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Interministerial strategy 2020

Support
for improved
domestic resource
mobilization
in developing
economies

This strategy was developed following interministerial consultations with various bodies, including:

- The Directorate-General for Global Affairs (Ministry for Europe and Foreign Affairs),
- The Directorate-General of the Treasury (Ministry for the Economy and Finance),
- The Directorate-General of Public Finances (Ministry for Government Action and Public Accounts),
- The Directorate-General of Customs and Indirect Taxes (Ministry for Government Action and Public Accounts),
- The Agence Française de Développement (AFD),
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Preface

Dear readers, dear development actors and partners of France,

The Interministerial Committee for International Cooperation and Development (CICID) meeting, held on 8 February 2018 and chaired by the French prime minister, decided to draw up a new French interministerial strategy on better domestic resource mobilization in developing economies. This is a critical issue if countries are to achieve the 2030 Agenda's sustainable development goals (SDGs).

The G7-G5 Sahel joint communiqué issued on 4 July 2019 recalled the importance of domestic resource mobilization as an instrument to improve governance in Sahel countries. This strategy is consistent with our commitment to supporting democratic governance and development financing in our priority areas for action.

In addition to financial considerations, paying taxes is an essential part of the social contract and good citizenship. This "indispensable" contribution, as described for example in Article 13 of the Declaration of the Rights of Man and of the Citizen of 1789, is the guarantee of sustainable public policies that are supported by official development assistance (ODA). This logic underpins the five pillars approach outlined below and which seeks to support the emergence of a virtuous circle amongst taxpayers, beneficiary states and development partners.

To implement this strategy, France will fully utilize its public expertise – which is internationally renowned with regard to tax and customs matters – through a strategic plan for development investment of EUR 65 million over three years. Its foci will be developed by bringing together all stakeholders (beneficiaries, civil society and the private sector) to ensure that they are continuously relevant and aligned with France's international development policy.

Lastly, France does not plan to simply support its partners without considering its own practices. Accordingly, this strategy identifies issues for which France plans to "lead by example". This is especially true with regard to ensuring tax transparency and fighting tax havens.

It is time for concrete action to be taken. To this end, both of our ministries have been tasked with creating a multi-year investment plan to serve as a roadmap, setting out the priorities of this strategy through operational guidelines for all French government departments and their agencies. This will send a strong message to our partners on the urgent need to work together and coordinate actions so that taxation can be thoroughly leveraged for development.

As we finalize this strategy, the COVID-19 health crisis is affecting all countries worldwide. The collapse of global growth is leading to a second wave of economic, social and humanitarian crises. This alarming situation heightens the relevance of this strategic document, as domestic resource mobilization is a key lever for responding to the economic crisis. The financial resilience of countries is vital to absorb increased health expenditure, mitigate the loss of revenue from global trade and, basically, to support the continuity of states. This preservation of the financial missions of states is the very essence of our commitment.

Odile Renaud-Basso
Director General of the
Treasury

Michel Miraillet
Director-General for Global
Affairs, Culture, Education
and International
Development

Chapter 1

France's five pillar approach to maintaining political momentum on taxation and development issues



Those who pay their taxes are those who make their country.

If we are to attain the 2015 Sustainable Development Goals (SDGs) by 2030, considerable financing will be required. Official development assistance (ODA) and sustainable debt will be insufficient to meet all of these needs. Better domestic revenue mobilization (DRM) is therefore essential to reduce poverty in developing economies. For this reason, on 5 October 2017, finance ministers from the Franc Area adopted 21 guidelines to strengthen the mobilization of tax revenues.¹

Tax resources are by far the largest source of official development finance

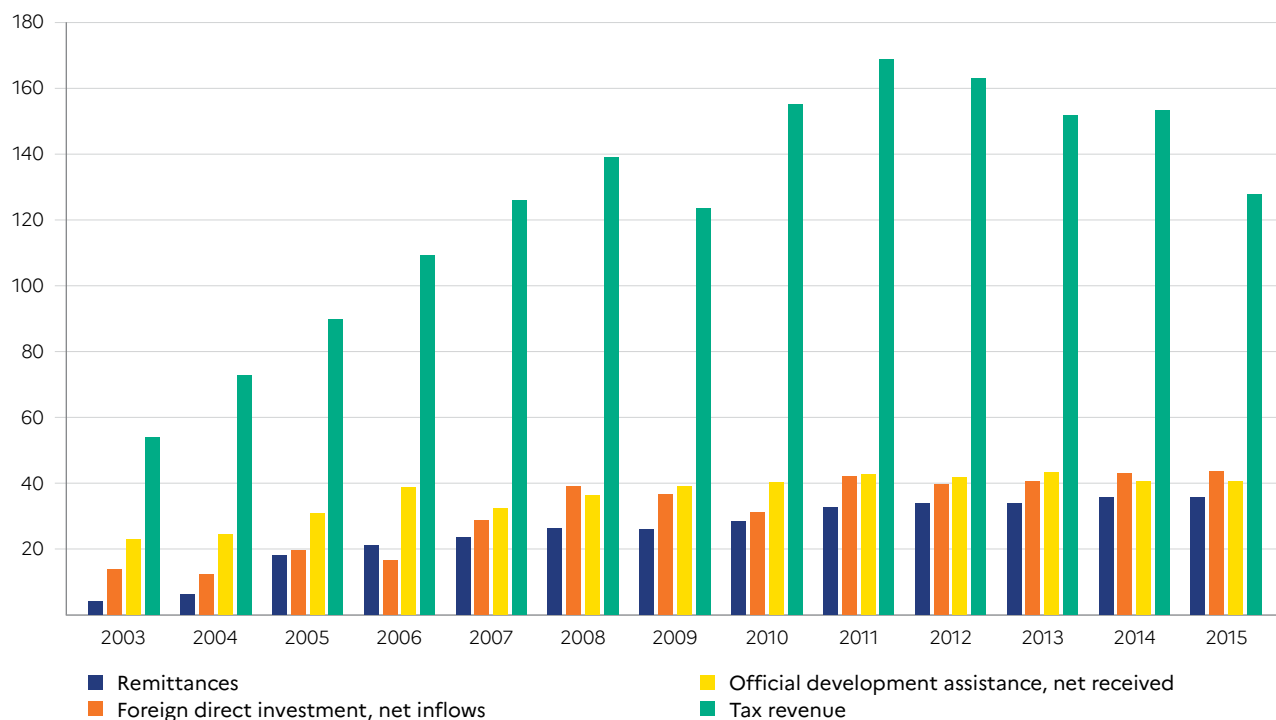
In sub-Saharan Africa alone, a net capital exporter, taxes amounted to more than USD 500 billion in 2016, compared to USD 43 billion in ODA funded by development partners and USD 208 billion in foreign capital (including USD 57 billion in foreign direct investment and USD 64 billion in diaspora remittances), according to the *African Economic Outlook 2017* jointly published by the Organisation for Economic Co-operation and Development (OECD), the African Development Bank (AfDB) and the United Nations Development Programme (UNDP). However, most of these countries have low tax burdens broadly ranging from 5% to 20% depending on the country category (with a median of 12.7% in least developed countries, compared to 25% in OECD member countries).

Tax reforms launched since the 1980s in developing countries have resulted in a first generation fiscal transition. However, tax collection in these economies is still insufficient. The volatility of prices for raw materials is one of the major obstacles to the sustainability and stability of tax revenues. This sometimes results in a drastic decrease in public spending, which can lead to high levels of social tension.

Furthermore, economic digitalization, which is occurring just as quickly in developing countries as in developed countries, has made it necessary to rethink some fundamental tax principles to ensure that they are operational in this new environment.

1. See the dedicated page on the Directorate-General of the Treasury's website: <https://www.tresor.economie.gouv.fr/Articles/2017/10/13/reunion-des-ministres-de-la-zone-franc-4-et-5-octobre-2017-a-paris>, (February 2018).

FIGURE 1 – Sources of financing for the countries of sub-Saharan Africa compared to tax revenue (2003-2015) (total amount in billions of US dollars)



Source: FERDI, based on data compiled by the OECD, IMF and World Bank, 2018.

According to the United Nations Economic Commission for Africa (UNECA), illicit financial flows and tax evasion result in an annual tax shortfall of around USD 50 billion for African states.² The fight against these practices is therefore a priority for tax administrations, not least because widening the tax base leads to a better distribution of the tax effort. This virtuous circle helps reduce suspicion towards tax and promotes taxpayer compliance.

Faced with these challenges, the international community has taken various steps.

During the conference on Financing for Development held in Addis-Ababa in 2015, development partners agreed to strengthen their support for financial administrations in developing countries. France co-signed the Addis Tax Initiative (ATI) declaration³ which sets out three commitments:

- Participating providers of international support will collectively double their technical cooperation in the area of DRM/taxation by 2020.
- Partner countries restate their commitment to step up DRM as a key lever for attaining the SDGs and achieving inclusive development.
- All countries restate their commitment to ensure policy coherence for development.

