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The London summit
Corruption, capital flight and tax havens

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Editor's Note

ALTHOUGH corruption is a worldwide phenomenon, it is often viewed, regrettably, as a problem exclusively of the less developed countries. Without in any way minimising the seriousness of the problem in developing countries, it is only fair to point out that corruption is more rife in Western countries than is generally acknowledged; moreover, the fact is that the West is often complicit in some of the most blatant cases of corruption in developing countries. Loot stolen from the coffers of developing countries has to be hidden from prying eyes and it is the West which often provides the best facilities for this purpose.

More than anything else, it has been the onset of globalisation since the late 1970s that has greatly expanded the avenues and scope for corruption. The consequent removal of restrictions on financial flows across the globe has facilitated the illicit transfer of wealth by corrupt politicians and state officials from the South to the financial centres of the North. While Swiss banks have long been the repositories of such ill-gotten gains, the growth of offshore tax havens over the years has undermined that country's monopoly in providing sanctuary for such illicit wealth.

The recent revelations in the so-called Panama Papers highlighted the role such offshore centres play in helping the corrupt to stash away their loot. Britain took pride of place in the rollcall of dishonour when it emerged that of the 215,000 shell companies which provided the façade for the rich and corrupt to hide their illicit wealth, more than half were incorporated in the British Virgin Islands.

However, in more recent years, the term 'offshore' has become something of a misnomer as financial institutions and centres operating inland, e.g., in the US state of Delaware, have been competing with traditional offshore centres such as the British Virgin Islands to provide similar facilities.

More significantly, with the growing global hegemony of free-market neoliberal ideology and the integration of financial markets, many 'respectable', long-established financial centres such as London are today barely distinguishable from offshore tax havens as sanctuaries for illicit monies. London as a financial centre is now inextricably linked to such offshore tax havens as Jersey and the Cayman Islands. According to journalist Roberto Saviano, 90% of the owners of capital in London have their headquarters offshore. The noted anti-mafia fighter went on to point out that 'Jersey and the Caymans are the access gates to criminal capital in Europe and the UK is the country that allows it'.

If London has become the playground for the rich and the corrupt, this is in no small measure due to the additional opportunities it offers beyond the staple of secrecy and privacy of ownership that the traditional tax havens provide. With the wide range of financial assets and high-end real property that the city has to offer by way of investment, the opportunities for money laundering are far more alluring.

Hence when British premier David Cameron decided to convene an anti-corruption summit in May in London – 'the most corrupt place on earth', in Saviano's judgment – there was more than a touch of irony. And when Cameron was caught on camera telling the Queen 'we've got some leaders of some fantastically corrupt countries coming to Britain ... Nigeria and Afghanistan, possibly two of the most corrupt countries in the world', the whole exercise reeked of hypocrisy.

The Nigerian President Muhammadu Buhari's response to these comments helped to put the issue of global corruption in its proper perspective and served to remind his host of Britain's complicity. Asked before the summit whether he would be demanding an apology from Cameron for his remarks, he responded, 'I am not going to demand an apology from anybody. All I will demand is the return of assets' – a clear reference to the billions in illicit funds stashed away in Britain by former Nigerian government officials which Nigeria has been struggling over the years to recover.

In the end, not unexpectedly, the summit proved to be nothing more than a public relations exercise for a British prime minister whose popularity at home has been flagging. It focused exclusively on corruption by public officials and totally ignored the role of the private sector. The corrupt practices of Western corporations which have resulted in billions being siphoned away from developing countries were totally ignored. But even with regard to public corruption, the key demand by civil society activists which would have deprived corrupt officials from developing countries of the conduit for salting away their illicit wealth, i.e., the closing down of offshore tax havens, was rejected.

Instead, they were offered a sop in the form of a so-called register of beneficial ownership, which avowedly would deprive corrupt officials of the cloak of anonymity under which they hold illicit assets. But this commitment to publishing public registers of who really owns companies in their territories was accepted by only six countries, including Britain, France and the Netherlands. This minimal commitment to public disclosure was not acceptable to British offshore tax havens such as the Cayman Islands, Jersey and the Isle of Man as they were only prepared to share such information between governments. To the US and the British Virgin Islands, even permitting governments to have access to such information was evidently a step too far as they were not willing to sign up even to this!

Our cover story broaches the issue of corruption, taking as its point of departure the London anti-corruption summit. After showing up the summit's perfunctory treatment of this (in Cameron's words) 'cancer', we turn the spotlight on the hypocrisy of the British premier in pontificating to leaders from the South about corruption while presiding, so to speak, over the whole web of corruption that constitutes the City of London and Britain's overseas tax havens. Much of the rest of the cover story is focused on the insidious role of the world's tax havens.

– The Editors

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Civil society campaigners calling for action against tax havens on the occasion of the Anti-Corruption Summit held in London in May. The summit, which was convened by the British government, turned out to be long on rhetoric but short on decisive action to end the role played by tax havens in facilitating corruption and capital flight from the South. **9**

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Bayer and Monsanto: A marriage made in hell

The two multinationals that teamed up during the Vietnam War to poison millions of people with the Agent Orange herbicide – US-based Monsanto and Germany's Bayer AG – are looking to become one.

Martha Rosenberg and Ronnie Cummins

Bayer, one of the world's largest pharmaceutical corporations, has been beset with drug safety scandals for at least three decades.

BAYER has announced a bid to buy Monsanto in a deal that would expand Bayer's GMO (genetically modified organism) and pesticide holdings and add drugs to Monsanto's global portfolio. Monsanto has rejected the latest bid, but the two are still in talks.

If Monsanto, perhaps the most hated GMO company in the world, joins hands with Bayer, one of the most hated Big Pharma corporations on Earth (whose evil deeds date back to World War I and the Nazi era), the newly formed seed-pesticide-drug behemoth would have combined annual sales of $67 billion.

That's a staggering figure. But here's another, even more alarming: Combined, the new mega-chemical/seed company would control 29% of the world's seed market and 24% of the pesticide market.

The Bayer-Monsanto merger is the third recent proposed consolidation in the agriculture markets in just months, following on the heels of proposed mergers between chemical and agritoxics titans Dow and DuPont, and ChemChina and Syngenta.

'All of a sudden we have three major transactions at the same time,' Matt Arnold, an analyst with financial services firm Edward Jones, told *The News Journal*. 'One would think that would prompt regulators to really dial up the scrutiny and think long and hard about whether that much consolidation is in the best interest of farmers and consumers.'

Indeed, reports the *Journal*, all three proposed mergers face antitrust reviews by agencies in the US, Europe and China, including by the Federal Trade Commission, US Department of Justice, the European Commission and stockholders of the publicly traded companies.

Already Bayer shareholders have spoken out, terming the move for Monsanto 'arrogant empire-building', reported Reuters. Shareholders also worry that the takeover would dilute Bayer's core drug business currently flush with sales of its blood-thinner Xarelto and Eylea, a drug to treat blindness.

As noted, this is not the first time Bayer and Monsanto will have teamed up, if the deal goes through. 'During the Vietnam war, Bayer was involved in the development of Agent Orange production ... carried out at the firm Mobay, founded jointly by Bayer and Monsanto,' says the Coalition Against Bayer Dangers.

The defoliant herbicide Agent Orange was sprayed over millions of acres in Vietnam for over a decade in 'Operation Ranch Hand', despite numerous scientific studies and thousands, later millions, of medical cases linking the toxic chemical to birth defects and stillbirths in animals and humans.

A history of unsafe drugs

Bayer and Monsanto both sell controversial toxic agricultural chemicals and GMO seeds. But if Bayer's bid to take over Monsanto goes through, it would mark Monsanto's first entry into Big Pharma.

Last year, Bayer was named the ninth largest drug company in the world on the basis of its yearly revenue of $25.47 billion. The drug giant, though, has been beset with drug safety scandals, including deaths, for at least three decades. Here are just a few of the scandals that made the news:

- **Blood-clotting drug spread AIDS**

In the 1980s, Bayer's Cutter Laboratories unit sold Factor VIII concentrate, a blood-clotting medicine made using blood plasma from donors. Though Factor VIII carried a high risk of transmitting AIDS and Bayer knew, Bayer continued to sell the drug in Asia and Latin America while selling a new, safer product in the West.

In Hong Kong and Taiwan alone, more than 100 haemophiliacs got HIV and 'many have since died', reported the *New York Times*. Cutter's 'financial investment in the product was considered too high to destroy the inventory', said William Heisel of the Center for Health Reporting. 'Cutter continued to sell the contaminated AHF [anti-haemophiliac factor] to markets willing to accept it, including overseas markets in Asia and Latin America, without the recommended precaution of heat treating the product to eliminate the risk.'

- **Statin Baycol recalled**

In 2001, Bayer withdrew its lucrative new statin drug Baycol because more than 50 people had died and more than six million patients were at risk from the deadly side-effects of rapidly dissolving muscle tissue. Bayer removed the drug from pharmacy shelves in the US, Europe and Japan, and US and German lawyers announced that they are planning an amended class-action lawsuit in the US that would allow European victims to seek damages.

As the number of deaths grew, Bayer stuck to its story that 'there is currently no proof that the drug is the cause of the deaths' and assured shareholders that 'our sales this year will increase even though Baycol will now be absent.' Recently, Bayer was sentenced to pay damages to Baycol victims in Argentina and Italy. 'Internal documents show that Bayer's management was aware of the serious health risk for patients and even ignored warnings from within the company,' according to the Coalition Against Bayer Dangers.

- **Yaz birth control pill linked to deaths**

Bayer's Yaz birth control pill promised to clear up acne and treat severe premenstrual syndrome in addition to preventing pregnancy. But soon after its launch in 2006, there were reports of associated blood clots, gall bladder disease, heart attacks and strokes. The pill contained drospirenone, a drug that had never before been marketed in the US and likely caused the heart problems through elevated potassium and a change in the blood's acid balance.

TV advertisements for Yaz in 2008 were so misleading that the US Food and Drug Administration (FDA), in a rare move, ordered Bayer to run correction ads. Thousands of injuries and approximately 100 deaths were linked to Yaz in law filings that followed.

- **Xarelto: shady approval of a dangerous drug**

In 2012, the *New York Times* reported on a class of new anti-clotting drugs which have no antidote and can cause alarming bleeding deaths. Bayer's Xarelto is one of them. Even as 379 deaths have been linked to Xarelto, there are reports of hidden and falsified data and faulty technology that helped win the controversial drug FDA approval. Trials were conducted by Duke University's Robert Califf, who later became the new FDA Commissioner. No conflict of interest there.

- **Baytril, animal antibiotic blocked by FDA**

A 2015 Bayer brochure, coinciding with public awareness of antibiotic abuse in livestock, says Bayer Animal Health 'objects' to 'routine prophylactic use in healthy animals' of fluoroquinolones, a type of antibiotic.

Yet it was just such 'prophylactic use' that got Bayer's fluoroquinolone Baytril blocked by the FDA a decade ago. The FDA said the routine use of Baytril in chickens 'has made it difficult for doctors to treat human patients who have food poisoning'. The Union of Concerned Scientists called the decision a 'big victory for public health'. The FDA Commissioner at the time, Lester Crawford, remarked that Baytril 'has not been shown to be safe for use in poultry'. The FDA continues to struggle against the powerful lobbying of drug companies selling livestock antibiotics, often by the ton.

'The devil's chemists'

Many people have heard rumours about Bayer's roles in World Wars I and II. Sadly, they are true and sometimes worse than have been reported. 'Carl Duisberg, the Bayer General Director for decades, was personally involved in the development of poison gas such as "Mustard Gas" in World War I and pushed for its use on the front – contrary to international law,' reports the Coalition Against Bayer Dangers.

Duisberg demanded the deportation of tens of thousands of Belgian forced labourers, according to the Coalition, and 'strongly supported the merging of the German chemical industry to create the IG Farben' conglomerate implicated in Nazi atrocities.

'The IG Farben cartel was crucial to the Nazi war effort by supplying synthetic fuel, rubber, and other chemicals,' reports Natural News. The cartel also manufactured Zyklon-B, the nerve gas used to kill millions at the concentration camps of Auschwitz, Birkenau and elsewhere. Later known as 'the devil's chemists', IG Farben used unwilling inmates of the concentration camps as slave labourers and guinea pigs to test chemicals, pharmaceuticals and vaccines. Tens of thousands died, and those who became too ill to be of any use were murdered in the gas chambers, according to a Natural News report.

It is hard to believe a company linked to the Holocaust, including grisly experiments conducted on concentration camp victims, would be thriving in the pharmaceutical, agrochemical and GMO sectors. But it's true, as evidenced by this correspondence between an Auschwitz camp commander and Bayer Leverkusen, which cites the 'sale' of 150 female prisoners for experiments:

'With a view to the planned experiments with a new sleep-inducing drug we would appreciate it if you could place a number of prisoners at our disposal...' – 'We confirm your response, but consider the price of 200 RM per woman to be too high. We propose to pay no more than 170 RM per woman. If this is acceptable to you, the women will be placed in our possession. We need some 150 women...' – 'We confirm your approval of the agreement. Please prepare for us 150 women in the best health possible...' – 'Received the order for 150 women. Despite their macerated condition they were considered satisfactory. We will keep you informed of the developments regarding the experiments...' – 'The experiments were performed. All test persons died. We will contact you shortly about a new shipment...'

Recent reports suggest the stock of large agricultural, biotech and seed companies like Monsanto is foundering – a likely reflection of the growing, worldwide rejection of their products.

From chemical warfare to 'crop science'

Bayer is in agrochemicals and GMOs as deeply as Monsanto, the company it seeks to buy. In 2008, the Coalition Against Bayer Dangers brought a charge against the Bayer Board of Management with the Public Prosecutor in Freiburg (southwestern Germany) accusing Bayer of contributing to the mass deaths of bees all over the world through its aggressive pesticide marketing. Since then, the bee debacle has only grown worse, with thousands of hives collapsing after poisoning by the pesticide clothianidin, producing a worldwide crisis.

Since 1991, Bayer has been producing the insecticide imidacloprid, one of the world's best-selling insecticides. Imidacloprid is used to pretreat genetically modified corn, sunflower and rapeseed (canola) seeds, despite evidence that pre-treating seeds with insecticides is ineffective. Imidacloprid was one of Bayer's top pesticides, exported to more than 120 countries. When its patent expired, Bayer brought a similarly functioning successor product, clothianidin, into the market in 2003. Both substances are systemic chemicals that work their way from the seed through the plant. The substances also get into the pollen and the nectar and can damage beneficial insects such as bees.

In 2006, the *Washington Post* reported that Bayer's GMO rice LLRICE 601, endowed with bacterial DNA that makes the rice plant resistant to a weed killer made by the agricultural giant Aventis, was spreading out of control. US commercial supplies of long-grain rice had become inadvertently contaminated with the rice not approved for human consumption, said US Agriculture Secretary Mike Johanns.

The following year, Bayer admitted it was unable to control the spread of its genetically engineered organisms despite 'the best practices [to stop contamination]', demonstrating once again that all outdoor field trials or commercial growing of GMO crops must be stopped.

Europe has been way ahead of the US in acknowledging such dangers and banning GMOs and dangerous pesticides.

Is merger a sign of decline?

While a Bayer-Monsanto deal (like a DuPont-Dow deal or ChemChina-Syngenta deal) certainly threatens the world food supply with domination by GMOs and destructive agrochemicals, there may be an under-reported bright side: Industries that are doing well generally spin off; industries that are performing poorly generally merge and consolidate.

Recent reports suggest the stock of large agricultural, biotech and seed companies, including Monsanto, is foundering – a likely reflection of the growing, worldwide rejection of their products. Moreover, even though a long-awaited, industry-friendly US National Academies of Sciences, Engineering and Medicine report did not find human 'dangers' in consuming GMOs, it also definitively did not find that they produced greater crop yields. Wait, wasn't that the justification given for creating GMO crops in the first place?

Thanks in large part to the global anti-GMO and Millions Against Monsanto movement, Monsanto, the 'biotech bully', is on the ropes. The company hopes we'll forget its evil deeds by changing its name.

Not a chance. On 14-16 October, whether or not the merger with Bayer goes through, the US-based Organic Consumers Association and the global grassroots will expose Monsanto's crimes against humanity and the environment at the Monsanto Tribunal, a citizens' tribunal which will take place in The Hague, Netherlands.

Perhaps it's time to put Bayer and Big Pharma on trial as well and build an even larger global united front: Billions Against Bayer-Monsanto. ◆

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Clueless about the future

The failure of the G20 to come up with an action plan on the global economy could lead to countries adopting beggar-thy-neighbour policies.

C P Chandrasekhar

Finance ministers and central bankers of the G20 major economies meeting in Washington in April pose for a group photograph. The G20 policymakers 'seemed overcome by a combined sense of despair and fear about the state of the world economy'.

MEETING in mid-April on the sidelines of the spring sessions of the World Bank and the International Monetary Fund in Washington, finance ministers of the G20 major economies seemed overcome by a combined sense of despair and fear about the state of the world economy. The communique issued after the meeting describes that state thus: 'Growth remains modest and uneven, and downside risks and uncertainties to the global outlook persist against the backdrop of continued financial volatility, challenges faced by commodity exporters and low inflation.' That seems to say the recovery is yet to occur and the prospect of another downturn is real.

The sources of the sense of despair are clear. Though it is eight years since the global financial crisis broke, the world has not put behind the recession that engulfed it. Even the United States, which is now expected to lead the recovery, is yet to display evidence of consistent growth over successive quarters. In the event, even numbers suggesting that the deceleration of growth in China is within the expected range are treated as good news.

But this is not the full explanation for the mood of despair. More important is the evidence that governments seem to have no policy levers left to address the crisis. Having flirted with fiscal activism in the immediate aftermath of the crisis, governments gave up on it because of objections that were not necessarily well founded – that such activism was pushing public debt to unsustainable levels.

So the main instrument used to address the recession has been monetary policy that combines liquidity infusion with low interest rates and makes cheap credit available. While central banks have been repeatedly resorting to measures aimed at enhancing liquidity in the system, they have also been adjusting policy rates downwards with the aim of bringing down market rates.

Implicit in this dependence on monetary policy is the idea that private debt at low interest rates will substitute for public debt to revive demand and growth. The problem is that this expected outcome is not being realised, partly because firms and households already overburdened with debt are not confident of raising earnings to levels needed to service additional debt. The flipside of this is that banks and other financial institutions are less willing to lend because of fear of default. Since monetary policy is directed in the first instance at these institutions, the reliance on such policies even when they are not effective has had some bizarre effects.

To start with, policy rates set by the European Central Bank (ECB) and central banks in a number of other countries (Denmark, Sweden, Switzerland and Japan, for example) have turned negative. Banks holding deposits with the central bank will suffer losses rather than earn returns (however small). This is expected to force them to find borrowers and lend at whatever positive rate they can garner. In fact, the ECB has gone even further. If banks borrow from it at zero interest rates and use the resources to increase their lending by 2.5% or more, the ECB has promised to pay them the equivalent of 0.4% of what they borrowed from it as interest. The lender pays to get the banks to borrow and lend.

It is not surprising that the failure of monetary policy, even when pushed to this extreme, to deliver growth is leading to a loss of confidence in such policies. Hidden in the bland 'officialese' that ensures that the G20 communique says almost nothing is an admission, if not a warning: 'Monetary policy will continue to support economic activity and ensure price stability, consistent with central banks' mandates, *but monetary policy alone cannot lead to balanced growth* [emphasis added].'

However, that admission is not accompanied by any clear indication of where governments will go now that monetary policy is not working. There are some signs that the role that fiscal policy can play is being recognised once again, but the reluctance to return to reliance on it is obvious. The communique declares: 'Our fiscal strategies aim to support the economy and we will use fiscal policy flexibly to strengthen growth, job creation and confidence, while enhancing resilience and ensuring debt as a share of GDP is on a sustainable path.'

In a world facing the prospect of entering a deflationary spiral, that statement implies a commitment not to enhance public spending to any significant extent. Taxes cannot be raised drastically when economies are in recession, and even if they are, slowing growth would partly neutralise the positive effects they would have on revenues. So debt-financed spending by governments is unavoidable if a fiscal stimulus is to be provided. Talk of sustainable debt levels in that context is a reflection of persisting fiscal abstinence.

Clutching at straws

If a recovery is nowhere in sight and monetary policy is not working and fiscal activism is to be abjured, despair with respect to growth is unavoidable. The point, however, is that the cause of that despair is the governments themselves, who, through their summitry, are unable to arrive at a consensus on how to effectively stimulate a recovery and on the policy coordination needed to ensure that the initiative is feasible.

The result is the picture of a bunch of world financial leaders clutching at straws. One example is the extended reference in the communique to initiatives (such as the Base Erosion and Profit Shifting Action Plan of the Organisation for Economic Cooperation and Development) aimed at combating tax avoidance and evasion. Implicit in that discussion is a hope that this could make much difference to the revenues earned by governments and allow them to step up spending significantly. Even if revelations such as those from the Panama Papers suggest that avoidance and evasion are substantial, it is hard to believe that those who use that route to save on taxes and see them as legal would stop the leakage.

So to divert attention from the fact that monetary policy is not working and a fiscal stimulus is in order, the drafters of the G20 communique have turned to the adoption of 'structural reforms' as a way out of the impasse. What these reforms consist of varies with who is recommending them. For the conservative lobby within the G20, the so-called structural reform has largely implied deregulation, including of labour markets. Besides absence of any evidence that such reforms can make a difference to growth, especially in the midst of a recession, there is clearly no consensus on the nature of these reforms.

The communique, however, claims that 'concrete progress' has been achieved in defining an 'enhanced structural reform agenda' and identifying priority areas, on the basis of which a set of principles is to be agreed upon to serve 'as a reference guide to national reform actions'. However, these priority areas and guiding principles 'will be applied in a flexible way to allow members to account for their specific national circumstances'.

In sum, G20 policymakers have no action plan, and hence no clue about the future. That explains their sense of despair. It also leads to a sense of fear. If countries as a group cannot agree to an action plan not just to ensure recovery but prevent a second slump, they may individually adopt beggar-thy-neighbour policies that seek to improve their own condition at the expense of others.

