

TRILLION DOLLAR SCANDAL



**THE WORLD'S POOREST
COUNTRIES ARE DEPRIVED
OF AT LEAST \$1 TRILLION
EACH YEAR BY CRIMINALS
WHO EXPLOIT
IMPENETRABLE SECRECY
TO SIPHON OFF CASH
THROUGH MONEY
LAUNDERING, TAX EVASION
AND EMBEZZLEMENT.**

ONE

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The Trillion-Dollar Scandal

Globally, extreme poverty has been halved in 20 years, and could be virtually wiped out by 2030.² But much of the progress that has been made is at risk - not because of natural disasters or new diseases, but because of something far more insidious.

Analysis by The ONE Campaign suggests that at least \$1 trillion is being taken out of developing countries each year through a web of corrupt activity that involves shady deals for natural resources, the use of anonymous shell companies, money laundering and illegal tax evasion. This is not international aid – which is making a tangible difference. Massive sums are being taken out of developing countries' own budgets and economies, preventing them from financing their own fight against extreme poverty, disease and hunger. It is nothing short of a trillion-dollar scandal.

In this report, we show the true human cost of this scandal, and how it can be dramatically decreased. If specific policies are put in place to increase transparency and combat corruption in three key areas – financial secrecy, natural resource deals and money laundering – these massive financial losses could be significantly reduced. This would bring a host of benefits to developing countries, including increasing foreign direct investment (FDI) and boosting gross domestic product (GDP) by as much as 0.6% annually.³

Wherever corruption is allowed to thrive, it inhibits private investment, reduces economic growth, increases the cost of doing business, and can lead to political instability.⁴ But in developing countries, corruption is a killer. When governments are deprived of their own resources to invest in health care, food security or essential infrastructure, it costs lives, and the biggest toll is on children.

ONE estimates that as many as 3.6 million deaths could be prevented each year in the world's poorest countries if action is taken to end the secrecy that allows corruption and criminality to thrive and the recovered revenues were invested in health systems.

The central problem with corruption is corrupt people, living in both developed and developing countries. But bad policy can facilitate corruption, and making policy changes can dramatically reduce that enabling role. G20 leaders, meeting in Brisbane, Australia in November, have the power to help put an end to the trillion-dollar scandal. ONE is calling on them to take action.

Secret deals that cost lives

The world's poorest countries are deprived of at least \$1 trillion each year by criminals and corrupt officials who exploit layers of secrecy to siphon off cash through money laundering, illegal tax evasion and embezzlement.

Illegal manipulation of cross-border trade is the biggest source of losses to poor countries. The secrecy that allows that activity to thrive may also help to conceal financial flows related to criminal bribery and theft by government officials, human trafficking and / or the illegal sale of arms and contraband, depending on the circumstances. ONE's analysis shows that if steps were taken to end the trillion-dollar scandal, this could free up revenues which, if invested in health systems, could:

- Help avert 3.6 million deaths per year between 2015 and 2025 in low-income countries (LICs);
- Help avert 4.3 million deaths per year between 2015 and 2025 in lower-middle-income countries (LMICs), putting the world on track to end preventable child deaths in these countries by 2030.⁵

In addition, in sub-Saharan Africa alone, curbing corruption could provide the money to:

- Educate an additional 10 million children per year;
- Pay for an additional half-million primary school teachers – providing all out-of-school children in 16 African countries with an education;⁶
- Provide antiretroviral drugs (ARVs) for over 11 million people living with HIV/AIDS;⁷
- Pay for almost 165 million vaccines.⁸

Why should the G20 care?

The G20 presidency has highlighted economic growth as its primary objective.⁹ However, growth in all countries is hampered by corruption, which increases the cost of doing business, erodes public trust, undermines the rule of law, decreases investment and causes waste and inefficiency.

Increasing transparency and putting information in the public domain would yield a double dividend by helping to crack down on corruption and bringing new economic opportunities for job creation, increasing efficiencies in the use of time and resources and giving people the information they need to improve their lives.

Corruption is perhaps the greatest threat to economic growth in developing countries and the uncomfortable truth is that, all too often, money diverted from their own budgets ends up in G20 countries and their related jurisdictions – from alpine havens to sunny offshore islands, channelled through banks and secret

companies in places such as London, Delaware and Hong Kong.

ONE's estimates show that, worldwide, \$20 trillion of undeclared assets are held offshore; of this, \$3.2 trillion originates in developing countries. If these assets were declared to tax authorities and the income on them were taxed, even conservatively, this could yield revenues of \$19.5 billion per year.¹⁰ These revenues could allow countries to invest in their own development and help gain independence from international aid.

Losses

\$2.02tn

Illegal tax evasion, shady deals for natural resources and laundered money mean that a total of between \$972 billion and \$2.02 trillion flows out of developing countries every year.

\$20tn

A significant proportion of the money from the trillion-dollar scandal ends up in offshore tax havens. ONE estimates that \$20 trillion is held in such havens.

\$3.2tn

In those offshore tax havens, \$3.2 trillion of undeclared assets are estimated to have originated from developing countries; if taxed, this could yield revenues of \$19.5 billion per year.

Lives Saved



3.6m

If invested in health systems, revenues recovered by ending the trillion-dollar scandal could:

Help avert 3.6 million deaths per year between 2015 and 2025 in low-income countries;



