
Corruption in the Great Lakes Region and Possible Ties to the Dutch Financial System



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THE SENTRY



Introduction

In order to evaluate and address illicit finance risks, the Dutch Ministry of Foreign Affairs commissioned The Sentry to examine potential connections between corruption in Africa's Great Lakes region—most notably in the Democratic Republic of Congo (DRC)—and the financial system of the Netherlands. The Sentry conducted a baseline assessment using corporate registration data, regional corruption case studies, and standard indicators of money laundering risk. In analyzing this data, The Sentry identified dozens of connections between politically exposed persons (PEPs) in the Great Lakes and Dutch nationals and companies,¹ as well as numerous risk factors for money laundering and corruption. While the Dutch tax and investment structure allows legitimate international business to thrive, nefarious actors looking to loot African countries can also use this same structure and its inherent advantages.

Connections Between the Great Lakes and the Netherlands

Burundi, the DRC, Kenya, Malawi, Rwanda, Tanzania, and Uganda collectively form the African Great Lakes region. Foreign direct investment to the region is rising. Uganda saw its biggest yearly increase of foreign direct investment on record in 2018, while the DRC experienced an 11% jump to \$1.5 billion. Extractive investments accounted for the bulk of these increases.²

In 2019, the Netherlands held the second largest foreign investment stock in Africa after France, although more than two thirds of those investments were in Egypt, Nigeria, and South Africa.³ Exports from the Netherlands to the DRC specifically have increased from €77 million (\$91 million) in 2016 to €277 million (\$328 million) in 2019, although imports from the DRC to the Netherlands stood at just €23 million (\$27 million) in 2019.⁴ This general upward trend in investment and trade increases financial flows between the Netherlands and the Great Lakes, and, with them, the Dutch financial system's potential exposure to illicit activity.

Historically, the wide array of attractive Dutch tax and investment treaties have made the Netherlands a prime destination for multinational and extractive industries companies to set up their headquarters. The Netherlands has bilateral treaties with developing countries that protect investments by Netherlands-based companies there, thus offering powerful investment guarantees. As corrupt actors operating in the Great Lakes incorporate their business interests in the Netherlands, the Dutch financial system is left exposed. Using shell and holding companies, as well as complex corporate structures, these actors—who could hold bearer shares until recently—appear to be funneling corrupt proceeds through the Dutch financial system and avoiding taxation. Holders of bearer shares, which grant ownership rights without registration, now have until January 2021 to hand in their shares and register as beneficial owners or shareholders.

Analyzing Corporate Data

Using corporate data, The Sentry was able to identify a number of Netherlands-based companies that have subsidiaries in the Great Lakes region, specifically in Burundi, the DRC, Rwanda, and Uganda.⁵ Only half of these subsidiaries reported operating revenue for the most recent year for which data was available (from 2015 to 2018, depending on the company). An additional smaller number of firms in the Netherlands own companies in the Great Lakes through indirect shareholdings. Most of these companies are large multina-



tionals with numerous subsidiaries in Africa and across the globe, and it should be noted that shareholder information remains limited. Corporate data also included a Dutch cooperative society with multiple projects across the Great Lakes.⁶

An analysis of the data revealed the following:

- Dutch corporate links to the Great Lakes region mainly reflect the use of Netherlands-based financial holding companies.
- Multinationals with non-Dutch beneficial owners use layers of Netherlands-based subsidiaries as holding companies for their assets in the Great Lakes region. Substantial sums flow between the Netherlands and the Great Lakes region through these complex corporate structures.
- A number of subsidiaries of Dutch holding companies were identified in the Great Lakes region, with the largest concentration operating in the DRC, followed by Uganda, Rwanda, and Burundi. Over one third are wholly owned subsidiaries or majority-owned subsidiaries of companies incorporated or registered in the Netherlands.⁷ Often, these subsidiaries have limited or no operations in the Netherlands themselves.
- The data indicates that few Dutch subsidiaries of Netherlands-based parent companies are located in the DRC.
- In order to fulfill substance requirements and benefit from certain tax arrangements, the majority of directors reside in the Netherlands. Only a few Netherlands-based companies were identified as having directors residing in the Great Lakes.⁸

