Bureau of the Committee on Fiscal Affairs

NON-OECD ECONOMIES AND THE CFA: A DISCUSSION PAPER

25th October 2001

This paper is a preliminary draft submitted for comments to the members of the Board for Co-operation with non-OECD Economies.

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# NON-OECD ECONOMIES AND THE CFA: A DISCUSSION PAPER

## PROCEDURE AND EXECUTIVE SUMMARY

This paper is a preliminary draft submitted for comments to the members of the Board on Co-operation with non-OECD Economies. Please provide suggestions for amendments by 12 October 2001.

### Procedure:
- A revised draft will be submitted to the Board’s meeting on 25 October 2001 for discussion.
- This will be further discussed and the conclusions of the Board reported to the CFA Bureau at their meeting of 26 October.
- The issues involved will be discussed at Working Party meetings as these take place.
- A revised draft will be circulated to the CFA in December and the Board will then prepare a final draft for submission to the January CFA.

### Summary of issues
This paper summarises the CFA responses to the increased pressures of globalisation and describes developments outside the CFA – in particular the UN proposal for an International Tax Organisation and the IMF’s initiative with respect to a global tax network;

- discusses how the CFA should position itself in the light of these events and recommends that the CFA:
  1) support the IMF/World Bank proposal to set up a steering group composed of the IMF, World Bank, UN and OECD.
  2) support the “post-Montreal group” (known at present as the Council of International Tax Organisations).
  3) encourage the application for observership from key NOEs
  4) mandate the working parties to continue their consideration of strategies for the involvement of NOEs in working groups
  5) maintain the role of the Global Forum on Taxation as an umbrella for discussion on issues relevant to NOEs and develop a role for NOEs on the Advisory Board in respect of issues relating to the Global Forum.

### Annexes
Annexes 1-4 contain information in respect of the existing proposals for enhanced international co-operation on tax(1); the IMF/World Bank initiative for building a global tax network (2); the UN Facilitator’s paper on draft outcomes (3); and finally the proposal which led to the creation of CITO (4).
A. Purpose of the paper

1. The increasing pace and impact of globalisation has intensified the economic interaction between developed and developing countries. As economic systems become more global so do the problems facing tax policy makers and administrators. The national challenge posed by the need to provide a fiscal environment that is conducive to investment flows while securing a broad tax base can only be met by co-operation on an international level. OECD and non-OECD economies (NOEs) therefore have a strong mutual interest in developing a common framework to discuss and deal with international tax issues, and dealing with conflicts over a fair sharing of tax revenues. The key strategic challenge for the CFA is how to act pro-actively to develop and extend the partnership with NOEs and other international organisations in the global mutual interest without compromising the position of the OECD, its members and standards, or sacrificing cost efficiency in respect of the work programme. The CFA does not need to develop this global dialogue alone, however, and this paper discusses external as well as internal CFA initiatives and how the CFA might position itself within the global debate.

2. It should be noted at the outset that while this discussion does not specifically focus on the Harmful Tax Practices project, this project is a critical factor in shaping the external climate. The project has encouraged the UN and other international organisations to develop their own strategies for the development of the global tax dialogue, and challenges the CFA to explore how to take the debate forward on a co-operative basis. At the recent Global Forum meeting on the Harmful Tax Practices project it was made very clear that even those NOEs which shared the concern at the spread of harmful tax practices were reluctant to associate themselves with the project unless the OECD could offer a true partnership.

3. The June CFA meeting discussed some of the strategic issues involved in the developing association of NOEs with the work of the CFA (see DAFFE/CFA(2001)59/CONF). Following this discussion the CFA decided that the Board for Co-operation with Non-OECD Economies should consider this issue further and prepare a further paper for consideration and discussion at the next CFA meeting in January 2002. This paper is drawn up in accordance with that instruction.

4. This paper

- describes the initiatives so far taken by the CFA and the OECD and provides some examples of current interaction with NOEs;
- discusses the recent external developments including the new proposals emanating from the UN Financing for Development initiative on the one hand and the IMF/World Bank on the other and
- describes the increasing convergence of views and suggests possible directions for the development of the CFA’s strategic policy in respect of both internal and external developments.

B. The current relationship between the CFA and NOEs

5. Three recent developments internal to the OECD provide the infrastructural framework for the development of relations with NOEs: -

- the creation of nine Global Fora including one on Taxation by the OECD Committee for Co-operation with Non-Members (CCNM);
- the creation of a Board for Co-operation with Non-OECD Economies (BCNOE); and
- the creation of a Centre on Tax Policy and Administration within the OECD Secretariat.

3
6. The Global Forum on Taxation provides a framework within which dialogue can take place on key issues of relevance to OECD countries and NOEs. The specific role of the GFT is still to be clearly defined but it offers a possible context for the discussion of global tax issues. As suggested above, however, the impact of the harmful tax practices project has meant that some NOEs consider that the GFT alone, and as currently constituted, cannot provide adequate representation of their interests.

7. The creation of the BCNOE as an advisory body to the CFA provides a means of developing a strategic approach to the challenges currently facing the CFA as well as performing a specific role in directly managing the relationship between the CFA and NOEs. This dual role is now of major significance.

8. Finally, the creation of the Centre for Tax Policy and Administration within the OECD allows for considerably greater opportunities for horizontal planning in the NOE context and the organisation of assistance.

9. It is important to recognise that the CFA has a long history of associating NOEs with its work and has not stood still on this issue. But this is a dynamic process and the CFA approach needs to continue to evolve in the face of current challenges. The following section summarises the flexible approach currently taken by the CFA to associating NOEs with its work programme.

C. Three examples of the current CFA approach

10. The following are examples of where NOE have been involved in the policy process to a greater or lesser degree, which has contributed to the development of guidelines and best practices. Co-operation and discussion has been most significant in a) and least in c).

a) E-Commerce

11. The model of CFA co-operation with NOEs, which involves a significant degree of participation, can be found in the e-commerce area. E-commerce has been an issue of global significance from the outset and the CFA has formulated responses in a process of extended dialogue that involves NOEs. The issue was discussed at the Ottawa conference (1998) and again at the Montreal conference in 2001 attended by approximately 100 countries. The OECD and the Canadian Revenue Agency co-organised this event in co-operation with a number of international tax organisations (CIAT, CATA, CREDAF and IOTA) and a proposal was made (see below for more details) to continue this steering committee as a Council of International Tax Organisations (CITO). Participation by NOEs has also been encouraged through the operation of technical advisory groups (TAGs) which have included both NOE and business representation, and which have advised Working Party 9 on key issues.

b) Tax Treaties

12. This area has benefited from some participation by NOEs but participation has been less comprehensive than in respect of e-commerce. NOEs have not been involved in the drafting of the model itself but are invited to indicate where they are prepared to support the model and are encouraged to state their position on the model. 17 countries have done this to date. Annual meetings are also held in Paris where approximately 50 NOEs are invited to discuss and participate in debates over current treaty issues.
c) Harmful Tax Practices

13. This project is of global significance and was divided at the outset into member country, tax haven and non-OECD country components. Although there was some initial discussion with NOEs on a regional basis, the actual criteria, procedure and listing process were established by the primarily by the CFA. NOEs were also invited to a meeting at Bercy in 2000 and to a Global Forum on the issue in September 2001 but there is nor direct linkage into the policy process.

14. These three examples indicate that where NOEs have been involved at an early stage in the policy making process, this has enhanced the CFA’s role in setting international guidelines and developing best practices. The CFA may wish to consider how this may be achieved in future as well as the constraints on this involvement.

D Pressures for a Global Tax Dialogue

15. The issue of global dialogue on tax matters has come under increased scrutiny in the last twelve months as a number of significant and related elements have had an impact on the context and urgency of thinking on the issue. These factors make it more critical that the CFA formulate a comprehensive and pro-active strategy to integrate itself within developments both outside and within the OECD in order to continue to achieve its overall goals.

16. These significant elements are

- The current state of the harmful tax practices project and the political ramifications of this project
- The UN Financing for Development initiative, and in particular the Secretary-General, Kofi Anan’s proposal for the establishment of an International Tax Organisation, and the subsequent reports on this issue including the draft outcome report by the facilitator of the Monterrey Conference.
- The IMF/World Bank proposal for a global tax steering group and network.
- The “Post-Montreal” group set up by the regional/international tax organisations.

1) The harmful tax practices project.

17. The project, and particularly the tax haven aspect, has contributed to giving the work of the CFA a global profile. It has also spurred some offshore jurisdictions and at least one major NOE into pressing in the UN and other organisations for a voice in the development of global tax policy, or at the very least a common forum for co-operation and the discussion of significant issues. It has also been understood from the start that the harmful tax project requires significant co-operation from NOEs to achieve its objectives, a point that was reiterated in the 2000 report (par. 28).

2) Financing for Development

18. The Secretary-General of the UN reported on the Financing for Development initiative (December 2000). That Report identified the enhancement of revenue raising capacity as one of the key components of the strategy. For this and subsequent discussions see www.un.org/esa/ffd. Box 1 details the initial proposals: -
Box 1: Proposals by the UN Secretary-General related to the establishment of an international tax organisation

Countries should consider the formulation of a medium-term fiscal framework to provide a measure of predictability for public spending programmes and to set out clear goals for mobilisation of tax and non-tax revenues and the profile of public assets and liabilities, including contingent liabilities. International institutions should be ready to assist countries in developing such a framework and all donor partners should take it into account in providing assistance to those countries.

Countries should strive to develop progressive taxation systems and to endeavour to ensure that the process of adopting taxes is equitable and participatory through, inter alia, the following policies and measures:

- Ensuring that the incidence of taxation falls justly on different income classes and different categories of income like wages, profits and rents;
- Extending the tax base to cover income from activities that are not currently taxed;
- Expanding indirect taxes and making them more equitable by targeting the growing modern service sector and socially environmentally undesirable activities.

All countries should strive to simplify tax laws and to improve the efficiency and effectiveness of tax administration and enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system. Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity building, to developing and transition economy countries undertaking these changes.

Developing countries and countries with economies in transition should undertake appropriate administrative and legislative measures to combat tax evasion and prevent tax avoidance. International institutions should provide assistance for this purpose, particularly to facilitate south-south co-operation.

The high-level meeting should mandate that a careful, in-depth study be undertaken, in co-operation with the IMF and other relevant international financial institutions, of potential means for enhancing tax-related international co-operation, including mandating a specific negotiation process on international agreements on this subject and the possibility of establishing an international organisation or forum for co-operation on tax matters.

19. This has been followed by support for an International Tax Organisation in the Report of the High Level Panel on Financing for Development (Zedillo report). The Mexican Facilitator’s (Escanero) Draft Outcome paper to be discussed at the Preparatory Committee meeting in mid-October (see annex 3), provides a significant degree of convergence with the IMF/World Bank proposals (see 2) below). At par 54 (entitled Filling organisational gaps), the facilitator states that we [the heads of State and Government, gathered in Monterrey, Mexico, from 21-22 March 2002] shall...

