Tax Co-operation for Development

PROGRESS REPORT ON 2021

OECD

BETTER POLICIES FOR BETTER LIVES

Preface

Providing tax capacity building support to developing countries is a priority for the OECD and a significant part of our work programme. For developing countries, the need to improve domestic resource mobilisation to support their own development needs is a key part of the Sustainable Development Goals. The impact of the COVID-19 pandemic over the past years has put even more strain on fragile fiscal positions in developing countries.

In 2021, the global economy continued to recover, along with trade, employment and incomes. But the revival is unbalanced, with countries, businesses and people facing very different economic realities. Global GDP in mid-2021 was still 3.5% lower than projected before the pandemic. Moreover, this foregone growth to date has not been distributed equally: the loss has been proportionately greater for developing countries as a group than for advanced economies, and greatest of all for low-income developing countries. Many emerging and developing economies have suffered declines in employment during the pandemic and poverty has risen.[1]

Domestic resource mobilisation is more crucial than ever for developing countries, and tax policy and administration are important levers for policymakers to balance a wide range of conflicting pressures – to spur growth, raise revenue and meet the sustainable development goals all at the same time. The demand for support around the globe is extremely high, as low capacity countries make efforts to keep up with the latest standards, tools and policy analysis.

The OECD plays an important role in building tax capacity in developing countries through their membership and participation in OECD bodies and through the technical assistance programmes that deliver much needed support on key tax issues. The OECD works on tax transparency through the Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum), which brings together more than 160 members that participate on an equal footing. To address base erosion and profit shifting (BEPS) by multinational enterprises, the OECD/G20 Inclusive Framework on BEPS (the Inclusive Framework) has more than 135 members. Developing countries represent a large proportion of membership in both cases.

This work pays real dividends. For example, the OECD-UNDP Tax Inspectors Without Borders (TIWB) initiative has helped developing countries collect an additional USD 874 million in tax revenues in 2021, to reach a total of USD 1.6 billion since the initiative started. In Zambia, a long-term transfer pricing technical assistance programme provided by the African Tax Administration Forum (ATAF)/OECD/World Bank Group partnership has helped the Zambia Revenue Authority achieve a five-fold increase in corporate income tax paid by mining companies in Zambia from 631m Kwacha (USD 63 million) in 2016 to 6.819 billion Kwacha (USD 322 million) in 2021.

1. OECD (2021), *OECD Economic Outlook*, Volume 2021 Issue 2, No. 110, OECD Publishing, Paris, https://doi.org/10.1787/66c5ac2c-en.

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The agreement by more than 135 members of the Inclusive Framework on the *Two-Pillar Solution to Address the Tax Challenges of the Digitalistion of the Economy* (the Two-Pillar Solution) was a landmark development in 2021. This agreement on a new approach to ensure that the profits of the largest and most profitable companies are reallocated to the jurisdictions where their consumers are located (Pillar One), together with the establishment of a global minimum corporate income tax (Pillar Two), marks the biggest change in international corporate income tax for a century.

Developing countries had a meaningful impact on the design of both pillars (see Table 1). Critically, the introduction of a minimum tax presents an opportunity for developing countries to reap significant economic benefits and re-evaluate tax incentives without sacrificing competitiveness. With around USD 150 billion of additional tax revenue up for grabs, this has the potential to make a real difference. Supporting developing countries in the implementation of the Two-Pillar Solution will be a major undertaking in the coming years. There is an ambitious implementation plan for the Two-Pillar Solution which will be challenging for many developing countries and will require the OECD capacity building programmes to evolve in order to provide additional support.

In 2021, the OECD conducted a stocktake of progress by developing countries on BEPS to present to the G20 Finance Ministers and Central Bank Governors. *Developing Countries and the OECD/G20 Inclusive Framework on BEPS* shows an overview of progress so far and the good headway that has been made, but also highlights the challenges that remain, especially for the lower-capacity developing countries. The report provides recommendations to improve the rules, capacity building programmes, governance and process of the Inclusive Framework, as well as identifying future priorities for multilateral action. Implementing these recommendations will be taken forward in 2022 and beyond.

The work throughout 2022 will focus on the finalisation and implementation of the Two-Pillar Solution. However, the importance of the OECD's engagement with developing countries on a range of other tax policy and administration issues should not be underestimated. In this report, we also highlight the diverse range of other tax policy and administration topics where the OECD is engaging with developing countries. Governments will continue to look for avenues that will have the greatest impact on their fiscal positions and identify initiatives that will deliver the most out of the scarce resources they have in the international tax space. The OECD, along with its development partners, will work with developing countries to deliver capacity building support that meet their individual circumstances.

Pascal Saint-Amans
Director, OECD Centre for Tax Policy and Administration

Acronyms & abbreviations

ADB	Asian Development Bank
AEOI	Automatic Exchange of Financial Account Information
AFIP	Administración Federal de Ingresos Públicos
ATAF	African Tax Administration Forum
ATI	Addis Tax Initiative
AUC	African Union Commission
BEPS	Base Erosion and Profit Shifting
CARICOM	Caribbean Community
CATA	Commonwealth Association of Tax Administrators
CbC	Country-by-Country
CFA	Committee on Fiscal Affairs
CIAT	Inter-American Center of Tax Administrations
CIT	Corporate Income Tax
COTA	Caribbean Organisation of Tax Administrators
CRS	Common Reporting Standard
CTPA	Centre for Tax Policy and Administration
DIAN	Dirección de Impuestos y Aduanas Nacionales
DRM	Domestic Resource Mobilisation
ECOWAS	Economic Community of West African States
ECR	Effective Carbon Rate
EOI	Exchange of Information
EOIR	Exchange of Information on Request
ETS	Emissions trading system
EU	European Union
FATF	Financial Action Task Force
FHTP	Forum on Harmful Tax Practices
FTA	Forum on Tax Administration
G20	Group of Twenty
GDP	Gross Domestic Product
GILTI	Global Intangible Low-Taxed Income
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
GRP	Global Relations Programme on Taxation
GST	Goods and Services Tax
IDB	Inter-American Development Bank
IFF	Illicit Financial Flow
IGF	Intergovernmental Forum on Mining, Metals and Sustainable Development
IMF	International Monetary Fund
Inclusive Framework	OECD/G20 Inclusive Framework on BEPS
IO	International Organisation
IOTA	Inter-European Organisation of Tax Administrations
ISM	Information Security Management
IT	Information Technology
LAC	Latin American and Caribbean
MAAC	Convention on Mutual Administrative Assistance in Tax Matters
MAP	Mutual Agreement Procedure
MCM	Mopani Copper Mining
MNE	Multinational Enterprise
NZ-IRD	New Zealand Inland Revenue Department
ODA	Official Development Assistance
PCT	Platform for Collaboration on Tax
PIT	Personal Income Tax
PITAA	Pacific Islands Tax Administrators Association
RTO	Regional Tax organisation
SDG	Sustainable Development Goal
SGATAR	Study Group on Asian Tax Administration and Research
TA	Technical Assistance
TIWB	Tax Inspectors Without Borders
TIWB-CI	Tax Inspectors Without Borders – Criminal Investigations
UN	United Nations
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WBG	World Bank Group
ZRA	Zambia Revenue Authority

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Introduction

International taxation issues are of critical importance to most developing countries, since they are typically more reliant on corporate income taxes and foreign direct investment. This means they are disproportionately impacted by base erosion and profit shifting by multinational enterprises (MNEs). As the COVID-19 pandemic impacts developing countries' finances, there will be further pressure on international taxation to deliver revenues. It is estimated that COVID-19 pushed an additional 88 million to 115 million people into extreme poverty during 2020 alone. The crisis has forced most countries to take on additional debt, and for low-income countries this may lead to a precarious fiscal position, particularly if interest rates are to rise. Developing countries already struggle with limited fiscal space; for example, the 2019 average tax-to-GDP ratio in African countries was 16.6%, as compared to the OECD average of 33.4%, and they have less scope for borrowing or quantitative easing.

International tax has become increasingly prominent in the wider tax and development landscape, creating a range of networks and partnerships, especially since the 2015 agreement on the Addis Ababa Action Agenda (AAAA).[2] The AAAA committed countries to scaling up international co-operation on tax and increasing transparency and exchange of information. Members of the Addis Tax Initiative (ATI) have gone further, with additional commitments on funding and actions to support the implementation of the AAAA, including on international taxation.

The OECD is the world's leading international organisation dealing with international tax issues, and is responsible for cornerstone products, including the OECD Model Tax Convention and the Global Revenue Statistics database and related publications. The OECD has been the standard-setter on issues around tax transparency, transfer pricing and corporate tax avoidance. While the OECD's membership is a relatively small group of more advanced economies, international tax has always been a global issue, and this aspect has only become more accentuated in the past decade.

Since the 1990s, the OECD has engaged with non-members – and in particular developing countries – through the Global Relations Programme on Taxation. The Global Forum was established in 2009, to ensure the global implementation of tax transparency. Today the Global Forum has more than 160 members. In order to tackle the problems associated with tax avoidance by MNEs, the OECD, working with G20 countries, established the Inclusive Framework in 2016, which now has more than 135 members.

The wide engagement with non-OECD economies, and particularly with developing countries, has ensured that the OECD's work on taxation reflects a broad spectrum of interests, and that the widest range of countries can benefit from the international tax standards in a globalised world. Non-OECD economies make up a majority of members of the Global Forum and Inclusive Framework, where they sit on an equal footing with OECD members. International co-operation in tax matters has only become more important as the world has become smaller, underscoring the importance of multilateralism in addressing the toughest tax challenges.

2. Addis Ababa Action Agenda of the Third International Conference on Financing for Development (July 2015), online version, see this link (accessed 13 April 2022).

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This report highlights the work of the OECD to assist developing countries to improve their tax systems, especially in the arena of international taxation. Even as the world moves beyond the pandemic, the challenges will not subside, as 2022 promises to present developing countries with additional pressures on their tax capacities. The OECD stands ready to help developing countries with the collaboration of its many development partners. The report covers the full range of assistance that the OECD provides to developing countries on tax issues:

- Helping developing countries counter corporate tax avoidance;
- Helping developing countries combat illicit financial flows;
- Helping developing countries reach the SDGs; and
- Looking ahead to 2022 and beyond.

