INPUTS FOR AN ELEMENTS PAPER ON FINANCING FOR DEVELOPMENT

INITATIVE FOR PRINCIPLES FOR
HUMAN RIGHTS
IN FISCAL POLICY

Inputs for an Elements Paper on Financing for Development

I. Introduction

The Initiative for Human Rights and Fiscal Policy[1] is honored to deliver this submission for the elaboration of an Elements Paper for the Fourth International Conference on Financing for Development (FFD 4). This input aims to bridge global financing discussions with the normative obligations that States must uphold in terms of International Human Rights Law (further systematized in our Principles for Human Rights in fiscal policy[2]). It proposes policy solutions and recommendations on two of the focus lines of this call: cross cutting issues (such as the climate transition and gender equality), and domestic resource mobilization.

II. Cross-Cutting Issues on Global Financing

In the context of a triple interplanetary crisis, scaling up financing for cross cutting issues in an effective, emancipatory and people-centered approach has become more vital than ever before. International Human Rights Law, as a comprehensive, solidified and legitimized discourse and legal framework, provides much needed guidelines to define both substantive priorities where financing should focus upon, and procedural guidelines to avoid the risk of further perpetuating inequalities and power imbalances throughout financing processes themselves.

The Addis Ababa Action Agenda (hereinafter, AAAA) (2015) recognized "the importance of addressing the diverse needs and challenges faced by countries in special situations, in particular African countries, least developed countries, landlocked developing countries and small island developing States, as well as the specific challenges facing middle-income countries"[3]. Additionally, while explicitly affirming the primary financing responsibility of domestic states regarding their own social and economic development, the action plan also determines that "national development efforts

---

1. Center for Economic and Social Rights (CESR); FUNDAR- Centro de Análisis e Investigación; Global Initiative for Economic, Social & Cultural Rights; Centro de Estudios de Derecho, Justicia y Sociedad, Dejusticia; Asociación Civil por la Igualdad y la Justicia (ACIJ); Centro de Estudios Legales y Sociales (CELS); Instituto de Estudos Socioeconômicos (INESC) y Red de Justicia Fiscal de América Latina y El Caribe (RJFALC).

2. See https://derechosypoliticafiscal.org/es/

3. Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda), Subsection I, para. 8.

need to be supported by an enabling international economic environment, including coherent and mutually supporting world trade, monetary and financial systems, and strengthened and enhanced global economic governance"[4]. Under such a framework, cross-cutting issues to be dealt with through global financing goals were determined, including the climate emergency and gender equality.

With regards to the climate emergency, one of the cross-cutting issues of the Addis Action Plan was "protecting our ecosystems for all", determining that all the actions included under this framework should be implemented with the objective of protecting and preserving the planet, its natural resources, biodiversity and the climate[5]. To do so, States committed themselves to "coherent policy, financing, trade and technology frameworks to protect, manage and restore (the) ecosystems, including marine and terrestrial ecosystems, and to promote their sustainable use, build resilience, reduce pollution and combat climate change, desertification and land degradation"[6]. The role of public financing was highlighted, as well as the importance of avoiding harmful practices.

Due to its legitimacy, the wide reach of stakeholders included, and its pivotal role in marking the financing agenda forwards, the FFD 4 provides a fundamental platform to discuss the integration of multiple parallel multilateral negotiations that are taking place with the objective of scaling up climate financing. **This is vital to avoid the risk of fragmentation of effects and potential duplications and contradictions between relevant fora**. For instance, a New Collective Quantified Goal (NCQG) on Climate Financing is due to be established at COP 29 in Azerbaijan in November 2024, thereby marking a unified and concrete financing objective for the years to come. Furthermore, the future United Nations Framework Convention on International Tax Cooperation also offers an additional tool from which to eventually improve climate financing effectivity, namely through the potential establishment of an additional protocol on environmental taxes or the taxation of ultra-high-net-worth individuals. The FFD 4 should therefore serve as a platform by which to harmonize efforts and positions, establishing an explicit mandate upon States to include human rights considerations when determining their negotiating positions in terms of climate financing.

Importantly, States have extensively assumed human rights obligations under International Human Rights Law, which interrelate to the commitments they have made under the AAAA. Human rights obligations include a duty to "mobilize the maximum available resources"[7] for the progressive realization of economic and social rights, which has obvious implications for financing decisions.

