Addis Tax Initiative

2020 ATI Monitoring Report

Tax systems that work for people and advance the Sustainable Development Goals

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Structure

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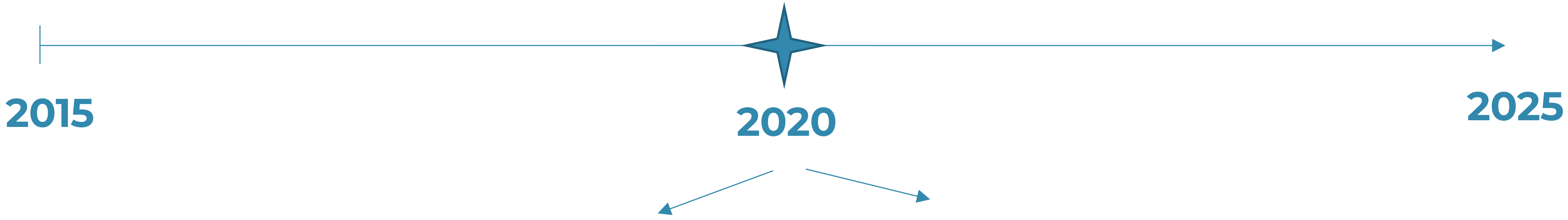
1. Introduction
2. Stocktaking ATI Declaration 2020
3. ATI Declaration 2025 commitments
4. ATI supporting organisations
5. Conclusion

A TURNING POINT



The ATI Declaration 2020 ends

Reports on the progress ATI members achieved during 2015-20 in delivering on the ATI Declaration 2020.

- *Old Monitoring Framework*
- *Three commitments*

The ATI Declaration 2025 begins

Sets the baseline against which delivery on commitments in the ATI Declaration 2025 will be measured.

- *New Monitoring Framework*
- *Four commitments*

ATI Declaration 2025

Commitment 1. *ATI partner countries commit to enhance DRM on the basis of equitable tax policies as well as efficient, effective and transparent revenue administrations. ATI development partners commit to support such reforms.*

Commitment 2. *ATI development partners collectively commit to maintain or surpass the 2020 global target level (USD 441.1 million) of DRM cooperation for country-owned tax reforms.*

Commitment 3. *ATI members commit to apply coherent and coordinated policies that foster DRM and combat tax-related illicit financial flows (IFFs).*

New Commitment area

Commitment 4. *ATI members commit to enhance space and capacity for accountability stakeholders in partner countries to engage in tax and revenue matters.*

The new declaration emphasises the qualitative aspect of DRM

ABOUT THE 2020 ATI MONITORING REPORT

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- Data is mostly taken from publicly available sources or is self-reported.

- Results also reflect responses provided by ATI members to three monitoring surveys (one per stakeholder group).

- Details on the methodology used for each chapter can be found in the Report.

- Detailed information on ATI members' individual progress can be found in the DRM Profiles on the ATI website.

Stocktaking of the ATI Declaration 2020

A stocktaking of the progress on the commitments drawn in the first ATI Declaration during 2015-2020, identifying achievements as well as gaps that remained to better guide ATI members' actions to meet the post-2020 commitments.

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METHODOLOGY

The ATI Declaration 2020 focussed on **three main sets of indicators**:

1. **Expanding ODA for DRM**

   Data based on Official Development Assistance (ODA) levels development partners report to OECD Development Assistance Committee (DAC); prior to publication, partners are invited to validate and revise data based on latest available information.

2. **Expanding tax revenue levels**

   Data from the Government Revenue Dataset (GRD) produced by the International Centre for Tax and Development (ICTD) & managed by United Nations University World Institute and Development Economics Research (UNU-WIDER).

3. **Improving policy coherence for DRM**

   Data and information self-reported via Monitoring Survey.

