



SOCIAL WATCH E-NEWSLETTER

Issue 21 - January 28, 2011

[A Simple Proposition regarding LDCs](#)



"We ask you to accept a simple proposition - that the international community will no longer tolerate the massive suffering and unnecessary deaths that result from the under-development of 850 million people in the LDCs," said Arjun Karki, LDC Watch International Co-ordinator and Chair of LDC IV Civil Society Forum to the UN Group of Eminent

Persons for the Least Developed Countries, which held their second meeting last week in Brussels.

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[Philippines: People and Economics Must not be Divorced](#)

"People should be directly involved in determining fiscal policy, revenue, expenditures, borrowings and accountability; and not simply play the role of providing information to the public," said in a recent conference Leonor Magtolis Briones, lead convenor of Social Watch Philippines and the W8 group of eminent Third World women. Those remarks, referred to her country's brand new government but valid for all the nations of this planet, inspired last Sunday's editorial of the People's Journal --a major newspaper from Manila.

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[Public Noose Tightens Around Mubarak](#)

Demonstrations calling for the ouster of President Hosni Mubarak of Egypt continued for the second day in several Egyptian cities with police cracking down violently, a development that many analysts here say reflects the nervousness of the regime, according to a report by journalist Emad Mekay for IPS News Agency.

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[On Route to Dakar](#)

Social Watch will launch its 2010 Report in English, French and Arabic within the framework of the World Social Forum convened at Dakar from February 6th to 11th, and will be a leading actor in the organization of other events.

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[Green but Sustainable](#)

The concept of a green economy and especially how to move towards one is stirring global debate, especially at the United Nations, which is organising a conference next year on the environment and development. Martin Khor talked about that at a preparatory meeting of the United Nations Conference on Sustainable Development Rio + 20, convened in New York this month. The green economy is emerging as a significant concept, though also a controversial one, that will be part of the international environmental debate this year, wrote Khor.

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[Tax Injustice in Latin America](#)

The equity of a tax system can be estimated by analyzing who has to bear the heaviest burden. The tax systems in the Latin American countries characteristically exert low tax pressure and are highly regressive. These countries do not collect much, and the contribution of population sectors that have less is greater.

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["Raise Your vision to Make LDCs History"](#)

This is the statement delivered by Dr Arjun Karki, LDC Watch's International Co-ordinator and Chair and Spokesperson for UN LDC IV Civil Society Forum to the Second Meeting of the United Nations Group of Eminent Persons for the Least Developed Countries, convened on January 19th at Egmont Palace, Brussels:

"Mr. Co-Chairs of the Group of Eminent Persons - H.E. President Alpha Oumar Konare and Mr. James Wolfensohn, members of the Group, Under Secretary General Mr. Cheick Sidi Diarra, Excellencies, ladies and gentlemen,

"Thank you for this opportunity to bring to you the concerns and ideas of civil society in relation to future strategies for promoting effective, sustainable and equitable development in LDCs. I bring this message on behalf of LDC Watch, the Steering Committee of the UN LDC IV Civil Society Forum, and the various CSO campaign and advocacy groups active in defending interests of LDCs and their citizens. This is the result of some exhaustive engagements with CSOs from LDCs at national and regional levels.

"We ask you to accept a simple proposition - that the international community will no longer tolerate the massive suffering and unnecessary deaths that result from the under-development of 850 million people in the LDCs.

"We ask you to raise your vision to meet the challenge facing the 4th LDC conference – to make LDCs history. We must commit to creating the conditions for a better life for those living in the poorest and most vulnerable countries. We must not accept the widening divergences in our world between the successful emerging economies and the LDCs. We must aim to close the gaps, to achieve international convergence, and to give hope to hundreds of millions of people.

"To do this, governments need to raise their level of ambition. The 4th LDC Conference must be built on three fundamentals:

"That the past three decades of development have been marked by an increase in the number of LDCs from 24 to 48 countries. Only three LDCs have graduated.

"That LDCs are being severely impacted by three crises that they have had no role in creating: crises of the financial system, the climate system and the food system

That the world has changed and that the policies of the past will not work in the future. New thinking and new approaches are needed.

