

The Platform for Collaboration on Tax

DISCUSSION DRAFT:

Report on Effective Capacity Building on Tax Matters in Developing Countries

Feedback period:

30 June 2016 – 8 July 2016

**International Monetary Fund (IMF)
Organisation for Economic Co-operation and Development (OECD)
United Nations (UN)
World Bank (WB)**

CORE ELEMENTS OF SUCCESSFUL TAX CAPACITY BUILDING PROGRAMS

"We...call on [the IMF, OECD, UN and WBG] to recommend mechanisms to help ensure effective implementation of technical assistance programs, and recommend how countries can contribute funding for tax projects and direct technical assistance, and report back with recommendations at our July meeting."

G20 Communiqué, February 2016

The international organizations¹ (IOs) are working on their response to this request from the G20. This note sets out, in summary form, the central recommendations, based around the enabling elements for reform, that they are considering. Comments on this draft are welcomed no later than 8 July 2016 to GlobalTaxPlatform@worldbank.org.²

Essential Prerequisite: A country-driven commitment to reform within a supportive political environment

The structural changes that are needed to make a sea change in countries' revenue mobilization efforts require those countries to have both a strong sense of urgency to shift the status quo among their political leadership and the determined support of all key stakeholders—including leading government officials, political and business leaders, civil society and the citizenry more generally. This desire and determination must be home-grown, but the IOs and G20 countries can help to build it through strong advocacy at the political level, public advocacy efforts targeted at business leaders and civil society, and appropriate design of the support they provide for tax reform initiatives. Greater efforts need to be made to support and maintain into the long term the political environment that will enable capacity building programs to succeed—and, not least, to stimulate the desire to reform in itself. Many recommendations in this report, such as further inclusion of developing countries in international discussions on norms and standards and the nurturing of CSOs in their role in public debate and in holding government accountable, will also support the enabling political environment for reform at the country level. Development partners can also provide direct incentives for governments to back reforms, by providing financial support for such reforms, taking account of tax reform in budget support, highlighting lessons from successful reforms, and recognizing the key role of effective reformers.

Recommendation 1. G20, partner countries and the international organizations (IOs) should take into account and, as appropriate, encourage and incentivize progress in improving tax system performance.

¹ This refers to the four partner organizations of the Platform for Collaboration on Tax ('the Platform').

² The possible recommendations that involve the IOs would for the most part require additional resourcing.

Enabler 1: A coherent revenue strategy as part of development financing plan

The Addis Ababa Action Agenda affirmed that ‘cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts’.³ Strengthened tax systems have been identified as a key source of financing for the Sustainable Development Goals, and experience—illustrated by several case studies that will be reported in full the report—shows that achieving this requires well-articulated, sequenced, and realistic medium term reform plans. Enhanced nationally-owned plans of this kind—termed medium term revenue strategies, or MTRSs in this paper—need to be a central component of, and fully integrated into, national frameworks for the mobilization and management of financial resources. Such plans also need to have the support of the societies they will benefit, and their development should be informed, and understood, by the local stakeholders, including businesses and CSOs. Box 1 sets out the key elements of such a strategy, whose development can build on existing efforts by the IOs: the IMF is mainstreaming tax issues in its surveillance reports on 25 countries in 2016, and the World Bank is designing a similar mechanism for emphasizing tax in its country engagements.

Box 1. Core Elements of a Medium-Term Revenue Strategy to Boost Sustainable Taxation

- ✓ A country’s social contract on the level of revenue mobilization effort—tax/GDP ratio for the medium-term, 5-10 years with due consideration to the poverty and distributional implications of the associated tax measures being considered in the country.
- ✓ A comprehensive reform plan for the tax system, reflecting country circumstances and the state of institutional capacity:
 - o A redesign of the policy setting to meet the revenue goal.
 - o A reform of the revenue agencies to properly administer the policy setting and to achieve a high level of taxpayers’ compliance to meet the revenue goal.
 - o A strengthening of the legal framework to enable the policy redesign and administration reform, including by balancing revenue agencies’ powers and taxpayers’ rights.
- ✓ A country’s commitment to a steady and sustained implementation, notably by securing political support and resourcing.
- ✓ Secured financing for the CB effort (technical assistance and training) to support the country in overcoming domestic constraints to formulate and implement an MTRS effectively.

Not all countries will be in a position to adopt MTRSs, especially in the near-term. In all cases, however, a perhaps looser but coherent medium term reform plan would be helpful to achieving reform.

³ www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf - para 9.

Recommendation 1a: National authorities, with support from IOs that are active in a country, and development partners engaged in support on tax reform, to develop key elements of an MTRS,⁴ with a view to launching [3 to 5] pilot MTRSs, through country-led partnerships, by [July 2017].

