

U4 Expert Answer



Corruption and the international financial system

Query:

How do corrupt or undemocratic regimes use the international financial system to support the exploitation of their state's assets in order to enrich themselves?

Purpose:

We are conducting a project to review our government's abilities to implement effective financial sanctions against corrupt regimes, for abuses of human rights or democracy. This information is meant to help design and incorporate possible smarter sanctions against corrupt regimes.

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Summary:

Corrupt regimes use the international financial system in two major ways, both to divert national wealth for their own benefit and to conceal the proceeds of

corruption and illicit gains. Without access to the international financial system, they wouldn't have the means and incentives to loot state's assets on such a scale.

To hide stolen money, corrupt leaders use similar money laundering techniques and subterfuges as those used by tax evaders, terrorist and organised crime groups. These include unscrupulous wire transfers, the use of a complex web of shell corporations and trusts in bank secrecy jurisdictions, as well as a wide range of elaborate legal and financial schemes devised to route illicit flows into the mainstream banking system and conceal the true ownership of the funds.

The looting of state's assets and laundering of the proceeds of corruption would not be possible without the complicity of a complex network of professionals such as bankers, lawyers, import-export agents, accountants and other financial intermediaries that exploit the highly secretive and under-regulated global financial structure to protect their clients' interests.

Case studies from Pakistan, Mexico and the Republic of Congo – among others - illustrate how illicit flows and state's assets looting are made possible by loopholes in

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the international financial system, global financial opacity and the lack of enforcement of due diligence requirements both in secrecy jurisdictions and in major financial centres.

Part 1: How is Stolen Money Hidden in the International Financial System?

The Scale of the Problem

The Monterrey Consensus identifies the mobilisation of domestic resources for development a priority for developing countries and this implies that effective measures are taken to tackle capital flight and illicit financial flows¹. Although there are no accurate statistics on the scale of the problem, corrupt leaders of poor countries are believed to steal as much as USD 40 billion every year and place these looted funds overseas, exploiting loopholes in the international financial system. (Please see: [Combating Money Laundering and Recovering Looted Gains](#)). For Africa alone, although the value of capital shifted from the continent over the past decade is not known, it has been estimated that the African political elite holds somewhere between USD 700 billion to USD 800 billion in offshore financial centres (Please see: [Capitalism's Achilles Heels](#)).

Illicit financial flows encompass all proceeds generated by the illicit economy and are usually classified in three categories: proceeds of criminal activities, corruption and tax evasion. The annual value of illicit financial flows from developing countries alone is estimated at approximately USD 900 billion, based on Raymond Baker (Global Financial Integrity)'s estimates using macroeconomic trade data from the IMF and the World Bank. (Please see: [Illicit Financial Flows from Developing Countries: 2002-2006](#)). While research on illicit flows do not link official statistics to the underlying activities - whether legal or illegal- that generate the illicit flows, the cross border component of bribery and theft by government officials is believed

¹ Illicit flows refer to both the proceeds of illicit activities and the proceeds of licit business that becomes illicit when transferred across borders in contravention of applicable laws and regulatory frameworks.

to amount about 3 % of the global total of illicit financial flows.

The International Financial System and the Exploitation of State's Assets

Corrupt leaders sustain themselves by diverting state assets for their own benefit, maintain control over national wealth and retain political power. While this is true for many developing countries, it is especially acute in resource rich countries, where the substantial revenues derived from natural resources have been captured by small elite. Global Witness recent report [Undue diligence: how banks do business with corrupt regimes](#) emphasises that corrupt regimes would not be able to loot natural resources and other state assets on such a scale if they wouldn't have access to the international financial system.

The report provides several examples on how corrupt leaders instrumentalise the international financial institutions to loot state's assets for their private gain. A common practice in resource rich countries consists in using the international financial system to raise funds using natural resource revenues as collateral. These funds can then be siphoned or used to retain power and sustain undemocratic regimes.

