FINANCING DEVELOPMENT?

An assessment of domestic resource mobilisation, illicit financial flows and debt management

MAY 2024

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About this report

This report summarises research carried out in nine focus countries as well as an analysis of the situation at the global level as regards debt management, domestic resource mobilisation and illicit financial flows.

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INTRODUCTION

In mid-2025, the world's governments will gather in Spain for the 4th United Nations (UN) Summit on Financing for Development (FfD).[1] This Summit, taking place a little over 20 years since the first FfD Summit in Monterrey in March 2002,[2] will be a key moment to assess the fairness and efficiency of global economic governance, and for world leaders to address underlying systemic issues and challenges. With this in mind, it is high time to ask: How is it going with financing for development? In this report, we assess the situation with a specific focus on debt management, domestic resource mobilisation and illicit financial flows.

There are direct links between the level of available public resources of governments and the ability of countries to fulfil the Sustainable Development Goals (SDGs), the global environmental targets, as well as their human rights obligations, including those related to gender equality and women's rights.

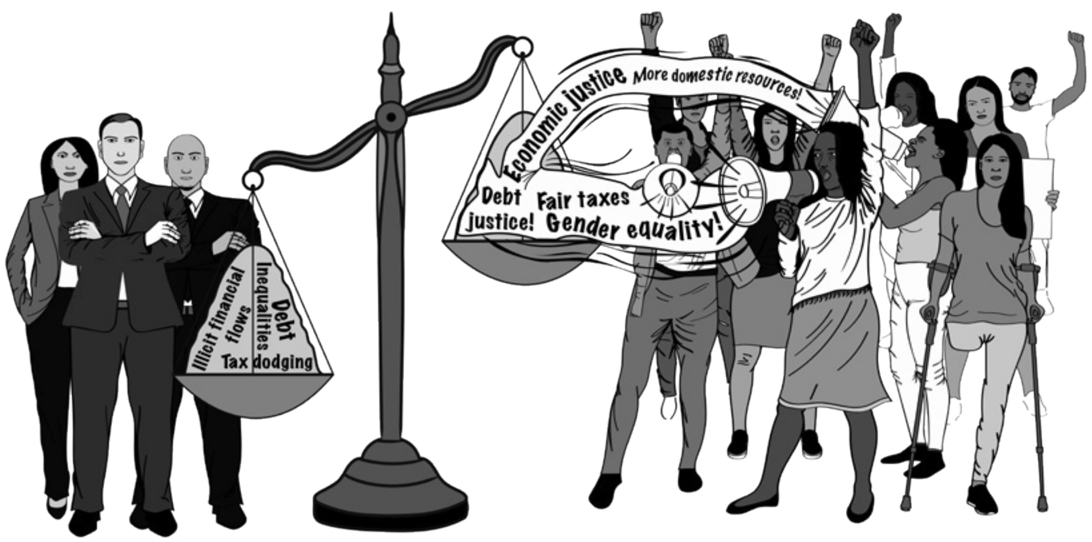
For example, fulfilment of the right to health requires adequate public funding for health care, and the right to education depends on adequate public funding for schools. Austerity measures and inadequate levels of quality public services have disproportionate negative impacts on the poorest, and furthermore tend to impact women harder than men, thus contributing to increased inequalities.[3]

Despite this, researchers have warned that, following the Covid-19 pandemic, the world is now facing a potential 'austerity pandemic', as governments around the world are slashing public budgets at large scale. In fact, projections have shown that 85 per cent of the global population might be impacted by public budget cuts in the coming years.[4]

At the core of this problem lies a systemic failure within the global economic governance systems. This includes a lack of a fair, effective and inclusive global system to tackle key factors such as sovereign debt challenges and international tax dodging by wealthy individuals and corporations.

As a result, the availability of public resources at the national levels is eroded by high costs for sovereign debt payments or by large-scale illicit financial flows. These factors can also undermine development effectiveness, including in cases where inward financial flows in the form of aid or climate finance are matched or even surpassed by outflows in the form of payments to creditors or international tax abuse.

In the following chapters, we assess the state of play – first from the global perspective, and then from the national perspective – in nine focus countries. These countries have been selected with a view to ensuring coverage of three different regions (Asia, Africa, and Latin America and the Caribbean), as well as different income groups – ranging from least developed countries to middle-income countries.



THE GLOBAL PERSPECTIVE

A new global south debt crisis

A global south debt crisis is no longer a risk but a very tangible reality. Increasing debt payments are crippling the governments' ability to provide essential public services and tackle the climate crisis in many countries. Debt service, including both domestic and external debt payments, is absorbing an average 38 per cent of budget revenue and 30 per cent of spending across the global south, rising to 54 per cent of revenue and 40 per cent of spending in Africa, according to a Debt Service Watch report.[5] These figures are more than twice the levels faced by low-income countries before the Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Therefore, this is already the worst debt crisis the world has ever seen.

In front of this reality, affecting people's wellbeing and rights every day, international financial institutions are looking at the structural sovereign debt problems that many countries are facing as if it were a mere problem of liquidity, since there hasn't been the series of defaults that some predicted after the Covid-19 pandemic. The reality is that countries in the global south are doing whatever it takes to keep repaying their debts, even if it's by implementing draconian austerity measures, in many cases following International Monetary Fund (IMF) conditionalities and advice.[6] Debt service payments are indeed drowning out vital public spending. Domestic and external debt service equals the combined total spending on education, health, social protection and climate in low- and middle-income countries, and exceeds it by 50 per cent in Africa. It is 2.5 times the spending on education, 4 times the spending on health and 11 times the spending on social protection.[7]

As bilateral and private lending decreases, multilateral development banks (MDBs) and the IMF are increasing their lending.[8] With no other instrument on the table, multilateral lending is likely to be used to repay private creditors, as well as bilateral creditors such as China. As in the past, we will probably see in the coming years an increase in countries facing problems repaying multilateral debts. This is problematic given that neither the IMF, the World Bank nor other multilateral development banks (MDBs) participate in debt restructurings. Furthermore, as countries increasingly turn to the IMF and MDBs for financial support, they will have to accept the conditionalities imposed by these institutions, which are still focused on fiscal consolidation (including public spending cuts and regressive taxation, among other measures) and market solutions (including promotion of public-private partnerships and deregulation), thus limiting even more the public investment to advance the SDGs, tackle gender inequalities or take climate actions.

Inadequate and insufficient responses to increasing debt distress

As of February 2024, five countries are in different stages of negotiations for debt restructuring: Suriname, Zambia, Sri Lanka, Ghana and Ethiopia. Even if Zambia and Suriname seem close to reaching a final agreement with all bilateral and private creditors soon, this won't mean the restructuring process can be considered a success. For instance, in both cases, the deals with bondholders include contingency clauses to increase payments to them if/when the country reaches positive economic results (in the case of Suriname, linked to oil extraction). These types of contingency clauses ensure bigger benefits for the private creditors if the country does well, but they do not include reduced payments if there is a negative shock.

Furthermore, in all five of the countries with ongoing negotiations, the debt deals negotiated or on the table will not provide real debt cancellation (actual write-offs of debt stock). Calculations by DFI indicate that, even if the deals achieve savings aligned with the IMF debt sustainability analyses (DSA), "the countries will still be paying an overall average of 48% of their budget revenue on debt service in the next 3 years, with only Sri Lanka bringing its debt service levels below 30% of revenue".[9]

For most countries facing too high debt payments, but still not in default, pre-emptive restructuring is discouraged, particularly by market actors including credit rating agencies, as well as by the IMF (like in the cases of Pakistan and Kenya), thereby delaying debt resolution for those countries. With the prospect of a global economic downturn and instability, geopolitical tensions, climate impacts and high interest rates, it seems likely that the debt outlook will keep worsening.

Multilateral financing to tackle negative debt flows and liquidity constraints

The World Bank estimated that in 2022, low- and middle-income countries would be spending more to repay their debts than what they received in new loans, for the first time since 2015.[10] This continued in 2023, with lower-middle-income countries paying as much as US$100 billion more in external debt repayments than they received in new long-term loans, which can be mainly attributed to much less Chinese and private lending.[11] Since March 2023, no lower income country has been able to issue bonds and, with interest rates at very high levels, those who do manage to access the markets, as Kenya did in January 2024, are likely to pay double digit interest rates.

In this context, several institutions, multilateral and private, are focusing attention on the need to provide liquidity to countries facing fiscal constraints but not debt solvency issues. The proposals propose rescheduling payments to bilateral and private creditors, coupled with new financing from MDBs and the IMF, and structural reforms to foster green growth from the borrowing countries.[12] However, this approach risks merely kicking the can down the road, opening the door for more conditionalities, building up more debt and making the problem bigger and more difficult to resolve in future. Furthermore, it offers key decision-makers in creditor countries and global-north-dominated financial institutions a good excuse not to focus on the debt cancellation and structural reforms that are necessary to prevent a lost development decade.

Lack of a functioning multilateral debt resolution mechanism

With the Common Framework stuck and not delivering on the timely and sufficient debt resolution that the G20 promised in 2020, and debt restructurings taking a minimum of three years, the Global Sovereign Debt Roundtable (GSDR) was created by the IMF, the World Bank and the G20.[13] While for the conveners the GSDR has been helpful to find common ground on certain technical fixes and to speed up the start of negotiations with Ghana and Sri Lanka,[14] the truth is that, regardless of restructurings being within or outside the G20 Common Framework, their most probable result is still the tenacious persistence of the ‘too little, too late’ syndrome, with creditors’ interests being prioritised well above the rights of people living in indebted countries.

As a result of the lack of a functioning and truly multilateral debt resolution framework,[15] the response by international financial institutions and creditor countries to the unfolding debt crisis has been similar to the (failed) responses they offered during the 1980s and 1990s debt crises: more lending, particularly from the IMF and MDBs, to refinance existing debts (transferring debts from private and bilateral creditors to multilateral creditors); rescheduling debt payments, and avoiding debt write-offs at any cost, kicking the can down the road for an even worse crisis in a few years; and widespread implementation of austerity measures.

In contrast, despite global south leaders calling for such reforms (such as in the Bridgetown agenda or the African Climate Summit in 2023), the global north countries are blocking any real change in the global economic governance structures and debt architecture. Nothing is being done to advance an international financial architecture reform that works for the people and the planet. In this context, the call for a multilateral sovereign debt resolution mechanism resonates only in some global south countries’ political declarations[16] and with some UN leaders[17] and agencies,[18] besides within civil society. For civil society, the aim is to shift the debt discussions from the non-inclusive and undemocratic space of the G20 to an inclusive, democratic and intergovernmental process for debt architecture reform at the UN.

Breaking the structural and colonial roots of unsustainable debts

The links between the debt and climate emergencies have received more attention in the past year and are likely to be the focus of institutional initiatives throughout 2024. However, the proposals on the table so far are partial or even false solutions, such as debt swaps,[19] climate resilient debt clauses, the development of ESG financing[20] or the promotion of guarantees and credit enhancements by public development institutions. None of the proposals within the existing debt architecture focus on solutions that adequately incorporate the principle of Common But Differentiated Responsibilities and Capacities (CBDR), nor do they guarantee the right to development, provide sufficient resources to meet the need to fight climate change and gender inequalities, or provide the policy space to define development models that prioritise people’s economic, social and cultural rights.

Finally, none of the institutional proposals on the table address the underlying structural causes of global south unsustainable indebtedness, rooted in unequal economic, financial and trade relations, colonial heritage and differentiated responsibilities in generating global challenges, including the climate emergency. As stated in the outcome document of the Southern-led global debt meeting that took place in Bogota, Colombia, on 2-21 September 2023: “The debt problem is not an isolated issue, but is grounded within the broader economic system. We acknowledge that unsustainable Southern debts are underpinned by an unjust system that requires a broader structural transformation based on justice, where the reparations for historical and present social, climate, and ecological debts are placed at the centre.”[21]

Domestic resource mobilisation and illicit financial flows

Taxation is a key tool for correcting economic inequalities. This is true for inequalities between countries, where the design of the rules, including the approach to allocating profits of multinational corporations between countries, is central to the reduction of gaps between poor and wealthy countries. It is also true for inequalities within countries, where a progressive tax system is vital for reallocating resources from the richest to the poorest and for financing public services.

However, if international and national tax systems are designed wrongly, they can also have the effect of increasing inequalities within and between countries. For example, when international loopholes and tax havens allow wealthy individuals and corporations to dodge taxes at the national level, governments can end up being faced with two negative options, namely austerity or regressive tax policies, which have a disproportionally hard impact on the poorest. Both of these options can end up increasing economic inequalities within countries. Furthermore, since women tend to rely more heavily on public services, government spending cuts also risk increasing gender inequalities.

Tax-related illicit financial flows – and the impacts on progressive taxes

International tax dodging remains a major concern – both in developed and developing countries. In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that governments lose around US$480 billion annually due to international tax abuse. Of this amount, US$311 billion stems from tax abuse by multinational corporations and US$169 billion from offshore tax evasion by wealthy individuals.[22] While tax evasion refers to practices that are outright illegal, corporate tax dodging often happens through tax avoidance, meaning practices whereby the spirit of the law is circumvented through methods that might be legal from a technical perspective.

A race to the bottom on corporate and wealth taxes

From the perspective of reducing inequalities, international tax dodging is particularly concerning because it directly undermines the revenue generation of some of the most important types of progressive taxes, including corporate income taxes and different types of tax on wealth, capital income and inheritance (sometimes referred to as 'unearned income'). In addition to undermining the effectiveness of these types of taxes, international tax dodging can have the consequence that countries either lower or outright abandon these taxes. For example, tax avoidance and evasion are key reasons why countries that previously had wealth taxes have chosen to abolish them.[23] Meanwhile, governments have also engaged in what is commonly known as the 'race to the bottom' on corporate income tax. One result of this is that the average global corporate tax rate has dropped dramatically, from a level of over 40 per cent in the 1980s to below 25 per cent by 2015.[24]

Taxes with risks of regressive impacts

A key example of taxes that can have regressive impacts is consumption taxes, including value added tax (VAT). The consumption-oriented value added tax as we know it today was first introduced in France in the 1950s,[25] and is thus a newer phenomenon than, for example, wealth and corporate taxes. In the 1970s and 1980s, the use of VAT spread relatively slowly, with roughly two additional countries introducing it per year. However, between 1990 and 2001, VAT uptake increased more than three-fold and started spreading rapidly, including in developing countries,[26] and today over 160 countries have a VAT.

Within the countries that have a VAT, it currently generates on average a third of the total tax revenue,[27] and in low- and middle-income countries, the dependence on VAT and other types of taxes on goods and services tends to be even higher than in high-income countries. For example, such taxes made up 47 per cent of the tax revenue in low- and middle-income countries in 2020.[28]

With this VAT, the tax burden on consumers has increased and, since poorer households tend to spend a larger share of their income on consumption, there is a clear risk of regressive impacts.[29] While these regressive impacts can, to some extent, be lessened through exemptions or government transfers to the poorest, this is often difficult to guarantee – both politically and in practice. The bottom line is that VAT entails risks of regressive impacts and does not have the direct progressive impacts that, for example, taxes on profits of corporations, capital income and wealth would have. Furthermore, since women tend to have lower incomes and spend a larger share of this income on household consumption, VAT entails a risk of disproportionally impacting them.[30]

Taxation of multinational corporations

A progressive alternative to taxes that target consumers and workers is to apply taxes to corporate profits.

At the moment, there is no truly global agreement on how to tax multinational corporations, but the dominant system is the so-called OECD Transfer Pricing System. Under this system, subsidiaries of multinational corporations are treated as independent entities, rather than as an overall multinational entity, and countries tax these entities on the basis of the amount of profit that the company reports in each jurisdiction. The rules focus heavily on regulating the ways in which the subsidiaries trade internally, to avoid corporations using internal pricing mechanisms to transfer their profits to low-tax jurisdictions. For decades, academic and civil society organisations, among others, have criticised the transfer pricing system for being inherently open to tax abuse, inefficient and unjust, and have called for it to be replaced by a system based on 'formulary apportionment'.[31] This concept refers to a taxation method whereby the global profits of corporations are allocated to countries on the basis of a formula reflecting the level of economic activity in each country.

OECD-led corporate tax reforms

In an attempt to respond to the criticism, OECD has, over the last decade, led two major rounds of reform to their corporate tax system – the 2015 agreement on Base Erosion and Profit Shifting (BEPS) and, more recently, the agreements known as Pillar 1 and Pillar 2.

However, these reforms have also faced strong criticism. Firstly, concerns have been raised about whether the new initiatives will be effective. For example, the OECD proposal to introduce a minimum 'effective' corporate tax rate of 15 per cent – known as Pillar 2 – has been met with criticism that the rules will in fact still allow corporations to continue paying much less than 15 per cent in tax.[32]

Secondly, strong concerns have been raised about unfairness with regards to how the rights to tax the profits of multinational corporations are shared between countries. In particular, concerns have been raised about a bias in favour of richer (mainly OECD) countries at the expense of developing countries. As the UN report, *World Economic Situation and Prospects 2022*, noted, "the main beneficiaries will likely be a small number of developed countries with existing multinational headquarters, undermining the principle of fairness assumed to underlie the accord".[33] These concerns have given rise to the Southern-led civil society campaign to 'Reject the Deal of the Rich'.[34] As the rules of Pillar 2 were further elaborated at the end of 2022, it gave rise to an additional concern that the main beneficiaries of the agreement will in fact be the countries that are commonly referred to as 'financial centres' or simply 'tax havens'.[35]

Lastly, concerns have been raised about the limitations that the OECD deal would impose on countries, including on their ability to introduce taxes that could potentially yield them more revenue than they would stand to gain from the OECD agreement (if any). This includes the fact that Pillar 1 would prohibit countries from introducing a type of tax that has gained popularity in recent years, namely digital services taxes.[36]

Digital services taxes

In a political response to concerns about large-scale profit shifting by major digital corporations, digital services taxes (DSTs) have emerged as a type of tax that is simple to administer and brings additional tax revenue from digital corporations to governments. DSTs are commonly designed as a tax that applies to the gross revenues of corporations that provide specified digital services to consumers or digital service users within a country.[37]

DSTs first became popular among European countries, but have since also caught the interest of developing country governments. According to the EU Tax Observatory, 12 countries currently have an active DST and 19 other countries either have a paused DST or are considering introducing one.[38]

However, one place where DSTs have not gained popularity is in the United States (US) – the home country of several major digital corporations. For this reason, the US administration pushed for,[39] and succeeded with introducing, a ban on DSTs as a key part of the OECD's Pillar 1 agreement (mentioned above).[40] The future of Pillar 1 remains very uncertain – not least since the US itself seems hesitant to sign and ratify a Pillar 1 agreement. From a developing country perspective, DSTs can be attractive as an additional source of tax revenue.

Tax and the environment

In the context of reaching the global environmental objectives, there is a growing debate about how tax systems can contribute to reducing environmental harm, including whether polluting activities should be discouraged with targeted taxes. However, rather than creating disincentives for pollution the current tax system in some cases includes loopholes and incentives that can result in heavily polluting activities being taxed at lower – rather than higher – rates than other activities.

Extractive industries

One such example is taxation of extractive industries. In addition to the loopholes that allow a broad range of multinational corporations to avoid taxation, there are particular weaknesses in the international corporate tax system that can create additional avenues for extractive industries to shift their profits to offshore jurisdictions. Given that the current international system – known as the transfer pricing system – relies on pricing of transfers between affiliated entities of corporations, extractive industries can shift profits by underquoting the value of natural resources when they are exported from the countries of extraction. In a working paper published by the IMF, researchers have estimated the annual global tax loss in the extractive sector at US$44 billion per year. Furthermore, they highlight that "[l]arge revenue losses are more frequent in low income and developing countries" and that "revenue losses are largest in emerging markets". The report also concludes: "Ongoing international reform discussions do not (yet) fully reflect the challenges of collecting income tax from the extractive industries."[41]

Excessive and luxury consumption

Among consumers, there are those who have an excessive ecological footprint and thus cause particular concern. For example, researchers have estimated that over 50 per cent of global emissions from commercial aviation are caused by just 1 per cent of the world's population and, furthermore, that users of private jets cause emissions amounting to 7,500 tonnes of carbon dioxide per year.[42] However, since private jets are highly mobile, countries and offshore jurisdictions sometimes try to attract owners of such vehicles with generous tax incentives.[43] The result is that, rather than discouraging this type of excessive consumption, some tax systems in fact offer tax incentives for users of private airplanes.[44] [45] Similarly, for private yachts, countries such as Malta offer tax incentives that award the largest reductions to the largest boats, thereby rewarding those with excessive and very polluting consumption patterns.[46]

Risk of regressivity in a green disguise

As mentioned above, concerns have long been raised about regressive tax policies that increase inequalities, such as, for example, VATs. While public resistance towards the classic forms of regressive taxes might make it difficult for governments to rely more heavily on these forms of taxation, there is a clear risk that public calls for climate action might be used as a political opportunity to introduce new forms of regressive taxes under the disguise of 'green tax policies'. One such example is the discussion around carbon taxes. The 6th Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR6) notes: "The most commonly studied distributional impact is the direct impact of a carbon tax on household income. Typically it is regressive; the tax induced increase in energy expenditures represents a larger share of household income for lower income households."[47] The report also notes that regressive impacts can – at least in theory – be offset or even reversed through progressive spending policies, but adds that "[i]n countries with a limited capacity to collect taxes and distribute revenues to low-income households, such as some developing countries, carbon taxes may have greater distributional consequences".

