actionaid

Hole in the pocket

Why unpaid taxes are the missing link in development finance

ActionAid Briefing Paper

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“We don’t pay taxes. Only the little people pay taxes…”

- Leona Helmsley, billionaire New York City hotel operator and real estate investor

“Taxes are what we pay for civilized society…”

- Oliver Wendell Holmes Jr, Justice of the US Supreme Court

1. Doha: A Window of Opportunity

If 2008 has been a tough year for the industrialised countries, it's looking disastrous for poor countries. Earlier this year, the food and fuel crises pushed import bills to historic highs, unleashed inflation and pushed tens of millions into chronic hunger. As the aftershocks of the financial crisis have set in, commodity prices have plunged, export earnings are shrinking, growth rates are falling and capital inflows have nearly dried up.

The most recent IMF growth forecasts show an expected fall in GDP growth rates for all developing countries. ActionAid has compared the IMF's projections for growth rates in 2008, 2009 and 2010 made before and after the financial crisis hit to calculate the real value of the 'lost growth' caused by the financial crisis. It is estimated that for developing countries the predicted fall in growth is equivalent to a loss of $414 billion.[1] Rich countries have introduced all kinds of fiscal measures to spend their way out of the recession and are exploring ways to retain much needed capital within their own borders. Poor countries simply do not have the funds to follow suit; indeed, the likelihood is that the downturn may force them to make further cuts in vital spending on education, health and rural development.

In these dire circumstances, what can be done? Foreign direct investment would help to reduce job losses and bolster growth, but it is expected to contract sharply in 2009.[2] Expanding the emergency lending capacity of the IMF or regional banks may be all too necessary, yet by the time balance of payments support kicks in, the economic collapse may be too advanced to prevent lasting damage to the economy. More aid would provide a fiscal cushion; yet even before the financial crisis hit, donor countries were already falling some US $40 billion short of the commitments made at Gleneagles in 2005. Most insiders predict that donors will cut aid budgets further in 2009 and 2010 in order to help pay for the fiscal costs of their own bail-outs and stimulus packages.

Although more and better aid remains vitally necessary, ActionAid believes that there is another solution that deserves attention: stop the outflows. According to some estimates, the amount that flows into developing countries as aid (about $100bn a year)[3] is dwarfed by the amounts that flow out through illicit capital flight (which may be as high as $800bn a year).[4] Stopping these outflows – and gaining the tax revenue due on them – would bring about a massive increase in the amounts of financing available to developing countries to maintain social spending and productive investments in the face of external shocks. More importantly, however, it would bring about an increase in the proportion of social spending and productive investment that governments are able to finance from their own resources – not from aid.

The UN Conference on Financing For Development, held in Monterrey, Mexico in 2002 made a commitment to support the financing necessary to meet the Millennium Development Goals and towards ending poverty. The final text recognised the primary importance of 'domestic resources' in meeting this challenge but

1. ActionAid calculations based on IMF World Economic Outlook Update, July and November 2008. IMF.
http://www.imf.org/external/pubs/ft/weo/2007/update/01/pdf/eng/0707.pdf
http://www.imf.org/external/pubs/ft/weo/2008/update/03/pdf/1108.pdf
2. ODI, 2008, "The Global Financial Crisis and Developing Countries." http://www.odi.org.uk/resources/odi-publications/background-notes/2008/global-financial-crisis-developing-countries-growth.pdf
3. World Bank, 2008, Global Development Finance.
4. Baker, Raymond, 2005, 'Capitalism's Achilles Heel: Dirty Money and How to Renew the Free-Market System'. Global Financial Integrity will be unveiling their new estimates on capital flight from developing countries in November 2008. http://www.gfip.org/

while mentioning the crucial issues of capital flight and tax cooperation as matters to be dealt with, shied away from specifying what actions need to be taken to address them.

However, the report of the Secretary General on recent developments in the run up to the Doha review conference is bolder in recognising the central role that reforming the international tax system can play in 'enhancing developing countries' access to greater domestic resources[5]. Again the Secretary General makes no specific recommendations, but the prominence that the text gives to the issues of tax cooperation, illicit capital flows and tax evasion bodes well for the conference outcome.

The financial crisis has made evident that the secrecy and lax or non-existent regulation that we have allowed to flourish in tax havens has allowed investment banks and other companies to hide bad debts and indulge in ever-riskier transactions. As a result of the current crisis there is increasing pressure for an international effort to tackle financial secrecy and address the gaps in regulation. The multilateral action that was taken by governments to rescue the financial sector in rich countries is proof that international cooperation is possible and even desirable. Reform of international and national level financial regulation presents an opportunity to deal with the problems of tax evasion and avoidance – which are facilitated by the same banking secrecy that has contributed to the current crisis. Loss of tax revenues leaves developing (and developed) countries with less revenue than they should have. While governments focus on the international system to stem the immediate crisis, they should also ensure that reforms will help to stop capital outflows from developing countries and address the broader development financing challenges.

The global community meeting in Doha faces a choice. It could recycle the rhetoric of summits past, or it could take a leap to set a path for releasing billions of dollars for poverty eradication and development. Below we set out why these issues need addressing and how they could be addressed by the Doha meeting and beyond.

5. UN Secretary-General, 2008, 'The latest developments related to financing for development and the implementation Monterrey Consensus', Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the preparation of the 2008 Review Conference, United Nations.

2. The Role of Taxation in Development

> It is a contradiction to support increased development assistance, yet turn a blind eye to actions by multinationals and others that undermine the tax base of a developing country…"
>
> - Trevor Manuel, Minister of Finance, South Africa and Special Envoy of the UN Secretary General on Financing for Development

Planning for sustainable, long-term financing for development

Taxation is a crucial source of sustainable, predictable, long-term development finance. Taxation, along with aid and other forms of financing underpins the future development prospects of all countries including low income countries. Many South East Asian economies have effectively used the proceeds of taxation to contribute to successful development strategies.[6] As we show below, many poorer countries have relatively low tax rates as a proportion of their GDP, making it very difficult to provide even basic services and infrastructure for their citizens.

ActionAid, along with many civil society groups, has consistently argued for more and better quality aid. But many in the aid community, as well as citizens of developing countries, have also maintained that while aid needs to be strengthened and more predictable in the medium term, taxation is the crucial means of financing in the long term. This need was explicitly recognised by the UN Millennium Project plan led by Professor Jeffrey Sachs[7]. Aid is critical in filling in financing gaps, but aid in itself cannot replace the central bargain between citizens and the state that allows planning and accountability.

As noted above, there are also some specific problems with aid. Even before the financial crisis, it was unstable and unpredictable. Despite promises made six years ago at Monterrey and three years ago at the G8 in Gleneagles, development assistance levels have recently stayed stubbornly flat. Net disbursements by the 22 member countries of the Development Assistance Committee (DAC) of the OECD totalled $103.7 billion in 2007, down from $104.4 billion in 2006 and a record $107.1 billion in 2005.[8] While some countries have made medium and long term pledges, others have hedged their bets with vague future commitments, making long-term planning in developing countries precarious. Despite many improvements in recent years, aid also continues to be offered with damaging strings attached. For example, some countries still persist

6. See for instance Chun, Seung-hun, 2002, 'Economic Development, and Tax Policy and Tax System in Korea', Korea Institute of Public Finance .
7. UN Millennium Project, 2005, 'Investing in Development: A Practical Plan to Achieve the Millennium Development Goals'
8. World Bank, 2008, Global Development Finance.

in tying aid to the purchase of donor countries goods and services, and some aid comes allied to a political agenda, serving donor foreign policy objectives over development ones. Some aid comes attached to particular policy actions which the host countries must follow in order to take receipt of the aid.

