DRAFT PROGRAM DOCUMENT

April 2010

Topical Trust Fund

Tax Policy and Administration (TTF)

International Monetary Fund

GLOBAL PARTNERSHIPS

Shared Objectives • Joint Action • Real Impact

A Multi-Donor Trust Fund for
IMF Capacity Building Technical Assistance

in

Tax Policy and Administration

—Providing Revenue for Development—

PROGRAM DOCUMENT

(Draft—April 2010)

4040555-7

Contents Page

I. Background.....5
A. Tax system reform and the development agenda.....5
B. The benefits for recipient countries and donors.....8
C. The key challenges.....9

II. Trust Fund Proposal.....11
A. Objectives and outcomes.....11
B. Scope and nature of the Trust Fund.....11
C. Eligible countries.....12
D. Reform modules.....14
E. Research and analytical work.....20
F. Projected resource needs.....21
G. Management and integration.....25

III. Governance and Operational Arrangements.....28
A. Governance structure.....28
B. The work plan.....29
C. Accountability and quality control.....29
D. Evaluation.....30

IV. Financing and Administrative Issues.....30
A. Financing.....30
B. Administrative arrangements.....31

Tables
1. Major donor support by region.....7
2. Distribution of low and low middle income countries.....14
3. Factors to consider in assessing candidates for the topical trust fund.....15
4. Trust fund modules and outcomes.....19
5. Resource needs and expenditure.....22
6. Distribution by module and region.....23

Figures
1. Percentage distribution of trust Fund expenses.....22
2. Regional distribution by projected cost.....23
3. Relative size of modules.....24
4. Module delivery (years 1-5).....24
5. Framework for technical assistance in the IMF.....26

Boxes
1. Regional challenges for revenue reform.....10
2. Lessons learned from past reforms: Foundations of success.....13
3. Tax policy reform principles.....17

4. Principles of effective tax administration 18
5. Examples of integrated programmatic delivery of TA by IMF 27

Appendixes

Logical framework for the topical trust fund....................33

TAX POLICY AND ADMINISTRATION TOPICAL TRUST FUND AT A GLANCE

- ✓ Beyond its obvious role in generating revenue needed for providing essential public services and public goods, it is generally agreed that a well designed and properly administered tax system contributes far more broadly than its contribution of revenue alone—including as a core element in state building.
- ✓ Achieving MDGs requires substantial public investments. Preliminary calculations show resource needs ranging between 15 and 22 percent of GDP.
- ✓ Even if official development assistance (ODA) projections materialize, domestic resource mobilization provides a critical anchor for amassing this level of investment as external resources, particularly grants, are likely to decelerate in the wake of financial crisis in the advanced and emerging world.
- ✓ Many low and lower middle income countries are dependent to a significant degree on ODA for development. At the same time, the level of the shadow economy is estimated in one study to be around one-third of official GDP, holding back delivery of the MDGs.
- ✓ Strengthened revenue administration is a key component of domestic resource mobilization for development, growth and reduced external assistance. Many low and lower middle income countries have chronically low tax collection due to poor policies and weak administration. A key objective for the trust fund is to help reduce long-term aid dependency in low and lower middle income countries.
- ✓ There is clear demand from countries for up scaling in revenue policy and administration TA, above that already provided by the IMF to member countries. The trust fund is designed to help to meet this increased demand.
- ✓ Nine modules will address critical areas in building sustainable revenue systems. As needed, they will be delivered individually or in small packages, or integrated into a sequenced program over several years, working in collaboration with existing donor programs.
- ✓ The global topical trust fund would have an initial phase of 5 years, and cost in the region of $40 million to deliver TA to an estimated 15-20 low and lower middle income countries.
- ✓ Contributions will be administered under a multi-donor trust fund subaccount to be established by the IMF, and be guided by a steering committee composed of donor representatives and IMF staff. A framework of outputs and outcomes will be developed to effectively monitor the achievement of key objectives of each project.

I. Background

A. Tax system reform and the development agenda

1. **An effective tax system is a core function of an effective state.** Beyond its obvious role in generating revenue needed for providing essential public services and public goods, it is generally agreed that a well designed and properly administered tax system contributes far more broadly than its contribution of revenue alone.[1] It is one of the foundations needed to buttress sustainable economic growth:

- ✓ It helps formalize the economy by broadening participation and reducing tax evasion.
- ✓ It encourages growth of the small and medium business sector that is an engine for employment and growth in many developing economies.
- ✓ It is part of a social contract that underpins social cohesion and helps shape political governance.
- ✓ Over time, raising the tax-to-GDP ratio together with sustainable economic growth provide the path for developing countries to eliminate aid dependency.

2. **For this reason the Monterrey consensus, in 2002, committed developing countries to deliver effective, efficient, transparent and accountable tax systems, in return for increased international development assistance.[2]** The international community has formed a global partnership to achieve the Millennium Development Goals (MDGs) in the developing world.[3] The eight MDGs– which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – constitute basic blocks of economic development and poverty reduction.

3. **Achieving MDGs requires substantial public investments.** Preliminary calculations show resource needs ranging between 15 and 22 percent of GDP. Even if Official Development Assistance (ODA) projections materialize, domestic resource mobilization provides a critical anchor for amassing this level of investment.

4. **Strengthening tax systems in developing countries is central to domestic resource mobilization for development and reducing aid dependency.** Of 90 low and lower middle income countries for which complete data is available, half have under-performing tax

---

[1] *Why Tax Matters for International Development*, DFID, May 2009; and *Governance, Taxation and Accountability,* DAC Guidelines and Reference Series, OECD, 2008.

[2] The 2008 Doha Declaration, following-up on Monterrey implementation, also affirmed intentions to continue with tax reform to enhance macroeconomic policies and mobilize domestic public resources.

[3] For all Financing for Development documents, see http://www.un.org/esa/ffd/ .

revenue collection. In this group of countries a third have moderate to high levels of ODA and a quarter have both moderate to high ODA and particularly weak revenue mobilization. A recent study commissioned by the Norwegian Ministry of Foreign Affairs that looked in depth at the issues involved with collecting tax to pay for development reported that the shadow economy in low income countries was around one-third of GDP, and that addressing the revenue leakage from capital flight and tax evasion could be more than sufficient to finance the achievement of the MDGs.[4]

5. **Addressing the erosion of national tax bases from tax evasion and avoidance crossing national boundaries fits squarely into this agenda.** This is consistent with the IMF's long-standing emphasis on promoting efficient and equitable revenue mobilization, thereby furthering good governance and achievement of the MDGs.

6. **An increase in domestically generated resources will allow countries flexibility in formulating and implementing policies that address their economic and developmental challenges.** This in turn will reduce dependency on external flows, which can be volatile, and increase their policy space and ownership of development programs.

7. **A program of comprehensive reform of the tax institutions also has the potential to be a major driver of improved overall governance.** Where corruption is a major problem, the tax system is usually a major culprit. The tax system has tentacles into other government areas, such as the legal system. By clarifying the law and regulations controlling tax, the importance of the rule of law, generally, is strengthened. By increasing the accountability of tax administrations, the role of government audit agencies and parliament can be strengthened. Through this, reform of the tax administration has the potential to profoundly shape and strengthen political governance.

8. **The topical trust fund is needed to meet these objectives and satisfy an increased demand for TA.** The IMF already provides considerable TA in areas of its core expertise: macroeconomic policy, tax policy and administration, expenditure management, monetary policy, the exchange rate system, financial sector sustainability, and macroeconomic and financial statistics. TA currently accounts for about one-fifth of the IMF's operating budget. It is financed from both internal and external sources, comprising funds from both bilateral and multilateral donors.

9. **There are clear recent demands from member countries for an up scaling of this TA.** One driver has been recognition in some countries during the recent global crisis that building effective revenue systems is central to long-term development goals. The trust fund will supplement the existing IMF TA programs, including that delivered from headquarters and through its network of regional technical assistance centers (RTACs).

---

[4] Tax Justice Network, *Closing the Floodgates—Collecting tax to pay for development*, 2007.

10. **Donors are seeking more impact from their TA spending and greater efficiency.** Table 1 provides an indication of the breadth of support from the major donor community for tax reform projects in each region. Where other donors are present, the trust fund will contribute to the effectiveness of these existing donor funded TA by:

- ✓ where it is needed, establishing or updating an overall framework for the reforms designed to reflect best international practice and in conjunction with the needs identified during the area department's surveillance assessments.
- ✓ focusing on gaps in reform coverage in key areas.
- ✓ providing recommendations on reform priorities grounded in best international practice, and giving advice on sequencing and timing which can be used by donors as an input to their own TA plans.
- ✓ closely coordinating with other donor-funded TA providers to integrate work programs, and share with donors the TA findings and reports produced in diagnostic missions.

Table 1. Major donor support by region

	AFR	APD	EUR	MCD	WHD
ADB		✓		✓	
AfDB	✓				
Canada	✓	✓			✓
DFID	✓		✓	✓	
EU	✓	✓	✓	✓	
France	✓	✓	✓	✓	
GTZ	✓		✓		
Japan	✓	✓		✓	
Norway	✓		✓		
Netherlands			✓	✓	
Sweden			✓		
Switzerland	✓		✓	✓	
US	✓	✓	✓	✓	✓
World Bank	✓	✓	✓	✓	✓

11. **The trust fund will deliver TA to LICs and LMICs that have the biggest revenue problems and have expressed strong interest in comprehensive reform.** TA interventions will be planned with country authorities to best achieve government objectives for the tax system. In some countries, the interventions may be limited to one area of tax policy or administration, and these will be a contribution to the broader government reform plans that will likely integrate policy, legislation and administration measures over the long-term. Critically the TA will be closely coordinated with the existing TA programs of donors through consultation in the planning stages and throughout implementation.

B. The benefits for recipient countries and donors

12. **Building an effective tax system is a core responsibility of central government, with benefits well beyond revenue gathering.** Without it, a country cannot hope to have the predictable and sustainable revenue stream needed to pay for basic public services, such as good schools and hospitals, and care of the vulnerable sections of society such as the elderly. It is an essential building block in the development of a growing long-term economy. Small business growth is an engine for any developing country's economy. Expanding the small business sector to provide employment is much more difficult if tax design distorts investment and administration imposes high compliance costs that are a disincentive to take on staff. Predictable revenue flows are essential to a strategy of reducing poverty and aid dependency, and promoting good governance.

