

Report of the 4th meeting of ATI Consultative Group 3: Coherent and coordinated policies for fostering DRM and combating tax-related IFFs

2022 ATI General Assembly

Date: 24 March 2022, 15:30 h – 17:00 h (CET)/ virtual

Participants: Abdul Muheet Chowdhary (South Centre), Andrew Wainer (Save the Children), Anne Maina (Kenya), Annemie G.L. Helsen (Belgium), Antonin Perriot (France), Asa Palmgren (European Commission), Ashima Neb (PCT), Babatunde Oladapo (WATAF), Belema Obuoforibo (IBFD), Birhanu Daba (IBFD), Brian McAuley (ADB), Carly Munnely (Save the Children), Cinzia Castelli (Italy), David Dod (United States), Elizabeth Mwambingu (Kenya), Elizabeth Gavin (IMF), Gabija Zymonaite (European Commission), Joseph Stead (OECD), Lisa Iliza Mushumba (Rwanda), Jane Muguchu (Kenya), Joseph Sirengo (Kenya), Junaid Murtaza (Pakistan), Koni Ravono (PITAA), Deborah Lock (United Kingdom), Lodovico Muratori (Italy), Marianna Macaskova (Slovakia), Martin-Brehm Christensen (Oxfam), Melissa Säilä (Finland), Mulay Weldu (Ethiopia), Myra Flaminiano (IBFD), Outi Hakkarainen (Fingo), Sabrine Marsit (IBFD), Wapinu Ndule (WATAF), Sebastiaan Wijsman (Netherlands), Wim Assink (IBFD), Yakoubou Moussa, Christina M. Gautsch (ITC), Peter Wiezel (ITC), Tais Chartouni Rodrigues (ITC).

- Agenda:
1. Welcome and introduction
 2. Presentation of the post-2020 monitoring framework for ATI Commitment 3
 3. Presentation of the latest developments on the [ATI Consultative Group 3 work plan](#)
 - Brief on partner countries' experience in tackling tax-related illicit financial flows (IFFs) by the International Bureau of Fiscal Documentation (IBFD)
 4. Open dialogue and next steps

The co-coordinator of ATI Consultative Group 3, Mr Junaid Murtaza, welcomed the participants and introduced the first agenda topic, presenting the final post-2020 monitoring framework for ATI Commitment 3. The monitoring of ATI Commitment 3 covers two dimensions: (i) promoting coherent and coordinated policies that foster DRM and (ii) combatting tax-related illicit financial flows (IFFs).

The measurement of coherent and coordinated policies focuses on policies that avoid negative impacts on tax mobilisation in ATI member countries. These include a) preventing abusive tax practices through the engagement in international tax cooperation and b) reducing harmful tax incentives in partner countries. The framework distinguishes between ATI member countries as follows:

- Development partners should make sure that their tax systems do not harm efforts to raise taxes in partner countries. To measure this, the framework will assess the topics defined as BEPS minimum standards on harmful tax practices, treaty shopping, country-by-country-reporting (CBCR), and mutual agreement procedures, as well as the development of analysis of spillover effects.
- Partner countries should make sure that tax expenditures do not disproportionately affect the aim to increase revenues. This will include three aspects: (i) transparency of tax expenditures, (ii) evaluation of their effectiveness, and (iii) procedural questions, incl. scrutiny of parliament and inter-agency cooperation on tax expenditure decisions.

Regarding the dimension of combatting tax-related IFFs, the indicators include the implementation of standards for Exchange of Information (EoI), Automatic Exchange of Information (AEOI) and the EoI on Request (EoIR) for Tax Purposes, as well as on the existence of beneficial ownership (BO) registers. A methodological note with a detailed explanation about each of the indicators on the post-2020 monitoring framework will be published on the [ATI website](#).

Abdul Muheet Chowdhary (South Centre) commented on the new monitoring framework and asked if issues such as international tax debts and asset recovery are considered, since they are of great interest to developing countries. Mr Murtaza thanked Mr Chowdhary for the comment and explained that these aspects are not particularly reflected in the monitoring framework but are interesting to be addressed by the group in the future.

ATI Consultative Group 3 Work Plan

The ATI Secretariat presented an overview of the developments on the ATI Consultative Group 3 work plan, which is structured three major topics: (i) the ATI post-2020 monitoring framework, (ii) tax-related IFFs, and (iii) strengthening policy coherence, including the topics of tax expenditures, tax incentives, ODA taxation and analysis of spillover effects. While the work on the first topic has been completed, planned deliverables and ongoing activities related to the other two workstreams were presented and discussed.