2. African Union and the United Nations Economic Commission for Africa (UNECA), *Illicit Financial Flows; Report of the High Level Panel on Illicit Financial Flows from Africa*.

3. See the dedicated website: www.addistaxinitiative.net (February 2018).

These discussions took place at a time when most states were embarking on an unprecedented fight against tax evasion and aggressive tax optimization, following the G20's request to the OECD to develop ambitious standards in collaboration with as many jurisdictions as possible. The Global Forum on Transparency and Exchange of Information for Tax Purposes currently has 158 members, while the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) brings together 137 states and territories.

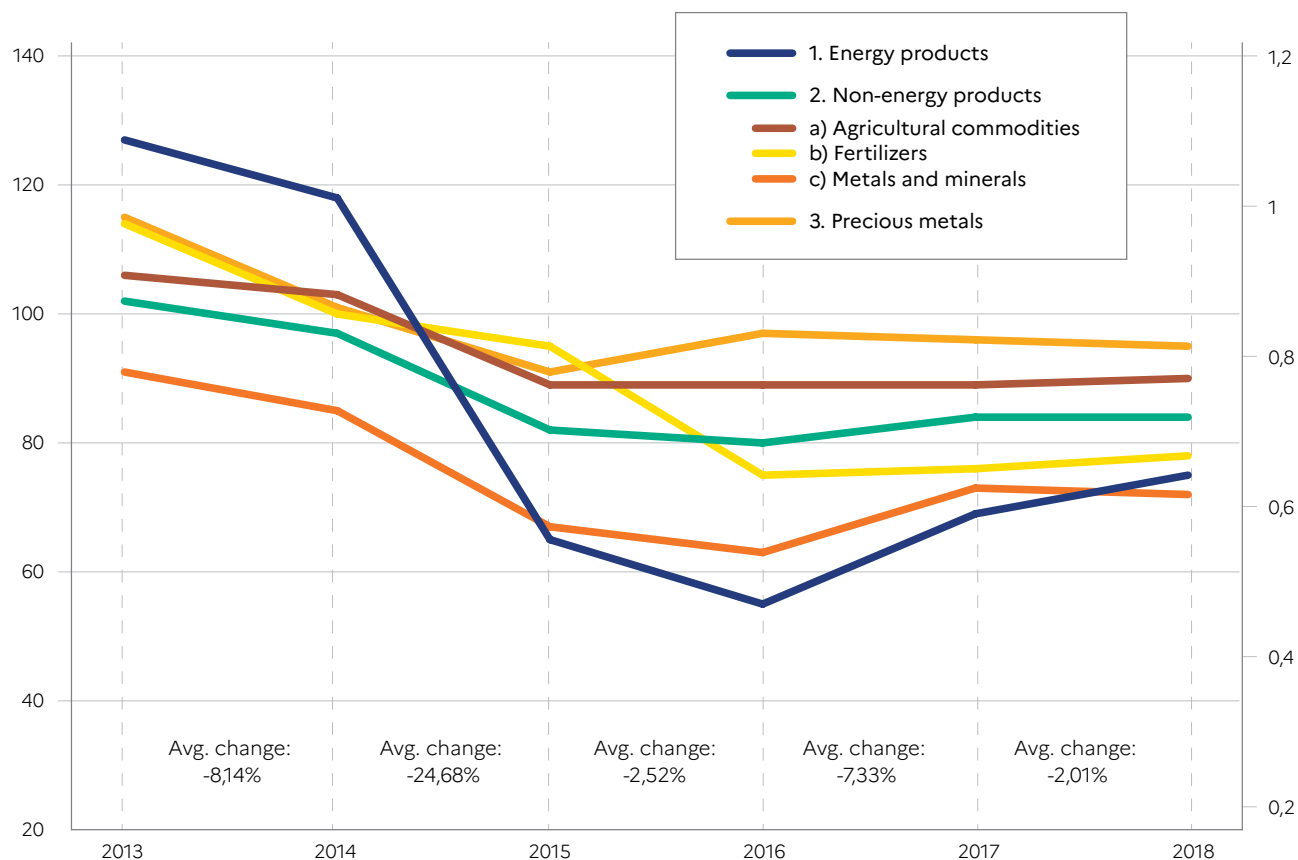
Following the Addis conference, the French Ministry for Europe and Foreign Affairs (MEAE) and the Ministry for the Economy and Finance (MEF) decided to create an interministerial steering committee (the MRIP-DEV platform). This committee unites public and private French actors involved in supporting DRM in developing countries. Bringing together researchers and civil society, this forum for dialogue evaluated the 2010 Taxation and Development strategy in order to define new priority areas for French external actions. This initiative met a long-standing

demand by French civil society, voiced particularly by the National Council for Development and International Solidarity (CNDSI) at its 15 September 2017 meeting.

This interministerial strategy was adopted by the government during the Interministerial Committee for International Cooperation and Development (CICID) meeting of 8 February 2018.

Building on extensive consultations, it redefines France's overall approach for the coming years, identifying five pillars; its global response is translated into **10 priorities**. These elements will underpin French dialogue with beneficiary countries and its international solidarity and development policy. Administrations in charge of implementing this strategic orientation document will produce a biennial roadmap outlining actions for each of these commitments, taking into account available budgetary resources.

FIGURE 2 – Nominal price index evolution for commodities (2013-2018)
(Price index 2010 = 100)



Source: FERDI, based on data from the World Bank.

Public DRM in development financing is now a key issue on the international development agenda. Given the many obstacles still faced, political momentum must be maintained in this area.

In terms of geographical priorities, France will prioritize the following regions, in accordance with the orientations reiterated at the Interministerial Committee for International Cooperation and Development (CICID) meeting on 18 February 2018:

- Sub-Saharan Africa and the Mediterranean region, where we will focus our resources, and especially “priority countries”⁴ In particular, France will seek to support the Sahel countries with regard to this aspect of cooperation.
- Emerging markets in Latin America and Asia, where we will provide cooperation and technical assistance on DRM and climate issues.

These orientations will be implemented by way of a biennial roadmap produced by administrations and government agencies.

To carry out these actions, France has adopted an approach based on five pillars:

- Pillar 1: A **comprehensive G20-G7** approach to support better global tax regulation in line with the strictest standards upheld by the G20 and to see through our commitments at the end of the French G7 presidency in 2019.
- Pillar 2: The **projection of French action within a European framework** as part of the “Collect More, Spend Better” strategy.
- Pillar 3: A **political and democratic approach** to DRM issues, particularly in fragile states.
- Pillar 4: **Greater transparency and accountability** for all actors, including aid recipients.
- Pillar 5: **Interministerial mobilization** to improve the coordination and coherence of French technical and financial support.

→ Pillar 1

A comprehensive G20-G7 approach supporting better global tax regulation in line with the strictest standards upheld by the G20

The G20 and particularly the OECD, with strong support from France, are continuing their work to combat international tax evasion, the aggressive optimization of transfer prices (BEPS) and banking secrecy. This work is not limited to the field of development policies but can contribute to it by protecting tax bases in developing countries.

France acknowledges the **technical benefits and operational efficiency of the OECD** in coordinating work on international taxation issues, while still valuing other forums for discussion (the International Monetary Fund [IMF], the World Bank [WB] and the United Nations [UN]). Moreover, France supports **greater interconnection between these organizations and sector specialization based on their fields of comparative advantage**.

At the G20 level, France will ensure that discussions continue to take the concerns and capacities of developing countries into consideration in the interest of the system’s overall coherence and efficiency. This involves:

- Acknowledging the importance of a differentiated approach based on two criteria (fiscal relevance and development) in developing countries, in order to prevent free-rider mentalities and ensure the technical and temporal feasibility of commitments applicable in the weakest jurisdictions.
- Improving coordination between the G20’s Finance Track and international organizations.
- Improving monitoring of the recommendations by the G20’s Development Track in order to better inform the discussions of the G20’s Finance Track.

4. As of 1 March 2018, the priority countries for French ODA are: Benin, Burkina Faso, Burundi, the Central African Republic, Chad, Comoros, the Democratic Republic of the Congo, Djibouti, Ethiopia, Gambia, Guinea, Haiti, Liberia, Madagascar, Mali, Mauritania, Niger, Senegal and Togo.

Taking into account the institutional capacities of developing countries, **France will support the gradual enlargement of discussion and negotiation circles coordinated by the OECD** on standards for tax transparency and the fight against abusive practices. To effectively contribute to these discussions, the capacities of developing countries (especially low- and middle-income countries) must be strengthened. France will contribute to this process in line with the established principles.