---

4. *Ibid, para. 9.*

5. *Ibid, para. 17.*

6. *Ibid*.

7. *See, e.g., art. 21 of the International Covenant on Economic, Social and Cultural Rights.*

While improvements have been made in mobilizing resources for rights realization since the adoption of the AAAA, important gaps and challenges remain. Yet, unfortunately, **human rights obligations are not routinely considered when States make decisions and commitments around financing, and vice-versa.**

Clear evidence of such challenges is the exorbitant levels of inequalities within and between countries that exist[8], which translate into unequal access to social and economic rights. Of course, inequalities do not hinder rights' enjoyment by everyone equally. **Groups like women and girls (and within them, those who face intersecting forms of discrimination) are impacted disproportionately by the mismatch between human rights obligations relevant to global financing and their observance in practice**.

Indeed, since the adoption of the AAAA, the COVID-19 pandemic severely impacted access to basic rights, especially of women, and pushed millions of people back into poverty[9], reinforcing the need to work more decisively towards some of the framework commitments included under the AAAA, such as "Delivering social protection and essential public services for all."

In consequence, we suggest that the following key financing policy solutions and proposals are included as cross-cutting commitments in the outcome document of the fourth International Conference on Financing for Development:

- Recognizing that more intense and effective efforts need to be made to ensure **substantive gender equality, and that public finance plays a key role in achieving equality in practice.**

- As a result, reinforcing existing commitments to ensure substantive gender equality through public finance.

- Including an explicit commitment to **mobilizing *sufficient public* resources for the realization of human rights, in particular economic, social, cultural and environmental rights**, and including the right to development. Concrete examples of measures that States can commit to achieve rights-aligned resource mobilization are further discussed below.

- Promoting **policy coherence** across governmental agencies, to ensure obligations taken in international human rights' instruments are duly considered and mainstreamed across policy areas and parallel multilateral negotiations, particularly in terms of financing efforts. **Conducting human rights, climate and gender impact assessments** of major decisions

---

8. For dramatic data on this issue, see, e.g., Oxfam (2023), Climate Equality: A planet for the 99%; and Oxfam (2023A), Survival of the richest.

9. See, e.g., ECLAC, "Pandemic Prompts Rise in Poverty to Levels Unprecedented in Recent Decades and Sharply Affects Inequality and Employment", at https://www.cepal.org/en/pressreleases/pandemic-prompts-rise-poverty- levels-unprecedented-recent-decades-and-sharply-affects around financing is an example of how relevant obligations could be properly observed.

- In line with existing human rights obligations and standards, **ensure civil society participation in decision-making around financing at all levels**, and in related monitoring, follow-up processes. Successful examples of integrating civil society to species related to public financing that emerged after the AAAA, such as the Civil Society Council[10] of the Latin American Platform on Tax can guide efforts in this direction[11].

III. Domestic public resources

The AAAA describes a set of commitments and actions to achieve the Sustainable Development Goals (SDGs). Action 1 on "Domestic public resources" underscores the need for strengthening domestic resource mobilization, combating illicit financial flows and fostering international tax cooperation. Overall, commitments enlisted are a good starting point to emphasize the interconnection existing between the local level and the international level. From this perspective, the ability of many low and middle income countries to mobilize sufficient resources to address public policies is linked not only to the challenges faced by many of those countries to build an effective tax system, but also, to the existing and unfair international tax system.

We believe that it is pivotal, as is stated in the Action Agenda, to enhance "...revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection"[12]. This commitment stresses the relevance of pursuing mobilization of resources considering inequality and progressivity as a cross-cutting and relevant issue. In fact, this commitment reflects one of our Principles for Human Rights in fiscal policy, which emphasizes that "States must ensure that their fiscal policy is socially fair"[13].

Tax and expenditure policies must similarly be designed in accordance with "...the principles of horizontal and vertical equity, legality, equality, non-discrimination, generality, contributive capacity, progressiveness, and other principles of fair taxation generally incorporated in their

---

10. See https://ptlacsocial.org/

11. See https://www.cepal.org/es/ptlac

12. Ibid, para. 22.

13. See https://derechosypoliticafiscal.org/es constitutions, in international law and in other complementary frameworks"[14]. In other words, there is a normative obligation for States to chase and implement tax policies considering the need to promote substantive equality and the reduction of inequality. Therefore, the implementation of progressive fiscal policies with a significant redistributive impact must be a goal by itself.

