Nordic aid for mobilising tax revenues for development and reducing inequality

Policy Brief, 7 December 2020

This Policy Brief has been prepared by a Nordic Alliance for Tax Justice, including:
ActionAid Denmark, Diakonia Sweden, Finnish Development NGOs Fingo, Norwegian Church Aid, NTL Skatt, Oxfam IBIS, Oxfam Sweden, Tax Justice Network – Norway.

A joint Nordic development policy effort on tax is more important than ever

The Covid-19 pandemic has exposed the inequality that exists both within and between countries. The crisis is leading us towards the first increase in the share of the world's population living in extreme poverty since 1990.[1] The severe economic crisis following the Covid-19 pandemic in many developing countries is undermining tax revenues at exactly the same time as the need for public investment in health, revitalising economies and social security is at its highest (see Box 1). What should have been "the decade of delivery" on the Sustainable Development Goals (SGDs) could end up being a decade of major setbacks.

Clearly, there is a need for massive financial support and debt relief to developing countries to mitigate the short- and long-term effects of the crisis. However, a joint appeal from the UN, OECD, IMF and the World Bank warns that, "it is important that we do not lose sight of the imperative to support longer-term tax capacity building, and the importance of mobilising revenues in the aftermath of the crisis."[2]

Developing countries' need to mobilise national tax revenues, and the importance of international support for this, is emphasised by SDG 17 and sub-goal 17.1, which states that, "domestic resource mobilisation must be strengthened, i.e. through international support to developing countries, to improve the domestic capacity for tax and other revenue collection".[3]

BOX 1: Covid-19 has negative effects on developing countries' tax revenues

The financial consequences of Covid-19 are not just lower growth and loss of jobs. It also has a negative effect on tax revenue. According to calculations from Oxfam, countries in **Latin America** stand to lose tax revenues equivalent to about 2% of the region's GDP, or around US$113 billion, due to Covid-19. That corresponds to 59% of public investment in health for the whole region.

According to calculations from the IMF, **Somalia** can expect a 23% drop in tax revenues in 2020, while **Ghana** could lose 60% of its revenue from the oil sector in 2020 (US$880 million), as a result of the collapse in oil prices that have followed Covid-19.

Without intervention and effort, there is a significant risk that low tax revenues will remain the same for years to come. After the financial crisis of 2008-2009, it took an average of eight years for the world's tax revenues to return to the same levels as before the crisis.

The Addis Tax Initiative (ATI)

In 2015, the Nordic countries Finland, Sweden, Norway and Denmark joined the Addis Tax Initiative (ATI), together with 16 other donor countries and 24 partner countries.[4] The vision of the Initiative is to enhance support for domestic resource mobilisation (DRM), as a way of generating sufficient domestic revenues to invest in the public goods needed to achieve sustainable development.

The ATI Declaration expired in 2020, and in November it was revised and renewed until 2025.[5] The new phase of the initiative beyond 2020 will be focused on, "elevating fair and effective DRM, policy

[1] https://www.wider.unu.edu/publication/precarity-and-pandemic
[2] https://www.imf.org/en/News/Articles/2020/06/16/vc-facing-the-crisis-the-role-of-tax-in-dealing-with-covid-19
[3] https://sdgs.un.org/goals/goal17
[4] https://www.addistaxinitiative.net/sites/default/files/resources/2019-ATI-Factsheet.pdf
[5] https://www.addistaxinitiative.net/sites/default/files/resources/ATI%20Declaration%202025.pdf

coherence and the social contract as political priorities in the "Decade of Action" to deliver the SDGs by 2030".[6]

Importantly, the new ATI Declaration underscores the importance of promoting equitable tax policies where distributional and gendered impacts are considered, and support is provided to 'accountability stakeholders' such as civil society, media and parliaments, to promote a stronger social contract and accountability for the spending of the tax revenues. Finally, donor countries are committing to apply coherent policies that promote developing countries' ability to mobilise taxes. This can include a stronger focus on policy coherence for development and doing spillover analyses of policies that can potentially negatively impact on developing countries' ability to mobilise taxes.

In the next sections we will analyse the Nordic countries' support to DRM, first by looking at the quantitative target from the first phase of ATI, then looking at the three qualitative targets of the new ATI Declaration.

BOX 2: Commitments of the Addis Tax Initiative

Donor and partner countries signed three core commitments under the first Addis Tax Initiative, the most significant being:

- Participating providers of development cooperation collectively commit to double support for technical cooperation in taxation by 2020.

