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## **TAX HAVENS AND THE CULTURE OF CORRUPTION**

A new index that will rank financial centres according to the degree of transparency of their financial institutions is soon to be launched by Tax Justice Network. Some of the countries previously ranked as "least corrupt" could well end up at the bottom of the new index.

**By John Christensen**

In 2004 *The Guardian* newspaper published a quote which captured the corrupted spirit of the tax haven world in which I worked for 14 years: 'No matter what legislation is in place, the accountants and lawyers will find a way around it.' These words, spoken by a senior tax adviser of a large London accounting firm, reflect the culture of corruption which infests the financial professions, the City of London and its offshore satellites around the world.

Working in the British tax haven of Jersey in the 1980s, I witnessed first hand how extensively tax havens are used for tax evasion and abusive trade mispricing. I also observed how secretive ownership arrangements enable other corrupt practices, including: insider-trading, concealment of monopolistic structures and cartel arrangements, illicit payments to political parties, payment of bribes and kickbacks, embezzlement, and all manner of commercial fraud. These experiences have convinced me that the corruption debate needs urgently to shift its focus to consider how the enabling environment of tax havens catalyses corruption in developing countries and across the world.

Secrecy provides the enabling environment for corruption; in offshore tax havens it offers criminals a high degree of protection from investigation. Secrecy is not limited to secret bank accounts. It includes non-disclosure of ownership of institutions like companies and trusts, and the use of nominees to avoid disclosure of the real ownership. It is far more likely that tax evaders would be deterred from their activities if they felt that investigators could track their involvement in offshore companies, trusts and bank accounts which are used to launder the proceeds of their crimes. In many respects tackling the secrecy culture of tax havens should be the highest priority for anti-corruption campaigners because the agents who create and maintain this 'secrecy space' include some of the most powerful elites within society.

In 2006, working with colleagues from the Tax Justice Network, I conducted consultations with researchers and activists from across Africa on their perceptions of corruption. The overwhelming majority of the people we met felt that until now the corruption debate has been one-sided and has not given sufficient weight to how Western financial institutions aid and abet crime and foster corruption. They proposed a more integrated approach to fighting corruption, tackling both the demand and supply sides, and paying particular attention to the 'corruption interface' provided by tax havens. These views were recently echoed by Kenya's Justice and Constitutional Affairs Minister Martha Karua, who complained about the hurdles Kenya faces in its efforts to recover more than Ksh 140 billion (EUR 1.53 billion) stashed away in offshore bank accounts.

I therefore strongly welcome Eva Joly's comment to *Development Today* that dealing with tax havens represents 'phase two' of the corruption debate. (See *DT 3/07*) Phase one was useful in terms of getting the corruption debate started, but the narrowness of its focus has in some respects been counterproductive because of its blatant onesidedness, illustrated by a speech made in Nigeria last year by British Chancellor of the Exchequer Gordon Brown who said: 'African finance ministers know that if they don't have proper transparency, fail to open their books and allow people to shine a light on their finances, they will lose not only with their own public but with the international community.' No reasonable person will disagree with such views, but they would carry far greater weight if the British government led by example and required proper transparency of the City of London and the 30 or so tax havens associated with the UK and its Commonwealth. The City is probably the top destination for capital flight from Africa, and Britain is among the least cooperative countries in trying to repatriate assets stolen from Africa.

The Tax Justice Network is currently developing the methodology for a Financial Transparency Index which will rank financial centres according to the degree of transparency of their financial institutions. The index will evaluate the laws, regulations and practices of different jurisdictions against defined and objective criteria, and apply a weighting factor to reflect the scale of the offshore activities.

The purpose of the Financial Transparency Index is to highlight countries which are least transparent on issues relating to ownership and information exchange. It is very probable that this index will considerably alter perceptions of the geography of corruption and provide a more balanced understanding of how corruption functions. It is also likely that countries like Switzerland, the United Kingdom and the United States, which are widely reported as being amongst the least corrupt nations, will rank amongst the least financially transparent offshore centres and therefore high on the list of countries most susceptible to being used as a corruption interface. – Third World Network Features

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