4.3m

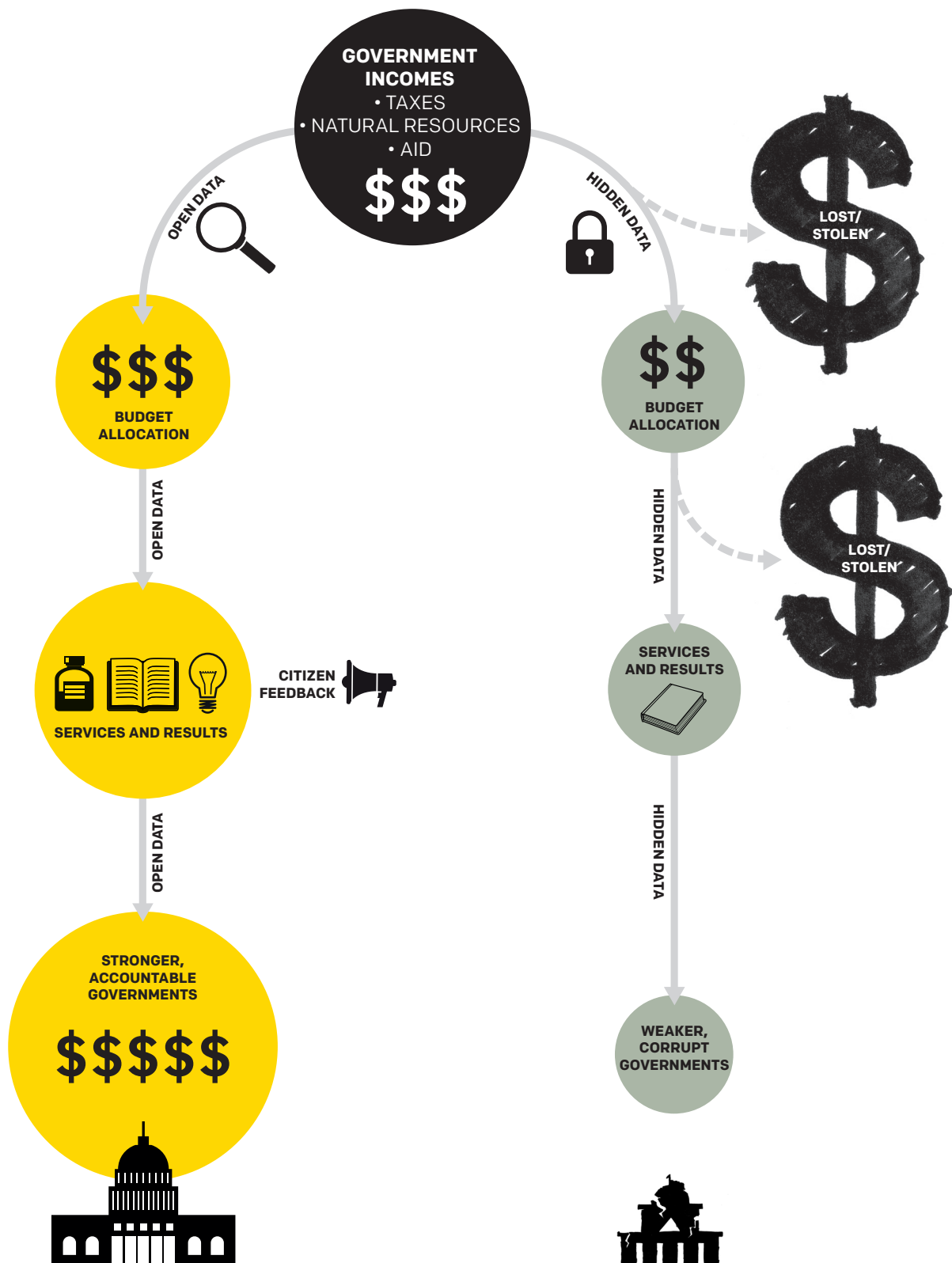
Help avert 4.3 million deaths per year between 2015 and 2025 in lower-middle-income countries, putting the world on track to end preventable child deaths by 2030.¹¹

Economic Growth



\$13tn

Through the economic opportunities created, transparent, open data could add \$13 trillion to the global economy by 2019 and contribute over half of the G20's growth target.¹²



The road to transparency

World leaders have the power to take concrete action to dramatically increase transparency, reduce corruption and free up enough resources to help save the lives of millions of people, while also adding momentum to an open data revolution that has the potential to create new economic opportunities at home and abroad.

ONE is calling on G20 leaders to commit to action in four areas at the G20 summit in Australia this November:



1. Shine a light on anonymous shell companies:

Make information public about who owns companies and trusts in order to prevent anonymous shell companies and similar legal structures from being used to launder money and conceal the identity of corrupt and criminal individuals.



2. Publish what you pay:

Introduce robust mandatory reporting laws for the oil, gas and mining sectors so that countries' natural resources are not effectively stolen from the people living above them.



3. Crack down on tax evasion:

Institute automatic exchange of tax information so that developing countries have the information they need to collect the taxes they are due.



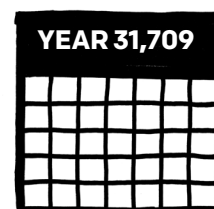
4. Open up: Publish government data:

Governments should publish information in line with accepted open data standards so that citizens can follow the money from resources to results and hold their governments accountable for the delivery of essential services.

How big is a trillion?



- 1 Given current global daily newspaper circulation (534 million printed per day), it would take more than **5 years** to sell 1 trillion papers.



- 2 Counting to one trillion would take roughly **31,709 years** (counting one number per second).



- 4 \$1 trillion could buy **everyone on the planet** a Starbucks latte every day for a month.

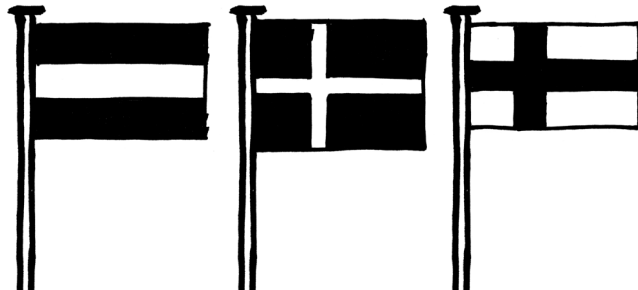


- 3 A stack of one trillion one dollar bills would stand 67,866 miles high, or reach roughly **a third of the way to the moon**.



5 Lined up end-to-end, a trillion one dollar bills would be 96,906,565 miles long, more than enough to **reach the sun**.

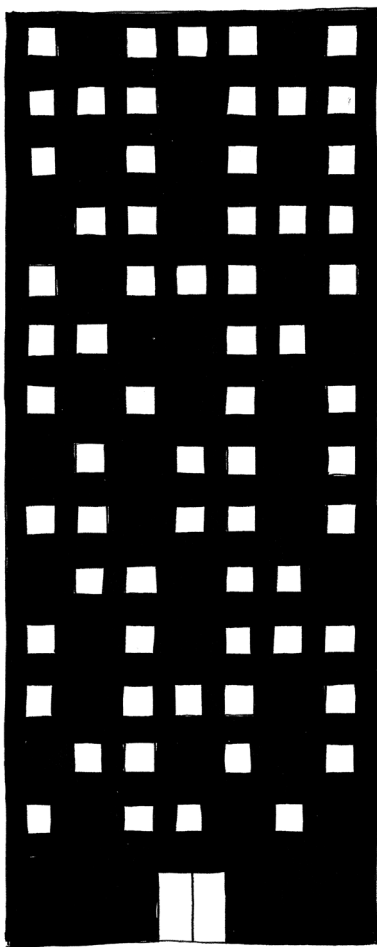
6 \$1 trillion is equivalent to the combined national incomes of **Austria, Denmark, and Finland**.



7 \$1 trillion would be enough to buy **8,928 F-35 fighter jets**, the most costly plane ever built.



8 \$1 trillion is greater than the annual profits of the **largest 86 public companies** in the world, combined.





Action 1:

Shine a light on anonymous shell companies

Anonymous shell companies, trusts and similar legal structures allow criminals to hide money, rip off governments and taxpayers and siphon off cash that could be used to pay for health care, education or vital infrastructure investment.



41.5%

41.5% of company service providers approached to set up a phantom firm in the US required no identification whatsoever – 2.5 times the rate in other countries.²⁰

These 'phantom firms' are essential tools of the trade for money launderers. They may hide the identities of individuals who profit from illegal activities, including the trafficking of arms, drugs and people, the theft of public funds and / or illegal tax evasion.

In dozens of jurisdictions around the world, a phantom firm can be created with less information than is needed to obtain a driving licence or open a bank account. Currently completely legal, they exist solely on paper, and allow the people who own or control them (the 'beneficial owners') to keep their identities hidden.

Governments, law enforcement agencies and citizens face an impossible task in trying to reclaim billions of dollars' worth of stolen assets. They are thwarted by the ease with which criminals can create complex, multi-layered financial structures in which an anonymous shell company can be owned by another shell company or a trust, resulting in a nearly impenetrable web of secrecy that can block even the best law enforcement efforts.

What needs to happen?

