actionaid

Supporting fair tax systems

AN ANALYSIS OF EU AID TO DOMESTIC REVENUE MOBILISATION

OXFAM International

Acknowledgements

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EXECUTIVE SUMMARY

Domestic Revenue Mobilisation (DRM),[1] is key for governments to fund their own development goals, finance gender-responsive public services such as health and education and to reduce economic, social and gender inequalities.

Donor countries and institutions can contribute to strengthening DRM in developing countries though development cooperation aid and the European Union (EU) is the largest provider of aid to DRM amongst the donors.

This paper examines how the EU's aid to DRM is disbursed looking at what ActionAid and Oxfam consider essential for a good quality DRM project: **country and regional ownership of DRM, fairness, inclusiveness and local empowerment.** Essentially: more revenue collected in a more progressive way, under a robust and inclusive process locally. For this paper, ActionAid and Oxfam analysed the European Commission (EC)'s DRM allocations for 2016 and 2017 as reported in the Addis Tax Initiative (ATI) DRM database.[2] The data includes, for each project, the amount of the disbursement, the developing country in question, which organisation implemented the project, and a few sentences describing the project and its objectives. Although the ATI DRM database draws on OECD DAC reporting, and as such is generally released with a couple of years' delay,[3] the database provides useful information about the European Commission's DRM allocations.

These are the key findings of the analysis:

- **The EU is on the right path to meet the target of doubling DRM by 2020.** In 2017 the total effective EU disbursement for DRM was USD 69,5 million, while the commitment was USD 101,1 million. EU institutions accounted for the highest gross disbursement among all ATI development partners' total disbursement in 2017 (27%).

- **Country ownership in DRM is significant, especially when compared to other donors.** 75% and 70% of EC aid for DRM went to developing country governments in 2017 and 2016 respectively.

- **Involvement of regional bodies is weak.** Financial support for regional organisations stopped entirely in 2017 from 10% in 2016

- **The role of multilateral institutions is increasing.** The proportion of EU aid for DRM that went to projects led by multilateral institutions almost tripled from 2016 to 2017, from 7% to 19%.

- **A commitment to equity is limited or unclear in DRM projects.** In 2017, only 15% of all projects mentioned fairness, equality/equity or inclusivity in their reported descriptions but only 2% seemed to genuinely have a significant fairness component. There is no mention of specific indicators to measure the impact on inequality.

- **Gender equity is neglected.** None of the projects reported in 2016 and 2017 were marked as having gender equity as one of the main considerations or objectives.

- **Progressivity of taxation is not explicitly examined.** None of the tax policy projects in either 2016 or 2017 included progressive taxation in their description. There is not enough consideration of the impact of Value Added Tax (VAT), of tax avoidance and incentives, and of wealth taxes.

- **Support for civil society involvement and local bodies is still limited.** From 2016 to 2017 direct support for NGOs decreased from 4% to just 1% of the EU's disbursements for DRM and only 14% and 15% of projects in 2017 and 2016 respectively involve citizens or civil society organisations (CSOs). Only 5.8% and 4.8% of total disbursements had a local or municipal focus in 2017 and 2016.

Overall, the analysis shows that the EU is excelling in some areas compared to other DRM donors, like the quantity and country-ownership of DRM, but there is clear room for improvement in the following fields:

transparency of information, regional ownership, fairness of taxation, gender equality, inclusiveness and local empowerment, the practice of EU delegations, and the role of the EU and Member States in the multilateral institutions. Policy Coherence for Development (PCD) and a more equal participation of developing countries in tax reforms are also needed for DRM to really work.

Finally, the experiences of ActionAid and Oxfam in projects in the Global South, provided at the end, offer tangible examples on how CSOs measure inequalities and enhance fairness, inclusiveness and local empowerment on the ground. With this paper ActionAid and Oxfam intend to contribute to the future shaping of EU DRM programming and to support the European Commission's commitment to more "efficiency, effectiveness, fairness and transparency of DRM".[4]

We also believe that the EU, as a member of the ATI, the global multi-stakeholders partnership on DRM, is in a position to raise the bar of DRM support amongst donor countries and institutions. While at the same time, champion stronger country-ownership, a fairness component, CSOs involvement and local empowerment in DRM projects.

INTRODUCTION

“Assisting developing countries in boosting their domestic resources is crucial.”

EUROPEAN COMMISSION, 2019[5]

“Budget support is a useful instrument for policy dialogue and support to EU partner countries on fiscal policy and domestic revenue mobilisation.”

EUROPEAN COMMISSION, 2019[6]

What is DRM and why it is important

Domestic revenue mobilisation (DRM) refers to the generation of government revenue from domestic resources, especially through taxes. DRM is key for governments to fund their own development goals, finance gender-responsive public services such as health and education and to reduce economic, social and gender inequalities. DRM is particularly needed in low and middle-income countries, where its proportion on GDP is still low compared to rich countries[7] and where it can contribute to reduce dependency on external assistance, strengthen the social contract, reduce the volatility and alleviate public debt. It is estimated that, if low- and lower middle-income countries worldwide achieved a 2% increase in DRM by 2020, this would add $144bn to their budgets.[8]

DRM is not only important in terms of how much revenue is collected, but also for how that revenue is collected, that implies which sectors of society are contributing to it and the level of inclusiveness and accountability of the process.

The role of aid to DRM

The focus of this paper is a review of the profile of aid to DRM at the European Level. Development cooperation aid can be used to support developing countries’ DRM. Donors, like the EU, can contribute to reducing inequalities by supporting governments to collect more taxes and to collect them more equitably and in a more accountable way, while, at the same time, encouraging partners’ countries ownership. Policy Coherence for Development is also essential to avoid that negative spillovers of donors’ tax policies nullify the effectiveness of development aid for DRM.

DRM, with tax at its centre, has been acknowledged by the international community as an essential component of future development financing – that is, the idea that developing countries need to raise more and fairer public revenues through their own tax systems than through other sources of finance. This creates a “less aid-dependent, more nationally-accountable, predictable and stable stream of financing for development and poverty eradication”.[9]

As the largest donor on DRM, the EU can play a significant role in supporting developing countries’ efforts towards fairer and more accountable taxation, and in fact the EU has committed to do so.

EU’s commitment

The EU’s commitment to supporting developing partners’ DRM has been highlighted in various policy documents[10] and the EU and its Member States agreed to work with developing countries to promote good tax governance and progressive taxation.[11]

Under the ATI, a multi-stakeholder partnership introduced in 2015 aimed at enhancing DRM, the EU and other donors engaged in two main commitments: to **double their support for DRM by 2020, and to increase policy coherence for development.**

The scope of EU support to DRM includes tax policy reform, support to tax administrations and international cooperation on tax matters.[12] As part of the EU's external strategy on effective taxation,[13] in 2015 the European Commission published an ambitious agenda, "Collect More – Spend Better",[14] that aims to help strengthen partner countries' tax policies and administration.[15] The document details how the EU intends to assist developing countries in building fair and efficient tax systems.

The assessment

This paper examines what the EU has done so far to meet its commitments, looking at what ActionAid and Oxfam consider essential for a fair, accountable and country-owned DRM:

- **Country and regional ownership of DRM:** was the aid received by or channeled through regional or government agencies and institutions (such as Ministries of Finance or Revenue Authorities), domestic private sector firms or domestic non-profit organisations? What is the role of multilateral institutions?
- **Fairness component:** were there any fairness considerations or elements to the project, including with regards to gender equality and progressivity of taxation?
- **Inclusiveness and local empowerment:** did the project involve citizens, civil society organisations, academia, journalists and local or municipal tax bodies?

The assessment builds on Oxfam's and ActionAid's previous works and in particular Oxfam's 2018 report Doubling Down on DRM[16] and on ActionAid's 2019 briefing Collect More – and More Fairly?[17]. These elements also reflect the aid effectiveness principles[18] of ownership by developing countries, inclusive partnerships, focus on results, and transparency and accountability.

The analysis does not include EU progress on the policy coherence for development, but the spillover effects of EU tax policies are just as important as direct support to country partners.[19]

The assessment is preceded by a more descriptive part that offers an overview of quantity, geographical distribution and focus (tax policy vs administration) of EU DRM.

Finally, in the annex, a selection of Oxfam and ActionAid projects on DRM is provided, to show how CSOs are addressing fairness, inclusiveness and local empowerment on the ground.

The aim of the analysis

With this paper ActionAid and Oxfam intend to contribute to strengthening the support of the EU for fairer, more accountable and country-owned DRM in partner countries, particularly in view of the new European Commission's development cooperation programming and the next Multi-annual Financial Framework of the EU, which will define the EU's spending for 2021-2027. We also believe that the EU, as member of the ATI, the global multi-stakeholders partnership on DRM, is in a position to raise the bar of DRM support amongst donor countries and institutions, and champion a stronger country-ownership, fairness component, CSOs involvement and local empowerment in DRM projects.

Source of data and caveats

For this paper, ActionAid and Oxfam analysed the European Commission's DRM allocations for 2016 and 2017 as reported in the ATI DRM database.[20]

In an effort to hold donors accountable for their commitment to double DRM support, the ATI secretariat publishes and updates an annual DRM database that shows all the individual DRM projects that each donor has supported. The ATI DRM database gathers information on commitments and gross disbursements reported to the Organisation for Economic Co-operation and Development OECD Development Assistance Committee (OECD DAC) under the CRS (Common Reporting Standard) purpose code 15114 for domestic revenue mobilisation. ATI development partners are given the opportunity to review the data they had reported to the OECD DAC and adjust information.

For each project, the data includes the amount of the disbursement, the developing country in question, the organisation that implements the project, and a few sentences that describe the project and its objectives. Though generally released with a couple of years' delay,[21] the database provides useful information about the European Commission's DRM allocations.

For the purpose of this research, basic information (commitment and disbursement of DRM and recipients per projects) were directly available from the database. Other information, such as the region, income group of the recipient and the channel of delivery, were mostly reported or easily deduced when the information was missing, especially in the 2016 database. Finally, information about the project focus, the fairness component (including gender equality and progressivity of taxation), involvement of CSOs and citizens and local bodies, were deducted by the short and long description provided per each project. Most part of the assessment is therefore based on the projects' description provided by the EU to ATI.

Some additional information on specific projects were searched online but, as emphasised in a recent ActionAid report,[22] it is difficult to access information about specific DRM allocations undertaken by the European Commission, as this information is not published regularly nor included in EC annual development cooperation reports.

It is important to note that there are three caveats to the analysis presented in this report and related to the source: a) unsolved and significant inconsistencies between data reported by governments to OECD DAC compared to ATI; b) uneven amount of information given about each project, as 'long descriptions' are often just one sentence; c) two years' delay between the allocation, or disbursement of the money, and the reporting.

The discrepancy between the OECD DAC and the ATI database is quite significant. In 2016 and 2017 an additional 32,5 million $ and 55,2 million were reported to the ATI database for EU DRM disbursement compared to the OECD DAC database.[23] The reasons given for the discrepancy are differences in the implementation of the code by the OECD and the ATI, that need to be addressed.[24]

As for the delay, it can raise problems since more recent public commitments and statements by the EU and the European Commission – such as the 2017 commitment to work with partner countries to promote progressive taxation,[25] or the 2019 statement that the EU approach to budget support to partner countries has been adjusted to better promote the SDGs[26] – may not be reflected yet in the allocations evaluated in this report. More timely publication of data by the ATI and by the OECD would be key to assessing progress and the alignment of the EU's aid allocation vis-a-vis the Union's stated principles and commitments.

An initiative to improve transparency of development aid already exists, the International Aid Transparency Initiative (IATI),[27] which provides more recent information on projects. While the EU already publishes some projects on the portal, a more comprehensive, consistent and regularly updated use of it would solve the problem of time lags.

A final remark concerns the commitment on "policy coherence for development" made by the EU and other ATI signatories. While the ATI has not monitored this commitment, the EU has reported progress in this regard[28] but, according to CSOs, it is far from being sufficient.[29] Tax dodging by the super-rich and corporations is estimated to cost developing countries at least USD 170 billion every year,[30] more than the total aid disbursed in 2018, which was USD 155 billion. Moreover, studies show that 30% of international profits by multinationals declared in tax havens (USD 600 billion in 2015) are shifted to EU tax havens.[31] This demonstrates that, in order to not undermine developing countries' efforts on DRM and to make development cooperation aid effective, it is crucial to conduct spillover analyses of EU-wide and Member States' tax policies on developing countries,[32] and to end harmful tax practices within the EU.

1. TRENDS OF EU SUPPORT FOR DRM

1.1 Total amount of aid

In 2017 the total effective EU disbursement for DRM was USD 69,5 million, while the commitment was USD 101,1 million. EU institutions accounted for the highest gross disbursement among all ATI development partners' total disbursement (27%), as confirmed by the ATI monitoring report 2017.[33] The EU also recorded the highest increase in gross disbursement since 2015 (the first year of the ATI database) among ATI development partners: in absolute terms USD 23,5 million, which corresponds to an increase of 51.2% between 2015 and 2017, with the highest increase from 2016 to 2017 (32.1%).

