HOUSE OF COMMONS

International Development Sub-Committee on the Work of the Independent Commission for Aid Impact

Oral evidence: ICAI's review on UK aid's contribution to tackling tax avoidance and evasion, HC 838

Wednesday 23 November 2016

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Watch the meeting

Members present: Fiona Bruce (Chair); Dr Lisa Cameron; Mr Nigel Evans; Stephen Twigg.

Questions 1-60

Witnesses

I. Dr Alison Evans, Chief Commissioner, Richard Gledhill, Lead Commissioner, Charlotte Vaillant, Team Leader, Marcus Cox, Consultant, International Commission for Aid Impact.

II. Nick Dyer, Director General, Policy and Global Programmes, Jonathan Hargreaves, Head of Governance, Open Societies and Anti-Corruption, Peter Hurst, Tax Adviser, Governance, Open Societies and Anti-Corruption, Department for International Development, Sue Walton, Director, Tax Professionalism and Assurance, HMRC.

Examination of Witnesses

Dr Alison Evans, Chief Commissioner, Richard Gledhill, Lead Commissioner, Charlotte Vaillant, Team Leader, Marcus Cox, Consultant, International Commission for Aid Impact.

Q1 **Chair:** Good morning, everyone, and thank you for coming today. It is good to see you all again. I will start, if I may, with the first question. This will give you an opportunity to make a general statement and I will direct it to Alison, Dr Evans. ICAI's review of UK aid's contribution tackling tax avoidance and evasion gave an overall amber/red rating. Would you like to make an opening statement and lay out what you think the priorities are for DFID to address in this area?

Dr Alison Evans: Thank you very much and good morning everyone. In fact I am going to pass that question right over to Richard Gledhill, the lead commissioner. He actually has that opening statement ready for you.

Richard Gledhill: Good morning. This was a learning review because it looked at a relatively new area of activity for DFID. This was to do with influencing international systems and processes to create more opportunities for developing countries. It relied heavily on cross-Government working, which we expect to be increasingly important under the new aid strategy. We looked at three principal review questions under the themes of relevance, effectiveness and learning. In two of those areas, we gave amber/red scores, leading to an overall amber/red score—in summary, areas of unsatisfactory achievement in most areas and where improvements are required.

On the question of relevance, we found that DFID's work on international tax was not well grounded in the needs and priorities of its partner countries. It did not engage actively on policy coherence for development, which I know is an issue of importance to the IDC. There was an overall amber/red score in this area.

On learning, we found that DFID did not make enough use of its research on tax. It does good research on tax, but we found it was not used enough to inform its strategy in this area, or the learning from in-country tax programmes to inform its approach. This was the second amber/red.

We did award DFID a green/amber under the question of effectiveness. We found that it made good use of limited resources and combined influencing and cross-Government working and capacity-building in complementary ways, achieving some early results from its capacity-building, although we did question value for money on some of HMRC's earlier work.

In summary, an overall amber/red score was given, with some important recommendations for DFID on its future work in this area.

Q2 **Chair:** It was very concerning for us to read that when DFID embarked upon this project they did not set out clear objectives. In fact, you had to do that job for them. One of those objectives that you set out was to ensure that the needs of developing countries were considered in the standard-setting process, which clearly did not happen. What do you think those needs are?

Dr Alison Evans: This would be a good one for Charlotte and Richard to answer.

Richard Gledhill: Their approach could best be characterised as an opportunistic approach. As I mentioned in the opening remarks, they did not really use the intelligence they had from their own research or from their in-country offices to inform their thinking. Charlotte, perhaps you could comment on some of the specific areas that were relevant to developing countries.

Q3 **Chair:** Ms Vaillant, please do introduce yourself to the Committee because I think it is the first time you have been before us.

Charlotte Vaillant: Yes, my name is Charlotte Vaillant. I was the head of the research team for this review. What we found with the G20 agenda was that it was generally quite narrowly defined. Some issues of interest for developing countries were left out—in particular, the issue of international taxing rights, which tend to favour residence countries, i.e. the countries where multinational companies are registered, over the countries where multinational companies operate. This issue was completely left out of the G20 agenda.

At a more technical level, there were also issues of interest for developing countries, which did not make it to the BEPS package—the G20 solution. This included, the indirect sales of assets, which is a prevalent mechanism used by multinational corporations in the mining and telecom sectors. Another one is withholding tax. This is also a mechanism that other countries, such as Tanzania, is using to address the issue of tax avoidance, which is not seen as good practice by the G20 or the OECD.

Richard Gledhill: Part of the problem came from the fact that consultations with developing countries came rather late in the process, when the priorities had already been set. It is important to stress that what we are not saying here is that developing countries should have been given everything they have asked for or everything they need. What we are saying is that DFID's actions and influencing should have been based on a good understanding of what those needs and wishes are.

Chair: Thank you very much. That work should improve in the future.

Q4 **Stephen Twigg**: This review looks at DFID's international influencing work and capacity-building, which has a relatively modest budget within DFID of a financial commitment over a 14-year period of £38.9 million. You yourself say in the report that that compares to an annual spend of £32.6 million on in-country tax programmes. Can you explain the decision to focus on the international influencing rather than looking at in-country programmes?

Dr Alison Evans: Shall I say a couple of words and then pass over? Thank you for that question. There is not a focus particularly on the international dimensions around tax evasion and tax avoidance. It is probably three-fold. First, this was an area of quite significant public interest and continues to be, around the role that the UK can play in strengthening the global rules around tax evasion and avoidance. We know particularly during the end of 2015 and early 2016 there was quite a lot of focus on that, both within Government and amongst stakeholders.

Another point is that what we were interested in getting at was how particularly the Department for International Development works across Government Departments on an agenda of significant public interest. This indeed was an important area for that.

The third area that we were really interested in was the way in which an agenda that had a strong international lens was actually connecting with the work that the Department for International Development does in country, on tax issues. It is not that we did not take a look at what is going on in country, but we took the perspective of how DFID is supporting countries to engage in the international tax evasion and avoidance agenda. That then did not include the separate issue of how DFID is working to strengthen internal capacities for domestic revenue-raising, which is actually part of the same puzzle if you like, but with a slightly different lens to look at this agenda.

Q5 **Stephen Twigg:** Richard, earlier you said, in terms of learning from the in-country work, you gave that as an amber/red. So you have concerns about the amount of learning DFID was doing from the in-country work for the international influencing.

Richard Gledhill: The concern was about how the learning in country was used centrally for influencing programmes rather than how learning was shared in country; that was not specifically looked at. It is obviously true that this is a relatively small area of spend, but potentially the leverage from this spend is very significant. If the UK is able to influence international systems through activities like this, through influencing cross-Government working, it could have very significant results, way beyond the very modest spend in this area, although we do recognise the importance of domestic resource mobilisation and in-country work on tax systems. We may well come back to those in a future year.

Q6 **Stephen Twigg:** It is great you will come back to them. As a sub-committee of the main Committee we would very much welcome your doing that. Did the review give you any particularly insights into DFID's in-country programmes?

Richard Gledhill: Yes, certainly. One of the programmes we looked at was the HMRC capacity-building unit. That was involved in domestic programmes. Charlotte, perhaps you could comment on some of the key learnings from that.

