



Ministry for Foreign
Affairs of Finland

Taxation for development

Finland's Action Programme 2020–2023

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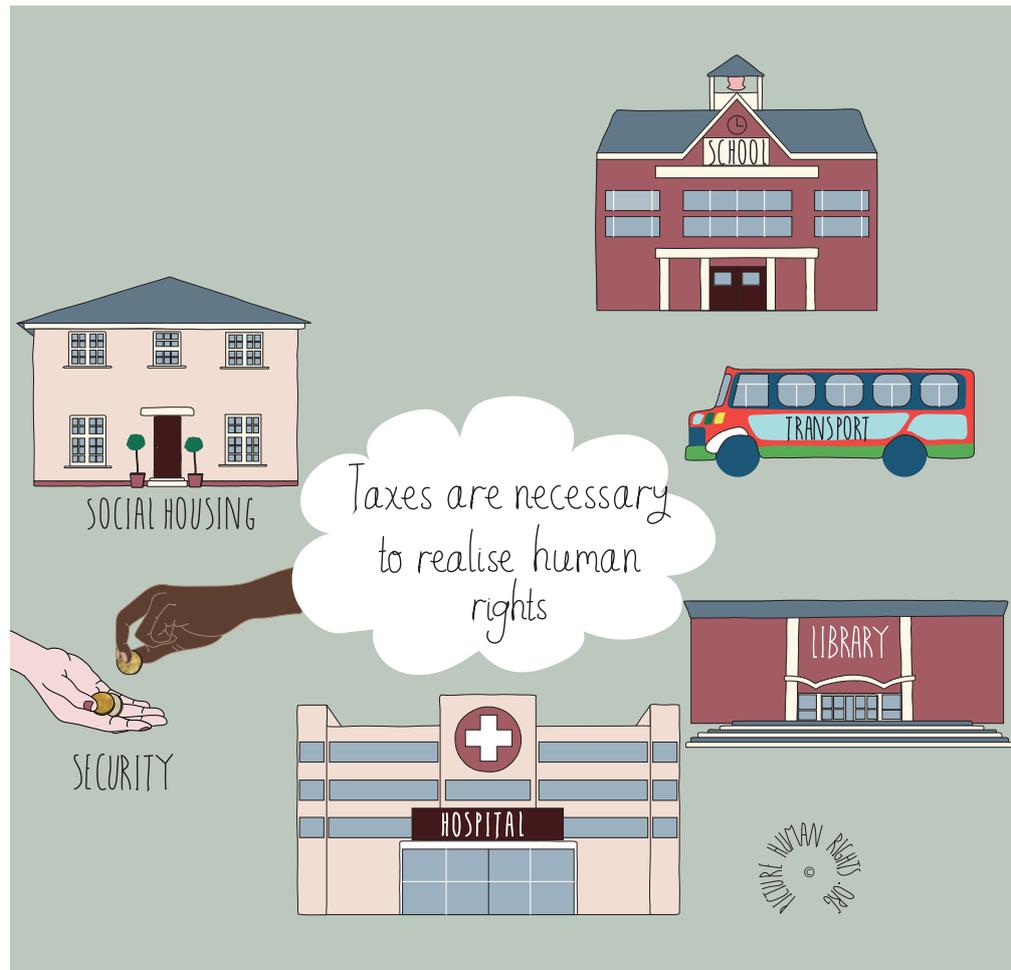
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1. Purpose of the Action Programme

Countries can only develop if they have the capacity to collect taxes. Taxes provide funding for education, infrastructure, legal institutions, social protection and other public services, on which growth and the social systems that protect human rights rely. Economic growth provides the basis for development, but it does not automatically reduce extreme poverty or guarantee equal opportunities for different sections of society. Taxation and the benefits and services that it finances reduce economic inequalities.

At the same time, however, developing countries are facing serious problems in collecting taxes. The Finnish Tax Administration estimates that the tax gap in the developing countries accounts for between 30 and 60 per cent of the potential tax revenue. A properly functioning tax system, combined with a competent tax administration, are prerequisites for the development and financing of all activities of societies in developing countries. In low-income countries, tax administrations are facing a broad range of challenges, such as poorly functioning information systems, inefficiency in tax enforcement, and corruption. The development of the functions and reliability of tax administrations are therefore of paramount importance.

