FALCON

Fighting Corruption
& Organised Crime

High-level Corruption: an Analysis of Schemes, Costs and of Policy Recommendations

Policy Brief of Project FALCON

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Introduction

- Corruption is a complex and multifaced phenomenon, often defined broadly as "**the misuse of public office for private gain**" [1]. Despite the absence of consensus on its definition [2,3], scholars, practitioners, and policymakers acknowledge corruption as a longstanding issue heavily affecting nations around the world [3]. Its negative impacts are extensive, undermining civil, political, economic, social, and cultural rights [4].

- The **FALCON Project** is a three-year Horizon Europe research project which will develop new data-driven indicators and tools to strengthen the global fight against corruption by following an evidence-based, multi-actor and interdisciplinary approach.

- Specifically, FALCON covers four corruption domains:

1.	**2.**	**3.**	**4.**
Corruption and fraud in public procurement	**Border corruption**	**Circumvention of sanctions by "kleptocrats" and oligarchs**	**Other high-level corruption cases [18]**
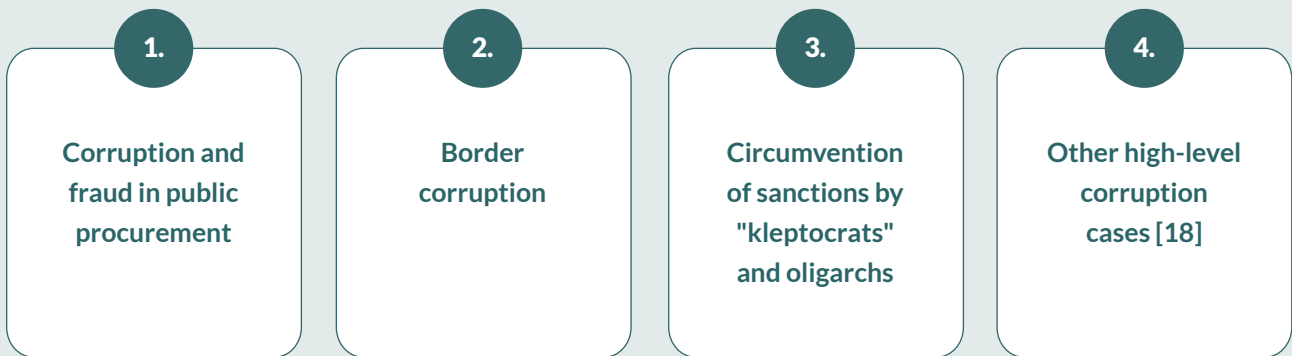
- This Policy Brief summarizes the main results of the analysis carried out on these four corruption domains under Work Package 2 of the FALCON Project. The document is structured as follows:

1. <u>Section 1</u> provides the results of the analysis of **corruption schemes and** *modi operandi* (specifically related to FALCON Deliverables D2.1 and D2.4)

3. <u>Section 3</u> highlights examples of **costs and impact** of corruption behaviors (re. <u>Deliverable D2.3</u>)
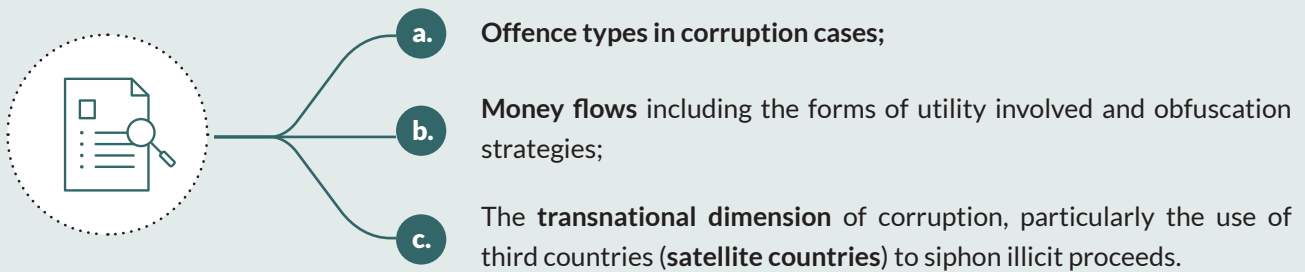
2. <u>Section 2</u> presents a selection of **corruption risk indicators** across domains and assets (re. <u>Deliverable D2.2</u>)

4. <u>Section 4</u> provides **policy recommendations** to improve the detection and prevention of corruption cases (re. <u>Deliverable D2.5</u>)

1. Analysis of Corruption Schemes and *Modi Operandi*

- The analysis of corruption schemes and *modi operandi* employed a **mixed method approach** encompassing (i) desk review of scientific and grey literature, (ii) analysis of case studies, (iii) interviews with selected stakeholders.

