

**INAUGURAL ANNUAL FORUM ON DEVELOPING
COUNTRY TAX POLICIES AND COOPERATION
FOR AGENDA 2030
SURABAYA 30 NOV-02 DEC 2016**

**Context and updates on
Geneva based multilateral
deliberations in UNCTAD
on international tax
matters:**

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2030 SUSTAINABLE DEVELOPMENT AGENDA (17 GOALS, 169 TARGETS)

- Goal 17:

Strengthen the means of implementation and revitalize the global partnership for sustainable development.

- Target 17.1:

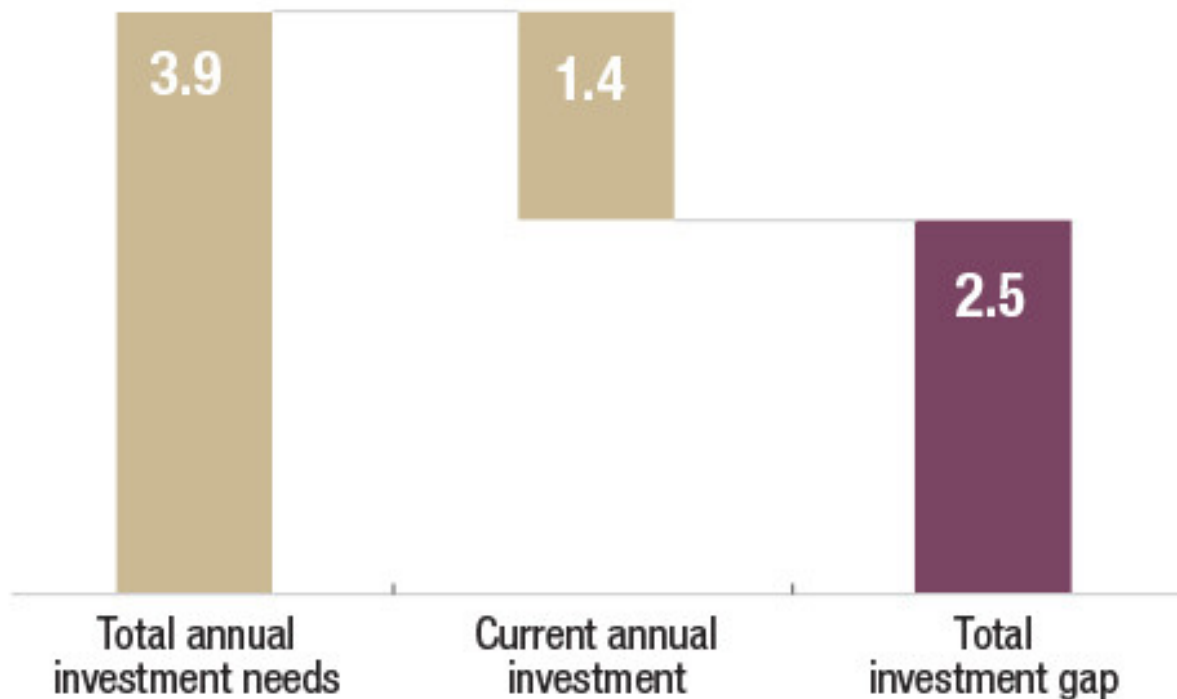
Strengthen domestic resource mobilization. Including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.



THE FINANCE GAP

Estimated investment gap in key SDG sectors, 2015-30

Trillions of USD, annual average



INTERNATIONAL TAX MATTERS:

Tax evasion is development challenge for developing countries.

There is a lack of true multilateral forum where developing countries can participate in equal footing.

OECD:

Not an inclusive Forum. Norms have been set by developed countries which is to be followed by wider membership of the Global Forum.

UN Committee of Experts:

Has done many commendable work, but not really an inter-governmental multilateral body. Has other limitations also.

IMF and WB:

Have some analytical work, but Developing countries are not in an advantageous position there...



