



Task Force 03

**REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE**

## The UN and the G20

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**TF03**

## Abstract

Since the Global Financial Crisis (GFC), the G20 has played a central role in shaping the agenda for reforms within International Tax Institutions. These reforms span various areas, including tax transparency, information exchange agreements, the Base Erosion and Profit Shifting (BEPS) Initiative, and, more recently, the OECD's 2 Pillars proposal. While these initiatives have brought about some useful changes, there is a growing acknowledgement that they have been neither effective (failing to address the scale of global tax abuse), nor inclusive of non-OECD countries. A recent report from the United Nations Secretary-General highlighted these deficiencies, leading to a resolution tabled at the 2023 UN General Assembly by the Africa Group. This resolution, calling for negotiations on a UN Tax Framework Convention on International Tax Cooperation (UNFCITC), was approved and backed by over half of G20 members. Against this backdrop, this briefing calls for a reassessment of the G20's role in international tax reform. Specifically, this briefing recommends G20 countries to prioritise the UN as a space for reforming the international tax architecture. It recommends G20 members to engage constructively in upcoming negotiations, pushing for a strong and fully inclusive institutional architecture. With its mix of OECD and non-OECD members, the G20 can take a lead in demonstrating collaborative working across the divide, in the name of progressive, inclusive and effective international tax cooperation.

During the first ministerial meeting of the current G-20 presidency, Brazil's Minister Fernando Haddad addressed the pressing need for international tax cooperation. He saluted the “the fact that most countries in the world have clearly expressed the desire to deepen international tax cooperation through a United Nations Convention. At the end of last year, the United Nations General Assembly adopted Resolution 78/230, thus opening a new avenue for international taxation.”<sup>1</sup>. While recognizing that opinions on the resolution vary within the G20, he noted that they cannot simply ignore the significance of such an event.

The relevance of this development noted by the Minister cannot be overstated. In 2023, 125 countries, representing 80% of the global population, voted to initiate negotiations on a UN Tax Framework Convention on International Tax Cooperation (United Nations n.d.; Tax Justice Network n.d.). This crucial vote marks a potential shift in the Century-long trajectory of the international tax regime, which is in dire need of reform.

The international tax regime has historically been characterised as rigid, due to structural and institutional factors (Rixen 2008; Christensen and Hearson 2019; Hakelberg 2020). It was originally established with a focus on eliminating double taxation, and its dissemination coincided with an era of decolonisation, which meant that elements of the regime sought to safeguard capital rights of former colonisers in a changing geopolitical landscape (Ogle 2020; Woker, Hearson and Titus n.d.)

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<sup>1</sup> See *Tributação Internacional Para o Século 21 Trilha de Finanças* (29/02/2024).

Available at: <https://www.youtube.com/watch?v=72cre-R37MU>.

By the latter half of the 20<sup>th</sup> century, however, in a context of financial globalisation, and of an unchecked proliferation of tax havens, loopholes of the current regime enabled the continued rise of large-scale tax abuse. Current estimates indicate that every year half a billion dollars are lost to tax abuse (Tax Justice Network 2023a). Not only former colonies were losing from this dynamic: while lower-income countries lose the most in relative terms, in absolute terms, higher-income countries are losing much more (Tax Justice Network 2023a). Despite awareness of these substantial revenue losses, reforms have been historically slow and incremental and the benefits they yield, when present, are reaped mostly by high-income countries. Tools like automatic information exchange, crucial to tackle tax evasion, remain inaccessible to many lower-income countries (UN Secretary General 2023). The BEPS initiative introduced important reforms, such as the introduction of country-by-country reports, but their ambition was severely curtailed (Tax Justice Network 2023b). Recently, during the Two-Pillar process, demands of low- and middle-income countries, voiced by the G-24, were largely disregarded in favour of commitments that benefit rich countries. Crucially, the unfair underlying distribution of tax rights remained untouched, and the arm's length principle - despite the commitment to go beyond it - remains in place for almost all profits of multinationals. These unequal outcomes are highly influenced by the OECD's limited membership, which favours wealthier nations in decision-making processes, and its opaque functioning in which corporate lobbyists are deeply embedded<sup>2</sup>.

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<sup>2</sup> The OECD's failings - not only of its 'two pillar' proposals, but of the institution itself more widely - are increasingly well documented. See Tax Justice Network et al. (2024).