One set of such policies, the possible adoption of which is a cause for concern and fear, is some combination of protection and currency devaluation. For example, low or negative interest rates in one country may discourage foreign investment in bonds issued in that country, and the shrinking of cross-border inflows could lead to a depreciation of its currency and adversely affect the competitiveness of its trading partners. But if the currency of one country depreciates, it could set off competitive devaluations elsewhere with damaging consequences for all.

In fact, fears of unilaterally adopted policies resulting in currency depreciation have been rife as countries seek to come to terms with 'their own recession'. One of the successes claimed after the meeting of G20 finance ministers in Shanghai in February was the agreement that countries would abjure competitive exchange rate adjustments. That has been reiterated in the more recent communique, which states: 'We reiterate that excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will consult closely on exchange markets. We reaffirm our previous exchange rate commitments, including that we will refrain from competitive devaluations and we will not target our exchange rates for competitive purposes. We will resist all forms of protectionism. We will carefully calibrate and clearly communicate our macroeconomic and structural policy actions to reduce policy uncertainty, minimise negative spillovers and promote transparency.'

While such statements may preemptively flag beggar-thy-neighbour policies, there is no guarantee that they can prevent them altogether. The longer countries experience recessionary conditions, the greater will be the pressure to adopt such policies. This explains the fear of such actions as the period over which recovery is elusive extends. It also explains why even stalling the worst is seen as advance, even when there is no evidence on how or whether things can get better. ◆

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Africa's ticking time-bomb: $35 billion worth of Eurobond debt

The move in recent years by African countries to finance their developmental needs by raising funds in the capital markets (in the form of Eurobonds) is fraught with great risk, says *Trevor Hambayi*.

A trader on the floor of the Ghana Stock Exchange. Ghana, which issued a $750 million Eurobond in 2007, has since required an IMF bailout.

THE 2008 economic crisis is the single largest factor that has driven developing countries to seek alternative sources of financing for social and developmental infrastructure. This was a result of the drying up of bilateral loans and grants from European and American countries.

Some African countries put forward the argument that the funds from capital markets, or sovereign bonds, are a cheaper source of alternative financing. A sovereign bond is a debt security issued by a national government known as a Eurobond. It is denominated in a foreign currency, usually the dollar, despite what its name (euro) implies.

Seychelles holds the distinction of being the first sub-Saharan African country to issue a sovereign bond – it issued a $30 million bond in 2006. This was followed by the Democratic Republic of Congo (DRC) issuing $454 million, Gabon $1 billion and Ghana $750 million in 2007.

Between 2010 and 2015 at least a dozen other sub-Saharan African countries, including Côte d'Ivoire, Senegal, Angola, Nigeria, Tanzania, Namibia, Rwanda, Kenya, Ethiopia and Zambia, issued sovereign bonds. They raised commercial debt in excess of $19.5 billion.

Many of these Eurobonds will mature between 2021 and 2025. It will require these sub-Saharan African countries to repay an average of just under $4 billion annually in that period. But they are already currently bleeding a rising total of just over $1.5 billion in annual coupon payments on these Eurobonds. This represents a total of an additional $15 billion across the term of the Eurobonds. The total accumulated bonds are in excess of $24 billion. The principal amount of this is $35 billion.

The $750 million Ghana bond, with a 10-year maturity, was issued in October 2007 and was four times oversubscribed. The principal repayment, which kicks in in 2017, will signal the direction of the continent's economic dynamics in the years to follow. The writing is already on the wall. Ghana has already buckled, requiring an International Monetary Fund (IMF) financial restructuring package.

Ghana's story

At the end of 2015 Ghana agreed to an IMF bailout. It is underpinned by austerity measures that include reviewing and streamlining tax exemptions for free-zone companies and state-owned enterprises. A new tax policy is expected to be enacted for small businesses and a rise in value-added tax is planned.

Ghana's financial problem was brought on by a sovereign debt crisis, rising interest costs, policy slippages and external shocks that have dampened the country's medium-term prospects. The country carries a total Eurobond debt of $3.53 billion on its external debt of more than $11 billion. Its debt position of $23.38 billion (both local and external) represents more than 55% of gross domestic product (GDP) and is teetering on the edge of being unmanageable. The convergence criteria under the monetary union protocol standard for Africa state that public debt should not exceed 50% of GDP in net present value.

Ghana, whose growth is driven by the exports of gold, oil and cocoa, now faces the daunting task of managing its fiscal deficit, rising inflation, an energy deficit and reduced government revenue due to the slump in global commodity prices. The challenge, as in most African countries, couldn't come at a worse time. Ghana is scheduled to hold presidential elections in 2016. Fiscal discipline will be a factor of least priority on the political agenda.

The world before sovereign bonds

Prior to these countries issuing the bonds, they carried foreign debt in the form of bilateral and multilateral concessional loans. These loans carried an average interest rate of 1.6% and a maturity of 28.7 years. The financing from sovereign bonds comes at an average floating coupon rate price of 6.2% with an 11.2-year maturity period. In recent times the coupon rates on these bonds have hit record highs. This is a reflection of deteriorating economic indicators among sub-Saharan African countries.

The Achilles heel for these countries, outside the realm of poverty, governance and political will, is their dependence on one major export product to generate foreign exchange. In at least seven of these countries there is direct dependence on one key product to drive the country's economy. This is evident with Angola (oil), Zambia (copper), Nigeria (oil), Gabon (oil) and the DRC (copper).

Warning signs

In 2014 IMF Managing Director Christine Lagarde cautioned African countries against endangering their debt ratios by issuing sovereign bonds.

And in the same year Maria Kiwanuka, former finance minister of Uganda and current economic advisor to the president, alluded to the fact that African governments are under pressure to take on debt at market rates despite the risk of public debt rising to unsustainable levels during currency depreciation and increasing bond yields.

Uganda is the only African country that has spoken of the acquisition of Eurobonds as too risky for countries on the continent. Governor of the Bank of Uganda Emmanuel Mutebile said: 'We should not be complacent about the dangers of big projects built on sovereign debt because it would be unwise for African countries, which will never again get debt relief. From what we are seeing in Ghana, we are not yet ready to issue sovereign bonds.'

The risks involved

The cost of finance for the Eurobonds is the first key risk factor. Internal analysis of the exchange rate risk must be considered, unless the country truly believes that it has the capacity to raise the resources for repayment of the debt from commodity export revenue.

Oil pipelines running through Obrikom, Nigeria. Oil-dependent Nigeria is one of the African sovereign bond issuers which are reliant on one major export product to generate foreign exchange.

But future indicators are all very ominous, showing a slowdown in demand for commodities from China, a possible increase in bond yield rates by the US, lowering oil prices and downgrading of global growth indicators. All these factors will put pressure on countries that have issued sovereign bonds.

The second key risk in the procurement of sovereign bonds lies in debt sustainability. This is the risk associated with poor management of the proceeds of the Eurobond. They end up being invested in non-income-generating social infrastructure to the extent that the government is unable to raise the necessary funds to repay the loan. Other than capital infrastructure developments at least three of the countries – Rwanda, Gabon and Ghana – have used part of their Eurobond proceeds to refinance public debt.

Sub-Saharan African countries seem to carry a vicious circle of problems revolving around underdeveloped economies. They oscillate around single-commodity exports, recurring power deficit issues, lack of fiscal discipline with budget deficits well above the convergence criteria for Africa of 3% of GDP, and unending rising debt positions even in times of good economic growth.

The cyclical events of unsustainable debt of the 1980s, when the continent's debt position stood at more than $270 billion, were attributed to – depending on which side of the fence you're on – poor governance, corrupt leadership and protracted civil wars in many African countries.

The continent was also undergoing rapid population growth while lacking any meaningful democratic checks and balances, and implementing ambitious social and public growth strategies. The crossroads again was with the economic downturn and the drop in global commodity prices. These countries have come full circle.

Sub-Saharan African countries will require strong political will, prudent financial management, sustained fiscal discipline, long-term economic growth strategies, export diversification and sustained creation of employment to achieve economic emancipation. The current global economic slowdown will prevail for at least three to four more years. This means that these countries will continue to bear rising inflation, debt repayment crisis, reduction of GDP growth and challenges with managing their fiscal deficits.

Déjà vu, Africa. We are set for troubled times. ◆

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The strange dialect and hidden tentacles of corruption

British premier David Cameron's recent move to host an anti-corruption summit in London, a city which has become a haven for stolen assets, smacked of hypocrisy, especially when he labelled some of the victims of such depredation, e.g., Nigeria, as 'fantastically corrupt'. The conference's glaring failure, in the aftermath of the shocking revelations of the Panama Papers, to take decisive action to end the nefarious role of tax havens as repositories of plundered loot also vitiated its credibility. *Jeremy Seabrook* comments.

THE leak of 11.5 million documents from the database of the world's fourth largest offshore law firm, Mossack Fonseca in Panama, in April raised the curtain on the financial conjuring tricks of some of the world's richest people. The revelations related to 12 national leaders and 143 politicians around the world, their families and associates. Mossack Fonseca repudiated any 'wrongdoing', but said it could not answer for the failure of any 'intermediaries' – banks, law firms, accountants, tax and financial advisers or any other actors in chains of concealment that protect the modesty of money from the prurient eyes of the public.

British Prime Minister David Cameron speaking at the Anti-Corruption Summit in London in May. 'Cameron's event was calculated to show a businesslike determination to "crack down", to show "zero tolerance", to "root out": it was a mixture of showbusiness and public relations.'

According to the Tax Justice Network, between \$21 trillion and \$32 trillion worth of private financial wealth is located in jurisdictions around the world where there is no, or only a very light, taxation regime. Illicit cross-border financial flows are between \$1 trillion and \$1.6 trillion annually, eight or 10 times as much as global foreign aid of \$135 billion. In the Network's ranking of secrecy, Switzerland still occupies the ignominious first position, followed by Hong Kong and the US. The United Kingdom is in 15th place, but if its Overseas Territories and Crown Dependencies were assessed together, the UK would occupy first place.

It is significant that the dictionary definition of corruption, as well as referring to illicit gain by those in power, also indicates the alteration or debasement of the meaning of words. Transparency International has obligingly published a glossary (www.transparency.org/glossary), a linguistic guide to the dialect of corruption, with its extensive euphemisms and obfuscations – including 'beneficial ownership secrecy', 'shell company', 'transfer (mis)pricing', 'procurement', 'patronage', 'revolving door', 'illicit financial flows', 'integrity' and 'asset recovery'. TI also issues an annual survey of the most corrupt countries in the world: currently this starts with North Korea and Somalia, and includes Afghanistan, Sudan, Angola, South Sudan, Iraq and Libya.

It is in this context that British Prime Minister David Cameron held a 'summit' on corruption in London on 12 May. This was, predictably, characterised by Cameron's authoritative consequentiality. It was a threadbare and perfunctory affair, despite the presence of US Secretary of State John Kerry, who praised Cameron's 'courage' in hosting the meeting and said corruption 'tears at the entire fabric of a society' and is as great a threat to the world as 'terrorism'. It seems that Cameron had never heard of the United Nations Convention on Corruption, a comprehensive charter designed to deal with corruption at all levels, drawn up in 2003 and ratified by most countries in 2005.

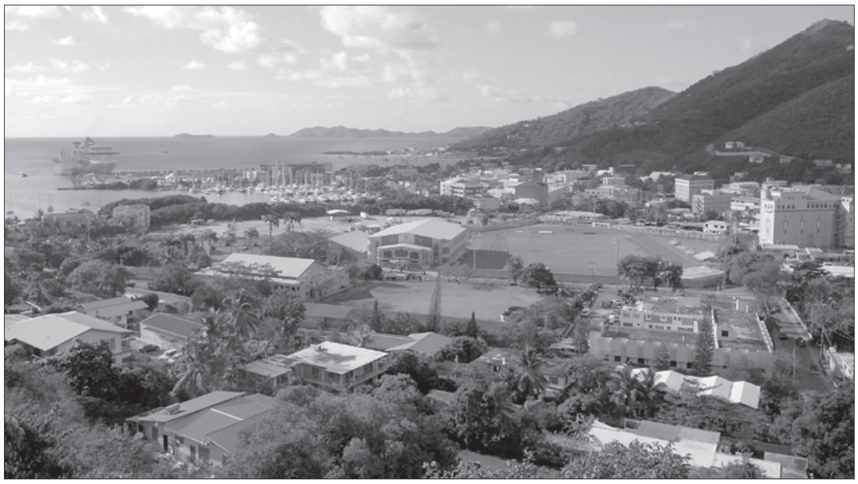
Cameron's event was calculated to show a businesslike determination to 'crack down', to show 'zero tolerance', to 'root out': it was a mixture of showbusiness and public relations, of which the tamasha in the ornate splendour of Lancaster House (once the most valuable private residence in London) was a particularly florid example.

Perhaps his courage had more to do with his audacity in convening such a meeting, especially in view of the fact that in 2013 he had actively intervened personally to weaken a European effort that would reveal the beneficiaries of offshore trusts; and this despite a speech in the same year at the G8 summit where he spoke of a 'transparency revolution'. There, he said: 'For too long the international community has shied away from condemning the appalling degree of corruption and mismanagement of resources and the fundamentally bad governance that is destroying lives in some developing countries.'

In April 2016, the Panama Papers revealed that his father had taken advantage of Margaret Thatcher's abolition of capital controls in 1979, which made it legal to take any sum of money out of Britain without being taxed or controlled by the UK authorities. His father was instrumental in setting up Blairmore Holdings, which was exempt from tax in the UK, in Panama in 1982, when his son was a pupil at Eton. That this was a perfectly legal activity is a measure of official government contrivance of circumstances ensuring the secrecy of the fortunes of the super-rich, which have shown a remarkable capacity to grow exponentially in the dark, like mushrooms or the useful purgative of rhubarb.

Evidence of a lack of seriousness in the anti-corruption effort lies in the failure of Western governments to make a declaration of war on corruption, which they invariably do on any other baleful abstraction they can think of – poverty, trafficking, obesity, extremism, terror. Moreover, some of the territories with the most opaque financial sector, notably the British Virgin Islands, a Caribbean paradise with a population of 28,000 – where several hundred thousand offshore companies are registered – have refused to publish any register of beneficial owners of such entities, and no representative was apparently invited to the Lancaster House 'summit'.

Cameron's conference opened with a 'call' for British Crown Dependencies and Overseas Territories to accept a 'gold standard' (unfortunate metaphor) of publishing in full lists of beneficial ownership of companies. This call was disingenuous. These territories are wholly controlled by Britain, in the main scattered shards of empire, and their assent to compliance is not required. A truer



The British Virgin Islands, where several hundred thousand offshore companies are registered, has refused to publish any register of beneficial owners of such entities.

reflection of the attitude of the ruling Conservative Party to these remnants of British dominance was expressed by Sir Henry Bellingham, former Minister for Overseas Territories, who said: 'The British Virgin Islands can be held up as a shining example of a well-regulated, transparent and cooperative jurisdiction, a model even for others, a solid regulatory regime.'

In any case, when UK politicians are accused of faint enthusiasm in compelling full disclosure in its offshore territories, they point to Delaware, the second smallest state in the US, site of epic secrecy and concealment, where at one address in an unassuming two-storey building in Wilmington, 285,000 companies are registered, including holding companies belonging to noted presidential adversaries Hillary Clinton and Donald Trump. Recently, Delaware is said to have 'lifted the veil' to some extent, enacting legislation that requires minimal disclosure about ownership, but only to tax authorities and law enforcement agencies.

This is also the inspiration for Cameron's 'openness': nothing will be disclosed to an inquisitive public, which has no right to pry into certain aspects of the lives of the powerful. Indecency has been redefined: it is over the financial, not the sexual, affairs of the rich that the most decorous drapes of concealment must now be thrown.

'Tax havens' have been the subject of much discussion. The image itself suggests a safe harbour for the vessels of enterprise battered by government assaults upon honest gain; and the term throws the onus of persecution upon authorities that would relieve the heroic creators of wealth of what is rightfully their own. Taxation is always 'penal'; what more understandable that shelters should be sought, secrecy of jurisdictions which will protect the very rich from their reluctant obligations to the society which facilitates the making of their fortunes.

While Cameron was receiving plaudits from the press for his 'transparency' (a fashionable word with a ghost-like quality, suggesting insubstantiality rather than visibility), he was recorded at a reception with the Queen referring to the presence in London of the leaders of what he referred to as two of the most 'fantastically corrupt' countries in the world, Nigeria and Afghanistan. In this simple phrase, he encapsulated a whole history of imperial condescension, whereby the rich world continues to identify corruption with the world's poorest countries. It suggests an old trope, that these entities have never really been fit for self-governance, to which the venality of their regimes attests.

President Muhammadu Buhari of Nigeria insisted he wanted no apology, but he does want repatriation to Nigeria of funds deposited in London by his corrupt predecessors; a process in which the British authorities are engaged without expedition or urgency. Shortly before the London meeting, 95 anti-corruption and human rights groups in Nigeria had written to Cameron insisting that Britain end its role as a 'safe haven' for white-collar criminals who steal Nigeria's wealth and resources for personal gain.

For not only does the United Kingdom have oversight of some of the most secretive financial jurisdictions in the world, but London has become a kind of global public cleansing station for dirty money, which passes through the washing machine of its property market. The laundered money, fresh as clean linen, is made material in 44,000 expensive properties in the city which are owned by offshore companies; with a further 50,000 or so elsewhere in Britain.

And although some representatives of noted British-controlled tax havens showed up at Lancaster House, notably the Isle of Man, Bermuda and the Cayman Islands, and underwrote a vague commitment to the publication of a 'register' of beneficial owners of companies within their jurisdiction, what emerges from these transparency spectaculars is that global lawmakers – a majority of them democratically elected – are unlikely to draw a line between what is legal and what ought to be outlawed, for the simple reason that they are major beneficiaries of a system which must remain legitimate for their sake, however morally and ethically repugnant.

One of the great temptations to laissez faire in the realm of such legalised corruption is the brevity of tenure of most leaders, whether raised up by the popular vote, military coup or kleptocratic ingenuity: they are always highly aware of their political mortality, and anxious to prolong the taste of privilege for which governance has given them an appetite. Goaded by a desire to assure the future of themselves, their families and heirs, what is more natural than that they should seek a secular afterlife through the principal medium which commands universal admiration and respect, namely amassing great wealth and figuring in the 'rich lists' of the world?

It is, however, impossible to grasp how such fortunes have been acquired by a relatively small number of individuals with only minimal popular protest, without an understanding of how the meaning of 'wealth' has been transformed in the age of financial deregulation, and how this is underpinned by something little short of an ideological revolution.

There has been a reversal in popular attitudes to the super-rich. At an earlier time of the capitalist era, they were detested by those whose necessities they monopolised, the workers who toiled in want and insufficiency while the rich progressed through the great cities of the world in open carriages throwing pennies onto the road for street urchins to fight over. Their lucre was 'filthy', their money wrung out of the sweat and sinew of those who served them. Plutocrats were 'bloated', their money stank, they raked it in and made killings, quite often literally, as they wallowed or rolled in money, haunting the 'fleshpots' of luxurious and decadent living.

With the decay of socialism and the exhaustion of a rhetoric of social justice, the rich were themselves rehabilitated and reformed. Money was cleansed of its stench and lucre lost its association with dirt. Plutocrats became svelte and lean, their natural habitat the boardroom and international business meetings where they toiled and laboured in ways that put the working class to shame. In other words, they became 'wealth creators', generators of the money without which we would be unable to enjoy any of the amenities of contemporary life. It is significant that as the role of workers as the nemesis of the rich became more and more implausible, the rich themselves took on the mantle of redemption – a rare example of the powerful taking up the cast-off clothing of the poor.

So it is that the possessors of great fortunes have become the benefactors of humanity. Without the wealth creators, the rhetoric runs, how would we afford the schools, hospitals and social advantages we need? It is an epic irony that it is precisely under the cloak of this elevated status that they have begun to conceal their riches, thereby compelling governments to cut health, education, housing and sanitation budgets, and depriving the people of the very things which their extravagant wealth-generating abilities are supposed to furnish us with.

In this way, the problem becomes, less the secretive sites of dissimulated wealth and how they work, than an ideological predisposition which permits the hiding of global loot, the burying of treasure in the island sanctuaries where business is conducted. Once the rich have been sanctified, not only do they form a caste of a different kind of untouchability from that traditional in India, but the poor become scapegoats, villains, cheats and skivers whose depredations on the public purse threaten to bring the richest countries in the world to ruin.

The financial services companies, tax lawyers and accountants who nestle in havens offshore, devising legal ways in collusion with governments and ruling classes to protect the monetary modesty of the very rich, can only perform their sombre magic with the assent of the people. How, otherwise, would it be acceptable that 62 individuals own as much as half the world's population, the 3.6 billion whose income dropped by 38% between 2010 and 2015, while the amount of money held in offshore accounts has reached an estimated $7.5 trillion?

Global Witness describes secret companies as 'getaway cars for criminals and the corrupt across the globe; and the US, where you need to give more personal information to get a library card than to set up a company, is certainly the weakest link'. It is clear that the full extent of the worldwide cabal between power and wealth is only now beginning to appear. As this unfolds, will popular resentment compel them to renounce their excesses, or will a cynical knowingness admiringly acknowledge that it is nice work if you can get it? ◆

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Why tax havens must go!

Tax havens are drivers of global corruption and hurt developing countries the most. And as more than 300 leading economists from 30 countries affirmed in a letter to the London anti-corruption summit (see text below), they serve 'no useful economic purpose'.

TAX havens create an uneven playing field. Some multinational corporations (MNCs) are well positioned to take advantage of tax havens, but other businesses, whether large domestic companies or smaller businesses, are unable to do the same. Similarly, it is only very wealthy individuals that can afford the armies of tax lawyers and accountants needed to hide wealth in tax havens, so ironically it is those with the greatest financial means who are best placed to avoid paying their fair share of tax.

As tax revenues from MNCs and wealthy individuals fall short, governments are left with two options: either to cut back on essential spending needed to reduce inequality and poverty, or to make up the shortfall by levying higher taxes on other, less wealthy sections of society and smaller businesses in the domestic economy. Both options see those at the bottom lose out and the inequality gap grow.

