



Integrated national financing frameworks and tax

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Key messages

Visit www.inff.org for more information about the state of INFFs.

- In the face of increasing financing needs, domestic revenue levels remain low in many countries. Highly constrained fiscal space, especially in high-debt contexts, limits the ability of governments to invest in sustainable development.
- Bold reforms are needed to raise more tax and enhance domestic resource mobilization to turn national development aspirations into reality.
- Countries are using integrated national financing frameworks (INFFs) to take forward such reforms at the country level, ensuring costs and benefits are adequately assessed, and policies are tailored to their specific systems and characteristics.

The problem

[The SDG funding gap in developing countries grew by 56% after the pandemic to \\$ 3.9 trillion in 2020.](#)

Government revenue in middle-income countries is projected to be lower by US\$95 billion a year due to the political and economic context.²

As the financing gap to meet the SDGs continues to grow, developing countries face [increasingly difficult fiscal policy trade-offs](#) due to the mounting debt crisis, the cost-of-living crisis and the long-lasting effects of the COVID-19 pandemic.

Domestic revenue levels are insufficient. Government revenue is over 10 percentage points lower relative to GDP in developing and emerging economies compared to advanced economies.¹ [In 25 developing countries, more than 20% of this revenue is spent on servicing external debt](#), further reducing the already low levels of domestic public financing available for advancing national sustainable development priorities. [OECD estimates](#) suggest that developing countries' government revenue available after debt service payments will remain almost 20% below pre-pandemic projections into the foreseeable future.

Tax levels also remain significantly lower in developing countries than in developed countries. While on average developing countries raise 15.2% of GDP in taxes, compared to 20.3% in advanced economies, 43 developing countries have tax-to-GDP ratios below 15%, and 16 have ratios below 10%. Tax revenue per person in low- and lower-middle-income countries is, on average, less than 20 times that in high-income countries.³

Tax frameworks can be better aligned with sustainable development priorities. Low and lower-middle-income countries forego over 24% of their tax revenues by using preferential tax treatments such as exemptions, deductions, credits, deferrals, and lower tax rates. In 16 developing countries these so-called tax expenditures account for more than 4% of GDP.⁴ While they may not always imply a net loss of public revenue, there is scope to enhance their alignment with countries' sustainable development priorities.

In many countries, there is scope to also enhance the progressivity of taxes, especially in the face of increases in poverty and inequality brought about by the COVID-19 pandemic. Globally, average corporate income tax rates have fallen between 2020 and 2022, with 22 countries cutting rates compared to only 5 raising them, and there has been little change in VAT (which can often be regressive).⁵

There is a range of underlying reasons why tax revenue remains constrained. These concern tax policy; administrative capacity to raise and audit taxes, fight illicit financial flows and enforce compliance with existing tax frameworks; the degree of informality in the economy; the rates and drivers of economic growth; and the broader international context. Many revenue mobilization challenges facing countries before the pandemic [remain unresolved](#) and, if anything, have only been exacerbated by lockdowns and the stop-start aftermath.

In the face of increased spending needs and reduced fiscal space, **countries need to pursue bold and coordinated reforms.** Integrated national financing frameworks (INFFs) are helping to design and implement such reforms across a wide range of countries and tax reform areas.

Integrated national financing frameworks as a driver of tax policy reform

Countries are using integrated national financing frameworks (INFFs) to finance their national sustainable development objectives and the Sustainable Development Goals (SDGs). Through INFFs, countries develop a strategy to mobilize and align financing with all dimensions of sustainability, broaden participation in the design, delivery and monitoring of financing policies, and manage risk. INFFs are voluntary and country-led.