For this reason, one of the key development policy goals set



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out in the Finnish government's programme is to develop the developing countries' own tax system in order to eradicate poverty and reduce economic inequality, among other things. The

same goal is also set out in the UN 2030 Agenda for Sustainable Development. The Government Programme also "obliges companies that receive development cooperation funds to comply with



THE FOUR R_s OF TAXATION

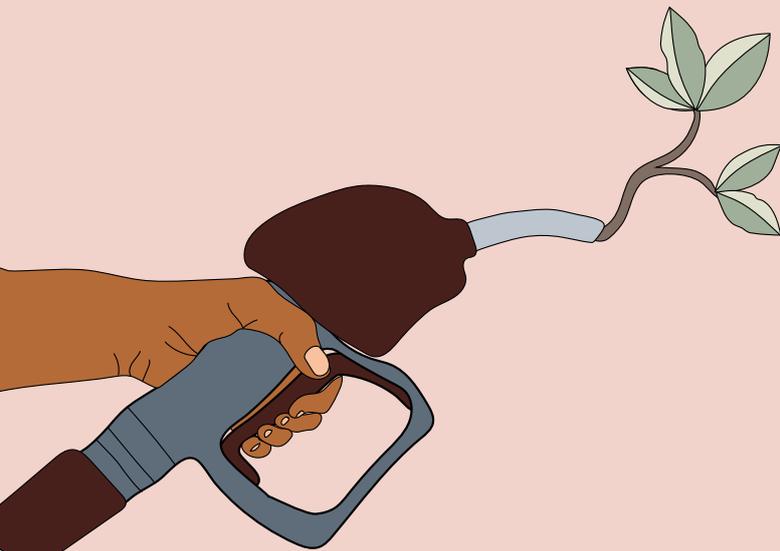


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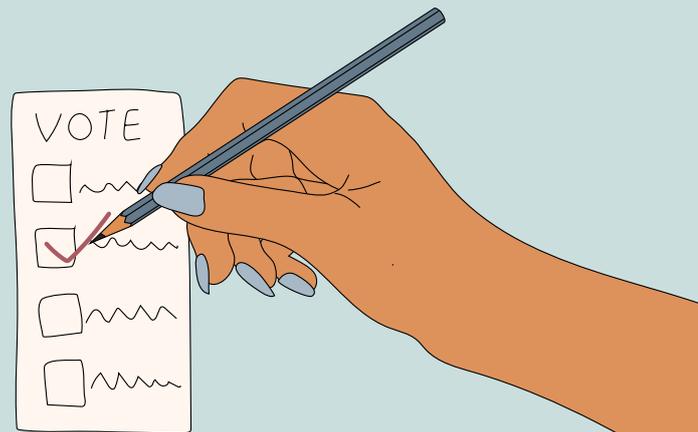


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the criteria of tax responsibility and transparency, and to promote human rights and advance Finland's development policy goals". Africa is defined as the geographical focus area of Finland's development cooperation in the Government Programme.

Aggressive tax planning by multinational corporations, tax fraud related to international investment activities, and harmful tax competition between states pose a particular threat to development in the countries of the Global South, which are dependent on tax revenue.

According to the Government Programme "Finland must promote national and international solutions that secure and strengthen its tax base in a globally sustainable manner". Furthermore "Finland will actively and proactively promote international cooperation within the European Union, the OECD and the UN with due consideration for its national interests. Finland will support solutions for combating and hindering the operation of tax havens, both within the EU and throughout the world, to ensure that corporate profits and other income are taxed once in a transparent manner. The aim is to build broader and more robust tax bases to combat both the aggressive tax planning and tax evasion schemes of international businesses and harmful tax competition between states".

Digitalisation of international trade has created new wealth, but also new challenges. Large global e-commerce companies can

generate a substantial turnover by selling goods, services or advertising space in individual countries without having any legal presence in those countries, in which the country's tax administration could levy taxes on them. These issues call for new rules on global tax policy, and negotiations in which the voice of Africa should also be heard. Therefore, the Finnish Taxation for Development Action Programme, like the Government Programme, has a strong emphasis on Africa.

The action plan promotes several priority areas of Finnish development policy. A reliable, efficient and equitable tax system is an essential part of the economy of wellbeing. Taxation can also promote gender equality, reduce inequalities, enhance employment opportunities of women and contribute to sustainable use of natural resources. All these are key objectives for a sustainable economy. Taxation is also an important tool in the climate policy aimed at achieving a carbon-free economy.

