First Draft of the FfD4 Outcome Document: Recommendations on Domestic Public Resources

April 2025

The International Centre for Tax and Development (ICTD) is an independent research centre focused on improving tax policy and administration in lower-income countries through collaborative research and engagement. Our partnerships with African revenue authorities enable them to raise revenue in ways that are equitable, efficient, and strengthen accountability. Established in 2010, our team of over 20 researchers works across a range of disciplines and topics including tax administration, international tax, subnational tax, environmental tax, informality, and gender and tax.

FfD4 coordination on behalf of ICTD: **Rhiannon McCluskey** r.mccluskey@ictd.ac

ICTD Experts

Giulia Mascagni: G.Mascagni@ids.ac.uk, tax administration, digitalisation, equitable taxation, tax and gender

Martin Hearson: M.Hearson@ids.ac.uk, international tax cooperation, equitable taxation, digitalisation

Giovanni Occhiali: G.Occhiali@ids.ac.uk, equitable taxation, environmental taxation

Daisy Ogembo: D.Ogembo@ids.ac.uk, digitalisation, equitable taxation, international taxation

Max Gallien: M.Gallien@ids.ac.uk, informality, tax and sovereign debt

Fabrizio Santoro: F.Santoro@ids.ac.uk, tax administration, digitalisation

Vanessa van den Boogaard: v.vandenboogaard@utoronto.ca, informality, tax and gender

Wilson Prichard: wilson.prichard@utoronto.ca, subnational taxation, equitable taxation

Colette Nyirakamana: c.nyirakamana@utoronto.ca, subnational taxation

Introduction

Domestic resource mobilisation is the primary and most sustainable source of financing for development. The Fourth International Conference on Financing for Development (FfD4), represents a tremendous opportunity to renew ambition and define the agenda on raising tax revenues in a way that is equitable, efficient, and sustainable.

The first draft of the outcome document offers a good basis on which to build a constructive consensus. In particular, we welcome:

- the call for development partners to double their support for domestic resource mobilisation and public financial management by 2030;
- the commitment to strengthen progressivity in tax systems, including the taxation of high-net-worth individuals;
- the inclusion of gender equality as an imperative, and the commitment to promote taxation and budgeting that advance this;
- the addition of a commitment on the effective taxation of natural resources;
- the strengthened commitment to phase out fossil fuel subsidies, while noting that the loophole word "inefficient" should be removed;
- the commitment to ensuring equitable benefits and addressing the specific needs of developing countries in international tax cooperation; and
- the commitment to enhance beneficial ownership transparency through effective registries.

As negotiations progress towards the conference in Seville, it is important to safeguard these commitments, while also adapting the text to better ensure success. Priorities include:

- adding a focus on enforcing existing laws when it comes to taxing the wealthy;
- On integrating the informal sector, adding language to focus efforts on undeclared income and wealth and protecting the lowest income earners;
- encouraging the collection of sex-disaggregated data to support gender-responsive policy making;
- including a commitment to rationalise and implement minimum standards for reporting on tax expenditures;
- adding language on data governance and the protection of citizen rights in relation to digitalisation;
- adding a reference to own source revenue collection in the section on subnational finance; and
- adding a commitment on health taxes, as an efficient way to advance health and revenue goals.

This document puts forward suggested language for ten priority areas of domestic resource mobilisation, along with brief explanations for why these changes matter and links to key supporting resources.

1. The Informal Sector

Current text

29. d) We encourage the broadening of the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances, including by harnessing technology and innovation, investing in digital public infrastructure, by reducing the cost of compliance and through providing appropriate incentives.

