ROUNDTABLE

Developing Nations:

The Role of the International Finance Centre

The Government of Jersey roundtable explores the relationship between International Finance Centres and developing countries

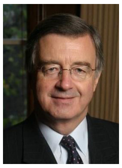
The roundtable started with a reminder from Sir Philip Bailhache, the Government of Jersey's Minister for External Affairs, of the vast potential developing countries represent. For example, the growth capacity in the African continent, he began, is "immense", with forecasts of 5% growth "for at least the next ten or fifteen years". But if the continent is going to meet this capacity, he added, it will need inward investment on a huge scale. He emphasised the role that Jersey could play in meeting this need, as well as the potential for Jersey's expertise to be put to use in assisting developing countries to strengthen their regulatory frameworks and build their revenue-raising capacity.

The great potential of developing countries was echoed by the representatives from African diplomacy, Rwandan High Commissioner Williams Nkurunziza, and Peter Kobina-Taylor, Minister Counsellor at the Ghanaian High Commission. "Africa is not poor," Mr Nkurunziza began. The continent, he said, sits on 60% of the world's arable land, 88% of its corium, 80% of its platinum, 60% of its diamond, 30% of its gold and "a huge population that is expanding even bigger, with a growing middle class. The future of the world's economy is going to be triggered by demand, and a lot of that demand is going to come out of a continent that is projected to have about 785m people by 2025 under the age of 25. Which means you're looking at a massive market," he said. But the continent needs "serious investment", particularly in infrastructure – "we need at least $40bn in investment in infrastructure every annum for the next 20 or 30 years" – and in the power sector. In this context, he said, investors should not look at Africa from the perspective of offering help, but as an opportunity too good to miss. "There is no way you're going to grow your business in the future if you miss out on the African market."

Kobina-Taylor agreed, saying the "investment climate in Africa is ripe". "We believe the time is right for investment to leap into the region. There are areas that are very

critical to our economic growth, areas of infrastructure, energy and more important the public sector, in terms of value addition. When businesses in developed countries enter into the region it's going to be a win-win situation."

But, despite these huge opportunities, only 2.7% of world investment goes to the continent. So why is Africa receiving less than its size would justify? Because "people are afraid of risk," explained Geoff Cook, Chief Executive Officer of Jersey Finance. "In some parts of Africa there is a lack of protection of property rights, problems with corruption, economic challenges and in some cases political instability. And these are, to a degree, deterrent factors in terms of long-term investment. People want certainty, security of capital, security of return."



Minister for External Relations, Government of Jersey, **Sir Philip Bailhache**

We in Jersey are proud of our role as a leading international finance centre: stable, well-regulated and with a strong commitment to the rule of law. As the recent *Jersey Value to Africa* report identifies, this makes us well placed to act as a platform for much needed foreign investment into developing countries.

For such opportunities to be sustainable in the long term, though, it is vital to ensure that developing nations themselves benefit from such investment. This means ensuring that they have in place robust regulatory frameworks and the capacity to adequately raise and collect revenue, enabling them to fund public services and infrastructure development.

Jersey has huge expertise in such matters and is at the forefront of international initiatives on the automatic exchange of tax information. Alongside the investment that Jersey can provide, we believe we can assist developing countries by sharing knowledge and expertise, helping to build their revenue-raising capacity and enabling them to benefit from information exchange initiatives.

What is currently lacking, however, is a route by which the expertise of smaller jurisdictions such as Jersey can be coordinated and put to best use. The roundtable was the start of this discussion. In the coming months we will be working to ensure that the investment and expertise Jersey can provide plays a role in helping developing countries to achieve their great potential.

Chief Executive of Jersey Finance, **Geoff Cook**

When we commissioned *Jersey's Value to Africa* report we were looking to explore two questions: what contribution could Jersey make to African development and what role do international financial centres play in developing countries? Its findings confirmed our expectations that these would be worthwhile questions capable of provoking debate around the investment Africa needs.

While there are still significant problems facing some African countries, the continent is one of the world's fastest growing regions. Furthermore, as other regions face the challenges of ageing populations, Africa is set to see its working age population double in the next 30 years creating an unrivalled boost to its economic capacity.

However, this will only remain an advantage if Africa receives the investment it needs – a cumulative $85 trillion by 2040 – to create the infrastructure, machinery and homes to support that boost. While foreign aid and domestic sources have a part to play, there is still a substantial shortfall and this is where foreign investment needs to step in.

Jersey, with its tax neutrality, robust legal framework and sound judiciary is well primed to facilitate this: providing protection to investors, and, through its strong links with London, access to the capital markets needed by large companies in industries such as mining.

The report also offers a firm riposte to accusations that IFCs facilitate illicit activity in developing countries. While no one would seek to trivialise the impact such activities have, the figures used to condemn IFCs do not bear scrutiny.

Investment into Africa offers a mutually beneficial proposition – the commercial opportunity offered by the continent is substantial – but foreign investment also has the potential to be truly transformational for the continent and its people.