- In particular, an analysis of **63 corruption case studies** was carried out based on a purposive sampling of online open-source judicial documents and media news, covering more than 40 countries across the five continents.

- The case study analysis focused on three main aspects:

  a. **Offence types in corruption cases;**

  b. **Money flows** including the forms of utility involved and obfuscation strategies;

  c. The **transnational dimension** of corruption, particularly the use of third countries (**satellite countries**) to siphon illicit proceeds.

Offence types in corruption cases

Corruption takes place in a variety of forms, which often **co-occur simultaneously**.

- **Bribery [19]** emerges as the most prevalent offence across the domains, with high rates in border corruption (**89%**) and public procurement cases (**67%**).

- **Misappropriation, embezzlement, and fraud to divert funds [20]** are the prevalent offences in public procurement and other high-level corruption ones.

- **Document forgery and fraudulent transfer of assets** are the most common illicit practices in sanction circumvention cases.

Figure 1: Offence types, per corruption domain

	Corruption in public procurement (N=15)	Border corruption (N=19)	Sanction circumvention (N=15)	High-level corruption (others) (N=14)	All (N=63)
Misappropriation, embezzlement, and fraud to divert funds	80%	16%	7%	71%	40%
Bribery	67%	89%		36%	52%
Document forgery and fraudulent transfer of assets			100%		24%
Extortion	7%	16%		14%	10%
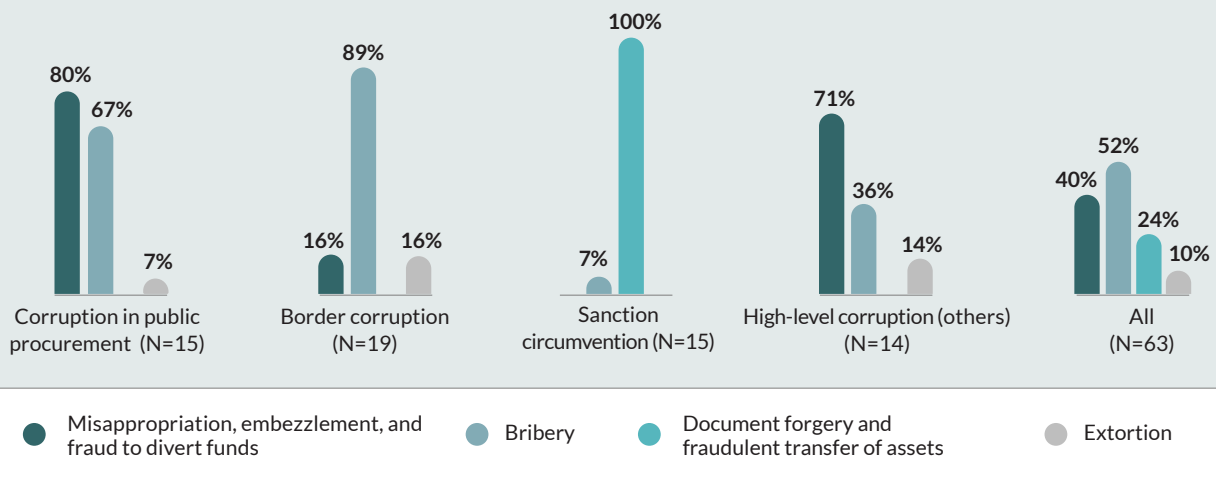
Corruption money flows

Two main steams of money can be identified, which in corruption cases often overlap and employ the same channels and methods:

Money dirtying

aimed at moving the money from the corruptor to the beneficiary (e.g., the payment of a bribe to a public official).

Money laundering

related to the laundering of corruption proceeds (e.g., the laundering of a bribe by a public official).

Forms of utility

Cash

is the predominant form of exchange and facilitation payments in border corruption (84%).

Banking transactions

including checks and wire transfer, are the most prevalent in the other domains.

