

Report of the Inter-agency
Task Force on Financing
for Development

FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS 2018



United Nations

This report is a joint product of the members of the Inter-agency Task Force on Financing for Development (members are shown on page xi). The Financing for Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Task Force report.

The online annex of the Task Force (<http://developmentfinance.un.org>) comprehensively monitors progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the SDGs. It provides the complete evidence base for the Task Force's annual report on progress in the seven action areas of the Addis Agenda (chapters III.A–III.G). The report is by necessity more concise and selective, and should thus be read in conjunction with the online annex.

The online annex of the Task Force also covers several key cross-cutting initiatives that build on the synergies of the Sustainable Development Goals in-depth:

- Delivering social protection and essential public services
- Ending hunger and malnutrition
- Closing the infrastructure gap
- Promoting inclusive and sustainable industrialization
- Generating full and productive employment for all
- Protecting ecosystems
- Promoting peaceful and inclusive societies
- Gender equality
- Investing in children and youth
- Addressing the diverse needs and challenges faced by countries in special situations
- Global partnership

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Chapter III.A

Domestic public resources

1. Key messages and recommendations

Domestic public finance is essential to providing public goods and services, increasing equality, supporting macroeconomic stability and achieving the Sustainable Development Goals (SDGs). Public finance encompasses raising revenue, budgeting its use, and spending on public programmes and investment. All parts of the process should aim to align with country priorities and the sustainable development agenda.

Tax structures affect society and the economy in many ways beyond a narrow public financing focus. Efforts to strengthen progressivity of fiscal systems, as called for in the Addis Ababa Action Agenda (hereafter, Addis Agenda), help tackle inequalities. Taxes also set incentives (e.g., for private investment, environmental sustainability, improving health outcomes) and affect many other concerns central to the achievement of the SDGs. To address the broad effects of the tax system, *the Inter-Agency Task Force on Financing for Development (hereafter, Task Force) continues to recommend whole-of-government approaches to tax policy and administration.* In the experience of Task Force members, preparing medium-term strategies for tax system reform can help sharpen political will, improve the societal ownership of reforms, and drive the capacity-building needed to deliver them. *Domestic public resource mobilization can be improved with the implementation of medium-term revenue strategies (MTRS).*

MTRS should be seen as part of overall public financial management, with the impact of taxation and revenue analysed in the context of the allocation of public expenditure. Effectiveness and efficiency in revenue collection and public service delivery can boost the link between citizen and State

by enhancing accountability and strengthening the social contract.

Gender equality must be addressed in policymaking and programming to build governance systems that are responsive to all citizens. *Governments should conduct comprehensive gender impact analysis of fiscal systems, not only of individual taxes, to ensure that revenue and expenditure are more gender responsive and promote gender equality.* These require analytic capacity and sex-disaggregated socioeconomic and fiscal data. Regional and international tax cooperation bodies can support knowledge transfer and capacity strengthening of Governments. *Guidelines and methodologies for MTRS, tax policy assessment frameworks, and tax administration diagnostic tools should incorporate gender.*

Conflict-affected countries have unique challenges and fiscal systems are a keystone of efforts to rebuild the social contract and establish trust and accountability between citizens and States. Many conflict-affected countries rely on trade taxes as a significant source of revenue; accordingly, *it is important to develop strong customs administration and enforcement mechanisms while working to diversify the tax base.*

Taxes on harmful and unhealthy products such as tobacco, alcohol and sugar-sweetened beverages have potential to raise revenues in addition to changing incentives and behaviour, thus improving the overall health of populations. *There is therefore a double win for society to impose such taxes to achieve health and revenue objectives.*

The digitalization of business and finance has potential for improving tax revenue collection, but the pace of technology innovation could also outstrip the ability of Member States to monitor tax avoidance and evasion. *Application of technology to tax administration, including tax enforce-*

ment, can make more information available and enable revenue authorities to widen the tax base, identify and mitigate compliance risks, more effectively identify and prosecute evaders, and ultimately provide deterrence and stimulate voluntary compliance.

The Addis Agenda calls for taxes to be paid where economic activity occurs and value is created. However, digitalization of business models makes this more difficult because the value of intangibles and the location of value creation are hard to define and measure. *As new rules are agreed in relation to the digitalization of the economy, the Task Force reiterates the principle in the Addis Agenda that efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries.*

Significant progress has been made to address the international dimensions of taxation. International tax cooperation has led to the implementation of new international standards on tax transparency, including automatic sharing of information by tax authorities. *More work needs to be done to enable developing countries to benefit from the norms, especially the poorest countries.* Last year, the Task Force recommended a *thorough analysis of the implications for sustainable development of international tax reforms.* Such analysis has begun but remains incomplete, with some of the necessary data not yet available.

Official development assistance (ODA) in support of domestic resource mobilization remains small. As agreed in the Addis Agenda, *donors should continue to increase their contributions to revenue mobilization capacity-building, and do so in line with the recommendations on enhancing the effectiveness of external support in building tax capacity in developing countries set out by the Task Force in 2017.*

Task Force members, for their part, will continue to strengthen collaboration, including through the joint United Nations, World Bank, International Monetary Fund (IMF), and Organization for Economic Cooperation and Development (OECD) Platform for Collaboration on Tax. The role of regional tax organizations is also vital. Sharing experiences plays a key role in developing

common positions and holds potential for regional cooperation on tax incentives and harmonization of standards. Member States recognized this role last year in the 2017 ECOSOC Forum on Financing for Development Follow-up, meanwhile regional tax organizations are strengthening their global network to enable broader sharing of experiences. *Continued strengthening of existing regional tax organizations, and establishing them in regions without such organizations, will contribute to inclusive tax cooperation.*

The Task Force recognizes the damage done by illicit financial flows (IFFs) and the interest of Member States in combatting this scourge. The Task Force will continue providing component-by-component and channel-by-channel estimates of the value of such flows. Many of the reforms being discussed through international tax cooperation will contribute to preventing IFFs. In addition to the role of technology in strengthening tax administration, *technological advances can also assist Member States to combat IFFs through improved customs administrations, application of anti-money laundering rules, and operation of beneficial ownership registries and financial supervision.* Whole-of-government approaches take on additional significance because combatting IFFs, such as goods trade mis-invoicing, requires cooperation among many different agencies and ministries.

Technological advances also pose risks related to IFFs. The potential for anonymity with the use of new technologies such as blockchain and digital currencies can heighten the risk of illicit finance. *Member States can strengthen regulations on markets that are contributing to the illicit movement of resources.* International cooperation on the return of stolen assets is mandated by the United Nations Convention Against Corruption. *More investment can be made in the human and technical resources necessary to speed up assets return.*

Expenditure and budgeting needs to be effective and aligned with national and global priorities. Data and transparency are necessary on the expenditure side of public finance for delivery of accountable public services and sustainable development. *Stronger implementation of transparency and public participation in the budgeting process can improve the effectiveness of public finance.*

Gender-responsive budgeting can strengthen coherence between government budgets and gender equality objectives by identifying key gender equality goals, allocating appropriate funding and designing tax systems with gender equality in mind. Member States have committed to implement policies and legislation that promote gender equality and the empowerment of all women and girls at all levels. ***Member States can use public financial management institutions to operationalize gender-responsive fiscal policies and should measure their progress in doing so.***

Last year the Task Force provided a deeper analysis of financing of universal social protection systems. Building universal social protection systems has synergies with other social policies, as well as additional benefits, such as helping improve tax administration and delivering emergency assistance in response to shocks.

Finally, the Addis Agenda emphasises that national development banks (NDBs) can play a vital role in financing sustainable development. ***More in-depth study is warranted of how NDBs can adopt prudential risk management frameworks that align their activities with long-term investment and all three dimensions of sustainable development.***

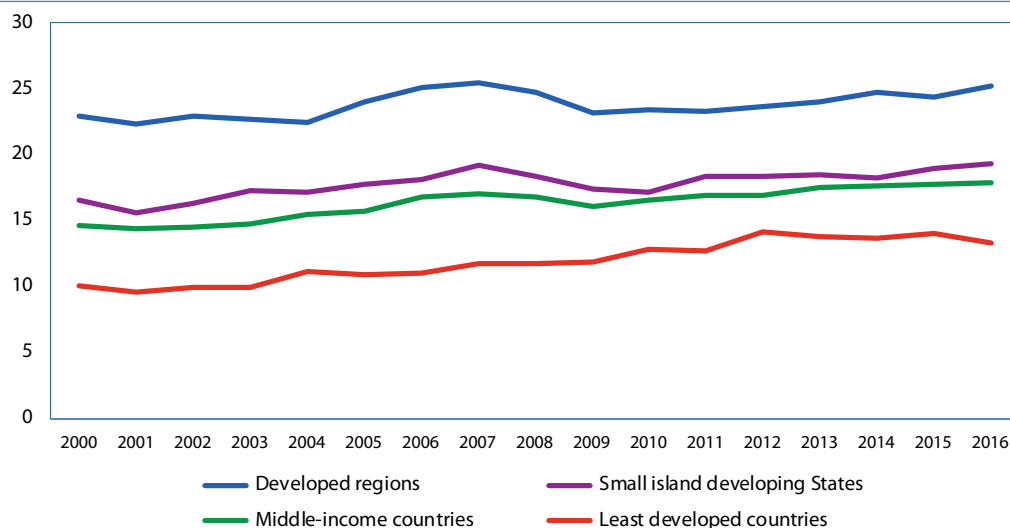
2. Domestic resource mobilization

2.1 Trends and revenue targets

The Addis Agenda recognizes that domestic public resources are first and foremost generated by economic growth. The particularly weak global growth of 2016, as noted in chapter I, was reflected in the resource mobilization data of some countries. Median tax/gross domestic product (GDP) ratios continued to increase in small island developing States (SIDS) and in middle-income countries, although at a slower rate, with a median ratio of 17.9 per cent (see figure 1). For least developed countries (LDCs), median tax revenue declined in 2016 to 13.3 per cent of GDP. Of the 42 LDCs with reported data, 19 increased their tax-GDP ratios in 2016. Large gaps remain between LDCs, middle-income countries and countries in developed regions, with the 2016 gaps rising to levels not seen since 2008.

