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CENTRE FOR TAX POLICY AND ADMINISTRATION
DEVELOPMENT CO-OPERATION DIRECTORATE

PROPOSAL FOR A JOINT DAC/CFA TAX AND DEVELOPMENT PROGRAMME

DAC Meeting, 24 September 2010

This document is submitted FOR DISCUSSION under Item 3 of the Draft Annotated DAC Agenda [DCD/DAC/A(2010)14] and is also being circulated for comments to the CFA.

Following the DAC's informal discussion on 19th July and written comments received by DAC and CFA members on the July 1st version of the document, this Proposal has been updated. The main changes are fine tuning of objectives; additions on country relevance; OECD comparative advantage; division of labour; OECD wide work on taxation; more details of outputs with indicative staged activities; clarification of management arrangements; reduction in budget; postponement of the meeting of the Task Force; deferred decision making process for approval.

Proposed Next Steps following the DAC's discussion on 24th September:

The Programme will be developed further in the coming weeks. Approval will not be sought until both Committees are in agreement. The Task Force will not meet again until after the Programme has been agreed, although preparatory work of the Task Force sub groups will continue in 2010. Commitments of Voluntary Contributions are required between now and end 2010 if the Programme can begin in early 2011.

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PROPOSAL FOR A JOINT DAC/CFA TAX AND DEVELOPMENT PROGRAMME

EXECUTIVE SUMMARY

- The expected outcome of a three year Programme starting in 2011 will be an *enhanced enabling environment for developing countries to collect an appropriate share of tax revenue and to build effective states*. This will be achieved primarily through work on international tax matters, an area of clear OECD comparative advantage.
- The Programme will be supported by an informal multi-stakeholder Task Force comprised of interested OECD countries, developing countries, international organisations, civil society and business. The Task Force, which met on 11 May 2010, provides an important platform for delivering advice and impetus to the two Committees which will jointly oversee the Programme.
- The Programme will bring together the work of the tax and development communities within the OECD. At the OECD's May 2010 Ministerial Council, Ministers acknowledged the urgent need for progress in the field of tax and development, commending OECD co-operation with developing countries to support effective tax systems and combat offshore tax evasion.

Why Tax Matters for Development

1. Developing countries have determined that they must build capacity to achieve sustainable growth, tackle poverty, combat corruption, attract foreign direct investment and develop transparent financial systems. Taxation is central to achieving these interrelated objectives. Sound and effective taxation systems provide governments with the funds needed to invest in development and, in the longer term, offer an antidote to aid dependence in the poorest countries and a predictable fiscal environment to promote growth. Developing countries also recognise the need to work globally to retain their already scarce resources as an integral part of international efforts to combat illicit financial flows, especially offshore tax evasion.

2. More broadly, in addition to providing a platform for development, taxation is integral to the 'good governance' agenda. By stimulating the process of negotiation and bargaining between states and their citizens, the taxation process is central to more effective and accountable states. In this regard, *how* taxes are raised matters as much as *how much*. Recent evidence also indicates that reforms which begin in tax administration may catalyse reforms in other parts of the public sector, rejuvenating reform processes where they have stagnated in some developing countries.

Developments in the OECD and the International Policy Environment

3. Following several years of outreach work by the Centre for Tax Policy and Administration in partnership with developing countries on international taxation matters, and work by the Development Co-operation Directorate on taxation and governance, the first joint meeting of the DAC and CFA took place back-to-back with a DCD/CTPA/DEV-inspired Global Forum on Development meeting on taxation and development, including domestic resource mobilisation, in January 2010. At these two meetings, the elements of a possible Tax and Development Programme were discussed and broadly welcomed by over three hundred participants from OECD countries, developing countries, NGOs, civil society and business. See Chair's Statement in Annex A and Summary Records COM/CTPA/CFA/DCD/DAC/M(2010)1 and COM/CTPA/DCD/DEV/M(2010)1.

4. The creation of an informal multi-stakeholder Tax and Development Task Force was a central outcome of these meetings. The informal Task Force provides an important platform for the development of the proposed Tax and Development Programme, for articulating the needs of developing countries, studying ideas and proposals and acting as a clearing house for matching needs with potential solutions and suppliers (Draft Terms of Reference are included in Annex B). Under the Chairmanship of the African Tax Administration Forum (ATAF) and the Netherlands, the Task Force met on 11 May 2010 and agreed a set of priority actions. (See Annex C for outcomes statement and COM/CTPA/CFA/DCD/DAC/M(2010)2 for full Summary Record). The Task Force has been created at a time when the G8 and the G20 have made considerable advances with the assistance of the OECD towards addressing tax evasion and tax havens. More progress has been made in combating bank secrecy and offshore non-compliance in the last year than in the last decade. The proposed Tax and Development Programme will respond to these new opportunities for more international tax transparency. It will focus on how developing countries can be supported to take advantage of increased international transparency, instruments and standards on exchange of information (to access information held in other countries that is relevant to the correct determination of domestic tax liabilities), develop further guidance on the implementation of transfer pricing, and consider so-called "country by country" public reporting by MNEs of certain financial information as well as taxes paid.

5. This proposal also aims to reverse an era of relative neglect of tax as a development catalyst. Although the DAC's GOVNET has made a unique contribution in raising the profile of taxation as a major policy issue for development and better governance, a change of approach is required to ensure international support for tax systems is provided with a greater emphasis on governance and statebuilding and that revenue and customs related functions in developing countries attract a larger proportion of ODA. The opportunities for change are good, partly because of the widespread recognition across a range of stakeholders that effective tax systems are central for statebuilding, as a means of connecting states with their societies and citizens.

6. At the OECD's May 2010 Ministerial Council, Ministers acknowledged the urgent need for progress in the field of tax and development, commending OECD co-operation with developing countries to support effective tax systems and combat offshore tax evasion. Taxation will feature at the MDG Review summit at the UN in September 2010.

