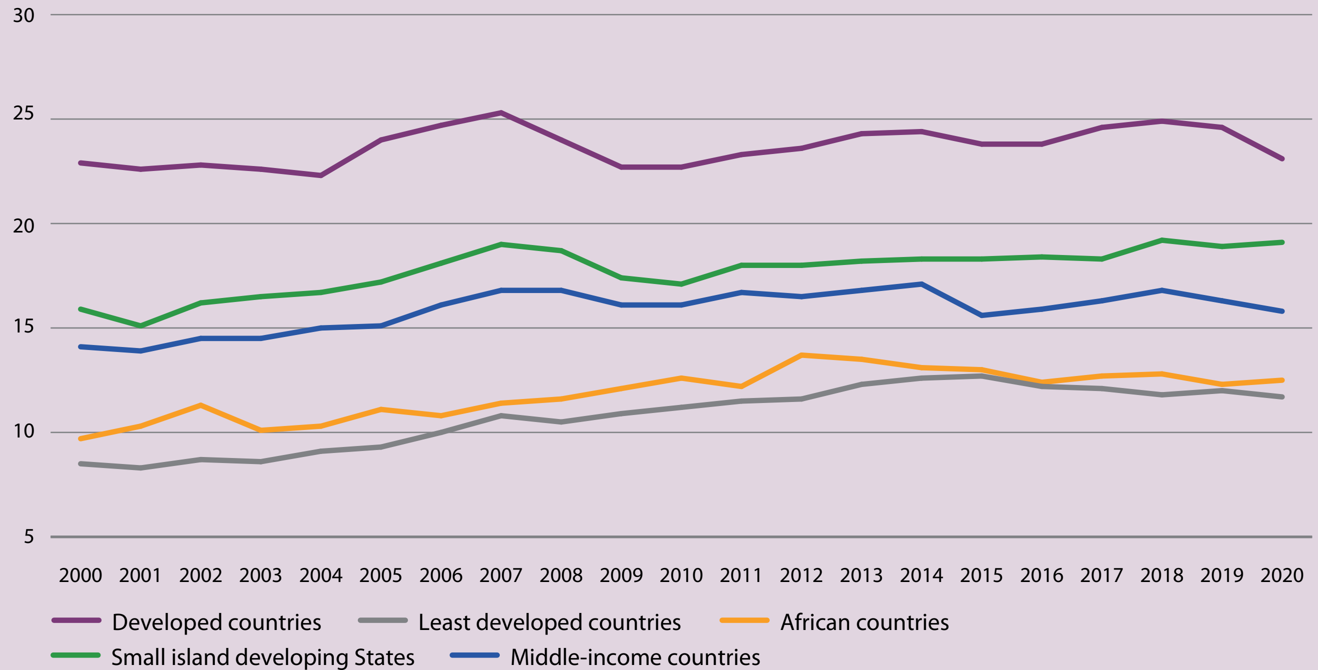
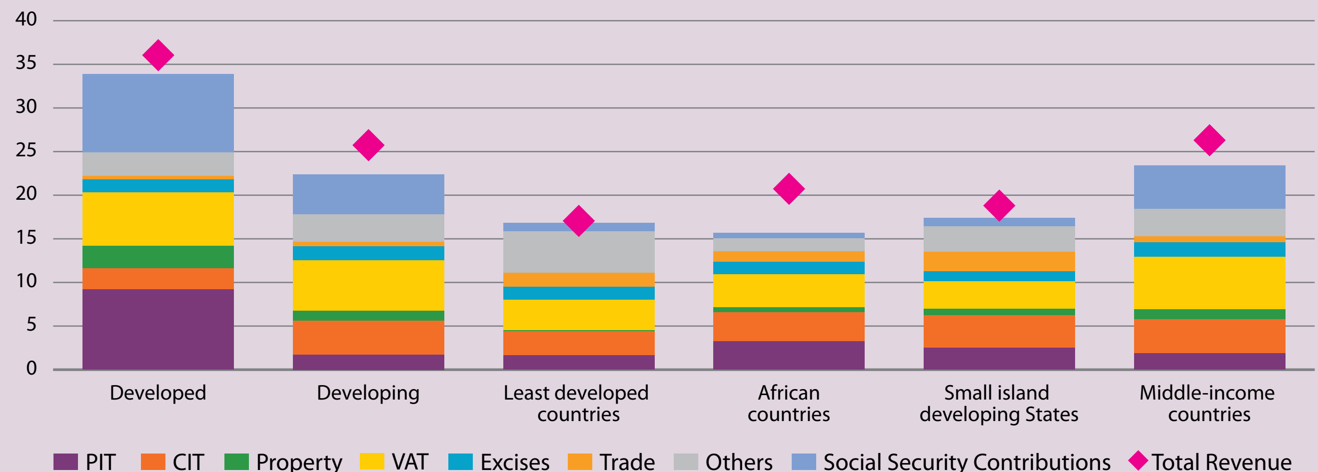
Domestic public resources ***in numbers***

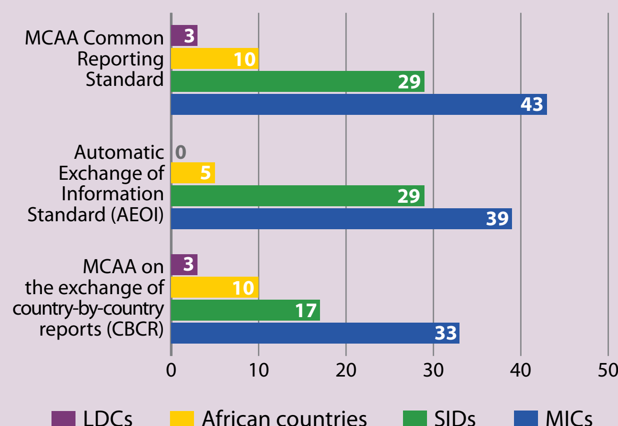
Developing countries achieved notable increases in tax revenue in the first decade of the century, but have seen stagnation and setbacks by crises.



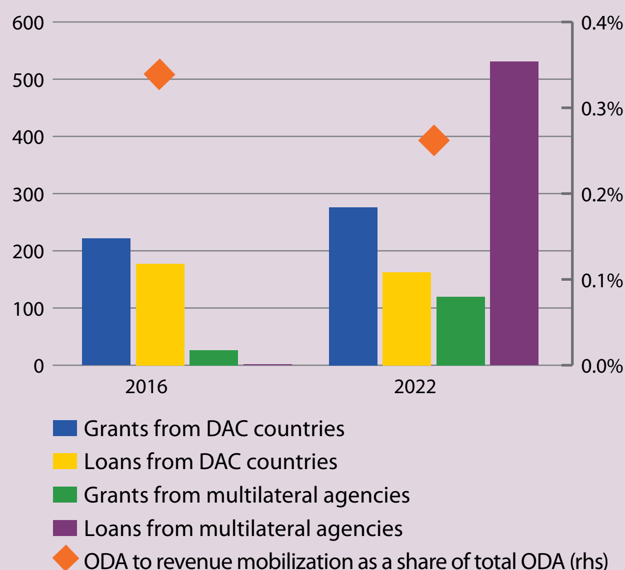
Developing countries are more dependent on consumption taxes and corporate income taxes, accounting for 5.8% of GDP and 3.9% of GDP, respectively.



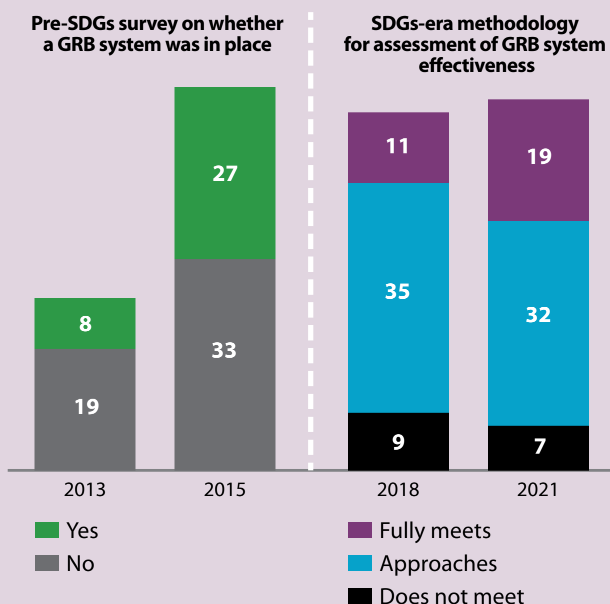
Only three LDCs have signed on to important tax information exchange agreements, and none of them are yet automatically receiving information on financial accounts.



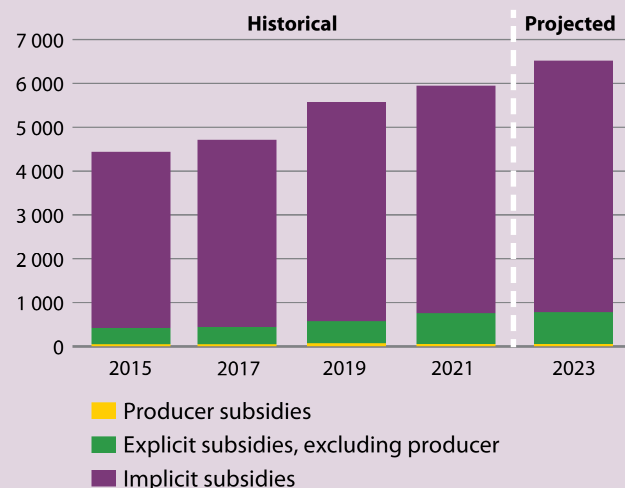
Disbursements of ODA for domestic revenue mobilization fell short of donor targets to double by 2020 but hit $437 million in 2022.



Globally, only one in four countries currently has a comprehensive gender responsive budgeting system.



Estimated global fossil fuel subsidies were $7 trillion in 2022, including $1.3 trillion in explicit subsidies.



Chapter III.A

Domestic public resources

1. Key messages and recommendations

Domestic public resources—and the mobilization of additional tax revenue in particular—have become a progressively more central aspect of the deliberations by Member States on financing for development. Domestic public finance is essential for financing the Sustainable Development Goals (SDGs), increasing equity and helping to manage macroeconomic stability. Robust and resilient fiscal systems, including both tax and expenditure, can contribute to alleviating poverty and reducing inequalities while supporting economic growth, industrial transformation and environmental sustainability. The Monterrey Consensus and Doha Declaration grouped together domestic public and private resources under the heading of "Mobilizing domestic financial resources for development", with international tax cooperation only briefly mentioned. The Addis Ababa Action Agenda, in contrast, dedicates its first action area exclusively to domestic public finance. It endorses a whole-of-government approach that includes increasing the quantity of resources, enhancing the quality of expenditures, and ensuring that both are done fairly and sustainably. It presents extensive commitments and a discussion of international tax cooperation and measures to combat illicit financial flows (IFFs). In short, it reflects the growing understanding among Member States about the importance of building the overall capacity of the State using domestic resources, and the positive implications this has for bolstering trust in government, strengthening the social contract and delivering public goods and services critical for poverty eradication and economic transformation.

There has been a notable but uneven increase in tax revenue in developing countries since 2000, with most of the gains concentrated in the decade before the 2008 world financial and economic crisis. A myriad of crises over the last two decades—including economic crises, pandemics, geopolitical conflicts and disasters—has had a major effect on the mobilization of domestic resources for development. After significant increases in taxation in developing countries in the decade before 2009, the record has been mixed, with the COVID-19 pandemic halting momentum gained by the renewed attention on improving tax systems in the Addis Agenda. The setbacks from exogenous shocks are expected to increase as crises become more frequent and intense with impacts on social, economic and environment stability from the changing climate.

Despite the progress made, there remains a large unmet tax potential in developing countries and a pressing need to reform fiscal systems to tap that potential and generate resources on the scale required for achieving the SDGs. Expanding tax capacities to raise revenue for funding public goods and services is primarily a domestic challenge and will require the political will to both overcome entrenched interests that benefit from current systems and increase investment in tax capacity. There are many examples of governments that have invested in tax reforms, demonstrating the possibilities of countries realizing unmet potential. So far, however, political will has been found wanting in many countries, including developing countries not investing enough in tax system reform and administration capacity, and donors not delivering the volumes of assistance they pledged to provide for supporting revenue mobilization. The Fourth International Conference on Financing for Development should consider how to turn commitments for domestic tax reforms into actions to make tax systems more fair, transparent, efficient and effective.

Building tax capacity—the policies, institutions and technical capabilities to collect tax revenue—is indispensable and urgently needed for strengthening the ability of governments to deliver

sustainable development. To respond to SDG investment needs and external challenges, countries need to build strong and resilient fiscal systems, including diversification of revenue sources and measures to combat illicit financial flows (IFFs). Countries with weak fiscal policies and institutions, low buffers, high levels of informality and low tax capabilities will continue to find it difficult to support the investment needed to deliver on the SDGs. When taxpayers contribute to society and governments combat corruption and provide valuable public goods and services in return, a virtuous circle can be sustained: investment in tax capacity supports increased spending on public goods and improved services, which contributes to voluntary compliance by taxpayers. New digital technologies have helped tax authorities to step up their efforts to better govern revenue systems, prevent some types of tax evasion and improve relationships with taxpayers, with the lessons learned from early adopters available to help others rapidly improve their systems. By building trust through effective governance of revenue and expenditure systems, governments will also be better able to realize other public policy goals.

Globalization and digitalization have fundamentally altered the taxation landscape, motivating some of the increased focus on international taxation in the financing agenda. Globalization and long-term changes in the structure of economies have challenged the effectiveness and efficiency of revenue mobilization systems, requiring shifts in the design of tax policy and administration. Tax systems mostly rely on combinations of taxation on labour, capital and consumption. Over the last 20 years, developing countries have been squeezed between their relatively less formalized economies and thus smaller tax bases, declining tariff revenue due to trade liberalization, and competitive pressure to lower corporate taxes to attract private investment. To mobilize sufficient revenue, many countries turned to consumption taxes, which can be regressive; some countries managed the equity implications better than others. Globalization and financial liberalization also increased the pressure on countries to decrease corporate or wealth taxation over time by making it easier for businesses and individuals to shift profits and assets to other jurisdictions, a challenge which is particularly acute for poorer countries. The efforts to constrain harmful tax competition and combat tax evasion and avoidance have prompted much of the attention paid to advancing international tax cooperation.

Since 2015, attention has shifted dramatically towards multilateral tax cooperation instruments, transforming the international tax cooperation landscape and enabling progress on combating tax avoidance and evasion, but also risking leaving a subset of countries further behind. Discussions to update international tax norms and promote international tax cooperation are an essential complement to the primarily domestic efforts to boost tax capacity. When the Addis Agenda was agreed, few multilateral tax agreements existed; bilateral relationships and agreements were the dominant form of international cooperation. Since 2015, exchange of information on request for tax purposes has blossomed, several multilateral legal agreements have been concluded, and important tax transparency instruments have been implemented through the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum). The automatic exchange of information (AEOI) on financial accounts, which began in 2017, and the country-by-country (CbC) reports of multinational enterprises (MNEs), which began in 2018, have provided an abundance of information for those tax administrations that receive them, but most developing countries lack access to and the ability to use the information. Work to address the challenges from globalization and digitalization has been ongoing for more than a decade at multiple venues. A pioneering effort to introduce a global minimum corporate tax is being implemented, but other work has yet to yield policy results that sufficiently address tax avoidance and evasion and that have the full support of all Member States. There remain concerns about the inclusiveness and effectiveness of existing international tax cooperation mechanisms, including the suitability of new global norms for developing countries with lower capacity tax administrations. The Fourth International Conference on Financing for Development is an opportunity for the world's political leaders, in a fully inclusive forum, to confirm the future direction and governance of international tax cooperation.

Efforts to coordinate internationally to ensure adequate domestic expenditure on agreed international goals have often faltered, including due to a lack of ownership of international targets, challenges from the political economy of policies (particularly fossil fuel subsidy reform) thought to hurt the poor and middle class, and a lack of political will to change expenditure systems where powerful domestic interests may be benefiting from the current system. Since 2000 there has been an increasing focus on carbon pricing, reforms to fossil fuel subsidies and incentives for green energy/industry. However, the commitment in the Addis Agenda to phase out harmful fossil fuel subsidies remains largely unfulfilled, with implicit and explicit subsidies growing over time. Similarly, increased spending on gender equality and women's empowerment and universal social protection floors has been routinely supported rhetorically, but implementation in practice has lagged behind. The international community could consider how a Fourth International Conference on Financing for Development can add further momentum to aligning expenditure with the SDGs and support fiscal policies to reduce inequalities.

National development banks (NDBs) are increasingly seen as a critical part of the global financial system and an important tool for ensuring financing for countries' sustainable development priorities. Coordination and networking among public development banks (PDBs) has grown enormously since the agreement on the Addis Agenda, which highlighted the role of NDBs. The international community could consider how a new international agreement could build on progress in cooperation and coordination of the entire system of PDBs to increase their impact.

This chapter provides a brief overview of revenue trends in the past two decades and discusses how countries can use tax policies and tax administration to realize greater resources for investment in the SDGs. It then presents developments in international tax cooperation and progress in combating IFFs. Lastly, the chapter looks at SDG-related expenditure and investment, including gender-responsible budgeting (GRB), fiscal responses to climate change and national development banks.

2. Domestic resource mobilization

2.1 Revenue trends

Tax-to-GDP ratios are directly related to development levels, as countries with larger economic output and stronger institutions,

with few exceptions, have been able to mobilize more tax revenue. The Addis Agenda recognizes that domestic resources are first and foremost generated by economic growth, and empirical evidence shows that the tax base naturally expands as economies grow. Both the Doha Declaration and the Addis Agenda include commitments to enhance tax revenue mobilization and the efficiency of the tax system while making it more progressive. Beyond its fiscal function, tax capacity is associated with accelerated growth and better institutions, as countries with more revenue can invest in better public service delivery, thus increasing trust in the State and strengthening the social contract which feeds back into higher capacity to mobilize revenue in the future.[1]

There has been a notable but uneven increase in tax revenue in developing countries since 2000, with particularly significant increases in the first decade before the 2008 world financial and economic crisis. Median tax revenues increased steadily in most categories of countries and regions until setbacks from the 2008 crisis and the onset of the COVID-19 pandemic in 2020 (figure III.A.1). Analyses of long-term trends in revenue mobilization have shown that two thirds of countries experienced improvements of tax-to-GDP ratios in the first decade of the century.[2] Many of the episodes of rapid increases in tax revenue mobilization were in countries that simultaneously embarked on revenue administration and tax policy reforms in parallel.[3]

Revenue gains, however, have been volatile, with both year-to-year volatility and medium-term increases and declines. In some cases, macroeconomic factors created volatility, such as financial crises and the COVID-19 pandemic, although the pandemic did also motivate an acceleration in digitalization of revenue administrations which could spur long-term improvements in revenue mobilization.[4] For countries heavily dependent on commodities-related revenue, commodity cycles have contributed to both increases but also regressions in revenue mobilization; commodity dependence may also indirectly contribute to revenue volatility because governments in these countries have lower incentives to invest in revenue administration.[5] Only a fraction of countries saw rapid revenue gains that were sustained over time; more frequently, countries with moderate revenue gains were able to sustain reforms and further increase revenue in subsequent periods.[6] This suggests that expectations for rapid and sustained revenue increases in a large number of countries may be over-optimistic. There is also evidence that high-level political commitment and buy-in from all stakeholders plays a role in sustaining efforts to increase revenue.[7]

2.2 Tax policies: The changing tax mix and impact on revenue levels

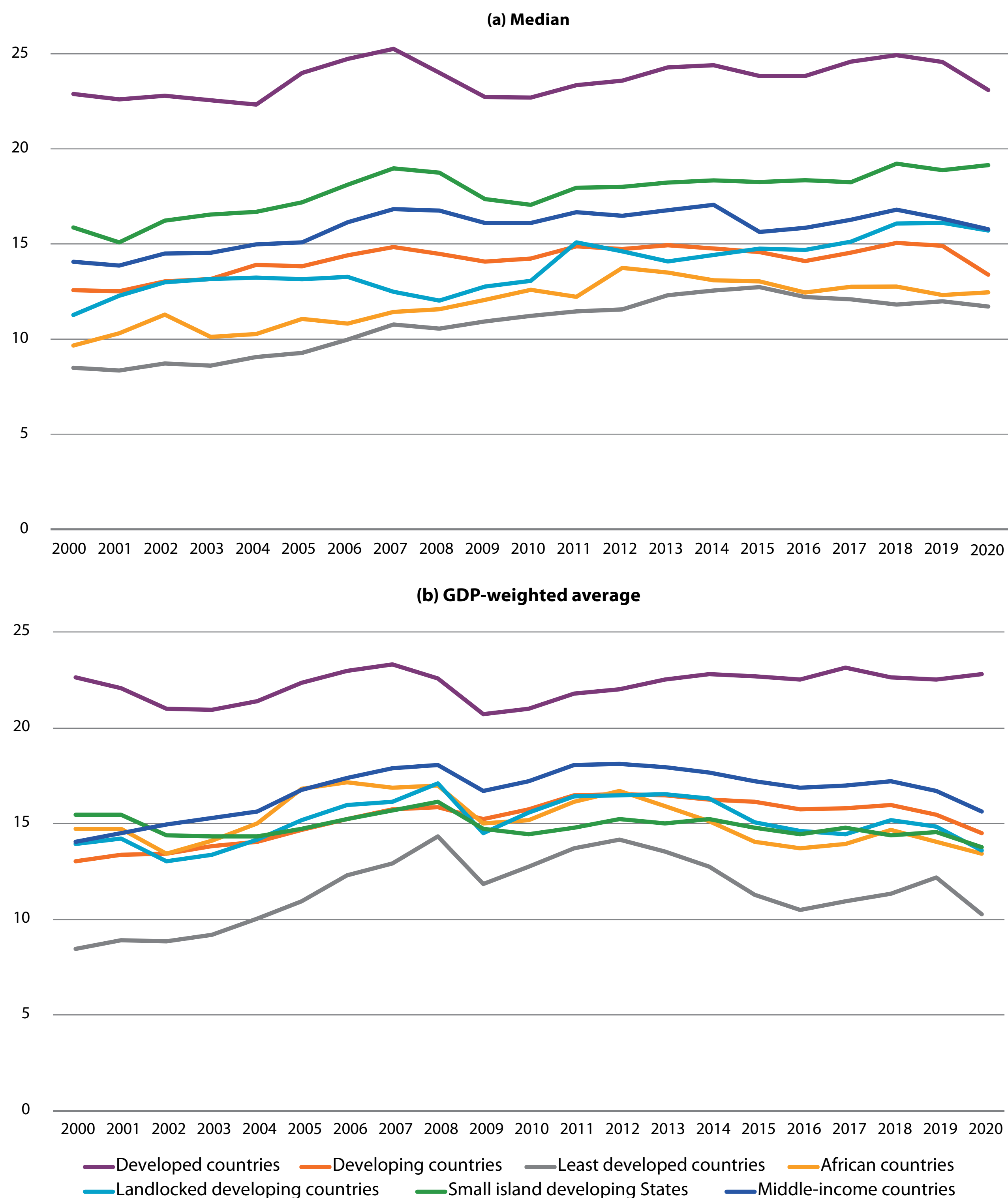
There has been a global shift in the tax mix over the past several decades, with implications for the ability to raise revenue, reduce inequality and enhance revenue mobilization. Each country has a unique tax mix depending on its economic, political and social structures as well as the historical development of the State and its institutions. Yet global competition and the international environment can also drive common movements. Prior to the new century, developing countries were much more reliant on trade taxes; they have since shifted to greater dependence on consumption taxes and corporate income taxes. In contrast, developed countries liberalized their trading systems much earlier, and with more formalized economic systems, rely strongly on personal income taxes and social insurance contributions to fund their public goods and services and social protection systems, respectively.

Revenue increases require strengthening the design and administration of core taxes—value added tax (VAT), excises and personal and corporate income taxes—with a focus on tax base broadening and combating tax avoidance and evasion. Core taxes make up the bulk of tax systems in all country categories (figure III.A.2). Countries can choose a tax mix that is compatible with their economic structure and also satisfies their political settlement. One perennial challenge is balancing incentives and achieving political agreement on tax base widening, which often has diffuse gains over all taxpayers but concentrated costs for those brought into the tax net or those losing the benefit of tax expenditures. Most countries also have scope for ending preferential tax rates on capital income and for better use of real property taxes.

VAT is central to revenue mobilization in developing countries, but exemptions and reduced rates erode its performance while its equity implications need to be better addressed. Taxes on consumption have spurred revenue growth in developing countries over the last few decades. A well-designed VAT is an efficient revenue instrument because its distortive effect on economic activity is minimized per dollar of revenue raised. However, VAT is regressive because of the higher share of income that is spent on consumption by poor households. In a bid to alleviate regressivity, VAT exemptions and reduced rates on essential goods are frequently used, but these measures can benefit high-income households more. Instead, the regressivity of VAT should be considered in the context of the overall tax and spending system as well as the overall tax policy mix, with increased revenue being used to finance social protection systems that support low-income households. Tax policymakers and administrators can adjust VAT design and implementation in response to changing circumstances, for example by ensuring equitable taxation on digital goods and services, including those delivered cross-border, to level the playing field with other businesses. In addition, several developing countries are collecting significant additional revenues through digital services taxes.[8]