The composition of tax revenues also differs between developed and developing countries. Corporate and trade taxes constitute a much higher proportion of revenues in developing countries than in developed countries (see figure 2). Although resource-rich countries rely less on income and consumption taxes as a source of revenue, the institu-

Figure 1
Median tax revenue, 2000–2016
(Percentage of GDP)



Source: IMF, World Revenue Longitudinal Dataset.

tional framework for taxation remains important. Commodity exporters are sometimes exposed to higher fiscal risks because of the high volatility of revenues associated with resource extraction and the propensity towards boom-bust economic cycles.¹ Taxation also has important positive effects on governance.²

Developed countries continue to have greater proportions of personal income and goods and services taxes. The value of goods and services taxes collected by developing countries has generally increased over the past decade, particularly in LDCs, as shown in figure 3. The increasing reliance on these types of indirect taxes has important implications for the progressivity of tax systems.

2.2 Tax administration

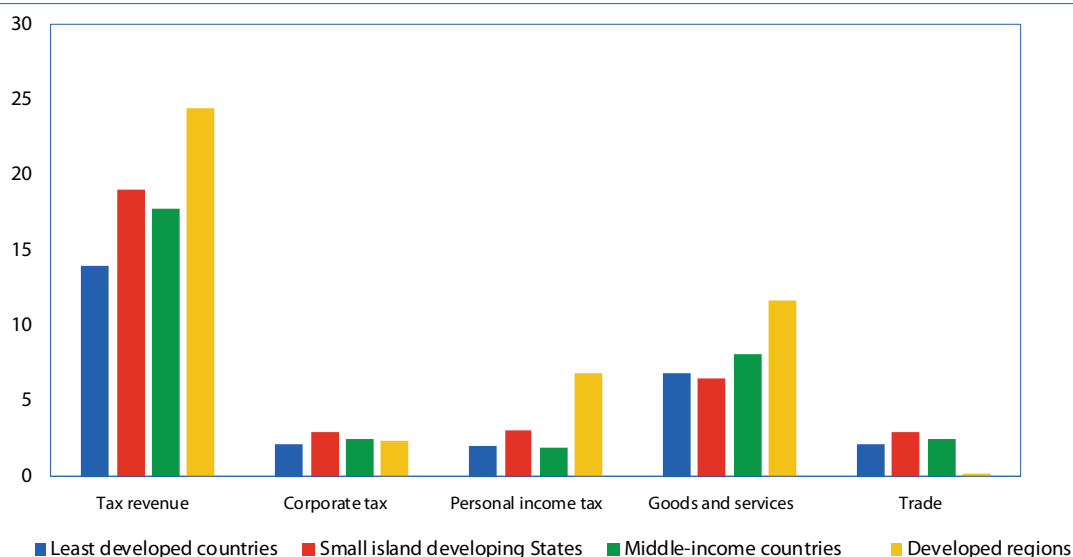
During 2017, the 2016 International Survey on Revenue Administration (*ISORA*) was completed with 135 tax administrations participating.³ The survey found that while 91 per cent of tax administrations have strategic plans, only 64 per cent publish them. In terms of autonomy of tax authorities, 73 per cent have authority over their own internal structure, and 64 per cent have authority over their internal budget. Over 91 per cent of revenue administrations provide tax policy advice to their Governments.

The Tax Administration Diagnostic Assessment Tool (TADAT) is designed to provide an assessment of the health of key components of a

Figure 2

Median tax revenue by type of tax, 2015

(Percentage of GDP)

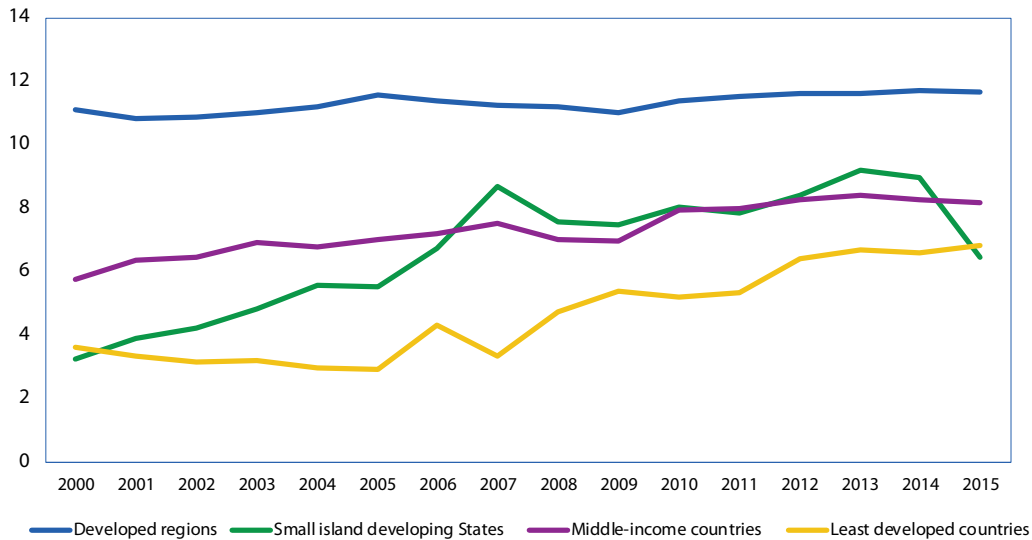


Source: IMF, World Revenue Longitudinal Dataset.

Note: Because the database has a low number of observations for some of the tax breakdowns for 2015, there is considerable uncertainty associated with this analysis. There were 10 or fewer observations for SIDS, and only 10 or 14 observations for LDCs.

- 1 International Monetary Fund, "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries" (Washington D.C., 2012). Available from <https://www.imf.org/external/np/pp/eng/2012/082412.pdf>.
- 2 See, inter alia, Adrian Gauci and John Robert Sloan, "From Consumer to Citizen Building a society contract for transformation through direct taxation", paper presented at African Economic Conference (Addis Ababa, 2017).
- 3 This was the first survey for the International Survey on Revenue Administration (ISORA) partners (Centro Interamericano de Administraciones Tributarias (CIAT), the International Monetary Fund (IMF), Intra-European Organisation of Tax Administrations (IOTA) and the Organization for Economic Cooperation and Development (OECD)) to jointly gather tax administration data through a single, shared, online survey. Aggregated data from this survey round is available to the public, while participating tax administrations may access country level data. The ISORA 2018 will be launched in May 2018 with a simplified and shortened questionnaire to make it easier for tax administrations to complete. Available from <https://data.rafit.org>.

Figure 3
Median goods and services tax revenue, 2000–2015
 (Percentage of GDP)



Source: IMF, World Revenue Longitudinal Dataset.

Note: Because the database has a low number of observations for 2015, there is considerable uncertainty associated with that year's data.

country's system of tax administration. This framework is focused on the nine key performance areas that cover most tax administration functions, processes and institutions. As at end-February 2018, 53 TADAT assessments have been conducted, with 36 in middle-income countries, and 2 for subnational authorities. Developed countries are also conducting the exercise. At least eight national level assessments are planned or in progress, with a further two subnational assessments planned. As shown in table 1, some patterns, gaps, and policy recommendations emerge from the assessments, recognizing that tax administration maturity levels vary from country to country. Hosting a TADAT assessment can help revenue authorities plan reforms that enhance effectiveness, efficiency and accountability.

2.3 Tax avoidance and tax evasion

A barrier to greater domestic resource mobilization is a high and persistent level of tax evasion and avoidance that undercuts public revenues. Some global estimates of international corporate tax avoidance were presented in the 2017 Task Force report and

a number of new or updated studies have been released, as shown in table 2.

In Africa, the large share of subsistence and smallholder agriculture in the economy and employment results in narrow tax bases, reducing the potential of tax collection. In some countries, the political and economic elite remain outside the tax base. The informal sector, which contributes to a large part of GDP in some countries (particularly in Africa), also may not be taxed, although many in this sector are in extreme poverty.

In Latin America and the Caribbean, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that tax non-compliance is equivalent to 2.4 per cent of GDP for value-added taxes (VAT) and 4.3 per cent for income tax, worth a combined total of \$340 billion in 2015.⁴ Estimates of VAT point to an average evasion rate of roughly 28 per cent, with evasion of income tax estimated to be more severe, averaging 50 per cent of income tax receipts (as compared to theoretically generated tax collections), although there is significant heterogeneity at the national level. Evasion rates are estimated

⁴ *Economic Survey of Latin America and the Caribbean: The 2030 Agenda for Sustainable Development and the challenges of financing for development* (United Nations publication, Sales No. E.16.II.G.3).

Table 1
Emerging patterns from completed TADAT assessments

Tax administration strengths that stand out	Prominent areas needing attention
<ul style="list-style-type: none"> • Tax administrations strive to bring into the net those who are outside it. • Information about taxpayer obligations is generally wide in scope, current and easily accessible by taxpayers. • Dispute resolution processes and procedures are generally available and well designed. • Internal audit and external oversight are generally strong. • Financial and operational results are generally published. 	<ul style="list-style-type: none"> • Data is unreliable—a major crosscutting weakness that impacts all outcome areas. • Taxpayer registration databases are inaccurate. • Management practices for compliance and institutional risk are weak. • On-time filing and payment rates are poor. • Tax debt management practices are weak. • Wait times for resolving taxpayer disputes are unnecessarily long. • Revenue accounting systems are inefficient; size of suspense accounts is often unknown.

Source: IMF.

