



UNMASK THE CORRUPT

DENYING SAFE HAVEN TO
THE CORRUPT AND THEIR
ILL-GOTTEN GAINS

Transparency International is a global movement with one vision: a world in which government, business, civil society and the daily lives of people are free of corruption. Through more than 100 chapters worldwide and an international secretariat in Berlin, we are leading the fight against corruption to turn this vision into reality.

www.transparency.org

The **Unmask the Corrupt campaign** is Transparency International's 24-month collective action that is part of a larger initiative tackling the impunity of the corrupt. The No Impunity initiative includes various Transparency International programmes and activities. One of them is to promote robust national judicial systems capable of preventing and punishing corruption. Another encourages the public's creative use of social and political sanctions against corrupt national figures who enjoy impunity from prosecution.

This document provides policy recommendations aimed at tackling the systemic global problems that enable corrupt public officials to exploit company ownership secrecy and so evade critical examination of the corrupt sources of their wealth, make extravagant luxury purchases without proper scrutiny and enter other countries to enjoy their ill-gotten gains without challenge.

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Author: Casey Kelso

Research Assistance: Maira Martini, Matteo de Simone

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Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of June 2014. Nevertheless, Transparency International cannot accept responsibility for the consequences of its use for other purposes or in other contexts.

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WHY IS TRANSPARENCY INTERNATIONAL LAUNCHING THIS CAMPAIGN?

For far too long, corrupt officials have been able to stash their ill-gotten gains in foreign banks and/or invest them in luxurious mansions, expensive cars or elite education for their children with total impunity and in blatant disregard for the citizens they are supposed to serve. They are aided by the complicity and complacency of countries and banking centres that allow illicit financial flows and entry of corrupt persons.

This has to stop. Transparency International and its partners announce the **Unmask the Corrupt** campaign, which aims to end the secrecy that aids and abets the shifting of the proceeds of corruption across borders.

Money and power are not anonymous, nor should they be. Championed by its national chapters, individual members and other activists, Transparency International, the global coalition against corruption, will follow the money wherever it may lead.

This global campaign seeks to unmask the corrupt, meaning the public officials and others who transfer stolen assets abroad. We will name the institutions where the cash is deposited and invested and identify the people, wherever they may reside, who assist the flow of ill-gotten gains to foreign banks and real estate beyond the reach of their nation's legal system.

The **Unmask the Corrupt** campaign calls for an end to the use of secret companies by corrupt individuals to hide illicit finances from law enforcement authorities. Governments should adopt a new global standard for corporate transparency by establishing public corporate registers that include information on who owns, controls or benefits from companies.

Transparency International draws attention to the lawyers, accountants, real estate agents, associated financial brokers and luxury goods dealers who enable the purchase of extravagant symbols of wealth using ill-gotten money from abroad. Governments will be pressed to enforce laws requiring these “facilitators” to know who they are doing business with and to report anything suspicious.

Incentives to be corrupt wane when one cannot enjoy its fruits. The **Unmask the Corrupt** campaign will push to curtail the travel of the corrupt to enjoy the public funds they have embezzled and the corporate bribes they have received in their own countries. Corrupt public officials should be denied entry to foreign havens through public pressure for tighter government scrutiny when issuing visas. Governments should no longer issue passports and visas in exchange for investment without scrutinising the provenance of these funds.

By highlighting the individuals inside the shadowy world of illicit financial flows, Transparency International aims in the long run to detect, denounce and prevent the corrupt's exploitation of gaps in the global system of accountability.

“Every country has a responsibility to put in place effective anti-money laundering measures: anonymous firms and secret bank accounts should not be used to launder the proceeds of corruption. It's a question of integrity, investor interest and of reputation for all countries.”

– Huguette Labelle, Chair of the Board of Transparency International

From a speech to the 2014 Caribbean Conference on the theme “Towards a Corruption-Free Caribbean: Ethics, Values, and Morality”, delivered 19 March 2014.