In the renewed ATI Declaration, the quantitative target of doubling aid for DRM from a 2015 baseline remains. However, it holds much stronger qualitative objectives:

- ATI partner countries commit to enhance DRM on the basis of equitable tax policies as well as efficient, effective and transparent revenue administrations. ATI development partners commit to support such reforms.
- ATI members commit to apply coherent and coordinated policies that foster DRM and combat tax-related illicit financial flows.
- ATI members commit to enhance space and capacity for accountability stakeholders in partner countries to engage in tax and revenue matters.

Wide variation in the Nordic countries' support for domestic resource mobilisation

A central commitment in the first phase of the Addis Tax Initiative was that donor countries collectively committed to doubling overseas development aid for domestic resource mobilisation by 2020, compared to the baseline year of 2015.[7]

Figure 1 shows that among the Nordic countries, Norway is alone in fulfilling this commitment. In 2019, Norway provided 2.5 times its 2015 support. Sweden increased its aid for DRM as well, and in 2019 gave 1.5 times its 2015 support, but has yet to fully reach double the amount.

Denmark and Finland, on the other hand, are falling behind. In fact, in the period 2016-19, Danish and Finnish development assistance never exceeded 2015 levels (see Figure 1), despite the fact that those years, according to the ATI commitments, should have been the starting point for a sharp expansion of development assistance to tax. If the Nordic countries are to fulfil their ATI promises to the world's poorest countries, development assistance for tax must be increased to US$18.19 million in Sweden, US$15.52 million in Denmark and US$9.96 million in Finland.

In Finland, a new plan of action has just been adopted for development cooperation regarding taxation that contains a strategy for how Finland can meet their ATI obligations by 2022.[8] Denmark

[6] *Ibid.*
[7] *Ibid.*
[8] https://um.fi/documents/35732/0/Finland_Tax4D_Action_program_050620.pdf/cf6f8dae-434c-96e5-be1c-b9e79e0dc102?t=1591620474451

does not have any specific plans yet to meet the ATI commitment, while it remains to be seen whether Sweden will meet its commitment by the end of 2020.

Figure 1: The Nordic countries' contribution to DRM 2015-2019 (million $US)

	Sweden		Norway		Finland		Denmark	
2015	9.094	100%	14.750	100%	4.979	100%	7.759	100%
2016	7.154	79%	7.389	50%	3.287	66%	5.512	71%
2017	5.801	64%	8.682	59%	1.210	24%	4.939	64%
2018	13.527	149%	24.219	164%	1.835	37%	7.551	97%
2019	13.932	153%	37.138	252%	4.941	99%	6.600	85%
2020	-	-	-	-	-	-	-	-
2020-target*	18.19	200%	29.50	200%	9.96	200%	15.52	200%

*Note: 2015 serves as a base year. Calculated in million US dollars. *= Objective for aid under ATI commitment 1. Data for 2015-19 collected at: https://stats.oecd.org/Index.aspx. Data for Denmark year 2019 originates from the Danish Ministry of Foreign Affairs. Data for Finland year 2019 originates from the Ministry for Foreign Affairs of Finland and is still an estimated amount.*

Increased focus on progressive tax reform to reduce inequality

Resource mobilisation does not only revolve around collecting more tax revenue. It is just as important to focus on the revenue being collected in a fair and just way,[9] a point underscored in the new ATI Declaration. Some tax instruments tend to be regressive, letting poor people and women pay a proportionally higher part of their income, while other tax instruments tend to be progressive, letting wealthy people and higher income earners pay a larger share.[10] The Nordic tradition is to have progressive tax systems that reduce inequality through the collection and spending of tax revenues.

If increased mobilisation of resources in developing countries takes place through regressive taxes, the very often high inequalities already present are at risk of increasing, to the detriment of growth and cohesion (see Box 3). At the same time, regressive taxes can create more poverty and increase gender inequality.

BOX 3: Inequality and tax in developing countries
If taxes are used to reduce inequality, there are signs that it is both good for the fight against poverty and for the economy. According to the IMF's calculations, poverty is reduced more through a reduction on income inequality than through an increase in economic growth by 1%. In addition, the IMF calculates that an income inequality above 27 on the so-called Gini-index is harmful to economic growth. There are no African countries, for whom data is available, that have a Gini-score under 27.

Unlike in OECD countries, where all countries reduced poverty after taxes and public spending, in many developing countries public systems for redistribution are weaker and, in some cases, regressive. Some developing countries have managed, however, to set up their tax systems and public spending in a progressive way, so that it reduces poverty and inequality. As an example, Tanzania reduced poverty rates by more than 15% through its approach to taxes and public spending.