"Civil society stands ready to work with you and with governments in developing a new Programme of Action that will help graduate more than half of the LDCs out of the LDC status over the next decade. We should accept nothing less.

"LDCs need opportunities not charity. LDCs need rights not handouts. They need support not exploitation. But the international system is stuck in meeting the challenges of the early 21st Century. A lack of progress in the WTO, in the UNFCCC and in addressing structural flaws in the financial system must not be an excuse for a lack of progress in supporting LDCs. People living in poverty in LDCs should not be asked to pay for political paralysis with their lives.

"We do not have the time to outline a comprehensive agenda but some key points are as follows:

"Most LDCs are resource rich, but lack the financial means to sustainably develop. Aid continues to be a crucial asset, even though they lose billions of Euros in tax diversion, avoidance and capital flight. They need adequate and predictable financial flows to enable their sustainable development strategies to be implemented, not just more promises of aid.

"These promises need to be kept, but additional finance is needed to enable LDCs to cope with recurrent crisis; to be able to feed their people; to provide the investments in social provisions that are required to build the capacity of their people; and to adapt to climate change. Annual aid allocations will not meet the challenge of providing this finance. We need new mechanisms, such as a Financial Transactions Tax, equitable taxes on fossil fuels and greenhouse gas emissions, and an end to tax diversion, avoidance and capital flight.

LDCs need action on the long standing promises for equitable trade rules, including full duty free quota free access, workable rules of origin and an end to the bilateral and regional trade agreements that push for premature liberalisation and undermine the important role of governments in promoting equitable development

"According to IFAD, 70% of the world's 1.4 billion people living in extreme poverty live in rural areas and are dependent on income from agriculture. LDCs therefore need increased support for agriculture and food security that promotes the interests of small farmers in LDCs, rather than securing food supplies for richer nations; and reforms to the international food system to promote price stability and a fair share of the benefits in global supply chains. Similarly, in order to ensure food sovereignty in LDCs as the sustainable alternative we need to advocate for major land and agrarian reform in LDCs as well as raise progressive discussion on current agricultural subsidy policies and practices of developed economies.

"To prevent even more damaging impacts, LDCs need cuts in greenhouse gas emissions by development partners, recognition of the principle of common but differentiated responsibility and meet the challenges posed by the most recent climate science. LDCs also need massively scaled up financial resources for the LDCs to protect themselves and adapt to climate change impacts.

"LDCs need diversification in their economies to increase their sustainability. But they need green economies which do not threaten the environment or contribute further to climate change. This requires a commitment from more developed countries to transfer the technologies that can make this possible.

"LDCs spend \$6.03b every year for debt servicing. In many LDCs, more money is spent on debt servicing than on essential services like healthcare, drinking water and energy. European and other developed countries have themselves recently experienced the consequences of high levels of debt. Therefore, we request you to help us to advocate for the cancellation of all LDC debt to enable LDCs in investing more on essential services of most vulnerable people of the world.

"There is an urgent need for transforming and restructuring the governance of the International Financial Institutions (IFIs) so that the needs of LDCs are addressed. The outcome should ensure and promote democratic participation of all countries in the negotiation of the IFIs and monetary institutions with the UN at the centre of this transformation process aiming at equitable, democratic and sustainable financial system.

"In the preparations for LDC IV, we need bold and decisive political leadership from the LDCs, and a commitment from the rest of the international community to ensure a political participation at the conference at the highest level. Additionally, beyond LDC IV, we urge for a global campaign on LDCs focusing on dedicated programmes and effective monitoring mechanisms to realise the successful implementation of the new Programme of Action for LDCs.

"As civil society we have a role in promoting this agenda - as passionate advocates for those who are suffering, as development actors, as partners to broaden ownership of the development agenda beyond governments, and as key agents to hold governments to account for their responsibilities and commitments. We are engaged in this process and working hard to make it a success.

"We hope that the eminent persons group will insist on a high level of ambition; that you will call for a programme of action that delivers tangible benefits to all citizens in LDCs; that you will demand justice for the LDCs; and that you will accept nothing less.