For example, in **Angola**, multimillion dollar loans from private banking and investment firms are believed to have facilitated the mismanagement and embezzlement of oil revenues by the elite in the country. Resource backed loans have allowed the regime to mortgage future oil revenues in return for instant cash, with major financial institutions providing huge loans to the state oil company, Sonangol, in return for a guaranteed share of Angola's future oil revenues. For the banks, this constitutes a safer way of providing loans to unstable regimes, while this provides the corrupt elite with new opportunities for corruption, as there is little transparency on how these funds are being spent.

Global Witness' report also exposes the opaque relationships between the Deutsche Bank and **Turkmenistan's** late dictator and president-for-life, Saparmurat Niyazov, who died in December 2006. According to the report, Turkmenistan is the only country in Global Witness' experience where none of the natural resource wealth appears on the government's budget. Deutsche Bank was holding accounts of the Turkmen Central Bank and was reported to manage Turkmen foreign currency assets,

such as the Foreign Exchange Reserve Fund (FERF), allowing the regime to keep the oil revenue offshore and off the national budget. Billion of gas revenues were reportedly being kept on these accounts. Allegedly, these funds were under the effective and discretionary control of President Niyazov himself and had been captured both for his own benefit and to sustain his repressive regime.

These examples illustrate how the combination of weak institutions and the services offered by the international financial system provide corrupt politicians good opportunities to loot state's assets and conceal their illicit gains.

The International Financial System and the Laundering of Stolen Resources

The international financial system is also used by corrupt regimes to hide and launder the proceeds of corruption. Corrupt leaders use similar money laundering² techniques as those used by organised crime, tax evaders and terrorists to conceal the proceeds of corruption and bribery. Money laundering consists in moving assets derived from an illegal act - including corruption- into the legitimate economy through a series of financial transactions aimed at disguising the origins of the funds.

Money laundering activities typically involve three major steps, namely the placement - where funds enter the legitimate financial system - ; the layering - where they are moved through the international financial system via a series of transactions- ; and the integration stages - where proceeds of crime are moved back into the legitimate economy once its origins have been disguised.

The techniques used for corrupt transfers take advantage of the integrated global financial structure that facilitates the movement of illicit flows. This global structure includes tax havens, secrecy jurisdictions and a wide range of services offered by banking institutions

² As adopted in the general assembly in 1995, Interpol defines money laundering as “*any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources*”.

in the form of multiple accounts, secrecy products, disguised corporations, anonymous trust accounts, fake foundations, credit, correspondent banking, etc. (Please see: [Private banking and money laundering: a case study of opportunities and vulnerabilities](#)).

Placement of Criminal Proceeds

The placement of criminal proceeds consists in placing illicit funds in one or more legitimate financial institutions, domestically or internationally. This constitutes the easiest stage to detect money laundering activities, when the money moves into the financial system for the first time.

Multiple accounts

The international financial system is characterised by its complexity which makes regulatory oversight and law enforcement difficult. Financial Institutions typically allow their clients to have multiple accounts, in multiple locations under multiple names - their own or the name of shell companies - , which makes it difficult to aggregate the information and have a comprehensive understanding of their own clients' accounts. As there is a risk for money launderers to raise suspicions about the size and source of income, none the least because some regulations require reporting over a certain amount of cash handled, large deposits can be split into smaller deposits in different financial institutions or accounts or mingled with the deposits of a legitimate business.

Payment of bribes in offshore financial centres

In many cases of international bribery, bribes are deposited directly into offshore accounts, such as in the case of the Elf scandal, where ten millions of bribes were paid in the offshore accounts of public officials. (Please see: <http://www.definesolutions.org/SonyKapoorIllicitFinanceTaskForce1Br.pdf>)

Secrecy products

Some private banking institutions offer their clients special secrecy products and services with the view to shielding the client's true ownership of funds. Such type of services includes the establishment of offshore trusts, shell corporations, special name accounts and codes used to refer to the client or fund transfers. The banker may also open accounts in the name of offshore

entities or use special codes or numbered account to conceal the client's true identity. The bank may also conduct the client's businesses through accounts that commingle various funds. In some cases, private banks maintain record offshore, in secrecy jurisdictions that limit corporate, banking and financial disclosure to minimise or eliminate information.