ODA FOR DRM LEVELS

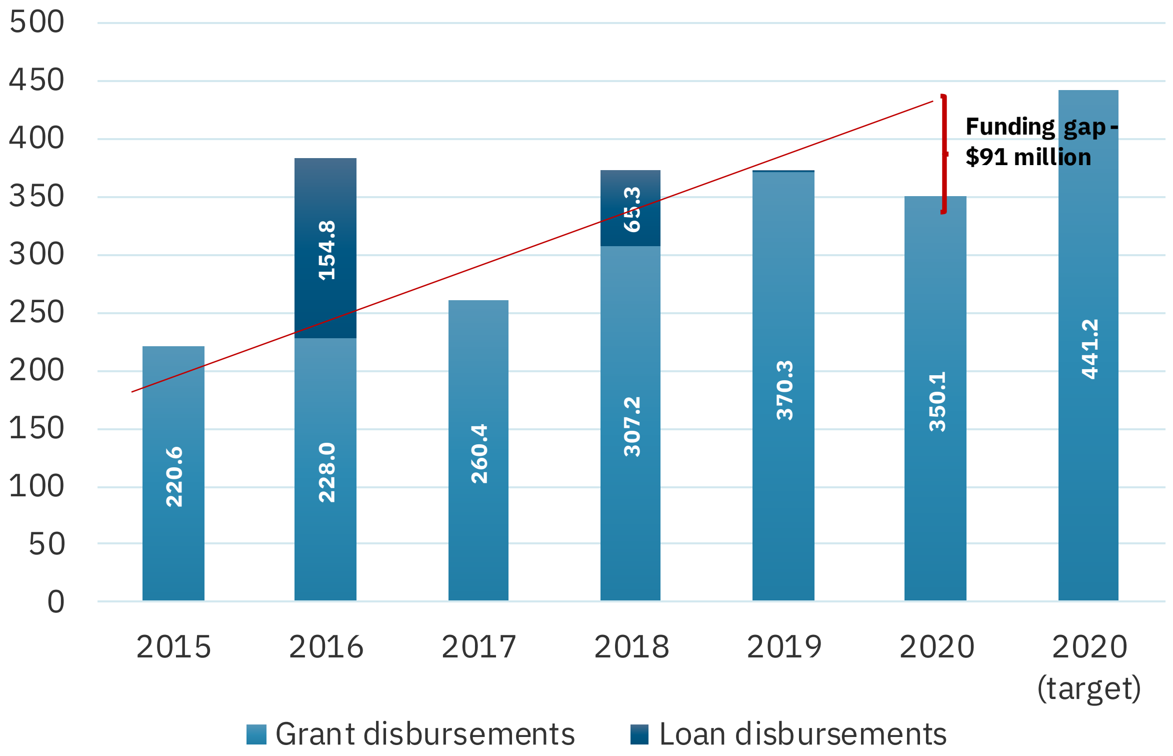

Figure 8. *Gross ODA disbursements for DRM, 2015-2020, and the funding gap to the 2020 target (USD millions, current prices).*

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).*

During 2015-2020:

- During 2020, development partners supported the response to Covid-19 pandemic induced crisis across different partner counties, which *disrupted many DRM programmes*.
- ODA for DRM became *less focused on the poorest countries* over this period.
- Levels of ODA became more predictable with *disbursements more closely matching commitments*.

RAISING TAX REVENUES

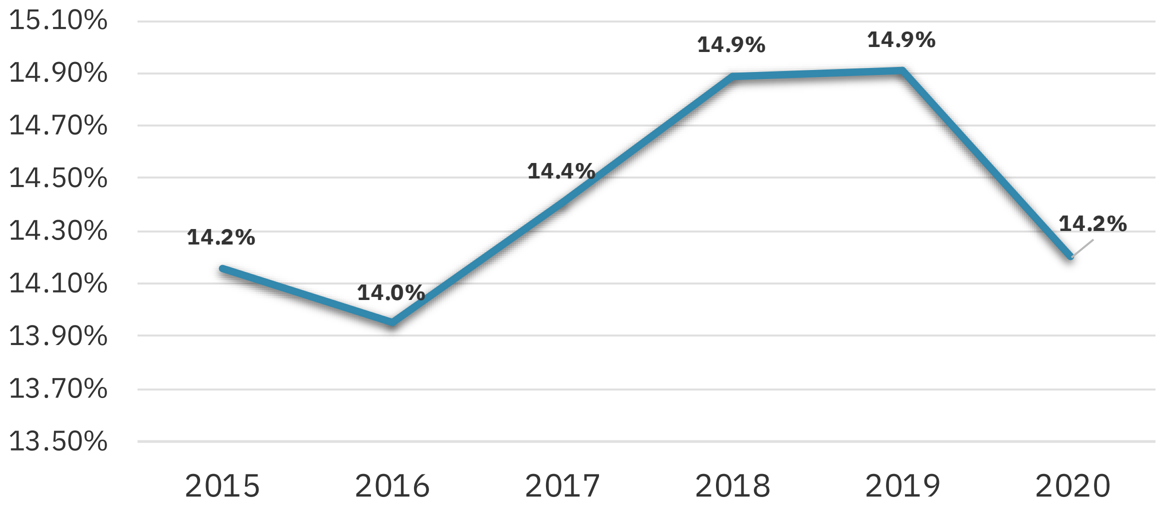

Figure 9. *Average tax-to-GDP ratios for ATI partner countries, 2015-2020*

Source. *Government Revenue Dataset, UNU-Wider, 2022*

During 2015-2020:

- **Levels of average tax-to-GDP ratio in 2020 for ATI partner countries were barely above those in 2015.**
  - Primarily driven by the severe effects of the Covid-19 pandemic on economies of partner countries and reduced revenue-raising opportunities.
- Without the significant external shock created by Covid-19, ATI partners countries would have likely achieved increases in average tax revenue levels over the period 2015-2020.

POLICY COHERENCE FOR PROMOTING DRM

01

- **Significant progress** made in securing commitments to international agreements and partnerships.
  - Benefits of these agreements and partnerships will depend on full and consistent application.

