, available at <https://www.ictd.ac/publication/survey-on-total-tax-burden-in-the-drc/>.

⁶⁸ Kangave, J., S. Nakato, R. Waiswa, M. Nalukwago, and P. L. Zzimbe (2018), *What can we learn from the Uganda Revenue Authority’s approach to taxing high net worth individuals?* Working Paper 72, International Centre for Tax and Development, <https://www.ictd.ac/publication/what-can-we-learn-from-the-uganda-revenue-authoritys-approach-to-taxing-high-net-worth-individuals/>; Kangave J., Byrne K., and Karangwa J. (2020), *Tax Compliance of Wealthy Individuals in Rwanda*, ICTD Working Paper 109, <https://www.ictd.ac/publication/tax-compliance-wealthy-individuals-rwanda/>; Mascagni G. and McCluskey R. (2021), *Pandora’s box is open: What should lower-income countries do to tax the wealthy now?*, ICTD Blog, <https://www.ictd.ac/blog/pandora-lower-income-countries-tax-wealthy-now/>.

ATI Commitment 3

“All ATI member countries commit to promote and ensure policy coherence for development.”

Introduction

Commitment 3 of the ATI focuses on the efforts of ATI members to ensure policy coherence for development in the area of DRM. Pursuing policy coherence for DRM requires understanding the relationship between all policies and DRM outcomes in partner countries, and then addressing the trade-offs that emerge when these policies come into tension with the DRM efforts of partner countries. For ATI partner countries, this commitment requires them to ensure that all of their tax and other policies help to maximise their own domestic revenues. For ATI development partners, it requires them to ensure that their tax policies and other policies help to maximise DRM in partner countries.

Summary of findings

The responses of ATI members to the 2019 ATI Monitoring Survey on Commitment 3 show that:

- Of the 18 responding ATI development partners, only eight have some sort of strategy in place for addressing policy coherence that at least references DRM issues.
- Of the 18 responding ATI development partners, at least 14 have formal or informal structures that support cross-government engagement on DRM issues.
- Of the 21⁶⁹ responding ATI member countries, 19 state to have an exchange-of-information relationship reflecting the international standard on exchange of information for tax matters with other countries. Of the 18 responding ATI development partners, all confirm that they have an exchange-of-information relationship with some ATI partner countries.
- All ATI development partners and 13 ATI partner countries are formally participating in the OECD/G20 Inclusive Framework on BEPS.
- All ATI development partners and 15 ATI partner countries are signatories of the Convention on Mutual Administrative Assistance in Tax Matters.
- All but one ATI development partner and seven ATI partner countries are signatories of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS.

Methodology of the 2019 ATI Monitoring on Commitment 3

Monitoring the efforts and results of ATI members on policy coherence is done through self-reported data and information on policy coherence gathered through the 2019 ATI Monitoring Survey on Commitment 3. Since there is currently no standard or universally accepted list of indicators to assess policy coherence for DRM, the ATI has developed its own list of indicators, in

⁶⁹ For this indicator, the EU is excluded from reporting as it is not a sovereign state.

dialogue with its members, which are asked to highlight their own experiences and contributions through the survey. For some of these indicators – most notably the endorsement of/engagement with relevant international agreements and processes on issues such as tax cooperation – the latest publicly available information on the status of each ATI member country is utilised.

The survey asks ATI member countries to report on their domestic strategies and inter-agency cooperation approaches for promoting policy coherence for development in relation to DRM, to identify key strengths and weaknesses in their approaches to policy coherence for DRM, and to identify the progress they have made since 2019. In particular, ATI member countries are asked to report on actions to improve policy coherence for DRM in key areas.

Across the membership, 26 countries (18 development partners and nine partner countries) replied to the 2019 ATI Monitoring Survey on Commitment 3. Thus, it must be kept in mind that this chapter provides only a partial picture of the efforts by ATI member countries to address policy coherence for DRM.

Findings

Examples of coherent domestic policies and inter-agency cooperation from ATI member countries

Based on responses to the 2019 ATI Monitoring Survey on Commitment 3, this section presents some insights on the approaches of ATI member countries to addressing policy coherence in relation to DRM, with an emphasis on identifying recent progress.

Australia

In order to further address the issue of tax avoidance, the Australian Government announced whole-of-government measures to reduce tax avoidance and address, in its 2018-19 budget, the recommendations from the Black Economy Taskforce Final Report of 2017. In the 2019-20 budget, the Australian Government also announced that the Tax Avoidance Taskforce would continue to operate until 2023.

Denmark

The Danish Government states that it is putting a high priority on combatting both national and international tax fraud and tax evasion. In order to contribute to this effort, Denmark is currently pushing to improve criteria for including countries in the EU list of non-cooperative jurisdictions (i.e. non-EU countries that are judged to encourage abusive tax practices which erode member states' corporate tax revenues).

Finland

The Finnish Government's new Taxation for Development (T4D) Action Programme for 2020-2023 includes objectives to ensure that companies that implement or participate in Finnish aid programmes apply tax policies responsibly, and contribute to strengthening the position of developing countries in the global tax policy system. DRM is also incorporated into Finland's first

comprehensive Africa strategy, published in 2021.

Ghana

The Ghanaian Government has developed three strategic plans to enhance DRM and is facilitating workshops for state actors to ensure inter-agency cooperation. In addition, a department within the Ghana Revenue Authority has been tasked with developing a formal strategy for policy coherence on DRM.

Ireland

The Irish Government's new policy for international development, "A Better World", commits to an all-of-government approach to international development, including the taxation and development arena. This has resulted in the creation of a cross-government DRM group, which brings together the Department of Foreign Affairs and Trade, the Department of Finance, and the Office of the Revenue Commissioners, to collaborate on supporting DRM efforts and strengthening tax administrations in partner countries.

Netherlands

The Netherlands has a strategy for policy coherence for development which includes an emphasis on tax. It focuses on three sub-goals in relation to tax: better international agreements on collecting taxes on real economic activities; building structural capacity for effective tax policy and tax collection in developing countries; and reducing the use of the Netherlands as a channel for tax avoidance in other countries, including partner countries. A range of activities has been identified for each sub-goal accompanied with a set of indicators in order to monitor progress. A progress report on this strategy is submitted to the parliament annually, and in 2021, an evaluation of the tax and development policy of the Netherlands will be undertaken, including a review of its approach to policy coherence on tax.

