

Written evidence submitted by Tom Keatinge (INR0046)

Headlines

- 1) In November 2016, then-Home Secretary Amber Rudd said, 'in an increasingly competitive international marketplace, the UK cannot afford to be seen as a haven for dirty money. Economic crime fundamentally threatens both the security and prosperity of our citizens, and the reputation of the UK as a good place to do business.'¹
- 2) Earlier in 2016, at London Anti-Corruption Summit in response to then-Prime Minister David Cameron's reported remark branding a number of attending countries 'fantastically corrupt', when asked if he wanted an apology, President Buhari of Nigeria did not dispute the characterisation but noted, 'What would I do with an apology? I need something tangible. I am not going to demand any apology from anyone. What I am demanding is a return of assets.' At the same time, Nigeria's anti-corruption chief observed that 'London is the capital of money-laundering'.²
- 3) The government's 2019 Economic Crime Plan expressed a determination 'to tackle ... overseas-based economic crime that undermines the integrity of the UK economy, the UK's reputation and the security and prosperity of overseas countries' (p8).
- 4) Against this background, this submission argues that, given the impact that international illicit finance³ has on partner countries around the world – often facilitated by services provided by, located in or connected with the UK – and the resulting reputational damage this does to the UK, ***the FCO has a critical role to play as part of a whole-of-government response to ensuring the damage this reputation does to the UK's interests and standing with partner countries is urgently reversed and, as the Independent Commission for Aid Impact suggests, that the UK acts as a 'good global citizen' and thus partner of choice.***⁴

Introduction

- 5) This submission seeks to address two of the key points under consideration by the Committee, namely the UK's foreign policy strategy as relates to illicit finance and the resources and capabilities committed to this challenge
- 6) It is an inescapable fact that, whilst in many ways a force for global good, for many of the UK's current and future international partners, the financial services architecture that the UK, through its role as a global banking centre, home to globally-active professional services businesses, provider of widely-accessible corporate structures

¹ Amber Rudd, Home Secretary, 'Home Secretary's speech to the FCA's Financial Crime Conference', (November 2016)

² Patrick Wintour, 'Nigeria not seeking a Cameron apology, but 'wants its assets back'', The Guardian, (May 2016)

³ This submission uses the definition of international illicit finance adopted by the government's 2019 Economic Crime Plan (p59).

⁴ Independent Commission for Aid Impact, 'Mapping the UK's approach to tackling corruption and illicit financial flows: Information note', (March 2020), p22

and open real estate market, represents a facilitator of the illicit financial flows that afflict many countries.

- 7) In support of this assertion, the 2019 Economic Crime Plan notes that, 'Tackling international illicit financial flows is a top priority for the UK. It is critical in terms of reducing threats to the UK, protecting and promoting the UK's role as a financial centre, and reducing the destabilising impacts of illicit finance on the wider world, particularly developing countries' (p58).
- 8) Put simply, tackling illicit finance should play an important role in defending and promoting UK interests.
- 9) Put differently, a failure to do so will undermine the UK's position as it seeks to develop a new, independent global role for itself in the post-Brexit era. As the December 2018 Year 1 Update on the government's Anti-Corruption Strategy notes, 'The integrity of the UK as a global financial centre is essential to our long-term reputation and prosperity, especially as we become an independent trading nation' (p16).

Observations and Recommendations

Observations

- 10) The author provides the following observations:
 - i. Rightly or wrongly, the UK is recognised as a *contributor* to the global illicit finance problem to a greater degree than to the solution – this creates not just law enforcement challenges for the UK but also diplomatic challenges.
 - ii. Although the UK has dramatically enhanced its response to illicit finance over the past ten years, illicit finance has generally been defined as involving 'the holding, movement, concealment or use of monetary proceeds of crime that has an impact on UK interests',⁵ with little consideration of the role that these actions might have on non-UK interests, facilitated by UK services.
 - iii. The illicit finance response is a whole-of-government responsibility from DfID to the NCA, City of London Police and Met Police to the Home Office and FCO. Considerable effort has been made to manage this fragmentation of operational, policy and funding responsibilities⁶ as relates to illicit finance with a direct impact on the UK. But, currently, despite some recent developments via the deployment of members of the FCO's newly created SOCNet⁷ in a handful of countries, the UK's response to international illicit finance, and particularly the way in which the UK is perceived as a contributor to this issue is very limited.
 - iv. Where the UK has deployed, particularly operational or technical staff on a permanent basis or as part of training initiatives, the soft power impact is considerable.⁸ But the results of this kind of activity are inevitably slow to

⁵ HM Government, 'Serious and Organised Crime Strategy', (November 2018), p13

⁶ See Table 1, p18 of the Economic Crime Plan 2019 for a sense of this fragmentation of responsibility

⁷ SOCnet, a key deliverable of the 2018 Serious and Organised Crime Strategy, is a tri-departmental network of 18 policy officers, based overseas. It includes an 'Illicit Finance' network with experts sitting in global financial centres.

