OTT
A global consultancy and platform for change

# The Tax Justice Network

# 20 Year evaluation

### Outcome story 2: The change in the narrative on corruption

## Introduction

The following document presents a detailed narrative in the form of an outcome story of one of three milestones highlighted in OTT's independent assessment of the Tax Justice Network's 20 years of work from 2003 to 2023. Nine significant milestones were identified in the assessment, and three have been written up as outcome stories.

Through this approach, we seek to address the Tax Justice Network's contribution to the field by documenting and analysing outcomes in terms of the description of change (who is doing what differently?), the significance (why does that matter?) and the contribution (what is the Tax Justice Network's contribution to that change?).

Overall, the results are three outcome stories told in a simplified way that can be useful to introduce part of the Tax Justice Network's trajectory, successes, and critical junctures to a wider audience.

This is outcome story two.

## Outcome 2: The change in the narrative on corruption

*Through the creation of the Financial Secrecy Index, the Tax Justice Network has raised the issue of secrecy in the financial and legal systems of jurisdictions as the key element that enables illicit financial flows. With the revelation that all countries have some degree of secrecy, this story explores how the Tax Justice Network established a counter narrative that challenges the simplistic notion of categorising jurisdictions as either tax havens or not and shows that all countries have a responsibility in the fight for tax justice.*

### The Financial Secrecy Index: A Challenge To The Dominant Aid Narrative

In the 1990s, the phenomenon of corruption drew growing public recognition and discussion at the highest levels, including the World Bank, the OECD, and the UN, becoming a central feature of the development discourse as the major impediment for growth and stability.

The launch of the Corruption Perceptions Index (CPI) in 1995 by Transparency International (TI) prompted the global media to place a stronger emphasis on corruption and simultaneously exerted pressure on politicians, banks, and international funding agencies to incorporate corruption amongst the core criteria in evaluating credit risk and in determining eligibility for aid.

Nevertheless, the widespread definition of corruption promoted by TI as “the misuse of entrusted power for private gain” is a narrow conception of the phenomenon that focuses on the activities of people who hold a position in the public sphere, leaving out other powerful elites, including company directors and financial intermediaries, as well as other forms of corruption such as tax evasion.

This tendency to treat corruption as a synonym of bribery of public actors distorted the geography of corruption by identifying developing nations as the most corrupt countries while disregarding the involvement in corruption exhibited by major corporations and governments in the global North. This in turn, reinforced the narrative that corruption is primarily a problem of “poor countries” and that they are responsible for their development issues because of the corruption that they have failed to control, leading to a vicious cycle of inappropriate policy responses.

In 2007, the Tax Justice Network published a paper written by John Christensen at the World Social Forum in Nairobi entitled “Mirror, mirror on the wall, who’s the most corrupt of all?”. This paper laid the groundwork to initiate discussions around the inadequacy of the CPI’s corruption discourse. It examines how ideological factors have influenced the portrayal of corruption whilst highlighting the disregard for addressing the role of the financial infrastructure in profiting from illegal and unethical activities like tax evasion.

At that same event, the idea of creating a Financial Secrecy Index was conceived by the Tax Justice Network to promote a counter-narrative of corruption that considered the broader issues of illicit financial flows (IFF) and the offshore economy to expose how countries from the Global North play a prominent role in enabling cross-border IFFs.

The Financial Secrecy Index was first launched in 2009 and has been published regularly every two years ever since. It provides a framework to assess and rank countries according to the degree to which a jurisdiction's legal and regulatory systems promote opacity in global financial flows, thus facilitating tax abuse and money laundering. This in turn has helped to shape a different public perception of tax havens by establishing the concept of secrecy jurisdictions and revealing a different pattern of financial secrecy compared to the common perception dominated by the idea of small island tax havens.

As a result, the Financial Secrecy Index has also generated momentum in civic and political interest in financial secrecy that the Tax Justice Network has leveraged to position tax justice policy measures at the forefront of the global agenda. These include the ABC of transparency: automatic exchange of information, beneficial ownership, and country by country reporting. Comparing the rankings of the Financial Secrecy Index throughout the years, it is possible to see how some progress has been achieved with countries adopting transparency measures, including concepts of the ABC of transparency.

## The Technical Shift

The Financial Secrecy Index’s methodology is based on transparent and objective data rather than perceptions, allowing it to establish a legitimate benchmark against which to judge countries’ performance. To establish the ranking between countries, the Financial Secrecy Index is made up of two elements: the secrecy score which is assessed with qualitative data, and the global scale weighting for each jurisdiction, measured with quantitative data.

To obtain the secrecy score, jurisdictions are assessed using 20 indicators and several sub-indicators that encompass various aspects such as banking secrecy, anti-money laundering measures, and real estate owner registration. Secrecy jurisdictions that receive the highest secrecy scores are more opaque in the operations they host, thus becoming more appealing as destinations for routing illicit financial flows and hiding criminal and corrupt activities.

The global scale weight is in turn measured according to the share of the offshore financial services industry in the global total using public data available about the trade in international financial services of each jurisdiction. Finally, by combining the secrecy score and the global scale weight of jurisdictions, it is possible to rank countries proportionately, according to the extent to which a jurisdiction’s secrecy contributes to global financial secrecy facilitating illicit financial flows.

This approach acknowledges that financial secrecy exists on a spectrum, encompassing all jurisdictions to varying degrees. This challenges the simplistic notion of categorising jurisdictions as either tax havens or others, a perspective often popularised through "tax haven blacklists" like the EU's list of noncooperative jurisdictions.

Thus, the Financial Secrecy Index functions as an index, rather than a mere list, designed to position countries along this spectrum and making it evident that every jurisdiction holds the responsibility to minimise their contribution to financial secrecy, regardless of its scale. This novel approach of ranking has the potential to support more precise and detailed research findings, thereby facilitating more targeted and specific policy recommendations.

## Uses of the Financial Secrecy Index: How The Narrative Has Changed

Although it is difficult to assess the direct contribution that the Financial Secrecy Index has had in changing the narrative regarding development and transnational corruption, it can be said that it has been instrumental in the development of the agenda around progressive taxation that began to emerge in the 2000s under the understanding that tax and financial systems are at the core of the issues of development.

With growing support from CSOs, NGOs and policy makers, the last decade has witnessed some significant changes in the approach to development and the role of taxation with the adoption of a broader view that explicitly considered IFF and tax evasion as obstacles to development.

The 2030 Agenda for Sustainable Development adopted in 2015 by the United Nations acknowledges the significance of prioritising the reduction of IFFs as a crucial concern in fostering peaceful and prosperous societies worldwide. Under target 16.4, States commit to “significantly reduce illicit financial and arms flows [...]”, and target 17.1 stands for strengthening domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection. There were no similar pledges concerning IFFs and support for domestic revenue generation in the previous Millennium Development Goals.

In this context, the Financial Secrecy Index represents the only tool that provides cross-country information on financial transparency. It has garnered international recognition and has served as a point of reference for academics, international organisations, and governments in academic publications, reports, and policy research, as shown in the annex where a list of documents that make references to the Financial Secrecy Index is presented. In these documents financial secrecy is acknowledged as a defining characteristic of the global economy, closely linked to the issues of corruption, tax evasion and avoidance, money laundering, and lax regulation. The Financial Secrecy Index is also used in the construction of several important broader indices, such as the Centre for Global Development's Commitment to Development Index and the Basel Anti-Money Laundering Index published by the International Centre for Asset Recovery.