OECD AND GLOBAL FORUM TAX AND DEVELOPMENT WORK IN 2021, IN NUMBERS

873 million USD	**in additional revenues raised through TIWB assistance programmes**, in collaboration with ATAF/OECD/WBG (USD 1.6 billion cumulative total as of end 2021)
30 billion EUR	**of additional revenue** were identified by developing countries through offshore tax investigations and voluntary disclosure programmes through 2021
23 000+ officials	**benefitted from the OECD's virtual training on tax**, and 6 000 officials reached by the Global Forum's virtual training
1 800 officials	**trained through the Global Forum's e-learning modules**, with two new modules on confidentiality and data safeguards
1 895 requests	**requests for information** made by developing countries
1 806 officials	**participating in tax and crime training**
140 taxpayer education initiatives	**analysed** for the second edition of *Building Tax Culture, Compliance and Citizenship*
75 developing countries	**received support** on information exchange
26 developing countries	**received bilateral** bespoke support on BEPS
21 developing countries	**implemented measures** to comply with exchange of information standards
19 developing countries	**included** in *Tax Policy Reforms 2021*
16 new TIWB programmes	launched in 2021

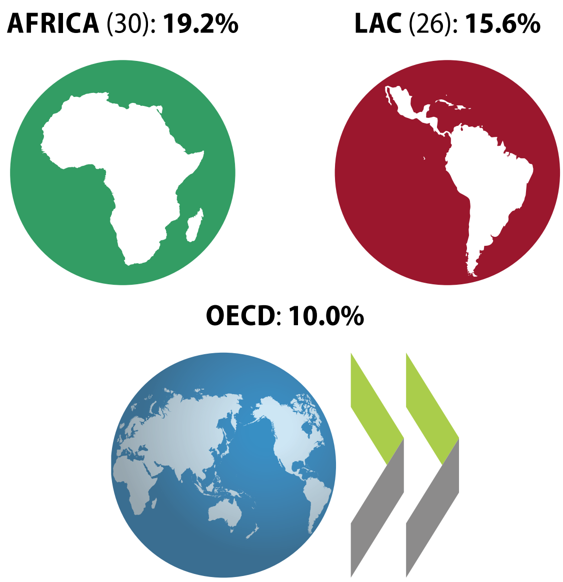
Source: OECD Secretariat - adapted from the Results Framework

Countering corporate tax avoidance

Helping countries protect their corporate tax bases from base erosion and profit shifting is part of the core of the work of the OECD in international taxation. Corporate income tax makes up a significant part of developing countries' tax bases, particularly relative to more advanced economies.

Corporate tax revenues were a larger share of total tax revenues on average in Africa (19.2% in the 30 jurisdictions) and Latin America and the Caribbean (LAC) (15.6% in the 27 jurisdictions) than the OECD (10.0%). The average of corporate tax revenues as a share of GDP was the largest in LAC (3.5% in the 27 jurisdictions), followed by the OECD (3.1%) and Africa (2.8% in the 30 jurisdictions). In thirteen jurisdictions – Bhutan, Chad, Colombia, Democratic Republic of the Congo, Egypt, Equatorial Guinea, Indonesia, Kazakhstan, Malaysia, Nigeria, Papua New Guinea, Singapore and Trinidad and Tobago – corporate tax revenues made up more than one-quarter of total tax revenues according to the latest data.[3]

Corporate tax revenues are particularly important in developing economies



Two of the main ways that the OECD supports developing countries in the corporate tax area is with the implementation of the package of 15 actions to counter BEPS and building capacity in developing country tax administrations on transfer pricing issues. This section details the support provided in these areas. Special focus is given to our work in the extractives sector, as this is often an important part of the tax base for developing countries, and to our flagship TIWB initiative, which has helped developing countries collect more than USD 1.6 billion in additional tax.

3. OECD (2021), *Corporate Tax Statistics*, 3rd edition, OECD Publishing, Paris, https://www.oecd.org/tax/tax-policy/corporate-tax-statistics-third-edition.pdf.

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BASE EROSION AND PROFIT SHIFTING

One of the OECD's priorities is to counter tax avoidance strategies by MNEs that exploit gaps and mismatches in domestic tax laws and allow those MNEs to artificially shift profits to low or no-tax locations. Known as base erosion and profit shifting, or BEPS, these schemes undermine the fairness and integrity of tax systems. The OECD conservatively estimates that every year, USD 100 to 240 billion in corporate tax revenue is lost to BEPS.

Although the stakes are high for governments around the world (OECD and non-OECD alike), for developing countries, BEPS is of particular significance as they rely more heavily on corporate income tax than developed countries do, particularly from multinational enterprises. Moreover, their local taxpayers are less likely to comply voluntarily with the tax laws when they see multinational corporations legally avoiding having to pay their fair share.

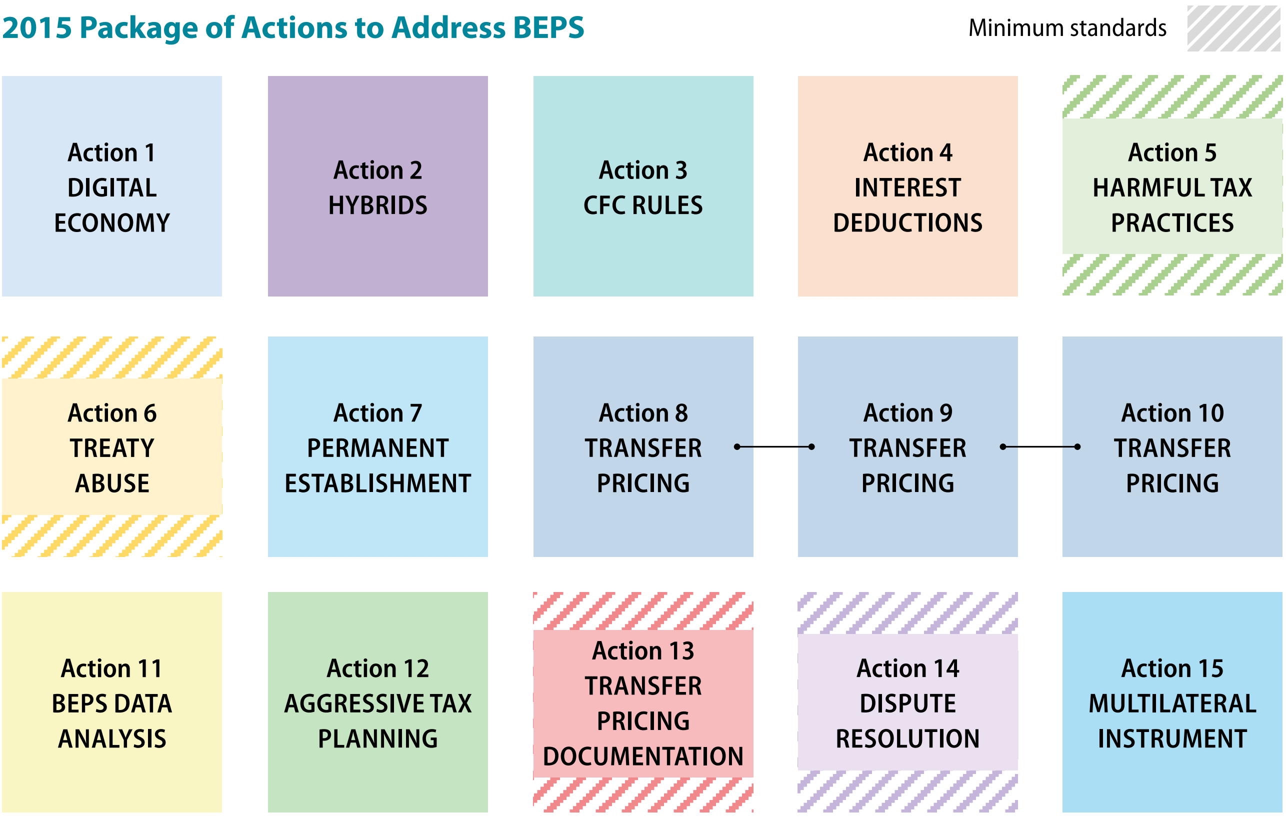
The OECD/G20 Inclusive Framework on BEPS

In 2015, the OECD and G20 delivered a comprehensive package of 15 BEPS Actions to support governments in addressing base erosion and profit shifting (the BEPS Package). The success of the BEPS Package as a response to tax avoidance by MNEs depends on it being implemented by all relevant jurisdictions, and the OECD/G20 Inclusive Framework on BEPS was established in 2016 to further this goal. The Inclusive Framework invites non-OECD and non-G20 countries alike to participate in the BEPS related work of the OECD's Committee on Fiscal Affairs (CFA) on an equal footing, including to date 69 developing countries. All members of the Inclusive Framework, including developing countries, are in the process of implementing the BEPS Package.

The strength of the Inclusive Framework rests on the global participation of diverse groups of countries working on an equal footing, including a large proportion of developing countries. Its expansion continued in 2021 with four new jurisdictions joining the Inclusive Framework. The Inclusive Framework membership, and the Steering Group, are representative of the different regions and levels of development.

With 2021 marking five years since the establishment of the Inclusive Framework, the OECD was mandated

2015 Package of Actions to Address BEPS



by the Italian G20 presidency to take stock of the progress made by developing countries in terms of BEPS implementation and their participation in the Inclusive Framework. The report, *Developing Countries and the OECD/G20 Inclusive Framework on BEPS*[4] (the G20 Report), presented to the G20 Finance Ministers and Central Bank Governors Meeting in October 2021, benefitted from wide consultation with 675 participants from 155 jurisdictions, and contained 10 recommendations covering rules, guidance, capacity building, governance,

4. OECD (2021), *Developing Countries and the OECD/G20 Inclusive Framework on BEPS: OECD Report for the G20 Finance Ministers and Central Bank Governors, October 2021*, Italy, OECD, Paris, https://www.oecd.org/tax/beps/developing-countries-and-the-oecd-g20-inclusive-framework-on-beps.htm.

Box 1. Developing Countries and the OECD/G20 Inclusive Framework on BEPS

Stocktake on BEPS implementation by developing countries

- Developing countries have played their part in securing the integrity of the international tax system, taking action to meet the BEPS minimum standards.
- Feedback from developing countries indicated strong overall support for the BEPS agenda, though some noted that the original BEPS Actions may not reflect their highest priorities.
- Developing countries reported that addressing the tax challenges of the digitalisation of the economy is key.
  - Almost all developing country IF members have aligned themselves with the October 2021 Statement on a Two-Pillar Solution to address the tax challenges arising from the digitalisation of the economy. The terms of the agreement were significantly influenced by developing countries' active involvement in the negotiation process.
  - In the sphere of indirect taxes, 60% of developing countries in the Inclusive Framework were already implementing or considering VAT/ GST measures on e-commerce at the time of the stocktake.
- Most developing countries remain on a steep learning curve, with the result that they may not yet be fully benefiting from the BEPS Actions. For example, at the time of the stocktake (1 June 2021), only 3 developing countries were able to receive Country-by-Country reports from abroad (This had increased to 5 countries as of March 2022.)
- Nevertheless, the stocktake found developing countries have made progress in strengthening their tax systems, particularly in areas they consider to be their highest priorities, such as addressing excessive interest deductions (BEPS Action 4), artificial avoidance of permanent establishment status (Action 7), and transfer pricing (Actions 8-10).