Table 2
Select international corporate tax avoidance estimates

Estimate provider	Date of publication	Volume of tax loss	Underlying data
OECD Economics Department Working Paper (Johansson, Skeie, Sorbe, & Menon)	2017	\$100 billion – \$240 billion in 2014	Firm-level corporate financial information databases
WIDER Working Paper (Cobham & Janský)	2017	\$500 billion annually	Country-level statutory tax rates and corporate income tax revenues
IES Working Paper (Janský, & Palanský)	2017	\$150 billion – \$188 billion annually	Foreign direct investment data and reported rates of return

Source: Inter-agency Task Force on Financing for Development, UN/DESA.

to be higher for corporate than for personal income tax, and within personal income, much higher for self-employed persons than employees.

2.4 Tax reform and medium-term revenue strategies

Experience shows that progress in reforming revenue administrations and reducing evasion is achievable. Common elements of success include aligning administrative reforms with policy changes, and capacity-building to support both administrative reforms and policy changes. As many of these changes may encounter powerful opposition and political interference, sustained political commitment at the highest level and strong leadership of the revenue administration are essential.

In 2017, the Task Force encouraged the adoption of country-owned MTRS, which set out an overall four-year (or longer) plan for the development of the revenue system. This approach—which covers tax policy, law and administration—considers

not only administrative issues such as efficiency in tax collection, but also the distributional implications of the tax system and potential reforms, including the fiscal space these reforms create for public spending aligned with the sustainable development agenda. It can also help gather political support for reform within countries and provide a mechanism to facilitate improved donor coordination. The MTRS approach can also help shape and improve the relationship between citizens and their Governments through stakeholder engagement, which can build broad social and political commitment to the tax system and its reform. Already in 2017, three Member States have committed to developing a full-fledged MTRS.

2.5 Digitalization and taxation

The intersection of tax policy and tax administration with the digitalization of the economy can be characterized as a series of small innovations being patched onto an institutional framework that is not

sufficiently updated to take advantage of the opportunities or counter the risks presented.

Automated information systems can improve compliance, widen the tax base, and enable revenue authorities to more quickly and easily identify and mitigate risks related to tax avoidance and evasion, staff, technology and processes. Other possible benefits include improving government service delivery and levelling the playing field for taxpayers. They can also make enforcement more effective by enabling revenue authorities to share information across borders. For example, one estimate of seven major developing and emerging economies finds that digitalizing payments can lead to direct savings between 0.8 and 1.1 per cent of GDP on an annual basis, with about 0.5 per cent of GDP accruing to government.⁵

Greater access to information and enhanced digital systems and processing capabilities open new options for policymakers. Digital information affords better enforcement of existing rules; while access to richer information can drive improvements in the rules themselves. For example, tax liabilities could be based on a taxpayer's lifetime income and wealth, rather than current yearly income, which would arguably lead to a fairer distribution of tax burdens. Digital systems also offer potential new roles for consumers and third parties in facilitating enhanced compliance—including through the emerging peer-to-peer economy.⁶

At the same time, some analysts have suggested that because the opportunities for tax avoidance associated with the scale of growth in online business may be putting so much pressure on current tax

arrangements, fundamental changes in the international tax system are needed to ensure efficiency and fairness across countries in the allocation of taxing rights. From the perspective of international corporate tax policy, the issue of how to treat cross-border digital transactions has become highly contentious.⁷ There are several key features of archetypal “digital companies” that provide challenges for current norms of international corporate taxation: sales with little or no physical presence; heavy reliance on intangible assets; and “user-generated value”.⁸ The issue of permanent establishment, in particular, has sparked concerns. Under existing rules, digital companies often have no liability to pay income tax in jurisdictions where they have users and customers, because those rules require some form of physical presence for a set period of time. This has opened a broader debate on the allocation of taxing rights and attribution of income between the residence and source countries. There is also disagreement on how user-generated value should affect taxing rights. Digital economy business models make heavy use of data to realize profit, while users of online services generate information that has commercial value. Much of the data collected is extremely valuable, but there is no agreement on whether, or how, to attribute value to the creation and use of data. The lack of a universal tax standard opens the possibility for fragmentation in approaches to this issue across jurisdictions but also creates incentives towards unilateral action to counter risks to the tax base.

There are different views on how to adapt international tax rules to the digitalization of the economy.

⁵ Sanjeev Gupta and others, “Digital Revolutions in Public Finance” (International Monetary Fund, 2017). Available from <http://www.elibrary.imf.org/view/IMF071/24304-9781484315224/24304-9781484315224/24304-9781484315224.xml>.

⁶ Ibid.

⁷ For a deeper discussion of these issues please see a background paper written for the UN Committee of Experts (E/C.18/2017/CRP.22) and the Organization for Economic Co-operation and Development Base erosion and profit shifting (OECD BEPS) Action Plan report on Addressing the Tax Challenges of the Digital Economy, available from <https://www.oecd.org/tax/addressing-the-tax-challenges-of-the-digital-economy-action-1-2015-final-report-9789264241046-en.htm>.

⁸ Digital economy business models do bear significant resemblance to those in the services sector. The taxation of cross-border services provision has been grappling with many of the same issues as now face taxation of the digital economy activities. Many multinational enterprises that are involved in the production and trade of merchandise also use intra-group transactions on services and other intangibles, which has been a significant source of base erosion and profit shifting activity. See Organization for Economic Co-operation and Development Base erosion and profit shifting (OECD BEPS) Action Plan report on Transfer Pricing. Available from <https://www.oecd.org/tax/aligining-transfer-pricing-outcomes-with-value-creation-actions-8-10-2015-final-reports-9789264241244-en.htm>.

Some experts doubt the desirability or even the possibility of ring-fencing digital companies for the purpose of designing special tax treatment. However, in recent policy debates, other experts have raised the prospect of tax rules that would be restricted to specific business lines. The United Nations Committee of Experts on International Cooperation in Tax Matters has established a subcommittee to consider necessary revisions in the United Nations Model Double Taxation Convention as well as to provide revised guidance. The Task Force on the Digital Economy, which is now a subsidiary body of the OECD-housed Inclusive Framework on Base Erosion and Profit Shifting (BEPS), is examining the tax challenges of digitalization; it is anticipated that the Inclusive Framework on BEPS will release an interim report on the findings by the end of April 2018, with a final report by 2020. The European Commission is waiting for that interim report and, if it does not include satisfactory proposals, may propose its own measures. Any changes to the provisions of either the United Nations or OECD model conventions as a result of this work will not automatically change the existing base of over 3,000 tax treaties or domestic practices unless Member States take action to incorporate them.

2.6 Gender and tax

Both the 2030 Agenda for Sustainable Development and the Addis Agenda include commitments to increasing investments in gender equality and women's empowerment. Taxes are a primary source of financing public services, which are of particular importance to women because they can reduce unpaid care and domestic work.

Gender bias in taxation, while an outgrowth of broader bias in society, also reinforces persistent inequalities. Explicit gender bias is the existence of specific provisions in tax law or regulations that impose different rules on men and women. Implicit bias is

the existence of provisions in tax law or regulations that consistently have different impacts on men and women. Tax and domestic resource mobilization policies can reinforce and/or perpetuate discrimination in ways that undercut women's access to decent paid work and income security; reinforce women's role in providing unpaid care; and limit women's access to productive assets, wealth and other economic opportunities. For example, a tax that directly or indirectly discourages women from seeking formal employment can threaten women's income and participation in the labour force.

As shown in figure 3, developing countries have seen a rising amount of revenue as a share of GDP raised through goods and services taxes, which includes VAT.⁹ Given women's overrepresentation in low-income groups, they bear disproportionate burdens of indirect taxes and consumption taxes. Recent research has also looked into the range of other ways that authorities raise revenue, including presumptive taxes¹⁰ and fees, particularly those assessed at the subnational level.¹¹ These may also have implicit gender bias and subnational authority efforts to raise own-source revenue should take this into account (see chapter II).

Tax systems and tax policy can be used as powerful tools in addressing inequality, including gender inequality. To be gender responsive, tax policies and the tax mix adopted by a Government can be structured in a progressive manner and designed to reduce implicit bias. A gender analysis of personal income tax should consider four main issues: (i) insufficient tax relief for minimum basic living costs; (ii) the impact of shifts to flat-rate personal taxation;¹² (iii) joint taxation of adult couples; and (iv) the tying of social benefits to income. Overall, however, there is very little internationally comparable sex-disaggregated data on tax system performance and impacts, underscoring the need for more

⁹ Kathleen Lahey, "Gender, Taxation, and Equality in Developing Countries: Issues and Policy Recommendations" (New York, UN-Women, forthcoming).

¹⁰ Presumptive taxation involves the use of indirect means to ascertain tax liability, which differs from the usual rules based on the taxpayer's accounts. Examples include flat taxes on informal traders in markets.

¹¹ For a summary, see Anuradha Joshi, "Tax and Gender in Developing Countries: What are the Issues?", ICTD Summary Brief Number 6 (2017). Available from <http://ictd.ac/publication/7-policy-briefing/161-ictd-sumbrief6>.

¹² Over 40 countries at all levels of development have adopted flat-rate personal income tax laws. Women are often negatively affected by the move to flat-rate income tax structures, because this typically results in an increased rate for those with the lowest incomes.

sex-disaggregated data on fiscal systems (see also chapter IV).

2.7 Revenue systems in the context of conflict

Countries experiencing situations of conflict and violence face some of the most pressing challenges to achieving the SDGs.¹³ The Task Force has previously noted that there is increasing evidence that countries with tax revenues below 15 per cent of GDP have difficulty funding basic state functions. An IMF study of conflict-affected countries shows that the average tax revenue-to-GDP ratio in 39 States¹⁴ was below 14 per cent during 2005–2014 compared to 19 per cent in other developing countries.¹⁵

Research conducted in the last two decades points to weak institutional development, particularly in terms of legitimacy, approaches, and practices in conflict-affected countries. In conflict-affected situations, citizens typically have no or low trust in state institutions. The overarching goal is to stop or prevent violence and restore citizen trust. To achieve this goal, legitimacy is important. Redistributive institutions (e.g., revenue, expenditure, and social transfer entities) can help create incentives for individuals, groups and Governments to refrain from using violence. Increasing the mobilization of domestic resources can enhance accountability and thereby state-building, particularly if such efforts are explicitly linked to the provision of public goods.¹⁶ Developing fiscal capacity is particularly important for conflict-affected countries, as the functioning of other State institutions, and the resultant ser-

vice delivery, depend on the ability to finance them. Yet, tax and other revenue-raising functions tend to receive less attention compared to the attention paid to political institutions by the international community.

