



# Mapping Survey

## Taxation and Development

international tax compact



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initiative to strengthen international cooperation with developing countries to fight tax evasion and tax avoidance

**Imprint:**

The International Tax Compact (ITC) is an international development policy initiative to fight against tax evasion and inappropriate tax practices in developing countries. The German Federal Ministry for Economic Cooperation and Development (BMZ) has launched the initiative and commissioned GTZ and KfW to support the implementation.

Commissioned and supervised by:

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ)

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Published by:

Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH  
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Eschborn, May 2010

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## Introduction

One of the major prerequisites for poverty reduction and sustainable development is a transparent, effective and efficient system of public finance, holding the state accountable for its actions and providing the necessary legitimacy for any state activity. Approaches to establish well functioning systems of public finance comprise the revenue and expenditure side as well as control institutions and focus on implementing “Good Financial Governance” (GFG).

While strategies to improve the expenditure side of public finance systems have been dominant for quite some time, policies addressing the revenue side have only received increased attention in the last few years. However, as has been emphasized in the Monterrey Consensus (2002) and been reaffirmed during the follow-up conference on Financing for Development in Doha (2008), mobilizing domestic resources and establishing efficient systems of taxation is a core issue of development cooperation. Equally, the Paris Declaration (2005) and the Accra Agenda for Action (2008) emphasize the importance of mobilizing own revenues in developing countries.

So far, most developing countries are characterized by public revenue systems that rely to a large extent on external resources such as financial flows related to official development assistance (ODA) and borrowing, or primarily depend on revenues from natural resources. As these revenue sources are typically heavily volatile, a strong dependency causes financial uncertainty and thus undermines a sustainable development policy.

Mobilizing own domestic resources via taxation provides a sustainable alternative to these external revenue sources. Moreover, establishing a broad-based system of taxation can contribute to good financial governance practices: On the one hand, governments that depend on tax revenues are obliged to tailor policies to the demands of their taxpayers. On the other hand, citizens start to demand services in return to the taxes paid, as well as transparency and accountability with regard to the way revenue is raised and spent.

However, revenues resulting from domestic taxation still account for a relatively low share in total revenues in most developing countries. Moreover, the ratio of tax revenue to GDP is much smaller compared to industrialized countries, revealing the high potential of additional resource mobilization. This “tax revenue gap” is due to a variety of factors such as insufficient capacities of tax administrations or deficiencies in the area of tax policy and law. Moreover, latest research indicates that developing countries lose a large amount of potential tax revenue due to tax evasion and avoidance.

In recent years, bilateral and multilateral donors as well as regional networks, research institutes and non-governmental organizations (NGOs) have increased their activities in the area of taxation and development. To merge efforts and better align activities in this area, the German Ministry for Economic Cooperation and Development (BMZ) has launched the “Initiative to strengthen international cooperation with developing countries to fight tax evasion and avoidance”, the International Tax Compact (ITC). The ITC is an informal platform of bi- and multilateral development partners that intends to increase cooperation on tax matters and strengthen developing countries’ tax systems.

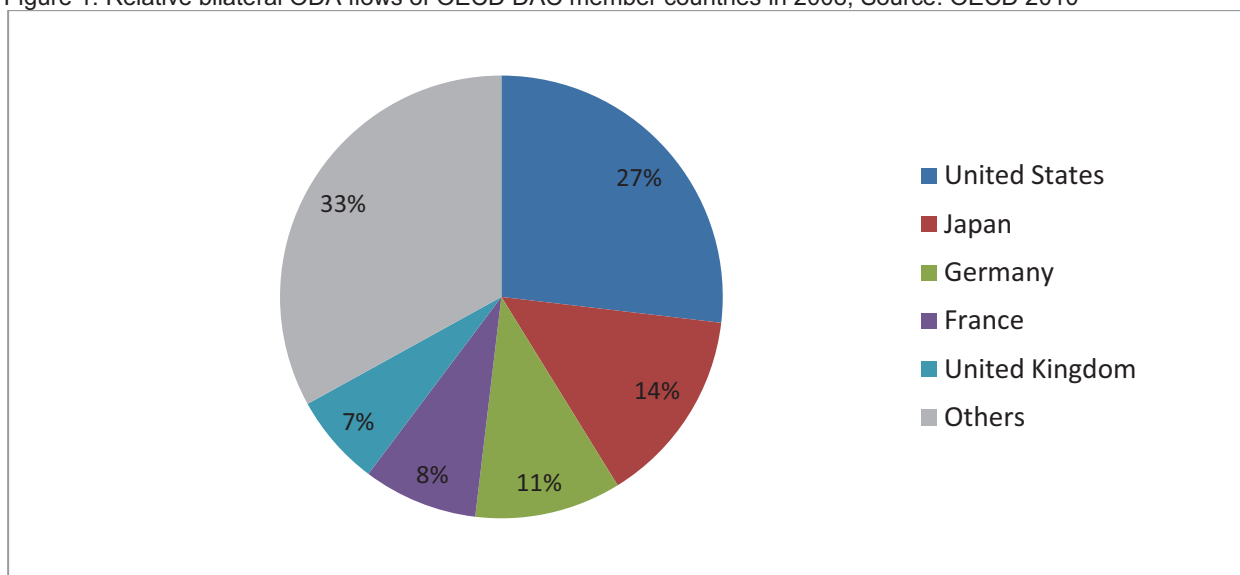
To ensure that these efforts of improving cooperation, collaboration and alignment are well targeted, it is essential to survey the work of the different organizations in a first step. The present study serves as a background document for the ITC, providing both a country-specific and a thematic overview of activities and initiatives undertaken to improve revenue systems in developing countries.

