



Ministry for Foreign  
Affairs of Finland

# Breaking Aid Dependency – Finnish support to Domestic Resource Mobilisation in Developing Countries

## Background and Rationale

Domestic resource mobilization (DRM) is the most important source for sustainable public financing of public services like education, health and security in partner countries. For this reason, DRM plays a major role in achieving the Sustainable Development Goals (SDGs) in the partner countries.

In the long term, DRM is a key to inclusive, peaceful, and democratic societies. As described in the SDG target 17.1, support to DRM consist of *support to developing countries to improve domestic capacity for tax and other revenue collection*”.

Finland’s support to enhanced DRM initiatives has been guided by two Action Plans (2016-19; 2020-23). The Action Plans combine development cooperation with influencing goals. On one hand, the Finnish government is committed to helping partner countries strengthen their taxation capacities, and on the other, Finland is actively participating in the global discussions to curb international tax avoidance and tax evasion.

The main objective of the evaluation was to assess the results and effectiveness of Finland’s support to DRM and provide recommendations for future actions, in view of the main developments that took place on the domestic and global front since 2016. It looked at the two Action Plans as guiding instruments, taking into account actions like coordination, financing and, policy dialogue and influencing. The mainstreaming of relevant cross-cutting objectives was also looked at.

The primary users of the evaluation are the Unit for Development Finance and Private Sector Cooperation and Policy and the Unit for Civil Society within the Department for Development Policy, as well as the Department

of Africa and the Middle East, in the Ministry. Additionally, the partners implementing the DRM-related programmes and MFA staff working in the Embassies liaising with multilateral organizations and sectoral and thematic policy advisers will find the evaluation useful.

In this brief, the Development Evaluation Unit of the Ministry for Foreign Affairs highlights some of the findings and conclusions reached by the Evaluation Team.

## **The two Action Plans had well-articulated set of objectives and generated coherent financing**

Thanks to well-articulated set of objectives, the two Action Plans generated coherent financing, with linkages at the country, regional and global levels, and, between development cooperation and influencing. On the other hand, there was a lack of prioritization, and, weak accountability because of the absence of result indicators and regular monitoring.

The evaluation maintains that a third Action Plan document remains the most appropriate option for future support, as it enables MFA to combine development cooperation and influencing goals, coordinate a whole-of-government effort and maintain visibility

## **The Action Plans succeeded in gradually doubling the financing but also suffered from cuts in human resources**

Under the Addis Tax Initiative, Finland, with other donors, committed to doubling their support to DRM from 2015 onwards. However, this doubling of Finnish support took until 2022 to materialize. The first Action Plan included

a total of 21 interventions, and 12 influencing actions, managed by five different units of the Ministry for Foreign Affairs of Finland. Unfortunately, the implementation was hampered by significant cuts in budget and human resources.

### **The Ministry has done well to use various channels to influence the global tax agenda**

Despite the lack of a whole-of-government approach and limited capacity, the Ministry has done well to influence the global tax agenda through its partners.

Especially through the early and long-standing support to the African Tax Administration Forum (ATAF). It has played a unique and highly respected leadership role in representing African countries in global tax discussions. The partnership has been effectively combined with the support to regional and global civil society organisations, including Oxfam and the Tax Justice Network Africa (TJNA).

Finland's early decision to support to the OECD Tax Inspectors without Borders (TIWB) through the United Nations Development Programme (UNDP) has also been also an important step towards strengthening UNDP position in the global fight against tax evasion.

Through the Nordic Baltic representation to the World Bank Group (WBG) board, Finland has also contributed to shaping the World Bank's approach to DRM, its increased focus on progressive taxation and a firm stance against using non-compliant jurisdictions.

### **Awareness for stronger transparency and accountability mechanisms has increased and tax policy reforms promoted in partner countries...**

Finland's support to basket fund programmes, civil society advocacy and research led to some successes on pushing for tax policy reforms. Finland has also contributed to initiatives that promoted public awareness, stronger networks, and transparency and accountability mechanisms. The Ministry's balanced approach to partnership has facilitated synergy and alliances amongst its implementing partners, in particular in Africa.

