Insights from the 2018 Paris Peace Forum Debate Sessions

Fresh Ideas for Development: Skill-sharing to Stop Tax Avoidance

Budget resources are the lifeblood for any government to be able to deliver to its citizens. In development work, domestic resource mobilization capacity is also the bedrock for a sustainable change. But every year, developing countries lose tremendous amounts of their potential revenue to tax evasion and illicit financial flows. It is not a stretch to say that helping local governments to combat these leaks and enhance their fiscal governance can not only deliver economic gain, but also create opportunity to advance on the costly UN Sustainable Development Goals.

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Better fiscal governance in developing countries requires better information, tools, and capacities for domestic resource mobilization. Improving tax administration capacity is especially valuable—directly drawing in revenue while strengthening institutions. The Paris Peace Forum, in its efforts to encourage concrete, innovative solutions to global issues, hosted a panel discussion on a joint project of the OECD and UNDP working to do exactly that.

What’s the Problem

Countries around the world are suffering from revenue loss due to the manipulation of gaps and mismatches in global tax rules. But the impact of these practices on developing countries is particularly severe. Look at the continent of Africa, where countries are losing (on average) around 3% of their annual GDP. That is a hard hit for countries struggling to advance economically.

Even more important is the fiscal trap that encircles many developing economies and cuts off their pathway to development. UNDP Assistant Administrator Abdoulaye Mar Dieye referred the audience to studies showing that if a country does not cross the threshold of 13% flow of tax revenue (as a percentage of GDP),
they will not be able to trigger development gains. Far too many countries are below this threshold and can’t get out of the cycle. Large-scale tax avoidance only makes it worse.

Meanwhile, incoming donor funds are being neutralized by the domestic revenue leaking out from tax evasion. The statistics for Africa are particularly shocking. As a whole, local economies in Africa have lost roughly 1 trillion dollars (USD) over the last 15 years due to fiscal erosion. This roughly matches the total inflow of development assistance funds (ODA) over the exact same years. Net gain: zero.

**Be Smart**

Much of this leakage is due to global tax schemes that enable multinational companies to minimize their local tax liability through profit shifting, base erosion, or abusive transfer pricing. Unfortunately, local tax administrations in developing countries often struggle to combat these maneuvers, lacking in-house capacity and experience with tax administration and enforcement. They are also combatting a global financial system where banking, capital, and corporate profits transcend borders. The rules to fight tax evasion are outdated. For both developing and developed countries, it is long past time to improve international coherence on taxation.

Over the last ten years, the appetite to do so has evolved significantly. We are in a new era. Politicians came to accept the need to curb the bleeding of tax revenues, and the door opened for technical experts to revise the global tax framework and improve international tax coordination.

Intergovernmental work focuses mostly on crafting a new set of regulations to fit today’s global economy. There has been an explosion of projects to help tax administrations around the world expand their toolbox to tackle fiscal abuses locally. Capacity building projects in developing countries are not new, but there is a greater recognition of the interaction between international tax reforms and vulnerable domestic tax systems. The momentum is encouraging.

The new culture of automatic information exchange in tax and banking practice is remarkable. Pascal Saint-Amans of the OECD emphasized how foundational this is to further fiscal governance reform. He cited the anecdotal example of Switzerland, long a bastion for strict banking privacy, which has already shared information on over 2 million accounts. Bilateral information exchange accords are exploding. OECD countries have signed over 2,000 such agreements with developing countries just in the last few years. Gradually, a new consensus around cross-border collaboration has taken hold, at both the institutional and expert level. As one speaker captured it: there is a sense of an emerging global community of tax professionals, including from developing countries.

“If you want to audit a multinational company and you have limited capacities, and sitting in front of you are ten very skilled tax lawyers from the “Big Four”, you need some backup...This is when developing countries need the on-site assistance.”

- Pascal Saint-Amans, OECD and TIWB Project Leader
Fresh Ideas

Given the new cross-border momentum to tackle global tax evasion and the severity of the problem especially for developing countries, this thorny issue is ripe for a fresh approach. That is the idea behind the joint OECD-UNDP initiative, Tax Inspectors Without Borders (TIWB), a project focused very specifically on helping developing countries close the tax avoidance gap by strengthening their tax audit capacity.

By targeting this specific insertion point, they aim to enable local authorities to take on the complicated cases of tax avoidance, those with high value for the country’s revenue stream. Often these are the cases that require confronting MNCs which have sophisticated strategies and long experience in navigating global tax loopholes to minimize their tax obligations. TIWB’s idea is to provide specialized capacity building, pairing local tax administrations with on-site assistance from a skilled international tax inspector. They transfer the technical know-how by working side-by-side in the auditing process.

