

# **UK aid's contribution to tackling tax avoidance and evasion**

## **Approach Paper**

March 2016

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## 1. Purpose and rationale for review

The purpose of this review is to assess how effectively DFID uses its financial and non-financial instruments to strengthen global efforts to reduce cross-border tax avoidance and tax evasion for the benefit of developing countries.

International companies operating in developing countries have developed sophisticated strategies to avoid paying tax, taking advantage of loopholes in the global financial system. Cross-border tax avoidance and tax evasion deprive developing countries of resources that could be invested in public services and development programmes.

This learning review will explore how DFID uses its influence across the UK government and internationally to address this issue. It will explore commitments made by the UK and other countries at the Third International Conference on Financing for Development to support revenue raising in developing countries' through both domestic and international tax reforms.<sup>1</sup> It is also an opportunity to explore how the UK government ensures policy coherence in an area in which both domestic and developing countries' interests are at stake. Policy coherence is of interest to the International Development Committee<sup>2</sup> and other stakeholders, and falls within ICAI's 'Beyond Aid' theme.

## 2. Type of review

As a **learning review**, the focus is on a new or relatively recent challenge for the UK aid programme. ICAI learning reviews are designed to inform continuing improvement. They are real-time assessments of relatively new and untested areas, offering a snapshot of their efficiency and effectiveness with a view to informing their continuing development. They are oriented primarily towards learning, with a particular focus on the generation and use of evidence. They also examine how well it is translated into relevant and coherent programming.

## 3. Scope

International Tax is a global issue that is attracting growing attention from a wide range of actors (including civil society and regional organisations). Important decisions are being taken in global fora on norms and institutions that affect the interests of developing countries. This is also an area which exposes how the UK government addresses potentially competing priorities between the UK's own economic interests and the international development agenda.

This review will assess DFID's efforts to support international cooperation on International Tax. The review will also inform ICAI's work on Beyond Aid by looking at all aspects of DFID's international policy influence and cross-government collaboration related to tax.

More specifically, the review will question:

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<sup>1</sup> *Addis Ababa Action Agenda*, United Nations Third International Conference on Financing For Development, Addis Ababa, July 2015, para. 22, [link](#).

<sup>2</sup> *The Future of UK Development Co-operation: Phase 2: Beyond Aid*, International Development Committee, Tenth Report of Session 2014-15, January 2015, [link](#).

- How DFID is promoting the voice of developing countries and contributing to the International Tax agenda (and UK government’s compliance towards it) in a way that is benefiting developing countries.
- How DFID is working to build the capacity of developing countries to implement the international standards and practice, such as the Automatic Exchange of Information (AEOI), beneficiary ownership, and Base Erosion Profit Shifting (BEPS) effectively.<sup>3</sup>
- How DFID has worked across government to complement its bilateral tax programmes.

The activities falling within the scope of this review are:

- DFID’s financial support to centrally-managed programmes on International Tax.
- DFID’s participation in International Tax working groups and its contribution to recent international commitments, notably with the Addis tax initiative.
- DFID’s collaboration with other UK government departments on International Tax.
- DFID’s use of ODA to support the work of other UK government departments.
- DFID’s support for learning and research.

The review is focused on DFID’s efforts to support the global response to cross-border tax avoidance and tax evasion as they relate to developing countries. It will also look at the links between DFID’s centrally managed interventions and its bilateral programming on tax.

## 4. Background

International Tax comes under the responsibility of DFID’s Financial Accountability and Anti-Corruption team in the Governance, Open Societies and Anti-Corruption (GOSAC) Department.

There is no single policy and strategic objective covering DFID’s engagement in this arena. DFID’s interventions are guided by a number of G8/G20 communiqués and other UK government action plans and commitments (which DFID has helped to shape).<sup>4</sup>

DFID has boosted its support to the global response to International Tax significantly since 2014, with new commitments totalling £28.7m for 2014-24.<sup>5</sup> DFID’s financial support remains relatively small compared with its bilateral programmes.<sup>6</sup> DFID’s activities, which focus on giving developing countries a voice and enhancing their capacity to respond to the global agenda, are nonetheless

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<sup>3</sup> While falling under the global anti-corruption agenda (notably the G20 Anti-Corruption Working Group), beneficial ownership is a common denominator of international tax evasion/avoidance, corruption and money laundering, which can be defined as the ease with which assets can be transferred to corporate entities whose ultimate beneficiary – or ‘beneficial owner’ – is hidden.

<sup>4</sup> DFID’s tax and PFM Strategic Plan was revised this year to incorporate the UK’s commitment to double its support for technical cooperation in domestic resource mobilisation.

<sup>5</sup> This includes £1m for an extension of the Tax Transparency Programme and three HMRC programmes (£22.9m, £1.8m, and £3m).

<sup>6</sup> By comparison, DFID spends more than £20m a year on bilateral tax programmes, making it one of the largest and most established bilateral donors in this area. (DFID calculations)

intended to fill an important gap. In this arena, DFID goes beyond traditional ODA support to work with other government departments and influence key international processes.

