

Local and Regional Measures to Combat Kleptocracy: Transparency Tools to Uncover Illicit Transactions

This report is part of a series by OGP and NDI analyzing the anti-kleptocracy measures that can be taken in the countries where ill-gotten gains are stashed, spent or invested.

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Executive Summary

Around the world, undemocratic, corrupt leaders steal state funds and bend public policy to enrich themselves and ensure that they remain unaccountable to the ballot, to courts, or to protests. This system of organized crime is often called “kleptocracy” and its rulers, “kleptocrats.”

It would be bad enough if kleptocrats carried out their criminal activity in their own country. But now, those leaders are exporting their corruption to other countries — whether through money laundering, sowing political chaos, or using public institutions to intimidate their enemies and enhance their reputations.

Fortunately, there is something to be done about this. Most of the attention on the cross-border threat has focused on what national governments can do. Increasingly, however, local governments (provinces, regions and municipalities) are playing a critical role in countering this global threat. This report highlights several interventions that local and regional governments can adopt to fight transnational kleptocracy with a specific focus on illicit financial transactions. These interventions aim to protect local economies and citizens from long-term harm and institutional erosion caused by transnational kleptocratic activities. There is high potential for local and regional governments to pilot these ideas as they can strengthen national policies and action plans to combat corruption. The interventions are the following:

1. Beneficial Ownership Registries
2. Official Government Inquiries
3. Geographic Targeting Orders
4. Unexplained Wealth Orders
5. Collaborative Campaigns to Combat Dirty Money

“Local and regional governments can suffer the same harms (from illicit transactions) as national governments, but the damage— such as asset stripping, real estate bubbles or undue political influence— is more concentrated and deeply felt by local communities.”

Introduction

Kleptocracy is known as “rule by thieves,” where powerful stakeholders steal or exploit country-level wealth for personal enrichment at the country’s expense. Transnational kleptocracy, in other words, theft beyond country borders, is when stolen resources flow from “source” countries where corrupt leaders misappropriate public resources to “host” countries where the ill-gotten gains are invested or spent. Rather than investing in their own countries, kleptocrats prefer to stash funds in “safe” countries characterized by stability and robust rule of law.

The harm caused to the host countries is multifaceted, including political interference, money laundering, warping of investment and real estate markets, public safety risks such as drug and weapons trafficking, and the proliferation of organized crime. Analysis of the impacts on local and regional governments (LRGs) is still emerging; initial evidence indicates that LRGs can suffer the same harms as national governments, but the damage — such as asset stripping, real estate bubbles or undue political influence — is more concentrated and deeply felt by local communities.

This report focuses on policy mechanisms, laws and initiatives that LRGs in “host” countries can deploy to protect local economies against the illicit financial transactions of foreign kleptocrats. By delving into this topic further, this report seeks to shed light on the urgent need for targeted interventions by LRGs to fight kleptocracy, which can complement and strengthen national-level strategies to combat this type of corruption.

An illicit financial transaction refers to money that is generated illegally (e.g., the proceeds of crime) and used to purchase assets in any form for safekeeping. The goal for a kleptocrat is to ensure the transaction can be carried out smoothly and anonymously.

This report also lists examples of LRG policy mechanisms, laws and initiatives with insights into how other LRGs can learn from them. The case examples regularly use transparency as a tool to combat kleptocracy, and many examples involve collaborative efforts between LRGs and different stakeholders, including civil society, media, expert commissions and the private sector. Successful case examples involve LRGs working with these groups to forge effective strategies against kleptocracy.

As a proven multistakeholder platform focused on openness and oversight, the Open Government Partnership’s OGP Local initiative is a promising platform for LRG efforts aimed at countering kleptocracy. OGP Local presents a unique opportunity for civil society and local governments to collaborate in defining and addressing challenges through co-created action plans. This partnership underscores the growing recognition of how transparent, accountable and inclusive local governance can play a role in combating kleptocracy.

The Case for Fighting Kleptocracy at Local and Regional Levels

Kleptocracy is a transnational challenge that can only be addressed through national and local initiatives. Fighting transnational kleptocracy is crucial for local and regional governments (LRGs) for several reasons. First, LRGs should protect their economies and political institutions from the ill-gotten gains of kleptocrats as a matter of self-interest. Kleptocratic wealth parked in local real estate¹ can price out citizens from the housing market, driving up rents, contributing to increased homelessness and placing extra burden on municipalities to support food banks and shelter spaces. In addition to infiltrating the housing market, kleptocrats can buy up commercial real estate with bogus shell companies² to avoid paying business taxes, which can reduce legitimate business activity in a local economy. Similarly, to the housing market, these actions can artificially inflate the value of commercial real estate, which prices out local businesses. Another in an endless list of examples, kleptocrats can purchase local industry³ through shell companies⁴ — tying the local communities' fortunes to the whims of these kleptocrats.

Second, kleptocracy should be tackled as an act of solidarity with the source country communities that have suffered the devastating effects of the misallocation of funds, including deprivation of essential services such as healthcare, education and infrastructure development. Kleptocracy not only stunts economic growth and prosperity but also exacerbates inequality and poverty, undermining the social fabric of communities.

Third, LRGs have a unique role in complementing national anti-kleptocracy efforts. While challenges posed by transnational kleptocracy and any potential solutions are discussed in national and international policy fora, their impact is localized and directly affects communities. National strategies often focus on legislative and policy reforms, whereas LRGs can implement practical, on-the-ground measures to combat corruption. This includes enhancing transparency in local budgeting and procurement processes, enforcing strict audit and compliance standards, and facilitating community engagement in monitoring public spending. By adopting a grassroots approach, LRGs can effectively detect and blow the whistle on corrupt practices, which might be overlooked at the national level. Additionally, they can collaborate with national agencies to address vulnerabilities and gaps, suggest reforms, and ensure that anti-corruption efforts are comprehensive and cohesive. Also, in rare cases when national governments are incapable of fighting corruption of this nature, or when anti-corruption efforts aren't prioritized, LRGs can take the initiative to safeguard communities and deter further kleptocratic influence.