The EU is on the right path to meet the target of doubling DRM by 2020 (ATI commitment 1). If we look at the 2017 commitment on DRM (instead of disbursement), the EU had already planned to meet the target, with a 135.6% increase between 2015 and 2017, but the final disbursement was below expectations. This is because disbursements do not always take place in the same financial year as the commitment, due to the contracting process.

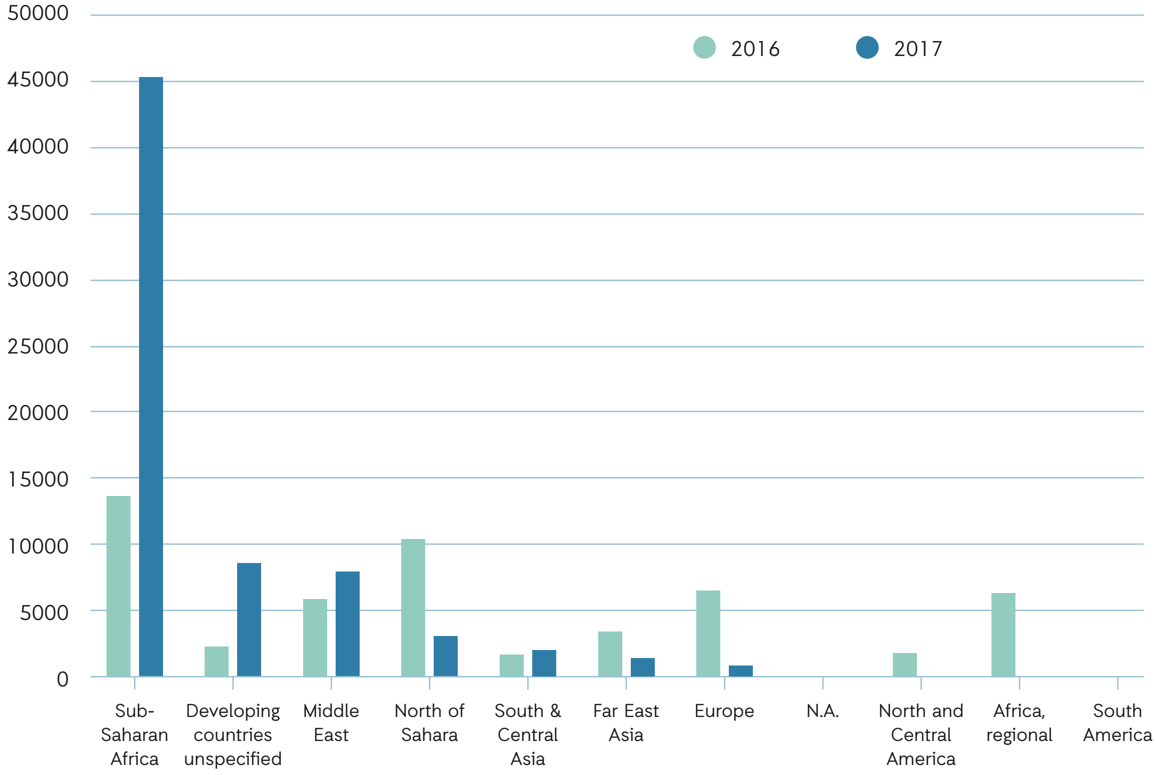
In terms of number of projects, in 2017 there were 84 projects, 22 more than in 2015, but less than in 2016 when there were 110. However, the average amount for each project has increased since 2016: in 2017 the average project disbursement was USD 827.000. This means **more resources, but that the money is concentrated in fewer projects.**

	2015	2016	2017
Disbursement	45 million $	52,6 million $	69,5 million $
Commitment	42,9 million $	74,5 million $	101,1 million $
Number of projects	62	110	84
Average size of projects (disbursement)	741.151 $	478.022 $	826.853 $

1.2 Geographical distribution

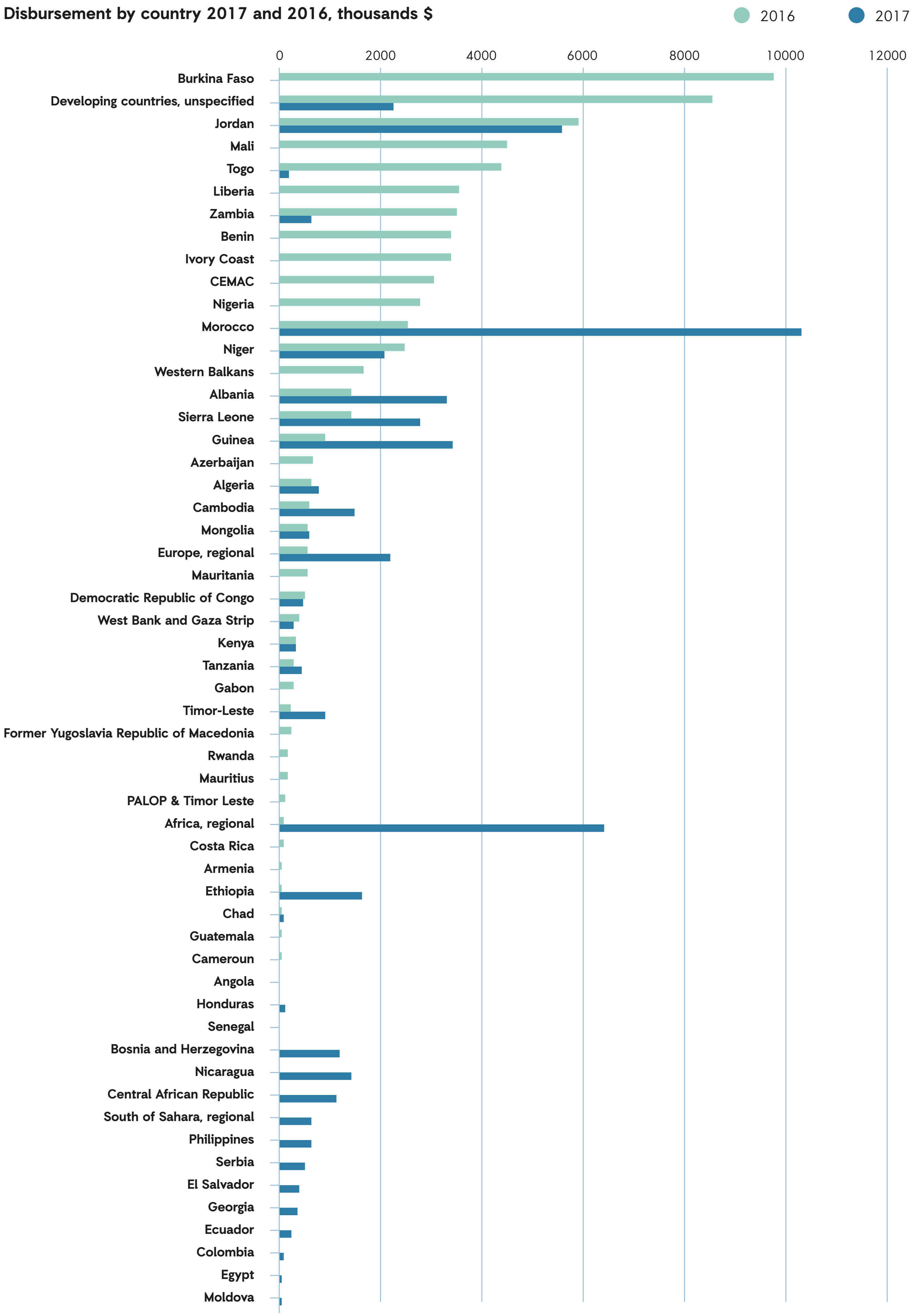
The **first beneficiary region of EU DRM is sub-Saharan Africa,** both in 2017 and 2016, in terms of commitment (58.3 % in 2017 and 26.7 % in 2016), disbursement (65.3 % in 2017 and 26.1 % in 2016) and number of projects (50 in 2017 and 39 in 2016), followed by the Middle East in 2017 and North of Sahara in 2016.

Disbursement by geographical region, thousands $



Burkina Faso received the largest share of disbursements in 2017 (USD 9,8 million, with 4 projects), while **Togo** was first for the amount of commitment (USD 11,7 million) and together with the Democratic Republic of Congo, for the number of projects (6). In 2016, **Morocco** was first positioned in terms of disbursement and commitment (USD 10,3 million and USD 12,9 million respectively) and the **Democratic Republic of Congo** in terms of number of projects (11). Looking at socioeconomic development indicators (category "Income group" in the ATI database), Least Developed Countries (LDCs) received the bulk of DRM funds in 2017, while in 2016 Lower Middle-income Countries (LMCs) were the main beneficiaries. Upper Middle-Income Countries (UMIC) received DRM funds but they were almost limited to neighborhood countries, because UMICs will be gradually phased out of EC bilateral aid. This should be reviewed given the risk for those countries to get stuck in the "middle-income trap" without being matched by a sustained social development.[34]

Disbursement by country 2017 and 2016, thousands $



CEMAC: Central African Economic and Monetary Community, PALOP: Portuguese-speaking African countries

1.3 Project focus

In 2017, over a third (37%) of European Commission-supported DRM projects focused on strengthening the **capacity of tax administrations**. Only 19% of projects had an exclusive tax policy focus, though a further 19% seems to have involved both **tax policy** and tax administration-related activities. The data for 2016 indicates a somewhat similar trend, with 43% focusing on administration, 15% on tax policy, and 22% involving both elements. Overall this allocation share suggests a **mix between projects focusing on efficiency and those focusing on policy change**. Although the EU must respect developing countries' policy space, it is important to highlight here that technical capacity-building alone is not sufficient to increase the revenue collection and the equity of the tax system. A study looking at the tax potential in 114 countries (71 of which are LDCs and LMCs) suggests that "inefficiency in taxation depends more on policy decisions than on tax administration performance".[35]

A World Bank 2017 publication on DRM finds that the "experience of many countries shows that, even after the formal tax structure and tax administration are reformed, levels of tax collection remain unchanged unless there is sustained political will and local ownership".[36]

Overall, it is noteworthy that a large part of projects was about capacity-building of authorities with regards to public financial management more broadly, and the specific DRM components were not always explicit under the reporting database. However, an attempt was made to capture the main focus of each project, relying on the descriptions provided in one or two words. An overview can be seen in the image below.

The tax policy projects comprised many varied activities: from analyses of taxable activities and tax exemptions, better statistics on tax and support on VAT reform, to improved taxation of extractive companies and support for public finance policy reforms more broadly.

2. ASSESSMENT OF EU DRM

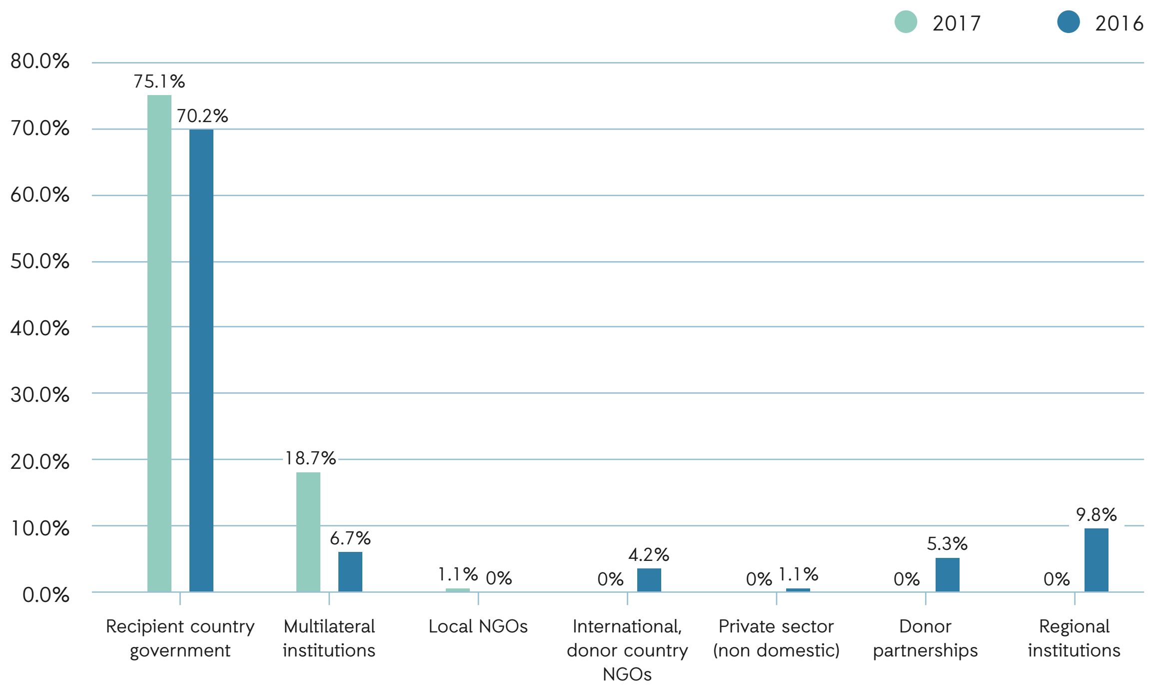
2.1 Ownership of DRM

Country and regional ownership of DRM

Development is most effective when it is led by countries, with strong civic participation mechanisms. An essential part of ownership is the use of country entities, which allow countries to develop internal capacities and decide the best policies for them. In the case of aid for DRM, ownership is fundamental if the aim is to allow partners' countries to finance more of their own development and be more independent from external assistance. The Commission has recognized partner countries' sovereignty and ownership in tax policies.[37]

For assessing country ownership, the research looked whether government agencies and institutions (such as a tax administration), domestic private sector firms and local non-profit organizations were among the direct recipients of the aid, in the category "channel" of the ATI database. Channeling support through national partners is an essential part of country ownership, but other elements are equally important such as the full ownership of priority-setting, implementation and resources for foreign assistance.[38]

Who did the money go to?



