

# The Third International Conference on Financing for Development:

## Key Debates and Significance in the Indian Context



### The Context<sup>1</sup>

The Post-2015 Development Agenda, which is meant to succeed the United Nations' Millennium Development Goals, promises to go beyond poverty reduction, and incorporate issues such as social inclusion, infrastructure development and climate change mitigation and adaptation. To help achieve social, economic, and environmental sustainability, appropriate sources of finance have to be secured at the domestic as well as global levels. To this end, public, private, international and domestic sources of financing would need to be mutually reinforcing and complementary. Along with Official Development Assistance (ODA), domestic resource mobilisation is also seen as critical for sustainable development in developing countries, especially with a focus on addressing inequality and social injustice. In this era of 'common but differentiated responsibility' across countries, the United Nations Financing for Development (FfD) process provides all countries with a platform to discuss possible solutions to daunting issues, and an opportunity to establish a transformational agenda for sustainable development.

### Evolution of the Financing for Development Process

In March 2002, the United Nations held the First International Conference on Financing for Development in Monterrey, Mexico, marking a turning point for a global partnership for sustainable development. The resulting Monterrey Consensus "resolved to address the challenges of financing for development" and "to eradicate poverty, achieve sustained economic growth and promote sustainable development." A Follow-up International Conference on Financing for Development was held in Doha, Qatar from November 29 to December 2, 2008. The challenge for the Doha agenda was to solidify the objectives of the Monterrey Consensus into more concrete commitments. The Third International Conference on Financing for Development (FfD3) to be held from July 13 to 16, 2015 at Addis Ababa will seek to [a] assess the progress made in the implementation of the Monterrey Consensus and the Doha Declaration; [b] address new and emerging issues; and [c] reinvigorate and strengthen the financing for development follow-up process.<sup>2</sup>

### Tentative Agenda of FfD3 at Addis Ababa

The Third International Conference on Financing for Development will gather high-level political representatives, including Heads of States and Governments, Ministers of Finance, Foreign Affairs and Development Cooperation, as well as non-governmental organisations and business sector entities. The FfD3 will consist of eight plenary sessions, six multi-stakeholder round tables, side events and bilateral meetings<sup>3</sup>. The round tables are going to be structured around the following themes:

- **Global partnership and the three dimensions of sustainable development:** The three round tables focusing on this theme will explore the question of differentiated needs of Least Developed Countries (LDCs) and whether ODA should devote 50 per cent of their assistance

<sup>1</sup> This note has benefited from the background note, concept note and outcome documents on FfD consultations organised by UNESCAP and Government of Indonesia, held in Jakarta on June 10-11, 2014 and April 29-30, 2015.

<sup>2</sup> <http://www.un.org/esa/ffd/ffd3/conference/history.html>

<sup>3</sup> <http://www.un.org/esa/ffd/ffd3/conference/programme.html>

to LDCs. They will also focus on the differences and complementarities between climate financing and financing for development, to ensure adequate financing for both climate as well as addressing poverty. Policy steps to ensure optimal use of international public resources will also be debated. These round tables will go on to explore the steps that international development banks and donors can take to ensure adequate access to financing low middle income countries and the countries in need. Finally, this theme will look at the geopolitical questions of the South-South and the North-South cooperation, as well as the role played by institutions such as Asian Infrastructure Investment Bank, BRICS Bank and the 21<sup>st</sup> Century Maritime Silk Road<sup>4</sup>.

- **Ensuring policy coherence and an enabling environment at all levels for sustainable development:** The three round tables focusing on this theme will firstly explore the role that a coordinating ministry can play in establishing coherence between policy and programme at all levels for sustainable development, how it may be strengthened and the method of interaction between the coordinating ministry and other ministries. This theme will also question the extent to which socially responsible behaviour can be ensured, whether voluntary guidelines to ensure environmental, social and governance reporting are sufficient, and how global standards regarding human rights can be adhered to. The theme will go on to discuss how demands from sub-national units can be made consistent with national priorities. Notably, one of the discussions to take place in these round tables is going to centre around the consistency between macroeconomic policy and stability on one hand and sustainable development on the other.<sup>5</sup>

