Submission to the Elements Paper on Financing for Development

International Budget Partnership

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The International Budget Partnership (IBP) aims to make public money systems fair for everyone. If we are to achieve the Sustainable Development Goals (SDGs), traditionally excluded communities must be able to influence public money decisions, from how public money is raised, to the way choices are made by a variety of actors that determines who gets quality, reliable goods and services. We partner globally with civil society, community organizers, government champions, and budget analysts. Together, we generate data, advocate for reform, and build the skills and knowledge of people so that everyone can have a voice in budget decisions that impact their lives.

The following are key financing policy reforms and solutions the fourth International Conference on Financing for Development can deliver to ensure accountability and full implementation of commitments made.

I. **A global financing framework (including cross-cutting issues)**

We are not on track to achieve the Addis Ababa Action Agenda (AAAA) targets. As noted in the 2024 Sustainable Development Report, there is 'widespread recognition of the need for reform to avoid further geo-economic fragmentation and an erosion of multilateralism and a rules-based order, which would affect vulnerable and the least powerful countries the most.' This calls for better coordination, institutional reforms and ease of access to finance and decision-making for developing countries.

There is a need to tackle not only economic inequality but also political inequality, ensuring that the Global South is involved in substantive decision-making spaces, global public financial management (PFM) policies, frameworks and standards. Importantly, all people should have an opportunity to provide input and oversight across financing for development, including tax, debt and budgeting, to enable equitable, effective and accountable public resource management for the SDGs.

The Addis Ababa Action Agenda committed to 'increase transparency and equal participation in the budgeting process, and promote gender responsive budgeting and tracking' yet, as the Open Budget Survey shows, countries fail to provide timely, accessible, disaggregated budget information and meaningful opportunities for the public to participate throughout the budget process.

Deep-seated gender norms—from women's exclusion in land rights or in being recognized in certain professions to their overrepresentation in unpaid care work and informal employment—mean that women face a unique and interrelated set of barriers to getting the resources they need to thrive. We also recognize that people's experiences are shaped by the intersection of their race, gender, religion, ethnicity, class/caste, disability, sexuality, and more. For instance, in many countries, rural and informal settlement resident women, women with disabilities, single mothers, and women from different tribes, caste or religions can face distinct and compounding challenges to accessing and informing public resources. There must be greater investment for gender equity and financing for care work.

II. **Action areas**

i. **Domestic public resources**

As countries strive for sustainable development, the effective and equitable generation and management of domestic resources must be placed at the heart of the financing agenda. Both technical and political support are needed to enhance domestic resource mobilization (DRM). The UN Framework Convention on International Tax Cooperation (FCITC) is happening. The framework convention is important to address the currently non-inclusive and inequitable mechanisms for international tax cooperation and broadly the power imbalances that constrain countries in the Global South from fully exercising their taxing rights and their power to effectively raise enough domestic revenue.

The Terms of Reference (ToR) for a UN FCITC, which was adopted in August 2024, holds commitments that will promote implementation of the AAAA and the SDGs. This includes commitments to reform the global corporate tax system; fair allocation of taxing rights between countries; taxation of high-net worth individuals; tax cooperation on environmental challenges; and strengthening the links between tax and fulfillment of States' human rights obligations.

Through the FfD4 outcome document, all UN Member States should:

"Endorse the Terms of Reference for the negotiation of a new UN Framework Convention on International Tax Cooperation and two early protocols by the end of 2027, and commit to engaging constructively and in good faith in the UN Tax Convention negotiations going forward."

To ensure we leave no one behind, fiscal systems should be progressive and gender-sensitive and countries should prioritize wealth taxes and identify new paths to taxing high net worth individuals.

On gender, we need to go beyond simply gender-responsive budgeting (GRB) which tends to focus merely on "gender" allocations. Instead there must be gender responsive fiscal policy – from gender-sensitive tax policy to gender responsive allocations that can be directly linked through implementation to gender responsive outcomes. Gender responsive fiscal policy includes acknowledging that austerity – due to fiscal consolidation – disproportionately impacts women and girls as they are disproportionately both the users of and employees in public services, which are usually first on the chopping block.

As part of the FfD4 process, there must be a concerted effort to tax high net worth individuals by tapping into coordinated global efforts to introduce such measures. For example, the adoption of the UN Guidance on Wealth and Solidarity Taxes and Brasil's G20 presidency's proposal to impose a global 2% minimum tax on billionaires' wealth are two such measures. However, governments must also consider other measures such as global solidarity levies and windfall taxes with revenues being earmarked for social and economic programs aimed at reducing inequality.

ii. International development cooperation

Fragmented donor support, particularly aid that is channeled off-budget or directed toward specific donor priorities, significantly hampers governments' ability to develop coherent and realistic policy frameworks. When aid bypasses national budget systems or is aligned with donor-driven objectives rather than local needs, it undermines the government's capacity to fund and implement its policies through credible budgets. This fragmentation leads to misalignment between national development strategies and the financial resources available to implement them, weakening the overall policy coherence necessary for sustainable development.

