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A Vatican watershed on transparency, and a new tool for reformers

John L. Allen Jr. | Jul. 20, 2012 All Things Catholic

For sure, I?m no Nostradamus. To cite just one example of my failures as a prognosticator, in 1999 I published a biography of then-Cardinal Joseph Ratzinger containing four reasons why his election as pope was improbable. We?re now, of course, into the eighth year of his reign.

A month ago, however, I finally got one right.

On June 22, previewing an evaluation of the Vatican?s financial transparency by Moneyval, the Council of Europe?s anti-money laundering body, I wrote: ?The report is probably destined to trigger confusing and conflicting headlines about how well the Vatican did.?

On cue, these headlines ran shortly after the report?s release on Wednesday, July 18:

- Associated Press: ?Vatican passes key financial transparency test?
- AGI: ?Moneyval flunks the Vatican?
- *L?Espresso*: ?Moneyval passes the Vatican?
- RTE: ?Serious failings identified in Vatican Bank?
- *Sunday Times*: ?Report cites progress in Vatican anti-money laundering efforts?

Sometimes the juxtaposition actually came in the same piece. The Italian daily *Il Messaggero* ran a headline (?Moneyval: Still little transparency at Vatican Bank?) which was at odds with its own opening paragraph (?The Vatican Bank is not quite transparent, but almost, the report says.?)

Why the confusion? In reality, the Vatican probably did about as well as was reasonable to expect, but the report contains plenty of criticism too. As a result, it?s a Rorschach test for broader attitudes, open to being spun in whichever direction someone feels like taking.

We?ll get to the results in a moment, but first a word about the historical significance of the process. Without a doubt, the word is: ?Watershed.?

Never before has the Vatican opened its financial and legal systems to this sort of external, independent review, with the results made public. In centuries past, had secular authorities shown up to conduct such a review, they would have been fought off tooth and nail. For Moneyval, the red carpet was rolled out instead.

American lawyer Jeffrey Lena, an advisor to the Vatican on the Moneyval process, told me that evaluators were able to examine records of judicial and diplomatic cooperation, anti-money laundering certifications, accountancy management letters, foundation registry records, and other confidential legal documents. To say that the Vatican traditionally has been reluctant to grant such access is a bit like saying the Tea Party is lukewarm about Obama ? in other words, it really doesn?t do justice to the depth of emotion involved.

I?ll have some thoughts on the broader significance of this watershed below.

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In quick-and-dirty fashion, here?s a summary of the key Moneyval findings.

Evaluators found that the Vatican ?has come a long way in a very short period of time?, and said that ?the Holy See and Vatican City State authorities have cooperated closely with the evaluators, and reacted quickly to remedy a number of the deficiencies highlighted during the first on-site visit.?

The evaluation reflects the situation between November 2011 and January 2012, and the report lauds the Vatican for continuing ?to move forward to improve and modernize its laws and practices? since that time.

Yet evaluators also found that ?important issues still need addressing in order to demonstrate that a fully effective regime has been instituted in practice.?

In light of the Vatican?s checkered history of financial scandals, this finding seems especially key: ?Although there have been recent unsubstantiated allegations of corruption in the media,? the report states, ?there is no empirical evidence of corruption taking place within the Vatican City State.?

(For the record, the media didn?t just invent those allegations. The Vatican?s current ambassador in Washington wrote a letter two years ago, while he was a top official in the Vatican City State, complaining to the pope about ?so many instances of corruption and dishonesty.? The correspondence came to light amid the Vatican leaks scandal, though it?s been described as exaggerated or inaccurate by other officials.)

Overall, Moneyval found that ?the threat of money laundering and terrorist financing is very low.? The report said that three factors, however, increase the risk:

- A high volume of cash transactions and wire transfers. (The report acknowledges that cash transactions ?are an important contributor to the funding of the global mission of the church?.)
- The global footprint of the church?s activities, which include transactions with countries that insufficiently apply transparency standards.
- Limited information on non-profit organizations operating within the Vatican.

The Vatican has said that it?s already initiated a risk assessment in these areas, which presumably will be examined during the next round of Moneyval review.