For the most fragile states, effective participation will only be possible in the medium term. However, to ensure that no countries are left behind, tax administration networks can play an enhanced role in intermediating and pooling capacities. To this end, France will negotiate a partnership framework with the African Tax Administration Forum (ATAF), the Exchange and Research Centre for Leaders of Tax Administrations (CREDAF) and the Inter-American Center of Tax Administrations (CIAT) that takes into account each organization's competencies, to help them assume their role as relays and interfaces.

Similarly, economic and customs unions are, by definition, excellent forums for discussion and capacity building. France will continue to support initiatives that encourage the pooling of technical competencies and greater tax harmonization, starting with subregional organizations in the Franc Area.

At the global level, France acknowledges the strategic nature of its partnership with four development organizations operating in the tax field at the international level: the World Bank, the IMF, the UN and the European Union (EU). This strategic multilateral partnership will be rolled out at the regional level through regional development banks and French agencies.

These multilateral institutions and the OECD should continue their coordination efforts via the Platform for Collaboration on Tax (PCT). **France welcomes this initiative and will continue discussions with all its members in order to prevent overlap and guarantee the principle of specialization for each of these international organizations in areas in which they have a comparative advantage.**

France believes that this platform should become the main forum for technical discussions on developing diagnostic and evaluation tools and improving methods. The platform should also work closely with the **Addis Tax Initiative (ATI), which we consider to be the only strategic political mobilization forum serving the Addis Ababa Action Agenda.**

As part of this process, the ATI should make its DRM database (which is currently being developed and should cover technical assistance programs in the field of taxation) more widely available. France undertakes to use this database as a planning tool to help it improve coordination between its operations and those of its partners, optimizing human resources in beneficiary countries.

With France at the helm of the G7 presidency in 2019, it is ideally placed to bring attention to these issues in the coming years. As such, DRM is one of the priorities of the French presidency and its partners.

France's actions, which are focused on least developed countries and especially the Sahel, will reflect a comprehensive approach to create and support credible DRM strategies to finance development. The macro-structural reforms these countries need are part of a continuum of actions and include:

- Greater transparency and enhanced debt sustainability to counter the growing risks of excessive deficits.
- Greater DRM, which would create fiscal space in order to invest in key infrastructures and social services. France will ensure that ODA efforts on this issue are focused on bolstering tax administrations, expanding the tax base and consolidating the formal economy.
- More robust and efficient tax governance, achieved by fighting corruption, tax fraud and illicit financial flows.

With respect to DRM efforts undertaken through the G7:

- France will work with its G7 partners and international development institutions to cover the DRM assistance needs of African states.

Accordingly, France will encourage discussions with multilateral development banks to obtain ambitious DRM commitments. **The 19th replenishment round of the International Development Association (IDA) and the 14th replenishment of the African Development Fund (ADF) are a first step in securing stronger DRM commitments in low-income developing countries.**

- **France will continuously promote better coordination between international development actors** through the PCT with regard to tax issues.

Once the G7 work is concluded, France will push for the **PCT to play a leading role in the coming years in coordinating DRM actions in beneficiary countries.** In this regard, France will advocate for improved coherence between the short-term macroeconomic stabilization goals of IMF programs and long-term development goals.

- To render the commitments and initiatives agreed by G7 stakeholders operational, and to gauge the capacities of these measures to address the needs of developing countries, France will press for a pilot approach in Africa, especially in the Sahel countries.

These countries have substantial development financing needs, still suffer from failing public governance, and face major security issues that impede the mobilization of their domestic resources. France and its G7 partners could look to the G20 Eminent Persons Group initiatives to create country platforms in order to coordinate interventions on the ground and develop credible DRM strategies that are tailored to the macroeconomic context of each beneficiary country.

- Within the context of the G7, France will allocate an additional EUR 30 million over 2020-2022 to support initiatives and interventions that seek to improve DRM in developing countries.

→ Pillar 2

Use the European framework for the international projection of French action as part of the “Collect More, Spend Better” strategy

The European framework is most relevant for the international projection of France’s external action. **This strategy therefore fully complies with the European Consensus on Development and the “Collect More, Spend Better” paper.**

The implementation of efficient tax policies, which is a long-term exercise, must also be considered in light of more general questions concerning the efficiency and legitimacy of public spending, which is decisive in creating sufficient trust in the government to encourage taxpayer compliance. In this respect, France’s action will follow guidelines adopted by the European Commission in its reference document “Collect More, Spend Better”. France will take the efficiency of public spending into account in countries where it provides assistance to tax administrations.

As part of efforts to take into account the clear links between income and expenditure, France will ensure that its countries of intervention undertake to improve their management of public finances, particularly spending. Beneficiary countries will be considered to have fulfilled this commitment when they:

- Have stable medium-term budgetary frameworks, preferably in connection with an IMF program.
- Have defined clear reform policies to improve their management of public finances, if possible with support from development partners. France will support the implementation of medium-term reform strategies (MTRSs) such as those developed by the World Bank and the IMF. France will also support initiatives that take into account the situations of fragile countries, based on a differentiated approach, which could be implemented as part of the PCT.
- Undertake to complete, if circumstances permit, periodic Public Expenditure and Financial Accountability (PEFA) assessments.

These actions in the development field are in line with France’s positions on tax avoidance and abusive practices at the European level.

→ Pillar 3

A political and democratic approach to domestic revenue mobilization issues, particularly in fragile states

France’s interventions in the tax field are in line with its conceptual “democratic governance” approach. The mobilization of tax resources is a political issue for two reasons: it is an activity that falls under state sovereignty and creates an obligation of accountability towards taxpaying citizens, and it is directly related to economic and social goals and therefore cannot be achieved by adopting a primarily technical approach.

Consequently, France will ensure that its sectoral political dialogue and the design of development programs include **three main components:**

- **Transparency and democratic control:** France will systematically seek to involve taxpayers, citizens and their representatives in the definition and administration of tax policy as part of its development programs and those of its partners.

- **An economic and social approach to taxes:** France will systematically seek to ensure that government spending financed by taxes plays a redistributive role and improves the fairness of the tax system, a goal for which we currently have very few analytical tools. This social role is directly linked to the acceptance of taxes by taxpayers.

For this reason, **where the relevant technical and human preconditions are met (mainly in middle-income countries)**, France will support “second-generation” fiscal transitions which make tax systems more complex by introducing direct progressive taxation for as many people as possible.

- **Combating corruption:** this is an integral part of capacity building for tax administrations. It also contributes to the fight against illicit financial flows, which are facilitated by the actions of corrupt officials.

→ Pillar 4

Greater transparency and accountability for all actors, including aid recipients

France will seek to increase transparency and mutual accountability in the tax field through its political dialogue and cooperation programs. Both of these factors are key to ensuring taxpayer compliance, the determinants of which must be studied in more detail. This need for additional studies also applies to taxpayer behaviour more generally.

In the spirit of the ATI, this support for greater transparency and accountability also applies to development partners. In this respect, France will improve the quality of ODA data reported to the OECD Development Assistance Committee, particularly concerning projects using the code 15114 for DRM.

Accountability and transparency also involve building the capacities of civil society and parliaments, thereby ensuring that they are able to take part in effective dialogue with governments on major tax policy issues.

For the reasons above, access to reliable, comprehensible and comparable data will be a priority for France, states benefiting from French ODA and civil society. This open data initiative must be accompanied by an ethical framework that protects the confidentiality of personal data and data directly shown to be sensitive for economic operators.

→ Pillar 5

Interministerial mobilization to improve the coordination and coherence of French technical and financial support

Given the need for, on the one hand, closer cooperation between government services and agencies involved in tax and development issues and, on the other, more inclusive dialogue with civil society and researchers to improve the efficiency of ODA, **France will sustain the interministerial tax and development platform MRIP-DEV** run by the MEAE and MEF. This discussion platform will be one of the tools used to **improve the coherence of France’s development policies**, in line with the goals prescribed by the OECD in *Better Policies for Development*, published in 2013.

This informal discussion forum will be given the resources necessary to capitalize on the many capacity building projects taking place around the world and to further reflection (also involving academia) on issues such as evaluating the efficiency and impact of programs supporting tax and customs administrations. **It will constitute the monitoring and accountability framework for the implementation of this strategy.**

Concerning capacity building programs, France will adopt a pro-active approach, positioning public technical experts when they have a clear advantage compared to private experts. It will reinforce training for public international technical experts, improve capitalization on their actions, raise awareness of the need for tax reforms and build the capacities of tax administrations, while ensuring the services it offers take into consideration the national specificities of beneficiary countries. The availability and quality of experts are two major issues that must be addressed by all French actors, under the auspices of the relevant administrations.

In EU and international financial institutions, France will seek to maintain a French presence among intermediate-level and management staff. This presence will be subject to enhanced monitoring.