Expected Outcomes for the OECD's Tax and Development Programme

7. Within this context, the main expected outcome of the Programme is *an enhanced enabling environment for developing countries to collect tax revenues and to build effective states.*

8. It is intended that this expected outcome will be progressed by indicative outputs and intermediate outputs which build on the outcome statement of the joint CFA/DAC meeting held on 27 January and refined by the Task Force at its meeting in May. These are set out in Table 1 below. The Task Force has agreed to operate four multi-stakeholder working groups (on transparency and exchange of information, transfer pricing, MNE reporting, and the existing DAC GOVNET Task Team on Tax and Governance on statebuilding and international support) to help deliver these intermediate outputs. More detailed activities will be discussed at the meeting of the next Task Force in early 2011. The intermediate outputs are therefore indicative at this stage but are broad-ranging enough to provide for the necessary flexibility in a fast-moving policy environment with multiple drivers, including the G8, G20 and new regional organisations such as ATAF which is articulating an African call for action. This approach will 'future proof' the work and will allow the Secretariat to respond to opportunities as they emerge. An important cross cutting concern is with institutional development. Outputs in Table 1 will be delivered in direct association with regional organisations such as ATAF, with which the OECD has had a close partnership since its inception.

Table 1. INDICATIVE OUTPUT RESULT TOPICS, INTERMEDIATE OUTPUT RESULTS AND INDICATIVE ACTIVITIES

Output result topic 1: Statebuilding, accountability and effective international support.	Output result topic 2: International tax evasion/avoidance countered and transparency and exchange of information improved.	Output result topic 3: Increased transparency in the reporting of relevant financial data by MNEs.	Output result topic 4: More effective transfer pricing regimes in developing countries.
<p>Intermediate Output Results.</p> <ul style="list-style-type: none"> • Best practice recommendations on aid modalities and tax systems for developing countries and donors (with the International Tax Compact leading). <p>Year 1 activity : production of report based on up to 6 country case studies, with consultations on results with ATAF and other partners.</p> <ul style="list-style-type: none"> • Practical recommendations for developing countries and donors for linking tax revenue to expenditure outcomes. <p>Year 1 activity: regional multi stakeholder dialogue events in Africa, Asia and Latin America to gather evidence and share results.</p> <ul style="list-style-type: none"> • Watch list of countries where aid dependency risks undermining taxation and accountability. <p>Year 2 and 3 activity: analytical reports in collaboration with ATAF, followed by development of watch list methodology with support from international partners (e.g. IMF).</p> <ul style="list-style-type: none"> • Reports on the tax treatment of aid funded goods and services based on donor practice and dialogue meetings with ATAF and other regional organisations. <p>Year 2 and 3 activity: gather lessons learned from donors considering changes to exemption regimes; assessment of impact of exemptions</p>	<p>Intermediate Output Results.</p> <ul style="list-style-type: none"> • Support and guidance to developing countries to assess the benefits and needs for international cooperation on exchange of information for tax purposes. <p>Year 1 activity: regional dialogue and needs assessment events in partnership with ATAF, SADC, EAC, CIAT, etc.</p> <ul style="list-style-type: none"> • Facilitation and support to the negotiations on exchange of information agreements with interested jurisdictions, such as potential tax havens, on a multilateral basis where feasible (in partnership with the Global Forum and regional organisations). <p>Year 1 activity: implementing multilateral negotiation events in partnership with regional organisations as above.</p> <ul style="list-style-type: none"> • Support to regional organisations to implement regional multilateral exchange of information agreements complying with the international standard. <p>Year 1-2 activity: Dialogue and negotiation with SADC on the multilateral tax treaty; with other regional organisations on a demand driven basis.</p> <ul style="list-style-type: none"> • Guidance to developing countries on the 	<p>Intermediate Output Results.</p> <ul style="list-style-type: none"> • An analysis of, and multi stakeholder dialogue on, the potential benefits (to developing countries and others), and costs (to business and others) of adopting country-by-country reporting. <p>Year 1 activity: initial multi-stakeholder report developed by OECD and Task Force.</p> <ul style="list-style-type: none"> • Advice to the OECD and others on country by country reporting to inform the revision of OECD Guidelines for Multinational Enterprises, interacting with and in the context of existing initiatives (e.g. the EITI initiative). <p>Year 1 activity: development of options to feed in via CFA and DAC to the OECD Investment Committee.</p> <ul style="list-style-type: none"> • Dissemination and communication of findings beyond OECD. <p>Year 2 and 3 activity: continued dialogue with business and NGOs followed by final report.</p>	<p>Intermediate Output Results.</p> <ul style="list-style-type: none"> • Support to developing countries to assess the impact of intra-firm cross border trade and investment with guidance to developing countries on the possible scope and scale of optimal transfer pricing regimes, thin capitalization and related rules. <p>Year 1 activity: regional dialogue and needs assessment events in partnership with ATAF, SADC, EAC, CIAT and responses to countries on a demand driven basis.</p> <ul style="list-style-type: none"> • Guidance to developing countries on reviewing existing legislation and on how to design and implement new transfer pricing legislation. <p>Year 1-2 activity: regional dialogue events with ATAF, SADC, CIAT etc, exploration of regional agreements as platforms for international audit assistance and advice to individual countries on a demand driven basis.</p> <ul style="list-style-type: none"> • Guidance to LDCs on developing administrative capacity to implement an effective Transfer Pricing regime, including structures; staffing needs; process implementation; design of performance objectives; dispute

<p>on partner countries.</p>	<p>adoption of the Multilateral Convention for Mutual Assistance in Tax Matters on a demand-driven basis in order to provide an effective network of exchange agreements with OECD and other signatories of the restructured convention.</p> <p>Year 2-3 activity: response on a demand-driven basis.</p> <ul style="list-style-type: none"> • Support to developing countries on how to establish and or modify their legal and regulatory framework to enable the implementation of the international standards of transparency and exchange of information. <p>Years 2- 3 activities: regional events with ATAF, SADC, EAC, CIAT on a demand driven basis.</p> <ul style="list-style-type: none"> • Guidance to developing countries on how to establish or strengthen the organisational capacity to exchange and obtain information based on needs assessments, including risk management and confidentiality issues. <p>Year 2-3 activity: development of a manual tailored to the needs of developing countries.</p> <ul style="list-style-type: none"> • Support and advice to developing countries on participating in the work of the Global Forum on Exchange of Information for Tax Purposes facilitated on a demand-driven basis (on an ongoing basis) 		<p>resolution mechanisms.</p> <p>Year 2-3 activity: responses to be assessed on a demand-driven regional basis including the development of joint audits within regional agreements.</p> <ul style="list-style-type: none"> • A manual for developing countries on the practical implementation of transfer pricing regimes. <p>Year 2-3 activity: development and publication of a manual working with other interested international organisations (particularly the UN) based on a dialogue with developing countries, and regional tax organisations such as ATAF, to identify measures to ensure the effectiveness and relevance of the internationally agreed approach to transfer pricing for developing countries.</p>
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The OECD's comparative advantage for hosting this programme

