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The Precarious State of Public Finance

Tax evasion, capital flight and the misuse of public money in developing countries – and what can be done about it.

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Abbreviations

ACP	African, Caribbean, and Pacific countries
GDP	Gross Domestic Product
BMZ	German Ministry for Economic Cooperation and Development
GNI	Gross National Income
GNP	Gross National Product
BWI	Breton-Woods-Institutions (IMF and the World Bank Group)
DAC	Development Assistance Committee
ECOSOC	Economic and Social Council
EPAs	Economic Partnership Agreements
EPZs	Export Processing Zones
EU	European Union
G77	Group of 77

GA	General Assembly
CIS	Commonwealth of Independent States
HIPCs	Highly Indebted Poor Countries
ILO	International Labour Organisation
IMF	International Monetary Fund
IRENE	International Restructuring
	Education Network Europe
IMF	International Monetary Fund
LDC	Least Developed Country
MDGs	Millennium Development Goals
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation
	and Development
PPP	Public-Private-Partnership
RES	Resolution
SIPRI	Stockholm International Peace
	Research Institute
TNC	Transnational Corporation
UN	United Nations
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade
	and Development
VAT	Value Added Tax
WHO	World Health Organization
WIDER	World Institute for Development
	Economics Research
WTO	World Trade Organisation

Preface

The question of how to finance social and economic development in countries of the Global South has been a concern for policy-makers and international organisations for many years. It stood at the centre of numerous international conferences, particularly in the Copenhagen World Summit for Social Development in 1995 and the 2002 UN Conference on Financing for Development in Monterrey. Non-Governmental Organisations (NGOs) and trade unions tend to focus on the question of how more money can be mobilised for the South from the North – whether through an increase in official development assistance (ODA), or through new financial instruments such as global taxes (e. g. the so-called Tobin Tax).

In recent years however, increasing attention is also being paid to the opposite trend: that is, resource flows out of the Global South due to capital flight, tax avoidance, the repatriation of funds by transnational corporations as well as immense debt repayments, which alone constitute hundreds of billions of US dollars per year. Globally active corporations play a particular role in this. Through investment decisions and by threatening to outsource production, corporations fuel worldwide tax races to the bottom. By shifting profits to tax havens and 'creatively' manipulating prices in intra-company transactions, they deprive (not only) developing countries of potential domestic revenues that amount to billions of dollars.

In the past few years, the joint events and publications of DGB-Bildungswerk, Global Policy Forum and terre des hommes have focused on the question of how corporate social responsibility and corporate accountability could be strengthened through binding international regulations. Initially, we concentrated on the worldwide establishment of social, environmental and human rights standards. In the meantime, we believe the issue of corporate taxation carries equal weight in the corporate accountability debate, as corporations who evade taxes by outsourcing production or through accounting tricks fall short of meeting the requirements of social responsibility as well.

In light of this, DGB-Bildungswerk, Global Policy Forum and terre des hommes started a new project in 2005 with which we aim to build a bridge between the discourse about development financing on the one hand, and tax justice, corporate taxation and corporate accountability on the other. In the project we aim to examine what measures are necessary to increase tax revenues in countries of the Global South, reduce capital flight, and ensure that public expenditures are used for the right purposes (including financing the so-called Millennium Development Goals, MDGs).

The present study is the first outcome of this project. It is meant to provide a broad overview of the issues without going into detail on tax or budgetary policies. The study should be understood as a discussion paper that aims to encourage further engagement with this theme. Its recommendations are not written in stone, but should be developed and made more concrete over the course of the project. In the next phase we therefore intend to focus, among other things, on the role that development policy can play in supporting public revenues in countries of the Global South. The principal aim of our project is to support various civil society networks and initiatives that deal with questions of tax justice and public finance, and who thereby also contribute to a change in perspective in international development policies.

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Introduction

For decades development cooperation has been based on the assumption that countries of the Global South need to be assisted in their development with monies coming from the rich North. A symbol of this 'partnership' (a euphemism for what are too frequently paternalistic donor-recipient relationships) is the 36-year-old unfulfilled promise by developed countries to allocate 0.7 % of their Gross National Income (GNI) to official development assistance (ODA).[1] Since the time this pledge was made, the discourse about development financing has concentrated on the question of how to mobilize more money for the South, whether through an increase in ODA or through new financial instruments like global taxes. A growing role in the development discourse plays the question of 'better' aid, i. e. the increase in the effectiveness and efficiency of development cooperation.

Yet, however useful the focus on the quantity and quality of 'aid' is, it is not the solution. In the long term, countries of the Global South can only overcome their dependency on rich donors when theiy are able to mobilize enough domestic resources to guarantee universal access to reasonable quality essential public goods and services. The basic starting points for achieving this goal include, among others, an effective tax system that enables governments to raise the necessary resources, and transparent and democratic ('participatory') budgets that focus on the financing of key development tasks. The most urgent of those tasks are outlined in the so-called Millennium Development Goals (MDGs), addressing issues such as education, health, nutrition, safe water provision and social security.

Politicians and international organisations, particularly the World Bank and the International Monetary Fund (IMF), have been continually emphasising the importance of mobilising domestic resources. At the UN Conference on Financing for Development in Monterrey in 2002, this theme stood at the top of the agenda. Nevertheless, non-governmental organisations (NGOs) reacted to this rather sceptically. They suspected (not without good reason), that governments of rich countries wanted to deflect attention away from their own responsibilities and the necessary reforms of the international economic and financial system.

Civil Society Organisations, particularly in the Global South, have in recent times strengthened their focus on public revenues in their own countries. Of particular importance are questions of redistribution and increased taxation of domestic elites and transnational corporations, as well as examining how public revenues are contributing to combating poverty and realising economic, social and cultural rights as well as gender equity (gender budgeting).

However, up to now the mobilization of domestic resources and the strengthening of fiscal policies for the purposes of poverty eradication and social redistribution have been facing several internal and external obstacles:

- Ineffective tax systems fail to reach landowners, transnational companies and wealthy individuals. This comes hand in hand with a weak or even corrupt public administration that is not able to actually increase tax revenues.

- Exact figures for state revenues are often unknown, as development aid does not appear in the budgets of recipient countries, or because governments do not disclose incomes from concessions and royalties, particularly in the area of extractive industries. With initiatives like Publish What You Pay, NGOs therefore demand the establishment of binding regulations for transparent budgets.

- Through tax incentives and frequent tax exemptions for foreign investors, developing countries forego revenues without ensuring the corresponding development benefits of the investments thus promoted. This is particularly true in the more than 3,000 currently existing Export Processing Zones, where workers' rights and environmental regulations are frequently abolished. The competition to attract foreign investment becomes a 'race to the bottom' in tax matters. Transnational corporations profit from this practice, but the local populations seldom see the benefits.

- The globalisation of corporate activities allows firms with a transnational presence to manipulate the prices of their internal transactions ('transfer pcicing') so that profits are accounted for in countries where taxes are lower. While markets and production are globalising and money can circulate around the world in seconds, tax policy is confined within national borders.

- Even countries with properly functioning tax systems lose billions of dollars every year due to capital flight to tax havens.

[1] In 1970, governments at the UN General Assembly adopted a resolution stating that developed countries should allocate a minimum of 0.7 percent of their gross national product (today: gross national income) to official development assistance (see UN Doc. A/RES/2626 (XXV).

- Finally, the pressure towards trade liberalization and tariff reduction deprives a number of countries in the South of vital income. In many countries, customs revenues make up a significant portion of government income. Eliminating tariffs and providing no replacement leaves a gap in the budget.

The consequences:

- Governments do not have the necessary resources to finance key development tasks. This leads to an increase in poverty and aggravated social inequalities.
- Essential public services that lack money must then be commercialised and privatised (such as water provision, education, health services etc.). Due to the dwindling state budgets, 'partnership projects' with the private sector (Public-Private Partnerships, PPP) come to be seen as the silver bullet out of the financial misery.
- In order to finance the most urgent tasks, governments must take out more loans or issue government bonds. The debt burden increases at the expense of future generations – and with it their dependence on foreign creditors.
- In addition, the dependency of the poorest countries on foreign aid increases. Yet these aid levels are unpredictable, highly volatile, and linked to conditionalities that do not necessarily correspond with the development priorities of these countries.

Developing functioning tax systems and securing a sustainable increase in state revenues does not guarantee, however, that governments will actually use the additional resources for central development tasks (in other words, for the realisation of the internationally agreed development goals, including the MDGs). Parallel to the obstacles on the income side, there are various problems on the expenditure side that prevent the use of state revenues in a way that actually contributes to development. These are partly the fault of the governments themselves, partly the result of externally imposed conditionalities and political dependencies.

- In several countries it is still unknown what state revenues are actually used for. Civil society organisations therefore demand not only to 'Publish What You Pay', but also to "Publish How You Spend It". Their demands for transparent state budgets focus on incomes as well as expenditures.
- In many countries, a significant portion of state revenues goes towards debt services and is therefore not available for financing basic development tasks.
- Governments use portions of state revenues for harmful or at least questionable purposes, particularly in terms of military expenditures and direct or indirect subsidies for foreign investors.
- IMF conditionalities restrict the decision-making power of governments over their budgets and their use of state revenues.

To begin with, this working paper illustrates the problems and the obstacles that prevent governments of the Global South from mobilising their own state revenues.

Part two examines the expenditure side of fiscal policies. It describes what public revenues in developing countries are spent on, and why they are not always used to fight poverty and advance social development.

Part three provides an outline of what needs to be done in order to increase state revenues, reduce capital flight, and ensure that public expenditures are spent on appropriate development strategies (including financing the MDGs) in the countries of the Global South.

The final section introduces different civil society networks and initiatives that focus on tax justice and public finances – and who through their work contribute to a change in perspective in international development policies.

Where do public revenues in developing countries come from – and why are they not higher?

1

The United Nations Millennium Project estimated in its report 'Investing in Development' that in order to realise the MDGs, ODA would need to increase to USD 135 billion by 2006, and USD 195 billion by 2015.[2] These numbers are cited repeatedly in the discourse on financing the MDGs. What is often overlooked is that these funds are by no means sufficient. According to the Millennium Project, what is needed additionally is a drastic increase in the public expenditures of developing countries themselves. In low-income countries, the proportion of public expenditures to gross national income would need to increase by 4 percentage points by the year 2015. In absolute numbers this means that these countries would need to more than double public spending on the MDGs[3],particularly for measures to eradicate poverty, ensure food security, and provide access to education, water and public health care. The additional spending is to be financed through higher tax revenues on the one hand, and reallocations in the expenditure side on the other.

The Millennium Project also points out something that is hardly ever shed light on in the development discourse: most countries of the South finance the bulk of their development themselves, and are not at all dependent on the North. The transfer of resources from industrialised countries only constitutes a fraction of the aggregate income of the developing and transitional countries. In 2004, the net ODA share of the Gross Domestic Product (GDP) of all developing countries stood at just 0,5 % (in 1990 it was still 1,4%).[4] In countries like China, Argentina and India the share lies at 0.1 %, in Malaysia at 0.2 %. Nevertheless, there are numerous exceptions: next to the small island developing states, crisis-ridden countries in Africa are particularly reliant on development aid. ODA inflows in Eritrea constituted 28,1 % of GDP (2004), in Burundi it even reached 53,4 % (see Table 1).

[2] See UN Millennium Project, 2005, Table 17.4.
[3] Ibid., p. 245.
[4] See UNDP, 2006, Tab. 18.

Countries with the greatest dependence on official development assistance (ODA)

Table 1

Country	Official Development Assistance 2004 (net ODA inflows) in % of GDP
Gambia	15.1
Ghana	15.3
Tanzania	16.1
Mongolia	16.2
Uganda	17.0
Niger	17.4
Guyana	18.4
Zambia	20.0
Mozambique	20.2
Ethiopia	22.8
Rwanda	25.3
Malawi	25.3
Nicaragua	27.1
Guinea-Bissau	27.2
Congo, Dem. Rep. of	27.4
Eritrea	28.1
Madagascar	28.3
Sierra Leone	33.4
Timor-Leste	45.1
Solomon Islands	47.3
Burundi	53.4
São Tomé and Principe	53.7

Source: UNDP, 2006, Tab. 18.

But it is not only the above countries that must reduce their dependency on foreign resources and strengthen their own income bases. In the majority of developing and transitional countries, the share of public revenue to GDP lies well below the average of that of the industrialised countries. According to World Bank estimates, the share of central government revenues to GDP in low-income countries was only 13 % in 2004. In contrast, in high-income countries it was 26.0 %, and in the European Economic and Monetary Union it was even 35.7 % (see Table 2).[5] The financial capabilities of Governments in many developing countries are thus not only severely limited in absolute numbers, but also in relation to the GDP – and so are their abilities of providing reasonable quality public goods and services, for example in education and health care.

The reasons for the shortage of public funds in many developing countries are numerous, and differ from country to country. Yet the following factors have affected the willingness and ability of governments to mobilise more state revenues in particular:

1. Ineffective tax systems;
2. The growth in the shadow economy;
3. Weak tax authorities;
4. Pressure from transnational investors and global tax races to the bottom;
5. 'Transfer Pricing' and other tricks in shifting profits to low-tax jurisdictions;
6. Capital flight to tax havens;
7. Trade liberalisation and tariff reductions.

[5] See World Bank, 2006b, Tab. 4.10.