The absence of an inclusive international tax forum is a longstanding concern, echoing throughout the 20th Century, but gaining momentum during the Third Finance for Development Conference in Addis. The G77's calls for an intergovernmental body to manage tax issues grew louder. These nations have consistently pushed for fair representation in tax matters, yet often found themselves sidelined. In response to these demands, the Addis Ababa Action Agenda committed to greater international tax cooperation, and the OECD established the Inclusive Framework in 2016, purportedly to ensure equal participation in global tax discussions. However, from the outset, the initiative had significant flaws. Access to the framework was conditional on the adoption of specific policies, undermining its claim of inclusivity. Institutional barriers further hindered its effectiveness, including opaque processes, unclear agenda-setting and decision-making, and capture of discussions by a select few members. The framework was housed within an organisation whose secretariat was responsive to a minority of its members, and whose governance requires it to prioritise members above all others; facts that were reflected in the institutional outcomes it produced, further undermining its credibility.

The failure to deliver on the Addis agenda prompted the Africa Group in the United Nations to lead a process for international tax cooperation. Its 2022 General Assembly resolution, approved by consensus, began intergovernmental discussions (UN Secretary General 2023) and was followed by a further resolution in 2023 initiating negotiation of a UN Tax Framework Convention on International Tax Cooperation. This resolution received approval by a majority of 125 countries, despite strong OECD lobbying against, and led to the establishment of an Ad Hoc Committee tasked with drafting the convention's terms of reference. These terms are expected to be finalised by August 2024. In this crucial moment, reassessing the role of the G20 becomes imperative.

It is impossible to disentangle the recent history of international tax reforms from the role the G20 has played. Given its limited membership, the OECD has always lacked the legitimacy to carry out global reform in international taxation. After the GFC, some G20 members argued that this must be overlooked because the OECD was ‘the only game in town’. This is clearly no longer the case, and Minister Haddad is right to state emphatically, as he did, that the G20 cannot ignore the new process towards a UN convention, especially with the new membership of the African Union. This is particularly important if we consider that half of all G20 members voted in favour of the UN tax convention, and all G20 members are now actively participating in the Ad Hoc Committee.



FIGURE 1. Vote on Resolution 78/230

Legitimacy is not the sole reason for the urgent need to transition tax discussions to the UN. The restricted membership, lack of transparency, and institutional capture have led to the current stalemate in several processes within the OECD, potentially leading to

a more complicated and fragmented the international tax landscape (Tax Justice Network et al. 2024). The ongoing UN process, which will evolve during the G20 presidency, is an unprecedented opportunity to advocate for a progressive and equitable international tax framework—one that is simpler, transparent, and harmonised with other domains of international law, such as international human rights law and cooperation on combating climate change. Such outcomes would benefit all G20 members, which currently grapple with a system which is both unsustainable and is failing to secure much needed resources.

## Recommendations

The recent efforts by the Brazilian G20 presidency in continuing work towards a fair and progressive international tax system are commendable. The Presidency, and other country-members, must recognise that achieving this urgent objective requires a transparent, inclusive, and democratic international forum. The United Nations stands as the only adequate forum to achieve such principles. Below, we outline key recommendations to guarantee that the opportunity created by last year's historical vote is not lost.

**1. The G20 must reassess the role the G20 has historically played in reinforcing North-South inequalities, particularly concerning taxation, and constructively engage with the current UN process.** By granting a mandate to the OECD to centralise international tax discussions during the last decade, the G20 helped in consolidating a trajectory which was detrimental for low- and middle-income countries. This must change. Centralising discussions on taxation within the United Nations FCITC can rectify this imbalance and foster a more equitable and efficient dialogue. It is encouraging to see that the large majority of the G20 countries provided input in the first consultation on the Terms of Reference for the UN Tax Convention. Some G20 members raised concerns over 'duplication' of OECD functions but the Secretary General's report was very clear that the "analysis of existing international and multilateral arrangements indicates that they do not satisfy the main elements for fully inclusive and more effective international tax cooperation" (UN Secretary General 2023). It is encouraging to see that several G20 members, from different economic contexts, have found in the upcoming convention an opportunity to tackle various urgent topics, be it climate finance, growing inequalities,



and challenges from the digital economy. G20 members should aim to model constructive engagement in the UN process, moving beyond the damaging opposition of OECD members to the 2023 resolution.

**2. G20 countries must include all relevant stakeholders in their delegations in upcoming negotiations.** Constructive participation requires the inclusion of actors beyond established epistemic communities, which have traditionally monopolised international tax reform discussions. Broadening the spectrum of stakeholders involved in these deliberations – both from civil society but also from spheres within the government - enriches perspectives, promotes inclusivity and guarantees that the institutional outcomes deliver for the majority of actors involved. A broadened and effective participation is also crucial to guarantee that the UNFCITC is embedded in human rights principles and is coherent.