### Country-Specific Mapping

The country-specific mapping intends to provide an overview about worldwide activities in the area of taxation and development. Since information on such projects is often only available locally and, thus, very difficult to gather by desk research, the country-specific survey concentrates on selected institutions providing multilateral aid, comprising multilateral financial institutions and EU institutions, as well as selected bilateral donors. Multilateral financial institutions (MFIs) include the IMF, the World Bank Group as well as the regional development banks, all of which are quite actively working on issues of taxation. Additionally, EU institutions have been included since the European Commission has identified the topic tax and development as a priority for European development assistance.<sup>1</sup>

The relevance of bilateral donors in the field of taxation is more difficult to assess as data on ODA flows directed explicitly to tax-related projects is not available. The relevance of bilateral donors in the area of taxation, therefore, has to be proxied by aggregate contributions to ODA. According to the 2010 OECD DAC statistics on total ODA of DAC member countries in 2008, the five most important donors in 2008 were the United States, Japan, Germany, France and the United Kingdom. Each of these provided more than 5% and altogether these five actors contributed more than 60% of bilateral ODA of DAC member countries (see Fig. 1). Accordingly,

Figure 1: Relative bilateral ODA flows of OECD DAC member countries in 2008; Source: OECD 2010



five bilateral donors were selected for the country-specific mapping in addition to institutions of multilateral aid: France, Germany, Japan, United Kingdom and United States.

For all selected institutions, country-specific activities were gathered using the OECD Creditor Reporting System, complemented by desk research and personal contacts. However, due to the fact that detailed project data is often only available locally, one should not consider the survey as an exhaustive overview about all activities in the area of taxation and development. Moreover, one has to bear in mind that many more donors and organizations are active in the area of taxation and development. The present overview about country-specific activities should, thus, not be viewed as a comprehensive survey but rather as a first, indicative mapping of activities in this important field of development cooperation.

The activities included in the country-specific mapping had to be related to taxation and development, undertaken in the years 2008 and 2009, and lasting for at least four weeks. For clarity of depiction, the large number of missions and short-term engagement in form of conferences and workshops was not included. Rather, long-term engagement reflecting the priorities and commitments in specific countries and regions were taken into account.

