

The UK's Role in the Fight against Dirty Money
Lecture for the Worshipful Company of World Traders
28th April 2021, Alex Jacobs

London and the City are wonderful places. But they have always had their dark side.

In 1599, a group of London merchants organised the first voyage of the East India Company¹. I need hardly recount to this Worshipful Company the extraordinary history they launched. But of course the East India Company embodied the best and the worst of the City of London – aspects which can both still be seen today.

On the one hand, the East India Company marked a new chapter in global trade and commerce. It led the way in creating previously unimaginable connections around the world. Vast sums flowed, financial institutions and businesses flourished, and many fortunes were made. It was one of the great engines of empire, powering centuries of British wealth and dominion.

On the other hand, in 1765 when the Company gained the right to tax Bengal's 20 million citizens it took on the responsibilities of government. The Company became even more enmeshed with the extraction of wealth, impoverishment and distortion of government at vast scale and incalculable human cost.

The Great Famine of 1770 led to the deaths of over a million Bengalis. But as we know, it is mis-government not fate that turns drought into mass starvation. The Company provided appalling famine relief. Instead, it maintained taxation at previous levels and that same year remitted the equivalent of £100m to London. Shareholders were so pleased they voted themselves an unprecedented dividend of 12.5%. The public anger that this outrage triggered eventually led to the Company's downfall.

Today, the UK still enables extraordinary global trade. We are self evidently a powerhouse of finance and commerce, a truly world leading international centre. But in this talk, coming back to contemporary times, I would like to discuss two aspects of its dark side. First: how big is the problem? Second: what can we all do about it?

Turning to the first question.

Last year, you might have seen the extraordinary case of Isabel dos Santos, the daughter of the previous President of Angola². She was reported as

Africa's richest woman with a personal fortune of \$2bn. Her wedding alone cost an astonishing \$4m, with a choir flown in especially from Belgium. But in January 2020, a set of leaked papers alleged incredible levels of corruption in her affairs.

In Angola, a third of the population, 10 million people, live in extreme poverty. Dos Santos's \$2bn is more or less equivalent to the government's entire 2019 budget for education and health combined³. If used responsibly and taxed, this amount of money could have created huge numbers of jobs and paid for many schools and hospitals.

The leaked papers laid out close connections between events in Angola and international financial centres, like London. Western consultants (McKinsey, BCG, others), the Big 4 accountants and major lawyers all provided extensive support to dos Santos's affairs, earning substantial fees. Among other property, dos Santos owned a £13m mansion in Kensington, held through an anonymous company registered in the Isle of Man⁴. She engaged British law firm Schillings & British PR firms to manage the reputational crisis that the leaks unleashed. A lot of money that is - at best - questionable has flowed into the UK.

So is this an instance of one bad apple, or an example of something more systematic?

Unfortunately, there is compelling evidence that it is systematic and that the UK plays a central role in enabling dirty money to flow around the world.

The National Crime Agency's official estimate is that over £100bn is laundered through the UK every year⁵ - a figure that is probably on the low side. The head of its National Economic Crime Centre says that in some cases up to half of the money laundered out of Russia goes through UK corporate structures⁶.

Last year, the Tax Justice Network found that, taken together, the UK and our network of offshore territories is the biggest supplier of financial secrecy worldwide⁷. We do more than any other jurisdiction in the world to enable secret transactions and anonymous ownership. The US comes in second.

This was confirmed by the 2020 leak of Suspicious Activity Reports known as "the FinCEN Files", which provided a rare insight into \$2tn worth of transactions⁸. They included lurid revelations, like covert political donations and Roman Abramovich investing in non-Chelsea players. They also showed that the US Treasury categorises the UK as a "higher risk

jurisdiction” – alongside Cyprus. Over 3,000 UK companies were identified in the FinCEN files, more than any other country.