Source: LDC Watch, a global alliance of national, regional and international civil society organisations (CSOs), networks and movements based in the LDCs and supported by civil society from development partner countries.

Real people power

The strongest manifestation of real people power is their power over the purse of the nation.

This means their ability – directly or through their representatives – to decide how money is sourced and used by the government.

This is in accordance with the constitutional principle that "sovereignty resides in the people".

Wielding such power would allow them to plot not only their fortune path but also the destiny of the nation.

Alas, real people power over public funds in the country is still very limited, according to highly respected Prof. Leonor Magtolis Briones during her last official lecture at the UP National College of Public Administration and Governance.

"The new administration still needs to prove that it is a democratic government by institutionalizing citizens' participation in all phases of the public finance cycle," said Briones during her public lecture titled "Pera ng Taumbayan, Para Sa Taumbayan."

"People should be directly involved in determining fiscal policy, revenue, expenditures, borrowings and accountability; and not simply play the role of providing information to the public," explained the lady professor who has been nominated by her College for the title of Professor Emeritus.

She noted that citizens' participation is least palpable and least visible in the formulation of fiscal policy.

"The Medium-Term Development Plan, which is the basis for fiscal policy, mandates citizens' participation largely in social development and not necessarily in public finance," Briones said.

Her lecture is based on a study grant from the United Nations Development Program on "Enhancing Citizens' Participation in Public Finance".

Meanwhile, the study showed the people's groups' are not really able to participate in crafting policies on revenue; but

are actually just informing the public on issues such as sin taxes. The situation is the same in the accountability stage of public finance where people's engagement is not sustained as it depends on the issue and not on systemic government reforms.

On the other hand, it revealed that there is sustained people's participation in determining policies on borrowings, but the impact is limited.

"It seems that civil society positions on debt are being ignored by the government because the policy on borrowings has not changed much even after many years of sustained campaigns by non-government organizations," said Briones, who has been teaching public finance for already 50 years and has served as the secretary to the Commission on Audit and the National Treasurer.

She said that the stage of public finance where Filipinos has shown great influence is on determining expenditures.

"Social Watch Philippines led sustained people's engagement in the entire budget cycle through the Alternative Budget Initiative. The impact on policies on expenditures is clearly seen in the increased budget for social development that SWP/API has been able to push for in the General Appropriations Act of the last four years," Briones said.

The study showed that since 2006, civil society groups have been participating in determining expenditures through reforms in the Legislature.

It is only in the budget for 2012 that civil society groups will be able to actually participate in the preparation of the budget by the executive branch.

Source: Editorial, People's Journal, Sunday, 23 January 2011, p.4

[Public Noose Tightens Around Mubarak](#)

By Emad Mekay

CAIRO, Jan 26, 2011 (IPS) - Demonstrations calling for the ouster of President Hosni Mubarak of Egypt continued for the second day in several Egyptian cities with police cracking down violently, a development that many analysts here say reflects the nervousness of the regime.

At least four people have died so far, 600 have been arrested and many more injured. Protests are flaring up in Cairo, 6th of October City, Suez, Mahal El- Kubra and Alexandria.

"Young people are standing in the way of heavily armed armoured vehicles and stopping them. People are genuinely frustrated," Khaled Al-Balashy, editor-in-chief of Al-Badil newspaper told IPS.

"That was the first time I see people literally sacrificing their lives in face of police brutality," Al-Balashy said. "They think nothing worse could happen to them. This is unprecedented. And the changes will be equally unprecedented. It is a matter of time."

Diaa Rashwan, an analyst with the semi-official Al Ahram Centre for Strategic Studies noted that the protests are now calling for regime change, not for the usual government benefits or reduction in food prices.

"Protesters want the regime out. That in itself has confused the government," Rashwan said. "They do not know how to respond so far. The only answer has been extra security - I think they are scared."

The government has stepped up its security response across the country, with armoured vehicles visibly deployed around important buildings in Cairo - including the television and radio building overlooking the River Nile and several ministerial offices.

Hundreds of members of the Egyptian Press Syndicate demonstrated outside their union, where there was a heavy police presence, while hundreds of lawyers were trying to break a blockade by the police of the Bar Association building nearby.

