The SDGs need at least US$1.5 trillion more public spending a year than the MDGs. How can this be funded? Increasing DAC aid, South-South cooperation and global solidarity levies will all be essential, and non-concessional and private financing have a important role to play. But countries are already funding the MDGs 80% from their own budget revenues, so the main funding will come from doubling these by 2030. This briefing shows why this requires a fundamental overhaul of global tax rules.  

1) SPENDING NEEDS: THE POST-2015 CHALLENGE

The MDGs have been remarkably successful, but many countries have fallen short. This is mainly because governments have not been able to spend enough on them. There is overwhelming evidence that –with accountability and transparency - higher government spending increases MDG results. Yet very few countries have met the spending targets they set themselves on agriculture and nutrition, education, health, social protection, or water and sanitation. Indeed, after sharp rises in 2000-2008, MDG spending has stagnated or fallen since the global financial crisis.

The post-2015 development agenda is much more ambitious, and will require three times as much finance. A third of this could come from private sector and non-aid public money (especially for large infrastructure); but US$1.5-2 trillion a year will need to be public finance. Especially in a context of slower OECD aid increases, three quarters will need to come from higher budget revenue.

2) SCOPE FOR COUNTRY-LED EFFORTS IS NARROWING FAST

One major good news story since 2000 has been a sharp increase in budget revenues: poorer countries are much less aid dependent, due to major efforts to increase tax collection. During 2000-2014, revenue rose in low-income and lower-middle income countries (LICs and LMICs) by an average 6% of GDP, allowing them to fund 77% of the MDGs themselves. This revenue funding has also had qualitative advantages over aid: it has been more stable, rapidly disbursed, aligned with national priorities, and accountable to parliaments and citizens, and resulting service delivery improvements have encouraged citizens to pay more taxes.

Countries have achieved this in three main ways: i) improving tax administration and introducing new taxes such as VAT (eg Ghana, Rwanda, Senegal); ii) renegotiating contracts with key mining companies (eg Guinea, Liberia, Niger); and iii) cutting tax exemptions (eg Mauritius, Tanzania). Charts 1-3 show the results: countries have increased revenue/GDP by between 4% and 10%. But they (and Chart 4) also show these efforts are running out of steam. According to the IMF, LIC revenue will stagnate as a % of GDP for the next 6 years. Though there are still measures countries can take (eg land and wealth taxes), scope for traditional efforts is narrowing fast.

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1 This briefing is based on a forthcoming study by Development Finance International for the Organisation Internationale de la Francophonie, on tax policies in its 28 IDA-eligible countries
2 For more details, see Government Spending Watch, Financing the Sustainable Development Coals, Chapter 5, available at www.governmentspendingwatch.org
3) WHAT DO WE NEED TO DO?
Funding the SDGs will require a 10% increase in revenue/GDP by 2030. This will be possible only with a genuine partnership between developing and developed countries to implement a fundamental overhaul of global tax rules, and ensure that developing countries get their “fair share” of tax revenues. What would a partnership contain?

3.1. Change Tax Treaties
Current tax and investment treaties penalise developing countries by 3-4% of GDP, by encouraging taxes to be paid in headquarters countries of multinational enterprises (mostly OECD countries, or tax havens), rather than in the developing countries whose raw materials and labour are major sources of their profits. Alternative treaty models designed by the UN, which encourage taxpaying in “source” countries, have been used by many countries. *All OECD governments should revise treaties to encourage fair taxpaying and give preference to “source” countries.*

3.2. Stop Tax Incentives
Many companies benefit from huge tax exemptions in developing countries, agreed when countries believed they needed exemptions attract foreign investment. A 2015 report by the IMF and World Bank to the G20 will show that most exemptions have no such benefits. Countries have tried to reduce exemptions, but faced pushback from multinationals (and from OECD governments and development financing institutions supporting “their companies”). In addition, all aid is routinely exempt – including

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4 For a strong statement of their need for a “fair share” of tax revenues, see Communiqué by Finance Ministers of OIF IDA countries at the 204 IMF/World Bank Annual Meetings, available at [www.development-finance.org](http://www.development-finance.org).