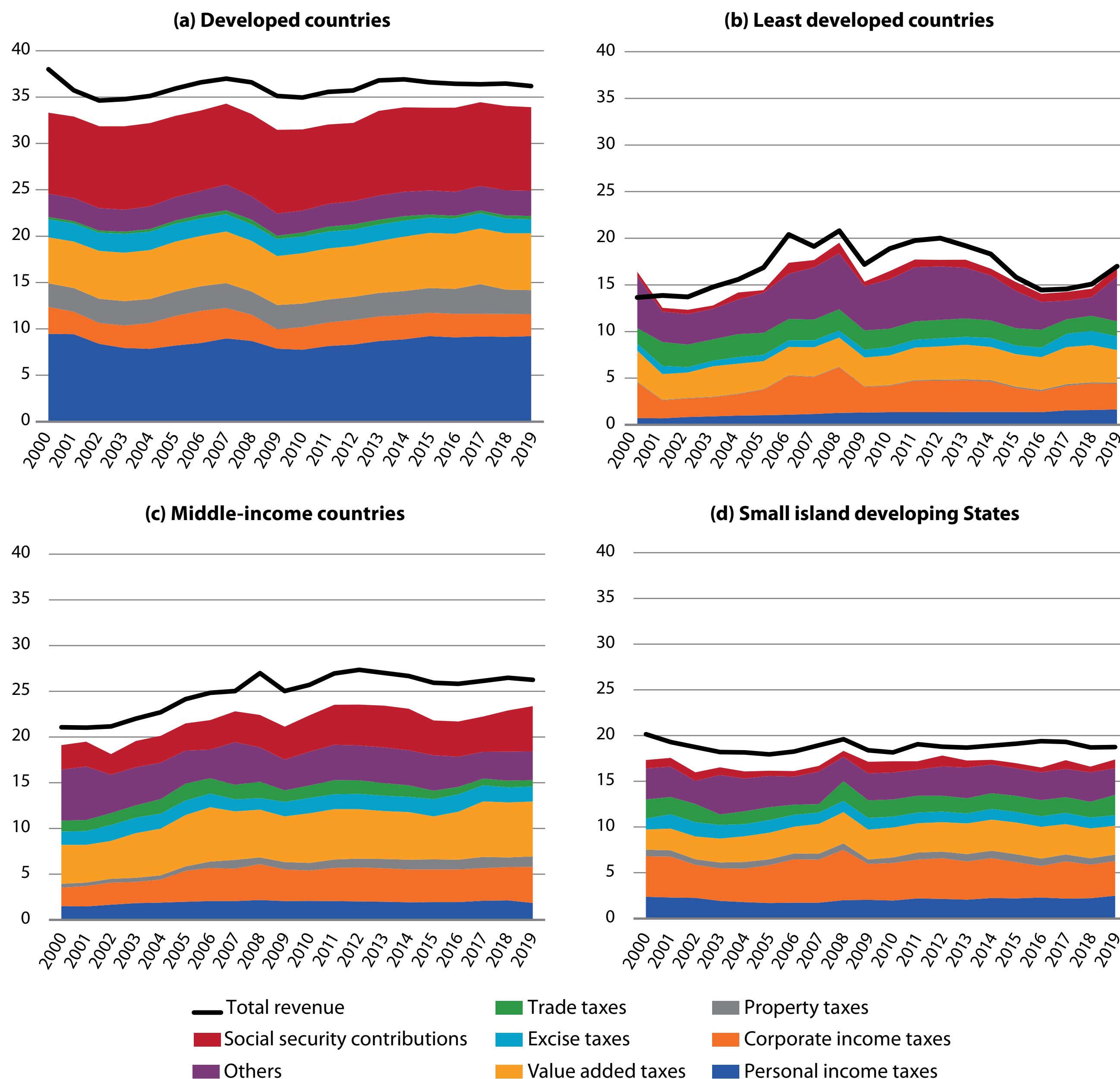
Corporate income tax (CIT) is an important source of revenue in low-income countries, accounting for a larger share of revenue than in developed countries, where corporate tax rates have been consistently declining for many decades. Statutory CIT rates have been decreasing on average over the last two decades, although considerable variation among jurisdictions remains (figure III.A.3).[9] The global average combined (central and subcentral government) statutory tax rate was 21.1 per cent in 2023, compared to 28.2 per cent in 2000. Of the 141 jurisdictions covered in the 2023 data, 27 had corporate tax rates equal to or above 30 per cent in 2023. At the same time, globalization and aggressive structuring of cross-border transactions have resulted in large portions of the CIT base being shifted to low- and no-tax jurisdictions. Nonetheless, CIT revenues increased from 2000 to 2020 on average, both as a share of total tax revenues and as a percentage of GDP. In some countries this reflects the rising profit share in national income while in others, it reflects the increase in the corporate tax base. Developing countries are much more reliant on CIT revenue, with average CIT revenue as a share of total revenue between 15 per cent and 20 per cent across Latin America, Africa and the Asia-Pacific region, while the average revenue share for Organisation for Economic Co-operation and Development (OECD) countries was less than 10 per cent.[10]

Figure III.A.1
Tax revenue, by country groups, 2000–2020
(Percentage of GDP)



Source: UN DESA calculations based on IMF data.
Note: General government tax revenue as a percentage of GDP, M49 groupings.

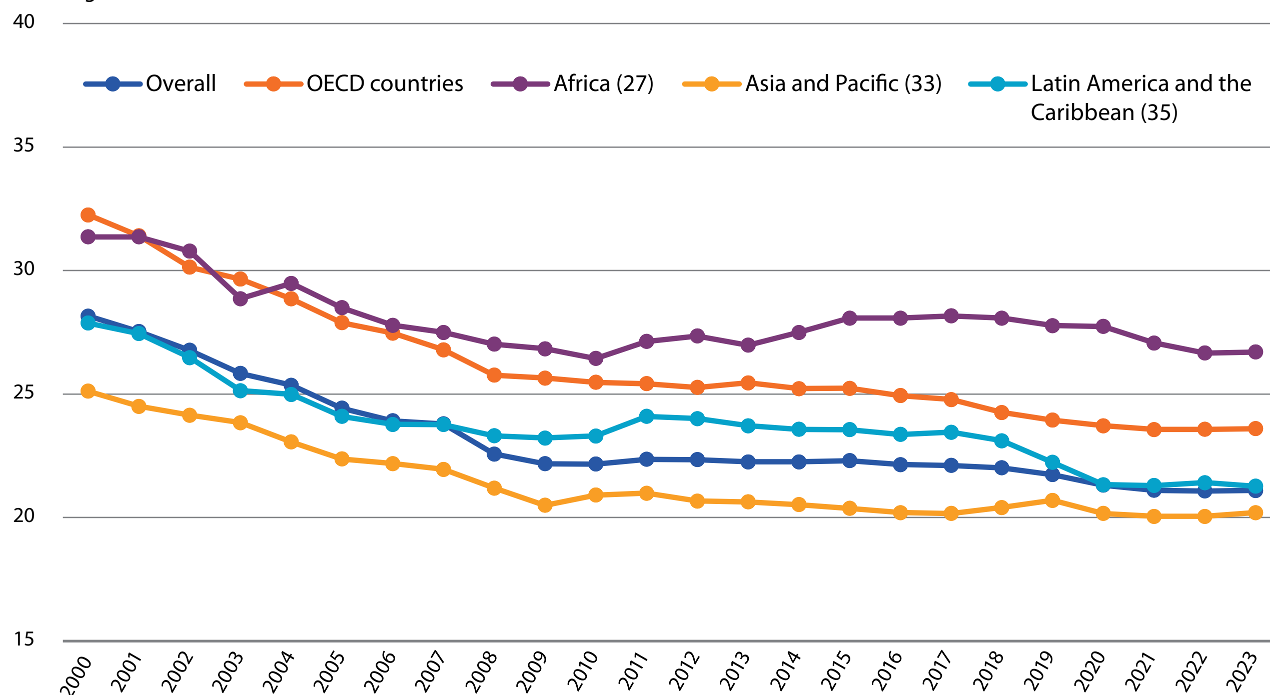
Figure III.A.2
Composition of revenue systems, by country group, 2000–2019
(Percentage of GDP)



Source: UN DESA calculations based on IMF data.
Note: GDP-weighted averages of revenue shares for countries with data available in the specific year.

Taxing wealth and real property could generate additional revenue and be redistributive. Property taxes are widespread in developed countries and are a small but increasing source of revenue in developing countries (figure III.A.2, panel b). The immovable nature of real property makes taxes on these assets relatively easy to collect once the appropriate administrative infrastructure is in place (namely, a cadastre and property valuation systems). Because property taxes are mostly redistributive and economically efficient, they can be important elements of progressive tax systems. As they have historically been assigned to local governments, recurrent property taxes can also be a tool to strengthen subnational fiscal capacities and their provision of infrastructure and services as well as improve their coordination with central fiscal authorities.[11] There is also growing discussion of net wealth taxes, which can be feasible with sufficient political will and where tax administrations have sufficient capacity and access to information. Countries may wish to start by strengthening policy on and administration of capital income taxation, including taxing capital income at the same rate as income from labour in order to reduce both inequalities and opportunities for tax avoidance.[12]

Figure III.A.3
Average statutory corporate tax rates, by region, 2000–2023
(Percentage)



Source: OECD.
Note: Numbers in brackets indicate number of countries in the sample.

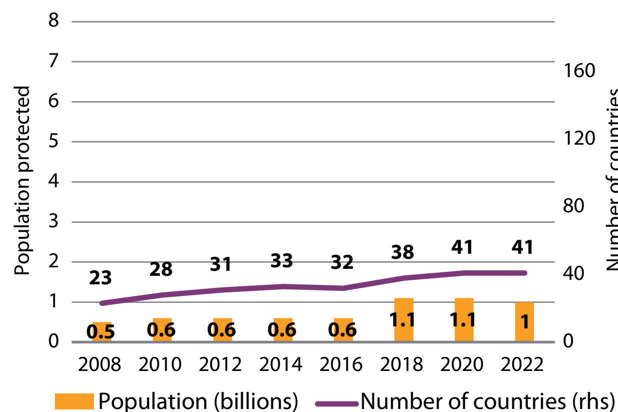
Commodity exporting developing countries exhibit strong dependence on revenue related to natural resource extraction; transparency and accountability has increased over the decades but remains a challenge. On average, cross-country analysis shows that natural resource revenue exhibits an almost one-for-one trade-off with the development of other tax revenue and that countries with high resource revenue invest little in tax institutions and tax capacity.[13] Aside from environmental risks, the sector presents concentrated risks for corruption, profit shifting and IFFs, which can be countered with effective public policies. The Doha Declaration introduced a reference to the Extractive Industries Transparency Initiative (EITI) which seeks to strengthen public and corporate governance and accountability in the sector. The EITI strengthened its monitoring of implementation by its members over 20 years, and almost all have improved compliance.[14] There remains space for improving the design of natural resource fiscal regimes by using profit and rent taxes together with royalties in a progressive way.[15]

Trade taxes had been an important but declining revenue source in developing countries, while excise taxes could be used to raise revenue and change consumer behaviour in ways that promote SDG achievement. While trade taxes (tariffs) have declined in prominence as trade liberalization was pursued in the late 1990s and early 2000s, they remain important in countries in special situations (figure III.A.2 panels c and d). The shift in revenue from trade taxes to domestic taxes such as VAT has slowed over the past two decades.[16] At the same time there has been an increase in the use of domestic excise taxes in developing countries, for example on fossil fuels, tobacco, alcohol, sugar-sweetened beverages[17] and plastic bags. The Addis Agenda includes specific recognition of the role of tobacco taxes, and now 41 countries have excise and other taxes on tobacco that are more than the World Health Organization (WHO) recommended level of 75 per cent of the retail price (figure III.A.4).[18] There is room to increase excise revenues through better design and consistent applications across taxpayers, as well as strong potential for using them to help address climate change (see below) and other sustainable development priorities. The Fourth International Conference on Financing for Development could build on recent country experiences and provide a platform for discussion on how to use excise and other taxes to set incentives that change behaviours.

2.3 Tax administration: Digitalization, enforcement and cooperative compliance

Modern revenue administrations maximize revenue mobilization and voluntary compliance with an integrated, holistic approach combining preventive, detective and corrective actions. Strengthening the institutions tasked with collecting revenue is vital for building tax capacity. Tax administrations are a key governmental contact point, and thus shape the citizen-State relationship. Perceptions of the legitimacy of the tax administration impact on the willingness to pay tax, emphasizing the importance of the social contract and moving beyond audit to holistic tax administration that addresses trust, ease of compliance and quality of service alongside the risk of audit and enforcement.[19] Digitalization can ease compliance for taxpayers and deliver high-quality service. Use of third-party data can both improve ease of compliance as

Figure III.A.4
Countries with recommended levels of tobacco taxation, 2008–2022
(Billions of people, number of countries)



Source: WHO.
Note: Based on number countries with total tax on cigarettes ≥ 75% of the retail price.

well as strengthen risk management, and capacities in this regard will be essential for effective implementation of international tax transparency mechanisms. These approaches require capacities and resources to access and productively use data. Using data to target enforcement towards high-risk cases—so called compliance risk management—can also bolster perceptions of fairness. In addition, there should be close cooperation and exchange of information between tax and customs administrations, regardless of whether they are fully separate institutions or are part of integrated revenue administrations. Increased revenue, including from changes to international tax norms, will only flow with investment in strong capacities.

Revenue administrations need sufficient funding and autonomy to ensure adequate performance. Attracting and retaining the best staff with the highest integrity standards lies at the heart of an effective revenue administration. Sufficient funding also needs to be provided for technology usage and implementation of digitalization. Political interference in revenue administration will undermine perceptions of fairness and produce opportunities for corruption. Assessing progress in tax administration performance is challenging as there is limited long-term comparative data on investment in tax administration and its effectiveness. However, since 2016, the International Survey on Revenue Administration (ISORA) has collected annual data on tax administration operations and other characteristics, with more than 150 tax administrations now participating.[20] Comparisons across countries remain difficult given differences in economic structure, institutional design and decentralization.

Greater digital adoption in revenue administrations is associated with higher domestic tax revenue collection and reduced compliance gaps. ISORA data shows that developing countries have lower levels of electronic filing of tax returns, pre-filling of tax returns and online payments, but gaps with developed countries are closing (figure III.A.5). Research consistently shows that greater digital adoption in tax administration is associated with larger tax revenue collection, and especially that strategies that mandate use of digital filing can increase revenue by up to 5 percent of GDP.[21] Large gains are much more likely when complementary factors for digital administration are present, for example reliable Internet connections, experienced tax administration staff and sufficient information and communication technology expenditure by the tax authority.

