

**GOVERNANCE: *Tackling corruption, creating a fair taxation system, and improving private and public sector transparency.***

**Introduction**

Working constructively with the G20 on the topic of governance, with a particular focus on anti-corruption and tax justice, was identified as a key civil society goal for 2015, following an online consultation run by the C20 in early 2015. As a result, the C20 Governance Working Group was formed which aims to develop specific policy recommendations on the topic of governance.

This working group will now undertake a policy consultation process involving national and international civil society organisations in order to develop policy recommendations for the G20's consideration on governance, focusing on anti-corruption and tax justice. The working group will take the G20's previous and existing commitments on these issues as a framework, and will propose concrete policy suggestions for action in each area.

This background paper is designed to be a starting point for the C20 Governance Working Group's discussions. It includes an overview of the G20's commitments on governance as well as background information on civil society's prior work on this theme.

**Background**

Global Financial Integrity's 2013 Report *Illicit Financial Flows from the Developing World: 2003-2012* says the developing world lost US\$6.6 trillion in illicit financial flows (capital outflows that stem from crime, corruption, tax evasion and other illicit activity) from 2003-2012.<sup>1</sup> This loss of revenue entrenches poverty and weakens developing country economies, especially as the revenue could otherwise be used to support spending on basic social services such as healthcare and education. The off-shore financial system of tax havens, anonymous shell companies and other trade based money laundering techniques facilitate the illicit flow of capital throughout the world, to, from and between developing and developed economies. According to reports, at least \$21tn to \$32tn as of 2010 has been invested tax-free through more than 80 offshore secrecy jurisdictions.<sup>2</sup>

According to some sources, the tax gap – i.e. the amount of unpaid tax liability faced by multinational companies – in developing countries is estimated at \$104 billion every year.<sup>3</sup> The G20 leaders' meeting in Los Cabos on 18-19 June 2012 highlighted "the need to prevent base erosion and profit shifting (BEPS)" in their final declaration. Thus during the St Petersburg Leaders' Summit in 2013, the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan was created., which aimed to reform and strengthen the international tax system. The issue of base erosion and profit shifting continues to be one of the priority agendas of the G20 and OECD countries.

Similar structures and methods are used for both tax evasion and for hiding and transferring corrupt stolen assets. Many financial institutions including those in G20 countries remain as safe havens for all types of illicit money, generated by corruption, tax evasion and other forms of criminality. In addition to tax justice, corruption negatively impacts economic growth and leads to inequalities. Corruption affects communities in a number of ways and can create inequality by skewing access to health, education and professional opportunities, which can particularly impact on social groups with less power. The social cost of corruption includes "the loss of output due to

<sup>1</sup> "Illicit Financial Flows from Developing Countries: 2002-2011." Global Financial Integrity, 2013. [http://iff.gfintegrity.org/iff2013/Illicit\\_Financial\\_Flows\\_from\\_Developing\\_Countries\\_2002-2011-HighRes.pdf](http://iff.gfintegrity.org/iff2013/Illicit_Financial_Flows_from_Developing_Countries_2002-2011-HighRes.pdf)

<sup>2</sup> "The Price of Offshore Revisited." Tax Justice Network, 2012. [http://tjn-usa.org/storage/documents/The\\_Price\\_of\\_Offshore\\_Revisited\\_-\\_22-07-2012.pdf](http://tjn-usa.org/storage/documents/The_Price_of_Offshore_Revisited_-_22-07-2012.pdf)

<sup>3</sup> "Business Among Friends." Oxfam, 2014. [https://www.oxfam.org/sites/www.oxfam.org/files/bp185-business-among-friends-corporate-tax-reform-120514-en\\_0.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/bp185-business-among-friends-corporate-tax-reform-120514-en_0.pdf)

the misallocation of resources distortions of incentives and other inefficiencies that represents its real cost to society.”<sup>4</sup>