Charlotte Vaillant: The HMRC capacity-building unit got off to quite a slow start. It is a bit too early to talk about results, but we found through our country case study that the tax revenue authorities in these countries very much welcome DFID's and HMRC's combined short-term and long-term expertise. Our country case study also confirmed the need or the importance of a sequenced, co-ordinated approach to capacity-building that is based on a thorough and shared diagnosis of the needs.

Q7 **Chair:** Thank you. Just for the record, the second objective that you deciphered was to ensure that countries received sufficient capacity-building support to implement these standards. On page 17 of your report you say that DFID fell short of this objective. You say, "The G8 countries agree to continue rather than increase their capacity-building support." Would that be a fair conclusion overall?

Charlotte Vaillant: Yes.

Q8 **Dr Lisa Cameron:** DFID has not undertaken a spill-over analysis to assess the impact of tax policies on developing countries. Did you come across any ways in which UK tax policies are having such an impact?

Richard Gledhill: It is inevitable that UK tax policies will have an impact. Tax treaties in particular have impacts on other countries—on developing countries, as much as on developed countries. The issue here is not that there is an impact, but there was not sufficient work done to analyse what that impact was and to think how that might play into the influencing activities.

Q9 **Dr Lisa Cameron:** Did you find any evidence to suggest that UK tax treaty networks support developing countries to raise tax?

Richard Gledhill: Charlotte, we are getting into quite a technical area; do you want to comment on that?

Charlotte Vaillant: I am not sure we went that far into it. We did not really find any evidence as such. Our main point here is that we need that kind of evidence and some analysis on the impact of UK tax policies on developing countries. It needs to be looked at.

Q10 **Dr Lisa Cameron:** The Treasury is arguing that spill-over analysis would be impractical and time-consuming. Understandably you cannot make a comment about the policy decision not to undertake such an analysis. How expensive would a spill-over analysis be and how much time do you estimate it might take?

Richard Gledhill: That does depend on how detailed the analysis is and the range of polices that you look at. The recommendations from the IMF and the OECD are that G20 countries should undertake spill-over analysis, and the European Parliament and NGOs have also called on EU member states, including the UK, to carry out a spill-over analysis of their bilateral treaties. This is something that has been done by some other donor countries: the Netherlands and Ireland have undertaken this work. The cost of it would be something that depends on the level of granularity. Perhaps this is something that HMRC may have a view on later this morning.

Q11 **Mr Nigel Evans:** The review identifies that there is limited evidence of other Departments looking to the Department for International Development for its expertise. Can you give examples of this limited evidence?

Richard Gledhill: There is both a demand and a supply-side issue here. We found that DFID was not actively promoting its development expertise to, in this case, HMRC and the Treasury, nor necessarily was there demand coming from HMRC to use that central development expertise. There is always a recognition that DFID country officers are valuable for engagement on in-country work. It goes much broader than that, looking at the experience in managing complex programmes in very different contexts and environments to which the UK Government specialists are used to working, how to engage with developing country counterparts, how to measure results and how to manage that process. What we have seen since the report is that DFID are now engaging much more actively with this.

Q12 **Mr Nigel Evans:** How are they doing that? How are they engaging with that?

Richard Gledhill: They have put together a guidance note that provides very useful guidance to other Government Departments and cross-Government funds on the practicality of working in developing countries on programmes like this and about sources of information. They are engaging actively with their counterparts, as are we. One of the things that we are doing is recognising the move towards wider involvement of other Government Departments on the ODA spend. We are very keen to engage with other Government Departments and make them aware of the resources that are available to them and the learning that is available.

Q13 **Mr Nigel Evans:** Does the model of interaction between the Department for International Development, the Treasury and HMRC provide a good example of how this interaction can work?

Richard Gledhill: At a practical level, the cross-Government working has been effective on this programme. There were some early teething troubles with HMRC, perhaps trying to scale up too quickly. We raised some value-for-money concerns in that area. Generally, we found that at an operational level there was good experience of cross-Government working between DFID and HMRC. Charlotte, do you want to comment further on that?

Q14 **Mr Nigel Evans:** In commenting on that, it is about looking at where this can be extended and we are looking at things like justice and health, for instance. Could you just perhaps touch on that?

Charlotte Vaillant: Yes, the model that DFID and HMRC have been using proves the capacity-building unit is quite a good model, and potentially a very good model. As I said earlier on, the work in country has just started so it is too early to talk about results. What we find is that there are a number of lessons that can be learned, which will be very useful for other Government Departments, one of which is that identifying the right UK expertise takes time and may not necessarily be in line with the recipient country's initial expectation or specific demand. That is a key lesson for us.

Another lesson that DFID and HMRC have already taken on board is that the partnership arrangements need to have some flexibility built in so that opportunities can be seized.

A third one would be to say that, whereas the DFID country officers would be key in engaging with HMRC at a country level, it is important that centrally some resources are invested and that DFID has a role in guiding HMRC towards more effective capacity-building.

Richard Gledhill: The other lesson is that capacity-building needs to be sustained as part of a long-term programme that is clearly anchored in knowledge of the local country context.

Q15 **Mr Nigel Evans:** Has enough priority been given to this?

Richard Gledhill: Since the review, this is an area that DFID is doing a lot more on. It is probably best to get DFID to comment on their latest actions, because they have happened after our work.

Q16 **Chair:** DFID provide a written response to your review, which is useful. I wonder whether there should be a request for a written response from other Departments when you refer to them in your report. Would that be helpful to you?

Richard Gledhill: Yes. In this case, the review was done primarily through a DFID lens but we did have active engagement with HMRC and with Treasury. I believe there is a representative from HMRC coming today. One of the issues that we have discussed with DFID at a senior level is not just their own responses but how their responses might be seen as role models for other Government Departments. Certainly when we cover other Government Departments as part of future reviews, we would expect to get formal responses where relevant from them.

Q17 **Chair:** I see no reason why you could not have expected one here, where actually you are quite critical—in fact you are highly critical—of HMRC in terms of value for money. You talk about its early use of funds not offering good value for money, and say that its scaling-up plan proved over-ambitious. You give the example that half of its year 1 funding was spent on training 15 new HMRC tax experts for domestic roles, in order to release existing staff for deployment abroad, but you say that HMRC has never achieved more than half its planned deployment and is unlikely to be able to deploy as many as 15 full-time equivalent advisers in the near future.

Marcus, would you like to come in on this issue of the accountability of other Government Departments when we now know that over 30% of ODA's spend is going to be spent by them?

Marcus Cox: Certainly, the episode certainly illustrates some of the value-for-money risks associated with Departments that are trying to scale up rapidly in fields where they do not have prior experience. That issue was to do with HMRC trying to build up its own in-house capacity to deploy skilled advisers abroad and attempted to use some of the money that had been transferred across from DFID to free up capacity by training additional staff for use in domestic roles. We raised a concern as to whether that was a proper use of ODA funds, under the international definition, and received an assurance from HMRC and DFID that in the end those particular funds had not been reported as ODA, so there was no violation in that case. However, it did raise some of these questions about how best a Department moving into this field can sustain a long-term engagement of an advisory presence in developing countries.

Dr Alison Evans: You are absolutely right. This is the frontier that we are now facing, which is how to engage other Departments in the formal response process. In this case, you will note that recommendations were almost exclusively aimed towards DFID and the formal management response has to respond to our recommendations. It would not have been proper in the case of this review to then expect HMRC or Treasury to come through a formal response process. However, we did engage very much around where the findings were coming out on the key points that touched on both Treasury and HMRC, so they were very aware and had the opportunity to respond at the operational level.

