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UK Anti-Corruption Summit: Key Policy Recommendations from Global Witness

The UK will host an historic Anti-Corruption Summit on 12 May 2016. In his speech announcing the Summit, the UK Prime Minister described corruption as “one of the greatest enemies of progress in our time.”¹ Meanwhile, the recent revelations from the Panama Papers have thrust offshore secrecy and corruption into the international spotlight. So this Summit offers an historic opportunity for governments to agree steps which will tackle the systemic causes of this problem, and cut off the poverty and instability it causes at the source.

As shown recently in Ukraine and the Middle East, corruption props up abusive regimes, keeps fledgling economies dependent on foreign aid, and deprives populations to the point where they pour onto the streets in violent protest. Those that fall sick are left with no hope of healthcare. Thousands of children are forced out of school, losing hope of getting an education or earning a decent future living in the future. Many others are ultimately forced to flee their countries or driven to extremism.

This is as bad for global economic and political security as it is for development overseas. IMF research has shown that improving financial transparency has a direct positive impact on credit ratings, especially in the developing world.² Meanwhile, it is estimated that £33bn is lost to corruption and other financial crimes across Africa every year.³

The ability to hide and move dirty money through the financial system without detection makes grand corruption possible – so this is what the Summit must address. The UK has led the rest of the world by introducing several ground-breaking anti-corruption policies and encouraging others to follow suit, but big blind spots remain. It should use the Summit to plug the gaps and build on progress to date by ensuring other governments also adopt measures which will help weed out corruption at the root.

In short, our policy calls are:

- **End the abuse of anonymous shell companies:** Governments should require information on the people who own and control companies – their “beneficial owners” – to be made public, in an open data format. In particular, the UK must focus on getting its tax havens, or “Overseas Territories and Crown Dependencies” (OT/CDs), to adopt this transparency standard, which has been implemented in the mainland UK.
- **Stop rolling out the red carpet to the corrupt:** Governments should ensure they are not granting visas or citizenship to corrupt individuals.
- **Shut the door on dirty money in UK property:** The UK government should announce measures that will lead within a year to the enactment of robust, “fit for purpose” legislation aimed specifically at preventing corrupt individuals from purchasing property in the UK. The UK should urge other governments to adopt similar measures to keep corrupt money out of their own property markets.

Company ownership transparency

The problem: The ability to use anonymously-owned shell companies to hide and move suspect funds through the global financial system lies behind some of the worst problems of our time. Tax evaders, money launderers, terrorists, corrupt dictators and lots of other criminals use these “getaway cars” to launder money and evade detection by the authorities. The UK’s tax havens are among the most popular places in the world to do this, according to the World Bank and others.

Proposed solution: Governments should require information on the people who own and control companies – their “beneficial owners” – to be made public, in an open data format. In particular, the UK government should ensure that its OT/CDs do this, if necessary by requiring them to do so.

Background:

- A World Bank study which reviewed over 200 instances of large-scale corruption between 1980 and 2010 found that anonymously-owned companies were used in 70% of these cases.⁴ The UK’s OTs/CDs topped the list of places to set up these companies. Broken down by jurisdiction, the British Virgin Islands (BVI) was second-most popular, the Cayman Islands the ninth. Bermuda and Jersey joint eleventh and the Isle of Man nineteenth. This bears repetition: the BVI, a tiny jurisdiction in the Caribbean with just 28,000 inhabitants represented more than 11% of the corporate vehicles that were used in the grand corruption cases.
- These findings were backed-up by the revelations of the Panama Papers, in which half of the companies incorporated by the Panamanian law firm Mossack Fonseca were domiciled in the BVI.
- No matter what BVI officials may say about how good their system is for collecting beneficial ownership information, something is clearly going very wrong. A big part of the problem is the secrecy of the information.

Below are a few examples – taken from a large repertoire – of problems associated with the opacity afforded by incorporating in the OTs/CDs:

- The people of the Democratic Republic of Congo lost out on an estimated \$1.5 billion (equivalent to twice its health and education budgets combined) through the secret sale of state-owned mines to BVI companies.⁵
- The son of Equatorial Guinea’s President used anonymous companies in the BVI to buy a \$30 million private jet, despite earning an annual salary of approximately \$60,000.⁶
- A 36 storey skyscraper on 5th Avenue in Manhattan was ‘secretly owned and controlled’ by the Iranian government, in contravention of sanctions against Iran, using companies incorporated in the channel island Jersey and New York.⁷
- Anonymous company owners lay behind the BAE bribery scandal and the collapse of Northern Rock⁸.