United Kingdom

HM Revenue and Customs, HM Treasury and the former Department for International Development (now the Foreign, Commonwealth and Development Office, FCDO) developed a common Tax for Development Vision (unpublished) that sets out a strategic framework focusing on strengthening government tax policies and supporting partner countries to develop their tax systems. At the country level, the UK's government Ministries share knowledge of partner countries, which helps to identify factors that may impede the success of each country's efforts to strengthen tax capacity.

Focus areas of policy coherence

Illicit financial flows

Illicit financial flows (IFFs) can be defined as financial movements between countries linked to a wide range of illegal activities, including tax evasion, abusive profit-shifting and trade mis-invoicing (misreporting commercial activities as means to transfer financial resources). These forms of IFFs have a direct and significant impact on DRM in partner countries as they limit the ability of countries to tax economic activity in their territory.

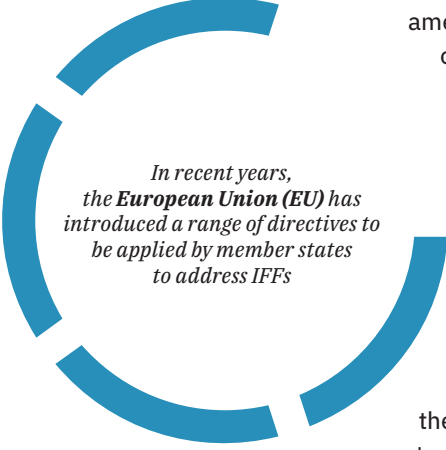
The illegal nature of IFFs makes it difficult to understand the real extent of this challenge and its impact on DRM in partner countries. However, estimates suggest that, across partner countries, these flows total more than USD 1 trillion annually, largely due to the impact of trade mis-invoicing (GFI 2015). Across Africa, flows of finance through tax havens were estimated to cost African countries USD 9.6 billion in tax revenues in 2014, equivalent to 2.5% of the total tax revenues in that continent (UNCTAD 2020).

In recognition of the negative impact that IFFs have on the ability of partners countries to mobilise development finance, the AAAA commits signatories to “redouble efforts to reduce IFFs by 2030, with a view to eventually eliminating them”. The AAAA also identifies the importance of addressing IFFs “through strengthened national regulation and increased international cooperation” (UN 2015, paragraph 23).

Box 3: The AAAA and Illicit Financial Flows

All ATI members responding to the 2019 ATI Monitoring Survey on Commitment 3 state that they are taking measures to address and combat IFFs. **Canada’s** 2019 budget introduced amendments to the Canada Business Corporations Act to ensure the beneficial ownership information maintained by federally incorporated corporations is readily available to investigative authorities. Canada also launched consultations on the creation of a public beneficial ownership registry in February 2020.

Italy, Germany, the OECD, and Kenya sponsor and fund the *Africa Academy Programme for Tax and Financial Crime Investigation*, based in Nairobi, which aims to provide demand-driven training addressing the specific needs of African countries to support their efforts to combat tax and financial crime. **Italy** also funds a project by the United Nations Department of Economic and Social Affairs (UN DESA) to strengthen the capacity of partner countries in sub-Saharan Africa to deal with tax base protection and broadening issues, with a view to increasing DRM for investment in sustainable development and to fight against IFFs.



*In recent years, the **European Union (EU)** has introduced a range of directives to be applied by member states to address IFFs*

In recent years, the **European Union (EU)** has introduced a range of directives to be applied by member states to address IFFs. These directives focus on issues such as money laundering, terrorist financing, and transparency to prevent aggressive cross-border tax planning. In addition, the EU provides assistance to partner countries through the new *Global Facility on Fighting Mon-*

ey Laundering and Terrorist Financing to put in place effective Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) frameworks.

In 2018, **Norway** introduced an Anti-Money Laundering Act. In 2019, it also introduced an Act on the Establishment of Beneficial Ownership Register. Implementing regulations for this Act are being informed by the outcome of a public consultation which began in late 2020.

Kenya has introduced provisions that obligate public and state officers to apply to the Ethics and Anti-corruption Commission to be allowed to own and operate accounts outside Kenya. The Kenya Revenue Authority has also formed an International Tax Office with policy and operations units, which focuses on the operations of multinational enterprises.

The Republic of **Paraguay**, as a member of the *Latin American Financial Action Task Force (GAFILAT)*, is being evaluated in the context of the 4th Round of Mutual Evaluations.

International tax cooperation

Addressing issues related to corporate tax avoidance and evasion requires cross-border collaboration and coordinated global action. The AAAA encourages the scaling up of this collaboration and action.

Exchange of Information (EoI) and Automatic Exchange of Information (AEOI)

A major challenge that tax authorities in partner countries face to effectively tax the activity of foreign corporations is gaining access to information which allows them to understand the nature and scale of local commercial activity. Initiatives to promote the automatic exchange of information (AEOI) on tax matters between tax authorities of different jurisdictions address this challenge by facilitating the identification of transactions that do not comply with local tax regulations.

All ATI development partners and 18 ATI partner countries are members of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) – a key international body working on the implementation of global transparency and exchange of information standards. All ATI development partners and 16 ATI partner countries (see Table 4) have so far signed the *Convention on Mutual Administrative assistance on Tax Matters* (MAAC) which is the most powerful multilateral instrument allowing for exchange of information and administrative cooperation in tax matters.⁷⁰ All ATI development partners, except the USA and five ATI partner countries, are signatories to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (CRS MCAA) – a multilateral agreement that specifies the details of what information needs to be provided through automatic information exchange mechanisms and that allows for bilateral exchange relationships between countries. This information is based on the status of ATI member countries as of August 2021.



All ATI development partners and fifteen ATI partner countries have signed the Multilateral Competent Authority Agreement.

Responses to the ATI Monitoring Survey suggest that the extent of EoI relationships, reflecting the international standard on exchange of information upon request in tax matters, vary signifi-

⁷⁰ The legal basis for the MCAA (which is agreed at competent authority level) rests in Article 6 of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which provides for the automatic exchange of information between Parties to the Convention, where two Parties subsequently agree to do so (OECD 2018).

cantly amongst ATI development partners and ATI partner countries. **Belgium** has developed the most extensive set of relationships, as it formally engages with 23 ATI partner countries on EoI, while **Norway** has such relationships with 19, and Sweden with 17 ATI partner countries.

