Achieving the 2030 Sustainable Development Goals: Putting together the means of implementation

Highlights on EU early achievements in three key areas

The Addis Ababa Action Agenda (AAAA), agreed at the third United Nations International Conference on Financing for Development in July 2015, sets out a vision of how development financing should evolve to support the 2030 Agenda for Sustainable Development, including the Sustainable Development Goals (SDGs).

In support of this agenda, the European Union (EU) has taken a series of important financial and non-financial commitments. Two years on from the Addis Ababa Conference, and before the Commission adapts its reporting process to the needs of the future *European Consensus on Development*, it is timely to start reflect on what progress, beyond its Official Development Assistance (ODA), the EU has already made against these commitments and on where the EU could do better.

This paper aims at highlighting progress regarding three priority areas of the Commission's development policy, which strongly reflect the Commission's commitment to the implementation of the Addis Ababa Action Agenda. These areas are: 1) supporting partner country efforts to raise resources for sustainable development through **domestic resource mobilisation**, mostly through effective domestic taxation and measures to limit tax avoidance or profit shifting by the private sector; 2) leveraging **private sector resources** at domestic and international level to mobilise finance for the development of the private sector; and 3) stepping up **joint programming** efforts as a way to improve efficiency, ownership and efficacy of development cooperation.

Whilst some EU assistance in these areas – such as the public finance used to leverage private investment – would often qualify as ODA, others – such as the leveraged private finance – are prime examples of the kind of activities that should be valorised and recorded by the emerging concept of Total Official Support for Sustainable Development (TOSSD). This underlines the scope and breadth of activity that TOSSD could cover and, critically, how it is better suited to measuring the totality of support to the SDGs which goes far beyond ODA alone.

1. Domestic Resource Mobilisation (DRM)

Increasing domestic resource mobilisation at the service of sustainable development is a key priority of the AAAA. Domestic Resource Mobilisation calls for developing countries to strengthen their revenue mobilisation systems both in terms of tax policy and tax administration.

- *Tax policy* ensures that a broad tax base, the right mix of different tax types and the tax rate regime, all contribute to reach the tax potential of individual developing countries. An effective tax policy reduces the *tax policy gap* between the tax due under an optimal tax policy and the tax due under current tax policy.

- *Tax administration* depends on the capacity of the institutions responsible for collecting taxes. Quality in tax administration is determined by the transparency, efficiency and effectiveness of the system. A modern tax administration contributes to close the *tax compliance gap* between the tax due under the prevailing tax regime and the tax actually collected.

Increasing their domestic revenues allows developing countries: (i) a greater ownership of their sustainable development, reducing aid dependency over time; (ii) an opportunity to strengthen the social contract with their citizens ensuring that additional resources are directed to the expenditures targeting the latter's basic needs. In addition, DRM can be a crucial instrument to tackle inequality, if applied with this objective in mind.

EU Commitments

The European Commission has been active in the DRM area for several years. Already in **2010, with its Communication '*Tax and Development*'**[1] it set the directions for cooperating with developing countries on promoting good governance in tax matters. DRM is a cornerstone of the proposal for a new EU Consensus for Development currently under discussion.

Amongst its contributions to the Third Financing for Development Conference in Addis Ababa in July 2015, the EU Commission issued the **Staff Working Document '*Collect more – Spend better*'**[2] laying out its holistic approach to address both the revenue and expenditure side of Public Finance in Partner Countries. *'Collect more'* discusses how to close the tax policy and tax compliance gaps with a particular focus on tax evasion, tax avoidance, and illicit financial flows. *'Spend better'* deals with aspects related to public expenditure management, notably in public investment, subsidies, public procurement and debt management.

As a founding member of the **Addis Tax Initiative** (ATI), the EU has also committed to **double its ODA financing** for tax cooperation by 2020. To this end it endorsed the creation of a separate OECD DAC code for domestic resource mobilisation for transparent measurement and reporting on the commitment.