UNMASK THE CORRUPT

Over the last two decades, Transparency International has been increasingly joined by many other organisations, scholars and activists in its research and advocacy to stop corruption, which amounts to an intolerable tax on us all. Not only does corruption have a corrosive effect on growth and business, it also accentuates inequality and ultimately results in lower levels of human development.¹ Through our surveys we know that a majority of people around the world believe that corruption is getting worse and that their government is too often ineffective at fighting it.²

According to Global Financial Integrity, a non-profit research and advocacy organisation working to curtail illicit financial flows, developing countries lost up to US\$810 billion per year on average through illicit flows from 2002 to 2011.³ Focusing on bribes alone, the most widely quoted estimate of corrupt money received by public officials in developing and transition countries is up to US\$40 billion per year – equivalent to 20 to 40 per cent of flows of official development assistance.⁴

WHAT ARE ILLICIT FINANCIAL FLOWS AND MONEY LAUNDERING?

Illicit financial flows can be defined as the movement of money that is illegally acquired, transferred or spent across borders. The sources of the funds of these cross-border transfers come in three forms: corruption, such as bribery and theft by government officials; criminal activities, such as drug trading, human trafficking and illegal arms sales; and tax evasion and transfer mispricing.

Money laundering is the process of concealing the origin, ownership or destination of illegally or dishonestly obtained money (that is, an illicit financial flow) by hiding it within legitimate economic activities to make it appear legal.

Whether it involves the proceeds of corruption or crime, the problem is huge.⁵ Those who have grown rich through dishonest means can easily transfer their ill-gotten gains abroad with almost total impunity. Despite international standards and national laws, the world's largest and most regulated financial centres have made it easy for corrupt money to flow. Why can't we stop it?

Government action to unmask the corrupt, to prevent the corrupt from evading justice and to bar cross-border transfers of corrupt assets is needed more than ever but is clearly not sufficient. Research by Transparency International and others concludes that some financial institutions and associated professional firms are complicit in helping the corrupt send their cash through secret, dark channels for the purchase of luxury goods and real estate.⁶

¹ "The Impact of Corruption on Growth and Inequality", *Transparency International EU Help Desk Answer* (web), 15 March 2014.

² Transparency International, *Global Corruption Barometer* (web), 2013.

³ Global Financial Integrity, "Illicit Financial Flows from Developing Countries 2002-2011", 2013: <http://iff.gfintegrity.org/iff2013/2013report.html>

⁴ R. W. Baker, *Capitalism's Achilles Heel: Dirty Money and How to Renew the Free Market System* (London: Wiley, 2005).

⁵ Even if these capital outflows are not entirely related to corruption, since they can stem from crimes like drug trafficking, tax evasion or any other illegal activities, they highlight the seriousness of the problem.

⁶ Emile van der Does de Willebois, Emily M. Halter, Robert A. Harrison, Ji Won Park and J. C. Sharman, *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It* (Washington, DC: Stolen Asset Recovery Initiative – The World Bank and UNODC, 2011).

There are key weaknesses in the global system of financial accountability that enable international illicit financial flows, including:

1. poor bank scrutiny of the potentially corrupt;
2. secret company ownership;
3. unrestricted travel for corrupt public officials;
4. unregulated luxury investment.

These institutional “sidesteps” around national and international laws enable the corrupt to transfer their ill-gotten gains across borders and to enjoy their life of luxury with complete impunity. Each problem is described below, with policy solutions and suggestions for campaign action.

1. Watch Politically Exposed Persons (PEPs) more closely

Banks and financial system watchdogs have failed to adequately watch out for abuses by PEPs. A PEP can be an “individual who is or has been entrusted with prominent public functions in a foreign country, for example a head of state or of government, senior politicians, senior government, judicial or military officials, senior executives of state-owned corporations, important political party officials.”⁷

WHO ARE “POLITICALLY EXPOSED PERSONS”?

Politically Exposed Persons (PEPs) are individuals who hold or held a prominent public function, such as heads of state or government; senior politicians; senior government, judicial or military officials; senior executives of state-owned corporations; or important political party officials. The term often includes their relatives and close associates.

Banks and other financial institutions are supposed to treat these clients as high-risk, applying enhanced due diligence both at the start of the relationship and on an ongoing basis, including at the end of a relationship, to ensure that the money in their bank accounts is not the proceeds of crime or corruption.

PEPs have connections and power and are well placed to use the financial system in their favour if they do engage in corruption. PEPs are not necessarily corrupt but must be held to higher standards since they are in positions of power that could be abused. Those PEPs who are corrupt, however, can have lifestyles that are not supported by their salaries. They often send embezzled funds or bribes to foreign countries using companies with bank accounts that are set up in the names of close family members and friends.