Electronic invoices are an example of a digital tax administration tool that enhances revenue mobilization. E-invoices offer a more efficient alternative to traditional paper invoices, improving accuracy, speeding up business and providing real-time access to invoicing data to tax authorities. They enhance the efficiency of tax administration by ensuring that tax amounts are calculated and remitted correctly, while facilitating tax compliance by generating reliable data for audits. While there are multiple distinct models for the governance and operation of e-invoicing systems, examples of developing country tax authorities implementing them in partnership with the private sector show that they can handle millions of transactions, simplify tax reporting and compliance, and reduce fraud.

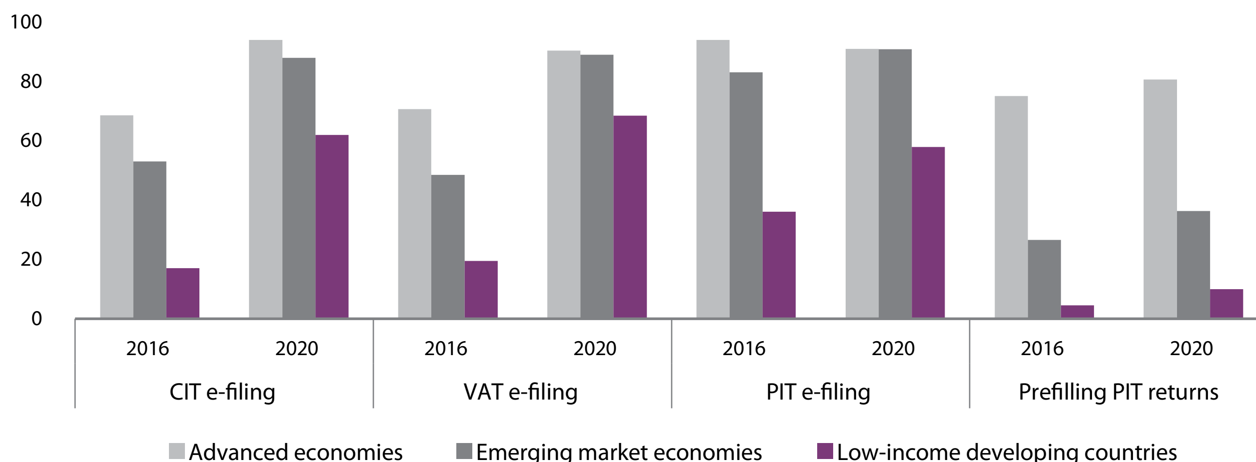
Tax policy units have had a positive impact on fiscal management and tax transparency. Specialized units in finance ministries that seek to use evidence and data to drive policymaking are now common in richer countries, although less common in poorer countries.[22] Working with revenue administration data and analytical staff, these units can provide technical analysis of the economic, behavioural and distributional implications of different policies, monitor and evaluate tax system performance and help inform budgeting processes.[23]

2.4 Building integrated, medium-term strategies with public backing

Tax system reform to increase tax revenues requires a medium-term, country-led and whole-of-government approach. Taxation can serve as both a revenue collection tool and a policy instrument to encourage sustainable growth, influence behaviour, enhance well-being and improve governance. This Task Force has emphasized the importance of medium-term fiscal frameworks to help with planning and demonstrating political commitment to tax reform. A Medium-Term Revenue Strategy is one approach that can help to address interlinkages. Tax system reforms take time to design, implement and administer effectively, requiring a relatively longer time frame to yield significant revenue increases. This can create political challenges depending on the time horizon of decision makers.

The central challenge facing reformers lies in both identifying innovative technical strategies to strengthen revenue mobilization and improving trust to enhance compliance, build political support for reform and reinforce stronger social contracts. Reform strategies need to bring together various government agencies involved in tax policy design and implementation, taxpayers and civil society engaging with the tax system and, if relevant, external development partners supporting reforms.[24] Taxation is fundamentally a political decision, and political support for reforms to the tax system is essential if changes are to be sustainable and viewed as legitimate.[25] Social consensus for tax reforms that affect distribution and incentives are critical, as has been seen with attempts to reform fuel taxes (see below). Ultimately, the most important barriers to successful tax reform in many contexts are political rather than technical.

Figure III.A.5
Tax administrations offering electronic filing and pre-filling of PIT returns, by country groups, 2016–2020
(Percentage of ISORA respondents)



Source: IMF, Building Tax Capacity in Developing Countries.
Note: Country classification according to IMF categories.

3. International tax cooperation

At the beginning of the century, bilateral relationships and agreements were dominant, but multilateral tax agreements have now moved to the forefront. International efforts on tax cooperation date back to the League of Nations period from the 1920s to the1940s and continued after World War Two, first in the United Nations and then in the OECD.[26] These efforts focused on allocation of taxing rights and provision of double tax relief implemented through bilateral agreements. More recently, international tax cooperation has moved beyond double taxation relief to increasingly look at setting tax norms to limit tax avoidance and evasion, including by exchanging information between tax authorities. International tax cooperation can also help to build capacity in countries in need of support. While the Doha Declaration called for enhancing international tax cooperation, the Addis Agenda set principles by which this cooperation should occur. It noted that international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries. The Addis Agenda also strengthened the work of the United Nations on international tax cooperation, doubling the meetings of the United Nations Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee). Since 2009, and especially since the Addis Agenda agreement in 2015, there has been an acceleration of and participation in international cooperation on tax matters, with particular focus on tax transparency, international norms on corporate taxation and capacity-building (figure III.A.6). In December 2023, the General Assembly established an ad hoc committee, engaging all Member States, to develop draft terms of reference for a United Nations framework convention on international tax cooperation.

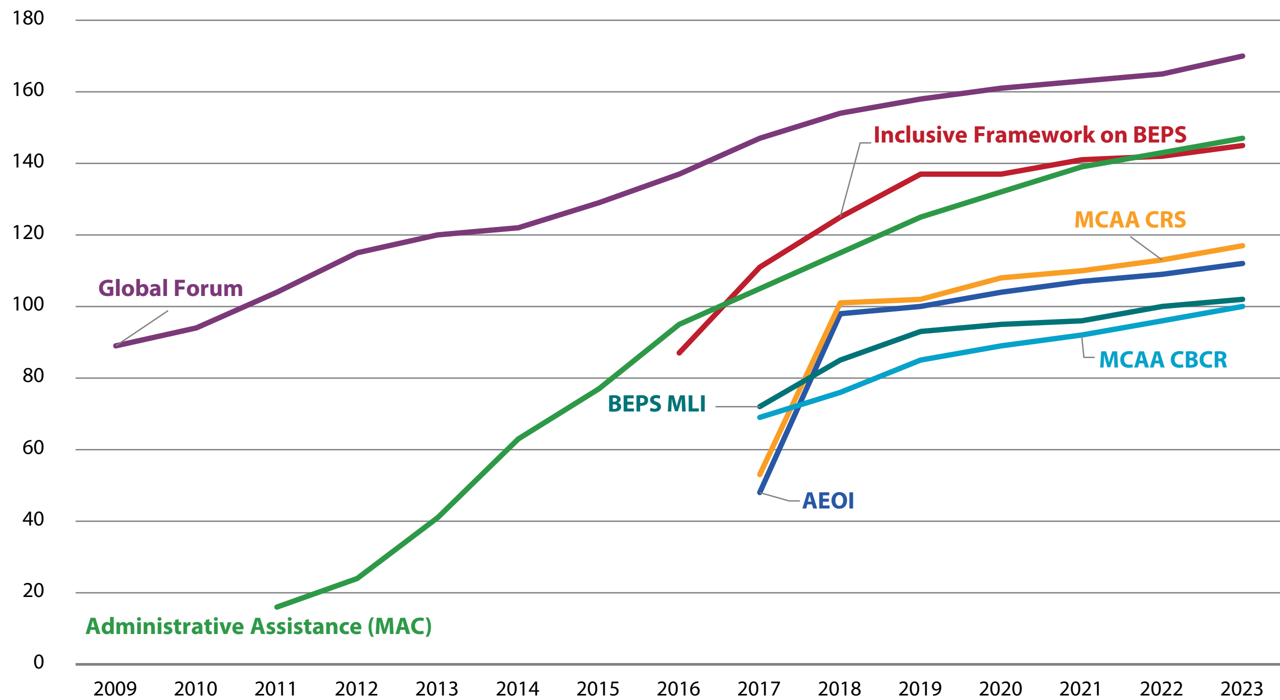
3.1 Tax transparency trends

International tax cooperation has advanced the furthest on transparency and information exchange, motivated by a desire to combat tax evasion. Since 2009, significant progress has been achieved in ensuring transparency and exchange of information for tax purposes, primarily through the Global Forum. The UN Tax Committee agreed in 2009 to a code of conduct on cooperation in combating international tax evasion, setting minimum standards of conduct required of Member States regarding the exchange of information.[27] This was adopted by an Economic and Social Council resolution in 2017 that added endorsement for the automatic exchange of information.[28] Strengthened cooperation between jurisdictions has had a significant impact on domestic revenue mobilization. Over 26,600 bilateral requests for information were sent in 2022 to support ongoing tax investigations, up from less than 10,000 in 2009 (figure III.A.7). More than €126 billion of additional revenues (tax, interest, penalties) have been identified through both voluntary compliance and tax investigations. This includes over €41 billion by developing countries.[29]

AEOI on financial accounts and the CbC reports of MNEs have provided new information for those tax administrations that receive them. The 2014 adoption of the Standard of Automatic Exchange of Financial Account Information and its implementation represent a significant step in tackling tax evasion. Out the 123 members of the Global Forum that by December 2023 committed to implement this Standard by a specific date, 108 jurisdictions have already exchanged information. Information on over 123 million financial accounts was exchanged automatically in 2022, covering total assets of almost €12 trillion (figure III.A.8). The Global Forum conducts peer reviews to assess the adequacy of its members' legal frameworks and the actual implementation of those frameworks. The vast majority of Global Forum jurisdictions (94 per cent) are assessed to have legal frameworks for implementing the AEOI Standard that satisfy the requirements. A significant majority of Global Forum jurisdictions (66 per cent) have been rated as "On Track" with ensuring the effective implementation of the AEOI Standard in practice.

Significant challenges remain in developing countries in regard to accessing and using information for tax enforcement. Developing countries have much lower levels of access to information on tax matters. To begin with only some of them are members of the Global Forum or the

Figure III.A.6
Participation in international tax cooperation instruments and forums, 2009–2023
(Number of jurisdictions)

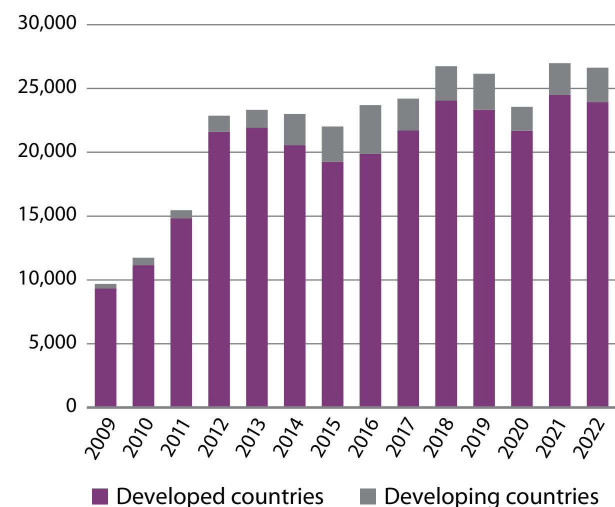


Source: OECD, Global Forum.
Note: Includes both jurisdictions which are not sovereign countries and non-UN Member States.

OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which host the multilateral systems for, respectively, AEOI on financial accounts, and automatic exchange of CbC reports of MNEs. A lower number of least developed countries (LDCs) have signed the agreements, with only three LDCs signed on to each common reporting standard which allows AEOI, and to the instrument for CbC reports (figure III.A.9). Furthermore, countries must meet legal, administrative and technical infrastructure requirements before commencing exchanges. Countries must then bilaterally match with expressions of interest to share information from other countries and are expected to exchange information with all "interested appropriate partners".[30] In 2023, 104 implementing jurisdictions sent financial account information to 84 recipient jurisdictions creating over 8,736 exchange relationships (with each direction of information flow counted separately). However, no LDCs are currently receiving information. Only five African countries were sending and receiving information as of November 2023, accounting for fewer than 400 of the relationships.[31] Seven African countries (including three LDCs) committed to implementation by 2026. For developing countries that are members of the Global Forum the challenges to receiving information include insufficient capacities, lack of the appropriate legal framework, and confidentiality and data safeguards.[32]

To improve the incentives for taxpayers and bolster trust in tax systems, more countries are moving towards public transparency for tax-related information. Information allows authorities to better enforce the law, and tax-related information needs to be more

Figure III.A.7
Exchange of information requests made by Global Forum member jurisdictions, 2009–2022
(Number of requests)

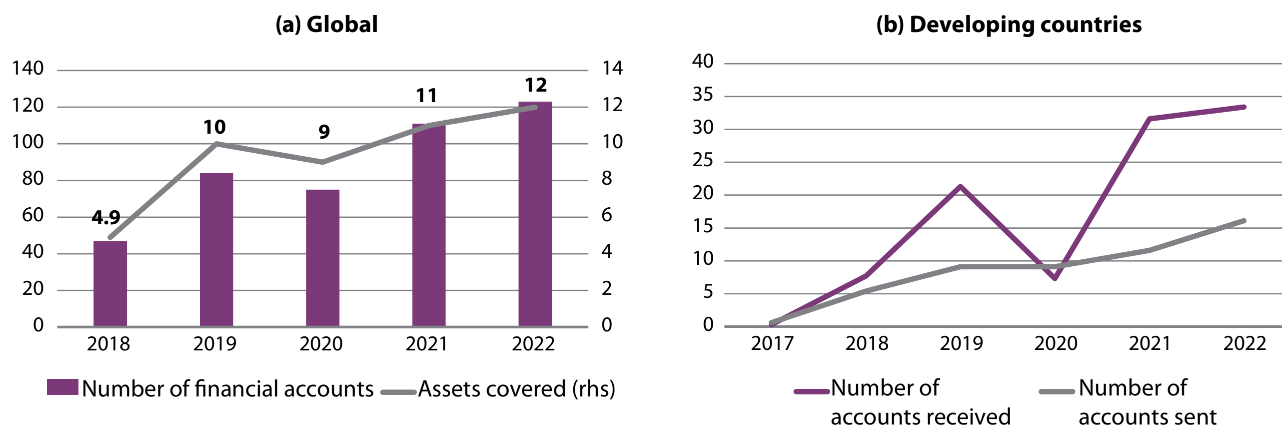


Source: Global Forum.
Note: Classification according to Global Forum definition of developing country.

