



G-24 Technical Group Meeting

Domestic Resource Mobilization for the 21st Century: Towards a UN Framework Convention on International Tax Cooperation

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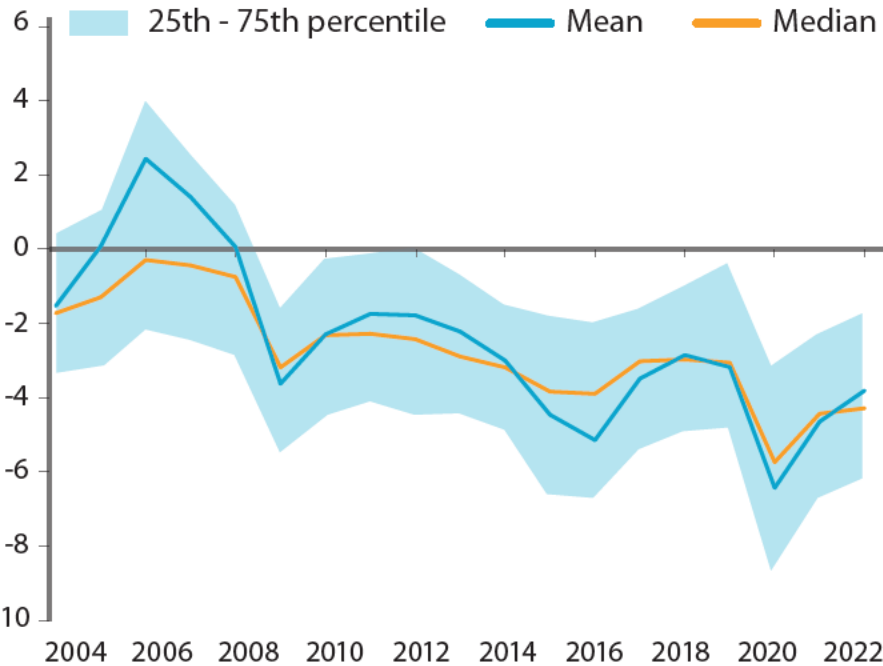
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International Taxation: The Context

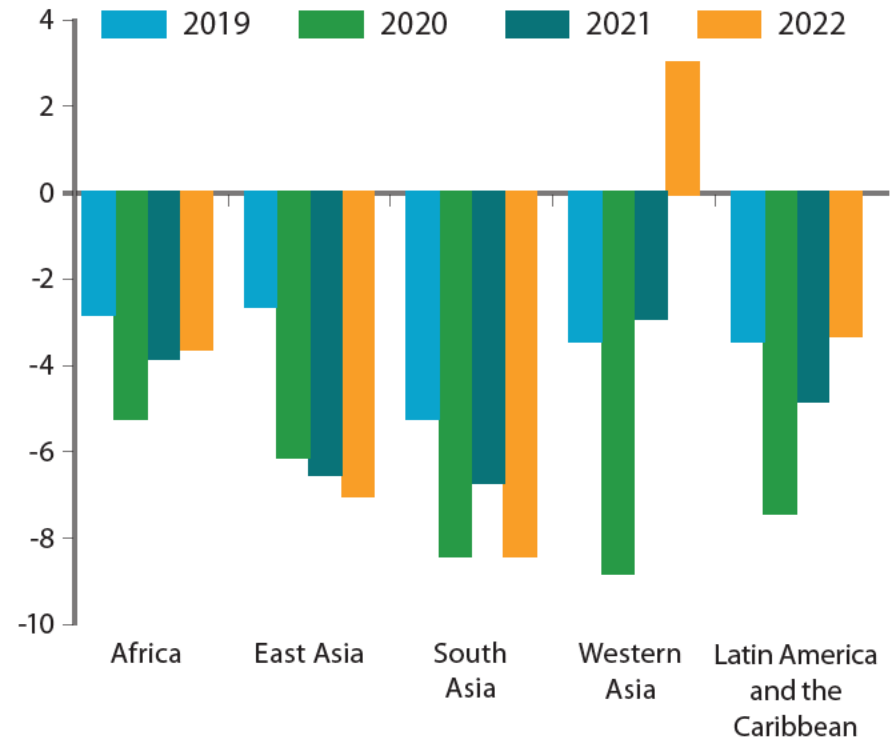
Developing Countries Facing Stressed Fiscal Balances...

