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Major banks facilitate corruption in world's poorest countries

government regulation is not working

As G20 finance ministers meet in London to discuss how to rescue the

global financial system and prevent the next disaster, a new report by

anti-corruption NGO Global Witness shows how some of the world's biggest

banks have been dealing with some of the world's most corrupt regimes.

By doing so they have facilitated corruption and looting of natural

resource revenues, denying some of the world's poorest people a chance

to escape poverty.

"The same lax regulation that created the credit crunch has let some of

the world's biggest banks facilitate the looting of natural resource

wealth from poor countries," said Gavin Hayman, Global Witness Campaigns

Director. "If resources like oil, gas and minerals are to truly help

lift Africa and other poor regions out of poverty, then governments must

take responsibility to stop banks doing business with corrupt dictators

and their families."

The facts

Global Witness's report, Undue Diligence: How banks do business with

corrupt regimes, presents evidence that:

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Barclays kept open an account for the son of the dictator of oil-rich

Equatorial Guinea long after clear evidence emerged that his family were

heavily involved in substantial looting of state oil revenues.

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A British tax haven and a Hong Kong bank helped the son of the president

of Republic of Congo, another oil-rich African country, spend hundreds

of thousands of dollars of his country's oil revenues on designer

shopping sprees.

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Citibank facilitated the funding of two vicious civil wars in Sierra

Leone and Liberia by enabling the warlord Charles Taylor, now on trial

for war crimes in the Hague, to loot timber revenues.

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HSBC and Banco Santander hid behind bank secrecy laws in Luxembourg and

Spain to frustrate US efforts to find out if Equatorial Guinea's oil

revenues had been looted and laundered.

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Deutsche Bank assisted the late president Niyazov of Turkmenistan, a

notorious human rights abuser, to keep billions of dollars of state gas

revenues under his personal control and off the national budget.

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Dozens of British, European and Chinese banks have provided Angola's

opaque national oil company, Sonangol, with billions of dollars of oil

backed loans, though there is no transparency or democratic oversight

about how these advances on the country's oil revenues are used, and

they have a recent history mired in corruption and secret arms deals.

What needs to be done

No bank should be, or should want to be, involved in business such as

this, whose real costs are borne by the people of some of the world's

poorest countries.

Anti-money laundering laws require banks to do due diligence to identify

their customer and turn down illicitly-acquired funds, but these laws

need tightening to make them globally effective. The following four

reforms to the financial regulatory system are essential:

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Banks must change their culture of "due diligence" -- the process by

which they check that a customer is legitimate. This isn't about box

ticking. Banks should only take the business if they have identified an

ultimate beneficiary who does not pose a corruption risk. Other business

should be turned away.

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Governments must ensure that anti-money laundering laws in each

jurisdiction are absolutely explicit that banks must do this due

diligence properly, and financial regulators must actively enforce these

laws.

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Cooperation between governments has to improve to ensure that national

bank regulations become globally compatible, accountable and

transparent, and are not hindered by bank secrecy laws. This must begin

with reforms to the inter-governmental body that oversees the anti-money

laundering regime, the Financial Action Task Force.

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Governments must ensure that new global rules are put in place to help

banks avoid corrupt funds. The most important change is to ensure that

every country produces full public online registers of the ultimate

beneficial ownership of all companies and trusts under its jurisdiction,

to help banks identify and avoid business with a corruption risk.

"The G20 leaders must act on their promises to help the world's poor. A

key element of making poverty history is to stop the money being stolen

or kept off-budget in the first place. Ducking this issue now leaves the

global financial system open not only to further corrupt money flows,

but to the destabilising influences that have caused such damage to the

developed world's economies," said Hayman. "The developing world cannot

afford a return to business as usual."

<https://www.globalwitness.org/sites/default/files/library/Global%20Witness%20press%20release.pdf>