

# Report of the 5<sup>th</sup> meeting of ATI Consultative Group 3

Coherent and coordinated policies for fostering DRM and combating tax-related Illicit Financial Flows (IFFs)

Date: 13 December 2022, 14:00 – 15:30 (CET), virtual

Participants: Anca-Maria Szigeti (European Commission), Wim Assink (IBFD), David Dod (USAID, US), Martin-Brehm Christensen (Oxfam), Chiara Putaturo (Oxfam), Aniket Bhusan (Canada), Martin Hearson (ICTD), Agustin Redonda (CEP), Flurim Aliu (CEP), Cyrus Mutuku (KRA, Kenya), Gayline Vuluku (KRA, Kenya), Jane Muguchu (KRA, Kenya), Adrien Somda (GDI, Burkina Faso), Yakoubou Moussa (Ministry of Economy and Finance, Benin), Christian von Haldenwang (IDOS), Santiago Díaz de Sarralde (CIAT), Ezera Madzivanyika (ATAF), Fariya Mohiuddin (IBP), Jonas Nyrop Henriques (MFA, Denmark), Toril-Iren Pedersen (Norad, Norway), Zoniaina Fitahiana Rakotomalala (DGI, Madagascar), Alistair Lobo (FCDO, UK), Joseph Stead (OECD), Catherine Lemesle (CREDAF), Ismaila Diallo (CREDAF), Mari Khurtsidze (Ministry of Finance, Georgia), Wapinu Ndule (WATAF), Michelle Ordoñez (ITC), Altayesh Terefe (ITC), Markus Paffhausen (ITC), Tais Chartouni (ITC), Peter Wiezel (ITC), Mauricio Ramírez (ITC).

Agenda:

1. Welcome and presentation of agenda
2. Overview of the activities implemented by ATI Consultative Group 3 in 2022
3. Overview of the results of the ATI study on partner countries' perspectives on tackling tax-related illicit financial flows and next steps
4. Presentation of the outcomes of the ATI regional workshops on tax expenditures in West and East Africa and the next steps
5. Open dialogue about potential additional products and areas of engagement for 2023
6. Next steps

## 1. Opening and introduction

On 13 December 2022, the Addis Tax Initiative (ATI) Consultative Group 3 held its fifth meeting since the launch of the [ATI Declaration 2025](#). Ms Anca-Maria Szigeti, co-coordinator of the group, moderated the session and presented agenda and objectives of the meeting.

## 2. Overview of the activities implemented by ATI Consultative Group 3 in 2022

The ATI Secretariat briefed ATI Consultative Group 3 members about the developments in implementing the [work plan 2021/22](#) since March 2022, following three branches of work:

- **ATI post-2020 monitoring framework** - The ATI Secretariat announced the forthcoming publication of the 2020 ATI Monitoring Report during the first quarter of 2023. The 2020 ATI Monitoring Report realises the twofold objective of measuring the outcomes of the 2015-2020 commitments and setting a baseline for measuring the progress towards the achievement of the commitments under the ATI Declaration 2025.
- **Tax-related illicit financial flows (IFFs)**
  - a. **Study on ATI partner countries' perspectives** – The ATI Secretariat informed the members about the progress of the study carried out by the International Bureau of Fiscal Documentation (IBFD) about ATI partner countries' perspectives on tackling tax-related illicit financial flows. The preliminary results were presented in the next agenda point.
- **Policy coherence**
  - a. **ATI Regional Workshops on Tax Expenditures** – The ATI Secretariat successfully carried out the first two workshops in [Lagos](#) and [Nairobi](#) of the series of ATI regional workshops series on tax expenditures in partnership with the Council on Economic Policies (CEP) and the German Institute of Development and Sustainability (IDOS). Forthcoming workshops in the series will take place in Asia (2023) and possibly in Latin America (2023/2024).
  - b. **BEPS assessment tool** – On 02 June 2022, the ATI Secretariat hosted a [webinar](#) to present the BEPS Assessment Tool (BAT), a tool tailored to the needs of developing countries and developed by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)'s Sector Programme for Good Financial Governance (GFG) with support from the IBFD. The standardised tool was successfully piloted in Zambia.
  - c. **Official Development Assistance (ODA) Taxation reforms** – On [26](#) and [28](#) May 2021, the ATI Secretariat hosted a two-session webinar on Official Development Assistance (ODA) taxation to promote tax policy coherence. Learn more following the [webinar series' news article](#).
  - d. **Spillover analyses** – On 21 January 2022, the [webinar](#) "Promoting Spillover Analysis of Tax Policies" took place. The ATI Consultative Group 3 organised the event aiming to provide first-hand insights into applied methodologies and results of national spillover analyses previously conducted for the Netherlands.

