



**THE MISUSE OF CORPORATE VEHICLES IN GRAND CORRUPTION CASES:
“UNRAVELING THE CORPORATE VEIL”**

DRAFT CONCEPT NOTE

September 1, 2009

Executive Summary

One of the obstacles frequently cited by investigators as impeding the tracing of funds involved in corruption is the difficulty in establishing the ownership/control of those funds. In many cases, corruption proceeds have been moved through/ concealed by corporate vehicles. The overall aim of this project is to investigate and identify those impediments and offer recommendations to address them both at the policy and practitioners’ level. The team will examine evidence from past grand corruption cases, will test the level of implementation of relevant international AML standards (ref. FATF recommendations No. 5, 33, 34) by financial and legal service providers in selected jurisdictions, and will consult practitioners to identify existing obstacles to investigations. The combination of these three exercises will culminate in the production of a “good practice guide”

Target Audience: This study is primarily aimed at policy makers in charge of designing anti-corruption and AML strategies, and investigators facing cases involving the misuse of corporate vehicles to conceal proceeds of corruption.

Timeframe: May 2009-May 2010

Total budget for this project: 267.000 \$ (97.000 Bank budget, 170.000 StAR Trust Fund)

Task Team Leader: Mr Emile Van der Does de Willebois, Senior Financial Sector Specialist, Financial Market Integrity Unit (FPDFI)

Project Team: The main project team includes staff from the World Bank (Cari Votava) and consultants (Prof. Jason Sharman, Mr. Jan van Koningsveld, Matteo Vaccani).

A. BACKGROUND

1. The Stolen Asset Recovery initiative, launched in September 2007 by the World Bank and the UNODC, aims to facilitate the repatriation of funds constituting the proceeds of corruption- typically from well developed financial centers back to their (developing) country of origin. One of the obstacles frequently cited by investigators as impeding the tracing of those funds is the difficulty in establishing the ownership/control of those funds. If funds believed to be the proceeds of corruption are transferred from a bank account in the name of person A to a bank account in the name of person B then, ostensibly at least, person B now becomes of interest to the investigator. Rarely, however, are matters that straightforward. Certainly in big corruption cases there will be no bank accounts held by persons A and B, if by persons we mean natural persons, human beings. More typically one will find bank accounts held by legal persons, paper constructions, themselves controlled by natural persons. And that is where the problems start.

2. No longer is the investigator looking at a transaction from Mr A to Mr B but rather from entity A to entity B. Who controls those entities? Is this a legitimate transaction or is the person who controls entity A paying off the owner of entity B? Or are they both the same person? Though of course there may be similar questions when dealing with flows of funds exclusively between natural persons- who themselves might be fronting for, acting on behalf of, other unmentioned principals- it is clear that the insertion of legal persons into the equation adds a significant layer of opacity by removing the principal actors from sight. Such opacity may also be achieved by using trusts or similar arrangements, not strictly speaking legal persons but providing another way to obfuscate the identity of the person who ultimately controls the funds in question.

3. Legal persons, trusts and similar arrangements will together be referred to as corporate vehicles; the natural persons ultimately controlling them as beneficial owners. While serving legitimate commercial/non-commercial purposes in the vast majority of cases, the establishment of corporate vehicles can allow corrupted officials and their associates to hide behind the veil provided by a separate legal entity as their beneficial owners. This project deals with such misuse.

4. In most cases, then, the objective is to preserve the anonymity of those controlling the proceeds¹. Four cases can be cited to describe the use of corporate vehicles in perpetrating corrupt acts.

¹ A secondary purpose served by the abuse of corporate vehicles is as an asset holding tool, providing protection against confiscation measures even when the owner of the corporate vehicle is held criminally liable (similar to the transfer of assets by a defendant to a spouse to avoid confiscation). Such use may be noted in different instances but will not be the principal focus of this project.

B. THE EVIDENCE

Kuznetsov

5. As a procurement officer serving the United Nations for about 20 years, Alexander Yakovlev accumulated illicit funds by assisting bidders and rigging procurement procedures from the early 1990s to his resignation in 2005. Over this period, a total in excess of US\$ 3.5 mil was generated as compensation from favored vendors².

6. A pivotal role in the facilitation of this scheme – and particularly in the management of associated proceeds – was played by Mr. Vladimir Kuznetsov, who prior to his arrest in 2005 served as the UN Chairman of the Advisory Committee on Administrative and Budgetary Questions, and was the highest-ranking Russian diplomat at the UN at the time³.

7. The use of CVs in this endeavor can be traced to two stages: first, as a tool to transmit funds from vendors to Yakovlev; second, as a way for the recipient to secure the assets and hide them behind a corporate veil. In the first case, two off-shore companies (Westminster Int'l and Solitaire Nominees) associated with one of the vendors (Avicos) were used to make the payments directed at Yakovlev (see figure 1) and his associate.