---

[9] https://actionaid.org/sites/default/files/publications/Supporting%20fair%20tax%20systems%20-%20an%20analysis%20of%20EU%20aid%2C%20April%202020_ActionAid%20and%20Oxfam%20report_0.pdf
[10] https://actionaid.org/publications/2018/progressive-taxation-briefings

These outcomes are caused by the distributional effects of the tax system. When tax is regressive, poor people spend a higher proportion of their income than people with higher incomes do.[11] It is crucial to ensure that the Nordic support for tax does not increase inequality through regressive tax reforms, as also stated in the new ATI Declaration.

Figure 2 shows a major strategic shift in the period 2015-19 by the Nordic countries. In 2015 and 2016, two-thirds of all Nordic aid for tax was channelled through bilateral programmes and projects. However, in 2019, two-thirds was channelled through multilateral organisations, mainly the World Bank's Global Tax Programme and the IMF's Revenue Mobilisation Trust Fund.

The share of aid for accountability actors such as civil society, media and parliaments increased to 31% in 2017, but has since declined in 2019 to 21% of total aid for tax.

Figure 2: Nordic countries' aid for tax divided into receiving institutions

Note: Data for 2015-19 collected at: https://stats.oecd.org/Index.aspx. Percentage of total amount of DRM aid donated to institutions.

The shift towards the IMF and World Bank is worrying, as these institutions have a history of promoting tax reforms that tend to negatively affect economic and gender inequality in developing countries.[12] While both the IMF and World Bank should be commended for a much-needed focus on inequality and progressive taxation in much of its research and official communication in recent years, there is still an insufficient concern to the effect on inequality in its advice to countries.[13] A recent research of IMF programmes found that on average IMF loans lead to a rise in inequality, driven by a reduction in income for the poorest.[14] New analysis of the conditions attached to the IMF's Covid-19 support confirms that austerity and regressive tax advice is once again a feature in

[11] https://actionaid.org/sites/default/files/publications/value_added_tax.pdf

[12] ActionAid: https://www.actionaid.org.uk/sites/default/files/doc_lib/ifi_tax_policy_developing_countries.pdf, Oxfam: https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620350/dp-is-imf-tax-practice-progressive-091017-en.pdf?sequence=1, IMF review: https://www.imf.org/external/np/pp/eng/2012/061812b.pdf

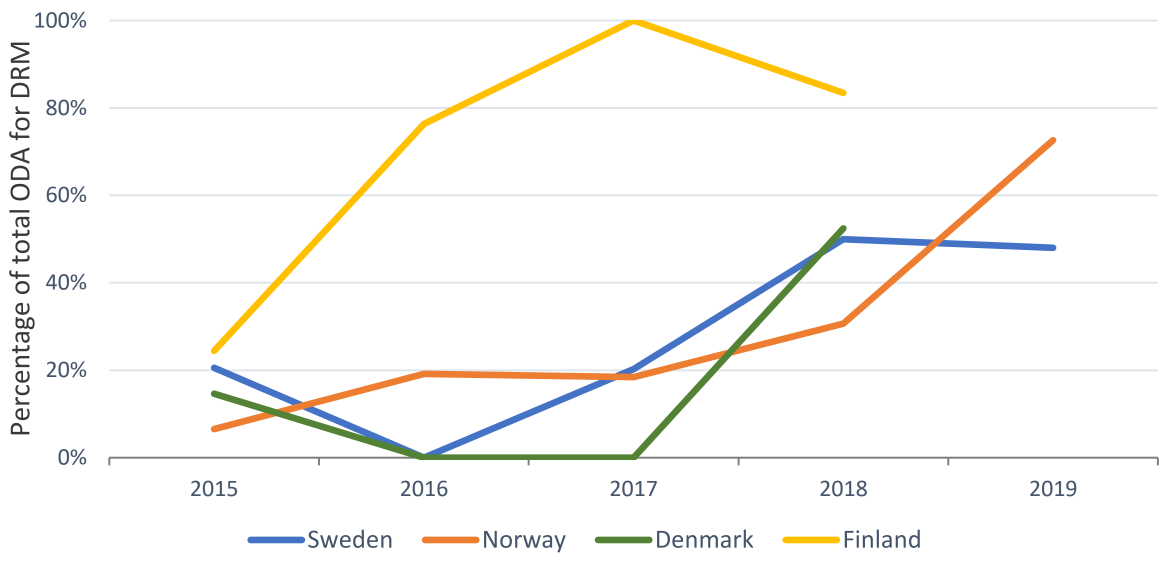
[13] https://www-cdn.oxfam.org/s3fs-public/file_attachments/bp-great-expectations-imf-inequality-101017-en.pdf

[14] https://link.springer.com/article/10.1007/s11558-020-09405-x

the advice given to countries[15], again questioning whether the new rhetoric of the Fund is sufficiently reflected in country-level advise.