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Lastly, LRGs are strategically positioned to foster international cooperation in fighting kleptocracy. With respect to transnational kleptocracy, where large quantities of illicit cash cross borders, local governments can work alongside international bodies and other jurisdictions to trace and recover stolen assets. They can also share best practices, intelligence, and resources to strengthen global anti-corruption networks. In doing so, LRGs, especially ones recognized as sovereign jurisdictions, can contribute to global efforts to uphold integrity and justice, promoting a more equitable and transparent international political and economic system.



Local and Regional Measures to Counter Kleptocracy

The role of local and regional governments in combating kleptocracy is a relatively uncharted, yet promising area with high potential for adaptation at scale in countries around the world. As LRGs begin to recognize their potential in this fight, there's ample opportunity for innovative approaches that build upon the most successful measures. This emerging field offers significant scope for experimentation, where local bodies can pilot anti-corruption programs, leverage technology for greater transparency, and foster partnerships to monitor and report unethical practices. As such, LRGs can be instrumental in setting new standards for open governance, challenging kleptocratic norms and building a culture of integrity, accountability and inclusiveness for communities.

Open government principles stand in direct opposition to the secretive and exploitative nature of kleptocracy. Kleptocratic regimes thrive in environments where opacity and misinformation reign, making it difficult for citizens to scrutinize government actions. As a much-needed counterweight, OGP emphasizes the need for accessible, relevant, and timely information about government operations. This helps empower citizens to hold their leaders accountable and ensures equitable and just management of public resources. As the nature of kleptocracy benefits a select few at the cost of citizens, open government principles of transparency help foster robust institutions that serve citizens and where resources are distributed fairly and advance public interest.

1. Implementing Beneficial Ownership Registries

Beneficial Ownership Registries are directories that list the ultimate, natural owners of assets. These registries address the problem of understanding who happens to own, control and influence a large asset, namely a company or a property. Kleptocrats are known to secretly own or control shares in companies where they use these vehicles to launder stolen money. As of December 2023, there are 144 countries worldwide that have committed to beneficial ownership registries, and there are also global standards for beneficial ownership collection and disclosure set by the Financial Action Task Force (FATF) to which countries must adhere.⁵ As beneficial ownership registries have a principal aim to combat money laundering, countries are requiring that information must be accurate, adequate, and timely for access by competent authorities (e.g., Financial Intelligence Units or FIUs) and law enforcement.

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Developing Publicly Accessible and Searchable Registries of Beneficial Owners for Companies and Properties — The Cases of Quebec and British Columbia, Canada

Context:


Two of Canada’s provinces have been innovators around beneficial ownership transparency, often because they deal with the direct consequence of anonymous companies. Their experience may shed light on why and how other regions of the world might tackle this fundamental problem.

Legislative measures have been implemented to establish publicly accessible registries for beneficial owners of properties and companies in Canadian provinces British Columbia and Quebec. These measures aim to deter money laundering activities that exploit shell companies and Canada’s real estate sector. This approach is part of a broader strategy to protect and strengthen the integrity of Canada’s economy.

A shell company is a company that has no real business operations and no discernable beneficial owner. Shell companies are often labeled as numbered companies and usually have a service address using post office boxes. They can be used for myriad purposes — both legitimate and illegitimate — including facilitating corporate mergers or tax evasion and money laundering.

In 2021, the province of British Columbia implemented the Land Ownership Transparency Registry (LOTR).⁶ This was a significant milestone in combating money laundering within the real estate sector as the registry is publicly accessible, searchable and integrated into the province’s existing land registry. This policy measure came in response to public outrage over the Vancouver money-laundering model, where large, sustained sums of illicit funds from China flowed through British Columbia casinos, changed hands and ended up in British Columbia real estate.⁷ The tool was aimed to improve the scrutiny of property transactions and deter criminals from using real estate to hide illicit funds anonymously.

Also in 2021, the province of Quebec was the first sub-national jurisdiction to successfully pass legislation for a beneficial ownership registry specifically for private companies and foreign companies carrying on business within the province.⁸ This registry aims to lift the veil behind the real owners of corporate entities, thus preventing the misuse of companies for illegal purposes as the province was reeling with evidence demonstrating the vulnerability of Quebec corporations being abused by criminals to launder money.⁹ The Quebec registry is integrated into



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the current provincial business registry, and legislation came into force in March 2023. It is also anticipated that users will be able to search the names of beneficial owners by March 2024.¹⁰ This registry is unique as it requires disclosure of indirect ownership, control and influence. Furthermore, it is comprehensive as it requires disclosures of corporate entities, trusts and partnerships.¹¹

Implementing public registries for beneficial owners of properties and companies in British Columbia and Quebec represents a significant step in the fight against kleptocracy. These measures not only counter kleptocratic activities but also provide numerous benefits to LRGs.

Implications and Benefits for Local and Regional Governments:

Enhanced Transparency and Accountability

- **Deterrence of Money Laundering:** The public land registry in British Columbia and the beneficial ownership registry for private companies in Quebec serve as tools to deter money laundering. By requiring the disclosure of the real owners behind companies and properties, these registries disrupt the anonymity that facilitates illicit financial flows, both from international and domestic sources.
- **Improved Oversight:** With access to detailed ownership information, competent authorities, law enforcement and civil society can analyze ownership data and conduct forensic analysis to identify suspicious trends, especially by cross-referencing with sanctions databases.¹² This level of oversight is critical in preventing the misuse of key assets such as real estate by criminals.

