



Oxfam G20 Media Briefing

Money for nothing: Three ways the G20 could deliver up to US\$280 billion for poor countries

Summary

This weekend the finance ministers of the G20 nations will meet in London. Whilst the rich world feels that the worst of the economic crisis may be behind it, the poorest countries are being hit hardest, with those living on the margins of the global economy paying for the bankers' folly with their lives.

This year alone, as a result of the economic crisis, between 50-100 million more people will be trapped in povertyⁱ, scraping by on less than US\$1.25 a day. This means millions more families forced to make impossible choices between buying life saving medicines, or the cost of sending their girls to school, or finding food for the next week.

The G20 in April this year promised to provide US\$240 billion for developing countries to help them deal with the impact of the economic crisis and as part of this, US\$50 billion to the world's poorest countries. This is a great first step and must be fully delivered. It showed the leadership the world needed in the face of this economic maelstrom. But this financing alone will not be enough to help the world's poorest countries weather the storm. A second set of bold actions is required from the G20 when its leaders meet in Pittsburgh later this month.

In sub-Saharan Africa alone, the World Bank estimates between \$30 and \$45 billion in 2009 is necessary to cope with the impact of the economic crisis. And, the World Bank predicts overall that developing countries will need between \$352 billion and \$635 billion in 2009ⁱⁱ. This is what is required just to stand still; much more is needed beyond this to actually enable these countries to develop and fight other crises such as HIV/AIDS, rising food prices and climate chaos.

Oxfam believes that with three steps, the G20 can generate US\$280 billion of new financing for the world's poorest countries, at minimal cost to themselves; in fact they also stand to benefit significantly from taking these steps.

G20 Finance Ministers meeting in London this weekend must:

1. **Implement a Currency Transaction Tax (CTT)** of at least 0.005% on international currency transactions. It is estimated that such a tax could generate a minimum of \$33 billion per year if applied to the four major international reserve currencies (US Dollar, Yen, Euro and British Pound). If more currencies were included, this figure could increase to as much as

\$50bn. A slightly higher rate could also provide more resources for government spending in rich countries facing cuts in services.

2. Transfer half of rich countries' new Special Drawing Rights allocations.

Agree that at a minimum all the G8 and other major donor countries will transfer half of their allotted new allocations of IMF Special Drawing Rights (SDRs) to Low Income Countries. SDRs are a form of IMF quasi currency distributed to member countries, which can be sold for hard currency. The April G20 agreed to create \$285 billion dollars worth of SDRs, and rich nations will receive \$177 billion of this amount. Oxfam is calling for half of this, US\$89 billion, to be transferred to the poorest countries.

3. Deal with tax havens. Put in place a multilateral agreement for the automatic exchange of full tax information and require country-by-country reporting of subsidiaries, sales and profits by multinational corporations, to help developing countries recoup lost tax revenue. This could result in a further US\$160 billion for poor countriesⁱⁱⁱ, and at the same time would enable rich countries to recover their lost tax revenues.

Three steps the G20 could take to raise \$280 billion dollars^v

1. Currency Transaction Tax	\$30 billion minimum
2. Transfer of half G8 / OECD DAC SDR allocation	\$89 billion
3. Tackle tax havens	\$160 billion
Total	\$280 billion

This money must not substitute for delivery of existing promises to increase aid made at the Gleneagles G8 in 2005; it must be in addition to countries giving 0.7% of their GNI as aid. The economic crisis is unprecedented and requires unprecedented and additional action.

Impact of Economic Crisis on Poor Countries

This year alone, as a result of the economic crisis, over 50 million more people will be trapped in poverty^v living on less than US\$1.25 a day.

Liberia and the case of failing remittances

Fifty-four year old Vakor lives in Monrovia, the capital of Liberia, and he has relied until now on support from members of his family in the US to complement his earnings. They regularly send him money through Western Union to add to his earnings for family upkeep, education and health services. It's been two months since he last received money from either one of them, because they are unable to find jobs in the recession-hit US economy.

Vakor is responsible for eleven people including nine of his own children and two dependents. This July, Vakor fell ill with suspected malaria. He only had LD300 (equivalent to US\$4). His medical tests took half of what he had. He remained with LD 150, slightly over US\$2, which he used for transport.

Vakor had to borrow in order to buy the prescribed drugs. His illness left him with a debt, which he does not know how he will pay off. Many people in Liberia are dependent on personal remittance inflows, but these have fallen drastically as a result of the crisis. In 2007, Liberians received over US\$147 million dollars in personal remittances; in 2009 this dropped to US\$96million.

