

EMBARGOED UNTIL 6:01 CET/00:01 EST TUESDAY, 31 JANUARY 2023

CORRUPTION PERCEPTIONS INDEX 2022: TROUBLE AT THE TOP

Advanced economies are still not pulling their weight in the fight against cross-border corruption

Transparency International's 2022 Corruption Perceptions Index (CPI) paints a bleak picture of stalled anti-corruption efforts worldwide. It also serves as an annual reminder that abuse of power comes in many shapes and forms. The events of 2022 once again showed that countries perceived as having low levels of public sector corruption are too vulnerable to undue influence by private interests – both domestic and foreign.

According to the 2022 CPI, the fight against public sector corruption has stagnated in the majority of countries earning top scores – including advanced economies such as **Germany** (CPI score: 79), **France** (72) and **Switzerland** (82). Meanwhile, five traditionally top-scoring countries have seen their assessments decline significantly: **Australia** (75), **Austria** (71), **Canada** (74), **Luxembourg** (77) and the **United Kingdom** (73).

However, this is far from the whole picture.

As a [measure of public sector corruption](#) at the national level, the CPI does not capture the extent to which countries facilitate cross-border corruption – be it allowing stolen funds to be laundered through their economies or giving a free pass to companies that bribe foreign officials. This is precisely where these high-scoring countries' biggest weaknesses lie.

One year ago this February, Russia's full-scale invasion of Ukraine [made it painfully apparent](#) how inaction on transnational corruption can have catastrophic consequences. Not only have advanced economies helped to perpetuate corruption elsewhere, but they have also enabled kleptocracies to consolidate, threatening global peace and security. The scramble that followed to enforce targeted sanctions that were unleashed against Russian kleptocrats is a perfect case study of trouble at the top of the CPI.

While some governments appear to have finally woken up to the problem that they had helped create, ending top-scoring countries' complicity in cross-border corruption – originating from Russia and beyond – requires a long-term, concerted effort.

1. Harboring corrupt assets

In many of the countries with high performance on the CPI, financial secrecy has been at the heart of the business model for attracting foreign investment. It is also one of the biggest obstacles to fighting globalised corruption, preventing even the most willing law enforcement agencies from investigating suspicious wealth.

A great illustration of this problem is the [Russian Asset Tracker](#), compiled by the Organized Crime and Corruption Reporting Project (OCCRP), where only two of the 149 listed assets appear to be registered to sanctioned individuals. For all others, information on the real owners of yachts, villas and private jets has been diligently obscured under layers of secrecy.

Setting up and incorporating anonymous legal entities has been notoriously easy in **Hong Kong** (76), whose government's decision to not sanction Kremlin-linked Russian elites makes it one of the [key financial centres to watch](#). However, it is not just Russian kleptocrats who abuse this system. Last year, an investigation by OCCRP and the *Toronto Star* found that a man implicated in one of China's biggest military corruption scandals allegedly used Hong Kong-registered shell companies to [invest millions in luxury real estate](#) in **Canada** (74).

In response to demands from civil society and international pressure, most advanced economies have in recent years pledged to embrace beneficial ownership transparency – the principle that no one should be able to hide behind anonymous companies. Nonetheless, progress has been slow and uneven. The new global standard on transparency in company ownership – adopted in March 2022 following [our campaign](#) – addresses this by [requiring all countries to set up central registers](#) to record the real individuals who own or control legal entities.

In order to comply with the new standard, **Switzerland** has finally announced that it will establish a register of companies' beneficial owners. While this is welcome, the Swiss government [should not stop halfway](#): it can and should make its forthcoming register available for public scrutiny.

Public beneficial ownership registers have been gaining prominence as a critical tool for deterring cross-border corruption, but they also help to prevent corruption in the public sector and enhance trust in government-business transactions.

The European Union (EU) – home to many of the top-scoring countries – recognised this as early as 2018 when it required all member states to open up their registers to the public, with [visible impact](#). However, at the end of 2022, the [EU's highest court delivered a surprise ruling](#) which invalidated the anti-money laundering provision guaranteeing public access to information on companies' real owners. Some countries almost immediately [shut down public access](#) to their registers, making the already difficult task of tracking down illicit funds in the EU – including those belonging to sanctioned Russians – [significantly harder](#).