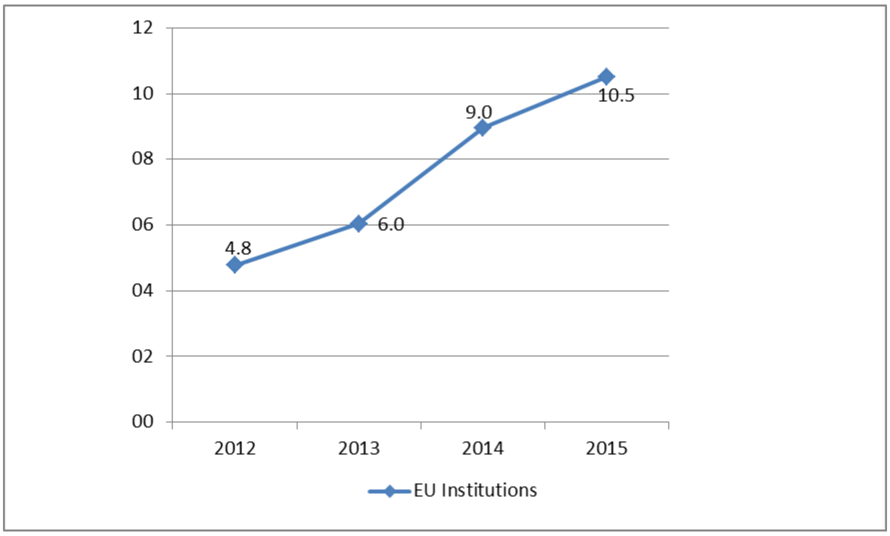
EU Achievements and proposals

In order to meet its commitment to double its ODA financing for tax cooperation by 2020; the EU has considerably increased its support in this area (see Figure 1).

[1] Communication from the Commission to the European Parliament, the Council AND THE European Economic and Social Committee - Tax and Development Cooperating with Developing Countries on Promoting Good Governance in Tax Matters SEC(2010)426 /* COM/2010/0163 final */

[2] 'Collect More - Spend Better':A Contribution to the discussion on financing the 2030 Agenda for Sustainable Development, SWD(2015) 198

Figure 1 - ODA Disbursement for tax-related activities, 2011-15 – million EURUSD



Source: OECD Creditor Reporting System statistics;
NB: filters 'tax' and 'revenue' applied to the 'short description' entries

Under the thematic programme *'Global Public Goods and Challenges'* (2014-2020) the EU launched its **Domestic Resource Revenue** Flagship Initiative[3].which:

- *'Promotes a transparent, cooperative and fair international tax environment at global level to fight tax evasion and tax fraud as well as illicit financial flows and to contribute to an enabling international environment for domestic revenue mobilisation.*

- *Enhances participation and involvement of all countries and regions in the global tax dialogue to help them build up effective, efficient, fair and sustainable national DRM systems'* (excerpt from 'Collect more – Spend better').

- *Supports the improvement of domestic revenue mobilisation linked to natural resources through the IMF Management of Natural Resources Wealth Trust Fund*

Box 1. Actions financed under the Domestic Resource Mobilisation Flagship Initiative

Examples of EU actions to be adopted soon are:

- ***Supporting the OECD Base Erosion and Profit Shifting (BEPS) and Development initiative***.

The OECD and G20 countries have taken joint action to address the weaknesses within the international tax system that create opportunities for BEPS. They have developed a package of measures to address these challenges. This BEPS package and its 15 measure's action plan were endorsed by the G20 leaders in November 2015.

The EU action will enable developing countries to actively take part in the governance and standard setting of BEPS, provide further advocacy and guidance material about the BEPS actions and directly support developing countries in their efforts to implementing BEPS.

[3] Commission Implementing Decision of 23.7.2014 adopting a Multiannual Indicative Programme for the Thematic Programme "Global Public Goods and Challenges" for the period 2014-2020, C(2014) 5072 final

- ***Supporting the International Tax Compact (ITC)***

The ITC aims at improved donor coordination, South-South cooperation and knowledge sharing among relevant partners in the DRM area. The support aims to promote effective, fair and efficient tax systems and combat tax evasion and inappropriate tax practices on a global scale. It will further support the Secretariat of the Addis Tax Initiative (ATI), which is facilitated by the ITC.

The EU further promotes DRM through both budget support and project modalities. Budget support operations are ongoing in 80 countries worldwide. They include **enhanced policy dialogue**, **conditions and support measures** on Public Financial Management, which cover tax policy and tax administration reforms. Projects can address specific issues of DRM through the provision of Technical Assistance, capacity building and knowledge sharing. An example of a significant DRM project direct to the ACP countries is presented in **Box 2**.

