In Western democracies, the political center is straining to hold. A nationalist, populist surge has driven the United Kingdom to vote to leave the European Union; has elected Donald Trump, who ran on a commitment to dismantle the U.S.-led liberal order; and is motivating the rise of right-wing nationalist politicians in Europe such as Marine Le Pen, who if elected as the French president could have sounded the death knell of European integration.

Many factors have contributed to the anti-globalization backlash, but a major one, especially in the United States, is rising economic insecurity driven in part by inequality. Economists Gabriel Zucman and Emmanuel Saez recently found that, in the United States, “the rise of wealth inequality is almost entirely due to the rise of the top 0.1 percent wealth share.” From 1979 to 2012, the bottom 90 percent of American households saw their share of national wealth steadily decline, while the share held by the richest 0.1 percent grew from 7 percent to 22 percent. Today, the top 0.01 percent, a mere 16,000 families, own 11.2 percent of American wealth.

One way the privileged few have been able to consolidate their wealth is through offshore tax evasion—a practice that has exploded since the 1980s but that emerged in the late 1920s, the last time the 0.1 percent held more than 20

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percent of U.S. wealth. In 1937, Treasury Secretary Hans Morgenthau Jr. alerted President Roosevelt that federal revenues were falling short of target due primarily to “the device of evading taxes by setting up foreign personal holding corporations in the Bahamas, Panama, Newfoundland, and other places where taxes are low and corporation laws lax.” These jurisdictions’ laws made it “difficult to ascertain who the actual stockholders are … The companies are frequently organized through foreign lawyers, with dummy incorporators and dummy directors, so that the names of real parties in interest do not appear.”

Morgenthau saw the use of anonymous shell companies as immoral and pernicious. Today, it is the cornerstone of a massive shadow financial industry, in which some of the world’s largest banks, accounting firms, and law practices build and manage shell companies often for the express purpose of obscuring the origins and destinations of their clients’ wealth. Dozens of secrecy jurisdictions—ranging from Switzerland to Delaware to the British Virgin Islands—don’t require companies to disclose their true, “beneficial” owners. Anonymity enables the rich to skirt taxes, kleptocrats to launder ill-gotten public funds, and organized criminal networks—spanning terrorists to arms dealers to human traffickers—to finance illicit activities out of sight of law enforcement.

In April 2016, the world glimpsed the extent of corporate anonymity and was outraged. The leak of 11.5 million documents that came to be called the Panama Papers revealed the details of more than 214,000 anonymous companies, trusts, and foundations created by law firm Mossack Fonseca, often working with large financial institutions such as HSBC, Deutschebank, and UBS, to conceal assets from tax collectors and law enforcement for a client list that included more than 140 politicians and twelve national leaders. Protests and calls for reform spread across the world, with demonstrators in Iceland forcing the resignation of the prime minister, who was named in the leak.

Yet, the Panama Papers were but a tiny glimpse of the shadow financial sector. A study by former McKinsey chief economist James S. Henry for the Tax Justice Network concluded that as much as $32 trillion in private wealth (excluding non-financial assets) resides in secrecy jurisdictions. Fewer than 10 million people own this wealth, with a third—as much as $9.8 trillion—belonging to just 100,000 individuals. Zucman estimates roughly 80 percent of the wealth in secrecy jurisdictions goes unreported, costing governments at least $200 billion in tax revenue annually.
In addition to depriving governments of revenue and accelerating destabilizing inequality, anonymous shell companies facilitate a host of global security threats. As the former head of the FBI’s Terrorist Financing Operations Section, Dennis Lormel, said, “Terrorists, organized crime groups, and pariah states need access to the international banking system. Shell firms are how they get it.”

A.Q. Khan created a network of dozens of shell companies to transfer nuclear weapons technology and receive payments from Iran, Iraq, North Korea, and Libya. And notorious Russian arms dealer Viktor Bout used a global network of anonymous shell companies—some in the United States—to operate his trafficking business.

Despite aggressive actions taken by the U.S. Treasury and its global counterparts to combat terrorism financing after the 9/11 attacks, a 2014 study by a team of government and law professors found that it was “as easy as ever” to set up anonymous trusts and shell companies that could be used to form a terrorist finance network. Criminal investigations frequently stall when a money trail leads to a secrecy jurisdiction. Former U.S. Treasury officials have often voiced frustration over how many cases dead-end at a shell company owned by an unknown party.

