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## Institutional gaps in global transfer pricing: A systematic review on fiscal sustainability and SDG-based tax justice for developing economies

 Ely Kartikaningdyah<sup>1\*</sup>,  Eko Ganis Sukoharsono<sup>2</sup>,  Lilik Purwanti<sup>3</sup>,  Roekhudin<sup>4</sup>

<sup>1</sup>Politeknik Negeri Batam, and Phd Students Faculty of Economics and Business, Brawijaya University, Malang City, Indonesia.

<sup>2,3,4</sup>Faculty of Economics and Business, Brawijaya University, Malang City, Indonesia.

Corresponding author: Ely Kartikaningdyah (Email: [ely@polibatam.ac.id](mailto:ely@polibatam.ac.id))

### Abstract

Transfer pricing practices by multinational enterprises (MNEs) pose significant challenges to establishing a fair, transparent, and sustainable global tax system. Developing countries are most affected, as aggressive tax avoidance erodes their revenues and undermines fiscal sustainability. This study aims to analyze institutional gaps in the implementation of transfer pricing policies between developed and developing countries and assess their implications for fiscal sustainability and tax justice within the framework of the Sustainable Development Goals (SDGs). Employing a Systematic Literature Review (SLR) based on the PRISMA method, the research screened 385 articles from Scopus and Web of Science databases and selected 19 high-quality articles using the PICOC framework and MMAT appraisal tool. The findings indicate that developing countries face persistent challenges, including limited administrative capacity, unequal access to comparable data, external pressures to provide tax incentives, and the structural bias of global tax rules such as BEPS 2.0 toward residence-based taxation. These asymmetries contribute to significant tax base erosion and undermine the ability of developing countries to achieve SDG 16 (peace, justice, and strong institutions) and SDG 17 (partnerships for the goals). The practical implications suggest the urgency of inclusive global tax governance reform, institutional capacity-building in developing countries, and equitable access to global transfer pricing databases. This study contributes to the ongoing discourse on fair international tax policy and provides an evidence-based foundation for designing sustainable and context-sensitive fiscal strategies aligned with long-term development goals.

**Keywords:** Developing countries, Fiscal sustainability, Policy Inequality, SDG 16, SDG 17, Tax governance, Transfer pricing.

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**Transparency:** The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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## **1. Introduction**

The increasingly consolidated global trade by multinational enterprises (MNEs) has increased the urgency of monitoring transfer pricing practices as an instrument of cross-jurisdictional tax avoidance. According to the UNTACD [1] report, Intra-group transactions reached USD 58.8 trillion, accounting for 65% of total world trade in 2023. In this context, manipulative practices in transfer pricing between group entities have caused significant losses for developing countries, including the loss of a legitimate tax base [1]. The Organisation for Economic Co-operation and Development (OECD) estimates that global tax losses due to transfer mispricing practices reach USD 312 billion per year, with 78% of these losses borne by developing countries [2]. The World Bank also notes that developing countries lose an average of 2.3% of their gross domestic product (GDP) due to such practices, which is significantly higher than the approximately 0.7% loss experienced by developed countries, according to the same report [3]. This gap indicates a structural imbalance in the international tax system that weakens the fiscal capacity of developing countries to finance sustainable development.

The gap in the implementation of transfer pricing policies between developed and developing countries is not only caused by technical aspects but is also influenced by institutional, political, and informational factors. Developed countries tend to have mature tax administration systems, access to extensive comparative databases, and competent human resources [4, 5]. In contrast, developing countries face structural limitations, dependence on external consultants, and pressure to maintain investment competitiveness through excessive tax incentives [6].

The implementation of global policies such as Base Erosion and Profit Shifting (BEPS) 2.0 and Pillar Two actually widens this gap. The initiative initiated by the OECD emphasizes the principle of domicile-based taxation, which tends to benefit the country where the parent company is domiciled, generally developed countries, and ignores the jurisdiction where the economic activity actually takes place [7, 8]. In fact, within the framework of the Sustainable Development Goals (SDGs), fiscal sustainability and strong institutional development are important elements in achieving SDG 16 (peace, justice, and strong institutions) and SDG 17 (partnerships for the goals).

In responding to these challenges, understanding the gap in transfer pricing policies must be reviewed not only from the perspective of international law but also through the lens of institutional and information economics. The theory of information asymmetry [9] explains how the inequality of access to information between tax authorities and multinational companies opens up space for policy manipulation. On the other hand, institutional theory [10] underlines the importance of building a regulatory and governance system that is responsive to the local context as a prerequisite for increasing the effectiveness of fiscal policy.

Based on this background, this study is proposed to answer two main questions: (1) How is the gap in implementing transfer pricing policies between developed and developing countries mapped in contemporary scientific literature? (2) How can an adaptive and fair policy framework be formulated to strengthen fiscal sustainability in developing countries in the context of tax globalization? To answer these questions, this study uses the Systematic Literature Review (SLR) approach with the following steps: (1) identification and selection of academic literature related to transfer pricing policies from indexed international databases; (2) thematic synthesis of key findings using a narrative analysis approach and topic categorization; and (3) formulation of a conceptual and policy framework that integrates the principles of fiscal justice, institutional resilience, and the direction of global sustainability. This approach is expected to provide theoretical and practical contributions to strengthening inclusive and contextual tax governance in developing countries.

## **2. Literature Review**

Transfer pricing is a method of pricing transactions between affiliated companies within a cross-country business group. Although this mechanism is generally legal, many multinational companies (MNEs) use it to shift profits to jurisdictions with low tax rates through base erosion and profit shifting (BEPS) practices [1]. The imbalance in monitoring this practice has created what is known as fiscal asymmetry between developed and developing countries [11]. According to UNTACD [1], around two-thirds of global trade consists of intra-group transactions, which are often difficult to monitor due to the complexity of corporate structures and a lack of information transparency. Tax avoidance practices through transfer pricing cause significant losses to developing countries' revenues, which ultimately weaken the country's capacity to fund the sustainable development agenda [4].