Case Studies

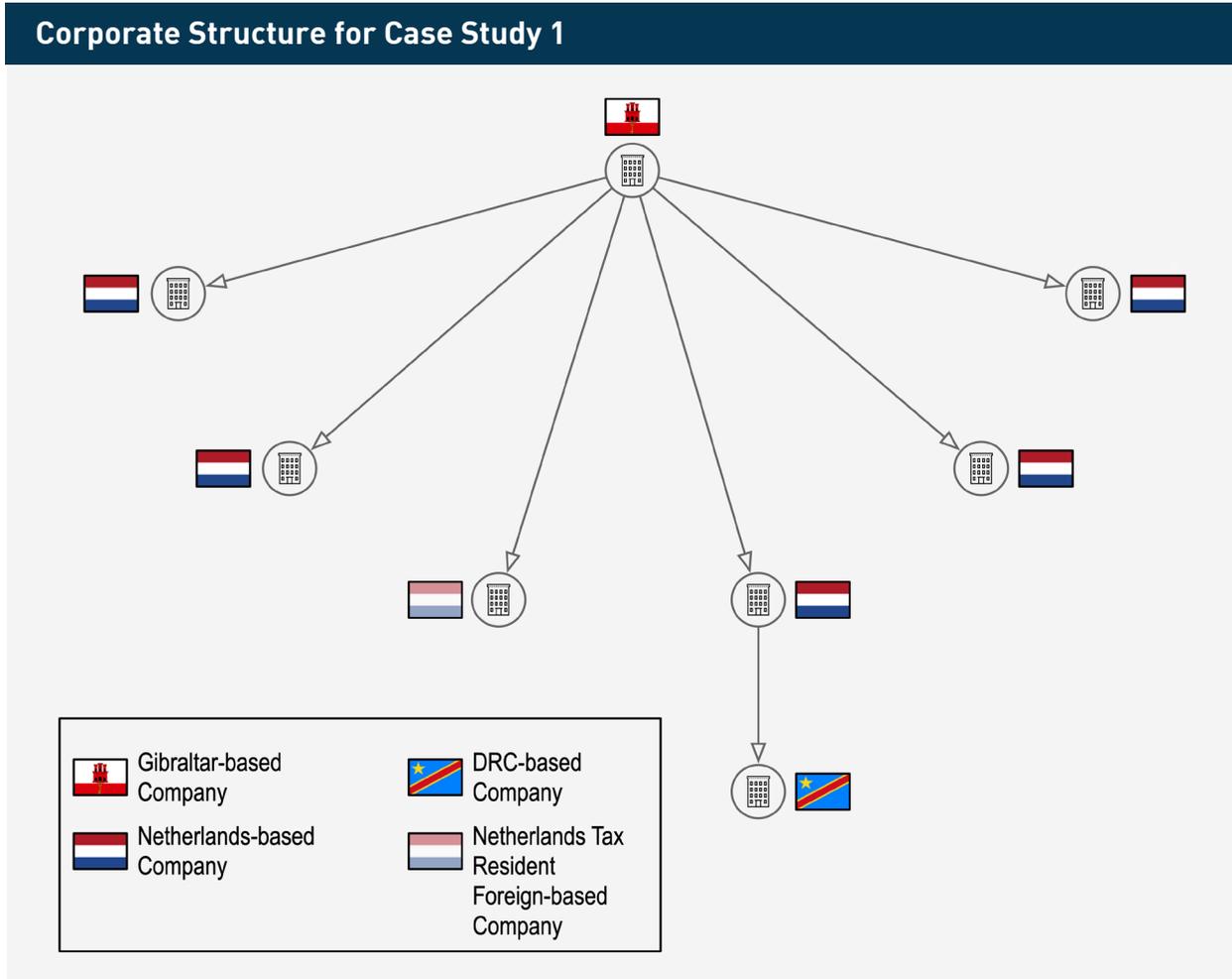
The Sentry compiled five case studies that demonstrate potentially corrupt ties between corporate entities in the Netherlands and the DRC. Two case studies focus on the corporate holdings of foreign nationals who are members of a high-level Congolese public official's inner circle and who have extensive business networks across Europe and the Middle East. The other three case studies focus on major international companies that operate in the DRC and have large corporate structures in the Netherlands.

Case study 1: PEP associate circumvents US sanctions through EU corporations

An individual with close business ties to a high-ranking politically exposed person (PEP) in the DRC controls several companies based in the Netherlands that pose risks to the Dutch financial sector, given the close links between the PEP and the DRC's ruling elite. The individual and several companies identified as being beneficially owned or controlled by the individual are subject to US sanctions.

The corporate empire beneficially owned and controlled by the individual includes multiple subsidiaries formed in various jurisdictions for no apparent purpose. Quite often, these subsidiaries have links to secrecy jurisdictions. Several subsidiaries ultimately owned by the individual are still registered in the Netherlands, retaining Dutch tax residency, with nominee directors based in Gibraltar. These subsidiaries benefit from local tax advantages but only fulfill a minimum of Dutch substance requirements, which do not include minimum requirements for capital or number of employees.