9. The Tax and Development Committees and Directorates will bring their strengths and comparative advantages together as follows:

CFA/Centre for Tax Policy and Administration (CTPA)

- Global leader in respect of technical expertise in international tax matters particularly the OECD Model Tax Convention and Transfer Pricing Guidelines, and standard setter in exchange of information, domestic tax policy and statistical areas.
- An extensive tax partnership programme based around established tax centres and programmes, delivering 80+ events globally on an annual basis attended by several thousand developing country and non-OECD tax officials, engaging 90 plus Non-OECD Economies.
- Direct involvement of Heads of Tax Administrations from developed and developing countries in the OECD Forum in Tax Administration and the best practice guidelines developed by this group.
- An Advisory Group for Co-operation with Non-Member Economies as a mechanism for direct consultation with developing countries on both the partnership programme and the technical work undertaken in the CFA's working parties, as well as a Board for Co-operation with Non-OECD Economies, which sets the strategic direction for relations with developing countries.
- Direct links with the Global Forum on Transparency and Exchange of Information for Tax Purposes through co-located secretariats.
- Founding member along with the World Bank and IMF of the International Tax Dialogue (which also now includes the EC, DFID and the IADB).

DAC/Development Cooperation Directorate (DCD)

- Expertise in development, poverty reduction, governance and statebuilding in developing countries, through the DAC's Network on Governance (GOVNET), the International Network on Conflict and Fragility (INCAF), the Network on Gender Equality and the Network on Poverty Reduction¹. The GOVNET has made a major contribution to raising the profile of tax as a broader development concern, with links to corruption, illicit financial flows and accountability.
- Providing a statebuilding lens to international tax evasion and avoidance. Insights into how International tax evasion undermines the potential for local accountability by fragmenting political action and undermining the legitimacy of the tax system will be integral to this programme.
- Knowledge on what works and what does not, in line with the 2005 Paris Declaration on Aid Effectiveness and the principles of ownership, alignment, harmonisation, results and mutual accountability.
- Linking tax and expenditure outcomes in developing countries, i.e. the practical steps required to connect citizens to their states by demonstrating that taxes paid leads to benefits in terms of public services. This can include promoting transparency and national dialogue on taxation, tax payer education programmes, earmarking of taxes for particular expenditures (e.g. the Ghana experience), and better parliamentary scrutiny over both revenue and expenditure.

¹ These Networks are Subsidiary Bodies of the DAC, comprised of experts in their respective fields from donor agencies.

- Understanding of the political economy of taxation in developing countries. There are important political economy lessons to be learned from similar international efforts which aim to promote accountability.
- A network of members' offices and experts based in developing countries.

10. The Programme is being set up in the light of the recent creation of initiatives to promote collective action on taxation, which stem from the Monterrey Consensus on Financing for Development established in 2003. These include the International Tax Dialogue (the ITD involves the OECD, the IMF, the World Bank, the EU and other development partners), and the German-inspired International Tax Compact. 2010 is a key year with the Spanish Presidency of the EU and the G20 prioritising tax and development. The IMF has established a Topical Trust Fund on Tax Policy and Administration which will provide developing countries with expertise in the majority of technical areas relating to domestic tax policy and administration.²

11. The OECD already has a niche role as a neutral broker in facilitating the interaction between tax administrations through its 40 plus membership of the CFA, is the leading international organisation on international tax matters, and has a strong focus on addressing the problem of cross-border tax evasion.

12. Initial mapping of the international provision of assistance suggests that the proposed OECD Tax and Development programme, combined with the work of the Task Force, has a comparative advantage in working on international taxation and statebuilding through policy dialogue and sharing practical experience. Annex D sets out the focus areas of other major international players, indicating the majority of international and regional assistance is directed at domestic tax policy and administration, confirming the OECD's comparative advantage in the international taxation area.

13. Within the OECD, the DAC and the CFA are the lead Committees in this proposal, although other Directorates and Units are working on some aspects of taxation and links will be established, as appropriate, as the programme is rolled out (see Annex E).

Programme Design Issues

14. In designing the Programme, attention has also been focused on the following three related policy issues:

15. **First, the concerns of developing countries over the potential resources lost to development from international tax evasion and avoidance will drive the programme.** According to the Oxford University Centre for Business Taxation, estimates of revenue losses suffered by developing countries due to corporate profit shifting range between approximately USD 35 billion and USD 160 billion per year. Estimates of tax evaded by individuals residing in developing countries who hold financial assets abroad and do not report this income in their country of fiscal residence have been estimated as in the order of USD 124 billion per year. The participation of developing countries in the Task Force will keep the programme centred on the core revenue and governance concerns of developing countries and will facilitate links to the DAC's broader Financing for Development agenda. An early task will be to discuss the reliability of these estimates of lost revenues.

16. Although it is impossible to generalise about the needs of developing countries, Table 2 illustrates the possible relevance of the Programme in different contexts.

² Although the IMF takes primary lead on domestic tax matters, several outputs in the statebuilding, accountability and aid column in table 1 are integral to improving international support to both domestic and international tax matters.

17. **Secondly, an overarching statebuilding framework will provide coherence for the programme.** A central concern is that the damage done to local accountability by international tax evasion and profit shifting which fragment political action and undermine the legitimacy of the tax system, holds back the whole process of state building. The ability of elites to avoid tax through international channels is likely to prevent efforts by businesses to negotiate constructively and collectively with governments over taxes. Where elites are known to avoid taxation through illicit means, compliance among all taxpayers is discouraged, and the basic legitimacy of the tax system undermined. Closing off the pathways for elites to evade tax, for example by eradicating tax havens, is thus integral to the state building agenda. The role of powerful and influential MNEs is particularly important in demonstrating transparency and fairness in the payment of taxes, with important knock on effects and signals given to other taxpayers. The main implication is the need to promote multi-stakeholder inclusion and partnership, to support the necessary process of bargaining and negotiation between government, business, taxpayers and civil society more broadly. The Task Force embodies this approach, but the same multi-stakeholder approach will also be adopted as the Programme engages in each developing country, to maximise transparency and accountability.

