Financing for Development 2025 Fact Sheet on Domestic Public Resources

Confidential - Draft for Consultations

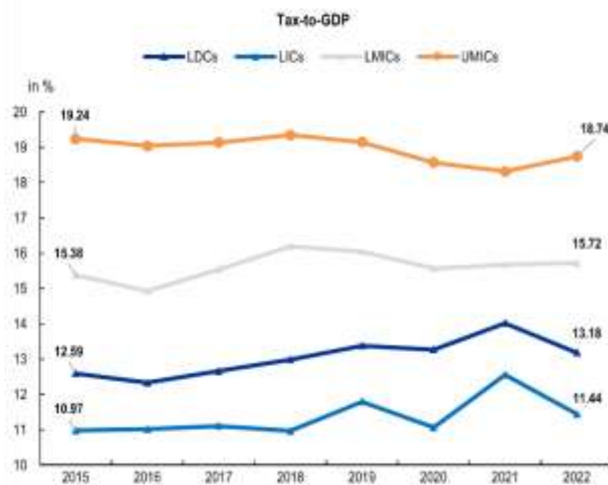
This document is currently in draft form and is being shared for consultation purposes. Your input is valuable in refining the content. Please submit any comments, feedback, or suggested changes by **18 November** to **olivier.cattaneo@oecd.org, rachel.morris@oecd.org and joseph.stead@oecd.org.**

OECD

Data dashboard

Key trends

Tax-to-gross domestic product (GDP) ratios in a majority of countries worldwide rebounded despite the negative impact of the COVID-19 pandemic on revenues



Source: Author's calculations based on UNU-WIDER data, excluding social security contributions.

From 2015 to 2022, tax revenue as a percentage of GDP increased from 16.8% to 17.5% on average in developing countries.[1] The tax-to-GDP ratio increased most (+5%) in LDCs, from 12.6% in 2015 to 13.2% in 2022, with increases (+4%) in LICs and (+2%) in LMICs, from 10.9% and 15.4% to 12.6% and 15.7%, respectively. In comparison, tax-to-GDP decreased (-3%) in UMICs from 19.2 in 2015 to 18.3 in 2022.[2]

Between 2015 and 2021, tax-to-GDP ratios increased in three-fifths of the 130 economies included in the *Global Revenue Statistics* database. However, in 86% of LICs and 43% of LMICs, revenues remain below the level required to finance critical social services and to invest in economic development (around 15%)[3].

Total tax and non-tax government revenue in developing countries rose 27%, from USD 3.44 trillion in 2015 to reach a record high of USD 4.4 trillion in 2022. In 2022, LDCs accounted for less than 5% of total government revenue generated in developing countries.

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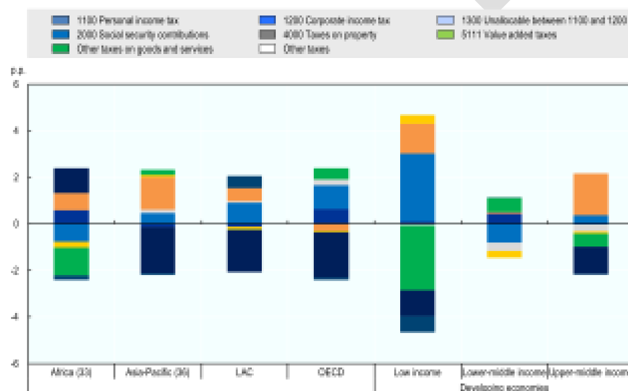
The tax structure, – or tax mix – varies significantly between countries and has evolved since 2015.

Changes in tax mix in Africa (33), Asia-Pacific (36), LAC, OECD and developing economies, 2015-2021

Percentage points (p.p.) as % of total tax revenue



Note: Developing economies (80) include those in the Global Revenue Statistics database that are defined as "low income" (11), "lower-middle income" (35) and "upper-middle income" (34) economies according to the World Bank.

Source: OECD Global Revenue Statistics (database).

The 'tax mix', or share of tax revenues from different tax types, tends to differ significantly between developing and developed economies. Developing countries tend to rely on taxes on good and services, which account for around half of tax revenues in developing countries, while taxes on income and profits and social security contributions are a much larger part of the tax mix in developed economies. In most regions and income groups, the shares of income taxes and social security contributions have increased between 2015 and 2021, while the share of taxes on goods and services has declined. While VAT has decreased in Africa, other consumption taxes have increased by a similar level. On average, low-income countries experienced the largest shift in their tax mix between 2015 and 2021, from taxes on goods and services to corporate income tax and social security contributions.