## Relevance of the FfD Process for India

In the Indian context, domestic resource mobilisation is certainly the most important source of financing sustainable development. It is worth noting that domestic resource mobilisation by governments remains low in many developing countries. In the Asia Pacific region, although some countries have tax-GDP ratios of around 25 per cent, the average for developing Asia is only about 16.9 per cent, which constrains adequate provisioning of public goods.<sup>6</sup> Tax-GDP ratios are generally low in developing countries when compared to OECD countries, with most low income countries having a tax-GDP ratio even lesser than 15 per cent<sup>7</sup>. In case of India, total tax revenue and total public spending as percentage of GDP constitute 17.9 per cent and 27 per cent respectively (for the financial year 2013-14). India's tax-GDP ratio is much lower than the average for BRICS (around 26.9 per cent for 2012).<sup>8</sup>

Narrow tax bases and wide ranging tax concessions for the private sector have had adverse consequences on revenue growth in a number of developing countries like India. In recent years, fiscal challenges in many developed countries have helped put issues such as tax dodging and limitations of international tax rules under the scanner. However, this problem has affected domestic revenue mobilisation by developing countries, especially those in Asia and Africa, a lot more. The existence of a wide network of tax havens, along with an industry of tax lawyers and accountants, has been aiding capital flight out of developing countries, as well as loss of public revenue in these countries – thus adding to the challenge of raising adequate public resources.

<sup>4</sup> [http://www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/07/FfD-3\\_BN\\_Global-Partnership\\_05.07.15.pdf](http://www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/07/FfD-3_BN_Global-Partnership_05.07.15.pdf)

<sup>5</sup> [http://www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/07/FfD-3\\_BN\\_Policy-coherence\\_05.07.15.pdf](http://www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/07/FfD-3_BN_Policy-coherence_05.07.15.pdf)

<sup>6</sup> Data from IMF GFS for 2011. See also ESCAP, Economic and Social Survey of Asia and the Pacific 2014, chapter 4, forthcoming.

<sup>7</sup> <http://www.imf.org/external/np/pp/eng/2011/030811.pdf>

<sup>8</sup> Calculated from Tax-GDP ratio of BRICS countries:

[http://www.cbgaIndia.org/files/budget\\_responses/Of%20Bold%20Stokes%20and%20Fine%20Prints%20-%20Analysis%20of%20Union%20Budget%202015-16.pdf](http://www.cbgaIndia.org/files/budget_responses/Of%20Bold%20Stokes%20and%20Fine%20Prints%20-%20Analysis%20of%20Union%20Budget%202015-16.pdf)

Hence, the experiences of revenue mobilisation in different contexts need to be discussed to understand and highlight relevant lessons for improving the tax base and the progressivity of the tax system in developing countries. The following issues are considered as major obstacles in domestic resource mobilisation in many developing countries, which need to be highlighted in the context of the FfD3 to be held in July, 2015.

### Key Issues in Domestic Resource Mobilisation

- **Progressivity of Tax Systems and Experiences of VAT/GST in Developing Countries:** While indirect taxes are generally considered to place a higher burden on the poor (since the proportion of one's income going towards consumption taxes tends to be higher at lower levels of income), there is a need for deeper probe on this issue, which can inform taxation policies. Sharing relevant experiences of implementation of Value Added Tax (VAT) and Goods and Services Tax (GST) in different countries would add a lot of value to such a discussion. However, we may note here that with two-third of its tax revenue coming from Indirect Taxes, India's tax system is already dependent heavily on Indirect Taxes.
- **How Strong are the Linkages between Tax Concessions and Investment?:** The argument put forward by some of the policy makers and commentators that India needs to give tax concessions to attract investment helps justify both the loopholes in India's Double Taxation Avoidance Agreements with some countries (like Mauritius), as well as a plethora of exemptions and incentives that exist in the domestic tax laws. This argument seems to have been an impediment towards adoption of progressive or just taxation policies in the country. In this context, the linkages between tax incentives and investment in developing countries need to be discussed thoroughly. Such a scrutiny would be pertinent in India, where the Union Ministry of Finance estimates the revenue foregone every year due to the exemptions / concessions in the Central Tax System to be more than 5 per cent of GDP.
- **Plugging the Loopholes in the Double Taxation Avoidance Agreements (DTAAs):** The need for studying India's DTAAs with various countries has been felt strongly, as a few small countries (like Mauritius and Singapore) have cumulatively accounted for almost 50 percent of the Foreign Direct Investment (FDI) coming to India over the past decade. In addition to the revenue implications of tax avoidance by companies, it is also important to analyse India's DTAAs from the lens of transparency in the system of financial flows, due to the concerns that the same routes could be used for tax evasion, money laundering, terrorist financing and other illicit financial activities. In this regard, the impact of the loopholes in such tax treaties and proposals needs to be discussed.
- **Losing Revenue through Transfer Pricing:** The transaction price of goods and services between related companies is known as the transfer price. Reportedly, severe manipulations in setting transfer prices take place in order to shift profits from high tax countries to low tax countries across the world. In 2012-13, the alleged transfer pricing adjustment cases in India (around 3200 cases) accounted for USD 14 billion of revenue loss. It would be pertinent, therefore, to discuss current approaches towards transfer pricing in developing countries along with feasible policy alternatives.
- **Financial Transparency Measures to End Secrecy of Tax Havens:** Financial secrecy offered by tax havens has aided tax avoidance and evasion by companies, facilitated large scale and organised laundering of unaccounted for money through the setting up anonymous