And that's where Jersey finds itself in a position to help, he adds. "What we can provide to countries in Africa is all of those attributes and qualities." While he said Jersey's current links with Africa were "relatively modest", the jurisdiction's expertise in "helping investment flows" could, he said, help "give international investors the confidence to go into Africa in a more meaningful and serious way, so that private capital can help African countries create jobs, wealth and growth for African citizens, as well as a reasonable return for the investment".

"With our expertise and legal framework," he said, "we can help facilitate that kind of investment and provide an important link in the chain, to see a durable investment going into African countries."

John Carlson, the Head of Unit on Automatic Exchange of Information at the OECD Global Forum spoke next, and said securing international investment relied on three major factors: "risk, reputation and perception". "If your reputation as a jurisdiction is solid, if you're perceived by the global community as having a good system of laws in place, measures to combat money laundering, tax evasion, corruption and other things, then that creates a framework in which your investment opportunities are going to increase significantly."

Diarmid O'Sullivan, Action Aid UK's Tax Justice Policy Advisor, agreed, and said there had been some encouraging moves in these areas across Africa in recent years. He said in the past Africa had been on the receiving end of "quite a lot of investment of a rather predatory kind". "One of the very encouraging things, if you look at the global scene at the moment, is the way that a very clear African voice is starting to be articulated about the difference between good and bad investment," he said, citing in particular the work of the African-Union mandated-panel on Illicit Financial

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Flows, headed by former South African president Thabo Mbeki. In particular there had been a "sea-change", he added, in the approach to automatic tax information exchange. "But there is a question of 'does everybody get to participate?'" he asked. "How can we ensure that countries which cannot immediately provide information on a reciprocal basis will be supported and receive the tax information which they need?

It was a point picked up on by Lord McConnell, the former first minister of Scotland, who followed. While he said Jersey was "ahead of the game" in its approach to information exchange, he questioned whether there was "more scope for Jersey to take a leadership role" and "to voluntarily exchange information without waiting on [reciprocal] agreements". "It seems to me that would be a worthwhile lead and an indication of willingness that might then encourage the capacity building we actually need to get formal agreements". Alex Cobham, a research fellow at the Center for Global Development, agreed, saying the question of reciprocity was "a big stumbling block for a lot of countries".

Sabila Din, Chair of the IoD City of London Financial Services Group, agreed with Mr Nkurunziza that the two key areas offering opportunity for investment were infrastructure and power, and said Jersey had a role to play in helping to "create a framework of reputation management, of respect, of comfort".

Lord Chidgey, the Chair of APPG on Africa, spoke next. While Africa is "a tremendous place for opportunity", he said, there is "huge competition, internationally" for investment. "So you have to think about what makes you the most attractive to foreign investors." In this context, he continued, the concept of "bringing in the expertise of a relatively small community, with a huge influence, into business within African countries" is one that "highly intrigues" him. "You come from all the right positions, you know how to operate within the rules, within the Western society. I think it's something that we should really watch with great interest to see how it works."

Ian Swales, the Lib Dem Treasury spokesman in the Commons, and a former global finance director for a chemical company, picked up on the frequent references to 'risk' in the discussion. . "The word is being used lots of times by most speakers, and that's what I want to focus on," he said, describing a recent meeting he had with a Middle Eastern sovereign wealth company which was "looking to invest huge amounts of money". "They showed me their check list. They're looking at issues like currency, they're looking at political stability. They're looking at legal risk, what retrospective laws or future laws might happen. And obviously financial risk; how safe is the money? What levels of corruption? Can you repatriate

Chair of the Africa APPG, **Lord Chidgey**

It's an intriging concept. Jersey as an international financial centre channelling investment into Africa. My experience leans towards the major multinationals, such as in the extractive industries, making billion dollar investments, for the long term. Or the processing giants whose products have a universal demand. Or the institutional investors in essential infrastructure and industrial development.

Jersey to Africa is some distance. Literally and metophorically. The starting point has to be where? With over fifty different nation states and every conceivable race, creed, legal system and government, geography, climate and geology to address, where does the investor start? Well, I imagine that the IFC's investment analysts play a key role here. Coming from the stable of infrastructure development delivery, funded by international institutional investors such as the World Bank, the European Development Bank, the Saudi and Kuwait Development Banks, we dealt solely with State backed investments, and never entertained the quagmire of the private sector.

There is intense global competion for private investment sources and investment decisions are based on ruthless appraisals of the risk to investment, as well as the potential return. Into this mix go the obvious; political and climactic stability, robust and independent legal systems, not just on the statute book, but actually in force. There's not a country in Africa that I can think of which was previously a colony that hasn't carried the coloniser's legal system into statute, in part, at least. But

there are quite a few where it's not practiced.

This is where I believe Jersey brings some key assets to the table in the investment market. Jersey as a British Crown Dependency sits within the family of the Commonwealth. Not only does it practice a well-founded and robust legal system based on probity within the rule of law, it shares this with many other African Nations. It shares the common language of English. Equally important in the commercial world, it shares a common system of accountancy.