However, as we have touched on before in this Committee, we are in the process of communicating across other Government Departments and trying to set out a sense of guidelines around which the response process would need to happen as we increasingly turn our eyes towards the spending that is taking place beyond DFID. It is not formally DFID's responsibility, as it were, to manage that process beyond their own departmental boundaries. It is the responsibility of spending Departments. That is a learning curve because these Departments have not engaged with ICAI very much up until now.

Q18 **Chair:** Would you agree that it is both your responsibility and this sub-committee's and our main Committee's responsibility to oversee UK aid spend overall?

Dr Alison Evans: Absolutely, and that is why we are spending a lot of time at the moment talking about our processes with other Government Departments, as well as what we expect in terms of response.

Q19 **Chair:** This is such an important issue. Your review states that ICAI only had limited access to Treasury personnel and documents. Their argument was that that is because they do not spend ODA. What implication does that have for your ability to review areas of work where policy crosses Departments and how much did that restrict your work in this report?

Dr Alison Evans: Let me ask Richard and Charlotte to speak specifically on potential restrictions. There is a more generic point related to this, which is the extent to which ICAI has sight of important documentation that allows us to understand the context in which ODA is being delivered and some of the performance challenges around that. Clearly, because we do not have statutory status we do not actually have many levers in statute to acquire that documentation. We are working on it, making sure that we have good working relationships and using that to release as much documentation as possible.

Chair: What you are saying is that you would like there to be more open access.

Dr Alison Evans: Absolutely.

Richard Gledhill: You are right to say that because we were not reviewing any ODA spend by Treasury they said that that therefore did not give us rights or access to any of their internal documents. However, we did have a meeting with Treasury officials and had helpful engagement with them. If we had had access to Treasury documents, that would have provided some perhaps more useful additional insight and context. We did have access to correspondence between DFID and Treasury and through that we were able to judge effectively the quality of cross-Government working, which was a primary focus of this aspect of our work. In the final analysis, we did have sufficient information to be able to form judgments on our review questions.

Chair: However, you would like it to be less hard work in the future.

Richard Gledhill: Yes.

Q20 **Chair:** Can I turn to DFID's response now? DFID accepts three of your recommendations. It disagrees with your fourth on DFID taking a more active response to promoting policy coherence for development on international tax. I wonder if you would like to comment on their response to that recommendation.

Richard Gledhill: Clearly the issue of policy coherence for development strays into this policy area. It is encouraging that they say in the response that they need to ensure that analysis of impact of UK tax policy and practices is targeted and proportionate to the likely impact on developing countries and does not crowd out essential work. That is acknowledging that there is a need for some analysis in some circumstances. It would be interesting to probe with DFID to what extent that is actually happening at the moment and whether "disagree" is the right word or whether it is a "partially agree". We are getting into semantics there.

Q21 **Chair:** Finally, just before the words you quoted from that response, DFID also says, "We believe the main effort in DFID should be on building capacity in developing countries to improve tax policy and compliance." As you say in your report, there are real overwhelming demands within these countries to tackle corruption and other very concerning issues where billions of pounds could actually potentially be saved. My main take-away from your report is that not only did it lack focus and monitoring, but it failed on its two key objectives. There were actually far more important objectives that DFID could have focused on, with potentially greater returns and better value-for-money potential. I wonder if you would just comment on that. It goes to the heart of this whole area.

Dr Alison Evans: It is a really good point. It is very clear from the fact that we have done this review on this particular set of issues that there is a very strong belief within the international community that global rules around tackling evasion and avoidance are actually incredibly important. They have the potential to undermine the capacities of individual countries to tackle corruption and avoidance in their own jurisdictions. The global rules are really important. That is an area in which it is legitimate for the UK to have a strong presence. It clearly cannot be at the cost of also working very forcibly on issues around domestic capacity. We looked at the relationship between those two things. What we did not do was a full appraisal of the effectiveness of DFID's efforts to build domestic systems for domestic resource mobilisation. As Richard says, we are planning and would hope to look at that. It is a matter of proportionality and where DFID is putting its effort. That is something that will be a useful line of inquiry with them when they are before you.

Chair: That is a very valid question because there is no point helping or supporting them to address very complex international standards if actually the technical expertise within their own countries is not there.

Richard Gledhill: The challenge for many developing countries is not that the expertise is not necessarily there; it is just a very scarce resource. If it is tied up working on international processes and standards, then it cannot necessarily be doing other work. That reinforces the point we made earlier about the need to focus on what is important to developing countries. There are issues in the international agenda that are very relevant to developing countries, depending on where they are in their stage of development. In addition, there is the issue of the sort of industries that are involved—for example, extractive industries are particularly important in the international tax agenda. It is then how those are sequenced with domestic resource mobilisation programmes.

Q22 **Chair:** Thank you. We have one minute left. Ms Vailland, you are nodding quite strongly. Do you want to make a final comment?

Charlotte Vaillant: Yes. With regards to capacity-building we must recognise that DFID and the OECD have come with some positive results, especially with regard to high-paying recipient countries establishing the right legal frameworks. That is definitely a positive point. The challenge is now on implementation. What we found quite striking, going back to Richard's point on the limited resources, is that many countries that benefited from early support from the OECD and DFID, such as Ghana or Vietnam, still today need international experts to come in so they can address cases of tax avoidance and tax evasion.

Chair: Thank you very much indeed for coming today.

Nick Dyer, Director General, Policy and Global Programmes, Jonathan Hargreaves, Head of Governance, Open Societies and Anti-Corruption, Peter Hurst, Tax Adviser, Governance, Open Societies and Anti-Corruption, Department for International Development, Sue Walton, Director, Tax Professionalism and Assurance, HMRC.

Q23 **Chair:** Good morning, everyone. It might be quite helpful for us if you would just briefly say your names and your role for the Committee, starting with Ms Walton.

Sue Walton: I am Sue Walton. I am a Director in HMRC. One of my responsibilities is the work that we do on capacity-building.

Peter Hurst: My name is Peter Hurst. I work on tax and development policy in DFID.

Nick Dyer: My name is Nick Dyer. I am Director General for Policy and Global Programmes. We know each other well.

Jonathan Hargreaves: Good morning. I am Jonathan Hargreaves. I am Head of the Governance, Open Societies and Anti-Corruption department in the policy division in DFID.

Q24 **Chair:** Thank you very much and thank you for coming today. If you were in the previous session you would have heard us asking why you did not set specific objectives for your international tax work, prior to undertaking it? How did you plan to judge the success of your work? ICAI's report talks about a lack of clear objectives, explicit strategy or monitoring arrangements.

Nick Dyer: Can I just start by saying how important we think the whole tax agenda is? Helping countries raise more tax is one of the real opportunities in international development. We know, from the low tax takes of about 14% of GDP and the OECD estimates, that up to about $240 billion worth of evasion and avoidance is going on. This is one of the great opportunities to help countries stand on their own two feet and accelerate development.

Just to add, and we will come onto this later, that this report is really going to help us and help me, in particular, to reset what we want to be doing in tax.