⁸ For example, the positive reception of Met Police/CoLP training; the leadership the UK has shown in

realise – in the meantime, the UK will need to use its diplomatic capabilities to build credibility with those that view the UK as a contributor to their illicit finance woes.

- v. Whilst the UK may be a generous financial contributor to international organisations such as the World Bank and IMF that undertake capacity building related to international illicit finance, the UK is less visible in its commitment to this issue than partner countries as it has a limited direct engagement programme, in contrast to peer countries such as the US or Australia.⁹
- vi. In 2019, the UK's Economic Crime Plan announced the aim to 'develop an ambitious international strategy to enhance security, prosperity and the UK's global influence' (p58), yet curiously, the FCO is – aside from reference to the nascent SOCNet – generally absent from any meaningful inclusion in this strategy, despite the reputational damage the UK suffers from its role as a facilitator of international illicit finance.
- vii. The progress the UK has made in organising its domestic response to illicit finance in recent years is welcome, but the country faces a long road before it reverses the damage that years of neglect have done to its global standing.

Recommendations

11) ...and recommendations:

- viii. The UK is, more often than not, a common element between global illicit finance scandals – this is perhaps unsurprising given the centrality of the UK to global finance, but this central role requires an active operational and strategic response if the UK is to shed its widely-held negative image of being a reliable provider of illicit finance facilitation services and investment opportunities.
- ix. Reversing the reputation of the UK as responsible for many of the elements of global illicit finance requires a concerted, whole-of-government response in which the FCO must play an important diplomatic role.
- x. In addition to ensuring the actions of the Economic Crime Plan's international strategy are implemented, notwithstanding many countries 'being their own worst enemy in this field', HMG must engage with and understand the perspectives of nations around the world that view the UK as a substantial contributor to their illicit finance woes. This must be a priority for FCO posts in a coordinated and consistent fashion that ensures that host governments believe that the UK is committed to genuinely supporting these countries in dealing with the illicit finance threat posed by the UK.¹⁰

developing and exporting the concept of public-private partnerships in tackling financial crime as exemplified by the UK's Joint Anti-Money Laundering Intelligence Taskforce (JMLIT)

⁹ For an explanation of the Australian approach, see Tom Keatinge, 'Lessons from Down Under: The Soft Power Dividend of Financial Crime Technical Assistance', RUSI (August 2018), available at:

<https://rusi.org/commentary/lessons-down-under-soft-power-dividend-financial-crime-technical-assistance>

¹⁰ In this regard, the engagement since 2018 of HMG with Pakistan to assist with addressing alleged proceeds of corruption and tax evasion hidden in the UK is a welcome initiative.

- xi. The UK must ensure that the policy dialogue and operational engagement with countries that pose a threat to the UK (e.g. as a source of drugs) is balanced with the acknowledgement (and associated action) of the threat the UK in turn poses from an illicit finance perspective.
- xii. To achieve this, the recently established SOCNet (and supporting illicit finance leads) that are leading illicit finance policy engagement in various HMG posts around the world need to be supported by a strong high-level FCO-led signalling campaign that the UK is taking seriously the harm it does to many of our partner countries around the world.
- xiii. This signalling campaign should be led by an explicit expansion of the responsibilities of the existing government Anti-Corruption Champion or the appointment of an additional 'International Illicit Finance' champion who can ensure that HMG's commitments and actions to reducing the illicit finance harm caused by the UK are communicated at the highest level.
- xiv. Furthermore, the SOCNet concept needs to be ramped up beyond its current size to achieve greater geographic coverage and capacity.
- xv. This initiative should be supported by the sustainable funding of the proposed International Centre of Excellence on illicit finance¹¹ to provide the financial wherewithal to deliver both ODA *and* non ODA-eligible capacity.
- xvi. The UK should also show leadership as a global financial centre by convening a high-level conference of other global financial centres to commit to using their positions of influence and facilitation to tackle illicit financial flows, promoting information sharing and demonstrating a shared responsibility for tackling the use of their services to facilitate illicit finance.

Background and Recent History

- 12) In the SDSR 2010, the government committed to 'create a body with a specific function to fight economic crime' (p52).
- 13) Over the subsequent 10 years, the UK has sought to sharpen its focus on, and its commitment to responding to, illicit finance.
- 14) The 2015 SDSR committed to 'make the UK a more hostile place for those seeking to move, hide or use the proceeds of crime and corruption or to evade sanctions' (p42) and noted that 'The UK remains the largest centre for cross-border banking...But substantial funds from crime conducted around the world are laundered through London' (p17).
- 15) It also paved the way for the global anti-corruption summit in 2016, noting that the UK was 'investing more than £190 million over three years to help developing countries investigate and prosecute corruption, and hold governments to account' and would also invest further to help poor countries tackle corruption, illicit financial flows and tax evasion; as well as funding a new international anti-corruption unit in

<https://www.gov.uk/government/news/british-home-secretary-visits-pakistan-announces-new-anti-corruption-partnership>

¹¹ See Action 47 of the HM Government 'Economic Crime Plan', (July 2019), p62

the NCA to recover funds stolen from developing countries and prosecute those responsible (p64).