Central government revenues as a percentage of GDP in selected countries

Table 2

Country	Share of revenues as a percentage of GDP in selected countries
DEVELOPING COUNTRIES	
Bangladesh	10.0
China	8.8
Guatemala	10.6
India	12.6
Pakistan	13.8
Philippines	14.8
Peru	16.7
Senegal	18.0
Uganda	12.1
INDUSTRIALISED COUNTRIES	
Germany	28.6
France	43.3
Great Britain	36.6
Italy	37.7
Canada	19.9
Netherlands	41.1
Norway	49.3
Austria	38.2
Russia	27.3
Switzerland	19.4
USA	17.2

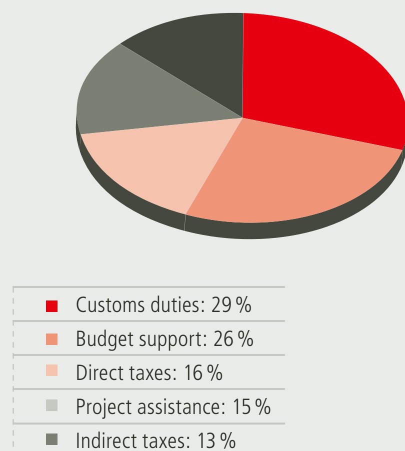
Source: World Bank, 2006b, Tab. 4.10. The numbers show central government revenues from taxes and other sources (user charges, fees, sales revenues, etc.), and do not include inflows of aid. Public revenues from municipalities and provinces have not been taken into account. It should therefore be kept in mind that the values tend to be higher for countries with a stronger central structure (e. g. France), and lower in countries with federal structures (e. g. Germany, India, USA). Alongside this, the share of central government revenues to GDP also depends on whether social security systems are financed out of central government budgets, or by contributions from other institutions (health insurance funds, pension funds etc.).

1.1 Ineffective tax systems to the detriment of the poor

Taxes only constitute a fraction of national budgets in the Global South. Significant and additional sources of revenue are import and export duties, revenues from public enterprises, royalties for the extraction of natural resources (particularly crude oil), foreign aid, loans and government bonds, and sometimes even the printing of banknotes, i. e. state financing through money supply expansion.

In Uganda, for example, revenues from direct and indirect taxes only constitute 29 % of government revenues (see Graph 1).

The case of Uganda: revenues 2004/2005[6]
(Graph 1)



- Customs duties: 29 %
- Budget support: 26 %
- Direct taxes: 16 %
- Project assistance: 15 %
- Indirect taxes: 13 %

In other countries the share is ever smaller (see Table 3). As a comparison: In Germany, 88 % of state revenue is financed through taxes (2004), and only 12 % comes from other sources, such as profits from the German Central Bank and proceeds from the privatisation of public enterprises.

Considerable differences between rich and poor countries emerge when comparing the composition of state revenues. On average, low and middle-income countries rely more heavily on indirect taxes, whereas in high-income countries direct taxes play a bigger role.

In poorer countries, only 16 % of state revenues come from taxing income, business profits and capital gains, while 32 % is collected through taxes on goods and services, particularly through the value-added tax (VAT).[7] In rich countries, the shares lie at 28 and 25 percent respectively. The differences become even bigger when social security contributions are taken into account, as these add an additional 26 % to state revenues in industrialised countries.

The IMF and the World Bank accelerated the introduction of the value-added tax in many developing countries. In their Structural Adjustment Programmes, they repeatedly called for tax reforms that aimed to widen tax bases on the one hand, and decrease high tax rates on direct taxes (particularly corporate taxes) on the other. The value-added tax was a vital element in these reforms. The result was a downright boom in the adoption of these taxes in Africa in the 1990s. In 1969 there was only one country in Sub-Saharan Africa that had introduced the value-added tax; two decades later it was four countries, in 2001 it was already 27.[8]

In terms of income and wealth distribution, the prominence of indirect taxes in many developing countries is highly problematic. This is because the value-added tax places a burden primarily on the poor and on low-income families, who must spend most of their money on consumption. In contrast, for wealthier groups these taxes hardly carry any weight in relation to their incomes.

To the benefit of affluent elites, governments often exempt entire sections of the economy from effective taxation, and in doing so forego revenues that amount to billions of dollars. This is the case for profits from transnational corporations in export processing zones (see below) and taxation on property, for example. UNDP pointed out a few years ago that although the agricultural sector in many South Asian countries constitutes more than one third of GDP, it contributes less than six percent to state revenues. A property tax on large landowners could lead to significant additional revenues for governments in this sector.[9]

An appropriately developed tax system could be an important instrument for eradicating poverty and reducing the income gap between the rich and the poor. Progressive income taxes that place a higher tax burden on those with higher incomes, as well as tax allowances and transfer benefits for the poorer sections in society, make a substantial contribution to reducing inequality.[10]

In many developing countries, however, the case is exactly the opposite. Tax systems are regressive; that is, they exacerbate unequal distribution of income. In the past two decades, the Gini-coefficient[11], the measure of income distribution, has risen in 53 of the 73 developing countries for which data is available, indicating that the gap between the rich and poor has increased (see Graph 2).[12]

[6] See The Republic of Uganda, Ministry of Finance, Planning and Economic Development, 2005: Background to the Budget for Financial Year 2005/06. Kampala (http://www.ugrevenue.com/budget)

[7] See World Bank, 2005b, Tab. 4.13. Data from 2003.
[8] See Emran/Stiglitz, 2002, p. 1. [9] UNDP, 1999, p. 94.
[10] See Cobham, 2005b, p. 15ff.

Sources of government revenue in developing countries

Table 3

Country	Central government revenues 2004 (in % of total revenues)	
	from taxes and social security contributions	from other revenues and customs duties
Iran	25	74
Madagascar	26	73
Uganda	36	64
Lesotho	37	62
Myanmar	38	62
Swaziland	44	56
Bangladesh	45	55
Venezuela	46	54
Nepal	46	55
Côte d'Ivoire	47	53
Panama	48	53
Congo, Dem. Rep. of	50	50
Jordan	51	49
Senegal	54	46
Paraguay	60	42
Namibia	61	40
Pakistan	62	38
Mauritius	65	36
India	66	33
Bolivia	66	34
Papua New Guinea	66	34
Indonesia	67	33
Malaysia	68	32
Philippines	68	33
Lebanon	69	32
Sri Lanka	72	28
Nicaragua	75	25
Chile	75	24
Algeria	76	24
Thailand	78	22
Argentina	79	21
Kenya	84	15
China	101	-1

Source: Author's own calculations according to World Bank figures, 2006b, Table 4.12. Due to rounding, values may not add to 100 %.

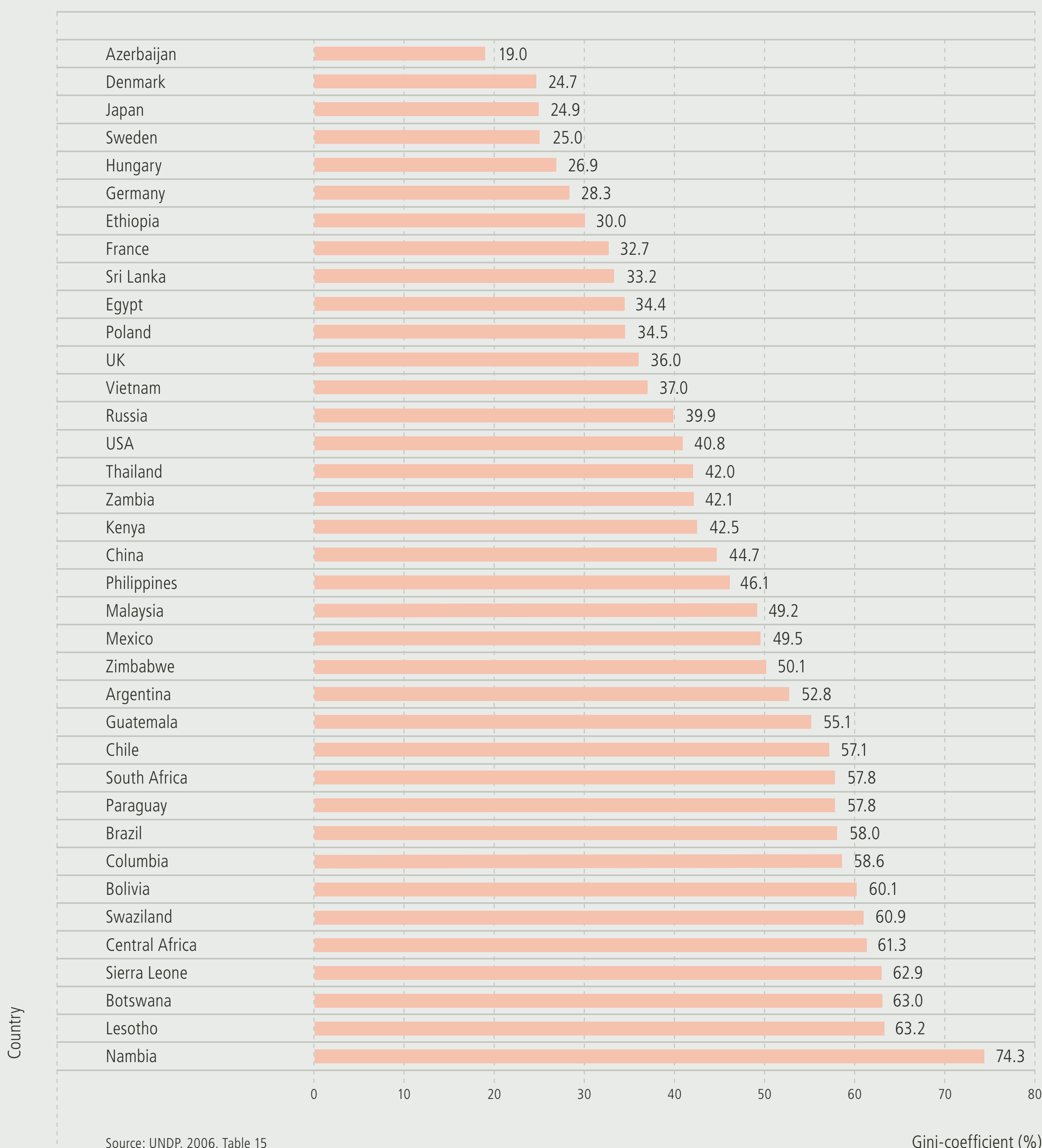
[11] The Gini-coefficient is the statistical measure of income inequality in a society. It measures the deviation from average income distribution. A Gini-coefficient of 0 corresponds to perfect income equality, a gini-coefficient of 100 corresponds to perfect income inequality. [12] See UNDP, 2005, p. 70f.

Part 4
Part 3
Part 2
Part 1

In a study about the relationship between income distribution and tax policy in developing countries, the United Nations University research institute WIDER arrives at similar conclusions:

"The tax structure in developing countries is dominated by indirect taxes, with only a limited menu of capital and wealth taxes. In general, weak tax administration in these countries gives rise to tax evasion, a marked difference between de jure and de facto tax regimes and a low tax-to-GDP ratio. These countries have only limited formal cash transfer and social protection programmes. These features cast doubt on the ability of the tax (and transfer) policies in developing countries to redistribute income effectively. Corruption and poor governance also limit the effectiveness of taxes and transfers as redistributive instruments." [13]

Income inequality in selected countries – Gini-coefficient in % (Graph 2)



Source: UNDP, 2006, Table 15

[13] Chu/Davoodi/Gupta, 2000, p. 31.

In the 2005 Human Development Report, UNDP therefore calls for national fiscal policies that actively aim to reduce inequality. In doing so, Chile has managed to reduce the income gap between the richest and the poorest 20 % of its population from 20:1 to 10:1. To achieve this direct cash transfers to the poor are necessary, as well as increased public investments into economic sectors that are of particular relevance to the poor.

1. 2 The growth in the shadow economy

In many countries the mobilisation of public revenues is made more difficult by the growing informal or 'shadow' economy. The shadow economy includes all economic activities that are outside the control of the state, and therefore also outside its tax jurisdiction. The following three types of activities are elements of the shadow economy:

- Informal economic activities in household productions and small enterprises, mostly to meet subsistence needs.
- Criminal activities that are tied to financial transactions, for example drug trafficking, corruption or child prostitution.
- Illicit work and similar activities which are generally legal, but deliberately concealed from public authorities in order to avoid the payment of taxes and social security contributions, or to avoid having to meet certain legal standards such as minimum wages.

All three forms have traditionally played a big role in developing countries, but since the 1990s with accelerated economic globalisation they have experienced enormous growth. A study published by the International Restructuring Education Network Europe (IRENE) and the Clean Clothes Campaign (CCC) estimates that the number of informal home workers alone – most of them women in the globalised garment industry – has reached 300 million worldwide.[14]

Many small computer businesses in Brazil and India can only compete with transnational IT corporations through black market labour. Through it they avoid paying taxes that in some cases make up 50 % of the consumer price.[15]

The International Labour Organisation estimates that in some countries the share of people working in the informal economy is over 50 percent. Countries with particularly high shares are Nepal (73.3 %), Mali (70 %), Tanzania (67 %), India (55.7 %) and Peru (53.8 %).[16] The number of women in the informal sector is, as a general rule, disproportionately high.

The size of the shadow economy, and with it the volume of untaxed economic activity, can only be estimated. The economist Friedrich Schneider, in a comprehensive study on the shadow economy in 145 countries, comes to the conclusion that in 2003 the informal sector made up 41.2 % of GDP in Africa, 41.5 % in Latin America, and 26.3 % in Asia.[17] In the rich OECD countries the share lies at 16.8 percent. On average, Schneider estimates the magnitude of the global shadow economy at 35.2 percent of GDP – and growing (see Table 4).

It is undisputed that a significant amount of tax revenues are lost through the shadow economy, particularly through untaxed illicit employment. The British economist Alex Cobham estimates that tax revenues in developing countries would yield an additional USD 252 billion per year if the shadow economy were to be fully integrated into the formal economy.[18]

Nevertheless, it would be a mistake to criminalize the entire informal sector and to assume that it exists merely for tax evasion purposes. Similarly, it would be wrong to assume that a formalisation of the informal economy would raise tax revenues commensurate to current losses. On the one hand, formalisation is neither possible nor desirable (in the case of criminal activities). On the other hand, earnings from informal activities lie below the taxable limit (e. g. in the case of the subsistence production). In many countries, people see the informality as the only way to avoid arbitrary treatment by corrupt tax authorities. The integration of their activities into the formal sector would therefore have to be accompanied by the development of trustworthy and effective financial administrations, as well as the elimination of corruption and arbitrariness.