13. **The trust fund will assist countries to deal with some of the causes of fiscal pressure.** Many countries face significant fiscal deficits and are reliant on aid for budget support. Others are dealing with the need to mobilize revenues as traditional revenue sources are declining, e.g., as a result of tariff reform, or introduce or modernize taxes such as VAT. Many are struggling with widespread non compliance, and taxes and administrative approaches poorly aligned with the profile of taxpayer segments. Social pressure to improve the integrity of the tax system and government is driving many reforms.

14. **The trust fund will help to improve revenue policies.** It will help to promote better alignment of tax policy design, the profile of the main taxpayer segments (large, medium and small), and tax administration capacity leading to pro-growth tax regimes that contribute to an environment of social justice and improve human development indicators. Key problems that can be addressed under the trust fund are:

- ✓ Absence of one or more of the core building blocks of any sound tax system, such as personal income tax, corporate income tax, value-added tax and excise taxes; and relatively heavy reliance on non-tax revenue.
- ✓ Lack of coherence with overall economic objectives, with, for example, trade liberalization without a corresponding increase in domestic taxes, or the simultaneous taxation and subsidization of a given economic sector (oil and gas, for example).
- ✓ Proliferation of nuisance taxes that complicate tax collection, and create opportunities for systemic corruption.
- ✓ Complex tax design that is not aligned with local administrative capacity (including necessary administrative processes).
- ✓ Ubiquitous presence of tax incentives of various sorts, often coupled with high marginal rates and narrow tax bases.

- ✓ A fragmented tax policy-making process, with many ministries/agencies producing tax policies without adequate oversight by the Ministry of Finance, which should be responsible for overall economic management (including budgetary policy).

15. **The trust fund will address administrative weaknesses that are at the heart of low revenue collections.** Tax administrations in LICs and LMICs often need to correct the following deficiencies: (1) weak and fragmented structures, (2) unclear accountability lines; (3) badly designed operational processes; (4) inadequate information technology; (5) poorly trained staff and low skilled managers; and (6) inadequate resources. Until these problems are addressed, the result is all too often: poorly designed taxpayer services, lack of enforcement of tax return filing and tax payment, and audit which is unable to detect and deter serious evasion and tax avoidance.

16. **The trust fund will improve the quality of legislation and regulations.** Legislation establishing the tax administration as a unified agency reporting to the minister of finance, a tax procedure code to harmonize core filing and payment obligations, and clear legislation to impose the main taxes, are all essential to underpin a sound revenue strategy. Often this is absent.

17. **The trust fund approach will promote learning in a number of ways.** It will encourage peer learning, have an active program of disseminating the lessons learned from the implementation of TA projects, facilitate south-south cooperation, and share best practices amongst recipients, donors and within the IMF.

C. The key challenges

18. **In low income and lower middle income countries, there is typically extremely limited capacity to undertake reforms.** Most face enormous challenges in managing the task of upskilling of human resources and upgrading of systems and processes. Such countries are trapped by a combination of a lack of understanding of modern tax policy and administrative approaches, and the resources to implement reforms. Donors provide a lifeline through funding revenue reform programs and providing expertise. Comprehensive reforms take time and are expensive. There are many examples of reform efforts that have failed to yield results. Donors are looking at ways to improve outcomes and make the aid budget stretch further. While many problems cross all regions, some regions face particular challenges. Box 1 shows some of the key challenges by region.

Box 1. Regional challenges for revenue reform

Africa. Revenue performance is low in many countries, largely because the basic systems and processes of tax administration remain underdeveloped. Practical application of the fundamental principles of modern tax administration (voluntary compliance, self-assessment, and risk-based approaches to enforcement) is limited, and organization and management is often weak. Revenue reform has generally been slow and piecemeal, with insufficient attention given to comprehensive revenue strategies and reform program management.

Asia Pacific. For a number of countries, opportunities remain to broaden the tax base, mobilize revenues, and improve compliance management through better systems, organization and management of tax administration.

European region. Good progress has been made in South-Eastern Europe in strengthening overall fiscal performance, but systems of revenue administration remain fragile in some Balkan countries (e.g., further work is needed to develop risk-based compliance programs, and IT systems need upgrading). Strong donor support, especially from the EU, has been instrumental in moving these countries forward, including towards adoption of EU blueprint requirements in tax administration.

Middle East and Central Asia. Several countries are struggling to overcome outmoded administrative assessment practices and adapt to self-assessment approaches that are characteristic of modern revenue administration. Risk-management and service-oriented approaches are not readily embraced. Some tax administrations are yet to replace fragmented organizational arrangements with more efficient function-based structures. In a number of cases, there has been a tendency towards piecemeal rather than comprehensive reform.

Western Hemisphere. Most countries in South America have undertaken reforms to modernize revenue administration operations, but weaknesses remain—especially in areas of organization (e.g., deficient headquarter functions) and compliance and risk management programs. Opportunities exist to simplify the tax policy frameworks of some Central American countries.

19. **All of these countries need a more integrated and programmatic approach to reform to achieve the goal of a tax system that performs its full economic function.** This starts with building a vision of the tax system needed to deal with the demands of a rapidly modernizing economy, and building a sensible plan to transition from the status quo to achieve this vision. Such countries then need support, both specialist advice and financial, to implement these plans. Significant donor support is essential to success. Without the continuity provided by a programmatic approach these reform efforts are likely to be far less successful. Without the power of a well constructed reform plan, donor resources can often be dissipated and intended outcomes disappointing. The reform efforts of many low and lower middle income countries would be substantially improved by coalescing around a more programmatic approach. The interventions under the trust fund will contribute to this more programmatic approach.

II. Trust Fund Proposal

A. Objectives and outcomes

20. **The overarching objective of TA in revenue policy and administration in low- and lower middle-income countries is to ensure that needed public spending is financed without jeopardizing fiscal stability.** Inadequate revenue mobilization is a potential risk to long-term macroeconomic stability, and it constrains spending (e.g., on education, health, infrastructure) needed for sustained development and poverty reduction. In this respect, there is a direct link to the objectives of the poverty reduction strategies prepared by countries. Most countries also need to improve the structure of their tax systems, to make them more supportive of efficiency and growth and to improve equity. The challenges they face in this task are multiple: weak technical support to policymakers; shortage of qualified personnel for drafting tax laws and ensuring their consistency with the national legal system; reliance on a limited number of taxes, and ineffective and sometimes corrupt revenue administrations.

21. **The main outcomes to be expected from a reform program should include:**

- ✓ Improved revenue performance—especially where the tax-to-GDP ratio is below the levels required for fiscal sustainability and longer-term growth.
- ✓ Improved revenue policy design, and increased capacity within the ministry of finance to evaluate future reform options.
- ✓ Improved quality of legislation and regulations establishing tax laws and governing their administration.
- ✓ Implementation of cost effective systems of revenue administration based on modern concepts of self-assessment; taxpayer segmentation; sound organization and management; and function-based operations using appropriate technology.
- ✓ Reduced compliance costs for taxpayers through straight-forward assessment, filing and payment arrangements, and effective taxpayer services.
- ✓ Increased capacity in the tax administration to manage the tax system and adapt to future needs.
- ✓ Increased integrity in the tax system and its administration which contributes to wider public sector governance and transparency goals.

B. Scope and nature of the Trust Fund

22. **Comprehensive policy and administration reform is usually a major undertaking spanning several years.** Typically, this will involve TA from many sources. It requires realistic implementation plans, reflective of the needs and capacity of the country. It requires strong and sustained commitment from the authorities at all levels, and mobilization and effective management of resources for implementation. The trust fund is intended to

deliver integrated advice to implement key components of the reform dealing with: (1) revenue strategy formulation; (2) establishment of effective reform management arrangements and monitoring implementation; (3) tax policy design; (4) tax organization structure; (5) core tax administration functions and support activities; (6) drafting of the legislation needed to implement the reforms; and (7) efforts to improve the integrity of the tax system.

23. **These tasks will be carried out in partnership** with the authorities and alongside donor funded specialized and downstream implementation activities (such as implementation of information technology, development of manuals, design and delivery of training, etc). Reform programs necessarily involve meaningful engagement between the government, the tax authorities, civil society and international development partners.

24. **Key to the proposal is the IMF's cross-country experience and knowledge, and its unique ability to integrate the design of revenue policy, legislation and administration.** Revenue reform programs are known to be more successful when these three elements are closely coordinated. Unless policy and administrative designs are informed by each other, and their implementation is properly sequenced and timed, good outcomes are unlikely. In addition, the IMF aims to also exploit its extensive cross-country knowledge of TA and bring to bear its broader understanding of countries' macroeconomic needs from its surveillance role. It will coordinate the downstream work programs of its RTACs to support trust fund objectives in relevant countries, and coordinate with other multilateral TA providers to ensure reforms are effectively delivered. In this regard, the Trust Fund will build on the lessons learned from past experience which make for effective reforms (box 2).

C. Eligible countries

25. **There are 104 low and lower middle income countries with per capita incomes below $3,705 and a combined population of 4.7 billion, with many living in poverty (table 2).** The trust fund is directed towards improving revenue policy and administration in a selection of these countries. The best candidates for the trust fund are those countries where a programmatic approach could be sustained over time, or where one or two key reform components are needed as key planks towards a sustainable revenue strategy.

26. **The trust fund will focus on countries where there is not already a major donor funded reform program, and will give preference to countries where improvement of tax revenue is critical to revenue mobilization.**[5] The final selection of countries will take into account the urgency to mobilize revenue, the stated priority given to revenue reform in

[5] Those countries where natural resource revenues are a highly significant component of national income may also benefit from the proposed trust fund dealing with improving the management of natural resource wealth.

countries' own developmental strategies, the assessment of the Fund's area departments as to the importance of revenue improvement to macroeconomic stabilization, and prospects for sustaining and successfully completing a program of TA. Prospects for success take into account assessed levels of commitment, domestic absorptive and implementation capacity, and the potential for donor support for further downstream implementation activities. Table 3 sets out the possible factors to consider in assessing candidates for the topical trust fund.