On the other side of the deal, many banks rely on “self-reporting” in that they simply ask a person at the time of opening an account whether or not they are a PEP or closely related to one, without any subsequent verification. Some banks screen their clients against commercially available databases with lists of PEPs, although in practice many don’t apply effective screening. Worse, when high-risk PEPs are identified, enhanced due diligence measures are often not taken and “red flags” are not followed up.⁸ Requirements for due diligence under “Know Your Customer” regulations clearly need strong enforcement.

⁷ Financial Action Task Force (FATF) on Money Laundering, *The Forty Recommendations* (Paris: FATF, 2003).

⁸ Organisation for Economic Co-operation and Development (OECD), *Measuring OECD Responses to Illicit Financial Flows from Developing Countries* (web, 2013): www.oecd.org/dac/governance-development/IFFbrief.pdf

WHAT DOES “KNOW YOUR CUSTOMER” MEAN?

“**Know your customer**” is a term used to describe a set of anti-money laundering measures normally mandated by law that are employed by banks and other financial services to document the true identity of a customer/client and their source of wealth to make sure it is legitimate.

In June 2011, a study by the United Kingdom’s Financial Services Authority (now renamed the Financial Conduct Authority) reported how that country’s banks favour huge short-term financial rewards that would far outweigh the reputational downside if the public found out they were handling “dirty money”. The following findings underline the need for dissuasive fines to banks to turn down new business that is not properly vetted:

- One-third of banks in the UK failed to adequately verify the beneficial owners⁹ of their customers.
- Some banks appeared unwilling to reject, or exit, very profitable business relationships even when there appeared to be an unacceptable risk of handling criminal money.
- Around one-third of banks, including the private banking arms of some major banking groups, appeared willing to accept very high levels of money laundering risk despite immediate reputational and regulatory risk.
- Three-quarters of banks failed to take adequate measures to establish the legitimacy of the sources of wealth and funds to be used in business relationships.
- Over half the banks visited failed to apply meaningful, enhanced due diligence measures in higher-risk situations, such as where a customer is a senior foreign politician.¹⁰

In November 2011, the financial regulator Swiss Financial Market Supervisory Authority (FINMA) carried out a review of the due diligence that had been done on funds from Tunisia, Libya and Egypt that were subsequently frozen. It found serious lapses that led to proceedings against four banks.¹¹

On average, the 34 Organisation for Economic Co-operation and Development (OECD) member countries that span the globe, from North and South America to Europe and the Asia-Pacific region, are only partially compliant with Financial Action Task Force (FATF)¹² recommendations on PEP due diligence.¹³ These findings echo those of the reports that Global Witness has published, which detail case studies of banks in major financial centres doing business with corrupt senior officials, executives and other leaders from Angola, Equatorial Guinea, Liberia, Nigeria, the Republic of Congo and Turkmenistan.¹⁴

Clearly, banks can become complicit in the flow of illicit funds around the world, including the proceeds of corruption. Despite extensive anti-money laundering and counter-terrorist financing

⁹ The beneficial owner is the real (natural) person behind the company holding a bank account.

¹⁰ Financial Services Authority, *Banks’ management of high money-laundering risk situations: How banks deal with high-risk customers (including politically exposed persons), correspondent banking relationships and wire transfers* (London: Financial Services Authority, 2011): www.fsa.gov.uk/pubs/other/aml_final_report.pdf

¹¹ Swiss Financial Market Supervisory Authority, *Due diligence obligations of Swiss banks when handling assets of “politically exposed persons”: An investigation by FINMA* (web, 2011): www.finma.ch/e/aktuell/Documents/bericht_peg-abkl%C3%A4rung_20111110_e.pdf

¹² The Financial Action Task Force is an inter-governmental body whose purpose is the development and promotion of policies to combat money laundering and terrorist financing. It is the body that sets and monitors international standards for anti-money laundering regulations.

¹³ OECD, *Measuring OECD responses*, 2013.

¹⁴ Global Witness: www.globalwitness.org/news-and-reports

regulation, banks have routinely proven inadequate in their vetting of the sources of funds deposited with them. Banks and other financial institutions have often found excuses for uncritically accepting funds from PEPs. If they try hard enough, they can usually find some kind of plausible rationalisation for the money to be deposited. Since 2012, banking authorities have increasingly imposed fines on a few banks such as HSBC, Standard Chartered and ING for failing to adequately comply with various laws, including the anti-money laundering regulations demanding heightened scrutiny of PEPs. However, such convictions remain rare and clearly the fines represent only a small fraction of banks' profits and a small fraction of the gains garnered by engaging in illegal, corrupt behaviour.

