

FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS

Report of the Inter-agency Task Force
on Financing for Development 2017



United Nations

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Chapter III.A

Domestic public resources

1. Key messages and recommendations

Domestic public finance is essential to providing public goods and services, increasing equity, and supporting macroeconomic stability. Effective mobilization, budgeting and use of resources are critical to achieving sustainable development. Both quantity and quality are important, along with accountability and alignment with the Sustainable Development Goals (SDGs).

As noted in the Addis Ababa Action Agenda, additional domestic resources will be, first and foremost, generated by economic growth. At the same time, improved policies and administration will help realize more efficient and effective resource mobilization. Tax administration and public financial management capacities have dramatically improved in many countries, and there is strengthened awareness of the link between taxation, expenditure, accountability and the legitimacy of the state. ***To improve revenue collection, Governments should take whole-of-government approaches that emphasize the development of medium-term revenue strategies and stronger enforcement. Greater use of tools to assess tax policy and administration capacity can assist countries in developing strategies.***

Donor countries have historically provided only small amounts of resources for revenue capacity, although in the Addis Agenda they committed to increasing external support to build tax capacity. ***International organizations have put forward recommendations on enhancing the effectiveness of external support in building tax capacity in developing countries. Recommendations include better donor coordination and greater sharing of expertise (box 3).***

Peer-to-peer learning and regional cooperation are key elements of capacity-building and the

Addis Agenda supports the strengthening of regional networks of tax administrators. ***Development cooperation actors should work in close partnership with regional tax organizations, where they exist, to increase their strength and coverage; where they do not exist, they should be developed expeditiously.***

As noted in the Addis Agenda, in a world of cross-border trade, investment and finance, there are limits to what can be done by domestic policy alone, necessitating strengthened international cooperation. ***Additional analytical work to analyze spillovers from national tax policies and propose possible mitigating measures is recommended.*** The United Nations Committee of Experts on International Cooperation in Tax Matters is an important mechanism for the development of international tax norms with special emphasis on guidance by and for developing countries. ***Member States should consider nominating qualified tax experts for the Committee's new term, which begins in the second half of 2017.***

International tax norms have important distributional implications, both between the private sector and Governments as well as among Governments, and thus impact sustainable development and investment. ***The Task Force recommends thorough analysis on the implications for sustainable development of reforms to international tax frameworks. Such analysis will be facilitated by greater availability of national data related to the reforms.***

Increasing revenue mobilization ability is not enough if countries' resources are simultaneously drained as a result of illicit activity. The Addis Agenda calls for the strengthening of the rule of law and the combatting of corruption at all levels, as well as the elimination of illicit financial flows (IFFs). However, measuring and tracking IFFs is extremely

challenging, in part because of a lack of an inter-governmental agreement on the conceptual framework defining IFFs. Given the multiple motivations for IFFs, the Task Force has provided a mapping of some of the components of IFFs. ***The Task Force recommends component-by-component and channel-by-channel analysis and estimation of IFFs, allowing further methodological work and proposals for relevant policy tools and options.***

It is important for countries to strengthen existing institutions and enforcement of the law. To more strategically tackle this problem, the Task Force recommends conducting risk and vulnerability assessments to help countries focus their monitoring, implementation, policy and enforcement efforts to the channels most relevant to their country contexts.

On top of prevention and enforcement, the Addis Agenda calls for the confiscation and recovery of the proceeds of crime and stolen assets to be made more effective. ***The Task Force recommends that Member States speed up international cooperation on the return of stolen assets to the maximum extent allowable by law and, recognizing that asset return is unconditional, make efforts to ensure that returned assets are not stolen again.***

To further strengthen the link between taxation, expenditure and the accountability of the state including any relevant subnational authorities, fiscal transparency is critical. ***The Task Force recommends better disaggregation of budget data, including by sex and geography, to improve tracking of revenue raising and spending related to the SDGs and to speed up efforts to improve transparency, with increased capacity-building for countries that need assistance.***

2. Domestic resource mobilization and taxation

A defining feature of the last decade of public policy has been the strengthening of domestic resource mobilization. While domestic resources are first and foremost generated by economic growth, domestic policy frameworks and institutions can have important impacts on revenue mobilization. An increase in tax collection may be achieved through several chan-

nels, including strengthened institutions, administration and legal frameworks; higher compliance and increased trust; stronger enforcement; improved tax policies, including the broadening of the tax base; the creation of new taxes; and the reduction of tax incentives. All of these measures must be carefully considered, as the incentives generated may affect income distribution and inequality, consumption and investment. At the same time, in a world of cross-border trade, investment and finance, there are limits to what can be done by domestic policy alone, necessitating strengthened international cooperation, as discussed in the next section.

Figure 1 shows the recent trend in tax revenue collection across groups of countries. Despite declines in revenue mobilization following the 2008 world financial and economic crisis, all country groupings experienced growth in median tax revenue since 2000, with the gap between countries in developed regions and developing countries narrowing over this period. Least developed countries (LDCs) generated particularly strong growth in median tax revenue, from under 10 per cent of gross domestic product (GDP) in 2001 to 14.8 per cent in 2015. Nonetheless a gap still remains, underscoring the potential for developing countries to raise more revenue through taxation.

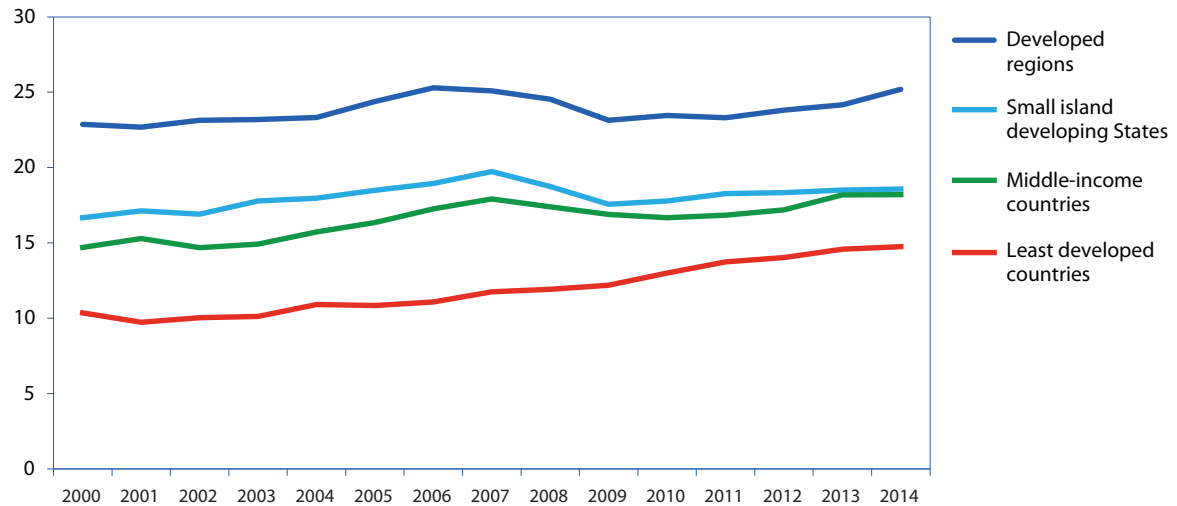
Although every country is different and there is no one-size-fits-all formula, there is increasing evidence that countries with tax revenues below 15 per cent of GDP have difficulty funding basic state functions.¹ Yet, taxes in half of LDCs remain below that threshold, especially in countries that are experiencing or have recently experienced conflict.