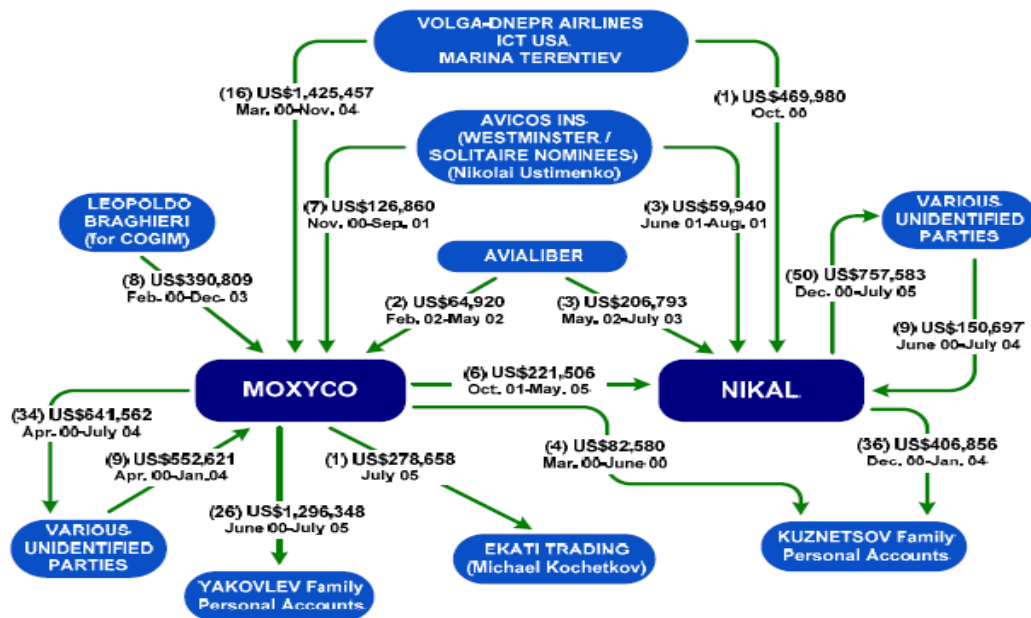
8. The procurement officer – together with Kuznetsov - used bank accounts spread over multiple jurisdictions and employed two offshore corporations to manage his funds: Moxycy and Nykal. Moxycy was created in St. Vincent and the Grenadines in 2000 with the help of a corporate service provider, which also provided for the creation of a Board of Directors with “no de facto authority”. Yakovlev, his son and wife held power of attorney and could conduct transactions on behalf of the company. Yakovlev was associated to a total of six bank accounts in jurisdictions ranging from Antigua to Cyprus and Moscow. In two cases, the bank accounts had been opened through corporate vehicles.

9. Nykal was also incorporated in St. Vincent by Kuznetsov, and shared the same board of directors as Moxycy's. An account was opened in the name of the company, and was used to receive funds both from UN vendors and from Yakovlev's controlled accounts. In particular, close to 1 mil US\$ transited through Nykal either from vendors involved in the scheme or from Yakovlev's Moxycy. In addition, more than 82,000 US\$ were sent to personal accounts linked to the Yakovlev family from Moxycy.

² UN, *Interim Report on matters Concerning Former United Nations Staff member Mr. Alexander Yakovlev and Associated Vendors*, 2 may 2007.

³ US Attorney – Southern District of New York, *US Convicts High-Ranking United Nations Official of Money Laundering Conspiracy*, March 7, 2007.

Fig. 1 Overview of payments – Kuznetsov case, 2000-2005



Salinas

10. Upon Carlos Salinas’ election to the Mexican Presidency in 1988, his brother Raul became involved in the new administration. Before being arrested in 1995, Salinas had been accumulating funds allegedly gained from major drug traffickers and other illicit sources, and ultimately succeeded in transferring US\$ 90 -100 mil out of Mexico through a network of private banking accounts and offshore shell companies (see figure 2)⁴.

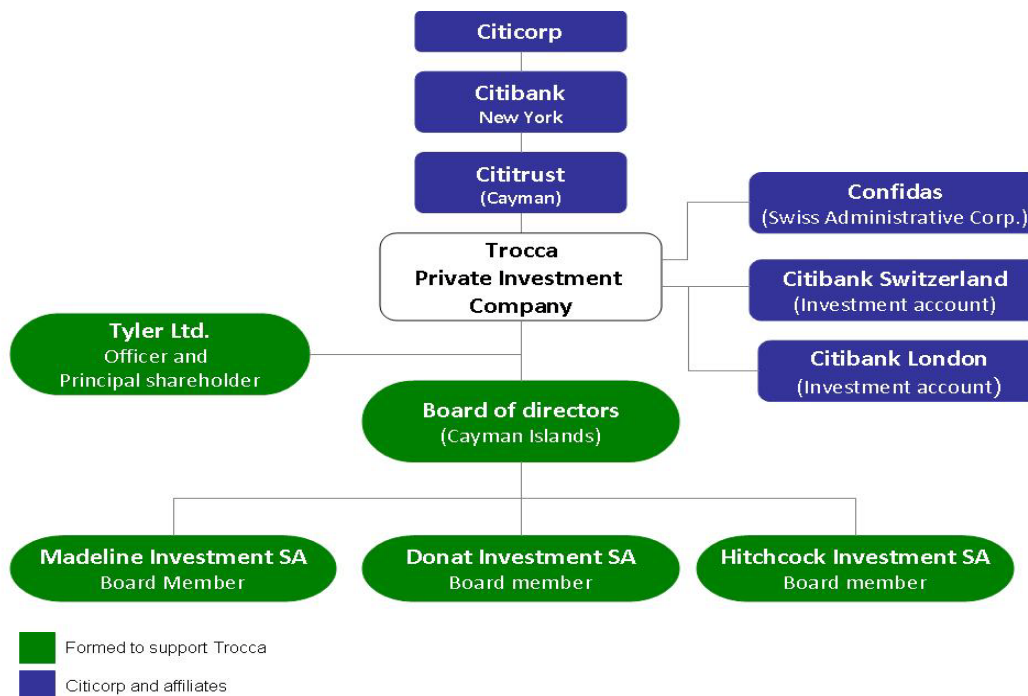
11. Salinas first opened a checking account with Citibank New York, which later created a shell private investment company (Trocca) through its trustee services provider, Cititrust (Cayman). Investment accounts in London and Switzerland were also opened on behalf of the company. Secrecy laws in the Caymans provided a significant degree of confidentiality on connections between Salinas and Trocca, whose board of directors was formed by three other shell companies (also created by Cititrust). Additional layers were provided by a fifth CV (Tyler Ltd.), acting as Trocca’s officer and principal shareholder, and finally by a Swiss Cititrust affiliate handling all of Trocca’s administrative requirements⁵.