02

- ATI development partners are still **not effectively pursuing strategic and coordinated policy responses** to the challenge of promoting DRM efforts in partner countries.

Monitoring progress on the ATI Declaration 2025

Beyond revenue generation, this new declaration emphasises the qualitative dimension to both revenue collection in developing countries and the provision of DRM support by donors. It also highlights the need to reduce inequalities and to protect the environment.

ATI Commitment 1

ATI partner countries commit to enhance DRM on the basis of equitable tax policies as well as efficient, effective and transparent revenue administrations. ATI development partners commit to support such reforms.

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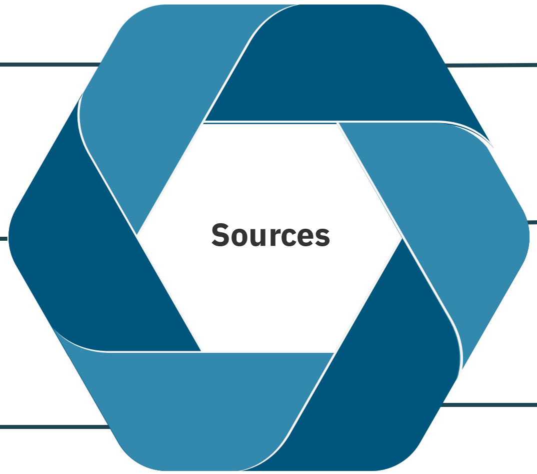
METHODOLOGY

- Performance on partner countries' revenue mobilisation is based largely on official publicly available data sources

Commitment to Reducing Inequality Index (CRII), Oxfam/DFI

Financial Secrecy Index, Tax Justice Network (TJN)

International Survey on Revenue Administration (ISORA), CIAT/IMF/IOTA/OECD



Government Revenue Dataset (GRD), ICTD/UNU-WIDER

African Tax Outlook data portal, ATAF

Survey to ATI partner countries & development partners

TOTAL REVENUES & REVENUE COMPOSITION

- The *average revenue-to-GDP* ratio for ATI partner countries in 2020 was 16.8%, a **fall** of 0.6 p.p. compared to averages of 2018 and 2019.

- Among ATI partner countries: 13 had revenue levels **below** 15% of GDP, while 12 had revenue levels **above** 15% of GDP.

- *The share of taxes on income, profit and capital gains increased* from 35% in 2015 to 36.3% in 2020, suggesting a **modest shift towards more progressive taxes**.

Contribution to total tax revenues (%)

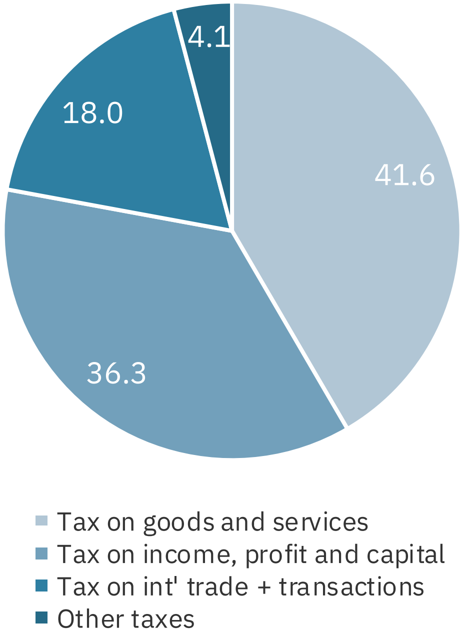


Figure 2. *Tax revenue composition for ATI Partner countries (%of total tax revenues)*

Source: *GRD (ICTD-UNU- Wider).*
Note: *This graph is based on data from 16 of the 28 ATI partner countries.*

EQUITABLE AND SUSTAINABLE TAXATION

Survey Results

Environmental sustainability

Georgia, Paraguay and Rwanda – introduced measures exempting electric vehicles from import duties

Madagascar – reduced VAT on butane gas to discourage use of firewood or charcoal

Kenya – introduced measures to decrease use of plastic and promote recycling as well as renewable energy

Gender Equality

Sierra Leone - introduced an income tax credit of 6.5% on the PAYE of females employed in management positions

Commitment to Reducing Inequality Index (CRII)

Assesses tax progressivity

i.e. one that supports the redistribution of the national tax burden from lower income households to higher income households.

*ATI partner countries with the **most equitable** tax structure in 2020*

included Zambia (0.71), Togo (0.70), and Cameroon (0.69)

*ATI partner countries with the **least equitable** tax structure in 2020*

included Georgia (0.22), Paraguay (0.33), and Mongolia (0.42)

EFFICIENT REVENUE ADMINISTRATION

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Withholding Taxes

- The proportion of total *PIT* withheld by third parties and subsequently paid to the tax administration across **ATI partner countries averaged 56%**.
- Among 12 African countries, the percentage of withholding tax as a share of total revenue averaged 5%, with **Liberia** reaching the highest percentage.