The vast majority of the EU's support for DRM seems to go directly to developing countries' governments, amounting to 75% and 70% of aid for DRM disbursed in 2017 and 2016 respectively. If resources provided to other domestic actors are added (local NGOs, since domestic private firms were almost not present), the total support to the recipient countries does not change much (76% in 2017 and 70% in 2016). This is in stark contrast with global trends of DRM aid – as estimated by Oxfam:[39] globally only 16% is channeled through the recipient government, domestic private sector or a local NGO.

The fact that the European Commission's allocations focus primarily on national institutions shows **the EU seems to be living up to its commitment to allow for and encourage country ownership in DRM,** especially when compared to other donors. However, one aspect that deserves attention is the narrow support to local NGOs. This reflects a general limited support to civil society, due also to clear barriers to engage on tax issues given a lack of capacity and technical expertise– we explore these barriers and the EU's approach to tackling them in the Chapter 2.3.

Parallelly to country ownership, involvement of regional bodies is also important to strengthening "South-South" capacity and technical as well as political cooperation. There are some problematic trends in this regard, since direct **financial support for regional organisations** such as the African Tax Administration Forum (ATAF) **was zero in 2017**[40] (when in 2016 it amounted to 10% of total disbursement). Therefore, **an increase of support for regional organisations is still needed in order to boost regional cooperation.**

The role of multilateral institutions

Donors are channeling an increasing amount of aid for DRM through multilateral institutions[41] and the EU is not an exception. This can raise some concerns in terms of country-ownership, inclusiveness and fairness, as shown in this part.

The EU's support to multilateral institutions – such as the International Monetary Fund (IMF) and the OECD – represents the second channel of delivery of DRM amounting to almost USD 13 million disbursed in 2017, or around 19% of total disbursements that year. Strikingly, **the proportion of EU aid for DRM that went to projects led by multilateral institutions almost tripled from 2016 to 2017,** from 7% to 19%.

In 2017, this high amount of EU support to DRM through multilateral institutions was concentrated in 9 projects, many of them managed by the IMF (USD 11,2 million), including through its Regional Technical Assistance Center for East Africa (East AFRITAC),[42] the Regional Technical Assistance Center for Central Africa (AFRITAC Centre)[43] and the Managing Natural Resource Wealth Trust Fund (MNRW-TF). Other projects were implemented by the OECD (USD 1,7 million), such as a report on revenue statistics in Africa and a general support to the OECD Base Erosion and Profit Shifting (BEPS) initiative in developing countries.

The websites for the IMF regional technical assistance centres provide some level of information, including annual work plans, which are comprehensive and cover various areas related to fiscal policy and administration. East AFRITAC recently underwent an independent midterm evaluation, which is welcome – but according to the evaluation report,[44] no NGOs or representatives from civil society were consulted by the IMF to give feedback, only IMF staff and government officials. While it is logical that the programmes must be evaluated by the recipients of the different trainings (i.e. government officials), civil society should also be consulted, particularly with regards to the relevance of the programmes and the social impacts or in terms of governance.

While many of the multilateral initiatives and global partnerships that the EU supports on DRM are clearly relevant, **it is unclear whether there is a strategic approach to the selection** of multilateral initiatives and distribution of funds between them; **and whether all relevant stakeholders, including partner country governments and civil society, were consulted** in that process.[45] In this context, it is essential that the EU provides detailed public information about the initiatives it supports, in particular with regards to the rationale behind it and the alignment between the initiatives and the EU's development objectives.

Moreover, the increasing EU DRM support channeled through multilateral institutions is concerning without some notable changes. Civil society, trade unions, UN Special Rapporteurs and others[46] have raised concerns regarding the role of such institutions, in particular the IMF, in promoting regressive tax policies that have negative impacts on economic and gender inequalities in developing countries.[47] In recent years, the IMF has shown more concern over inequality and indeed there are some examples of it promoting progressive taxation, yet in practice it remains disproportionately biased towards expanding regressive, largely gender-discriminatory taxes such as VAT.[48] Recent research shows that the IMF is failing to analyse the differentiated impact of its tax policy advice on men and women, particularly women living in poverty.[49]

Civil society organisations have for a long time highlighted the **major influence that institutions such as the IMF have on fiscal policy in countries in the Global South.** Besides setting policy conditionalities for loans, which can limit the fiscal space countries have to determine their own economic, social and environmental policies and has too often resulted in decreased critical social spending, the IMF also provides far-reaching policy advice to national governments. While there could be scope for promoting more progressive tax policies through its Technical Assistance work, without more transparency on this work it is impossible for stakeholders and indeed donors to know if their money is being used to promote fiscal policies that could indeed hurt the poor and deepen inequality.

Regarding the EU's support towards the OECD BEPS initiative (USD 500.000 in 2017), there are also concerns from a development perspective. The BEPS initiative was not initially a very inclusive global process – G20 and OECD countries were in control of the decision-making stages, and largely excluded developing countries. At this stage, negotiations were agreed upon on a unilateral basis to deliver a highly complicated set of recommendations on how international tax rules should change.[50] For long time civil society has highlighted that BEPS initial package was not enough to end tax avoidance, as the proposals are difficult for poor countries to implement, and do not stop the industrial-scale tax avoidance that undermines the finances and public services of developing countries.

In 2016 the OECD/G20 Inclusive Framework (IF) on BEPS was established to ensure that interested countries and jurisdictions, including developing economies, were more involved in the implementation and development of remaining standards on BEPS related issues. Currently, there is a new round of discussions about further global tax reforms addressing tax challenges of the digitalisation of the economy. This time, the OECD/G20 Inclusive Framework on BEPS is involved, and this could be an opportunity to introduce an equitable rebalancing of taxing rights between developing and developed countries, as well as a Minimum Effective Tax Rate at a fair and sufficient level. However, joining and effectively participating in the Inclusive Framework requires signing on to the four BEPS minimum standards - which developing countries were not allowed to shape -, paying a membership fee and dedicating significant human and financial resources to take part in technical meetings. These requirements are most likely discouraging developing countries to participate in the process. As of October 2019, almost half of ATI partner countries were not participating in these negotiations.[51] Clearly being invited around the table is not enough to assume countries have an equal say in the process.

It is essential that the **EU works towards ensuring equal and effective representation to developed and developing countries**, as well as their capacity to politically contribute and influence the process. Therefore, the EU must clarify how its DRM support to OECD BEPS contributes to developing countries' participation in those processes. At the moment, **the funds that the EU provided to the OECD BEPS to assist developing countries related only to assisting them meet the OECD standards** themselves rather than contributing to developing countries' participation in standard-setting processes.

At the same time, commitments were made in the Addis Ababa Action Agenda to further enhance the resources of the UN's dedicated tax body, the Committee of Experts on International Cooperation in Tax Matters.[52] While the EU does finance this Committee, it has been a long-standing ask of G77 countries that it be upgraded to an intergovernmental UN Global Tax Body. The EU should guarantee that money is invested in the intergovernmental bodies that developing countries see as most valuable and, as such, support the creation of an intergovernmental tax body under the auspices of the UN with a sufficient mandate and resources to reform the international tax system, with all countries on equal footing.

Overall, the EU must ensure that the multilateral initiatives it supports are in line with its stated commitments and objectives to support progressive taxation, fair tax systems, country ownership, and policy coherence as well as broader commitments on human rights and gender equality. Consulting partner countries and civil society in a transparent manner with regards to its financial support to such multilateral initiatives would be a good step forward to ensure that allocation is directed to relevant and coherent projects.

2.2 Fairness

Fairness component

A focus on fairness and equity is essential to build tax systems that do not increase inequality but rather contribute to resource redistribution.

The EU has committed to work on policy dialogue with developing countries on tax issues, specifying that it will promote progressive taxation and redistributive public policies.[53] The Commission's Budget Support Guidelines, updated in 2017, make repeated statements on DRM being also about improving equity and fairness of tax systems.[54]

Our analysis of the EU's allocations towards DRM reveal that in 2017, only **15% of all projects (13)**[55] **mentioned fairness, equality/equity or inclusivity** in their descriptions. Those projects account for 20% of the total aid disbursed by the EU towards DRM in 2017. However, among the few projects whose descriptions mention such keywords, it seems that **in many of them there is no significant fair or progressive tax policy component in the projects themselves.**

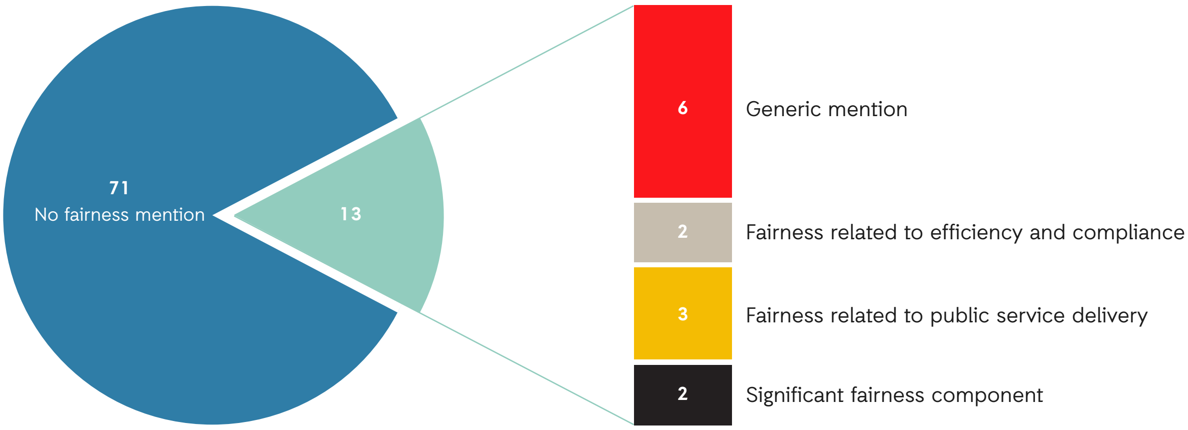
In 2017, six out of thirteen projects[56] in 2017 were - from a policy perspective - not really centred around fairness. Instead, project activities were focused on the improvement of tax statistics or the effectiveness of public service management and the descriptions merely made a generic comment about one of the objectives being to contribute to equitable or "inclusive growth". Two further projects,[57] while referring in passing to a contribution towards a "more equitable public financial management", in fact seemed to focus on efficiency and compliance. Another three[58] mentioned equity in public service delivery, but the specific indicators all related to improved collection, i.e. efficiency.

Investing in the effectiveness and efficiency of public administrations could indirectly contribute to more fairness if for example the level of compliance of a progressive tax system is increased. However, for this analysis, we take into consideration a direct and explicit positive impact on equity, building on the information available in the database.

In the end, **only two projects (2.4 % of all projects, and 0.8% of total aid disbursed towards DRM that year) seemed to genuinely have a significant and direct fairness component in 2017:**

- A very small project (less than USD 3,000) in Honduras implemented by an association of local municipalities focused on "empowered" and "inclusive" engagement of citizens at the local level with regards to tax.
- A more substantial project (just over USD 500,000) implemented by NGOs (including ActionAid and Oxfam) focused on mobilising European citizens around inequality and tax justice in the context of the European development agenda.