Figure III.A.8

Automatic exchange of financial account information, 2018–2022

(Millions of accounts, trillions of euros)



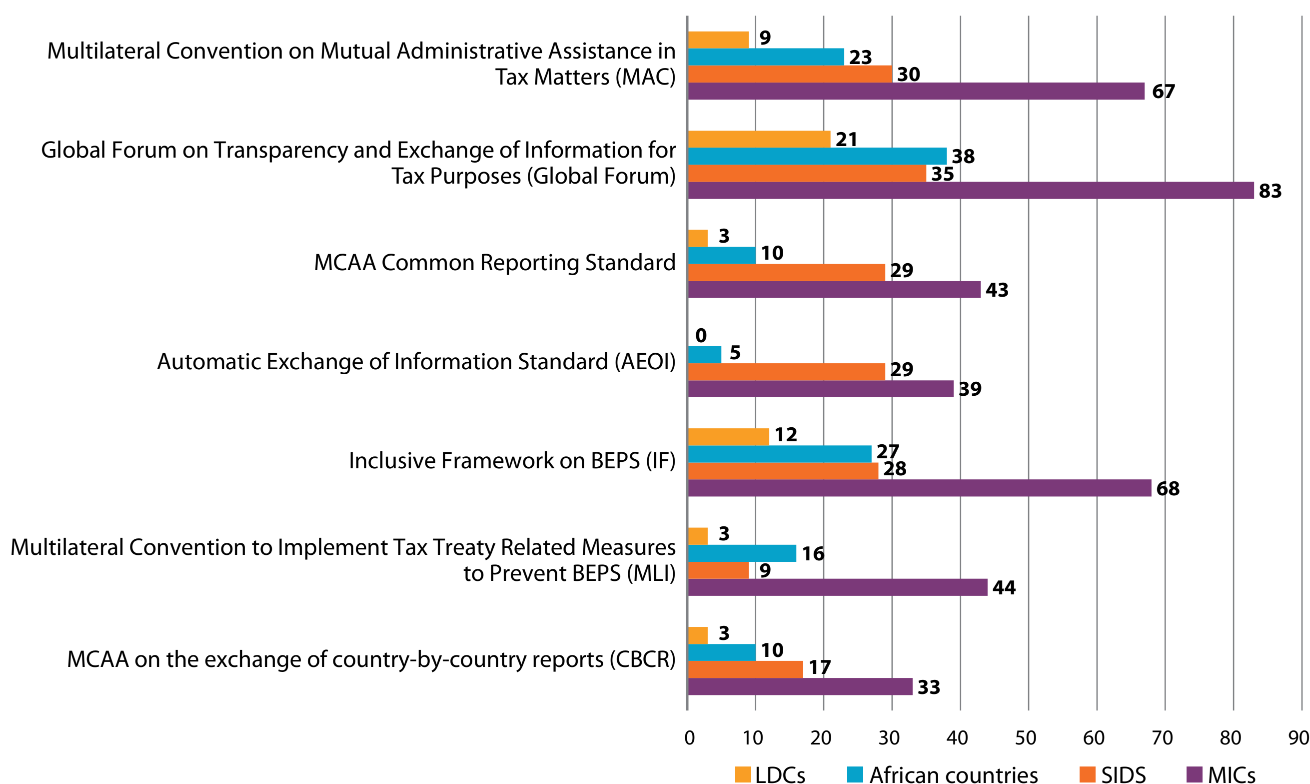
Source: Global Forum.

Note: Difference between sent and received accounts is due to not all countries responding to the Global Forum survey. 2020 experienced a drop in countries responding to the survey due to the COVID-19 pandemic. Classification according to Global Forum definition of developing country.

Figure III.A.9

Participation of countries in special situations in international tax instruments and forums, 2023

(Number of jurisdictions)



Source: OECD, Global Forum.

Note: This figure includes categories referenced in paragraph 8 of the Addis Agenda, including countries in special situations as well as middle-income countries. It includes jurisdictions which are not sovereign countries, non-UN Member State jurisdictions, and small islands that are associate members of regional economic commissions.

widely available. Public transparency can also boost trust more broadly and contribute to strengthening the social contract. A growing number of countries across regions are creating systems to publish their beneficial ownership registries for public access (see below). Public transparency of CbC reports is also on the table in some locations. Some countries and regions have already moved towards publication of a limited form of CbC reports. This follows the experience of more than 30 countries that required extractive industry MNEs (including both logging and mining industries) to publish additional corporate information in CbC format. Some companies are also voluntarily publishing CbC data. Better access to information can also empower journalists to report on fiscal systems, allowing for more effective accountability.

3.2 International norms on corporate taxation

The fundamental principles of taxation of MNEs were developed a century ago and have not yet been sufficiently updated to fully combat tax base erosion and profit shifting (BEPS). Despite the efforts of governments to tax revenue where economic activity occurs and value is created, existing data shows continued misalignment between the location where profits are reported and the location where economic activities occur. Data is scarce due to the inherent limitations in understanding the internal structures of MNEs and the lack of systematic global reporting. The best evidence comes from the anonymized and aggregated statistics based on the CbC reports, an innovation that arose in 2016. The CbC reports data is limited by aggregation levels, lack of reporting by some countries and lack of global coverage, but the most recent data from 2020 covers almost 7,600 MNE groups, with more than 929,000 legal entities and reports filed with 52 jurisdictions.[33] The data shows continuing differences in the distribution of employees, tangible assets and profits, with profits and related-party revenue much higher in investment hubs which have a low share of employees and assets.[34]

Increased attention since 2008 has led to significant enhancements of the OECD rules designed to prevent BEPS, but enterprises continue to exploit gaps and mismatches in tax rules to artificially shift profits to low-tax or no-tax locations. Prior to the 2008 world financial and economic crisis, OECD countries agreed on international tax norms through processes that were closed to non-OECD countries. With the elevation of the Group of Twenty (G20) as an important tax decision-making forum in 2009, political sign-off shifted to all G20 countries alongside OECD members, while the OECD Secretariat continued to support the technical norm-setting work. This grouping produced an important set of agreements to combat corporate tax avoidance and evasion in 2015, the so-called BEPS Action Plan, alongside a new intergovernmental forum to monitor implementation of these actions, the OECD-housed Inclusive Framework on BEPS. Of the 15 actions set forth in the BEPS Action Plan, four are considered minimum standards that must be adopted by all Inclusive Framework member jurisdictions: Action 5 on harmful tax practices, Action 6 on prevention of tax treaty abuse, Action 13 on CbC reports, and Action 14 on mutual agreement procedures. As of end-December 2023 the number of CbC report exchange relationships globally had grown to 3,876—of which 1,976 involved a middle-income country. However, there are concerns that developing countries lack access to this data given that currently, access to the reports is usually predicated on membership of the Inclusive Framework. Only 22 developing countries have implemented the requirements to receive the reports, with the multiplicity of requirements, including on legislation and confidentiality, cited by countries as preventing progress.[35] Only five African countries are receiving such reports and only 59 exchange relationships involve an LDC.

While international policy discussions on updating international corporate income tax norms to address digitalization and globalization have been ongoing for more than a decade, they have yet to yield an agreement that sufficiently addresses allocation of taxing rights, tax avoidance and evasion, and that has the full support of all Member States. Work to address digitalization and globalization is ongoing at the United Nations Committee of Experts on International Cooperation in Tax Matters, and in the OECD/G20 Inclusive Framework Two Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. The UN Tax Committee is developing a fast-track instrument for speedier adoption of key provisions regarding taxing the digitalized and globalized economy from the United Nations Model Double Taxation Convention between Developed and Developing Countries. These provisions include Article 12B of the UN Model, agreed in 2021, which when added to bilateral treaties would preserve within the treaty relationship the right of source countries to tax income from automated digital services delivered by companies based in the treaty partner. At the Inclusive Framework, work continues on Pillar One, which aims to allow market jurisdictions to tax some of the profits of the largest and most profitable MNEs without reference to the existing arm's length standard for attributing profits to different jurisdictions, an important conceptual change in international tax norms. However, for the majority of profits and most MNEs, the rules for profit attribution and allocation of taxing rights would not change.[36] Countries agreeing to implement Pillar One will also need to remove any digital services taxes as defined by the Multilateral Convention to Implement Amount A of Pillar One (MLC). The draft text of the MLC was published in October 2023, although it remains to be finalized and entry into force would require the convention to be ratified by at least 30 jurisdictions, one of which must be the United States of America.[37] Rules to standardize the application of the arm's length principle in some specific cases of marketing and distribution activities (so-called Amount B) were released in February 2024.

The proposed global minimum tax aims to ensure minimum levels of corporate taxation and limit international tax competition, including by modifying some of the premises for taxing rights on corporate income; it is an opportunity for developing countries to redesign their investment tax incentives. The rules for implementing a global minimum tax of 15 per cent, so called global anti-base erosion rules, under Pillar Two of the Inclusive Framework are complete and are being implemented as part of a common approach. More than 30 jurisdictions had implemented the global minimum tax as of the start of 2024 and more have announced plans to implement it by 2025. Jurisdictions where profits are declared under current tax norms have the option of collecting tax on low-taxed profits first, including through Qualified Domestic Minimum Top-Up Taxes (QDMTTs), before other jurisdictions get a chance to tax any profits that are taxed less than the minimum. Low-taxed profits are present in all country groups, but the highest share (41 per cent) are declared in investment hubs.[38] The global minimum tax is designed to reduce the incentive for the largest MNEs to engage in profit shifting. By also putting a floor under some tax competition, the global minimum tax

provides an opportunity for developing countries to re-evaluate their tax incentives, particularly tax holidays, and eliminate those that are ineffective and not aligned with sustainable development. The Platform for the Collaboration on Tax plans to update its toolkit on tax incentives[39] in light of international tax developments.

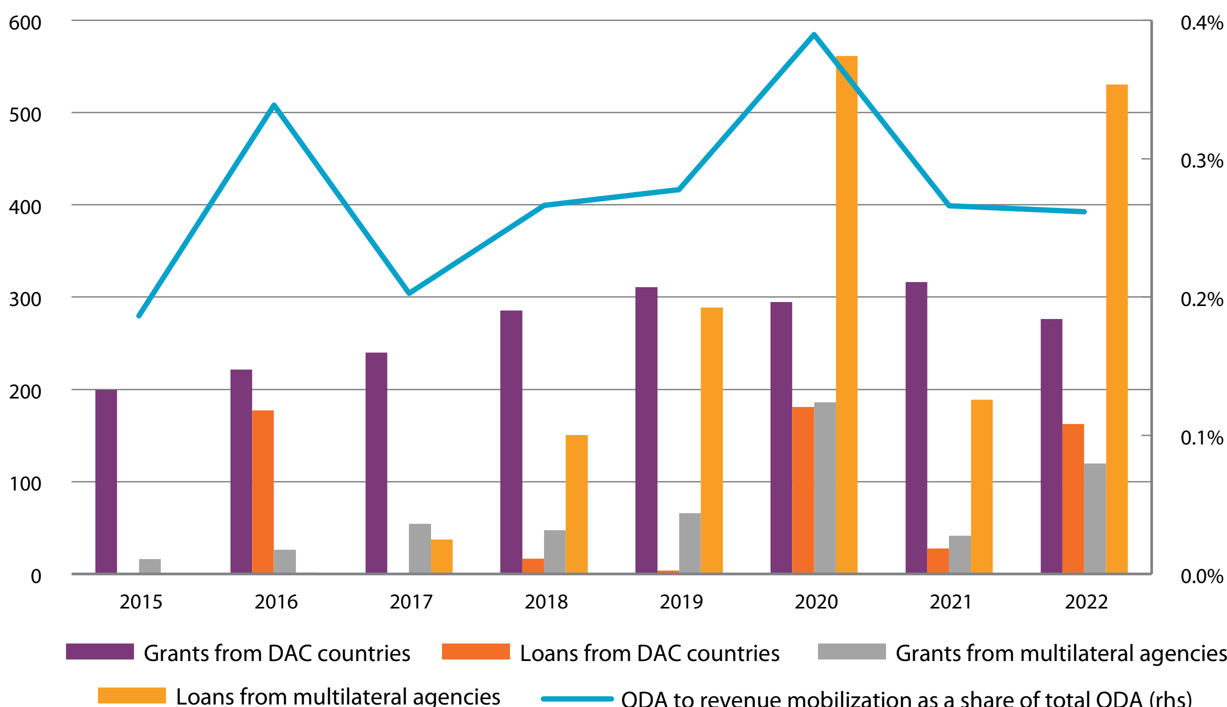
Subject-to-tax rules also allow countries to protect their tax base. In March 2023, the UN Tax Committee approved the addition of a subject-to-tax rule (STTR) to the UN Model Convention, which can be incorporated into bilateral tax treaties. This provision applies to any payments, whether between related or unrelated parties, when such payments are subject to tax below an agreed-upon rate. At the OECD, the Pillar Two STTR would allow source countries to tax a more limited set of outbound intra-group payments—including interest, royalties and all payments for services—when they are taxed below the specified rate of 9 per cent in the destination country. A multilateral convention to facilitate implementation of the Pillar Two STTR was opened for signature in October 2023;[40] Inclusive Framework members with low taxes on the covered payments have committed to incorporate it into their treaties with developing countries, if requested.