Tax revenue is essential to fund vital public services such as education, health and infrastructure, as well as cash transfers such as child benefit and state pensions. Universal, free public services are proven to tackle inequality and poverty. Ending the era of tax havens will ensure that the necessary funds for these services can be raised in a more redistributive fashion – in particular, through direct taxation of income, profits, wealth and capital gains, rather than through consumption taxes such as VAT that are likely to be more regressive and can lead to the poor subsidising the rich.

By hiding income and assets, tax havens allow both MNCs and unscrupulous individuals to evade or avoid direct taxation, thereby allowing them to amass even more wealth and making inequality worse. This makes direct taxation less effective – damaging revenues and the scope for redistribution. Perhaps more importantly, the secrecy promoted by tax havens makes corruption pay, and with impunity. The majority of us do not have access to this global tax haven network: it is the preserve of big business and a wealthy elite. When the wealthy fail to pay their fair share of tax, the rest of us are left to pick up the tab.

The revenue costs of tax havens

The most easily quantifiable cost of tax haven secrecy is the scale of revenues lost around the world due to tax not being paid. There is no doubt that this has a huge impact on development potential, despite the inevitable uncertainty about estimates of the sums involved and the need for better data. Global estimates of *individual and corporate* wealth held 'offshore' span a wide range.

The highest estimate of *individual* wealth hidden away in 'secrecy jurisdictions' suggests a range of $21-32 trillion, based on triangulation of multiple methods (and data sources).

A conservative estimate looking at the mismatch between the publicly acknowledged bilateral assets and liabilities of a list of 'tax haven' jurisdictions is that $7.6 trillion was hidden by wealthy individuals 'offshore' in 2013. Taking into account nominal tax rates in countries of origin, it is estimated that $190 billion of revenue is lost globally as a result of individuals' wealth being hidden offshore, with at least $70 billion being lost to the world's poorest regions.

New estimates of revenue losses due to *corporate* tax abuses all point to a larger scale than previously recognised. In 2015 International Monetary Fund (IMF) researchers examined a broader measure of tax haven 'spillovers', estimating total tax losses in the long run of approximately $600 billion globally. A Tax Justice Network (TJN) study found that the profit shifting of US-headquartered multinationals alone was likely to have resulted in around $130 billion of revenue losses globally in 2012.

While developing countries are hit hardest by corporate tax dodging, it is important to note that rich countries also suffer. It is often assumed that the richest and largest economies, home to most of the world's multinationals, defend the current system because it is in their own interests to do so. However, among the biggest losers to the broken global corporate tax system in absolute terms are G20 countries themselves, including the US, the UK, Germany, Japan, France, Mexico, India and Spain. This shows that even developed countries with state-of-the-art tax legislation and well-equipped tax authorities cannot stop multinationals dodging their tax without a thorough reform of the global tax system.

Tax havens: drivers of global corruption

Tax haven secrecy also undermines good governance – and prevents policy makers from resisting capture by self-interested elites. Tax rules are just a subset of the wider laws and regulations that are undermined by the ability of the wealthy to hold assets anonymously.

Corruption is commonly understood as 'the abuse of power for private gain'. When individuals and organisations seek to use their power to avoid paying the taxes they owe by utilising preferential facilities such as tax havens, which provide them with undue tax-free rewards, this is a form of corruption.

The financial secrecy that many tax havens provide facilitates grand corruption, money laundering, the hiding of political conflicts of interest, the manipulation of markets and the evasion of anti-trust law. This undermines democracy and creates the conditions for insecurity to flourish.

Organisations including Global Witness and Transparency International have led the way in highlighting just how pervasive anonymous ownership is, not least in the London property market. Global Witness recently reported that substantial parts of the city's famous Baker Street are owned by a mysterious figure with close ties to a former Kazakh secret police chief accused of murder and money laundering. Transparency International's analysis shows that 36,342 London properties covering a total of 2.25 square miles are held by anonymous companies. Using police data, it also showed that 75% of properties whose owners are under investigation for corruption made use of offshore corporate secrecy to hide their identities. A recent Channel 4 television documentary, *From Russia with Cash*, revealed the apparent willingness of London estate agents to facilitate corrupt purchases. Deutsche Bank analysis suggests that Russian money constitutes a major part of the roughly £1 billion a month of hidden capital inflows to the UK.

There is also increasing agreement that tax dodging by MNCs should be seen in this light – that is, as another form of corruption. World Bank president Jim Yong Kim has labelled it explicitly as 'a form of corruption that hurts the poor'.

Overall, tax havens undermine not only tax systems but also the wider effectiveness of states. The Norwegian Government Commission on Capital Flight Out of Developing Countries made the case powerfully: 'Potentially the most serious consequences of tax havens are that they can contribute to weakening the quality of institutions and the political system in developing countries. This is because tax havens encourage the self-interest that politicians and bureaucrats in such countries have in weakening these institutions.'

What is a tax haven?

TAX dodging encompasses both tax avoidance and illegal tax evasion, both of which minimise the contributions companies and individuals make to society. It is often difficult to distinguish between the two, and there is certainly some tax planning that may be legal according to the letter of the law but that goes against the spirit of the law.

Tax havens are jurisdictions or territories which have intentionally adopted fiscal and legal frameworks that allow non-residents to minimise the amount of taxes they pay where they perform substantial economic activity.

Tax havens tend to specialise, and most of them do not tick all the boxes, but they usually fulfil several of the following criteria:

- They grant fiscal advantages to non-resident individuals or legal entities only, without requiring that substantial economic activity be carried out in the country or dependency.
- They provide a significantly lower effective level of taxation, including zero taxation.
- They have adopted laws or administrative practices that prevent the automatic exchange of information for tax purposes with other governments.
- They have adopted legislative, legal or administrative provisions that allow the non-disclosure of the corporate structure of legal entities (including companies, trusts and foundations) or the ownership of assets or rights.

It is common to make a distinction between 'corporate tax havens', which adopt particular rules that enable corporations to avoid paying their fair share of tax in other countries, and 'secrecy jurisdictions', which provide the necessary secrecy for individuals or entities to avoid paying tax. The Tax Justice Network (TJN) defines secrecy jurisdictions as those that enable people or entities to escape the laws, rules and regulations of other jurisdictions, using secrecy as a prime tool. For the purposes of this article, the terms 'secrecy jurisdiction' and 'tax haven' are largely used interchangeably. ◆

Tax havens: drivers of economic crashes

Last but far from least, tax haven secrecy has a significant impact on the ability of financial regulators to identify and mitigate risk in capital markets. This was an important contributory factor to the global financial crisis that began in 2007 and continues to cast a long shadow. Given the growing economic inequality we have witnessed in the aftermath of the financial crisis, the role that tax havens played in creating the conditions for it is doubly important. We need to tackle tax havens in order to challenge the causes and symptoms of the financial crash.

The evidence from the crisis shows just how little national regulators were aware of the offshore activities of subsidiaries of major financial institutions in their charge, and how this facilitated the extraordinary credit boom that led – as credit booms do – to bust. From the nominally Irish entities of German and US banks such as Bear Stearns which violated international regulations on asset-capital ratios many times over, to the repeated story of apparently highly performing London-based operations exposing US parents to untold risk (most dramatically in the case of AIG), the consistent findings are that home-country regulators either did not know what was happening or did not feel it was in their remit to intervene, while the 'offshore' regulator (UK or Irish) seems to have felt home regulators were in charge – so regulation fell between the cracks.

The deliberate and systematic exploitation of financial secrecy to circumvent capital market regulation provided the basis for higher profits in the short term – largely enjoyed by a wealthy few – and at length a global crisis for the many. The crimes that tax haven secrecy enables give rise, therefore, to greater economic inequality and to less well-functioning and competitive markets, and to greater political inequality through the corruption of systems of democratic representation. Tax havens are corrupting global markets.

Table 1: Estimates of undeclared individual wealth broken down by region

	Offshore wealth ($ billion)	Share of financial wealth held offshore	Tax revenue loss ($ billion)
Europe	2,600	10%	75
United States	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	**7,600**	**8%**	**190**

Source: G. Zucman (2014). Taxing across Borders: Tracking Personal Wealth and Corporate Profits. http://gabriel-zucman.eu/files/Zucman2014JEP.pdf

Tax havens hurt developing countries the most

It's estimated that poor countries lose out on a staggering $170 billion of taxes every year because of tax havens – vital revenue that is desperately needed to pay for public services like healthcare and education.

Individual studies can give a powerful indication of the scale of impacts. An ActionAid case study found that Australian mining company Paladin had cut $43 million from its tax bill in Malawi. This could have paid for either: 431,000 HIV/AIDS treatments, 17,000 nurses, 8,500 doctors or 39,000 teachers.

In terms of both corporate profit shifting and individual undeclared wealth, the evidence supports the view that developing countries are worst affected. For corporate profit shifting, IMF researchers estimate that losses are around 1% of GDP for OECD countries and 1.3% for developing countries. However, the GDP comparison does not show the full difference in intensity of losses, because developing countries have lower tax revenues in general: often 10-20% of GDP, rather than 30% or more in OECD countries. The proportion of revenues foregone is therefore substantially greater in comparison: perhaps 6-13% of existing tax revenues in developing countries, as opposed to just 2-3% in OECD countries.

Estimates of undeclared individual wealth also suggest a particular intensity in developing countries. One estimate is broken down by region; see Table 1. With the exception of Russia and the Gulf countries, the proportion of wealth held offshore is largest for Africa and Latin America – more than twice that of Europe and many times higher than that of the US. While it is difficult immediately to construct an equivalent share of current revenues, the estimated revenue losses for Africa and Latin America appear disproportionate to their shares of world GDP. Oxfam calculates that the $14 billion a year that African countries lose to individuals hiding their wealth offshore would be enough to pay for healthcare that could save the lives of four million children and employ enough teachers to get every African child into school.

Supporting this finding for Africa, there are also regional estimates of lost capital that strongly imply that the region is a net creditor to, rather than a net debtor of, the rest of the world. Former African Development Bank chief economist Léonce Ndikumana and co-author James Boyce have produced a series of estimates of the stock of African capital flight offshore since the 1970s, most recently for a new volume produced by the African Economic Research Consortium. They estimate that the stock of flight capital built up between 1970 and 2010 for 39 African countries and held offshore is approximately $1.3 trillion, or 82% of the 2010 GDP of these countries. In contrast, the stock of external debt stood at $283 billion – so the scale of African wealth hidden offshore is estimated to exceed recorded external debt by a ratio of more than four to one.

Finally, a narrower study, but with global coverage, provides additional supporting evidence for the view that developing countries in general suffer a greater intensity of tax haven exposure. The 'Swiss Leaks' data, leaked in 2008 by whistleblower Herve Falciani, revealed the pattern of foreign holdings in the bank accounts operated by HSBC Switzerland.

The data provide only a snapshot, and cannot be extrapolated with any confidence due to the continuing lack of consistent data on international banking. Nonetheless, they provide a unique insight into the business model of a major global bank operating in the jurisdiction which is consistently shown to be the biggest global tax haven.

For some countries, such as Kenya, Egypt and Burundi, HSBC held assets worth more than 1% of GDP. African countries both north and south of the Sahara are consistently the most exposed to corporate tax dodging in terms of proportion to GDP/tax revenues. This is exacerbated by economist Gabriel Zucman's startling estimate that 30% of African wealth held by individuals is held offshore in a narrow range of financial assets. A number of countries in both Latin America and South Asia also show significant exposure.

Few countries have as little exposure, in proportional terms, as the United States, which has been by far the most aggressive in unilaterally challenging Swiss bank secrecy. In

HSBC, and the UK's curious ambivalence

IN 2010, the UK government – via Her Majesty's Revenue and Customs (HMRC) – received from France the HSBC Swiss account data leaked by Herve Falciani (and subsequently part-published by the International Consortium of Investigative Journalists as 'Swiss Leaks'). The same year, the incoming coalition government made the Rev. Stephen Green, former HSBC Group Chief Executive (2003-06), Chair of HSBC Private Banking Holdings (Suisse) SA (2005-10) and HSBC Chairman (2006-10), a member of the House of Lords and appointed him as a trade minister.

In 2011, the UK signed an agreement with Switzerland under which Swiss banks would withhold some taxes on undisclosed accounts held by UK taxpayers and remit them to the UK, whilst maintaining the secrecy of account holders. The deal was criticised by the Tax Justice Network for providing effective immunity for criminals. TJN also published analysis showing that the UK would receive at best a fraction of the revenues promised due to various loopholes.

In February 2015, HMRC told the Public Accounts Committee that from Swiss Leaks data on 6,800 entities, it had identified 1,000 tax evaders but had secured just a single conviction. In the same month, the former public prosecutor Lord Ken MacDonald QC argued that the bank itself should have been considered for criminal prosecution: 'It seems clear, from the evidence we have seen, that there exists credible evidence that HSBC Swiss and/or its employees have engaged over many years in systematic and profitable collusion in serious criminal activity against the exchequers of a number of countries.'

The Public Accounts Committee questioned HSBC's chief executive Stuart Gulliver. This revealed details about his personal tax status, including that he was non-domiciled in the UK for tax purposes, that he had a Swiss bank account and was previously paid through a Panamanian company, which Gulliver himself acknowledged were further damaging the bank's reputation. Some MPs blocked an attempt to question Lord Green himself to find out what he knew about the scandal during his time in charge of the bank.

In January 2016, the UK financial regulator, the Financial Conduct Authority (FCA), confirmed to Sky News that it would not pursue HSBC over the tax evasion facilitation highlighted by Swiss Leaks, only a month after announcing its decision to drop its wider review into banking culture. Both decisions were taken while the regulator lacked a permanent chief executive, after the ousting of the 'hardline' Martin Wheatley, in a move described by the *Financial Times* as a signal that the government was bringing to an end the post-financial-crisis era of intrusive regulation. In February 2016, HSBC announced its decision to remain in the UK following a review, announced in April 2015, about whether to relocate its headquarters to Hong Kong.

This case raises a number of questions about the UK government's appetite to tackle tax abuse. Is the UK simply more tolerant of tax evasion than other countries that had less at stake but pursued the criminals and the revenues more vigorously? Did the bank's economic importance affect its treatment? Do political relationships play a role? Is there a specific HSBC issue at play, or is this merely symptomatic of a wider 'Finance Curse'? ◆

stark contrast, the UK is the only OECD country with an exposure comparable to the majority of developing countries – and yet the UK's response has been puzzling, to say the least (see box).

The evidence shows clearly the broad scale of damage done to development through the financial secrecy provided by tax havens. It is no coincidence that one major difference between the Millennium Development Goals (MDGs) agreed in 2000 and the Sustainable Development Goals (SDGs) agreed in 2015 is the inclusion both of supporting tax and of combating illicit financial flows in the latter. Pressure from developing countries to move past the aid-driven MDG agenda is an important element of this progress. ◆

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Tax havens 'serve no useful economic purpose' – economists

AHEAD of the anti-corruption summit organised by the UK government in London on 12 May, over 300 leading economists from 30 countries wrote to world leaders urging action on tax havens. The signatories of the letter, which was coordinated by Oxfam, included Thomas Piketty, author of the bestselling Capital in the Twenty-First Century*; Angus Deaton, the current Nobel Prize winner for Economics; Nora Lustig, professor of Latin American Economics at Tulane University; Jeff Sachs, director of Columbia University's Earth Institute and an adviser to UN Secretary-General Ban Ki-moon; and Olivier Blanchard, former IMF chief economist. Below is the text of the letter.*

Dear world leaders,

We urge you to use this month's anti-corruption summit in London to make significant moves towards ending the era of tax havens.

The existence of tax havens does not add to overall global wealth or well-being; they serve no useful economic purpose. Whilst these jurisdictions undoubtedly benefit some rich individuals and multinational corporations, this benefit is at the expense of others, and they therefore serve to increase inequality.

As the Panama Papers and other recent exposés have revealed, the secrecy provided by tax havens fuels corruption and undermines countries' ability to collect their fair share of taxes. While all countries are hit by tax dodging, poor countries are proportionately the biggest losers, missing out on at least $170 billion of taxes annually as a result.

As economists, we have very different views on the desirable levels of taxation, be they direct or indirect, personal or corporate. But we are agreed that territories allowing assets to be hidden in shell companies or which encourage profits to be booked by companies that do no business there, are distorting the working of the global economy. By hiding illicit activities and allowing rich individuals and multinational corporations to operate by different rules, they also threaten the rule of law that is a vital ingredient for economic success.

To lift the veil of secrecy surrounding tax havens we need new global agreements on issues such as public country by country reporting, including for tax havens. Governments must also put their own houses in order by ensuring that all the territories for which they are responsible make publicly available information about the real 'beneficial' owners of companies and trusts. The UK, as host for this summit and as a country that has sovereignty over around a third of the world's tax havens, is uniquely placed to take a lead.

Taking on the tax havens will not be easy; there are powerful vested interests that benefit from the status quo. But it was Adam Smith who said that the rich 'should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion.' There is no economic justification for allowing the continuation of tax havens which turn that statement on its head. ◆

The price of offshore havens

In this analysis of the global tax haven industry, *James S Henry* attempts a reassessment of the size and worth of the private wealth that is being held in these havens.

SINCE the late 1970s, investigative journalists, tax authorities, drug enforcement officials, terrorist trackers and national security experts – and a few economists – have gradually become aware that there is indeed a 'vast deal of money' – a large and growing chunk of the world's private wealth and income – hidden out there, not so much 'in the land', but 'offshore', protected by an industrious, highly paid bevy of professional enablers in the private banking, legal, accounting and investment industries, taking advantage of the increasingly borderless, frictionless global economy.

Grade-school geography conditions us to think of 'offshore' as a physical location. Indeed, some 'residential havens' like Singapore and Switzerland do specialise in providing secure low-tax physical residences to the world's wealthiest people, along with expensive private schools, hospitals and resorts to enhance the family dynasties' human capital; and highly secure storage facilities for private collections of art, gold, jewels, classic cars, yachts, planes, weapons and other trinkets.

However, private banking has long since become virtual. So the term 'offshore' refers not so much to the actual physical location of private assets or liabilities, but to nominal, hyper-portable, multi-jurisdictional, often quite temporary locations of networks of legal and quasi-legal entities and arrangements that manage and control private wealth – always in the interests of those who manage it, supposedly in the interests of its beneficial owners, and often in indifference or outright defiance of the interests and laws of multiple nation states. A painting or a bank account may be located inside Switzerland's borders, but the all-important legal structure that owns it is likely to be fragmented in many pieces around the globe. Typically that asset would be owned by an anonymous offshore company in one jurisdiction, which is in turn owned by a trust in another jurisdiction, whose trustees are in yet another jurisdiction (and that is one of the simplest offshore structures).

A demonstration in London against tax havens. 'The key clients for the offshore system include the world's wealthiest individuals and companies, as well as its worst villains.'

Core capabilities

Ultimately, then, the term 'offshore' refers to a set of capabilities. The key clients for the offshore system include the world's wealthiest individuals and companies, as well as its worst villains. Numbering just a few million of the world's 6.5 billion people, they are an incredibly diverse group, from 30-year-old Chinese real estate speculators and Silicon Valley software tycoons to Dubai oil sheiks, Russian presidents, mineral-rich African dictators and Mexican drug lords.

From a slight distance, all these players share the same basic needs: (1) anonymity for them, their families, and their business and political dealings; (2) the ability to minimise the net present value of future taxes, net of tax avoidance costs; (3) investment management, for those who still believe in it; (4) ability to easily access and manage their wealth from anywhere on the planet; (5) secure places to hang out, hide out and enjoy life; and (6) iron-clad financial security for their huge stocks of anonymously owned, largely untaxed private assets, against the continuing threats posed not only by taxmen and prosecutors, but also by kidnappers, extortionists, spies, hitmen, conmen, hackers, paparazzi, political opponents, disgruntled family members, ex-spouses, ex-lovers, and each other.

It is these core capabilities – secrecy, tax minimisation, access, asset management, and security – that our modern offshore system offers. In the last 30 years a sophisticated transnational private infrastructure of service providers has grown up to deliver these services on an unprecedented scale. This 'pirate banking' system now launders, shelters, manages and, if necessary, re-domiciles the riches of many of the world's worst villains, as well as the tangible and intangible assets and liabilities of many of our wealthiest individuals, alongside our most successful mainstream banks, corporations, shipping companies, insurance companies, accounting firms and law firms.

All these players have become, as it were, citizens of a brave new virtual country – one that lacks physical boundaries but can still offer escape routes from many of the taxes, financial regulations, human rights standards and moral restraints that the rest of us take for granted: the responsibilities of society. One set of rules for a tiny minority of rich and powerful people; another set for everyone else.

The global haven industry

Given this 'virtual geography' perspective, it is important to emphasise several structural facts about the offshore industry.

First, it is important to distinguish between the 'intermediary havens' which act as conduits for wealth and 'destination havens' where private wealth ultimately ends up.

We typically associate offshore legal entities like shell companies, asset protection trusts, captive insurance companies and haven banks with the conventional list of 'offshore havens' (or 'Treasure Islands'): sultry, dodgy tropical islands like Bermuda, the Cayman Islands, Nauru, St. Kitts, Antigua, and Tortola; or the European bolt holes such as Switzerland, the Channel Islands, Monaco, Cyprus, Gibraltar, and Liechtenstein. These 80-odd frontline havens, most of which are 'offshore' by anyone's definition, collectively provide a home to over 60 million people, and over 3.5 million paper companies, thousands of shell banks and insurance companies, more than half of the world's registered commercial ships above 100 tons, and tens of thousands of shell subsidiaries for the world's largest banks, accounting firms, and energy, software, drug and defence companies.

In the 1970s-90s, as multinational corporations (MNCs), banks, investors and a variety of First and Third World scalawags demanded haven services, the elites in these tiny ersatz states discovered they could make a darn good living simply by turning a blind eye. Their numbers roughly tripled during these years.

However, as the Tax Justice Network has recently emphasised in its work on its Financial Secrecy Index since 2009, this conventional list of havens is misleading, if we're interested in 'finding the money'. For while there are millions of companies and thousands of thinly capitalised banks in these fiscal paradises, few wealthy people want to depend on them to manage and secure their wealth. These stealthy investors ultimately need access to all the primary benefits of 'high-cost' First World capital markets – relatively efficient, regulated securities markets, banks backstopped by large populations of taxpayers, and insurance companies; well-developed legal codes, competent attorneys, independent judiciaries, and the rule of law. Generally, these can only be found in a handful of so-called First World countries like the US, the UK, Switzerland, the Netherlands, Belgium/Luxembourg, and Germany. So we have to look to these 'destination havens' in order to get a handle on the size and growth of unrecorded cross-border private wealth.