Mobilizing greater tax revenue depends on efficient and effective domestic tax administrations, which are frequently not present in conflict-affected situations. Often, an approach other than “best practice” is required in conflict-affected states. Policymakers may need to develop implementable second-best solutions.¹⁷ In this regard, as shown in figure 4, conflict-affected countries rely more on trade taxes as a source of revenue, and are less diversified than non-conflict affected countries. Considerable attention is often paid to reforming the tax administration in conflict-affected countries, while customs administration is considered secondary. One general lesson from international organization experience is that more attention needs to be paid to reforming and strengthening customs administration and enforcement—especially when revenue from taxes at the border is significant.¹⁸ Improvements to customs administration are also critical to contribute to global public goods in many areas, such as mitigating corruption, combatting money-laundering and terrorist financing, combatting drugs and human trafficking, protecting the environment, and trafficking of cultural property, among others.

2.8 Tax and health

Health services have a public-goods nature and in most countries public finance is central to the goal

¹³ There is no clear-cut categorization or definition in the United Nations system to describe which countries are conflict-affected. To help guide its own work, the World Bank Group and other multilateral development banks created a Harmonized List of Fragile Situations. This global common framework is broadly recognized, and the 2018 List classifies 36 countries as being in such situations. The number of countries experiencing conflict may be higher, as countries undergoing subnational-level conflict are not included in the List.

¹⁴ The International Monetary Fund (IMF) study was conducted using the IMF definition of “fragile states”. This defines fragile states as having either weak institutional capacity as measured by the World Bank’s Country Policy and Institutional Assessment (CPIA) score (average of 3.2 or lower) and/or experience of conflict (signalled by the presence of a peacekeeping or peacebuilding operation in the most recent three-year period).

¹⁵ The tax ratio excludes extractive industry royalties and other similar non-tax revenue. See International Monetary Fund, “Building Fiscal Capacity in Fragile States”, Policy Paper (Washington, D.C., 2017).

¹⁶ International Bank for Reconstruction and Development/ World Bank, *World Development Report: Governance and the Rule of Law* (Washington, D.C., 2017). Available from <http://www.worldbank.org/en/publication/wdr2017#>.

¹⁷ International Monetary Fund, “Building Fiscal Capacity in Fragile States”, Policy Paper (Washington, D.C., 2017); World Bank Group, *World Development Report: Governance and the Rule of Law* (Washington, D.C., 2017).

¹⁸ International Monetary Fund, “Building Fiscal Capacity in Fragile States”, Policy Paper (Washington, D.C., 2017).

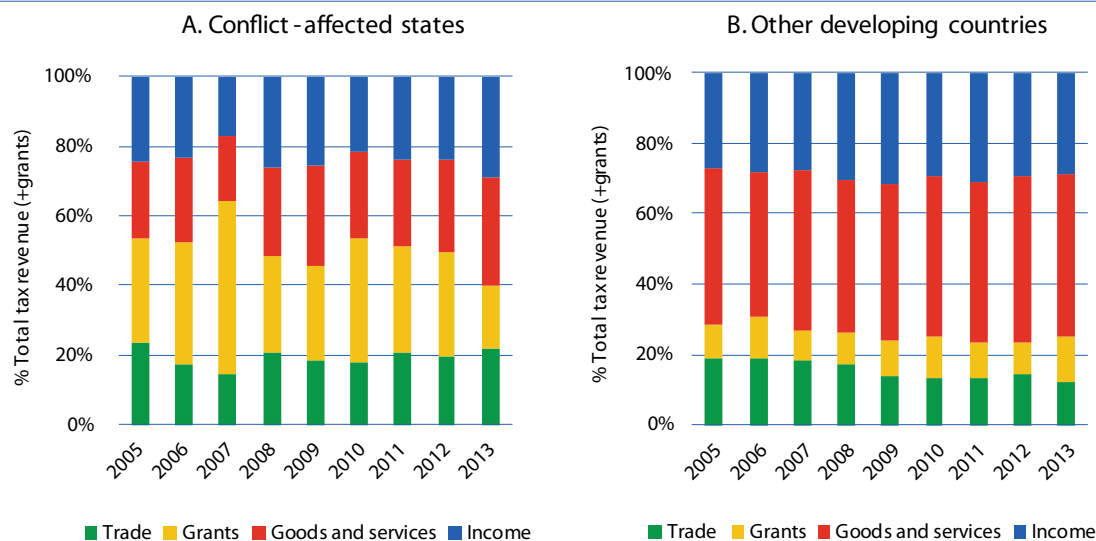
of achieving universal health coverage (SDG target 3.8). The Addis Agenda notes that, in addition to their revenue-raising function, taxes can be used to change incentives and behaviour. For example, taxes on tobacco, alcohol and sugar-sweetened beverages can potentially reduce consumption of these items, compensate society for increased health-system costs, and increase resources for the health sector. Excise taxes for tobacco control are most frequently used. Different types of excise structures, based on either quantities or value, are applied to tobacco products (see figure 5). Additionally, 35 countries have complex systems, with different (tiered) taxes that are applied to the same product based on sometimes minor differences in product characteristics, which opens loopholes for industry tax avoidance. The World Health Organization (WHO) recommends tobacco tax reforms that close loopholes by implementing single-rate, specific excise taxes that are frequently adjusted upwards. Currently, only 16 countries have automatically adjusted specific excise taxes (see figure

6). WHO recommends that best practice is to have total taxes make up more than 75 per cent of the retail price of cigarettes, although only 32 countries are currently meeting this practice (see figure 7).

Earmarking is increasingly used as a tool for domestic resource mobilization for health and as an instrument of public health policy—often to advance national health priorities. From a fiscal management perspective, hard earmarking (i.e., tying revenue streams to specific purposes and programmes) is not desirable, but earmarking often has political value for policymakers. Softer earmarking (i.e., tying revenue streams to broader expenditure and having more flexible revenue-expenditure links) has been used in some countries as an effective compromise between better public financial management and the need to establish funding for health systems.¹⁹ Fiscal space for health can be expanded even in the absence of new revenue sources through sectoral reallocations and greater efficiency.

Figure 4

Revenue composition in conflict-affected and other developing countries (including grants), 2005–2013
(Percentage of total revenue)



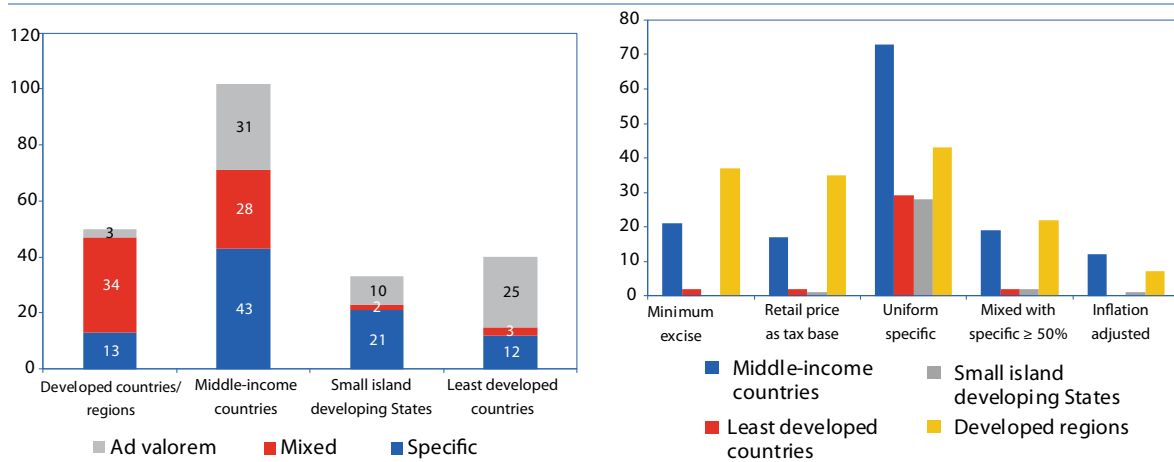
Source: IMF, World Revenue Longitudinal Dataset.

Note: Chart shows data for 38 states considered “fragile” by the IMF, and 93 other developing countries.

¹⁹ For further details see Cheryl Cashin, Susan Sparkes and Danielle Bloom, “Earmarking for health: From theory to practice”, Health Financing Working Paper No. 5 (Geneva, WHO, 2017).

Figures 5 and 6

Tobacco excise tax structures, 2016 and Tobacco tax structure good practices, 2016 (Number of countries)

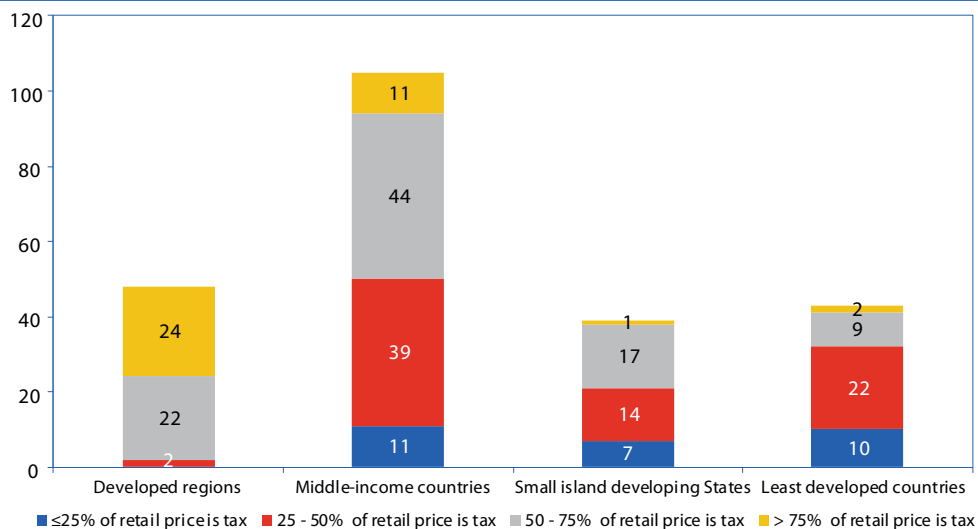


Source: WHO.

