TRANSPARENCY INTERNATIONAL
the global coalition against corruption

**International Secretariat**
Alt-Moabit 96
10559 Berlin, Germany
Tel: 49-30-3438 20-0
Fax: 49-30-3470 3912
Email: ti@transparency.org
http://www.transparency.org

**Meeting of the G20 Ministers of Finance and Governors of Central Banks | April 11 2014**

1st April 2014

The Hon Joe Hockey
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer

The Australian government has identified two guiding priorities for the G20 in 2014; to promote stronger economic growth and to enhance resilience of the global economy to destabilising shocks. Tackling corruption and enhancing transparency is crucial to enhancing economic growth and to establishing a cleaner, safer, more sustainable economic framework.

## Promoting stronger economic growth

Corruption distorts markets, undercuts business and undermines a level playing field. The scale of illicit financial flows leaving developing countries could be almost 6 trillion dollars over the last decade.[1]

*The role of transparency in growth*

Corruption reduces levels of investment, diverts public spending towards less productive activities, renders systems less efficient, wastes resources, undermines fair competition, creates reputational and legal risks for companies and increases vulnerability to extortion. Greater disclosure means better investment decisions and less risk of misallocated capital.

The G20 Anti-Corruption Working Group has identified a number of sectors vulnerable to corruption, including the natural resource sector. Mandatory disclosure of payments and operations on a project-by-project and country-by country basis in this sector mitigate political, legal and reputational risks and enhances investment certainty. The EU, US, Norway and Canada have taken the lead in adopting or committing to mandatory reporting standards in this sector. Compliance costs should not be burdensome; the European Commission has estimated the cost of project-level reporting for 171 companies to be 0.05% of annual revenues in the first year and less thereafter.[2] Mandatory reporting will generate timely, disaggregated and easily comparable data and is complementary to the Extractive Industries Transparency Initiative process, which G20 Leaders have endorsed.

- **G20 Finance Ministers should show global leadership by supporting a move towards a global mandatory reporting standard** for the natural resource sector and by ensuring that all G20 countries adopt mandatory reporting legislation in the near future.

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[1] Global Financial Integrity, *"Study Finds Crime, Corruption, Tax Evasion Drained $946.7bn from Developing Countries in 2011"*, 2013, http://www.gfintegrity.org/content/view/667/70/

[2] European Commission, *"Commission Staff Working Paper Part II, Impact Assessment for financial disclosures on a country by country basis"*, 2011: www.ec.europa.eu/internal_market/accounting/docs/sme_accounting/review_directives/SEC_2011_1289_2_en.pdf

- **Finance Ministers should endorse governmental transparency** through the public disclosure of all contracts and licences that provide the terms attached to the exploitation of oil, gas and minerals, ensuring open, competitive and transparent bidding processes, as well as ensuring revenue and budget transparency.

*Transparent tax systems ensure inclusive growth*

The Tax Justice Network estimates that $21 to $32 trillion of private wealth is currently amassed in secrecy jurisdictions, depriving governments of much needed tax revenue.[3]

Transparency International welcomes the leadership of the G20 in driving progress towards enhanced tax transparency in the last 12 months. All G20 countries are now signatories to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters. The global standard on Automatic Exchange of Information (AEOI) is currently being developed.

- **G20 Finance Ministers must ensure developing countries are consulted, represented and engaged** in this process and that they benefit from the final standard. If they are not adequately involved at this stage, developing countries will become a destination for funds seeking to avoid detection and will be denied access to information and revenue.

- **Finance Ministers should address loopholes in the current standard and discuss the establishment of a sanction or incentive scheme for non-compliance** to ensure immediate implementation. Reference to "controlling persons" should be replaced with "beneficial owners" which is the international Financial Action Task Force standard.[4]

*Investment and Infrastructure*

Australian leadership has identified investment and infrastructure as a key G20 priority. Increased infrastructure investment requires investment that is efficient so as to generate maximum economic return and social benefits to society.

For governments, this requires an environment of transparency and accountability in which there is full disclosure of all public infrastructure projects. Availability of, and access to, relevant project information enables stakeholders to hold decision makers to account in terms of cost and quality of construction, environmental impact as well as any waste including, very importantly, any corruption.

Construction is one of the sectors most prone to corruption which can amount to 10-30% of project costs[5]. The G20 in its 2010 Seoul Action Plan called for initiatives that would "significantly improve transparency in procurement, construction and infrastructure finance". The Construction Sector Transparency Initiative, endorsed at the Cannes G20 Summit, is a tested program that should complement any increase in infrastructure investment.

- **Finance Ministers should support the Construction Sector Transparency Initiative** to expand its global application.

