

# Money Laundering and Corruption in International Business – Preliminary Study Based on Nordic Experiences

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## List of Acronyms

<b>ABC</b>	Anti-Bribery Convention
<b>AML</b>	Anti-Money Laundering
<b>BES</b>	Business Ethics Survey
<b>CDD</b>	Customer Due Diligence
<b>CFT</b>	Combating the Financing of Terrorism
<b>CPI</b>	Corruption Perceptions Index
<b>DNFBP</b>	Designated Non-Financial Businesses and Professions
<b>DPO</b>	The Office of the District Prosecutor
<b>EFE</b>	Enheten for finansiell etterretning
<b>FATF</b>	Financial Action Task Force
<b>FEP</b>	Financially Exposed Persons
<b>FIPO</b>	Finanspolisen Rikskriminalpolisen
<b>FIU</b>	Financial Intelligence Unit
<b>FUR</b>	Follow-Up Report
<b>GRECO</b>	The Group of States against Corruption
<b>HVIDVASK</b>	Hvidvasksekretariatet
<b>ICEFIU</b>	Financial Intelligence Unit Iceland
<b>IMF</b>	International Monetary Fund
<b>KYC</b>	Know Your Customer
<b>MER</b>	Mutual Evaluation Report
<b>ML</b>	Money Laundering
<b>MLS</b>	Money Laundering Secretariat
<b>NBI</b>	National Bureau of Investigation
<b>NFIS</b>	National Criminal Intelligence Service, Financial Unit
<b>OECD</b>	The Organization for Economic Cooperation and Development
<b>PEP</b>	Politically Exposed Person
<b>RAP</b>	Rahanpesun selvittelykeskus
<b>RLS</b>	Ríkislögreglustjórnin
<b>SØIK</b>	Hvidvasksekretariatet Stadsadvokaten for Særlig Økonomisk Kriminalitet

<b>ABC</b>	Anti-Bribery Convention
<b>STR</b>	Suspicious Transaction Report
<b>TF</b>	Terrorist Financing
<b>UNCAC</b>	The United Nations Convention Against Corruption
<b>WGB</b>	Working Group on Bribery
<b>ØKOKRIM</b>	Økonomisk Kriminalitet

## Disclaimer

The content of the publication herein is the sole responsibility of the authors and it does not necessarily represent the view expressed by the Finnish Ministry of Justice, Police University College or the Nordic Council of Ministers.

## Cover image

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# 1 About the KORPEN project

This report is the product of a preliminary study of the KORPEN project (Korruption i samband med näringsverksamhet i Norden - Business related corruption in Nordic countries), coordinated by the Ministry of Justice and conducted by the Police University College between November 2020 and February 2021. This study precedes the second stage of the project, planned to begin in March of 2021. The aim of the project is to make it easier to identify the connections between bribery and money laundering and to investigate and to convict cases in international business framework, where the laundered funds originate from corrupt actions, bribery in particular. The overall objective is to help to create a healthier environment for international business by preventing corruption-related money laundering in Nordic countries.

During this preliminary stage, we have explored the complex interlinkages between corrupt and money laundering practices with a focus on bribery in international business. We have also studied the role of Financial Intelligence Units (FIUs) in anti-corruption framework. The survey conducted during this preliminary study gathered an overview of FIUs' actions when identifying the laundering of funds with possible links to corruption. In addition, selected case examples of bribery in international business with connections to Nordic countries were analysed. Nordic FIUs share the function of receiving and analysing Suspicious Transaction Reports (STRs), gathering and handling intelligence information on suspected money laundering offences and cooperating with other central anti-money laundering and anti-terrorist financing authorities. Nordic FIUs also share a common feature of either being located within, or closely located to, the structures of the criminal investigation authorities.

Corruption and money laundering have serious economic and social impacts. Corruption has serious consequences for societal order by increasing social inequality while eating away at financial efficiency and democracy.<sup>1</sup> Although corruption lacks a widely recognised definition, generally it can be described as misuse of entrusted power for private gain. Corruption can generate funds that need to be concealed through money laundering.<sup>2</sup> Money laundering is an act where illicit funds are concealed or disguised in order to make them appear legitimate. The prevalence of one of these two in a jurisdiction usually implies the prevalence of the other, and the symbiotic relationship of corruption and money laundering has been recognised in the science community.<sup>3</sup>

The issue of bribery in international business has received widespread societal attention. This stems from the notion that bribery, for example, raises the costs of doing business, distorts competition and encourages illegal and unethical conduct. In response to these problems, increases in legislative and enforcement operations have been implemented internationally.<sup>4</sup>

The Nordic countries are generally viewed as having low levels of corruption. However, Nordic corporations or financial institutions can be exploited in corrupt or money laundering schemes by, for instance, passing or holding bribery money or laundering criminal proceeds. There is an evident connection between corruption and money laundering in the international business framework, so it is important that corporations, money laundering regulators, FIUs and obliged entities with the duty to report suspicious business activities pay enough attention to corruption in international business.

One of the key objectives of the forthcoming second stage of the project is to explore the possible indicators (red flags) of bribery in international business. By this, we could improve the obliged entities' (e.g. businesses) ability to identify suspicious business transactions, which may have a link to corruption, and thus also support FIUs and other authorities in their anti-money laundering and anti-corruption functions. In addition, we preliminarily innovate technological tools that could help expose corruption. The overall project addresses the strategic goal in "Our Vision 2030: A competitive Nordic region". A sustainable economy requires a corruption-free international business environment.

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<sup>1</sup> Fishman & Golden 2017, 16.

<sup>2</sup> Chaikin 2008.

<sup>3</sup> E.g. Chaikin & Sharman 2009; Mugarura 2016.

<sup>4</sup> Guvenli & Sanyal 2012, 334.

The Advisory Board for this project consists of experts from the Finnish Ministry of Justice, Ministry of the Interior and Ministry of Finance. They guided the design of the survey and provided valuable comments for the final report. Special thanks are due to the Nordic Council of Ministers for the funding, and to the Nordic FIUs for their contribution in this preliminary stage of our research.

The report is laid out so that we move from using solely literary sources towards utilising more empirical methods. In the second chapter, we present the key concepts of corruption, bribery and money laundering. The third chapter contains the literature review of bribery in international business, connections between corruption and money laundering, and identifying and preventing the laundering of corrupt funds. The fourth chapter presents a brief statistical overview of business bribery in the Nordic context, and an overview of the ratified conventions and other regulatory tools and actors helping Nordic countries in combatting bribery and money laundering. The chapter includes selected country evaluations of Nordic anti-corruption framework. In chapter five we present the method and the findings of the survey conducted on the Nordic FIUs in January and February 2021. The following chapter contains some Nordic case examples of bribery in international business. The last chapter concludes the report, followed by the references and annexes.

## 2 Terminology and phenomena

In this chapter, we discuss the concepts of corruption, bribery as a form of corruption, and money laundering. In addition, the chapter further discusses the connection between these concepts in a business framework by presenting examples of how bribery and money laundering can take place in a business setting. Later, in the literature review, there are more examples of typical cases of money laundering with the proceeds of crime stemming from bribery and the international business framework.

### 2.1 Corruption

Defining corruption has proven to be difficult and the phenomenon lacks an official, globally shared definition.<sup>5</sup> International actors such as Transparency International and the European Commission define corruption as “the abuse of (entrusted) power for private gain”.<sup>6</sup> The general understanding of corruption is based on the view of how ideal public administration or political decision-making is supposed to function.<sup>7</sup> Reciprocity is required for corruption to take place, and usually corruption benefits both sides - the provider and receiver.<sup>8</sup> Corruption also requires all three components - position of power, abuse (or misuse), and private gain - to occur simultaneously.<sup>9</sup>

Corruption can be classified in many different ways, and one important distinction is made between private and public corruption. Private or corporate corruption is generally connected with bribe-making, such as supplying bribes or violating ethical and professional standards by, for example, deceiving investors. Public corruption is usually divided into petty and grand corruption.<sup>10</sup> Corruption can take place on different levels: individual, network, institutional or structural.<sup>11</sup>

Table 1. Forms of corruption<sup>12</sup>

Form of corruption	Characteristics	Danger zones (examples)
Individual corruption	Focus on individual, private gain, corruptive dependency forms between individuals and can be explained by individual behaviour	- Conflict of interest - Dual role - Unethical election and party funding
Corrupt networks	Based on secrecy and closed operating model, that enables funding its members. Unhealthy interaction creates corruptive dependency and obligations	- Favouritism (incl. nepotism) - Unethical “helping” of others - Unofficial decision making outside of conventional decision-making structures
Institutional corruption	Focus on corruptive institutions and communities, political by nature by affecting democratic decision making. Creates dependence on corruptive institutions and policies	- Unethical “targeting” of tender selection criteria
Structural corruption	Focus on corruptive structures and regimes, which can include abuse of power, unrealized sanctions and social disempowerment	- Unethical influencing in decision making (incl. preparing laws and decisions)

<sup>5</sup> Peurala 2011, 325; Peurala & Muttilainen 2015, 14; Salminen 2020, 14.

<sup>6</sup> Transparency International: What is corruption? Retrieved from <https://www.transparency.org/en/what-is-corruption>. Cited 11.11.2020; EUC: What we do? Retrieved from [https://ec.europa.eu/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption\\_en](https://ec.europa.eu/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption_en). Cited 12.11.2020.

<sup>7</sup> Peurala & Muttilainen 2015, 14.

<sup>8</sup> Mansikkamäki & Muttilainen 2016, 6; Peurala & Muttilainen 2015, 15; Peurala 2011, 324.

<sup>9</sup> Peurala & Muttilainen 2015, 14.

<sup>10</sup> Cuervo-Cazurra 2016, 36-37; Eicher 2009, 3; Peurala & Muttilainen 2015, 16.

<sup>11</sup> Salminen 2020.

<sup>12</sup> Salminen 2020.

In addition to dividing corruption into private and public or classifying it as taking place on different levels, there are other ways to clarify the complex phenomenon. In his article, Cuervo-Cazurra presented typologies and differences between different types of corruption through a dichotomic approach. For example, he divided corruption into petty and grand corruption, pervasive and arbitrary corruption, and organised and disorganised corruption.<sup>13</sup>

Corruption in business is formed differently on different levels. In our research, we focus mainly on bribery between a company and its customers, subcontractors or service-providers, some of whom can be public officials as well. Thus, we address bribery or extortion related to the supply chain. Different levels of corruption and corruption-related targeting in business are inter-connected in that they require money laundering to conceal the financial gain.<sup>14</sup>

## 2.2 Bribery as a form of corruption

Despite the broadness and the fogginess of corruption as a phenomenon, in this study our focus is on bribery, the “key facet” of corruption.<sup>15</sup> Although bribery is certainly not a synonym for corruption, it can be located at the hard core of it, while the outer ring holds the non-criminalised, but morally questionable actions. Bribery is generally viewed as one of the basic forms of individual corruption.<sup>16</sup> Bribing a public official can be defined as “the offering, promising or giving of something in order to influence a public official in the execution of his/her official duties”.<sup>17</sup> Besides bribery, corruption can take several other forms such as illegal lobbying, illegal political funding, old boy networks and different types of favouritism.<sup>18</sup>

Bribery is also closely linked to money laundering.<sup>19</sup> Corruption in general can generate illegal proceeds that need to be laundered, whilst it qualifies as a predicate offence for money laundering.<sup>20</sup> Cash payments are the most common form of bribery, because they leave no traces. In order to actually benefit from cash payments, one must place them into the financial system. Integrating the proceeds of petty corruption into the economy does not require great efforts, whereas greater amounts of grander schemes might involve more complex methods of disguising and layering.<sup>21</sup>

### **Bribery in business**

Although bribery is usually viewed as a form of the so-called street corruption, businesses can use bribery for profit as well. With that, it can take the forms of grander schemes such as winning tenders for construction projects worth millions of euros.<sup>22</sup> There are also several cases in the Nordic countries where bribery has been revealed or suspected to be part of international business relationships and transactions, which we shall discuss later in the report.

Bribery on a company level is usually viewed either as “sand” or “grease” in the wheel of commerce. A bribe is seen as sand when it is demanded by a government official but as grease when the manager offers to pay the bribe. When corruption or bribery is viewed as sand, it is reflected in an increase in costs and resultant uncertainty. On the other hand, corruption as grease brings savings in transaction costs and speeds up procedures.<sup>23</sup>

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<sup>13</sup> Cuervo-Cazurra 2016, 37; See Annex Table 1.

<sup>14</sup> Niinimäki 2019, 130.

<sup>15</sup> Baughn et al. 2010, 15.

<sup>16</sup> Muttilainen et al. 2020, 7, 14; Peurala 2011, 325; Salminen 2020, 16.

<sup>17</sup> OECD Observer 2000, 3.

<sup>18</sup> Peurala 2011, 325; Peurala & Muttilainen 2015, 16.

<sup>19</sup> Mugarura 2016, 75.

<sup>20</sup> Chaikin & Sharman 2009, 22; Mugarura 2016, 78.

<sup>21</sup> Teichmann 2020, 311.

<sup>22</sup> Fishman & Golden 2017, 19; Peurala & Muttilainen 2015, 16.

<sup>23</sup> Cuervo-Cazurra 2016, 40.

Most big corruption scandals have four things in common: the aim is to win big government contracts; bribes are paid through intermediaries and agents; corruption is embedded in the company's way of doing business; and the company has poorly supervised anti-corruption and anti-bribery compliance programmes. Grand corruption schemes are often related to the construction, pharmaceutical and defence industries.<sup>24</sup>

When business-related bribery takes place in another country, bribe money can be embedded in consulting fees or included in to the travelling employee's wage, part of which is planned to be used as a bribe in the destination country. Bribery can also take place by charging more than necessary and paying the extra "back", for example to the employee from the company that is selling the product or service. Thus, in business accounting, bribery can seem like a wage or bought service.<sup>25</sup> In addition to this, companies can use third parties, such as consultants, to do their "dirty work".<sup>26</sup> The use of third parties in general is prevalent in both money laundering and bribery.

## 2.3 Money laundering

Many criminal acts share the common goal of generating profit. Criminal proceeds need to be processed to disguise their illegal origin, and this process is called money laundering. Processing may involve disguising the sources, changing the form or moving the funds somewhere where they do not attract attention. Money laundering is usually referred to as a three-stage process including placement (or introduction), layering and integration.<sup>27</sup>

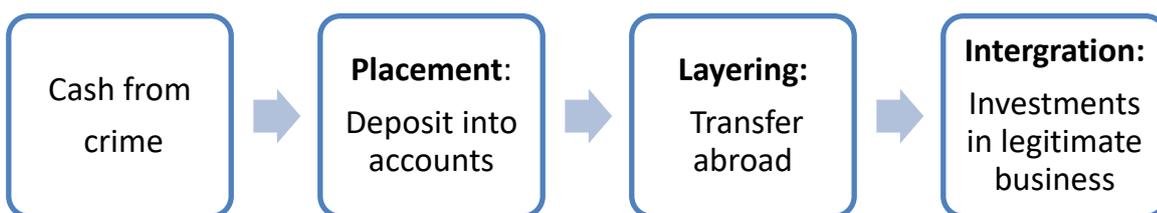


Figure 1. — Example of the process of money laundering.<sup>28</sup>

In the placement stage, the risk of getting caught is the greatest, and the typical methods include cash deposits, paying out loans, over- or under-invoicing, and investing in luxury items. In the layering stage, funds are moved from one jurisdiction to another (e.g. through tax havens) to make the origin of the funds more difficult to trace. In the integration stage, money is brought back into legitimate markets, and invested, for example in real estate.<sup>29</sup>

Since the funds used in money laundering are illegal, money laundering requires a predicate offence in order to take place. Money laundering itself can be intentional or negligent. Money laundering refers to an act defined in each Nordic country's criminal code. According to the Finnish Criminal Code, a person who:

*(1) receives, uses, converts, conveys, transfers or transmits or possesses property acquired through an offence, the proceeds of crime or property replacing such property in order to obtain benefit for*

<sup>24</sup> Cockcroft & Wegener 2017, 61.

