



more equality | less hunger

Development and Tax Justice

How tax havens hinder the mobilization of domestic resources for development

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FfD and Tax Justice

Illicit Financial Flows (IFF)



- IFF: unrecorded transfers of the proceeds of bribery, theft, trafficking, tax evasion and tax avoidance
- In 2009, developing and emerging countries lost between **US\$ 775 - 903 billion** in IFF
- Between 2000-2009, Africa lost **US\$ 334 billion** in IFF and received **US\$ 324 billion** in ODA
- Tax evasion and trade mispricing account for 60-65% of IFF, bribery and kickbacks only for 3%

(Source: Global Financial Integrity)



Tax justice and development

“We recognize the need to secure fiscal sustainability, along with equitable and efficient tax systems and administration [...]”

(Monterrey Consensus on Financing for Development, March 2002)



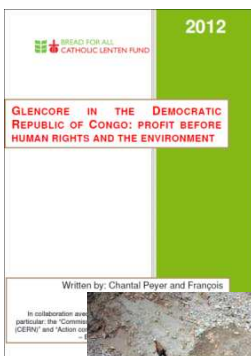
“We will step up efforts to enhance tax revenues through modernized tax systems, more efficient tax collection, broadening the tax base and effectively combating tax evasion.”

(Doha Declaration on Financing for Development, December 2008)



Glencore in the Dem. Rep. Congo

- 6-month research in 2011-2012
- One of the largest commodity trader and supplier
- Two major investments in mines in Katanga, DRC
- Research revealed child labour, deplorable working conditions, massive pollution of rivers and non-existent dialogue with affected communities
- Aggressive tax optimisation strategies resulting in the Congolese State losing up to **US\$ 196 million** over the past two years





The “resource curse”

Population: 68.7 million (~70% undernourished)

Size: 2'344'858 km²

State budget 2011: **US\$ 6.7 billion**

In 4 years, >45 concessions sold to companies in tax havens – loss for the DRC: **US\$ 5.5 billion**



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Turnover 2011: **US\$ 186 billion**