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[3] Tax Justice Network, *"The Price of Offshore, Revisited"*, 2012, http://www.taxjustice.net/cms/upload/pdf/Price_of_Offshore_Revisited_120722.pdf

[4] Tax Justice Network, *"OECD's Automatic Information Exchange Standard: A watershed moment for fighting offshore tax evasion"*, 2014 http://www.internationaltaxreview.com/pdfs/TJN2014_OECD-AIE-Report.pdf

[5] See the Construction Sector Transparency Initiative: http://www.constructiontransparency.org/the-initiative/the-challenge?forumboardid=2&forumtopicid=2

## Enhancing resilience

Strong anti-corruption practices are necessary to create a stable and reliable investment climate that is more resistant to shocks and crises. In a survey of more than 390 senior business executives, almost 45 per cent said corruption risks led them to not enter a market or pursue a business opportunity.[6]

*The role of a clean and transparent financial system in stability*

The Finance Ministers are due to receive an update from the G20 Anti-Corruption Working Group on concrete actions that the G20 can take to meet the Financial Action Task Force (FATF) standards regarding the beneficial ownership of companies and other legal arrangements. Currently there is an extremely low level of enforcement of FATF recommendations as documented by the OECD at the end of last year.[7]

During the Arab Spring, banks received many hundreds of millions of dollars from Egypt's Mubarak, Tunisia's Ben Ali and Libya's Gaddafi. Yet, the current situation in the Ukraine demonstrated that failures in the international anti-money laundering system are not being addressed. Banks have demonstrated that they are unable or unwilling to carry out truly effective due diligence. A review conducted by the UK Financial Standards Authority in 2011 showed that more than half of the banks failed to apply meaningful enhanced due diligence measures in higher risk situations.[8]

It remains still too easy for corrupt officials and criminals to hide money behind layers of shell companies and other legal entities. According to Ukrainian anti-corruption activists, assets were controlled by a web of companies and trusts across different jurisdictions.[9]

In March Members of the European Parliament from across the political spectrum took a stand and voted in favour of beneficial ownership information relating to companies, trusts, foundations and other legal entities to be kept in public registers.

- **G20 Finance Ministers should adopt steps to significantly improve adherence to existing FATF recommendations on beneficial ownership,** working with Leaders and the G20 Anti-Corruption Working Group to do so.

- **G20 Finance Ministers should also demonstrate global leadership and commit to working towards including mandatory beneficial ownership information into public registries.** This would be a cost effective way of exposing and prosecuting financial crimes such as bribery, tax evasion and money laundering. [10]

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6 PricewaterhouseCoopers, "*Confronting Corruption: The Business Case for an Effective Anti-corruption Programme*", 2008.

7 OECD, "*Measuring OECD Responses to Illicit Financial Flows from Developing Countries*", 2013, http://www.oecd.org/dac/governance-development/IFFweb.pdf

8 UK Financial Services Authority, *"Banks' management of high money laundering risk situations"*, 2011, http://www.fsa.gov.uk/pubs/other/aml_final_report.pdf

9 Global Witness, "*Anonymous UK company owned Viktor Yanukovych's presidential palace compound", 2014,* http://www.globalwitness.org/blog/?p=97

10 European Commission Cost Benefit Analysis of Transparency Requirements in the Company/Corporate Field and Banking Sector Relevant for the Fight Against Money Laundering and Other Financial Crime http://transcrime.cs.unitn.it/tc/855.php

Public Beneficial Ownership registries are not a silver bullet. National, financial, regulatory and supervisory authorities must take all necessary actions that rigorously enforce anti-money laundering obligations, including Know Your Customer and due-diligence procedures in all relevant firms to ensure that they are not complicit in laundering the proceeds of corruption, tax evasion and organised crime. In particular, efforts are needed to improve information sharing regarding politically exposed persons (PEPs), which are at high risk for money laundering and other illicit activities.

*Ensuring accountability in the financial services sector*

Accountability in the wider financial services sector requires greater public disclosure of financial institutions' risk profile, conflicts of interests and anti-corruption practices.

- **G20 Finance Ministers should require financial institutions to report annually on the measures they are adopting to strengthen risk management,** especially in relation to bribery and corruption at all levels of the enterprise, including the board.

- **G20 Finance Ministers should discuss how to extend banking transparency measures** in line with new EU legislation requiring country-by-country reporting from banks on revenues, taxes paid, profits, public subsidies and employee numbers beyond EU countries.

Finally, we encourage the G20 Finance Ministers to continue to engage with the G20 Anti-Corruption Working Group and to support their work to establish a strong, tangible and practical successor to the current Anti-Corruption Action Plan 2013-2014.

These recommendations are made on behalf of the Transparency International movement, operating across some 100 countries. We thank you in advance for the consideration of our recommendations and we look forward to continued engagement.

Yours sincerely,

Huguette Labelle, Chair

Transparency International

Greg Thompson

Executive Director International

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