Box 2. Collect More – Spend Better: support domestic revenue mobilisation through EU-IMF partnership

Strengthening domestic resource mobilisation means also providing assessment of tax administration and technical assistance to partner countries. The EU, among others, support three IMF initiatives to provide dedicated assessment and technical assistance to its partners through the EU-IMF strategic partnership:

- The Tax administration Diagnostic Assessment Tool (TADAT) provides an objective assessment of the health of key components of a country's system of tax administration. This framework is focused on the nine key performance outcome areas (POAs) that cover most tax administration functions, processes and institutions. TTF
- The Tax Policy and Administration Topical Trust Fund (TPA TTF) is providing technical assistance to developing countries to strengthen their tax systems in order to improve domestic revenue mobilization,
- The Managing Natural Resource Wealth Topical trust fund (MNRW TTF) is designed to help developing countries to build the institutions and capacity to turn their natural resource wealth into sustainable development.

Through its support to the IMF implemented Tax Policy and Administration Programme, the EU could contribute to tangible results in at least 19 developing countries. Substantial progress in tax policy and administration reform has been achieved. In Senegal for example, a tax revenue ratio of about 20 percent to GDP could be maintained, despite unfavourable economic circumstances. Under the same instrument, in Bolivia the design and adoption of a transfer pricing law has been supported with the objective to increase tax collection from multinational enterprises. In Namibia the EU could support the execution of a tax administration diagnostic assessment (TADAT) as well as the implementation of a subsequent reform plan.

Furthermore, the EU supports a series of initiatives at international and regional level, which promote **Global Partnerships in DRM**. Among those there are:

- The EU-IMF partnership for the provision, through the IMF Regional Technical Centres, of technical assistance to developing countries and their regional organisations in the fields of fiscal policy, revenue administration, PFM, macroeconomic analysis and statistics.

- EU forthcoming support (to be signed soon) to the OECD Revenue Statistics Initiative to allow ACP developing countries to product and publish reliable and comparable data on their revenues collected.

- EU support to regional network organisations in Africa such as the African Tax Administration Forum (ATAF) and the African Organisation of Supreme Audit Institutions (AFROSAI).

- EU is part of a tripartite initiative with the OECD and World Bank on capacity building in the area of profit-shifting to prevent misuse of transfer pricing by transnational corporations.

- EU work with the UN Committee of Experts on International Cooperation in Tax Matters on the establishment of the Practical Manual on Transfer Pricing.

In 2015, the EU was among the founders of the **Addis Tax Initiative (ATI)**, a multi-stakeholder partnership that aims at catalysing significant increases in domestic revenue and improving the transparency, fairness, effectiveness and efficiency of tax systems in partner countries.

The EU has set a higher standard on **Policy Coherence for Development in the DRM area**. The EU leads by example in strengthening tax good governance in its internal market and promoting it towards non-EU countries. The **Anti-Tax Avoidance Package**[4] (which includes two Directive proposals, a recommendation and a communication) presented by the Commission in January 2016 provides concrete action to prevent aggressive tax planning, coordinate Member States' actions against tax avoidance and ensure that companies pay tax where they generate their profits in the EU. As of September 2017, Member States should exchange financial account information automatically in tax matters

Finally, the Commission has adopted an **EU Communication on an External Strategy for Effective Taxation**[5]. The strategy aims at updating the EU's tax good governance criteria and reflecting them in the relevant policies, such as using bilateral and regional agreements with third countries to better promote tax good governance, assisting developing countries on tax matters and supporting their inclusion in the international tax good governance framework, and reinforcing the link between EU funds and tax good governance.

2. Leveraging more development funding through innovative approaches to financing for development

The AAAA underlined the importance of mobilising adequate financial resources, beyond ODA, to achieve the sustainable development goals. It insisted that the private sector and foreign investors play a key role to sustain economic growth and job creation in developing countries.

In particular, the AAAA stressed the importance of adopting innovative approaches to financing for development such as public and private partnerships and the role that blended finance and other risk mitigation mechanisms can play to leverage resources for infrastructure and private sector financing. It also recognises how innovative financing mechanisms can address shortcomings in financing for small and medium sized enterprises in developing countries, both for domestic investment and trade development. Finally, the AAAA

[4] Communication from the Commission, Anti-Tax Avoidance Package: Next steps towards delivering effective taxation and greater tax transparency in the EU, COM(2016) 23

[5] Communication from the Commission, External Strategy for Effective Taxation, COM(2016) 24

encourages more countries to voluntarily join in implementing innovative mechanisms, instruments and modalities and to explore additional innovative mechanisms based on models combining public and private resources.