Five years ago, the Panama Papers showed much the same thing, opening a ray of sunlight into the shadows of the offshore industry. More of the anonymous companies involved were registered in the British Virgin Islands than any other country⁹. And, incidentally, it may be worth noting that the BVI is the largest single source of foreign ownership of property held in the UK¹⁰. Just last week, insights from the Panama Papers were used in parliament to argue that the government’s response to date has amounted only to ‘minor technical measures’, rather than getting to grips with the core of the issue¹¹.

As well as providing financial secrecy, the UK provides world leading professional services and a safe and stable environment for enjoying serious money. In 2019, Transparency International investigated 400 cases of high level corruption and identified over 500 firms offering British services to corrupt actors, including dozens of accountancy firms, lawyers and financial institutions¹². Again, all of the Big Four were involved. These businesses helped handle corrupt funds, setting up thousands of shell companies and buying over £5bn worth of UK properties, along with private jets and luxury yachts. The report notes that the UK also offers excellent education, courts and investment opportunities – as enjoyed by Ms Dos Santos, Russian oligarchs and many others.

While of course most professional advisors are law abiding and there are many codes of professional ethics, the incentives to bend them are sometimes irresistible. Even those at the top can fall prey to temptation. Last year, the global head of tax at Freshfields was charged for his role in the Cum-Ex scandal, that stripped hundreds of millions of dollars from European revenues¹³. It is not clear that the current regime of professional ethics alone is an adequate defence.

As in earlier times, these activities are not without their victims. The UK enables source countries to lose very substantial levels of capital and tax revenue. A recent UN report found that, in total, Africa loses \$89bn every year from illicit financial flows (although we do not know how much of this loss is directly associated with the UK)¹⁴. That figure is approximately the same value as Africa’s combined total inflow of aid and investment together. It would pay for huge amounts of much needed public services and even – when necessary – famine relief. This figure alone elevates the general issue of illicit finance to a first order global problem.

At the same time, the Russia Report vividly illustrated how illicit finance weakens Britain’s democracy and national security¹⁵. The author Nicholas

Shaxson coined the term “the finance curse” to describe how our excessive focus on the finance sector unbalances the economy, distorts national priorities and fuels domestic as well as international inequality¹⁶. Maybe you can have too much of a good thing.

This brings us to my second overall question: what can we all do about it?

Our government regularly describes Britain as “a force for good” in the world. And this is often the case. We have a wonderful track record of leadership in international affairs. However, if we are truly to become a good global citizen, then we also need to address the reality of our role in enabling illicit financial flows.

In the US, President Biden has taken the essential first step of recognising the scale of the issues. Writing last year, before his election, he presented his view of global affairs as a struggle between the values of democracy and autocracy¹⁷. He stated that “the US’s ability to be a force for progress in the world ... starts at home”. He explicitly recognised the central role that dark money and corruption play in undermining democracy in the US and abroad, and he committed his administration to “combating corruption as a core national security interest and democratic responsibility” He wrote, “I will lead efforts internationally to bring transparency to the global financial system [and] go after illicit tax havens.”

The President is already making appointments to realise this commitment¹⁸, and bringing forward serious proposals to change the use of low tax financial centres¹⁹.

On our side of the Atlantic, the view is strikingly different. Last month Boris Johnson published his government’s Integrated Review, heralded as setting a definitive foreign policy for Britain after Brexit. The review considered illicit finance only as an external threat to the UK. Once again, the government demonstrated its massive blind spot about the impact of our network of tax havens²⁰.

Perhaps this is not all together surprising, given how established our offshore centres have become over decades, how central to the interests of people in positions of power and influence, how much money is involved. It is not fanciful to see them as secret gardens of privilege, seductive and corrupting, hidden in plain sight by arcane constitutional arrangements, where the normal rules and obligations don’t apply. As the Panama Papers showed, even Presidents and Prime Ministers can not always resist²¹. They are quite the habit to kick. And not bad for the liquidity of UK plc either.

Instead, the Treasury shelters behind screens like a recent glowing evaluation²² by the Financial Action Task Force described by independent analysts as whitewash²³.

