TAX AND DEVELOPMENT

FINLAND'S ACTION PROGRAMME 2016-2019

WHY IS AN ACTION PROGRAMME REQUIRED?

The Tax and Development Action Programme implements the priorities of the Government Programme and the Government Report on Development Policy in strengthening the tax base of developing countries and in building well-functioning societies. The action programme implements, with respect to the Ministry for Foreign Affairs and development policy, the Government's action plan against international tax avoidance and the work programme on corporate social responsibility.

The action programme's objectives require policy coherence for development. The need for coherence is also more broadly relevant in the implementation of the 2030 Agenda for Sustainable Development. Cooperation between the Ministry for Foreign Affairs, the Ministry of Finance, the Tax Administration and the Ministry of Employment and the Economy is important in both OECD and EU tax-related decisions with global impact. The action programme has been prepared in cooperation with key stakeholders, and stakeholder expertise will be widely utilised in its implementation.

Finland has committed to doubling its support for strengthening developing countries' domestic resource mobilisation by 2020.

The action programme brings together policy influence objectives and development cooperation measures on tax and development during the current parliamentary term. This meets both the need for thematic coordination in development policy as well as domestic and growing international demand with respect to, for example, the implementation of the Addis Tax Initiative (ATI), which was included in the 2015 development financing decisions. In the Addis Tax Initiative, Finland and the other donor countries committed to doubling their support for strengthening developing countries' domestic resource mobilisation by 2020.

The action programme also forms an internal monitoring framework for the Ministry for Foreign Affairs' work on tax and development, among units responsible for the different objectives and measures. Implementation will be coordinated in the Ministry for Foreign Affairs' designated working group, led by the Ambassador for tax and development. The next stage involves the completion of indicators relating to the objectives of the action programme.

The action programme's main objective and four sub-objectives cover the entire parliamentary term. Measures relating to the objectives will be updated in accordance with funding decisions on new initiatives. Actual financing will be reported collectively on an annual basis.

I SITUATION ANALYSIS AND POLITICAL COMMITMENT

The problems relating to taxation are universal. Uncontrolled and illicit financial flows, including international tax evasion and avoidance, erode the economic foundation of developed countries. In developing countries, tax evasion and avoidance as well as corruption prevent the development of the countries' public finances and the strengthening of their tax bases. Tax revenues, which should be due to the countries, are not obtained from large corporations and wealthy individuals. In addition to tax evasion, tax avoidance and corruption, sources of illicit financial flows include trafficking in arms, drugs and human beings. The latter are not, however, the subject of this action programme.

Finland's development policy supports developing countries' capacity to achieve sustainable development goals and seeks to better fulfil human rights and reduce inequality.

Tax evasion and tax avoidance weaken governments' opportunities to provide the public services and goods that fulfil their citizens' economic, social and educational rights. They also prevent the creation and strengthening of institutions that maintain civil and political rights.

This situation is contrary to national and international development goals. It also undermines developing countries' capacity to provide basic prerequisites such as infrastructure for businesses, and adversely affects the development of sustainable economic output and business activity. Common global solutions are required for these global problems.

Global problems require common global solutions.

The economies of developing countries are significantly more dependent than those of industrialised countries on taxation of large corporations, due to their extensive unofficial sectors, namely small businesses and workers operating outside the fiscal space.

In addition to tax evasion and avoidance, corruption and the weakness of tax administrations and other key institutions contribute to lower taxable incomes. Corruption increases inequality and discrimination by restricting the equal access to basic services. Increase in tax revenue and efficient and transparent use of the revenue enable programmes and income transfers that reduce inequality and promote inclusive development and growth. The social model of Finland and the other Nordic countries, which emphasises a strong link between taxation and public services, provides a good example of this.

Tax evasion, tax avoidance and corruption adversely affect the development of developing countries' public finances and the strengthening of their tax bases.

The main objective of this action programme is to strengthen the domestic resource mobilisation of developing countries for the whole society and in a comprehensive manner.

In its communication to the Government in April 2016, the Finnish Parliament emphasised the need to improve developing countries' tax base and domestic resource mobilisation. The Parliament also emphasised the importance of analysing and curbing uncontrolled financial flows, utilising Finland's internationally high quality tax expertise in development policy, and supporting the development of global tax rules (OECD, EU).

Parliament proposed that the Government explore opportunities to strengthen the UN's Tax Committee. Above all, Finland should advocate that developing countries direct the tax revenue they collect particularly to financing public services.

II FINLAND'S OBJECTIVES FOR 2016-2019 AND MEASURES TO ACHIEVE THEM

1. International cooperation has achieved and implemented revised international tax rules, for example to establish corporations' country-by-country tax reporting and to reduce tax evasion, tax avoidance and corruption.