2.1 Revenue targets

The Addis Agenda welcomes efforts by countries to set nationally defined targets for enhancing domestic revenue as part of their national sustainable development strategies, with international support to those in need to reach these targets. While targets can be oversimplified, in that establishing a target might not be enough to motivate reform, such targets can demonstrate political will and help strengthen tax administration practices. Indeed, targets help create

1 Gaspar, Vitor, Laura Jaramillo and Philippe Wingender, (2016). *Political Institutions, State Building, and Tax Capacity: Crossing the Tipping Point*, IMF Working Paper WP/16/233.

Figure 1
Median tax revenue, 2000–2014 (Percentage of GDP)



Source: IMF World Revenue Longitudinal Database.

the urgency needed for reform. A number of countries, particularly in Africa and South East Asia, have set regional targets for revenue mobilization at levels higher than 15 per cent of GDP. The East African Community's convergence criteria for their single currency sets 25 per cent as the target tax-to-GDP ratio for member countries.² Similarly, the West African Economic and Monetary Union and the Economic Community of West African States (ECOWAS) have set 17 per cent and 20 per cent of GDP, respectively, as reasonable convergence targets. Many national development strategies that cite tax targets indicate a level of 15 per cent or higher (e.g., Egypt, Ethiopia, Indonesia, Uganda, the United Republic of Tanzania and Viet Nam).

2.2 Tax administration

Many countries have taken important steps to strengthen the institutional framework necessary to increase their potential tax revenue over the last five years. The Tax Administration Diagnostic Assessment Tool (TADAT) is one important tool, which can help identify options for strengthening tax administration. TADAT aims to identify strengths and weaknesses and assess performance in tax administrations on a country-by-country basis.

More than 30 TADAT assessments were conducted through October 2016. The International Survey on Revenue Administration (ISORA), a joint endeavor between The Inter-American Center of Tax Administrations (CIAT), the International Monetary Fund (IMF), the Intra-European Organisation of Tax Administrations and the Organization for Economic Cooperation and Development (OECD), will build upon the IMF Revenue Administration Fiscal Information Tool (RA-FIT). The first round of ISORA data collection covering 132 countries is expected by June 2017, which will provide new benchmarks countries may use.

A number of developments offer opportunities for countries to increase revenues, but may also put new resource pressures on tax administrations. New international norms in the sphere of tax information exchange (discussed below) will provide benefits in deterring and detecting tax fraud, evasion, and aggressive tax planning; these also mean that more capacity will potentially be needed to deal with the large volumes of information countries will receive and send. Countries that choose to implement new and sometimes more complex norms on transfer pricing, controlled foreign company rules, permanent establishment status and other areas will likely

² East African Community (2013). *Protocol on the Establishment of the East African Community Monetary Union*.

need more human resources with greater levels of training to fully realize the benefits. Investments in new technologies are likely to be needed. Countries should weigh the cost of adhering to the new standards against the potential for revenue generation those standards are likely to bring.

2.3 Improving tax policies

The Addis Agenda emphasises that Member States should improve the fairness, transparency, efficiency and effectiveness of tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy.

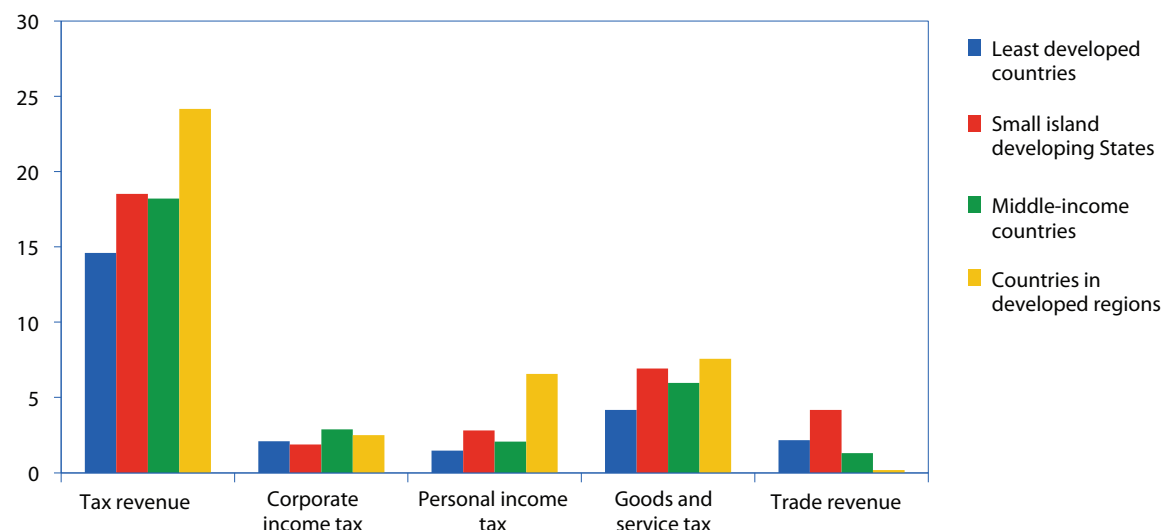
Tax reforms may broaden the tax base or increase rates of direct taxes (corporate and personal income) and/or of indirect taxes. The balance between the two can be altered as well, although that can be difficult. Reforms may also consider whether national or subnational authorities should be responsible for rates and collection. In general, as shown in figure 2, while countries in developed regions rely more on direct taxation, middle-income countries rely more heavily on indirect taxes (general goods and services taxes) and corporate income taxes, while LDCs and small island developing

States (SIDS) rely more on indirect taxes and trade revenue. An increase in indirect taxation—for example, through increasing value-added taxes or reducing exemptions—can provide scope to easily increase the revenue collected. However, indirect taxation can be regressive by taxing lower-income consumers proportionally more. In general, analysis of the distributional impact of tax reforms, including disaggregating the impacts by sex, is important. A balanced approach should also take into account a country's circumstances, the distributional impact of planned expenditure and the existing economic and institutional framework.

It is also possible to develop new taxes, which may be needed to respond to shifts in consumption resulting from technological change, particularly digital activity where the service provider often does not have a fixed place of business in the country where the final sale takes place. Several countries have now introduced taxes on digital activities, such as taxation on the provision of internet advertising, consumption taxes on digital transactions, and diverted profits taxes. Anti-avoidance regulations have been used to cover digital transactions as well as levies outside the tax system to avoid conflicts with bilateral tax

Figure 2

Median tax revenue by type of tax, 2013 (Percentage of GDP)



Source: International Monetary Fund World Revenue Longitudinal Data (WoRLD), 13 July 2015 and UN/DESA calculations.

Note: Tax revenue as a percentage of GDP, middle-income countries according to World Bank Group country income groups 2015 and United Nations country groupings for SIDS and LDCs. Countries in developed regions as per the United Nations Statistical Division's M49 statistical classification.

treaties. The unilateral application of some of these taxes could lead to tax disputes and double taxation.