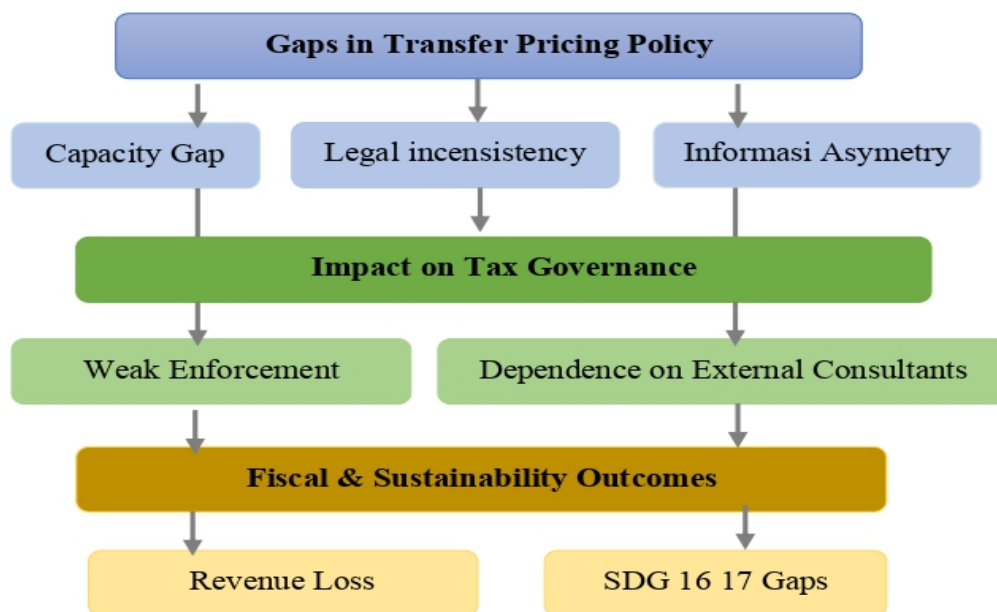
The theory of information asymmetry Akerlof [10], explains that in a situation where one party has more information than the other, there is an imbalance in decision-making. In the context of transfer pricing, multinational companies have control over detailed internal information regarding cost structures, transfer prices, and business plans, while tax authorities in developing countries often do not have access to adequate comparable data [12, 13]. This imbalance allows MNEs to create transfer pricing schemes that are difficult for tax authorities to verify. The study by Eukeria and Mpofu [14] emphasized that without an efficient cross-border data exchange system, such as automatic exchange of information (AEOI), developing countries will remain behind in monitoring complex multinational transactions.

Institutional economic theory [10] emphasizes that the effectiveness of economic and tax policies is largely determined by the quality of institutions, both formal and informal. Developed countries generally have strong legal systems, computerized tax administrations, and qualified human resources in implementing transfer pricing policies [15]. In contrast, many developing countries face budget shortfalls, dependence on external consultants, and challenges in inter-agency coordination Sebele-Mpofu, et al. [16]. Barbosa [11] shows that failure to build institutional capacity makes developing countries more vulnerable to political and economic pressure from multinational companies and donor countries, so that their tax policies become less autonomous.

The OECD has developed the BEPS and Second Pillar initiatives to prevent tax avoidance practices. However, the implementation of these initiatives reveals an imbalance between developed and developing countries. The Second Pillar,

which introduces a global minimum tax rate of 15%, is considered to limit the fiscal policy space of developing countries in providing tax incentives to attract foreign direct investment [7]. According to Harpaz [8] in global negotiations on tax reform, the representation of developing countries is very minimal. This results in an international tax policy that better reflects the interests of developed countries and reinforces the dominance of the domicile-based tax principle compared to the source-based tax principle, which is more beneficial for developing countries as locations for real economic activity [17, 18].

In the context of fiscal sustainability, gaps in transfer pricing oversight result in reduced resources available for developing countries to fund public services, infrastructure, and social programs [19]. When state revenues are disrupted by tax avoidance practices, dependence on external debt and international aid increases, ultimately threatening fiscal sovereignty [18]. In response to these challenges, several studies have emphasized the need for more inclusive global reforms, increased international cooperation, and policy adaptations that take into account the specific conditions of developing countries [20, 21]. Transfer pricing can no longer be viewed merely as a technical tax issue but must be examined within the framework of fiscal justice and sustainable development. To clarify the structure and causal linkages analyzed in this review, a conceptual framework is proposed (see Figure 1). This framework highlights the gaps in institutional support and information regarding transfer pricing that developing countries face, how these gaps affect their national tax systems, and the broader implications for financial stability and the achievement of Sustainable Development Goals (SDGs).



**Figure 1.**  
Conceptual Framework: Transfer Pricing Gaps, Tax Governance, and Sustainability Outcomes.

### 3. Research Methods

The research method used in this article is a *systematic literature review* (SLR) with the PRISMA (*Preferred Reporting Items for Systematic Reviews and Meta-Analyses*) approach. The PRISMA and meta-analysis method is a systematic approach used in SLR to identify, select, and analyze relevant research in a transparent and structured manner. The research process begins by formulating research questions using the PICO (Population, Intervention, Comparison, Outcome) or PICOC (Population, Intervention, Comparison, Outcome, Context) model to ensure the relevance of the studies to be analyzed. Articles that meet the criteria will be analyzed through a thematic approach or narrative synthesis to reveal trends, research gaps, and key contributions from previous studies. The validity and reliability of data in the form of quality articles are evaluated using the Critical Appraisal Checklist. A comprehensive mapping of the issues studied based on the results of this study can be a recommendation for further research.

This research method is a qualitative systematic review aimed at identifying, evaluating, and synthesising relevant research in the field under study. The literature search process is conducted systematically through academic databases such as Scopus and Web of Science (WOS), covering titles, abstracts, and keywords. The subsequent stage involves a selection process using the PRISMA method, which includes identification, screening, eligibility, and inclusion. Articles meeting the criteria are analysed using a thematic approach or narrative synthesis to identify trends, research gaps, and key contributions from previous studies. The quality of the selected articles is also assessed using tools such as the *Critical Appraisal Checklist* to ensure data validity and reliability. The results of this study are expected to provide a comprehensive mapping of the issues being studied, along with recommendations for further research.

Article selection was conducted based on predetermined inclusion and exclusion criteria, including the year of publication, topic relevance, and source quality. Duplicate articles and inappropriate publication types, such as conference papers, book chapters, and reviews, were excluded to ensure the reliability of the analysis results. The data obtained from the articles were then analyzed qualitatively using thematic synthesis to identify existing research gaps. This approach

allows the formulation of evidence-based conclusions that can significantly contribute to the development of studies in the field, in accordance with the study's objectives, namely to identify the gap in the implementation of transfer pricing policies between developed and developing countries and to determine the main challenges faced by developing countries in implementing multinational companies' transfer pricing policies.

To explicitly formulate the research focus, the PICOC (Population, Intervention, Comparison, Outcome, and Context) approach was used, which was adapted as follows:

- (P): Developed and developing countries that implement transfer pricing policies.
- (I): International transfer pricing policies and regulations, including the implementation of BEPS 2.0 and Pillar Two.
- (C): Comparison of implementation between developed and developing countries.
- (O): Implementation gaps, institutional challenges, and their impact on fiscal sustainability.
- (C): International tax governance within a sustainable development framework (SDG 16 and SDG 17).

Based on the PICOC, the main questions in this study are: How does the gap in transfer pricing policy implementation between developed and developing countries affect fiscal sustainability, and what institutional strategies can be used to build fair and sustainable tax governance?

PRISMA consists of four main stages: identification, screening, eligibility, and inclusion.

### 3.1. Identification

At this stage, literature searches are conducted through academic databases such as Scopus and Web of Science using predetermined keywords, focusing on the search areas of titles, abstracts, and keywords. The search syntax and data utilize the string ("developed countries" OR "advanced economies" OR "developing countries" OR "international taxation") AND ("transfer pricing" OR "international taxation" OR "tax policy" OR "BEPS"). The search was conducted on February 4, 2025; the search coverage includes titles, abstracts, and keywords. The search results yielded 385 articles from Scopus and 50 articles from Web of Science (WOS), including various publication types such as conference papers, book chapters, and reviews, and the year of publication.

### 3.2. Screening

Once we collected the articles, we conducted an initial screening process based on the inclusion and exclusion criteria. The results of the inclusion criteria were articles published between 2020 and 2024. The inclusion criteria also encompassed relevant study types such as empirical studies, theoretical studies, or case studies, and limited the publication language to English-language articles only, as well as articles from indexed journals or conferences. Conversely, the exclusion criteria included duplicate articles (since they were obtained from the Scopus and Web of Science databases), articles that did not have full access (*full text was unavailable*), and studies that were not relevant to the topic or research question. The article selection criteria are presented in Table 1. We will proceed to the eligibility stage with articles that successfully pass the screening step. After selection from 435 articles according to the criteria, 322 articles were issued, with details of 186 articles not meeting the subject area, 4 conference articles, 33 articles outside the time span of 2020-2024, 29 articles in the form of books, 46 non-open access articles, and 24 articles in languages other than English, resulting in 109 articles that meet the eligibility criteria for the next stage.

**Table 1.**  
Article selection criteria.

| No | Criteria      | Inclusion  | Exclusion   |
|----|---------------|--|---|
| 1  | Database      | Scopus, WOS                                      | Besides Scopus, WOS   |
| 2  | Time span     | 2020-2024  | Apart from 2020-2024  |
| 3  | Subject area  | International tax policy, transfer pricing, BEPS | Apart from international tax policy, transfer pricing, and BEPS |
| 4  | Document type | Article  | Conference articles, books, review articles                     |
| 5  | Language      | English  | Besides English   |
| 6  | Source type   | journal  | Book series   |
| 7  | Access        | All open access                                  | Non-open access   |

### 3.3. Eligibility

At this stage, a more in-depth examination of the article content is conducted. The selected articles are evaluated based on the abstract, methodology, results, and discussion to ensure that the study is relevant to the research being conducted. Additionally, aspects of the quality of the studies are checked using critical appraisal tools. Articles that do not meet the eligibility standards are excluded from the analysis. Each article is analyzed based on its abstract, methodology, and main findings. Only articles that directly address the gap in transfer pricing implementation between developed and developing countries are retained. Many articles discussing transfer pricing address it in general or legal terms without considering the economic and administrative aspects of developing countries. These articles are not analyzed further. Of the 109 articles tested for eligibility, 81 articles were excluded because 62 articles employed quantitative research methods and 18 were non-empirical articles. The eligibility test resulted in 29 articles being retained.

3.4. Inclusion

The final stage involves selecting articles for systematic analysis. Articles meeting all previous criteria are categorized according to the research theme. Data synthesis can be performed using a qualitative approach, such as thematic analysis. At this stage, a PRISMA flowchart is created to display the number of articles at each selection stage, from identification to the final analysis. Strict adherence to the PRISMA method enhances transparency, reproducibility, and validity in drawing conclusions and making recommendations for further research. Additionally, from the remaining 29 articles, a qualitative feasibility test was conducted using the Mixed Methods Appraisal Tool (MMAT) criteria, which the articles met [22]. Critical assessment using MMAT will help evaluate the credibility of each study's methodology. We prioritize empirical or policy-based articles because they provide concrete insights, not just conceptualizations. Thus, 81 articles were discarded because most of them used quantitative methods that were not suitable for the qualitative analysis conducted in this study or because the articles did not discuss transfer pricing policies in developing countries at all. The assessment criteria used are: first, is the qualitative approach appropriate to answer the research question? Second, is the qualitative data collection method adequate to answer the research question? Third, are the findings obtained from the data adequate? Fourth, is the interpretation of the results sufficiently supported by the data? Fifth, is there coherence between the source, collection, analysis, and interpretation of qualitative data? Each article is given a Yes, No, or Don't Know assessment. The results of the feasibility test included 19 articles. The PRISMA diagram is presented in Figure 2.