<sup>25</sup> Heinström, 24.11.2020; Saarinen & Lajunen 25.11.2020.

<sup>26</sup> Saarinen & Lajunen 25.11.2020.

<sup>27</sup> FATF 2020, What is money laundering? Retrieved from <http://www.fatf-gafi.org/faq/moneylaundering/>. Cited. 29.1.2021; World Bank 2006, I-8.

<sup>28</sup> Adapted from World Bank 2006, I-8.

<sup>29</sup> Jukarainen & Muttilainen 2015, 18.

*himself or herself or for another or to conceal or obliterate the illegal origin of such proceeds or property or in order to assist the offender in evading the legal consequences of the offence or*

*(2) conceals or obliterates the true nature, origin, location or disposition of, or rights to, property acquired through an offence, the proceeds of an offence or property replacing such property or assists another in such concealment or obliteration,*

*shall be sentenced for money laundering to a fine or to imprisonment for at most two years.*<sup>30</sup>

## **Money laundering in business**

The Financial Action Task Force (FATF) and the Egmont Group updated their Trade-Based Money Laundering report in 2020. The report states that sectors, products or businesses with gaps in or the inconsistent application of customer due diligence (CDD) and know your customer (KYC) processes are those exploited by criminals.<sup>31</sup>

There are multiple techniques by which trade-based money laundering can be executed. Over- and under-invoicing is the misrepresentation of the price of goods or services in terms of their transfer value. Over- and under-shipment is the misrepresentation of the quantity, including “phantom shipments” where nothing is transported. These schemes rely on collusion between the importer and exporter. Multiple invoicing is the reuse of existing documentation for multiple payments for the same shipments. False description means the misrepresentation of the quality or type of goods or services. For example, inexpensive goods can be described as more expensive or as a different item to justify the movement of value. These techniques can also be mixed together.<sup>32</sup> The use of shell- or front companies is increasingly common in trade-based money laundering, but not in cases where the scheme involves the exploitation of legitimate supply chains.<sup>33</sup>

According to FATF and the Egmont Group, specific business indicators of trade-based money laundering include:

- *Rapid growth of newly formed companies into existing markets;*
- *Evidence of consistent and significant cash payments, including those directed towards previously unknown third-parties. These businesses may also receive unexplained third-party payments;*
- *Unnecessarily complicated and complex supply chains, involving multiple transshipments;*
- *Previously established companies specializing in one sector that unexpectedly pivot into an entirely unrelated sector. One example provided noted an IT company quickly established a foothold in the acquisition and distribution of bulk pharmaceuticals;*
- *Companies simultaneously involved in more than one unrelated sector.*<sup>34</sup>

Identifying and investigating money laundering offences is notoriously difficult, especially proving that funds derive from illegal actions. Money laundering schemes can spread across several jurisdictions, include several layering techniques and straw men and, with possible investigations involving authorities from different countries, investigations can be long and difficult.

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<sup>30</sup> The Criminal Code of Finland (39/1889, amendments up to 766/2015 included): Section 6 – Money laundering (191/2011).

<sup>31</sup> FATF – Egmont Group 2020, 20.

<sup>32</sup> FATF – Egmont Group 2020, 26-27; Jukarainen & Muttilainen 2015, 20-21.

<sup>33</sup> FATF – Egmont Group 2020, 25; Jukarainen & Muttilainen 2015, 20.

<sup>34</sup> FATF – Egmont Group 2020, 25.

## 3 Literature review

Both corruption and money laundering have been a subject of interest in research on economic crime, organised crime and white-collar crime, although not so many take into consideration the close connection between the two. In this literature review, we gather research on the connections between corruption and money laundering; money laundering and international business; bribery and international business; and identifying and preventing bribery and money laundering. With this approach, we present ways to identify bribery as a predicate offence in money laundering, and the way bribery and money laundering might appear simultaneously in the international business framework.

The literature review is based on research publications by the Police University College research unit, the literature available in the Police University College library and Helsinki University library's online database. Searches were conducted through terms such as *corruption*, *corruption and money laundering*, *corruption and international business*, and *bribery and international business*. The literature review was conducted between November 2020 and January 2021.

The utilised publications include articles and books from fields such as economics, criminology, international relations, politics and behavioural economics, many sources being symposia with authors from different fields. The literature review covers books and articles between 2008 and 2020. The research used in the review is published in Finnish or English.

Research based on the Nordic context of bribery in international business is very limited, so some materials were excluded from the applied research literature, for example if their perspectives were limited to geographical contexts not applicable to the Nordic framework. Theory-based articles were also excluded since our research is focused on empirical information rather than theoretical perspectives. Also, important, business compliance-based and market-focused articles are not used in our literature review in the preliminary stage of our research, as they would have broadened the scope without offering substantial support for our empirical data.

### 3.1 Bribery in international business

Bribery in international business has been receiving broad international attention, stemming from the recognition that it increases the cost of doing business, distorts competition, misallocates resources, harms market efficiency and predictability, encourages illegal and unethical actions, erodes public trust in the rule of law, subverts development projects and slows economic growth.<sup>35</sup> Bribery in international business<sup>36</sup> involves legitimate, commercial enterprises operating in licit transnational markets, using illicit transactions or exchanges to win or maintain contracts, to overcome administrative obstacles or to gain other business advantages.<sup>37</sup> Private bribery in general not only affects the immediate parties but impacts the organisation of markets and society as a whole. Businesses that use bribes to get orders past their competition receive significant benefit, distorting the market and causing it to work inefficiently.<sup>38</sup>

International business is transnational by nature and crosses the borders of jurisdictions. The international business environment connects companies with different customs and practices, including those concerning bribery. Multinational companies can use bribes in order to win contracts, reduce import duties or influence

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<sup>35</sup> Guvenli & Sanyal 2012, 334; Malqwi 2016, 949.

<sup>36</sup> Also, transnational corporate bribery.

<sup>37</sup> Dávid-Barrett 2019, 151; Lord & Levi 2017, 365–366, 368.

<sup>38</sup> Baughn et al. 2010, 15; Eicher 2009, 13; Fishman & Golden 2017, 17-18.

law making in their favour. Business corruption can thus be rationalised by obtaining a competitive advantage in corrupt countries, or as a way of reducing transaction costs in more regulated countries.<sup>39</sup>

Bribery in international business can take place by bribing a foreign public official, for example through an intermediary or between two private parties. According to the Organization for Economic Cooperation and Development's (OECD) Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions (Anti-Bribery Convention, ABC), a foreign public official can be:

*[...] any person holding a legislative, administrative or judicial office of a foreign country, whether appointed or elected; any person exercising a public function for a foreign country, including for a public agency or public enterprise; and any official or agent of a public international organization.*<sup>40</sup>

Bribery or the attempted bribery of foreign officials is based on a crime between two parties, usually benefiting both sides. Thus, it is kept secret and unlikely to be revealed. It can be carried out between the two or through a third party, such as a consultant. The company either knowingly bribes the foreign official through the consultant or bribery occurs without the knowledge of the company and exclusively by the consultant. Although the use of consultants and other third parties in business is necessary, sometimes vital, international business would benefit from better regulation.<sup>41</sup>

Bribery can take place between international companies but also between a private business and public official. In the latter, it involves a business from one country offering financial or non-financial inducements to the other country's official in order to obtain commercial benefit.<sup>42</sup> Bribery in international business is not only a function of the demand for bribes, but also the supply or willingness to provide them by multinational firms or their representatives. The supplier side usually justifies the bribery by attributing it towards foreign cultures or conditions.<sup>43</sup> Bribery is most commonly performed in the construction and defence sectors, but is also prevalent in the fields of oil and gas, real estate, telecommunications and power generation or transmission.<sup>44</sup>

Although we are discussing international bribery with transactions crossing national borders, the national contexts of the supplier and recipient of the bribe matter. Advanced economies tend to have well-established laws and policies concerning corporate behaviour compared to developing economies.<sup>45</sup> Still, developed economies dominate global business, and private corruption seems more prevalent in developed countries, whereas public corruption is more prevalent in developing countries.<sup>46</sup>

Baughn et al.<sup>47</sup> studied whether higher levels of domestic corruption are connected to a higher prominence of providing bribes in international transactions, whether the countries that have ratified a) OECD ABC<sup>48</sup> and b) UNCAC<sup>49</sup> are less likely to provide bribes, and whether a large proportion of trade with OECD countries is connected to lower levels of providing bribes in international business. They noticed that countries with higher levels of domestic corruption are more likely to provide bribes in international business. Also, "clean" governance countries, such as Sweden (the only Nordic country assessed in the study), were less prone to providing bribes in international transactions. The results were consistent with the hypothesis that countries that have ratified the OECD ABC are less prone to bribery. Ratification of UNCAC was not found to be significantly related to levels of transnational bribery. Business with OECD countries was associated with "cleaner" transactions in conducting international business.<sup>50</sup> Similar results were found in

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<sup>39</sup> Baughn et al. 2010, 15; Cuervo-Cazurra 2016, 35; Sanyal & Samanta 2011, 151-152.

<sup>40</sup> OECD ABC 1997, Article 1., 4.

<sup>41</sup> Peurala 2014, 216.

<sup>42</sup> Chaikin 2008, 270; Sanyal & Samanta 2020, 193.

<sup>43</sup> Baughn et al. 2010, 15, 16.

<sup>44</sup> Baughn et al. 2010, 15; Loughman & Sibery 2011, 295.

<sup>45</sup> Baughn et al. 2010, 16.

<sup>46</sup> Mugarura 2016, 79, 80.

<sup>47</sup> 2010.

<sup>48</sup> The Organization for Economic Cooperation and Development's (OECD) Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions (Anti-Bribery Convention, ABC)

<sup>49</sup> The United Nations Convention Against Corruption.

<sup>50</sup> Baughn et al. 2010, 23, 28-29.

other studies.<sup>51</sup> One study found that “high trust levels, enforced regulative legislation, small country size and high human development” help to form a framework feeding a transparent business environment.<sup>52</sup> These descriptions apply in many respects to Nordic countries.

In conclusion, bribery in international business brings together licit transnational markets, commercial enterprises and illicit transactions. Bribery has two sides, offering and receiving, and bribery’s way of benefiting both parties is one of the key aspects helping to keep it hidden. Bribery in international business not only affects the immediate parties, but also has wider impacts by distorting competition and markets. When a bribe is paid, it needs to be converted to appear legal, and this is where the link to money laundering is created.

### 3.2 Corruption and money laundering: the connection

Bribery is one of the most easily recognisable forms of corruption, generating illegal funds that need to be projected into forms of money laundering, such as complex layering schemes, in order to make them appear legitimate.<sup>53</sup> According to Chaikin & Sharman, corruption and money laundering share a “symbiotic relationship”.<sup>54</sup> The crimes are so embedded that it is difficult to distinguish one from the other. They not only tend to occur simultaneously, but the presence of one creates a soil for the other to flourish, and the prevalence of one usually signals the prevalence of the other. Both thrive from bad governance, lack of local regulation and weak enforcement. Corruption annually produces enormous profits that need to be imposed on money laundering practices.<sup>55</sup> Money laundering and business corruption have been estimated to account for 2-5% of global gross domestic product.<sup>56</sup>

The main reasons why anti-money laundering (AML) and anti-corruption practices have been investigated and treated separately are historical and bureaucratic but, since people breaking laws do not consider financial crimes as separate, it has been argued that law enforcement should not do so either.<sup>57</sup> Both corruption and money laundering are difficult to detect, since they are performed in secrecy, and, especially in the case of corruption and in comparison to other predicate offences, there is usually no clear victim in the ordinary sense.<sup>58</sup> As we discuss further in the report, the difficulty in investigating these crimes is also a shared feature.

The reasons for laundering funds derived from bribery are to hide and invest the money. Hiding the criminal proceeds in money laundering protects the recipients from criminal prosecutions or confiscation. If one receives larger bribes than can be used in purchases for daily life, it is important to invest the money in a legitimate or seemingly legitimate businesses to launder it. Investing money in legal businesses can also reduce the risk of getting caught.<sup>59</sup>

A simple and accessible form of money laundering is the use of a private deposit box. Corrupt funds can be placed in a deposit box in a safe country, and officials can use straw men to hide their ownership instead of registering the box in their own name. A more complex way of laundering bribes is to set up a consulting firm, since these firms often lack transparency in pricing mechanisms. An example of a scheme with a consulting firm is to sell a market analysis to the party responsible for paying the bribe. Again, straw men are usually included in order to conceal the actual beneficiary.<sup>60</sup>

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<sup>51</sup> See e.g. Habib & Zurawicki 2002; Paik, Warner-Söderholm & Huse 2019.

<sup>52</sup> Paik, Warner-Söderholm & Huse 2019.

<sup>53</sup> Clarke 2020.

<sup>54</sup> Chaikin & Sharman 2009.

<sup>55</sup> Chaikin & Sharman 2009, 1; Mugarura 2016, 84.

<sup>56</sup> Clarke 2020; Sanyal & Samanta 2011, 152.

<sup>57</sup> Chaikin & Sharman 2009, 2, 21.

<sup>58</sup> Peurala 2011, 324; Peurala & Muttilainen 2015, 15.

<sup>59</sup> Teichmann 2020, 311.

<sup>60</sup> Teichmann 2020, 312.

Offshore bank accounts are still popular among corrupt officials. Transferring the bribe directly into an offshore bank account combines bribery with money laundering in one transaction. Usually, straw men are used in order to set up complex company structures, layering and to appear as the real beneficiary of the assets. Even if the straw men are identified, it can be very difficult to connect them to the corrupt official, although transferring money into offshore accounts leaves some traces. In addition to concealing bribes through business or investment arrangements, there are simpler ways such as trading art or antiques or buying jewellery or other luxury items.<sup>61</sup>

The problems with money laundering and corruption regulation are both global and local. On the global level, they should receive similar attention and regulatory standards. It has been argued, that corruption should be included in the central mandate of the World Bank and IMF, because the oversight institutions are able to regulate the corruption on a national level. Locally, AML and anti-corruption information sharing should be more effective, and they should be treated equally seriously.<sup>62</sup> In the next chapter we see whether there are some special features in identifying and preventing money laundering of funds derived from corrupt practices.

### 3.3 How to identify and prevent money laundering of corruptive funds

Identifying money laundering is known to be difficult, and each OECD country must follow the FATF recommendations and assess, for example, their AML framework through national risk assessments. Money laundering can be suspected by obliged entities and, in the Nordic countries, reported by making Suspicious Transaction Reports (STR), that are further analysed by Financial Intelligence Units (FIU). FIUs then open cases for other police units to investigate. In our survey, we look at the Nordic FIUs' capacities to identify laundering of corrupt funds and work together with possible anti-corruption officials.

The problems with investigating transnational corruption and money laundering lie within their secret nature, gathering enough evidence for court proceedings, and investigating in other jurisdictions. Investigating and prosecuting bribery in foreign country are difficult for investigators, because gathering evidence is more time-consuming and challenging than in domestic investigations. Adding this to the fast transactions and complex schemes used in the concealing and layering of funds, the situation presents great difficulties for international investigations of bribery and money laundering.<sup>63</sup>

Chaikin and Sharman claim that the difficulty of international cooperation explains the success of money laundering and corrupt actions perhaps more than any other reason.<sup>64</sup> In order to form an effective anti-corruption framework, jurisdictions need to ensure effective investigation and cooperation among actors fighting corruption.<sup>65</sup>

Investigating bribery and the laundering of funds entails many difficulties. When it comes to the use of cash in money laundering, investigators face challenges in proving that payments were made in the first place. The downside of making cash payments is integrating the money into the economy, because larger payments attract attention and are monitored by AML mechanisms. Funds from petty corruption are difficult to identify and investigate since they can be used in everyday purchases, but larger amounts are more difficult to deposit without attracting suspicion. In cases like these, effective AML mechanisms make it more difficult to place corrupt funds into the financial system. Unfortunately, especially in larger schemes that might take place in international business, AML mechanisms in banking are sometimes seen as insufficient to prevent or even identify the laundering of corrupt funds.<sup>66</sup>

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<sup>61</sup> Teichmann 2020, 311, 312-313.