Given the close relationship between this individual and the Congolese government, there have been actions that are indicative of significant conflicts of interest. This financial activity continues to pose a threat to the Dutch financial sector as long as the individual maintains their corporate presence in the Netherlands.



Trends and methods

- **Industries:** Mining, oil, natural resources, transportation, and logistics
- **Methods:** Bribery of PEPs, use of multi-layered complex corporate structures, creation of multiple subsidiaries with links to secrecy jurisdictions
- **Mechanisms:** Multinational corporates, private companies limited by liability, including holding companies and subsidiaries
- **Countries:** The Netherlands, Gibraltar, the DRC

Risk factors

- Business associate of a PEP as beneficial owner or controller
- Creation of multiple subsidiaries in various jurisdictions with no apparent purpose
- Nominee directorship of Dutch-registered companies in secrecy jurisdictions
- Lack of corporate transparency in public tender process
- Use of intermediaries in the sale of assets
- Payments made in different currency to circumvent US sanctions
- Links to secrecy jurisdictions
- Failure of companies to report links to sanctioned entities or high-risk activities and affiliations

Case study 2: Large multinational uses complex network of holding companies and firms in secrecy jurisdictions

A large multinational (Company A) incorporated in Luxembourg has a significant Dutch presence via a complex network of holding companies and subsidiaries. This includes Company A's immediate holding company, which is based in the Netherlands, and a number of wholly owned subsidiaries that are involved in various Congolese mining projects. Some of these subsidiaries have been involved in transactions under investigation by authorities in another country.

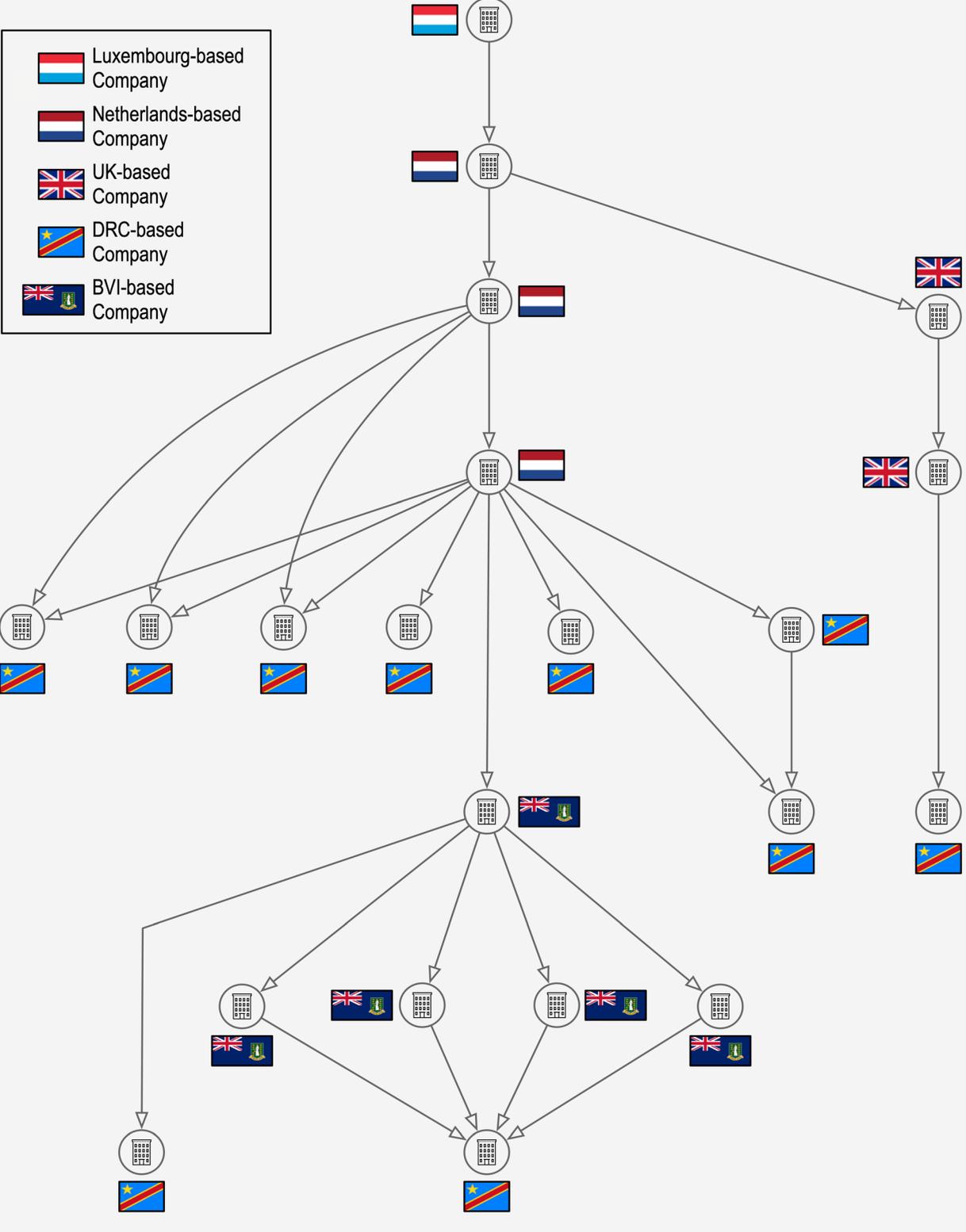
Company A also has many affiliated holding companies and subsidiaries registered in the Netherlands, two of which own several subsidiaries in the DRC and firms in secrecy jurisdictions. The shareholding structures of Company A's DRC-based subsidiaries contain multiple layers of Netherlands-based holding companies.

