

TIWB Stocktake Results: Summary

As approved by the TIWB Governing Board, May 2020

1. Introduction

Rusudan Kemularia, former Vice Minister of Finance of Georgia and currently serving as Senior Tax Adviser at TIWB, OECD, **was asked to conduct the Tax Inspectors Without Borders (TIWB) stocktake¹ and supported by members of the TIWB secretariat to prepare the initiative for future development and growth.** A multi-stakeholder Governing Board, co-chaired by the OECD's Secretary-General and UNDP's Administrator approved the report of the stocktake results on 5 May 2020.

TIWB is a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the United Nations Development Programme (UNDP) **designed to support developing countries build tax audit capacity.**

Launched at the Third International Conference on Financing for Development in Addis Ababa in July 2015, the initiative is one response to the attention given to effective and efficient mobilisation of domestic resources for achieving the Sustainable Development Goals (SDGs) and the commitments made by the international community to strengthen international tax co-operation.

In its design, some aspects of TIWB are niche and unique - distinct from other initiatives of multilateral agencies on general capacity building in tax matters. Under TIWB, foreign experts work directly on confidential, real time-audits, with the intention of building capacity through a “learning-by-doing” approach.

The TIWB initiative is in its experimental phase. Therefore, in October 2019, a stocktake of TIWB initiative was conceived to help the OECD and the UNDP distil an understanding of the initiative as a product, clarify policy aspects, professionalise and define how TIWB does business in all aspects, and advise on how to prepare for the next phase of TIWB's expansion.

This report outlines the results of the stocktake and is structured as follows: Section 1 provides introduction and sets out the objectives of the stocktake; Sections 2 covers the policy aspects; Section 3 covers programme management issues; Section 4 briefly outlines TIWB

¹ The methodology used for this stock-taking report was a qualitative and quantitative assessment consisting of the following: interviews with key stakeholders including Host Administrations, Partner Administrations, Donors, Experts and UNDP Country Offices to collect qualitative data; surveys, including to inform future demand and future impact measurement strategy; desk reviews of internal processes and procedures, and TIWB programme materials for data collection; in-depth review of the existing instruments for monitoring and evaluation to ascertain appropriateness; review and analysis of workflow design and other human, technological and financial resource requirements.

governance; and partnership points and Section 5 defines new areas for possible TIWB expansion and next steps. Concluding remarks are set out in Section 6.

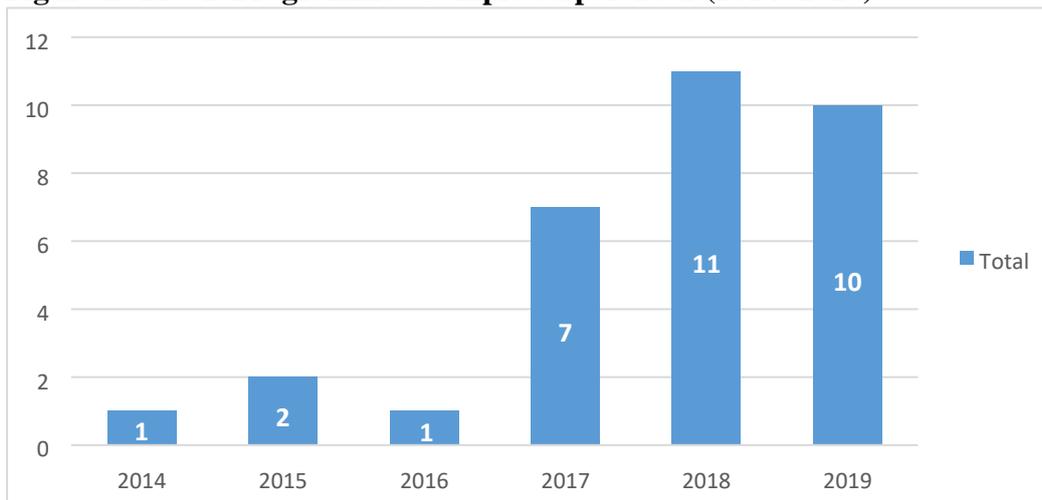
2. Policy Dimensions

Progress Against the Original Design Objectives

In April 2016, at its inaugural meeting, the TIWB Governing Board set a target of launching 100 TIWB programmes by 2020 (see Figure 1).

Although the current pandemic may mean that this target cannot be reached by end of 2020, rapid expansion in 2017-2018 in particular stretched Secretariat’s capacity. A focus on the quality issues in the next phase (as outlined in Section 2) will address *ad hoc* processes in the delivery of programme implementation, which were appropriate for the experimental development stage, but may need to be refined for a more ambitious scale.

Figure 1. TIWB Programmes Completed per Year (2014 -2020)



The objective of building tax audit capacity for developing countries through a “learning by-doing” approach has been partially achieved. There is some evidence that TIWB does build tax audit capacity, e.g. some Host Administration officials having participated in TIWB programmes indicated that the audit process itself does build capacity.² A stronger impact measurement approach will help test if capacity has indeed been built through the tax audit process.