Anonymous shell firms also facilitate grand corruption that triggers state failure and generates international security risks. The proceeds of graft, embezzlement, and fraud are often laundered through anonymous corporate vehicles. Investigative journalists have revealed that several corrupt politicians, public officials, and their families, including sons of Muammar Gaddafi and Hosni Mubarak, purchased luxury London and Manhattan properties through shell companies. A 2011 World Bank study analyzed 150 grand corruption cases and found that most involved anonymously owned companies managed by professional intermediaries that were used to deposit funds in bank accounts to conceal an illicit money trail.

In her book, Thieves of State, Sarah Chayes describes how corruption breeds political violence and religious extremism. In Afghanistan, persistent graft turned ordinary Afghans against the government, allowing the Taliban to maintain influence. And the Arab Spring, which sparked the Syrian civil war and the disintegration of Libya into a failed state, “amounted to a mass uprising against kleptocratic practices.”

The shadow financial world in which these global threats flourish is complex. But there is a simple, commonsense way to neutralize anonymous shell companies: require them to disclose their true owners at the time of incorporation. Despite the high societal costs of corporate anonymity, there is no compelling argument for it.
I have never heard a legitimate case for the business, economic, or social function of anonymous companies,” wrote telecom billionaire Mo Ibrahim.\(^\text{16}\)

The world can end corporate anonymity by creating a global registry that makes information about the true, beneficial owners of companies available to law enforcement and the public. In addition to watchdog NGOs, the idea is embraced by business associations and investors who incur costs and risks when the identity of firms in a value chain are unclear; by law enforcement authorities who struggle to track illicit financial flows through anonymous shell companies; and by international organizations such as the Organization for Economic Co-operation and Development (OECD) and the United Nations (UN), which believe transparency is a global public good.

Following the Panama Papers, several organizations called for the creation of such a global registry. But actually building one depends on embracing a different view of the international system. The shadow financial sector exists not in the clearly delineated world of states to which international affairs experts are attuned; it resides in the world of networks, defined not just by states, but also by businesses, NGOs, and individuals. This complex web of networks sprawls across borders and national jurisdictions. It is hard enough to regulate entities when their identities are known; mixing layers of ownership with secrecy creates an exceptional challenge.

Anonymous shell companies live in this web world. Henry with the Tax Justice Network notes that offshore corporate structures are interwoven in dense networks that transcend state boundaries: “The term ‘offshore’ refers not so much to the actual physical location of private assets or liabilities, but to nominal, hyper-portable, multi-jurisdictional, often quite temporary locations of networks of legal and quasi-legal entities and arrangements that manage and control private wealth.”\(^\text{17}\)

Tackling networked problems requires networked solutions. Making company ownership transparent requires a strategically designed, built-for-purpose network that establishes and manages a truly global registry with beneficial ownership details available to law enforcement, journalists, and citizens. That network must include a coalition of government officials, investors, businesses, and watchdog groups.

Two existing transparency networks provide critical insights into effective design features for such a Global Corporate Transparency Network. First, the Financial Action Task Force (FATF) is a cooperation network—a linked group of individuals working to carry out a prescribed task in a prescribed way—that connects law enforcement officials from different countries for the purpose of eradicating money laundering and terrorism financing.\(^\text{18}\) The second is the Extractive Industries Transparency Initiative (EITI), a coordination network, which, as the name suggests, coordinates the transparency efforts of governments, companies,
and civil society groups in mineral- and oil- and gas-producing countries. Members commit to producing public reports on production contracts, payments, and the allocation of revenues collected from extractive industries. A Global Corporate Transparency Network designed to create a public beneficial ownership registry and compel businesses to improve their transparency systems will borrow insights from both the FATF and the EITI to shed light on shell companies in secrecy jurisdictions across the world.

This granular analysis of particular networks is but one demonstration of how hidden solutions emerge from viewing the world in terms of connection. Strategic network design must be applied to other global challenges such as climate change, mass refugee movements, and cybersecurity. If the rules-based international order fails to adapt to tackle these problems, destructive, countervailing forces will ultimately undo that order.

Inside the World of Webcraft

The traditional approach to global problem-solving relies on a view of the international system as a game of endless competition among sovereign nations. Statesmen and foreign policy elites compete and cooperate with rivals and allies to advance their interests. Addressing a global problem would entail leveraging state power, either coercively or co-optively, to cause other states to change their behavior.

This “chessboard” view of the world remains accurate and relevant much of the time. But an equally important and ever-more active international landscape demands attention—that of the web. To see the global system as a web is to see a world of networks. It is the world of many of the 21st century’s most pressing threats including terrorism, corruption, and tax evasion. In this world, problems are matters of connection: people and organizations are too connected, not connected enough, or connected in the wrong ways. States of course still matter, but they exercise power side-by-side with corporate, civic, and criminal actors enmeshed in a web of networks.