Shell corporations, anonymous trust accounts, etc

Shell corporations are companies which serve as a vehicle for business transactions without itself having any significant assets or operations. In some jurisdictions they are also known as International Business Corporations (IBCs), Personal Investment Companies (PICs), front companies, or "mailbox" companies. Shell corporations are often registered in secrecy jurisdictions where it is possible to obscure who owns a corporation. Some countries allow the real owners of trading entities to hide behind nominees and trustees.

These companies can be used for corrupt practices and asset stripping. In resource rich countries, the looting of natural resources has been made possible by transferring valued asset of oil and gas holdings to offshore companies owned and controlled by relatives of the firm manager. In Russia for example, government officials and private shareholders of Gazprom have suggested that valuable assets such as gas fields have been transferred improperly to outside companies such as Itera – a company registered in Jacksonville, Florida – who emerged from nowhere as a major player in the gas and oil sector. As a result, significant shares of the Russian oil and gas industries are parked in British off shores islands and in the Caribbean. The profits of these businesses then flow with greater ease through the banking sectors of these offshore locales.

(Please see: [The International dimensions of corruption: the Russian case](#))

Anonymous trust accounts can also be set up behind nominees and trustees to disguise both the donor and the beneficiary of the trust. **Fake foundations** can also be established, so that the donor designates himself as the beneficiary of the charity. In some cases, a **flee clause** allow the "fake" owners of a corporation to flee the entity from one secrecy jurisdiction to another, should any one attempts to investigate the real owner of the business.

The Layering and Integration of Criminal Proceeds

The **layering stage** of the money laundering process involves separating criminal proceeds from their source by using different layers of financial transactions to break the link with its origins, hide the audit trail and provide anonymity. This stage involves a series of financial transactions where the money is moved by electronic or wire transfers through the financial system to make it difficult to trace. Funds are typically moved through a combination of front companies or shell corporations operating from financial tax havens and/or redistributed through a series of account in smaller amounts.

At the **integration stage**, criminal proceeds are placed back into the legitimate economy in such a way that they appear to be normal business funds. At this stage, funds are finally made available for use and return to their owner in the form of a legitimate income, such as profit from a shell company, or mixed with the profit of a legitimate business.

There are many different techniques that can be used to facilitate the movement of illicit flows:

Unscrupulous wire transfers

These typically involve a financial institution transferring money out of a country illegally. In some cases, banks facilitate complex wire transfers from multiple accounts to multiple destinations to allow quick and complicated movement of substantial funds across jurisdictional lines. There have been instances where banks have misreported the source, destination or ownership of funds to conceal illegal transactions.

For example, the US General Accounting Office investigations found that private banking personnel helped Raul Salinas, the brother of former Mexican President, to transfer USD 100 million out of Mexico in a manner that effectively disguised the money's source, destination and ownership. ((Please see: [Private banking and money laundering: a case study of opportunities and vulnerabilities](#)). More recently, Lloyds was fined USD 350 million by the American Authorities for deliberately "stripping" customer information from dollar wire transfers made on behalf of Iranian, Libyan and Sudanese banks into the US.

(Please see: [Undue diligence: how banks do business with corrupt regimes](#)).

Private Banks are especially vulnerable to money launderers. As they typically target wealthy clients, their financial transactions usually involve large sums of money. They routinely facilitate large wire transfers and provide quick, confidential and hard to trace movement of money. These services are likely to attract money launderers who look for adequate venues to move large sums of money without attracting notice.