I would argue that Jersey's proximity to the United Kingdom and the clear influence of our internationally recognised institutions, promoting transparency in commercial dealing, accountability in investment and banking practice and probity in the market should enable their international financial sector to bring added confidence to potential investors.

There are of course other aspects that Jersey

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IFCs could work with, as recent events in Africa demonstrate. I recall not much more than a year ago, the government of Sierra Leone was forecasting forty percent growth in GDP this year. The Republics of Guinea and Liberia were anticipating the benefits of huge investment in iron ore and other mining. That was before the Ebola epidemic. Just like the HIV/Aids pandemic in Southern Africa, the work force essential to the extractive industries is being decimated.

Under the NEPAD agreements for Africa, governments planned to increase spending on healthcare to 15% of national budgets, starting with community health in the rural interior, in the villages where Ebola is now rampant. It hasn't happened and the outcome is clear.

profits? People are looking at risks not just today or even tomorrow, but predicting what's going to happen in the next 20 years." He said politicians in developing countries "have to do their bit if they want to attract investment, on all these fronts", but added that Jersey, too, can "do a lot with de-risking investment". "But the core of the issue is everyone has to have a long-term, and not a fast-buck, view of this to create the right conditions to enable sensible moves to be taken in the long-term by both politicians, business and financial investors."

Robert Palmer, of Global Witness – an NGO that looks at links between natural resources, conflict and corruption – spoke next. He stressed the importance of investment being accompanied by transparency and accountability mechanisms "that ensure citizens, governments and the companies themselves get the most out of those investments". Of particular importance, he added, was transparency over the ownership of companies. He said "time and time again" his organisation "comes up against the use of secretive, complex company structures to hide corrupt deals or investments", and urged Jersey to follow the lead of the UK Government in establishing a publicly accessible register on company ownership.

Joseph Stead, Christian Aid's Senior

Economic Justice Adviser, agreed with earlier speakers on the importance of information exchange and the need for Jersey to "get on the front foot" and "open up that access to African countries", particularly as "30% of African assets are held overseas, more than most other regions". But he also issued a warning against allowing a damaging "perception" of Africa to persist, pointing out that many countries on the continent "have good rule of law and stability and everything else that investors are looking for". "I think we need to be careful just to make sure that we are creating the right perception of Africa and what those opportunities are for investors in Africa," he said.

It then fell to Colin Powell, Jersey's CBE International Affairs, to conclude and pull together some of the issues discussed. He picked up on some of the other speakers' concerns over the exchange of information, and said he accepted the criticism that "to some extent it has encompassed a kind of wealthy club, and hasn't really extended to the developing countries as yet". "But I think that comes down to bilateral relationships, where we can talk to these countries and assist them in dealing with the automatic exchange of information," he said. And on Lord McConnell's particular suggestion that Jersey take a lead and offer information without expecting reciprocity, he sounded hopeful. As long as "standards

> **"We've got a good product to offer in terms of assistance and advice"**

of confidentiality have been met," he said, Jersey had "no problem making information available and not necessarily calling on those jurisdictions to engage in a whole complex process providing information in the opposite direction".

He said the discussion had highlighted the "huge gap" in terms of the advice and assistance developing countries need, and said many international organisations, such as World Bank, the OECD and the Global Forum were "all saying what they would do, but basically saying 'well we've got limited resources'". "What we need to do therefore is to harness the experience and expertise of individual jurisdictions like Jersey," he continued. "Small countries like Jersey do have a great deal to offer. What we've found is that many of these jurisdictions have the problem that they have limited resources and they're trying to use these limited resources to achieve something. Jersey has limited resources, it's a small island of 100,000 people. And yet it's achieved a great deal, in compliance to international standards.

"It isn't a problem about limited resources, it's really a case of organisation. We feel that we have a lot to offer individual jurisdictions in that respect. We've put out our stall and said we're pleased to participate in a process whereby we assist individual jurisdictions. We can participate in seminars, bringing a number of countries together. We can have people come from those countries to Jersey and learning hands-on what we're doing, and we can send people out to the countries concerned."

But he said Jersey was looking for support to find a way to coordinate the technical assistance on offer and put it to best use. "We've got a good product to offer in terms of assistance and advice. What we're just searching for is for links to get that into action."

As the discussion came to an end, perhaps it was fitting that we returned to a representative from Africa for the final word. Ambassador Nkurunziza said he felt that the "thrust of the conversation had changed" to an "assessment of the legal and political conditions" in the continent. While he said that was a discussion he "was prepared to have any time", he did not think it should be conflated with the issue of promoting investment.

"Jersey is being entrepreneurial," he continued. "They are looking at an emerging African continent, and saying 'this continent is going to need a lot of money. What can we do to help them? For me, this is a question that Jersey can answer, because it is talking about things that lie at its core competence; they are in the business of raising finances and deploying finances across the world. And they are saying how do we do that in Africa? That is what Jersey is trying to do."

Government of JERSEY