Foreign policy experts trained to see global affairs in strictly chessboard terms may understand the reality of networked threats but lack the strategies to tackle them. Tasked in 1964 to design a government communications network able to withstand a nuclear strike, RAND researcher Paul Baran considered three distinct architectures: a centralized “star” network, which enables central management and efficient allocation; a decentralized hub network that allows more autonomous
decision-making and innovation; and a distributed mesh network, which has no central hub and is highly resilient to attack or disruption.

These designs and others provide foundations for policymakers to create and manage bespoke networks for a variety of challenges: a centralized star network is useful for the efficient provision of a public good such as global security; a decentralized hub network can improvise in order to rapidly deploy resources to affected areas in a natural disaster; and a distributed mesh network can ensure the resilience of an electrical grid.

This work involves individuals as much as governments—webcraft as much as statecraft. Traditional “chessboard” foreign policy is the purview of heads of state and cabinet secretaries. Webcraft, by contrast, is the business of private sector and civic sector leaders as well as governors, mayors, and determined individual activists. Business tycoons partner with local health officials and humanitarian implementers to vaccinate children against malaria; university development labs, funded by technology companies, create innovative solutions to global poverty; cities share information and agree on emissions standards to fight climate change.

Financial secrecy is another of these problems that requires not just governments but web actors to solve. And solutions must be global. Because of their

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Diagram I: Distributed Communication Networks

fluid, multi-jurisdictional nature, shell companies pose a whack-a-mole problem. If Singapore adopts a compulsory beneficial ownership registry, ill-intentioned clients will create shell companies in Hong Kong instead. Networked threats all have this characteristic: tamp down al-Qaeda terrorists in one country and they emerge in another; close the Turkey–Greece route and more migrants brave the Mediterranean voyage from Libya to Italy; plug one path into a computer system and a hacker exploits an alternate one. “Secrecy has to be attacked globally—offshore and onshore,” wrote Joseph Stiglitz and anti-corruption expert Mark Pieth in a 2016 report published by German foundation Friedrich-Ebert-Stiftung: “There can be no places to hide.”

Yet so far, the United States has failed to address the networked nature of the financial secrecy problem, adopting instead a bilateral, state-based approach. In 2010, Congress passed the Foreign Account Tax Compliance Act (FATCA), a law requiring foreign financial institutions to tell the Internal Revenue Service (IRS) about U.S. clients and their holdings or face a 30 percent tax on all income and dividends paid to them by the United States. The United States does not, however, require reciprocity, and it is not joining nearly 100 other jurisdictions in adopting the OECD Common Reporting Standard, under which jurisdictions will obtain information from financial institutions on assets owned by taxpayers from other jurisdictions and then automatically share that information with the tax administration of that jurisdiction. U.S. law doesn’t require American financial institutions to collect ownership details and other information required under the Standard and even that which the United States requires of other nations under FATCA. Unless Congress passes legislation, truly global automatic exchange will remain a hollow ambition.

The incentives to resist cooperation on beneficial ownership transparency are high, as secrecy is the lifeblood of many small jurisdictions. Indeed, even larger nations resist compliance—including the United States itself. In 2016, the Obama administration proposed legislation to Congress that would require companies to file beneficial ownership information with the U.S. Treasury at the time of incorporation. That bill was never passed; nor were any of the bills, proposed at each Congress since 2008, that would require states to maintain registries of shell company owners. Lobbies such as the American Bar Association and U.S. Chamber of Commerce have worked to defeat that legislation.

The lesson is that ending anonymous shell companies will require engaging not just states, but corporate and civic actors as well. Policymakers must turn to webcraft, and strategically design a network that will engage all the actors necessary to
implement a solution with truly global reach. Two global networks operating in the financial transparency space—the Financial Action Task Force (FATF) and the Extractive Industries Transparency Initiative (EITI)—offer insights about structure, leadership, and participation.

The Financial Action Task Force

Launched in 1989, the Financial Action Task Force (FATF) is an international network of government law enforcement officials and regulators that combats money laundering and, starting after the September 11 attacks, transnational terrorist financing. The FATF is a cooperation network, the primary task of which is to compel governments to adopt and enforce the policies enshrined in the FATF Recommendations—49 legal, regulatory, and operational measures covering national criminal justice, the financial system, and international cooperation.22 Its strengths and shortcomings are due to who it does and does not connect and how exactly those actors cooperate.

The 37 FATF members—comprising the governments of the major financial centers of Europe, Asia, and the Americas—are linked together in a completely connected star with a secretariat at the center coordinating the work of the members.23 Picture Baran’s centralized network but with each node connected to every other node as well as the central hub. All the members meet in plenaries three times a year, plus sporadically in various ad hoc working groups. The strongest ties are formed in mutual evaluation missions where FATF peers—mostly financial crimes specialists from national criminal justice bureaucracies—exhaustively review one another’s national anti-money laundering and terrorist financing regimes.