3.3 Capacity-building for domestic revenue mobilization

The Addis Agenda recognized the need to increase capacity-building and prompted efforts to strengthen and better measure the funding for domestic resource mobilization. While intergovernmental organizations such as the United Nations, the IMF, the World Bank Group and the OECD have long held training and capacity programmes to build tax capacity and support tax reforms, donor funding for this support and for bilateral programmes was not systematically tracked prior to 2015. New efforts, such as the joint OECD/UNDP Tax Inspectors Without Borders initiative and the Addis Tax Initiative, were launched at the Third International Conference on Financing for Development in Addis Ababa. In 2016, the OECD Development Assistance Committee (DAC) adopted a new monitoring code for its Creditor Reporting System to better track the provision of official development assistance (ODA) for domestic resource mobilization. This change enabled voluntary efforts to increase capacity-building such as the Addis Tax Initiative to better measure and track progress.

Donor-funded capacity-building related to domestic public revenue mobilization has increased dramatically since 2015 but has levelled off in recent years just as new international tax norms will require increased administrative capacity. The measured donor-funded capacity-building related to domestic public revenue mobilization has increased since the $200 million reported in 2015 but it has fallen short of voluntary commitments to double it by 2020.[41] Disbursements of ODA by OECD donor countries coded as being for the purpose of domestic revenue mobilization fluctuated between $300 million and $475 million from 2018 to 2022, ending the period as 0.26 per cent of total ODA to developing countries (figure III.A.10).

Figure III.A.10
Official development assistance disbursements for domestic revenue mobilisation, 2015–2022
(Millions of United States dollars, percentage)



Source: OECD.
Note: Constant 2022 United States dollar disbursements from Development Assistance Committee (DAC) countries.

International organizations have significantly increased capacity-building, with stronger coordination and an increase in regional work. The data on ODA disbursements in this area shows a marked increase in both grants and lending from multilateral agencies such as the World Bank and IMF, especially in 2020 and 2022 (figure III.A.10). This does not include the significant efforts in international coordination spurred by the increased attention on tax capacity-building. Already in 2014, the Global Forum launched an Africa Initiative, and this model was subsequently reproduced in other regions. The Platform for Collaboration on Tax was launched in 2016. The United Nations system has also expanded its capacity-building work both in international tax cooperation and in enhancing domestic resource mobilization in ways that promote sustainable development. Additionally, regional tax organizations have stepped up their efforts by forming a global platform called the Network of Tax Organisations (NTO) in May 2018, comprising 10 regional and international tax administration forums. Most recently, a new Regional Tax Cooperation Platform for Latin America and the Caribbean was created in July 2023.

4. Illicit financial flows

The study of IFFs has combined and built on earlier work on capital flight, corruption and the proceeds of crime. The Monterrey Consensus referenced the need to reduce capital flight and fight corruption. While the Doha Declaration introduced the term "illicit financial flows", it provided sparse coverage of this topic. Attention to IFFs greatly increased in the 2010s, especially with the 2011 mandate from the African Union and Economic Commission of Africa to establish a High Level Panel on Illicit Financial Flows from Africa, which issued a report in 2015 before the Third International Conference on Financing for Development in Addis Ababa. The Addis Agenda and 2030 Agenda on Sustainable Development then provided global agreement on the need to substantially reduce and eventually eliminate IFFs.

Combating IFFs is a key strategy to combat organized crime, support domestic resource mobilization and provide resources for sustainable development. Addressing corruption can also support increased voluntary tax compliance.[42] Member States have recognized combating IFFs as a key development challenge that requires a whole-of-government approach.[43] Emphasis should be placed on information exchange and national cooperation mechanisms among tax authorities, anti-corruption bodies, financial intelligence units, law enforcement and other relevant national institutions.

4.1 Beneficial ownership transparency

The availability of beneficial ownership information on legal persons and arrangements, and on financial accounts, helps to fight against tax evasion and other financial and serious crimes such as corruption, money laundering and terrorist financing. Although the original purpose of beneficial ownership laws and regulations was to fight money laundering and financial crime, the beneficial ownership transparency agenda has significantly expanded in the past few years, contributing to multiple policy goals, including fighting corruption and financial crimes, public accountability, promoting business integrity, improving investment climates and protecting national security. Understanding who is the natural person who owns and controls legal entities and arrangements (beneficial owner) can prevent the misuse of corporate structures. Financial Action Task Force (FATF) Recommendations require the availability of reliable, accurate and up-to-date beneficial ownership information.[44] The Global Forum has also introduced complementary beneficial ownership rules to combat tax evasion.

Since the first beneficial ownership standard was introduced in 2003, a growing amount of beneficial ownership information has become available to both governments and the wider public, but effective implementation is a challenge. The FATF strengthened its recommendations related to beneficial ownership transparency in 2022 and released a new suite of guidance in 2023.[45] While countries have generally amended their legal frameworks to comply with these international obligations, and many have even adopted registries, implementation has proven to be challenging, especially around the verification of beneficial ownership information. At its tenth session held in December 2023, the Conference of State Parties to the United Nations Convention Against Corruption (UNCAC) considered a report on good practices for beneficial ownership information[46] and adopted a resolution on enhancing the use of beneficial ownership information to strengthen asset recovery, which included recommendations on the sharing of good practices, the need to maintain searchable historical records of beneficial owners, including of legal persons and legal arrangements, and verification.[47]

4.2 Asset recovery and return

International commitments for asset recovery and return were first made with the ratification of the United Nations Convention on Transnational Organized Crime (UNTOC) and UNCAC in the early 2000s. UNTOC was the first universal legal instrument to set forth a framework for financial asset return[48] when it was adopted in 2000. It opened the possibility for asset return but did not mandate it, only requiring the State that recovers assets to "give priority consideration to returning the confiscated proceeds of crime or property to the requesting State Party".[49] In 2003, UNCAC Chapter V introduced the obligation to return the proceeds of corruption, requiring countries that ratify the convention to adopt laws to enable asset return and to return confiscated property that has been seized as result of requests made in accordance with the convention.[50] Within the financing for development process, the first call on States to assist in the recovery and return of stolen assets was in the 2008 Doha Declaration. Following agreement on the Addis Agenda, significant intergovernmental discussions focused on how improving asset recovery and return can contribute to the financing of sustainable development.

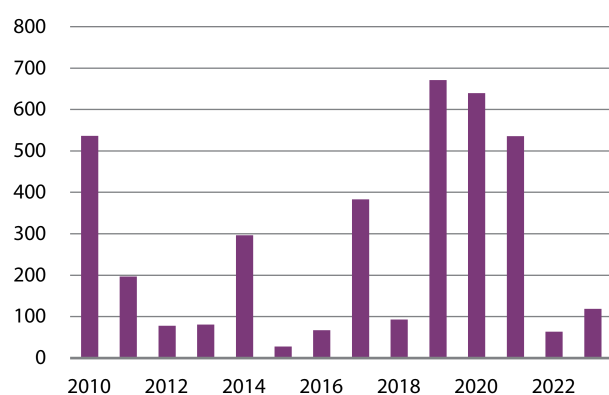
With increasing data availability, it is clear that the volume of asset recovery and return is increasing, with the growing use and central importance of non-conviction-based asset recovery. The Stolen Asset Recovery Initiative (StAR) contributed to an analysis of international returns of proceeds of corruption that took place between 2010 and 2023 (figure III.A.11). The survey-based data, which is not comprehensive, shows that $4.3 billion in corruption proceeds have been returned to countries since 2010, with volumes of returns higher after 2017.[51] Conviction-based criminal forfeiture remained the most frequently cited legal mechanism for cross-border asset recovery efforts, used in just over half of all reported cases (51 per cent), followed by non-conviction-based confiscation (30 per cent) and settlements (22 per cent).[52] There is no data

available on the volume of assets frozen due to a request from another country, nor comprehensive estimates on the total amounts lost to corruption, but some have claimed these total hundreds of billions of dollars over a span of decades.[53]

The asset return process, however, remains time-consuming and resource-intensive and is still too frequently blocked. States identified two major barriers to successful international asset recovery under UNCAC: (1) perceived non-responsive or overly broad mutual legal assistance refusals by the country of asset location and (2) difficulties in identifying, and verifying the beneficial ownership of suspected corruption proceeds. Responses further emphasized the growing use and central importance of non-conviction-based asset forfeiture in cross-border asset recovery cases involving corruption proceeds. In addition, October 2023 revisions to the FATF Recommendations bolster the powers and ability of law enforcement and other authorities to identify and trace criminal property for the purposes of asset recovery.[54] UNODC, including through its Global Operational Network of Anti-Corruption Law Enforcement Authorities (GlobE Network) and its joint StAR Initiative with the World Bank, continues to support countries with their asset recovery efforts.

There remains no international provision for asset recovery and return for non-corruption related IFFs. UNCAC is the only universal instrument that mandates asset recovery and return, but its provisions are limited to the proceeds of corruption. The Multilateral Convention on Mutual Administrative Assistance in Tax Matters contains provisions for assistance in the recovery of tax claims, although most signatories have a partial or complete reservation on the provision. FATF standards now include tax crimes as a predicate offence to money laundering, providing another avenue for international cooperation on asset recovery. In 2020, African Union countries adopted the Common African Position on Asset Recovery, which expresses a desire to go beyond the proceeds of corruption to also address tracing and repatriation of other types of IFFs, including abusive transfer pricing, trade misinvoicing and tax evasion.[55] Member States could examine the development of a more holistic approach to asset recovery, building on the provisions in UNCAC but encompassing all sources and channels of IFFs. Such a holistic framework could create an effective, more efficient and more impactful asset recovery infrastructure.[56]

Figure III.A.11
Value of global asset returns, 2010–2023
(Millions of United States dollars)



Source: UNODC.
Note: Based on survey responses from 98 Member States.

4.3 Measurement of progress

Comparable and reliable statistics on IFFs can help to shed light on the activities, sectors and channels most prone to illicit finance, pointing to priorities for enforcement resources. As co-custodians of SDG Indicator 16.4.1 on IFFs, UNODC and the United Nations Conference on Trade and Development (UNCTAD) defined globally agreed statistical concepts and a statistical definition of IFFs in the *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows*,[57] endorsed by the United Nations Statistical Commission in March 2022.[58]

Agreement on the statistical definition of IFFs resulted in the publication of the first official estimates of IFFs in the SDG indicators database in early 2023. The first estimates reported by nine different countries reveal that IFFs related to criminal activities are substantial, with estimates comparable to the value of exports of licit markets in some countries.[59] Several countries also prepared preliminary unofficial estimates of IFFs from trade misinvoicing, by analysing asymmetries in customs reporting between countries or abnormal prices in transaction-level customs data, using UNCTAD methodological guidelines.[60] Pilot testing in 22 countries, supported by the custodian agencies with United Nations Regional Commissions, will continue, with a new global project focused on nine countries until 2026.[61]

Based on lessons learned in pilot testing countries, international organizations are continuing to improve methods to measure IFFs but at the current pace, only a handful of countries will have made estimates before 2030. New IFF estimates are enabling countries to develop tailored policies to curb these flows more effectively. UNCTAD has refined methodological guidelines for measurement and is conducting pioneering work on the aggregation of estimates from multiple IFF types into one number.[62] UNODC has developed a draft *Statistical Framework to Measure Corruption* to make progress on these measurement challenges. It was presented to the 54th session of the United Nations Statistical Commission and reviewed through two global consultations.[63] While most countries have the necessary data, they need support to organize the inter-agency work, develop skills, apply the guidance, enhance information systems and create the necessary tools.

5. SDG-related expenditure and investment

Public spending is a powerful instrument to incentivize, support and deliver sustainable development, and all countries have scope to better align public expenditure with the SDGs. Expenditure policy is a key mechanism for investing in SDG achievement, including redistribution and risk reduction.[64] Effective public financial management (PFM) systems allow countries to implement those policies efficiently. The Monterrey Consensus called for efficient, transparent and accountable systems for managing the use of public resources as well as improvements in public spending. The Doha Declaration called for Member States to continue to improve budgetary processes and enhance the transparency of

PFM and the quality of expenditures. The Addis Agenda committed to further strengthening the effective use of domestic resources and covered in detail subjects such as gender, social protection, infrastructure, ecosystem protection, subnational finance and fossil fuel subsidies.