The Taxation for Development Action Programme describes how the Ministry for Foreign Affairs will implement the above-mentioned Government Programme objectives in cooperation with its partners between 2020 and 2023. Strengthening the tax base of developing countries was also one of the development policy priorities of Prime Minister Juha Sipilä's Government (2015–2019), and the Tax and Development Action Programme for the period 2016–2019 was used as an instrument to implement these priorities. This programme builds on it.

The action programme will be implemented by supporting the activities of Finnish and international partners financially and by participating in their activities and influencing them and other processes relevant to the programme objectives. The Taxation for Development Action Programme 2020–2023 has three main pillars. The actions set out in them are described in the chapters below.

1. The main objective of the programme is to strengthen the taxation capacity of developing countries. This goal will be promoted by strengthening the taxation capacity of the tax administrations of African countries in particular, in sustainable ways, such as cooperation projects implemented by the Finnish Tax Administration.
2. Ensuring the tax responsibility and transparency of companies supported with development cooperation funding is the second key objective of the programme.
3. The programme will also seek to strengthen the position of developing countries in the global tax policy and ensure that the perspectives of developing countries will be better taken into consideration in the international tax policy.



2. Finland's Objectives for the Period 2020–2023

Finland's main goal in this programme is to strengthen the taxation capacity of developing countries. This can be achieved, inter alia, by promoting staff training, strengthening customer service and administration, and by developing permanent national training systems and regional peer learning schemes as follows:

2.1 Strengthening the tax administrations of developing countries through cooperation between the authorities

Objective:

Finland has participated in the strengthening of the tax administrations of developing countries in a project between the tax administrations of Tanzania and Finland. The two countries plan to continue this project after the end of the current phase in 2021. The project has successfully strengthened the Tanzanian Revenue Authority (TRA) in a sustainable way, so that TRA will be able to collect taxes more efficiently in the future. In addition, Finland has supported TRA through basket financing together with Denmark, Norway and the United Kingdom.

In Tanzania and in other African and Asian countries, only a small proportion of businesses and

citizens have been entered in the tax registers. The informal 'grey' economy is the mainstream of the national economy. Tax revenues are low and social protection inadequate. Public-sector support can only be paid to officially registered companies, and only officially registered employees are entitled to pension and maternity leave. In such conditions, all measures that allow citizens and companies to pay taxes and tax-like social contributions in an easy and reliable manner are critical to the functioning of societies. Even the introduction of automated payment methods should be considered. Digitalisation of the tax administrations could be one solution.

As a Nordic country known for good governance, Finland is a credible player in the dissemination of good practices. Finland has developed strong knowhow on how to combine data, economic automation and trust into a unified digital platform. Furthermore, Finland's public administration has for many years been doing a good job in digitizing national registers and citizen services, such as taxation, cadastral systems, business registration, healthcare systems, and payment transactions.

In addition to technological knowhow, Finland's public-administration actors have also accumulated lots of good practices, which

could be shared in the construction of effective tax systems and tax administrations in developing countries. However, given that relatively few people in developing countries use computers, it is important to recognize that the mobile phone will probably be the main digital interface between tax administrations and most customers.

A unified digital platform enables the automation of the basic company data required for taxation and financing, establishment of a digital corporate identity, and digital commerce, which are essential for collecting the tax revenue arising from these activities. A unified digital platform also promotes the protection of personal data, user-friendliness and source code solutions that can be used as a common base of a digital trust infrastructure.

Finland's goal is to turn the taxation capacity development work into a permanent and systematic activity so that the expertise gained from earlier projects can be utilized more effectively. The Ministry for Foreign Affairs, the Finnish Tax Administration and the African Tax Administration Forum (ATAF), the umbrella organisation of African tax administrations (see Chapter 2.2), have launched a long-term cooperation programme designed to achieve this aim. Through this cooperation



programme, Finnish tax experts can take part in the strengthening of tax administrations of Tanzania and many other developing countries effectively. In addition to projects, shorter training courses and exchanges of public officials can also be arranged to achieve the same results. The work will be jointly coordinated with Nordic countries and Finland's other partners.

The aim is to at least double the funding for the activities under the Taxation for Development Action Programme and for the long-term participation of the Finnish Tax Administration by the year 2022. This will be taken into account in the budget plans of the Ministry for Foreign Affairs. Success of the projects will be monitored and assessed.

2.2 Strengthening the taxation capacity of developing countries by supporting organisations and by participating in their activities

Objective:

Finland will provide funding for several international organisations through which it can strengthen developing countries' taxation capacity and expertise in a sustainable manner. The sustainability perspective will be taken into account when funding partners are selected and the level of funding determined. In addition, the funding takes into account how participation in the activities of the organisations complements other activities of the Finnish Taxation for Development Programme.