To end the secrecy that facilitates corrupt deals, each G20 country should commit to making beneficial ownership information of companies, trusts and similar legal structures

publicly available in open data formats. This would be a low-cost way of helping to prevent the theft of billions of dollars from developing countries' own budgets.

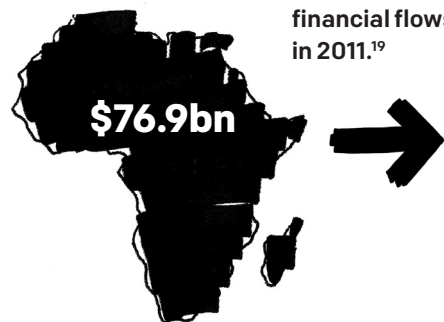
Making this information available would:

- **Help citizens and journalists track down money launderers and tax evaders.** As well as providing invaluable information for law enforcement authorities in both developed and developing countries, public information would allow citizens who are adversely affected by corruption to identify abusers.
- **Increase the efficiency and effectiveness of stolen asset recovery efforts.** Providing law enforcement officers with the information they need to investigate corruption would make recovering stolen assets faster and cheaper.
- **Promote free-market exchange by enabling entrepreneurs and others to know who they are doing business with.** Both sides of a business deal have the right to know the identity of the other party, and to adjust business expectations and negotiations accordingly. Anonymity hurts small businesses, as large firms are more likely to use complex legal structures.

G20 member states should adopt individual national-level action plans on transparency of beneficial ownership, with a commitment to

making information publicly available. G20 members should work to harmonise beneficial ownership legislation within their jurisdictions, particularly those members with overseas territories or dependencies, or with federal systems.

Great progress has been made in recent years, with the G8 countries committing to individual action plans on beneficial ownership and the UK and France passing legislation to make this information public. This should now become an international standard.



African countries lost \$76.9 billion through illicit financial flows in 2011.¹⁹

The story behind the headlines – the role of anonymous shell companies in corruption scandals

Phantom palace:

The extravagant home of Ukraine's recently toppled president Viktor Yanukovich was, until September 2013, one-third owned by an anonymous UK shell company and two-thirds owned by an Austrian bank. Layers of secrecy hid the identity of the true owner.¹³

Selling off oil fields:

In 2011, subsidiaries of oil and gas firms Shell and Eni paid \$1.1 billion to the Nigerian government for an offshore block containing estimated oil reserves of nine billion barrels. The government then transferred precisely the same amount to an account in the name of Malabu Oil & Gas, a phantom firm whose hidden owner was the country's former petroleum minister, Dan Etete. In the July 2013

UK High Court case of Energy Venture Partners vs. Malabu Oil and Gas, Lady Justice Gloster of the Queen's Bench Division, Commercial Court ruled, "I find as a fact that, from its incorporation and at all material times, Chief Etete had a substantial beneficial interest in Malabu".¹⁴ The Nigerian House of Representatives investigation into the case also found Dan Etete was the 30% owner of Malabu. In 1998, while in office, Etete awarded the rights from the lucrative oil concession to Malabu Oil & Gas, a company with no employees or assets that he had created just days earlier. That \$1.1 billion could have been used to fully immunise every single child aged under five in the country – 29.7 million children.¹⁵ Shell and Eni deny paying any money to Malabu Oil and Gas.¹⁶

Funding terrorism:

The U.N. Security Council has implicated trusts in a variety of terrorist acts, including the 2008 bombings in Mumbai, India and arms dealing in Afghanistan.¹⁷

"It is time to draw back the veil of secrecy behind which too many companies operate. Every tax jurisdiction should be required to publicly disclose the full beneficial ownership structure of registered companies."

Kofi Annan, former UN Secretary General.²¹

70%

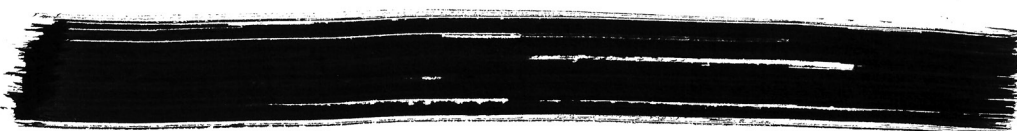
70% of the 213 biggest corruption cases between 1980 and 2010 involved anonymous shell companies.¹⁸



Action 2:

Publish what you pay

Natural resources have the potential, if developed and managed responsibly, to transform the lives of millions of people. In Africa, vast stores of oil, gas and minerals generate massive revenues that could be harnessed for development – but all too often they are not. Natural resource exports from Africa increased fivefold between 2002 and 2012.²² Growing demand, rising commodity prices and the discovery of oil and gas in a number of African countries could be the continent's greatest opportunity.



1/3

One-third of the world's poorest one billion people live in resource-rich countries.²⁸

However, managed badly, these resources could become a source of trouble for the continent, leading to increased inequality, conflict and war. Corruption and mismanagement, enabled by secrecy and opaque institutions, form a large barrier to economic growth and sustainable development in Africa.

What needs to happen?

The way in which natural resources are managed will determine whether their benefits are felt by ordinary citizens. Without public information on payments made to governments for natural resources, it is impossible for citizens to hold leaders accountable for the use of those revenues. Greater transparency in the management of revenues from natural resources industries can help ensure, through increased accountability and scrutiny, that funds are invested in pro-growth sectors, including infrastructure, social services and human capital — the cornerstones of sustainable economic growth and development.

Thankfully, a global transparency standard for natural resource industries is emerging.

The EU, US, Canadian and Norwegian governments have already committed to mandatory disclosure rules. Chinese companies seem ready and willing to comply.

Swift action to introduce standardised mandatory reporting in other G20 countries could unleash billions of dollars in untapped resources for investment in jobs, infrastructure, schools and hospitals. The G20 should raise global standards for natural resource transparency and make progress towards a common global mandatory reporting standard, both for countries with significant domestic natural resource industries and the home countries of large firms that exploit natural resources.

This global standard should require natural resource companies to publicly disclose the payments they make to governments on a country-by-country and project-by-project basis for every country in which they operate. The information provided should be in an open data format that will facilitate comparisons between regions and countries, using standard software to reduce compliance costs. This standard should be implemented by all G20 countries.

The cost of secrecy

Former Nigerian government minister Obiageli Ezekwesili has estimated that Nigeria has lost more than \$400 billion to 'oil thieves' since the country gained independence in 1960.²³ In 2013 prices, the money lost each year could have:

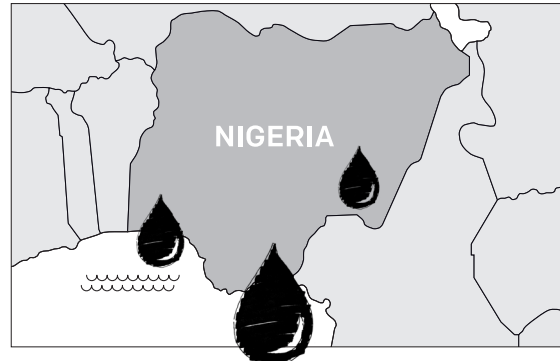
- Vaccinated all of Nigeria's 29.7 million children under the age of five, saving more than one million lives over time;
- Given all 168 million Nigerians a bed net to protect against malaria;
- Provided all 3.2 million HIV-positive Nigerians with life-saving antiretroviral drugs; and
- Hired more than 494,000 additional primary school teachers, resulting in an 86% increase in Nigeria's teacher workforce.²⁴

The benefits of transparency





According to the Nigerian government, increased transparency helped it recover a total of \$2 billion between 1998 and 2008.²⁵ One audit alone in 2009 revealed significant discrepancies of more than \$800 million, much of which the government was able to reclaim.²⁶ Between 1999 and 2005, the proportion of government revenues derived from natural resources rose from 63% to 75% without changes to the tax regime. In 2008, Finance Minister Ngozi Okonjo-Iweala stated that transparency of revenues had generated an improved credit rating for Nigeria and had led to sizeable increases in foreign direct investment of around \$6 billion a year in the oil sector and \$3 billion a year in the non-oil sector,²⁷ though it can hardly be doubted that Nigeria needs to continue its efforts to fight corruption and introduce yet more transparency.

