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## System change for economic transformation: Toward fair fiscal contracts

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WORKING PAPER 2024-01

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# **System Change for Economic Transformation:**

## **Toward Fair Fiscal Contracts**

*Katja Hujo and Ricardo Fuentes-Nieva*

March 2024

Prepared in collaboration with the Club de Madrid  
for the 22nd Annual Policy Dialogue 2023 (APD 2023):  
Rethinking Social Development for People and Planet  
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## Abstract

Multiple interconnected crises and unravelling social contracts have created a challenging scenario for social development, democratic governance and the achievement of the Sustainable Development Goals (SDGs). At this critical juncture, the Club de Madrid has called upon its partners to rethink social development within the context of a new eco-social contract as a pathway toward sustainable futures. As part of its 2023 Annual Policy Dialogue (APD) on “Rethinking Social Development for People and Planet,” Club de Madrid has convened key partners and stakeholders to discuss potential solutions and evidence-based policy recommendations that can inform future multilateral initiatives. In preparation for the policy dialogue, three working groups have been constituted to create a platform for informed deliberations and to identify concrete and actionable recommendations for policy and governance reforms.

This paper is the key output of the UNRISD-led Working Group 1 on “System Change for Economic Transformation.” It focuses on fair fiscal contracts, defined as fiscal and financial arrangements that raise sufficient resources for climate action and SDG implementation and fairly distribute the financing burden within and between countries. The paper outlines pathways toward fair fiscal contracts, looking at domestic resource mobilization (DRM) and public expenditure as the two sides of the fiscal contract. It then addresses issues related to ongoing or proposed reforms of the international financial architecture and creation of global fiscal and financial pacts. The final section clusters policy recommendations into four themes: (1) Fostering an enabling environment for system change; (2) Making DRM equitable, effective and sustainable; (3) Creating fair global fiscal pacts; and (4) Delivering on eco-social contracts through public investment and transformative policies.

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## Acronyms

APD	Annual Policy Dialogue
BEPS	Base erosion and profit shifting
CIT	Corporate income tax
DRM	Domestic resource mobilization
ECLAC	Economic Commission for Latin America and the Caribbean
ECOSOC	Economic and Social Council of the United Nations
ERTRs	Environmentally related tax revenues
FACTI panel	High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda
FDI	Foreign direct investment
GDP	Gross Domestic Product
GHGs	Greenhouse gases
ICRICT	Independent Commission for the Reform of International Corporate Taxation
IFFs	Illicit financial flows
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LICs	Low-income countries
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MICs	Middle-income countries
MNC	Multinational corporation
NDCs	Nationally defined contributions
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PIT	Personal income tax
PSNP	Productive Safety Net Programme
PT	Partido dos Trabalhadores/Workers' Party
SDGs	Sustainable Development Goals
SDWM	Sovereign debt workout mechanism
SMEs	Small- and medium-sized enterprises
SOE	State-owned enterprise
UHC	Universal health coverage
UN	United Nations
VAT	Value added tax

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## Introduction

### A challenging global context of polycrisis, inequalities, climate change and democratic backsliding

Multiple interconnected crises and unravelling social contracts have created a challenging scenario for social development, democratic governance and the achievement of the Sustainable Development Goals (SDGs).<sup>1</sup> Current efforts to support a post-pandemic recovery unfold in a difficult context of inflationary pressures; monetary, financial and fiscal constraints; a looming debt crisis in the global South; and rising inequalities. Climate change and environmental destruction undermine development prospects and human well-being. Geopolitical tensions, democratic backsliding and the outbreak of new violent conflicts and wars are threatening the prospects for peaceful international cooperation and coordinated problem-solving based on the values of the United Nations (UN) Charter and international solidarity. Constant crisis management and the need to address multiple humanitarian emergencies are compromising the capacity of governments and international organizations for long-term strategic thinking and interventions. An “us against them” mentality that deepens polarization and fractures is gaining ground, obstructing progress toward shared societies and inclusive social contracts.<sup>2</sup>

Recent SDG progress reports show an alarming picture:<sup>3</sup> **poverty and inequality** are on the rise and marginalized and vulnerable groups are falling further behind. Global inequality between countries has risen for the first time in three decades<sup>4</sup> and wealth and income concentration within countries and globally has reached new records. According to Oxfam, since 2020, the richest 1 percent have captured almost two-thirds of all new wealth.<sup>5</sup> Race, ethnicity, caste, citizenship status, gender identity, sexual orientation, age, disability, social class and several other factors continue to play a crucial role in determining people’s capabilities and social outcomes. Women and youth have been particularly affected by the Covid-19 pandemic, as evidenced by disproportionate negative impacts on their employment, health, safety and educational outcomes, while other marginalized and vulnerable groups such as older persons, persons with disabilities or health conditions, and migrants and informal workers have experienced severe hardships throughout the pandemic.<sup>6</sup>

**Climate change, biodiversity loss and environmental destruction** are worsening despite commitments of governments to steer economies toward sustainability and decarbonization. The recent global stocktake exercise report demonstrates that countries are failing to honour the commitments of the Paris Agreement due to a lack of implementation and ambition: as the report states, absolute global emissions have continued to grow over the past three decades and net

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<sup>1</sup> UNRISD 2022; Norton and Greenfield 2023.

<sup>2</sup> Club de Madrid 2023; UNRISD 2021.

<sup>3</sup> UN 2022a, 2023a.

<sup>4</sup> UN 2023a.

<sup>5</sup> Oxfam 2023.

<sup>6</sup> UNRISD 2022.



anthropogenic greenhouse gas (GHG) emissions have continued to rise during the period 2010–2019. Based on current nationally defined contributions (NDCs), a 1.7 °C increase in warming is predicted.<sup>7</sup> As temperatures rise, sea levels surge and extreme weather events become more frequent and severe around the world, failing to take decisive measures could lead to irreversible consequences. The economic and humanitarian ramifications of inaction could be enormous, affecting industries, livelihoods and global stability. The cost of inaction is unfairly distributed and it exacerbates social inequalities as already vulnerable communities bear the brunt of the consequences. And effects are no longer the realm of future scenarios: climate change impacts are already being felt globally, while countries and groups least responsible for global warming are most exposed to negative impacts.<sup>8</sup>

Another development of concern is **democratic backsliding and political polarization**. Civic space is severely limited in 87 percent of countries and only 9 percent of the world’s population live in high-performing democracies.<sup>9</sup> Democratic erosion and backsliding are widespread: Since 2016, the number of countries moving toward authoritarianism has been around three times as high as the number of those moving toward democracy.<sup>10</sup> Several countries have recently strengthened their autocratic features.<sup>11</sup> Populism and illiberal democracies are on the rise while economic crises and austerity measures are undermining living standards, resulting in protests, reduced state legitimacy and erosion of trust.<sup>12</sup> In Latin America, the region with the highest share of democratic countries in the developing world, people nonetheless perceive their societies as highly unequal and unfair. In 2020, 77 percent believed that their countries were governed in the interests of powerful groups and not for the benefit of all.<sup>13</sup> Member countries of the Organisation for Economic Co-operation and Development (OECD) present a similar picture. A recent OECD survey showed that governments in 22 OECD countries fall short on meeting public expectations for participation, responsiveness and representation.<sup>14</sup>

## Renegotiating social contracts: From social to eco-social

Against this backdrop of crisis and uncertainty, UN Secretary-General António Guterres has stated in his recent “Our Common Agenda” report that our social contract is broken.<sup>15</sup> But what is meant by our social contract? And how can we change course by addressing the factors that have led to its breakdown and create stronger, fairer and more just contracts than in the past? A social contract can be defined as the explicit and implicit agreements between states and citizens defining rights and obligations to ensure legitimacy, security, rule of law and social justice.<sup>16</sup> This represents an ideal vision of the social contract, which does not necessarily materialize in the real world. Existing real-

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<sup>7</sup> UNFCCC 2023.

<sup>8</sup> UNRISD 2016, 2022; IPCC 2021.

<sup>9</sup> CIVICUS 2020.

<sup>10</sup> International IDEA 2021.

<sup>11</sup> Freedom House 2021.

<sup>12</sup> UNRISD 2022.

<sup>13</sup> UNDP 2021, based on data from Latinobarómetro Corporation.

<sup>14</sup> OECD 2022a.

<sup>15</sup> UN 2021.

<sup>16</sup> UNRISD 2021.

world social contracts, which vary according to time and space, have often been exclusionary, representing dominant powers in society rather than the public interests or the commons. The twentieth-century social contract associated with the post-war Western welfare state, while delivering social and economic progress for many, left others behind and ignored planetary boundaries. Post-colonial social contracts in the global South have been undermined by frequent economic and political crises, debt crises and structural adjustment policies that have constrained governments' policy space to deliver on their promises of catching up and shared prosperity.<sup>17</sup>

As a contribution to ongoing debates about building new social contracts in crisis times, UNRISD has developed a proposal for a new “eco-social” contract which combines a reformed social contract for inclusion and justice with a contract for nature and future generations.<sup>18</sup> It is centred on principles of human rights, gender justice, peace and solidarity and promotes transformation of economies and societies toward greater sustainability and inclusion. It calls to address historical injustices associated with colonialism, imperialism, patriarchy and climate change and to mobilize resources needed to deliver on eco-social contracts through equitable fiscal policies and international finance.

## **Fair fiscal contracts: Delivering on eco-social contracts**

New eco-social contracts need to be built on fair fiscal contracts between citizens and states that lay out a strategy for mobilizing and allocating financial resources for its implementation. Beyond raising sufficient resources for climate action and SDG implementation, fiscal contracts need to distribute the financing burden within and between countries in line with principles of fairness and equity. A stable fiscal contract with voluntary tax compliance and sufficient tax receipts is an indicator of a stable social contract and a thriving economy. In addition to raising revenues and redistributing income, taxation has the potential to change behaviour by repricing public goods and bads (by taxing, for example, tobacco or carbon-intensive goods and applying lower tax rates to merit goods and social enterprises), and to enhance representation of taxpayers in public affairs, which has an important impact on the quality of state–citizen relations.<sup>19</sup> If designed well, legitimized by inclusive and democratic policy processes, and implemented by capable public administrations in favourable economic contexts of sustainable growth and employment creation (SDG 8), fair fiscal contracts can go a long way to support the necessary eco-social transformation. They need to be complemented by international resource bargains supporting countries in the global South through access to finance and transfers, knowledge and technology in order to address cross-border global challenges such as climate change, as well as compensate for historical injustices.<sup>20</sup>

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<sup>17</sup> UNRISD 2022: chapter 4.

