Financing for Sustainable Development Report 2022

Inter-agency Task Force on Financing for Development

Bridging the Finance Divide

United Nations

Report of the Inter-agency Task Force
on Financing for Development

Financing for Sustainable Development Report 2022

United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development. The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development Report.

The online annex of the Task Force (http://developmentfinance.un.org) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

Inquiries about the Task Force or its report and online annex can be sent to:

Financing for Sustainable Development Office
Department of Economic and Social Affairs
2 United Nations Plaza (DC2-2170)
New York, N.Y. 10017
United States of America
+1-212-963-7574

developmentfinance@un.org

http://developmentfinance.un.org

Federal Ministry for Economic Cooperation and Development

The production of this report and the online annex of the Inter-agency Task Force are generously supported by the Federal Ministry for Economic Cooperation and Development of Germany.

How to cite this report:

United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2022.* (New York: United Nations, 2022), available from: https://developmentfinance.un.org/fsdr2022.

United Nations publication

Sales No. E.22.I.6
ISBN: 978-92-1-101452-5

Domestic public resources



Chapter III.A

Domestic public resources

1. Key messages and recommendations

The COVID-19 pandemic has had a significant impact on fiscal balances. Tax revenues fell during the first year of the pandemic, particularly in the poorest countries, while expenditure needs increased. In many countries with sufficient resources, efforts were made to respond countercyclically to the large exogenous shock. Lessons learned include the importance of long-term planning to facilitate countercyclical fiscal policy, particularly in a world characterized by fast-paced technological change and increasing variability of climatic patterns.

Countries benefit greatly from strong fiscal systems, including diversification of revenue sources, as this can give more space for Governments to implement effective countercyclical fiscal policies. Countries with weak fiscal policies and low buffers are likely to become more fragile during a crisis. Governments can prepare contingency plans in advance of shocks and in the context of medium-term revenue strategies (MTRS) and broader integrated national financing frameworks (INFF). Building longer-term forecasts into policymaking, such as for tax reforms and public investment, allows Governments to respond better to short-term or sectoral shocks and align plans with wider sustainable development objectives.

Robust fiscal systems, including both tax and expenditure, can contribute to poverty alleviation and reduced inequalities while supporting economic growth, industrial transformation and environmental sustainability. Given the ambition of the 2030 Agenda for Sustainable Development and the challenges posed by COVID-19 recovery, improving the structure of the tax system so that it is aligned with Sustainable Development Goal (SDG) financing strategies is an increasing priority for many countries. Wider tax bases can help countries to withstand shocks and contribute to effective countercyclical policy. Country-owned MTRS should guide revenue reforms to widen the base and reduce tax avoidance and tax evasion, especially by the wealthy. They can also steer tax administration reforms, which can yield significant revenue increases. Strong public financial management (PFM) can improve spending efficiency, including better procurement systems to prevent corruption, even in emergency spending programmes. These efforts should be reflected in country-owned INFFs.

Fiscal policy creates incentives that influence economic activity and social and environmental outcomes; Governments should align all aspects of public finance with sustainable development.

First, countries should effectively use the fiscal system to reduce inequality, in line with their commitments in the 2030 Agenda for Sustainable Development. A number of fiscal policies can help to address inequalities:

- *The creation or strengthening of progressive income taxes on a broad tax base, with appropriate allowances for the poor, is a key tool in addressing income inequality;*
- *Policies that raise capital income tax rates closer to the tax rates on labour income can help to ensure that wealthy people, who usually have high levels of capital income, pay appropriate taxes. Wealth or inheritance taxes can strengthen these efforts;*
- *Universal social protection systems, which directly impact inequality, also create an infrastructure that can be used for emergency and crisis response and can be designed to provide incentives for business formalization and a reduction in tax avoidance and evasion.*

Second, countries should more effectively use the fiscal system to achieve gender equality and women's empowerment:

- *Countries should design policies based on systematic analysis of the gender implications of their tax system and budgets;*
- *Public spending should respond to identified needs, including greater investment in the care economy, which will produce a*

"triple dividend" of women's labour force participation, enhanced human capabilities and decent jobs in the paid care sector.

Third, all countries have space to better align their fiscal systems with climate change mitigation and adaptation as well as other environmental goals. Climate change action may need a combination of instruments (including taxes, carbon markets, regulations and subsidies) to be politically feasible, administratively practical and effective. Specific policies that can be explored include:

- *Eliminating explicit fossil fuel subsidies and pricing carbon emissions through taxes and/or emissions trading schemes; and*
- *Public investment in clean alternatives as well as increased social transfers to mitigate any regressive effects of an end to fossil fuel subsidies or taxes on energy.*

To align with the commitments in the Addis Agenda, countries should strengthen international tax cooperation to ensure that no countries are left behind, particularly on information exchange and usage. Digitalization, combined with progress on the sharing of tax information between countries and with new international standards on beneficial ownership registration for legal vehicles, is increasing the size and depth of the information ecosystem available for tax and financial integrity enforcement. Yet, many are not able to see or benefit from this information. Authorities can:

- *Put more information in the public domain to better inform policymaking across government, including publishing information on potential impacts of new international tax norms and opening beneficial ownership registries to public use;*
- *Make better use of information at the national level, including sharing and verifying information across government; and*
- *Improve international sharing of tax information, especially for least developed countries (LDCs), so that more countries are able to receive needed information, with assistance for improving systems and the capacity to utilize the information.*

Finally, digitalization of money brings both new risks of tax avoidance, tax evasion and illicit financial flows (IFFs) as well as new enforcement possibilities. Further research and guidance are needed on how tax policies and administration, especially in developing countries, can adapt to and influence the development and usage of digital assets, including cryptoassets, stablecoins and central bank digital currencies (CBDCs).

2. Domestic resource mobilization in the COVID-19 era

2.1 Revenue trends and the ongoing impact of COVID-19

Tax revenues fell during the first year of the COVID-19 pandemic, particularly in the poorest countries. The combination of severe contractions in economic activity in the first half of 2020 and tax relief measures enacted in response to COVID-19 had led many to expect a sharp deterioration in tax mobilization in 2020. Yet, while estimated median tax revenue to gross domestic product (GDP) ratios fell in all country groups and regions in 2020 (see figure III.A.1),[1] in about half of the countries the difference between 2020 and 2019 tax-to-GDP ratios was less than 1 percentage point of GDP (see figure III.A.2) while it increased in 28 per cent of countries. The median tax-to-GDP ratio in developed regions declined by only 0.08 percentage points. Nevertheless, in most countries nominal tax revenues declined along with a decrease in GDP while spending needs increased—with negative implications for fiscal balances.

The pandemic hit tax revenues the most in the countries with the greatest needs, particularly island economies. The decline in the median tax revenue was most severe in small island developing States (SIDS). Regionally, Oceania, home to many SIDS, saw the highest median year-on-year revenue declines, of over 3.8 points of tax-to-GDP. Asia's median tax-to-GDP ratio also dropped dramatically, by 2.3 points, to below 13 per cent. Africa remained the region with the lowest median tax-to-GDP ratios, with 2020 median tax revenue remaining below 13 per cent, although it saw a decline of only 0.13 points of tax-to-GDP in 2020 (see figure III.A.1).

2.2 Lessons from COVID-19 experiences

Given the potential for an increase in non-economic shocks, Governments need to be prepared for increased volatility in both revenue and expenditure. The COVID-19 pandemic shows that fiscal policy needs to remain nimble and adapt to rapidly changing conditions. In any kind of shock, flexible fiscal policy, such as a discretionary fiscal stimulus, can reduce the amount of short-term damage and medium-term scarring from a crisis. Countercyclical fiscal policies that are well-adapted to country circumstances can be put in place in advance of crises, for example, automatic stabilizers. Strengthening fiscal frameworks, including MTRS, can help to reassure creditors that countercyclical fiscal support will support economic growth, a future increase in revenue in the medium term and, ultimately, long-term development prospects.[2]

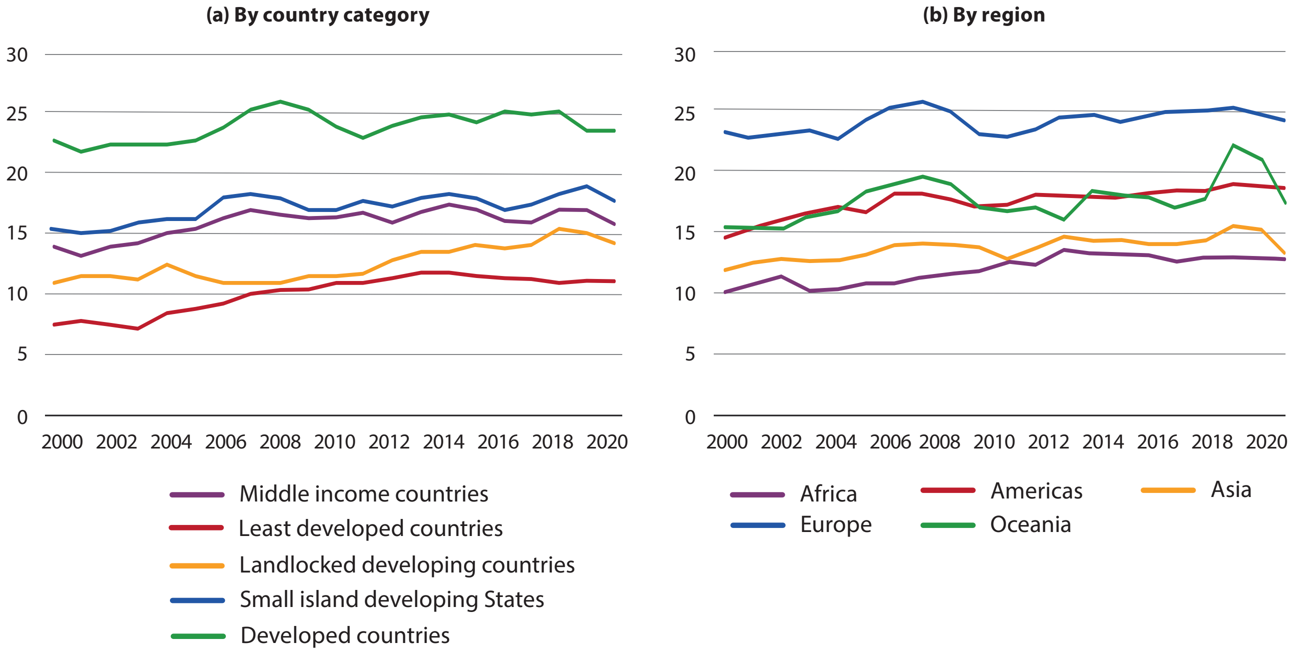
COVID-19 has shown that long-term planning would benefit from accurate revenue forecasting and scenario analysis. Forecasting tax revenues during the COVID-19 pandemic has been a challenging task.[3] Traditional approaches to forecasting, based on simple tax buoyancy or macro elasticities, could likely lead to underestimation of revenue declines. As COVID-19 shows, shocks can be highly asymmetric across sectors and by size of business. The most appropriate revenue forecasting strategy will depend on the country—and in practice on data availability. Forecasts can make use of new high-frequency data sources. Preparing scenarios and models in advance can help finance and other ministries understand risks and potential impacts, as recommended in the guidance for INFFs. The development and implementation of MTRS and INFFs will also benefit from improved forecasting ability.

Well-designed policies to diversify and broaden the tax base can raise growth, improve equity, help to manage revenue volatility and finance an appropriate policy response. Revenue-raising measures can be more equitable and less volatile if they are applied on a tax base that includes more types of income or sectors. Governments can also focus on policies that will have fewer effects on investment and future growth and lower volatility, such as increasing excises on harmful goods such as alcohol, tobacco, sugary drinks and polluting energy sources[4] (see

Figure III.A.1

Median tax revenue by country group, 2000-2020

(Percentage of GDP)

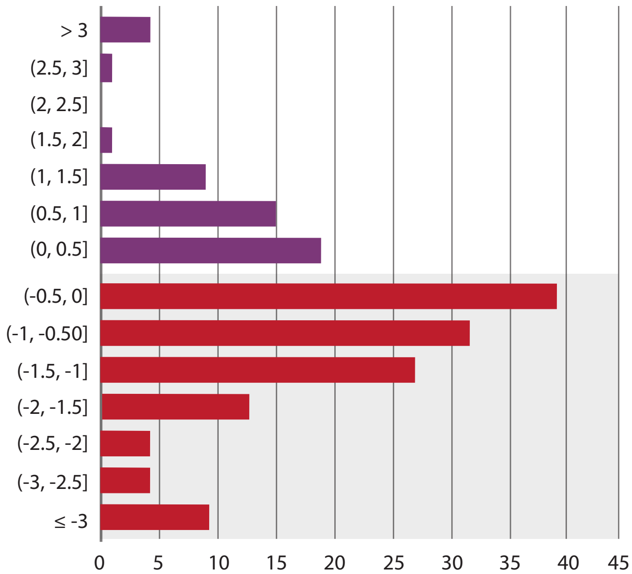


Source: International Monetary Fund (IMF) World Economic Outlook.
Note: General government tax revenue as a percentage of GDP, M49 geographic groupings.

Figure III.A.2

Change in tax-to-GDP ratios, 2019-2020

(Number of countries)



Source: IMF World Economic Outlook.
Note: General government tax revenue as a percentage of GDP.

sections 3 and 4 below). Countries can institute solidarity taxes or other measures aimed at appropriately taxing high-net-worth individuals, who have a lower propensity for spending marginal income, either as temporary crisis response measures or more permanent policies, with appropriate measures to counter tax evasion. Strengthening property and capital gains taxation can also generate new revenue.

The pandemic has also highlighted the need for digitalizing revenue administrations to ensure business continuity and improve the efficiency of revenue collection. At the outset of the pandemic, many tax administrations closed their offices and moved to partial or almost full remote working. Digitalization of tax administration was a significant advantage in this environment. At the same time, the rapid shift to new digital services was challenging, as many administrations experienced information technology (IT) system outages due to systems that were not capable of meeting rising demand.[5] Revenue administrations can learn from the pandemic and move to smarter, IT-enabled, digital administration, which will help to improve compliance, detect evasion, support business efficiency, ensure objectivity and fairness and support transparency, exchange of information and international tax cooperation.

Strengthening PFM and budget execution can help to maximize the effectiveness of government expenditure, including in the health sector. While numerical budgetary rules are helpful in some contexts to achieve debt and deficit objectives, the pandemic has demonstrated that such rules need to provide enough flexibility to respond to unexpected events. Sometimes, recalibration of deficit rules should be considered, with additional spending flexibility directed at sectors needed to respond to the shock, such as increased health systems expenditure during the pandemic. Drill-down improvements in PFM, for example, enhancing budget execution, can help to free up resources, especially in resource-constrained contexts, and contribute to the broader 2030 Agenda.

In light of COVID-19 experiences, countries might re-consider the financing and delivery mechanisms for their plans to achieve universal health coverage and universal social protection. Social protection system finance should pay due attention to the need for the system to operate countercyclically. Putting in place the infrastructure for social protection floors with universal coverage, as committed to in the 2030 Agenda, will prove beneficial in times of crisis. As was seen in previous crises, social health insurance schemes that link health coverage exclusively to employment can be procyclical and are not adequately designed to extend protections to the informal sector. The changing nature of work also importantly impacts the link between health coverage and social protection to employment, as the Inter-agency Task Force on Financing for Development highlighted in 2020.[6] Whenever household members lose formal sector jobs and income, the loss of health coverage both worsens health outcomes and undermines the rights-based approach to universal health coverage.[7] In contrast, countries with universal social protection systems are able to use these as mechanisms for quick and efficient delivery of emergency assistance. In their absence, some Governments cobbled together responses through the tax system and other government programmes, incurring large administrative costs and risking targeting errors and exclusion. As countries without universal health coverage look to extend their systems, they should consider financing options that can align efficiency, effectiveness and equity.

3. Addressing inequalities through the fiscal system

The economic and social repercussions of the COVID-19 pandemic have exacerbated pre-existing inequalities. The pandemic has disproportionately affected marginalized or vulnerable groups, including low-skilled and informal workers. Also, large numbers of women in some countries have dropped out of the labour force altogether –meaning that they are no longer actively looking for jobs—with lack of childcare often a major factor.[8]

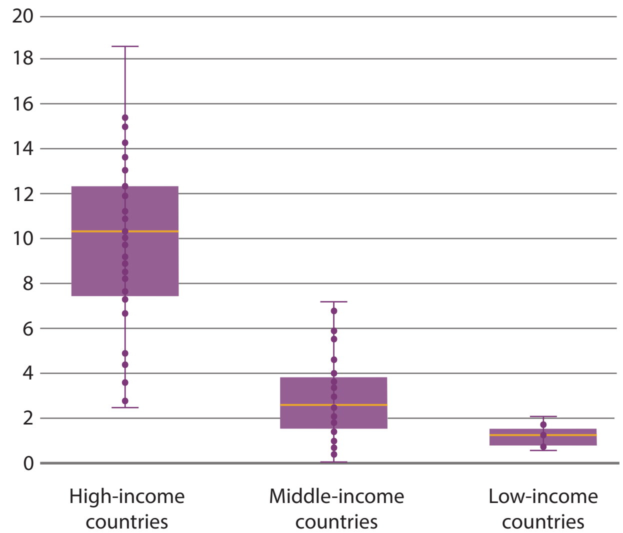
Fiscal policy can reduce (or worsen) inequalities, depending on the design of the policy framework. The Inter-agency Task Force on Financing for Development has repeatedly emphasized that tax and spending should not be considered in isolation from each other. A holistic assessment of the aggregate effects of policy changes is particularly important in considering policies to address inequalities. For example, depending on the context, even use of less progressive taxes can still effectively reduce inequality if the revenue is used to fund progressive social spending and inclusive public goods and service provision. Countries need to appropriately balance equity considerations with efficiency, including ease of enforcement, potential consequences for wider economic activity and the political economy.

Growing availability of data on the impact of taxes and transfers should help policy makers to design fiscal frameworks that reduce both poverty and inequality. In March 2020, the United

Figure III.A.3

Redistributive impact of direct taxes and cash and near-cash transfers, by country income, most recent year

(Change in Gini index)



Source: SDG Indicator 10.4.2, World Bank.
Note: The box chart shows the 75th percentile, median, and 25th percentile, as well as whisker lines for maximum and minimum excluding outliers; data for 37 high-income countries, 34 middle-income countries, and 7 low-income countries.

Nations Statistical Commission adopted a methodology for measuring the redistributive impact of fiscal policy as SDG indicator 10.4.2.[9] The indicator assesses how inequality changes once fiscal policies are taken into account by comparing pre-fiscal and post-fiscal income, as measured by the Gini coefficient, a common metric for inequality. Rich countries have strongly redistributive systems with the median country reducing the Gini index by 10 points, while fiscal policy is less effective at redistribution in middle- and low-income countries, with median reductions of only 2.5 points and 1.0 point, respectively (see figure III.A.3).

3.1 Progressivity and inequality

3.1.1 Revenue progressivity

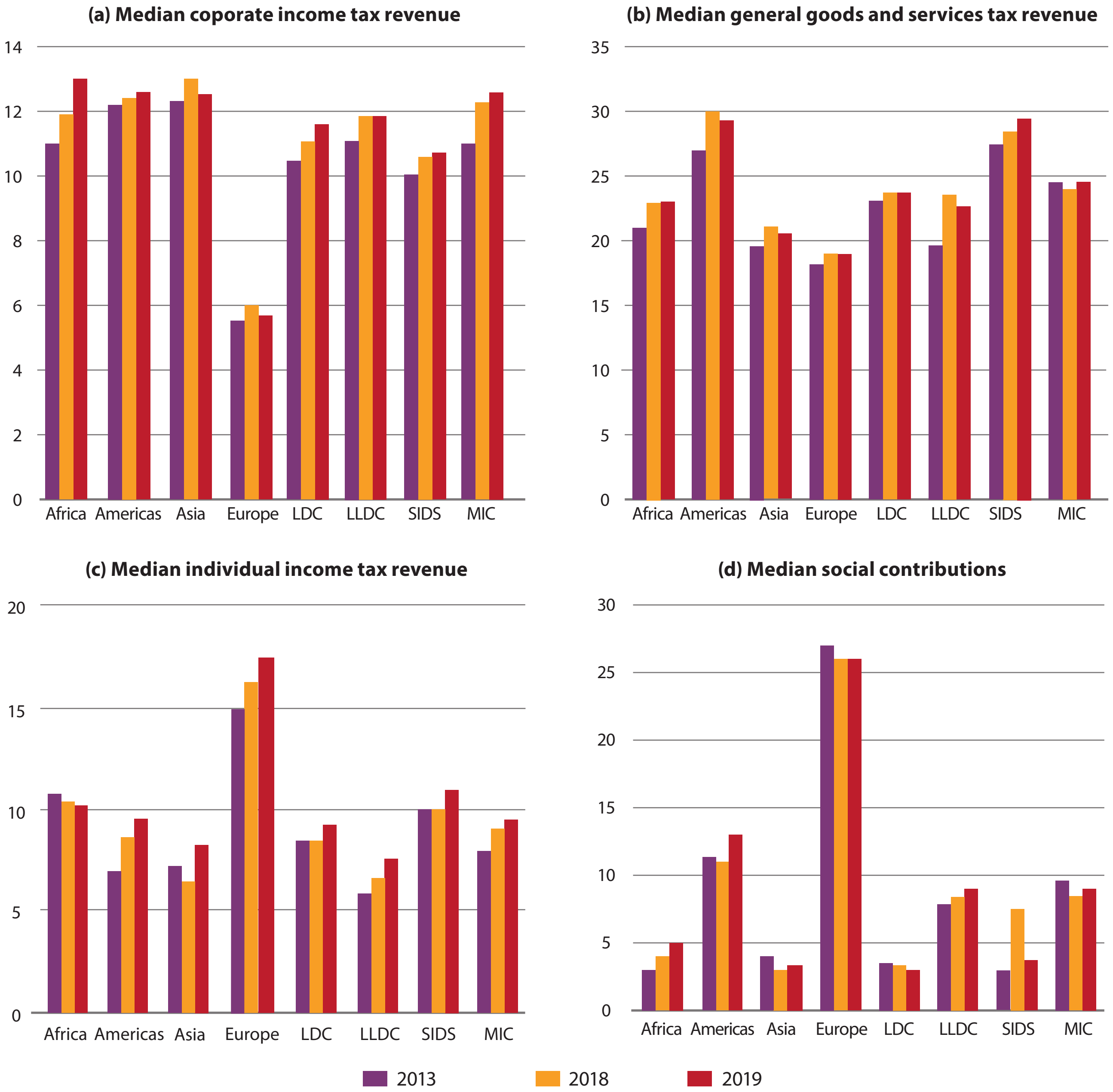
Countries have heterogenous revenue structures with different levels of progressivity based on their economic characteristics, historical trends and national or political preferences. Taxes on income and profits are generally considered to be more progressive, with graduated rates and their incidence falling on those in the formal sector. Goods and services taxes, which generally are levied at the same rate regardless of the consumer, are often considered regressive because the poor pay a higher share of their income in such taxes, although these can be implemented alongside additional measures to compensate the poor or exempt basic consumption goods. Social security contributions, which are usually not graduated, can be designed to reduce regressivity, while also funding progressive social protection programmes (see section 3.1.3).

Developing countries rely more on both corporate income tax and goods and services taxes, while personal income taxes and social security contributions are more important in developed countries.

Figure III.A.4

Median revenue by type as a share of total revenue, by country grouping, 2013-2019

(Percentage)

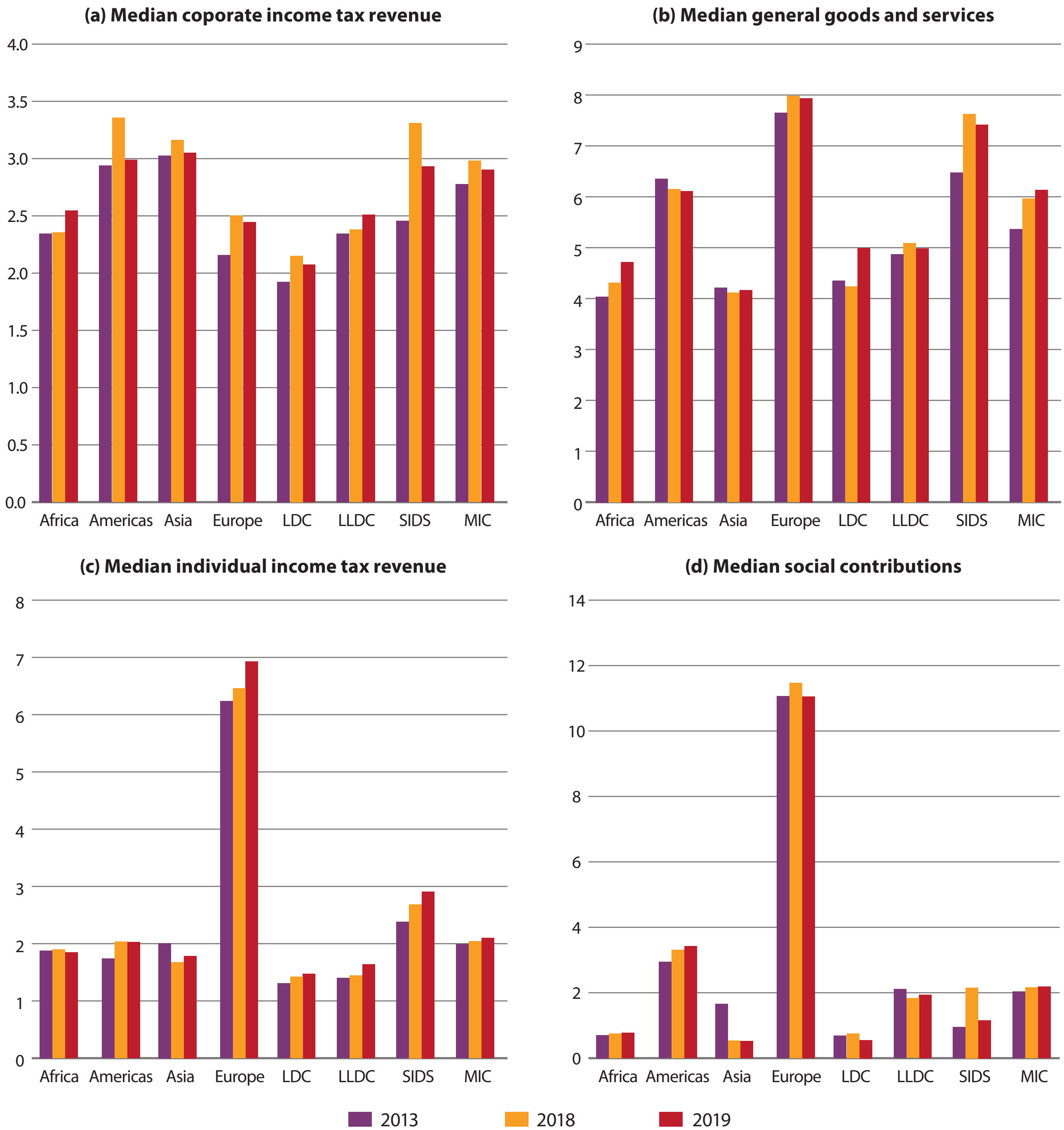


Source: UN/DESA calculations based on IMF World Revenue Longitudinal Database (WoRLD).
Note: Calculated as a share of total revenue, including social contributions. Due to gaps in data availability country sample is not fully consistent across years.

Figure III.A.5

Median revenue by type as a share of GDP, by country grouping, 2013-2019

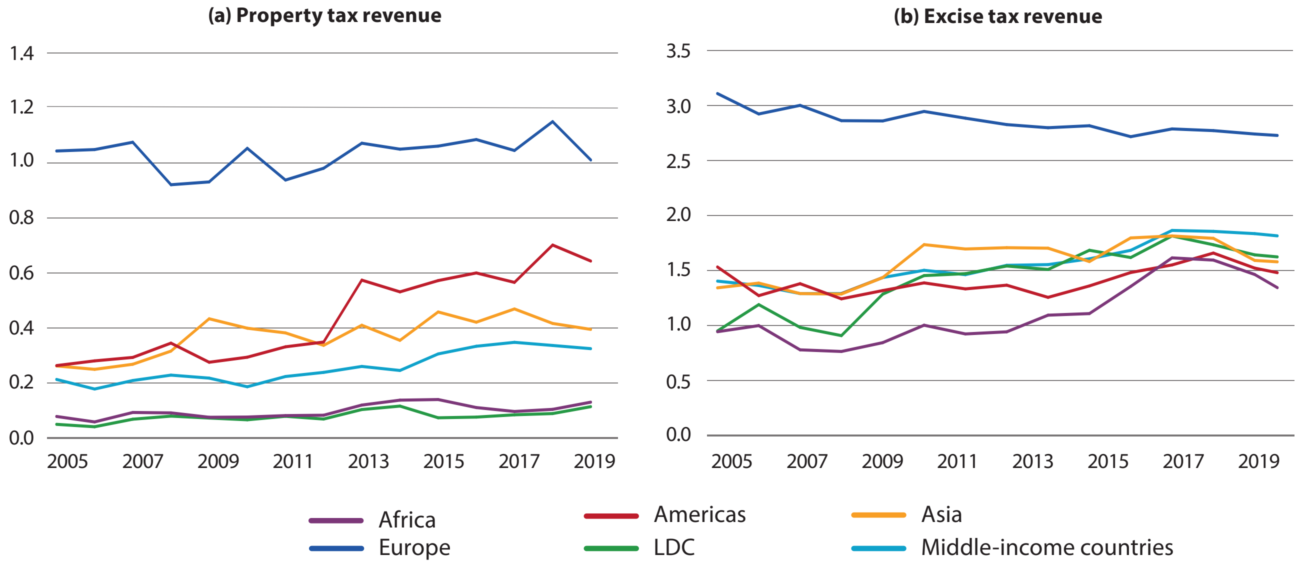
(Percentage of GDP)



Source: UN/DESA calculations based on IMF WoRLD.

Note: Calculated as a share of GDP. Due to gaps in data availability country sample is not fully consistent across years.

Figure III.A.6
Median revenue as a share of GDP for select tax types, by country grouping, 2005-2019
(Percentage)



Source: UN/DESA calculations based on IMF WoRLD.
Note: Due to gaps in data availability country sample is not fully consistent across years.

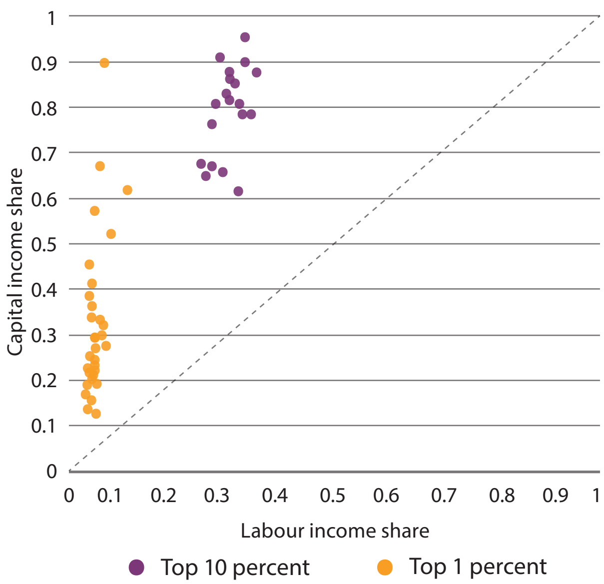
Figures III.A.4 and III.A.5 show the medians within different country groupings of different revenue sources. LDCs and African countries have a much higher reliance on corporate income taxes and goods and service taxes as a share of their revenue (figures III.A.4a and III.A.4b), with a lower ability to mobilize revenue from individual income taxes and social contributions because of high levels of informality and low wages, among other factors (figures III.A.5c and III.A.5d). While European countries raise the most revenue from goods and services taxes (figure III.A.5b), they are a relatively smaller share of total revenue than in other regions (figure III.A.4b). Property tax remains a marginal contributor to revenue (figure III.A.6a), while there has been upward convergence of mobilization of excise tax revenue between country groupings (figure III.A.6b).