Central to this is DFID's approach to the policy coherence for development agenda. NGOs in particular argue that the international response to the global issues of tax avoidance and tax evasion (which the UK seeks to influence) is not fit for purpose and is insufficient.<sup>7</sup> The International Development Committee has also recently criticised the continued use of tax havens by UK businesses.<sup>8</sup> These two examples (among many) illustrate the potential for conflict between UK domestic interests and the international development agenda, which DFID, working closely with other government departments, is expected to manage.

A detailed overview of DFID's ODA and non-ODA interventions shows the following:

**DFID's financial support to International Tax is centrally managed.** The programmes currently under implementation are:

- Supporting Tax Transparency in Developing Countries (£7m, 2013-17). This programme is central to DFID's contribution to implementing the international agenda and approach to influencing, as it provides funding to key global players, notably the OECD.<sup>9 10</sup>
- DFID's financial support to HMRC, with the HMRC Developing Countries Capacity Building Unit (£22.9m, 2014-24), HMRC specialist experts (£1.8m, 2015-18), HMRC trade facilitation (£3m, 2015-18).

DFID's **influencing agenda** on International Tax can be clustered as follows:

- DFID's contribution to the International Tax agenda (including participation in the OECD Tax and Development Task Force, the Global Forum on Transparency and Exchange of Information for Tax Purposes (the "Global Forum"), the G20 Anti-Corruption Working Group and relevant G8/G20 summits).
- DFID's contribution to strengthening international support for domestic revenue mobilisation in developing countries (including participation in the 2015 Financing for Development Conference in Addis Ababa and Addis Tax Initiative).<sup>11</sup>

DFID's approach to influencing also involves working closely with other UK government departments that have a stake in shaping and implementing International Tax policies.<sup>12</sup> Finally,

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<sup>7</sup> Reports by EURODAD argue that the rhetoric of EU countries concerning tax evasion has not been matched by their actions. European Network on Debt and Development (EURODAD): "Giving with one hand and taking with the other: Europe's role in tax-related capital flight from developing countries 2013", EURODAD, 2013.

<sup>8</sup> The International Development Committee in a 2012 report also identifies potential tensions in this area – for example, pointing out that new UK tax rules exempted UK companies from rules designed to prevent the use of tax havens for their foreign-derived profits. House of Commons IDC, "Tax in Developing Countries: Increasing Resources for Development" 2012, [link](#).

<sup>9</sup> The Tax transparency programme includes support for developing countries to implement AEOI and BEPS.

<sup>10</sup> Previous programmes will also be looked at where appropriate.

<sup>11</sup> Other regional processes and initiatives (notably OECD and EU) will also be looked at.

<sup>12</sup> This includes HM Treasury and HM Revenue and Customs (HMRC).

DFID also provides **support for learning and research**. This includes support to the International Centre for Tax and Development (ICTD) and the International Growth Centre (IGC).

## 5. Review criteria and questions

The review will look at the OECD DAC evaluation criteria of relevance and effectiveness and also address learning. It will consider the following questions and sub-questions:

1. **Relevance:** how relevant is DFID's approach to addressing the global issues of cross-border tax avoidance and tax evasion?
  - a. To what extent is DFID's approach to addressing the global issues of cross-border tax avoidance and tax evasion well-articulated and aligned with DFID's strategic objectives? (*strategic quality*)
  - b. How relevant is DFID's approach to addressing the global issues of cross-border tax avoidance and tax evasion in relation to the needs and challenges of developing countries?<sup>13</sup> (*relevance to developing countries*)
  - c. To what extent is DFID's level of support commensurate with DFID's and/or government's stated ambitions? (*value for money*)
2. **Effectiveness:** how effectively has DFID contributed to addressing the global issues of cross-border tax avoidance and tax evasion in a way that benefits developing countries?
  - a. How effectively has DFID combined its financial and non-financial instruments to influence and follow up on international commitments on International Tax for the benefits of developing countries? (*international influence*)
  - b. How effectively has DFID promoted cross-government working and policy coherence for development on International Tax? (*cross HMG working*)
3. **Use of evidence and learning:** to what extent is DFID generating and applying evidence and learning to support its approach to addressing the global issues of cross-border tax avoidance and tax evasion?
  - a. How effectively is DFID using learning within the organisation (including bilaterally) and across government to determine the most strategic interventions?
  - b. How effectively is DFID using available evidence and addressing gaps in the evidence to support its approach to International Tax?
  - c. How effectively is DFID monitoring the effectiveness of its activities on International Tax?

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<sup>13</sup> This question will also look at the complementarity between DFID interventions and other donors' interventions.

## 6. Core ICAI issues

This review will help build evidence for the following ICAI themes and core issues:

- **Beyond aid:** the UK role in global development issues such as trade; migration; taxation; private sector development; global public goods, and global norms.
- **Coherence and partnerships:** cross- government collaboration; the UK and the multilateral system; global initiatives; and working with civil society.
- **Research, evidence and learning:** innovation; research; collation and dissemination of evidence; evaluation and learning.