Table 2. Relevance of OECD Tax and Development Programme for Developing Countries

	Statebuilding, accountability and effective international support	International tax evasion/avoidance countered and transparency and exchange of information improved	Increased transparency in the reporting of relevant financial data by MNEs	More effective transfer pricing regimes in developing countries
Fragile Situations	<p><i>Most relevant where</i></p> <ul style="list-style-type: none"> • basic tax administration, legitimacy of the state, accountability and transparency, perceived fairness and political commitment to shared prosperity are weak. 	<p><i>Most relevant where</i></p> <ul style="list-style-type: none"> • country is natural resource/single sector dependent • few MNEs dominate primary sectors/tax base. • high net worth individuals active, with possible links to corruption and conflict • country at risk of implementing bank secrecy or acting as a haven for illicit funds 	<p><i>Relevance and impact to be established through analysis to be undertaken by the Programme.</i></p>	<p><i>Most relevant where</i></p> <ul style="list-style-type: none"> • country is natural resource/single sector dependent • few MNEs dominate primary sectors/tax base.
Low income countries and lower middle income countries	<p><i>Most relevant as for fragile situations plus where</i></p> <ul style="list-style-type: none"> • aid dependence may crowd out taxation and distort domestic accountability. 	<p><i>Most relevant where</i></p> <ul style="list-style-type: none"> • country has a small and open economy with regional cross-border trade and investment • country is in a regional network, where agreements like a multilateral double taxation agreement require exchange of information • cheap labour attracting MNEs, operating in a range of sectors • country at risk of implementing bank secrecy or acting as a haven for illicit funds 	<p><i>Relevance and impact to be established through analysis to be undertaken by the Programme.</i></p>	<p><i>Most relevant where</i></p> <ul style="list-style-type: none"> • global MNEs operate in a wide range of sectors, adding technical and bargaining complexities with MNEs. • cross-border connected party transactions are also significant within the regional economy.
Upper middle income countries (incl. BRICS), and OECD countries	<ul style="list-style-type: none"> • Countries share their experiences and lessons learnt; provide extensive know-how, funds and technical assistance. 	<ul style="list-style-type: none"> • Countries share their experiences and lessons learnt; provide extensive know-how, funds and technical assistance. 	<p><i>Relevance and impact to be established through analysis to be undertaken by the Programme.</i></p>	<ul style="list-style-type: none"> • Countries share their experiences and lessons learnt; provide extensive know-how, funds and technical assistance.

18. Table 3 below illustrates how the statebuilding approach also provides a framework in which to integrate the technical revenue raising objectives. This approach was welcomed by the Task Force at its 11th May 2010 meeting.

19. **Thirdly, Policy Coherence for Development.** The OECD is uniquely placed to accelerate policy coherence for development in the tax field by promoting interaction between tax and finance specialists (CFA) and aid and development practitioners (DAC) in the delivery of the Programme, framed by the statebuilding approach.

Table 3. TAX POLICY AND ADMINISTRATION WITHIN A STATEBUILDING FRAMEWORK

Standard objectives of Tax Policy and Administration	Revenue Raising Perspective	State Building Perspective
Efficient and effective tax collection	Fair and consistent enforcement of tax collection increases credibility of tax system, and promotes compliance and thus increases revenue. Efficient collection of taxes reduces collection costs and increases revenue raised.	Concern with a) how taxes are raised; not just how much; b) demonstrating expenditure outcomes from revenue inputs; c) negotiated compliance and bargaining versus coercion; d) reforms starting in revenue administration can be transferred to other parts of public administration; e) ensuring the state is present throughout its territory via the tax system.
To reduce inequality/inequity of tax burdens	Likely to increase tax compliance and thus increase revenue.	Perceived fairness raises legitimacy of tax administration and the political system more broadly.
To provide a predictable and fair environment for investors	A predictable business tax environment promotes trade and investment, including FDI. Danger that tax incentives (such as exemptions, tax holidays) reduce revenues and trigger “race to the bottom” competition between countries.	Maximise transparency where possible and reduce opportunities for corruption/bribery among officials and other elites.
To limit tax avoidance/evasion at the international level	Effective anti-avoidance measures (and international co-operation through, for example, exchange of information) reduce cross-border shifting of profit or funds and resultant revenue-loss. Maximising potential windfall domestic revenues.	Concern with a) elites opting out of domestic public sphere undermining credibility of domestic tax system; b) fragmented business interests failing to engage in collective bargaining with government over tax policy; c) legitimacy of tax system depends on demonstrating expenditure outcomes from windfall revenues—causing virtuous circle back to compliance d) concern with links to other action on illicit financial flows.
To ensure Multi National Enterprises are taxed appropriately.	Transfer pricing rules in line with internationally agreed standards create level playing field and enable countries to collect appropriate tax revenue from MNEs.	MNEs perceived to be compliant and fair— sends signals to other groups and tax payers; MNEs can lead by example as part of a broader focus on corporate social responsibility.
To ensure aid supports tax systems	Maximise international resources for tax system support in developing countries	Maximise international resources for tax system support but also concern a) that aid dependency may dampen the political effort to broaden/deepen the tax base b) aid delivery may serve to undermine domestic accountability.

Delivery issues and approaches

20. Delivery of the Programme will follow standard OECD practices:

- **Convening.** The OECD's convening authority on both tax and development issues is very strong, and is an increasingly important asset in organising exchanges between tax professionals where multilateral approaches are required, for example multilateral approaches to exchanging information. The OECD is unique in its ability to engage with the private sector in a dialogue on international tax issues. Over time, the Task Force may perform a clearinghouse function, matching needs and demands to possible solutions and suppliers.
- **Brokering and facilitation.** Many of the Programme activities will involve direct engagement between the OECD and tax officials in developing countries. The role of the OECD is to open doors and facilitate exchanges of experiences between tax officials worldwide, increasingly promoting South-South approaches and providing solutions to common problems. Although there will be direct engagement between the OECD and developing countries, this Programme is not intended to be a technical assistance project.
- **Sharing OECD standards, principles and practice.** The partnership element of the Programme will be organised around sharing good practices, taking into account the context of developing countries. Institutional support, for example to ATAF, will be based on OECD practice including the operation of peer reviews and the process of bench marking tax administrations across Africa, building on OECD experience.
- **Generating knowledge.** The Programme will generate a significant knowledge base, which will be used to offer recommendations to the DAC and CFA alike, as well as to developing countries. A communications strategy will accompany the final draft of the Programme.