Some have looked to other additional sources of finance. In recent years there has been much interest in remittances - transfers of money sent home by foreign workers. Although the amounts involved are globally significant, outstripping aid in some countries, remittances rarely go to the poorest communities and a handful of countries – India, Nigeria, China, Mexico, the Philippines – receive the lion's share[9]. Although remittances remain an important source of income for many communities, they are not an easily deployed form of development finance, staying in private hands for the most part and remaining patchy and uneven in their distribution.

Foreign direct investment has also been highlighted as a sustainable, long-term source of development finance. Like remittances, the numbers are large but the spread is uneven. Foreign direct investment in developing countries tends to focus on larger, richer countries. In sub-Saharan Africa, recent increases have focused on natural resource extraction opportunities, which tend to be short-term. Moreover such investments come with their own set of issues and debates, playing, for instance, into the discussions we refer to elsewhere in this paper on transfer pricing, tax competition and royalty capture.

Aid, foreign direct investment and remittances will remain important sources of development finance in the future, but in the long run it is taxes that will underpin development strategies, as they do in developed countries. Tax and other government revenues have the advantages of predictability, ownership and sustainability. They are government controlled and can be used to support development plans, address inequalities and alleviate poverty, as the host government and its citizens see fit.

9. World Bank, 2008, 'Migration and Remittances Factbook'.

3. How much do poor countries lose and retain?

Contrary to popular belief, huge amounts of capital flow out of poor countries. About as much flows out through illicit capital flight as comes in through aid and foreign direct investment. If this money were retained, much of it could be taxed and the revenue could support development.

Headlines about increasing aid and record foreign investment in developing countries mask the true picture. According to informed estimates and official figures, every year $500 - $800 billion leave Southern countries in capital flight, due to criminal activities, tax evasion, and corrupt practices[10]. This means that every day $1.3-$2.2 billion escapes through the back door.[11] The largest share of this money escapes through mis-priced commercial transactions which account for an estimated $325 - $520 billion lost annually.[12]

Other estimates from the University of Massachusetts at Amherst[13] suggests that sub-Saharan African countries are in fact, collectively, a 'net creditor' to the rest of the world, in the sense that money flowing out of the continent in the form of capital flight is greater than its debt to the rest of the world.[14] The researchers have recently estimated that between 1970 and 2004 US$ 420 billion-worth of capital has flown out of sub-Saharan Africa.[15] The main reason for the discrepancy between these figures is that Boyce and Ndikumana's methodology is based on balance of payments data whereas Baker's calculations consider other illicit flows that are not included in balance of payments sheets.

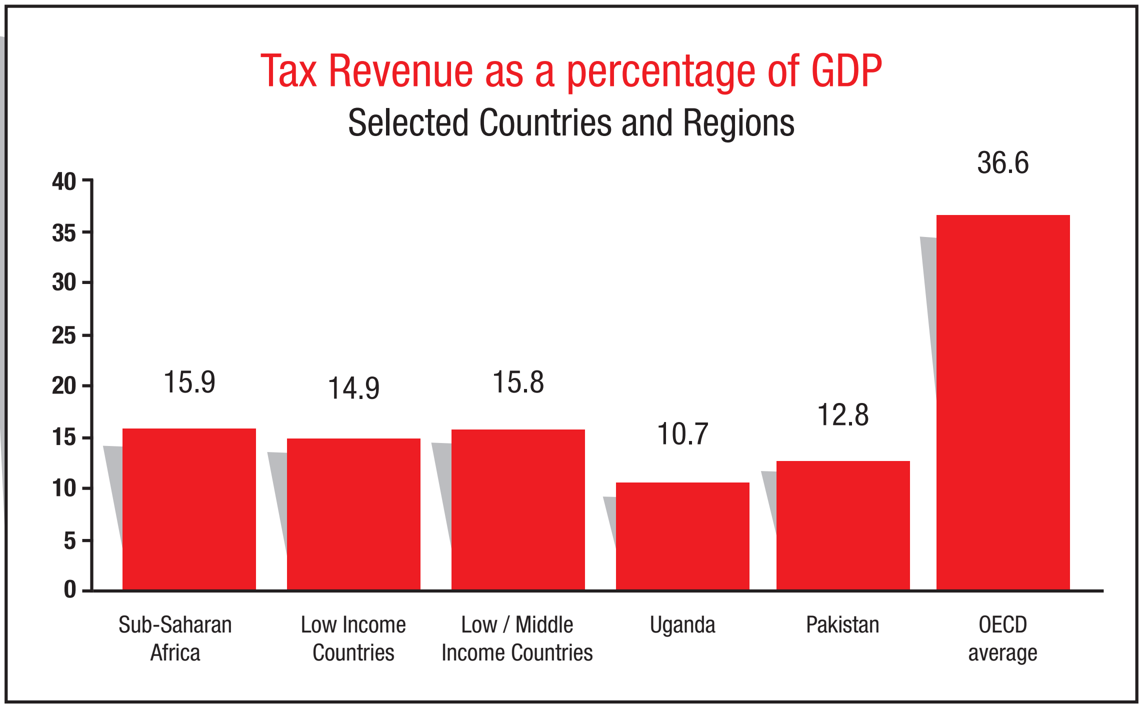
Mohammed Silusu, an economist based at the African Development Bank, has calculated that on average, capital flight in sub-Saharan Africa averages 7.8% of GDP, totalling $13 billion a year from 1991 to 2004. The research also found this trend is going up and reached a high point of $30 billion in 2003.[16] Evidence suggests that though capital flight from African countries is less in absolute terms than from other regions, it accounts for a larger share of GDP.[17]

Recent studies have also examined the levels of capital flight from individual countries. Estimates suggest that capital flight from the Philippines between 1970 and 2002 stood at $131 billion (in 1995 constant