Methods to conceal beneficiaries

Legal businesses and corporate structures

including legal arrangements, are the most frequently employed concealment methods (59% of cases), in particular in public procurement (87%) and sanction circumvention (93%) cases. In the latter, front companies are used frequently.

Such methods are often combined with the use of **high-risk or third jurisdictions** (48% of total cases), **offshore accounts** (41% of total cases), and of **professionals** and **facilitators** networks, including family members and close associates (35% of total cases).
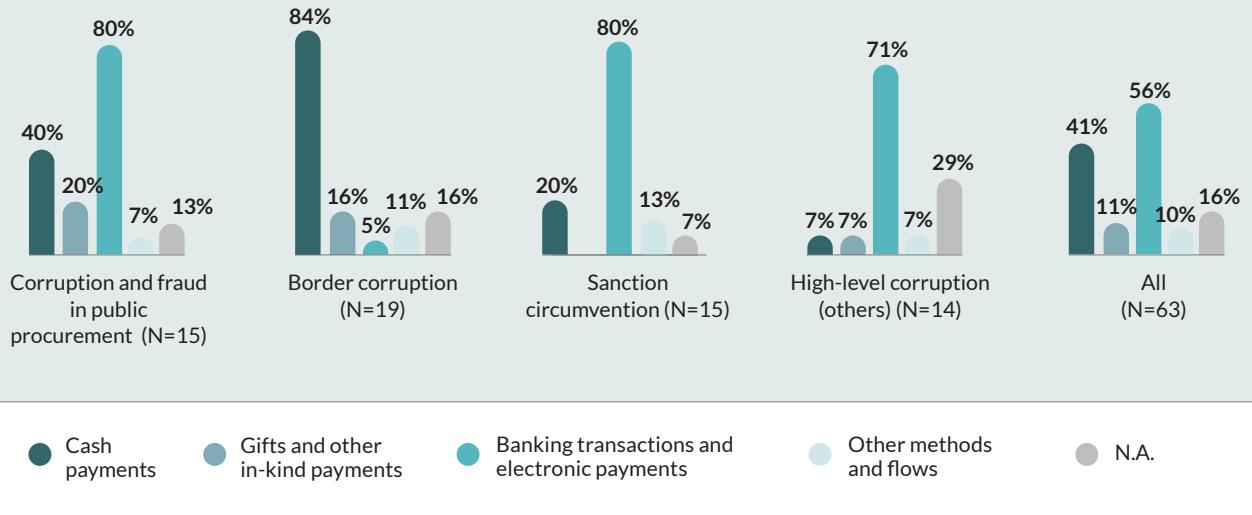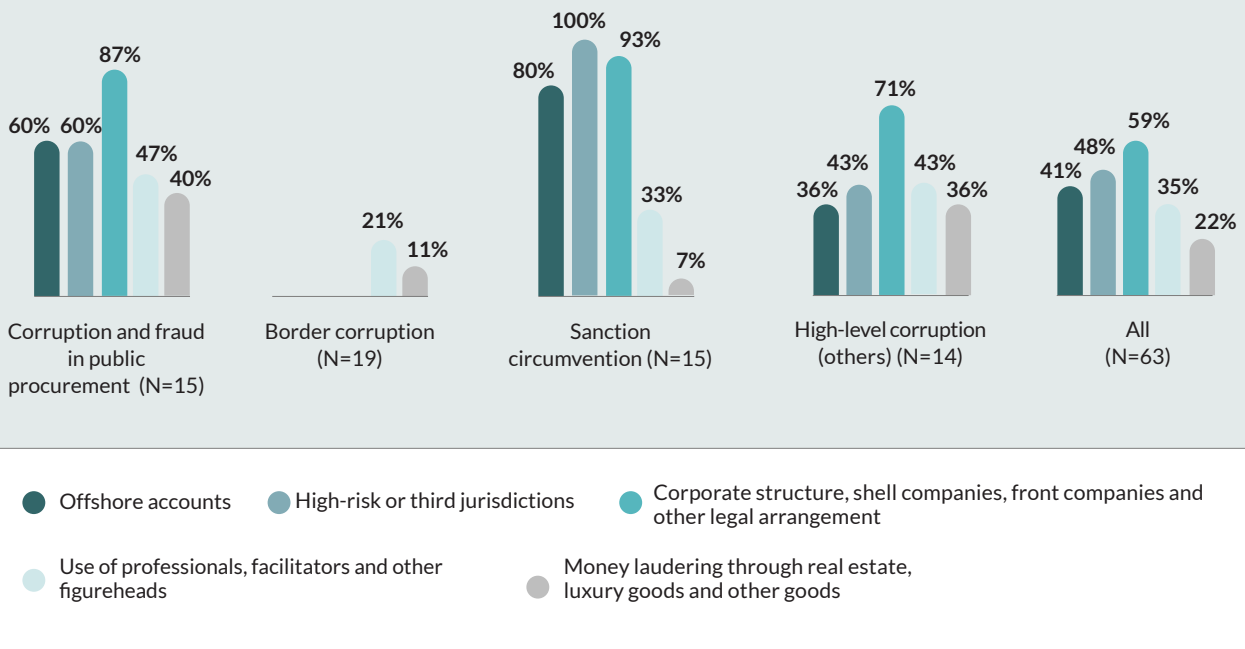
Figure 2: Forms of utility, per corruption domain