<sup>62</sup> Mugarura 2016, 84, 85.

<sup>63</sup> Chaikin & Sharman 2009, 115; Heinström, S. 24.11.2020; Saarinen, T., & Lajunen, V. 25.11.2020; Teichmann 2020, 312.

<sup>64</sup> Chaikin & Sharman 2009, 196.

<sup>65</sup> Peurala 2011, 327.

<sup>66</sup> Teichmann 2020, 311.

## The role of AML in combatting corruption

The use of AML mechanisms in combatting corruption is recognised as a positive development and practice. Chaikin and Sharman state that “the greatest possibilities for policy improvement lie in the application of components of the AML system to attacking corruption”. The components include mechanisms for gathering a great deal of financial intelligence, strong legal instruments such as the confiscation of criminal proceeds, and international cooperation in tracing financial crime (Figure 2).<sup>67</sup>

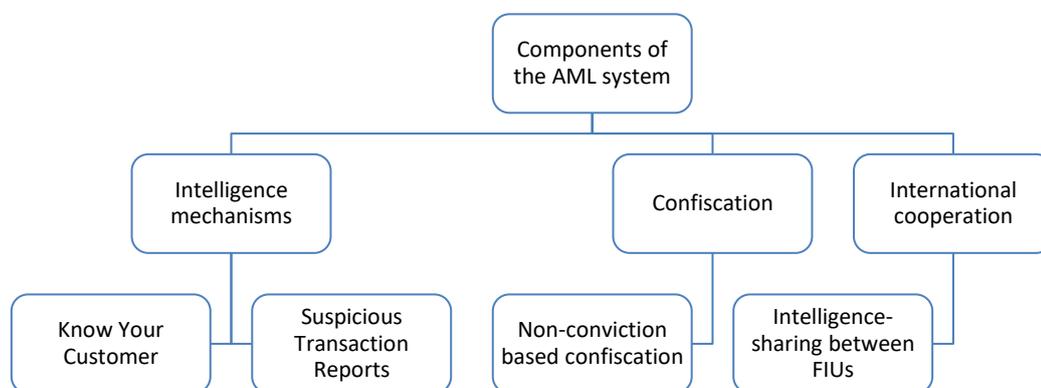


Figure 2. AML system components with possible benefits for anti-corruption work<sup>68</sup>

Similar to Chaikin and Sharman, Ai argues that, since financial institutions already have the capacity to, for example, identify the natural person behind the funds, it would be cost-effective and sensible to use the existing AML tools to fight corruption.<sup>69</sup> Enhancing the role of AML in combatting corruption would benefit the FIU, anti-corruption agencies, obliged entities making suspicious transaction reports, and the judicial and law enforcement bodies.<sup>70</sup>

When stating that AML mechanisms are important in combatting bribery, it is presupposed that these mechanisms are effective in the first place. Weak AML frameworks promote economic instability, unjust commercial advantages and organised crime.<sup>71</sup> Teichmann found that anti-money laundering efforts are actually not very effective and are of very little use in tackling bribery. He states that forcing financial service providers to implement compliance methods is expensive and ineffective, and calls for alternative anti-bribery mechanisms, such as the effective combination of anti-bribery incentives and more severe punishments.<sup>72</sup>

Mugarura in turn calls for the individual states to create requisite laws and systems, and to establish central data registries to generate and supply data for FIUs and the police, among others. Data registries would benefit the Credit Reference Bureau (CRB) by checking bank clients, and help to ensure that information exchange is made possible for inter-state cooperation. For example, banks should work closely with anti-corruption agencies in order to share data and refuse banking services for corrupt officials, if necessary.<sup>73</sup>

A 2011 typology report by FATF focused on the laundering of the proceeds of corruption. The financial sector is expected to increase transparency through the reliable documentation of business relationships, transactions, and disclosing the true ownership and movement of funds. However, as highlighted by Ai in his article, corruption-derived funds are not only laundered in the financial sector, but also in designated non-financial businesses and professions (DNFBP). Apart from the financial sector, DNFBPs and politically

<sup>67</sup> Chaikin & Sharman 2009, 188, 190.

<sup>68</sup> Chaikin & Sharman 2009, 190.

<sup>69</sup> Ai 2013, 89.

<sup>70</sup> Chaikin & Sharman 2009, 28.

<sup>71</sup> Clarke 2020.

<sup>72</sup> Teichmann 2020, 309, 313.

<sup>73</sup> Mugarura 2016, 84, 85.

exposed persons (PEPs) are regarded as being of great significance in combatting corruption.<sup>74</sup> Anti-corruption agencies could, for example, receive “intelligence briefs” from the FIU regarding PEPs. Enhanced monitoring could also be applied to individuals holding important positions in the private sector (financially exposed person, FEP), because of the higher risk of laundering illicit funds.<sup>75</sup>

In conclusion, money laundering and corruption schemes cross jurisdictional borders and the transnational nature of these crimes imposes difficulties on investigations, because information sharing between countries can have its own difficulties due to different systems or practices. Investigating transnational financial crime is hampered by the fact that today, money is transferred fast, but international investigation can be significantly slower. Corrupt actions such as bribery can also jeopardise the working of AML systems, but well-functioning AML functions could also be of use in the development of an efficient anti-corruption framework. In the next chapter, we look at statistical information on corruption and bribery in the Nordic countries and see how their anti-corruption efforts have been evaluated in different international assessments.

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<sup>74</sup> Ai 2013, 85.

<sup>75</sup> Ai 2013, 88.

## 4 Anti-corruption and AML practices

The first part of chapter 4 contains a brief overview of some key statistics focusing on business bribery and corruption in the Nordic countries. The second part presents selected international assessments used to evaluate countries' anti-corruption frameworks as well as international organisations supporting countries in their AML functions. We briefly present each selected data source, instrument and organisation individually.

### 4.1 Measurements of corruption in Nordic countries

There are different ways to measure levels of corruption or bribery. Statistical information varies between sources and requires careful interpretation. Because of the hidden nature of corruption, investigations and official statistics cannot form a full picture of the incidence of corruption. Cases that come to light and end up in police statistics are just the tip of the iceberg.<sup>76</sup> Police University College's Korsi project includes an article collection presenting instruments to measure corruption, including some valid criticism of international surveys as a way to explain corruption comprehensively.<sup>77</sup> Also, major differences can occur between different years in statistical data, depending on whether the data is sourced from official registers or surveys.

The survey in this project searched for potential differences in Nordic FIUs' abilities to identify corrupt practices in money laundering investigations, and in this chapter we look for similarities and differences through some examples of statistical information on bribery in the Nordic countries. In general, corruption offences are viewed quite similarly in the Nordic countries, with legislation prohibiting, for example, acts of active and passive bribery, fraud, abuse of office, embezzlement and trading in influence in several countries.<sup>78</sup>

One of the most internationally cited indices about corruption is Transparency International's Corruption Perceptions Index. Eurobarometer is also a widely recognised and annually updated survey, with a focus on different phenomena. In 2017, the theme in Special Eurobarometer was corruption. The newest instrument presented here is the Nordic Business Ethics Survey.

#### **Transparency International & Corruption Perceptions Index 2020**

Transparency International's Corruption Perceptions Index (CPI) is probably one of the greatest influences on the general view of Nordic countries having very little corruption. Nordic countries have usually ranked high in the CPI. Below, in Table 2, we present the Nordic countries' scores and ranking in CPI 2020. Denmark has the same score and rank as New Zealand, Finland and Sweden share their score and rank of 3 with two other countries, and Iceland is equal with Estonia.<sup>79</sup>

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<sup>76</sup> Niinimäki 2019, 118.

<sup>77</sup> Muttilainen, Ollus & Salminen (Eds.) 2020; Salminen 2020, 29.

<sup>78</sup> See GAN Integrity Country Risk Reports & Legislation. Retrieved from <https://www.ganintegrity.com/portal/country-profiles/>. Cited 25.2.2021.

<sup>79</sup> Transparency International: Corruption Perceptions Index 2020. Retrieved from <https://www.transparency.org/en/cpi/2020/index/nzl>.

Table 2. Nordic countries' score and rank in Corruption Perceptions Index 2020.

Score	Country	Rank
88	Denmark	1
85	Finland	3
85	Sweden	3
84	Norway	7
75	Iceland	17

Transparency International's CPI is widely used when comparing levels of corruption in different countries, and while the ranking has been generally viewed as reliable, it has also received criticism.<sup>80</sup> It is based on the perceptions of international organisations evaluating the economic environment. In addition, CPI is not based on experiences, but *perceptions* of corruption. Thus, the perceptions made by economic field professionals with limited views of corruption are the basis of the international comparison in corruption. Eurobarometer also notes that citizens' experiences and perceptions differ from those presented in CPI.<sup>81</sup>

CPI does not measure private, business-to-business corruption or corruption from business to the public sector. Transparency International last published Bribe Payers Index (BPI) in 2011, but this index only ranks "28 of the world's largest economies according to the perceived likelihood of companies from these countries to pay bribes abroad".<sup>82</sup> Nordic countries are not included.

Even though CPI focuses on measuring bribery-type corruption in the public sector, the results are widened to represent all forms of corruption in all fields of society.<sup>83</sup> For the Nordic countries, being at the top of the index makes it easy to believe that almost no corruption occurs. However, these kinds of assumptions should not necessarily be made only with the CPI data.<sup>84</sup> Instead, it would be valuable to know, for example, what citizens think about corruption in their country.<sup>85</sup>

## Business Ethics Survey

The Business Ethics Survey (BES) gathers "employees' views on ethics across multiple business sectors and job roles".<sup>86</sup> Unlike the Transparency International's CPI, the Nordic Business Ethics Survey measures the participants' own experiences of corruption. The 2019 edition of BES consisted of 1,506 responses in three countries - Finland, Norway and Sweden. The 2020 edition consisted of four countries (with Denmark added), and the number of responses from each country was increased to 1,000, totalling 4,000 responses.<sup>87</sup>

In BES 2020, the participants were asked how often they had noticed the following scenarios in their workplace (either in their country or abroad) in the past 12 months (Figure 3). Favouritism or nepotism had been noticed in around 45% in all of the countries.<sup>88</sup> Protecting poor management and governance had been noticed in 54% of the answers in Denmark, 41% in Finland, 52% in Norway and 38% in Sweden. Leakage or misuse of confidential information had been noticed in 17% of the answers in Denmark, 23% in Finland, 13% in Norway and 19% in Sweden.<sup>89</sup>

<sup>80</sup> Salminen 2020, 29.

<sup>81</sup> Laukkanen 2019, 91-92; 97-98.

<sup>82</sup> Transparency International: Bribe Payers Index 2011. Retrieved from <https://www.transparency.org/en/publications/bribe-payers-index-2011>. Cited 19.2.2021.

<sup>83</sup> Laukkanen 2019, 93, 101.

<sup>84</sup> Laukkanen 2019.

<sup>85</sup> Salminen 2020, 29.

<sup>86</sup> Nordic Business Ethics: Nordic Business Ethics Survey. Retrieved from <https://www.nordicbusinessethics.com/survey/>, cited 30.11.2020.

<sup>87</sup> Nordic Business Ethics Survey 2020, 3.

<sup>88</sup> 47% of the answers in Denmark; 46% in Finland; 45% Norway; 47% in Sweden.

<sup>89</sup> Nordic Business Ethics Survey 2020, 21.

The most worrisome results in BES concerned bribery. In 2019, all the three countries had very similar rates with about 15% having noticed giving, asking for or receiving bribes in the last 12 months. The 2019 and 2020 reports had significant differences in Finland's percentage regarding giving, asking for or receiving bribes. According to the 2020 survey, in Denmark 11%, Norway 16% and Sweden 17% of the participants had noticed such activity, whereas in Finland the number was 29%. One of the reasons for this difference might be that, in the 2020 survey, the question had been phrased differently to cater for the employee not always knowing whether it was a question of a bribe or not. Still, it is an interesting discovery that only in Finland did the number of observations grow.

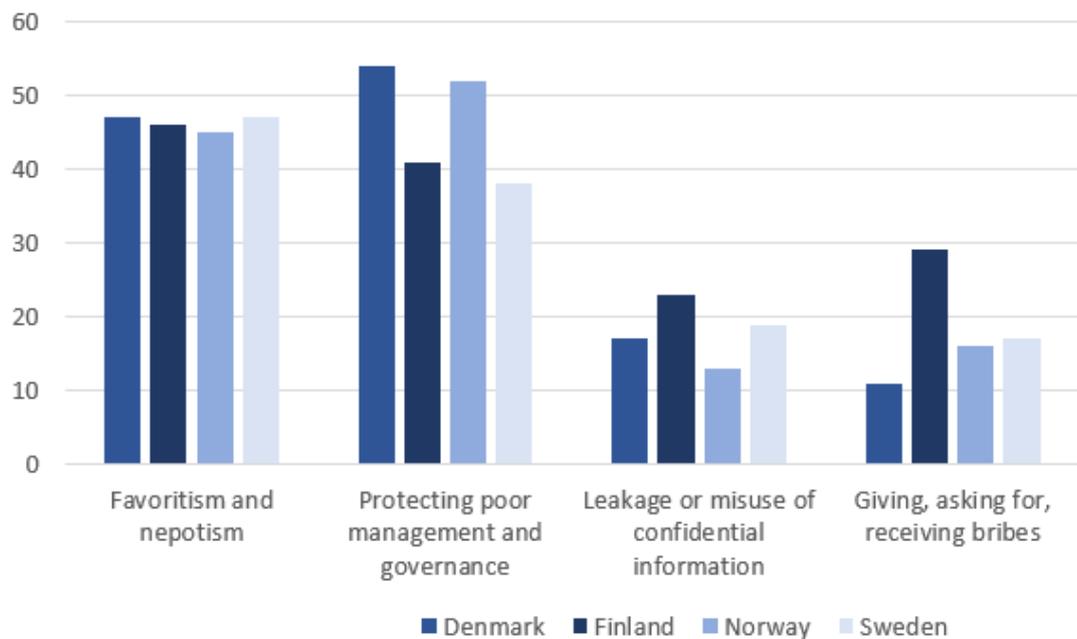


Figure 3. Corruption in four Nordic countries 2020<sup>90</sup>

The Business Ethics Survey results show, however, that almost half of the answers reveal the witnessing of nepotism or favouritism and the protection of poor management and governance at work in all of the Nordic countries. This goes hand in hand with the notion that other forms of corruption may be more prevalent in the Nordic countries than bribery<sup>91</sup>. As highlighted earlier, Finland stands out significantly in how many of the participants have witnessed or participated in bribery. This indicates that, even though corruption is not generally perceived as a part of business culture in the Nordic countries, it is noticed quite often.

### Special Eurobarometer 2017

Eurobarometer is a large-scale survey annually conducted in European countries on varying topics. The 2017 Special Eurobarometer focused on corruption. The participants (total N=28 080) were asked to agree or disagree whether corruption was part of the business culture in their country. On average<sup>92</sup> 62% of the participants agreed that corruption was part of the business culture in their country, 28% disagreed and 10% responded that they did not know.

<sup>90</sup> Adapted from Nordic Business Ethics Survey 2020, 21.

<sup>91</sup> See e.g. Salminen 2020, 29.