Taxes to combat negative externalities can be efficiently used to raise revenue as well. Environmental taxes, such as carbon taxes, are important. Excise taxes—taxes applied to domestic consumption of

specific, often damaging, products such as tobacco and alcohol—are another good example. As noted in the Addis Agenda, countries can take price and tax measures on tobacco to raise revenue, improve health, and decrease health-care costs, as demonstrated by the experience of the Philippines (box 1).

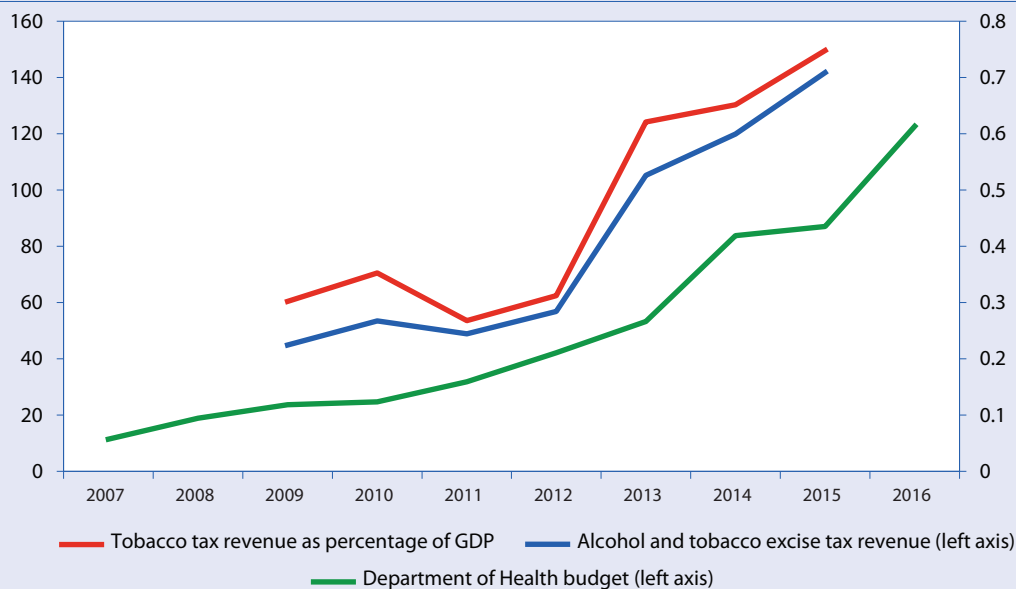
Box 1

“Sin tax” reform in the Philippines

The Addis Ababa Action Agenda recognizes that “price and tax measures on tobacco can be an effective and important means to reduce tobacco consumption, and represent a revenue stream for financing for development in many countries”.^a A recent study has shown that if all countries were to raise their cigarette excises by the equivalent of \$0.80 per pack, an additional \$141 billion in excise tax from cigarettes would be generated globally.^b In developing countries, this increase in revenue could help create the fiscal space for investment in development priorities. For example, the 2012 “sin tax” reform law (Republic Act No. 10351) in the Philippines that, among others, simplified the tobacco tax structure and raised taxes significantly, resulted in revenues doubling as a share of gross domestic product and increased budgets for the health sector dramatically. The increased fiscal space allowed the Philippines to provide fully subsidized health insurance to the poorest 40 per cent of the population.

Figure 1.1.

“Sin tax” revenues and Department of Health budget, 2007–2016 (Billions of Philippines pesos, percentage)



Source: Kaiser, Bredenkamp, and Iglesias (2016). Sin Tax Reform in the Philippines: Transforming Public Finance, Health, and Governance for More Inclusive Development. Directions in Development. Washington, DC: World Bank. Doi: 10.1596/978-1-4648-0806-7.

^a Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (United Nations publication, Sales. E.16.I.7), para. 32. Available from http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

^b Goodchild, Mark, Anne-Marie Perucic and Nigar Nargis (2016). Modelling the impact of raising tobacco taxes on public health and finance. Bulletin of the World Health Organization, Vol. 94, pp. 250-257.

Governments may also choose to introduce a property tax if they do not already have one, or improve the effectiveness of existing property tax systems, although development of property taxation systems yield relatively little revenue in developing countries and would need significant time and efforts to build up. Some revenue streams, such as property taxes, are often devolved to or administered by sub-national or municipal authorities, and governments should pay attention to the capacity of such authorities and the possible synergies of revenue initiatives with other areas of administrative reform (box 2).

The Addis Agenda recognizes that tax incentives can be an appropriate policy tool, but it also warns that incentives can be excessive and some tax practices can be harmful. According to an October 2015 joint report³ by the IMF, OECD, United Nations and World Bank, tax incentives are often found to be redundant in attracting investment in developing countries; that is, the same investments would have been undertaken even if no incentives had been provided. The paper argues that tax incentives should not be overly complex or discretionary, and countries should make sure incentives are transparent and that the aggregate benefits generated by incentives outweigh the costs, while being mindful of the potential distributional implications and the impact on inequality. In addition, tax incentives should be weighed against other uses of the funds, such as for improved infrastructure and strengthened institutions, which could stimulate both domestic economic activity and foreign investment. The Addis Agenda notes that countries can also “engage in voluntary discussions on tax incentives in regional and international forums”⁴ to avoid countries competing on lowering tax rates and diminishing the tax base.

2.4 Improving tax legislation

Improved administration and better tax policies might not be sufficient where domestic legal frameworks lack clarity or provide loopholes. Reducing

loopholes in tax legislation can be complemented by efforts to introduce general anti-avoidance legislation which helps deter and respond to aggressive tax planning. Governments may also want to update legislative frameworks to keep pace with developments in international tax norms, such as on transfer pricing, as not all countries have transfer pricing legislation.

3. International tax cooperation

The Addis Agenda notes that international tax cooperation should be scaled up, universal in approach and scope, and fully take into account the different needs and capacities of all countries. For many years international tax cooperation focussed on the conclusion of bilateral tax treaties, which had the principle aim of reducing double taxation. More recently international tax cooperation has increasingly looked at setting tax norms to close loopholes, and to increase the exchange of information between tax authorities to help limit tax avoidance by all types of taxpayers. International tax cooperation can also help build capacity in the countries that need support.

As shown in figure 3, the institutional environment for international tax cooperation is complex. The United Nations and the OECD are the two principle venues for the development of international tax norms, particularly through the maintenance of model conventions and commentaries as well as codes of conduct and guidance to countries. Certain standards are agreed elsewhere, such as the Financial Action Task Force on beneficial ownership information, and may be drawn upon by United Nations and OECD forums. The OECD, while not a universal membership body, has worked extensively with the Group of Twenty (G20) countries and has established forums open for interested countries to participate, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes, currently with 139 members, and the Inclusive Framework on BEPS, currently with 94 members.

3 IMF, OECD, United Nations, and World Bank (2015), *Options for low income countries' effective and efficient use of tax incentives for investment, October 2015*. Available from <http://www.oecd.org/tax/tax-global/options-for-low-income-countries-effective-and-efficient-use-of-tax-incentives-for-investment.pdf>.