### **The G20 and Governance**

Tackling corruption and improving the international tax system are both firmly on the G20 agenda, and the link between these issues and growth is well recognised. One of the most crucial steps taken by the G20 in the context of governance was the establishment of the **Anti – Corruption Working Group** at the Toronto Summit in 2010. The G20 Leaders’ statement from the Los Cabos Summit in 2012 reiterated the need to implement the **United Nations Convention against Corruption (UNCAC)** and included call to publish a guide on **Mutual Legal Assistance** to facilitate cooperation among countries in their fight against corruption and bribery. Similarly, intensifying the fight against corruption was a key point in the G20 Leaders’ Statement at the St Petersburg Summit of 2013, The statement also mentioned the need to “maintain and build on the enhanced dialogue between the G20 Anti-Corruption WG and the B20 and C20.” At the 2014 G20 Summit in Australia, countries committed to implement **beneficial ownership transparency** of legal persons and arrangements (set by the Financial Action Task Force); act on the issue of **bribery**; address **corruption in extractive sectors** and other high risk industries; promote **greater transparency in public sector**; enhance international cooperation for **ending impunity for corruption offences**; and to work with private sector and civil society to **combat corruption**.

**Strengthening the international financial architecture** – a crucial component of improving the governance of international institutions like the International Monetary Fund – has been a key part of the G20’s agenda since heads of state level summits began in 2008. In the 2012 Los Cabos Leaders’ Declaration, G20 leaders stated that reforms were “crucial in enhancing IMF’s legitimacy, relevance and effectiveness.” Commitment for the governance reform of this financial institution was also reiterated in the St Petersburg Leaders’ Declaration. However, the Brisbane Leaders’ Communiqué in 2014, reflected “deep disappointment” with “continued delay in progressing the IMF quota and governance reforms agreed in 2010.”

A related issue that has been high on the G20’s agenda from a governance perspective has been building the resilience of financial institutions and ending the problem of “too big to fail.” G20 leaders’ statements included commitments on this at both Los Cabos and St Petersburg. The Brisbane Leaders’ Declaration in 2014 incorporated a call to action from the **Financial Stability Board (FSB), which** called ‘global systemically important banks to hold additional loss absorbing capacity that would protect taxpayers if these banks fail.’”

The G20 is also committed to enhancing the integrity of the international tax system to secure countries’ revenue bases through the G20/OECD **Base Erosion and Profit Shifting (BEPS) Action Plan**. Regarding **BEPS**, the G20 countries welcomed the “establishment of the G20/OECD BEPS project and encouraged all interested countries to participate,” as “profits should be taxed where economic activities deriving the profits are performed.” A two-year action plan was agreed in St Petersburg in 2013 and intends to make it harder for typically large multinational companies to avoid paying their fair share of tax. Around half of the deliverable outputs of the plan were agreed in Brisbane and the rest are set to be delivered by the end of 2015. Ensuring the fairness of the international tax system and securing countries’ revenue bases, progressing with the BEPS Project and building resilient economies were reiterated as priority G20 commitments in the Brisbane Leaders’ Declaration. The G20 committed to implement the global Common Reporting Standard for the automatic exchange of information (AEOI) on a reciprocal basis by the end-2018. This aims to address cross-border tax evasion. In addition, in a new call to action presented in the 2014

<sup>4</sup> “Issue Paper on Corruption and Economic Growth.” OECD, 2013. <http://www.oecd.org/g20/topics/anti-corruption/Issue-Paper-Corruption-and-Economic-Growth.pdf>

Leads' Statement, the **Financial Stability Board (FSB)** called for 'global systemically important banks to hold additional loss absorbing capacity that would protect taxpayers if these banks fail.'

While G20 and OECD members participate on an equal footing in the BEPS project, the means of participation for the world's less developed economies is less clear. The OECD has made some efforts to engage LDCs (Least Developed Countries) and other non-G20, non-OECD emerging economies in the project through four regional consultations in Africa, Asia, South America and Eurasia, these countries were brought into the process with only 7 months to go until the project's expected completion. Moreover, the regional consultations have mainly been opportunities to present inputs rather than to influence the substance of the discussion or the nature of the process. Consequently, the process has come under fire from some civil society organisations for being insufficiently inclusive. Since then, the G20 Development Working Group challenged the OECD to do more to include developing and emerging countries in the process.