Important progress has been made on increasing tax revenues through TIWB programmes. As of 31 January 2020, TIWB programmes had helped raise more than USD 532 million in additional tax revenue. Although, these revenues are modest in the

² The TIWB Secretariat surveyed approximately 37 Host Administration representatives, November 2019.

context of the overall financing needs of developing countries, this is an important metric for many stakeholders, including TIWB's donors (who increasingly require value for money metrics). Despite the niche nature of the TIWB instrument, which means it will not be a massive revenue earner, these revenues could still be increased.

The key feature of TIWB, protecting the confidentiality of taxpayer information, has been achieved through the establishment of tools and protocols, which are in place. In particular, confidentiality clauses in TIWB programmes, Terms of Reference agreements and Oath of Secrecy provisions are commonly used. However, confidentiality of taxpayer information/leakage of sensitive data is an ever present risk for the TIWB initiative and secure data sharing tools must be carefully assessed before being used by TIWB stakeholders.

The stated feature of TIWB, delivering TIWB through short-term, periodic deployments of TIWB experts has been sustained. The vast majority of programmes run for 12 to 18 months. **However, there are opportunities to promote continuity between short-term missions through remote working tools, particularly in the Covid-19 global lockdown period.**

1. Key Recommendations

- (i) **Clear measures of assistance effectiveness are essential for TIWB success.** TIWB should develop a strong Monitoring and Evaluation (M&E) system to test if capacity has been built through the tax audit process and to measure other impacts beyond revenues.
- (ii) **A M&E Manual (scorecard, impact indicators) is under development** and will be implemented by end 2020.
- (iii) **To mitigate the risk of confidential taxpayer data leakage and to promote more active remote assistance between in-country missions, a secure data-sharing tool will be introduced.** Detailed instructions and information on how to use remote assistance via secure IT tools will be provided at the Expert Roundtable proposed for June 2020.
- (iv) **TIWB should more systematically quality-assure TIWB programme delivery** on the ground. OECD/UNDP staff can be used as agents to make periodic assessments to ensure that the TIWB experts deliver high-quality assistance and prevent the risk of substitution.
- (v) **TIWB can offer training or access to current training platforms** (e.g. eLearning) to TIWB experts - particularly retired experts - before deploying them to implement a programme.

Demand for TIWB programmes

Looking ahead, there is significant potential demand for TIWB programmes. To date, the primary demand has come from low-income and lower-middle-income countries, usually BEPS Inclusive Framework members. In addition, repeat business from Host Administrations having already participated in TIWB programmes has been a strong driver of demand. To illustrate, as of 1 January 2020, 12 developing countries that had already experienced TIWB

were at various stages of requesting further programmes. Another list of approximately 40 Development Assistance Committee listed (Lower Middle Income/Least Developed) countries do not currently participate in TIWB programmes. Other demand side issues include the following:

- **The current policy of the TIWB initiative is to respond positively to most countries and jurisdictions that request assistance.** Although the Secretariat has an informal *ad hoc* process of testing entry criteria for accepting an Assistance Request Form, the process should be formalised and made more transparent.
- **There is a need to test commitment of Host Administrations as a basis for continued TIWB support and ensure sustainability of TIWB programmes through an exit strategy.**

2. Key Recommendations

(i) ***De facto* entry criteria should be formalised (published) to make the eligibility process transparent and rule-based.** The eligibility criteria are as follows: the request (i) is for experts to work on real, current audit cases; (ii) has an international taxation dimension; (iii) is for periodic onsite assistance and no substitution; (iv) originated from a country on the DAC list of ODA recipients; and (v) indicates no legal restrictions for audits to be conducted by a foreign expert.

(ii) **The TIWB should establish strong post-programme follow-up.** The principle of ensuring basic recommendations from previous deployments have been addressed by Host Administrations, should be systematically observed.

(iii) **TIWB should introduce a clear exit strategy to ensure sustainability of TIWB programmes and to build ownership for Host Administrations.**

(iv) **Based on qualitative impact evaluation results (within two years), the Secretariat should introduce a policy requiring continued commitment from Host Administration.** E.g. Host Administrations could be required to cover a proportion of programme costs after deployment of X number of programmes in each country.

Constrained Supply of TIWB Experts

The supply of qualified experts is highly constrained. The current sources of experts - a network of 16 Partner Administration experts, the UNDP-managed Roster of 52 experts and 9 OECD/CTPA experts - are insufficient to meet demand. **There is a particular shortage of qualified, Spanish, French, and Portuguese speaking experts.** Although there are systemic market constraints, including an overall scarcity of transfer pricing experts available for development work, some actions are possible. **These include relaunching the UNDP Roster**

pool (with approximately 40 non-active experts) and a more proactive approach to potential Partner Administrations. Other supply side issues include:

- **The current overall processes for sourcing, selecting, quality assuring and contracting experts could be strengthened.** In particular, a strategic approach is needed in selecting high-quality serving officials. Clearer vetting procedures are needed, including ensuring that experts have the correct orientation to build capacities in challenging institutional settings, not just delivering technical content.
- **There is demand from Host Administrations for industry experts to complement TIWB audits**, seven of whom have been deployed to date. Host Administrations consider the knowledge brought by industry experts on general business processes and supply chain issues to be essential to inform audits. Potential conflict of interest risks associated with industry experts (e.g. failure to disclose conflicts of interest by an industry expert, who might have worked for a company or has direct links to the industry which is the subject of the tax audit) require close management.
- **South-South co-operation is a beneficial form of assistance that is closely aligned with the levels of development and practical realities.** Host Administrations report ease of assimilation of knowledge from an expert with similar language skills and culture to the local officials. As South-South co-operation grows, particular care is needed to ensure that experts are up to date with international tax developments on transfer pricing in particular.

