

Assessing equity in “Aid for DRM” Projects

METHODOLOGY & INSTRUCTIONS NOTE (as of May 2021)

Overview:

Each year, the Addis Tax Initiative (ATI) publishes an “Aid for DRM” dataset. Oxfam uses this publicly available dataset to assess the *qualitative* aspects of DRM cooperation, between development partners and partner countries. We focus on several elements in our analysis – from equity to country ownership. Previous assessments have been published in 2017, 2018 and 2019, which examined published project descriptions to assess the primary objectives of cooperation.

This methodological note lays out a deeper, tiered approach to assessing “equity” and if donor-funded DRM projects are contributing to making revenue systems more equitable. Overall, this 3-tiered framework is designed to help answer the following question about each project: **Are development partners and country partners prioritizing equity in their DRM cooperation?**

Special Instructions:

- **Grant vs loan-based projects** – The assessment will be based on “grant” based DRM projects. The ATI dataset includes some loan-based projects, but these projects will not be used in our analysis. Loan-based projects can be identified under the column “Finance_T” where they are coded as number “421” (where grants are coded as number 110).
- **Coding the results** – The framework below provides suggested method to code positive results in each tier. Other coding/tracking methods can be applied, but findings for each tier should be distinguished and organized respectively. We need to be able to disaggregate results between tiers (e.g. tier 1 vs. tier 2), as well the results between different categories within tiers.
- **ATI Monitoring Project Keywords** – These are different from the keywords Oxfam identified for this analysis, but they should complement and contribute to our assessment. Where these official keywords are relevant to a (sub)category, it is indicated. See appendix for list of official ATI keywords (taken from “overview” tab in ATI dataset).
- **Language translation** – In the ATI database some descriptions of projects could be in Spanish or French. Please make best effort to translate them (google translator if language not known) and capture results reported in Spanish or French

3-Tiered Framework: Assessing Equity in DRM projects

Instructions to conduct assessment:

I. **First tier**

Keyword search of project descriptions, using keywords for “equity” (coded as INEQ1) and “gender equity” (coded as GEN1) listed below. Where a project contains one of these keywords, mark/code it respectively.

- **INEQ1 KEYWORDS:** inequality, equality, equity, inequity, fair, fairness, progressive, regressive, redistribution, incidence analysis, tax justice, justice, tax fairness, redistributive, equal, unequal, progressivity, regressivity, just, equitable

ATI Monitoring Project Keywords: “tax fairness”

- **GEN1 KEYWORDS:** gender, women, men, girls, female, bias, discrimination

ATI Monitoring Project Keywords: “tax and gender”

Once this tier of assessment is completed, record results and move on to second tier of assessment.

II. **Second tier**

Assess each project to answer question "can this project contribute to making DRM more fair/equitable?". There are several categories of projects that have potential to contribute to building equitable revenue systems. Based on a set of assumptions and rational, as well as noted caveats, we will consider these projects in our second tier of analysis. These include projects that contain a focus on strengthening direct revenue sources, which *often* correlate with stronger equity of tax and revenue systems (INEQ2.XX). **A project with a focus on a particular category (e.g. Personal Income Taxation) does not guarantee or predict equitable outcomes, rather it suggests that both development partner and partner country have prioritized equity in their cooperation.**

Each category/subcategory has set of keywords that can be used to search the database and identify projects that fit each category. Search for projects in the dataset that contain these keywords, and code respectively. Each category should have a unique code/tracker so that results can be disaggregated. There is suggested coding below.

After coding for Tier 2, conduct a qualitative review of all Tier 2 projects. This is necessary to verify that projects have been categorized appropriately.

