

## Long WORKSHOP REPORT FORM

**Number and title of workshop:** Special Session – G20, the Day After. Immediate Civil Society Reactions to the Seoul Nov 11-12th G20 Summit

**Coordinator:** Angela McClellan, Transparency International

**Date and time of workshop:** 13 November 2010: 14:00-16:00

**Moderator:** Huguette Labelle, Transparency International

**Rapporteur:** Krina Despota, Transparency International

### **Panellists**

**Frank Vogl:** Individual Member, Transparency International and Advisor to the Managing Director

**Francois Valerian:** Head of Transparency International's Private Sector Team

**Raymond Baker:** Director of Global Financial Integrity, a Programme of the Center for International Policy

**Jacques Terray:** Vice-President, Transparency International France

**Geo-Sung Kim:** Board Member, Transparency International and Chairperson and Founding Secretary General of TI Korea

**Robert Palmer:** Kleptocracy Campaign, Global Witness

### **Summary**

Panellists reacted to the outcomes of the G20 Summit in Seoul which ended on 12 November. Encouragingly, the released Communiqué included an Anti-Corruption Action Plan. While the panellists welcomed this development, they voiced concern that the G20 members may not “walk the talk” in the months ahead (the three participating civil society organizations in the workshop issued a press release following the session that explained this issue and stated that they would be monitoring the implementation of the Action Plan). Several of the panellists stressed that the G20 leaders had not gone far enough towards ensuring that the global financial system is made sufficiently transparent and that regulation is rigorous enough to prevent corruption. Particular areas of concern included the continued lack of regulation surrounding offshore centres, derivatives trading, rating agencies and abusive transfer pricing. Contributions from various panellists emphasised that developed countries and the banks from those countries carry significant responsibility for the laundering of stolen assets by corrupt leaders. Despite disappointing outcomes in Seoul, one particularly encouraging development outside of the Summit was the finding of the French high court that TI France could call for an investigation into three African presidents who purchased properties in France with stolen assets.

Panellists identified a continued role for civil society to act as a monitor to commitments made at the G20, and to call on the G20 governments to launch multi-stakeholder groups to pursue implementation of the action plan at the national level. The Task Force on Financial Integrity Development is also seeking funding for G20 monitoring.

Among the overarching messages from the discussion was the importance of maintaining calls for transparency even amidst signs of economic recovery.

## Summary of presentations

**Frank Vogl.** Main outcomes of the G20 meeting in Seoul included:

- Seoul Action Plan, dealing with global economic management and growth.
- Seoul Development Consensus for Shared Growth: Development assistance with a focus on very poorest
- Pledges and statements specific to global energy and climate change
- The first-ever G20 Anti-Corruption Action Plan

The 13<sup>th</sup> IACC in Athens and the 2009 TI AMM identified the need to address the links between the global financial crisis and corruption.

Unfortunately, the Seoul Summit had rather underwhelming outcomes.

- Agreement on currencies: no decisions taken.
- Broad pledges against protectionism, but nothing substantial
- Regulation of banks. Major decisions on this topic were put off until 2011. Seoul did nothing more than ratify agreements that were taken in Basel at end of September. Major decisions—the most important being a commitment by the G20 countries to cooperate to create a global regime for banking—were deferred.

One of the most significant concerns raised by the Summit is that the G20 rubber-stamped decisions taken by powerful, but publicly-unknown groups: the Basel Committee on Banking Supervision and the Financial Stability Board (FSB). Other new agencies are also being created by the European Union to supervise banks. These developments highlight the need for transparency and accountability in organisations that have authority from the G20 to secure the safety and soundness of the world's banks. This is essential to prevent corruption and bolster public confidence.

While encouraging that the G20 so significantly recognised corruption through its Anti-Corruption Action Plan, it is far from clear what will happen in the economic and banking landscape. Until issues of corruption are vigorously addressed, millions of people will continue to be marginalised.

**Francois Valerian.** In 2009, the G20 raised big expectations in promising an end to banking secrecy. But compared to 18 months ago, the G20 has softened its language on the need for transparency. As markets improve, the G20 are under significantly less pressure to reach agreements than they were when the financial crisis broke. Now the key word mentioned more often in the Communiqué is “recovery”, not “transparency”. Lack of transparency has ruined confidence and dried up cash sources. Even with massive cash injections, recovery will not be sustainable unless transparency is ensured. While the G20 has been quick on cash injection, regulation has been slow.