Transparency International believes that banks must honour the spirit, not just the letter, of laws and regulations, by not constructing arguments to support decisions to accept PEP funds. A key reform is to adopt a law to reverse the burden of proof, making banks place the onus on the individual PEPs to demonstrate to a bank that any disproportionate wealth is derived from legitimate sources, especially if they are investing their assets from another country.

2. End ownership secrecy

Company secrecy laws in many national jurisdictions hamper law enforcement investigations into corrupt individuals who siphon off their ill-gotten gains into foreign bank accounts. Complex, multi-layered structures of companies that own companies that own other companies disguise the true ownership of corrupt monies. This is how the corrupt – with their highly paid helpers – can open bank accounts and transfer cash to make ownership hard to trace. Banks and other financial institutions can be complicit or complacent when they fail to identify the real (natural) person behind the company holding a bank account, known as the beneficial owner. There are also other businesses and professionals who are “facilitators” of these illicit flows of assets. Corrupt public officials and politicians can buy the services of lawyers, accountants and company formation agents who use tricks to hide their clients' identities and illicit funds.

WHAT DOES “BENEFICIAL OWNER” MEAN?

A **beneficial owner** is the real or “natural” person who ultimately owns, controls or benefits from a company or trust fund and the income it generates. The term is used to contrast with the legal or nominee company-owners and with trustees, all of whom might be registered as the legal owners of an asset without actually possessing the right to enjoy its benefits.

An inventory of grand corruption cases compiled by the FATF in 2011 showed that in every case examined, corrupt public officials abused corporate ownership secrecy. The individuals involved or their families made use of shell companies or trusts to hide the actual beneficial owners – the human beings who actually used the monies for lavish lifestyles and luxuries that were far beyond their legitimate income.¹⁵ The risk is heightened when the cost of creating a company in some countries can be very low. Many thousands of “company formation agents” exist worldwide to facilitate company creation and management – even for those with minimal professional experience in business¹⁶ – within a few hours or days, at a cost ranging from a few hundred to a few thousand US dollars.¹⁷

¹⁵ FATF, *Laundering the Proceeds of Corruption* (Paris: FATF/OECD, 2011): www.fatf-gafi.org/media/fatf/documents/reports/Laundering%20the%20Proceeds%20of%20Corruption.pdf

¹⁶ van der Does de Willebois et al., 2011.

¹⁷ Michael Findley, Daniel Nielson and Jason Sharman, *Global Shell Games: Testing Money Launderers' and Terrorist Financiers' Access to Shell Companies* (2012): www.griffith.edu.au/__data/assets/pdf_file/0008/454625/Oct2012-Global-Shell-Games.Media-Summary.10Oct12.pdf

GOVERNMENTS' GROWING AWARENESS OF ILLICIT FINANCIAL FLOWS

At the G8 summit in **June 2013** in Northern Ireland, leaders committed 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 member states agreed to build on these principles with national action plans. In **October 2013**, the UK set the tone for reform. During the Open Government Partnership summit, British Prime Minister David Cameron announced the creation of a public register of the beneficial owners of companies in the UK. In **November 2013**, leaders of Britain’s overseas territories agreed to consider establishing public registers listing the beneficial owners of trusts and companies following a summit in London. In a communiqué following the 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”.¹⁸

Declared one of the priority issues for its presidency of the G20 in **2014**, the Australian government confirms that the G20 Anti-Corruption Working Group is developing principles for actions that G20 countries will take to prevent the misuse and to ensure the transparency of legal entities and arrangements. Implementation is now needed.

Transparency International argues that information about company ownership and other legal arrangements should be available on public registers. However, public registers in and of themselves will only be as good as the information on ownership that they hold. Other regulatory actions are also needed to make these registers meaningful, rather than just a symbolic but ineffective “silver bullet” response. Better enforcement of existing regulations requires effective information collection on company ownership and checks to ensure its accuracy. Governments that do not already have these rules should introduce additional regulations requiring the licensing and yearly auditing of service providers that set up trusts and companies. In this way it will be easier for authorities to make sure they comply with anti-money laundering laws, which require the collection of beneficial ownership information.

Company secrecy isn’t a problem just in the so-called “tax havens” on tropical islands. The vast majority of corporate vehicles found to facilitate money laundering were registered in financial centres in the United Kingdom, the states of Delaware and Nevada in the United States, and other highly developed economies.¹⁹

Of the corporations that make up the Fortune 500, more than half are incorporated in Delaware.²⁰ In the 2011 FATF study, out of 32 grand corruption cases analysed (including embezzlement, bribery, extortion and self-dealing), in 27 cases the corrupt used foreign accounts to hide their ill-gotten gains. In most cases, the assets were hidden in more than one foreign jurisdiction, including countries such as the United States (19 cases), Switzerland (15 cases) and the United Kingdom (13 cases), as well as the Bahamas, the Cayman Islands, Hong Kong, Jersey and Singapore.²¹

¹⁸ Overseas Territories Joint Ministerial Council, *Communiqué*, London, 26 November 2013.

¹⁹ van der Does de Willebois et al., 2011.

²⁰ Lewis S. Black, Jr., “Why Corporations Choose Delaware” (Dover: Delaware Department of State, Division of Corporations, 2007): http://corp.delaware.gov/pdfs/whycorporations_english.pdf

²¹ For more cases please see Stolen Asset Recovery Initiative – World Bank and UNODC, *Asset Recovery Watch Database*: [http://star.worldbank.org/corruption-cases/arw?db=All&field_arw_rec_startyear_value\[value\]=&field_common_moneylaundering_value=All&field_common_uncac_value=All&page=3](http://star.worldbank.org/corruption-cases/arw?db=All&field_arw_rec_startyear_value[value]=&field_common_moneylaundering_value=All&field_common_uncac_value=All&page=3)

CAMPAIGN ASK: *END OWNERSHIP SECRECY*

Transparency International believes all governments should publicly commit to establishing a new global standard for corporate transparency by agreeing that corporate registers should contain public beneficial ownership information.

We ask you to:

- Write to your country's head of government to ask them to end corporate secrecy by passing a law to establish public registers of beneficial ownership detailing who owns, controls or benefits from every company registered under their jurisdiction.
- Sign a Transparency International petition that calls for the facilitators of illicit financial flows (such as real estate agents, lawyers, accountants and company formation agents) to be licensed – and to be prosecuted if they don't register the names of the real owners of the companies they set up.

Updating that study, the OECD found that 27 out of its 34 member countries possess or require insufficient information about company ownership.²² Another study reviewing the issue confirmed that there is a major problem across the European Union. It found that most financial institutions had difficulties in knowing their customers due to company ownership secrecy, complex ownership and legal structures, and unknown clients that are foreign companies or foreign beneficial owners.²³

This growing awareness led to support for beneficial ownership transparency at the European Parliament, which in April 2014 voted overwhelmingly in favour of creating public registers of beneficial ownership across the European Union as part of the review of the EU's 3rd Anti-Money Laundering Directive. By June 2014, G7 heads of state committed in Brussels to ensuring beneficial ownership information is provided to financial and law enforcement agencies.

3. Regulate luxury investments

Many corrupt figures want to display their wealth and wealthy lifestyle by acquiring “badges of wealth” such as luxury homes, sports cars and limousines, yachts, jewellery and other expensive goods. More importantly, such purchases can be used to disguise the illicit origin of wealth. That is, they can clean dirty money, which in turn protects wealth by making it harder for tax and law enforcement authorities to trace.²⁴

²² OECD, *Measuring OECD responses*, 2013.

²³ In 2011, the European Commission hired the accounting firm Deloitte to look into the effectiveness of the current rules to curb money laundering. One of the shortcomings highlighted in the study was the difficulty banks have in identifying an account's beneficial owner. Deloitte, *European Commission DG Internal Market and Services - Budget: Final Study on the Application of the Anti-Money Laundering Directive* (Diegem: Deloitte Bedrijfsrevisoren, 2011): http://ec.europa.eu/internal_market/company/docs/financial-crime/20110124_study_aml_en.pdf

²⁴ OECD, *Money Laundering Awareness Handbook for Tax Examiners and Tax Auditors* (web, 2009): www.oecd.org/tax/exchange-of-tax-information/43841099.pdf

CAMPAIGN ASK: *REGULATE LUXURY INVESTMENTS*

Transparency International believes that governments should establish and enforce the same “Know Your Customer” standards required of banks for luxury retailers, art merchants, company lawyers, notaries, external accountants, real estate agents and company and trust service providers.