<sup>92</sup> Weighted average for the 28 Member States of the EU. Special Eurobarometer 470 Summary 2017, 4.

The three Nordic countries were at the top of the chart with the least number of answers agreeing that corruption was part of their business culture (Figure 4). In Denmark, 23% agreed that corruption was part of their business culture and 71% disagreed. In Finland, 28% agreed and 66% disagreed, whereas in Sweden 30% agreed and 65% disagreed.

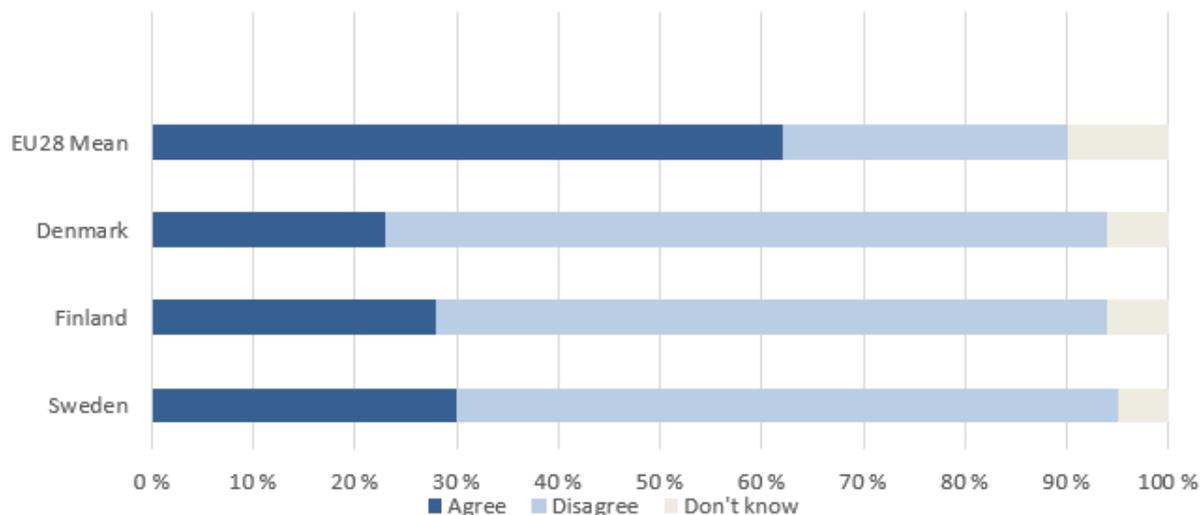


Figure 4. Corruption is part of the business culture in my country<sup>93</sup>

When asked about the number of successful prosecutions for corruption in their country, Finland and Denmark represent two ends of the spectrum (Figure 5). Finland has one of the highest percentages (48%) of participants agreeing that there are enough successful prosecutions in their country to deter people from corrupt practices. In Denmark, only 24% of the participants agreed. Sweden, on the other hand, represents almost exactly the EU weighted average, with 31% agreeing, 56% disagreeing and 14% of the participants answering they do not know.

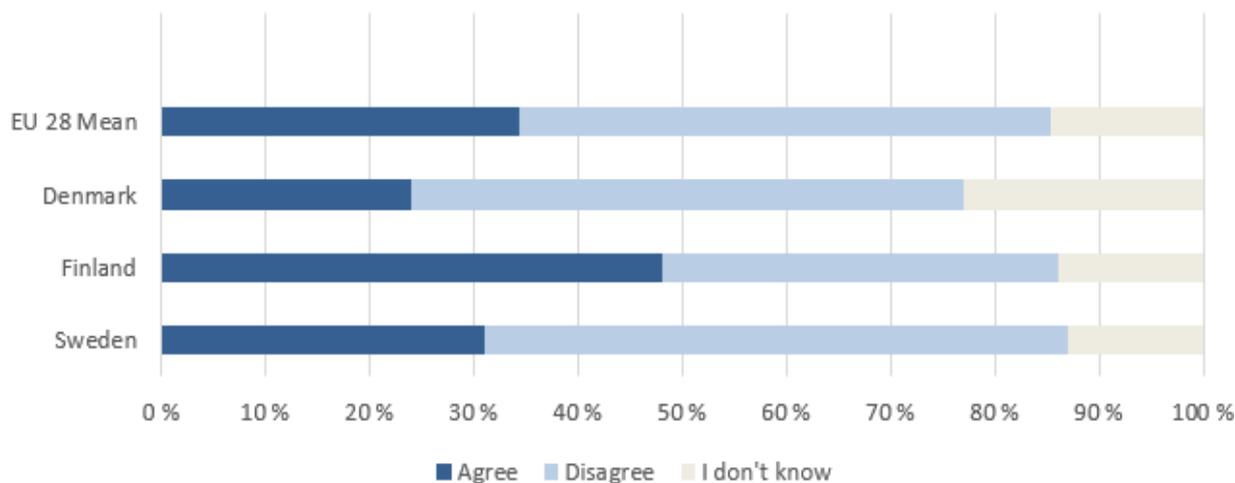


Figure 5. There are enough successful prosecutions in my country to deter people from corrupt practices<sup>94</sup>

<sup>93</sup> Special Eurobarometer 470 - Corruption 2017, 47.

<sup>94</sup> Adapted from Special Eurobarometer 470 - Corruption 2017, 59.

With information on previous research on how private corruption is quite prevalent in developed countries,<sup>95</sup> it is interesting to see that, in the 2017 Special Eurobarometer, the Nordic countries are way below the European mean in their perceptions of corruption being part of the business culture in their country. Private corruption is usually connected with bribery or violating ethical and professional standards.<sup>96</sup> One possibility is that the people responding only have limited views of corruption. This would go hand in hand with a general view that levels of corruption in the Nordic countries are low, and that corruption shows up in various structural forms that are usually difficult to perceive and reveal.

## 4.2 International conventions and evaluations

All OECD member countries have implemented national legislation in accordance with the Anti-Bribery Convention (ABC). The OECD ABC was signed in December 1997 and came into force 1999. The implementation of the convention is reviewed periodically. The members of the convention have either modified or drafted local legislation in accordance with the convention's obligation.<sup>97</sup> All Nordic countries have ratified the convention (see Annex Table 2).

Another international anti-corruption initiative is the United Nations Convention Against Corruption (UNCAC), that entered into force on 15 December, 2005. The UNCAC is the broader of the two, since it includes the offering and extortion (the "asking" side) of corruption. The UNCAC required the member states to establish anti-corruption legislation within their laws, institutions and practices. The UNCAC has 187 state parties and is the only legally binding initiative. With its broad scope and international acceptance, it is considered a key global anti-corruption initiative.<sup>98</sup> All of the Nordic countries have ratified the convention.

In this chapter we present international assessments by which countries are evaluated in terms of their fight against corruption, with a focus on FIUs and related topics such as the number and quality of suspicious transaction reports (STRs). The chosen instruments are the OECD Working Group on Bribery's country monitoring, Transparency International's Progress Report and GRECO country evaluations.

These reports differ in many aspects. For example, Transparency International uses broad definitions of foreign bribery cases, covering cases where foreign bribery is the underlying issue, even when brought under different laws. The OECD Working Group covers only foreign bribery cases with data supplied directly by government representatives. In addition to official sources, Transparency International uses data from media reports.<sup>99</sup> We only looked through the executive summaries of the fifth round of GRECO country evaluation reports, because the later evaluation rounds were focused on topics not closely related to either bribery or the FIUs' actions, and the older ones, perhaps conceptually more relevant, go way back to the early years of the 2000s (see Annex Table 3).

In addition to the latest editions of these assessments, in the last part of this chapter we present international organisations that help countries to combat money laundering: the inter-governmental Financial Action Task Force (FATF)<sup>100</sup> and the global collaborative body of 166 Financial Intelligence Units - the Egmont Group.

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<sup>95</sup> Mugarura 2016, 79.

<sup>96</sup> Cuervo-Cazurra 2016, 36-37; Eicher 2009, 3; Peurala & Mutttilainen 2015, 16.

<sup>97</sup> Loughman & Sibery 2011, 37-38; Baughn et al. 2010, 18; Cuervo-Cazurra 2016, 41.

<sup>98</sup> Loughman & Sibery 2011, 36-37; Baughn et al. 2010, 18; Cuervo-Cazurra 2016, 41; United Nations Office on Drugs and Crime, United Nations Convention against Corruption. Retrieved from <https://www.unodc.org/unodc/en/corruption/uncac.html>. Cited 2.3.2021.

<sup>99</sup> Transparency International – Progress Report 2020, 138.

<sup>100</sup> FATF comprises of 37 member states and 2 regional organizations: European Commission and Gulf co-operation Council.

## GRECO Evaluations

The Group of States against Corruption (GRECO) was established in 1999 by the Council of Europe, and it monitors member states' compliance with the Council of Europe's anti-corruption standards through mutual evaluation and peer pressure, with the objective of improving member states' capacity to fight corruption.<sup>101</sup> Currently, GRECO comprises 50 members including all Nordic countries.<sup>102</sup>

The GRECO evaluations contain information gathered through questionnaires, on-site country visits and the drafting of evaluation reports. The evaluation reports include recommendations to help the countries to improve their level of compliance, with separate compliance reports to follow up the implementation of these recommendations.<sup>103</sup> So far, GRECO has launched five evaluation rounds, each with a different focus.<sup>104</sup>

The fifth evaluation round was launched in March 2017. Finland's and Iceland's evaluations took place in 2017 (adopted and published in 2018), Denmark's and Sweden's in 2018 (adopted and published in 2019), and Norway's in 2019 (adopted in 2020, published in 2021). In addition, GRECO has published compliance reports for three Nordic countries as follow-ups.<sup>105</sup>

The fifth-round evaluation reports handle the effectiveness of the national framework to prevent corruption amongst persons with top executive functions and members of law enforcement agencies. These themes are not under specific discussion at this stage of our research, so we only looked through the executive summaries of every fifth evaluation round report, and drew a general overview of the Nordic framework.

Although viewed as a region with low levels of corruption, there are many shortcomings in corruption prevention regimes within the Nordic countries. Trust as a preventive tool to combat corruption is questioned, especially when it is placed in persons rather than procedures leading to a risk of corrupt practices. Old boy's networks, nepotism, conflicts of interest, etc. are more relevant in the Nordic context than strict bribery, as noted in other sources as well<sup>106</sup>. All of the countries are recommended to improve their integrity policies through up-to-date strategies and training. Regulation of the use of third parties is also recommended.

GRECO recommends that Nordic countries focus on and develop their transparency in public administration, especially amongst persons with top executive functions and members of law enforcement agencies, and that they strengthen internal control within the police. Adjustments should be made to further developing and safeguarding whistle-blower reporting and protection channels.

## OECD Working Group on Bribery

The Nordic countries are all parties to the OECD Anti-bribery Convention, ABC. They have all deposited instruments of ratification and enacted the Convention's legislation between 1998 and 2000.<sup>107</sup> The OECD Working Group for Bribery (WGB) monitors the implementation of the OECD ABC, requiring parties to criminalise the bribery of foreign public officials and introduce related measures. Monitoring is carried out through a "rigorous peer-review monitoring system", meaning that the parties to the convention are reviewed

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<sup>101</sup> Council of Europe: What is GRECO? Retrieved from <https://www.coe.int/en/web/greco/about-greco/what-is-greco>. Cited 19.1.2021.

<sup>102</sup> Council of Europe: Members and Observers. Retrieved from <https://www.coe.int/en/web/greco/structure/member-and-observers>. Cited 19.2.2021.

<sup>103</sup> Council of Europe: About GRECO mutual evaluations. Retrieved from <https://www.coe.int/en/web/greco/evaluations/about>. Cited 19.1.2021.

<sup>104</sup> See Annex Table 3.

<sup>105</sup> For Finland (2020), Iceland (2020), and Sweden (2016 & 2017).

<sup>106</sup> See e.g. Salminen 2020, 29.

<sup>107</sup> See Annex Table 2.

by their peers, with experts from different countries as examiners.<sup>108</sup> There are four phases of monitoring in total.<sup>109</sup>

Iceland, Finland and Norway are in Phase 4 of monitoring, whereas Denmark and Sweden are in Phase 3. Denmark's Phase 3 Report was published in 2013 and Sweden's in 2012. Iceland's Phase 4 Report is the newest having been published in December 2020, whereas Finland's Phase 4 Report was published in 2017 and Norway's in 2018. The WGB will hold Phase 4 meetings in Denmark in 2022 and Sweden in 2025.<sup>110</sup> For the latest reports and follow-up reports on Nordic countries, see Annex Table 5.

In **Denmark**, financial institutions and other entities file STRs to the Money Laundering Secretariat (MLS), which is located within the State Prosecutor for Serious Economic Crime (SØIK). The number of STRs has increased and, during the on-site visit, MLS informed WGB that its resources did not match the caseload, and that more resources would make more thorough analyses possible. MLS also brought up the "importance of training, awareness-raising, and efforts to exchange experiences with other financial institutions to review trends and develop a case feedback system". Thus, the WGB recommends that Denmark ensure that MLS is sufficiently resourced to "effectively detect money laundering cases predicated on foreign bribery". Raising awareness of foreign bribery has been viewed as a positive achievement.<sup>111</sup>

**Finland's** FIU functions independently within the National Bureau of Investigation (NBI) and, according to the WGB, is therefore well-placed to gather and receive information on foreign bribery. Yet, it had not detected any foreign bribery allegations through STRs at the time of evaluation. Three of Finland's allegations of foreign bribery were reported to the FIU by foreign FIUs. The Finnish FIU expressed doubt over its ability to use STRs to detect foreign bribery, and the WGB follows up the FIU's ability on this. In the evaluation process, a representative had confirmed that financial institutions are efficient in customer due diligence, but noted that "detecting foreign bribery requires the institution to assess vast numbers of payments and have an intimate knowledge of a company's operations". In the report, the WGB encourages Finland to improve the FIU's domestic detection efforts.<sup>112</sup>

**Iceland's** Financial Intelligence Unit (ICEFIU) moved to work as an independent unit within the Office of the District Prosecutor (DPO) in 2015. This has led to the improvement of resources and increased cooperation between them, which the WGB views as beneficial in the context of foreign bribery investigations. There has already been an addition of five full-time positions at the ICEFIU, and this is predicted to enhance coordination. Despite the positive development, no foreign bribery cases have been detected by the ICEFIU. The WGB recommends that ICEFIU raises "awareness of foreign bribery risks" and publishes "typologies on foreign bribery as a predicate offence to money laundering".<sup>113</sup>

**Norway's** FIU is a special unit within the National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). Norway reported to the WGB that only a few STRs that they receive are related to possible corruption offences, including foreign bribery. The WGB highlighted in the country report that one potential foreign bribery case was detected in the defence industry through an STR, which the FIU referred to ØKOKRIM's anti-corruption team to investigate further. Although FIU has not been a substantial source of foreign bribery detection in Norway, the WGB notes that this may not be significantly different to the situation found in many other countries. FATF's Mutual Evaluation Report (MER) of 2014 is highlighted, stating that the quality and quantity of STRs is low, which hampers the good analytical capacity of the FIU. The WGB thus recommends that Norway reinforce "the FIU's efforts to review STRs for matters potentially related to foreign bribery".<sup>114</sup>

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<sup>108</sup> OECD: Country monitoring of the OECD Anti-Bribery Convention. Retrieved from <https://www.oecd.org/corruption/countrymonitoringoftheoecdanti-briberyconvention.htm>. Cited 19.1.2021.

<sup>109</sup> See Annex Table 4.

<sup>110</sup> OECD: Monitoring Schedule for 2016-2026. Retrieved from <https://www.oecd.org/investment/countryreports/ontheimplementationoftheoecdanti-briberyconvention.htm>. Cited 20.1.2021.