[14] See Ascoly, 2004, p. 4.
[15] See Farrell et al., 2004, p. 34.
[16] See International Labour Office, 2002, p. 14.

[17] See Schneider, 2002, p. 41. [18] See Cobham, 2005a, p. 11f. According to Cobham the full integration of the informal economy into the formal economy is unrealistic, although he believes it is possible to reduce the difference between the share of the informal economy in developing countries and the (low) share in OECD countries by two-thirds. This would yield an estimated USD 110 billion in state revenues for developing countries.

The magnitude of the shadow economy in selected countries

Table 4

Country	Shadow economy in % of GDP	
	1999/2000	2002/2003
AFRICA		
Congo, Dem. Rep. of	48.2	50.1
Nigeria	57.9	59.4
Zambia	48.9	50.8
Zimbabwe	59.4	63.2
Tanzania	58.3	60.2
LATIN AMERICA AND THE CARIBBEAN		
Argentina	25.4	28.9
Bolivia	67.1	68.3
Brazil	39.8	42.3
Guatemala	51.5	52.4
Haiti	55.4	58.6
Honduras	49.6	51.6
Mexico	30.1	33.2
Panama	64.1	65.3
Peru	59.9	60.9
Uruguay	51.1	51.9
ASIA		
China	13.1	15.6
India	23.1	25.6
Cambodia	50.1	52.4
Thailand	52.6	54.1
CIS		
Azerbaijan	60.6	61.3
Georgia	67.3	68.0
Russia	46.1	48.7
Ukraine	52.2	54.7
Belarus	48.1	50.4
EUROPE AND NORTH AMERICA		
Germany	16.0	16.8
France	15.2	14.5
Great Britain	12.7	12.2
Italy	27.1	25.7
Japan	11.2	10.8
Canada	16.0	15.2
Austria	9.8	10.9
Switzerland	8.6	9.4
USA	8.7	8.4

Source: Schneider, 2004, p. 54ff.

1.3 Weak and corrupt tax authorities

In addition to the problems in developing a comprehensive and effective tax system, many governments are unable to make full use of the income potential that already exists. A main reason for this is the weakness and ineffectiveness of the public finance administration. Often, governments do not have the financial means to provide the infrastructure and the qualified personnel necessary for tax collection. The consequences are grave: not all persons liable to pay taxes are registered, taxes are not imposed, payments are not controlled and audits are not carried out. Poorly equipped tax authorities are particularly powerless against transnational corporations and their tax avoidance practices.

The payment moral of those liable to pay taxes is often weak. In Kenya for example, arrears for tax payment defaults reached a total of USD 1.32 billion in January 2005. This corresponds to about half of the country's public revenues.[19] Foreign corporations who have left the country also belong to those defaulting on tax payments. It is not likely that their outstanding debts will ever be settled. The Kenyan population has to suffer the consequences.

The weaknesses of tax authorities are compounded by corruption and bribery. These appear in all spheres of the tax system; from the formulation of tax rules and regulatory statutes to tax collection and tax investigations. The African Union estimates that corruption sets alone African national economies back by USD 148 billion per year. That corresponds to about 25 percent of African GDP, and more than five times the amount of official development assistance that flows to Africa (2004).

Due to massive losses in revenue, many governments have in recent years attempted to reform their public finance administration, often with support from international development cooperation. This is the case in Zambia, Tanzania and Ghana.[20] The Argentinean Congress established a tax law in June 2005 that aims to strengthen and widen the capacities of tax authorities.[21] In 2004, Venezuela's president Hugo Chavez launched the 'Zero-Evasion Plan', a campaign against tax evasion that has lead to a substantial increase in state revenues. Venezuela's tax collection agency Seniat also demanded overdue payments from three multinational oil companies in the amount of USD 223 million in December 2005.[22] Overall, Seniat expects a total of USD 2 billion in overdue payments from foreign oil companies. Nonetheless, a tax authority that gets down to business and takes on foreign corporations is the exception rather than the rule.

1.4 Investment pressure and 'tax races to the bottom'

In the global competition for foreign investment, many governments attempt to attract transnational corporations through low taxes, subsidies and other incentives. In the past few years, a virtual 'tax race to the bottom' has emerged on a global scale. Between 1996 and 2006 alone, governments of the OECD countries decreased average corporate tax rates from 37.60 to 28.31 percent.[23] In most countries of the South the trend is going into the same direction, although corporate tax rates were traditionally lower in developing countries anyway. Countries that have drastically reduced tax rates in recent years include Sri Lanka, Bangladesh, Mexico, Panama and Peru.[24]

However, tax rate levels are only an indicator of the general (downward) trend in corporate taxation. They neither say anything about the amount of revenues from taxes, nor do they say anything about the taxes that individual corporations actually pay. This is because the level of total tax burden depends on a series of other factors, including: indirect taxes, tax writeoff facilities, other legal and illegal tax avoidance tricks (especially the manipulation of prices in internal transactions; see below), and above all, tax exemptions for foreign investors.

To attract foreign investment capital, governments have established Export Processing Zones (EPZs) worldwide. The International Labour Organisation (ILO) estimates their numbers at over 3000.[25] Transnational corporations producing for export are granted numerous concessions in these zones, which include the unrestricted transfer of capital (incl. the repatriation of profits to countries of origin), reduced labour rights, low environmental and social standards as well as diverse tax incentives.

Often governments guarantee investors full tax exemptions ('tax holidays') for a minimum of five to ten years. Thereafter, corporations in EPZs are charged substantially lower taxes than local businesses that produce for domestic consumption. This is, for instance, the case for EPZs in Ghana, where foreign companies do not have to pay more than 8 % tax on profits after the 10-year period has expired. Kenya, too, grants 'tax holidays' for a time span of ten years, after which it imposes a flat tax of 25 percent. In EPZs in Manila, tax holidays last only 4–8 years, although the subsequent flat tax is only 5 %. Belize lures in foreign investors with a minimum of 20 years of tax exemption. In China, there are five large Export Processing Zones (Shenzhen, Shantou, Xiamen, Zhuhai and Hainan) with a corporate tax rate of 15 %. Alongside these there exist numerous free trade zones that,

[19] See Christian Aid, 2005, p. 13. [20] See e.g. the activities of the GTZ within the theme of public finances and administrative reform, which is being carried out on behalf of the BMZ (www.gtz.de/public-finance). [21] See Deloitte, Latin America Tax Forum, Summer 2005, p. 1f. [22] This concerns the following companies: the French oil enterprise Total (USD 107 million), the Spanish enterprise Repsol (USD 113 million) and the Japanese firm Teikoku (USD 3 million). See http://www.petroleumworld.com/story05123001.htm. [23] See KPMG, 2000 and 2006a. [24] See KPMG, 2000 and 2004. [25] See ILO, 2003.

depending on region and industry, grant an assortment of concessions in customs duties, taxes and currency transfers to foreign investors. Subject to region and industry, tax rates for foreign companies fluctuate between 0 and 27 percent. Special privileges are given to companies from the high-tech industry.[26]

The spectrum of investment incentives used by governments to win the favour of foreign investors is summarised by an advertisement for Export Processing Zones in Nigeria:

"The regulatory regime for EPZs in Nigeria is liberal and provides a conducive environment for profitable operations. The incentives available to operators in Nigeria's EPZs compare favourably with the most attractive elsewhere in the world and are the best in the region. They include one hundred per cent foreign ownership of investments, "one stop" approvals, no import or export licenses, duty free import of raw materials, unrestricted remittance of capital profits and dividends, tax holidays and no strikes." [27]

All these incentives run at the expense of state budgets, which consequently have to make up for considerable losses in income. This is despite the fact that for many corporations, financial incentives do not constitute the only criteria for investment decisions. Other important factors are good infrastructure, the availability of a qualified work force, the extent of state regulation, low transport costs and, where production is not for export, domestic market opportunities. The consulting firm McKinsey, surveying 30 corporations that had moved their production to India, found that financial incentives were at the bottom of the list of factors that influenced investment decisions.[28]

One can therefore assume that corporations would invest in countries without these incentives – provided that all other factors that influence investment decisions are present. Of course this does not mean that investors are disinclined to accept tax benefits if they are offered.

Direct and indirect subsidies for foreign companies are costly for national economies. Not only do they place a burden on public funds, they also repeatedly lead to failed investments – with serious consequences. A study by the McKinsey Global Institute on the impact of foreign direct investment in Brazil, China, India and Mexico provides some concrete evidence of this.[29] In the 1990s, the Brazilian government subsidised the investments of foreign automobile companies – including Volkswagen, Renault and Mercedes-Benz – with up to USD 340,000 per created work place. With these financial incentives, enterprises raised their production capacities by 40 %. Until 2002, the outcome was about 80 % over-capacity and a resulting decrease in the utilisation and productivity of the factories.[30] The McKinsey study's conclusion: the invested capital could have been spent more efficiently in other sectors of the Brazilian economy.

1. 5 'Transfer Pricing' and other tricks in shifting profits to low-tax jurisdictions

In cases where governments have not granted tax exemptions or where they carry out other forms of tax dumping, transnational corporations often use alternative methods to avoid tax payments. They do this, for example, by manipulating prices in internal transactions ('transfer pricing') or by shifting receivables and payables within an enterprise in order to generate profits in countries where the tax conditions are most favourable.

Over the course of the globalisation of the production chain, transfer pricing has become one of the most important instruments for tax avoidance. The significance of transfer pricing is evident by the fact that, according to WTO estimates, more than 50 % of worldwide trade in goods and services occurs within transnational corporations (Volume in 2004: USD 11,032 billion).

There are two principle methods by which companies reduce their tax burden through 'transfer pricing'.[31] A parent company obtains products or services from a subsidiary in a low-tax jurisdiction and sets prices that are above the average market value. The outcome: the costs for the parent company are higher, while profit and tax payable are correspondingly lower. In contrast, the profits for the subsidiary company increase, but these are subjected to lower taxes. For the entire enterprise the profit increases after tax. Residents of the country in which the parent company is located have to suffer the damage.

Conversely, the parent company can also deliver goods and services to its subsidiary at below-market prices. Revenues – and taxes – are reduced, while the subsidiary sees lower costs and higher profits. The entire process also works when the parent company is situated in a low-tax jurisdiction, only with a reversed outcome.

In the US alone there are thousands of examples of falsely declared prices in cross-border trade: 1 kg of paper tissues from China for USD 4,121.81, air pumps from Malaysia for USD 5,000 a piece, as well as forklifts for Jamaica at the price of USD 384.14 or car seats exported to Belgium for USD 1.66 a piece.[32]

[26] Examples are from the websites of the respective EPZs; for China See KPMG, 2006b. [27] See http://www.onlinenigeria.com/agriculture/?blurb=483 [28] See. Farrell et al, 2004, p. 30. [29] See McKinsey Global Institute. [30] See Farrell et al, 2004, p. 31.

[31] See for example Liebert, 2004, p. 10ff. [32] See Pak/Zdanowicz, 2002, p. 7f. The study lists numerous examples of inflated import prices and low export prices in US enterprises. These include trade within enterprises as well as between independent companies.

For a few years now, governments and tax authorities have more closely examined the manipulation of transfer pricing in order to put a stop to this type of tax evasion. Ten years ago, only a handful of countries had binding regulations and reporting duties for transfer pricing. In the meantime, this number has risen to 32 (see Table 5). In April 2003, the German government introduced more stringent reporting guidelines and penalties for transnational corporations in the area of transfer pricing within the framework of the so-called 'Tax Privileges Reduction Law'.[33] Regulations do not yet exist in most African countries, and can only be found in a few Latin America and Asian countries. And even in countries where regulations exist, the accounting firm Ernst & Young claims that 'audit risk' remains low.[34]

The basis for evaluating transfer pricing is the so-called 'arm's length principle', which states that a transnational corporation must establish the same (market value) prices internally as it would agree to do with companies that are not part this corporation. This principle is anchored in the Transfer Pricing Guidelines and the Model Tax Convention of the OECD, which often form the basis of relevant national and bilateral arrangements.[35]

Given rapid technological development and constant price and currency fluctuations, it is difficult enough for tax authorities to maintain an overview of current market values for traded goods like microchips or motors. It is even more complicated, however, to monitor transfer pricing for services, patents, licenses and all monopolised goods for which there are no market values. The inability of tax authorities to control these transactions is worsened through the expansion of global e-commerce.[36]

The losses that public funds incur due to false transfer pricing are unknown. Studies estimate that falsely declared import and export prices have lead to tax losses in the amount of USD 53 billion in one year in the USA alone.[37] Official figures for developing countries are unavailable. What is known is that manipulated transfer prices are a worldwide phenomenon. According to a survey on tax audits by Ernst & Young, 44 % of the parent companies and 34 % of the subsidiaries they examined had to adjust their transfer pricing documentation – i. e. they had given false transfer prices.[38] As a reminder: only in a minority of countries does an effective inspection of transfer prices by tax authorities even take place. The estimated number of unreported cases is therefore high, and losses in public funds amount to billions of dollars.

Transnational corporations and their global tax advisors, particularly KPMG, Ernst & Young, Deloitte and PriceWaterhouseCoopers, are not only always one step ahead of national tax authorities when it comes to avoiding transfer pricing regulations: by transferring business capital to holding companies or interposing letterbox companies, they also manage to report higher costs in countries with higher taxes and bigger profits in low-tax jurisdictions – and by doing so reduce the total tax burden of the enterprise.

A much-cited example is Ikea's tax savings model.[39] The rights to Ikea's name and concept are owned by the Inter Ikea Systems BV sitting in Delft, to which all Ikea branches and the parent company must pay a 3 % license fee. In 2005, there were 221 branches in 33 countries, with a total turnover of EUR 15.212 billion. The license fees, which amount to about EUR 450 million, directly reduce tax payments on profits in all Ikea branches. The fees flow to the Inter Ikea Systems BV, which enjoys a wide range of tax benefits in the Netherlands.