Fiscal balances
(Percentage of GDP)

a) Fiscal balances of developing countries



b) Fiscal balances in developing regions



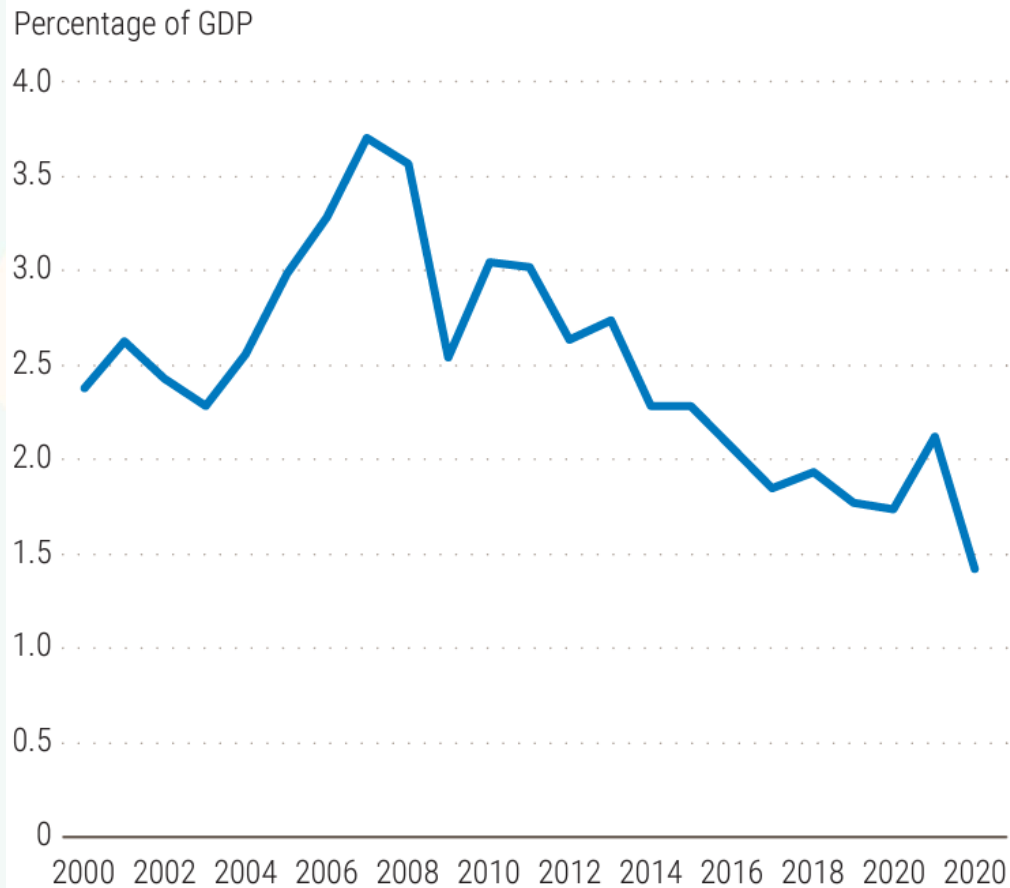
Source: UN/DESA, based on data from the IMF World Economic Outlook database, October 2022.

Note: Regional and country group averages for panel b) are unweighted averages across countries. Median values show similar trends.

International Taxation: The Context

...Declining Foreign Direct Investment...

