

Short WORKSHOP REPORT FORM

Number and title of workshop: G20, the Day After. Immediate Civil Society Reactions

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

Main Issues Covered

Panellists discussed the G20 Communiqué and Anti-Corruption Action Plan, both released yesterday, identifying welcome elements, shortcomings, and next steps for advocacy around fighting corruption and improving transparency and integrity in the global financial sector.

Main Outcomes

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 13th 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. This highlights the need for transparency and accountability in organisations that have authority with the G20.

While encouraging that the G20 so significantly recognised corruption, 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. Corruption thrives in times of economic volatility.

François Valerian. Compared to 18 months ago, the G20 has softened its language on the need for transparency and an end to bank secrecy. Since the G20 Summit in Pittsburgh, the Dow Jones has risen significantly. There may be a correlation as the G20 are under significantly less pressure now to reach agreements as they were when the financial crisis broke out. Now the key word mentioned much more often in the communiqué is “recovery”, not anymore “transparency”. At the Seoul Summit the word “transparency” moved to the annex of the Communiqué. Serious transparency deficits include:

Financial rescue packages: IMF safety nets and government rescue packages need to be fully disclosed and accompanied by additional transparency. The G20 has not been fast enough in introducing necessary regulation. An anticipated FSB report on what needs to be done on “too big to fail institutions” will not come out until mid-2011. It almost seems as if “too big to fail” could be replaced by “too big to challenge”. The Basel III framework will only be implemented between 2013 and 2018.

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

Derivative regulation: Meant to be addressed by hard deadlines, only 5 G20 members have taken steps to better regulate derivatives, which pose a serious threat to the global financial system.

Raymond Baker. An estimated US \$1.2 trillion flowed illicitly from developing countries into western economies in 2008. Three major forms of illicit money 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, money laundering, and trade mispricing (over/under-pricing of imports/exports). These systems were built by the rich industrialised countries that now receive this money. These practices drain hard currency reserves, undermine investment, reduce tax revenues, and further corruption.

The G20 Communiqué did not mention financial flows. Nevertheless, G20 does

- 1) Call on Financial Action Task Force 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.

The G20 calls for a marginally better job of regulating existing global financial systems rather than encouraging greater global transparency. The existing system needs to be replaced by one with far more transparency.

Jacques Terray. The G20 Action Plan is an honest and comprehensive catalogue of action taken or ongoing and of the institutions in charge (FATF, OECD, FSB). Some areas continue to need close attention:

Offshore centres: Financial Action Task Force and OECD have pointed to the need to identify beneficial owner of assets coming from offshore centres since 15 years, yet with the exception of the OECD forum, little progress has been made.

Need to know who is behind trusts, or managers of foundations. There is no indication in the G20 Action Plan that this should be a priority.

Recovery of stolen assets: The ruling from France’s highest court that TI France can launch a criminal action against corrupt presidents of 3 African nations who have purchased properties in France using stolen assets, has opened up 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 commitments 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. 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.

Referring to national contexts, that the former head of Samsung, convicted of tax evasion, has been pardoned and reinstated in his position, 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. Grand corruption happens 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. If the G20 will not stop these banks from doing business with these politicians, corruption will continue to entrench poverty and destroy lives.

Main Outputs

Questions and comments from the audience included:

- One of the key asks of the Task Force on Financial Integrity is the publication of a list of beneficial ownership. Access to data on beneficial ownership in the banking system is only possible on the grounds of terrorist-financing. 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”. 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.
- Call 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”.
- Call for TI to become a G20 Watchdog and to monitor accomplishments as it has National Chapters in almost all G20 countries.

Recommendations, Follow-up Actions

In addition to the recommendations noted above:

- At national level, CSOs should push governments to act as they promised in the formal declaration in Seoul.
- The Task Force on Financial Integrity and Financial Development has received a funding proposal on G20 monitoring from TI and will seek to get funding for it.
- In making a joint-civil society statement to the G20, don't leave out countries outside of the G20.

Workshop Highlights (including interesting quotes)

François 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.”