## 3. Overview of the results of the ATI study on partner countries' perspectives on tackling tax-related illicit financial flows and next steps

Mr Birhanu Tadesse Daba from the IBFD presented a brief overview of the preliminary results from the "ATI's partner countries' perspective on tackling tax-related illicit financial flows (IFFs)" study. The study aimed to share best practices, lessons, successes, and challenges in combating tax related to IFFs (TIFFs) with an emphasis on tax evasion and tax avoidance. The study relied on desk research, the design of

questionnaires and the performance of interviews with officials of Pakistan, Rwanda, and Tanzania. The study used five indicators to analyse eight specific areas of TIFFs.

Among practices from ATI partner countries to tackle evasion and avoidance of TIFFs, Mr Tadesse Daba highlighted the deployment of legislative and institutional structures, even though with varying degrees of implementation and cooperation; the implementation of transfer pricing rules through units within tax authorities specifically dealing with international taxation rules; and the broadening of access to domestic information to boost transparency. The successes of ATI partner countries regarding TIFFs include establishing transfer pricing adjustments, increasing the Exchange of Information (EoI), and mitigating revenue losses through trade mis-invoicing. Finally, the main challenges for ATI partner countries regarding TIFFs include the limited awareness about TIFFs and lack of political commitment, the limited capacity to assess the prevalence of TIFFs and revenue losses, the lack of comparable data or information and specialised training for transfer pricing, and absence of legislation and dedicated unit on trade misinvoicing. The presentation finished with an introduction to the main recommendations of the study.

The members reacted to the presentations and asked questions. First, Mr Aniket Bhusan called attention to how the absence of a standardised methodology to estimate measures of foregone revenue can affect the analysis of the study and scope. Mr Tadesse Daba underscored that the study did not use standardised methods and considered the countries specificities about evasion and avoidance rules. On the contrary, categorising tax systems based on countries' characteristics is a more suitable approach to the aim of the study. Notwithstanding, differences in foregone revenue estimates within a country call for attention and the impact of using different methodologies need to be analysed on a case base. Second, Mr Bhusan asked for the top action areas for development organisations given the study recommendations. Although the study highlights recommendations in many areas due to the need for taking a holistic approach to tackle evasion and avoidance of TIFFs, Mr Tadesse Daba identified three primary recommendations for ATI countries in the search to increase capacity building: Introduce good transfer pricing rules, define a legal framework to deal with trade mis-invoicing, and increase intelligent cooperation to exchange information. The last point from the audience interventions reflected on how interagency cooperation and EoI are among the first steps when devising capacity building. Ms Szigeti subscribed to building interagency collaboration as a cornerstone in the capacity-building technical assistance provided by development organisations. Finally, Ms Szigeti recall [the guidelines developed by the United Nations Conference on Trade and Development \(UNCTAD\)](#) as a primary source when performing foregone revenue estimations. The final published version of the study carried out by IBFD will be available during 2023's first quarter and disseminated to CG3 members at the 2023 ATI General Assembly.