Regressive environmental taxes cause concern about not only increasing inequalities but also the risk of undermining public support for specific climate policies or even large-scale public protests by actors who are generally in favour of climate action yet at the same time worry about social justice. The French 'yellow-vest movement' is one famous example of this.[48] Keeping in mind that the aim of the UN's 10th Sustainable Development Goal (SDG10) is not only to prevent further increases in inequality but in fact to reduce them, the distributional impacts of regressive carbon taxes should also not only be considered in the context of progressive spending policies but also be compared to the obvious alternative option of introducing progressive green taxes (such as green taxes on wealth or corporate profits) in combination with progressive spending policies. There is no reason why climate policies cannot be combined with efforts to reduce inequalities; as explained above, there are numerous options for introducing taxes that are both progressive and green. At the same time, ensuring that tax systems are effective, including by combating international tax abuse, is a crucial step on the way towards mobilising additional public resources for climate action.

Transparency and information exchange

Information exchange between governments is important for tax administrators to be able to detect international tax avoidance and evasion. Over recent decades, standards have been developed to ensure that such exchanges happen 'automatically', which means that countries exchange information of tax relevance with other countries on an ongoing basis, without the receiving country being required to specifically request this information on a case by case basis. The alternative to automatic exchange is 'information exchange on request', but this system is much less effective because it assumes that tax administrators are able to guess exactly what information to ask for from other countries (which is in some cases close to impossible).

Automatic exchange of banking information and the OECD's Global Forum

For automatic exchange of private banking information, which is important for detecting tax evasion by private individuals, there is currently an international 'OECD Common Reporting Standard', the implementation of which is being administered by a body known as the OECD's Global Forum.[49] In its Global Tax Evasion Report 2024, the EU Tax Observatory has hailed this OECD system for automatic exchange of banking information as a success of international tax cooperation, while also stressing that important loopholes remain, not least in the area of assets linked to real estate.[50] However, from the perspective of developing countries, the harsh reality is that many of them are not a part of this 'success'.

The first thing to note is that the OECD's Global Forum is not quite as global as the name might suggest. The UN, which is considered a near-universal forum, has 193 sovereign states as members as well as two permanent observers (Palestine and the Holy Sea).[51] Of 193 UN member states, 152 are members of the Global Forum and 41, or over 20 per cent, are not. Meanwhile, the official number of members of the Global Forum is 171, which is due to the fact that the OECD has allowed jurisdictions such as the British Virgin Islands, the Cayman Islands, the Isle of Man and Jersey to become individual members despite the fact that they are territories of the United Kingdom, which is also a member.[52]

Secondly, most of the members of the OECD's Global Forum were not part of negotiating the standard on automatic information exchange. Although the standard was referred to as a 'global standard', it was developed by the (at the time) members of OECD in collaboration with the G20 and a small group of additional countries,[53] and when a ministerial declaration to endorse the standard was negotiated and adopted in 2014, it was only signed by 44 countries and the EU.[54] Of those 44 countries, 34 were OECD member states; only Malaysia, Singapore, Colombia, Costa Rica, Latvia and Lithuania were not members of either the OECD or the G20. Since 2014, the last four on the list have been approved as OECD member states.[55] From the African continent, only South Africa participated, and not a single one of the least developed countries was included.[56]

The fact that the vast majority of the world's developing countries were not at the table when the standard was negotiated might also have had consequences for the way the standard was designed. For example, while there is broad agreement on the fact that the standard must ensure that banking information is kept confidential, and that countries should implement the appropriate systems to ensure this, there are obvious ways in which the standard could have been better adapted to the realities in developing countries with low levels of capacity. When countries sign on to the current standard, they must comply with a number of administrative requirements, but this does not mean that they automatically receive information from the other signatories to the standard. Instead, the system requires them to develop bilateral agreements with each other jurisdiction to receive information.[57] This is a requirement that requires resources and political influence to secure the necessary agreements with other countries, and it risks leaving small and less powerful developing countries with much more limited access to information. A truly multilateral system, that relies on a global agreement without an additional layer of bilateral exchange agreements, would have been more equitable and easier to administer for developing countries. The standard also failed to incorporate another proposal, which could have made the standard function better for developing countries, namely the suggestion to allow developing countries a transition period during which they could receive information even before they had the capacity to send information back.[58]

Today, 152 of the UN member states are members of the Global Forum, but only 102 of these have signed on to the OECD agreement on automatic exchange of banking information.[59] Among the 134 members of the Group of 77 (G77), which is a negotiating body representing developing countries at the UN, only 51, or less than 40 per cent, are a part of the OECD agreement. Looking specifically at Africa, only 11 out of 54 countries – or less than 25 per cent – are a part of the agreement, and of the 45 countries that are classified by the UN as 'least developed countries', only three (Liberia, Rwanda and Uganda) are a part.[60]

Similar to the membership of the Global Forum, the official number of participants in the system for automatic information exchange is higher than 102 because jurisdictions such as the Cayman Islands, the Isle of Man and the British Virgin Islands participate individually although they are also territories of other members (in this case the United Kingdom). With all jurisdictions included, the total number of participants in the system for automatic information exchange is 122.[61] Within the group of countries and jurisdictions that are a part of the system, there is also a substantial variation in terms of how many bilateral exchange agreements they have obtained, and thus how many other countries and jurisdictions they receive information from.[62]

The countries that are not part of the OECD system for automatic exchange of banking information instead have to rely on information exchange 'on request', which has definitely not been a successful system. As noted by the EU Tax Observatory: "A large body of economic research shows that whenever there is no automatic third party reporting of information to tax authorities, tax evasion tends to be widespread".[63] The fact of the matter is that most developing countries still lack access to information that is vital for combating tax evasion by wealthy individuals from their countries. This has undermined their ability to implement progressive taxes such as taxes on wealth, inheritance and capital income.

Automatic exchange of country by country reports of multinational corporations

In addition to the system for exchanging banking information, the OECD has also developed a system for automatic exchange of so-called country by country reports (CBCR) of multinational corporations. These reports, which show the tax payments and economic activities of a company on a country by country basis, are important tools in the fight against corporate tax avoidance. Under the OECD rules, multinational corporations report the information to the tax administration of the country where they are headquartered, which is then shared confidentially with other countries through an automatic information exchange system.[64]

In order to join the system, countries are first required to sign on to the OECD's Multilateral Competent Authority Agreement on the Exchange of Country-By-Country Reports.[65] However, similar to the system on exchange of banking information, countries are unable to receive information automatically from other signatories until they enter into direct exchange agreements with them.[66] This requirement introduces the same problems as in the case of automatic exchange of banking information, namely that especially smaller and less powerful developing countries might not have the resources and political power to obtain such agreements.

Furthermore, the OECD system imposes strict limitations on how countries are allowed to use the information they receive. Specifically, the OECD rules come with a narrow definition of 'appropriate use',[67] which among other things prohibits countries from using the information to tax corporations on the basis of 'formulary apportionment' (see above under 'Taxation of multinational corporations').

Lastly, the discussion around (confidential) exchange of country by country reports between countries comes with the question of whether this information should instead just be public. Publication would ensure not only equal access for all countries but also that journalists, parliamentarians, civil society, academics and the broader public could see how much tax multinational corporations pay in each country where they operate. Whereas the discussion around wealthy individuals often concerns tax *evasion*, which refers to illegal practices, the key issue regarding taxation of multinational corporations relates to tax *avoidance*, which refers to tax practices that are often legal from a technical perspective but still allow the corporation to circumvent the spirit of the tax laws. Country by country reports are an important tool for exposing large-scale corporate tax avoidance. However, if the information is confidential and only available to tax administrations, who are mandated to administer the law but not to change it, there is a risk that they will be left as silent witnesses to a problem they have no mandate to speak about or address. Public country by country reporting has, for a long time, been a key ask from civil society organisations, and was in fact already introduced for banks in the European Union over a decade ago.[68]

Global tax governance

Currently, there is no truly global agreement on international tax matters. For the last half a century, the OECD has led several processes to develop standards that are often referred to as 'global', but the processes through which they were developed have been far from globally inclusive.

OECD-led tax processes

As mentioned above, the OECD's agreement on automatic information exchange was initially negotiated among fewer than 50 countries and is today administered by the OECD's Global Forum which, despite the name, does not have a global membership.

A similar picture has emerged on the issue of corporate taxation. When the OECD's first reform package – the so-called BEPS package – was negotiated in 2013-2015, it was, according to the OECD, "developed by 44 countries including all OECD and G20 Members participating on an equal footing, as well as through widespread consultations with more than 80 other jurisdictions in addition to input from stakeholders including business, academics and civil society".[69] In other words, the process was far from global and did not allow countries to participate on an equal footing. After the adoption of the package, the OECD established the so-called Inclusive Framework with the key purpose to implement the BEPS package. While all countries have been invited to become members of the Inclusive Framework, it is on the condition that they commit to implementing the BEPS agreement, which is almost 2,000 pages long, as well as to paying an annual membership fee of around 20,000 Euros to the OECD.[70]

As of today, 128 out of the 193 UN member states have chosen to join the Inclusive Framework while 65, or roughly one-third, have not. Among the 54 members of the African Group at the UN, half have joined the Inclusive Framework, and among the least developed countries, 12 out of 45 countries have joined.[71] Similar to the OECD's Global Forum, the Inclusive Framework has jurisdictions such as the British Virgin Islands, the Cayman Islands and Jersey as individual members, even though they are territories of another member (ie, the United Kingdom), and therefore the total number of members of the Inclusive Framework is higher than 128, namely 145.[72]

While the OECD has presented the Inclusive Framework as being 'consensus-based',[73] the central agreement on Pillar 1 and Pillar 2 was adopted in October 2021 despite the fact that four developing country members of the Framework, namely Kenya, Nigeria, Pakistan and Sri Lanka, did not endorse the outcome.[74]

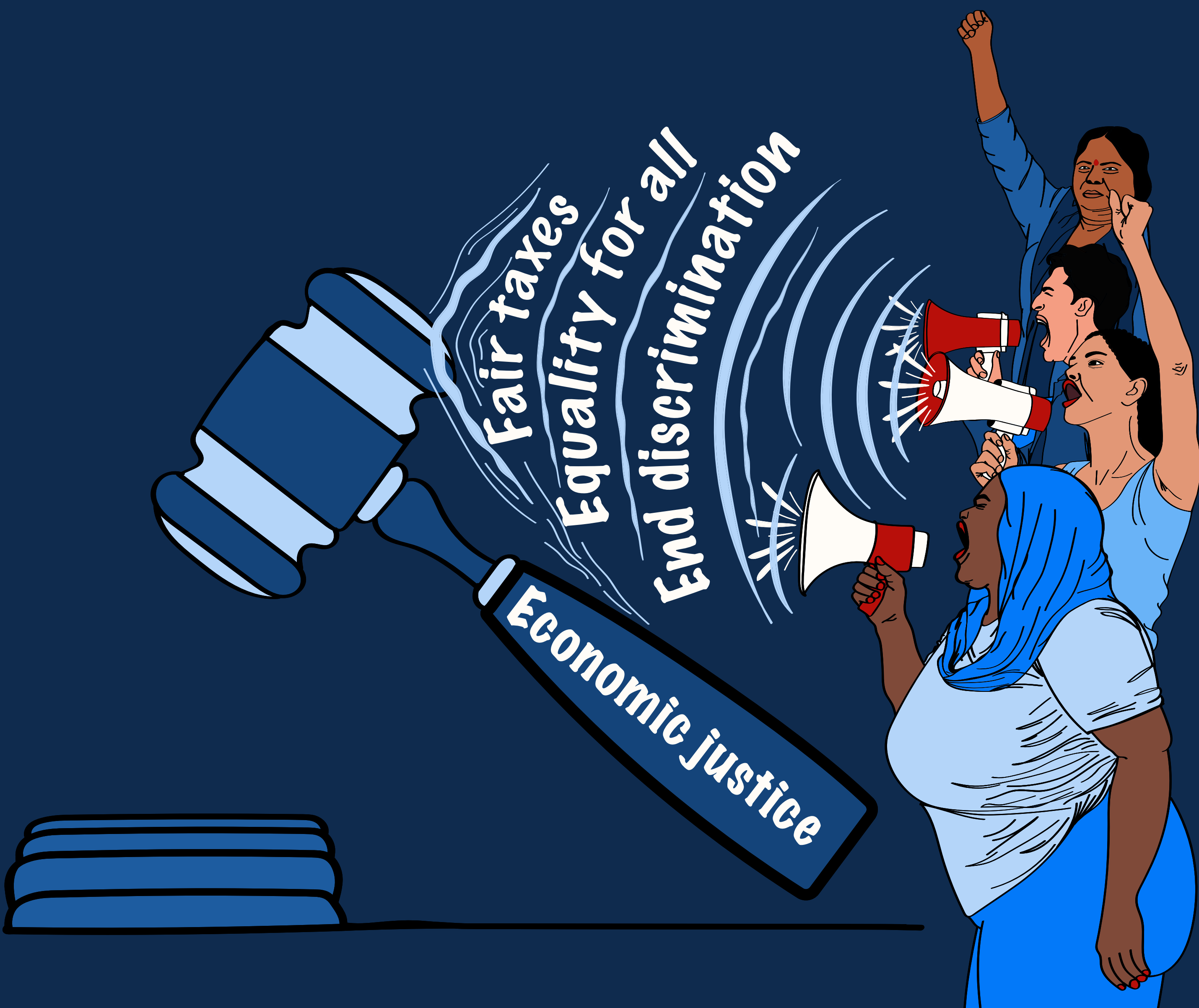
The UN Framework Convention on International Tax Cooperation

For well over a decade, the developing country negotiating group, G77, has been calling for an intergovernmental tax process to be set up at the UN to ensure that all countries are able to participate in global tax governance on an equal footing.[75] Until quite recently, this proposal was consistently blocked by OECD countries, which instead advocated for the OECD to continue leading the development of global tax standards.[76]

However, over the last few years, there has been a rapidly growing recognition of the fact that action is needed to strengthen the inclusiveness and effectiveness of global tax governance. At the end of 2022, all UN member states agreed – by consensus – to a landmark UN resolution on international tax cooperation. This resolution, which had been put forward by the Africa Group at the UN General Assembly, mandated an intergovernmental tax negotiation to be initiated under the auspices of the UN, where all countries would be able to participate on an equal footing.[77]

In 2023, the Africa Group followed up with a resolution that proposed the negotiation of Terms of Reference for a new UN Framework Convention on International Tax Cooperation. In a historic vote at the 2nd Committee of the UN General Assembly, the resolution[78] was adopted with an overwhelming majority, namely 125 votes in favour, 48 votes against and 9 abstentions.[79] Following the adoption of the resolution, an ad hoc committee was established to begin the negotiations of the Terms of Reference, and in February 2024, at the organisational session of the new committee, all UN member states reached consensus on a roadmap towards finalising the Terms of Reference by the end of August 2024, in line with the mandate of the 2023 resolution.[80]

FOCUS COUNTRIES



BANGLADESH

Bangladesh is registered by the UN as one of the world's least developed countries.[81] Although poverty rates have been reduced substantially over the last 20 years, by 2022, over 18 per cent of Bangladeshis were still counted as living in poverty and over 5 per cent were considered as living in extreme poverty. Meanwhile, income inequality is high and on the rise.[82]

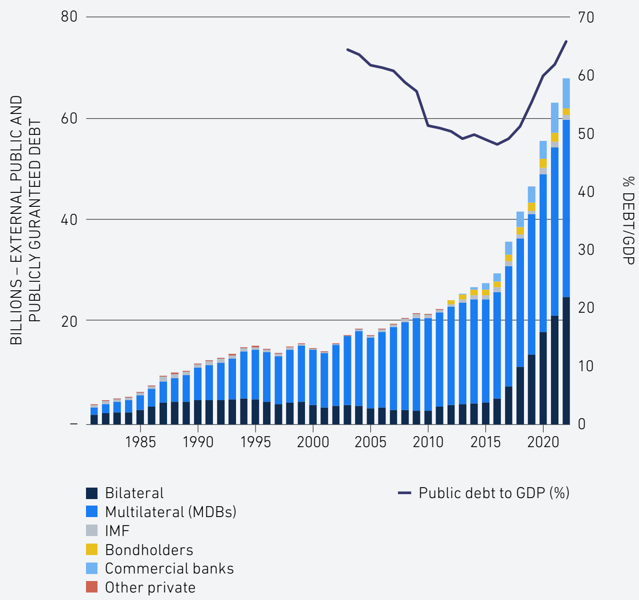
Civic space in Bangladesh is also heavily under pressure and, in 2023, the UN Special Rapporteur on Extreme Poverty and Human Rights expressed that he was "deeply concerned that civic space has been severely restricted in recent years". This includes suppression of civil society organisations and voices of dissent.[83]

Debt management

After the 1980s and 1990s debt crisis, Bangladesh managed to stabilise its external debt stock, particularly during the two decades between 1997 and 2016. External debt levels have been increasing both in absolute terms and in relative terms since 2016. Despite the steady debt increase, according to the IMF, Bangladesh is currently at a low risk of debt distress.[84] External public debt to Gross Domestic Product (GDP) ratios remain below 20 per cent, but together with domestic debt, total public debt in 2023 was at 39.8 per cent of GDP, with the IMF projections indicating a further increase up to 43.3 per cent in 2029.[85] The majority of public debt accumulated over the last decade is domestic and denominated in local currency.

BANGLADESH

External debt stock per creditor and % Debt/GDP



Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)[86]

While Bangladesh had been in a relatively safe zone in terms of debt payments, at least up until the outbreak of the Covid-19 pandemic, since 2020 debt servicing has increased substantially and debt is therefore becoming a rising concern. In 2023, the debt service to revenue ratio, including both domestic and external debt, reached 72.82 per cent, up from 61.83 per cent in 2021. Furthermore, in 2023, debt service was 43.54 per cent of Bangladesh's public expenditure.[87] In comparison, the Low-Income Countries Debt Sustainability Methodology of the IMF and World Bank assesses that such countries are able to sustainably carry their debt when the ratio of debt servicing to public expenditure is within the range of 14-23 per cent.

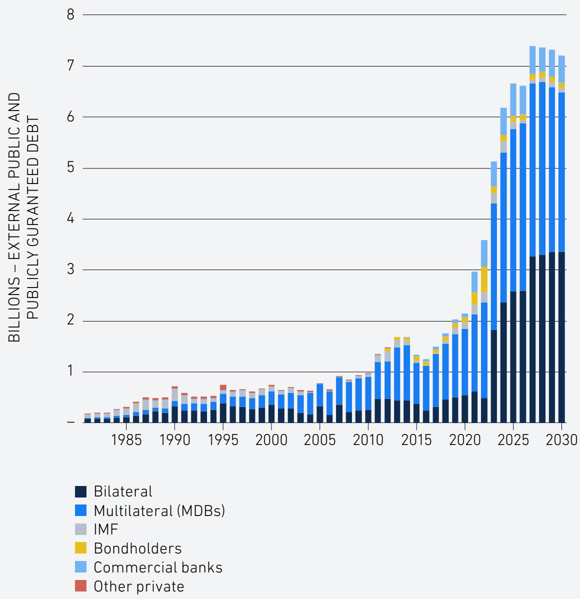
	Debt Service % Revenue	Debt Service % Expenditure
2021	61.83	39.45
2022	59.33	42.82
2023	72.82	43.54

Source: Debt service watch, Development Finance International (February 2024)

The increased level of debt service to revenue ratio means that today, if the government earns Tk100 in taxes, it has to spend more than Tk72 to pay off loans. This simply implies that because of higher debt servicing payment, there is less availability of resources for development and other priority expenditures, including those required for post-pandemic economic recovery. Resources that could have been spent on essential sectors like health, education or public investment are now being dedicated to interest payments. And what is more concerning, according to World Bank projections, debt service will keep increasing over the coming years, peaking in 2027. This is without considering domestic debt payments. This means that in the coming years Bangladesh will no longer be in a comfortable debt situation, as many loans are maturing.

BANGLADESH

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

If we look at the creditor composition of Bangladeshi debt, the main creditors are multilateral institutions, namely the World Bank (26.59% of Bangladeshi external debt) and the Asian Development Bank (19.81%), followed by Japan (15.18%) and China (8.83%).

BANGLADESH	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	68,549,392,380.70	100.00%
PPG, bilateral (disbursed and outstanding (DOD), current US$)	**25,300,788,100.60**	**36.91%**
Belarus	26,958,000.00	0.04%
China	6,053,261,612.80	8.83%
Denmark	333,845.80	0.00%
France	588,805,864.00	0.86%
Germany, Fed. Rep. of	83,852,892.20	0.12%
India	1,166,016,000.00	1.70%
Japan	10,402,676,215.90	15.18%
Korea, Republic of	785,965,152.80	1.15%
Kuwait	181,110,929.50	0.26%
Russian Federation	5,859,504,000.00	8.55%
Saudi Arabia	115,997,066.70	0.17%
Switzerland	551,313.30	0.00%
United Arab Emirates	35,755,207.60	0.05%
PPG, multilateral (DOD, current US$)	**35,100,842,003.60**	**51.21%**
Asian Dev. Bank	13,577,537,000.00	19.81%
Asian Infrastructure Investment Bank	1,143,373,000.00	1.67%
European Investment Bank	179,126,937.20	0.26%
International Fund for Agricultural Dev.	549,865,295.60	0.80%
Islamic Dev. Bank	681,800,223.80	0.99%
Multiple Lenders	415,387,000.00	0.61%
Nordic Development Fund	30,583,547.00	0.04%
OPEC Fund for International Dev.	297,317,000.00	0.43%
World Bank-IDA	18,225,852,000.00	26.59%
PPG, private creditors (DOD, current US$)	**7,206,851,739.80**	**10.51%**
Bondholders	1,266,310,000.00	1.85%
Denmark	7,362,739.80	0.01%
Multiple Lenders	5,933,179,000.00	8.66%
Use of IMF credit (DOD, current US$)	940,910,536.70	1.37%
International Monetary Fund	940,910,536.70	1.37%

Source: World Bank International Debt Statistics (December 2023)

In the case of Bangladesh, while domestic debt has the benefit of being paid in domestic currency (so there is no need to use foreign exchange revenues), it is also more expensive than external debt. The government also has more flexibility in managing domestic debt than external debt. According to the IMF, “lack of household savings and capital market development could pose risk to a shortfall of additional domestic debt absorption, requiring higher for longer domestic interest rates or higher share of external debt” in the upcoming years.[88]

Bangladesh was also granted a new loan in 2023 from the IMF under the Resilience and Sustainability Facility (RSF) of US$3.3 billion. The loan is aimed at overcoming balance of payments challenges particularly due to energy shocks. Bangladesh is very dependent on fossil gas imports, so the spikes in prices due to the Russian invasion in Ukraine led to an increase of the energy imports bill and even energy blackouts. Recourse calculates that the Bangladesh Power Development Board (BPDB) requires around US$6 billion between April 2023 and June 2024 “only to cover its expenses to import fossil fuels and paying the charges to private power producers”.[89] Loans under the RSF can provide fiscal space at concessional rates, but they come with conditionalities attached. In the case of Bangladesh two of the proposed reforms are: the adoption of an updated Public-Private Partnerships (PPP) framework, which, as the IMF acknowledges, can potentially lead to debt increases; and the reduction of energy subsidies, with concerning regressive impacts.

