AFRICA 10.12.2018 | Bettina Rühl

A bad deal for the Global South

Through lopsided tax treaties with EU countries, developing nations lose the aid they receive many times over

Read this article in German.

There is much talk these days about combating the causes of flight and migration in Africa. In this context, one could get the impression that the financial relationship between Europe and Africa is clearly one-sided: Europe being the rich – albeit not selfless – benefactor, and Africa the needy recipient. The EU, after all, includes about €90bn in its next budget for development aid.

That's a lot. However, developing countries, and African countries in particular, lose this amount many times over – through tax treaties between EU member states and developing countries. That's the conclusion of a London School of Economics study conducted on behalf of the European Parliament's left-wing parliamentary group. The International Monetary Fund had already previously observed that African nations alone were losing €175bn in taxes each year. That would be around triple the amount of all Western development aid for the entire continent.

On behalf of the European Parliament, the London School of Economics has now examined 172 tax treaties with developing countries. These kinds of treaties are signed because income can in principle be taxed in two places: where it is generated, namely in the source country – in this case in a developing country – or in the country where the company is domiciled – in this case an EU member state. Treaties are supposed to prevent companies – or EU citizens working in a developing country – from having to pay taxes twice. They also help to limit money laundering and tax avoidance.

EU member states should bear in mind the development of the Global

Without such treaties, companies could much more easily claim in both countries that they would pay in the other. It would be more difficult to check whether they may in fact not

South in all political decisions.

be paying taxes anywhere. Tax treaties can also make a lot of sense for developing countries: they hope that these will enable them to attract investors for whom the business environment might otherwise be too uncertain and who would otherwise take their money elsewhere. So far, so good.

But these treaties can be shaped in different ways, the London School of Economic reminds us. How they are designed depends on the objective of the partners involved. As the study notes, EU countries frequently negotiated the treaties with the sole aim of bringing as many taxes as possible into their own coffers – instead of bearing in mind that they are dealing with a developing country to which they allocate 'development aid' from other funds with great fanfare and flowery rhetoric.

Seeing Africa as a real partner

When it comes to the decision whether earnings need to be taxed in the source country or in the country of the company's residence, they make sure that, as often as possible, it's the country of residence. Or if some are to be taxed here and some there, the largest possible portion is to be taxed in the EU country. According to the study, developing and emerging countries' agreements with EU countries are even more unfavourable for partners from the Global South than similar treaties with non-EU countries. This means that when multinational European corporations are involved, the southern countries lose even more money in tax revenue than they do with multinational corporations headquartered outside of Europe.

The study concludes that it's primarily international corporations and EU countries that benefit from the tax treaties. The developing and emerging countries lose. But what can be done about it? The London School of Economics ends its report with recommendations. EU member states should bear in mind the development of the Global South in all political decisions. This includes matters concerning their own money, such as negotiations about tax treaties.

Things will only change if we give the southern countries a real chance to use their potential.

As most of these treaties are definitely negative for the developing nations, EU member states should gradually renegotiate them. They should start with those that cause developing countries to lose particularly large amounts of tax receipts to Europe. The EU should draw up a model for tax treaties that improves conditions for

southern countries.

The dry topic of tax justice could, in fact, show how serious European politicians are about the recently much invoked ‘partnership with Africa’. ‘Combating the causes of flight and migration’ could be achieved at the same time. There will only be any change in the global economic power balance if we do not confine ourselves to merely dropping a few charitable crumbs from our position of strength. Things will only change if we give the southern countries a real chance to use their potential. Then, they would need far less help from us. Of course, this would of course deprive us of the opportunity to feel good and generous.



Bettina Rühl
Cologne / Nairobi

Bettina Rühl is a freelance journalist based in Nairobi and Cologne who has been writing about Africa for over 20 years. Her reports, which focus on how big political decisions and upheaval on the continent affect ordinary Africans, have been featured on German public TV and radio, as well as in newspapers including the *Berliner Zeitung* and the *Tageszeitung*.