Key recommendations of the Report to the G20 on Developing Countries and the Inclusive Framework

- In order to ensure the Inclusive Framework coalition remains strong and meets the needs of all of its members, further assessments on the progress of developing countries should be conducted on a regular basis.
  - The ministerial roundtable discussion hosted by Minister Nigel Clarke of Jamaica in November 2021 underlined the importance of this ongoing assessment and dialogue.
- All stakeholders should reflect on how Country-by-Country reporting could be made more accessible to developing countries, while also protecting confidentiality of sensitive information.
- Development partners should support a major Inclusive Framework initiative to provide capacity building support and technical assistance to ensure developing countries can adopt and implement the Pillar One and Pillar Two measures in an appropriate and timely fashion.
- Inclusive Framework stakeholders should reflect on governance arrangements to ensure a broad and systematic inclusion of developing countries. In this respect, significant progress has already been made in 2022:
  - The Inclusive Framework has elected Marlene Nembhard-Parker of Jamaica as its inaugural co-chair with a specific role to help amplify the voices of developing countries.
  - The Advisory Group for Global Dialogue on Tax Matters has been reinvigorated and its mandate updated. The Group brings together developed and developing countries to exchange views and acts as a platform to support developing countries' input to the work of the Inclusive Framework.
- The Inclusive Framework should consider developing countries' priorities for multilateral dialogue to address issues beyond BEPS, such as environmental taxation, indirect taxation on e-commerce, and tax administration issues, which could benefit from the multilateral approach facilitated by the Inclusive Framework.

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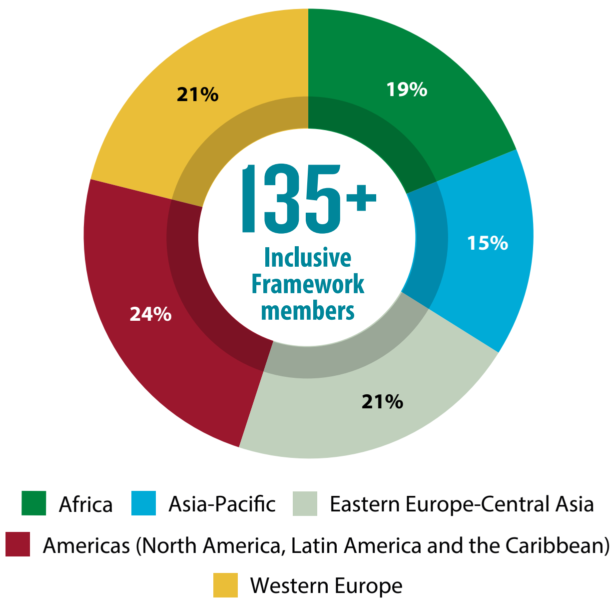
and the future of the Inclusive Framework. In addition, there is an overarching recommendation for further assessments, to be conducted on a regular, structured and systematic basis, on the progress of developing countries.

MEMBERS OF THE INCLUSIVE FRAMEWORK
Regional balance



BEPS Implementation

While all the BEPS actions are important for reducing corporate tax avoidance, four minimum standards were agreed under the BEPS Project (Harmful Tax Practices (Action 5), Treaty Abuse (Action 6), Country-by-Country Reporting (Action 13) and Dispute Resolution (Action 14), that all members of the Inclusive Framework are required to implement. However, in light of developing countries' capacity constraints, some flexibility in terms of the peer review process timing is available. Most notably, this is the case for the peer review on Action 14 (Dispute Resolution), whereby developing countries that do not have a meaningful level of cross-border tax disputes are eligible to request a deferral of the peer review.

The peer reviews show that developing countries progressed on implementing the minimum standards in 2021. Five developing countries saw recommendations on Action 5 removed, helping 40 of 65 developing countries peer reviewed to no longer have recommendations on Action 5. Meeting confidentiality standards remains a challenge however, as 46 developing countries have been recommended to take any necessary steps to meet confidentiality requirements in connection with the standard on automatic exchange of information (AEOI) and to ensure information received is kept confidential. However, two developing countries have since passed the confidentiality and data safeguards assessments.

The OECD's bilateral support programme has resulted in a number of countries passing legislation and regulations for BEPS implementation, with 13[5] countries passing such measures in 2021. These include:

- Kenya replaced its debt to equity thin capitalisation legislation with new interest limitation rules based on the ATAF suggested approach to drafting interest deductibility legislation and the BEPS Action 4 recommended approach;
- Zambia enacted CbC reporting regulations based on the model legislation in the BEPS Action 13 report;
- Kazakhstan adopted the primary law to implement the BEPS Action 5 recommendations;
- Benin passed secondary legislation on transfer pricing, documentation and CbC reporting in May 2021; and
- Ukraine developed administrative guidance on transfer pricing treatment of commodity transactions.

ADDRESSING THE TAX CHALLENGES ARISING FROM THE DIGITALISATION OF THE ECONOMY

Implementation of the 15 Actions of the BEPS package agreed in 2015 has gone a long way to bringing more coherence, substance and transparency to the international tax rules, but the current rules still allow large multinationals to earn significant income in a jurisdiction without paying corporate income tax there. New business models that rely heavily on intellectual property have made it easier for MNEs to shift profits to low-tax jurisdictions. Globalisation has exacerbated unhealthy tax competition.

5. Benin, Brazil, Burkina Faso, Honduras, Jamaica, Kazakhstan, Kenya, Mongolia, Rwanda, Senegal, Sierra Leone, Ukraine and Zambia.

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TABLE 1. **Key aspects of the Two-Pillar Solution heavily influenced by developing country priorities**

Pillar One	Pillar Two
Broad scope of application	Minimum effective tax rate of 15% welcomed by many developing countries
Exclusion for extractive industries	Jurisdictional, rather than global blending
Commitment to lowering the scope revenue threshold, contingent on successful implementation and tax certainty	Confirming importance of the subject to tax rule (STTR), Inclusive Framework members that apply nominal corporate income tax rates below the STTR minimum rate to interest, royalties and a defined set of other payments, would implement the STTR into their bilateral treaties with developing country members when requested to do so
Very limited segmentation, creating simplification benefits	Confirming importance of substance-based carve-out, allowing developing countries to continue to offer incentives to attract real foreign direct investment
Lower nexus threshold (particularly for smaller economies), with no 'plus factors,' meaning that smaller developing countries are far more likely to benefit	Substance carve-out that is mechanical rather than based on facts and circumstances
Dispute prevention and resolution in a mandatory and binding manner for Amount A and issues related to Amount A, while consideration to be given to an elective binding dispute resolution mechanism for issues related to Amount A for certain developing countries	

The work started with Action 1 of the BEPS Package on Digital Economy needed to be completed to ensure the international tax rules were fit for purpose. Following years of detailed and intensive work and negotiations to bring the international tax rules into the 21st century, members of the Inclusive Framework agreed on 8 October 2021 to the Two-Pillar Solution.

The Two-Pillar Solution will ensure that MNEs will be subject to a minimum tax rate of 15%, and will re-allocate profit of the largest and most profitable MNEs to countries worldwide. While the statement reflects a consensus compromise across countries of all levels of development, many developing countries have joined the statement and it includes a number of features that were strongly advocated for by developing countries, as well as some features reflecting the specific requests and circumstances of developing countries (see Table 1).

In the lead up to the 8 October statement, two rounds of regional consultations were held, in partnership with a range of regional tax organisations and development banks. In total, 11 events were held in English, French and Spanish, organised with 10 partner organisations.

These events provided participants with the latest updates on the work to finalise the materials to implement each of the pillars, as well as an opportunity to share regional perspectives from developing country members and regional tax organisations, and to consult on the Secretariat plans for technical assistance moving forward. This feedback was incorporated into the negotiations along with the design of the implementation support programme.

Following the 8 October statement and the recommendations in the report to the G20 to increase the focus on regional dialogue, more regional consultations are being planned to support developing countries in the next phase of the negotiations.

Throughout the negotiations, and in feedback provided for the G20 Report, developing countries articulated a strong demand for support. In response to this demand, the existing OECD support on BEPS will evolve to provide continuity of support on remaining BEPS priorities for countries, while also assisting on the implementation of the Two-Pillar Solution.

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Pillar Two will also create increased demand for support to address tax incentives. Where a tax incentive reduces a firms' effective tax rate (ETR) below the minimum rate of 15%, a firm will be subject to a top-up tax on the balance in the residence country. The impact of the tax incentive on providing firms with incentives to invest in a country will therefore be nullified or at least reduced. Pillar Two thus creates an opportunity to reform domestic tax incentives and increase revenues from low-taxed profits. Such reforms can be challenging, however, especially in balancing revenues and competitiveness. Some countries have already requested support from the OECD in reforming their tax incentive regimes in light of Pillar Two's ramifications. Building on experience gained in recent years, the OECD will look to expand its bilateral support to countries on tax incentives analysis and reform.

Demand is also growing for support in addressing the indirect tax challenges of digitalisation. The COVID-19 pandemic has increased the shift to online purchases, on which VAT is often not collected properly. The international standards on VAT on e-commerce provide a tool for countries to effectively implement VAT on cross border digital transactions.

To help developing countries implement these standards a series of regional toolkits is being developed, the first for Latin America was published in June 2021[6], with the Asia-Pacific version in March 2022[7], and an Africa toolkit to follow later in 2022. As the regional toolkits and associated outreach have increased awareness of the international standards for VAT on e-commerce, an increasing number of developing countries are demanding support in implementation, as part of their efforts under BEPS Action 1. To respond to this demand, support for VAT on e-commerce will be increased in 2022 and beyond.

TRANSFER PRICING

Bilateral international tax capacity building programmes are core to the tax and development work, and support for transfer pricing capacity is always in the highest demand. Since 2012, onsite

6. OECD/WBG/CIAT/IDB (2021), VAT *Digital Toolkit for Latin America and the Caribbean*, OECD, Paris, accessible here.

7. OECD/WBG/ADB (2022), *VAT Digital Toolkit for Asia-Pacific*, OECD, Paris, accessible here.

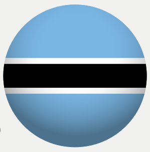
Box 2. Impact of sustained capacity building on transfer pricing

ZAMBIA

A long-term transfer pricing technical assistance programme has been provided to Zambia by the ATAF/OECD/WBG partnership since 2014. A focus of the work has been on the copper mining sector that accounts for approximately 70% of Zambia's export earnings. The work is in response to the concerns raised by senior officials in both the Zambia Revenue Authority (ZRA) and Ministry of Finance that very few mining companies were paying Corporate Income Tax (CIT) in Zambia.