So the first priority is to fix that blind spot and recognise head on the uncomfortable truth that Britain is a world leading enabler of illicit finance, creating great harm at home and abroad.

Now it's not all doom and gloom. Progress is being made.

Perhaps here I could mention the work of the Joffe Trust, that I have the privilege of leading²⁴. Our history is directly related to the tail end of colonial times, fighting the monumental injustice of the apartheid regime in South Africa.

We were founded by Lord Joel Joffe, who represented Nelson Mandela at his historic trial in 1964. At the trial, Mandela stated the same aims as freedom fighters and democratic champions around the world, saying that his purpose was: *"the ideal of a democratic and free society in which all persons live together in harmony and with equal opportunities."*

Joel moved to the UK immediately after the trial, where he co-founded Allied Dunbar, a life assurance company, and he helped lead it to great commercial success. However, Joel's first passion was always social justice. He actively supported many causes and inspired people to do great things, which they might otherwise have lacked the courage or self-belief to attempt. One of his vehicles for action was the Joffe Trust, which he set up with his wife Vanetta in 1968 and which continues today.

We are a medium sized grant-making trust, giving away about three quarters of a million pounds a year. Over the last ten years, we have become the UK's most engaged funder in the fields of fighting corruption and tax abuse. We support a small but highly committed movement of activists tackling illicit finance, such as Transparency International, the Tax Justice Network and Spotlight on Corruption. Increasingly, we support work that has traction in commercial circles and with our current government.

These activists have played a pivotal role in helping the UK to fight dirty money. They have been behind major policy innovations such as the 2010 Bribery Act, Unexplained Wealth Orders and the extraordinary commitment to transparency around the beneficial owners of companies across all our offshore centres. They continue to push for further reforms, of which more in a moment.

At the same time, they have helped transform public and political opinion around tax, so that it is seen more as the contribution to a decent society that it is, and less as purely a one dimensional financial burden. Corporate boards now have to consider the real risks associated with aggressive tax avoidance, increasingly at the behest of their investors.

However, other interests have actively promoted an opposing set of reforms, often under the guise of a light touch regulatory environment. Private interests vigorously defend and extend their ability to maximise profit, regardless of wider social considerations. The grubby Greensill affair shines a light on the cosy relationship between finance and government. Lobbying continues apace for deregulation, tax breaks and avoiding transparency. The revolving door between industry and regulators risks compromising governments' perceptions and their ability to enact tough measures²⁵. The links with hostile geopolitical activity appear to be deepening. Looking back across the pond, it is easy to see how successful these opposing interests were under President Trump²⁶.

But still, despite progress, the UK remains stubbornly at the top of the charts of global financial secrecy, and the centre of a network of enablers of illicit finance.

So what more should we do? And here I would ask for your help too.

The question as I see it is: how can we help the UK and the current Johnson government move further to the right side of history, stepping up alongside President Biden? I think it's a question for all of us.

The Joffe Trust has worked together with specialist activists to identify the practical steps for what we can do.

First, we need to build awareness and urgency. In this talk, I've set out a few broad brush strokes. There's naturally much further to go. Can we find out more about the scale of the issues and the real impact of the UK's role as an enabler of illicit finance? Would it be relevant to ask questions about this in relation to any of your business affairs?

We should also take every opportunity to encourage the British government to recognise that dirty money causes real harm and undermines democracy – and that, as a force for good after Brexit, the UK has a pressing responsibility to put its own house in order.

Second, pursue the next set of policy reforms. These have largely already been identified. They cover the fields of transparency, accountability and effective enforcement – such as resourcing our enforcement agencies

adequately. Together, they have the potential to completely reposition the UK, so we become a driver of integrity in the international financial system.

