



BRIEF: PHANTOM FIRMS

WHAT ARE PHANTOM FIRMS?

Phantom firms are secretive companies or trusts used by international criminals and corrupt businesses to hide money, rip off governments and siphon off cash that could be used to pay for health care, education or vital infrastructure investment.

You can create a phantom firm with less information than you need to obtain a driving licence or open a bank account.

Phantom firms exist solely on paper, and legally allow the people who own or control them (the “beneficial owners”) to keep their identities hidden while they launder and channel funds.

It is common for one phantom firm to be “owned” by another phantom firm, which is itself “owned” by yet another phantom firm, and so on, making it virtually impossible for law enforcement or anyone else to identify the real individuals ultimately responsible for the company’s actions.

HOW TO STASH THE CASH IN 3 EASY STEPS



1

Find a lawyer or company service provider to set up a phantom firm



2

Clean the money by hiding it in a phantom firm



3

Move money into financial system e.g. banks



This money is clean and untraceable – spend freely on Ferraris, private jets or racehorses

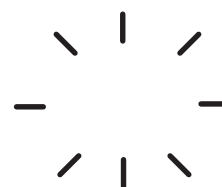
Law enforcement officials may try to investigate but will hit a brick wall because the money can’t be traced



DIRTY MONEY FROM A DODGY DEAL



CLEAN MONEY



WHERE IS THE MONEY?

According to World Bank research, 70% of corruption cases used phantom firms to launder money.¹

1. World Bank (2011) “The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It.” <http://star.worldbank.org/star/publication/puppet-masters>

WHY ARE PHANTOM FIRMS A PROBLEM?

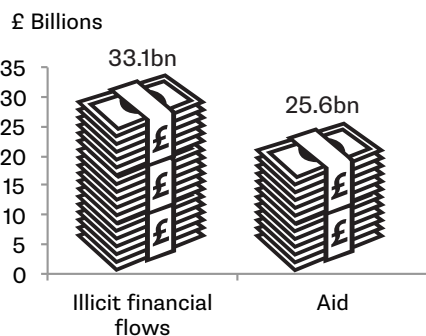
These secretive, anonymous shell companies and trusts play a central role in laundering and channelling funds, concealing behind a veil of secrecy the identity of corrupt individuals and irresponsible businesses involved in activities, including tax evasion, terrorist financing, and the trafficking of drugs and people. This robs governments, in both developed and developing countries, of resources that might otherwise be invested in improving public services and stimulating inclusive economic growth.

Evidence from the World Bank¹ demonstrates the role that such elusive entities play in facilitating corruption and money laundering, with more than 70% of corruption cases analysed found to involve anonymous shell companies.

The legitimacy afforded to phantom firms registered in well-respected places like the US and the EU, makes it easy for them to open bank accounts that can wire ill-gotten money anywhere in the world.

In far too many cases, this tactic has been used to rob African countries of the resources they need to invest in health, agriculture, and poverty reduction. In addition, they exacerbate governance problems and undermine the prospects for investment and growth.

Illicit financial flows and aid, sub-Saharan Africa (2010)



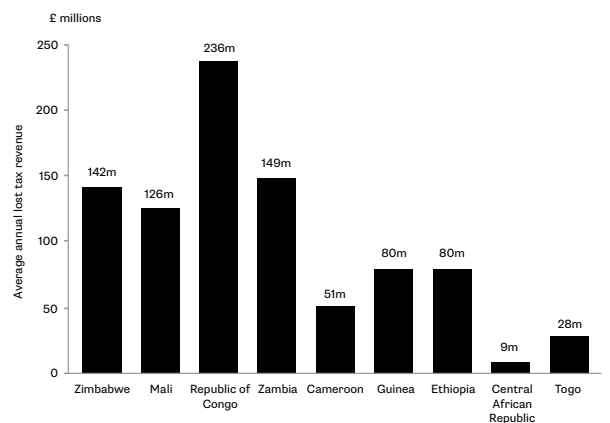
Illicit financial flows from sub-Saharan Africa in 2010 amounted to more than the total aid received by the region the same year.