Economic Benefits

- **Increased Investor Confidence:** Transparency in ownership information can boost investor confidence and attract legitimate investment. Potential investors are more likely to invest in sovereign jurisdictions with strong credit ratings and low-risk perceptions. This can lead to increased legitimate foreign and domestic investment, driving job creation and economic growth. Left unchecked, LRGs will be at risk from corrosive capital from kleptocratic regimes, which undermines democratic institutions.¹³
- **Prevention of Property Market Manipulation and Localized Asset Bubbles:** By curbing the use of real estate for money laundering, these registries help stabilize property markets from volatility, which benefits local economies and residents.¹⁴



Legal and Regulatory Efficiency

- **Streamlined Legal Processes:** Having readily available information on property and company ownership can significantly streamline legal and regulatory processes. This efficiency is particularly beneficial in investigations and legal proceedings related to financial crimes.
- **Policy Formulation and Implementation:** Access to beneficial ownership information assists policymakers in understanding the landscape of property and corporate ownership. This information is invaluable in crafting targeted and effective policies to regulate these sectors.

Social and Community Benefits

- **Promotion of Public Safety:** By countering organized crime networks, which often use laundered funds, these registries indirectly contribute to public safety and reduce risks to communities.
- **Enhancement of Public Trust:** Transparency initiatives like these registries improve public trust in government institutions. When citizens see proactive measures being taken to combat corruption, confidence in the government's commitment to public interest is bolstered.

International Cooperation and Reputation

- **Alignment with Global Anti-Corruption Efforts and International Cooperation:** By adopting these measures, British Columbia and Quebec align themselves with international anti-corruption standards and practices. This alignment enhances their reputation on the global stage as regions committed to combating financial crimes. Publicly accessible registries enable easier collaboration with other nations that are carrying out investigations of drug trafficking, wildlife trafficking, theft of public funds or terrorist financing.

The unique policy and legislative approach to these registries in British Columbia and Quebec set a novel precedent and serve as models for other LRGs considering similar interventions.

Commitment for a Registry of LLC Owners — The Case of New York State, U.S.

Context

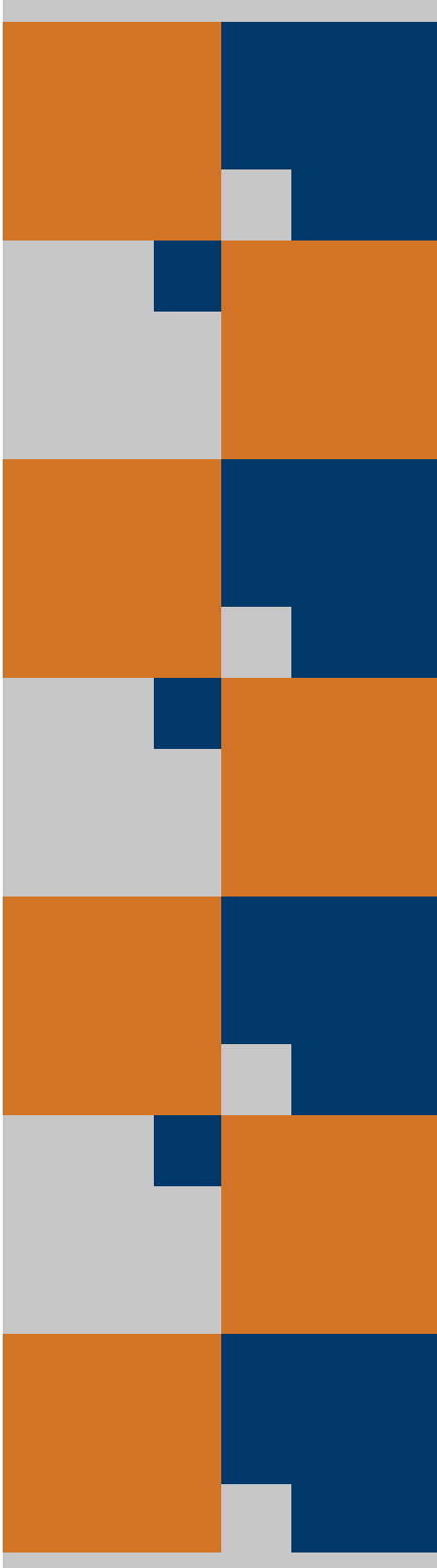
Ending shell companies has a wide range of benefits. New York State is an example of how housing issues — especially evictions of renters — drove policy to end anonymous companies.

In January 2024, the New York State Assembly passed the New York LLC Transparency Act (NYLTA), which aims to curb the use of anonymous limited liability companies (LLCs) for illicit activities such as money laundering, fraud and tax evasion.¹⁵ The act was motivated by anonymous LLCs leasing New York real estate and contributing to legal violations while exacerbating rents.¹⁶ Experts estimate that LLCs contribute to 34 percent of evictions across the U.S., and LLCs are often owned or controlled by a chain of LLCs, making it extremely difficult to understand who the landlord might be.¹⁷ This policy mechanism is significant because of the well-understood, unique corporate structure of LLCs in the U.S., which offers reduced liability for directors and tax sheltering advantages. While the original act required the state to create a publicly accessible and searchable database for all LLCs and foreign LLCs, the amended Act eliminated the public registry component and LLC information is now only available for law enforcement and competent authorities.