4 Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda) (United Nations publication, Sales. E.16.I.7), para. 27. Available from http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

Box 2

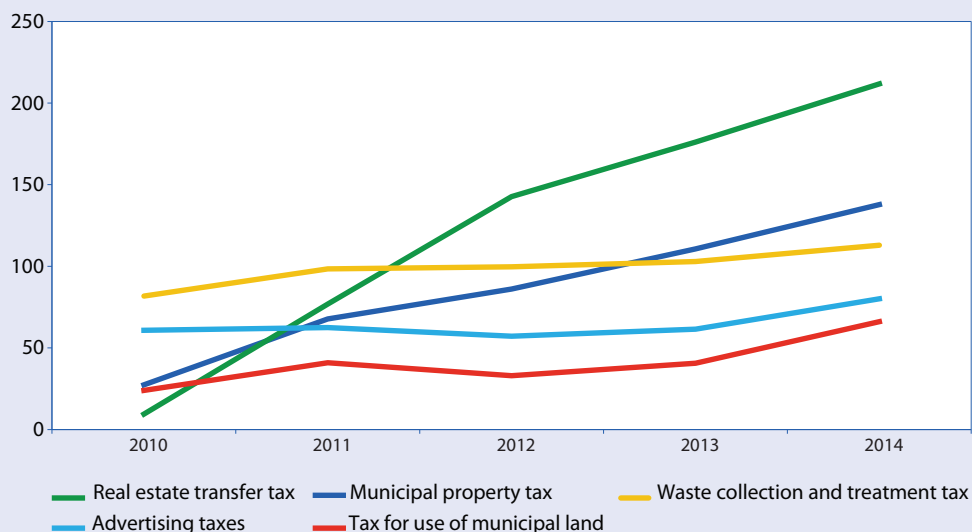
Strengthening local taxation in Mozambique

The Addis Ababa Action Agenda highlights the need to support local governments in mobilizing revenues where appropriate. Expenditures and investments for sustainable development can be made at the subnational level. In the case of Maputo, Mozambique, the city has raised additional resources for investment through reforms of property and real estate transfer taxes. The success of their efforts relied on the devolution of authority to the municipal level and well-sequenced and comprehensive reforms involving tax rates, land registries and the greater sharing of information.

In 2008, the Government of Mozambique enacted legislation confirming that the property tax, known as Imposto Predial Autárquico (IPRA), is part of the municipal tax base. IPRA is levied on the resale value of an urban building that is regarded as infrastructure and built on a municipality's urban land. The city of Maputo increased the nominal tax rate and expanded the scope of its application. To improve the performance of IPRA, Maputo faced a wide range of challenges: The territorial areas covered by local offices responsible for property registration often did not match the jurisdiction of its local councils. Some of Maputo's local councils did not have a property registration office where transactions could be recorded. In some cases, both the local branch of the national tax authority and a local tax authority collected the IPRA. Through well-sequenced and comprehensive reform efforts, Maputo overcame the many challenges, improved communication and coordination between local and national tax authorities to avoid double taxation, and ensured that property registration corresponded to local jurisdictions. IPRA revenues grew fourfold from 2010 to 2014.

At the same time, the reforms contributed to the success of a real estate transfer tax, known as Imposto Autárquico de Sisa (ISISA), whose collection was devolved to the local level in 2008. ISISA is levied on the transfer of ownership of urban property in a municipal territorial area. The tax relies on many of the same prerequisites that are necessary for successful property taxation, including reliable property registration. By 2014, ISISA revenues represented 20 per cent of Maputo's own-source municipal revenue, and now the IPRA and ISISA taxes are the two largest sources of local revenue in the city.

Figure 2.1.

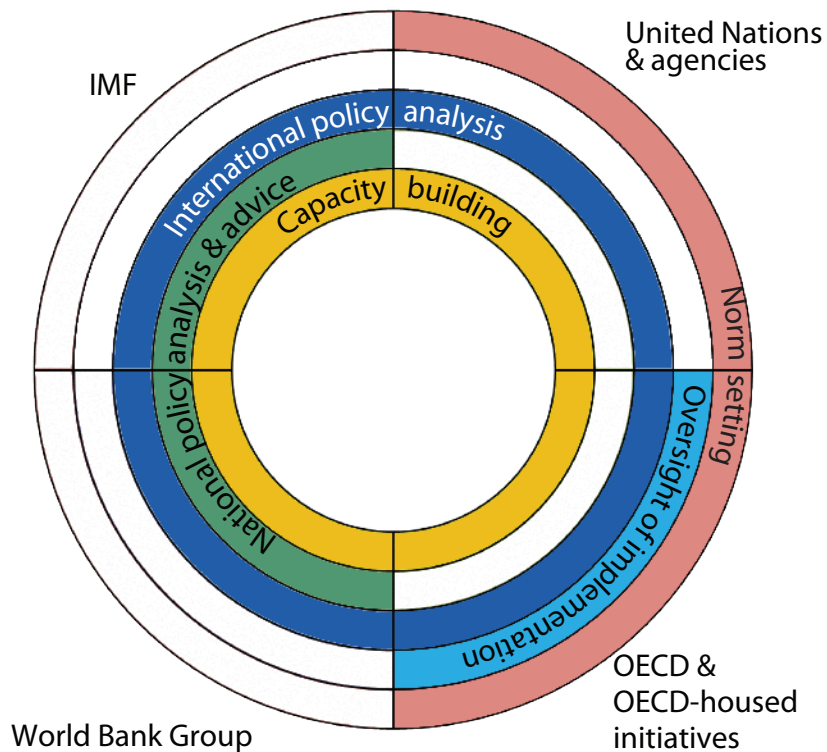
Top five own-source revenues in Maputo, 2010–2014 (Millions of Mozambican metacais)

Source: UNCDF and FfDO (2017). *Financing sustainable urban development in the Least Developed Countries*.

The OECD also serves as a coordinator and overseer of implementation of its agreements and has also designed a number of multilateral conventions and instruments. The United Nations Model Dou-

ble Taxation Convention between Developed and Developing Countries is developed and updated by the Committee of Experts on International Cooperation in Tax Matters, which draws its member-

Figure 3

Schematic representation of international organization roles in international tax cooperation

Source: Inter-agency Task Force on Financing for Development.

Notes: Size of diagram does not reflect the volume or importance of work. Examples of norm setting include model conventions, multilateral treaties and some types of recommendations derived from international tax forums. Oversight of implementation includes peer reviews and the assessment of compliance with international standards. International policy analysis examples are research papers, and handbooks. National policy analysis and advice includes surveillance, assessment of tax administrations, and policy proposals. Examples of work on capacity-building are IMF technical assistance, the Global Tax Program of the World Bank, the United Nations Department of Economic and Social Affairs Capacity Development Unit, and the OECD Global Relations programme.

ship from United Nations Member State nominations. The Committee of Experts is drawn from the fields of tax policy and tax administration, and is composed of a balance between developed and developing countries reflecting an adequate equitable geographical distribution, representing different tax systems. It submits its report and conclusions to be considered by the United Nations Economic and Social Council (ECOSOC).