In terms of the objectives, I hear what the report said. I must say that I thought we were clear and did understand what our objectives were in this area. It is quite clear that we were not very good at writing them down. We do work very closely across the whole of Government between HMRC, Treasury and DFID on the whole international tax agenda. We have got very good, close working relations with those three departments. The articulation that ICAI laid out in the report and what the objectives were was a good summary of what we are trying to achieve.

Q25 **Mr Nigel Evans:** You have come to this figure of $240 billion. It is a colossal figure. You must know, therefore, who the main culprits are in this.

Nick Dyer: This is an OECD estimate.

Peter Hurst: It is an OECD estimate that they have set out. It is the figure that they have put on tax evasion and tax avoidance generally. I would say that in fact developing countries are more likely to be affected by this because they take up higher amount of their tax take from elites and personal richer people and also from multinational enterprises. We can put a number on it, but I do not want to get across a sense that this money is just there for the taking. It is a lot harder than that. This is a process of building capacity in tax authorities so that they are then able to tax multinational enterprises, to tax practices such as transfer pricing and engage in international processes, such as exchange of information with other tax authorities internationally. This money is not just there for the taking.

Q26 **Mr Nigel Evans:** Do you think there are a lot of international companies that actually trade in the United Kingdom as well, who are operating from a number of developing countries and are literally abusing the system?

Peter Hurst: This is international tax avoidance that is happening. It is not necessarily illegal, but what we need to do is to get tax authorities to get better at tackling these sorts of practices. This is what we have been with our tax capacity-building programmes, making sure that tax authorities get better at introducing laws around transfer pricing practices. We have paid for the OECD to go and give technical assistance in developing countries and we also do audits side by side.

Q27 **Mr Nigel Evans:** The angle I am trying to get at is that some of these companies will be well known to us as branded names who operate within the United Kingdom, and HMRC are probably dealing with them on a regular basis. The expertise that exists in this country could be used to use leverage here in order for them to behave abroad, particularly in what we are calling vulnerable countries.

Peter Hurst: I would agree with that. The same issues that HMRC are facing here in the UK with multinational enterprises, developing countries would face them as well. HMRC actually have quite a lot to give in terms of lending their expertise to developing country tax authorities to tackle those same challenges of taxing multinational enterprises as we might face here in the UK.

Q28 **Chair:** We will come to Ms Walton and HMRC shortly. If I could just continue with my initial question, it was very helpful, Mr Dyer, of you to say that you accept that ICAI's summary of your key objectives was correct. One of them was to ensure that the needs of developing countries were considered in the standard-setting process. Right at the start of ICAI's they say, "Key stakeholders from both OECD and developing countries agree that developing countries gained little practical influence over the new standards." This is on page 2, right at the start. "Consultations with developing countries occurred late in the process, when the priorities had already been agreed". Why was that? Why did you not take into account the needs of these countries or involve them earlier?

Nick Dyer: Peter, do you want to take that question as you are closer to it?

Peter Hurst: Yes, I can. Basically, when the UK and other G20 countries started this international process of looking at the rules around tax avoidance, a process that is known in the OECD as BEPS—base erosion and profit shifting—it originally had OECD countries and also G20 countries looking at the OECD rules and guidance around these issues. Our objective in DFID has been to open up this process as much as possible to developing countries. We believe that these issues do affect developing countries and we want them to be part of it and to have access to these advances in tax transparency on the same footing as developed countries.

We commissioned the OECD to look at specific BEPS issues that affect developing countries. They highlighted things such as tax incentives, transfer pricing comparable data, which was something that developing countries do not necessarily have access to. They find it difficult to find the price at which to put a price on transfer pricing transactions between companies. In addition, on participation, which is something that you mentioned, what we did was we supported a call to open up the BEPS process so that developing countries can become part of this, and as a result of that 12 developing countries were able to participate in the BEPS negotiations. I would now say that developing countries can participate on an equal footing.

The OECD launched the BEPS inclusive framework in Kyoto this year. As a result of that, developing countries are participating on the same basis as developed countries in the BEPS standard-setting framework. That is a very good thing. Bangladesh are in that process as well as Senegal, Pakistan, and Liberia. They also sit on the steering committee of the group as well, as do Nigeria and Senegal. They are very much at the heart of that process now. We have come a long way since 2013 when developing countries were not so involved in the process. Now it has been opened up and developing countries are now very much a part of it.

Q29 **Chair:** You do agree, actually, with the recommendations in the report, and you must therefore accept that with regard to this piece of work, you did not take their needs into account as well as you could have done. What you are saying now is that you are on a journey. You will have heard us ask earlier about the comparative needs of countries in terms of the challenges they face, for example, in having some robust institutions for tax collection and tackling corruption. Can you tell us whether you feel that addressing the kind of arena that you have just talked about is helpful in terms of potential value for money compared with focusing on these areas that are so critical?

Nick Dyer: Let me have the first go at that, and then maybe Jonathan will come in on this. I actually agree. One of the really interesting insights in this report was the comment that, if you want to help developing countries raise tax you just do not do it through the international tax rules. You have to do it through capacity-building and you have to address the issue of helping countries get contracts and sensible contracts with big companies coming in. You actually have to get economic growth going if you want to get tax revenues up. It is a balance. It is not just one thing.

When I received this report I asked myself three questions in light of the red/amber report. The first was: are we doing the right thing on international? Should we give up on the international? The answer to that is "no". We heard from the commissioners that we can do good things on the international side. We need to do some things differently, but it is still worth making that effort.

The second question I asked myself was: have we got the balance right? The report tells us we spend 14 times more on in-country capacity building than we do on the international work. Personally I am comfortable with that balance of effort.

The third question I asked myself was: are we putting enough resource into this whole effort? I have a fantastic team; they are all here. There are only three of them, and I have made the decision that I am going to put a dedicated senior civil servant just on tax and really rethink this whole question around the balance of effort and how we address some of the challenges that this report has thrown up. We need to get that balance right but also make a dedicated effort in terms of doing more in this space.

Chair: I am going to turn to my colleague, but I do just want to make a further comment. You have a comparative advantage through the work of your in-country officers in terms of DFID and the expertise there. We are wondering why you did not use this to inform the Department's international influencing work or to fill data gaps that the Department identified seven years ago. If I can just read a comment from the report and then pass over to my colleague, just to set this in context, the report says there was "little indication that DFID had used research or expertise from its country programmes to support its influencing activities or to push the boundaries of policy dialogue on international tax".

I will hand over to Stephen, but that is the context in which I have concerns on this in-country liaison.

Q30 **Stephen Twigg:** I will follow on from that line of questioning and conversation to ask specifically about the Addis tax initiative. The ICAI report says that, "The preparations leading to its launch were donor led and top-down in nature, rather than consultative or based on an analysis of developing country needs." Can you tell us why that was?

Nick Dyer: I will admit, having been involved in the Addis tax initiative process, that I would have preferred not to have started where we started. We gave ourselves very little time. What was successful about the G8 and the G20 was that we put markers down in the communiques that donors need to put more effort into capacity-building. We were not successful in getting donors to commit to a certain amount of additional resource. The point of the Addis tax initiative was two-fold. One point was to create a coalition of the willing around the whole area of domestic resource mobilisation and domestic resource-raising, but also to try to get donors to commit to a specific figure.

We had very little time to do it. We were successful in getting donors to commit to a specific figure. We do have a number of African countries now who have joined the Addis tax initiative. Tanzania was a co-chair of the Addis tax initiative and they were there at the launch. It was not ideal but in terms of getting the issue on the financing for development agenda and getting firm commitments in terms of resourcing, it was a success.

