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Plug the leaks - or waste the aid

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The recent G8 announcements will not make poverty history. Not only did they fall far short of what was needed on debt, aid and trade but they also ignored the equally important issue of capital flight.

The new money promised by the G8 can be likened to pouring small cups of water into a bucket when what was needed was whole jugs full. What's more, the G8 failed to notice that the bucket is leaking.

Developing countries are losing \$500bn (£288bn) to \$800bn in untaxed money that is leaving their economies unchecked. This flight of capital is up to 10 times the \$78bn that developing countries currently receive in aid.

The much publicised G8 deals will deliver about \$1bn in debt cancellation and \$25bn in aid flows mostly to sub-Saharan Africa. But this is dwarfed by the \$50bn the region loses in capital flight.

Disturbingly, this capital flight out of Africa is on the rise so any rise in aid threatens to be eroded by money flowing out. Clearly, plugging the leaks must be the top priority.

By far the biggest leak is the widespread and pernicious mispricing of exports and imports to shift profits out of the country. For example, African diamonds have been exported by businesses at a book price of a fraction of their true value so the real profits only show up in offshore locations.

Firms, especially multinationals, are the biggest culprits using a sophisticated network of notional companies in tax havens to hide billions of dollars of profits from the taxman. The secretive practices of banks in these jurisdictions make it almost impossible to bring the culprits to book.

Other leaks such as criminal proceeds from trafficking and racketeering, and corrupt proceeds from greedy officials are important but much smaller and piggyback on the sophisticated money-moving apparatus set up by western banks and businesses.

Plugging the leaks would allow developing countries to cut their reliance on western governments and the IMF, and reject damaging enforced privatisations and trade liberalisation so often attached as conditions to aid and loans.

Tax havens and banking secrecy cause poverty by facilitating the leakage of scarce money out of developing countries. They also help rich elites and businesses avoid billions of dollars in taxes that could otherwise finance the building of hospitals and schools.

Co-ordinated international action towards shutting down tax havens, eliminating banking secrecy and automatically exchanging information between tax jurisdictions would plug the biggest leaks.

While the incentive for developing countries to act is clear, the hundreds of billions of dollars that rich countries lose in tax revenues are now threatening the very existence of the welfare state. Britain alone loses more than £50bn in taxes every year.

Following Gleneagles, the time is ripe to add the issue of capital flight to the debt, aid and trade triumvirate. With co-ordinated action it is possible to tackle poverty in the developing world and halt the erosion of the welfare state in developed countries. Messrs Blair and Brown can lead the way - 35 of the 72 tax havens are British territories, dependencies or ex-colonies.

Action is needed on increasing aid, cancelling debt and making trade fair. But to really make poverty history the G8 must also plug the leaks.

Fittingly, the next G8 summit is in Russia - the country that has suffered most from capital flight. Mr Putin, let us now make poverty history.

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