The United Nations and its agencies conduct international policy analysis, as does the OECD and the IMF. The IMF and World Bank also work at the national level on policy analysis and recommendations. Capacity-building is a priority for all the actors. In April 2016, in response to the call in the Addis Agenda for more coherence in tax work, the IMF, OECD, United Nations and World Bank launched

The Platform for Collaboration on Tax, which is designed to strengthen cooperation between these organizations on tax issues.

Many of the most recent developments in international transparency, cooperation and taxation will require a heightened standard for the countries who implement them. Dealing with these standards is particularly difficult for developing countries, some of whom have limited resources and capacity to efficiently administer and enforce domestic tax compliance. For the countries facing those limitations, capacity-building is of utmost importance, especially as proportionally developing countries have the most potential to gain from improved revenue collection.

3.1 Estimates of volume of international tax avoidance and evasion

Tax evasion is an illegal action that is, in most countries, characterized as a crime, whereas tax avoidance is a legal practice, which involves tax planning and arbitrage across borders. Measurements of tax gaps are not made in most countries.⁵ Table 1 outlines some global tax avoidance estimates. The diversity of estimates points to the lack of a uniform methodological approach.

3.2. Tax treaties and voluntary agreements

To address tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations, the OECD and G20 launched a base erosion and profit shifting (BEPS) project in 2013. In November 2016, more than 100 countries concluded negotiations, held under the auspices of the OECD, on a multilateral instrument (MLI) to facilitate implementation of the aspects of the BEPS Action Plan requiring modification of treaties (e.g., introduction of anti-abuse provisions). The MLI will open for signature by interested countries in June 2017, and may be adopted in total or in part.

In the Addis Agenda, Governments commit to making sure that all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is cre-

ated. However, a revision of the division of taxation rights between source countries and residence countries has not been effectively addressed in any of the existing forums and, so far, there has been no revision of the standards that grant countries the right to tax profits from activities occurring within their countries.⁶ While the UN and the OECD Model Conventions and the MLI does include provisions to prevent treaty abuse, no aggregate information is yet available on the extent to which countries are inserting anti-abuse clauses in bilateral tax treaties, as suggested in the Addis Agenda.

Bilateral treaties are generally based on either the United Nations Model Convention or the OECD Model Convention. Both of these model conventions are under revision, and will adopt new preambles that will expand the aims of the conventions. The revisions aim to eliminate double taxation without creating opportunities for tax avoidance or evasion, such as through treaty shopping. The revisions will not automatically change the existing base of more than 3,000 treaties.⁷

3.3. United Nations Committee of Experts on International Cooperation in Tax Matters

The Addis Agenda includes a commitment to strengthen the effectiveness and operational capacity of the United Nations Committee of Experts on

Table 1

Corporate tax avoidance estimates, 2014 and 2015

Estimate provider	Date of estimates	Volume	Underlying data
G20/OECD BEPS Action 11 Report	2015	\$100 billion–240 billion annual revenue loss	Corporate financial information databases
UNCTAD	2015	\$100 billion annual revenue loss	Locational data on FDI flows and MNE profitability reporting
IMF staff	2014	\$123 billion in short-run revenue loss	Macro-level differences in statutory corporate income tax rates and effective tax rates

Source: Inter-agency Task Force on Financing for Development.

⁵ OECD (2015). *Tax Administration 2015*, OECD Publications, available from <https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/comparative/tax-administration-23077727.htm>.

⁶ The so-called permanent establishment concept.

⁷ Provided the country does not adopt the ambulatory approach for interpretation of tax treaties. The ambulatory approach allows treaties to accommodate changes in domestic law without the need to renegotiate the treaty, by allowing countries to interpret the terms of the treaty according to the most recent amendment/interpretation conveyed by the intergovernmental institutions (OECD or the United Nations).

International Cooperation in Tax Matters, which has a special role in producing guidance by and for developing countries. In 2016, the Committee held two meetings, implementing the commitment in the Addis Agenda for increasing the Committee's official workdays. The engagement between the committee members and ECOSOC was strengthened by the holding of ECOSOC special meetings on tax back-to-back with the December 2016 and April 2017 meetings of the Committee in New York.

The Committee has been working on a number of products to further clarify the application of tax treaties, transfer pricing legislation, and how resource-rich countries should address the taxation of extractive industries. The Committee has approved, and in 2017 will be issuing, the following new products: (i) a new revised United Nations Model Convention and Commentaries (for launch in June) with a new provision on technical services; (ii) a revised version of the Transfer Pricing Manual (for launch in April), reflecting and giving guidance on transfer pricing practices of developing countries; and (iii) a new handbook on selected issues in the taxation of extractive industries by developing countries (for launch in October). The draft versions of these documents can be found on the web page for the Committee.⁸ The last year of the four-year mandate of the fourth composition of the Committee of Experts is 2017; the United Nations Secretary-General will appoint a new group of tax experts as members of the Committee, in consultation with the Member States, for a new term starting in July 2017. Member States, in particular developing countries, should consider nominating qualified tax experts, with nominations of female experts particularly encouraged.

3.4 Tax information availability

Increasing the availability of information to tax administrations has been at the core of the recent initiatives in international tax cooperation, as this can assist in reducing tax avoidance and evasion. Progress has been made in the areas where the Addis Agenda called for action: exchange of tax information, country-by-country reporting for multinational enterprises (MNEs), availability of beneficial

ownership information, and transparency in the extractive industries.

Exchange of tax information

Exchange of information has long been included in tax treaty models as a feature. By agreeing to exchange information with respect to taxpayers, countries can become more aware of taxpayers' global activities to be able to impose taxes that should be due. Information can be exchanged using a variety of tools, and under automatic or on-request frameworks. While exchange of information on request has been the predominant standard to date, most forums are currently progressing towards automatic exchange.

The upcoming 2017 revision of the OECD Model Convention and commentaries is expected to broaden the scope of the exchange-of-information article to allow triangular, or multiparty exchange-of-information requests. The United Nations Committee agreed in 2016 to a proposal for a United Nations Code of Conduct on Cooperation in Combating International Tax Evasion, which supports the automatic exchange of information for tax purposes as the way forward for countries generally, and recognizes that it is vital for developing countries to exchange information, even if they are not ready for automatic exchange. The draft Code has been approved by the Committee of Experts in 2016, and will be incorporated in the United Nations Model Convention and forwarded for possible adoption as an ECOSOC resolution.

Exchange of financial account information

The 139 members of the OECD-housed Global Forum on Transparency and Exchange of Information for Tax Purposes have committed to implementing an international standard on exchange of information on request. In order to put an end to bank secrecy and to tackle tax evasion, it has targeted the exchange of financial account information through the Common Reporting Standard (CRS). The CRS, agreed by the OECD with the G20 in 2014, calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions

⁸ Available from <http://www.un.org/esa/ffd/ffd-follow-up/tax-committee.html>.

on an annual basis. Through the Global Forum, 100 countries have agreed to implement the CRS.

These international standards may require Governments to build tax information databases, reorganize tax administrations or invest in new technologies to fully comply with and benefit from exchange of information. The G20 has asked the OECD to prepare a list of jurisdictions that have not yet sufficiently progressed towards a satisfactory level of implementation of the agreed international standards on tax transparency. The G20 has already stated that it will consider taking defensive measures against listed jurisdictions.

