

Investments for development: Derailed to tax havens

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I have [written a report](#) with the above title for a group of mainly Scandinavian NGOs. The summary says:

Development Finance Institutions (DFIs) are state owned companies located in European countries that invest their capital in developing countries for the express purpose of advancing development in those places by promoting investment in local business. In this respect their activities can be compared to that of the European Investment Bank (EIB) and International Finance Corporation (IFC) — a part of the World Bank. All these institutions are closely related in the way they operate, including the use of tax havens in their investment operations or those of their beneficiaries. Therefore, the concerns raised and proposals addressed to DFIs in this paper are also applicable to the other two institutions.

At the end of 2008 the DFIs that were members of the European Development Finance Institutions network (EDFI) had combined funds invested in developing countries of about â,¬16.7 billion.

In our opinion DFIs have a very special and very particular role in development. As state owned enterprises it is their job to encourage three things:

- the first is business activity in developing countries;

- the second is the dissemination of the benefit of that activity within those countries- without this their development objective is not fulfilled. This means that their activities should be fully in line with internationally agreed development goals, namely that of enabling mobilisation of domestic resources through proper taxation of economic activities in developing countries;

- thirdly, as agents for change they must be transparent and accountable in all they do and be seen to promote the highest standards of social, environmental and governance policy compliance.

There is, of course, potential conflict in these objectives. It is well known that profit can

sometimes be made from abusing those standards that we believe DFIs should be promoting. In our opinion DFIs must promote the highest standards of conduct, if necessary at cost to the profit they can make. As it is known that regulatory abuse, corruption, tax evasion and illicit financial flows cost the developing world many hundreds of billions of dollars a year, and very much more than the amount of aid they receive, we think that part of the “catalysing role” that DFIs claim to have should be to promote better standards of business conduct.

This report argues that one way in which the DFIs can do that is to stop using tax havens as places through which they invest, and to implement stringent guidelines for DFI backed companies using tax havens.

Tax havens have a significant and harmful effect on developing countries. Tax havens are the conduit through which illicit financial flows leave developing countries. The secrecy that tax havens provide hides corruption, crime and tax abuse. That same secrecy means that businesses located in tax havens are almost entirely unaccountable for their actions. As a result tax havens are associated with very low standards of social, environmental and governance policy compliance.

Most especially, it has been convincingly argued that tax havens undermine the tax systems of governments of many large and populous states, including those of developing countries. We believe that by paying tax, those companies and businesses in which DFIs invest located in developing countries could provide the governments of those countries with the essential means to build their own national infrastructure, whether physical infrastructure, or the education, healthcare and other services needed if these countries are to develop as independent nations, able to survive without aid. For this reason we believe that DFI use of tax havens is incompatible with their development objectives and incompatible with their duty to promote the highest standards of business conduct.

This report addresses these issues, and having identified the problems created by DFI use of tax havens, we posit that the new code of conduct for the use of tax havens that the EDFI is promoting is inappropriate. We offer in its place an alternative code of conduct for DFI activity. This code would fall within the broader scope of the Responsible Financing Charter promoted by Eurodad and would specifically promote:

~~â€śA, ¶ Transparency, accountability and openness by DFIs;~~
~~â€śA, ¶ The application of the accounting and disclosure standards of the DFI's sponsoring state to all companies in which the DFI invests, irrespective of the requirements of the local jurisdiction in which the company in which it has invested operates;~~
~~â€śA, ¶ DFIs positively seeking the companies in which they invest to pay the right amount of tax in the developing countries in which they are located;~~
~~â€śA, ¶ DFIs being open and explicit about their reasons for using a tax haven if that is required to avoid double taxation;~~
~~â€śA, ¶ DFIs seeking to promote change in developing country tax laws to prevent the risk of double taxation occurring when investment is made in those locations;~~
~~â€śA, ¶ DFIs seeking to remove the obstacles to direct investment in developing~~

countries by offering training, legislative support and technical advice to the governments of the jurisdictions in question to overcome the obstacles to inward investment within their domain that they have identified to exist. At ESA, DFIs reporting their own activities on a country-by-country basis so that the full impact of their work and the full scale of their contribution to the economies in which they invest can be appraised, including by disclosure of the tax they pay, this proposal also applying to companies backed by DFI funds.

The document is open for comment until 14 May.