**3. G20 countries should ensure that the current UN process learns from the limitations of previous initiatives.** Issues such as the lack of public country-by-country reporting or public beneficial ownership information, as well as dilemmas related to stringent reciprocity requirements in exchange of information must be tackled. In addition, the UNFCITC must guarantee that its impact on intersectional inequalities is measured.

**4. Cooperation on the taxation of the super-rich must take place within the new UNFCITC.** Part of the priorities in the G20 Presidency include pushing a discussion on how to tackle extreme wealth concentration, including through the introduction of a Global Wealth Tax on billionaires. Wealth inequality is an urgent issue, which needs to

be tackled including through international cooperation<sup>3</sup>. In this regard, it is encouraging to see that several countries, including Brazil, have indicated that they consider that the issue of how-to tax billionaires and the super-rich could be tackled in the upcoming Convention. Choosing the right forum to tackle this issue is crucial, as discussions on global wealth inequalities and wealth taxation must be integrated into a framework that acknowledges the transnational nature of wealth and addresses North-South disparities effectively. Recognising that wealth inequalities are fundamentally damaging to national societies, cooperation in this area should focus on enabling national governments to introduce their own, effective wealth taxes.

**5. G20 countries should favour creating an institutional structure that is robust, to technically support the Conference of Parties and other bodies in the development of the FCITC mandate.** Upcoming discussions of the UN process are going to be centred as much on procedural elements as well as on substantive issues. There is an important debate over the form of the convention, whether the discussion will include early thematic protocols (for instance on Illicit Financial Flows, cross border services, climate taxation and wealth taxation), what are the institutional bodies which will compose the convention (i.e. if there will be a COP, a secretariat). We recommend creating an institutional structure that is strong enough to technically support the Conference of Parties and other bodies in the development of the FCITC mandate. This means the establishment of an independent secretariat, as well as a subsidiary body for technical advice and implementation, including a UN Centre for the Monitoring of Fiscal Rights – mandated with the task of

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<sup>3</sup> The work of the UN Tax Committee, which has recently issued guidelines on wealth taxation, and is set to start formulating a Model Wealth Tax law, must be highlighted.

administering key global public goods such as a global asset register, a public register for tax and fiscal policies, and a public register for corporate transparency.

In conclusion, while recent strides by the G20 towards an equitable international tax system are commendable, it is imperative to recognize the indispensable role of the UN in achieving this goal. By shifting discussions to a transparent, inclusive, and democratic forum, we can foster meaningful progress towards a fairer global tax regime that addresses wealth inequalities and promotes sustainable development for all nations.

## Scenario of outcomes

The broad scale of tax abuse that is behind the failures of the current OECD-led international tax architecture has a direct and tangible impact on our lives and on our communities. It results in service delivery failures at every level. It is estimated that under the status quo, countries are on course to lose US\$4.8 trillion in tax to tax havens over the next 10 years. If governments cracked down on tax abuse, 28.9 million more people would have access to basic sanitation, 14.3 million people would have clean drinking water, and almost 11.4 million more children would be able to attend school – every year. The increased government spending that would be available would, over a decade, avert the deaths of 443,254 children, allowing them to survive their childhood.

This briefing advocated that the G20 should revise the role it has historically played and prioritise the UN as the adequate forum to push for international tax cooperation. We argued that this engagement should prioritise the development of a strong institutional framework, which guarantees effective participation of all relevant stakeholders.

Redirecting energies from the OECD to the UN raises questions on how exactly the institutional structure will be function in practice, how different international organizations are going to interact in this new context, and in particular what role the G20 should have with this new UN Framework. There is not a definite answer to this question, and debates on these matters are being conducted during negotiations on the Terms of Reference. It is clear that the G20 is an important forum for dialogue and development of agendas, but it does not have sufficient institutional legitimacy to, by itself, shape in the international tax agenda. Further, in the current absence of this overarching framework, the interactions between different bodies have consistently happened in an ad-hoc way, with opaque processes that benefited the interests of powerful countries. This does not

mean that advances from the previous decades should be relegated, but instead that positive features of existing regimes must be incorporated within a framework which is fair, sustainable, simpler and delivers to all countries.

The alternative is to further entrench inequalities in the rules and processes which govern international tax relations. These inequalities are not only among nations, but they are intersectional, in that the resources we are losing social groups which are already marginalized – girls, women, people of colour, indigenous communities and vulnerable groups as a whole. We urge G20 countries to acknowledge the scale and depth of the transformation which we need.

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