One of the countries that quickly suspended its register is **Ireland** (77). This will further reduce the country's resilience to dirty money. Ireland already [scored poorly on financial secrecy](#) due, among other reasons, to complete opacity when it comes to ownership of special purpose vehicles such as limited partnerships, which have fallen outside the scope of company beneficial ownership disclosure.

As it happens, EU anti-money laundering rules are currently undergoing another revision. Policymakers need to use this opportunity to urgently prescribe how civil

society, media and other stakeholders will be granted access to information on companies' real owners.

The **United Kingdom** (UK) is one of the leaders when it comes to beneficial ownership transparency. It was one of the first countries to set up a publicly available register of companies' real owners. However, anonymous ownership of real estate through offshore companies had remained a key loophole exploited by kleptocrats and oligarchs, with [over 90,000 properties](#) held this way. Following Russia's invasion of Ukraine, the government fast-tracked [long-awaited reforms](#) intended to bring greater transparency concerning the owners of these assets.

Even in **Norway** (84), a [recent study](#) found that close to 10,000 properties are owned through companies and other vehicles registered in secrecy jurisdictions. A further [analysis of properties in Oslo's city centre](#) showed that it is often highly challenging to determine who really owns high-value real estate – especially when their ownership structure involves trusts.

In fact, trusts are another vehicle that criminals favour in order to cover their tracks. Disturbingly, they are even more secretive than companies: trusts are created between private individuals and, if a country does not require their registration, authorities may not even know that they exist.

In **New Zealand** (87), there are over 440,000 trusts that have had to register with the tax agency but authorities are largely [in the dark concerning who is actually behind them](#). In March 2022, the government announced plans to introduce a register of companies' real owners, but [hesitated to cover trusts](#). Promisingly, at the end of 2022, the Ministry of Justice [recommended reconsidering this](#) and investigating the feasibility of registering trusts' beneficial owners.

With the [global standard currently under revision](#), the international community has a once-in-a-decade opportunity to end rampant secrecy in trust ownership.

2. Tolerating enablers

The majority of grand corruption schemes would not be possible if kleptocrats and other unscrupulous actors could not enlist the services of financial sector professionals in countries appearing at the top of the CPI table. This remains a problem even in jurisdictions that are now clamping down on corporate secrecy.

The **United States** (69) is [well on track](#) to launch its highly anticipated company beneficial ownership register, but certain financial service providers operating in the country still have [no anti-money laundering obligations](#). Gatekeepers such as investment advisers, wealth managers, and trust and company formation agents escape regulation. Last year, *The New York Times* uncovered how a small New York firm helped Russian billionaire Roman Abramovich [invest billions of dollars in US hedge funds](#) – all anonymously and without much scrutiny.

The US missed a chance to close this loophole at the end of 2022 – despite being approved by the House of Representatives – the [proposed ENABLERS Act fell short in the Senate](#). Congress will have an opportunity to pass this crucial legislation in its next

session, but President Joe Biden's administration – which has [publicly supported the bill](#) – should already explore adopting some of its provisions through executive action.

Even in countries where key professions are under anti-money laundering obligations, compliance remains patchy – especially in the real estate sector. In **Canada**, an [independent commission looking into British Columbia's money laundering problem](#) has found that real estate professionals rarely report suspicions of money laundering to the authorities because many cannot even recognise it in the first place.

Compared to other gatekeepers, banks are generally better regulated. And yet, they prominently feature in almost every major money laundering exposé.

Most recently, one of **Switzerland's** largest banks, Credit Suisse, was the subject of the [Suisse Secrets investigations](#) by an international media collaboration. The investigations shed light on the bank's questionable practices over a long period of time and on dubious clients – from those [accused of funnelling public funds out of Venezuela](#) to a [tycoon who backed an armed uprising in Libya](#).

While Credit Suisse has [faced legal action](#) this year in a separate case of money laundering, Swiss authorities need to do more to promptly identify and sanction failings in the banking sector. What's more, banking secrecy continues to hinder Swiss journalists from investigating and reporting on cases of corruption and money laundering involving Swiss banks.