Recommendation 1b: Donor/G20 countries to support capacity building of local stakeholders (business, CSOs, media) to engage in reforms and MTRS development.⁵

Enabler 1.1: Adequate diagnosis of problems, risks and options for revenue strategy development

Some tax-oriented tools, such as TADAT, have been developed recently and are beginning to show value in establishing an objective, evidence-based assessment of the health of tax administration systems that can provide a common starting point for tax administration reform. The IMF and World Bank are working on improving diagnostic frameworks for tax policy. But there is scope to do more, including on cross border tax issues, which are significant for many countries. It would be helpful if these were considered alongside, and integral to, domestic tax concerns in the development and implementation of MTRSs. To support this, there would be considerable value in developing a new diagnostic tool/framework that will help countries both assess the risk and identify possible solutions to the range of cross border issues, including tax avoidance (e.g. BEPS and related issues), tax evasion and tax crimes.

Recommendation 1c: IOs to develop a diagnostic tool/framework for assessing cross-border tax issues, including tax avoidance, evasion and tax crimes.

Enabler 1.2: A strong managerial and skills base to develop and implement reform strategies

For capacity building projects to deliver over the long term they need to be self-sustaining. This requires the development of not just technical skills, but also the managerial skills to analyze, design, communicate and implement alternative policies and strategies. There are a range of actions that can be taken to support this Enabler, including encouraging governments to ensure stable and high quality of senior management appointments, fit-for-purpose training, and knowledge-sharing tools. Efforts to build management capacity should include greater focus on support for the development of tax policy units and tax policy skills. G20 countries can make a major contribution through mentoring arrangements, linking senior tax staff in developing countries and those in other countries, and, in select cases, twinning arrangements with other tax agencies across functions and levels of seniority. Skill development efforts could include establishing training programs,⁶ scholarships, online training and training materials. There is some emerging good practice, but more work is needed to both support those initiatives that do exist and strengthen mechanisms to build the vital skills. Peer-to-peer networks, such as those

⁴ Issues to address include incentives for countries to participate, the phasing of implementation, building in flexibility to deal with potential policy changes as governments and circumstances change, stakeholder involvement, and modalities for support.

⁵ Building e.g. on bilateral support and initiatives of Columbia University, OECD and WB.

⁶ For example, analogous to the Toronto Centre for Global Leadership in Financial Supervision.

under the Public Expenditure Management Peer Assisted Learning (PEMPAL) group or the OECD/UNDP Tax Inspectors Without Borders Initiative, have shown the opportunities for connecting officials across countries and how reform experiences in one country can serve as examples for others. Large scale open online courses have also shown their potential, in relation to energy subsidy reform for instance. International gatherings of tax officials are needed, but can also exact a great cost in countries where skills are scarce. Such meetings can be better coordinated and made more efficient to reduce demands on senior management time.

Recommendation 1d: G20 and development partners to encourage and support the development of high quality senior management, including in technical and management skills, in agencies that deal with taxation.

Enabler 2: Strong coordination among providers

With international support for building fiscal capacity increasing in both scale and ambition, it is vital that coordination be reinforced at all levels to pre-empt the risks of duplication, fragmentation and ad hoc efforts.

In the context of medium term reform plans, development partners and developing countries should both look to improve coordination in-country, between and among the agencies providing capacity building, and within the recipient government. Donor coordination groups should also consider the comparative advantages of each provider, and take comprehensive account of the different modalities and instruments of support available. Donors should adhere to the Task Force on Tax and Development Principles for International Engagement in Supporting Developing Countries in Tax Matters, as appropriate. A manual to flesh out experience according to these principles can be developed and a peer review process for adherence to them could be set up on a voluntary basis.

At the international level, there is a need for the main providers to develop a comprehensive plan to support the fast moving changes in international tax matters, including to safeguard the UN principle of 'no country left behind' that underpins the 2030 Agenda for Sustainable Development. The development of MTRS will require a certain level of existing capacity, which some countries may lack.

Recommendation 2a: IOs involved at the country level should facilitate explicit collaboration among providers and other stakeholders as a central part of the pilot MTRSs and, more broadly, facilitate the development of in-country coordination, by both donor groups and developing coordinating country counterparts.

Recommendation 2b: To support country level cooperation, Platform partners to develop a manual for good practices building on the *Principles for International Engagement in Supporting Developing Countries in Tax Matters* and a voluntary peer review mechanism among development partners

Recommendation 2c: The Platform to support the development of coordinated plans for IOs' work in relation to BEPS implementation and wider international tax issues

Enabler 2.1: Fragmentation in the delivery and receipt of support is avoided

Effectiveness is blunted when providers interact with only a subset of actors in the tax area, and when they do not exploit their institutions' wider interactions with the recipient authorities. All governments and institutions should therefore strive to adopt a comprehensive approach covering the range of actors who could play a direct, reinforcing, or blocking role in capacity building.

For development partners this will mean aligning their tax administrations, development agencies and finance departments, as some countries such as the UK and Netherlands are doing⁷. Donor countries also need to increase the supply of experts with scarce skills and reduce the bureaucratic hurdles to their use.

Developing countries should also seek to adopt a whole-of-government approach, involving all agencies involved in taxation issues (ministries of finance, tax administrations, ministries of mining/oil, etc.) and ensure full information sharing on support received. This is necessary to enable the full range of capacity building needs (technical, legal, judicial, etc.) to be identified, ensure the benefits are fully realized and reduce the risk of excluded parts of government undermining reform efforts. Participation of all stakeholders and providers of capacity building (CB) support in the development of the MTRS would be an important step toward realizing the whole-of-government approach.

