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Collect more – and more fairly?

The European Commission's support for Domestic Resource Mobilization in developing countries

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There is no question that more funding is needed to deliver the Sustainable Development Goals (SDGs) and ensure long-term funding for quality gender-responsive public services in developing countries, which are essential for the delivery of states' human rights obligations. Domestic resource mobilization (DRM), with tax at its center, has been widely accepted as the key to securing sustainable, democratic financing. Progressive and effective tax systems are needed to secure appropriate funding for key public services and other state functions, allowing governments to deliver on human rights commitments to their citizens while contributing to the fight against economic, social and gender inequalities.[1]

This paper looks at the EU's commitments to supporting DRM in developing countries as well as the practice – through development-specific programs and policy, but also other policies that have an impact on this issue. Is the EU living up to its promises? This paper offers a critical perspective and a set of recommendations to the European Commission in relation to its budget support programs and global partnerships on DRM. The paper also provides recommendations on how the EU can improve policy coherence for development when it comes to tax and how to better 'lead by example' in the fight against tax avoidance.

The EU's commitment to Domestic Resource Mobilization

The EU's commitment to supporting DRM in developing countries has been stated and reconfirmed in several key political and policy documents over the last years. DRM was central in discussions at the 3rd International Conference on Financing for Development and around the UN Agenda 2030, and has been recognized both in the Addis Ababa Action Agenda, as well as under SDG 17.[2]

The European Commission made a strong statement on the importance of DRM by publishing the ambitious *Collect More, Spend Better agenda*,[3] as well as including a commitment on support to DRM in the new *EU Consensus on Development*.[4]

> *[The EU and its Member States] will work with partner countries to promote progressive taxation and redistributive public policies that pay due attention to better sharing the benefits of growth, the creation of wealth and decent jobs and to improved access to factors of production, such as land, finance and human capital.*
>
> **EU CONSENSUS ON DEVELOPMENT, 2017**

1. For more information on progressive taxation, see our 2018 briefings: https://actionaid.org/publications/2018/progressive-taxation-briefings
2. One of the targets under SDG 17 – which concerns revitalising the global partnership for sustainable development – is on strengthening DRM, including through international support do developing countries (Target 17.1)
3. EC (2015), Collect more spend better
4. https://ec.europa.eu/europeaid/sites/devco/files/european-consensus-on-development-final-20170626_en.pdf

The External Strategy for Effective Taxation[5] (published as a part of the *Anti-Tax Avoidance Package* in January 2016) reconfirms the commitment to support sustainable revenue generation in developing countries and helping them meet 'tax good governance' standards. It also reaffirms commitment to the approach developed in the *Collect More, Spend Better agenda*, as well as to the EU 'leading by example' in this domain. The Strategy talks, among others, about working towards a more inclusive international coordination and standard setting on tax, as well as capacity building on tax policy and administration to help developing countries close the tax compliance and tax policy gaps.[6]

Apart from 'Leading by example,' the European Commission further frames its approach to DRM support around another guiding principle: 'Global Partnerships.'[7] In terms of key areas of contribution, the following three have been mentioned as core:[8]

- Addis Tax Initiative, under which the European Commission and a number of the EU Member states have committed to:
  - Collectively double its support in the area of domestic revenue mobilization by 2020;
  - Step up Domestic Resource Mobilization;
  - Pursue policy coherence for development (PCD).[9]
- Budget support programs and direct support to domestic public finance;
- A 'special support program' to address issues in the area of tax evasion, tax avoidance and illicit financial flows.

In 2016, the EU reported having allocated 42m EUR to the special support program and 140m EUR for enhancing domestic public finance.[10] The ATI report for that year credits the EU only for some 28m USD (app. 25m EUR) of Official Development Assistance (ODA) for DRM.[11] While reporting and tracking the overall amount of aid provided for DRM should become easier with the recently added OECD Development Assistance Committee purpose code for DRM and progress in reporting under the Addis Tax Initiative, specific allocations remain difficult to access as this information is not published regularly by the European Commission nor included in the annual development cooperation reports.