Concentration or Suspense Accounts

In some instances, some private banks have used *concentration or suspense accounts* to move their clients' funds, which are special accounts established for administrative purpose. This practice results in conducting client's business through accounts that commingle various funds, impeding the monitoring and tracing of client activity and assets. In some cases, funds can be moved through the concentration account and onto another destination without even ever passing through an account belonging to the client. In Raul Salinas' case for example, the Citibank used a concentration account to move over USD 80 millions.

Falsified or mis-pricing

These techniques constitute one of the most commonly used techniques of illicit flow transfers, especially in the case of tax evasion. It consists in falsifying prices on imports, exports, financial and trade transactions, real estate, etc to shift money and profit across borders. For example, the value of exports from the country from which cash is to be expatriated can be under-invoiced or the value of imports over-invoiced. A [recent report by Christian Aid UK](#) reported how capital can flee from developing countries through the natural resource sector. Misreporting the amount, quality, origin and nature of exports can allow capital flight, especially for natural resources. In 2004 for example, nickel was imported from Chile to the US at a price far below the median world price, depriving the Chilean government of substantial tax income.

Smuggling of cash and other high value mobile assets

Smuggling of cash and assets is another way of moving illicit flows across borders. The illegal smuggling of currency in the form of bank notes is fairly common. A

few weeks after the death of Sani Abacha for example, his widow was stopped at the Lagos airport with 38 suitcases full of cash. Luxury yachts have also been bought and moved across the world to shift money and values across borders. In Russia, large quantities of tangible state assets could also be physically moved abroad in 1993, including tons of diamonds, jewelry, gold and silver from the Russian treasury and a diamond and jewelry store was established in the United States. The scheme allegedly involved the head of the State Treasury, Bychkov, and implicated other senior officials such as the Deputy Prime Minister, the Minister of Finance and the head of the Russian Committee for Precious Metals and Gem stones. (Please see: [The International dimensions of corruption: the Russian case](#)).

Correspondent banking

Western banks, through the correspondent accounts they provide to foreign banks, may also facilitate illicit money flowing into the international financial system. Correspondent banking refers to the process of one bank providing services to another bank to move funds, exchange currencies, or carry out other financial transactions. Correspondent accounts in international banking institutions give clients of poorly regulated, foreign banks with weak or no anti-money laundering controls direct access to the international financial system and the opportunity to move corrupt funds worldwide. (Please see: [Report on correspondent banking: a gateway for money laundering](#)).

Credit

In some cases, private banks convince their clients to leave their deposits in the banks and use them as collateral for large loans, enabling banks to earn a fee not only on deposits under their management but also on loans. This practice creates vulnerabilities to money laundering by allowing clients to deposit questionable funds and replace them by clean money from the loans. In addition, as the loans are fully collateralized by their assets, the bank may not scrutinise the loan purpose and repayment prospects as carefully as conventional loans, supporting money laundering efforts to hide illicit proceeds behind seemingly legitimate transactions.

For example, after general Abacha's death and investigation into bank accounts held by him and his family, sons made an urgent request to the Citibank to move USD 39 millions out of their London account. The

funds were in a time deposit that would not mature for two weeks. The bank approved a 39 million overdraft, secured by the time deposit and transferred the money out of the Citibank.

Another example relates to Omar Bongo, the late President of Gabon, and his family, who held multiple accounts in multiple locations at the Citibank. Omar Bongo had an extensive credit relationship with the Citibank, obtaining multiple loans that were collateralised by his deposits. Many of these loans were issued under a complex arrangement, allowing Bongo's accounts at Citibank Gabon to incur multi-million dollar overdrafts, which were immediately covered by transfers from Bongo's accounts in France, in turn covered by offshore accounts belonging to Tendin Investment Ltd, a Bahamian shell corporation which Citibank assigned to Bongo in 1985. These three steps process had been designed to avoid direct transfers from the Tendin offshore accounts into the president's accounts in Gabon. (Please see: [Private banking and money laundering: a case study of opportunities and vulnerabilities](#)).