*Profits should be taxed where economic activities deriving the profits are performed and where value is created.*

- G20 Leaders' Communique, Brisbane, 15-16 November 2014

*As a group of the world's largest economies, the G20 remains committed to reducing the incidence of corruption and building a global culture of intolerance towards corruption."*

- 2015-16 G20 Anti-Corruption Plan, 2014

#### **G20 Engagement Groups and Governance**

The officially recognised G20 engagement groups – the C20, B20, T20 and L20 – have addressed issues related to governance in their own work to varying degrees over the last few years.

**During the first Civil20 Summit in 2013 in Russia, the C20 called** for G20 countries to curb illegal financial transactions, increase corporate transparency, require companies in extractive industries to publish payments, criminalise foreign bribery, enact international standards for procurements and public financial management, and enforce whistle-blower legislation. Additionally, **the C20 Statement in 2014 called** for countries to ratify and implement the UN Convention Against Corruption, commit to an inclusive BEPS process with more consultations, and promote enhanced transparency measures in all sectors to address tax evasion.

The **B20** has written one of the most comprehensive statements on the topic of governance within the last 3 years. **The 2012 B20 Statement in Los Cabos called** for a full implementation of the [Seoul Anti-Corruption](#)

#### **The T20 thought pieces in 2014 suggested**

different actions points from different experts. One suggestion was preparation of a joint proposal for international cooperative tax arrangements by the United States and China on issues of tax evasion, money laundering and corruption. Another stated the importance of Mutual Assessment Process (MAP), which is an attempt to strengthen the G20 system and democratize global economic governance.

**While the [Labor20](#) at the Las Cabos Summit in 2012 mainly called** for the G20 countries to regulate the banking system and reform the voting mechanism at the IMF, **the L20 Statement in 2013 called** for actions to stop Base Erosion and Profit Shifting by multinational enterprises and reform of the tax system. **While the 2014 L20 statement** resembles the past statements with its call for restoring the tax system and curbing international tax evasion, it also briefly mentions undertaking corporate governance reforms to curb excessive pay disparities.

#### **Further resources for the C20 Governance Working Group.**

[Action Plan](#), independent assessment of public procurement systems through the OECD, asset disclosure for public officials in vulnerable positions, development of a compendium of best practices in the fight against solicitation, development of principles on foreign bribery legislation, and the selection of a pilot country to implement the program on transparency and anti-corruption. The statement also called for transparency and anti-corruption measures to be taken by the business community.

**The B20 Recommendations in 2013 included calls** to address the issue of BEPS through increasing the transparency of companies, promoting a clear and efficient tax system, calling for a permanent status of the G20 Anti-Corruption Working Group, and **close engagement between the B20 Task Force and the C20 in their fight against corruption.** As a different policy action, the B20 suggested “training and capacity building programs” to be developed for companies and SMEs on business ethics and responsible business practices. The B20 in 2013 also called for the set-up of a Collective Action Hub and Anti-Corruption Centres of Excellence in each G20 country to share best practices. **In 2014, the B20 recommended** harmonizing laws relating to anti-corruption, enforcing legal frameworks such as the OECD Anti-bribery Convention and UN Convention against Corruption, and endorsing the G8 core principles on transparency of ownership and control of companies.

[B20 Turkey](#) has convened an anti-corruption taskforce to lead its work on this issue. Following up with Australia’s recommendations, [B20 Turkey’s Approach](#) to Anti-Corruption will be to determine the barriers for implementation and ways to enforce legal frameworks, collective actions between public and private sectors and civil society organizations to provide transparency in both public and private sectors, and continue work on harmonization of laws related to anti-corruption.