Note: Based on 172 countries levying an excise tax. Excludes countries with no excise, with no data reported in 2016, or where tobacco sales are banned. Minimum excise and retail price as tax base based on 108 countries with either ad valorem or mixed tax structures. Mixed with specific greater than 50 per cent based on 61 countries with mixed tax structures. Inflation adjusted based on 126 countries with either specific or mixed tax structures.

Figure 7

Total tax on cigarettes, 2016 (Number of countries)



Source: WHO.

3. International tax cooperation

3.1 New United Nations Tax Committee membership and work programme

The commitment to strengthening the effectiveness and operational capacity of the United Nations Committee of Experts on International Cooperation in Tax Matters was a cornerstone of the Addis Agenda. At the fourteenth session of the Committee, held in New York from 3 to 6 April 2017, the then Committee members, in the last session of their membership term, finalized guidance on the following topics: (i) a revised edition of the United Nations Practical Manual on Transfer Pricing for Developing Countries; (ii) an update of the United Nations Model Double Taxation Convention between Developed and Developing Countries (the United Nations Model); and (iii) a new United Nations Handbook on the Taxation of the Extractive Industries.

The fifteenth session of the Committee, held in Geneva from 17 to 20 October 2017, was the first meeting of the new membership of the Committee, with a greatly improved gender balance in comparison with previous memberships. For the first time, the Committee elected co-chairpersons, including, again for the first time, a female chairperson. The main focus was on preparing the work programme for the following four years. The Committee formed eight subcommittees to carry work forward, including one to review and suggest improvements to the Committee's practices and procedures. Key issues to be taken up by the subcommittees include tax challenges related to the digitalization of the economy, environmental taxation issues, transfer pricing, extractive industries taxation issues, and tax dispute avoidance and resolution. The subcommittees began meeting in January 2018.

Voluntary contributions for the United Nations Trust Fund for International Cooperation in Tax, which was set up to help developing countries actively participate in the discussion of tax issues, have been called for by the United Nations

and the United Nations Tax Committee since the Trust Fund's establishment in 2006. The call for contributions was also emphasized in the Addis Agenda. The Trust Fund received its first voluntary financial contribution from the Government of India in June 2017. This voluntary contribution will be dedicated towards ensuring greater support for developing-country participation in the subcommittee meetings of the United Nations Tax Committee, which are currently unfunded.

3.2 Platform for Collaboration on Tax

The partners of the Platform for Collaboration on Tax—the IMF, OECD, United Nations and the World Bank Group—have each worked for many decades to support their member countries to effectively mobilize tax revenues. There are, however, opportunities for deeper collaborative work through the Platform.

In 2017, the Platform produced a note on progress made in the implementation of the recommendations included in its 2016 joint report on mechanisms to help ensure effective implementation and funding of technical assistance programmes. The concept of MTRS, outlined above, was put forth in those two reports, with Platform partners supporting countries in implementation in 2017. The Platform also issued a toolkit for addressing difficulties in accessing comparable data for transfer-pricing analyses, and a consultation draft of a toolkit on the taxation of offshore indirect transfers of assets.

The first global conference under the aegis of the Platform was hosted at United Nations Headquarters in New York from 14 to 16 February 2018. The conference, which addressed the theme of “Taxation and the Sustainable Development Goals,” brought together over 450 participants from 106 countries, including 18 ministers or deputy ministers and 33 commissioners or deputy commissioners of revenue authorities. The Platform issued a conference statement, including 14 specific actions for the Platform to take forward.²⁰

²⁰ The World Bank Group, “Platform Partners’ Statement at the Closing of the Conference”, 16 February 2018. Available from <http://www.worldbank.org/en/news/statement/2018/02/16/platform-for-collaboration-on-tax-first-global-conference-on-taxation-and-sdgs>.

3.3 Progress on tax transparency, BEPS implementation, and other initiatives

International tax cooperation revolves around international legal agreements that specify what may be taxed by which jurisdiction and how those jurisdictions will cooperate and share information. These legal agreements can be bilateral or multilateral, and can cover a variety of areas. Table 3 summarizes the number of countries that participate in some of the key multilateral legal instruments as well as different forums for cooperation and standards implementation. Tax information exchange is critical, as greater information allows tax authorities to better enforce tax rules and collect more revenue. Agreements listed in table 3 facilitate tax administrations to learn about taxpayers' offshore assets and about the activities of multinational enterprises (MNEs).

A key milestone was passed in 2017, as 49 jurisdictions began exchanging information under the Automatic Exchange of Information standard, which requires tax authorities to automatically exchange financial account information of non-residents with the tax authorities of the account holders' country of residence. A further 53 jurisdictions will start such exchanges in 2018. However, there is a systemic imbalance in application of these norms, as developing countries are not participating for a variety of reasons. For example, actual exchange of country-by-country information on MNEs requires activation through a bilateral matching process, more than 1400 of which have now been activated. Of these, only 477 involve middle-income countries, and no LDCs have any matches. The agreed policy recommendations from the November 2017 meeting of the UNCTAD Intergovernmental Expert Group on Financing for Development emphasize the need for enhanced developing-country participation in current initiatives to improve international tax cooperation.²¹

To discourage hiding of income and wealth, countries are implementing stronger rules on the disclosure and exchange of beneficial ownership²² information. This is an area with low compliance, even among the jurisdictions that have signed up to global standards. While the European Union has proposed reforms to its anti-money laundering rules that will advance the collection and sharing of beneficial ownership in that region,²³ LDCs and middle-income countries currently have no way to automatically receive such information. This leaves opportunities for tax avoidance and evasion through the use of shell companies, trusts and other opaque financial structures.

3.4 Regional organizations and capacity-building

Regional tax organizations play a vital role in sharing experiences and analyses that are relevant for the contexts of their members. Regional organizations have also come together in the Network of Tax Organisations (NTO), which was created to provide a forum for cooperation and coordination between member organizations, strengthen institutional capacities, and enhance the efficiency and effectiveness of tax administrations worldwide. The heads of the nine participating tax organizations came together in February 2018 for the first NTO Strategy Planning Workshop and will meet again in May 2018 to formalize their enhanced cooperation. The members represent tax administrations in Africa, the Caribbean, members of the Commonwealth, Europe, Francophone countries, Islamic countries, Latin America, the Pacific and West Africa.

Intergovernmental organizations hold a variety of training programmes to build the domestic revenue mobilization capacity of countries that need assistance. The IMF provides technical assistance to approximately 100 countries every year. The United Nations capacity-development programme on

²¹ Trade and Development Board Intergovernmental Group of Experts on Financing for Development, "Financing for development: Issues in domestic public resource mobilization and international development cooperation", 10 November 2017. Available from http://unctad.org/meetings/en/SessionalDocuments/IGE_FfD_1st_session_Agreed_Policy%20_Recommendations.pdf.

²² The beneficial owner of an entity is the natural person that ultimately owns or controls that entity. It also includes those persons who exercise ultimate effective control over an entity.

²³ European Commission, "Strengthened EU rules to prevent money laundering and terrorism financing", 15 December 2017. Available from http://ec.europa.eu/newsroom/just/item-detail.cfm?item_id=610991.

Table 3
Participation in international tax cooperation instruments, 2018

(Number of countries)

Instrument/Institution	Total membership	Middle-income countries	Least developed countries	Small island developing States
MCAA Common Reporting Standard — on financial account information	98	27	0	17
MCAA exchange of country-by-country reports — related to MNE activity	68	18	2	4
Mutual Assistance Convention — for exchange of tax information on request	117	42	3	18
Automatic Exchange of Information Standard — for exchange of tax information between countries	102	29	1	24
Global Forum — OECD-housed body for review of implementation of tax transparency standards	149	63	17	31
Multilateral Instrument on BEPS — to implement agreed standards for reducing base erosion and profit shifting	90	31	2	8
Inclusive Framework on BEPS Implementation — OECD-housed body for review of implementation of BEPS Action Plan	112	42	10	15

Source: OECD.

international tax cooperation focuses on training developing-country tax administrators in the application of international tax standards, including the outputs of the United Nations Tax Committee. The Tax Inspectors Without Borders initiative, which is jointly operated by the OECD and the United Nations Development Programme (UNDP), supports countries in building tax audit capacity. Tax audits conducted under the initiative to date have resulted in increased tax collection of \$328 million. The OECD Global Relations programme provides training events on a range of issues, primarily on international tax cooperation, but also including tax administration issues. The OECD also provides bilateral technical assistance in transfer pricing and other BEPS-related actions in about 20 countries a year. The Global Forum provides assistance to developing countries on all aspects of the international tax transparency standards.