Corruption Specific Patterns of Money Laundering

Although there are examples of corrupt leaders using a variety of laundering techniques, research indicates that different types of crime tend to rely on different type of laundering mechanisms. Using reports from the Financial Action Task Force against Money Laundering and the Egmont Group, Reuter and Truman research found that out of the 580 cases analysed, nearly 25 % of them used wire transfers as the laundering mechanisms and 13 % used front companies. While drug traffickers tend to use the full spectrum of alternatives, the main techniques used to launder the proceeds of corruption included wire transfers, the use of shell corporations in bank secrecy jurisdictions and direct deposits in the form of cash or bearer instruments. (Please see:

<http://siteresources.worldbank.org/NEWS/Resource/Star-rep-full.pdf>).

This narrow spectrum of laundering techniques as opposed to the broader ones used by organised crime suggests that concentrating efforts on monitoring a specific set of transactions and related institutions might have a deterrent effect on corruption. This also tends to imply that in order to reduce the frequency of

corruption related crimes, special attention should be given to money wire transfers.

Part 2: Who are the Main Facilitators?

Illicit flows are facilitated by a complex network of professionals such as bankers, lawyers, import-export agents and accountants who provide secret space and financial incentives through an offshore interface between the illicit and licit economies. (Please see: [Africa's Bane: Tax Havens, Capital Flight and the Corruption Interface](#)). They often operate from secrecy jurisdictions that in some cases actively encourage and support corrupt practices by facilitating and managing illicit financial flows and exploiting a sophisticated but poorly regulated international financial system.

Secrecy jurisdictions

Offshore financial centres and secrecy jurisdictions provide low tax regimes, bank secrecy and services such as the incorporation of shell companies, sham trusts and other complex legal structures with nominee directors that provide secured location for illicit financial flows. There are more than 70 tax havens in the world that facilitate the generation of profits that are subject to little or no tax and provide conduits for disguising the origins of the funds. They have become normalised in the global trade: over 50 % of cross border trade and capital transaction is transacted through off-shore structures. In some cases, major global financial centres like London also operate as tax havens for tax evaders and corrupt politicians. (Please see: <http://www.guardian.co.uk/money/2007/jul/08/tax.busin ess1>). According to a [NORAD 2009 report on tax havens and development](#), the number of companies and trusts established in tax havens is much higher per capita than in most industrial states, despite the fact that they are usually remote from owners and from the business activities conducted. For example, there are no less than 830000 companies registered in the Virgin Islands for about 19000 inhabitants.

Companies established in such offshore financial centres benefit from a special regime and can conceal identify of the beneficial owners of these companies. They are partly or wholly exempted from paying taxes, have no real accounting or auditing obligations, have no duty to preserve important corporate documents and are able to move the company to a different jurisdiction with a minimum of formalities. The jurisdictions that offer such regimes derive their revenue from the

registration and management fees paid by the company, which, if they are insignificant for the companies, represent an important source of income for the jurisdictions.

These jurisdictions undermine long term economic and political processes in developing countries. By making it easier to hide the proceeds of crime, tax havens create political incentive to weaken rather than build institutions, economic and democratic governance processes. The lack of effective enforcement institutions allow politicians to exploit the opportunities offered by tax havens and the international financial system to a greater extent for hiding the proceeds from corruption, economic crime and illegal activities such as embezzlement of funds, natural resources and public resources.

International Financial Institutions

Financial Institutions and Private Banking

Several reports and recent investigations indicate that in many cases, financial institutions have overlooked, facilitated and sometimes actively encouraged and solicited capital flight and the management of ill gotten assets. The above mentioned Global Witness report traces how, in a number of countries, national wealth has been systematically diverted to enrich individuals by exploiting the loopholes of the international financial system, with the complicity of financial institutions in the developed world. By accepting these dubious customers, banks are supporting those who are misusing national assets for private gains.