<sup>111</sup> OECD: Denmark 2013 Phase 4 Report, 5, 35, 36, 52-53.

<sup>112</sup> OECD: Finland 2017 Phase 4 Report, 13, 16, 47.

<sup>113</sup> OECD: Iceland 2020 Phase 4 Report, 13, 14, 27, 50.

<sup>114</sup> OECD: Norway 2018 Phase 4 Report, 18, 66, 67.

**Sweden's** FIU is part of the National Criminal Intelligence Service (FIPO). FIPO has a national anti-corruption group, which focuses primarily on bribery investigations. FIU had not at the time of Phase 3 evaluation "provided information to the law enforcement authorities about suspicions of money laundering where foreign bribery was the predicate offence". Swedish FIU reported receiving a few requests annually about bribery investigations from the law enforcement authorities. It is not clear whether these requests were specifically about foreign bribery. A financial institution representative stated that it had reported suspected money laundering cases to FIU where foreign bribery was a predicate offence. The WGB recommends that Sweden take urgent action to improve the detection of foreign bribery through its AML system, for example by increasing the FIU's awareness of the kinds of transactions that could involve the laundering of the proceeds of the bribery of foreign public officials.<sup>115</sup>

In general, in its evaluations the WGB raises concerns about a small number of investigations and inadequate resourcing. Added resources gain positive feedback, but countries are reminded to make sure the resourcing includes training and raising awareness of laundering the proceeds of the bribery of foreign public officials. The number, quality and analysing of STR's is of interest to the WGB, and has also led to recommendations of raising awareness of laundering funds from bribery. They also recommend actions to detect foreign bribery through the AML system, which reflects back to STRs, and thus to FIUs' work. In the KORPEN project, we aim to explore the potential of FIUs in more detail.

## **Transparency International Progress Report**

The Transparency International Progress report is an independent assessment about the enforcement of the OECD ABC. The progress reports gather the latest OECD report results alongside recent cases and investigations in 43 of the 44 parties to the OECD ABC and a few other countries holding larger proportions of international trade.<sup>116</sup> Iceland is not included because of its small share of global exports.<sup>117</sup>

Besides assessing and highlighting key gaps in the countries' enforcement performance, the report assesses their performance regarding victim compensation, international cooperation, parent-subsidiary liability and improvement of legal frameworks and enforcement systems to combat foreign bribery. The 2020 report is the 13<sup>th</sup> edition of the report.<sup>118</sup>

Calculation of enforcement takes place using two factors: different enforcement activities (with point-system weighting) and share of world exports. The weighted scores for the different degrees of enforcement are: 1 point for commencing investigations; 2 points for commencing cases; 4 points for commencing major cases; 4 points for concluding cases with sanctions; and 10 points for concluding major cases with substantial sanctions. Each country collects enforcement points through enforcement actions. The sum of these points is multiplied by the average of the country's share of world exports during the assessed four-year period (2016-2019 in the 2020 report).<sup>119</sup>

For a country to be classified in the "Active enforcement category", it is required to have at least one major case with substantial sanctions concluded in the past four years. Similarly, for a country to be classified in the "Moderate enforcement" category, at least one major case needs to have been commenced or concluded in the past four years.<sup>120</sup> In the 2020 progress report, Norway and Sweden received a status of moderate enforcement, whereas Denmark's status was limited enforcement. Finland's level was the lowest of the Nordic countries, with little or no enforcement.<sup>121</sup>

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<sup>115</sup> OECD: Sweden 2012 Phase 3 Report, 33, 34, 46.

<sup>116</sup> In 2020, these countries were China, Hong Kong SAR, India and Singapore.

<sup>117</sup> Transparency International – Progress Report 2020, 5-6.

<sup>118</sup> Transparency International – Progress Report 2020, 5-6.

<sup>119</sup> For example, see Annex Table 6.

<sup>120</sup> Transparency International – Progress Report 2020, 31-32.

<sup>121</sup> Transparency International – Progress Report 2020, 12-13.

FIUs are not specifically reviewed in the Transparency International's reports, but enforcement systems are reviewed in general, with some mentions of FIUs as well. Foreign bribery can include civil and criminal cases and investigations related to corruption, money laundering, tax evasion, fraud or violations of accounting and disclosure requirements. The cases concern active bribery of foreign public officials.<sup>122</sup> For all enforcement recommendations of each Nordic country, see Annex Table 7.

**Denmark** is recommended to allocate significantly more resources to the investigation and prosecution of the bribery of foreign public officials. It is also recommended to ensure that the police and SØIK have the necessary tools and methods to investigate and prosecute foreign bribery.<sup>123</sup>

**Norway's** enforcement is evaluated as being insufficiently coordinated, and it is recommended to "improve coordination among law enforcement authorities, including the Financial Intelligence Unit, to fully engage and use all available resources, including intelligence, against foreign bribery."<sup>124</sup>

**Finland** is noted as having insufficient resources and lack of enforcement in general, although no mentions of the FIU specifically were found. Similarly, in Sweden, the FIU is not mentioned specifically, but the lack of investigations and cases hint that authorities do not pay enough attention to the bribery of foreign officials.<sup>125</sup>

In **Sweden**, Transparency International's report highlighted the low number of foreign bribery investigations and cases, implying that foreign bribery enforcement is not proactively pursued by the Swedish authorities. The report also highlighted a legislative issue of Sweden not having updated its law on dual criminality. This means that, to be prosecuted, an offence must be a crime in the country in which it was committed, as well as under Swedish law.<sup>126</sup>

Transparency International's progress report also lists countries in terms of their beneficial ownership registries. From the Nordic countries, only Denmark has a "central register publicly accessible without obstacles". Sweden has a "central register, publicly accessible with paywall or other restrictions". Finland has a "central register, not publicly accessible". Norway is the country with "no central register, but concrete steps to implement one".<sup>127</sup>

The progress report thus highlights very similar issues to those in the WGB evaluation reports. The low number of investigations and cases raises significant concern and has a direct impact on the enforcement category. Transparency International criticises the Nordic countries, especially for their insufficient levels of enforcement, coordination, resourcing and lack of foreign bribery investigations and cases.

## **International organisations combatting money laundering**

**FATF** is an independent inter-governmental body coordinating global efforts and developing and promoting policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.<sup>128</sup> Although FATF functions within OECD, the member states are members of FATF and FATF-style regional bodies. FATF as an organisation has the power to put pressure on member states about the functioning of their AML systems and making sure that member states make corruption, such as the bribery of foreign officials, a predicate offence of money laundering and encourage the regional AML bodies to prioritise this.<sup>129</sup>

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<sup>122</sup> Transparency International – Progress Report 2020, 136.

<sup>123</sup> Transparency International – Progress Report 2020, 56.

<sup>124</sup> Transparency International – Progress Report 2020, 94.

<sup>125</sup> Transparency International – Progress Report 2020, 59.

<sup>126</sup> Transparency International – Progress Report 2020, 112.

<sup>127</sup> Transparency International – Progress Report 2020, 20, Table 2.

<sup>128</sup> FATF – Egmont Group, 2020.

<sup>129</sup> Chaikin & Sharman 2009, 192, 197-197.

FATF has successfully created 40 recommendations with over 200 countries implementing them, making them the global AML and combatting the financing of terrorism (CFT) standard.<sup>130</sup> The recommendations set out a framework of measures, which countries should implement in their fight against money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction. The recommendations were last revised in 2012.<sup>131</sup> Countries are expected to carry out money laundering-, terrorist financing- and proliferation financing risk assessments about their anti-money laundering systems. The European Commission also publishes its own EU-level Supranational Risk Assessments under the mandate of the 4<sup>th</sup> Anti-Money Laundering Directives based on FATF's recommendations.

In general, FATF handles corruption either as an example of economic crime or from an investigative perspective in its evaluation reports.<sup>132</sup> It highlights the investigation of corruption in relation to its Recommendation 30<sup>133</sup> in Iceland's 2018 MER, Finland's 2019 MER and Denmark's 2017 MER.

Neither Denmark, Iceland nor Finland have a specific anti-corruption enforcement authority. It is also added that, in Finland, the authorities investigating ML are also viewed as competent to investigate ML/TF offences associated with corruption offences.<sup>134</sup> In Iceland's case, it is noted that corruption and other "related ML/TF offences are addressed in the same manner as other predicate offences."<sup>135</sup> Also, in the 2017 MER to Denmark FATF notes that no specialised anti-corruption bodies function in Denmark, and corruption is investigated and prosecuted by the police and prosecution services.<sup>136</sup> In Norway's 2019 Follow-Up Assessment, FATF states that "many of the largest Norwegian companies are established in developing countries, which further increases the threat of serious economic crimes, such as corruption and tax evasion".<sup>137</sup>

Sweden's situation differs from other Nordic countries, according to FATF. All corruption and associated money laundering offences are investigated by the National Anti-Corruption Unit functioning within the Swedish Prosecution Authority. Swedish Police Authority also has a National Anti-Corruption Group that is responsible for the investigation of corruption offences.<sup>138</sup>

FATF's risk-based approach gives rise to circumstances in which the risks of money laundering or terrorist financing are higher. Country or geographic risk factors include countries with significant levels of corruption.<sup>139</sup> FATF also published a trade-based money laundering report in 2020 in cooperation with the Egmont Group. The most recent edition focuses on trends and developments in trade-based money laundering.<sup>140</sup>

**The Egmont Group** is a united body consisting of 166 different national FIUs. It works as a platform for FIUs to exchange expertise and financial intelligence regarding money laundering and terrorist financing. The Egmont Group supports its international partners' efforts to give effect to the resolutions and statements of United Nations Security Council, FATF and the G20 Finance Ministers. It functions as an "operational arm of the international AML/CFT apparatus", aiming to improve cooperation in the fight against ML/TF. The sharing of financial intelligence is an essential aspect of international efforts to counter money laundering and terrorist financing. FIUs are obliged to exchange information and participate in international cooperation.<sup>141</sup> All the Nordic FIUs are members of the Egmont Group.

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<sup>130</sup> FATF: About. Retrieved from <http://www.fatf-gafi.org/about/>. Cited 12.11.2020; FATF – Egmont Group, 2020.

<sup>131</sup> FATF: The FATF Recommendations. Retrieved from <http://www.fatf-gafi.org/publications/fatfrecommendations/documents/fatf-recommendations.html>. Cited 28.1.2021.

<sup>132</sup> Mutual Evaluation Report (MER) and Follow-Up Report (FUR)

<sup>133</sup> Recommendation 30 - Responsibilities of law enforcement and investigative authorities.

<sup>134</sup> FATF MER Finland 2019a, 211.

<sup>135</sup> FATF MER Iceland 2018, 173

<sup>136</sup> FATF MER Denmark 2017a, 206.

<sup>137</sup> FATF FUA Norway 2019b, 6.

<sup>138</sup> FATF MER Sweden 2017b, 189

<sup>139</sup> FATF Recommendations 2012-2020, 69.

<sup>140</sup> FATF – Egmont Group 2020.

<sup>141</sup> The Egmont Group: About. Retrieved from <https://egmontgroup.org/content/about>. Cited 28.1.2021; FATF – Egmont Group, 2020.

## 5 Survey

The questionnaire survey was conducted to the FIUs of Denmark, Finland, Iceland, Norway and Sweden. The survey focuses on the FIUs' capacities to identify the money laundering of illicit funds, working together with anti-corruption officials, what kind of corruption cases they have worked with, how corruption related cases are indicated in the STRs and what they would need moving forward in regard to cooperation or training. In this chapter, we first introduce the Nordic FIUs then present the survey method with questions we sent to Nordic FIUs, and last, the survey answers.

### 5.1 Survey for the Nordic FIUs

In the table below, we gathered a list of each Nordic FIUs' core tasks according to their public websites. Only Norway and Sweden listed corruption as part of their core tasks. Norway's FIU investigates and prosecutes (among other types of crime) violations of social significance such as corruption. Sweden's FIU contains a national anti-corruption group that focuses primarily on investigations of bribery.

Table 3. Nordic Financial Intelligence Units (FIUs)<sup>142</sup>

Country	Name	English name	Core tasks
Denmark	Hvidvasksekretariatet Stadsadvokaten for Særlig Økonomisk Kriminalitet (SØIK) / Hvidvasksekretariatet (HVIDVASK)	State Prosecutor for Serious Economic Crime / Money Laundering Secretariat (MLS)	- prosecute criminal offences - handle cases concerned with serious economic crime and international criminal proceedings - is involved in pre-legislative and international work
Finland	Keskusrikospoliisi / Rahanpesun selvittelykeskus (RAP)	National Bureau of Investigation / Financial Intelligence Unit	- tasks listed in the Act on the Financial Intelligence Unit (445/2017)
Iceland	Ríkislögreglustjórnin (RLS)	Unit of Investigation and Prosecution of Economic and Environmental Crime	- National Authority for Investigation and Prosecution of Economic and Environmental Crime
Norway	ØKOKRIM / EFE - Enheten for finansiell etterretning	The National Authority for Investigation and Prosecution of Economic and Environmental Crime - The Money Laundering Unit	- investigates and takes to court the large, complex, more serious and / or fundamental cases concerning economic crime and environmental crime. - violations of social significance e.g. serious tax evasion, corruption, accounting violations, serious fraud and money laundering.
Sweden	Finanspolisen Rikskriminalpolisen (FIPO)	National Criminal Intelligence Service, Financial Unit (NFIS)	- intelligence activities on money laundering and terrorist financing - NFIS contains an investigative Anti- Corruption Unit, working primarily with investigations of bribery

<sup>142</sup> Denmark: <https://anklagemyndigheden.dk/en/state-prosecutor-for-serious-economic-and-international-crime>; Finland: [https://www.poliisi.fi/crimes/financial\\_intelligence\\_unit](https://www.poliisi.fi/crimes/financial_intelligence_unit); Sweden: <https://polisen.se/om-polisen/polisens-arbete/nationella-anti-korruptionsgruppen/>.

The survey for the Nordic FIUs was conducted in January and February of 2021. In January, the FIUs were sent the survey as a Word-document. The survey was sent to each Nordic FIU in its own language. One collective answer was gathered from each FIU, so that the anonymity of the participants and a reasonable amount of data for this preliminary study were ensured.

The survey consisted of six sections each with 1-4 questions. In total, the survey consisted of 16 questions. In the first section (multiple-choice), FIUs were asked to determine which actions against corruption were part of their tasks (Question 1), and which tasks they thought they could take (Q2). After this, they were asked to consider FIUs' capacities with a rating of how difficult it was to identify corruption at different levels (Q3) and in different money laundering schemes (Q4). Rating varied from 0 = Almost impossible to 5 = Extremely easy.

In the second section, FIUs were asked to provide one or two examples of interesting cases in their own country where the laundered funds were suspected of originating from corrupt actions (Q5). In the next chapter of this report, we shall analyse Nordic case examples in which the FIUs' answers were supposed to work as a starting point for further analysis. We will return to this later. Regarding the cases, the FIUs were asked whether corruption investigations had any special characteristics compared to other money laundering cases, and if so, what were they (Q6).

The third section was about corruption-related suspicious transaction reports (STR). The FIUs were asked whether obliged entities were able to make suspicious transaction reports (STR) based on suspicion of corruption or linked to corruption and, if so, how was the corruption highlighted by these entities (Q7). It was also asked whether the FIUs automatically sorted out the STRs with possible indications of corruption and, if so, how was this done (Q8). The FIUs were asked to provide information on how many STRs they had received annually in recent years (Q9) and how many they receive where there are indications of corruption (Q10).

The fourth section consisted of questions about the FIUs' ability to identify bribery in international business. They were asked to tell whether they were able to identify cases of bribery in international business from STRs and, if so, how, and if not, what were the main challenges (Q11). The FIUs were asked to report whether there were some kind of indicators that helped them to identify cases of bribery in international business, and also, what these indicators were or what could they be like (Q12). We also asked, whether they would benefit from these kinds of indicators and why or why not (Q13).