12. Fund transfers were arranged from Mexico by Salinas’ partner by taking cash or checks obtained from multiple local banks to Citibank Mexico, converting them into US\$ (either on behalf of Tyler Ltd. or using a false name) and wiring them to the US (either to the checking account or Citi’s concentration account). From there, wire transfers were arranged to Trocca’s European accounts.

⁴ US General Accounting Office, *Private Banking – Raul Salinas, Citiibank, and Alleged Money Laundering*, October 30, 1998.

⁵ *Ibid.*

Fig. 2 CVs involved in the Salinas case, 1992



Abramoff

13. In a case that shook Washington, DC in 2006, Jack Abramoff, a local lobbyist, plead guilty to charges of fraud, tax evasion and bribery. Part of the scheme was a conduct through which Abramoff and his associates “offered and provided a stream of things of value to (high) public officials”⁶ – generally congressmen and their staffers – in exchange for official acts and influence favorable to Abramoff’s objectives. When engaging in bribery of public officials, in some cases Abramoff used corporate entities and non profit organizations to funnel funds. The entities used had been created by Abramoff himself, or were run by his friends or associates. As a matter of fact, the use of CVs and NPOs to “receive funds [and] conceal the destination (...)” of the money was a constant in Abramoff’s scheme⁷.

14. A case in point is the financing of two golfing trips to Scotland to which Abramoff, a US House Representative and his staff participated, in 2000 and 2002 respectively (see Figure 2). The 2002 trip was listed in the lobbyist’s plea agreement under the “corruption of public officials” heading⁸.

15. The 2000 trip was funded in part by directing a client Indian tribe to transfer funds to the National Public Policy Research (NCPFR), a think tank headed by a friend of

⁶ Plea Agreement, Factual Basis for Plea, *U.S. v. Jack A. Abramoff* (Dist. D.C., January 3, 2006) (CR 06-001)

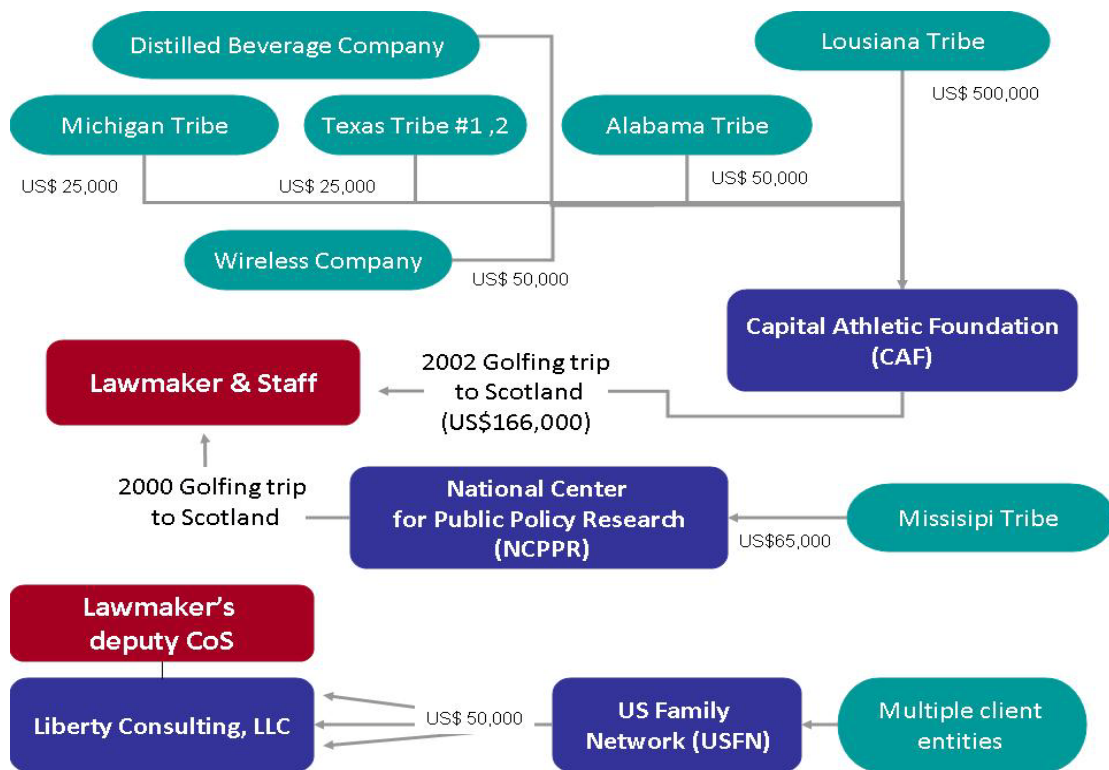
⁷ Ibid.

⁸ Ibid.

Abramoff's, on which Board the lobbyist was sitting. The same entity later fully funded the trip to which one Congress representative and his staff participated⁹.

16. To pay for the 2002 trip, Abramoff devised a similar process: first, multiple clients (including Indian tribes and corporations) were directed to transfer funds to a non-profit organization (Capital Athletic Foundation – CAF) created by Abramoff and his wife¹⁰. Clients were led to believe that the money was going to be allocated towards educational programs and other grassroots efforts. In the second stage of the process, part of the funds then at the disposal of the Foundation were diverted away from their stated purpose, in order to finance the trip to Scotland. According to official investigations, out of US\$ 234,319 claimed by CAF in expenses for travel, conferences and meetings in 2002, more than US\$166,000 were costs incurred for the trip in question.