Phantom firms enable corrupt government officials and businesses to anonymously and illegally spirit money out of African countries. These illicit financial flows have very real negative impacts on the lives of ordinary Africans.

Global Financial Integrity estimated the amount of public revenue lost to developing countries through illicit financial flows on average each year (2002-06).²

Nine of the 20 countries with the highest losses compared to their total government revenue were in sub-Saharan Africa:

Tax revenue lost in African countries (average annual, 2002-06)



“A lack of knowledge about who ultimately controls, owns and profits from companies leads to aggressive tax avoidance, tax evasion and money laundering.”
 - Prime Minister David Cameron

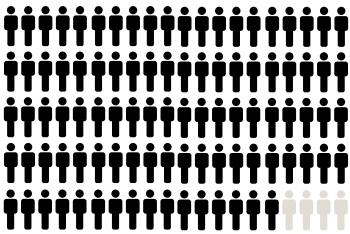
1. World Bank (2011) “The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It.” <http://star.worldbank.org/star/publication/puppet-masters>
 2. Global Financial Integrity (2010) The Implied Tax Revenue Loss from Trade Mispricing, http://www.gfintegrity.org/storage/gfip/documents/reports/implied%20tax%20revenue%20loss%20report_final.pdf

HOW ARE POOR COUNTRIES AFFECTED?

Nigeria

£686 million – amount received by the Government of Nigeria from Shell and ENI in a deal for an offshore oil block, then immediately transferred to a phantom firm owned by former Nigerian oil minister, Dan Etete.

Nigeria: People living with HIV



There are 3.4 million people living with HIV in Nigeria. This stolen money could have paid for an annual course of antiretroviral (ARV) treatment against HIV/AIDS for 96% of all people living with HIV in Nigeria.

Togo

Togo lost £28 million in tax revenue on average each year between 2002 and 2006 due to illicit financial flows, equivalent to 13.5% of total government revenues. These lost public resources could have paid for full vaccinations against deadly childhood diseases for every single child under the age of five in Togo, potentially saving 30,000 lives.

Zambia

Between 2002 and 2006, Zambia lost £149 million in tax revenue (the equivalent of 21.7% of its total government revenue) on average each year due to illicit financial flows. This money lost to the public purse could have paid for an additional 79,000 primary school teachers, more than doubling the total number of primary school teachers in the country.

Democratic Republic of the Congo (DRC)

Over just three years (2010-12), the Democratic Republic of the Congo lost £880 million in five mining deals due to mispricing of assets enabled by phantom firms.

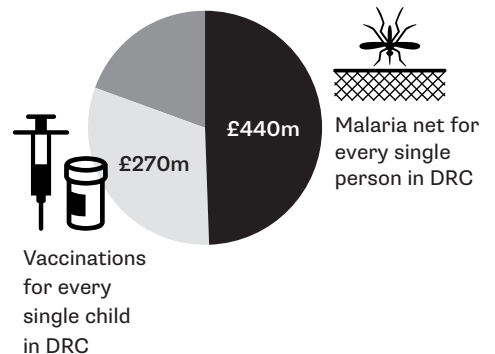
Around 10% of all malaria deaths in the world occur in the DRC. 40% of all child deaths in the DRC are due to malaria.

Less than half of the lost money could have provided an anti-malarial bednet to every single person in the DRC.

In 2012, 391,000 children in the DRC died before reaching their fifth birthday, mostly from preventable and treatable causes.

Less than a third of the lost money could have provided vaccinations for every child under the age of five, protecting them from deadly illnesses such as tetanus, diphtheria, whooping cough, Hepatitis B, meningitis, pneumonia and diarrhoeal disease, potentially saving over 400,000 lives.