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LLCs are unique corporate entities that protect owners from being personally pursued to repay a company’s debts or liabilities. LLCs are also exempt from paying federal tax directly on profits. Corporations, by contrast, are required to pay taxes on profits, and shareholders themselves may also need to pay taxes on dividends issued from the company itself. This is known as “double taxation”.¹⁸

A civil society coalition found that approximately 37 percent of properties in Manhattan are owned by LLCs, which is five times the state average, as LLCs own 6 percent of properties outside New York City.¹⁹ This intervention aims to combat the misuse of LLCs for unlawful activities and complements the Corporate Transparency Act, (CTA) enacted by the U.S. Congress in 2021. The legislative framework of the NYLTA itself is unique as the state requires that beneficial owners submit ID numbers from government-issued identity documents to prevent fraudulent entries.²⁰ This feature is absent in the earlier examples of Canadian registries and many national beneficial ownership registries worldwide.



Implications and Benefits for Local and Regional Governments:

Countering Illicit Financial Flows

- **Deterrence of the Proceeds of Crime and Assists Investigations:** The NYLTA requires LLCs to disclose beneficial owners in order to reduce the risks of anonymity, which may include tax evasion, fraud and money laundering. The ID verification mechanism can serve as a deterrent to those who might use LLCs for illicit purposes. The internal database can be accessed by law enforcement for investigations.

Economic Impacts


- **Strengthening the Business Environment:** Beneficial ownership transparency can support a healthy business environment. As mentioned earlier, increased transparency of LLCs can reduce risk and increase domestic and foreign investment in New York.
- **Protection of Legitimate Businesses:** The registry can help protect legitimate businesses from being unknowingly associated with illicit activities.

Legal and Administrative Benefits

- **Efficiency in Legal Proceedings:** Information for LLCs should help streamline domestic legal and administrative processes, especially in investigations related to financial crimes, as the information on natural owners can be retrieved from the database by law enforcement and competent authorities.
- **Policy Development and Implementation:** The data from the registry is a valuable asset for state and local policymakers in understanding the corporate landscape and crafting effective business regulations.

Enhancing Reputation and Global Cooperation

- **Alignment with International Standards:** The New York LLC registry aligned with standards in the CTA along with global efforts by other national and subnational governments to promote corporate transparency.
- **Facilitation of International Collaboration:** The registry is aimed at enabling more effective collaboration in international investigations, contributing to global efforts to combat transnational crime and terrorist financing.



“Official government inquiries ... play a critical role in understanding and addressing the risks of money laundering. Commissions are instrumental in uncovering the depth and breadth of money laundering activities within various sectors, including real estate, gaming, financial institutions and government bodies.”

In short, the New York LLC registry is designed to target a corporate structure that is often abused. Its implementation can be helpful to LRGs that are encountering similar problems with anonymous corporate entities that combine the attributes of limited liability and tax sheltering.

2. Launching Official Government Inquiries

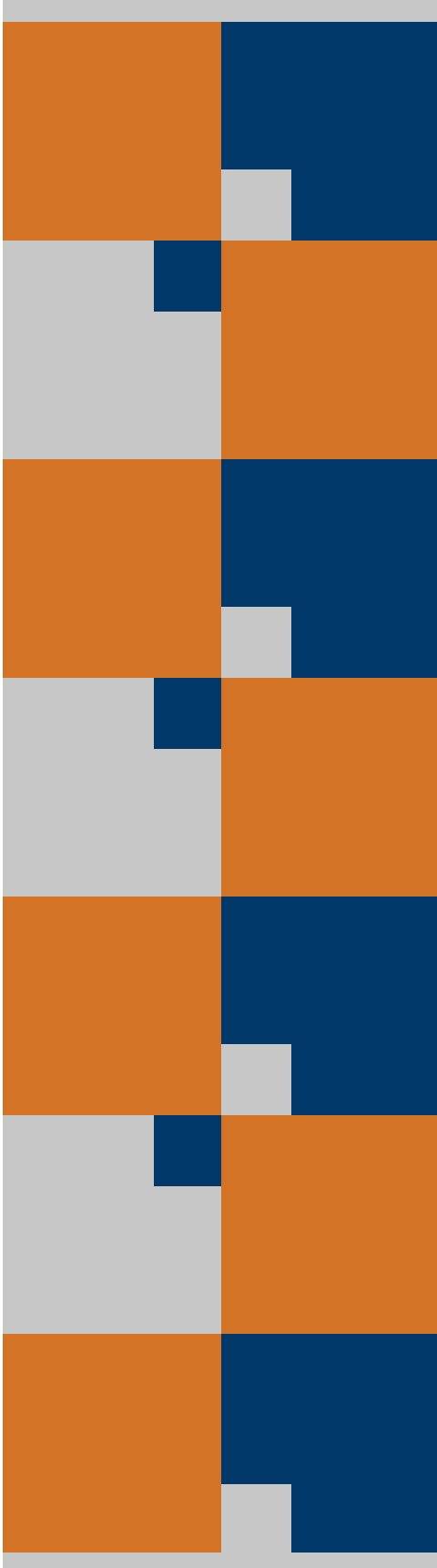
Official government inquiries, such as the Cullen Commission in British Columbia, play a critical role in understanding and addressing the risks of money laundering. Commissions are instrumental in uncovering the depth and breadth of money laundering activities within various sectors, including real estate, gaming, financial institutions and government bodies. By conducting thorough investigations, these commissions can provide detailed insights into the methods used by criminals and their organizations to launder money, loopholes in existing regulatory frameworks and the impact of these activities on the economies of LRGs.

The findings and recommendations of such inquiries can be invaluable for shaping effective policy and regulatory responses. They help identify systemic vulnerabilities and gaps in enforcement, leading to the development of more robust anti-money laundering laws and practices. Additionally, these commissions often play a significant role in raising public awareness about the issue of money laundering, its complexities and its consequences. This heightened awareness can lead to increased vigilance and cooperation among different stakeholders, including government agencies, financial institutions, law enforcement and the public.