Fragmented donor financing also creates significant challenges for governments in effectively implementing budgets. For example, research on immunization spending in 22 countries done by UNICEF and IBP in 2019 found that governments underspend externally financed immunization budget line items by an average of 73%, as compared to underspending of only 11% of the initial budget when donor funds are excluded. This high rate of underspending highlights several challenges for government budget systems that can be caused by fragmented donor financing. First, off-budget donor funding can bypass national financial systems, making it difficult for governments to track and integrate external resources into their planning processes. Second, the unpredictability of donor disbursements disrupts the flow of resources, causing delays in service delivery and contributing to underspending in key areas such as healthcare. Third, fragmented reporting systems result in incomplete or inaccurate data on available funds, making it challenging for governments to monitor and assess spending progress and effectiveness.

To address these challenges, development partners must make significant and meaningful progress on the aid harmonization agenda, including:

- Allocate funding that aligns with the recipient government's national development strategies rather than imposing donor-driven priorities.
- Improve the predictability and timeliness of funding disbursements, including ensuring that funding is available when needed according to the recipient governments' budget cycles, so as to ensure that critical services, such as healthcare, are adequately funded and delivered without delays.
- Harmonize reporting systems and ensure that donor funding is fully integrated into national financial systems. This will improve transparency, tracking, and planning for public spending.

iii. Debt and debt sustainability

Over the past decade, rising global interest rates and climate risks have exacerbated the debt burden in low-income countries. There is a need for updated frameworks that incorporate risk assessments for unforeseen crises (e.g., natural disasters, pandemics) and build resilience into debt management strategies. In addition, the increasing role of non-traditional lenders, such as private and bilateral creditors, and domestic debt issuance complicates debt sustainability and debt relief efforts. International standards and frameworks must be revised (including a UN Framework Convention) to ensure that all lenders adhere to transparency and disclosure norms.

The international community has focused on international accountability for public debt, including debt relief, but strengthening domestic accountability systems is crucial for preventing future debt crises. The reliance on international systems for oversight has often overlooked domestic stakeholders who bear the brunt of poor borrowing decisions. Recent improvements in global debt reporting (e.g., through IMF or World Bank reporting frameworks) often prioritizes creditor needs. The last decade shows a growing gap in making this information accessible and relevant for domestic actors, especially in ways that are accessible to wider audiences beyond technical experts.

Robust accountability will require efforts to strengthen transparency, disclosure, and public engagement both at international and national levels, including greater efforts to:

- Enhance Legislative Oversight: Governments should ensure that legislatures are empowered to review borrowing decisions, approve loan agreements, and monitor debt management through transparent reporting mechanisms aligned with the budget cycle. This will enhance oversight and ensure alignment with national fiscal strategies.
- Strengthen Debt Transparency: Governments and development actors must prioritize the disclosure of debt-related information, including loan terms, debt strategies, and debt sustainability analyses, in formats accessible to the public and local stakeholders. Reports should provide clear explanations for debt, including how decisions are made, who benefits and who is accountable. This fosters informed public debate and enhances accountability.
- Build Civil Society Capacity: Civil society organizations (CSOs) should be equipped with the tools and knowledge to assess debt decisions, monitor their impact on public services, and engage in policy advocacy. This will allow for greater public scrutiny of borrowing and its implications on social equity.
- Integrate Debt with Budget Processes: Public debt management should be integrated into the broader fiscal policy framework, with clear connections between borrowing decisions and their impact on public spending and taxation. This requires better coordination between debt management offices and budgetary processes.
- Promote Inclusive Public Participation: Governments should create formal mechanisms for engaging marginalized groups, CSOs, and the general public in discussions on debt management. This includes consultations at multiple stages of the borrowing process, ensuring that public voices are reflected in borrowing strategies.

iv. Addressing systemic issues

Ensuring finance delivers on its promises is critical. Budget credibility, defined as the ability of a government to meet its revenue and expenditure targets, is crucial for maintaining public trust. Deviations from the budget erode confidence in a government's ability to execute plans and commitments. Without this trust, achieving the SDGs becomes more difficult as citizens and other stakeholders lose faith in the government's capacity to deliver essential services like healthcare, education, and infrastructure.