IMF safety nets and government rescue packages need to be fully disclosed and accompanied by additional transparency. An anticipated FSB report on what needs to be done with “too big to fail institutions” and the names of those institutions, will not come out until mid-2011. It now seems as if “too big to fail” could be replaced by “too big to challenge”. The new bank capital and liquidity framework drawn up by the Basel Committee will only be implemented between 2013 and 2018.

Conflicts of interest between rating agencies and their clients have not been properly addressed. The G20 committed to the FSB principles that investors not solely rely on ratings provided by the rating agencies, but it made no proposals that would weaken the commercial link between raters and security issuers.

Offshore centres have also not been significantly addressed over the last two years. In April 2009, the G20 leaders were ready to take action against those jurisdictions. In Pittsburgh a few months later, they had expanded the Global Forum on Transparency and Exchange of Information. But it will be another year before the Global Forum reports back on offshore centres.

While the G20 recommended reasonable timelines for regulation, it has not gone far enough in demanding these deadlines be met. One of the drivers behind the financial crisis, regulation of derivative products was meant to be improved. While the deadline for improving transparency in derivative trading is set for 2012, so far only five G20 members have taken steps to better regulate derivatives.

From 1929 to 2008, market failures have been followed by calls for greater transparency. "Subsequent recovery has caused collective amnesia, but in a globalised world with globalised challenges, collective amnesia is an illness that can hardly be afforded."

**Raymond Baker.** An estimated US \$1.2 trillion flowed illicitly from developing countries into western economies in 2008. Three major forms of illicit money (defined as money illegally earned, transferred or utilised) include:

- 1) proceeds of bribery or theft by government officials, ( 3% of flows),
- 2) proceeds of criminal activities such as drug or human trafficking, (30-35%),
- 3) proceeds of tax evasion (60-65%).

This money moves through a system of tax havens and literally millions of secret jurisdictions around the world, including anonymous trust accounts. Money laundering techniques are used, and trade mispricing (over/under-pricing of imports/exports) moves more money than any other mechanism. These systems were built by the rich industrialised countries into which these illicit flows now come. Such practices drain hard currency reserves, undermine investment, reduce tax revenues, cancel aspects of free trade and undermine the fight against corruption. Efforts to stop illicit flows are made much more difficult by the maintenance of structures that facilitate the movement of illicit money across borders. As long as these structures remain it will be very hard to curtail such activity. TI has recognised that addressing the issue of illicit financial flows is crucial to curtailing corruption.

The G20 Communiqué did not mention financial flows, though the G8 did. Nevertheless, the G20 did

- 1) Call on Financial Action Task Force (FATF) to implement improved systems to beneficial ownership, to "know who you are dealing with" in financial transactions,
- 2) Calls on the International Accounting Standards Board to involve emerging economies in improved international accounting standards, i.e. to introduce country-by-country reporting of multinational companies,
- 3) Call for ways to help developing countries address abusive transfer pricing.

While these steps are encouraging, the G20 basically calls for doing marginally better job of regulating existing global financial system rather than encouraging greater global transparency. The existing system needs to be replaced by one with far more transparency.

**Jacques Terray.** The G20 Anti-Corruption Action Plan is an honest and comprehensive catalogue of action taken or ongoing and of the institutions in charge, FATF (money-laundering), OECD (tax info exchange), FSB (regulation of finance). Some areas continue to need close attention:

Offshore centres: Since the 1930s, money has been sheltered in offshore centres. The Financial Action Task Force and the OECD have pointed to the need to identify the beneficial owner of assets coming from offshore centres for 15 years, yet with the exception of the OECD Global Forum, little progress has been made.

While it is crucial to know the identity of those running trusts or serving as managers of foundations, the G20 Action Plan makes no suggestion that this should be a priority.

On the recovery of stolen assets, the major obstacle to the UNCAC has been that the initiative to recover funds has to come from the country where the assets have been stolen. If a corrupt leader remains in power in those countries, these efforts will go nowhere. This had been the experience of TI France in trying to hold accountable the leaders of the Republic of Congo, Equatorial Guinea and Gabon, who purchased properties in France using stolen assets. Citizens of those countries joined TI France in those efforts. On November 9, the highest court in France accepted that an NGO could bring a suit for recovery of stolen money. This has opened a broad avenue for action on the basis of corruption being a global crime under the United Nations Convention against Corruption (UNCAC).

**Geo-Sung Kim.** Despite statements by the G8 and G20 to commit to ratification and implementation of the UNCAC and the OECD convention, accountability in these efforts is poor. The G8 Accountability Reports demonstrate little accountability, and some G20 members played a central role in acting against the adoption of effective, transparent and inclusive review mechanism at the CoSP to UNCAC in Doha.