10. Baker, Raymond, 2005.
11. Calculated from Baker's 2005 figures.
12. Baker, Raymond. 2005.
13. It is worth noting that several different definitions of capital flight exist and that several different ways of measuring it are employed. There are two major approaches to measuring capital flight. One is based exclusively on the Balance of Payments figures (here we find: the residual approach, the unreported foreign assets, the hot money measures and trade mis-invoicing). The other includes other flows that, being illicit, are not included in the Balance of Payments. This is the case for transfer mispricing practices, which the second approach considers as a large component of capital flight, and criminal activities or smuggling and bribery.
14. Boyce, J. K. and Ndikumana, L., 2001, "Is Africa a net creditor? New estimates of capital flight from severely indebted sub-Saharan African countries, 1970-1996", Journal of Development Studies.
15. Boyce, J. K. and Ndikumana, L., 2008, 'New Estimates of Capital Flight from Sub-Saharan African Countries: Linkages with External Borrowing and Policy Options', UMASS Working Paper Series Number 166.
16. Salisu, Mohammed, 2005, 'The Role of Capital Flight and Remittances in Current Account Sustainability in Sub-Saharan Africa, paper presented at workshop: 'Capital flows and current account sustainability in African economies', United Nations Economic Commission for Africa – 22 September 2005 Accra, Ghana.
17. Murinde, V., N. Hermes, and R. Lensink, 1996. "Comparative aspects of the magnitude and determinants of capital flight in six sub-Saharan African countries." Saving and Development, 20 (1): 61-78. Cited in Boyce and Ndikumana, 2008.

prices), some years reaching above 15% of GDP.[18] In South Africa, the average percent of GDP for the period 1980 to 2000 was 6.6%[19], while in Mexico, a total of $27 billion of capital is estimated to have flown out between 1982 and 1991.[20]

Christian Aid, the international development agency, estimates that the developing world currently forgoes $160 billion tax revenue per year from transfer mis-pricing and false invoicing.[21] Meanwhile development aid stands at around $100 billion per year and foreign direct investment to developing countries ran to around $490 billion in 2007[22/23], although it is falling off dramatically this year[24]. Foreign direct investment, though an important source of finance, is volatile and tends to focus on a few richer, larger developing countries. Although it has increased in recent years, the total 2007 figure for foreign direct investment in sub-Saharan Africa is still just $25 billion[25], much of which is aimed at searching for minerals and other natural resources[26].



Source.[27]

18. Beja, Edsel, L, 2006, 'Capital Flight and the Hollowing Out of the Philippine Economy in the Neoliberal Regime', Philippine Journal of Third World Studies.
19. Mohamed, Seeraj and Finnoff, Kade, 2004, 'Capital Flight from South Africa, 1980 to 2000', African Development and Poverty Reduction Forum Paper.
20. Lopez, Julio, 1998, 'External Financial Fragility and Capital Flight in Mexico', International Review of Applied Economics, 12.
21. Christian Aid, 2008, 'Death and Taxes'
22. World Bank, 2008, op cit.
23. Much of this also flows out again in the form of FDI outflows and profit remittances.
24. FDInet Briefing, 2008, Volume 11, Issue 7.
25. World Bank, 2008, op cit.
26. Ratha, Dilip, Mohapatra, Sanket and Plaza, Sonia, 2008, Beyond Aid: New Sources and Innovative Mechanisms for Financing Development in Sub-Saharan Africa, World Bank Policy Research Working Paper 4609.
27. Figures from World Bank, IMF, and OECD. OECD average figure is from 2000 and others are 1997-2001 averages.

At any rate, developing countries are starting from a low revenue base. The average overall tax revenue of developing countries is 20% of GDP compared to around 35% in developed countries.[28] In Africa, tax-to-national income ratios are even lower. The sub-Saharan average remains around 15% and in three countries, Guinea, Guinea Bissau and Central African Republic, the rate is less than 10%.[29]

This low tax base, combined with large outflows, and large spending needs means that developing countries urgently need more robust international rules to help them to keep what capital they have and to increase their ability to maximise their domestic resources over time.

To put these figures into context, the World Bank estimates that some $40-$60 billion is required annually to meet the MDGs. The UN, meanwhile, estimated in 2005 that a total $348 billion was needed to meet MDG costs up to 2010 and $529 billion up to 2015[30]. Of course not all the tax receipts would go towards poverty reduction programmes but by stemming the outflow of capital, billions could be released for spending on much needed infrastructure and social welfare in developing countries.

The loss of crucial funds for investment has resulted in hardship in many countries. For instance, according to a recent report from the pressure group Global Financial Integrity, the Democratic Republic of Congo (DRC) lost an estimated $15.5 billion through capital flight from 1980 to 2006,[31] which was more than its entire external debt of US$ 11.2 billion.

Poor data

The study of capital flight and tax losses in developing countries is plagued by poor figures, a lack of transparency, jumbled definitions and little official scrutiny.

Most companies, for instance, are subject to accounting standards set by the International Accounting Standards Board – a tax body that does not require them to break down their tax payments, country-by-country. This makes it impossible to assess the scale of inflows and outflows from any one country and the resulting foregone revenue. Banking secrecy in offshore financial centres also makes it difficult to determine the source and destination of flows from countries. For example, there is no data currently available that estimates the outflows of capital from developing countries to tax havens. Coupled with this, there are no agreed definitions as to what constitutes capital flight and how to measure it. This lack of clarity extends beyond official estimates into the academic sector.

With the exception of the World Bank's Stolen Asset Recovery Initiative, and the UN's World Economic Prospects report, most international bodies concerned with global finance and development have virtually abandoned attempts to try to measure or estimate flows of capital out of the developing world and tend to focus on inflows. Even the academic community, with notable exceptions, tends to shy away from estimated flows and analysing available data.

28. Shende, Suresh N., 2002, 'Improving Financial Resources Mobilization in Developing Countries and Economies In Transition', UN Department of Economic and Social Affairs.
29. Gupta, Sanjeev and Tareq, Shamsuddin 2008, 'Mobilizing Revenue', Finance and Development Magazine, Volume 45, Number 3, IMF
30. UN Millennium Project, 2005, op cit.
31. Kar, Dev, Mammadov, Ramil, Goodermote, Rachel & Upohadhay, Janak, 2008, Capital Flight From the Democratic Republic of Congo, Global Financial Integrity, a program of the Center for International Policy.

But the paucity of information and data should not be used as a cloak to disguise the problem of capital flight and tax avoidance and evasion - rather it is part of the problem. It is crucial that international financial institutions, such as the World Bank, governments and economists make greater efforts to collect data that can support policymakers to understand not only the scale of, but also the patterns and changes in global capital flight, especially tax evasion and aggressive tax avoidance. Ignoring the problem will not make it go away.

4. How poor countries lose from the international system

Poor countries are losing capital and revenue in a variety of ways but our focus here is particularly on addressing what has been labelled 'illicit capital flows' and the wider context of unfair tax competition.[32] Some of these losses stem from weaknesses in the international system.

Illicit flows comprise of three main types of transactions: flows arising from criminal activities such as the drug trade, capital flight due to corruption, and commercial illicit flows through abusive transfer pricing and other tax evasion and aggressive tax avoidance practices. The last of these has been highlighted as the biggest issue for developing countries[33].

The leaky system: Illicit flows

- ***Wrong price: trade misinvoicing***

  A popular and cost-effective tax avoidance strategy for companies that import and export goods and services is to set incorrect prices for their products or services. By invoicing for an import at a higher price, a company can appear to have lower profits and move the true difference in profit offshore.