Committed to leading by example

Tax transparency and the fight against tax fraud and evasion are priorities with regard to France's action on DRM.

France is one of the original members of the Global Forum. As such, it has implemented the standard on the Exchange of Information on Request (EOIR), supports the transparency of beneficial ownership and financial mechanisms, and has implemented the standard on the Automatic Exchange of Information (AEOI) for financial accounts. The first information exchanges took place in September 2017.

In addition to implementing measures at the national level and participating in EU initiatives in this field, France also helped launch the Base Erosion and Profit Shifting (BEPS) project in 2012. It continues to support this project, actively working on the 15 actions developed, including as part of the ad hoc Group on the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS. This convention aims to incorporate results from the BEPS project into existing bilateral tax treaties, putting an end to tax evasion and avoidance, particularly as a result of treaty shopping.

This convention, signed by France on 7 June 2017, is the most visible sign that the BEPS action plan is being implemented. It confirms the importance of the OECD in the international tax field and as a producer of essential global economic rules, with a scope that extends well beyond its member countries. Ultimately, the convention should allow France to amend all of its tax treaties with major economic partners without needing to engage in bilateral negotiations.

At the European and multilateral levels, France will continue to support the most ambitious goals when defining EU rules on tax transparency, evasion and avoidance.

France will continue to update and modernize its existing tax treaty network through work carried out by the Tax Legislation Directorate at the Ministry of Economy and Finance. This directorate will begin work on evaluating the economic issues related to tax treaty policy, particularly within the framework of relations with developing countries.

Lastly, France will continue to use its international expertise in order to contribute to international debate, particularly by renewing its application to join the United Nations Committee of Experts on International Cooperation in Tax Matters, within the framework of the Addis Ababa Action Agenda.

In developing economies, French companies are a driver for growth through their foreign direct investment, and a source of income through the taxes they pay. For this reason, representatives of French companies are active participants in consultations on international tax issues.

French companies are fully committed to promoting and respecting the OECD Guidelines for Multinational Enterprises, which are one of the pillars of the OECD Declaration on International Investment and Multinational Enterprises. These guidelines, first adopted in 1976, constitute an international reference framework for the responsible conduct of multinational enterprises, including in the taxation field. One of the goals of these guidelines is to acknowledge the importance of governance and tax compliance in controlling and managing risk, in every sense of the word. In this respect, tax compliance involves cooperating with tax authorities and supplying the information needed to guarantee the fair and efficient application of tax laws. It also involves ensuring that transfer pricing practices comply with the principle of full competition that appears in both the OECD Model Tax Convention and the United Nations Model Double Taxation Convention between Developed and Developing Countries.

French companies also comply with the provisions of the Act of 9 December 2016 (the "Sapin 2" Act), which applies to the leadership of French companies with more than 500 employees and turnover of more than EUR 500 million. This Act aims to prevent and detect acts of corruption or influence peddling committed in France or abroad. The subsidiaries, branches or foreign establishments of French companies subject to this anti-corruption obligation must implement compliance programs or adopt those of parent companies.

Looking beyond the issues of risk analysis and management, the use of foreign or non-cooperative jurisdictions or harmful tax practices to shelter development initiatives may be more closely examined, particularly to identify the specific reasons resulting in the use of these financial centres.

To ensure its actions in this field are coherent, France will create a working group involving members of different administrations. This body will draft principles to identify the beneficial owners of operations co-financed by ODA, and develop a methodology to minimize use of financial centres with tax advantages. As part of this process, the term "tax advantage" will need to be defined.

As the permanent secretary of the Leading Group on Innovative Financing for Development, currently chaired by Georgia, France is a pioneer in promoting and implementing innovative financing as an alternative financial tool for development. In 2006, it implemented a **tax on air travel** and, in 2012, a **tax on financial transactions**: it is the only country to put part of these revenues towards development. All of the revenues generated by the tax on air travel and – since 2013 – some of the revenues generated by the tax on financial transactions are put towards a Solidarity Development Fund. This fund is managed by the Agence Française de Développement (AFD) on behalf of the government, subject to the supervision and instructions of an interministerial steering committee.

On 26 September 2017, the President of the French Republic gave a speech entitled “Initiative for Europe” at the Sorbonne university. During this speech, he spoke of his desire to revive the idea of a European financial transaction tax, with all of the funds generated being put towards European ODA and used to finance development.

Chapter 2

Sectoral priorities of French cooperation

→ Objective 1

Define and support the creation of fairer, more efficient and economically attractive tax policies in developing countries, especially the most fragile

Priority 1 – Support the rationalization and monitoring of tax policies in partner countries

While respecting states' national sovereignty, France acknowledges that tax policy, although primarily contributing to the national budget, should also help reduce inequalities between economic agents, contribute to human development, fight poverty and support sustainable economic growth and job creation. This is especially true given that wealth gaps are growing, including in developing countries, which could weaken the social contract. In this situation, it is important to assess the efficiency of tax policy. The future tax policy assessment framework (TPAF) is a new diagnostic tool being developed for tax administrations.

As part of this debate, France promotes and supports tax expenditure inventories and assessments, for which states must define a **reference tax system**. The choice of reference system is a matter of national sovereignty, subject to international and regional commitments. It enables states to select tax provisions that are subsequently used to identify derogatory measures. It encourages states to analyse their tax policies and take all necessary measures to improve their efficiency.

The rationalization of derogatory measures is a priority for French cooperation efforts. On the one hand, this helps improve tax collection and, on the other, it helps determine whether these measures are efficient with respect to economic and social goals. Assessing tax expenditures is an opportunity for tax administrations to take into consideration the risks associated with administrative breakdown and the increase in standard tax rates this is likely to engender. France undertakes to help countries requesting such support to assess their tax expenditures.

Concerning derogatory provisions, France attaches great importance to the efficient use of investment incentives that aim to improve the business climate. When these measures concern taxation, they must respect the best practices endorsed by the OECD Task Force on Tax and Development, in particular the competency of the authority granting the incentive and the consolidation of tax law in the general tax code.

According to analyses by the World Bank, the OECD, the IMF and the UN, as presented to the G20, **tax incentives are not a decisive factor in investment decisions**. Fiscal stability, however, supports investment by contributing to legal certainty. The efficiency of investment incentives should in any case be analysed in terms of their expected cost and impact. Accordingly, one initial course of action for France would be to support the implementation of – and strengthen – multiyear contractualisation arrangements between tax administrations and ministries in priority countries, particularly in the Sahel. Doing so would enable them to link the increase in expected tax collection from tax reform to public spending and sectoral policy objectives. Such sectoral actions (on education or the health care system, for example) could help strengthen and increase the visibility of the link between tax collection and public spending, and enhance taxpayer compliance in partner countries.

Where feasible and relevant, France will support the inclusion of the marginal social cost of negative externalities in price systems through taxation, as recommended by international organizations. This applies to excise taxes on high-risk consumer goods (such as alcohol and tobacco) in particular. Data is lacking in this area, which makes analysis difficult. However, low excise tax yields appear to indicate that their revenue-generating potential is underexploited and that insufficient control has exacerbated trade mispricing, an important source of illicit financial flows. The problem of available data ties in with the issue of tax statistics in general, as discussed in cross-cutting priority 3.

However, any move to increase the tax burden on these products must be coordinated in integrated economic areas to prevent the effects of competition and increases in trafficking and smuggling.

Partnerships and means of implementation:

- Scale of intervention: regional and multilateral.
- Targeted partnerships: Platform for Collaboration on Tax, Addis Tax Initiative, G20 Development Working Group, civil society.
- Main implementation partners in the field: European Union, regional and international financial institutions, French and international training initiatives (R-TACs).
- Actions: international contributions, public policy loans by the AFD, political dialogue led by embassies.

BOX 1

Tax incentives for investment: ten principles promoting best practices

As part of work carried out by the Task Force on Tax and Development, the OECD has developed a set of principles to enhance the transparency and governance of tax incentives for investment (OECD, 2013).

- Principle 1 – Make public a statement of all tax incentives for investment and their objectives within a governing framework.
- Principle 2 – Provide tax incentives for investment through tax laws only.
- Principle 3 – Consolidate all tax incentives for investment under the authority of one government body, where possible.
- Principle 4 – Ensure tax incentives for investment are ratified through the law-making body or parliament.
- Principle 5 – Administer tax incentives for investment in a transparent manner.
- Principle 6 – Calculate the amount of revenue forgone attributable to tax incentives for investment and publicly release a statement of tax expenditures.
- Principle 7 – Carry out periodic reviews of the continuance of existing tax incentives by assessing the extent to which they meet the stated objectives.
- Principle 8 – Highlight the largest beneficiaries of tax incentives for investment by specific tax provision in a regular statement of tax expenditures, where possible.
- Principle 9 – Collect data systematically to underpin the statement of tax expenditures for investment and to monitor the overall effects and effectiveness of individual tax incentives.
- Principle 10 – Enhance regional cooperation to avoid harmful tax competition.