Another tax avoidance trick of transnational corporations is the method of debt financing in connection with the creation of a holding in a low-tax jurisdiction.[40] Equity capital of the company is transferred to the holding while subsidiaries, which are located in a high-tax jurisdiction, are equipped with less equity capital. These are financed by borrowed capital from the holding company, for which they of course have to pay interest. The outcome: the profits made by the underfunded subsidiaries are reduced through the interests paid to the holding, and so are the payable taxes. The earnings of the holding increase accordingly. This arrangement is particularly lucrative for an enterprise when the holding is located in a tax haven, where no or minimal taxes are imposed on corporate profits and returns on capital investment.

[33] More on this from the perspective of the accounting firm Ernst & Young in Brügger/Streibel, 2003. [34] See Ernst & Young, 2005a. [35] See OECD, 2001; OECD, 2003 and Neighbour, 2002. [36] See Eden, 2005. [37] See Pak/Zdanowicz, 2002. Their examination is based on the year 2001. [38] See Ernst & Young, 2005b, p. 8. [39] See for example Liebert, 2004, p. 11, Weiss/Schmiederer, 2004, S. 97 f, and www.ikea.com (for current corporate payments). [40] See Liebert, 2004, p. 12.

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Countries with transfer pricing rules

Table 5

Countries

1994-1997	1998-2001	2002-2003	2004-2005	In preparation
USA	USA	USA	USA	Chile
Australia	Australia	Australia	Australia	China
France	France	France	France	Finland
Mexico	Mexico	Mexico	Mexico	Ireland
Brazil	Brazil	Brazil	Brazil	Israel
New Zealand	New Zealand	New Zealand	New Zealand	Russia
	Canada	Canada	Canada	Sweden
	South Korea	South Korea	South Korea	
	Argentina	Argentina	Argentina	
	Great Britain	Great Britain	Great Britain	
	Denmark	Denmark	Denmark	
	Venezuela	Venezuela	Venezuela	
	South Africa	South Africa	South Africa	
	Germany	Germany	Germany	
	Belgium	Belgium	Belgium	
	Japan	Japan	Japan	
	Poland	Poland	Poland	
	Kazakhstan	Kazakhstan	Kazakhstan	
	India	India	India	
	Portugal	Portugal	Portugal	
		Argentina	Argentina	
		Colombia	Colombia	
		Netherlands	Netherlands	
		Thailand	Thailand	
		Malaysia	Malaysia	
			Indonesia	
			Norway	
			Spain	
			Peru	
			Taiwan	
			Hungary	
			Ecuador	

Source: Ernst & Young, 2005b

1.6 Capital Flight to tax havens

"Bill Gates would be fabulously more wealthy if he had started Microsoft in Bermuda. He may have known a lot about computer programming when he started the company, but his ignorance about tax cost him a fortune." (Economist Magazine 29.01.2000)

Capital flight to tax havens leads to substantial revenue losses in countries of the Global South. The term 'capital flight' is not clearly defined. In the narrow sense, capital flight refers to the illegal, undocumented transfer of capital out of a country. This includes the export of embezzled public funds by corrupt civil servants and members of government. The funds embezzled and exported by corrupt heads of state alone amounted to many billions of dollars in the past few decades (see the list compiled by Transparency International on some of the worst cases of embezzled public funds in Table 6). The European Commission estimates that in Africa, the illegal transfer of money amounts to more than half of the foreign debt of that continent.[41] This adds up to nearly USD 200 billion.[42]

In the broader sense, capital flight encompasses all financial transactions out of a country by corporations and private individuals, and is primarily done to evade government regulation and tax. Or, as Gerald Epstein states in his comprehensive study on capital flight:

"Capital flight is the transfer of assets abroad in order to reduce loss of principal, loss of return, or loss of control over one's financial wealth due to government-sanctioned activities."[43]

A majority of 'hot money' ends up in accounts or bank deposits in the Bahamas, on the Cayman Islands, or in one of numerous other tax havens that exist worldwide. These do not only include idyllic island states in the Caribbean or in the Pacific. On the list of 72 tax havens counted by the Tax Justice Network, there are countries like Switzerland, Luxembourg, Liechtenstein, Belgium and the Netherlands (see Table 7).[44] Which countries or territories are considered tax havens is a matter of definition. The OECD initially named four criteria:[45]

- No or only minimal taxes for foreign investors
- Strict secrecy rules and lack of effective exchange of information between tax authorities
- Lack of transparency
- Tax benefits for corporations and individuals even if they are not carrying out substantial activities in the country (offshore companies).

Based on these criteria, the OECD released a list of 35 tax havens accused of harmful tax practices in 2000.[46] Members of the OECD such as Switzerland and Luxembourg did not appear on this list. Four years later, the list had shrunk to only five countries. This was not because the other countries had suddenly reformed their tax systems, were now taxing foreign capital or had relaxed bank secrecy. They had merely agreed to minimal transparency and cooperation with the OECD. Ever since, these countries are no longer considered tax havens by the OECD, but 'participating partners'.

The worst cases of embezzled funds

Table 6

Head of State	Embezzled funds (USD)
Mohamed Suharto, President of Indonesia (1967–1998)	15-35 billion
Ferdinand Marcos, President of Philippines (1965–1986)	5-10 billion
Mobutu Sese Seko, President of Zaire (1965–1997)	5 billion
Sani Abacha, President of Nigeria (1993–1998)	2-5 billion
Slobodan Milosevic, President of Serbia / Yugoslavia (1989–2000)	1 billion
Jean-Claude Duvalier, President of Haiti (1971–1986)	300-800 million
Alberto Fujimori, President of Peru (1990–2000)	600 million
Pavlo Lazarenko, Prime minister of Ukraine (1996–1997)	114-200 million
Arnoldo Alemán, President of Nicaragua (1997–2002)	100 million
Joseph Estrada, President of Philippines (1998–2001)	78-80 million

Source: Transparency International, 2004: Global Corruption Report 2004, p.13.

[41] See Commission of the European Communities, 2003, p. 7. [42] Africa's debt (incl. The Middle East) was USD 398.991 billion in 2004. Half of this is thus USD 199.5 billion (Source: World Bank, 2006a, Table 5). [43] Epstein, 2005, p. 3.

[44] See Tax Justice Network, 2005a, p. 36f.
[45] See OECD, 1998, p. 22, and the comments by Murphy, 2005, p. 7ff.
[46] See OECD, 2000, p. 17.

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Global Tax Havens and Offshore Centres

Table 7

Tax Havens / Offshore Centres

AMERICA AND THE CARIBBEAN	EUROPE
Anguilla	Aland Islands
Antigua and Barbuda	Alderney
Aruba	Andorra
Bahamas	Belgium
Barbados	Campione (Italy)
Belize	City of London
Bermuda	Cyprus
British Virgin Islands	Gibraltar
Cayman Islands	Guernsey
Costa Rica	Hungary
Dominica	Island
Grenada	Ireland (Dublin)
Montserrat	Republic of Ingushetia
Netherlands Antilles	Isle of Man
New York	Jersey
Panama	Liechtenstein
Saint Lucia	Luxembourg
St Kitts & Nevis	Madeira
Saint Vincent and the Grenadines	Malta
Turks and Caicos Islands	Monaco
Uruguay	Netherlands
US Virgin Islands	Sark
	Switzerland
AFRICA	Trieste
	Turkish Republic of North Cyprus
Liberia	
Mauritius	ASIA AND THE MIDDLE EAST
Melilla	
Seychelles	Bahrain
São Tome and Príncipe	Dubai
Somalia	Hong Kong
South Africa	Labuan
	Lebanon
INDIAN OCEAN AND THE PACIFIC	Macao
	Singapore
Cook Islands	Tel Aviv
Maldives	Taipei
The Marianas	
Marshall Islands	
Nauru	
Niue	
Samoa	
Tonga	
Vanuatu	

The above-mentioned countries, territories and cities (72) are listed as tax havens or offshore centres by the Tax Justice Network. Source: Murphy, 2005.

The OECD only considers countries and territories that refuse all cooperation as tax havens. To date, these are Andorra, Liberia, Liechtenstein, the Marshall Islands and Monaco.[47]

The reclassification of tax havens to 'OECD partners' has not likely altered the volume of capital flight and the impact that it has on national economies. However, there are no official figures for the volume of annual state revenues lost due to the shifting of profits and assets to tax havens. The Tax Justice Network estimates that alone the transfer of individual wealth to tax havens leads to a loss of USD 255 billion in state revenue per year.[48] These estimates assume that USD 11.5 trillion worth of assets are currently held in tax havens. With a 7.5 % rate of return, this adds up to annual (interest) earnings of USD 860 billion. An income – or capital gains tax at a rate of 30 % would yield an estimated USD 255 billion in revenues.

The British tax specialist Alex Cobham assumes that one fifth of the revenue cost of offshore asset-holding by wealthy individuals falls on the countries of the Global South.[49] This means that governments of developing countries incur a loss of at least USD 50 billion in tax revenues, simply because rich elites place their assets in tax havens instead of in their own countries.

The total losses suffered by the national economies of poorer countries due to capital flight, money laundering, the illegal shifting of profits and falsely declared import and export prices are even higher. It is in the nature of all these transactions to not appear in official statistics, which therefore explains the lack of accurate data available.

The IMF estimates the volume of money laundering at 3–5 % of global gross domestic product. This amounts to between USD 600 billion and 1.8 trillion per year.[50]

Other rough estimates of annual losses incurred by developing and transitional countries due to cross-border transactions of 'dirty money' lie at USD 500 billion.[51]

1.7 The pressure towards trade liberalisation and tariff reduction

Customs revenues are one of the most important sources of income for many countries in the South, particularly in Africa. Some countries, such as the Ivory Coast, Madagascar and Senegal, finance over 30 % of their state budgets through export and import tariffs (see Table 8).

However, the share of customs revenues to total state revenues has in recent years declined in almost all countries. Between 1995 and 2003, it shrunk from an average of 22 % to 16 % in poor countries, and from 13 % to 7 % in middle-income countries.[52] This occurred first and foremost due to the pressure by the IMF and the World Bank. In their Structural Adjustment Programmes they systematically demanded that developing countries eliminate import barriers, open up markets and reduce tariffs. According to the IMF, the losses in revenue would be compensated by the introduction or an increase of the value-added tax (VAT).

Nevertheless, in most of the developing countries this balance has not been reached. A comprehensive examination of over 125 countries conducted by IMF employees themselves shows that it is precisely low-income countries that are unable to balance revenue losses through trade liberalisation.[53] In these countries, reduced customs revenues were compensated by at most 30 % through other sources of tax. Middle-income countries were also only able to compensate 45–65 cents for every dollar they lost through tariff reductions. Only rich countries managed to compensate reduced tariffs through other taxes. Of all countries it is the poorest that suffer the greatest losses in revenue due to the enforced liberalisation policies of the IMF and the World Bank.

The IMF formula that prescribes higher value-added tax to compensate for lower customs revenues is problematic for other reasons. In a paper about the reform of indirect taxes in developing countries, Joseph Stiglitz and Shahe Emran conclude that in countries with large informal economies, substituting tax on trade through value-added tax has negative welfare effects.[54] Their conclusion:

"When the choice of the commodity for VAT increase is restricted by the existence of a large informal sector, the standard policy reform reduces welfare under plausible (sufficient) conditions. (...) These conclusions run counter to the conventional wisdom that VAT is a better instrument for raising revenue in developing countries compared to the trade taxes." [55]

Alongside direct revenue losses due to the elimination of tariffs, trade liberalisation has additional, indirect consequences for state budgets. The opening of markets to foreign and often highly subsidised products in developing countries frequently leads to the closure of local businesses that are no longer able to compete, as well as the destruction of work places and consequent losses in tax revenue.

In the context of the WTO Doha Round and the negotiations of bilateral and multilateral free trade agreements, the EU and the USA exercise unrelenting pressure on developing countries to further reduce their tariffs. This occurs, among others, within the framework of the negotiations over the

[47] See OECD, 2004, p. 14. [48] See Tax Justice Network, 2005b. [49] See Cobham, 2005a, p. 10. Since 80 % of global GDP is from the rich countries of the North, Cobham estimates that 80 % of wealth in tax havens also stems from the North.

[50] See UN Doc. A/60/157 from July 25, 2005. [51] See Baker, 2005, p. 172. [52] See World Bank, 2005b, Tab. 4.13. [53] See Baunsgaard/Keen, 2005, p. 18. [54] See Emran/Stiglitz, 2002. [55] See Ibid., 2002, p. 31.

Countries with a high dependence on customs revenues

Table 8

Country	Customs revenues as a percentage of government revenue	
	1995	2004
Bangladesh	n. a.	33
Cameroon	22	*28
Congo, Dem. Rep. of	21	27
Côte d'Ivoire	58	46
Dominican Republic	21	32
Ethiopia	27	27
Guinea	36	*77
India	24	14
Lesotho	49	45
Madagascar	*48	27
Mauritius	34	20
Morocco	15	*16
Namibia	28	32
Nepal	26	22
Papua New Guinea	27	26
Philippines	29	17
Senegal	36	33
Sierra Leone	39	*49
Swaziland	*47	50
Uganda	7	16

Source: World Bank, 2006, Table 4.12.
* Data from 1990 and 2001 (Source: World Bank, World Development Indicators 2004, Table 4.13). The table lists all countries in which the share of customs revenues to government revenues is over 15 %. For many countries, particularly in Africa, there are no available figures.
n. a.: Data not available.

so-called Economic Partnership Agreements (EPAs) between the EU and the ACP countries. If the EU and the USA manage to push these negotiations through, they will lead to significant revenue losses in several countries. What this means in concrete terms can be seen in the example of Panama: the IMF estimates that the proposed free trade agreement between Panama and the USA would reduce the country's state revenues by up to one percent of GDP, i. e. more than USD 100 million per year.[56] The burden is all the heavier because the share of tax revenues (including tariffs) to GDP in Panama is only 8.8 % (2003) – already the lowest in Latin America.[57]

And even if reduced customs revenues could be balanced out by an increase in VAT, this would occur at the expense of the poor.