Mutual evaluations build shared trust and exert a powerful amount of peer pressure on the officials involved. This occurs for three reasons: participants already share an affiliation as like-minded technocrats with expertise in money laundering and financial crimes; they interact directly; and they meet regularly and frequently, which MIT social dynamics research has shown is an accurate predictor of whether peer pressure compels behavioral change.24 Repeated interaction often leads these officials to develop affinity for their peers, a personal mission to deliver, and fidelity to the standards the group agrees to uphold.

In the larger system, officials who participate in FATF form a cooperative core. Game theory research in public goods provision has shown that a tightly connected core can spread cooperation and reinforce positive behavior in the face of defectors.25 For the FATF members, this means pushing their respective governments to adopt FATF-compliant money laundering and terrorist financing policies.
As a cooperation network with 37 members, the FATF has made major headway in compelling countries to strengthen their domestic financial infrastructure. The mutual evaluation process and peer pressure of the network “have produced significant improvements in the [anti-money laundering/counter-terrorism financing] systems of FATF member states.”26 Former White House counterterrorism official Juan C. Zarate credits the FATF with helping to implement a robust international regulatory system: “The expanded global anti-money laundering regime stands as an embedded and lasting framework for the protection of the international financial system and is now understood as an essential part of a ‘safe and sound’ financial system.”27

In some countries, the FATF’s influence has gone beyond money laundering and countering terrorism financing. Brazil, which became a full member nation in 2000, copied the FATF network structure in designing a national interagency forum capable of tackling systemic corruption. The network brought together previously isolated judges, prosecutors, auditors, police investigators, and civil servants to create and implement an anti-corruption agenda. Peer pressure and socialization drove them to overcome bureaucratic divides and voluntarily implement reforms. Brazil’s network developed the policies, legislation, and operational relationships that a decade later led to the largest corruption probe in the country’s history.

But FATF success stories are mostly limited to its 37 members, and thus ill-intentioned capital simply seeks out more lax jurisdictions.28 The FATF’s attempts to scale cooperation up to include jurisdictions beyond its core network have largely been unsuccessful. Its approach has been to orchestrate a replication network, a decentralized collection of networks based on a uniform template and loosely connected to a central hub.29 The FATF replication network comprises eight FATF-style regional boards, each modeled after the FATF membership network. The boards are connected to the FATF secretariat, which tries to harmonize standards, share information, and provide technical assistance and guidance. But these boards are too loosely connected to the FATF to adopt the spirit of the partnership. The peer pressure mechanism only works with regular and frequent engagement. And though these peripheral nations are expected to implement the FATF Recommendations and procedures, they have no voice in FATF decision-making.

The biggest problem is the way the FATF tries to address non-compliance. It relies on the Non-Cooperative Countries and Territories (NCCT) Initiative—a blacklist that the FATF places both members and non-members on if they fail to maintain a minimal level of compliance with FATF money laundering and terrorist financing policies. The NCCT list is a blunt, coercive instrument. It perennially includes international pariahs such as North Korea and Iran, so inclusion on it harms a country’s international reputation. And in line with the FATF Recommendations, most core members have passed laws that subject financial...
institutions in blacklisted jurisdictions to onerous reporting standards that raise the costs of doing business with those countries.

The blacklist succeeds in raising the costs of non-compliance, but perversely, it may raise money laundering and terrorism financing risks. Nations have an incentive to make superficial legal and regulatory changes to stay off the blacklist and avert FATF scrutiny. Many of these countries lack the capacity or expert knowledge to actually plug the holes in their systems. Because the blacklist arouses enmity, they go into defensive crouches and refuse to engage with the FATF in the type of capacity building and expert knowledge development that could actually help strengthen their anti-money laundering regimes.30

The FATF could expand membership to peripheral nations, bringing them into the decision-making process and creating stronger ties that would allow the mechanisms of socialization and peer pressure to take hold. But doing so would encumber the decision-making process, slowing the FATF’s ability to rapidly issue rules and guidance.31 For now, the FATF is stuck being effective only among its 37 members.

Another shortcoming is that even though several of the FATF Recommendations are aimed at the private sector, the FATF only meets with representatives from the private sector once a year in a discussion forum. Combating a networked problem such as money laundering, in which corporate actors are primary players, requires engagement with the private sector. And there are limits to the soft-law approach. The FATF has issued transparency standards aimed at reducing the abuse of corporate vehicles. It calls on countries to “ensure that adequate, accurate and timely information on the beneficial ownership of corporate vehicles is available and can be accessed by the competent authorities in a timely fashion.”32 Yet in a 2016 report on the United States, itself a compliant FATF member, the FATF criticized its lack of beneficial ownership transparency.33 Simply exhorting countries to do better is rarely a winning strategy.