Second, the private 'enablers' play a critical role in this market, one that cuts across individual havens. Investing and securing large amounts of private wealth across borders is complex, requiring specialised skills in tax, financial planning, banking, entity structuring and estate planning. This is not something that most wealthy people undertake on their own. As noted, therefore, a global services industry of law firms, accountants, insurance companies and especially private banks has grown up to cater to this cross-border market.

While it has thousands of players, the room at the top is surprisingly limited – global accounting is still dominated by the 'Big Four', while a small number of 'capital city' and haven-based law firms dominate the lawyering, and global private banking is dominated by fewer than 50 multinational banks.

Third, another key development since the late 1990s is the growth of the 'onshore-offshore' market for secrecy and tax avoidance, especially in the United States. From Delaware to Alaska, Nevada and South Dakota, a growing number of states in the US are offering inexpensive legal entities like 'limited liability companies' (LLCs) and 'asset protection trusts' whose levels of secrecy, protection against creditors, and tax advantages rival those of the world's traditional secretive offshore havens. The widespread use of the likes of the Nevada LLC or the Delaware asset protection trust, in the supposedly 'onshore' United States, further undermines the traditional association of 'offshore' with particular physical locations, and underscores the fact that the cross-border flows examined in this article may be just the tip of the iceberg.

Key findings

Overall size

A significant fraction of global private financial wealth – by our estimates, at least $21-32 trillion as of 2010 – has been invested virtually tax-free through the world's still-expanding black hole of more than 80 offshore secrecy jurisdictions. We believe this range to be conservative (see box).

Remember: this is just financial wealth. A big share of the real estate, yachts, racehorses, gold bricks – and many other things that count as non-financial wealth – are also owned via offshore structures where it is impossible to identify the owners. These are outside the scope of this report.

On this scale, this 'offshore economy' is large enough to have a major impact on estimates of inequality of wealth and income; on estimates of national income and debt ratios; and – most importantly – to have very significant negative impacts on the domestic tax bases of key 'source' countries (that is, countries that have seen net unrecorded private capital outflows over time).

Who are the real debtors?

We have focused on a sub-group of 139 mainly low-middle income source countries for which the World Bank and the International Monetary Fund (IMF) have sufficient external debt data.

Our estimates for this group underscore how misleading it is to regard countries as 'debtors' only by looking at one side of their balance sheets.

Since the 1970s, with eager (and often aggressive and illegal) assistance from the international private banking industry, it appears that private elites in this sub-group of 139 countries had accumulated $7.3-9.3 trillion of unrecorded offshore wealth

Scope of the estimates

OUR core focus is on measuring long-term unrecorded cross-border private financial capital flows and stocks that have contributed significantly to the erosion of the domestic tax base, especially in developing countries.

There are several very different sources for these flows and stocks – that is one reason I prefer to call them 'unrecorded capital flows and stocks' rather than 'capital flight'.

One key source is underreported capital flows that have been secreted offshore and invested abroad beyond the reach of domestic tax authorities.

This broad definition focuses on unrecorded capital flows without prejudging the motives for it. Among the possible motives are: (1) short-term speculation ('hot money'), (2) longer-term portfolio diversification, (3) asset protection (including protection against political risks and illegality), and (4) more dubious motives, like money laundering, income tax evasion, 'round-tripping' (taking money offshore, dressing up in secrecy structures then pretending to be 'foreign' investors in order to take advantage of tax breaks and exchange rates only available to 'foreigners'), back-to-back lending games, export subsidy fraud, avoidance of import duties, corruption and more.

All these motives have been at work through the period we are considering, so the best explanation is 'all of the above'.

However, since net outflows from developing countries have continued over sustained periods of time, and since little offshore wealth or the earnings that it produces have been repatriated, the most important factors driving it are not those that drive 'hot money', but long-term decapitalisation.

Our best estimate is that at least 25-30% of these funds, averaging several hundred billion per year since the 1970s, have come from developing countries.

Another key source is undertaxed corporate profits and royalties that have been parked offshore in low-tax havens by way of rigged transfer pricing schemes. While estimates for the value of such transfer pricing abuses are more problematic, they are likely to be significant.

A third source is a myriad of illicit activities in the global underground economy – corruption, fraud, insider trading, drug trafficking, 'blood diamonds', and innumerable other for-profit crimes. Even for source countries with zero or very low income taxes, like Russia, Saudi Arabia and most other Middle Eastern oil producers, havens provide a convenient way to launder all this illicit loot. While banks and other financial intermediaries are supposed to follow 'know your customer' rules that prevent this kind of chicanery, in practice the regulations are full of loopholes – rather like, appropriately enough, Swiss cheese.

Narrow scope, conservative estimates

Despite including all these sources, our focus so far is still much narrower than the full scope of 'the price of offshore'. There is a long laundry list of economic 'bads' enabled by haven jurisdictions: not only tax evasion but also fraud, bribery, illegal gambling, money laundering, and traffic in contraband: drugs, sweatshops, human and sex trafficking, arms, toxic waste, conflict diamonds, endangered species, bootlegged software … the list is virtually endless.

In principle, all these 'bads' deserve to be included on the social balance sheet in any overall assessment of the offshore industry. In practice, however, we focus here on what we can get a handle on. And given the sheer scale of tax evasion facilitated by offshore havens, it is clearly one of the main anchors for the system, which underpins all these other dubious activities.

We also omit several important types of non-financial wealth that are collectively quite sizeable, as well as important for tax justice and development policy – notably human capital, net claims on real property (including land and natural resources), and 'intangibles' like claims to patents, trademarks, brands, technical know-how, and other intellectual property. In all these cases the role of cross-border flows and offshore havens appears to have been increasing: for example, recent exposes concerning re-domicilations of intellectual property to low-tax jurisdictions by leading US pharmaceutical and computer companies, or continuing concerns about 'Third World brain drain'. ◆

in 2010, conservatively estimated, even while many of their public sectors were borrowing themselves into bankruptcy, enduring agonising 'structural adjustment' and low growth, and holding firesales of public assets.

These same source countries had aggregate gross external debt of $4.08 trillion in 2010. However, once we subtract these countries' foreign reserves, most of which are invested in First World securities, their aggregate net external debts were minus $2.8 trillion in 2010. (This dramatic picture has been increasing steadily since 1998, the year when the external debts minus foreign reserves was at its peak for these 139 countries, at +$1.43 trillion.)

So in total, by way of the offshore system, these supposedly indebted source countries – including all key developing countries – are not debtors at all: they are net lenders, to the tune of $10.1-12.1 trillion at end-2010.

The problem here is that the assets of these countries are held by a small number of wealthy individuals while the debts are shouldered by the ordinary people of these countries through their governments. As a US

Federal Reserve official observed back in the 1980s: 'The real problem is not that these countries don't have any assets. The problem is, they're all in Miami.' And, he might have added, New York, London, Geneva, Zurich, Luxembourg, Singapore and Hong Kong.

These private unrecorded offshore assets and the public debts are intimately linked, historically speaking: the dramatic increase in unrecorded capital outflows (and the private demand for First World currency and other assets) in the 1970s and 1980s was positively correlated with a surge in First World loans to developing countries: much of this borrowing left these countries under the table within months, and even weeks, of being disbursed.

Today, local elites continue to 'vote with their financial feet' while their public sectors borrow heavily abroad – but it is First World countries that are doing most of the borrowing. It is the frequently heavily indebted source countries and their elites that have become their financiers.

In terms of tackling poverty, it is hard to imagine a more pressing global issue to address.

How this wealth is concentrated

Much of this wealth appears to be concentrated in the hands of private elites that reside in a handful of source countries – many of which are still regarded officially as 'debtors'.

By our estimates, of the $7.3-9.3 trillion of offshore wealth belonging to residents of these 139 countries, the top 10 countries account for 61% and the top 20 for 81%.

Untaxed offshore earnings start to swamp outflows

Our estimates also correct the sanguine view that since new outflows of capital appear to have recently declined from countries like Mexico and Brazil, capital flight is no longer a problem for these countries.

Once we take into account the growth of large untaxed earnings on accumulated offshore wealth, it turns out that from 1970 to 2010 the real value (in $2000) of these earnings alone may be as much as $3.7 trillion – equivalent to about 60% of the global total unrecorded capital outflows during this period. For Latin America, sub-Saharan Africa and the Middle East that have long histories of accumulating offshore wealth and unreported earnings abroad, the ratio is close to 100% or more.

By shifting attention from flows to accumulated stocks of foreign wealth, we call attention to the fact that retention of investment earnings abroad can easily become so significant that initial outflows are eventually replaced by 'hidden flight', with the hidden stock of unrecorded private wealth generating enough unreported income to keep it growing long after the initial outflows have dried up.

Offshore earnings swamp foreign investment

Another key finding is that once we fully account for capital outflows and the lost stream of future earnings on the associated offshore investments, foreign direct and equity investment flows are almost entirely offset – even for some of the world's largest recipients of foreign investment.

Wide open and 'efficient' capital markets: how traditional theories failed

Standard development economics assumes that financial capital will flow predominantly from 'capital-rich' high-saving rich countries to 'capital-scarce' countries where returns on investment are higher.

But for many countries the global financial system seems to have enabled private investor motives – understandable ones like asset diversification along with less admirable ones like tax evasion – to swamp the conventional theory. Reducing frictions in global finance, which was supposed to help capital flow into capital-starved developing countries more easily and efficiently, seems to have encouraged capital to flow out. This raises new questions about how 'efficient' frictionless global capital markets are.

The active role of private banks

Our analysis refocuses attention on the critical, often unsavoury role that global private banks play. A detailed analysis of the top 50 international private banks reveals that at the end of 2010 these 50 collectively managed more than $12.1 trillion in cross-border invested assets from private clients, including via trusts and foundations. Consider the role of smaller banks, investment houses, insurance companies, and non-bank intermediaries like hedge funds and independent money managers in the offshore cross-border market, plus self-managed funds, and this figure seems consistent with our overall offshore asset estimates of $21-32 trillion.

A disproportionate share of these assets was managed by major global banks that are well known for their role in the 2008 financial crisis, their generous government bailouts and bountiful executive compensation packages. We can now add this to their list of distinctions: they are key players in many havens around the globe, and key enablers of the global tax injustice system.

It is interesting to note that despite choppy markets the rank order at the top of the private banking world has been remarkably stable – key recent trends have been for an increased role for independent boutique money managers and hedge funds, and a shift towards banks with a strong Asian presence.

New revenue sources for global needs

Finally, if we could figure out how to tax all this offshore wealth without killing the proverbial Golden Goose, or at least entice its owners to reinvest it back home, this sector of the global underground is also easily large enough to make a significant contribution to tax justice, investment, and paying the costs of global problems like climate change. ◆

James S Henry is a Senior Advisor and Global Board Member of the Tax Justice Network (TJN). The above is an edited extract from his paper 'The Price of Offshore Revisited', which was published in 2012 by TJN. The full paper is available on TJN's website taxjustice.net.

Hiding Africa's looted funds: The silence of Western media

While the Western media is vociferous in highlighting how corrupt African leaders are, it is strangely silent on the role played by Western financial institutions and corporations in facilitating the transfer and laundering of such stolen loot, says *Lord Aikins Adusei.*

IN May, Prime Minister David Cameron of Britain told Queen Elizabeth II that he was inviting the leaders of some 'fantastically corrupt countries', including Nigeria and Afghanistan, to attend an anti-corruption summit. Cameron's comment about Nigeria and Afghanistan, though not surprising, undoubtedly hides the truth and is pregnant with hypocrisy and double standards.

The response by President Muhammadu Buhari of Nigeria, that he would not demand an apology from Cameron but rather would demand the return of the country's looted assets, brings to light the true nature of corruption in Nigeria, Africa and the developing world and the indifference of Western politicians, institutions and corporations, in particular the media, in fighting corruption.

The tens of billions of dollars that leave the shores of Africa and other poor regions every year are not the making of these regions alone. Britain, France, Switzerland, the United States and other developed economies are not only deeply involved but actually provide the avenue, incentives and the legal and institutional infrastructures in promoting corruption in the developing world. The cities of London, Paris, New York, Washington, Geneva, Zurich and Monaco serve as home to the billions of dollars that leave Africa each year.

David Cameron pointing accusing fingers at Nigeria and Afghanistan is nothing new. Quite often when you read the newspapers, listen to the radio and watch television in the West, you learn how poor Africans are and how corrupt African leaders are. But you will never watch, read or hear anything in these media outlets about the role being played by Western banking institutions, property development and real estate companies, big corporations, and the Western political and business elite in promoting corruption in Africa. When it comes to Africa and the developing world, the Western media pretend to be doing a good job only when there is an embarrassing story or a scandal, which undermines their credibility as the watchdog of the state.

It is common to see poverty-stricken Africans in poor living conditions in Western documentaries and movies but the same documentaries and movies are always silent on the role played by the institutions in the West. Bribery, as we all know, involves a giver and a taker, but it is often only the taker who is reported on in the media. In many instances bribes are offered in order to secure a contract or an official favour or to influence a government decision. In other instances corruption is facilitated because of the existence of favourable conditions as can be seen in most Western countries with their banking secrecy laws.

The media in the West tend to ignore the role of Western institutions for many reasons. One main reason is the interlocking shareholding and other corporate and financial links between the media companies and these organisations. Another reason has to do with the fear of losing advertising revenue from the corporations involved.

The *New York Times*, the *Washington Post*, CNN, BBC, ABC, CBS, ITV, Fox, Sky News and other media houses assiduously portray Africa as poor and undeveloped but do not show the same zeal in reporting about the role Western banking and other institutions play. They fail to tell the world that the proceeds from the looting that makes Africans poor are indeed sitting in Europe, North America, Australia, New Zealand and the offshore enclaves (e.g., Jersey, British Virgin Islands, Isle of Man, Monaco) controlled by the West. They fail to tell the world that Africa would be a different place if all the stolen monies are returned, but would they ever raise a voice in support of such a laudable idea? Why would the media change the way they report when for centuries they have been the source of misinformation and misrepresentation of non-Western affairs?

Corruption in Africa is facilitated by banking institutions in Europe and North America, especially the US, Switzerland, Britain, France, Luxembourg, Liechtenstein, Austria and many others, which accept money from African leaders without questioning the source of the money. According to the UN, around $148 billion is stolen from the continent every year by political leaders, the business elite and civil servants, with the collusion and connivance of banking industries in Europe and North America.

Even though it is common knowledge that Western banks are acting as safe havens for looted funds from Africa, very little is done by the Western media to expose them. The media tend to focus their attention on the corrupt leaders, with little or no mention at all as to where the monies they have stolen are being kept. There has not been any concrete effort to expose the banks and the law firms that collude and connive with these corrupt leaders who are impoverishing the people. No decisive move has been made by the political elite in Europe and North America to force the banks to return these stolen monies to the poorest of the poor. They talk about corruption because it is embarrassing to them but they have no agenda to fight it.

In the five years of his reign (1993-98), Sani Abacha of Nigeria was able to stash abroad $5 billion, according to official figures (the unofficial amount is estimated at between $12 billion and $16 billion). After his death in 1998, investigators in Nigeria, Europe and North America found over 130 foreign bank accounts where some of the money stolen was kept.

The banks that received Abacha's stolen funds are: Australia and New Zealand Banking Group (ANZ), Frankfurt branch; ANZ, London; ANZ, New York; Bank Len, Zurich; Bankers Trust Company, Frankfurt; Bankers Trust Company, London; Bankers Trust Company, New York; Banque Baring Brothers, Geneva; Banque Edouard Constant, General; Banque Nationale de Paris, Basel; Banque Nationale de Paris, Geneva; Banque Nationale de Paris, London; Barclays Bank, London; Barclays Bank, New York; Citibank NA, London; Citibank NA, Luxembourg; Citibank NA, New York; Citibank, Zurich; Credit Lyonnais, New York; Credit Suisse, General; Credit Suisse, New York; Credit Suisse, Zurich; Deutsche Morgan Grenfell, Jersey; First Bank (Schweiz) AG, Zurich; First Bank of Boston, London; Goldman Sachs and Company, Zurich; Gothard Bank, Geneva; LGT Liechtenstein Bank, Vaduz; Liechtenstein Landesbank, Vaduz; MM Warburg and Company, Hamburg; MM Warburg and Company, Luxembourg; MM Warburg and Company, Zurich; Merrill Lynch Bank, Geneva; Merrill Lynch Bank, New York; Midland Bank, London; National Westminister Bank, London; Paribas, Geneva; Paribus, London; Royal Bank of Scotland, Leeds; Standard Bank London Limited, London; UBS AG, Geneva; UBS AG, Zurich; Union Bancaire Privee, Geneva; Union Bancaire Privee, London; and Verwaltungs Und Private Bank AG, Vaduz (source: *Tell* Magazine, 7 October 2002).

Since his death in 1998, various Nigerian governments have attempted to retrieve Abacha's loot scattered across Europe and other jurisdictions with very limited success. Switzerland has repatriated $723 million to Nigeria and signed a letter of agreement with Nigeria to repatriate a further $321 million. Liechtenstein has also repatriated some $227 million. The US has agreed to return to Nigeria more than $480 million hidden in US banks. However, the total amount returned falls far below the official estimated figure of $5 billion stolen by Abacha and his family.

It has been the Nigerian governments (past and present) that have been working hard to get the looted funds returned. The Western media (and the politicians, banks and law firms) have turned a blind eye to Nigeria's effort to recover its stolen wealth.

In February 2009, a French court had the then Gabonese President Omar Bongo's nine bank accounts containing several millions of euros frozen. In confirming the court's decision, lawyer Jean-Philippe Le Bail said, 'This concerns Credit Lyonnais, in which the president of Gabon has two current accounts, two savings accounts and a share account, and BNP, in which he has two checking accounts, a savings account and a share account.' Before his death in June 2009, Bongo together with his family had 70 bank accounts in France the money from which was used to purchase several properties worth millions of dollars. His wife Edith had over $75 million stashed in banks in Monaco.

According to French police investigations, Congo-Brazzaville President Denis Sassou Nguesso and his family have 112 bank accounts in France. It is believed that these accounts contain hundreds of millions of dollars siphoned from the coffers of his resource-rich but economically impoverished country.

According to a secret 110-page report prepared by international risk consultancy firm Kroll and exposed by the whistleblowing website WikiLeaks, former Kenyan President Daniel Arap Moi and his family have banked £1 billion in 28 countries including Britain, but the media in the West will not expose the banks involved.

These are the banks whose shady dealings with the political and business elite in Africa continue to impoverish African countries but which the media refuse to tell the world about. The banks know these corrupt leaders have stolen the money but pretend not to know until there is a scandal, after which they begin to act as if they are responsible institutions. Most of the above banks have also been implicated for receiving billions of dollars of looted funds from a number of other current and former African leaders, yet Western media are silent about where the funds are being kept.

Apart from the banking sector, the property sector (particularly real estate and vehicles) in Europe, North America and Australia has also been the beneficiary as Africa's political and business elite spend their ill-gotten gains. It has been revealed that several African leaders and public officials have bought luxury mansions and expensive cars in Europe and North America using the monies stolen from their poor countries.

It is on record that the late Mobutu Sese Seko of the Democratic Republic of Congo had bought several villas in France, Switzerland, Belgium and many other European countries. A French police investigation established that Omar Bongo and his family owned at least 33 luxury properties in France. In Paris alone Bongo owned 10 luxury mansions including a 21,528 sq ft villa located at Rue de la Baume near the Elysée Palace, bought in 2007 for €18.8 million. Bongo was spotted greeting then French President Nicolas Sarkozy in this villa. Another four of the 10 houses are on the exclusive Avenue Foch near the Arc de Triomphe.

Bongo bought a fleet of limousines, including a £308,823 Maybach for his wife Edith in February 2004.

Payment for some of the cars was directly taken from the treasury of Gabon. Bongo's daughter Pascaline used a cheque from the same account for part-payment of £29,497 towards a £60,000 Mercedes two years later. Bongo himself bought a Ferrari 612 Scaglietti F1 in October 2004 for £153,000.

The current President of Gabon Ali Bongo, Omar Bongo's son, purchased a luxury housing estate costing €100 million. The building, which covers a space of 4,500 square metres with the garden covering 3,700 square metres, is located in Paris' University Street and has been described as 'one of the most beautiful' in the heart of the city. French satirical newspaper *Le Canard enchainé* reported that 'the €100 million does not include other expenditure to be made for the renovation and maintenance work which could take a third of Gabon's GDP'. In June 2001, Ali Bongo bought a Ferrari 456 M GT for £156,000. French police investigations indicate that this lifestyle of profligacy was supported by leading French banks, housing developers and vehicle dealers.

It has recently come to light that Kenya's Moi and his family bought several multi-million-pound properties in London, New York and South Africa and a 10,000-hectare ranch in Australia. While the majority of Kenyans live in slums and in rural areas, with little roofing over their heads and lacking water and other basic necessities of life, Moi's family live in a £4 million home in Surrey and £2 million flat in Knightsbridge in Britain, yet the media will not expose the real estate companies involved.

The Panama Papers leaks have revealed how Nigeria's political elite and public officials use money stolen from their people to buy expensive homes in London. The Speaker of Nigeria's Senate, Bukola Saraki, bought a £5.7 million property in London's Belgravia area and registered it in his wife's name to hide the true ownership of the property. Folorunsho Coker, a former head of the Number Plate Authority of Lagos State and currently a business adviser to the state governor, bought a property in London worth £1.65 million. Mallam Bello Gwandu, a former director of the Nigerian Ports Authority, bought a flat in London's affluent Maida Vale district. He also bought a property at St George Wharf in London for £450,000. Yet again the companies selling the villas and luxury mansions were never exposed by the media. They will not be exposed by the media. Why would they?

Another area often ignored by the Western media is the role played by Western corporations in encouraging corruption, bribery and thievery in Africa. It is very common for Western companies to pay bribes and kickbacks to induce officials to award them lucrative contracts. For example, in September 2002, Canadian firm Acres International was convicted by a High Court in Lesotho for paying a $260,000 bribe to secure an $8 billion dam contract. In 2002, Halliburton, a company once controlled by former US Vice-President Dick Cheney, was accused of establishing a $180 million slush fund with the intent of using it to bribe Nigerian officials in order to secure a $10 billion liquefied gas plant contract in Nigeria. Achair Partners, a Swiss company, and Italian firm Progresso have been accused of bribing Somalia Transition Government officials in order to secure contracts to deposit highly toxic industrial waste in the waters of Somalia. Such corrupt practices by Western companies seeking contracts in Africa are one of the reasons poverty and disease are rife in the continent.

The catastrophic environmental damage being caused by petroleum, mining and timber companies such as Shell, BP, Mobil, Total, Elf, Texaco, Mittal and Anglo-America Corporation in Nigeria, Ghana, Gabon, Equatorial Guinea, Angola, Congo-Brazzaville, Democratic Republic of Congo, South Africa, Guinea, Sierra Leone, Liberia and Senegal rarely makes the news in the West. How often do we hear about the huge environmental price Africans are paying to satisfy the West's insatiable appetite for precious metals, energy and technology? Apart from the huge profits being made by these conglomerates, which we often hear about in the news, do we also hear about their complete disregard for environmental protection: the pollution of rivers, lakes, streams, wells and land?

In October 2002, after a three-year investigation a UN panel of experts implicated Cabot Corporation (Boston, US), Eagle Wings Resources International and OM Group (Ohio, US) in arming rebel groups and collaborating with them to traffic from the Democratic Republic of Congo gold, diamonds, timber and, most importantly, coltan (columbo-tantalite), a precious ore essential to videogame consoles, laptop computers and cellphones. Coltan is often spirited out of the DRC to US, Swiss, Belgian and German clients by Ugandan and Rwandan army officers, rebel groups and through a network of criminal syndicates. In all, 85 companies were implicated in the report.

Beyond the wars and the desperate faces of hungry refugees, do these illegal activities by the corporations make the news in the Western media? Definitely not. Even when local journalists and writers seek to document these for broadcast in the Western media, they are refused because it does not serve the media's interests in the wider scheme of things. This, then, is the hypocrisy and the double standards of the Western media. They want the world to know how poor Africans are, but fail to tell the world that Africans are poor because Western banking institutions, housing developers, car manufacturers, defence companies and defence contractors, and oil, mining and technology corporations are major stakeholders in promoting Africa's poverty and underdevelopment.

Corruption and bribery in Africa and indeed the developing world could be substantially reduced if the media for once put aside their pick-and-choose journalism and reveal the degree of involvement by Western capitalist institutions in keeping Africans poor. ◆

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The issue of private sector corruption in Africa

While traditionally corruption in Africa has been seen as a public sector phenomenon, private sector corruption deserves as much attention due to its equally debilitating effects on economic activity.

Léonce Ndikumana

One manifestation of private sector corruption in Africa is trade mispricing, where importers and exporters manipulate the reported values of their trade transactions.

DURING the nine pre-recession years of the 2000s (2000-08), Africa's income grew by 5.8% per annum and by 3% in per capita terms. Sub-Saharan Africa (SSA), which has been historically seen as a laggard, posted a real GDP growth rate of 4.9% and a per capita income growth of 2.4% during the same period. At this pace, SSA's income per capita was on track to doubling from the current levels of $640 in 29 years.

Even during the global economic crisis, SSA posted a 2% real GDP growth rate, which was higher than in most regions. Africa has staged a quick post-crisis recovery, in major part due to prompt and effective counter-cyclical policy interventions by African governments complemented by sustained external financing (Kasekende, Brixiova and Ndikumana 2010; Ndikumana and Brixiova 2013). The recent strong performance has inspired new optimism and even exuberance vis-à-vis Africa's economic destiny, with some referring to an 'African renaissance' and others even crowning African 'lions' (emulating Asian 'tigers').

At the same time, Africa continues to face critical development challenges. It is host to the highest poverty levels in the world and growing youth unemployment; it faces high vulnerabilities to shocks as its economies are too dependent on a narrow production base. There is a growing consensus that efforts to resolve these structural problems are frustrated not only by lack of resources but also by inefficient use of resources due to poor governance, or more specifically corruption in the public sector as well as in the private sector.

Thus today the problem of corruption has garnered a high level of attention in national and international policy discourse for several reasons. First, corruption causes severe waste and misallocation of financial, human and natural resources, thus retarding growth. Second, corruption suffocates private sector activity and entrepreneurship, perpetuating the dominance of an inefficient public sector, and preventing economic diversification and structural transformation. Third, corruption has substantial distributional effects as it widens income gaps between the rich and politically powerful on the one hand and the ordinary workers on the other hand. Finally, in the globalised world, endemic corruption is contagious through cross-border trade and financial relations. Thus the fight against corruption is a global public good as it leads to a healthier, more transparent and more sustainable international economic order that benefits all economies. These reasons explain the strong impetus in the national, regional and international arena to find effective solutions to the problem of corruption.

Traditionally corruption has been seen as a public sector phenomenon whereby public officials sell political commodities to private actors. While public sector agents play an important role in corruption, it involves two parties in willing-buyer, willing-seller transactions that violate the law in one way or another. Thus, even in corruption deals initiated by public sector actors, private sector actors are not always innocent victims. Private sector operators not only benefit from corruption by securing contracts and business-enhancing privileges, but they also often are the initiators of bribery.

Private sector corruption deserves as much attention as public sector corruption due to its equally debilitating effects on economic activity. Private sector corruption is typically facilitated by weaknesses in the regulatory and institutional framework that make it difficult to monitor the enforcement of rules and fraud deterrent mechanisms. It operates through a number of key mechanisms.

Anti-competitive behaviour in the manufacturing and services sectors

A common feature of the industrial sector in most African countries is the high concentration of ownership often in the hands of family-based networks. These networks are generally connected to the existing and past ruling elite, a key source of access to markets, large government procurement contracts, and preferential treatment in taxation and import/export licensing. The monopolistic privileges enjoyed by large private companies are created and reinforced by regulatory barriers that constrain entry into select sectors. The monopolistic structure of the industrial sector prevents the emergence of new entrepreneurs because incumbency privileges enable the existing conglomerates to undercut prospective entrepreneurs notably using their links to the political regime. As a result, this limits the penetration of new technologies and modern business practices, thereby undermining productivity growth.

In the financial system, corruption and anti-competitive behaviour by private agents can exert heavy costs to society as a whole. Anti-competitive behaviour increases barriers to entry, perpetuating inefficient institutions in the sector. A common form of corruption in the financial sector is insider trading, which allows influential insiders including top-ranking managers in the industry to make profits from moving ahead of the market. At the same time, such speculative trading causes drastic losses for honest investors who are often stuck with undervalued assets.

While access to credit is generally limited in African banking systems, this co-exists with concentration of lending to insiders and connected individuals. In a detailed study on Burundi, Nkurunziza, Ndikumana and Nyamoya (2012) document systematic misallocation of resources resulting from corrupt and nepotistic lending policies whereby managers of banks, their associates and employees have access to credit at below market rates, while outsiders struggle to get loans and pay usury interest rates. Exhibiting a clear bi-modal distribution, the rates charged on loans vary from 0% to 7.5% (with a mode of 4%) for insiders and from 18% to 23.5% for outsiders. Analysis at the account level confirms that in addition to managers and employees, the borrowers enjoying privileged treatment included politically influential individuals. The political leverage of these individuals not only allows them to obtain the loans at cheap rates, but also gives them a licence to default on their loans with impunity. This process of corrupt and nepotistic management of the banking system accounts for the numerous bank failures observed in Burundi (Nkurunziza, Ndikumana and Nyamoya 2012). Thus corruption in the banking sector has important political economy dimensions that explain both its genesis and its persistence.

A copper smelter under construction in Chingola, Zambia. Zambia has suffered substantial losses in terms of foregone mining tax revenue partly due to corporate tax avoidance.

Corruption therefore can have dramatic consequences on the financial sector as it may lead to financial instability. A recent example is the case of Nigeria where a number of commercial banks nearly collapsed as a result of speculative lending and investment decisions. The culprits in this case were complacent regulation as well as patronage.

In addition to banking fragility, corruption in the banking system creates perverse incentives that promote speculation over real investment. As a result, the banking sector becomes an island of prosperity that is divorced from the rest of the economy. It is not surprising that the banking sector in a country like Burundi would still post such high rates of return on equity (in the range of 25-50% for the dominant banks) when the real sector is suffering from a shortage of investment funds. Bank resources are channelled towards speculative activities, away from the bedrock of the economy – the agriculture and manufacturing sectors. During the 2003-08 period, agriculture and industry received 0.8% and 2% of total bank credit respectively, compared to 67% for commerce. The same occurred in Nigeria where, as Apati (2011) concludes, the banking sector prospered at the expense of the real economy.

In his analysis, Apati (2011) documents how corruption and speculation allowed banks to artificially inflate their worth through creative manipulation of funds and the market. At some point, some of the leading Nigerian banks were estimated to be overvalued by up to 50%. Banks inflated the value of their stocks through speculation, increasing demand for stock, resulting in 'irrational exuberance'. Investigations revealed a number of practices behind the speculative bubble in the banking sector (Apati 2011): (1) use of 'special purpose vehicles' by banks to lend to their own subsidiaries which purchased their stocks; (2) insider trading in banks' own stocks through third-party stockbroking companies; (3) warehousing and dumping other banks' stocks to crush their price; (4) banks setting up shell companies to circumvent the single obligor limit, allowing them to issue large loans to individuals for the purpose of serial purchases of bank stocks; (5) banks using depositors' funds to purchase their own public offerings. All these practices violated banking laws, as a result of inadequate supervision. These problems were certainly not specific to the Nigerian banking system. Any country is subject to similar speculative attacks on the banking sector in the absence of vigilant regulation.

The problems in the Burundian and Nigerian banking sectors demonstrate common features of private sector corruption. First, corruption rides on weak governance and supervision of private sector activity. Managers of banks are able to circumvent the rules to advance their interests, and these practices persist due to ineffective supervision and regulation. Second, corruption thrives on either complacency or complicity of political power. In most cases the bankers enjoy cover from top-ranking politicians who themselves have financial interests in the banks. Third, corruption arises from the actions or influence of former politicians turned bank owners directly or indirectly through bank managers who are their nominees. Apati (2011) tells the story of retired politicians who invest in banks or even create banks that are run by novice nephews and nieces, and how these banks become their avenue to golden retirement.

The costs of corruption in the banking sector are high. Bank failures resulting from corrupt management imply substantial losses for depositors and impose stress on government resources as a result of bailouts. It is therefore clear that rooting out corruption from the banking sector should be on the top of the anti-corruption agenda.

These cases also demonstrate that the focus should not be only on problems of corporate corruption by large multinational corporations operating in Africa. Due attention should also be paid to corruption by domestic firms. The analysis also demonstrates that corruption often entails complicity between private agents and public officials who either provide privileges to the former or turn a blind eye to illicit behaviour by rent-seeking private operators. Under protection by influential politicians, corrupt private actors behave as though they are above the law, benefiting from impunity. This again demonstrates that the political economy dimensions of private sector corruption must be taken into account in strategies to eradicate the problem.

Capital flight, trade mispricing and transfer pricing

Capital flight

Economists have worried about the problem of capital flight since the 1930s if not earlier (Kindleberger 1937). But attention to capital flight from Africa is more recent (Ajayi 1997). Capital flight is understood as illicit movement of capital across borders, motivated by: (1) the need to conceal illegally acquired funds by safekeeping them abroad, taking advantage of bank secrecy; (2) evading taxation on otherwise legally acquired wealth or income; or (3) smuggling of goods and money, including money laundering.

Various measures have been proposed in the literature in the attempt to quantify unrecorded flows of capital using data reported in official documents such as the balance of payments, debt statistics and bilateral trade statistics (see Ndikumana and Boyce 2001 for a review). The most commonly used measure of capital flight is the 'residual method' (Erbe 1985), which is based on the reconciliation between inflows of international financial resources (sources) and the outflows of funds (uses). The key sources are net external borrowing and net foreign direct investment. These resources are used to cover the current account deficit and the remainder consists of net additions to reserves. The residual between sources and uses of funds constitutes the baseline measure of capital flight.

Over time a number of refinements have been brought to the baseline measure of capital flight. First, an additional channel of capital flight investigated is the mispricing of international trade whereby exports are under-invoiced for the sake of keeping the difference abroad while imports are either over-invoiced for the same reason or under-invoiced for the purpose of smuggling. We elaborate on this channel as a source of corrupt financial flows in the next sub-section. Ndikumana and Boyce (2001; 2010) introduce further amendments taking into account exchange rate movements in the calculation of net borrowing and debt forgiveness, as well as adjusting for unrecorded worker remittances.

The existing evidence demonstrates that African countries have experienced and continue to face heavy financial haemorrhage through capital flight. The responsibility for capital flight is equally shared by government officials and private sector operators. From the public sector side, capital flight arises through embezzlement of external debt, including outright theft of borrowed funds that are often directly deposited in the same banks that issued the loans through a 'revolving door'. The public sector is also the scene of other mechanisms that facilitate capital flight including kickbacks and padded procurement contracts on debt-funded projects. Empirical analysis has revealed that a substantial fraction of capital flight from Africa is actually financed by external borrowing. Ndikumana and Boyce (2011a;

2011b) find that up to 60 cents out of each dollar borrowed flees in the same year as capital flight from African countries.

From the private sector, capital flight arises through smuggling of foreign exchange and mispricing of international trade (see next sub-section). The volumes of capital flight from African countries are staggering. It is estimated that from 1970 to 2010, Africa lost as much as $1.3 trillion due to capital flight (Ndikumana and Boyce 2012; Boyce and Ndikumana 2012). Assuming that these funds would have earned interest if invested in the market, cumulative capital flight amounts to $1.7 trillion. This is astounding in a continent that faces large and growing financing deficits and a region that is lagging behind in achievement of national development goals.

The stock of capital flight from Africa far exceeds cumulative official development aid to the continent, and is far more than the debts owed by the continent, making the region a 'net creditor' to the rest of the world. However, while capital flight is in the hands of private Africans and disguised in various forms of liquid and physical assets abroad, the debts are public liabilities and are borne by the African people.

Trade mispricing and money laundering

Another manifestation of corruption in the private sector is the massive volume of money that goes missing through trade misinvoicing, a mechanism which is also used as a means of money laundering to recycle illicit and even criminal money into the formal economy. Trade misinvoicing is a process through which importers and exporters manipulate the reported values of their transactions to reduce the amount of foreign exchange to be surrendered to monetary authorities from export receipts and to inflate the amount of foreign exchange claimed from the authorities to pay for imports. Specifically, exporters understate the value of their export revenues, so as to retain abroad the difference between the true value and the declared value of exports. In turn, importers have incentives for both over-invoicing and under-invoicing: over-invoicing allows importers to obtain extra foreign exchange from the central bank at favourable terms, which can then be transferred abroad. Under-invoicing and outright smuggling allow importers to evade customs duties and regulations.

As a result of trade misinvoicing, the current account deficit will be inflated by export under-invoicing and import over-invoicing; it is reduced in the presence of import under-invoicing. Consequently, the capital flight estimate obtained using balance-of-payments trade data will be too low if the current account deficit is overstated: further capital flight is hidden in the trade accounts. Conversely, the capital flight estimate will be too high if the current account deficit is understated: some of the missing foreign exchange was in fact used to finance unrecorded imports. The net effect of trade misinvoicing can only be ascertained empirically.

The amount of trade misinvoicing is estimated by comparing the African country's export and import data to those of its trading partners as reported in the International Monetary Fund (IMF)'s *Direction of Trade Statistics*. Assuming that trade data from industrialised countries are relatively accurate, the discrepancy between these and data from their African trading partners is interpreted as evidence of misinvoicing. For each African country, export discrepancies with industrialised countries are computed as the difference between the value of industrialised countries' imports from the African country as reported by industrialised countries, and the African country's exports to industrialised countries as reported by the African country (accounting for the costs of freight and insurance). A positive difference indicates export under-invoicing. Import discrepancies with the industrialised countries are calculated as the difference between the African country's imports from industrialised countries as reported by the African country, and the industrialised countries' exports to the African country as reported by the industrialised trading partners. A positive difference indicates net over-invoicing of imports; a negative sign indicates net under-invoicing.

Trade mispricing implies a double loss for African countries: foregone foreign exchange revenue, and lost taxes on smuggled imports and on under-invoiced exports. These costs are in addition to the direct effect of capital flight and money laundering.

Transfer pricing and tax evasion

The globalisation and increasing complexity in the governance and ownership structure of modern corporations has had dramatic impact on the nature of trade and financial flows. Today a large volume of trade takes place within rather than between large corporations, allowing corporations to engage in 'self-regulated' pricing to improve their bottom line. This complex structure creates a 'corporate veil' facilitating transfer pricing among subsidiaries of the same company that trade with one another.

Along with this increasing complexity of the corporate structure, there has also been an increase in the number and importance of jurisdictions that offer uncompetitive and secretive advantages to corporations, commonly referred to as 'tax havens' or 'safe havens'. While the expression may sound as referring to alien and remote lands, the largest territories serving as safe havens include major cities such as London and New York, with Britain hosting the largest number of tax havens in the world. Indeed transfer pricing takes place right in the centres of legal trade and finance.

The move of economic activity offshore behind the curtain of banking and fiscal secrecy implies heavy costs to African countries. As Nicholas Shaxson points out, it is impossible to tell a complete story of African development without including offshore: 'poverty in Africa cannot be understood without understanding the role of offshore' (Shaxson 2011: 149).

Transfer pricing is facilitated by a number of features in the taxation systems, banking systems and corporate structure, including the following:

1. Banking secrecy, which allows the origin of funds to be concealed, making it difficult for authorities to accurately assess corporate tax liabilities. Banking secrecy also helps in other dealings, including money laundering.

2. Thin capitalisation, which allows a subsidiary of a multinational corporation (MNC) to make high-interest loans to another subsidiary of the same MNC in the same host country. This reduces the amount of taxable profits.

3. Use of 'nominees' to hide the identity of the true owner of assets.

4. Limited or no disclosure of company accounts, which allows inconsistent reporting of corporate transactions and tax liabilities.

5. High-level client confidentiality in the name of banking secrecy, which prevents public scrutiny of trade, financial and fiscal records of multinational corporations.

6. Low or zero tax rates across territories, including tax exemptions, allowing corporations to shift expenses and revenues across jurisdictions, through subsidiaries and shell companies that own intangible assets such as trademarks or provide management services. The preferred destinations of transfer pricing operations are tax havens.

Typically, corporations will use one or a combination of the above features to maximise profits in a legal but illicit manner. They use transfer pricing to shift the costs to high-tax territories and sales proceeds to low- or no-tax jurisdictions. This ultimately inflates costs and reduces taxable profits in high-tax territories while increasing taxable profits in low-tax territories. The trouble is that according to current accounting standards, this creative accounting is ironically 'legal'. But it is nonetheless illicit in the sense that it robs African countries of tax revenue that could have financed vital social needs such as education and health. Even from the perspective of the public in developed countries, these practices are viewed as illicit in the sense that they perpetuate inequality, allowing rich corporations and wealthy individuals to pay no taxes on their incomes while ordinary citizens whose incomes are easily tracked face the full burden of taxation. Hence workers end up subsidising the wealthy's consumption of public goods and services.

African countries host a large and increasing number of global corporations, especially in the natural resource sector, some of which operate on their own while others own shares in national companies. The complex corporate structure, the sophistication of operations in the natural resource sector throughout the entire value chain, and the large volumes involved in the transactions, make the industry fertile terrain for bribery, graft and transfer pricing. This results in substantial revenue losses for African governments, both through sub-optimal rent-sharing covenants as well as through underpayment of corporate taxes.

To illustrate this point, a report by the Extractive Industry Transparency Initiative (EITI) found that while mining companies in Zambia paid $463 million in taxes to the government, there were $66 million of 'unresolved discrepancies' between actual payments and companies' tax liabilities in the same year (Sharife 2011). The same report notes that half of copper exports earmarked for Switzerland never made it there, 'disappearing in thin air'. At the same time, copper price differentials between Zambia and Switzerland were six to one in favour of the latter, implying substantial profits for the companies from copper exports. The flipside is substantial losses for Zambia in terms of foregone tax revenue. It is estimated that the country may have lost up to $11.4 billion in tax revenue in 2008, which is just below its total GDP in that year ($14.3 billion) (Sharife 2011).

Mining tax revenue losses for Zambia are partly due to the fact that companies are able to take advantage of their complex corporate structure and the privileges offered by safe havens to reduce their tax liabilities on Zambian territory. For example, copper mining giant Mopani Copper Mines (MCM), which is a Zambian-registered company, is integrated in a complex web of ownership and domiciliation spread throughout the world. In practice, MCM is almost entirely located in tax havens through its corporate ownership: 73% of the company is owned by Carlisa Investments which is based in the British Virgin Islands, which in turn is 82% owned by Bermuda-based Glencore Finance, which is totally owned by Switzerland-based Glencore International AG. This complex corporate ownership structure provides some insights into the incentives behind the trade circuits of Zambian copper. Given that MCM is a subsidiary of Glencore, it makes business sense that it would prefer to take a low price for its products sold to Glencore even though it could sell for a higher price on the open market. This reduces the profits in Zambia, thus reducing the tax liabilities in the country. At the same time, the arrangement shifts profits to Switzerland where tax rates are lower, thus reducing total tax liabilities at the corporation level.

Transfer pricing provides a convenient route for international companies operating in the natural resource sector in Africa to maximise their profits while evading their key corporate responsibilities. This is in addition to the fact that in many instances, international corporations have negotiated very favourable deals with African governments involving long tax holidays. In the case of Zambia, mining companies generate only 2.2% of the government revenue. However, 95.6% of that is from withheld tax on labour income, with only 4.4% from corporate taxes (Sharife 2011). It is estimated by ActionAid that transfer pricing may be costing the government of Zambia up to £76 million a year.