Managing Taxpayers and High Net Worth Individuals (HNWIs)

- **At least 26 ATI partner countries have set up Large Taxpayer Offices (LTOs).**
  - On average, 55% of total revenues were managed through this unit, ranging from a 84% in Burkina Faso and the Gambia, to 1% in Senegal.
- **At least 7 ATI partner countries have set up units to engage HNWIs.**
  - However, contributions from these units to total revenues remain minimal.

VAT Refunds

- **Eight ATI partner countries automatically paid out VAT refunds**, while the rest established them either as a credit (12) or made refunds subject to available funds (4).
- **Outstanding VAT credits averaged 30%** in relation to VAT collected in 18 ATI partner countries, ranging from a high of 205% for Zambia to a low of 0-2% in Sierra Leone and Ecuador.

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EFFECTIVE REVENUE ADMINISTRATION

Timeliness of Tax Filings and Payments

- **Payments** for Corporate Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT) and PAYE **are timelier than filings**.

- The **timeliness of filings and payments is higher for VAT and PAYE** than for CIT and PIT.

Tax Gaps and Arrears

- **10 ATI partner countries** reported estimations of the **tax gap**, with the majority (8) focussed on VAT and to a lesser extent on PIT and CIT.

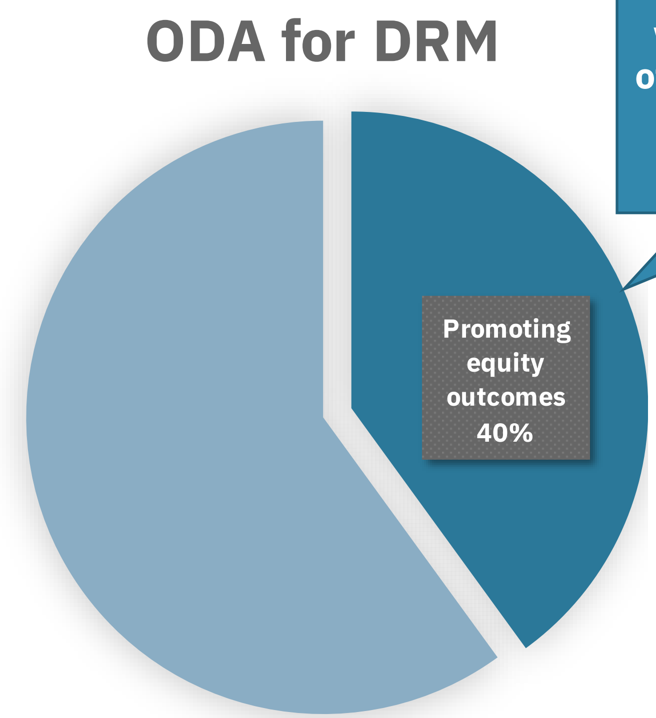
- The closing of **tax arrears** at year end averaged **31%** of total tax revenue; and ranged from a low of 1% in Sierra Leone to a high of 133% in Kenya.

TRANSPARENT REVENUE ADMINISTRATION

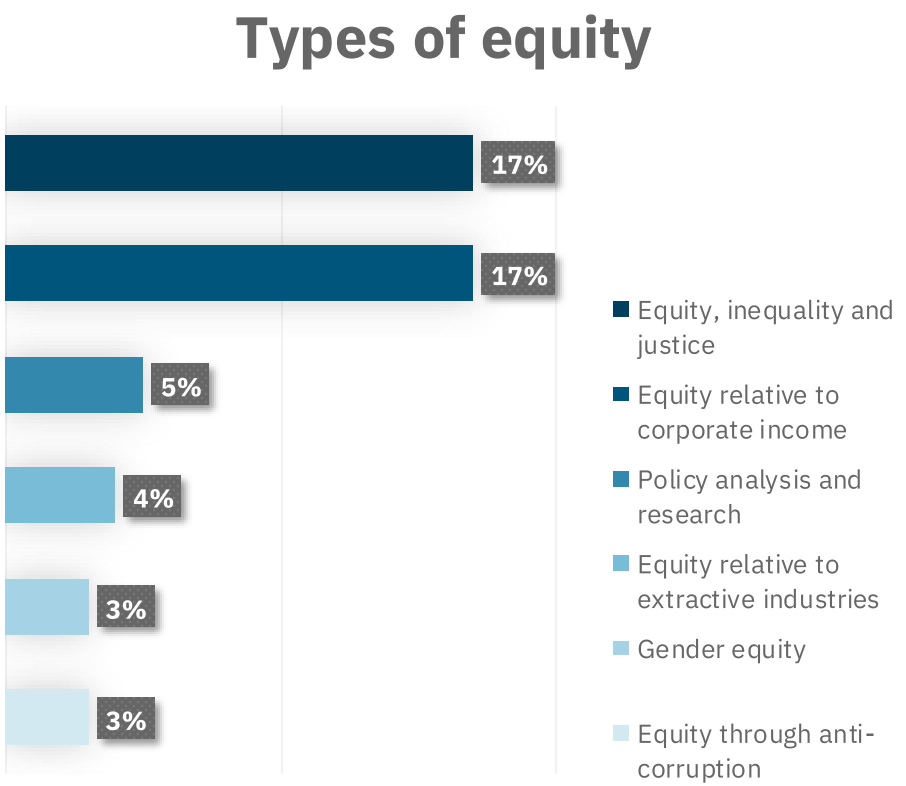
Tax administration commitments and responsibilities

- **13 ATI partner countries have taxpayer charters** (or similar documents) that set out taxpayer rights and obligations, while 16 not having put in place such frameworks as of 2020.

