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Stopping the flow of corruption

by Tom Malinowski

When Viktor Yanukovich fled Kiev in February, the Ukrainian leader left behind a spectacular Swiss chalet-style mansion, a golf course, dozens of antique cars and a private zoo boasting \$10,000 nameplates for the animal pens. Even the Ukrainian public, painfully familiar with the corruption of its leaders, was shocked. Yanukovich had managed to keep the chalet hidden because it was owned not by him but by an anonymous shell company registered in Britain. Other corrupt leaders have used the same trick to hide billions of dollars offshore, including through companies registered in the United States.

The rise and fall of Ukraine's top kleptocrat teaches us a couple of things about corruption.

First, in many countries, corruption and human rights are tightly bound. The chance to profit from corruption is why many authoritarian leaders seize and cling to power. It becomes the glue that holds their regimes together, giving them spoils to distribute while turning their cronies into criminals who could be exposed and punished if they turn disloyal. It is also among the issues most likely to fuel popular resistance to authoritarianism, as we've seen from Tunisia to Russia and Venezuela. Any strategy to promote democracy and human rights must have the fight against corruption at its heart.

Second, we can't fight corruption abroad if we don't stop its proceeds from flowing through our companies and banks. We already work hard to return illicitly acquired assets to benefit the citizens of such countries, generally after the leaders who stole them have left office. But this kind of "departure tax" for falling autocrats is not enough: We must do more to deny safe haven to such funds while corrupt leaders are still in power. One way to do that is to prevent the registration of anonymous shell companies on our shores.

The Treasury Department recently took a significant step toward limiting the use of such companies by proposing a regulation that would require financial institutions to collect and verify the identity of the people behind company account holders. President Obama's 2015 budget includes a much more far-reaching proposal: It would require all companies to identify their "beneficial ownership" — the human beings who own or control them — to the IRS as part of a routine tax filing and make that information more readily available to law enforcement. Congress should enact this proposal now to ensure that our legal and financial systems are not used to hide corruption and facilitate autocracy overseas.

The overwhelming majority of U.S. companies that have a bank account or pay taxes in the United States already disclose their beneficial ownership. Thus, they would not be burdened and would only benefit from a reform that makes registration in the United States a sure sign of legitimacy rather than a cause for suspicion.

It is foreign criminals and corrupt officials who can benefit from the ability to conceal their identities under our current financial system. They are unlikely to file a U.S. tax return, and if they register a paper legal entity in the United States, they can use it to open a bank account on an offshore island. Indeed, they can create a web of 50 anonymous entities overnight simply by calling a state company registration office, or they can even purchase “shelf” companies registered a decade ago, adopting an additional guise of establishment and credibility. When U.S. law enforcement agencies investigate corruption or other crimes, often all they have is the name of a company and a dead end.

The wildly corrupt son of Equatorial Guinea’s president, for example, allegedly set up a slew of shell companies in the United States to launder millions of dollars of bribes from international logging companies, hiding any ties to himself. Teodoro Ngema Obiang Mangué used this money to purchase a \$30 million Malibu, Calif., estate, a \$38 million private jet and about \$2 million worth of Michael Jackson memorabilia, among other luxuries. Meanwhile, most of his compatriots live on less than \$2 per day.

Corruption empowers and enriches dictators. But here is another lesson from Ukraine: It can also become their greatest political vulnerability. Authoritarian governments may be able to muster excuses for shooting demonstrators, arresting political enemies or censoring the Internet, but no cultural, patriotic or national security argument can justify thievery. Disgust with corruption can also ease the ethnic, religious and social divisions such regimes exploit to stay in power — it’s a point of agreement between southern and northern Nigerians, nationalists and liberals in Russia, Shiites and Sunnis across the Middle East.

Fighting corruption by improving financial transparency may be one of the most effective ways of promoting liberty around the world. Members of Congress who believe in that cause and who want us to do better should embrace the president’s proposal to strengthen those laws by closing the shell company loophole that enables dictators to conceal their criminality from their people and the world.

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