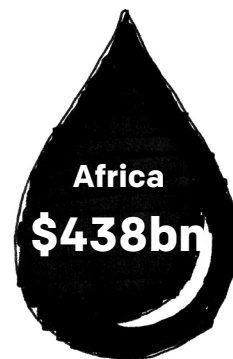
"Every dollar that a corrupt official or a corrupt business person puts in their pocket is a dollar stolen from a pregnant woman who needs health care; or from a girl or a boy who deserves an education; or from communities that need water, roads and schools. Every dollar is critical if we are to reach our goals to end extreme poverty by 2030 and to boost shared prosperity."

Money lost to oil thieves every year in Nigeria



could pay for

			
Vaccinate all 29.7m children under 5	168m bednets	3.2m ARVs	494,000 more teachers



Jim Yong Kim,
World Bank
President.³²

In 2012, exports of oil and minerals from Africa were worth \$438 billion, nearly eight times the value of agricultural exports (\$57 billion) and more than nine times the value of international aid (\$45.3 billion).²⁹

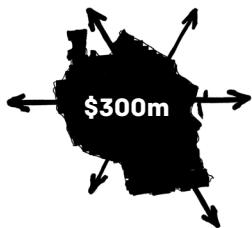
Uganda's current oil reserves could generate over \$2 billion in annual revenue for more than 20 years³⁰ – this is in a country where the annual national budget is \$3 billion, and \$1.7 billion is received annually from international aid.³¹



Action 3:

Crack down on tax evasion

Tax is how all countries, rich or poor, pay for schools, hospitals and essential infrastructure. But collecting revenues is a difficult and costly task – and the lack of access to information makes the job more difficult for tax officials across the world.



Illicit flows may cost the Tanzanian government up to \$300 million a year in lost revenues.³⁹

In sub-Saharan Africa, government spending increased from \$136 billion in 2004 to \$376 billion in 2012,³³ and yet in many countries not enough is being spent to ensure adequate health care and education. In many countries in the region, average tax collection as a percentage of GDP is far below levels in the rest of the world. Efforts to improve tax collection could yield much needed resources. Rich countries raised 34.1% of their GDP in taxes in 2011,³⁴ while low-income countries raised on average only 13%. This was not, primarily, because their tax rates are lower, but because so many individuals and firms living and doing business in developing countries avoid taxes, either illegally or through sophisticated manipulations of their company accounts that shift profits to other parts of the world.

Financial secrecy allows assets to be hidden that would otherwise be liable for tax. Illegal tax evasion is one of the principal reasons for trade mispricing, where the value of imports or exports is falsified. This manipulation of cross-border trade accounted for the majority of the staggering \$946.7 billion lost to developing countries through illicit financial flows in 2011.³⁵ To put this in context, foreign direct investment into developing economies was \$703 billion in 2012.³⁶

These losses deny developing countries the funds they need to pay for basic medical and infrastructure needs, making it necessary to partially fill the gap with international aid from donor governments and loans from international financial institutions.

ONE's analysis reveals the scale of the problem. In 2013:

- \$20 trillion of undeclared assets was held in offshore tax havens.
- \$3.2 trillion of that total originated from developing countries.
- If the income on this money were taxed at the current top marginal rate for each country, it could yield revenues of \$19.5 billion per year that countries could spend on their own development.³⁷

What needs to happen?

Developing countries are thwarted by a lack of access to information about offshore tax evasion. Accessing information on the accounts of residents and citizens held abroad (through a system called Automatic Information Exchange (AIE)) would help tax officials to quickly spot high-risk cases and take steps to recover evaded taxes quickly and efficiently.

While many developing countries still need to build the capacity and acquire the technology to analyse the full extent of information that would be generated by AIE, they could use it to begin doing spot checks, thereby significantly deterring illegal tax evasion. While building the systems necessary to share such information with other countries, they should not be kept from receiving critical information that would allow them to improve tax collection and enforcement.⁴¹ The G20 has already endorsed AIE, but all G20 countries should build a truly multilateral system, accelerate the timeline for complying to no later than 2017 and ensure that developing countries can benefit, including by providing information while giving a temporary exemption for countries that cannot yet exchange information with others.

In addition, requiring companies to publicly disclose key financial information in each country in which they operate would help tax officials to spot when international trade is being used to shift money out of a country. Country-by-country reporting, a standard recommended by the G8 in 2013 and already required of all banks operating in the EU, would act as a risk management tool to help tax officials and others prioritise which companies require further investigation.⁴²

Zambia: alleged illegal tax evasion may have cost millions

In Zambia, a leaked audit report suggested that Mopani Copper Mines had failed to pay tens of millions of dollars due in local tax.⁴³ The report pointed to an “unexplainable” increase in Mopani’s costs between 2006 and 2008, which allowed it to minimise its stated profits and reduce its tax bill.⁴⁴ The auditors presented evidence suggesting that declared prices for copper were not consistent with market pricing. Glencore, which at the time owned 73.1% of Mopani, has consistently denied these allegations.⁴⁵ *

“Only when we actually start exchanging information automatically will we really improve the ability of our tax collectors to ensure people and companies pay what is due.”

**David Cameron,
UK Prime Minister⁴⁷**

\$3.2 tn hidden in tax havens originates from developing countries. If taxed, this could generate revenues of \$19.5 bn per year to spend on development

Tanzania: practical steps improve tax collection

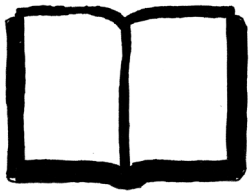
In Tanzania, following a Presidential Commission on Taxation and Expenditure in 1989, the government has pursued significant tax reforms. It simplified taxes, which helped curb illegal tax evasion, established a revenue authority and implemented a new value-added tax. The country took some simple practical steps to improve the service: implementing a taxpayer identification number to track taxpayers, installing an IT system and establishing a Large Taxpayers’ Department that increased the number of large taxpayers. As a result, between 1996 and 2008 tax revenues grew at an average annual rate of 15.7%.⁴⁶



Five African countries (Ghana, Kenya, Mozambique, Tanzania and Uganda) collectively lost an estimated \$15 billion in tax revenues in the period 2002–2011, or 10% of total government revenues, due primarily to trade mispricing.⁴⁰

50%

If Malawi clamped down on illegal tax evasion, government revenue could increase by 50%, roughly the same amount that the country receives in international aid (11.7% of GDP).³⁸



Action 4:

Open up: Publish government data

Data is a precious commodity that helps us understand the world in which we live. Financial data that tracks the money flowing in and out of government accounts (revenues and expenditures), linked with data on service delivery (such as the number of hospitals and teachers) and results (primary school completion rates), is crucial for informing smart decision-making and public policy. While the collection and use of private data by companies and governments is controversial, opening up data on what governments are doing is truly empowering. It gives citizens information to hold their governments to account for the use of public resources.

