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THE SCAM OF OFFSHORE LOOTING

$11.5 trillion siphoned offshore

An international coalition of researchers and campaigners against tax evasion in poor countries who gathered recently in Bamako, Mali have pressed the panic button over the extent to which multinational corporations and wealthy individuals are evading tax in the name of offshore business.

Tax Justice Network (TJN), an international NGO working for social justice in poor countries estimates through its own research that a staggering $11.5 trillion has been siphoned 'offshore' by wealthy individuals, held in tax havens, where they are shielded from contributing to government revenues. John Christensen, TJN Director is worried how tax is emerging as an overlooked but central issue in the fight against poverty. "The benefits from taxing this wealth would far outweigh any realistic amount of foreign aid from those countries", say Christensen.

He explains further that if the income from this offshore wealth was taxed at the moderate rate of 30%, the resulting revenue - around $255 billion annually - could finance the United Nations Millennium Project in its entirety. Put simply, making the rich pay their due taxes could immediately fund measures to halve world poverty.

In common with the rest of the developing world, Africa suffers particularly acutely from this wealth drain. Around 30% of sub-Saharan Africa's GDP is moved offshore. As several studies have suggested, this rate of capital flight means that Africa - a continent which is irrevocably indebted – may actually be a net creditor to the rest of the world.

TJN argues that while Africa's wealth flows to Monaco, Switzerland, Jersey and London, those who lose out are the populations of African nations whose dwindling tax revenues cannot support government spending on health, AIDS programmes, education, infrastructure and communication.

Meanwhile the banking secrecy maintained by the world's bankers and accountants in tax havens helps business and political elites to plunder resources across the continent, providing a secure cover for them to launder the proceeds of political corruption, fraud, embezzlement and illicit arms trading. Astonishingly, international organisations including the World Trade Organisation and the International Monetary Fund have not pursued international action to stem the haemorrhaging of Africa's wealth.

Instead, they have encouraged developing African nations to drop business and trade taxes further, in a desperate bid to encourage investment from multinational corporations accustomed to channelling their wealth through tax havens. The result is that ordinary people shoulder more of the tax burden through sales taxes, while homegrown national businesses cannot compete with giant international corporations which can avoid tax through the international movement of capital and assets.

National initiatives are beginning to work against this African plunder. Nigeria's heroic Economic and Financial Crimes Commission is working to recover some of the wealth lost to tax havens through corruption and the tax evasion of multinational oil companies. Sadly, the Ghanaian government this year announced plans to set up offshore banks, which have become notorious for aiding the siphoning of looted money from Africa.

TJN recommends that International cooperation on tax is urgently necessary – and if international institutions like the UN and the OECD will not take action, global civil society must force them to do so. Bamako saw a bold proposal: to form a continent-wide Tax Justice Network for Africa, to be launched at the 2007 World Social Forum in Nairobi, Kenya. This will be a major step in a new global development struggle, at whose forefront should be African activists and campaigners.

In a related development, Alex Cobham, Director of the Oxford Council for Good Governance (OCGG) is urging rich countries to keep track of the income of high net-wealth individuals and the profits of multinationals to create a just and fair society.

Cobham notes that for developing countries, what is important is the availability of tax-relevant information collected by rich countries and the secretive tax haven jurisdictions that serve them. This means that the international community must require international information exchange, to allow poor countries to identify the true profit streams of companies operating within their borders. It also means stripping tax havens of their ability to provide shelter for tax evaders - starting with the UK's own Crown Dependencies. As a bonus, such measures are likely to pay for themselves for rich countries too, not only freeing up resources for the poorest.

The second area in which the UK and other donors can make a useful contribution is through its influence on the wider development agenda. Tax has been neglected for too long in development policy, with two unfortunate effects. Where it has been left to rich country experts and treated as a game of "catch-up" with the moving target of systems in rich countries, policies have often - inevitably - been inappropriate. Switching to regressive consumer taxes has often undermined the possibility for redistribution, while encouraging the existence of large informal sectors - further decreasing government revenues.

Cobham argues that complete trade liberalisation in the poorest group of low-income countries, for example, would cost them revenues equivalent to the total removal of all aid. The International Monetary Fund itself calculates that these countries have recovered less than a third of the revenues already lost to liberalization.

In the long term, enforcing taxation offers the only realistic way to mobilise revenue sustainably; and in the shorter term, the sums involved may make it the best hope for filling the gap that has undermined the Millennium Development Goals and other development aims. By making international tax structures capable of meeting these challenges, both international donors and African countries themselves can move towards a workable welfare state for Africa, argues Cobham.