

11.11.11 – Coalition of the Flemish North-South Movement, Belgium; ActionAid International; African Forum and Network on Debt and Development (AFRODAD); BothEnds; Bretton Woods Project; Christian Aid; Debt and Development Coalition Ireland; European Network on Debt and Development (EURODAD); IBIS; Institute of Global Responsibility (IGO); Latin American Network on Debt, Development and Rights (LATINDADD); Kosovo Civil Society Consortium for Sustainable Development (KOSID); Methodist Tax Justice Network; Norwegian Church Aid; Re:Common; Tax Justice Network; Urgewald; World Economy, Ecology & Development (WEED)

Jin-Yong Cai, Executive Vice President
International Finance Corporation
2121 Pennsylvania Ave, NW
Washington, DC 20433
United States

8 May 2014

RE: “Report on the First Year of Implementation of the Policy on the Use of Offshore Financial Centers in World Bank Group Private Sector Operations”

Dear Mr Cai,

We are writing to you regarding the World Bank Group’s recently published “Report on the First Year of Implementation of the Policy on the Use of Offshore Financial Centers in World Bank Group Private Sector Operations”. While we welcome the fact that this review is public, **we believe that the report is fundamentally flawed as it does not include the necessary information to make a proper assessment of WBG’s efforts to implement this policy.** In addition, we are concerned that this report further exposes the flaws in the current policy and its inability to improve transparency and effectively tackle tax evasion and avoidance. Therefore, **we reiterate the need for an immediate and fundamental policy review, accompanied by a stronger commitment to implementation, which also allows for public scrutiny.**

Civil society organisations have repeatedly called for far greater transparency regarding the WBG’s use of OFCs. This report singularly fails to deliver on that demand. For the report to be useful, and for the WBG to signal its seriousness about addressing the issue, we would expect substantial elaboration on the following issues:

1. The report states that “during the first year of implementation, IFC’s investment operations in the Latin America and Caribbean regions were impacted as a number of transactions were found not to comply with the Policy and therefore did not proceed”. We urge the World Bank Group **to clarify the number, volume, and sector of the proposed investments that did not go forward** and elaborate on the specific reasons behind non-compliance.
2. The report states that “6 additional jurisdictions were deemed to be ineligible as Intermediate Jurisdictions under the OFC policy”. However, it remains unclear which additional jurisdictions the report is referring to, and **how exactly the World Bank Group is planning to take measures**, given that the current policy still allows for exceptions if the Group considers that the specific jurisdiction is making “meaningful progress”. In addition, it is unclear how the Group will respond if these ineligible jurisdictions appear in client’s and counterparties’ shareholder structures.
3. According to the report, “the impact of the new ineligible jurisdictions may affect IFC transactions in East Asia and the Pacific and Europe and Central Asia”. Once again, this sentence is highly ambiguous and does not provide clarity on **how specifically this will impact on the aforementioned regions**, given that the current policy still allows for exceptions if the Group considers that any of these ineligible jurisdictions is making “meaningful progress”.

A recent civil society assessment of IFC investment through financial intermediaries found that at least \$2.2 billion was channeled through secrecy jurisdictions where no meaningful economic activity by clients takes place because of their attractive low-tax, low-regulation environments.ⁱ This leads us to restate that the current policy is not effective. In particular, we believe that the IFC's commitment to the OECD Global Forum process is insufficient to achieve its policy's stated goals, i.e. "to improve transparency" and to "ensure that its private sector operations are not used for tax evasion".

A meaningful policy review would result in a policy that **ensures that IFC-supported projects are not based in jurisdictions where no meaningful economic activities by its clients take place**. Therefore, the IFC needs to take into account the following recommendations:

- The IFC should promote developing countries' right to mobilise domestic resources and **fully endorse Article 7 of the UN Model Convention** dealing with business profits, which allows for taxation of certain profits in the source country instead of the residence country.
- The IFC should move beyond the existing OECD Global Forum process and take concrete steps towards an **alternative approach which focuses on enhanced transparency about the users of tax havens** and not only on states requesting information. Therefore, the IFC must pressure financial intermediaries and multinational companies to provide relevant and necessary information about their identity, beneficial ownership, activities, economic performance and taxes paid in each country.
- The IFC needs to require **implementation of country-by-country reporting requirements by all companies it engages with** to ensure that companies follow domestic rules and are in no way involved in transfer pricing practices which result in a misallocation of profit out of the relevant jurisdictions.

We urge you to launch an immediate and fundamental policy review, and in the process of the review address our concerns with the lack of transparency on the use of and reporting on the OFC policy.

Yours sincerely,

11.11.11, Coalition of the Flemish North-South Movement, Belgium
ActionAid International, South Africa
African Forum and Network on Debt and Development (AFRODAD)
BothEnds, the Netherlands
Bretton Woods Project, United Kingdom
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Methodist Tax Justice Network, United Kingdom
Norwegian Church Aid, Norway
Re:Common, Italy
Tax Justice Network
Urgewald, Germany
World Economy, Ecology & Development (WEED), Germany

cc: IFC Executive Directors

ⁱ See *Follow the money: The World Bank Group and the use of financial intermediaries*, Bretton Woods Project, 10 April 2014, <http://www.brettonwoodsproject.org/2014/04/follow-the-money/>.