The number of people facing chronic hunger has increased by 11% due to the economic crisis, helping to reach an historic high of over 1 billion.^{vi} That's one in seven people in the world who go to bed hungry.

Whilst the predictions for recovery and growth in the rich world in the coming years look good, the same cannot be said to be true for the developing world. By 2011, growth in high-income countries is predicted to have recovered to a mere 0.2 per cent below 2007 rates; developing country growth will still be down by 2.4 per cent on pre-crisis levels.^{vii} If the crisis persists, the World Bank is predicting that as many as 400,000 more infants could die each year between now and 2015^{viii}.

The World Bank estimates also suggest that over 90 percent of developing countries are vulnerable to the financial and economic crisis, and three-quarters of these don't have the resources needed to deal with the crisis^{ix}. It predicts that developing countries will face an external financing gap of between \$350 billion and \$635 billion in 2009^x.

Money for Nothing – Finding Additional Resources

At the G20 London Summit in April government's agreed to ensure up to US\$240 billion for developing countries, of which US\$50 billion was for the poorest nations in the world. The large bulk of this money would be channelled through the World Bank and IMF.

This was a welcome first step and showed the leadership the world needed in the face of this economic maelstrom unleashed by reckless bankers. Significant portions of this money have already been delivered, and are likely to provide a lifeline to poor country governments. The rest of what was promised in London must be delivered immediately.

Welcome as these steps are, the fact is they do not go nearly far enough and will provide just a fraction of the amount poor countries are estimated to be losing as a result of this crisis not of their making.

With many G20 countries facing pressure on their own economies, the G20 needs to think of new ways of finding finance for poor countries. Below is an outline of three key actions, which Oxfam believes, implemented by the G20 this September, could deliver around US\$280 billion in new resources for poor countries at minimal cost to rich country governments.

1. Create a Currency Transaction Tax for Development Finance

The G20 should introduce a Currency Transaction Tax (CTT) of 0.005% on foreign currency transactions. It is estimated that this tax could deliver a minimum of \$30 billion for developing countries if placed on the four major currencies (US Dollar, Euro, Yen and British Pound).

Banks are primarily responsible for the global financial crisis, which has rapidly translated into a global economic crisis of immense proportions. Not only have taxpayers had to come up with \$18 trillion to bail out banks^{xi}, the economic crisis has forced governments to borrow even more to pay for fiscal stimuli and cover their collapsing tax revenues. Across the world governments are already starting to debate which services will need to be cut to pay for this mess. It therefore seems correct that the financial sector should contribute increased finances to address the

devastating consequences of their actions, much like fuel-consuming firms do for the environment.

In terms of volume, the foreign currency exchange market is the largest market in the world. The market reached its largest ever size in 2007 and in 2008 was averaging a daily turnover of \$3.98 trillion.^{xii} Given the huge volume of currency transactions each day it provides a genuine taxation opportunity.

This is an old idea whose time has come. Such a tax was first proposed by economist James Tobin in the 1970s, but during the free market decades since then, has languished on the sidelines. The debate over this tax was reignited recently by the recommendation by the head of the UK's Financial Services Authority that such a tax should be adopted.

Just like the health insurance firms in the US, the City of London was quick to respond vocally with a barrage of criticism, based more on their self-interest than on the facts.

The aims of such a tax are twofold, and are entirely dependent on the rate at which it is set. At a higher rate the argument is that it would act as a deterrent to excessive currency trading. Even at a very low rate, it would raise a substantial amount of revenue.

For this paper, Oxfam has assumed a 0.005% tax on foreign currency transactions, applied every time currency is bought or/and sold. It has been estimated that at this low rate this tax could generate at least \$30 billion per year if placed on major currencies such as the (\$, £, €, ¥)^{xiii}. This rate would not impact significantly on the market, and would have to be higher if this too were to be an objective of the tax. As this paper is focused on raising revenue for the poorest countries, and not on global financial regulation, we have chosen to recommend at least this very low rate of tax be implemented to generate desperately needed cash.

Whilst of course it is preferable if the major economies act together, it is not the case that they have to act together or not at all. The US, Japan or the UK could also implement such a tax unilaterally on all trading of their currency. Gordon Brown could continue to show his proactive leadership in the face of this crisis by applying this tax to £ Sterling. This alone would raise \$5 billion annually.^{xiv} The French, Italians, Spanish and Germans could lead a process where a similar tax is applied to the Euro zone. The French government has already vocally supported such a measure and has also shown leadership in introducing a tax on air tickets to pay for essential medicines in developing countries.