Kim was unsure as to whether to welcome the new Anti-Corruption Action Plan as it is difficult to understand the real context of the statement. The G20 has stated that the G20 will hold itself accountable for its commitments via an Anti-Corruption Working Group that will submit annual reports on the implementation of the G20's commitments outlined under the Anti-Corruption Action Plan. If the G20 really wants to be accountable, each government should have initial multi-stakeholder roundtable discussions with the goal of recommending proposals for transparency.

National contexts also give cause for concern. In Korea the former head of Samsung, convicted of tax evasion, has been pardoned and reinstated in his position. This speaks to the domestic obstacles to tackling these issues.

The global financial system should be based on transparency, accountability and integrity, otherwise there is no way to avoid it becoming a system for macro-corruption.

**Robert Palmer.** The G20 has said that the era of banking secrecy is ending and made a clear commitment to as much in Pittsburgh. Likewise the Annex on corruption says a lot of lovely things regarding limiting actions of corruption politicians in the financial system. Grand corruption occurs through credit cards, wire transfers and shopping bills. But even with talk of asset recovery there is still not enough action and key commitments are missing. We should care about the G20 and financial flows because it is the major banks—Barclays, UBS, HSBC, RBS and NatWest—that have handled proceeds of grand corruption exacted by political figures. Their actions allow corrupt political figures in countries like Nigeria to funnel millions of pounds of proceeds of corruption into the UK and other countries. Only recently was it discussed which banks were handling the proceeds of this corruption. The G20 Anti-corruption Action Plan will not stop these banks from doing business with these politicians. If more serious steps are not taken, corruption will continue to entrench poverty and destroy lives.

### **Main Outputs (200 words, narrative form)**

Questions and comments from those present sparked discussion on a number of issues. These included:

- One of the key asks of the Task Force on Financial Integrity is publication of a list of beneficial ownership. Access to data on beneficial ownership in the banking system is hardly possible on the grounds of tax evasion. The question is also whether the relevant officials are able to use the information available in a timely and effective manner. Another challenge is that many governments make a distinction between money from organised crime and money from “our friends”. Furthermore, it is important to tackle the trusts which operate at the interface between the shadow banking system and the open economy. These trusts sell opacity to their clients.
- For more transparency, asset declaration monitored by an independent agency with investigative powers as well as whistle-blower protection and an independent judiciary are key. Furthermore, it can be helpful to encourage journalists “to follow the money”.
- There was a suggestion that TI has a role to play as a G20 Watchdog and to monitor accomplishments as it has National Chapters in almost all G20 countries. In this work, other civil society groups, as well as industry could participate.

Regarding a very specific case of banking transparency, it was noted that Germany had paid a whistleblower in Lichtenstein in order to obtain accounts of Germans that utilised tax havens. TI Germany requested information on whether countries requested or received these details, but the request was unsuccessful on the grounds that it falls outside of the German freedom of information law. TI Germany nevertheless suggested that this is worth following up on as it seems contradictory to the interest of the German authorities not to give out this information.

### **Recommendations, Follow-up Actions**

In addition to the recommendations noted above it was discussed that at national level, civil society organisations should push governments to act as they promised in the formal declaration in Seoul. A press release drafted by TI, Global Integrity, Global Witness and others says that these organisations will make it a priority to monitor what was said at the G20 meeting and called on each government to launch multi-stakeholder groups to pursue implementation of the action plan at national level. In addition, the Task Force on Financial Integrity and Financial Development has received a funding proposal on G20 monitoring from TI and will seek funding for it. While the call from civil society to the G20 was supported, it was also requested that in making a joint-civil society statement to the G20, non-G20 countries not be left out. Finally, it was emphasised that economic and financial crimes units operating at the national level must be well-resourced, properly staffed and able to operate independently. These financial intelligence units should be in place in every country.

### **Highlights**

**Francois Valerian:** “The crisis was caused by massive mistrust which dried-up sources of cash. G20 re-injected cash, but this apparent recovery could be a fragile condition between two crises if we only have cash to treat the symptoms and not the underlying disease caused by poor risk disclosure, lack of accountability and lack of transparency.”

**Raymond Baker:** “Regulation can’t accomplish as much as transparency can accomplish. It is much more difficult to get around transparency than regulation.”

**Frank Vogl:** “We often greet declarations after G8, G20 with scepticism, but we find over the years that they prove to be building blocks. These blocks have led to UNCAC, to the OECD Convention. If civil society takes advantage of this, we can make an impact.”

### **Signed and date submitted**

Krina Despota, 22 November 2010