



Redefining Global Tax Cooperation: An Inclusive Framework for Equitable and Sustainable Development

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Abstract

Despite growing commitments to international tax cooperation from the G20 and Global South (GS) partners, a persistent imbalance in fiscal capacity, bargaining power, and policy priorities leaves GS countries vulnerable to tax deals that limit revenue generation and economic sovereignty. The UN has emphasised the need for a more equitable international tax system, particularly as the OECD-led model fails to account for the specific needs of GS economies, creating avenues for avoidance and poor revenue performance. This policy brief presents a case for the development of a UN-centred framework that redefines global tax coordination by prioritising inclusivity, progressivity, and revenue strategies that foster sustainable development. The policy brief addresses two key barriers to fair international taxation: 1) tax avoidance and evasion due to unfavourable agreements and 2) failures of current international tax regimes to address development goals. To counter these issues, we propose four actions G20 members can take to champion international tax cooperation to meet development goals.

Keywords: Tax Governance; Global South; Global North; Cooperation; Tax Sovereignty

Diagnosis

A strong and efficient tax structure is central to achieving development goals, particularly for countries in the Global South (GS) where public service delivery, education, infrastructure development, and debt repayment rely heavily on tax revenues. GS countries face challenges in designing and enforcing taxes that are growth oriented and internationally aligned. To address these difficulties, governments turn to international tax governance frameworks – developed in cooperation with countries in the Global North (GN) and especially the G20 – for guidance, technical support, capacity building, and coordination.

To date, the Organisation for Economic Co-operation and Development (OECD) has played a central role in shaping the global tax landscape, especially through its OECD/G20 Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS), which has become the de facto standard in international tax cooperation. Importantly, the development of the IF generally reflects the policy priorities of capital-exporting, high-income nations and has done little in the way of wealth redistribution and capacity building.

Furthermore, developing nations often enter bilateral tax treaties with GN countries under asymmetric power dynamics. This leads to issues such as profit shifting, but can also attract foreign direct investment (FDI). Bilateral agreements often hinder source-based taxation, limiting GS countries' ability to raise revenue from the activities of multinational corporations (MNCs). MNCs can leverage regulatory gaps and inconsistencies across jurisdictions to shift profits and avoid paying taxes in GS countries. A lack of public transparency, regulatory arbitrage, and lax international enforcement mechanisms lead to revenue shortfalls amounting to hundreds of billions of dollars annually.

Because many GS countries are fiscally constrained and may depend on FDI and development assistance, they may be pressured to accept unfavourable

treaty terms. For example, bilateral treaties entered by the government of Kenya, such as a 2020 treaty with Mauritius, have been challenged in court for costing revenues with little FDI impact. The complexities behind bilateral tax agreements and the challenges they can pose for GS countries reveal the structural limitations GS countries face when engaging in tax diplomacy with GN states.

Revenue losses are intertwined with capacity constraints facing GS tax administrations, including outdated filing systems, limited audit and enforcement capacity, insufficient access to third-party data, and constrained legal and regulatory tools. Balancing the roll-out of digital tools and effective tax policies with these constraints can place a burden on tax administrations, reducing compliance and morale. In Kenya, this can be seen in value added tax (VAT) compliance, where the complexity of the tax has made it difficult to enforce and internal revenue constraints have resulted in refund challenges. Complications in rollouts of other digital tools in Kenya, such as digital tax receipts at the point of sale, have further eroded trust in tax structures as evidenced by slow take-up and institutional delays.

An underlying complication in revenue generation arises from high levels of informality in many GS economies. In Kenya the informal sector accounts for about one-third of the country's GDP and efforts to tax businesses operating informally have been unsuccessful. High informality reduces the taxable base, making it more difficult for governments to expand tax coverage. Without recognition and mechanisms to address these specific challenges in GS countries, global tax policy agreements will continue to be asymmetric.

The current global tax regime is structurally misaligned with the needs and capacities of GS countries. It places them at a disadvantage in treaty negotiations, fails to prevent capital leakage via tax avoidance and evasion, and does little to support their long-term fiscal sustainability. This is evidenced by the reliance of GS countries on bilateral agreements and private endeavours that

prioritise job creation at the expense of public revenue generation. Without an inclusive and development-oriented framework – which could be negotiated within the UN Framework Convention on International Tax Cooperation (UNFCITC) – the existing system is likely to reinforce global inequality in tax outcomes.