Exchange of corporate information: country-by-country reporting

Country-by-country reporting refers to an annual report by MNEs to the authorities in the jurisdiction where they are headquartered, showing a range of financial and other relevant data for the MNEs activities in each tax jurisdiction in which they do business. These reports enable revenue authorities to undertake high-level risk assessments.⁹ Country-by-country reports can be exchanged automatically between tax administrations, provided the country enters into an agreement to exchange country-by-country reports such as the Multilateral Competent Authority Agreement (MCAA). This new reporting standard is set to enter into effect in most of the jurisdictions that have agreed to it in 2017. The MCAA has so far been signed by 57 countries.

Exchange of beneficial ownership information

To discourage hiding of income and wealth, countries are implementing stronger rules on the disclosure and exchange of beneficial ownership¹⁰ information. The Financial Action Task Force (FATF) first agreed on a standard on beneficial ownership in 2012, and the G20 and OECD countries agreed to the principle that all countries must have beneficial ownership information available to competent authorities. All 139 Global Forum members will

be assessed to evaluate the implementation of this requirement in the second round of peer reviews. Some countries, particularly in Europe, have gone beyond the basic international standard and pioneered the development of centralized, public beneficial ownership registries on certain types of entities.

Information on the extractive industries

The Addis Agenda highlights the particular importance of corporate transparency in the extractive sector to assist populations of resource-rich countries to hold their Governments accountable for the proceeds of these activities. In 2013, the European Union made it mandatory for businesses in the extractive and logging industries to publish their government payments relating to the exploitation of natural resources, on a project-by-project basis. The United Nations Committee of Experts in Tax Cooperation's forthcoming publication, Handbook on Extractive Industries, provides guidance for countries wishing to reform their tax systems in order to capture the full revenue generation potential of extraction projects.

The IMF is revising its Natural Resource Fiscal Transparency Code and accompanying Guide on Resource Revenue Transparency, and in May 2016 launched the second consultation on revisions to the Code. Both should be finalized in 2017 after pilot implementation and consultation. In late 2015, the IMF publicly released a tool called Fiscal Analysis of Resource Industries (FARI)¹¹ to evaluate fiscal regimes for extractive industries through financial and economic analysis of projects. FARI methodologies have been used in developing new policies for the extractive industries, and to estimate and manage a project's revenue raising ability.

3.5. Capacity-building

Intergovernmental organizations such as the United Nations, IMF, the World Bank Group and the OECD hold a variety of training programs in different areas, to build capacity for countries that need

⁹ Country-by-country reports are one of three key pieces of transfer pricing documentation. The others are the local file, where separate reports providing detailed transactional transfer pricing documentation specific to each country are provided; and the master file, provided to all jurisdictions in which the multinational enterprise does business, outlining the global business operations and transfer pricing policies.

¹⁰ Beneficial owner is the corporate entity or natural person that ultimately controls or profits from that entity.

¹¹ See <http://www.imf.org/external/np/fad/fari/>.

assistance. In 2016, the OECD Development Assistance Committee (DAC) adopted a new monitoring code for its Creditor Reporting System, to better track the provision of official development assistance for domestic resource mobilization. It shows that in 2015, \$189 million was committed to this work.¹²

The Addis Tax Initiative was launched in July 2015, and commits donor countries to doubling the resources they provide for capacity-building on tax. In 2016, a monitoring framework was put in place and in spring 2017, the first Monitoring Report, using data from the OECD DAC, will be released, setting the baseline against which the commitment to doubling support to domestic resource mobilization will be measured. The IMF provides technical assistance to approximately 100 countries every year. In 2017, this revenue mobilization advice has been further integrated into regular IMF economic surveillance in approximately three dozen countries. The United Nations capacity-development programme on international tax cooperation focuses on training developing-country tax administrators in the application of international tax standards, including the outputs of the United Nations Committee of Experts, and in 2016 it held six regional and national training events that reached almost 200 officials. The Tax Inspectors Without Borders initiative, which is jointly operated by the OECD and the United Nations Development Programme (UNDP) and supports countries in building tax audit capacity, estimates that its programmes have increased tax collection by more than \$260 million.

In 2016, the Platform for Collaboration on Tax produced a report on the effectiveness of capacity-building (box 3) and has been working on the development of toolkits to assist developing countries with addressing BEPS issues.

4. Illicit financial flows

Increasing a country's revenue mobilization ability is not enough if countries' resources are simultaneously drained as a result of illicit activity. Many Task Force members convene policymaking forums and provide

policy guidance and capacity-building assistance to Member States related to illicit financial flows (IFFs). Although there is currently no firm intergovernmental agreement on the conceptual framework defining the term, combatting IFFs generally has several elements, including estimation of the volume of IFFs, improvement of policies and enforcement capacity and return of stolen assets.

4.1 Estimates of IFF volumes

Measuring and tracking IFFs is extremely challenging because of the clandestine nature of the underlying activity, as well as the lack of an agreed definition. There is also no single tool or process capable of effectively measuring or estimating IFFs. In September 2016, members of the Task Force held a technical experts meeting to map a way forward. Despite the lack of a firm definition, there are some parameters for identifying IFFs that are frequently agreed upon. First, IFFs are often defined as constituting money that is illegally earned, transferred or used and that crosses borders.¹³ Second, there are generally three categories of IFFs, although these are not mutually exclusive or comprehensive: IFFs originating from transnational criminal activity; corruption-related IFFs; and tax-related IFFs.

Even within the above parameters, controversies remain, particularly on how to treat tax-related IFFs. Tax practices such as base erosion and profit shifting are sometimes in grey areas because of differences in legal standards across countries, the absence of legal frameworks in some countries, and different interpretations and acceptance of norms on international taxation. In general, only illegal components are considered to be illicit flows.

Figure 4 shows a schematic representation of components and channels of IFFs. At the Task Force meeting, experts debated whether it is constructive to aggregate different types of flows and activities into a single measure called IFFs. There was strong support from a majority of the participants to keep efforts disaggregated and to work on improving measurement of the separate components or channels of flows, keeping in mind that the different

¹² Includes only commitments from Australia, Germany, Ireland, Portugal and European Union institutions.

¹³ Chowla, Peter and Tatiana Falcão (2016). *Illicit Financial Flows: Concept and Scope*, December, available from World Bank Group (2017). "Equitable Growth, Finance, and Institutions (EFI): Board Update," February.

Box 3

Enhancing the effectiveness of external support in building tax capacity in developing countries

The Platform for Collaboration on Tax is a joint initiative of the International Monetary Fund, Organization for Economic Cooperation and Development, United Nations and World Bank Group aimed at strengthening cooperation on tax issues. Its July 2016 report analysed how support for developing tax capacity can be improved and provided the following recommendations, excerpted from a longer list of proposals:

- **Recommendation 2a.** International organizations involved at the country level should facilitate explicit collaboration among providers and other stakeholders as a central part of the pilot medium-term revenue strategies 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. This would include how to facilitate coordination among providers and different in-country stakeholders, such as business and civil society organizations
- **Recommendation 2c.** The Platform to develop mechanisms to support the development of coordinated plans for all development providers' work in relation to base erosion and profit shifting implementation and wider international tax issues
- **Recommendation 2d.** Providers and recipients of capacity-building 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 capacity-building support (whole-of-government approach); while international organizations should ensure internal coordination where they are active in the different areas affecting the tax system, and across their different entry points into taxation (whole-of-institutions approach)
- **Recommendation 2e.** Group of Twenty (G20) and development partners should more effectively facilitate the participation of their serving tax officials in capacity-building, including through the timely and efficient release of such officials to participate in capacity-building efforts
- **Recommendation 2f.** The Platform will review 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, taking 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

Source: IMF, OECD, United Nations and World Bank (2016), available from <http://www.oecd.org/tax/enhancing-the-effectiveness-of-external-support-in-building-tax-capacity-in-developing-countries.pdf>.

