

Forum: ECOSOC (Economic and Social Council)

Issue: Strengthening fiscal capacity for public services in fragile states

Student Officer: Berk Fidancıoğlu

Position: Deputy Chair

Introduction

Since 2008, the world has seen multiple global crises: armed conflict, rising prices, and economic collapse due to financial shocks; pandemic outbreaks; climate disasters; and now we have also learned that compromises made between nations (i.e., treaties) can become void if those treaties are subject to the approval of governments that do not exist. These crises have demonstrated that the fragility of state institutions is rapidly becoming evident. This is particularly true in states that are currently experiencing fragility or conflict, where governments generally struggle to secure the funding required to deliver basic public goods and services to their citizens. The collapse of healthcare systems; minimal funding for education; lack of adequate infrastructure; and ineffective social protection systems for vulnerable populations demonstrate how difficult it is for many of the states experiencing fragility or conflict to provide reliable public services. The primary reason for the difficulty that many fragile/war-torn states face in delivering reliable public services is the lack of fiscal capacity. Fiscal capacity refers to the ability of a state to raise revenue, responsibly manage public finances, and allocate sufficient resources to achieve sustainable development goals. However, many fragile/war-torn states have structural limitations in their financial systems, such as limited revenue sources; low levels of taxpayer compliance; predominance of informal economic activity; and weak public financial management systems. These limitations lead to a breakdown in public trust, which diminishes citizen contributions (i.e., taxes) to support their government and results in further fiscal instability.¹

With respect to a fragile economic state, sustaining an accountability system will build trust, while creating the momentum needed to establish effective parts of the economy through providing fully functional public services. In developing or fragile countries, a functional economy and public services are necessary for building trust. However, there are fiscal limitations in developing or fragile nations which, through social disparities, create anti-government opposition and political instability, thus increasing the likelihood of social and political unrest, as well as conflict at domestic and regional levels. Fiscal capacity is a critical topic for the ECOSOC given the mandate given to the ECOSOC to be the main global forum responsible for assisting the international community with issues related to international economic cooperation, development finance and capacity building to create stability and inclusion in the necessary means to promote the sustainability of governance structures. For the

¹ *Fiscal Capacity and State Fragility*, academic.oup.com/book/39767/chapter/339848858. Accessed 3 Feb. 2026.

ECOSOC to accomplish their goals of promoting international coherence in development cooperation among the development environments, it is important that the ECOSOC coordinate international resources to achieve these objectives. As a result, fiscal fragility will closely parallel and contribute to these objectives.²

When attempting to strengthen the fiscal system of a fragile nation, it is unrealistic to expect that this will be accomplished quickly or independently by that nation. This process requires extensive international collaboration and technical assistance. While it is possible to speed up progress through such assistance, the development of fiscal capacity must be a continuing process over time. Furthermore, the provision of support from outside of the nation must take into consideration each country's unique circumstances. Therefore, in order for the solutions to fiscal problems to be effective, they must be specific to the country's situation instead of following a universal one-size-fits-all model. There is an important question that needs to be addressed by delegates as they discuss this issue: "How can the international community support the development of sustainable fiscal institutions in fragile countries without creating a culture of aid dependency for those nations?" It will be very challenging to find a balance between providing short-term recovery assistance to fragile countries through aid/development work, versus creating viable institutions that will promote the long-term growth and development of these fragile nations.³ Ultimately, strengthening the fiscal systems of fragile states is about much more than just managing public funds. Strong fiscal systems will help governments earn the trust of their citizens, to reduce the likelihood of future instability, and to provide fragile states with opportunities for achieving long-term peace and prosperity.

Definition of Key Terms

Fragile States: Countries where weak governance, political instability, conflict, or limited institutional capacity reduce the state's ability to manage risks and deliver basic services to the population. Fragility often makes these states more vulnerable to economic, social, and security crises.⁴

Fiscal Capacity: The ability of a government to raise revenue (mainly through taxation), manage public finances responsibly, and allocate resources toward national development priorities and service delivery.⁵

Public Services: Services provided or financed by governments to meet the needs of citizens, such

² Google Search, Google, www.google.com/search?client=safari&rls=en&q=united%20nations%20ecosoc&ie=UTF-8&oe=UTF-8. Accessed 3 Feb. 2026.