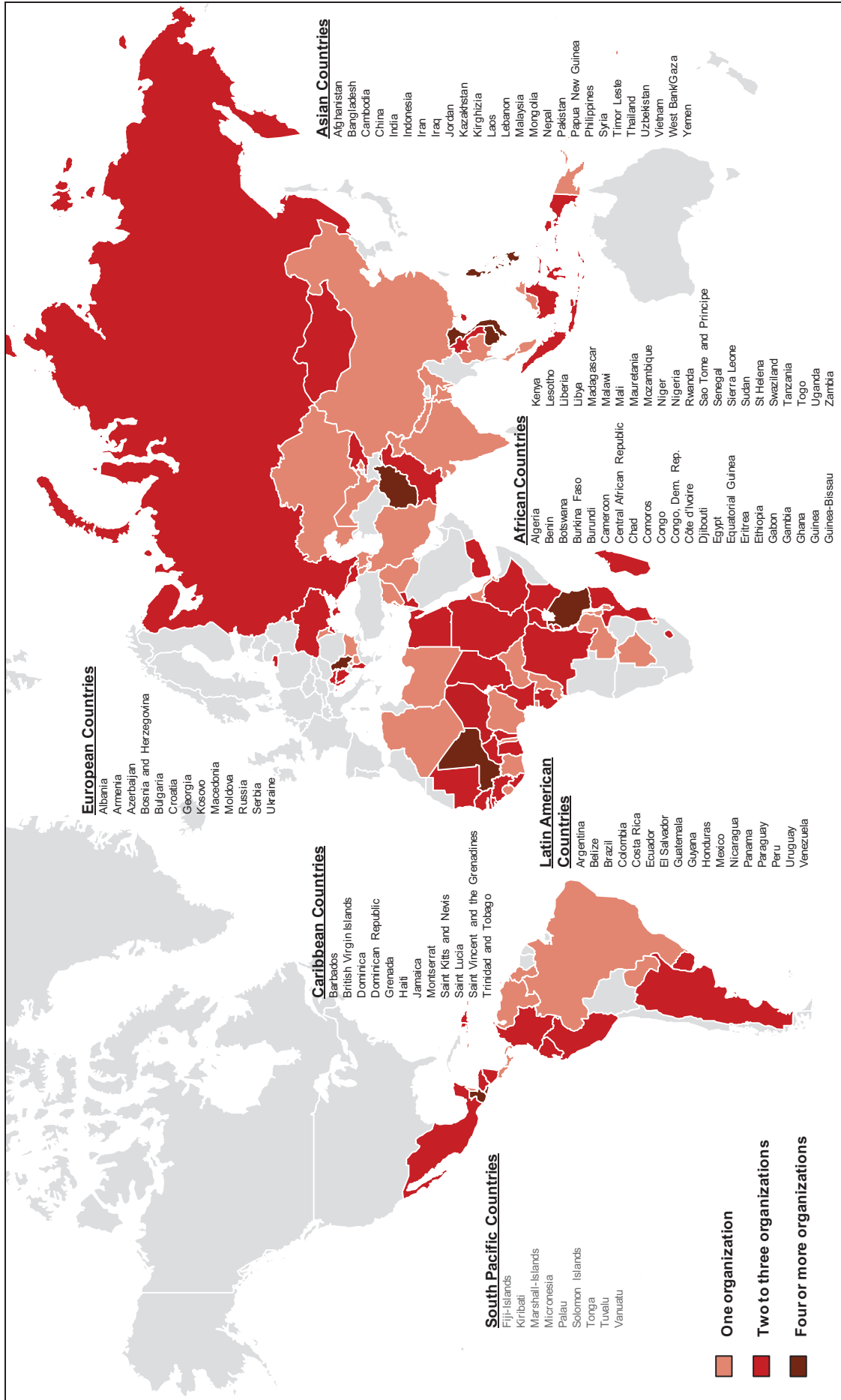
<sup>1</sup> See COM(2010) 163.

Summarizing the results of this survey, the map “Country-Specific Mapping: Worldwide Activities on Taxation and Development” demonstrates the regional coverage of activities related to taxation. In general, the selected donors are working on taxation and development in more than 100 countries worldwide with varying intensity. The map indicates the intensity of donor activities in this area of development cooperation, depicting the number of organizations working in a specific country: In nine countries, four or more organizations work on taxation and development at the same time. The highest density of donor activity can be found in Guatemala, Tanzania and Vietnam with a maximum of five organizations. Moreover, in a total of 47 countries, two to three organizations are active at the same time.

To a minor extent, activities of specific donors are regionally focused: Taking a look at the maps created for the different bi- and multilateral aid institutions reveals a strong regional concentration of Japan’s activities in South East Asia while France seems to be predominantly active on the African continent. Engagement of other institutions of bi- and multilateral aid, however, is not regionally concentrated. Considering the activities of all selected institutions as described by the map “Country-Specific Mapping: Worldwide Activities on Taxation and Development” implies at first sight a more or less equal worldwide distribution of projects in the area of taxation and development. However, while Asia and Central and South America seem to be quite well covered by donor engagement, coverage of the African continent seems to be slightly less extensive. This is alarming as the tax revenue to GDP ratio is especially low on the African continent indicating weak revenue raising capacities in many countries and, consequently, the necessity for intensive and long-lasting assistance. The initial impression that the regional coverage of support on the African continent is not yet sufficient is confirmed when only long-term projects lasting for at least several months are taking into account and mission based cooperation of IMF Regional Technical Assistance Centers (RTACs) is left aside: While there is intensive donor activity in many African countries, 17 out of 53 African countries, that is 1/3 of the entire continent, still do not receive long-lasting tax-related assistance.