The Case of the Cullen Commission of Inquiry into Money Laundering in British Columbia, Canada

With soaring real estate prices, British Columbia needed to understand where all the money was coming from. How they investigated the issue and changed policy is illustrative for any other major foreign money destinations.

- The Cullen Commission was established as a direct response to public outrage at the scale of money laundering within the province of British Columbia, particularly in casinos, the real estate sector and other key areas of the provincial economy.²¹ In May 2019, the provincial government recognized the need for an in-depth investigation and thus launched the Cullen Commission of Inquiry into Money Laundering in British Columbia. The goals of the commission were to carry out a sector-by-sector analysis of the economy and to recommend policies that can mitigate key money laundering weaknesses and improve enforcement.²²



- After a three-year period, 143 hearing sessions over 138 hearing days, and testimony from 199 witnesses, including community consultations, the commission released an extensive final 1,800-page report with robust policy recommendations.²³ In response, the British Columbia government committed to enacting legislation for a publicly accessible, corporate, beneficial ownership registry²⁴ and Unexplained Wealth Orders (UWOs) described later in this briefing note. Other major policy areas being explored by the province generally include:
 - **Enhancing Regulatory Oversight in Casinos:** Stricter regulations and oversight mechanisms for casinos, a sector previously identified as particularly vulnerable to money laundering.
 - **Strengthening Regulatory and Law Enforcement Frameworks:** Bolstering the capacities of law enforcement agencies and regulatory bodies to detect and combat money laundering.
 - **Establishing Dedicated Anti-Money Laundering Units:** Creating specialized units within existing law enforcement structures to focus on money laundering activities.
 - **Collaborating with Federal Agencies:** Working in conjunction with federal entities like Canada’s FIU (Financial Transactions and Reports Analysis Centre of Canada) to enhance the effectiveness of anti-money laundering efforts.
 - **Enhancing Oversight of Professional Services:** Including recommendations specifically for the accounting sector to mitigate money laundering risks.

LRGs can draw valuable lessons from the Cullen Commission as formal inquiries often can serve as a starting point for governments to explore how kleptocracy affects economies in a comprehensive sense.

Implications and Benefits for Local and Regional Governments:

- **Establishing Specialized Investigative Bodies:** Setting up a dedicated, independent commission or inquiry to specifically focus on kleptocracy can provide a legitimate platform for conducting a rigorous investigation. Should a commission be partisan or be carried out by an existing government agency, it can be perceived as biased.

“ Major cash purchases can be used to bypass the standard banking system. Increasingly, local governments are acting to ensure that such purchases no longer have the veil of anonymity.”

- **Engagement with Various Sectors and Experts:** Inviting stakeholders from a cross-section of sectors, including civil society, journalists and experts, can offer diverse insights and assist in understanding trends and typologies. Community consultations open to the public can strengthen trust and positive reception.
- **Aiming to Pinpoint Impact and Recommend Policies for LRGs:** The insights garnered from all stakeholders should be directly used to inform and shape policy decisions for LRGs. This includes both the introduction of new regulatory frameworks and the reinforcement of existing ones. Without this aim, the commission risks becoming a listening exercise, and many will question if the exercise was worthwhile.
- **Emphasis on Transparency and Accountability:** Given the systemic implications of kleptocracy, ensuring that the inquiry’s process and findings are transparent will improve public knowledge of the impact of kleptocracy and is more likely to garner support for recommended policies.

In summary, taking some of the best practices from the Cullen Commission could be valuable for LRGs to consider. If a commission is independent, transparent, well-resourced, and has a central objective to identify systemic risk from kleptocracy and recommend policy mechanisms, it can serve as a valuable intervention. At the same time, LRGs would need to be cognizant of the massive undertaking itself, requiring multiple years and a significant amount of public funds to devote to it; moreover, it also requires a genuinely open and democratic philosophy to governance, which might not be realistic for some LRGs. Yet, when properly applied, inquiries and commissions can yield some positive results as evidenced by the Cullen Commission.

3. Coordinating with FIUs on Geographic Targeting Orders in High-Risk Regions

Geographic Targeting Orders (GTOs) are a tool deployed by the U.S. government. GTOs have been a part of the U.S. government’s anti-money laundering toolkit for decades, and the use of GTOs has evolved and expanded in response to emerging threats and trends in money laundering and financial crimes.

Revealing the Cash Purchasers: The Case of GTOs in Miami-Dade County, U.S.

Major cash purchases can be used to bypass the standard banking system. Increasingly, local governments are acting to ensure that such purchases no longer have the veil of anonymity.



In 2016, the Financial Crimes Enforcement Network (FinCEN), the FIU in the U.S., issued GTOs as a pilot program in several cities across the country. Miami-Dade County, Florida, is a notable case example of a local jurisdiction where GTOs have been implemented to address illicit financial flows in real estate. GTOs issued by FinCEN in Miami were part of a coordinated effort with U.S. Immigration and Customs Enforcement’s Homeland Security Investigations and the Miami-Dade State Attorney’s Office South Florida Money Laundering Strike Force.²⁵