“Explore, through a global network of tax authorities, the potential benefits and optimal design of an International Tax Organisation or other tax co-operation forum, taking into account previous efforts in this regard as well as the special needs of developing countries and countries with economies in transition.”
3) The IMF/World Bank proposal

20. The IMF/World Bank initiative provides a counter proposal to the setting up of a UN based ITO. The document entitled “Strategy for Building a Global Tax Network” (see annex 2) proposes the development of a loose Global Tax Network with a steering group composed of the IMF, World Bank, the UN and OECD. The primary responsibility of the steering group would be to facilitate regular meetings on a global basis about matters of common interest and the global network would also act as a focal point for the collection and sharing of information on bilateral and multilateral technical assistance activities in relation to tax policy and administration and the co-ordination of technical activities.

4) The “Post-Montreal” group

21. This group is made up of the five sponsoring organisations (CIAT, CATA, CREDAF, IOTA, and the OECD) of the Montreal Conference on Electronic Commerce. The purpose of the Organisation is to encourage an exchange of experiences between tax administrators and develop non-binding guidelines and best practices in tax administration and taxpayer service. Its first meeting will be held in Seville on 19 October.

E A new CFA response

22. The issue of relations between the CFA and NOEs can be divided into external and internal roles and structures (how the CFA organises itself and its subsidiary bodies).

23. This note looks at three main areas in which particular consideration by the CFA may be appropriate. Resolution of these areas will not resolve all issues relating to the way the global dialogue on tax matters is to be taken forward but they should provide a flexible and dynamic framework within which issues can be analysed and resolved. They also allow the CFA to respond directly to NOE enquiries on this subject and detail what the strategy for association of NOEs is. These three key areas are:

a) Responses to and involvement in an external organisation/network;
b) Direct representation of NOEs in the work of the committee; and
c) The role and functioning of the Global Forum on Taxation

24. During the week of 24 September two Global Forum events were held on Harmful Tax Practices, and Tax Treaties & Transfer Pricing respectively attended by approximately 50 NOEs. During the discussions at and during these events NOEs made it clear that they felt that while these events served a useful function as a means of updating countries on developments in OECD work they did not provide a real voice for NOEs in the working process itself. It is this issue of proving a voice that the following sections address directly.

a) External challenges

25. This is the most critical issue that the CFA currently faces. When considering the strategic challenges facing the CFA it is clear that it cannot necessarily control external developments such as the possible creation of an International Tax Organisation or global tax network. But it is equally clear that the CFA cannot hope to develop a true global dialogue without external partnerships. Also, as a key player on the world stage, the initiatives taken by the CFA will be closely watched and their actions will be a significant factor in shaping global developments. The real issue is the extent to which the CFA is prepared to recognise the growing convergence of opinion and co-operate with other international tax
bodies to achieve a result in harmony with its own interests and the cause of global dialogue on tax issues as a whole. The speed at which external developments are occurring make it vital that the CFA develop a clear and pro-active policy. Box 2 summarises the main differences between the organisations mentioned above and this is followed by a brief discussion of a possible strategy that the CFA may consider adopting.

<table>
<thead>
<tr>
<th>BOX 2</th>
<th>Council of Regional Tax Organisations (CITO – the “Post-Montreal Group”)</th>
<th>An informal Global tax network</th>
<th>An International Tax Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal from</td>
<td>OECD and CIAT, CATA, CREDAF, IOTA</td>
<td>IMF/World Bank</td>
<td>UN [High level Panel on Financing for Development – Zedillo report]</td>
</tr>
<tr>
<td>Proposal</td>
<td>An informal group made up of the OECD and the four regional tax organisations sponsoring the Montreal conference.</td>
<td>An informal world tax network run by a steering group initially composed of IMF, World Bank, UN and OECD.</td>
<td>An International Tax Organisation. It should be noted that this proposal as expressed in the Escanero draft “Outcome” now sees this as an aim to explore through the medium of a global network of tax authorities</td>
</tr>
<tr>
<td>Role</td>
<td>1) develop non binding guidelines and best practices in tax administration and taxpayer service,</td>
<td>1) organise forum for experience sharing and dialogue through annual meetings on matters of current interest 2) developing non-binding guidelines for best practices; this could be done through FSM Knowledge Exchange website 3) clearing house re technical assistance</td>
<td>1) compile statistics, identify trends, 2) provide forum for exchange of ideas and development of norms in tax policy and administration 3) offer technical assistance, And possible roles include 4) tackle harmful tax competition 5) act as arbitration body, 6) help enforce arrangements on taxation of emigrants</td>
</tr>
<tr>
<td>Relationship to CFA</td>
<td>CFA plays key role</td>
<td>CFA plays significant role in steering group</td>
<td>No specific participation by CFA</td>
</tr>
<tr>
<td>Participants</td>
<td>Co-sponsoring organisations from Montreal (CIAT, CREDAF, CATA, IOTA and OECD) and additional interested organisations</td>
<td>1) steering group of IMF/World Bank/OECD/UN 2) No formal membership, all countries, regional tax organisations and development banks welcome to events, and to participate in meetings and through a combined website.</td>
<td>Not yet established</td>
</tr>
</tbody>
</table>

**Discussion**
26. The CFA may wish to reiterate its support for the “Post-Montreal group” which will be concerned primarily with best practices in tax administration. This group will be able to play a useful and important role and will draw on the strengths of the regional/international organisations that lie primarily in this area. The IMF/World Bank proposal specifically refers to the activities of this group as complementary to that of their proposed steering group and the two could co-exist happily.

27. It is also worth noting the accommodation made by the UN facilitator’s “Outcome” paper towards the IMF/World Bank proposal, by suggesting an exploratory stage. The proposal now is for the exploration of the possibility of an ITO through the auspices of the kind of global network proposed. This global network has a considerable number of advantages. It allows the OECD to participate at the heart as part of the steering group but also allows for input from all major players. It may enable the CFA’s goal of enhancing global dialogue to be achieved in a manageable and neutral way. Finally the global tax network would appear to have the implicit support of the UN as well as the IMF and World Bank and positive support from the CFA would ensure its role in their development.

b) Internal structures and strategies

28. It is also important that the CFA consider internal issues relating to the way NOEs are associated with and may therefore enhance the work of the committee. These proposals take into account the comments made during the June CFA by member countries. It is less immediately critical that the CFA formulate a strategy in these areas but action in this area will inevitably assist in the debate over the UN proposals. They are split into two aspects - i) associating non-members with the work of the CFA and its subsidiary bodies and ii) representation through the Global Forum on Taxation (GFT).

i) Associating NOEs with the work of the CFA and its subsidiary bodies

29. There are three main elements in respect of the association of NOEs with the work of the CFA.

- Observership status achieved through Council procedure for individual countries and international organisations on the CFA
- Involvement in Technical Advisory Groups in respect of subsidiary bodies such as WP9 on Electronic Commerce and Consumption Taxes
- Association with the CFA’s products

30. The three possibilities set out in Box 3 below each provide an expansion of current NOE involvement.

31. The first deals with the possible expansion of the Observership principle allowing for the CFA to invite applications for Observership from significant NOEs and to investigate the possibility of inviting regional or international organisations to apply.

32. The second considers the involvement of NOEs/regional and international tax organisations in working groups that are subsidiary to working parties and perform an advisory role.

33. The third focuses on the subsidiary bodies themselves and deals with the possible extension of Observership (and ultimately full membership) on the subsidiary bodies to interested NOEs/regional and international tax organisations.
### BOX 3

<table>
<thead>
<tr>
<th>Description</th>
<th>Encourage applications for Observership to the CFA from appropriate NOEs and investigate the possibility of inviting significant tax organisations to apply.</th>
<th>Enable NOEs to take part in working groups, which operate (like TAGs) as subsidiaries to the working parties.</th>
<th>Enable NOEs to apply to join subsidiary bodies as observers or full members following an invitation from the Working Parties/Forums and following Council approval.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation</td>
<td>NOEs and regional tax organisations</td>
<td>NOEs and possibly RTOs</td>
<td>NOEs and possibly RTOs</td>
</tr>
<tr>
<td>Role</td>
<td>To involve themselves in the affairs of the CFA, and subsidiary bodies and to join in discussion but with no decision making power</td>
<td>To take part in discussions of issues within Working Groups set up by and on issues determined by the Working Parties and to advise the subsidiary bodies as required.</td>
<td>To take part in all the activities of the Working Parties and subsidiary bodies as Observers or full members</td>
</tr>
<tr>
<td>Conditions for involvement</td>
<td>Adherence to the CFA’s standards and guidelines to the satisfaction of the Council and the CFA</td>
<td>Adherence to the standards and guidelines produced by the relevant subsidiary body to the satisfaction of the subsidiary body and the Council.</td>
<td>Adherence to general standards and guidelines, and an interest in the topic under discussion.</td>
</tr>
</tbody>
</table>

### Discussion

34. The first column deals with a more proactive approach to Observership. Current applications have been made or are being contemplated by the World Bank, Slovenia and China. Applications might also be encouraged from key NOEs such as Brazil, South Africa and India. This would provide access to the CFA and its working parties.

35. An alternative approach, set out in column three, looks at the possibility of Observership being applied for on specific working parties. This might be appropriate for economies with interests in particular areas, but have no significant interest in all the work of the CFA. Hong Kong is interested in e-commerce, for example, but perhaps less so in transfer pricing. There may also be NOEs interested purely in exchange of information.

36. Both of these approaches may be used providing a degree of flexibility depending on the NOE being considered.
37. Column 2 suggests a different but also potentially complementary approach, through which interested NOEs are co-opted into working groups to serve on advisory bodies to the working parties. This has already proved very successful in respect of the e-commerce TAGs set up under WP 9. Preliminary discussions were held in WP1 and WP6 in September/early October and in both groups general support was expressed for the idea of introducing invited NOEs into pre-existing Working Groups on particular issues.

\[ ii) \text{Associating NOEs with the Global Forum on Taxation (GFT)} \]

38. This issue looks at defining the role and operation of the GFT. As noted above, the GFT was created in 2000 by the Committee for Co-operation with Non-Members to serve as a framework within which policy dialogue can take place on key issues of relevance to OECD countries and NOEs. How this works and is managed in practice is the subject of this section.

39. It is taken as a starting point that the GFT will operate, as it does now, on the basis of a series of high level events on particular topics, for example, the event held in Montreal in June on Electronic commerce; the Global Forum event on Harmful Tax practices; and the event on Tax Treaties and Transfer Pricing. The question the CFA need to consider is to what extent NOEs themselves should be involved with the CFA in the development and/or management of the events, and whether the GFT should develop an extended role through, for example, the setting up of working groups on particular topics.

40. The first column suggests that the GFT remains a forum for discussion on issues primarily chosen by the CFA with CFA invitees.

41. The second allows for a role for selected NOEs to influence decisions in respect of the operation and substance of the GFT programme.

42. Column 3 provides for a further NOE role – it allows for the setting up of Informal Consultation Groups under the auspices of the GFT and the Board to advise Working Parties from the NOE perspective, along the lines of the existing TAGs.