An alternative would be to compensate revenue losses by an increase in development aid for affected countries. But under the current conditions, this too would be bad bargain for the governments of developing countries, as they would forego sovereign state revenues from their tariffs. In return, they would get aid that is conditional as well as dependent on the goodwill of donors, and therefore unpredictable in the medium and long-term.

[56] See International Monetary Fund, 2006, p. 78ff.
[57] Ibid., p. 46.

1.8 Summary: Tax evasion and tax avoidance cost billions

In countries of the Global South, billions of dollars in state revenues are lost every year because of ineffective tax systems, weak and corrupt public administrations, and because rich elites transfer their wealth abroad to tax havens. The losses also occur because transnational corporations evade taxes through tax benefits, manipulated transfer pricing, and other tricks in shifting profits. The losses due to tax evasion, tax avoidance and inefficient tax authorities can only be estimated, as official statistics do not exist. The following figures merely illustrate the dimension of the problem:

- If low-income countries were to reform their tax systems, strengthen their public administrations and abolish tax exemptions for transnational investors so that the proportion of public revenues within gross domestic product (which was 12.0 % in 2003) was brought to the average level of the rich countries (25.7 % in 2003), their governments' income would increase by approximately USD 140 billion per year.[58]

- The tax income of developing countries would increase by over USD 285 billion per year if the informal economy could be integrated completely into the formal economy and taxed accordingly. Even if this is completely unrealistic, partial integration would already bring in billions in additional income.

- Manipulated transfer prices and falsely declared import or export prices led to revenue shortfalls of USD 53 billion in one year in the USA alone. No numbers are available for developing countries so far, but the tax losses for public budgets are considerable in any case.

- Worldwide capital flight to tax havens results in losses to state revenue of an estimated USD 255 billion a year due to uncollected income and property taxes. Countries of the Global South account for roughly 20 % or approximately USD 50 billion – of this total.

In contrast to these numbers are the costs of alleviating the most extreme forms of poverty and realising the Millennium Development Goals. The United Nations Millennium Project estimates the following:[59]

In low-income countries alone, the costs to achieve the MDGs amount to about USD 253 billion in 2006. In the year 2015, they will increase to USD 529 billion. Of this, USD 180 billion is to be mobilised in the countries themselves by 2006. In 2015 this should be USD 394 billion. In 2002, these countries spent USD 137 billion to realise the MDGs. That means that in 2006, an additional USD 43 billion must be mobilised for the MDGs; in 2015 the additional funds must reach USD 257 billion.

It is well to remember that these figures only apply to domestic funding. The Millennium Project estimates that the gap in finances, which will amount to USD 73 billion (2006) and USD 135 billion (2015), will need to be met through an increase in ODA.

The achievement of the MDGs therefore requires both a substantial increase in ODA as well as additional tax revenues in the countries of the South. In other words: only if tax loopholes are plugged and tax evasion drastically reduced in the countries of the South can the MDGs still be achieved.

Nevertheless, developing functioning tax systems, reducing capital flight and effectively taxing rich elites and transnational corporations don't guarantee that governments will actually use additional revenues to fight poverty and to provide essential public services. Parallel to the obstacles on the income side, there are various problems on the expenditure side that prevent the use of public revenues in a way that actually contributes to development. These are partly the fault of the governments themselves, partly the result of externally imposed conditionalities and political dependencies.

[58] For the poorest countries, however, in which the majority live at margins of minimum acceptable standards of living, an increase in the proportion of tax revenues to GDP to the level of the industrialised countries is hardly probable.

[59] See UN Millennium Project, 2005, Tables 17.2 and 17.3.

2

What are public revenues used for – and why not only for development and the fight against poverty?

The question how governments spend their money is central to the social and economic development of a society. The political priorities of governments are reflected more clearly in public budgets than in government declarations and action programmes. Moreover, the composition of state budgets allows inferences to be drawn about the political influence of different interest groups in a society: is the military dominant, are business interests pushed through, or is public spending focused on the needs of the poorer sections of society?

If governments in the South are serious about realising the internationally agreed development goals, including the MDGs, then these goals must not only be translated into national development strategies, as was decided at the UN Millennium+5 Summit in September 2005. Governments must also make available the public funds necessary for their implementation. For some countries this means a significant reallocation of budgets in order to strengthen education and health expenditures, develop social security systems and ensure bigger investments in basic infrastructure, such as in the area of water and sanitation. Up to date in many countries, a significant share of state revenues is not used to fight poverty or finance central development tasks. Instead, funds flow into debt repayments or they are used for harmful or at least questionable purposes, e. g. for military expenditures or for subsidising transnational investors.

However, the responsibility for failed budget policies does not only lie with governments in affected countries. Often, conditionalities imposed by the IMF and the World Bank have substantially constrained the decision-making power of governments over their national budgets and the use of public revenues.

An additional problem in many countries is the lack of transparency in public revenues and expenditures. More and more NGOs therefore demand not only that transnational corporations, particularly in the extractive industry, disclose the payments they make to governments of the South, for example for royalties and licenses ('publish what you pay'),

but also call for government accountability in terms of how they allocate these funds ('publish how you spend it'). Their demands for transparent budgets are not only directed at the income side but at the expenditure side as well.

The following pages present a rough overview of the distribution of public funds in the countries of the Global South. In particular, they show where the (majority) of public revenues flow, that are not used to finance the MDGs.

2.1 Despite the MDGs – stagnation in health and education expenditures

Public investments in education and health are essential for alleviating poverty and realising the MDGs. In most countries of the South, spending on these sectors in both absolute and relative terms is entirely insufficient. Whereas the governments of rich countries allocate, on average, 13 to 23 percent of state revenues to public health provisions (e.g. Germany 2003: 17.6 %), the share in many developing countries remains stagnant at under 10 % (see Table 9). The share of health expenditures is not only shockingly low in the poorest

Public and private expenditures on health

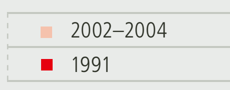
Table 9

Country	Public expenditures (in % of total expenditures on health)		Private expenditures (in % of total expenditures on health)		General government expenditures on health in % of total governm. exp.	
	1999	2003	1999	2003	1999	2003
Afghanistan	1.5	39.5	98.5	60.5	1.6	7.3
Angola	45.3	84.2	54.7	15.8	2.4	5.3
Argentina	56.5	48.6	43.5	51.4	15.0	14.7
Bangladesh	27.2	31.3	72.8	68.7	4.7	5.8
Botswana	54.3	58.2	45.7	41.8	6.7	7.5
Brazil	42.8	45.3	57.2	54.2	9.3	10.3
Burkina Faso	44.0	46.8	56.0	53.2	10.0	12.7
Burundi	19.9	23.3	80.1	76.7	2.8	2.0
Cambodia	10.1	19.3	89.9	80.7	7.5	11.8
China	40.9	36.2	59.1	63.8	12.5	9.7
Colombia	76.3	84.1	23.7	15.9	23.2	20.5
Congo	63.8	64.2	36.2	35.8	4.9	4.3
Costa Rica	78.0	78.8	22.0	21.2	21.0	22.8
Egypt	33.9	42.6	66.1	57.4	5.6	8.2
El Salvador	43.5	46.1	56.5	53.9	25.1	22.0
Eritrea	70.3	45.5	29.7	54.5	2.9	4.0
Gabon	68.4	66.6	31.6	33.4	10.9	12.8
Guinea	13.4	16.6	86.6	83.4	3.9	4.9
India	24.6	24.8	75.4	75.2	4.5	3.9
Indonesia	30.4	35.9	69.6	64.1	3.8	5.1
Iraq	39.6	51.8	60.4	48.2	1.2	4.2
Mozambique	63.0	61.7	37.0	38.3	12.1	10.9
Myanmar	11.0	19.4	89.0	80.6	0.8	2.5
Nigeria	29.1	25.5	70.9	74.5	5.4	3.2
Pakistan	32.6	27.7	67.4	72.3	4.0	2.6
Philippines	44.2	43.7	55.8	56.3	6.5	5.9
Uruguay	34.8	27.2	65.2	72.8	10.6	6.3
Venezuela	51.8	44.3	48.2	55.7	13.1	6.4
Viet Nam	32.7	27.8	67.3	72.2	6.7	5.6
Yemen	37.2	40.9	62.8	59.1	5.9	6.0

Source: WHO, 2006, Table 2.

Public expenditure on education (% of GDP)

(Graph 3)



Country	2002–2004	1991
Indonesia	0.9	1.0
Gambia	1.9	3.8
Pakistan	2.0	2.6
Bangladesh	2.2	1.5
Uruguay	2.2	2.5
Niger	2.3	3.3
Zambia	2.8	2.8
El Salvador	2.8	1.8
Peru	3.0	2.8
Nicaragua	3.1	3.4
Philippines	3.2	3.0
Congo	3.2	7.4
Azerbaijan	3.3	7.7
Madagascar	3.3	2.5
India	3.3	3.7
Chile	3.7	2.5
Cameroon	3.8	3.2
Senegal	4.0	3.9
Ukraine	4.6	6.2
Ethiopia	4.6	3.4
Iran	4.8	4.1
Jamaica	4.9	4.5
Burundi	5.2	3.5
South Africa	5.4	5.9
Guyana	5.5	2.2
Mongolia	5.6	11.5
Mexico	5.8	3.8
Malawi	6.0	3.2
Swaziland	6.2	5.8
Marocco	6.3	5.0
Bolivia	6.4	2.4
Kenya	7.0	6.7
Namibia	7.2	7.9
Malaysia	8.0	5.1
Lesotho	9.0	6.2

Country axis; Expenditure (% of GDP): 0, 2, 4, 6, 8, 10, 12

Source: UNDP, 2006, Table 19

countries: India spends 3.9 % of its public funds on health, in Pakistan it is 2.6 %, in Nigeria 3.2 % and in Eritrea 4.0 %.[60] In the last few years, some governments have shifted the burden of healthcare provision onto the shoulders of private households. In Eritrea for example, the share of private health expenditures to total health expenditures increased from 29.7 % to 54.5 % between 1998 and 2003. In Nigeria it increased from 70.9 % to 74.5 %, and in Uruguay from 65.2 % to 72.8 %. As a comparison: in Germany the share of private funding for health expenditures was still at 21.8 % in 2003.[61]

[60] See WHO 2006, Table 2. Data from 2003.

[61] Ibid.

There are of course counter-examples: public funding of health systems has improved in countries like Angola, Brazil and Egypt. Nevertheless, these countries are the exception rather than the rule in the global trend toward the commercialisation of health care and the privatisation of essential services. This trend stands in stark contrast to the recommendations by the United Nations, which has repeatedly called for universal and free access to basic health care.

In the face of the global HIV / AIDS pandemic, the burden on health budgets will continue to grow in the next few years, particularly in Southern African countries. The extent of the problem is already severe today: in Botswana for example, 57.5 % of families are affected by HIV / AIDS, in Lesotho 43.4 %, in Swaziland 42.1 % and in Zimbabwe 40.2 %.[62]

The situation in the education sector is not much better: even though the share of public funding for education to gross domestic product has increased considerably in a few countries such as Malaysia and Malawi (see Graph 3), in most countries expenditure has stagnated at low levels. In some of the poorest countries they have even sunk drastically, for example from 3.8 % to 1.9 % in Gambia, 7.4 % to 4.2 % in Congo, and from 11.5 % to 5.6 % in Mongolia. For these countries, the prospect of realising the MDGs in 2015 is becoming increasingly remote.

2. 2 Debt burden remains high

The low levels of public funds set aside to fight poverty and ensure the provision of basic social services is not (only) a result of inappropriate priorities set by governments. One of the reasons is high national debt, which forces many governments to use a large portion of their public revenues for debt service. In 2005, total foreign debt in the Global South reached a historic peak of USD 2,800.4 billion.[63] USD 458.2 billion in debt service flowed from countries in Africa, Asia, Latin America and the CIS back to the North.[64] That was more than four times the amount of ODA this year (USD 106.5 billion). Despite all previous debt relief, the IMF estimates that debt service to the North will reach USD 401.6 billion in 2006 and 418.5 billion in 2007.

In some countries, interest payments make up the largest part of expenditures in national budgets. In Lebanon the share lies at 54 %, in Jamaica at 46 % and in Pakistan at 39 % (see Table 10).

Due to high indebtedness, many governments have to spend more money on debt service than on social expenditures. In Guatemala, interest payments are double the amount of health expenditures; in Madagascar they are four times as high.

Given this imbalance, NGOs have for years been calling for an alternative approach to debt relief that integrates the financing of poverty reduction objectives with assessments of debt sustainability. Governments should only be obliged to repay debts to foreign creditors if the provision of basic social services for the entire population is ensured. The UN Secretary General aligned himself with these demands by promoting a new concept of debt sustainability in his 2005 report 'In Larger Freedom'. Debt sustainability should, according to the report, be redefined as the level of debt that allows a country to achieve the MDGs without an increase in debt ratios. This would require far reaching debt cancellation for most heavily indebted poor countries (HIPC), but also for many non-HIPC and middle-income countries. The debt reductions that were previously agreed upon at the G8 summit in Gleneagles and at the subsequent IMF and World Bank meetings in 2005 are nowhere near sufficient for this.

An additional problem that has so far been paid little attention to is growing domestic debt. In countries like Mexico, Brazil, Thailand, Indonesia, Jamaica and Turkey, public debt from domestic sources has risen dramatically in recent years. In its 2005 'Global Development Finance' report, the World Bank warns:

"Debt from domestic sources has grown rapidly in emerging market economies, largely through the development of domestic bond markets. In many countries where external debt burdens have stabilized or fallen, domestic public debt burdens have increased (…). As a result, in many developing countries, the burden of public sector debt remains high, calling into question the apparent improvement associated with falling external indebtedness."[65]

In 1993 / 94, total foreign debt for all developing countries reached an average 33 % of GDP, while domestic debt only constituted 19 % of GDP.[66] In 2002 / 2003 this relationship reversed: foreign debt declined to 26 % in relation to GDP, while domestic debt rose to 34 %. Taken together, the national debt of the Global South has increased from 52 to 60 % of GDP in the last ten years. The burden on public budgets due to debt service increased accordingly.