However, although there has been progress on positioning those topics on the agenda of different international venues, we are still lacking a real political compromise to increase tax progressivity at all levels. Developing countries continue to face incredible difficulties in enhancing revenue mobilization, reducing inequalities, and adopting and implementing effective public policies that contribute to achieving the SDGs.

As a result, we advance the following proposals to be considered as commitments of the FFD 4:

A. Increasing tax progressivity through local and international policies

Extreme inequality in favor of an increasingly smaller group of people is the result of multiple economic and social phenomena. Among them, several studies have shown the impact that the reduction of taxes on wealthy individuals and companies has had on increasing the concentration of wealth in a few sectors and individuals. For example, a recent report by the EU Tax Observatory estimates that billionaires in the United States pay on average no more than 0.6% tax rate of their individual capital taxes[15].

Therefore, we recommend States to promote tax reforms at the international and local level that shift the current overreliance on consumption taxes in many countries from the Global South; build a new consensus over equitable taxation for multinational corporations and fairer allocation of taxing rights between the countries; and set up higher taxes for millionaires or high- net-worth-individuals. These measures will also provide more resources that must be used to finance quality public services and guarantee human rights in low-income countries.

1) Shift overreliance on consumption taxes

As the last Financing for Sustainable Development Report argues, digitalization and globalization have altered the taxation landscape of the world, increasing the pressure on countries to decrease wealth and corporate taxes. As a result, this has created not only a "tax competition" between countries to

14. Idem, Principle 3.

15. UE Tax Observatory (2024) A blueprint for a coordinated minimum effective taxation standard for ultra-high-net- individuals. Available: [report-g20.pdf (taxobservatory.eu)] attract foreign investment, but also has made it much easier for multinationals and rich individuals to shift their profits to another jurisdiction. By doing so, developing countries are suffering the consequences of losing money and in order to mobilize sufficient revenue, many of these countries have increased consumption taxes, which can be regressive.

To tackle this overreliance on consumption taxes we recommend States to:

- Ensure that **tax systems have, as a whole, a progressive effect**. This implies correcting as a matter of top priority the high reliance on regressive taxes which have a low redistributive impact and promote progressive taxation as the main source of revenue of Governments.

- **Implement direct taxes on dividends, financial income and other capital income** as they represent the main sources of income of the population at the top of the income distribution.

- **Innovate in the design and implementation of different indirect taxes in order to reduce their regressive impact**. For example, promote compensation mechanisms for lower-income populations.

2) Set higher taxes and measures to address tax evasion and avoidance by high-net-worth-individuals

As we know, the concentration of global wealth has reached historic post-pandemic levels. According to Oxfam Intermón's latest report, the richest 1% of the planet hoard almost two-thirds of the total wealth generated since 2020 and almost 50% of total financial assets. At the same time, while the wealth of the world's five richest men has doubled since 2020, the accumulated wealth of 5 billion people has been drastically reduced[16].

It is known that aggressive tax avoidance and tax evasion of ultra rich taxpayers can reduce the progressiveness of tax systems. As a result, different international initiatives are starting to discuss the convenience of setting higher and effective tax rates to high-net-worth-individuals. For example, the recently approved Terms of Reference within the United Nations Tax Convention has stated a commitment to start deliberations to address tax evasion and avoidance from high-net-worth-individuals. The G20 Ministerial Declaration on International Tax Cooperation has also committed to collaborate and engage to ensure that ultra-high-net- individuals are effectively taxed. Following the same logic,

- **We recommend States to explicitly support, in the FFD outcome document the establishment of measures to tackle tax evasion and avoidance from these individuals,**

16. *Oxfam Intermon (2024) Inequality Inc. How corporate power divides our world and the need for a new era of public action. Available:* ***https://policy-practice.oxfam.org/resources/inequality-inc-how-corporate-power-divides-our-world- and-the-need-for-a-new-era-621583/***

and more specifically to commit to take measures to ensure progressive taxation of multi-millionaires.