<table>
<thead>
<tr>
<th>BOX 4</th>
<th>Participation by NOEs in the events</th>
<th>Participation by NOEs in the management of the GFT through representation on the BCNOE</th>
<th>Participation through GFT working groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Inviting NOEs to discuss general issues on particular topics on an annual, or other appropriate basis</td>
<td>Involving key NOEs and/or international tax organisations in setting the agenda for the Global Forum by including them on the Board for Co-operation with Non-OECD Economies but only in respect of its responsibility for managing the Forum</td>
<td>Creating Global Forum Working Groups to develop views on particular issues and advise the working parties</td>
</tr>
<tr>
<td>Participation</td>
<td>NOEs and regional/international tax organisations; IMF, World Bank, UN.</td>
<td>NOEs and regional/international tax organisations; IMF, World Bank, UN.</td>
<td>Selected or elected NOEs and regional/international organisations</td>
</tr>
<tr>
<td>--------------</td>
<td>---------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------</td>
</tr>
<tr>
<td>Role</td>
<td>Discussion/dialogue on specific areas of interest, dissemination of information on developments inside and outside the CFA.</td>
<td>Selected/elected NOEs and appropriate organisations would together with member countries on the Board, the overall GFT programme for the approval of the Working Parties and the CFA.</td>
<td>Selected/elected NOEs would form working groups under the auspices of the GFT to advise the Working Parties on non-OECD responses to particular issues</td>
</tr>
<tr>
<td>Conditions for involvement</td>
<td>To be decided by the Board</td>
<td>To be decided by the Board in conjunction with the Working Parties</td>
<td></td>
</tr>
</tbody>
</table>

**Discussion**

43. Once again these approaches could be combined or varied depending upon the objectives of the CFA and the areas and topics in respect of which they are being considered.

44. The first approach essentially reflects the status quo where NOEs are invited to discussions on particular issues but have no formal basis for influencing the agenda. Informally, however, there are a number of opportunities for influencing the discussion and NOEs are asked at each Forum what other issues they would like to discuss. Approach 2 takes this further by suggesting the possibility of direct representation by particular NOEs on the Board to discuss and organise the Forum events, finally the third approach provides an alternative to the suggestion above that NOEs might be invited to observe or serve on working groups. This proposal met with little approval from the CFA when it was discussed in June.

45. It should also be noted that the CFA needs to consider and abide by the rules established by CCNM and the Council on the participation of NOEs in OECD activities throughout the process. The process for association creates rights and duties and is subject to a specific procedure that allows for some degree of flexibility on the part of the subsidiary body but requires the overall approval of the Council. The overriding concern is that NOEs must be willing and able to meet all the obligations and commitments inherent in joining the subsidiary bodies or working group. A NOE, following a formal application to the Secretary-General, should first complete a questionnaire aimed at deciding whether it meets the criteria applicable under the framework of the particular convention or guidelines for which the subsidiary body is responsible. When the subsidiary body has determined that the criteria are met, it will recommend to the Council (acting under Council Resolution C96(64)/REV2/FINAL) that the applicant be granted Observer status and, once the NOE is in a position to accede to and fully implement the obligations of the convention or guidelines, the Council may grant full participation within the subsidiary body or working group. It is likely that very few countries will reach this stage in the short term. While subsidiary bodies under the CFA have yet to instigate this process, it is currently underway within the Working Group for Bribery, which is a subsidiary body of CIME.
Summary and Recommendations

46. There are three key areas where the CFA should consider developing a clear strategy. They need to decide how to position themselves with regard to the external initiatives; what should be done in respect of observerships and integration of particular NOEs at working party/group level; and finally how the GFT on taxation should develop.

47. For the sake of focus the following tentative recommendations are proposed

That the CFA:

1) Support the IMF/World Bank proposal to set up a steering group composed of the IMF, World Bank, UN and OECD.

2) Support the “post-Montreal group” (known at present as the Council of International Tax Organisations).

3) Encourage the application for observership from key NOEs.

4) Mandate the working parties to continue their consideration of strategies for the involvement of NOEs in working groups.

5) Maintain the role of the Global Forum on Taxation as an umbrella for discussion on issues relevant to NOEs and develop a role for NOEs on the Advisory Board in respect of issues relating to the Global Forum.
ANNEX I –

TECHNICAL NOTE ON EXISTING PROPOSALS FOR ENHANCED INTERNATIONAL CO-OPERATION ON TAX MATTERS FOR THE PREPARATORY COMMITTEE FOR THE INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

FINAL DRAFT

28 August 2001

The Preparatory Committee for the International Conference on Financing for Development requested the Financing for Development Co-ordinating Secretariat to prepare a series of technical notes for the resumed third session of the Preparatory Committee. This note is in response to that request and provides the Preparatory Committee with information on Existing Proposals for Enhanced International Co-operation on Tax Matters.

I. Background

Growing international economic and financial interdependence has increased the cross-border spillover effects of taxation and constrained the capacity of national tax authorities to establish and enforce various tax instruments. Governments are increasingly limited to set both the forms and rates of tax; at the same time, tax avoidance and tax evasion are on the increase. These developments may make it more difficult for Governments to finance public expenditures and constrain the financing options of the Governments of those countries faced with inflexible spending obligations and limited sources of revenue. Therefore, there is a growing need for improved international co-operation among tax authorities to address these issues. Such a co-operative effort will also have to address capacity constraints in tax administrations in developing countries, to raise revenues in an effective manner.

Currently, there are several international forums that address certain aspects of international co-operation on taxation from the perspective of their members. Annex Table 1 provides an overview of the geographical coverage, scope and work methods of each of these organisations. Some of these forums are global in their reach; others are regional; a few cover a limited range of countries. In some cases, taxation

1 The preparation of this technical note was coordinated by the United Nations. Staff from the following institutions collaborated in its preparation: CIAT, IMF, OECD, United Nations/DESA and World Bank. The members served on the Task Force in their personal capacity and the proposals listed in this Note do not necessarily represent an endorsement by the members of the Task Force or the organizations with which they are affiliated.
is only one of the issues discussed by these organisations; in others the only focus is on taxation. Most are governmental organisations, although there are two non-governmental organisations that play a significant role in the tax area. The global and regional organisations tend to focus on both direct and indirect taxes and on domestic and international tax issues. Some are more oriented towards tax administration issues; others cover both tax policy and tax administration. Also, expert groups address issues of taxation in United Nations forums, notably the Ad Hoc Group of Experts on International Co-operation in Tax Matters and expert groups on accounting and other related matters convened by UNCTAD. However, there is no global intergovernmental forum for the consideration of tax policy and administrative issues and international co-operation on tax matters in all its aspects.

Existing proposals for enhanced international co-operation on tax matters presented at intergovernmental forums or other international forums are outlined below in chronological order with the reference to the relevant document in the title. This note covers proposals on tax co-operation ranging in scope from new organisations or new institutions, including new rules or regulations, to new mechanisms that build on existing organisations and institutions. The note excludes initiatives of regional organisations unless they are relevant to non-members as well.

II. Existing proposals

1. **Global Tax Network (World Bank/IMF/OECD, August 2001)**

Discussions are currently taking place between the staff of the IMF, OECD Secretariat and World Bank to launch a global tax network, to be managed jointly by the aforementioned institutions and the United Nations, as a first step in facilitating a global tax dialogue. A primary responsibility of this network would be to prepare regular meetings on topics of common interest, to oversee the sharing of information and to identify issues that should be taken up by the sponsoring organisations and regional tax organisations. All countries would be welcome to participate with no preconditions, along with regional tax organisations and regional development banks.

Core functions of the Network would be:

- Discussion of tax matters of common interest;
- Sharing experiences;
- Identification of best practices; and
- Maintaining a widely accessible database on current and prospective technical assistance activities in tax policy and administration.

It is expected that the final institutional structures of the global dialogue as well as its role and responsibilities will emerge over a number of years.

One additional feature that has been suggested is that every 3 or 4 years, an intergovernmental body, such as ECOSOC, would review the work programme and progress, thereby helping to shape the future agenda of the Network.


The High-level Panel on Financing for Development Panel, chaired by Mr. Ernesto Zedillo, the former President of Mexico, proposed the consideration of an International Tax Organisation, which could:
• Compile statistics, identify trends and problems, present reports, offer technical assistance and provide a forum for the development of international norms for tax policy and administration;
• Maintain surveillance of tax developments in the same way that IMF maintains surveillance of macroeconomic policies;
• Take a lead role in restraining tax competition designed to attract multinationals with excessive and unwise incentives;
• Develop procedures for arbitration when frictions develop between countries on tax questions;
• Sponsor a mechanism for multilateral sharing of tax information, like that already in place within the Organisation for Economic Co-operation and Development (OECD), so as to curb the scope for evasion of taxes on investment income earned abroad.
• Develop and secure international agreement on a formula for the unitary taxation of multinationals.
• Develop, negotiate and operate international arrangements for the taxation of emigrants, enhancing the possibility for countries to tax citizens on world-wide income.
This proposal is partly based on Tanzi (1996; 1999).

3. A Steering Group/Council of International Tax Organisations
(CATA/CIAT/CREDATA/IOTA/OECD, 2001)

In June 2001, the Secretaries-General/Heads of five organisations proposed at a meeting in Montreal the creation of a “Steering Group/Council of International Tax Organisations”, which would initially consist of the Secretariats of these Organisations. These five organisations are the Commonwealth Association of Tax Administrators (CATA), the Inter-American Center of Tax Administrations (CIAT), the Centre de Rencontres et d’Études des Dirigeants des Administrations Fiscales (CREDATA), the Intra-European Organisation of Tax Administrations (IOTA) and the Organisation for Economic Co-operation and Development (OECD). The group would be serviced by a small Secretariat provided by Canada. Its first meeting will be in Seville in October 2001. The group would also look to develop links with other regional or international tax organisations. Its primary functions in the short term would be to develop best practices in tax administrations and taxpayer service using, for example, the Forum on Strategic Management Knowledge Exchange (see http://www.FSMKE.org), which the OECD is currently developing, as well as the co-ordination of technical assistance work.

4. An international organisation or forum for co-operation in tax matters or strengthening of the Ad Hoc Group of Experts on International Co-operation in Tax Matters (United Nations, 18 December 2000, par. 142; Disney 2000)

The Report of the Secretary-General to the Preparatory Committee recommends the formation of an international organisation or forum for co-operation in tax matters, which merges the various existing international tax-related efforts into a single entity. It could provide a global forum for discussion of, and co-operation on, tax matters, including:

• The sharing of national taxation experiences;
• The development of definitions, standards and norms for tax policy, administration and other aspects;
• The identification of national tax trends and problems;
• Tax reporting; and
• The provision of technical assistance to national tax authorities, particularly those of developing and transition economy countries.

The report also noted less ambitious proposals that have been put forward, including the strengthening of the United Nations Ad Hoc Group of Experts on International Co-operation in Tax Matters.
The report recommended that the International Conference on Financing for Development mandate a careful in-depth study, undertaken in co-operation with the IMF and other relevant international financial institutions, of potential means for enhancing tax-related international co-operation, including mandating a specific negotiating process on international agreements on this subject and the possibility of establishing an international organisation or forum for co-operation on tax matters.