In the fifth section, we inquired about the FIUs' capacities and competencies in terms of identifying corruption (Q14). The capacities and competencies included cooperation with customs between Nordic FIUs, training in the analysis of corruption, and powers to exchange information between national and international agencies. The FIUs were asked to rate their possible capacities and competencies as a part of their tasks in combatting money laundering. Ratings varied from 0 = not at all to 5 = full capacity and 6 = don't know.

The last section included questions regarding Nordic cooperation and training. The FIUs were asked whether they would prefer or need more cooperation between Nordic countries around this theme and, if so, what kind (Q15). They were also asked whether they had been offered training related to corruption prevention and, if so, what it was like (Q16).

We wanted to form a general overview of the FIUs' performance and potential to combat corruption, so that the results could work as a basis for further research. Some of the questions were noticed to be subject to interpretation, and were not taken into consideration in reporting. These questions will help us to sharpen the formation of questions in future research.

## 5.2 Results

We received four answers from the Nordic FIUs on our survey. Sweden declined to participate, but gave some comments by e-mail. The proceeds of corruption could render information to the FIU, but identifying corruption in incoming STRs is not one of the core tasks of FIU Sweden and priority has at the moment been given to other areas of possible money laundering. FIU Sweden does not currently filter corruption-related reports from STRs.

FIU Sweden also reiterated and underscored the difficulty in identifying patterns of corruption only based on the information in STRs, which other FIUs highlighted in their answers as well. In the following, we go through and compare the survey responses.

### Anti-corruption as part of the FIUs tasks

The tasks between Nordic FIUs vary according to the survey, but all FIUs support investigations of corruption-related crime and identify corruption-related cases in STRs (Table 4). Both of these were actions that FIU Sweden thought it could take, as it disclosed in its e-mail response.

FIU Finland was the only one to deal with cases where the funds are derived from corrupt actions, whereas all four Nordic FIUs' actions entailed identifying corruption-related cases in the STRs. Three out of four FIUs identify PEPs, their family members or close associates. FIU Finland pointed out that it does not have a specific tool to identify all the PEPs from STRs, and information on the target being a PEP comes from the obliged entity. The system is similar in Iceland.

FIUs do not generally take part in the actual investigation processes, but all the Nordic FIUs can support other agencies in investigations. Although FIU Denmark crossed an option for doing in-house investigations, it only specified working with "information at intelligence level", and police districts do the actual processing of these cases. Similarly, FIU Finland said that, in principle, it does not investigate crime cases; the other units of the National Bureau of Investigation (of which the FIU is part of) and police districts are responsible for the investigations, which FIU may support. Thus, like their Nordic counterparts, they do not carry out full investigations into corruption-related crime.

Table 4. Actions that are part of FIUs tasks (Q1)

FIU's actions	Denmark	Finland	Iceland	Norway
Dealing with cases where the funds are derived from corruptive actions		x		
Identifying corruption related cases in the suspicious transaction reports (STR)	x	x	x	x
Identifying politically exposed persons (PEP), their family members or close associates	x	x	x	
Supporting investigation of corruption related crime cases by the police and other agencies	x	x	x	x
In-house investigation of corruption related crime cases	x	x		
Providing information for international agencies to fight corruption	x	x		
Other	x			

Added to the actions that FIU Norway already takes, it named dealing with cases where the funds are derived from corrupt actions as something it could do (Q2). FIU Iceland thought that supporting the investigation of corruption-related crime cases by the police and other agencies was an action it could take. Denmark's and Finland's FIUs did not add any options to actions they could take, but FIU Finland noted that, especially if the necessary indicators working for this specific topic could be used, they could try to intensify the identification of corruption from the STRs and support the pre-trial investigations.

Individual-level corruption (Q3) was viewed as the least difficult to identify among the FIUs, with FIU Denmark even viewing the identification of individual-level corruption as quite easy (Table 5). The other FIUs saw this as either quite difficult or very difficult. All of the other levels were listed as either quite or very difficult, with Finland's and Iceland's FIUs viewing identification as more difficult than their Danish and Norwegian counterparts. FIU Finland said that the phenomena of corruption and money laundering are difficult to identify in general, which is not a question of the FIU's capacity per se.

Table 5. FIUs capacities and difficulties in identifying corruption in different levels (Q3)

Considering FIUs capacities, how difficult is it to identify corruption in the following levels (0 Almost impossible / 1 Very difficult / 2 Quite difficult / 3 Quite easy / 4 Very easy / 5 Extremely easy)	Denmark	Finland	Iceland	Norway
Individual corruption (e.g. bribery, conflict of interest or dual roles, unethical political funding)	3	1	2	2
Corrupt networks (e.g. favouritism incl. nepotism, unethical 'helping' of others, unofficial decision making out-side of conventional decision-making structures)	2	1	1	2
Institutional corruption (e.g. unethical 'targeting' of tender selection criteria)	2	1	1	2
Structural corruption (e.g. unethical influencing in decision making (incl. preparing laws and decisions)	0-1	1	1	2

Capacities and competencies regarding identifying corruption from different money laundering schemes (Q4) were also found generally to be rather difficult (Table 6). Similar to the question before, FIU Finland and FIU Iceland saw identification as generally being very difficult, whereas FIU Denmark and FIU Norway found identifying corruption as less difficult. FIU Denmark viewed the identification of corruption in money laundering schemes in both domestic and international PEPs as quite easy whereas, according to FIU Norway, cases related to domestic PEPs and public procurement processes were quite easy to identify.

Table 6. Difficulties in identifying corruption in money laundering schemes (Q4)

Considering FIUs capacities, how difficult is it to identify corruption in the following money laundering schemes? (0 Almost impossible / 1 Very difficult / 2 Quite difficult / 3 Quite easy / 4 Very easy / 5 Extremely easy)	Denmark	Finland	Iceland	Norway
Cases with relation to domestic PEPs	3	1	2	3
Cases with relation to international PEPs	3	1	1	2
Cases of public procurement processes	1	1	1	3
Cases of unethical sports betting or sports competition manipulation	2	1	1	1
Unethical political funding	1	1	2	2
Bribery in international business	1	1	1	2
Bribery of foreign officials	2	1	1	2

When asked whether there are some special characteristics with investigations regarding corruption compared to other money laundering investigations (Q6), only FIU Denmark answered ‘yes’, but added that the police district handling these cases should be asked what the special characteristics are, and said that SØIK often deals with cases that must be submitted to the court for a ruling. Other FIUs said ‘no’.

In this question, FIU Finland stressed that its role does not primarily involve investigation. It receives STRs, analyses them and forwards them for pre-trial investigation. This function is neutral in regard to preliminary offences, which means there can possibly be cases connected to corruption involved. They disclosed that investigating corruption cases does not usually involve special characteristics, apart from the fact that there might be public figures involved.

### Suspicious Transaction Reports (STRs)

In all Nordic countries, obliged entities are able to make STRs based on the suspicion of corruption or STRs that are linked to corruption (Q7). In Iceland, obliged entities fill in the STR similar to a “conduct report” and can “include an indicator in the notification”. In Finland, obliged entities can either mention the suspicion of corruption in the report or choose an indicator from the system. The system is similar to Denmark’s where the obliged entity can “tick off” an option and describe in writing what the information is about, and Iceland where the suspicion of corruption can be described in the report, although the report itself is filled in as any other STR. In Norway, obliged entities can also use an information field in which the details are described.

FIU Finland and FIU Denmark automatically sort out corruption-related money laundering cases from the STRs (Q8) by either an indicator or text search. FIU Denmark searches daily for information with “specific words and terms that are considered central regarding corruption”.

The FIUs were asked their total number of received STRs in the past three years (Q9) and roughly how many STRs with indications of corruption they received annually (Q10). The number of STRs varied between Nordic countries significantly, but in all Nordic countries it has been increasing in the past few years (Table 7).

Table 7. Number of STRs received by FIUs annually

Year	Denmark	Finland	Iceland	Norway	Sweden <sup>143</sup>
2018	35 768	39 220	1 203	10 748	19 306
2019	53 454	64 403	1 645	11 539	21 709
2020	73 261	61 902	2 033	12 701	24 248 <sup>144</sup>

The number of STRs with indications of corruption received by Nordic FIUs varies from none to up to 100 reports annually, with FIU Iceland reporting that it had not received any. FIU Finland reported having received up to 20 STRs with clear indications of possible corruption, and up to a 100 where there were indications, but as yet no tools to identify corruption from them. FIU Norway was able to disclose the exact numbers of corruption-related STRs from the past five years: it has seen a significant rise from the 12 received in 2016 to 73 reports in 2020 with indications of corruption.<sup>145</sup> FIU Denmark reported receiving 21 to 100 STRs with indications of corruption. The proportion of STRs with possible indications of corruption thus varies significantly but is less than 1 percent in all Nordic countries, Norway clearly having most STRs with indications of corruption in relation to the annual total number.

<sup>143</sup> Swedish Financial Intelligence Unit Annual Report 2019. Retrieved from file:///M:/Financial%20Intelligence%20Unit%20Annual%20Report%202019.pdf. Cited. 24.2.2021

<sup>144</sup> Information received by e-mail.

<sup>145</sup> STRs that include words corrupt, bribe or payment in return for the last 5 years: 73 (2020), 116 (2019), 28 (2018), 14 (2017), 12 (2016).

When asked, whether FIUs could identify cases of bribery in international business from STRs (Q11), FIU Denmark left the question unanswered and FIU Iceland answered 'no' because accounts with criminal proceeds can be located in other countries as well. FIU Norway answered 'yes', stating that the identification of bribery in international business happens through "transaction information, information provided by the customer to those responsible for reporting" and through other documents or attachments of the STR. FIU Finland reported having a technically good capacity and competence to identify many kinds of cases with multiple criteria. They did highlight, however, that possible shortages in the information within the data and possible missing criteria used to identify corruption weaken their possibilities to identify these cases.

## **PEPs**

European Union's Directive 2015/849 includes a definition of politically exposed persons (PEP). This definition is based on FATF's recommendations. These definitions guide the national definitions of PEPs. According to FATF, a PEP is an important part of Anti-Money Laundering mechanism as many PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption and bribery.<sup>146</sup> Identifying PEPs, their family members or close associates (Q1) was part of the core tasks of Denmark's, Finland's and Iceland's FIUs. FIU Sweden thought, that this was a task it could take on as well.

FIU Finland highlights the difficulty in identifying domestic PEPs, because it lacks a mechanism that makes this possible. At least in Finland, there is no registry of domestic PEPs. Denmark's and Norway's FIUs say that identifying corruption cases related to domestic PEPs is quite easy, even though FIU Norway does not count identifying PEPs, their family members or close associates as actions that its FIU takes.

## **Indicators for bribery in international business**

Nordic FIUs do not have specific indicators to identify money laundering of bribery in international business (Q12) but they would benefit from these kinds of indicators (Q13).<sup>147</sup> FIU Denmark is working actively towards developing indicators to help identify cases of bribery in international business. Its daily screening also searches for international corruption and a word search can be conducted in English. FIU Finland does not have the kind of indicators in use, but it thinks that developing or finding them might be possible and would apply them if developed. FIU Norway has not developed national indicators for the specific incidents in question, but general indicators in STRs also pick up on these cases. They note that, by using specific indicators, it would be possible to set up, for example, fixed warnings/flags or extract reports of cases of bribery.

## **Cooperation & training**

Supporting the investigation of corruption-related crime cases by the police and other agencies (Q1) is a part of all four Nordic FIUs' tasks. The FIUs were asked to assess their possible capacities and competencies in different measures as part of their tasks in combatting money laundering through a multiple-choice questionnaire (Q14). They were asked about, for example, their cooperation and powers to exchange information with different national and international agencies and their training (Table 8).

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<sup>146</sup> FATF 2013. FATF Guidance: Politically Exposed Persons. (Recommendations 12 and 22) <http://www.fatf-gafi.org/media/fatf/documents/recommendations/guidance-pep-rec12-22.pdf>.

<sup>147</sup> Iceland's FIU did not answer.

The highest possible capacities and competencies of the FIUs concerned cooperation with tax officials and powers to exchange information with national agencies. In comparison, capacity or competence to cooperate with competition authorities was generally viewed as limited, except for FIU Denmark that considered it sufficient.

Table 8. FIUs capacities and competencies on cooperation and information exchange (Q14)

Possible capacities and competencies in regard the following as a part of your tasks combating money laundering (0 Not at all / 1 Very limited / 2 Quite limited / 3 Sufficient / 4 Very sufficient / 5 Full / 6 I don't know)	Denmark	Finland	Iceland	Norway	Mean
Cooperation with customs	2	5	5	2	3,5
Cooperation with tax official	5	5	5	3	4,5
Cooperation with competition authority	3	0	1	2	1,5
Cooperation between Nordic FIUs	2	5	3	4	3,5
Powers to exchange information with national agencies	3	5	5	5	4,5
Powers to exchange information with international agencies	2	5	2	3	3

All except FIU Norway would prefer or need more cooperation between Nordic countries around this theme (Q15). FIU Denmark would hope to have more cooperation in specific areas, such as new trends around the theme. They also noted, that there is very little discussion about this subject at the moment. FIU Finland does continuous operative cooperation with other countries including Nordic ones and including cases concerning bribery and corruption. They are willing to take part in possible training on the subject. FIU Iceland has had good experiences of Nordic cooperation and views cooperation as positive in general. FIU Iceland disclosed that it has had good cooperation with Norway in the case of an Icelandic fishery and Norwegian bank, which we shall discuss further in the next chapter.

FIU Finland was the only one to report having been offered training related to corruption prevention (Q16). It has taken part in a national anti-corruption network and individual training event on corruption and measures against it. FIU Norway has not been provided with training specific to this subject, but general training encompassing various types of crime.

The survey results suggest that cooperation between FIUs and obliged entities as the reporters of suspicious transactions is vital in preventing money laundering of illicit funds, because identifying corruption on STRs with limited information is difficult. FIUs themselves focus on analysing STRs and gathering additional intelligence information. FIU Denmark in particular pointed out that the basis for suspicion must be described in detail in the STRs. In all the countries, obliged entities can clarify in a text field, for example, if corruption is the basis of the STR.

FIU Finland emphasised that, since corruption and money laundering are both mostly hidden and difficult to expose, identifying corruption is not a question of FIU capacity. In general, Nordic FIUs do not carry out full investigations on corruption-related money laundering but may support other agencies in their investigations.

Denmark's and Norway's FIUs report that identifying corruption cases related to domestic PEPs is quite easy, whereas Finland's and Iceland's FIUs saw this as difficult. FIU Finland said that it lacked a mechanism to identify PEPs. Thus, they would probably benefit from information on how, for example, FIU Denmark identifies domestic PEPs, although this was not asked in the survey.

As yet, Nordic FIUs do not use specific indicators to identify connections between bribery in international business and money laundering, but they think they could benefit from such indicators. More indicators would help to flag and categorise the cases better. FIU Denmark reports working actively on this, and FIU Finland said that it would utilise such indicators immediately, if they were offered.

The responses showcase the difficulty in identifying secretive and complex economic crime. Both money laundering and corruption are mainly hidden criminality, and difficult to identify and expose. Still, Nordic countries have some effective means of separating corruption (among other types of conduct) as a predicate offence from the STRs, if obliged entities have recognised it themselves.

Good practices include training and international cooperation. Only FIU Finland has been offered training in the subject, and it is also part of a national anti-corruption network. International cooperation is something all FIUs engage in, but FIU Denmark was a bit more hesitant in its answers about powers to exchange information internationally (Table 8). Nordic FIUs have generally a good capacity and ability to analyse STRs.