### Leaders’ Communiqués

The leaders communiqués can be accessed from the G20 website and a host of other sites. You can also access them all from the [Resources section of the C20’s website](#).

[Brisbane Action Plan, November 2014](#)

### The Finance Track

G20 Finance Ministers lead the track of G20 work responsible for promoting inclusive growth and financial stability including tax matters.

See the Communiqué from the last meeting of G20 Finance Ministers and Central Bank Governors in 2014 [here](#).

[G20 High-Level Principles on Beneficial Ownership Transparency, November 2014](#)

### Anti-Corruption Working Group

**The G20 Anti-Corruption Working Group has produced reports and recommendations since its establishment in 2010, including [the 2015-2016 Anti-Corruption Action Plan](#). You can also take a look at the [G20 Anti-Corruption Action Plan](#), written in November 2014, and the [G20 2014 Brisbane Anti-Corruption Update](#)**

For more information on the status of BEPS and AEOI refer to: [OECD Secretary-General’s Report to G20 Leaders on Tax Matters, November 2014](#)

[International Organisations’ proposal for structured dialogue process with developing countries on tax matters, November 2014](#)

### Development

The G20 Development Working Group (DWG) manages the development-focussed policy work including work related to infrastructure and domestic resource mobilisation.

[St Petersburg Accountability Report on G20 Development Commitments, 2013](#) This report documents development commitments and progress to achieving them prior to 2014. The 2014 progress is in the [Annual G20 Development Working Group Progress Report](#)

**The C20 Governance Working Group in 2015:**

The C20's aim is to contribute constructively to the G20's policy making processes by providing specific, concrete and evidence-based policy recommendations for the promotion of inclusive and sustainable growth, which includes actions to be taken on anti-corruption and tax justice. As detailed above, concerns around governance have appeared on the G20 agenda and have been addressed by the officially recognised engagement groups for many years. Even though concrete achievements in the area of anti-corruption and tax justice may not be apparent yet, the G20 has nevertheless made some important commitments to address the challenges, as outlined above. Similarly, the G20 engagement groups have also made a number of sound recommendations on the subject.

In 2015, the C20 Governance Working Group could play an important role in proposing a comprehensive way forward for the implementation of the G20's commitments, building on the recommendations of official engagement groups to date. To this end, it is recommended that the C20 Governance Working Group considers the following proposed next steps:

1. Analyse the progress made by the G20 on its governance-related commitments since 2012;
2. Compare this progress with recommendations made by C20, L20, T20 and B20 since 2012;
3. Build policy options and recommendations based on the findings of this comparison.

In addition, and if funding and time allow, the C20 Governance Working Group might also consider producing an analysis of the effects that the major G20 policies have on governance, including the impact that these policies might have on the governance targets set by the G20 itself. Policy recommendations could then be based on this analysis.

**Other Policy Platforms for Consideration:**

The 2015 G20 Leaders' Summit comes only 6 weeks after world leaders are expected to adopt a new development framework built upon Sustainable Development Goals (SDGs). This framework is set to provide a broader set of goals to guide global efforts for sustainable development after the Millennium Development Goals come to an end in 2015. It is widely recommended for the SDGs to include measures on governance, which has a cross-cutting effect on sustainable development targets. It is recommended that the C20 Governance Working Group takes into consideration the potential action points on governance within the framework of the Sustainable Development Goals, identifies any overlaps between G20 commitments and the propositions made for the SDGs, and ensures consistency between civil society recommendations made to both platforms. The BEPS Project will also be working on a variety of recommendations, including domestic and tax treaty measures, and transfer pricing until October (the end of the 2<sup>nd</sup> phase), then December (the end of the 3<sup>rd</sup> phase.) It is recommended for the Governance Working Group to regularly check the [BEPS webpage](#) and remain updated on any further developments.

**Get involved.**

To find out more about the C20 Governance Working Group, please see "C20 Working Groups" page on the C20's website: <http://bit.ly/1IQE8Pz>