5.1 Public financial management

Increasing the effectiveness of PFM can allow the State to more efficiently deliver public goods and services and reduce the losses to corruption. Countries can generate positive feedback loops by using revenue for efficient public goods and services delivery, which boosts trust in government and generates incentives for paying tax and further improving accountability of the public sector for good financial management. This may require more effective fiscal coordination with subnational entities that struggle to deliver mandated services without sufficient or timely disbursement of resources by central authorities. Budget systems can also be adapted to allow better tracking of spending on sustainable development, including for climate adaptation and disaster risk reduction,[65] in ways that are comparable across countries (see chapter IV box IV.3). There are indications that country PFM systems are improving over time. Countries that assessed their PFM systems multiple times using the PEFA framework, on average, improved their scores from their first PEFA assessment to their last. There are several examples, however, of deteriorations in average scores after first assessments, which can often be attributed to external shocks, political economy factors or changes in governance.

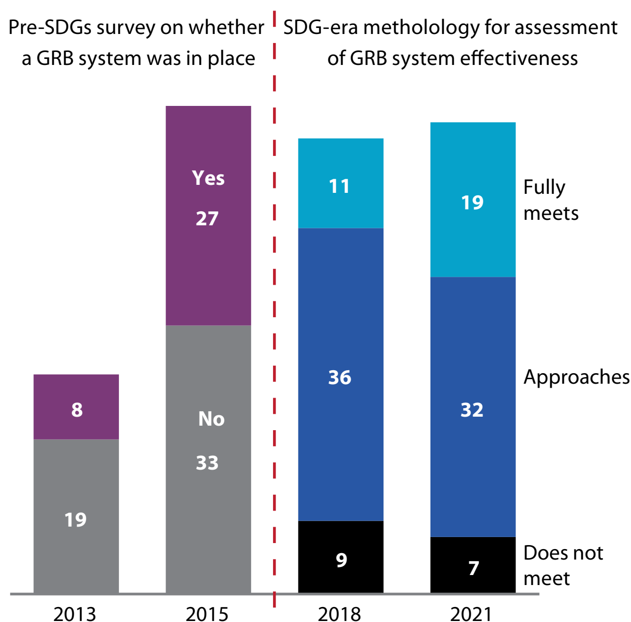
PFM reforms are often technocratic changes but have had greater impact where there is a genuinely new political settlement that underpins sustainable reforms. Well-developed PFM systems can help to track the effectiveness of spending and provide the information needed for decision-making on resource allocation. They can also provide ongoing information on overspending, underspending and challenges in delivering public goods and services.[66] However, even seemingly small reforms that seek to prevent leakage and introduce better accounting can create entrenched opposition from vested interests that are opposed to reforms.[67] Many reforms over the last two decades have proceeded technically, with new systems implemented, but political economy considerations help to explain why they did not achieve their full intended impact. A better PFM reform agenda will build on a political economy analysis of the country, its current systems and practices, and bring more voices into the conversation. Improving the transparency of budget processes and instituting participatory budgeting can contribute to public ownership of PFM reforms.

5.2 Gender-responsive budgeting

Strengthening the alignment of domestic expenditure with gender equality goals is imperative, and gender responsive budgeting (GRB) can enhance the effectiveness of public finance's contributions to gender equality. GRB is a public policy tool that analyses central and local administrative budgets to assess gender financing gaps, identify actions to close them and ensure that national and local commitments to gender equality and women's empowerment are resourced. The introduction of GRB can help to focus political attention on matching the delivery of public resources for gender equality and women's empowerment with a country's stated gender equality objectives. For example, it can enable greater expenditure on alleviating unpaid care burdens which fall disproportionately on women. Globally, however, only one in four countries currently has a comprehensive GRB system (figure III.A.12). Where these systems do exist, they support efforts to cost, allocate and spend resources to effectively implement national gender-responsive laws and policies, including those with indirect impacts on gender equality.

Over time, GRB has been introduced in more countries globally and tracking systems have become increasingly comprehensive and effective, but gaps remain. Analysis of GRB practices indicates the importance of strengthening gender integration in PFM systems, while also enhancing transparency and accountability. This can support better targeting of public resources for the implementation of gender equality laws and policies, while also building trust that public resources are allocated and spent to respond to the needs and demands of people.[68] GRB should encompass all spending, including on public services, infrastructure and social protection; and include analysis of taxation and other revenue-raising measures and a review of spending outcomes.[69] GRB implementation can improve with legislative requirements and/or mandates, combined with clear guidelines. Further, strong linkages between policy design and budget decisions are important, coupled with robust gender analysis at each stage of the budget cycle. Providing training and capacity-building to legislators can improve the understanding and uptake of GRB.

Figure III.A.12
Existence and comprehensiveness of gender-responsive budgeting systems, 2013–2021
(Number of countries)



Source: UN WOMEN calculations based in part on GPEDC survey.
Note: Data for 60 countries that reported data in 2015 and at least one datapoint in 2018 or 2021. 2013 and 2015 data based on Global Partnership for Effective Development Cooperation survey with four binary Yes/No questions. 2018 and 2021 data based on a revised methodology comprising 13 questions allowing for more granular analysis of systems, as approved by the Statistical Commission for SDG indicator 5.c.1. The SDG indicator methodology focuses on linkages between legislative/policy commitments and budget resources.

It is important to improve data quality and strengthen capacities and skills to conduct comprehensive gender assessments of all budget policies and evaluate the corresponding impacts of these on different groups. Increasing timely and accessible public data on gender budget allocations and expenditures is central to these efforts, so that governments and other stakeholders can follow public resource flows and evaluate the extent to which public investments address the needs and priorities of women living in poverty.[70] Active engagement of civil society organizations, parliaments and audit institutions can strengthen the evaluation of impacts and the accountability loop.

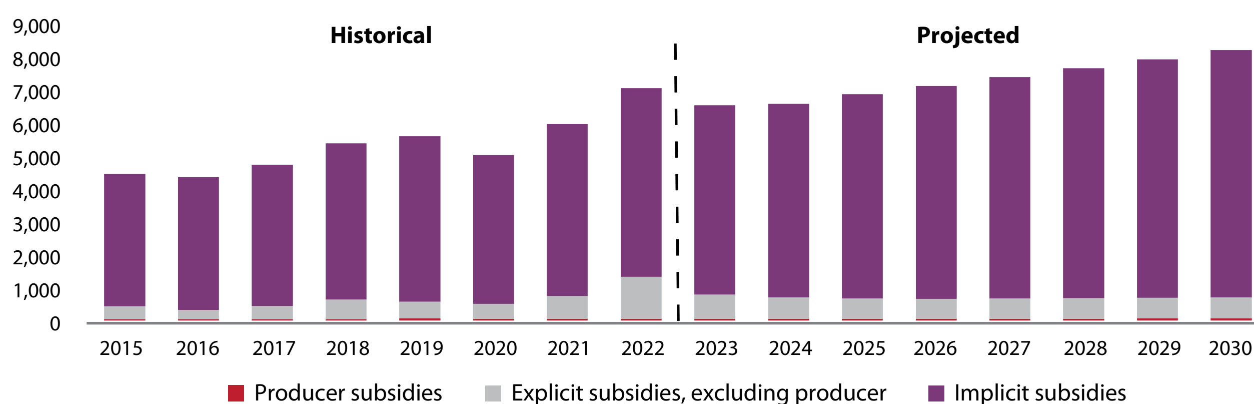
5.3 Fiscal responses to climate change

Fiscal systems and regulatory policies matter for climate action: they can either encourage and subsidize emissions of change-inducing pollutants or incentivize climate change mitigation and adaptation. In the Addis Agenda, Member States committed to rationalize inefficient fossil fuel subsidies that encourage wasteful consumption. The Addis Agenda also explicitly encouraged the exploration of carbon pricing as a form of innovative financing for development. Indeed, climate change action requires a fundamental transformation of consumption, production and investment by all, and fiscal policies must play a central role in setting the incentives that encourage decarbonization and climate adaptation.[71] Yet, fiscal systems remain rife with measures that actually encourage inefficient or unsustainable investment, particularly in fossil fuels and associated infrastructure. Agricultural subsidies that induce climate change are linked to both fuel and fertilizer use and land use changes.[72] Standard economic literature emphasizes that setting a price on carbon is the best way to incorporate the environmental and social costs of pollution into market economies, but there has been a widespread rejection of pursuing the transformation through carbon pricing alone.[73] Climate change action may need a combination of instruments (including taxes, user fees, carbon markets, regulations and subsidies) to be politically feasible, administratively practical and effective.

Global fuel prices do not reflect the full economic and environmental costs of their use, including both climate change and local pollution impacts; both implicit and explicit subsidies have risen over time. Fossil fuel subsidy estimates, which look at both implicit and explicit subsidies, provide summary information that points to the substantial and pervasive underpricing of fossil fuels.[74] Estimated global fossil fuel subsidies were $7 trillion in 2022, including $1.3 trillion in explicit subsidies (figure III.A.13). Both implicit and explicit subsidies have grown over time, with noticeable increases in 2022 at the time of significant energy price volatility. Potential revenues from subsidy reform are lower than the subsidies themselves given that reform would reduce fuel consumption. Recent surges in international fossil fuel prices reinforce the case for rapidly transitioning away from fossil fuels—not only to address the climate crisis and reduce air pollution deaths but also to decrease dependence on insecure sources of energy.[75]

Carbon pricing can be used to incorporate social costs into economic decision-making and to help address climate change. Carbon pricing's primary goal lies in the implementation of the polluter pays principle, anchored in Principle 16 of the Rio Declaration on Environment and Development (1992), which advocates that the costs of pollution and its mitigation should be borne by the emitters. In addition to creating an incentive to reduce emissions, carbon pricing can help to raise revenues. Carbon pricing can be implemented through a range of instruments with various policy designs, which can be tailored to best meet domestic objectives and circumstances. This includes direct (or explicit) carbon pricing mechanisms such as emissions trading systems and carbon taxes, which impose a cost expressed as a monetary unit per ton of carbon dioxide equivalent (CO2e). Indirect ways of placing a price on carbon emissions include fuel and energy taxes. By changing the relative price of the carbon-emitting and no-carbon technologies, green subsidies and tax incentives can achieve similar results, but potentially at high fiscal cost. Rarely is a single carbon price applied across an economy; tax codes often give preferential treatment for fossil fuel consumption[76] and many direct carbon pricing instruments target specific sectors or even fuels,

Figure III.A.13
Global fossil fuel subsidies, 2015–2030
(Billions of United States dollars)



Source: IMF.
Note: Figures after 2019 and 2022 use projections for fuel use and fuel prices, respectively.

much like indirect taxes on fossil fuels; and carbon and fuel taxes can be substituted one for another.[77] Carbon pricing policies can be accompanied by compensating assistance for low-income households to address distributional concerns.

Carbon pricing has been shown to be an effective fiscal tool—raising revenue in ways that are less distortionary than other policies—with global coverage of direct carbon pricing policies continuing to expand. Almost a quarter of global greenhouse gas emissions are currently subject to a carbon tax or emissions trading system, with 73 instruments currently in operation (figure III.A.14 panel a). In the past year, only a few instances occurred where governments relaxed direct carbon pricing in response to the energy crisis. Revenues from carbon taxes and emissions trading systems increased almost five-fold in the past decade to a record high of almost $100 billion in 2022 (figure III.A.14 panel b)[78] as policies have evolved and diversified to reflect increased ambition. These revenues can help to finance decarbonization, improve government balance sheets, support resilient and sustainable development, and finance a just transition. While the uptake of direct carbon pricing is on the rise in developing countries, existing instruments are predominantly implemented in developed countries. Additional revenues from carbon pricing could be on the order of several percentage points of GDP.[79] Carbon taxes are also straightforward administratively as an extension of fuel taxes.[80]

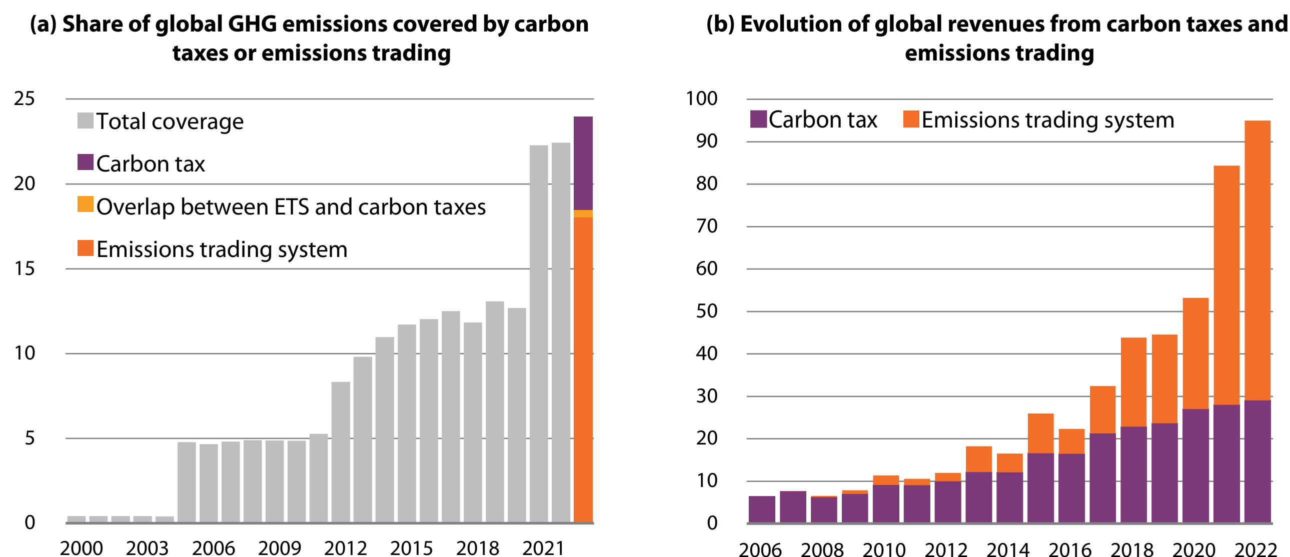
5.4 Social protection financing

Enormous progress has been made on delivering the human right to social security, but social protection benefits are still not a reality for most of the world's population. The development of social protection systems over the past century has been remarkable (figure III.A.15). Today, most countries have schemes in place, anchored in national legislation, that cover all or most areas of social protection, although in some cases these cover only a minority of the population. While national legal frameworks are essential for a rights-based approach to social protection, they do not on their own ensure effective coverage of the population nor the adequacy of benefits. Large gaps still remain, especially in Africa and Asia. Only 46.9 per cent of the global population is effectively covered by at least one social protection benefit (excluding health care and sickness benefits).[81] As countries develop their systems to deliver on the mandate in the Addis Agenda for universal social protection, they need to consider the adequacy, efficiency and sustainability of their policies.