In Sri Lanka for example, the government had to use close to one third of government expenditure (30.5 %) for debt servicing in 2005. Only 14 percent of this, however, was for interest payments on foreign debt, while 86 percent of the repayments accounted for domestic debt.

In order to break the vicious debt cycle, cancelling or reducing foreign debt is therefore not sufficient for many countries. Governments must also avoid excessive deficit

[62] See Belsey, 2005, p. 30. Data from 2003.
[63] World Bank, 2006a, Table A.21.
[64] International Monetary Fund, 2006, Table 37.
[65] World Bank, 2005a, p. 7.
[66] Ibid., p. 70.

Interest payments as a percentage of government expenditures

Table 10

Country	Interest payments in %	
	1995	2004
Lebanon	..	54
Jamaica	32	46
Pakistan	28	39
Sri Lanka	22	32
Argentina	*8	26
India	27	26
Philippines	33	*24
Madagascar	*9	23
Panama	8	21
Papua New Guinea	20	21
Colombia	*10	20
Bangladesh	..	20
Venezuela	27	19
Costa Rica	20	18
Kenya	30	17
Mexico	19	*13
El Salvador	..	13
Algeria	13	12
Peru	19	12
South Africa	..	12
Malaysia	17	12
Nicaragua	15	10

Source: World Bank, 2006b, Table 4.11.; * Data from 1990 (Source: World Bank, 2004, Table 4.12) or 2003 (Source: World Bank, 2005b, Table 4.12)

spending as a result of borrowing in their own countries. This is only possible if public revenues – particularly those obtained through taxes – are raised (see above).

2. 3 Harmful subsidies – also a problem in the Global South

Governments spend more than one trillion dollars per year on subsidies worldwide. These OECD estimates apply only to environmentally relevant subsidies, particularly in the agricultural, water, energy, forestry and fishery sectors (see Table 11). In addition, there are e.g. public research and development funds that flow to businesses, export subsidies, as well as public investment incentives used to attract transnational corporations (i. e. in Export Processing Zones).

In terms of the harmful effects of subsidies in countries of the Global South, it is mostly agricultural subsidies of industrialised countries that stand in the spotlight. These alone are estimated at USD 350 billion per year. What has been examined less is that almost a third of environmentally relevant subsidies, or USD 340 billion annually, is spent by governments from developing and transitional countries. Subsidies for the energy sectors make up the largest share of these, and are estimated at USD 160 billion.

Not all of these subsidies are harmful. On the contrary: subsidies can play an important role in developing countries, for example in supporting local industries and introducing environmentally friendly technologies. Occasionally, they can have positive redistribution and environmental effects. Since 2001, for example, the Senegalese government has been subsidising the use of butane gas, which is predominantly used by the poor. The government is widely distributing butane gas, even to rural areas, with the objective of reducing the use of charcoal and firewood as fuel and, therefore, decreasing deforestation.[67]

[67] See OECD, 2005a, p. 79.

Environmentally relevant subsidies worldwide (Estimates in USD billions per year, late 1990s)

Table 11

Sector	OECD-Countries	Non-OECD-Countries	Total
Agriculture	335	65	400
Water	15	45	60
Energy	80	160	240
Forestry	5	30	35
Fisheries	10	10	20
Other sectors	280	30	310
Sum	**725**	**340**	**1.065**

Source: OECD, 2004.[68]

Often, however, the negative effects of subsidies in developing countries are three-fold. They absorb a substantial portion of state budgets that could otherwise be used for better purposes; they contribute to environmental damage by creating misleading consumer and production incentives; and they have negative distribution effects.

An example are the energy subsidies for the Indian agricultural sector. These primarily benefit big landowners and cost the Indian government USD 6 billion per year. This is double the amount of the entire federal health budget.[69]

In the last few years, Indonesia spent 10 % of its budget to subsidise oil prices alone, consequently belonging to some of the lowest in South East Asia. In 2002, the resulting costs for the Indonesian government amounted to USD 4 billion. The OECD estimates that the total burden on Indonesia's budget was USD 36 billion between 2000 and 2005. The elimination of these subsidies, alongside more direct energy provisions for the poor e. g. through a voucher-system, would have many advantages: it would encourage more environmentally friendly energy use by increasing oil prices, it would have positive redistribution effects by directly supporting the poor, and it would free up billions in public funds that could then be used for education or health programmes, or for reconstruction work in the aftermath of the tsunami.[70]

These examples show that there is significant potential for reallocating budgets in at least a few countries of the South. At the same time, they show that in the discussions about the mobilisation of domestic resources and the use of public funds, redistribution as well as environmental effects have to be taken into account. This also means that the previously separate discourses on development financing and environmental fiscal reforms must be more closely interlinked.

[68] Cited fom the European Environmental Bureau, 2004, p. 5f. Data from the late 1990s.
[69] Ibid., p. 7.
[70] Ibid., p. 77.

2.4 Military expenditures at the expense of the poor

Military expenditures absorb a significant share of state revenues in most countries. In 2005 they reached a total historic high of USD 1.118 trillion.[71] The main culprit is the United States, which alone accounts for 48 % of global military expenditures. In comparison to this, the USD 193 billion (2004) spent by countries of the Global South seems relatively small. In comparison to national incomes and the level of public funds however, their military expenditures clearly lie above those of most industrialised countries. In 2004, low-income countries spent an average of 15.6 % of their budgets on the military, while wealthy countries spent an average of 10.5 % (see Table 12). In countries like Pakistan, Eritrea and Syria, more public funds flow into the military than they do into health care and education combined. Compared by purchasing power parity, seven of the fifteen countries with the highest military expenditures are from the South (China, India, Saudi Arabia, Brazil, Iran, Rep. of Korea and Turkey).[72]

According to SIPRI, high and rising world market prices of minerals and fossil fuels have aided the upward trend in military expenditure. This is reflected especially in Algeria, Azerbaijan, Russia and Saudi Arabia, where increased proceeds from oil and gas exploitation have boosted military spending. The increase in the military expenditure of Chile (from USD 2.5 billion 2003 to 3.4 billion 2005)[73] is directly resource-driven, because its military spending is linked by law to profits from the exploitation of key natural resources.

Real military expenditures probably lie far beyond the official figures, as for many countries, particularly Africa, there is no dependable data available. Some components of military expenditures and some sources of income – for example reimbursements for troop contributions to UN peacekeeping operations – do not appear in the official budget figures of countries like Mali, Ethiopia and Ghana.[74] This problem is certainly not only found in developing countries. In the US national budget, military expenditures are not exclusively recorded in the budget of the Pentagon. Some components of the expenditures are hidden under other budget items or declared as special funds, such as the cost of war in Afghanistan and Iraq. For these two missions, the Bush administration has budgeted additional funds in the amount of USD 120 billion for the 2006 fiscal year alone. That is about ten times the total official military expenditure of Africa (2005: USD 12.7 billion).[75]

The main profiteers of growing military expenditures are arms manufacturers in rich industrialised countries. Registered weapons exports from G8 countries (with exception of Japan, which does not export weapons) reached over USD 24 billion in 2003 alone. More than half of these exports went to countries of the South. 89 % of all weapons exports in developing countries stem from only five countries: the US, Russia, France, Great Britain and Germany.[76]

For years NGOs and peace groups have called for radical steps toward disarmament and more stringent controls for arms exports. The international network Social Watch, comprised of over 400 NGOs and social groups worldwide, recommended in its 2005 'Benchmark for the 5-year Review of the Millennium Declaration' that governments commit to at least halve military spending in every country by the year 2015, and that the resulting 'peace dividend' be used for social and environmental purposes.[77] At the same time, Social Watch called for the adoption of a global Arms Trade Treaty. Progress at the governmental level has so far not materialised. At the 2005 UN World Summit, governments did not even manage to come to an agreement on a few non-binding clauses for disarmament. The relevant chapter was simply taken out of the final draft of the summit's outcome document.

2.5 Summary: Reallocating budgets would generate billions for the MDGs

Many governments of the South do not spend a large portion of public funds on fighting poverty and realising the MDGs. Instead, state revenues flow into debt servicing, subsidies that are harmful to the environment, and military budgets. This is partly due to pressure from outside, whether from foreign creditors (including the IMF and World Bank) or hostile neighbour states. Yet some of the responsibility for the misuse of resources lies with the governments of these countries themselves. The costs at stake are enormous:

- In 2005, governments in Africa, Asia, Latin America and the CIS spent USD 458.2 billion on servicing their foreign debts alone.
- The environmentally relevant subsidies of non-OECD countries that go into agriculture, water, energy, forestry, fishery and other sectors are estimated at USD 340 billion per year.
- Annual military expenditures in the countries of the South reached USD 193 billion in 2004.
- Meanwhile, the flow of public resources into education and health is stagnating in many developing countries. At the same time, the provision of essential public goods and services is shifting from public into private hands, particularly in the area of health. This primarily affects the poor sectors of society.

[71] See SIPRI, 2006: Recent Trends in Military Expenditure. Stockholm: SIPRI; (http://www.sipri.org/contents/milap/milex/mex_trends.html). [72] See SIPRI Yearbook 2005, Appendix 8A. [73] In constant 2003 USD. [74] See Mitoogun, 2003. Due to information gaps and control deficits in terms of real military expenditures in Africa, the SIPRI and Africa Security Dialogue and Research (ASDR) have begun a joint-research project entitled 'Budgeting for the Military Sector in Africa' (see http://www.sipri.org/contents/

Military expenditures as a percentage of central government expenditure

Table 12

Country	Military expenditures in %	
	1995	2004
Oman	45.2	*45.2
Singapore	35.1	30.5
Pakistan	31.4	28.1
Cambodia	..	24.1
Jordan	47.5	24.0
Ethiopia	..	21.8
Chile	*16.2	21.0
Kuwait	29.3	20.9
Israel	*21.6	19.1
Colombia	*15.8	18.9
Iran	15.2	17.0
Algeria	12.2	15.2
India	15.1	14.8
Malaysia	16.0	13.8
Sri Lanka	20.3	13.6
Bangladesh	..	13.2
Congo, Dem. Rep. of	13.5	*11.4
Uganda	..	11.1
Egypt	12.5	*10.2
Senegal	..	*9.7
Namibia	*10.6	9.3

Source: World Bank, 2006b, Table 5.7.
* Data from 1992 (Source: World Bank, 2004, Table 5.8.)
or 2003 (Source: World Bank, 2005b, Table 5.8)

A reallocation of public budgets would set billions free for poverty eradication and social development programmes. As a reminder: the cost estimates for the realisation of the MDGs assume that public funds for essential services must more than double between today and 2015. This will only be possible if countries of the South reduce their debt service payments, cut harmful subsidies, and lower their military expenditures alongside taking in higher tax revenues.

However, the possibility of reallocating resources in the national budgets of developing countries should not conceal the fact that in the budgets of rich countries, there are far more opportunities to save and make better use of funds. In these countries, some USD 725 billion is spent on environmentally relevant subsidies per year, which is problematic for both social and environmental reasons. The total military expenditure of rich countries was USD 842 billion in 2004, which is more than four times higher than the defence budgets of all of the countries of the South combined. The Bush administration spends USD 10 billion per month on the war in Iraq and Afghanistan alone, more than what the United Nations and all their programmes and funds spend in an entire year for development.

milap/milex/mex_afr_pres.html). [75] See http://sipri.org/contents/milap/milex/mex_major_spenders.pdf (in prices und exchange rates from 2003). [76] See Campaign Against Arms Trade, 2005. [77] See Social Watch, 2005, p. 20.

What can be done? Steps toward global tax justice and eco-social fiscal reforms

3

Every year, countries of the South lose billions of dollars through tax evasion, tax avoidance and inefficient fiscal authorities. A large portion of the already scarce revenues goes toward military expenditures, harmful subsidies and debt repayment, none of which contribute toward alleviating poverty and promoting sustainable development.

At the same time, it is clear that development assistance is not sufficient to overcome the most extreme forms of poverty, hunger and social marginalisation within the agreed time frame – even if the established ODA-timetable along with new and additional financial resources, such as of global taxes, lead to a substantial increase in ODA.

A drastic increase in public revenues and a significant reallocation in public expenditures are therefore necessary in many countries. Only in this way can they overcome their dependency on rich donors and on international financial institutions in the long run. Yet the fiscal reforms necessary to achieve this should not only function to mobilise more money. Given the enormous income disparities in many countries, they should at the same time pursue active redistribution policies to the benefit of the poor. Fiscal reforms can also have positive impact on employment and on the environment. On the one hand, they can lead to a reduction of payroll taxes in relation to capital taxes. On the other, they can introduce more stringent taxation of environmental pollution in order to encourage more environmentally friendly production and consumption patterns.

The responsibility for reform does not just lie with governments of the South. Only together can governments halt worldwide tax 'races to the bottom' and capital flight to tax havens. It is the industrialised countries, particularly the EU, the USA and the institutions that they dominate – the IMF, the World Bank and the WTO – who are responsible for the erosion of revenue bases due to forced tariff reductions and the resistance to long overdue debt cancellations. They must reform their economic and trade policies accordingly. The effective taxation of transnational corporations, the fight against corruption and the repatriation of embezzled money from foreign bank accounts to countries of the Global South can only be achieved via strengthened, multilateral cooperation.

Finally, through development cooperation governments of the North can facilitate the development of more efficient and effective tax systems in countries of the South; they can actively support more transparent and participatory budget policies; and they can strengthen the capacities of governments through increased budget support.