Box 2. Lessons learned from past reforms: Foundations of success

- Unequivocal support from the political leadership.
- Support of civil society.
- Support from and coordination between international development partners.
- Stability in the executive group of the tax agency.
- Buy-in from the leadership group of the tax agency on the need for reform and the associated business strategies.
- Strong counterparts (to missions and visiting experts) who are consistently available and engaged.
- Clarity on reform objectives with well-scoped briefs that make statements about what is in scope, and what is not, to guide expectations.
- TA that is well aligned with these objectives: Takes a medium term perspective, is properly prioritized, sequenced and timetabled.
- TA advisors that are accessible and approachable with core skills that go beyond the technical – notably strong inter-personal skills and having a sense of credibility.
- Building sound relationships with authorities at local level.
- Securing buy-in for the technical assistance by involving a core local team in: (1) designing the reform agenda; (2) identification and synthesis of the issues; (3) formulation of recommendations and reform plan; (4) communicating the reform plan to all stakeholders; (5) developing the change management strategy; and (6) actively monitoring the status of reform implementation.
- Regular communications and follow through that confirms understanding of the key issues within the TA advice.

27. **The final selection of countries will be determined after further discussion with potential recipients and donors.** On the basis of this preliminary work, it is estimated that two or three countries could receive a full program of modules, with a further 15 countries receiving elements of 1-3 modules.

Table 2. Distribution of low and low middle income countries

	Total	AFR	APD	EUR	MCD	WHD
Total						
Number of low- and low middle-income countries	103	38	25	5	23	12
Total population (millions)	4,676.4	697.1	3,217.5	n/a	546.6	155.9
Average population (millions)	45.4	18.3	128.7	n/a	23.8	13.0
Of which						
LICs						
Number of countries	49	31	9	0	8	1
Total population (millions)	1,268.5	652.0	371.5	n/a	235.4	9.6
Average population (millions)	25.9	21.0	41.3	n/a	33.6	9.6
Average GNI per capita		$444	$478	n/a	$623	$560
LMICs						
Number of countries	54	7	16	5	15	11
Total population (millions)	3,407.9	45.1	2,846.0	59.3	311.2	146.3
Average population (millions)	63.1	6.4	177.0	11.9	22.2	13.3
Average GNI per capita		$2,074	$2,037	$2,828	$2,006	$2,312

Source: World Bank and IMF.

D. Reform modules

28. **The programmatic approach is designed around nine modules potentially constituting a multi-year revenue reform program.** A full reform package entails designing, agreeing, and implementing a closely integrated set of policy, administration and legislation changes over the medium term, consistent with country absorptive capacity. Technical assistance inputs for each of the modules will deliver specific outputs leading ultimately to a range of interrelated outcomes that are thematically clustered as follows:

- ✓ Diagnosis and development of a reform strategy with strong country ownership (module 1) and creation of capacity to effectively manage the reforms (module 2).
- ✓ Development and adoption of sound tax policies (module 3).
- ✓ Development and implementation of an effective tax administration organization (module 4) and its core functions (modules 5-7) and support functions (module 8).
- ✓ Development and application of integrity enhancement measures (module 9).

29. **This programmatic approach will, however, be implemented flexibly, taking into account country circumstances.** In a number of countries, it will be appropriate for only selected modules to be implemented, reflecting absorptive capacity and government priorities.

Table 3. Factors to consider in assessing candidates for the topical trust fund

Attribute	Relevant Factors
Existing comprehensive reform program	There is a substantive reform program well underway that addresses a broad range of policy and administration issues, and this is supported by substantive donor funding. This may or may not be guided by ongoing FAD advice. In these circumstances, existing TA should continue and the country is not an ideal candidate for coverage under the trust Fund.
Tax:GDP	A low tax:GDP is an indicator of the lack of effectiveness and efficiency of the tax policy and administration framework.
Importance of aid contribution to budget support	ODA provides a significant level of budget support or is needed for infrastructure development.
Area department priority	Set as a priority rating by area department and evidence of: (1) strong rationale and reasoning for revenue administration as a TA priority in area department RSN; (2) an active Fund program with revenue administration as an important component; (3) consistent emphasis of revenue administration issues by the area department in staff documents.
Strategic priority of country authorities	Evidence that revenue administration reform is a clearly stated priority in the countries own development plans.
Breadth and depth of reform commitment	Evidence of: (1) strong public advocacy of reform by the minister; (2) the minister and government having political power and demonstrating commitment to act on a reform agenda; (3) action being taken to increase accountability in the revenue agencies; (4) the heads of the tax and customs agencies having real power to advance the reforms and are actively leading the reform effort; (5) a strong senior management group that is supporting the reform effort; (6) civil society pressure demanding reforms in public sector agencies generally; (7) concerted business community criticism of the revenue agencies competence and integrity; (8) revenue administration internal and external stakeholders being well informed about the reform agenda and agreeing with its objectives.
Domestic implementation capacity	Evidence of: (1) preparedness to implement effective project governance arrangements; (2) the allocation of internal resources to support implementation and absorptive capacity;
Donor supported implementation capacity	Evidence of: (1) existing donor interest; (2) the presence of committed donors or potential donors to support implementation;
Implementation track record	Evidence that: (1) past FAD TA recommendations been implemented or seriously attempted; (2) other donors have achieved good success in implementing reform measures consistent with FAD TA advice; (3) the authorities are pursuing reform initiatives that are consistent with best practice (integration, function-based organizations, segmentation, effective HQ and field networks, sound IT strategies); (4) quality of implementation by the authorities has been of a good standard and a reasonable implementation pace has been maintained.

30. **For countries where major involvement in all modules is appropriate, the reform program would proceed as follows:**

- ✓ As a foundation for each revenue reform, modules 1 and 2 would be completed early in each program, usually in the first year. A module 2 element will be an annual 'health check' to corroborate that the reform mechanisms continue to function properly.
- ✓ Tax policy issues (module 3) will be tackled across the entire program, beginning with a broad framework definition emerging from module 1 efforts, sequenced to correlate with the administration reforms and capacity building delivered in modules 4 - 9. Box 3 highlights the principles that underpin sound tax policy advice and inputs.
- ✓ A clear vision of the targeted end-state of a modern, effective, and realistically achievable tax administration must guide each program. Principles of modern and effective tax administration, such as self-assessment, voluntary compliance, clear and simple laws and procedures, strategies and organizational structures based on taxpayer segments, risk-based approaches particularly for audit, and a balance between service and enforcement (box 4), apply equally in LIC/LMIC environments as in those of more developed countries.
- ✓ Creation of an effective tax administration may require program resources over a number of years across six modules. Given the complexities and magnitude of the task, administrative efforts are split into four manageable modules: (1) instituting a sound organizational model (module 4); (2) developing and implementing effective core business functions (modules 5-7) in areas of registration, payment and filing processes, filing and debt enforcement, audit, investigations, and dispute resolution, and taxpayer services; (3) ensuring key functions critical to support core operations are in place (module 8) such as corporate planning and budgeting, monitoring operational performance, human resource policies and practices, and information technology for core and support activities; and (4) cross-cutting measures to promote integrity and transparency (module 9) including public dissemination of plans and outcomes, effective internal audit and staff affairs units, a taxpayer charter, and a staff code of conduct.

Box 3. Tax Policy Reform Principles

Efficiency/ Neutrality. Taxes should be raised, as much as possible, in a non-distorting fashion, leaving economic choices the same as they would have been without taxes. This involves, for example, minimizing tax exemptions and special regimes whereby governments try to favor specific economic sectors or economic activities.

Simplicity and transparency. Simple taxes are good taxes, for all can understand them and few can evade them. In this respect, a tax with simple rules, few and low rates, minimal exemptions, as well as a clear, wide and measurable base provide more revenue and less opportunity for evasion. Furthermore, the tax system should be based on few such taxes in order to avoid the proliferation of small inefficient taxes that represent heavy administrative costs and provide opportunities for corruption.

Equity. Although countries may hold widely different views on equity, it is generally suggested that individuals with similar incomes should pay similar taxes (horizontal equity) and that individuals with higher income should pay more taxes (vertical equity).

High revenue generating capacity. The tax system should be able to supply the government with the resources it needs to meet its spending obligations on a sustainable basis. Furthermore, as tax revenues from different taxes might fluctuate, the tax system should rely on a mix of a few taxes to lower the risk of wide annual fluctuations in overall tax revenue.

Harmonization/ Coordination with other systems. Tax harmonization and coordination with economic partners or geographical neighbors will help prevent opportunities for various forms of tax avoidance and/ or evasion, and avoid incentives for tax competition that could lead to revenue loss.

Greater reliance on domestic taxes. Less reliance on distortionary trade taxes and greater reliance on domestic taxes such as VAT and excises which tax all goods and services irrespective of their origins, helps countries to obtain the benefits of free and open trade, as well as to prepare for WTO entry when that is feasible.

Feasibility. The design of taxes should be aligned with the capacity of tax administration to actually implement and collect tax revenue.

Integration. All main taxes should be consistent, in terms of thresholds, rates and registration in order to ensure fair treatment of all taxpayers, and minimize administrative costs.

31. **Experience has shown that successful LIC/LMIC revenue reform examples have often occurred over a long period, although significant progress is usually demonstrated in the early years as the foundations are established.** This reality must be recognized in the design of TTF revenue reform programs even in favorable circumstances. While an effective tax administration organization can and must be established relatively quickly (i.e. within the first few years of a reform program), and similarly the key integrity measures are desirable relatively quickly, elements of the major modules (5-8) to overhaul and embed effective core operational and support functions often require a longer horizon that will exceed the duration of the trust fund. Although progress towards meeting the targeted end-state and outcomes should be substantial, their full completion will not always be realistic. Recognizing this, the trust fund will initially select two or three countries to be a pilot for a full program of reform to test the concept before expanding this more broadly. At the same time the trust fund will deliver selected modules from within the full program to a larger group of low and lower income countries. This means that all modules delivered will be in the context of an overall framework of long-term comprehensive reform.

Box 4. Principles of Effective Tax Administration

A proper legal framework for tax administration that provides an appropriate balance between the rights of taxpayers and the powers of the tax agency.

Efficient organizational and staffing arrangements, featuring strong headquarters; function-based organizational design; minimal management layers and appropriate spans of control; streamlined field operations; and organizational alignment to key taxpayer segments (e.g., a large taxpayer office); and sufficient numbers of staff assigned to each level of the organization and each function.

A system of self-assessmen*t* directed at creating an environment of taxpayer voluntary compliance (thereby minimizing intrusion of revenue officials in the affairs of voluntary taxpayers, while concentrating enforcement efforts on those representing a higher risk).

Streamlined collection systems and procedures aimed at securing timely revenues without imposing undue compliance costs and inconvenience on the business sector.