Also, it is especially worrying that regressive tax reforms tend to exacerbate gender inequality.[16] Progressive tax reforms can have significant effect on inequality[17] and therefore Nordic countries should urge the multilateral organisations to prioritise such reforms.

Figure 3: Nordic countries' donations to multilateral institutions over time



Note: Data for 2015-19 from: https://stats.oecd.org/Index.aspx. Percentage of total amount of DRM aid channelled to multilateral institutions. Tentative numbers from the Ministry for Foreign Affairs of Finland show a continued decrease in donations to multilateral institutions, reaching approximately 40% in 2019.

For the Nordic countries, the pattern in Figure 3 shows there has been an increase in tendency for all four countries to channel aid for tax through multilateral organisations. This similar pattern in the four countries illustrates a general pattern in aid for tax, where bilateral institutions and accountability stakeholders are neglected in favour of the IMF and World Bank. However, Finland, which has had the highest percentage of aid donations to multilateral institutions, has recently made it a priority to support African institutions instead of multilateral ones, a decision reflected in tentative 2019 data.

This increased support channelled through the IMF and World Bank underscores the need to analyse the distributional consequences of policies promoted by these institutions, in order to ensure that aid for tax programmes is in line with the recently adopted ATI Declaration, as well as the stated priority of Nordic countries to promote equitable tax policies.

[15] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/1063/attachments/original/1603289984/Arrested_Development_final.pdf?1603289984 & https://www.oxfam.org/en/press-releases/imf-paves-way-new-era-austerity-post-covid-19 & https://actionaid.org/publications/2020/pandemic-and-public-sector
[16] https://actionaid.org/publications/2018/short-changed-how-imfs-tax-policies-are-failing-women & https://www.oxfam.org/en/research/do-taxes-influence-inequality-between-women-and-men
[17] https://actionaid.org/publications/2018/progressive-taxation-briefings

Improving policy coherence in a Nordic context

Every single year, developing countries lose around US$200 billion to corporate tax avoidance and the use of tax havens, according to the IMF.[18] At the same time, we have repeatedly seen signs that rich countries' financial systems and tax havens are being used for tax evasion, tax avoidance and money laundering – most recently through the so-called #FinCENFiles.[19] In the ATI Declaration from 2015, countries committed to pursuing policy coherence for development, a commitment that has been further strengthened in the recently adopted ATI Declaration.

Therefore, it is positive that Denmark, Norway, Finland and Sweden have all included aspects of policy coherence for development in different governmental strategies. The Danish development policy strategy, "Verden 2030", states that Denmark will fight for solutions to international challenges such as, "tax havens and illegal capital flows, international economic crime and terrorist financing, as well as the fight against corruption".[20] The Swedish government has stated, as part of its renewed 2016 Policy for Global Development, that combatting illicit financial flows and tax evasion are key priorities. In addition to its commitment to capacity development on tax-related matters, the focus is on strengthening existing international frameworks for combatting tax evasion and profit shifting, and to enable and increase information exchange on tax-related matters.[21]

The Norwegian government states in its political "Granavolden" (Platform, 2019) that Norway will, "seek to strengthen international efforts to combat illicit financial flows, tax evasion, the black economy and corruption", and, "support international efforts to promote transparency surrounding capital investments and capital movements between countries, and to ensure more effective and fairer taxation of global companies". In addition, it is positive that Norway, in their capacity as UN Economic and Social Council (ECOSOC) president, initiated the FACTI panel, together with Nigeria.[22]

Finland's 2016 development policy, "One World, Common Future – Towards Sustainable Development", states that Finland will, "participate in worldwide efforts to improve global tax rules. These are needed to eliminate international tax evasion and avoidance, curb illicit financial flows, and increase corporate social responsibility."[23] Further, its 2019 Government Programme states: "Companies that receive development cooperation funds will be required to meet tax responsibility and transparency criteria, promote human rights and advance Finland's development policy goals." It is further explained in Finland's Action Programme 2020–2023 on Taxation for Development "that a company receiving support cannot engage in aggressive tax planning that seeks to transfer the company's profits from the developing country where it has accumulated business profits, so that the company avoids paying taxes altogether or its taxes are significantly reduced. Moreover, the companies receiving support must produce transparent financial statements and tax data on country-by-country basis."[24]

In the EU, Finland actively promoted public country-by-country reporting for multinational companies during its presidency in the second half of 2019, and recently Denmark has adopted a more progressive stance on the proposal by insisting that the transparency should not only benefit

---

[18] https://www.imf.org/~/media/Files/Publications/PP/2019/PPEA2019007.ashx
[19] https://www.icij.org/investigations/fincen-files/
[20] https://um.dk/~/media/um/danish-site/documents/danida/det-vil-vi/strategier/danmarks%20udviklingspolitiske%20og%20humanitaere%20strategi.pdf?la=da
[21] https://www.regeringen.se/49bbd2/contentassets/c233ad3e58d4434cb8188903ae4b9ed1/politiken-for-global-utveckling-i-genomforandet-av-agenda-2030-skr.-201516182.pdf
[22] https://www.factipanel.org/
[23] https://um.fi/documents/35732/48132/government_report_on_development_policy_2016
[24] https://um.fi/documents/35732/0/Finland_Tax4D_Action_program_050620.pdf/cf6f8dae-434c-96e5-be1c-b9e79e0dc102?t=1591620474451

EU member states, but all countries, and that more companies should be covered than the EU Commission has proposed.[25] However, in 2019 the EU Council failed to agree on a common approach for public country-by-country reporting for multinational companies, partly because Sweden voted against it. Further, the Nordic countries have been advocating for a stronger EU blacklist of tax havens.

Currently, the new rules for taxation of multinational companies are being negotiated in the OECD Inclusive Framework. The outcome of these negotiations will be crucial for the ability of developing countries to mobilise taxes in the years to come, however we see no clear signals that the Nordic countries are giving priority to raising the interests of developing countries in the OECD negotiations where countries are represented by ministries of finance and taxation.

While several other countries, including the Netherlands and Ireland, have carried out impact assessments of their countries' tax policies in relation to developing countries (so-called spillover analysis[26]), Denmark has previously resisted doing so.[27] Although the Nordic countries do not have many of the tax haven characteristics that are particularly dangerous for developing countries, there are still elements in their tax legislations that can potentially be harmful to developing countries' tax bases. This includes several double taxation agreements with developing countries, which should be renegotiated.[28,29] Finland has not carried out an exact spillover analysis, but it has stated that Finland "call for new rules on global tax policy, and negotiations in which the voice of Africa should also be heard."[30]

These commitments by the Nordic countries must now be put into practice through undertaking spillover analyses of policies, and potentially a joint Nordic effort to strengthen transparency, curb illicit financial flows and design an international tax system better suited to allowing developing countries to mobilise much-needed tax resources for financing the SDGs.

Nordic support for accountability stakeholders – holding governments to account

The reason why developing countries generally raise a much lower share of GDP in taxes than OECD countries is not just a matter of lack of capacity. It is also very much about the existence of political barriers that hinder increased taxation of economic and political elites, as well as a widespread distrust from citizens of their government's willingness to invest their tax payments into development. Should this situation change, technical support to tax authorities is not enough. As also highlighted in the new ATI Declaration, aid for domestic resource mobilisation should have increased attention on building the social contract between citizens and the state. This can be partly achieved by supporting 'accountability stakeholders' such as civil society, media and parliaments.

Donors can help by supporting efforts to ensure transparency and dialogue on tax policy and public budgets between citizens and authorities. For example, Norway supports capacity-building of journalists in Morocco, Tanzania, Iraq and Uganda, on topics such as the governments' handling of

---

[25] https://www.eu.dk/samling/20201/raadsmoede/572121/bilag/1/2273369.pdf
[26] https://onlinelibrary.wiley.com/doi/epdf/10.1111/1758-5899.12655 and https://actionaid.org/publications/2018/stemming-spills
[27] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/175/attachments/original/1587650257/Fifty_Shades_of_Tax_Dodging.pdf?1587650257
[28] https://www.ms.dk/sites/default/files/udgivelser/denmarks_tax_treaties_-_time_for_change.pdf
[29] https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/253/attachments/original/1588179299/Tax_Games-_the_Race_to_the_Bottom_-_Full.pdf?1588179299
[30] https://um.fi/documents/35732/0/Finland_Tax4D_Action_program_050620.pdf/cf6f8dae-434c-96e5-be1c-b9e79e0dc102?t=1591620474451

tax revenue from the mining sector, as well as how to prevent illegal capital flight.[31] Also, Nordic countries have supported national and regional civil society networks and organisations such as Tax Justice Network Africa and Publish What You Pay coalitions. Promisingly, Finland's new Action Programme 2020–2023 on Taxation for Development states that support to civil society organisations is a good way to raise awareness about the importance of strengthening taxation capacity and that taxation capacity in developing countries can also be enhanced with better research.[32]