Other sources of public revenues beyond taxes may provide additional resources for development. For example, the availability of natural resources may allow governments to raise revenues through non-tax instruments such as royalties or interest and dividends. Meanwhile, mandatory, privately managed social security arrangements exist in some countries. In 2021, on average across the LAC region, non-tax revenues from natural resources and private social security contributions amounted to 1.7% of GDP and in some economies, such as Chile and Mexico, they exceeded 5% of GDP.[4]

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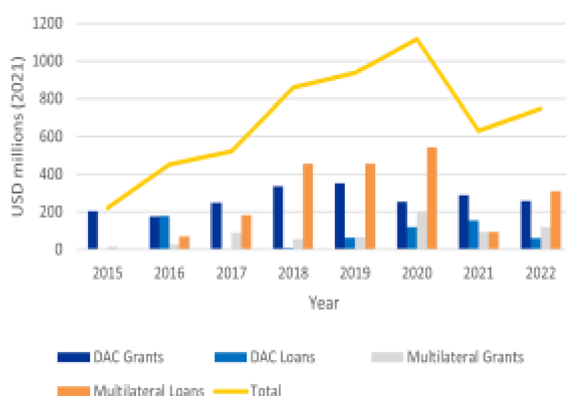
Total ODA in support of domestic revenue mobilisation has increased since 2015



Source: Author's calculations based on OECD Data Explorer.

Total ODA in support of domestic revenue mobilisation (DRM) has increased significantly since 2015 from USD 219.7 million in 2015 to USD 748.7 million in 2022, though this has fallen from a peak of USD 1.07 billion in 2020. Much of the increase has been through loans provided by the multilateral system, and much has gone to non-LDCs.

The development partner members of the Addis Tax Initiative collectively committed to doubling their assistance on tax to USD 441 million by 2020 and maintaining it thereafter. While this target has been missed, assistance has increased significantly.

Launched in 2022, the OECD's Tax Treatment of Official Development Assistance (ODA) Hub is the first public resource to improve the transparency around the taxation of aid. The Hub presents approaches taken by 22 out of 30 DAC members which participated in the survey, representing over 80% of total bilateral ODA in 2020. 13 out of 22 donors on the hub reported reviewing their policy since 2015. Of these 4 never/rarely request exemptions, 3 sometimes request exemptions, 9 generally request exemptions and 6 have no general policy on the issue.

The UN through the subcommittee on the tax treatment of ODA projects produced guidelines on the tax treatment of government-to-government aid projects. The UN Tax Committee also adopted a recommendation on the Public Disclosure of Provisions Concerning the Tax Treatment of Government-to-Government Aid Projects.

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Key performance indicators

The statistical annex presents a full list.

⇑ Since 2015, the average tax revenue as a percent of GDP increased from 16.8% to 17.5% in 2022 in developing countries

⇑ Explicit fossil fuel subsidies increased threefold to USD 1.53 trillion in 2022 from USD 503.3 billion in 2015.[5]

⇔ While ODA from Addis Tax Initiative members in support of DRM has increased from USD 220 million in 2015 to USD 345 million in 2022, the increase still falls short of the commitment to double volumes to USD 441.1 million by 2020.[6]

Resource mobilisation potential

- The IMF estimates that Low Income Developing Countries can increase their tax-to-GDP ratio by, on average 9 percentage points, through a combination of tax and institutional reforms. By increasing the tax-to-GDP ratio to a level equivalent to that of other developing countries, LDCs could mobilise an additional USD 54 billion per year in tax revenues.[7]
- Such an increase requires increased revenues from a range of taxes, with taxes on goods and services and personal income taxes having the most potential. While there is scope for some increase in revenues from corporate income tax, this is limited in comparison to the scale of resources needed.
- Globally, carbon pricing scenarios could generate around USD 1.4 trillion annually by 2030, or 1.1% of global GDP.[8]
- Estimates of illicit financial flows (IFFs) are often heterogeneous due to the lack of a commonly agreed definition and statistical challenges.[9] However, progress is underway to harmonise and clarify approaches, particularly on a country-by-country basis.

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Key areas of progress

International tax co-operation has expanded significantly in recent years

Through the work of the 171-member (over 55% of which are developing countries) Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) bank secrecy has been effectively eliminated and over EUR 130 billion in additional revenues and penalties has been identified, including more than EUR 45 billion by developing countries. 147 jurisdictions are participating in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which facilitates exchange of information between countries, while 126 jurisdictions have committed to automatic exchange of financial account information with 108 jurisdictions already exchanging information automatically, 51 of which are developing countries, including several Least Developed Countries.