Q31 **Stephen Twigg:** You referred to a number of African countries. In the ICAI review they say that nine DFID priority countries have signed up. Does that remain the figure or has it gone up since the review?

Nick Dyer: Twelve out of 40 are African.

Peter Hurst: We just had Uganda actually signing the Addis tax initiative, which is a DFID priority country.

Q32 **Stephen Twigg:** What is your analysis? It feels quite slow in terms of countries that say they wanted this to happen, then signing up as recipient countries to the process.

Nick Dyer: If you look at all these processes that are coalitions of the willing—so you have it with the open government partnership and you have it on corruption to some extent—you do get some countries who are right at the forefront and keen. It is a process and the key with the Addis tax initiative is that it will fail if we take our eye off it and we do need to sustain international attention on it. The OECD has now agreed a new marker of how we measure spending on tax capacity. That is really important because once we get the baseline, we can hold the feet to fire of all of those main commitments in terms of what they are actually doing. It is new, it was done very quickly and it meets the objectives at the moment and it is a work in progress. We have to keep our effort on it.

Jonathan Hargreaves: I was in Uganda two weeks ago and I asked the Director of Economic Affairs and the Minister of Finance exactly the question that you have just asked: "Why are you only signing up now? What do you expect from it?" He said, "I could not really see what was in it for us to do it." He said, "There was no particular impediment to doing it but what I want to know, now that we have signed up, is what follows. It is easy to sign; that is fine. What I need to know is how that is going to benefit us." As Nick says, the proof of the pudding will be in what that brings. In Uganda's case, that can quite quickly be followed up by them piloting a medium-term revenue strategy that will help to locate their efforts in their own political and strategic framework. DFID is preparing a large programme of support to Uganda. They are also involved in quite a lot of the international initiatives. I was able to say to him that it was great that Uganda was signing up and that we would do our utmost to make sure that it is actually meaningful for them in that case. When we can see examples like, the benefits of them becoming part of the ATI will become clearer.

Q33 **Stephen Twigg:** That is to do with recipient countries. In terms of the donor countries, the objective that the UK had at G8 in 2013 was "to secure more international funding for capacity-building on tax". All that we have is a commitment to maintain existing levels of support. Is that disappointing and is there anything we can do about it?

Nick Dyer: In my experience getting donors to commit to spending more money on anything is hard work. In a world where we have increasing need and we have in-country refugee costs, which are absorbing quite a big proportion of some countries' ODA, it is tough. This is all about a process. The real challenge here is to be clear about what we are trying to achieve, be able to monitor it with the data, which we now can do with the OECD, and demonstrate to our donor partners and countries that this can be successful. If you get those three things right then you start to get momentum.

Q34 **Stephen Twigg:** Can I just ask about the broader issue of the system itself and reform? This is an issue that we have talked about in previous evidence sessions. As you know, many developing countries are critical of a system that is essentially led by G20 and OECD. The UK has been reluctant to support some of the more radical reforms that have been proposed. Is there any reconsideration of the UK's position on that?

Nick Dyer: Are we talking about the UN forum?

Stephen Twigg: That is the main proposal that has come forward from developing countries.

Nick Dyer: We do not think that that will be any better than the processes that we have at the moment. If I am not wrong, the report recognises that. The Treasury's preference is to work with processes that we have.

Q35 **Stephen Twigg:** Is that a hard-headed, pragmatic judgment that even if we were for changing it, other wealthy countries will not be, or is it a view that a UN body will be unwieldy?

Nick Dyer: It is a view that the Treasury are fixed on.

Q36 **Stephen Twigg:** Being DFID rather than the Treasury, you understand the concern that the bodies that are leading on this are the clubs for the rich countries.

Nick Dyer: As Peter laid out earlier, we have opened up, certainly on the BEPS side, and the OECD has given developing countries a voice, so it is not actually true that the OECD and the G8 are closed to voices of developing countries. What we have got to do is make those processes work rather than create something new. We almost have too many international bodies and in creating new ones, we have to think very carefully about that. If we can make existing ones work better, that is the right approach.

Q37 **Chair:** Just before I pass over to Lisa, can you help me understand something, Mr Dyer? You say we were successful in getting donors to commit, by which you meant to continue their levels. The second ICAI objective, which you said you accepted, states, "To ensure that sufficient capacity-building support is received by countries to implement the agreed standards." Regarding your push for more capacity-building support, effectively for the 2013 G20 summit your objective was to secure more international funding. You did not secure that. Do you agree, therefore, with ICAI that you did not meet that second objective?

Nick Dyer: I accept that we are in a process of international agreements and that to get countries to sign up to firm, hard agreements is difficult. That does not mean that at the first sign of resistance we should give up. We should continue. For me that is the value of the Addis tax initiative. We have a process that we can use to keep going and keep greater attention on the capacity-building. We are not there yet, but we still have an ambition to get there.

Q38 **Dr Lisa Cameron:** ICAI have raised a number of issues surrounding the capability of developing countries to implement new tax standards. These include the potential ineffectiveness of technical systems and sustainability without direct assistance. What are you doing to overcome these difficulties? The question is to both DFID and HMRC.

Peter Hurst: So the ICAI report laid out that these standards are often technically challenging for developing countries, and I would agree with that. They are challenging standards to implement. That is why we want to provide capacity-building support to developing countries to do that. We want to make that effort to help them to meet those standards. I would say that we have actually been quite successful in implementing standards through our tax transparency programme, which funds international organisation to give capacity-building assistance. ICAI recognise that in the revenue results that we had from that. We did our annual review this month. We just completed that and we found that that capacity building support was able to raise €275 million extra in revenue for developing countries. That is then money that they can spend on public services.

It is quite large in terms of revenue taken in for a capacity-building programme. We think that that is a good result for our programme, and it shows that developing countries can implement these standards. I would say that we should not do it in isolation. We also have to provide that core capacity-building support. We cannot just get developing countries to work on these quite technically niche areas. You also need to have them do more basic tasks, such as improve IT systems and also to increase taxpayer registration and increase their capacity generally. It is not a case of doing either/or.

Q39 **Dr Lisa Cameron:** DFID capacity-building support was designed to be demand-led and demand has been mixed. Did you assess demand before providing support and why has the offer of support not been taken up by as many partners as expected? Is it that the tax standards are beyond the capacity of implementation for some countries?

Peter Hurst: Yes, that is true. In some areas of these standards, demand has been a little lower than others. On the transfer pricing side, demand has actually been quite high. That is a side of it that does actually create a lot of these large revenue returns. On the exchange of information, demand has been a bit lower. This is demand to join the global forum, which is the body that assesses international standards of exchange of information. This is used to tackle international tax evasion. As a result of that, we funded the global forum, which is the body that helps implement these standards, to set up this Africa initiative and to promote the awareness of the benefits of implementing international standards in African countries. Since then, in 2014, seven developing countries have joined the global forum and they are in discussion with other countries to join as well. Also, as a result of assistance, a number of developing countries passed their peer reviews on these standards this year. That is changing. The programme is successful on that front, but it is true to say that demand has been mixed.

