FINANCING POLICY BRIEF SERIES
INTER-AGENCY TASK FORCE ON
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THE ROLE OF DOMESTIC REVENUE MOBILIZATION IN ACHIEVING THE SDGS

Key messages

- Effective **Domestic Revenue Mobilization (DRM)** is crucial for financing the Sustainable Development Goals (SDGs) in low-income countries. DRM enhances state capacity to provide essential public services and aligns tax reforms with national development plans to address pressing challenges.
- To bridge the **significant financing gap for achieving the SDGs**, countries must implement comprehensive tax system reforms. This includes improving tax structures, enhancing compliance and enforcement, utilizing digital technologies, and broadening tax bases to increase revenue.
- **International cooperation on tax matters** is essential to support developing countries in strengthening their taxation systems. Initiatives like the Platform for Collaboration on Tax (PCT) and the upcoming Financing for Development Conference (FFD4) emphasize the importance of global norms and collaborative efforts to achieve sustainable development through effective taxation.

Problem statement

Since the pandemic, the SDG financing gap has grown to USD 4 trillion a year according to UN estimates. Moreover, it is widely recognized that without large-scale investments, the world faces catastrophic climate consequences. Low-income countries especially face significant financing gaps in achieving the SDGs. For them, achieving SDGs related to investment in health and education (building human capital), as well as water and sanitation, electricity, and road infrastructure (building physical capital), is estimated by the IMF to cost 16.1 percent of their GDP. This compares to 4.8 percent in emerging economies and less than 0.2 percent in advanced economies. Many low-income countries are unable to collect sufficient tax revenues, with nearly 80 percent currently collecting less than 15 percent of GDP in taxes. Based on historical and cross-country data, IMF staff estimated that there is a tipping point of around 15 percent of tax-to-GDP above which countries experience significantly higher economic growth. More recently, the World Bank has extended this analysis and confirmed that tax revenues of at least 15 percent of GDP can boost economic growth. Moreover, the analysis has found additional positive effects on enhanced stability and inequality reduction through higher public spending and progressive taxation.

RELEVANT ACTION AREAS

ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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Policy solutions

Increasing tax revenues is both vital and feasible. The IMF estimates that low-income countries' revenue raising potential is around 9 percentage points of GDP, increasing their current 13 percent average to 22 percent and bringing the low-income countries closer to the level of emerging market economies. Achieving this is difficult and requires sustained, comprehensive tax system reforms, including in tax policies, institutions, and legal frameworks. It also requires strong political support for such comprehensive reforms, including efforts to limit the expansion of inefficient tax exemptions and to promote compliance across all taxpayers. Leveraging digital technology in tax collection is critical to improving compliance while mitigating costs to taxpayers.

Developing countries can make significant revenue gains by improving the way they tax consumption (such as value added taxes—VATs), individual incomes, and wealth. For instance, VAT compliance gaps—the difference between expected and actual tax collection—are larger in developing countries. Closing those gaps could raise considerable additional revenues. Countries are encouraged to broaden their tax bases, for instance by reducing VAT exemptions, and better taxing professionals, high wealth individuals and capital. Moreover, beyond increasing revenue collection, such reforms can also be redistributive, especially when combined with targeted spending measures to support the poor. Countries may also want to explore other taxes that can raise revenues while contributing to human development—such as those that discourage unhealthy activities like smoking or encourage lower carbon emissions.

The past decade has seen great progress in reforming the international taxation. Since 2009, and especially since the Addis Abba Action Agenda in 2015, there has been an acceleration of and participation in international cooperation on tax matters. This includes addressing bank secrecy through exchange of information and mitigating profit shifting by big companies as a result of the OECD initiative to address Base Erosion and Profit Shifting (BEPS), including the global minimum tax recently agreed by consensus by the G20/OECD Inclusive Framework on BEPS. While these efforts help fight tax avoidance and tax evasion, and mitigate harmful tax competition, they are not the panacea for financing development. Revenues from corporate income tax average only around 3 percent of countries' GDP. While there is some scope to increase these revenues, for example through implementation of the global minimum tax, which the OECD estimates could increase global CIT revenues by 6.5-8.1%, ultimately the scope to increase tax collection from this source is limited in comparison to the scale of revenues required. Therefore, the bulk of additional tax revenues will need to come from domestic tax systems as a whole.

Specific recommendations for FFD4

Taxation, finance and development are closely linked. Building developing countries' tax capacity is an essential building block of healthy public finances and economic development. The evidence is clear that achieving tax to GDP ratios of at least 15% can be a catalyst for growth and stability, and that the bulk of those revenues will need to come from domestic tax reforms. The July 2025 Financing for Development conference in Sevilla presents an opportunity to recognize the urgent need to fully implement the Sustainable Development Goals and the importance of DRM in all its dimensions to achieving them. International cooperation on tax matters is important but in itself insufficient to meet countries' spending needs. We reiterate our commitment, both independently, and collectively, to support the FFD4 process and to continue our work to help countries strengthen their taxation frameworks, with a view to achieving the Sustainable Development Goals.

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