

Tax havens. IFC must change, sooner or later

Tax havens are 'black boxes' that allow illegitimate funds to be hidden from regulation and law enforcement. From an anti-corruption perspective, it is easy to disapprove of IFC's use of tax havens for channelling investments to poor countries, writes Jan Borgen.

Current debates on corruption focus mainly on the demand side of corruption, looking at those, particularly in the public sector in developing countries, who abuse the trust placed in them by the public. The supply side is easily left out or forgotten. The supply side brings into light those who let corruption happen, including:

- Governments that supply the secrecy spaces in which corruption can take place, including (by no means exclusively) recognised tax havens;
- Suppliers of services that allow such corruption to happen including bankers, lawyers, accountants and trust companies who set up and operate such arrangements;
- Those who undertake illicit transactions related to capital flight and tax abuse;
- Those who ignore such transactions in the course of their duties.

The **World Bank Group**, of which the **International Finance Corporation (IFC)** is the private sector arm, is often said to be among those who too easily skip controversial issues involving the supply side. A case in point is IFC's policy on offshore financial centres (OFCs), or tax havens. (See *DT 19/06*) IFC sees the use of funds organised in tax havens as a necessary and acceptable "standard practice" for the efficient channelling of capital to emerging markets. OFC structures are necessary to "meet market standards for efficiency". And they provide "effective legal frameworks".

It is easy to disapprove of IFC's position on OFCs from an anti-corruption perspective. Though **Transparency International** does not take a stand on tax policies, tax competition or tax evasion, OFC opacity has a very troubling impact on the global fight against corruption. Moving assets offshore depends on secrecy, which is a sure hallmark of corruption. OFC schemes cannot achieve results without abuse of banking and company secrecy laws. Offshore havens are "black boxes" that effectively allow the hiding of

money from regulation and law enforcement. Investigation of criminal behaviour, including money-laundering and corruption, is practically speaking impossible.

The "effective legal frameworks" in tax havens have a high cost, to say the least. OFCs hold trillions of dollars in assets. Let's be clear. IFC knows that very much of that money does not flow through OFCs legitimately. If the money was legitimate it would not need to go offshore. Much of it is located there after being looted from poor economies by the Abachas, Suhartos, Fujimoris, and Mobutus of this world. The money is stripped from those countries, located in tax havens, laundered and finally invested in Europe and the US. Who pays? The world's poorest, of course.

The opening up of new markets has brought an explosion in corrupt practices, involving people in high positions in government and international corporations. The perpetrators of these crimes are ably assisted by the offshore banking institutions, bank secrecy laws, and an armada of professionals. This high-level corruption seriously hampers economic and social development. Vast fortunes are amassed in OFCs, fortunes based on criminal activities that deepen poverty and deny development to millions. Surely poor people in the South are made victims by the use of OFC schemes!

IFC does not seek to condone dishonesty or criminal activity. The IFC logic is competition for capital and prevention of policies that reduce free capital flows. From a purely financial perspective it may make sense to say that it is "standard practice" to take advantage of tax havens. Without the willingness of some to engage in this sort of activity, tax competition might be less efficient and therefore reduce the benefits that flow from it for IFC-funded projects.

Yet, the logic is unacceptable, and inconsistent with a development position that promotes the rule of



Jan Borgen is Secretary General of Transparency Norway.

law, democracy, human rights and social justice. IFC does not organise or manage the funds in OFCs; "the fund structure is generally in place when a proposal [comes] to us". And IFC certainly is not accountable for the abuse of OFCs and criminal activities by others. However, IFC cannot escape the suspicion that it contributes to legitimising financial and legal structures that hide illegal money from law enforcement, and ultimately from development purposes. IFC in practice, if not in principle, comes close to condoning a system that facilitates high-level corruption globally.

This critique extends to the role played by Western governments in the world's financial architecture, and their collusion in the abuse of the rights of the poorest people. The solution to the problem lies mainly with a few governments (the UK, the US and the Swiss). It is a steep uphill battle to change their attitudes.

The developed world has yet to really deliver for the poor. Doing so will require recognition of the harm done by OFCs not only to developing nations, but to all nations, and to the market system and the business world as well. It will require the regulation of offshore havens and the ending of banking secrecy. It will require a redefinition of corruption; a definition with a different geographic outlook, one that embraces the supply side of the equation.

I predict that IFC sooner or later will have to change its position on tax havens.