MULTILATERALISM, WHY IMPORTANT?

- Collective voice, overwhelming majority of Developing countries.
(G77 and China has 134 countries among 193 UN Member States and 2 Observers)
- Unilateral national initiatives might be politically and economically costly
- Favorable multilateral decisions, even if non-binding, can provide moral standing in bilateral negotiations and other multilateral fora
- Thrives for a rule-based, democratic world order



ADDIS ABABA ACTION AGENDA

- Paragraph 22:

We recognize that significant additional domestic public resources, supplemented by international assistance as appropriate, will be critical to realizing sustainable development and achieve the SDGs. We commit to **enhance revenue administration through modernized, progressive tax systems, improved tax policy and more efficient tax collection.** We will work to **improve the fairness, transparency, efficiency and effectiveness of our tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy** in line with country circumstances. In this regard, we will strengthen international cooperation to support efforts to build capacity in developing countries, including through enhanced official development assistance (ODA). We welcome efforts by countries to set **nationally defined domestic targets and timelines for enhancing domestic revenue** as part of their national sustainable development strategies, and will support developing countries in need in reaching these targets.



ADDIS ABABA ACTION AGENDA (CONTD.)

○ Paragraph 23:

We will redouble efforts to substantially **reduce illicit financial flows** by 2030, with a view to **eventually eliminate them, including by combatting tax evasion and corruption through strengthened national regulation and increased international cooperation.** We will also **reduce opportunities for tax avoidance, and consider inserting anti-abuse clauses in all tax treaties.** We will **enhance disclosure practices and transparency in both source and destination countries, including by seeking to ensure transparency in all financial transactions between governments and companies to relevant tax authorities.** We will **make sure that all companies, including multinationals, pay taxes to the governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies.**



ADDIS ABABA ACTION AGENDA (CONTD.)

○ Paragraph 27:

We commit to **scale up international tax cooperation**. We **encourage countries**, in accordance with their national capacities and circumstances, to work together to **strengthen transparency and adopt appropriate policies, including: multinational enterprises reporting country-by-country to tax authorities where they operate; access to beneficial ownership information for competent authorities; and progressively advancing towards automatic exchange of tax information among tax authorities as appropriate, with assistance to developing countries, especially the least developed, as needed. Tax incentives can be an appropriate policy tool. However, to end harmful tax practices, countries can engage in voluntary discussions on tax incentives in regional and international fora.**



ADDIS ABABA ACTION AGENDA (CONTD.)

○ Paragraph 28:

We stress that **efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries, in particular LDCs, LLDCs, SIDS and African countries. We welcome the participation of developing countries or their regional networks in this work, and call for more inclusiveness to ensure that these efforts benefit all countries. We welcome ongoing efforts, including the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and take into account the work of the Organisation for Economic Cooperation and Development (OECD) for the Group of 20 on Base Erosion and Profit Shifting. We support strengthening of regional networks of tax administrators. We take note of ongoing efforts, such as those of the International Monetary Fund (IMF), including on capacity building, and the OECD's 'Tax Inspectors Without Borders' initiative. We recognize the need for technical assistance through multilateral, regional, bilateral and South-South cooperation, based on different needs of countries.**



ADDIS ABABA ACTION AGENDA (CONTD.)

○ Paragraph 29

We emphasize the importance of inclusive cooperation and dialogue among national tax authorities on international tax matters. In this regard, we welcome the work of the United Nations Committee of Experts on International Cooperation in Tax Matters, including its subcommittees. We have decided we will work to further enhance its resources in order to strengthen its effectiveness and operational capacity. To this end, we will increase the frequency of its meetings to two sessions per year, with a duration of four working days each. We will increase the engagement of the Committee with the Economic and Social Council (ECOSOC) through the Special Meeting on International Cooperation on Tax Matters with a view to enhancing intergovernmental consideration of tax issues. Members of the committee will continue to report directly to ECOSOC. We continue to urge Member States to support the Committee and its subsidiary bodies through the voluntary trust fund, to enable the Committee to fulfill its mandate, including supporting the increased participation of developing country experts at subcommittee meetings.