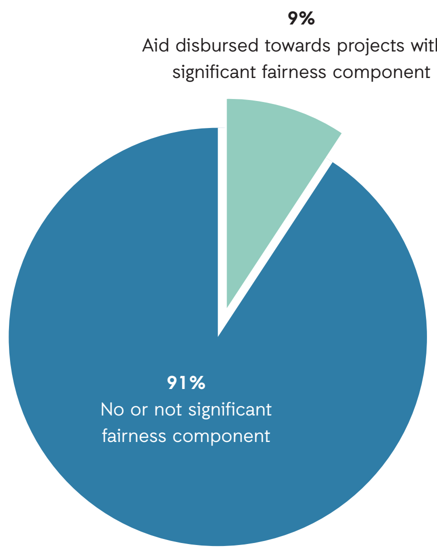
Fairness component, numbers of projects, 2017



In 2016, a similar small number of projects (16) included keywords on fairness, equity and inclusivity, but the value of the aid provided towards them was much higher, namely 38.5% of aid provided that year. Nevertheless, based on our analysis, **only four out of 16 projects in 2016 had a significant fairness element, amounting to 9% of total aid disbursed that year.** Among these four, two projects continued in 2017 and are also presented above – though the EU contribution was much higher in 2016 for both of them. The other two projects are:

- A big project in Morocco allocated over USD 2,5 million towards the indicator "improving tax fairness: strengthening tax fairness by rebalancing between direct and indirect tax revenues".
- A smaller project (USD 100.000) implemented by NGOs aimed at building awareness of tax justice and the MDGs in sub-Saharan Africa among EU public service workers in Europe.

Fairness component, % of disbursement, 2016



When looking at the fairness component, gender equality has to be taken into account too. Because of the differences that exist between women and men—such as income, access to resources, decision-making power, and caregiving responsibilities—they are affected differently by taxation. For this reason, to pursue gender equity in the DRM context, both explicit and implicit gender biases within revenue systems must be eliminated.

Despite gender equality being one of the EU's priorities in development cooperation, none of the projects reported to the ATI DRM database in 2016 and 2017 were marked as having it as one of their main considerations or objectives. Nevertheless, that is not far from the overall trend by other DRM donors participating in the ATI; according to Oxfam research only 0.5% of all DRM project descriptions reported to the ATI in 2016 actually indicate any gender-related objectives.[59] On this point there is a discrepancy with the OECD DAC database where four projects are reported to have gender equality as an important, but secondary, objective of the activity[60] but the same projects do not have a gender marker in the ATI database.[61]

The analysis on the fairness component confirms the conclusions made in a recent ActionAid report[62] that the evidence of the practical implementation of the commitments to fair and progressive taxation in the EU's programmes has been mixed. **An explicit fairness focus is still limited, a gender equity component is completely missing and even when fairness is identified as an overall objective, there is no mention of specific indicators to measure it.**

The EU should provide more details on how the fairness component is implemented in EU projects on DRM. The component should be linked to measurable indicators, particularly when equality is mentioned as one of the project's objectives. Moreover, the EU should prioritise the fairness component as main criteria for funding allocation. This would be in line with the EU's approach as outlined in the 2019 Commission Staff Working Document on addressing inequality in partner countries. A common "fairness" indicator could also be proposed at ATI level to all donors. Finally, a gender component should also be introduced in all DRM projects.

Some indicators and tools already exist to assess the fairness of national tax systems and the impact of national tax systems on the reduction of inequality, or to analyze and measure the different dimensions of inequality. Examples of Oxfam and ActionAid's indicators and tools are presented in Annex 2.

Progressivity of taxation

Progressive taxation is an essential component of a fair DRM. It means to collect the majority of revenue from those who are most able to pay - corporations and the richest individuals - and reduce the burden on the poorest. The potential role of progressive taxation in reducing inequality has been clearly documented in both OECD[63] and developing countries,[64] and highlighted by the International Monetary Fund.[65]

A comprehensive assessment of the progressiveness of taxation in a country requires to take into consideration the mix of different types of taxes and rates applied to them, as conducted by ActionAid and Oxfam in different countries, through for example the Commitment to Reduce Inequality Index and the Fair Tax Monitor (see Annex 2).

In this section the analysis of the progressivity of taxation in EU DRM projects was conducted at a preliminary level, looking only at the description of the tax policy projects and at the general progressivity component of any type of tax mentioned.

As outlined in the previous section, few projects were explicitly dedicated to fair taxation (2.4% of total projects in 2017 and 3.6% in 2016).[66] Therefore, a thorough analysis of all tax policy projects was needed to examine if they had an indirect influence on the fairness and progressivity level of the tax system in question explicitly dedicated to fair taxation.

In general, **there is a lack of public information on the kind of policy put in place,** even though the EU suggests to its staff to track record any policy dialogue undertaken with countries.[67] An example is a project in Kenya headlined as *"Technical Assistance to the Commission for Revenue Allocation in Kenya"* with a total disbursement of USD 600,000 in 2016 and 2017. There is an indication[68] that the objective is *"to support the strengthening of analytical and institutional capacity at the Commission for Revenue Allocation in its advisory role to both the national and county* *governments"*, so part of the services provided by the EU to the Kenyan Commission for Revenue Allocation in this project relates to "policy advice". However, there is a clear lack of information about the project, no details are given as to what this EU policy advice entails, and there are no references to ensuring equity and progressivity in the context of policy advice on DRM.

Overall, **none of the tax policy projects in either 2016 or 2017 includes progressive taxation in its description.** However, some assessments on the progressivity of taxation can be deduced from the analysis of the specific revenue streams.

In 2017, about one in five projects (19%) referred to a specific revenue stream, such as VAT or Corporate Income Tax (CIT). Other types of taxes, including those usually considered progressive such as taxes on wealth or property, seem somewhat neglected in the context of EU support for DRM.

Below we analyze four main type of taxes mentioned in the projects (a) VAT, b) CIT, c) Wealth tax and 4) Informal sector tax that can have relevant impacts on inequality.

a) Value Added Tax

VAT and other sales taxes often account for a third or more of developing countries' tax revenues.[69] In comparison, in the EU, the contribution of VAT to total tax revenue averages only around 15%, as revenues are supplemented by many other taxes.[70] VAT can often be regressive and disproportionately impact on poor people and women, as has been evidenced by civil society.[71] This is because poor people generally spend more of their income than the rich. Since most of the world's poor are women, there is a concern that consumption taxes, such as VAT, disproportionally affect them. However, the actual effects of VAT on the poorest are not always clear-cut. VAT falls on a wide range of goods and services and its effects depend on which goods the poor use and which ones are either exempted from the tax or zero-rated. Some country case studies can offer a more detailed analysis on the fairness (or unfairness) component of VAT-related projects supported by the EU. For this purpose, three case studies were selected, from Benin, Ivory Coast and Morocco.

COUNTRY FOCUS: Benin

In 2017, the EU disbursed over USD 2,3 million to Benin for a budget support project that had, according to the EU's reporting to the ATI DRM database, the following key result indicator: *"Tax potential development: Broadening of the tax base, efficiency of VAT recovery through: a) Increase of taxpayers subject to VAT, b) Ration of payments / number of VAT returns and c) rationalization of expenditure by reducing the amount of tax expenditure."* This is part of a larger good governance contract with Benin,[72] through which EUR 114 million will be disbursed from 2016 to 2020, and which has as one of its main objectives to increase domestic revenues and to fight tax evasion. Nevertheless, while the official contract mentions in passing that the project's objectives are aligned with the EU's *Collect More and Spend Better* agenda, the element on broadening the tax base through improved VAT efficiency as reported in the ATI DRM database is not included in the official contract, and as such it is difficult to find more information about this particular activity. As for the reduction of the amount of tax expenditure, mentioned in the description, it could potentially contribute to a fairer tax system, but this depends greatly on which taxes are targeted -- yet no information is available on this aspect.

The contract with Benin does not mention the safeguarding of progressivity or fairness concerns in the activities that aim at broadening the tax base. The contract does not refer to any assessments of this VAT broadening, nor of whether exemptions and zero-ratings are/will be provided to match the actual consumption patterns and needs of the poorest citizens, with a particular focus on the needs of women in poverty. While the public documentation on this case demonstrates little consideration for the regressive impacts (in the design) of DRM projects, the government's poverty reduction strategy (2018-2025) indicates that VAT exemption is provided for some local products. This will certainly ease the tax burden on the poor and make VAT less regressive in Benin.

As highlighted by local civil society,[73] an exemption on VAT for local products is a considerable advantage for women working in the informal sector who are particularly active in the sale of processed local agricultural products. At the same time, the exemption also allows poor and marginalised people to have access to basic food. Due to lack of public documentation, it remains unclear whether the EU financially supported any of Benin's analyses of consumption patterns and needs of the poorest citizens in the context of the broadening the tax base that may have led to this exemption.

On a side note, it is concerning that the contract sets out the EU's intentions to initiate policy dialogue with Benin on the privatisation of public companies and the elaboration of public-private partnerships (PPPs), notably because they tend to exacerbate inequality, contribute to governments' indebtedness and often involve limited transparency and accountability. Civil society has long raised concerns regarding PPPs and the privatisation of public services.[74] The contract also makes repeated references to working with the IMF on various macroeconomic policy issues in Benin.

COUNTRY FOCUS: **Ivory Coast**

In 2017, over USD 3,4 million was disbursed to the Ivory Coast in the context of a project on good governance, specifically towards activities with the following indicator: *"Indicator 3.1: Mobilisation of domestic resources: improve the ability to mobilise tax revenue through a broadening of the tax base by reinforcing the efficiency of the Directorate General of Taxes: 1 / VAT collection via the Centre of Medium-Sized Enterprises, 2 / Publication of Report on Tax Expenditure and annexation to the initial finance bill."* While no further information is provided, it seems unlikely that the objective of improved VAT collection, focused on medium-sized companies, will have a regressive impact on lower-income households and women. This approach is more desirable, compared to broadening the tax bae or increase VAT rates. Nevertheless, as with all VAT-focused projects and reforms to tax policy in general, it is important that any measures are supported by assessments of potential impacts on economic and gender inequalities.

As for the second sub-indicator, the report of tax expenditure could be a helpful tool to understand what kind of exclusions, deductions and credits are implemented, and which companies or individuals benefit from them. Therefore, publication of the report could be highly useful to assess the fairness of the tax system.

COUNTRY FOCUS: **Morocco**

In 2016, the EU disbursed around USD 10,3 million to 5 separate DRM projects in Morocco, , each pursuing a different objective and indicator. Two of the projects (together amounting to around USD 5 million) seem particularly relevant from a fairness perspective, their objectives being: *Indicator 9, Improving tax fairness: strengthening tax fairness by rebalancing between direct and indirect tax revenues; Indicator 10, Consolidation of the Value Added Tax (VAT) reform: introduction of the VAT reform in the Draft Finance Law.*

The project pursuing tax fairness clearly stands out amongst the EU's DRM projects. The issue of the proportion of government revenues coming from direct versus indirect taxes is crucial, as it has a clear impact on income redistribution and on who bears the burden for taxation in a country. It is a positive sign that the EU recognises this aspect of tax fairness in Morocco and supports a project aimed at rebalancing the contributions coming from direct and indirect taxes. However, no further information was available online on the funded activities, nor on the stakeholders engaged in the process to ensure project effectiveness.

Similarly, not much information is easily available with regards to the VAT reform project. The EU's Action Plan for Morocco from 2013-2017 only further specified that the reform aims to simplify and improve the economic neutrality of VAT.[75]

In addition to the projects' description, further information on the EU's practical approach to progressivity of tax in partner countries, in particular connected to VAT, can be found in the latest training of EU staff on DRM in early 2019, whose program can be found online. From the presentation material available online, it seems that **equity concerns are only mentioned in passing** – though EU staff who participated in the training indicated that equality considerations were discussed throughout, including with regards to VAT.

European Commission training on DRM

The European Commission conducts regular training of EU officials on domestic revenue mobilisation. Online sources indicate that there is a course targeting staff in the European Commission's Directorate-General for Development Cooperation, as well as staff in EU delegations, that is, the officials working at country level in developing countries. This is key, as EU delegations have a significant role in designing, programming and implementing EU development cooperation programs[76] – this is also the case for DRM projects, where the Commission's guidelines on budget support for EU delegations are in the form of voluntary guidance.

Presentations made in the context of a recent training of EU staff on DRM that took place in early 2019, only briefly mention equity concerns– particularly in the VAT module. While the training slides note that VAT is said to be regressive and disproportionately impacts poor people, the slides also state that this argument does not apply systematically in developing countries, claiming that the poorest households "do not buy on the market" as they are farmers and self-consumers. Yet no evidence is provided to support this claim made in the training. While it may be true to some extent that some of the poorest households in rural areas may not buy much on the market, it is likely that there is still a fair group of households that might have a little more income (and consume more products subject to VAT), but still falls below the poverty line. The fact is that everyone buys goods that have had VAT charged on them throughout the production process, even if the final retailer is not VAT-registered.

On a positive note, the training slides do state that regressivity of VAT can be reduced through rate differentiation and thresholds. Indeed, civil society recommends that authorities and governments continuously assess how far VAT exemptions and zero-ratings match the actual consumption patterns and needs of the poorest citizens, with a particular focus on the needs of women in poverty.[78]

The DRM training slides indicate that in the future, the EU may rely its policy advice on the IMF/World Bank Tax Policy Assessment Framework (TPAF), a diagnostic tool that is currently under development. This is slightly alarming in light of the criticism around the IMF's track record and policy positions on taxation, as explored in the Chapter 2.1. In particular, the draft VAT chapter of the TPAF was criticized by civil society for including very limited consideration of equality issues. It is key for the EU to ensure this tool includes progressivity components if the EU chooses to use it as the basis for its policy advice to developing countries.

b) Corporate Income Tax

Taxes paid by companies are a key source of revenue for governments, particularly in developing countries, which base a proportionally higher amount of tax revenue on corporations compared to total revenues.[79] CIT is widely considered to be a progressive tax.