Fig. 3 CVs involved in Abramoff's corruption schemes, 1999-2002



17. Another example was the use of another NPO to funnel monthly payments to a consulting firm (Liberty Consulting, LLC) created by a member of a House representative's staff, officially as compensations for the member's wife consulting

⁹ US Senate, "Gimme Five" Investigation of Tribal Lobbying Matters – Final Report before the Committee on Indian Affairs, June 22, 2006.

¹⁰ Capital Athletic Foundation (CAF) was registered with the IRS as a 501 (c) (3) exempt private foundation, and described itself as a youth charity in Washington, DC providing grants to support sportsmanship programs for the disadvantaged youth.

services. The staff member later pleaded guilty of corruption charges in relation to the payments. The funds -totaling US\$50,000 over an 8-month period- had been originally obtained from clients of Abramoff's lobbying enterprises¹¹. Such entities had donated significant amounts to the non-profit organization US Family Network, which in turn issued the monthly checks to Liberty Consulting¹².

Bank of China

18. As executive managers at the government-owned Bank of China (BOC), Xu Chaofan (XC), Yu Zhendong (YZ) and Xu Guojon (XG) succeeded between 1991 and 2004 in embezzling close to US\$ 485 million in public funds from a Kaiping, China branch. The three were assisted by other associates in attempts to launder the funds through multiple channels¹³. The strategy devised by the perpetrators included the use of multiple corporate entities established in mainland China and Hong Kong with associated bank accounts, personal bank accounts in China and the US, casino accounts in Asia and the US and the resort to cross-border cash smuggling to the United States¹⁴.

19. According to Hong Kong prosecutors, a large proportion of the embezzled funds was channeled through two corporate vehicles: Ever Joint Properties Limited (EJP) and Yau Hip Trading Limited (Yau Hip), EJP's trading arm (see Fig. 3). The first company had been formed in Hong Kong in 1992. Two relatives and associates of XC acted as directors of the company and signatories of its bank account¹⁵. The three managers funneled a total of US\$ 212 million in BOC funds to EJP across the 1992-2001 period via 244 transactions, mainly through complicit mainland companies and direct loans approved by the three managers. EJP was effectively a "conduct for funds movement with no commercial basis"¹⁶.

20. A key role was played by Liang Shuxiang (LS), former BOC manager in Hong Kong and connected to several manufacturing companies, which received BOC funds as loans and later disbursed them to EJP. The resort to false EJP intermediaries as recipient of loans to remit money to Hong Kong was a typical feature in the perpetrators' strategy. Liang was later found guilty of accepting around US\$ 380,000 in bribes, transited through two other CVs created by XC in Hong Kong (including Youxie Trade, Co.).

21. Part of the embezzled funds was then returned to the three managers through bank drafts requested by corporate entities (e.g. Va Mei Mao Iek Gong Si) that had received the money from Hong Kong. Even more daringly, an account was set up in the name of a corporate vehicle (Land Galaxy Ltd.) – of which XC, YZ and XG were beneficial owners

¹¹ Plea Agreement, Factual Basis for Plea, *U.S. v. Jack A. Abramoff* (Dist. D.C., January 3, 2006) (CR 06-001). See also Plea Agreement, Factual Basis for Plea, *U.S. v. Tony C. Rudy* (Dist. D.C., Mar. 31, 2006).

¹² Smith, S. *The DeLay-Abramoff Money Trail*, Washington Post December 31, 2005.

¹³ US Department of Justice, *Former bank of China Managers and their Wives Convicted for stealing more than US\$ 485 million, laundering money through las Vegas Casinos*.

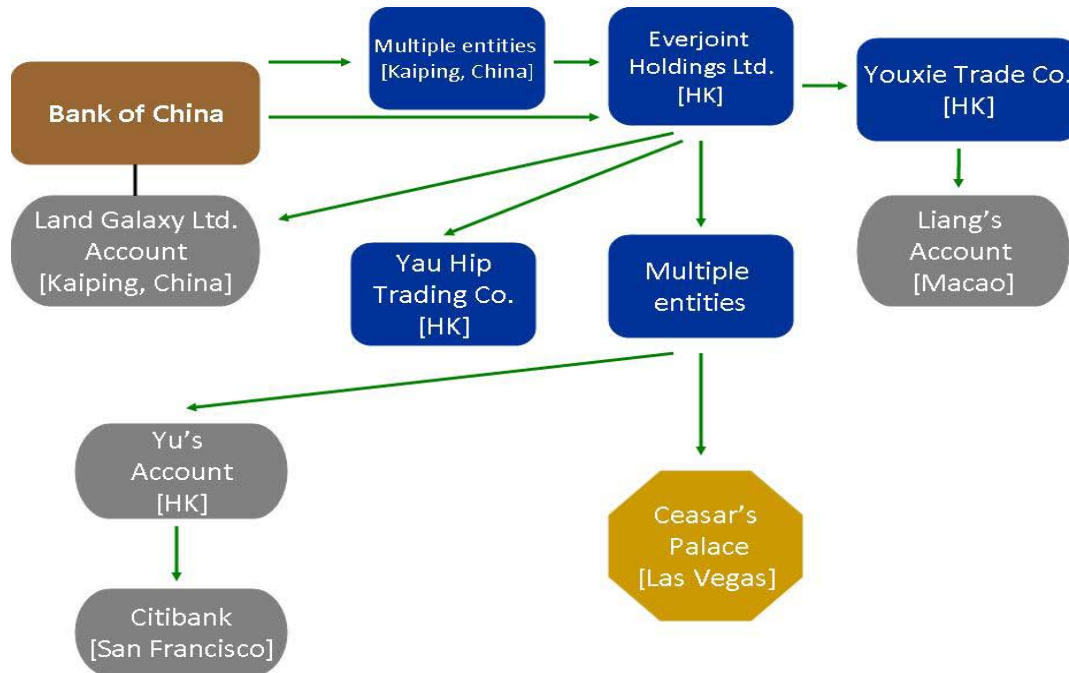
¹⁴ Yu Zhendong pleaded guilty to engaging in racketeering and returned to China, where he is being prosecuted for bribery and embezzlement. Xu Xhaofan, Hu Guojon and their wives were convicted in September 2008 by a US Court on charges of racketeering, money laundering and other offences.