At the other end of the spectrum, there are a number of ATI development partners that, to date, have a much more modest set of EoI relationships with ATI partner countries. These include **Canada, the Netherlands** and **Slovakia** (each of which have such relationships with eight ATI partner countries), as well as **Australia** and **Germany** (each of which have EoI relationships with nine ATI partner countries).

More broadly, responses to the 2019 ATI Monitoring Survey point out that, amongst ATI development partners, **Belgium** has the highest number of jurisdictions in its global EoI network (159 countries), followed by **the UK** (156 countries), **Norway** (151 countries) and **Canada** (143 countries). Amongst ATI partner countries, **Georgia** reports the highest number of countries in its EoI network (102 countries⁷¹), followed by the **Philippines** (42 countries⁷²), **Mongolia** (25 countries), **Liberia** (15 countries⁷³) and **Benin**⁷⁴ (9 countries). It is also the case that ATI partner countries such as Afghanistan, Madagascar, Paraguay and Sierra Leone haven't yet initiated any formal EoI relationships with other states.

In general, ATI partner countries have a much narrower range of EoI relationships than ATI development partners. This illustrates the capacity challenges that partner countries face in undertaking the required reforms and technical work to meet basic standards for EoI agreements. Many ATI development partners are supporting aid programmes that aim to address these other challenges encouraging developing countries to play an active role in the international tax system (see Chapter 1).

Responses to the 2019 ATI Monitoring Survey also highlight other examples of progress made by ATI members in relation to EoI. In 2019, the **European Commission** and **Germany** agreed on a joint programme to fight IFFs in Africa and operationalise the recommendations from the *Report of the High-Level Panel on Illicit Financial Flows from Africa*. They supported this programme through capacity building and in constant policy dialogue with the African Union Commission and the African Public Financial Management Network. In 2018, **France's** implementation of the international standards on transparency and exchange of information for tax purposes was assessed by the Global Forum and granted the highest grade possible (compliant). **Ghana** is currently implementing the recommendations from its *2018 Global Forum Peer Review*, especially on the "availability of ownership and identity information" and the "quality and timeliness of requests and responses". **Kenya** ratified the Convention on Mutual Administrative Assistance in Tax Matters in July 2020, and it came into force in January 2021. The **UK's** pilot programme with Pakistan to assist them in implementing the international standard on AEOI has enabled Pakistan to meet this standard and begin exchanging reciprocal data. A similar pilot in Ghana has been delayed, but it will soon be reactivated and may allow for access to reciprocal AEOI data in 2021.



*In 2019,
the **European Commission**
and **Germany** agreed
a joint programme
to fight IFFs in Africa.*

⁷¹ Based on reporting from the 2017 ATI Monitoring Survey on Commitment 3.

⁷² Ibid.

⁷³ Ibid.

⁷⁴ Ibid.


Base Erosion and Profit Shifting

Partner countries face significant challenges to raise revenues from the corporate sector due to profit shifting by some multinational/large enterprises – usually through the mechanism of payments between entities in a corporate structure so that they can report their activity in lower-tax jurisdictions –. This activity, which in recent years has been termed as Base Erosion and Profit Shifting (BEPS), is estimated to reduce global revenues by USD 100 to USD 240 billion a year, disproportionately affecting developing countries (OECD 2017).

As a result of the significant revenue implications of BEPS, international collaboration to address it has been growing, mainly through the OECD/G20 Inclusive Framework on BEPS. Addressing this issue is critical to promote policy coherence for DRM and is therefore an element of the ATI’s monitoring exercise and information-sharing work. All ATI development partners and a majority⁷⁵ of ATI partner countries have joined the Inclusive Framework and are working on implementing the BEPS standards, in accordance with their domestic capacities.

As part of the implementation at **EU** level of recommended anti-BEPS actions, the Council of the EU adopted the Directive (EU) 2018/822 on 25 May 2018, which lays down rules for a mandatory disclosure of certain potentially aggressive cross-border tax planning schemes.

Tax incentives for investment



It is important that tax incentives are applied in a careful and strategic way to ensure that they do not undermine countries’ ability to foster DRM.

One way that countries attempt to attract investment to their economies is through the granting of tax incentives, which are provisions allowing reduced levels of taxation to particular sectors, activities or geographical areas. These tax incentives include temporary exemptions from corporate income tax (“tax holidays”), reductions in tariffs or duties on the import of raw materials, and reductions in tax on profits remitted overseas. It is though far from conclusive whether and to what degree tax incentives can help to attract additional investment (Andersen et al. 2017), and partner countries can end up engaging in very damaging competition over the application of tax incentives, which can bring down tax rates rapidly (Gurtner & Christensen 2008).

Given that tax incentives involve reductions in the potential level of revenue generated by an economic activity, their application has a consequence for DRM efforts. It is therefore important that tax incentives are applied in a careful and strategic way to ensure that they do not undermine countries’ ability to foster DRM.

In order to prevent the harmful use of tax incentives, the AAAA commits signatories to reducing their use in the natural resource sector, and to designing tax incentives in a collaborative way, so as to avoid harmful tax competition. In line with this, ATI partner countries are asked to share the highlights of their activities with respect to tax incentives for investment in the 2019 ATI Monitoring Survey.

In **Madagascar**, while line ministries had formerly a right to incorporate tax incentives in their sectoral laws, the Minister of Finance now needs to be consulted for all tax incentives. **Malawi** undertakes reviews of tax incentives annually as part of the budget process, including exploring

⁷⁵ The exceptions are Afghanistan, Ethiopia, Ghana, Madagascar, Malawi, Nepal, Rwanda, Solomon Islands, Tanzania, the Gambia, and Uganda.

whether the objectives of the incentives have been met. For example, an assessment of a waiver on customs duties and import VAT on big buses in Malawi found that this measure had contributed to a proliferation of big buses and a reduction in transport fares in real terms (ATI 2020). The Ministry of Finance in the **Philippines** conducted a study on the effectiveness of tax incentives in the country, whose results showed that resource-seeking firms were granted redundant tax incentives and incentives that did not meet their set objectives (ATI 2020).

In the 2019 ATI Monitoring Survey, ATI member countries were asked whether they undertake regular reviews of their tax expenditures, which can help to evaluate whether they are effective and appropriate. Of the 17 ATI development partners who replied to this survey question, 14 stated that they undertake such reviews, and one confirmed an intention to undertake such reviews in the future, while two simply stated that they do not undertake such reviews. Of the nine responding ATI partner countries, seven undertake regular reviews of their tax expenditures and two intend to do it in the future.



Coherence of double taxation agreements

Double-taxation agreements (DTAs) are widely used as a means to protect investors against being taxed twice, in cases in which the same income is potentially taxable in two states. Challenges for partner countries in applying DTAs emerge where the investing country they are negotiating with is in a stronger investment position (common in engagements with developed countries), meaning that, at least in the short run, they may have to forfeit tax revenues in order to secure the investment (Quak & Timmis 2018). The use and nature of DTAs has therefore implications for the DRM efforts of partner countries.

Ensuring that DTAs are applied in ways that do not undermine DRM efforts requires action by both investor and recipient countries. For investor countries, it is vital that they approach negotiations on DTAs in a fair way and with a balanced allocation of taxing rights. For recipient countries, it is vital that they take a strategic approach to agreeing DTAs and ensure its coherence with DRM and other national strategies. In recent years, a number of global initiatives and processes attempting to promote a fairer and more effective approach to DTAs have emerged. These include:

- The *UN Model Double Tax Convention between Developed and Developing Countries* (first published in 1980, and revised in 2017): This model sets out an approach to tax treaties which favours retention of greater so called “source country” taxing rights (i.e. of the host country) under a tax treaty.
- *BEPS minimum standard on anti-treaty abuse provisions*: This minimum standard was set out as part of Action 6 of the BEPS priority actions (published in 2015), and identifies minimum standards to apply to tax treaties in an effort to avoid abuse of these treaties.
- The *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting* (agreed in 2016 and entered into force in 2018 for countries that had ratified it; facilitated by the OECD and G20): This convention aims to allow countries to swiftly implement measures to strengthen existing tax treaties to protect governments against tax avoidance strategies. It also aims to enhance treaty-related dispute resolution mechanisms. All ATI development partners, except the USA, as well as 13 ATI

partner countries, are signatories to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (see Table 4), though some have not yet ratified the treaty.

Based on the 2018 and 2019 Monitoring Surveys on Commitment 3, five ATI partner countries⁷⁶ have reported having in place a tax treaty policy that helps guide their efforts to negotiate DTAs, and an additional seven reported their intention to develop such policy frameworks in the future. Nevertheless, amongst the seven ATI partner countries which provided information in the 2019 Monitoring Survey on the number of their DTAs that meet the BEPS minimum standard on treaty shopping, four had no such treaties, two had one such treaty, and one (Pakistan) had nine of such treaties (see Table 4).

The responses of ATI development partners to the 2019 Monitoring Survey illustrate a diverse range of approaches and recent actions being taken to promote policy coherence for development in relation to DTAs. **Australia** stated that its approach to tax treaties is broadly based on the OECD's Model Tax Convention but places a greater emphasis on protecting source-country taxing rights over natural resources, which it aims to protect on a reciprocal basis. **Canada** stated that it applies a consistent tax treaty policy, which uses a mix of OECD and UN Model Tax Convention provisions. In 2019, **Ireland** completed the ratification of the BEPS multilateral instrument, which will provide the mechanism for extensive changes to tax treaties. In 2020, the **Netherlands** published a *Memorandum on Tax Treaty Policy*, which serves as guidance to recognise the special position of developing countries in the process of (re)negotiating tax treaties, and emphasises that it will be more willing to accept higher withholding tax rates in tax treaties with developing countries. **Norway** stated that in tax treaty negotiations with partner countries, it regards the UN Model Convention as an acceptable starting point for negotiations.

⁷⁶ Benin, Cameroon, Ghana, Kenya, and Malawi.

	<i>Participating in the OECD/G20 Inclusive Framework on BEPS</i>	<i>Signatory to the Multi-lateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS</i>	<i>Tax treaty policy in place that looks specifically at policy coherence for development</i>	<i>Signatory to the Convention on Mutual Administrative Assistance in Tax Matters</i>	<i>Conducting periodic evaluation of tax expenditures</i>
Afghanistan	No	No	No	No	Intended
Australia	Yes	Yes	Yes	Yes	Yes
Belgium	Yes	Yes	Yes	Yes	Yes
Benin	Yes	No	Yes*	Yes	Yes*
Burkina Faso	Yes	Yes	N/A	Yes	N/A
Cameroon	Yes	Yes	Yes*	Yes	Yes*
Canada	Yes	Yes	Yes	Yes	Yes
Denmark	Yes	Yes	No	Yes	Yes
Ethiopia	No	No	N/A	No	N/A
Finland	Yes	Yes	Intended	Yes	Intended
France	Yes	Yes	Yes	Yes	Yes
Georgia	Yes	Yes	Intended	Yes	Yes
Germany	Yes	Yes	Yes	Yes	Yes
Ghana	No	No	Yes	Yes	Yes
Indonesia	Yes	Yes	Intended*	Yes	Yes*
Ireland	Yes	Yes	No	Yes	Yes
Italy	Yes	Yes	No	Yes	Yes
Kenya	Yes	Yes	Yes	Yes	Yes
Korea	Yes	Yes	Yes	Yes	Yes
Liberia	Yes	No	Intended*	Yes	Intended*
Luxembourg	Yes	Yes	N/A	Yes	N/A
Madagascar	No	No	No	No	Intended
Malawi	No	No	Yes*	No	Yes*
Mongolia	Yes	No	No	Yes	Yes
Namibia	Yes	No	N/A	Yes	N/A
Nepal	No	No	N/A	No	N/A
Netherlands	Yes	Yes	Yes	Yes	Yes
Norway	Yes	Yes	Yes	Yes	Yes
Pakistan	Yes	Yes	Intended	Yes	Yes
Paraguay	Yes	No	No	Yes	Yes
Rwanda	No	No	N/A	Yes	N/A
Senegal	Yes	Yes	N/A	Yes	N/A
Sierra Leone	Yes	No	No	No	yes