Budget support programs

The European Commission's commitment to supporting progressive and effective tax systems in developing countries, mentioned in several key policy documents, is mainly realized through budget support programs.[12]

Already the 2011 Communication stated: '*… a sound social fabric requires a high degree of justice and fairness in tax collection and expenditure allocation (pro-poor, gender, and children issues), effective social protection and progress in improving employment and quality of jobs.*'[13] The Commission's Budget Support Guidelines, updated in 2017, reinforce that approach by clarifying that '*Promoting DRM does not only mean to increase the volume, i.e. the level of revenues collected, but also to improve the quality, i.e. equity, transparency, fairness and efficiency of the whole process and system*'.[14] The recent report on budget support also reminds that, as well as highlights the need to address remaining gender biases in taxation policies.[15]

Given their particular income, consumption and employment patterns, including a disproportionate share of the unpaid care work burden, women tend to rely more strongly on public services and are often affected by implicit gender biases in tax systems. However, the Budget Support Guidelines do not

5. EC (2016), COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on an External Strategy for Effective Taxation
6. EC (2015), Collect more spend better
7. European Commission, (2016), Financing Global Sustainable Development: Illustrations of EU contributions to the 2030 Agenda
8. https://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/good_governance_matters/platform/meeting_2016/devco_cm_sb_pf160614.pdf
9. ATI (2015) The Addis Tax Initiative – Declaration
10. European Commission, (2016), Financing Global Sustainable Development: Illustrations of EU contributions to the 2030 Agenda
11. https://www.addistaxinitiative.net/documents/Addis-Tax-Initiative_Monitoring-Brief-2016_I_EN.pdf
12. https://ec.europa.eu/europeaid/policies/financing-development/domestic-resource-mobilisation_en
13. COM(2011) 638 final, COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, THE FUTURE APPROACH TO EU BUDGET SUPPORT TO THIRD COUNTRIES
14. https://ec.europa.eu/europeaid/sites/devco/files/bsg_web_version_20180206-v2_1.pdf
15. BUDGET SUPPORT Trends & Results, 2018

explicitly mention a need for assessments of national tax policies to include potential impacts on economic and gender inequalities. Also, the Guidelines are merely a guidance framework '*to be applied selectively according to the country context*',[16] and there is no requirement for EU delegations in developing countries to apply them.

Taxation and **gender equality**

Tax is central to women's rights work. How much tax is raised as well as how it is raised both matter enormously for gender equity. Women tend to rely more on public services, including for reproductive health and reduction of unpaid care work, so their proper resourcing is of key concern. Also, while most of tax legislation might look gender-neutral on paper, because of women's particular income, ownership and spending patterns, tax law can carry an implicit bias, often putting a disproportionate burden of contributions on women. The bias is particularly visible in countries with an increasing reliance on consumption taxes. Women, who are overrepresented among the poor, are particularly affected by these and other regressive types of taxes.

For more on this topic, please see ActionAid's report *Short-Changed: How the IMF's tax policies are failing women (2018).*

The evidence of the practical implementation of this fairness perspective in budget support programs has been mixed. The EU has played a role in supporting tax reforms in Morocco and Tunisia, which included removal of tariffs and widening of VAT,[17] as well as the introduction of VAT in DRC and Seychelles, in collaboration with the International Monetary Fund (IMF).[18] These types of reforms, esp. involving the introduction or scaling up of VAT regimes, have been known to risk exacerbating economic and gender inequalities and poverty,[19] however, it is unclear whether the European Commission has undertaken any analysis of potential social impacts of this policy advice.

The role of some other intergovernmental organizations, especially the IMF, in such cases has been widely researched and criticized, including by ActionAid.[20] While the Commission's impact on domestic taxation policies has been perhaps less striking, some of the cases mentioned earlier also suggested pressure from the donors, including the EU, for the implementation of some of these reforms, undermining the principle of ownership. In this light, we appreciate the Commission's later declarations of recognition of partner countries' sovereignty and ownership in tax policies.[21]

The European Commission's Budget Support Guidelines recognize the importance of civil society engagement in public dialogue on fiscal policies, as well as in the monitoring of their implementation. However, despite these – and other – declarations, including the original plans to strengthen the voice of civil society organizations in DRM mentioned in one of the 'flagships' in the MIP 2014-2017,[22] little to nothing has been reported by the European Commission in this area at international or national level. The recently published call for proposals focused on supporting CSO engagement in delivering SDGs through improved DRM and Public Finance Management[23] is a welcome step forward, but still a drop in the bucket of needs.

16. https://ec.europa.eu/europeaid/sites/devco/files/bsg_web_version_20180206-v2_1.pdf
17. Synthesis of Budget Support Evaluations: Analysis of the Findings, Conclusions and Recommendations of seven Country Evaluations of Budget Support (2014)
18. The EU and the IMF, Strategic Partners in Promoting Sustainable Capacity Development, October 2015
19. ActionAid, 2018, Short-changed. How IMF tax policies are failing women: https://actionaid.org/publications/2018/short-changed-how-imfs-tax-policies-are-failing-women
20. ActionAid, 2018, Short-changed. How IMF tax policies are failing women: https://actionaid.org/publications/2018/short-changed-how-imfs-tax-policies-are-failing-women
21. ECA, 2016, The use of budget support to improve domestic revenue mobilisation in sub-Saharan Africa, European Commission's reply
22. Flagship 10. Domestic Revenue Mobilisation Initiative for Inclusive Growth and Development, Programme on global public goods and challenges 2014-2020. Multi-annual indicative programme 2014-2017
23. Support to civil society organisations to contribute to the achievement of the sustainable development goals (SDGs) - Collect more spend better. Reference: EuropeAid/164455/DH/ACT/Multi, published in May 2019.

Global partnerships

The European Commission allocates significant funds dedicated for support to DRM to several global and regional initiatives led by actors such as the UN, the International Monetary Fund (IMF) or the OECD.[24] The initiatives span across many thematic and geographical areas, including transparency, natural resources revenue management, and tax administration capacity.

While many of the initiatives are clearly relevant, three questions come to mind: whether there is a strategic approach to the selection of initiatives and distribution of funds between them; whether all relevant stakeholders, including partner country governments and the civil society, were consulted in that process; and where are the allocations for the civil society which were declared in some of the strategic documents.

Oxfam's recent report[25] flags the worrisome global trend of falling allocations for the Regional Tax Organizations, such as the African Tax Administration Forum, while they grow for the IMF and the World Bank. The role and value of the regional tax organizations in supporting members countries' tax administrations has been widely recognized. Given the different membership, interests and governance models of the various partners, such as the IMF and the OECD, partner countries might have different interests and impact on the initiatives run by them. It is therefore crucial to make sure that the funds are allocated to the initiatives that partner countries consider the most relevant and bringing in the most value for their DRM efforts.

The engagement of civil society, whether as implementing actors of DRM projects or partners in these projects, remains also limited at best globally[26] and there is little evidence of it in programs funded by the European Commission. It is important to note that some of the EU Member States, such as Denmark, Finland and Sweden, have been setting a much better example in this area, supporting initiatives led by or involving international and national NGOs.[27]

Leading by example

Last, but certainly not least, 'Leading by example,' including by ensuring a high degree of Policy Coherence for Development, is essential to advancing global development agendas. A commitment to these principles has been repeated in all key EU documents. However, a lot remains to be done about the taxation policies of the EU and its Member States, as often highlighted by ActionAid and partner civil society organizations (CSOs).[28] The initiatives often highlighted by the EU as progress in this regard,[29] such as the Anti-Tax Avoidance Directive, as well as the revisions of the Directive on Administrative Cooperation, do not respond to developing countries' needs and do not go far enough.

Some of the EU Member States are still widely criticized on the tax front, including by the European Commission. In March 2018, Commissioner Moscovici for the first time called out seven of the Member States for their aggressive tax policies,[30] repeating the warnings (to a slightly revised list of countries) in 2019.[31] Oxfam assesses that by the EU's own criteria, five Member States (Cyprus, Ireland, Luxembourg, Malta and the Netherlands) should be considered 'non-cooperative tax jurisdictions' (or simply: tax havens),[32] which only further proves the ineffectiveness of the EU tax reforms in this regard so far.

24. ATI Monitoring Data 2016, accessed via www.addistaxinitiative.net in April 2019.
25. Oxfam, 2018, Doubling down on DRM?
26. Ibidem.
27. ATI Monitoring Data 2016, accessed via www.addistaxinitiative.net in April 2019.
28. e.g. CONCORD, 'The Impact Of EU Policies In The World. Seeing The Bigger Picture', 2017
29. European Commission, (2016), Financing Global Sustainable Development: Illustrations of EU contributions to the 2030 Agenda OR EC (2019), COMMISSION STAFF WORKING DOCUMENT 2019 EU report on Policy Coherence for Development
30. Opening remarks by Commissioner Moscovici on the European Semester Winter Package, 7.03.2018, http://europa.eu/rapid/press-release_SPEECH-18-1683_en.htm
31. http://europa.eu/rapid/press-release_SPEECH-18-1683_en.htm
32. https://www.oxfam.org/en/research/hook-how-eu-about-whitewash-worlds-worst-tax-havens

The EU seeks to lead by example in the area of tax good governance, both by applying high internal standards and promoting similar measures abroad. It is aware of the need to remain vigilant that domestic tax policies do not have negative spill-over effects on third countries and developing countries' vulnerabilities in tax matters are duly taken into account.