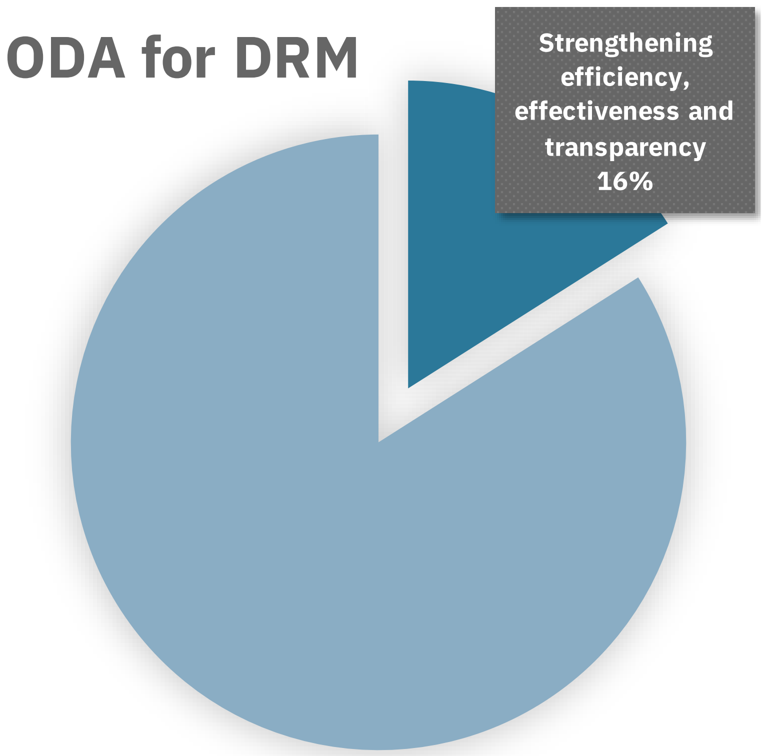
DRM SUPPORT BY ATI DEVELOPMENT PARTNERS TOWARDS EQUITABLE TAX SYSTEMS



Development partners with the highest values of ODA for equitable DRM
EC ($47m) / Norway ($30.4m) / UK ($14.5m)



DRM SUPPORT BY ATI DEVELOPMENT PARTNERS TOWARDS EFFICIENT, EFFECTIVE AND TRANSPARENT TAX SYSTEMS



Most active development partners in providing support

Finland, France, Germany, Norway and the UK

Largest recipients of ODA focussed on strengthening the efficiency, effectiveness and transparency of tax administrations

Tanzania ($6.23m), Ghana ($4.51m), and Kenya ($2.72m)

ATI Commitment 2

ATI development partners collectively commit to maintain or surpass the 2020 global target level (USD 441.1 million) of DRM cooperation for country-owned tax reforms.

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METHODOLOGY

- Official development assistance (ODA) data published by OECD Development Assistance Committee (DAC) under the Creditor Reporting System (CRS).

Examination of **ODA commitments** – reflecting development partners’ funding intentions.

But **focus** on gross **ODA disbursements** – reflecting development partners’ concrete ODA efforts.

NB: all reported ODA by ATI development partners in 2020 was in the form of grants.

- Complemented by a survey to ATI development partners.