In order to end the abuse of anonymously-owned companies, governments need to introduce public registries of the real, “beneficial” owners of companies, as the UK itself has committed to doing. It is essential that this information is in the public domain, as opposed to only being accessible to the police or other law enforcement authorities. For more on this issue, see our briefing on tax haven transparency.

Denying entry to the corrupt

The problem: The UK and other major powers enable and incentivise corruption overseas by allowing those responsible to come to their countries and spend the money they have stolen, often gaining citizenship in the process. The corrupt use our property market, education and legal systems to launder their reputations, send their children to school and funnel money out of their home states. This brings poverty and instability to countries like Syria and Ukraine, in turn triggering unrest and posing real and direct threats to our security.

Proposed solution: Governments should ensure they are not granting visas or citizenship to corrupt individuals. Specifically:

- A. Governments should agree to a common set of ‘integrity’ checks on applicants to ensure residency permits – in particular investor or ‘golden’ visas – are not open to the corrupt.**
- B. The UK government should also work with like-minded states to develop and publish a list of individuals who are banned on the basis of credible evidence of high-level corruption.**

Background: Governments can “deny safe haven” to the corrupt – either by proactively banning an individual or refusing to issue them a visa on application. This sends a strong deterrent message by condemning the corrupt and confers pariah status on them. Practically, it cuts access to the perks that their stolen wealth can bring – shopping sprees, mansions, expensive schooling, yachts and art collections.

There has been progress on this issue, but it is uneven. In 2010, G20 countries committed to deny safe haven to corrupt officials and those that seek to corrupt them by making changes to their immigration laws.⁹ However, the commitment is poorly implemented and loopholes in enforcement remain, while states outside of the G20 are under no obligation to act.

Investor visas – where the right to live in a country is given in return for investment – pose a particular challenge. Recent revelations have demonstrated how these visa schemes have been exploited by corrupt officials to claim safe haven and, in some cases, citizenship.¹⁰

The UK government has recently acknowledged the risks in investor visa schemes and taken steps to tackle their abuse in the UK.¹¹ These steps are welcome, but without harmonisation across the EU and elsewhere, they risk being undermined.

A standardised approach is needed. Governments should agree a set of common ‘integrity’ criteria to use as the basis for denying entry and begin to implement this. The criteria should include anti-money laundering, reputational, criminal and security checks. To guard against political interference, governments should guarantee due process safeguards to anyone denied a visa on corruption grounds, by providing the right to respond.

At the Summit, governments should also develop and publish a list of the most egregious cases of corruption and agree to decline entry to those responsible, as the US has done, to send a high-level signal that kleptocracy is no longer accepted by the international community.

Transparency around UK property ownership

The problem: Vast swathes of the UK's property market are owned anonymously, often by secret companies in offshore jurisdictions. This makes it easy to launder dirty money through property ownership and leaves the door wide open for corrupt to live here without fear of identification. This brings poverty and instability to developing countries, in turn triggering unrest and posing threats to our national security.

Proposed solution: The UK government should, before or at the Summit, announce measures that will lead within a year to the enactment of robust, "fit for purpose" legislation aimed specifically at preventing corrupt individuals from purchasing property in the UK. At the Summit, the UK Government should urge other countries to adopt similar measures to keep corrupt money out of their own property markets.

Background: The Prime Minister has already acknowledged the extent of the problem of dirty money in UK property and has expressed his determination to combat it. In his July 2015 Singapore speech, he said: "I'm determined that the UK must not become a safe haven for corrupt money from around the world. We need to stop corrupt officials or organised criminals using anonymous shell companies to invest their ill-gotten gains in London property, without being tracked down. People like convicted Nigerian fraudster James Ibori, who owned property in St John's Wood, Hampstead, Regent's Park, Dorset all paid for with money stolen from some of the world's poorest people. So we have got to find ways to make property ownership by foreign companies much more transparent. There may be a number of ways we can do this, for example extending what we currently ask of UK companies to foreign companies too. And we will consult on the best way forward."¹²

These consultations are now underway.¹³ Their end result should require all companies (non-UK and UK) to submit, before completing a purchase on a property, information about their real or "beneficial" owners, and this information should be made public. They also should require all property currently owned by non-UK companies – currently valued at over £170 billion¹⁴ – to be subject the same requirements. Global Witness is engaging with the UK government to help shape this legislation so that the Prime Minister's aims for a more transparent property market are realised after the Summit.