In the ATI database, several EU projects in both years were centered around improving tax collection from the **extractive industry** (e.g. in Mongolia, Zambia, Guatemala and Zambia), and a few projects focused more specifically around **transfer pricing** (e.g. in Egypt and Rwanda). Both sectors are extremely important.

Securing tax collection in the extractive industry is essential considering that many poor countries are rich in mineral wealth, but most resources are syphoned off by foreign corporations, as well as by small local elites. Transfer pricing deserves great attention too, considering that transfer mispricing practices are used by companies to artificially shift the profits from countries to tax havens where they pay little or no tax. There are however additional areas related to CIT where EU projects could focus on.

Corporate tax revenues have been eroded in last decades by wasteful tax incentives, harmful tax practices and high level of tax dodging. Granting tax incentives to secure Foreign Direct Investment (FDI), resulted in lower effective tax rates for multinationals, even close to zero in many sub-Saharan African countries.[80] Among different types of tax incentives, tax holidays are the most popular, especially in the developing countries.[81] Between 1980 and 2005, the number of sub-Saharan African countries offering tax holidays to companies doubled from 40% to 80%. In East Asia and the Pacific, 92 percent of 12 countries adopted tax holiday or exemption, in Latin America and the Caribbean 88 percent of 25 countries.[82] Despite this massive diffusion, there is little evidence that such exemptions are necessary to attract investments, but they rather result in substantial losses.[83] For example, sub-Saharan African countries are estimated to be losing US$38.6 billion annually because of tax incentives.[84] Oxfam's and ECLAC's recent research estimates that the cost of corporate tax incentives in Latin America would be enough to increase health investment in the region by 50%.[85]

In addition to that, corporate tax dodging costs poor countries at least $100 billion every year. Among all profit shifted to tax havens it is estimated that close to 30% are subtracted from developing countries, while close to 15% of profit are shifted to tax havens in developing countries (compared to 30% of profits moved by multinationals to EU tax havens).[86]

Oxfam[87] estimated that company loans from selected tax havens to African countries amounted to over $80 billion. Amongst them, Mauritius was involved in a recent scandal known as *Mauritiusleaks*,[88] and it was responsible of $12 billion of profit shifting from other African countries. Mauritius is in the 14th position in the Corporate Tax Haven Index of the Tax Justice Network while it was completely removed from the EU list of non-cooperative jurisdictions in October 2019, not without criticism.[89] However, Mauritius benefited from a project from the EU on DRM in 2017 – although not significant in amount (less than USD 140,000) and content (IT supply).

An increase of corporate tax revenue requires to take into accounts several factors. Firstly, **a more cautious and transparent approach to tax incentives and secondly stronger actions against harmful tax practices and tax havens,** both outside and within the European borders. The EU can address them more explicitly and effectively in its DRM aid and through its Policy Coherence for Development.

c) Wealth tax

Wealth taxes have the potential to reduce inequality while raising revenue, but countries have often struggled to design and administer viable and politically palatable wealth taxes. Taxing the rich can be very difficult because of tax avoidance and political capture of the decision-making process by wealthiest individuals. It is estimated that 75% of the wealth of African multi-millionaires and billionaires is held offshore[90] and that the continent is losing $14 billion annually in uncollected tax revenues as a result.[91]

Wealth taxes are not explicitly targeted in the projects, with the exemption of a project on property taxes.[92] It is a project focused on the enhancement of the cadastral system of the Department of Land and Survey in Jordan in 2016 (around USD 310.000 disbursed). Therefore, it addresses property taxes not from a policy dialogue perspective, but from an administration one. Property taxes are known for being difficult to avoid or evade, they can be a fairly stable and predictable source of revenue and are less likely to distort local economies. Yet it must be stressed that there is a need for proper design of the tax in order for it to be progressive i.e. by introducing thresholds for when a property is taxable, which can ensure that the poor and marginalised in society are not liable.[93]

Other kind of wealth taxes, such as inheritance taxes or taxes on capital gain, are not mentioned in any project.

d) Informal sector tax

Documents related to some of the projects,[94] included indications that the EU supported projects that would also address taxation of the **informal sector**. This aspect deserves attention too. In most developing countries, the majority of people working in the informal sector come from marginalised groups. They mainly end up in the informal sector because of the absence of viable alternatives.[95] A common type of local taxation of the informal sector in countries that affects poor people is market taxes and fees levied on market stallholders. They tend to be based on very general estimates and are commonly flat rated, which usually results in regressive outcomes. In addition, because a higher proportion of women than men work in the informal sector, taxes on the informal sector affect women disproportionately.[96] For example, taxes on market traders affect women unfairly in places where the majority of these traders are women, such as sub-Saharan Africa.[97] Therefore, **taxation of the informal sector risks being highly income and gender regressive**. It is crucial to ensure that taxes and other levies on the informal sector are designed and applied in a way that does not perpetuate economic and gender inequalities.

To conclude, this preliminary analysis of progressivity of taxation in EU DRM projects shows first of all a lack of explicit reference to progressivity in projects' description. Secondly, there's a lack of information on specific types of tax implemented in the projects and their impact on gender inequality. From the limited information available on specific revenue streams, there are three main findings: the potential regressive impact of VAT and informal sector tax remained rather unconsidered; CIT, as progressive tax, is mentioned in reference to the extractive sector and transfer pricing projects, but there is no mention of harmful tax practices and incentives; other kind of progressive tax, i.e. wealth taxes, are almost absent.

On a side note, to increase the relative contribution of wealth taxes and CIT in partner countries' revenue, it is essential to tackle tax dodging globally. This could be done through greater beneficial ownership and company reporting; addressing harmful corporate tax practices in and outside the EU; and by assuring equal footing in bilateral tax treaties and international tax negotiations.

2.3 Inclusiveness and local empowerment

The role of civil society, academia and journalism

The involvement of civil society organisations in DRM projects is key to bring citizens' voice, increase the citizen-state trust and the accountability of the fiscal system. Moreover, CSOs tend to support fairer and more progressive tax systems because they represent the more vulnerable parts of societies that do not always have tools and space to be heard. In this way, stronger civic space and engagement could rebalance the decision-making progress on tax matters and at the same time challenge political elite capture. A study of the Overseas Development Institute[98] indicates that business associations generally pursue tax reforms relevant to them, whereas NGOs and think thanks tend to focus on fair and progressive tax systems.

In addition to CSOs, academia and journalists are also important to strengthen accountability in public finance since they contribute to valuable research, surveys and data collection and they can reduce the information gap between citizens and tax issues.

For many years, the EU has stressed the importance of civil society as a key development actor. In its 2012 Communication about Europe's engagement with civil society in external relations, the EU highlighted that "an empowered civil society is a crucial component of any democratic system", that CSOs contribute to "building more accountable and legitimate states" and that "the participation of CSOs in policy processes is key to ensuring inclusive and effective policies".[99] The European Commission has also publicly stated the important role of civil society in improving transparency and accountability specifically when it comes to DRM.

Nevertheless, **direct support to NGOs in DRM projects decreased** from 4 % in of the EU's budget for DRM in 2016 to 1% in 2017 (see chart "Who did the money go to?" in Chapter 2.1), despite various EU statements on the importance of CSO involvement in development cooperation and ATI DRM database reporting. Moreover, when looking at the descriptions, only 14% and 15% of projects in 2017 and 2016 respectively seem to have involved citizens or civil society organisations. In addition, none of the projects in 2016 and 2017 seem to have been led by academia or journalists. It is important to recall that the analysis is based on the actual funds disbursed for CSOs in DRM projects, and does not take into account any involvement of CSOs in the programming, designing or monitoring of the projects, that could also have occurred.

Considering the EU's recognition of the important role that civil society organisations, academia and journalists play in the process of accountability on DRM and tax, it is striking that the EU provides so little support to initiatives led by them. The Busan aid effectiveness partnership agreement clearly identifies *inclusive partnerships* as a key principle for effective development aid, because of the "different and complementary role" that civil society actors play in development.[100]

According to official reporting, all ATI donors have struggled to effectively support DRM work of national CSOs, academia and journalists.[101] However it is important to note that some EU Member States, such as Denmark, Finland, Sweden and Norway have set a much better example as they increasingly promote tax policy awareness by providing finance and other forms of assistance to relevant parts of civil society.[102]

Of course, there are key capacity barriers to CSO involvement in technical issues such as taxation, but rather than accepting these barriers and therefore a limited CSO engagement on DRM as the standard, the EU should more proactively take steps to support CSOs capacity-building on tax and DRM as a whole. It should be said that in its 2017 notes on engagement with civil society,[103] the EU recognises capacity constraints faced by local CSOs and highlights the need for more capacity development efforts targeting formal and informal networking of civil society alliances and platforms. Back in 2012, the Commission had committed to prioritise increasing local CSOs' capacity to perform their roles as independent development actors more effectively.[104] On DRM however, the analysis of projects in 2016 and 2017 shows that, while some involved citizen engagement and awareness, **very few projects actually strived for CSO capacity building** or CSO program support for DRM, tax and budget-tracking. Whether this poor performance on CSO capacity-building and CSO-led initiatives is limited to tax and DRM, is unclear. In a recent CONCORD survey investigating EU delegations' engagement with CSO's in partner countries, respondents generally indicated that much needs to be improved, particularly as regards meeting the needs of small, local CSOs (76% find this support poor or average), EU capacity-building initiatives (67%) and EU support for CSO-led initiatives (64 %).[105]

That being said, the EU has already supported some interesting initiatives involving CSOs and tax. Besides development aid, the EU led a series of capacity-building workshops for CSOs across Europe on the issue of tax justice, in the form of "Fair Taxation Seminars".[106] In aid towards DRM, some promising projects involving civil society were reported in 2016 and 2017, besides those focusing on fairness as already mentioned in the previous chapter.

For example, in 2017 the EU supported a project in Guatemala that focused on transparency in the taxation of extractive industries, led by the think tank Central American Institute for Fiscal Studies (ICEFI) and Oxfam Guatemala through Oxfam Denmark (Oxfam Ibis). USD 20.000 was disbursed in 2017, though the EU-funded project was initiated in 2013 and ended in 2016, with various activities taking place in 2015 and 2016 including seminars and a research report and further specific initiatives on taxation in 2017.

If we look at citizen's involvement outside the scope of CSOs, there are two initiatives aiming to understand the relationship between taxpayers and taxes. In 2017, the EU disbursed almost USD 50.000 to the authorities in Costa Rica for a study about citizen's perceptions on tax issues. Similarly, in 2016 and 2017, the EU supported a Taxpayer Awareness Campaign in Palestine.[107]

COUNTRY FOCUS:
Palestine

In 2016 and 2017 the EU funded a Taxpayer Awareness Campaign in Palestine, for a value of almost USD 627.000, including a survey of 1.800 Palestinians to understand their attitudes towards taxes. An initial official evaluation document[108] shows that the project encountered delays and, according to the Palestinian Directorate of Customs and Taxes, did not meet the priorities such as the modernisation of laws and online systems. However the final report, not publicly available but provided by the European Commission, recognizes the success of the process "in terms of revenue increase and improvement of satisfaction of taxpayers with the Ministry of Finance and Planning (MoFP) services as well as with the identification of MoFP as responsible collector of targeted taxes in the campaigns and knowledge about taxation".[109] Overall, the initiative is in line with the recommendation of the Oxfam Fair Tax Monitor in Palestine,[110] that advises tax administration to allocate resources to improve public awareness of tax evasion and avoidance. However, the involvement of citizens could go further towards an effective community participation in developing the general budget and access the data. The same Oxfam analysis shows a need to expand community participation, in order to increase confidence in the tax departments, to encourage taxpayers to cooperate and file accurate tax returns, and to reduce incidences of tax evasion. Concerning the survey, these initiatives are critical to better understanding and challenges of tax morale, especially if the findings inform DRM reform efforts and how development partners, like the EU, determine priorities.

As a conclusion, considering the small proportion of projects directly and indirectly involving CSOs, and the lack of projects led by academia and journalists, there is significant room for improvement. Notably, support for CSO capacity building should be increased, since this has a key role in enabling inclusiveness, accountability and tax fairness.

Both ActionAid and Oxfam are directly working on DRM in different countries and regions. In the annex, a selection of the CSOs' projects on DRM is provided, to show how CSOs are addressing fairness, inclusiveness and local empowerment on the ground.