Tax and illicit financial flows

Domestic resource mobilisation

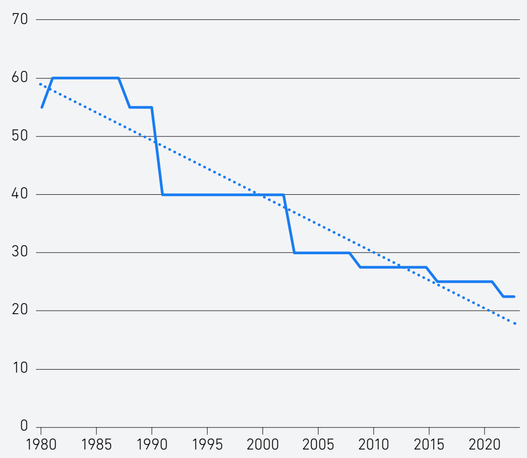
The domestic revenue mobilisation of Bangladesh is quite low. For the fiscal year 2020, the tax revenue amounted to 10.2 per cent of GDP, while the average for the Asia Pacific region was almost twice as high (19.1% of GDP for 2020). For 2019, the tax revenue of Bangladesh was as low as 9 per cent of GDP.[90]

In terms of the source of tax revenue, Bangladesh relies heavily on consumption tax (value added taxes/goods and services tax), which made up 33 per cent of the tax revenue in 2020, while corporate income tax made up less than half of that (16%) and personal income tax even less (11%).[91]

BANGLADESH

Corporate Income Tax Rate

At the start of the 1980s, Bangladesh increased its corporate income tax rate from 55 to 60 per cent, where it remained until 1987. However, since then, the rate has been drastically reduced; the latest cut was introduced in 2022, from 25 to 22.5 per cent – well below half of what it was in the early 1980s.[92]



Source: See endnote 92

While the tax rate on corporations has been declining, a value added tax at a rate of 15 per cent was introduced in 1991[93] and has remained at the same level since then.[94]

The drop in the corporate income tax rate and the introduction of a value added tax indicates that the tax system in Bangladesh has been moving in a more regressive direction over the last few decades. Furthermore, the potential for progressive tax collection in Bangladesh is undermined by tax-related illicit financial flows, including the possibility for wealthy individuals and large multinational corporations to hide financial assets abroad.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Bangladesh a total of US$396.9 million annually, corresponding to over 30 per cent of the country's health expenditures. This impact is relatively high – among the nine focus countries, only Morocco, the Philippines and Zambia experience a higher loss compared to their health spendings. Of the tax loss in Bangladesh, it is estimated that the lion's share – US$371 million – stems from corporate tax abuse and the remaining US$25.9 million from offshore wealth.[95]

Access to information

Bangladesh is not a signatory to the OECD-led system for automatic exchange of financial account information[96] and therefore it does not have any agreements in place to exchange tax-relevant banking information automatically with other countries or jurisdictions.[97]

Bangladesh is also not a signatory to the OECD-led system for automatic exchange of country by country reporting information for multinational corporations[98] and therefore it also does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[99]

This means that Bangladesh lacks access to information that could be important for combating tax evasion and avoidance by wealthy individuals and multinational corporations. Even if Bangladesh were to sign on to the central OECD agreements it is uncertain how much information Bangladesh would receive since the systems rely on bilateral exchange agreements between countries and come with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

Bangladesh is not a member of the OECD's Global Forum[100] nor of the OECD's Inclusive Framework.[101] In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[102] Bangladesh voted in favour of the resolution,[103] and together with all other UN member states, Bangladesh is now participating in the process to develop Terms of Reference for such a convention.

ECUADOR

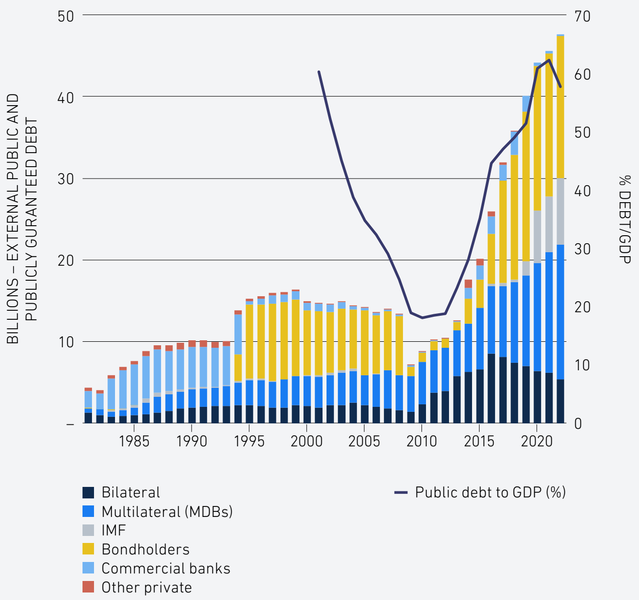
Ecuador is an upper-middle-income country[104] currently facing a financial crisis. During the period 2007-2017, Ecuador experienced economic and social progress, partly thanks to the reduction of its external debt after a debt audit,[105] but during the last few years, the situation has taken a sharp turn in a negative direction. The country was already experiencing a recession prior to the Covid-19 pandemic and, despite a mild post-pandemical bounce-back, the negative developments have continued. As a result, inequalities, poverty-levels and violence have sky-rocketed. Severe debt distress and harsh austerity programmes, linked to an IMF reform programme, are central elements of the recent social and economic developments in Ecuador.[106]

Debt management

Ecuador has gone through several economic and debt crises. The debt crisis between 1998 and 2000 led to an unprecedented reduction of social expenditure, an increase in extreme poverty from 2.1 to 4.5 million people, massive unemployment and subemployment, and one of the biggest migration processes out of the country, with around 10 per cent of the economically active population leaving the country between the years 1999 and 2000. After a series of debt restructurings and with the oil and commodity prices rising, the country managed to recover economically. In 2007-2008, the Ecuadorian government undertook a comprehensive debt audit that led to a massive debt buyback from financial markets at a high discount rate. That operation led to the biggest decrease of external debt stock in Ecuador. As highlighted by Eric Toussaint and CADTM: "In broad figures, Ecuador repurchased 3.2 billion dollars' worth of debt while disbursing 900 million dollars, which represents a saving of 2 billion on the capital due, to which are added the savings on the interest that will no longer have to be paid."[107] From that moment, Ecuador entered a new process of indebtedness, particularly after 2013. Public external debt has tripled between 2013 and 2022, particularly due to an increase in bonds issuance after 2015. The impacts of the world economic recession in 2009 and, particularly, the collapse in oil prices after 2014 drove the debt accumulation.

ECUADOR

External debt stock per creditor and % Debt/GDP



Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

In 2017, a new government adopted a set of austerity measures and in 2019 returned to the IMF for financial assistance, which was renewed after completion in 2022. When the Covid-19 pandemic hit, Ecuador was already in crisis, a situation that has worsened since then. Jake Johnston and Ivana Vasic-Lalovic from CEPR highlight: "In early 2020, Ecuador became one of the global hotspots of the outbreak, experiencing one of the highest per capita death rates in the world. That year, poverty and inequality reached their highest levels in a decade."[108] Public debt had increased from 30.9 to 68.9 per cent of GDP between 2015 and 2020. As a result, the country allocated 29 per cent of government revenues to meet creditor claims in 2019. This figure is equivalent to 2.3 times the public health budget of the country or 1.9 times its education budget.[109]

The increases in food and energy prices, rising interest rates and the appreciation of the dollar are causing an intensification of a new debt crisis in Ecuador. In April 2020 Ecuador defaulted temporarily on payments of external bonds. This eventually led to a debt restructuring process, which was completed on 1 September 2020. Ecuador exchanged bonds to the value of US$17.4 billion with a participation of 98.5 per cent of the bondholders. The IMF explicitly endorsed the outcome of the negotiations with a new programme.[110]

Most of Ecuador's external debt was owed, in 2022, to bondholders (36.64%) through investment funds in the international financial markets. The debt to the IMF (17.05%), the Inter-American Development Bank (16.12%) and the World Bank (9.15%) follow. Up to 8.7 per cent of Ecuador's debt is owed to China. In 2022 the government of Ecuador reached an agreement with Chinese creditors (Chinese Development Bank and China Exim Bank) to reprofile US$3.2 billion of debt, spreading debt payments over a longer period and lowering debt service by US$400 million per year on average between 2022 and 2024.[111] In 2023 Ecuador also signed an agreement for a debt-for-nature swap, delivering savings in bondholder debt payments, but also raising concerns around transparency, costs and sovereignty breaches in the operation.[112]

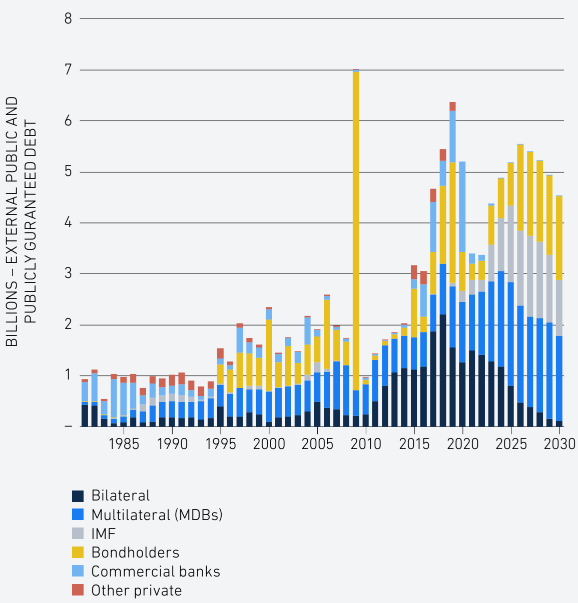
ECUADOR	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	47,597,378,628.00	100.00%
PPG, bilateral (DOD, current US$)	**5,322,120,521.00**	**11.18%**
Belgium	2,213,195.00	0.00%
Brazil	14,715,000.00	0.03%
China	4,144,842,992.00	8.71%
France	642,550,178.00	1.35%
Germany, Fed. Rep. of	18,230,327.20	0.04%
Italy	8,731,187.60	0.02%
Japan	92,355,031.00	0.19%
Korea, Republic of	72,366,283.50	0.15%
Norway	322,113.20	0.00%
Russian Federation	73,084,000	0.15%
Spain	247,898,213.80	0.52%
United States	4,812,000.00	0.01%
PPG, multilateral (DOD, current US$)	**16,569,194,462.00**	**34.81%**
Corporacion Andina de Fomento	4,039,705,000.00	8.49%
European Investment Bank	470,387,589.80	0.99%
Inter-American Dev. Bank	7,674,824,000.00	16.12%
International Fund for Agricultural Dev.	31,410,871.70	0.07%
World Bank-IBRD	4,352,801,000.00	9.15%
World Bank-IDA	66,000.00	0.00%
PPG, private creditors (DOD, current US$)	**17,592,774,239.00**	**36.96%**
Austria	17,003,737.20	0.04%
Bondholders	17,439,945,000.00	36.64%
Spain	69,629,000.00	0.15%
United Kingdom	66,196,501.80	0.14%
Use of IMF credit (DOD, current US$)	**8,113,289,407.00**	**17.05%**
International Monetary Fund	8,113,289,407.00	17.05%

Source: World Bank International Debt Statistics (December 2023)

Despite the different debt restructuring efforts, according to World Bank data, Ecuador will be paying more than US$35 billion in external debt service between 2024 and 2030, an average of US$5 billion per year. Adding external and domestic debt payments, total debt service in Ecuador is at 17.7 per cent of public revenue and 18.53 per cent of public expenditure. Given the dire social situation and recent security conflicts in Ecuador, its high debt levels and increasing debt service will hamper the ability of the Ecuadorian government to provide basic public goods to its citizens. Therefore, the expected impact of the weight of debt service on public investment and social spending threatens the essence of the human rights of Ecuadorians.

ECUADOR

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

Tax and illicit financial flows

Domestic resource mobilisation

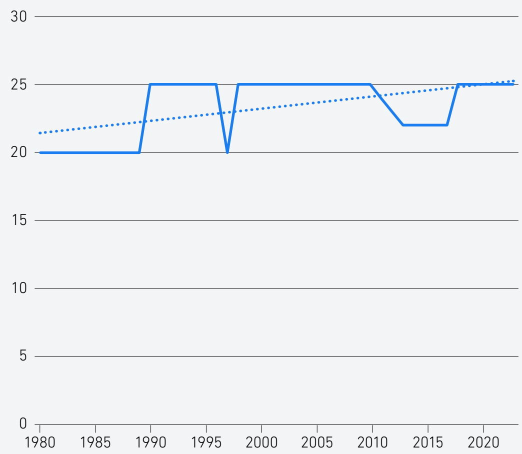
For the fiscal year 2021, the tax revenue of Ecuador amounted to 19.4 per cent of GDP. This was slightly below the average for the Latin American and Caribbean Region, which amounted to 21.7 per cent of GDP in the same year.[113]

In terms of the source of tax revenue, Ecuador relies heavily on consumption tax (value added taxes/goods and services tax), which made up 32 per cent of the tax revenue in 2021.[114]

ECUADOR

Corporate Income Tax Rate

While the corporate income tax rate of Ecuador was 20 per cent in the 1980s, it has since been increased to 25 per cent.[115] On this point, the development in Ecuador has gone in the opposite direction of the global trend.[116]



Source: See endnote 116.

A value added tax was introduced in 1970.[117] In 2000, it was increased from 10 per cent to 12 per cent, where it has since remained.[118]

Ecuador's recent IMF programme has been linked to a planned tax reform. Originally, the government had committed to increasing the VAT rate, but that has since been taken off the table. A fuel subsidy reform was also revised following public protests. The government instead focused on measures such as increasing the income tax on the wealthier part of the population and introducing further spending cuts. At the same time, the IMF programme was linked to a reduction in custom duties and a tax on transfers abroad, with the argument that this was important for encouraging investment. The IMF notes that the Ecuadorian authorities have committed to removing the tax on transfers abroad over time, but that it has at this point in time been maintained, but lowered from 5 to 4 per cent.[119]

In an ex-post evaluation of the engagements with Ecuador, IMF staff note: "Multiple delays in reviews indicate that staff took a reasonably strong stance in urging the authorities to stick to their initial policy commitments of a sizeable tax reform and fuel subsidy reform. However, the change in government, the still very tangible impact of the pandemic in 2021, and the social unrest episodes in 2021 and 2022 suggested that some flexibility was needed to safeguard the broader objectives of stabilization and institutional reform."[120]

The recent experiences of Ecuador serve as an example of how indebted countries can be under pressure to introduce very unpopular, and in some cases regressive, tax reforms.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Ecuador a total of US$140.5 million annually, corresponding to roughly 3 per cent of the country's health expenditures. Of this loss, it is estimated that US$23.2 million stems from corporate tax abuse and the remaining US$117.3 million from offshore wealth.[121]

Access to information

Ecuador is a part of the OECD-led system for automatic exchange of financial account information.[122] As part of the OECD system, Ecuador currently has agreements to receive information automatically from 99 countries and jurisdictions, and to send information automatically to 79.[123] This means that Ecuador has relatively good access to information that is key to detecting international tax evasion, especially compared to most other developing countries.

Concerning country by country reporting information for multinational corporations, Ecuador is not a signatory to the OECD-led system for automatic exchange[124] and therefore it does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[125] This means that Ecuador lacks access to information that could be important for combating tax avoidance by multinational corporations. Even if Ecuador were to sign on to the central OECD agreement, it is uncertain how much information Ecuador would receive since the system relies on bilateral exchange agreements between countries and comes with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

Ecuador is a member of the OECD's Global Forum,[126] but not the OECD's Inclusive Framework.[127] Within the UN system, one of the 25 members of a UN Expert Committee on International Cooperation in Tax Matters is appointed by Ecuador.[128] In recent years the Ecuadorian expert has been leading a subcommittee on wealth tax.[129] In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[130] Ecuador voted in favour of the resolution.[131]

GRENADA

Grenada is an upper-middle-income country[132] with a small and largely tourism-based economy.[133] As a Caribbean island, Grenada is heavily exposed to the impacts of climate change, including the increasing risk of hurricanes.[134]

Debt management

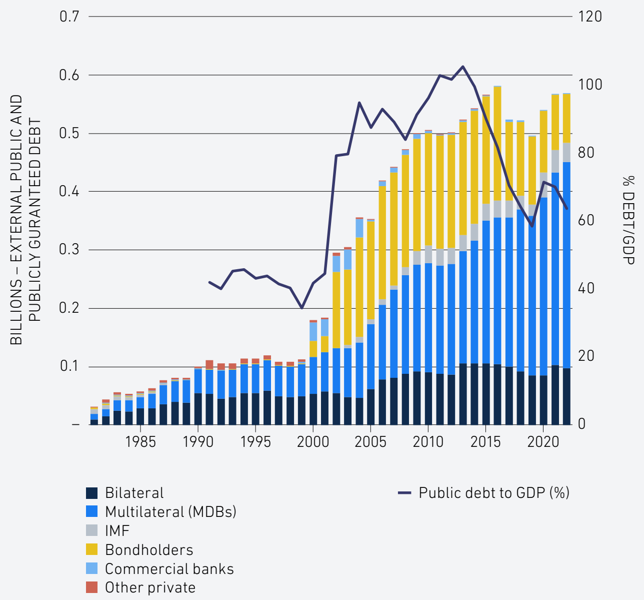
The confluence of high debt levels, climate vulnerabilities and other economic vulnerabilities represents an existential threat to the Caribbean region. Grenada is a perfect illustration of these dynamics and of the need for systemic solutions that address the complex developmental challenges faced by small island developing states.[135]

Grenada has undergone two severe debt crises in the last two decades. The first debt default was triggered by the impact of Hurricane Ivan in 2004. The storm destroyed 90 per cent of available housing[136] and caused damage estimated at 148 per cent of GDP,[137] which triggered a sovereign debt default and debt restructuring between 2004 and 2006.[138] A second default took place in 2013, after years of subdued growth, but also given the insufficient debt relief following the previous crisis.[139]

In parallel to the debt restructuring in 2015, following the default two years before, the country agreed to implement a long-term IMF adjustment programme, which managed to reduce debt to GDP ratios thanks to an ambitious fiscal consolidation.[140] While reducing the debt to GDP ratio from 105 per cent in 2013 to 58.5 per cent in 2019, the country also reduced its public expenditure from 27.62 per cent of GDP in 2013 to 21.64 per cent in 2019.

GRENADA

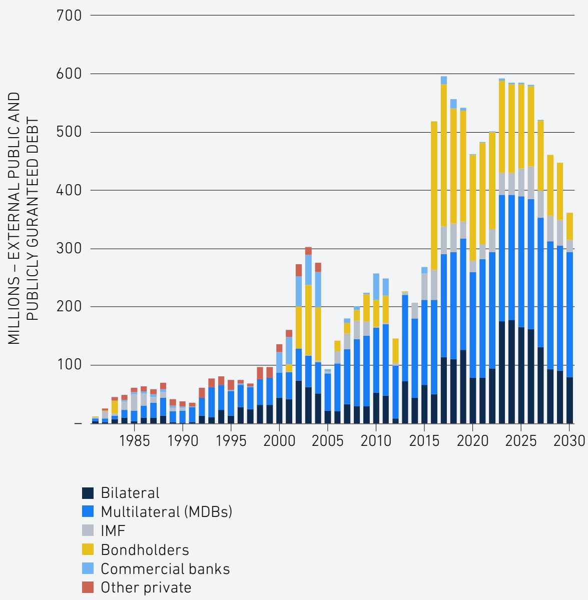
External debt stock per creditor and % Debt/GDP



Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

The Covid-19 pandemic hit the country, particularly due to its dependency on tourism, and debt increased in 2020 to 71.4 per cent of GDP. In absolute terms, external public debt has increased 15 per cent between 2019 and 2022.[141] Grenada applied for debt payments temporary suspension under the Debt Service Suspension Initiative (DSSI) but, as only bilateral creditors participated and most of Grenada's debt is owed to multilateral institutions, the debt payments temporarily deferred amounted to only US$1.4 million, 0.1 per cent of Grenada's GDP.[142] As Grenada has reopened to international tourism, debt to GDP is decreasing again, not because debt is being reduced but because of economic growth (so an increase in GDP). The IMF assesses external public debt in Grenada as sustainable. However, as Grenada has "outstanding arrears of about US$37.6 million to official bilateral creditors, including Trinidad and Tobago and Algeria", the country is classified as being in debt distress.[143]

GRENADA
External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

Debt payments increased substantially in 2023, probably due to the repayment of the deferred debt service within DSSI. Although the debt service to revenue ratio decreased between 2021 and 2023, it remains at over 30 per cent, which is way above the ratios that the IMF and World Bank consider as sustainable.

