

The Puppet Masters

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How the Corrupt Use Legal
Structures to Hide Stolen Assets
and What to Do About It

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Stolen Asset Recovery Initiative

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Foreword

Corruption is estimated to be at least a \$40 billion dollar a year business. Every day, funds destined for schools, healthcare, and infrastructure in the world's most fragile economies are siphoned off and stashed away in the world's financial centers and tax havens.

Corruption, like a disease, is eating away at the foundation of people's faith in government. It undermines the stability and security of nations. So it is a development challenge in more ways than one: it directly affects development assistance, but it also undermines the preconditions for growth and equity.

We need mobilization at the highest level so that corruption is tackled effectively.

This report, *The Puppet Masters*, deals with the corporate and financial structures that form the building blocks of hidden money trails. In particular, it focuses on the ease with which corrupt actors hide their interests behind a corporate veil and the difficulties investigators face in trying to lift that veil.

It serves as a powerful reminder that recovering the proceeds of corruption is a collective responsibility that involves both the public and private sector. Law enforcement and prosecution cannot go after stolen assets, confiscate and then return them if they are hidden behind the corporate veil. All financial centers and developed countries have committed, through the UN Convention against Corruption and international anti-money laundering and countering the financing of terrorism standards, to improving the transparency of legal entities and other arrangements.

This StAR report provides evidence of how far we still have to go to make these commitments a reality. Narrowing the gap between stated commitments and practice on the ground has a direct impact on actual recovery of assets.

As recent history shows, these issues are not hypothetical, they are real. Under the leadership of President Obasanjo, I initiated Nigeria's efforts to recover stolen assets. I know firsthand from that experience how corrupt officials hid their assets behind innocent sounding corporations and trusts.

Similarly, this report is firmly rooted in reality. It is based on documentary research, interviews with corporate registries, bankers, investigators, and other experts who

confront this issue every day in the course of their work, and a “mystery shopping” exercise with relevant corporate service providers in multiple jurisdictions. The study highlights the weaknesses in the system that leave these structures open to manipulation and abuse. It provides a series of practical and balanced recommendations on how these weaknesses can be addressed.

At a time when the international community is stepping up its efforts to fight corruption and underlining the need for financial transparency, this report comes as a welcome contribution. I hope that policy makers, practitioners, and civil society will make good use of this analysis.

The popular uprisings in North Africa are a powerful reminder that integrity is a condition for legitimacy. The fact that many financial centers immediately began work to return assets allegedly stolen by former leaders is a testimony to how stolen assets have become both a symbol of abuse and a rallying point in the calls for justice that are echoing in the international community and among people in the streets.

Let’s work together to respond to their call.

Dr. Ngozi Okonjo-Iweala,
Coordinating Minister of Economy and Minister of Finance, Nigeria
former Managing Director, World Bank

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Abbreviations

AML	Anti-Money Laundering
BO	Beneficial Owner
CAC	Client Acceptance Committee
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CV	corporate vehicle
DNFBP	Designated Non-Financial Businesses and Professions
ECJ	European Court of Justice
EIN	Employer Identification Number
FARA	Foreign Agents Registration Act
FATF	Financial Action Task Force on Money Laundering
FCPA	Foreign Corrupt Practices Act
FIU	Financial Intelligence Unit
IBC	International Business Corporation
IC	Introducer Certificate
IRS	Internal Revenue Service (United States)
ITA	International Trust Act
KYC	Know Your Customer
LLC	Limited Liability Company
LP	Limited Partnership
LLP	Limited Liability Partnership
MLA	mutual legal assistance
OECD	Organisation for Economic Co-operation and Development
OFC	Offshore Financial Center
PEP	Politically Exposed Person
TCSP	Trust and Company Service Providers
TIEA	Tax Information Exchange Act
UNCAC	United Nations Convention against Corruption
UNODC	United Nations Office on Drugs and Crime
VISTA	British Virgin Islands Special Trust Act