In recent years, NGOs, social movements and international expert committees have formulated comprehensive recommendations for global tax justice and eco-social fiscal reforms. Realising these requires a paradigm shift in the international discourse on development financing and the implementation of the MDGs. The agenda includes the following themes:

1

Develop efficient and just tax systems.

A basic requirement for strengthening public revenues is a broad based tax system. Taxation should be based on ability to pay, and rich individuals and large landowners should be taxed accordingly. Capital and resource consumption should be taxed instead of labour. A flat and undifferentiated value-added tax is regressive, burdens the poor, and cannot contribute to forming a just tax system. Governments and parliaments of the countries concerned carry the responsibility for undertaking this kind of eco-social tax reform. Development cooperation should actively support these reforms through capacity building and technical assistance.

2

Strengthen tax authorities and financial administrations.

A tax system is only as effective as the administrative machinery that is responsible for implementing and collecting the taxes. In many countries, such a tax administration still needs to be developed, or at least strengthened. This involves a legal framework as well as necessary staff and technical infrastructure. Only in this way can shadow economies being reduced, tax avoidance overcome and tax evasion prevented. Development cooperation can provide the crucial technical and financial support for this.

3 Effective taxation of transnational corporations.

An essential element of an efficient tax system includes the effective taxation of transnational corporations. Tax exemptions or tax incentives for transnational investors in export processing zones are counterproductive in this regard. These should be eliminated, if possible in an internationally coordinated way (see below). Furthermore, countries should introduce laws for transfer pricing that are based on the OECD arm's length principle. At the same time, tax authorities must establish the necessary technical capacities in order to be able to detect the manipulation of transfer prices. Given rapid technological development, international support and cooperation is urgently needed here.

4 Tax compliance as part of corporate accountability.

The debate on corporate social responsibility and accountability has so far concentrated on basic environmental and social standards, human rights and preventing corruption. The taxation of corporations has played a minimal role in these discussions to date. Only the OECD Guidelines for Multinational Enterprises demand in chapter X:

"It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities. In particular, enterprises should comply with the tax laws and regulations in all countries in which they operate and should exert every effort to act in accordance with both the letter and spirit of those laws and regulations. This would include such measures as providing to the relevant authorities the information necessary for the correct determination of taxes to be assessed in connection with their operations and conforming transfer pricing practices to the arm's length principle." [78]

Norms for tax compliance must go above and beyond the OECD Guidelines and be systematically integrated into the CSR debate. This should also apply, amongst others, to the Global Compact. A company that evades taxes through accounting tricks does not meet the criteria for social responsibility.

[78] OECD, 2000, p. 30.

5 Binding regulations on transparency of payment flows.

Taxes and royalties from foreign investments in the oil, natural gas and mining sectors are of great importance to resource-rich countries. However, these sources of income are often not disclosed by governments or by the companies involved. This lack of transparency facilitates revenue misappropriation, corruption and tax evasion. Because disclosing information could create a competitive disadvantage for individual companies, it does not make sense to rely on voluntary regulations. Instead, all publicly traded companies, particularly those in the oil, gas and mining sectors, should be required to disclose information about taxes, royalties, fees and other transactions with governments and public sector entities in all of the countries in which they operate.[79]

6 Combating corruption and bribery.

In order to avoid the embezzlement of public funds and reduce revenue losses due to fraud, corruption and bribery, more decisive rules and procedures are necessary both in affected countries and at the international level. The United Nations Convention Against Corruption, which came into force on 14 December 2005, plays an important role here. This comprehensive international set of rules has been signed by 140 countries and ratified by 78 (as at November 2006). The convention contains regulations for criminal proceedings, preventing corruption, improving international cooperation and the repatriation of embezzled funds from abroad. In order to bolster the convention, more countries must ratify it as quickly as possible and then implement it on the national level (this also applies to Germany and Switzerland, amongst others). Moreover, the Conference of Parties of the convention must establish an effective monitoring system in order to be able to examine whether states are fulfilling their obligations from the convention.

7 Strengthened international tax cooperation.

Pivotal to the success of national tax reforms is improved cooperation between governments on the international level. Given the freedom of movement of transnational capital, actions by individual governments can only ever have limited success. In the worldwide tax 'race to the bottom', governments that attempt to step out in isolation are the inevitable losers. In contrast, a better-coordinated tax policy would benefit the majority of countries (with the exception of some of the more aggressive tax havens).

[79] See for information on the Publish What You Pay campaign.

8

Improved information exchange between tax authorities.

A first step in tackling tax evasion would be the introduction of the principle of automatic information exchange between financial centres and tax authorities located in the home countries of investors. Countries and territories that are unwilling to participate should be imposed with targeted sanctions by the United Nations.

9

Introduction of an international minimum tax on corporate profits.

The harmonisation of tax rates and tax bases is necessary to counteract harmful tax competition by foreign investors. This can be done by different principles, for example the principle of unitary taxation, or the universal application of the residency principle. The introduction of a minimum tax on corporate profits or a special tax for corporations would make sense politically, but requires a harmonisation of tax systems.

10

Creation of an international tax organization.

As yet there is no intergovernmental forum on the global level to deal with questions of taxation. Although the OECD broke new ground with its activities against harmful tax competition, tax havens and manipulated transfer prices, countries of the South are not equally included in the process. Moreover, the OECD's clampdown on tax havens is moderate at best. For years there have been calls for the creation of an International Tax Organisation to close this global governance gap. It was proposed, for example, by the 'Zedillo-Panel' in its preparatory report for the Monterrey Conference on Financing for Development in 2002. So far it only succeeded in upgrading the United Nations ad-hoc committee of tax experts to the Committee of Experts on International Cooperation in Tax Matters in 2004. Further steps toward an intergovernmental tax forum under the auspices of the United Nations are still pending.

11

Stop the pressure to liberalize trade in international trade negotiations.

As long as the budgets in many countries, particularly in Africa, depend on customs revenues, forced trade liberalization leads to substantial losses in income. Governments of affected countries cannot adequately compensate for these cuts in the short term. The EU and the USA should therefore stop pressuring these countries to reduce their tariffs in negotiations at the World Trade Organization, as well as in negotiations for inter-regional trade agreements, such as

EPAs. Instead, affected countries (in accordance with the principle of 'Special and Differential Treatment') should be able to determine the pace and the extent of further liberalization steps on their own.

12 Abandon flawed conditionalities with respect to fiscal policies.

IMF conditionalities for highly indebted countries have for years required cuts in public spending and the privatisation of public services, such as water provision. At the same time, they demand that governments reduce or eliminate tariffs and introduce wide-reaching value-added taxes to compensate for income losses. The neoliberal policies of the IMF have weakened the income bases and therefore the capacities of many governments, and have contributed to the increasing gap between the rich and the poor. The IMF and other donors should draw the proper conclusions from these experiences and abandon such interferences in the fiscal policies of these countries. At the same time, a comprehensive and independent evaluation should be undertaken to assess the impacts that the interventions of the IMF and World Bank have had on the budgetary policies of individual countries of the South.

13 Debt sustainability should depend on capacity to finance the MDGs.

In many countries, a substantial share of national budgets is still used for debt services and is therefore not available for fighting poverty and financing the MDGs. An independent assessment of the debt sustainability of these countries is urgently needed to replace the notoriously unreliable evaluations of the IMF and World Bank. As stated in the UN Secretary General's report for the Millennium+5 Summit in 2005, debt sustainability should be defined in such a way that a debtor country must only service its debt if it has secured the resources necessary to achieve the internationally agreed development goals, including the MDGs. Domestic debt must be taken into account alongside foreign debt in this regard.

14

Eliminate harmful subsidies – in the South as well.

Every year subsidies devour several hundreds of billions of dollars in the countries of the South. Huge portions serve environmentally or socially questionable purposes, such as financial incentives for transnational companies or the lowering of oil prices. Within the framework of an eco-social fiscal reform, such subsidies must be eliminated. Development cooperation can facilitate this process, for example by supporting the introduction of energy efficient technology.

15

Reduce military expenditures and strengthen peacebuilding.

By reducing military budgets, large sums of money could be freed up for education and health. A precondition for this, however, is strengthened support of conflict prevention, peacekeeping and peacebuilding. The new UN Peacebuilding Commission can play an important role in this if it is equipped with the necessary financial resources. At the same time, the largest arms-producing countries (in particular the five permanent members of the Security Council) have a responsibility to improve the control and regulation of their arms exports and to support a Global Arms Trade Treaty.

16

Promote transparent budgets and gender budgeting approaches.

Free access to budgetary information as well as effective control (e. g. by supreme audit institutions) are essential to increase the accountability of governments to their citizens in their use of public funds. Only in this way is there a guarantee that additional state revenues are actually used to fight poverty and achieve the MDGs. Governments should therefore ensure the effective participation of civil society in budgetary planning, especially in the context of the national MDG strategies. Whether and to what extent governments are actively promoting gender equity in their budgets should be determined with the help of gender-budgeting approaches. Similarly, governments should assess if budgets are complying with their obligation to promote, protect and fulfil the economic, social and cultural human rights (ESCR).

17

Budget support.

The provision of ODA in the form of direct budget support can strengthen the capacitiy and the political responsibility and ownership of the recipient governments. In this way, transaction costs can be reduced, 'projectitis' overcome, and donor coordination improved. Budget support is only meaningful, however, if the criteria for transparency specified

above are fulfilled, if citizens have a democratic say, and if independent control of the utilization of funds is ensured. In addition, capacities must be present for the effective use of additional budget resources, or they should be built. Finally, it must be guaranteed that budget support is not bound to harmful political conditionalities and that it is predictable on a long-term basis, so that recipients can plan their budgets with the certainty that the funds will be available.

The implementation of these and further steps toward global tax justice and eco-social fiscal reforms will not be easy and can only result from social and political mobilization. Although the majority of the population will benefit from the outlined reforms, there will also be losers – namely those that are the beneficiaries of the present system. These include corrupt elites in some countries of the South, wealthy individuals who place their fortunes in tax havens, and those transnational companies that maximize their profits through manipulative transfer pricing and production outsourcing in export processing zones. On the other side of the spectrum stand many millions of people whose living standards would improve noticeably through increased government expenditure on public education and health care, active social policies, and additional state investments in public infrastructure.

Whether the necessary paradigm shift in international economic, financial and development policy takes place will depend considerably on the pressure exerted by civil society groups. This is particularly true in the face of the political influence wielded by powerful lobbyists acting on behalf of the wealthy and the transnational corporations who benefit from the current status quo. With civil society campaigns and networks such as the Tax Justice Network, Publish What You Pay, and initiatives on participatory, gender and human rights budgeting, the first important steps toward this direction have been made.

4

What is being done? International civil society campaigns and initiatives

4.1 Tax Justice Network

The Tax Justice Network (TJN) brings together organisations, social movements and individuals that promote international cooperation on tax issues and oppose tax avoidance and tax competition. In the era of globalisation, the Network is committed to a socially just, democratic, and progressive system of taxation. TJN campaigns from an internationalist perspective for a tax system which is favourable for poor people in developing and developed countries, finances public goods, and taxes harmful activities which pollute and cause unacceptable inequality. Their objectives and demands are detailed in the TJN declaration (see box).

The Network was created out of the global process of social forums and the international Attac movement. TJN is a broad, pluralistic, multilingual and non-governmental network. Members and supporters of the network are civil society and social movement organisations as well as tax justice campaigners, researchers, journalists, development specialists, concerned business people, trade unionists, tax professionals, politicians and public servants.

TJN campaigns for social change through public debate and education. Public understanding of tax matters is the precondition for international tax justice. The network distributes information through mass media, conferences and seminars, the Internet, newsletters and publications. They also exercise pressure through symbolic actions, demonstrations and lobby work. Their activities are based on expertise and sound research.

TJN facilitates cooperation and information sharing between its members. In order to harmonise views and develop common recommendations, the network organises international exchanges and debates about tax policies. This process forms the basis for powerful global campaigns in international tax policy.

TJN is run by its member organisations as well as individual supporters. It ensures the visibility of member organisations through its activities as well as their involvement in decision-making. The network functions on the principles of participatory democracy, transparency, responsibility and equal opportunity. TJN encourages and where necessary supports member organisations and individuals that participate in the

decision-making process. The network supports the creation of national TJN campaigns in developing countries in particular. An international secretariat in London coordinates the activities of the network.

Further Information:
http://www.taxjustice.net

Declaration of the Tax Justice Network

Part 1: "Only the little people pay taxes …"

1 Large corporations and wealthy individuals are increasingly avoiding their obligation to contribute to society through taxation. With the aid of governments, they are shifting the tax burden further onto ordinary citizens and smaller businesses. Governments claim that revenues are too low to achieve social justice through decent public goods and services; privatisation and cuts in social expenditure are presented as the only solutions. Instead, we argue for tax justice: to restore the ability to tax the wealthy beneficiaries of globalisation.

2 Tax avoidance now occurs on a massive global scale. Assets held offshore, beyond the reach of effective taxation, are already estimated to equal one-third of total global assets.

3 Around half of all world trade appears to pass through tax haven jurisdictions, as corporations shift profits to where they can avoid tax. Networks of banks, lawyers and accountants create complex and secret financial structures, reducing transparency and enabling tax evasion. Claims of corporate social responsibility are undermined when low corporate tax payments are exposed. Such behaviour is economically inefficient, socially destructive, and profoundly unethical.

4 Developing countries are estimated to lose revenues greater than annual aid flows. An increased return of just half a per cent on global assets held offshore could yield sufficient revenue to finance the UN Development Goals for 2015, halving global poverty. Instead, such development is under threat from the huge tax breaks offered to attract large corporations, and from the vast outflow of funds from developing countries to tax havens.

5 These trends threaten democracy and development. A process of tax competition at the global level undermines the social contract previously set within the national arena, as states compete to offer tax exemptions to capital. Tax havens grow more numerous, the world's richest financial centres get even richer, taxes paid by large corporations fall, and ordinary citizens bear the cost. We call upon all concerned to meet this challenge, by building global and national campaigns for tax justice.