2. Developing countries' domestic resource mobilisation and taxation capacity has been strengthened: tax administrations and other institutions connected with the use and supervision of state assets (e.g. parliament, customs, judicial system, bodies supervising use of state assets) have been developed or reformed.

3. In developing countries, civil societies' awareness and knowledge on the link between taxation and public services has increased, and the ability to hold governments accountable for increasing tax revenues and using them for public services has improved.

4. Reliable country-specific research and analysis of illicit financial flows and solutions to curb them exist, as well as evidence of the effectiveness of measures aimed at building taxation capacity.

OBJECTIVE 1. International cooperation has achieved and implemented revised international tax rules, for example to establish corporations' country-by-country tax reporting and to reduce tax evasion, tax avoidance and corruption.

In 2015, leaders of UN countries approved the 2030 Agenda for Sustainable Development. The 2030 Agenda's goals (SDGs) for improving developing countries' public finances (Domestic Resource Mobilisation, DRM) relate to economic growth (SDG 8), reducing inequality (SDG 10), developing rule of law and institutions as well as curbing illicit financial flows (SDG 16), and strengthening developing countries' taxation capacity (SDG 17).

The main starting point for international cooperation to implement these goals is the two separate G20/OECD-led processes of the so-called global tax agenda: Base Erosion and Profit Shifting (BEPS) and Automatic Exchange of Tax Information (AEOI). Developing countries and their regional cooperation organisations are increasingly participating in both.

BEPS work relating to tax base erosion and profit shifting aims to reform international taxation standards and prepare recommendations for legislation. Country-by-country reporting, which is the main goal of the reform work, means that multinational corporations are taxed in the countries where the value of their production and services is created. Over 100 countries and regional cooperation organisations are participating in this work *(Inclusive BEPS implementation framework)*.

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Automatic exchange of information relates to activity after taxation and aims above all to prevent international non-taxation. Automatic exchange of information is expanding and will start in 2017 with a new formal standard that will enable tax administrations to exchange information on foreign investments. The key actor in developing and implementing the new standard is the OECD's *Global Forum on Transparency and Exchange of Information for Tax Purposes*, in which over 130 countries are participating.

Finland supports the participation of developing countries in this cooperation, as well as the strengthening of their knowledge and capacity to apply the new tax rules. The support consists of funding from the Ministry for Foreign Affairs and the technical assistance provided by the Finnish Tax Administration.

The Tax Administration actively curbs tax evasion and avoidance by adhering to and implementing the procedures agreed between EU countries. The Ministry for Foreign Affairs and Ministry of Finance seek to influence the policies of development finance institutions in order to limit the use of tax havens.

When deciding on EU measures to combat international tax evasion and avoidance, it is consistent to also take into account corporations operating in developing countries. The EU's work on reforming fossil fuel subsidies and directing them to renewable energy as well as the reform of excise duties on goods harmful to the environment and health is also of significant relevance to developing countries' DRM .* The reforms will free up public funds for other uses and promote measures to combat climate change. Finland will support its partner countries in implementing the reforms.

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Key measures	Target area	Partners
The EU's measures to combat international tax evasion and avoidance, including country-by-country tax reporting and promoting automatic exchange of information as well as other taxation-related decisions that affect developing countries.	EU, global	Ministry of Finance, Tax Administration Ministry of Employment and the Economy
Reducing fossil fuel subsidies and reforming excise duties	global	EU Commission and Member States
Enhancing policy coherence for development within the EU by raising the DRM/tax and development theme in the Council, in the EU-Africa partnership, in partner country dialogue and in the EU's development cooperation.	global	EU Commission, Council Secretariat, other Member States
Implementation and monitoring of 2030 Agenda's DRM and taxation goals in the UN High-level Political Forum (HLPF), and monitoring Financing for Development (FFD) decisions	global	UN, OECD, EU World Bank, regional development finance institutions
Development of UN Tax Committee, and closer Nordic cooperation therein	global	UN/ECOSOC, Nordic countries
Implementation and monitoring of the Addis Tax Initiative	developing countries	ATI parties: developing countries, donors, international organisations
G20/OECD BEPS work combating international tax evasion as well as automatic exchange of tax information; support for participation and knowledge of developing countries.	global, developing countries	OECD, EU, ATAF Ministry of Finance, Tax Administration

* Annually, on a global level, USD 550 billion in public funds is used in developing countries for fossil fuel subsidies (2014, IEA). Moreover, pricing of coal can steer current investments towards lower carbon and raise revenue to fund new investments.

Key measures	Target area	Partners
OECD's Tax and Development Programme: developing countries and BEPS and AEOI, as well as other key issues (e.g. tax reliefs, taxation of natural resources); policy influence in a broad-based steering group.	global	OECD, World Bank, IMF, UN, international non-governmental organisations (INGOs), private sector, developing countries, donor countries
EITI Board: developing taxation of natural resources as well as ownership registers	global	EITI, Nordic countries
International finance institutions' policies: DRM, tax havens	global	World Bank and regional development finance institutions, Finnfund
African Tax Administration Forum (ATAF): donors' and development partners' cooperation, Finland in a coordinating role	Africa	ATAF Secretariat, EU Commission, Germany, the Netherlands, Switzerland, Ireland, Norway, Denmark, the UK
Strengthening capacity of customs as well as emphasising the importance of taxation in investment promotion and in better corporate social responsibility	global	UN/Global Compact OECD/PFI, EU

OBJECTIVE 2. Developing countries' domestic resource mobilisation and taxation capacity has strengthened: tax administrations and other institutions connected with the use and supervision of state assets (e.g. parliament, customs, judicial system, bodies supervising use of state assets) have been developed or reformed.

Better governance and public financial management reforms, as well as more effective institutions that strengthen democratic and well-functioning societies (in addition to tax administrations e.g. parliaments, customs, judicial institutions, audit and supervision bodies) are essential in strengthening both the desire to pay taxes and the capacity to collect tax revenue. Alongside strengthening taxation capacity, Finland emphasises governments' accountability towards citizens and domestic businesses, as well as the use of higher tax revenues for better public services, particularly for the poorest sections of the population.

Finland supports its partner countries and regions extensively in promoting these objectives. In bilateral cooperation, themes related to domestic resource mobilisation are central in the dialogue with partner countries. Feasibility of specific projects is determined when updating the country strategies. During the action programme, country strategies will aim to include elements that enhance domestic public finance (DRM) and increase taxation capacity. The Finnish Tax Administration's internationally strong and highly developed expertise in this field will be utilised.

Alongside strengthening taxation capacity, Finland emphasises use of higher tax revenues for better public services.

Key measures	Country/region	Duration	Partners
Financial assistance for African Tax Administration Forum (ATAF): €1.8 million	Africa	2014-2019	ATAF, other donors and development partners
Expert assistance to ATAF on corporate taxation, and building capacity for corporate taxation in ATAF member states: €0.5 million	Africa, e.g. Namibia	2015-2019	Finnish Tax Administration, ATAF, Namibia's Ministry of Finance
Building capacity for corporate taxation globally: OECD/UNDP *Tax Inspectors without Borders* programme: €0.8 million	developing countries	2016-2019	UNDP, OECD

Key measures	Country/region	Duration	Partners
Improving public governance incl. tax revenue: €4.8 million	Tanzania	%	Tanzania's Ministry of Finance and Tax Administration
Strengthening capacity of Parliament as well as provincial and municipal councils in managing natural resources and improving accountability: €1.5 million	Mozambique	2016-2018	Non-governmental organisations: DEMO-NIMD-IMD
Fostering transparency of natural resources revenue as well as ownership registers: €2 million	Africa	2016-	EITI, World Bank
Support to State Procurement Agency	Zambia	2015-	HAUS Finnish Institute of Public Management
Developing governance and public financial management, incl. taxation, and strengthening of productive sectors	Somali	%	World Bank Multi-Donor Trust Fund Programme
Reconstruction fund, incl. public financial management, taxation capacity, customs and audit activity	Afghanistan	%	World Bank
Strengthening parliaments' knowledge on budget and taxation issues	developing countries	%	World Bank and regional development finance institutions
Support to transparency and accountability of public administration and curbing corruption	developing countries, Africa	%	World Bank and regional development finance institutions
Reforming tax policies, tax administrations and public financial management	developing countries	in planning stage	World Bank and regional development finance institutions
Support to systems relating to tax policy	developing countries	in planning stage	IMF, other donors

The % sign in the table means that Finland is involved as a co-financier in a larger entity, or only part of Finland's programme or project is directed at the DRM/taxation theme.

OBJECTIVE 3. In developing countries, civil societies' awareness and knowledge on the link between taxation and public services has increased, and the ability to hold governments accountable for increasing tax revenues and using them for public services has improved.

Strengthening developing countries' taxation capacity requires that taxpayers – individuals or businesses – consider taxation to be legitimate. This legitimacy is a key factor in creating willingness to pay taxes. Legitimacy is based on understanding the link between taxation and public services, and in this Finland has much to offer on the basis of the Nordic model.

In developed or OECD countries, civil society in particular has created pressure to develop global tax justice by for example advocating for multinational corporations' country by-country tax reporting. Many developing countries' civil societies, including the private sector, need better information, knowledge and functional capacity in relation to the legitimacy of taxation and the link between taxation and public services. They will then be able to hold their governments better to account, and establish national "watchdogs".