Investigations into money laundering schemes have implicated prestigious western financial institutions as money launderers increasingly seek the prestige, security and "invulnerability" of financial institutions in leading western financial centers³. Similarly, nearly all the banks involved in this report are major international institutions.

Although all financial institutions may and have been used for money laundering purposes, private banking

³ For example, investigations in the US have implicated the Bank of New York and the City Bank as well as the United Bank of Switzerland.

appears especially attractive to money launderers. Private banking is the provision of financial services to wealthy individuals and families based on discretion and personalised service. A number of factors make private banks especially vulnerable to money laundering: (Please see: [Private banking and money laundering: a case study of opportunities and vulnerabilities](#)).

Private bankers operate as client advocates. Bankers are trained to set up accounts and move money around the world using sophisticated financial systems and secrecy tools; they are experts in facilitating creation of offshore trusts and corporations, opening accounts and arranging transactions on their behalf.

Their **clientele is wealthy and powerful**, often with political and economic influence likely to discourage questioning. Asking questions about the origins of funds and verifying about foreign assets may be sensitive, and it is difficult to develop tools to detect when client may be misrepresenting their assets. Private bankers also tend to develop highly personalised relations with their clients, potentially resulting in the banker being unwilling to probe too deeply into the source of funds. In the case of Omar Bongo for example, due diligence was hindered by the reluctance to ask him for information in view of his longstanding relationship with Citibank and his status as a head of state.

Private banking is also characterised by a **corporate culture of secrecy and lax controls**. Different layers of secrecy are used to mask accounts and transactions and private banks routinely use shell corporations and trusts to hide the identity of the beneficial owner of a bank account.

The **highly competitive nature of private banking** makes it difficult for banks to turn down dubious customers, due to the profitability of the business.

Private Intermediaries

Wealthy clients also have access to a network of specialised intermediaries, often under the coordinated direction of their private banker, that include investment manager, trust officers, estate planners, company formation agencies and other financial experts who are prepared to act in concert. Their main activities include facilitating or overlooking corrupt financial practices,

designing elaborate schemes, aggressive tax planning and transfer pricing strategies, incorporating dummy corporation and sham trusts with the view to protecting their clients' interests and lucrative businesses. These well paid lawyers, auditors, lawyers, trust and company service providers who register offshore trusts, shell companies and accounting vehicles to hide the origin and true ownership of money are all part of the system that is able to exploit regulatory and enforcement loopholes to move dirty money around the world. The profile and skills of these intermediaries that act as gatekeepers of the international financial system makes policing extremely challenging.

High Risk Banks

High risks banks are another vulnerable feature of the international financial system. High risk banks include: 1) Shell banks with no physical presence in any country for conducting business with their client; 2) Offshore banks with licences limited to transacting business with persons outside their jurisdiction; and 3) Banks licenced and regulated by jurisdictions with weak anti-money laundering controls that invite banking abuse and misconduct. These high risk banks have typically limited resources and staff and use their correspondent bank accounts to conduct operation, provide client services and move funds. (Please see: [Report on correspondent banking: a gateway for money laundering](#)).

Internet Banking

The use of information technology further facilitates the exploitation of the globalised offshore economy. The proliferation of internet has resulted in an increased in the number of websites soliciting money for offshore transfers, the rise of internet gambling and the growth of virtual banking. With these new technical facilitating factors, money laundering is made possible without any infrastructure that can regulate international banking operations. Through the use of internet, funds can be easily parked in anonymous bank accounts and masked trusts that are housed in offshore locations. The growth of uncrackable encryption also provides the possibility of laundering money with almost perfect anonymity. The speed of internet transactions also allows funds to move quicker than the legal institutions combating money laundering.