Recommendations

The establishment of a tax governance body and framework at the UN presents an opportunity for GS nations to have an equitable voice in international tax rulemaking. Negotiations for the UNFCITC are underway, providing an opportunity for GS countries and the G20 to align goals and practices. With the UNFCITC set to be rolled out in 2027, there is time to introduce specific cooperative mechanisms that meet GS and G20 goals. Chief among these are: equal decision-making powers, global minimum standards, transparent reporting, clarity on digital taxation, and increased capacity building.

The UNFCITC can be the foundation for equal-footing standards in international taxation. While the IF introduces policy measures that align with GS interests, and some mechanisms to reduce profit shifting should be maintained in the UN framework, its drafting process and arms-length policies have marginalised developing countries from meaningful participation. G20 countries should push for technical partnerships with GS countries to draft a framework within the UNFCITC. This can take the form of a rotating technical committee, co-chaired by G20 and GS countries. This committee would be tasked with drafting and reviewing global tax policies to meet the emerging needs of all parties.

Profit shifting by MNCs can perpetuate inequalities by keeping taxable profits within GN markets. Pillar One of the IF focuses on reallocating a portion of profits from the largest MNCs to market jurisdictions, but this has limited benefits for the Global South. Under the UNFCITC, GS countries can advocate a more

equitable reallocation of taxing rights that aligns with G20 thematic priorities on debt sustainability. Leveraging the non-discrimination clause in the UNFCITC, the G20 and GS countries can focus on tax reallocation by addressing issues of profit shifting and base erosion multilaterally.

Global minimum tax standards can reduce tax avoidance and increase revenues for GN and GS countries alike. A global minimum tax (GMT) is included in the IF, but G20 countries can ensure this policy generates critical revenues for GS countries by championing frameworks that prevent profit shifting. Ensuring a GMT does not erode tax sovereignty will ensure GS countries can address specific development goals and debt repayment needs. The G20 can further support tax sovereignty by addressing transparency issues related to tax havens. Opaque corporate tax structures in tax havens cost \$200–300 billion in revenue losses annually. The international framework, then, should require public country-by-country reporting by MNCs that allows tax authorities to detect base erosion and profit shifting. G20 countries can leverage their collective strength in the UNFCITC to include compulsory reporting to the multilateral technical committee.

Digital services taxes (DSTs) and other revenue generation from the digital economy can be a critical resource for developing countries. In countries like Kenya, where much of the economy operates digitally, DSTs can serve as a pragmatic tool to raise revenues. The IF calls for the phasing out of such taxes, but this could hinder the ability of some countries to raise sufficient revenues. GS countries should lead the global discussion on alternative digital taxation models, ensuring they can raise revenue from the digital economy while still encouraging innovation and growth. The G20, in partnership with GS countries, should lobby for the creation a multilateral research committee within the UNFCITC to explore DSTs and other digital taxes to analyse their impact on revenues and development.

The G20 can advance a fair and sustainable international tax framework that aligns both with its mandate and with broader development goals.

To support this, the G20 should:

1. Champion inclusive multilateralism by formally endorsing the UNFCITC process and urging OECD and IF members to cooperate with its development. This would be strengthened through a consensus statement supporting UNFCITC negotiations and funding of UN-centred global tax structures.
2. Facilitate data-sharing and transparency initiatives, including support for country-by-country reporting and global asset registries to track illicit flows. This relies on G20 countries committing to capacity building projects in GS tax administrations, particularly on digitisation. Pushing for transparency clauses, with inspiration from the UN Convention Against Corruption (UNCAC), in UN tax frameworks as a bloc, the G20 can ensure reporting is compulsory.
3. Ensure alignment of global tax rules with the SDGs, by recognising that domestic resource mobilisation is critical to financing development and that global tax cooperation falls under SDG 17 (Partnerships for the Goals). This further aligns UNFCITC negotiations with G20 goals and GS needs.
4. Commit to capacity building and research centred in the GS to reduce disparities between GN and GS tax administrations or regional bodies such as the African Tax Administration Forum (ATAF). The G20 can establish partnerships and finance collaborations between G20 research institutions and GS tax administrations. This can facilitate a two-way flow of knowledge and strengthen GS tax administrations.

By supporting an inclusive global tax framework, the G20 can stabilise the global economy, reduce inequality, and build trust between North and South – outcomes that align with the G20's own long-term priorities and can facilitate sustainable growth worldwide.

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