Net inflows of foreign direct investment to developing economies

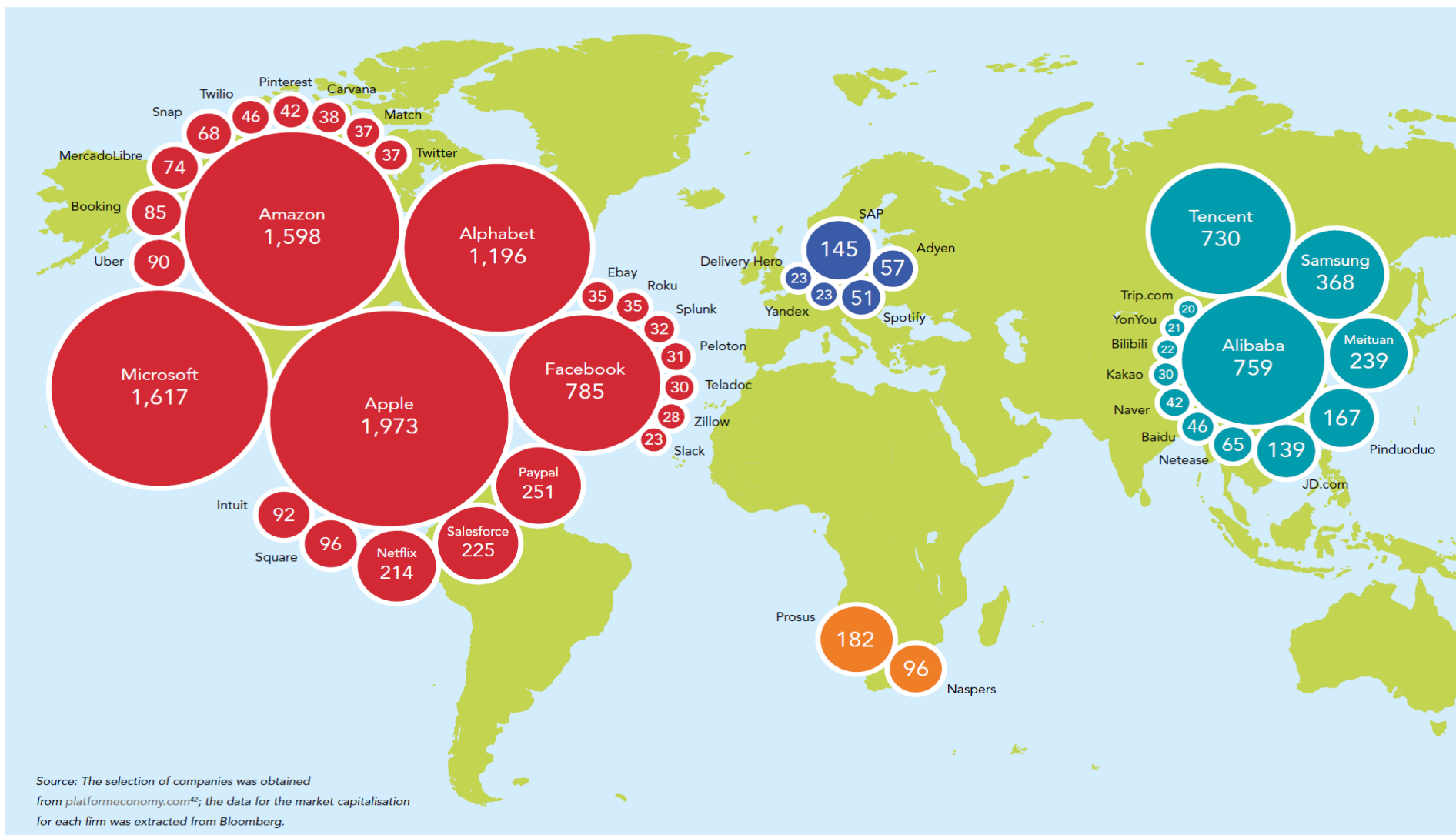


Source: [UN WESP 2024](#)

International Taxation: The Context

...and Rising Corporate Monopolies, Particularly in Tech

Map 2.1 Big Tech market capitalisation (above US\$ 20 billion) in December 2020



Source: The selection of companies was obtained from [platformeconomy.com](https://www.platformeconomy.com/)⁴²; the data for the market capitalisation for each firm was extracted from Bloomberg.