We ask you to:

- Write to ask your country’s lawmakers to adopt and enforce laws requiring real estate agencies, financial brokers, and other luxury good dealers to know the real human beings they do business with, to report anything suspicious, and to be punished if they don’t.
- Write to your country’s national association of real estate companies, jewellers’ council or automotive dealers association to ask if they have limits on the amount of money customers can pay in cash and, if not, ask them to support laws putting a cap on huge cash payments.

By using the proceeds from corruption to pay for these luxuries, the corrupt can avoid detection by tax or law enforcement authorities. Traditional methods of money laundering use cash-based businesses such as restaurants and nightclubs, where large amounts of cash are banked. The current trend, however, is to exploit the lack of due diligence in non-financial dealings. Real estate loans to buy property are now the preferred methods for hiding the proceeds of corruption.²⁵

In many countries, those providing company setup services, real estate or luxury goods should be but are not implementing the same standards that the banking sector is supposed to uphold. Art and jewellery merchants, real estate agents, accountants and lawyers: all these professionals are possible corruption facilitators and, as such, anti-money laundering regulations should be equally enforced in relation to them. They, too, must know their clients and conduct due diligence to avoid the risk that corrupt monies will be used to finance purchases that they arrange. Yet across the EU, of all suspicious transactions about illicit financial flows reported in 2010, only 0.036 per cent of them were submitted by real estate agents and only 0.7 per cent by high-value luxury goods dealers (0.03 per cent if we exclude the UK).²⁶

Governments such as Switzerland’s are on the verge of taking a good first step in countering luxury goods and real estate money laundering. There, lawmakers proposed to ban cash payments in excess of US\$107,500 on luxury items such as watches, vehicles and real estate. From 2014, transactions above that amount would have to be processed through a bank rather than in cash.²⁷

In the **United Kingdom**, money laundering regulations were introduced to the real estate sector in 2002, punishing estate agents who facilitate money laundering with up to 14 years in jail. Fines are levied against those failing to sign up to a compulsory register for real estate firms. However, the enforcement of these laws has been ineffective. According to Savills Estate Agents, more than

²⁵ OECD, *Bribery and Corruption Awareness Handbook for Tax Examiners and Tax Auditors* (web, 2013): www.oecd.org/ctp/crime/bribery-corruption-awareness-handbook.htm

²⁶ Author calculations based on Eurostat, *Money laundering in Europe* (web, 2013):

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-TC-13-007/EN/KS-TC-13-007-EN.PDF

²⁷ Catherine Bosley, “Swiss to Ban Big Cash Purchases to Curb Money Laundering”, *Bloomberg News* (web), 27 February 2013.

US\$11.77 billion (£7 billion) in foreign investment was spent on high-end London homes last year.²⁸ Even if only a small percentage of that vast sum is derived from corruption, the problem is still enormous.

Another journalistic investigation revealed an estimated US\$588 million (£350 million) worth of vacant properties on a prestigious London road ranked last year as the second most expensive street in Britain. The empty buildings include a row of 10 mansions worth US\$123 million (£73 million), which have stood largely unused since they were bought between 1989 and 1993. Most of the properties are registered to companies in the Bahamas, the British Virgin Islands, the Channel Islands, Curaçao and Panama, allowing international owners to remain secret.²⁹

4. Block travel by corrupt public officials

Corrupt public officials travel all around the world to spend time in their properties abroad, where they live a life of luxury in total impunity. Denying them entry to prevent enjoyment of their ill-gotten wealth is a strong disincentive and signals the disapproval of the international community. Although several countries possess sufficient legal measures to deny entry or visas to foreign figures alleged to be corrupt, only in a few instances have individuals been denied entry.³⁰

IMPUNITY FOR CORRUPTION: WHAT ARE WE TALKING ABOUT?

Impunity means “getting away with something”, “bending the law”, “not being brought to justice” or “beating the system”. It leads to more than the breaking of legal norms – it triggers the breaking of social contracts and societal trust. Ending impunity can mean “breaking the silence” and “speaking out” where justice has not been served.