Overall, ODA to domestic resource mobilization reported in the OECD/Development Assistance Committee (DAC) creditor reporting system

rose from \$181 million, representing 0.15 per cent of DAC members' ODA commitments in 2015, to \$288 million, or 0.23 per cent of commitments in 2016.²⁴ The Addis Tax Initiative was launched in July 2015, and commits donor countries to doubling the resources they provide for capacity-building on tax. Its first monitoring report, published in June 2017, reported the baseline for measuring success at \$224 million in support of domestic revenue mobilization in developing countries in 2015.²⁵

4. Illicit financial flows

While improved tax administration and better tax policies at the domestic level are essential, IFFs represent a major obstacle to efforts to mobilize domestic resources for sustainable development. Member States expressed their deep concern about IFFs and have repeatedly called for greater international cooperation to combat IFFs.²⁶ They have also pledged to deter, detect, prevent and counter corruption, and increase transparency and promote good governance for their citizens. Although there remains no inter-

²⁴ The large rise was predominantly the result of two very large projects initiated by a single donor.

²⁵ Due to technical problems in recoding the 2015 ODA data under the new code for projects related to domestic resource mobilization, some Addis Tax Initiative (ATI) development partners were unable to report all their related activities in time to the OECD/DAC. The ATI monitoring report thus includes more projects than were recorded in the OECD/DAC creditor reporting system.

²⁶ A/RES/72/207.

governmental agreement on the definition of the term, the Task Force's schematic representation of the components and channels of IFFs remains a useful approach to the topic. Combatting IFFs generally has several elements, including estimation of the volume of IFFs, improvement of policies and enforcement capacity, and return of stolen assets. At the United Nations General Assembly in January 2018, Member States called for the next President of the General Assembly to convene “a high-level meeting on international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development”.²⁷ Building on the FfD Forum, this event could provide a venue for a deeper stocktaking.

4.1 Volume estimates

Different components of IFFs are not directly comparable and aggregation of IFF estimates across channels and components could result in double counting. In 2017, the Task Force recommended component-by-component and channel-by-channel analysis and estimation of IFFs. In line with this recommendation, the Task Force will continue to provide summaries of the channel-specific and component-specific estimates, which can be helpful to Member States in designing enforcement and policy responses. The UNCTAD Intergovernmental Expert Group on Financing for Development stressed “the need for transparent and comprehensive statistical indicators to estimate and typify illicit financial flows” and “the importance of continued efforts to ensure effective country-by-country reporting of relevant data”.²⁸

In 2017, the United Nations Office on Drugs and Crime (UNODC) and UNCTAD—the joint custodian agencies of SDG indicator 16.4.1, which

covers IFFs—developed a programme of coordinated actions to develop, review and test a statistical methodology to estimate the volume of IFFs. In December 2017, an expert group meeting divided the statistical work into two subgroups, one focussed on the estimation of IFFs related to activities in illegal markets and one focussed on estimation related to abusive tax practices. In addition, a subgroup was proposed to estimate IFFs related to corruption. As part of this programme, a testing of the statistical measure will initially be conducted in four countries in Latin America, with selected countries in Africa to follow.

Goods trade mis-invoicing is one type of IFF, which involves transactions being manipulated for the purposes of evading tariffs, circumventing capital account rules or financial regulations, or other illicit motives. Several United Nations regional commissions have estimated goods trade mis-invoicing, using different methodologies tailored to their regions' needs (see figure 8, figure 9 and figure 10). Recent research work has also focussed increasingly on using national-level trade data to estimate goods trade mis-invoicing.²⁹ Caution must be exercised when interpreting these estimates as mismatches between import and export figures may be due to factors other than illicit transactions, such as data-entry mistakes, missing data due to reimports, time differences between goods departure and arrival, and other factors; however, the patterns can be indicative of areas and sectors where Governments may want to focus enforcement attention.³⁰ The estimates also do not capture all types of mis-invoicing—falsified invoicing where the invoices match at both export and import, for example. The full value of an illicit flow also does not always equate with the domestic public resource impact.

²⁷ Ibid.

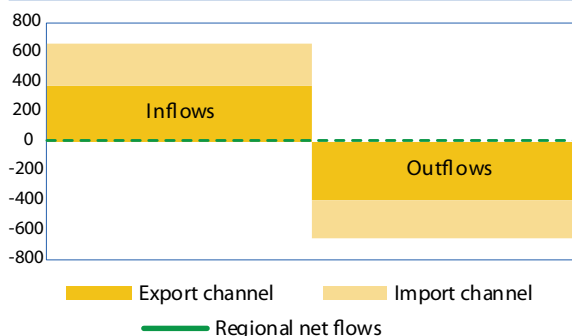
²⁸ Trade and Development Board Intergovernmental Group of Experts on Financing for Development, “Financing for development: Issues in domestic public resource mobilization and international development cooperation”, 10 November 2017. Available from http://unctad.org/meetings/en/SessionalDocuments/IGE_FfD_1st_session_Agreed_Policy%20_Recommendations.pdf.

²⁹ See background paper for the December 2017 expert group meeting on IFFs estimation, Expert Consultation on the SDG Indicator on illicit financial flows. Available from https://www.unodc.org/documents/data-and-analysis/statistics/IFF/Background_paper_B_Measurement_of_Illicit_Financial_Flows_UNCTAD_web.pdf.

³⁰ For a detailed discussion see, Céline Carrère and Christopher Grigoriou, “Can Mirror Data Help To Capture Informal International Trade?”, Policy Issues in International Trade and Commodities Research Study Series No. 65 (Geneva, UNCTAD, 2014). Available from http://www.unctad.org/en/PublicationsLibrary/itcdtab65_en.pdf.

As shown in the Task Force's 2017 schematic, IFFs are often held as offshore wealth. While estimation of offshore wealth holding is difficult because of the secrecy afforded in many jurisdictions, new data is improving the accuracy of estimates. Previous estimates were largely based on global extrapolations from a dataset of foreign holdings of financial wealth in a single popular wealth-management jurisdiction. New estimates take advantage of the decision by a number of financial centres to authorize the Bank for International Settlements to publish data of their banks' cross-border liabilities disaggregated by the jurisdiction of the counterparty. One study estimates that, as of October 2017, 10 per cent of world gross product is held as private offshore financial wealth.³¹ However, there is currently insufficient data to determine what volume of this wealth is being disclosed correctly to tax authorities.

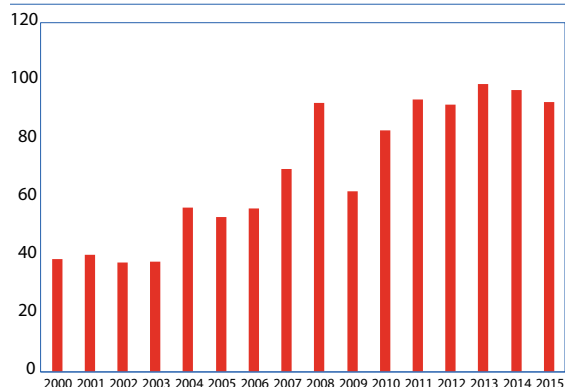
Figure 8
Asia-Pacific regional goods trade mis-invoicing, 2016
(Billions of United States dollars)



Source: ESCAP calculations.

Note: Chart shows the aggregated bilateral differences between export and import values at product level (Harmonized System six-digit codes) for 86 per cent of export lines and 75 per cent of import lines where matching was possible for 31 jurisdictions within ESCAP Member States. Special administrative regions of China are treated as separate jurisdictions.

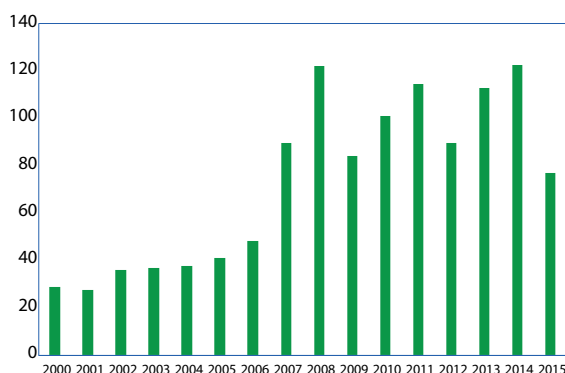
Figure 9
Estimates of gross outflows from goods trade mis-invoicing, Latin America and the Caribbean, 2000–2015
(Billions of United States dollars)



Source: ECLAC calculations.

Note: Chart shows the aggregated gross outflows for bilateral differences between export and import values at product level (Harmonized System six-digit codes) for 33 ECLAC Member States. Results are inversely weighted for differences in volume of goods to correct for inadvertent misreporting.

Figure 10
Estimates of net outflows from goods trade mis-invoicing, African countries, 2000–2015
(Billions of United States dollars)



Source: UN/ECA calculations.

Note: Chart shows the aggregated net outflows for bilateral differences between export and import values at sector level (Global Trade Analysis Project 57 sectors) for 49 jurisdictions within ECA Member States, in 2016 prices. The Southern African Customs Union is treated as a single entity.

31 Annette Alstadsæter, Niels Johannesen, and Gabriel Zucman, "Who Owns the Wealth in Tax Havens? Macro Evidence and Implications for Global Inequality", NBER Working Paper No. 23805 (September 2017). Available from <https://www.nber.org/papers/w23805>.

4.2 Policy advances and the role of technology

Tackling IFFs more effectively will not only bolster domestic resource mobilization, but will also help build trust and confidence in the fairness of the tax, legal and financial systems, the efficiency of law enforcement, and in government as a whole. It can also contribute to better security outcomes. There are multiple efforts to combat IFFs which span from international information sharing to joint interdictions. Many of the tax transparency reforms being introduced, discussed above, will be relevant for tracking and stopping IFFs. In particular, strengthened beneficial ownership registries and mechanisms to share that information will be critical to penetrating the trusts, shell corporations and other financial vehicles used to hide IFFs and their resulting assets.

The World Bank is developing an IFFs risk assessment framework to help countries direct policy and enforcement actions. A model is under development that tests the association of IFFs with policy variables relating to incentives of economic actors to generate IFFs, state capacity to address IFFs, and democratic accountability. Once validated, the model will be used to separate countries into categories of high, medium, and low exposure to illicit financial inflows and outflows. The World Bank intends to pilot test the assessment framework by mid-2018. The OECD along with three countries also launched the Pilot Africa Academy Programme for Tax and Financial Crime Investigation at the G20 Africa Conference, held in Berlin from 12 to 13 June 2017. This initiative aims to provide demand-driven training addressing the specific needs of African countries in tackling IFFs.

