

# Issue update

## *Selected Issues on International Financial Institutions*

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### Tax: The Forgotten Element of Development

The Halifax Initiative was one of the sponsors of a “Fair Tax Summit” last month in Ottawa. More than 180 people attended, along with international colleagues from the United Kingdom, Kenya and the United States. The conference examined a variety of issues including carbon taxes, corporate taxation, provincial and municipal taxation, as well as the serious problem of tax avoidance and evasion.

John Christensen, director of the Tax Justice Network International, spoke about tax as the forgotten element of development. It is astonishing, he said, that the aid community has ignored tax for so long. Tax is potentially the most important and sustainable source of finance for development. Tax revenue in Africa, for example, is worth ten times the value of foreign aid. However, Southern countries are losing almost \$1 trillion annually in capital flight, the majority due to commercial tax evasion. Action on international taxation and the role of tax havens is key to lifting hundreds of millions of people out of poverty.

The World Bank and the International Monetary Fund have only recently begun to recognize the importance of tax in development. In 2002, the UN hosted a conference on financing for development in Monterrey, Mexico. The conference outcome, the “Monterrey Consensus,” recognized that it is essential for Southern countries to mobilize domestic resources - that is, tax. These issues were reiterated in a follow-up conference in December 2008 in Doha, Qatar. To date, however, little progress has been made.

There continues to be an important role for international aid to support Southern countries in development efforts. However, the problems that prevent Southern countries from retaining domestic tax revenues must be remedied. Civil society organizations have an important role in advocating for international actions to address these problems, a number of which are described on page two.

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**JUST THE FACTS:** The Financial Secrecy Index



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153 Chapel Street  
Ottawa, ON K1N 1H5  
Canada

TEL: (613) 789-4447  
FAX: (613) 241-4170  
WEB: [www.halifaxinitiative.org](http://www.halifaxinitiative.org)

# Mobilizing Domestic Resources for Development: An Action Guide

Dozens of NGOs and citizen's groups around the world have come together to promote transparency on tax matters with their governments and institutions such as the G20, the World Bank, the IMF, and the Organisation for Economic Co-operation and Development (OECD). What follows are some of the key polices advocated by these groups.

**Establish a multilateral framework for the automatic exchange of tax information.** A multilateral agreement would require governments to collect and share data from financial institutions on income and investment gains paid to non-resident individuals, corporations, and trusts. This would be a much more effective approach compared to the OECD's rather weak bilateral models of information exchange "on request."

**Adopt international accounting standards requiring multinational corporations to report sales, profits, and taxes paid on a "country-by-country" basis.** Multinationals currently report consolidated accounts, making it impossible to determine where companies are working, the number of people they employ, sales, and the taxes and royalties they remit to host governments. Country-by-country reporting is resisted by multinational companies since it would limit their ability to shift profits and taxes across jurisdictions.

**Upgrade and strengthen the U.N. Committee of Experts on International Co-operation on Tax Matters in terms of mandate and resources.** This proposal, supported by the G77 and China, is fiercely opposed by the OECD, which wants to retain its monopoly as the standard setter on tax matters. The U.N., however, is better able to represent the interests of developing countries than the OECD, which is largely a club of rich countries.

**Integrate responsible tax policies into corporate accountability frameworks.** Tax revenues pay for the goods and services on which corporations depend - public infrastructure, access to the environmental commons, an educational system that trains workers, social and health services, significant subsidies, and a costly legal system that safeguards corporate contracts and property rights. Tax is not a business cost. Rather, tax is much like a dividend, a return due on investments made by society at large, from which corporations benefit.

**Institute a Financial Transactions Tax.** The FTT is a small tax (0.05%) on the transactions made between financial market actors on stocks, bonds, foreign exchange, and derivatives including trade of futures and options related to stocks, interest rate securities, currencies and commodities. It would raise significant resources for development and climate change adaptation activities.

Tax Justice Network: [www.taxjustice.net](http://www.taxjustice.net)

Global Financial Integrity: [www.gfip.org](http://www.gfip.org)

Task Force on Financial Integrity & Economic Development: [www.financialtaskforce.org](http://www.financialtaskforce.org)

Robin Hood Tax Campaign: [www.robinhoodtax.ca](http://www.robinhoodtax.ca)

## Notice Board ...

📄 In March, Barrick Gold withdrew its application for financing from **Export Development Canada (EDC)** for the **Pascua Lama** project. In 2010, the U.S. Export Import Bank posted information on its web site regarding an application for financing from Barrick Gold for the mine. Chilean communities that are affected by the project and their NGO allies [wrote to Ex-Im](#), identifying a number of serious problems with the project and urging the public agency to deny Barrick's request. It later became clear that Barrick had also applied for financing from Export Development Canada. Last fall, Chilean and Argentine organizations expressed serious reservations about the export credit agencies' on-the-ground due diligence activities regarding the project, which they described as lacking "transparency, neutrality and credibility" [in a letter](#) to the public institutions. In March, the export credit agencies revealed that Barrick had withdrawn its requests for financing.