[“Taxation is one of the most powerful tools of government, critical to investing in public goods and incentivizing sustainability.”](#)

**- Our Common Agenda,
UN Secretary-General,
2021**

More than 85 countries are using INFFs to build a more sustainable architecture for public and private financing at the country level. 56% of them are using INFFs to take forward reforms related to tax and revenue.⁶

The range of reforms is broad. Countries are using INFFs to increase tax collection, align tax frameworks with sustainable development outcomes, boost efficiency with technology, and strengthen relevant institutions and systems. In many countries, INFFs are also driving the design and implementation of medium-term revenue strategies (MTRS) to improve tax policy formulation and revenue administration in the short to medium term.

1. Increasing domestic revenue mobilization

90% of countries developing an INFF in Sub-Saharan Africa are considering reforms to address informality.⁷

Boosting tax revenues is a headline priority in many emerging financing strategies. More taxes mean more spending power for governments. Countries are setting out a variety of approaches to broaden the tax base by bringing the informal sector within the reach of the tax system or taxing high net-worth individuals; expand the types of taxes used and adjust the rates of existing taxes; reassess the effectiveness of tax expenditures and reduce or abolish them where needed; and tackle tax avoidance, evasion and illicit financial flows.

Corporate taxation, and especially the introduction of a minimum corporate income tax, has gained particular attention since record profits by some of the world's largest corporations during the COVID-19 pandemic exacerbated existing inequalities. INFF processes are providing the platform to take forward related reforms – starting from existing systems and frameworks.

Achieving the right balance in corporate taxation

Many countries are pursuing the adoption of a minimum tax on corporate income, with the view of achieving a better balance in using tax policy to attract investment and mobilizing domestic revenues. This is aligned with efforts globally to end the race to the bottom on corporate income tax by adopting a minimum tax of 15% on large multinational enterprises across countries.

Such a minimum tax means that large multinational enterprises can no longer avoid tax by locating their profits in investment hubs, as any low tax income would be subject to a “top-up tax”. It also places multilaterally agreed limits on tax competition and can ease the pressures on jurisdictions to offer what may be wasteful tax incentives.

For every \$1 invested in Tax Inspectors Without Borders, a return of over \$127 is generated in revenue for developing countries that can be invested in the SDGs.

The OECD-UNDP Tax Inspectors Without Borders partnership is gearing up to support countries by providing experts to tax administrations and finance ministries. Dialogue is underway in Namibia and Nigeria to assess tax incentives and plan how domestic top-up taxes could increase revenues in each country.

As revenue-related requests for support continue to arise from INFF processes worldwide, Tax Inspectors Without Borders is ready to meet the demand on various topics, including transfer pricing audits, criminal tax investigations, effective use of Automatically Exchanged Information, VAT and e-commerce, digitalization of tax administrations and tax and the environment.

2. Aligning incentives with sustainable development priorities

Tax policy can be a powerful driver of incentives that promote, or detract from, sustainable development priorities. As INFFs develop, there is a growing emphasis on tax policy as a tool for alignment with the SDGs as well as a driver of fiscal space.

52% of countries developing an INFF in Sub-Saharan Africa are looking at green tax reforms.⁸

Many countries are prioritizing the design of SDG and green tax frameworks and policies. This includes designing and implementing more progressive income tax frameworks to ensure the burden of tax policy does not fall on the poorest in society. It also includes the introduction or strengthening of excise taxes on harmful products (such as tobacco, alcohol, and sugar-sweetened beverages) and carbon and environmental taxes in a broad range of sectors to incentivize environmentally friendly production and consumption and, in some instances, enhance financing for nature and biodiversity conservation.

INFFs are also driving progress in re-designing tax incentive schemes to drive private sector investment towards national sustainable development priorities and the SDGs (see Kyrgyzstan's case below).



Kyrgyzstan⁹ A new tax code for sustainable development

The SDGs are incorporated in Kyrgyzstan's National Development Strategy 2040 and Mid-term National Development Programme 2026. The INFF process is helping the government ensure that budget allocations and execution, fiscal policy objectives, investment strategies and partnerships are also aligned with the country's sustainable development priorities. The main goal is to ensure a more efficient, effective, transparent and results-oriented use of public finance and a more coordinated and integrated promotion of private investment for national development.