OVERALL FLOWS OF ODA FOR DRM

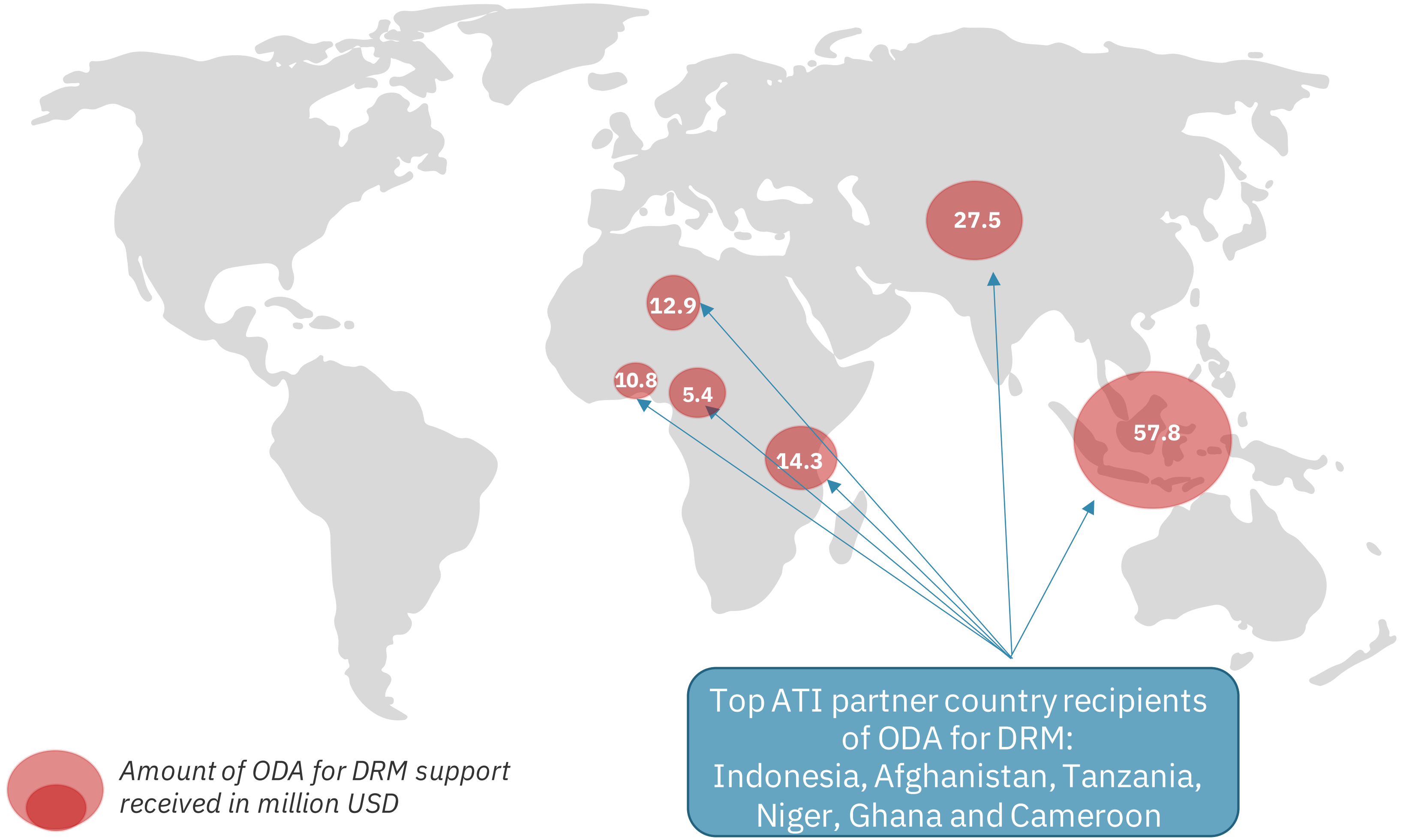
- In 2020, levels of gross ODA disbursed by ATI development partners for DRM reached USD 350.15 million: **a decrease of USD 23.45 million (or 6%) from gross disbursements in 2019**.

- Gross ODA disbursements for DRM were 97.8% of committed levels in 2020.
  - Steady increase in gross disbursements against annual commitments from 2015-2020 → **greater predictability of ODA for DRM from development partners.**

INSIGHTS ON THE EVOLVING STRATEGIC, POLICY, AND PROGRAMMATIC APPROACHES TO DRM OF ATI DEVELOPMENT PARTNERS

- **Budgetary reallocation** to cope with Covid-related crises.
- **Integrating Covid-19 responses** and recovery measures into DRM strategies.
- Some ATI development partners **maintained** their strategic objectives while paying special attention to the impacts of the pandemic.
- Pandemic-induced impacts on the delivery of DRM-related programming, e.g. capacity building and technical assistance shifted **online**.

RECIPIENT COUNTRIES



Amount of ODA for DRM support received in million USD

Top ATI partner country recipients of ODA for DRM:
Indonesia, Afghanistan, Tanzania, Niger, Ghana and Cameroon

Indonesia is the top recipient with DRM support coming mostly from France and Germany

ODA FOR DRM TO ATI PARTNER COUNTRIES

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By income group

- Least Developed Countries (LDCs) the largest recipient of ODA for DRM.
- *In 2020, Lower Middle Income Countries (LMICs) gained ground at the expense of LDCs,* whose share of ODA disbursements fell 9 percentage points from 2019 levels.

By region

- *Largest regional recipient of ODA for DRM is sub-Saharan Africa*; though its share of ODA has steadily declined since 2017.
- Second largest recipient is Far East Asia, whose share increased from 2019.
- South and Central Asia's is the third largest recipient, with decreased ODA share from 2019.

By type of support

- *"Project-type interventions"* is the largest category of DRM programming, accounting for 59.3% of the total support; a substantial increase from levels in 2019.
- Contributions to *"specific-purpose programmes and funds managed by implementing partners*," were at 19.16% of the total, down from their 2019 levels.