The creation of an International Tax Forum under UN auspices was also proposed by Mr. Julian Disney of the International Council on Social Welfare (ICSW) at the Financing for Development: Hearings with civil society on 7 November 2000 (Disney, 2000). Additional functions the ICSW envisaged for this forum include research and the arbitration of disputes. The ICSW also proposed the strengthening of ECOSOC in the area of tax cooperation, including through its existing expert taxation committee and through convening a major global conference on Taxation and Development (Disney, 2000, 2001). In particular, ICSW recommended the establishment of a special working group on international cooperation on tax reform, which could have about 25 members, comprising approximately equal representation of the most economically powerful countries, the most populous countries and representatives of the other countries chosen on a regional basis.

5. Technical assistance (United Nations, 18 December 2000, paras. 30 through 33)

The Report of the Secretary-General to the Preparatory Committee included several recommendations regarding assistance to countries to improve the management of fiscal resources, enhance tax administration and combat tax evasion. The report specifically refers to assistance by developed countries and to south-south cooperation. In effect, these proposals also enhance international cooperation in tax matters. The report recommends:

- International institutions should be ready to assist countries in developing medium-term fiscal frameworks and all donor partners should take it into account in providing assistance to those countries.
- Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity building, to developing and transition economy countries that strive to simplify tax laws and to improve the efficiency and effectiveness of tax administration and enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system.
- International institutions should provide assistance to developing countries and countries with economies in transition that undertake appropriate administrative and legislative measures to combat tax evasion and prevent tax avoidance, particularly to facilitate south-south cooperation.

6. International action pertaining to taxation to promote the mobilization of new and additional resources for social development (United Nations, 15 December 2000, para. 142)

The twenty-fourth special session of the General Assembly adopted proposals for further initiatives to implement the commitments made at the World Summit for Social Development. Initiatives to implement Commitment 9 of the World Summit included “Promote, through international action, the mobilization of new and additional resources for social development, inter alia, by”:

- Developing appropriate means of international cooperation in tax matters;
- Exploring methods for dividing the liability of multinational corporations to pay taxes on profits among the various jurisdictions in which they operate;
• Exploring ways to combat the use of tax shelters and tax havens that undermine national tax systems; and
• Preventing tax avoidance and promoting treaties for avoiding double taxation.

7. International agreement on a formula to divide corporate income among jurisdictions (United Nations, 28 September 2000, p. 5)

The document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition, organized by the United Nations in cooperation with Association de Planification Fiscale et Financière (APFF) on 2-6 October 2000 in Montreal, prepared by Mr. Anthony Clunies-Ross, recommends an international agreement on the allocation of corporate and other enterprise income among jurisdictions according to an internationally agreed formula that relied as far as possible on objectively verifiable indicators, such as proportions of workforce, wage-bill, or capital assets, in various countries. See also the report of this meeting (United Nations, 2001c, para. 16). The General Assembly in its Resolution A/RES/S-24/2 also suggested that such an agreement should be explored (United Nations, 15 December 2000, para. 142). The merits and limitations of various allocation methods are analyzed by Mintz (1998).

8. International agreement on uniform rates of source withholding taxes on interest, dividends, royalties and management fees (United Nations, 28 September 2000, p. 5; Disney, 2000)

The document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition, organized by the United Nations in cooperation with Association de Planification Fiscale et Financière (APFF) on 2-6 October 2000 in Montreal, prepared by Mr. Anthony Clunies-Ross, recommends an international agreement on the a set of uniform rates for withholding taxes on interest, dividends, royalties and management fees, if these payments are to cross inter-jurisdictional borders. These taxes would be collected unilaterally. There might or might not at the same time be conventions providing for the transfer of some of the withholding tax so collected to the relevant country of resident of each taxpayer. See also the report of this meeting (United Nations, 2001c, para. 16). A similar proposal was put forward by Mr. Julian Disney of the International Council on Social Welfare at the Financing for Development: Hearings with civil society on 7 November 2000 (Disney, 2000). The OECD and United Nations Model tax conventions propose maximum withholding rates for taxes on interest and dividends. The merits and limitations of withholding taxes on capital income are analyzed by Zee (1998).

9. International system of coded identification for all individual and corporate income taxpayers (United Nations, 28 September 2000, p. 5)

The document for the Ad Hoc Expert Group Meeting on Strategies for Improving Resource Mobilization in Developing Countries and Countries with Economies in Transition, organized by the United Nations in cooperation with Association de Planification Fiscale et Financière (APFF) on 2-6 October 2000 in Montreal, prepared by Mr. Anthony Clunies-Ross, recommends an international system of coded identification for all individual and corporate income taxpayers. The code would refer to the jurisdiction in which the taxpayer resided or was registered and be extended to record all those from which she, he or it derived income. Knowledge of the identity of the taxpayer attached to each code number would be confined to the tax authorities of the jurisdictions referred to in the code number, but information relating to the taxpayer’s income would be shared among them -- in certain circumstances automatically and in certain circumstances on request. See also the report of this meeting (United Nations, 2001c, para. 16).
The OECD has recommended that countries encourage non-resident recipients of income to disclose their resident country Tax Identification Numbers (TINs) to the payers of income who in turn will be required to pass the TINs to the tax authorities of the source country (OECD, 1997a, 1997b; Perez-Navarro, 1999).

10. A Global Forum on Taxation (OECD, 2000b)

The OECD launched on 28-29 June 2000 proposals for a Global Forum on Taxation. This Forum provides a framework within which OECD and non-OECD countries can develop a dialogue on and propose solutions to issues of mutual interest and concern. The Forum dialogue has reached at least 70 interested non-OECD countries in a number of contexts ranging from high level meetings to regional technical seminars and covering areas such as the taxation of electronic commerce, exchange of information, tax treaties, transfer pricing and tax administration. Participation is by invitation only. The global forum complements the dialogue between OECD and non-OECD countries with regional forums such as APEC at regional tax organizations.

11. Multilateral agreements on mutual assistance and information exchange (e.g. Council of Europe, 1989; CIAT 1999; ECOFIN 2000; OECD, 2000; United Nations, 2001)

A number of proposals have been put forward to improve mutual assistance and the exchange of information between tax authorities:

- The OECD and the Council of Europe have in place a Convention on Mutual Administrative Assistance in Tax Matters (Council of Europe, 1989). Oxfam (2000, p. 18) proposed that the Convention on Mutual Administrative Assistance in Tax Matters should be further developed to define minimum standards of transparency and disclosure by companies and to develop wider networks of cooperation, extending to developing countries.
- The European Union (EU) has a similar instrument (Commission of European Communities, COM (1998) 295 final; Commission of European Communities, COM (2001) 260 final; Council of the European Communities, 1977). The EU Council of Economic and Finance (ECOFIN) Ministers proposed a directive on the taxation of income from cross-border savings by individuals which commits that by 2010 all 15 EU countries would be engaging in automatic exchange of information on savings flows. The directive was endorsed by the European Council (2000) and given substantive content by ECOFIN (2000). The proposal is explicitly dependent on bilateral agreements with non-EU members.
- The OECD and United Nations model tax conventions are also continuously changed to enhance mutual assistance and information exchange among countries.
- The OECD (2000a) in 2000 issued a report on improving access to banking information, which set out a standard to which all countries should aspire.

All of these proposals move in the direction of increasing the access to information for tax authorities and putting in place effective mechanisms for exchanging such information. Mr. Julian Disney of the International Council on Social Welfare at the Financing for Development: Hearings with civil society on 7 November 2000 proposed stronger international obligations for the provision of information to, and between, tax authorities (Disney, 2000). Tanzi and Zee (1999) contains a comprehensive discussion of bilateral and multilateral agreements and the merits and limitations of information exchange in general are discussed in Tanzi and Zee (2001).
III. Bibliography


OECD, “Proposals to monitor the implementation of the OECD recommendation on the use of TINs in an international context”, DAFFE/CFA/WP8(97)2, Paris: OECD, 1997a.


### Table 1 International Organizations Providing a Forum for Inter-Government Discussions on Taxation

Note: Numbers provided are on an average basis.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Participating countries</th>
<th>Meetings per year</th>
<th>Staff working full-time on taxation</th>
<th>Main areas of focus</th>
<th>Work methods</th>
<th>Typical participants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. GLOBAL GOVERNMENTAL ORGANIZATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WTO</td>
<td>142; over 30 applicants</td>
<td>3⁴</td>
<td>0</td>
<td>Tax issues related to trade and investment: Primarily indirect taxes</td>
<td>Inter-government negotiations</td>
<td>Investment and trade experts</td>
</tr>
<tr>
<td>United Nations (ECOSOC)</td>
<td>189 (54)</td>
<td>1 - 3</td>
<td>2 plus consultants</td>
<td>Tax treaties, transfer pricing, financial derivatives, tax havens, e-commerce</td>
<td>Inter-government negotiations: Models, guidelines, publications</td>
<td>Mainly treaty negotiators</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>191</td>
<td>1</td>
<td>½ man-month plus consultants</td>
<td>Transfer pricing (accounting aspects), foreign direct investment, tax incentives</td>
<td>Inter-government negotiations: Accounting standard</td>
<td>Experts in accounting/Incentives</td>
</tr>
<tr>
<td>IMF</td>
<td>183</td>
<td>Varies</td>
<td>47 in 2000 (including consultants)</td>
<td>Tax policy and Administration</td>
<td>Bilateral consultations and technical assistance</td>
<td>Economic policy makers and tax administrators</td>
</tr>
<tr>
<td>World Bank</td>
<td>183</td>
<td>Varies</td>
<td>About 8 plus consultants</td>
<td>Tax policy and Administration</td>
<td>Bilateral demand driven technical assistance</td>
<td>Tax policymakers and tax administrators</td>
</tr>
</tbody>
</table>

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2 Excludes such organizations as Inter-American Development Bank and Asian Development Bank, which are primarily engaged in regional technical assistance.