This review will put particular emphasis on the coherence between the UK's international development agenda and its domestic policy interests. According to the OECD Development Co-operation 2014 UK Peer Review, the UK takes a useful approach to **policy coherence**, bringing together different parts of government to work effectively on selected issues of common interest (including anti-corruption). According to the review however, conflicts between policy objectives are not addressed in a systematic manner.<sup>14</sup> This review provides an opportunity to explore how the various trade-offs are managed.

## 7. Existing evidence

There is a substantial and rapidly growing body of literature in this area. It includes research commissioned by DFID, policy briefs and analysis produced by international organisations and donor agencies (OECD, IMF, World Bank, USAID, UNCTAD), global and regional think-tanks, NGOs and academia. Press articles could also provide some useful evidence in particular cases.

Quantitative assessments on the scale and impact of tax avoidance, tax evasion and other forms of illicit financial flows are controversial and disputed. They vary greatly from one source to another, depending on the definition and methodology used. Pascal Saint-Amans, Director of the OECD's Centre for Tax Policy and Administration, has claimed that "plenty of people are very good at coming up with figures which are all fake, so we don't do that. But we say there is an issue."<sup>15</sup> The lack of quantitative data constitutes a limitation not only to this review, but also more broadly to the international response.

## 8. Overview of methodology

The methodology for this review will involve two main elements:

- i) An assessment of DFID's centrally managed programmes and non-spending activities across two thematic clusters (see table below). This will include assessing DFID's engagement with particular international processes and its work with other UK government departments. We will assess the effectiveness of these programmes and activities against DFID's objectives (review question 2). We will also assess internal coherence (question 1.a), value for money (question 1.c), quality of cross-government working and policy coherence (question 2.b), and use of evidence and learning (question

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<sup>14</sup> OECD Development Co-operation UK Peer Review, 2014.

<sup>15</sup> Andrew Goodall, "Analysis: OECD aims to fix corporate taxes within two years," *Accountancy Age*, 2013, [link](#).

- 3). This assessment will involve a number of analytical approaches, including theory of change analysis, stakeholder analysis, process mapping and contribution analysis.
- ii) A number of geographical case studies that will examine DFID’s programmes and activities from the perspective of particular countries or regions. These case studies will involve analysis of the country or regional context and will enable us to incorporate developing country perspectives. This will be used to assess relevance to developing country needs (review question 1.b), and provide additional information on the coherence of DFID’s centrally managed programmes with its bilateral support for domestic revenue raising (question 1.c).

| Thematic clusters  | List of ODA and non-ODA interventions   |
|--|---|
| DFID’s contribution to the International Tax agenda  | <p>DFID’s participation in relevant G8/G20 summits, the G20 AC working group, the OECD Tax and Development Task Force and the Global Forum.</p> <p>DFID’s participation in UK international tax agreements.</p> <p>DFID’s participation in Financing for Development Conference in Addis Ababa and the Addis Tax Initiative.</p> <p>DFID support to relevant learning and research.</p> |
| DFID’s centrally managed contribution to strengthening tax policy and administration in developing countries | <p>Supporting Tax Transparency in developing countries and relevant previous interventions.</p> <p>DFID’s support to HMRC.</p> <p>DFID support to relevant learning and research.</p>   |

The relatively narrow scope of this review means that there will be no need for a sampling strategy: all aspects of **DFID centrally managed financial and non-financial programmes** mentioned in section 4 will be examined.<sup>16</sup>

Within each cluster, we will review the full range of DFID and UK government activities, using two main data sources:

- Documentation: including DFID commissioned reports, DFID programme documents and (especially for non-ODA intervention), minutes from meetings, back to office reports, and email correspondence. Non-DFID sources will include documents produced by other government departments, implementing partners, documents related to the selected geographical case studies, and other documents from academia, NGOs, media etc. used in the literature review.
- Key stakeholders: including DFID, other departments, DFID implementing partners (including the OECD), donors, international and southern NGOs, the private sector, academia, and selected stakeholders from DFID partner countries (including government, tax revenue authorities, and other donors). Different forms of consultations will be used

<sup>16</sup> While recognising that DFID’s bilateral efforts to strengthening tax systems in priority countries contribute to fighting cross-border tax avoidance and tax evasion, this learning review specifically focuses on interventions that were designed to support the global agenda on international tax.



to collect views from stakeholders, including individual interviews,<sup>17</sup> a roundtable with UK-based NGOs and the private sector,<sup>18</sup> and a short survey aimed at DFID tax lead advisers.<sup>19</sup> The roundtable discussion with UK-based NGOs will capture NGO's participation in some OECD-led processes (such as the multi-stakeholder Task Force on Tax and Development) and advocacy on International Tax. The roundtable discussion with the private sector will capture the response by multinationals to International Tax standards and regulations with which they need to comply.