DRC lost £880 million in five dodgy mining deals



Sources

Global Financial Integrity (2012) *Illicit Financial Flows from Developing Countries: 2001-10*, http://iff.gfintegrity.org/documents/dec2012Update/Illicit_Financial_Flows_from_DevelopingCountries_2001-2010-HighRes.pdf

Africa Progress Panel (2013) *Africa Progress Report 2013: Equity in Extractives*. http://www.africaprogresspanel.org/wp-content/uploads/2013/08/2013_APR_Equity_in_Extractives_25062013_ENG_HR.pdf

Global Witness (June 2013) *The Curious Case of Nigerian Oil Block – OPL245*. http://www.globalwitness.org/sites/default/files/library/The%20case%20of%20Nigerian%20oil%20block%20OPL245_0.pdf

Health data from WHO, President's Malaria Initiative, UNICEF and PEPFAR. There are around 12 million children under the age of five in the DRC (2011), UNICEF (2013) *State of the World's Children*. £63 million pays for full pentavalent, pneumococcal and rotavirus vaccinations for 2.84 million children, saving roughly 100,000 lives over time (data from GAVI).

Global Financial Integrity (2010) *The Implied Tax Revenue Loss from Trade Mispricing*, http://www.gfintegrity.org/storage/gfip/documents/reports/implied%20tax%20revenue%20loss%20report_final.pdf

UNESCO Statistics; UNESCO (2011) *Financing Education in Sub-Saharan Africa*, http://www.uis.unesco.org/Library/Documents/Finance_EN_web.pdf

WHAT NEEDS TO HAPPEN?

Preventing the abuse of anonymous shell companies and trusts can help stem the huge volumes of illicit financial flows that rob Africa of the resources needed for the continent and its people to make sustainable progress in the fight against poverty.

Right now, there is no legal requirement for companies or trusts to declare – or even record privately – who owns them. That means that there’s no way of knowing who is benefiting from those companies’ activities, whether they are legitimate or not.

A change in the law so that the names of the people who own companies and trusts are made public would mean that citizens, activists and agencies such as law enforcement authorities can find out who is behind them and follow the money. That would make it much easier to spot when companies or trusts are being used to steal state funds or buy assets on the cheap.

Public registers of who owns and controls companies would make it more difficult for corrupt government officials to launder and hide illicit money, and enable countries and their citizens to more easily identify and recover assets stolen by government officials and stashed in secret accounts abroad.

It would also make it more difficult for companies to buy assets for much less than they’re worth – a practice which short-changes people who need those assets invested in poverty reduction.

WHAT IS ONE CALLING FOR?

David Cameron has said that he supports a public register of beneficial ownership that would put an end to phantom firms. The UK Government should now deliver on the Prime Minister’s ambition, by committing to make information about who owns and controls companies, trusts and similar legal vehicles established in the UK, its Crown Dependencies and Overseas Territories public.

The G8 countries agreed in June 2013 that action was needed on both companies and trusts to avoid creating an important and serious loophole.

An announcement at the Open Government Partnership Summit in London on 31 October would show real leadership across Europe ahead of crucial discussions in the coming weeks about proposed updates to the anti-money laundering directive.

The European Commission must go bigger than its current proposal that all companies must hold details of their beneficial ownership. It is imperative that the law mandate that this information be made publicly available. Public registers across all 28 Member States would strike a significant blow against the corrupt and criminal.

WHAT WOULD THIS ACHIEVE?

Making information public about who owns and controls companies and trusts will:

- Give citizens and journalists in **developing countries** access to the data they need to follow the money and root out corruption;

- Help to improve **data quality** by enabling more people to scrutinise the data, and identify, check and correct inaccuracies;

- Enable banks and other financial institutions to perform **due diligence** more effectively;

- Ensure that **businesses know who they are doing business with;** and

- Contribute to more effective **law enforcement** - investigations, prosecutions and the return of stolen assets.