Higher social protection expenditure is associated with lower income inequality. The largest reductions in income inequality are observed for contributory pensions, which in many countries capture the largest share of social protection expenditure. Evidence from the International Labour Organization shows that in 17 out of 35 countries with available data, such pensions reduce income inequality, as measured by the Gini coefficient, by more than 15 per cent and in three countries by at least 30 per cent. On average, countries that spend a larger percentage of GDP on a given social protection benefit are also those that obtain a larger reduction in income inequality for paying such benefit.[82] Building synergies between the social protection and tax systems can strengthen the social contract between citizen and State, as expansion of the tax base can coincide with or even follow the provision of benefits. The efficient operation of a social protection system also helps to maintain public confidence in the effectiveness of the programme and trust in the State as a whole.

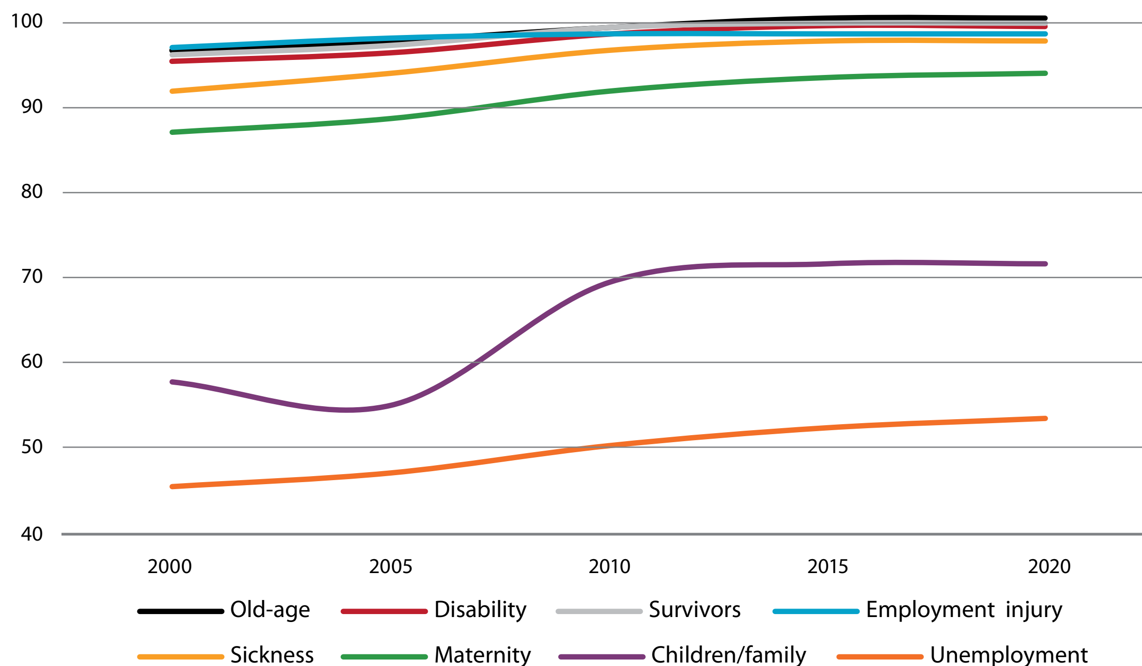
Solid and sustainable financing frameworks are essential for social protection systems to function effectively and have positive impacts. Financing social protection generally comes from the budget, thus tax revenues and social contributions are the basis of financing. Universal social protection systems also have some unique features, notably that necessary expenditures tend to rise during economic slowdowns—precisely when available resources are falling. The financing mix for social

Figure III.A.14
Carbon pricing and associated revenue, 2000–2023
(Percentage, billions of United States dollars)



Source: World Bank, State and Trends of Carbon Pricing 2023.

Figure III.A.15
Coverage of social protection systems anchored in national legislation, by policy area, 2000–2020
(Percent of countries)



Source: ILO.
Note: Countries with social security schemes anchored in national legislation, by policy area (branch).

protection thus needs to be effective for countercyclical expenditure. Some countries have successfully used dedicated fiscal reserve funds to create countercyclical financing, which is a popular choice for commodity exporting countries.

The financing gap to achieve SDG targets in social protection and essential health care is still sizeable and has increased by approximately 30 per cent since the onset of the COVID-19 pandemic. The financing gap for extending a social protection floor to all was estimated to be $1.2 trillion per year or 3.8 per cent of world GDP in 2020. This is the average additional investment required to achieve universal coverage of basic benefits to all children, mothers of newborns, those who are severely disabled and all persons in old age, as well as universal essential health care. The annual financing gap is higher for lower-middle-income and low-income countries, reaching 5.1 per cent of GDP and 15.9 per cent of GDP, respectively.[83]

Options to increase fiscal space for social protection exist, even in low-income countries. Countries have to manage budget constraints, but increasing the size of universal transfers can be feasible and redistributive if financed by reforms to make the tax system more efficient and progressive.[84] The primary avenue to expand the fiscal space is to gradually increase domestic resources for social protection in line with the economic and fiscal capacity of each country. Countries can reprioritize expenditure, for example away from fossil fuel subsidies (see above). Another key channel to increase domestic resources is to extend social insurance coverage. Social security contributions as a source of financing for social protection have been subject to some debate, but evidence has shown that there are no significant employment or formalization gains in reducing contribution rates.[85]

5.5 National development banks

PDBs are numerous and financially powerful, with mandates that enable them to finance SDG investments in ways that are different from private banks. The June 2023 commitment of 530 multilateral, regional and national PDBs to work as a system and cooperate to align their activities with sustainable development is a milestone in strengthening the potential contributions of NDBs.[86] According to a recently compiled database, there are more than 500 PDBs in the world distributed across every region, operating at local, national, regional or international levels, including national and multilateral institutions.[87] PDBs combine three attributes: (i) they are owned, controlled or supported by governments; (ii) they execute a public, development-oriented mandate, addressing market inconsistencies; and (iii) they enjoy an independent legal status and financial autonomy. Operational independence in investment and credit decisions can help to insulate PDBs from political corruption risks. The accumulated assets of PDBs totalled around $23 trillion in 2021 (figure III.A.16). This includes 10 mega banks that hold 70 per cent of the total—roughly the equivalent of the assets of the entire United States banking sector. The formation of new national PDBs has followed trends in geopolitics and macroeconomics, with surges of bank creation in the 1990s and after 2008.[88] However, the lack of consistent data on PDBs makes it difficult to assess trends in lending, assets managed and the impact of financing (see chapter IV box IV.4).

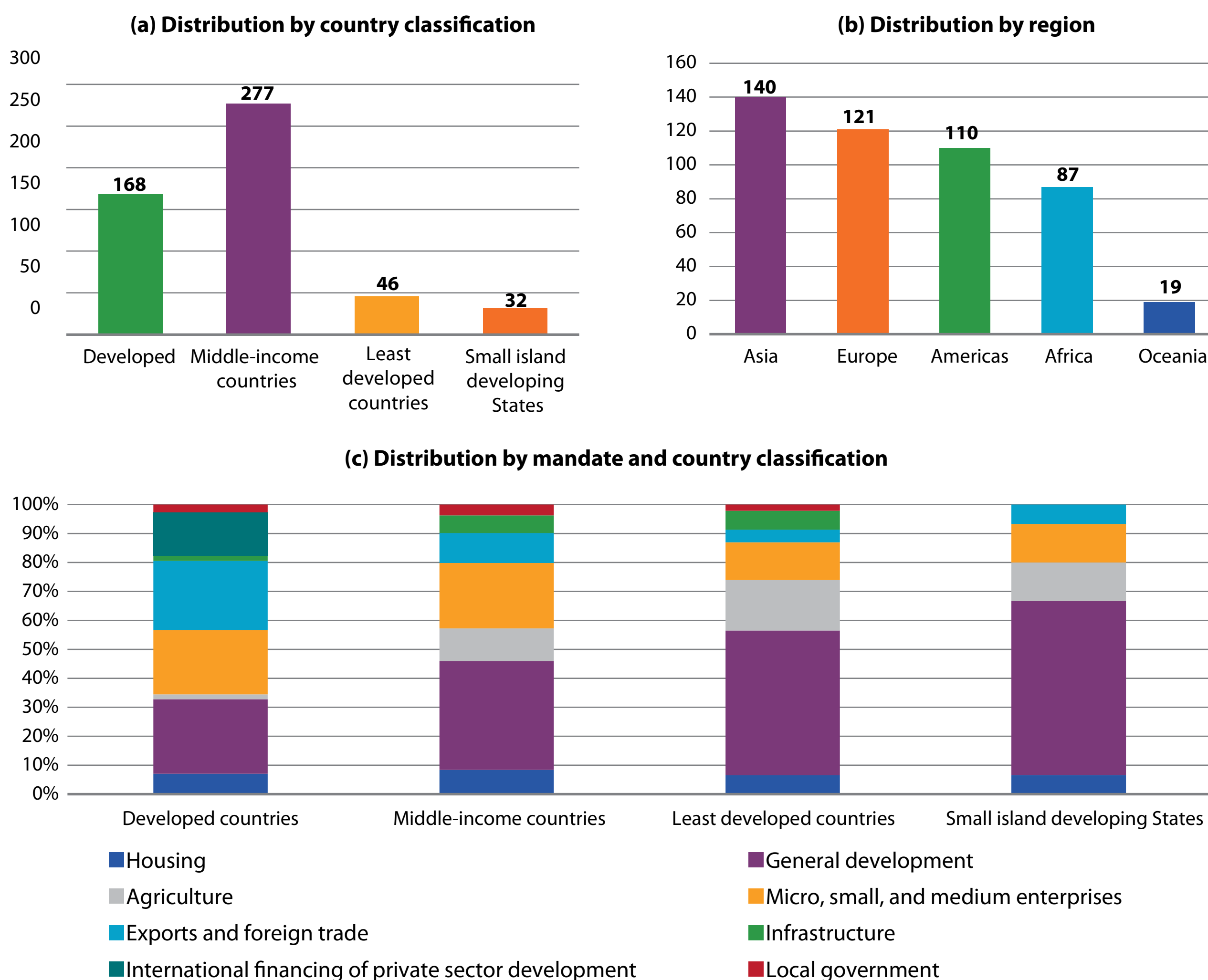
NDBs are crucial for mobilizing the required financing, including from private sources, to reach countries' climate and environmental objectives. Governments have long used NDBs as important financing tools to implement their national economic and social policies, especially to directly finance large infrastructure projects, foster economic growth, reduce poverty and, more recently, address climate change. Today, many NDBs strive to crowd in private investment (domestic and international) to increase the scale and development impacts of private financial flows and to foster capital market development through blended finance and other forms of alternative financing. NDBs can overcome market failures and other barriers to investment in sustainable development, particularly for projects to combat climate change, reduce disaster risk and pursue other environmental objectives. This is due to their greater appetite and ability to bear perceived high risks and long payback periods.[89] A survey of the largest NDBs shows that more than 80 per cent have adopted green goals. The majority have excluded financing of unsustainable projects and are leading players in public climate finance, but the share of green assets in their portfolios remains low, with average levels at just 14 per cent.[90]

NDBs can also shape markets and raise the standards for all investors. PDBs usually provide longer-term funding than commercial banks, thus lengthening investor time horizons and better aligning the financial durations of all lending with social and environmental sustainability. In most countries, NDBs play a role in financing small- and medium-sized enterprises, thus influencing the credit worthiness of parts of the private sector (figure III.A.16 panel c). By providing early funding to renewables, they can promote sustainable alternatives to fossil fuel investments. Public banks can also reduce exposure and vulnerability to financial crisis and alleviate their negative impacts by providing countercyclical responses during crises, addressing the drying up of private financing and tax revenue.[91] For example, these institutions played a pivotal role in channelling resources to counter the economic upheaval caused by the COVID-19 pandemic through a countercyclical increase in their operations.

Figure III.A.16

Distribution of national and subnational development finance institutions, 2000–2023

(Number of institutions, percentage)



Source: UN DESA calculations based on Finance in Common data.

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