³ *Financing in Fragile Contexts*, www.oecd.org/content/dam/oecd/en/publications/reports/2020/12/financing-in-fragile-contexts_93c70f7c/e87c2402-en.pdf. Accessed 3 Feb. 2026.

⁴ Organisation for Economic Co-operation and Development (OECD). *States of Fragility 2022: The Path to Resilience*. OECD Publishing, 2022.

⁵ Gaspar, Vitor, et al. "Fiscal Capacity and the Future of Taxation." *Finance & Development*, International Monetary Fund, June 2018.

as healthcare, education, infrastructure, sanitation, and social protection programs.⁶

Domestic Resource Mobilization (DRM): The process through which countries generate and manage their own financial resources—primarily through taxation and financial reforms—to fund development and public services.⁷

Public Financial Management (PFM): The systems, rules, and procedures governments use to plan budgets, manage public spending, and ensure accountability and transparency in the use of public funds.⁸

General Overview

Fragile states experience a unique set of economic and political difficulties that limit their ability to provide public services. Unlike stable nations with predictable revenue and established systems, fragile nations experience instability from political upheaval, conflicts, loose governance, and an unstable economy. Therefore, it is challenging for governments in fragile countries to consistently create revenue, handle public funds, provide social programs, and maintain essential services (healthcare, education, infrastructure, social safety net).

The key issue in this dilemma is fiscal capacity. Governments unable to effectively raise taxes or manage budgets will become limited in their ability to provide sufficient levels of public service. As a result of fiscal limits, schools will continue to struggle to provide funding, hospitals will be without needed supplies and people for jobs, and infrastructure projects will be delayed, abandoned or underfunded, diminishing the confidence of citizens in the state over time. Citizens will have less confidence in public institutions found to be incapable of fulfilling their intended purpose; therefore, compliance with tax payment and regulation by citizens will decrease. Ultimately, weak service provision combined with weak fiscal structures reinforce each other.

One of the main difficulties fragile states face is a limited tax base. Large portions of their economies Fragile states cannot generate sufficient revenues through tax systems because there are many informal parts of their economy where transactions take place without taxation. Because of this reliance on primarily natural resources and aid as revenue sources, fragile states often have limited revenues and large fluctuations in the amount of revenues they will collect from these sources in any given year. Prices of commodities will be affected by fluctuations in world demand and these fluctuations will affect the ability of fragile states to collect revenues from resource-related sources over time. The level of uncertainty around when and how much aid will be made available to fragile states also has an effect on the extent to which these fragile states can effectively utilize their planned

⁶ United Nations Department of Economic and Social Affairs (UN DESA). *World Public Sector Report 2018: Working Together for the 2030 Agenda*. United Nations, 2018.

⁷ World Bank. *Domestic Resource Mobilization for Sustainable Development*. World Bank Group, 2017.

⁸ World Bank. *Public Financial Management and Its Emerging Architecture*. World Bank Group, 2016.

budgets.⁹

Corruption and lack of oversight in the area of public financial management will contribute further to the challenges that fragile states face. If public sector dollars are wasted, misused or unduly directed away from areas of needed development, then it is impossible for fragile states to develop as intended. Additionally, perceptions of corruption amongst citizens will lead to decreased levels of public trust which will affect compliance with the tax system in that fragile states have the ability to generate tax revenues from their citizens. Increasing the revenue available to fragile states will not solve their problems on its own, therefore increasing the transparency, accountability, and sound public financial management practices in fragile states must also be addressed in order to increase their fiscal capacity. As a result, they may need to borrow or rely on emergency aid, which can increase debt burdens and create additional financial pressure in the future.

Globalization presents both opportunity and risk at the same time; whilst international trade & investment have the potential to increase economic activity, many fragile states have difficulties regulating financial flows and providing for tax avoidance. Illicit financial flows and profit shifting will continue to have an impact on available taxable income and weaken domestic revenue systems of their respective Governments. Thus strengthening fiscal capacity has become widely regarded as one of the most critical components of achieving long-term stability and development, providing reliable funding for Government service delivery, increasing their ability to manage crisis events effectively, and building stronger relationships with their citizens. However, reforming fiscal systems is often politically sensitive and technically complex, and requires adequate institutional capacity, public confidence, and sustained political will to be successful.