<sup>18</sup> UNRISD 2022.

<sup>19</sup> Brautigam et al. 2008. Tax Justice Network (2023a) conceptualizes the functions of tax in a 5R framework of revenue (mobilization), redistribution, repricing, representation and reparations.

<sup>20</sup> Hujo 2020; UNRISD 2022.

## Are current fiscal systems fit for purpose?

The turn toward neoliberal policies in the early 1980s resulted in lower public revenues to fund social expenditures and a redistribution of the tax burden from corporations and higher-income groups to consumers and lower-income groups.<sup>21</sup> As a result, the current tax and expenditure landscape often reveals regressive patterns, disproportionately affecting lower-income individuals and worsening inequality. A significant number of high-income earners and large corporations face remarkably low tax burdens, exacerbating this disparity.<sup>22</sup> And while tax takes have increased over the last decade in many countries,<sup>23</sup> the regressive dynamic has not changed. In addition, the resources mobilized have failed to match the increasing need for public investments and redistribution in a context of multiple crises, rising inequalities, low growth and insufficient employment creation.<sup>24</sup>

Furthermore, the issue of tax capacity—the policy, institutional and technical capabilities to collect tax revenue—remains a significant problem, in particular in low-income countries (LICs), limiting revenue collection for essential services.<sup>25</sup> Finally, excessive debt burdens, in particular external debt, absorb large amounts of public finance in the global South, depriving governments of necessary resources for social and economic investments. In the face of these challenges, a fair fiscal contract would require enhanced efforts to create equitable and effective tax systems at national levels while also reforming international financial relations based on values of solidarity and fair burden sharing. This contract, whose effectiveness rests on the political will and commitment of national governments, would facilitate crucial investments in areas like climate change adaptation, infrastructure development, inclusive digital innovations, healthcare improvements, skills enhancement and social protection systems, laying the groundwork for more equitable and sustainable economies.

The need to strengthen the fiscal contract became more urgent during and since the Covid-19 pandemic, and as a result proposals including new taxes on wealth and excess profits are becoming more palatable (see box 2). According to the OECD, the pandemic pushed developing countries into a shortfall of USD 1.7 trillion for 2020, in addition to a previously existing gap of USD 2.5 trillion in annual financing, to achieve the 17 SDGs by 2030.<sup>26</sup> This implies that we need to not only increase the quantity of resources and innovative financing at national and international levels, but also improve the quality of financing systems, making them more equitable and sustainable.<sup>27</sup>

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<sup>21</sup> Hujo and Bangura 2020. See also Hope and Limberg (2020) showing negative impacts of major tax cuts for the rich on income inequality in 18 OECD countries, while lacking significant impacts on growth and unemployment.

<sup>22</sup> Oxfam 2023.

<sup>23</sup> OECD 2022b.

<sup>24</sup> Broome et al. 2023; UN 2023b; Hujo 2020.

<sup>25</sup> Benitez et al. 2023.

<sup>26</sup> OECD 2020a.

<sup>27</sup> UNRISD 2016.

## What the working group aims to achieve

At this critical juncture, the Club de Madrid has called upon its partners to rethink social development within the context of a new eco-social contract as a pathway toward sustainable futures. As part of its 2023 Annual Policy Dialogue (APD) on “Rethinking Social Development for People and Planet,” Club de Madrid has convened key partners and stakeholders to discuss potential solutions and evidence-based policy recommendations that can inform future multilateral initiatives. In preparation for the policy dialogue, three working groups have been constituted to create a platform for informed deliberations and to identify concrete and actionable recommendations for policy and governance reforms.

This paper is the key output of Working Group 1 on “System Change for Economic Transformation.” It focuses on fair fiscal contracts, defined as fiscal and financial arrangements that raise sufficient resources for climate action and SDG implementation and fairly distribute the financing burden within and between countries (see box 1).<sup>28</sup>

### Box 1. Guiding question for working group 1

- How can governments increase fiscal capacity, in particular tax capacity, to address financing needs in a post-pandemic context?
- How can we create synergies between employment-intensive growth paths, fiscal policy and SDG financing?
- What are contemporary best practices and successful examples of countries which have reformed their fiscal contracts in equitable and sustainable ways?
- How can citizens be involved in a meaningful way in the negotiations on fair fiscal contracts?
- How can the private sector contribute to inclusive and sustainable financing systems, for example through innovative financing mechanisms, social and solidarity finance, or more rapid withdrawal from the financing of unsustainable activities?
- What role can global governance and the multilateral system play in creating an enabling environment for fair fiscal contracts, domestic resource mobilization and the development of fiscal and financing instruments (including at the global level) that are conducive to the sustainability transition?
- What should be the priorities and deliverables from a World Social Summit in 2025? What commitments should it foster?

In the discussion process, working group members emphasized a number of overarching concerns, including the importance of representing the interests of countries in the global South, tailoring solutions to specific contexts and paying attention to groups such as women, youth and children

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<sup>28</sup> UNIRISD 2021.

who continue to lack access to equal opportunities, power and participation. The members further articulated the need to provide guidance and policy recommendations on how to:<sup>29</sup>

- Reduce inequalities; provide decent jobs and fair wages, national social protection floors and basic social services; and strengthen human rights, participatory democracy, social cohesion and peace.
- Improve primary (market) and secondary (post tax-transfer) distributional outcomes.
- address backlash against human rights, gender equality, climate policies, democracy and multilateralism.
- Create long-term political commitments for necessary reforms and earn the trust and buy-in of citizens and market actors through good governance and accountability.
- Ensure that decision-making processes are inclusive and SDG implementation benefits ordinary people as well as the most marginalized in society, in particular women and youth.
- Guarantee that the environmental transition and climate policies are beneficial for the global South, recognizing historical responsibilities and distributing costs fairly.
- Overcome siloed and sectoral approaches and promote integrated eco-social policies for SDG implementation.
- Strengthen global governance and multilateralism.
- Harness technology and artificial intelligence for SDG implementation and inclusive development while guaranteeing access to technology for developing countries.

The position paper is structured in four parts: following the introduction (section 1), section 2 focuses on pathways toward fair fiscal contracts, looking at domestic resource mobilization and public expenditure as the two sides of the fiscal contract. Section 3 addresses issues related to ongoing or proposed reforms of the international financial architecture and creation of global fiscal and financial pacts. Section 4 presents policy recommendations on how to achieve system change for economic transformation through building fair fiscal contracts at national and global levels.

## Pathways Toward Fair Fiscal Contracts

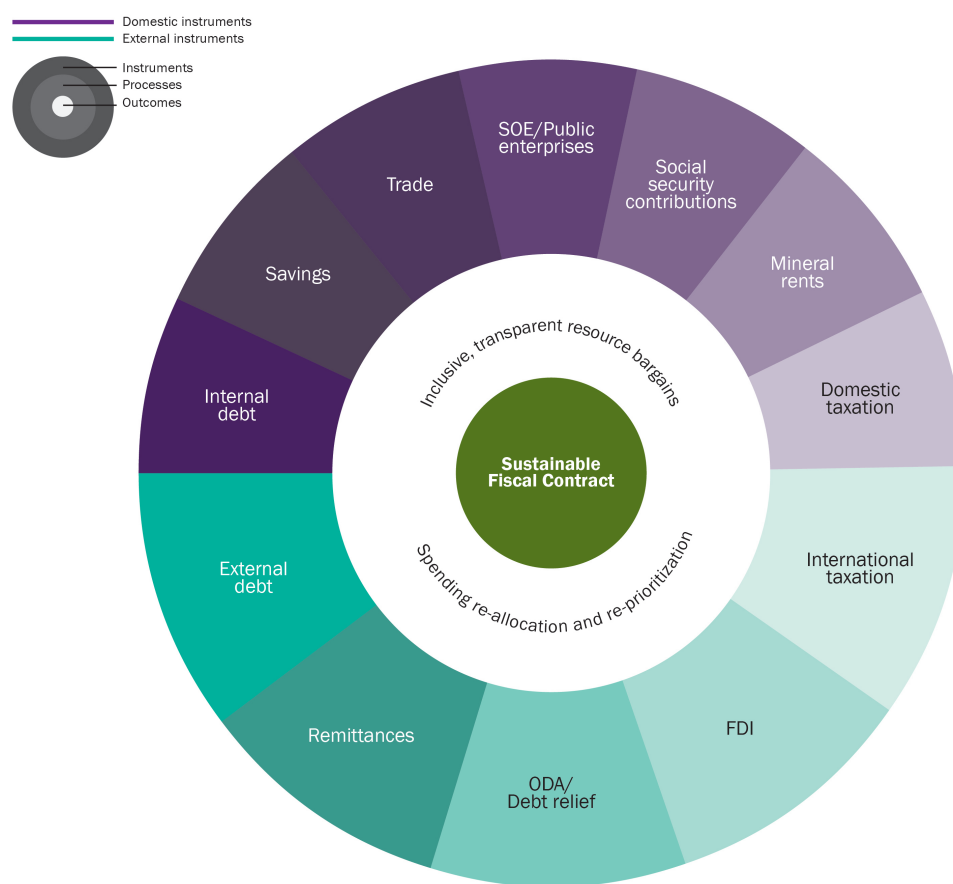
Putting development strategies into practice and responding effectively to crisis rests on states' capacity to design and implement transformative policies, create stable and accountable institutions, garner the political support and trust of citizens and business actors, and mobilize the required financial and administrative resources to fully develop their tax potential. The recourse to austerity policies or fiscal consolidation, defined as the reduction of public expenditures to reduce budget deficits and free up resources for debt service in order to regain capital market access (a common response in times of economic distress), presents a formidable obstacle to creating fair fiscal contracts and delivering on development strategies.

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<sup>29</sup> While this document cannot provide answers to all questions raised by working group members, the concerns listed here provide an indication of areas that need to be addressed in future initiatives.