PROGRESSIVE REVENUE SOURCES: If the project focuses on progressive revenue sources (e.g. extractive industries (EI) taxation), then the project will be categorized as “INEQ2.EI”

a. **CORPORATE INCOME TAXATION – INEQ2.CIT**

Rational & assumptions: CIT is widely considered a progressive form of taxation because it is, at least partly, borne by the company owner or shareholders, that are mainly wealthy individuals and men. In principle, the effective taxation of large corporations, which have the “ability to pay”, reduces the need to mobilize revenue through more regressive means. Moreover, big companies are currently undertaxed because of tax avoidance practices, the use of tax incentives and harmful tax practices. Taxes paid by companies are a key source of revenue for governments, particularly in low-income and lower middle-income countries. In the past decade, effective taxation of corporations has been declining, while middle and low-income households have been asked to contribute more. Investing in increasing corporate tax collection is therefore a pro-equity policy. *Therefore, for the purposes of this study, cooperation between development partners and partner countries focused on CIT are being considered as a “contribution toward more equitable revenue systems”*

KEYWORDS: CIT, corporate, transfer pricing, BEPS, profit shifting, tax avoidance, tax evasion¹, multinational, enterprise, corporation, tax havens, offshore, offshore indirect transfers, capital gains, contract disclosure, risk-based audit(ing), large taxpayer office (LTO), illicit financial flows (iffs)

ATI Monitoring Project Keywords: n/a

b. **EXTRACTIVE INDUSTRIES (EI) – INEQ2.EI**

Rational & assumptions: Extractive Industries: In most cases, it can be assumed that strengthening taxation of extractive industries (EI) contributes to a more equitable tax system for three reasons: i) Extractive industries are large economic actors in low-income and lower middle-income countries, which require unique tax and royalty regimes to ensure companies pay “fair share”; ii) EI companies avoid (or delay paying) tax bills despite “ability to pay”; and iii) under-taxation of negative externalities, which have wide range of social and environmental impacts. In most cases, EI companies are not paying their “fair share” of taxes. *Therefore, for purposes of this assessment, DRM cooperation between development partners and partner countries focused on Extractive Industries are being considered as a “contribution toward more equitable revenue systems”*

KEYWORDS: extractive, natural resource, mining, oil, gas, petroleum, mines, mineral, Extractive Industries Transparency Initiative (EITI), cost audit, payment disclosure*, sovereign wealth fund*

ATI Monitoring Project Keywords: “Natural resource taxation”

c. **PERSONAL INCOME TAX - INEQ2.PIT**

Rational & assumptions: Personal income tax based on graduated scales where the tax rate goes up as income level rises is a clear progressive form of taxation. Higher

¹ Some key words, like tax evasion, tax havens, offshore, appear in more than one type of progressive taxation. A further analysis is needed in that case

tax rates for those with higher income means that those who earn more are taxed at a higher rate. Personal income taxes are an important means of raising revenue progressively, provided that: a) the threshold exempts poor people; b) there are higher rates for higher income groups; c) all relevant forms of personal income are captured within the PIT regime and compliance maintained; and d) allowances or deductions do not disproportionately benefit higher earners. PIT is under-utilised and underenforced in most developing countries, particularly for the highest earners. *Therefore, for the purposes of this study, cooperation between development partners and partner countries focused on PIT are being considered as a “contribution toward more equitable revenue systems”*

KEYWORDS: personal income, individual income, wages, salaries, dividends, interest, royalties, rental income, high income individuals, tax evasion

ATI Monitoring Project Keywords: n/a

d. WEALTH TAXATION - INEQ2.WT

Rational & assumptions: Wealth tax allows governments to tax those who have more in terms of assets, transferred rents (e.g. inheritance) and capital gains. Wealth taxes do not exist or are not very effective in most countries. Taxing the wealthiest can be very difficult because of tax avoidance and political capture of the decision-making process. *Therefore, for the purposes of this study, cooperation between development partners and partner countries focused on wealth taxation are being considered as a “contribution toward more equitable revenue systems”*

KEYWORDS: wealth, HNWI, High Net Worth Individual, tax havens, assets, offshore, tax evasion, inheritance, capital gains, beneficial ownership