Rich countries could of course choose to apply a slightly higher rate and use some of the resources domestically to avoid some of the brutal cuts in spending they face following the collapse of their tax revenues and their expensive fiscal stimuli.

Is it feasible, technically and politically? Yes is the short answer. Technically all financial and foreign exchange rate settlement systems are regulated by a central bank that issues the currency. This would make it easier to administer and would eliminate the possibility of transactions being settled before the tax could be levied and subsequent fears about the potential for tax evasion.

Politically, the public in rich countries will welcome a tax on the activities of those who created the mess in the first place, which enables their governments to help the poorest people and to avoid cutting vital health or education services. It is hard to

think what would be more popular than a 'robin hood tax' of this nature, and G20 leaders should be brave and not bow to the vocal pressure of vested interests and their lobbyists.

2. Transfer half of the IMF Special Drawing Rights newly issued to rich nations to the poorest countries.

The wealthiest countries should agree to transfer half of their new allocations of Special Drawing Rights to low-income countries.

At the G20 meeting in April 2009, leaders called upon the IMF to boost global liquidity by allocating additional Special Drawing Rights (SDRs, the IMF's unit of account) to its member countries. This was effectively an agreement to print money at the global level, at a time where the cash starvation in the world economy was leading to deflationary spirals and deep recession.

G20 leaders agreed to enact the necessary legislation for the IMF to inject around \$285 billion of new resources^{xv} into the global economy in a very short space of time. These allocations constitute a massive increase over previous levels of SDR holdings.

However, the allocations are not made equally or equitably across countries. Rather, each country's allocation is in proportion to its 'quota share' in the IMF – which is in turn related to the size of that country's economy. This means, more or less, that the richer a country is, the bigger an SDR allocation it is getting.

The result is that low income countries^{xvi} are receiving \$21 billion between them, representing just 7 per cent of the total allocation. This is of course hugely welcome, and will provide a vital source of reserves to prevent at least some of the cuts elsewhere in poor country expenditures. But the fact remains that only a tiny proportion of the benefit is going to those who are most in need.

Meanwhile, the 23 countries that make up the G8 and the OECD Development Assistance Committee (DAC) – that is, the wealthiest countries in the world – are getting \$178 billion, nearly two thirds of the total allocation.^{xvii}

Due to the different accounting rules in each of the rich nations, the ability of OECD-DAC governments to count this SDR allocation towards their government debt varies. The US can count its share towards paying down its remarkable debts, whereas many of the European nations cannot. Even where these figures can be counted, the amount the SDR allocations could leverage would be a drop in the ocean of debt run up by the OECD in the last 12 months. Whereas in the developing world this same money could rapidly save millions of lives by bolstering poor country government finances.

Oxfam is calling on the G8 countries – who are all members of the G20 – and other OECD DAC donors, to transfer half of their allocations of SDRs directly to low income countries. This would amount to \$89 billion. This money should come as a straightforward transfer, free of the policy conditions imposed by the IMF and other donors, which in the past have sometimes worsened poverty or led to cuts to vital services in poor countries.

At present, the IMF rules around transferring SDRs mean that countries transferring their allocations to low income countries, or any low income countries who sell their

SDRs to get hard currency to invest in public spending, would be liable for interest payments. In order to avoid this, the G20, who are all members of the IMF, should call for a change in the IMF rules – or an agreement between members around reimbursement – so that it is far easier for rich countries to transfer their SDRs and for low income countries to spend them, without additional costs arising. The IMF is still run as a rich man’s club, but the rules of that club can be changed rapidly if the will is there.

	Allocation SDRs, billions	Allocation US \$, billions
United States	30.4	47.6
Japan	11.4	17.8
Germany	10.8	16.9
France	9.1	14.1
United Kingdom	8.2	12.8
Italy	5.8	9.1
Russia	5.7	8.8
Canada	5.2	8.1
Total G8 countries	86.7	135.6
Total other OECD DAC countries	27	42.2
TOTAL rich countries	113.7	177.8

SDR allocations from IMF documents. Exchange rate 1 SDR = \$1.56392, as of 28 August 2009.

3. Tackle Tax Havens and Corporate Regulation with Developing Countries in Mind

The G20 must put in place a multilateral agreement for the automatic exchange of full tax information and require country-by-country reporting of subsidiaries, sales and profits by multinational corporations to help developing countries recoup lost tax revenue. This could result in a further \$160 billion for poor countries.

