Talking Points for Domestic Public Resources

Discussion

25 July 2024, 10:00-11:30

Requested length: 3 minutes

- Despite of enormous efforts of countries, in 2020, 4.1 billion people are completely uncovered by any social protection. Moreover, according to the most recent ILO estimate, for low-income countries, the financing gap to achieve universal coverage has reached to an overwhelming level of 52.3 per cent of their GDP annually.
- Domestic financing must remain the foundation for building universal social protection and health system, working in tandem with employment policies and investments in essential public services. To increase the fiscal space for social protection, taxes and social security contributions are key. Countries have a wide range of options to raise tax revenues, and it is critical to reduce the reliance on regressive consumption and value added taxes that are the most common in low- and middle-income countries. Much more emphasis needs to be placed on income, wealth and corporate taxes as well as property, inheritance and carbon taxes that are more progressive options to raise tax revenues.
- The widespread informality of economic units and employment in low- and middle-income countries, especially among micro, small and medium enterprises, limits the government's ability to mobilize both taxes and social security contributions. There are some strategies that have shown some promise in collecting both taxes and social security contributions, for example by implementing unified payment mechanisms and other measures to facilitate the extension of coverage to those currently in the informal economy. These initiatives have successfully enhanced social

security affiliation and contributed to a more equitably and sustainably financed social protection system.

- Considerable fiscal space can also be generated by progressively and carefully removing fossil fuel subsidies, accompanied by social protection to cushion its impacts, as part of a strategy to promote a just transition.
- All of these options need to be explored and tailored to specific country circumstances, but we should not fall into the trap of 'methodological nationalism', which sees domestic resource mobilization efforts as being disconnected from the global financial architecture. Over the past 20 years, domestic resource mobilization efforts have been eroded not only by the extensive informality of enterprises, employment and their smaller tax bases, but also by declining tariff revenue due to trade liberalization, competitive pressures to lower corporate taxes, massive illicit financial flows and rising debt service burdens, among others. These are clearly issues that FfD will need to tackle.