ATI Monitoring Project Keywords: n/a

e. PROPERTY TAXATION – INEQ2.PR

Rational & assumptions: *[keep short, reference sources and/or existing Oxfam policy, e.g. FTM or CRII tax pillar]* Property taxation is considered as an equity-enhancing tax because land and capital, in general, are owned by relatively wealthy individuals. If the tax is well designed it can be very progressive, i.e. ensuring that those most able to pay taxes pay more, including by introducing thresholds for when a property is taxable, which can ensure that the poor and marginalized in society are not liable for property tax (source: Oxfam Wealth Tax Policy Compendium). Property taxation is not included in the CRII (which only covers PIT, CIT and VAT/sales tax), as it is a relatively small percentage of national revenue. However, it is (or can be) a substantial portion of sustainable revenue for local governments and cities. Given the hastened trends towards urbanization, cities without reliable property/land tax systems in place will be unable to fund essential public services or depend on more regressive and inequitable revenue streams (e.g. user fees). *Therefore, for the purposes of this study, cooperation between development partners and partner countries focused on property taxation are being considered as a “contribution toward more equitable revenue systems”.*

KEYWORDS: property, properties, house, land, registry, cadastre, estate, real estate,

ATI Monitoring Project Keywords: n/a

f. TAX EXPENDITURES and/or TAX INCENTIVES - INEQ2.TE

Rational & assumptions: Tax expenditures are usually defined as a government’s estimated revenue loss that results from giving tax concessions or preferences to particular taxpayers and/or activities – often understood as tax incentives. Not all tax incentives are harmful. Tax breaks for renewable energy or small female-owned businesses can help a country shape its economy positively, but far too often tax incentives are wasteful, ineffective and have mainly benefited only a few individuals, investors, or sectors. The costs to government finances are often quite high.

According to the North-South Institute, these represent ‘a staggering opportunity cost ... in terms of revenue forgone. These typically favor the most wealthy [who are predominantly men] and should be greatly reduced or preferably abolished.’ The World Bank estimates that reducing the use of tax incentives could raise revenue collection by as much as 2–3% of GDP⁴⁰— potentially generating more than \$193bn in additional revenue that could fund education, healthcare, and other essential public services. Careless tax incentives contribute to the increasing race to the bottom that is undermining sustainable financing for government budgets.

Therefore, for purposes of this assessment, DRM cooperation between development partners and partner countries focused on improving tax expenditure transparency, assessments and/or reforms are being considered as a “contribution toward more equitable revenue systems”

KEYWORDS: tax expenditure, tax incentive, exemption, waiver, fiscal incentives, tax breaks, deductions

ATI dataset keyword marker: “tax expenditures”

OTHER POTENTIAL CATEGORIES (FOR ADDITIONAL ANALYSIS):

g. POLICY RESEARCH and/or ANALYSIS – INEQ2.PRA

Rational & assumptions: Inequality is more likely to be addressed when the project concerns policy research and/or analysis, rather than technical assistance. Investing in the effectiveness and efficiency of public administrations could indirectly contribute to more fairness if for example the level of compliance of a progressive tax system is increased. However, for this analysis, we consider a focus on policy research and/or analysis to be an intentional effort to *improve fairness of tax policies and revenue systems* (by first understanding how tax policies impact different groups, i.e. distributional analysis). At the same time it is important to recall that the donors must respect developing countries’ policy space and the diverse stakeholders that foster policy dialogue. *Therefore, for purposes of this assessment, DRM cooperation between development partners and partner countries focused on strengthening policy research and/or analysis are being considered as a “contribution toward more equitable revenue systems.*