In evaluating European states, Moneyval uses the 49 benchmarks established by the Financial Action Task Force, founded by the G8. Four were judged non-applicable to the Vatican, while it got passing grades on 22 and failing marks on 23. Most importantly, the Vatican was judged ?compliant? or ?largely compliant?, the highest marks available, on nine of the sixteen ?key and core? standards.

Those results put the Vatican squarely in the middle of the global pack, with scores similar to recent evaluations of Germany, Italy, and the Czech Republic. The Vatican actually earned better scores on the ?key and core? recommendations than 19 of the 29 countries Moneyval has evaluated, and most of those states have been through two previous evaluation cycles.

In other words, the Vatican almost finished in the top third of European nations the first time it took the test.

As a result, the Vatican will not be placed into Moneyval?s ?Compliance Enhancing Procedures,? designed for problem states -- as close as they come to saying that a country has ?failed?. Instead, the Vatican will be subject to the normal follow-up process for states seen as moving in the right direction.

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In terms of deficiencies, Moneyval found that the ?role, responsibility, authority, powers and independence? of a new financial watchdog unit created by Pope Benedict XVI in 2010 need to be clarified and strengthened. At the time, the creation of that watchdog, called the Financial Information Authority, was touted as a cornerstone in Benedict?s campaign for a financial glasnost.

According to the report, the Financial Information Authority lacks adequate powers to carry out its duties. It also lacks the ability to issue sanctions with regard to APSA, the Apostolic Patrimony of the Holy See, one of the Vatican?s two main financial entities, along with the Institute for the Works of Religion, popularly known as the ?Vatican Bank.?

Evaluators found that the Financial Information Authority has not yet conducted any on-site inspections, nor has it done any sample testing of files. The report also said that the watchdog unit hasn?t yet performed an inspection of either APSA or the Vatican Bank, despite the fact that bank officials requested one. Further, evaluators said the number of reports the Financial Information Authority has received regarding suspect transactions is low, even allowing for the small size of the Vatican?s financial sector.

As a result of the Vatican leaks scandal, we know that similar concerns have percolated internally.

Earlier this year, Italian Cardinal Attilio Nicora, the president of the watchdog unit, wrote a confidential memorandum voicing concern that limits on its authority from the Secretariat of State could be seen as a ?step back? on reform, and could ?create serious alarm in the international community.?

On the other hand, some Vatican insiders argue that Nicora isn?t blameless himself. To some extent, they say, the watchdog unit has been slow to get off the mark, not because of internal resistance but because the personnel chosen didn?t know much about the inner workings of the Vatican.

The Vatican has said that new regulations providing inspection powers with teeth for the Financial Information Authority are on the way. Officials say it?s more important to get those regulations right than to get them fast, but when they?re issued, they vow, they?ll satisfy international standards.

Moneyval also proposed that the watchdog unit should inspect not just the Vatican?s own institutional entities, but also the 46 non-profit organizations housed within the Vatican. These are mostly small foundations created by a cardinal or other senior figure to promote some pet project, such as inter-faith dialogue, and are largely unregulated.

On the Vatican Bank, the Moneyval report suggested that it be subject to independent supervision. The lack of such oversight, it warned, ?poses large risks to the stability of the small financial sector of the Holy See and Vatican City State.?

Though there is a Commission of Cardinals that governs the bank, evaluators apparently felt that because the commission is technically a part of the institution, it?s not an objective overseer. In part, this reflects eternal confusion over whether the Institute for the Works of Religion is or isn?t a ?bank?. Commercial banks are normally subject to an external regulatory agency, such as the FDIC in the States, while the IOR is a non-profit public entity.

The question of oversight is especially current in the wake of the late May firing of Italian economist Ettore Gotti Tedeschi as the bank?s president. Gotti Tedeschi had been seen in some quarters as a symbol of the Vatican?s new commitment to transparency, though officials insisted that his removal was a personnel issue related to what they described as ?erratic? behavior and basically not doing his job.

The appointment of a new president for the Institute for the Works of Religion was initially expected quickly, but some observers now believe it won?t happen until Benedict XVI returns from his summer break at Castel Gandolfo in early September.

Moneyval also recommended that a formal statute should set out the kinds of legal and natural persons eligible to hold accounts at the bank, while applauding its internal efforts to review its database of just over 33,000 accounts -- an inspection which actually predates the Moneyval process.