A key area of focus is the optimization of tax incentives, which are estimated to cost the country around 5% of GDP in foregone revenue. For the first time, Kyrgyzstan has introduced a requirement into the new Tax Code for assessing the effectiveness of tax incentives and aligning them with the promotion of sustainable development. The requirement sets a framework for providing tax incentives that attract investment to priority sectors of the economy while, at the same time, contribute to achieving the priorities of the country's national development strategies and the SDGs.

More specifically, Article 14 of the Tax Code acts as a gatekeeper for introducing new tax incentives and assessing current ones by stipulating a clear list of purposes for which they can be provided:

- promoting sustainable development of the economy of the Kyrgyz Republic
- attracting investments and financing for the priority sectors of the economy for sustainable development
- achieving the main priorities of the National Development Strategy
- social support of the population
- encouraging socially useful (including charitable) activities.

A methodology for regular assessment of tax incentive effectiveness is being developed to ensure their alignment with the sustainable development priorities of the country.

3. Strengthening institutions and systems

The effectiveness and efficiency of the institutions and systems underpinning countries' tax collection efforts have a huge impact on how successful a country can be in collecting its fair share of tax revenue. For example, strengthened tax auditing capacity under the Tax Inspectors Without Borders initiative is estimated to have resulted in an additional \$5 billion in tax assessed across developing countries and an additional \$2 billion in tax revenue since 2019.

More than half of countries developing an INFF in Sub-Saharan Africa are focusing on tax-related capacity building.¹⁰

Across countries developing an INFF, efforts are being directed at strengthening the capacity of tax administrations, including as a way to avoid base erosion and profit shifting; modernizing and digitizing tax collection systems (see Tanzania example below); raising taxpayers' education and awareness on tax use to improve compliance and revenue

generation; reviewing and strengthening relevant legal infrastructures; and developing medium-term revenue strategies (MTRS) as a key element of forward-looking and risk-informed financing strategies.



Tanzania

Digital solutions for better tax collection

Tanzania is implementing its third five-year development plan (FYDP III) to achieve the goals set in the national development vision 2025. The FYDP III, similarly to the FYDP II, has incorporated and domesticated Agenda 2030. The INFF process, which started during the formulation of FYDP III, has allowed the United Republic of Tanzania to strengthen the financing component of the plan.

Through a development finance assessment, the INFF process provided the basis for designing reforms in public finance. The assessment indicated significant progress in domestic revenue collection, showing steady growth from TZS 5.7 trillion (or approximately \$2.4 billion) in 2010/11 to close to TZS 21 trillion (\$9 billion) by the end of 2020/21, with a future positive trajectory. With declining official development assistance as a proportion of financing budgetary expenditure, the government recognized a need to enhance domestic revenue to finance national goals and the SDGs. Key areas of focus include the automation of tax systems and harmonization with taxpayer information, the alignment of tax policy to the SDGs, and enhanced tax audit capacity.

The Tanzania Revenue Administration has defined its digitalization needs and is now working toward a tax digitalization strategy and roadmap, with technical assistance provided through the Tax for SDGs Initiative. Another priority is to enhance the use of data by building technical capacity for data governance and analytics.

The opportunity

Constraints to the fiscal space and existing low levels of tax necessitate the prioritization of reforms to the tax system in many countries. As governments look to address these challenges, there is recognition of tax as not only a driver of fiscal space but a tool for aligning incentives with the SDGs – and a key element of the social compact.

INFFs provide an opportunity for ensuring coherence across reforms (both within a specific financing policy area, such as tax, and across different policy areas), avoiding countervailing effects of single interventions. They are country-led and require the participation of all relevant stakeholders from the outset, which can increase the likelihood of success of identified reforms and ensure momentum is maintained beyond the short term.

