

TADAT sets the baseline: better planning, sequencing and monitoring of reforms in tax administrations

An interview with Justin Zake, Unit Chief of the TADAT Secretariat

Justin Zake, nowadays everyone is speaking about TADAT. In this interview we would like to look behind the scene of the Tax Administration Diagnostic Assessment Tool (TADAT). In this context, we would like to learn and understand the need and methodology of TADAT, and – of course – get to know the persons behind it. You are the right person to address those issues as the Unit Chief of the TADAT Secretariat. You have more than three years of work experience in the Secretariat itself and more than 24 years of tax administration experience, therefore, we are looking forward to your personal insights.

Where does TADAT come from, what is the story behind it?

TADAT was born out of the need for countries and the development community to have a better sense and understanding of the health (strengths and weaknesses) of countries' systems of tax administration. Revenue mobilization is at the heart of every country's fiscal framework to enable them collect enough revenue to deliver public goods and services and secure macroeconomic stability.

Experience has shown that there is substantial scope to improve tax administration efficiency and effectiveness through periodic performance assessments (preferably conducted by independent teams) to provide important feedback to countries on how they can improve performance. TADAT was developed to carry out this function by establishing a solid baseline for performance in key tax administration functions, and identify reform priorities and the activities needed to address them. By focusing on the priority areas, and identifying the proper sequencing of reforms, they can be implemented faster and more systematically.

In order to realize the objective of creating a robust and more comprehensive tax administration performance assessment tool, partners supporting the Public Expenditure

and Financial Accountability (PEFA) framework commissioned a feasibility study whose report (May 2011) concluded that it was feasible to develop such a tool. The International Monetary Fund's Fiscal Affairs Department (FAD) took the lead in developing the tool including testing the concept (in 2013/14).

Wide consultations on the TADAT Field Guide were held before its roll-out for public use in November 2015. Comments were sought from the public at large, academia, tax administration experts and development partners. TADAT has a Technical Advisory Group that scrutinizes the Field Guide's contents before final approval by the TADAT Steering Committee.

What is your personal role and history with TADAT?

I participated in the design process during the TADAT's early stages; and also tested its concepts (as did others) during country technical assistance missions that I was member of or led (as early as 2012). This was well before the official pilots started in late 2013. These field tests helped me provide feedback to the design team—it was clear that the TADAT would be an appropriate tax administration assessment tool. I recall the team-lead asking me directly whether the approach was working and I responded enthusiastically in the affirmative.

More substantively, my direct involvement increased when I was appointed to head the TADAT Secretariat in September 2014, and have continued to live and breathe TADAT since that time. I can confirm that it is a very rewarding experience.

What is the TADAT methodology and assessment results based on?

First, and luckily for tax administrations, the PEFA framework was already in place, and that this approach had been tested thoroughly and accepted globally. So there was no need to totally reinvent the wheel. This gave TADAT a very good starting point.

Secondly, a number of design principles were adopted, namely:

- Performance assessments should focus on outcomes rather than on outputs or inputs - hence

TADAT does not consider inputs such as tax policy design, organization design or staffing levels.

- Quantitative measures are preferred over qualitative measures to promote consistency and objectivity in assessments - this will provide a better basis for comparative analysis across administrations.
- Measures should not be open to meaningless manipulation - administrations should not be able to score higher on any particular indicator by changing behavior in a way that yields no improvement in outcome.
- Information used to assess performance should, to a reasonable degree, be independently verifiable by the assessment team - a key element of objectivity.
- Only information reasonably available to any tax administration should be used, so as to minimize costs of implementing the TADAT.
- TADAT scores should be: (i) significantly influenced by actions of the Revenue Authority; and (ii) largely unaffected by extraneous factors.
- The TADAT framework should not be specific to particular legal or other traditions - to ensure general applicability of the tool.