Tax evasion through transfer pricing plagues other sectors of African economies beyond the natural resource industry, especially the manufacturing sector whenever large multinational companies are involved. ActionAid reported a vivid example of 'tax dodging' through transfer pricing by the giant corporation SABMiller, which operates in a number of African countries, including Ghana, Mozambique, South Africa, Tanzania and Zambia (ActionAid 2010). In Ghana, SABMiller owns Accra Brewery, which was the first brewery in West Africa, established in 1933.

SABMiller is made up of 465 subsidiary companies in 67 countries, including 65 in tax havens: 17 in the Netherlands, 11 in Mauritius, 8 in the British Virgin Islands, 6 in Switzerland, and 6 in British Commonwealth Dependencies. The group claims to have made substantial contributions to African economies through tax payments. But the company has paid little from corporate tax, taking credit for income tax levied on employees and sales taxes collected by dealers on its products, which are borne by customers. ActionAid estimates that while the group claims to have paid $4.4 billion globally in taxes, only $620 million is from corporate taxes, while 86% is borne by employees and consumers.

Two key techniques are utilised by multinational corporations to dodge taxes: royalty payments to affiliated trademark holders located outside of Africa, and management fees paid also to affiliates and subsidiaries within corporate groups outside the continent. For example, during the 2007-10 period, Accra Brewery paid £4.6 million in management fees and royalties, amounting to 10 times its operating profits. All these payments were made to two companies belonging to the SABMiller group: Bevman Services AG in Switzerland and SABMiller International BV in the Netherlands. It so happens that both companies are conveniently located in jurisdictions with very low tax rates relative to Ghana. In 2010 alone, Accra Brewery paid £1.3 million in royalties to SABMiller International in Rotterdam for using its brands (Castle Milk Malt and Stone Lager).

In South Africa where SABMiller also operates, the trademark of Castle, a beer that has been produced for over a century in the country, is registered and owned in Rotterdam. South African Brewery Ltd, one of SABMiller's largest operating companies, pays £18 million per year in royalties to SABMiller BV in the Netherlands.

Tax evasion results in large foregone government revenues for African countries. ActionAid (2010) estimates that African countries where SABMiller operates have lost as much as £10 million in taxes as a group due to shifting of royalty payments to tax havens and £8 million due to payments of management fees to subsidiaries also located in tax havens. In an attempt to put a human face to these tax losses, ActionAid estimated that the lost taxes were 'enough to put a quarter of a million children in school in the countries where SABMiller operates' (ActionAid 2010: 30). For Ghana alone, schooling for about 85,000 children could be supported by the foregone corporate tax not paid by SABMiller's subsidiary Accra Brewery. ◆

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Britain is the heart and soul of tax evasion

While lecturing developing-country leaders about the 'cancer' of corruption, David Cameron has resisted all attempts to regulate Britain's financial sector and fought to maintain the impunity of the City of London and its web of tax havens, says *Dan Glazebrook*.

THE British government's claim to be tackling tax evasion is about as credible as Al Capone claiming to be leading the fight against organised crime. In fact, Britain is at the heart of the global tax haven network, and continues to lead the fight against its regulation.

The 11.5 million leaked documents from Panamanian law firm Mossack Fonseca have proven, once again, what we have already known for some time – that the 'offshore world' of tax havens is a den of money laundering and tax evasion right at the heart of the global financial system.

Despite attempts by Western media to twist the revelations into a story about the 'corruption' of official enemies – North Korea, Syria, China and, of course, Putin, who is not even mentioned in the documents – the real story is the British government's assiduous cultivation of the offshore world. For whilst corruption exists in every country, what enables that corruption to flourish and become institutionalised is the network of secretive financial regimes that allow the world's biggest criminals and fraudsters to escape taxation, regulation and oversight of their activities. And this network is a conscious creation of the British state.

'The City of London is effectively the granddaddy of the global offshore system.'

Of the 215,000 companies identified in the Mossack Fonseca documents, over half were incorporated in the British Virgin Islands, one single territory in what tax haven expert Nicholas Shaxson calls a 'spider's web' of well over a dozen separate UK-controlled dens of financial chicanery.

In addition, the UK was ranked number two of those jurisdictions where the banks, law firms and other middlemen associated with the Panama Papers operate, only topped by Hong Kong, whose institutional environment is itself a creation of the UK. And of the 10 banks which most frequently asked Mossack Fonseca to set up paper companies to hide their clients' finances, four were British-owned or London-based: HSBC, Coutts, Rothschild and UBS. HSBC, recently fined $1.9 billion for laundering the money of Mexico's most violent drug cartels, used the Panamanian firm to create 2,300 offshore companies, whilst Coutts – the family bank of the Windsors – set up just under 500.

And, of course, British premier David Cameron's own father was named in the papers, having 'helped create and develop' Blairmore Holdings, worth $20 million, from its inception in 1982 till his death in 2010. Blairmore, in which Cameron junior was also a shareholder, was registered in the Bahamas, and was specifically advertised to investors as a means of avoiding UK tax.

The *Daily Mail* noted: 'Even though he lived in London, the Prime Minister's father would leave the country and fly to Switzerland or the Bahamas for board meetings of Blairmore Holdings – to ensure it would not have to pay UK income tax or corporation tax. He hired a small army of Bahamas residents, including a part-time bishop, to sign its paperwork – as part of another bid to show his firm was not British-based.'

That Britain should emerge as central to this scandal is no surprise. For as Nicholas Shaxson, a leading authority on tax havens, put it when I interviewed him in 2011, 'The City of London is effectively the granddaddy of the global offshore system.' Whilst there are various different lists of tax havens in existence depending on how exactly they are defined, on any one of them, explains Shaxson, 'you will see that about half of the tax havens on there, of the ones that matter, are in some way British or partly British'. First are 'Jersey, Guernsey and the Isle of Man: the Crown Dependencies. They're very fundamentally controlled by Britain.' Then there are the Overseas Territories, such as the Caymans, Bermuda and the Virgin Islands, in which 'all the things that matter are effectively controlled by Great Britain'.

Of course, it suits the British government to portray all these territories as 'autonomous' or 'self-governing' in order to provide itself with plausible deniability about what they are doing. But the reality is they are run by a governor appointed by the Queen on the British government's advice.

Casey Gill, one of the earliest lawyers specialising in offshore operations, explained how legislation was devised in the Caymans: tax experts and accountants would fly in from all over the world 'and say "these are the loopholes in our system". And Caymans legislation would be designed accordingly,' often by a conglomerate run by Gill, before being sent to the British Foreign Office for approval. Shaxson asked Gill if Britain, who had the power to veto such legislation, ever raised any objections. 'No,' he said, 'Not ever. Never.'

Imperial web

The entire UK-controlled web is home to offshore deposits estimated in 2009 to be worth $3.2 trillion, 55% of the global total: equivalent to roughly $500 for every man, woman and child on the planet.

This web emerged in the 1960s. Whilst ostensibly involved in a process of 'decolonisation', in fact the UK hung on to a large global network of small, sparsely-populated islands: 'The British empire,' Shaxson wrote, 'had faked its own death.' These islands were to serve the same imperial purpose the empire had always had: the projection of British power and the channelling of African, Asian and Latin American wealth into Britain. But whilst some of the islands, such as Diego Garcia and the Falklands, were to serve as crucial military outposts, many of the others were developed as a means of facilitating the financial plunder of the former colonial world.

In Shaxson's words, the role of these tax havens is to 'capture passing foreign business and channel it to London just as a spider's web catches insects', whilst also acting as a 'money laundering filter that lets the City get involved in dirty business while providing it with enough distance to maintain plausible deniability'.

Whilst the vast majority of critical media reporting on tax havens tends to portray the UK as a 'victim' of tax havens, the reality is that, just like the empire they replaced, these 'treasure islands' provide a massive cash injection into the 'motherland', with the Crown Dependencies alone providing the UK with net financing of $332.5 billion in just one quarter of 2009, for example.

And where does this money come from? Obviously, it comes from all over the world, but wealthy European and North American nations have been much better equipped to prevent 'capital flight' from their territories than have developing countries. Indeed, the Bank of England took special care, when it was establishing the global tax haven network, to protect the UK from potential ill effects.

In 2008, Global Financial Integrity estimated that flows of illicit money out of developing countries into tax havens were running at about $1.25 trillion per year, roughly 10 times the total value of aid given to developing countries by the rich world. Whilst those such as Cameron are more interested in handwringing about 'corrupt African governments' than in examining the system that enabled and promoted this corruption, tax havens are facilitating the plunder, by the London banks, of African wealth. And they are doing so because this is what they were designed to do – to continue the extortion of colonialism, just at the moment Britain was forced to give up the bulk of its formal empire.

It is this system that Cameron's government – in diametric opposition to its rhetorical flourishes – is working to perpetuate. Indeed, much of Cameron's battling with Europe has been driven precisely by the desire to maintain the impunity of the City and its web of tax havens in the face of attempts by the European Union to regulate the banking sector.

As the *Financial Times* reported on 6 April, 'David Cameron personally intervened in 2013 to weaken an EU drive to reveal the beneficiaries of trusts, creating a possible loophole that other European nations warned could be exploited by tax evaders.' Britain has also led opposition to EU attempts at reforms that would make corporations register for tax in the places where they actually do business. And one of the key concessions Cameron managed to wring out of the EU summit in February this year was that Britain, in the words of the *Telegraph*, 'can now pull an emergency lever over eurozone laws they have "reasoned opposition" to, forcing leaders to hold back from implementation until their concerns are addressed'. The *Telegraph* specifically cites EU attempts to impose caps on banker bonuses, to introduce a Financial Transactions Tax, and to 'clamp down on the reckless "Anglo-Saxon" lenders which many on the continent still blame for bringing crisis to European shores back in 2009' as examples of those regulations Britain is now likely to veto. In other words, far from being hamstrung from taking action by the non-cooperation of other countries, the UK is the leading saboteur of any attempts to make the financial sector more accountable.

But of course, this is only natural. For accountability would bring the whole criminal enterprise crashing down. ◆

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Just how corrupt is the UK?

Even though 'brown envelopes' are less ubiquitous in Britain than they are in places like Afghanistan and Nigeria, there can be no doubt that the country is seriously corrupt, says *Ian Fraser.*

OVER the past few days quite a few people have been insisting Britain isn't corrupt. They claim to see nothing wrong with British Prime Minister David Cameron describing countries such as Afghanistan and Nigeria, whose leaders were in London for the Anti-Corruption Summit in May, as 'fantastically corrupt'. When Cameron was caught on camera uttering these words in what he thought was a private conversation with the Queen, his clear insinuation was that their former colonial master is, by comparison, whiter than white.

On social media, many people subsequently claimed they could see nothing wrong with the prime minister's remarks. As evidence they cite Transparency International's Corruption Perceptions Index (CPI), according to which Britain is the 10th least corrupt country of 168 countries surveyed. Or, to be precise, Britain is ranked 10th= 'least corrupt country', alongside Luxembourg and Germany. By contrast, Afghanistan, where Britain fought a war from 2001-14, was ranked 166th, and Nigeria, which was a British colony until 1960, was ranked 136th.

Unfortunately, however, the methodology Transparency International uses to produce its corruption index is flawed. It is based on subjective 'perceptions' of corruption garnered from pre-existing surveys and interviews – whose very subjectivity means there's a risk of reinforcing existing stereotypes – not from primary research.

Another issue is Transparency International's somewhat narrow definition of 'corruption'. Its annual survey focuses solely on whether politicians and public officials demand, and get, bribes. This follows the World Bank's narrow definition of corruption: 'the abuse of public office for private gain'.

The authorities have failed to prosecute former directors of RBS despite what is widely considered to have been the bank's fraudulent rights issue in April 2008.

However, in a recent piece in the *Washington Post*, Sussex University professor Dan Hough wrote: 'The Corruption Perceptions Index ... says nothing about corruption in private business – say, the Libor scandal in Britain, or the recent VW emissions scandal in the United States. These events involve private actors, but they have very real public impacts, whether on the interest rates that people pay on their mortgages or on public health.'

In the FAQs section of its latest CPI report, Transparency International acknowledges that its approach is at best partial, stating: 'The Corruption Perceptions Index is an indicator of perceptions of public sector corruption, i.e., administrative and political corruption. It is not a verdict on the levels of corruption of entire nations or societies, or of their policies, or the activities of their private sector.'

In short, TI acknowledges its index falls short of giving the full picture.

Off the scale

Even though 'brown envelopes' are less ubiquitous here than they are in places like Afghanistan and Nigeria, there can be no doubt that Britain is seriously corrupt.

The failure to prosecute any of the bankers who are widely believed to have committed fraud in the run-up to the banking crisis and our so-called 'two-tier justice system' are clear evidence for that. This was encapsulated by the announcement from Scotland's state prosecutor, the Crown Office and Procurator Fiscal Service, on 12 May that it had found 'insufficient evidence' to press criminal charges on Fred Goodwin or other former directors of RBS, despite what is widely considered to have been the bank's fraudulent rights issue in April 2008. That was capped by the appointment of the Lord Advocate who presided over the inquiry – or should I say 'whitewash'? – Frank Mulholland, as a judge in Scotland's top commercial court, the Court of Session.

The bailing out of kleptocratic banks with more than £1.3 trillion of taxpayers' funds in 2008-09 without demanding or enforcing structural or behavioural change on the banking sector is another sign of, at best, 'crony capitalism' and, at worst, 'corruption'. One might argue that the rebranding of criminal fraud as 'mis-selling' and 'misconduct' is another; as is the UK government's shameful kowtowing to the congenitally corrupt HSBC, which saw Cameron's government last year water down much-needed post-crisis banking reforms, after Europe's largest bank rattled its sabre and threatened to remove its headquarters from the UK.

Other signs of insidious corruption in the UK include the ability of the former prime minister Tony Blair to: (i) appease bankers by enfeebling City regulation, mainly in 2002-07, a period when he and fellow Labour cabinet ministers repeatedly intervened to prevent the Financial Services Authority from doing its job in order to protect banks from much-needed scrutiny; (ii) take a $3-million-a-year senior advisory role with JPMorgan Chase within weeks of leaving Downing Street. And don't get me started on the other roles Blair has fulfilled since 2007, including his notorious £5 million deal to launder the image of Kazakh President Nursultan Nazarbayev, a man accused of horrendous human rights abuses.

The revolving door between Westminster/Whitehall and the City of London/private sector is not the exclusive preserve of former prime ministers. Former chancellor Alistair Darling is now a director of US banking giant Morgan Stanley, and former chief secretary of the Treasury Danny Alexander, who lost his parliamentary seat in the May 2015 general election, is now vice-president and corporate secretary of the Asian Infrastructure Investment Bank. And of course, another former Labour prime minister, Gordon Brown, last December joined the global advisory board of Pimco, the world's largest bond fund manager.

According to a piece in the *Daily Mail*, these four are just the tip of the iceberg. Nearly 400 former government ministers and senior civil servants have, since 2008, cashed in on their experience of government in order to pass through the gilded revolving door into lucrative private sector and regulatory jobs. The revolving door also works in the other direction, with, for example, Stephen Green, former chairman of HSBC, ennobled by Cameron so he could become a trade minister. As the door has spun at warp speed, so the scope for corruption has intensified.

Attempted cover-ups

There are plenty of other signs of institutional corruption in the UK, including the appalling Hillsborough cover-up and the Tories' attempted cover-up of alleged election fraud related to money spent on 'battle buses' during last year's general election campaign, a matter which is now being criminally probed by more than 10 police forces.

Then there's the captured and atrophied state of our financial regulators, a situation which still gives banks and other financial institutions more or less free rein to fleece their clients at will, without fear of retribution; the leeway and credence given to 'Big Four' accountancy firms even though, by their own actions, they have shown themselves to be useless and corrupt; the way in which almost every UK inquiry on the audit and other failures of PwC, KPMG, Deloitte and EY either never really happens or ends up getting suppressed; and the way in which Tony Blair succumbed to bullying by the Saudis to drop the Serious Fraud Office's probe into BAE Systems bribes associated with Al Yamamah, the $150 billion arms deal between Britain and Saudi Arabia.

I would single out the recent failure of David Cameron's government, despite the revelations contained in the Panama Papers, to force Britain's Overseas Territories and Crown Dependencies, which include the British Virgin Islands, and indeed the City of London itself, to become more open and transparent and to cease acting as a hiding place for tax evaders, money launderers, drug barons, fraudsters and corrupt politicians to stash their ill-gotten gains as the most glaring recent example of corruption.

The governments of Nigeria, Kenya, France and Afghanistan all recently committed to providing public registers of the beneficial ownership of companies, trusts and foundations. But the UK's tax and secrecy havens are refusing to make any such commitment and Cameron has no intention of forcing their hands.

Dirty money from tax-evading oligarchs and other nefarious individuals is inflating London's property bubble (in the process turning the capital into even more of an unlivable city for ordinary mortals) at the same time as adding what is perceived to be much-needed liquidity to London's financial markets. However, in welcoming it, we're effectively giving a 'getaway vehicle' to international gangsters. In the process we're fuelling international crime, war and terrorism and depriving developing countries including Russia, China and India of hundreds of billions of dollars that are rightfully theirs.

None of this would be possible were it not for the UK's notoriously feeble anti-money laundering defences.

In its excellent 'Don't Look, Won't Find' report, Transparency International highlighted how so-called professionals in banking, accountancy, law, estate agency and company formation – as well as direct sellers of products and services to wealthy foreigners including auction houses, purveyors of luxury goods and private schools – are ushering in this toxic tide. Most of the 22 regulators that are supposed to stem the flow of 'dirty money' into the UK were revealed to be far more interested in cheerleading and lobbying for their member firms (which of course make huge sums from laundering dirty cash) than in regulating them. Such self-regulation has become an utter farce.

Scotland's company factories

The situation in company formation is particularly worrying. Anyone from anywhere in the world can set up an opaque UK-registered limited partnership (LP) (shell company) for a relatively small fee, on a no-questions-asked basis.

Companies House admits that verifying the identities of those who incorporate such vehicles, or checking whether they have legitimate intent, are outside its remit. Last summer Richard Smith and I, when researching the role of Scottish limited partnerships (SLPs) in a $1 billion Moldovan bank fraud, discovered that such vehicles are now widely recognised as 'Europe's secrecy vehicle of choice' and are widely favoured by organised criminals, tax evaders, fraudsters and money launderers.

Today these secrecy vehicles are being churned out at a rate of 6,000 a year (up from 500 a year in 2008) by 'company factories' based in a twilight zone of modest ex-council flats in housing schemes in places like Edinburgh and Inverness in Scotland. We found that a single ground-floor, one-bedroom flat located in the neighbourhood where Irvine Welsh set *Trainspotting* was not only home to two company formation businesses – Royston Business Services and Arran Business Services – but was also the registered address of 425 companies. One of the firms based in the flat, Fortuna United LP, was, according to investigators Kroll, pivotal to a $1 billion bank fraud which has devastated Moldova's economy and caused the collapse of the former Soviet republic's government.

At least 90% of the Scottish limited partnerships churned out by these 'company factories' have anonymous general and limited partners (corporate 'beneficial owners') located in offshore secrecy havens such as the British Virgin Islands, Marshall Islands, Seychelles, Belize and Panama. Fortuna United was controlled by two firms purportedly based in Seychelles – Trafford United Ltd, where the flat's owner Viktorija Zirnelyte is the sole director, and Brixton Ventures Ltd, where her fellow Lithuanian Remigijus Mikalauskas is sole director.

Scottish limited partnerships along similar lines to Fortuna United – whose opacity is so impregnable it's virtually impossible to verify the purpose to which they're being put, who controls them or the sums being channelled through them – are today being heavily marketed by outfits across Central and Eastern Europe including Darwin Tax (believed to be a feeder for Zirnelyte and Mikalauskas), Five Consult, Gestion Baltic, Inlat Plus, LTSS and Sanemto, all Riga-based, and by incorporation agents based in jurisdictions including Belarus, Belize, Cyprus, Dominica, Greece, Ukraine (where there are a great many providers), Panama, Russia and Hong Kong.

Panama-based World Merchant, part of Nevis-registered OP Group Services LLC, is currently advertising SLPs as the 'ideal entities for international merchant accounts'. On its website, World Merchant adds: 'Under Scottish law ... the tax transparency [of Scottish LPs] means that, provided no business is done in the UK and provided the two partners are located in tax-free jurisdictions (we typically prefer Belize, Nevis or Panama), no tax is payable anywhere. The LP is free to do business tax-free in the whole world outside the UK, even including the European Union. An SLP can be set up at relatively low-cost by our preferred incorporation partners, Offshore Pro Group. Typical time required for setting up a new partnership is 5-7 days.'

If it was not for ready availability of anonymous shell companies registered in supposedly reputable tax havens and jurisdictions such as the UK, time could be called on the offshore game. Without them, the corrupt would be unable to loot developing countries without leaving fingerprints, and Western firms allegedly including Rolls-Royce, Petrofac and Weir Group would have no anonymous conduits with which to grease the palms of overseas officials and politicians in the hope of securing lucrative contracts. In her excellent BBC Radio 4 *File on 4* documentary on the Unaoil scandal first broadcast on 10 May, 'Dirty Oil', Jane Deith revealed how UK-based shell companies, including Comex Industries LLP, were allegedly being used by Monaco-based Unaoil to funnel bribes to, among others, Iraqi politicians.

There's no suggestion, though, that any of the abovementioned formation businesses knowingly create or serve companies or partnerships that are used in offshore tax evasion, corruption or fraud, or that they could be especially useful for such purposes.

Despite the recent grandiloquent claims from David Cameron, neither the British nor the Scottish government seems willing to do anything to address this particular open sore, as the revised beneficial ownership rules he keeps trumpeting don't apply to limited partnerships with overseas-based general partners and limited partners.

David Whyte, professor at the University of Liverpool, recently produced a comprehensive guide that includes other examples of serious corruption in the UK. Editor of the book *How Corrupt Is Britain?*, Whyte summed up the situation in an earlier interview given to Afshin Rattansi of RT's *Going Underground*. In the interview, Whyte said: 'We have a national myth that Britain is not corrupt ... There's an almost racist assumption that Britain is not infected by corruption ... in banking, the SFO [Serious Fraud Office] only prosecutes about 20 cases a year, but there are around 40,000 burglaries that end up with prosecutions each year ... we have a problem of impunity and a problem with institutions which are unable to hold the powerful to account.'

