

# Ending company anonymity – the key to fighting corruption

Beneficial ownership transparency can help improve the investment climate, reduce reputational and financial risks, prevent corruption and illicit financial flows, improve the rule of law, increase trust and accountability and enhance revenue collection.

## Natural resources

Oil, gas and mining projects can yield great profits both to extractive companies and governments. However, some extractive assets have been misallocated, putting people who live in resource-rich countries at risk of losing out. The use of anonymous companies exacerbates the effects of the resource curse, where countries with abundant oil, gas and mineral resources are economically poorer than countries with fewer of these resources.

## Companies

Millions of companies are established all over the world every year. But sometimes, the identity of the real owners – the 'beneficial owners' – of the companies that have obtained rights to extract oil, gas and minerals is unknown, hidden by a chain of unaccountable corporate entities. Anonymous companies make it harder to curb money laundering and corruption as it enables wrongdoers to hide behind a chain of companies often registered in multiple jurisdictions.

Anonymous ownership poses problems for other companies that don't know who they are doing business with. Publishing the real owners will help ensure that there is a level playing field for all companies.

## Public services

It has been estimated that developing countries lose USD 1 trillion each year as a result of corrupt or illegal deals, many of which involve anonymous companies. In 2013, the Africa Progress Panel suggested that the Democratic Republic of the Congo (DRC) in the period 2010–2012 lost at least USD 1.36 billion from five mining deals hidden behind a structure of complex and secret company ownership. This figure is equal to almost twice the DRC's combined annual budget for health and education in 2012.

## Offshoring

The Panama Papers confirm that persons behind oil, gas and mineral extraction may well hide behind offshore shell companies. Attention on closing down the possibilities for hiding money in places like Panama is welcome. But this alone will not put an end to financial secrecy facilitating tax dodging and corruption. It has to be matched with better rules and enforcement in countries where the money is generated in the first place, which is why EITI's new ownership requirements are so important. Publishing beneficial ownership information can prevent illicit financial flows and reduce the risks of money laundering and corruption.

## EITI

The Extractive Industries Transparency Initiative has made significant contributions to improving governance of the extractive sector at the national and global level. Debates on transparency in the sector are unrecognisable from ten years ago, and the EITI is seen as being at the forefront of many frontier debates including beneficial ownership, commodity trading, and artisanal and small-scale mining.

In February 2016, the 51 EITI members agreed new rules, requiring that all oil, gas and mining companies operating in their countries must disclose their beneficial owners from 2020. The government must also publish this data, ideally in beneficial ownership registries. The EITI is assisting countries to reform their legal and institutional set-ups in preparation.

## Politically exposed persons

The 2016 EITI Standard requires Politically Exposed Persons to be transparent about their ownership in oil, gas and mining companies. This is because the owners of some companies might use their political connections to obtain favourable access to lucrative extractive projects. Publishing the identity of those who are given the rights to exploit resources helps prevent conflicts of interest.

## Beneficial ownership register

20 EITI countries have decided to build public beneficial ownership registries. This is welcome and needs to be backed up by law enforcers, civil society and others who have a responsibility to scrutinize the information, and to take action to hold to account those who misuse anonymous companies. The EITI is assisting countries to establish beneficial ownership registries. Once complete, information on the corporate structures of companies and their parent companies or subsidiaries will make it easier for tax authorities to understand which transactions are liable to taxation.



See how EITI countries are planning to disclose beneficial owners of oil, gas and mining companies:

