

Why we need financial transparency

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It was good to be challenged about why we need much greater financial transparency to help developing countries by the IMF during an extended meeting with them on Friday.

The team from the Task Force on Financial Integrity and Economic Development was able to address these issues, and clearly make the case. A number of explanations were offered.

First, greater transparency in developing countries will be of benefit in those places. Without data markets cannot operate effectively. If you do not know with whom you are dealing; if you do not know how they are using resources; if you cannot be sure entities can meet the claims made against them; if you cannot even be sure how you can register that claim, then quite clearly there is a significant risk premium within those markets that increases the cost of capital in those places. There is also substantial risk of the misallocation of resources, reducing the rate of return on capital, which has the same effective consequence. That means the cost of doing business in developing counties is significantly increased without full and open disclosure of what all entities other than natural persons are undertaking in these places.

Second, the maintenance of effective systems of regulation to prevent bribery and corruption, crime and the abuse of tax systems through transfer mispricing is not and cannot be claimed to be an internal matter which developing countries alone can tackle. When there are states around the world — the 60 or more secrecy jurisdictions that we know exist — offer facilities that are deliberately designed to undermine the effectiveness of the law enforcement agencies in these places then quite clearly they face an almost insurmountable issue in tackling the problems they face internally with the scarce resources that they have available to them. This means solving the problem of illicit financial flows cannot and never will be a matter for the developing counties of the world to tackle in isolation, and individually.

Third, this problem of secrecy jurisdictions is not a problem the developing countries of the world created. It is one we in the developed world created, and from

which they suffer, along with us. We created the limited liability corporation. It has been useful, and nothing will now make it go away. But we also allowed it to be debased, to become opaque to the point we know little or nothing about most of the world's corporations - even to the extent of not knowing where some of them are incorporated, or if they even exist on registers anywhere. We allowed that to happen. We provided the space for that to happen. We do at present continue to tolerate that happening. This is a problem we must tackle or law enforcement in developing countries (and our own) will be continually undermined.

Fourth, we have allowed the secrecy space that the combination of multinational corporation group accounts and secrecy jurisdictions in combination provide and which between them enable the whole process of transfer mispricing to occur — to far too great a degree undetected.

Without a doubt there is a problem of law enforcement in some developing countries. It would be entirely wrong to deny it. But to say that this is their problem to solve alone and that we have no duty to reform the requirements of the international financial system to improve its efficiency as a mechanism for allocating resources, for enforcing property rights, for preventing bribery and corruption , for preventing crime and for preventing tax abuse is just wrong.