Thirdly, the TADAT methodology has a hierarchy-pyramid style:

- At the apex, there are 9 Performance Outcome Areas (POAs) that are key components of a country's tax administration system; and by using these outcomes, the tax administration system's level of maturity in the context of international good practice can be ascertained.
- The POAs are linked (at the second level) to 28 high-level 'indicators' critical to tax administration performance.
- The 28 indicators are in turn linked (third level) to 47 measurable 'dimensions' with detailed assessment criteria that form the basis of rating the performance of the system of tax administration.
- Scores are consolidated from the dimension to the indicator level. The POAs themselves are not scored as the purpose of the TADAT is not to rank tax administration systems.

Fourth, the results of an assessment (which is pretty intensive) are summarized into a standardized Performance Assessment Report (PAR). The standardization has proven to be very useful for quality assurance purposes.

Fifth, the PAR then forms a baseline for countries to set the reform agenda. It is important that country authorities set up a responsibility center or team to study the results, prioritize areas for action, and develop well-sequenced activity/work plans to address the identified areas. Routine and

continuous monitoring of the status of reform efforts is an important element that should never be forgotten.

How does a country address its will for a TADAT assessment (procedure, costs, etc.)?

A TADAT assessment is initiated by country authorities (for example, Ministry of Finance or tax administration) either singly or jointly with partner agencies (development partner, international agency or private sector entity). The TADAT Secretariat is notified of the request either directly or through the sponsoring agency. The request usually indicates the desired timing of the assessment. This aspect is important as preparations for an assessment should start at least eight weeks before the actual assessments. This timeline is necessary for the authorities and assessment team to be adequately prepared for an intensive 2½ - 3-week exercise, maybe longer for larger countries such as happened with the Democratic Republic of Congo assessment.

Once the request is received, the next key steps include: notification of the upcoming assessment to all interested parties—TADAT Steering Committee members and other technical assistance providers—by the TADAT Secretariat; assembling of the assessment team (at least four but now typically up to six members) by the lead agency/country, usually with the assistance of the TADAT Secretariat; communication with the authorities by the team leader to plan for the assessment; and selection by the country of a local counterpart. The latter is the focal point for the assessment team throughout the assessment process—this role is extremely important for the successful conduct of the assessment.

All team members, apart from those who are in a support role, must be trained TADAT assessors—and the TADAT Secretariat checks the credentials of all team members. A trained assessor is one who has successfully met the certification criteria administered by the TADAT Secretariat. The certification includes passing a supervised exam that follows a standard curriculum developed by the Secretariat. The course can be taken online or during workshop-based training.

A TADAT assessment is a collaborative effort between the beneficiary country and development partners. The country (or sponsoring agency) may opt to fund the assessment— primarily costs to get the assessors into the country and related expenses. The encouraging trend now is for the lead agency/country and interested partners to each nominate assessors to form a joint inter-stakeholder team with each bearing their own costs. The other cost, borne by the beneficiary country, is to make the appropriate officers available during the assessment period and on a need-basis prior to and after the assessment. Countries benefit most from the assessment if staff is released to participate in the assessment. First, knowledge about good practices and tax administration experiences is exchanged and, secondly, with local buy-in, prospects for better post-assessment reform implementation are heightened. As an example, the positive post-assessment implementation experiences of Fiji, Georgia,

Rwanda and Sierra Leone are testimony to the efficacy of this approach.

Pre-assessment training workshops for country staff (including from the tax administration, Ministry of Finance and Auditor General) have proven to be very helpful in preparing the tax administrations for the actual assessment. The training objective is to foster better understanding by participants of the TADAT framework. A range of practice exercises, designed from actual assessments, reinforce learning and real world application of the methodology. It is also very noticeable that participants are, in their questions and interventions, already assessing their own functional areas even before the actual assessment starts. The use of examples from completed TADAT assessments has been found invaluable including an understanding of what countries with high scores have done to achieve that level of performance.