International Taxation: The Rationale

Effective Taxation of Big Multinationals, esp Tech, Need of the Hour

- Why?
 - ✓ Generates much-needed revenues
 - ✓ Provides a level playing field for domestic startups
- How?
 - Two Pillar solution of OECD, but seen as largely insufficient for developing countries

Amount A of Pillar One: Relevant for Developing Countries?

How Much Money Can G-24 & South Centre Member Countries Collect from Amount A vs Digital Services Taxes?

Country	Amount A	DST (ADS Only)	DST (incl. hybrid ADS)
		At 5% DST	
China	3,324.30	7,257.90	10,082.10
Philippines	106.8	188.8	351.1
Iran	254.3	470.6	672
India	556.4	1,145.00	1,796.00
Pakistan	85.4	122.1	212.4
Sri Lanka	30.9	48.1	88.5

Tax Revenues by Country in 2022 (in EUR Millions)

Source: ATAF, WATAF and South Centre (forthcoming)

Amount A of Pillar One: Relevant for Developing Countries?

How Much Money Can G-24 & South Centre Member Countries Collect from Amount A vs Digital Services Taxes?

Country	Amount A	DST (ADS Only)	DST (incl. hybrid ADS)
		At 5% DST	
Argentina	208.3	332	455
Brazil	632.4	1,036.10	1,750.90
Colombia	157.8	145.6	223.5
Ecuador	50.6	49.9	78.8
Suriname	1.6	0.1	0.5
Venezuela	34	23.8	39.3

Tax Revenues by Country in 2022 (in EUR Millions)

Source: ATAF, WATAF and South Centre (forthcoming)

Amount A of Pillar One: Relevant for Developing Countries?

How Much Money Can G-24 & South Centre Member Countries Collect from Amount A vs Digital Services Taxes?

Country	Amount A	DST (ADS Only)	DST (incl. hybrid ADS)
		<u>At 5%</u>	<u>At 5%</u>
Algeria	54.9	93.1	169.6
Egypt	78.2	148.6	311.7
Gabon	9.9	9.8	23.7
Kenya	40.1	58.2	87.1
Cote d'Ivoire	22.3	36.2	107.4
Nigeria	129.2	174.6	493.6
Ghana	22.3	36.1	113

Tax Revenues by Country in 2022 (in EUR Millions)
Source: ATAF, WATAF and South Centre (forthcoming)

Amount A of Pillar One: Relevant for Developing Countries?

How Much Money Can G-24 & South Centre Member Countries Collect from Amount A vs Digital Services Taxes?

Country	Amount A	DST (ADS Only)	DST (incl. hybrid ADS)
		<u>At 5%</u>	<u>At 5%</u>
Ethiopia	39.3	56.7	84.7
Morocco	54.7	67.7	104.3
Congo	5.8	5.7	17.6
South Africa	102.1	127.2	223.2

Tax Revenues by Country in 2022 (in EUR Millions)

Source: ATAF, WATAF and South Centre (forthcoming)

Amount A of Pillar One: Relevant for Developing Countries?

- **Key Takeaways:**

- ✓ Amount A most unlikely to come into effect given die-hard US opposition
- ✓ Digital Services Taxes generate substantially more, in some cases up to 5X Amount A (especially in West Africa)
- ✓ G-24 Countries can consider immediately introducing DSTs with high rates of 5%+ targeted at non-resident tech companies
- ✓ DSTs can also be a protectionist measure to give domestic companies a level playing field

GlobE Rules of Pillar Two: Relevant for Developing Countries? Who Will Collect the Revenues of the OECD Global Minimum Tax?