In Russia for example, money launderers were able to successfully hide the proceeds of crime because they

are at the fore front of information technology. In a specific case, a Russian citizen established the European Union Bank, an offshore bank in Antigua, that operated exclusively through Internet. The Bank was closed before Antiguan regulators were able to inspect its records. The depositors remained anonymous because the files were encrypted with such sophistication that they could not be opened by American law enforcement. (Please see: [The International dimensions of corruption: the Russian case](#)).

Conclusion

The exploitation of financial institutions for corrupt purposes has been facilitated by loopholes in the international financial system that allow banking secrecy, non disclosure of ownership of corporations and other legal entities, lack of accounting transparency for multinational companies and insufficient provisions for effective exchange of information between national authorities. Corrupt politicians can exploit the opportunities provided by the international financial system to arrogate themselves national riches and conceal the proceeds of corruption and asset looting.

This wouldn't be possible without their access to the international financial system. There have been examples of measures taken to restrict corrupt or undemocratic leaders' access to the international financial system as part of a set of sanctions imposed by the international community on undemocratic and corrupt regimes. The US has led the way in using access to the financial system to put pressure on undemocratic regimes such as Iran, Libya or Sudan.

While imposing sanctions on regimes that loot national resources and assets is important, the literature also insists on the need to focus more on the supply side of corruption and put more pressure on the facilitators that provide the means and incentives for corrupt leaders to hide and disguise the proceeds of corruption for effective implementation of anti-money laundering laws.

Eva Joly herself refers to tax havens as the main priority in the emerging phase of the anti-corruption debate: "*There is nothing more important for those who want to tackle poverty in the world than to make it possible to trace dirty money and impose sanctions on those territories which don't cooperate with this process*". (Please see:

<http://prgyonne.blog.lemonde.fr/2007/06/07/pour-eva-joly-le-g8-ne-lutte-pas-vraiment-contre-la-corruption/>).

Part 3: Further Reading

Undue Diligence: How Banks do Business with Corrupt Regimes (2009)

This Global Witness' report exposes how major financial institutions continue to do business with corrupt regimes, based on detailed case studies of Angola, Republic of Congo, Equatorial Guinea, Gabon, Liberia and Turkmenistan.

http://www.globalwitness.org/media_library_detail.php/735/en/undue_diligence_how_banks_do_business_with_corrupt

Africa's Bane: Tax Havens, Capital Flight and the Corruption Interface (2009)

This paper explores how secrecy jurisdictions, bankers, lawyers and accountants who operate from these jurisdictions actively encourage corrupt practices by facilitating illicit financial flows through an "offshore interface" between the licit and illicit economies.

http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/Elcano_in/Zonas_in/Sub-Saharan+Africa/DT1-2009

Briefing Paper for the First Meeting of the International Task Force on Illicit Financial Flows and Capital Flight (2007)

This briefing paper commissioned by the International Task Force on Illicit Financial Flows and Capital Flight provides an overview of illicit financial flows related issues, the scale of the problem, its development impact, the mechanisms used for capital flight and the main actors facilitating illicit flows.

<http://www.definesolutions.org/SonyKapoorIllicitFinanceTaskForce1Br.pdf>

The International Dimensions of Corruption: the Russian Case

This paper explores how millions of Russian illicitly gained billions could be moved abroad with the complicity and cooperation of professionals in banking, law and accounting in many countries including offshore financial centers.

www.princeton.edu/~lisd/publications/wp_russiaseries_shelley.pdf

Private banking and money laundering: a case study of opportunities and vulnerabilities (1999)

This report summarises the investigations into US private banks and their vulnerability to money laundering. It finds that the products, services and culture of private banking industry present many opportunities for money launderers that need to be addressed by sound controls and active enforcement.

http://hsgac.senate.gov/110999_report.htm

Appendix: Case Studies

The case studies presented below illustrate how banks continue to make business with corrupt regimes. This is made possible by loopholes in the international financial system, global financial opacity and the lack of enforcement of due diligence requirements both in secrecy jurisdictions and in major financial centres.