companies, trusts and foundations along with the prevention of sharing of relevant information with countries that are affected. Strong measures such as public disclosure of beneficial ownership of companies, trusts and foundations; automatic exchange of tax information between countries; and public country-by-country reporting by multi-national companies of their employees, incomes, assets, profits and taxes paid would help both developing and developed countries tackle the problem of illicit financial flows and loss of public revenue.

- **Need to Reform the Global Financial Institutional Architecture:** The recent Tax Base Erosion and Profit Shifting (BEPS) process designed and led by the OECD and the push by the G20 for global tax reforms has brought into focus important questions of legitimacy, representation and accountability of these forums. With no space for participation on equal footing for non-G20 developing countries on these platforms, there is a need to discuss issues with the current global institutional architecture for tax matters.

The above mentioned issues require greater global debate and a much-needed push for reforms from various global institutions/forums (such as OECD, G20, G8, UN-ESCAP) including the FfD3 in Addis Ababa.

## Policy Asks Relevant in the Context of the Third FfD Conference

Some of the major policy asks in the context of the FfD3 summit can be categorised as follows:

- **Enhancing the Capacity for and Progressivity in Domestic Resource Mobilisation:**
  - Mobilise additional tax revenue through progressive tax systems.
  - Develop robust mechanisms for reviewing tax incentives as well as promoting cooperation on tax policies at the regional and global level.
  - Strengthen tax administration at the national and sub-national level, through adequate staffing, training, digitalisation and enhanced transparency of tax bodies.
  - Enhance and use domestic resource mobilisation to invest in public provisioning of essential services and social security in order to address social disparities and income inequalities, including gender, caste and religion-based disparities.
- **Reforming the Global Financial Institutional Architecture to provide a Level-Playing Field to Developing Countries:**
  - Reform the institutions which play a key role in determining the rules of global finance, to ensure the uniformity of the playing field, taking into account the differentiated needs of Developing Countries, LDCs and Small Island Developing States (SIDS).
  - Establish a strong and transparent intergovernmental body on tax cooperation and regulation under the auspices of the United Nations, with universal membership and adequate resources. (FfD3 provides a significant opportunity to commit to the establishment of such a body by 2016.)
  - Reform regulatory bodies such as the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. (We may note here that a 2002 report of the OECD stated, “Although it has extensive contacts with non-OECD countries and considerable awareness of developing country issues through its non-member projects,



the OECD does not represent the views of developing countries.”<sup>9</sup>)

- **Plugging the Loopholes that Lead to International Tax Evasion:**

- Adopt strong measures to curb illicit financial flows and corporate tax avoidance via transfer pricing. The measures that need to be adopted include:
  - (a) Public country-by-country reporting by transnational corporations listing out all their subsidiaries, their gross and net assets, the tax charge on the parent body as well as the subsidiaries in all the countries that they operate in.
  - (b) Public beneficial ownership registries for all the companies, trusts and foundations, listing out the true owners of all registered companies who benefit from the transactions of the companies they own.
  - (c) Automatic exchange of information between countries, providing for the exchange of non-resident financial account information with tax authorities in the account holders' country of residence.
- Develop a global standard to promote open and accountable management of taxation in the extractive industries sector, including full disclosure of taxes and any other payments made by oil, gas and mining companies to the government.