The DRC-based subsidiaries have close links to PEPs and to family members of PEPs in the DRC. Additionally, a family member of a Congolese PEP holds senior management positions in several DRC-based affiliates and represents numerous subsidiaries owned by Netherlands-based companies. Company A operates DRC-based projects with direct shareholders in the British Virgin Islands (BVI), the Cayman Islands, and the UK that also include Netherlands-based holding companies in their corporate structures.

Trends and methods

- **Industries:** Mining, natural resources
- **Methods:** Use of family members of PEPs to represent firms locally, use of multi-layered complex holding companies, creation of multiple subsidiaries and firms in secrecy jurisdictions
- **Mechanisms:** Multinational corporates, private companies limited by liability, including holding companies and subsidiaries
- **Countries:** The Netherlands, Luxembourg, the UK, the DRC, the BVI, and the Cayman Islands

Corporate Structure for Case Study 2





Risk factors

- Close business and personal relationships with PEPs or family members of PEPs
- Family member of a PEP acts on behalf of or represents local subsidiaries
- Family member of a PEP holds a senior management position in several local-based affiliates
- Complex, multi-layered corporate structure
- Use of holding companies in multiple jurisdictions while the parent company is incorporated in a different jurisdiction
- Shareholding by many different affiliated companies in local mining projects
- The use of known secrecy jurisdictions by illicit finance actors

Case study 3: Transfers of beneficial ownership to and from low-tax jurisdictions allow firm to maintain controlling interests through corporate holdings and joint ventures

One of the world's largest raw materials traders (Company B) uses entities in the Netherlands as asset managers, joint ventures, and immediate holding companies that maintain its controlling interests, even though they are held by another company. It also has a number of DRC-based subsidiaries and joint ventures. Company B, whose global operations have been tainted by corruption allegations, also relies on holding companies in secrecy jurisdictions and engages in joint ventures and business relationships with PEPs. Company B has been subject to criminal investigations in two jurisdictions.