At the Summit, the UK government should call on other governments in attendance to follow its lead in this area by ensuring that there is transparency around their own property markets. The US Treasury is currently trialling a requirement for the collection of beneficial ownership information from cash purchasers and anonymous companies for US real estate.¹⁵ Other governments should follow suit.

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- ¹ See the Prime Minister's "Tackling Corruption Speech" delivered in Singapore, 28 July 2015, <https://www.gov.uk/government/speeches/tackling-corruption-pm-speech-in-singapore>.
- ² Escolano, J. and Arbatli, E., "Fiscal Transparency, Fiscal Performance and Credit Ratings, IMF Working Paper No. 12/156", 2012, <https://www.imf.org/external/pubs/cat/longres.aspx?sk=2599>.
- ³ The Guardian, "Africa losing billions from fraud and tax avoidance", February 2015 <http://www.theguardian.com/global-development/2015/feb/02/africa-tax-avoidance-money-laundering-illicit-financial-flows>.
- ⁴ See the World Bank report "Puppet Masters" 2011, Appendix B, <http://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf>.
- ⁵ Global Witness report, "Out of Africa", May 2016, <https://www.globalwitness.org/en/reports/out-of-africa/>.
- ⁶ Global Witness report, "Secret Life of a Shopaholic", November 2009, <https://www.globalwitness.org/en/campaigns/corruption-and-money-laundering/banks/secret-life-shopaholic/>.
- ⁷ Global Witness, "Great Rip Off Map", <http://greatripoffmap.globalwitness.org/#!/case/57949>; see also "U.S. Attorney announces court judgment finding midtown office building secretly owned and controlled by government of Iran subject to forfeiture for violations of the Iranian Transactions Regulations And Money Laundering Offenses", <http://www.justice.gov/usao/nys/pressreleases/September13/AlaviSummaryJudgmentPR.php>.
- ⁸ See: <http://news.bbc.co.uk/1/hi/business/7256431.stm>
- ⁹ See: http://www.oecd.org/daf/anti-bribery/G20_Anti-Corruption_Action_Plan.
- ¹⁰ See for example, David Sherfinski, "Issues of corruption, fraud in investor-visa program date back two decades", The Washington Times, 18 February 2014; www.nytimes.com/2012/04/16/opinion/reform-the-eb-5-program.html?_r=0; Jennifer Graham, "Loss of Immigrant Investor Program for all provinces except Quebec angers Wall", The Canadian Press, 12 February 2014; Sophia Yan, "Canada kills investor visa popular with Chinese", CNN, 25 March 2014; US department of the Treasury, Financial Crimes Enforcement Network. "Passports Obtained Through St. Kitts and Nevis Citizenship-by-Investment Program Used to Facilitate Financial Crime." 20 May, 2014; Philip Wen, "Corrupt Chinese officials flee overseas, some bound for Australia", The Sydney Morning Herald, 25 February 2014; Heather Timmons, "Beijing goes hunting for overseas real estate bought with dirty money", Quartz, 5 November 2013; 'The Economist, 'Portugal's Visa Scandal – Buying their way in', <http://www.economist.com/news/europe/21633854-schemes-effect-sell-visas-rich-foreigners-come-under-fire-buying-their-way>.
- ¹¹ Transparency International UK, "Gold rush: Investment visas and corrupt capital flows into the UK", October 2015, <http://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk>; Statement of Changes in Immigration Rules, February 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407476/HC_1025_Immigration_Rules.pdf; Transparency International UK, "Zero scrutiny over thousands of high net worth foreign individuals in UK", February 2016, <http://www.transparency.org.uk/press-releases/zero-scrutiny-over-thousands-of-high-net-worth-foreign-individuals-in-uk>.
- ¹² Prime Minister's "Tackling Corruption Speech" delivered in Singapore, 28 July 2015, <https://www.gov.uk/government/speeches/tackling-corruption-pm-speech-in-singapore>.
- ¹³ Department for Business, Innovation & Skills, "Property ownership and public contracting by foreign companies: improving transparency", March 2016, <https://www.gov.uk/government/consultations/property-ownership-and-public-contracting-by-foreign-companies-improving-transparency>.
- ¹⁴ The Guardian, "Revealed: the tycoons and world leaders who built secret UK property empires", April 2016, <http://www.theguardian.com/news/2016/apr/05/panama-papers-world-leaders-tycoons-secret-property-empires>.
- ¹⁵ New York Times, "U.S. Will Track Secret Buyers of Luxury Real Estate", January 2016, http://www.nytimes.com/2016/01/14/us/us-will-track-secret-buyers-of-luxury-real-estate.html?_r=0.