Several women journalists were beaten by the police and were seen crying in pain. Many were seen yelling at officers who had used clubs against women reporters.

"These protests may not bring immediate or quick results," said Qutb Al- Arabi, an activist with the Egyptian Press

Syndicate. "But it is a message to the government that we are truly fed up."

Al-Arabi said he was demonstrating with other journalists initially for greater press freedoms, but as the police cracked down with violence, the demands have now shifted to request the departure of 82-year old President Hosni Mubarak who has ruled Egypt since 1981.

Mubarak and his government have been losing popularity due in part to implementation of economic policies backed by Western institutions such as the International Monetary Fund, the World Bank and the U.S. Agency for International Development that have led to high prices, rampant unemployment and corruption.

The government has cut or removed subsidies for many staple goods in a country where millions survive on less than two dollars a day.

Just before the protests broke out Tuesday, the government was preparing to cut energy subsidies, a move that would have pushed prices up even further.

The health ministry was also planning to cut its public health care coverage - limiting the hours at public hospitals where patients could be seen for reduced fees.

Politically, more activists are being pushed to the sidelines - including Islamic opposition, secular and independent political leaders.

Several political activists were particularly shocked in November over what they saw as the rigged parliamentary elections, which the ruling National Democratic Party won with an overwhelming majority - leaving very little room for opposition.

"The government's performance is very weak on many levels, be that socially, politically or economically," said Gouda Abdel-Khalek, head of the economic affairs committee at the left-leaning opposition Al-Tagammu Party.

But some analysts say that the Egyptian regime is flexible enough to note the demands of the protestors.

"We are talking about a state that is a professional survivor," Mohamed Abdel-Salam, editor-in-chief of the political periodical Al-Seysa Al-Dawlia told IPS. "They survived many other storms before."

Abdel-Salam said the size of the protests yesterday and today were clearly larger than what Egypt was used to, but "it is still smaller than protests in Tunisia, Lebanon or Yemen".

"The political elite are reading the events well and we expect to see some positive response soon because they will strengthen the hand of the reformists inside the ruling establishment. The changes will likely be political rather than economic," said Abdel-Salam, whose publication is part of the state-run Al-Ahram Institution.

The government however has not indicated it is responding either politically or economically.

The Interior Ministry has been the dominant government voice so far. In a statement Tuesday, the ministry blamed the Muslim Brotherhood for the protests - a declaration that positions the government to ignore demands of protesters since the Muslim Brotherhood is outlawed.

Opposition parties say the protests were spontaneous and not organised by the Muslim Brotherhood.

"It was a popular unrest. It wasn't the Muslim Brotherhood," said Abdel-Khalek of Al-Tagammu party. "I hope that the regime will get the real message and won't believe its own untruths".

Abdel-Khalek, who also teaches economics at Cairo University, said that the regime will fight hard for its survival because it is "a matter of life and death".

"They are afraid that once they are toppled, there will be investigations into their corruption and their mismanagement of the country," he told IPS.

The liberal Wafd Party called Wednesday for a "reconciliation government" that would include members from outside Mubarak's ruling National Democratic Party, and also on Mubarak to dissolve the current "rigged" parliament.

But all analysts agree on one thing; the emergence of a new generation of young Egyptians who are more combative and who are not afraid of the police - who are capable of bringing about more change than previously thought.

Source: IPS News

SW Activities in Dakar

These are the events organized or co-organized by Social Watch in Dakar, Senegal, within the framework of the World Social Forum. Those activities will be carried out in English, French and Arabic:

Thinking ahead: Towards a New Development Paradigm

We find ourselves at a crucial point in time – fast approaching the 2015 deadline for the MDGs, while preparing for the 2012 Conference on Sustainable Development. Today's unprecedented coincidence of global crises – economic, financial, food and climate – reveals the dead end to which the dominating models of development have led us. It is now time to break old ground, to draw lessons from these crises and to fundamentally rethink our goals and measures of development and social progress – in the North and South.

Organized by: Social Watch, FES – Dialogue on Globalization, Global Policy Forum Europe, Third World Network Africa

Date: February 8, 12h30 a 15h30.