Inequality can be reduced using more progressive taxes on personal income. The most straightforward way to tax high incomes is through progressive personal income tax (PIT). Top PIT rates are much lower now than in the middle of the last century. Nearly 30 countries—mostly in Eastern Europe and Central Asia—utilize flat tax regimes.[10] Optimal tax rates will vary based on country economic structures; estimates of the revenue-maximizing top tax rate in advanced economies, including social security contributions, generally are between 50 and 60 per cent. Although these results are not automatically transferrable to developing countries, in many jurisdictions there is scope to reduce income inequality by raising marginal tax rates at the top, although political acceptability is required, and policy design needs to take into account incentives for tax avoidance and evasion and the potential for economic distortions.

Lower tax rates on capital income compared to labour income has exacerbated inequality. Capital income is consistently much more concentrated at the top of the distribution than labour income, with the top 10 per cent of households by income earning less than 40 per cent of their income from labour (see figure III.A.7). A trend toward "dual income tax" systems, in which labour income and capital income are taxed separately, largely because of the administrative challenges in taxing capital income at the individual level especially when it is held offshore, coincided with a steep decline in tax rates on capital income until about 10 years ago.[11] Sometimes a flat rate is applied on capital income, incentivizing deliberate shifts of income from labour to capital bases. To overcome the administrative challenges of taxing capital income at the individual level, countries can take advantage of recent developments in digitalization—using third-party information—or adapting withholding tax systems.[12]

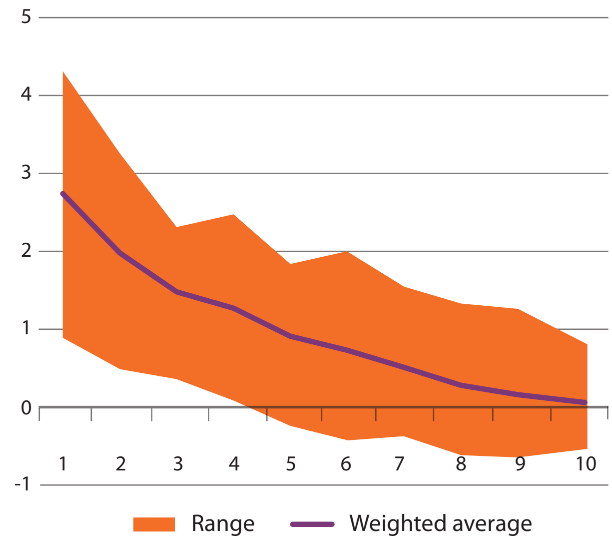
Well-designed wealth and inheritance taxes should be explored as countries aim to ensure fair contributions by all taxpayers. Net wealth taxes—taxes imposed on the value of an individual's net assets rather than on their annual income—target largely the same base as capital income taxes. Well-designed wealth taxes can, however, complement capital income taxes, for example, a progressive wealth tax applied above a fairly high threshold and with minimal exemptions. Successfully raising revenue requires a high level of enforcement capacity. Inheritance taxes can raise revenue and enhance equity at lower efficiency and administrative costs than some alternatives. Although most advanced economies impose estate, inheritance and gift taxes to reduce intergenerational wealth inequality, ample exemptions (such as for capital gains or real property), very high thresholds and widespread tax avoidance and evasion reduce their effectiveness. Such taxes could be designed with fewer loopholes, lower thresholds and progressive rates, alongside improved enforcement. Exchange of information for tax purposes helps to address offshore practices used by the wealthy to avoid and evade capital income, wealth and inheritance taxes (see section 5).

Figure III.A.7
Capital and labour income shares, by income level, 2018 or latest
(Percentage)



Source: IMF staff calculations based on Luxembourg Income Survey.

Figure III.A.8
Net household income effects of increasing tobacco prices, by household income decile
(Percentage)

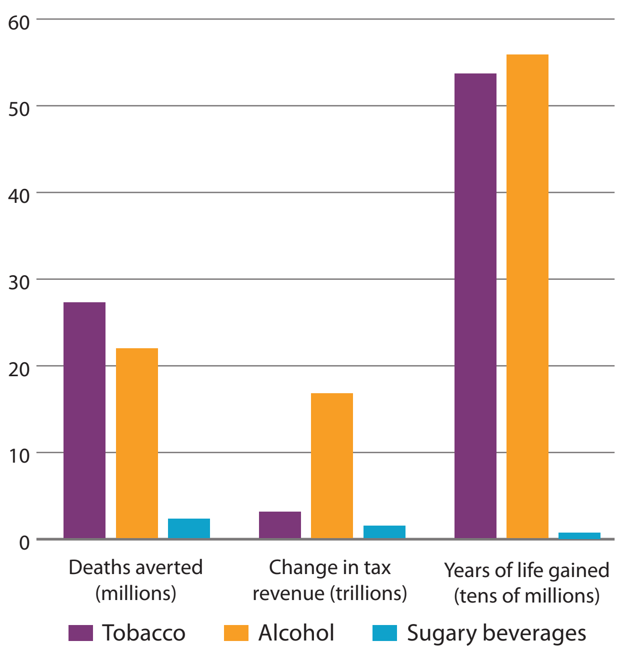


Source: UN/DESA calculation based on Fuchs, Icaza & Paz 2019.
Note: Based on modelled impact of direct and indirect effects of a 100 per cent increase in the price of tobacco in eight developing countries. Weighted population average.

Excise taxes on tobacco, alcohol and sugar-sweetened beverages are pro-health taxes that reduce health inequities while increasing revenues. Lower socioeconomic status is associated with a higher risk of noncommunicable diseases as well as higher consumption of tobacco, alcohol and sugar-sweetened beverages.[13] Treatment of diseases caused by such consumption also represents a higher burden for low-income households.[14] Excise taxation can be a powerful tool for correcting the highly inequitable distribution of death and income losses, reducing catastrophic healthcare costs (see figure III.A.8).[15] Well-implemented excise taxes reduce consumption, particularly for lower-income groups,[16] and are highly cost-effective policy tools for averting millions of deaths caused annually by these products (see figure III.A.9).[17]

Reducing informality can also address inequalities if efforts to address non-compliance focus high up in the income distribution. Informality is a multidimensional phenomenon that exists across income levels, narrowing the tax base and weakening revenue mobilization. It is often extensive in developing countries. While it is most often a consequence of a lack of opportunities in the formal economy and the absence of other means of livelihood,[18] informality exists all along the income distribution. For example, highly paid professionals such as doctors or lawyers may take payment in cash and not declare the income; countries should respond with more dedicated enforcement. For informal small businesses, improving the design of simplified and presumptive tax regimes can induce them to enter the formal sector and continue growing in the formal economy. Governance improvements, including in tax and customs administration, are one tool to reduce informality and can help to broaden the tax base. Simplifying rules and regulations along with improved taxpayer services can also reduce the cost of compliance. A coordinated set of policies and programmes should incentivize formalization in line with

Figure III.A.9
Impact of increasing excise taxes on tobacco, alcohol, and sugary beverages
(Millions of people, trillions US dollars, tens of millions of years)



Source: The Task Force on Fiscal Policy for Health 2019.
Note: Modelled impact if taxes were increased in 2017 sufficiently to raise prices by 50 per cent. The impact of the increases is projected over a 50-year period (2017-2067).

international labour standards and may contribute to a more stable financing of social protection, as well as strengthening revenue mobilization.[19] Tax policy can work together with social protection and labour market policy to set incentives for business registration. For example, zero or even negative taxes (tax credits) and social insurance eligibility can promote formalization of the lowest-income enterprises.

Tax expenditures can be inefficient or ineffective and may worsen the distribution of income; they should be used more strategically. Tax incentives are a type of expenditure coded into the tax system. While sometimes used to encourage investment in the SDGs, they also reduce revenues, at least in the short term, and entail administrative costs. Forgone revenue resulting from tax expenditures is of particular concern when they do not ultimately attract additional investment but instead result in windfall gains to investors, often foreign investors or those already at the top of the domestic income or wealth distribution. Changes to international tax norms (see section 5) provide an opportunity to rethink tax expenditures. Reforms should improve tax incentive design and targeting; limit the use of wasteful and redundant incentives; ensure they are regularly reviewed; and require public transparency about revenue foregone and, possibly, the distributional implications.[20]

There is no one-size-fits-all approach towards addressing income inequality through the tax system, but planning and implementation are essential. Raising tax revenues from people with high incomes and wealth seems feasible in some countries, but elsewhere the possibilities might be more limited by institutional and enforcement constraints. All countries should build medium-term plans, to be reflected in INFFs, for effectively using the fiscal system to reduce inequality in line with their commitments in the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development.

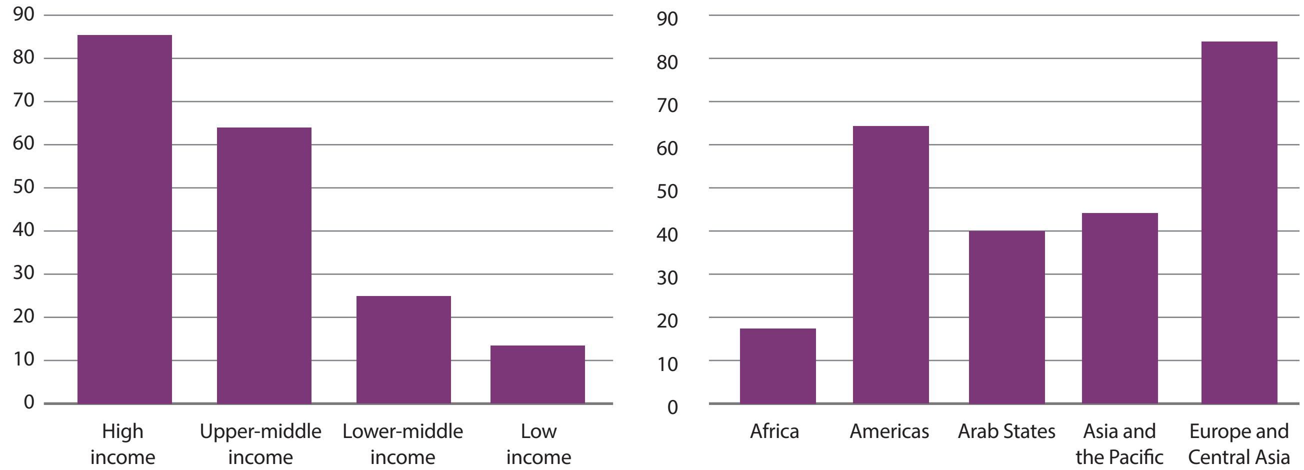
3.1.2 Social protection policies to reduce inequalities

Social protection policies are needed to reduce inequality and eliminate poverty. In the Addis Agenda, the world's Governments agreed to a "new social compact" to provide "fiscally sustainable and nationally appropriate social protection systems and measures for all, including floors". Member States also committed to "strong international support for these efforts".[21] Social protection floors are meant to convey guaranteed minimum benefits to all people at every stage of life (children, mothers with newborns, support for those without jobs, persons with disabilities, the elderly) through nationally designed and owned social protection systems.[22] They are complements to the direct provision of public goods and services.

Governments around the world have put in place unprecedented social protection responses to the COVID-19 pandemic. As of February 2022, 209 countries and territories had adopted at least 1,721 measures to extend social protection benefits in response to the COVID-19 crisis. Over 40 per cent of those measures were focused on the working age population, including on incomes/jobs (16.4 per cent) and unemployment benefits (12.2 per cent). Most measures (1,194 cases) are linked to non-contributory programmes and are financed by general revenues, which in many countries required additional debt issuance.[23] Yet many responses in developing countries, particularly in Africa, could not address the poverty and inequality impacts of COVID-19 because of the large informal sector, which is not adequately covered by programmes.[24]

Monitoring of distributional implications of COVID-19-related social protection measures has been limited; evidence points to insufficient gender responsiveness. There are no global estimates of the numbers of people covered by COVID-19 social protection responses. An estimate regarding emergency cash transfers suggests that they reached over 1.3 billion people worldwide in 2020 and 2021, about 17 per cent of the global population.[25] Other estimates suggest that in 2020 almost 645 million people benefited from new social protection programmes/benefits in G20 countries,[26] and 326 million people (49.4 per cent of the regional population) were covered by emergency programmes in Latin America and the Caribbean.[27] Only 19.6 per cent of the over 3,000 labour market and social protection responses were classified as gender-responsive, meaning that

Figure III.A.10
Social protection coverage, by region and country income, 2020 or latest available year
(Percentage of population)



Source: International Labour Organisation (ILO), World Social Protection Database.
Note: All social protection programmes. Countries grouped by ILO regions, population-weighted average.

they addressed women's economic security or unpaid care work through provisions such as paid family leave, shorter/flexible work-time arrangements, emergency childcare services or support for long-term care facilities.[28]

Despite progress, social protection coverage remains limited. Even after expansion of coverage, only 46.9 per cent of the global population had access to at least one social protection benefit in 2020 (or latest available year).[29] Social protection coverage is highly uneven across regions, with the Americas, Europe and Central Asia having the highest coverage rates and Africa the lowest (see figure III.A.10).[30] There are also important coverage inequalities within countries, for example, rural areas typically having worse coverage.[31] Across different branches of social protection, the largest coverage gaps are in unemployment benefits (only 18.6 per cent of unemployed persons had access to a benefit in 2020 or most recent year), benefits for children (only 26.4 per cent of children have access), social assistance for the vulnerable (only 28.9 per cent of vulnerable persons not covered by other schemes have access) and employment injury benefits (only 35.4 per cent of persons experiencing employment injury have access). Cash benefits are an efficient way to alleviate poverty and ease financial distress and can be especially helpful in dealing with shocks such as the COVID-19 pandemic. High levels of informality are key drivers of the low coverage, particularly in developing countries.[32] The lack of official proof of identity can also be an access barrier.[33]

Where available, sex-disaggregated data shows significant gender gaps in social protection coverage and benefit levels. Currently, only 44.9 per cent of women with newborns worldwide receive a cash maternity benefit—ranging from 86 per cent in high-income countries to 10.5 per cent in low-income countries.[34] Increasing coverage of family leave and care credits in pension systems can improve pension adequacy despite periods spent outside the labour market due to child-rearing or elder care, particularly prevalent among women. Because women often work in precarious and invisible parts of the informal economy (e.g., as domestic or home-based workers), extensions of social protection should aim to cover these areas.[35] Well-designed social protection schemes, such as regular cash transfers made to women, can also contribute to preventing violence against women by reducing intrahousehold tensions caused by economic stress.[36] Assessments on gender gaps require better gender-disaggregated data on coverage, which remains inadequate (see figure III.A.11).

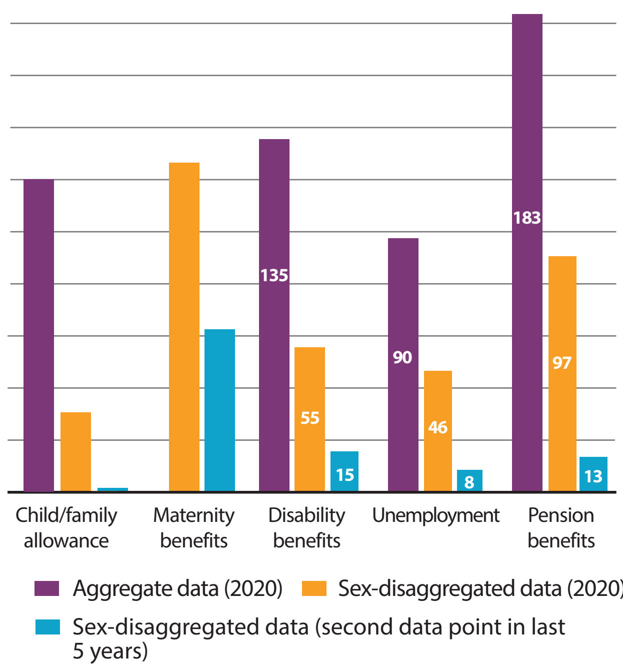
Low social protection coverage rates are driven by insufficient investment in social protection. While the world spent on average 12.9 per cent of its GDP on social protection (not including healthcare) in 2020, poorer countries with limited resources spent much less. For example, African countries spent less than one third of the global average (see figure III.A.12). Low social protection expenditure, when combined with limited spending on direct provision of public goods and services such as healthcare and education, results in the inability to reduce inequalities.

3.1.3 Social protection financing to reduce inequalities

General taxation and social security contributions can create fiscal space to finance social protection systems, making societies fairer and more resilient. Social contributions and taxes are the backbones of the financing structure of social protection systems. These systems create long-term commitments that require the availability of countercyclical resources. Countries that have successfully achieved universal social protection have undertaken conducive tax reforms to finance an extension of contributory social security schemes to workers in micro and small enterprises, self-employed persons and/or rural populations.[37] Legal and administrative reforms can cement the right to social security while also incentivizing formalization of informal enterprises. Connecting social protection information systems with other public information systems such as vital registration systems and tax administration databases can contribute to ensuring inclusion and preventing fraud.[38]

Social security contributions are the most important financing source for existing social protection programmes. Workers' and employers' social security contributions represent on average 57 per cent of total social protection expenditure.[39] Social contributions provide stability to the system by adding legal entitlements to a social contract rooted in the principle of solidarity among workers, employers and the State. The inequality impact of contributions depends on the system design. Contribution caps and flat rates mean that those on the highest incomes often pay proportionately lower contributions. The collection of social security contributions can be improved in numerous ways, including: extending legal coverage to groups previously excluded; improving governance and management; enhancing compliance enforcement; and simplifying contribution mechanisms for small- and medium-sized enterprises. The changing nature of work, with more part-time work and independent contractors, also necessitates policy responses to ensure appropriate employer contributions despite the changing legal nature of employment relationships.

Figure III.A.11
Data availability on social protection coverage, by type of benefit and disaggregation
(Number of countries)

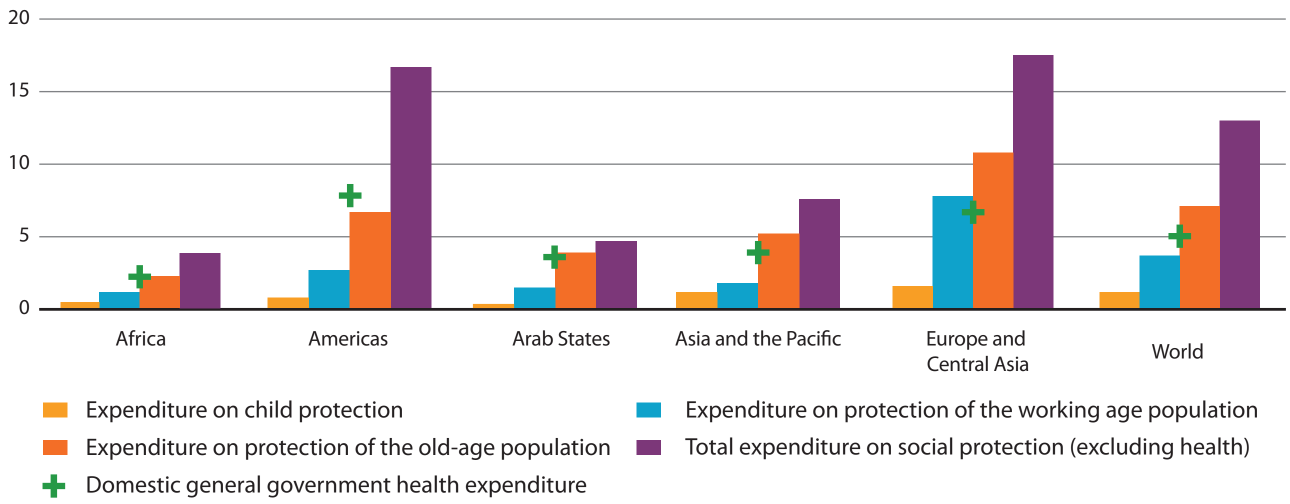


Source: UN WOMEN.
Note: A total of 83 countries reported no statutory unemployment programme and thus no coverage for both sexes.

Figure III.A.12

Public expenditure on social protection and health, by region, 2020 or latest available year

(Percentage of GDP)



Source: ILO, World Social Protection Database.

Note: Countries grouped by ILO regions, aggregates are weighted by GDP. Total social protection expenditure (excluding health) does not always correspond to the sum of expenditures by age group, depending on data availability, source and year, and on inclusion of non-age-group-specific expenditures.

General government revenue is the second major source of social protection financing and can be used to extend coverage universally. Revenue depends on the growth of the economy and its capacity to provide for decent and productive employment and sustainable enterprises. Social protection programmes financed by general revenue can help to redistribute income, but their impact on inequality will vary based on the source of the revenue and the fiscal space. Using expanded taxes on property, individual income and profits to finance universal social protection programmes would likely reduce income inequality. Countries with tax structures that are heavily tilted towards tax revenues from goods and services—such as some in Latin America, Asia and Africa (see figures III.A.4 and III.A.5)—might see a reduced impact on inequality, or even increased inequality, depending on the social protection system design. By increasing goods and services taxes, like value added taxes, the poor would help to finance social protection, but the poor may not be eligible for social protection benefits if programmes are not properly designed. Universal coverage is instrumental, and analysis of the net redistributive effect is recommended to ensure inequality reduction when using these types of taxes. Universal coverage can also reduce gender inequality, especially as women are overrepresented in informal employment and also more frequently undertake unpaid care work.[40]

Table III.A.1

Annual financing gap to achieve SDG targets 1.3 and 3.8, by country grouping, 2020

Country group	*Financing gap*	
	$ billion	*percentage of GDP*
All low- and middle-income countries	1,192	3.8
Upper-middle income countries	363	3.1
Lower-middle income countries	751	5.1
Least developed countries	123	11.1

Source: ILO.

The investment needed to close the social protection financing gap is significant; it is achievable for most high- and middle-income countries but challenging for many LDCs. Lower- and upper-middle-income countries need to spend an estimated additional $751 billion and $363 billion annually, or 5.3 per cent and 3.1 per cent of GDP (see table III.A.1), respectively, to close the social protection gap.[41] LDCs would need to spend an additional $123 billion annually, or 11.1 per cent of their GDP. This far surpasses their current domestic revenue-raising capacity. Greater investment can expand the coverage of social protection systems over time, requiring a combination of economic growth, increased revenue mobilization and international support and solidarity, including for building the infrastructure for sustainable social protection systems and floors.

3.2 Addressing gender inequalities

Achieving gender equality and the empowerment of all women and girls is essential to sustainable development. While women's participation in the labour market can strengthen economic growth and contribute to resource mobilization, gender equality is a broader goal anchored in the 2030 Agenda, the Addis Agenda and the broader human rights framework. No country has yet achieved full gender equality, although many legal and regulatory barriers, such as explicitly discriminatory laws, are dropping.[42]

The fiscal system can be a tool to make progress towards gender equality. Domestic public financial systems can be designed and reformed to be gender-responsive.[43] Notionally gender-neutral fiscal policy can exacerbate existing inequalities or create disadvantages for women, either

Box III.A.1. Disaggregated survey data on taxation and government transfers in Ethiopia[44]

A disaggregated analysis of the tax burdens and economic needs of the most economically vulnerable—such as gender-disaggregation of the poor, informal workers and owners of small enterprises—is crucial to designing equitable and well-targeted tax and public spending policies. This is particularly important in LDCs, where formal and informal tax systems often exist in parallel and administrative data is sparse.

The 2018/19 Ethiopia Socioeconomic Survey added a tax and transfer module. The coverage of a wide array of socioeconomic data allowed authorities to complement the data in the tax module with other administrative data and explore taxation from various dimensions, including disaggregation by sex. The survey found that nationally, about 44 per cent of households contributed to informal social security institutions that fund local infrastructure and services. Initial findings underscored important differences in tax payments by subgroups. For example, two thirds of small, non-farm enterprises were owned by men; 12 per cent of these households reported paying taxes. Within this group, women-owned businesses paid nearly 25 per cent less in business income tax compared to businesses owned by men. Women-headed-households bore a larger tax incidence on land ownership and rural land use fees than men-headed and two-adult households, while gender differences at the individual level were small. Land ownership patterns, gender norms restricting women's engagement in agriculture and the gender agricultural productivity gap are likely to have contributed to increasing women's tax burden of rural land use fees and agricultural income tax.

Source: World Bank.

because it negatively affects groups where women are overrepresented, or it fails to account for longstanding structural gender inequalities such as the unequal burden of unpaid care work. Both tax policy and expenditure should contribute to gender equality and women's empowerment.

Both the direct impacts of tax on gender equality and the indirect effects should be considered when designing and implementing tax policy.[45] While a few tax systems still contain legal biases such as assigning joint business or asset income only to males, implicit gender bias is pervasive.[46] For example, tax deductions or tax credits might be associated with categories of expenses related to male-dominated sectors rather than to sectors with a high percentage of female workers.[47] However, few countries systematically assess or report on the gender implications of tax policies. A stocktaking by the Organisation for Economic Co-operation and Development (OECD) published in February 2022 showed that only 16 of 43 countries, mostly OECD/G20 members, assessed implicit biases in tax policy. An overwhelming majority of the countries have not conducted analyses of the gendered impact of tax administration and compliance measures.[48]

In terms of expenditure, gender-responsive budgeting (GRB) enables Governments to plan and use budget resources to support achievement of gender equality objectives. The application of GRB throughout the planning and budgeting cycle can contribute to implementation of measures that advance gender-responsive economic recovery, including in COVID-19 fiscal responses.[49] Progress has been made in implementing GRB, but significant challenges remain. Approximately 25 per cent of 100 countries reporting data for SDG indicator 5.c.1 have systems to track budget allocations to gender-responsive policies or programmes, while approximately 60 per cent have some features of a system. Countries have made more progress in establishing GRB guidelines and standards and using sex-disaggregated data to inform budget decisions, with variability across sectors. Fewer countries apply gender markers to their budget allocations or assess the impact of gender budget allocations through ex-post impact assessments or audits.[50] A review of practices in G20 countries, using a different methodology, found low levels of GRB implementation, especially for budget execution.[51]

Gender-responsive procurement can contribute to the use of fiscal policies for gender equality. Public procurement represents approximately 12 per cent of global GDP,[52] but there is a gender gap in access to procurement opportunities and a lack of gender-disaggregated data. Gender-responsive procurement is defined as the selection of services, goods and civil works that consider the impact of the procurement on gender equality and women's empowerment. Countries can support positive opportunities and outcomes for women by targeting women-owned businesses as suppliers, reducing the barriers to entry faced by women-owned businesses and including decent work policies in supply chains.[53] Gender-responsive procurement can encourage private enterprises to adhere to gender-equality standards.

A disproportionate burden of care work, both paid and unpaid, is done by women, a result that is often incentivized by tax and expenditure policies. The COVID-19 pandemic has highlighted the disproportionate burden of care work borne by women and demonstrated that many health systems are reliant on unpaid health and care work.[54] Public investments in the care economy are a critical lever for achieving a job-rich, gender-responsive recovery, with public funding for childcare and education being associated with higher female labour force participation rates (see figure III.A.13).[55] Fiscal multiplier effects can also be significant, as investments in childcare services expand employment opportunities in female-dominated sectors as well as enabling more parents to enter the workforce.[56] Expanding the direct provision of care services or tax allowances for childcare can complement targeted transfers to low-income households to mitigate biases and reduce inequalities. Public sector employment policies, such as family leave, can model family friendly frameworks for the private sector, promoting equal sharing of care responsibilities. Members of this Task Force have significant capacity building programmes for using fiscal policies to promote gender equality.

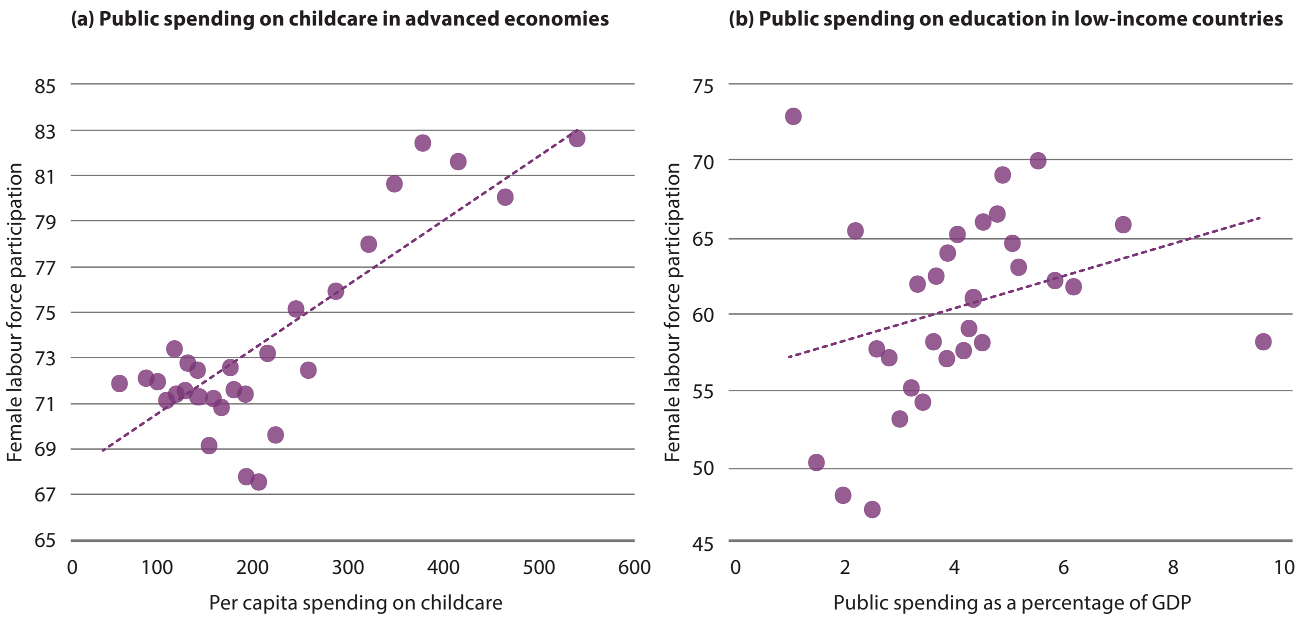
4. Environmental implications of the fiscal system

To achieve the goals of international environmental agreements, including the Paris Agreement to limit climate change to 1.5 degrees Celsius, Member States need to align their fiscal systems with sustainability goals. While much effort is being placed on the private sector and regulation (see chapters III.B and III.F, respectively), many

Figure III.A.13

Relationship of public spending on childcare and education with female labour force participation

(Percentage of women 15-64, 2010 US dollars, percentage of GDP)



Source: Fruttero, Anna, et al. 2020.

Note: Graphs were obtained using bin-scatter plots with regressions of female labour force participation on the variable of interest, controlling for other relevant variables (e.g., GDP growth, GDP per capita, education level, time fixed effects).

countries are far behind in aligning domestic public finance with climate and other environmental goals. Fiscal system reforms can have the dual benefits of incentivizing sustainability while also raising additional revenue.