Nearly half of all subsidiaries registered in tax havens

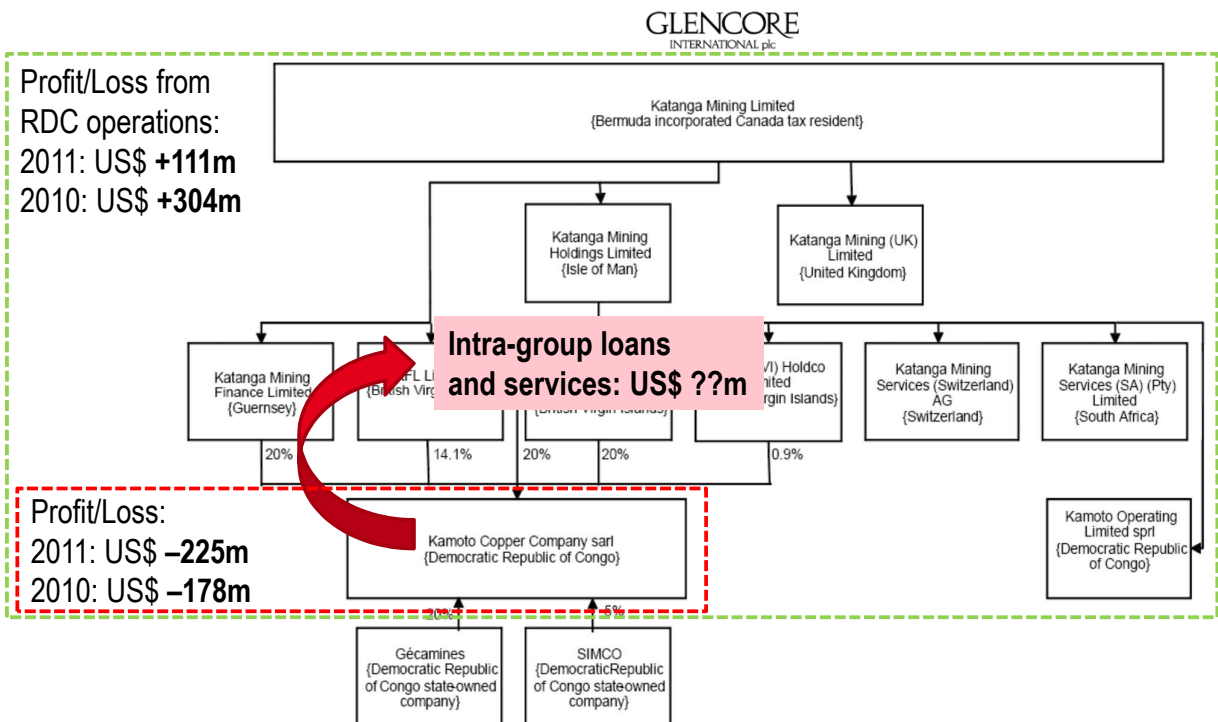
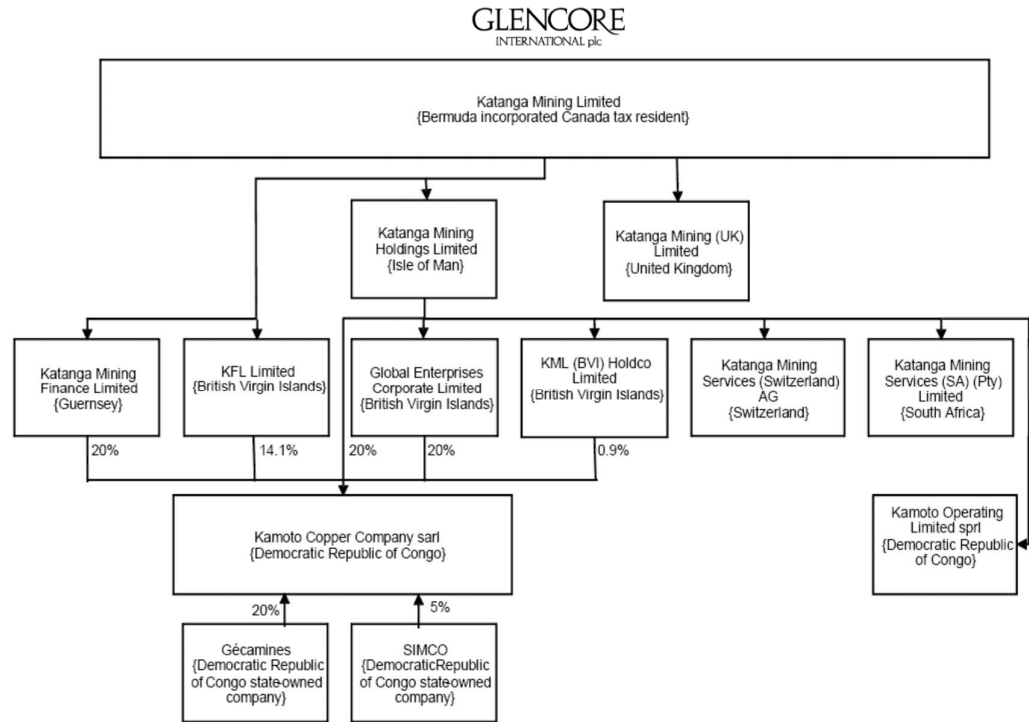
Accused of tax evasion in Nigeria, Bolivia, Zambia, ...



Tax “optimisation”



- Study on 10 of the largest MNCs in the extractive sector: >2,000 subsidiaries registered in tax havens (source: PWYP)
- Sophisticated transfer pricing strategies through internal sale prices, intra-group loans, licenses, etc.
- Tax avoidance is partly legal





Loss for the DR Congo

Maximum theoretical loss for the Congolese State:

US\$	2010	2011
Tax on profits:	90.8 million	32.6 million
Dividends:	53.3 million	19.4 million
Total:	144.1 million	52.0 million

Total in two years: **US\$ 196.1 million**



Tax evasion: a threat to the MDG

- UN ODA Target (0.7% GNI): US\$ 300.3 billion
- Delivery 2011 (DAC): US\$ 133.5 billion
- Gap 2011: **US\$ 166.8 billion**
(Source: MDG Gap Task Force Report 2012)
- Developing countries lose **US\$ 850 billion** a year due to tax evasion and avoidance
(Source: OECD)
- Deprives poor nations of resources to reach the Millennium Development Goals (MDG) and to fulfil their Human Rights obligations





Issues and solutions



- Reporting initiatives: **EITI** (Extractive Industries Transparency Initiatives)
- **Dodd-Frank Act**, Section 1504
- **Disclosure** of important deals and public tenders
- **Country-by-country reporting** (CBCR)
- Strengthening the **UN Committee** of Experts on International Cooperation in Tax Matters
- Fighting **corruption**