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the global coalition against corruption

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Transparent and accountable procedures to promote corruption-free societies facilitated by broadly accessible digital technologies

Remarks as prepared for Gary Kalman at the 28th OSCE Economic and Environmental Forum, September 7, 2020

Thank you for inviting me to offer some comments on this important topic. I'm Gary Kalman, the director of the U.S. Office of Transparency International.

At Transparency International, we divide the corruption threats into two large buckets. The first is dirty money, or illicit finance, which includes bribery, stolen assets laundered through trade, anonymous companies, and the like. The second bucket is political integrity, or the manipulation of the political process, which can come in the form of campaign finance, manipulation of the election rules and processes, preferential treatment as a result of opaque lobbying rules and similar abuses.

Today, I will focus my remarks on the issue of dirty money. If there is time, I'll be happy to answer questions about using technology to improve political integrity, including advances and gaps in the U.S. as well as Transparency International's Integrity Watch for the EU.

There's a lot to cover on the topic of using big data to combat corruption, specifically creating and using large data sets, so I'll thought it best to use our time to highlight some trends and developments.

First, I would note the importance of beneficial ownership information transparency, which requires that companies disclose the real person or persons who own and control them. This makes it harder to create anonymous companies through which dirty money can be moved. For example, the criminal and corrupt can avoid sanctions through anonymous companies, allowing them to continue to draw income from companies where their ownership stake has been obscured.

To protect against illicit finance, beneficial ownership information directories are emerging as a global norm. They went into effect in the European Union in early 2020, and the U.S. is poised to adopt similar policy as well.

In the EU, the directories are open to the public. In the U.S., only law enforcement and financial institutions are likely to have access. Public directories allow for academics, journalists and civil society organizations to analyze the data, identify problems and anomalies and suggest improvements. This can be of particular importance where the data is not verified.

In the UK, this is some data to suggest a serious impact. Here's one example. The reporting requirements originally did not include a type of entity known as Scottish Limited Partnerships (SLPs). After the reporting requirements went into effect, SLP registrations saw a dramatic increase. When amendments to the law were subsequently made to include SLPs, registrations dropped back to historic levels.

A second way big data is being used to fight corruption is through Geographic Targeting Orders or GTOs from the U.S. Treasury.

Not all transactions go through traditional banks, making it easier for anonymous entities to buy property as a way to stash cash or create an investment. For example, agents for the Iranian government used anonymous companies to purchase a skyscraper in Manhattan to evade economic sanctions.

GTOs require beneficial ownership information for all high-end, cash-financed real estate deals involving companies in a dozen U.S. metropolitan areas. After the orders were put in place, those areas saw a drop, on average, of 70 percent in covered transactions. In Miami, they had a 95 percent drop.

The Common Reporting Standard, adopted by more than 100 countries, and the U.S. Foreign Accounts Tax Compliance Act represent a big data approach to counter tax evasion. Such an approach requires sharing information on foreign bank customers with their home country tax authorities. These too have proved to be effective tools. When FATCA first went into effect, the U.S. Treasury waved penalties for a short period to those who came clean and voluntarily paid up past taxes on previously unreported income. The Treasury collected $10 billion in a few months.

A fourth example of how big data helps is employed to curb corruption and illicit finance is through the use of country by country reporting, or CbCR, and the Extractives Industry Transparency Initiative, or EITI. EITI requires oil, gas and mining companies to report all payments to governments. CbCR, under OECD member nation agreement, requires reporting to tax payments to authorities. The two are used to counter bribery and tax evasion.

After the EU required large banks to do public CbCR, German academics studied the result. After accounting for other factors, they concluded that transparency was the key factor in the roughly 3 percent increase in effective tax rates of the covered institutions. CbCR didn't stop all profit shifting, but it did eliminate some of the most aggressive and egregious practices.

Finally, contracting databases allow us to harness the power of big data to try to root illicit finance out of public contracting. The U.S. has USAspending.gov, which houses information about government contracts, is publicly accessible, and easy to search.

Recognizing the value of this data, the International Monetary Fund is increasingly requiring public audits as well as beneficial ownership information and online publication of procurement contracts for pandemic response funding.

But big data isn't just about databases. Data mining can also be a powerful and useful tool. In the age of COVID, trillions of dollars in aid are being spent quickly. We need to know who that money is going to and why. In other words, that decisions to grant aid are being made without bias. Big data helps us do that.

In the U.S., $600 billion in loans is earmarked for small to mid-size enterprises. Most of this money goes through banks that are supposed to do due diligence. Checking a beneficial ownership information database creates an additional and important check on who is receiving taxpayer backed loans.

A new database with loan data went online allowing civil society organizations and journalists to identify instances where inappropriate companies got money. Aside from the fraudsters, airlines, large hotel and restaurant chains, military contractors, banks, even Broadway actors, all got loans. Despite intentions that aid not go to those with access to other capital—in the capital markets, private equity with large backers, state-owned enterprises, etc.—loans did go to publicly traded companies, private equity, and others. We also know, thanks to lobbying registers, that lobbyists had worked to limit legal restrictions on who gets aid. For example, companies that relocated to tax havens on paper and, as now-foreign persons, can avoid paying U.S. income taxes, were still eligible for a taxpayer-funded bailout. Data mining helped us uncover these misuses of funds.

Our Transparency International U.S. Office partnered with journalists, academics, and other advocates to create the Anti-Corruption Data Collaborative. The project scrubs databases to find potential links to nefarious activity, such as real estate databases identifying secretive offshore owners, shady private equity deals, etc. In an early report, researchers found a Ukranian billionaire received $21 million in government backed pandemic relief loans for his coal companies.

One final area I will touch on that's really promising is the use of big data to fight trade-based money laundering. The U.S. has not made a full financial commitment to fund trade transparency but we hope to build on the current model. There are experiments using pricing data in real time for customs agents to identify misinvoicing—the method by which criminals and the corrupt move money from one jurisdiction to another. We can build on this by using distributive ledger (blockchain) technology to track products and prices throughout the entire life of the transaction.

For all the promises big data brings, we do need to be mindful of how all this data is used. In some cases, there are legitimate privacy concerns. While much of this data should be public and available for scrutiny, we need to make sure we are putting appropriate safeguards in place. That said, we should not overuse privacy as a pretext to keep public data private.

Also, much has been and will be said about artificial intelligence, or AI. There is some use and lots of experimentation. U.S. banks are still limited in how they employ AI. A bill in Congress would help expand that use in a measured way. Misuse of AI could lead to racial and ethnic discrimination—an outcome no one wants.

As many of you know, Transparency International has chapters in many OSCE countries. We look forward to engaging, participating, partnering, and working productively with host countries to advance implementation on shared principles across the OSCE region.