B. Ensure equitable taxation of multinational corporations and fairer allocation of taxing rights between countries

Ongoing negotiations to draft a Framework Convention on Tax Cooperation within the United Nations have opened a unique opportunity to reshape the international corporate tax system. Initiatives to regulate corporate tax abuse from the OECD, such as the 15% global minimum tax on multinational companies' income, known as Pillar 2, have not been effective to stop profit shifting. Currently, it is estimated that Pillar 2 will only result in additional revenues of USD 150 billion worldwide, whereas a minimum tax rate of 25%, as proposed by ICRICT, could generate USD 500 billion per year[17]. Similarly, OECD policies have not been implemented to ensure that companies in the digital economy are taxed in the countries where they have economic activity and not only in those where the parent company is headquartered.

For this reason, further negotiations on the taxation of multinationals and the digital economy must reach a broad and more inclusive agreement that truly represents the needs of developing countries and not only the richest economies. The recently approved Terms of Reference for the United Nations Tax Convention have taken a step forward by incorporating commitments to be negotiated on issues such as equitable taxation of multinational enterprises. We suggest that States commit to advance, within ongoing international tax cooperation processes, the following goals:

- **Allocating a fairer proportion of tax revenues from the profits that multinationals generate to low- and middle-income countries.**

- **Taxing the "Digital economy" where the economic activity of multinational companies really happens** and not only where the company is legally established.

C. Enhance tax cooperation and truly align the FFD 4 with the UN Tax Convention

As discussed above, recent initiatives promoted by the OECD such as the Base Erosion and Profit Shifting (BEPS) project or the two-pillar Inclusive Framework have proven to be insufficient to reduce corporate tax abuse worldwide. According to the Tax Justice Network, countries continue to suffer huge annual revenue losses ($480 billion) because the current international tax system allows multinational corporations and the super-rich to shift their profits to countries with lower tax rates[18]. Moreover, the impact of these losses is proportionately greater for low- and middle-income countries.

---

17. *Independent Commission for the Reform of International Corporate Taxation (ICRICT) (2022). An Emergency Tax Plan to Confront the Inflation Crisis. Available:* ***https://www.icrict.com/corporate-taxation/2022-12-9-taxing-super- profits-to-beat-inflation-defend-rights/***

18. *Tax Justice Network (2023) The State of Tax Justice. Available:* ***https://taxjustice.net/reports/the-state-of-tax- justice-2023/***

States must tackle this problem to ensure developing countries have sufficient resources to finance their development. For that purpose, recent international initiatives to mobilize resources worldwide must incorporate a real change of mindset and truly promote a more inclusive, fair and effective negotiating process. We therefore **recommend that the FFD 4 outcome document acknowledges the ongoing process to negotiate a Framework Convention on Tax Cooperation at the UN, and that States commit to considering specific needs from countries in special situations and developing countries during negotiation. We similarly recommend that countries commit to negotiating in good faith during the next phases of the drafting of the UN Convention.**

Aligning the outcome document of the Conference to the commitments going to be negotiated in parallel during the UN Tax Convention is also key to strengthen the follow- up process of FFD 4 and ensure accountability and full implementation of commitments. The tax Convention will set a legally binding treaty that has the potential to increase the chances of a full implementation of the commitments from the FFD 4, if both processes are coordinated and respond to the same problems and target similar solutions.

D. Enhancing tax transparency

Action 1 of the AAAA also emphasizes the need to improve information disclosure. To achieve this, it proposes "strengthening regulatory frameworks at all levels to enhance the transparency and accountability of financial institutions, the business sector, and public administrations"[19] ensuring that this information is accessible to the relevant tax authorities. Similarly, Action 3, focused on international cooperation for development, highlights the importance of strengthening collaboration between countries to combat global tax abuse.

Since the adoption of the AAAA, different mechanisms have stressed the relevance of transparency around public finances. For example, the United Nations Committee on the Rights of the Child[20] interpreted the principle of transparency to encompass the obligation of states to create transparent and auditable public financial management systems, which not only enhances efficiency but also combats corruption and promotes economic, social, and cultural rights (ESCR). Furthermore, it pointed out that transparency is essential for ensuring meaningful participation in the budgetary process by the executive and legislative branches, as well as by civil society.