Part 2: A manifesto for tax justice

6 It is vital to act now, before the process of tax competition becomes even more established in the world economy. Our aims are to achieve the following:

- to eliminate cross-border tax evasion and limit the scope for tax avoidance, so that large corporations and wealthy individuals pay tax in line with their ability to do so;
- increase citizens' influence in the democratic control of taxation, and restrict the power of capital to dictate tax policy solely in its own interest;
- restore similar tax treatment of different forms of income, and reverse the shifting of the tax burden onto ordinary citizens;
- remove the tax and secrecy incentives that encourage the outward flow of investment capital from countries most in need of economic development;
- prevent the further privatisation and degradation of public services.

Part 4
Part 3
Part 2
Part 1

7 There are of course concerns, reservations, and difficulties in working towards such aims. However, with sufficient research, democratic dialogue, and a fair distribution of the benefits of progress on this issue, we believe that such problems can be overcome. For example:

- Financial secrecy and lack of information currently inhibit the research required to establish the true picture in many states. Proposals for reform will evolve in line with the results of future research.

- We recognise that some small island economies and certain less developed countries are heavily dependent on harmful tax practices arising from tax competition, and that such economies may suffer significant reductions in investment and economic growth. To the extent that these factors impact negatively on the general population in such countries, we propose multilateral support to assist with re-structuring.

- Wealthy vested interests will oppose progress, but we entirely reject the economic arguments by which tax exemptions for the rich are presented as beneficial to us all. Experience demonstrates that tax cuts usually lead to increasing inequalities between rich and poor.

- Increases in government revenue may only deliver progress for ordinary citizens where broader society is democratically engaged in spending decisions.

8 The reasonable privacy of citizens must be distinguished from regimes of financial secrecy, from which only the wealthy and the dishonest benefit at substantial cost to the majority. Taking into account the concerns expressed above, we demand an immediate end to all regimes of financial secrecy, in every territory and state, in favour of open, honest and accessible publication of information as detailed in annex 1. This will …

- increase the data available to authorities, researchers and policy-makers;

- discourage corrupt capital flight;

- expose criminal fortunes;

- increase current global tax revenues.

9 In the past decade, efforts to tackle harmful tax practices have frequently consisted of attacks by industrialised countries on smaller tax haven economies. Such initiatives have not fully recognised that tax competition is also deeply embedded within the financial structure of the industrialised countries themselves, and therefore we look beyond the narrow concerns of industrialised governments. We propose the immediate initiation of a democratic global forum, to consist of representatives from governments and from citizens' groups across the world. We call for improved international tax co-operation and widespread debate on these issues, in particular to consider the appropriateness of policies such as those detailed in annex 2.

10 We propose that as citizens and as social movements from around the world, we intervene wherever and however we can, to promote awareness and debate of these issues, and to develop practical solutions. Our active participation is essential to fight for global tax justice.

Annex 1: Immediate measures proposed

I Public Disclosure of the following information, in all states and territories:

- all tax laws and treaties;

- detailed national statistics for financial services activity and public accounts data;

- audited accounts for all significant business entities and trusts, specifically disclosing turnover and tax paid with a breakdown for each entity and in each territory or tax jurisdiction, and other improvements to disclosure;

- beneficial ownership of all business entities, trusts, bank and investment accounts, property, and any other form of asset.

II Development of comprehensive and automatic information exchange between all tax authorities …

- to facilitate both assessment and collection of taxes, including imposing obligations on states to obtain information from financial institutions, lawyers, accountants, auditors, and other relevant intermediaries.

III The provision of funding …

- for substantial research into the extent of, the effects of, and solutions to, tax competition, tax havens, cross-border tax evasion, and tax avoidance by wealthy individuals and large corporations;

- for representatives from citizens' groups and developing countries to engage in this debate with sufficient expertise to promote their interests in this process.

IV The initiation of a democratic global forum …

- to consist of representatives from governments and from citizens' groups across the world; to improve co-operation, to encourage debate, and to increase citizens' influence in the democratic control of taxation.

Annex 2: Additional measures to be urgently considered for improved international tax co-operation

I Taxation of transnational corporations on the unitary basis, allowing tax authorities to effectively reverse the false shifting of profits to low-tax jurisdictions.

II Universal application of the residency principle for corporate taxation.

III States at comparable levels of economic development, and states geographically close to each other, should co-operate to eliminate destructive effects of tax competition between themselves.

IV Harmonisation of tax rates and tax bases for highly mobile capital such as that controlled by large corporations and wealthy individuals.

V The possibilities for establishing regional and global tax authorities that can represent the interests of citizens.

4. 2 Publish What You Pay

In December 1999 Global Witness published a report called 'A Crude Awakening', an exposé of the apparent complicity of the oil and banking industries in the plundering of state assets during Angola's 40-year civil war. It became clear that the refusal to release financial information by major multinational oil companies aided and abetted the mismanagement and embezzlement of oil revenues by the elite in the country.

The report concluded with a public call on the oil companies operating in Angola to 'publish what you pay'. However, it was clear that the lack of transparency in the extractive industries was also a significant concern in other resource-rich but poor countries. Therefore, Global Witness, along with the other founding members, CAFOD, Open Society Institute, Oxfam GB, Save the Children UK and Transparency International UK, decided to mount a worldwide campaign calling for all natural resource companies to disclose their payments to governments for every country of operation.

The 'Publish What You Pay' campaign was launched by George Soros, Chairman of the Open Society Institute, in June 2002. The small founding coalition of NGOs was soon joined by others such as Catholic Relief Services, Human Rights Watch, Partnership Africa Canada, Pax Christi Netherlands and Secours Catholique/CARITAS France, along with an increasing number of groups from developing countries. The coalition has grown extensively since the campaign's launch and continues to expand worldwide. Today, about 300 groups and NGOs from 55 countries are involved. The network's basis is the common appeal 'Public What You Pay' (see box).

Further Information:
http://www.publishwhatyoupay.org

PUBLISHWHATYOUPAY

'Publish What You Pay' Appeal Document.

A call for mandatory disclosure of payments to and transactions with governments by multinational natural resource companies, their subsidiaries and business partners

Significant foreign investment in less developed countries occurs in the extractive industries such as oil, gas, and mining. Revenue from this investment makes its way to governments in the form of taxes, fees and other payments. If this revenue were effectively and transparently managed, it could serve as a basis for successful growth and poverty reduction on.

However, the state and other institutions that manage these resources are often, in practice, unaccountable to the parliaments and ordinary citizens of their countries. Revenues from resource extraction are disclosed neither by the governments nor the companies involved. This lack of accountability facilitates embezzlement, corruption and revenue misappropriation. In extreme cases, access to resources fuels regional conflict and the resulting disorder is exploited to facilitate further large-scale misappropriation of state assets.

This problem extends to all countries where extractive resources provide a major portion of state income, where corruption is associated with this income, and where companies are not transparent about payments. Oil, gas and mining industries are important in over 50 developing countries, which are home to some 3.5 billion people and where 1.5 billion of these people live on less than $2 a day. Twelve of the world's 25 most mineral-dependent states and six of the world's most oil-dependent states are classified by the World Bank as 'highly indebted poor countries' with amongst the world's worst Human Development Indicators. Recent extractive resource governance problems have been cited in, for example, Algeria, Angola, Azerbaijan, Chad, Congo-Brazzaville, Democratic Republic of Congo, Equatorial Guinea, Gabon, Kazakhstan, Nigeria, Sudan and Venezuela.

Mining, gas, and oil companies cannot control how governments spend taxes, royalties and fees. But they do have a responsibility to disclose the payments they make so citizens can hold their governments accountable. Companies that fail to do so are complicit in the disempowerment of the people of the countries to which the resources belong.

We are not calling on companies to disclose commercially confidential information, but rather to publish the same basic data on net payments made to government and other public authorities which they are required to disclose in many developed countries. Because individual companies might be put at a disadvantage by disclosing information others fail to reveal, voluntary disclosure is not a viable option. Yet all companies and the investment community would benefit from a level playing field if regulators required disclosure. Furthermore, it would enable them to address the risks to reputation arising from lack of transparency. Disclosure would also enable the citizens of those countries to call their governments to account over the management of the revenues from resource extraction.

There is an emerging consensus within the international community in favour of corporate social responsibility and increased transparency, as is evidenced by, for example, the recent European Parliament Resolution, guidelines adopted by the OECD, the UN Secretary General's Global Compact, the Global Reporting Initiative, and the International Chamber of Commerce.

Mandating disclosure of tax, fee, royalty and revenue sharing payments is consistent with this emerging consensus. It would contribute to the development of transparency mechanisms to track revenues, thereby helping to ensure that these revenues are directed to proper investment in growth and poverty reduction. We call on the leadership of governments and multilateral institutions to help empower civil society to hold governments accountable.

Accordingly, we propose that publicly traded resource companies be required by regulators to disclose aggregate information about taxes, royalties, fees and other transactions with governments and / or public sector entities for the products of every country in which they operate.

4. 3 International Budget Project

The International Budget Project was formed within the Center on Budget and Policy Priorities (Washington D. C., USA) in 1997 to nurture the growth of civil society capacity to analyze and influence government budget processes, institutions and outcomes. The IBP is interested particularly in working with those organizations that focus on the impact of the budget on poor and low-income people in developing countries or new democracies. The overarching aim of the project is to make budget systems more responsive to the needs of society and, accordingly, to make these systems more transparent and accountable to the public. To achieve its aims, the IBP focuses its energies on three objectives:

- The IBP works with individual civil society organizations that are developing or strengthening dedicated capacity to engage in public budgeting.
- The IBP encourages these civil society budget groups to work together and to learn from each other.
- The IBP helps to raise the profile of budget work in the international community and to promote private, public and multilateral donor investment in civil society budget work.

In all of its work, the IBP relies on a strategy to develop regional partners that are capable of leading network formation and providing technical assistance in each region, and serving as examples of effective civil society budget groups. IBP's partners receive priority as participants in IBP training, research, and re-granting activities.

The IBP's strongest partnerships are with the Institute for Public Finance in Croatia, the Center for Budget and Policy Studies in India, Fundar in Mexico, and the Budget Information Service at the Institute for Democracy in South Africa.

The IBP works closely with the Center for the Implementation of Public Policies for Equity and Growth (CIPPEC) in Argentina, the Public Finance Monitoring Center in Azerbaijan, Ibase in Brazil, the Center for Governance and Budget AccountabilitY (CBGA) in India, the Bandung Institute for Governance Studies (BIGS) in Indonesia, the Public Policy Research Center in Kazakhstan, and the Uganda Debt Network (UDN).

The IBP's main activity is capacity building for budget analysis through the provision of online resources like handbooks, as well as through seminars and workshops. It also carries out lobby work and research studies on themes such as economic and social rights and fiscal policies, as well as gender budgeting. In relation to these themes, the IBP publishes studies that examine how national budgets can be structured to be more gender responsive. In addition, case studies (so far of 36 countries) completed by IBP members are published on the IBP homepage.

Further Information:
http://www.internationalbudget.org

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Nord-Süd-Netz im DGB-Bildungswerk

The North-South-Network is the development agency of DGB Bildungswerk, the national training institute of the German Trade Union Federation (DGB).

It supports partners and projects in developing countries and transformation countries and promotes international trade union solidarity in Germany.

Priorities of the North-South-Network are:

- Human and Trade Union Rights
- Empowerment of Women and Youth
- Occupational Health and Safety
- Workers participation in companies and society
- Promotion of Income and Employment
- Corporate Social Responsibility
- Sustainable Development

The Network organizes seminars and international trade conferences and provides materials on globalization and North-South relations.

It is active in networks – nationally and internationally. It organizes lobbying and campaigns and supports exchange programs with partners in different parts of the world.The Network is financed by the DGB and the German trade unions, public funds and solidarity contributions of individual union members

Further information:
http://www.dgb-bildungswerk.de

Global Policy Forum

Global Policy Forum monitors policy making at the United Nations, promotes accountability of global decisions, educates and mobilizes for global citizen participation, and advocates on vital issues of international peace and justice.

GPF is a non-profit, tax-exempt organization, with consultative status at the United Nations. Founded in 1993 by an international group of concerned citizens, GPF works with partners around the world to strengthen international law and create a more equitable and sustainable global society. GPF uses a holistic approach, linking peace and security with economic justice and human development.

In October 2004, Global Policy Forum established a European office based in Bonn. The office works under the umbrella of Global Policy Forum Europe, a non-profit association under German law.

GPF Europe focuses on the following issue areas:

- Development politics, financing for development, Millennium Development Goals (MDGs)
- UN reform, multilateralism, global governance
- Corporate Accountability.

GPF Europe participates actively in the work of the international Social Watch Network. Alongside studies and events, GPF has an award-winning website that attracted more than five million visitors and 50 million 'hits' during 2005, making it the largest NGO site on international policy.

Further information:
http://www.globalpolicy.org/eu

terre des hommes Germany

terre des hommes Germany is an aid organisation focussing on children and supporting about 350 projects in 28 countries. These include school and training projects, initiatives for street children, working children, child prostitutes and refugee children. It also runs food security and healthcare programmes.

terre des hommes helps people to liberate themselves from oppression and economic hardship. It seeks to empower them to try out their own ideas about a life lived in dignity. We do not send out field workers, preferring to promote local initiatives: with money, advice and networking facilities.

terre des hommes means, in French, earth of humanity.

terre des hommes endeavours – through campaigns, lobbying and publicity – to influence German political and business circles in the interest of children suffering hunger, exploitation or the aftermath of war.

terre des hommes action groups are groups of volunteers in 150 German towns and cities. They work on development-related issues at the local level, organising events, sitting on refugee councils and raising funds for projects. About eighty staff members work in the terre des hommes office in Osnabrück.

Further information:
http://www.tdh.de

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Tax evasion, capital flight and the misuse of public money in developing countries – and what can be done about it.

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