International co-operation has also expanded in efforts to effectively tax Multinational Enterprises. 102 jurisdictions have laws in place to provide country by country reports of key information to be shared among tax authorities. 103 jurisdictions signed a multilateral convention[10] to modify their bilateral tax treaties and close loopholes. The 147-member (of which 50% are developing countries) Inclusive Framework on BEPS agreed on rules to establish a global minimum tax with a minimum effective tax rate of 15%, and implementation has begun. In addition the Inclusive Framework has negotiated a simplified and streamlined approach to the application of the arm's length principle for certain activities of MNEs.[11] This framework is expected to reduce transfer pricing disputes, compliance costs, and enhance tax certainty for tax administrations and taxpayers alike. Low-capacity jurisdictions facing limited resources and data availability will especially benefit from this administrative simplification.

While progress on international co-operation on tax has been significant, not all countries have yet been able to benefit from these advances, especially Least Developed Countries.

There have been significant advances in capacity building for tax, especially in international tax

In addition to the increased funding available for capacity building (see above), there have also been advances in the delivery of capacity building, especially in respect to international taxation. The joint OECD-UNDP Tax Inspectors Without Borders (TIWB) initiative, launched at the Third International Conference on Financing for Development in Addis Ababa in 2015, deploys experts to work alongside tax administrators in developing countries on live audit cases and related international tax issues. To date TIWB programmes, including those jointly delivered with the African Tax Administration Forum (ATAF), have generated over USD 2.30 billion in additional tax revenues and USD 6.05 billion in additional tax assessments across 62 jurisdictions[12]. The OECD and Global Forum have evolved their capacity building as increasing numbers of developing countries have sought to implement the standards developed at the Inclusive Framework on BEPS and Global Forum. Demand is high with the Global Forum providing support to 91 jurisdictions in 2023. This support includes a range of modalities including induction programmes for new members, bilateral programmes and a range of training, e-learning, toolkits and guidance. Much of this is produced in partnership including with international and regional organisations.[13]

Collaboration with regional tax organisations has become increasingly important, especially in Africa where the African Tax Administration Forum (ATAF) plays a leading role in building tax capacity in the continent and provided technical assistance missions to 35 countries in 2023, with USD 620 million collected through audits with ATAF assistance, bringing total collections to USD 1.92 billion (some of which has come through joint TIWB/ATAF programmes [14]. The Platform for Collaboration on Tax was established in 2016 and brings together the secretariats of the IMF, OECD, UN and World Bank Group to strengthen collaboration on domestic resource mobilisation[15]. Separately, the OECD Academy for Tax and Financial Crime Investigation has provided over 3,000 government officials from 167 jurisdictions

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with training to better detect and investigate tax crimes and other financial crimes, helping countries in their efforts to stamp out illicit financial flows.

Public development banks play a growing role to mobilise finance for sustainable development in developing countries

Public Development Banks (PDBs) are playing a crucial role in aligning investments with global goals such as the Sustainable Development Goals (SDGs), the Paris Agreement, and the Kunming-Montreal Biodiversity Framework. Since 2006, 60% of the 127 new public development banks and development finance institutions were established in low- and middle-income countries.[16] However, only 3.6% of DFIs and PDBs are domiciled in LICs.[17] PDBs are increasingly mobilising finance for climate adaptation, biodiversity, and social investments, while also exploring innovative financial tools like sustainability-linked bonds and debt swaps. While many PDBs have adopted green goals, the share of green assets in their portfolios remains low, with average levels at just 14%.[18] For instance, in LAC similarly, of the instruments they offer, only 19% address digital, gender or green goals.[19] The Finance in Common Summit (FiCS) supports PDBs by promoting research, dialogue, and peer learning to enhance their strategies and operations. It fosters global co-operation among various stakeholders, aiming to streamline financial frameworks to support sustainability goals. Recent efforts include strengthening alliances, enhancing technical assistance, and addressing currency mismatch challenges to boost cross-border capital flows.