TIWB has tapped into the growing community of worldwide tax professionals and converted it into a practical training program. The targeted project model has turned out to be a cost-effective way to deliver technical assistance. As of late 2018, the TIWB program had helped countries to collect over 400 million euros, at the cost of only 4 million euros. One of the panelists commented: “I have never seen such a high rate of return; you put in one dollar or euro and you get one hundred.”

The design seems to be working well. The Forum was joined by the Senior Counsel of the Jamaican Tax Administration, an early recipient of the program. She reported not only significant improvement in fiscal revenues, but also credited the TIWB’s “on-the-job” training model with creating a noticeable growth in capability, skills, and confidence amongst her teams. Importantly, Jamaica is also seeing indirect business effects of the more effective auditing, including stricter business practices (especially recordkeeping), behavior change in key stakeholders, and an uptick of confidence amongst potential investors.

Of course, behavior change amongst the revenue-rich MNCs is the metric to watch. and the TIWB project leader confirmed incoming results. The TIWB representative reported that demonstration effects are starting to show. For example, in Liberia, local tax authorities have been approached by major international mining companies seeking cooperative dialogues — after the sector observed the new TIWB-trained audit experience of a fellow corporate. Elsewhere, MNCs have shown more organized record-keeping and greater responsiveness to local officials. The program has only been running since 2015, but the first results are encouraging.

End of the Road

The Tax Inspectors Without Borders project is a good news story. It is focused, cost-efficient, and impactful. The next steps will be to scale up, to expand their global reach, and to help countries convert the targeted successes into wider tax compliance.

The Forum’s panel benefited from the practical perspective of having not only the project leaders but also one of TIWB’s funders. Satu Santala from the Finnish Finance Ministry offered concrete suggestions for scaling up and transferring best practices onward. In particular, she suggested applying the successful TIWB model for tax auditing to other technical areas of fiscal governance. Training to enhance
tax collection capacities would be a natural follow-on. Likewise, thinking of applications across differing tax systems, she suggested a specific effort to promote south-south knowledge-transfer.

Panelists also discussed one much more ambitious goal: in order to achieve a stable revenue base, developing countries will need to convert local-level project successes into sustainable tax compliance — in both the private sector and the wider public. Any durable behavior-shift will require confidence in the outcomes of the country’s fiscal governance reforms and enhanced tax capacities.

“Hopefully we are moving towards a time when we talk positively in terms of "tax compliance" instead of negatively in terms of "tax avoidance".”
- Abdoulaye Mar Dieye, UN Development Program

It will require more than just putting money in the state’s coffers or making stakeholders aware of the new seriousness of the government’s approach. The broader population needs to see that these resources (alongside their tax contributions) are being used to deliver real benefit. Sharing from her own country’s experience, the Finnish government representative emphasized that transparency has been essential to their compliance success. (Citizens can see directly on their individual tax report what their taxes are spent on.) As citizens begin to see the impact of new state revenue on their lives, then confidence spreads. As confidence spreads, it often triggers greater tax compliance and a reinforcing cycle of behavior. Of course, expectations and addressing them will be country-specific, but project designers should be keeping this in mind.

The UNDP Administrator encouraged this worthy ambition and went even further: calling upon concerned stakeholders not only to work at the country level on local capacity development, not only to change the rules of the road of global fiscal governance, but even to strive to change the culture of taxation amongst the public.

**What’s Next**

There was energy around this debate, an optimism that things are starting to change. In an arena where national rules tend to reign, there is now a growing sense of openness amongst a community of tax professionals around the world. There has been a crack in the armor as leaders have begun to recognize the need to rewrite the rules of the road on global governance in the tax arena. The a growing sense of openness with information exchange and cross-border collaboration, especially with developing countries.

Finally, although there are plenty of positive developments, there is an important gap needing attention. As reforms on global tax governance move forward, they must become more inclusive. There is a significant asymmetry in tax systems between developed and developing economies, but international governance reforms do not yet seem to have figured out how to address this. So far, countries from the Global South have not been significantly included in the process. An audience member pointed out how essential it is that developing countries are brought into the process of shaping the new rules rather than just being on the receiving end of implementation — and soon.
Panel Participants
The Forum thanks panel participants: Pascal Saint-Amans, Director of the Center for Tax Policy and Administration, Organization for Economic Cooperation and Development; and Project Director, Tax Inspectors Without Borders; Abdoulaye Mar Dieye, Assistant Administrator, UN Development Program; Satu Santala, Director General for Development Policy, Finnish Ministry of Finance; Marlene Parker, Chief Tax Counsel, Tax Administration of Jamaica.

The panel was moderated by: Monica Bhatia, Head, Global Forum on Transparency and Exchange of Information, Organization for Economic Cooperation and Development.

This is a publication of the Paris Peace Forum reflecting the debates at the Forum’s inaugural session in November 2018. It does not necessarily represent the conclusions of each individual participant.

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