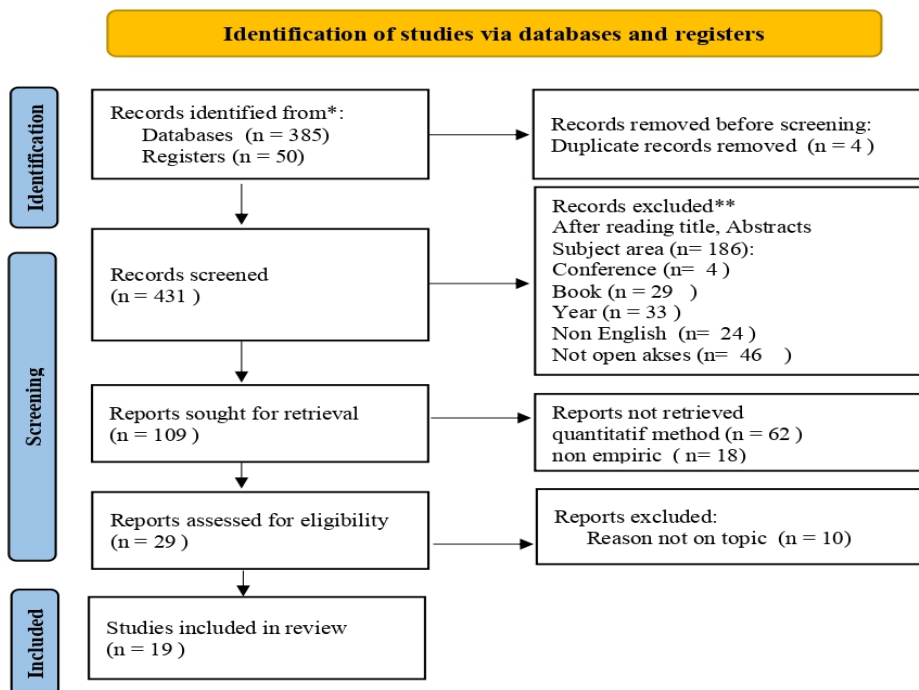


Figure 2. PRISMA Diagram.

4. Result and Discussion

Figures 3 and 4 present the distribution of research topics in the period 2020 to 2024 based on the frequency of keyword occurrences in the scientific articles analyzed. The keywords shown are the top 20 with the highest number of occurrences, reflecting the main focus and trends in research over the past five years. In particular, keywords such as 'transfer pricing', 'tax avoidance', and 'multinational enterprises' dominate, indicating academic attention to cross-border taxation issues. In addition, the keywords 'sustainability' and 'sustainable' are also included to identify the relevance of research topics to the global sustainability agenda, although their frequency is relatively lower compared to other technical keywords. This distribution provides an overview of the direction and priorities of research in the field of taxation and the global economy.



**Table 2.**  
Article Details for Meta Synthesis.

| No | Title  | Author                           | Year | Journal   |
|----|--|----------------------------------|------|---|
| 1  | Transfer Pricing in the BEPS Project and China's Response  | Xu [4]                           | 2020 | Frontiers of Law in China                               |
| 2  | Transfer Pricing Audit Challenges and Dispute Resolution Effectiveness in Developing Countries with Specific Focus on Zimbabwe         | Sebele-Mpofu, et al. [16]        | 2021 | Accounting, Economics, and Law                          |
| 3  | Revisiting the Case of Customary International Tax Law   | Broekhuijsen and Valderrama [23] | 2021 | International Community Law Review                      |
| 4  | Moves and Countermoves in the Digitization Challenges to International Taxation  | Kudrle [24]                      | 2021 | Technology in Society                                   |
| 5  | OECD/International – The Absence of a Stable Core in the International Taxation Regime   | Shome [17]                       | 2021 | Bulletin for International Taxation                     |
| 6  | An exposition of transfer pricing motives, strategies and their implementation in tax avoidance by MNEs in developing countries        | Sebele-Mpofu, et al. [5]         | 2021 | Cogent Business & Management                            |
| 7  | Strengthening Tax Systems in Developing Countries: The Dutch Contribution  | Oemes et al [15]                 | 2022 | SEO Amsterdam Economics                                 |
| 8  | The Politics of Taxing Multinational Firms in a Digital Age  | Gelepthis and Hearson [19]       | 2022 | Journal of European Public Policy                       |
| 9  | Towards an Amended Arm's Length Principle: Tackling Complexity and Implementing Destination Rules in Transfer Pricing                  | Greil, et al. [13]               | 2022 | WU International Taxation Research Paper Series         |
| 10 | Transfer Pricing Case Law in Slovakia-Relevance of OECD Transfer Pricing Guidelines  | Kačaljak [25]                    | 2022 | Acta Universitatis Carolinae Iuridica                   |
| 11 | Transfer Pricing Documentation: Globalization and Regional Optimization  | Korol, et al. [12]               | 2022 | Universal Journal of Accounting and Finance             |
| 12 | International Taxation and the Global Structure of Capitalism: The Influence of the OECD in the Design of the International Tax System | Blanco [18]                      | 2022 | Review of Radical Political Economics                   |
| 13 | The Legal (Im) possibilities of. The EU is Implementing the OECD/G20.Inclusive.Framework.on.Base.Erosion and Profit Shifting.          | Kendrick [26]                    | 2022 | Global Trade and Customs Journal                        |
| 14 | Defenders of the Status Quo: Making Sense of the International Discourse on Transfer Pricing Methodologies                             | Brugger and Engebretsen [20]     | 2022 | Review of International Political Economy.              |
| 15 | Global Minimum Corporate Tax: A Death Knell for African Country Tax Policies   | Titus [7]                        | 2022 | Intertax  |
| 16 | International Tax Reform: Who Gets a Seat at the Table?  | Harpaz [8]                       | 2023 | University of Pennsylvania Journal of International Law |
| 17 | Anti-Avoidance Jurisprudence in Direct Taxation: The CJEU Between Politics and Certainty   | Traut and de Resende [27]        | 2024 | Intertax  |
| 18 | Manipulation of Transfer Pricing Rules by Multinational Enterprises in Developing Countries: The Challenges and Solutions              | Eukeria and Mpofu [14]           | 2024 | Journal of Tax Reform                                   |
| 19 | When digital taxes come due: national digital taxes and the negotiation of the OECD inclusive framework                                | Heering, et al. [21]             | 2024 | New Political Economy                                   |

#### 4.1. Structural Gaps in Transfer Pricing: Systemic Inequality between Developed and Developing Countries

This study extends the institutional economic theory by highlighting the fiscal implications of asymmetric policy formation in international tax governance, especially in the context of global sustainability objectives. Transfer pricing practices are conceptually built on *the arm's length principle*, namely that transactions between affiliated parties must reflect fair value as if they were carried out by independent parties. However, this principle is only effective if supported by access to market information, high administrative capacity, and a strong regulatory system [28]. These conditions are generally found only in developed countries, while developing countries face multidimensional constraints.