As a general rule, countries will need to design their own strategies for creating fair fiscal contracts according to their economic and political structures and specific needs. This means that the combination of sources and instruments—external and domestic, public and private—as well as their weights in the overall financing mix will differ between countries (see figure 1). Some will be able to attract greater amounts of private investment, some will rely more heavily on aid transfers, foreign debt, resource rents and remittances, and some will be able to finance a larger part of their budgets with proceeds from domestic tax systems and national capital markets.<sup>30</sup> Finally, reallocation and reprioritization of expenditures can increase fiscal space and direct public spending away from harmful or inefficient sectors and toward priority issues and SDG related spending.

**Figure 1. Mobilizing fiscal space for the SDGs**



Source: UNRISD 2016:169.

Notes: SOE: state-owned enterprise; FDI: foreign direct investment; ODA: official development assistance

<sup>30</sup> UNRISD 2016.

## The revenue side: Mobilizing domestic resources

Domestic resources are key for financing the SDGs and for building strong eco-social contracts. Domestic resource mobilization (DRM) has the potential to positively impact state–citizen relations, economic stability and growth, redistribution and SDG implementation.<sup>31</sup> The latest Financing Sustainable Development Report emphasizes that domestic tax systems are foundational to the social contract in which taxpayers contribute to society and governments provide valuable public goods and services, a potentially virtuous circle that has also been recognized in the Addis Ababa Action Agenda.<sup>32</sup>

### Mixed trends in domestic resource mobilization

Before the pandemic, domestic resources—public domestic resources, in particular—were the most important source of development finance, exceeding private flows as well as international aid.<sup>33</sup> Equally, most African states were not aid-dependent anymore and had evolved into tax states (financing their expenditures mainly through broad taxation) or even fiscal states (having a reliable tax base to borrow at commercial rates in international financial markets).<sup>34</sup> According to the OECD’s Global Revenue Statistics Database, which covers 120 countries and 85 percent of global Gross Domestic Product (GDP), there has been an increase in tax revenues as a percentage of GDP in the last two decades, especially in countries where tax collection has been particularly low: since 2010, tax-to-GDP ratios have increased in about two-thirds of countries covered by the database. The increase has been widespread across different regions. This trend generally continued to advance until the outset of the Covid-19 pandemic.<sup>35</sup>

However, despite this positive trend, tax policies have become more inequitable. Fiscal contracts have been undermined in many countries over the last decades, with big corporations and high-income earners decreasing their contributions, increasing income and wealth inequality. Taxes with greater potential for progressive redistribution have fallen victim to political and market pressures, as can be observed in cuts to personal income tax (PIT) and corporate tax rates, while indirect taxes with regressive distributional impacts, such as value added tax (VAT), have expanded, also as one of the recommended short-term solutions to mitigate fiscal and debt crises.<sup>36</sup> As trade liberalization has reduced tariff rates worldwide, governments have been increasingly forced to raise consumption taxes (such as VAT), which, though regressive, reach a large section of the population and thus have the potential to substantially increase state revenues. Consumption taxes have been complemented by user charges and increased levies on utilities and other services. Reforms of corporate income tax (CIT), on the other hand, have followed a downward trend with few exceptions.<sup>37</sup> Most developing countries have made little progress in more progressive instruments such as taxes on income and

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<sup>31</sup> UNRISD 2016; UN 2023b.

<sup>32</sup> UN 2023b:35. This resonates with academic literature on the relationship between state-building and taxation. See for example Brautigam et al. (2008) and Levi (1988).

<sup>33</sup> Hujo and Bangura 2020.

<sup>34</sup> Moore 2021.

<sup>35</sup> OECD 2022.

<sup>36</sup> HRW 2023.

<sup>37</sup> OECD 2020b.

profits—which reach only 5.1 percent of GDP on average in LICs<sup>38</sup> compared with 33.6 percent in OECD countries<sup>39</sup>—or property and wealth taxes (see box 2). Adequately taxing transnational corporations and transactions is a great challenge for tax administrations (see section A New Global Fiscal and Financial Pact), in particular in the global South and in sectors such as mining, tobacco and alcohol, or telecommunications and digital services.<sup>40</sup>

## Box 2. The case for wealth taxes

Recent academic and policy discussions have explored the possibility of a wealth tax. Saez and Zucman define a progressive wealth tax as an annual levy imposed on an individual or family's net wealth exceeding a specified exemption threshold.<sup>a</sup> This net wealth encompasses all assets, both financial and nonfinancial, after subtracting all outstanding debts. The tax rate is typically designed to be progressive, meaning it increases as net wealth rises above the exemption threshold. For example, US Senator Elizabeth Warren's 2019 proposal suggested a wealth tax that would apply to single individuals or married couples with dependents with a net wealth exceeding USD 50 million. The tax rate would begin at 2 percent for wealth above USD 50 million and increase to 3 percent for wealth exceeding USD 1 billion. A family with up to USD 50 million in net wealth would be exempt from the tax, while a family with USD 100 million would owe USD 1 million (2 percent of the surplus over USD 50 million), and a family with USD 2 billion in net wealth would owe USD 49 million (3 percent of the amount above USD 1 billion plus 2 percent of the remaining USD 950 million).<sup>b</sup>

Despite its potential for revenue raising and redistribution, wealth taxes have been falling out of fashion. A 2018 OECD report found that in 1990 there were 12 high-income countries with some sort of wealth tax, but by 2018 there were only four: France, Norway, Spain and Switzerland.<sup>c</sup> Since then, France substituted its wealth tax with a tax focused on immovable property.<sup>d</sup> The phasing out of wealth taxes in Europe can be attributed to three main weaknesses. First, these taxes were susceptible to tax competition and offshore evasion due to their lack of cross-border information sharing. Second, low exemption thresholds created liquidity challenges for moderately wealthy individuals with limited liquid assets. Finally, the outdated design of many European wealth taxes, dating back to the early 20th century, and political resistance to wealth taxation, led to their erosion. As a result, reforms were introduced, including the partial exemption of certain asset classes, the imposition of tax limits based on reported income, or even the complete abandonment of wealth taxation in some cases.<sup>e</sup>

But the enormous concentration of wealth in the top end of the distribution around the world—and the negative societal and political consequences that it brings—has been a powerful catalyst for a renewed interest in wealth taxes. Even a group of millionaires have expressed publicly in an open letter their desire for more wealth taxation for fairer societies.<sup>f</sup> The calculations in which they based their open letter suggest that implementing a 2 percent wealth tax on millionaires, 3 percent on individuals with wealth exceeding USD 50 million, and 5 percent on the world's billionaires could generate an annual revenue of USD 2.52 trillion. This substantial sum could be instrumental in elevating 2.3 billion individuals from poverty, facilitating the production of vaccines for global distribution, and providing universal healthcare and social protection to the 3.6 billion citizens of low- and lower-middle-income countries.<sup>g</sup> The recently launched Global Tax Evasion Report recommends a minimum wealth tax on

<sup>38</sup> Akitoby et al. 2018.

<sup>39</sup> OECD 2018a.

<sup>40</sup> Moore 2021.



billionaires—a much reduced scope. According to their calculations, a 2 percent minimum tax on global billionaires is projected to yield roughly USD 220 billion in revenue, a figure (relatively) close to the expected revenue from the 15 percent global minimum tax on multinational profits under pillar 2 described in section A New Global Fiscal and Financial Pact in this document.<sup>h</sup> Despite the differences in numbers, the proposals to tax the wealthy around the world show a growing recognition of the need to make fiscal systems more just in an era of growing wealth inequality.

<sup>a</sup> Saez and Zucman 2019; <sup>b</sup> Saez and Zucman 2019; <sup>c</sup> OECD 2018b; <sup>d</sup> Scheuer and Slemrod 2021; <sup>e</sup> Saez and Zucman 2019; <sup>f</sup> Patriotic Millionaires et al. 2023; <sup>g</sup> Patriotic Millionaires 2023; <sup>h</sup> Alstadsaeter et al. 2023.

Carbon pricing and environment-related taxes, while still limited, are slowly increasing, in particular in OECD countries, with governments raising nearly USD 45 billion in carbon pricing revenues in 2019.<sup>41</sup> In Latin America and the Caribbean (LAC), environmentally related tax revenues (ERTRs) amounted to 1.0 percent of GDP on average in 2021 in the 25 LAC countries for which data are available, below the OECD average of 1.9 percent. More than two-thirds of ETRTs in the LAC region were derived from taxes on energy, most commonly excises taxes on diesel and petrol (0.7 percent of GDP on average).<sup>42</sup>

Many of the countries that managed to scale up domestic revenues (including from CIT) over the last two decades benefited from a booming natural resource sector and rising international prices for agricultural, mining and fuel products, in particular during the commodity super-cycle from 2004 and 2010, and in the context of the post-Covid recovery and rising prices after the Russian invasion of Ukraine. Natural resource rents present opportunities for development, especially in contexts where financial and fiscal resources are otherwise scarce. However, many mineral-rich countries lose revenue due to tax avoidance and evasion from mining companies, estimated to reach as much as USD 730 million per year in Africa.<sup>43</sup> In addition, negative aspects associated with mineral-dependent growth paths, price volatility in commodity markets, as well as the negative environmental impacts extractive industries are associated with—including the destruction of ecosystems and traditional livelihoods and the loss of biodiversity, high levels of pollution, increased risk of natural disasters, and global warming resulting from fossil fuel production and consumption—call for a rethinking of its development and revenue potential.<sup>44</sup> It is therefore high-time to develop strategies, including tax, to confront the structural changes ahead in terms of moving away from fossil fuels and harnessing opportunities linked to the rising demand for metals and minerals needed for new technologies, while changing the inequitable and unsustainable extractivist model of the past.<sup>45</sup>

<sup>41</sup> World Bank 2020; On the topic of green taxes and climate finance, see also the Club de Madrid Position Paper of Working Group 2 on “Social Dimensions of Climate Change.”

<sup>42</sup> OECD et al. 2023.

<sup>43</sup> Albertin et al. 2021.

<sup>44</sup> UNRISD 2016; Hujo 2020.

<sup>45</sup> Nsenduluka and Etter-Phoya 2023.