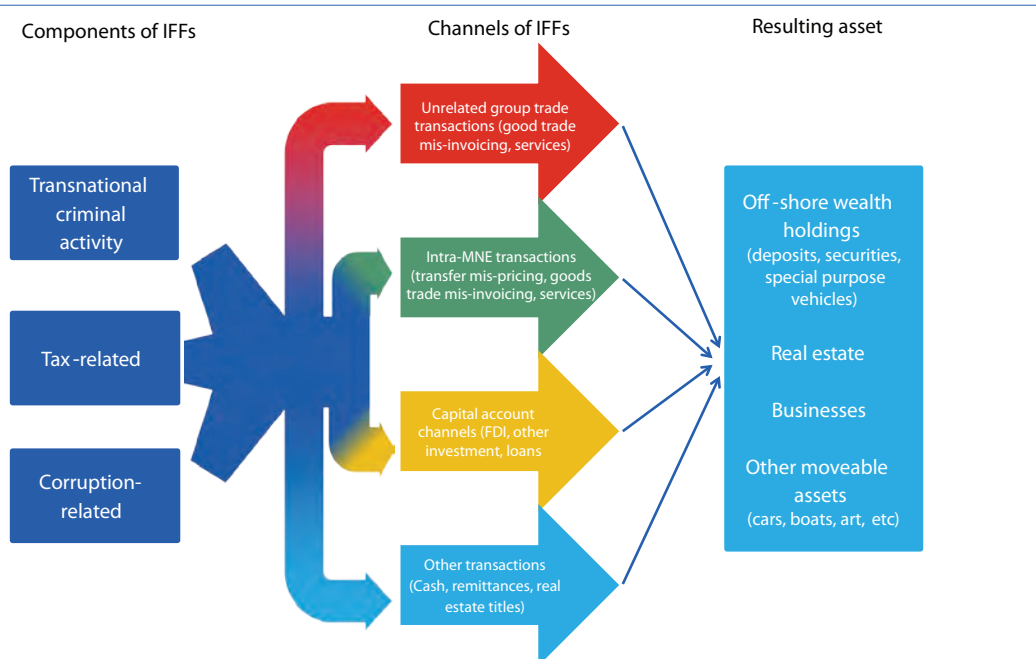
components of IFFs are not comparable, aggregation across channels and components could result in double-counting, and analysis of channels or components separately is more beneficial in designing policy responses to prevent illicit flows.

Estimates have been made in the following areas: proceeds of crime, stolen assets, goods trade mis-invoicing, transfer mis-pricing, and undeclared offshore wealth. There are a few methods that are currently used to attempt to estimate some of these components or channels of flows, although they do not provide a global picture of the full scope of IFFs. There is little to no measurement of IFFs through some channels because of a lack of data or methodology to make estimations. In addition, measurement of the flows in other channels sometimes overstates

the domestic public resource impact, as the full amount of the flow is included in the estimate, while the Government would only accrue the assessed taxes, if channelled legally. The data sources are generally not robust enough for measuring changes or determining trends across years, and the methods also are not comparable or aggregable. The current status of some of the most cited estimates is included in table 2. Figure 5 shows the regional estimates of goods trade mis-invoicing that have been made to date, in response to the call in the Addis Agenda for such exercises to be carried out.

The United Nations Office on Drugs and Crime (UNODC) is the custodian agency for the SDG indicator to monitor progress on target 16.4. UNODC is therefore leading the work to develop

Figure 4

Schematic representation of components and channels of illicit financial flows

Source: Inter-agency Task Force on Financing for Development.

Notes: Resulting asset will be considered a 'stolen asset' if it is the product of corruption-related IFFs.

Components of IFFs include both source of funds and motivations of IFFs and may not be mutually exclusive. Individual transactions from different channels may be combined by actors to try to obscure the source, motivation and/or use of funds. Arrows do not represent estimates of the magnitude of flows, and are illustrative rather than comprehensive.

a methodology to produce an estimate of “total value of inward and outward illicit financial flows”. In 2017, UNODC, the United Nations Commission on Trade and Development (UNCTAD), and other institutions will organize an expert group meeting to begin the methodological work on the development of the indicator in coordination with the Inter-agency Expert Group on SDG indicators. This Task Force will continue analysis on a component-by-component basis to complement the SDG indicator work.

4.2 Improvement of policies and enforcement

While data and estimation can be helpful in designing policies and interventions to tackle this issue, it is critically important for countries to work on strengthening existing institutions and enforcing related laws in both source and destination countries. Task Force members recommend the development of policy tools and options relevant to specific

channels of IFFs. Efforts can be directed at both the ultimate owners of the resources as well as at the enablers of transactions, including financial institutions. Policy options that will assist in addressing these components are found throughout the Addis Agenda, including transparency standards and beneficial ownership information, addressed above. The development of new standards for regional or international exchange of financial information will also assist in enforcement. Fighting corruption and crime are also addressed in the systemic issues action area.

To more strategically tackle IFFs, the Task Force recommends conducting risk and vulnerability assessments, such as anti-money laundering/countering the financing of terrorism national risk assessments, to help countries focus their data, monitoring, and enforcement efforts to the channels most relevant to their country contexts. This is a multidisciplinary undertaking which will require increasing attention to policy coherence and coordination. Capacity-building to fight IFFs should