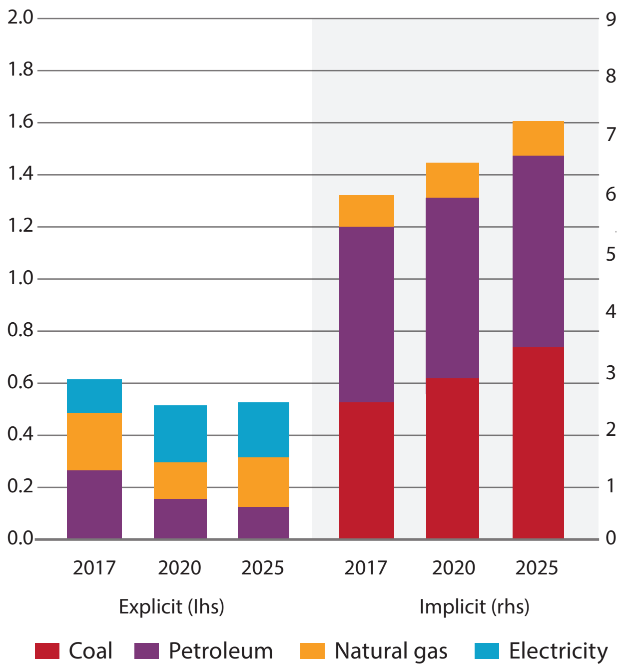
4.1 Fiscal policy and climate change

There is no country in which fuel prices reflect the full economic and environmental costs, including climate change and local pollution impacts. The largest price gaps are generally for coal, followed by natural gas, diesel and gasoline.[57] In 2020, global fossil fuel subsidies—defined as both explicit monetary subsidies and implicit environmental and social costs that are not reflected in fossil fuel prices—were around $5.9 trillion, or 6.8 per cent of GDP (see figure III.A.14). This represents a slight decline from a peak in 2018 although subsidies are projected to rise going forward.[58] Around 8 per cent of the total, or $450 billion, reflects undercharging of costs or explicit subsidies, with the largest volume for electricity, petroleum and natural gas, with only 3 per cent for coal. Explicit subsidies are mostly consumer subsidies and are largest in volume in Asia and Europe (see figure III.A.15). They are highly concentrated, with five countries providing 46 per cent of total explicit subsidies. Around 92 per cent of global fossil fuel subsidies are implicit subsidies, which are most significant for coal (41 per cent) and petroleum (46 per cent). Underpricing for local air pollution costs is the largest portion of the total subsidies (accounting for 42 per cent), followed by underpricing for climate change costs (29 per cent).

Fiscal tools and regulatory policies can incentivize climate change mitigation and adaptation. Policymakers can use a range of tools, including price mechanisms (e.g., taxes, cap-and-trade systems, and removing subsidies), regulations (such as energy efficiency standards, which can have the effect of imposing implicit carbon prices), public investments and guarantees (see chapters III.C, III.B, and III.G) and other instruments to achieve their goals. Pricing greenhouse gas emissions is the most economically efficient way to reduce carbon emissions as it makes them more expensive, incentivising changes in investment, production, and consumption patterns, as well as inducing technological advancement.

Carbon pricing is a powerful tool that provides incentives to reduce carbon-intensive activities across all sectors and for all households and enterprises throughout the economy. Carbon pricing contrasts with other tools, such as regulations, which tend to have a narrower focus. Carbon taxes also raise fiscal revenues: analysis undertaken on G20 countries shows that a $75 per tonne price could generate additional revenue of around 2 per cent of GDP.[59] Compared to cap-and-trade systems, carbon taxes have the added benefit of setting relatively predictable carbon prices and may be easier to administer.[60] In practice, however, both types of pricing have numerous administrative and enforcement challenges and political economy barriers to their implementation. Some developing countries are concerned they may act as de facto trade barriers. In addition, in the absence of compensatory measures, higher prices passed on to households may create more opposition from the public compared to regulations, which can be perceived to have a much smaller impact on energy prices.[61] There is a widespread, although sometimes incorrect, perception that carbon pricing and fuel taxes are regressive. Pricing can have positive or negative socio-economic impacts, as distributional effects are highly country-specific due to differences

Figure III.A.14
Global fossil fuel subsidies, by fuel and subsidy type, 2017-2025
(Percentage of GDP)

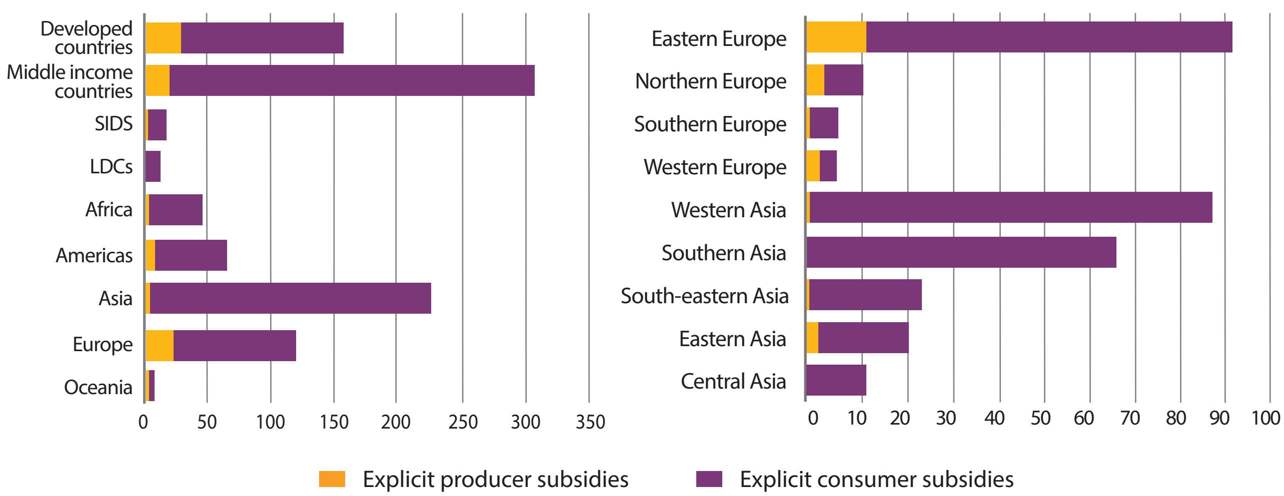


Source: Parry, Ian et al. 2021.

in existing subsidy levels, fuel usage, economic structures and levels of inequality.[62] For example, in developing regions, the largest share of the benefits of fossil fuel subsidies are captured by the highest-income section of the population (see figure III.A.16).[63] A thorough understanding of all the effects of a reform should inform the design and implementation of complementary policies that can mitigate unintended consequences and protect vulnerable groups.[64]

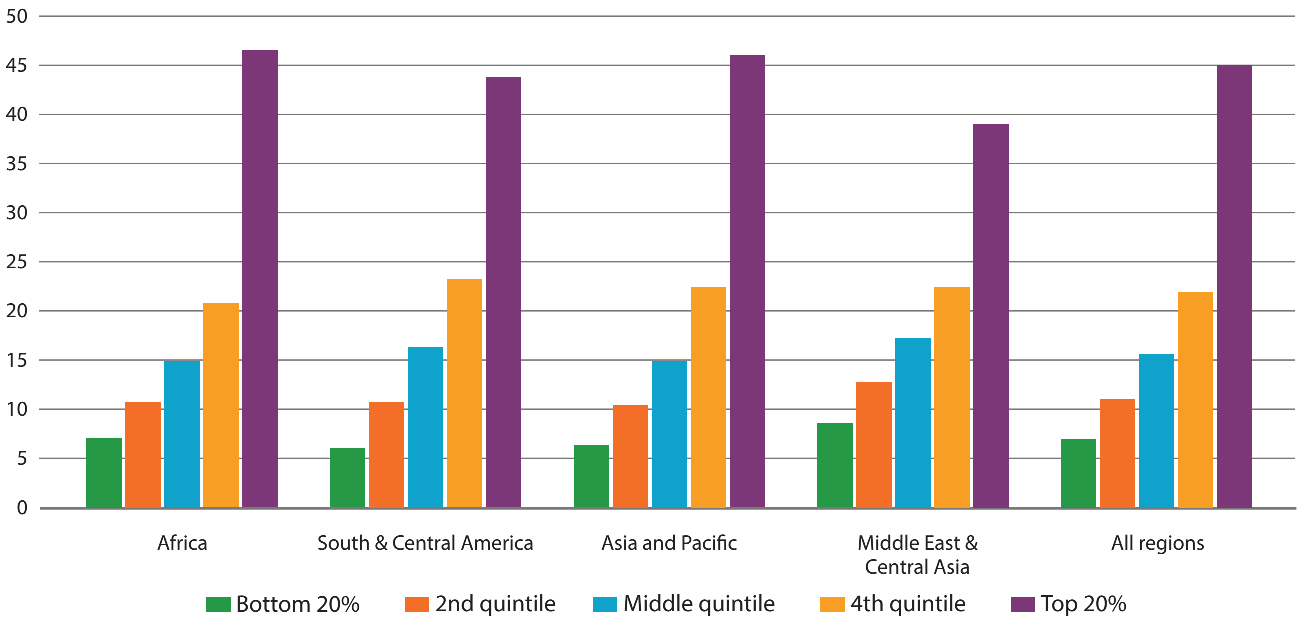
Carbon pricing has been increasing but falls far short of what is necessary to meet climate targets. Carbon pricing programmes are increasingly common: as of April 2021, 27 countries applied a carbon tax at some level; 10 countries had an emissions trading system at the national or subnational level; and the European Union had a regional emissions trading system covering all its members.[65] However, as of 2018, more than 50 per cent of energy emissions were unpriced, with 35 per cent subject to a fuel excise tax, 6 per cent to a carbon tax and 12 per cent covered by an emissions trading scheme.[66] The price range needed in 2030 to keep global temperature increases to 2°C has been estimated at $50 to $100 per tonne,[67] although recent analyses focus on the top of the range or even higher, up to €120 per tonne.[68] However, only 3.76 per cent of global emissions were covered by a carbon price above $40 per tonne as of April 2021, and a large number of carbon prices remain in the single digits. There are some exceptions; for example, the price on the European emissions trading system has mostly varied between €40 and €90 per tonne in the last year, peaking at over €96 per tonne in early February 2022.[69] Nonetheless, there are questions as to whether high prices in the EU will be sustained given the volatility and whether there is enough political will to raise carbon prices to a level necessary to have a significant impact. The relatively slow progress in setting up pricing systems reflects not only domestic economic and social concerns, but also political resistance to unilateral increases in carbon prices above levels in trading-partners.[70]

Figure III.A.15
Explicit fossil fuel subsidies, by country group, 2020
(Billions of United States dollars)



Source: UN/DESA calculations based on Parry et al. 2021.
Note: M49 geographic groups, with subregional breakdown provided for two largest regions.

Figure III.A.16
Distribution of fossil fuel subsidy benefits in developing regions, by income quintile
(Percentage)



Source: Coady, David, Valentina Flamini, and Louis Sears. 2015.

Agreement on a carbon price floor among large emitting countries may be an effective way to scale up climate pricing among committed countries. Large and growing disparities in carbon pricing has heightened interest in border carbon adjustments, a tax-like tool that could raise revenue but have detrimental effects on some countries (see chapter III.D). Alternatively, an agreed carbon price floor could largely avoid competitiveness and carbon leakage concerns, but there are practical and political challenges to securing agreement. Global carbon pricing has been discussed under the United Nations Framework Convention on Climate Change (UNFCCC), but there has not yet been agreement beyond the Clean Development Mechanism, defined in the 1997 Kyoto Protocol. Ratcheting up ambition among a smaller group of countries such as the large emitters would be more straightforward than a global agreement, and a price floor could provide more flexibility for addressing equity considerations and adapting national schemes to country-specific circumstances.[71]

Implementation of green fiscal policies needs careful design and sequencing to ensure that they are fair, effective and feasible. A just transition will be essential if climate action is to be aligned with the 2030 Agenda and support achievement of the other SDGs. An important element of successful reform strategies is measuring fiscal effects, a crucial first step towards a more comprehensive assessment of the economic, social and environmental effects. To effectively meet commitments to combat climate change while addressing equity and political economy considerations, countries will likely need to use a combination of tools, including appropriate regulations. Supporting policies will also be needed, for example, public investments in clean technology infrastructure networks, livelihoods support, policies to ensure energy affordability, and other universal social protection schemes to prevent increases in poverty due to climate change mitigation policies. At the international level, climate finance should support the energy transition (see chapters III.C and III.G).

4.2 Environmental taxation and other green fiscal policies

Countries can adapt PFM practices to support environment-sensitive policies, so-called green PFM.[72] This includes adding green components to more standard PFM elements such as fiscal transparency, external oversight and coordination with state-owned enterprises and subnational governments. Examples include incorporating fiscal risks related to climate change into strategy and planning, making climate change and other environmental factors major criteria for sectoral budget allocation, adopting sustainable procurement and tagging environment-related expenditure in the budget preparation phase. Green PFM reforms should be situated within wider planning processes such as MTRS and INFFs.

Countries can use several financial tools to incorporate biodiversity aims into public finance. While an increasing number of countries are implementing elements of green budgeting, few countries have assessed the potential positive and negative impacts of their domestic and international spending or public development bank lending, on biodiversity. Existing budgetary and fiscal transfers often encourage unsustainable production practices, and countries can undertake systemic assessments to identify these. For biodiversity impacts, special attention is needed on subsidies to the agriculture sector. Similar to climate action, taxes, fees, tradeable permits, offsets and subsidies can be used to incentivize actors to preserve or expand biodiversity and habitats.[73] Payments for ecosystem services are a type of subsidy offered, usually to farmers or landowners, in exchange for managing land in a way that provides some sort of ecological benefit. Depending on the choice of instrument, revenue might also be generated. Public finance should be aligned with new measurement frameworks that go beyond GDP (see chapter IV) because preserving biodiversity and natural assets is not valued in GDP figures.

Instruments for greening public finance need to match the characteristic of the public good or service being provided at the local, national and international levels. Many environmental challenges can be addressed with public policies and financing instruments at the local or subnational level. For example, local air pollution might be ameliorated by prioritizing public investments in no- and low-carbon sustainable transportation options complemented by local regulatory and tax policies to provide incentives against polluting transportation choices.[74] The benefits of such investment will be primarily captured at the urban level, although there will be positive spillovers on national and even international levels. Other public goods such as clean oceans and a stable climate are global, and domestic policies need to be coherent with international cooperation (see chapter III.C).

5. International tax cooperation

Adapting tax rules to changes to the global environment and addressing tax avoidance and evasion will require further concerted efforts on international tax cooperation and strengthening of tax policy and administrations. Ongoing changes to the global economy are creating pressures on tax systems amid a rise in expectations for provision of public goods and services to deliver the SDGs. Concerns have been growing for many years that the globalization of economic activity has opened up ample opportunities for aggressive tax avoidance and evasion, especially by large multinational enterprises (MNEs) and the wealthy, leading to an unfair distribution of tax burdens. Since the 2008 world financial and economic crisis, aspects of international tax cooperation have seen dramatic reforms, for example, on tax transparency. In the context of growing digitalization and globalization, countries need to further step up international cooperation to raise sufficient public resources for financing the SDGs. At the same time, many countries need to continue strengthening their tax administrations' core systems and processes to be able to take full advantage of the benefits of international tax cooperation.

5.1 Responses to digitalization and globalization

The increasing digitalization and globalization of the economy is impacting both tax policy and administration, raising questions as to how to adjust the tax architecture to new digital business models. COVID-19 and the associated lockdowns accelerated the digital transformation. It is possible for an enterprise resident in one country to be profiting from activity in another country's economy without a substantial physical presence in that so-called market jurisdiction.[75] Yet, most tax treaties require a physical presence before the market country can tax the profits made there. The current system of arm's length pricing and the growing importance of near impossible-to-value intangibles—including user data—have allowed opportunities for corporate income tax evasion and avoidance to proliferate.[76] Responding requires policy changes, as well as data and analytical resources that are not readily available to many countries.

Discussions on reforming tax norms continue at different international forums, while some countries have adopted unilateral measures. The OECD-housed Inclusive Framework on Base Erosion and Profit Shifting (Inclusive Framework) is seeking to build a consensus on taxation of the digital economy through a two-pillar approach that will include binding commitments. The United Nations Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee) agreed on a provision on taxation of automated digital services as part of the 2021 UN Model Double Tax Convention, which can be incorporated into bilateral tax treaties. At least 35 countries have proposed or implemented a tax specifically on digital economic activity, frequently a digital services tax (DST),[77] and while some countries are already collecting revenue through these taxes, others are holding their digital taxes in abeyance pending the results of the Inclusive Framework negotiations.

