DOMESTIC RESOURCE MOBILIZATION
WHY THIS BRIEFING AND WHAT IS IT ABOUT?

This is the time for civil society organizations (CSOs) and social movements from all over the world to unite under a strong call for a systemic transformation of the global financial architecture and global division of labor, towards a just, green, and feminist recovery post-COVID-19. And the UN, as the only global institution mandated to address economic and social challenges where developing countries have an equal say, is the space to do so. This is where the UN Financing for Development (FfD) process comes in — as a space to advance on the systemic changes we urgently need to see.

This briefing on Domestic Resource Mobilization is part of a broader toolkit introducing the FfD process and the Civil Society FfD Group’s role in it, being built as an attempt to make navigating the FfD process and its interrelated domains more accessible for a non-technical audience.

In this briefing we connect the national and international when it comes to tax policies and broader domestic resource mobilization strategies, highlighting how shaping decision-making on global economic governance at the UN has the potential to transform our global economic systems to reduce inequalities within and between countries and make them work for people and the planet.

The Civil Society Financing for Development Group

The CS FfD Group is civil society’s coordination body for collective engagement in the FfD process. The Group has been active in its present format (Global Social Economy Group - GSEG listserv) since the Doha FfD Review Conference in 2008, though many of its members are engaged since the Monterrey FfD Conference in 2002. It is an open virtual list containing several hundreds of organizations and networks from diverse regions and constituencies around the world. CS FfD Group’s core principle is ensuring that civil society can speak with one collective voice.

To join the CS FfD Group, please fill the google form at this link: csoforffd.org/join-the-cso-ffd-group
THE CHALLENGE: THE NEED FOR INTERNATIONAL COOPERATION ON TAX

Cross-border tax abuse by multinational companies and wealthy individuals is not a marginal phenomenon but a systemic feature of the global economy. Trillions of dollars of assets and income are shifted and held opaquely in order to defeat national tax efforts. As long as the international tax rules facilitate the tax abuse of wealthy individuals and corporations, efforts towards establishing progressive tax systems at the national level will continue to be undermined. FfD is the space to fight for the international enabling environment needed for domestic resource mobilization to expand developing countries’ fiscal and policy space.

Domestic Resource Mobilization (DRM) is the process through which countries raise and spend their own funds to provide for their people. It is the foundation for financing for development as it lends a long-term path to countries’ self-sufficiency and is a critical step out of aid dependence and of an overreliance on the private sector to deliver development outcomes. Fair and progressive taxation is the most reliable and sustainable source for mobilizing resources to finance public services, redress gender inequalities and contribute to sustainable development.

Governments mobilize resources in two main ways: they raise money, or they borrow money. Taxation is often the most reliable, effective and accountable way for governments to raise money. It not only strengthens the social contract between the government and the people but also functions as a tool for redistribution of wealth. Decent work, including job creation, and fair taxation of multinational corporations are key elements of providing a stable tax base.

Like them or not, taxes and other domestic revenues pay for the essential public services we use: schools and hospitals in our communities; roads and bridges that we take to work; and police and sanitation workers who keep our neighborhoods safe and clean. However, for many countries, efforts to mobilize sufficient resources are undermined by global systemic issues, including: unfair trade and investment agreements and a race to the bottom on taxation to attract foreign investments, unsustainable and illegitimate debt, tax abuse by multinational corporations, tax havens, loan conditionalities and coercive policy advice leading to austerity measures, and a lack of democratic and inclusive decision-making on global economic and tax governance.

2 See FfD Private Business and Finance briefing for more on why this overreliance on private sector-led development is problematic.
Over the last 40 years many governments have rolled back tax policies that make powerful corporations and wealthy individuals pay their fair share. This has frequently been prompted by political pressure from powerful elites, foreign investors, and international financial institutions. For instance, tax rates on corporate income, highly paid individuals, property, and inheritance have declined in most countries. Moreover, the fortunes of the richest are very often held in assets (e.g. stocks, shares, and real estate) rather than earned through wages. And the same political pressures mean that such wealth is often taxed at very low rates or there are big loopholes that allow money to be hidden in tax havens, as revealed by the recent Pandora Papers leak.

The current broken international tax system allows corporations to dodge taxes, shift income to tax havens and facilitate illicit financial flows (IFFs). Every year, developing countries lose billions in public revenue due to IFFs. Because of this, governments are often forced to revert to austerity measures and are unable to fund public services, social protection and infrastructure to address inequalities, fulfill human rights obligations and meet sustainable development commitments. This aggravates poverty and affects marginalized groups the most. All resources lost to tax havens could have been invested in public hospitals, schools, transportation, clean water and sanitation, measures to mitigate the effects of and build resilience to climate change, and in institutions or programs that promote gender, racial, intergenerational equality. The pandemic makes this even more urgent. It also raises the momentum for new demands such as wealth taxes or taxes on covid profits, which can help countries pay for medical supplies and relief measures.