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Wednesday morning, the Vatican official who headed up the team working on the Moneyval evaluation, Italian Monsignor Ettore Balestrero, gave a briefing to the press. Balestrero called the report ?not an end, but a milestone in our continuing efforts,? and said the Vatican takes ?both the praise and the criticism with seriousness.?

In concrete, Balestrero said the Vatican is open to making financial supervision separate from intelligence-gathering, as Moneyval suggested, in order to protect the independence of the review, and to ensuring that the same people aren?t serving both as inspectors and the inspected.

On at least one point, however, Balestrero hinted that the Vatican won?t yield.

The report noted that the Vatican insists on negotiating a bilateral ?memorandum of understanding? with other countries before sharing financial information. On background, Vatican officials have long said they worry that Italy could demand information from the Vatican Bank in order to give Italian banks an unfair commercial advantage, and so it wants an agreement to level the playing field.

Balestrero said on Wednesday this remains the ?right approach for the Vatican, which, as a smaller jurisdiction, wishes to interact on fair and fully reciprocal terms with other countries.?

Balestrero described efforts to satisfy international standards in tracking the movement of money as ?first and foremost, a moral rather than a technical commitment.? He also suggested that the Vatican?s newfound commitment to transparency should ?guide and orient Catholic religious organizations throughout the world?.

Here is the 24-page Executive Summary from Moneyval [1].

For real devotees of financial and legal arcana, here is the full 241-page report [2].

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Standing back from the specifics, here are three final observations about the significance of the Moneyval report.

First, journalists probably need to update their draft obituaries of Pope Benedict XVI. Up to this point, the consensus has been that Benedict is a teaching pope, not a governor, and that his inattention to management has allowed a string of train-wrecks to happen. There?s still truth to that assessment, but we now have independent secular evaluators saying that considerable progress on financial rigor has been made on Benedict?s watch.

Benedict also has launched various reforms on the clerical sexual abuse scandals, and while their effectiveness is still debated, few observers doubt that the Vatican is in a better place today than seven years ago. His record may thus have to be reconsidered: Still primarily a teaching pope, perhaps, but one who?s made management strides in at least a couple of key areas.

As a footnote, one might make a similar point about Benedict?s top deputy, Italian Cardinal Tarcisio Bertone, the Secretary of State. Fairly or not, Bertone has taken a beating in the press over the last seven years for his alleged incompetence, related to such spectacular flame-outs as the Holocaust-denying bishop affair. This time around, however, Bertone?s team managed to avoid snatching defeat from the jaws of victory.

Second, Balestrero is clearly a rising Vatican star. Currently the Under-Secretary for Relations with States and someone seen as enjoying strong support from Bertone, Balestrero will get much of the credit for the Moneyval result.

Born in Genoa, Balestrero, 45, is a diplomat who served in Korea, Mongolia and the Netherlands before coming back to work in the Secretariat of State in 2001. Known as a competent and easy-going guy, Balestrero likes to say that he?s ?half-American? because his mother is from New York. He?s emblematic of a new generation of senior Vatican personnel, comfortable in the world outside the church, including 21st century technology, business practices, and media platforms.

From this point forward, Vatican-watchers probably won?t be able to talk about Balestrero without asking themselves: Are we watching a future Secretary of State in the making?

Third, it?s the nature of the Catholic system that everything a pope does, for good or ill, sets a tone. By subjecting the Vatican to a Moneyval review, Benedict XVI in effect has handed financial reformers across the Catholic world a new club with which to beat recalcitrant officials over the head and shoulders.

From now on, any bishop or religious superior who resists an independent audit; any pastor who drags his feet about proper controls on receipts from the collection plate; any head of a Catholic school, hospital or charity who plays fast and loose with the books; anybody in authority, in fact, who shrugs off concerns about money management; will inevitably face the question, ?If the pope?s open to criticism, why aren?t you??

Whether a sea change in accountability ensues remains to be seen, but even the prospect suggests that the Moneyval process could be of consequence not just for the Vatican, but for the church everywhere.

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Links:
[1] http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL(2012)17SUMM_HS_en.pdf
[2] http://www.coe.int/t/dghl/monitoring/moneyval/Evaluations/round4/MONEYVAL(2012)17_MER_HS_en.pdf