PART 1: NARRATIVE REPORT

Brazil is ranked 73rd on the 2020 Financial Secrecy Index, based on a secrecy score of 52 combined with a Global Scale weight, of 0.15 per cent of the global market in offshore financial services.

Telling the story

Brazil has been in a political and economic turmoil in the last 5 years. In 2018, the country elected a far-right president with an agenda of social conservatism and economic liberalization. This election followed a series of economic and political events, such as the deposition of the former President Dilma Rousseff, in 2016, a major corruption scandal, known as the “car wash” operation, that put many prominent politicians in jail, and an economic recession that started in 2014 and persists until this day.

The current economic policy is marked by deep austerity to face the country’s large fiscal deficit. Government budget has suffered major cuts, significantly reducing the funds available for social programmes. As a consequence, the tendency of falling levels of poverty and inequality observed between 2000 and 2013 has been stopped. In 2014, income inequality started to rise again and it is now at the greatest level since it started to be measured, in 1976.

Brazil’s overall position in the financial secrecy ranking (73rd) does not qualify the country as significant provider financial secrecy to the world. Instead of attracting illicit flows from other countries, Brazil tends to be a major exporter of illicit financial flows. The Global Financial Integrity estimates that Brazil lost approximately US $400 billion on illicit financial outflows between 1960 and 2012, which is equivalent on average to 1.5 per cent of Brazilian GDP.

Brazilian economy

In the first decade of the years 2000, Brazil experienced significant GDP growth led mainly by a boom in commodities’ exports. By 2014, around 65% of all Brazilian exports were commodities. The main commodities exported by Brazil are from agricultural, oil, and mining sectors, which are often associated with illicit financial outflows, mainly through trade misinvoicing. A study from the Instituto de Justiça Fiscal (Tax Justice Institute) estimates that, between 2009 and 2015, trade misinvoicing in the mining sector has caused losses of revenue of around US$ 13.3 billion to the Brazilian state. Another study showed that secrecy jurisdictions are widely used by beef and soya producers operating in Brazil’s Amazon.

Moreover, the large expansion of exports in the years 2000s led to a rapid appreciation of the Brazilian currency, which can be associated with a phenomenon known as the ‘Dutch disease’, where the large exports of one sector overly appreciates the national currency in relation to foreign currencies. The appreciated currency makes imports cheaper, reducing the competitiveness of other economic sectors in both national and global markets.
After 2014, with the reduction of the international prices of commodities, the Brazilian economy started to decline, inaugurating a period of recession, marked by a large fiscal deficit and a reduction of tax revenues both at the national and local levels. Many state and municipal governments faced serious financial problems and had to undertake drastic expenditure cuts and postpone payment of salaries, which affected the delivery of basic services.

**ABC of financial transparency**

Despite Brazil not being a significant provider of financial secrecy to the world, the country’s regulations on financial transparency have significant room for improvement. In the recent years, especially since 2016, Brazil has taken important steps to in relation to the ABC of financial transparency – automatic exchange of information, beneficial ownership and country by country reporting. Nonetheless, some relevant gaps remained to be addressed.

One of the areas where improvement is most needed in Brazil, is transparency of beneficial ownership. In 2016, the Brazilian tax authority enacted Normative Instruction 1634/2016, which requires all entities to register their beneficial owners with the tax authority. The regulation defines a beneficial owner as the natural person who effectively controls more than 25% of the capital or shareholdings. However, according to these rules, if four or more natural persons jointly control the entity, with a participation of 25% each, no beneficial owner can be identified.

Moreover, Brazil still has problems with unregistered bearer shares. Although the issuance of bearer shares was prohibited in Brazil since 1900, some residual bearer shares remained. Because these bearer shares are not registered with a public authority, it is not possible to ensure identification of their legal and beneficial owners.

Finally, the issue of country by country reporting also requires some significant improvement in the Brazilian regulations. The normative instruction n° 1.681/2016 of Brazilian tax authority requires multinational companies with a Brazilian controller to file country by country information. However, this information is not accessible to the public. Moreover, the normative instruction does not ensure Brazilian authorities’ own access to country by country reporting of foreign multinational enterprises with domestic operations. Brazilian regulation follows the framework established by the OECD’s BEPS Action 13 which limits the circumstances in which these reports can be accessed and restricts the use of the information only to tax related issues.

Out of the ABC elements mentioned above, the most significant improvements in recent years were made with regard to automatic information exchange as per OECD’s Common Reporting Standard (CRS). Brazil has already signed the Multilateral Competent Authority Agreement (MCAA) to automatically exchange information under the CRS in 2016. It effectively started exchanging information in September 2018 and as of 2019, Brazil has activated exchange relationship with 95 other countries.
Further reading


Endnotes


8 For more information on Local filing of country by country reports, see our methodology for Key Financial Secrecy Indicator 9.
The FSI ranking is based on a combination of a country’s secrecy score and global scale weighting (click here to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: http://www.financialsecrecyindex.com/database.

To find out more about the Financial Secrecy Index, please visit http://www.financialsecrecyindex.com.