Venue: to be confirmed

After the Fall: Time for a New Deal - A debate on the emerging global agenda

Why is "more of the same" not the solution? What works? How do we link social development with the climate, food and financial crises? Based on the findings of coalitions in over 60 countries, the Social Watch Report concludes that a "New Deal" is necessary... and possible! The reality of poverty and inequities, as perceived from communities and grassroots is different from the view from the top. An open debate with some of the key authors of the Social Watch report on why the Millennium Development Goals are not being met and what opportunities are emerging after the crises.

Date: February 8, 16h00 a 19h00)

Après la chute. Changeons les règles du jeu - Un débat sur l'agenda mondiale émergente

Pourquoi « encore la même chose » n'est pas la solution? Qu'est-ce que fonctionne ? Comment est-ce que nous relient développement social avec les crises du climat, des aliments et financières ? Basé sur les résultats des coalitions dans plus de 60 pays, Social Watch conclut qu'un « New Deal » est nécessaire... et possible ! La réalité de la pauvreté et les inégalités, comme aperçues par les communautés et au niveau local est différente des opinions du haut en bas. Un débat ouvert avec certains des principaux auteurs des Rapports de Social Watch sur pourquoi les Objectifs du Millénaire pour le Développement ne sont pas atteints et quelles opportunités émergent après les crises.

Date: Février 9, 12h30 a 15h30

Time for a New Deal – The Arab region and the emerging global agenda

An open debate

Will the Jasmine Revolution in Tunisia mark a new era for the Arab region? An open debate with some of the key authors of the Social Watch report on the new regional and global perspectives.

Why is "more of the same" not the solution? What works? How do we link social development with the climate, food and financial crises? The reality of poverty and inequities, as perceived from communities and grassroots is different from the view from the top. Why are the Millennium Development Goals not being met and what opportunities are emerging after the crises? Is sustainable development possible in the Maghreb and Majrek?

Arab NGO Network for Development (ANND) and Social Watch

Date: February 9, , 16h00 a 19h00)

Social Watch Network Meeting

Get to know other members and find out how your organization can get involved with the global Social Watch network.

Open to all current and potential Social Watchers.

Date and venue: to be confirmed

For more information: www.socialwatch.org or anaclau@socialwatch.org

Global debate on green economy

By Martin Khor

At the United Nations in New York earlier this month, I took part in a panel discussion on this topic, together with the head of the UN Environment Programme, Achim Steiner, and others.

The green economy has become a major theme of the Rio Plus 20 conference to be held next year in Brazil to

commemorate the 20th anniversary of the historic UN conference on the environment and development, better known as the Rio Summit, held in 1992.

At first glance, the green economy appears to be a simple idea whose time has come. Surely we all want to conserve natural resources and minimise pollution and greenhouse gas emissions. What better way than to turn the economy green?

There is, however, no scientific agreement yet on how to achieve a green economy, nor is there an international consensus on what it means and how to move towards one.

A green economy gives the impression of an economy that is environmentally-friendly, sensitive to the need to conserve natural resources, gives off minimal pollution and emissions during the production process, and promotes environmentally-friendly lifestyles and consumption patterns.

The difficult questions are whether the attainment of such an economy constrains other aspects, including economic growth of poor countries and social goals such as poverty eradication and job creation.

How do we identify and deal with the trade-offs? What is the role of the state, and what is the appropriate way to address the market and private sector? How can we build an economy that is more environmentally-friendly, and how should we handle the transition to a greener economy?

The Rio Summit had partially answered these questions by providing a basic framework – that the environment must be integrated within development, and not be taken separately. Thus the need to protect the environment should not be at the expense of the developing countries' right to development.

From this sprang the concept of sustainable development, with its three pillars of environmental protection, economic development and social development.

It recognised the need not only for international policies and actions, especially finance and technology transfer, to support developing countries to move towards a sustainable development pathway.

The Rio Summit established the principle of common but differentiated responsibilities. The rich countries, having contributed most to global environmental damage, have the responsibility to take the lead in changing their own economic model and in providing developing countries the finance and technology to move to an environmentally friendly system.