	Debt Service % Revenue	Debt Service % Expenditure
2021	**49.60**	**38.07**
2022	**34.96**	**28.55**
2023	**30.39**	**30.55**

Source: Debt service watch, Development Finance International (February 2024)

The main creditors of Grenada are multilateral institutions, namely the Caribbean Development Bank and the World Bank, followed by bondholders, the IMF, and Trinidad and Tobago as the main bilateral creditor.

Grenada	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	569,584,999.90	100.00%
PPG, bilateral (DOD, current US$)	**98,047,224.80**	**17.21%**
Algeria	612,000.00	0.11%
Austria	6,712,000.00	1.18%
Barbados	2,249,000.00	0.39%
China	23,764,242.80	4.17%
France	2,858,900.40	0.50%
Germany, Fed. Rep. of	3,395,000.00	0.60%
Kuwait	8,093,448.80	1.42%
Libya	5,000,000.00	0.88%
Multiple Lenders	10,673,000.00	1.87%
Trinidad & Tobago	29,903,000.00	5.25%
United Kingdom	1,141,632.80	0.20%
United States	2,261,000.00	0.40%
Venezuela, Republic Bolivarian	1,384,000.00	0.24%
PPG, multilateral (DOD, current US$)	**352,468,892.20**	**61.88%**
Caribbean Dev. Bank	128,924,892.20	22.63%
International Fund for Agricultural Dev.	2,567,000.00	0.45%
OPEC Fund for International Dev.	9,386,000.00	1.65%
World Bank-IBRD	11,944,000.00	2.10%
World Bank-IDA	199,647,000.00	35.05%
PPG, private creditors (DOD, current US$)	**85,510,326.40**	**15.01%**
Bondholders	84,239,074.10	14.79%
Italy	934,252.30	0.16%
United States	337,000.00	0.06%
Use of IMF credit (DOD, current US$)	**33,558,556.50**	**5.89%**
International Monetary Fund	33,558,556.50	5.89%

Source: World Bank International Debt Statistics (December 2023)

Tax and illicit financial flows

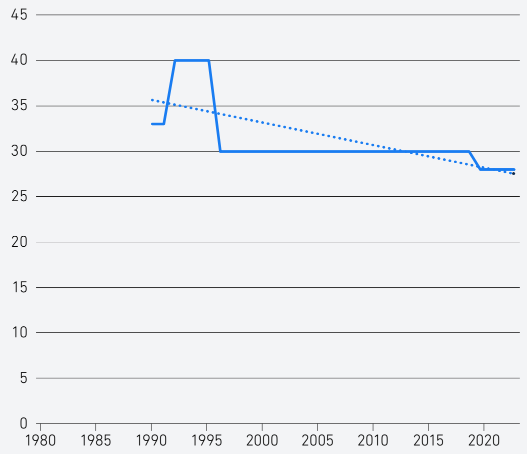
Domestic resource mobilisation

In the fiscal year 2021, the tax revenue of Grenada amounted to 21 per cent of GDP, which was a slight decrease of 1.1 percentage points compared to 2020.[144]

GRENADA

Corporate Income Tax Rate

While the corporate income tax rate of Grenada increased from 33 to 40 per cent in the 1990s, it has since been reduced and currently stands at 28 per cent.[145]



Source: See endnote 145.

Grenada went through a turbulent time in the 1980s, which had clear impacts on the tax system. In what the UN Economic Commission for Latin America and the Caribbean has described as a 'radical fiscal experiment',[146] Grenada introduced a value added tax of 20 per cent in 1986 as part of a larger fiscal reform, which included the abolition of individual income tax and company tax, with the latter instead being replaced by a business levy.[147] In the years leading up to the reform, Grenada had first experienced a military intervention by the US in 1983, and subsequently received proposals for a fiscal reform from the IMF and the United States Agency for International Development (USAID).[148] Grenada's 1986 fiscal reform proved to have strong negative impacts, including on public revenues, and, following a number of ad hoc measures, the corporation taxes were subsequently reintroduced[149] and the value added tax was gradually dismantled,[150] and eventually completely abolished in 1995.[151]

Since then, however, Grenada has reintroduced the value added tax. In a 'Letter of Intent' sent by the government of Grenada to the IMF in 2006, the government stated: "We will introduce a value-added tax (VAT) by January 1, 2008." In the same letter, the government furthermore added that "provided the revenue situation permits, we will announce a firm timetable to lower the corporate income tax in a gradual manner to promote higher private investment".[152] Less than a month after the letter was sent, the IMF Executive Board approved a three-year arrangement for Grenada under the IMF Poverty Reduction and Growth Facility amounting to an equivalent of over US$15.2 million, in order to support the medium-term economic reform programme of the government of Grenada.[153]

In 2010, a VAT was eventually reintroduced in Grenada at a rate of 15 per cent and it has remained at that level since.[154] In 2019, the corporate income tax rate was lowered from 30 to 28 per cent.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Grenada a total of US$3.2 million annually, corresponding to over 15 per cent of the country's health expenditures. Of this loss, it is estimated that US$0.6 million stems from corporate tax abuse and the remaining US$2.6 million from offshore wealth.[155]

Access to information

Grenada is a part of the OECD-led system for automatic exchange of financial account information.[156] As part of the OECD system, Grenada currently has agreements to receive information automatically from 94 countries and jurisdictions, and to send information automatically to 75.[157] This means that Grenada has relatively good access to information that is key to detecting international tax evasion, especially compared to most other developing countries.

Concerning country by country reporting information for multinational corporations, Grenada is not a signatory to the OECD-led system for automatic exchange[158] and therefore it does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[159] This means that Grenada lacks access to information that could be important for combating tax avoidance by multinational corporations. Even if Grenada were to sign on to the central OECD agreement, it is uncertain how much information Grenada would receive since the system relies on bilateral exchange agreements between countries and comes with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

Grenada is a member of the OECD's Global Forum,[160] as well as the OECD's Inclusive Framework.[161] In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[162] Grenada voted in favour of the resolution.[163]

KENYA

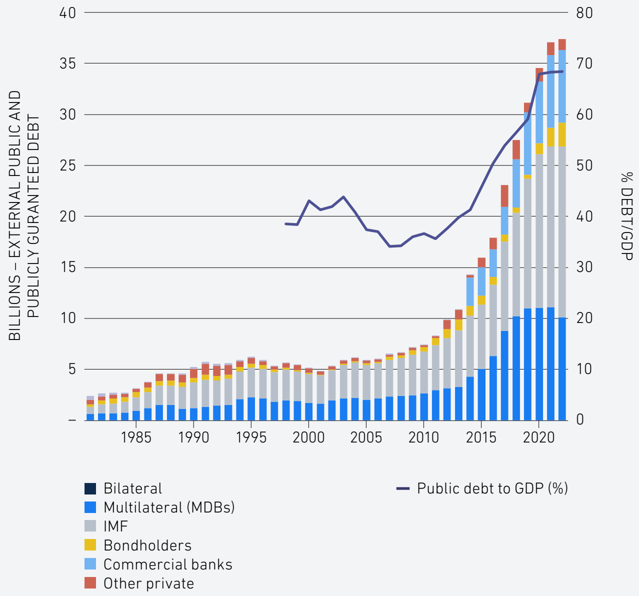
Kenya is a lower-middle-income country[164] with a GDP of around US$100 billion,[165] and is furthermore one of the most stable and geopolitically important economies within East Africa. And yet a number of factors, including the effects of illicit financial flows, debt distress, the Covid-19 pandemic and the challenges of climate change, have wiped out much-needed public resources and created a difficult economic situation, including a high risk of debt distress.[166]

Debt management

Kenya's external public debt multiplied by five between 2010 and 2022, going from US$7.4 billion to US$37.4 billion. Despite economic growth averaging 4.8 per cent in the last five years, public debt accumulation has been more acute, with the country going from a public debt to GDP ratio of 36.7 per cent in 2010, to 67 per cent in 2020 (in part due to the impact of the Covid-19 pandemic) and to 70.2 per cent in 2023.[167] Debt increase in 2023 meant that the country breached the public debt ceiling established by domestic law, which had already been increased in 2022.[168] Domestic debt also grew substantially, multiplying by seven in almost a decade, from KES.113.6 billion in 2012 to KES.780.6 billion in 2021.[169] The IMF and World Bank assess Kenya's debt as in high risk of debt distress.[170]

KENYA

External debt stock per creditor and % Debt/GDP

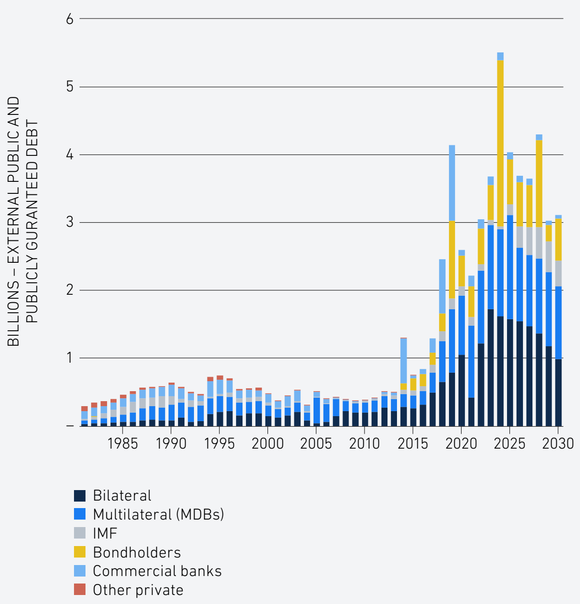


Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

As debt stocks are growing, and borrowing costs increase for Kenya, the amount of resources diverted to debt service has substantially increased. External public debt service multiplied by seven in the past decade, going from US$497 million in 2013 to US$3.69 billion in 2023. Between 2012 and 2021, debt service for domestic debt also increased from KES.82.3 billion to KES.546 billion.[171] The more resources spent on repaying debt, the smaller the amount remaining to provide basic services, which includes allocations to ministries, department agencies and county governments.[172]

KENYA

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

While debt stocks and debt payments have been increasing, there has also been considerable pro-poor public spending in Kenya over the past decade, but the rise in debt service costs has limited the volume of investments to pro-poor sectors.[173] For example, in the health sector, government expenditure represented 7.2 per cent of the total budget in 2020, against the Abuja target[174] of 15 per cent.[175] In fact, debt service, including both domestic and external debt payments, remains way above 30 per cent of public expenditure, amounting to more than 55 per cent of public revenue between 2021 and 2023. This means that over half of the revenue of the government is diverted to repaying both domestic and external debt.

	Debt Service % Revenue	Debt Service % Expenditure
2021	56.20	36.35
2022	56.65	35.92
2023	55.82	38.78

Source: Debt service watch, Development Finance International (February 2024)

In order to ease the burden of debt payments in the aftermath of the Covid-19 pandemic, despite initial reservations, Kenya participated in the G20 DSSI, aiming to defer up to US$686 million in debt repayment. In January 2021, Kenya made deals with Paris Club countries and other creditors to suspend up to US$361 million (0.3% of GDP).[176] The most significant of the benefits was an agreement with China on a US$245 million repayment holiday, providing the country with much-desired liquidity.[177] Notably, there remain disparities with regard to the actual volume of debt suspended: while according to the Central Bank of Kenya, deferred payments mounted up to US$600 million under DSSI, according to the IMF Kenya only deferred US$425 million from all creditors between January and June 2021.[178] Overall, Kenya's participation in the DSSI was beneficial in easing pressure on its already constrained fiscal space. With the expiry of the DSSI, there were increased efforts by the government to pursue opportunities for debt swaps to support post-pandemic recovery as well as debt-for-climate swaps.[179] As these possibilities didn't materialise, and with bonds maturities approaching, Kenya issued a US$1.5 billion Eurobond in order to buy back a previous US$2 billion Eurobond that was due to be paid back in June 2024. The new debt was issued at a staggering 10.375 per cent yield (interest rate), way above the 6.875 per cent of the previous government bond that it was replacing. As the African Sovereign Debt Justice Network (AfSDJN) stated, "a double-digit borrowing cost may not be worth avoiding a default".[180]

While Kenya has avoided default on its bondholder debt for now, the country faces very high debt payments in the upcoming years, with more than US$27 billion of debt service between 2024 and 2030 according to the World Bank, without counting the new issuance (since the World Bank data is from end 2023).[181]

Despite the importance of bondholder debt in Kenya's external public debt portfolio, multilateral institutions still hold most of Kenya's debt (44%), mainly the World Bank, African Development Bank and IMF. Bilateral creditors hold 27 per cent of Kenya's external public debt, mostly owed to China (17.88%), and almost 22 per cent of the country's debt is owed to private creditors, mainly bondholders (19%).

KENYA	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	37,388,369,026.00	100.00%
PPG, bilateral (DOD, current US$)	**10,119,631,310.00**	**27.07%**
Austria	2,729,429.40	0.01%
Belgium	94,370,634.80	0.25%
China	6,685,750,503.00	17.88%
Denmark	3,497,317.80	0.01%
Finland	6,336,670.60	0.02%
France	792,324,018.60	2.12%
Germany, Fed. Rep. of	349,326,824.40	0.93%
India	61,488,000.00	0.16%
Italy	9,033,035.40	0.02%
Japan	1,448,661,893.00	3.87%
Korea, Republic of	49,722,697.10	0.13%
Kuwait	11,050,482.00	0.03%
Saudi Arabia	23,169,333.20	0.06%
Spain	100,676,765.80	0.27%
United Arab Emirates	9,327,705.90	0.02%
United States	472,166,000.00	1.26%
PPG, multilateral (DOD, current US$)	**16,719,778,200.00**	**44.72%**
African Dev. Bank	3,435,417,479.00	9.19%
Arab African International Bank	6,613,000.00	0.02%
Arab Bank for Economic Dev. in Africa (BADEA)	40,833,000.00	0.11%
Eastern & Southern African Trade & Dev. Bank (TDB)	1,735,468,000.00	4.64%
European Economic Community (EEC)	9,934,312.40	0.03%
European Investment Bank	167,357,006.20	0.45%
International Fund for Agricultural Dev.	221,644,590.00	0.59%
Nordic Development Fund	14,307,372.40	0.04%
Nordic Investment Bank	8,959,440.00	0.02%
OPEC Fund for International Dev.	26,589,000.00	0.07%
World Bank-IBRD	579,576,000.00	1.55%
World Bank-IDA	10,473,079,000.00	28.01%
PPG, private creditors (DOD, current US$)	**8,197,776,462.00**	**21.93%**
Austria	16,453,371.60	0.04%
Belgium	89,361,881.20	0.24%
Bondholders	7,100,000,000.00	18.99%
France	16,208,053.60	0.04%
Germany, Fed. Rep. of	70,333,737.20	0.19%
Israel	20,535,000.00	0.05%
Italy	738,194,394.40	1.97%
Spain	21,270,137.20	0.06%
Switzerland	71,969,392.40	0.19%
United Kingdom	53,450,494.40	0.14%
Use of IMF credit (DOD, current US$)	**2,351,183,054.00**	**6.29%**
International Monetary Fund	2,351,183,054.00	6.29%

Source: World Bank International Debt Statistics (December 2023)

Kenya generally has a progressive framework for debt transparency. The Constitution of Kenya, 2010, provides that there will be openness and accountability in borrowing and management of public debt, and that fiscal reporting is clear.[182] The Public Finance Management Act (PFMA), 2012, obligates the Public Debt Management Office (PDMO) to maintain a reliable database for all loans taken by national government, county governments and their entities, including other loans guaranteed by national government.[183] The PFMA Regulations, 2015, direct national government entities and county treasuries to submit to the National Treasury a report on public debt as prescribed by the Accounting Standards Board within two months after the end of the financial year.[184] The Public Debt and Borrowing Policy, 2020, also provides that public debt and borrowing should be conducted transparently and openly.[185] Consequently, Kenya has publicly available and accessible information on public debt, with the National Treasury – which publishes periodic reports on domestic and external debt, including county governments' and state-owned enterprises' debt – and the Central Bank being the main data sources. However, information on debt is held by multiple institutions, in multiple places and is hardly systematised, meaning it arrives a year later.

Tax and illicit financial flows

Domestic resource mobilisation

For the fiscal year 2021, Kenya's tax revenue amounted to 15.2 per cent of GDP.[186] This is slightly below the average for Africa, which was 15.6 per cent of GDP for 2021,[187] but far below the East African Community recommended level of 25 per cent.[188] Whereas the average tax to GDP ratio for African countries has increased over the last decade, Kenya's tax to GDP ratio has been dropping and is currently below the 2010 level, which was 15.9 per cent of GDP.[189] This can be attributed to several reasons.

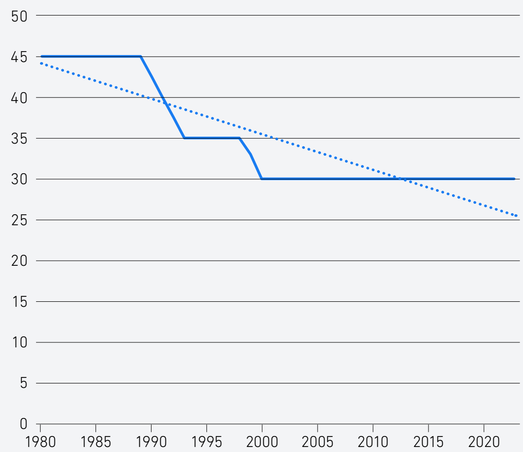
One main cause is overgenerous tax incentives. The latest estimates by the Kenya Revenue Authority suggest that the tax expenditure to GDP ratio reached 2.94 per cent in 2022, which was an increase from 2.44 per cent in 2021 and 2.23 per cent in 2020.[190] In this context, it is worth noting that the granting of tax incentives has not been preceded by proper cost–benefit analysis and neither is there a legal framework to guide the granting and monitoring of tax incentives.

As mentioned below, the country is at the same time faced with substantial revenue losses due to illicit financial flows, which also erodes the tax to GDP ratio. Furthermore, it is also an important factor that the tax compliance level is currently estimated to be as low as 70 per cent.[191] In its Mid-Term Revenue Strategy, the Kenyan government has set the targets of reaching a tax to GDP ratio of 20 per cent and a tax compliance rate of 90 per cent by the end of the financial year 2026-2027.[192]

Kenya introduced a VAT in 1990.[193] In 2004, it was reduced from 18 to 16 per cent, where it remained for 15 years.[194] As a progressive measure, in the context of the Covid-19 pandemic, the VAT rate was reduced to 14 per cent from 1 April 2020 with a view to reducing the cost of living.[195] The VAT rate was, however, reverted back to 16 per cent on 1 January 2021. Today, Kenya relies relatively heavily on the VAT as a source of tax revenue, and in 2021 it accounted for 24 per cent of the total. Another key source of tax revenue is the personal income tax, which brought in 22 per cent of the total in 2021.[196]

Corporate income tax has continued to perform poorly; in 2021, it only accounted for 11 per cent of the total tax revenues.[197] One key reason is that it is harder to administer it, a fact further exacerbated by the complexity of collecting taxes from emerging markets such as digitised services. Another important element is the rate. Since the 1980s, the corporate income tax rate of Kenya has been reduced from 45 to 30 per cent.[198]

KENYA
Corporate Income Tax Rate



Source: See endnote 198.

In its Mid-Term Revenue Strategy for 2024-2027, the Kenyan government has stated its intention to reduce the rate further – to 25 per cent. The government provides the reasoning that the current rate of 30 per cent is higher than the world average of 23 per cent and the African average of 29 per cent. Furthermore, it argues that "[s]tudies have shown that high rates of corporate income tax discourage foreign direct investments" and that "high rates contribute to increased tax planning and reduced compliance by taxpayers".[199] This is an example of what has become known as the global 'race to the bottom' on corporate tax – a phenomenon that has caused the global average corporate tax rate to drop from a level of over 40 per cent in the 1980s to its current rate.[200] It is not only problematic because it undermines a very important type of progressive tax, but also because the presumed benefits are highly questionable. As highlighted in an IMF Staff Working Paper in 2023: "[T]ax incentives for corporations—such as tax holidays, reduced rates, or exemptions—are often ineffective in attracting new investment and impose costs on society that go beyond the direct revenue forgone."[201]

Another way of taxing highly digitalised corporations is through digital services taxes (DSTs), and in 2021, Kenya introduced a DST of 1.5 per cent of gross transactional value of services provided through a digital marketplace in Kenya.[202] With this move, Kenya expected to raise up to KES13.9 billion over three years. In 2022, the Kenyan government was even planning to increase the DST rate from 1.5 to 3 per cent – a plan that was met with opposition from the OECD.[203] By March 2023, however, the Kenyan president instead announced that the Kenyan DST would be removed and that Kenya would sign up to the OECD deal on the digitalised economy (the so-called 'two-pillar solution').[204] As explained below (see under 'global tax governance'), this U-turn seems to have been linked to a free trade deal negotiation with the US.

Meanwhile, the government announced in its Mid-Term Revenue Strategy for 2024-2027 that it would explore options for introducing a carbon tax,[205] which is a type of tax that comes with risks of regressive impacts. At the same time, there has been little effort to enhance the collection of wealth taxes such as property taxes and capital gains tax.