3 Number of full time professional staff working on taxation.

4 Of subsidiary group.
<table>
<thead>
<tr>
<th>Organization</th>
<th>Membership</th>
<th>Participants</th>
<th>Focus</th>
<th>Activities</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WCO</strong></td>
<td>151</td>
<td>&gt;10</td>
<td>18</td>
<td>Customs</td>
<td>Inter-government: Models, best practices, standard</td>
</tr>
<tr>
<td><strong>OECD</strong></td>
<td>30 member countries plus network of 70 non-member economies</td>
<td>120</td>
<td>30 plus consultants</td>
<td>International and related domestic issues, direct and indirect taxes, tax policy and administration</td>
<td>Inter-government: Models, guidelines, best practices,</td>
</tr>
<tr>
<td><strong>CATA</strong></td>
<td>47</td>
<td>3 (?)</td>
<td>1 plus consultants</td>
<td>Direct tax administration and selected policy issues</td>
<td>Conferences and training</td>
</tr>
<tr>
<td><strong>B. REGIONAL GOVERNMENT ORGANIZATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CIAT</strong></td>
<td>34 (including 4 non-American members and 1 non-American associate member)</td>
<td>6</td>
<td>11+ consultants</td>
<td>Tax administration, direct and indirect taxation</td>
<td>Conferences, technical assistance, working groups on best practices</td>
</tr>
<tr>
<td><strong>APEC</strong></td>
<td>21</td>
<td>1</td>
<td>0</td>
<td>Customs and excises</td>
<td>Inter-government negotiations, Annual conference</td>
</tr>
<tr>
<td><strong>EU</strong></td>
<td>15</td>
<td>30-40</td>
<td>60 plus</td>
<td>Indirect taxes but increasing direct taxes, mainly international</td>
<td>EU directives, conventions, regulations</td>
</tr>
<tr>
<td><strong>CREDAF</strong></td>
<td>27</td>
<td>1</td>
<td>1</td>
<td>Tax administration and selected policy in Francophone countries</td>
<td>Conferences and training</td>
</tr>
<tr>
<td><strong>IOTA</strong></td>
<td>15</td>
<td>6</td>
<td>1</td>
<td>Tax administration in economies in transition.</td>
<td>Conferences and technical assistance</td>
</tr>
<tr>
<td><strong>C. SELECTED GOVERNMENT GROUPINGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization</td>
<td>Number</td>
<td>Type</td>
<td>Functions</td>
<td>Participants</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
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<td>--------------</td>
<td></td>
</tr>
<tr>
<td>PATA</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>Tax administration, domestic and international. Mainly direct taxes</td>
<td>Tax administrators</td>
</tr>
<tr>
<td>SGATAR</td>
<td>12</td>
<td>2</td>
<td>0</td>
<td>Tax administration and selected policy issues</td>
<td>Tax administrators</td>
</tr>
<tr>
<td>Nordic Group</td>
<td>5</td>
<td>3</td>
<td>0</td>
<td>Tax administration and policy. Mainly international</td>
<td>Tax administrators and policymakers</td>
</tr>
<tr>
<td>COTA</td>
<td>15</td>
<td></td>
<td></td>
<td>Tax administration</td>
<td>Tax administrators and policymakers</td>
</tr>
<tr>
<td>D. NON-GOVERNMENTAL ORGANIZATIONS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBFD</td>
<td>-</td>
<td>-</td>
<td>40</td>
<td>International and Domestic Taxation</td>
<td>Typical non-government</td>
</tr>
<tr>
<td>IFA</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>International Tax Issues</td>
<td>Government and non-government</td>
</tr>
</tbody>
</table>
Acronyms

WTO World Trade Organisation
ECOSOC Economic and Social Council
UNCTAD United Nations Conference on Trade and Development
IMF International Monetary Fund
WCO World Customs Organisation
OECD Organisation for Economic Co-operation Development
CATA Commonwealth Association of Tax Administrators
CIAT Inter-American Centre of Tax Administrations
APEC Asia-Pacific Economic Co-operation
EU European Union
CREDAF Centre de Rencontres et d'Études des Dirigeants des Administrations Fiscales
IOTA Intra-European Organisation of Tax Administrations
PATA Pacific Asian Tax Administration
SGATAR Study Group for Asian Tax Administration and Research
COTA Caribbean Organisations of Tax Administrations
IBFD International Bureau of Fiscal Documentation
IFA International Fiscal Association
Annex 2

Strategy for Building a Global Tax Network

Background

This proposal arises out of a series of discussions between interested organisations in the context of the UN Financing for Development initiative. This note identifies the UN Secretary-General’s proposals and provides an alternative series of proposals for building a global tax network.

The Secretary-General of the United Nations has identified enhancing revenue capacity as one of the components of a strategy to provide finance for development. To achieve this a number of proposals were set out in his December Report to the first Preparatory Committee (see Box 1).

Box 1: Proposals by the UN Secretary-General related to the establishment of an international tax organisation

Countries should consider the formulation of a medium-term fiscal framework to provide a measure of predictability for public spending programmes and to set out clear goals for mobilization of tax and non-tax revenues and the profile of public assets and liabilities, including contingent liabilities. International institutions should be ready to assist countries in developing such a framework and all donor partners should take it into account in providing assistance to those countries.

Countries should strive to develop progressive taxation systems and to endeavor to ensure that the process of adopting taxes is equitable and participatory through, inter alia, the following policies and measures:

- Ensuring that the incidence of taxation falls justly on different income classes and different categories of income like wages, profits and rents;
- Extending the tax base to cover income from activities that are not currently taxed;
- Expanding indirect taxes and making them more equitable by targeting the growing modern service sector and socially environmentally undesirable activities.

All countries should strive to simplify tax laws and to improve the efficiency and effectiveness of tax administration and enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system. Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity building, to developing and transition economy countries undertaking these changes.

Developing countries and countries with economies in transition should undertake appropriate administrative and legislative measures to combat tax evasion and prevent tax avoidance. International institutions should provide assistance for this purpose, particularly to facilitate south-south cooperation.

The high-level meeting should mandate that a careful, in-depth study be undertaken, in cooperation with the IMF and other relevant international financial institutions, of potential means for enhancing tax-related international cooperation, including mandating a specific negotiation process on
Developing countries must be able to raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will enable them to move out of poverty. Taxation will play a key role in this revenue mobilization. This in turn requires well-designed tax policies which are translated into clear legislation and which are administratively feasible. Perhaps the greatest challenge facing these countries is to improve the effectiveness of their tax administrations.

In this context, the increasing globalization of the economy is relevant both for developed and developing countries. The constraints that it places on countries’ ability to set and enforce their own taxes are felt increasingly keenly, raising the possible gains from substantive dialogue on tax matters. This is true of both developed and developing countries, and indeed internationalization is making the interactions between their tax systems increasingly important. The list of taxation issues with global relevance is growing rapidly: e.g. the taxation of multinational enterprises; the impact of international tax competition; cross-border VAT and excise issues; the taxation of electronic commerce; and the treatment of mobile labor.

There would be significant benefits from creating a global network of contacts between tax officials so that they can share experiences on tax policy issues of common interest and on ways to improve the effectiveness of tax administration and enhance coordination in the provision of technical assistance (TA).

At present a number of international organisations are engaged in engendering dialogue and developing policy frameworks and administrative structures for taxation. The Organisation for Economic Co-operation and Development (OECD) has developed a Global Forum on Taxation which allows for global dialogue on issues of common concern such as the taxation of electronic commerce, tax treaties, and transfer pricing. It also runs regional and country programmes in tax policy and administration. The IMF and the World Bank are the main providers of technical assistance in tax policy and administration. The UN has established an Ad Hoc Group of Experts on International Cooperation in Tax Matters which focuses on international taxation issues and meets on an annual basis. In addition, a number of organizations are currently dealing with tax issues on a regional basis. The most important are the Inter-American Center of Tax Administrations (CIAT), the Commonwealth Association of Tax Administrations (CATA) and the Intra-European Organization of Tax Administrations (IOTA).

Table 1 (attached) provides an overview of existing international organisations which currently work in the tax field.

None of the existing organizations and groupings, however, provides for a truly global dialogue on tax policy and tax administration issues with participation on an equal basis of developed and developing countries. Equally significantly, there is no overall co-ordination of the efforts of the various organisations to improve, by means of assistance, the effectiveness of tax policy and administration. This proposal sets out a strategy for encouraging such a global dialogue, and for developing greater coherence between interested international organisations.

A global dialogue on taxation will have to address both tax policy and tax administration issues. In addition to developing best practices in administration, it should offer the opportunity to discuss policy matters, including on international tax issues. Due to their limited mandate and the fact that they do not represent tax policy makers, this can not be achieved by simply grouping existing
regional tax administration organizations (whose coverage is, in any event, currently incomplete). Thus, a broader initiative is required to organize the dialogue.

**Integrating and reinforcing existing initiatives of international organizations**

The development of a global network can build on and thus considerably benefit from existing capacity building and cooperation initiatives undertaken by international and regional organizations. It can at the same time contribute to coordinate and reinforce these initiatives.

As noted above, the Global Forum on Taxation (GFT) recently established by the OECD is intended to facilitate an ongoing dialogue between OECD member countries and non-OECD countries on international taxation issues, a key aim being to associate non-OECD countries more effectively into the work of the OECD’s Committee on Fiscal Affairs (CFA). Priority areas of the GFT are international tax issues and issues on which the OECD has developed a certain expertise. The GFT is one of a number of similar global fora set up by the OECD to encourage dialogue on key issues with non-OECD countries. However, there is a risk that the credibility and, hence, effectiveness of any OECD-led structure will suffer from an unavoidable perception of OECD dominance. At the same time, through actively involving the OECD in its management, the global tax dialogue can benefit from the CFA and OECD member countries’ experience.

The UN has the advantage of a global membership, as well as expertise in relation to international taxation issues, particularly in respect of developing countries and their treaty relations with developed countries. [Victor: can we add a sentence on the ad-hoc group of experts here, or should we ask Mr. Bouab to propose a sentence?]

The International Monetary Fund and the World Bank have a nearly universal membership and the two organizations are the world’s main repositories of expertise in tax issues for developing countries. In addition, the concerns that underlie the call for new global structures relate directly to their core operational mandates. A network would allow them to discuss with their membership issues of cross-cutting importance which now are raised mostly on a bilateral basis. These four organizations therefore should have a prime responsibility for setting up and operating the new network.

This Steering Group could complement the recently created Council of International Tax Organisations which is intended to encourage a dialogue between CIAT, CATA, CREDAF and IOTA, and the OECD on a wide range of tax administration issues.

**Core functions of the network**

One of the major advantages of a network over the creation of an international organization is its flexibility and dynamic structure. It is to be expected that the functions of the network will evolve over time as the participating countries/organizations decide to broaden or refocus them. Nevertheless, some core tasks and considerations are apparent, considering that the network’s main role should be to provide for global exchange of views and experience on tax policy and administration issues.

A first guiding principle is that the network must provide clear value-added over existing capacities. Such a comparative advantage is not obvious regarding the compilation of statistics or descriptive information on tax systems. Such activities—apart from the fact that they require
substantial financial and human resources—are being carried out effectively by existing public and private institutions; they do not require a global tax network. Thus the network will have no role in the routine collection of tax information or statistics.

A global network could add value, however, as a focal point for the collection and sharing of information on bilateral and multilateral technical assistance activities in relation to tax policy and administration and the coordination of training activities. The difficulties that currently arise from the absence of systematic means of information sharing on TA activities are an increasing source of concern. The network, through both participating countries themselves and collaboration with TA-providing agencies, could usefully maintain and make widely available an information base on past and prospective projects. This information base could be based on the OECD’s Forum on Strategic Management Knowledge Exchange website which is currently in the process of development. The aim of this site is to provide a secure multi-lingual environment for tax policy makers and administrators in developing and developed countries to access information on recent developments and best practices. This information-sharing role might in time evolve into a more purposive role of coordinating TA activities. Ultimately, perhaps, the network might become involved in the direct provision of TA, financed by a trust fund. This, however, needs thorough preparation and coordination among donors, and so lies beyond the foreseeable future.

The core functions of the proposed network would thus be:

- Discussion of tax matters of common interest, which are likely to be primarily those relating to improving the effectiveness of tax administrations and policy issues with cross-border aspects;
- Sharing experiences;
- Identification of best practices.

And, ultimately,

- Maintaining a widely accessible database on current and prospective technical assistance activities in tax policy and administration.

