



Uniting Church in Australia  
SYNOD OF VICTORIA AND TASMANIA



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## **Joint Submission from the Tax Justice Network Australia and the Uniting Church in Australia, Synod of Victoria and Tasmania, to consultation on the New International Development Policy 30 November 2022**

The Tax Justice Network Australia (TJN-Aus) and the Uniting Church in Australia, Synod of Victoria and Tasmania, welcome the opportunity to make a submission on the New International Development Policy. The submission focuses on the importance of assisting countries in our region with domestic resource mobilisation. Domestic resource mobilisation fits with the focus on “building effective, accountable states that can sustain their own development” rather than being dependent on funding from foreign governments through ODA.

Assisting countries in our region with reforms to address tax evasion, tax avoidance and profit shifting by multinational enterprises (MNEs) and high net-worth individuals would utilise an Australian “national strength to enhance the impact of our development program and address multidimensional vulnerabilities.”

Brand (2022)<sup>1</sup> found that illicit financial flows constitute a major challenge for development in low-income countries, as domestic resource mobilisation is imperative for providing essential public services. The evidence further indicates that developing countries are more exposed to individuals and multinational enterprises illicitly transferring money out of the country.

### **Benefits of and recommendations for domestic resource mobilisation**

DAI have argued for the benefits of assisting low-income countries with tax reforms and tax administration:<sup>2</sup>

*Increasing tax revenues through improved tax policy and collection is a proven winner among donor-funded programs. Our review of the evidence found that, as a proportion of gross domestic product, government tax revenue was significantly below its potential in many low- and middle-income countries. But that is a fixable state of affairs. USAID programs implemented by DAI, for instance, have increased*

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<sup>1</sup> Brand, ‘Illicit financial flows and developing countries: A review of methods and evidence’, *Journal of Economic Surveys*, (2022).

<sup>2</sup><https://dai-global-developments.com/articles/marshaling-the-evidence-to-better-help-developing-countries-improve-and-afford-their-health-services/>

*domestic revenues in El Salvador, the Philippines, and elsewhere. In these countries, PFM assistance led to reducing the cost and increasing the ease of tax compliance, reducing corruption by automating financial systems, and the adoption of enforcement approaches based on targeting areas at high risk for cheating.*

*However, we found that not all tax revenues to be equal when it comes to benefitting health funding. One multi-country study showed pro-poor taxes—such as on profits and capital gains—seemed to support expanding health coverage, while consumption taxes—such as on goods and services—reduced the ability of the poor to afford essential health care and were associated with increased rates of post-neonatal, infant, and under-5 mortality.*

The Asian Development Bank (ADB) in their report on strengthening domestic resource mobilisation in southeast Asia published in 2022, has further stressed the value of domestic resource mobilisation in our region:<sup>3</sup>

*As of 2019, tax-to-gross domestic product (GDP) ratios averaged only 13.7%, with substantial variation and performance as low as 7% in Myanmar. The size of the prize that comes with optimising domestic resource mobilisation is large. If the five countries were to experience tax-to-GDP ratio increases by 2025 in line with top performers in the region, this could create about \$216 billion in cumulative tax revenues above business-as-usual, almost double the combined GDP of Brunei Darussalam, Cambodia, and Myanmar.*

The ADB suggested key areas for tax reform were:

- Broadening personal income tax through increased tax progressivity;
- Taxing wealth;
- Taxing property;
- Taxing environmental externalities;
- Taxing digital services;
- Shrinking the informal economy;
- Tackling value-added tax fraud;
- Making online tax lodgment simple;
- Easing the tax payment process; and,
- Enhancing communication with taxpayers

A paper issued by the ILO in January 2022 found that even in low-income countries, broadening the tax base, tackling tax evasion and building fair and progressive tax systems together with a sustainable macroeconomic framework can help fill social protection financing gaps. The ILO argued that national social protection systems should be primarily financed from domestic resources. However, for countries with limited domestic fiscal capacities or facing increased needs due to crises, natural disasters or climate change, international financial resources, combined with technical assistance, could complement and support domestic resource mobilisation for social protection.<sup>4</sup>

Urban Links, in their report 'Improving Subnational Domestic Resource Mobilisation. A Review of Issues and Opportunities for Strategic Donor Support' assessed that:<sup>5</sup>

- Improving own-source revenue represents an important opportunity for subnational governments to generate needed resources and build trust with citizens;

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<sup>3</sup> <https://www.adb.org/sites/default/files/publication/793956/domestic-resource-mobilization-southeast-asia.pdf>

<sup>4</sup> ILO, 'Investing more in universal social protection. Filling the financing gap through domestic resource mobilisation and international support and coordination', Working Paper 44, January 2022, [https://www.ilo.org/global/publications/working-papers/WCMS\\_834194/lang--en/index.htm](https://www.ilo.org/global/publications/working-papers/WCMS_834194/lang--en/index.htm)

<sup>5</sup> <https://urban-links.org/resource/improving-subnational-domestic-resource-mobilization/>

- Strengthening subnational resource mobilisation has the potential to yield important governance dividends; and
- Donors can best support these efforts by working with local actors to ensure a thorough understanding of the technical and political economy issues underlying the existing Domestic Resource Mobilisation context.