Clearly, the results have to be considered with caution as they only reflect the activities of selected donors. Yet, we believe that due to the fact that the donors chosen contribute substantially to ODA flows, the results are indicating a general trend. Based on this trend, one can derive some general conclusions. The findings emphasize the need for donor coordination and collaboration in the area of taxation and development: Firstly, a multiplicity of up to five donors is active in a specific country, reflecting the necessity of institutionalized exchange of project data and collaboration. Moreover, there seems to be a high potential for a division of labor. While some countries receive assistance from several donors at a time, others are not supported at all. An improved regional division of donor activities could ensure a broader coverage of countries redirecting forces to countries and regions with insufficient revenue-raising capacities that are not supported so far.

# Country-Specific Mapping: Worldwide Activities on Taxation and Development



## Topical Mapping

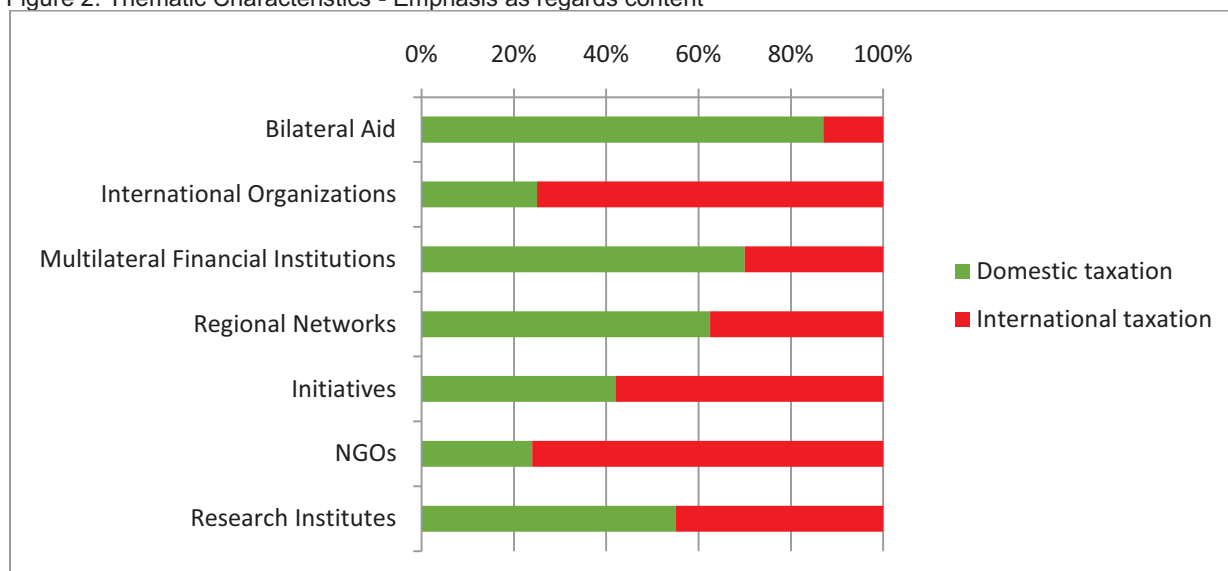
The topical mapping covers thematic characteristics of the organization's work related to taxation and allows taking a closer look at the conceptual emphasis and priorities taken. The characteristics include the emphasis of the organizations' activities, the area of work and expertise, as well as the category of countries addressed predominantly.

### *Thematic Characteristics - Emphasis as regards content*

To attain an overview over the issues addressed, organizations were asked to indicate the importance of the topics domestic taxation as well as international taxation for their work. Domestic taxation refers to issues arising in the national context such as tax fraud, taxation of the informal sector and tax payer compliance. International taxation, in contrast, addresses topics related to the taxation of transnational economic activities and covers taxation of multinationals, double taxation and profit shifting attempts e.g. using transfer prices. Clearly, both domestic and international taxation are important aspects. However, in the process of mobilizing revenues, each of these issues raises different problems and obstacles requiring different, well-targeted policies and actions.