The need to transition out of fossil fuel production and consumption has led to increasing demands to reallocate public expenditure away from fossil fuel subsidies, which would not only reduce production and consumption but also free up fiscal resources. Fossil fuel subsidies amounted to USD 7 trillion, or 7.1 percent of global GDP, in 2022 if all costs are taken into account according to a recent IMF study,<sup>46</sup> or USD 1 trillion (a 100 percent increase compared to 2021 in response to rising energy prices triggered by the Russia-Ukraine war) if only consumer subsidies are counted, as estimated in a recent report of the International Energy Agency.<sup>47</sup> Fossil fuel subsidy removal is increasingly part of IMF programmes and loan conditionality. While it is acknowledged that “energy price reform needs to be accompanied by robust assistance for households,”<sup>48</sup> risks loom large that price increases have disproportionate impacts on household income and undermine access to energy and related services such as transport or housing for low-income and vulnerable groups with limited or no access to affordable alternative energy sources or services. Another area of concern is how the freed-up fiscal space is actually used. Some countries have followed IMF advice to channel funds into targeted cash transfers programmes which tend to cover only a small part of the population,<sup>49</sup> or worse, funds have been used mainly to service external debt.<sup>50</sup> While it can be argued that fossil fuel subsidies are a relic of a social contract that fuels inequality and climate change, it becomes clear that to make this social contract more inclusive and green requires major investments in universal social protection, universal services and affordable renewable energy.<sup>51</sup>

Finally, as result of the pandemic, overall tax revenues decreased while fiscal recovery post-pandemic has been uneven: about 70 percent of countries saw declines in their tax-to-GDP ratios in 2020, with almost 50 percent experiencing declines of more than 0.5 percentage points. Nominal taxes fell even more as GDP also declined in most countries.<sup>52</sup> Most countries showed a strong recovery from 2021 onwards in a context of economic recovery, end of temporary tax relief measures and higher commodity prices: the average tax-to-GDP ratio in Latin America and the Caribbean region was 21.7 percent in 2021, an increase of 0.8 percentage points from the level in 2020, when the tax-to-GDP ratio fell by 0.8 percent.<sup>53</sup> However, fiscal space is severely limited in most countries in the global South in a context of tightening financial conditions due to rising interest rates, devaluation pressures and unsustainable debt levels (see section A New Global Fiscal and Financial Pact).

### **Determinants of tax capacity**

Structural determinants of tax take, such as per capita income level, urbanization, the size of the non-agricultural sector and international trade, have to be factored in when evaluating revenue performance as well as historical legacies.<sup>54</sup> For example, former labour reserve economies of

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<sup>46</sup> Black et al. 2023. Total fossil fuel subsidy is calculated as the full gap between efficient prices (the sum of supply, environmental and other costs) and retail prices multiplied by consumption.

<sup>47</sup> IEA 2023.

<sup>48</sup> Black et al. 2023:23.

<sup>49</sup> Mkandawire 2005.

<sup>50</sup> HRW 2023.

<sup>51</sup> HRW 2023.

<sup>52</sup> UN 2023b.

<sup>53</sup> OECD et al. 2023.

<sup>54</sup> Moore and Prichard 2020.

southern Africa display higher tax takes based on direct tax as well as higher social expenditures, compared with western African cash-crop economies with lower tax takes and reliance on trade taxes, a legacy from colonial times that democratic post-colonial governments had to grapple with.<sup>55</sup> Post-apartheid South Africa build on this legacy by expanding social rights to Black South Africans, upending the previous racialized social contract and making it more inclusive and democratic.

Bringing citizens and residents into social contracts through extending access to social security and formal employment has a positive impact on democratization and social cohesion while also increasing fiscal receipts in terms of tax revenues and social contributions.<sup>56</sup> Mandatory social security contributions are a reliable and stable revenue source for financing social protection while higher wages associated with formal employment are associated with increases in other tax revenues such as VAT or PIT. Brazil is a case in point. The country's efforts to promote a greater formalization of the economy has not only led to improved coverage of the population with social security benefits but also created fiscal space:<sup>57</sup> As a result of an integrated approach that combined social protection measures, policies to support enterprises and economic development, support to technology and innovation, and improved labour inspection mechanisms, formal employment increased by more than 23 percent and the number of employees contributing to social security increased by more than 5 million between 2009 and 2020. Simplified registration, tax and social security contribution payment procedures for micro- and small- and medium-sized enterprises (SMEs) played a key role, a programme that also exists in other countries such as Argentina and Uruguay (the so-called *monotributo*, or monotax, programmes).<sup>58</sup>

Many countries do not fully develop their tax potential. Lack of enforcement of income taxes on the wealthy, ineffective property taxation, overly generous tax exemptions, collusion, and poor enforcement in the mining sector as well as enforcement problems of the VAT and customs duties are widespread challenges affecting tax performance in LICs.<sup>59</sup> According to the International Monetary Fund (IMF), improvements in tax capacity to increase the tax-to-GDP ratio in LICs, which currently stands at 13.8 percent (2020), could lead to a rise of 9 percentage points of GDP.

### What needs to be done

What would a fair fiscal contract, with a distinct emphasis on fostering collective responsibility for both environmental preservation and societal well-being, look like? How can domestic resource mobilization be improved in terms of quantity and quality? Several countries in the global South have made significant progress in tax capacity in recent years. Positive examples are the greater mobilization of fiscal resources from the mining sector for public investments and social expenditure in Bolivia and Chile,<sup>60</sup> reforms that increased tax progressiveness and revenues in Argentina, tax reforms that were explicitly tied to the creation of a national care system in Uruguay,

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<sup>55</sup> Mkandawire 2020.

<sup>56</sup> UNRISD 2016; ILO 2019.

<sup>57</sup> Urban 2023.

<sup>58</sup> See Calligaro and Cetrángulo (2023) for the case of Argentina.

<sup>59</sup> Moore and Prichard 2020.

<sup>60</sup> Paz Arauco 2020.

the formalization policies as well as innovative taxes such as financial transaction taxes to fund the Bolsa Familia programme implemented in Brazil, past and ongoing reforms in tax administration in several African countries, including Kenya and Rwanda, and the convening of national tax dialogues in Morocco, to name only a few.<sup>61</sup>

Recommended measures to enhance tax capacity tend to include measures such as tax base broadening for core taxes (CIT, PIT, VAT), simplification of tax systems, better use of real property taxes, and improvements in institutions governing tax policy, for example investments in tax policy units and strengthening and digitalizing revenue administrations, as well as increased use of digital services and processes, taxpayer segmentation, risk-based compliance management, creation of robust legal frameworks and convening inclusive tax dialogues.<sup>62</sup> In addition, enforcement of both income taxes on the wealthy (supported by better data sharing within tax administrations and with third parties, also outside of national jurisdictions such as offshore centres) and property taxation is vital. Addressing tax exemptions, collusion and poor enforcement in the mining sector and of VAT and customs duties are further measures to improve domestic tax collection.<sup>63</sup> Addressing transfer pricing of multinational corporations (MNCs), the shifting of profits from higher tax to lower tax jurisdictions, requires capacity development for tax administrations as well as transfer pricing laws and regulations. The potential additional revenue is substantive, but it requires a long-term strategy to build the necessary capacity.<sup>64</sup> Introducing or increasing so-called “sin taxes” on tobacco, alcohol, sugary beverages, arms, flights, carbon-intensive goods, etc. can discourage consumption, improve social outcomes such as health and increase fiscal revenues. In the Philippines, the 2012 tobacco and alcohol tax reform earmarked a significant part of increased revenues to help finance universal health coverage (UHC) for the bottom 40 percent of the population.<sup>65</sup>

A wealth tax represents a compelling approach to enhancing progressive fiscal systems and building fair fiscal contracts (see box 2). Such a tax has the potential to address growing wealth inequality<sup>66</sup> and to improve the distribution of the tax burden. In an era where the wealth of the world's richest individuals continues to soar while many struggle to make ends meet, a wealth tax can serve as a rebalancing tool. Governments can generate additional revenue to fund vital social programmes, infrastructure development and other public services by targeting the wealthiest in society, with the added benefits of fostering greater economic and social stability while protecting the planet. Moreover, a well-designed wealth tax can promote financial transparency and discourage tax evasion, reinforcing the principle that those who have benefitted most from a society's resources should contribute more.

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<sup>61</sup> UNRISD 2016; ILO 2019; Benitez et al. 2023.

<sup>62</sup> Benitez et al. 2023; UN 2023b.

<sup>63</sup> Moore and Prichard 2020.

<sup>64</sup> Moore and Prichard 2020.

<sup>65</sup> ILO 2019.

<sup>66</sup> While the trend of global wealth increase was reversed in 2022 mainly due to inflation, the appreciation of the USD and rising interest rates, the aggregate wealth of high-net-worth individuals possessing more than 1 million USD in wealth has grown five-fold from USD 41.4 trillion in 2000 to USD 208.3 trillion in 2022, and their share of global wealth has risen from 35 to 46 percent over the same period (Credit Suisse 2023).

Surveys from many countries show support for taxing the rich across the political spectrum. Oxfam notes that several recent polls show that most people support taxing rich individuals. Polling in the US shows that in the last decade, for the first time, the majority of Americans have begun to agree that their “government should redistribute wealth by heavy taxes on the rich.” An estimated 80 percent of Indian citizens are in favour of increasing taxes on the rich, and 85 percent of Brazilians are in favour of increasing taxes on the super-rich to finance essential services. In Africa, 69 percent of people polled across 34 countries agreed that it “is fair to tax rich people at a higher rate than ordinary people in order to fund government programmes to benefit the poor.”<sup>67</sup>

Finally, strengthening tax morale, based on a comprehensive approach toward building trust and accountability in tax, is both a strategy to improve tax capacity as well as an outcome of various efforts to build better systems (see box 3).