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

1. Geneva based UN institution under UN General Assembly.
2. UN system's focal point on trade and development and interrelated issues of finance, investment, technology and sustainable development.
3. Universal membership.
4. Three pillars of work:
 - A) Consensus building (Inter-governmental actions)
 - B) Research and Analysis
 - C) Technical Assistance
5. Historically a forum for Developing Countries.
6. Generally consensus based decisions are taken.



UNCTAD'S ROLE IN IMPLEMENTING THE 2030 AGENDA AND THE AAAA

- 2030 Agenda is the overarching goal development goal set by UN Member States for next 15 years, thus the basis of work of all UN agencies, other IOs and Member States....
- AAAA specifically mentions that UNCTAD would be one of the key institutions in implementing the decisions taken in the AAAA, specially in light of the Goal 17 of the 2030 Sustainable Development Agenda.



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD)

- Ministerial Conference takes place every four years interval, outcome of which defines the policy and work for next four years.
- 14th Ministerial Conference (UNCTAD XIV) held in 17-22 July 2016 in Nairobi, Kenya.
- The outcome document of the Conference was negotiated since the 2nd quarter of 2015.
- Negotiations takes place between Developing Countries (G77 and China) and 3 groups of developed countries EU, JUSSCANZ and Group D (East European and CIS countries)
- Nairobi Maafikiano, the outcome document of UNCTAD XIV, was agreed upon after months long intense negotiations in Geneva till the last moment in Nairobi, and being considered as a huge achievements for developing countries.



NAIROBI MAAFIKIANO

- One of the major achievements, from Developing Countries' perspective, to secure and enhance UNCTAD's mandate enabling it to have inter-governmental deliberations on international tax matters.
- Developing countries rightfully impressed upon during negotiations that UNCTAD's major role in coming years would be to work for the successful implementation of 2030 Sustainable Development Agenda and for that, the successful implementation of Addis Ababa Action Agenda (AAAA).
- For this, developing countries pushed for the revitalization of the Inter-Governmental Machinery (IGM) of UNCTAD, which has been consciously eroded in last 20plus years.



G77 AND CHINA POSITION PAPER ON UNCTAD XIV OUTCOME DOCUMENT

Policy analysis on tax issues:

- **Firstly, when it comes to government budgets, and particularly the funding of needed infrastructure investments, taxation is a critical piece of the puzzle. However, the system of taxing global profit is broken and exacerbates inequality both within and across countries. If the world is to make progress toward its goal of eradicating poverty and stemming rising inequality, the tax system must be reformed.**
- **Secondly, tax avoidance and tax evasion by multinational companies is a persistent challenge particularly for developing countries, and their fiscal space, and will have a significantly negative impact in their capacity to implement multilaterally agreed goals. Multinational companies employ a range of tax avoidance and tax evasion levers, involving multi-layered corporate structures in order to avoid taxation. In this regard, tax avoidance and tax evasion practices are global issues that require multilateral action.**



G77 AND CHINA POSITION PAPER ON UNCTAD XIV OUTCOME DOCUMENT (CONTD)

- **Thirdly, while Foreign direct investment, if managed effectively, plays an important role in raising incomes and enhancing productive capacities and employment opportunities, tax avoidance and tax evasion practices by transnational corporations, as well as the tax exemptions that countries sometimes offer in order to attract investments, could substantially curtail government revenue in developing countries. Thus It is imperative that such practices are properly tackled at the national, regional and global levels, while ensuring that efforts do not undermine existing and future investment flows.**
- **Finally, effective domestic resource mobilization for the SDGs will not succeed if the international community does not tackle tax avoidance and tax evasion issues. There is a need to enhance cooperation on an international level on tax matters, including by creating an intergovernmental body, from a development perspective.**



