

PTLAC and South Centre Webinar

Reflections on the Follow up Actions by Africa to the AU- ECA HLP on IFFs Recommendations

Presented by
Gamal Ibrahim
Chief,
Economic Governance and Public Finance Section
MGD, ECA

7 March 2024

HLP CONCEPTUAL APPROACH



- HLP defines IFFs as “money illegally earned, transferred or used” - emphasis on hidden nature of IFFs.
- Broad definition: includes aggressive tax avoidance.
- Emphasizes the role of governance at both the origin and destination jurisdictions of these flows
- Contrasts with term “capital flight” which blames developing countries for driving capital away
- Emphasizes the need for better regulatory environment at the national and global levels.

HLP Methodology: why measure IFFs through Trade Mispricing?

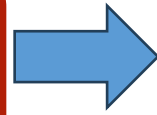
1. Disproportionate development impact of IFFs' commercial activities.
2. Corruption is extremely difficult to measure; dominated by perception-based measures.
3. Similarly, criminal activities are also difficult to measure
4. Transfer pricing requires firm-level data (not readily available for most countries) and in-depth examination of individual MNCs behaviour, which is costly and often impossible to access
5. Wide coverage of Trade statistics (COMTRADE) for countries, over time

A Continental Coordination Mechanism on IFFs

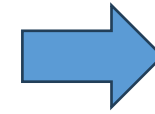
- In 2015, **the AU-ECA HLP on IFFS from Africa** provided 21 recommendations, two specific ones were: i) **Study potential methodologies** for addressing IFFs; and ii) ECA to produce **operational measures against IFFs**.
- In May 2021, ECA with was commended by **the African Ministers of Finance, Planning and Economic Development** on piloting the agreed methodologies for the measurement of IFFs.
- In partnership with AUC and other African **development partners**, develop a work plan for capacity training on tax-related matters and to build the capacity of African countries to tackle the gaps in institutional architecture to measure and report on the evolution of IFFs under SDG indicator 16.4.1, and to devise measures to curb IFFs.

African leadership for the inclusive taxing rights of the Global South

The AU-ECA HLP report on IFFs in 2015 reflecting the urgency for Africa to shape the international tax agenda on its own terms



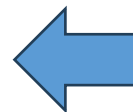
FACTI Panel report in 2021 reiterating the recommendations



FACTI Panel, Pan-African institutions, and the UN Tax Committee work



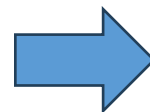
In response to the initiative of the Africa Group in NY, the UN General Assembly adopted the resolution 77/244 to begin discussions promoting inclusive and effective tax cooperation



CoM Resolution 990 (LIV) to develop a capacity training work plan on tax-related matters and to build capacity of the member States to tackle the institutional gaps, to track, measure and report on IFFs, and devise measures to curb IFFs



UN GA Resolution 78/230 on "Promotion of inclusive and effective international tax cooperation at the United Nations"



Africa-led call to undertake actions at the national, regional and global levels would ensure a mechanism for global coordination and overcome a siloed approach to addressing tax and IFFs matters

- Welcomes the adoption of UN GA Resolution 78/230 and encourage MSs to support the ad hoc committee and to set aside sufficient resources to support the experts in the committee sessions.
- .. Requests the ECA, AUC and others to support MSs in: tax policy and administration, international tax cooperation, governance of tax expenditure, debt, and countering all forms of IFFs.
- Requests the ECA, AUC and other pan African institutions to organize regional consultations to identify the main development priorities in preparation for the 4th Ffd Conference in 2025.

African Ministers of Finance resolution on 4 March 2024

Calls upon the international community to undertake appropriate actions at the national, regional and global levels to ensure that illicit financial flows are treated as a system-wide challenge at the global level and that the international community adopts a mechanism for global coordination mechanism to systematically monitor illicit financial flows systematically, including through the central collation, publication and analysis of data on foreign financial accounts and the country-by-country reporting byof multinational companies.

Universal participation of all countries

Advocacy and support offered by various stakeholders

A governance framework that reflects the principles of inclusiveness, fairness and effectiveness

Key recommendations to advance international tax cooperation under the UN

Moving away from the OECD dominated international tax regime

Capacity-building initiatives to ensure effective participation and understanding of complex international tax issues.