Decentralisation

Involvement of local actors can increase accountability and effectiveness of tax collection. Research from the International Centre for Tax and Development (ICTD) finds increasing evidence that local taxation "can serve as an important, even if modest source of revenue for financing basic local initiatives" and "provide incentives for citizens to demand accountability".[111] Investments in local tax authorities can increase the possibilities for communities to interact and monitor, making in turn public officials more accountable. At local level, it would be more convenient for citizens to directly link the need of increased tax collection with the benefits of investments in local services. This could increase tax morale if resources are actually spent on improving citizens' lives. Additionally, local authorities can be key actors in collecting property tax. This form of taxation is referred to as the 'missing tax' in developing countries since it is underutilised and could be progressive if properly designed.

That said, central taxation is still key and can accomplish the important task of redistributing resources between richer and poorer municipalities.

Most EU-funded DRM projects focused on central tax administrations and central tax policies. Only 7% of projects in 2017 and10% of projects in 2016 seem to have had a local or municipal focus, amounting to 5.8% and 4.8% of total disbursements in those years respectively.[112] For 2017, this is fairly consistent with disbursements from all ATI donors towards sub-national projects, which amounted to 5.3% of total DRM aid that year. However, that represented a considerable decrease from 2016, in which ATI donors had disbursed 10.8% towards projects with a local focus.

COUNTRY FOCUS: **Nigeria**

In 2017 the EU supported public resource management in six states in Nigeria with an amount of USD 2,8 million, with the aim of improving the quality of management of local tax authorities.

According to the Oxfam Fair Tax Monitor in Nigeria,[113] the Nigerian tax system suffers, among other things, of high levels of corruption, especially in the management of tax exemptions, and poor accountability for tax revenue collection and expenditure. These issues coupled with low tax morale and a lack of sense of civic responsibility amongst taxpayers, cause high levels of tax evasion and avoidance, which remain the greatest problems plaguing tax administration in Nigeria. Investing in local tax authorities, as the EU project aims to do, could be a good solution to increase levels of accountability– and improve the attitude of citizens towards tax authorities and taxation.

COUNTRY FOCUS: **Honduras**

In 2016 and 2017, the EU disbursed over USD 100.000 to the Association of Municipalities in Honduras,[114] to strengthen the capacity of local governments on fiscal efforts and tax management. The association in question is a non-profit civil entity made up of 298 mayors representing their municipality. The project was targeted specifically at supporting operations promoting an inclusive and empowered society, and in the Indicative Programme 2014-2020,[115] this activity was classified under the axis of EU support for rule of law with regards to accountability and democratic participation of citizens. Positively, the programme explicitly states that all activities in this area will be conducted paying special attention to vulnerable groups (including ethnic minorities, rural populations and women). Although little information was available on specific DRM and tax activities, there is an indication that the focus was placed on capacity building of local staff and to direct public spending towards the poorest communities within the scope of the project.[116]

Considering the small percentage of aid going to local or municipal focus, the EU could invest more in the governance of decentralization and the capacity of subnational governments and local accountability stakeholders in order to increase accountability and effectiveness of tax collection.

3. CONCLUSIONS AND RECOMMENDATIONS TO THE EU

As the largest donor on domestic revenue mobilisation, the EU can play a significant role in supporting developing countries' efforts towards fairer and more accountable taxation, while at the same time safeguarding regional and country ownership. As highlighted throughout this paper, the EU is excelling in some areas compared to other DRM donors, though available information indicates there is clear room for improvement in various ways, particularly when it comes to the EU's support for fairness in taxation.

The following recommendations intend to offer a constructive contribution to improve EU DRM in view of the new European Commission development cooperation programming and the next Multi-annual Financial Framework of the EU. We also believe that the EU, as member of the ATI, the global multi-stakeholders partnership on DRM, is in a position to raise the bar of DRM support among donor countries and institutions and champion a stronger country-ownership, fairness component, CSOs involvement and local empowerment in DRM projects.

With this in mind, ActionAid and Oxfam propose the following recommendations:

On transparency of information on EU DRM projects:

- Make available and regularly update more detailed information about DRM projects supported by the EU, including at least summaries of evaluations of these projects, and the primary indicators used to measure progress and success.
- Provide more details on how fairness considerations are implemented in EU projects on DRM, particularly when equality is mentioned in the ongoing reporting as being one of the project objectives.
- Provide regular information about the impact of EU-supported projects on human rights, and on inequality in particular. This is especially needed for projects implemented by multilateral donors.
- End discrepancies in the EU's reporting to OECD DAC and to ATI, asking for an alignment of the implementation of the DRM code by OECD and ATI, if necessary. The only differences should be qualitative – for example, providing more information on project descriptions and indicators.

On quantity and geographical distribution of DRM:

- Continue to increase the support to DRM, keeping the pace with the commitment to double DRM support by 2020 and raising the bar of DRM quantity among ATI development partners.
- Restore DRM support to High Middle-Income Countries, where DRM projects are central to contribute to strengthen governance, public services, and the role of civil society actors in a participative democracy.

On region and country ownership:

- Continue delivering majority of aid through bilateral projects directly with partner countries, in order to enable country-ownership of DRM
- Increase the support for regional organizations in order to strengthen "South-South" capacity and technical cooperation
- Adopt a specific approach in DRM support for High Middle-Income Countries. In such countries and regions, aid to DRM projects should aim at innovating mechanisms to facilitate south-south learning and ownership, triangular cooperation, civil society participation and ownership

On DRM and fairness:

- Promote progressive and effective tax systems while respecting partner countries' policy space in this regard, including an increased use of

wealth taxes, like property and inheritance taxes, and a more cautious and transparent use of tax incentives which are based on clear, evidence-based economic, social and environmental impact assessments.
- In assessments of national tax policies, include analyses of potential impacts not only on revenue generation, but also on economic and gender inequalities. This is relevant for all kinds of taxes but is especially needed with regards to the typically regressive taxes such as VAT and taxation of the informal sector.
- Include a gender component in DRM projects, that takes into account the potential explicit and implicit gender biases of each tax.[117]
- Prioritize fairness and the impact on reducing inequality as criteria to select projects and allocate funds and as measurement of success in DRM, rather than quantity of revenues alone.

On inclusiveness, the role of CSOs and local empowerment of DRM:

- Increase support and scale up capacity-building for civil society, journalists and academia in partner countries.
- Consider investing more in decentralisation in order to increase accountability and effectiveness of tax collection.
- Ensure transparency and stakeholder consultation and effective participation on the allocations of EU funds for DRM support.
- Include a direct or indirect CSO component in all DRM projects, considering the essential role of CSOs, including trade unions and journalists, to strengthen democratic accountability and the social contract.

On EU delegations:

- Ensure that EU delegations adopt a systematic approach to engaging with civil society organisations on DRM issues, as a part of their work with CSOs (including through the CSO Roadmaps where applicable).
- Build capacity of EU delegations on progressive taxation, e.g. by adding a training session on tax and inequalities in the context of the existing DRM training for EU delegation staff.

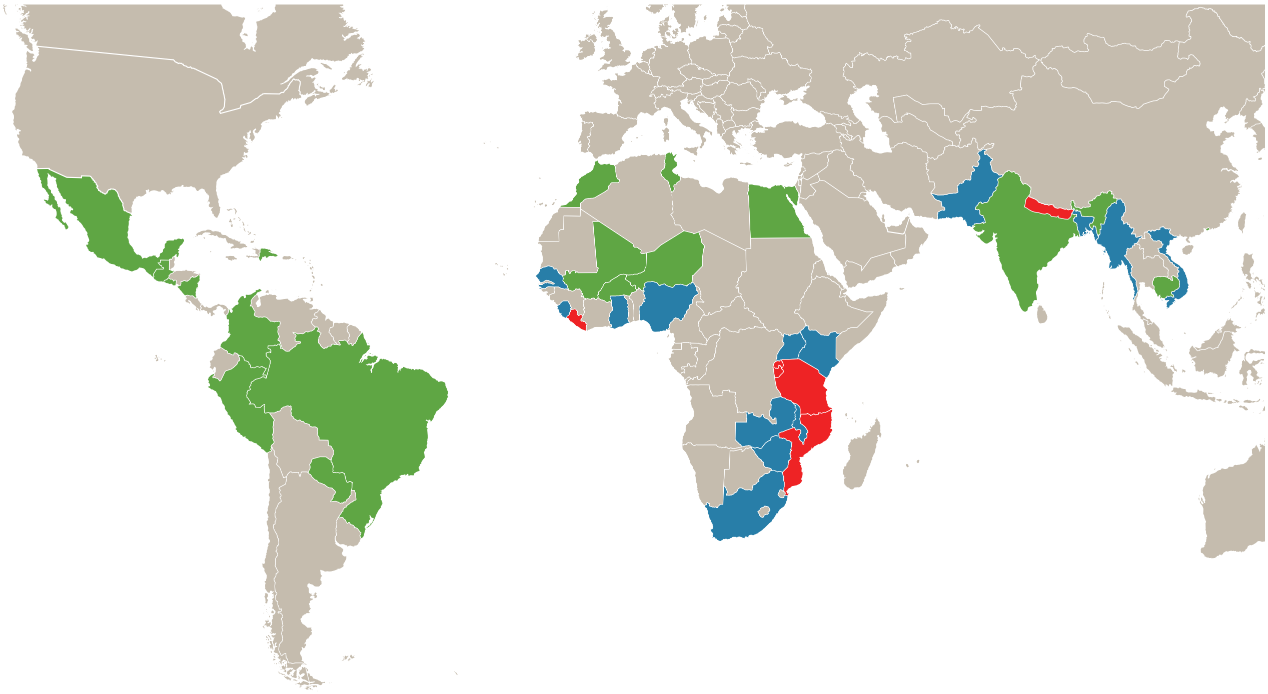
On EU and Member States' role in multilateral donor institutions:

- Ensure that joint programmes are aligned with the EU's commitments to promoting progressive taxation.
- Develop a common EU message on the need to reform the IMF's tax policy advice to countries, systematically introducing gender impact analyses and moving away from an overreliance on regressive taxes towards a more progressive, gender-just approach to tax.

On Policy Coherence for Development and the international tax system:

- Strengthen EU's policy coherence for development in relation to DRM. In particular by addressing harmful tax practices within the EU, improving the EU blacklist of tax havens, increasing commitments to financial transparency such as the public Country by Country Reporting, and conducting spillover analysis of EU and Member States taxation policies on developing countries.
- Encourage a full equal representation and participation of developing countries in global tax reforms that should lead to a fairer distribution of taxing rights and the introduction of an ambitious Minimum Effective Tax Rate, including at the OECD Inclusive Framework level.
- Support the creation of a global tax body under the auspices of the UN with the mandate and resources to effectively develop and enforce global tax reforms with the participation of all countries on an equal footing.

ANNEX 1. ACTIONAID AND OXFAM'S PROJECTS ON TAX IN THE GLOBAL SOUTH



- **Oxfam projects:** Dominican Republic, Guatemala, Colombia, El Salvador, Peru, Paraguay, Nicaragua, Brazil, Mexico, Burkina Faso, Mali, Niger, Tunisia, Morocco, Palestine (OPTI), Cambodia, India, Solomon Islands, Hong Kong and Egypt
- **ActionAid projects:** Burundi, Mozambique, Nepal, Tanzania, Rwanda, Liberia
- **Oxfam/ActionAid projects:** Bangladesh, Ghana, Kenya, Malawi, Myanmar, Nigeria, Senegal, Sierra Leone, Uganda, Vietnam, Zambia, Zimbabwe, Pakistan, South Africa

ActionAid DRM projects

Bangladesh – Citizens' Tax Tribunals

In November 2018, ActionAid Bangladesh organised a Citizens' Tax Tribunal in Dhaka. The tribunal aimed to provide a platform for people to express their grievances about the burden of VAT and corporate tax avoidance. In Bangladesh, there is a provision in the tax law for ensuring access to justice to taxpayers through the Taxes Appellate Tribunal. However, people do not always fall within the formal personal income tax system, making it difficult for them to express their complaints through this Tribunal. Nevertheless, they contribute significantly through indirect taxes.

The Citizens' Tax Tribunal was held in November 2018 and was divided into two hearings - the first hearing looked at the implications of VAT for workers, students, people living in slums and cities, while the second one looked at the impact of corporate tax avoidance. At the same time, to raise more public awareness, ActionAid started a journalist fellowship programme in Bangladesh, so that nine journalists could write on tax issues in the period leading up to the hearings. The tribunals created a forum for people living in Bangladesh to talk freely about tax issues. Some of those who took part are now working together to fight injustice in the tax system, supported by ActionAid Bangladesh.

Pakistan – Tax pays for schools

In Pakistan, to raise awareness about the right to education and tax justice, ActionAid organised community meetings in ten villages in the Thatta district, which is located in the southern area of the province Sindh, reaching over 300 community members. The meetings focused on the links between those two issues, highlighting that education is a right and is funded through the collection of taxes. The project included also a training of 200 school management committee members on how to develop effective improvement plans and the support to the development of those plans in 20 schools. This was important for the sustainability of the project and to empower the community to own the ongoing project and its results.