### **Box 3. Strengthening tax morale**

Fair fiscal contracts and perceptions of the legitimacy, efficiency and transparency of the tax administration appear to have a significant impact on willingness to pay tax, or *tax morale*. In general, citizens are willing to pay taxes and social contributions in return for public investments to maintain public order and safety and guarantee rule of law, welfare and social security.<sup>a</sup> Paying taxes involves both legal obligations and a sense of doing what's right. Trust and fairness are important for tax morale. Fairness is believed to be crucial for building trust in the system and for people to pay their taxes voluntarily. When the way taxes are collected, and the entire tax structure, is seen as fair and transparent, it builds trust in the authorities. Perceptions of fairness are shaped by how the tax burden is shared, ease of compliance, quality of taxpayer service, how the government interacts with citizens, how the wealthy are taxed, how tax rates are set and how tax law is enforced.<sup>b</sup> Fiscal contracts rely on the willingness of citizens and taxpayers to refrain from freeriding and evasion and on the credibility of governments to deliver their own part of the bargain in providing public services and limiting corruption and waste. This is especially important in LICs where the track record of governments in delivering services has been poor since the period of economic stabilization. How governments restore or signal credibility is therefore crucial in understanding the politics of resource mobilization.<sup>c</sup>

Tax morale can further be strengthened through better communication, trust and relationship building between enterprises and tax administrations. Taxpayer education is another key tool to increase voluntary compliance, and it can start with younger populations. A recent OECD survey on tax education programmes highlights the importance of tax morale and tax education in younger populations. The survey shows that understanding taxes is not straightforward. Teaching about taxes is a way to help bridge this knowledge gap. One of the main objectives is ensuring that future generations see the value in paying taxes voluntarily.<sup>d</sup> Finally, tax morale is likely to benefit from participatory processes and information campaigns that clearly inform taxpayers about the distributional and social impact of different tax and expenditure policies.<sup>e</sup> Hypothecating or earmarking taxes can also help to increase trust, accountability and transparency, although trade-offs in terms of lower spending flexibility need to be considered.

<sup>67</sup> Oxfam 2023:13.

The issue of tax morale or voluntary compliance underscores an important characteristic of a fair fiscal contract. Resource mobilization is just one side of the coin; the other side refers to effective and progressive public spending (defined as spending that benefits all, but low-income and vulnerable groups in particular) and the provision of decent jobs. Moreover, in addition to enhanced social expenditure, public expenditure frameworks will require an explicit commitment to just transitions to low-carbon economies where costs are distributed fairly.

<sup>a</sup> Isbell 2022, EC 2023; <sup>b</sup> Fuentes-Nieva 2021, UN 2023b; <sup>c</sup> Hujo and Bangura 2020; <sup>d</sup> OECD 2021; <sup>e</sup> HRW 2023:69.

## **The expenditure side: Investing in eco-social transformation and shared societies**

### **Reforming the social contract**

The welfare states of the 20<sup>th</sup> century have come under various pressures and need to be reformed to meet the challenges of today. They have failed to pay much attention, for instance, to environmental or gender issues, while they also need to adjust to global trends such as technological and demographic change and changes in the world of work.<sup>68</sup> Ideas about the “vital minimum” need to be explored, grounded in human rights and delivering, for example, the basic guarantees enshrined in National Social Protection Floors.<sup>69</sup> In this vein, the eco-social contract should provide fundamental social and economic rights for everyone to lead a dignified and fulfilling life. These include, among others, adequate nutrition, clean water, access to energy and transport, housing, healthcare, education, care services, social protection across the life course and decent work.

Reforming the social contract also involves reshaping gender roles and fostering gender justice, defining rights and responsibilities, promoting equality and solidarity, and building trust for necessary reforms. By addressing inequalities, a new eco-social contract should facilitate a fair recovery from Covid-19 and enhance resilience for future challenges. Additionally, the formulation of such a contract will require embedding sustainable practices in policies and social norms, safeguarding the needs and well-being of present and future generations. It will require, at the same time, addressing historical injustices associated with colonialism, racism and patriarchy, pervasive across the world, both within countries and across nations.

### **Transformative social policies**

Transformative social policies are a key pillar of new eco-social contracts. Social policies such as rights-based social protection, universal social services and inclusive labour market and employment policies are responsibilities of governments, while citizens and business actors have an obligation to pay taxes, to respect the rule of law and legislation, and to contribute to national development goals. Fiscal policies, both revenues and expenditures, should be designed in a way that fosters progressive redistribution and sustainable development. Social policies have a particular role in redistributing

<sup>68</sup> UNRISD 2022.

<sup>69</sup> ILO 2012.

unpaid care work in society and supporting social reproduction as well as just transitions. Care is a central component in every social contract and needs to be at the centre of an inclusive, employment-intensive post-pandemic recovery.

Social policy is also highly important for stabilizing the economy through so-called automatic stabilizers (when the economy contracts in a downturn, tax payments decrease and transfer payments increase, and vice versa during booms), for production through investing in healthy and educated workers, and in terms of redistributing market income to increase equality, with positive impacts on growth and poverty reduction. Social insurance and assistance programmes protect people against lifecycle and market risks and are key instruments to cushion the impacts of crises, shocks and humanitarian emergencies. Tax-financed public services such as health services, care services and education not only improve capabilities and well-being but are also inherently redistributive and thus enhance equality.<sup>70</sup> This holds true even when the tax system is neutral rather than progressive.<sup>71</sup> An OECD study found that existing public services are worth the equivalent of 76 percent of the post-tax income of the poorest quintile compared with just 14 percent of the richest. Public services also reduce income inequality by between one-fifth and one-third, depending on the inequality measure.<sup>72</sup>

As mentioned before, citizens are motivated to pay tax and even willing to pay more taxes in exchange for social services and social protection. Social protection funded by earnings-related social contributions, for example for pensions, healthcare or unemployment, shared between employers and employees, provides a clear link between obligations and benefits while strengthening employers' responsibilities and employees bargaining power. Tax-financed social assistance programmes are crucial to make social contracts more inclusive beyond the formal labour force, stabilizing livelihoods for vulnerable groups such as persons living in poverty, unpaid carers, persons with health conditions or disabilities, refugees, rural populations or informal workers.

However, many vulnerable groups do not benefit from any form of social protection. The fact that two billion workers, 61 percent of the global workforce, are informally employed, lacking social security and fundamental workers' rights along with the persistence of labour market discriminations such as the gender pay gap, are clear signs that current social contracts are in need of a fundamental overhaul. In 2020, less than 20 percent of older persons received a pension, only 33.5 percent of persons with severe disabilities received disability cash benefits, only 26.4 percent of children worldwide had access to social protection (ranging from 12.6 percent in Africa to 18 percent in Asia, and 70 percent in Latin America), and only 45 percent of women giving birth were covered by maternity benefits.<sup>73</sup> This lack of coverage was particularly problematic during the Covid-19 pandemic, which revealed and amplified huge inequalities in access to essential services and social protection. Social and economic impacts of the pandemic related to poverty, hunger, safety, health,

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<sup>70</sup> Gough 2021.

<sup>71</sup> Korpi and Palme 1998.

<sup>72</sup> Verbist et al. 2012.

<sup>73</sup> ILO 2021.

education and labour market outcomes were particularly severe for vulnerable groups such as women, children, older persons, ethnic and racial minorities, LGBTQI+ persons, informal workers and migrants.<sup>74</sup>

While investments need to be scaled-up to make social contracts deliver on the human right to social security, a range of transformative social policies have been newly implemented or scaled-up in global South countries over the last decades, for example universal child benefits and social pensions, social inclusion policies as well as extension of coverage of social protection to informal and self-employed workers, public work programmes and minimum wage policies. Integrated approaches with the potential for creating synergies between social policies and service delivery—for example, integrated care systems—and between social and environmental goals—for example, eco-social policies—are of particular importance.<sup>75</sup>

Latin America in the 2000s is a good example of expanding social rights and mobilizing fiscal resources to fund more inclusive social contracts, though issues of sustainability to maintain reforms in times of economic downturns or political changes and scaling up efforts to make economies greener need to be addressed. Supported by booming world market prices for key Latin American export products during the first decade of the 2000s which increased fiscal receipts, progressive governments implemented economic and social policies with positive distributional outcomes, reducing both vertical and horizontal inequalities. While differences exist within the region (tax-welfare systems are more developed in countries with higher income levels), improvements have been made across country groups, with the greatest progress achieved between 2002 and 2012 in Argentina, Bolivia, Colombia, Dominican Republic and Peru.<sup>76</sup>

Brazil is another example of expanding social rights to previously excluded persons while mobilizing the financial means to do so. Brazil features one of the highest tax-to-GDP ratios in the developing world: 33.5 percent, close to the OECD average of 34.1 percent. While the tax system is not void of challenges in terms of fragmentation and regressive distributional impacts, Brazil has made great advances in terms of making its social contract more inclusive through a range of economic and social policies. The country, which is often portrayed as the international role model for conditional cash transfers with reference to its celebrated Bolsa Família programme, is less recognized for other reforms implemented by the PT (Partido dos Trabalhadores/Workers' Party) governments, including coverage extension and wage indexation of various other cash transfer programmes, such as social pensions; universalization of access to education and health services; labour market policies such as minimum wage policy and an integrated approach to foster formalization; and participatory governance models and effective social registries.<sup>77</sup>

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<sup>74</sup> UNRISD 2022.

<sup>75</sup> Abramo et al. 2019; Francis and Valodia 2021; Esquivel and Kaufmann 2017; UNRISD 2016.

<sup>76</sup> Ocampo and Gómez-Arteaga 2017.

<sup>77</sup> UNRISD 2022. See Rossi and Doyle (2023) for a comprehensive inclusive and sustainable growth strategy for Brazil.



Efforts to make social contracts more inclusive and to enhance domestic financing of social policies are also found in other regions, though the amount of external funding tends to be significant for some programmes. Cash transfer programmes targeted at poor and vulnerable populations have proliferated around the world and have been further expanded during times of humanitarian emergencies, in particular the Covid-19 pandemic.<sup>78</sup> Indonesia and Thailand have made great progress toward universal coverage of health services through creating a compulsory health insurance in Indonesia and the initially named 30-baht scheme in Thailand. Both schemes are contribution-financed, with fixed contributions for self-employed and informal sector workers.<sup>79</sup> Integrated approaches combining social, economic and environmental goals such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) established in 2005 in India, which guarantees at least 100 days of paid employment each year to every rural household, and the Productive Safety Net Programme (PSNP) launched in the same year in Ethiopia,<sup>80</sup> are further examples of innovative social policy approaches in the global South that have created pathways toward new eco-social contracts by expanding social rights and protecting the environment.