	<i>Participating in the OECD/G20 Inclusive Framework on BEPS</i>	<i>Signatory to the Multi-lateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS</i>	<i>Tax treaty policy in place that looks specifically at policy coherence for development</i>	<i>Signatory to the Convention on Mutual Administrative Assistance in Tax Matters</i>	<i>Conducting periodic evaluation of tax expenditures</i>
Slovakia	Yes	Yes	No	Yes	Yes
Slovenia	Yes	Yes	No	Yes	Yes
Solomon Islands	No	No	N/A	No	N/A
Sweden	Yes	Yes	No	Yes	Yes
Switzerland	Yes	Yes	Intended	Yes	No
Tanzania	No	No	N/A	No	N/A
The Gambia	No	No	N/A	No	N/A
The Philip-pines	Intended	No	Intended*	Yes	Yes*
Uganda	No	No	N/A	Yes	N/A
United Kingdom	Yes	Yes	No	Yes	No
United States	Yes	No	N/A	Yes	N/A

Table 4: Country international cooperation profiles

** Based on responses to the 2018 ATI Monitoring Survey*

Note: N/A = not available

Taxation of official development assistance support

Commonly, the utilisation of official development assistance (ODA) to purchase goods and services is exempted from local taxation in partner countries. For example, most development partners have required exemptions from import duties for imported goods purchased using ODA, and for taxes such as VAT not to be applied to their activities. Aid tax exemptions vary according to the conventions between donor and recipient countries and involve a broad range of legal instruments and administrative mechanisms. In some cases, exemptions can be extended to direct taxes such as corporate income tax, personal income tax, registration fees and local taxes.


Historically, tax exemptions for ODA have been justified mainly on the basis of maximising the quantity of aid available for development purposes. However, in recent years, ODA's tax exempt status has been highly contested, in part driven by a recognition that this is inconsistent with an emphasis on supporting DRM and promoting policy coherence for development. Furthermore, the management of these exemptions regimes result in significant additional complexity and administrative burden on recipient countries' tax administration, draining resources away from revenue-generating activities to exemptions/refunds processing. The lack of clarity regarding the legal instruments applicable, their extent, and to whom the benefits apply, may also lead to

abuses and revenue leakages (Steel et al. 2018).

A number of ATI development partners have begun to reform their own policies on the taxes that can be applied to their ODA-funded activities. For example, since 2010, **Sweden** has not required tax exemptions for VAT and for tariffs levied on ODA. In 2016, its government tasked the Swedish International Development Cooperation Agency (Sida) with reviewing the preconditions and effects of a removal of tax exemptions for ODA support, and active work in this area is still ongoing. **Norway** and the **Netherlands** unilaterally dropped their insistence on tax exemptions in government-to-government ODA programmes in 2014/15 and 2016, respectively. Since 2018, **Belgium** has suspended the application of tax exemptions on goods and services delivered in the context of its government-to-government ODA programmes where a set of criteria have been met. Since then, this policy has been applied in cooperation agreements concluded with Benin, Guinea, Burkina Faso, Rwanda, and Senegal. **Denmark** has also abolished the practice of requiring reimbursement of VAT on aid financed purchases of goods and services in partner countries. Article 27 of the regulation establishing the **European Union's** Neighbourhood, Development and International Cooperation Instrument, which entered into force in June 2021, states that taxes imposed by partner countries may be financed by through the instrument.

DRM and green growth

There is growing attention to the challenge of climate change, which is now widely recognised as a fundamental threat to future development progress. It is therefore vital that all areas of development cooperation contribute to work to address climate change, including efforts to promote DRM. Importantly, some of the instruments that can be used to promote green growth also support DRM, such as increasing taxes on and reducing subsidies for activities that are harmful to the environment (e.g. the production and use of fossil fuels). This opens possibilities for improving coherence between green growth and DRM policies. The responses of ATI member countries to the 2019 ATI Monitoring Survey suggest that this is a relatively new area of engagement, although some valuable new initiatives and approaches are emerging.



France emphasised that in middle-income countries, the “greening” of taxation will be a key goal of French cooperation efforts. This will involve expanding the scope of existing country profile databases to cover environmental and energy consumption taxes. **Germany** is undertaking work in Indonesia and Vietnam linking DRM to green growth issues. In Indonesia, it supports capacity development inside the Fiscal Policy Office to formulate tax laws and fiscal incentive systems aligned with the 2030 Agenda. In Vietnam, it supports the Ministry of Finance in the development of a fiscal framework for the national green growth strategy, including through the introduction of the Environmental Protection Tax. **Norway** is using taxes on fossil fuels to help fund climate change mitigation and renewable energy projects in developing countries.

Kenya highlighted its promotion of renewable energy generation by applying VAT and import duty exemptions for solar panels and windmills. In **Madagascar**, companies investing in the production and supply of renewable energy can benefit from a reduction in tax up to the value of 50% of the investment made. In the **Philippines**, taxation of fossil fuels is being used as one of the main tools to promote clean energy, renewables and energy efficiency. In 2019, the Government enacted the Energy Efficiency and Conservation Act, which provides incentives to align with the overarching objective. **Sierra Leone** applies an export

fee on timber products, which is aimed at reducing deforestation.

Conclusion

Due to the limited participation of ATI members in the 2019 ATI Monitoring Survey on Commitment 3, only a partial picture is available on how their engagement for policy coherence for DRM is evolving. However, the responses received from ATI member countries suggest that they are exploring new and more diverse ways to promote DRM across their public policy frameworks.

A growing number of ATI partner countries are engaging with international initiatives that aim to address challenges related to tax evasion and avoidance, and these initiatives are feeding into the policy and legal reforms of development partners. However, many ATI partner countries are struggling to fully engage with and operationalise the agreements emerging from these initiatives, which heightens the risk of the emerging benefits being captured by better resourced and more powerful countries.

There are signs that ATI development partners are working to better address the challenges DTAs pose for efforts to expand DRM, and partner countries are placing an increasing emphasis on developing strategic approaches to DTAs and assessing the use of tax incentives to promote investment. Efforts to link fiscal policy to green growth challenges are also becoming more prominent, with tax incentives being used to promote renewable energy generation and reduce the use of fossil fuels and with it, limit environmental degradation.

Case study 3: The reform of the Philippine tax incentive regime

In March 2021, the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), a fiscal stimulus measure providing tax relief to enterprises, was passed into law by the congress of the Philippines.

CREATE is performance-based, time-bound, targeted, and transparent. These principles are reported to have been unanimously recognised by stakeholders during hearings and consultations. The tax incentives system under CREATE attempts to balance the interests of all stakeholders while remaining faithful to the aforementioned fundamental principles and mindful of the country's fiscal challenges.