Governance and Management

21. In response to comments from a number of members, the Secretariat has streamlined the management structure, cut back on the size of the Programme and has slowed down the initial implementation steps.

22. The proposed management arrangements for this Programme aim to balance efficiency with accountability to two Committees. A Tax and Development Unit will be established within the existing structure of the Global Relations Division of the CTPA. The Unit will deliver the Programme, service the Task Force, organise meetings, undertake analysis and deliver Programme events in partnership with developing countries. Full time staff will be recruited for this purpose, although both DCD and CTPA may make contributions in terms of staff time from the existing staff complement where required. CTPA and DCD will continue the current arrangement of co-financing staff, noted by OECD Ambassadors as best organisational practice at their meeting on development issues on 21 January 2010 (see Annex F).

23. The Unit will be co-located with DCD at the Delta premises and will be managed by a Unit Head. The Unit Head will report day-to-day to CTPA and DCD Management jointly and to the CFA and DAC jointly. It is proposed that the Committees agree work plans and receive progress reports at joint Committee meetings where possible (biannually) or at joint Bureau meetings (annually or twice annually) if this is more feasible. All documents generated by the Secretariat will be issued jointly by CTPA and DCD and classified in line with OECD rules.

24. The Programme is intended to complement and reinforce, but not duplicate, the partnership programme of the Global Relations Division of the CTPA which operates an extensive programme of events to many developing countries and the work of the Global Forum on Tax Transparency, for which there is an existing budget based primarily on voluntary contributions and part II contributions from Ministries of Finance and tax administrations.

Funding

25. In terms of funding, and situating this new work stream in the PWB, the Tax and Development Programme will be included in 2011 under Output Area 5.1.1 with the understanding that this new Output Result would be managed by the joint Secretariat. The associated funding (Part I and VCs) would also be ring-fenced and a new account will be created (a grouped grant) to pool and manage the associated new VCs. VCs of up to EUR 4 million will be required for 2011-13 including OECD overhead charges, reduced by EUR 1 million from the earlier proposal (see draft budget in Annex G).³ In parallel, the Secretariat is pursuing possibilities of reprioritised Part 1 central funds for 2011/12.

26. All funding will be ODA-eligible and developing countries eligible for support from the programme will be those on the DAC list of recipient countries. At this point, the indications are that new VCs are likely to originate in OECD donor agencies, as opposed to finance ministries or tax administrations.

27. As a practical expression of demand for this Programme, governments from developing countries will be required to pay the travel costs for participants attending specialised events delivered under the auspices of the Programme. Where this principle constrains participation, donor support at the country level may be sought to cover these costs, thereby linking country level programme objectives with the OECD's international taxation agenda. For more general international Programme events, for example Task Force meetings, where developing country participation will contribute to more widely shared collective international action and policy development objectives, travel costs may be met by the Programme if other funding possibilities have been exhausted.

Timing

28. This proposed Programme demonstrates the OECD's special qualities as a flexible organisation for taking forward intergovernmental work, bridging two important policy communities. The timing of the Programme is urgent because of the pressing need as expressed by developing country organisations such as ATAF and the debate at the UN MDG Summit. Through this proposed work, there is an opportunity to 1) serve the revenue collection interests of developing countries, 2) strengthen governance and accountability, and 3) begin a longer term plan for reducing aid dependence.

29. The Programme will be time-bound at three years with a review in the second year to test whether the opportunities for progressing tax and development require a continued response.

Start up phase 2010

30. The Secretary General has provided EUR 247 K for start-up work in 2010 including

31. **Supporting the work of the Tax and Development Task Force.** The Task Force will hold sub-group technical meetings in 2010 on components of the proposed Programme, which will inform the fine tuning of the final design of the Programme.

³. With the DAC's agreement, the GOVNET's Tax and Governance PWB proposal for 2011/12 will form the DAC's contribution to the proposed Tax and Development Programme from January 2011, but will be recorded within the 'core' DAC PWB for 2011/12.

32. **Mapping international assistance.** A broad mapping of the international environment and support for tax and development issues is underway in partnership with the International Tax Compact.

33. **Establishing Partnerships, raising funds and communications.** A preliminary assessment of the needs of partner countries is underway together with regional organisations, particularly the African Tax Administration Forum.

34. The Netherlands have agreed a staff secondment and the US, UK and Norway are considering support. Voluntary contributions for the full programme will be required in 2010 if the Programme is to begin on track in 2011.

Next Steps

35. The CFA and DAC are invited to

- Discuss the current proposal on 24th September (DAC) and in early 2011 (CFA).
- Note an opportunity for a joint DAC/CFA Chairs/Vice Chairs discussion 17-19 November (tbc).
- Note that up to EUR 4 million is requested in the form of Voluntary Contributions over a period of three years, 2011-2013 to finance the Programme. Indicative commitments for 2011/12 are welcome now.
- Note the proposal will be developed further in coming weeks and CFA and DAC will then be invited to approve an updated and final proposal.

ANNEX A

JOINT MEETING ON TAX and DEVELOPMENT

BETWEEN THE COMMITTEE ON FISCAL AFFAIRS (CFA) AND THE DEVELOPMENT ASSISTANCE COMMITTEE (DAC)

Wednesday 27 January 2010

CO-CHAIRS' STATEMENT

On 27 January 2010, the OECD hosted a joint meeting of the Committee on Fiscal Affairs and the Development Assistance Committee, bringing together the tax and development communities for the first time.