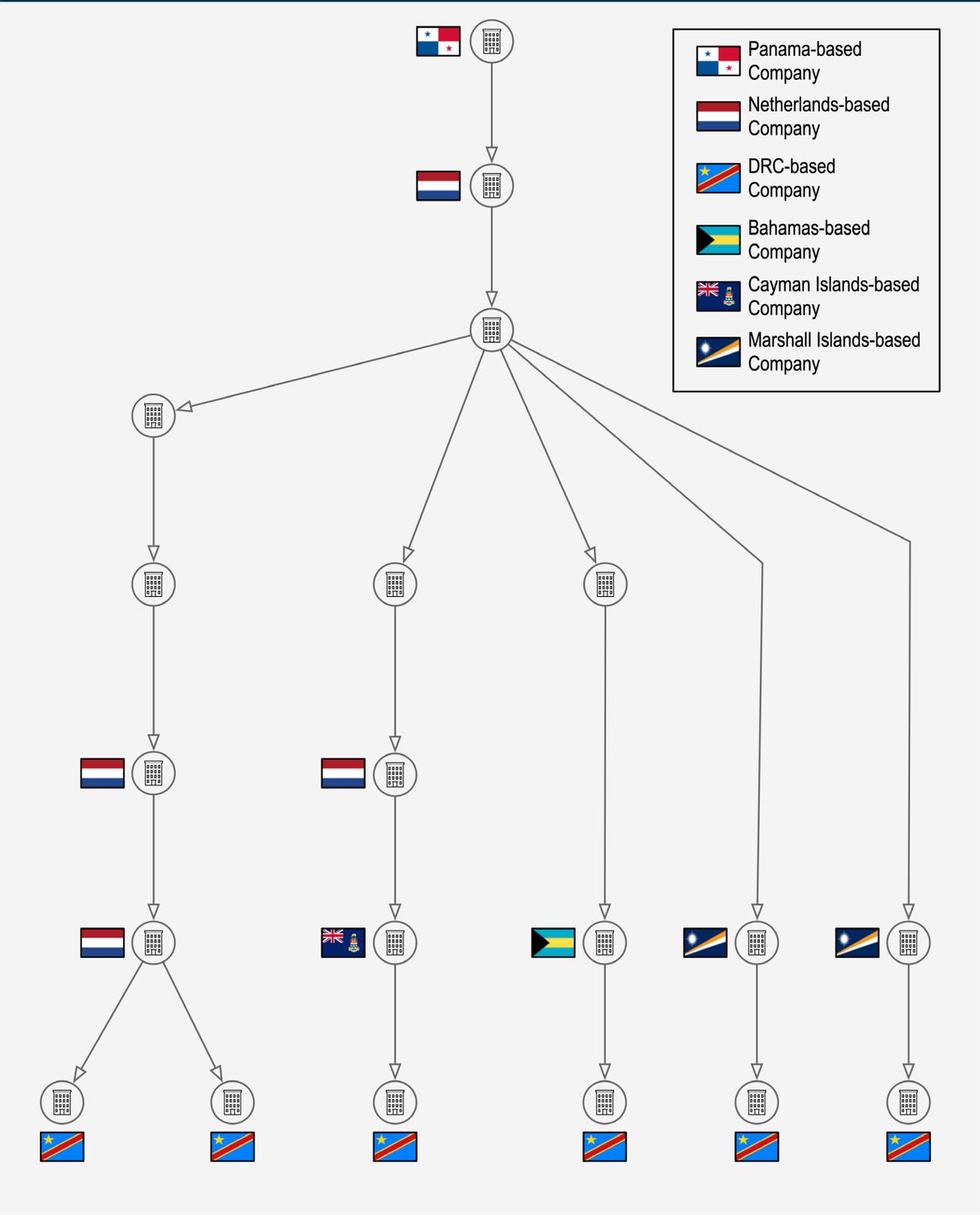
Company B's immediate holding company is based in the Netherlands, with the ultimate beneficial owner registered in Panama. Company B has numerous companies and subsidiaries with shareholding structures, including at least one holding company based in the Netherlands. This increases the Netherlands' exposure to potential illicit finance activity through DRC subsidiaries and joint ventures.

While maintaining its immediate holding companies in the Netherlands, Company B has changed the jurisdiction of its parent firm several times. It also uses direct shareholders in secrecy jurisdictions such as the Marshall Islands, Malta, and the Bahamas for some of its DRC subsidiaries. Entities in secrecy jurisdictions, which lack transparency in shareholder and corporate information, present financial crime risks to the Netherlands when they have immediate holding companies in the country.

Trends and methods

- **Industries:** Natural resources, oil, energy
- **Methods:** Use of service and holding companies to retain control over other firms, incorporation of entities and use of direct shareholders in secrecy jurisdictions, multiple transfers of share ownership of the parent entity to and from low-tax jurisdictions, creation of joint ventures with companies owned or controlled by PEPs
- **Mechanisms:** Multinational corporates, private companies limited by liability, including holding companies and subsidiaries
- **Countries:** The DRC, the Netherlands, Panama, the Bahamas, the Marshall Islands, Malta

Corporate Structure for Case Study 3





Risk factors

- Use of a complex web of companies to maintain controlling interests
- Parent companies based in secrecy jurisdictions
- Close business relationships with firms beneficially owned or controlled by former high-ranking PEPs or by family members of PEPs
- Joint ventures developed in high-risk jurisdictions with companies beneficially owned or controlled by former high-ranking PEPs or by family members of PEPs
- Transfer of beneficial ownership to or from firms in secrecy jurisdictions
- Release of funds for high-value business deals arranged in countries representing a high-risk of corruption by local intermediaries who are subject to sanctions or adverse press
- Parent company or subsidiary subject to multiple criminal investigations
- Multiple changes made to jurisdiction of parent company

Case study 4: Numerous subsidiaries and PEP affiliations heighten the risk of money laundering

A large UK-based company (Company C) controls a number of businesses and has a substantial financial footprint in the Netherlands. The company has been subject to investigations by authorities in another jurisdiction and has been accused of bribery, tax avoidance, payments to armed groups, and possible sanctions breaches. Some of the bribery allegations involved government officials in other countries in the Great Lakes region.