The Ministry for Foreign Affairs has assessed to what extent the funding outlined in the previous Taxation for Development Action Programme has strengthened the taxation capacity of developing countries, and what value Finland can add by participating in and influencing the activities of various organisations. Based on the assessment, a preliminary plan was drawn up of organisations that will receive Finnish funding between 2020 and 2023, describing how Finland's contribution will promote the objectives of the Taxation for Development Action Programme in a sustainable manner. Finland's support may also be increased so that Finland can achieve the goal set out in the Addis commitment. (see Chapter 6). Existing and potential partners are described below.

Extractive Industries Transparency Initiative (EITI)

Extractive Industries Transparency Initiative (EITI) is a joint initiative and network of governments of developing and industrialised countries, non-governmental organisations, and multinational mining, oil and gas industry corporations operating in developing countries. EITI has established a global standard, under which companies pledge to report transparently on their production volumes and values and on the taxes that they pay to governments. EITI provides an effective tool in eradicating illicit financial flows (IFF) and in formalizing the grey economy.

Finland is member of the EITI Board 2019-2021 and has pledged to provide EUR 700,000 for the initiative during the three-year period 2020–2022. EITI

could serve as an instrument for strengthening developing countries' taxation capacity if it could also provide a framework for more transparent taxation of multinational corporations by means of international agreements.

Tax Inspectors Without Borders (TIWB)

Tax Inspectors Without Borders (TIWB) is a cooperation programme of tax inspectors jointly established by the UNDP and the OECD. It is a mentoring programme under which tax inspectors from tax administrations of more advanced countries are sent to short missions in developing countries. TIWB tax inspectors take part in tax audits of multinational corporations in developing countries, among other things. According to TIWB reports, these audits have generated already USD 500 million in extra tax revenue for developing countries during the ten years that the programme has been operational.

Finland has granted EUR 1 million to the UNDP to support the work of the TIWB 2019–2020. Finland is member of the TIWB Board 2020–2022. During this period, it is important that Finland contributes to the development of TIWB's operations in such a way that they will create sustainable benefits for developing countries. TIWB should increasingly focus on long-term capacity building in developing countries by strengthening institutions and South-South peer learning.

African Tax Administration Forum (ATAF)

The African Tax Administration Forum (ATAF) is the cooperation



network of African tax administrations. It coordinates cooperation between tax administrations, provides training, coordinates tax research and participates in taxation-related activities of the OECD and the UN, among others. ATAF works to enhance the quality of tax information collected by African tax administrations and promotes the exchange of information and formulation of joint tax policy opinions. ATAF is also the strongest African voice in the global tax policy negotiations at the UN, the OECD and with the EU. Through ATAF, Finland also supports the work of the African Union in the field of taxation.

Finland is one of ATAF's longest-standing and strongest partners. Finland's cooperation programme with ATAF ended at the end of 2019. The cooperation will be expanded for the period 2020–2022, reaching an annual volume of EUR 700,000. By supporting ATAF's work programme, Finland can also support processes that are critical to enhancing taxation capacity in Africa. By working with a trusted long-term partner such as ATAF, the experts of the Finnish Tax Administration can contribute to the improvement of taxation capacity in several African countries in a manner that is administratively easy and credible from the Finnish perspective.

One of the activities that can be supported through ATAF is the African Tax Research Network (ATRN), in which some Finnish tax researchers have also participated. It strengthens Africa's own capacity in this area. Further efforts will be made to encourage Finnish-African cooperation in this taxation research with such partners as the Finnish Government's Economic Research Institute (VATT), the

Finnish Tax Administration (Vero), the Helsinki-based United Nations University World Institute for Development Economics Research (UNU-WIDER), and Finnish universities.

Supporting civil society organisations

Support to the work of non-governmental civil society organisations (CSOs) can be a good way to raise general awareness about the importance of strengthening taxation capacity.

One of the new partners is the Tax Justice Network Africa (TJNA), which has been awarded an annual grant of EUR 300,000 for the period 2020–2023. TJNA is the umbrella organisation for African CSOs working in the field of taxation for development. Finland supported its global umbrella organisation, the Tax Justice Network, between 2012 and 2015.

Publish What You Pay (PWYP) is a global movement of civil society actors involved in EITI activities. It promotes transparency, citizen participation, and the accountability in the oil, gas and mining industries around the world. The Unit for Civil Society of the Ministry for Foreign Affairs granted PWYP one million euros through an open application round for international non-governmental organisations (INGO) in 2019. Tax justice was one of the thematic priorities in the application round.