Source: Report by the OECD Task Force on Tax and Development, 2013.

Priority 2 – Support fiscal transitions towards domestic taxation

Given the gradual dismantling of customs duties under economic partnership agreements, the fiscal transition process, which was initiated following the lowering of customs tariffs, needs greater support. To date, the drop in customs duties has mostly been compensated by an increase in domestic indirect tax revenue, especially VAT, with excise taxes being excluded. Reforming these taxes – today considered by a majority of states as a way of addressing negative externalities caused by certain products, particularly tobacco and alcohol – should help strengthen and facilitate fiscal transition in the future. Ultimately, however, this process is dependent on increasing the share of direct taxes in state revenues.

Although VAT revenues have supported first-generation fiscal transition, VAT systems and their administration are hampered by major issues. In developing countries, these issues include small tax bases, multiple tax rates and a high standard rate. VAT was introduced several decades ago, but understanding of its mechanisms is still limited. This explains states' failings in terms of reimbursing VAT credits, which penalizes companies, discourages potential investors and leads to more requests for exemptions.

Given this situation, France acknowledges that:

- The priority is to improve how VAT works, ensuring it no longer hinders competitiveness. France will therefore promote VAT credit reimbursement mechanisms, in particular by creating a dedicated account at the central bank, endowed with a percentage of customs VAT revenues, and the reversal of VAT liability for imports of capital goods over a certain threshold (in value) and for export companies (in extractive industries).⁵
- Some principles, such as uniform tax rates (especially when this concerns the taxation of previously exempted goods and services), should be reconsidered. Similarly, reducing the standard rate – and widening the tax base – should be considered.

Although the VAT rates applied in the West African Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC) comply with regional directives, limitations on exemptions are less respected. Directives covering this issue should be reread in order to strengthen regional integration.

Indeed, while tax competition on the basis of VAT rates is unlikely, this tax can have the same effect as customs duties in some developing countries. For example, in the case of locally produced tradable goods – especially agricultural products – exemptions undermine competitiveness by making equivalent imported goods more attractive.

Applying the tax to specific products and improving the functioning of VAT, particularly the reimbursement of credits, should be more closely examined. In some cases, it amounts to fiscal devaluation, making locally produced tradable goods more competitive.

Regional economic communities should bear responsibility for this issue, and their scope widened to cover the promotion of best practices in VAT administration.

Partnerships and means of implementation:

- **Scale of intervention:** regional.
- **Targeted partnerships:** regional commissions, particularly the Franc Area.
- **Main implementation partners in the field:** European Union (Regional Indicative Programme), African Development Bank, regional development banks.
- **Actions:** positioning of Expertise France with respect to European financing.

Fiscal transition in the most fragile developing countries must go hand in hand with the adaptation of tax rules to economic digitalization. This phenomenon, which affects all countries, is making it necessary to redefine some key tax concepts, such as the idea of the “permanent establishment”. The OECD is already working on these issues. France will suggest that this work also be carried out by the Task Force on Tax and Development to ensure that appropriate solutions can be found for developing countries, particularly in terms of technical support.

5. The reversal of VAT liability is intended to reduce the number of exemptions available to export companies, particularly those in the extractive industries. It may also concern telecommunications companies or other sectors requiring major investments. A company that imports a capital good under this regime records deductible VAT, which is collected when the good is released for consumption. In this way, the state is not obliged to reimburse the VAT credit and the company's cash flow is not affected. This system aims to stop large companies from requesting exemptions, which reduce the VAT base.

Priority 3 – Support the improved taxation of resource rent sectors

Many developing countries have resource rents, especially in France's ODA priority area. However, a distinction must be made between renewable and non-renewable resource rents. Tax policy must seek to include specific sustainability incentives for both. It is generally agreed that the mining and petroleum sectors could contribute more to the revenues of developing countries without endangering their business models. Although general tax principles are widely known and understood, the competing interests of sectoral and finance ministries have sometimes led to suboptimal taxation. For this reason, France encourages countries to rationalize taxes, including with respect to special establishment agreements.

Despite progress in terms of rent-sharing assessments and tax regime comparisons (especially mining regimes), the relevant administrations have failed to sufficiently adopt available principles and tools.

BOX 2

The tax implications of implementing the Extractive Industries Transparency Initiative

The Extractive Industries Tax Initiative (EITI) is a global standard that seeks to improve transparency and public scrutiny concerning the use and management of wealth generated through the extraction of natural resources. The EITI project was officially adopted at a conference in London on 17 June 2003. In 2004, the World Bank established the Multi-Donor Trust Fund, to which France contributes, to help countries implement the EITI.

The EITI Standard requires countries and companies to publish information on the extractive industry value chain, from the point of extraction to the way revenues are perceived by the government and benefit citizens. This includes licenses and contracts granted and registered, names of operation owners, quantities produced, fiscal and legal arrangements, amounts paid, the destination of these revenues, contributions to the economy, etc.

Source: FERDI.

Given this situation, France will maintain its two-pronged approach:

- Continue capacity building activities supporting the taxation of extractive industries, targeting both finance ministries and sectoral ministries.
- Support efforts and initiatives encouraging greater transparency, the results of which can be used to evaluate the efficiency of tax systems.

As far as customs unions are concerned, regional initiatives to pool supervisory bodies could be supported.

In Central African countries where oil rents are decreasing, forest rents could be used to support DRM. Today, forests are often exploited by foreign companies (including French companies), or by national companies on a generally informal basis. The issues of assessing forest rents and defining optimal tax regimes for developing countries have largely been ignored.

More generally speaking, green taxation is a field that deserves further research to determine whether it is appropriate and feasible in countries with low administrative capacities. In middle-income countries, the "greening" of taxation will be a key goal in French cooperation efforts. This will involve expanding the scope of existing country profile databases to cover environmental and energy consumption taxes.

Partnerships and means of implementation:

- Scale of intervention: multiple levels.
- Targeted partnerships: tax administrations, tax administration networks, the European Union, dedicated trust funds, the EITI.
- Main implementation partners in the field: tax administration networks, French and international training initiatives (R-TACs), Expertise France.
- Actions: international contributions or capacity building programs (AFD).

Priority 4 – Develop underexploited methods of broadening the tax base: combat the fraudulent informal economy, leverage property and implement local taxation

Broadening tax bases is a priority for all developing countries, especially low-income countries where the informal economy accounts for between 60% and 80% of real economic activity. Although sub-Saharan countries have made some progress in terms of formalization, this remains a key issue for tax administrations. Programs supporting the formalization of the economy and broadening of the tax base have had mixed results. Given this situation, France must revise its approach, modelling its position on reforms undertaken in middle-income countries such as Morocco, or actions implemented in some developed countries in this field, particularly in European countries after the financial crisis.

This new approach will be based on the following observations:

- An analysis of the informal sector's political economy must be a prerequisite for any reform project.
- The informal subsistence sector is subject to indirect taxation, particularly VAT. It must therefore be distinguished from the fraudulent informal sector, which, by definition, contributes to tax fraud.
- The formalization of the informal subsistence sector, which may have tax implications, must result from a wider public policy and cannot be led by tax administrations alone.
- Customs fraud is one of the main drivers of the fraudulent informal sector. Systematic mirror studies and automatic data exchanges between customs and tax administrations, led in particular by regional economic commissions, would help detect inconsistencies in customs valuation declarations at a low cost.

Consequently, French technical assistance will focus on capacity building activities in the following fields:
(i) fighting fraud in the informal economy; and
(ii) managing the taxpayer database.

BOX 3

Formalizing the informal sector in Morocco (CREDAF, Lomé, 2017)

To address the issue of the informal economy, a purely fiscal approach is insufficient. One of the first actions taken by Morocco was to define and classify informal economic operators, identifying those who should benefit from a specific tax regime: primarily women and young people. This allowed the tax administration to single out fraudsters, who were defined as being “ineligible for the microentrepreneur regime.”

One of the factors contributing to the success of the Moroccan reform was the decision to remove tax administrators from the frontline. A framework contract was awarded to the Moroccan postal service, and its offices became single points of contact. In addition, the formalization of the economy went hand in hand with better public services. These included improved social protection and access to financing. In this way, taxation became a secondary focus to ensure that the population would get behind the project. The priority was to establish a win-win relationship.

This overall strategy was broken down into specific sub-strategies for tax administrations:

- An upstream strategy making the formal sector more attractive than the informal sector, notably through approved management centres, seen as “pathways to formality”, and the reform of the national taxpayer database, a prerequisite and key issue for all administrations.
- A downstream strategy facilitating procedures through simplification and modernization (pre-filled-in declarations and online procedures).

