Department for International Development

UKaid from the British people

DFID Response

7 November 2016

DFID Response to the Independent Commission for Aid Impact recommendations on: UK aid's contribution to tackling tax avoidance and evasion September 2016

DFID welcomes this learning review and recognises the challenges ICAI has identified. The review's recommendations largely reflect work already underway to strengthen DFID's approach to tackling tax avoidance and evasion. We will continue to work actively on these issues with partners across government and to draw on evolving best practice.

Recommendation 1: Learning on international tax issues: DFID should make better use of its in-country work on both tax and anti-corruption to inform its influencing efforts and prioritise its programming on international tax.

Accept

- We agree that is it currently too early to determine definitively how effective and sustainable measures such as Automatic Exchange of Information (AEOI) will prove. We are continuing to build up the evidence base. We are also continuing to work with international partners to capture and learn from what works and why in tax capacity building programmes.

- We agree with the previous ICAI review on 'How DFID learns' that *'excellent learning is essential for UK Aid to achieve maximum impact and value for money.'* We will increase the resources we commit to developing an improved and more robust approach to learning and evidence for both DFID and other government departments (OGD), including considering a range of options to increase access to high-quality practical research, training, expertise and advice.

- We will also make better use of our in-country contacts and networks through the establishment of an HM Government (HMG) Community of Practice to facilitate peer-to-peer learning and review, and build on mechanisms for regional support and lesson learning. This will facilitate improved analysis to identify which reforms are most likely to deliver best value for money and to help prioritise domestic and international tax initiatives. We will work with in-country teams where needed to strengthen their anti-corruption strategies where tax avoidance and evasion is flagged as a priority.

Recommendation 2: Cross-government working: DFID should be more proactive in ensuring that other departments engaging in capacity building on tax and more generally, are able to draw on its experience of effective capacity building approaches and its knowledge of country contexts. This will require closer collaboration between departments, both at headquarters and in country.

Accept

- We recognise that tax capacity building is an essential pre-requisite for domestic revenue mobilisation and for challenging international tax avoidance and evasion. We are currently considering options to scale up our support for tax capacity building to meet our Addis Tax Initiative (ATI) commitment to double official development assistance (ODA) spend on tax by 2020. This could include providing support for comprehensive revenue authority reform where there is strong political will for reform, alongside other international partners including the IMF.

- We will also continue to work closely with HM Revenue and Customs' (HMRC) Capacity Building Unit to develop it into an in-house centre of expertise which is able meet cross-HMG demands for high-quality advice, drawing on DFID and other sources of expertise at a country level and on DFID's broader learning and evidence. We will also work closely with Cabinet Office, HMT, HMRC and others to ensure that cross-HMG funds (e.g. the Prosperity Fund) which work to build tax capacity overseas draw on our experience and learning.

- To ensure that future investments by HMG are well designed and offer good value for money, DFID has developed an operational guidance note which sets out the core elements of successful tax capacity building interventions. This guidance note, which has been developed in collaboration with HM Treasury (HMT) and HMRC, provides a robust framework for the design, implementation and evaluation for all HMG tax and development programmes. We will step up our efforts to ensure that tax capacity programmes can access appropriate tax and development expertise as needed throughout the programme design and implementation period.

Recommendation 3: A strategic approach to influencing: DFID should adopt a more systematic approach to influencing and cross-government working around international tax, with a stronger strategy and explicit objectives that are adequately resourced and properly monitored.

Accept

- We welcome ICAI's findings that DFID positioned itself well to take advantage of the opportunity presented by the G20 tax reform agenda to help developing countries benefit from the new international standards. We believe that much has been achieved to date by DFID and international partners to improve standards, rules and processes for developing countries to challenge international tax evasion and avoidance.

- DFID funding for OECD and World Bank programmes has shown some good early results but we agree with the ICAI review that it is still too early to judge the overall and long term impact of these initiatives for developing countries. We also know that there is still much to be done to implement international commitments on Base Erosion and Profit Shifting (BEPS) and AEOI and this continues to be a key area for DFID's international tax policy and programme work.

- We also welcome the report's findings that DFID has worked well with other UK government departments on influencing. DFID officials will meet on a regular and structured basis with senior responsible policy officers across HMG to further define and articulate our results offer and monitor our implementation strategy to ensure that we successfully deliver the Government's manifesto commitments on tax capacity building and supporting developing country participation in international tax reform.

Recommendation 4: Policy coherence for development: DFID should take a more active approach to promoting policy coherence for development on international tax by assessing the impact of UK tax policies and practices on developing countries and deciding whether to raise any potential points of tension in cross-government dialogue.

Disagree

- UK tax policy is a matter for HM Treasury and HMRC. We welcome the ICAI report's findings that DFID has demonstrated good cross-government collaboration which has delivered some positive early results. DFID is already working actively with other government departments (in particular HMT and HMRC) to take forward tax and development policy and promote policy coherence for development where there is scope to do so. We will continue to work in this way, and to ensure that our analysis feeds into wider HMG policy making.

- We accept that domestic policies can have an impact on developing countries and the UK government is leading the way internationally in ensuring that we take action where we can – for example, The Criminal Finances Act (2016). But we believe the main effort in DFID should be on building capacity in developing countries to improve tax policy and compliance. We need to ensure that analysis of the impact of UK tax policies and practices on developing countries is targeted and proportionate to its likely impact on developing countries and does not crowd out essential work on tax capacity building.