New technologies and innovation are altering the landscape for IFFs. While relatively closed financial systems of previous generations made large-scale transfers of resources easier to track, the more open systems of recent times can enable hidden and secret transactions. The anonymity and cross-border reach of virtual currencies (VCs) raise concerns.³² Transactions recorded in the public ledger of a VC cannot always authoritatively be traced back to real-world

identities, owing to user anonymity and anonymizing service providers. This means that VCs can be used to conceal or disguise illicit origin, use or transfer of funds. These vulnerabilities are not only theoretical, but have been exploited in practice. VCs are often the “currency” of choice in cyber-related criminal activity and in illicit virtual markets for contraband, arms and other goods. The Financial Action Task Force has called for regulation of exchanges on which VCs can be exchanged for regulated fiat currencies, as a way to limit the use of VCs for IFFs. In 2017, a number of Asian countries that had hosted significant VC operations and exchanges announced new regulations or the intention to do so.

At the same time, technology can also enable better enforcement. As the regulatory environment catches up to the innovations, digital technologies allow rapid processing of large data sets, which can assist in identifying and pursuing illicit transactions. For example, the Legal Entity Identifier (LEI) system, which assigns each distinct legal entity a unique 20-character identifier to enable easier tracking of transactions and counterparty exposures, has the potential to assist in conducting due diligence and reduce compliance costs (see chapter III.F). To achieve these benefits, solutions need to be widely adopted by industry participants, with appropriate support by public authorities.

4.3 Asset recovery and return

As noted in the 2017 report of the Task Force, efforts to recover stolen assets are part of the overall effort to combat IFFs. The term “stolen assets” is used to describe the proceeds of corruption that have been transferred abroad. Their recovery and return is provided for in the United Nations Convention Against Corruption (UNCAC) and is included in the Addis Agenda and the 2030 Agenda for Sustainable Development. Return of stolen assets is different from and cannot substitute for any other types of financial flows.

Collecting and publishing data on the volume of assets seized, confiscated and returned or disposed of is complex from both a statistical and a policy point of view. Member States’ statistical systems do

³² This section draws heavily from Dong He and others, “Virtual currencies and beyond: initial considerations”, International Monetary Fund Staff Discussion Note, SDN/16/03 (January 2016).

not necessarily produce internationally comparable data over time. Weaknesses in national statistics systems were one of the most frequently identified challenges in country reviews in the first cycle of the Implementation Review Mechanism of UNCAC.

The joint World Bank/UNODC Stolen Asset Recovery (StAR) Initiative works with developing countries and financial centres to prevent the laundering of the proceeds of corruption and to facilitate more systematic and timely return of stolen assets. The StAR Asset Recovery Watch database contains information on 240 past and current asset recovery cases involving corruption. A database on settlements in cases of transnational bribery, contains information on over 500 settlements.

Since the last Task Force report, there has been a broad range of policy initiatives in this area. Non-binding guidelines, validated at an expert group meeting held in Washington, D.C. in December 2017, will be submitted to the Asset Recovery Working Group in June 2018 for consideration and possible submission to UNCAC signatories. The Global Forum on Asset Recovery (GFAR), which was a major commitment of the 2016 London Anti-Corruption Summit, took place in December 2017 and focused on the recovery of assets stolen from Nigeria, Sri Lanka, Tunisia and Ukraine. The co-hosts, the United Kingdom of Great Britain and Northern Ireland and the United States of America, plus the four focus countries issued a statement that welcomed the GFAR Principles for Disposition and Transfer of Confiscated Stolen Assets in Corruption Cases.³³

5. Expenditure

5.1 SDG budgeting

The 2030 Agenda for Sustainable Development and the Addis Agenda called for Governments to report on their spending and progress towards the achievement of the SDGs. The Addis Agenda commits countries to increase transparency and equal

participation in the budgeting process. In the outcome document of the 2017 FfD Forum, Member States recognized the importance of better disaggregation of budget and expenditure data at the national and subnational levels, including by sex, to improve tracking of spending related to the Sustainable Development Goals and efforts to improve gender equality, accountability and transparency, with increased capacity-building for countries that need assistance.

While the IMF and partners have set principles for fiscal transparency through the Global Initiative for Fiscal Transparency (GIFT),³⁴ there are not yet any associated assessment frameworks. The broadest regular measure of budget transparency and accountability around the world is the Open Budget Survey conducted by the civil society organization International Budget Partnership. The 2017 Open Budget Survey³⁵ found that, for the first time in a decade, budget transparency has fallen globally, with the decline concentrated in sub-Saharan Africa. The survey also found that only 26 of the covered 115 countries provide sufficient budget information that would enable all stakeholders to track development spending.

The basic information needed to track sectoral spending on specific SDGs at the national level are frequently unavailable, because budget frameworks are not yet designed to capture this information. According to the Open Budget Survey, less than half of countries use functional classification in their budget reports, which would enable tracking of spending in critical sectors such as health, education and disaster risk reduction. Some 59 per cent of countries make data available on actual spending against the budget during implementation, but only 45 per cent make available data on final spending against the budget. Further, 74 per cent of those surveyed do not yet provide expenditures disaggregated by sex, age, income, or region, making it difficult to determine whether the poor, the vulnerable or those furthest behind are benefitting from public

³³ World Bank, "Global Forum on Asset Recovery Communique" (December 2017). Available from https://star.worldbank.org/star/sites/star/files/20171206_gfar_communique.pdf.

³⁴ See <http://www.fiscaltransparency.net/>.

³⁵ International Budget Partnership, "The Open Budget Survey 2017" (2017). Available from <https://www.internationalbudget.org/open-budget-survey/>.

expenditure. Another channel to promote accountable expenditure is public participation, and tested mechanisms for enabling citizen participation exist. The Open Budget Survey conducted its assessment of public participation in the budget based on the GIFT principles, and found that over 80 per cent of countries have at least one participation mechanism, but the vast majority of these national measures were not considered to be strongly inclusive or well-structured.

5.2 Gender-responsive budgeting

Gender-responsive budgeting (GRB) can influence how fiscal policy is designed and implemented. Well-designed gender budgets can improve the efficiency and equity of the overall budget process by integrating gender analysis into policies, plans and programmes. GRB can generate essential data on the gender gaps in services, the priority needs and the potential gender impacts of different actions. This analysis enables programmes to be designed and delivered in ways that respond to the priorities of women and men and can be particularly important in sectors that deliver critical services such as water and sanitation (see chapter II). The IMF 2016 research survey on gender budgeting identified that 23 of the 62 countries in the survey had prominent gender-budgeting efforts, while a further 37 had some gender-budgeting efforts. Two thirds of the countries with prominent efforts linked their gender budgeting goals to the Millennium Development Goals or other national development plans.

The development of systems to track gender equality allocations is an important step in bridging policy commitments and implementation. Comprehensive systems to track gender equality allocations can capture data on the extent to which budget allocations are matched to priority actions and support national efforts to better target resources to address gender gaps.

As reported in 2017, UN Women, together with UNDP and the OECD, has developed the methodology for SDG indicator 5.c.1, which aims to measure government efforts globally to track budget

allocations for gender equality and make data publicly available. Following pilot testing in 15 countries, the final methodology was endorsed by a subgroup of the United Nations Statistical Commission, setting an international standard for GRB. Starting in 2018, efforts will focus on supporting countries to report against the indicator.

5.3 Social protection finance update³⁶

In the Addis Agenda, Member States committed to establishing a new Social Compact to provide (i) fiscally sustainable and nationally appropriate social protection systems and measures and (ii) essential public services for all (education, health, water, sanitation and other services). The 2017 outcome of the ECOSOC Forum on Financing for Development Follow-up encouraged support for capacity-building to help countries, according to their needs, to design and implement nationally appropriate social protection systems, and asked the Task Force to lay out domestic and international funding sources for social protection and quick-disbursing instruments (see also chapter III.F). As part of that work, the Task Force's social protection cluster coordinator, the International Labour Organisation (ILO), prepared a paper on social protection financing, in consultation with Social Protection Inter-Agency Cooperation Board (SPIAC-B), building on the 2017 report of the Task Force. The paper found that resources for social protection are available in some countries, but more needs to be done, including in helping countries set up social protection systems, including floors, in accordance with SDG 1.3. Such systems would serve multiple purposes, such as developing human capital, promoting growth and political stability, and can be utilized during economic shocks and disasters.

Figure 11 presents regional data public expenditures on social protection, excluding health, as a percentage of GDP for 2015 or latest available year. There are large regional differences in the proportion of resources allocated to social protection, reflecting significant gaps at both country and regional levels. For example, African countries' average spending on

³⁶ This section is based on a longer paper prepared by the International Labour Organization. Available from <https://developmentfinance.un.org/sites/developmentfinance.un.org/files/files/policy-briefs/Social%20protection%20FFD%20Final%20Jan18.pdf>.

social protection is only 4.5 per cent of GDP. Countries in the LDCs and SIDS groupings also have low expenditure, with respective averages of 3.0 per cent of GDP and 1.9 per cent of GDP. Differences between countries, even within the same region or subregion, are also significant, as can be seen by the dispersion of countries within each region shown in figure 12.

Domestic financing represents the main source of resources for social protection systems in both developed and developing countries. As discussed in the 2017 Task Force report, social contributions (employers and workers contributions to social security) play an important role in financing public social protection, although, as shown in figure 13, such contributions must be combined with tax revenues in order to fully meet the funding needs of comprehensive social protection systems.