The developing countries want the green economy concept to be placed well within this sustainable development framework of the Rio Summit – and not to replace it. While acknowledging the positive aspects of developing the green economy concept, they also point to the risks.

The first risk is that the green economy is defined in a one-dimensional manner, and promoted in a purely environmental manner, without considering fully the development and equity dimensions.

The second risk is that a one size fits all approach is taken, in treating all countries in the same manner. This would lead to failures either for the environment, development or both. The levels and stages of development of countries must be fully considered.

The third risk is that the green economy is inappropriately made use of by countries for purposes of trade protection. In particular, rich countries may use this to justify unilateral trade measures against the products of developing countries, or to impose standards that have not been agreed to.

A fourth risk is that the green economy is used as new conditionality on developing countries for aid, loans, and debt rescheduling or debt relief. This may pressure affected developing countries to take on one-dimensional environmental measures rather than sustainable development policies.

Other issues in considering the green economy include the role of the public and the private sectors and regulatory and market mechanisms.

There is a long and large debate on these issues. Many believe that the environmental crisis is a result and sign of market failure, that the private sector and markets left to themselves have generated the resource depletion, pollution and greenhouse gas emissions that characterise the environmental crisis.

Thus, regulation of the private sector is important. Regulatory mechanisms such as limits to pollution and emissions, pesticides in food, water contamination, and use of environmental taxes and fines, are thus seen as crucial policy instruments, that should be major or central components to promoting the green economy.

However, there is instead an increasing trend of relying on markets whereby companies and countries can pollute beyond their assigned limit by buying pollution or emission certificates from other companies or countries.

Such markets for buying and selling pollution rights is seen in developed countries as an alternative to companies or countries having to take their own adequate action, and to allow them to pass the action on to others. This has aroused increasing criticisms.

While there is an interest in learning about the use of pricing mechanisms, taxes and payment for entrance of cars into urban centres, there is also a debate on the appropriateness and effects of the use of markets for pollution permits or for offsetting in the implementation of environmental commitments.

Finally, there are many challenges facing developing countries in moving their economies to more environmentally friendly paths.

While this should not prevent the attempt to urgently incorporate environmental elements into economic development, the various obstacles should be recognised and the developing countries should be supported internationally.

The conditions must be established that make it possible for countries, especially developing countries, to move towards a green economy.

Thus, what seems to be a simple idea, the green economy, is actually complex in terms of policy prescriptions and especially when it is the subject of international negotiations.

We will be hearing more about the concept and the debate around it.

Martin Khor is the Executive Director of South Centre, an intergovernmental policy think-tank of developing countries.

Source: The Star of Malaysia

[The art of not paying taxes](#)

*Carlos Bedoya**

Latin America is the most unequal region in the world. Some governments, like those in Bolivia and Ecuador, have started to change how they deal with big enterprises so as to increase their tax income and finance the process of widening coverage and improving public services, but most people still have much lower incomes than the top strata of society.

Latindadd, the network of social organizations, reports that the poorest 20% of the population in Latin America receive only 3.5% of the income while the richest 20% take 56.9%.

Tax policy is a powerful tool to reduce inequity, and according to the Peruvian tax expert Luis Alberto Arias, although this debate has not really got under way in this part of the world, in Europe tax adjustment has been used effectively to bring countries' Gini ratings (which measure inequality in societies) down by several points.

In Latin America, tax pressure is approximately 20% of Gross Domestic Product (GDP) but in Europe the figure is double this. That is to say, for every 100 dollars produced in our region only 20 go in taxes, while in Europe 40 of the dollars created go to the coffers of the state.

This shows how powerful taxation policy can be as an instrument to reduce poverty. This is the logic of imposing higher taxes on those who have higher incomes or more property, and spending more on state services for the whole population, with an emphasis on the most vulnerable sectors. This is the how a policy to promote equity works.

It is true that Europe is passing through a period of severe economic difficulty due to the global crisis that has hit the continent extremely hard, but still its taxation systems are among the most progressive in the world. No one would dispute that the crisis has more to do with speculation and bad management in the financial field than with tax systems.