The current issue at hand is part of ECOSOC's overall role in promoting development & international economic cooperation, as well as sustainable development goals, poverty reduction and state-building efforts. Strengthening Fiscal Systems is not limited to economic management, but rather seeks to create the conditions necessary for social cohesion, stability, and an inclusive economy through equal access to opportunity for participation.

⁹ International Monetary Fund. *Fiscal Policy in Fragile and Conflict-Affected States*. IMF, 2022.

Major Parties Involved and Their Views

Afghanistan

Afghanistan can be described as a fragile state that has long-term fiscal difficulties, but this is evident by its long history of conflict, political instability and institutional disruption; therefore, the government in Afghanistan has had considerable difficulty in raising domestic revenues. The vast majority of public expenditures in Afghanistan have historically relied on foreign aid; while international assistance has provided funding to support public services, it has also placed the country in a position of fiscal vulnerability due to the fluctuation of foreign aid. Afghanistan has generally advocated for the continuation of international financial assistance and for the enhancement of domestic revenue systems.

South Sudan

As one of the youngest countries in the world, South Sudan has a limited infrastructure base, faced with continued conflict and an excessive reliance on oil revenue. In addition to being heavily reliant on oil, the country faces the risk of its government failing to make short- and long-term fiscal plans for the future as its economy is highly susceptible to fluctuations in the global oil market. South Sudan has a weak tax regime and inadequate state governance issues further complicate the ability to raise revenues. South Sudan continues to advocate for the need for international development assistance, with a significant emphasis on capacity building, rather than the application of strict financial conditionality.

Somalia

After years of state failure, Somalia is slowly beginning to restore its fiscal structures; but it continues to face a number of difficulties. Due to insecurity and large informal economies (in Finance), collection of taxes is difficult. Somalia is eager to work with the international community to carry out reforms that will improve how it manages publically finances (Public Financial Management). Concerns related to sovereignty and domestic control over reform are also key issues for the country with respect to its policy approach.

Germany

Germany is one of the leading donor countries to support developing countries through programs

aimed at promoting financial accountability and domestic resource mobilization particularly within fragile states. And as such, Germany consistently works to encourage the promotion of anti-corruption initiatives and sustainable financial governance, seeing the establishment of a sound fiscal environment as being critical to achieving long-term peace and sustainable development.

United States

Fragile states around the world heavily rely on U.S. foreign aid/technical assistance support. U.S. foreign aid/technical assistance promotes fiscal reform/transparency/anti-corruption measures in different ways. There is generally a requirement of accountability with respect to U.S. foreign aid/technical assistance programs. The U.S. view is that improved fiscal systems will lead to less reliance on foreign aid over time.

China

China's financing of projects in fragile and developing nations has increased, particularly through investments and loans for infrastructure projects. China generally emphasizes a policy of not interfering in the internal affairs of other countries or respecting their sovereignty. China generally places greater emphasis on developing countries financing and support for infrastructure than on imposing governance conditionality, which appeals to some fragile countries but raises concerns from other countries regarding long-term debt sustainability.

Norway

Norway is recognized for supporting peacebuilding and development in weak states. The country prioritizes good governance, inclusive development, and fiscal transparency. Norway typically supports international cooperation and multilateral solutions; it considers fiscal capacity closely related to peace and stability.

Timeline of Events

1944	Bretton Woods Conference establishes the IMF and World Bank, shaping global development finance.
1960s–1970s	Newly independent states face early fiscal and institutional capacity challenges.
2000	Millennium Development Goals highlight the need to fund public services.
2002	Monterrey Consensus recognizes domestic resource mobilization as key to development.
2008–2009	Global Financial Crisis reduces revenues and aid, exposing fiscal weaknesses.
2011	World Bank report links fragile institutions to conflict cycles.
2015	Addis Ababa Action Agenda calls for stronger tax systems and fiscal governance.
2015	Sustainable Development Goals include targets on revenue and institutions.
2020	COVID-19 pandemic strains fragile states' budgets and services.
2021	G20 global minimum tax agreement aims to reduce tax avoidance.
2022-2023	Rising debt distress renews focus on debt sustainability.
2025-present	Discussions continue on reforming global financial support for fragile states.