They will naturally all be contested, by a variety of commercial and political interests. But, with the right organisation, there is every potential to achieve them within the current parliament, as they advance the government's priorities and values. More specifically, they level the playing field for free and open markets that enable real competition and innovation; they contribute directly to the levelling up agenda; they counter real and present national security threats; and they reinforce British leadership in effective multilateral action. There is also substantial public support for progress in these areas: polls show how much voters hate it when big business and the elite dodge the rules²⁷.

However, there is a great deal of work to do in engaging with the politics and policy detail to win these reforms. Without constant pressure, they will wither on the vine.

Third, support responsible business. I am sure you are familiar with stakeholder capitalism as a growing force, championed by the World Economic Forum, the influential US Business Roundtable, the Financial Times and many business leaders like Paul Polman (previously of Unilever) and colleagues²⁸. There has been a massive growth of assets invested in ESG funds²⁹, and real movement now to develop robust standards for ESG investing, covering everything from human rights in supply chains to staff conditions and – increasingly - tax arrangements³⁰.

This is credibly seen as the path of the future. The B-Corps movement is growing and moves are afoot to amend the UK Companies Act to establish the legal basis for companies' responsibilities to their wider stakeholders³¹.

Fourth, strengthen alliances. There is common cause between the fight for integrity in international finance and the movements to tackle climate change, inequality and respond to other pressing social issues.

This can be simply illustrated through three links. One link is the way that corruption and secretive lobbying distort government decision making away from the long term public interest. Big tobacco, big oil and big pharma's influence on public policy are well documented at great cost to the public at large, whether through smoking, opioids or delaying climate action. A second link is that anonymous offshore companies enable owners to sidestep all forms of regulation, and not just tax – they could be termed law havens as much as they're known as tax havens. And a third link is the

simple tax revenue foregone for investment in public services and the spiralling wealth inequality enabled by deregulated capitalism.

The more we can strengthen alliances with people working on these issues, the better our chance of building the political will needed for real action.

Fifth and finally, there is an urgent need to invest properly in the activists who are driving this agenda. The few groups that lead this work are characterised by a limited number of highly committed people working in small organisations and charities. They are not well paid, and lack financial security.

The field simply lacks the staffing to achieve reforms. I can say this with complete confidence, as I have convened strategic retreats bringing the key activists together over recent years. We know what needs to be done. But we are prevented from doing it by a lack of consistent funding for the hard work of developing policy, building alliances and support, taking advantage of opportunities, countering opposition and generally getting organised to win over the medium term.

By contrast, our opponents are extremely well resourced and connected, whether they represent big business or billionaire activists like Charles Koch and Robert Mercer.

We at the Joffe Trust are currently investigating a new project called the Groundskeeper Initiative to provide consistent resourcing over the medium term for carefully selected strategic work in this field. I would be delighted if you could consider getting involved and supporting it. After all, now is the time to stand up and be counted, and win the battle for decent standards in post Brexit Britain, rather than sit back and allow a slide to the bottom and some sort of Singapore on Thames. Please don't hesitate to get in touch.

So to conclude.

It's a familiar truism to say that finance and commerce exist within society and contribute to good or ill. The ethical dimension and impact on whole populations cannot be ignored. I have illustrated some of the current connections between what happens here in the UK and the real effect on people around the world.

Two hundred and fifty years ago, the East India Company maintained dividends by literally taxing people to death. Thankfully, this is now

ancient history. But it is also true that some of the same dynamics continue today.

I have presented the open secret that Britain plays a central role in global illicit financial flows. And that those financial flows create massive harm and severely limit life opportunities and effective government for people around the world. I have outlined how we can transform Britain's role, by recognising this uncomfortable truth and mobilising the right will and resourcing.

So, together, we all face the same choice. We can choose to maintain the existing systems in order to maximise short term profit. Or we can choose to get organised in order to dismantle what is harmful, and unleash real competition and innovation, in support of Nelson Mandela's vision of democratic and free societies with equal opportunities for all. That's what we and our allies fight for at the Joffe Trust. But inertia and our opponents are powerful forces and we are not yet fully on the path to success. We need help – and perhaps your help. Will you join us?

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