Regressive taxation

According to Luis Moreno, an economist in the Latindadd technical team, the Latin American countries prefer to levy more taxes on consumption than on income, partly because indirect taxes are easier to collect and partly to save on the monitoring costs involved in taxing the profits of big enterprises and investors. Thus the people who actually pay more are those with middle and low incomes. This kind of system is called regressive.

The other side of the coin are taxes on wealth and property, direct taxes, which yield relatively less than indirect taxes.

In Latin America, direct taxation accounts for only 17% of total tax income, whereas what we all have to pay when we buy something amounts to some 40% of total income from taxation.

With this in mind, it is clear that tax policy in the region is “pro rich” and not “pro poor”. In other words it is regressive, not progressive. This is one of the main causes of the huge inequalities there are in this part of the world.

The notion that “investment and exports” is the only option for a country to develop is still the guiding ideology when the time comes to levying taxes. And with this philosophy underlying state policies, it is no surprise that the transnational enterprises are regularly granted advantages that range from tax stability contracts to tax evasion mechanisms such as “transfer prices” and “tax havens”.

They take it easy

There are many tricks, many ways in which the big enterprises can evade the taxes they should pay. This is called taxation planning, and it normally requires the expertise of lawyers who know the ins and outs of the tax regulations in each country. However, when it comes to international trade, not only do the transnational enterprises evade certain taxes by using tricks to get round the legal regulations, they also manipulate prices and buy from and sell to their own subsidiaries in other countries, thus making a mockery of tax systems and lining their own pockets.

This is called “transfer prices”. According to Rodolfo Bejarano, an economist with links to Latindadd, this is how, at the present time, some 60% of world trade is carried out: it consists of transactions between enterprises involved in the same matrix.

Bejarano explains that when a transnational group controls enterprises that are on both sides of a commercial transaction it is easy for them to avoid paying taxes, and the countries in question can do nothing about it. This is why there is a close connection between price manipulation by transnationals and the developing countries losing tax income.

By using this mechanism these enterprises can transfer their profits under cover. They assign unreal prices to their transactions involving goods or services, understating the value of sales or overstating purchases to suit their needs. Or they simply invent fictitious business operations.

How much are we losing?

The British NGO Christian Aid has estimated that the developing countries lose approximately 160 billion dollars per year as a result of these bad practices. By the same calculation, Latin America is losing 50 billion dollars a year in the same way. According to a study by Global Financial Integrity, Peru is losing 275 million dollars a year as a direct result of these manoeuvres.

There is no easy way out. The transnationals would have to provide timely information about all their operations and this would necessarily have to pass through an international tax control system with global accounting standards that could check the big enterprises’ trade operations to ensure they are legitimate. In other words, what is needed is global political will.

Tax havens

The dynamic of transfer prices makes no sense unless the system is underpinned with tax havens. In the world today there are more than 70 places where tax opacity makes it possible for the big fish to hide their ill-gotten gains from whatever organization is investigating them. That is to say, places that not only have low taxes or none at all, but where persons or legal entities enjoy strict banking, professional or commercial secrecy, and where this is guaranteed by the law.

Alberto Croce of the SES Foundation in Argentina says these havens ought to be called “tax sewers”. They also serve to hide the losses of banks and large enterprises with classified investment accounts, which are very profitable. We were given a glimpse of these kinds of arrangements when the dirt on the world financial crisis, or some of it, came out.

The first tax haven was Switzerland: in 1934 the Swiss decreed banking secrecy for their foreign clients. Since then these havens have been proliferating. There are some in the Latin American region, but without doubt the most efficient are the United States and five European countries.

It was not for nothing that the Swiss ex-banker Rudolf Elmer gave WikiLeaks lists with the details of 2,000 people, financial institutions and multinationals in various countries that use banking secrecy to evade taxes. He said that the world should be aware of what he himself has always known in his day to day work. In the near future some very revealing information is going to emerge.

**Carlos Bedoya is a Peruvian lawyer and journalist, and a member of the central Latindadd team.*

Source: Agenda Global

SOCIAL WATCH IS AN INTERNATIONAL NGO WATCHDOG NETWORK MONITORING POVERTY ERADICATION AND GENDER EQUALITY

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