There have been a large number of TADAT assessments in the last year (2015-2016) and many to come. How do you manage this high demand for TADAT assessments?

A total of 33 assessments were conducted in 2015 and 2016; and the demand is increasing, including, now, interest being generated from subnational governments.

The designers of the TADAT framework anticipated the high demand for assessments. They mandated the TADAT Secretariat to develop a global pool of assessors who could be called upon either by countries or lead agencies to be part of assessment teams. As at November 2016, the total number of trained TADAT assessors is 280, and of these, 30 percent have already participated in assessments. However, there is an even larger number (about 500) who have been trained in the TADAT methodology but do not meet the 'assessor' status yet (and perhaps do not wish to). These people, the majority working in tax administrations, are also a very important resource because, for example, they are using the TADAT knowledge to spearhead good tax administration practices in their own organizations.

What are the greatest challenges tax administrations face according to the results and experiences of TADAT assessments conducted?

It should be noted that each of the assessed countries is different, with varied strengths and weaknesses.

The tax administration systems that have been assessed have exhibited the following strengths: knowledge of the potential taxpayer base; information to taxpayers is generally accessible and current; use of electronic tax payment methods; withholding tax systems are in place; graduated dispute resolution mechanisms are well designed; there is relatively strong internal and external oversight for purposes of accountability; and the administrations routinely publish their activities, results and plans.

However, the relatively weaker areas include: poor data quality, which impacts compliance management and more accurate reporting generally; inaccuracies in the taxpayers register and, more broadly, poor monitoring of movements in the taxpayer population (active and inactive taxpayers);

weak risk management approaches and implementation, especially in the light of declining operational resources; underdeveloped electronic filing facilities; relatively low effort in detecting inaccurate reporting by taxpayers including the use of third party data to verify declarations (and the taxpayer register); long dispute resolution times despite the fact that the systems are relatively well-designed; onerous tax refund processes especially for the value-added tax or equivalent; and low public perception of integrity.

How do you guarantee quality assurance of the TADAT assessments and TADAT as an instrument?

One of the outcome areas in the TADAT Secretariat's accountability framework is to ensure systemic quality assurance—meaning, in effect, that TADAT assessments are of a high quality and effective in identifying the relative strengths and weaknesses of a system of tax administration.

There are at least five key aspects the TADAT Secretariat looks at to ensure the quality of assessments: (i) that the Secretariat's staff are highly experienced tax administration experts who understand the methodology and have participated in TADAT assessments themselves; (ii) use of the standard methodology and guidelines enshrined in the TADAT Field Guide; (iii) ensuring that assessments are conducted by trained assessors who are well-versed in the methodology and assessment requirements; (iv) responding to queries on issues or clarifications required by the assessment team (or the authorities) during the assessment itself; and (v) post-assessment quality assurance of the PAR by the Secretariat.

At all these stages, the Secretariat constantly looks out for potential quality risks/hotspots and intervenes as necessary. During the post-assessment phase, the Secretariat also enlists members of its Technical Advisory Group to comment on the quality of the draft PAR. These steps, and collaboration all round, provide a high degree of quality assurance. The bottom line is the TADAT Field Guide—it is the quality assurance reference point at all times.

Another element of the Secretariat's accountability framework is to ensure that the TADAT Field Guide is kept up-to-date. This objective is achieved in a number of ways including: (i) soliciting continuous feedback for users of the Guide on areas of concern; (ii) feedback on issues observed by assessors and country authorities during assessments; (iii) issues observed during the quality assurance process; (iv) observation of international tax administration practice trends; and (v) formal public surveys on the methodology.

The current (November 2015) edition of the Field Guide went through the above-mentioned process very successfully and a repeat is expected for the next edition of November 2018. As an example of the continuous consultation process, the Secretariat conducted a formal survey (in November 2016) that targeted tax administration practitioners to gauge perceptions on the quality of the Field Guide and the TADAT assessment process in general. Out of nearly 300 respondents, 95 percent were happy with the technical quality of the Field Guide and its guidance, and the TADAT process.