The Inclusive Framework's two-pillar solution aims to redistribute taxing rights related to some of the profit of the largest MNEs; discussions are ongoing to finalize the rules. Table III.A.2 provides a description of the key provisions of both pillars, which achieved political-level agreement in October 2021.[78] Pillar 1 addresses digitalization and globalization and marks a limited departure from the arm's length principle for allocating corporate profits for the purposes of taxing rights on a share of profits of the largest and most profitable MNEs globally. The proposal includes a mandatory and binding dispute resolution process, although some developing countries will not be covered by this provision. Pillar 2 would allow countries to put in place minimum tax rules which aim to protect tax bases and limit tax competition. As of end 2021, 137 jurisdictions had joined the statement outlining the plan; work on technical rules, a multilateral convention, and other instruments for implementation is ongoing. No binding commitments have yet been made, and there remain questions about whether countries, especially those that require legislative approval of tax conventions, will be able to generate sufficient domestic political consensus.

Uncertainties remain over the exact impact of the reallocation of taxing rights under Pillar 1. In Financing for Development Forum outcomes from 2019 to 2021, Member States acknowledged "that any consideration of tax measures in response to the digitalization of the economy should include a thorough analysis of the implications for developing countries".[79] A global impact analysis of Pillar 1 is expected to be published in spring 2022, with country-specific impact estimates provided to Inclusive Framework members at the same time. As the impact assessment relies upon country-owned data, the availability of country-level estimates will be dependent on the decisions of country authorities about publishing any estimates prepared for them by the OECD Secretariat. The OECD has projected that $125 billion of residual profits will be reallocated to market jurisdictions under Pillar 1,[80] but the global aggregate revenue gains are expected to be minimal. Independent research has suggested that between 70 and 80 MNEs will be subject to the new rules,[81] with traditional treaty rules still applying for other companies. In some countries, the tax on reallocated profits may not be enough to replace revenue lost from the removal of DSTs that is required by the deal.[82] For example, estimates for Asia showed that revenue effects, whether increases or declines, were generally less than 0.02 per cent of GDP, although implications for a few jurisdictions are more significant.[83]

Table III.A.2
Key elements and timeline for the Inclusive Framework two-pillar solution

	Pillar One	*Pillar Two*
Key elements	▪ Taxing rights over 25% of the residual profit of the largest and most profitable MNEs would be re-allocated to the jurisdictions where the customers and users of those MNEs are located; ▪ Mandatory and binding dispute resolution, with an elective regime in certain circumstances to accommodate developing countries; ▪ Provision for a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities, with a particular focus on the needs of low capacity countries; ▪ Removal/prohibition of digital services taxes and other relevant similar measures for all companies, not just those in-scope.	▪ Global anti-Base Erosion (GloBE) rules allow jurisdictions to set a global minimum income tax of 15% on all MNEs headquartered in their jurisdiction and with annual revenue above €750 million; ▪ Requirement for all jurisdictions that apply a nominal corporate income tax rate below 9% on interest, royalties and a still to-be-defined set of other payments to implement the "Subject to Tax Rule" into their bilateral treaties with developing countries that are members of the Inclusive Framework when requested to, so that their tax treaties cannot be abused; ▪ Carve-out to accommodate tax incentives for substantive business activities (i.e., those which involve tangible assets and/or labour).
Timeline	▪ A multilateral convention being developed by the OECD Secretariat is planned to come into effect in 2023.	▪ The Secretariat aims to develop a multilateral instrument for implementation by mid-2022 and an implementation framework for the GloBE rules by the end of 2022.

Source: OECD.

The final rules will be challenging to implement in practice. The reforms are novel and complex, and the Inclusive Framework has set an ambitious timetable for implementation, which may not allow sufficient time to assess the implications and conclude informed national debates on the value of joining the final agreements. Developing countries with lower capacity tax administrations that choose to participate will need additional technical assistance and capacity building, while businesses have also recognized the challenge to successfully implement any final rules, particularly in the targeted timeframes.

Taxation of automated digital services, most frequently a DST, allows an administratively simple alternative to raising revenue related to digitalized economic activity, and domestic use of this can be protected by application of new provisions in the UN Model Tax Convention. The UN Tax Committee agreed on the inclusion of a new Article 12B on taxation of automated digital services in the 2021 UN Model Double Tax Convention.[84] Article 12B provides a treaty level allowance for countries' domestic laws that tax digital services, regardless of the service provider's physical presence in-country, helping to level business playing fields. Countries' domestic laws would need to address administration challenges such as definitions of the tax base, access to data and reporting regimes. Article 12B addresses a narrower range of taxing rights than Pillar 1 in a simplified way, allowing the use of withholding taxes and avoiding mandatory binding dispute settlement unless otherwise agreed between two countries. To be put into effect, the provision needs to be negotiated into bilateral tax agreements. In practice, if both countries have ratified a forthcoming Pillar 1 convention, the convention is likely to override adoption of Article 12B in a bilateral treaty between those two countries. Countries evaluating their options may want to assess potential revenue gains, administrative challenges, the likelihood of successful treaty negotiations and the likely response of treaty partners to proposed provisions. Unless they have treaty level protection for DST use, countries that choose to apply such taxes risk being unilaterally targeted with trade sanctions, which could ultimately cost more than DST revenues. Estimates of the impact of DSTs and related types of taxation for Asia show that revenue potential is in the order of 0.02 per cent of GDP,[85] similar to expected gains under Pillar 1. Proposals have been made to create a multilateral instrument to facilitate incorporation of Article 12B into existing bilateral tax treaties.[86]

Pillar 2 global minimum corporate tax rules are expected to have a broad impact on both aggressive tax avoidance and tax competition. Tax competition has intensified in the past decades despite international efforts to contain it, with average statutory corporate tax rates falling from 40-45 per cent at the beginning of the 1980s to around 25 per cent near the end of the 2010s.[87] Pillar 2 allows countries to top up the tax paid by an MNE to 15 per cent, either at source through a minimum tax or in the enterprise's headquarters jurisdiction. Moreover, it would allow countries hosting that MNE's subsidiaries to tax some base-eroding payments (like interest and royalties) that are made from their jurisdiction if they are not taxed at least 9 per cent in the recipient country. Under the proposed Pillar 2 rules, jurisdictions could implement a "qualified domestic minimum top-up tax", a special tax on MNE subsidiaries in the event that another jurisdiction would have a right to top up the tax on an MNE group.

The impact of Pillar 2 on tax base erosion and profit-shifting is uncertain because of the wide-ranging implications and potential behavioural responses by countries and MNEs. The exact revenue implications will be determined by multiple factors, including: final carve-outs and exemptions; when and how widely the final agreement is implemented; the extent of changes to tax rates and policies expected in many countries; and how businesses and their professional advisors respond to the changes. The OECD projected that Pillar 2 would result in around $150 billion of additional tax revenue,[88] and independent researchers estimated expected additional tax revenue of over $200 billion.[89] For income that is taxed at less than 15 per cent at source, the agreement gives priority to the home countries of MNEs to tax the under-taxed income, so the largest absolute static gains from the agreement will accrue to developed countries, which are the home countries of the biggest number of large MNEs. Significant gains may also be seen in low- and no-tax investment hubs where profits are currently reported, especially if these jurisdictions reform their corporate tax regimes to ensure that large MNEs are taxed at 15 per cent. Academic research indicates that such a dynamic response of currently low-tax countries may reduce the gains to the home countries of MNEs by as much as 50 per cent.[90]

Pillar 2 can help to relieve tax competition pressure on some developing countries; carve-outs will still allow tax incentives to be used. A reduced incentive to shift profits out of source countries will still exist, especially where effective tax rates are already above 15 per cent. Many developing countries, particularly those in Africa, have statutory and effective corporate income tax rates well above 20 per cent (see figure III.A.17). In other cases, for example, where effective tax rates currently fall below 15 per cent because of tax incentives, countries may feel empowered to reduce wasteful or excessive incentives, although other political economy factors that contribute to the granting of such incentives still exist. Widespread adoption of qualified domestic minimum top-up taxes may actually help to retain incentives to engage in tax competition on tax rates.[91] The Pillar 2 draft rules include carve-outs, for example, excluding income that is less than 5 per cent of the value of the local assets plus payroll. Real foreign investment can thus benefit from tax incentives without triggering minimum tax rules, implying that countries may still feel pressured to use tax incentives to attract jobs and substantive investment. Stronger anti-abuse rules may be needed to prevent MNEs from designing new tax minimization strategies to misuse exemptions. Countries should also reconsider existing wasteful tax incentives, and any new incentives should be well-designed and clearly linked to sustainable development outcomes.

The growth of digital assets provides opportunities and risks for countries' tax systems, although more research and analysis are needed. Digitalization of currency and money will have implications for both tax policy and tax administration. Cryptoassets, such as Bitcoin are already altering the structures of the financial system (see Chapter III.F) and countries need to consider how to ensure appropriate taxation of both cryptoasset creation and capital gains. Recent findings show that 2020 revenues from taxing the capital gains on Bitcoin in the European Union amounted to about €900 million.[92] The effective taxation of cryptoassets is technically challenging as these assets could touch upon capital gains taxes, income taxes, wealth and inheritance taxes and indirect taxes. Cryptoasset wallets also remain outside the scope of existing rules for the exchange of information on financial accounts. The introduction of stablecoins and central bank digital currencies (CBDCs) create different tax challenges and opportunities, but like for cryptoassets, questions about capital gains, defining taxable events and valuation will still need to be answered. For countries planning CBDCs, the needs of the revenue administration may be factored into design decisions, while the CBDC could also be used to incentivize enterprise formalization.

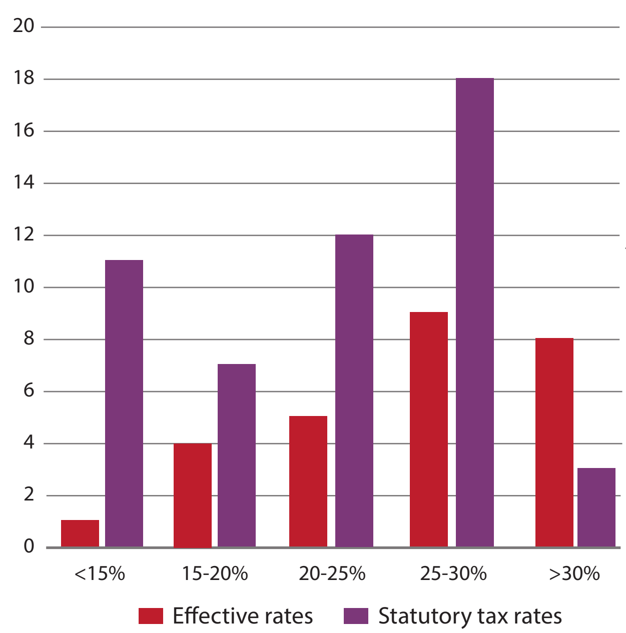
As digitalization and globalization advance, countries may need to contemplate far-reaching proposals for modernizing international tax cooperation. World Bank staff recently argued that for the international tax system to be relevant to the digitalized economy and consistent with tax theory, the world needs global taxing mechanisms and institutions; they propose creating a new digital data tax and a new global internet tax agency under the United Nations.[93] A paper from the South Centre calls for streamlining the architecture of international tax cooperation through an inclusive multilateral convention.[94] In February 2021, the High Level Panel on International Financial Accountability Transparency and Integrity for Achieving the 2030 Agenda, also emphasized the importance of dynamism, responsiveness and coordination, as well as the possibility of enhancing these through multilateral tax conventions and inclusive mechanisms at the United Nations.[95] In his recent "Our Common Agenda" report, the United Nations Secretary-General noted the potential for asymmetrical impacts on countries at different stages of development and called for intensified efforts to ensure that the perspectives of all countries are heeded as countries decide on how to tax an increasingly digitalized and globalized world.[96]

5.2 Progress on tax transparency and the exchange of information for tax purposes

Progress continues to be made on the implementation of tax transparency standards. The OECD-housed Global Forum on Transparency and Exchange of Information for Tax Purposes, which serves as the main venue for discussion of tax transparency standards, has seen increasing participation in its tax transparency instruments, such as the Convention on Mutual Administrative Assistance in Tax Matters and the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (see table III.A.3). As of October 2021, there were over 7,500 bilateral exchange relationships for automatic exchange of information (AEOI). In 2020, information on more than 75 million financial accounts covering total assets of around €9 trillion was exchanged automatically. Many countries opened voluntary disclosure programmes and similar compliance initiatives alongside the beginning of AEOI; these and offshore investigations enabled by exchange of information on request helped to generate €112 billion of additional revenues (tax, interest, penalties), €30 billion of which was in developing countries.[97]

The poorest countries are still not benefiting from tax transparency. Developing countries lag behind in receipt of information from the

Figure III.A.17
Statutory and effective corporate income tax rates, developing countries, 2020-2021
(Number of countries)



Source: UN/DESA calculations based on OECD Corporate Tax Statistics (2021).
Note: Chart shows forward-looking effective tax rates for 2020 (a synthetic indica based on a hypothetical investment) and statutory rates (central government) for 2021, for United Nations Member States that are considered developing countries. Data available for 27 and 51 countries, respectively.

AEOI system and the exchange of country-by-country reports covering the activities of MNEs. While 46 developing jurisdictions are carrying out AEOI or are committed to doing so in the near future, no LDCs are currently receiving information via this initiative. As of October 2021, there were 3,000 exchange relationships for country-by-country reporting information provided by MNEs, but only 12 non-OECD/G20 developing countries or jurisdictions and no LDCs are currently receiving country-by-country reports.[98] Where the exchange of reports has not yet been enabled under international agreements, creating requirements for MNEs operating locally to file country-by-country reports with the local tax administration is considered acceptable under international standards, giving the authorities access to useful information for enforcement purposes. Countries may also need to enhance their domestic capacity to effectively use such information as part of their enforcement regimes.

Jurisdictions are largely abiding by commitments made to exchange information and being rated as satisfactory in peer reviews conducted by the Global Forum. The Global Forum adjusted the peer review process during the pandemic so that reviews could continue even without on-site visits. Of the 81 jurisdictions fully reviewed in the second round, 85 per cent received a satisfactory rating (compliant or largely compliant). Five jurisdictions that had previously been issued unsatisfactory ratings reported progress and will be subject to supplementary reviews. In reviews of the implementation of AEOI, 98 per cent of reviewed jurisdictions had an international legal framework determined to be "in place" and 89 per cent had a domestic legal framework determined to be largely consistent with the requirements. The Global Forum is also reviewing the effectiveness in practice of the implementation of AEOI and later in 2022 will publish the results of the review of the 100 jurisdictions that exchanged information in 2017 and 2018.

5.3 UN Tax Committee

In 2021, the UN Tax Committee completed a range of practical guidance on tax policy and implementation aimed at helping countries to improve their tax capacities and cooperation frameworks. The 25 members of the UN Tax Committee selected in 2017 finished their four-year term in June 2021. This marked the completion of the first full term of the Committee under the enhancements agreed upon in the Addis Agenda. The more frequent meetings, combined with enhanced capacities due to an increase in voluntary contributions, enabled the UN Tax Committee to publish more guidance than previously. Its products included: the *United Nations Model Double Taxation Convention between Developed and Developing Countries 2021* (including provisions on taxing the digitalized economy and addressing offshore indirect sales of assets); *United Nations Practical Manual on Transfer Pricing for Developing Countries (2021)*; *UN Handbook on Selected Issues for the Taxation of the Extractive Industries (2021)*; *United Nations Manual for the Negotiation of Bilateral Tax Treaties between Developed and Developing Countries 2019*; *United Nations Handbook on Avoidance and Resolution of Tax Disputes* (2021); *United Nations Handbook on Carbon Taxation for Developing Countries* (2021); and the *Revised Guidelines on the Tax Treatment of Government-to-Government Aid Projects* (2020).

The new membership of the UN Tax Committee set out a wide-ranging work programme for its term, addressing tax with a sustainable development perspective and focused on practical solutions. Topics to be addressed include inequalities, taxation in an increasingly digitalized and globalized world, tax-related IFFs and the impact of COVID19 on taxation. The Tax Committee will for the first time examine the relationship between tax, trade and investment agreements; and will also explore increasing tax transparency, solidarity and wealth taxes, and health taxes, among other topics. It will also continue previous work on extractive industries, carbon taxation and existing guidance products.