Structure and Management

As the primary objective of the network in the initial stage is to foster good policy-making, and to assist countries to improve the effectiveness of their tax administrations, the extent and nature of the demand for institutional structures to facilitate this objective needs to be determined.

As a first step in facilitating global tax dialogue, it is proposed to create a loose ‘Global Tax Network’ (GTN). A primary responsibility of the GTN would be to facilitate the organisation by the UN with the other sponsoring organisations regular meetings on topics of common interest, to oversee the sharing of information, to identify issues which should be taken-up by the sponsoring organisations and regional tax organisations.

The lead in organizing these meetings could rotate between the IMF, the World Bank, the OECD and the UN. A steering group of these four sponsoring bodies would initially frame the agenda as well as deal with logistics; in time, some formal participation in the process from regional and international tax organisations as well as participant countries might be expected.
All countries would be welcome to participate in the meetings with no preconditions, along with regional tax organizations and regional development banks.

**Resource implications**

The first meeting sponsored by the GTN could be held in late 2002 or early 2003. The creation of a Steering Group itself would not require any additional resources. The convening of the GTN would require additional resources, although the organisation of these meetings itself will not require a standing secretariat; however, the steering group members will have to contribute to the preparation and possible follow-up actions by providing sufficient staff time. In addition, a host country for the meeting will have to be identified. Meetings might occasionally be run in conjunction with the Annual Meetings of the IMF and the World Bank or a UN event.

If the activities of the GTN expand, a small secretariat—in the order of 4 or 5 professional staff, plus assistants - may be needed to coordinate the activities and develop a focal role in relation to information on TA activities. Staffing might be by secondment from the four sponsoring organizations and participating countries. Further demands on specialist staff time might also be expected from requests to prepare papers for the meeting, or to undertake special studies.

**The need for evolution**

The final structures of a global tax dialogue will need to emerge from a consensus, which will have to develop over a number of years. This note therefore does not aim to describe the final and definite institutional setting of the dialogue.

The strategy set out in this note comprises an initial step in global dialogue, which may be followed by a process of further development. The objective of the first step is the creation of a steering group of the IMF, WB, UN, and OECD which would facilitate a loosely structured Global Tax Network. While the first step of the process is fairly clear, developments beyond that will reflect the evolution of the first step and so remain much hazier.
I. TOWARDS A FULLY INCLUSIVE AND EQUITABLE GLOBALIZATION

1. We, heads of State and Government, gathered in Monterrey, Mexico, from 21-22 March 2002, have committed ourselves to work together to ensure that the global systems of finance and trade fully support economic growth and social justice for all the peoples of the world. Our objective is to achieve a fully inclusive and equitable globalization.

2. We recognize that reversing the increasing polarization between the haves and have-nots is the pre-eminent moral and humanitarian challenge of our age. But meeting this challenge is also a matter of enlightened self-interest. The globalized economy must work for all of us or ultimately it will work for no one. That is the inescapable corollary of our interdependence, for in this world, someone else’s poverty and despair very soon becomes one’s own problem.

3. As leaders, we shall join forces through a strengthened multilateralism to ensure stable and sufficient financing for sustainable, gender-sensitive, people-centered development in all parts of the globe. Mobilizing the financial resources that are needed to fulfill the multilaterally agreed development goals—including those contained in the Millennium Declaration—will be our first step to ensuring that the 21st century becomes the century of development for all.

4. With this purpose in mind, we commit ourselves to uphold the following principles of global economic and social governance:

   1. **Equity.** Redressing the asymmetries and imbalances in the distribution of costs and benefits in the current international economic system.

   2. **Solidarity.** Addressing the special needs of vulnerable and marginalized countries and social groups.

   3. **Co-responsibility.** Enhancing the supply of global public goods while preventing national actions, particularly domestic economic decisions, from negatively affecting other nations.

   4. **Foresight.** Ensuring adequate balance between the response to pressing short-term needs and the attention to long-term imperatives of development, including through appropriate prevention measures which minimize the risks of financial crises.
5. **Participation.** Ensuring that all members of the international community, especially developing countries, participate in economic decision-making and norm-setting at the global level.

6. **Ownership.** Recognizing the diversity of national and regional circumstances and cultures and respecting the autonomy of national economic policy and development strategies.

7. **Partnership.** Encouraging all relevant stakeholders, public and private, to undertake mutually reinforcing national, regional, and international actions in support of financing for development.

5. On the basis of these principles, we commit ourselves to realizing the potential of the United Nations for exercising leadership and fostering cooperation to ensure that globalization works for human development and that its benefits reach all people.
II. CONFRONTING THE CHALLENGES OF FINANCING FOR DEVELOPMENT: LEADING ACTIONS.

6. Our point of departure is the recognition that each country has primary responsibility for its own economic and social development. Yet, domestic policies are not enough: to redress unsustainable international asymmetries and imbalances, national development efforts need to be supported by an enabling international environment. The increasingly globalized economy requires from us a coherent, holistic approach to the national, international, and systemic challenges of financing for development.

Mobilizing domestic financial resources for development

Domestic resources provide the foundation for self-sustaining development. In our common pursuit of growth and equity, a critical challenge is to ensure the necessary internal conditions for mobilizing enough domestic savings to sustain adequate levels of productive and human development investments. This enabling domestic environment is vital not only in mobilizing domestic resources, but also in attracting and effectively using international investment and assistance.

7. To this end, we shall:

- Strengthen our efforts to consolidate good governance and the rule of law, including by intensifying our combat of corruption and by enhancing policy and regulatory frameworks that foster a dynamic and well-functioning business sector while promoting equitable income distribution, empowering women and protecting workers’ rights and the environment.

- Pursue sound macroeconomic policies geared to the sustainable achievement of high rates of economic growth and employment, price stability, and balanced external accounts.

- Promote fiscal discipline, medium-term fiscal frameworks, equitable and efficient tax systems, and prudent public sector debt management,

- Ensure sustainable investments in education, health, nutrition, and social security programs, which take special care of children and are gender sensitive and fully inclusive of the rural sector and all disadvantaged communities.

- Strengthen the domestic financial sector. In this regard, we attach priority to the following:
  - Progressive implementation of multilaterally agreed financial standards, duly adapted to the local institutional traditions and stage of development;
  - Development of capital markets and financial instruments to promote savings and provide long-term credit efficiently to all;
  - Microcredit and credit for small and medium-size enterprises, including support of efforts to bring the informal sector into the formal economy;
  - Financial instruments that reduce the transfer costs of migrant workers’ remittances and encourage their investment in projects of high development impact;
  - Pension schemes that maximize their dual role as a social protection for the elderly and as a source of savings.
8. To provide the necessary support to these efforts, we shall search collectively for ways to:

- Promote policy dialogue and coordination among peers at the sub-regional and regional levels on macroeconomic and development policies.

- Strengthen technical assistance for capacity building, including in the areas of public finance and administration, gender budget analysis, financial sector development, and debt management, as well as in information and telecommunications infrastructure and management.

- Address the special needs of vulnerable and marginalized countries and social groups, particularly countries in Africa, the least developed countries, small island developing states (SIDs), and landlocked and transit developing countries.

9. We shall also negotiate expeditiously, under the aegis of the United Nations, a comprehensive Convention against Corruption, including cooperation to eliminate money laundering and illegal transactions as well as to repatriate illegally transferred funds.

**Mobilizing international private resources for development**

10. Foreign direct investment and other private flows are a vital complement to national development efforts of developing countries and countries with economies in transition, particularly for enhancing technology transfer, and boosting overall productivity, competitiveness and entrepreneurship. A central challenge is to attract these flows to a much larger number of countries, including low-income countries, SIDs, and landlocked developing countries.

11. We call on the multilateral financial and development institutions to deepen their support to national efforts to improve the investment climate, upon request, in priority areas such as policy and regulatory frameworks, corporate governance, and competition policy.

12. We request the Secretary General to explore, with the support of all relevant stakeholders, possible avenues to strengthen international cooperation in the promotion of foreign direct investments in developing countries and countries with economies in transition, including through investment agreements.

13. We commit to implement measures that will encourage foreign direct investments in a greater number of developing countries, particularly in low-income countries, SIDs, and landlocked developing countries. Measures of this type include the removal of artificial domestic constraints and tax concessions in industrial countries that prevent or discourage investments into developing countries.

14. We call on the multilateral and bilateral financial and development institutions to redouble their efforts in support of private investments in infrastructure development and other priority areas for developing countries, such as information and telecommunication projects to bridge the digital divide. Such support includes strengthening export-credit, risk-guarantee, and co-financing mechanisms, and promoting long-term private flows to support sub-regional and regional projects with high development impact.

16. We urge the business sector to consider not only the financial but also the social and environmental implications of their enterprises and encourage civil society organizations to help ensuring adequate attention to these aspects. In this regard, we request the World Bank Group and regional development banks, through their private sector activities, to promote socially and environmentally responsible investments and foster good corporate citizenship.
17. To ensure enhanced and predictable financial flows to developing countries and countries with economies in transition, a stable international financial system is also crucial. We call on the multilateral financial institutions to deepen their support to the development of appropriate regulatory frameworks to help sustain sufficient—and sufficiently stable—private flows to these countries, including through:

- Measures in source and destination countries to increase the transparency of financial flows and to contain the excessive volatility of short-term capital flows and of highly leveraged transactions, including trade in currencies;
- Measures to ensure orderly, gradual and well sequenced capital account liberalization processes;
- Safeguards to ensure that the new Basel capital accord does not increase pro-cyclicality of bank lending, and that it does not make bank loans prohibitively expensive to these countries;
- Measures to improve sovereign risk assessment, based on transparent procedures and on well-disclosed economic criteria.

**International trade as an engine for growth and development**

18. Trade liberalization would substantially contribute to achieve development worldwide, benefiting both developed and developing countries. Yet, trade barriers and subsidies in developed countries currently impose costs on developing countries that significantly exceed aid flows. Those barriers and subsidies must be eliminated. We recognize the need to ensure an open, equitable, rule-based, predictable, and non-discriminatory multilateral trading system, that decisively benefits all developing countries and countries with economies in transition, including low-income countries, SIDs, and landlocked developing countries.

19. The lifting of trade barriers should not be followed by the introduction of new ones—even if these are motivated by commendable objectives. Labor and environmental concerns need to be properly addressed, but should be pursued as separate goals, through the appropriate institutions and fora, so that efforts to achieve trade liberalization and improved labor and environmental standards can be mutually reinforcing.

20. We commit ourselves to deepen all efforts made thus far to ensure that world trade supports development goals, including by securing full implementation of all commitments made by industrialized countries at the Uruguay Round, and by multilateral trade negotiations geared to:

- Strengthening the rules and disciplines of the World Trade Organization, to prevent abuses to the detriment of developing countries, such as abusive antidumping measures or technical standards against their exports.
- Liberalizing trade in agricultural products, fully eliminating output and export subsidies in developed countries
- Reducing tariff peaks which affect developing countries exports, and eliminating tariff escalation which discourages developing countries from exporting higher value added products.
- Eliminating the trade barriers of developed countries in manufactures, particularly labor-intensive manufactures such as textiles and clothing.
- Revisiting the issue of trade-related intellectual property rights, with a view to promoting the widest availability of knowledge for development without unduly affecting incentives to innovate, taking care—in particular—of the health imperatives of developing countries.
21. Regional and sub-regional cooperation and integration processes can play a key role in fostering global trade and development, by improving competitiveness and export diversification. We also commit ourselves to enhancing the role of regional and sub-regional agreements and free trade areas as building blocks in the construction of a better global trading system.