The following analytical approaches will be used to inform our findings:

1. Theory of Change analysis: the theories of change guiding DFID's support to International Tax will be extracted from DFID documentation. Complementary aspects of DFID work, implicitly or explicitly captured in those programmes, such as policy dialogue and cross-government working, will also be analysed. Based on detailed discussions with DFID and the findings of the literature review, we will analyse these theories of change to determine the extent to which the key assumptions have been made explicit, highlighting any gaps or inconsistencies.
2. A stakeholder analysis will be carried out to characterise DFID's partnership with other government departments and inform the review findings on cross-government working. This will include a mapping of UK government positions on international processes related to cross-border tax avoidance and tax evasion, and their coherence with DFID's policy objectives. An in-depth review of the working relations between DFID and other government departments will also be undertaken.
3. Process mapping: international processes will be mapped out and analysed using a series of timelines to identify sequencing, identify DFID's entry points and analyse the main outputs. A framework will be developed to collect data relating to DFID's approach to influencing. This will cover its choice of issues (what), its activities and inputs (how), the timeline of events (when), the choice of partners (who) and the links with developing countries (where).
4. Contribution analysis: to assess DFID's contribution to international processes and cross-government working, this review will use a mix of tools, including: sequencing (e.g. time correlation between DFID activities and decision-making), strategic consistency (e.g. clarity and consistency of policy engagement), quality of dialogue (e.g. frequency, inclusiveness), interactions (e.g. convergence/divergence of views), and counterfactual considerations.<sup>20</sup>

To deepen the analysis, we will also examine DFID's International Tax activities from the country and regional perspectives, by undertaking a small number of **geographical case**

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<sup>17</sup> A short trip to Paris will be organised to meet with the OECD.

<sup>18</sup> We will also invite written submissions from NGOs and their southern partners.

<sup>19</sup> This survey will be used to explore the links between DFID's centrally-managed and in-country support from programming to learning.

<sup>20</sup> Similar contribution analysis tools are used in OECD DAC guidelines for budget support evaluation – van der Linde and Valmarana, 2013, [link](#).

**studies.**<sup>21</sup> These will provide us with contextual analysis and incorporate developing country perspectives into the review. The geographical case studies will also explore whether DFID centrally managed programmes and its bilateral support for tax administrations are mutually reinforcing.<sup>22</sup>

The case studies will be selected using the following criteria: (i) evidence of direct support from the centrally-managed programmes;<sup>23</sup> (ii) scale and impact of the issues and existence of relevant policy and/or initiatives in the country / region concerned; (iii) level of participation and representation in international fora; (iii) the existence of DFID bilateral programmes on tax revenue. The case studies will be prepared using documentary review and telephone interviews with stakeholders.

This review will include a **literature review** on (i) the scale and impact of tax evasion and avoidance on developing countries; (ii) international response to tackle the global issues of cross-border tax avoidance and tax evasion, identifying their outcomes and limitations; (iii) the level of progress by signatory countries (including the UK) towards the agreed international commitments. An annotated bibliography looking at the analysis by southern organisations will also be produced, to help with understanding developing country perspectives.

## 9. Limitations to the methodology

As a learning review, this methodology is only designed to probe the early part of the results chain. The global issues of cross-border tax avoidance and tax evasion remain a relatively new area of engagement for DFID. Few programmes have reached maturity or completion, while others, such as the work of the International Corruption Unit, focus on specific corruption cases. The methodology will therefore not attempt to generate data on the impact and sustainability of DFID interventions (through cross-WH and influencing) on the levels of tax evasion, or on growth and development prospects in developing countries.

## 10. Ethical considerations

Our role is to ensure that UK aid is spent effectively for those who need it the most. In future it will be essential that our approach and methodology invest sufficient time and effort in collecting the views of stakeholders from developing countries. As conducting field visits is not a cost-effective option for this review, we will rely on other data collection methods, as described in the risk management section.

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<sup>21</sup> The review currently envisages carrying out three to four geographical (country or regional) case studies. The choice and exact number of these case studies will be determined at a later stage.

<sup>22</sup> The review will explore the links with DFID bilateral programmes but, in the absence of field visits, will not form any independent conclusions about their performance.

<sup>23</sup> Countries with a DFID bilateral tax programme that have benefited from other centrally-managed interventions include Ghana and Kenya, which receive support from the Global Forum as a pilot exercise to implement the AEOI, and HMRC beneficiary countries, including Ghana, Rwanda, Pakistan, South Africa, Tanzania, Ethiopia.

## 11. Research tools

The following research tools will be developed to support the delivery of this methodology:

1. Terms of Reference for the literature review.
2. A programme review template, setting out the information to be extracted from each programme to respond to the review questions.
3. Interview guides, setting out key questions for each category of stakeholders, using the review framework to identify issues to raise with each.
4. A questionnaire for DFID governance advisers.