Nonetheless, the FATF provides valuable insights for designing a global network: the peer pressure mechanism, socialization, the importance of repeated interaction and strong ties for promulgating cooperative behaviors. And in its shortcomings, it demonstrates that tackling a global networked problem requires a network that can reach every jurisdiction and that engages a wide range of connected actors.

The Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) attempts to shine light on the notoriously opaque oil, gas, and mining industries. Launched in 2002 by
UK Prime Minister Tony Blair, the EITI tries to help nations beat the “resource curse,” the paradox that countries rich in minerals and oil and gas tend to have poor development outcomes, high levels of conflict, systemic corruption, and weak economic growth. The EITI is a “transnational public-private partnership” that promotes the accountable, transparent management of extractive resources by bringing transparency to every step in the value chain.34

Structurally, the EITI is primarily a coordination network that joins together various extractive industry stakeholders (i.e. resource-rich countries, corporations, investors, and civil society organizations) and gathers in reports that are made available to the public. It is a decentralized star network, with a Board as the central hub connected to National Multi-stakeholder Groups that connect companies, governments, and civil society organizations in different countries (as in the Decentralized network (B) in Diagram 1).

Like the FATF, the EITI depends on a soft-law standards regime. The EITI Standard requires a member government to disclose how it awards permits, which companies win those permits (including their beneficial owners), the details of contracts and production agreements, information about how much revenue is generated from those contracts, and accounting of how that revenue is allocated.

But unlike the FATF, the EITI meaningfully engages actors of the web world. The Standard requires extractive companies operating in an EITI country to disclose the amount they pay for a resource contract. Companies and civil society organizations are not merely advisors to the EITI but have an equal voice in decision-making, and the government of an EITI-implementing country is required to ensure companies and civil society groups actively participate. It must also guarantee that the country’s EITI reports are accessible and widely promoted among the public.

The decentralized structure of the EITI network enables it to successfully reach many jurisdictions. The Board at the center of the star is an executive body that meets two to four times a year. It comprises representatives from implementing governments, supporting governments, extractive industries companies, civil society organizations, and institutional investors.35 As the EITI’s organization-wide decision-making body, the Board sets priorities and evaluates the performance of countries in reaching the Standard. Members are appointed once every three years by a Members Meeting, in which the three constituencies—governments, civil society, and companies—have an equal vote. An Oslo-based International Secretariat linked to the Board does the day-to-day work of coordinating EITI activities, collecting data, and processing country applications.

National Multi-stakeholder Groups are responsible for implementing the EITI Standard in their country. They too include representatives from the government, extractive companies operating in that country, and local civil society
organizations. Crucially, each group makes its own decisions about how to implement the EITI in its jurisdiction. National Multi-stakeholder Groups must meet the Standard’s basic requirements, and they receive guidance from the Board and often technical assistance from the World Bank, but they have ownership of the process and are thus more likely to implement the EITI with fidelity. And because a diversity of interests have power in decision-making—not just government, but civil society and companies as well—a group is less likely to be captured.

To become a member of the EITI, a country applies to the Board by presenting a working plan, a statement of commitment and intent to meet the Standard, and it establishes a National Multi-stakeholder Group. If the Board votes to accept its application, the country becomes a candidate until it passes validation—a process by which independent reviewers appointed by the Board evaluate the country’s commitment and progress toward meeting the requirements of the Standard. Because the validators are outsiders, stakeholder engagement is key to the process, and the International Secretariat conducts initial consultations with the country’s Multi-stakeholder Group. If a country is ruled non-compliant and shows unsatisfactory progress toward meeting requirements, it is either suspended or delisted from the EITI. Compliant countries must be re-validated at least every three years to measure progress and ensure the Standard is consistently being upheld across nations. Countries also must publish an annual EITI report. If a country fails to maintain progress on the requirements, it is downgraded back to candidate status (as happened to Azerbaijan in 2015).

As of November 2015, 49 countries—mostly in the developing world—were implementing the EITI, with 31 compliant. Countries had published more than 200 EITI reports disclosing payments and revenues worth $1.67 trillion. More than 90 major oil and gas and mineral companies were supporting the EITI and participating on the EITI Board and in National Multi-stakeholder Groups, as well as 84 global investment institutions, representing $16 trillion in energy assets under management. Both the mining and oil and gas industries tend to support the EITI, as greater transparency reduces vulnerability to state corruption.