What is progressive taxation?

Progressive taxation means higher tax rates for those with higher income or more wealth, so that those who earn or have more are taxed at a higher rate. Personal income tax based on graduated scales where the tax rate goes up as income level rises is probably the clearest example of progressivity. Consumption taxes like VAT which employ a flat rate are the clearest example of regressive taxes, as the proportion of available resources paid by low income groups is higher than that of the rich.

What matters for the overall progressiveness of a tax system is the mix of different types of taxes and the rates applied to them. Different types of taxes can have different impacts on businesses, labor markets, and the environment, as well as economic and gender equality.

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7 https://www.icij.org/investigations/pandora-papers/
Illicit financial flows and the UN

Illicit financial flows (IFFs), which include corporate and individual tax abuse, drain vital resources and tax revenues from developing countries and deepen poverty and inequality.\(^\text{10}\) This financial injustice constitutes a net transfer of wealth from South to North that must be addressed by a decolonial and feminist perspective to global economic governance.\(^\text{11}\) This would take policy and regulatory reform and international cooperation, through a universal and intergovernmental UN Tax Convention that generates binding commitments.

A decolonial approach highlights the stark injustice of this money being siphoned from communities with scarce resources for financing economic and social rights, as well as recovery from the global health pandemic and climate change impacts. Meanwhile, these funds accumulate into tax havens belonging to some of the richest businesses and individuals in the world. IFFs result not only in public expenditure reductions for essential public services, but they also exacerbate debt burdens when developing countries borrow money to meet budget gaps created by loss in tax revenues. This link between IFFs and sovereign debt illustrates the interconnected ways in which structural obstacles to fulfilling economic and social rights and advancing climate justice and gender equality reinforce each other. Indebtedness has far too often provided the leverage to countries to be forced into damaging taking and regressive policy positions. In stark contrast, when government spending is more dependent on tax revenue, accountability to citizens improves over time along with the quality of government.\(^\text{12}\)

A central challenge on addressing IFFs at the UN has been the need to address tax related IFFs, and in particular tax abuse, including tax avoidance. Many countries of the Global North argue that the UN’s work should be restricted to a limited number of IFF related issues, such as corruption, drugs and other criminal flows. So while there are UN intergovernmental processes to address corruption and crime-related IFFs under the UN Convention Against Corruption (UNCAC), and the UN convention against Transnational Organised Crime (UNTOC) respectively, there remains a huge gap in governance on addressing tax-related IFFs. G77 and China, a grouping of over 130 developing countries have consistently called for establishing an intergovernmental tax body at the UN,\(^\text{13}\) most recently through a UN general assembly second committee resolution.\(^\text{14}\) Calls for the UN Tax Convention have been also recently echoed by the Africa Group,\(^\text{15}\) and a detailed civil society proposal for the Convention was published in March 2022.\(^\text{16}\)


\(^{11}\) https://wedo.org/wp-content/uploads/2021/06/FemEconClimate-ActionNexus_Brief_FemGND-1.pdf

\(^{12}\) https://doi.org/10.1016/j.worlddev.2018.05.014

\(^{13}\) https://csoforffd.org/2021/10/27/database-governments-supporting-an-intergovernmental-un-tax-body-and-or-un-tax-convention/

\(^{14}\) https://undocs.org/Home/Mobile?FinalSymbol=A%2FC.Z%2F76%2F28&Language=E&DeviceType=Desktop

\(^{15}\) https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/5f6ceea7b5e8fb340212829f_AFRICAN-GROUP-STATEMENT-FACTIINTERIMREPORTLAUNCH.pdf

Despite evidence that profit-shifting for tax dodging purposes by corporations and rich individuals harms developing countries the most, they are often left out of exclusive agenda-setting and decision-making so crucial to their sovereignty and development. It took more than five years from the agreement of the SDG target (16.4) to curb IFF before the opposition lobbying was finally overcome, and the UN was able to confirm a formal statistical definition including profit shifting.

**Austerity – a high cost to pay for tax abuse and inadequate financial regulation**

Since 2008, two major global crises led to short periods of fiscal expansion, limited to one or two years, followed by long periods of painful austerity. This happened in 2008-09, at the beginning of the global financial and economic crisis, and then in 2020, during the first waves of COVID-19. After short periods of fiscal expansion, governments—advised by the IMF, the G20 and others—rapidly scaled back much needed public support with adverse consequences for the majority of the population. Recent studies show that austerity is projected to affect 5.6 billion persons in 2021 or about 75% of the global population, rising to 6.6 billion or 85% of the world population in 2022.