The findings indicate a slightly higher relevance of domestic taxation (60% on average) for the organizations' work on taxation and development. However, issues related to international taxation have received increased worldwide attention recently during the financial and economic crises. Thus, it can be expected that the relative importance of this topic as a thematic characteristic of organizations' work will grow in time.

Figure 2: Thematic Characteristics - Emphasis as regards content



As depicted in Figure 2, bilateral aid agencies on average display the strongest focus on domestic resource mobilization in their respective partner countries (87%), followed by multilateral financial institutions that devote 70% of their work on average to issues related to domestic taxation. While research institutes and initiatives focus on both issues to relatively equal shares, international organizations and NGOs clearly emphasize international taxation.

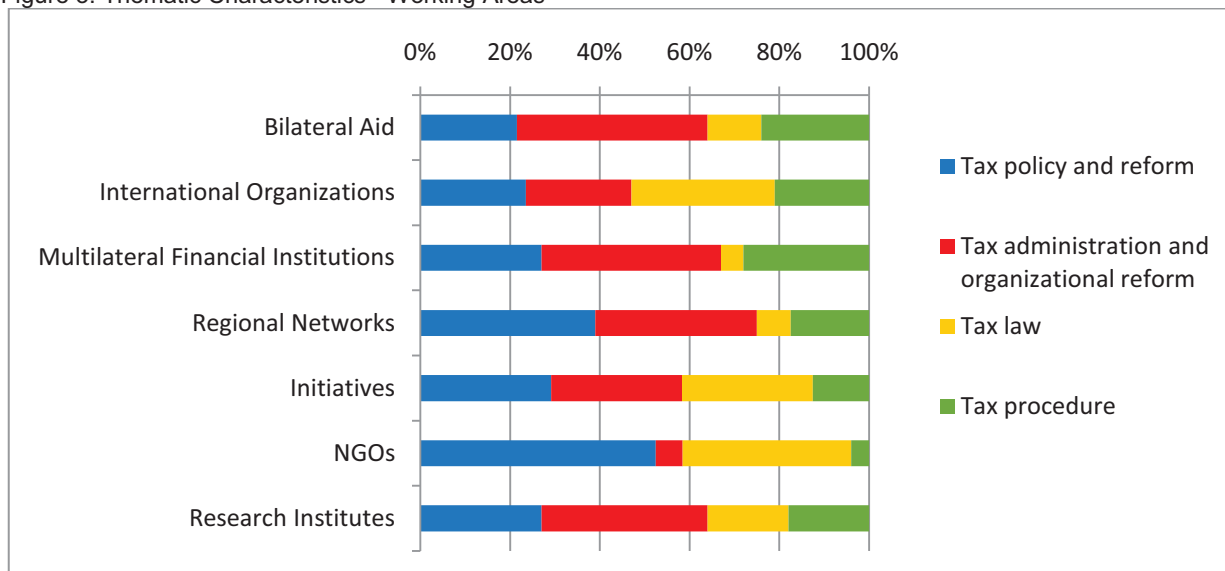
### *Thematic Characteristics: Working Areas*

Besides differentiating between domestic or international taxation, organizations can be characterized by different working areas reflecting their expertise related to taxation and development. Within this category, organizations were asked to determine the relative importance of the following working areas:

- tax policy and reform (e.g. different types of taxes, tax systems reform, simplification of tax structures)
- tax administration and organizational reform (e.g. integration and establishment of revenue authorities, institutional efficiency, large taxpayer units)
- tax law (e.g. legislation, procedural law)
- tax procedure (e.g. auditing, enforcement, automation)

On average, institutions working in the area of taxation and development dedicate 31% of their work on tax policy and reform and around 32.5% on tax administration and organizational reform. In contrast, other areas of work receive considerably less attention with 18% dedicated to tax law and 18.5% to tax procedure. Multilateral financial institutions and bilateral aid agencies predominantly address issues related to tax administration and organizational reform with 40% and 42.5% respectively of their work directed to this area (see Fig. 3). In general, though, there is no clear pattern of a division of labor among the organizations as all are active in each of the working areas.