An active civil society, parliament and the media can positively impact the legitimacy of taxation, growth of tax revenue and the fairness of the tax system.

Finland supports civil societies in developing countries via international non-governmental organisations. The intention is to continue to support their work in 2016–2019 to promote Finland's tax and development objectives. Support for the activities of Finnish non-governmental organisation may also be considered.

Key measures	Country/region	Duration	Partners
Civil society DRM programme: €2.1 million	Kenya/Africa Vietnam, Asia	2014-2016	Oxfam
Building knowledge of media representatives and members of parliaments on tax issues: €0.5 million	Africa, Asia, Latin America	2015-2016	Financial Transparency Coalition
Strengthening parliament and local-level democratic bodies: legislative work, transparency of natural resources revenue to promote inclusive economic growth: €1.5 million	Mozambique	2016-2018	Non-governmental organisations: NIMD-DEMO-IMD

OBJECTIVE 4. Reliable country-specific research and analysis of illicit financial flows and solutions to curb them exist, as well as evidence of the effectiveness of measures aimed at building taxation capacity.

The extent of global financial flows, tax evasion and tax avoidance and their impact on developing countries are still a poorly researched topic. Finland considers it important that decisions on international tax rules and on strengthening developing countries' taxation capacity are made based on as good and as reliable information as possible. The emphasis therefore is on establishing reliable, factual data.

Moreover, research on effectiveness of measures to build taxation capacity is important for planning of further measures.

Reliable monitoring and statistics to reduce false invoicing of foreign trade and abuse of transfer pricing are key objectives for research.

Finland finances research based on public data on illicit financial flows as well as analyses of their effects on the economies of developing countries. Furthermore, efforts are being made to find potential solutions to illicit and uncontrolled financial flows in individual partner countries.

Cooperation with the United Nations University's WIDER Institute will be further developed during the period of the action programme.

Key measures	Country/region	Duration	Partners
Baseline analysis of illicit financial flows: €0.5 million	Myanmar, Zambia, Nepal	2016	Global Financial Integrity (GFI)
Illicit financial flows; policy dialogue and recommendations: €0.2 million	Myanmar	2016-2017	Global Financial Integrity (GFI)
Social and economic research, incl. extractive industries: €1.5 million	Mozambique	2016-2018	IESE research institute
UNU-WIDER's research programme with local university and Mozambique's Ministry of Finance (e.g. development of tax policy, tax administration and public financial management): €3 million	Mozambique	2015-2018	UNU-WIDER
Effectiveness evaluation of Finnish Tax Administration's expert assistance	Namibia	in planning stage	UNU-WIDER Tax Administration

III MONITORING, REPORTING AND ASSESSMENT

Monitoring and updating of this action programme will take place annually, as with the development cooperation country strategies and multilateral policy influencing plans. It will be based on aggregate indicators, to be finalised in early autumn 2016. Units responsible for policy and development cooperation measures will report on their progress to the unit responsible for tax and development work in the Department for Development Policy.

Implementation of the 2030 Agenda with respect to strengthening developing countries' domestic resource mobilisation and curbing illicit financial flows, as well as the Addis Tax Initiative's commitment on doubling support for tax capacities by 2020 will be monitored annually. According to the definition of the OECD Development Assistance Committee (DAC), projects and programmes with over 50% of elements that increase domestic public finance and tax revenues of developing countries will be reported to the DAC,) using the new reporting code for DRM.

The results of the action programme will be reported to Parliament as part of the overall reporting on results of development policy and cooperation in 2018.

Evaluation data will be collected from both policy and project evaluations, and utilised in the results reporting, with respect to Priority area 3 (Well-functioning societies), and in preparing the next development policy programme.

Further information: Ministry for Foreign Affairs/Department for Development Policy, e-mail: keo-10@formin.fi

ABBREVIATIONS

AEOI	Automatic Exchange of Tax Information standard
ATAF	African Tax Administration Forum
ATI	Addis Tax Initiative
BEPS	Base Erosion and Profit Shifting, G20/OECD's international tax rules reform project
DAC	OECD Development Assistance Committee
DRM	Domestic Resource Mobilisation, improving (developing countries') public finances
ECOSOC	UN Economic and Social Council
EITI	Extractive Industries Transparency Initiative
FFD	Financing for Development
G20	International forum of the world's leading industrialised countries
GFI	Global Financial Integrity, research institute in Washington
HLPF	High-level Political Forum, political steering body of the UN's 2030 Agenda on Sustainable Development
IFF	Illicit Financial Flows, illegal and uncontrolled financial flows
IMF	International Monetary Fund
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
SDG	Sustainable Development Goal
UNDP	UN Development Programme
WIDER	United Nations University's economic and development research institute in Helsinki

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