## 12. Quality assurance and peer review

This review will be carried out under the guidance of ICAI Lead Commissioner, Richard Gledhill. The Review Manager in ICAI is Miriam McCarthy.

This review will be peer reviewed externally at three points: an initial assessment of the methodology, which has been incorporated into this approach paper; emerging findings, and draft report. The peer reviewer is Professor Odd Helge Fjeldstad, Senior Researcher at the Chr. Michelsen Institute in Norway, Extraordinary Professor for the African Tax Institute, at the University of Pretoria, and Research Director at International Centre for Tax and Development. The Service Provider will provide copies of the methodology and draft report to the peer reviewer. All formal outputs from the review will be checked by the Technical Director against the methodology and the principles and standards set out in the ICAI Handbook, before submission to ICAI.

## 13. Risk management

The main risks to the successful delivery of the review and how they will be mitigated and managed are summarised in the table below:

| Risk  | Mitigation and management actions   |
|---|---|
| <p>The review fails to isolate DFID's international influence in global processes, and fails to generate strong evidence on DFID's influence and cross-government working</p> | <p>With DFID being only one of many actors and considering its relatively modest financial contribution, there is a risk that the review fails to isolate DFID's influence in global processes. With attribution an issue, isolating and clearly identifying DFID's influence on the International Tax agenda comes with a methodological challenge.</p> <p>We expect that data gaps may limit our ability to draw conclusions in some areas, but will also provide recommendations for further work and research (see section 8).</p> <p>DFID's non-ODA work is not subject to regular monitoring as DFID's ODA work is with the production of annual reports. As a result, evidence on DFID's influence will rely principally on the views of a handful of present and former DFID advisers and their main partner organisations, and, when they exist, minutes from meetings, email correspondence, and communiqués.</p> <p>It is not expected that all processes reviewed in this study will generate the same level and quality of evidence. A preliminary overview of available documents indicates that processes involving cross-</p> |

| Risk  | Mitigation and management actions  |
|---|--|
|   | <p>departmental coordination are generally better documented than those single-handedly led by DFID.</p> <p>The number of processes reviewed as part of this study should nonetheless be varied enough to generate sufficiently robust findings on DFID's effective influencing and ways of working, to inform learning and continuing improvement.</p> <p>Early communication with DFID will be sought to discuss ways forward, should collecting evidence involving the work of other Government departments remain an issue.</p>  |
| <p>The review fails to generate credible findings on the relevance of DFID's work in developing countries due to the lack of credible quantitative data on cross-border tax avoidance and tax evasion</p> | <p>As part of the literature review, the review will look at the available estimates on the scale and impact of cross-border tax avoidance and tax evasion. These estimates – which are criticised for their lack of robustness – will only be used as reference.</p> <p>To inform its analysis, the review will use domestic data on tax and anti-corruption from credible sources as part of its regional case studies.</p> <p>Qualitative data (including stakeholders' perceptions) will also inform the relevance questions.</p>  |
| <p>The review does not sufficiently capture the views of developing countries</p>   | <p>In the absence of field visits, the review will rely on other data collection tools to capture the voice of developing countries. As explained in section 11, this review will rely on an extensive triangulation process, using secondary sources, case studies, and selected interviews to capture the views of developing countries.</p> <p>Our methodology will combine desk-based regional and geographical case studies, consultations with UK-based NGOs and (remotely) their partner organisations in the south. It will also include a targeted literature review (focusing on the work of southern organisations), an invitation for written statements from academics / civil society from the south, and phone interviews with key stakeholders from the selected regional and geographical case studies.</p> |

## 14. Timeline and deliverables

| Key stages and deliverables          | Indicative timeline |
|--------------------------------------|---------------------|
| Inception phase                      | Nov - Dec 2015      |
| Desk research and programme analysis | Jan – Feb 2016      |
| Stakeholders consultation            | Feb – Mar 2016      |
| Analysis and emerging findings       | Mar - Apr 2016      |
| Reporting                            | Apr – May 2016      |
| Fact checking by DFID                | May - June 2016     |
| Publication and dissemination        | June – July 2016    |