Figure 20. Global very low-taxed profit by income group and ETR group

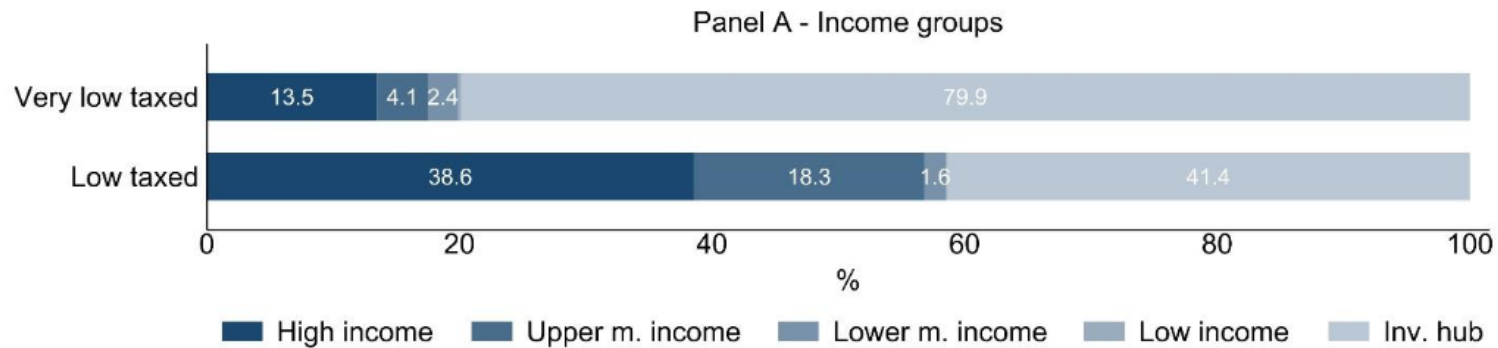
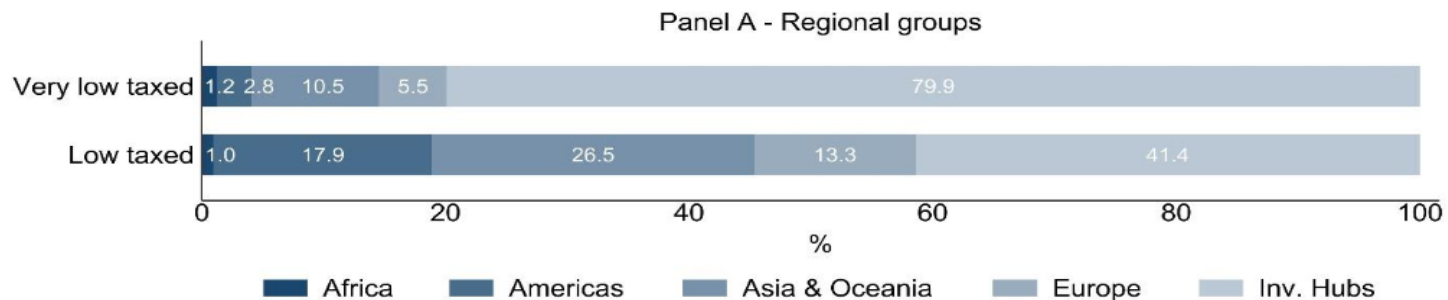


Figure A.20. Distribution of very low-taxed profit across regions and STR groups



Note: Sourced from OECD Taxation Working Papers No. 67, "Effective tax rates of MNEs: New evidence on global low-taxed profit"

GlobE Rules of Pillar Two: Relevant for Developing Countries?

What are the Revenue Implications of the OECD Global Minimum Tax?