  Research based on balance of payments figures suggests that capital flight from trade mis-invoicing from Africa to the US alone amounted to more than US$20.5 billion between 2000 and 2005.[34] During this period, capital outflows from all 58 countries in Africa to the US grew by more than 50%, both through low-priced exports and high-priced imports.[35]

  The research reveals that the fraud involved some wrongly invoiced goods including cassette recorders imported to Nigeria from the US for $1400 and hairdryers imported for $3800. Meanwhile Ghana was found to be importing car tyres at a massively overpriced $3300 a piece.[36]

32. Poor countries have also lost revenues in recent years to reductions in trade tariffs that have been negotiated through the World Trade Organisation, or deemed necessary by donors and international financial institutions in the form of loan conditions or advice.
33. Baker Raymond W, 2005, op cit.
34. De Boyrie, Maria E., Nelson, James A., Pak, Simon J., 2007, "Capital movement trough trade mis-invoicing. The case of Africa".
35. ibid
36. Pak Simon J., 2006 'Estimates of Capital Movements from African Countries to the U.S. through Trade Mispricing', presentation at a workshop on Tax, Poverty And Finance For Development, University Of Essex.

Wrong profit: transfer mispricing

As 60% of global trade now occurs between different parts of a single company and its subsidiaries, huge opportunities exist to shift income from goods and services, so that profits seem smaller in higher tax jurisdictions and vice versa.[37] Companies with high-value brands and complex international business structures are particularly able to take advantage of weak surveillance and technical know-how in poorer countries.

The extent and significance of transfer mispricing by multinationals in developing countries was assessed through a UN survey.[38] Of the developing countries with sufficient evidence to make an assessment, 61% estimated that their own national multinationals were engaging in transfer pricing abuses, and 70% deemed it a significant problem. The income-shifting behaviour of foreign-based multinationals was also appraised. 84% of the developing countries felt that the affiliates they hosted shifted income to their parent companies to avoid tax liabilities, and 87% viewed the problem as significant.[39]

Stolen wealth

A great deal of the proceeds of corruption and stolen wealth ends up in tax havens. The global infrastructure that has been set up to cater for corporate tax planning and wealthy individuals also serves the purposes of those looting money for personal gain. While progress has been made by the World Bank, EU and the OECD in this area, it is widely recognised that because of the deliberate policy of opacity within offshore financial centres, much of the world's stolen wealth continues to hide in such jurisdictions.

The tax web: the role of offshore

Tax havens, or offshore financial centres, contribute to the problems described above. They house many of the structures, front companies and trusts that facilitate illicit flows, while also encouraging and feeding tax competition as described below.

Companies and individuals can take advantage of specially-designed complex corporate structures which usually involve using offshore financial centres. These structures are sometimes hidden under a respectable title such as 'tax planning' when offered to companies, and 'wealth management' if applied to individuals, but many jurisdictions offer financial products whose sole purpose is to allow their clients to avoid or evade tax.

India, for instance, has recently halted several large tranches of foreign investments from coming in via low tax jurisdictions such as Singapore, Mauritius and Cyprus. Together the three centres suspiciously accounted for 61% of the total foreign direct investment flows into India in 2008.[40] **(See sidebar 1 & 2).**

37. John Neighbour, 2002, 'Transfer pricing: Keeping it at arm's length', OECD Observer
38. UNCTAD, 1999, 'Transfer Pricing'.
39. ibid
40. The Economic Times, 20 Aug, 2008, 'Government steps up vigil on FDI inflows'

SIDEBAR 1

Spirited away: The growth of offshore finance

Offshore financial centres, sometimes also called tax havens[41], have their roots in the nineteenth century and have grown both in number and in scale over the last three decades. They offer a range of services to enable companies and rich individuals to avoid tax or legal scrutiny, without being a resident.

As large corporations have globalised their operations, finding cheap labour and opening up new markets, they have also sought to take advantage of preferential regimes designed to look after their 'back room' – banking, legal services and taxation.

At the same time the growth of international crime syndicates and money laundering networks were utilising such centres for another purpose: their general lack of transparency and openness made them ideal conduits for illegal flows.

Official definitions of 'offshore'

Offshore Financial Centres, have been defined by the International Monetary Fund (IMF) as jurisdictions that have a large number of financial institutions engaged mostly in business with non-residents, where external assets and liabilities are out of proportion and which provide low or zero taxation, light financial regulation and banking secrecy and anonymity[42].

The Organisation for Economic Cooperation and Development (OECD) has identified a number of jurisdictions which engage in what they termed in 1998 as 'harmful tax competition', and aimed to address this problem. The 30 countries that make up the OECD were losing tax revenues as multinationals 'moved' to tax havens en masse in most part to take advantage of their lax regulation and strict banking secrecy laws. In recent years, the initiative has been watered down and the OECD now refers only to 'harmful tax practices' and 'fair tax competition', as internal disagreements over the definitions of such practices and how to deal with them had begun to surface.

Currently only three countries feature on the OECD list, Andorra, Liechtenstein and Monaco.[43] However, in the wake of the financial crisis the OECD is set to step up its efforts to tackle banking secrecy. Under pressure from Germany and France the OECD will produce a new list of 'blacklisted' tax havens ahead of the G8 summit in 2009.[44] At the top of the list will be Switzerland and possibly Panama, Singapore and Hong Kong amongst others.[45] Yet as the table overleaf highlights, the list could extend even further to include countries such as the US and the UK who like other offshore financial centres offer light financial regulations and banking secrecy.

41. Some authors treat the two as distinct though there is clearly a strong overlap and, arguably, most offshore centres are also tax havens. Others have suggested that an offshore financial centre is merely a politically acceptable term for a tax haven. In this report we have used the terms interchangeably to refer to jurisdictions that have a large number of financial institutions engaged in business mostly with non-residents, offer low or zero tax rates, little financial regulation and banking secrecy.
42. International Monetary Fund, 2000, 'Offshore Financial Centres', IMF Background Paper
43. OECD, 2008, 'List of Un-Cooperative Tax Havens' http://www.oecd.org/document/57/0,3343,en_2649_33745_30578809_1_1_1_1,00.html
44. Financial Times, 2008, 'Berlin calls for Swiss to be on tax blacklist' 22 October 2008 http://www.ft.com/cms/s/0/1f36feda-9fd4-11dd-a3fa-000077b07658.html
45. Ibid.

Countries and territories with offshore financial centres

Africa	Asia and Pacific	Europe	Middle East	Western Hemisphere
Djibouti	Australia	Austria	Bahrain	Antigua
Liberia	Cook Islands	Andorra	Dubai	Anguilla
Mauritius	Guam	Campione	Israel	Aruba
Seychelles	Hong Kong	Cyprus	Kuwait	Bahamas
Tangier	Japan[a]	Gibraltar	Lebanon	Barbados
	Macau	Guernsey	Oman	Belize
	Malaysia[b]	Hungary		Bermuda
	Marianas	Ireland[d]		British Virgin Islands
	Marshall Islands	Sark and Isle of Man		Cayman Islands
	Micronesia	Jersey		Costa Rica
	Nauru	Liechtenstein		Dominica
	Niue	Luxembourg		Grenada
	Philippines	Malta		Montserrat
	Singapore[c]	Madeira		Netherlands
	Thailand[d]	Monaco		Antilles
	Vanuatu	Netherlands		St. Kitts and Nevis
	Western Samoa	Russia		St. Lucia
		Switzerland		Panama
		United Kingdomf		Puerto Rico
				St. Vincent
				Turks and Caicos
				United States[g]
				Uruguay

Source: Musalem and Errico 1999[46].
[a] Japanese offshore market (JOM).
[b] Labuan.
[c] Asian currency units (ACUs).
[d] Bangkok international banking facility (IBF).
[e] Dublin.
[f] London.
[g] U.S. international banking facilities are located in New York, Miami, Chicago, and Los Angeles–San Francisco.