The overall picture is that Kenya is quite reliant on regressive forms of taxes, which can exacerbate inequalities within the country. Furthermore, there is a clear risk that the country might currently be moving in the wrong direction.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Kenya a total of US$189.8 million annually, corresponding to over 9 per cent of the country's health expenditures. Of this loss, it is estimated that US$134.1 million stems from corporate tax abuse and the remaining US$55.7 million from offshore wealth.[206]

Access to information

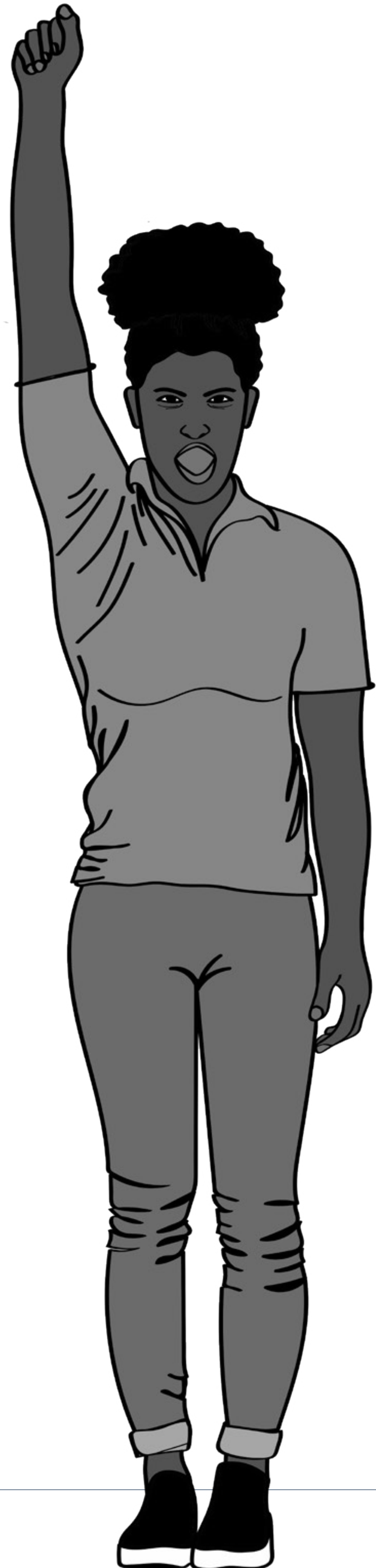
Kenya is a part of the OECD-led system for automatic exchange of financial account information.[207] As part of the OECD system, Kenya currently has agreements to receive information automatically from 77 countries and jurisdictions, and to send information automatically to 67.[208] Furthermore, Kenya is a part of the OECD-led system for automatic exchange of country by country reporting information for multinational corporations.[209] As a part of that system, Kenya currently has agreements to receive country by country reports automatically from 72 countries and jurisdictions, and to send information automatically to 58.[210]

This means that Kenya has relatively good access to information that is key to detecting international tax evasion as well as tax avoidance by multinational corporations, especially compared to most other developing countries.

Global tax governance

Kenya is a member of the OECD's Global Forum,[211] where Kenya is also one of 20 members of the Steering Group, as well as one out of three vice chairs.[212] Furthermore, Kenya is a member of the OECD's Inclusive Framework.[213] In October 2021, Kenya was one out of four developing country members of the Framework that did not endorse the political declaration on Pillar 1 and Pillar 2.[214] However, it has since been reported that Kenya was being pressured by, among others, the US to drop its opposition to the OECD deal, and in March 2023, Kenya accepted to comply with the two-pillar proposal, including the ban on DSTs, as part of a negotiation of a free trade agreement between the two countries.[215]

Kenya is also a member of the Africa Group, which tabled the resolutions at the UN General Assembly in favour of setting up an intergovernmental UN tax process[216] and negotiating a UN Framework Convention on Tax.[217] When a new ad hoc committee was set up at the UN to develop draft Terms of Reference for the new UN Framework Convention on International Tax Cooperation, Kenya became a member of the Bureau of the process.[218] In March 2024, Kenya made a submission to the process, in which it stressed that: "Having faced challenges within the current international tax governance structure, Kenya fully supports the development of a structure that will ensure fairness in the distribution of taxing rights worldwide while respecting the sovereignty and developmental priorities of each nation."[219]



MOROCCO

Morocco is a lower-middle-income country[220] with a GDP of around US130 billion.[221] Within recent years, Morocco has experienced a number of shocks, not least the earthquake in Al Haouz, which shook Morocco on 8 September 2023. Morocco's economy has previously proven quite resilient to shocks and, in response to the earthquake, Morocco has put in place a development plan to support the most affected provinces.[222]

Debt management

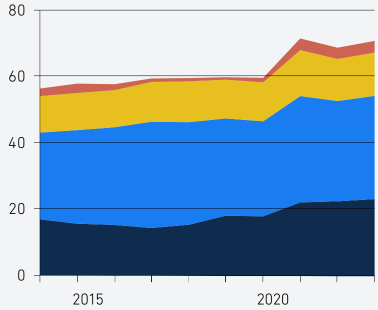
Morocco's public debt represents 71.4 per cent of the country's GDP, mostly issued under domestic law (according to the latest IMF reports, three-quarters of Morocco's debt is domestic). External debt, although it represents a small portion of the total public debt, has been growing since 2005, with a steep increase in 2020 due to the impacts of the Covid-19 pandemic. Most of the external debt is owed by Morocco to multilateral institutions, followed by international bondholders. According to the IMF, Morocco's debt is sustainable, particularly due to the "gradual process of fiscal consolidation" adopted after the debt increase in 2020.[223] Part of this fiscal consolidation has been achieved through the elimination of subsidies, particularly oil and other energy subsidies. Public expenditure has dropped from 34.14 per cent of GDP in 2020 to 32.71 per cent in 2023, and the IMF projects a further contraction by up to 30 per cent in 2026.[224]

MOROCCO

Public debt structure indicators

Public debt by holder (percent of GDP)

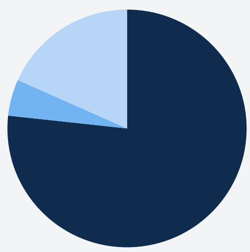
- Domestic central bank
- Domestic commercial bank
- Domestic other creditors
- External official creditors
- External private creditors



Note: the perimeter shown is central government

Public debt by governing law, 2022 (percent)

- Domestic law
- Foreign law ex. multilateral
- Multilateral

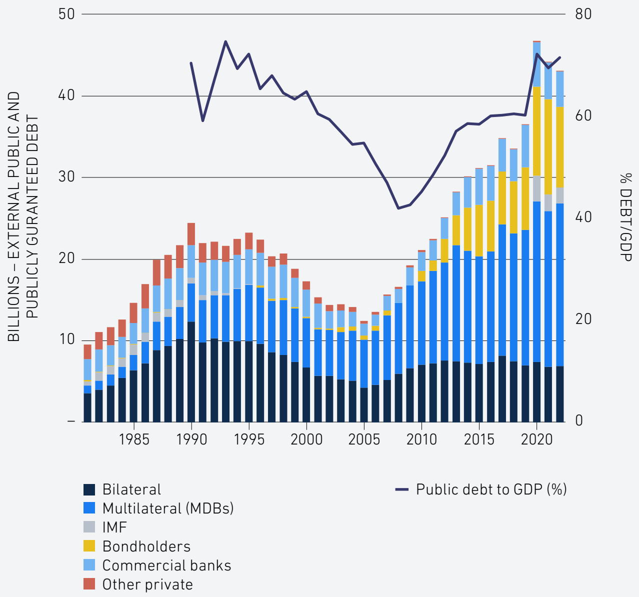


Note: the perimeter shown is central government

Source: IMF, 'Morocco's Sovereign Risk and Debt Sustainability Assessment', 27 October 2023 https://www.imf.org/en/Publications/CR/Issues/2023/10/26/Morocco-Request-for-an-Arrangement-Under-the-Resilience-and-Sustainability-Facility-Press-540896

MOROCCO

External debt stock per creditor and % Debt/GDP



Source: IMF, 'Morocco's Sovereign Risk and Debt Sustainability Assessment', 27 October 2023 https://www.imf.org/en/Publications/CR/Issues/2023/10/26/Morocco-Request-for-an-Arrangement-Under-the-Resilience-and-Sustainability-Facility-Press-540896

The dependency on energy imports, particularly oil and gas, and energy prices fluctuations are one of the main factors in Morocco's financing needs and therefore indebtedness. In fact, this is also due to the process of privatisation of most of Morocco's profitable public enterprises and liberalisation processes, including of the energy sector, in the 1980s, after a debt crisis. With the privatisation of the oil refining industry, Morocco's government dependency on external energy sources increased substantially.[225]

As a result of the phasing out of all energy subsidies, Morocco is planning to extend cash transfers by a reform of social protection, accessible to all citizens. Such a measure, together with public servant wage increases, will require additional resources, in a context of IMF prescribed fiscal consolidation. Furthermore, the high vulnerability of Morocco to climate change, particularly to intense and continuous drought, also poses a risk of increasing public debt. In fact, in 2023, the impacts of the third year of drought in a row, together with the reconstruction costs after the earthquake that hit the Atlas region in September 2023, affected, according to the IMF, the pace at which public debt was expected to fall. Water scarcity particularly affects agricultural production, damaging food exports and increasing dependency on food imports, affecting inflation by contributing to higher food prices.[226] This disproportionately affects rural vulnerable households and women.

In the face of energy dependency and high climate change vulnerability, Morocco is increasing investment in energy transition, mostly through public-private partnerships and multilateral lending. This strategy adds to the country's public debt.[227] Public debt payments, including both domestic and external debt, mounted up in 2023 to 60 per cent of both public revenue and public expenditure. This is double the already high percentage of revenue and expenditure that had been dedicated to paying public debt in previous years (between 30 and 38% – see table below).

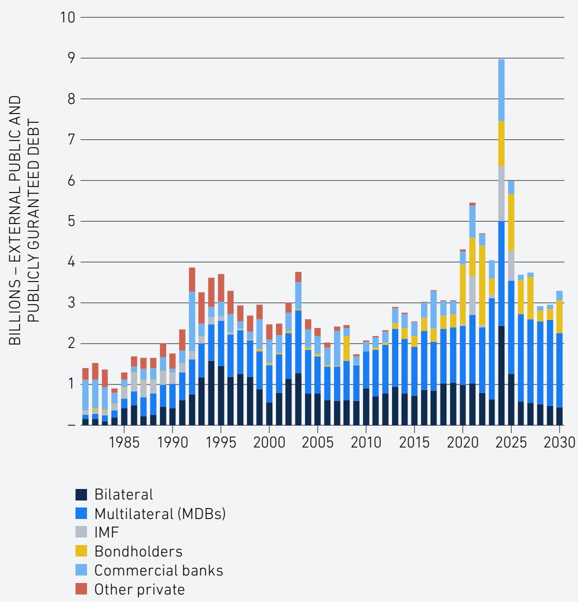
	Debt Service % Revenue	Debt Service % Expenditure
2021	38.53	37.79
2022	33.84	32.25
2023	60.64	60.17

Source: Debt service watch, Development Finance International (February 2024)

According to World Bank data, debt service will be particularly high in 2024, worsening the already high percentage of resources diverted to debt payments in 2023.

MOROCCO

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

As for the external debt creditor composition, most of Morocco's debt is owed to multilateral institutions, particularly the World Bank, African Development Bank and European Investment Bank. Bondholders internationally hold 23 per cent of Morocco's external debt, and only 16 per cent is bilateral debt, owed mainly to France (5%) and Germany (5%).

MOROCCO	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	43,059,873,681.00	100.00%
PPG, bilateral (DOD, current US$)	**6,893,094,316.00**	**16.01%**
Canada	42,381,466.70	0.10%
China	366,045,260.20	0.85%
Finland	8,854,913.20	0.02%
France	2,168,515,793.00	5.04%
Germany, Fed. Rep. of	2,178,995,980.00	5.06%
Italy	157,210,440.40	0.37%
Japan	859,645,684.30	2.00%
Kuwait	287,407,286.60	0.67%
Netherlands	78,485,761.00	0.18%
Portugal	150,230,610.00	0.35%
Saudi Arabia	249,184,266.70	0.58%
Spain	247,106,962.00	0.57%
United Arab Emirates	86,010,891.70	0.20%
United States	13,019,000.00	0.03%
PPG, multilateral (DOD, current US$)	**19,907,293,816.00**	**46.23%**
African Dev. Bank	4,665,652,120.00	10.84%
Arab Fund for Economic & Social Development	1,304,257,474.00	3.03%
Arab Monetary Fund	387,664,741.90	0.90%
European Bank for Reconstruction and Dev. (EBRD)	650,263,356.00	1.51%
European Development Fund (EDF)	2,668,633.20	0.01%
European Investment Bank	3,130,202,379.00	7.27%
International Fund for Agricultural Dev.	34,957,560.90	0.08%
Islamic Dev. Bank	837,907,847.20	1.95%
OPEC Fund for International Dev.	224,277,703.40	0.52%
World Bank-IBRD	8,668,951,000.00	20.13%
World Bank-IDA	491,000.00	0.00%
PPG, private creditors (DOD, current US$)	**14,263,486,065.00**	**33.12%**
Austria	458,638.00	0.00%
Bondholders	9,896,786,409.00	22.98%
France	1,266,267,520.00	2.94%
Germany, Fed. Rep. of	13,209,841.00	0.03%
Ireland	39,805,270.40	0.09%
Multiple Lenders	1,823,516,955.00	4.23%
Portugal	6,415,599.00	0.01%
Spain	143,475,832.20	0.33%
United Kingdom	1,066,600,000.00	2.48%
United States	6,950,000.00	0.02%
Use of IMF credit (DOD, current US$)	**1,995,999,484.00**	**4.64%**
International Monetary Fund	1,995,999,484.00	4.64%

Source: World Bank International Debt Statistics (December 2023)

Tax and illicit financial flows

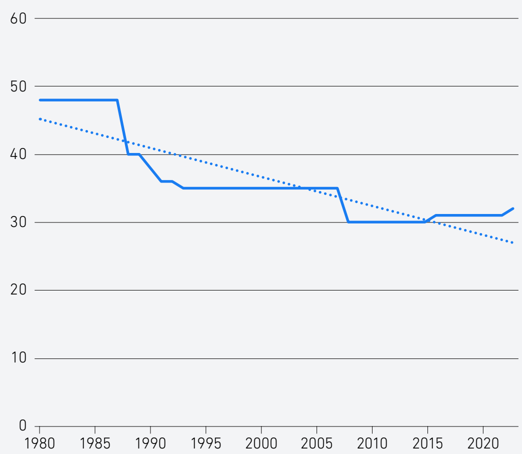
Domestic resource mobilisation

In the fiscal year 2021, the tax revenue of Morocco amounted to 27.1 per cent of GDP, which is among the highest levels in Africa.[228]

MOROCCO

Corporate Income Tax Rate

Since the 1980s, the corporate income tax rate of Morocco has been reduced substantially. Starting at 48 per cent in the 1980s, it went down to 30 per cent during 2008-2015, but has since been increased again, reaching 32 per cent in 2023.[229]



Source: See endnote 229

A VAT was introduced in 1986.[230] In 1996, it was increased from 19 to 20 per cent and has remained at that level since.[231] Today, VAT accounts for a relatively large share of Moroccan tax revenues – amounting to 27 per cent for the fiscal year 2021. Meanwhile, corporate income tax contributed only 14 per cent.[232] Thus, the overall picture shows that Morocco is quite reliant on regressive taxes.

Morocco is currently considering introducing a carbon tax, one key reason for this being an EU policy framework known as the Carbon Border Adjustment Mechanism (CBAM).[233] This mechanism, which will impose levies on a range of products imported into the EU on the basis of a calculation of their embedded carbon emissions,[234] is politically controversial and raises concerns about trade discrimination as well as violation of some of the fundamental principles of the global climate agreements, including the principle of common but differentiated responsibilities and respective capabilities.[235] The CBAM is expected to have major implications for Morocco. A research paper published in the context of the 2022 African Economic Conference suggests that exports worth over US$1.5 billion could be impacted, not least due to the implications for the cement, fertiliser and aluminium exports of Morocco.[236] Since exports can be partly or fully exempt from the EU levy if they are subject to carbon pricing in the country of origin,[237] the paper also considers the feasibility and consequences for developing countries to introduce such measures. On this point, the authors (Paul Baker et al.) stress: "However, the design of the carbon pricing mechanism will need to be carefully considered. If improperly designed, such schemes may not achieve the targeted results and can hurt vulnerable industries and have negative impacts on the poorest or already marginalised groups in society."[238]

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Morocco a total of US$983 million annually, corresponding to over a third of the country's health expenditures. Of this loss, it is estimated that US$920 million stems from corporate tax abuse and the remaining US$63 million from offshore wealth.[239]

Access to information

Morocco has joined the OECD-led system for automatic exchange of financial account information[240] as well as the system for automatic exchange of country by country reporting information for multinational corporations.[241] However, under both these agreements Morocco does not yet have any activated bilateral exchange agreements in place.[242] The main reason is that Morocco has postponed the implementation of the related national legislation, citing concerns raised by Moroccan diaspora.[243] Thus, despite signing on to the OECD agreements, Morocco currently lacks access to information that could be important for combating tax evasion and avoidance by wealthy individuals and multinational corporations.

Global tax governance

Morocco is a member of the OECD's Global Forum[244] as well as the OECD's Inclusive Framework.[245] Furthermore, Morocco is a member of the Africa Group, which tabled the resolutions at the UN General Assembly in favour of setting up an intergovernmental UN tax process[246] and negotiating a UN Framework Convention on Tax.[247] When a new ad hoc committee was set up at the UN to develop draft Terms of Reference for the new UN Framework Convention on International Tax Cooperation, Morocco became a member of the Bureau of the process.[248] In March 2024, Morocco also made a submission to the process which, among other things, stressed: "The Framework Convention should be designed to enable all countries to participate effectively in the development of rules and standards for international tax cooperation and should take into account the different needs, priorities and capacities of member states."[249]

NEPAL

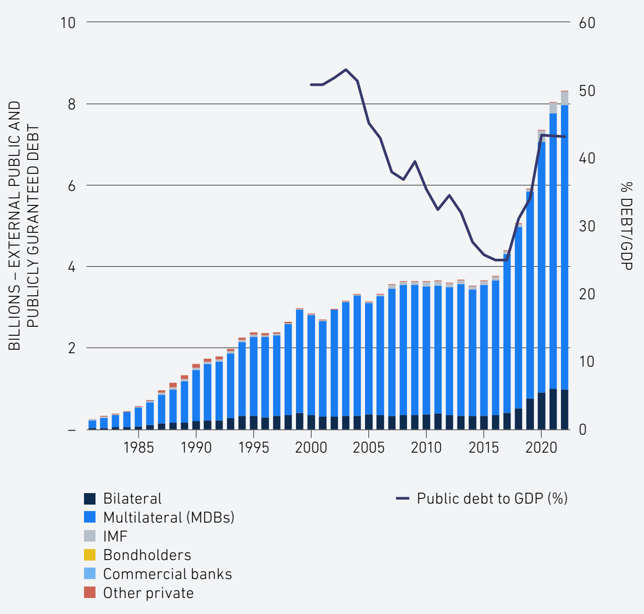
Nepal is registered by the UN as one of the world's least developed countries,[250] and Nepal's economy is heavily reliant on factors such as remittances and donor funding.[251] While the country has made substantial progress with reducing poverty, wealth inequality is a growing problem,[252] and according to a newly released Living Standards Survey for Nepal, approximately 20 per cent of the population is still living in poverty.[253]

Debt management

Nepal's external public debt remained quite stable in absolute terms from 2000 up to 2016, meaning that, with economic growth, the debt to GDP ratio decreased substantially from over 50 per cent in 2003 to 25 per cent in 2016. However, since 2016, the country has seen a steep increase in external debt, mainly debt to multilateral institutions. The debt to GDP ratio again hit a historic high at 41.38 per cent of GDP in 2020 (of which 21.64% was external debt).[254] In 2023, public debt to GDP was at 47 per cent and IMF projections indicate that it will remain above that threshold at least for the next three fiscal years.[255] This is an increase of around 25 points in the less than 10 years that have passed since the destructive 7.8 magnitude earthquake in 2015.