By channel of support

- *Central governments (28.18%)* overtook multilaterals (23.66%) as the primary channel for DRM management in 2020.

COUNTRY-OWNED TAX REFORMS

- **New indicator** – ATI development partners report on efforts to promote country ownership in partner countries' related DRM programmes.

01 Development cooperation **demand-driven** and informed by local contexts and recipient priorities

02 Delivering ODA and technical assistance for DRM while embracing **early stakeholder engagement** not only on the national level (governments) but also international level (e.g. donors, multilaterals and regional tax advisors).

03 **Engagement with regional organisations** where recipient countries can directly express their positions and needs.

04 **Other measures** – e.g., amplifying the views of developing countries in global norm and standard setting negotiations for the global agenda to reflect their priorities.

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ATI Commitment 3

ATI members commit to apply coherent and coordinated policies that foster DRM and combat tax-related illicit financial flows (IFFs).

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METHODOLOGY

- **To ensure that ATI development partners' tax systems do not harm efforts to raise domestic revenues in partner countries**
  - Inclusive Framework on Base Erosion and Profit Sharing (BEPS) Minimum Standards (OECD)
  - 2021 Corporate Tax Haven Index (TJN)
  - 2020 ATI Monitoring Survey to DPs

- **To ensure that ATI partner countries' tax expenditures are transparent and do not disproportionately impact their DRM efforts**
  - Global Tax Expenditure Database (CEP/IDOS)
  - Open Budget Survey (IBP)
  - 2020 ATI Monitoring Survey to PCs

- **To assess member countries' efforts to address tax-related illicit financial flows (IFFs)**
  - Global Forum on Transparency and Exchange of Information – AEoI and EoIR (OECD)
  - Financial Secrecy Index (TJN)

COHERENT AND COORDINATED POLICIES ATI DEVELOPMENT PARTNERS

Compliance with OECD BEPS Minimum standards

BEPS Action 5

Harmful tax practices

- Four recommendations done to **three ATI development partners** in 2020 peer review on harmful tax practices, similarly as in 2019. **France and Switzerland** present in last two years.

BEPS Action 6

Treaty shopping

- 18 ATI development partner countries out of 19 are signatories MLI, and in 17 signatories, the MLI has entered into force.
- Significant **progress** especially in **countries that ratified the MLI.**

BEPS Action 13

Country-by-Country reporting

- Almost all ATI development partners are signatories to the CbC MCAA.
- **35** activated bilateral **exchange relationships** solely with **Indonesia (18) and Pakistan (17)**.

BEPS Action 14

Mutual Agreement Procedures

- MAP provision widely included in tax treaties, but there is still further effort needed to ensure **MAP cases are resolved and implemented within reasonable timeframes**.

COHERENT AND COORDINATED POLICIES
ATI DEVELOPMENT PARTNERS

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Harmful tax practices (TJN)

Lowest CIT

France (19) vs. Ireland (100)

Broad exemptions CIT

Sweden (13) vs. Ireland and Netherlands (81)

CIT and capital gains tax incentives

France (0)

Globally financial data - CbC

USA (100)

Locally accessible CbC reports

France (0)

Spillover Analysis

- **Denmark** and the **Netherlands** implemented a spillover analysis to assess the impact the country's tax practices had on other countries' ability to raise revenue.

- **But raising interest among ATI development partners:**
  - **Ireland** committed to undertake a spillover analysis in their 2022 Double Tax Treaty policy.
  - **Finland** and **Italy** also indicated that while they have not implemented a spillover analysis, there was interest in doing so for future projects.

COHERENT AND COORDINATED POLICIES
ATI PARTNER COUNTRIES

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Tax expenditure transparency

- **21 ATI partner countries** have previously published tax expenditure data & 13 of them on a regular basis.
- Only **Liberia** with disaggregated data on a regular basis.

Parliamentary scrutiny of tax expenditure

- **12 ATI partner countries** with some level of parliamentary scrutiny of tax expenditure in 2020.
- No ATI partner country reported presenting information on all existing tax expenditures.

Inter-agency cooperation & parliamentary scrutiny of tax expenditure

- **13 ATI partner countries have designated ministry** responsible for fiscal policy; typically Ministry of Finance.
- **12 ATI partner countries** indicated that tax legislation, including existing and new tax expenditures, is **scrutinized by the parliament.**