## Annex 1: Review Framework

| Evaluation criteria, question/sub-question   | Evidence required   | Applicable component and activities  | Analytical approach  |
|--|---|--|--|
| <b>Relevance:</b> how coherent and relevant is DFID's approach to the global issues of cross-border tax avoidance and tax evasion?   |   |  |  |
| <p><i>(strategic quality)</i> To what extent is DFID's approach to addressing the global issues of cross-border tax avoidance and tax evasion well-articulated and aligned with DFID's strategic objectives?</p> | <ul style="list-style-type: none"> <li>▪ Extent to which DFID's ODA and non-ODA activities individually and collectively follow a coherent approach.</li> <li>▪ Extent to which DFID's approach to International Tax is coherent with DFID's broader strategic objectives (PFM and Tax) and UK policy commitments.</li> <li>▪ Extent to which links between DFID centrally managed and bilateral programmes exist.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Review of ODA and non-ODA interventions and theory of change analysis, to capture DFID's range of objectives, identify gaps, areas of inconsistency, synergies and links and make all assumptions explicit.</li> <li>▪ Review of ODA and non-ODA interventions and theory of change analysis to assess the coherence of DFID's interventions with DFID's broader strategic objectives and UK policy commitments.</li> <li>▪ Case studies to explore the existing and potential links between centrally managed and bilateral programmes.</li> <li>▪ Interviews with key informants (mostly DFID) and survey with DFID governance advisers to inform and consolidate the above.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Link DFID support to DFID's broader strategic objectives and UK policy commitments.</li> <li>▪ Identify complementarity (and potential gaps or inconsistencies) across centrally managed programmes.</li> <li>▪ Assess adequacy of links between centrally managed and bilateral programmes.</li> </ul> |
| <p><i>(relevance to developing countries)</i> How relevant is DFID's approach to International Tax in relation to the needs and challenges of developing countries?</p>  | <ul style="list-style-type: none"> <li>▪ Extent to which the global issues of cross-border tax avoidance and tax evasion pose a threat to DFID priority countries.</li> <li>▪ Extent to which the international responses to the global issues which DFID supports, respond to the specific</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Literature review, with quantitative and qualitative analysis, to assess the scale and impact of cross-border tax avoidance and tax evasion on developing countries.</li> <li>▪ Literature review, with process mapping and analysis, to look at the limitations of the global initiatives.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Contextualise the global issues of cross-border tax avoidance and tax evasion in relation to the needs, capacity and policy frameworks of developing countries.</li> <li>▪ Identify the main limitations of the global and regional initiatives in responding to</li> </ul>                             |

| Evaluation criteria, question/sub-question   | Evidence required  | Applicable component and activities   | Analytical approach   |
|--|--|---|---|
|  | <p>needs and challenges faced by developing countries.</p> <ul style="list-style-type: none"> <li>▪ Extent to which DFID's ODA and non-ODA support (including through choice of partners and initiatives) seek to address the needs and capacity of developing countries.</li> <li>▪ Extent to which DFID has coordinated its work with other donors.</li> <li>▪ Extent to which opportunities for further funding exist and could be taken on by DFID.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Literature review, with donor mapping, to assess DFID's level of support in relation to other donors.</li> <li>▪ Case studies to assess the scale and impact of the issues in specific countries or regions, the adequacy and quality of their policies and the level of support they specifically receive from donors, including DFID.</li> <li>▪ Review of DFID ODA and non-ODA interventions to identify and analyse DFID's entry points to promoting the voice of developing countries in international fora, and enhancing their capacity to respond to the global issues.</li> <li>▪ NGO roundtable, stakeholders' consultations (including with implementing partners) and survey with DFID governance advisers to inform and consolidate the above.</li> </ul> | <p>the needs, capacity and policy frameworks of developing countries.</p> <ul style="list-style-type: none"> <li>▪ Assess the relevance (inc. scale of response) of DFID's approach to promoting the voice and participation of developing countries in the global and regional initiatives (inc.. through choice of partners).</li> <li>▪ Assess the relevance (inc. scale of response) of DFID's approach to building the capacity of developing countries to address global issues.</li> </ul> |
| <p><i>(value for money)</i> To what extent is DFID's level of support commensurate with DFID's and/or government's stated ambitions?</p> | <ul style="list-style-type: none"> <li>▪ Extent to which DFID's level of financial and non-financial support is sufficient to match DFID's ambitions (notable influencing).</li> <li>▪ Extent to which DFID's level of financial and non-financial support is sufficient to match governments stated ambitions (including UK existing policy commitments).</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Review of non-ODA interventions (which are not costed, but absorb potentially significant time from DFID's advisers) to assess the level of DFID support that is not part of a project.</li> <li>▪ Case studies and stakeholders consultations (including with implementing partners) to assess potential funding gaps in this field.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Assess DFID's resource allocation decisions.</li> <li>▪ Assess DFID's level of support and (perceived) comparative advantage in relation to other doors.</li> </ul>  |