Evidence from various countries shows a pattern of underspending in sectors critical to vulnerable populations, including healthcare, education, and agriculture. Budget credibility poses a greater challenge in low-income countries, which directly impacts development outcomes. For instance, underspending on capital projects such as schools, hospitals, and water supply systems hinders progress on poverty reduction, health, and education goals.

Budget credibility reinforces transparency and accountability, which are essential components of SDG 16 (Peace, Justice, and Strong Institutions). Yet, data from SDG indicator 16.6.1, which tracks the difference between the legislated budget and actual expenditure, reveals a decline in budget credibility between 2015 and 2022 due to factors like instability, inflation, and post-pandemic economic pressures.

Moreover, focusing solely on aggregate budget deviations is insufficient for understanding how budget credibility affects progress on specific SDGs. It is critical to examine sector-specific deviations, which highlight issues like underspending in health and education. Research by IBP and civil society groups across 13 countries has shown that spending shortfalls are more pronounced in sectors that are critical for development like gender, agriculture, and water and sanitation. Additionally, accessing detailed data on these deviations remains difficult. Civil society organizations have found that governments often provide vague explanations for budget deviations, citing issues such as cash flow problems, poor planning, or procurement delays without sufficient detail about the specific drivers of these challenges or how governments plan to address them.

Addressing budget credibility requires governments to both identify and tackle the root causes of chronic deviations. This should include:

- Increased investments in stronger public financial management (PFM) systems: Reforms need to be targeted to specific issues that undermine budget credibility spending, such as improved revenue planning and forecasting, more effective public investment management and procurement, and rules for managing and controlling budget adjustments. In particular, strategic cash management practices are essential for improving the predictability of funding, ensuring that cash is available when needed for budget execution. Effective cash planning helps avoid idle funds in some agencies while others face shortages, preventing unnecessary borrowing and ensuring smoother budget implementation.

- Improve reporting on budget execution and explanations of budget deviations: Governments strengthen fiscal transparency by publishing timely and disaggregated data on tax, debt, and spending. Reporting must also include whether budgets were executed as planned, highlighting deviations and providing clear explanations for any discrepancies. To improve the quality of justifications for budget deviations in budget documents, governments should provide clear, specific explanations that establish a causal link between deviations and their underlying causes. Explanations must offer sufficient detail to account for variations in budget execution over time or across different sectors and should consistently address the most significant deviations. This will help improve accountability and foster public trust in government spending.

- Report on SDG Indicator 16.6.1 by Sector: To better understand how budget credibility affects progress toward the SDGs, SDG indicator 16.6.1 reporting should be expanded to report on budget deviations at the sector level. Sector or disaggregated reporting would reflect the original definition of the indicator, which is defined as, “Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar)." Access to sectoral data will help countries identify the specific areas where underspending can be undermining progress toward the related SDGs and identify measures to address the underlying issues that causes budget credibility.

III. Data, monitoring and follow-up

Better data and reporting, including on budget credibility, can help improve public attention and effective oversight of the raising and spending of public resources. Recent data from the Public Expenditure and Financial Accountability (PEFA) program measuring SDG 16.6.1 on budget credibility shows that aggregate budget reliability has declined since COVID as governments have struggled to respond to inflation, political instability, and changing resource prices. Additional data on budget deviations at the sector level would help oversight actors better understand whether budget deviations are undermining efforts to achieve the SDGs.

Strengthening incentives for governments to provide access to timely and relevant budgetary information can help ensure public resources are managed effectively and equitably. Also, governments should institutionalize the use of co-created data, which is generated by communities and citizens, to inform planning, funding, implementation and monitoring of policy implementation and service delivery. In the same vein, communities can be supported to generate quality, standardized data (including disaggregated data with a special emphasis on gender to understand the interplay of identity markers and access) that can be co-created and used by governments and global actors to fix problems these communities are facing and coordinate with governments to release information that is important to groups that have been marginalized – especially in relation to the SDGs.

Robust monitoring and follow-up require strong oversight institutions. Supreme Audit Institutions (SAIs), along with other accountability actors, have an important role to play in strengthening the implementation of the SDGs. Checking and reporting on the legality and accuracy of public accounts, as well as the credibility of budgets, can be instrumental in governments delivering on their sustainable development promises. SAIs must have the independence, resources and capabilities to ensure accountability of public resources.

IV. Overarching reflections

Beyond country ownership, this process should have inclusive and meaningful citizen ownership. To restore that vital relationship between governments and their people, we need more space for everyone to influence how public money is raised and spent – especially those who have been systematically excluded from accessing public goods and services. They have valuable insights that can help governments make better decisions that reflect public priorities. By doing so, governments can tackle structural inequality and restore people's faith in democracy.