In 2019 and 2020, Finland is supporting a PWYP project on capacity building, peer learning, information sharing and advocacy for CSOs in Mozambique, Tanzania and Uganda, in order for the CSOs to monitor the volume and value of production and the taxes paid

by extractive companies to governments. The purpose of the monitoring is to ensure that the extractive sector contributes to equal and sustainable development by paying taxes. Tax justice is also recommended as a priority area in the 2021 application round of the Unit for Civil Society.

2.3 Funding research to support the goals of the action programme

Objective:

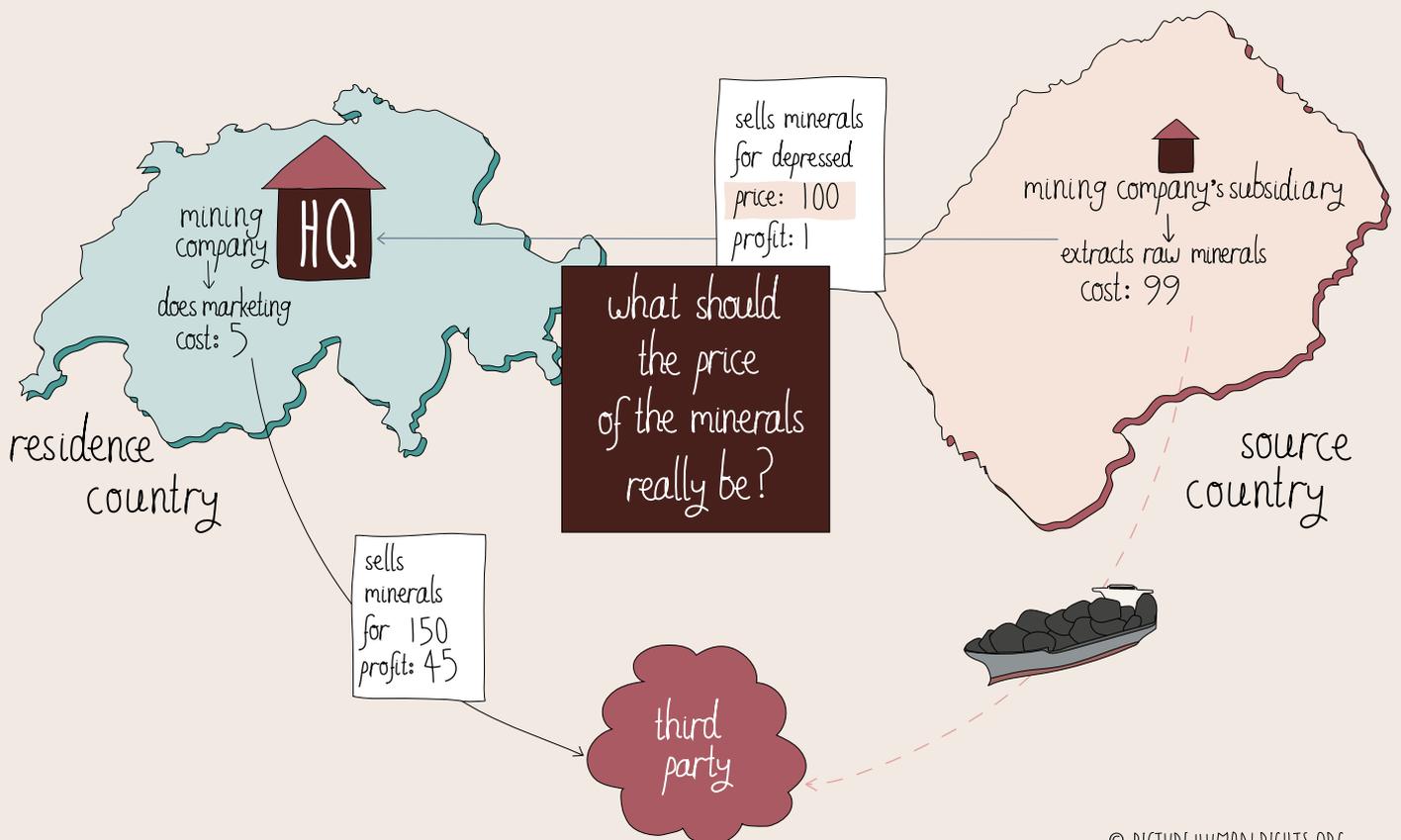
Taxation capacity in developing countries can also be enhanced with better research. Research cooperation can be integrated into the cooperation between tax administrations. The studies may focus, e.g. on the strengthening of tax administrations or the reform of tax regulations. Finland should support such projects in the future. The subject of research may also include the tax cooperation projects between Finland and its development partners, and the information produced by this research could be used in the planning of further cooperation in the tax sector. Partners in the research projects could include universities, research institutes and organisations.