This reform also attempts to address the challenges of the previous tax incentives regime, which granted significant tax reductions to a small number of investors, in perpetuity, and without a regular and in-depth assessment of the costs and benefits of doing so.

A recent study conducted by the Department of Finance revealed that the Philippines gave away an estimated P441.1 billion in tax incentives to a group of 3150 companies in 2017, a 15.9 % increase from the P380.7 billion in tax breaks granted to them in 2016. This figure is equivalent to almost 80% of the annual budget of the Department of Education and roughly four times higher than that of the Department of Health.

Medium and small enterprises, which make up over 99 % of enterprises and employ a majority of Filipino workers, will be the biggest beneficiaries of CREATE, as the new system will reduce the corporate income tax for those enterprises from 30% to 20%; the biggest reduction in the country so far. Large corporations will also enjoy an immediate reduction in the corporate income tax rate from 30% to 25 %.

CREATE had remained pending in congress for over 30 years. Social and political issues were raised against the proposals. Despite that, coalition-building with stakeholders, evidence-based arguments and a strong cooperation between the executive and the legislative branches of government ensured the passage of CREATE.

Expert piece

Measuring success in international tax: looking beyond the membership statistics

Martin Hearson, International Centre for Tax and Development (ICTD)

As global tax cooperation intensifies, lower-income countries are encouraged to join a growing number of international bodies, agreements and conventions. This year's ATI monitoring report illustrates how more and more are participating in initiatives to promote exchange of information and protect against base erosion and profit shifting. This global inclusiveness creates many opportunities for countries to enhance their DRM efforts, but the formal and informal costs of membership are also a prioritisation challenge. To measure success, therefore, we should examine where cooperation in international tax has translated into revenue gains, where it has yet to do so, and what lessons can be learned from this. Policy coherence cannot only mean supporting lower-income countries to adopt existing standards, but also adapting them in the light of experience.

For example, few lower-income countries are yet seeing the full benefits of international progress on exchange of information, even though many have joined the Global Forum on Transparency and Exchange of Information and made investments to comply with international standards. The Global Forum's Africa Initiative Progress Report 2020 highlights that only a few African countries have been able to make significant numbers of information requests so far.⁷⁷ More than half of the 38 reporting countries had not made a single request in the previous three years, and only eight – less than a quarter – had identified revenue gains from doing so. Those that had included Uganda, Kenya, and Cameroon. As for automatic exchange of information, only a handful of lower-income countries currently have activated exchange relationships allowing them to receive automatic information, whether on individuals or multinationals' country-by-country reports.⁷⁸ They include Pakistan and Indonesia. There is an urgent need for independent research to examine when, why and how partner countries have successfully used exchange of information tools, so that others can learn from their experience and make informed decisions before adopting them.

In corporate taxation, the ATI monitoring report indicates a more limited adherence among partner countries to the Multilateral Instrument (MLI), which offers the promise of strengthening bilateral tax treaties against abuse and expanding some source taxing rights. Why might this be? One factor may be the large number of reservations countries can make, which de facto reduce the beneficial effects of the MLI. Many ATI development partners, for example, have reservations against some MLI provisions that expand the definition of permanent establishment in covered treaties (articles 12 to 15), as well as against provisions updating the capital gains article of covered treaties to protect against indirect transfers of assets (article 9). While some lower-income countries such as Kenya, Pakistan, and Senegal adopt MLI positions that would include a simplified Limitation of Benefits clause to help protect against abuse in their treaties (article 7), Slova-

⁷⁷ African Union, African Tax Administration Forum, and OECD, Tax Transparency in Africa 2021: Africa Initiative Progress Report 2020, OECD, Paris.

⁷⁸ OECD, Automatic Exchange portal <https://www.oecd.org/tax/automatic-exchange/international-framework-for-the-crs/exchange-relationships/>, 2021; OECD, Developing Countries and the OECD/G20 Inclusive Framework on BEPS. OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors, Attachment C, Italy, October 2021, OECD, Paris, www.oecd.org/tax/oecd-secretary-general-tax-report-g20-finance-ministers-october-2021.pdf.

kia is the only ATI development partner to reciprocate. This is a matter of policy coherence: development partners can assist domestic resource mobilisation by embracing partner countries' tax treaty negotiating positions, whether through the MLI or in bilateral negotiations.

International tax rules are complex, and it is sometimes difficult for lower income countries to administer them. The allocation of taxing rights is also an important issue. The Inclusive Framework, as well as the United Nations Tax Committee, have provided an opportunity for lower-income countries to make their voices heard, for example by calling for country-by-country reporting rules that cover more companies and are easier to access, simpler transfer pricing methods, and a strengthening of source taxing rights over highly-digitalised businesses. As recent Inclusive Framework negotiations have shown, lower-income countries can influence international negotiations at the margins, but many of their central concerns remain unaddressed.⁷⁹ Development partners should reflect on this in the light of their ATI commitments to policy coherence.

⁷⁹ Christensen, RC, Hearson, M and Randriamanalina, T, At the Table, Off the Menu? Assessing the Participation of Lower-Income Countries in Global Tax Negotiations, ICTD Working Paper 115, December 2020; OECD, Developing Countries and the OECD/G20 Inclusive Framework on BEPS.

ATI supporting organisations

Introduction

ATI supporting organisations include international organisations, forums, academic institutions, civil society organisations, and private sector foundations that endorse the objectives of the Addis Tax Initiative (ATI) and provide technical assistance and other forms of support to enhance domestic revenue mobilisation (DRM) in partner countries. Supporting organisations differ within the scope of their activities, focus areas, country portfolios, and modes of delivery.

In 2020/21, an additional two supporting organisations joined the Addis Tax initiative – the Tax Justice Network Africa and the Executive Secretariat of the Council of Finance Ministers of Central America, Panama and the Dominican Republic (SE-COSEFIN). This brings the total number of supporting organisations which have officially endorsed the ATI to 19.

The 2019 ATI Monitoring Survey provided supporting organisations with the opportunity to report on their priorities and recent activities in support of DRM efforts. Six of the 19 ATI supporting organisations provided responses to the survey. An overview of their responses is presented below.