Service oriented approaches whereby the tax administration operates as a trusted advisor and educator, ensuring that taxpayers have the information and support they need to meet their obligations voluntarily.

Risk-based audit and other verification programs aimed at detecting taxpayers who present the greatest risks to the tax system, supported by effective dispute resolution.

Extensive use of IT to gather and process taxpayer information, undertake selective checking based on risk analysis, automatically exchange information between government agencies, and provide timely information to support management decision making and tax policy formulation.

Modern human resource management practices that provides incentives for high performance and non-corrupt behavior among tax officers as well as develops staff skills and professionalism.

Effective models for ongoing institutional change, including enhancing strategic planning capabilities, building coalitions with external stakeholders, and developing an internal culture that is receptive to change.

An environment of integrity and good governance with transparency of taxpayer rights and required staff conduct, with mechanisms to assure integrity of systems, procedures, and staff practices, and to regularly inform the public of organizational goals, plans, efforts, and outcomes.

32. **A standard program covering all modules will need inputs of approximately 2,000 person-days across a mix of technical assistance modes including missions, expert assignments, and headquarters based activities over a typical five year period.** This is envisaged to transform the tax policies and administrative capacity in a ‘typical’ LIC/LMIC to the end-state outcomes shown at Table 4. However, in many cases the actual program will vary from the standard, in terms of both length and resource requirements, due to different starting points in the reform cycle, the absorptive capacity of each country, and the ability and pace at which other essential complementary resources are mobilized. This may necessitate more or less of the standard inputs in any module. For modules 3 – 8, the pace at which the assistance can be effectively utilized will dictate the extent of delivery of outcomes. Each module, however, will include clearly defined and tangible milestones to provide the basis for monitoring implementation.

33. **A comprehensive reform program reflects the importance of investing significant resources at start-up to enhance the prospects for success.** This is followed by sizeable inputs in policy design, development and implementation that is fully coordinated and sequenced with slightly more than half of a program resources devoted to tax administration reform.

Table 4. Trust Fund modules and outcomes

Module	Outcomes
Module 1: Revenue strategy	- A high level integrated strategic plan for revenue reform for the medium term, encompassing the policy, legislative and administrative framework. The plan will lay out the main policy and administrative principles on which the implementation program will be based. - Publication of the reform strategic plan. - A multi-year resource mobilization plan (financial and non-financial) to support implementation of the strategy.
Module 2: Reform management	- A high level steering committee (with inter-agency participation where appropriate) reporting at government level is in place to supervise reform program. - A project management document sets out the project accountabilities. - Financial resources needed for implementation are appropriated prior to the commencement of each year. - Human resources are allocated to the reform program consistent with the project resource mobilization plan. - An annual review of the reform program is undertaken.

Module 3: Policy	- The tax policy framework contains a mix of direct and indirect taxes appropriate to the country, and reflecting its revenue needs, macroeconomic, developmental, and regional integration and harmonization goals.
	- Each of the main taxes reflects: (i) the compliance environment and the relative size of the informal sector, (ii) the compliance capacity of key taxpayer segments (large, medium sized, small and micro, and individuals), (iii) the capacity of the tax administration, (iv) international best practice; and (v) minimal distortions to production and consumption decisions of economic agents:
	    - Any VAT has: a threshold that balances the need for revenue with the capacity and administrative structure of the administration; preferably a single positive rate; broad base with few exemptions.
	    - Excises are few, and target goods and services with revenue potential and/or that exhibit externalities.
	    - A business income tax has a single positive rate (for corporates), minimal distortions to investment and growth, and that discourages avoidance.
	    - A simple and efficient small business tax regime provides for participation of the full taxpayer base, while reflecting both the limited revenue potential and compliance capacity of this segment.
	    - Taxes on wage income and other personal income are simple, and do not unduly discourage labor market participation and saving.
	- A tax policy unit in the ministry of finance has capacity to undertake tax policy analysis to inform ministers and governments on tax design issues, including impact on revenues and the economy.

Module 4: Tax administration organization	- The tax administration is legislatively constituted as a unified and integrated agency reporting to the minister of finance to collect national level taxes. - A function-based headquarters exists to plan and monitor tax administration operations and set operational policy. - A network of offices is in place reflecting the different service and enforcement needs of large, medium-sized, and small taxpayers. At a minimum this would include a large taxpayer office.
Module 5: Tax procedure code/ taxpayer registration/ Returns and payments processing/	- A tax procedure code is enacted with harmonized provisions in relation to registration, filing and payment, arrears and returns collection, audit, penalties and interest, and disputes resolution. - There is a functional separation of duties that strengthens the integrity of the tax system. - Design of core functions reflect the specific needs of taxpayer segments. - An accurate taxpayer register uses a high integrity identifier. - Taxpayer filing is based on a self-assessment approach. - Tax payment is through the banking system. - Taxpayer accounting is accurate and timely at the aggregate and individual taxpayer account level.
Module 6: Enforcement	- Registration requirements are enforced. - Filing compliance is enforced. - Arrears are prioritized with respect to age and size and collectability. - Audit is risk-based. - An objective impartial and timely dispute resolution process operates.
Module 7: Taxpayer services	- Taxpayers have easy access to free information and tax forms needed to meet their filing and payment obligations. Information is available through multiple channels, including internet, counter services, telephone and correspondence.
Module 8: Tax administration support functions	- Annual operational plans set performance measures for all core tax administration operations. - Systems are established to monitor and report performance. - Tax administration budgeting processes are aligned to annual and medium term operational planning. - Recruitment, retention and training policies meet the needs of the tax agency. - Information technology, appropriate to the available resources and capacity, supports operations across major tax types, functions, and segments.
Module 9: Tax administration Integrity	- An annual report of tax administration operational performance is published annually. - An internal audit department reports to the head of the tax administration to provide him or her with assurance in relation to the reliability of tax administration systems and processes. - A taxpayer charter explaining rights and obligations is prepared in consultation with civil society and business groups, and is published. A mechanism is in place to deal with public complaints under the charter. - A staff code of conduct is prepared and provided to all staff along with training. - An independent unit is in place reporting to the head of the tax administration to deal with staff disciplinary and integrity issues.

E. Research and analytical work

34. **The trust fund will support targeted research to analyze developments associated with revenue reform in low income countries.** The aim of the research will be

to assess emerging issues, trends, and practices in tax policy and administration, especially at a regional level. This research will inform the Fund's ongoing policy advice and TA, as well as that of other donors, and add to the knowledge bank of the countries themselves. Research products would include IMF working papers, selected issues papers, journal articles, and conference papers. The final budget allocation with respect to research will be guided by the steering committee. It will focus on applied research to assess systematically lessons learned from the Trust Fund work and country experiences in carrying out the module based projects. In particular it will attempt to draw out insights as to which models (reform approaches or reforms) have been more successful than others. A strong objective is to share these insights with development agencies and among IMF member countries through the active dissemination of results. Topics, to be finalized in discussions with the steering committee, could include, for example:

- ✓ **Post-VAT implementation issues and challenges.** When countries set out to implement VAT, they expect to increase the tax-to-GDP ratio, streamline domestic indirect tax operations, and promote voluntary taxpayer compliance. Often, VAT implementation experience is also used as a model for other tax administration reforms. Research and analytical work in this area would review post-VAT implementation experiences, within and across regions, to identify pragmatic solutions that better align VAT systems to the anticipated outcomes.
- ✓ **Impact of the shadow economy on revenue mobilization.** Low income countries invariably have large shadow economies in which business activity occurs outside the tax system. Proposed research could build on the existing body of work undertaken to analyze taxpayer compliance risks posed by the shadow economy, and evaluate current and potential future enforcement approaches that would be most appropriate for tax administrations in low income countries.
- ✓ **How to improve the quality of outcomes** through better risk analysis and stronger focus on results based management of reforms.
- ✓ Ambitiously, and dependent upon donor interest in directing resources to analysis, **development of a diagnostic tool** similar to the PEFA or DEMPA.

F. Projected resource needs

35. **An indicative work program has been developed.** Table 5 shows the breakdown and distribution of resource costs across a five year period. Figure 1 shows the percentage distribution of expenses and figure 2, the regional distribution. Revenue administration would be allocated the largest portion of the budget since enhancing institutional capacity requires close and intense engagement.

Table 5. Resource needs and expenditure

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Personnel costs	5,398,450	7,033,278	8,212,412	7,839,686	6,611,208	35,095,035
TA delivery (1)	4,606,698	5,953,015	6,955,462	6,775,279	5,785,366	30,075,821
Travel (2)	791,752	1,080,263	1,256,951	1,064,407	825,842	5,019,214
Steering Committee Meetings	50,000	52,500	55,125	57,881	60,775	276,282
Research	150,000	150,000	150,000	150,000	150,000	750,000
Evaluation	-	-	-	250,000	-	250,000
Trust fund management fee	391,892	506,504	589,228	580,830	477,539	2,545,992
Total	5,990,342	7,742,282	9,006,765	8,878,397	7,299,523	38,917,308

(1) Includes HQ-based, TA field delivery and backstopping and project management.

(2) Includes travel for modules.