They recommended that donors should:

- Ground strategies in the realities of each country, subnational context, and behavioural norms;
- Adopt a flexible, iterative approach based on experimentation, refinement, and scale-up;
- Increase support for subnational DRM by linking with broader programs and funding on decentralisation, local governance, urban governance, and public financial management;
- Adopt a realistic and sustainable but ambitious performance measurement framework;
- Avoid a narrow focus on increasing revenues; and,
- Ensure the appropriate leadership of key local and national stakeholders in the design and implementation of subnational DRM reforms.

A 2020 analysis by Oxfam did note that donor support for DRM initiatives often neglected gender equity. Further, support for civil society involvement and local bodies was limited.<sup>6</sup>

### **Assisting low-income countries to participate in the automatic exchange of information between tax authorities**

The Australian Government should seek to assist more low-income countries in the region to participate and benefit from the automatic exchange of information (AEI) between tax authorities. Ahrens et al. (2021) found that the impact of AEI on domestic tax policies removed the pressure of international tax competition and enabled governments to increase taxes on internationally mobile capital. International cooperation in the form of AEI increased the domestic policy space of governments under conditions of economic globalisation. It may enable a return to more progressive tax systems and a reversion of the trend of rising income and wealth inequality.<sup>7</sup>

Umar et al. (2020) assessed that the automatic exchange of information on tax issues was one of the effective strategies to assist developing countries in combating illicit financial flows out of the jurisdiction.<sup>8</sup>

### **Coordination of assistance on domestic resource mobilisation**

There is a need to ensure donors coordinate advice to low-income countries concerning tax reforms. Further, the tax reforms put forward need to be pro-poor if reducing poverty is to be addressed.

A 2019 study by the Addis Tax Initiative (ATI) found a proliferation of DRM diagnostic tools, creating confusion among stakeholders. They also found a potentially unfair or inefficient global allocation of DRM support. Further, they assessed that the harmonisation of funding among donors for DRM initiatives was variable. The lack of harmonisation led to high transaction costs and the risk of contradictory approaches. The ATI also argued there was a

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<sup>6</sup>[https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-04/Supporting%20fair%20tax%20systems\\_an%20analysis%20of%20EU%20aid%20April%202020\\_ActionAid%20and%20Oxfam%20report.pdf](https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-04/Supporting%20fair%20tax%20systems_an%20analysis%20of%20EU%20aid%20April%202020_ActionAid%20and%20Oxfam%20report.pdf)

<sup>7</sup> Arhens et al., 'Capital taxation and international cooperation: The causes and consequences of automatic exchange of information', chapter in 'Combating Fiscal Fraud and Empowering Regulators: Bringing tax money back into the Coffers', 2021.

<sup>8</sup> Umar et al., 'Strategies for preventing illicit financial flows in developing countries', *Journal of Money Laundering Control* **23(3)** (2020), 601-608.

lack of agreed metrics of progress on DRM and a lack of solid results frameworks for national DRM strategies.<sup>9</sup>

In January 2022, an ILO working paper recommended that more dialogue and coherence were needed between international financial and development institutions to avoid contradictory policy advice on the level and nature of investment in social protection. Further, international cooperation, such as on tax matters or debt restructuring, was needed to create an environment that facilitates DRM.<sup>10</sup>

### **Systems to protect, compensate and reward whistleblowers that expose tax evasion and tax avoidance**

The Australian Government should assist developing country governments in developing effective systems to protect, compensate and reward whistleblowers that expose tax evasion, tax avoidance and other serious corporate crimes. Whistleblowers are vital to exposing corporate crime.

The UN Office on Drugs and Crime have argued: “The value of whistle-blowing cannot be overstated.”<sup>11</sup>

Nyreröd and Spagnolo (2021) found that several governments have followed the example of the US and have adopted reward programs for whistleblowers. They found that the evidence for the effectiveness of reward programs in detecting and deterring corporate crime is significant. Further, they found that common concerns about these programs have not materialised.<sup>12</sup>

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<sup>9</sup> Addis Tax Initiative, ‘Study on Donor Coordination in Domestic Revenue Mobilisation’, (funded by German Ministry for Economic Cooperation and Development (BMZ) and the European Commission), 2019. <https://www.addistaxinitiative.net/sites/default/files/resources/2019-07-ATI-Donor-Coordination-EN.pdf>

<sup>10</sup> ILO, ‘Investing more in universal social protection. Filling the financing gap through domestic resource mobilisation and international support and coordination’, Working Paper 44, January 2022, [https://www.ilo.org/global/publications/working-papers/WCMS\\_834194/lang--en/index.htm](https://www.ilo.org/global/publications/working-papers/WCMS_834194/lang--en/index.htm)

<sup>11</sup> UNODC and Global Resource for Anti-Corruption Education and Youth Empowerment, ‘Knowledge tools for academics and professionals. Module series on Anti-Corruption. Module 6. Detecting and Investigating Corruption’, 17.

<sup>12</sup> T. Nyreröd, and G. Spagnolo, ‘A fresh look at whistleblower rewards’, *Journal of Governance and Regulation*, 2021.