NEPAL

External debt stock per creditor and % Debt/GDP



Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

The 2015 earthquake in Nepal left almost 9,000 people dead, destroyed 800,000 homes and cost an estimated US$10 billion. More than 1,000 health facilities and 5,000 schools were turned to rubble. At the time, Nepal's foreign debt stood at US$3.65 billion. Civil society organisations in Asia and globally called for the cancellation of Nepal's debt.[256] However, the IMF refused to even extend debt relief because Nepal did not meet the criteria that at least one-third of the country's population and 25 per cent of productive capacity had been impacted.[257] The country's reconstruction was financed through more loans, not just in the public sphere but also in the private. In Nepal's worst affected areas, up to 75 per cent of the citizens who rebuilt their homes without public support relied on private or informal loans, in some cases being charged up to 43 per cent interest.[258]

The growing external debt in Nepal increased even more in the wake of the 2020 Covid-19 pandemic, as a result of the country's dependence on tourism and workers' remittances from abroad. Both sectors represented 26.8 per cent of the country's GDP in 2020 and the IMF estimated at the time that both sources of hard currency would be likely to decline by an equivalent of 7.2 per cent of GDP.[259] As a consequence, the domestic economy and public finances were seriously damaged.[260] The increase in Nepal's debt has been through both external and domestic borrowing, but increasingly it is relying on domestic financing, which tends to be more expensive. In the fiscal year 2022-2023, domestic debt was 52 per cent of total public debt. The IMF projections situate domestic debt at 60 per cent of total public debt already by 2025/2026.[261]

		Public debt (in per cent of GDP)	External (in per cent of GDP)	Domestic (in per cent of GDP)
2019/20		43.3	21.1	22.2
2020/21		43.3	21.5	21.8
2021/22	Current Baseline Projection	43.1	20.7	22.4
2022/23	Budget	47.0	22.1	24.9
	Current Baseline Projection	47.0	22.1	24.9
2023/24	Budget	48.4	21.6	26.7
	Current Baseline Projection	48.4	21.6	26.7
2024/25	Projection	49.3	21.1	28.1
2025/26	Projection	50.0	20.8	29.2
2026/27	Projection	50.2	20.1	30.2
2027/28	Projection	50.0	19.3	30.7

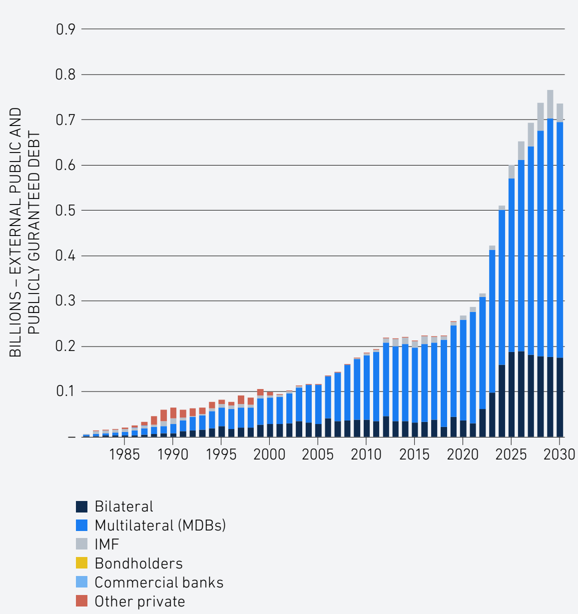
Source: IMF, 'Nepal: Request for Disbursement Under the Rapid Credit Facility-Press Release; Staff Report; and Statement by the Executive Director for Nepal', 11 May 2020 https://www.imf.org/en/Publications/CR/Issues/2020/05/11/Nepal-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49404

Against this backdrop, the multilateral response has been insufficient. Nepal participated in the G20 DSSI, allowing the country to defer only US$12.6 million in bilateral debt payments in 2020.[262] This was less than five per cent of the country's external debt payments that year and only one-third of bilateral debt payments. Furthermore, with multilateral institutions holding the majority of debt from Nepal, and multilateral development banks and the IMF not being required to participate in the DSSI, the Common Framework or other debt relief initiatives, Nepal has come up against brick walls in relation to most of its debt, so the multilateral response has been inadequate.

In this context and with Nepal being highly vulnerable to climate change, climate finance for adaptation and mitigation are being received in the country in the form of new loans.[263] With debt stocks increasing due to reconstruction, investment in infrastructure projects, climate finance and the impact of Covid-19 pandemic, debt service has also escalated and it is projected to remain much higher than in previous decades. Debt service to revenue is above the 15 per cent recommended threshold, being double that in 2022 (31.37%) though being reduced to 23.75 per cent in 2023. Debt service to public expenditure has been reduced to 15.15 per cent in 2023. This is in line with IMF recommendations to stabilise public debt at low risk of debt distress by applying a gradual fiscal consolidation, aiming at a cumulative reduction of the primary deficit by 3.1 per cent of GDP between 2022 and 2028.[264]

NEPAL

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

	Debt Service % Revenue	Debt Service % Expenditure
2021	**27.65**	**22.55**
2022	**31.37**	**24.16**
2023	**23.75**	**15.15**

Source: Debt service watch, Development Finance International (February 2024)

The dire state of the fiscal balance is often used as a justification for arguing that universal social protection is not possible and that, instead, a targeted and contribution-based approach to social security provision must be adopted.[265] For instance, in the latest regressive move by the government, subsidies provided for fertilisers in agriculture have been significantly reduced, which has directly affected poor farmers.[266] This also shows that the poor are often the ones who suffer the most due to regressive state policies.

As mentioned, most of Nepal's debt is to multilateral institutions, mainly to the World Bank concessional lending arm, the International Development Association (IDA) (50%) and the Asian Development Bank (31%). Most of Nepal's bilateral debt is with Japan (4%), India (3.5%) and China (3.15%). Nepal barely has debt with private creditors.

NEPAL	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	8,298,947,478.00	100.00%
PPG, bilateral (DOD, current US$)	**975,845,416.40**	**11.76%**
Belgium	4,765,568.80	0.06%
China	261,140,137.50	3.15%
France	1,114,597.00	0.01%
India	288,448,000.00	3.48%
Japan	338,318,884.20	4.08%
Korea, Republic of	46,677,845.80	0.56%
Kuwait	12,886,783.10	0.16%
Saudi Arabia	22,493,600.00	0.27%
PPG, multilateral (DOD, current US$)	**6,981,310,959.00**	**84.12%**
Asian Dev. Bank	2,624,147,000.00	31.62%
Asian Infrastructure Investment Bank	281,000.00	0.00%
European Economic Community (EEC)	1,184,348.00	0.01%
European Investment Bank	42,519,000.00	0.51%
International Fund for Agricultural Dev.	78,721,008.40	0.95%
Nordic Development Fund	17,496,602.90	0.21%
OPEC Fund for International Dev.	62,410,000.00	0.75%
World Bank-IDA	4,154,552,000.00	50.06%
PPG, private creditors (DOD, current US$)	**43,730.60**	**0.00%**
France	43,730.60	0.00%
Use of IMF credit (DOD, current US$)	**341,747,371.30**	**4.12%**
International Monetary Fund	341,747,371.30	4.12%

Source: World Bank International Debt Statistics (December 2023)

Tax and illicit financial flows

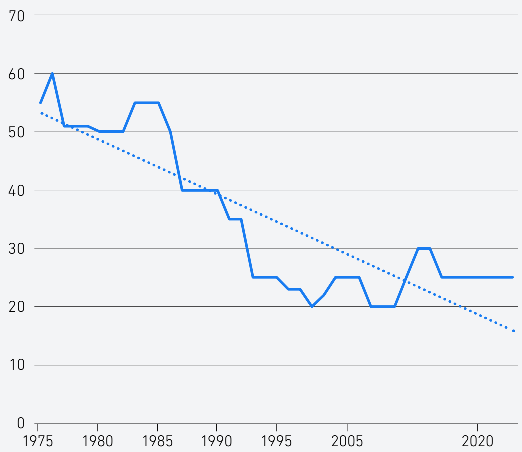
Domestic resource mobilisation

In the fiscal year 2020-2021, the tax revenue of Nepal amounted to around 20 per cent of GDP, which was an increase compared to previous years.[267]

NEPAL

Corporate Income Tax Rate

The corporate income tax rate of Nepal was over 50 per cent at the end of the 1970s, but has since been substantially reduced. After reaching as low as 20 per cent in 2007-2009, it currently stands at 25 per cent – less than half of where it was in the 1970s.[268]



Source: See endnote 268

A VAT was introduced in 1997.[269] In 2007, it was increased from 10 to 13 per cent, and it has since remained at that level.[270] During the last few years, this tax has, according to the Ministry of Finance, accounted for roughly 24 per cent of the total tax and non-tax revenue of Nepal (and around 26 to 27% of the total tax revenue).[271]

As mentioned below, Nepal has not joined the OECD's Inclusive Framework, including the negotiations around taxation and the digitalised economy (Pillar 1). This also means that Nepal has not endorsed the OECD rules that ban digital services taxes. Instead, Nepal is one of 12 countries worldwide that has an active implemented DST. Since the tax was introduced in July 2022, there is not yet any official revenue data available.[272]

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Nepal a total of US$8.8 million annually, corresponding to over 1.8 per cent of the country's health expenditures. Of this loss, it is estimated that US$0.4 million stems from corporate tax abuse and the remaining US$8.4 million from offshore wealth.[273]

Access to information

Nepal is not a signatory to the OECD-led system for automatic exchange of financial account information[274] and therefore it does not have any agreements in place to exchange tax-relevant banking information automatically with other countries or jurisdictions.[275] Nepal is also not a signatory to the OECD-led system for automatic exchange of country by country reporting information for multinational corporations[276] and therefore it also does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[277] This means that Nepal lacks access to information that could be important for combating tax evasion and avoidance by wealthy individuals and multinational corporations. Even if Nepal were to sign on to the central OECD agreements it is uncertain how much information Nepal would receive since the systems rely on bilateral exchange agreements between countries and come with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

Nepal is not a member of the OECD's Global Forum[278] nor of the OECD's Inclusive Framework.[279] In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[280] Nepal voted in favour of the resolution.[281]

PERU

Peru is an upper-middle-income country[282] with a GDP of over US$200 billion.[283] The country was one of the hardest impacted by the Covid-19 pandemic, which also caused a backslide in terms of the social progress achieved in recent decades, and the level of extreme poverty reached over 5 per cent in 2020.[284] Especially due to climate-related shocks and social unrest, the economy of Peru furthermore experienced a contraction in 2023.[285]

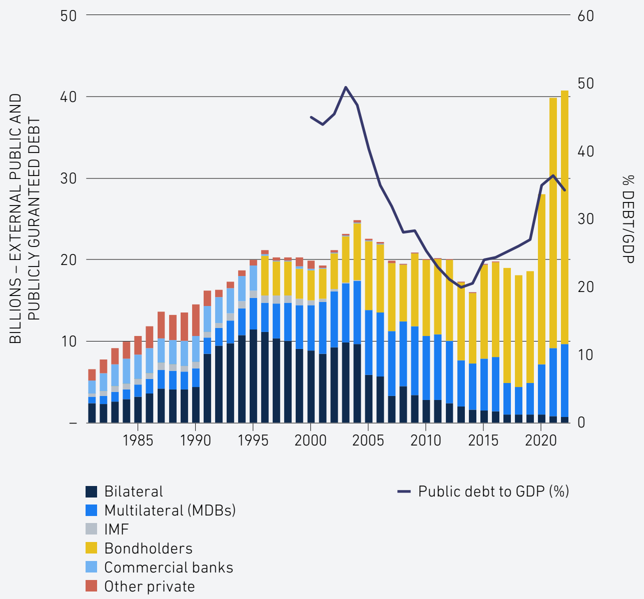
Debt management

The implementation of tight fiscal rules in Peru has been key to reduce the debt burden on the Peruvian economy in recent years, but without integrating a human rights approach.[286] The traditional fiscal rules on the deficit and public spending were introduced at the end of the 1990s and are still in force. The 1999 deficit rule established an annual ceiling of 1 per cent of GDP, while the spending rule limited its growth to 2 per cent in real terms.[287] Initially, it was only the institutions of the central government that followed such rules; however, four years later these were also extended to local governments through a set of regulations regarding the stock of debt and the repayments. In 2016, a fiscal rule on external debt stock for the central government was introduced for the first time, where it cannot exceed 30 per cent of GDP.

Two aspects related to the debt structure by type of creditor stand out in Peru's debt management in recent decades. The first is related to the current importance of bondholders in external debt. It is clear that bond issuance has now become Peru's largest source of external debt financing. In fact, according to World Bank data,[288] during the year of the pandemic the country acquired US$9.42 billion of new debt, of which 76 per cent corresponded to a debt issuance to private creditors. As of 2021, bond debt increased by 78.3 per cent from its level two years ago. The new structure makes Peru vulnerable to a sudden exit of foreign investors, which could hinder the path of economic growth post crisis.

PERU

External debt stock per creditor and % Debt/GDP



Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

As of 2022, 76.33 per cent of Peru's external debt was with bondholders and only 21.91 per cent was with multilateral institutions, mainly the World Bank (11.94%) and the Inter-American Development Bank (7.78%). The rest of the creditors remain residual.

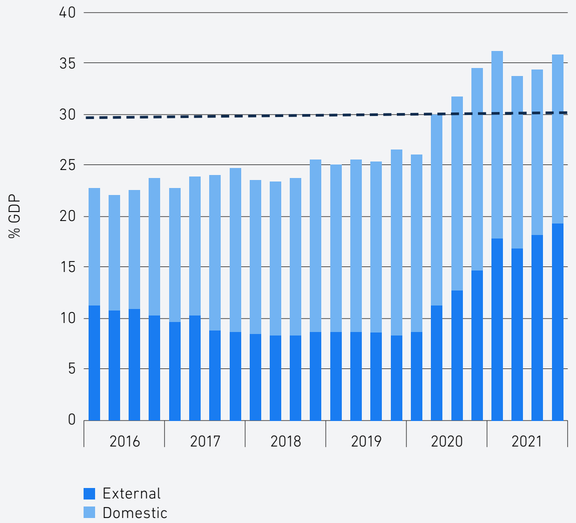
Peru	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	40,698,849,490.80	100.00%
PPG, bilateral (DOD, current US$)	**717,873,262.70**	**1.76%**
France	5,632,714.60	0.01%
Germany, Fed. Rep. of	477,641,443.80	1.17%
Japan	215,228,044.10	0.53%
Netherlands	1,170,060.20	0.00%
United States	18,201,000.00	0.04%
PPG, multilateral (DOD, current US$)	**8,917,425,608.10**	**21.91%**
Corporacion Andina de Fomento	843,269,975.60	2.07%
Inter-American Dev. Bank	3,167,690,000.00	7.78%
International Fund for Agricultural Dev.	46,533,632.50	0.11%
World Bank-IBRD	4,859,932,000.00	11.94%
PPG, private creditors (DOD, current US$)	**31,063,550,620.00**	**76.33%**
Bondholders	31,063,550,620.00	76.33%

Source: World Bank International Debt Statistics (December 2023)

The second aspect, related to the domestic debt, shows that even with the growth of bondholder debt in recent years, it has become as important as the country's external debt. Peru's domestic debt has been increasing at higher rates than the Peruvian economy itself. This has led to the domestic debt/GDP ratio being higher than the external debt/GDP ratio in recent years, which only changed in 2021. Following the pandemic catastrophe, the government resorted to raising new resources from both the domestic and international financial markets, exceeding the fiscal rule threshold in the third quarter of 2020.

PERU

Public domestic and external debt as percentage of GDP



Source: Ministry of Economy and Finance, Peru

The application of fiscal rules in Peru, particularly those related to the control of the fiscal deficit, has been important to reduce the debt burden in the Peruvian economy, reducing its external debt/exports ratio at a faster rate than the rest of the region, going from 631 per cent in 1993 to 47 per cent in 2019.[289] The accelerated deficit reduction does not translate, however, into the guarantee of rights, and the results in terms of improving health, education and human development are far from successful. The relationship between fiscal rules and human rights lies in the restrictions on public spending and the fiscal deficit vis-a-vis the need to fund essential public services that guarantee human rights, such as health and education. Public spending determines fiscal deficit, the latter being a clear determinant of the stock of debt. Hence, in the long term, debt sustainability can be in conflict with the provision of human rights as the role of the public sector becomes restricted.

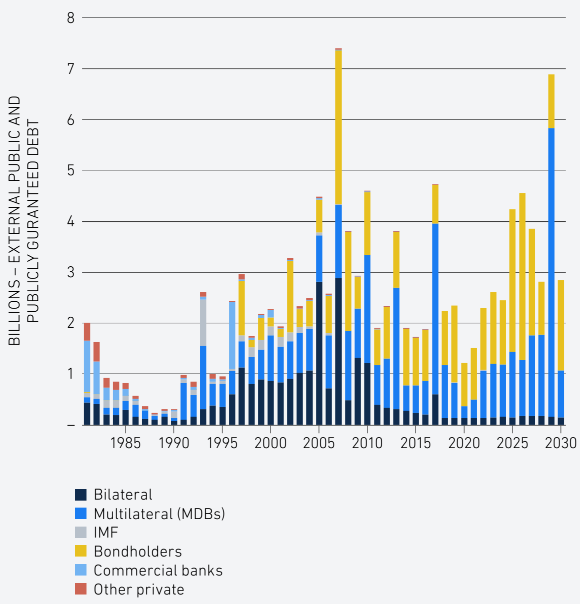
	Debt Service % Revenue	Debt Service % Expenditure
2021	7.11	6.84
2022	**10.45**	**13.29**
2023	11.57	14.37

Source: Debt service watch, Development Finance International (February 2024)

Debt service, including both domestic and external debt, currently accounts for no more than 11.5 per cent of government revenue and 14.3 per cent of public expenditure, due to persistent debt levels under the fiscal rule (note the difference with other countries included in this report). According to the Ministry of Finance's debt service projections for the coming years, the repayment of new debt issued in previous years will likely increase this ratio, as the tax base is relatively low (compared to the region and the OECD). World Bank projections also situate an increase in debt service, particularly to bondholders, in 2025, 2026 and 2027. This means that the country is probably facing maturity of bonds, and will have to get back to the markets to refinance, in a context of high interest rates.

PERU

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

The implementation of rigid fiscal rules in Peru, particularly those aimed at controlling the fiscal deficit and the external debt burden on its economy, have had the objective of making a business-friendly environment for foreign direct investment (FDI) as opposed to other countries in the region. This objective was achieved by the end of 2009, when Moody's credit rating agency gave the investment grade credit debt to Peru.[290] Contrary to what had been expected, the weight of FDI did not get boosted in the following years.

These fiscal rules were temporarily suspended during 2020-2021 as the government was trying to tackle the impacts of the Covid-19 pandemic.[291] This unusual flexibility to meet fiscal prudency requirements allowed the government to design and implement a huge economic package to overcome the Covid waves of infections and deaths and, at the same time, to allocate resources to revamp the economy. Before long, credit rating agencies questioned the financial stance of Peru, announcing a downgrade in its credit rating by September 2021.[292] Peruvian officials reacted by announcing a new path of fiscal consolidation, aligned with IMF recommendations, with the objective of reaching the debt and fiscal deficit limit thresholds requirements by 2026.[293] This change in fiscal policy caused a stabilisation in credit ratings. In conclusion, Peruvian fiscal policies are under heavy scrutiny by credit rating agencies, which could be hampering the prioritisation of public resources to close the gap in social services for its citizens.

Several civil society organisations, including LATINDADD, have stated for years that debt should only be considered sustainable when repayments do not compromise the debtor's ability to meet priority human development spending or an acceptable level of human rights obligations.[294] Fiscal policies must be harmonised, not collide with the fulfilment of social objectives. Credit rating agencies are very well positioned over strategic public officials to quickly disqualify social policy proposals over fiscal consolidation policy proposals.

Tax and illicit financial flows

Domestic resource mobilisation

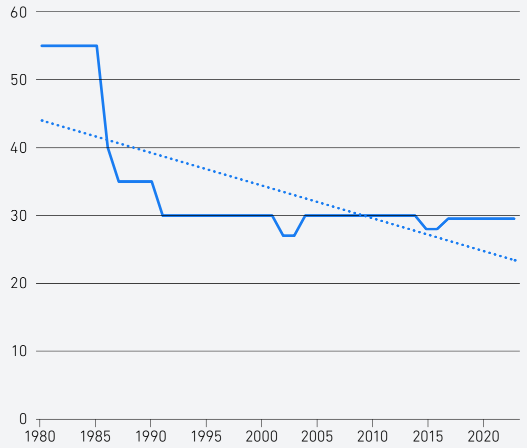
In the fiscal year 2021, the tax revenue of Peru amounted to 17.9 per cent of GDP. This was an increase compared to 2020, but still far below the average for the Latin American and Caribbean countries, which reached an average of 21.7 per cent for 2021. Peru's tax collection has been lower than the regional average tax to GDP ratio for the last 20 years and, whereas that average has increased by 4.6 percentage points since the year 2000, Peru's ratio has only increased 2.7 percentage points.[295]

Key reasons for the low levels of tax collection in Peru include structural problems related to the high level of informality in the economy.[296] Another significant factor is the widespread use of tax benefits in numerous different sectors and under different modalities – such as exemptions, deductions, rate reductions and refunds. In 2023, the Ministry of Finance estimated that the annual tax expenditure corresponds to around two per cent of GDP.[297]

PERU

Corporate Income Tax Rate

Since the 1980s, the corporate income tax rate of Peru has been reduced from 55 to 29.5 per cent.[298]



Source: See endnote 298.

A VAT was introduced in 1991.[299] For the last two decades, the rate has varied between 18 and 19 per cent, with the exception of 2018, where it was down to 16 per cent. The year after, it was increased back to 18 per cent, where it has been ever since.[300] For the fiscal year 2021, consumption taxes accounted for roughly 40 per cent of the total tax revenue, which is a relatively high share. Meanwhile, corporate income tax accounted for a lower but still significant share, namely 25 per cent in 2021.[301] This, however, doesn't change the overall picture, where the heavy reliance on consumption taxes suggests a relatively regressive tax system.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Peru a total of US$835.5 million annually, corresponding to over 10 per cent of the country's health expenditures. Of this loss, it is estimated that US$712.7 million stems from corporate tax abuse and the remaining US$122.8 million from offshore wealth.[302]

Access to information

Peru is a part of the OECD-led system for automatic exchange of financial account information.[303] As part of the OECD system, Peru currently has agreements to receive information automatically from 98 countries and jurisdictions, and to send information automatically to 79.[304] Furthermore, Peru is a part of the OECD-led system for automatic exchange of country by country reporting information for multinational corporations.[305] As a part of that system, Peru currently has agreements to receive country by country reports automatically from 92 countries and jurisdictions, and to send information automatically to 74.[306]

This means that Peru has relatively good access to information that is key to detecting international tax evasion as well as tax avoidance by multinational corporations, especially compared to most other developing countries.