Figure 1. Percentage distribution of expenses

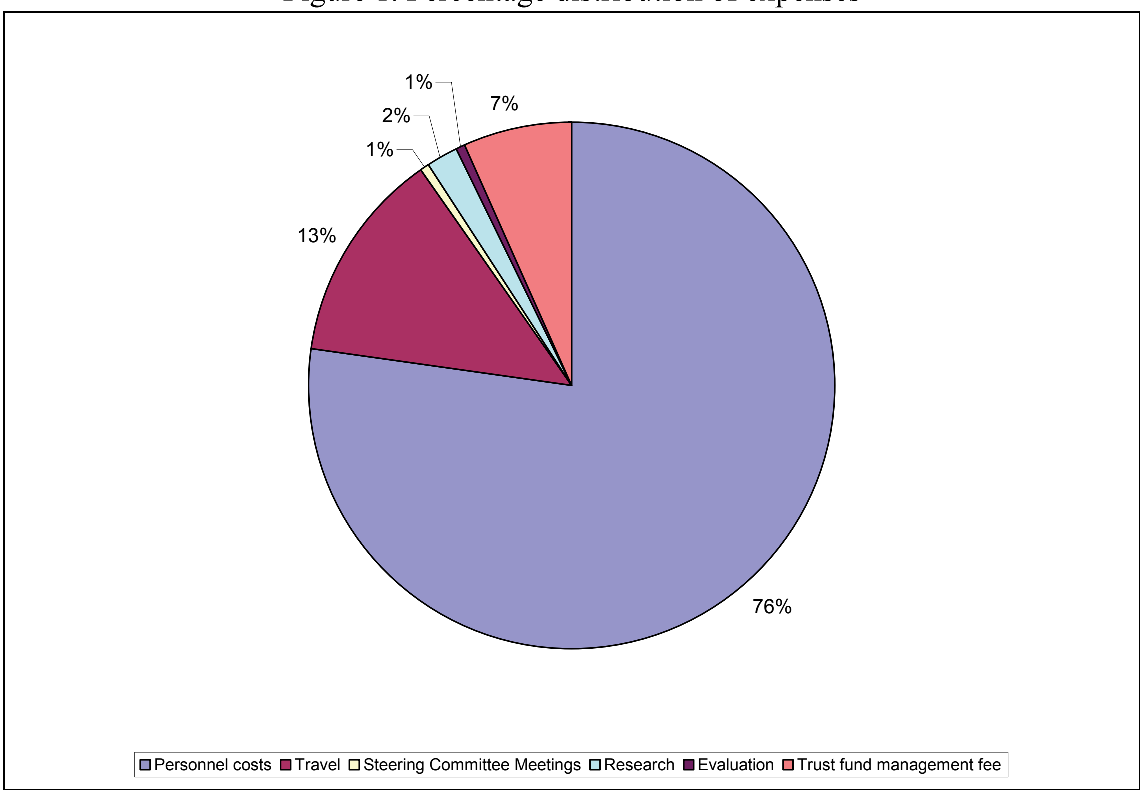
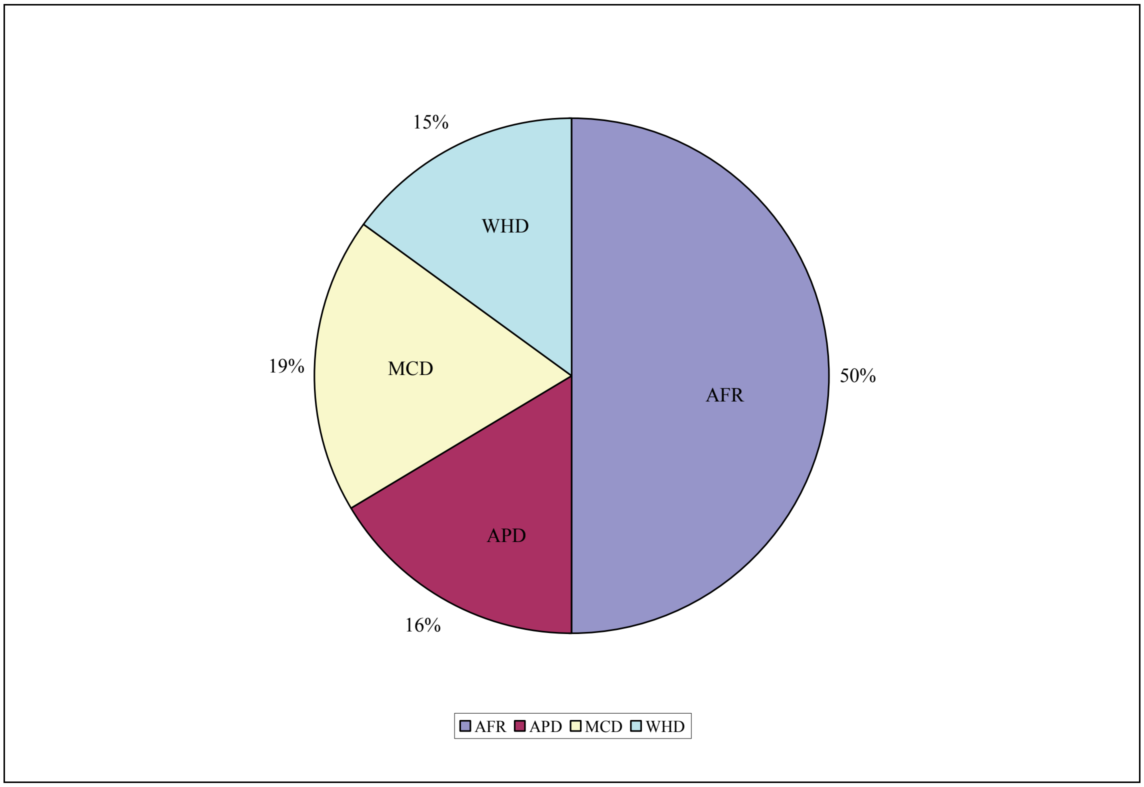


Figure 2. Regional distribution by projected cost



36. Table 6 shows the delivery of the indicative work program, by module over the four regions and figure 3 shows the relative size of each module. Figure 4 shows module delivery over the five year horizon of the trust fund.

Table 6. Distribution by module and region

		AFR	MCD	APD	WHD	Total
Module 1	Strategy Development	1,223,275	657,404	634,517	637,555	3,152,751
Module 2	Implementation planning	481,941	236,382	228,455	223,423	1,170,201
Module 3	Policy	2,362,017	1,249,326	1,205,962	1,209,096	6,026,401
Module 4	Organization	3,422,118	753,339	726,758	737,399	5,639,614
Module 5	Core processes	2,570,287	614,808	593,029	603,464	4,381,588
Module 6	Enforcement	1,962,093	453,456	429,115	442,451	3,287,115
Module 7	Taxpayer service	2,003,079	925,050	429,115	-	3,357,245
Module 8	Support functions	837,418	505,027	487,325	456,005	2,285,776
Module 9	Integrity	654,137	381,476	368,050	345,432	1,749,095
Total		15,516,365	5,776,268	5,102,328	4,654,825	31,049,786

Figure 3. Relative size of modules

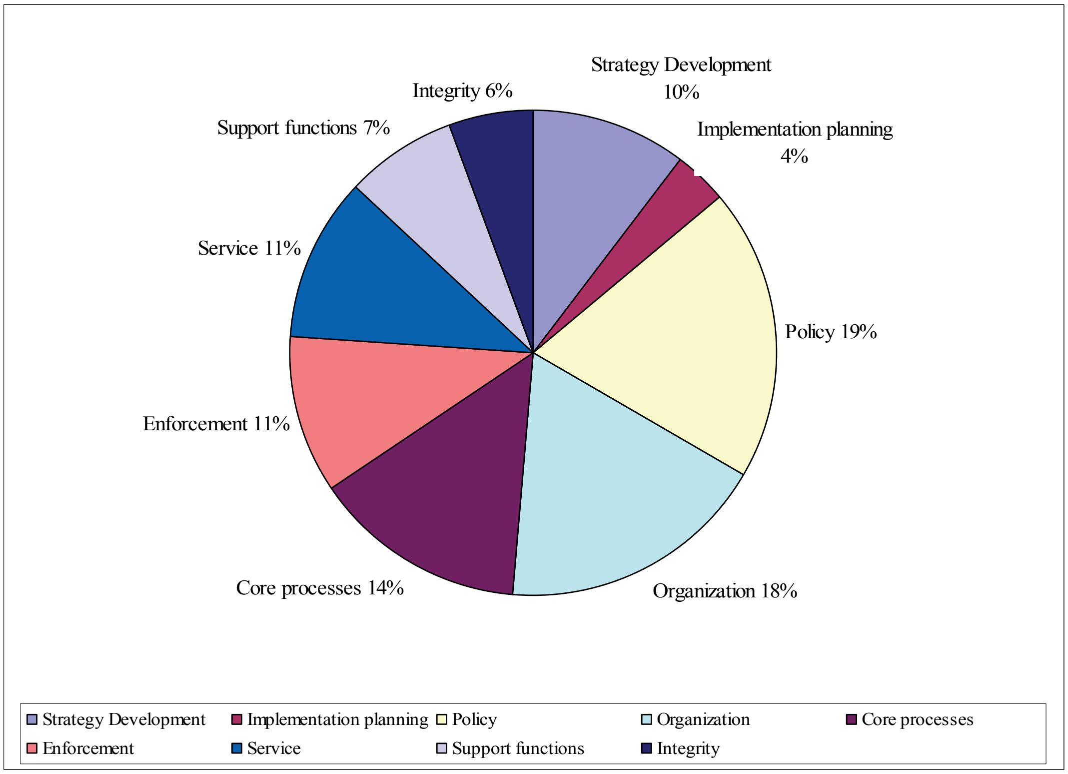
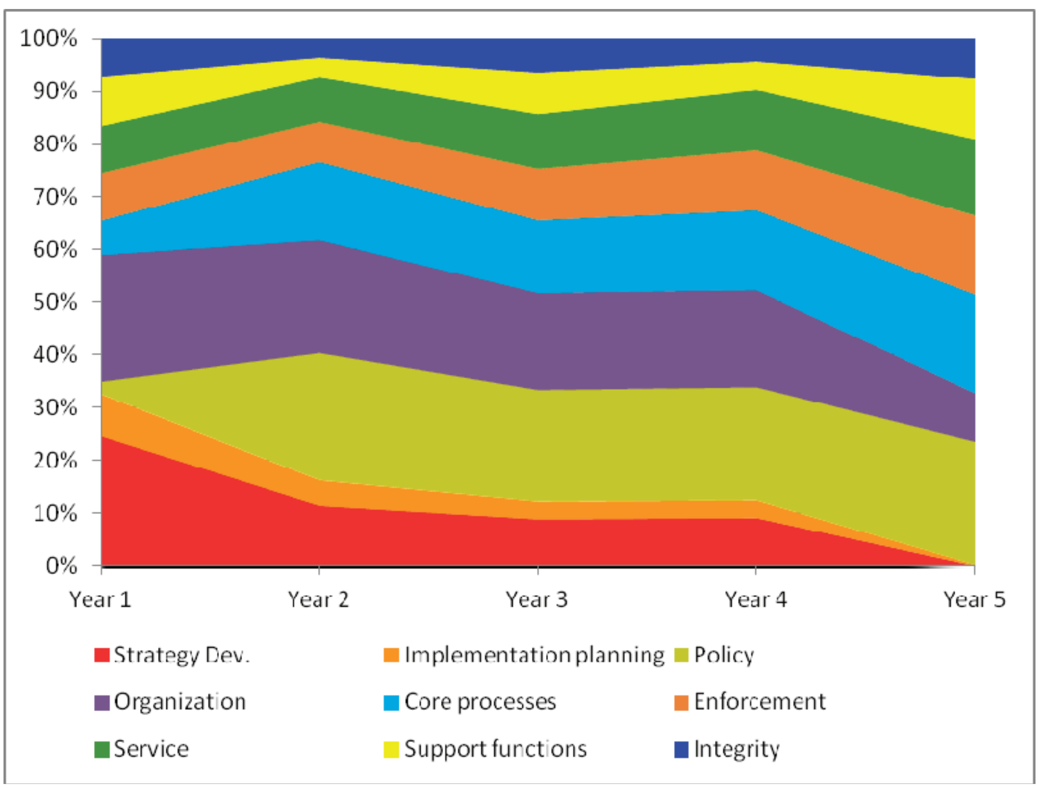