Pakistan: The Case of Benazir Bhutto⁴

Significant commissions and kickbacks were allegedly paid by contractors in exchange for import related contracts to Pakistan in a series of deals between offshore companies and foreign corporations contracted by the Government of Pakistan. The beneficial owners of the various companies were Benazir Bhutto's family members, usually her husband, Asif Ali Zardari. This was facilitated by the family's Swiss lawyer who opened three accounts at the Citibank in Switzerland and an account in Dubai for corporations under Zardari's control to receive and transfer money to Switzerland. Payments were channeled partly via three companies in the Virgin Islands to the account in Dubai and then to Switzerland and partly via a foundation in Liechtenstein which owned a trust in the Isle of Man. Zardari has been tried and found guilty of corruption in Pakistan and charged with money laundering in Switzerland and the Isle of Man. The case was finally dropped by Pakistan when Bhutto and Zardari finally returned to a position of power.

⁴ This case study is drawn from the [2004 Global Corruption Report on Political Corruption](#), [Private banking and money laundering: a case study of opportunities and vulnerabilities](#) and [Norad's 2009 report on tax havens and development](#)

The case of Benazir Bhutto raises issues of due diligence, secrecy and how far a bank can go to accommodate secrecy requests by a client, accepting millions without knowing the origins and destination of funds. In this case, the bank failed to identify the true owner of the corporations and accepted a client without any specific review of her background and the sources of the funds that would be deposited into the accounts.

Congo-Brazzaville: The Case of Denis Christel Sassou Nguesso⁵

Denis Christel Sassou Nguesso, the son of the President of Republic of Congo, spent thousands of dollars on luxury clothes with money deriving from Congolese oil sales. He is also the head of Cotrade, a state organisation responsible for marketing the country's oil revenues. He was able to do this by setting up a shell company called Long Beach in Anguilla, a British tax heaven in the Caribbean, using a trust and a company service provider. He put his Long Beach shares in trust to further disguise his ownership. He then opened a bank account in Hong Kong for Long Beach, into which money derived from Congo's oil was paid.

This case raises the issue of how banks manage the accounts of Politically Exposed Persons. In this case, although the Bank of Asia has not confirmed that it was aware of the identity of the account's beneficial owner, it apparently paid Denis Christel Sassou Nguesso's bills without exercising sufficient due diligence on whether his level of wealth and income were sufficient to support the size of his spending and whether he had verifiable non political sources of income. This case shows how the son of the president was able to use a shell company, trust structure and secrecy jurisdiction to hide his identity and to spend illicitly-acquired oil revenues.

⁵ This case study is drawn from Global Witness report: [Undue diligence: how banks do business with corrupt regimes](#)

Mexico: The Case of Raul Salinas⁶

Raul Salinas, the brother of the former president of Mexico, also set up an elaborate structure to disguise the beneficial ownership of his accounts. He created a shell corporation named Trocca Ltd in the Caiman Island to serve as the owner of record for private bank accounts benefiting him and his family. He then used three additional shell companies, called nominee companies, to function as Trocca's board of directors and three further companies to serve as shareholders. He also established a trust to serve as the owner of Trocca. Separate documentation establishing his ownership of Trocca was maintained in the Caiman Island under secrecy laws restricting its disclosure.

Funds were moved through a series of sophisticated techniques devised to conceal the origins and destination of the funds. Salinas' first deposited money through wire transfers that transited through an intermediary's account and were subsequently divided between different accounts. Money was also moved out of Mexico using cashier checks - written by a bank on its own account and naming Citibank as the payee - that were then wired outside of the country on the Citybank New York concentration account, bypassing any specific client account. This method effectively broke the funds' paper trails and disguised the source and destination of the funds.

⁶ This case study is based on [Private banking and money laundering: a case study of opportunities and vulnerabilities](#)