46. Errico, Luca &, Musalem, Alberto Borrero, 1999, 'Offshore Banking: An Analysis of Micro- and Macro-Prudential Issues', IMF Working Paper No. 99/5

SIDEBAR 2

Pay your way: tax compliance and multinationals

Currently most companies do not report on how much tax they pay in individual foreign jurisdictions. This is partly because they are not under any international obligation to do so (as we outline elsewhere) but also because they are not keen to disclose information to tax authorities and others. Many multinational companies, with one or two exceptions[47], have tax minimisation strategies and use complicated corporate tax structures and accounting procedures to allow them to avoid tax wherever possible.

A recent study by the US Congress Accountability Office found that two out of three US corporations did not pay income tax between 1998 and 2005.[48] Another study by the UK National Audit office found that almost a third of the UK's 700 biggest businesses paid no corporation tax in the 2005-06 financial year, while another 30% paid less than £10m each.[49]

While this may not be illegal, tax avoidance is clearly often in breach of the spirit of the law and does not tally with many companies' social responsibility rhetoric. Companies that regularly and aggressively avoid paying tax do not fully contribute to the social and economic fabric of society where they operate. Moreover they do not fulfil their basic accountability to parliaments and governments who decide tax policy and ultimately to the people who elect them.

In recent years, as tax compliance has become a more prominent issue amongst civil society campaigners and development policymakers, it has begun to filter into the debate on corporate responsibility and accountability. This started with calls for better reporting and accounting standards. Recently the United Nations Conference on Trade and Development has published guidelines that propose comprehensive reporting for companies on tax paid in specific jurisdictions.[50]

A recent report by the consultancy firm KPMG has looked at the various ways in which corporate social responsibility principles can be applied to tax compliance. The report concludes that "there is a 'way to do tax' that is responsible in its attitude to the society within which the company operates, and which is good for business … that this will sometimes involve making higher tax payments than the legal minimum to which the liability could be reduced if advantage were taken of all available opportunities".[51]

From the point of view of the companies themselves, there are advantages to paying tax at the proper rate: better public relations, better relations with host nation governments and regulatory authorities, and overall more legitimacy and accountability in their operations.

Set against this is the need seen by finance directors and tax departments, on behalf of shareholders, to reduce tax. Along with these company structures and imperatives, there are also a number of influential advisors, professionals and consultants that companies use to plan and arrange their tax affairs. These include lawyers, accountancy firms and banks. For example, many of these types of firms, including leading ones, have been roundly criticised by a US Senate Committee for their role in creating, pushing, facilitating and funding tax avoidance products.[52]

Clearly, different companies will take different views on this issue and the only way to ensure compliance with tax policies is to enact rules that ensure transparency. In poorer countries this is unlikely to happen without international support through both technical assistance and the global enforcement of norms and standards.

47. Diageo and Unilever, for instance, both have claimed they strive to pay the going rate of tax in the countries where they operate.
48. United States Government Accountability Office, 2008, 'Tax Administration: Comparison of the Reported Tax Liabilities of Foreign- and U.S.-Controlled Corporations, 1998-2005', GAO Report to Congressional Requesters.
49. National Audit Office, 2007, 'Management of large business Corporation Tax', Report by the Comptroller and Auditor General
50. UNCTAD, 2008, 'Guidance on Corporate Responsibility Indicators in Annual Reports'.
51. Williams, David F, 2007, 'Tax and Corporate Social Responsibility', A discussion paper by KPMG's Tax Business School.
52. United States Senate Permanent Subcommittee On Investigations, Committee On Homeland Security and Governmental Affairs, 2005, 'the Role Of Professional Firms in the U.S. Tax Shelter Industry', United States Senate.

5. National taxation challenges

Taxation is a politically sensitive issue with a chequered past. Many politicians have made and broken promises on tax, and taxes were, and sometimes still are, used by elites to capture wealth and exert power. However, this past failure should not detract from the fact that breaking the cycle of aid dependence and weak tax administration are essential first steps towards better governance.[53]

As well as structural weaknesses at the global level, developing countries themselves (sometimes along with donors) lose through policy weaknesses. Tax authorities are often underfunded and inefficient. Tax competition sets out a broader challenge as it erodes the very ability of states to set fair tax rates rather than merely enforce them.[54] Both of these factors, coupled with the scale of outflows from developing countries, undermine how effective tax systems in these countries can be in raising revenue, redistributing wealth and building strong accountable states. To make up for the revenue lost through capital flight, the removal of trade tariffs and the trend towards even lower corporate taxes, countries have extended their sales taxes. The promotion of indirect and often regressive taxes such as VAT may compound the burden on the poorest and cannot make up for the tax lost.

Tax as a social and economic tool

When the state becomes focused on obtaining revenue by taxing citizens, the experience of being taxed engages citizens politically, argues academic Mick Moore. States and citizens begin to bargain over revenues, with taxpayers complying with tax demands in exchange for some institutionalised influence over the level and form of taxation and the uses of revenue. The state is motivated to promote citizen prosperity and develop bureaucratic apparatuses and information sources to collect taxes effectively. Taxpayers mobilise to resist tax demands and/or monitor the mode of taxation and the way the state uses tax revenue. Taxes become more acceptable and predictable, and the taxation process more efficient. Better public policy results from debate and negotiation and there is wider and more professional scrutiny of how public money is spent.

As a result of the tax bargain between state and citizens, Moore argues, governance becomes more responsive, more bureaucratically capable and more accountable.[56] This means that not only will the state be able to mobilise sufficient revenue to provide schools, hospitals, roads and other essential services – but it will come under strong pressure from citizens to do so.

When a fair tax bargain does not exist or has broken down and basic services are not adequately financed by the public sector, women and girls pay an invisible but heavy toll. Women and girls are forced to take on a larger share of the household burden to substitute for the missing services. Moreover, when governments do not have the resources to make these services available for free, families and communities

53. Brautigam Deborah, Fjeldstad, Odd-Helge and Moore Mick (Editors), 2008, 'Taxation and State Building in Developing Countries', Cambridge University Press
54. Poor countries losses' are compounded by reductions in revenues from trade tariffs and repayments of odious, illegitimate and unfair debt repayments. Though we do not tackle debt and trade issues in this paper, these are crucial financing issues, especially for some of the poorest countries.
56. Moore, Mick, 2007, "How Does Taxation Affect the Quality of Governance?" Institute of Development Studies Working Paper 280.

> “there are many large taxpayers who are benefiting from rising commodity prices, but they are not paying taxes commensurate with their income. Fine-tuning the policy and the administration governing the taxation of these taxpayers’ incomes would help a number of countries raise additional revenue.”

are forced to take on some of the costs. When services are effectively rationed through scarcity or high costs, women and girls often lose out.