### **What needs to be done?**

Social policies play a key role in shifting the current development model toward social and climate justice, catalyzing the system change we need. They are at the core of a new eco-social contract, benefiting economy and society, strengthening social cohesion and trust, and providing legitimacy and credibility to governments. Institutionalized, long-term, universal and human rights-based approaches to social protection that empower all segments of society to play a role in the development of their communities are key to reducing inequalities and building resilience in the face of future shocks and crises. Social protection schemes and public services can support climate change adaptation, just transitions and mitigate negative impacts of various types of crises.<sup>81</sup>

Before the pandemic, 55 percent of the world's population—about four billion people—did not have any form of social protection, but coverage with cash transfers increased more than twofold during the Covid-19 pandemic.<sup>82</sup> Many lessons have been learned regarding the usefulness of social protection as a crisis response as well as the advantages of having institutionalized systems with universal coverage in place that can be quickly activated in times of need. These lessons need to feed into policy reforms that promote the creation of comprehensive social protection systems and quality public services that are funded through progressive fiscal policies.

Social policy can better contribute to well-being, eco-social transformation, and shared societies when it follows key principles of human rights, universalism, social security standards, public provisioning and equitable financing. Effective coverage of benefits across the life course and for all

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<sup>78</sup> UNRISD 2022.

<sup>79</sup> ILO 2019.

<sup>80</sup> Lavers 2020.

<sup>81</sup> UNRISD 2022.

<sup>82</sup> Gentilini et al. 2021.

population groups, adequacy, availability and accessibility of benefits, and the quality-of-service provision, along with mechanisms for participation and redress, need to be guaranteed.

Cash transfer programmes can be used to extend social protection to sectors of the population traditionally excluded from statutory contributory social insurance because of either their informal employment status or low incomes. As part of targeting within a broader universal system consisting of contributory and tax-financed benefits, they can be a powerful means to realize the right to social protection and to prevent poverty. However, the benefits and shortcomings of poverty targeting through means-testing or proxy-means-testing remain controversial, and many of their negative impacts, such as high administrative costs, stigmatization risk, inclusion and exclusion errors, and creation of dualist systems, increase inequality and fragmentation.<sup>83</sup>

Contribution-financed social insurance programmes can be promoted by a) extending legal coverage of social security schemes through the extension of current schemes to new population groups and the creation of social security contributory programmes, b) extending effective coverage, which increases the contributions' collection base, for example through the implementation of formalization policies in the areas of taxation, employment and enterprise development, and c) through adjusting social security contribution rates.<sup>84</sup>

Labour market policies are crucial to make sure that economies deliver decent employment and are inclusive. Important interventions are the enforcement of labour standards as well as the implementation of minimum wage policies, skills development and capacity building, policies that support families and workers with care responsibilities (for example through parental leave schemes or flexible work times), promotion of social dialogue, and various interventions targeted at the informal economy or in support of groups that tend to participate in labour markets on less favourable terms (for example youth, unskilled workers, workers with disabilities, rural populations, racial and ethnic minorities, migrant workers and women).<sup>85</sup>

Finally, universal social services are a key instrument for well-being, development and social cohesion. Tax-financed public services such as health services, care and education not only improve capabilities and well-being but also are inherently redistributive and thus enhance equality. Notwithstanding their merits, market-oriented reforms over the last decades have led to downsizing and dismantling of public service provision, which has left many societies more unequal, less productive and less resilient in times of crisis, as the Covid-19 pandemic has shown. This trend needs to be reversed by investing in health and education systems that are efficient, affordable and accessible for all population groups, pooling risks and finances and contributing to shared societies, social cohesion and productive economies.

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<sup>83</sup> Razavi et al. 2022.

<sup>84</sup> ILO 2019.

<sup>85</sup> UNIRISD 2022.

## A New Global Fiscal and Financial Pact

The urgency to get SDG implementation back on track, the fall-out from the Covid-19 pandemic and an increasingly challenging international environment for resource mobilization has intensified debates about reforming the international financial architecture, including the role of multilateral development banks, the role of the private sector, how to overcome North-South asymmetries in global financial governance, how to cater for the needs of LICs and middle-income countries (MICs) to access reliable and affordable finance for the multiple transitions ahead, and how to distribute the burden of structural change toward low-carbon economies in equitable ways, taking into account the principle of common but differentiated responsibilities. This debate has gained new impetus in a variety of settings: at COP 27 with new proposed funding arrangements for responding to loss and damage, through the Bridgetown Initiative launched by Barbados President Mia Mottley, at the G20 meetings, at the Summit on a New Global Financing Pact convened in Paris in June 2023, through the UN Secretary-General's SDG Stimulus proposal endorsed by member states at the SDG Summit in September 2023, and during the annual meetings of the IMF and the World Bank in Marrakesh in October 2023.<sup>86</sup>

Indeed, the creation of fair fiscal contracts at the national level will require strong action and coordination beyond nation-states. Global governance will be central for achieving collective action—globally and regionally—as well as transformative change. Addressing climate change requires a harmonized global approach where nations collectively set policies and targets to mitigate environmental degradation; identify the resources needed to reconstitute loss and damage and finance adaptation; promote just, effective and rapid renewable energy transition; and agree on emission reductions, among others. More often than not, these policies would transcend borders and require the mobilization of collective financial resources. Durable solutions also require collaborative efforts to establish binding agreements, create mechanisms for monitoring and enforcement, and foster mutual accountability.

Beyond climate policies, the concept of collective global resources is central to the idea of fair fiscal contracts. Official Development Assistance (ODA), global corporate taxation and innovative mechanisms for addressing the debt problem will need to be part of a portfolio for financing the policies and agreements embedded in the new contracts. ODA needs to better support less affluent countries to implement policies geared towards sustainable development, adapting to climate challenges and ensuring social justice. Global corporate taxation could ensure that multinational corporations contribute their fair share to support collective endeavors, channeling funds toward environmental protection and equitable growth. Debt-for-nature-swaps—a mechanism through which a portion of a nation's debt is exchanged for commitments to invest in conservation and ecological restoration—are another potential source for resource transfers, in particular if the swaps

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<sup>86</sup> Norton and Greenfield 2023.

are supplemented by additional concessional financing or transfers to address climate change.<sup>87</sup> These three mechanisms are just elements of a potential global portfolio of instruments required to finance shared prosperity and sustainability.

Global governance for fair fiscal contracts will also require deliberative processes and spaces facilitating dialogue, reaching agreements and ensuring collaboration among nations, as fiscal issues often transcend national boundaries. In addition to climate change fora, there is a need for global and regional tax dialogues. These dialogues would bring together diverse stakeholders—including governments, international organizations, civil society, business, workers’ representatives and experts—to discuss and deliberate on taxation principles and policies that underpin sustainability, long-term public investment and equity within and across countries. Some regions are already moving along this direction. A recent meeting in Cartagena, Colombia—where 16 officials from Latin American countries gathered in late July 2023—concluded with the establishment of the Regional Tax Cooperation Platform for Latin America and the Caribbean (see section Regional tax governance).

Debates are also progressing on how to improve international tax cooperation at the UN in order to achieve a better representation of countries of the global South in global tax governance and to reduce tax evasion and illicit financial flows (IFFs). In addition, proposals on global corporate minimum tax rates are discussed as well as reforms to enhance tax collection. Finally, debt reduction and cancellation initiatives are urgently needed to avoid imminent debt crises or sovereign default in various countries of the global South, which risks creating social and political instability and undermining SDG implementation. These topics will be further elaborated in the following sections.

## **Addressing tax evasion and illicit financial flows**

Tax avoidance and evasion through tax havens, transfer pricing and IFFs are reducing fiscal space and investment opportunities globally, in particular in the global South. IFFs by MNCs are estimated to deprive developing countries of USD 50 billion to USD 200 billion a year in fiscal revenues,<sup>88</sup> while other estimates calculate that the combined global revenue losses from cross-border tax abuse by people with undeclared offshore assets and of multinational companies amount to some USD 483 billion a year.<sup>89</sup> According to research, between 2010 and 2015, the amount of wealth in tax havens increased by over 25 percent, reaching record levels. This hidden wealth accounts for at least USD 7.6 trillion, equivalent to 8 percent of the global financial assets of households.<sup>90</sup> A system of unitary taxation grouping profits of MNCs together, as well as global minimum effective corporate income tax rates on MNCs’ profits—as suggested recently by the European Commission, the OECD/G20 BEPS (base erosion and profit shifting) and a more ambitious proposal from the Independent Commission for the Reform of International Corporate Taxation (ICRICT) (see

<sup>87</sup> UNGA 2023b:7. The political declaration by world leaders at the SDG summit endorses these instruments while “recognizing that debt swaps cannot replace broader debt treatments in unsustainable debt situations.”

<sup>88</sup> UNCTAD 2019.

<sup>89</sup> Global Alliance for Tax Justice et al. 2021.

<sup>90</sup> Zucman 2015.

below)—are potential measures to curb IFFs and revenues loss through transfer pricing.<sup>91</sup> These taxes could then be distributed across countries, prioritizing employment and productive physical assets over total sales.<sup>92</sup> Other measures such as automatic exchange of financial information, beneficial ownership transparency and country-by-country reporting have also been adopted in principle by the G20 countries, but implementation lags behind.<sup>93</sup>

## **Toward an UN tax convention**

In November 2022, the General Assembly of the United Nations approved a resolution on the promotion of inclusive and effective international tax cooperation at the United Nations. This resolution was submitted by Nigeria on behalf of the 54 member states of the African group. The UN General Assembly agreed to, among other things, “the possibility of developing an international tax cooperation framework or instrument that is developed and agreed upon through a United Nations intergovernmental process, taking into full consideration existing international and multilateral arrangements.”<sup>94</sup> The resolution followed a series of recommendations from the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI panel) in 2021.