Source: Proceedings of the annual CREDAF symposium, 2017, Lomé, Togo.

Moreover, local taxes and parafiscal taxes are a key source of financing for community services. As such, France acknowledges that:

- Local resources can play an important role in the development of states, especially in middle-income countries where there are fewer constraints than in low-income countries.

- The multiplication of local taxes must be a focal point in countries where France supports decentralization processes, given the high collection costs and weak institutional capacities. In many cases, local taxes should be rationalized before any support is provided for reforms.
- To provide stable income streams to local authorities, some tax revenues collected by government services should be shared, as with the *centimes additionnels communaux* (additional communal cents) example in Cameroon.⁶ This would help prevent the multiplication of unprofitable local taxes. Furthermore, communications activities to raise awareness of the local public spending financed by these taxes could help improve taxpayer compliance.
- Transfers between the government and local authorities are essential in financing the development of competencies of local authorities and reducing inequalities between jurisdictions. However, the methods used to allocate these transfers must be carefully developed to avoid perverse incentives and political manipulation. Promoting simple allocation formulae, transparency and the publication of intergovernmental transfers can help minimize these risks.

Property tax is often considered an important tool in the development of local taxation, due to the characteristics of its tax base and growth potential.

This is especially true in urban areas, where the tax is seen as a charge that benefits local authorities and helps support fairness when it is applied to high-value real estate. These remarks are also valid for the taxation of real estate transactions.

However, many property tax reforms have failed. France will focus its attention on the following points:

- Property reforms are not limited to the issues of property tax and the property tax register. Reforms must adopt a wide-ranging approach, and be led by interministerial teams.
- Given the heterogeneous nature of the tax base, a segmented approach must be adopted.
- The many exemptions available considerably reduce the revenue-generating potential of property tax.
- The tax must be correctly managed to avoid weakening the central tax administration. The Directorate General for Taxes must focus on central taxes while ensuring the overall coherence of tax provisions.

- A capital gains tax on property is one possible solution. In addition to generating revenue, it would help reduce property speculation and encourage better land allocation. However, the tax rate and registration fees must remain moderate to avoid discouraging formalization of such transactions.
- New technologies (telephone payments, etc.), including the geo-localization of plots of land, represent opportunities that are currently underexploited. Tests could be carried out in this field.

To improve its expertise, France will finance studies and pilot projects. The results will be discussed by the MRIP-DEV platform and others, including the Platform for Collaboration on Tax (PCT), in order to improve the joint efficiency of actions.

→ Objective 2

Support the modernization of tax administrations and ensure effective tax collection

Priority 5 – Promote transparency and fight tax avoidance, abusive practices and tax-related illicit financial flows of tax origin

France welcomes the progress made as a result of the BEPS project, steered by the G20 and the OECD. It will continue to support the implementation of this project in developing countries as a way of guaranteeing tax revenues, particularly through the Inclusive Framework. This framework allows countries that are not members of the OECD or G20 to take part in work on implementing BEPS actions on an equal footing with member countries. Work carried out by the Platform for Collaboration on Tax (PCT), steered by the World Bank, the OECD, the IMF and the UN, will make it possible to create toolboxes for the main actions in the BEPS project.

Concerning issues not addressed by the BEPS project, particularly digital taxation, France will continue to support work carried out in appropriate forums. France will also continue to support recent work by the PCT, which has resulted in a toolbox for the taxation of offshore indirect transfers.

6. The *centimes additionnels communaux* (additional communal cents) is a tax surcharge. In Cameroon, this surcharge applies to personal income tax, company tax and VAT. Most revenues are paid to communes. The rate is set at 10% of the main tax concerned.

Countries with large extractive industries are particularly vulnerable to risks associated with aggressive tax optimization. However, support for legislative reforms tackling transfer pricing and other abusive practices in low-capacity developing countries (particularly least developed countries) must be pragmatic, taking into account local circumstances and priorities. For example, the implementation of the arms-length principle (where parties are on an equal footing) requires specific knowledge of business models and, therefore, local expertise and comparable data.

Given these observations, France will support tax administrations in developing countries by helping them to protect tax bases and fight tax evasion and aggressive optimization practices as part of a four-pronged approach:

- **Focus 1:** Promote the transparency and confidentiality standards put forward by the Global Forum on Transparency and Exchange of Information for Tax Purposes in order to encourage information sharing upon request and country-by-country reporting (CbCR). As part of these efforts, France will continue to support the Global Forum's Africa initiative and closely monitor the draft multilateral regional agreement on the exchange of tax information in West Africa.
- **Focus 2:** Give priority to assessing and certifying customs valuations, given the rudimentary fraudulent practices observed in least developed countries.
- **Focus 3:** Implement differentiated action on transfer pricing (help implement legislation and build technical capacities) based on three intervention principles:
 - (i) Generally speaking, prioritize countries based on their income level (low-income countries, lower-middle income countries and upper-middle income countries) in order to take into account the short-term priorities of the most fragile tax administrations and avoid suboptimal use of their human resources.
 - (ii) Target low- and middle-income countries that are heavily dependent on the extractive industries.
 - (iii) Adopt a sector-specific approach in three fields (the extractive, telecommunications and financial intermediary industries) in low- and middle-income countries.
- **Focus 4:** Support the implementation of the BEPS project in least developed countries in such a way as to build on the progress made and involve these countries in work carried out as part of the Inclusive Framework, while taking into account the capacities of tax administrations.

Partnerships and means of implementation:

- **Scale of intervention:** multiple levels.
- **Targeted partnerships:** regional commissions, tax administration networks, the Platform for Collaboration on Tax, middle-income countries and/or countries with large extractive industries.
- **Main implementation partners in the field:** international organizations, tax administration networks.
- **Actions:** international contributions or one-off actions in specific sectors (such as banking, insurance and telecommunications) as part of the Tax Inspectors without Borders initiative.

Priority 6 – Support improved performance and transparency of tax administrations and fight corruption

Improving performance is a priority for tax and customs administrations, at a time when many states are affected by deteriorating public finances. States also need to have first-hand sovereign data on the effects of the Covid-19 crisis on both trade volumes and logistical chains, in order to apprehend links with food security (e.g. imported rice) and economic activity in general. Customs data provide initial insights whereas generating general tax data takes longer to produce a viable overview, all the more so given the informal nature of economic actors within national areas. Performance is also a concern for international financial institutions, which have developed a diagnostic tool specifically for tax administrations, the Tax Administration Diagnostic Assessment Tool (TADAT). In the long term, this tool should make it possible to assess customs administrations in non-integrated administrative systems or, failing this, measure performance in excise tax collection. TADAT complements existing instruments developed by the World Bank and the World Customs Organization (for customs rules). However, this field is underexplored, and France will support researchers seeking to answer the following questions:

- Does the impact of revenue agencies vary? If so, how can these differences be explained?
- Which mechanisms best support efficient collection and minimal corruption: incentives based on revenues or the fines collected?
- Which are the worst practices currently in use (e.g. bonuses for issuing tax inspection notices)?

Given this context, France will strengthen its services so it can meet requests for technical assistance that involve steering the performance of tax administrations and improving tax compliance. Special emphasis will be placed on **collecting and managing outstanding taxes**, two areas in which French technical cooperation initiatives have had little involvement in recent years. Indeed, revenues should be the basis of any analysis of the fiscal performance of tax collection activities. This is not yet the case everywhere.

Human resources are a key factor in the performance of tax and customs administrations, especially in environments with high staff turnover, including among senior managers. This issue concerns:

- Recruitment, as well as initial and ongoing training.
- The salary system.
- The regulatory framework.

The implementation of human resource management policies, with career development plans and knowledge management tools, can help reduce staff turnover. This is important for development partners, whose capacity building operations are often planned over several years. To get around some constraints, a growing number of states are adopting the revenue agency model, which involves merging different financial authorities.

Although this transition can be expensive, available assessments show that revenue authorities generally improve revenue mobilization.

Agencies offer at least three advantages:

- They have more flexible human resource management policies than those applicable to public servants.
- They can better coordinate tax and customs departments, which improves control of the tax base.
- They send a strong signal with respect to the credibility of the government's commitment to collecting taxes.

Nonetheless, the results obtained by agencies vary between states. In addition, when implementing these transitions, states, as sovereign bodies, must consolidate their capacities to steer tax policy and supervise these agencies, particularly by creating a tax policy unit.

France will be vigilant in ensuring that several preliminary conditions are met before deciding whether to finance and support this kind of reform. These conditions include:

- **A low tax burden** (excluding natural resources).
- **Political stability.**
- **The institutional strengthening of finance ministries** to consolidate their steering and supervisory capacities, especially by creating tax policy units.
- In countries that do not meet these criteria France will encourage less costly measures, such as interfacing between authorities and reviewing the remuneration schemes of public servants in financial authorities.