EU Commitments

Achieving inclusive and sustainable growth and creating jobs stands among the main remaining challenges for developing countries. The investment climate and the overall policy environment in the EU Neighbourhood and in Africa do not always encourage private sector investment. This is particularly evident in fragile, conflict- and violence-affected countries, some of which are important countries from where irregular migrants originate.

Foreign Direct Investment (FDI) and other private financial flows have declined across developing countries since the 2008 financial crisis. In 2012, only 6% (€ 34.6 billion) of total global FDI to developing countries went to countries on the fragile states list. This was an average investment of €27 per capita compared to an average of €128 per capita in other developing countries. Among those on the fragile states list, the majority of FDI is attracted by resources-rich countries, with 72% concentrated in ten countries in 2012. This clearly marks a gap in investment and the added-value that targeted action by the European Union can have.

The EU is committed to tackle this problem, and - in a context of scarce public resources - to use ODA as a catalyst to mobilize additional resources for sustainable development. While grants remain essential, the EU wants to go beyond classical development assistance using **guarantees and innovative financial instruments** to support investment, trade, domestic resource mobilisation and good governance and multiply the impact on the ground.

EU Achievements and proposals

The European External Investment Plan

In September 2016, the EU proposed the **European External Investment Plan (EIP)**[6] with a new European Fund for Sustainable Development (EFSD). The EIP is a key EU policy initiative aimed at implementing the Sustainable Development Goals and addressing root causes of migration, by boosting private and public investments and decent job creation in Sub-Saharan African and Neighbourhood partner countries of the EU. The EIP builds on the successful implementation of previous initiatives and takes into account the lessons learned from implementing blending operations over the past 10 years.

One of the main challenges the EIP aims to address are the risks inhibiting investments in difficult countries and, thus, attracting additional financing, foremost from the private sector. In this sense, greater recourse to innovative financial instruments (e.g., guarantees, equity, other risk-sharing instruments) are expected to help unlock the catalytic potential of blending for crowding in more private financing where most needed.

The plan offers a holistic approach based on three pillars - financing of investment, technical assistance and improving the investment climate. Under **pillar 1**, the new EFSD will be set

[6] Communication from the Commission, Strengthening European Investments for jobs and growth: Towards a second phase of the European Fund for Strategic Investments and a new European External Investment Plan, COM(2016) 581 final

up as a one-stop-shop for investment proposals in Africa and the Neighbourhood. It has two main features: (1) an innovative guarantee with an additional value of € 1.5 billion, and (2) regional investment platforms, building on the EU's regional blending facilities, with an indicative budget of up to € 2.6 billion. This will be complemented under **pillar 2** by technical assistance to help local authorities and companies develop bankable projects and improve regulatory and policy environment. The **third pillar** will provide a multi-level approach to improve the investment climate and business environment in partner countries by scaling up and reinforcing the policy dialogue and cooperation primarily performed by EU Delegations. The EIP is expected **to leverage more than €44 billion of cumulative investments by 2020**.

The implementation of the EIP will allow the EU to lead by example in developing more effective partnerships that go beyond classical development assistance. In particular, the ambition of the new EFSD Guarantee is to go clearly beyond existing instruments, by providing a powerful risk mitigation mechanism, supporting innovative financing models developed by a range of partner financial institutions.

The External Investment Plan will integrate other existing financing initiatives by EU institutions aimed at partner countries, including the Neighbourhood Investment Facility. From 2008 to 2015, the NIF approved projects for a value of around €179 million a year. The financial leverage effect of NIF contributions in 2016 was 1 to8.6.