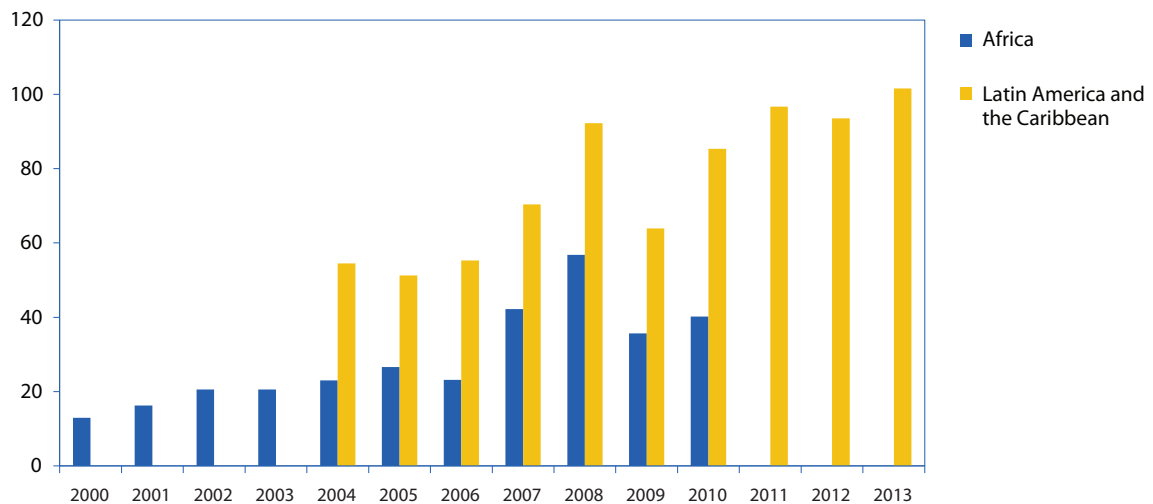
Table 2

Some estimates of selected elements of illicit financial flows, various years

Component or channel	Volume	Date of estimates	Estimate provider	Underlying data	Future work
Goods trade mis-invoicing (Figure 6)	Africa: \$25 - \$55 billion annually from 2005-2010	Africa: 2000 – 2010	Africa region: UN ECA	Trade databases	Other regions developing estimates include ESCAP and ESCWA, ECA planning updated estimates
	Latin America & the Caribbean: \$50 – 100 billion annually	Latin America & the Caribbean: 2004 – 2013	Latin America & the Caribbean: CEPAL		
Off-shore undeclared financial holdings	\$ 6.1 trillion in financial wealth in 2014	2015	Academic estimates ^a	Discrepancies in international investment position data, national data on offshore wealth management	unknown

^a Zucman, Gabriel (2015). *The Hidden Wealth of Nations*. University of Chicago Press.

Figure 5

United Nations regional commission estimates of goods trade mis-invoicing, 2000 – 2013 (Billions of United States dollars)


Source: UNECA/CEPAL.

promote whole-of-government approaches to tackling financial crimes, encouraging inter-agency and international cooperation, as is done by the OECD Oslo Dialogue.

4.3 Return of stolen assets

The recovery and return of stolen assets has been referenced in Financing for Development outcomes since the Monterrey Consensus, and has been identi-

fied in the Addis Agenda as a crucial element towards the financing of the 2030 Agenda for Sustainable Development. It encourages the international community to develop good practices on asset return. The return of stolen assets is provided for under the United Nations Convention Against Corruption as a fundamental principle under international law. Return of stolen assets is different from and cannot substitute for other types of financial flows.

Since the Monterrey Consensus, progress has been made in all aspects of the process, including seizure, confiscation, management, return and disposal of stolen assets. Despite these efforts, only small amounts of resources have been returned to the countries of origin. In a recent survey of OECD members, foreign assets totalling \$1.4 billion were frozen between 2010 and 2012, but only \$147.2 million was returned to the country of origin.¹⁴ Efforts are under way to speed the process and to increase resources for mutual legal assistance. The Stolen Asset Recovery (StAR) Initiative, a partnership between UNODC and the World Bank, has emphasised the importance of beneficial ownership registries and tackling the challenges to asset recovery posed by settlements when there are allegation of foreign bribery.

A multi-stakeholder process has led to the creation of Guidelines for the Efficient Recovery of Stolen Assets and a list of good practices, including a step-by-step guide to be followed in the procedure for freezing and returning potentates' assets. In a parallel process, an expert group meeting convened by UNODC, the Government of Ethiopia and the Government of Switzerland met in February 2017 to discuss lessons learned from past practices on the management of recovered assets and the use of returned assets to support sustainable development. Participants agreed that while the return of assets is unconditional, efforts should be made to ensure that returned assets are not stolen again.

5. Expenditure

While much of the Addis Agenda on domestic public resources focuses on revenue, it equally emphasizes that Member States are committed to the effective use of domestic resources. The Addis Agenda includes a commitment to align expenditures with sustainable development.

5.1 Fossil fuel subsidies

The sustained interest in energy subsidy reform reflects the detrimental environmental, fiscal, macroeconomic, and social consequences energy subsidies may have, if not applied with caution. In the Addis Agenda, Member States reaffirmed their com-

mitment to rationalize inefficient fossil fuel subsidies that encourage wasteful consumption. Pre-tax consumer subsidies arise when the price charged to the consumer is less than the cost of supplying the energy. Post-tax consumer subsidies arise when the price charged to the consumer is less than the cost of the energy and the environmental damage associated with the supply (and consumption) of the energy.

In 2015, an IMF staff study estimated that post-tax energy subsidies are much more significant than previously assumed, accounting for \$4.9 trillion (6.5 per cent of world gross product) in 2013, and projected to have reached \$5.3 trillion (remaining at 6.5 per cent of gross product) in 2015.¹⁵ Pre-tax subsidies accounted for \$333 billion of that total. Energy subsidy reform could therefore generate substantial revenues for governments, estimated at \$3.0 trillion in 2013 and projected at \$2.9 trillion in 2015. Environmental, social, health and other costs account for more than 80 per cent of the post-tax energy subsidies; about three-fourths of these subsidies are related to local environmental damages and only about a quarter are due to global warming. This underscores that restructuring of taxation to account for the environmental damage of energy production would yield significant benefits directly to local populations. Reforms to energy subsidies should also deal with potential welfare and distributional affects.

5.2 Gender-responsive budgeting

The Addis Agenda underlines the importance of gender-responsive budgeting and tracking as a tool to address inequality and discrimination in fiscal policy and promote integration of gender analysis into government planning and expenditure. The creation and application of well-articulated, transparent and inclusive budget tracking systems is essential to ensure that resources are mobilized and allocated effectively to address inequality and discrimination, as well as to achieve gender equality and women's empowerment. Since 2001, UN Women has supported more than 80 countries in designing and implementing gender-responsive budgeting. A detailed review in the Asia-Pacific region concluded

¹⁴ World Bank and UNODC (2014). *Few and Far: The Hard facts on Stolen Asset Recovery*, StAR, p. 18.

¹⁵ See <http://www.imf.org/external/pubs/ft/wp/2015/wp15105pdf>.

that gender-responsive budgeting has helped improve both the quantity and quality of budgetary allocations for gender equality.¹⁶ The Global Partnership for Effective Development Cooperation (GPEDC) Monitoring Framework includes an indicator that allows identification of some countries that track public allocations for gender equality and women's empowerment and make the information publicly available. In 2016, 58 countries, from a total of 81 that participated in monitoring, reported having a tracking system in place. The information is made public in 38 countries. Building on the GPEDC work, UN Women, together with the OECD and UNDP, are developing a methodology to measure the effort by all countries to implement transparent tracking systems for gender equality allocations.

6. Conclusion

Governments are beginning to take steps on both the revenue and expenditure side in the context of sustainable development strategies and financing plans. The thematic chapter of this report includes some discussion of the choices facing countries as they set national priorities and the difficult trade-offs this might entail. The Task Force's online annex comprehensively monitors the data and implementation of commitments and actions across the full range of the domestic public resources. As the data and information across the entire chapter improves, future editions of this report will focus on new and emerging challenges, providing policy options for consideration.

¹⁶ UN Women (2016). *Gender Responsive Budgeting in the Asia-Pacific region. A Status Report.*