Searches within STRs for international corruption and searches in English are interesting possibilities within the international framework. FIU Denmark also runs searches in English, but the other FIUs did not say that they did. How this is done exactly, is unclear, but whether it is an action other FIUs think possible or worth trying is something to discuss with them.

Cooperation with competition authorities would be a subject that needs a closer look. It would be logical for competition authorities to be able to provide valuable information on possible misconduct, risks or other phenomena related to financial crime, such as money laundering or corruption.

## 6 Nordic case examples

In recent years, there has been an increasing number of corruption cases involving extensive bribery practices in international business transactions in Nordic countries. They have been received with shock in the region, where bribery is considered almost non-existent.<sup>148</sup> In the reports by Transparency International, Nordic countries, among other industrialised countries, are viewed as “exporters of corruption”.<sup>149</sup>

Case examples were collected by inquiring about them in the survey for the Nordic FIUs and from Transparency International’s 2020 Progress report. In addition, Kimpimäki gathered and analysed Finnish cases in her 2018 article.<sup>150</sup> This article was used as the basis of Finnish case examples, because there have been very few suspected or investigated cases in Finland in recent years.<sup>151</sup> The OECD WGB also reports cases to which we added information if applicable, but the main source was Transparency International’s latest progress report. The reason for this is that the report is quite new, making it a suitable source for up-to-date information. The cases include either Nordic companies or companies that have close connections to Nordic countries.

### Case by FIU Iceland

Nordic FIUs were asked about cases where the laundered funds were suspected to have originated from corrupt actions. The only Nordic FIU to provide a case was that of Iceland. In this case, the link to corruption came up through a report by a former employee of Samherji fishery. According to FIU Iceland, the estimated proceeds of crime were unclear, but probably ran into billions. The case is still under investigation in Iceland, so the FIU was not able to disclose further details.

The Samherji case includes not one but two Nordic companies, with an Icelandic fishery as the suspected provider of the bribes, and the largest Norwegian bank DNB as the handler of these payments. DNB was investigated in 2019 about whether it broke any laws when handling these payments from an Icelandic fishery company to Namibian officials between 2011 and 2018. Wikileaks’ publication of “the Fishrot Files” and investigations by Icelandic media appear to have affected the investigation to start.<sup>152</sup>

The other Nordic FIUs did not provide any specific cases or details, some of the reasons being that there are very few of them or they are the subject of on-going pre-trial investigations. The Finnish FIU mentioned in general that other FIUs’ information and actions can be of significance when exposing and combatting corruption, and said that one broad international corruption-related investigation started with confiscation and information-sharing to Finnish officials by a foreign FIU.

### Other Nordic cases

Other Nordic cases were collected from Transparency International’s 2020 Progress report. They were collected and categorised using Loughman and Sibery’s classification of the 13 industries that have a significant risk of corruption and bribery.<sup>153</sup> We found Nordic cases in 10 industries (Table 8), in addition to a few others that are described separately.

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<sup>148</sup> Kimpimäki 2018, 240.

<sup>149</sup> Transparency International – Progress Report 2020.

<sup>150</sup> Kimpimäki 2018.

<sup>151</sup> Transparency International – Progress Report 2020, Table 1: Investigations and Cases (2016-2019), 12.

<sup>152</sup> Transparency International – Progress Report 2020, 92-93.

<sup>153</sup> Loughman & Sibery 2011, 295.

Most cases were in the industries of aerospace and defence, financial services, telecommunications and transportation, all of which are high-volume, multi-million-dollar industries. Industries with two Nordic cases were diversified industrial, energy, and transportation. We decided to look for commonalities in cases in aerospace and defence, financial services and telecommunications.

Table 9. Cases of Nordic companies within 13 industries

Industry	Nordic companies ( <i>specified industry</i> )
Aerospace and defence	Patria Weapons Systems Oy, Patria Vehicles Oy, Kongsberg Gruppen ASA & Kongsberg Defence Communications ( <i>defence</i> )
Automotive	-
Construction and real estate	Burmeister & Wain Scandinavian Contractor ( <i>construction</i> )
Consumer products	Carlsberg (beer)
Diversified industrial	Hempel AS ( <i>paint for ships</i> ), Yara International ASA ( <i>agricultural and other chemicals</i> )
Energy	Sevan Drilling ( <i>oil, gas</i> ), Noroil ( <i>petroleum</i> )
Financial services	Danske Bank, Nordea Denmark, DNB, Swedbank ( <i>banking</i> )
Life sciences <sup>154</sup>	Instrumentarium Oy & Medco Medical Oy ( <i>medical equipment</i> )
Media and entertainment	-
Mining and metals	FLSmidth ( <i>services to the mining and cement industries</i> )
Retail and wholesale	Samherji ( <i>fishing</i> )
Technology	-
Transportation	Bombardier Transportation Sweden AB, Maersk, Viken Shipping ( <i>shipping</i> )

One of the industries that did not fit Table 8 is *consulting*, with a case involving Danish Consia Consultants APS. According to these case examples, not many Nordic consulting companies are suspected of foreign corruption or bribery, even if the use of consultants is quite common in international business bribery cases. Another industry not included in Table 8, although it might have been applicable to the technology industry, is *telecommunications*, with cases including VimpelCom (the company has links to Norway) and Swedish companies TeliaSonera and Ericsson. We shall take a brief, separate look into this industry later in this chapter.

### Cases including Nordic defence industry companies

Three of the four defence industry cases included Finnish defence industry companies and one Norwegian. Typically, Nordic defence company cases are related to the sales and deliveries of defence equipment such as armoured vehicles. In these suspected cases, in order to seal the contracts, bribes were paid to foreign public officials via a third party such as an agent or consulting company. In two out of three Finnish cases Patria Vehicles Oy used the same Austrian consulting company.

The use of secret bank accounts took place in at least one of the cases. The suspected amounts vary from €1 million to €20 million. In three cases the suspected crime happened in a European country, and one in Egypt.

<sup>154</sup> Such as pharmaceuticals, bio-technology & medical devices, technology, equipment according to Loughman & Sibery 2011, 342.

Table 10. Nordic cases in defence industry

Company	Country	Beneficiary	Intermediary
Patria Weapons Systems Oy	Finland/Egypt	Foreign public official	
Patria Vehicles Oy	Finland/Slovenia	Public official	Austrian consulting company
Patria Vehicles Oy	Finland/Croatia	A director of an indirectly state-owned company & other unknown persons	Austrian consulting company
Kongsberg Gruppen ASA and Kongsberg Defence & Aerospace AS	Norway/Romania	Romanian general and Romania's intelligence agency	Consultants or agents

### Cases including Nordic telecommunications companies

The so-called “Uzbekistan affair” was discovered in 2012, a case involving senior officers at TeliaSonera who were under suspicion of having committed bribery offences.<sup>155</sup> TeliaSonera was under suspicion of bribing the daughter of the President of Uzbekistan in connection with its entry into the Uzbek telecommunications market. The trial began in September 2018 and resulted in acquittals, reportedly failing to prove that the daughter could be held liable for taking bribes.<sup>156</sup>

VimpelCom is a Russian company, but is closely linked to Norway. VimpelCom used several shell companies and fake consulting contracts to funnel bribes to a relative of the President of Uzbekistan to enter the Uzbek telecommunications market.<sup>157</sup> At the time of the investigation, VimpelCom was partly owned by Telenor, a company in which the Norwegian government is a majority stakeholder.<sup>158</sup>

Whilst TeliaSonera’s and VimpelCom’s cases were rather similar to the Nordic defence industry cases where a company does business with a foreign company linked directly or indirectly to a foreign government, and where the bribes are directed at a foreign official, the telecommunications company Ericsson’s case was rather different.

Swedish company Ericsson’s case has similarities to financial institution cases in terms of how extensive the scheme is. Nevertheless, Ericsson is a company aiming for profit, whereas financial sector companies have rather failed to know their customers and the origins of funds. The company was suspected of paying bribes and falsifying its books. According to Transparency International’s progress reports, this conduct spanned more than 17 years and covered at least five countries.<sup>159</sup>

Interestingly, both the TeliaSonera and VimpelCom cases share the scene of crime: Uzbekistan. In TeliaSonera’s case, the beneficiary was a government official, whereas in VimpelCom’s a relative of the President. There are other significant similarities: TeliaSonera paid the bribes to receive telecommunication licences, and VimpelCom to enter and remain in telecommunications market.<sup>160</sup>

<sup>155</sup> Schoultz & Flyghed 2016, 184.

<sup>156</sup> Transparency International – Progress Report 2020, 110.

<sup>157</sup> Bloomberg 29.6.2015. Retrieved from <https://www.bloomberg.com/news/articles/2015-06-29/u-s-seeks-to-grab-300-million-in-uzbek-telecom-bribery-probe>. Cited 12.1.2021.

<sup>158</sup> Transparency International – Progress Report 2020, 92-93; The Local No 5.11.2015, Retrieved from <https://www.thelocal.no/20151105/former-vimpelcom-ceo-seized-at-oslo-airport>. Cited 12.1.2021.

<sup>159</sup> Transparency International – Progress Report 2020, 110-111.

<sup>160</sup> Transparency International – Progress Report 2018, 82-83, 92-93; The Local No 5.11.2015, Retrieved from <https://www.thelocal.no/20151105/former-vimpelcom-ceo-seized-at-oslo-airport>. Cited 12.1.2021.

## Cases involving Nordic financial institutions

Cases concerning Nordic financial institutions have common characteristics such as the flow of criminal proceeds through their accounts and crimes often happening in branches in other countries. This indicates that banks have failed in their key AML functions. The amount of money flowing through these financial institutions varies, but in the Nordic cases the suspected amounts run from hundreds of millions of euros to up to billions.

As mentioned, the case where Icelandic fishing company Samherji was suspected of paying bribes in Nigeria was also connected to a Nordic financial institution, because the money was handled by Norwegian bank DNB.<sup>161</sup> Danish financial institutions Danske Bank and Nordea Denmark were reported to be involved in global corruption and bribery scandals, with more than €200 billion in suspicious transactions reportedly passing through their banks in several countries, leading to investigations in a number of jurisdictions.<sup>162</sup> Swedbank has been under investigation related to suspected money laundering through its accounts.<sup>163</sup>

The Nordic cases regarding financial institutions reveal that banks have failed to know their customers and the source of funds flowing through their accounts, and to monitor the actions of their branches in other countries. What connects financial institutions AML and anti-corruption work to that of other businesses is the need to use rigorous customer due diligence procedures. In addition, the monitoring of PEPs must be highlighted in the financial institutions' AML work.

In general, the benefits in Nordic cases are quite typical to business bribery presented in the literature review. Bribery is used to gain or maintain contracts. The person receiving the bribe is usually a person of power such as a foreign official linked to government or a member of their family.

## Businesses with international business transactions

As a conclusion to the Nordic cases, we present some notions of what companies can do to prevent bribery or money laundering in their business transactions. Since financial institutions have clear AML functions and work very differently compared to businesses in other industries, they are handled separately. In this listing, we use the book by Loughman & Sibery in which they have presented, for instance, how companies can detect red flags.<sup>164</sup>

Loughman & Sibery have specified red flags and risks in different geographical areas. As noted in the cases, Nordic countries have had suspected bribery take place around the world. The table below shows the recognisable indicators and risks of bribery in different geographic areas. Gifts, leisure activities or corporate entertainment, personal connections and questionable invoices are examples of red flags tied to several regions.

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<sup>161</sup> Transparency International – Progress Report 2020, 92-93.

<sup>162</sup> Transparency International – Progress Report 2020, 55.

<sup>163</sup> Transparency International – Progress Report 2020, 111.

<sup>164</sup> Loughman & Sibery 2011, 295.

Table 11. Bribery and corruption risks in different areas<sup>165</sup>

Area	Region specific red flags or corruption risks
Asia-Pacific	Cultural practices regarding non-business activities Bribing of customs officials
Europe	Use of intermediaries Abuse of off-set agreements Corporate entertainment
India & South Asia	Purchase of unnecessary items due e.g. hidden ownership interests Connections between bidders or agents Pressure to select a certain agent or contractor Questionable invoices Bribe extortion
Middle East	The provision of gifts and kickbacks Conflicts of interest Little or no DD on suppliers and agents Lack of clear guidance within organizations on acceptable or unacceptable business practices Facilitation type payments (e.g. in issues like obtaining visas)
Africa	Pressure to select a certain supplier or contractor Questionable invoices Informal payments Use of intermediaries (e.g. unnecessary use of agents, brokers, or facilitators) Petty corruption in areas like identification books, marriage or birth certificates, driving licenses
Latin America	Gifts or benefits in relation to land development and appropriation Complex bureaucratic procedures and regulations Use of intermediaries

Since the use of intermediaries, such as consultants, is quite prevalent in business negotiations in many parts of the world, it is important for businesses to apply thorough due diligence practices regarding any third parties, with an emphasis on third-party training and certifications.<sup>166</sup>

To mitigate risks regarding foreign government customers, businesses should use clear and specific contract language, provide training for employees responsible for negotiations and ongoing customer interface, and apply thorough due diligence of vendors and service providers.<sup>167</sup>

To mitigate risks regarding travel, meals and expenses for foreign government officials, businesses should apply clear policies and approvals for interacting with foreign government officials and clearly defined and a documented internal approval process prior to engaging in such activity. Businesses should also provide training on who qualifies as a foreign government official and what the acceptable business practices are for interacting with them.<sup>168</sup>

<sup>165</sup> Loughman & Sibery 2011, Chapter 10.

<sup>166</sup> Examples regarding Aerospace & Defense industry: Loughman & Sibery 2011, 303-304.

<sup>167</sup> Examples regarding Aerospace & Defense and Energy industries: Loughman & Sibery 2011, 303-304, 333-334.

<sup>168</sup> Examples regarding Energy industry: Loughman & Sibery 2011, 333-334.

## 7 Conclusion

The overall goal of KORPEN is to make it easier for officials and businesses to identify the connections between bribery and money laundering and to investigate and convict cases in an international business framework, where the laundered funds originate from corrupt actions, bribery in particular. Our preliminary study provides a general overview of the connection between money laundering and corruption, a basis for more detailed analysis and information to benefit the second stage of our research project.

In this preliminary study, we first searched for a connection between bribery and money laundering in an international business framework and the nature of it from the research literature, international evaluations and statistical data. Second, we sent a survey to Nordic FIUs in order to obtain an overview of, for example, their efforts in combatting the laundering of possible corruptive funds, and functions regarding anti-corruption work, cooperation and training.

In some of the research literature, the connection between money laundering and corruption was described as very close, even symbiotic, as they tend to occur simultaneously. The reasons to launder illicit funds are firstly, to hide them from law enforcement, and secondly, to invest them and thus make them appear legitimate. Laundering can take place via deposit boxes, offshore bank accounts, investing in businesses or buying luxury items such as art, antiques or jewellery. The key function of money laundering is to conceal the actual beneficiary, and this can be achieved through the use of straw men, complicated business arrangements, investing in illegitimate businesses or using consulting companies.

Bribery as a form of corruption is easier to define and identify than other more ambiguous forms such as unethical “helping” or influencing. International business is transnational by nature, bringing together companies with different customs and practices regarding bribery. International business bribery can be used to get or maintain contracts, affect law-making or reduce import duties. Bribery can take place, for example, between two companies but also between private business and foreign public officials. Third parties and legitimate business structures or actions can be used in corruption or bribery to make them appear like normal business transactions.

Nordic countries are viewed as countries with generally low levels of petty corruption such as bribery, whereas old boy’s networks, nepotism, conflicts of interest as well as other structural forms of corruption are more relevant in the Nordic context. Yet it seems that business bribery and other forms of corruption do take place in the Nordic countries as well (see Figure 3). The assessed country evaluations have highlighted several shortcomings within the Nordic countries’ corruption prevention regimes and recommend improvement in national policies such as the regulation of the use of third parties and the protection of whistle-blowers.