COMBATTING TAX-RELATED ILLICIT FINANCIAL FLOWS

	Automatic Exchange of Information (AEoI)	Exchange of Information on Request (EoIR)	Beneficial ownership registers and bearer shares
Development partners	*CRS Multilateral Competent Authority Agreement (MCAA):* • 18 out 19 are signatories • All 18 provide information on activated AEoI relationships under CRS MCAA	*Amended Multilateral Convention on Mutual Administrative Assistance in Tax Matters:* • in force in 18 countries, with only one country where it was signed but is not yet in force	• Most development partners and partner countries score quite highly on the Secrecy indicators – **indicating that their tax and legal systems are opaque.** • **In 15 ATI member countries**, bearer shares are unavailable and not circulating, creating a legal environment with **little accountability for actors hiding illicit financial and tax activities.**
Partner Countries	*CRS Multilateral Competent Authority Agreement (MCAA):* • 6 out 30 are signatories • 4 of them provided information on the number of activated AEoI relationships	*Amended Multilateral Convention on Mutual Administrative Assistance in Tax Matters:* • in force in 15 countries; signed but not ratified in 3, ratified but not yet in force in two countries	
		Compliance with rating of EoIR requirements: • 6 ATI member countries (only development partners) are “compliant” • 23 ranked “largely compliant” • 2 ranked “partially compliant”	

ATI Commitment 4

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

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METHODOLOGY

Three focus areas	*ATI Monitoring indictors*	*Sources*
Transparency	Efforts of partner countries to publish 1. an accessible explanation of their tax strategy and 2. core tax data.	• ATI assessment of published tax strategies • Data from Global Tax Expenditures Database *(GTED)* • Assessments of tax transparency by International Budget Partnership *(IBP)* through the Open Budget Survey *(OBS)*
Engagement	Partner country performance in opening up tax processes for engagement from accountability actors	• ATI Monitoring Survey • IBP's OBS on country performance in this area
Capacity	Level of ODA for DRM channelled towards non-state actors and fostering accountability	• ATI DRM database – drawn from OECD-DAC data on DRM-related ODA flows • ATI Monitoring Survey

TRANSPARENCY OF TAXES

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Transparency of tax strategies

- 11 ATI partner countries had tax/revenue strategies in 2022, although only two were judged to be comprehensive.

Transparency on tax revenues raised

- 22 ATI partner countries publicly reported on taxes raised across individual taxes; and 10 reported taxes raised across sectors of their economies.

Transparency on tax revenue forecasts

- 64% of ATI partner countries published information on individual sources of tax revenue as well as multiyear estimates of revenue by category in budget processes.

Transparency on tax expenditures

- 43% of ATI partner countries published some information but with some "core" information, e.g. the policy rationale, a listing of intended beneficiaries and an estimate of the revenue foregone not included.
- ***Tax gap analysis by ATI partner countries:***
    - Taxes on goods and services – most substantial, and most reported on as well.
    - Overall tax gaps varied across countries.

ENGAGEMENT WITH NON-STATE ACTORS ON TAX ISSUES

- Analysis of the Open Budget Survey (OBS) suggests that in ATI partner countries, **this engagement is in practice modest and far from systemic.**
  - Most apparent in relation to **budget formulation.**
  - Limited efforts in providing citizens with prior information ahead of engagements & to share feedback on citizen views following their engagement.
  - **Zambia a good example** with a good/certain level of involvement in each budget process.

ENHANCING CAPACITY OF ACCOUNTABILITY STAKEHOLDERS TO ENGAGE IN TAX ISSUES

- **14% of total ODA for DRM** from ATI development partners focused in some way on promoting accountability, transparency, and the role of non-state actors in relation to tax policy and practice,
  - and only 4.7% of the total was provided directly to civil society organisations as primary implementing partners.

ATI SUPPORTING ORGANISATIONS

Both strong advocacy of policies *to* ***promote more adequate and efficient revenue mobilisation*** in developing countries and strong commitment *to* ***scale up its tax capacity development support***.

Wide range of support to partner countries, primarily on ***international tax issues***, but also in other policy areas.

Development of a range of ***country partnerships and programmes*** addressing DRM issues.

Focus on promoting ***more and better revenues to achieve the SDGs*** by e.g. promoting digitalization of revenue administrations.

Support 1. to ***increase civil society engagement*** in subnational tax policy development, 2. to ***expand public awareness*** of fiscal policies, and 3. to *foster* ***positive relationships*** between property owners, the business community and local government to increase tax compliance.

Support 1. to ***improve developing countries' research*** on tax issues; 2. strengthen ***developing countries' engagement and coordination in international tax cooperation***.

Network of 44 African CSOs that work to establish national civil society tax platforms that ***engage with their respective governments and MPs on DRM-related issues***.

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THE ATI TOWARDS 2025

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2020 was a challenging year, given the economic challenges and trade-offs in the allocation of ODA posed by the COVID-19 pandemic, which brought:

- Progress in **DRM raising** among ATI partner countries back to 2015 levels.
- **ODA for DRM** shrank with ATI development partners not reaching the target of doubling DRM support.
- Urgent need to implement relevant international agreements promoting **policy coherence** for DRM, address beneficial ownership transparency, and tax expenditures.
- Call for increasing efforts to strengthen, facilitate, and assure **engagement of accountability stakeholders** in tax and revenue matters.

In spite of the global challenges, the ATI partnership and the commitments create new opportunities for equitable, effective, inclusive and sustainable DRM reforms.

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