Dutch entities owned a DRC-based subsidiary of Company C (Company D) that engaged in conduct indicating corrupt activity. Company D emerged out of a joint-venture between several Netherlands-based companies—a corporate structure that potentially exposes the Dutch financial sector to illicit financial flows and whose complexity poses compliance challenges. The Netherlands-based companies have over 80 subsidiaries and assets totaling billions, which could help conceal illicit transactions between a Congolese subsidiary and its parent companies in the Netherlands. Company D is currently listed as the wholly owned subsidiary of one Netherlands-based company. The president of Company D is a DRC-based PEP.

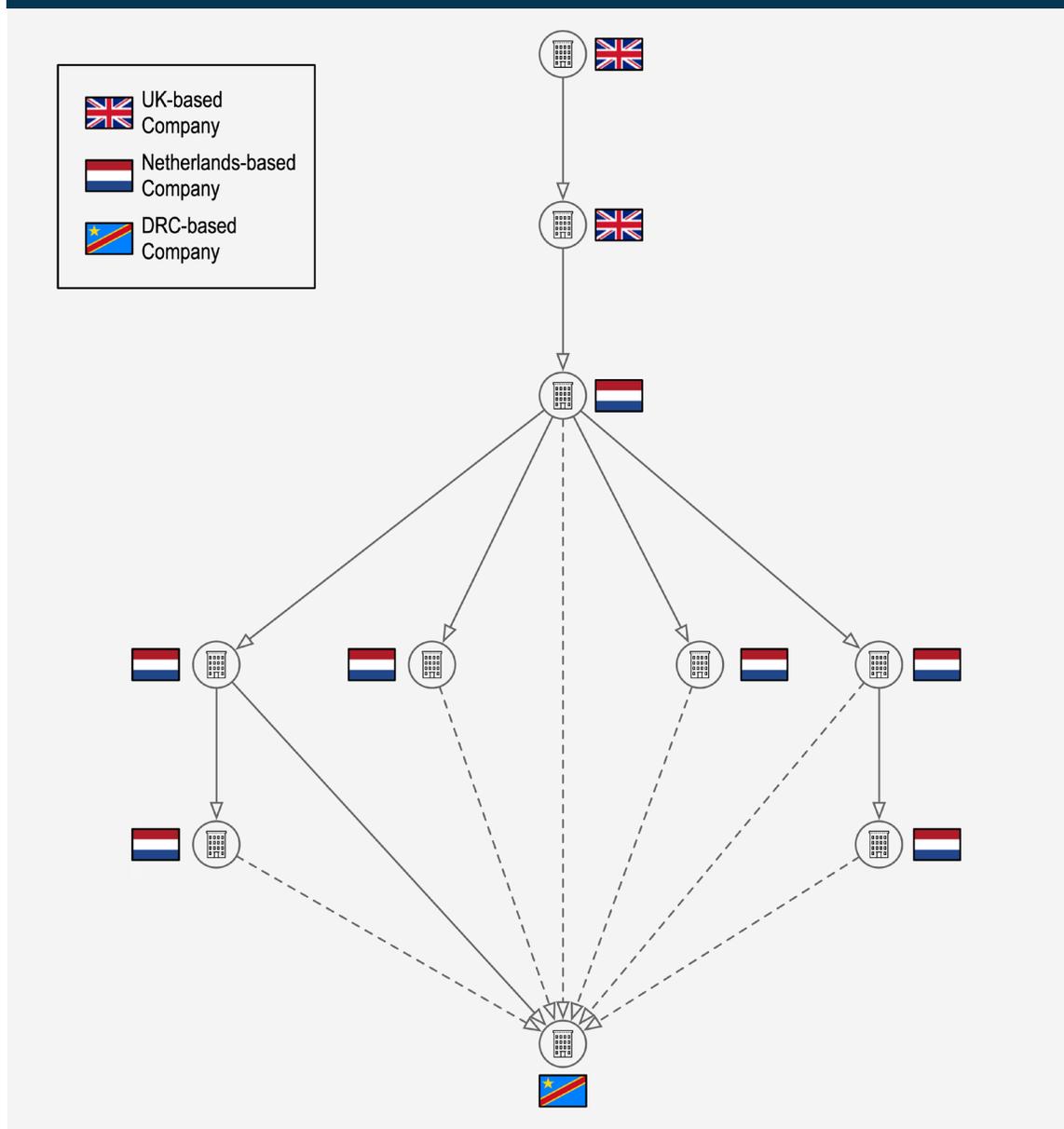
Trends and methods

- **Industries:** Agricultural commodity
- **Methods:** Payment of bribes to government officials, tax avoidance, and importation of bulk cash
- **Mechanisms:** Complex corporate structures, private companies limited by liability, including holding companies and subsidiaries in multiple jurisdictions
- **Countries:** The Netherlands, the UK, the DRC

