tax justice network — Africa

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PRESS RELEASE

The Financial Secrecy Index: Revealing the Safe Havens for Tax Dodgers

Taxation is finally being recognised as a key source of sustainable development finance. However, a majority of African tax systems do not raise nearly enough revenue. Whilst the challenges of a large informal sector, low tax morale, and poor service-delivery are often cited as the major barriers to effective taxation, what is often overlooked is that African countries have lost substantially more tax revenue as a result of the difficulties in detecting the illicit flows of money out of the continent.

Between 1970 and 2008, illicit financial flows from Africa amounted to about US$854 billion, which could have satisfied the continent's external debt obligations and left a surplus of US$600 billion to reduce poverty and stimulate economic growth. The bulk of these illicit flows – an estimated 60-65 per cent of the global total - consists of unpaid or reduced taxes on profits that businesses, particularly MNCs, shift between tax jurisdictions in order to reduce their tax bills (to nil, in some cases). By comparison, a mere 3% of the global total of illicit flows represents the proceeds of bribery and theft by government officials, yet this continues to receive far more attention, especially in African countries.

Tax administrators face huge challenges in detecting these illicit outflows that occur through sophisticated tax avoidance schemes involving transfer mispricing mechanisms, the exploitation of loopholes in the tax law, and are facilitated by the financial secrecy offered by secrecy jurisdictions, or tax havens, to Multinational and wealthy individuals. Multinationals and wealthy individuals use financial secrecy services to hide their assets and avoid paying the tax on their assets that might otherwise be due in other jurisdictions.

About US$11 trillion in private wealth was estimated in 2005 to be held in secrecy jurisdictions, resulting in an annual tax loss of US$255 billion. Secrecy jurisdictions deprive developed and developing countries, but because of scarcer overall resources have a more devastating impact on the public finances of the latter.

If African governments are serious about improving the livelihoods of the majority of their citizens, then they can no longer afford to continue to lose tax revenue in this manner. Indeed left unabated, it is highly unlikely that African countries will meet all the Millennium Development Goals (MDG) by 2015 and the lives of impoverished communities will only get worse.

Measuring Financial Secrecy, Corruption, and Illicit Financial Flows

The Tax Justice Network developed the Financial Secrecy Index (FSI) in 2009 in order to demonstrate the importance of secrecy in global finance and its devastating impact on fair and effective tax collection by developed and developing countries alike. By supplying financial secrecy, these jurisdictions create an enabling environment for illicit financial flows, corruption, money laundering and other harmful activities. This supply side of corruption is never the focus of corruption indices such as the Corruption Perceptions Index by Transparency International, yet it is just as important in measuring the extent of corruption in a country.

In its latest edition, the Financial Secrecy Index 2011, the Tax Justice Network continues to identify the jurisdictions that are most aggressive in providing secrecy in global finance. It combines a secrecy score with a weighting to create a ranking of the countries that most aggressively provide secrecy in global finance. By ranking secrecy jurisdictions according to both their secrecy, and the scale of their activities, it allows a politically neutral ranking of the biggest players.

The Results of the Financial Secrecy Index 2011

Contrary to popular opinion, the FSI 2011 shows that most secrecy jurisdictions are not in "sunny small palm-fringed islands for shady people" but rather wealthier countries, such as the United States of America, United Kingdom, Germany, and Japan. Switzerland provides the most financial secrecy in the world. **Members of the Organisation for Economic Co-operation and Development (OECD), and their various dependencies account for 84 per cent of the world market in offshore financial services. The FSI 2011 identified 5 African countries as secrecy jurisdictions, with Liberia offering the most secrecy, followed by Mauritius, Ghana, Botswana, and the Seychelles.**

The Solution

Both the FSI 2009 and FSI 2011 make it clear that by taking into account both the supply side and demand side of corruption, Africa is not one of the most corrupt continents, as has been suggested by Transparency International's Corruption Perceptions Index. It is also clear that given the concentration of most secrecy jurisdictions in developed countries, tackling capital flight due to tax avoidance, evasion and corruption (including illicit financial flows) must be a global effort to transform the global financial system. African governments need to support the demands for increased transparency of financial transactions and the adoption of country-by-country reporting as the new international financial reporting standard in order to enable tax administrators to better detect tax dodging.

For general enquiries, please contact:
Sandra Kidwingira sandra.kidwingira@taxjustice.net +254 20 2473373 or +254 728279368

For more information about the FSI methodology and where to access it, please visit http://www.financialsecrecyindex.com or contact Markus Meinzer markus@taxjustice.net