

# Put an end to money laundering, bribery and corruption

## Registers of beneficial ownership are a start, but governments need to do more to eliminate secrecy

By Cobus de Swardt, managing director, Transparency International

**C**orruption around the world is facilitated by the ability to launder and hide proceeds derived from the abuse of power, bribery and secret deals. Dirty money enters the financial system and is given the semblance of originating from a legitimate source, often by using corporate vehicles offering disguise, concealment and anonymity. For example, corrupt politicians used secret companies to obscure their identity in 70 per cent of more than 200 cases of grand corruption surveyed by the World Bank.

For far too long, crooked figures have been able to stash the proceeds of corruption easily in foreign banks or to invest them in luxurious mansions, expensive cars or lavish lifestyles. They do this with impunity and in blatant disregard for the citizens or customers they are supposed to serve.

Importantly, the corrupt are aided by complacent and sometimes complicit governments of countries with banking centres that facilitate money laundering and allow the corrupt to cross their borders to enjoy stolen wealth. Weak government actions are failing to prevent the corrupt from evading justice and have enabled cross-border transfers of corrupt assets. Complacent governments responsible for protecting the public from such criminal acts are de facto supporting impunity for corruption.

Banks, real estate companies and retailers of high-end goods are the final links in this chain, as they facilitate criminal behaviour by accepting illicit money as payment. Even the

recommendations on basic due diligence and record-keeping are frequently overlooked.

The overall problem is huge. According to the United Nations Office on Drugs and Crime, the amount of money laundered worldwide in one year is up to five per cent of global gross domestic product. The ease of laundering and hiding stolen assets is of great concern to Transparency International, as well as many other organisations, governments and citizens. It must be ended urgently.

### An incentive for massive theft

Extensive research by numerous institutions has mapped the systems of money laundering, as well as the activities in international financial havens that permit corrupt individuals to easily set up 'shell' holding companies. They indicate the complicity of all manner of financial institutions and the associated professional firms that handle the cash proceeds of corruption in secret, dark channels.

Take secret companies, for example. Laws in many jurisdictions ensure that the identity of those relocating their money through them cannot be disclosed. This secrecy permits individuals and corporations to hide enormous financial transfers of stolen and illicit funds with few or no questions asked about the real, living person, about who controls the money, or about where they came from. This person is the 'beneficial owner' – not a nominee or another company. In many cases shell companies can be set up in a few hours and then be used to transfer millions or billions of dollars, with virtually

no public oversight to determine the source or the intended recipients of such transfers. This creates an incentive for massive theft of public money to continue, and for the thieves to enjoy the proceeds of corruption.

An inventory of grand corruption cases compiled by the Financial Action Task Force in 2011 showed that politicians and public officials often abuse corporate secrecy. For instance, out of 32 grand corruption cases analysed (including embezzlement, bribery, extortion and self-dealing), foreign accounts were used to hide the proceeds of corruption in 27 cases. In most instances, the assets were hidden in more than one foreign jurisdiction, including countries such as the United States (19 cases), the United Kingdom (13 cases) and Switzerland (15 cases), as well as offshore havens such as the Cayman Islands, Singapore, Hong Kong, Jersey and the Bahamas. Moreover, in 28 cases, the individuals involved (or their families) made use of corporations and shell companies to hide the beneficiaries – those who actually used the money for investments, luxuries and lavish lifestyles.

The good news is that there are glimmers of hope. At the G8 summit last year in Northern Ireland, leaders pledged to "take action to tackle the misuse of companies and legal arrangements". They further produced the G8 Action Plan Principles to Prevent the Misuse of Companies and Legal Arrangements, and members agreed to add to these principles with national action plans.

### Listing beneficial owners of trusts

In October 2013, the UK set the tone. During the Open Government Partnership Summit, UK prime minister David Cameron announced the creation of a central register of the beneficial owners of companies in the UK that would be publicly accessible. In November 2013, the leaders of the UK's 14 overseas territories, including Gibraltar, agreed to consider establishing public registries listing the beneficial owners of trusts and companies. In a communiqué published by the Foreign and Commonwealth Office following the joint ministerial council meeting, the leaders pledged to launch consultations "on the question of establishing a central registry of beneficial ownership, and whether this information should be publicly available".

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Secrecy permits individuals and corporations to hide transfers of stolen and illicit funds with few questions asked about who controls the money

This is a start, but much more action is needed by all leaders on this global threat to economic security. Governments leading the reform of the international financial system should commit to establishing public corporate registers that include beneficial ownership information. The public has every right to know who owns, controls or ultimately benefits from these companies.

Each government should take concrete steps to end corporate secrecy by ensuring

that their existing registers on companies contain beneficial ownership information about the true identity of the person or persons who own and profit from any company, legal trust or foundation.

In addition, those countries with influence over secrecy jurisdictions such as Hong Kong, the Cayman Islands or Jersey, to name but a few, should push these countries to establish public registers of beneficial ownership.

Ending all theft of public money and eliminating bribery as an acceptable way of doing business are indeed complex challenges. Transparency International will continue to work with dedicated individuals in government, the private sector and civil society to seek and implement solutions. Stopping the facilitation of cross-border corruption through secret company ownership is an important step that global leaders can act on in 2014. ■