Participants agreed on a set of general principles to guide follow-up action:

- We acknowledge the urgent call for action from the developing world and the G20 to make progress in the field of tax and development.
- We accept the imperative of close co-operation to combat tax evasion and to work with the developing world to take advantage of the opportunities in the more transparent global environment.
- In our endeavour to work with developing countries and to organise the international response in the tax area, we will promote policy coherence across our governments--among tax, finance and development practitioners.
- We have a common understanding of the central role taxation plays in development and poverty reduction: a strong tax system is the heart of a country's financial independence; its revenues are the lifeblood of the state itself.
- We also agree taxation is more than just about revenue mobilization. The way in which revenues are collected and spent defines the symbiotic relationship between the state and its citizens, strengthening the former and making it more accountable to the latter.
- We agree that an ongoing and open dialogue, involving all stakeholders, can enrich our interaction to help developing countries.
- We encourage the range of international initiatives for dialogue and co-operation and we will seek an appropriate division of labour. In this respect the International Tax Dialogue could play a role.
- We acknowledge the important role that south-south co-operation has to play.

Participants also *recognised* the importance of the need to work together directly in capitals and with other relevant international institutions, and agreed to:

- Explore the opportunities to develop a joint CFA-DAC programme in collaboration with the Global Forum on Transparency and Exchange of Information for Tax Purposes to assist developing countries to benefit from the more transparent global tax environment, including making it easier (e.g. through the multilateral TIEA) for developing countries to access information from other countries, with safeguards on confidentiality.
- Work together to support and help deliver the work programme of the recently created African Tax Administration Forum.
- Develop a programme, in the context of the OECD's work on multi-national enterprises, to improve transparency in the reporting of profits and tax payments.
- To support developing countries in applying transfer pricing principles to enable them to collect their fair share of tax.
- Intensify co-operation between tax administrations and other law enforcement agencies to counter illicit activities.

To *achieve* these goals and implement a coherent approach, engaging developing countries and other key stakeholders including NGOs, and business, participants *decided* to set up a Task Force on Tax and Development. This will convene in early 2010 as an informal group representative of all stakeholders, to develop clear and effective mechanisms for implementation and avoid duplication. The informal Task Force will begin by mapping out existing international efforts relating to tax and development.

ANNEX B

DRAFT OUTLINE OF THE ROLE OF THE INFORMAL TAX AND DEVELOPMENT TASK FORCE

- A multi-stakeholder and representative informal advisory group, not constituted as an OECD body.
- Membership will comprise several OECD countries, developing countries, international and regional organisations, NGOs and international business.
- Open-ended lifetime and subject to periodic review by the DAC and CFA.
- Limited to around 50 people.
- Chaired by one OECD government and one partner country government.
- The Chairs will set meeting agendas after consultation with Task Force members.
- Meeting at six-monthly intervals but with the possibility of technical seminars and workshops pending available resources.
- Meetings will be organised and supported by a Tax and Development OECD Secretariat (T&D Secretariat).
- The Task Force will also work where appropriate with current institutions in the CFA and DAC structures including the CFA Advisory Group and the Board for Co-operation with Non-OECD Economies and the DAC GOVNET Task team.
- Advise (in writing and during consultative meetings) the CFA and the DAC through the T&D Secretariat on the design and implementation of a work programme (to be agreed jointly by the CFA and DAC on an annual basis)
- Support the monitoring of agreed actions taken by the T&D Secretariat.
- Gather and feed in research, lessons from projects and programmes and knowledge generated outside of the OECD and Task Force into the DAC and CFA via the T&D Secretariat.
- Consult with the CFA and DAC Chairs annually on progress made by the OECD on taxation and development.

ANNEX C

OUTCOME STATEMENT FROM THE INFORMAL TASK FORCE ON TAX AND DEVELOPMENT, PARIS, 11 MAY 2010

- The meeting was co-Chaired by the Netherlands and South Africa (also representing ATAF) and brought together representatives from the tax and aid communities from OECD (UK, US, Norway, Germany, Japan, France, Switzerland, Belgium, Spain, Italy), and developing countries as well as emerging economies (India, Uganda, Sierra Leone, Kenya, Zambia, Malaysia, Philippines, Vietnam), business (including BIAC and TUAC), international organisations (ATAF, EU, CIAT, ITC, ITD, UN), and NGOs (TJN, TJN Africa, Christian Aid, Eurodad, and CCFD) .
- The purpose of the meeting was to introduce the informal Task Force; discuss its purpose, its characteristics (informal with a flexible membership) and objectives, and agree the draft terms of reference; discuss plans for a detailed work programme to be produced following the meeting, and agree next steps.
- The objective is to benefit developing countries through putting more resources into the tax area, assisting them in accessing the information necessary to enable their tax regimes to work better both raising revenue and strengthening good governance. In order to achieve that the co-Chairs suggested the following:
 - First, the Task Force will set up three sub-groups representative of all constituencies to:
 1. Work on supporting developing countries on exchange on information working with the World Bank and IMF, ATAF, and others to enable developing countries to increase numbers of bilateral or multilateral TIEAS, and to discuss how to assist in implementation of these agreements.
 2. Look at strengthening transfer pricing implementation in developing countries, including identifying best practices and encouraging South-South co-operation.
 3. Examine the issue of county by country reporting, develop a scoping paper for the next Task Force meeting and provide advice to the CFA regarding the Investment Committee's MNE Guidelines.
 - In addition, the Task Force also asked the ITC, ITD and other interested international organisations to work together on the mapping of international assistance and developing country needs, building on the work already done in this area.
 - The GOVNET was invited to work with the ITC, developing countries and civil society to work on tax and statebuilding and on mechanisms for linking tax revenue to expenditure. Finally, the GOVNET were asked to track aid dependency, and aid directed to revenue functions. Reports in both areas were requested for the next meeting of the Task Force.
 - The Co-Chairs also noted that Task Force work is open ended and when resources allow will consider looking at possible interaction in other areas such as taxation of the informal economy and broadening the tax base.
 - The next meeting of the informal Task Force will be in early 2011.