¹⁵ Criminal Appeal No. 29/2007, Between HKSAR and Huy Yat Sing, Wong Suet Mui (CACC 29/2007)

¹⁶ Ibid.

- at the very same BOC branch were the three worked. The Land Galaxy account was used to receive funds from EJP.
22.

Fig. 4 CVs involved in Bank of China case, 1991-2004



23. Part of the proceeds were later transferred to the US: around US\$ 3.7 mil were sent by Yu to bank accounts in San Francisco between January and October 2001. In addition, the perpetrators transferred around US\$ 2 mil from a Hong Kong bank account to Ceasar's Palace in Las Vegas¹⁷.

24. The few examples provided above demonstrate the use that can be made of corporate vehicles to perpetrate corruption and to launder the resulting proceeds. It is important here to emphasize these two aspects: the need for anonymity presents itself both when perpetrating the illegal act (and of course that could also be any other acquisitive criminal act- from tax evasion to any type of financial fraud) and when laundering the funds. Complex networks of transactions involving multiple layers of intertwined CVs embedded in multiple jurisdictions –including OFCs- provide excellent tools for both corruptors and corrupted officials to hide, transfer and control assets. It is exactly in an attempt to address the abuse of CVs that the international standard on AML requires the ready availability of information on beneficial ownership. According to recommendation 5 of the FATF's 40 Recommendations against money laundering, countries should ensure that banks obtain this type of information when establishing business relationships. Recommendations 33 and 34 require that competent authorities (typically law enforcement) have timely access to accurate and complete information on beneficial

¹⁷ US Embassy to China, *Chinese National Sentenced on Racketeering Charges Returned to China after embezzling Approximately \$485 Million from the Bank of China*, April 20, 2004.

owners of corporate vehicles. Viewed from this angle this project is an attempt to review the basis for and the implementation in practice of those recommendations. The focus is on the *misuse* of corporate vehicles: they are regarded as instruments designed for legal/commercial purposes that are used by those who control them for other means. We are not interested in ascertaining or discussing whether those vehicles themselves might be held criminally liable or not. That is a legal question that falls outside the scope of this study.

C. OBJECTIVES

25. Of course this project is not the first to study the issue of the use of corporate vehicles for illicit purposes. A lot has been written on corporate transparency already- be it in the form of country reports (eg FATF reports), across the board analysis of legislation on specific areas of law (eg the OECD's "Towards a level playing field") or others. Where this project differs from many others is that it does not primarily focus on the legal situation but rather on what happens in practice. It is one thing to have a law on the books that prohibits or requires certain action- what happens in practice may be quite another.

26. The overall objective of this study is both to inform the debate on this topic and to assist those involved in the investigation thereof. At the policy level the project aims to collect and systematize available data on the use of corporate vehicles in grand corruption cases and test implementation of one of the most important policy responses recommended internationally to address it and possibly offer recommendations on how the policy response should be redirected or refined. At the operational level the project aims to gather information on the practical difficulties encountered in investigating corporate vehicles and put forward good practices on how these may be overcome.

27. The timing of this project appears appropriate. Many of the recent statements surrounding the G20 meetings in London focused on wealth hidden away in safe-havens out of the sight of domestic authorities. As the G20 leaders boldly put it, "The age of banking secrecy is over".¹⁸ Although discussed in the context of tax rather than crime, the underlying issue is the same: people's ability to own and control assets without competent authorities being able (or only with great difficulty) to link the two. Global Witness, the London based NGO, recently issued a report¹⁹ on, amongst others, the use that is made of front companies and trust to hide the proceeds of corruption and recommends that "*Banks must be properly regulated to force them to do their know your customer due diligence properly, so that if they cannot identify the ultimate beneficial owner of the funds, or the settlor and beneficiary if the customer is a trust, and if they cannot identify a natural person (not a legal entity) who does not pose a corruption risk, they must not accept the customer as a client.*" The EU Commission is expected to announce a structural overhaul to its Savings Tax Directive (STD) which would ensure that offshore trusts and companies will be "looked through" for EU STD purposes so that money in them is associated with the beneficial owner wherever possible.

¹⁸ *The second banking crunch: regulation ends age of secrecy*,
<http://www.guardian.co.uk/business/2009/apr/05/regulators-banking-secrecy-g20>

¹⁹ *Undue Diligence, How banks do business with corrupt regimes*, March 2009

In other words, many actors, both from government and civil society, are actively working on this issue right now.

D. PROCESS

28. The project will consist of three sequentially organized components. The first component will feed into the second and they will both feed into the third.