The World Bank and IMF's support for taxation in developing countries tends to be more focused on technical capacity building and advise to the government. While technical support is needed it is advisable that the Nordic countries could explore other approaches and partnerships if they are to help strengthen the state-society contract on tax, for example through strengthening the role and voice of Parliaments, journalists and local civil society in the debate on tax policy and public budgets in developing countries.

The new ATI Declaration urges increased support for accountability stakeholders, who can not only hold governments to account and challenge power holders to promote progressive tax policies, but also ensure that revenues collected are invested progressively, meaning in public and gender-sensitive services that reduce inequality.[33]

6. Conclusion and recommendations

Developing countries are facing an unprecedented economic crisis due to Covid-19 that is likely to impact public finances for years to come and in the process derail the fulfilment of the SDGs. As we saw in the aftermath of the global financial crisis, such economic shocks can be followed by years of austerity and tax policies that promise to create growth, but which main impact is a rise in inequality. As we enter into a new phase of the Addis Tax Initiative that puts emphasis on equity and the social contract it is vital that the Nordic governments join together to demand that the crisis response in developing countries must be different this time around. The Nordic governments should use all of their available entry-points to ensure this: Through their development assistance, through their representation in international organisations and negotiations, and through a careful review of their own tax systems and policy positions to ensure that they are sensitive to the interest of developing countries. The Nordic countries' commitment to the Addis Tax Initiative has been crucial, and the Nordic approach to progressive taxes is even better reflected in the recently adopted ATI Declaration and provides a solid and ambitious framework for increasing and improving domestic resource mobilisation efforts. Below is a list of recommendations that we believe to be the first and most urgent steps to help realise this ambition.

[31] https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620754/bp-its-not-all-about-money-drm-080519-en.pdf
[32] https://um.fi/documents/35732/0/Finland_Tax4D_Action_program_050620.pdf/cf6f8dae-434c-96e5-be1c-b9e79e0dc102?t=1591620474451
[33] https://actionaid.org/sites/default/files/progressive_taxation_introduction.pdf

Recommendations

- Finland, Denmark and Sweden should urgently increase development aid to support revenue mobilisation through taxes in developing countries, as committed to in 2015 and recommitted under the new ATI Declaration.

- Nordic aid for mobilisation of taxes should, as committed to in the new ATI Declaration, contribute to gender equality, reducing inequalities and target progressive tax reforms.

- Nordic aid for mobilisation of taxes should increase support for accountability stakeholders including civil society, media and parliaments, to promote stronger social dialogue and accountability to ensure revenues are used towards the SDGs.

- Nordic countries should cooperate to promote engagement and influence of developing countries in international tax negotiations, and to strengthen the international rules to combat tax dodging.

- Nordic countries should analyse their own relevant policies to fulfil the commitment of policy coherence for development, including by conducting spillover analyses of double tax agreements and other relevant tax policies.

- Nordic countries should support a strong monitoring framework for the new ATI Declaration, enabling tracking of progress towards qualitative and quantitative objectives.

- Nordic countries should build stronger capacity in their national aid agencies to engage in policy dialogue and quality assurance of aid for domestic revenue mobilisation through taxes. It is also important that policies are coordinated with other relevant ministries and bodies engaged in revenue mobilisation through taxes in developing countries.

- Nordic countries should make aid for tax mobilisation channelled through IMF and World Bank trust funds contingent of an analysis of the distributional impacts of the support. This should include a review of the tax policies of the institutions, to certify that Nordic aid through the multilaterals promotes progressive taxation and gender equality in line with the ATI Declaration.

- Nordic countries should support the establishment of an intergovernmental tax body under the United Nations (UN), as well as increase support for regional forums of tax administrators that hold a stronger voice and influence for developing countries

- Nordic countries should strengthen cooperation to have a stronger joint voice in international institutions on tax for development matters, and share knowledge, experiences and good practices for support to domestic resource mobilisation.