Key findings

Asian Development Bank (ADB)

Core to the ADB's operational priorities is supporting the strengthening of governance and institutional capacity through DRM. A key recent achievement, which the ADB highlighted, is its establishment of a pan-regional tax community – the Asia Pacific Tax Hub. The aim of this platform is to provide an open and inclusive space for strategic policy dialogue, knowledge sharing, and development coordination amongst ADB member countries, development partners, and the ADB. Its initial work has included mapping other ongoing tax initiatives supporting the region, so as to identify a niche package of support. The ADB also highlighted the technical assistance it has provided since 2019 to countries in the Asia-Pacific region on tax issues, including in relation to property taxes, tax incentives, tax compliance, transparency, and digital transformation in tax administrations.

Bill & Melinda Gates Foundation (BMGF)

The BMGF funds a mix of applied research and the development of innovative tools and initiatives to promote equitable tax outcomes. The organisation highlights its work with the International Budget Partnership (IBP) to support civil society organisations campaigning for equitable tax outcomes, as well as its partnership with the International Centre for Tax and Development (ICTD) to implement a new initiative that provides support to countries raising revenue from property tax. The BMGF is currently working with the ICTD to replicate its successful efforts in Sierra Leone to introduce a points-based system of property tax collection and increase revenues.

Inter-American Centre of Tax Administrations (CIAT)

CIAT provides demand-led technical assistance (TA), and focuses on issues identified by member countries, in particular, their tax administrations. The issues on which its TA programmes have focussed since 2019 include: electronic invoicing; the introduction of a new tool to facilitate the registration, tax return, and payment processes of taxpayers who operate in the digital economy (supported by the Norwegian Government) – the Digital Economy Compliance Tool –; taxpayer registry; international exchange of information; control of large companies; transfer pricing; Base Erosion and Profit Shifting (BEPS) actions; and tax administration transparency and human resource management. CIAT also highlighted its support for TADAT evaluations in Bolivia, Brazil, Guatemala, El Salvador, Honduras, Paraguay, and Guyana, as well as its support for oversight of international taxation and transfer pricing in Bolivia and Honduras, which resulted in an increase in tax collected from these transactions.

Global Financial Integrity (GFI)

GFI works with customs departments and central banks to support them to detect trade mis-invoicing in an effort to collect the proper amount of VAT, customs duties, and income tax revenue. Using its tool, GFTrade, one government partner was able to identify USD 100 million in mis-invoiced imports during a three-month period.

Organisation for Economic Cooperation and Development (OECD)

The OECD's current priorities on tax and development include supporting developing country members of the Inclusive Framework to participate in the negotiations on the taxation of the digital economy, adapting technical assistance to the evolving COVID-19 pandemic (including through remote and e-learning), and expanding the range and depth of support provided to developing countries. The OECD's work on tax and development has helped to achieve a range of significant outcomes. Since 2019, for example, the joint OECD/UNDP Tax Inspectors Without Borders initiative has been able to raise more than USD 1 billion in additional revenues since its establishment. The same initiative has provided training for 30,000 officials through virtual programs. Moreover, 26 developing countries have received bilateral assistance in respect to transfer pricing/Base Erosion and Profit Shifting (BEPS) in the last year. In 2020, the OECD also launched six new e-learning modules, including two COVID-19 response modules.

Save the Children

Save the Children is working to increase civil society engagement in subnational tax policy development in the Bungoma and Wajir counties in Kenya, focusing on promoting effective social service delivery to marginalised children and families, particularly during COVID-19. In these counties, Save the Children has helped to expand public awareness of fiscal policies through radio programmes and foster positive relationships between property owners, the business community, and local government in an effort to increase tax compliance. Save the Children also continues encouraging US-AID to support local public participation in tax policy.

Case study 4: IBP's LATERAL project and collaboration with GIFT

As a part of its work to strengthen civil society engagement on public budget issues, the International Budget Partnership (IBP) has developed a Tax Equity Initiative. This initiative has four key goals: 1) Increasing donor funding for civil society work on tax; 2) deepening domestic civil society capacity to engage in tax equity work; 3) documenting evidence and lessons from civil society engagement in tax equity work; and 4) pushing for global norms on revenue transparency and participation.

The Latin America Tax Expenditure Research, Advocacy, and Learning (LATERAL) project and its collaboration with the Global Initiative for Fiscal Transparency (GIFT), have been central to IBP's pursuit of its strategic goals on tax equity.

IBP's LATERAL project is a peer learning project that brings together partner organizations in nine Latin American countries to increase the transparency, equity, and accountability of tax expenditure policies. This project has successfully enhanced transparency and public debate around this important but poorly understood area of tax policy. For example, their partner Fundar, a powerful civil society organization in Mexico, spearheaded a long legal battle to secure greater transparency around tax amnesties in Mexico, which are often issued by outgoing presidential administrations. Thanks in part to their work, in May 2019, President Andres Manuel Lopez Obrador issued a presidential decree pledging not to forgive taxes during his administration. Consequently, in March 2020, the federal constitution was amended to prohibit tax forgiveness for all administrations going forward.

GIFT is a global multistakeholder network, founded by IBP, the World Bank, the IMF, and the governments of Brazil and the Philippines, to facilitate dialogue across stakeholders to address fiscal transparency and participation challenges. The GIFT network developed the High-Level Principles on Fiscal Transparency, Participation and Accountability, adopted by the United Nations in December 2012. Most recently, IBP is working through GIFT to develop a similar set of norms to guide tax policy and administrative transparency. "Making Tax Work," which summarizes the set of draft principles, is currently open for public comment.

DRM and accountability stakeholders

Introduction

Accountability stakeholders play a vital role in enhancing fair and effective revenue mobilisation efforts. This is recognised in the ATI Declaration 2025 in its emphases on accountability⁸⁰. ATI Commitment 4 states that:

“ATI members commit to enhance space and capacity for accountability stakeholders in partner countries to engage in tax and revenue matters”.

The ATI Declaration 2025 defines accountability stakeholders as state and non-state actors working to hold governments accountable. These include the civil society, academia, the media, trade unions, members of parliament or supreme audit institutions, among others.

Amongst these actors, institutions with formal roles in the policy making and oversight processes – such as parliaments and supreme audit institutions – have the most influence on tax issues, although their influence and capacity differs across countries. The roles of civil society, academia and the media are not well established (Wainer 2019) but have started receiving more attention in recent years (Sharp et al. 2019).

This section outlines the findings of recent research exploring the roles that these accountability organisations can play in relation to tax and revenue matters, the challenges they face in engaging on these issues and the opportunities for partners to foster their effectiveness.