“You’ve got a building in the Cayman Islands that supposedly houses 12,000 corporations....That’s either the biggest building or the biggest tax scam on record.”

Barack Obama, January 5th, 2008 in Manchester, N.H.

There are over 70 tax havens in the world today and the number of companies being established within them is enormous. Take the British Virgin Islands, with 19,000 inhabitants and no less than 830 000 companies registered within it^{xviii} or the single small office building at George Town in the Cayman Islands, which serves as the registered address for more than 12, 000 companies.^{xix}

Various estimates suggest that 50% of world trade passes through a tax haven. Last year, the US Government Accountability Office (GAO) issued a report showing that 83 of the 100 largest publicly traded corporations rely on offshore subsidiaries.^{xx} The Tax Justice Network estimates that almost one hundred percent of top European businesses do the same.^{xxi}

Tax havens allow taxpayers – both companies and individuals – to avoid or evade tax in their home countries by allowing them to hold assets ‘offshore’, where they can’t be taxed by their country of residence.

Thanks to bank secrecy and the continued tolerance towards tax havens, there has been almost a tripling in the number of tax havens over the last 40 years from 25 at the end of the 1970’s to about 70 tax havens today.

When individuals and companies evade their tax obligations, they deprive governments – rich and poor alike – from much-needed revenues that can be used for schools, hospitals and other public spending projects. Tax havens can also heighten inequality and poverty, corrode democracy, distort markets, undermine governance, curb economic growth and promote corruption and crime around the world as tax havens can be used to hide legal or illegal funds (i.e. stolen assets from public funds or corruption).

The impact of tax havens in lost government revenue is extremely hard to quantify. There is a large degree of guesswork involved in the amount of money governments are losing every year. This is not really surprising; given the fact those doing it are keen to keep it as secret as possible and the current failure of international laws to ensure greater transparency.

However it is estimated that illicit financial flows out of developing countries every year amount to some \$850 billion to \$1 trillion.^{xxii} Around 60 percent of this is estimated to come from corporate profit shifting and tax evasion alone.

Not all of this money flows to tax havens, nor is all of it taxable (i.e. proceeds from criminal activity) - but, a large proportion of it is.

The US estimates it loses some US\$100 billion per year through offshore tax evasion^{xxiii}. In the UK, the HM Revenue and Customs estimates that between £3.7bn and £13bn a year is lost in revenue just from companies shifting ownership of brands to offshore tax havens.^{xxiv}

On the other hand tax evasion by multinational corporations is estimated to cost US\$160 billion a year in developing countries only.^{xxv} This is more than total amount of global aid to developing countries last year.

At the last G20 the issue of tackling tax havens dominated the headlines and a process was agreed through the OECD for taking this forward. The G20 agreed to ‘take action’ against tax havens that were not cooperative with information exchange, threatening future sanctions.

Whilst this was a small step in the right direction, the G20 did not go far enough to ensure the new process benefits developing countries as well as rich countries. In order to enable developing countries to recoup lost revenues of at a minimum US\$160 billion, G20 Finance Ministers in London this week must create-

- **A truly multilateral process** – At present the OECD process, which the G20 have endorsed, is based on bilateral exchange of information between countries, rather than a multilateral agreement that applies to all. This slows the process down and causes an undue administrative burden on developing countries which are required to negotiate tax agreements with each tax haven separately. It also enables rich countries to do their own deals bilaterally with tax havens, which are of no benefit to poorer nations. To date, no developing

country has signed an agreement with a tax haven. If the G20 is serious about cracking down on tax havens they must commit to a multilateral agreement which all countries can sign on to.

- **Base this on the automatic exchange of tax information -**, The G20 must insist on automatic exchange of information between tax authorities. At the present moment, under the current OECD plans, exchange of information is not automatic but relies on those making inquiries knowing full details of accounts and account holders. Many developing countries simply do not have the capacity to have this information and it therefore precludes them from recovering their lost tax revenues.
- **A new requirement for Country-by-Country Reporting for large companies**– The G20 should ensure that companies pay tax in the countries where they produce their goods and services, rather than using financial trickery to only pay tax in tax havens where tax rates are tiny. In order to avoid this, the G20 must introduce -country-by-country reporting in the international accounting standards, so that multinationals of all sectors are made to disclose information concerning their benefits and the taxes they pay in each country where they have activities.

Conclusion

At the London Summit in April of 2009 the G20 showed clear leadership in the face of the economic crisis. G20 finance ministers meet again this weekend in London, and their bosses convene in Pittsburgh at the end of September.