UN Involvement

UN's development initiatives are significant supporters of fiscally constrained nations through the organization's development programs and to assist in reforming governance and financially sound management systems. In addition, the UN Department of Economic & Social Affairs (UN DESA) aids states with tax cooperative initiatives. The Financing for Development agreement fosters an international environment for collaboration among member countries on enhancing domestic financial systems.

Relevant UN Documents

Addis Ababa Action Agenda, 2015 (A/RES/69/313)

Key global framework on financing sustainable development and domestic resource mobilization.

Transforming Our World: The 2030 Agenda for Sustainable Development, 2015 (A/RES/70/1)

Includes commitments to strengthen domestic revenue collection.

Treaties and Events

Monterrey Consensus on Financing for Development (2002)

- This is a historical treaty that set up four key development finance policy areas: domestic resource mobilization, international assistance, international trade, and international financial cooperation. It restated that countries have the primary responsibility to manage and carry out their own development requirements, and the importance of global partnerships in ensuring this happens.

Doha Declaration on Financing for Development (2008):

- The results of the post-Monterrey Declaration confirmed previous agreements made by Governments regarding enhancing tax systems, the need for greater financial governance, and the ways in which Governments can assist developing Nations.

Evaluation of Previous Attempts to Resolve the Issue

While previous attempts to address these issues have produced results; there have also been limitations. Sometimes an aid-focused approach created more of a reliance on aid than a resilient approach. There have been other instances where the implementation of conditional loans has produced social resistance due to the fact that when austerity measures were put into place, public services were reduced or cut. There are multiple frameworks in existence; however, the gaps in implementations remain substantial.

Possible Solutions

Strengthening Domestic Tax Systems

Improving fiscal capacity by strengthening domestic tax systems can make a very sustainable way of improving fiscal capacity in fragile states where taxes have narrow tax bases, ineffective revenue administrations and significant informal sectors. Digitalised collection methods and providing training to revenue officials and simplifying tax codes will help improve revenue collection procedures. However, tax reform must be done gradually and be sensitive to the economies of the country because aggressive taxation can result in public backlash in low-income, developing economies. When citizens see their taxes being spent on public services in a transparent manner, there will be a greater level of trust in government. Through time, greater reliance on domestic tax revenues will lead to a lesser reliance on foreign aid and provide governments with more authority over the development priorities of their countries. The focus of this strategy is long-term self-sufficiency instead of short-term financial quick fixes.

Improving Public Financial Management and Transparency

If public funds are not managed properly, just raising revenue is not enough. By improving the financial management of public resources, this will make the budget more realistic, ensure that there is appropriate monitoring of how public resources are being spent and ensure that the intended public sectors will receive the funds that are allocated to them. Independent audits, open and transparent budget processes, digital tracking of spend, etc. all help to reduce the amount of money that is wasted and/or misused. Transparency will also help to build trust in government. When citizens have confidence in the way that the government is spending money, they will be more likely to contribute their own resources to the government. International partners can provide support through training and reforming institutions; however, it is critical for countries itself to take ownership of these processes. If fragile states have strong public financial management, they will be able to use their limited resource base more efficiently and effectively to respond to crises more quickly, to provide evidence of accountability. In the long-term, the ability of governments to be transparent will enhance

both their fiscal stability and their political legitimacy.

Combating Illicit Financial Flows and Tax Avoidance

Tax havens and profit shifting are some of the other types of illicit financial flows that take money away from fragile states. Improved international collaboration on tax information sharing, implementing anti-money laundering measures, and reforming corporate taxes can assist fragile states in tracking the flow of cross-border tax revenue and reducing reliance on foreign loans. The capacity of emerging nations and fragile states to track international financial transactions is a major constraint on their ability to combat fraud, corruption, and revenue leakage from FDI (Foreign Direct Investment). Global agreements and technical support from developed countries are critical components for achieving a more effective regulatory and enforcement regime for fragile states. Along with generating additional revenue for fragile states, combating illicit financial flows establishes fairness and equity in the global financial landscape. When multinational corporations and wealthy individuals contribute an equitable amount of taxes to their host countries, national governments receive sufficient funds to invest in development initiatives. Addressing the issue of illicit financial flows requires cooperation and action at both the national and global levels and is therefore an issue relevant to ECOSOC discussions.

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