G77 AND CHINA POSITION PAPER ON UNCTAD XIV OUTCOME DOCUMENT (CONTD)

Based on these observations, the G77 and China demanded the following decisions to be taken in the Outcome Document of UNCTAD XIV:

- to establish a standing intergovernmental group of experts to address tax issues including international tax issues and to assist countries better mobilize and employ fiscal revenues including through international initiatives to counter tax avoidance and tax evasion as well as the capabilities of developing countries to address tax avoidance and tax evasion practices;
- to ensure UNCTAD's role in enhancing the capacity of developing countries to collect taxes including through the negotiation of tax agreements and other mechanisms in order to increase revenues;



UNCTAD'S RECENT ANALYTICAL WORK ON TAX MATTERS:

- World Investment Report 2015, an annual flagship publication of UNCTAD, dedicates a whole chapter (Chapter 5) on tax issues:
- **Summary of observations and key messages:**
- ❖ UNCTAD estimates the contribution of MNE foreign affiliates to government budgets in developing countries at approximately \$730 billion annually (23 per cent of total corporate contributions and 10% cent of total government revenues).
- ❖ The lower a country is on the development ladder, the greater is its dependence on non-tax revenue streams contributed by firms (royalties on natural resources, tariffs, payroll taxes, social contributions and other types of taxes and levies).
- ❖ Some 30 per cent of cross-border corporate investment stocks have been routed through offshore hubs (tax havens) before reaching their destination as productive assets. This outsized role of offshore hubs in global corporate investments is largely due to “tax planning” by using tax avoidance levers related to tax rate differentials between jurisdictions, legislative mismatches and tax treaties.



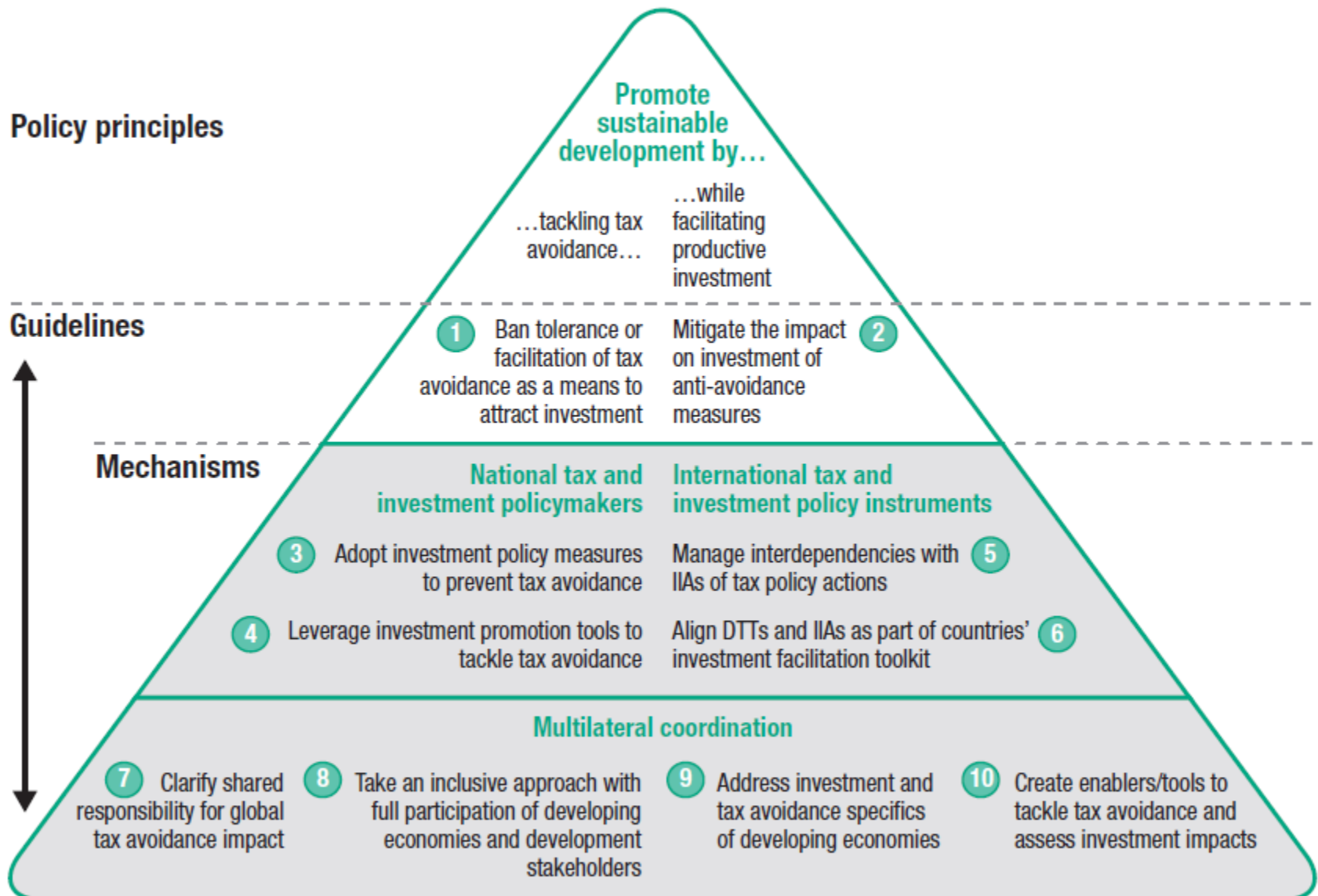
UNCTAD'S RECENT ANALYTICAL WORK ON TAX MATTERS:

- ❖ An estimated \$100 billion of annual tax revenue losses for developing countries is related to inward investment stocks directly linked to offshore hubs.
- ❖ The basic issues of fairness in the distribution of tax revenues between jurisdictions that implies substantial revenue loss implies must be addressed.
- ❖ However, the policy imperative is to take action against tax avoidance to support domestic resource mobilization and continue to facilitate productive investment for sustainable development. Therefore, investment policy should form an integral part of any solution to tax avoidance.



Figure 15.

Guidelines for Coherent International Tax and Investment Policies



NAIROBI MAAFIKIANO (OVERVIEW)

- **Theme: “ From decision to action: Moving towards an inclusive and equitable global economic environment for trade and development”**
- **4 Subthemes:**
 - ✓ **Challenges and opportunities in multilateralism for trade and development**
 - ✓ **Promoting sustained, inclusive and sustainable economic growth through trade, investment, finance and technology to achieve prosperity for all**
 - ✓ **Advancing economic structural transformation and cooperation to build economic resilience and address trade and development challenges and opportunities, at all levels, within the UNCTAD mandate**
 - ✓ **Contributing to the effective implementation of and follow-up to the 2030 Agenda for Sustainable Development and relevant outcomes from global conferences and summits, as related to trade and development.**
- **Total 100 paragraphs, with numerous sub-paragraphs in action paragraphs**
- **The Theme and each Subtheme is divided into policy analysis section and action paragraphs.**



NAIROBI MAAFIKIANO (ACHIEVEMENTS)

○ Policy Analysis:

Sub-theme 1, paragraph 25:

- “Effective taxation will be critical in the mobilization of resources for implementation of the SDGs and overall economic advancement of developing countries. This includes reducing opportunities for tax avoidance; as well as addressing illicit financial flows and the activities that underlie their occurrence, such as tax evasion, illegal exploitation of natural resources, corruption, embezzlement, and fraud. This is a global issue that requires further multilateral cooperation. Current initiatives should also be more inclusive with regards to the participation of developing countries.”