- 16) Noticeably, the SDSR 2015 committed to 'Project Our Global Influence' but did not overtly consider addressing issues such as the role played by the UK in facilitating global illicit finance that to some degree inhibit the UK's ability to project its global influence.
- 17) Following the anti-corruption summit in 2016, the government published a UK Anti-Corruption Strategy that committed to 'Strengthen the integrity of the UK as an international financial centre.' By some measures, this has certainly happened with the introduction of powerful new legislation (the Criminal Finances Act 2017), new reverse-burden-of-proof powers (Unexplained Wealth Orders) and a greater law enforcement focus on UK illicit finance. And whilst the strategy also noted that 'The integrity of the UK as a global financial centre is essential to our international reputation and long-term prosperity', the goals and measures for success of that priority are UK-focused, not outward looking (p35).
- 18) In 2018, the Serious and Organised Crime Strategy addressed the issue of international illicit finance through the lens of strengthening international standards via bodies such as the Financial Action Task Force (FATF) and OECD. It also committed to 'drive up political will to address vulnerabilities in jurisdictions of risk, enhancing resilience and strengthening operational cooperation.'
- 19) But in this report, illicit finance is defined as involving 'the holding, movement, concealment or use of monetary proceeds of crime that has an impact on UK interests', with no consideration of the role that these actions might have on non-UK interests facilitated by UK services.
- 20) In addition to these various reviews and strategies, during this period, the UK underwent its decennial review by the FATF, the global standard setter for anti-financial crime. On paper, the UK performed well, leading HM Treasury to issue a press release headlined, 'UK takes top spot in fight against dirty money: New report from the Financial Action Task Force ranks the UK world-leading in the fight against illicit finance.'¹²
- 21) Whilst technically accurate, this press release was ridiculed around the world given the continued and oft-revealed role the UK plays in facilitating global illicit financial flows.
- 22) In response to the findings of the FATF's review, a joint HMG/UK Finance Economic Crime Plan was published in 2019. This plan contains seven sections, including strategic priority seven that committed to deliver an ambitious international strategy to enhance security, prosperity and the UK's global influence by strengthening the global commitment and capacity to combat illicit finance (p58).
- 23) This section indeed demonstrates considerable ambition, but it is also indicative of the work that needs to be done and – notably – does not address the reputational issue the UK faces.

¹² HM Treasury, 'UK takes top spot in fight against dirty money', (December 2018)

24) Finally, according to a March 2020 paper produced by the Independent Commission for Aid Impact, in 2019, 'Recognising that there had been no overarching strategy or crossgovernment alignment on cross-cutting international illicit finance, the Home Office, HM Treasury, the Foreign Office (FCO) and DFID endorsed a joint cross-government strategy on international illicit finance.' This paper has not been made public.¹³

UK as a Problem or a Solution?

- 25) As noted above, at the 2016 Anti-Corruption Summit, in response to David Cameron's unguarded comment about the presence of 'fantastically corrupt countries', President Buhari of Nigeria noted that he did not want an apology, he wanted the country's assets back from the UK, a destination for much of the countries stolen wealth.
- 26) The UK is, more often than not, a common element between global illicit finance scandals – this is perhaps unsurprising given the centrality of the UK to global finance, but this central role requires an active operational and strategic response if the UK is to shed its widely-held negative image of being a reliable provider of illicit finance facilitation services and investment opportunities.
- 27) Whilst he was Economic Crime Minister (alongside his Security Minister responsibilities) Ben Wallace frequently highlighted the role the UK played in facilitating illicit finance, leveraging a popular BBC TV series (McMafia) and launching the 2018 Serious & Organised Crime Strategy against a backdrop of the City of London to support his depiction.
- 28) Some very positive steps have been taken via the powers provided by the Criminal Finances Act 2017, greater engagement with the private sector, and the development of a more focused, illicit finance dedicated and streamlined government architecture
- 29) But the results of operational activity will inevitably be slow – in the meantime, the UK will need to use its diplomatic and soft power capabilities to build credibility with those that view the UK as a contributor to their illicit finance woes
- 30) The UK is not the only financial centre that facilitates global illicit financial flows, but it is the centre that has the most to lose from not shedding this reputation and, as it seeks to create a profile of independence post-Brexit, a reputation built on illicit finance should be a concern to the FCO as much as law enforcement.
- 31) As the December 2018 Year 1 Update on the government's Anti-Corruption Strategy notes, 'The integrity of the UK as a global financial centre is essential to our long-term reputation and prosperity, especially as we become an independent trading nation' (p16).

¹³ Independent Commission for Aid Impact, 'Mapping the UK's approach to tackling corruption and illicit financial flows: Information note', (March 2020), p8

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