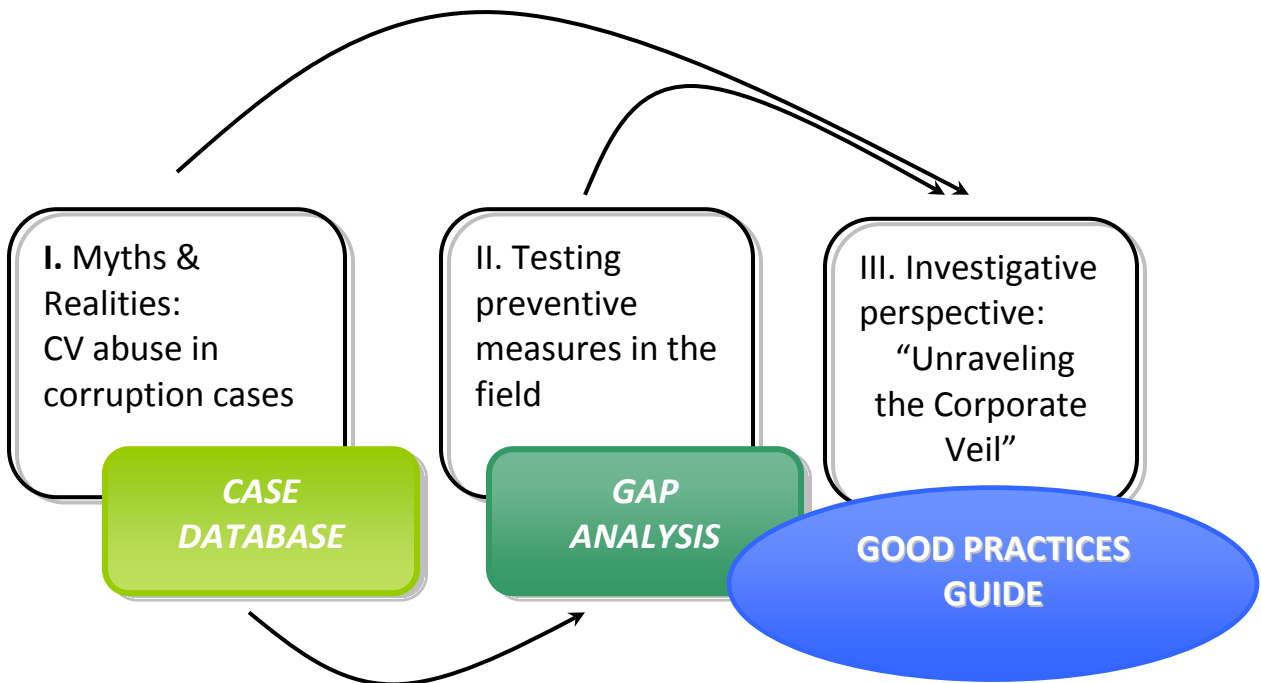
29. Each of the three components can also be seen as a standalone exercise, with a specific methodology and aiming at a specific sub-objective:

Component I. Understanding how CVs have been abused in the past in actual corruption cases (**‘Myths and realities of CV abuse’**);

Component II. Verifying if existing preventive measures are effectively implemented by service providers (**“The field: testing preventive measures”**) and what the practical impediments to such implementation might be.

Component III. Identifying factors thwarting the effective investigation of CV abuses and researching how, in practice, they have been overcome. (**“Investigative obstacles and solutions”**).

Fig. 5 Project Structure



30. To ensure effective integration of the components, the project's task team leader will be involved in all three parts, ensuring constant coordination.

31. The three parts are going to be developed as follows:

I. Myths and realities of corporate vehicles abuse

32. *OBJECTIVE* The first component of the project will be aimed at **gathering evidence on the misuse of CVs in past grand corruption cases**. The main objective is to identify common trends and patterns in the role of CVs, possibly debunking common “myths” or confirming realities (Prevalence of offshore financial centers/ preference of financial centers in developing jurisdictions over developed economies/ a clear preference for a certain type of CV/ incidence of bearer instruments). The outcome will be to obtain a solid knowledge base relying on real cases, to be used for this work and future projects in the same area.

33. *METHODOLOGY* Information on grand corruption cases will be gathered through open sources (academic literature, internet search engines, law reviews, court transcripts, reports from national and international anti-corruption bodies), the World Bank network (governance units, country offices, LEG resources, partner multilateral donors) and the UNODC network. Case selection will be conducted within the following parameters:

- **Cases will have to refer to the 1980-present period**, based on a) the need to restrict the temporal horizon in order to obtain compatible cases; b) the fact that the early 1980s have witnessed the fastest proliferation of OFCs since their appearance in the 1960s; c) the fact that around the same period concerns began to grow in public for a on the potential abuse of OFCs for laundering purposes²⁰;
- **Cases will have to involve a senior/high-level public official as the subject engaging in corrupt activities;**
- **Cases will have to involve the creation/use of a corporate vehicle**, either as part of the predicate crime or in the laundering stage;
- **The amount of proceeds involved in the case has to be equal or greater than 1 million US\$ (2009 prices).**²¹

34. The database will be populated on a continuing basis by FPDFI, and its cases will undergo a preliminary analysis by the core team. Team members will seek to identify common patterns in perpetrators' tactics and in the factors determining the successful transfer/concealment of assets by the corrupted official involved through corporate vehicles.

²⁰ On c), see for example UNODC 1998.

²¹ However, the team may consider altering the threshold based on a preliminary research on publicly available cases. The team will adopt a flexible approach based on the features of each case identified.

35. The Database will be divided into two subcategories: one of cases with final convictions based on facts which have been considered proven in a final verdict (which may eventually be connected to the StAR or FPDFI website for public access) and one based on facts in cases either still ongoing or finally not proven. The second category of cases will only be used for analysis purposes. The reason for inclusion thereof is that it is precisely those cases in which a conviction is not obtained that may demonstrate what the obstacles are and thus prove of considerable value to the third component.