Government adoption of the EITI is paradoxical: Why would corrupt governments that collect substantial rents from natural resources agree to shine light on the sector? Though EITI implementation is arduous and subjects governments to scrutiny, studies suggest developing countries expect EITI membership will improve their international reputation and lead to
more donor aid. And through the reporting process, governments often discover uncollected taxes or fees. Nigeria, which went further than most implementing countries and chose to adopt the EITI Standard in domestic legislation, uncovered US$9.8 billion owed to the federal government in oil and gas revenues.

External assessments of the EITI have found a positive correlation between EITI membership and enhanced accountability and improved business climate. A 2013 EU study concluded that the EITI implementation process strengthened the capacity of civil society to hold government accountable, leading to a measurable improvement in corruption perceptions. Also, according to a World Bank assessment, EITI implementation often triggers wider reforms in public financial management or in the government institutions that regulate natural resources.

In some cases, the EITI has percolated into other sectors. Liberia, for example, chose to apply the EITI Standard requirements not just to its mineral resources sector, but also to its forestry and agriculture sectors.

Critics argue that the EITI offers a less stringent alternative than mandatory regulation for companies, and that several natural resource-rich nations such as Angola, India, and South Africa have shown no interest in applying to the EITI. A study of 16 recently EITI-compliant countries determined EITI implementation had no effect on improving governance and economic development indicators. The authors concluded the EITI was weak because it had a limited mandate, was voluntary in nature, often faced stakeholder resistance, and was dependent on a strong civil society in implementing countries.

But these criticisms judge the EITI against an ideal situation. In reality, the EITI is better than nothing in improving accountability and transparency in the extractive industries. The EITI will continue to expand to other jurisdictions as more countries apply for membership.

Building a Global Corporate Transparency Network

Aspects of both the FATF and the EITI inform how policymakers could strategically design a network to expose anonymous companies that facilitate offshore tax evasion and other financial crimes. The FATF illustrates the power of strong ties to generate socialization and exert peer pressure to compel adoption of group norms. The EITI demonstrates the importance of involving corporate and civic actors and the benefit of a structure that enables decentralized ownership of a global problem.

A vigorous if disjointed global movement is already calling for the creation of a global registry of beneficial ownership information. In the wake of the Panama Papers revelations in April 2016, several NGOs including Transparency International, Global Witness, the ONE Campaign, and the B Team—a nonprofit
of global business leaders founded by Richard Branson and Jochen Zeitz—announced a joint effort to push governments to establish public beneficial ownership registries. In June 2016, the UK government published the world’s first public corporate registry. Norway, Ukraine, and the Netherlands have also announced plans to create online public registries. These are promising steps, but will be limited if the approach is simply to lobby governments.

Leaders and activists should create a Global Corporate Transparency Network (GCTN), a coordination network with two functions: first, to push businesses to endorse beneficial ownership transparency, and second, to build and maintain a global registry of corporate ownership information accessible to law enforcement, watchdog organizations, and the public. Creating a registry is the work of gathering in details about companies from all the world’s jurisdictions. In an ideal world, governments would pass incorporation laws requiring companies to disclose beneficial ownership information. They would then post that information on their own national registry as the UK has done, or else funnel it to a global database.

But relying solely on governments is inadequate. Too many jurisdictions gain too much by offering secrecy. Governments ranging from the tiny South Pacific island of Nauru to the state of Delaware are highly dependent on incorporation fees and other revenues associated with the creation of corporate vehicles. Economist Gabriel Zucman calculates ending financial opacity would cause losses to Switzerland equal to a 30 percent trade tariff imposed on it by France, Germany, and Italy. Though jurisdictions should be pushed to require beneficial ownership disclosure, a solely top-down approach will fail to change the global system.

Here web-world actors come into play. In addition to NGOs, legitimate businesses and investors strongly support beneficial ownership transparency. According to Telecom magnate and B Team leader Mo Ibrahim, “Ethical and effective businesses do not require anonymous companies to operate and succeed, yet such businesses may suffer the consequences of their use.” Anonymity increases risk, raises due diligence costs, decreases financial system stability, and distorts markets by enabling noncompetitive firms to succeed. In accounting firm EY’s 2016 Global Fraud Survey, which polled nearly 3,000 senior executives in 62 countries and territories around the world, 91 percent of respondents said it was important to know the identity of the true owners with whom they did business. In 2016, a group of global institutional investors with more than US$740 billion assets under management sent letters to Congress calling for the immediate passage

A Global Corporate Transparency Network (GCTN) would have two functions.
of a stalled bill that would require all companies to disclose beneficial ownership information at the time of their incorporation.\(^{50}\)

Thus, the first function of the Global Corporate Transparency Network would be to amplify the role of corporate actors by linking key firms in a completely connected, FATF-like membership core. The network will tightly connect a few dozen large businesses that operate in the financial sector—such as major banks, law practices, and accounting firms—that all voluntarily reject facilitating the creation of secret companies or otherwise doing business with them. Due diligence officers will represent their companies in the network. Like in the FATF, they will meet regularly to share information and voluntarily review one another's know-your-customer regimes. It may sound far-fetched that companies would allow themselves to be evaluated by rival firms, but working with others could lower individual due diligence costs and help identify costly risks. Moreover, membership in the network would be a reputation-enhancing mark of clean, responsible business.

