Policy Note
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Championing the UN Framework Convention on International Tax Cooperation

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Introduction

Illicit financial flows (IFFs) and base erosion and profit shifting (BEPS) significantly undermine the tax bases of emerging economies, particularly in Africa. IFFs, defined as the illegal movement of funds across borders, and BEPS, involving the exploitation of tax rules by multinational corporations (MNCs) to shift profits to low-tax jurisdictions, deplete resources essential for sustainable development and public services.[1] The UN Ad Hoc Committee's zero draft Terms of Reference (TOR) aims to guide G20 members in establishing a governance system for international tax cooperation to address these issues and promote equitable sustainable development.[2] This policy note advocates for South Africa to champion the UN Framework Convention on International Tax Cooperation (UN Tax Convention) within the context of its upcoming G20 presidency. This convention can play a crucial role in combatting IFFs and BEPS. By promoting robust global tax cooperation, the convention has the potential to yield significant benefits to Africa.

Impacts of illicit financial flows and base erosion and profit shifting in Africa

IFFs and BEPS severely impact African economies by draining resources needed for development. Sub-Saharan Africa lost an estimated $1.3 trillion through IFFs between 1980 and 2018.[3] According to UNCTAD, Africa loses $88.6 billion annually due to IFFs, equivalent to 3.7% of the continent's gross domestic product each year.[4] IFFs deprive governments of essential funds for public investment in healthcare, infrastructure, poverty alleviation and education, weakening economic foundations and increasing vulnerability to economic shocks and instability.

BEPS, caused by MNCs exploiting tax rules, costs Africa approximately $15 billion annually.[5] This loss hinders investment in sustainable development projects and essential services for citizens. The lack of transparency and complexity of BEPS practices exacerbate income inequality and strain public resources, limiting governments' ability to finance development projects effectively. Consequently, IFFs and BEPS directly hinder progress towards the Sustainable Development Goals and economic independence in Africa.

Why does this matter for Africa?

Addressing IFFs and BEPS promotes fairness and equity by ensuring MNCs and investors pay their fair share of taxes, reducing income inequality. The UN Tax Convention offers an opportunity to reset global tax cooperation, countering the dominant OECD influence, which has often failed to meet African countries' needs.[6] The OECD's approach of restricting source-based taxation to attract foreign investment has

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[1] UNECA, *Illicit Financial Flows: Report of the High-Level Panel on Illicit Financial Flows from Africa* (Addis Ababa: UNECA, 2015).

[2] Deloitte, "Draft Terms of Reference for Framework on International Tax Cooperation Released", 2024.

[3] L Signe, M Sow and P Madden, *Illicit Financial Flows in Africa: Drivers, Destinations, and Policy Options* (Washington DC: Africa Growth initiative, 2020).

[4] UNCTAD, *Tackling Illicit Financial Flows for Sustainable Development in Africa Economic Development in Africa Report 2020* (New York: UNCTAD, 2020).

[5] UNCTAD, *World Investment Report 2020: International Production Beyond the Pandemic* (Geneva: UN, 2020).

[6] S Picciotto, *The Design of a UN Framework Convention on International tax Cooperation* (Geneva: South Centre, 2024).

proven ineffective for many African countries, limiting their ability to mobilise domestic resources. The UN Tax Convention can correct these imbalances by creating a more inclusive and equitable global tax system with essential guidelines for effective tax reform, such as inclusivity, transparency and fairness.

By promoting fair international tax rules, Africa can secure the financial resources necessary for investing in infrastructure, poverty alleviation and enhanced social services, fostering a more equitable and prosperous continent.