The technical assistance has helped the ZRA in nearly tripling the number of Zambia mining companies paying CIT from 3 companies in 2016 to 11 companies in 2021 and in achieving a five-fold US dollar increase in CIT paid from 631 million Kwacha (USD 63 million) in 2016 to 6.819 billion Kwacha (USD 322 million) in 2021.

BOTSWANA



A long-term transfer pricing technical assistance programme has been provided to Botswana by the ATAF/OECD/WBG partnership since 2014. This programme has provided assistance to the Botswana Unified Revenue Service (BURS) on its transfer pricing dispute with a diamond polishing company, Diacore Botswana, in respect to its controlled transactions with two related foreign entities, Diacore International and Makinson Holdings. The BURS selected the case for audit following Diacore Botswana reporting losses for 2010 to 2014 inclusive. In 2021, the Botswana board of adjudicators ruled in favour of BURS upholding the transfer pricing adjustments BURS made resulting in additional tax of 8 million Pula (approximately USD 0.8 million).

Source: OECD Secretariat.

programmes have provided developing countries with assistance that has allowed them to strengthen and update their legislative frameworks, to build technical capacities and to better design the organisational structures of their international audit teams.

The impact of sustained capacity building on transfer pricing provided by the OECD is increasingly evident, with countries showing continuous increases in revenues over time (e.g. Zambia; Box 2), as well as reaching key milestones (e.g. Botswana; Box 2).

Advance Pricing Agreements (APAs) continue to be an area of focus, as they hold significant potential to increase tax certainty on transfer pricing for both businesses and governments, enabling developing countries to focus scarce enforcement resources more effectively and encourage foreign direct investment.

For example, over the past four years, the technical assistance programme in Botswana has been supporting the Botswana Unified Revenue Service (BURS) in their first two APA cases. The cases are highly complex but significant progress has been made in the first case and this matter is expected to be brought to a successful conclusion in the near future. This work is increasing tax certainty for Botswana business and the Government of Botswana. Botswana considers it is both enhancing its investment climate and improving voluntary compliance.

Box 3. Platform for Collaboration on Tax

The Platform for Collaboration on Tax (PCT) is a joint effort launched in April 2016 by the International Monetary Fund (IMF), the OECD, the United Nations (UN) and the World Bank Group (WBG), to facilitate co-operation between the four Platform Partners' regarding their work on tax.

Toolkits to address key international tax challenges faced by developing countries are a key output of the PCT. The PCT's Toolkit on Tax Treaty Negotiations was published in March 2021. It is a joint effort from the PCT partners to provide capacity building support to developing countries on tax treaty negotiations and builds on existing guidance, particularly from the UN Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries. The toolkit provides tax officials with information on the steps involved in tax treaty negotiations, practical tips for treaty negotiators and easy access to additional information, examples, templates and other tools that treaty negotiators will find useful. The design of the toolkit, with an online version, also allows for regular updating and the incorporation of improvements based on feedback from users and experienced negotiators. Since the launch, 11 new tools have been included in the multilingual toolkit (versions available in English, French and Spanish). 2021 also saw the launch of the toolkit on transfer pricing documentation.

There is strong demand for further toolkits in several areas. Most clearly, there is strong demand for toolkits and other guidance to support the implementation of the Two-Pillar Solution, as outlined above. In addition, there is demand for further toolkits in respect of natural resources and to support the implementation of BEPS actions. Base-eroding payments

(e.g. excessive interest deductions, royalties, management and service fees) were identified as a constant challenge for many developing countries, where a toolkit approach that provides guidance and tools tailored to the needs and capacities of lower-income countries could be beneficial.

The PCT is also facilitating co-ordination and dialogue on work in other areas, notably tax and gender and environmentally related taxation, in addition to continuing to support the adoption of Medium Term Revenue Strategies, on which topic three regional workshops were held in 2021.

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BEPS IN THE EXTRACTIVE SECTOR

In 2021, the OECD significantly increased the scale of its capacity building initiatives focusing on the extractives sector, meeting the demand from developing countries where both immense BEPS challenges and capacity constraints continue to hinder government tax collection.

Through its partnership with the Intergovernmental Forum on Mining, Metals and Sustainable Development (IGF) and regional international organisations such as ATAF, the Asian Development Bank (ADB) and Inter-American Centre of Tax Administrations (CIAT) – three virtual regional training seminars were conducted in Latin American and the Caribbean, Africa, and Asia and the Pacific. The focus of the training seminars was to build knowledge on international taxation and BEPS through the lens of the extractive sector. In total, 24 modules were delivered (8 modules per region), reaching over 700 government officials from 48 countries. Importantly the participant retention levels for the six-month programme was exceptional, registering above 85% in LAC, Africa and Asia and the Pacific after the second module.

The OECD and IGF continued their flagship "Deep-Dive" programme, a long-term tailored capacity building programme that aims to meet the specific needs of each recipient country. Examples of assistance included policy advice to reform mineral royalty laws, legal seminars to analyse how investment contracts in the extractive sector interact with taxation law, and several training workshops on transfer pricing topics.

The Deep Dive programme will be refreshed in 2022, with three new programmes commencing. In addition the regional training with IGF, ATAF, CIAT and the ADB will continue in 2022, with a new syllabus on BEPS and extractives focusing on the minerals of the future (i.e. minerals used in energy transition and IT).

There is unmet demand for support in respect to taxation of the extractives sector, especially in respect to practical tools and guidance. The OECD and IGF have agreed to prepare a series of guidance notes to support extractives taxation. Six guidance notes will be prepared in the coming three years, starting with notes on mineral pricing, transfer pricing and profit allocation relating to commodities marketing hubs, and the taxation of offshore indirect transfers in natural resources (building on the PCT toolkit).

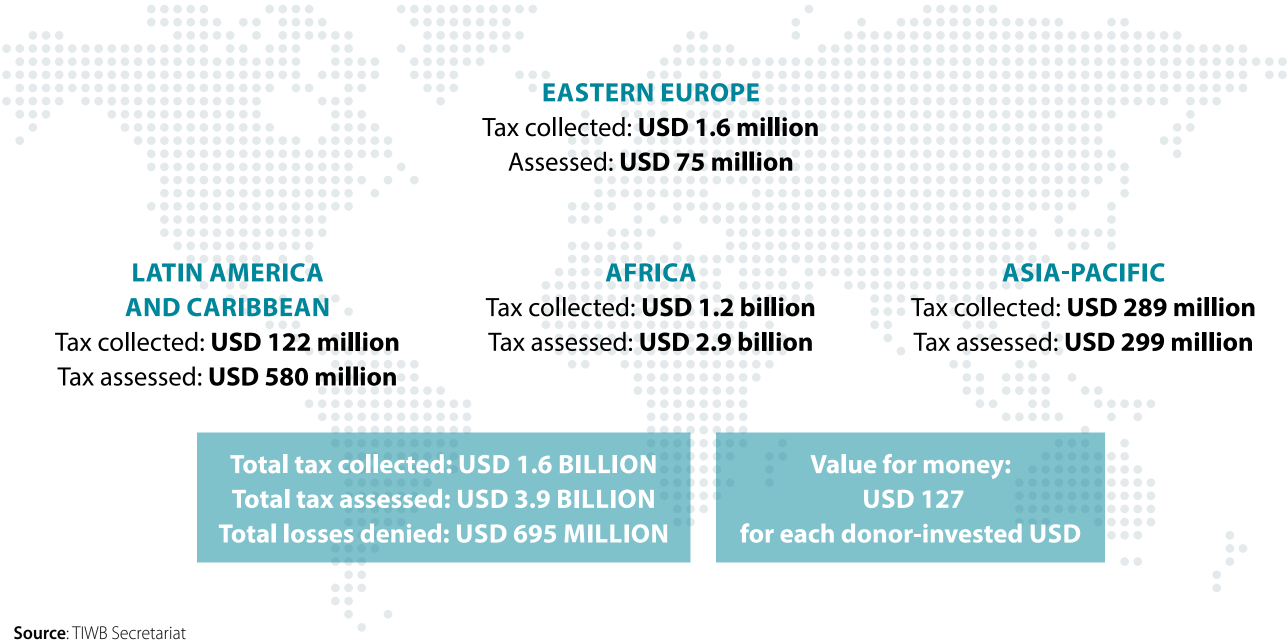
TAX INSPECTORS WITHOUT BORDERS

Established in 2015, TIWB is a joint initiative of the OECD and United Nations Development Programme (UNDP), which facilitates the transfer of tax audit knowledge and skills to developing country tax administrations using a practical, "learning by doing" approach. Experienced tax auditors work on real tax audit cases and international tax issues alongside local tax officials. This support is mainly geared toward transfer-pricing issues, but is now expanding into other areas including criminal tax investigations and the effective use of information obtained under automatic exchange of information. The initiative underpins the OECD/G20 BEPS actions as part of a broad international effort to strengthen developing countries' ability to effectively tax multinational enterprises.

TIWB programmes are flexible and tailored to a country's specific needs. They can include pre-audit risk assessment and case selection, investigatory techniques, audit cases involving transfer pricing issues, anti-avoidance rules, or sector-specific issues (e.g. natural resources, e-commerce, financial services or telecommunications).

Together with its international partners, TIWB helped Host Administrations collect an additional USD 874 million since December 2020 to reach a total of USD 1.6 billion in supplementary tax revenues.

Cumulative Regional Reported Revenue Increases from TIWB Assistance, 2012 to 2021



Source: TIWB Secretariat

These revenues collected stem from additional tax assessments of nearly USD 3 billion notified to taxpayers, suggesting that there are significant additional revenues to be realised as cases are resolved.

Throughout 2021, TIWB continued to support developing countries to enhance domestic resource mobilisation and the initiative expanded its presence in all regions and in new areas of taxes. Despite the COVID-19 pandemic, more than 90% of programmes were able to pursue their activities remotely. From March 2020 to December 2021, TIWB experts delivered 161 virtual missions in 27 jurisdictions. In 2021, TIWB launched 16 new programmes to provide support in specific sectors, including on extractives industries (three programmes) and financial services (two programmes). These also included three new pilot programmes on criminal tax investigations and one pilot for the effective use of data received through automatic exchange of information (see more about the TIWB-Criminal Investigations (TIWB-CI) programme in the chapter 2 on Combatting Illicit Financial Flows).