For far too long, governments have considered banks too big to fail. Even when their role in large-scale corruption and money laundering was evident – as in **Denmark** (90) and **Germany** – they have gotten off lightly. The scandals have also shaken public trust in the industry: banks were named as the third most corrupt institution in Transparency International's [Global Corruption Barometer – EU 2021](#).

Failure to effectively supervise and punish banks for wrongdoing across the EU has prompted the European Commission to heed [our calls for a better approach](#). The proposal to [create a new EU anti-money laundering authority](#) has been [steadily advancing](#). For it to be effective, the authority will need to have powers to directly oversee risky financial institutions and monitor the work of national supervisory authorities.

3. Perpetuating impunity

Another reason why transnational corruption thrives is the impunity that perpetrators and their accomplices enjoy – both at home and abroad.

In the wake of the war in Ukraine, many top-scoring countries finally appear to see the need to start scrutinising at least some of the dirty money sheltered in their economies. Several governments – such as those making up the G7 – have set up the [Russian Elites, Proxies, and Oligarchs \(REPO\) Task Force](#). The task force members have committed to confiscate frozen assets and bring kleptocrats' enablers to justice where possible.

And yet authorities charged with identifying and sanctioning illicit wealth often do not have sufficient resources to do so. Transparency International's [May 2022 report](#) found

that the **United States'** Financial Crimes Enforcement Network (FinCEN) was particularly underfunded. In some welcome news, Congress [approved a modest increase to FinCEN's 2023 budget](#) last December to boost the agency's capacity, but more funding is needed to cover the breadth of work required at this critical time.

When it comes to tools and powers to effectively investigate financial crime, **Germany** stood out among its REPO partners as the only country without a federal law enforcement unit dedicated to anti-corruption or the investigation of financial crimes, while state-level agencies are poorly coordinated. This has led to intensified calls for the country to establish a [central authority](#). In a positive move, the German government unveiled plans last August to set up such a federal authority. But that alone will not solve the problem: the new agency will need to be adequately staffed and empowered.

Foreign kleptocrats and criminals are also not the only culprits in cross-border corruption schemes that need to face consequences for their actions.

Countries that earn top scores on the CPI have had a mixed record in clamping down on their own companies bribing officials abroad. Transparency International's [Exporting Corruption 2022](#) assessment shows that many have neglected their international obligation to punish companies which use corruption to access foreign markets.

Several countries have seen their scores drop in the latest report. This includes **Denmark**, which – while earning the very top spot on the 2022 CPI – was demoted to the “little or no enforcement” category with respect to foreign bribery. The **UK**, in addition to declining on the CPI this year, has also lost its place among the top enforcers against foreign bribery.

Sweden (83) has also dropped a level in the latest assessment. Lack of criminal liability for corporations is a cause of concern. In 2022, an [investigation by the International Consortium of Investigative Journalists](#) uncovered that Ericsson employees had made millions in suspicious payments to the Islamic State in Iraq. The company is [facing fines from regulators](#) and a [class action suit](#) in the US, but a [probe into suspected bribery in Iraq](#) has reportedly [been closed in Sweden](#).

France has stagnated on both the CPI and foreign bribery measures, even if the country stands out with its progressive new laws for protecting whistleblowers and returning ill-gotten gains to the victims of corruption. The **Netherlands** (80), where companies or individuals are still almost never brought to court in connection with corruption abroad, again received a poor score and will need to upgrade its legislation to better enable prosecution.

Top-scoring countries' responsibility to act

If there was any doubt before, then the aftermath of the Russian invasion of Ukraine has exposed just how deeply complicit supposedly “clean” countries really are in [enabling globalised corruption and kleptocracy](#). They welcomed illicit assets of Russia's political elites for decades, allowing kleptocrats to expand their wealth, power and geopolitical ambitions. The same dirty money has also been [corroding their domestic institutions](#) and public trust.

While 2022 has seen some progress, it is not nearly enough. The present difficulties with respect to tracing assets and holding Russian kleptocrats accountable should push countries that boast low levels of public sector corruption to internalise their responsibility to fight transnational corruption once and for all. Failure would amount to aiding kleptocrats as they attack sustainable development, peace and global security.