Issue update

Selected Issues on International Financial Institutions

Volume VII, Number 6 — November 30, 2011

Transparency and the International Economy

One of the key issues underlying the 2008 financial crisis was the lack of transparency in the international economy. Over the last several decades, a "shadow" financial structure has developed comprised of tax havens, secrecy jurisdictions, disguised corporations, shell companies and bogus foundations. This system is now so large that half of all global trade and capital movements pass through it. Since secrecy is its defining feature, the shadow economy is used for money laundering and the movement of corrupt, criminal and commercial tax-evading money across borders.

The impact of this shadow economy has been devastating for Southern and Northern countries alike. It has facilitated the loss of billions in tax revenues. It has hidden from view accurate appraisals of the balance sheets of banks, financial institutions and transnational corporations. It has facilitated the theft of billions from Southern countries. It is now transferring an estimated $1 trillion out of Southern countries every year, obstructing economic growth, hindering poverty alleviation, and undermining efforts to achieve the Millennium Development Goals (see JUST THE FACTS).

Citizen's groups have advocated for an end to the shadow economy for years. One influential voice is the UK-based Tax Justice Network (www.taxjustice.net). In Canada, a new organization has been established to promote progressive tax policies at home (www.taxfairness.ca). This year, the Halifax Initiative will work with other Canadian groups to address these issues. Over the next few months, the Halifax Initiative web site will include an annotated bibliography of articles, reports and educational materials on tax justice, capital flight, corruption, illegitimate debt, and financial transparency.

Halifax Initiative d'Halifax

Our core funders are the C.S. Mott Foundation, the International Development Research Centre, the Sigrid Rausing Trust and coalition members.

Email subscriptions@halifaxinitiative.org to automatically receive our *Issue Update* newsletter each month.

153 Chapel Street
Ottawa, ON K1N 1H5
Canada

TEL: (613) 789-4447
FAX: (613) 241-4170
WEB: www.halifaxinitiative.org

Cannes G20 Postmortem

The Cannes G20 meeting was very preoccupied with economic problems in Europe and thus attention to other issues was sidelined. On climate change, virtually every G20 country passed the buck. In the final statement, G20 leaders made some tepid comments about the need to pursue the fight against climate change. While they claimed that financing for climate change was a priority, no commitments were made.

There was some progress on a Financial Transaction Tax (Robin Hood Tax). Despite the opposition of the U.K., the U.S. and Canada, a "coalition of the willing" emerged that includes France, Germany, the European Commission as well as Brazil, South Africa and Argentina. This is a beginning and CSO advocates will take the FTT campaign to the June 2012 G20 Summit in Mexico.

The G20 leaders did commit to tackle illicit financial flows and to crack down on tax haven secrecy, as well as the misuse of corporate vehicles. This is important as developing countries lose more than $1 trillion a year in illicit outflows, much of it laundered through secrecy jurisdictions. However, G20 leaders failed to recommend automatic multilateral exchange of tax information, a major CSO campaign issue.

UN expert: export credit agencies failing on human rights

The UN independent expert on the effects of foreign debt on the full enjoyment of all human rights, Cephas Lumina, addresses the issue of export credit in his 2011 report to the UN General Assembly. He explains that states have an obligation to ensure that their export credit agencies respect international human rights law and notes that 'a significant number' of ECA-funded projects continue to cause severe human rights impacts.

Mr. Lumina reports that: "[g]overnments rarely exercise due diligence concerning the actions of their national export credit agencies. Indeed, the agencies' operational policies and the national laws establishing them typically never include reference to human rights standards. Neither do export credit agencies have in place a clear policy on the prevention of human rights abuses or on due diligence to identify potential harmful effects of projects on human rights and to mitigate them. Many export credit agencies' home States also lack effective mechanisms to adjudicate claims of human rights abuses resulting from projects backed by such agencies."

In 2010, legislation aimed at addressing many of these deficiencies regarding the operations of Export Development Canada was defeated by a narrow margin in the House of Commons.

U.N. General Assembly, 66th Session. Effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights.
www.ohchr.org/EN/Issues/Development/IEDebt/Pages/AnnualReports.aspx

Notice Board – This month…

- The Halifax Initiative is pleased to welcome **Peter Gillespie** as its new **Program Officer** on Global Financial Issues. Peter can be reached at pgillespie@halifaxinitiative.org.
- This month **ECA-Watch** provided the OECD Export Credit Group with critical input on its draft revision of the **Common Approaches**: http://halifaxinitiative.org/sites/default/files/ECA%20Watch%20submission%20on%20CA%20review%20November%202011%281%29.pdf
- On October 28, the Inter-American Commission on Human Rights held hearings on Case 12.741, which was initiated by **Diaguita** indigenous people against the Chilean government. The complaint concerns the inclusion of Diaguita territory in Barrick Gold's **Pascua Lama** mining concession.
- The **Achuar** indigenous people live in a remote area of the Peruvian Amazon. In 2004, Canadian company, **Talisman** Energy, acquired an interest in Block 64, an oil concession that includes large tracts of the Achuar's traditional territory. Talisman has pledged that it won't operate in Peru without the explicit consent of affected communities. Mr. Peas Peas Ayui is the president of the National Achuar Federation of Peru (FENAP). FENAP represents 42 Achuar communities, many of which are located within Block 64. Mr. Peas traveled to Canada this month to express the Federation's opposition to Talisman's activity in Achuar territory and to demand that Talisman withdraw from the area. Since 2006, **Export Development Canada** has provided funding to Talisman totaling somewhere between $400,000 and $1 billion. EDC does not disclose the precise amounts of its loans. Amazon Watch brief: www.amazonwatch.org/assets/files/2011-talisman-issue-brief.pdf

New Publications

- *Africa's Odious Debts: How Foreign Loans & Capital Flight Bled a Continent*, Léonce Ndikumana and James Boyce, Zed Books, 2011. The authors explain that the sub-Saharan region is a net creditor to the rest of the world, its foreign assets far exceeding its foreign debts of about $175 billion. The problem is that most of these assets are in the hands of private individuals while the liabilities are public.
- *Estimating Illicit Financial Flows Resulting from Drug Trafficking and other Transnational Organized Crime*, October 2011, UNDOC. $1.6 trillion (2.6% of global GDP) of the proceeds of crime are laundered through the global financial system. Less than 1% of these funds are intercepted. www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf
- *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It*, World Bank Stolen Asset Recovery Initiative & UN Office on Drugs and Crime, October 2011. Cases of large-scale corruption involve legal entities to conceal ownership and control of corrupt proceeds through companies, foundations and trust-like structures. Policymakers should take steps to put corporate transparency back on the national and international agendas. http://www1.worldbank.org/finance/star_site/documents/Puppet%20Masters%20Report.pdf
- *Is Durban the world's last, best hope to avoid climate disaster?* Kairos Briefing Paper, October 2011. An excellent analysis of what's at stake at the Durban COP 17 climate change conference, including Canada's laggard emissions reduction commitments. http://www.kairoscanada.org/wp-content/uploads/2011/10/PBP28-Durban.pdf

JUST THE FACTS

Illicit Capital Flight: A Major Constraint to Development

Until recently, most NGOs have been concerned with the amounts of funds flowing into developing countries and have advocated for increased ODA levels. In recent years, NGOs have also begun to look at financial *outflows* from developing countries in the form of illicit capital flight. Several recent analyses show that developing countries are losing as much as $1 trillion annually in illicit capital flight, far more than what they receive in aid. The largest proportion of these losses is due to tax evasion by transnational companies.

- Global Financial Integrity (GFI) found that between 2000 and 2008, developing countries lost an average of $725 billion to $810 billion per year in illicit capital flight.
- In a 2011 report on Africa, GFI calculated that between 1970 and 2008, Africa lost at least $854 billion in illicit financial flows, outpacing official development assistance by at least 2 to 1. GFI noted that this is likely an under-estimate and African illicit outflows during this period could be as high as $1.8 trillion.
- A 2009 study commissioned by Christian Aid (UK) calculated that trade mispricing by transnational enterprises costs the world's 49 poorest countries $160 billion a year in lost tax revenues. Between 2005 and 2007, for example, Nigeria lost tax revenues of $740 million, Pakistan $486 million, Vietnam $400 million and Bangladesh $424 million.
- In a May 2011 study, GFI looked at illicit capital flight from 48 Least Developed Countries. Over the period 1990-2008, $197 billion flowed out of these LDCs, mainly into developed countries. African LDCs accounted for 69 percent of total illicit flows, followed by Asia (29 percent) and Latin America (2 percent). Trade mispricing accounted for the bulk (65-70 percent) of illicit outflows from LDCs. The top ten exporters of illicit capital were Bangladesh ($34.8 billion), Angola ($34.0 billion), Lesotho ($16.8 billion), Chad ($15.4 billion), Yemen ($12.0 billion), Nepal ($9.1 billion), Uganda ($8.8 billion), Burma (Myanmar)($8.5 billion), Ethiopia ($8.4 billion) and Zambia ($6.8 billion).
- In *Africa's Odious Debts*, Ndikumana and Boyce found that sub-Saharan Africa lost $944 billion in capital flight between 1970 and 2008. They estimated that every additional dollar in debt service means 29 cents less spending on public health and each $40,000 reduction in health expenditure translates into an additional infant death. They calculated that debt service payments on loans that fuelled capital flight have resulted in more than 75,000 additional infant deaths annually in the sub-Saharan region.