TIWB continues to foster South-South co-operation through technical assistance programmes supported by Partner Administrations from the Global South, including for criminal tax investigation programmes. These South-South programmes make up a quarter of TIWB's ongoing programmes and close to one-third of TIWB programmes launched in 2021. This co-operation ensures that strong capacity is built and reinforced at the regional level and allows participants to exchange best-practices, based on shared experiences. For example, during 2021, the Central Board of Direct Tax of India has furthered its support to TIWB by deploying its experts on two programmes in Bhutan and Seychelles, leading to the support being provided to 6 TIWB programmes in total. Under these programmes, Indian experts will support the enhancement of transfer pricing audits in the tourism, construction and financial services sectors.

Overall, South-South co-operation enables countries and jurisdictions that have comparable historic, economic, geographic and/or social contexts to work together towards achieving sustainable development. In the context of TIWB, such co-operation can enhance knowledge and skills transfer, thanks to mutual understanding of the challenges and experiences of a developing country tax administration. Experts from Partner Administrations are able to provide well-adapted and experience-based technical assistance and practical recommendations while transferring expertise.

TIWB's regional partners (e.g. CIAT, ATAF) also promote South-South co-operation and facilitate the participation of TIWB Host Administrations into international and regional fiscal co-operation initiatives.

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Combatting illicit financial flows

Illicit financial flows (IFFs) pose a major threat to many developing and emerging economies, as they undermine domestic resource mobilisation efforts. In the context of relatively narrow tax bases and constrained tax administration capacity, IFFs erode the public revenues that countries need to invest in their social and economic development. IFFs can also erode the investment base of countries and undermine the public's confidence in the integrity of the tax system. This issue is recognised in the SDGs, which include a target to reduce IFFs as part of goal 16 to promote just, peaceful and inclusive societies.

The OECD and the Global Forum contribute to the fight against IFFs through the work on tax transparency and tax and crime. Tax transparency ensures that tax administrations have the information needed to enforce their tax laws even where taxpayers attempt to hide their assets in foreign jurisdictions. The tax and crime work provides governments with the tools they need to investigate tax crimes and other financial crimes and prevent, detect and prosecute criminals and recover the proceeds of their illicit activities.

THE GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE OF INFORMATION FOR TAX PURPOSES

The Global Forum is responsible for promoting the effective implementation of the international standards, through monitoring implementation of the standards, undertaking peer reviews, developing tools and assisting members to implement the standards effectively. There are two tax transparency standards: the exchange of information on request (EOIR) standard; and the automatic exchange of financial account information (AEOI) standard based on the OECD-developed Common Reporting Standard (CRS). Through the implementation of these standards, the Global Forum assists jurisdictions around the world in fighting tax evasion and avoidance, tackling IFFs and securing the integrity of their tax systems. Capacity building is a core feature of its work, with the majority of its 163 members being developing countries. Launched in 2011, the Global Forum celebrated 10 years of capacity building in 2021.[8]

EUR 30 billion of additional revenue were identified by developing countries through offshore tax investigations and voluntary disclosure programmes over the period 2009-2021.

In 2021, the Global Forum Secretariat continued the implementation of its ambitious action plan and 2020 capacity building strategy[9] to mitigate the impact of

8. Global Forum Secretariat / OECD (2022), *10 Years of Capacity Building, 2022 Global Forum Capacity Building Report*, available at https://www.oecd.org/tax/transparency/documents/2022-Global-Forum-Capacity-Building-Report.pdf. See also the key figures 2011-2021 at https://www.oecd.org/tax/transparency/documents/capacity-building-key-figures-2011-2021.pdf

9. Global Forum Secretariat / OECD (2021), *Capacity Building, A New Strategy for the Widest Impact*, available at https://www.oecd.org/tax/transparency/what-we-do/technical-assistance/Capacity-Building-Strategy.pdf.

the COVID-19 pandemic on the delivery of the capacity-building programme and to respond to the Global Forum members' growing demand for assistance. This demand was triggered by post-pandemic strategies anticipated by jurisdictions, which include fighting tax evasion and IFFs for fiscal consolidation, and by their willingness to continue delivering on their commitments to implement the tax transparency standards. A range of activities were offered to Global Forum members in 2021 to train 6000 tax officials and optimise tax administrations' practices through practical training, e-learning and other tools. In 2021, two new e-learning modules were released (on confidentiality and data safeguards) as well as three new toolkits (on beneficial ownership, and EOI manual and AEOI toolkit). Technical assistance was also provided to 75 jurisdictions on various areas of tax transparency.

Since 2014, the Global Forum Secretariat has built a capacity-building programme to support the implementation of the AEOI standard by developing countries, which has evolved to take into account the experience gained and the lessons learned. While the progress towards implementation has been uneven across different developing countries, an overall positive trend can be observed. To reinforce this trend, the Secretariat has released a new strategy (*Unleashing the Potential of Automatic Exchange of Information for Developing Countries: 2021 Strategy*) aiming to fulfil the potential of AEOI in developing countries through a strengthened approach to capacity building.[10]

The Global Forum continued to focus on regional initiatives in 2021, which allow capacity building activities and technical support to be tailored to local challenges and circumstances, while increasing the ownership and involvement of regional organisations and national tax authorities. These include the Africa Initiative since 2014 and the Latin America and Caribbean Initiative since 2018. The Global Forum also supports the Pacific Initiative launched by the Asian Development Bank in 2020.

In 2021, Mr. Githii Mburu, Commissioner General of the Kenya Revenue Authority, as Chair, and Mr Edward Kieswetter, Commissioner of the South African Revenue Service, as Vice-Chair took over the leadership of the

10. Global Forum Secretariat / OECD (2021), *Unleashing the Potential of Automatic Exchange of Information for Developing Countries*, available at https://www.oecd.org/tax/transparency/documents/aeoi-strategy-developing-countries.pdf.

Box 4. Women Leaders in Tax Transparency

The **Women Leaders in Tax Transparency** programme is a flagship initiative of the Global Forum Secretariat for the promotion of female leadership in tax transparency. It complements the various actions implemented to ensure gender balance in capacity-building activities which led in 2021 to 51% female participation in Global Forum trainings. The programme seeks to build a network of women championing tax transparency in administrations of Global Forum developing country members. Through the development of technical skills and the promotion of female leadership, this initiative will promote higher female representation at international events on tax transparency and diverse views across decision-making spheres.

The 2022 pilot programme will include 15 female participants from developing country members of the Global Forum. Over nine months, the programme will cover a variety of topics ranging from leadership skills to technical tax transparency knowledge, including:

- key concepts and effective implementation of tax transparency standards;
- use of EOI tools, practical aspects of EOI, including organisation, confidentiality, role of tax auditors and third parties;
- transfer of EOI knowledge and skills to modernise and standardise revenue mobilisation processes;
- mentorship session with female leaders working in tax administrations; and
- leadership training.

Source: https://www.oecd.org/tax/transparency/what-we-do/technical-assistance/women-leaders-in-tax-transparency.htm

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Box 5. Global Forum Train the Trainer programme

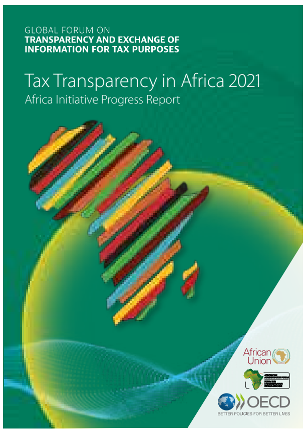
Under the umbrella of the Africa Initiative, the Global Forum launched in April 2021 a new flagship programme, the Train the Trainer programme. Through the training of officials from national tax administrations across Africa, the programme seeks to create and support a highly skilled network of trainers who will effectively localise and multiply the acquired knowledge and skills domestically, in effect creating a sustainable capacity within African tax administrations. Designed to assist participating jurisdictions in providing local training on exchange of information to tax auditors and investigators, the project is devised to build the capacity of national administrations to effectively use EOI instruments in their day-to-day work. The programme included several steps to provide continued support to the trainers:

- initial training with tailored training materials
- playback session,
- support for the first local trainings.

To maintain the network, share experience and provide continued support to the participants, a dedicated on-line community will be established as well as regular meetings.

The pilot programme was offered in 2021 to 34 participants from 17 African jurisdictions in English and in French, with all participants committed to hold at least two training sessions for local tax administrations in 2021. The results of the pilot programme and feedback from participants will assist the Global Forum to continuously improve the programme, which will be offered to other regions in 2022. The initial results of the programme are encouraging, with 24 local trainings held in 12 countries and attended by 861 tax officials in 2021.

Source: https://www.oecd.org/tax/transparency/what-we-do/technical-assistance/train-the-trainer.htm



Africa Initiative.[11] In Latin America, the initiative was led by Ms Mercedes Marcó del Pont, Federal Administrator in the Federal Administration of Public Revenues of Argentina, as Chair, and Ms Elizabeth Guerrero, Vice Minister of Revenue in the Ministry of Finance of Costa Rica, as Vice-Chair.[12] The 2021 Global Forum virtual plenary meeting welcomed the announcement of a new initiative for Asian countries to be launched in 2022.[13] Building on the success of other regional initiatives, the Asia Initiative will promote transparency and EOI, contributing to a sustainable post-pandemic recovery and stronger co-operation to address tax evasion and other IFFs in the region.

This new regional initiative has received strong support from Indonesia, which holds the G20 Presidency in 2022, as well as from India and Malaysia. The initiative is also supported by ADB, through the Asia Pacific Tax Hub, and the Study Group on Asian Tax Administration and Research (SGATAR).

> ***"An initiative on tax transparency for Asia is an opportunity to develop regional co-operation and better combat tax evasion and other illicit financial flows. Indonesia supports this initiative aimed at building bridges between tax administrations and erecting barriers to tax evasion for the benefit of Asian countries."***
>
> **Ms Sri Mulyani Indrawati**
> Minister of Finance, Indonesia

11. Global Forum Secretariat / OECD (2021), *Tax Transparency in Africa 2021, Africa Initiative Progress Report*, available at www.oecd.org/tax/transparency/documents/tax-transparency-in-africa-2021.htm

12. Global Forum Secretariat / OECD (2021), *Tax Transparency in Latin America 2021, Punta del Este Declaration Progress Report*, available at www.oecd.org/tax/transparency/documents/tax-transparency-in-latin-america-2021.htm.

13. Global Forum Secretariat / OECD (2021), "Asia Initiative – Sustaining the Recovery through Enhanced Tax Transparency" available at https://www.oecd.org/tax/transparency/what-we-do/technical-assistance/asia-initiative.htm.