Q40 **Chair:** Can I just go back again to the balancing act of priorities in terms of assisting countries in their tax issues? The report says that the benefits of adopting international tax standards may have been oversold by DFID, to developing countries. Mr Hargreaves, would you like to comment on that, bearing in mind all of the other areas that we have talked about that could be addressed by a better return? These include fundamental problems with corruption, lack of effective sanctions, the level of tax liability for multinationals and the issue of sweeteners to do business in country.

Jonathan Hargreaves: Thank you, Chair. I will take it back to Uganda again, if I may? I also asked that question in Uganda of both the Ministry of Finance and the commissioner-general of the revenue authority. I spoke to them about this report actually, with exactly that question, "How should we and how do you judge the balance between basic administrative capacity and engaging with these international rules?" It will not surprise you to know that what they said was that actually both were rather important.

In terms of international rules, that is obviously a big part of how they address some of their largest potential taxpayers, and corporate tax and tax from multinationals is obviously a very large part, potentially, of one of their biggest revenue streams. On the other hand, their plan on revenue over the medium term is to address that but also a multitude of other issues, including the ones that you mentioned in terms of tax policy, which is another area that we are trying to support a bit more, as well as some of the basic issues around data and management of data and organisational development, widening the taxpayer base and so on.

In short, it depends on any given country and where they are at and what capacity they have got, as well as the potential opportunities as to what emphasis they might put on international rules versus anything else. It is all rather part of a piece, with Treasury and in response to a report that the international organisations provided in the context of the G20 recently, encouraging countries to adopt medium-term revenue strategies that look at the relative priorities of capacity-building, including on policy and on legislation, and thinking in the medium term on how they can create fiscal space and working out where the relative opportunities might be; we think that kind of approach is potentially really helpful and we are keen to address that.

Nick Dyer: Can I just add to that? I do not know what my colleagues will think about that, but if you want to make quick, short-term gains, investing in the capacity of revenue authorities that are really weak could give you the quickest bang for your buck, in the short term, rather than investing in what is quite a long process of changing rules and building capability. However, you do need to have both. As I said earlier, regarding the fact that the report's own calculations are that we are spending 14 times more on in-country capacity building than we are on the international rules, I am comfortable with that balance.

I should use this opportunity to correct one thing that my colleague has just highlighted. On the Addis tax initiative, the commitment was actually to collectively double by 2020, not to keep the spending constant. There is a commitment to increase funding, but of course a commitment is not the same as delivering.

Q41 **Chair:** You referred earlier to the very limited technical capacity in countries, regarding tax. Is there a concern that in broadening the work on this area, rather than focusing it on certain issues that some of the countries say are of a much greater priority to them, you could actually be spreading the very limited technical expertise too thinly?

Jonathan Hargreaves: It is a balancing act, as we have said. As you know, as a Department we spend something like £25 million a year, or we did in 2014. This is on basic tax capacity-building. We aim to double that in line with the Addis tax initiative by 2020. We also spend, we think, about £620 million a year on broader governance issues. Going to your point about wider issues of corruption and more broad governance, the context in which we are doing revenue-raising, clearly we are extremely active in that too.

In the countries where we are particularly active—the top three or four being Afghanistan, Pakistan, Occupied Palestinian Territories and Tanzania—we have made some really significant gains. We have supported some really significant achievements on revenue capacity-building. It is that kind of support that we have been providing since 1997 and before, which has had significant gains. It will be context-specific, as I said, as to how much attention now to put on the ability to implement these international rules, but it is not in isolation.

In Ethiopia, for example, we have a number of different ways of approaching this. We have HMRC, a long-term colleague, embedded in the revenue authority. We have a DFID basic tax programme. We have HMRC technical expertise looking particularly at transfer pricing, I believe, and colleagues from the OECD global forum also looking at some of the international rules. They are working together to help to navigate the Ethiopian Government through exactly these kind of issues. There is a co-ordination issue there, which we are very much aware of, and that is one reason why we have worked with Treasury and HMRC to develop this strategic framework for our own prioritisation and approach when we aim to support any given country. There are real, on-the-ground trade-offs, as you suggest, Chair. We are very aware of them and we now have some quite good processes in place to support Governments to work out where to put their efforts.

Q42 **Mr Nigel Evans:** When most people think about international development aid being spent, their minds are on water projects, on food, on education and on medication. Tax experts, I suspect, would come to the bottom of their list. It may be that, looking at the failure of capacity-building within HMRC, it is at the bottom of your list too.

Sue Walton: I would not accept that. I have to accept that we got off to a very slow start. We did not take sufficient account of the time it would take us to develop relationships, to place our long-term advisers and to develop the programmes that we needed. However, the amount of capacity-building that we are delivering now is rising all of the time. Last year we were able to deliver 652 days of support. This year we have already delivered 635 and we expect to do as much again over the remainder of the year. The amount of support that we are providing is rising all of the time. I accept that we got off to a slower start than we should have done, but we are now much better positioned. There is a lot of commitment to supporting this work within the organisation. It is actually an excellent development opportunity for our people to be engaged in this. We engage a wide range of our experts, depending on the ask from the country in terms of what kind of expertise they want from us.

As of January we will have six long-term advisers in place, working in country to understand the needs of the revenue authority and to work on developing where the assistance we can provide will be of most benefit. We have also expanded our offer to provide senior leaders in our organisation to be mentors for senior leaders in overseas revenue authorities. That is working very well in terms of development of programmes and providing on-the-spot assistance and the opportunity to raise strategic questions. We are very committed to this.

Q43 **Mr Nigel Evans:** Is the problem that it is all a bit too thinly spread? You are mentioning these figures and it is encouraging that is going in the right direction. To me, regarding this £240 billion figure of money that has been lost, we are giving £12 billion roughly on international development. If we can just get 5% of that lost revenue that makes up the entire budget in this country. I am not saying it is easy. You have got all of these countries signing up and saying, "Yes, we want these standards." They must be able to see for themselves the fact that there is such a loss of revenues within their own countries that it is damaging them, so they are signing up. I am just connecting the dots really and saying, "My goodness me. Just 5%—if we can only be as effective as that?" I am just wondering, Ms Walton, with all of this increasing effort that you are putting in now, whether you are able to put a figure roughly on how much of that £240 billion that has been lost we are helping to recover.

Sue Walton: It is probably too early to put precise figures on things. We do have examples where we have worked with countries and we can see that they have started to have successful litigation cases, for example, or they have been able to pursue transfer pricing inquiries and get successful results. It is a bit too early to be able to put firm numbers on it.

We recognise that just monitoring the number of days that we deliver is not really telling us what impact we are having, although it is something that is important, so we are also now trying to develop a much more comprehensive monitoring and evaluation framework so that we understand what it is that we are setting out to achieve and that we can monitor how we are doing that and try to evaluate the impact that we are having. I expect us to be in a better position to answer that kind of question as we develop that framework and put it into practice.

Nick Dyer: Can I add to that. Your basic contention is that this is a good investment.

Mr Nigel Evans: I am being hugely simplistic about it, I know.

Nick Dyer: I am agreeing with you, actually. Your basic contention is that this is a good investment and you can get good returns from actually quite small sums of money in terms of technical assistance. On the BEPS side, the BEPS investment has generated about $275 million in returns. There is a good return on that. From our in-country capacity work, we have seen the tax take in Afghanistan go up from 4% to 10% or 12%. Also, this is the exit from aid. If you can get countries raising tax revenues and they can sustain their own development, they do not need it any more. This is the kind of investment we should be making.