\$3tn

"If corruption were an industry, it would be the world's third largest, worth more than \$3 trillion and 5 percent of global GDP." – B20⁵⁰

Open data is information that is available for anyone to use, for any purpose, at no cost.⁴⁸

It must be accurate, comprehensive and timely. Accountability is impossible without this transparency, which helps people follow the money and helps governments to improve the quality of decision-making and to find innovative solutions to societal problems.

Never before has such potential existed to empower citizens to follow the money. For example, in 2013 Africa had 253 million unique mobile phone subscribers, and it is the region with the fastest growth in mobile penetration. New online and mobile platforms allow available data to be made more accessible and easily understood, and help create feedback loops for citizens to validate it from their own communities' experience. Yet, in most African countries, budget and other critical datasets are woefully insufficient and opaque.⁴⁹

Open data is not just about accountability. It is a multi-purpose tool for modern government, which can also be used to improve public services, enhance efficiency, stimulate economic growth and create jobs.

What needs to happen?

To harness this potential, governments must commit to publishing information in open data formats and standards that can be easily accessed, analysed, shared, compared and combined across countries and across the flow of public resources.

In 2013, the G8 countries signed the Open Data Charter, pledging to release high-quality open data that is timely, comprehensive and accurate, and establishing the expectation that all government data should be published openly by default. The charter makes it clear that open data enables citizens to fuel better outcomes in public services by "showing how and where public money is spent" and by "enabling people to make better informed choices about the services they receive and the standards they should expect". Open data could yield massive benefits beyond the G8 for the global economy and for society. All G20 countries should endorse the Open Data Charter and commit to applying its principles, and open data should be made a common thread across the G20 agenda.

"We now have tools that previous generations couldn't even dream about... Technology makes it practical and useful to do things that previously were prohibitively expensive, and makes it easier for citizens to connect with one another and their leaders."

Hillary Rodham Clinton, former US Secretary of State⁵⁵

"Transparency is the key. Without transparency there can be no accountability."

Aung San Suu Kyi, Chairperson and General Secretary of the National League for Democracy, Burma.⁵⁴

To enable citizens to use this data, governments must take steps to ensure that civil society has the necessary political space and capacity. Through showing leadership by example, and setting global norms on open data, the G20 can generate information that businesses, governments and citizens can use to make better decisions about how to invest their resources.

SMS for Life

SMS for Life, a public-private project, was piloted by Novartis and Roll Back Malaria in three districts in rural Tanzania in 2009–10. The programme's goal was to improve access to anti-malarial medications by eliminating stock-outs of artemisinin-based combination therapy (ACT) drugs. Using simple and widely available mobile phone technology, district management teams received weekly reports on supply levels in rural health facilities. The increased transparency resulted in more efficient stock management, which in turn translated into real results for patients. When the programme was launched, 26% of health facilities in the three pilot districts had no ACTs in stock, but by the time it ended 99% had at least one ACT in their inventory. In one district, stock-outs were eliminated by the second month of the pilot. At the start of the trial, 264,000 people had access to ACTs in those districts; by the end, the number had increased to 888,000. SMS for Life was rolled out nationwide in Tanzania in 2011, with new expansion planned for other countries.⁵²

Citizens follow the money from budget to classroom

In the 1990s, civil society organisations (CSOs) in Uganda observed that despite significant increases in budgetary allocations for primary schools, enrolment was stagnant. On investigation, they found that only 13% of grants were reaching schools: 87% of the funds was being misappropriated or used by district officials for purposes unrelated to education.⁵³ Citizens took action, and transfers from central government to districts were publicised in the media. Posting of fund transfer information at schools and district offices became mandatory, and school committees were trained on how to use the information to hold authorities accountable for the receipt and use of funds. Four years later, transparency and other reforms had led to a dramatic turnaround, with schools receiving more than 90% of grant funds intended for them.

\$13tn

Through creating economic opportunities, open data could add \$13 trillion to the global economy by 2019 and contribute over half of the G20's growth target.⁵¹

Ending the trillion-dollar scandal

The trillion-dollar scandal robs the developing world of much needed resources that could help save the lives of millions of people, if recovered. G20 leaders have the power to help stop this scandal through a set of simple, low-cost measures that will also benefit their own countries, helping them to recover revenues from tax evaders and creating new economic opportunities.

ONE is calling on G20 leaders to take action in four areas:

1. BENEFICIAL OWNERSHIP

- The G20 should commit to making information on the beneficial ownership of companies, trusts and similar legal structures publicly available in open data formats. Member states should adopt individual national-level action plans and should harmonise this legislation within their jurisdictions, particularly those members with overseas territories or dependencies, or with federal systems.

2. NATURAL RESOURCE TRANSPARENCY

- The G20 should raise global standards for natural resource transparency and make progress towards a common global mandatory reporting standard that requires companies extracting natural resources to publicly disclose financial information on their operations in every country in which they have a presence, including the payments they make to governments on a project-by-project and country-by-country basis. This should be published in open data formats. G20 countries should commit to implementing this standard in their own jurisdictions.

3. TAX TRANSPARENCY

- The G20 should commit to making the automatic exchange of financial information available to all countries, including low-income countries. Ability to provide information should not be a barrier to receiving information from others in the short term.
- The G20 should commit to make country-by-country reporting the global standard, with companies publicly reporting on critical information including number of employees, revenues, profits, sales, physical assets, tax liabilities, taxes and payments made to the governments of all countries in which they generate income or have a legal entity. This should be published in open data formats. A version of this standard was a commitment from the G8 in 2013, the EU already requires banks to report in this way, and the OECD have recently reported this as a priority action to the G20 Development Working Group.

4. OPEN DATA

- G20 countries should endorse and apply the principles of the Open Data Charter, make open data the common thread across the G20 agenda and support efforts that increase the capacity and space for civil society in developing countries to demand and use information.

Glossary

Anonymous shell companies: Refers to any company or trust with a hidden ownership structure that makes it difficult or impossible to identify the beneficial owner(s). They are commonly used by corrupt entities to launder or hide money.

Beneficial owner: A legal term that refers to the individual who owns or controls a company, trust or similar legal structure.

Corruption: The abuse of entrusted power for private gain.

Illegal tax evasion: Involves people or companies purposefully hiding their wealth and income to circumvent paying taxes that they owe. This is illegal and, if they are caught, entails criminal or civil penalties.

Illicit financial flows: The cross-border movement of funds that are illegally acquired, transferred or used.⁵⁶

Money laundering: Financial transactions in which criminals attempt to disguise the proceeds and sources of their illicit activities by transforming them into ostensibly legitimate money or other assets.

Open data: Information that is publicly available for anyone to use, for any purpose, at no cost.