22. To speed up our efforts to ensure full access of developing country exports to all markets—with no exception but arms—, we call on all industrialized countries that have not already done so, to take immediate steps in benefit of the LDCs, as well as in support of the New African Initiative and the development efforts of all other low-income countries, SIDs, and landlocked developing countries.

23. We also call on the multilateral financial and development institutions to devise ways and means to stabilize the export revenue of developing countries that still depend heavily on commodity exports, in particular low income countries, SIDS and landlocked developing countries, including by restoring and improving the IMF compensatory financing facility scheme, establishing appropriate multilateral commodity risk management mechanisms, and ensuring access to insurance against natural catastrophes.

24. We further call on multilateral and bilateral financial and development institutions to deepen their support, with additional resources, of efforts by developing countries, including low-income countries, SIDs, and landlocked developing countries, to remove supply-side constraints, improve their trade infrastructure, diversify export capacity, and enhance their participation in multilateral trade negotiations, trade opportunities, and the dispute settlement mechanism.

Increasing international financial cooperation for development

Revitalizing ODA

25. ODA plays an essential role as a complement to other sources of financing for the development of developing countries, particularly in the case of low-income countries, SIDS and landlocked developing countries where ODA flows continue to represent the bulk of external financing. We underscore the need to substantially increase it, till achieving the annual level of 0.7% of industrialized countries GDP to ODA, in order to contribute sufficiently to complement the national development efforts of developing countries. A doubling of ODA, required as a minimum to achieve the multilaterally agreed development goals, should be an urgent priority.

26. We commend the donor countries whose ODA contributions reach or even exceed the target of 0.7% GDP and urge others to follow their lead.

27. To invigorate the political support required to mobilize more ODA, we request the Secretary-General to launch a global information and advocacy Campaign for the Millennium Goals, with the active involvement of all relevant stakeholders, in particular civil society and altruistic organizations. This campaign should be designed to raise public awareness in developed countries of the urgency of increasing international development assistance, as a vital investment in building a more secure world for all. The campaign should focus also on intermediate targets identified in the context of the implementation of the Millennium Goals.

28. To improve the participation of ODA recipient countries, as a collective, in forging strong partnerships to enhance the effectiveness of aid in support of their nationally owned development strategies, we call on the UN Development Programme to explore ways and means to facilitate the coordination among aid recipient countries so they can act as an effective interlocutor for the OECD Development Assistance Committee and, thus, become full participants in global aid policy discussions.

29. We call on the multilateral and bilateral financial and development institutions to:
Give primacy, in their assistance, to development strategies and programs that are developed and owned by recipient countries.

Avoid burdensome restrictions such as tied aid.

Increase the concessionality of development financing, including through greater use of grants, while ensuring full additionality of resources to prevent the financial burden from falling on developing countries or eroding the lending capacity of multilateral development banks.

Urgently carry out a major program to harmonize operational policies and procedures, to reduce transaction costs and make disbursement and delivery more flexible.

Develop proposals to give recipient countries greater influence over the design of technical assistance programs and more control over the use of available resources for these purposes, including through mechanisms geared to ensure a flexible and unconstrained choice of providers.

Deepen their efforts to harness triangular cooperation as a delivery tool, through specific mechanisms in support of regional and sub-regional projects of South-South cooperation.

30. To support the goals above, we invite donor countries to increasingly channel their aid through common-pool mechanisms sustained on reciprocal obligations built around nationally owned development strategies of recipient countries. As a first step, donors should consider immediately applying this common pool approach in support of the New African Initiative and, within a timeframe of five to ten years, in support of all low-income countries, SIDs, and landlocked developing countries.

Enhancing financing for global public goods

31. We recognize the need to foster a much enhanced provision of global public goods (GPGs), such as control of communicable diseases, environmental protection, financial stability, and knowledge for development. As an adequate provision of GPGs is in the interest of all, we agree that their financing should not be at the expense of development assistance, but rather be additional.

32. For transparency and efficiency, we also agree that GPG financing should increasingly come from the respective budgets of concerned national sector ministries or agencies, and, when appropriate and feasible, by multilaterally agreed global mechanisms. To support this objective, we request the World Bank and the UNDP, in consultation with relevant stakeholders, to jointly develop proposals for establishing a dual-track accounting system to differentiate ODA for primarily national development purposes from GPG financing, including in the area of technical assistance for capacity building.

33. We call on the multilateral and bilateral financial and development institutions to contribute to the strengthening of public-private cooperation for the provision of GPGs, including through the identification of GPG priority actions for which a concerted effort of coordination and resource mobilization needs to be undertaken, and the use of public financing for GPGs as leverage for private contributions.

Strengthening multilateral development banking
34. Multilateral development banks continue to play an indispensable role in serving the financing requirements of developing countries, including middle-income countries, as well as countries with economies in transition. We shall increase the long-term resources at the disposal of the international financial system, including regional and sub-regional institutions and funds, to allow them to adequately support long- and medium-term economic and social development, technical assistance for capacity-building, and counter-cyclical macroeconomic policies and social protection schemes.

**Innovative sources of multilateral development financing**

35. We also recognize the need to explore innovative sources of multilateral finance to support official development assistance, humanitarian aid, and global public goods.

36. We will examine, among other possibilities, the desirability and feasibility of carbon taxes, currency transactions taxes and the resumption of the issuance of IMF special drawing rights, as well as the strengthening of public-private partnerships in support of development and the possible enhanced role of institutions such as philanthropic foundations. In this regard, we will give careful consideration to the results of the rigorous study commissioned by the Secretary General to consider possible innovative sources of multilateral finance.

**Sustainable debt financing**

37. Sustainable debt financing is an important option that countries have for mobilizing resources for public and private investment. It is in the common interest to avoid serious mismatches between financing needs and repayment capacity and maturity of borrowings, as well as excessive debt burdens that divert resources of developing countries and countries with economies in transition from key productive investments and constrain the ability of governments to finance basic priority expenditures. It is essential to put in place preventive national and international measures, including through technical assistance, to avoid unsustainable accumulation of public and private debt of low- and middle-income developing countries.

38. Noting the importance of providing financial sustainability for the most highly indebted developing countries, we welcome the bilateral initiatives undertaken by many governments to reduce outstanding indebtedness and invite further bilateral and multilateral initiatives in this regard.

39. The Highly Indebted Poor Countries’ Initiative is making additional resources available for development, but a further effort is needed to reduce debt in the HIPC countries to sustainable levels. We call on industrialized countries to expeditiously provide the resources needed for full implementation of HIPC, through strictly additional resources and within arrangements that take fully into account the asymmetries and differentiated responsibilities among creditors.

40. Building on the experience of HIPC II, we also call on the International Monetary Fund and the World Bank to propose further steps to enhance the HIPC initiative, so that its benefits can be more far-reaching, based on the following criteria:

- Assessment of debt sustainability in terms of each country’s capacity to raise the finance needed to achieve the multilaterally agreed development goals.
- Commitment from industrialized countries to provide strictly additional resources, thus preventing the financial burden from falling on developing countries.

41. We further call on the International Monetary Fund and the World Bank to propose policy actions for prompt, comprehensive debt relief to low-income countries, SIDs, and landlocked
developing countries, in the face of natural catastrophes and severe terms of trade and capital account shocks.

**Addressing systemic issues**

42. We recognize the urgent need to enhance the coherence and consistency of the international monetary, financial and trading systems in support of development. To this end, we underline the importance of reforming the international financial architecture, improving global governance and strengthening the UN leadership role.

**REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE**

43. Progress in the reform of the international financial architecture, though significant, falls short of the changes that are needed to ensure adequate support of development and the protection of the most vulnerable countries and social groups from the effects of crises.

44. To promote greater global macroeconomic stability and reduce volatility in the exchange rates of the major currencies, as essential elements of an environment for enhanced and predictable financial flows to developing countries, we call for a strengthened coordination of macroeconomic policies among the leading industrialized countries.

45. The multilateral financial institutions, in particular the IMF, should continue to give high priority to preventing crises and strengthening the underpinnings of international financial stability. In this regard, we call on the Fund and relevant regional bodies to deepen efforts to improve their surveillance of all economies, in particular those of the major industrialized countries that have a significant influence on world economic growth and financial stability, and to support the timely detection of external vulnerability by means of well-designed early warning systems. We also call on the IMF to continue its contribution to the assessment of the role that controls on speculative capital inflows and outflows may play in crisis prevention and crisis management.

46. We call on multilateral financial institutions, in providing policy advice, supporting adjustment programs, and requiring the implementation of multilaterally agreed codes and standards, to respect nationally owned paths of reform, and to pay due regard to the special needs and implementing capacities of developing countries, aiming at the best possible outcomes for the peoples in these countries in terms of growth and development, including employment and social protection.

47. We underline the need to ensure that the multilateral financial institutions have adequate resources to provide emergency financing in a timely and accessible manner to countries affected by financial crises, or in danger of contagion, including through temporary issues of SDRs and more proactive contingency credit lines. In this regard, we also underline the need to enhance the stabilizing role of regional and subregional reserve funds, swap arrangements and similar cooperation mechanisms.

48. To further promote fair burden-sharing and prevent moral hazard, we call on the multilateral international financial institutions to support the development of clearer ex ante rules for equitable distribution of the cost of crisis-resolution adjustments between the public and private sectors and among debtors, creditors, and investors. Mechanisms for such adjustment include
universal bond-holders’ collective action clauses, debt standstills in critical circumstances, and voluntary mediation or arbitration.

**Improving global governance**

49. Many of the issues at the heart of development financing have to do with the global economic governance and its shortcomings. To better reflect the growth of interdependence and enhance legitimacy, global economic governance needs to change in two areas: more broadly based decision making on issues of global concern, and filling organizational gaps. To provide political leadership, as well as to complement and consolidate advances in these two areas, the role of the UN must be strengthened.

50. **More participatory decision making.** We uphold the principle that all members of the international community have an important role to play in economic decision-making and norm-setting. In this regard, broadening and strengthening the representation and participation of developing countries in all global economic decision-making and norm-setting bodies is essential to ensuring the soundness and legitimacy of agreements and their effective and efficient implementation. Increased consultation with civil society and the business sector is also an important component of these efforts.

51. All ad-hoc groupings and forums that lack adequate global representation but, that in effect, make policy recommendations with global repercussions, should take decisive steps to strengthen the work and to support the decisions of multilateral institutions that are more representative and that have clearly defined and broad-based intergovernmental mandates, particularly regarding the global political guidance of the UN in development and international economic issues.

52. We encourage all relevant international policy-making institutions and forums to deepen their efforts to become more accountable, responsive, and transparent to public concerns, as well as to review their composition and consultation mechanisms so as to ensure fuller and broader participation of developing countries.

