

First session of the Preparatory Committee for the fourth International Conference on Financing for Development

Multi-Stakeholder Round Table Discussion on “Domestic public resources”

Thursday, 25 July 2024, 10:00 – 11:30

Concept Note and guiding questions

Mobilization and effective use of domestic resources is central to the pursuit of financing for sustainable development. Since the adoption of the Addis Ababa Action Agenda, many developing countries have reformed their tax systems, including by broadening the tax base and improving tax administration. Countries that did manage to rapidly increase revenue mobilization often simultaneously embarked on both revenue administration and tax policy reforms.

But revenue gains, where they did occur, have been volatile. While median tax revenues increased steadily in the first decade of the century across most country groups, there have been major setbacks associated with the 2008 global economic and financial crisis and the onset of the COVID-19 pandemic in 2020. For many countries tax revenues to GDP are lower in 2022 than in 2015.

In terms of the tax mix, and compared to developed countries, developing countries remain more dependent on consumption taxes and corporate income taxes. Trade taxes (tariffs) have declined in prominence, though they remain important in countries in special situations. And tax rates have been falling on capital income, while net wealth taxes were abandoned in many countries, within a context of stark wealth inequalities.

Significant challenges also remain in developing countries with regard to accessing and using information for tax enforcement and much lower levels of access to information on tax matters. Many countries struggle with tax evasion and avoidance from multinational enterprises and high-net worth individuals. Lack of tax transparency, loopholes in domestic and international tax laws and overburdened tax administrations continue to hinder effective tax collection in many developing countries. The gap between potential and actual tax revenue remains significant in many countries.

Some progress has been in combating illicit financial flows, yet evidence of corruption and tax abuse scandals point to continued failings of financial integrity regulations and controls. More countries have joined tax transparency instruments, and the 10th Conference of Parties of United Nations Convention Against Corruption forged new consensus on policies to improve financial integrity. There has also been further progress in measuring and estimating the value and volume of illicit financial flows. But more needs to be done to deliver Member States’ commitment to eliminate illicit financial flows.

In response, and especially since 2015, attention has shifted dramatically towards international tax cooperation instruments. There is heightened global attention to making international tax cooperation fully inclusive and more effective, including examination of how international tax rules respond to the need, priorities and capacities of developing countries. This is coupled with the realization that international tax cooperation should go beyond corporate income taxes to include, for example, the fight against tax-related illicit financial flows and environmental taxation. In this context, in December 2023 the United Nations General Assembly established an ad hoc committee, engaging all Member States, to develop by August 2024 draft terms of reference for a United Nations framework convention on international tax cooperation.

Questions for discussion

1. Strengthening tax revenue mobilization and administration
 - What domestic and international tax reforms are needed to enable developing countries to enhance revenue mobilization?
 - How can new technology and digitalization be leveraged to improve tax administration and compliance?
 - How can growing openness to international cooperation in the area of wealth taxes contribute to increased commitments to make progressive taxation and wealth taxation more effective?
2. Enhancing the efficiency of public expenditure
 - How can the efficiency of public expenditure and public financial management systems be improved?
 - What international commitments and targets based on coverage or expenditure could help scale up universal social protection?
 - What accountability mechanisms would deliver effective gender responsive budgeting?
3. Combatting illicit financial flows
 - What strategies can be employed to strengthen the regulatory frameworks and enforcement mechanisms necessary to combat illicit financial flows effectively?
 - How can international cooperation be enhanced to improve the detection, deterrence, and recovery of illicit financial flows?
4. International tax cooperation
 - How can international tax cooperation be universal in scope and respond to the needs and capacities of all countries?
 - What are the most pressing issues that international tax cooperation should address?
5. Capacity building and technical assistance

- What are the most critical areas for capacity development in tax and customs administration and in the area of public financial management in developing countries?
- How can multilateral, regional, bilateral and South-South cooperation work together to deliver technical assistance and maximize impact?
- How can the system of national development banks be strengthened to increase their impact on sustainable development?