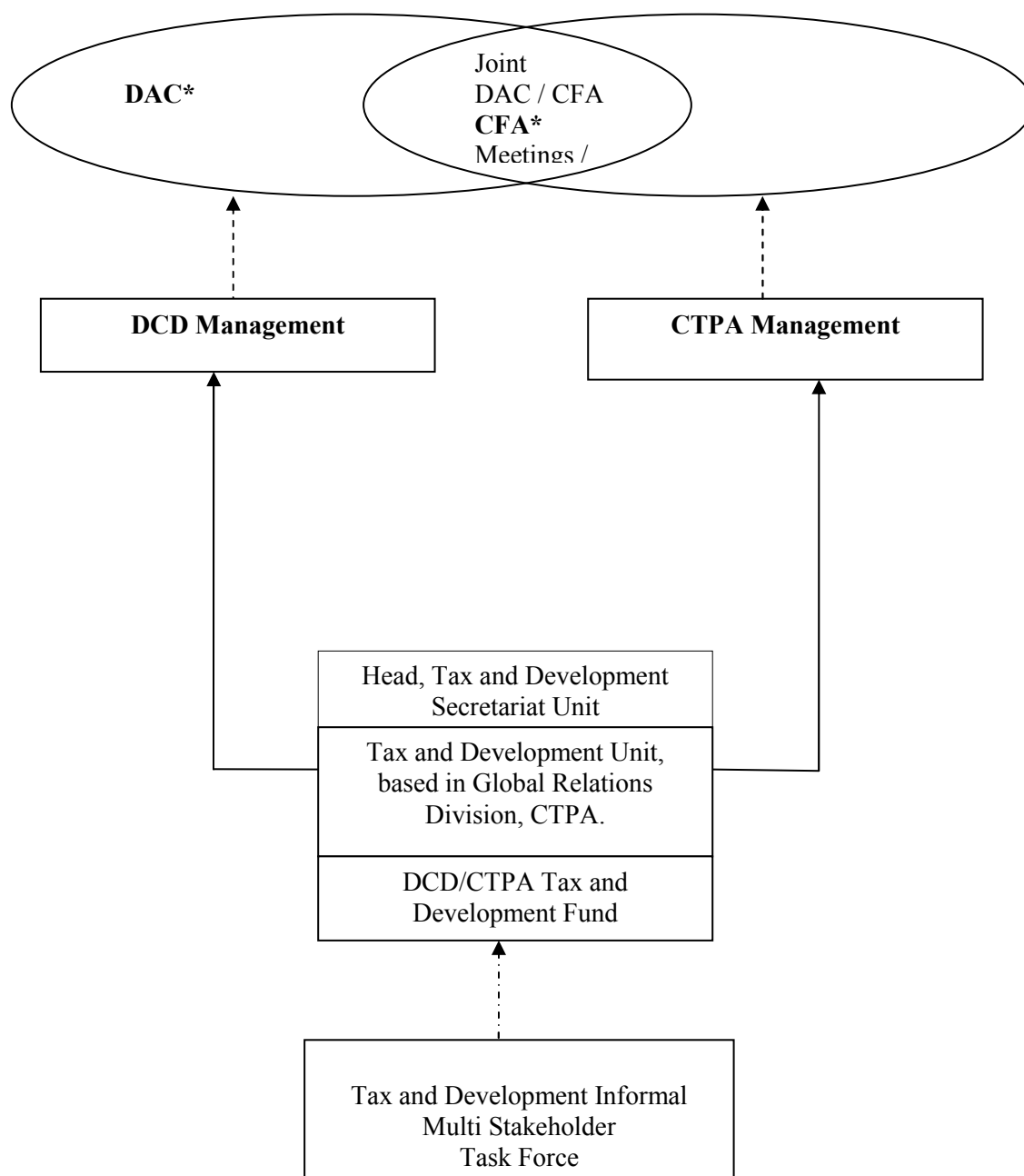
ANNEX D INTERNATIONAL PROVIDERS OF TAX RELATED ASSISTANCE

	Focus	Approaches and instruments
OECD Tax and Development Programme/Task Force	main focus on international taxation	<i>Approach:</i> four core issues: statebuilding and accountability; international tax evasion/avoidance and transparency and exchange of information; increased transparency in the reporting of relevant financial data by MNEs; more effective transfer pricing regimes in developing countries. Task Force provides multi stakeholder platform for developing countries <i>Instruments:</i> dialogue, seminars, workshops, conferences, studies, global instruments of CTPA
OECD CTPA Global Relations	main focus on international taxation	<i>Approach:</i> approx. 80 events a year on global basis focus on multilateral policy dialogue between OECD and non-OECD serving tax officials on, operational and implementation issues, with broad focus on key OECD instruments <i>Core global instruments:</i> Model Tax Convention, Transfer Pricing Guidelines, tax Information exchange agreements, manuals, handbooks and guidelines on various issues; country surveys, conferences, studies.
Global Forum on Transparency and Exchange of Information for Tax Purposes	main focus on international taxation	<i>Approach:</i> multilateral framework within which work in the area transparency and exchange of information has been carried out by both OECD and non-OECD economies (currently 95 members) <i>Instruments:</i> conferences, peer reviews, dialogue, publications
World Bank	main focus on domestic taxation	<i>Instruments:</i> missions, long- and short-term technical assistance, budget support, studies
IMF	main focus on domestic taxation	<i>Instruments :</i> missions, long and short-term technical assistance, policy dialogue, country reports, studies, statistics, provision of loans
UN - Committee of Experts on International Cooperation in Tax Matters	main focus on international taxation	<i>Approach:</i> some capacity building events annually, led by capacity development sub group in partnership with IBFD and others. <i>Instruments :</i> review and update the UN Model Double Taxation Convention and Manual; framework for dialogue on int. tax cooperation; recommendations on emerging issues and capacity-building; technical assistance
UNDP	main focus on domestic taxation	<i>Instruments :</i> technical assistance, workshops, seminars, conferences, studies
EC	main focus on domestic taxation	<i>Instruments :</i> network and dialogue activities, conferences, workshops, budget support
ATAF	main focus on domestic / regional tax issues	<i>Instruments :</i> regional forum: exchange of best practices, experiences and lessons learnt – interaction with OECD GR work, TF as well as other development partners
CIAT	main focus on domestic taxation	<i>Instruments :</i> technical assistance, staff exchange, training, workshops, seminars, conferences
ITD	main focus on domestic taxation	<i>Instruments :</i> global conferences, coordination, exchange of best practices
ITC	main focus on domestic taxation	<i>Instruments :</i> exchange of best practices, networking, dialogue
Bilateral donors and regional development banks (combined)	main focus on domestic taxation	<i>Instruments :</i> (long term) technical assistance, study visits, studies, sector budget support