Global tax governance

Peru is a member of the OECD's Global Forum[307] as well as the OECD's Inclusive Framework.[308] Furthermore, Peru is currently in a multi-year process with the aim of becoming a member of the OECD. The *Roadmap for Peru's OECD Accession Process* outlines a list of Accession Core Principles, which includes: "Addressing Base Erosion and Profit Shifting (BEPS) in accordance with the BEPS package and the ongoing work of the Inclusive Framework on BEPS, including the two-pillar solution to address the tax challenges arising from the digitalisation of the economy."[309]

Within the regional sphere, Peru participates in the Platform for Tax Cooperation for Latin America and the Caribbean, although not on a binding basis, but with commitments through the Punta del Este Declaration.[310]

In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[311] Peru abstained.[312] However, in March 2024, Peru made a submission to the new ad hoc UN committee that has been set up to negotiate Terms of Reference for the new UN Framework Convention on Tax. The submission stressed: "Peru considers as utmost importance the work begun in the United Nations to get an international tax cooperation system more inclusive and effective and we hope that, after the discussions, we can adopt a multilateral treaty and protocols to contribute for obtaining additional resources to finance sustainable development of our countries, which are needed to implement 17 sustainable development goals of the Agenda 2030."[313]

PHILIPPINES

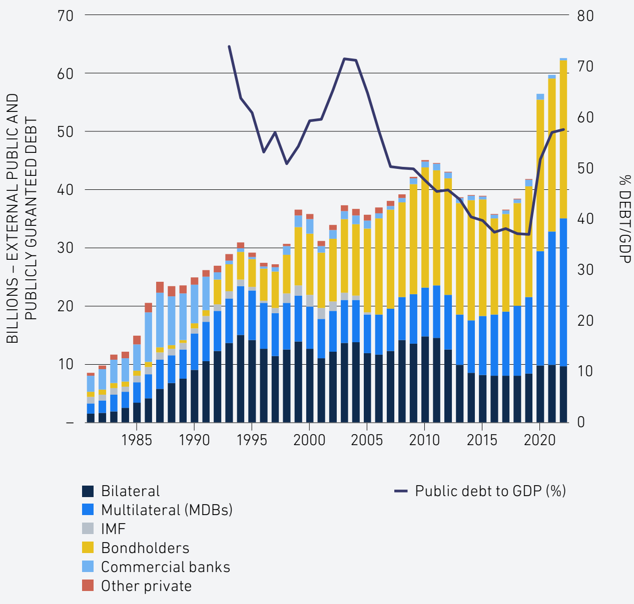
The Philippines is a lower-middle-income country[314] with a GDP of around US$400 billion.[315] Remittances play a major role in the economy, with the World Bank estimating that the Philippines received around US$40 billion from this source in 2023 alone – surpassed only by India, Mexico and China.[316]

Debt management

National government (NG) outstanding debt reached a historic high in 2021 at PhP11.728 trillion, equivalent to 60.5 per cent of GDP.[317] This is almost twice the PhP6 trillion in 2016, the year when former President Rodrigo Duterte started his term. According to World Bank data, external public debt also reached a historic peak in 2022, at more than US$62 billion, following a steep increase in 2020 in the wake of the Covid-19 pandemic. While average annual growth of NG debt from 2013 to 2019 was only 5.2 per cent, it jumped during the pandemic years: 26.7 per cent in 2020 and 19.7 per cent in 2021. Lockdowns and mobility restrictions imposed to contain the pandemic quickly hit the economy and led to a 9.5 per cent contraction of GDP in 2020 and the government justified the massive borrowings to fight Covid-19.[318] Citing the spending priorities, CSOs contend that the rapid rise in debts did not translate to commensurate increases in pandemic response.[319] By September 2021, a total of PhP570 billion was reported to have been disbursed for the Covid-19 response, a much smaller amount than infrastructure spending of PhP1.8 trillion and debt service payments of PhP2.17 trillion.[320] Attention should be paid to Covid-19 loans, as Congress investigations on pandemic response funds raised controversy over claims of misuse and corruption.[321]

PHILIPPINES

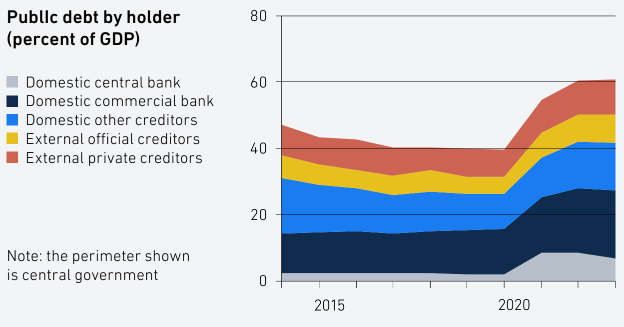
External debt stock per creditor and % Debt/GDP

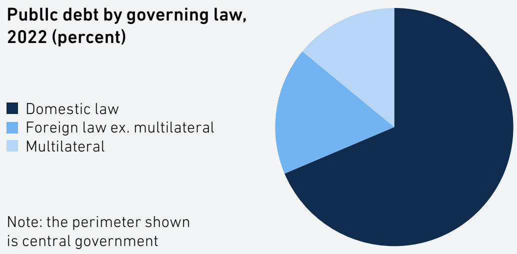


Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

PHILIPPINES

Public debt structure indicators





Source: IMF, 'Philippines: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Philippines' December 2023 https://www.imf.org/en/Publications/CR/Issues/2023/12/14/Philippines-2023-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-542518

Despite record-high debt levels, the government asserts that the debt situation remains sustainable, in line with the IMF assessment, and even claims that there is room for the country to absorb more debt, based on overoptimistic GDP growth projections.[322] While growth projections for 2023 were between 6 and 7 per cent, GDP growth in the second quarter of 2023 was only 4.3 per cent, given the international context and, according to the IMF, fiscal underspending.[323]

Beyond the important increase in external debt in recent years, domestic debt is still the biggest portion of public debt in the Philippines. Practically all domestic debt is issued in debt securities with 85.8 per cent in treasury bonds and 14.2 per cent in short-term treasury bills. External debt accounts for about one-third of total public debt. Most of the Philippines' domestic and external debt is in the form of debt securities or bonds, which comprise 86.58 per cent of total NG debt. Dependence on this type of debt enhances the country's dependency on financial market fluctuations and vulnerability to vacillating perceptions of creditworthiness by rating agencies. Moreover, the increase in interest rates will make it much more expensive to refinance securities, both in domestic and external markets.

Despite the increase in debt due to the Covid-19 pandemic, the Philippines was ineligible for the DSSI due to its classification as a lower-middle-income country, although it would not have been likely to participate even if it had met the eligibility requirements. The government's economic managers have made clear its stance to honour all its debts and to maintain creditor confidence.[324] Preserving the image of creditworthiness drives fiscal policy decisions as the government increases its reliance on securities as the more preferred lending instrument. However, participating in the DSSI would not have brought many savings to the Philippines because, as mentioned, most of its external debt is owed to private (44%, mainly bondholders) and multilateral (40.56%, mainly the Asian Development Bank – 21.6% – and the World Bank – 17%) creditors, which did not participate in the DSSI. Bilateral external debt is only 15.4 per cent of Philippine debt, mostly owed to Japan (12.3%).

Philippines	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	62,610,465,871.50	100.00%
PPG, bilateral (DOD, current US$)	**9,664,434,581.30**	**15.44%**
Belgium	4,888,227.80	0.01%
Canada	142,615.60	0.00%
China	247,808,027.80	0.40%
France	875,074,904.40	1.40%
Germany, Fed. Rep. of	89,076,032.40	0.14%
Italy	25,056,567.20	0.04%
Japan	7,742,518,752.60	12.37%
Korea, Republic of	549,790,300.70	0.88%
Spain	57,242,152.80	0.09%
United States	72,837,000.00	0.12%
PPG, multilateral (DOD, current US$)	**25,394,789,915.50**	**40.56%**
Asian Dev. Bank	13,534,328,000.00	21.62%
Asian Infrastructure Investment Bank	1,067,181,000.00	1.70%
International Fund for Agricultural Dev.	113,458,774.60	0.18%
Nordic Development Fund	8,834,140.90	0.01%
OPEC Fund for International Dev.	22,479,000.00	0.04%
World Bank-IBRD	10,634,822,000.00	16.99%
World Bank-IDA	13,687,000.00	0.02%
PPG, private creditors (DOD, current US$)	**27,551,241,374.70**	**44.00%**
Austria	50,867,220.60	0.08%
Bondholders	27,158,380,287.90	43.38%
Canada	271,312,000.00	0.43%
France	69,553,666.40	0.11%
Germany, Fed. Rep. of	3,199.80	0.00%
United States	1,125,000.00	0.00%

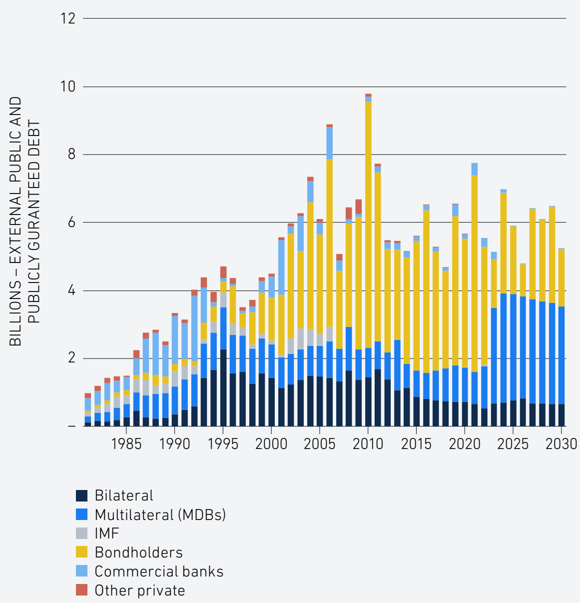
Source: World Bank International Debt Statistics (December 2023)

Although external debt accounts for only one-third of total public debt, its value in domestic currency is expected to increase as the Philippine peso has been rapidly depreciating against the US dollar.

Beyond the national government, the debt exposure of the entire public sector is expected to be much higher. For instance, the Philippine government guaranteed debt stands at PhP423.92 billion.[325] This does not include contingent liabilities arising from so-called public-private partnerships, estimated at PhP456.2 billion in 2021.[326] Debt transparency should be pushed in the area of contingent liabilities and should precipitate policy changes in the granting of sovereign guarantees to debts of private entities. Public-private partnerships have been widely employed in the government's infrastructure projects. The review should evaluate the debt-creating elements of the "Build, Build, Build" programme, the massive infrastructure programme of the previous administration of Duterte, which has cornered the lion's share of NG expenditures for the past five years.[327]

PHILIPPINES

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

Domestic and external public debt service reached 41 per cent of revenues in 2023. In 2021, total debt service amounted to PhP1.204 trillion – the highest in the past decade. Debt service to public expenditure is also very high, up to 33 per cent in 2023.

	Debt Service % Revenue	Debt Service % Expenditure
2021	29.54	24.04
2022	27.94	22.01
2023	41.00	33.06

Source: Debt service watch, Development Finance International (February 2024)

The change in administration following the May 2022 presidential election is not expected to bring forth a paradigm shift from fiscal managers. Continued accumulation of public debts is expected along with greater fiscal vulnerability. The global shocks due to the Ukraine–Russia conflict, including runaway price hikes for food and fuel, do not augur well for the country's ability to shore up foreign exchange from trade and investments.

Critical to reforming debt management is the repeal of a longstanding law that automatically appropriates debt service. This secures debt payments over any other budget priorities, including essential services. What makes this worse is the lack of a debt cap law that clearly limits the level of new borrowings. Priorities should focus on: monitoring the risks of massive domestic debt stock and vulnerabilities created by the dependence on securities (both domestic and external); fiscal stability; reversing inequality; and just transition of clean energy development.

Citizens should initiate a comprehensive debt audit with a view to initiating a process for deep and wide debt reduction. Earlier inroads had been made by CSOs in bringing attention to policymakers' debt-fuelled projects that were questionable from the point of contracting to implementation and that led to environmental damage, community displacements and violations of rights. These should be pursued. A debt audit campaign can lay the basis for the cancellation of loans extended for environmentally and socially harmful projects, including those for expansion of coal-, gas- and other fossil fuel-based energy. The audit could also help identify illegitimate debts that could be the subject of outright debt cancellation.

The intricate link between national debt policies and international debt architecture cannot be ignored. There is a need to campaign for the national government to support calls for a UN-led and UN-driven debt workout mechanism, to strengthen international cooperation, especially with the global south, and to strengthen UN economic global governance processes, such as the Financing for Development process.

Tax and illicit financial flows

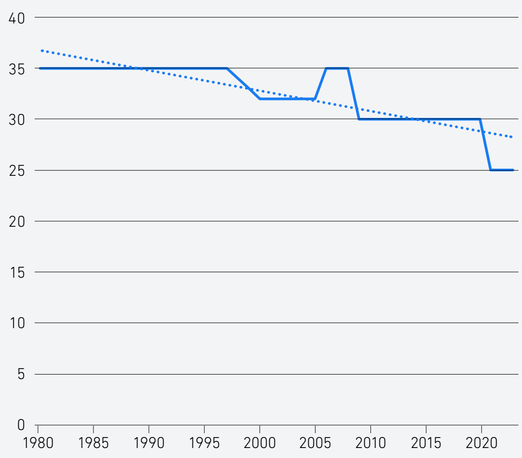
Domestic resource mobilisation

In the fiscal year 2021, the tax revenue of the Philippines amounted to 18.1 per cent of GDP, which is below the Asian average of 19.8 per cent for the same year.[328]

PHILIPPINES

Corporate Income Tax Rate

In the 1980s and most of the 1990s, the corporate income tax rate of the Philippines was 35 per cent. It has since been reduced, with the latest cut occurring in 2021, where the rate was reduced from 30 to 25 per cent, which is also the current level.[329]



Source: See endnote 329

A VAT was introduced in 1988.[330] In 2007, it was increased from 10 to 12 per cent, and it has since remained at that level.[331] From 1995 to 2019, the share of VAT and excise taxes in total revenues has remained high at an average of 32 per cent. Except for a brief period from 2010 to 2015, consumption tax revenues have exceeded the share of revenue collected from taxes on corporate income and property.[332]

Since 2020, the Philippine government has implemented several tax and fiscal measures. With a focus on corporate-driven growth as key to rebuilding the economy, the government enacted the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), considered to be one of the first tax reform packages that recognises its provisions to be revenue-eroding.[333]

In addition to the above-mentioned lowering of the corporate income tax rate from 30 to 25 per cent, CREATE also exempts foreign-sourced dividends from taxation, as long as they are reinvested in a domestic corporation for purposes including the payment of dividends to shareholders.[334] While the former accelerates the race to the bottom in corporate tax rates, the latter makes the Philippine economy more vulnerable to hot money and illicit financial flows by establishing a channel for investors to gain profits from capital income tax-free.

Another area of concerning reforms have taken place in the extractives sector. Starting in 2021, the Duterte government lifted a 2012 moratorium on granting new licences for mineral exploration and production,[335] originally intended to address revenue losses from the extractives sector due to longstanding loopholes in the mining fiscal regime since the 1990s. By reversing the moratorium, the government restored the revenue-eroding practice of granting tax incentives to mining corporations under Financial and Technical Assistance Agreements (FTAAs) and Mineral Production Sharing Agreements (MPSAs), the effectivity of which may extend up to a period of over two decades.[336] In this context, it is worth noting that corporations in the Philippine mining sector have been implicated in reports on offshore accounts and subsidiaries registered in tax havens, including in the Pandora Papers revelations.[337] Despite civil society demands for a probe into these potential cases of illicit financial flows and for greater tax transparency, the Philippine government responded by withdrawing from the Extractives Industry Transparency Initiative (EITI) in June 2022.[338] Shrinking spaces for civil society to demand transparency and accountability from mining corporations, reported by the EITI as one cause for downgrading the country's rating,[339] is thus a continuing challenge for tax and fiscal justice advocates in the Philippines.

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing the Philippines a total of US$3,223.1 million annually, corresponding to over 60 per cent of the country's health expenditures. Of this loss, it is estimated that US$2,996.4 million stems from corporate tax abuse and the remaining US$226.7 million from offshore wealth.[340]

Access to information

The Philippines is not a signatory to the OECD-led system for automatic exchange of financial account information[341] and therefore it does not have any agreements in place to exchange tax-relevant banking information automatically with other countries or jurisdictions.[342]

The Philippines is also not a signatory to the OECD-led system for automatic exchange of country by country reporting information for multinational corporations[343] and therefore it also does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[344]

This means that the Philippines lacks access to information that could be important for combating tax evasion and avoidance by wealthy individuals and multinational corporations. Even if the Philippines were to sign on to the central OECD agreements it is uncertain how much information the Philippines would receive since the systems rely on bilateral exchange agreements between countries and come with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

The Philippines is a member of the OECD's Global Forum[345] as well as the OECD's Inclusive Framework.[346] In November 2023, when the Africa Group tabled a resolution in favour of negotiating a UN Framework Convention on Tax,[347] the Philippines voted in favour of the resolution.[348]

ZAMBIA

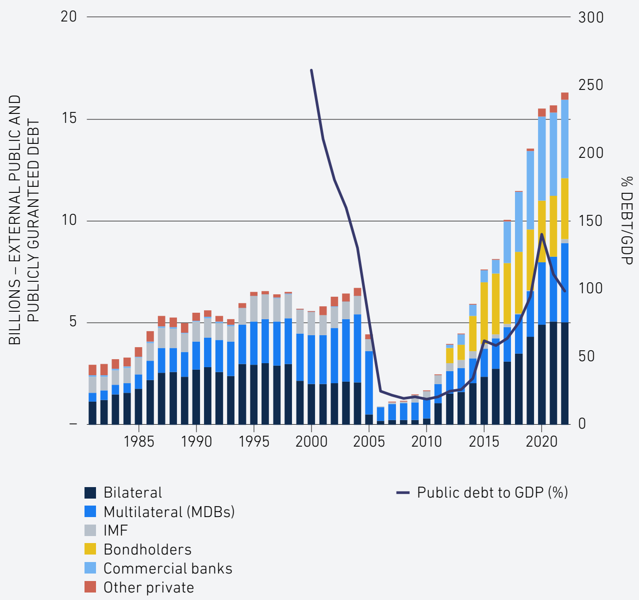
Zambia is registered by the UN as one of the world's least developed countries,[349] and a recent poverty assessment in Zambia found the level of extreme poverty to be around 48 per cent in 2022, compared to around 41 per cent in 2015.[350]

Debt management

Zambia's debt soared to such an extent that in the late 1990s it became almost impossible for Zambia to meet its debt obligations. The country took part in the Highly Indebted Poor Country (HIPC) Initiative, reaching the completion point set by the IMF/World Bank in 2005 and obtaining US$6.6 billion of debt cancellation (going from over US$7.1 billion of external public debt in 2004 to US$502 million in 2006).[351] This freed up resources and helped the country return to an upward growth trajectory that saw it classified by the World Bank as a lower-middle-income country in 2011 after years of robust growth in the early 2000s. Despite having benefitted from the HIPC debt relief in the early 2000s, Zambia has borrowed heavily since 2012 (after an ambitious infrastructure development increased its appetite for debt). In 2021 Zambia became the first country in the post-HIPC era to default on its external debt after receiving debt relief 15 years before. Zambia's public debt rose from 19 per cent of GDP in 2010 to 140 per cent in 2020.[352]

ZAMBIA

External debt stock per creditor and % Debt/GDP



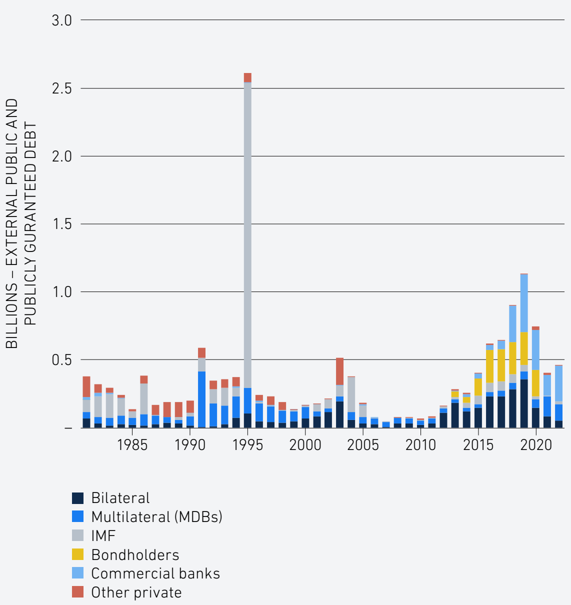
Source: World Bank International Debt Statistics (December 2023) and IMF Fiscal Monitor (October 2023)

The nation's debt profile has been deteriorating as a result of problems that predate the Covid-19 pandemic. Zambia had issued sovereign Eurobonds in the international markets in 2012, 2014 and 2015, particularly with the argument of promoting large infrastructure projects. Throughout that period, Zambia was assessed by the IMF as being at low risk of debt distress. "This coupled with a combination of optimistic expectations with regard to repayment capacity, sound economic performance, high commodity prices, optimistic growth forecasts, and low interest rates provided the country with strong standing in the international financial markets."[353] However, by end of 2016 the IMF signalled that there were risks of debt distress in Zambia, while concerns increased about the debt being higher than the data indicated. That led to market ratings for Zambia's bonds falling rapidly. "This was exacerbated by the negative effects of climate change which led to droughts and power shortages, thereby affecting Zambia's growth and recovery efforts."[354]

During the five years prior to the Covid-19 pandemic, public healthcare expenditure averaged 9.1 per cent of the government's budget. In the meantime, during the same period, debt servicing alone accounted for 70.3 per cent of government revenues.[355]

ZAMBIA

External debt service per creditor



Source: World Bank International Debt Statistics (December 2023)

When the Covid-19 pandemic hit, the situation became totally unsustainable and Zambia failed to make the US$42.5 million interest repayments on its Eurobond in November 2020, becoming the first sovereign African nation to default on debt during the Covid-19 era. In parallel to Zambia's default, the G20 launched the Common Framework, with Zambia as the first country to apply for debt restructuring under this new mechanism. Marred by lack of transparency and accountability, Zambia had to go through a long process in order to obtain the assurances from official creditors, including China, to agree to a debt restructuring, a necessary step to secure IMF support. A support that came with conditions in the form of a steep fiscal consolidation (in order to reduce the fiscal deficit from 6% of GDP in 2021 to a surplus of 3.2% of GDP by 2025) and other austerity measures, including the removal of fuel subsidies, increasing energy tariffs and reform of the Farmer Input Support Programme (FISP). The IMF programme also aimed at increasing tax revenue through broadening the VAT base, in a very regressive measure.[356]

Zambia had also obtained bilateral debt payments suspension of US$168.4 million in 2020 under the DSSI. This figure was equivalent to just 0.6 per cent of GDP and 1.2 per cent of Zambia's total external debt stock at the time. This is because private and multilateral creditors, the main creditors for Zambia, didn't participate in the initiative.