3. Key Recommendations

- TIWB should develop a new strategy to address the current expert shortage, a problem likely to be exacerbated due to the Covid-19 crises. Moreover, new Partner Administrations have to be identified for programme deployments.** The main advantage of using serving officials is that they are fully up to date with transfer pricing standards and have current audit skills and approaches. It is also the most cost-effective source of expert deployment.
- Once updated, TIWB should make fuller use of the UNDP Roster to contract experts, including serving officials who enter the Roster.** TIWB should update the UNDP Roster expert pool by July 2020. Female and multilingual experts should be encouraged to apply for the UNDP Roster.
- Reference checks for all type of experts (including industry experts) are essential** to mitigate conflict of interest risks.
- A revised expert engagement document** to enhance selection, qualification and background checking, quality control and vetting processes for all types of experts will be finalised in 2020. This document will help to establish a more systematic expert engagement and vetting process. It should further ascertain the pedagogic qualities of experts.

(v) **The UNDP Roster pool can be used to engage more experts for South –South programmes.**

3. Programme Management

Business Process, Human Resources and Finance

The TIWB programmes are managed through an Excel workbook. A more automated project management system would greatly improve the efficiency and effectiveness of all TIWB operations.

UNDP has allocated sufficient funds for TIWB operations via grants from Norway and Finland at this stage. The OECD ensures sustainability of financing of the TIWB Secretariat and activities/operations under the ‘BEPS and Developing Countries Project’ fund within OECD.

4. Key Recommendation

(i) **To deliver TIWB programmes effectively and improve monitoring and evaluation processes**, electronic programme management tools will be introduced in 2021.

4. Governance

Oversight and Partnerships

The initiative’s external governance mechanism is efficient, appropriate and proportionate. The Governing Board Co-Chairs have identified the need to expand the Governing Board, retaining gender and regional balance. The new members will join the Board in 2020.

The OECD and UNDP partnership is based on an appropriate division of labour with separate internal governance and funding arrangements for UNDP and OECD respectively. A jointly funded and fully integrated single Secretariat in one location is not required at this point.

5. Key Recommendation

(i) **Maximise potential of the UNDP Country Offices (CO)** by making better linkages between TIWB and other programmes at the CO level as well as with the other broader agenda of financing the SDGs.

5. Future TIWB Opportunities

New Pilot Programmes and Next Steps

Demand is high, not only for classic (MNE audit) TIWB programmes, but also for programmes in new tax areas, such as tax crime and for the exchange of information for tax purposes (including AEOI). There may also be demand for advice on tax aspects of confidential natural resources contracts, taxation and tourism and on tax treaties. TIWB will also proactively explore the opportunity to grow into other sectors linked to the environment, including fisheries and forestry.

A draft work plan has been developed as part of the stocktake exercise to implement policy recommendations by end of 2020.

6. Key Recommendations

(i) **Assess tax crime pilot programmes underway in Armenia, Colombia, Kenya, Pakistan and Uganda, and AEOI pilot programmes in Indonesia and Pakistan by the end of 2020.** Roll out full programs in 2021.

(ii) **Identify tax treaty negotiation pilot programme opportunities, tax aspects of natural resource contracts, fisheries and forestry, in consultation with partners and stakeholders from 2021.**

6. Conclusion

TIWB is an extremely well positioned initiative operating in a complex international landscape. The initiative has unique features that have guided its implementation well so far. However, the TIWB stocktake has demonstrated that, partly due to rapid expansion, some important aspects of a guiding policy framework could be strengthened.

As the initiative is in its experimental phase, acceptance of assistance requests, selection of TIWB experts, measuring of qualitative impact, communications with the key stakeholders and partner administrations are in many cases *ad hoc*. Moreover, most of the effort has been devoted to reaching the objective of 100 deployments by 2020. The systems, procedures and tools have not always kept pace with implementation imperatives.

To summarise, TIWB should effectively address the current demand and focus on the quality of programme delivery; engage more Partner Administrations and relaunch the UNDP roster expert pool; introduce a secure data-sharing tool to mitigate risks regarding leakage of confidential taxpayer data; mitigate conflict of interest and other risks through the systems and procedures discussed in this report; develop a strong Monitoring and Evaluation

system; actively innovate with remote assistance for programme deployments; and enhance the business operations of TIWB.

It is further recommended that the evidence-based policies, tools and systems outlined in this paper be implemented in the course of 2020 and a full roll-out into new areas, to gear up for a larger (industrial) scale of operations, beginning in 2021, depending on the outcomes of the pilot programmes and impact of the COVID-19 crisis.