The fight against corruption will continue to be a priority in programs supporting better public DRM. This involves several focuses:

- Promoting the fight against corruption at all levels of government.
- Implementing pay incentives for tax and customs collection officials, who are central to the success or failure of tax and customs reforms.
- Defining the role played by the inspectorate general of finances and internal audits.

Relationships with taxpayers and practices in public tax and customs services are important factors affecting each of these priorities. France will ensure that its programs leave room for concertation between tax administrations and taxpayer representatives when preparing reforms, by drawing on the many existing examples in partner countries.

Partnerships and means of implementation:

- **Scale of intervention:** bilateral and regional.
- **Targeted partnerships:** tax administrations, tax administration networks, the European Union.
- **Main implementation partners in the field:** tax administration networks, French and international training initiatives (R-TACs), Expertise France.
- **Actions:** international contributions or capacity building programs (AFD), in association (or not) with budgetary support (especially in middle-income countries).

Priority 7 – Improve the efficiency of French support for tax administrations, especially by promoting new technologies

Improving the efficiency of support for tax administrations means examining France's practices and ability to:

- Assess the needs and capacities of partner countries.
- Examine methods, particularly with respect to the opportunities offered by new technologies.
- Improve the monitoring and evaluation of operations to boost their impact.
- Enhance coordination with the many technical support providers called on by tax administrations, whether they are self-financed or financed by external partners.

New technologies offer innovative opportunities in terms of the methods and tools available to tax administrations and civil society. Remote transactions and salary payments, simplified processes and the improved functioning of administrations are shared goals which can be achieved with new technologies, many of which have not yet been explored with partner countries. New payment technologies (mobile devices, etc.) offer many opportunities that could be explored on a trial basis. France acknowledges the potential of these new technologies and will support their use in the context of ODA. In particular, it will make the correct integration of information systems in financial administrations a prerequisite for any financing in this field. However, the implementation of information systems must not be an end in itself: these systems must be accompanied by appropriate training programs to ensure new IT applications are used in the best possible way.

Finally, new technologies are a driving force that will help to:

- Identify taxpayers and monitor compliance through consistent use of a unique identifier.
- Facilitate compliance with tax obligations and implement the necessary conditions for the automatic exchange of information regarding tax issues.
- Determine the tax base and develop a strategy to communicate with identified taxpayers.

France also undertakes to take these CREDAF-approved measures into account and support them in its interventions in priority countries.

Priority 8 – Support access to reliable, comprehensible and comparable data

The practice of systematically publishing data that can be freely accessed and used by members of the public (as part of open data and open government initiatives) helps improve the accountability of decision makers and promote good governance through citizen involvement and supervision. Moreover, reliable, comprehensible and comparable data is a key condition for the relevant and efficient implementation of many priorities in this strategy.

In particular, access to tax data, including regulatory and legal information, is important with respect to:

- The definition of tax policies by governments.
- The measurement of the main economic indicators such as gross domestic product (GDP) by national statistical institutes.
- The analysis of capacities and needs by development partners.
- The assessment of actions by development partners and the performance of administrations.
- The provision of information to taxpayers.
- The effectiveness of accountability bodies and checks and balances.

To overcome this data gap, France will enhance synergies within its existing initiative supporting public statistics in order to improve coverage of tax and customs statistics. It will also support other initiatives with this goal. In addition, it will support civil society initiatives seeking to improve the analysis of available data.

This issue also concerns France's capacity to improve its actions, for which it requires reliable data enabling it to better analyse the needs of each country. With respect to DRM, very little detailed data exists: the public databases that are currently available only contain information on the main tax categories. This suboptimal situation is an obstacle to improving the evaluation of the efficiency of ODA in terms of DRM.

Generally speaking, this issue should gradually and systematically be taken into consideration in all tax cooperation programs that are financed or supported by France. Special emphasis will be placed on the coordination and technical support role that must be played by regional economic commissions, especially those in areas with effective customs and monetary unions.

→ Objective 3

Optimize France's cooperation instruments and those of its partners

Priority 9 – Include better public DRM principles in all French aid policies

Opening up tax cooperation is a key goal. The issue of taxation arises in sectoral reflections, especially those on the financing of social sectors (education and health), where France has observed that public domestic resources are put to little use. Given this situation, the MRIP-DEV platform will help ensure that tax considerations are taken into account when developing sectoral approaches (in the fields of health, education, infrastructure and gender).

Similarly, France will seek to increase the impact of its budget support for public DRM and ensure that the EU also implements appropriate measures to increase the impact of its operations, in accordance with the conclusions of the European Court of Auditors' special report on the use of budget support to improve domestic revenue mobilization in sub-Saharan Africa, published in June 2016.

In the decades following independence, donors requested tax exemptions for ODA-financed projects on the basis of the "unreasonable nature" of tax systems in most developing countries, which were characterized by high tax rates (especially prohibitive customs duties), opaque tax legislation, abusive interpretations of texts, risks of discrimination and corruption, and the inefficient management of public spending. However, since the World Bank took action in the mid-2000s, major donors have declared their willingness to forego exemptions.

In the interests of consistency, France maintains its position in favour of the taxation of project aid, subject to two provisos: first, that these taxes are reasonable and non-discriminatory and, second, that the tax system in the beneficiary country is sufficiently efficient. To move this debate forward, France will seek support from its European partners to carry out an external multidimensional impact analysis on the taxation of aid in a given country (to be determined) in order to establish grounds for discussion. Specifically, it will attempt to measure the transaction costs of maintaining this system, which are paid by donors. Discussions on what constitutes a "sufficiently efficient tax system" – a condition determining whether France supports the taxation of aid – must be carried out. These studies will be steered by the MRIP-DEV platform on a multiparty basis and, where possible, in coordination with major partners in the field, such as in the context of the Addis Tax Initiative.

BOX 4

The domestic financing of education policies

In many of France's partner countries, the education and training of young people are key issues. This is especially true in sub-Saharan Africa, where the socioeconomic and demographic contexts weigh heavily on fragile public education systems. Sustainable Development Goal 4 (SDG 4), ensuring quality education for all by 2030, was reaffirmed at the World Education Forum in Incheon, South Korea, in May 2015. However, to achieve this goal, major financial investments are required. The current deficit is estimated to be USD 39 billion per year, meaning that a significant increase in domestic financing – in addition to external aid – is needed to make up the shortfall.

To do so, states must increase the percentage of the national budget set aside for education (at least 20%), increase the national budget itself, and improve management of education expenditure. Despite the efforts made by some countries to date, major challenges remain. For this reason, strengthening tax systems in partner countries is important for mobilizing resources for quality education. Furthermore, allocating new tax revenues to the improvement of education systems – when accompanied by appropriate transparency measures – will contribute to a better understanding and acceptance of taxes.

DRM in the short- and medium-term COVID-19 response

The COVID-19 health crisis is causing a historic economic recession and considerably reducing tax revenues. Developing economies will have to cope with vast challenges to finance the deficits required to overcome the crisis and stimulate growth. These economies face a lack of access to international money markets, or else at exorbitant interest rates. The financial resources from bilateral and multilateral donors will not suffice.

In the short term, domestic resource mobilization will have to adapt to the economic crisis through fiscal easing methods (tax reductions or postponements, exemptions, etc.) in order to reduce the impact of the crisis on fragile companies and households and enable a swifter recovery. These facilities need to come with increased traceability and rigorous monitoring of implementation, at the risk of stimulating the informal economy. On the health front, tax administrations could also develop the use of digital tools (online declarations and payment for taxpayers, etc.) to limit the spread of the virus.

In the medium term, domestic resources should help finance domestic stimulus policies. The diversification of tax resources, particularly from tax bases less subject to economic cycles, is key to maintaining the volume of national revenues. The example of property tax is representative of sub-optimal taxation of a sector.

Property taxation is fair and provides stable revenues for local governments. In developed countries, property taxes are the pillar of local government finance, representing an average of 2.2% of GDP, compared to 0.38% on average in Africa. With the rise of African megacities, this resource has considerable fiscal potential.

Today, additional resources should bring revenue that can be dedicated to financing local health infrastructure.

Source: African Property Tax Initiative
<https://www.ictd.ac/network/apti/>

Priority 10 – Support multilateral partners and the French-speaking community as liaisons for expertise and advocacy efforts

Under pillar 3 of the French strategy, supporting technical and human capacity building in tax and customs administrations is central to French cooperation methods, as implemented by its operators, Expertise France and the AFD.

France will therefore systematically support the creation of a pool of high-quality local experts, notably in French-speaking countries, which it will involve in program implementation as early as possible.