### **...but the lasting and transformative results are not secured**

The exact contribution of the funded initiatives to making tax systems more transparent and equitable remains difficult to determine, due to the high risk of policy reversals, especially when it comes to tax incentives. Similarly, it is hard to ascertain if these initiatives increase citizen voice on tax-related issues, given the needed time to achieve lasting and transformative results.

#### **Result examples**

The TIWB programme reports that as of 2022, its capacity building has helped raise more than USD 2.07 billion in additional tax collected and collect USD 4.49 billion in additional tax across the world. ATAF's technical assistance contributed to raising USD 190 million in additional tax revenue in its African member countries.

In Tanzania, the capacity building and digital modernization support VERO provided to national authorities contributed to an increase of registered taxpayers from 3.2 to 4 million, an increase in the proportion of online filing from 79 % to 95 %. As a result, the taxable income rose by 15%.

### **The Ministry, with VERO the Finnish tax authority, has strengthened tax administration in partner countries, leading to increased revenue collection**

Finnish support to OECD Tax Inspectors without Borders, African Tax Administration Forum, and the Tanzania revenue authorities helped to strengthen tax administration and contributed to increased revenue collection in developing countries and regions.

### **Finnish companies have also significantly contributed to domestic revenue through taxes paid**

Ministry's requirement that Finnish companies receiving development financing should follow tax responsibility principles, has paid off, with Finnfund's investee companies reporting an annual contribution of almost EUR 700 million in tax in the developing countries.

## Gender equality is well mainstreamed but non-discrimination and climate action less so

Finland has successfully promoted the inclusion of gender equality into its project portfolio. Increasing number of interventions were found to include gender equality objectives and leading to achievements. However, the attention to non-discrimination in project design remained relatively weak.

Despite supporting relevant transparency and accountability initiatives in the extractive industry, Finland has not supported the growing tax and climate change agenda.

### Promotion of gender equality through DRM

The ATAF Women in Tax Network (AWITN) launched in 2021, offers an exclusive platform for African women in tax-related professions. It serves to highlight the integral relationship between tax policy and gender equality. Since its launch, the AWITN has held Women in Leadership conference and started a mentorship programme for women in early stages of their careers. In August 2022, the network published its first research paper.

## To be effective, intra-governmental cooperation in Finland requires genuinely shared priorities

The policy influencing objectives of the two Action Plans were based on expectations that the Ministry for Foreign Affairs and other Ministries would work closely together. Instead, due to the lack of a shared position on global tax discussions, the Ministries continued to work

mostly in silos. Still, stakeholders within and outside the Ministry for Foreign Affairs consider Action Plans as relevant and useful.

The two Action Plans intended to count on a coordination group with other Ministries and Finnish actors, but this did not materialise. Yet, the Ministry for Foreign Affairs and the Ministry of Finance have cooperated well implementing the tax responsibility principles with Finnfund and influencing in Multilateral Development Banks on progressive taxation and non-compliant jurisdictions.

## Evaluation Methodology

The evaluation is based on a theory of change. The main sources of data included relevant government policies, selected reports from implementing partners, and recent evaluations of DRM initiatives. Semi-structured interviews were held with relevant MFA departments, the Ministry of Finance, other Finnish actors, implementing partners, and selected international organisations and beneficiaries. A focus group with Finnish civil society was also organised. This strategic evaluation examined the overall DRM agenda and portfolio as well as consolidated achievements across broader results areas.

## Acknowledged limitations

Result monitoring and the respective documentation of the APs and programmes has been weak.

The multi-stakeholder nature of the support, combined with Finland's overall role as a follower of other international actors made it difficult to measure Finland's success in policy influencing.

Due to the high staff turnover in the Ministries, the institutional memory may have been affected.



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For the full evaluation report and other materials:

<https://um.fi/development-cooperation-evaluation-reports-comprehensive-evaluations>