ANNEX E TAX AND DEVELOPMENT ACTIVITIES OF THE OECD OUTSIDE CTPA AND DCD

	Focus	Activity/Initiative	Objectives	Timeframe/Next steps
OECD Development Centre	Domestic Resource Mobilization (DRM), Public Expenditure	<i>Policy framework on “Public Expenditure Policies for Development”</i> The focus of this initiative is on the nexus between DRM and public expenditure. Planned activities include: <ul style="list-style-type: none"> analyze the trend of sectoral allocation of public expenditure create a network with pilot African Governments to foster policy dialogue, peer learning, the sharing of good practices and building of capacity (public expenditure, budgeting practices) 	The initiative aims to give continuity to the 2010 theme chapter on Domestic Resource Mobilization and bring in the public expenditure side.	The Initiative will be launched at the end of 2010.
	Macroeconomic data; economic, social and political development in Africa	<i>The African Economic Outlook (AEO)</i> The AEO is prepared by a consortium of 3 teams from the AfDB, the OECD Development Centre, the UN Economic Commission for Africa and soon the UNDP. The report consists of a macroeconomic overview and short term forecast, a thematic chapter and 50 individual country notes. It takes stock of the most recent developments in terms of economic, social and political policies.	The AEO represents a source of reference with regard to reliable and informed country-based analyses of macro-economic development in Africa.	Yearly update of the DRM database of fiscal revenues: a database on fiscal revenues will soon be published on www.africaneconomicoutlook.org . It covers the period 1996-2008, including all African countries.
New Partnership for Africa’s Development (NEPAD)-OECD Africa Investment Initiative	Tax challenges with regard to the improvement of Africa’s business climate (investment and development)	The Initiative addresses tax challenges as part of the various policy issues to be considered for improving Africa’s business climate. Examples for tax related activities: <ul style="list-style-type: none"> preparation of a paper on “Taxation for investment and development in Africa” tax policy features as a chapter in the Investment Policy Review of Zambia and in the draft Policy Framework for Investment (PFI) in agriculture policy brief on Taxation for Investment in Africa 	The main focus is on the improvement of Africa’s business climate. Furthermore, the initiative aims to raise the profile of Africa as an investment destination while facilitating regional cooperation and highlighting the African perspective in international dialogue on investment policies.	The NEPAD offices were established with the formal adoption of The NEPAD Strategic Framework at the 37th Summit of the Organization for African Unity (OAU) in July 2001, as a programme of the OAU.
Partnership for Democratic Governance (PDG) Advisory Unit	Government services + core state functions, (e.g. tax regulations on transfer pricing, thin capitalization)	Example for tax related activities: <ul style="list-style-type: none"> At the request of the Ministry of Finance of Georgia, the PDG is providing support to the Ministry to assist the drafting process of implementing regulations on transfer pricing and thin capitalization and to build the Ministry’s capacities on these issues. 	In responding to country demands, the Partnership facilitates the improvement of selected government services and core state functions, and develops countries’ capacity to ensure delivery of effective, accountable services and functions.	On 12 July 2007, OECD Council agreed to the hosting of the Advisory Unit of the Partnership for Democratic Governance within the OECD.
Global Forum on Development	Domestic resource mobilization: tax havens, tax avoidance, evasion, fiscal policy, tax and investment	The second round of the Forum (2009-2010) is focused on DRM for development. Themes include: <ol style="list-style-type: none"> Int. aspects of taxation - tax havens, tax avoidance and evasion Success stories + challenges in DRM, with emphasis on taxation: <ol style="list-style-type: none"> Fiscal legitimacy and social contract Effectiveness of fiscal policy in poverty and inequality reduction Risks for DRM due to aid dependency Tax instruments to increase investment in developing countries. 	The forum was established to improve dialogue between the OECD and non-member governments, as well as a variety of private sector and civil society actors.	The future focus on the Global Forum is under discussion.

ANNEX F TAX AND DEVELOPMENT DRAFT ORGANISATIONAL ARRANGEMENTS



- Day to day reporting/line management (jointly to DCD & CTPA)
 - - - - -→ Accountability to DAC/CFA for agreeing work plans and
 - · - · - · - → Task Force helps to shape T+D Unit work plans; provides technical advice; links to work of other organisations.
- *Reporting to Committees may be channelled via BCNOE and GOVNET.

ANNEX G

DRAFT BUDGET FOR A TAX AND DEVELOPMENT PROGRAMME

	2011	2012	2013	Totals
	(EUR)	(EUR)	(EUR)	(EUR)
Unit Head	161,688	164,922	168,220	494,830
Administrator - Transparency and Exchange of Information ¹	0	0	0	0
Administrator - Transfer Pricing and Transparency in the Reporting of Tax Payments	140,943	143,762	146,637	431,342
Administrator - Regional Programmes	140,943	143,762	146,637	431,342
Finance/Administrative Officer	88,176	89,940	91,738	269,854
Unit Assistant	66,472	67,801	69,157	203,430
Consultants	200,000	204,000	208,000	612,000
Missions	100,000	102,000	104,000	306,000
Task Force and Regional Meetings	200,000	210,000	220,000	730,000
Operating Expenditure	50,000	50,000	50,000	150,000
<i>Subtotal Expenditure</i>	1,148,222	1,176,187	1,204,389	3,528,798
Overheads	104,343	106,794	109,272	320,409
TOTAL ²³	1,252,565	1,282,981	1,313,661	3,849,207

¹ A secondment from the Netherlands has been agreed to fill the Transparency and Exchange of Information Administrator post, hence no costs are shown in the table against that post.

² All resources requested in this table are above and beyond resources already budgeted for in the PWB 2011/12 for both CFA and DAC.

³ With the DAC's agreement, the GOVNET's Tax and Governance PWB proposal for 2011/12 will form the DAC's contribution to the proposed Tax and Development Programme from January 2011, but will be recorded within the 'core' DAC PWB for 2011/12 and is not recorded in the table above.