Corruption and fraud in public procurement (N=15): Cash payments 40%, Gifts and other in-kind payments 20%, Banking transactions and electronic payments 80%, Other methods and flows 7%, N.A. 13%

Border corruption (N=19): Cash payments 84%, Gifts and other in-kind payments 16%, Banking transactions and electronic payments 5%, Other methods and flows 11%, N.A. 16%

Sanction circumvention (N=15): Cash payments 20%, Banking transactions and electronic payments 80%, Other methods and flows 13%, N.A. 7%

High-level corruption (others) (N=14): Cash payments 7%, Gifts and other in-kind payments 7%, Banking transactions and electronic payments 71%, Other methods and flows 7%, N.A. 29%

All (N=63): Cash payments 41%, Gifts and other in-kind payments 11%, Banking transactions and electronic payments 56%, Other methods and flows 10%, N.A. 16%

Legend:
- Cash payments
- Gifts and other in-kind payments
- Banking transactions and electronic payments
- Other methods and flows
- N.A.

Figure 3: Methods to conceal beneficiaries, per corruption domain

Corruption and fraud in public procurement (N=15): Offshore accounts 60%, High-risk or third jurisdictions 60%, Corporate structure, shell companies, front companies and other legal arrangement 87%, Use of professionals, facilitators and other figureheads 47%, Money laudering through real estate, luxury goods and other goods 40%

Border corruption (N=19): Use of professionals, facilitators and other figureheads 21%, Money laudering through real estate, luxury goods and other goods 11%

Sanction circumvention (N=15): Offshore accounts 80%, High-risk or third jurisdictions 100%, Corporate structure, shell companies, front companies and other legal arrangement 93%, Use of professionals, facilitators and other figureheads 33%, Money laudering through real estate, luxury goods and other goods 7%

High-level corruption (others) (N=14): Offshore accounts 36%, High-risk or third jurisdictions 43%, Corporate structure, shell companies, front companies and other legal arrangement 71%, Use of professionals, facilitators and other figureheads 43%, Money laudering through real estate, luxury goods and other goods 36%

All (N=63): Offshore accounts 41%, High-risk or third jurisdictions 48%, Corporate structure, shell companies, front companies and other legal arrangement 59%, Use of professionals, facilitators and other figureheads 35%, Money laudering through real estate, luxury goods and other goods 22%

Legend:
- Offshore accounts
- High-risk or third jurisdictions
- Corporate structure, shell companies, front companies and other legal arrangement
- Use of professionals, facilitators and other figureheads
- Money laudering through real estate, luxury goods and other goods

Transnationality of corruption

- Corruption frequently **transcends national borders**, either due to its intrinsic nature, as in border corruption, or due to the complex money dirtying and money laundering schemes employed.

- Satellite jurisdictions [21] are frequently used in corruption money flows. Excluding border corruption, **almost 3 satellite jurisdictions** are employed on average per each case (Figure 4).

- These jurisdictions are primarily used for registering **corporate vehicles**, setting up **bank accounts**, and purchasing **real estate** and other **luxury goods**.

- Most frequently involved satellites among analyzed cases include Switzerland, the United States, the British Virgin Islands, United Arab Emirates, and the United Kingdom. United Arab Emirates, Turkey and Hong Kong also emerge in sanction circumvention cases.