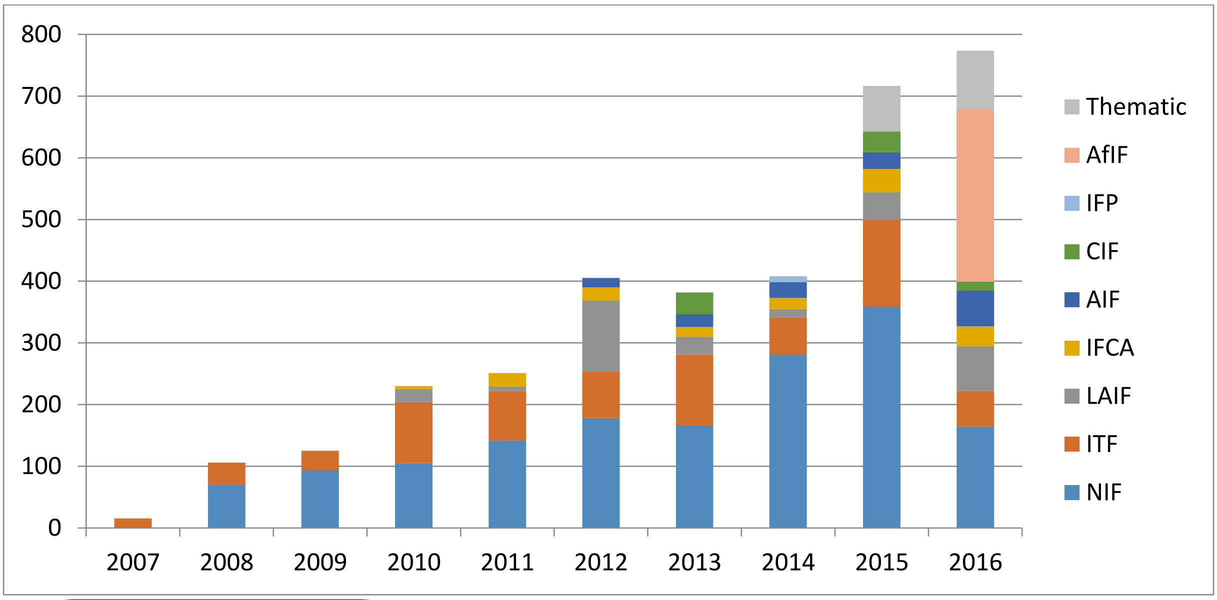
Other EU blending facilities

The EU institutions and Member States have deployed several innovative blending instruments to mobilise public and private resources for investments in initiatives aimed at supporting economic growth in partner countries.

Blending, an effective form of financing which combines EU grants with loans or equity from other public and private investors, helps to leverage additional public and private resources for sustainable economic development. EU Blending support is extended through eight regional blending facilities, covering all regions of EU external cooperation. It has been a success story for the EU's external action. From the creation of the first EU blending Facilities in 2007, €3.4 billion of EU grants have leveraged €26.4 billion of loans with a total investment volume in partner countries of €57.5 billion.

In the context of blending facilities, the European Commission works with multilateral European Finance Institutions like EIB or EBRD, bilateral Development Finance Institutions from Member States (e.g., AFD, KfW, CDP, AECID), European Development Finance Institutions (e.g., OeEB, SIMEST, SOFID, Proparco, FMO, Finnfund, DEG, COFIDES), and regional or multilateral development banks (e.g., African Development Bank, the World Bank Group). The involvement of all these financial institutions is essential to respond to different types of needs and best use of EU funds.

Figure 3 - EU Blending Facilities: Annual grant approvals (in € million)



All facilities grant approvals to 380 operations

EUR 3.4 billion

Average: EUR 9 million per operation

EFIs financing to approved projects [1] *

EUR 26.4 billion

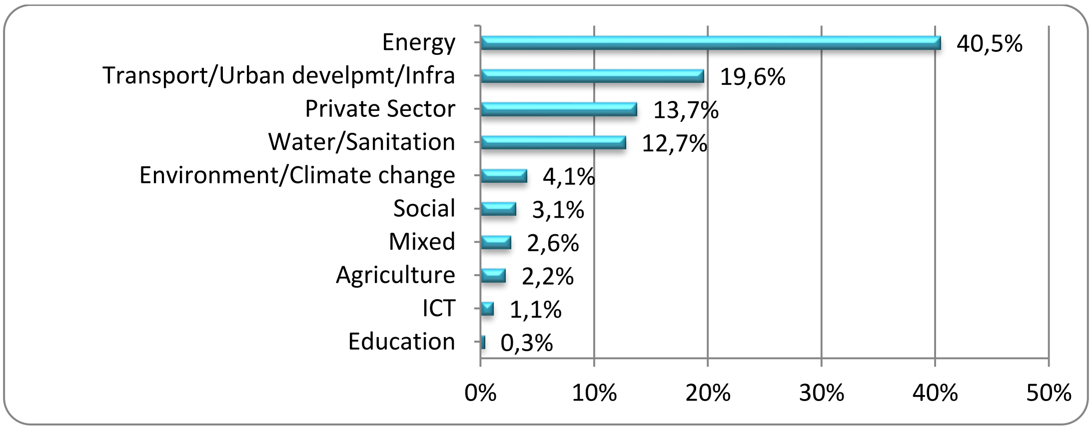
Leverage: 7.7/1

Total investment amount

EUR 57.3 billion

Leverage: 16.8/1

[1] Regional Banks (AfDB, IADB, CDB, ADB ,...) and WB/IFC are NOT included.