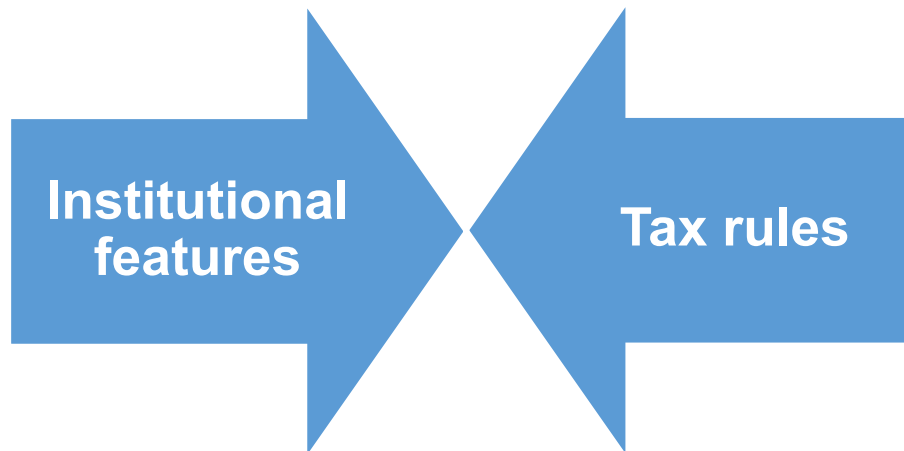
Broadening the scope beyond the current focus in OECD processes on digital taxation

Transparency in the decision-making process and advocate for the early involvement of diverse stakeholders

What should the framework convention for international tax co-operation contain

- **Representation of African and global south countries**
- **Equal participation and influence of all countries**
- **Strengthening the role of the UN in tax matters shaping international tax norms.**
- **Capacity building and technical assistance for African and global south countries**
- **Peer learning and knowledge sharing among countries**

Additional enabling factors such as resources, transparency, inclusivity and policy coherence



- **Fair and equitable taxation**
- **Transparency and information exchange**
- **Combating tax havens and tax evasion**
- **Development-oriented approach**

Given the limited resources, what strategy should be adopted Substance of the proposed UN Framework Convention on International Tax Cooperation to consider

convention, importance, definitions of key concepts

- **Objectives** of the framework convention
- **General principles** delineating principle of sovereignty and non-discrimination; effective provision of tax information; fair allocation of taxing rights; mutual assistance and cooperation; transparency and disclosure
- **Capacity building and technical assistance** provision to developing countries and collaboration with international organizations and regional bodies
- **Review and monitoring** for effective implementation
- Establishment of **Conference of Parties** with details of the Secretariat role

4 protocols to contain

Protocol A: Mechanisms for automatic cross-border provision of tax information;

Protocol B: Rules and guidelines for Allocation of Taxing Rights;

Protocol C: Procedures for Dispute Resolution;

Protocol D: Measures for Combating Tax-related Illicit Financial Flows

- Situating the **Secretariat** and the **CoP** within the **UN System**
 - **Collaborative efforts** involving multiple stakeholders
 - **Formation** of the Secretariat

Effective collaboration among relevant stakeholders in meaningful dialogue, knowledge sharing, and joint efforts to drive the agenda forward.

Actively participate in global forums and platforms where international tax cooperation is discussed.

Way forward for Africa and the Global South

Knowledge building and capacity development through investing in research, data collection, and capacity-building initiatives.

Continuous advocacy efforts to raise awareness among key stakeholders about the impact of IFFs and the importance of international tax cooperation.

Leveraging existing networks to enhance cooperation, share experiences, and develop common strategies.

How can we keep a strong South Voice: collaboration between Africa and Latin America

**Draft Framework Convention
for Signature in 2025**

- **Follow up by PTLAC in collaboration with South Centre, ECALC, ECA and AUC**
- A platform to engage NY missions and capitals in the conversation
- How to maintain a balance between the strategic and tactical steps on TOR priorities and how will the South deal with blockers' tactics?

Ensure inclusivity in the discussion of the TOR, e.g collectively insists on the Hybrid format and that costs will not be a hinderance to the developing countries participation in meetings.

**Ambitious
but feasible
timeline**

**G77
countries
collaboratio
n moving
forward**

Way forward: An accelerated timeline

UN Resolution in 2023

Negotiations on the substance of the framework convention in 2024 and beyond

Avoiding delays of Framework Convention Signature

- **Preparations for the 4th financing for development conference**
- Ambitious timeline but feasible with **strong political will** and commitment from all parties involved
- **the G77 countries**, ensure collaboration in moving forward **collectively**, leveraging their **collective strength and unity**.

Ambitious
but feasible
timeline

G77
countries
collaboratio
n moving
forward



THANK YOU!

Ideas
to
Action