Q44 **Mr Nigel Evans:** Yes. ICAI seems to be a bit critical of the short-term missions as opposed to more long-term. You just said you have six long-term advisers now going in. Is that a change of policy to recognise that there is a problem with short-term missions?

Sue Walton: That was always something that we wanted to develop. We are now being more successful in placing people. The mentoring is a new development. Where we get particularly demands for a particular kind of expertise—debt management would be an example—we will bring more of that expertise into our central unit so that that expertise is on tap and ready for us to use.

Peter Hurst: I would just add to that on the OECD front. The OECD project, which has brought in a lot of these revenues, is something called Tax Inspectors Without Borders. Those are short-term missions sending tax auditors from donor countries to sit side by side in an office with a developing country tax auditor and actually going through the audit of a multinational company. That is what is bringing in a lot of these revenue returns. It is not just a two-week mission in isolation. That tax auditor would go back a number of times over the course of two years and then would be available remotely to give advice as well. It is not just a short-term mission in isolation. It is part of a long-term thing as well.

Jonathan Hargreaves: If I may add something very briefly, it is wonderful that we have access to HMRC experts. There is something very special about peer-to-peer support in terms of knowledge and experience and credibility. This model has always been set up to support DFID countries where we have ongoing programmes and to locate the support within the wider framework of the other kind of assistance, which I referred to earlier. What we have been trying very hard to do, in developing the capacity-building-unit model, is to make sure that it lands on fertile ground and that the rest of our DFID support is provided.

Q45 **Mr Nigel Evans:** I spoke privately to Stephen Twigg earlier on about some international companies who are operating here and in developing countries. There are obvious areas where they are avoiding taxation and we are not as good in this country sometimes at getting these companies to cough up either, which is a fair point. Where there are flagrant and blatant areas where you know that these companies are basically playing the system, would DFID shy away from naming and shaming these companies, so that influence could be used in this country in order to get them to pay in other countries?

Nick Dyer: I am not sure that we are necessarily in a position to be able to identify them, and what we are keen to do in DFID is give countries the tools and the capability to identify who they are.

Q46 **Mr Nigel Evans:** That is the point I am making. HMRC experts can go in and provide you with the information in order for you to be able to name some of these well-known companies, because leverage can be used in this country, with consumers, in order to get them to behave responsibly in developing countries.

Nick Dyer: When we get to that point, we will have a look at that.

Q47 **Mr Nigel Evans:** So you would not shy away. You are saying that in the future you would be prepared to name and shame.

Nick Dyer: We are not in a position yet to make that decision.

Q48 **Mr Nigel Evans:** When you are; that is the point I am making. We will go to the last question. What lessons have both DFID and HMRC learnt about working effectively across Government in both the influencing and capacity-building work, which we have mentioned today?

Jonathan Hargreaves: Can I start and maybe I can ask Sue to follow up? It is worth putting the HMRC model into context. It is unique both in the UK and internationally as an attempted model to really have a systematic capacity for mobilising peer support. As we have said, we have been learning over the last couple of years about how to do that. It does present some challenges in terms of the organisation's resources to do this versus its core job, in terms of the role of practitioners versus development experts who know a lot about the countries in which they are going, and in terms of understanding of the context in which people are landing and so on. Clearly there are both organisational and skills challenges that we need to learn from. There are obviously a lot of opportunities as well that we can go into, in terms of the opportunity for British institutions to be working all over the world, building long-term partnerships and adding British expertise to our aid and policy offers as part of our development offer.

There was a manifesto commitment, as you know, to boost partnerships between UK institutions and their counterparts in developing countries. We are working hard to deliver on that and the HMRC model is in the vanguard of that. We have a number of other examples already. You mentioned the justice sector earlier; we have a model of being able to provide pro bono support for lawyers. We have the longstanding IFUSE programme in investment climate. We have a large health programme.

We are doing all of these things currently in rather different ways and using rather different models. We are keen to learn from all of that experience and then to crowd it together under one banner. We are currently looking for a partner to be able to run a programme for us that will help us to do that: to communicate, to learn and to broker these kinds of relationships in a much more systematic way than we have done before.

We are also drawing on the expertise of the National School of Government International. We have a lot of expertise over a long period in change management and development of civil services all over the world. We have specifically asked them to come and help HMRC and other British institutions that are going to be doing this kind of partnership work, to do that in a way that draws on that experience of change management in developing countries. We are making very specific efforts to learn and apply but there are some really challenging things that we need to get over in terms of the way that the UK system is currently set up. It is very welcome that lots of parts of the UK system, not just in Government, appear to be extremely enthusiastic to participate in this and also that the demand in developing countries for that kind of expertise is also growing.

Sue Walton: From our point of view, a key learning point has got to be realism about what we can achieve. I do not think we had that to start with; we are in a much better place now. We have learnt things about how to structure ourselves so as to provide support effectively. We have found some new ways of doing that, and another learning point for us is very much the need to work very closely with DFID on drawing on their development expertise. We have learnt a lot, but we are now in a much better position than we were.

Mr Nigel Evans: I wish you well and look forward to an update.

Q49 **Chair:** I just want to probe this a little more, because it is a really important issue, is it not, with over 30% of ODA being spent by other Departments? I was interested in a comment you made that you were assisting with this capacity building alongside "our core job". Is it not the case that joined-up working across Government Departments is absolutely going to be core to effective spend of UK aid?

Jonathan Hargreaves: The core job of an organisation like HMRC is to look after the revenues of the UK rather than to go and assist countries overseas. I absolutely see it as a core job of ourselves to work with Government Departments.

Chair: Thank you very much. That is a very helpful clarification. Did you want to comment further?

Nick Dyer: No, it is fine.

Q50 **Chair:** I would still really like to probe. We are very pleased you have come today, Ms Walton from HMRC, and you are in fact the first representative from another Department to come before our Committee and our sub-committee. We hope that many more will come because of this increasingly important issue of working across Departments effectively. I wondered if you could just tell us how you would have liked DFID to have worked differently to support you in this particular project. Page 23 of the report does talk about an expectation. It says, "The expectation was"—and I am wondering if this is from HMRC—"that DFID's central team would provide guidance on strategic issues, impact monitoring and pipeline management. DFID was slow to take up this role." Was that the expectation from HMRC?

Sue Walton: I am not aware that that was feedback that we provided. To some extent, there is shared responsibility for that point about realism of what we could achieve in the early stages, and perhaps DFID could have provided more to us on that. I do not think that was a point that we raised; the working relationship throughout has been very positive and very collaborative.

Q51 **Chair:** It sounds to me a little bit like the whole project and the fact that, as ICAI said, there were no explicit core objectives—that actually if DFID had sat down with you and agreed right at the start how to make this joint working most effective, it would have been very helpful. You did not have any agreed objectives about how you were going to work together. It is not a criticism; it is a question. This is a learning curve, is it not? Cross-Department working is going to be much more important, so it is important that lessons are learnt. I am asking it as an enquiry rather than as a criticism of you at HMRC.

Sue Walton: We set up the programme working in collaboration. We just did not take enough account of how long it would take us to build up the relationships with revenue authorities. We were working with DFID country officers. It took us a while to get our long-term advisers in place. I do not know whether DFID might have offered us counsel on, "You always estimate that you are going to do twice as much and in reality you will not." However, we have all been learning from this as a programme. I have not got any criticism of DFID. As I say, I do not think that that comment was one that we made. It has just been something that we have all had to learn from, because it is something that we have not tried to do before on this scale.