The second function of the Global Corporate Transparency Network would be to create and maintain a public registry of corporate details. If the world cannot depend on governments to gather and publish beneficial ownership information, then that work must be distributed and done from the bottom-up. Companies, investors, accountants, lawyers, investigative journalists, civil society organizations, whistleblowers—any of these actors and more who may come into contact with or unearth information about anonymous companies should be able to post that information onto a global public registry that identifies the true owners of shell companies.

To perform these two functions, the Global Corporate Transparency Network would be a coordination network designed to gather in all the information provided by contributors and to orchestrate the work of the tightly connected businesses constituting the core. It would be a centralized star network, with a central Oversight Council (OC) that oversees the mutual evaluation work of the member businesses, sets standards for the registry, and makes decisions about its organization and management. Oversight Council members would include representatives from civil society organizations; governments (especially law enforcement officials, some of whom may also sit on the FATF); and the business community. The United Kingdom, with its trailblazing work to launch a public registry, is the logical choice to chair the Oversight Council. A Secretariat attached to the Council would build and maintain the global public registry.

Additionally, the Oversight Council would steward the creation of Jurisdictional Advisory Boards based in secrecy jurisdictions themselves. The design would borrow from the structure of the EITI, with businesses, professional associations, and local civil society groups linked together and loosely connected to the Oversight Council. Their purpose would be to pressure companies to voluntarily
publish their beneficial ownership details on the registry. The goal is not to actually get dubious shell companies to reveal their true owners, but rather to make opacity abnormal. Full disclosure would become the mark of a legitimate business.

Led by journalists and civil society organizations, the Jurisdictional Advisory Boards would also publish regular, jurisdiction-specific reports to increase public awareness and pressure for beneficial ownership transparency. The public outrage and activism over the Panama Papers leaks proved that populations care about the issue. The aim is to keep attention on the problem and increase the reputational costs for companies that do not disclose beneficial ownership details.

The paradox of a widely distributed coordination network is that hierarchy at the core is necessary: with a broad community of disparate groups and individuals contributing to the common platform, vetting and quality control are critical. Thus, the Oversight Council would remain small and make decisions by simple majority vote so as to enable quick, definite rulings. Alongside the OC should be a secretariat responsible for engineering and maintaining the online platform.

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Diagram 2: The Global Corporate Transparency Network

The Oversight Council is connected to the core members (banks, law practices, and accounting firms, which are also connected to one another) and to the Jurisdictional Advisory Boards, local groups of businesses and NGOs that pressure companies to disclose ownership details. The Secretariat manages the global public registry, which gathers in submissions from individuals and organizations the world over.
itself. Part of this design would include steps to guarantee quality control, such as requiring verified identity credentials to post reviews. (The platform would have a channel available to accommodate anonymous whistleblowers.)

But even with a hierarchical central hub and a verification mechanism, the challenge for the global public registry will be confirming the authenticity of information. To help do this, the registry should have an AirBnB-style review feature. For example, a company due diligence officer who encounters a dubious shell company can write a “review” detailing their knowledge of the company and how they came to that knowledge. Information could range from full beneficial ownership details to simply a red flag that a company hasn’t disclosed who its true owners are. That company—or others with experience with that company—can then post a rebuttal or corroborating evidence. Just as a single AirBnB or Amazon review may not give a trustworthy assessment of a property or product, several tend to paint a reliable picture. At the very least, it would give law enforcement, company due diligence officers, and investigative reporters a good place to start.