Leveraging G20 influence for African development gains

The G20 can play a crucial role in advancing African development by advocating for the UN Tax Convention, which is essential for fostering sustainable economic growth and enhanced governance in Africa. The AU's new permanent member status in the G20, granted in 2023, should strengthen the voice of the Global South in tax cooperation, ensuring that African challenges are prominently addressed. The G20 can push for stronger international tax cooperation to address IFFs and BEPS, enabling African countries to better safeguard their revenue bases through the following means:

Advocating for the UN Tax Convention. The OECD framework has been inadequate for African countries, often excluding their voices and interests.[7] The UN Tax Convention, supported by the AU and over 120 countries, provides a more inclusive and democratic platform for shaping international tax rules aligned with development priorities. South Africa can leverage its upcoming G20 presidency to influence the curbing of risks associated with the transition and empower African countries to combat IFFs and BEPS by facilitating negotiations and building consensus. In addition, to overcome resistance from countries that oppose shifting tax negotiations to the UN, South Africa should leverage the AU's new G20 status, build coalitions with like-minded developing countries and engage in persistent diplomacy with EU countries.[8] By highlighting the inefficiencies of current OECD-led frameworks and promoting transparency, South Africa can push for an inclusive tax system that benefits African nations. Utilising G20 platforms to consistently push the agenda of the UN Tax Convention, collaborating with international organisations that support tax justice and equitable tax systems and mobilising public opinion are also crucial steps.

Strengthening international tax rules to advance Africa's taxation agenda. The OECD Inclusive Framework's Pillar 1 and Pillar 2 have not served Africa effectively due to complex implementation and the minimal share of profits allocated to market jurisdictions. South Africa can lead efforts to ensure fair allocation of taxing rights under Pillar 1 and a global minimum tax rate under Pillar 2 that prevents profit shifting to low-tax jurisdictions. The G20 should ensure that the UN Tax Convention addresses these shortcomings, providing a framework that meets African countries' needs and supports their efforts to tax digital economies. Additionally, the G20 can help African nations develop robust legal frameworks to deter tax evasion and aggressive tax avoidance. This includes laws requiring multinational corporations to report their income, profits and taxes on a country-by-country basis, enhancing transparency and accountability.

Enhancing transparency and information exchange. South Africa should champion the implementation of the automatic exchange of financial information between tax authorities to track and repatriate IFFs. While the OECD's Common Reporting Standard (CRS) is a step in the right direction, it has limitations for Africa. For African nations to truly benefit, the G20 should push for adjustments to the CRS that address

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[7] Picciotto, *The Design of a UN Framework Convention*.

[8] Tax Justice Network, '[Ministers, economists urge honesty about benefits of UN tax convention for Europe](),' 15 March 2024.

specific challenges faced by developing countries, such as high compliance costs and the need for capacity building. Additionally, ensuring African countries have the technological infrastructure to utilise this data effectively is crucial. The G20 can support initiatives that provide the necessary resources and training to African tax authorities, enabling them to track and tax offshore wealth more effectively.[9] Supporting the establishment of public beneficial ownership registers can also reduce illicit financial activities by revealing true business owners, increasing accountability and reducing opportunities for tax evasion and money laundering. Championing transparency in the tax system and increasing public disclosure of corporate tax payments can help African countries detect and avoid tax avoidance and IFFs, aligning with the African Tax Administration Forum's (ATAF) recommendations for strengthened tax administration and enhanced domestic resource mobilisation.[10]

Capacity building and technical assistance. The UN Tax Convention's TOR emphasises the importance of capacity building, especially for emerging economies, to actively participate in international tax policy planning and implementation.[11] In collaboration with regional tax organisations such as ATAF, the G20 can mobilise resources, create knowledge-sharing platforms and encourage private sector involvement to address global challenges like IFFs, climate change, health and inequality. Investing in technical assistance and improving tax infrastructure are crucial for detecting and addressing tax avoidance and ensuring effective tax implementation.[12]