The denial of entry to corrupt officials (visa denial) is also a key component of the **G20 Anti-Corruption Action Plan** adopted at the Seoul Summit in November 2010, which aims “to prevent corrupt officials from being able to travel abroad with impunity.” G20 countries developed and adopted the **G20 Common Principles for Denial of Safe Haven** at the Los Cabos Summit. Among the principles are the definition of corrupt conduct, the denial of entry even without a conviction when there is sufficient evidence of corruption to make a determination, and possible extension of the denial to family members and close associates.³¹

However, as of 2014, the principles endorsed by the G20 in Los Cabos have seen the lowest level of implementation and compliance among all commitments made by the G20. According to a Business 20 assessment, none of the G20 members have fully complied and only six members have showed partial compliance. Australia and Russia have promoted international cooperation but have not taken domestic measures to enforce relevant legislation. The European Union, Germany, Saudi Arabia and the United States have all drafted or adopted legislation.

Governments often provide anyone – potentially including the wealthy corrupt – with a visa or even a passport in exchange for investment. Extra scrutiny must be exercised to ensure that the corrupt are not included in legitimate programmes.

²⁸ Olivia Goldhill, “London ‘best city for foreign property investment opportunities’”, *The Telegraph* (web), 19 May 2014.

²⁹ Robert Booth, “Inside ‘Billionaires Row’: London’s rotting, derelict mansions worth £350m”, *The Guardian* (web), 31 January 2014.

³⁰ Transparency International, *Leaving the corrupt at the door – from denial of entry to passport sales*, Policy Paper, 2014 (forthcoming).

³¹ G20, *G20 Common Principles for Action - Denial of Safe Haven* (Los Cabos: G20, 2012): www.g20.org/official_resources/g20_common_principles_action_denial_safe_haven

CAMPAIGN ASK:

STOP THE CORRUPT FROM FINDING SAFE HAVENS

The corrupt should be denied entry to foreign countries where they travel to escape the law in their homeland and where they enjoy the proceeds of corruption.

We ask you to:

- Write a letter to the head of immigration services in your country to ask that they develop criteria on how major corrupt figures can be denied entry into other countries, either by adopting a checklist or scoring system or by compiling a common list of public officials denied entry across all G20 countries.

In your letter, make sure you note that sufficient procedural safeguards must be developed and implemented to prevent abuse. Also ask that extra scrutiny is placed when issuing passports and visas in exchange for investment (so-called “golden visas”).

In the **United Kingdom**, the Tier 1 (Investor) visa programme provides permanent residence to those who invest £10 million in the country for two years. In **Malta**, the government provides its passport – and hence access to the EU – to “high-value” foreigners paying US\$917,418 (€670,000). They need not be residents or invest anything further in the country and nor are their names made public. In **Spain**, the price for residency is lower, at just US\$684,640 (€0.5 million) for a house.³²

In St. Kitts and Nevis, several individuals were found to have gained passports for illicit financial activity under a programme offering citizenship to those who buy at least US\$400,000 in real estate or make a US\$250,000 donation to the St. Kitts and Nevis Sugar Industry Diversification Foundation.³³

³² Pablo Domínguez and Shaheen Samavati, “Spain Woos Deep Pockets: New Law Offers Residency to Foreigners Who Buy Luxury Homes or Create Jobs”, *The Wall Street Journal* (web), 24 May 2013.

³³ US Department of the Treasury – Financial Crimes Enforcement Network, *Advisory: Passports Obtained Through St. Kitts and Nevis Citizenship-by-Investment Program Used to Facilitate Financial Crime*, 20 May 2014.

IMPLEMENT KEY REFORMS

We must globally demand that our governments unmask the corrupt. The public can put pressure on governments to adopt effective reforms to end the illicit flows of embezzled funds and extorted bribes, as well as the travel of corrupt officials across foreign borders. Some of the actions we can take are as follows:

1. Increase bank scrutiny of potentially corrupt public officials as customers

Transparency International believes all governments should ensure the independent, efficient and rigorous supervision of banks and financial professionals. Yet that isn't enough. Banks and other financial institutions have often found excuses for uncritically accepting funds from Politically Exposed Persons (PEPs). Therefore, a key reform is to adopt a law placing the onus on the individual PEPs to demonstrate to a bank that any disproportionate wealth is derived from legitimate sources, especially if they are investing their assets from another country.