** excluding NEAR 2016*

3. Improving effectiveness through Joint Programming

Joint Programming is **the joint planning of development cooperation by the EU and its Member States development partners** working in a partner country to promote the complementarity and efficiency of their action in line with article 210 of the Lisbon Treaty.

The Council Conclusions on stepping-up Joint Programming adopted in May 2016 gave renewed impetus to Joint Programming. The Global Strategy on Foreign and Security Policy[7] calls for enhancing EU Joint Programming, for a more joined up Union across our external policies, between Member States and EU institutions, and between the internal and external dimensions of our policies. The Commission's proposal for a new European Consensus on Development puts Joint Programming at the heart of the EU working better together in response to global challenges and in support to the implementation of the 2030 Agenda.

EU Commitments

Since 2015, the EU and its Member States has given considerable impulse to joint programming. In May 2016, the Council Conclusions on *Stepping up Joint Programming*[8], strengthen that momentum further.

Joint programming is also prominent in 2016's *A Global Strategy for the European Union's Foreign and Security Policy*. The *Global Strategy* calls for a "*joined-up union…and joint programming, which must be further enhanced*" in development cooperation as well as foreign policy. Joint programming is also seen as valuable to achieving the EU's global priorities such as on migration, security and climate.

In November 2016, the European Commission proposal *for A new European Consensus on Development Our World, our Dignity, our Future*[9] emphasised the importance of joint programming. The proposal identified the value of joint programming in lessons learning, joint analysis and in increasing the "collective impact" of development resources.

EU Achievements and proposals

As of January 2017, joint programming was being discussed in fifty-six countries globally. Twenty of these countries already have joint strategies approved or being finalised. In one case (Laos) the joint strategy replaced the EU's own bilateral programming documents (Palestine and Senegal have been proposed for adoption as joint strategies for 2017). In total, there are seven countries in which joint strategies have replaced either the EU or a EU MS strategies. Sixteen countries are in the process of scoping and conducting feasibility studies, whilst another fourteen have agreed roadmaps and are progressing towards development of joint strategies.

EU Heads of Mission reported in late 2016 that there is evidence of renewed impetus for Joint Programming. EU partners are increasingly recognised as a unified 'European family' with joint programming credited for improving visibility, the quality and impact of policy dialogue. Joint programming is increasingly complementing or building on other joint EU initiatives such as the civil society road maps, gender action plans, democracy and human rights strategies.

Joint programming has changed the way donors work such as in making use of joint results frameworks and making more regular use of joint monitoring, evaluation and technical

[7] Council conclusions on the Global Strategy on the European Union's Foreign and Security Policy, 17 October 2016, 13202/16 CFSP/PESC 814 CSDP/PSDC 572

[8] Council Conclusions on Stepping up Joint Programming, 12 May 2016, 8831/16 DEVGEN 89 ACP 67 RELEX 378

[9] European Commission proposal for A new European Consensus on Development Our World, our Dignity, our Future, COM(2016) 740

studies. However, key challenges persist in regards to making measurable progress on traditional aid effectiveness objectives of improving alignment, ownership and predictability. Further, there are signs that insufficient incentives are in place for partner governments to take greater ownership of joint programming. Some EU Heads of Mission, for example, expressed concern that partner governments may be reluctant to embrace joint programming fearing it might erode existing bilateral relations, funding and overall control.

Many of these conclusions are also found in an independent evaluation carried out in 2016 which covered progress for the period 2011 to 2015. The evaluation found out that the Joint Programming process in the majority of countries studied has proven to be a very valuable experience both for the EU and its Member States.

Joint programming improves aid coordination and enhances the EU's voice and visibility, building on what development counsellors do at country level. However, joint programming has not yet delivered measurably in terms of reduced transaction costs (aid effectiveness)..

The evaluators recommended to improve and update the strategic purpose of Joint Programming; to keep Joint Programming strategic, flexible and pragmatic; and to clarify and reinforce the role of Joint Programming stakeholders (specially on the issues of mandates and incentives for EU officials at country level to take the lead in implementing joint programming).