The General Assembly resolution was supported by a group of developing nations who are pushing for a governance framework supervised by the United Nations. The aim is ensuring their equitable participation in the design of international tax rules, modify an international tax system that has become obsolete, and rebalance the decision-making structures in favour of developing countries. For instance, according to the findings of a panel on unlawful financial activities in Africa, the existing system often ignores the necessities of LICs. This includes the loss of at least USD 50 billion annually in the African continent due to illicit activities conducted by MNCs and misappropriation facilitated through offshore banking. However, the initiatives undertaken by the OECD to address this issue have overlooked the concerns and interests of affected nations and regions.<sup>95</sup> Hence the necessity for a new governance and global tax system.

In March 2023, the Economic and Social Council of the United Nations (ECOSOC) hosted a meeting to follow-up on the General Assembly resolution. This Special Meeting on International Cooperation on Tax Matters was an opportunity for high-ranking officials around the world to further the discussions around tax as a tool for sustainable development and rebuild a fair and effective international tax system. Special attention was given to the lack of inclusiveness in the development of taxation frameworks. Also, there was a specific proposal to model inclusive and effective tax cooperation after the UN Framework Convention on Climate Change. A growing consensus emerged regarding the necessity of a UN convention on tax. This process has included active participation from civil society. Eurodad, for instance, presented during this meeting a plan

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<sup>91</sup> EC 2021.

<sup>92</sup> UNCTAD 2019.

<sup>93</sup> Cobham 2021.

<sup>94</sup> UNGA 2023a.

<sup>95</sup> Gbadmosi 2022.

advocating for a UN framework convention on tax, with the capacity to combat tax havens and promote global tax equity as central elements.<sup>96</sup>

Toward the end of the summer of 2023, the Secretary-General of the United Nations, António Guterres, presented his report in response to the General Assembly resolution on international tax cooperation. In said report, the Secretary-General outlined the concrete options for further intergovernmental debates. These options include a legally binding convention, a framework convention, and a framework for international cooperation. The first two would be binding whereas the third would present a non-binding agenda for coordinated actions (see table 1).

**Table 1. Options to improve international tax cooperation**

<i>Multilateral convention on tax</i>	<i>Framework convention on international tax cooperation</i>	<i>Framework for international tax cooperation</i>
Binding legal agreement that establishes enforceable obligations regarding international tax cooperation, such as the exchange of information, thus potentially modifying parties' taxing rights; primarily regulatory in nature	Binding legal agreement that establishes a general system of governance in the area of international tax cooperation; primarily constitutive in nature, with regulatory aspects adopted through protocols	Non-binding agenda for coordinated actions, at the international, national, regional and bilateral levels, on improving tax norms and capacity

Source: UNGA 2023a.

Calculations by the Tax Justice Network suggest that the UN tax convention would avoid the loss of nearly USD 5 trillion to tax havens over the next ten years.<sup>97</sup>

**Regional tax governance: The Cartagena platform**

Regional initiatives are building upon the global efforts to achieve inclusive and effective tax cooperation. In July 2023, during a meeting in Cartagena, Colombia, Ministers of Finance of several countries in Latin America and the Caribbean, along with tax administrators, established the Regional Platform for Tax Cooperation in Latin America and the Caribbean.

The platform’s objectives include facilitating the construction, coordination and development of a regional position to achieve and foster inclusive, equitable and sustainable tax systems, as well as producing analysis, exchanges and technical guidance to inform decision makers in the region.<sup>98</sup> The regional collaboration on tax issues also includes support toward meeting SDG targets. The United Nation’s Economic Commission for Latin America and the Caribbean (ECLAC) will function as

<sup>96</sup> Eurodad 2023.  
<sup>97</sup> Tax Justice Network 2023b.  
<sup>98</sup> Government of Brazil 2023.

technical secretariat for the platform. The platform will also incorporate the voices of academia, the business sector and civil society. The initiative is a step forward toward improving tax progressivity in one of the most economically unequal regions in the world, where tax systems are mostly regressive and reliant on consumption taxes, and with little to non-existent taxes on capital.<sup>99</sup>

## **Global corporate minimum tax rate and options for fairer tax collection**

Another element of contention in global tax debates is the OECD proposal on minimum corporate tax rates. The OECD mechanism consists of two “pillars”: pillar 1 targets the world's top 100 companies, allowing countries to tax these firms based on their revenue earnings and impose a 25 percent tax rate on any excess profits beyond 10 percent of total revenue; pillar 2 applies to MNCs with global sales of EUR 750 million or more, establishing a global minimum tax rate of 15 percent. When companies fall short of this minimum rate, their home country government is authorized to impose supplementary taxes to ensure compliance with the 15 percent threshold.<sup>100</sup> José Antonio Ocampo, Colombia’s former Minister of Finance, has argued that despite the innovation and promise of pillar-2's 15 percent global minimum corporate tax rate, its existing framework tends to benefit countries in the global North and might deepen inequalities between countries.<sup>101</sup> As an alternative proposal, the Independent Commission for the Reform of International Corporate Taxation (ICRICT) suggests a 25 percent minimum rate, which is closer to the global average. ICRICT’s calculations indicate that the 25 percent minimum tax rate could generate USD 500 billion in additional revenue, as compared to USD 150 billion that the 15 percent rate would generate.<sup>102</sup>

There are additional proposals for fairer global tax collection beyond a minimum corporate tax rate. These include:<sup>103</sup>

- Development and sharing of national asset registries to facilitate the taxation of wealthy individuals, even if their assets are stored in tax havens;
- Implementation of capital income taxation to promote a more progressive tax system;
- Imposition of taxes on windfall profits, especially those acquired during periods of scarcity and speculative activities, to foster more equitable income distribution;
- And introduction of taxes on luxury carbon emissions and biosphere consumption, coupled with the gradual phasing out of tax incentives associated with fossil fuels.

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<sup>99</sup> Ocampo 2023.

<sup>100</sup> ICRICT 2021.

<sup>101</sup> Ocampo 2023.

<sup>102</sup> ICRICT 2022.

<sup>103</sup> Ghosh 2023.

## Solving the debt crisis

Despite progress in tax collection and record levels of ODA reached during the pandemic, increasing to its highest level ever in 2020, reaching USD 161.2 billion, there is a growing concern about unsustainable debt burdens, especially in developing countries. Despite the increase in ODA, the poorest developing countries spent 14 percent of revenue on debt interest payments, almost four times higher than developed countries, undermining their fiscal space.<sup>104</sup>

Presently, 3.3 billion individuals live in countries where the burden of debt interest payments exceeds the resources allocated to fundamental sectors such as health and education. Global public debt has grown more than fivefold since 2000, outpacing the threefold expansion of global GDP during the same period. In 2022, the cumulative global public debt, inclusive of general government domestic and external debt, reached USD 92 trillion. Developing countries now contribute nearly 30 percent of this total, with a significant portion attributed to China, India and Brazil.<sup>105</sup>

This surge in public debt is more pronounced in the developing world when compared to their developed counterparts, primarily driven by mounting development financing requirements. The compounding effects of the Covid-19 pandemic, the escalating cost of living, and the growing influence of climate change have exacerbated the need for additional funding. These factors, combined with limited alternative financing sources, have contributed to the faster accumulation of debt in developing countries.<sup>106</sup>

According to recent data from Debt Service Watch, the world is facing the worst ever global debt crisis. Debt service (principal and interest payments on external and domestic debt) is absorbing an average of 38 percent of budget revenue and 30 percent of spending across the global South, rising to 54 percent of revenue and 40 percent of spending in Africa. Debt service amounts to the combined total spending on education, health, social protection and climate, and exceeds it by 50 percent in Africa.<sup>107</sup>

Beyond debt relief, debt cancellation, reduced borrowing costs and access to concessional financing and grants are needed to ensure countries can invest in the SDGs and deliver on eco-social contracts. Supporting heavily indebted developing countries should follow a number of principles, including avoiding sovereign default (see box 4), engaging all creditors in negotiations and providing protection against holdouts and lawsuits, strengthening transparency and accountability on new lending and debt restructuring, and capacity-building of debtor countries, among others.<sup>108</sup>

Regarding the mobilization of international resources, UN Secretary-General Guterres calls for a transformative SDG stimulus package to enable all countries to invest in renewable energy, universal

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<sup>104</sup> UN 2022b.

<sup>105</sup> UN Global Crisis Response Group 2023.

<sup>106</sup> UN Global Crisis Response Group 2023.

<sup>107</sup> DFI 2023.

<sup>108</sup> Martin and Maddock 2022.



social protection, quality education, decent job creation, universal health coverage, sustainable food systems, infrastructure and the digital transformation. This stimulus would address financing needs through a combination of concessional and non-concessional finance.<sup>109</sup>

#### **Box 4. Toward an effective sovereign debt workout mechanism**

Key analysts of the international monetary system make no secret that the structure for resolving sovereign debt crises is in fact a “non-system” in the absence of a multilateral sovereign debt workout mechanism (SDWM).<sup>a</sup> A set of practices for restructuring sovereign debt has evolved incrementally since the first SDWM<sup>b</sup> was proposed in 2002 (and rejected in 2005), but these are voluntary, ad hoc, and heavily influenced by contentious international relations and political capture by private entities. Policy makers and practitioners working on developing country debt insolvencies acknowledge that debt workouts take too long and deliver too little for countries to continue to invest in sustainable development, or—in the case of some countries such as Sri Lanka in 2022—even to maintain political stability.

Part of the problem is a lack of agreement on what constitutes an equitable sharing of the debt relief burden on the different classes of creditors, whether public, private or bilateral, and how to achieve such equity. In addition, private creditors who don’t like the outcome of negotiations that reduce their claims often try—usually successfully—to recover the full amounts in court. This state of affairs contrasts with the status of national bankruptcy laws, which exist in almost every country to delineate the legal means to resolve corporate and sub-national public sector bankruptcies. Since over 90 percent of developing countries’ external debt to private creditors is governed under either New York or English law, with 52 percent under New York State jurisdiction and 45 percent under UK jurisdiction as of 2020,<sup>c</sup> an emerging issue is the pursuit of legislation in these jurisdictions to facilitate negotiations and constrain outcomes in sovereign debt workouts.