Suggested language

*29.d) We encourage the broadening of the tax base in a **progressive manner, including by focusing on undeclared income and wealth**. We will support continuing efforts to integrate the informal sector into the formal economy in line with country circumstances—including by harnessing technology and innovation, investing in digital public infrastructure, reducing the cost of compliance, and providing appropriate incentives— **and developed in a targeted manner to be appropriate for different sub-sectors and protect the lowest income informal earners**.*

Rationale

It is positive that the section on integration of the informal sector into the formal economy recognises the importance of country circumstances, alongside compliance costs that can be high for small firms. However, we believe that in combination with the language on "broadening the tax base," there is still a risk the framing may be interpreted as encouragement to double down on dominant approaches to taxing informal economies, including mass registration drives and presumptive tax regimes, which research has demonstrated to often be ineffective and highly regressive. Research in recent years has highlighted the potential of more targeted approaches, both from a revenue and an equity perspective. Consequently, we propose including a reference to progressivity and undeclared income and wealth in the formal sector, as well as making explicit reference to targeting higher income earners and protecting the lowest income informal workers. This will ensure the text distances itself from common tendencies to shift some of the costs of financing for development onto operators below the poverty line under the frame of formalisation. We also suggest referencing sub-sector specific strategies in order to highlight that while country circumstances are important as already noted, the characteristics of particular sub-sectors (such as street-vending or home-based manufacturing) are even more significant in effectively engaging with informal economies.

Further Information

ICTD Blog: Effective and Equitable Formalisation within the Financing for Development Agenda

ATAF/ICTD Policy Paper: Taxing Informal Economies: Practices, Challenges & Ways Forward

ICTD Policy Brief: Why Mass Tax Registration Campaigns Do Not Work

ICTD Policy Brief: Simplified Taxation in Africa: What We Know – and Need to Know

2. Equitable Taxation

Current text

22. e) We commit to ensure progressivity and efficiency across fiscal systems to address inequality and increase revenue. We will promote effective, equitable and socially just government spending. We will also promote and strengthen progressive tax systems and the taxation of high-net-worth individuals, supported by international cooperation, while respecting national sovereignty.

Suggested Language

*29. e) We commit to ensure progressivity and efficiency across fiscal systems to address inequality and increase revenue. We will promote effective, equitable and socially just government spending. We will also promote and strengthen progressive tax systems and the taxation of **higher income individuals, including** high-net-worth individuals, supported by **enhanced enforcement of existing tax laws and** international cooperation, while respecting national sovereignty*.

Rationale

High-income countries collect three times more revenue from personal income taxes and eight times more revenue from property taxes than low-income countries do, in proportion to their GDP. In lower-income countries, the most immediate issue in terms of progressivity is to enforce existing taxes on the wealthy more effectively. These include taxes on capital income such as investment, capital gains, and rental income, as well as taxes on property. These taxes bear more on higher income individuals, whether or not they are classified as high-net-worth individuals by individual countries' definitions. Enforcing these taxes better would result in immediate gains in both revenue and equity. While tax equity is a central goal in itself, it is also a means to more efficient revenue mobilisation in the longer term, as citizens are more likely to voluntarily comply with a tax system they perceive to be fair.

Further Information

ICTD Policy Brief: Taxing the Wealthy in Lower-Income Countries: Why It's Important, and How to Do It

Blog: Four Priority Areas for Financing for Development

3. Gender Equality

Current text

22. g) We will promote budgeting and taxation that are gender-responsive, in line with countries' national strategies, priorities and circumstances. To achieve this, we will develop and enhance methodologies and tools for designing, monitoring and evaluating budget and tax policies with a gender perspective, alongside capacity development.

Suggested Language

*22. g) We will promote budgeting and taxation that are gender-responsive, in line with countries' national strategies, priorities and circumstances. To achieve this, we will **prioritise tax equity, including progressive and targeted approaches to the informal economy**. ~~develop and enhance methodologies and tools~~ **We will*** *encourage the collection of sex-disaggregated data and analysis on the gendered impacts of tax and public expenditures, to support designing, implementing, monitoring and evaluating tax and budget policies with a gender perspective, alongside capacity development.*

Rationale

Advancing tax equity and gender equality requires a new approach building on three key pillars: 1) embedding gender and tax firmly in a feminist agenda for fiscal policy and politics; 2) a progressive tax policy agenda, and broad coalitions for change; and 3) increased attention to the implications of policy implementation and administration. As such, many of the required actions to make tax and fiscal systems work better for women are related to a broader agenda around equity and progressivity, based on a strong distributional rationale. Collecting gender disaggregated data more systematically, including administrative tax data and data on public expenditure, should be prioritised over the development of new methodologies, to allow for improved analysis, monitoring, and evaluation.