The Ministry for Foreign Affairs and its partners will cooperate to identify potential areas for research funding that could promote the objectives of this programme, including regulation that will be needed – as called for in the Government Programme – to “combat and hinder the operation of tax havens, both within the European Union and throughout the world, to ensure that corporate profits and other income are taxed once in a transparent manner”. Adequate funding will be allocated for such action, and it will be agreed how the success of projects will be monitored and evaluated.



3. Ensuring the Tax Responsibility of Companies Supported with Development Cooperation Funding

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Objective:

Finland supports companies with development cooperation funding in a number of different ways, for example:

- through instruments and funds, in which most/all of the funding is provided by the Government of Finland (such as Finnpartnership, PIF, DevPlat, Finnfund and FCAI)
- through funds in which Finland is one of a large number of funding partners, such as the funds managed by development banks and international organisations supported by Finland (e.g. the climate fund of the World Bank Group member organization IFC)
- other private sector support and development programmes.

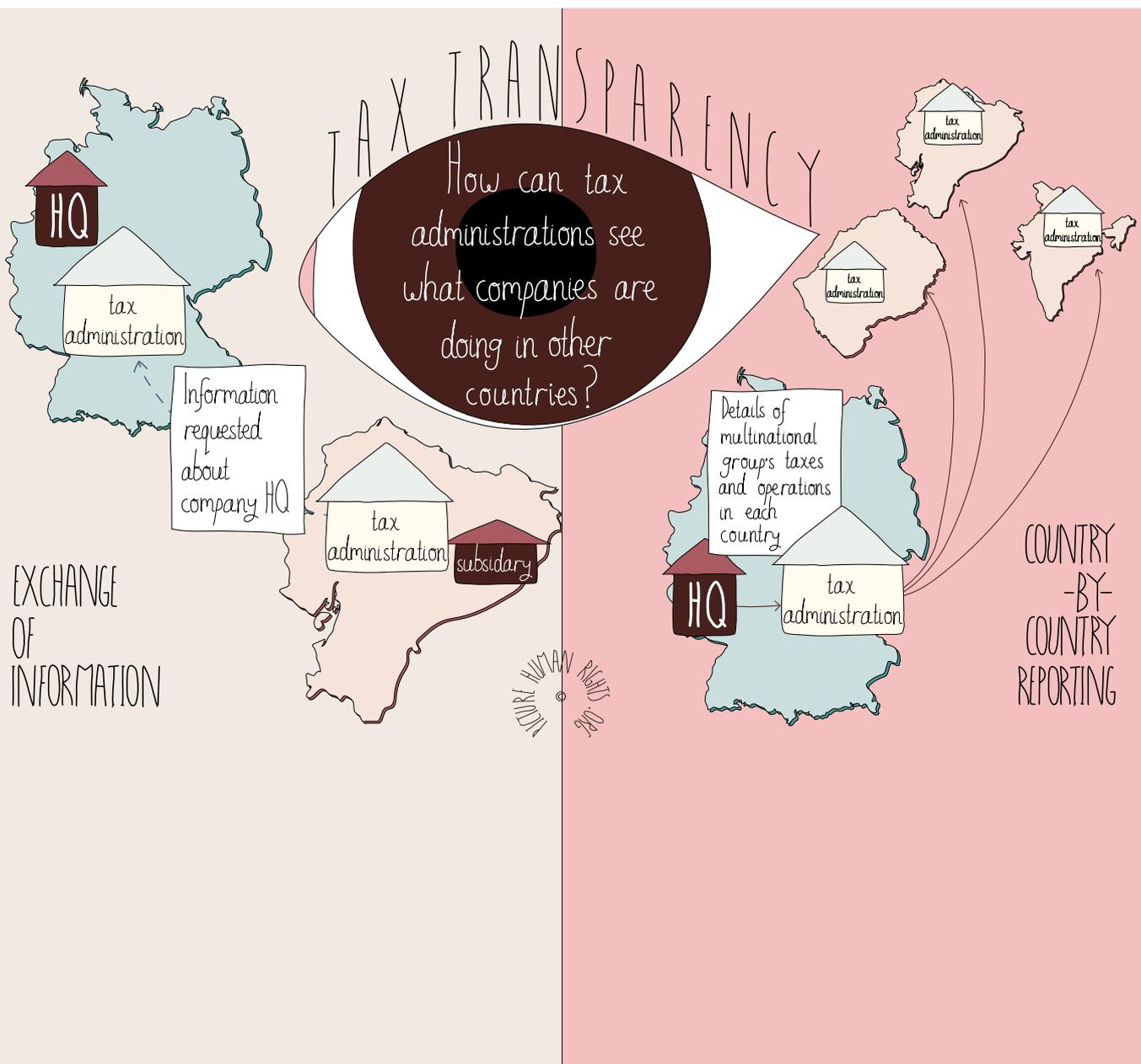
The Government's goal is to ensure that companies supported with development cooperation funding comply with the criteria of tax responsibility and transparency. This means, inter alia, that a company receiving support