PHANTOM FIRMS REAL LIFE EXAMPLES

“BAD” PHANTOM FIRMS

“Bad” Phantom Firms: According to the US Department of Justice, Teodoro Nguema Obiang, the son and vice-president of President Obiang of Equatorial Guinea, allegedly used phantom firms – registered in California, US and the British Virgin Islands – with innocent-sounding names like Sweet Pink, Inc., Unlimited Horizon, Inc., Beautiful Vision, Inc., and Ebony Shine International Ltd., to purchase a £19 million seaside mansion in Malibu, California, a £24 million Gulfstream jet, and storage for various Michael Jackson memorabilia—including a crystal-encrusted Bad Tour glove and the Thriller jacket.¹ Meanwhile, more than one in seven children under the age of five were dying from preventable diseases inside his country and poverty remains rampant.²

MALABU DREAMS

Malabu Dreams: In 2011, subsidiaries of Shell and ENI paid £686 million to the Nigerian government for an offshore block with estimated oil reserves of nine billion barrels. The government then agreed to transfer precisely the same amount to an account earmarked for “Malabu Oil & Gas”, a Phantom Firm whose hidden owner was Dan Etete. In 1998, while Nigeria’s petroleum minister, Etete awarded the rights from the lucrative oil concession to Malabu Oil & Gas, a company with no employees or assets that he had created just days earlier.³ That £686 million could have been used to fully immunize every single child under five in the country (27.2 million kids).⁴

DODGY DEALS

Dodgy Deals: According to the Africa Progress Panel, phantom firms in the Democratic Republic of Congo have been used by unidentified individuals to purchase mines for as little as 1/16th of their actual value, and then to resell them at full price, siphoning off money that should have accrued to the state. Between 2010 and 2012, the DRC lost at least £880 million in revenues from just five of these deals, an amount nearly double the country’s combined annual budgets for health and education in 2012. The DRC has some of the world’s worst malnutrition, the world’s sixth highest child mortality rate, and over seven million children out of school.⁵

1. US Department of Justice: <http://www.egjustice.org/sites/default/files/DOJ%20Forfeiture%20Complaint%20-%20House%20+%20Car.pdf>,

2. UNICEF, 2011, “Levels & Trends in Child Mortality,” http://www.childinfo.org/files/Child_Mortality_Report_2011.pdf

3. Global Witness: “The Curious Case of Nigerian Oil Block – OPL245,” http://www.globalwitness.org/sites/default/files/library/The%20case%20of%20Nigerian%20oil%20block%20OPL245_0.pdf

4. ONE calculations based on impact figures provided by GAVI Alliance whereby \$100 million provides pentavalent, pneumococcal and rotavirus vaccines for 2.84 million children, saving roughly 100,000 lives. Nigeria’s under-five population is approximately 26.6 million (2010); see: UNICEF (2013) State of the World’s Children, http://www.unicef.org/sowc2013/files/SWCR2013_ENG_Lo_res_24_Apr_2013.pdf

5. “Africa Progress Report 2013: Equity in Extractives,” http://www.africaprogresspanel.org/wp-content/uploads/2013/08/2013_APR_Equity_in_Extractives_25062013_ENG_HR.pdf



TO HIGHLIGHT THIS SCANDAL
ONE PRESENTS



STASH-THE-CASH.COM

Europe's premier one-stop money laundering shop



STASH-THE-CASH.com is **the** go-to place for drug lords, people traffickers, gun runners and corrupt businesses who want to set up a secret company to launder their dirty money, no questions asked...

Got dodgy profits you want to keep out of sight of the authorities? At STASH-THE-CASH.com it just takes one hour to create a 'phantom firm' so that nobody knows it's yours.

And the most extraordinary thing about it? It's absolutely legal!

Wherever there's a dodgy deal, there's very likely a phantom firm helping to launder the cash.

But Europe has a chance to make things more difficult for the bad guys...

ONE is highlighting the shocking truth that it's easier to set up a shell company to hide criminal profits than it is to apply for a driving licence. And nobody need ever know who owns it...

That doesn't just help people who deal in drugs, guns and women... It helps the corrupt officials and businesses who are looting poor countries of resources that should be used for health, education and vital infrastructure programmes.

The truth is that while Stash-The-Cash.com is not really in business, it could be, and the problems caused by phantom firms are all too real.



DEALING IN WOMEN, DRUGS OR GUNS? STASH-THE-CASH.COM

SO EASY, IT SHOULD BE CRIMINAL!



★★★★★ **"It Pays for Itself!"**

"What I do isn't exactly legal, but Stash the Cash is. Thanks to them my profits are clean and 100% untraceable." -Arms Dealer



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