EXTERNAL STRATEGY FOR EFFECTIVE TAXATION, 2016

In terms of transparency, the EU can also hardly claim the title of a leader. The 2018 Financial Secrecy Index includes two Member States, Luxembourg and Germany, in the top 10 most secretive tax jurisdictions in the world. The top 20 includes two more Member States and five UK dependent territories.[33] While the revisions of the Directive on Administrative Cooperation improved information exchange between the Member States, the amount of information available to the public – and to developing countries' tax authorities - remains limited at best. The Public Country-by-Country Reporting proposal, long requested by the European Parliament and civil society - and which would significantly improve transparency of corporate tax payments by the largest multinational companies - has been stuck in Council discussions for over a year.[34]

What is more, it is difficult to assess which of the tax and transparency measures should also be adopted or reformed, since only two of the Member States have so far concluded analyses of the spillover impact of their tax systems on developing countries,[35] recommended by several European Parliament resolutions.[36] The practice of assessing new EU tax proposals on their potential consequence for developing countries under the EU Impact Assessment procedure has also been patchy at best, as demonstrated by CONCORD.[37]

A lot remains to be done by the EU and its Member States for them to be able to confidently claim the title of leaders in tax good governance and make sure that their tax policies do not undermine development policy objectives.

Recommendations

On budget support programs and country-level engagement:

- Include **analyses of potential impacts not only on revenue generation, but also on economic and gender inequalities** in assessments of national tax policies in the context of budget support. This approach could be worked into the European Commission's Budget Support Guidelines.
- **DRM-specific conditions**, esp. related to tax policies, should be limited, respecting countries' ownership, as well as subject to impact assessments, making sure that requested policy solutions do not undermine other social indicators, such as economic or social inequalities.
- In **policy dialogue**, the European Commission should take a holistic view on the role of tax policies in the achievement of SDGs and partner countries' development agendas, including the impact of various tax measures on economic and gender inequalities. The European Commission should promote progressive and effective tax systems, as committed to in the EU Consensus on Development while respecting partner countries' policy space in this regard.

33. https://www.financialsecrecyindex.com/introduction/fsi-2018-results
34. As confirmed e.g. in this MEP's question from September 2018: http://www.europarl.europa.eu/doceo/document/E-8-2018-004588_EN.html
35. ActionAid (2018), Stemming the spills: https://actionaid.org/publications/2018/stemming-spills
36. European Parliament resolution of 8 July 2015 on tax avoidance and tax evasion as challenges for governance, social protection and development in developing countries (2015/2058(INI))
37. CONCORD (2017), The Impact of EU Policies in the World. Seeing the bigger picture

- The European Commission should ensure that EU delegations adopt a **systematic approach to engaging with civil society organizations on DRM issues and offer capacity building opportunities**, as a part of their work with CSOs (incl. through the CSO Roadmaps where applicable).

On global partnerships:

- Ensure **transparency and stakeholder consultation on the allocations of EU funds for DRM support** to ensure the most effective allocation of support to regional and global initiatives.
- In **capacity-building programs** for DRM – both those provided through budget support or other dedicated programs – the European Commission should scale up capacity building for civil society in partner countries, enabling civil society's effective engagement in dialogue and monitoring of national fiscal policies and public finance management. Such programs could be undertaken in partnership with regional organizations such as the African Tax Administration Forum.
- Recognize the limitations to inclusiveness and effectiveness of the current intergovernmental tax policy spaces and support the creation of a **global tax commission** under the auspices of the UN with a strong mandate and resources to effectively address, among others, the global problems of tax avoidance, evasion, and tax competition.

On leading by example and Policy Coherence for Development:

- Undertake EU-wide **spillover analyses** of current tax systems on developing countries' DRM capacity, with a strong gender lens, and support Member States in undertaking such studies at the national level.
- Ensure the PCD perspective is taken on board in **Impact Assessments** of proposed EU legislation relating to taxation.
- Improve **corporate tax transparency and address aggressive tax competition by EU Member States** by adopting strong measures on, among others, public Country-by-Country Reporting and the Common Consolidated Corporate Tax Base (CCCTB).
- Undertake ex-ante and ex-post gendered human rights impact analyses of **trade agreements** between the EU and developing countries, with a focus on provisions which suppress import taxes.

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For further details please visit https://actionaid.org/politics-and-economics/tax-justice

ActionAid is a global movement of people working together to achieve greater human rights for all and defeat poverty. We believe people in poverty have the power within them to create change for themselves, their families and communities. ActionAid is a catalyst for that change.

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