cannot engage in aggressive tax planning that seeks to transfer the company's profits from the developing country where it has accumulated business profits, so that the company avoids paying taxes altogether or its taxes are significantly reduced. Moreover, the companies receiving support must produce transparent financial statements and tax data on country-by-country basis.

The Ministry for Foreign Affairs has consulted key stakeholders. Based on these consultations the Ministry will draft general principles on how Finland's ODA funded business support instruments and the companies benefiting from them will be obligated to meet tax responsibility and transparency criteria. The Ministry is going to work together with the business support instruments to prepare – during this government term - more detailed guidance or develop the already existing ones. These guidelines will be tailored to the specific goals, regulations, and management processes of each instrument. Staff training will be organised based on the developed guidelines.



4. Better Recognition of the Position of Developing Countries in International Tax Policy



Objective:

The programme seeks to strengthen the position of developing countries in the global tax policy. As outlined in the Government Programme, the aim is to promote international solutions that also safeguard and enhance Finland's tax base in a globally sustainable manner so that "corporate profits and other income are taxed once in a transparent manner". The goal of global sustainability can be promoted by taking better account of the perspective of developing countries in the international tax policy.

The Ministry of Finance is the party representing Finland in international tax policy matters in organisations such as the EU and the OECD. The ministry also prepares Finland's tax legislation and international tax treaties. It is appropriate for Ministry for Foreign Affairs, too, to be actively involved in these processes in the future.

The Ministry for Foreign Affairs will prepare a plan on how it could become more actively involved and bring its own perspective to the processes of the Ministry of Finance and other government agencies that are relevant to the theme of the action programme. In addition to mapping of the processes, the capacity and resource needs of the Ministry for Foreign Affairs will be assessed in order to create the conditions for it to add value to the processes.