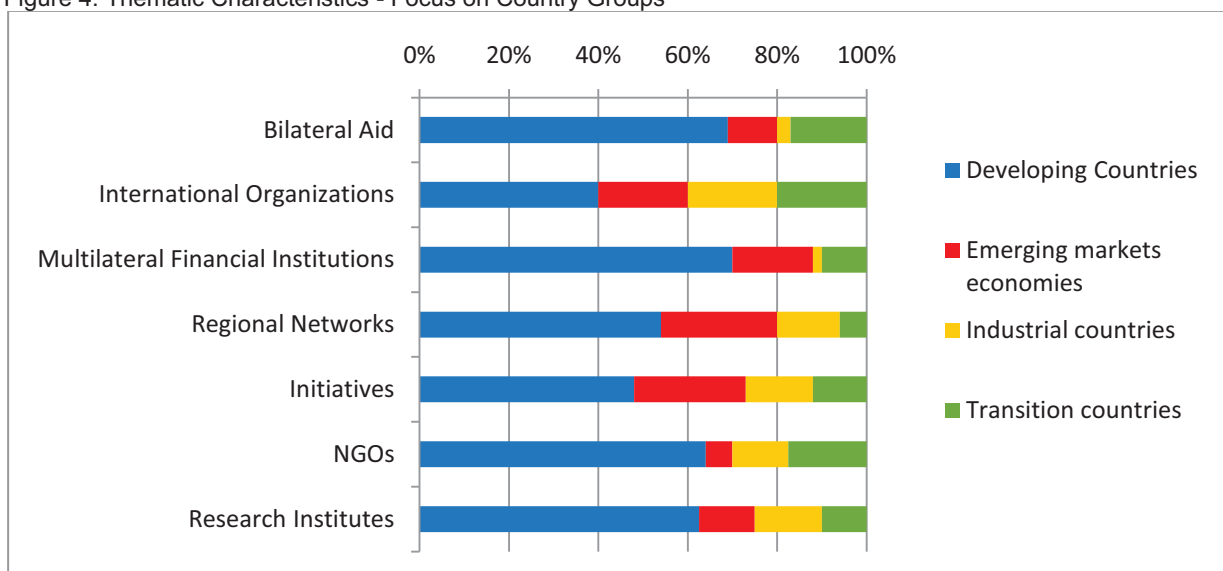
Figure 3: Thematic Characteristics - Working Areas



#### Thematic Characteristics - Focus on Country Groups

Distinguishing between developing countries, emerging market economies and industrial as well as transition countries, the following pattern of activity arises: On average, the major focus lies on developing countries (62%), while far less work is dedicated to transition (14%) and emerging market economies (15%). Around 9% of the activity in the area of taxation is dedicated to industrial countries.

Figure 4: Thematic Characteristics - Focus on Country Groups



Multilateral financial institutions and bilateral aid agencies show the strongest emphasis on developing countries, followed by NGOs and research institutes that each address developing countries to an extent of more than 60 % (see Fig. 4). In contrast, international organizations, regional networks and initiatives display a more equal distribution of attention covering all country groups with just a slight emphasis on developing countries.

The topical mapping shows the broad range of different types of institutions participating in the process of strengthening revenue mobilization capacities in developing countries. Similarly to the country-specific mapping, the results reveal a generally weak division of labor between organizations active in the area of taxation and development. Rather, organizations are typically involved in many aspects and issues related to taxation. While this might be grounded in the complexity of the topic and its interrelations, there is a clear need for better alignment and coordination of work in the field of taxation and development. Additionally, information sharing and exchange of best practices among donors could be intensified: since many organizations are working on the same or at least closely related issues, their institutional experiences in strengthening tax systems in developing countries would be valuable for other relevant actors as well.

## Conclusions

The present mapping study reveals that quite a number of actors are already working on taxation and development, reflecting the importance of mobilizing own revenues for sustainable development and poverty reduction. Including bilateral donors, international and multilateral institutions, regional networks, NGOs and research institutes, these actors cover a very broad range of organizations with different priorities and modalities of work. Yet, the mapping reveals that these organizations are often active in the same region or even country and mostly work on identical or at least related aspects of taxation and development.

With respect to country-specific activities, the study indicates a generally good worldwide coverage of tax-related assistance projects. Yet, activities are partly very intense with up to five donors working on tax issues in the same country while other countries are not supported at all. Especially in Africa where revenue raising capacities are weak, there is both the need and the scope for more assistance in the area of taxation and development. With respect to the topical mapping, tax-related activities cover a very broad range of issues including many aspects, areas of expertise and country groups. These activities are often carried out by all of the organizations with only slight concentration on selected issues. Thus, the division of labor between the different actors is still rather weak.