53. As first steps to more participatory decision making on global issues, we encourage the following actions, to be taken within the mandates and means of the respective institutions and forums:

- **International Monetary Fund and World Bank:** To steadily continue exploring ways and means to enhance the role of developing countries in their decision-making and deliberative bodies, taking into account these countries’ real economic and demographic weight as well as the need to enhance the voice of low-income countries.

- **World Trade Organization:** To ensure that any steering group required to facilitate consensus complies with two conditions: 1) maintenance of the rule of decision-making by consensus and 2) representation of the full WTO membership, based on clear, simple, and objective criteria.

- **Bank for International Settlements, Basel Committees, and Financial Stability Forum:** To enhance their outreach and consultation efforts with developing countries at the regional level and to review their membership to allow for adequate participation of developing countries.

- **Ad hoc groups such as G-20:** To strengthen the work and to support the decisions of multilateral institutions, particularly the UN system, as well as to broaden its membership to allow for more adequate participation of developing countries.
- **Ad hoc groups such as G-8 and G-15:** To strengthen the work and to support the decisions of multilateral institutions, particularly the UN system.

54. **Filling organizational gaps.** In the interest of increased and more equitable world economic growth, social development, and environmental protection, several gaps in global governance need to be addressed. To this end, we shall:

- Actively pursue a higher level of coordination of the multilateral financial and development institutions, which mobilize all relevant stakeholders, public and private, in support of an enhanced provision of global public goods.

- Strengthen the WTO, including by enhancing its focus on the priorities of development, and upgrading its institutional relationship with the UN to a similar level to the one already established among the IMF, the World Bank and the UN.

- Provide the International Labor Organization with instruments to enforce its agreed standards.

- Strengthen international cooperation to optimize collectively the benefits of the movement of labor across national borders, including exploring the benefits of an international agreement on the movement of natural persons.

- Give careful consideration at the World Summit on Sustainable Development, to improving the coordination of the multilateral environmental institutions in support of growth and equitable development.

- Strengthen the coordination of the multilateral financial and development institutions to more decisively mainstream gender into economic and development policies.

- Explore, including through a global network of tax authorities, the potential benefits and optimal design of an International Tax Organization or other tax cooperation forum, taking into account previous efforts in this regard as well as the special needs of developing countries and countries with economies in transition.

- Promote the role of the UN regional commissions and the regional development banks in supporting the reform of the international financial system, as well as in supporting policy dialogue arrangements among peers on macroeconomic and development issues.

**Strengthening the UN role**

55. As an indispensable complement and reinforcement to these steps, we attach the highest priority to the reinvigoration of the United Nations as the fundamental pillar for the promotion of international cooperation to make globalization work for all.

56. We reaffirm our commitment to enable the General Assembly to play effectively its central position as the chief deliberative, policy-making and representative organ of the United Nations and to strengthen further the Economic and Social Council to help it fulfil the role ascribed to it in the UN Charter.

57. We also commit ourselves to ensuring greater policy coherence and better cooperation among the United Nations, its agencies, the Bretton Woods Institutions and the World Trade Organization, as well as other multilateral bodies. The goal is to achieve a coordinated approach to the provision of global public goods and the consolidation of a stronger, stable international
financial system fully responsive to the requirements of growth and equitable development worldwide.

58. To address decisively the global economic governance deficit, we decide to launch open-ended consultations of the General Assembly, with the support of all relevant stakeholders, to explore how to set up, under the aegis of the UN, a world economic body at the highest political level. The role of such a body would be to provide a long-term strategic policy framework to promote economic and social development, to secure consistency in the policy goals of the major international organizations, and to provide political leadership to enhance the coherence and consistency of the international monetary, financial, and trading systems in support of development. The body should be large enough to be representative but small enough to be efficient.

59. To support the General Assembly consultations on this proposal, we request the Secretary-General to encourage public discussions on the issue and to establish a Group of Eminent Persons with the mandate to propose options and recommendations. The results of such consultations should be submitted as soon as possible but not later than the end of the 58th UNGA.

III. STAYING ENGAGED

60. To build a global alliance for financing for development will require an unremitting effort. We thus commit to keep ourselves fully engaged, both to ensure proper follow-up and implementation of the agreements and commitments sealed at this Conference, and also to continue our collective search for mutually beneficial constructive steps.

61. To this end, we shall meet again in 2005, as an open-ended intergovernmental Forum at the level of the highest economic authorities, to fulfill the following mandates:

- To take stock of progress on the implementation of the decisions reached in this Conference, and to take appropriate decisions on any corresponding actions in this regard.

- To continue building bridges between development and finance and trade deliberations and initiatives, within the framework of the holistic agenda of this Conference.

The 2005 Forum should be held under the auspices of the General Assembly, and actively involve all stakeholders associated with the 2002 Conference.

62. The Forum will continue to meet as deemed necessary, until its responsibilities can be transferred to the world economic body referred to in paragraph 58.

63. To carry on the preparatory work of the Forum and its successor body, we have also decided:

- To establish a mechanism for substantive engagement among ECOSOC, the Bretton Woods institutions, and WTO, focused on supporting the implementation and follow-up of the results of this Conference. The arrangements would build on the experience of the ECOSOC-Bretton Woods annual dialogue and other complementary interactions.

- To request the Secretary-General to provide—with collaboration from the secretariats of the major institutional stakeholders concerned—all necessary support to the implementation of the agreements and commitments sealed at this Conference.
This document is intended to provide a framework within which the five sponsoring organizations can achieve this co-operation. The document is dynamic and we encourage each organization to review and to propose other ways in which to intensify the co-operation and new topics for the dialogue. Ideally these proposals should reach the Secretary Generals/Heads of each organization by 1 October 2001.
The Montreal Conference was a unique occasion in that it brought together five international organizations that work in the area of taxation. The discussion during the conference and the common concerns that emerged suggest that such co-operative effort should continue.

It is useful to recall the Conference objectives:

- To examine and debate the key tax administration issues raised by electronic commerce with a view to developing a taxation framework that can accommodate the established taxation principles that operate across a broad range of countries.

- To learn, from the experiences of tax administrations, the practical approaches to electronic commerce, in terms of identifying, auditing and assessing taxpayers and collecting tax due; to examine the responses to those challenges, and the opportunities that are also available for improved efficiency and taxpayer service.

- To identify new Internet opportunities for providing taxpayer service, reducing tax administration costs and improving taxpayer compliance.

- To explore the scope for the development of common guidelines and best practices in tax administration that would both assist tax administrations in their work and help provide for greater international consistency and cooperation in tax administration.

- To identify outstanding issues in this area which will require further joint work by the co-sponsoring organisations.

- To strengthen the ties between the participating tax organisations thereby improving the level and quality of communication and co-ordination between both the organisations and the tax administrations of their member economies. More generally, to develop a framework for
improved international co-operation, including areas that go beyond the issues dealt with by this conference.

It was recognized that we are a family of tax administrations which need to work together to bridge the digital and other divides.

These objectives show that there is a clear interest on the part of the sponsoring organisations to develop guidelines and best practices and that further work is envisaged, as well as a strengthening of the ties between them. The Secretary Generals/Heads of the sponsoring organisations have drafted this note, with the assistance of the hosting country. The note has benefited from a first round of discussions at the concluding session of the conference. It addressed three related issues:

• How can the five sponsoring organisations maintain this dialogue on the implications for tax administration of Electronic Commerce in a way that allows participation of their member countries, and the involvement of other interested organizations and countries, in a manageable format?
• What other areas are there for potential co-operation?
• What mechanisms can be put in place to facilitate the ongoing co-operation?

Maintaining the dialogue on electronic commerce

E-commerce is driving much of the move towards globalisation and, indeed, is the underlying basis of the Montreal conference. It follows that this topic is likely to be of ongoing interest to all tax administrations as the growth in international trade, international movements of capital and increased ability to effect trade without physical presence challenge existing tax norms. Consequently there is a need for an ongoing cooperation and dialogue to enable each organisation to remain aware of the interests of, and developments in, other organizations recognizing that countries are in different positions as regards resource constraints and their level of development. Neither globalisation nor e-commerce respects the artificiality of any regional groupings and it is a major challenge to all countries and organisations to develop mutually compatible responses.

The co-sponsoring organisations propose that this work should focus on four related areas:

• Tax administration issues such as the introduction of new technologies, personnel management and compliance issues
• Implications of consumption tax to cross-border electronic commerce transactions
• Using new technologies to improve taxpayer service and education
• Direct taxation and exchange of information

The aim of the co-operation in each of these areas would be to establish guidance or best practices for tax administrations, recognizing that countries are in different positions as regards resource constraints and their level of development. Each organisation would remain free to establish its own standards reflecting the specific needs of its membership, but wherever possible common standards should be aimed for.

To achieve this, it is proposed that:

• Each organisation circulates as appropriate draft discussion papers to the other participating institutions giving them an opportunity to comment before any proposals are finalised.
• they would become common (non-binding) standards for the organisations which have endorsed them.
These guidelines and best practices could be issued separately or jointly by each organisation.

2. Other areas

Given the global environment within which tax administrations operate there are many other areas where co-operation between tax administrations could be beneficial.

Examples could include:

1. The introduction of new technologies into tax administrations
2. Managing personnel
3. Compliance management issues
4. Access to banking information
5. Links between customs and excise officials and direct tax authorities
6. Audit techniques for large multi-national enterprises
7. Protecting the confidentiality of data
8. Assistance in the collection of taxes due

To identify areas which could be useful as part of a common programme, it is proposed that each of the sponsoring organisations be asked to submit a list of the issues which it is currently examining, and to give its ideas on which of these areas would be appropriate for a broader exchange of views. Such information could be exchanged by way of the website initiative referred to below.

3. What mechanisms are available to promote this ongoing co-operation?

The aim should be to find informal and non-bureaucratic ways of taking forward this co-operation and which would enable each organisation to serve the interests of its members. The Secretary Generals/Heads consider that it would be useful to explore the following options:

1. To maintain the existence of the informal Steering Group of the Heads/Secretary Generals of each of the sponsoring organisations. The existing Montreal Steering Group would form the core of this new group, although other interested organizations would be welcome. The group would meet once or twice a year, back to back with the annual conferences of the sponsoring organisations. Its function would be to oversee the programme of co-operation, identifying emerging issues and organise conferences and other joint events as appropriate and in consultation with its membership.
2. To link the websites of the sponsoring organisations. Each organisation would undertake to link its website to that of the other organizations and encourage an active use of these sites.
3. To develop a world-wide tax knowledge web-site to enable a global information base to be built up providing a secure environment within which tax administrations can share experiences.
4. To explore the development of joint series on tax administrations where each of the sponsoring organisations agree upon guidelines and best practices.
5. To examine how partnerships could be further developed in the areas of joint interest.
6. To organise, as appropriate, joint conferences on issues of mutual interest at which would attract Commissioner level participation.

The Secretary Generals/Heads of the co-sponsoring organisations will develop these ideas further on the basis of the discussions at the final session on Wednesday morning and in consultation with their member states.
The Secretary Generals/Heads of the co-sponsoring organizations stress that this informal co-operation should be inclusive with all countries playing an equal role. Consideration should be given to ensure that resource constraints do not prevent the active participation of developing countries.