Marco Salm
marco.salm@giz.de

In preparation for refinements that may be needed in the next edition of the Field Guide (November 2018), a number of areas identified through completed assessments and training workshops are being researched further. These include current trends and practices in: (i) institutional risk management; (ii) third party data-matching; (iii) dispute resolution with regard to international taxation—TADAT's current focus in on domestic dispute resolution; (iii) taxpayer ledgers and suspense accounts management; and (iv) de-termining the impact of human capital on tax administration performance with specific reference to the TADAT frame-work.

Looking back on your three years working as Unit Chief of TADAT Secretariat, what are your personal highlights so far?

Quite a few personal highlights but the following stand out:

(i) being given the opportunity to manage a global tool that has the potential to contribute greatly to sustainable revenue mobilization, and is widely supported including by the G20 Development Working Group; (ii) how deliberate collaboration, coordination and cooperation efforts can yield positive results in so short a time; (iii) that a small coordinating team of experts in the TADAT Secretariat can network so effectively at the global level and be agile and responsive to increasing demand for TADAT assessments and knowledge; (iv) room given to me and my colleagues to innovate and deliver our mandate, for example, the rapid rate at which the Field Guide has been translated into Arabic, French, Portuguese, Spanish and Russian; and (v) the immense opportunities at hand to leverage technology in delivering a quality TADAT—for example, the imminent launch (by May 2017) of a collaborative portal for TADAT-trained persons, in effect, a community of tax administration practitioners.

Also, acknowledgement by countries that the TADAT is playing an important part in prioritizing reforms, improving overall tax administration and contributing to improved domestic resource mobilization.

How does TADAT's future look like if your imagination runs wild – maybe in five/ten years from now?

I see a very bright future for TADAT given the interest shown by many stakeholders in a standardized approach to benchmarking tax/revenue administration performance.

The overarching objective is to support the strengthening of country systems of tax administration and consequently, efficient domestic revenue mobilization. The following are my modest dreams for TADAT:

- It embeds as the leading tax administration diagnostic assessment tool in the world;
- It fosters systemic collaboration and cooperation amongst tax administration experts (a practitioners' forum) and development partners;
- The results of the TADAT assessments have significant impact in realizing the global objective of improving domestic revenue mobilization;
- The momentum it has created generates companion and equally effective tools in the Customs, natural resources and subnational revenue administration areas;
- Over 300 assessments would have been conducted (first-time and repeat)—including at the national and subnational levels—in the next ten years;
- Tax/revenue administrations embed the framework and it's methodology in their routine performance monitoring and accountability frameworks;
- The tool is fully automated for use at all levels—for internal routine benchmarking, monitoring and reporting by the tax/revenue agencies; and as an intelligent and intuitive tool that supports certified assessors during the assessment process; and
- For the TADAT framework to be part of the teaching curricula in institutions of learning, and for that knowledge to enable civil society as a whole to ask more appropriate questions when demanding accountability from their country governments on how the collected revenue has been used.

Mr. Zake, thank you for this interview!

Published by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Registered offices Bonn and Eschborn, Germany Sector Programme Good Financial Governance Friedrich-Ebert-Allee 36

53113 Bonn

Germany
 T + 49 228 4460 3642
public-finance@giz.de
www.giz.de

As at April 2017

GIZ is responsible for the contents of this publication.

On behalf of Federal Ministry for Economic Cooperation and Development (BMZ)

Addresses of the BMZ offices

BMZ Bonn Dahlmannstraße 4 53113 Bonn, Germany T +49 (0)228 99 535-0 F +49 (0)228 99 535-3500	BMZ Berlin Stresemannstraße 94 10963 Berlin, Germany T +49 (0)30 18 535-0 F +49 (0)30 18 535-2501
--	---

poststelle@bmz.bund.de
www.bmz.de