| Evaluation criteria, question/sub-question   | Evidence required  | Applicable component and activities   | Analytical approach  |
|--|--|---|--|
| <b>Effectiveness:</b> How effectively has DFID's contributed to addressing the global issues of cross-border tax avoidance and tax evasion in a way that benefits developing countries?  |  |   |  |
| <i>(international influence)</i> How effectively has DFID combined its financial and non-financial instruments to influence and follow up on international commitments on International Tax in a way that benefits developing countries? | <ul style="list-style-type: none"> <li>▪ Extent to which DFID's support has contributed to shaping new international commitments in a way that benefits developing countries.</li> <li>▪ Extent to which DFID's ODA and non-ODA support has effectively addressed the specific needs and challenges of developing countries.</li> <li>▪ Extent to which DFID has supported progress towards international commitments, including from the UK, through monitoring and follow-up actions.</li> <li>▪ Extent to which DFID's ODA and non-ODA interventions have reinforced each other.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Literature review, with donor mapping and overview of progress towards commitments, to look at the outputs of all relevant global initiatives.</li> <li>▪ Review of ODA and non-ODA interventions, to capture DFID's contribution to international commitments (incl. through influencing and cross WH).</li> <li>▪ Review of ODA and non-ODA interventions to assess the effectiveness of DFID's support to promoting the voice and building the capacity of developing countries.</li> <li>▪ NGO and private sector roundtable, stakeholders consultation (including with DFID's main implementing partners and other agencies and donors) to inform and consolidate the above.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Identify DFID's main successes and failures in contributing to international initiatives and processes.</li> <li>▪ Assess the quality of partnership between DFID and other key partners (implementing partners, G8/G20 presidencies).</li> <li>▪ Assess the effectiveness of DFID's approach to promoting the voice and participation of developing countries in the global and regional initiatives (including through choice of partners).</li> <li>▪ Identify DFID's main strengths / comparative advantage vis-à-vis other donor agencies in its approach to influencing.</li> </ul> |
| <i>(cross-HMG working)</i> How effectively has DFID promoted cross-HMG working and policy coherence for development on International Tax?  | <ul style="list-style-type: none"> <li>▪ Extent to which DFID has used its influence to shape and follow up on UK policy commitments.</li> <li>▪ Extent to which potential policy trade-offs have been identified and addressed.</li> <li>▪ Extent to which DFID has been supporting and coordinating interventions across WH effectively.</li> <li>▪ Extent to which cross-WH has added value to DFID's support.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Cross-HMG working analysis, with stakeholders mapping, to characterise and assess the quality DFID's partnerships with other HMG departments and identify the main potential policy trade-offs.</li> <li>▪ Review of DFID ODA and non-ODA interventions to analyse the different processes in place to support effective cross-WH working.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Identify DFID's main successes and failures in shaping UK policy.</li> <li>▪ Assess the seriousness of trade-offs between DFID mandate and other UK policy objectives and how those are being addressed.</li> <li>▪ Assess partnership working between DFID and other HMG departments.</li> </ul>   |

| Evaluation criteria, question/sub-question  | Evidence required  | Applicable component and activities  | Analytical approach  |
|---|--|--|--|
|   |  | <ul style="list-style-type: none"> <li>▪ Review of DFID ODA and non-ODA interventions to capture DFID's contribution to shaping UK position.</li> <li>▪ Literature review and case studies to illustrate the impact of relevant UK domestic policies on developing countries.</li> <li>▪ NGO and private sector roundtable, Interviews with other key informants (including donors) to inform and consolidate the above.</li> </ul>        |  |
| <p><b>Use of evidence and learning:</b> to what extent is DFID generating and applying evidence and learning to support its approach to addressing the global issues of cross-border tax avoidance and tax evasion?</p> |  |  |  |
| <p>How effectively is DFID using learning within DFID (including bilaterally) and across WH to determine the most strategic interventions?</p>  | <ul style="list-style-type: none"> <li>▪ Extent to which knowledge management within DFID and across WH is effective.</li> <li>▪ Extent to which DFID's cross-WH and international activities are informed by DFID bilateral programme.</li> <li>▪ Extent to which DFID's cross-WH and international activities inform DFID bilateral programmes.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Stakeholders consultation (including across WH) to map out the knowledge management systems (formal and informal) in place within DFID (centrally and bilaterally) and across WH.</li> <li>▪ Case studies to explore links between DFID centrally managed and bilateral programmes.</li> <li>▪ Documentation review and survey with DFID governance advisers to consolidate the above.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Analyse frequency and quality of learning opportunities within DFID (including bilaterally) and across WH.</li> <li>▪ Make the link between DFID's approach and lessons and recommendations from past evaluations.</li> </ul> |
| <p>How effectively is DFID using available evidence and addressing gaps in the evidence to support its approach to international tax?</p>   | <ul style="list-style-type: none"> <li>▪ Extent to which DFID ODA and non-ODA programming is informed by available research and sufficient evidence.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Literature review, using a grading system, to identify research gaps and assess the quality of research available.</li> <li>▪ Documentation review and stakeholders consultation to assess the quality of research supported by DFID.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Critical analysis of the strength of evidence used by DFID.</li> <li>▪ Critical analysis of the level of DFID support invested in research.</li> </ul>  |