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Persistent challenges

Narrow focus on specific taxes that lack the potential to provide the revenues required

No single revenue type can provide the volume of revenues required to achieve the SDGs, yet the attention has often been narrowly focussed, for example on international corporate income tax, which while important, including for ensuring a level playing field and maintaining trust in the tax system, cannot provide the level of revenues required. The scale of revenues needed means that in many countries it is therefore necessary to look across the tax system as a whole to identify opportunities**.** Developing a Medium-Term Revenue Strategy (MTRS)[20] for tax reform, as more than 25 countries are already exploring[21], can be a useful approach to align revenue goals with tax system reforms. These are developed in consultation with and support from the society as a whole, and help development partners in aligning their support. MTRS can be a useful complement to Integrated National Financing Frameworks (INFFs). The MTRS approach also seeks to build a durable political momentum for reform, which is vital as political economy constraints have been identified as the most frequent challenge to the sustained achievement of DRM reforms.[22]

Ensuring that economic growth leads to increased tax revenues

Low and middle-income countries require economic growth in order to develop a well-functioning state that provides good quality public services, an education and a social protection system. The tax system should contribute to an environment that is conducive to economic growth. However, economic growth by itself is not sufficient. Countries need economic growth that also translates into higher tax revenues. If tax revenues increase with economic growth, countries can avoid having to increase statutory tax rates that would result in economic distortions. Broad tax bases, avoiding generous income-based tax incentives, and progressive tax systems can strengthen the extent to which growth contributes to higher revenues.

Tax incentives (including fossil fuel subsidies) continue to lack effective oversight

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Tax incentives have been increasing in use and generosity in most regions worldwide[23]. While tax incentives can play a valuable role in development, the forgone revenues can be significant. Corporate income tax (CIT) incentives cost on average 0.2% and 0.3% of GDP in Africa and Asia, and almost double that in a quarter of countries in each region[24]. Almost 90% of developing countries have an income-based tax incentive that means in-scope firms pay zero CIT rates on their profits. The evidence on the effectiveness of tax incentives is mixed, with most lacking effective monitoring and analysis to determine value for money. A more comprehensive review of tax expenditures, including and beyond tax incentives for the largest MNEs, is needed in many countries. Such reforms should ensure that incentives are well-designed, well-targeted and based on clear eligibility criteria, and be transparent in granting, administration and evaluation[25].

Fossil fuel subsidies, which remain widespread globally, significantly hinder environmental sustainability and economic efficiency by encouraging the overconsumption of carbon-intensive energy sources. The fiscal cost of these subsidies, including those provided through tax expenditures, is substantial; in 2022, government support for fossil fuels surged to over USD 1.4 trillion in 2022 across 48 OECD and partner countries, nearly doubling from 2021 due to initiatives aimed at mitigating high energy costs.[26] Despite growing awareness of their adverse impacts, the trend shows an alarming increase in these subsidies, complicating efforts to meet climate commitments and increasing fiscal costs. Phasing out fossil fuel subsidies can alleviate fiscal burdens, freeing up resources for more productive investments in renewable energy, education, and healthcare, while aligning market signals with climate policy objectives. Eliminating these subsidies can enhance social equity if savings are redirected to targeted programs for vulnerable populations, though this may be challenging in some countries.

Addressing tax crimes, corruption and illicit financial flows requires cross-government co-operation, which is often lacking

IFFs are generated by "methods, practices and crimes aiming to transfer financial capital out of a country in contravention of national or international laws (…) illicit financial flows generally involve the following practices: money laundering, bribery and tax evasion by international companies, and trade mispricing".[27] These illicit flows contribute to weakening public institutions, foreign bribery and corruption which inflicts widespread harm and financial losses.

IFFs threaten the strategic, political, and economic interests of countries and undermine public trust in government and the financial system. IFFs can nullify legitimate financial inflows and reduce domestic investment capacity. Illicit financial outflows in some countries may exceed both ODA and FDI inflows, making the fight against IFFs a key issue for policy coherence for sustainable development.[28]

While there has been some success with the Stolen Asset Recovery (StAR) initiative by the WB and UNODC recovering about USD 1.9 billion in stolen assets, estimates are that only 1% of crime proceeds are typically recovered. Improved performance can come through detecting risks and emerging trends in tax criminality as well as through improved inter-agency co-ordination and national strategies to tackle tax crime and fostering a "whole-of-government" approach to combat IFFs.[29]

International co-operation is essential and ODA can support by targeting non-tax revenue sectors including energy and transport, strengthening key domestic institutions such as central banks and revenue collection authorities, and engaging with the private sector to enhance risk management, due diligence and responsible FDI. This involves building technical expertise on IFFs. Efforts should focus on supporting developing countries in implementing Financial Action Task Force (FATF) standards to strengthen market and investor confidence, deter de-risking, and ensure sustained access to financial markets and cross-border payment systems.[30]