NAIROBI MAAFIKIANO (ACHIEVEMENTS)

Subtheme 3, paragraph 68 (on need for national policies for inclusive and sustainable development):

- ".....Compliance by large and multinational companies, including those involved in extractive industries, with applicable national laws and regulations, including with respect to social and environmental rules, is important."



NAIROBI MAAFIKIANO (ACHIEVEMENTS)

Decision on action:

Subtheme 1, paragraph 38(g):

- “Continue to collect statistics and conduct research and policy analysis on the development impact of foreign direct investment and the activities of multinational enterprises, including through non-equity modes of international production, to keep member States abreast of developments and enable them to assess their importance for development and devise and implement appropriate policy instruments.”



NAIROBI MAAFIKIANO (ACHIEVEMENTS)

Subtheme 3, paragraph 76(n):

- “Support developing countries relying significantly on natural resources exports and facing particular challenges, by encouraging sustainable investment in value addition and the processing of natural resources and productive diversification, while ensuring such investment is responsible and does no harm, and by addressing excessive tax incentives related to foreign direct investment, particularly in the extractive industries, as well as agro-based industries;”



NAIROBI MAAFIKIANO (ACHIEVEMENTS)


Subtheme 4, paragraph 100(r):

- "In line with the structure of the intergovernmental machinery as laid out in the Accra Accord, the Trade and Development Board will operationalize the creation of two intergovernmental expert groups. The topics to be considered will include inter alia e-commerce and the digital economy; and financing for development, as reflected in the Addis Ababa Action Agenda and within the work of UNCTAD;"



NAIROBI MAAFIKIANO (ACHIEVEMENTS)

Also the following decision was achieved under the Theme (preambular part of the document) that, as per paragraph 15,

- “Midway through the conference quadrennium there will be an additional agenda item at the regular session of the Trade and Development Board entitled “Evaluation and review of UNCTAD’s implementation of the quadrennial conference outcome”. This session of the Trade and Development Board may be adapted, as required, to undertake this agenda item. The Secretary-General of UNCTAD will present a report on UNCTAD’s implementation of the quadrennial outcome; this report will be the basis for member States’ discussions, which may result in recommendations regarding the implementation of the outcome document. The occurrence of future midterm reviews will be considered at the next quadrennial Conference.”
 - This is basically the provision of a Mid-Term Review.
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NAIROBI MAAFIKIANO (ACHIEVEMENTS)

To summarize, developing countries achieved the following:

- 1) One of the two IGEGs to be established will be on financing for development, in which international tax matters will be discussed intensively, leading to agreed conclusions.
- 2) Continue analytical and research work on the on the activities of the MNEs, including tax evasion and avoidance.
- 3) Support Developing countries depending on extractive and agro-based industries in dealing with excessive tax incentives given
- 4) There will be Mid-Term Review to assess the progress of the implementations.



FUTURE COURSE OF ACTION:

- The discussion on the Terms of Reference of the two IGEGs will commence in the upcoming regular session of the TDB (5-9 December 2016). This is expected that the IGEGs would be established within few months.
- G77 and China is determined to push forward so that international tax matters are extensively included in the TOR of the IGEG on financing for development, in line with the decisions taken in AAAA.
- G77 and China is likely to ask for 2 sessions in each year of the IGEGs, so that the subjects, including tax, can be extensively discussed and agreed conclusions can be reached.
- Once operationalized, the IGEG on financing for development is likely to act as a true inter-governmental forum for all developing countries in equal footing with developed countries, and will enable them to push forward their concerns and views in an effective manner.
- The outcome agreed decisions of this IGEG can be new newly evolved multilateral agreements on among others, on international tax matters, with developing countries really having their voice heard.



FEW RECOMMENDATIONS:

- The Governments of the Developing countries should ensure effective and intense internal coordination among national tax authorities and representatives in the UN and other fora.
- Regular coordination between G77 and China in New York and its Geneva Chapter is important.
- Attention should be given so that duplication of work is avoided among different multilateral entities working on international tax matters. The works should be rather complementary based on mutual cooperation