To complement the whole-of-government approach the Platform members should adopt a 'whole-of-institution approach', to improve their own internal coordination, which has been lacking in some instances in the past, especially where different parts of the IOs interact with different entry points in developing countries.

At the global/multilateral level a proliferation of new initiatives and processes, if not coordinated, can be counter-productive, increasing transaction costs, diverting scarce capacity and slowing the speed of transmission of both funding and learning. New global initiatives should be launched only when there is a clearly identified need, and all should seek further cooperation, especially in the organization of conferences, meetings etc.

Recommendation 2d: Providers and recipients of CB support on tax matters should be well coordinated, including: effective coordination across different agencies active in tax reform in recipient countries, fully supported by providers of CB support ('whole of government' approach); while IOs should ensure internal coordination where they are active in different areas affecting the tax system, and across their different entry points into taxation ('whole of institutions' approach).

Recommendation 2e: G20 and development partners should more effectively facilitate the participation of their serving tax officials in capacity building.

⁷ See report by OECD Forum on Tax Administration, *Tax Administrations and Capacity Building: A Collective Challenge*, www.oecd.org/ctp/tax-administrations-and-capacity-building-9789264256637-en.htm.

Enabler 2.2: Clear and common measures of the effectiveness of support

All IOs have become more focused on gauging the state of tax system performance, and inferring from changes in these indicators some indication of the effectiveness of support for reforms. But these indicators remain, to varying degrees, in development phase and are emerging piecemeal. Further work is therefore necessary.

As part of ensuring that tax systems CB is rooted in a country's development plan it is necessary to pay close attention to the link between the tax system and development outcomes, including poverty and distributional implications. Also important in this is that tax CB should be placed within the context of overall improvement in outcomes across the public financial management (PFM) system. Tax capacity building should be integrated with PFM reform programs so as to give a full picture of the impact of the tax and spending system. Tax systems play a role in developing the state itself. Better tracking and understanding how increased revenues from tax system reform (both policy and administration) are used towards achieving national goals and SDG outcomes will be needed.

Recommendation 2f: The Platform will review⁸ the range of results indicators currently used with a view to establishing sound-practice results frameworks and guidance to track progress in ongoing reforms of the tax system (policies and administration) against a broad range of indicators. This will take account of the need to ensure a proper balance between the needs of development partners and reporting burdens and the appropriateness of fit within the country context.

Enabler 3. A strong knowledge and evidence base

Reliable, comparable revenue data is critical to tax analysis, and to the SDG monitoring process. This requires the IOs to share information and coordinate their efforts and exploit their differing comparative advantages in collecting and disseminating data on revenue collection. The compiling of these statistics in itself needs significant capacity as well. To this end, additional support needs to be provided to help governments develop the capacity in more countries to provide good quality, internationally comparable revenue-related statistics with an appropriate level of disaggregation to allow for evidence-based analyses. Tax agencies also need to be able to assess and understand their current performance, including by comparing themselves with a full range of peers, and to have the capacity to identify and assess their policy options.

Recommendation 3a: Platform partners and others to intensify their collaborative work to produce comparable, reliable data on revenue statistics and key tax policy parameters, and intensify efforts to build statistical capacity in the tax area (including in revenue administrations)

⁸ Subject to additional resourcing.

Recommendation 3b: G20 to encourage and demonstrate full participation in the International Survey of Revenue Administrations (ISORA).⁹

Enabler 4. Strong regional cooperation and support

The regional tax organizations (RTOs) already make a unique and valuable contribution to CB, but there is untapped potential. They are well placed to provide a link into the international tax architecture and global discussion of tax issues more generally, and are particularly well-suited to support CB in targeted areas such as reform management skills. As such, it is important that they continue to be supported.

Recommendation 4: G20 countries and development partners to continue their support for increasing the strength and coverage of Regional Tax Organizations (RTOs), in fostering local networks and exchange of experiences, supporting CB in targeted areas, and in implementation of international rule setting

Enabler 5. Further inclusion of developing countries in international rule setting

The changing international tax environment has also created increased capacity needs for developing countries to contribute to, benefit from, and participate in these continuing developments. Ensuring that they are able to do this requires institutional structures to accommodate countries with varying capacities. More support must be provided to both equip developing countries to better participate in global discussions and decision making, and to enable the lessons learned from technical assistance programs to feed through to the international tax policy discussions.

Recommendation 5: IOs and development partners to support developing countries to participate effectively in international tax policy discussions and institutions.

Enabler 6: Lessons are learned and disseminated

The agenda and recommendations set out above are ambitious—appropriately so, given the commitment to substantially step up support for CB in the tax area. It will be important to take stock of their implementation and effectiveness.

Recommendation 6: IOs will produce a follow-up report to this report within [3] years, to reflect lessons learnt on effective support for CB in the tax area including on the development and implementation of proposals covered in this report.

⁹ An initiative of CIAT, the IMF, IOTA and the OECD to collect comparable, global data on revenue administration.