Further Information

ICTD Policy Brief: Towards Gender Equality in Tax and Fiscal Systems: Moving Beyond the Implicit-Explicit Bias Framework

Blog: Time for a broader, bolder approach to tax justice for women

ICTD Policy Brief: Tax and Gender: Why Informality Matters

Development Policy Review journal article: Furthering a feminist fiscal agenda: Engendering tax and development

---

4. Tax Expenditures

Current text

22. b) We will promote budget transparency, accountability and efficiency, including by enhancing oversight, implementing transparent procurement systems, as well as strengthened, resourced, independent and professional supreme audit institutions and parliamentary oversight. We also encourage the enhancement of oversight and management of tax expenditures, as well as minimum standards for tax expenditure reporting.

Suggested Language

We support the International Institute for Sustainable Development (IISD)'s submission:

*b) We will promote budget transparency, accountability and efficiency. This includes enhancing oversight, implementing transparent and **digital/e-**procurement systems and strengthened, resourced, independent and professional Supreme Audit Institutions and parliamentary oversight, **especially public accounts committees. We will support the establishment and use of transparent and digital/e-procurement systems that track the impact of expenditures on achieving the SDGs. We also commit to rationalise the use of tax expenditures to increase fiscal space, increase transparency** and improve oversight and management of tax expenditures, and to implement minimum standards for tax expenditure reporting.*

Rationale

As the IISD notes, the first draft is significantly less ambitious than the zero draft text regarding tax expenditures. Rather than seeking a commitment from countries to improve oversight of tax expenditure management, and implement minimum standards for reporting, it merely encourages. This contradicts the emphasis that the document places on domestic resource mobilisation to resolve many of the financing challenges targeted by FfD4. Tax expenditure reporting is critically important, and good progress has been made in this area. However, tax expenditure reporting is only a means to an end – that end is rationalizing tax expenditures to increase fiscal space. The text should reflect this 'north star' of tax expenditure reporting.

Further Information

IDOS Blog: Rationalising Tax Expenditures – a Core Element of Financing for Development

5. Natural Resource Taxation

Current Text

f) We commit to effective taxation of natural resources that optimize domestic revenue from natural resource rents.

Suggested Language

f) We commit to effective taxation of natural resources that optimize domestic revenue from natural resource rents. ***Taxes and royalty revenues derived from exploration through to mine closure should reflect the value to society of the resources mined and be used in support of the sustainable development of the nation***.

We acknowledge the importance of sustainably managing renewable natural resources such as fisheries and forests, which can be supported by different fiscal instruments. We note that the majority of the revenue generated from the exploitation of these resources should be reinvested in their sustainable management. We recognise the role of devolved governments in guaranteeing this outcome and commit to providing them with the support needed to effectively deploy the tools at their disposal.

Rationale

We support the IISD's submission on point f. As they note, many lower-income countries are resource-dependent and will only attain more ambitious tax-to-GDP ratios if they optimize the financial benefits from extractive industries. According to the World Bank data, natural resource rents represented more than 10% of GDP in 20 low and lower-middle income countries in 2021. However, revenue contribution from the extractive sector could be higher: IMF research shows that African countries are losing between $470 million and $730 million per year in corporate income tax on average from tax avoidance by multinational mining companies.

This addition to the first draft is a positive step towards emphasizing the important role of natural resources in the economy of many low-income countries. The IISD's proposed addition to commitment f) stresses the importance of ensuring that the exploitation of mining resources positively contributes to each country's development, reflecting the true value of these resources.

We also propose the inclusion of an additional commitment on the sustainable exploitation of renewable resources like fisheries and forests, which play an important role in the livelihoods and food security of many marginalised communities in lower-income countries. The commitment notes the role of fiscal instruments in supporting sustainable management, while making clear that the majority of the revenue generated through them should be reinvested in managing the resource base sustainably. It also recognises the importance of capacitating local governments, which often co-manage these resources.