Chair: You might not have any criticism, but I certainly, as Chair of the sub-Committee, have concerns because DFID has a wealth of experience that could have been offered to you that might have helped you on this journey.

Peter Hurst: I will just say that there is learning on both sides. As Jonathan said, the HMRC programmes are at the vanguard of a lot of the cross-Government working on this. What we tried to do over the last year is to develop a framework for that. We need to share our development expertise with HMRC but it goes the other way as well. We want to take advantage of HMRC's tax knowledge as well because that is something that we do not have as much experience with as HRMC does.

Q52 **Chair:** You certainly have accepted recommendations 2 and 3 of ICAI's report, have you not, on this improved joint working and being more strategic?

Peter Hurst: Yes, that is right.

Nick Dyer: We are explicitly part of HMRC's capacity-building steering committee. We have inserted ourselves formally into the process of consulting on how to make this project work.

Q53 **Dr Lisa Cameron:** There is something I have been wondering about. Is it anybody's responsibility in particular to ensure that UK tax policies support developing countries' economic development? If so, is anyone going to be reviewing the United Kingdom tax treaties to ensure that they support developing countries?

Nick Dyer: UK tax policy is a matter for the Treasury and the Treasury are not here. I would suspect one of the questions could be around the spill-over analysis, which is similar to the question you were just asking. My understanding is that, certainly with regards to the spill-over analysis, they do not think it is a proportionate use of their time or resource, and we would accept that

Q54 **Dr Lisa Cameron:** So it is no one's responsibility in terms of looking at that, in terms of DFID or HMRC.

Nick Dyer: It is not in DFID because that is not our responsibility; it is a matter for the Treasury.

Peter Hurst: On tax treaties, I would add that it is the HMRC tax treaty team's lead to negotiate tax treaties. We do have a very good relationship with them and we are willing to facilitate any negotiations that might take place.

Q55 **Dr Lisa Cameron:** Is there collaboration to make sure that when tax treaties are set up they do not undermine some of the good work you are doing to build sustainability in these countries?

Peter Hurst: HMRC have got a very wide tax treaty network. What we would encourage them to do is to negotiate with developing countries as much as they can. Tax treaty negotiation is very much their lead as well, but obviously as a cross-Government collaboration we are able to have conversations with them on that.

Q56 **Dr Lisa Cameron:** In the work that you do, do you hope that that collaboration will then strengthen and will be able to have coherence?

Peter Hurst: I would hope so.

Q57 **Stephen Twigg:** On the spill-over analysis, which we discussed earlier with ICAI and which Nick just mentioned, without a spill-over analysis how can you be sure that the gains of development policy are not being completely undermined by the impact of tax policy?

Nick Dyer: The Treasury are not here, so I should not really talk for them, but, as I understand it, their view is that others who have done this kind of analysis have come up with very few examples of where there have been difficulties as a result of that analysis. A couple of countries have done this.

Jonathan Hargreaves: The Netherlands and Ireland have done this.

Stephen Twigg: They have conducted the spill-over analysis and it does not reveal anything new.

Nick Dyer: In one example of many, it has identified something of concern. Their judgment is that, in light of that, this is just not worth doing.

Q58 **Stephen Twigg:** As I understand it, this is something recommended by the IMF and the OECD.

Nick Dyer: That is the Treasury's position.

Stephen Twigg: This may be an issue we will return to at a future stage.

Q59 **Chair:** Can I turn to the response that you have given to the report and particularly your rejection of recommendation 4—that DFID should take a more active approach to promoting policy coherence? Would you like to just expand on that a little bit and let us know whether you consider it is important for the UK Government policy to be consistent and coherent and for that to be something that is looked at?

Nick Dyer: One of the great advantages of having a Secretary of State who is in the Cabinet is having somebody who can articulate the interests of developing countries. We are always looking for opportunities where we can align our interests. On the area of international tax, this is a good example of where domestic interests and international interests do align. The UK wants to change the rules because it wants to improve its tax take in the UK and also we want to have the rules changed because we want developing countries to improve their tax take. So, this is a good example of where it aligns. My own experience is, where we have that alignment of policy interest, it makes working in policy coherence a lot easier. You see this in the tax area, but also you see it in areas like child marriage and FGM, which we have discussed with the Committee previously.

We will continue to work with Treasury and HMRC on this agenda and we will identify opportunities. What we were doing in that response was responding to the recommendation about the spill-over analysis. We are very clear that UK tax policy is matter for the Treasury and HMRC, and the Treasury are very clear that they do not think the spill-over analysis is a proportionate use of their time.

Q60 **Chair:** Thank you. The report says that DFID "needs to adopt a more strategic approach towards achieving and measuring results". What would you do differently now, in the light of ICAI's report? This is in terms of that and indeed anything else that you want to comment on as a final summary in response to the report. We would be very interested in any and indeed all members of the panel, for the last few minutes.

Peter Hurst: I would agree that we always need to do better at measuring results, not only on international tax. We are learning constantly. This is ultimately a new area for us, and as we go through that process and our programme, as we get our results in, we are refining our log frames and we are refining our milestones to make sure that they are good and work for the programme but are also challenging for our partners. What we want to do as part of this strategic framework that we have on tax capacity-building is to develop a framework for how it is that we do those results and to make sure that we can share best practice with our country officers, so that their programmes have the right results frameworks to make their programmes as good as possible.

Nick Dyer: For me, this is all about objectives. This goes back to your first question of course, which was about whether we were clear about our objectives? As I said, we were, but we did not write them down. Thank you to ICAI for writing them down. Once you are clear on your objectives, you can measure what you are trying to achieve. I suspect we did not do as good a job as we should have done in terms of measuring the engagement of developing countries in the process, although Peter has laid out some compelling examples of where that has improved. Ultimately for me, in the tax area, the key indicator is increases in revenue-raising by developing countries themselves as a result of the efforts. That has got to be the key indicator.

Q61 **Chair:** Ms Walton, what about from HMRC's perspective?

Sue Walton: Just picking up on that point, the work that we are trying to do now on monitoring and evaluation and being able to understand what outcomes we are setting out to achieve and measuring the impact of what we are doing is where our focus needs to be. It is very much part of what Nick has just said.

Q62 **Chair:** What are the lessons learnt, Mr Hargreaves?

Jonathan Hargreaves: As Nick has said, we plan to do more in this area both on the international revenue administration and on the policy side. We have committed under the Addis tax initiative to scaling up our money in this area. Clearly we will need to be monitoring the impact of that really closely. One of the things that will help us is that we have recently established a community of practice around our whole network, in order to be able to both share the lessons and understand the results much better. We are going to get quite a lot better at having an aggregate picture of those things, as well as building in the learning from research and so on, which will help us to understand what brings good results.

The other aspect to it, as Nick also referred to earlier, is that clearly the key result is increases in revenue. That comes from a number of sources. It comes from good policy, from growth and from good administration. All of those together need to be a holistic way of measuring the kind of impact we are having in this area. It is quite difficult to isolate the part that is about revenue administration and expertise, but we can certainly monitor that at a project and programme level. In terms of a country’s own overall revenue take, there are a number of angles to that.

Chair: Thank you very much for coming today.