#### 4. Presentation of the outcomes of the ATI regional workshops on tax expenditures in West and East Africa and the next steps

The ATI Secretariat successfully initiated a series of ATI regional workshops on tax expenditures (TE) in partnership with the Council on Economic Policies (CEP) and the German Institute of Development and Sustainability (IDOS). The workshop series seeks to provide a platform for peer learning and exchange with a unique group of stakeholders involving parliamentarians, tax authorities and ministries of finance from each region. The workshop series adds to the ATI fulfilment of commitment three from the ATI Declaration 2025.

The first workshop in Lagos was organised in partnership with the West African Tax Administration Forum (WATAF), the African Tax Administration Forum (ATAF), and the Economic Community of West African

States (ECOWAS). Similarly, the second workshop, held in Nairobi, was supported by the Kenya Revenue Authority (KRA) and ATAF. These workshops sought to bridge the knowledge gap regarding core aspects of tax expenditures management, reporting, estimation, evaluation, and mapping pathways to promote reforms for rationalising tax expenditures. As a result of these workshops, participant countries have reported planning specific activities, such as establishing frameworks for TE reporting, monitoring and evaluation, and changes within their tax agencies like creating special task forces to monitor and evaluate TE. More information regarding the workshops in [Lagos](#) and [Nairobi](#) is available on the ATI website.

The following steps to the workshop series consist of follow-up technical sessions in West and East Africa and a third workshop in Manila, Philippines, in March 2023. Also, the development of online training and a guide on tax expenditures for parliamentarians is being considered as crosscutting action with other ATI consultative groups. Mr Christian von Haldenwang (IDOS) stressed how well participants received the workshops and how enriching the involvement of parliamentarians was for the realisation of the workshops. The workshops positioned themselves as a space to learn from alternative solutions to domestic issues through peer learning and offered a valuable space to take the agenda of fiscal stress and tax expenditures further. Finally, Mr Alistair Lobo (FCDO) thanked the team for the excellent job and impact of the ATI tax expenditures regional workshops and highlighted the relevance of providing products tailored to parliamentarians.

## 5. Open dialogue about potential additional products and areas of engagement for 2023

The ATI Secretariat presented the proposals for upcoming activities of the group:

- **Tax-related Illicit Financial Flows** – Building on the study carried out by IBDF about ATI partner countries' experiences with TIIFs, the ATI Secretariat suggested to organise a webinar series around the study outcomes and discussing further during a technical session at the 2023 ATI General Assembly.
- **Policy coherence** – In the front of activities realising the commitment to policy coherence, the ATI Secretariat announced the continuation of the TE agenda by completing the regional workshops and encourage participants to suggest additional activities keen to ODA taxation and spillover effects.

Ms Anca-Maria Szigeti agreed on the excellent opportunity that the ATI General Assembly represents to present the study's on TIIFs in ATI partner countries results, pointed to the space gained by the regional workshops in the TE public debates, and suggested considering a focus on transparency to nurture the pool of activities related to policy coherence.

The ATI Secretariat proposed to open the discussion around the digital economy taxation and how could the ATI further support developing countries to assess this matter. Mr Aniket Bhusan asked about the possibility of collecting the opinions of ATI members on current public debates and how to articulate the discussion following the Platform for Collaboration on Tax's study on project aid taxation. The ATI Secretariat highlighted that the synergies between CG3 and CG4 in producing the pocket guide for parliamentarians could add to the supreme order institutions debate from the revenue side instead of the expenditure side. Mr Lobo suggested continuing the approach of focusing on critical aspects and how to build in uncovered areas from the ATI and recalled the urgency for well-placed regional harmonisation and the TE discussion. Finally, Mr Martin-Brehm Christensen suggested including activities around the

South/North debate, the implementation of the Addis Ababa Action Agenda, and the development and evaluation of measures aimed at broadening the tax base.

## 6. Next steps

Ms Szigeti wrapped the discussion up and thanked the participants of the Consultative Group 3 for their involvement and the ATI Secretariat for their work.