

Time to black-list the tax haven whitewash

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This [article by John Christensen and Nick Shaxson was in the FT this morning](#), and given its importance to the, Tax Justice Network I reproduce much of it:

Two years ago the Group of 20 leading nations declared that “the era of banking secrecy is over. It mandated the Organisation for Economic Co-operation and Development, a club of 34 rich countries, to lead an -[assault on tax havens](#). The results of this effort will interest those trying to [track down missing wealth](#) from Egypt and Libya, as well as governments chasing tax revenues amid large deficits more generally. Sadly, this was far from the dawn of a new era of financial transparency.

The OECD is supposed to develop rules to share information about their citizens' income, so that they can be taxed appropriately. They planned to draw up black, grey and white lists of [tax havens](#), with threats of sanctions against those that did not shape up. Tellingly, the black list was empty soon after their initial statement.

Part of the problem is that havens sign a Tax Information Exchange Agreement with other countries, under which they agree to share some information about people with accounts under their jurisdiction. But a country cannot use a TIEA to ask for general information about its citizens' assets and income. Instead it must already know (and specify) who the tax cheat is, and what they are suspected of, to force the haven to act. This is better than nothing – but it does little to deter tax evaders.

Worse, a haven has to sign only 12 of these agreements to graduate to the OECD's white list. And here the organisation's data paint a dismal picture. A fifth of the total were signed with Greenland, Iceland and the Faroes. Many others are between tax havens themselves. The non-haven nations of Africa, Latin America, the Middle East and Asia, whose 5bn citizens need transparency from tax havens the most, have almost none. Alarming, the OECD's grey list also only contains nine minnows whose international financial activity amounts to under 2 per cent of the world total.

So why have the 2009 initiatives proved so feeble? Unfortunately it is because the biggest purveyors of financial secrecy are also the largest recipients of illicit flows: the

US, the UK, the Cayman Islands, Ireland, Luxembourg and Switzerland. Recently a report from 25 US members of Congress estimated that more than \$3,000bn had been parked in US banks because of favourable privacy laws. Meanwhile, a network of secretive British tax havens feeds huge volumes of licit and illicit business to the City of London.

Such illicit financial structures typically straddle many jurisdictions, perhaps with an offshore trust, a company with nominee directors, or bank secrecy adding opacity at each step. All are backed by skilled accountants, lawyers and bankers. But at the end of all these convoluted ownership structures, the actual assets will still be sitting in London, Zurich or New York.

Consider this another way. Many Nigerians stash their money in London. But how many British people stash their money in Lagos? The flow is clearly from poor countries to rich. Secrecy rules disadvantage developing countries. Global Financial Integrity, a US research centre, estimates that more than \$1,200bn in illicit flows drained out of developing countries in 2008 alone, mostly to big OECD centres. The rich countries lobby to protect the secrecy that attracts dirty, untaxed money from elsewhere.

All this is indefensible, and change is now required. The OECD should raise the bar on entry to its white list, to at least 60 TIEAs. It should also regularly publish information on how much data are being exchanged via the agreements. Even better would be a new system of automatic information exchange, as used in the European Union savings tax directive. The identities of those who control or benefit from companies and trusts must be on public record. Tax evasion must formally become a money-laundering offence and intermediaries caught helping must be sent to jail.

A true crackdown would help capture lost money and help developing countries tax their elites, rebuild shattered social contracts, and curb reliance on foreign aid. China, India and others must push the G20 to get serious. A trickle of extra information is now flowing. But a new dawn of global financial transparency? Hogwash. Or perhaps we should say whitewash.

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