| Evaluation criteria, question/sub-question   | Evidence required  | Applicable component and activities  | Analytical approach   |
|--|--|--|---|
|  | <ul style="list-style-type: none"> <li>▪ Extent to which DFID effectively supports relevant and good quality research.</li> <li>▪ Extent to which the empirical evidence supporting DFID ODA and non-ODA programming is strong.</li> </ul> | <ul style="list-style-type: none"> <li>▪ DFID ODA and non-ODA documentation review, with a referencing tool, to identify the research and evaluation used.</li> <li>▪ Stakeholders' consultation (including with NGOs and the private sector) and survey with DFID governance advisers to consolidate the above.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Critical review of the research organisations supported by DFID (coverage and quality of their output).</li> <li>▪ Consolidate findings and feedbacks on the quality of research available.</li> </ul> |
| How effectively is DFID monitoring the effectiveness of its activities to support its approach to international tax? | <ul style="list-style-type: none"> <li>▪ Extent to which DFID adequately monitors its activities.</li> <li>▪ Extent to which DFID adequately measures and monitors results (intermediary and final).</li> </ul>                            | <ul style="list-style-type: none"> <li>▪ DFID non-ODA documentation, using process mapping and 4W+ analysis, to identify the level and quality of monitoring non-ODA activities.</li> <li>▪ DFID ODA documentation review, using theory of change analysis, to look at the completeness of the logframe and the quality of their indicators (robustness, realism, practicality, timescale, quality, costs, frequency, mix).</li> </ul> | <ul style="list-style-type: none"> <li>▪ Review guidance on monitoring within DFID.</li> <li>▪ Identify innovative approaches.</li> <li>▪ Qualify robustness and usefulness of monitoring.</li> </ul>   |

## Annex 2: Glossary of definitions

**1) Tax avoidance** involves bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce this advantage. It involves operating within the letter – but not the spirit – of the law. [...]

Tax planning involves using tax reliefs for the purpose for which they were intended, for example, claiming tax relief on capital investment, or saving via ISAs or for retirement by making contributions to a pension scheme. However, tax reliefs can be used excessively or aggressively by others than those intended to benefit from them or in ways that clearly go beyond the intention of Parliament.<sup>24</sup>

These definitions become less clear-cut at the global level (when countries' tax systems interact), and a glossary produced by the OECD, whose remit focuses on international tax describes tax avoidance and evasion as "hard to define."<sup>25</sup>

The OECD has developed the term **Base Erosion and Profit Shifting (BEPS)**, as "tax planning strategies that exploit...gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid." The OECD observes that "BEPS is of major significance for developing countries due to their heavy reliance on corporate income tax, particularly from multinational enterprises (MNEs)."<sup>26</sup>

The OECD/G20 BEPS Project (which DFID supports) provides governments with solutions for modernising international tax rules. Two of the main focuses of the BEPS projects have been **tax treaty shopping** and **transfer pricing**. HMRC explains treaty shopping as "Taking advantage of the network of double taxation agreements [between countries] to obtain a more advantageous position than the facts warrant."<sup>27</sup> Transfer pricing is the system through which multinational firms' taxable profits are allocated between the different countries in which they operate. According to the OECD: "A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing [which can be considered as a form of tax evasion] occurs when income and expenses are improperly allocated for the purpose of reducing taxable income."<sup>28</sup>

**2) Tax evasion** is always illegal. It is when people or businesses deliberately do not declare and account for the taxes that they owe. It includes the hidden economy, where people conceal their presence or taxable sources of income.<sup>29</sup>

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<sup>24</sup> *Tackling tax evasion and avoidance*, HM Treasury and HM Revenue & Customs, 2015, box 1.A, [link](#).

<sup>25</sup> *Glossary of Tax Terms*, OECD, [link](#).

<sup>26</sup> *About Base Erosion and Profit Shifting (BEPS)*, OECD, [link](#).

<sup>27</sup> *International Financial Glossary*, HM Revenue & Customs, [link](#).

<sup>28</sup> *Glossary of Tax Terms*, OECD, [link](#).

<sup>29</sup> *Tackling tax evasion and avoidance*, HM Treasury and HM Revenue & Customs, 2015, box 1.A, [link](#).

International efforts to tackle tax evasion have generally focused on promoting **tax transparency** and encouraging the **exchange of tax information** between tax authorities, to help them discover taxpayers' undisclosed income in other jurisdictions.

Tax transparency was a key feature of the G20 Summits in Washington, London and Pittsburgh. In London, the G20 leaders stated that:

*"We agree to take action against non-cooperative jurisdictions, including **tax havens**. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information."<sup>30</sup>*

Tax evasion entails practice such as **trade mis-invoicing** and transfer mis-pricing. **Trade mis-invoicing** is a method for moving money illicitly across borders, which involves deliberately misreporting the value of a commercial transaction on an invoice submitted to customs.<sup>31</sup> Transfer pricing by itself does not necessarily involve abusive tax avoidance and/or tax evasion, unless the pricing does not accord with applicable norms internationally or at domestic law.<sup>32</sup>

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<sup>30</sup> *Promoting Transparency and Exchange of Information for Tax Purposes*, OECD, January 2010, [link](#).

<sup>31</sup> *Trade Misinvoicing*, Global Financial Integrity, [link](#).

<sup>32</sup> *Practical Manual on Transfer Pricing for Developing Countries*, United Nations Department of Economic & Social Affairs, New York, 2013, para. 1.1.7, [link](#).



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