The activities of the organizations described in this study indicate a high potential of duplication of work, including projects of multiple donors in a specific country as well as identical working areas as regards the content of the programmes undertaken. Although it is not clear whether duplications actually occur, it is obvious that organizations need to increase the level of information sharing to guarantee that assistance is indeed complementary and aligned. Such **information sharing** can be established through regular meetings and conferences, exchange of publications and best-practice papers as well as well maintained project databases. To avoid extensive costs of exchange, information sharing should be institutionalized under the umbrella of a forum, in which not only the rules and procedures for exchange of the most relevant information are defined but the space for in-depth discussion and dialogue is given. Such a forum could additionally improve **collaboration and coordination** of assistance activities in tax matters. Furthermore, information exchange and coordination would allow for an improved **division of labor**. The fact that multiple organizations work in the same country or regional context or on identical thematic issues indicates that there is indeed a high potential for a more focused approach. An improved division of labor would allow on the one hand to build up more in depth expertise both with respect to the regional or country-specific background as well as in terms of technical knowledge. On the other hand, a more focused approach and division of labor unleashes forces to address areas and regions not well covered so far.

These findings suggest a **potential role for the ITC**: The ITC as an informal platform of both donors and partner countries can provide the necessary umbrella for these processes bringing together the relevant actors in the area of taxation and development. Moreover, the ITC aims at strengthening revenue raising capacities and clearly targets the implementation stage. Thus, the ITC has the potential of integrating both the international level of policy and dialogue as well as the domestic level of concrete project proposals, thereby providing the ideal forum for information exchange, collaboration and coordination as well as an efficient division of labor. Additionally, the ITC includes developing countries on an equal footing and can, therefore, ensure that tax-related assistance is demand-driven, well-targeted and characterized by strong ownership.

## Abbreviations

ADA .....	Austrian Development Agency
ADB .....	Asian Development Bank
ADETEF .....	French International Technical Cooperation Agency
AfDB .....	African Development Bank
AFRITACs.....	Africa Regional Technical Assistance Centers
ATI.....	African Tax Institute
AusAID .....	Australian Agency for International Development
BMZ.....	German Ministry for Economic Cooperation and Development
CATA.....	Commonwealth Association of Tax Administrators
CIAT .....	Inter-American Center of Tax Administrations
CIS .....	Commonwealth of Independent States
CTPA.....	Center for Tax Policy and Administration
CTPG.....	Center for Taxation and Public Governance
DAC.....	Development Assistance Committee
DED .....	German Development Service
DEZA.....	Swiss Agency for Development and Cooperation
DFAT .....	Australian Department of Foreign Affairs and Trade
DG .....	Directorate General
DIE .....	German Development Institute
EAC .....	East African Community
EC .....	European Commission
ECLAC.....	Economic Commission of Latin America and the Caribbean
ECOWAS.....	Economic Community of West African States
EDA .....	Swiss Federal Department of Foreign Affairs
EITI.....	Extractive Industries Transparency Initiative
EVD .....	Swiss Federal Department of Economic Affairs
FA.....	Financial Assistance
FfD.....	Financing for Development
FfDO.....	Financing for Development Office
GDP.....	Gross Domestic Product
GFI .....	Global Financial Integrity
GPF .....	Global Policy Forum
GTZ .....	German Technical Cooperation
IBFD .....	International Bureau of Fiscal Documentation
IMF .....	International Monetary Fund
IOTA .....	Intra-European Association of Tax Administrations
ITA.....	International Tax Academy
ITC.....	International Tax Compact

ITD .....	International Tax Dialogue
InWEnt .....	Capacity Building International, Germany
ITIC .....	International Tax and Investment Center
JICA .....	Japan International Cooperation Agency
KfW .....	Reconstruction Loan Corporation
MEH .....	Spanish Ministry of Economy and Finance
MERCOSUR .....	Common Market of the South (South America)
MFI.....	Multilateral Financial Institutions
NGO.....	Non-governmental organization
ODA .....	Official Development Assistance
OECD.....	Organization for Economic Co-operation and Development
PFM .....	Public Financial Management
RTACs .....	Regional Technical Assistance Centers
SECO.....	Swiss State Secretariat for Economic Affairs
SIDA.....	Swedish International Development Cooperation Agency
TA .....	Technical Assistance
TJN .....	Tax Justice Network
UN.....	United Nations
UN DESA .....	United Nations Department of Economic and Social Affairs
URA .....	Uganda Revenue Authority