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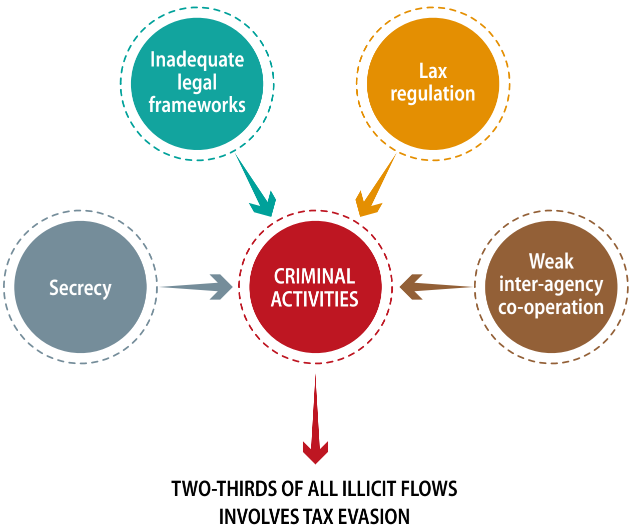
Box 6. Assessing Tax Compliance and Illicit Financial Flows in South Africa

Illicit financial flows such as tax evasion are a major policy challenge for developing and emerging economies, in particular as the COVID-19 pandemic has drained domestic resources. A new report *Assessing Tax Compliance and Illicit Financial Flows in South Africa*, a joint project between the OECD and the National Treasury of South Africa, which assesses tax compliance and IFFs in South Africa. The report provides an overview of macroeconomic, tax and fiscal developments in South Africa since the global financial crisis. It discusses the concepts of IFFs, how they relate to the South African context and provides an overview of South Africa's participation in multilateral initiatives to combat tax evasion. It also provides a quantitative analysis of tax compliance and IFFs over time amid a variety of tax transparency initiatives implemented in South Africa. Finally, the report examines the effectiveness of tax transparency initiatives such as voluntary disclosure programmes, and looks into income and wealth characteristics of applicants to these programmes.

The report finds that IFFs continue to represent a significant challenge for South Africa, estimating that between **USD 3.5 and 5 billion in IFFs are leaving the country each year**. This estimate, which represents approximately **1-1.5% of South African annual GDP**, is derived from estimates of between **USD 40 and 54 billion** in hidden South African-owned assets held in international financial centres (IFCs) in 2018.

TAX AND CRIME

Criminals adapt quickly to take advantage of new opportunities for financial gain, frequently outpacing the legislative changes designed to combat them. Finding better ways to fight financial crime is especially important in times of economic crisis, when the loss of income is all the more damaging to governments, businesses and individuals. Countering these activities requires greater transparency, more effective intelligence gathering and analysis, and improvements in co-operation and information sharing between government agencies and between countries to prevent, detect and prosecute criminals and recover the proceeds of their illicit activities. The OECD Oslo Dialogue aims to achieve these objectives through the development of clear principles and guidance as well as a network of training academies and capacity building support.



Fighting Tax Crime: The Ten Global Principles

The OECD's Ten Global Principles is a global reference guide setting out the ten core elements for jurisdictions to be able to effectively tackle tax crime. In 2021, the OECD released the second edition of *Fighting Tax Crime – The Ten Global Principles* which addresses new challenges, such as tackling the small group of professionals who enable tax and other white-collar crimes, and sets out best practices in international co-operation in

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the fight against tax crimes. This publication includes information on 9 developing countries (Argentina, Azerbaijan, Brazil, Colombia, Costa Rica, Georgia, Honduras, Mexico, and South Africa).

The Tax Crime Investigation Maturity Model supports countries in the implementation of the 10 Global Principles.[14] The model charts an evolutionary path for progress towards the most cutting-edge practices in tax crime investigation across four levels of maturity: Emerging, Progressing, Established and Aspirational. It also serves as an important tool for measuring the impact of tax crime capacity building interventions.

In close collaboration with pilot jurisdictions and an expert group, an e-learning module on the Maturity Model was developed. In addition a 3-day virtual self-assessment workshop using the Tax Crime Investigation Maturity Model was conducted in Honduras in April 2021 as part of the TIWB-CI programme.

Tax and crime academies

The OECD International Academy for Tax Crime Investigation (the Academy) is an integral part of the OECD's Oslo Dialogue initiative. The Academy was launched in Ostia, Italy, in 2013, hosted by the *Guardia di Finanza*, to enhance the capacity of law enforcement authorities to combat tax and other financial crimes in developing countries. To respond to high demand, the Academy has in recent years established three new regional centres for Africa (Nairobi, Kenya); Latin America (Buenos Aires, Argentina); and Asia Pacific (Tokyo, Japan).

The Academy supports countries in their fight against tax crime and other financial crimes through three key pillars: (i) standard setting; (ii) capacity building; and (iii) evaluation and impact measurement. The capacity building pillar focuses on enforcement.

The Academy programmes include broad-based courses on conducting and managing financial crime investigations, as well as specialised courses on asset recovery, the cash economy, the challenges of money laundering and crypto-assets, investigative techniques for the effective use of banking information and VAT/GST fraud investigations. In addition to tax crime investigators, prosecutors and agents from Financial Intelligence Units (FIUs), Academy courses are also open to law enforcement authorities responsible for taking enforcement action against corruption, money laundering, and other financial crimes – which is of critical importance in building an effective whole-of-government response to IFFs. A total of 84 developing countries participated in Academy training in 2021, and 102 developing countries have participated since its establishment.

TIWB CRIMINAL INVESTIGATION PROGRAMMES

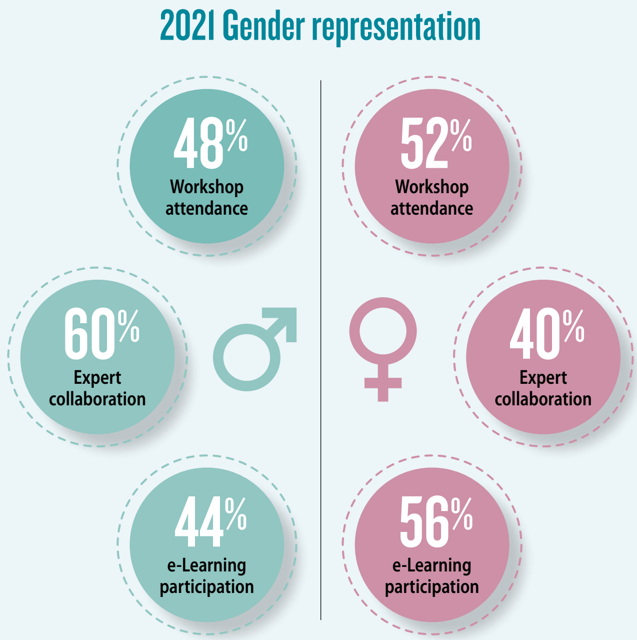
Criminal tax investigations typically include high net worth individuals with offshore accounts, corporations that are evading tax, and organised crime groups that attack the VAT system through carousel frauds and other means. Investigations in these cases would require investigative experts to "follow the money" across borders, often through a complex web of legal structures with opaque ownership patterns (legal and beneficial) across multiple jurisdictions. The use of TIWB programmes in these kinds of cases, where experienced investigators can work alongside officials in developing country tax administrations, has proven very valuable in a series of pilot programmes (Armenia, Colombia, Costa Rica, Honduras, Kenya, Maldives, Pakistan, Tunisia and Uganda).

An additional TIWB-CI programme began in the Maldives in June 2021. TIWB-CI programmes aim to resolve specific criminal tax investigation cases and associated systemic issues which are paramount for establishing the longer-term capacity to successfully resolve cases. In this way, the TIWB-CI programmes complement the Academy training programme and provide a practical application of the Maturity Model.

14. OECD (2017), *Fighting Tax Crime: The Ten Global Principles*, OECD Publishing, Paris, https://doi.org/10.1787/63530cd2-en.

GLOBAL RELATIONS PROGRAMME ON TAXATION

The OECD's Global Relations Programme on Taxation (GRP) was established in 1992 as the main conduit for OECD non-member countries to engage with the OECD's Committee on Fiscal Affairs and its work, through the provision of training and policy dialogue events. Historically, the GRP has been composed of multilateral, face-to-face events, but the need for online resources and more efficient ways of working was already being felt in recent years. The transition to live virtual classes and e-learning accelerated dramatically in 2020 as the COVID-19 pandemic compromised face-to-face events. Since 2020, the GRP has transformed to an entirely virtual programme, which was further expanded in 2021 with the development of a complete virtual learning ecosystem offering a variety of live and self-paced training activities and tools on a broad range of topics related to international taxation and beyond.



LIVE VIRTUAL TRAINING

Over 6000 officials[1] from **over 180 jurisdictions** participated in the **42 live virtual training events** organised by the GRP in 2021. This is approximately three times the average annual number of participants in traditional GRP face-to-face events.

The OECD encourages equal opportunities for participation in all its training activities between men and women. Statistics show good female representation in the GRP virtual workshops, in terms of participants and experts, as well as e-learning users.

1. Statistics are based on participation: if tax officials participated in several workshops they were counted for each time they attended an event.

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SELF-PACED TRAINING

Since its conception in 2019, over 32 000 tax officials, with more than 11 000 users in 2021 alone, have used the GRP's e-learning modules, which cover a wide range of taxation topics. The modules are hosted on the Knowledge Sharing Platform$_{TA}$ (KSP$_{TA}$)[15] and by some countries[16] on their own national learning platform. The e-learning offering[17] expanded significantly in 2021, with six new modules released, including three different VAT modules, the *Multilateral Instrument*, the *Maturity Model for Tax Crime Investigation* and the *Money Laundering and Terrorist Financing Indicators: a Handbook for Tax Auditors and Tax Examiners*.

INTEGRATION OF e-LEARNING ON NATIONAL PLATFORMS

Since February 2019, the GRP has been using the KSP$_{TA}$[18], a global online platform designed to promote sharing of tax knowledge among tax administrations, as the main dissemination channel for its e-learning courses. Through this platform, e-learning courses are offered free of charge to tax officials from all countries.

The OECD also offers the possibility of sharing the modules with administrations that have their own National e-learning Platforms. This procedure might be more convenient for those administrations wishing to incorporate the courses in their internal training programmes in a seamless, more integrated manner, and allows them to better track the progress of their officials.

To date, El Salvador, Guatemala, Honduras, Kenya, Malaysia, South Africa, Spain, and Uganda are hosting the OECD's e-learning modules, with over 5 000 tax officials from these countries actively participating in e-learning courses in 2021.

15. https://ksp-ta.org/.

16. The following countries host the OECD e-Learning modules on their national learning platform: Honduras, Guatemala, Jamaica, Malaysia, South Africa, Spain, and Uganda.

17. For the full overview of GRP e-Learning and other self-paced training products: https://www.oecd.org/tax/tax-global/self-paced-training.htm.

18. https://ksp-ta.org/.