2. End the secrecy of company ownership

Transparency International believes the G20 governments leading the reform of the international financial system should collectively establish a new global standard for corporate transparency by each establishing public corporate registers that include beneficial ownership information. Each government should take concrete steps to end corporate secrecy by enforcing existing requirements to collect beneficial ownership information regarding the true identity of the human beings who own and profit from companies, while increasing the transparency of trusts to avoid their misuse for money laundering purposes.

Governments should also facilitate improvement in the due diligence conducted by the "facilitators" of illicit financial flows, including casinos, real estate agents, lawyers, accountants and company formation agents, through stricter laws requiring the licensing of service providers who form trusts and companies. Under such licences, a yearly audit can make sure service providers fulfil a legal obligation to collect beneficial ownership information, with active prosecution of those who don't.

3. Regulate luxury investments and enforce existing regulations

Transparency International believes that the purchase of luxury goods such as very expensive real estate, jet planes and other upscale vehicles by the corrupt should be ended. To do this, governments should adopt and enforce laws requiring real estate and associated financial brokers, as well as other high-end luxury goods dealers, not to accept cash above a certain large amount, to know who they are doing business with and to report anything suspicious. If the facilitators do not do this, they should be punished: governments should impose penalties and administrative sanctions (including criminal convictions of individuals) that are severe enough to act as a deterrent.

4. Block the travel of corrupt public officials

Governments can and have prevented the travel of the corrupt – but separately and in an ad hoc way, without any real plan or system. In 2012, the G20 set out clear principles to deny the corrupt safe haven in their countries. However, it is unclear how this will operate across different jurisdictions with different legislation. The first major step would be to develop criteria on how major corrupt figures will be denied entry into other countries, then to adopt a checklist or scoring system based on those criteria, with sufficient safeguards in place to prevent abuse. Another approach would be to compile a list of public officials denied entry across all G20 countries. After having publicly announced the creation of an "experts' network" for the denial of entry to corrupt officials in September 2013, the G20 governments should now reveal who the experts are and how they will work together. Going public with information is the next step to make progress.

JOIN TRANSPARENCY INTERNATIONAL'S UNMASK THE CORRUPT CAMPAIGN

Greedy and corrupt figures are enjoying unearned riches and lavish lifestyles, often in full view of the public. Ordinary people, meanwhile, are the ones who indirectly suffer every day as a result of this abuse of entrusted power for private gain. And the corrupt will continue to try and get away with it as long as they believe they can benefit from their ill-gotten gains with total impunity.

The corrupt should be unmasked and brought to justice. No longer should corrupt individuals or the companies they set up be able to use complex structures and trails of paperwork to hide large amounts of money, keeping the public in the dark.

By standing together, we have the power to make a difference in ending the secrecy around illicit financial flows. We will pressure governments to take action. We will demand that legal solutions be adopted and justice be done. Corruption must not pay, and it is time we stopped tolerating the impunity granted to the corrupt.

Transparency International's **Unmask the Corrupt** campaign will unite many thousands of anti-corruption activists around the world with businesses and public leaders. Together, we can undertake powerful and innovative actions. Transparency International will partner with parliamentarians, investigative journalists and civil society organisations for advocacy with governments and inter-governmental organisations such as the G20, OECD and FATF.

In the course of the **Unmask the Corrupt** campaign, Transparency International will ask for:

- the end to corporate secrecy that masks corruption, through mandatory public registration of the beneficial owners of companies and increased transparency of trusts;
- the barring of the entry, long-time residency and granting of citizenship to those demonstrated to be corrupt, despite the wealth that they would ostensibly invest;
- the strong enforcement of laws requiring real estate and property professionals, financial brokers and other luxury goods dealers not to accept large amounts of cash, to know who they are doing business with, and to report anything suspicious.

We will speak out in the media to highlight the movement of illicit assets occurring under the radar and bring together activists to denounce the current abuses of corrupt officials. We will take our messages to governments and the international corridors of power, as well as to corporate leaders and business associations, to ask them not to tolerate corrupt individuals transferring their ill-gotten gains across borders to buy luxuries to enjoy. Together, our voice cannot be ignored.

Transparency International
International Secretariat
Alt-Moabit 96, 10559 Berlin, Germany

Phone: +49 30 34 38 200

Fax: +49 30 34 70 39 12

ti@transparency.org

www.transparency.org

blog.transparency.org

[facebook.com/transparencyinternational](https://www.facebook.com/transparencyinternational)

twitter.com/anticorruption