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How secret ownership harms developing countries, and why anti -money laundering directives in Europe can be part of the solution.

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- Why this matters to developing countries
- What can/should be done
- Processes happening now
  - G8
  - EU

The Developing Country context

- Illicit capital flight from developing countries is over $850bn a year
  - Africa is a net creditor to the rest of the world
  - Lost revenue due to assets in tax havens more than global aid budget
- UK controlled tax havens are the largest provider of Foreign Direct Investment (FDI) to developing countries
- Shell companies used to both move money out and into developing countries. Both have costs

Secret Company Ownership and Developing Countries

- If you don't know someone owns something, it's very difficult to tax them
  - Africa is estimated to have 40% of private assets held offshore – much probably in companies and trusts where owner is secret
  - Able to hide domestic money as foreign – and claim tax breaks
    - Use of Mauritius costs India $600m a year

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Secret Company Ownership and Developing Countries

- If you don’t know someone owns something it’s difficult to prove corruption.
  - Democratic Republic of Congo – use of British Virgin Islands shell companies in just five mining deals cost $1.36bn or twice the annual health and education budget
  - Kenya – use of UK registered shell company cost over $25m on passport printing contract

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What to do?

- Create public registers of the beneficial owners of companies (and trusts etc).
- Registers need to be public because:
  - Only way to ensure all developing countries can access information
  - Only way to ensure all of society can see who owns companies – benefits for investors, businesses, NGOs
  - Will improve the quality of the data – many eyes to verify
  - Will act as a deterrent

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Why now?

- Beneficial ownership information needed for automatic information exchange.
- Three processes that give opportunity for progress at the moment
  - UK consultation on public registers
  - EU review of anti-money laundering directive, will set BO standard for all EU
  - All G8 countries (and the UK's tax havens) have committed to producing Action Plans on how to improve availability of Beneficial Owner information.

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EU AMLD

- 4th Anti-Money Laundering Directive
- Commission proposed:
  - companies are required to know who owns them
  - 25% threshold for disclosure
  - Pretty weak – too easy to be tipped off or evade
- Currently waiting for both Council and Parliament to finalise their views – final directive likely to be stronger than proposal