Three such bills are pending in the New York Legislature, which will resume its current session in 2024. The most far reaching would effectively create a regime under which a supermajority of creditors can bind the rest to accept an agreement by amending the existing New York State Banking Law; another would prohibit creditors from joining in a sovereign debt lawsuit solely to profit from the litigation; the third would limit private lenders’ recovery to what would apply if they were official creditors.<sup>d</sup> The impetus of the latter proposed legislation is not primarily to push sovereign debt workouts into the New York or UK courts, but rather to encourage private creditors to participate in the Common Framework or other international debt relief initiatives, since their options in court would be far less attractive than previously.

<sup>a</sup> Ocampo 2017; <sup>b</sup> Kruger 2002; <sup>c</sup> IMF 2020; <sup>d</sup> Clifford Chance 2023.

<sup>109</sup> UN 2023b: Foreword.

## Conclusions and Recommendations

Social policy and a fair fiscal contract play a key role in shifting the current development model toward social and climate justice. They are at the core of a new eco-social contract, benefiting economy and society, strengthening social cohesion and trust, and providing legitimacy and credibility to governments. To create fairer fiscal contracts for a just and sustainable future, it is imperative to rethink the economic and social model that led us into the current state of multiple crises and to identify alternative economic policy approaches, financial resources, social and institutional arrangements, and reforms that can simultaneously address the root causes of poverty, inequality and unsustainable practices. Rethinking social development for people and planet, and finding the resources needed to finance it, calls for reinvigorating an effective multilateral system and a peaceful international order guided by values of human rights, solidarity and cooperation. The implications for policy emerging from Working Group 1 are clustered into four themes: 1. Fostering an enabling environment for system change; 2. Making DRM equitable, effective and sustainable; 3. Creating fair global fiscal pacts; and 4. Delivering on eco-social contracts through public investment and transformative policies.

### Foster an enabling environment for system change

An enabling economic and political environment is likely to have positive impacts on fiscal policy as it increases fiscal receipts by broadening the number of tax payers and improving compliance (see box 3) while also reducing the need for redistribution due to more egalitarian market outcomes. To create an enabling environment for system change, governments and international agencies need to:

- Implement labour-intensive, sustainable and inclusive growth strategies that are conducive to green structural change and lead to higher levels of formalization, household income and equality.
- Invest in state capacity—both in terms of capacity to create long-term political consensus and support for progressive reforms, and to broker investment deals with transnational corporations that are favourable for the country—and administrative capacity to implement reforms and enforce compliance with tax law and regulation, especially by high-income earners and big corporations, including MNCs.
- Build democratic, transparent and accountable institutions and create inclusive political processes that provide an environment where citizens, business actors and donors are more likely to collaborate effectively and to deliver on their commitments.
- Reduce power asymmetries in North-South relations and harness the multilateral system to strengthen international cooperation and solidarity.
- Promote a public discourse that emphasizes shared interests, values, responsibilities and benefits, moving away from polarization and a harmful “us against them” attitude.

- In political discourses and advocacy, convey urgency without resorting to top-down measures or approaches that undermine processes of participation and consensus building.

## **Make domestic resource mobilization equitable, effective and sustainable**

There are many elements constituting a fair fiscal contract. Improvements in the quantity and quality of DRM are crucial. A robust tax framework is essential to address prevailing challenges, aligning with the core role of the state. This framework should encompass two key aspects: ensuring adequate total tax collection and incentivizing private sector contributions toward societal challenges, while also implementing penalties for counterproductive tax malpractices, such as tax evasion and tax avoidance. A fundamental principle should be that those with greater capacity pay more, underscoring the shift from consumption-based taxation to income and capital taxation. An equitable tax strategy should resonate with the needs of marginalized sections of society and invest in protecting the planet, now and in the future. In order to strengthen DRM through fair fiscal contracts, it is recommended to:

- Prioritize wealth taxes and make advances in taxing the rich through progressive corporate and personal income taxes; inheritance, property and land taxes; and levies on capital income such as interest, dividends and capital gains, as well as windfall taxes on excess profits and taxes on luxury carbon emissions.
- Strengthen tax capacity through better enforcement of taxes on wealthy individuals and large corporations, for example through creation of asset registries, implementation of unitary taxation of MNCs and country-by-country reporting, reduction of tax exemptions and fiscal subsidies, better taxation in the mining sector, enforcement of VAT and customs duties, and renegotiation of bilateral tax treaties.
- Align tax policy and incentives with sustainable development and national goals and tailor tax instruments to national context and administrative capacity.
- Increase fiscal and tax transparency, for example through fiscal and financial reporting, publication of forecasts and budgets, fiscal risk management, fiscal incidence analysis and data collection and sharing, and better coherence across tax and budgets.
- Create an enabling environment for taxation and tax compliance by investing in good governance, inclusive sustainable growth, equitable institutions and policies, and strong anti-corruption measures.
- Make tax systems fair for vulnerable and marginalized groups—including women, low-wage workers, informal workers, and racial and ethnic minorities, among others—as well as for social enterprises and SMEs.
- Allow for greater participation in tax debates and reform processes through inclusion of civil society, experts, business associations and trade unions.
- Strengthen global tax regulation to support DRM by increasing the minimum tax on large MNCs to 25 percent, addressing problems of tax havens, IFFs, tax avoidance and evasion, and lack of accountability and transparency of MNCs.

- Create green taxes and remove harmful subsidies based on careful impact assessments and complementary measures to avoid negative effects for poor and vulnerable groups.

## **Create fair global fiscal and financial pacts**

National fiscal pacts need to be complemented by global pacts such as ODA and improved global financial governance. ODA can have a catalytic effect on mobilizing additional domestic resources for social policies, especially in low-income settings. This has been the case where foreign aid actors supported national actors in investing in social policy and helped upgrade public institutions entrusted to deliver social services. Whether aid has a transformative effect depends on how sustainable and reliable it is, how it is distributed and allocated, and whether it enhances state accountability and institution building. Furthermore, global governance is important to guarantee macroeconomic stability and crisis prevention, curb IFFs, and promote developing countries' access to affordable and reliable external finance and markets.<sup>110</sup> The following measures can help to make sure that the international financial architecture works for the global South:

- Achieve immediate debt relief through debt reduction and cancellation (including mechanisms for commercial bank debt) and advance on sovereign debt workout mechanisms.
- Reinvigorate the aid effectiveness agenda (ownership, alignment, harmonization, results, accountability).
- Increase ODA to reach the 0.7 goal (0.15 to 0.20 for LDCs) and tighten classifications of what counts as ODA to make sure it supports national development strategies in the global South.
- Mobilize new concessional, non-debt financing available for LICs and MICs and implement the SDG Stimulus.
- Harness ODA to strengthen domestic fiscal institutions.
- Strengthen global governance, cooperation and solidarity.
- Increase the minimum tax threshold for large MNCs to 25 percent.
- Implement new transborder tax instruments for eco-social transformation (for example a global carbon tax on the shipping industry or an international financial transaction tax).
- Strengthen global and regional tax dialogue and cooperation mechanisms.
- Strengthen the role of the UN in the international financial architecture through the creation of a UN tax body and a UN framework convention on international tax cooperation.
- Consider creation of a UN high-level expert group on fiscal policy.

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<sup>110</sup> Hujo 2020.

## **Deliver on eco-social contracts through public investment and transformative policies**

A fair fiscal contract requires states to deliver on their responsibilities to ensure that all people living in their jurisdiction enjoy basic human rights and have access to employment, social services and political participation and that governments deliver on their international commitments such as the SDGs, human rights and the Paris agreement. Institutionalized, long-term, universal and human rights-based approaches to social protection that empower all segments of society to play a role in the development of their communities are key to reducing inequalities and building resilience in the face of future shocks and crises. Social protection schemes and public services can support climate change adaptation and just transitions and mitigate negative impacts of various types of crises. Policy recommendations emerging from the working group are:

- Invest in universal, rights-based social policy, including social protection, social services and inclusive labour market policies.
- Strengthen key principles of transformative social policy: human rights, social security standards, universalism, public provisioning, gender justice and equitable financing.
- Move beyond sectoral approaches and promote integrated policy approaches such as care systems and eco-social policies.
- Improve quality and efficiency of public spending and conduct ex-ante and ex-post impact assessments of public spending (related to SDG achievement and climate transition, inequality and human rights impacts, employment and productivity, etc.).
- Support the sustainability transition and move toward labour-intensive, sustainable, inclusive growth paths through green industrial policy, just transition strategies, Social and Solidarity Economy, macroeconomic policy reforms, green deals, investments in new technologies and decarbonization, and incentives for sustainable consumption.
- Create spaces for meaningful and informed citizen participation and public debate about new eco-social contracts and fair fiscal contracts by promoting democratic governance, direct citizen engagements, tax dialogues, taxpayer information and education.

System change for economic transformation needs to go beyond creating fair fiscal contracts. Fiscal policy can only develop its full potential when supported through a thriving economy and democratic political processes that offer opportunities for political, economic and social participation to all people. In addition to transformative social policies based on a fair fiscal contract, as well as reformed and strengthened multilateralism and solidarities, this also requires alternative economic approaches that centre environmental and social justice and rebalance state–market–society–nature relations.<sup>111</sup> Finally, renegotiating eco-social contracts will not work without developing new mechanisms for citizen engagement and building of strong cross-sectoral alliances and multi-stakeholder coalitions.<sup>112</sup>

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<sup>111</sup> UNRISD 2022: Chapter 5.

<sup>112</sup> UNRISD 2022; Norton and Greenfield 2023.

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## Annex – Working Group 1: “System Change for Economic Transformation” Participants

### Working Group Leader

- UNRISD, led by Paul **Ladd**, Director of UNRISD, and Katja **Hujo**, Head of UNRISD Bonn Office

### Club de Madrid

- Jan Peter **Balkenende**, Member of Club de Madrid, Prime Minister of the Netherlands (2002–2010)
- Mehdi **Jomaa**, Member of Club de Madrid, Prime Minister of Tunisia (2014–2015)
- Aminata **Touré**, Member of Club de Madrid, Prime Minister of Senegal (2013–2014)
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- Charles **Abugre**, Executive Director, International Development Economics Associates (IDEAs)
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- Sharan **Burrow**, Former General Secretary of the International Trade Union Confederation; International Advisory Council, Institute for Human Rights and Business (IHRB)
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