Still at least we're in the world's top 10 least corrupt countries – according to Transparency International's Corruption Perceptions Index anyway.

Responding to Cameron's gaffe, Cobus de Swardt, managing director of Transparency International, said: 'There is no doubt that historically, Nigeria and Afghanistan have had very high levels of corruption, and that continues to this day. But the leaders of those countries have sent strong signals that they want things to change, and the London Anti-Corruption Summit creates an opportunity for all the countries present to sign up to a new era. This affects the UK as much as other countries: we should not forget that by providing a safe haven for corrupt assets, the UK and its Overseas Territories and Crown Dependencies are a big part of the world's corruption problem.' ◆

Ian Fraser is a UK-based financial journalist and author. His book Shredded: Inside RBS, the Bank That Broke Britain *was listed as one of the business books of the decade by the* Financial Times. *It was named as a book of the year by Bloomberg, Huffington Post and* The Week. *The above article is reproduced from his website www.ianfraser.org.*

Panama, secrecy and tax havens

To tackle the corruption at the heart of the global financial system, tax havens need to be shut down, not reformed, says *Jomo Kwame Sundaram*.

A screen capture of Mossack Fonseca's Spanish language website. The Panamanian law firm has worked with some of the world's biggest banks to set up over 200,000 legal entities, often to circumvent tax and law enforcement authorities worldwide.

UNLIKE WikiLeaks' exposés, the recent Panama Papers revelations were quite selective, targeted, edited and carefully managed. Most observers attribute this to the political agendas of its mainly American funders. Nevertheless, the revelations have highlighted some problems associated with illicit financial flows, as well as tax evasion and avoidance, including the role of enabling governments, legislation, legal and accounting firms as well as shell companies.

The political tremors generated by the edited release of 1.1 million documents were swift. Nobody expected Iceland's prime minister to resign in less than 48 hours, or that the British prime minister would publicly admit that he had benefited from the hidden wealth earned from an opaque offshore company of his late father.

The Panama documents are from the law firm Mossack Fonseca, which has worked with some of the world's biggest banks – including HSBC, Societe Generale, Credit Suisse, UBS and Commerzbank – to set up 210,000 legal entities, often to circumvent tax and law enforcement authorities worldwide.

Just one law firm in Panama is still the tip of a massive iceberg hidden from public view as many such firms in other locations provide similar services. High-net-worth individuals and corporations thus secure a far greater ability to evade taxes by paying tax advisers, lawyers and accountants.

Not surprisingly, Mossack Fonseca insists it has never been accused or charged in connection with criminal wrongdoing, only underscoring that Panama's financial regulators, police, judiciary and political system are part of the system.

Similarly, many clients of such firms claim that they have not violated national and international regulations.

'Offshore' tax havens

Total global wealth was estimated by a 2012 Tax Justice Network report at $231 trillion in mid-2011, roughly 3.5 times the global GDP of $65 trillion in 2011. The report conservatively estimated that $21-32 trillion of hidden and stolen wealth has been stashed secretly, 'virtually tax-free', in more than 80 secret jurisdictions, with two-thirds in the European Union and a third in UK-linked sites.

After the Panama Papers leak, Oxfam revealed that the top 50 US companies have stashed $1.38 trillion offshore to minimise US tax exposure. The 50 companies are estimated to have earned some $4 trillion in profits across the world between 2008 and 2014, but have only paid 26.5% of that in US tax.

More so now than ever before, the term 'offshore' for tax havens refers less to physical locations than to virtual ones, often involving 'networks of legal and quasi-legal entities and arrangements'. Private banking 'money managers' provide all needed services to facilitate such practices, making fortunes for themselves in doing so.

Thousands of shell banks and insurers, 3.5 million paper companies, more than half the world's registered commercial ships over 100 tons, and tens of thousands of shell subsidiaries of giant global banks, accounting firms and various other companies operate from such locations.

Reforming tax havens?

In recent years, the global tax-haven landscape has shifted under increased public scrutiny.

The OECD (Organisation for Economic Cooperation and Development) club of rich nations has been developing a global transparency initiative but Panama is refusing to participate seriously, with the OECD tax chief calling it a jurisdiction that 'welcomes crooks and money launderers'.

To get on the OECD's list of approved jurisdictions, almost 100 countries and other jurisdictions have imposed minimal disclosure requirements. Hence, subject to certain conditions, the Swiss government allows information-sharing about illegal or unauthorised deposits with other countries. Consequently, the flows have moved to new destinations.

Only a handful of nations have declined to sign on. After all, many countries and institutions actively enable – and profit handsomely from – the theft of massive funds from developing countries.

The most prominent is the US.

Rothschild, the centuries-old European financial institution, is now moving the fortunes of wealthy foreign clients out of offshore havens subject to the new international disclosure requirements, to Rothschild-run trusts in the US state of Nevada, which are exempt.

As Panama is another exception, a large number of accounts have been moving there as well from signatory tax havens.

The US does not accept a lot of

international standards, and can get away with it because of its economic and political clout, but is probably the only country that can continue to do that.

To its own advantage, the US has taken steps to keep track of American assets abroad, but not of foreign assets in the US.

In his 5 April speech following the US Treasury's crackdown on corporate tax 'inversions', US President Barack Obama criticised 'poorly designed' laws for allowing illicit money transfers worldwide, and noted that 'Tax avoidance is a big, global problem ... a lot of it is legal, but that's exactly the problem.'

Following the Panama Papers revelations, most Western government leaders have pledged tough action against tax evasion and avoidance, especially from developing-country locations. But since they receive most of the funds in the tax havens in the world, the OECD has limited its efforts. Hence, these same governments have blocked efforts to give the United Nations a stronger mandate to advance international cooperation on taxation.

Meanwhile, as major users of such facilities, many developing-country leaders have been conspicuously silent in the face of recent revelations of what they have long enabled and practised.

What can be done?

Does it really matter that tax avoidance schemes are legal? Just because they are not illegal does not mean they are not a form of abuse, cheating and corruption. To tackle the corruption at the heart of the global financial system, tax havens need to be shut down, not reformed.

'Onshoring' such funds, without prohibiting legitimate investments abroad, will ensure that future investment income will be subject to tax.

If not compromised by influential interests benefiting from such flows, responsible governments should support international tax cooperation efforts under UN auspices and enact policies to:

- Detect and deter cross-border tax evasion;
- Improve transparency of transnational corporations;
- Curtail trade misinvoicing;
- Strengthen anti-money laundering laws and enforcement; and
- Eliminate anonymous shell companies. – *IPS* ◆

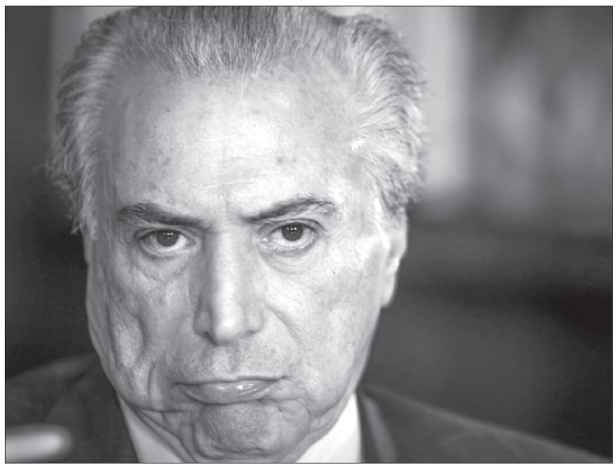
Jomo Kwame Sundaram was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

‘The coup plotters have made their intentions clear’

The measures announced or already taken by those who ousted President Dilma Rousseff from power – which are wholly consistent with the tenets of free-market neoliberalism – are a tragedy for the life and future of the Brazilian people, says *Joao Pedro Stedile*.

IT only took a few hours or days for the coup plotters to install themselves in the provisional government and demonstrate their intentions through the composition of the cabinet, the plans they have announced and their public declarations.

The Senate only forced President Dilma Rousseff to temporarily step aside and provisionally installed Vice-President Michel Temer as acting president. According to some lawyers, the constitution stipulates that the vice-president cannot reshuffle the cabinet. He should be limited to administrative acts until the merits of the case against Dilma are decided.



Brazil’s acting President Michel Temer. Anti-government movements have united behind the slogan ‘No to the coup, Temer out!’

But the last thing that the coup plotters and their accomplices in the Federal Supreme Court are doing is respecting the constitution. At the moment, anything goes. As former president Luiz Ignacio Lula da Silva said, it is as if ‘you went on holidays and left someone to provisionally look after your house, and they sold it and remodelled everything inside’.

The cabinet of the coup plotters is a joke. A genuine festival of thieves. All men, white, hypocrites and rotten.

The Rede Globo media conglomerate had campaigned intensely over the last few months, insinuating that Dilma should be deposed due to the levels of corruption in her government. The petty bourgeoisie that mobilised in the streets clamoured for the return of the military dictatorship to put an end to the corrupt Workers’ Party (PT) government.

Well, among Temer’s newly appointed ministers, there are no fewer than seven who are currently facing accusations as a result of Operation Lava Jato (Car Wash) and other anti-corruption investigations. As politician Ciro Gomes said, ‘they handed over the government to a trade union of criminals’ and no one had the courage to put them on trial.

The measures announced or already taken by the coup government are a tragedy for the life and future of the Brazilian people. But they are coherent with its neoliberal plan to reduce the cost of labour, hand over our resources, privatise what they can and redirect public funds that were going to education, health and social security to business owners. As the investigator and economist Marcio Pochmann warned, ‘What is at stake is the private appropriation of public funds that are the equivalent of up to 10% of GDP!’

They have already proposed a provisional measure that allows for the potential privatisation of all state companies, such as Petrobras, electricity companies, ports and airports. They will probably start with the electricity companies and the pre-salt reserves – recently found reserves of deep-water oil. In response, there will be a national protest on 6 June in Rio de Janeiro to denounce this attack on our national sovereignty.

In terms of social security, they want to impose a minimum retirement age of 65 for men and women in the countryside and the city, and a pension no longer tied to the minimum wage. This would be a tragedy for the working class.

In terms of healthcare, they have announced cuts to the Unified Health System (SUS) and the end of the More Doctors programme, which covers 50 million poor Brazilians living in areas where no white coats had gone before. They are even talking about cutting the Emergency Mobile Attention System (SAMU).

In terms of interest rates, nothing has been said about the R$500 billion designated each year to bankers through the payment of the internal debt. This is why they put two bankers in charge of looking after the chicken coop: Henrique Meirelles (Minister of the Treasury) and Illan Goldfain (Central Bank), whose family live in Israel because they view Brazil as a dangerous country…. Poor us, the 210 million humans who live here.

In agriculture and land reform, as well as the social measures outlined above that affect the poorest in the countryside, they had no problems with closing the Ministry for Agricultural Development and its programmes that attended to peasants.

We can all agree, though, that the coup government has been didactic. It has made it clear to the people what its interests are and how it will act.

That is why all the popular movements and organisations that are part of the Popular Brazil Front and the People Without Fear Front, along with other coalitions, have united behind the slogan 'No to the coup, Temer out!' None of us will accept a process of negotiation or sit at the table with representatives of an illegitimate and unpatriotic coup government.

Members of Brazil's Homeless Workers' Movement protest against the interim government and in support of suspended President Dilma Rousseff.

Thankfully, Brazilian society and the international community have quickly understood the nature of this illegitimate government. And the slogan 'No to the coup, Temer out!' has reverberated in numerous public events.

Outside the country, hundreds of protests have occurred in front of Brazilian embassies. The international media that continue to follow the manual of listening to both sides, demoralised the local media by denouncing the character of the coup in editorials and news articles.

Personalities from around the world have spoken out. Pope Francis drew attention to the 'soft coups' underway in some countries, although he did not directly cite Brazil. The respected US academic Noam Chomsky, as well as Nobel Prize winners such as Adolfo Perez Esquivel and Rigoberta Menchu, and even artistes at the Cannes Film Festival have expressed their solidarity and denounced the coup.

In Brazil, public protests have multiplied as diverse sectors take to the streets, including high-school students and artists and intellectuals who for the first time occupied more than 20 offices of the National Arts Foundation (Funarte) across the country, forcing the coup plotters to reinstate the Ministry of Culture. Young people have returned to the streets to protest.

And where are those who supported the coup? The 'greens and yellows' against corruption? They are embarrassed, at home, as they helped hand over the cheese to the Jucas, Padilhas, Gedeis and other specialists in public funds. They have disappeared.

Certainly, from now on the popular mobilisations will increase in size and number of sectors mobilised. The Popular Brazil Front has drawn up a calendar of mobilisations and activities across the country for the next few months. Within the trade union movement, the drums have begun to sound in preparation for a general strike, paralysing productive activities in opposition to the measures of the coup government.

Moreover, solidarity with President Dilma is increasing, despite the various criticisms we made in regard to her past few years in office. She has been invited to participate in numerous mass activities in Brazil, where we will loudly and clearly say that 54 million voters – the majority of the Brazilian people – elected her to govern the country until 2018. ◆

A public hospital in Brasilia. The interim government has announced cuts to the Unified Health System.

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The economics of the Duterte administration

While, during his election campaign, president-elect Rodrigo Duterte cut the figure of a maverick intent on jettisoning all the time-honoured policies of the Philippine establishment, the eight-point economic agenda unveiled by his transition team reveals that there will be no breakaway from the neoliberal policies pursued by previous administrations. *Sonny Africa* reports.

PRESIDENT-elect Rodrigo Duterte projected a vastly different image from the other presidential candidates and indeed from every national politician the Philippines has ever had: coarse, cussing, irreverent, misogynistic, an unrepentant human rights violator, and a self-proclaimed 'Socialist' and 'Leftist'. But, nevermind, the strongman was effective and got things done. Filipino voters seemed to make an unorthodox choice in the 9 May general elections.

President-elect Rodrigo Duterte's *(pic)* plans for the Philippine economy uphold neoliberal policies that enrich a few but keep tens of millions of Filipinos in poverty.

Yet just days after the elections it's become clear that Davao City Mayor Duterte is actually not that different from the other candidates in what really matters the most. Despite his singular personality, it turns out that his plans for the economy are strikingly interchangeable with those of the other losing candidates and even of the outgoing administration of Benigno Aquino.

His transition team hurriedly presented an eight-point economic agenda to assuage elite panic. Belying Duterte's powerful campaign theme of change, it embraces and upholds neoliberal economic policies that enrich a few but keep the national economy backward and tens of millions of Filipinos in poverty.

Learning from the past

Jose Rizal once said, '*Ang di lumingon sa pinanggalingan, hindi makararating sa paroroonan.*' Rizal's advice tells us that in order for the people to move on to a better future, they must learn from the past. Many believe that Duterte's win is an affirmation of the people's disenchantment with '*daang matuwid*', the embodiment of the Aquino government's neoliberal policies – that it is best to move forward rather than look back. But a second look at Duterte's economic plans reveals that the failed *daang matuwid* of the past will remain a significant part of the country's future.

The Philippines seems to be a vibrant economy that is the emergent star of Southeast Asia. There is economic growth, growing corporate profits, rising oligarch wealth, investor confidence and international media hype. These are all true. Yet there is also a profound deterioration across a huge swathe of the economy and in its most important fundamentals.

The economy is creating fewer new jobs per year, where the average of just 692,000 new jobs annually in 2011-15 is much less than the 858,000 annually in 2001-10. This has resulted in the most unemployed, underemployed, discouraged job-seekers and overseas Filipino workers in the country's history.

The quality of employment is dismal. Some 24.4 million working Filipinos or nearly two-thirds (63%) of total employed are non-regular, agency-hired, informal sector or unpaid family workers. Among waged and salaried workers, over two-fifths (44%) are non-regular workers. Labour productivity is increasing but the mandated minimum wage and actual daily basic pay received barely keep up with the rising prices of goods and services. Even then, nearly half (46%) of workers receive less than the minimum wage and one-fourth (25%) receive just exactly the low minimum wage.

Despite Php295 billion spent on the Pantawid Pamilyang Pilipino Program (4Ps) conditional cash transfer programme in the period 2011-15, the number of Filipinos in extreme poverty is unchanged, at some 27 million in the first half of 2015. Anywhere between 56-66 million Filipinos should really be considered poor by a reasonable standard of decent living. The number of underweight children even increased by some 203,000 and the number of children not fully immunised increased by 692,000 in 2015 from the year before.

The Philippines is rich in natural resources and raw materials. Yet agriculture and industry remain in decline. The country's production sectors – agriculture, manufacturing, construction and mining – accounted for over 60% of the national economy, services for some 30% and utilities for 10% until the late 1970s. Production started to collapse upon the onset of the globalisation era during the Marcos regime. At some point in the mid-1990s, the economy became a service and trading economy more than a producing economy. Near the end of the outgoing Aquino administration, production was down to 39% of the economy while low-productivity services rose to over 49% in 2015.

This worsening joblessness, poverty and economic backwardness – and ever more concentrated wealth and economic power in a few corporations and a handful of oligarchs – is the inevitable result of over 35 years of neoliberal 'free market' economics. The state has been oriented to supporting the private profit-seeking of a few instead of socioeconomic development for the majority. The economy was opened up to foreign capital, goods and services. This devastated Filipino producers and reduced domestic enterprises to subordinate, albeit profitable, partners and subcontractors. Education, health, housing, water and electricity became commodities to profit from rather than services every Filipino is entitled to.

'Anywhere between 56-66 million Filipinos should really be considered poor by a reasonable standard of decent living.'

Neoliberal insanity

'Insanity', Albert Einstein wittily quipped, is 'doing the same thing over and over again and expecting different results'. The outcomes of decades of market-led underdevelopment are self-evident and mirror the experience in other countries. The problems faced by the majority of Filipinos are also well known to the presidential candidates who, exploiting the yearning for change, all made sweeping promises of poverty reduction and job creation.

The Duterte camp has already articulated its eight-point economic agenda. It does not really offer anything different from the outgoing Aquino administration or from those that came before it. The neoliberal emphasis on promoting private profit – even in public utilities and social services – and unreservedly welcoming foreign investment is largely intact. Government resources and regulatory authority will be geared to supporting corporate profits rather than ensuring national development and attending to the people's welfare. Real asset reforms and redistributive measures that challenge elite power are avoided.

Since being the runaway frontrunner in the 2016 elections, Duterte has become systematic in articulating how his administration will be probusiness. Big corporations are assured consistency in contracts, ease of doing business and an efficient bureaucracy. For instance, his camp has declared that the 'Davao City model' of expediting business licences will be applied nationwide. A more sustained pro-people position articulating a bias for the country's marginalised versus entrenched elites would have been much more welcome.

During the campaign period, Duterte avoided declaring open support for public-private partnerships (PPP) whose flaws are already well known to the public. His camp however finally declared open support right after the elections, as well as targeted the equivalent of 5% of gross domestic product (GDP) for infrastructure spending. This is not surprising given the likelihood of the Duterte camp courting the support, if it does not already have it, of Filipino oligarchs in construction, agribusiness, mining and other businesses. Expanding transport infrastructure gives lucrative contracts to build and operate, and also eventually makes doing business easier and more profitable.

Duterte's camp has proposed reducing taxes among lower personal income tax brackets, which may be a way of making reduction of tax burdens on the rich more palatable. Many of the other presidential candidates were conspicuously in favour of, or at least open to, lowering corporate income tax rates. Yet Duterte is apparently not bold enough to pursue the more rational option of a progressive tax system that increases direct taxes on the rich and relieves the poor of regressive indirect taxes (his spokesperson apparently misunderstands what a 'progressive tax system' means). This would increase government revenues for promoting national development, if it were so inclined, as well as erode the economic base and power of elites.

Duterte's first economic policy statement after the elections was on changing the 1987 Constitution to ease restrictions on foreign investment. He has become even more active in courting foreign investors. Duterte said that he would immediately call for a constitutional convention to, among others, remove the nationalist economic provisions of the charter that foreign capital complains about. He has not yet announced pursuing more free trade agreements (FTAs), presumably including the United States-centred Trans-Pacific Partnership (TPP) agreement, but given the thrusts of his eight-point economic agenda, this may just be a matter of time.

Duterte had previously declared support for manufacturing although he did not say if by this he means Filipino-driven manufacturing and industrialisation. He did say that he would strengthen basic industries and gave the steel industry as an example. The announced economic agenda also promotes the pseudo-industry of tourism as part of a 'rural development strategy' to help the vast rural poor.

Farmers working on a leased plot. Despite widespread landlessness, Duterte has not said that he will distribute land to farmers for free.

Like virtually every presidential candidate the country has ever had, Duterte proclaims support for agriculture. He has promised to prioritise, strengthen or revitalise the sector by providing irrigation, post-harvest facilities, support services and agricultural credit. However, the historical record of candidates in keeping such promises is not reassuring. The agricultural sector has for decades taken up barely 5% of the national budget, on average, and this is down to just 4% under Aquino in 2016. On the other hand, Duterte's promises to promote agribusiness and corporate farming and to let foreigners lease land longer are more likely to be realised. Despite widespread landlessness, Duterte has not been bold enough to say that he will distribute land to farmers for free.

Duterte declares support for education. While he said that K-to-12 implementation has to be improved, he says nothing about addressing its retrogressive orientation of merely producing a cheap and docile labour force for corporations in the country or for export. His camp only announced giving scholarships for tertiary education that will likely go mainly to private schools.

Duterte also declared support for healthcare and in particular for expanding PhilHealth coverage and benefits. Yet he says nothing about addressing the underlying privatisation of health and hospitals that drives up the cost of medical care and makes it inaccessible to begin with.

Finally, like all the candidates, Duterte makes grand promises to expand the conditional cash transfer programme and to index payments to inflation. In the absence of a real long-term programme to create jobs and develop the economy, the promise of cash dole-outs for tens of millions of poor and undoubtedly needy Filipinos bordered on postpaid vote buying using government funds. In contrast, he does not commit to distributing land for free to landless farmers. Nor does he give convincing guarantees of meaningfully higher wages or ending contractualisation that assert workers' rights over capitalist profits.

People elect, elites choose

But then, attributing the incoming Duterte administration's old, stale and failed neoliberal economic policies merely to a failure to learn from the past may actually be too generous. More fundamentally, its policies reflect the deeply undemocratic imbalance of power in the country.

