Funding the Future

Why developing countries need a fair deal on tax

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This article by Christian Aid was in the Guardian this weekend.I unashamedly repeat it here.

Developing countries lose an estimated $160bn (£98.5bn) every year â€š more than the global aid budget â€š as a result of tax dodging by some companies, according to Christian Aid. This means that for every £2 given in aid, £3 slips out through tax dodging by companies. It is money that could be used to build schools, roads and hospitals, and eventually help poor countries break free from dependency on aid.

Multinational companies need to be held accountable, says David McNair from Christian Aid's economic justice programme. "If developing countries are able to collect a fair amount of tax from the companies operating within their borders, governments would, in theory, be able to pay for essential services," he says. "For this to happen, accountancy laws need to be changed to make country-by-country tax reporting a legal requirement.

"Multinational companies are really good at finding new ways to make money. But some go to unethical, even illegal, lengths. By reporting just a fraction of the profits they make in poor countries, and hiding the true amounts offshore, these unscrupulous businesses reduce their tax bills â€š and cost the developing world billions."

While governments in countries that are members of the Organisation for Economic Co-â€šÃ„Ã¤operation and Development (OECD) tend to raise about 35% of their GDP in taxes, the record in developing countries is much lower, with an average of 16% in Latin America and Africa. For example, despite having one of the biggest economies in Central America, Guatemala collects little tax, so its social spending is very low. This is one of the reasons why it has such high levels of maternal mortality, illiteracy and child malnutrition.

Tax is fundamental to the development of poor countries, not only in generating revenues, but also because it has been shown to strengthen systematically the extent to which governments are accountable to their citizens. "If a government isn't receiving revenue in tax from its own citizens, it has little incentive to act in their interests," says McNair . "It is not only the amount but also the source of revenue that is important.

"Over-dependence on aid and natural resources has, in the past, led to governments being more accountable to aid donors than to citizens â€š or not accountable at all." In turn, people are more likely to engage in the political process â€š demanding services and representation for their taxes.

In Bolivia, one of the poorest countries in South America, Christian Aid partner CEDLA contributed to a campaign that led to fairer taxation. In 2006 the vast majority of companies only paid 18% of the value of Bolivia's oil and gas to the treasury. CEDLA produced information to raise understanding of the situation. Huge popular protests urged the government to increase oil and gas taxes. The government was forced to listen. Now multinational companies exploiting the country's huge reserves of oil and gas are paying 50% in tax, helping fund enormous improvements in social welfare. The increased revenues mean that 2.4 million of Bolivia's most vulnerable people are now receiving direct financial support, schoolchildren are able to buy books and everyone over the age of 60 gets a monthly pension.

One of the other things tax revenues pay for is free school breakfasts. Gabrielo Aro, from La Paz city council, says this is having a real impact on children's health and concentration levels. "When we started, 37% of children had anaemia," she says. "This has now dropped to 7.8%."

Mauricio Corihuanca, an activist who took part in the campaign, adds: "If people are armed with the truth, they can achieve anything."