Designing the registry as such a platform takes advantage of the power of collective participation. A wide range of actors will share the work of gathering in this information; indeed, many already are. In addition to high-profile investigations by the New York Times, The Guardian, and the International Consortium of Investigative Journalists, local projects are also unmasking shell corporations. For example, to expose predatory real estate speculators in Detroit, two data scientists created a map that identifies the people behind the shell companies that own properties in the city.51

Though some jurisdictions, professional associations, and financial institutions may bristle at a public registry, the concept is not radical. The United States and many European countries maintain real estate registries, where anyone can look up who owns a property. The utility of these registries is often moot, however, as the titleholder can be an anonymous shell company. A New York Times investigation found the buyers of more than half of all New York City residences worth $5 million or more in 2014 were shell companies, many with unknown owners.52

It may sound strange to apply to corporate ownership details the same type of system used to rank purchases or vacation homes. But with sufficient quality control, such a platform could make major gains in bringing secrecy jurisdictions into the light. Already, Google’s tech incubator, Jigsaw, has partnered with non-profits to build a platform called Investigative Dashboard that scrapes business records to build navigable databases for journalists and watchdog groups.
working to track illicit financial flows through shell companies. All these platforms are ultimately about transparency: Amazon reviews shine light on products so consumers know what exactly they are purchasing. The same goes for investors and companies who want to know exactly what to expect when they do business with a certain company.

The Imperative of Webcraft

Economist Dani Rodrik warns that when mainstream politicians cannot generate “meaningful responses to inequality,” populations turn to populists and demagogues. For three decades, political leaders in the United States have allowed and even encouraged wealth to concentrate in society’s uppermost tier. Little wonder that in the 2016 U.S. presidential race, a central and resonant message of both Bernie Sanders and Donald Trump was that the system is rigged, that the rules of the economy are stacked in favor of the elite.

Behind these headlines lies the complex and shadowy world of anonymous shell companies. Even politically savvy Americans might not connect Delaware corporate registration laws with widening wealth gaps. Yet President Trump and some of his cabinet, as well as countless fellow members of the elites he excoriates, have benefited from this system. In 2017, journalists proved that payments from the party of Kremlin-backed Ukrainian former strongman Viktor Yanukovych were made via anonymous shell companies to erstwhile Trump campaign manager Paul Manafort. And eighty years after Morgenthau warned Roosevelt about secrecy jurisdictions, Treasury Secretary Steve Mnuchin failed at the start of his confirmation process in 2017 to disclose to Congress his role as director of an investment fund in the Cayman Islands. Though Mnuchin insisted he didn’t use that shell firm to avoid paying taxes himself, the ethical implications of his involvement are deeply troubling.

This U.S. administration is unlikely to champion transparency policies that make complex webs of corporate ownership clear. Nor will countless other countries whose leaders either engage actively in corrupt practices that depend on secrecy jurisdictions, who offset their small size and lack of resources by becoming financial havens, or even relatively clean governments that respond to the lobbying of accountants, lawyers, and businesses that benefit from creating these complex arrangements. Governments that are willing to play a leadership role, such as the British government, must engage a wide array of web-world actors. They must design a network that will use a combination of collective participation, peer pressure, hierarchy, and decentralization to produce a truly global platform for transparency. The hope is that same corporate and civic actors in countries across the globe will then push their governments to join in.
Beyond the specific tale of transparent ownership, the moral of this story is the empowerment of a broad range of unlikely contributors to global affairs; anyone who once majored in international relations or global studies and dreamed of a high foreign policy position can now find a role to play. Statecraft is a narrow, limited field. It remains critically important to address situations of high conflict, low trust, and limited interconnection often at the state level.

Webcraft is for everyone. It offers a far larger domain of action that will often still prove most effective if governments are involved, but that allows civic and corporate actors to initiate, push, shape, and participate in solutions to a wide variety of global problems. Networks provide the tools; the strategic design and operation of those networks constitutes the craft. Global stability and prosperity depend on mastering webcraft by a new and far broader generation of foreign policy actors.

Notes

6. See the International Consortium of Investigative Journalists’ complete coverage of the Panama Papers at https://panamapapers.icij.org/.


23. As of the end of 2016, 35 countries plus the European Commission and the Gulf Cooperation Council are full FATF members.


29. See Chapter 6 in Anne-Marie Slaughter, *The Chessboard and the Web*.

30. See Blazejewski, “The FATF and its Institutional Partners.”

31. See Blazejewski, “The FATF and its Institutional Partners.”


35. The current Chair of the Board is Fredrik Reinfeldt, the former Prime Minister of Sweden.


40. See David-Barrett and Okamura, “The Transparency Paradox.”


43. Benjamin K. Sovacool et al, “Energy Governance, Transnational Rules, and the Resource Curse.” The authors did heavily caveat their findings, however, noting they were only
correlative, the research design was quasi-experimental, and the study only assessed recently compliant countries.


45. See the registry website: https://beta.companieshouse.gov.uk/


47. Mo Ibrahim, “Are Anonymous Companies a ‘Getaway Vehicle’ for Corruption?”


51. Their map is available at http://www.propertypraxis.org/.


53. Available at Interactive Dashboard, https://investigativedashboard.org/.