6. Illicit financial flows

IFFs continue to reduce the availability of resources for investment in the 2030 Agenda while also undermining the social compact. IFFs can lower tax receipts, erode public trust, drain foreign reserves, discourage foreign direct investment, worsen inequality and fuel instability and conflict. They negatively impact the well-being of people and societies as they reduce financial resources available for SDG investment. Despite the progress made on transparency, IFFs are now a global, multidimensional problem that feeds off low regulation, secrecy, anonymity, complicit local and international actors, weak institutions and inadequate global taxation and regulatory systems that lack transparency and accountability.

6.1 Estimation of IFFs

Trials of the statistical framework for measuring IFFs are continuing. The United Nations Office on Drugs and Crime (UNODC) and UNCTAD are joint custodians of the SDG indicator on IFFs. Since the publication of their *Conceptual Framework for Statistical Measurement of Illicit Financial Flows* in 2020, four country pilots on measuring IFFs related to selected illegal activities in Latin America have concluded[101] and 11 African pilots, which are focused on tax-related IFFs, are under way[102] and expected to finish in June 2022. The United Nations Economic Commission for Africa

Box III.A.2
Platform for Collaboration on Tax (PCT)

The PCT, a joint initiative of the IMF, OECD, the United Nations and the World Bank Group, was established in 2016 to strengthen collaboration on domestic resource mobilization and support countries through the production of joint knowledge products, policy dialogue, technical assistance and capacity building, and input into the design and implementation of international tax norms.

One key initiative has been developing the concept of the medium-term revenue strategy (MTRS), a comprehensive framework for tax system reform and means of coordinating support for country-led tax reform. The PCT holds regional workshops on MTRS for country authorities and capacity development partners (bilateral donors, regional tax organizations and PCT partners). It also raises awareness on the interlinkages between taxation and the SDGs, such as regarding how tax policy and tax and customs administrations affect gender equality, especially in the context of the COVID-19 pandemic. The PCT has released five technical toolkits, the most recent on tax treaty negotiations, and established an online integrated platform of major capacity development projects.

Table III.A.3
Participation in international tax cooperation instruments, 2021
(Number of jurisdictions)

Legal instrument/ Intergovernmental body	*Background*	*Purpose*	*Total membership/ parties*	*Middle-income countries*	*Least developed countries*[99]	*Small island developing States*[100]	*Africa*
Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC)	Developed jointly by OECD and Council of Europe in 1988 and amended in 2010	Multilateral instrument for administrative cooperation	144 (+3)	65 (+6)	8	32 (+5)	22 (+1)
MCAA Common Reporting Standard	Agreement requested by G20 and approved by OECD in 2014	Specifies details of exchange of financial account information for tax purposes	112 (+2)	37 (+6)	1 (-1)	29 (+4)	8 (+1)
Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum)	OECD-housed intergovernmental body restructured by G20 in 2009	Reviews implementation of transparency and exchange of information standards, both on request and automatic	163 (+1)	77 (+6)	18 (-1)	36 (+3)	33 (+1)
Automatic Exchange of Information Standard (AEOI)	Standard developed in 2014 under Global Forum	Automated exchange of financial account information for tax purposes	120 (+5)	44 (+7)	2	29 (+3)	9 (+1)
Inclusive Framework on BEPS (IF)	OECD-housed intergovernmental body originating from the 2013 OECD/G20 BEPS Project	Implementation of the 2015 BEPS Action Plan and the follow-up work to combat tax avoidance by MNEs	141 (+2)	65 (+4)	12 (+2)	29 (+3)	27 (+2)
Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI)	Negotiated within the framework of the OECD/ G20 BEPS Project, adopted in 2016	Implements the minimum standards of 2015 BEPS Action Plan on tax treaty abuse, dispute resolution, hybrid mismatch arrangements and permanent establishment status	96 (+1)	40 (+4)	2	10 (+1)	14
MCAA on the exchange of country-by-country (CbC) reports	Agreement based on BEPS Action Plan 13, first exchanges began in 2018	Sets out the terms for the exchange among jurisdictions of CbC reports prepared by MNEs to facilitate transfer pricing risk assessments and audits	92 (+3)	29 (+6)	2 (+1)	14 (+4)	8

Source: OECD.
Note: Figures as of 31 December 2021. Parenthesis denotes change in the number of countries or jurisdictions in 2021 compared to the 2020 Financing for Sustainable Development Report, which may reflect some-thing other than participation in the instrument, i.e., movement of countries into or out of designated status, changes in data availability, or changes in classification criteria. MCAA: Multilateral Competent Authority Agreement. MNEs: multinational enterprises.

(UNECA) estimates that between 2000 and 2016 Africa had, on average, $83 billion a year in net outflows through trade mis-invoicing.[103] Cumulatively between 2000 and 2016, the mis-invoicing was estimated at $1.4 trillion, equivalent to 11.4 per cent of the value of Africa's trade.

6.2 Tackling IFFs in national policy

The multidimensional nature of IFFs requires a coordinated, whole-of-government approach. Efforts to eliminate IFFs need to span a range of institutions and government functions across the tax system, law enforcement and financial regulatory mechanisms. Institutional mechanisms to ensure whole-of-government coordination are essential and need to be driven by high-level political commitment. Table III.A.4 shows possible components of a national institutional architecture for combatting IFFs. Governments need to create legal frameworks and operational/administrative systems for enforcement, and they should coordinate nationally and cooperate internationally.

Combating tax crimes, including addressing the professionals that enable IFFs, should be a core part of strategies to tackle IFFs. International efforts on tax transparency and reducing aggressive tax avoidance and evasion were discussed in section 5. Tax Inspectors without Borders, a joint initiative of the United Nations Development Programme (UNDP) and the OECD, recently expanded beyond tax audits to launch a criminal investigation pilot programme to help build country capacity to conduct tax crime investigations. While the majority of professionals are law-abiding, some professional enablers—lawyers, accountants, bankers and investment advisors—play an integral role in making it easier for perpetrators to defraud governments, evade tax obligations and hide the proceeds of corruption and other crimes.[104] Governments need a coherent and robust approach to preventing, identifying, disrupting and criminally prosecuting professional enablers. Mechanisms should be in place to encourage whistle-blowing and information-sharing between relevant agencies. This should be complemented by private sector self-regulatory frameworks, which can be guided by the recently launched Unifying Framework that emphasizes the principles of integrity, transparency and accountability.[105]

6.3 Changes to anti-money-laundering and beneficial ownership information requirements

Beneficial ownership information is essential for tackling IFFs; public collection of this information, usually through a registry, will likely become the global standard. The beneficial owner is the natural person who ultimately owns, controls or benefits from legal vehicles such as companies, partnerships and trusts. Collection of this information is a way to pierce the veil of secrecy that perpetrators of IFFs use to conceal their activities. The Financial Action Task Force (FATF) recommendations and the Global Forum standards both require that competent authorities have timely access to accurate and up-to-date beneficial ownership information. In March 2022, the FATF Plenary is likely to amend its recommendation on beneficial ownership information of legal persons to require a public authority to hold this information (usually through a registry). This will apply to the more than 200 countries and jurisdictions committed to FATF standards. In December 2021, the Conference of the State Parties to the United Nations Convention Against Corruption (UNCAC) *"encourage[d]* States parties to collect and maintain beneficial ownership information for legal persons and legal arrangements" and "also encourage[d] States parties to consider developing effective mechanisms for relevant domestic authorities or entities to verify or check beneficial ownership information provided by legal persons and legal arrangements".[106]

Developing countries will need technical assistance to meet the new requirements and address loopholes. To reduce abuse, beneficial ownership regimes on legal entities should be as consistent as possible across countries. A growing number of countries are creating systems to publish their beneficial ownership registries for public access. Such enhanced transparency is beneficial to speeding up international information-sharing and can assist due diligence by the private sector, allowing more effective accountability.

The updated standards still leave secrecy options by not addressing trusts. Many IFF schemes make use of trusts and other types of legal arrangements to disguise beneficial ownership. The FATF standards do not yet mandate registries for this information, providing scope for continued abuse.

Tighter rules to prevent IFFs may have unintended consequences, and Governments should effectively address any such effects. Concerns remain about the impact of money-laundering rules on access to financial services (see chapter III.B), and Governments are adapting customer due diligence and other onboarding rules to the digital environment and financial technology providers (see chapter III.G). This Task Force has also previously reported on how the costs of implementing money-laundering rules may contribute to the reduction in correspondent banking relationships.[107] Rules to prevent money laundering are intended to be risk-based so as to minimize the costs and burdens for low-risk activity such as migrant remittances. An October 2021 stocktaking of potential unintended consequences of money-laundering standards identified four areas for further investigation by FATF: de-risking, financial exclusion, undue targeting of non-profit organizations, and curtailment of due process and other procedural rights.[108]

6.4 Combating corruption

Amidst a surge in fraud related to COVID-19 emergency measures, Member States recognized that further progress is needed on combating corruption. COVID-19 spawned a growth in corruption around relief funds and procurement, some of it due to the suspension of financial controls to ensure emergency spending was disbursed quickly.[109] In June 2021, Member States convened a special session of

Table III.A.4
Possible components of national institutional architecture for combating illicit financial flows

Component	*Possible elements/architectures*
National strategy	▪ Medium- to long-term vision in a strategy on combating IFFs ▪ Links between executive and legislative body (parliament) ▪ Allocation of resources to enforcement capacity (Ministry of Finance) ▪ Inter-ministerial/agency coordination mechanism ▪ Policy-setting and coordination ▪ Operational procedures and information-sharing ▪ Oversight and reporting

Legal framework	▪ Criminalization of tax evasion, transfer mispricing, corruption, bribery, bribe solicitation, money-laundering, terrorist financing and other relevant offences
	▪ Adoption of a general anti-avoidance rule
	▪ Rules, laws and regulations to oversee and regulate legal entities and public officials, for example:
	    ▪ Transfer pricing rules
	    ▪ Beneficial ownership registry
	    ▪ Customer due diligence requirements for financial and relevant non-financial institutions
	    ▪ Electronic asset disclosure requirements for public officials
	    ▪ Asset freezing/seizure frameworks, including non-conviction based
	    ▪ Deferred prosecution agreement regime for non-trial resolution of bribery offences
	    ▪ Whistleblower protection and media freedom legislation
	▪ Protection of suspects' rights
	▪ International cooperation instruments and mechanisms, including for legal and administrative assistance
	▪ Creation of dedicated and/or legally empowered entities with defined responsibilities (see below)

Operational mechanisms	▪ Tax administration equipped with sufficient investigative, audit and analysis capacities ▪ Office of large taxpayers ▪ Tax arbitration unit ▪ Independent anti-corruption campaigns or agencies ▪ Supreme audit institutions ▪ Automated risk analysis of public officials' asset declarations ▪ Asset recovery/return unit ▪ Financial intelligence unit ▪ Special prosecutor's office ▪ Dedicated courts for financial crimes ▪ Anti-smuggling units ▪ Corporate registries / beneficial ownership registry
Special operational arrangements	▪ Inter-ministerial/agency coordination mechanism ▪ International liaisons/networks/forums on tax, AML-CFT, asset recovery, corruption, etc.

Source: IATF on FFD.
Note: Builds on Oslo dialogue on tax and crime and ECA research on economic governance in Africa.[110]

the General Assembly on challenges and measures to prevent and combat corruption and strengthen international cooperation. Member States reaffirmed their readiness to address corruption and IFFs more effectively across the areas of the UNCAC. The political declaration also addressed emerging topics such as safe space for civil society and journalists, the gendered impact of corruption, the linkages between corruption and organized crime and corruption in sport, as well as the need for education, awareness-raising, research and better measurement of corruption and its impact. The declaration encourages UNODC, in coordination with the Statistical Commission, to develop a "comprehensive, scientifically sound and objective statistical framework … to support States in their efforts to measure corruption, its impact, and all relevant aspects of preventing and combating it".[111]

A new network for strengthening the coordination of corruption enforcement agencies was established. A Global Operational Network of Anti-Corruption Law Enforcement Authorities (GlobE Network) was established in June 2021 under the auspices of UNODC. It aims to provide a quick, agile and efficient tool for facilitating informal transnational cooperation and strengthening communication exchange and peer learning for its 52 country members.

6.5 Progress on asset recovery and return

Recovery of stolen assets can increase domestic resources available for sustainable development, however, there is room for Member States to improve practices and implementation of the UNCAC. The UNCAC chapter V on asset recovery targets the proceeds of corruption and is a focus of the second round of UNCAC peer reviews. Of the 59 completed reviews to date, 54 countries received recommendations for improvement on the prevention and detection of transfers of proceeds of crime, while 44 received recommendations on the return and disposal of assets, showing the trends of weak implementation.[112] Very few countries received recognition for adopting good practices: only two countries had good practices on measures for direct recovery of property and on the return and disposal of assets; only three countries had good practices on financial intelligence units and on bilateral and multilateral agreements for asset recovery.[113]

Over the past 10 years, cross-border efforts to trace and restrain stolen assets have become significantly more widespread. The joint UNODC-World Bank Stolen Asset Recovery (StAR) initiative conducted the largest-ever survey of country experiences with asset recovery. The survey found that 61 States were involved in asset recovery cases, close to $10 billion in foreign corruption proceeds had been frozen, restrained or confiscated since 2010 and over $4.1 billion had been returned internationally. There was a marked increase in completed returns between 2017 and 2021; however, much of the activity (54 per cent of confiscations and 41 per cent of returns) was initiated by domestic authorities in the destination state, independent of a foreign request. Among the respondents, the average time period between an asset freezing order and the start of the return of funds was less than four years.[114]

Most asset recovery frameworks and initiatives focus only on the proceeds of corruption, in line with the framework in the UNCAC, leaving gaps that may need to be addressed. The proceeds of corruption are only one type of IFF, and asset recovery frameworks are not applicable to tax crimes or other economic and financial crimes. At the regional level, the Common African Position on Asset Recovery of 2020 takes a broader approach, including the resources lost through any type of IFF. Member States may wish to consider the need for repatriation of assets based on a broader scope of predicate offences, although there will be challenges in terms of defining the rightful beneficiary of such assets and the scope of compensation for victims of the crimes.

Endnotes

1 The data on revenue from the World Economic Outlook database was included instead of data from the IMF's World Revenue Longitudinal Dataset (WoRLD) in order to be able to present data for 2020 and the impacts of COVID-19. The WoRLD dataset does not yet have data available for 2020. The trends do not differ significantly from the IMF WoRLD data series.

2 For a deeper discussion please see IMF. 2021. *Fiscal Monitor: Strengthening the Credibility of Public Finances.* Washington: IMF.

3 IMF. 2020. "Challenges in Forecasting Tax Revenue." (April).

4 Heine, Dirk and Christian Schoder. 2021. "The Role of Environmental Tax Reform in Responding to the COVID-19 Crisis." World Bank Working Paper (November).

5 OECD. 2021. "Tax Administration: Digital Resilience in the COVID-19 Environment." (April).

6 United Nations. 2020. *Financing for Sustainable Development Report 2020.* New York: United Nations.

7 For a definition of the rights-based approach see: United Nations. 2000. Committee on Economic, Social and Cultural Rights (CESCR), "General Comment No. 14: Art. 12 on the Right to the Highest Attainable Standard of Health."

8 UN WOMEN. 2021. *Beyond COVID-19: A Feminist Plan for Sustainability and Social Justice.* New York: UN WOMEN.

9 United Nations. 2020. "2020 Comprehensive Review Proposals Submitted to the 51st Session of the United Nations Statistical Commission for Its Consideration." IAEG-SDGs — SDG Indicators (March). Available at https://unstats.un.org/sdgs/iaeg-sdgs/2020-comprev/UNSC-proposal/.

10 Abdel-Kader, Khaled, and Ruud A. de Mooij. 2020. "Tax Policy and Inclusive Growth." IMF Working Paper, (December).

11 Ibid.

12 Ibid.

13 Williams, Julianne et al. 2018. "A systematic review of associations between non-communicable diseases and socioeconomic status within low- and lower-middle-income countries." Journal of Global Health 8, no. 2 (December).