Risk factors

- A large number of linked corporations listed as beneficial owners of an entity in a high-risk jurisdiction
- Creation of a large number of subsidiaries by a small number of linked entities
- PEPs or former PEPs from countries representing a high risk of corruption listed as directors and controllers
- Directors have close personal business relationships with PEPs or family members of PEPs in countries representing a high risk of corruption

Corporate Structure for Case Study 4





Case study 5: EU citizen with access to European financial system through an extensive business network acts as international facilitator for corrupt PEPs

An individual with close ties to a PEP in the DRC has apparent Dutch business ties. The PEP is in business, via joint ventures with companies they own or control, with Dutch nationals. Several DRC-based companies in which the individual has a stake have reportedly received lucrative Congolese government contracts. One such company was named extensively in public reporting detailing suspicious activity, corruption, and misappropriation of state funds in the DRC. The individual is a citizen of a European country and is a shareholder in European businesses, giving them access to financial systems on the continent that may help them avoid scrutiny, despite the heightened risk of corruption posed by their links to Congolese leaders. Factors such as these make foreign nationals attractive as international financial facilitators for corruption in jurisdictions like the DRC.

Trends and methods

- **Industries:** Construction, public infrastructure, real estate, natural resources, sustainable energy
- **Methods:** Use of international facilitator to access financial system, Dutch-based holding companies with subsidiaries
- **Mechanisms:** Complex corporate structures, private companies limited by liability, including holding companies and subsidiaries
- **Countries:** The Netherlands, the DRC

Risk factors

- Receipt of government contracts in jurisdictions with high levels of corruption
- Ownership or control by family members in connected firms in multiple jurisdictions
- Apparent conflicts of interest in contracting relationships
- Involvement in real estate, public infrastructure, and other high-risk industries in jurisdictions with high levels of corruption
- Transfer of ownership of high-value assets to controllers and beneficial owners of connected firms

Summary of Risk Factors

The provided case studies illustrate several examples of connections between Netherlands-based companies and PEPs from the Great Lakes. They also reveal risk factors for corruption, obfuscation, and money laundering by PEPs. All of the cases contain elements that match some of the Egmont Group's set of indicators for corruption-related cases, including recipient-based indicators of unexplained wealth.⁹

Politically exposed persons

In multiple cases, PEPs shared links with Dutch companies and their networks. The Financial Action Task

Force (FATF) has established guidelines to mitigate the risks of business relationships with PEPs.¹⁰ However, the due diligence required to identify PEPs involved in Dutch companies is a complex task due to the opacity, complexity, and multiple layers involved in beneficial ownership structures. Case study 1, in particular, illustrates how companies based in the Netherlands that are beneficially owned, controlled, or represented by associates or family members of PEPs will not necessarily reflect this information in company records.

Use of secrecy jurisdictions

Several of the case studies exhibit links between suspected corruption-related activities and Dutch companies and their networks. Subsidiaries and partners of Dutch firms identified in the case studies are linked to other companies established in known tax havens or secrecy jurisdictions or in offshore financial centers such as the Bahamas, the British Virgin Islands, the Cayman Islands, and Gibraltar. Ties to a tax haven or an offshore center are not guaranteed links to corruption, but they do raise concern in the presence of other risk factors, such as accounts held by PEPs, multiple shell or financial holding companies, or business operations in highly corrupt jurisdictions like the DRC.

Obfuscation

The obfuscation techniques exhibited in the case studies generally involve multiple layers of companies established in different jurisdictions. This complex array of accounts and companies greatly complicates efforts to trace the origin of funds and the ultimate beneficiaries of specific transactions or companies. Some of these companies also exhibit unpredictable activity or have no apparent purpose. One of the Egmont Group's indicators for corruption is that "financial flows, which reveal complex financial mechanisms and intervention by foreign legal entities or arrangements, are received in an account in another jurisdiction, where the account is related to PEPs."¹¹

Recommendations

In order to identify, disrupt, and prevent abuse of the Dutch financial and corporate system by corrupt actors, The Sentry recommends the following specific actions.