In addition, France will begin reflecting on ways of reviewing the international public training provided in French public service schools with a view to maintaining quality and incorporating the needs of beneficiary countries. This commitment to creating a pool of high-quality French-speaking experts supporting the development of ODA beneficiary countries will be monitored within the MRIP-DEV platform framework.

In accordance with the “G20-G7” approach developed as part of pillar 1 of the French strategy, France will continue to support more structured exchanges within the French-speaking community, at the technical and political levels.

As such, France has a number of strategic partnerships, which it will continue to develop:

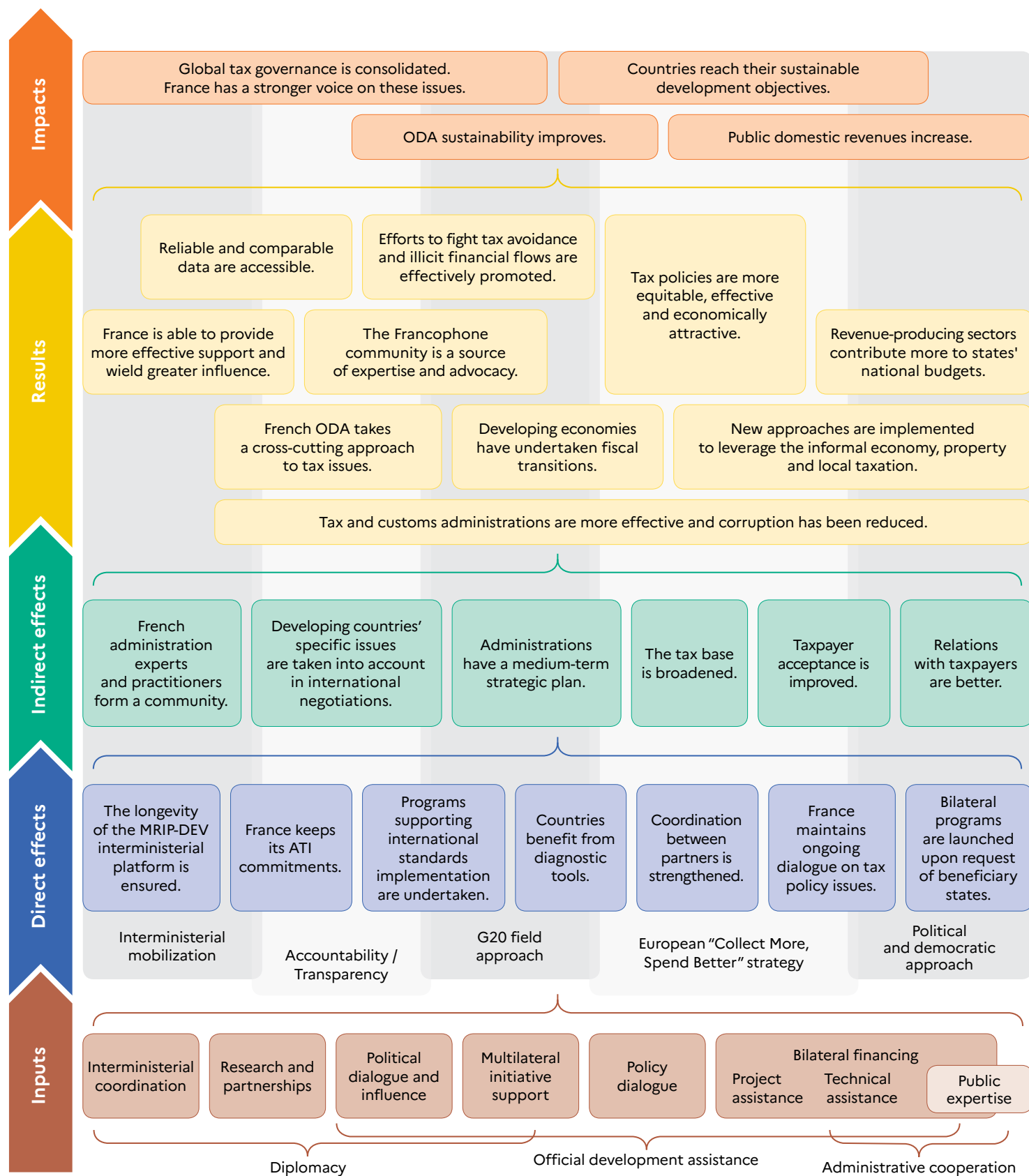
- French-speaking or partially French-speaking networks of experts, such as CREDAF and ATAF. It will also consider strengthening its partnership with the Inter-American Center of Tax Administrations (CIAT), given its increased focus on Latin America, a region where the AFD may offer financing.
- Initiatives led by the World Customs Organization (WCO) for French-speaking countries.
- Initiatives steered by the International Organisation of la Francophonie (OIF) which form part of France’s contributions towards work completed by the G20 and the network of finance ministers for francophone low-income countries.
- Expert networks led by regional economic commissions in the Franc Area, the West African Economic and Monetary Union (UEMOA) and the Central African Economic and Monetary Community (CEMAC).

- Based on shared best practices, France will support the Knowledge Sharing Platform (KSP) by regularly providing useful documents for partner country tax administrations (studies, audit reports, toolboxes, etc.).
- France may also contribute to the Revenue Mobilization Thematic Fund (RMTF), which oversees the TADAT and ISORA initiatives and which aims to provide targeted assistance in certain countries, particularly in sub-Saharan Africa.

This network, which spans French-speaking areas and is supported through France's actions, should serve as an efficient interface between international negotiations, specialist bodies such as the G20 and the OECD, and priority recipients of French ODA.

Within this framework, France will identify the resources needed to build the capacity of the Committee of Experts on International Cooperation in Tax Matters, in accordance with commitments made in Addis Ababa. France acknowledges the importance of and role played by this committee, in particular concerning its Model Double Taxation Convention between Developed and Developing Countries.

ANNEX – Logical framework for France’s interventions supporting better domestic revenue mobilization in developing economies



Abbreviations and acronyms

ADF	African Development Fund	MEF	Ministry for the Economy and Finance
AFD	French Development Agency	MEAE	Ministry for Europe and Foreign Affairs
AfDB	African Development Bank	ODA	official development assistance
ATI	Addis Tax Initiative	OECD	Organisation for Economic Co-operation and Development
ATAF	African Tax Administration Forum	PCT	Platform for Collaboration on Tax
BEPS	Base Erosion and Profit Shifting	SDGs	sustainable development goals
CEMAC	Central African Economic and Monetary Community	TADAT	Tax Administration Diagnostic Assessment Tool
CIAT	Inter-American Center of Tax Administrations	UEMOA	West African Economic and Monetary Union
CICID	Interministerial Committee for International Cooperation and Development	UN	United Nations
CNDSI	National Council for Development and International Solidarity	UNDP	United Nations Development Programme
CREDAF	Exchange and Research Center for Leaders of Tax Administrations	UNECA	United Nations Economic Commission for Africa
DRM	domestic revenue mobilization	WB	World Bank
EITI	Extractive Industries Tax Initiative	WCO	World Customs Organization
EU	European Union		
FERDI	Foundation for Studies and Research on International Development		
IMF	International Monetary Fund		

This document was endorsed by the Government of the French Republic at the Interministerial Committee for International Cooperation and Development (CICID) meeting of 8 February 2018, which was chaired by Prime Minister Édouard Philippe. It is the result of interministerial work and wide-ranging consultations carried out with the technical support of the Foundation for Studies and Research on International Development (FERDI).

Interministerial strategy 2020

Support for improved domestic resource mobilization in developing economies

In 2020, the financial needs of developing economies, especially those that will be most affected by global warming, have never been higher. Responding to this challenge requires a broad mobilization of development partners, the private sector and, above all, aid recipient countries. The capacity to generate and collect domestic revenue is fundamental for developing countries in the context of achieving the sustainable development goals of Agenda 2030.

The Ministry for Europe and Foreign Affairs and **the Ministry for the Economy and Finance** drew up a strategic paper that lays out the priorities of French cooperation in support of domestic resource mobilization in developing economies. The Interministerial Committee on International Cooperation and Development officially adopted this strategy on 8 February 2018. It has three objectives: the development of effective tax policies, the modernization of administrations and the optimization of cooperation instruments.

The “Strategic Investment Plan for Development” (SIPD) will provide over EUR 60 million in new financing spanning the period 2020-2023; these funds should be sufficient to ensure the successful implementation of France’s taxation and development strategy. SIPD implementation is further supported by a technical roadmap.

To ensure transparency, openness and accountability of the implementation of the strategy, the SIPD will also benefit from the support of a dedicated platform for coordination and exchange of information which will be open to stakeholders from relevant public agencies, civil society and the private sector.

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Ministry for Europe and Foreign Affairs

Directorate-General for Globalization, Culture, Education and International Development
Directorate for sustainable development

Ministry for the Economy and Finance

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