Figure 4. Module delivery
Years 1-5 (percent of total)



G. Management and integration

37. **The core activities of the IMF are surveillance, lending, and provision of technical assistance in its core areas of expertise.** Its experience and achievements in TA span several decades, and covers all regions of the world, and countries at various stages of development. The overall framework for TA includes four distinct pillars: focusing on TA only in the IMF's core areas of expertise; institutional support for technical assistance; the delivery of technical assistance projects; and the evaluation of the impacts of technical assistance (figure 5).[6]

38. **TA is delivered by specialized TA departments staffed by a large group of leading specialists in various fields, drawn from successful administrations from around the world.** These specialists in the TA departments draw on their collective global experience to: (1) contribute to building and maintaining the IMF's institutional knowledge in its areas of core expertise; (2) advise the IMF's area departments on technical issues; (3) advise country authorities from headquarters and through a mission program on reform agendas; and (4) support implementation with direct advice and through the backstopping short- and long-term experts assigned to countries and Regional Technical Assistance Centers (RTACs).

39. **IMF revenue policy and administration TA is managed by the Fiscal Affairs Department (FAD), while the Legal Department (LEG) handles the drafting of legislation.** FAD provides its advice in the revenue area in the context of strategic design of tax systems. This advice is informed by the macro-fiscal context of the country (or, in some instances, the regional grouping) in question, and its socio-political and institutional context.

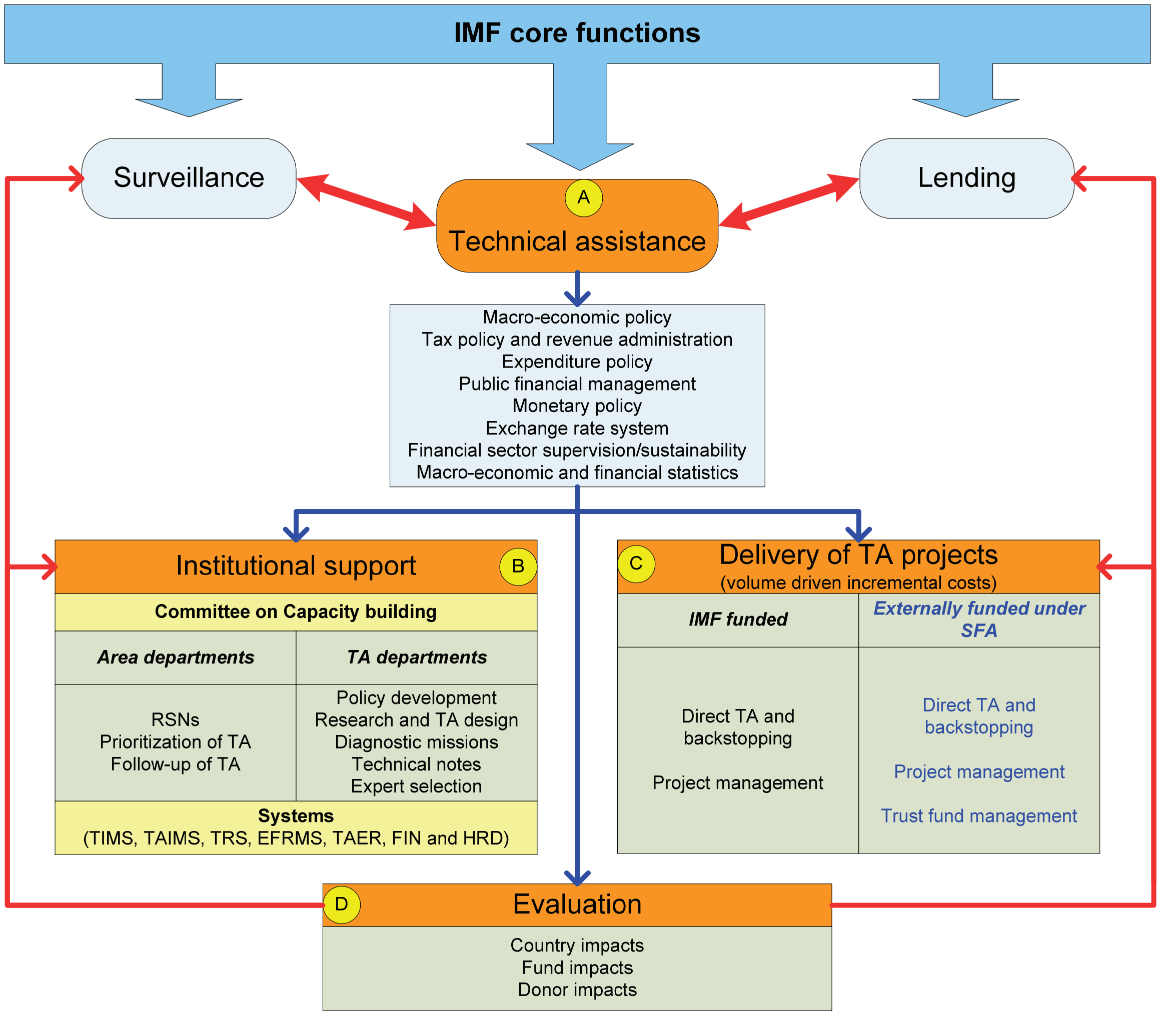
40. **Integration between TA and countries' macro-economic stabilization needs as determined in surveillance and lending is key to the IMF's TA strategy, and a factor which makes it unique and critical.** TA contributes to good policy making, builds institutional capacity, and reinforces other core Fund functions. In turn, surveillance and lending activities help identify and prioritize TA.

41. **In low-income countries with weak capacity in policy making, a comprehensive approach is typically offered in the provision of TA.** It includes policy diagnostic and evaluation, policy design, legal drafting, support for implementation—which is increasingly linked to the operations of the Regional Technical Assistance Centers (RTACs), see below—and follow up through the RTACs and regular surveillance or program consultations. This comprehensive approach facilitates an appropriate sequencing of reforms, and reduces the risk of delays in policy implementation.

---

[6] See: *The Framework for Technical Assistance in the IMF: A Qualitative Assessment of the Benefits of the Approach to Backstopping and Project Management*, Crandall, September 2009.

Figure 5. Framework for technical assistance in the IMF



42. **In low-income countries which are supported by an IMF program** (e.g., under the Poverty Reduction and Growth Facility), TA advice also often informs the design of the fiscal component of the program, to ensure that it is technically sound and appropriately reflective of the institutional context of the country.

43. **Headquarters work is closely coordinated with TA provided through the regional technical assistance centers (RTACs).** In countries covered by an RTAC, much of the revenue administration follow-up work needed for the implementation of headquarters strategic advice will be undertaken by the RTAC. The work programs of the RTACs and headquarters are coordinated to ensure a seamless delivery of TA, from tax design and legal drafting, to implementation of the organizational structure and process changes needed to effectively administer the tax system.

44. **Where significant TA needs are identified—going beyond the implementation that the IMF can support—headquarters will assist the country authorities to identify**

other TA providers. Since the IMF is not a project lending agency—for example, it cannot fund or develop the major IT systems needed in many countries for the implementation of modern tax administration processes, nor deliver large-scale staff training projects—it is critical that other donors and providers play such roles in low-income and emerging countries which on their own have neither the domestic financial resources nor local access to the expertise needed. In recent years, efforts in Egypt, Rwanda, and Uganda illustrate elements of this approach and some of the encouraging outcomes to date are described in Box 5.

Box 5. Examples of integrated programmatic delivery of TA by IMF

Egypt

FAD has provided significant advice to Egypt since 2005, with tax policy and tax administration missions, together with drafting assistance from LEG. Policy reforms advice has been extensive, covering an overhaul and rate reduction of corporate and personal income taxes, work to transform the sales tax to a broad-based VAT, prop**erty tax modernization, the development of a simplified regime for small business, and a s**trong focus on exemptions and base broadening. FAD advice has guided tax administration reforms through the development of a reform roadmap. Critical steps that have already been taken include: (1) implementation of self-assessment for income tax; (2) creation of the Egyptian Tax Authority (ETA), which integrates the former income tax and sales tax departments to create a platform for tax administration modernization; and (3) establishment of a large taxpayer center (LTC) and a pilot medium-size taxpayer center (MTC) in Cairo. Legal assistance has been instrumental to transform new policies into legislation. Mechanisms to manage the reform process have been established and maintained, critical prerequisites given the extensive downstream technical assistance and support provided from bilateral sources, particularly the US government.

Rwanda

Rwanda has been a model reformer since the late 1990s when the Rwanda Revenue Authority (RRA) was created and many important reforms began, including new laws such as a tax procedure code, new tax instruments like VAT, and organizational restructuring such as a large taxpayer office and an effective headquarters. The Fund's assistance has been strategically focused and complementary to extensive and generous British financing and implementation assistance. The combined efforts of the Fund, British support and the authorities determination have led to the fundamentals of good revenue administration, including an integrated function-based tax department, a system of self-assessment, automation of tax operations, and a large taxpayer office. The modern tax administration that has taken root, and is cognizant of local circumstances has helped deliver improved tax collections in real terms that are contributing to national objectives, including poverty alleviation.