5 For much more detail on this and how it could be done, see the report of the Independent Commission on the Reform of International Corporate taxation, available at [http://www.icrict.org](http://www.icrict.org).
support to “profit-making” private sector projects. All these exemptions cost developing countries 4-5% of GDP a year. Denmark, the Netherlands, Poland and Sweden have suggested that EU countries should end in full or part exemptions for all but humanitarian aid. In addition, all profit-making official flows (especially through development financing institutions) and private investors should phase out exemptions in the next 3 years.

3.3. Make the Most Profitable Sectors Pay
Most extractive industry companies have lengthy tax exemptions or low tax rates, and should abandon them, given their high profits. Others pay much less than published corporate tax rates due to avoidance. In many developing countries, forensic audits of large companies, and withholding taxes based on turnover, have increased tax by 5% of GDP. The same is true of other very profitable sectors such as finance, tourism, telecoms and fishing. But these enterprises are often the largest employers and lobby powerfully against paying more tax. Developing countries need active public support from OECD countries and international organisations to receive higher tax payments from these enterprises. EITI should demand full transparency on country-by-country profits and tax rates by extractives.

3.4. Combat Tax Evasion and Avoidance Comprehensively
Corporate and individual tax avoidance and evasion reaches 8-10% of GDP in many countries. The G20 has agreed measures against “Base Erosion and Profits Shifting (BEPS)” (companies declaring profits in low- or no-tax jurisdictions, and using other accounting methods), and to encourage Automatic Exchange of Information (AEOI) on corporate and individual tax declarations reciprocally among tax authorities. However, avoidance and evasion problems go way beyond BEPS/AEOI, including misuse of treaties and incentives, and mis-declarations of earnings by corporations. They also cover evasion and avoidance by individuals via capital flight and “illicit financial flows”: to track these down, AEOI suggests that countries will exchange records on individual incomes and bank accounts. However, LICs and LMICs lack capacity to supply information, and most evasion/avoidance flows to OECD countries or tax havens. There must be a 10-year transition period where OECD and tax havens supply information non-reciprocally to LICs/LMICs.

3.5. Build Country Capacity
Implementing the above steps requires dramatically enhanced capacity, but amounts spent on tax capacity are pathetically small (under 0.1% of ODA). Donors should allocate 2-3% of ODA to building tax capacity. TA needs also to be refocused to enhance capacity to renegotiate treaties and exemptions, conduct forensic audits of large companies, and use information supplied via BEPS/AEOI and on illicit bank accounts to combat avoidance and evasion. Assistance must also genuinely build capacity by institutional reinforcement and skills transfer, not fill gaps temporarily by supplying tax officials. There is a strong case for more relevant South-South assistance, especially via regional bodies such as the African Tax Administrators Forum (ATAF) and the Inter-American Center of Tax Administrations (CIAT), or the Centre for Research and Studies for Tax Administrations (CREDAF - Centre de recherche et d’étude des Administrations fiscales).
3.6. Reform Global Tax Governance

Current global tax reform efforts through the G20 and OECD fall way short of these measures. This is partly because developing countries have no decision-making power in the OECD which takes the detailed design decisions, and therefore measures are not tailored to their needs. The OECD has made efforts to consult developing countries, but these have mostly been after decisions have been taken on the new rules, and related to how they will be implemented by developing countries. Successful design and implementation of fundamental global tax reform will require reforming its governance to give developing countries equal power, preferably through an intergovernmental tax commission reporting to the UN Economic and Social Council, which is a universal legitimate forum for economic decisions.

4) WHAT CAN WE ACHIEVE?

Chart 5 shows the combined effects these additional measures could have. The IMF has estimated that BEPS/AEOI will help developing countries collect 1.5-2% more of GDP. The other measures described in this briefing could allow countries to collect 14% of GDP (a total which has been reduced to eliminate double-counting among initiatives), more than is needed to fund the SDGs.

![Chart 5: Benefits of Global Tax Reforms](chart5.png)

The international community should monitor progress on these measures, publishing annual reports on what each investing country has done on treaties, exemptions, non-reciprocal information exchange and capacity-building; and which major corporations have introduced fair taxpaying policies and published country-by-country accounts. All countries (including OECD countries given the SDGs apply universally) should be transparent to their parliaments and citizens, by publishing annual reports on tax exemptions, evasion and avoidance, measures taken to reduce them, and their results.

Revising treaties; slashing exemptions; making large companies pay; combating corporate and individual evasion/avoidance; building capacity, and increasing accountability will take years to implement. The international community must begin work on them now: if it does not, the SDGs could be dead at birth.