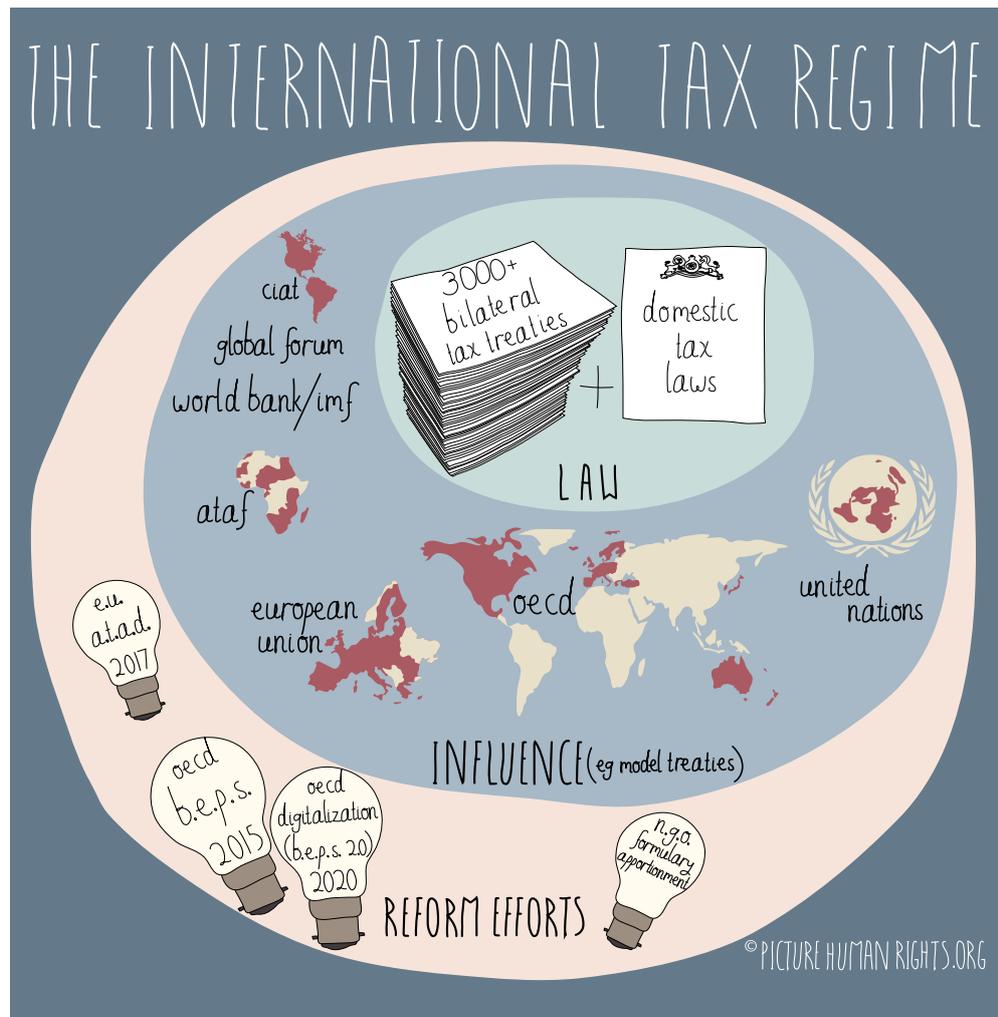
5. Taxation is a Powerful Instrument

A reliable and effective tax system that is deemed as fair is an essential element for the functioning of societies. For this reason, the theme Taxation for Development comes under priority area 3 ('Well-functioning societies') in Finland's development policy. However, taxation is also a powerful instrument in the promotion of the other priority areas of Finland's development policy:

Taxation can, for example, be used to support the achievement of gender equality objectives. With a progressive income tax system, higher taxes can be imposed on high-income individuals (most of whom are men) than on low-income individuals (many of whom are women).

However, in many developing countries, only a small proportion of companies and income earners are in the formal sector (and pay income taxes). This means that governments rely more on such sources of revenue as value-added tax, which is a flat rate for everybody and thus, in relative terms, it hits low-income women harder than high-income men.

A well-functioning tax system makes it possible to finance public services, for example in the care economy and education. These sectors are critical to citizens'



wellbeing and particularly important as sources of employment for women both in Finland and in the developing countries. Thus, the tax system is an essential part of the economy of wellbeing that strengthens women.

Taxation can also serve as an effective tool for environmental and climate policy: Tax regulation can provide an incentive for more sustainable production and consumption patterns, such as the transition towards a carbon-free economy.



6. Programme Funding, Monitoring and Reporting of Results

The implementation of the action programme requires funding. Finland committed itself, along with other donor countries at the International Conference on Financing for Development held in Addis Ababa in 2015 (Addis Tax Initiative), to doubling its support for the strengthening of developing countries' taxation capacity by the year 2020. This would require a funding level of about EUR 8.6 million. Finland will not achieve this target in 2020 but it will increase funding in the ways described in this action programme so that it will meet its commitment under the Addis Tax Initiative by the year 2022.

In relative terms, Finland is contributing less to the Taxation for Development Programme than other Nordic countries. The purpose of this action programme is to narrow this gap and

complement the activities of other Nordic countries by cooperating with them.

The Finnish Taxation for Development Action Programme will lay out the measures and the funding required to match the commitment by 2022 at the latest. At the early stages of implementation, the Ministry for Foreign Affairs will map out the staff resources available, including its own personnel and the resources of the Finnish Tax Administration and other partners.

A working group will be established to support and monitor the realization of the action programme. In addition to the Ministry for Foreign Affairs' Development Finance Unit (KEO-50), the working group will include representatives of e.g.: the Civil Society Unit of

the MFA Development Policy Department, the MFA Africa and Middle East Department, the International Taxation Unit of the Ministry of Finance, the Finnish Tax Administration, the Parliamentary Development Policy Committee (KPT), Fingo (Finnish Development NGOs) and UNU-WIDER and other representatives if necessary. Based on the action programme results, a monitoring framework will be prepared by the Ministry for Foreign Affairs. Reports on granted funding and programme progress will be submitted annually.



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