Leveraging digital technologies and artificial intelligence. To effectively leverage digital technologies and artificial intelligence (AI) to enhance tax administration and curb IFFs in Africa, the G20 can take several concrete actions. Firstly, it can champion the establishment of a digital infrastructure investment fund to finance critical infrastructures such as fibre-optic cables and 5G networks across the African continent, enabling faster and more reliable internet connectivity essential for the deployment of AI and other digital technologies.[13] Additionally, the G20 can advocate for the creation of open-access fibre networks to ensure that all regions, including rural areas, have access to high-speed internet, facilitating the widespread adoption of digital tools and AI in tax administration. Advanced data analytics, machine learning and AI algorithms can analyse large datasets to gain insights, detect trends and identify suspicious transactions indicating tax evasion and fraud.[14] Supporting the establishment and funding of AI research hubs in African universities is another key action. These hubs can focus on developing AI solutions tailored to the unique challenges faced by African tax authorities. Furthermore, the G20 should promote robust data governance frameworks that protect data privacy and security while enabling the effective use of data for tax administration. This includes supporting local data storage solutions to ensure that data remains within the jurisdiction and is subject to local laws.[15]

Developing quality infrastructure. Quality infrastructure development is essential for economic growth and effective tax collection. The G20's quality infrastructure framework, which emphasises resilient, sustainable and efficient infrastructure investments,[16] can significantly benefit African countries. Improved infrastructure facilitates better economic activities, enhances trade and attracts investment, all of which expand the tax base. G20 cooperation can support Africa by promoting investments in infrastructure that

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[9] Amanda Visser, '[New reporting will be costly and time consuming],' 2017, South African Institute of Taxation.

[10] ATAF Communication, "[Africa's Role in the Push for Inclusive and Effective Global Tax Governance]", 2024.

[11] Deloitte, " Draft Terms of Reference".

[12] South Centre, "South Centre Inputs on 'Zero Draft Terms of Reference for the UN Framework Convention on International Tax Cooperation'", 2024.

[13] Blue Orange, "[Leveraging AI to Drive Digital Transformation: Empowering the Future]", 2024.

[14] B Ombok and MM Mbabu, "Leveraging Digital Information for Strategic Agility: The Role of AI, Big Data Analytics, and Blockchain in Re-Shaping Strategic Planning and Execution", *Greener Journal of Economics and Accountancy* 11, no. 1 (2024): 21-32.

[15] Blue Orange, "Leveraging AI to Drive".

[16] Asian Development Bank, "[G20 Principles for Quality Infrastructure Investment]", 2024.

adhere to international standards, ensuring projects are not only economically viable but also environmentally sustainable. Such infrastructure investments lead to increased economic activities, generating higher tax revenues from businesses and individuals. Furthermore, developing infrastructure in sectors like renewable energy can create jobs, spur economic growth and diversify the tax base. By supporting sustainable infrastructure growth, the G20 can help African countries combat IFFs and BEPS by ensuring robust economic frameworks that are less susceptible to financial leakages and more capable of capturing tax revenues.

Conclusion

South Africa's upcoming G20 presidency presents a pivotal opportunity to champion the UN Framework Convention on International Tax Cooperation and implement transformative reforms in international taxation. By addressing the limitations of the G20/OECD Inclusive Framework, South Africa can lead efforts to create a more inclusive and equitable global tax system that effectively combats IFFs and BEPS.

Through G20 cooperation on taxation, Africa stands to gain significantly. Increased tax revenues, improved tax administration and robust international tax rules are achievable goals that can bolster economic stability. Enhancing transparency and exchange of information, building capacity and leveraging digital technologies will fortify African economies against financial leakages and inefficiencies.

Specifically, the priorities for a South African G20 presidency legacy project could focus on championing the UN Tax Convention and enhancing Africa's digital infrastructure and AI capabilities. Advocating for the UN Tax Convention will promote automatic exchange of financial information, helping African countries detect and tax offshore wealth more effectively, thereby curbing IFFs and BEPS. Simultaneously, investing in fibre-optic networks, robust data governance and AI research hubs in African universities will empower countries to leverage advanced technologies for improved tax administration and sustainable economic development. These initiatives will strengthen Africa's tax systems and ensure fairer global tax policies that benefit African economies.

By championing these initiatives during its upcoming G20 presidency, South Africa can help build a more equitable and prosperous future for the African continent, ensuring that the benefits of global economic growth are shared more fairly among all nations.

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