- This list of countries is not necessarily representative of the universe of corruption cases, as it may be the result of **sample selection biases**.

- However, it already suggests the role of **developed countries** as key enablers in corruption schemes, providing politically stable, wealthy, low-corruption environments with often high corporate secrecy that facilitate the concealment and movement of corruption funds [5–7] (Figure 5).

- The choice of satellite countries also depends on the **proximity** to where the corrupt act takes place (Figure 5).

Figure 4: Average number of countries involved, by corruption domain
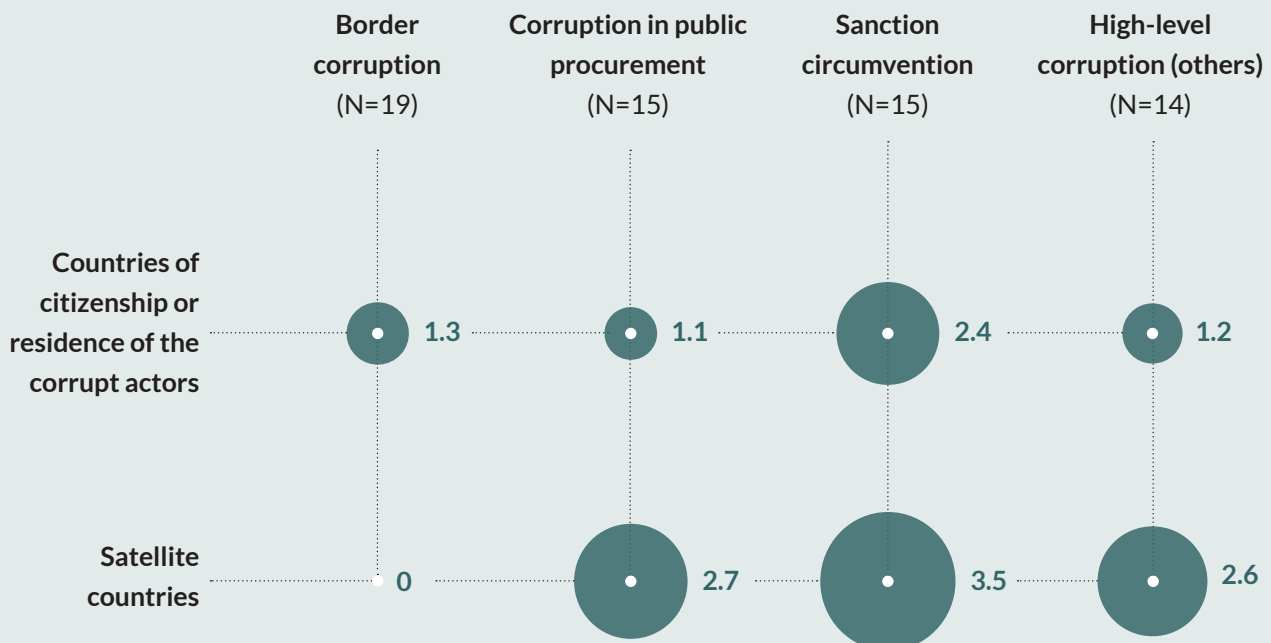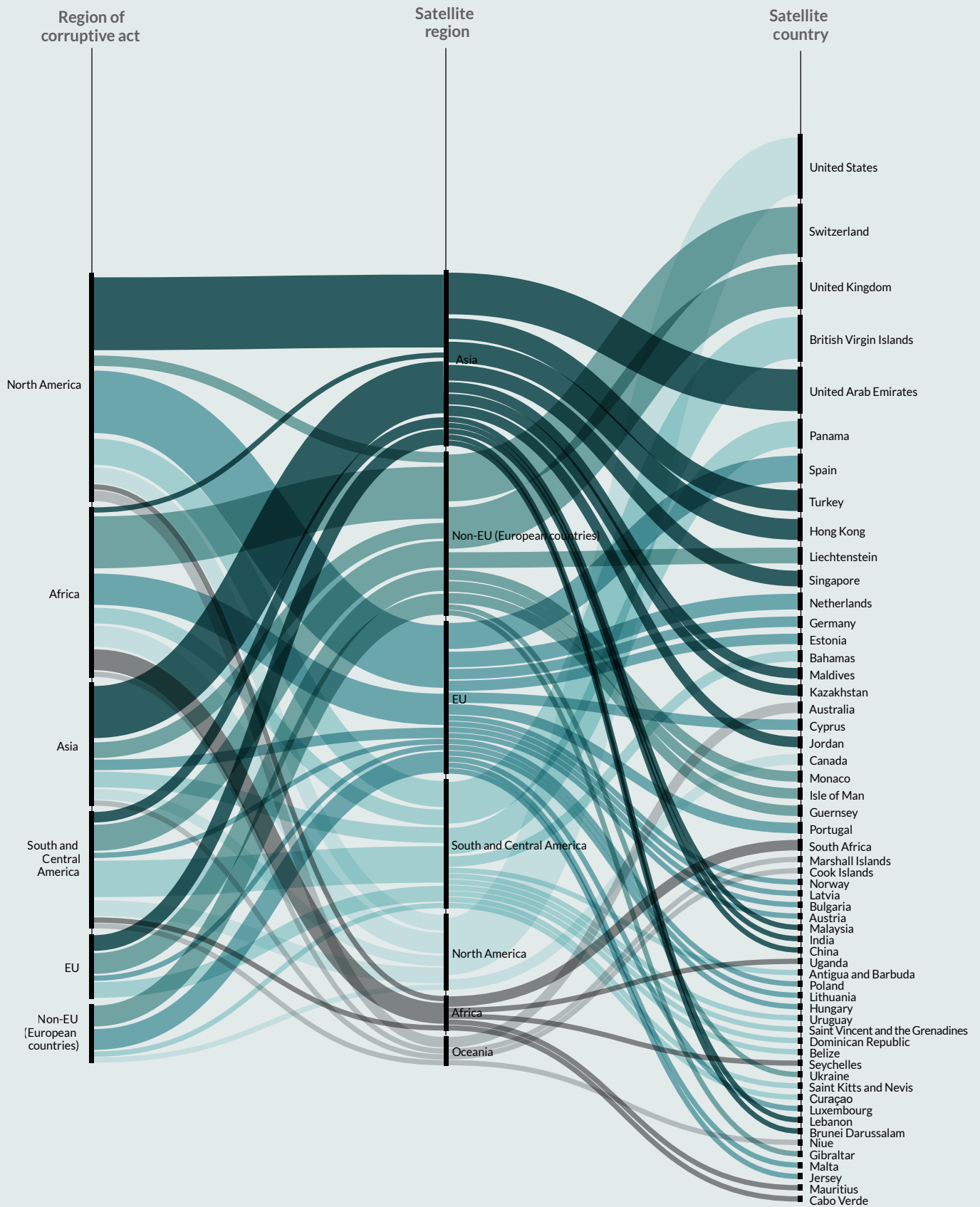
Figure 5: Countries in which the corrupt act occurred (continent level) and satellite jurisdictions - excluding border corruption