Knowledge of beneficial ownership information needs further improvement

Knowledge of beneficial ownership information is the cornerstone of the fight against tax evasion and other illicit financial flows. With the work of the Global Forum and the synergies with the FATF process, jurisdictions took in the last years concrete steps to boost transparency of beneficial ownership information and foster compliance of domestic

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and foreign stakeholders by enacting legislation and tools to bridge information gap and investigate tax and financial crimes effectively and increase domestic revenue mobilisation. However, only 53% of the 118 jurisdictions reviewed as of June 2024 by the Global Forum have received a satisfactory rating on beneficial ownership, mostly because of implementation issues. Further progress is needed regarding the practical administration of the reforms done and the resources that have to be devoted from the administrations in this respect. Establishing beneficial ownership registers, whose set-up, administration and supervision reveal complex for both developed and developing countries, will need to continue to be at the centre of the strategy to combat illicit financial flows.

Subnational and urban actors continue to lack access to finance

Some 65% of the 169 SDG targets cannot be achieved without involving subnational governments, including cities. According to a recent OECD-SDSN-European Committee of the Regions survey, two-thirds of subnational governments cited the lack of financial resources as their main challenge in achieving the SDGs. [31] This gap highlights that in some countries, especially, in Africa, there is a need for greater decentralisation with respect to governance that enables local governments to raise their own revenues (e.g., via property taxes). [32] Regional and local governments play a key role in achieving climate and environmental objectives and are responsible for the majority of total public spending significantly contributing to climate change adaptation and mitigation. At current levels of investment, there will be a shortfall of USD 350 billion in financing in cities to meet climate targets in emerging economies per year.[33] International co-operation can play a critical role in bolstering subnational governments and urban finance. The potential of guarantees in mobilising financing for sustainable development has been frequently highlighted in discussions about MDB reforms such as the G20 IEG Triple Agenda report, and harnessing this potential for allowing greater access to finance for cities can be an effective means to fight climate change. Since 1988, the Multilateral Investment Guarantee Agency has issued USD 70 billion in guarantees, with only 11 claims paid, and operates with a 76:1 leverage ratio. However, most activities focus on upper middle-income countries, with FY22 marking the first-time insurance in LICs exceeded 10% of new issuance volume.[34]

Gender-responsive budgeting is needed to close gender gaps

Adequate and effective financing is essential to achieve gender equality and empower all women and girls. Gender-responsive budgeting can help address gender biases from government processes and tools and ensure they are advancing gender equality efforts, such as equal pay and equal access to the labour market. Gender budgeting is increasingly practiced in OECD countries[35]. Partner countries are currently assessing whether they have systems in place to track budget allocations to gender equality as part of the 2023-2026 Global Partnership monitoring round[36].

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New and emerging areas

Digitalisation of tax administration can have multiple benefits including and beyond revenue gains

The digitalisation of tax administration is linked with multiple benefits including improved revenues (increasing e-filing adoption by half could increase revenues by 1.6% of GDP[37]) and increased trust in tax officials (and lower perception of corruption)[38]. While developing countries have been making progress, there remains significant scope for action. Successful digitalisation requires a combination of policies, including complementary human resources[39]. There is a growing range of support available from a range of actors, including self-assessment maturity models[40] and TIWB digitalisation of tax administration programmes.

Implementation of the global minimum tax for multinational enterprises can generate significant revenue gains

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The global minimum tax ensures that large multinational enterprises pay a minimum level of tax (at an effective rate of 15%) on their income in each jurisdiction where they operate, thereby reducing the incentive for profit shifting, placing a floor under tax competition and bringing an end to the race to the bottom on corporate tax rates. To date around 40 jurisdictions have already or are planning to implement. Revenue gains are estimated between USD 155-192 billion a year (6.5%-8.1% of global corporate income tax revenues)[41]. Gains will potentially be shared widely among jurisdictions, but will accrue most strongly to those that implement some component of the rules. Those that do not implement the minimum level of tax risk foregoing revenues they could otherwise collect. The minimum tax will also provide an opportunity for jurisdictions to reassess their tax incentives and move toward incentive designs that offer better value for money in terms of investment generated per dollar of revenue foregone.

Increasing the link between tax and the Sustainable Development Goals

While tax is primarily seen as a tool to raise revenues to deliver development goals, tax policy can also be used more directly to influence development outcomes, yet this potential has not been fully utilised to date. This potential is especially high in the areas of inequality, the environment and health, as outlined in the sections below.

Tax policy can strengthen progressivity and help combat global income and wealth inequalities

Global wealth concentration has increased at the top of the distribution. The estimated share of wealth held by the wealthiest 0.001% of the world population more than doubled from 1995 to 2022 from 3.3% to 6.9%[42]. Effective tax rates on High Net Worth Individuals (HNWI) are often substantially lower than those on lower incomes[43]. The primary limitation of individual income tax is the ability of wealthy individuals to minimise taxable income through deferred capital gains and strategic use of holding companies. Tax policy can strengthen progressivity, and there is increasing interest, especially on taxing HNWI (e.g. calls for a 2% billionaire tax).

There are a range of policy options that can help broaden tax bases and achieve greater neutrality between taxation of different types of income and assets. International co-operation can help, and there is scope to build on existing initiatives such as on international tax transparency. The level of tax expenditures is large in many countries; reforming regressive tax expenditures would increase the progressivity of the tax system. Countries need annual tax expenditure reports that not only measure the tax revenue foregone but also analyses the distributional impact. There is also a need to develop coherent strategies to strengthen the formal economy and to bring informal businesses and their workers within the tax net. This will require tax and benefit reform. Many countries have informal sector businesses and workers that do have the capacity to make tax and SSC contributions. A well-designed presumptive tax regime that incentivises formalisation and that do not create a hurdle for the growth of businesses is a critical design feature of the tax system.

Environmentally related taxation can advance sustainable development by simultaneously addressing environmental challenges and supporting economic growth

Revenues from carbon taxes and emissions trading systems have increased reaching a record high USD 104 billion in 2023.[44] The global coverage of explicit carbon pricing policies is expanding, with nearly a quarter of global greenhouse gas emissions now subject to a carbon tax or emissions trading system. When accounting for implicit carbon pricing via fuel excise taxes, coverage of explicit and implicit carbon pricing policies increases to 42% of global GHG emissions.[45] These taxes can generate significant revenue that can be allocated to essential public services and that can help dampen adverse distributional impacts. Their primary role is to incentivise the reduction of environmental damage, promote innovation in green technologies, and improve public health outcomes by lowering pollution-related risks. Although environmental taxes may have regressive effects, their design can incorporate compensatory measures, such as tax credits or social transfers, to mitigate impacts on vulnerable households and ensure an equitable distribution of benefits. This approach fosters both environmental and economic resilience, contributing to long-term sustainable development.

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Increased fiscal space and external resources are needed to narrow the social protection and essential health care financing gap in developing countries

Despite progress in essential health services coverage since 2000, global improvements have stagnated since 2015, with 4.5 billion people lacking coverage in 2021. Financial hardship due to out-of-pocket health spending affected 2 billion people in 2019, including 1 billion facing catastrophic costs and 344 million pushed into extreme poverty. The proportion of people spending over 10% of their household budget on health increased to 13.5% in 2019.[46]

The COVID-19 pandemic has exposed the financing gap for social protection and essential health care in many countries. Following the onset of the crisis, the social protection gap is estimated to be around 15% of gross domestic product (GDP) for low-income countries and 5% for lower-middle-income countries. To close the gap, many low-income countries would have to spend more than 75% of their tax revenues on social protection, more than the expenditure of OECD member countries with a much larger tax revenue base.[47]

Many developing countries struggle to fund critical services due to the decline in GDP and the prevalence of the informal economy. Low-income countries would need to invest an additional 15.9% of their gross domestic product (GDP) to finance a social protection floor, and lower-middle-income countries 5.1% of their GDP. In sub-Saharan Africa, public spending on health was only about 5.2% of GDP in 2019 compared with the global average of 9.8% of GDP.[48]

Narrowing the financing gap requires approaches to create fiscal space including increasing tax revenues, expanding social security coverage, managing debt, and reallocating public expenditures. Health taxes remain underutilized in the majority of countries, and taxes on tobacco and alcohol, and to a smaller extent taxes on sugar and sugar-sweetened beverages, have a significant tax revenue potential while inducing people to live a healthier lifestyle, which would significantly reduce the health, economic and social costs for society. Countries face opportunities to levy social security contributions to finance social protection in ways that is aligned with the productivity of the workforce, in order to avoid that the tax and social security system pushes workers into informality.

External support in the form of ODA is essential. However, it remains low in comparison to financing needs.[49]

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