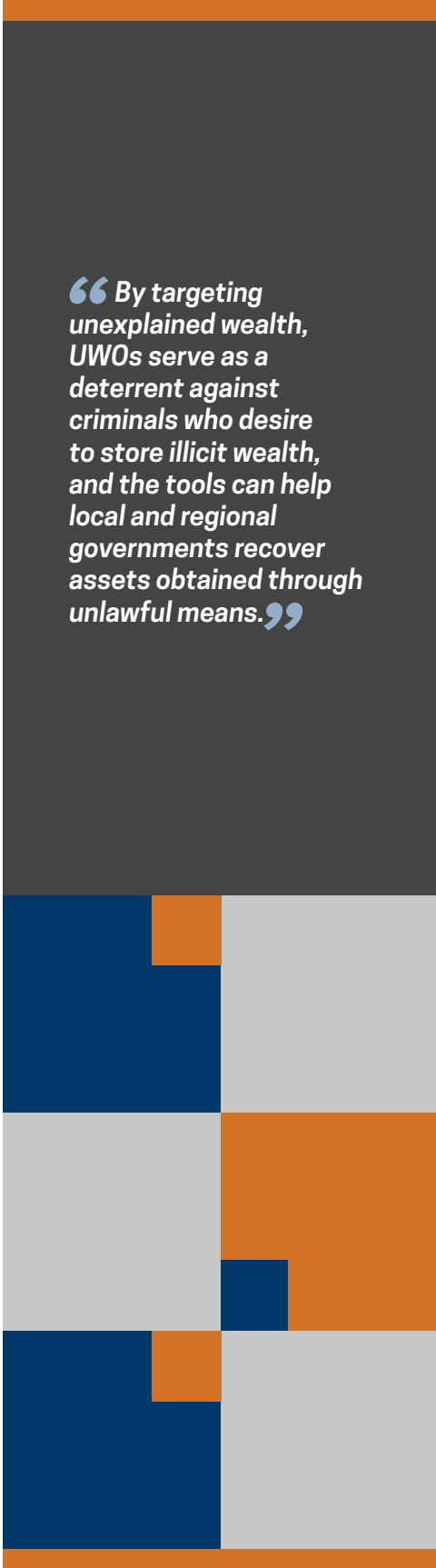
The aim of the GTO program is to require county title insurance companies to identify and report to FinCEN the natural persons behind shell companies who acquire high-end, luxury residential real estate of greater than one million dollars without any financing.²⁶ Miami has frequently been used as a jurisdiction where criminals hide illicit funds in luxury real estate.²⁷ After the program rollout in 2017, FinCEN reported that 30 percent of real estate transactions involved beneficial owners who were subject to a previous suspicious transaction report.²⁸ Later on, after a few years of implementation, the *Miami Herald* referenced a study describing that cash transactions by corporate entities that purchased real estate in Miami-Dade dropped by 95 percent.²⁹ The *Herald* also reported more shifts in the number of corporate entities purchasing real estate: “Corporate entities bought an average of US\$111 million worth of homes with cash in Miami-Dade per week, or 29 percent of all residential transactions, according to the study. But almost immediately after the reporting requirement began, that number plummeted to US\$5 million per week, or 2 percent of all transactions.”³⁰

Despite these initial positive results, the Brookings Institution found that the GTO program in aggregate did not result in meaningful shifts in corporate entities purchasing luxury real estate, likely due to criminals taking the chance to avoid detection due to lack of verification.³¹ Taking stock of the mixed results in impact and why there are not conclusive deterrence results serves as a powerful lesson for LRGs to note before implementing similar measures.

Implications and Benefits for Local and Regional Governments:

Insights into Real Estate Market Information

- **Increased Information for Law Enforcement and Competent Authorities:** GTOs issued by FinCEN serve to provide a more complete picture of high-end real estate owners in Miami-Dade and other sub-national jurisdictions where the GTO was applied. This information can be shared by law enforcement and helps pinpoint assets for those under investigation.
- **Understanding Corporate Behavior:** As mixed evidence exists on buyer strategies, LRGs can monitor how the GTO is changing



“By targeting unexplained wealth, UWOs serve as a deterrent against criminals who desire to store illicit wealth, and the tools can help local and regional governments recover assets obtained through unlawful means.”

and evolving to achieve their main objective of discouraging the use of real estate for illicit purposes. It is worth noting that the program has been renewed multiple times, and the cash transaction threshold was lowered to US\$300,000.³²

Potential Improvements in Program Implementation

- **Including Verification Measures for Beneficial Ownership Information:** The Brookings Institution noted that title insurers were not required to verify beneficial ownership information, which was reported to FinCEN.³³ This could result in sophisticated criminals taking a chance by flying under the radar of the regulatory mechanisms in place. It also attests to the importance of information needing to be accurate in beneficial ownership disclosure systems — and for title insurers, brokers and others to verify this information — to reap rewards from deterrence.

To sum up, LRGs can use lessons learned from GTO deployment in Miami and experiment with subsequent improvements, such as ensuring that identity verification and risk-based auditing measures are part of future legislation.