Uganda

In diagnosing a poorly performing revenue system in late 2004, FAD worked closely with the authorities to design a root-and-branch reform strategy comprising: (1) organizational restructuring; (2) integration of tax administration into a single department; (4) measures to strengthen tax operations based on taxpayer segmentation; and (5) information technology initiatives supported by process simplification and workforce transformation. Since the diagnosis, and working closely with donors, FAD has assisted the authorities to: (1) launch a large taxpayer office; (2) strengthen audit capacity; (3) specify IT system requirements that are now being developed by a contractor; (4) develop plans to launch a medium taxpayer office; (5) develop a tax procedure code (with LEG); and (6) more recently, build capacity to manage oil tax revenues. Modernization outcomes are encouraging with positive emerging trends. With few remaining tax policy improvements available (tax laws had already been drafted by LEG), the key government objective to mobilize more domestic revenue is now being sought from improvements in administration and taxpayer compliance; so far, a target to increase collections by three percentage points of GDP over the 5 – 6 year reform period is broadly on track at about the halfway point.

III. Governance and Operational Arrangements

45. Compared to a bilateral approach, organization into a multi-donor trust fund exploits substantial efficiency gains in organizing and administering TA while improving donor coordination and ensuring a global approach, reach, and visibility. The governance and operational arrangements of the trust fund aim to reap fully these benefits.

A. Governance structure

The Steering Committee

46. **Work under the Topical Trust Fund (TTF) will be guided by a Steering Committee (SC), composed of donor representatives and IMF staff.** The SC will be chaired by a donor representative, with the possibility of rotating the chairmanship among donors. IMF staff will serve as the Secretariat to the SC. Committee meetings are expected to be held annually, with additional meetings as necessary. When appropriate, other stakeholder organizations could be invited to participate as observers. The Secretariat will ensure a regular flow of information throughout the year and, if necessary, consult informally with the SC.

47. **The SC's function is to provide strategic guidance and contribute to the setting of policies and priorities, including through the endorsement of an indicative annual work plan.** The SC will review progress under the work plan as well as performance under the program. The SC will also be a forum for coordinating TA on tax policy and administration among the TTF, donors, and other stakeholders. For that purpose, the TTF will share with SC members information on mission planning and mission reports.[7]

Identification of Country Needs and TA Programming within the IMF

48. **In consultation with country authorities, IMF area departments integrate the reform agendas of countries with the Fund's own policy and surveillance perspectives, drawing on the technical expertise of TA departments.** They identify areas of TA-needs and set priorities across TA departments and balance short- and medium-term considerations, while relying on the TA departments' technical expertise and country knowledge for TA prioritization, sequencing, and delivery mode. This internal prioritization process provides checks and balances, which ensure that Fund TA remains highly relevant and focuses on the Fund core expertise while taking into account regional developments. The resulting Regional Strategy Notes (RSNs), which are shared with recipient countries and donors, set out a joint

---

[7] Guided by the *Staff Operational Guidelines on Dissemination of TA Information* IMF staff will proactively, on a non-objection basis, seek country permission to disseminate IMF TA information with donors and other TA providers. See http://www.imf.org/external/pp/longres.aspx?id=4332 .

medium-term TA agenda that countries and all concerned departments subscribe to, providing the basis for integration of TA activities into the Fund's surveillance and lending operations.

B. The work plan

49. **TA selection and delivery will be demand-driven based on the identified needs and country requests.** A constant flow of TA demand is expected from new requests as well as the Fund's substantial past and ongoing TA work. TA prioritization will be based on well-defined criteria with respect to country eligibility, country needs and commitment to reform, distribution across regions and modules, and consistency with the Fund's broader work. TA will be organized into projects reflecting the modules described in table 4.

50. **It is envisaged that the workplan will also include applied research relevant to the work of the TTF and dissemination of findings** that are of broader interest through workshops and conferences—up to 2 percent of total expenditure, or a higher amount if endorsed by the steering committee—as indicated in table 5.

51. **The workplan will be submitted to the SC for its endorsement at its regular meetings.** Prior to formal endorsement, IMF staff will seek strategic guidance of SC members when assembling the work plan.[8] At each SC meeting, the IMF will deliver a report on the execution of activities under the previously endorsed work plan.

C. Accountability and quality control

52. **To foster accountability, effectiveness, and sustainability of the TA delivered, the management and use of TTF resources will be closely monitored in a number of ways**.

- In line with the Fund's *Results Focused Management System* (RFMS) approach, TA under the TTF will be organized into country-specific projects reflecting the modules described in table 4. Each project will have defined inputs needed to deliver specific outputs that will contribute toward the desired country level outcomes and objectives. Attainment of these outcomes will be measured using a set of verifiable indicators. Areas within IMF control and those that require action by the authorities will be distinguished. To ensure country ownership, staff will consult the authorities in the design of the main project deliverables. Project implementation and monitoring under the RFMS will be enabled through the Fund's *Technical Assistance Information*

[8] An operational guidance note will lay out more detailed procedures for operations under the trust fund, including interactions between Fund staff and SC members in the preparation of the work plan.

Management System (TAIMS)—a computerized system for managing and tracking all of the Fund's TA activities.[9]

- The IMF's TA departments will supervise, carry out, and backstop the TA delivery under the TTF. This reflects the principal role of these departments in maintaining the overall quality and consistency of all Fund TA and policy recommendations in their respective areas of expertise. Operationally, quality control will be provided through: (a) the screening and selection process for experts; (b) regular supervision and backstopping support from IMF headquarters; and (c) regular self-assessments, assessing progress achieved to date against the pre-defined project objectives and outcomes.

- The IMF's Area Departments will also, in the context of IMF-supported country programs and surveillance activities, monitor the progress of beneficiary countries in implementing reforms that are supported by the TTF.

- Relevant information on project status will be accessible to donors via the IMF's *Donor Gateway* (https://www-extranet.imf.org), a secure website. In addition to financial information, the Donor Gateway is a central repository of information on donor arrangements, including their legal documentation, project documents, progress reports, project status, and self-assessments. The Gateway also provides access to RSNs as well as a multitude of other information on Fund TA.

D. Evaluation

53. **After no fewer than three years of operation, an independent evaluation of the work carried out under the TTF will be conducted by a team of outside experts**. The evaluation will assess the effectiveness and sustainability of this work and will formulate recommendations for improvement. The findings of the evaluation will inform discussions on operations for the remainder of the initial five-year phase and beyond.

IV. Financing and Administrative Issues

A. Financing

54. **The estimated total cost of the tax policy and administration TA provided under the TTF for an initial five-year phase is $39 million.** To provide stability and continuity for operations under the MDTF, financing is sought in advance for the entire five-year period.

---

[9] See descriptions of RFMS and TAIMS in *Enhancing the Impact of Fund Technical Assistance*, IMF Staff Paper, April 3, 2008, at http://www.imf.org/external/np/pp/eng/2008/040308a.pdf

B. Administrative arrangements

55. **All contributions from donors will be made into a multi-donor subaccount to be established by the Fund for this purpose.** [10] This Subaccount will be used to receive and disburse financial contributions for the sole use of financing TA activities under the TTF. All funds will be commingled.

56. **The basis for the financial arrangements between donors and the IMF will be a *Letter of Understanding* accompanied by *Essential Terms and Conditions***, establishing the purposes of the contributions, and the method, terms, and conditions by which the costs of TA activities under the TTF will be financed from the resources contributed to the Subaccount. The IMF will administer and account for all donor contributions in accordance with its financial regulations and other applicable IMF practices and procedures. If the IMF recruits outside consultants and experts, it will do so in accordance with its normal procedures.[11] For any procurement of goods and services beyond a certain threshold amount (currently US$25,000), IMF regulations require a competitive bidding process with at least three competitive bids. [12]

57. **The IMF will charge all project-related costs of TA provided under the TTF on the basis of actual cost, including for IMF staff time**. In addition, the IMF charges a trust fund management fee of 7 percent.

58. **The IMF will provide donors with reports on the subaccount's expenditures and commitments.** The operations and transactions conducted through the subaccount will be subjected to annual audits. Separate reporting on the execution of the TTF budget will also be provided at each SC meeting and is available on an ongoing basis via the IMF's Donor Gateway.

---

[10] The IMF will create a subaccount governed by its *New Framework Administered Account for Selected Fund Activities (SFA)* adopted in March 2009 (see http://www.imf.org/external/np/pp/eng/2009/030409.pdf)

[11] The Fund maintains a roster of experts whose certification is based on, among others, strong performance records, and proven familiarity with international best practice.

[12] For more on IMF procurement methodologies, see http://www.imf.org/external/np/procure/eng/meth.htm .

APPENDIX

LOGICAL FRAMEWORK MATRIX FOR THE TAX POLICY AND ADMINISTRATION TOPICAL TRUST FUND

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Module I: Revenue strategy					
Establish the overall framework for the tax system, including the tax policy framework and tax administration structure needed to provide sustainable revenues	HQ-led missions with IMF staff and experts. HQ follow up.	Assessments of economic, fiscal policy and tax administration. Reports and advice identifying options and giving recommendations. Advice and assistance with development of a strategic plan. Participation in seminars and outreach activities.	(See table 4) A high level integrated strategic plan for revenue reform for the medium term, encompassing the policy, legislative and administrative framework. The plan will lay out the main policy and administrative principles on which the implementation program will be based. A multi-year resource mobilization plan (financial and non-financial) to support implementation of the strategy. Implementation of a program of stakeholder consultation.	Published reform plan. Government decision. Resource plans	Change in political commitment Adverse economic conditions Inadequate resource mobilization
Module II: Reform management					
Improve the prospects of successful implementation of the reform program	HQ-led missions with IMF staff and experts. HQ follow up.	Advice on project capacity building.	A high level steering committee (with inter-agency participation where appropriate) reporting at government level is in place to supervise reform program. A project management document setting out the project accountabilities. Financial resources needed for implementation are appropriated prior to the commencement of each year. Human resources are allocated to the reform program consistent with the project resource mobilization plan. An annual review of the reform program is undertaken and published.	Steering committee minutes Project documentation Financial resources plans Human resources plans Annual review meeting minutes	Change in political commitment Adverse economic conditions Inadequate resource mobilization

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Module III: Revenue policy					
Put in place and integrate basic elements of modern tax systems, and improve existing taxes.	HQ-led missions with IMF staff and experts Short assignments of experts HQ follow up	Detailed written assessment of economic, budgetary and tax policy situation, with mapping of main challenges and key steps Mission report identifying main taxes to be introduced / overhauled / changed, and detailed description of proposed changes. Involvement of national authorities in the assessment and evaluation process Written assessment of tax policy unit's capacity and role in policy making as well as related coordination mechanisms to translate policy thinking into functional and operating policies Advice on drafting: draft legislation; explanatory memoranda	An appropriate tax policy framework containing a mix of direct and indirect taxes. Taxes reflect a number of constraints and policy design principles -- e.g. compliance environment and administrative capacity constraints; and, international best practice, efficiency and simplicity principles (see Table 4 for more details).	Highest level of government reviewed, discussed and approved IMF's assessment, and agreed with next steps. New tax laws adopted. A tax policy unit exists, and individuals in charge of tax policy analysis and design can be easily identified. Regular contacts with national authorities in support of their own efforts to implement and develop policies High-level political follow up by national authorities and IMF, and RTACs Strengthened links between national authorities, IMF and RTACs	Change in political direction of country Sudden political events Adverse economic conditions Lack of political will to implement rhea reforms