II. AML measures in the field

36. *OBJECTIVE*: the second project component will gather information on the extent to which financial and corporate service providers identify the beneficial owner. This is one of the principal measures intended to address the abuse of corporate vehicles. Given the great importance of beneficial ownership information in corruption and related money laundering investigations, the issue of effective implementation (as opposed to what is on the books) is vital in this context. Particularly in recent times, the development of the web-based service delivery has provided a formidable platform for the proliferation of financial and corporate service providers without face-to-face interaction which in turn may have rendered such identification more difficult. Recent articles on the subject indicate that indeed many service providers are not identifying the beneficial owner.²² It includes an analysis of why service providers do not conduct proper BO identification—assuming such cases are identified. If the policy response proves unfeasible in practice then that is an important conclusion that should modify the initial policy. The overall objective of this component then, is both to test the level of implementation of the obligation to identify the beneficial owner and gather information on the practical difficulties encountered in doing so. As noted above the need for anonymity arises both at the time the predicate crime is committed and when laundering the proceeds. Thus even though the rules on identifying the beneficial owner were promulgated to prevent money laundering (and in the non-criminal domain, to ensure transparency for tax purposes) they can also be considered as a possible measure to address the perpetration of the predicate crime (in this case a corrupt act) itself. In this sense then, the effectiveness of implementation is relevant both to AML and to combating corruption.

37. *METHODOLOGY* Testing will target both FATF and OFC jurisdictions to determine to which extent the provision of services can be obtained without disclosing verifiable beneficial ownership information, concretely 1) whether CV's can be set up without providing such information and 2) whether those CVs can open bank accounts without providing such information.

38. For the part of this component on the obstacles faced by service providers in identifying the beneficial owner, a questionnaire will be devised to identify the main

²² See The Economist, March 26, 2009, "Haven Hypocrisy" which cites recent research by Prof. Jason C. Sharman (who will be part of the project's core team) in 2008, testing the implementation of beneficial ownership information requirements by 47 corporate service providers both in creating corporate entities and opening bank accounts in their names. In **one out of four of the attempts**, corporate vehicles were solicited with success submitting no ID or a non-notarized copy of any ID.

areas of difficulty after which it is anticipated 2-3 round tables will be organized with compliance officers from financial institutions and trust and company service providers from multiple regions to further discuss and refine the findings from the questionnaires.

39. The findings of this component may provide opportunities to further refine the findings incorporated from Component I. In other words: is there a correspondence between what has been observed in past cases in terms of structures and jurisdictions involved and the application of preventive measures?

III. Investigative perspectives

40. *OBJECTIVE* The third and final component is targeted at investigative and prosecution efforts dealing with CV abuse. The aim is to gain investigators' insights into the most common obstacles encountered when investigating corporate vehicles, the most effective approaches to tackle the issue and the best tools at the disposal of investigators (e.g. registries, databases, regulatory requirements of particular impact). Selection of jurisdictions and issues for discussion will be based upon components I and II. Comparing experiences from multiple jurisdictions and regions, a set of "good practices" will be identified.

41. *METHODOLOGY* A series of roundtables will be organized gathering together selected financial investigators on a regional basis (Americas/Europe/Asia). The meetings will be organized to foster discussion among the intervening practitioners, to tap into their experience and lay out the most common challenges faced in dealing with CVs in corruption cases, and the most effective steps taken to overcome them. In order to maximize cost-effectiveness, one or more of the meetings could be organized as part of the meetings in the context of the "*Barriers to Asset Recovery Study*" also under the aegis of StAR. In addition to this cost-effectiveness objective, this approach (as well as the proximity of the two teams) will allow for cross-fertilization between the two studies. The findings from Component II together with the findings from Component I, provide valuable pointers to be fed into this component of the project: do the problematic areas identified in Component II constitute an issue faced by investigators? In particular the issues raised by the financial service providers could prove useful in identifying the areas for discussion.

E. AUDIENCE

42. The two main audiences of the study are policymakers (for components I and II) and investigators involved in grand corruption cases (for component III). The target group consists of those who can significantly improve the chances of successful asset recovery efforts in grand corruption cases – be it through policy design/strategic decisions or through day-to-day investigation efforts.

43. A detailed analysis of abuse of CVs in grand corruption cases and a review of the effectiveness and feasibility of the policy response should enable those in government and in international organizations to, where necessary, refine and rethink their policy

responses, be they legislative or otherwise (standard setting, guidance or resource allocation).

F. KEY DELIVERABLES

44. Based on the results of the three projects, a “**good practices guide**” in CV abuse investigations will be published. The target audiences will be investigators involved in the daily fight against grand corruption and financial crimes and, to a limited extent, policymaker in charge of the main strategic design of anti-corruption and AML policies (to facilitate the functioning of the investigative apparatus through legislative or other measures). The guide will serve two main objectives:

- 1) To delineate the main obstacles constraining effective investigations of CV abuse, based on case analysis (Component I), potential shortcomings in international standards implementation (Component II), and information gathered from practitioners; and
- 2) To provide policy recommendations to address the challenges and shortcomings identified and practical solutions to investigators trying to unravel the corporate veil.

45. In addition to this main deliverable, the project will also provide at least two independent by-products resulting from Component I and II.

46. *Component I:* A **cases database** will be assembled and formatted based on a common set of clearly identifiable parameters (status/nationality of perpetrator, geographical location, corrupt acts, amounts involved, type of corporate vehicles, service providers involved). Depending on the number of cases gathered and the quality of the data obtained, the collection could be made into a software-based database searchable according to the variables described above. The collection will be accessible by FPDFI and StAR partners in its full form. Consideration will be given to granting access to the general public to that part of the database that contains only final convictions. In addition, the **findings from the case analysis** could also be presented independently to relevant audiences.

47. *Component II:* A paper containing a full account of the exercise will be produced, containing a “**gap analysis**” comparing international standards and local regulations with practices observed in the field, and trying to identify common patterns in shortcomings (if any) across countries, providers and products. The focus on identifying common trends – without pointing at individual service providers – will be valuable in minimizing any “name and shame” effects from the findings of the exercise. In addition it will examine the reasons for possible lack of compliance based on the discussions with financial institutions.