In recent years, there have been an increasing number of corruption cases involving extensive bribery practices in international business transactions with the participation of Nordic countries. The industries with the most cases regarding Nordic companies or connections to Nordic countries were telecommunications, defence, transportation and finance (banking). All these are high-volume, high-profile industries with massive financial flows and contracts. In these kinds of international cases, investigations are long and difficult, with relatively few convictions to date.

Punishments, or rather the lack of them, are among the key problems the Nordic countries share. Especially in financial crime, prosecuting and sanctioning are difficult because of, for example, cash payments or the burden of proof in court. Nordic countries do not have many cases or convictions in international business bribery, which leads to questions of whether convictions are the best way to prevent and tackle bribery in the first place. FIU Finland noted in the survey that pre-trial investigations and charges pressed on suspected international business-related corruption cases have had very little success in Finnish courts, so

they suspect that this has had an impact on how actively the combatting of this kind of crime has been pursued.

Few investigations into foreign bribery, lack of resources and insufficient levels of enforcement and coordination raise concerns in international organisations and evaluations. Training and raising awareness in laundering the proceeds of the bribery of foreign public officials should be targeted. The WGB recommends taking action to detect foreign bribery through the AML system, which reflects back on STRs and thus the work of FIUs. Investigating money laundering in general is difficult because of fast transactions, complex business structures and other money laundering methods. Funds travel quickly across jurisdictions, and money can be located in tax havens or layered in multiple ways to conceal the illegal origins. Investigating between several countries is difficult as well.

### **AML and FIUs role in combatting corruption**

Anti-corruption and AML strategies include the shared objective of international cooperation in targeting criminals and the proceeds of crime.<sup>169</sup> AML systems could be of use in countering corruption because countries have systematically reviewed and improved their AML systems to enable the successful investigation, prosecution and sentencing of money laundering offences. AML components are viewed as possibly benefiting the combatting of corruption, because they already include mechanisms such as gathering a great deal of financial intelligence, strong legal instruments such as the confiscation of criminal proceeds, and international cooperation for tracing financial crime (see Figure 2).

National and international information-sharing is a key aspect of AML and anti-corruption work, and the establishment of central data registries has been suggested. The capacity of financial institutions to identify natural persons has been noticed and could be of use in identifying and combatting corruption. There has been some criticism of AML methods as being expensive and ineffective, and suggestions of focusing instead on the use of anti-bribery incentives and punishments.

Transparency and tracking the origins of funds are at the core of a successful AML system. Other examples of strong AML functions include customer due diligence and beneficial ownership registries, as mentioned in the Transparency International's 2020 report. These boil down to the obliged entities' capacity to identify suspicious transactions. Other important mechanisms to counter corruption include confiscation without conviction and efficient information sharing between FIUs.

FATF has highlighted the difference within Sweden's anti-corruption regime compared to other Nordic countries. Whereas in other Nordic countries FIUs can potentially play a central role in identifying corruption in money laundering, in Sweden, corruption and associated money laundering offences are investigated mainly by the National Anti-Corruption Unit, functioning within the Swedish Prosecution Authority.<sup>170</sup> This can perhaps explain partly why Swedish FIU did not see it as meaningful to participate in the survey.

According to the survey we conducted for the Nordic FIUs, it seems that cooperation between obliged entities and FIUs and the quality of STRs are key to combatting the money laundering of illicit funds. The FIUs' work starts from the STRs, and the quantity and quality of these are core elements in identifying and later investigating corruption by the police. FIUs are able to run searches and sort out the STRs with indications of corruption. They would also benefit from indicators, that would specify bribery in money laundering schemes.

The OECD ABC and other international instruments are sending a clear message that the previous norms on corruption in international business have changed. Legal risk has been accompanied by reputational risk.<sup>171</sup> Still, the fight against bribe-giving and corruption needs to be continued to send a clear message

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<sup>169</sup> Chaikin & Sharman 2009, 125.

<sup>170</sup> FATF MER Sweden 2017, 189.

<sup>171</sup> Dávid-Barrett 2014.

that bribery will not be tolerated. To ensure this, the legal framework in many countries needs to be strengthened. There is also need for political will. Enacting national laws accompanied by vigorous transnational enforcement is needed.<sup>172</sup> It has been argued, that corruption should be included in the central mandate of the World Bank and IMF, because of the oversight institutions' ability to regulate corruption on a national level. Locally, AML and anti-corruption information-sharing should be more effective, and should be treated with equally serious magnitude.<sup>173</sup>

### **What is next?**

In the second stage of our project, the aim is to utilise the findings of this research, widen our scope and deepen the analysis. We plan on widening our perspective from FIUs to obliged entities, company compliance and supervisors' capacities. Based on the survey results in this report, it seems especially important to map out obliged entities' abilities and capacities regarding identifying bribery or corruption-related money laundering cases among their customers, because they may lack the ability to assess customer risks and identify corruptive business transactions, so may benefit from training in this area. It might be important to gather more information on FIUs as well.

Besides survey data and reporting, we will complete the descriptions of central coordinative anti-corruption actors. The connection between money laundering and corruption will be specified in the Nordic context, and challenges in the national framework will be researched thoroughly by assessing the GRECO and OECD evaluation reports on corruption and the international business framework in Nordic countries.

Eventually, examples of possible technological methods for analysing big data and possible risk indicators will be mapped out to identify bribery in international business in the Nordic countries. Descriptions of the Nordic AML and anti-corruption systems and a summary of good practices in identifying the money laundering of funds originating from bribery in international business will be finalised, and the final results will be made available in early 2022.

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<sup>172</sup> Sanyal & Samanta 2011, 162.

<sup>173</sup> Mugarura 2016, 84, 85.

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# Annexes

Annex Table 1. Distinctions between different types of corruption<sup>174</sup>

<b>Petty corruption</b>	<b>Grand corruption</b>
<ul style="list-style-type: none"> <li>- Government officials require the payment of small gifts in order to do their job in a timely manner (grease money)</li> <li>- The company is merely accelerating an event which would happen anyway</li> </ul>	<ul style="list-style-type: none"> <li>- Government officials or politicians give a company a benefit only if the company pays a bribe</li> <li>- The company is ensuring that an event happens when it would otherwise not</li> </ul>
<b>Pervasive corruption</b>	<b>Arbitrary corruption</b>
<ul style="list-style-type: none"> <li>- The manager faces a request for a bribe every time he or she has to deal with government officials</li> </ul>	<ul style="list-style-type: none"> <li>- The manager faces uncertainty regarding the existence and type of a bribe when she or he interacts with government officials</li> </ul>
<b>Organized corruption</b>	<b>Disorganized corruption</b>
<ul style="list-style-type: none"> <li>- Coordination among the government officials who request a bribe</li> <li>- Once the manager has paid a bribe, he or she will not be asked for additional payments</li> </ul>	<ul style="list-style-type: none"> <li>- There is no coordination</li> <li>- The payment of a bribe to one government official does not prevent another government official from asking for an additional bribe for the same service</li> </ul>
<b>Corruption with theft</b>	<b>Corruption without theft</b>
<ul style="list-style-type: none"> <li>- The government official keeps the bribe as well as the payment to the government (i.e. permit fees, taxes)</li> </ul>	<ul style="list-style-type: none"> <li>- The government official only keeps the bribe and transfers the payment to the government</li> </ul>
<b>Corruption to deviate from the application of rules or laws</b>	<b>Corruption to change existing rules or laws</b>
<ul style="list-style-type: none"> <li>- The payment of the bribe is done to ensure that current regulation is applied differently from its original intention</li> </ul>	<ul style="list-style-type: none"> <li>- The payment of the bribe is done to replace current rules with new ones</li> </ul>

Annex Table 2. OECD ABC ratification and implementation

<b>OECD Anti-Bribery Convention</b>			
	Deposit of instrument of ratification	Entry into force of the Convention	Entry into force of implementing legislation
Denmark	5 September 2000	4 November 2000	1 May 2000
Finland	10 December 1998	15 February 1999	1 January 1999
Iceland	17 August 1998	15 February 1999	30 December 1998
Norway	18 December 1998	16 February 1999	1 January 1999
Sweden	8 June 1999	7 August 1999	1 July 1999

<sup>174</sup> Cuervo-Cazurra 2016, 37.

Annex Table 3. GRECO evaluation rounds<sup>175</sup>

<b>Evaluation round (launched)</b>	<b>Examines</b>
<b>I (1st January 2000)</b>	<ul style="list-style-type: none"> <li>- independence, specialization and means available to national bodies engaged in the prevention and fight against corruption</li> <li>- extent and scope of immunities</li> </ul>
<b>II (1st January 2003)</b>	<ul style="list-style-type: none"> <li>- identification, seizure and confiscation of corruption proceeds</li> <li>- public administration and corruption (auditing systems; conflicts of interest)</li> <li>- prevention of legal persons being used as shields for corruption</li> <li>- tax and financial legislation to counter corruption</li> <li>- links between corruption, organized crime and money laundering</li> </ul>
<b>III (1st January 2007)</b>	<ul style="list-style-type: none"> <li>- incriminations provided for in the Criminal Law Convention on Corruption (ETS 173), its Additional Protocol (ETS 191) and Guiding Principle 2 (GPC 2)</li> <li>- transparency of Party Funding with reference to the Recommendation of the Committee of Ministers to member states on common rules against corruption in the funding of political parties and electoral campaigns (Rec (2003) 4)</li> </ul>
<b>IV (1st January 2012)</b>	<p>Prevention of corruption in respect of members of parliament, judges and prosecutors</p> <ul style="list-style-type: none"> <li>- ethical principles and rules of conduct</li> <li>- conflict of interest</li> <li>- prohibition or restriction of certain activities</li> <li>- declaration of assets, income, liabilities and interests</li> <li>- enforcement of the rules regarding conflicts of interest</li> <li>- awareness</li> </ul>
<b>V (20 March 2017)</b>	<p>Preventing corruption and promoting integrity in central governments (top executive functions) and law enforcement agencies</p> <ul style="list-style-type: none"> <li>- ethical principles and rules of conduct</li> <li>- conflict of interest</li> <li>- prohibition or restriction of certain activities</li> <li>- declaration of assets, income, liabilities and interests</li> <li>- enforcement of the rules regarding conflicts of interest awareness</li> </ul>

Annex Table 4. Phases of country monitoring of the OECD Anti-Bribery Convention<sup>176</sup>

<b>Phase</b>	<b>Focus</b>
Phase 1	The adequacy of a country's legal framework to fight foreign bribery and implement the Convention.
Phase 2	Assessing whether a country is applying this legislation in practice.
Phase 3	Enforcement and cross-cutting issues, and unimplemented recommendations from Phase 2.
Phase 4	Enforcement and cross-cutting issues tailored to specific country needs, and unimplemented recommendations from Phase 3.

<sup>175</sup> Council of Europe: Evaluations. Retrieved from [https://www.coe.int/en/web/greco/evaluations#%2222359946%22:\[0\]](https://www.coe.int/en/web/greco/evaluations#%2222359946%22:[0]). Cited 19.1.2021.

<sup>176</sup> OECD, Country monitoring of the OECD Anti-Bribery Convention. Retrieved from <https://www.oecd.org/corruption/countrymonitoringoftheoecdanti-briberyconvention.htm>. Cited 17.12.2020.

Annex Table 5. The latest OECD reports<sup>177</sup>

Country	OECD latest reports
Denmark	2015 Follow-up Report to Phase 3 Evaluation; 2013 Phase 3 Report
Finland	2020 Additional Written Follow-up Report to Phase 4 Report 2019 Follow-up to Phase 4 report; 2017 Phase 4 Report
Iceland	2020 Phase 4 Report 2018 Additional Follow-up to Phase 3 Report; 2018 Additional Follow-up to Phase 3 Report; 2013 Follow-up on Phase 3 Report 2010 Phase 3 Report
Norway	2020 Follow-up to Phase 4 report; 2018 Phase 4 report
Sweden	2014 Follow-up on Phase 3 report; 2012 Phase 3 report

Annex Table 6. Enforcement calculation example for a country with 1 % share of world exports.

Enforcement categories	1 % share of global export
Active enforcement	40 points
Moderate enforcement	20 points
Limited enforcement	10 points
Little or no enforcement	<10 points

<sup>177</sup> OECD: Country reports on the implementation of the OECD Anti-Bribery Convention. Retrieved from <https://www.oecd.org/investment/countryreports/ontheimplementationoftheoecdanti-briberyconvention.htm>. Cited 20.1.2021.

Annex Table 7. Transparency International Enforcement Recommendations<sup>178</sup>

Country	Recommendations
<b>Denmark</b>	<ul style="list-style-type: none"> <li>● Improve transparency of enforcement information concerning foreign bribery</li> <li>● Formulate an overall strategy, an action plan and a monitoring framework for more effective implementation of legislation related to combatting bribery of foreign officials</li> <li>● Adopt holistic whistle-blower protection legislation which covers both EU and non-EU regulated policy areas</li> <li>● Extend foreign bribery legislation to cover Greenland and the Faroe Islands</li> <li>● Establish a permanent structure within the national authorities to act as the lead institution for implementing this strategy</li> <li>● Impose significantly higher fines on companies for bribery and introduce other sanctions for natural and legal persons, such as debarment</li> <li>● Allocate significantly more human and financial resources to investigation and prosecution of bribery of foreign public officials</li> <li>● Ensure that the police and SØIK have the necessary tools and methods to investigate and prosecute foreign bribery, including, if necessary, to raise the level of penalty to allow the use of special investigative techniques, such as office and home searches</li> <li>● Ensure that the Danish Development Finance Institution has effective and transparent anti-corruption compliance procedures and practices</li> <li>● Ensure effective supervision and the enforcement of the anti-money laundering framework.</li> </ul>
<b>Finland</b>	<ul style="list-style-type: none"> <li>● Publish statistics on foreign bribery investigations, cases commenced or cases concluded</li> <li>● Make the Beneficial Ownership Register publicly available</li> <li>● Increase the maximum penalty for corporate crime</li> <li>● Introduce legislation and establish whistleblowing channels consistent with the EU Directive ● Increase resources for enforcement authorities to conduct foreign bribery investigations</li> <li>● Provide training to law enforcement officials and the judiciary on the foreign bribery offence and its application, and consider assigning foreign bribery cases to courts or judges with specialized skills and experience</li> <li>● Raise awareness of foreign bribery laws among exporting companies.</li> </ul>
<b>Norway</b>	<ul style="list-style-type: none"> <li>● Improve data collection and publish statistics on foreign bribery enforcement</li> <li>● Fully establish the central register of beneficial ownership information</li> <li>● Approve legislation further cementing the liability of companies for the offences committed by intermediaries</li> <li>● Improve the system for non-trial resolution of bribery cases</li> <li>● Improve coordination among law enforcement authorities, including the Financial Intelligence Unit, to fully engage and use all available resources, including intelligence, against foreign bribery</li> <li>● Provide better information on how penalties (fines) are calculated.</li> </ul>
<b>Sweden</b>	<ul style="list-style-type: none"> <li>● Establish a comprehensive database of statistics on foreign bribery investigations and other information on foreign bribery cases, in order to enhance information accessibility</li> <li>● Introduce a legal framework for settlements and plea bargaining, as a channel to hold companies to account for wrongdoing and resolve foreign bribery cases without resorting to a full trial or administrative proceeding</li> <li>● Strengthen the Whistleblowing Act to include protection of the whistle-blower's identity and requiring employers to facilitate the reporting of misconduct</li> <li>● Review the provisions on dual criminality</li> <li>● Develop provisions requiring companies to take preventive measures, with a view to achieving modern and effective bribery legislation, including enacting a new law on liability for legal persons.</li> </ul>

<sup>178</sup> Transparency International – Progress Report 2020.