2. Corruption Risk Indicators

From raw data to risk indicators

- Corruption is a multifaceted phenomenon and measuring it requires a **variety of data sources and measurement approaches** [8,9]. Direct corruption measures – e.g. based on observed cases – are often not representative and not always meaningful.

- High-quality **administrative big data** and **corporate information sets**, however, offer new ways to assess corruption risks across different domains and areas of government, and can both support ongoing investigations, generate leads for further research, and potentially prevention.

- **Red-flags** help to **identify anomalies** across various governance areas and subjects – e.g. public procurement, firms, territories – which may suggest potential corruption.
  - In public procurement risks can be measured based on data describing different **stages of the procurement process**, such as tender design, evaluation, and delivery - e.g. unusually short advertisement and award decision periods, unjustified price increase, etc. [10–12].
  - In the company space, risks can be detected by identifying anomalies in **firms' characteristics** – e.g. opaque corporate ownership structures, links to secrecy jurisdictions, unjustified financial ratios [13–15].

- Data and indicators can also be **analyzed jointly**. Combining procurement and company data revealed that contracts awarded without competition are more likely to be associated to the top 5% profitable firms in Bulgaria. Furthermore, companies with Politically Exposed Persons (PEPs) connections make it more likely that high-risk tenders are awarded at higher prices.

- The page below reports **real-life (but anonymized) examples** across three of the FALCON domains, highlighting risk factors and indicators for each of them.