Tax-related IFFs

An ATI study on partner countries' perspectives on tackling tax-related IFFs is being conducted by the International Bureau of Fiscal Documentation (IBFD). Ms Belema Obuoforibo - member

of IBFD executive board and chair of the Centre for Studies in African Taxation - and Mr Birhanu Daba - senior associate at IBFD - presented their work and the status of the research.

Ms Obuoforibo introduced to ATI members the work of the IBFD Centre for Studies in African Taxation (CSAT), a think-tank devoted to the study and development of taxation in Africa. CSAT organises different events, such as the annual Africa Tax Symposium. On 26-27 May 2022, the symposium will be held virtually, focusing on issues such as the Two-Pillar solution and its implications for Africa, recent developments on transfer pricing globally and in Africa, and DRM and the COVID-19 recovery. In 2021, CSAT released the publication “Base Erosion and Profit Shifting: A Blueprint for Africa’s Response”. In 2022, the think tank is partnering with WATAF to conduct research on tax incentives and tax expenditures in West African countries, tax treaties and the role of the judiciary and the legislature, and economic integration and tax administration. Regarding the ATI study on IFFs, Ms. Obuoforibo (IBFD) remarked that IBFD has finalised the desk research and questionnaires were sent to ATI partner countries to identify best practices on combatting IFFs.

Birhanu Daba (IBFD) gave an overview of the study progress, focusing on the scope of tax-related illicit financial flows (TIFFs) and the indicators developed by IBFD to assess partner countries’ experiences on tackling TIFFs. Mr Daba emphasised that an internationally accepted definition of the terms of IFFs and TIFFs does not exist. On the one hand, IFFs are defined strictly as *“financial resources – whether obtained illegally/illegitimately- crossing borders or transferred, used or concealed abroad with the intention of hiding from the tax authorities of the involved jurisdictions”*. The broader definition of TIFFs on the other hand, covers all activities that are harmful for the development of countries. Hence, IBFD came up with the following definition of TIFFs to distinguish the different malpractices: *“any abusive tax practice that undermines the object and purpose of a tax system and 1) deprives countries of resources that could be used for financing public goods, 2) fosters inequalities and 3) undermines trust in the government.”* These practices include tax evasion, tax avoidance, transfer mispricing and trade misinvoicing.

The final criteria developed by IBFD to assess best practices of ATI partner countries in tackling TIFFs considers the adequacy of policy and regulatory frameworks to tackle TIFFs – including tax abuse (i.e. tax evasion & tax avoidance), transfer mispricing, trade misinvoicing -, effective coordination across governments and state agencies, existent human and technological capacities, stakeholders’ engagement, among others.

Abdul Muheet Chowdhary (South Centre) commented on existing difficulties regarding the use of data obtained through exchange of information agreements for criminal cases involving money laundering. These aspects have been discussed in the South Centre’s capacity building programmes with its member states, and it would be helpful for developing countries if they could be addressed in the study. Mr. Daba (IBFD) agreed on the existing challenges for effective inter-agency cooperation and exchange of information, and clarified, however, that the study will not cover issues related to money laundering. IBFD will continue the development of the study with interviews with representatives from partner countries.

Policy coherence

Finally, the ATI secretariat presented and discussed other products of work plan related to policy coherence for DRM.

Tax expenditures: regional workshops in East Africa, West Africa, Asia and Latin America, in cooperation with the GDI and CEP - In November 2021, a [three-day workshop](#) was held to dive deep into the topics of tax expenditures. As a follow up, regional workshops will be held face-to-face with policymakers and other key stakeholders in ATI partner countries to advance the discussions on how to improve tax expenditures transparency, conduct a cost-benefit analysis, and promote reforms.

Webinar on ODA taxation reforms (Netherlands, Norway, OECD, UN Tax Committee, and others): Last year, the ATI had a webinar series, in which the UN guidelines to government aid was presented. The ATI Secretariat called on ATI members to express interest if they would like to continue the discussions on this topic.

Webinar on examples of ATI members' experiences conducting spillover analyses (IBFD, Oxfam, others): In January 2022, a webinar on this topic was held, whereby countries shared their experiences in conducting spillover analyses. Follow-up activities might be organised if there is interested from members.

Webinar on BEPS Assessment Tool (Germany case study from technical cooperation in Zambia): The BEPS Assessment Tool was developed by Germany in cooperation with the IBFD to support partner countries with the implementation of the BEPS measures. The tool will soon be presented to the ATI membership in a webinar.

Webinar on fostering inter-agency cooperation on DRM support (Sweden, OECD, Ireland): In one of the first meetings of Consultative Group 3, there was some interest from Sweden, OECD and Ireland to share their experiences on this topic. The ATI Secretariat plans to a webinar to discuss the topic in 2022.