Thus, it is necessary for states to **implement a standardized fiscal information mechanism that guarantees equitable access to disaggregated and complete data across all jurisdictions**[21]. This

---

19. Addis Ababa Action Agenda of the Third International Conference on Financing for Development (Addis Ababa Action Agenda), Subsection I, para. 25.

20. Committee on the Rights of the Child (2016). General Comment No. 19 (2016) on public budgeting to realize children's rights (art. 4).

21. See https://derechosypoliticafiscal.org/es. Principle 7 mechanism must be publicly accessible through a transparency portal, available to governments, citizens, and civil society organizations, and should include detailed information on tax agreements. This initiative would be consistent with subsection III of the AAAA on Data, Monitoring, and Accountability.

This standardized mechanism should also facilitate access to information contained in beneficial ownership registries. This will allow for the identification of the true owners of organizations and their effective tax obligations, thereby enabling authorities to track and mitigate illicit financial activities.

E. Expenditures must be aligned with Human Rights obligations

Finally, aligning expenditures with human rights obligations contributes to building fairer and more equitable societies where all individuals can enjoy their rights and freedoms. In doing so, states not only fulfill their international commitments but also lay the groundwork for sustainable development and inclusive growth.

The Inter-American Commission on Human Rights (IACHR)[22] has emphasized that human rights principles apply at all stages of the fiscal policy cycle, from budget formulation and tax codes to the monitoring and evaluation of their impacts. It is important to note that compliance with these obligations is not only compatible with financing for development policies but is also essential for their effectiveness. Both objectives must be integrated into carefully structured measures that ensure collective and sustainable well-being (OHCHR)[23]. This necessitates adopting fiscal and economic policies that not only generate resources but also promote equity and respect for human dignity at all levels.

In this sense, the initiative on human rights principles in fiscal policy establishes two fundamental principles[24]: (i) The realization of human rights must be a fundamental objective of fiscal policy and (ii) States must ensure that their fiscal policy is in line with the pursuit of social justice.

This means, fiscal policies must ensure not only progressive taxation to maximize resource mobilization through equitable measures but also **prioritize social spending in fundamental areas such as education, health, housing, and social protection**. At the same time, it is essential to promote job creation through incentives for hiring, workforce training, and support for small and micro enterprises. These actions will significantly contribute to economic and social reactivation.

---

22. See https://www.oas.org/es/cidh/informes/pdfs/pobrezaddhh2017.pdf

23. Office of the United Nations High Commissioner for Human Rights (OHCHR) (2016). Statement by the United Nations Special Rapporteur on Extreme Poverty and Human Rights. Brazil's 20-year public expenditure cap will breach human rights, UN expert warns.

24. See https://derechosypoliticafiscal.org/es. Principle 1 and Principle 3.

Furthermore, it is crucial to design decentralization strategies that grant local governments greater autonomy and resources, allowing them to address the specific needs of their communities. This approach will facilitate the realization of human rights, especially for the most vulnerable populations in their territories. To achieve this, it is necessary to accompany these strategies with initiatives that generate and transfer resources and technical capacities, considering that some territories may have greater fiscal capacity than others.

Additionally, it is essential for countries to assess the sustainability of external debt concerning the financing of human rights and compliance with international sustainable development commitments. This involves managing collective action clauses in debt contracts to facilitate negotiations that modify conditions fairly and orderly.

Finally, **it is fundamental to implement monitoring and evaluation systems that analyze the tax benefits created to incentivize certain sectors of the economy**. This will ensure rigorous tracking of the cost-benefit generated by such incentives, allowing for necessary adjustments to maximize their effectiveness and ensure that they meet the social and economic development objectives for which they were created.

Yours Sincerely,

INITATIVE FOR PRINCIPLES FOR
HUMAN RIGHTS
IN FISCAL POLICY

Global Initiative for Economic, Social & Cultural Rights · inesc · ACIJ por la igualdad y la justicia · CENTER for ECONOMIC and SOCIAL RIGHTS · Dejusticia · Red de Justicia Fiscal de América Latina y el Caribe · fundar Centro de Análisis e Investigación · CELS