Through these trainings and meetings, community members acquired awareness on how much they paid in tax, and how little they got in return. One community even started calculating the amount of sales tax they paid and found that the community, consisting of 680 families, pays around US$300,000 in indirect taxes each year. This motivated them to approach a local politician and demand their right to an education in a safe environment. As a result, the local government approved US$16,244 for repairing a school in the area so that children could be educated in a safe building. Overall, local citizens are now more aware of the taxes they pay and the link to public services. In this way they are much better equipped to claim their rights to education.

Burundi – Campaigning for a more progressive tax system

Burundi is one of the poorest countries in the world and as a result of the global economic crash, a fall in commodity prices and the political crisis of 2015, the situation has only worsened. In this context, ActionAid Burundi launched a study on DRM. The study was led by a former finance minister, who knew the sector well and could access reliable and recent data. The study highlighted the consequences of tax dodging and proposed ways of improving tax collection and management and demonstrated the unfairness of Burundi's tax system, in which 73% of government revenue comes from VAT and personal income taxes. After an initially cautious reaction, the government started to denounce tax dodging by companies and threatened sanctions. In this more favourable setting, renewed dialogue has led to the government deciding to scale up more progressive taxes on property and fuel. The Burundian Revenue Authority, a semi-independent government service, began to take measures to pay back taxes on diverted exemptions that were granted to private business companies.

Mozambique – Interactive tools to raise awareness on taxation

In late July 2019, ActionAid Mozambique and the Transparency and Fiscal Justice Coalition crossed the country in a caravan from Maputo Province to Zambézia Province and from Cabo Delgado Province to Zambézia. Wherever the caravan went, they spoke to citizens and students to raise awareness about the importance of taxes at local and national levels, as a key financing tool towards quality public services.

The caravan tour included multiple events, including talks about DRM, tax justice and transparency in the allocation of public finance. To increase interaction and inclusiveness, they included theatre plays, songs, art, and public debates into the talks. Furthermore, ActionAid also marched through the streets of Mozambique together with citizens. As part of this journey, the coalition also met with local governments to present citizens' demands for a progressive tax system that is gender responsive. More information can be found in this 9-min video: https://www.youtube.com/watch?v=Oo1MCGpnlvE.

Malawi – Community ownership through local tax discussions

Throughout 2018, ActionAid Malawi established 10 *Reflection-Action Circles* in the Mzimba District, which each gathered around 20 citizens to discuss tax justice issues. Within these circles, community members were invited to identify the topic they find most relevant, for example how taxation affects public service delivery. Once the topic was agreed on, the facilitator talked them through the issue. Community ownership was ensured since it was local community members deciding on the topic that was most relevant to them.

Building on these Reflection Action Circles, members organised campaigns or meetings with local government leaders or with Members of Parliament. In one case this led to members of a local Reflection Action Circle participating in the planning of the annual budget of their local government. Together with youth activists and women groups, local communities have also led awareness campaigns on illicit financial flows. As a result, the demand for greater transparency and a review of policies and laws that facilitate a regressive tax system increased significantly. ActionAid Malawi also trained 15 facilitators on tax justice, illicit financial flows, council local revenue and different types of taxes. In that way, facilitators could moderate the Reflection Action Circles themselves when the ActionAid project had ended.

Oxfam DRM Projects

Vietnam – Active citizenship in budget processes

Oxfam's team in Vietnam has worked to promote transparency and accountability in budget processes by increasing citizens' participation, and especially women's participation. The fiscal decentralization process taking place in Vietnam offers opportunities to engage with local governments. Oxfam has also increasingly become an influencing actor by promoting coalition-building and multi-stakeholder dialogues, and by demonstrating its credibility on technical issues such as tax incentives. The Fiscal Accountability for Inequality Reduction–Even It Up (FAIR-EIU) programme in Vietnam is an excellent example of work on both the tax and budget sides of the fiscal system that puts active citizenship at its heart.

Within this program, women groups started to organise themselves around different budget issues and to engage in dialogue with local governments, which has resulted in greater budget allocations to local infrastructure. Moreover, they contributed to the expansion of the scope of the existing social security (credit) programme to poorer parts of the community. Thanks to the project, the government also introduced a regulation in Decree 20 which requires MNCs to adopt CbCR and submit reports directly to the Vietnamese Tax Bureau.

Sierra Leone – Building transfer pricing capabilities through multi stakeholder dialogue

To increase spending, the new government had identified increased domestic revenue mobilization as one of its key objectives. To this end, the Sierra Leone National Revenue Authority (SLNRA), along with Oxfam, conceived a program to build the transfer pricing capabilities of the country, in partnership with ATAF.

The program, that has just started, will first deliver a comprehensive transfer pricing legislation that meets international standards and develop national technical capacities to implement the legislation. It is expected that Sierra Leone will improve its capacity to counter cross-border tax avoidance and collect the appropriate amount of taxes. Secondly, Oxfam aims to empower civil society so they can push governments to demand multinational corporations to pay their fair share of taxes. To this end, Oxfam will organise a multi stakeholder dialogue between the government, the private sector, experts and civil society and will support the training of CSOs on transfer pricing, so they can better participate in tax dialogue to hold governments accountable.

Guatemala and Central America – innovative platforms changing the terms of the public debate

In 2017, Oxfam and the Central American Institute for Fiscal Studies (ICEFI) together with coalitions in three countries, took the debate on inequality to a new level in a context where tax justice is extremely difficult and sometimes dangerous to bring up. Based on capacity development of national CSO platforms in Guatemala, Honduras and El Salvador, Oxfam and ICEFI enabled the platforms to actively engage in public debate on fiscal justice.

In the specific case of Guatemala, ICEFI is part of the movement *Paraíso Desigual* (the Unequal Paradise), a platform of 8 civil society partners including different types of organisations including local CSOs, the media, youth and women's organisations and research institutions. The platform addresses the extreme inequality in Guatemala based on research, videos on inequality, and through policy advocacy and social media campaigns. With support from Oxfam, the platform launched a research report on inequality in 2017, following a series of public meetings all over the country. The debate expanded to social networks and engaged a wide range of stakeholders, including government and private sector representatives. The initiative not only re-established a public debate on social investments in Guatemala, but it also led to a change in the debate, where it was suddenly possible to discuss tax justice and redistribution of wealth.

Ghana – Citizen engagement to improve transparency

In Ghana, Oxfam has been at the forefront of efforts to engage citizens, civil society, and global institutions to get the country's public finance management back on track. The levels of transparency and accountability in the government were low, due to the absence of a Right to Information Bill and several cases of alleged corruption involving public funds. Since 2015, Oxfam's intervention has focused on influencing international financial institutions and the Ghanaian government, with a strong emphasis on citizen engagement.

The efforts have brought important results: 1) In August 2016, a new Public Finance Management Bill passed in Ghana, which improved transparency and accountability; 2) the Petroleum Exploration & Production Bill also passed, which enhanced provisions for transparency and accountability; 3) The Civil Society Platform on the IMF Bailout was transformed into the Economic Governance Platform, through which civil society organisations could now focus more broadly on economic governance issues in Ghana, which include public finance management and anticorruption. In this way, the platform evolved from being a single-issue platform into a more permanent structure through which civil society can funnel its influencing and advocacy efforts towards the government. 4) The government enacted a Fiscal Responsibility Law 2018 (Act 982) and subsequently established a Fiscal Responsibility Advisory Council and a Financial Stability Advisory Council to help address fiscal recklessness in the public financial management system. (5) Local tax collection has increased by an average of 17.3% for the last five years.

Kenya- Citizen engagement to enhance government accountability

From 2014 to 2018, Kenya was part of a multi-country project funded by the Ministry of Foreign Affairs of Finland to accommodate the need for a more progressive and transparent and accountable tax and expenditure regime that contributes to reducing economic inequality. The project focuses on tax, extractives revenues, gender responsive budgeting and social accountability. By raising citizen's awareness, it has successfully enhanced social accountability and the space for citizens to engage in governance. This initial project has been complemented by another DRM project focusing on CSOs' capacity building and transparent financial management that reached 10,000 people directly and 1.2 million people through social media.

These initiatives stressed on the one hand the importance of community engagement and on the other hand the need to invest in government capacity to respond to these demands. To this end, Oxfam Kenya works with national and sub-national CSOs, including NGOs, religious institutions, community based organizations and coalitions. They have also supported government committees, County Governments and the Revenue Authority to strengthen the delivery of healthcare services and citizen engagement in governance processes.

ANNEX 2. INDICATORS AND TOOLS TO MEASURE INEQUALITY

The fair tax monitor

Oxfam and Tax Justice Network Africa elaborated the Fair Tax Monitor,[118] an evidence-based advocacy tool that makes it possible to identify the main bottlenecks in national tax systems in order to achieve better fairness. The tool considers six categories: progressivity of tax system, sufficiency of revenues, effectiveness of tax administration, pro-poor public spending, accountability of public finances and well governed tax exemptions. Since 2015, the tool has been implemented in eleven countries (Bangladesh, Cambodia, Mali, Nigeria, Occupied Palestinian Territories, Pakistan, Senegal, Uganda, Tunisia, , OPT, Uganda, Vietnam and Zambia) allowing a comparison across countries, but other national implementations are currently being run and planned, including in cooperation with ActionAid.

The commitment to reduce inequality index

The Commitment to Reduce Inequality Index (CRII) is a global ranking of governments based on what they are doing to tackle the inequality gap. It was elaborated by Oxfam and Development Finance International since 2017. In the 2018 edition, the index ranked 157 countries for their policy performance on social spending, progressive taxation and labour rights – three areas found to be critical in reducing inequality.[119] The progressivity of tax is based on 4 macro-indicators: progressivity of tax, incidence of tax on inequality, tax collection and harmful tax practices.

Looking at the performance of countries in reducing inequality through progressive taxation, eight of the thirty most inequalitarian countries on tax pillar, have been beneficiaries of EU DRM in 2016 and 2017 (Guinea, Sierra Leone, Niger, Central African Republic, Serbia, Mauritius, Moldova and Chad). Among the projects in these eight countries, just three of them (two in Mongolia and one in Guinea in 2016) have a fairness component, though this relates only to mentions of equitable or inclusive growth, as expanded in the "Fairness component" section.

The multidimensional inequality framework

The Multidimensional Inequality Framework (MIF)[120] provides a systematic approach to measuring and analysing inequalities, and for identifying causes and potential solutions. It has been developed by the London School of Economics, the School of Oriental and African Studies (SOAS), and practitioners in Oxfam. The MIF has been piloted in Guatemala and Spain and is currently being tested in other projects at national (Vietnam and Burkina Faso), regional (Central America and West Africa) and local level (in Andalucía and in the Basque Country in Spain).

Endnotes

1. In the jargon of the international development community, DRM means Domestic Resource Mobilization, and generally refers to the public and private resources in a country that can be used to finance development. It has many faces, which can include “unlocking” public revenues (by reducing subsidies, for example); establishing stronger public procurement processes; enhancing domestic savings; or even tailoring bank capital rules to better fit domestic banking needs in developing countries. However, the most common and significant means of domestic resource mobilization is the collection of tax and non-tax revenues. When citizens are empowered to hold governments accountable for how revenues are collected and allocated, Domestic “Revenue” Mobilization (DRM) is the optimal source of development finance. Thus, as the focus of this analysis, DRM refers to domestic revenue mobilization.

2. See https://www.addistaxinitiative.net/data-sources-and-disclaimer

3. As of February 2020, the latest data in the ATI website refers to 2017 disbursements

4. European Commission 2015 Staff Working Document Collect more – Spend Better - Achieving Development In An Inclusive And Sustainable Way

5. European Commission, 2019, Reflection Paper, Towards a Sustainable Europe by 2030

6. European Commission, 2019, Staff Working Document, ‘Implementation of the new European Consensus on Development – Addressing inequality in Partner Countriespartner countries’

7. According to UNU-WIDER, in 2015 the revenue/GDP ratio in was 14% in low income countries, 24% in lower-middle income countries, 27% in upper-middle income countries and 38% in high income countries.