Fiscal austerity, often in compliance with loan conditions imposed by the International Monetary Fund (IMF) to maintain countries’ debt sustainability, disproportionately affects the most vulnerable across developing countries, exacerbating inequalities across income, gender, race, caste, disability, and sexuality. Empirical data on the impact of fiscal austerity measures confirm that budget cuts have led to reductions in health and education investments; losses of hard-earned pensions and social protections; public wage freezes and layoffs affecting public sector employees such as teachers, nurses, doctors and public civilians who comprise a large portion of the public wage bill in developing countries; increased unpaid care work; and greater consumption taxes.

Fiscal austerity particularly violates the human rights of women and marginalized communities, endangering their right to housing, food, social security and an adequate standard of living, while exacerbating unpaid care work, increasing their exposure to violence and reinforcing entrenched gender inequalities.

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17 IMF Policy Paper "Corporate Taxation in the Global Economy" (2019); the UNU-WIDER Working Paper "Global distribution of revenue loss from tax avoidance" by Alex Cobham and Petr Janský (2017); and the IMF Working Paper "Base Erosion, Profit Shifting and Developing Countries" by Ernesto Crivelli, Ruud A. de Mooij and Michael Keen (2015).

18 [https://taxjustice.net/2017/06/01/subversion-sdg-16-4/](https://taxjustice.net/2017/06/01/subversion-sdg-16-4/)


OUR RECOMMENDATION: DEMOCRATIZING GLOBAL TAX GOVERNANCE

Unless the failures of the international tax system are urgently addressed, countries around the world will continue to lose billions of public revenue dollars due to tax abuse by multinational corporations and their professional enablers (lawyers, bankers and accountants). The current situation contributes to decreasing the public revenue base of developing countries, exacerbating already unsustainable debt levels and therefore to undermining governments’ abilities to respond to the crises. Structural changes to the international tax system are also important to overcome countries’ reliance on consumption taxes, which unfairly burdens women and other marginalized groups. To address these failures in a democratic setting, the CS FfD Group calls for:

- **UN Intergovernmental Tax Body and UN Tax Convention**

  * It is time to establish a truly universal, intergovernmental process at the UN to comprehensively address tax havens, tax abuse by multinational corporations and other illicit financial flows that obstruct redistribution and drain resources that are crucial to challenging inequalities, particularly gender inequality.

  * Taxing income and wealth should be seen to support the internationally agreed human rights frameworks, as without taxation we cannot mobilize the maximum available revenues. Tax abuse and tax avoidance also needs to be considered under the extraterritorial obligations of states towards other states not to hamper the enjoyment of human rights via blocking financing through abusive tax laws, rules and allowing companies and wealthy individuals to abuse tax systems.

The CS FfD Group’s call for an universal, intergovernmental tax body at the UN has been echoed for years. The call was most recently renewed in 2021 with a resolution submitted by the G77 and China at the 76th UN General Assembly’s Second Committee (see paragraph 19).

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23 See database of governments supporting the call here: https://csforffd.org/2021/10/27/database-governments-supporting-an-intergovernmental-un-tax-body-and-or-un-tax-convention/

24 https://undocs.org/Home/Mobile?FinalSymbol=A%2FC.2%2F76%2FL.28&Language=E&DeviceType=Desktop
**Tax and Gender Working Group**

The Tax and Gender working group aims to strengthen the global integration of tax and gender justice organizations as well as broaden the participation in the Global Alliance for Tax Justice (GATJ)'s work by working closely with GATJ regional networks, women's rights organizations, global trade unions, INGOs and CSOs. In March 2021, GATJ, its regional networks and the Tax & Gender Working Group members launched the #MakeTaxesWorkForWomen campaign with demands to overcome the COVID-19 multidimensional crises and effectively make taxes work for women. The initiative kicked-started during the Global Days of Action on Tax Justice for Women’s Rights.

**Make taxes work for women**

Have you ever thought about how unpaid care work impacts women? Whenever children, older people, sick people or people with disabilities need support or care because there is no governmental support, women are the ones who take responsibility for this. According to the International Labour Organization (ILO), women perform 76.2% of the unpaid care and domestic work – this alone is valued at nearly $11 trillion a year. By carrying the burden of unpaid care and domestic work, women support our communities and sustain our countries’ economy. In order to overcome the COVID-19 multidimensional crises and effectively make taxes work for women, the global tax justice movement urges multilateral institutions and national governments to:

- Ensure that tax and fiscal policies recognise, represent, reduce and redistribute unpaid care work, including by constructing national care work policies.