Oxfam calls on the G20 to agree to these three clear actions that will raise billions to enable the poorest people to weather this economic storm, rather than pay for it with their lives.

ENDS

ⁱ Chen, S and Ravallion, M (2009) *The Impact of the Global Financial Crisis on the World's Poorest: June 2009 Update* and UN-DESA (2009) *World Economic Situation and Prospects 2009 - Update Mid 2009*, www.un.org/esa/policy/wesp/wesp.html

ⁱⁱ World Bank Global Development Finance Report (2009)

ⁱⁱⁱ Christian Aid (2008), *Death and Taxes: The True Toll of Tax Dodging*. The estimate is based on companies undertaking 'transfer mispricing' where companies sell goods and services to each other at manipulated prices, and 'false invoicing'.

^{iv} The SDR allocation would of course be a once off transfer, whereas action to create a currency transaction tax and to tackle tax havens would provide an annual benefit, meaning that in subsequent years the income would be approximately \$190 billion.

^v Chen, S and Ravallion, M (2009) *The Impact of the Global Financial Crisis on the World's Poorest: June 2009 Update*

^{vi} ^{vi} FAO (2009) *1.02 billion people hungry* www.fao.org/news/story/en/item/20568/icode/

^{vii} World Bank (2009) *Global Development Finance 2009*

^{viii} World Bank (2009) *Financial Crisis Could Trap 53 Million More People in Poverty*, <http://go.worldbank.org/1FWPZ7KCJ0>

^{ix} World Bank (2009) *The Global Economic Crisis: Assessing Vulnerability with a Poverty Lens*, <http://siteresources.worldbank.org/NEWS/Resources/WBGVulnerableCountriesBrief.pdf>

^x World Bank Global Development Finance (2009)

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- ^{xi} United Nations (2009) *The world financial and economic crisis and its impact on development: Report of the Secretary-General*, www.un.org/ga/search/view_doc.asp?symbol=A/CONF.214/4&Lang=E. Whilst t\$18 billion will eventually be paid back, this make take considerable time in many instances. And of course the collapse in revenues and fiscal stimuli required to restart the economy will not be paid back, unless taxes are raised in the future or services cut.
- ^{xii} Annual FX Poll (May 2008), Euromoney.
- ^{xiii} Stamp Out Poverty <http://www.stampoutpoverty.org/>
- ^{xiv} The North-South Institute – The Currency Transaction Tax: Rate and Revenue Estimates, October 2007, Rodney Schmidt, Pg 9. (*assuming 260 trading days)
- ^{xv} The SDR allocation is actually two separate allocations. Firstly a special allocation, worth around \$34 billion, that had been agreed back in 1997 but not put into effect, and called on the IMF to make a further allocation worth US\$250 billion amongst its 186 members. The special allocation is due on 9 September 2009, and the new allocation has already been made, on 28 August 2009.
- ^{xvi} Defined as the 78 IMF members who are eligible for its Poverty Reduction and Growth Facility, which means having 2007 GNI per capita of less than \$1,095.
- ^{xvii} Calculations by Oxfam using IMF table of SDR allocations (August 13 2009) and SDR-dollar exchange rate as of August 28 2009.
- ^{xviii} Norwegian Government (2009) Commission on capital flight from developing countries: Tax Havens and Development, A Preliminary Report
- ^{xix} Norwegian Government (2009) Commission on capital flight from developing countries: Tax Havens and Development, A Preliminary Report
- ^{xx} United States Government Accountability Office (GAO) (2008) International Taxation: Large U.S. Corporations and Federal Contractors with Subsidiaries in Jurisdictions Listed as Tax Havens or Financial Privacy Jurisdictions
- ^{xxi} J. Christensen (2009) Tax Havens: Crucibles of financial turmoil and grand corruption
- ^{xxii} Global Financial Integrity (2008) Illicit Financial Flows from Developing Countries 2002 - 2006
- ^{xxiii} US Senate committee press release, 'Levin, Coleman, Obama introduce Stop Tax Haven Abuse Act (S. 681): bill targets \$100 billion in lost tax revenue each year from offshore tax dodges', 17 February in Christian Aid, False Profits. 2007.
- ^{xxiv} The Guardian (Thursday, 19th February 2009) N.Watt Brown Targets Switzerland in Global Tax Havens Crackdown
- ^{xxv} Christian Aid (2008), Death and Taxes: The True Toll of Tax Dodging. The estimate is based on companies undertaking 'transfer mispricing' where companies sell goods and services to each other at manipulated prices, and 'false invoicing'.