8. Oxfam, 2019, It’s Not All About The Money - Domestic Revenue Mobilization, Reducing Inequality and Building Trust With Citizens

9. EU, 2017, Tax Justice for Development - Tackling Spillovers and Incentives s

10. For an overview see ActionAid, 2019, Collect more - and more fairly? The European Commission’s support for domestic resource mobilisation in developing countries

11. EU, 2017, ‘The New European Consensus on Development ‘Our World, Our Dignity, Our Future ’ ’

12. European Commission, 2018, Budget Support: Trends and Results 2018

13. European Commission, 2016, Communication on an External Strategy for Effective Taxation

14. European Commission, 2015, Staff Working Document Collect more – Spend Better - Achieving Development In An Inclusive And Sustainable Way

15. European Commission, 2019, Staff Working Document Implementation of the new European Consensus on Development – Addressing inequality in partner countries

16. Oxfam, 2018, Doubling Down on DRM? - Are We Making the Right Bets? f

17. ActionAid, 2019, Collect more - and more fairly? The European Commission’s support for domestic resource mobilisation in developing countries

18. Busan Partnership Agreement on aid effectiveness principles, 2011, http://effectivecooperation.org/about/principles/

19. ActionAid, 2019, Collect more - and more fairly? the European Commission’s support for domestic resource mobilisation in developing countries and Oxfam, 2019, It’s not all about the money - Domestic revenue mobilization, reducing inequality and building trust with citizens

20. See https://www.addistaxinitiative.net/data-sources-and-disclaimer Data from 2015 and 2016 refers to an updated database provided to Oxfam and Action Aid. It is the same database the ATI Monitoring Report 2017 refers to.

21. As of February 2020, the latest data in the ATI website refers to 2017 disbursements.

22. ActionAid, 2019, Collect more - and more fairly? The European Commission’s support for domestic resource mobilisation in developing countries

23. According to the OECD DAC database the disbursement of Official Development Assistance in Domestic Revenue Mobilization by EU institutions in 2016 and 2017 was USD 20 and 14.,2 million $ respectively, that compared with the ATI data (USD 52.,6 and 69.,5 million $), results in a difference of USD 32.,5 and 55.,2 million $ in 2016 and 2017 respectively. Discrepancies in commitments are even higher: USD 7.,9 million $ commitment in 2016 according to the OECD DAC, against USD 74.,5 million declared to ATI, and USD 30.,4 million $ in 2017 according to the OECD DAC against USD 101.,1 million $ declared to ATI. https://stats.oecd.org/Index.aspx?DataSetCode=CRS1

24. The OECD DAC only introduced a DRM code in 2016 and it was not possible for countries to report using it for projects being rolled that same year. Moreover, in the OECD DAC reporting, multiple coding is allowed, but limited, and sometimes DRM code is not flagged since it is not the prevalent code.

25. EU, 2017, The New European Consensus on Development ‘Our World, Our Dignity, Our Future’

26. European Commission, 2019, Reflection Paper Towards a Sustainable Europe by 2030

27. See https://iatistandard.org/en/

28. European Commission, 2019, Staff Working Document, 2019 EU report on Policy Coherence for Development

29. ActionAid, 2019, Collect more - and more fairly? the European Commission's support for domestic resource mobilisation in developing countries and Oxfam, 2019, Off the hook

30. A. Alstadsaeter, J. Niels and G. Zucman, 2017, Tax Evasion and Inequality

31. Oxfam identified five Member States (Cyprus, Ireland, Luxembourg, Malta and Netherland) as tax havens, according to the criteria of the EU list of non-cooperative jurisdictions. EU Member States are not included in the EU screening process. In March 2019 in the "TAX 3 Special Committee Report", the European Parliament has called on the European Commission to formally recognize these five EU member states as tax havens. For further information see Oxfam, 2019, Off the hook And European Parliament, 2019, REPORT on financial crimes, tax evasion and tax avoidance

32. As already requested by the European Parliament in 2015 and by CONCORD in 2019: European Parliament, 2015, Tax avoidance and tax evasion as challenges in developing countries and CONCORD,2019, How Will You Work For Sustainable Development? A Litmus Test For Eu Leaders

33. ATI, 2017, ATI Monitoring Report 2017

34. In a paper to be released soon, Oxfam recognises the need to review the role of aid in MIC, the so-called "development in transition" approach. These countries suffer from several "middle income traps". These traps are fueling inequalities and social discontent. International Aid, and aid to DRM programs have a critical role to play in innovating mechanisms to strengthen the role of institutions and civil society participation. See coming paper Oxfam, 2020 "Las Encrucijadas de la Renta Media en América Latina y el Caribe y las oportunidades del Desarrollo en Transición y la Agenda 2030"

35. J-F. Brun and M. Diakité, 2016, Tax Potential and Tax Effort: An Empirical Estimation for Non-Resource Tax Revenue and VAT's Revenue.

36. R. F. Junquera-Varela, M. Verhoeven, G. P. Shukla, B. Haven, R. Awasthi, and B. Moreno-Dodson, 2017, Strengthening Domestic Revenue Mobilization: Moving from Theory to Practice in Low and Middle-Income Countries. Washington, DC: World Bank.

37. ECA, 2016, The use of budget support to improve domestic revenue mobilisation in sub-Saharan Africa, European Commission's reply

38. While the entries made by the European Commission in the ATI DRM Database were taken as a basis, an attempt was made to clarify the project driver in cases where this information was not directly indicated (i.e. the "Channel" column in the database was left blank). The graph indicates project drivers as per this assessment.

39. Oxfam, 2018, Doubling Down on DRM? - Are We Making the Right Bets?

40. Some of the EU-financed projects led by multilateral institutions like the OECD are thought to benefit regional actors indirectly. However, projects linked to regional organisations should ideally be led by the organisations themselves, allowing them to set their own priorities.

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42. http://www.eastafritac.org/

43. http://www.afritaccentre.org/

44. See DEVTECH, 2019, East AFRITAC Phase IV Independent Midterm Evaluation

45. See also ActionAid, 2019, Collect more - and more fairly? The European Commission's support for domestic resource mobilisation in developing countries

46. 2019 Report of the UN Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Juan Pablo Bohoslavsky: UN, 2019, various CSOs, 2019, Declaration Of Civil Society Organisations At The World Bank And International Monetary Fund Annual Meetings In Light Of The Impacts Of Austerity Policies In Ecuador, Argentina And Haiti ITUC, 2019, The IMF should support the financing of universal social protection, health and education

47. ActionAid, 2018, Short-Changed: How the IMF's Tax Policies are Failing Women, Oxfam, 2019, The Gendered Impact of IMF Policies in MENA. The case of Egypt, Jordan and Tunisia, Oxfam 2017 Is IMF Tax Practice Progressive?, Oxfam, 2017, Great Expectation - Is the IMF turning words into action on inequality?

48. Ibid

49. Ibid

50. See also ActionAid, 2015, Patching up a broken tax system: why BEPS is not the solution to poor countries' tax problems

51. As of December 2019, 12 of the 25 ATI partner countries were not members to the OECD Inclusive Framework: Afghanistan, Ethiopia, Gambia, Ghana, Madagascar, Malawi, Nepal, Philippines, Rwanda, Solomon Islands, Tanzania, Uganda

52. See https://www.un.org/esa/ffd/ffd-follow-up/tax-committee.html

53. EU, 2017, The New European Consensus on Development 'Our World, Our Dignity, Our Future '

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55. They 13 projects were: four related projects in Togo, two in Morocco, three in Jordan, one in Zambia, one in Mongolia, one in Honduras and one in Europe.

56. These were the projects in Mongolia, Togo and Zambia.

57. These were the 2 projects in Morocco.

58. These were the 3 projects in Jordan.

59. Oxfam, 2018, Doubling Down on DRM? - Are We Making the Right Bets?

60. See the Creditor Reporting System data for DRM ODA by EU institutions in 2017

61. Upon request, the European Commission shared a new project (FEMNET – Fiscal Justice for Women and Girls in Africa) focused on DRM and gender. The overall objective of the project is to contribute to more transparent and accountable revenue generation and spending policies by transforming fiscal systems to better respond to the needs of citizens, especially for women and girls in Africa and more specifically in Zambia and Uganda.

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63. OECD, 2015, In It Together: Why Less Inequality Benefits All

64. For evidence of the power of taxation to reduce inequality, see the multiple country studies carried out by the Commitment to Equity Institute, available at: www.commitmenttoequity.org

65. IMF, 2017, IMF Fiscal Monitor: Tackling Inequality https://www.imf.org/en/Publications/FM/Issues/2017/10/05/fiscal-monitor-october-2017

66. 2 out of 84 projects in 2017, 4 out of 110 projects in 2016, see also previous section on Fairness component.

67. European Commission, 2017, Budget Support Guidelines: "In order to be able to demonstrate the impact of policy dialogue, it is essential the process is well documented during each phase (i.e. the identification phase, the formulation phase and the implementation phase)."

68. See http://www.agriconsultingeurope.be/en/references/technical-assistance-ideas-lot-2-technical-assistance-commisison-revenue-allocation

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71. ActionAid, 2019, Progressive Taxation Briefing: VAT; ActionAid, 2018, Short-Changed: How the IMF's Tax Policies are Failing Women

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73. Oxfam Benin, 2019, informal interview

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75. Conseil de l'Union européen, 2013, Relations avec le Maroc: projet de Plan plan d'action Maroc pour la Mise en œuvre du statut avancé (2013-2017)

76. Concord, 2019, EU Delegations Unwrapped – A Practical Guide for CSO Engagement With EUDs f

77. See https://europa.eu/capacity4dev/macro-eco_pub-fin/minisite/training-materials/drm-%E2%80%93-domestic-revenue-mobilisation

78. For more information, see ActionAid, 2019, Progressive Taxation Briefing: Value -Added Tax (VAT)

79. Corporate taxes constitute 15% of all tax revenues in Africa, Latina America and Caribbean, compared with 9% in OECD, according to OECD, 2019 Corporate tax remains a key revenue source, despite falling rates worldwide

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81. Oxfam and UN Women ,2016, Research Report Assessing Vietnam's Tax Incentive Policies

82. S. James, 2013, Tax and non-tax incentives and investments: Evidence and policy implications

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84. ActionAid, 2017, Missed Opportunity: How Could Funds Lost to Tax Incentives in Africa be Used to Fill the Education Financing Gap?

85. Oxfam, 2019, Los incentivos fiscales a las empresas en América Latina y el Caribe

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87. Oxfam, 2019, A Tale Of Two Continents Fighting Inequality In Africa

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90. AFRASIA, 2018, The AfrAsia Bank Africa Wealth Report 2018

91. G. Zucman, 2015, The Hidden Wealth of Nations.

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98. Overseas Development Institute (ODI), 2019, Civil society engagement in tax reform

99. European Commission, 2012, Communication on The roots of democracy and sustainable development: Europe's engagement with civil society in external relations

100. Busan Partnership Agreement on aid effectiveness principles, 2011, http://effectivecooperation.org/about/principles/

101. Based on Oxfam's analysis of the 2017 data, in 2017, just 2.5% of DRM aid was led by national level CSOs, and 70% of this was for one NGO in Paraguay; 0,5% of total DRM disbursement went to academia and 0,3% to projects supporting journalists (the seconds all funded by the Norwegian Agency for Development).

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105. CONCORD, 2017, EU Delegations Report 2017 - Towards a more effective partnership with civil society

106. See https://ec.europa.eu/taxation_customs/fair-taxation-seminars-2018-en_en

107. Upon request, the European Commission shared another initiative involving taxpayers, not reported in the ATI database but co-funded by the European Commission. It is the Eurosocial+ programme, running from 2016 to 2021. One of the lines of action is "Public finance" that "supports redistributive fiscal reforms and tax policies that, in addition to strengthening taxation capacity, encourage greater citizen involvement and generate greater confidence in tax institutions, improve efficiency in collection, and promote the fight against fraud and tax evasion." Source: https://eurosocial.eu/en/democratic-governance-policies/

108. European Commission and International Consulting Expertise EEIG, 2016, Evaluation of the PEGASE Programmes of Direct Financial Support to the Palestinian Authority and Results Oriented Framework in the period 2014 – 201105,

109. AARC, 2018, EU Support for a Taxpayer Awareness Programme in Palestine – Final Report

110. See Annex 2 and Oxfam, 2018, Fair Tax Monitor – Occupied Palestinian Territory

111. Vanessa van den Boogaard and Wilson Prichard, 2016, What Have We Learned about Informal Taxation in Sub-Saharan Africa?

112. These were: implementation of decentralisation policy in Benin, and in particular improvement of saving rates in the municipalities (just over USD 1 million); support to fiscal management of a city in Chad (USD 32,600) and in Gabon (USD 54,800); support to public resource management in six6 states in Nigeria (USD 2.8 million); support to local municipalities in Honduras (around USD 100,000); support for a more effective and accountable PFM in local governments in Philippines (around USD 600,000); as well as three projects in Ecuador about local finances and local management.

113. See Annex 2 and Oxfam, 2017, Fair Tax Monitor Nigeria

114. See https://www.amhon.hn/quienes-somos

115. European Commission, 2014, Programa Indicativo Plurianual 2014-2020 Honduras

116. See http://www.observatoriodescentralizacion.org/amhon-y-union-europea-lanzan-proyecto-fortalecimiento-de-capacidades-en-el-tema-fiscal-y-la-gestion-tributaria-municipal/

117. For criteria on gender component see Oxfam, 2020, Are they really gender equality projects?

118. https://maketaxfair.net/

119. More on methodology here: https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620553/rr-commitment-reducing-inequality-2018-091018-methodology-en.pdf

120. https://www.inequalitytoolkit.org/intermon/public/index.php

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