Stolen assets: The illegal confiscation, control, use or transfer of public funds by government officials or politically exposed persons for personal gain.

Stolen asset recovery: Refers to efforts to recover the proceeds of official corrupt practices. International asset recovery includes numerous processes such as the tracing, freezing, confiscation and repatriation of proceeds stored in foreign jurisdictions.

Tax haven (also 'offshore financial centre' or 'secrecy jurisdiction'): A country or jurisdiction that provides financial or banking secrecy or provides financial services to non-residents on a scale that is non commensurate with the size and financing of its domestic economy.

Trade mispricing: The act of misrepresenting the price or quantity of imports or exports in order to shift capital to other jurisdictions. The motive could be to evade taxes, avoid customs duties, transfer a kickback, launder money or for some other purpose. When occurring across borders but within a multinational firm, it is often referred to as abusive transfer pricing.

Methodology

Corruption is the abuse of entrusted power for private gain. It hurts everyone who depends on the integrity of people in a position of authority.⁵⁷

Estimating the cost of corruption is inherently difficult given its secretive nature. Consequently, few studies have attempted to quantify the extent of the problem. Those studies that have attempted to do so analyse either a sub-set of corruption (such as bribery) or include elements that do not fit squarely into the definition of corruption (such as drug trafficking). One notable exception is the estimation of illicit financial flows, which have received significant attention in recent years.⁵⁸

This report's intent is to provide an indicative – not definitive – estimate of the scale of corruption, its impacts and what could be achieved if it was curbed. Given the challenges associated with quantifying corruption, the outcomes presented in this study rely on a number of assumptions (e.g. sizes of illicit financial flows, money laundering, corruption, investment decisions) whose validity need to be tested, leading to a number of research questions in need of further exploration.

Methodology for calculating the trillion-dollar figure

Given the challenges involved in estimating the costs of corruption, ONE has investigated its impacts through three approaches, all of which overlap but which, we believe, corroborate our findings.

1. The first approach refers to the work of the non-profit research and advocacy group Global Financial Integrity (GFI) on the scale of illicit financial flows. These cross-border transfers come in three forms: (1) the proceeds of bribery and theft by government officials (accounting for an estimated 5% of all illicit financial flows globally); (2) criminal activities including drug trafficking, human trafficking, illegal arms and contraband (30–35%); and (3) commercial trade mispricing and illegal tax evasion (60–65%).⁵⁹ These figures do not represent the revenues lost to African countries, but rather the amount of capital that escapes their economies illicitly. GFI estimates that in 2011 some \$947 billion of capital was lost to developing countries in the form of illicit financial outflows.⁶⁰
2. The second approach involves updating estimates from the United Nations Office on Drugs and Crime (UNODC), which put the scale of global money laundering at between 2.1% and 4% of global GDP.⁶¹ This estimate sits within the often cited International Monetary Fund 'consensus range' on the scale of money laundering of 2–5% of global GDP.⁶² Thus,

in 2014 money laundering globally was estimated to involve between \$1.91 trillion and \$3.64 trillion.⁶³ UNODC suggests that "all crime proceeds appear to be generally higher in developing countries and tend to be laundered abroad more frequently".⁶⁴ ONE estimated the proportion of this estimate likely to relate to developing countries, using IMF statistics on the proportion of global GDP (purchasing power parity) originating in developing and emerging economies (50.8%),⁶⁵ and used this ratio to calculate the likely scale of money laundering as estimated by UNODC originating in developing and emerging economies. We concluded that in 2014 the amount involved was likely to be between \$972 billion and \$1.853 trillion.

3. The final approach involves an aggregation of a range of methodologies. Developing countries lose an estimated \$100–\$160 billion in tax revenues as a result of trade mispricing⁶⁶ and an estimated \$250 billion from illegal tax evasion each year.⁶⁷ The global cost of money laundering in 2014 is estimated at between \$1.91 trillion and \$3.64 trillion. The global cost of bribery is estimated at between \$600 billion and \$1.7 trillion.⁶⁸ ONE has taken a highly conservative estimate of the low-range costs of money laundering and bribery incurred by developing countries, at one-third of the global total. In this scenario, the cost of money laundering for

developing countries is between \$630 billion and \$1.2 trillion, and the cost of bribery is between \$200 billion and \$560 billion. While there may be some overlap between these estimates, the use of highly conservative assumptions means the cost of corruption is likely to be underestimated rather than overestimated. If we aggregate the low range, the total comes to \$1.18 trillion. Using less conservative assumptions of the proportion of bribery and money laundering relating to developing countries – two-thirds – but still using low-range global estimates, the total could be as much as \$2.02 trillion.

Methodology for calculating the mortality impact of illicit financial flows

The Lancet Commission on Investing in Health has investigated a number of disorders to estimate what it would take to feasibly reduce mortality rates from infections and reproductive, maternal, newborn and child health (RMNCH) disorders in high-mortality countries down to universally low levels. The 2035 target levels for the Lancet Commission's analysis are those seen today as in high-performing middle-income countries (MICs) (Chile, Cuba, Costa Rica and China) by 2035. Low-income countries (LICs) such as Rwanda demonstrate that targeted investments in health systems can yield dramatic returns – for example, a 67% decrease in under-five mortality between 2000 and 2010.⁶⁹

The Lancet Commission estimates that an additional \$23 billion per year from 2016 to 2025, and \$27 billion per year from 2026 to 2035 across 34 LICs would prevent an estimated 3.6 million deaths per year between 2016 and 2025, and 7.4 million deaths in the year 2035, relative to the 2011 baseline (representing spending of around \$24 per person in 2035).⁷⁰

Across 48 lower-middle-income countries (LMICs), an investment of around \$38 billion per year between 2016 and 2025 and around \$53 billion per year between 2026 and 2035 could avert an estimated 4.3 million deaths per year between 2016 and 2025 and 7.5 million deaths in 2035 relative to the 2011 baseline (around \$20 per person in 2035).⁷¹ The investments in health systems are likely to have other positive effects.

ONE has investigated the revenue recoverable from one element of the trillion-dollar scandal. GFI estimates the scale of illicit financial flows from developing countries to be \$947 billion in 2011.⁷² Assuming that not all of this capital equates to potential profits, ONE has created three scenarios, of 30%, 50% and 60% profit rates. Given that 60–65% of this capital involves mispriced international trade – much of which could be motivated by lower tax rates on profits in other jurisdictions – ONE considers these scenarios to be conservative. Assuming that profits would be taxed at the marginal rate for each country, we use tax rates from PricewaterhouseCoopers (PwC)'s 'Paying Taxes 2014' report to estimate the scale of taxes lost. We recognise the assumptions involved and the fact that tax exemptions and reliefs, trade tariffs and other nuances in tax legislation may mean that the headline rate is not always applicable. That caveat notwithstanding, potential uncollected taxes were likely to be between \$38.4 billion and \$64.1 billion in 2011.