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Reaching the Sustainable Development Goals

The Sustainable Development Goals (SDGs) comprise 17 interconnected global goals — a universal call to achieve a better, more sustainable future for everyone and to address the global challenges we all face, including those related to human development, poverty, inequality, climate, environmental degradation, prosperity, and peace.*

* See https://www.un.org/sustainabledevelopment/development-agenda/ for more details on the SDGs and the 2030 Agenda for Sustainable Development.

Fundamentally, a robust tax system is crucial to unlocking domestic resource mobilisation, which is an explicit target for SDG 17: to strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection. In that regard, all of the OECD's work on tax can be leveraged by developing countries to meet this target. In addition, SDG 16 concerning "peace, justice and strong institutions" targets the reduction of illicit financial flows, covered in Chapter 2.

This chapter provides an update on some of the OECD's tax and development activities that have an impact on progress towards the SDG's. Some are direct – work on environmental tax, carbon pricing, tax and health work, for example. Others are indirect – supporting broader improvements in tax policy and tax administration that contribute to efficiencies for tax payers, a healthy investment climate and higher tax morale, all of which contribute to increased revenues that can be used to finance the SDGs.

TAX REFORM

Meeting the SDGs means that all countries need to pay greater attention to the spillovers from their tax policies and step up their support for stronger tax systems. Understanding trends in tax policy reform is a core output of the OECD's work on taxation and developing countries are intensifying their engagement in key publications. All members of the Inclusive Framework are invited to participate in the Tax Reform Trends publication. Information on 19 developing countries is included in the *Tax Policy Reforms 2021 – Special Edition on Tax Policy during the COVID-19 Pandemic* released in April 2021, and this information has also been included in the existing tax policy reforms database. Of these, 15 are upper middle-income countries and 4 are lower-middle income countries (including 2 in Sub-Saharan Africa, 1 in South Asia, 1 in Middle East and North Africa, 7 in Latin America, 5 in Europe and Central Asia, 3 in East-Asia and the Pacific).

Support has also been provided in response to specific country requests. For example, a draft roadmap for the introduction of a Tax Policy Analysis (TPA) unit in Pakistan – "Towards a tax policy analysis unit in Pakistan" – has been prepared at the request of the

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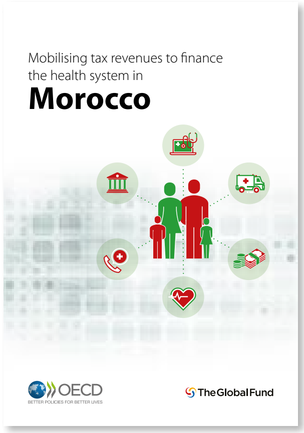
Federal Board of Revenue of Pakistan. It identifies seven key areas that should be considered when creating a TPA unit: mandate, responsibilities and tasks, organisation, team and skills, data, analysis, outputs and engagement.

The role that tax incentives play in tax policy is an important part of any tax reform initiative. The OECD Investment Tax Incentives Database (ITID) collects detailed quantitative and qualitative information on CIT incentives across 36 developing and emerging economies, providing details on their design features, eligibility conditions and governance, and develops classifications for systematic and cross-country comparable data collection. A comparative analysis is under way of CIT incentives in sub-Saharan African countries using information from the ITID and the forward-looking effective tax rates indicators.

HEALTH FINANCING

SDG 3 aims to ensure healthy lives and promote well-being at all ages. The COVID pandemic has further highlighted both the need for, and challenges in providing, sufficient and sustainable financing for universal health care. The OECD has been an active participant in the global dialogue on both health taxes and financing, including through participating in the Inter-Agency Working Group on Health Taxes (led by the World Health Organisation (WHO)). The work completed on Cote d'Ivoire and Morocco in 2020[19] with the Global Fund to fight AIDS, Tuberculosis and Malaria (Global Fund) has been presented widely internationally, including at a WBG seminar on health taxes.



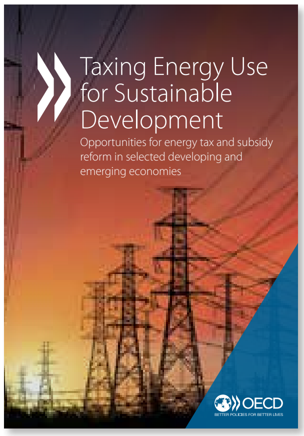
Following these pilot reviews on health financing in Côte d'Ivoire and Morocco, the partnership with the Global Fund is being extended, enabling this work to intensify in 2022-23 including:

- A "*Mobilising tax revenues to finance the health system*" review to be published in 2023. This will review an African country which will be selected following the Africa Senior Budget Officials' network meeting of 2022.
- Online training for African officials. The training will help finance and health officials strengthen their understanding of taxation in general – in particular, health taxation – and promote the dialogue between health, finance and tax officials, which is often weak, or non-existent in many countries.

The OECD is also finalising a self-assessment tool that will help developing countries to i) diagnose the resilience of the health financing system, including: taxation and other resource mobilisation options, public financial management/budgetary practices, and resource allocation tools within the health sector, ii) enhance the dialogue between budget and health officials around the results of the self-assessment tool (with the OECD as a facilitator for this dialogue), and iii) generate comparative benchmarking across a number of countries in terms of health taxation and financing resilience.

19. https://oecd-development-matters.org/2020/09/14/cote-divoire-and-morocco-tax-reforms-for-sustainable-health-financing/

TAX AND ENVIRONMENT



SDG 13 encourages countries to take urgent action to combat climate change and its impacts. The interest in improving the understanding of policy tools that can help turn the ambition on climate into action has grown in 2021. In parallel, at the highest political level, there is increased awareness of the critical role that tax policy can play in meeting climate goals.[20] The OECD's *Taxing Energy Use for Sustainable Development: Opportunities for energy tax and subsidy reform in selected developing and emerging economies* (TEU-SD) presents results for 15 developing and emerging market economies. The results in TEU-SD include data and indicators to support carbon pricing reforms in the 15 TEU-SD countries, and compares their macro-economic and policy context to OECD countries. The results aim to inform policy makers so that they can translate high-level policy ambitions, such as those under the Paris agreement and the SDGs, into concrete action at the national level.

20. For example, the G20 High Level Tax Symposium on Tax Policy and Climate Change (July 2021) brought together countries at varying levels of economic development, to discuss the use of tax policy for climate goals and the need to manage inter-country spill-overs related to differences in climate policy approaches, e.g. related to carbon pricing. Furthermore, the growth of the Coalition of Finance Ministers for Climate Action (CFMCA) to now 65 members, including many additional developing and emerging economies, is testament to the critical role finance ministries play in delivering on climate targets.

Box 7. Tax treatment of ODA – Transparency hub

Official development assistance (ODA) is a financial resource provided by the members of the OECD Development Assistance Committee (DAC), which seeks to promote the economic development and welfare of developing countries. ODA is a vital source of financing for sustainable development, especially in Least Developed Countries (LDC), where it makes up around 60% of financial flows, five times more than in other developing countries, and plays a vital role in financing the SDGs while more sustainable financing (primarily taxation) is put in place.

Given the significance of ODA, especially in LDC economies, the tax treatment of ODA can be important. DAC members often request exemptions from indirect taxes (e.g. customs duties, Value Added Taxes) or income taxes (e.g. Personal Income Tax and Corporate Income Tax) for the ODA-financed goods and services they provide to their partner countries. It has, however, not always been clear which ODA-financed goods and services are exempt from taxation, or in some cases the precise legal basis by which such exemptions are granted. Like tax exemptions and incentives for investment, the tax treatment of ODA is under increasing scrutiny: seeking to improve fiscal space to finance the 2030 Agenda, developing countries need clarity on how they affect tax systems, tax administration and markets. Greater transparency is a priority for all actors involved.

The transparency hub launched on 19 January 2022 contains details on 12 DAC members, representing over 50% of gross bilateral ODA. Each country has a country page, providing detailed information on their policy and practices of ODA taxation. Twelve DAC members provided information to be uploaded onto the site, covering their policy position, details of any reviews, and where publicly available links to the bilateral agreements granted exemptions. The hub also contains links to additional information, including research and the UN guidelines on the tax treatment of government-to-government aid projects.

Taken together, the data shows that DAC members are responding to the Addis Ababa Action Agenda requirement to review their policies on ODA taxation:

- To date, over half of the countries have either reviewed, or are planning to review their positions
  - Four countries have reviewed their position since 2015
  - Three additional countries have a review currently underway or planned
- One-third of countries have policies limiting the extent to which exemptions are requested
  - Two countries never/rarely request exemptions
  - Two more countries only sometimes request exemptions.

Source: https://www.oecd.org/tax/tax-treatment-official-development-assistance.

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At the highest political level, there is increased awareness of the critical role that tax policy can play in meeting climate goals.

A dedicated section on developing countries is also incorporated in the report *Carbon Pricing in Times of COVID-19: What Has Changed in G20 Economies?*[21], published in October 2021. The report examined how the world's largest economies are making use of carbon taxes to meet climate objectives and work towards a green recovery. It features analysis on the many reasons why well-designed carbon price reforms can be in the best interests of developing countries, enabling them to respond to multiple pressing challenges, including but not limited to climate change.

Recent momentum on increased climate ambition is encouraging. However, in spite of significant progress made to date, near-term policy actions on climate remain insufficient to meet the Paris Agreement objectives, and the diversity of policy approaches risks limiting their combined impact as well as elevating the likelihood of negative spillovers. To ensure the effectiveness of combined efforts and to avoid adverse interactions with trade and development agendas, greater multilateral dialogue, informed and facilitated by technical and objective analysis, is needed. The OECD is in the process of establishing an Inclusive Forum on Carbon Mitigation Approaches, which would provide a forum for such dialogue.

TAX MORALE AND TAXPAYER EDUCATION

The rights and duties between citizen and state that constitute the social contract are an integral part of SDG 16, with its focus on effective, accountable and inclusive institutions. They are also key to tax morale, the intrinsic motivation to pay tax. Domestic resource mobilisation is achievable when taxpayers have high tax morale – they are motivated to participate in the tax system and comply voluntarily. A better understanding of what factors affect tax morale is valuable for all countries and stakeholders, as tax administrations can benefit from increased compliance and higher revenues, taxpayers (both businesses and individuals) are better served by tax systems that are responsive to their needs, while increased data and discussion can help researchers deepen their understanding.