Dutch banks

- Dutch banks holding accounts for Dutch-based companies of multinationals operating in the DRC should carry out enhanced monitoring on transactions going to or coming from the DRC.
- Dutch banks should conduct enhanced due diligence (EDD) to identify PEPs in the ownership structure, including within companies beneficially owned by a Dutch company or by the company's ultimate beneficial owners overseas, and be prepared to take appropriate action, such as filing reports with law enforcement and closing accounts if warranted.
- Dutch banks should ensure that they understand the end-to-end ownership structure of complex,



multi-layered corporate structures, particularly those operating subsidiaries in the DRC, applying EDD measures as appropriate. When risks are identified, banks should be prepared to take action, including by closing accounts, filing suspicious activity reports, or taking other measures to protect the international financial system from corrupt actors.

Dutch government

- Convene banks, extractives companies, and other stakeholders with government officials to discuss possible steps to prevent illicit financial flows and proceeds of corruption from the Great Lakes Region from contaminating the Dutch financial system. The Financieel Expertise Centrum (FEC) could help facilitate this discussion, and the United Kingdom's Joint Money Laundering Intelligence Taskforce (JMLIT) provides a potential model for civil society participation. The Dutch government could also expand the Dutch Terrorist Financing Task Force model to cover anti-money laundering and corruption
- Issue a first-ever public anti-money laundering advisory to financial institutions, corporations, real estate agents, lawyers, accountants, and regulators on corruption risks in the extractive industries, particularly as relates to the DRC. The advisory should provide Dutch companies and banks with a thorough overview of general corruption risks and the nature of corruption in the DRC. Details on how to monitor for and report on suspicious transactions or activities should also be included. The advisory should provide clear guidance on how to mitigate risks and protect the Dutch financial system and extractive industries from abuse by corrupt actors.
- Engage, via the Ministry of Foreign Affairs and the Ministry of Finance, with Congolese government partners and Congolese banks to share this report's findings and to find methods of collaboration to address any concerns and provide training, technical assistance, and intelligence sharing.
- The Dutch Financial Intelligence Unit, Ministry of Finance, and law enforcement authorities should investigate entities tied to PEPs or to other entities placed under Global Magnitsky sanctions. It should also consider sharing information about Netherlands-based corporations that are under investigation in other jurisdictions with the appropriate jurisdictions.
- The Ministry of Finance should instruct Dutch parent companies to conduct enhanced due diligence on their subsidiaries, particularly in the DRC, and report any findings to law enforcement. Companies should strive to determine the beneficial owners of subsidiaries and related companies, the initiators of transactions with Dutch affiliates, and those who benefit financially from business operations. Multinationals should also be carrying out bribery and corruption risk assessments, as well as environmental risk assessments. Once Congolese identities are confirmed, cursory background checks should take place to determine PEP status.
- Any accounts found to be held by PEPs should be handled according to FATF guidance: identify the source of wealth, regularly review affiliated accounts, and update client information. Guidance from the 2019 Egmont Information Exchange Working Group (IEWG) report "FIU Tools and Practices for Investigating Laundering of the Proceeds of Corruption" could be included in an advisory or added to existing government guidance to financial institutions.
- The government should consider requiring that foundations and charities operating in the Great Lakes carry out risk assessments to understand bribery and corruption risks and identify on a public register the names of their local partners (or even carry out due diligence).



- Advocate, via the Dutch Ministry of Foreign Affairs, for the inclusion of corruption as a criterion for sanctions designation as part of the US Global Magnitsky-style legislation currently being considered by the European Union.



Ministry of Foreign Affairs

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Endnotes

- 1 PEPs are individuals entrusted with prominent public functions, and European law requires that enhanced anti-money laundering (AML) measures be applied to PEPs, their family members, and persons known to be close business associates.
- 2 Regina Jane Jere, "The State of Foreign Direct Investments in Africa," *New African*, June 16, 2019, available at: <https://newafricanmagazine.com/19037/>
- 3 *Ibid.*
- 4 Central Bureau for Statistics, "International trade; import and export value, SITC (3 digits), countries," available at: <https://opendata.cbs.nl/statline/#/CBS/en/dataset/83926ENG/table?ts=1586545119356> (last accessed April 2020).
- 5 Data derived from a global database on private companies. Reviewed by The Sentry, March 2020.
- 6 *Ibid.*
- 7 *Ibid.*
- 8 *Ibid.*
- 9 The Egmont Group, "Set of Indicators for Corruption Related Cases from the FIUs' Perspective," November 2018, available at: https://egmontgroup.org/sites/default/files/filedepot/external/Corruption%20red-flags-final%20version_20181030.pdf
- 10 Financial Action Task Force, "Politically Exposed Persons (Recommendations 12 and 22)," June 2013, available at: <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-PEP-Rec12-22.pdf>
- 11 See note 9.