#### 4.1.1. Administrative Capacity Gap

Differences in administrative capacity are among the primary causes of the gap in implementing transfer pricing policies between developed and developing countries. Developed countries generally possess more mature tax systems, skilled experts, and access to global databases that facilitate more effective transfer pricing audits. Conversely, developing countries continue to face challenges in strengthening their tax administration infrastructure and have limitations in the number and capacity of tax auditors [15]. According to Sebele-Mpofu, et al. [16] developed countries generally have stricter regulations and more sophisticated tax administration systems, as well as the resources available to address transfer pricing manipulation by multinational companies. The same point was emphasized by Traut and de Resende [27] who stated that differences in tax administration capacity and compliance with *the arm's length principle* are among the main gaps in transfer pricing policies. Developed countries have strong tax systems with access to extensive comparative databases to determine arm's-length prices in transactions between affiliates.

In contrast, administrative constraints in developing countries include a lack of skilled manpower, weak audit infrastructure, and challenges in adopting complex risk-based transfer pricing analysis methods. According to Kendrick [27], developing countries not only lack sophisticated oversight tools but also face technical and political obstacles in adopting global reforms designed by developed countries. Developing countries are more vulnerable to tax evasion by multinational companies that exploit weaknesses in oversight and enforcement systems.

#### 4.1.2. Inequality of Access to Information

Access to comparable data and transparent information across jurisdictions is the main source of inequality between developed and developing countries in the implementation of *transfer pricing policies*. Developed countries have automatic information exchange systems and access to comprehensive international databases, which allow for more transparent reporting and analysis of transactions between affiliated companies [27]. In contrast, developing countries face difficulties in obtaining adequate comparative data and lack sufficient infrastructure to access or utilize the available data. Xu [4] states that the automatic information exchange system was designed to improve tax transparency, but its use is more widely accessed by developed countries. Developing countries do not have the capacity or international agreements that allow full access to this data. The *implementation of BEPS Action 13 on Country-by-Country Reporting (CbCR) further exacerbates this imbalance*. The CbCR reporting threshold set at EUR 750 million means that many large companies in developing countries are not required to report their cross-border transactions transparently. This provides an advantage for multinational companies operating in developing countries to avoid disclosing their tax obligations across jurisdictions. Xu [4]. Sebele-Mpofu, et al. [5] also emphasized that challenges such as a lack of technical expertise, weak tax infrastructure, and limitations in enforcing existing regulations make developing countries more vulnerable to tax avoidance practices by multinational companies. Developing countries experience technical obstacles and lose their bargaining position because they do not receive enough information to conduct independent and objective audits.

#### 4.1.3. Dominance of the Domicile Principle in Global Regulation

Another structural inequality lies in the dominance of the residency-based taxation principle adopted by developed countries in the formulation of global tax policy, especially through platforms such as the OECD. Developed countries encourage the adoption of *the arm's length principle* and the residency-based taxation approach within the *inclusive framework*, which tends to benefit the jurisdiction where the multinational company is domiciled, rather than where the economic activity or added value is generated [23]. In the context of OECD Pillar Two, which introduced a global minimum tax, there is a tendency for developed countries to be better prepared in terms of infrastructure and capacity to implement the policy, while developing countries lose the flexibility to use tax incentive instruments as an economic development strategy [7]. Pillar Two is considered to limit the fiscal space of developing countries because they are forced to increase minimum tax rates, even though they do not yet have a sufficiently mature economic structure to compete equally in the global market.

The division of taxation rights in international agreements also benefits the home country of the company rather than the source country where the economic activity takes place. Titus [7] emphasised that this division reduces the income of developing countries that have a real contribution to the value creation process. This is confirmed by Harpaz [8] through the case of Rwanda, where tax incentive policies aimed at attracting FDI are still categorised as *low-tax jurisdictions* without considering the real economic benefits for the country. According to Brugger and Engebretsen [20] the dominance of developed countries in the formation of global standards, such as the OECD guidelines, makes developing countries only policy recipients, not shapers. Developed countries have greater influence in formulating international tax norms due to their stronger negotiation and political capacity, while developing countries must adapt to policies that are often not in line with their economic structures.

#### 4.2. Challenges of Transfer Pricing Implementation in Developing Countries

Differences in administrative capacity, laws, and fiscal strategies create significant gaps in the implementation of *transfer pricing policies* between developed and developing countries. The four main aspects of the gap are legal inconsistencies, reliance on third-party consultants, the complexity of digital transactions and intangible assets, and political-economic pressures related to the provision of tax incentives.



#### 4.2.1. Inconsistency and Disharmony of Law

Developing countries face difficulties in fully adopting the OECD guidelines, particularly the *arm's-length principle*, due to limited administrative capacity and the unclear legal status of *soft law*. While developed countries have integrated the guidelines into their national legal systems, developing countries still face obstacles in the implementation and effective enforcement of tax laws [25]. Differences in basic taxation principles also increase inequality. Developed countries generally support domicile-based taxation, while developing countries prefer a source-based approach. This has resulted in an unfair distribution of taxation rights in international practice [7]. The OECD's Pillar Two, although aimed at curbing tax avoidance, tends to limit developing countries' fiscal space in setting incentive policies [7].

Most developing countries have not harmonised their domestic laws with OECD standards. Kačaljak [25] in a case study of Slovakia, it was noted that although the OECD Guidelines are recognized, their status remains as soft law and is often inconsistent with domestic laws. In developing countries, this creates high legal uncertainty and undermines the legitimacy of tax adjustments made by fiscal authorities. Brugger and Engebretsen [20] stated that through the OECD, developed countries maintain a system that benefits them as capital exporters.

This issue also arises in global discussions on digital economy taxation. Developing countries have proposed a model that emphasizes taxation in the source country, but reaching a global compromise remains challenging [23]. International tax treaties often favor developed countries as the country of domicile of the company rather than the source country of income. This has an impact on developing countries' tax revenues, which are significantly smaller [7]. In the context of OECD Pillar Two, Titus [7] assessed that its approach limits developing countries from using tax incentives as an investment attraction. Although Pillar Two aims to reduce global tax competition, in reality, this approach actually reduces the competitiveness of developing countries.

#### 4.2.2. Excessive Reliance on Third-Party Consultants

Limited human resources and tax infrastructure make developing countries highly dependent on third parties, especially tax consultants, in handling *transfer pricing documents and audits*. This dependence does not always guarantee accountability or integrity of the process and weakens state control over taxpayer compliance [26]. Study found that companies in Portugal and several developing countries rely on all transfer pricing documents from external consultants who often also act as company advisors. This creates a potential *conflict of interest*. This practice reduces the autonomy of tax authorities and increases the risk of ratifying inaccurate transfer pricing schemes. In addition, the imbalance in access to information and comparative data worsens the bargaining position of developing countries in detecting price manipulation practices. Developing countries face technological and international cooperation barriers, unlike developed countries that have automatic information exchange systems and extensive comparative databases [27].

According to Kendrick [26] developed countries, such as the European Union, also face legal and political challenges in aligning their tax systems with global policies such as BEPS. However, developed countries still have a far superior capacity and infrastructure compared to developing countries in terms of supervision, auditing, and enforcement of transfer pricing laws. Xu [4] emphasized that these limitations hamper the ability of developing country tax authorities to conduct risk analysis and audits independently. This also makes it difficult for developing countries to access reliable comparative data, which is crucial in determining fair prices based on the arm's length principle.[27].

#### 4.2.3. Complexity of Digital Transactions and Intangible Assets

The digital economy and the increasing use of intangible assets create new challenges in transfer pricing. Kudrle [24] shows that digitalisation makes it easier for MNEs to carry out cross-border economic activities without a physical presence, thus complicating the determination of tax nexus. Digital products such as software, algorithms, or data are difficult to assess in terms of market value because there are no real comparable transactions.

Digital globalization has changed the economic landscape, making transfer pricing increasingly difficult to monitor, especially for transactions involving intangible assets. MNEs can easily shift profits through royalties, licenses, and *cost sharing* without substantial activity in the jurisdiction. Kudrle [24] states that multinational companies can now manage their operations from other countries far from where the income is generated, making it difficult for developing countries to determine fair taxation rights.

The CbCR implementation of BEPS Action 13 sets the threshold too high (EUR 750 million), so many large companies in developing countries are not covered by the reporting. This creates an *asymmetry of information* between jurisdictions, where developed countries benefit from the reporting system, while developing countries do not have adequate access to information. Xu [4] also highlights that developing countries are more vulnerable to *profit-shifting practices* that utilize intangible asset transactions to shift profits to jurisdictions with low tax rates. The division of taxation rights in bilateral agreements that adopt the OECD model tends to favor the country where the company is based rather than the country where the economic activity takes place [7].

The OECD recognised this difficulty through the development of Pillar One and Pillar Two in BEPS 2.0, but many developing countries do not yet have the legal and data infrastructure to implement it, Titus [7]. The study by Heering, et al. [21] emphasised that digitalisation actually increased opportunities for tax avoidance through *value dematerialisation*.

#### 4.2.4. Political-Economic Pressure to Provide Tax Incentives

Developing countries are often faced with a dilemma between attracting foreign investment and maintaining their tax base. Harpaz [8] states that in international negotiation forums, developing countries are often in a weak bargaining position, so they only follow global policies even though they are not in accordance with their domestic conditions.

Gelepithis and Hearson [19] note that policies such as the Global Minimum Tax actually limit the fiscal space of these countries to compete legitimately in attracting foreign direct investment (FDI). Oemes et al [15] explain that tax incentives are often not balanced with equivalent economic benefits, thereby sacrificing developing countries' tax revenues. Developing countries are compelled to offer tax incentives, such as corporate income tax exemptions and preferential rates, to attract FDI. However, this policy actually weakens their tax base and opens up space for *base erosion and profit-shifting strategies* [15]. Additionally, the OECD Pillar Two indirectly restricts the financial independence of developing countries by labeling places with tax incentives as low-tax areas, without considering the overall economic advantages of these incentives. Developing countries that seek to attract quality investment are still subject to global policy penalties despite targeting long-term national benefits. Korol, et al. [12] added that the regulatory and economic structural weaknesses of developing countries are exploited by MNEs to set transfer prices that do not reflect actual market conditions. Consequently, MNEs shift profits to low-tax jurisdictions, leading to a loss of potential tax revenues in developing countries [14].

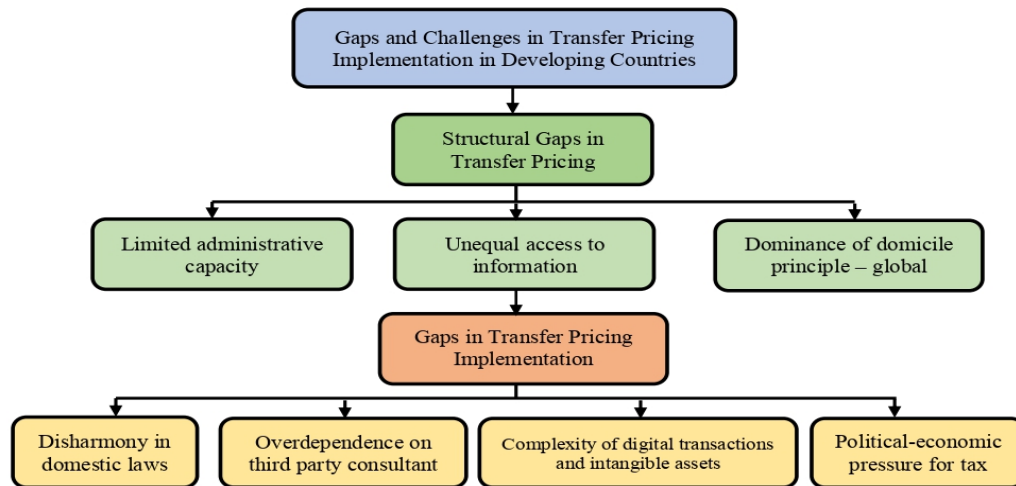
Table 3 presents the main findings regarding the gaps in the implementation of transfer pricing policies in developing countries. The table summarizes the main themes identified from the literature, key findings that describe the problems or challenges faced, and primary references that serve as data sources. With a systematic approach, this table aims to provide a comprehensive understanding of the factors that cause discrepancies in the implementation of transfer pricing policies in developing countries, both in terms of regulation, institutional capacity, and pressure from global actors.