H. DISSEMINATION STRATEGY

48. **Obstacles and good practices guide:** the study will constitute a standalone paper, which will be published and distributed to learning institutions and information centers through EXT channels, to practitioners through StAR and FPDFI workshops, and to target countries through the G-8 countries and OECD. The study will also be available to CSOs and other interested parties in connection with the StAR Initiative. The study will be available on-line as an e-book on the StAR website, as well on the websites of libraries (EXT process).

49. **CV and grand corruption case database:** the main use of the collection/database will be as a constantly updated knowledge base for future StAR or joint research initiatives with other partner institutions. A brief paper containing the findings of the case analysis will be produced, to be circulated among policymakers in coordination with the StAR Secretariat and FATF at relevant multilateral events.

50. **Preventive Measures Gap Analysis:** the study will include findings from the second component of the project, which will be of interest for both the private and public sector (regulators, investigators). It will be made available to practitioners through StAR and FPDFI workshops, and, in coordination with relevant partners.

I. TEAM

51. The project will involve a core team composed of a senior World Bank staff member, a UNODC staff member and three consultants, who will work on the gathering of relevant data/information from the sources listed above, on its analysis and on the subsequent assembling of the three deliverables. In addition, a small group of qualified experts and practitioners will act as peer reviewers in the final stages of product delivery.

J. TIMETABLE

52. The components of the project will be launched and carried forward according to the following timetable:

	May 09	June 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 09
Concept review meeting									
Case collection design									
Collection Population									
Preliminary analysis of typologies									
Testing AML measures									
	Feb 10	Mar 10	Apr 10	May 10					
Gap analysis draft									
Investigators' workshop									

Obstacles & good Practices Drafting										
Peer review of Good Practices Guide										
Approval for publication										

Component I	Component II	Component III
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K. BUDGET

53. The overall budget of the project is presented in Table 1. Expenditures covered by the World Bank consist of staff costs for two Senior Financial Sector Specialists. One JPO staff will be involved in the project, and the costs incurred will be covered by the sponsoring country.

54. Expenditures from StAR Multi-Donor Trust Fund: the cost of three short-term consultants; travel costs for Bank staff, consultants and practitioners; practitioners’ workshops costs and dissemination costs.

55. In order to maximize cost effectiveness in the development of the project.

- Most of the research and analysis (Components I and II in particular) will be conducted as deskwork through publicly accessible channels.
- Both components will rely heavily on the work of a consultant, a JPO (whose staff costs will be reimbursed by the sponsoring country), and one or more interns already assigned to FPDFI;
- While one of the regional practitioners’ workshops envisioned in Component III will be hosted by FPDFI and StAR in the US, other similar initiatives will be set up as a module within an existing StAR event (e.g. a workshop organized under the “Barriers to Asset Recovery” project), or other relevant multilateral meetings (CARIN, COSP, US DoS UNCAC conference, FATF Confiscation WG, FSRB event) abroad.

Table 1: Overall Budget

Expenses/ Source of financing	World Bank		StAR MDTF	
	Units	USD	Units	USD
Staff (weeks)	16	56,000		
	6	15,000²³		
	6	26,000		
Consultants (weeks)			12	15,000

²³ JPO staff costs will be reimbursed by the sponsoring country.

					8	25,000
					8	25,000
Travel expenses (trips)					4	45,000
Seed funds for Component II (setting up CVs)						10,000
Investigator's Workshops (Participants) ²⁴					2	25,000
Printing, Editing (Study)					1	17,000
Contingencies (include SC Star)						10,000
Total expenses		97,000				170,000

Appendix 1

Table 1: Results Framework

INDICATORS OF SUCCESS	MEANS OF VERIFICATION
PROCESS AND OUTPUTS	
A database containing multiple grand corruption cases is created.	Case database is accessible by FPDFI staff and StAR partners, and in its limited version by the general public.
Study verifies gaps in implementation of international AML standards relating to corporate vehicles formation and use on the financial market.	Financial service providers respond to team's attempts at forming corporate entities and opening bank accounts by implementing KYC/BO requirements or not.
Study discovers challenges to effective investigation of cases involving the misuse of corporate vehicles to move/conceal proceeds of corruption	Responses received from investigators that recognize the existence of barriers. corroborated by corruption case analysis and testing of preventive measures implementations
Study meets quality standards.	Peer reviewers' comments on final product.
Study is timely.	Completed and released in 2010.
INTERMEDIATE-OUTCOMES	
Study's draft findings are discussed with practitioners.	Practitioners review, discuss, and respond to initial findings and provide concrete ideas for improvement.
Study is reviewed by intended audience and is utilized to initiate discussions about barriers at high levels of government.	Telephone/ email follow-up with policy makers and leading practitioners in key jurisdictions and international organizations
Study is reviewed by intended audience and is utilized to initiate discussions about barriers at high levels of government.	Telephone/ email follow-up with policy makers and leading practitioners in key jurisdictions and international organizations
OUTCOMES	
Study identifies challenges to effective investigation of cases involving the CV misuse to move/conceal proceeds of corruption and identifies possible solutions to address them..	Telephone/Email follow-up with policy makers and leading practitioners in key jurisdictions
Targeted jurisdictions recognize the obstacles identified by the study and review practices and the study's recommendations and consider implementation.	Telephone/Email follow-up with policy makers and leading practitioners in key jurisdictions
Study results in the implementation of action plans in to diminish if not eliminate obstacles to implementation of international standards and effective investigation of CV abuse .	Telephone/Email follow-up with policy makers and leading practitioners in key jurisdictions
Study helps World Bank and UNODC assistance to asset recovery actions	Follow up with World Bank and UNODC experts involved in assistance to asset recovery