Aside from the important financing role tax systems can play, they can also help to build a more equitable society, if designed so that the wealthy shoulder proportionately more of the burden and the poor receive proportionately more of the benefits. On the other hand, research shows that where sales taxes are extended while corporate and income taxes fall, the incidence of tax on women, especially poor women will increase.[57] Tax systems can also be used to discourage concentration of important assets, such as land, in the hands of a few. Land taxes have played an important role in countries such as Namibia, where wealth and landholding are closely linked.[58]

Taxes also allow government to set incentives: taxes on alcohol and tobacco have been used in the attempt to curb consumption, while so-called ‘negative taxes’ such as cash transfers to mothers whose children attend school regularly have been used to incentivise education.

Weak and ineffective tax administrations

However, although some countries have made tax policies more progressive to serve the aims of development, many of them simply do not have the technical capacity or legal systems to adequately monitor and enforce their tax codes. In the modern, globalised economy multiple opportunities exist for aggressively avoiding and evading tax. Tax administrations in poor countries are often under-funded and find that large corporations and wealthy individuals are able to stay several steps ahead of them. Tax avoiders and evaders can use banking secrecy and complex legal structures available in offshore financial centres to hide their financial affairs. Multinationals employ teams of accountants and transfer pricing specialists that can confound tax officials and exploit loopholes and inefficiencies.

In addition, donors have arguably not adequately helped countries fully exploit direct tax opportunities and royalty capture. As the International Monetary Fund has noted in a recent in-house magazine article: “there are many large taxpayers who are benefiting from rising commodity prices, but they are not paying taxes

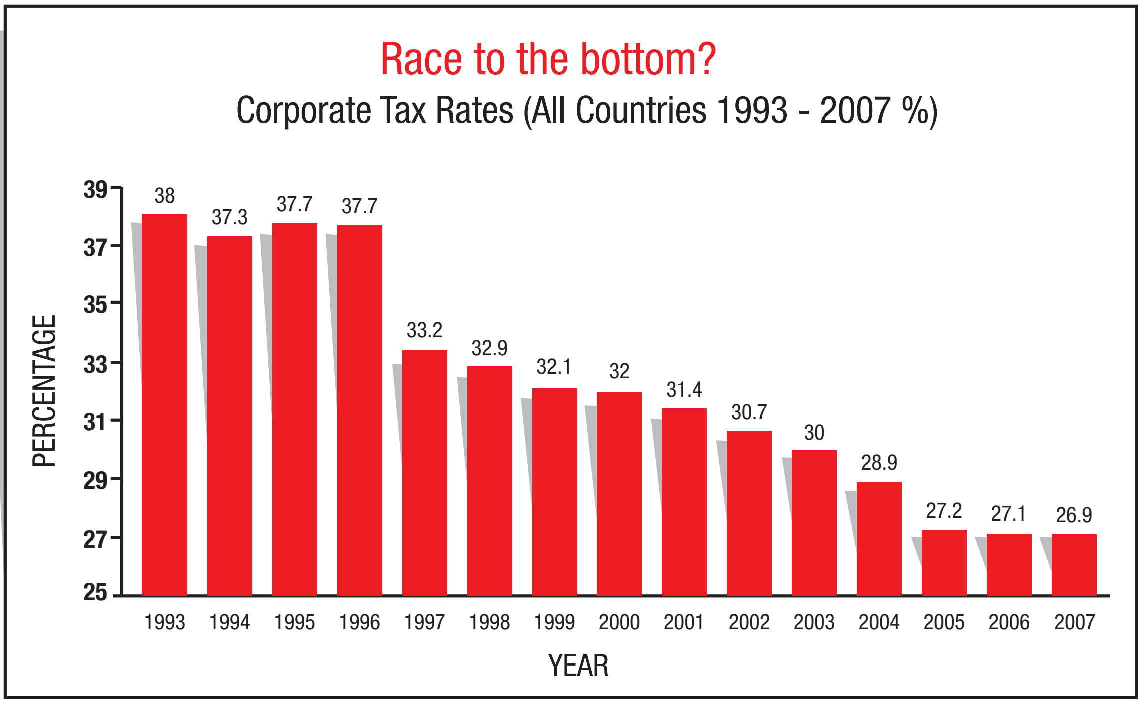
57. Elson, Diane. 2006, Budgeting for Women’s Rights: Monitoring Government Budgets for Compliance with CEDAW. UNIFEM.
58. Schade, Klaus, 2005, ‘Domestic Revenue Mobilisation in the Context of Regional Integration: The Case of Namibia’, NEPRU Research Report No. 34

commensurate with their income. Fine-tuning the policy and the administration governing the taxation of these taxpayers' incomes would help a number of countries raise additional revenue."[59]

Race to zero: Tax competition

Tax competition affects all countries, rich and poor, and occurs when governments are forced to lower fiscal burdens to either encourage the inflow of productive resources or stem the exodus of those resources. This is often linked to attracting foreign direct investment, financial investment and high-value human resources.

Some tax competition has been deemed harmful by the OECD (see below) and tax rates on corporations in particular have been rapidly decreasing in recent years (see chart below). Some jurisdictions like Ireland and Macau offer very low corporate tax rates, whereas others such as Bahrain and some British Crown Dependencies have zero rated corporate taxes.[60]



Source: KPMG, 2007, Corporate and Indirect Tax Rate Survey

59. Gupta, Sanjeev and Tareq, Shamsuddin 2008, ibid.
60. KPMG, 2007, 'Corporate and Indirect Tax Rate Survey'.

SIDEBAR 3

How multinationals exploit tax regimes

One way companies reduce their tax bills is by taking advantage of the lower taxes offered in 'special economic zones' or 'export processing zones', popular in many parts of the developing world. Such zones are a legitimate part of an industrial and investment policy but can be problematic if widely or wrongly deployed.

In Tanzania for instance, one of the world's poorest countries, Special Economic Zones, created in 2005, provide a haven from tax where "economic activities are not subjected to customs duty; value added tax and any other tax payable in respect of goods purchased for use as raw materials, equipment, machinery including all goods and services used in undertaking the licensed businesses."[61] Meanwhile the Export Processing Zone (EPZ) Act 2002 offers incentives including: exemption from corporate income tax for the first 10 years; after 10 years, a reduced tax of 25% rather than the ordinary 30%; exemption from withholding tax on dividends and interest for the first 10 years; exemption from all taxes and levies imposed by local governments for goods and services produced or purchased in the EPZs, remission of Customs duty, Value Added Tax (VAT), and any other tax payable on goods purchased for use as raw materials, equipment, and machinery, or goods and services related to manufacturing in the EPZs.[62]

When such tax holidays run out, investors may move to another jurisdiction, or threaten to do so as has been the case with the flower industry in Kenya and Uganda.[63] In such cases companies have been known to negotiate with governments the tax they have to pay in the longer term.