- Reduce unfair tax burdens on women and adopt progressive, redistributive and gender equal taxation – including new forms of taxation of capital and wealth – combined with less reliance on consumption taxes.

- Remove gender bias and discrimination in tax policies to ensure that tax revenues are raised and spent in ways that promote gender equality.

- Ensure adequate financing of gender-responsive social services that promote women’s rights, and reduce inequalities, including by gender budgeting.

- Establish an inclusive intergovernmental UN Global Tax body, to ensure equal taxing rights of nation states and stop all forms of tax abuse by multinational corporations and the wealthy elites.

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Rejecting a tax deal of the rich and calling for global solutions

On October 2021, the G20 Finance Ministers and Central Bank Governors endorsed the unambitious and undemocratic deal to reform the international tax system as proposed by the G7 and the OECD. The G20 endorsement is the latest rubber stamp to the agenda dominated and led by the Global North to redefine global tax rules for their own benefit. While promising to impede more foregone revenues, the G20 and the OECD’S two-pillar proposal is a false solution which is both ineffective and unfair. The consequence of the OECD/G20 agreement is strikingly simple – it undermines the calls of peoples from the Global South for a comprehensive, democratic, and just global system of corporate taxation.

The so-called “Inclusive” Framework rests on the preservation of skewed global tax rules that have long favored the profit-driven interests of MNCs and the agendas of the Global North where they are largely headquartered.27 Despite the name, the framework is far from inclusive, and over one third of the world’s countries are not members.28 With undue influence given to exclusive clubs such as G7, G20 and the OECD members, the framework also fails to ensure that countries participate on an equal footing. The two pillars laid out in the OECD’s agreement consist of a proposed global minimum corporate income tax rate of 15%, and a mechanism for a small additional tax on a few large multinational corporations when they exceed a very high profit threshold.

Setting the global minimum corporate tax rate at 15%, but allowing substantial carveouts, only generates a paltry amount of tax revenues for lower-income countries and largely benefits some countries in the Global North, since priority is given to the countries where MNCs are headquartered in the division of taxing rights, and the proposal does nothing to reduce profit shifting out of the South. The proposed 15% is also much lower than the statutory corporate tax rates of many countries of the Global South (African Tax Administration Forum has noted that most African countries have rates between 25%-35%).29 This may trigger an even more dangerous race to the bottom where developing countries may be pressured to adopt the G20/OECD’s minimum rate, and risks further eroding their rapidly dwindling tax rates.

Complementing this inadequate rate is another false solution that narrows its coverage down to a barely 100 large MNCs, a small proportion of whose profits can be redistributed for tax purposes to countries where sales are made and users are based. The two-pillar ‘solution’ presented by the G7/G20/OECD, poses a barrier to the longstanding demands of developing countries for a just system of allocating taxing rights and for taxing multinational corporations’ profits.

28 https://www.eurodad.org/who_is_at_the_table_global_tax_rules
Many in the tax justice movement were critical regarding the leadership role of the OECD, which is a club of the rich, to reform international tax rules. This intensified when the Inclusive Framework’s agreed workplan, which included an important G24 proposal, was simply abandoned in 2019 in favour of a US-French proposal. The CS FfD Group is one of the signatories of a joint statement and campaign led by the Global Alliance for Tax Justice (GATJ) rejecting the “tax deal of the rich.”

To dismantle the pillars of inequality and exclusivity, we must advance the agenda of transforming the global tax system and demand for a truly inclusive and democratic inter-governmental mechanism under the auspices of the United Nations where all countries stand on equal footing.

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31 https://www.globaltaxjustice.org/en/latest/g20-global-south-members-uphold-g77-tax-interests—not-those-g7
**HOW TO ENGAGE?**

The CS FfD Group has been campaigning and advocating for stronger international cooperation on tax matters and the democratization of global tax governance through multiple entry points.

Examples include: direct engagement on DRM in the FfD process by providing inputs to the yearly *Financing for Sustainable Development Reports*, to the *FfD Forum* negotiations, *UN Tax Committee*, *Annual ECOSOC Meeting on International Cooperation in Tax Matters*, *FACTI Panel*, *FfD in the era of COVID19 and beyond*, and to the UNGA second committee, which negotiates an IFFs resolution every year.

FfD and tax issues are coordinated on a FfD tax listserv. To join the CS FfD Group, please fill the google form at this link: [csoforffd.org/join-the-cso-ffd-group](csoforffd.org/join-the-cso-ffd-group)

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