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Module IV: Tax administration organization					
Establish a legally constituted modern and effective tax administration around the principles of integration (direct and indirect taxes) that is functionally-structured, segment-based, and with a headquarters to manage field operations.	HQ-led missions with IMF staff and experts. Short assignments of experts. HQ-based review and advice.	Advice on restructuring the tax administration organization and assistance in its planning and implementation. Drafting legislation to legalize organizational changes.	Tax administration is legislatively constituted as a unified and integrated agency reporting to the minister of finance and collecting all national taxes. An efficient and effective organizational structure is implemented with appropriate level of resources. This would comprise a function-based headquarters to set operational policies and plan and monitor performance, and a network of offices that reflect the service and enforcement needs of large, medium, and small taxpayer segments that would include at a minimum a large taxpayer office.	Legislation enacted. Organizational changes implemented with staff and managers appointed. Large taxpayer and possibly medium taxpayer office operational. Simplified tax regime and administrative arrangements in place for small and micro businesses. Documented procedures reflecting changes responsibilities.	Inability to pass legislation. Labor market and capacity constraints to effectively staff key positions.
Module V: Tax procedure code and core processing functions					
Harmonized and streamlined legislation addressing tax administration procedures.	HQ-based legal missions and expert assignments.	Assistance in defining the business requirements underpinning a tax procedure code and legislative drafting assistance.	Tax Procedure Code (TPC) developed that has harmonized provisions in relation to registration, filing and payment, arrears and returns collections, audit, penalties and interest and dispute resolution.	TPC enacted and enforced.	Inability to pass legislation, or key provisions are deleted or altered.
Functions reflect the principles of taxpayer segmentation and separation of duties to safeguard integrity.	HQ-led tax administration missions and expert assignments.	TA to stratify and identify taxpayer segments and their characteristics and help to define job responsibilities to preserve internal controls.	Sound internal controls are instituted through appropriate division of labor and responsibilities. Core processes take account of segment factors.	Internal audit is effective and assures that controls are functioning as intended.	
The taxpayer population is accurately known.	HQ-led tax administration missions and expert assignments.	Advice in design, implementation, and maintenance of effective taxpayer identification numbering systems and procedures.	An accurate taxpayer register uses a high integrity identifier.	Percentage of registered taxpayers with regular contact with tax authorities.	

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Tax return filing is based on self-assessment.	HQ-led tax administration missions and expert assignments.	Advice in designing simple tax returns and associated processes, as well as the critical prerequisites for effective self-assessment.	Taxpayer filing is based on a self-assessment approach.	Evidence that tax returns are accepted and processed on the basis of the taxpayers self-declaration, subject to selective audit.	
Efficient, effective, and reliable system for processing tax payments.	HQ-led tax administration missions and expert assignments.	Advice in instituting effective payment mechanisms that relies upon the banking sector.	Tax payment is through the banking sector.	Evidence that tax administration does not directly process any payments.	
Robust, timely, and accurate revenue reporting at individual and aggregate levels.	HQ-led tax administration missions and expert assignments.	Advice in defining business and accounting rules, processes and reconciliation measures for accurate revenue recording and reporting.	Taxpayer accounting is accurate and timely at the aggregate and individual taxpayer account levels.	Taxpayer transactions are accurately posted to accounts within 24 hours, and end-of-month revenue results available within 5 days.	
Module VI - Enforcement					
Taxpayers meet registration and return filing obligations.	HQ-led tax administration missions and expert assignments.	TA and advice in developing, implementing, and maintaining effective systems and procedures to promptly identify unregistered taxpayers, non-filers and take action to secure registration and returns.	Registration requirements are enforced. Filing compliance is enforced.	High ratios (e.g. 90 %) of returns filed by the due date, with most of the balance within 14 days.	
Tax arrears are actively collected, with stocks maintained within tolerable limits.	HQ-led tax administration missions and expert assignments.	TA and advice in developing, implementing and maintaining effective systems and procedures to manage arrears that targets largest and newest debt first to minimize stock build-up, and with safeguards, allows for write-off of uncollectible balances.	Arrears are prioritized with respect to age and size and collectability.	Maintenance of debt stock within acceptable range of percentage of annual collections. Percentage of debt stock that is uncollectible does not exceed acceptable limits.	

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Taxpayer audit targets limited resources selectively on areas of greatest risk to revenue and compliance.	HQ-led tax administration missions and expert assignments.	TA in developing a comprehensive audit program based on risk-management approaches that employs a range of audit methods.	Audit is risk-based.	An effective audit program is in place and annually updated to achieve a suitable range of operational performance indicators.	
Taxpayers have an objective, effective, and accessible system for addressing disputes.	HQ-led tax administration missions and expert assignments.	TA in instituting effective internal review processes and external appeal mechanisms.	An objective, impartial, and timely dispute resolution process operates.	Internal (objection) and external (appeal) review mechanisms are place, functioning effectively, and ensuring cases are finalized without excessive backlog.	
Module VII –Taxpayer services					
Taxpayer assistance is service oriented and trusted, free and delivered through multiple channels, and enables taxpayers to voluntarily comply.	HQ-led tax administration missions and expert assignments.	TA in: (1) developing a comprehensive taxpayer service program and (2) identifying opportunities for simplifying tax laws and administrative processes to reduce compliance burdens.	Taxpayers have easy access to free information and tax forms needed to meet filing and payment obligations. Information is available through multiple channels, including the internet, counter services, telephone, and correspondence.	An effective taxpayer services program is instituted with operational targets to measure taxpayer education and service performance. Results of a taxpayer satisfaction survey.	
Module VIII – Tax administration support functions					
Tax administration is driven by annual operational plans.	HQ-led tax administration missions and expert assignments.	TA to develop, implement, and adapt operational plans to set priorities and allocate resources, execute the plan, and monitor and evaluate performance as input to future plans.	Annual operational plans set performance measures for all core tax administration operations.	Annual plan prepared and circulated. Performance against previous plans is reported and disseminated.	
Performance of tax administration operations is measured and reported.	HQ-led tax administration missions and expert assignments.	TA in choosing appropriate performance measures and developing processes and systems to capture and report outcomes.	Systems are established to monitor and report performance.	Range of operational performance indicators being monitored and reported against.	

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Tax administration objectives and activities make optimal use of budget resources.	HQ-led tax administration missions and expert assignments.	TA and advice to develop operational and strategic plans that is founded on budget realities.	Tax administration budgeting processes are aligned to annual and medium term operational planning.	Annual budget that is integrated with annual operational plans and linked and consistent with longer-term strategic plans.	
Tax administration employs an educated, skilled, motivated, ethical, and adaptive workforce.	HQ-led tax administration missions and expert assignments.	High-level advice in the fundamental prerequisites for an effective workforce for modern tax administration.	Recruitment, retention, and training policies meet the needs of the tax agency.	Low staff turnover rate. Comprehensive HR policy in place. Remuneration regime with appropriate comparators.	Civil service rigidities. Weak labor market without necessary skills base.
Intelligent use is made of information technology that is commensurate with local circumstances to maximize tax administration effectiveness	HQ-led tax administration missions and expert assignments.	Strategic advice in defining IT objectives to support core and support functions, and assist authorities to achieve this with down-stream TA providers and vendors.	Information technology, appropriate to the available resources and capacity, supports operations across major tax types, functions, and segments.	IT systems in place that comply with a clear IT strategic plan that is periodically updated.	
Module IX: Tax administration integrity					
Transparency of tax administration policies, practices, and outcomes.	HQ-led tax administration missions and expert assignments	TA and assistance in defining the details to be reported annually and the mechanisms to measure performance to be reported.	An annual report of tax administration operational performance is published.	Informative annual reports published and widely available.	
Procedures and systems function as intended producing the expected results.	HQ-led tax administration missions and expert assignments	TA and assistance in creating internal audit capacity, and planning and execution of programs.	An internal audit department reports to the head of the tax administration to provide him or her assurance of reliability of systems and processes.	Internal audit unit staffed and functioning. Activities in accordance with annual internal audit program.	
Clear civil society understanding of their tax rights and obligations and avenues to resolve issues.	HQ-led tax administration missions and expert assignments	Assistance to identify key component of a taxpayer charter and advice in instituting procedures for objectively handling complaints.	A taxpayer charter explaining rights and obligations is prepared in consultation with civil society and business groups, and is published. A mechanism is in place to deal with public complaints under the charter.	Taxpayer charter collaboratively developed and instituted. Mechanism in place to handle complaints.	
Tax administration staff clearly understand their responsibilities and expected conduct and behavior.	HQ-led tax administration missions and expert assignment	Advice in developing a meaningful staff code of conduct.	A staff code of conduct is prepared and provided to all staff along with training.	Code of conduct signed by every staff member.	

Objectives	Inputs	Outputs	Outcomes	Verifiable Indicators	Exogenous Factors
Tax administration workforce that has the highest standards of integrity that is actively enforced.	HQ-led tax administration missions and expert assignment	Advice on dealing with staff integrity issues in an open, fair, and consistent manner.	An independent unit is in place reporting to the head of the tax administration to deal with staff disciplinary and integrity issues.	Staff affairs unit in place with adequate resources and authority.	
Research and learning dissemination					
Knowledge transfer and more effective delivery of technical assistance globally in the area of tax reform.	Headquarters staff and Fund experts.	Workshops, seminars and research	Wide dissemination of lessons learned and knowledge transfer to recipient countries, donors, and within the IMF leading to improved success rates in the implementation of tax policy and administration reforms, both for trust fund projects and more global reform efforts.	Published IMF research via working papers, selected issues papers, journal articles, conference papers.	n.a.

Office of Technical Assistance Management

700 19th Street NW
Washington, DC 20431
USA
Tel.: 1-202-623-7646
Fax: 1-202-623-7106
Email: GlobalPartnerships@imf.org