<http://halifaxinitiative.org/content/barrick-gold-fails-obtain-financing-pascua-lama>

📄 This month, a delegation of **Achuar** indigenous people from the Peruvian Amazon are in Canada to demand that Canadian oil company, **Talisman**, leave their territory, where the company has been active since 2005. The Achuar are concerned about growing tensions within their community, which they believe are being fomented by the company. A large proportion of the Achuar who live in and around the oil concession want the company to leave. These communities have held formal votes in assembly, in accordance with Peruvian law, and the results are unequivocal - the Achuar want Talisman to leave. Talisman claims that it will only operate with the consent of indigenous people but isn't respecting the results of the assembly votes. Since 2006, **Export Development Canada** has provided Talisman with as much as a billion dollars in financing for its global operations. The **Canada Pension Plan** currently holds \$71 million of equity in the company. <http://amazonwatch.org/news/2012/0418-the-achuar-to-canada-meet-the-delegates>

## Publications and Educational Resources ...

📄 *Treasure Islands: Tax Havens & the Men Who Stole the World*, Nicholas Shaxson, The Bodley Head, London, 2011. One of the best books on the history of tax havens and the costs imposed on Southern and Northern countries alike.

📄 *Tackle Tax Havens* - a video and podcast on tax evasion and the role of tax havens produced by the Tax Justice Network. [www.tackletaxhavens.com](http://www.tackletaxhavens.com)

📄 *Canadians for Tax Fairness* - a Canadian coalition advocating fair and progressive tax policies. [www.taxfairness.ca](http://www.taxfairness.ca)

## The Financial Secrecy Index

Until recently, the conventional discourse on corruption has focused on bribery, thefts by government officials, and the various Southern dictators who have looted public treasuries. It is increasingly recognized, however, that a “supply-side” infrastructure of intermediaries provides the services that enable corruption. Most of these intermediaries are based in jurisdictions that provide legally-enforced secrecy to individuals, financial institutions and corporate entities. It is secrecy laws that enable corruption, money laundering, the concealment of criminal money, and tax evasion, and that prevent accurate appraisals of the financial health of commercial enterprises.

In 2009, the Tax Justice Network launched a “Financial Secrecy Index,” which ranks countries according to their level of secrecy and the scale of their financial activities. The index assesses a country’s laws and regulations, the international treaties to which it is a signatory, as well as its importance to global financial markets. The two scores are combined, with an emphasis on the secrecy score. In the 2011 index, the five most secretive jurisdictions of 73 countries analyzed were Switzerland, the Cayman Islands, Luxembourg, Hong Kong and the United States. The index demonstrates that the world’s most secretive jurisdictions are rich nations and that many are members of the Organisation for Economic Co-operation and Development (OECD) and the G20.

The Financial Secrecy Index reveals that mainstream thinking about the politics and geography of corruption is flawed. Transparency International, the world’s leading anti-corruption organization, ranks some of the world’s major secrecy jurisdictions such as Switzerland, Hong Kong, Luxembourg, Great Britain and the United States as among the “least corrupt.” Yet, Switzerland’s banks have provided services to a long line of criminals and corrupt dictators. In the United States, it is perfectly legal for financial institutions to handle the proceeds of crime, as long as those crimes are committed elsewhere. Almost half of the world’s offshore secrecy jurisdictions are connected to the United Kingdom as Crown Dependencies, British Overseas Territories or as members of the Commonwealth.

These findings also suggest why international efforts to crack down on secrecy jurisdictions have been so ineffective, since many of these jurisdictions are influential members of the G20 and OECD.

Financial Secrecy Index, Tax Justice Network: [www.financialsecrecyindex.com](http://www.financialsecrecyindex.com)  
The Hidden Trillions, Secrecy, Corruption & the Offshore Interface, Christensen, J.,  
Crime, Law and Social Change, 2012, 57: 325-343.  
Mirror, Mirror on the Wall, Who’s the Most Corrupt of All? Christensen, J.,  
[www.taxjustice.net/cms/upload/pdf/0701\\_Mirror\\_Mirror\\_corruption.pdf](http://www.taxjustice.net/cms/upload/pdf/0701_Mirror_Mirror_corruption.pdf)