Often consultancies and tax 'specialists will do the bidding for multinationals. Firms specialising in tax advice and tax planning are frequently vocal in developing countries, suggesting lower corporate tax rates, tax breaks for foreign firms and other tax incentives.[64]

But tax competition affects poor countries most, as they already have meagre tax receipts, poor enforcement and collection and scarce resources, but are forced to lower taxes further still.

The development 'price' of tax competition often manifests itself in developing countries as tax 'holidays', tax-free or low tax economic zones and other concessions, especially to foreign capital. Such incentives are often manipulated by large companies who can engage in 'tax-shopping' - playing one country off against another or simply changing location at the end of the concessionary period to take advantage of another country's tax breaks. **(See sidebar 3)**

Advice from the international financial institutions on such schemes has flip-flopped, but they have certainly retreated from offering it wholesale and IMF advice often includes ending tax incentives, especially tax holidays, which its Fiscal Affairs department now calls "dangerous"[65].

However without concerted international or regional action developing countries cannot protect themselves from tax competition, especially from multinationals looking for lighter tax regimes. It is difficult to see the practice being stopped, and it is understandable that countries will try to attract capital, especially as all the other advice they receive tells them that attracting foreign direct investment is their best route to development.

An important source of revenue for developing countries has been rents and exploration rights derived from natural resources such as oil and minerals, as well as other royalties from licensing products and services. While this kind of income has been growing for some developing countries there is plenty of evidence that through a combination

61. Tanzania Investment Centre, 2006, 'Investors Guide to Tanzania.'
62. US Department of State, 2006, 'Tanzania Investment Climate Statement'
63. See for instance: The Independent, 3 October 2006, 'Where have all the flowers gone: Thorns among the roses'
64. See for instance: Business Day (Johannesburg), 28 March 2008, 'South Africa: New Tax Regime 'Will Attract Multinationals"
65. International Monetary Fund, 2006, 'Fiscal Adjustment for Stability and Growth', Fiscal Affairs Department.

of hard-nosed negotiating tactics and the use of sophisticated offshore financial products and services, royalty payments for such resources to developing countries, particularly in sub-Saharan Africa, have been far lower than they should be.[66]

The spread of Value Added Tax (VAT)

In recent years the IMF - along with some aid donors - have been advising developing countries to switch their tax collection to indirect taxes, especially VAT (Value Added Tax)[67]. The IMF has kept the issue of designing tax systems in the 'technical' arena ignoring the distributional impact of tax policies. The move away from direct taxes, such as income taxes is consistent with the downward trend in corporate tax rates. Countries were encouraged to adopt the VAT because it is more difficult for both companies and individual taxpayers to avoid or evade, and with few exemptions is said to be easier to administer. There is much evidence to suggests that the increased incidence of such taxes are linked to the difficulty developing countries have had in securing other tax revenues, particularly corporate receipts[68] and revenue from trade tariffs[69].

Over 130 countries now employ a VAT system, including three-quarters of Sub Saharan African countries.[70] Most economists consider VAT to be a regressive tax, hitting the poor hardest. The move toward such taxes has sometimes led to protest and unrest, for instance in Zambia[71] and India[72]. VAT can be less regressive if more exemptions are provided on basic essential goods, but this complicates the tax system. VAT cannot therefore be a progressive tax on the one hand, and a simple tax on the other.

The poor, particularly poor women spend most of their income on basic goods. To the extent that women and men have variable consumption patterns, the VAT will affect them differently. Research by the UN found that VAT "tends to implicitly discriminate against women"[73], while a study of VAT in Vietnam found that the VAT places a relatively higher burden on female-owned businesses than on male-owned businesses because it increases their total costs and lowers their overall profits[74].

With few exemptions, VAT is believed to be a more effective way to collect taxes. However, as shown above, without the necessary exemptions on basic goods and services, VAT can be a regressive tax affecting the poor most. Some poor countries have managed to increase overall revenues, but the IMF's own studies have found no evidence that VAT increases tax revenues[75], while other research has found that VAT regimes may actively reduce welfare[76].

66. See for instance, Christian Aid, 2007, "A rich Seam"; Global Witness 2006, 'Heavy Mittal'; Greenpeace, 2008, op cit; SOMO, 2006, 'Netherlands: A Tax Haven?'.
67. See for instance: The New Nation, 11 August 2008, 'IMF presses for VAT reforms'.
68. KPMG, 2007, op cit
69. Aizenman, Joshua and Jinjarak, Yothin, 2006, 'Globalization and Developing Countries—A Shrinking Tax Base?', National Bureau of Economic Research Working Paper No. 11933.
70. Keen, Michael, 2007, 'VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries', IMF Working Paper. 07/174.
71. United Nations, Integrated Regional Information Networks, December 29, 2006, 'Zambia: I.M.F. Levy Proposal Rouses Ire of Taxpayers'.
72. BBC, 1 April, 2005, 'India launches VAT amid protests'.
73. Diane Elson, 2006, 'Budgeting for Women's Rights: Monitoring Government Budgets for Compliance with CEDAW', United Nations Development Fund for Women.
74. Van Staveren, Irene and Akram-Lodhi, A. Haroon, 2003. 'A Gender Analysis of the Impact of Indirect Taxes on Small and Medium Enterprises in Vietnam.' Draft paper presented at the IAFFE Conference, 27–29 June, University of the West Indies, Barbados. United Nations Children's Fund Paper 00–001.
75. Baunsgaard, Thomas, and Michael Keen, 2005, "Tax Revenue and (or?) Trade Liberalization," IMF Working Paper 05/112.
76. Emrana, Shahe, and Stiglitz, Joseph E., 2004, 'On selective indirect tax reform in developing countries', Journal of Public Economics, Volume 89, Issue 4.

6. Increasing the tax take

A change of mindset and priorities

Governments and international institutions must start to recognise both the scale of the problem and its solvability. The debate over development finance has been locked into a mindset of increasing foreign investment and aid, while paying little attention to the huge outflows from developing countries. But enabling developing countries to stop the outflows and shore up their own domestic revenues would have multiple dividends; beyond releasing billions for poverty eradication, it would help countries to escape the debilitating cycle of aid dependence and enable stronger, more accountable states to take root.

There are a number of actions needed to make the world fairer in terms of how tax is collected, avoided and evaded.

First, the international community must start to record, monitor and measure what's going on. This needs to happen at both the macro level – measuring the global illicit flows of capital and monitoring the role of offshore financial centres more closely – and at the micro-level, ensuring that multinationals are required to disclose how much tax they pay, what royalties they are disbursing and what other payments are made to whom. This also means removing banking secrecy to ensure a more transparent international financial system.

Second, governments and international institutions, led by the UN, should strive to better regulate the global tax system and set up structures that have the power and authority to effectively deal with global issues such as tax competition, tax evasion and aggressive tax avoidance.

And finally, Southern countries have a responsibility to develop and design tax systems that will allow for the achievement of the Millennium Development Goals they have committed themselves to. Tax systems that place a larger burden on the poor are in direct opposition to these objectives. Not only will such tax policies fail to raise the revenue needed, but they will continue to disadvantage the poor, both women and men, for the sake of large business interests.