## How Transformative is the Draft Version of the FfD3 Outcome Document?

The draft version of the FfD3 outcome document, dated May 7, 2015 certainly offers substantive hope and possible solutions to some of the issues that the developing and low income countries are facing. With regard to domestic resource mobilisation, the FfD3 draft outcome "commit[s] to enhance revenue administration through modernized, progressive tax systems, improved tax policy capacity and more efficient tax collection, as well as improve the fairness, transparency and effectiveness of our tax systems, including through broadening the tax base"<sup>10</sup>. The FfD3 draft outcome also agrees to implement nationally appropriate social protection systems, along with specific commitments to ensure an end to hunger, increased investment in health, improved agriculture to ensure food security and delivery of quality education to all children as part of ensuring long-term sustainability of development.

In furtherance of reforming the global financial institutional architecture, to promote a level playing field for developing countries, the FfD3 draft outcome upholds its decision to upgrade the United Nations Committee of Experts on International Cooperation in Tax Matters to an intergovernmental committee. The Committee is expected to complement the work of other ongoing initiatives and advance the participation of developing countries in international economic decision-making and norm setting for international tax cooperation.

With respect to curbing international tax evasion, this draft outcome of the Third International Conference on Financing for Development recognises the vast adverse effects of illicit financial flows in the global financial system. There is a reaffirmed commitment to track illicit financial flows, while keeping in mind that the most vulnerable countries would need assistance to do so. The FfD3 draft outcome also encourages countries which are significantly reliant on natural resources, to implement transparency measures such as the Extractive Industries Transparency Initiative standards. The draft outcome recognises the need for international tax cooperation to increase transparency, through measures including country-by-country reporting by multinational enterprises; public beneficial ownership registries; and automatic

---

<sup>9</sup> <http://www.oecd.org/tax/administration/2074194.pdf>

<sup>10</sup> [http://www.un.org/pga/wp-content/uploads/sites/3/2015/05/070515\\_financing-for-development-Inf-Consultations.pdf](http://www.un.org/pga/wp-content/uploads/sites/3/2015/05/070515_financing-for-development-Inf-Consultations.pdf)

exchange of tax information between countries. Additionally, there is a commitment to design capital market regulation that promotes alignment with long-term performance and sustainability, and reduces excessive volatility. The FfD3 agrees to create strong regulatory frameworks to ensure that multinational corporations integrate environmental, social and governance issues into their reporting.

The FfD3 draft outcome takes cognisance of the fact that gender inequality is one of the major impediments to sustainable development throughout the world, and puts forward systematic pathways in which gender equality, empowerment of women and women's full participation in the economic sphere can be achieved. The draft outcome commits to ensure that by 2030, all men and women would have equal rights to economic opportunities, access to basic as well as financial services, ownership over land and other forms of property, inheritance and natural resources. Further, the FfD3 draft outcome significantly acknowledges the differentiated needs of LDCs, LLDCs, SIDS, conflict and post-conflict societies as well as the African continent. There is a marked emphasis on the need to have developed countries recommit 0.7 per cent of their GNI towards ODA, in order to complement and reinforce the effectiveness of domestic resources for sustainable development.

However, there are a few glaring omissions in the draft outcome of FfD3. There is no mention of the need on the part of developing countries to probe the justification for wide-ranging tax incentives being given to the private sector with the hope of attracting investment. The measure of 'public' country-by-country reporting by multinational enterprises also does not find mention while discussing the reforms in international taxation. Finally, there are apprehensions that the progressive features of the FfD3 draft outcome might get diluted in the negotiations between different groups in the run up to the summit at Addis Ababa. It is therefore important for the civil society to keep a check on developments on the front of the Financing for Development negotiations.

## Concluding Remarks

With growing concerns over the ability of many countries to pursue the Post-2015 Development Agenda successfully, the FfD3 offers a significant opportunity for governments to commit to adopt policy measures needed to finance sustainable development. The deliberations on FfD in Addis Ababa could be a major contribution to the United Nations Summit in September 2015 for the adoption of the Post-2015 Development Agenda, as well as the United Nations Climate Change Conference (COP21) in December 2015.

---

Prepared by: Jawed Alam Khan and Neeti Biyani  
(For further information, please write to: [neeti@cbgaindia.org](mailto:neeti@cbgaindia.org))



Centre for Budget and Governance Accountability (CBGA)  
B-7 Extn./110 A (Ground Floor), Harsukh Marg,  
Safdarjung Enclave, New Delhi – 110029  
Ph: +91-11- 49 200 400 / 401 / 402  
Email: [info@cbgaindia.org](mailto:info@cbgaindia.org)  
Website: [www.cbgaindia.org](http://www.cbgaindia.org)