Further Information

IGF: Mining Policy Framework

ICTD Working Papers: Taxation of Fisheries in Kenya and Ekiti State's Quest for Forestry Revenue and its Impact on Forest Management

---

6. Environmental Taxation and Subsidies

Current Text

22. h) We encourage the consideration of environment and climate in fiscal programming in line with national circumstances and the stage of economic development. Options may include, but are not limited to, green budgeting, taxation and fiscal rules, carbon pricing, and taxes on environmental contamination and pollution.

i) *We reaffirm the commitment to rationalize inefficient subsidies, and to phase out inefficient fossil fuel subsidies as soon as possible, while* ***minimising possible adverse impacts on the poor. Exceptions can be made for subsidies addressing*** *energy poverty or just transitions,* ***but these should be weighed against other policy alternatives.***

Suggested Language

22. h) We encourage the consideration of environment and climate in fiscal programming in line with national circumstances, ~~and~~ the stage of economic development, and ***nationally determined contributions****. Options may include, but are not limited to, green budgeting, carbon pricing, and taxes on environmental contamination and pollution.* ***Acknowledging that these instruments chiefly have environmental objectives, we recognise that while contributing to resource mobilisation, they should not be seen as a significant source of climate finance.***

i) *We reaffirm the commitment to rationalize inefficient subsidies, and to phase out ~~inefficient~~ fossil fuel subsidies as soon as possible, while* ***minimising possible adverse impacts on the poor. Exceptions can be made for subsidies addressing*** *energy poverty or just transitions, but* ***these should be weighed against other policy alternatives.***

Rationale

Commitment h) mentions different types of environmental fiscal instruments but fails to acknowledge that environmental taxes are not chiefly a revenue mobilisation instrument – they are imposed to change behaviour through market mechanisms. This is especially problematic in a document on financing, and might encourage countries to introduce these instruments for the wrong reasons. The absence of any mention of nationally determined contributions is also problematic, as it will be important to ensure that fiscal policies work towards achieving the environmental and climate objectives that countries have identified for themselves.

With regard to commitment i), the word "inefficient" should be removed, as it is a loophole. Research indicates that the main beneficiaries of these subsidies across lower-income countries are better-off households, given that low-income households still vastly rely on biomasses for their energy needs. Therefore, a better approach would be to clarify that the subsidies to be removed are those that do not address energy poverty or just transitions. Exceptions can be made for those that do, but their effectiveness and efficiency should be weighed against other policy alternatives.

Further Information

Blog: Just environmental taxation in Africa: how tax policy can curb environmental damage, far beyond just carbon taxes

Environmental Development journal article: Obstacles and appeal of environmental taxation: Insights from sub-Saharan Africa

---

7. Digitalisation

Current text

22. l) We commit to enhance support to developing countries for country-led efforts to modernize revenue administration, especially the digitalization of tax administrations, investment in information technology systems, the improvement of data and statistics and the use of artificial intelligence.

Suggested Language

22. l) We commit to enhance support to developing countries for country-led efforts to modernize revenue administration. ***We encourage a whole-of-government approach to developing digital public infrastructure and data sharing, based on strong data governance frameworks to promote public trust, digital inclusion, and the protection of citizen rights.***

Rationale

While there has been significant progress in digitalising revenue administration in lower-income countries, certain challenges persist that prevent countries from realising its potential for revenue collection. Research has shown that key challenges include low data quality, lack of integration with administrative processes, absence of sharing between government systems and agencies, and limited analytical capacity to make use of data to inform decision making. Therefore, priorities for action in digitalisation efforts should be 1) data integrity 2) systematic integration of data into core administrative functions, and 3) developing capacities to maintain and analyse data for strategic decision-making. We propose a more ambitious and comprehensive approach of investing in digital public infrastructure across government. Data from other parts of government can be useful for tax collection, while tax data can help other public agencies deliver on various social and economic objectives. Thus, we have included mention of data sharing, while drawing attention to the need for this to be built on a strong foundation of data governance frameworks that foster inclusion, build trust and protect rights.

Further Information

ICTD Policy Brief: Digital IDs and Digital Payments – Opportunities and Challenges for Tax Administration

Blog: The digital transformation of tax administrations: What's in it for low-income countries?

Blog: How digital public infrastructure could transform tax administration in Africa

---

8. Subnational Finance

Current text

22. n) We will strengthen subnational finance where appropriate by enhancing local authorities' technical, technological and human resource capacities; diversifying revenue and financing sources, including the development of municipal bond markets as applicable; and promoting stable and transparent intergovernmental financial transfer systems and equalization mechanisms.