Transparency & information

To better understand the scale, trends and regional and national incidence of illicit flows and tax losses, international institutions need to take seriously the collection of data and information. At present this data is difficult to collect, not least because some of these flows are linked to criminal activities. Yet, as noted earlier, multinational corporations account for the large share of capital flight from developing countries through transfer mispricing by their subsidiaries and yet there is no way to track capital flows between subsidiaries of multinationals.

- ### Country-by-country reporting

  Today, multinational companies do not have to provide their profits, losses and tax payments for each of their subsidiaries in their company records. Forced only to include this information on a regional or global basis, companies can mask the nature and volume of the transactions between their subsidiaries. Consolidated data can give no information on the inflows and outflows from subsidiaries based in developing countries.

“conflicting objectives among the tax authorities in various countries, especially tax-haven countries, ensure that in many cases [information on income earned abroad will not be exchanged between countries]. That leads to losses in total revenues.”

One of the most powerful and cost-effective ways to boost transparency would be to introduce country-by-country reporting into international accounting standards. Currently global accounting standards set by the International Accounting Standards Board (IASB) permit companies to combine results from different countries into a single global (or regional) figure, and it is impossible to use company accounts to unpick these numbers for each country.

However, country-by-country reporting would require all multinational companies to disclose their profits, losses and tax paid in each country where they operate. More transparent accounting standards on a country-by-country basis would discourage companies from engaging in transfer mispricing and trade misinvoicing and would strengthen the capacity of tax authorities to investigate possible cases of tax evasion. It would also help governments and civil society to assess the value of Foreign Direct Investment for domestic resource mobilisation.

Today more than 100 countries align their own national accounting standards to those of the IASB. A standard on country-by-country reporting could therefore transform how the world's largest multinational corporations operate shedding light on the volume and pricing of trade between their subsidiaries.

- ***Automatic Exchange of Information***

The issue of information and ending banking secrecy is crucial to stemming illicit flows of capital, particularly tax evasion and the proceeds of corruption. Countries should be legally obliged to exchange tax and other bank information to each other's tax and judicial authorities.

The OECD has long argued that information is crucial to finding out who should be paying what where, and the IMF's former head of Fiscal Affairs, Vito Tanzi, has said that “conflicting objectives among the tax authorities in various countries, especially tax-haven countries, ensure that in many cases [information on income earned abroad will not be exchanged between countries]. That leads to losses in total revenues.”[77]

77. Quoted in Spencer, David, 2006, ‘The IMF and capital flight: Redesigning the international financial architecture’, Bretton Woods Update, 49.

Tax Cooperation and the UN

The OECD has made some important progress in this area, but, as we have noted below this has tended to prioritise the interests of its members, rather than those of developing countries, especially the low income ones. It is essential that the UN builds on the work of the OECD and that the two work together to enhance the global rules, norms and standards in this area. New proposals on global financial governance in the wake of the recent financial crisis must also tackle these issues.

The UN has convened a Committee of Experts on International Tax Cooperation since 2003 (when the committee was upgraded from an Ad Hoc Group). This group has generally been dominated by richer countries but it has the potential to become a far more effective mechanism for monitoring and eventually tackling tax evasion and tax competition from a development perspective.

In 2006, the UN Tax Committee voted to approve in principle a code of conduct for international co-operation on taxation. A UN Code of Conduct would set minimum standards for countries on co-operation on measures to combat capital flight and international tax evasion and abusive tax avoidance. Such codes, while not an enforcement mechanism, play a vital role in mobilising political support for change among a variety of relevant actors. **(See sidebar 4)**

National tax systems and donor advice

It is the responsibility of governments to design and administer their national tax systems to meet development objectives. We have already explained the important role tax can play beyond simply raising domestic revenue by redistributing wealth and strengthening democratic processes. Donors, however, continue to play a key role in bolstering and supporting low income countries' efforts to boost domestic tax revenues in many developing countries. Overall, donor advice and conditionality has prioritised foreign direct investment as a strategy to boost revenue. This has meant in many cases that countries' ability to bargain with multinational firms looking to invest has been compromised. This has no doubt been made more difficult with the push to reduce corporate taxes even lower.

Conditionality tied to donors' technical and financial assistance must be removed and governments should consider policies that support revenue collection, tax investigation and international cooperation on tax

SIDEBAR 4

How global standards on tax are set

At the moment the lead organisation in the world on tax is the OECD. The OECD represents just 30 countries, all of which are described by the World Bank as high-income or upper middle-income countries. While the OECD's work has done a lot on harmful tax practices and setting standards on transfer pricing has been broadly beneficial, the way that the OECD has tackled these issues has not reflected the particular, special and specific interests of poorer countries. As the OECD moves forwards with setting and amending global standards, for instance as they are on their transfer pricing guidelines, developing countries have little say in how these are designed and modified.

International accounting standards, known as International Financial Reporting Standards, which instruct companies how to report on tax, among other matters, are set by an even smaller group, the International Accounting Standards Board (IASB) an independent, privately-funded standard-setter based in London. Its appointed members come from just nine countries and have a variety of backgrounds, including private sector accountancy, standard-setting, academia and government regulation. The standards developed by the IASB are adopted in over 100 countries.

matters. Governments, and donors, when offering technical assistance, must also take into account the possible social and governance outcomes of tax advice. The wholesale advice by donors, particularly the IMF, to switch to indirect taxes such as VAT, has proved problematic and must be challenged. Although indirect taxes are easy to collect they have a number of regressive impacts, including on women and poorer families.

7. Recommendations

The UN Financing for Development conference is very well placed to take a lead on these issues and begin a robust process that will boost developing countries' tax revenues. Below we make several recommendations that we believe are necessary first steps in ensuring that developing countries have a growing, durable and sustainable income stream through harnessing their domestic resources, and especially their tax revenue.

The Doha Review conference should:

Change of mindset and priorities

1. Recognise the central role that tax plays in the mobilisation of domestic resources and the uneven and unequal attention paid to this issue by the international community.

2. Commit to developing an authoritative figure on capital flight from developing countries and quantifying the role that offshore financial centres play in denying developing countries resources.

Transparency and information

3. Push for international accounting standards to include country-by-country reporting so that all multinational corporations must report their profits, losses, and taxes paid in every country where they operate.

4. Call for the end of banking secrecy and the automatic exchange of information between relevant tax authorities in developing and developed countries.

Tax cooperation and the UN

5. Upgrade the UN Committee of Experts on International Cooperation in Tax Matters to an inter-governmental body based on political representation.

6. Adopt the Code of Conduct on Cooperation in Combating International Tax Evasion as drafted by the subcommittee of the UN Committee on Tax Matters.

National tax systems and donor advice

7. Support governments to strike a balance between raising revenue and attracting investment, and between direct and indirect taxes, that considers the distributional impact of these different tax policies on women and men, and the achievement of the Millennium Development Goals.

8. Increase funding available to developing countries to allow them to access technical assistance as they require to strengthen tax systems, surveillance and collection, and tackle illicit flows of capital.

Follow-up

9. Ensure the UN leads the process to reform the global financial architecture in the wake of the financial crisis and merge the future Financing for Development Process with this.

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