Assuming that these revenues could be recovered on an annual basis and invested according to the plan outlined by the Lancet Commission, ending the trillion-dollar scandal could free up enough resources to help avert 3.6 million deaths per year between 2015 and 2025 in LICs and could result in a 62% decline in under-five mortality. In LMICs it could help avert 4.3 million deaths per year between 2015 and 2025 and reduce child mortality to 23 in every 1,000 live births, putting the world on track to end preventable child deaths in these countries by 2030.⁷³

	Under-five deaths averted		Total deaths averted	
	34 LICs	43 LMICs	34 LICs	43 LMICs
<i>Averted deaths (annual average 2016–2025)</i>	2.32m	2.69m	3.62m	4.30m
<i>Decline in under-five mortality compared with 2011 baseline (2025)</i>	62% (43 per 1,000 live births)	68% (23 per 1,000 live births)		
<i>Estimated costs (annual average 2016–2025)</i>	\$4.09bn	\$17.29bn	\$29.8bn	\$45.81bn
<i>Averted deaths (annual average 2026–2035)</i>	3.88m	3.76m	5.87m	5.98m
<i>Decline in under-five mortality compared with 2011 baseline (2035)</i>	68% (22 per 1,000 live births)	74% (11 per 1,000 live births)		
<i>Estimated costs (annual average 2026–2035)</i>	\$6.09bn	\$29.57bn	\$38.66bn	\$66.61bn

Methodology for calculating scale of assets and potential lost revenues

To calculate the scale of assets held offshore:

- ONE analysed the latest available statistical data (December 2013) from the Bank of International Settlements (BIS) (Table 7A on 'External loans and deposits of reporting banks vis-à-vis all sectors') and calculated the total recorded deposits in offshore tax haven jurisdictions.
- The list of tax havens is derived from a list established by the U.S. Government Accountability Office.⁷⁴ Of these 50 jurisdictions, 21 are EU-related and 10 are UK-linked (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat and the Turks and Caicos Islands).
- Using the latest central bank and BIS report⁷⁵ data, ONE examined the proportion of deposits held by foreign residents, since these are assumed to pose the greatest concern for illegal tax evasion. Where data is available from national central banks or the IMF, a national coefficient is used; where individual country data is not available, an average is taken. This gives the total recorded deposits in offshore jurisdictions held by foreign residents.
- This total is 20.1% for all offshore jurisdictions, 15.3% for G20 jurisdictions (including EU jurisdictions), 13.9% for G8 and EU jurisdictions, 13.8% for EU jurisdictions, 8.3% for G8 jurisdictions and finally 8.1% for UK-linked jurisdictions (including Overseas Territories and Crown Dependencies). We assume this deposit ratio to hold for all assets (equities, bonds, derivatives) since no credible data is available on other asset classes.
- A separate ratio is taken for African countries since the proportion of offshore wealth is higher in Africa than elsewhere. The ratio is taken from the Boston Consulting Group's 'Global Wealth 2014' report, which for 2013 (while using a different list of offshore jurisdictions) reports a higher ratio of 32.6% of offshore wealth for the Middle East and Africa region. Using the same distribution of offshore assets as above yields the following offshore ratios: 24.9% for G20 jurisdictions, 22.6% for G8 and EU jurisdictions, 22.5% for EU jurisdictions, 13.4% for G8 jurisdictions and 13.2% for UK jurisdictions.
- ONE then looked at the 2013 Credit Suisse Global Wealth Databook to calculate financial wealth per adult, and debts per adult, which allowed us to calculate net wealth by adult. We then multiplied this by the number of adults reported in the Global Wealth Databook 2013. This gives total net financial wealth by country, which is represented by low-income, lower-middle-income, upper-middle-income and high-income country groups as well as a separate sheet for Africa. This yields a total of \$20.5 trillion of undeclared assets held offshore.
- This number is then multiplied by the ratios of offshore wealth held by foreign residents to obtain the proportion of offshore wealth by country, income group and Africa as a region.
- We then used a ratio of 84%⁷⁶ of foreign resident offshore wealth as being undeclared, according to a report in 2009 (this being the most recent estimate of undeclared offshore wealth).
- We then applied an interest rate of 3.5% (a conservative estimate of returns), based on the Credit Suisse Investment Yearbook 2013, where a mix of equity and bond investments would yield 2% real returns, then to obtain nominal returns we added US inflation of 1.5%.⁷⁷ This yields undeclared offshore income by country.
- We then calculated the estimated tax loss on the basis of national tax rates from the PwC survey of worldwide income tax rates. The top marginal income tax rate is taken, as it is assumed that it is likely that offshore wealth is held mainly by the top income-earners in any given country. Some countries do not have income tax and thus no tax loss occurs, while some do not tax capital gains or capital interest and again no tax loss takes place. This gives us the tax loss by country arising from undeclared offshore assets. The total tax loss is estimated at \$169.6 billion.

Methodology for calculating the cost of secrecy in Nigeria

To calculate what \$400 billion of oil revenues lost to theft in Nigeria could have been used to purchase, we first calculated the annual average amount lost to theft, dividing \$400 billion by 52, the number of years between 1960 and 2012, the year the statistic was cited. The resultant \$7.7 billion annual loss was then used to calculate the health and education improvements that could have been funded each year, using 2013 US dollars:

- Providing all 3.2 million HIV-positive Nigerians with antiretrovirals (ARVs) for a year (at \$315 per person per year) = \$1.008 billion.⁷⁸
- Fully immunising every single child in the country aged under five (29.7 million children at \$22 per child) = \$653.4 million.⁷⁹
- Providing insecticide-treated bed nets for all 168 million Nigerians (at \$10 per net) = \$1.68 billion.⁸⁰
- If the remaining funds (\$7.7 billion - \$1.008 billion - \$653.4 million - \$1.68 billion = \$4.35 billion) were invested in education, they could pay for the salaries of an additional 494,421 primary school teachers (\$4.35 billion ÷ \$8,800/per teacher), an 86% increase in the country's current primary teacher workforce (574,078 teachers).⁸¹

Methodology for calculating the potential increased revenues available due to reducing corruption

To calculate the impact of corruption on funds available for health, education and other interventions, we used a study conducted by Dreher and Herzfeld (2005) entitled 'The Economic Costs of Corruption: A Survey and New Evidence'.⁸² Using corruption scores from the International Country Risk Guide, the study measures the impact of corruption on a number of dependent variables, concluding that a one-point increase in corruption results in a decrease in government spending (as a percentage of GDP) of 1.3–3%. Using spending data from the IMF for 2012,⁸³ we quantified the impact in US dollars of a 3% decrease in government spending. Using agriculture, education and health spending data from the Regional Strategic Analysis and Knowledge Support System (ReSAKSS),⁸⁴ UNESCO⁸⁵ and the World Health Organisation (WHO)⁸⁶ respectively, we calculated the additional funds that could be available for each sector given a 3% increase in spending resulting from a one-point decrease in corruption. We then used data from PEPFAR,⁸⁷ GAVI⁸⁸ and UNESCO⁸⁹ to calculate what these additional funds could buy, assuming that all of this money would be spent on these interventions.