The OECD has been undertaking new research on tax morale, most recently research on tax administrations' perceptions of large business/Big Four behaviour on tax. In 2021 four regional tax morale roundtables[22] were held, in Asia (with ADB), Europe (with IOTA), LAC (with CIAT) and Africa (with ATAF), to bring together businesses

21. OECD (2021), *Carbon Pricing in Times of COVID-19: What Has Changed in G20 Economies?*, OECD Publishing, Paris, https://www.oecd.org/tax/tax-policy/carbon-pricing-in-times-of-covid-19-what-has-changed-in-g20-economies.htm

22. https://www.oecd.org/tax/tax-global/tax-morale-roundtables.htm.

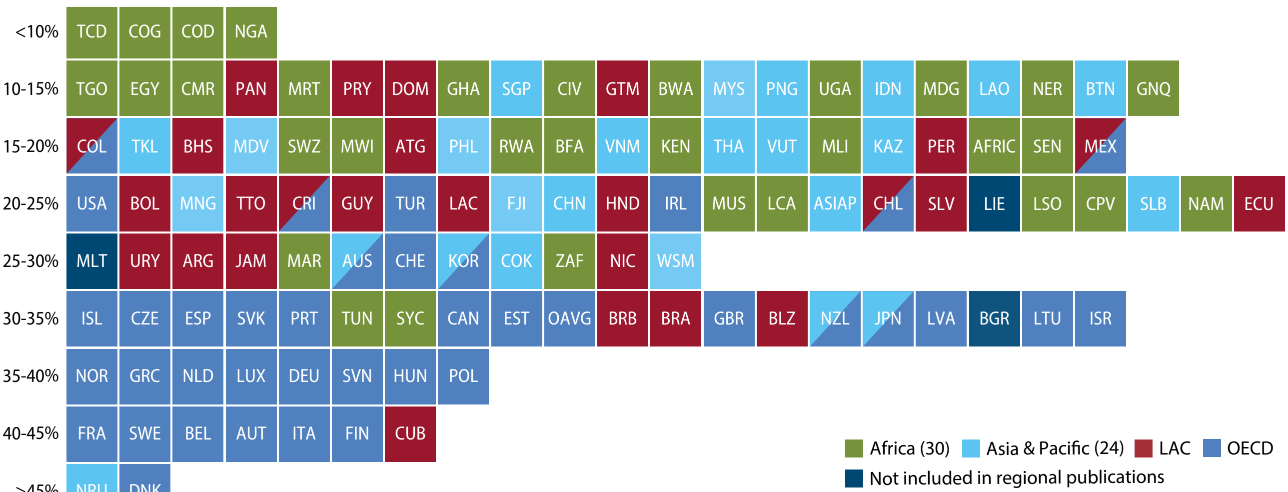
and tax administrations to discuss the results of a perceptions survey conducted in 2020, highlighting the practical challenges that can impede development of effective relationships between taxpayers and tax administrations. These roundtables provided context to the results, and in all regions, participants emphasised communication challenges as a root cause of many problems, and identified possible actions by both businesses and tax administration, to improve the relationships. The results from both the survey and roundtables will be published in a report in 2022.

SDG 4 on education includes a focus on increasing the number of people with relevant skills for financial success; one of these skills is an understanding of the tax system and how to comply. Taxpayer education initiatives seek to support individuals in building these skills. While most countries run such initiatives, there has been very little research on them. To help address this gap the second edition of *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education* was published in November 2021. This report analysed a unique dataset of 140 taxpayer education initiatives from 59 developed and developing countries to create a classification of different approaches to taxpayer education, identifying common challenges and solutions, as well providing a simple guide to help design and implement such initiatives. The report, prepared in consultation with the countries responding to the survey, the FTA and academics, is primarily focused on initiatives undertaken by tax administrations, but includes a dedicated chapter looking at the role that non-government actors, including both civil society organisations and businesses can play in supporting taxpayer education. Dissemination events are being planned for 2022.

REVENUE STATISTICS

In 2021, the Revenue Statistics series supports the production of high-quality revenue statistics across OECD and non-OECD countries, allowing progress on international commitments to be monitored (e.g. SDG 17.1 on monitoring progress on domestic resource

Variation of tax-to-GDP ratios in 2019 across economies and regions



Source: OECD Revenue Statistics Database.

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mobilisation; SDG 17.18 on improving statistical capacity in developing countries). In 2021, the OECD collaborated with partner organisations and national administrations under the Global Revenue Statistics initiative to produce detailed, comparable data on tax revenues for 114 economies, with five additional countries in comparison to 2020, three of which were developing countries (Lao PDR, Maldives and Viet Nam).[23] Global Revenue Statistics data and analysis are widely disseminated by the OECD and partner organisations, resulting in widespread and increasing use by governments, academia and research organisations, and media.

The *Global Revenue Statistics* initiative produced and published harmonised tax revenue data for 81 economies in Africa, Asia-Pacific and Latin America and the Caribbean, three European non-OECD countries, as well as in 38 OECD countries.[24] The 2021 edition of *Revenue Statistics in Asia and the Pacific: Emerging Challenges for the Asia-Pacific Region in the COVID-19 Era*[25] had three additional countries, for a total of 24 economies. The rapid expansion of the country coverage in Asia-Pacific over the past years has allowed calculating the regional average tax-to-GDP ratio and tax mix for the first time in 2021. The 2021 edition of *Revenue Statistics in Latin America and the Caribbean*[26] had one additional country, for a total of 27 countries.

Data from these three publications and from the *OECD Revenue Statistics* publication fed into the Global Revenue Statistics Database, the world's largest publicly available source of reliable, detailed, and comparable data on public revenues. At the end of 2021, this database covers 114 economies across the globe and enables intra-region and cross-region analysis of revenue trends on a consistent basis. Revenue Statistics data on corporate income taxes also informed the annual Corporate Tax Statistics Database (3rd edition launched in July 2021), covering a total of 111 jurisdictions.

DIGITALISATION OF DEVELOPING COUNTRY TAX ADMINISTRATIONS

Digitalisation can play a vital role in enabling and facilitating progress across all the SDGs, and is an explicit focus of SDG 9 on digital innovation and the necessity for effective digital infrastructure. Through providing benefits in both improved taxpayer services and increased revenues, the enabling power of digitalisation is clear in respect to tax administration, while an effective digitalised tax administration is a key piece of infrastructure to support 21st century economies. Tax administrations across the globe are therefore engaged in building innovative digital solutions to meet 21st century challenges, and deliver tax systems that support the SDGs.

The *Supporting the Digitalisation of Developing Country Tax Administrations report*[27] was produced in 2021 in collaboration with ATAF. Based on the expertise and experience of tax officials from administrations across the world, the report sets out some guidance and insight on how to effectively identify and deliver a digitalisation programme – from developing the strategic vision through to the details of preparing and executing successful projects. The primary purpose of the report is to share information that will assist developing country tax administrations as they consider digitalisation, facilitate dialogue among tax officials on tax administration issues, and identify opportunities to improve tax administration ICT systems.

The report examines the common elements of successful digitalisation journeys, and the benefits they deliver. It is not intended as a 'how to' guide, as the individual circumstances of an administration should dictate the most appropriate solutions and approaches. Instead, it uses insight and examples supplied by tax administrations to highlight important success factors, recent innovations, examples of good practice, and key learning.

23. The other countries joining the Global Revenue Statistics initiative in 2021 were Antigua and Barbuda and Malta.

24. Eight OECD countries are also included in regional publications: Chile, Colombia, Costa Rica and Mexico in *Revenue Statistics in Latin America and the Caribbean;* Australia, Japan, Korea and New Zealand in *Revenue Statistics in Asia and the Pacific.*

25. OECD (2021), *Revenue Statistics in Asia and the Pacific 2021: Emerging Challenges for the Asia-Pacific Region in the COVID-19 Era*, OECD Publishing, Paris, https://doi.org/10.1787/ed374457-en.

26. OECD et al. (2021), *Revenue Statistics in Latin America and the Caribbean 2021*, OECD Publishing, Paris, https://doi.org/10.1787/96ce5287-en-es.

27 The report webpage contains a selection of presentations, documentation and links that complement the report: https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/supporting-the-digitalisation-of-developing-country-tax-administrations.htm.

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Next steps for 2022

The ongoing work on the *Two-Pillar Solution* to address the tax challenges of the digitalising economy, together with the continued impact of the COVID-19 pandemic, is dominating the agenda in 2022. Maintaining the coalition of jurisdictions that have endorsed the *Two-Pillar Solution*, finalising the rules and commencing implementation will require a substantial effort. Developing countries have made clear the necessity for support in all stages.

Building on work completed in 2021, the OECD is working on the following priorities in 2022:

- Support to developing countries in response to their needs concerning the three phases of implementation of the Two-Pillar Solution:
  - Continued support in the drafting and negotiation of the final rules,
  - Assistance in the legal implementation of both pillars, and
  - Support for the practical application of both pillars in developing countries.
- Implement, with partners, the recommendations in the *Developing Countries and the OECD/G20 Inclusive Framework* report;
- Finalise the regional toolkits on VAT e-commerce and commence a more intensive programme of bilateral support;
- Through the Global Forum, continue support for developing country implementation of the tax transparency standards;
- Expand the OECD training offering, across different media and in multiple languages;
- Support developing countries interested in participating in an Inclusive Forum on Climate Mitigation Approaches;
- Finalise a new strategy for the Tax and Crime Academies;
- Continue to stimulate dialogue on tax morale – including supporting Business at OECD in reviewing their voluntary best practices;
- Provide new tools and evidence on key tax and development challenges including health financing, social protection and informality;
- Continue to expand developing country inclusion in OECD tax databases and related analysis.

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Countries and organisations supporting the tax and development activities featured in this report

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African Development Bank, African Tax Administration Forum, African Union Commission, Asian Development Bank, Centro Interamericano de Administraciones Tributarias, Cercle de réflexion et d'échange des dirigeants des administrations fiscales, European Union, Inter-American Development Bank, International Monetary Fund, Intra-European Organisation of Tax Administrations, OECD Development Centre, The Pacific Community, Pacific Islands Tax Administrators Association, United Nations, United Nations Economic Commission for Latin America and the Caribbean, World Bank Group, World Customs Organization

Domestic resource mobilisation is more crucial than ever for developing countries, and tax policy and administration are important levers for policymakers to balance a wide range of conflicting pressures – to spur growth, raise revenue and meet the sustainable development goals all at the same time. The demand for support around the globe is extremely high, as low capacity countries work to keep up with the latest standards, tools and policy analysis. The OECD plays an important role in building tax capacity in developing countries through their membership and participation in OECD bodies and through the technical assistance programmes that deliver much needed support on key tax issues. The report covers the full range of assistance that the OECD provides to developing countries on tax issues such as; helping counter corporate tax avoidance; combatting illicit financial flows; and providing support on a range of tax policy and administration issues relevant to achieving the SDGs.

BETTER POLICIES FOR BETTER LIVES

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