**Table 3.**  
Findings of Transfer Pricing Gaps in Developing Countries.

| No | Main Theme                                      | Key Findings   | Primary References               | Sustainability Implication  |
|----|---|--|----------------------------------|---|
| 1  | Administrative Capacity Gap                     | Developing countries face limitations in infrastructure, human resources, and database access in transfer pricing audits.                    | Xu [4]                           | Undermines institutional sustainability; weak tax capacity leads to long-term fiscal dependency and poor public service delivery.                     |
| 2  | Inequality of Access to Information             | Developed countries benefit more from the AEOI and CbCR systems, while developing countries face difficulties in accessing comparative data. | Sebele-Mpofu, et al. [16]        | Threatens economic sustainability; asymmetrical data access hinders fair taxation, exacerbating global income inequality.                             |
| 3  | Dominance of the Domicile Principle             | The domicile principle in OECD policies (BEPS, Pillar Two) benefits developed countries and disadvantages source countries.                  | Broekhuijsen and Valderrama [23] | Hampers global tax justice and sustainability; discourages equitable wealth distribution and weakens local economic resilience.                       |
| 4  | Legal Inconsistency                             | Developing countries have not yet harmonized with OECD guidelines, resulting in legal uncertainty and weak enforcement.                      | Kudrle [24]                      | Reduces regulatory sustainability; inconsistent legal frameworks discourage investment and fail to protect tax sovereignty.                           |
| 5  | Reliance on Third-Party Consultants             | Developing countries rely heavily on external consultants, which can create conflicts of interest and weaken fiscal controls.                | Sebele-Mpofu, et al. [5]         | Jeopardizes governance sustainability; reliance on external actors limits local capacity building and transparency.                                   |
| 6  | Digital Economy Complexity & Intangible Assets  | Digitalization increases the opportunity for profit shifting; intangible assets are difficult to measure their fair value.                   | Korol, et al. [12]               | Challenges in digital sustainability: difficulties taxing intangibles lead to loopholes, limiting domestic revenue needed for digital transformation. |
| 7  | Political-Economic Pressures for Tax Incentives | Developing countries provide excessive tax incentives to attract FDI but harm the tax base.  | Gelepithis and Hearson [19]      | Undermines fiscal and social sustainability; reduced revenue impairs long-term development goals and public welfare.                                  |
| 8  | Tax Base Erosion                                | Transfer mispricing causes revenue losses of up to 2–3% of the GDP of developing countries annually.   | OECD [29]                        | Critical threat to sustainable development; eroded revenue affects investment in health, education, and climate resilience.                           |
| 9  | Weakness of Tax Institutions                    | Weak fiscal institutions increase the risk of profit shifting and erode fiscal legitimacy.   | OECD [29] and Chiu [30]          | Endangers institutional sustainability; lack of trust in tax institutions leads to low compliance and systemic inefficiency.                          |

| No | Main Theme                   | Key Findings  | Primary References               | Sustainability Implication  |
|----|------------------------------|---|----------------------------------|---|
| 10 | Global Structural Inequality | Developed countries dominate the formation of global tax standards; developing countries are primarily policy takers. | Broekhuijsen and Valderrama [23] | Reinforces unsustainable global power asymmetries; limits developing countries' agency in achieving equitable tax outcomes. |

The results of the article identification, Figure 5, present the gaps and challenges of implementing transfers in developing countries.



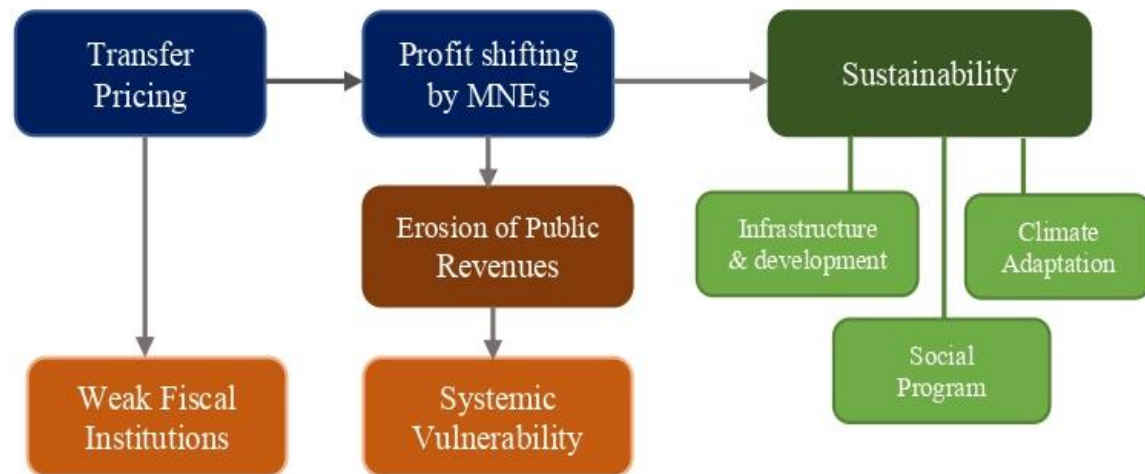
**Figure 5.** Implementation Gaps and Challenges: Transfer Pricing in Developing Countries.

#### 4.3. Implications for Fiscal Sustainability and Global Justice

The systemic gap in transfer pricing enforcement between developed and developing countries has profound implications not only for fiscal governance but also for the broader agenda of sustainability science and management. Fiscal sustainability is a foundational pillar for achieving the Sustainable Development Goals (SDGs), particularly in resource-constrained developing countries [29]. When multinational enterprises (MNEs) shift profits out of these jurisdictions through aggressive transfer pricing strategies, the resulting erosion of public revenues directly compromises the ability of governments to invest in sustainable infrastructure, education, healthcare, and climate adaptation programs [31]. From a sustainability management perspective, institutional weaknesses in tax governance represent a form of systemic vulnerability. Weak fiscal institutions reduce the state's capacity to plan, implement, and monitor long-term sustainability strategies [30].

SDG-aligned investments, such as those in renewable energy, disaster preparedness, and inclusive urban development, require predictable and equitable fiscal flows, which are often undermined by persistent tax base erosion and asymmetrical international tax norms dominated by high-income countries [20]. Moreover, the inability of developing countries to assert tax rights due to informational and regulatory asymmetries reinforces global inequalities and violates the principle of intergenerational equity, a core value in sustainability science. When governments become dependent on external debt to compensate for lost revenues, they risk transferring the fiscal burden to future generations, creating a cycle of unsustainable public finance [29].

