

16.10.2012

To the attention of Nordic Development Ministers:

Ms. Gunilla Carlsson (Sweden)

Mr. Christian Friis Bach (Denmark)

Mr. Heikki Holmås (Norway)

Ms. Heidi Hautala (Finland)

Tax Haven investments of Nordic Development Finance Institutions

We, Nordic civil society organisations working for transparency and tax justice, would like to raise some concerns regarding the tax haven investments of Nordic Development Finance Institutions (DFIs). It has come to our attention that several Nordic Governments are reviewing their own directives regarding DFIs this year.

Tax haven investments counter the values of transparency and good governance that the Nordic countries traditionally promote. However, research has shown that many of the Nordic DFIs engage in investing through funds in tax havens. For example in Sweden an ActionAid report (2011) showed that Swedfund had invested in a fund located in a tax haven, and further on to a company that was avoiding taxes in Tanzania.¹ Similarly, the Finnish NGO platform Kepa has in a recent report shown that in 2011 nearly all of Finnfund's fund investments were made to funds that were located in tax havens.² In a similar manner, Norfund has more than 1900 million Norwegian Kroner invested in or through tax havens.³ Furthermore, Denmark is according to the financial bill for 2013 allocating for example 150 million DKK to the Africa Guarantee Fund based in Mauritius.

We are concerned about this because:

- Every year around 800 billion dollars flow out of the Global South in illicit financial flows. Tax havens are a key factor that make this illicit capital flight possible.
- Tax havens and secrecy jurisdictions provide a hiding place for corruption and criminal activities on a global scale. The use of tax havens for development investments legitimise these damaging structures.
- The lack of transparency makes the evaluation of the development results of many DFI investments nearly impossible.
- DFIs should act as forerunners in setting good standards for a responsible and accountable private sector.

¹ ActionAid Sverige (2011): Svenskt bistånd till skatteparadis. Hur Tanzania förlorar skatteintäkter på Swedfunds investering. http://www.actionaid.se/files/pdf/ActionAid_swedfund.pdf

² Kepa (2012): Yritysvastuuta vai vastuuttomia yrityksiä? <http://www.kepa.fi/tiedostot/julkaisut/yritysvastuuta-vai-vastuuttomia-yrityksia.pdf>

³ Norfund (2012): Report on operations 2011. http://norfund.no/images/stories/annual_reports/Norfund_Report_on_operations_2011.pdf

In the past years, several new policies have been adopted regarding this issue. In 2009 Norfund was temporarily prevented from investing in tax havens outside the OECD unless Norway has a tax information exchange treaty with the jurisdiction. Since then, research on the use of tax havens has been commissioned, but so far without a political decision on the matter. In 2011 the World Bank's International Finance Institution (IFI) adopted guidelines on tax haven investments. The Nordic-Baltic group was very active in the World Bank's executive board in promoting the adoption of these guidelines, which in the end turned out weaker than was originally aimed for. In May 2012, the Swedish government issued ownership guidelines to Swedfund regarding its use of tax havens. According to the guidelines, similar to the once of the IFI, Swedfund can not make investments through territories that have been defined to be untransparent by the OECD Global Forum's Peer Review Process. Ownership guidelines are now also being drafted for Finnfund.

We fear that these ownership guidelines fall short on ending tax haven investments if they rely solely on the current OECD framework for tackling tax evasion.

Our main concern is that the OECD Global Forum Peer Review process is insufficient in defining and listing tax havens. There are several reasons behind the weakness of the review of which a few are most significant. First of all, to determine the level of secrecy that a territory has, the Global Forum assesses the extent to which the territory has concluded and implemented bilateral information exchange agreements with other countries. So far, only a few developing countries have been able to afford to negotiate these agreements. That makes the Global Forum less relevant for tackling tax flight from developing countries. Furthermore, the information exchange in the agreements is upon request. It takes considerable resources to bring forward the information to make a valid request. Most tax administrations in developing countries lack these resources.

Secondly, it is not clear which or even how many criteria have to be fulfilled to pass the review, and well-known uncooperative tax havens like the Cayman Islands, Luxembourg, the British Virgin Islands and Jersey have moved on to the second phase of the review.

Therefore we call on Nordic Governments to:

- End tax haven investments of DFIs by supporting the development of a clear definition of tax havens. Important reference points for the definition are the Financial Secrecy Index⁴ and the ongoing work within the European Union in creating a common EU definition.
- Increase the transparency of investments made through funds. This is crucial for improving the possibilities to evaluate the development effects of these investments. We would like to remind you of a previous report by Eurodad (2010) which presents a Code of Conduct for increasing DFI transparency. Nordic governments should adopt its ten recommendations which can be found [here](#).⁵
- Increase the transparency of direct investments by requiring companies to present their annual accounts on a country-by-country and project-by-project basis, which would enable governments and civil society to identify tax avoidance and evasion by companies.

⁴ <http://www.financialsecrecyindex.com/>

⁵ Eurodad (2010): *Investments for development: Derailed to tax havens*.

We believe that these measures are necessary in order to make sure that development funding does not legitimate tax havens or contribute to tax evasion, and to be able to evaluate whether aid to the private sector has a positive impact on development.

Yours sincerely,

Denmark

IBIS



Finland

Kepa - The Finnish NGO Platform



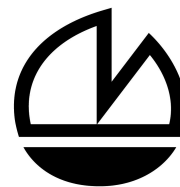
Kehys - The Finnish NGDO Platform to the EU



Eettisen kaupan puolesta / Pro Ethical Trade Finland



Maailmankauppojen liitto /
Världsbutikernas förbund



Maailmankauppojen liitto ry
Världsbutikernas förbund rf

Suomen pakolaisapu / Finnish Refugee Council



Suomen Ammattiliittojen
Solidaarisuuskeskus / Trade Union
Solidarity Centre of Finland



Suomen World Vision



Changemaker Finland



Finnwatch



Raahen Kehitysmaayhdistys ry

Norway

Norwegian Church Aid



Redd Barna / Save the Children



Changemaker Norge



Framtiden i våre hender



ForUM - The Norwegian Forum for
Environment and Development



Tax Justice Network - Norge



tax justice network
Norge

FOKUS - Forum for kvinner og utviklingsspørsmål / Forum for Women and Development



FIVAS - Foreningen for Internasjonale Vannstudier / Association for International Water Studies



Sweden

Forum Syd



Afrikagrupperna / Africa Groups of Sweden



Concord Sverige



ActionAid Sweden



Diakonia