KEYWORDS: assessment, analysis, academic, research, study(ies), university,

ATI Monitoring Project Keywords: “tax policy planning”; “tax research”

h. ANTI-CORRUPTION – INEQ2.AC

Rational & assumptions: Reducing corruption in tax and revenue collection processes and institutions is essential to improve the effectiveness/productivity of fair tax policies. Almost always corruption benefits individuals and corporations with the power, who have the capacity to pay tax but use that power to dodge their responsibility. This makes the tax system less progressive overall. It is important to note that anti-corruption efforts that focus on small scale bribery and broader corruption in economies do not necessarily help improve progressiveness of tax systems, and can lead to reform efforts that neglect the most corrosive levels of corruption. *However, for purposes of this assessment, DRM cooperation between development partners and partner countries focused on anti-corruption are being considered as a “contribution toward more equitable revenue systems”.*

KEYWORDS: anti-corruption, corruption, fraud, fraudulent, corrupt practices, beneficial ownership

ATI Monitoring Project Keywords: n/a

**NB: It was ultimately decided that INEQ2.PRA and INEQ2.AC would not be included in the final results for Tier 2.

III. Third tier

After all qualifying projects are coded for INEQ1/GEN1 or INEQ2.XX, there will remain all the *un-coded projects*. Assuming that a large number of projects may fall into this category, a sample of projects will be selected to investigate (desk research).

Sample selection: of the remaining (un-coded) projects, select the top 20 projects (based on USD amount extended/disbursed).

Desk research and analysis: Use the information available to find project documents/reports and apply the criteria we used in first two 2 tiers to answer question: does this project contribute to making tax system more equitable? In addition, if project information is available, we should assess to what degree (if any) civil society/citizens have been engaged as part of the project.

If no documents/reports can be found, or the information uncovered is insufficient, the project can be tagged “no/insufficient info”.

If we can find our keywords in project documents and/or it can be determined that the project supports building equitable revenue systems, it can be coded as “INEQ3”

DATA ORGANIZATION:

GENERAL INQUIRIES: We want data to be organized in a way that someone can download the database and answer some simple questions, such as:

- 1) How well is my government (donor or partner country) incorporating “equity” into their DRM projects?
- 2) What projects are focused on equity? Explicit equity focus (Tier 1) or implicit equity focus (Tier 2, 3)

ORGANIZING & TRACKING RESULTS: This methodological note has some suggestions for how to organize and code/track results (but this is only a suggestion, not a rule: What matters is that results be organized by categories and subcategories to enable disaggregation (important to answer key analytical questions).

Some projects that contained “first tier” (INEQ1) keywords may also contain “second tier” (INEQ2) keywords. It is also possible for a project to contain keywords from different categories in tier 2. In either case, all respective codes should be tagged and organized in the spreadsheet. For example, it could be organized like this:

Project	INEQ1	GEN1	INEQ2.RA	INEQ2.EI	INEQ2.CIT
Project A	X	X			X	
Project B	X			X		
Project C			X		X	

KEY ANALYTICAL QUESTIONS:

- 1) How much aid for DRM (USD extended amount) contained focus on equity? (breakdown by INEQ1, INEQ2, INEQ3)
- 2) What % of aid for DRM funds support projects with equity focus? (breakdown by INEQ1, INEQ2, INEQ3)
- 3) How many projects have equity focus? (breakdown by INEQ1, INEQ2, INEQ3)
- 4) Which donors prioritize equity in DRM projects? (in terms of number of projects and USD %)
- 5) Which recipient countries prioritize equity in DRM projects? (in terms of number of projects and USD %)
- 6) Do projects implemented by local actors have more or less equity focus?
 - a. Local actors identified by channel code = recipient government (12000), private sector in recipient country (62000), NGO in recipient country (23000)

APPENDIX 1: ATI Monitoring Project Keywords

ATI Monitoring Project Keywords
Information and communication technology
Tax policy planning
Customs tax assistance
Sub-national tax assistance
Taxpayer education
International taxation
Business taxation
Civil society dialogue and engagement
Tax research
Regional and local tax cooperation
Natural resource taxation
Tax fairness
Tax and gender
Green taxes
Tax transparency
Tax expenditures