Through INFFs, countries ensure that the costs and benefits of proposed tax reforms are adequately assessed and that the design of such reforms is tailored to their specific needs and characteristics – by assessing and acknowledging relevant preconditions and dependencies and by explicitly addressing trade-offs and synergies with related policies, existing systems and frameworks.

The continuing momentum behind INFFs provides an opportunity for countries to leverage lessons and experiences from their peers, as many are pursuing similar reforms under similar timelines.

INFFs are also helping countries identify the specific types of support needed from development partners and the international community for successful implementation and monitoring, thus ensuring the correct balance between country ownership and partnership in taking reforms forward.

About UNDP's Sustainable Finance Hub

UNDP's Sustainable Finance Hub supports country offices in 170 countries to work with partners to leverage and align both public and private finance for the SDGs. Some relevant services mentioned in this brief include:

- UNDP supports more than 85 countries developing and implementing INFFs. The INFF Facility is a joint initiative between UNDP, DESA, the OECD, UNICEF, the European Union, and the Governments of Sweden, Italy and Spain. It brokers technical assistance from a growing range of partners, facilitates knowledge exchange, and provides access to technical guidance. The Facility has helped more than 15 countries design their financing strategies, facilitated the exchange of knowledge and experiences between more than 50 countries, and provided technical assistance to 10 countries.
- The Tax for SDGs Initiative. With the governments of Norway and Finland, UNDP launched the Tax for SDGs initiative last year to further support developing countries in building technical and institutional capacities to align tax policy with sustainable development priorities and enhance the progressivity of taxes.
- Tax Inspectors Without Borders. Since 2015, UNDP and the OECD have been working to strengthen developing countries' audit capacity and multinationals' compliance worldwide. Services also include hands-on assistance on criminal tax investigation, the effective use of Automatic Exchange of Information data, digitalization of tax administrations and tax and the environment. Tax Inspectors Without Borders programmes span 54 jurisdictions, with 56 completed and 50 ongoing programmes, including 21 South-South programmes.

For further information, please contact:

- **Cecilia Caio**, Policy Specialist, UNDP Sustainable Finance Hub, cecilia.caio@undp.org
- **Tim Strawson**, SDG Finance Specialist, UNDP Sustainable Finance Hub, tim.strawson@undp.org
- **Tingwei Yin**, Programme and Partnership Analyst, UNDP Sustainable Finance Hub, Taxforsdgs@undp.org
- **Ahtesham Khan**, Head of Tax4SDGs, UNDP Sustainable Finance Hub, ahtesham.khan@undp.org

Endnotes

¹ Author calculations based on IMF WEO data.

² This refers to projections for the period 2022-2024, estimated by the OECD in the Global Outlook on Financing for Sustainable Development 2023. Available at: <https://www.oecd-ilibrary.org/sites/fcbe6ce9-en/index.html?itemId=/content/publication/fcbe6ce9-en>

³ Author calculations based on World Development Indicators, Tax revenue, % GDP country-level data available for 2020.

⁴ Figures taken from the Global Tax Expenditures Database (GTED). Available at <https://gted.net/>

⁵ <https://www.oxfam.org/en/research/2022-commitment-reducing-inequality-cri-index>

⁶ This figure is based on data from the 2022 State of INFFs survey. 39 countries, out of 70, indicated tax and revenue as a priority areas of focus in the context of their INFFs.

⁷ This figure refers to countries where development finance assessments (DFAs) have been undertaken and findings analysed. In 19 out of the 21 examined DFAs, proposed reforms focused on including the informal sector into the tax brackets.

⁸ This figure refers to countries where development finance assessments (DFAs) have been undertaken and findings analysed. In 11 out of the 21 examined DFAs, proposed reforms focus on issues related to green taxation,

⁹ Visit <https://sway.office.com/bln5c2TfOlovkUI?> for more information of Kyrgyzstan's INFF.

¹⁰ This figure refers to countries where development finance assessments (DFAs) have been undertaken and findings analysed. Capacity building needs across a range of tax-related topics have been identified in 11 out of the 21 examined DFAs.