14 Kazibwe, Joseph, Phuong B. Tran and Kristi Sidney Annerstedt. 2021. "The household financial burden of non-communicable diseases in low- and middle-income countries: a systematic review". Health Research Policy and Systems 19.

15 World Bank. 2021. *From Double Shock to Double Recovery—Implications and Options for Health Financing in the Time of COVID-19*. Washington, D.C.: World Bank.

16 Thow, Anne Marie, Shauna Downs, and Jan Stephen. 2014. "A systematic review of the effectiveness of food taxes and subsidies to improve diets: understanding the recent evidence." Nutrition Reviews 72, no. 9 (September): 551–565.

17 The Task Force on Fiscal Policy for Health. 2019. "Health Taxes to Save Lives: Employing Effective Excise Taxes on Tobacco, Alcohol, and Sugary Beverages". Available at https://www.bbhub.io/dotorg/sites/2/2019/04/Health-Taxes-to-Save-Lives.pdf.

18 ILO. 2015. "Transition from the Informal to the Formal Economy." International Labour Standards Recommendation, no. 204.

19 Ibid.

20 International Monetary Fund et al. 2015. "Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment: Tools for the Assessment of Tax Incentives." Washington, DC: Platform for Collaboration on Tax; the OECD is currently undertaking work to improve transparency and analysis on investment tax incentives in developing and emerging economies (Celani, Dressler and Wermelinger, Forthcoming).

21 Addis Ababa Action Agenda, para 12.

22 ILO Social Protection Floors Recommendation (No. 202) was adopted in 2012 by the ILO's 187 Member States.

23 ILO. 2021. "ILO Social Protection Monitor—Responses to COVID-19." Last modified February 16, 2022. Available at https://www.social-protection.org/gimi/ShowWiki.action?id=3426.

24 Lastunen, Jesse et al. 2021. "The Mitigating Role of Tax and Benefit Rescue Packages for Poverty and Inequality in Africa amid the COVID-19 Pandemic." WIDER Working Paper, (October).

25 Gentilini, Ugo et. al. 2021. "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures." (May).

26 ILO Social Protection Monitor.

27 ECLAC. 2021. *Social Panorama of Latin America 2020*. Santiago: United Nations.

28 UN Women and UNDP. 2021. "COVID-19 Global Gender Response Tracker." (November).

29 As measured by the SDG Indicator 1.3.1.

30 ILO. 2021. *World Social Protection Report 2020-22: Social Protection at the Crossroads—in Pursuit of a Better Future*. Geneva: International Labour Organisation.

31 HLCP Inequalities Task Team. 2021. "Tackling Inequalities in Public Service Coverage to 'Build Forward Better' for the Rural Poor." United Nations, (December). December 16, 2021.

32 ILO. 2018. *Women and Men in the Informal Economy: A Statistical Picture*.

33 World Bank. 2022. *Identification for Development Annual Report 2021*. Washington DC: World Bank.

34 ILO. 2021. *World Social Protection Report 2020-22*.

35 Heinemann, Alessandra, and Kathlee Beegle. 2021. "Gender and Safety Nets: Priorities for Building Back Better." World Bank, (June).

36 Bullerat, Ana Maria et al. 2018. "A Mixed-Method Review of Cash Transfers and Intimate Partner Violence in Low- and Middle-Income Countries." *The World Bank Research Observer* 33, no. 2 (August):218–258.

37 Eds. Ortiz, Isabel, Valérie Schmitt and Loveleen De. 2019. *100 Years of Social Protection. The Road to Universal Social Protection Systems and Floors Vol. 1: 50 Country Cases.* Geneva: ILO.

38 IMF. 2020. "Digital Solutions for Direct Cash Transfers in Emergencies." Special Series on Fiscal Policies to Respond to COVID-19, (April).

39 United Nations. 2018. *Financing for Sustainable Development Report 2018*.

40 ILO. 2018. *Women and Men in the Informal Economy: A Statistical Picture*.

41 Durán Valverde, Fabio et al. 2020. "Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of COVID-19 and Beyond." ILO Working paper.

42 World Bank. 2021. *Women, Business and the Law 2021*. Washington, DC: World Bank.

43 Fruttero, Anna et al. 2020. "Women in the Labor Force : The Role of Fiscal Policies." IMF Staff Discussion Notes SDN/20/03, (February).

44 Ambel, Alemayehu A. et al. 2021. "Disaggregated Survey Data on Taxation to Improve Policy Design: A Perspective from the Ethiopia Socioeconomic Survey (2018/19)." Brief World Bank, (June); Komatsu, Hitomi et al. 2021. "Gender and Tax Incidence of Rural Land Use Fee and Agricultural Income Tax in Ethiopia." Working Paper World Bank, (June).

45 Delgado Coelho, Maria et al. 2022. "Gendered Taxes: The Interaction of Tax Policy with Gender Equality." IMF Working Papers, (February).

46 Platform for Collaboration on Tax. 2021. "How tax reform can promote growth and gender equality in the post-COVID era." (June). Available at https://www.tax-platform.org/news/blog/Tax-Reform-Gender-Equality-in-the-Post-COVID-Era.

47 Alastair, Thomas, and Pierce O'Reilly. 2016. *The Impact of Tax and Benefit Systems on the Workforce Participation Incentives of Women.* Paris: OECD.

48 OECD. 2022. "Tax Policy and Gender Equality: A Stocktake of Country Approaches." (February).

49 Khan, Zohra, and Katherine Gifford. 2021. "COVID-19 and Fiscal Policy: Applying Gender-Responsive Budgeting in Support and Recovery." New York: UN WOMEN, March.

50 Based on preliminary reporting on SDG Indicator 5.c.1 (2018 and 2021); global and criteria aggregates may be adjusted slightly upon final data reporting.

51 Alonso-Albarran, Virginia et al. 2022. "Gender Budgeting in G20 Countries." IMF Working Papers, (February).

52 Bosio, Erica, and Simeon Djankov. 2020. "How Large Is Public Procurement?." World Bank Blogs. Available at https://blogs.worldbank.org/developmenttalk/how-large-public-procurement.

53 UN WOMEN and ILO. 2021. "Rethinking Gender-Responsive Procurement: Enabling an Ecosystem for Women's Economic Empowerment."

54 UN WOMEN. 2021. *Beyond COVID-19: A Feminist Plan for Sustainability and Social Justice.* New York: UN WOMEN.

55 Fruttero, Anna et al. 2020. "Women in the Labor Force : The Role of Fiscal Policies." IMF Staff Discussion Note SDN/20/03, (February).

56 International Monetary Fund. 2021. *Fiscal Monitor, April 2021: A Fair Shot.* Washington, DC: IMF; De Henau, Jerome et al. 2019. "Investing in Free Universal Childcare in South Africa, Turkey and Uruguay: A Comparative Analysis of Costs, Short-Term Employment Effects and Fiscal Revenue." Discussion Paper UN WOMEN.

57 Parry, Ian, Simon Black, and Nate Vernon. 2021. "Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies." IMF Working Paper (September).

58 Ibid.

59 OECD and IMF. 2021. "Tax Policy and Climate Change: IMF/OECD Report for the G20." OECD/IMF, (October).

60 United Nations. 2021. *United Nations Handbook on Carbon Taxation for Developing Countries.* New York: United Nations.

61 IMF. 2019. *Fiscal Monitor: How to Mitigate Climate Change*. Washington, DC: IMF.

62 Jan Christoph Steckel, Sebastian Renner, and Leonard Missbach. 2021. "Distributional Impacts of Carbon Pricing in Low-and Middle-Income Countries." *CESifo Forum*, vol. 22: 26–32; Carbon Pricing Leadership Coalition. 2020. "Distributional Impacts of Carbon Pricing on Households." Executive Brief, Washington, DC: World Bank, May.

63 Coady, David, Valentina Flamini, and Louis Sears. 2015. "The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries." IMF Working Paper, (November).

64 OECD. 2021. *Taxing Energy Use for Sustainable Development: Opportunities for Energy Tax and Subsidy Reform in Selected Developing and Emerging Economies*. Paris: OECD.

65 World Bank. 2021. *State and Trends of Carbon Pricing 2021.* Washington, DC: World Bank.

66 OECD and IMF. 2021. "Tax Policy and Climate Change: IMF/OECD Report for the G20." OECD/IMF, (October).

67 World Bank. 2021. *State and Trends of Carbon Pricing 2021.* Washington, DC: World Bank.

68 OECD. 2021. *Effective Carbon Rates 2021*. Paris: OECD Publishing.

69 EU carbon pricing data. Available at: https://www.theice.com/products/197/EUA-Futures/data?marketId=6817108.

70 Parry, Ian et al. 2021. "Carbon Pricing: What Role for Border Carbon Adjustments?" IMF Staff Climate Notes, no. 004 (September).

71 Parry, Ian, Simon Black, and James Roaf. 2021. "Proposal for an International Carbon Price Floor Among Large Emitters." IMF Staff Climate Notes, no. 001 (June).

72 Gonguet, Fabien, Claude P. Wendling, and Ozlem Aydin Sakrak. 2021. "Climate-Sensitive Management of Public Finances—Green PFM." IMF Staff Climate Notes, no. 002 (August).

73 OECD. 2021. "Biodiversity, Natural Capital and the Economy: A Policy Guide for Finance, Economic and Environment Ministers." OECD Environment Policy Papers, (May).

74 United Nations Environment Programme and United Nations Human Settlements and Programme (UN-Habitat). 2021. *Global Environment for Cities-GEO for Cities: Towards Green and Just Cities.* Nairobi: UNEP; International Transport Forum. 2021. *ITF Transport Outlook 2021.* Paris: OECD.

75 De Mooij, Ruud A., Alexander D. Klemm, and Victoria J. Perry. 2021. *Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed.* Washington, DC: IMF.

76 Aqib Aslam and Alpa Shah. 2021. "Taxing the Digital Economy," in *Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed.* Washington, DC: IMF.

77 KPMG. 2021. "Taxation of the Digitalized Economy: Developments Summary." (December). Available at https://tax.kpmg.us/content/dam/tax/en/pdfs/2021/digitalized-economy-taxation-developments-summary.pdf.

78 OECD. 2021. "Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy." (October). Available at https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm.

79 United Nations. 2021. *Report of the Economic and Social Council Forum on Financing for Development Follow-up*.

80 OECD. 2021. *OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors, Italy, October 2021*. Paris: OECD.

81 Devereux, Michael, and Martin Simmler. 2021. "Who Will Pay Amount A?" EconPol Policy Brief ifo Institute, (July).

82 Tax Watch. 2021. "Will the OECD's Global Tax Deal Raise More from Tech Companies?" Tax Watch, (September). Available at http://www.taxwatchuk.org/wp-content/uploads/2021/09/DST_rate_Vs_Pillar1_FINAL.pdf.

83 Dabla-Norris, Era et al. 2021. *Digitalization and Taxation in Asia*. Departmental Policy Papers, no. 017.

84 United Nations. 2021. *United Nations Model Double Taxation Convention between Developed and Developing Countries.* New York: United Nations.

85 Dabla-Norris, Era et al. 2021. *Digitalization and Taxation in Asia*. Departmental Policy Papers, no. 017.

86 Muheet Chowdhary, Abdul, and Sol Picciotto. 2021. "Streamlining the Architecture of International Tax through a UN Framework Convention on Tax Cooperation." Tax Cooperation Policy Brief, (November); Rawal, Radhakishan. 2021. "Conceptualizing a UN Multilateral Instrument." Tax Cooperation Policy Brief, (June).

87 Hebous, Shafik. 2021. "Has Tax Competition Become Less Harmful?" in *Corporate Income Taxes under Pressure: Why Reform Is Needed and How It Could Be Designed*, Washington: International Monetary Fund.

88 OECD. 2021. "OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors." (October).

89 Barake, Mona et al. 2021. "Revenue Effects of the Global Minimum Tax: Country-by-Country Estimates." Note EU Tax Observatory, (October).

90 Arnon, Alex. 2021. "Revenue and Profit Shifting for the U.S. in a Global Minimum Tax Agreement." Penn Wharton Budget Model (blog), October 13, 2021. Available at https://budgetmodel.wharton.upenn.edu/issues/2021/10/13/oecd-global-minimum-tax-risks.

91 Vella, John, Michael P. Devereux, and Heydon Wardell-Burrus. 2022. "Pillar 2: Rule Order, Incentives, and Tax Competition." SSRN Scholarly Paper, (January). Available at https://papers.ssrn.com/abstract=4009002.

92 Thiemann, Andreas. 2021. "Cryptocurrencies: An Empirical View from a Tax Perspective." Joint Research Centre Working Paper, no. 2021-12.

93 Lucas-Mas, Cristian Oliver, and Raul Felix Junquera-Varela. 2021. *Tax Theory Applied to the Digital Economy: A Proposal for a Digital Data Tax and a Global Internet Tax Agency.* Washington, DC: World Bank.

94 Muheet Chowdhary, Abdul and Sol Picciotto. 2021. "Streamlining the Architecture of International Tax through a UN Framework Convention on Tax Cooperation." Tax Cooperation Policy Brief, no.21 (November).

95 FACTI Panel. 2021. *Financial Integrity for Sustainable Development: Report of the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda.* New York: United Nations.

96 United Nations, Report of the Secretary-General on Our Common Agenda (A/75/982).

97 Note that the figures for number of accounts and their total value do not include information for all jurisdictions engaged in automatic exchange of information due to the COVID-19 pandemic resulting in an extension to the deadline for the 2020 exchanges and the difficulties in the reporting of statistics faced by some jurisdictions. Thus, they reflect slightly lower figures than in the past.

98 OECD. 2021. "OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors, Italy, October 2021."

99 Vanuatu graduated from least developed country status on 4 December 2020. See UN General Assembly resolution 75/128.

100 The large increases in participation among small island developing States (SIDS) is due to the inclusion of Non-UN Member States that are Associate Members of UN Regional Commissions. See https://sustainabledevelopment.un.org/topics/sids/list for a list.

101 UNODC. 2021. "Measuring Illicit Financial Flows from Illegal Markets: Presentation of Results from Pilot Studies in Four Countries of Latin America." (March). Available at https://www.unodc.org/unodc/en/data-and-analysis/meeting-25-march-latin-america.html.

102 More information on the workshop is available at https://unctad.org/meeting/workshop-statistical-methodologies-measure-illicit-financial-flows.

103 UNECA. 2021. *Economic Governance Report I: Institutional Architecture to Address Illicit Financial Flows*. Addis Ababa: United Nations.

104 OECD. 2021. *Ending the Shell Game: Cracking down on the Professionals Who Enable Tax and White Collar Crimes*. Paris: OECD.

105 World Economic Forum and StAR. 2021. "The Role and Responsibilities of Gatekeepers in the Fight against Illicit Financial Flows: A Unifying Framework." (June).

106 Conference of State Parties to the UNCAC, Resolution 9/7.

107 Inter-agency Task Force on Financing for Development. 2020. *Financing for Sustainable Development Report 2020*. New York: United Nations.

108 FATF. 2021. "High-Level Synopsis of the Stocktake of the Unintended Consequences of the FATF Standards." (October).

109 UNODC. 2021. "Corruption and COVID-19: Challenges in Crisis Response and Recovery." (October).

110 UNECA. 2021. *Economic Governance Report I: Institutional Architecture to Address Illicit Financial Flows*. Addis Ababa: United Nations; OECD. 2017. *Fighting Tax Crime: The Ten Global Principles.* Paris: OECD.

111 United Nations. 2021. "Our Common Commitment to Effectively Addressing Challenges and Implementing Measures to Prevent and Combat Corruption and Strengthen International Cooperation." Available at https://undocs.org/A/RES/S-32/1.

112 United Nations. 2021. *Implementation of Chapter V (Asset Recovery) of the United Nations Convention against Corruption: Thematic Report Prepared by the Secretariat*. Vienna: United Nations Office on Drugs and Crime.

113 Ibid.

114 Stolen Asset Recovery Initiative. 2021. "Mapping International Recoveries and Returns of Stolen Assets under UNCAC: An Insight into the Practice of Cross-Border Repatriation of Proceeds of Corruption over the Past 10 Years." UNCAC COSP 9 Conference Room Paper, (December).

developmentfinance.un.org

9 789211 014525