4. Implementing Unexplained Wealth Orders

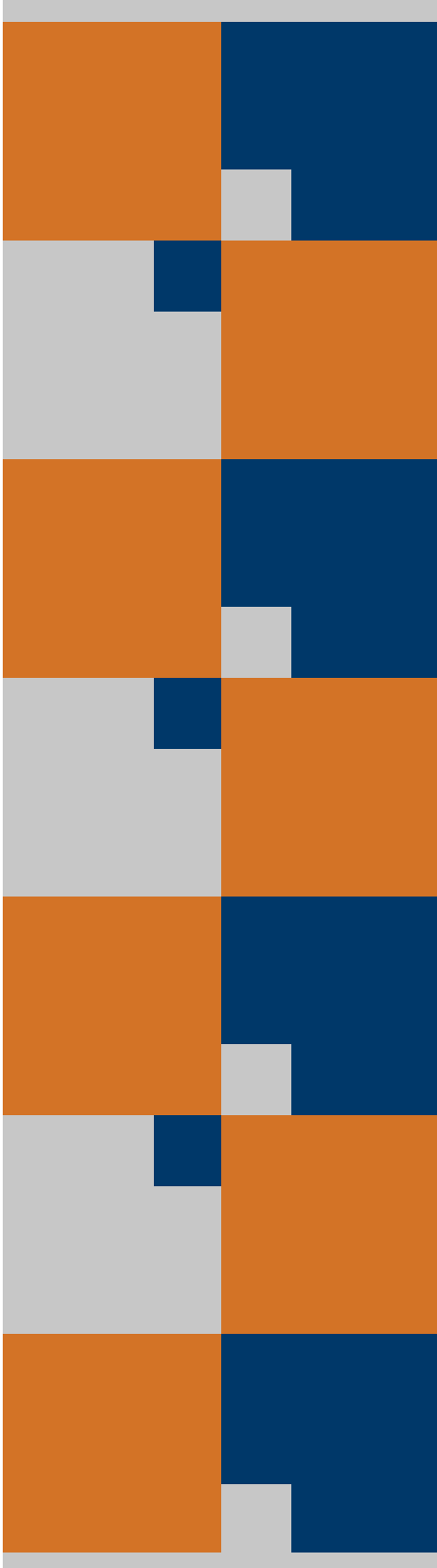
UWOs are legal tools used to combat money laundering and financial crime, particularly targeting the issue of illicitly obtained wealth. Under a UWO, individuals or entities suspected of holding assets disproportionate to their known lawful income are required to explain the source of their wealth. If they fail to provide a satisfactory explanation, these assets can be presumed to be unlawfully acquired and may be subject to seizure or forfeiture by authorities.

UWOs are particularly effective when there is suspicion of corruption, criminal activity or tax evasion but where direct evidence is hard to obtain. They shift the burden of proof to the asset holder, requiring them to demonstrate the legitimacy of their wealth. By targeting unexplained wealth, UWOs serve as a deterrent against criminals who desire to store illicit wealth, and the tools can help LRGs recover assets obtained through unlawful means.

The Case of British Columbia, Canada

Local governments are introducing regulations to ensure that certain assets are subject to inspection and potential action.

In March 2023, the Government of British Columbia announced it would implement UWOs as a tool to strengthen civil asset forfeitures.³⁴ These measures are designed to target and potentially forfeit unlawfully



obtained assets such as real estate, yachts or supercars. Should law enforcement have reasons to suspect that any asset was illegally acquired, the British Columbia Supreme Court may issue a UWO requiring that person to explain how they acquired the asset in question through legitimate means.³⁵ These measures were recommendations from the Cullen Commission of Inquiry into Money Laundering, covered earlier in this policy brief. The legislative framework was passed in June 2023 and is expected to come into force in 2025.³⁶

Implications and Benefits for Local and Regional Governments:

Strengthening Legal and Financial Frameworks

- **Combating Illicit Wealth Accumulation and Improved Asset Recovery:** The implementation of UWOs provides sub-national law enforcement and agencies with an additional tool to strengthen asset recovery and combat criminal wealth accumulation. This could potentially disrupt criminal enterprises but also serve as a deterrent to potential offenders.

Economic Impacts

- **Revenue Generation for Local Government and Civil Society:** Once forfeited, seized assets become revenue for the British Columbia government to cover the administration of civil asset forfeiture offices, and surplus amounts are distributed to local not-for-profit organizations through grants. The British Columbia government notes that between 2006 and 2021, CAD 129 million was forfeited, and of that total, over CAD 66 million was distributed to community groups within the province.³⁷
- **Additional Housing Supply:** Seized real estate is put back on the market and can boost housing supply for legitimate buyers. The province of British Columbia is undergoing a large-scale housing emergency as it is experiencing a sustained asset bubble.³⁸

Enhancing Public Trust

- **Improved Confidence in Public Institutions:** The proactive approach in implementing UWOs and asset forfeiture demonstrates a commitment to fairness, provided there are minimal infringements upon civil liberties without compromising or violating charter rights, which are often legislated at a national level.

“ Governments do not need to go it alone. In the heart of London, local councilors worked with business and civil society to stem the tide of oligarch money coming into the city. ”

LRGs can take stock of how implementation progresses with British Columbia’s UWO legislation, especially as the impact on the volume of asset forfeiture and potential implications for civil liberties have yet to be understood fully.

5. Developing Municipal and Business Collaborative Campaigns to Combat Dirty Money

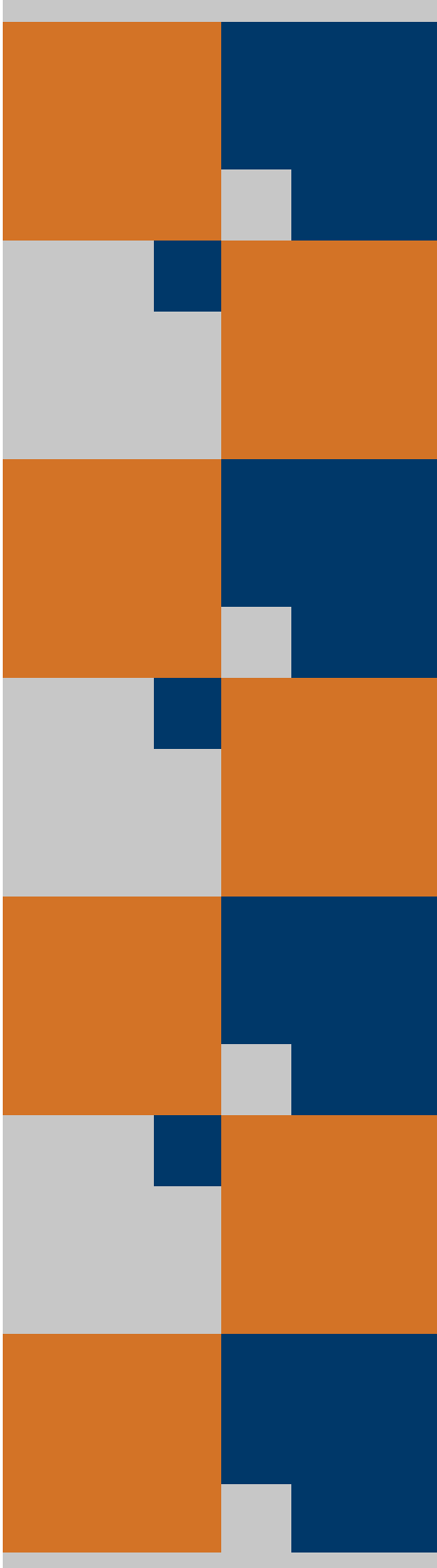
Developing municipal and business collaborative campaigns to combat dirty money is a new approach in the fight against transnational kleptocracy. Municipal governments and local businesses often have firsthand knowledge of fraudulent businesses and other suspicious activities, enabling them to detect activities indicative of money laundering. When these local insights are combined with the expertise and resources of the community groups, the result is a powerful synergy.