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- ⁷⁸ ONE calculations based on data on the number of HIV-positive Nigerians from UNAIDS www.unaids.org/en/regionscountries/countries/nigeria/ and PEPFAR's estimates of an annual course of ARVs - \$315. PEPFAR (2014) '2014 Report on Costs of Treatment in the President's Emergency Plan for AIDS Relief (PEPFAR)'. www.pepfar.gov/documents/organization/223163.pdf. It should be noted the figure used is simply an estimate, since the cost of ARVs varies by country, financing mechanism, HIV type and age of patient.
- ⁷⁹ ONE calculations based on impact figures provided by GAVI Alliance whereby \$100 million provides pentavalent, pneumococcal and rotavirus vaccines for 2.84 million children, saving roughly 100,000 lives. Nigeria's under-five population is approximately 29.7 million (2014); see UNICEF (2014) 'State of the World's Children In Numbers'. www.unicef.org/sowc2014/numbers/documents/english/SOWC2014_In%20Numbers_28%20Jan.pdf
- ⁸⁰ ONE calculations based on Nigeria's population data from the World Bank's World Development Indicators and the assumption that each bed net costs \$10 to procure and distribute, and would be distributed in 2013 with a shelf-life of at least three years; see Center for Disease Control and Prevention (2014) 'Insecticide-Treated Bed Nets', www.cdc.gov/malaria/malaria_worldwide/reduction/itm.html and Jeffrey Sachs (2009) 'Good News on Malaria Control'. www.earth.columbia.edu/sitefiles/file/about/director/2009/SciAm_August2009.pdf
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- ⁸² A. Dreher and T. Herzfeld (2005) 'The Economic Costs of Corruption: A Survey and New Evidence'. <http://ssrn.com/abstract=734184>
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- ⁸⁴ Regional Strategic Analysis and Knowledge Support System (ReSAKSS) (2013) 'Annual Trends and Outlook Report'.
- ⁸⁵ UNESCO (2011) 'Financing Education in Sub-Saharan Africa', op. cit. UNESCO Institute for Statistics Data Centre, op. cit.
- ⁸⁶ World Health Organization (WHO) (2014) 'Global Health Expenditure Database'. <http://apps.who.int/nha/database>
- ⁸⁷ PEPFAR estimates that an annual course of ARVs costs \$315. PEPFAR (2014) '2014 Report on Costs of Treatment in the President's Emergency Plan for AIDS Relief (PEPFAR)'. www.pepfar.gov/documents/organization/223163.pdf
- ⁸⁸ GAVI Alliance (2014) 'Market-shaping goal indicators'. www.gavialliance.org/results/goal-level-indicators/market-shaping-goal-indicators/ GAVI estimates that the cost to fully vaccinate one child is \$22.
- ⁸⁹ UNESCO (2011) 'Financing Education in Sub-Saharan Africa' UNESCO Statistics, various years (2001–11); UNESCO Pôle de Dakar database, various years (2007–09).
- ⁹⁰ Alpha Condé, 'In Guinea we want our resource wealth to work for all the people', *The Guardian*, 14 June 2014. www.theguardian.com/global-development/poverty-matters/2013/jun/14/guinea-resource-wealth-work-people

Acknowledgements

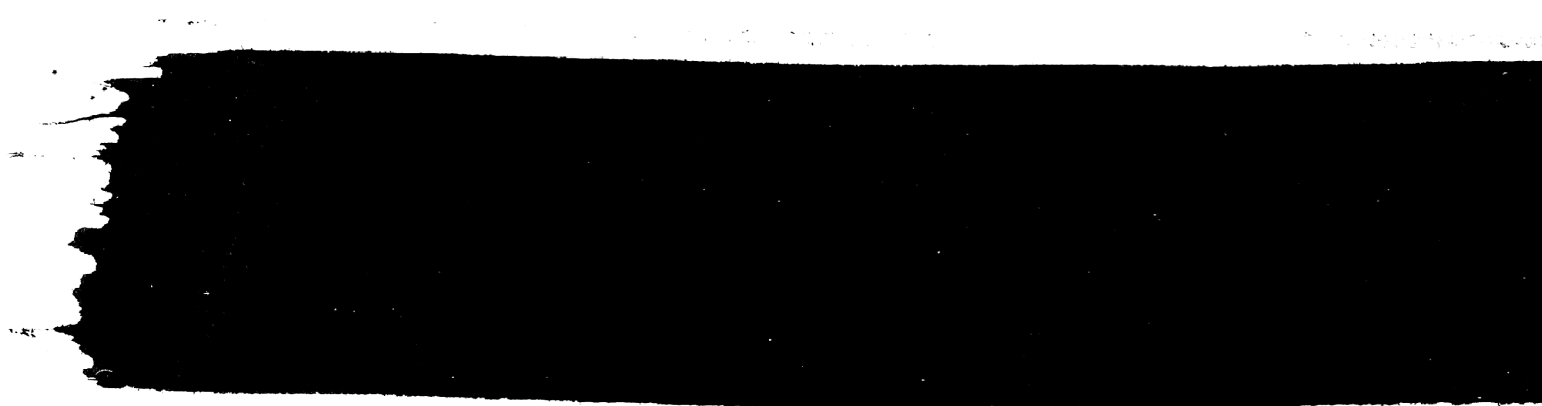
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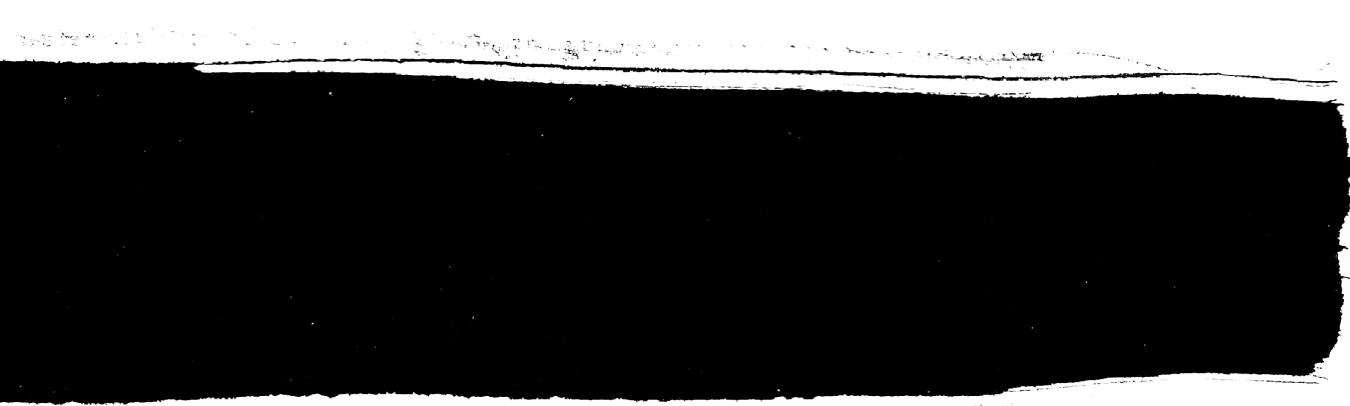
*** Editor's note:**

The Trillion Dollar Scandal report launched on 3rd September 2014, referred to a claim reported in the Sydney Morning Herald relating to Glencore's Australian tax affairs. This claim has been retracted by the Sydney Morning Herald as being false. We have therefore amended the report to remove this reference and apologised to Glencore for this error.



"Lack of transparency and endemic economic corruption do not mean only unpaid taxes and lack of competition; they also corrode the political process and undermine our evolving democracy. It impedes change and opens the door to frustration and... political tension and regrettable violence – including tragic deaths."

**Alpha Condé,
President of Guinea.⁹⁰**



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