Even with supposedly free elections, the majority of poor Filipinos are systematically marginalised from political power – often violently. The general population elect their leaders in periodic elections but they do not actually choose or, at best, only choose from the restricted choices the political system allows. The real choices are made by the concentrated core of elite families that has dominated Philippine economic and political life throughout its modern history. This core is hardly changed by how some enter or exit as new fortunes are built or old ones lost.

But, powerful as it is, even this domestic elite is constrained in its behaviour. Global monopoly capital has asserted its ultimate control over the country since the US colonial period, despite formal independence in 1946, and throughout the neocolonial era until today. The US has the longest record of self-serving imperialist intervention using scores of direct, indirect, formal and informal levers – treaties, trade and investment agreements, international financial institutions, so-called development aid, policy conditionalities, diplomatic pressure, lobbying, backroom manipulation and even military interference.

The incoming president's personal, professional and class background certainly predisposes him to neoliberal policies. But, more to the point, he became the leading candidate because his upholding of neoliberal policies makes him acceptable to domestic elites and foreign monopoly capital. In practical terms, this means campaign funding and political support. The infighting, personality differences or variations in style between candidates can get colourful but do not really mean any substantive policy divergence among them.

Unfortunately, the marginalised majority remain unable to challenge elite capture of the electoral system and, indeed, are even cynically manipulated into supporting this. Even before the next administration takes office, neoliberal socioeconomic outcomes are already preordained.

Fortunately, efforts to increase the people's influence on governance go far beyond the moment of seemingly active citizenship the elections provide. As ever, the daily organised struggles of the country's farmers, fisherfolk, workers, informal sectors, indigenous peoples, women, youth and others in the mass movement remain the most potent forces for real democracy and radical development in the country. – *IBON Features* ◆

Ex-dictator, others sentenced in Argentina for ‘Operation Condor’crimes

The conviction in May by an Argentine court of 14 military officers – 13 Argentines and one Uruguayan – for crimes against humanity was a major step forward in bringing to justice all those involved in a regionally coordinated plan in the 1970s to eliminate dissidents called ‘Operation Condor’.

Emile Schepers

ON 27 May, an Argentine court in Buenos Aires convicted 14 military officers of conspiring to commit and of committing crimes against humanity during the country’s 1976-83 ‘Dirty War’. This was a long trial, and a number of aging defendants died before its conclusion. There have been other trials and convictions before, but this one included high-ranking officers – 13 Argentines and an Uruguayan – whose victims were not just Argentine citizens, but those of other countries targeted under a regionally coordinated plan called ‘Operation Condor’.

General Reynaldo Bignone awaiting the verdict in his trial in Buenos Aires. The former Argentine dictator was eventually convicted and sentenced to 20 years’ imprisonment for crimes committed during the country’s 1976-83 ‘Dirty War’.

The United States is also implicated in this bloodthirsty programme, in which hundreds of dissidents may have been murdered. Overall, perhaps 60,000 people were murdered by right-wing governments in South American countries during this period.

The star defendant in the trial was General Reynaldo Bignone, who was the last president of Argentina under the dictatorship which took power in 1976 in a coup against President Isabel Perón, and called itself the ‘Process of National Reorganization’. Bignone was already serving time for crimes against humanity when convicted in this current trial.

Another defendant was Major General Santiago Omar Riveros, who was especially involved in stealing the babies of captives who were about to be killed and distributing them to pro-government military officers. In 2009, General Riveros had been convicted of the murder of a 15-year-old member of Argentina’s Communist Youth League. The rest of the convicted persons were all military officers. Two other persons were found not guilty. Bignone and Riveros were sentenced to 20 and 25 years, respectively.

A coordinated campaign of state terror

Operation Condor was a coordinated plan of right-wing Latin American military and civilian-military dictatorships which was conceptualised in the late 1960s and given a more specific form in 1975, but it really took off after the Argentine coup of 1976. Earlier, political dissidents, leftists, trade unionists and other people from Brazil, Chile, Paraguay, Uruguay and Bolivia had fled to Argentina to seek safety from the official and unofficial death squads in their own countries, so Argentina was a key player in tracking down, ‘disappearing’ and killing people of several nationalities.

Some were assassinated on the streets of Buenos Aires, while others were tracked down and killed in places as far away as Italy and the United States. In many cases, the victims of this repression were kidnapped, taken to military installations where they were subjected to barbaric torture, then placed in military aircraft and flown out over the estuary of the Rio de la Plata and dropped into the sea from a great height. That something like this was going on became known when dead bodies with hands and feet tied began to wash up on Argentina’s beaches.

The Argentine military collaborated with a right-wing death squad, the AAA or Argentine Anticommunist Alliance, as well as with European, especially Italian, fascists. There are indications that Nazi war criminal Klaus Barbie, the ‘butcher of Lyon’, helped the government of Bolivian dictator Hugo Banzer to develop torture techniques.

Well-known public figures who were murdered by Operation Condor include former Bolivian President Juan José Torres, who had instituted leftist policies in his country; former Chilean army commander General Carlos Prats (and his wife), who had refused to back General Pinochet’s coup in Chile in 1973; former Brazilian President João Goulart, overthrown by the military in 1964; two

Cuban diplomats; and a number of others.

One person whose murder caused some headaches to the Chilean dictatorship was Orlando Letelier, a former member of the cabinet of Chile's socialist president Salvador Allende and former Chilean ambassador to the United States. Letelier and a US assistant, Ronni Moffitt, were killed by a car bomb on 21 September 1976. The incident happened right on Sheridan Circle in Washington DC in the middle of Embassy Row. The negative reaction to this incident in the United States led to worry among the dictators that they would lose support, but during the Reagan administration similar things were done with the United States' blessing in Central America.

After General Bignone was forced out of power amid a collapsing economy in 1983, the democratically elected president who succeeded him, Raúl Alfonsín, was successfully pressured by the military to declare an amnesty for people accused of human rights violations. But in 2005, left-wing President Nestor Kirchner succeeded in getting the Argentine Supreme Court to rule that this amnesty was unconstitutional, and the trials began anew.

People, including family members of victims of Operation Condor, sit in court for the sentencing of former military officers on 27 May. Hundreds of dissidents may have been murdered under Operation Condor, a plan coordinated by right-wing Latin American dictatorships and which intensified after the 1976 coup in Argentina.

US complicity for Condor crimes

To what extent were US officials, and the US government, complicit in some of these acts of terrorism? The worst actions happened during the presidencies of Richard Nixon and Gerald Ford; the pace picked up again during the Reagan administration.

A number of people involved in the Operation Condor atrocities had been on the US Central Intelligence Agency (CIA) payroll at one time or another. Others had received training at the US Army School of the Americas. Some of this training included 'counterinsurgency techniques', which included how to use torture in interrogations. Relatively early in the cycle of mayhem, Uruguayan revolutionaries had captured and subsequently executed a US agent, Dan Mitrione, who had been sent down to give torture courses first to the Brazilian and then to the Uruguayan security forces.

Much of the information that was used by Argentine prosecutors came from a stash of documents found in Paraguay, and yet more from the work of the National Security Archive, a non-profit research facility based at George Washington University in Washington DC. Last year, US Secretary of State John Kerry handed over some incriminating US files dealing with the Letelier-Moffitt murders to Chilean President Michelle Bachelet. US President Barack Obama has promised to declassify more such files in the future.

From all of this mountain of information, investigators – academic, journalistic and others – are trying to find out how far up in the US government knowledge and complicity in the Operation Condor murders and other crimes went.

Questions are being asked about the role of Henry Kissinger, who was secretary of state under Nixon and Ford, when some of the worst incidents occurred, including the Letelier-Moffitt assassinations. It seems clear that Kissinger had knowledge of some of the violence and indicated to the Argentine dictatorship that the United States would not interfere to stop it. 'If there are things to be done, you should do them quickly. But you must get back quickly to normal procedures,' Kissinger is quoted as saying in a June 1976 conversation with Argentine Foreign Minister Admiral César Guzzetti. This caused consternation at the US embassy in Buenos Aires, but the US State Department made light of the matter.

Kissinger is wanted for questioning on these matters in a number of countries, but has not cooperated with any investigation. He has to be careful about travelling abroad lest he be detained.

Another figure involved in some of the Operation Condor atrocities is Cuban exile Luis Posada Carriles, a former CIA asset who may have been present for the planning of the Letelier-Moffitt murders, was involved in the bombing of a Cuban civilian airliner in 1976, and now is living out his life in Miami where he is lionised by right-wing politicians.

Argentina now has a new right-wing government, headed by President Mauricio Macri. He has reversed many progressive policies of his predecessors, and voices are being heard on the right calling for an end to the prosecutions of the perpetrators of the 'Dirty War'. How Macri will react remains to be seen.

The watchword should be 'never again'. ◆

Times of violence and resistance for Latin American journalists

Journalists in Latin America have been facing growing state repression and violence in recent years. *Daniela Pastrana* surveys the grim scene.

MEXICO is the most dangerous country in Latin America for journalists. In 2015 it accounted for one-third of all murders of reporters in the region, and four more journalists have been added to the list so far this year.

The latest, Francisco Pacheco Beltrán, was shot dead outside his home in the southern state of Guerrero on 25 April. Pacheco Beltrán regularly covered crime and violence, which have been on the rise in connection with organised crime and drug trafficking. He worked for several local media outlets in Mexico's poorest state, which is also one of the most violent.

Lucía Vergara/IPS

A protest at the Angel of Independence monument in Mexico City commemorating murdered journalist Regina Martínez. In 2015 Mexico accounted for a third of all murders of reporters in Latin America.

His murder adds one more chapter to the history of terror for the press in Mexico in this new century, which has included not only the killings of 92 journalists, but also a phenomenon that is almost unheard of in democratic countries around the world: 23 journalists have been forcibly disappeared in the last 12 years, an average of two a year.

And every 22 hours, a journalist is attacked in Mexico, according to the latest report by the Britain-based anti-censorship group Article 19.

'Violence against the press in Mexico is systematic and widespread,' said the former director of the organisation's Mexico branch, Darío Ramírez, on the last International Day to End Impunity for Crimes Against Journalists, celebrated each 2 November.

But violence and impunity are not the only problems faced by journalists in Mexico and the rest of the region.

Ricardo González, Article 19's global protection programme officer, told Inter Press Service (IPS) that freedom of the press in Latin America faces three principal challenges: prevention, protection and the fight against impunity; the de-concentration of media ownership; and improving the working conditions of journalists.

'For us, the red zones are Mexico, Honduras and Brazil,' González said.

According to the Federation of Latin American Journalists (FEPALC), 43 journalists were killed in the region in 2015, including 14 in Mexico (besides two who were forcibly disappeared). Mexico is followed by Honduras (10), Brazil (eight), Colombia (five) and Guatemala (three).

Brazil's National Federation of Journalists reported a 60% rise in the number of journalists killed between 2014 and 2015. The highest-profile case was the murder of investigative reporter Evany José Metzker, whose decapitated body was found in May 2015.

Honduras and Mexico have a similar problem: the violence against journalists is compounded by a culture of impunity.

'In the first half of 2015, the Commission registered a worrying number of unclarified murders of communicators and media workers,' says the Inter-American Commission on Human Rights' (IACHR) annual report on Honduras.

Not just murders

But violence is not the only threat faced by the media in Honduras. One of the Central American country's leading newspapers, *Diario Tiempo*, which stood out for its defence of democracy during the 2009 coup that overthrew President Manuel Zelaya, was recently shut down.

The closure of the newspaper is linked to the downfall of one of the most powerful families in the country: the family of banking magnate Jaime Rosenthal, who is accused by the US Treasury Department of laundering money for drug traffickers.

The freezing of the accounts of businesses in the family's Grupo Continental conglomerate, as a result of that accusation, led to the closure of the newspaper, announced in October. As a result, the government was accused of taking disproportionate measures against the outspoken publication.

In a public letter, Rosenthal said, 'The circumstances that led to this

Thelma Mejía/IPS

Honduran journalists protest an official secrets law. By means of laws and other mechanisms, some governments in Latin America have restricted access to information.

suspension are very serious with regard to freedom of speech, social communication and democracy in our country, to the extreme that this is an atypical case in the Western world.'

A newspaper with a similar name, in Argentina, is an example of the other side of the coin in the region. On 25 April, journalists from *Tiempo Argentino*, a Buenos Aires daily that closed down in late 2015, relaunched the publication, this time as a weekly.

Under the slogan 'the owners of our own words', the *Tiempo Argentino* reporters got their jobs back by forming a cooperative, similar to the format used by factory workers to get bankrupt companies operating again after Argentina's severe 2001-02 economic crisis.

'It's really good to see that the more people organise, the more the competition between companies is overcome,' Cecilia González, a correspondent for the Notimex agency in the countries of Latin America's Southern Cone region, told IPS from Buenos Aires.

But González said that in Argentina there are plenty of problems as well, and few positive answers like *Tiempo Argentino*. One of the big problems was President Mauricio Macri's modification by decree of a law pushed through by his leftist predecessor in 2015 that outlawed monopolies by media companies.

On 18 April, Macri, who took office in December, told the IACHR that he would draft a new law with input from civil society. But reporters in Argentina are sceptical.

'Besides the more than 300 media outlets owned by the Grupo Clarín and which it will avoid losing, another monopoly is being built in the shadows, associated with La Nación, and they plan to get hold of the entire chain of magazines,' the *Orsai* magazine wrote.

But for the IACHR and its special rapporteur for freedom of expression, conservative governments are not the only ones causing problems.

In Ecuador, to cite one example involving a left-leaning administration, President Rafael Correa, in office since 2007, used the strength of the state to sue executives of the *El Universo* newspaper – Carlos, César and Nicolás Pérez – and its then editorial page editor, Emilio Palacio.

The president sought $80 million in damages and three years in prison for libel after an editorial by Palacio alleged that he ordered police to open fire on a hospital full of civilians during a September 2010 police rebellion.

In December 2015, the IACHR accepted a petition accusing the government of the alleged violation of legal safeguards and freedom of thought and expression, and requesting legal protection.

Correa also took aim against one of Latin America's best-known cartoonists. In 2014 a cartoon by Xavier Bonilla – who goes by the pen name Bonil – that depicted a raid by police and public prosecutors on the home of a political opposition leader enraged Correa, who launched a campaign against the cartoonist.

'Ecuadoreans should reject lies and liars, especially if the liars are cowards and haters of the government disguised as clever, funny caricaturists,' was one of the president's outbursts against Bonilla.

As journalists in the region got ready for World Press Freedom Day, celebrated 3 May, there were signs of resistance in some countries, although the climate is not the best for media workers.

One example is Veracruz, the Mexican state that has been in the international headlines for the alarming number of reporters who have been assaulted or killed.

On 28 April, the fourth anniversary of the murder of Regina Martínez, a correspondent for the local weekly *Proceso*, journalists belonging to the Colectivo Voz Alterna, who have battled hard in defence of the right to inform, in the midst of a climate of terror, placed a plaque in her honour in the central square of the state capital.

'We cannot forget, and we cannot just do nothing,' Veracruz reporter Norma Trujillo told IPS. Similar sentiments are voiced by reporters working in dangerous conditions around the region. – *IPS* ◆

Journalists from *Tiempo Argentino*, a Buenos Aires newspaper that closed down last year, formed a cooperative and relaunched the publication.

Women demand support for Burma's working mothers

Parliamentarians and civil society activists in Burma are calling for more concrete social welfare policies to help mothers in the workplace. *Yen Snaing* reports.

THREE days after giving birth to her child, Wint War Tun, a recently elected National League for Democracy (NLD) MP from Karenni State, had to attend the first day of the Lower House session in February.

Such scenarios have led parliamentarians and civil society activists to argue that Burma needs a more concrete social welfare policy to help mothers in the workplace, through the provision of childcare services and ample maternity leave.

Although the number of women in the Union Parliament has doubled from 31 to 65, the facilities for working mothers and fathers, such as family care units, are nowhere to be seen.

Three days after giving birth, recently elected MP Wint War Tun had to attend the first day of the parliamentary session in February. Picture shows her cradling her son in a room in the city development committee building in Naypyidaw.

According to figures from the Union Election Commission (UEC), 149 women were elected among the 791 who stood for office nationwide. This includes 42 in the Union Parliament's Lower House, 23 in the Upper House and 84 in regional legislatures, putting female representation at about 13% – almost a threefold rise compared with the previous count of women lawmakers, which, according to UEC data, numbered 53 in 2014.

'The country needs to support qualified women'

Shwe Shwe Sein Latt, an Upper House parliamentarian and women's rights activist from the NLD, said the Parliament lacks facilities to accommodate families.

'There should be a separate family unit. But for that, a gendered budget is needed,' she said. 'In the Parliament, mothers need to breastfeed children. As I have observed in other [countries'] parliaments, they have breastfeeding rooms and a childcare centre, a place where the family can hang out freely.'

There should be a nursery within Burma's Parliament, she suggested, pointing out that some MPs have small children whom they have to leave behind for five years in order to complete their service in the country's capital.

'I have seen an MP working in the Parliament carrying their child,' she said of European governments. Most recently, Carolina Bascansa of Spain received media attention for bringing her breastfeeding infant son to a meeting of the Spanish Parliament in February.

The municipal guesthouse for MPs in Burma's administrative capital Naypyidaw lacks a kitchen or common cooking space, which Shwe Shwe Sein Latt sees as a shortcoming regarding the integration of families into government housing.

It is not only the right of women to be able to access childcare, but also a child's right to have the care of his or her mother, she added, advocating that childcare centres need to be present in all workplaces, not only the Parliament.

'We should have childcare centres even in villages and quarters for [small-time] vendors, or women who have to go to market,' she said. 'Here, older children have to quit school to take care of siblings when their moms go to the market [to sell goods]. If we could place those children in a childcare centre, it would be more convenient for working moms, whether they are civil servants or market vendors.'

Citing the rising participation of young and capable women in the Parliament, Shwe Shwe Sein Latt said there are probably more such women nationwide, who might be held back by current challenges facing working mothers.

'If their work, qualities and abilities were fully utilised, the country would develop faster,' she said. 'We

Parliamentarians arrive on the first day of the new legislative session on 1 February. Although the number of women in Parliament has doubled, the facilities for working mothers and fathers are nowhere to be seen.

are not saying this for [our own] opportunities. This is for our country's future and for our children … the country needs to support qualified women.'

'A full six months' leave'

Wong Mrat Wai works as a media and communications coordinator at a non-governmental organisation in Rangoon. A working mother who gave birth to a daughter three months ago and has now returned to work part-time, she wishes she could have had longer maternity leave to fully take care of her baby.

'As breastfeeding is best for the child, it's better for mother and child to be together for at least six months,' she said.

According to the International Labour Organisation (ILO), women in Burma are legally entitled to 12 weeks of maternity leave – the ILO's stated minimum – at two-thirds pay.

If she were a civil servant, Wong Mrat Wai would be entitled to more time off: maternity leave was legally increased from three to six months for government employees in 2014. According to the law, fathers can also have two weeks of fully paid leave.

'I wish there was a law, not only for the government sector but also for the private sector and for NGOs, that gave mothers a full six months' leave,'

Shwe Shwe Sein Latt, parliamentarian and women's rights activist: 'The country needs to support qualified women.'

she said.

Wong Mrat Wai's workplace does have one rare facility though – a breastfeeding room.

'Most women … can leave their child behind with grandmothers or the babies' fathers. I brought my baby [to work] as I can't leave my baby. I don't have grandmothers and fathers to [provide] care. I looked for a breastfeeding room on the first day I was back to work,' Wong Mrat Wai told *The Irrawaddy*.

But she soon discovered the breastfeeding room had been converted to a meeting room since most mothers did not utilise it. Only when she started to use it for its designated purpose was the room changed back to a facility for mothers and their babies. 'Personally, I want to [stay] with my child, and I want to breastfeed for at least six months. I have more stress when I get to work, thinking I need to breastfeed,' she said.

With full support from her husband to continue her work, she said she was managing, but she also imagines it will be tiring to balance work and childcare when she returns to work full-time. Ideally, there would be a nursery at her workplace, Wong Mrat Wai said, 'a comfortable place … with toys for my child'.

'Women could work … assured their children are in good care'

Khin Ma Ma Myo, managing director of the Myanmar Institute for Peace and Security Studies, was recently impressed by an offer to share childcare at a professional conference she planned to attend in Chiang Mai, Thailand.

'I was notified in the invitation that childcare facilities were available and that I could bring a child if I wanted,' she said. Such arrangements, she pointed out, ensure that women can participate in conferences and do not need to cancel due to childcare responsibilities.

In Burma, she suggests, the government could start supporting parents with such responsibilities by subsidising daycare centres in every town quarter. Special training in childcare would also create job opportunities, she added, envisioning programmes which license small-time caregivers from their homes, dependent on if the environment met agreed-upon standards.

'Then, women who are working in factories, workshops, schools and offices could work without worries, assured that their children are in good care,' Khin Ma Ma Myo said.

She warned, however, that childcare is not simply about keeping youth confined from wandering outside, but to participate in their mental and emotional development. For that, she said, Burma would need a concrete social welfare policy and a commitment to promoting women's affairs. – *The Irrawaddy (www.irrawaddy.com)* ◆

The distinguished Brazilian modernist poet *João Cabral de Melo Neto* (1920-1999) was born in Pernambuco in the impoverished northeast of the country. His poetry quite often evoked the precarious existence and harsh life of the region's rural inhabitants. Cemeteries are a recurring theme and his poem below on one of these – Pernambuco (Our Lady of Light) – alludes to the fragility of life and utter destitution of its hapless inhabitants.

Cemetery in Pernambuco (Our Lady of Light)

João Cabral de Melo Neto

Nobody lies in this earth
because no river is at rest
in any other river, nor is the sea
a potter's field* of rivers.

None of these dead men here
comes dressed in a coffin.
Therefore they are not buried
but spilled out on the ground.

Wrapped in the hammocks they slept in,
naked to sun and rain,
they come bringing their own flies.
The ground fits them like a glove.

Dead, they lived in the open air.
Today they inhabit open earth,
so much the earth's that the earth
does not feel their intrusion.

Translated by Jane Cooper

* potter's field: public burial place for paupers, unknown persons and criminals

Credit: Frans Lemmens

Highland vista, Peru.