Suggested language

*22. n) We will strengthen subnational finance where appropriate by enhancing local authorities' **own source revenue collection through investments in** technical, technological and human resource capacities; diversifying revenue and financing sources, including the development of municipal bond markets as applicable; and promoting stable and transparent intergovernmental financial transfer systems and equalization mechanisms.*

Rationale

While increased focus on the importance of subnational finance is extremely welcome, the first draft fails to mention the cornerstone of subnational finance: own source taxation. The draft mentions several external sources of financing explicitly, but while valuable, these sources are not a substitute for own source revenue mobilisation, which in fact is often a precondition for accessing external financing.

Further Information

Blog: Strengthening subnational taxation within the Financing for Development agenda

---

9. Health Taxes

We support the United Kingdom's submission to add the following point:

We encourage introducing or increasing taxes on tobacco, sugar-sweetened beverages and alcohol, in alignment with national contexts, as a non-distortionary tax source with major potential to both increase domestic revenue and reduce the risk factors of non-communicable diseases, which is the fastest growing driver of ill-health globally.

Rationale

Health taxes on tobacco, alcohol, and sugar-sweetened beverages represent one of the most powerful yet underutilised tools to simultaneously advance public health and domestic revenue mobilisation. These excise taxes are proven to reduce consumption of harmful products that contribute to over 10 million preventable deaths annually—most of which occur in low- and middle-income countries—and to mitigate the economic burden of non-communicable diseases, which exceeds US$4 trillion globally each year. Health taxes are non-distortionary, administratively feasible, and have demonstrated strong impact in countries such as Pakistan and the Philippines, where reforms have increased revenue while reducing harmful consumption. Recent estimates show that a 50% real price increase from health taxes could generate up to US$3.7 trillion globally over just five years, including more than US$2.1 trillion in low- and middle-income countries. If allocated to health, this could increase government health spending by up to 40% in those countries. Health taxes are a win-win for health and budgets, and incorporating a clear commitment to them in the outcome document would strongly align with global health and development goals.

Further Information

Task Force on Fiscal Policy for Health Report 2024: Health Taxes: A Compelling Policy for the Crises of Today

World Bank Knowledge Note: Why Health Taxes Matter: A Mechanism to Improve Health and Revenue Outcomes

---

10. Capacity Support

Suggested Language

We support the IISD's submission:

23. g) We will provide developing countries with demand-based technical assistance and capacity building programs to ensure they benefit from international tax cooperation ***frameworks as well as bilateral or multilateral solutions for the taxation of digital business and services.***

Developing countries are increasingly interested in solutions for taxing digital businesses and services that go beyond those provided by the OECD and the Inclusive Framework, and should be supported in evaluating options that may better meet their needs.

We also support the IISD's recommended additions:

We also commit to increasing revenue administrations' capacity in international tax, legal affairs, and transfer pricing risk assessments and audits.

We will support the creation and capacity building of tax policy units, to lead informed reforms of tax policies such as tax expenditures and tax incentives in line with sustainable development goals.

The outcome document could encourage initiatives that aim at building the capacity of legal and international tax departments in lower-income countries, so they can invest the required resources in international tax negotiations such as the

UN Framework Convention. This would also include initiatives like Tax Inspectors Without Borders and other partners who work closely with tax administrations to strengthen their transfer pricing capabilities, a key source of base erosion and profit shifting. In addition, tax policy units have a key role to play in country-led resource mobilisation reforms and Integrated National Financing Frameworks, but are often non-existent or under-resourced in developing countries.

The ICTD team looks forward to continuing engagement with the FfD4 process, and will add our relevant expert commentary and inputs in the weeks ahead on the page here: www.ictd.ac/ffd4

If you have any enquiries about this document or our involvement in upcoming FfD4 events, please contact our engagement lead Rhiannon McCluskey at r.mccluskey@ictd.ac

institute of development studies

ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.

Tel: +44 (0)1273 606261
E-mail: info@ictd.ac
Web: ictd.ac
LinkedIn: ICTDTax
Facebook: fb.com/ICTDTax
Bluesky: @ictdtax.bsky.social
Sign up to our newsletter