Since November 2020, Zambia has been in default on its Eurobond debt and in a process of debt restructuring, in negotiations with both the official creditor committee (including bilateral creditors, notably China and Paris Club creditors) and the bondholders. During this period, to ensure equitable treatment to bilateral and private creditors, Zambia has suspended debt service to all its non-multilateral external creditors (with the exception of a few bilateral or commercial creditors financing nearly completed priority projects).[357] Since Zambia stopped its bilateral and commercial debt payments, the country has been able to increase public spending on social services. According to Action Aid Zambia: "Total public spending per person on social sectors is expected to increase by 22% between 2021 and 2023. This includes healthcare, education, and social protection."[358]

In march 2024, almost three and a half years after defaulting, a preliminary deal with bilateral creditors and bondholders was announced, after a previous attempt was refused by bilateral creditors for being more generous to bondholders. The latest deal still expects a bigger effort from bilateral creditors than from private creditors. The deal offers savings to Zambia, but with the caveat that, if in the future the IMF and the World Bank assess bigger economic growth for the country, Zambia will end up paying more under an enhanced deal with creditors. However, there is no automatic mechanism to reduce debt payments if there are negative shocks and Zambia performs worse than expected.[359]

Zambia	Total external debt stock 2022	% of total
Total public and publicly guaranteed external debt (PPG)	16,314,806,010.00	100.00%
PPG, bilateral (DOD, current US$)	**5,032,031,019.70**	**30.84%**
Belgium	691,156.80	0.00%
Bulgaria	1,629,492.30	0.01%
China	3,835,312,020.40	23.51%
France	96,683,797.20	0.59%
India	329,341,000.00	2.02%
Iraq	5,515.90	0.00%
Japan	46,181,681.10	0.28%
Kuwait	14,768,828.60	0.09%
Russian Federation	128,085,860.80	0.79%
Saudi Arabia	56,994,666.60	0.35%
South Africa	236,331,000.00	1.45%
United Kingdom	240,642,000.00	1.47%
United States	45,364,000.00	0.28%
PPG, multilateral (DOD, current US$)	**3,877,930,977.20**	**23.77%**
African Dev. Bank	850,053,832.70	5.21%
Arab Bank for Economic Dev. in Africa (BADEA)	38,075,000.00	0.23%
Eastern & Southern African Trade & Dev. Bank (TDB)	493,289,000.00	3.02%
European Investment Bank	188,796,732.80	1.16%
International Fund for Agricultural Dev.	138,560,124.70	0.85%
Multiple Lenders	57,918,000.00	0.36%
Nordic Development Fund	26,391,633.50	0.16%
OPEC Fund for International Dev.	37,816,653.50	0.23%
World Bank-IDA	2,047,030,000.00	12.55%
PPG, private creditors (DOD, current US$)	**7,218,685,586.80**	**44.25%**
Bondholders	3,000,000,000.00	18.39%
China	1,896,454,000.00	11.62%
Denmark	127,282,000.00	0.78%
Hong Kong	304,841,000.00	1.87%
Israel	466,470,000.00	2.86%
South Africa	32,894,000.00	0.20%
United Arab Emirates	9,985,000.00	0.06%
United Kingdom	1,380,759,586.80	8.46%
Use of IMF credit (DOD, current US$)	**186,158,426.30**	**1.14%**
International Monetary Fund	186,158,426.30	1.14%

Source: World Bank International Debt Statistics (December 2023)

Zambia's external debt is mostly owed to private creditors (44%), mainly to Eurobond holders (18%) and to Chinese (11%) and UK (8%) private lenders. Bilateral lenders held 30.8 per cent of Zambia's debt in 2022, prior to the debt restructuring, mainly owed to China (23.5%). Multilateral creditors, which hold 23.7 per cent of Zambia's debt (mainly the World Bank – 12.5% – and the African Development Bank – 5.2%), don't participate in debt restructuring initiatives.

The evolution of Zambia's debt has also observed similar trends in the domestic sphere, with the government increasingly borrowing from domestic markets. By the end of 2022, 45 per cent of all public debt was domestic debt, issued in domestic currency. However, at least 8 per cent of the domestic debt was held by non-residents. In the current crisis context, non-resident investors have exited the domestic debt market, posing a significant risk to the stability of local currency and reserves accumulation, according to the IMF.[360]

Regarding transparency, there have been improvements, as the nation now has in place two key pieces of legislation, namely the Public Debt Management Act No 15 of 22[361] and the Access to Information Act No. 24 of 2023,[362] which enhance national assembly oversight and facilitate meaningful civic participation on financially related matters, including debt. However, the delayed production of the regulations (by statutory instrument) to fully operationalise the Public Debt Management Act has slowed down progress to achieve debt sustainability.

Tax and illicit financial flows

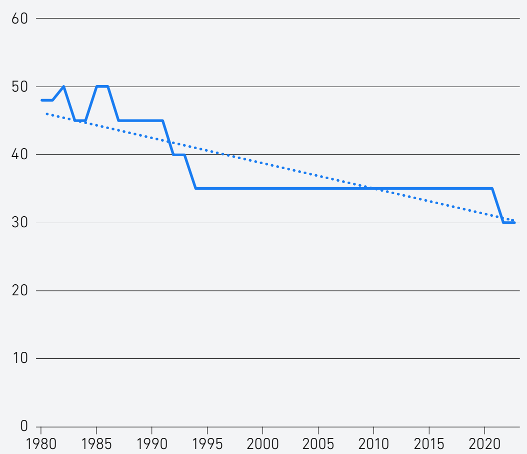
Domestic resource mobilisation

In the fiscal year 2021, the tax revenue of Zambia amounted to 19.7 per cent of GDP. The ratio has seen a significant increase in recent years, from a level of 16.6 per cent of GDP in 2017.[363]

ZAMBIA

Corporate Income Tax Rate

In the 1980s, the corporate income tax rate of Zambia varied between 45 and 50 per cent. It has since been reduced, with the latest cut taking place in 2022, where the rate was cut from 35 to 30 per cent.[364]



Source: See endnote 364

A VAT was introduced in 1995.[365] In 2008, the rate was reduced from 17.5 to 16 per cent, and it has since remained at that level.[366]

An overview produced by the Zambian Revenue Authority shows that, in 2021, the value added tax (both domestic and import VAT) brought in revenue at a level of 4.5 per cent of GDP, or 22.8 per cent of the total tax revenue. Meanwhile, corporate income tax accounted for tax revenue at a level of 4.6 per cent of GDP, or 23.4 per cent of the total.[367] It should be noted, however, that 2021 was not a typical year. During the period 2018-2020, corporate income tax brought in revenue corresponding to, on average, 2.5 per cent of GDP while VAT brought in revenue corresponding to, on average, 5.4 per cent of GDP. As mentioned above, it is also worth noting that the corporate income tax rate was reduced from 35 to 30 per cent with effect from 1 January 2022.[368]

Illicit financial flows

In the report *State of Tax Justice 2023*, Tax Justice Network has estimated that cross-border tax abuse is costing Zambia a total of US$829.5 million annually, corresponding to over 160 per cent of the country's health expenditures. Of this loss, it is estimated that US$789.9 million stems from corporate tax abuse and the remaining US$39.6 million from offshore wealth.[369]

The fact that Zambia is heavily exposed to illicit financial flows is well known. For example, the 2015 report of the High Level Panel on Illicit Financial Flows from Africa, which was published by the African Union Commission and the United Nations Economic Commission for Africa, highlighted illicit flows from copper mining in Zambia as a specific area of concern.[370]

Access to information

Zambia is not a signatory to the OECD-led system for automatic exchange of financial account information[371] and therefore it does not have any agreements in place to exchange tax-relevant banking information automatically with other countries or jurisdictions.[372]

Zambia is also not a signatory to the OECD-led system for automatic exchange of country by country reporting information for multinational corporations[373] and therefore it also does not have any agreements in place to exchange such information automatically with other countries or jurisdictions.[374] This means that Zambia lacks access to information that could be important for combating tax evasion and avoidance by wealthy individuals and multinational corporations. Even if Zambia were to sign on to the central OECD agreements it is uncertain how much information Zambia would receive since the systems rely on bilateral exchange agreements between countries and come with a number of specific conditions that countries must fulfil before receiving information.

Global tax governance

Zambia is a member of the OECD's Global Forum[375] as well as the OECD's Inclusive Framework,[376] where Zambia is also one of the 25 members of the Steering Committee.[377]

Furthermore, Zambia is a member of the Africa Group, which tabled the resolutions at the UN General Assembly in favour of setting up an intergovernmental UN tax process[378] and negotiating a UN Framework Convention on Tax.[379] In November 2023, the Africa Group organised a press conference at the UN, where the Permanent Representative of Zambia to the United Nations, Dr Chola Milambo, stated about the group's proposal: "This Framework Convention is not merely a political document; it is a beacon of hope for developing countries that have long sought a voice in shaping the international tax norms. In addressing the critical shortcomings of the current tax system – which often side-lines the unique challenges and perspectives of developing nations – our proposal acknowledges the contributions of existing bodies like the OECD, and the UN Tax Committee, while also recognizing their limitations in fully representing the interests of all nations, particularly those in the developing world."[380]

CONCLUSIONS

The availability of financing for development continues to be heavily undermined by major shortcomings in the global economic architecture, including in relation to debt resolution, tax fairness and the fight against international tax abuse. These challenges require global solutions, and must be addressed through transparent and inclusive intergovernmental processes where all governments can participate on an equal footing. In this context, the upcoming 4th UN Financing for Development Summit, as well as the ongoing UN Tax Convention negotiations, provide crucial opportunities for governments to take urgent action.

The systemic failures within the global architecture continue to undermine the prospects of governments to mobilise the necessary financing to fulfil the SDGs, human rights and environmental objectives. And while they cannot be resolved at the national level, they have clear, severe and direct impacts on the livelihoods and rights of people all over the world.

The findings in the nine focus countries within this report have not only highlighted these ongoing impacts, but also underlined that several intersecting factors, including the Covid-19 pandemic, the geopolitical situation and the impacts of climate change, have in fact exacerbated the situation in recent years.

The result is that low-income countries are faced with the worst debt crisis they have ever encountered. The impacts on the availability of resources for financing development are clearly illustrated by the findings from the focus countries. For example, debt service currently eats up over 20 per cent of public revenue in Nepal; over 30 per cent in Grenada; over 40 per cent in the Philippines; over 50 per cent in Kenya; over 60 per cent in Morocco; and over 70 per cent in Bangladesh. Meanwhile, Zambia defaulted in 2020 and has suspended debt service to most of its non-multilateral external creditors.

The definition of ‘debt sustainability’ continues to rely on a narrow perspective focusing on the interests of creditors, without an assessment of the debtor’s ability to meet priority human development spending or an acceptable level of human rights obligations. Furthermore, the option of cancelling unsustainable or illegitimate debts continues to be refused, even in cases of catastrophic shocks, such as the 2015 earthquake in Nepal.

The ongoing escalation of the debt crisis, and the direct and severe impacts that it is having on some of the world’s poorest and most vulnerable people, serves as a stark reminder that the world still lacks a permanent multilateral sovereign debt resolution framework that ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution. Proposals to set up such a framework under the auspices of the UN continue to be blocked by global north countries.

Instead, the focus continues to be on approaches that have already proven to be inadequate and insufficient, as well as on new initiatives that offer only partial or, in some cases, even false solutions. One such example is debt swaps, which, as illustrated by the case of Ecuador, bring in concerns around transparency, costs and sovereignty breaches.

Meanwhile, the history of debt crises in focus countries such as Grenada is a stark reminder of the fact that a failed response to one debt crisis can pave the way for the next.

This escalating debt crisis also reflects the fact that domestic resource mobilisation remains extremely difficult in developing countries, and the failure of global tax cooperation is at the heart of this problem. The findings from the focus countries reflect the global picture, which is that international tax abuse continues to cost governments around the world – in both richer and poorer countries – billions of dollars in lost tax income every year.

The lack of global cooperation and large-scale international tax abuse has created a political environment where governments are failing to apply effective and progressive taxes that can reduce inequalities. This is the case for not just taxes on wealth, but also corporate income taxes – in recent decades, the average global corporate tax rate dropped dramatically. This development is also very evident in the nine focus countries of this report. Whereas, in 1990, the average corporate tax rate among the nine countries was 38.7 per cent, it was down to 27.4 per cent by 2023 – a drop of over 10 percentage points. The findings from the focus countries also clearly illustrate that this 'race to the bottom' is still ongoing. A third of the focus countries have either cut their corporate tax rates recently (Zambia and the Philippines) or just announced an intention to do so (Kenya).

While increasingly turning away from taxes on wealth and corporate profits, governments are instead relying on taxes that come with the risk of regressive impacts and can in fact result in increasing inequalities, including gender inequalities. This includes consumption taxes such as value added tax (VAT), which have taken the world by storm during the last three decades. This trend is also reflected in the focus countries of this report. Ecuador and Peru both introduced VATs in the 1970s. In the 1980s, the Philippines, Morocco and Grenada followed suit, and by the end of the 1990s, Bangladesh, Nepal, Kenya and Zambia had done the same. Meanwhile, following bad experiences with the tax, Grenada decided to abolish its VAT in the 1990s, but ended up reintroducing it again in 2010. The heavy reliance on consumption taxes is also evident in the share that this source accounts for in the total tax revenue of governments. For example, among the focus countries, it accounts for over 20 of the tax revenue in Kenya, Nepal and Morocco; over 30 per cent in Bangladesh, Ecuador and Peru.

In the context of the ongoing discussions about the new OECD corporate tax deals (Pillar 1 and Pillar 2), which would include a ban on digital services taxes, the findings from the focus countries illustrate that this is indeed a tax that some developing countries have already shown an interest in as a much-needed source of new revenue. Both Kenya and Nepal have thus introduced digital services taxes. However, the international pressure on developing countries to refrain from using this tax is also clearly illustrated by the fact that Kenya might be in the process of abolishing it again.

The environmental agenda is also bringing some newcomers to the world of taxes (and levies), but also here the trend is pointing towards tools that come with risks of regressive impacts. Kenya is an example of a country that is currently considering introducing a carbon tax. Meanwhile, Morocco is an example of a country that stands to be heavily impacted by the EU's new Carbon Border Adjustment Mechanism which, among other things, is controversial due to the risk of increasing inequalities between countries.

As the negotiation of a new UN Framework Convention on International Tax Cooperation moves forward, it is also relevant to assess the extent to which the existing international tax standards and forums are delivering for developing countries. Of the nine focus countries of this report, six are members of the OECD's Global Forum (Ecuador, Grenada, Kenya, Morocco, Peru and the Philippines). Of these six, none were a part of negotiating the OECD's standard on automatic information exchange, but five of them have signed the OECD agreement on automatic information exchange (all except the Philippines). The situation in the focus countries also illustrates the point that not all signatories have equal access to information. For example, Ecuador receives information from 99 countries and jurisdictions, Peru from 98 and Grenada from 94, while Kenya receives information from 77. In comparison, with the exception of Romania (which only receives information from 32 countries and jurisdictions), all the EU member states receive information from over 100 countries and jurisdictions.[381]

Meanwhile, the findings also clearly illustrate the point that there has – until now – been no truly global process where all countries participate on an equal footing in the development of global tax standards. For example, among the focus countries, two out of three of the least developed countries (Nepal and Bangladesh) are not a part of either the OECD's Global Forum nor the Inclusive Framework. In this regard, the negotiation of a new UN Framework Convention on International Tax Cooperation represents a fundamental shift, and an important beacon of hope for the future.

RECOMMENDATIONS

Debt management, sustainability and justice

We fully endorse the outcome document of the Civil Society Organisations Southern-led Meeting on Debt,[382] adopted in Bogota on 21 September 2023, and call on governments to take action and fulfil the demands of the Declaration.

Furthermore, we call on governments to:

1. Ensure immediate and unconditional debt cancellation of all unsustainable and illegitimate debts, to all countries in need, by all creditors.
2. Create a permanent multilateral sovereign debt resolution framework that, under the auspices of the United Nations, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution, in a process convening all creditors.
3. Establish an automatic mechanism for a debt payment moratorium and a comprehensive, timely and orderly debt restructuring in the wake of catastrophic shocks.
4. Agree on common and binding principles on responsible borrowing and lending, and ensure compliance with them.
5. Agree on multidimensional vulnerability indicators and promote an open review as the approach to debt sustainability, under UN guidance and with civil society participation, in order to incorporate climate vulnerabilities, risks and impacts, and human rights and development impact assessments.
6. Launch genuine, participatory and inclusive debt transparency and accountability mechanisms and processes, allowing access to information about debt management and renegotiations, and including the establishment of a global public debt transparency registry, with mandatory rules that require all lenders and borrowers to disclose information on loans and other debt-creating instruments.
7. Launch participatory and transparent official debt audits to examine borrowing and lay the ground for suspension and cancellation of loans that: lack public consultation; indicate questionable or fraudulent practices; have resulted in violations of human rights; or have contributed to environmental destruction and the climate crisis.
8. Address the need for accountability, transparency and further regulation of credit rating agencies (CRA), including correction of the adverse impacts of CRAs on development finance and exploring the creation of publicly owned CRAs.

Tax Justice and illicit financial flows

We call on governments to:

9. Negotiate and adopt a UN Convention on Tax as a new global framework for international tax cooperation. The UN Convention on Tax should be designed with a view to ensuring a fair division of taxing rights between nation states and reducing illicit financial flows, including by stopping all forms of tax abuse by multinational corporations and the wealthy elites, as well as mobilising financing for governments to fulfil international goals, obligations and commitments, including those relating to human rights, environmental protection, equality and the achievement of the Sustainable Development Goals.
10. Ensure that tax systems are progressive and serve to reduce inequalities within and between countries.
11. Introduce taxes on wealth to increase financing for public services, climate justice and a just energy transition, as well as to reduce inequalities within and between countries and help curb the continuing amassing of wealth, profits and power in the hands of an elite minority at the expense of the majority.
12. Eliminate tax incentives and subsidies that benefit wealthy individuals and corporations and exacerbate inequalities.
13. Tax the super-profits of corporations and individuals benefitting from times of crises by instituting windfall profit taxes.

Gender equality and women's rights

We call on governments to:

14. Ensure that tax and fiscal policies recognise, reward, reduce, redistribute and reclaim unpaid care and domestic work, including by putting in place policies on care work.
15. Reduce unfair tax burdens on women and adopt progressive, redistributive and gender equal taxation – including new forms of taxation of capital and wealth – combined with less reliance on consumption taxes, including value added tax.
16. Remove gender bias and discrimination in tax policies to ensure that tax revenues are raised and spent in ways that promote gender equality.
17. Ensure adequate financing of gender-responsive and transformative public services that provide universal access and universal coverage, that are publicly funded, delivered, managed and governed in a transparent, participatory and accountable manner, and that are being delivered by public sector workers enjoying decent work.
18. Ensure adequate financing, policy and fiscal space to promote women's rights and reduce inequalities, including by introducing gender budgeting and applying feminist taxation principles.
19. Ensure that financing mechanisms and debt management and resolution policies incorporate gender impact assessments systematically, putting gender equality and women's rights over creditors' claims.

Climate and environment

We call on governments to:

20. Ensure the urgent delivery of new and additional, non-debt-creating climate finance, beyond the unfulfilled US$100 billion per year target, that is sufficient and responsive to the climate mitigation, adaptation, and loss and damage needs of the peoples and communities of the global south.
21. Agree on the cancellation of unsustainable and illegitimate debts generated by fossil fuel projects.
22. Introduce progressive green taxation, including to ensure a just energy transition.
23. Address the negative environmental, social and economic impacts of extractive industries, including by:
    - Curbing tax incentives granted to the extractives industries;
    - Making extractives companies pay their share in taxes and immediate costs of rehabilitation and rebuilding;
    - Using taxes for peoples' needs, especially for the needs of communities affected by social and environmental damage; and
    - Protecting and upholding the rights of workers and women affected by mining, including their rights to defend their communities.

Democracy, human rights and development effectiveness

We call on governments to:

24. Ensure an enabling environment and safe civic spaces for civil society engagement and full and informed participation in policy discussions, including access to transparent, comprehensive and accessible information.
25. Integrate independent Human Rights Impact Assessments (HRIA) into fiscal policy, debt management and economic reforms planning.

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