The importance of accountability actors engaging on tax issues

As elaborated in the literature on taxation, the process of mobilising tax revenues involves bargaining between citizens and governments on public resourcing needs and policies. The tax policies that emerge out of this process of bargaining are shaped by the relative influence of different groups of actors in society. For example, where poor and marginalised groups have limited influence, their interests are less likely to be addressed through progressive tax policies. Accountability actors can play a significant role by giving voice to particular interest groups in tax bargaining processes and helping to shape the distributional impact of tax policies (Wainer 2019).

The way taxes are administered also affects their distributional and developmental impact. Where tax administration is ineffective, revenues are lower and taxes are not always applied consistently and fairly. Accountability actors can therefore also play an important role in promoting that the tax administration is effective, consistent, and fair.

A recent review of eight countries found that NGOs and think tanks focused their advocacy and lobbying mainly on promoting fairer and more progressive tax systems issues, including through an emphasis on international taxes (with growing support from international NGOs), excise duties, and unpopular domestic taxes. In general, however, it found a weak emphasis of these ac-

⁸⁰ The importance of accountability was acknowledged in the vii. Partnership Principle of the Declaration.

tors on domestic taxes such as VAT and income tax (Sharp et al. 2019).

Similar findings emerged from a recent review of civil society tax work in 66 countries, which noted that CSOs have historically engaged most actively on international tax issues, and that the most significant domestic tax issues they are currently engaging on, include tax expenditures/fiscal incentives, corporate taxes, and taxes on extractives (Mohiuddin & de Renzio 2020).

The role of accountability actors on tax issues

The literature⁸¹ (and the ATI Declaration 2025⁸²) identifies three distinct roles that accountability actors can play in engaging around tax and DRM issues. These categories are detailed below, together with examples of accountability actors playing each of these roles.

- **Analysing tax issues** – They can play a role in analysing proposed or actual tax policies in order to understand their impact on different groups, efforts to reduce poverty as well as their consequences for other public policy goals. For example, research by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) contributed to a successful civil society and media campaign for the introduction of tobacco tax legislation in 2015 (Sharp et al. 2019).
- **Advocacy on tax issues** – They can play a role in advocating for certain tax policies or reforms, representing the views of different segments in society. For example, in Mexico, an NGO called Fundar undertook a decade-long campaign which was successful in persuading the government to introduce, in 2019, a ban on tax amnesties permitting the cancellation of tax debts after a new government came to power (de Renzio & Lakin 2020).
- **Awareness raising on tax issues** – They can play a role in expanding public awareness on tax issues, so that a more informed debate about tax policy and reforms can emerge, and public attitudes on tax can evolve. In Mozambique, for example, the Municipal Social Accountability Monitoring Program started facilitating the work of national CSOs in 2012 to collaborate with local governments on increasing awareness amongst citizens on both their duty to pay taxes and the government's responsibility to consider citizens' views on how to spend tax revenues (Wainer 2019).

A recent review suggested that, across these roles, civil society is most active in undertaking analysis and advocacy work and that it is less active in engaging on awareness-raising on tax policy and shaping public attitudes towards taxation (Sharp et al. 2019). Another review found that CSOs were most active in undertaking research, followed by advocacy and support for civil society participation in tax policy making (Mohiuddin & de Renzio 2020).

⁸¹ Drawing especially on Sharp et al. 2019.

⁸² Most notably Commitment 4 (ii).

The key challenges facing accountability actors in engaging on tax issues

Accountability organisations face a range of challenges in engaging effectively on tax issues. Tax is a relatively new arena for many civil society organisations, which confronts them with new challenges. This section presents findings from the literature on these challenges.

The nature of operating environments

Tax is a highly political issue, with implications for the distribution of resources across society. Many civil society actors find it difficult to engage on such sensitive political issues, particularly in contexts where political processes are less responsive and inclusive (Wainer 2019). Recent research suggests that the most prominent examples of civil society influence over tax policies have emerged where there are shared interests between civil society activists and at least a part of government. Areas of tax policy where these shared agendas seem to most commonly emerge include sin taxes (on tobacco or alcohol), extractives taxes, and international taxation. Such coalitions of interests are less common in other areas of domestic taxation (Sharp et al. 2019).

Civil society capacity

Tax issues can often be very technical, and research has suggested that CSOs commonly face gaps in their understanding of the issues, especially at the subnational level (Sharp et al. 2019). Developing this capacity is important in order to allow CSOs to build credibility with the institutions they are trying to influence (ibid.). Research also suggests that, in many countries, only a limited number of civil society activists have the technical knowledge to engage effectively on tax issues, and that all too often these people are poached by donors and international organisations (Mohiuddin & de Renzio 2020). Finally, it is important to emphasise that capacity gaps often also exist in relation to developing and pursuing strategies for political influence and building broad-based coalitions of support, as well as communicating the issues to the public (de Renzio & Lakin 2020; Sharp et al. 2019).

Resource constraints

Another determinant of civil society capacity is the level of resources they are able to access. A recent global survey of CSOs working on domestic tax issues found that limited resource was by far the largest constraint they face (Mohiuddin & de Renzio 2020). In recent years, a range of donor organisations (especially private foundations) have increased their support for accountability actors on tax issues, which is helping to expand their role. However, this support remains modest: in 2015, only 3% of total funding for DRM issues from OECD donor governments went to civil society organisations in developing countries (Wainer 2018). It has also been found that most of the available support goes towards training and is usually short-term and inflexible, which reportedly constrains the ability of CSOs to build their capacity in other areas (Sharp et al. 2019).

Recommendations for strengthening the work of accountability stakeholders on tax issues

The analysis in this section points towards a number of recommendations for partner country governments, development partners, and supporting organisations to support the work of accountability organisations on tax issues in a more efficient manner.

- **For partner country governments** – Improve the transparency of their tax systems and the level of public consultation around the development of tax policy, in order to create more space for accountability organisations to engage in advocacy and oversight.
- **For development partners** – Expand support for accountability organisations working on domestic and international tax issues, and provide support that is sustainable and flexible enough to enable them to build their capacity in a more rounded fashion.
- **For supporting organisations** – Increase the level of resources they provide to support accountability organisations that work on tax issues and help to facilitate the development of broad and effective civil society coalitions on these issues.

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