The Case of the City of Westminster, U.K.

Governments do not need to go it alone. In the heart of London, local councilors worked with business and civil society to stem the tide of oligarch money coming into the city.

In April 2023, the Westminster City Council created a groundbreaking charter to combat dirty money in the City of Westminster. The charter was initiated as a response to the growing concerns around the “London Laundromat” phenomenon — the use of London’s real estate market for money laundering. The charter was formed through a collaborative effort involving three major stakeholders: the New West End Company, the Heart of London Business Alliance and the Fair Tax Foundation.³⁹ This collaboration represents a strong collective response from business associations, civil society and the Westminster City Council to address the issue of dirty money in London.

The charter was motivated by the existing reputation of the London Laundromat, where oligarchs with connections to authoritarian regimes and international terrorist networks have purchased vast amounts of U.K. real estate.⁴⁰ During the COVID-19 pandemic, candy and souvenir shops acquired many leases in the West End of London, not paying their business rates [taxes] and selling counterfeit and unsafe goods. The problem is so extensive that the city council noted an eight-million-pound shortfall in business rates.⁴¹ Many of those shops were shell companies that falsified their beneficial ownership information, circumventing Companies House’s [U.K. company registrar] requirements to disclose accurate beneficial ownership information.



The charter seeks to achieve the following:

- **Overseas Ownership Scrutiny:** The charter desires to analyze ownership structures of overseas companies wanting to acquire a lease in the City of Westminster to curb tax avoidance and prevent fraud.
- **Full Disclosure of Ownership Structures:** Encouraging full disclosure about all ownership and control structures, including information about tenants and leaseholders, can create a transparent business environment for the city.
- **Reforming the Business Rates System:** The charter aims to reform the business rates system in hopes of revitalizing the local economy. The reform aims to fill shop voids quickly with high-quality, legitimate retailers, thus boosting the local economy and enhancing the community's vibrancy.

Implications and Benefits for Local and Regional Governments:

- **Collaboration with Local Businesses Associations and Civil Society:** Partnering with local business alliances and local nongovernmental organizations can provide a united front for LRGs.
- **Enhanced Transparency and Public Trust:** Emphasizing the need for clear ownership, influence and control information for prospective retailers can significantly deter fraud and tax evasion. Implementing policies that require disclosure of beneficial owners and transparent leasing agreements can enhance accountability and public confidence.
- **Improvement of National-Level Anti-Kleptocracy Initiatives:** Working closely with higher levels of government to identify weak points in national-level policy and to develop local policy mechanisms that could potentially fill these gaps.
- **Community Revitalization and Economic Development:** By focusing on filling commercial leases with legitimate businesses, LRGs can stimulate local economies while preventing the misuse of business leases and retail space, thus promoting a conducive environment for legitimate businesses.

“There is a strong case to be made for local and regional governments to address shortcomings from national anti-corruption initiatives. They can actively strengthen the integrity of economies. They also have the advantage of being nimble and taking advantage of gaps that national governments miss due to risk aversion, political logjams, or simply by their sheer size.”

In summary, the Westminster City Council’s initiative serves as a social innovation model that LRGs might be able to pilot at scale.⁴² While the charter approach is new, there is a high potential for success given its scope, and it demonstrates how business associations, city councils and civil society can collaborate on local initiatives. In the future, it will be imperative to understand what penalties will be agreed upon by the City of Westminster and how offenses will be enforced. LRGs will need to consider strong penalties and adequate enforcement mechanisms should they consider this approach.



Conclusion

As anti-corruption practitioners debate how governments can best fight transnational kleptocracy, this report offers examples of interventions initiated by LRGs or assisted by national governments to help LRGs combat illicit financial transactions stemming from kleptocracy.

The realm of policy mechanisms is diverse, ranging from transparency registries to asset targeting and forfeiture directives, civic collaborations and government inquiries. This list is non-exhaustive as there are likely other mechanisms that are being implemented that remain unknown or beyond the scope of this report at the present time of writing. It is also worth mentioning that many of the cited interventions are new — some have yet to be implemented beyond legislation, or enforcement measures are still under development. It could be inferred that this space requires more careful study and academic scrutiny, and while this is true, this space is also ripe for attempting interventions with the intention of learning by trial and error.

Overall, there is a strong case to be made for LRGs to address shortcomings stemming from national anti-corruption initiatives. LRGs can actively strengthen the integrity of economies. LRGs also have the advantage of being nimble and taking advantage of gaps that national governments tend to miss due to risk aversion, political logjams, or simply by their sheer size. To sum up, there is a promising opportunity for LRGs to innovate by piloting ideas that can be riskier, locally led and possibly implemented in shorter time horizons in comparison to national anti-corruption initiatives.



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Notes

Colophon

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