Domestic resources are supplemented by international assistance with the role of ODA for social protection especially critical in LDCs. Between 2010 and 2015, the disbursed ODA to social protec-

tion varied between \$1.9 billion and \$2.6 billion, as shown in figure 14, accounting for about 2 per cent of total ODA.³⁷

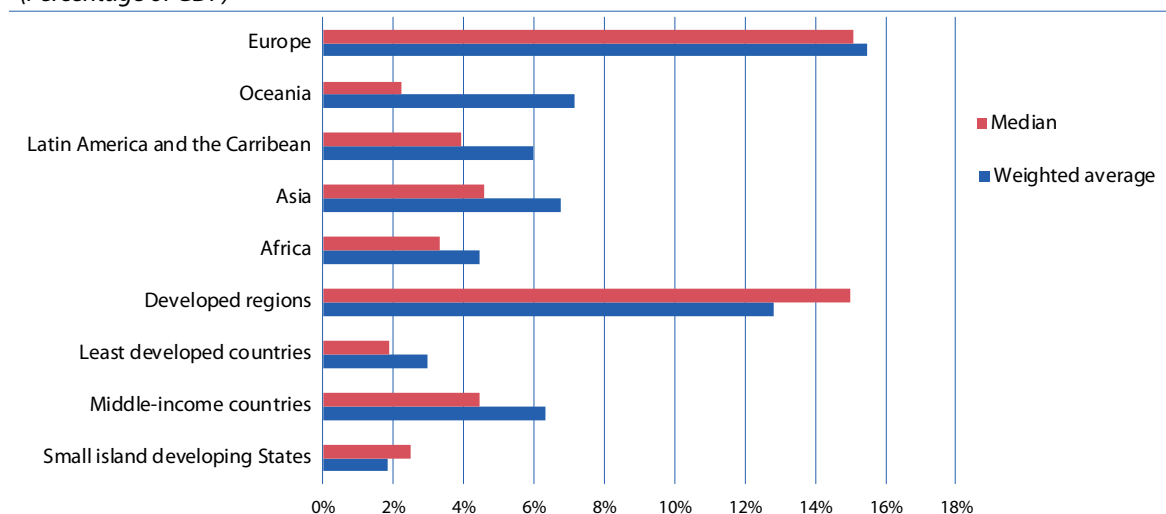
Other sources of finance for social protection may also be considered, to complement but not replace ODA and domestic sources, as discussed in the 2017 Task Force Report and the ILO paper.

5.4 National development banks

National development banks (NDBs) are a critical part of the Addis Agenda. As noted in the Addis Agenda, one role of NDBs is to address market failure. While NDBs have an effective sovereign guarantee, they often borrow from capital markets, and thus need to signal to the markets that they are effectively managing their risks. Indeed, given that they, in essence, represent contingent liabilities of the State, it is critical that their risks are prudently managed. Some NDBs have started using the standardized models for managing risk at commercial banks, which are promoted by the Basel Committee (see chapter III.F). Yet those standards give higher capital

Figure 11

Public social protection expenditure (excluding health), by region and country category, latest available year
(Percentage of GDP)



Source: ILO, World Social Protection Database.

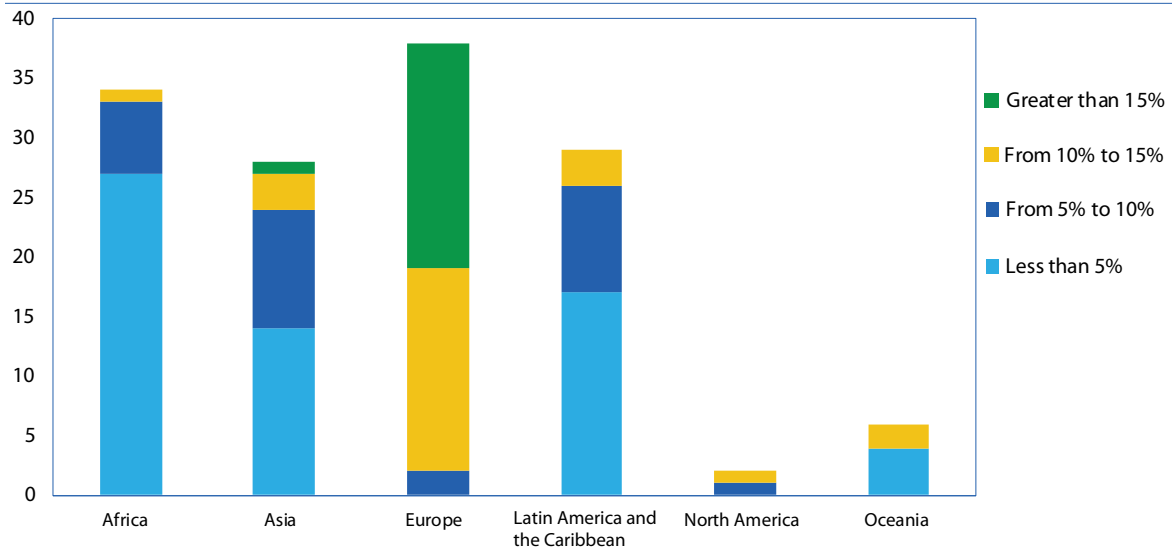
³⁷ Measured using the OECD/DAC CRS code 16010, which includes ODA for the following areas: Social legislation and administration; institutional capacity-building and advice; social security and other social schemes; special programmes for the elderly, orphans, the disabled, street children; social dimensions of structural adjustment; unspecified social infrastructure and services, including consumer protection.

costs to activities perceived to be of higher risk—which are often precisely those that are of public interest, where NDBs are expected to operate, such as in infrastructure, SME financing, or innovation—thus raising costs of lending in these areas. By using commercial bank risk management models, NDBs make it more costly to serve a different role in the

economy than private banks. It would be useful if there was a specialized risk management framework for NDBs that, if followed, could demonstrate that the bank is managing risk prudentially while incentivizing them to lend in ways that are more aligned with sustainable development. More research on this is warranted.

Figure 12

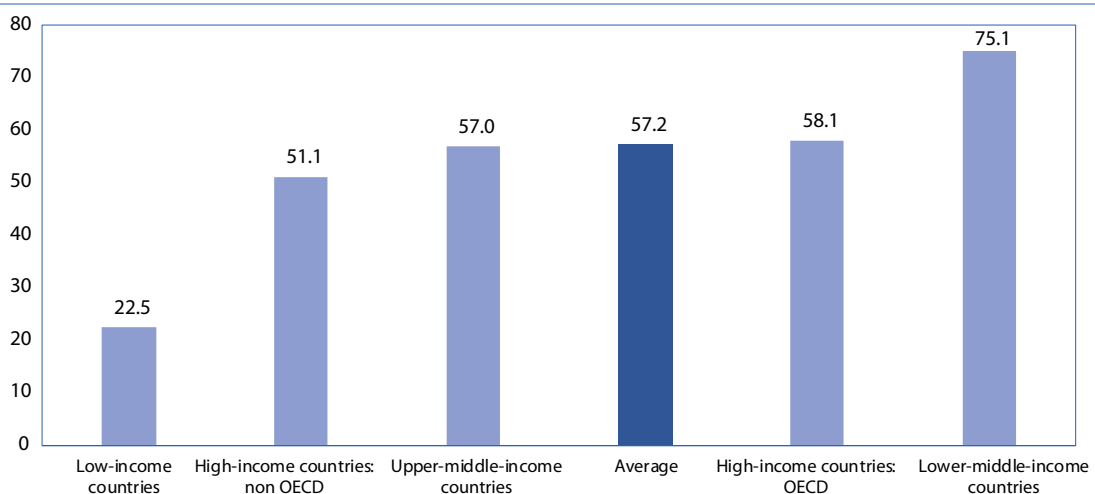
Public social protection expenditure (excluding health), by region, latest available year
(Number of countries)



Source: ILO, World Social Protection Database.

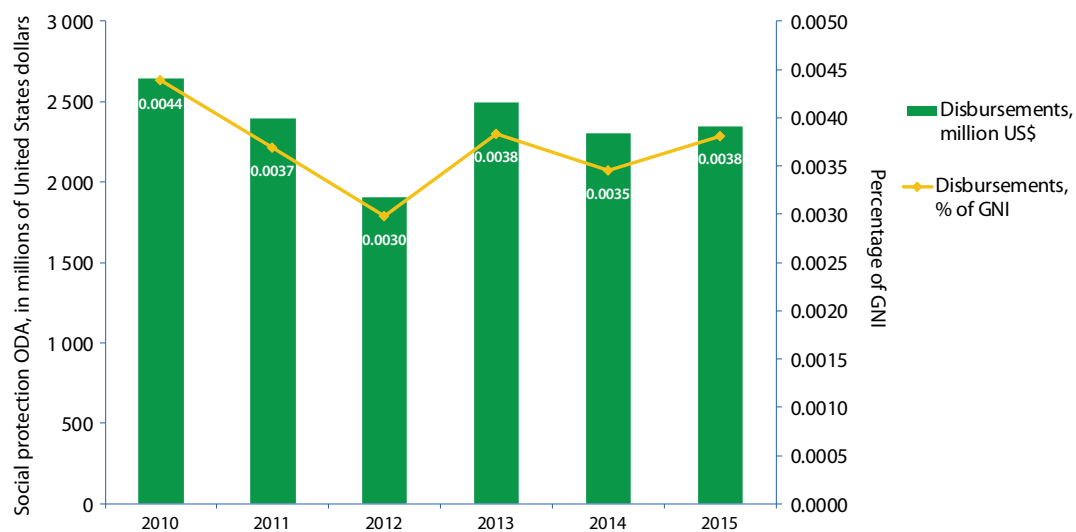
Figure 13

Share of social contributions in social protection expenditure, 2015
(Percentage)



Source: ILO, World Social Protection Database.

Figure 14

Official Development Assistance disbursements for social protection, 2010–2016*(Millions of United States dollars, percentage of gross national income)*

Source: OECD/DAC database.