This study, therefore argues that fair and inclusive global tax governance, particularly in the domain of transfer pricing, is not merely a technical issue but a sustainability imperative. Strengthening institutional resilience, promoting cross-border fiscal justice, and ensuring equitable resource mobilization are essential for transforming sustainability science into effective and inclusive policy practice [19]. Figure 6 presents a framework of implications for sustainability science and management.



**Figure 6.**  
Implications for Sustainability Science and Management.

The following is an explanation of the implications of the fiscal gap on economic sustainability:

#### 4.3.1. Tax Base Erosion and Its Impact on Public Financing

Unfair transfer pricing practices have caused developing countries to lose a significant amount of potential tax revenue annually. An IMF study estimates that *transfer mispricing practices* result in revenue losses of 2–3% of gross domestic product (GDP) per year in developing countries, which ultimately weakens the country's capacity to finance strategic sectors such as education, infrastructure, and public health services. Sebele-Mpofu, et al. [5] show that tax avoidance by multinational companies has a direct impact on low public budget allocations. Due to the loss of the domestic tax base, developing countries are experiencing increasing fiscal pressures, especially in the post-pandemic context, where the need for social spending increases but state revenues actually decrease. In the long term, these pressures force developing countries to increase their dependence on external financing such as external debt, creating an unsustainable *peace, justice, and strong institutions vicious cycle of fiscal dependence* [32]. *Dependence on debt to cover budget deficits poses long-term macroeconomic risks such as rising interest rates, exchange rate depreciation, and progressive reductions in public spending. More broadly, this condition contradicts the principles of SDG 16 and SDG 17 (partnerships for goals), which emphasize the importance of inclusive, participatory, and transparent governance in supporting sustainable development. The lack of a fair global tax mechanism exacerbates the inequality between jurisdictions in distributing global economic benefits* [29]. Opaque transfer pricing arrangements may diminish the tax base of developing nations and further deepen economic inequality.

#### 4.3.2. Weak Institutions Escalate Global Inequality.

Institutional weaknesses in developing country tax authorities are one of the main causes of systemic *fiscal leakage*. Chiu [30] *emphasized that when audit risk is low and law enforcement mechanisms are weak, multinational companies will normalize aggressive tax avoidance strategies through schemes such as profit shifting and the use of special purpose entities in low-tax jurisdictions (tax haven jurisdictions)*. When tax avoidance becomes a practice that is considered technically legal but violates the spirit of fiscal justice, the principle of *fiscal legitimacy* becomes increasingly fragile. Tax institutions that do not have the capacity to identify, audit, and prosecute transfer pricing manipulation actually strengthen the bargaining position of multinational companies compared to host countries, especially developing countries.

From a sustainability viewpoint, having strong tax institutions is important not just for their technical efficiency but also for demonstrating a country's control over its own development. Without reforming the structure and system of fair tax governance, developing countries will continue to be targets of asymmetrically coordinated global tax avoidance practices. The OECD [29] states that strengthening tax administration capacity, including *substance-over-form-based transfer pricing reforms*, is key to enhancing the fairness of the international fiscal system. However, as long as international regulations remain dominated by an approach that favors residence jurisdictions over source jurisdictions, the disparity in global tax revenues will continue to widen [19].

## 5. Conclusions

This study reveals that the gap in the implementation of transfer pricing policies between developed and developing countries is not only technical but also systemic and institutional. Through a systematic analysis of 19 scientific articles, it was found that developing countries face various structural obstacles, including limited administrative capacity, unequal access to comparable data, disharmony in domestic regulations, and political-economic pressures that encourage excessive tax incentives. Additionally, the dominance of the domicile-based taxation principle promoted in global policies such as BEPS 2.0 and the Second Pillar tends to benefit developed countries and weaken the fiscal position of developing countries. The information asymmetry that occurs between tax authorities and multinational companies creates significant

opportunities for transfer mispricing practices that are difficult to address. As a result, developing countries lose potential tax revenues that are essential for financing sustainable development. These findings have serious implications for achieving the Sustainable Development Goals (SDGs), especially SDG 16 (strong institutions) and SDG 17 (global partnership for development). Inequality in transfer pricing supervision is an obstacle to creating a fair, transparent, and sustainable fiscal system.

Based on the above findings, here are some policy recommendations addressed to tax authorities, international institutions, and fiscal policymakers: First, strengthening institutional capacity; developing countries need to invest resources in building professional, trained, and high-tech transfer pricing units. International cooperation in the form of technical assistance and training (capacity building) should be part of the global reform agenda. Second, fair access to comparative data: organizations such as the OECD and the UN need to facilitate the provision of open or subsidized access to global price comparison databases for developing country tax authorities to strengthen the application of the arm's length principle. Third, global institutional reform: Developing countries should be given a greater role in international tax policy negotiations. Multilateral forums such as the Inclusive Framework should be equal and not dominated by the interests of developed countries. Fourth, adaptation of digital and intangible policies; the application of transfer pricing policies in the digital economy requires a new approach based on formulary apportionment or unitary taxation that is fairer for the source country. We also need to update domestic regulations to handle transactions on intangible assets that are not visible. Fifth, transparency and accountability across countries: promote the implementation of automatic exchange of information (AEOI) systems and the expansion of country-by-country reporting (CbCR) schemes to all jurisdictions, including developing countries. Sixth, joint audit and dispute mechanisms: The development of joint audits between tax authorities from developing and developed countries can be a collective mechanism to address information and capacity gaps.

This study has several limitations that need to be considered: Secondary Data Sources: This SLR relies solely on scientific articles available in Scopus and Web of Science in the period 2020–2024. Literature from international institutions (grey literature), audit reports, or practical studies from national tax institutions is not explicitly covered. Thematic Focus: The main focus of the study is on institutional aspects and fiscal sustainability, so it does not cover in depth certain technical issues such as the determination of transfer pricing methods or litigation analysis. No Quantitative Meta-Analysis: This study employs a qualitative approach using thematic synthesis. Quantitative assessment of the effects of transfer pricing policies between countries was not conducted due to limited data homogeneity.

Future research should employ a mix of methods, gather more data from original sources, and conduct national case studies to compare these findings.

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