- **Key Takeaways:**

- ✓ Data overwhelmingly shows OECD Global Minimum Tax meant to benefit mainly tax havens and then developed countries
- ✓ Only 1.6% of profits taxable under GMT located in lower middle income countries, and only **0.2%** located in low income countries (!)
- ✓ Civil Society called it “Tax Havens Rewards Program”
- ✓ How can developing countries respond:
- ✓ **[South Centre publication with Policy Options](#)**

OECD Inclusive Framework: An Unfair Forum for Developing Countries

- Weak outcomes *because of* weak process; bad governance in the OECD Inclusive Framework
- Key problems:
 1. No Legal Basis
 2. No Rules of Procedure
 3. Membership for Tax Havens and Jurisdictions
 4. Decision-Making by ‘Consensus’
 5. No Transparency
 6. Accountability Only to OECD and G20 Countries
 7. Agenda-Setting that Priorities G7 Interests



Way Forward



UN Tax Convention

- *“Freedom! Hedsole! Sawaba! Uhuru!*
- Never before in history has such a sweeping fervour for freedom expressed itself in great mass movements which are driving down the bastions of empire. This wind of change blowing through Africa, as I have said before, is no ordinary wind. It is a raging hurricane against which the old order cannot stand.
- The great millions of Africa, and of Asia, have grown impatient of being hewers of wood and drawers of water, and are rebelling against the false belief that providence created some to be the menials of others.”
- - Kwame Nkrumah, *Africa Must Unite*, 1963

UN Framework Convention on International Tax Cooperation

What Can It Look Like?

Overarching
Framework to set
Agenda and
Governance Structure

Protocols on
Technical Issues (eg
Digital Economy)

Protocols on
Technical Issues (eg
Illicit Financial Flows)

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What to Keep in Mind

- International tax system fundamentally domestic
- Existing system seeks to synchronize this, while keeping State sovereignty paramount
- OECD attempts to trample State sovereignty through “One size fits all” approaches appear to be failing, for obvious reasons
- UN Framework Convention should provide a structured, rules based, transparent and democratic framework for international tax cooperation between States, building on the reality of existing international tax system
- State sovereignty must be kept paramount and enable “Darwinian” evolution

UN Framework Convention on International Tax Cooperation

What to Keep in Mind

- Convention should avoid substantive questions of taxation eg – what should be a solution for taxing cryptocurrencies, etc
- Main problem of international taxation is one related to governance, so Convention should concentrate on solving that
- Additional danger that beginning a substantive discussion, such as negotiating a new solution for taxing the digital economy, may extend the negotiation endlessly, eventually killing the process

UN Framework Convention on International Tax Cooperation

Governance Structure: Membership

- Can contain the following éléments:
- Conference of Parties (COP) as the ultimate governing body
- Membership should be restricted to sovereign countries (eg – jurisdictions like Cayman Islands would not be allowed)

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Governance Structure: Powers and Functions

- Powers and Functions of the COP:

- Decide the international tax agenda through a democratic and genuinely inclusive process
- Mandate subsidiary bodies to come up with solutions to these issues, including creating new ones if necessary
- Decide whether the solutions are satisfactory or not, and whether they need further work, and if so what kind
- Have a provision to incorporate existing bodies like OECD Inclusive Framework and Global Forum as subsidiary bodies

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Governance Structure: Decision-Making

- Developed countries' fanatical insistence on "consensus" unlikely to be dropped
- **Can be restricted to extreme cases**
- Spectrum of options can be used for differing situations
 - Simple majority
 - Special majority
 - Two-thirds majority
 - **Consensus in the 'rarest of rare' cases?**
- Fundamental process needed to decide what decision-making method applies and when
- Eg – If a multilateral treaty on allocating taxing rights is being negotiated, what decision-making method should be used? And how will this be decided?

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Governance Structure: Transparency

- Mix of public and private diplomacy
- Subsidiary bodies can work in private, but proceedings and decisions of COP can be public

UN Framework Convention on International Tax Cooperation

Conclusion

- G-24 Countries encouraged to actively participate in intergovernmental committee negotiating the Convention
- August 2024 deadline for completing Terms of Reference
- Reality of “path dependency”: no second chances! Need to take 100% use of this opportunity
- South Centre remains available to support G-24 countries (many of which are also South Centre Members) in collaboration with G-24 Secretariat

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