Corruption in public procurement with the involvement of Politically Exposed Persons

During the Covid-19 pandemic, a **Conservative peer** in the House of Lords ensured that **Company A**, indirectly owned by her husband, secured a place in the "**VIP-lane**" – a special government mechanism designed to expedite the selection of suppliers recommended by ministers or government officials during the crisis. Throughout the summer of 2020, Company A was awarded **contracts worth £200 million** to supply the NHS amid the pandemic. Former Cabinet Office Ministers and former Health Secretaries played a role in securing contracts for Company A. To conceal the true ownership of Company A, a close associate of the couple was appointed as its **strawman director**, and the funds gained by the firm were then funnelled to **offshore trusts based in the Isle of Man**, linked to the Conservative peer and her children. The couple diverted some of the proceeds to **invest in real estate and purchase luxury items** such as a private jet and yacht for themselves and their family.
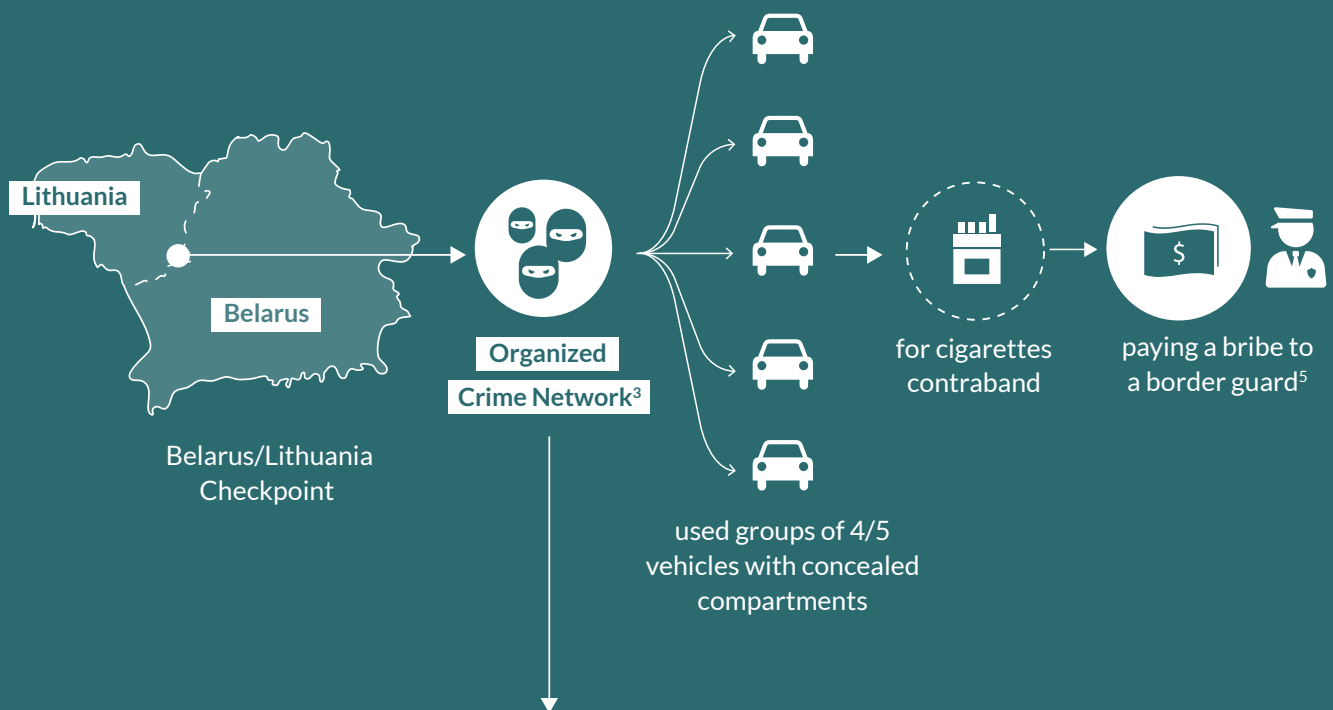
Conservative Peer[4] in
the House of Lords

Investiment in real estate and
purchase of luxury items

*Secured a
place in the...*

Strawman
Director[5,6]

Linked to...

Offshore trusts[2,3,6]
based in
the Isle of Man

Husband[4,5,6]

(close associate
of the couple)

*Indirect
Ownership of...*

VIP Lane[1]

Company A[6]

awarded contracts worth
£200 million to supply the NHS
amid the Covid pandemic
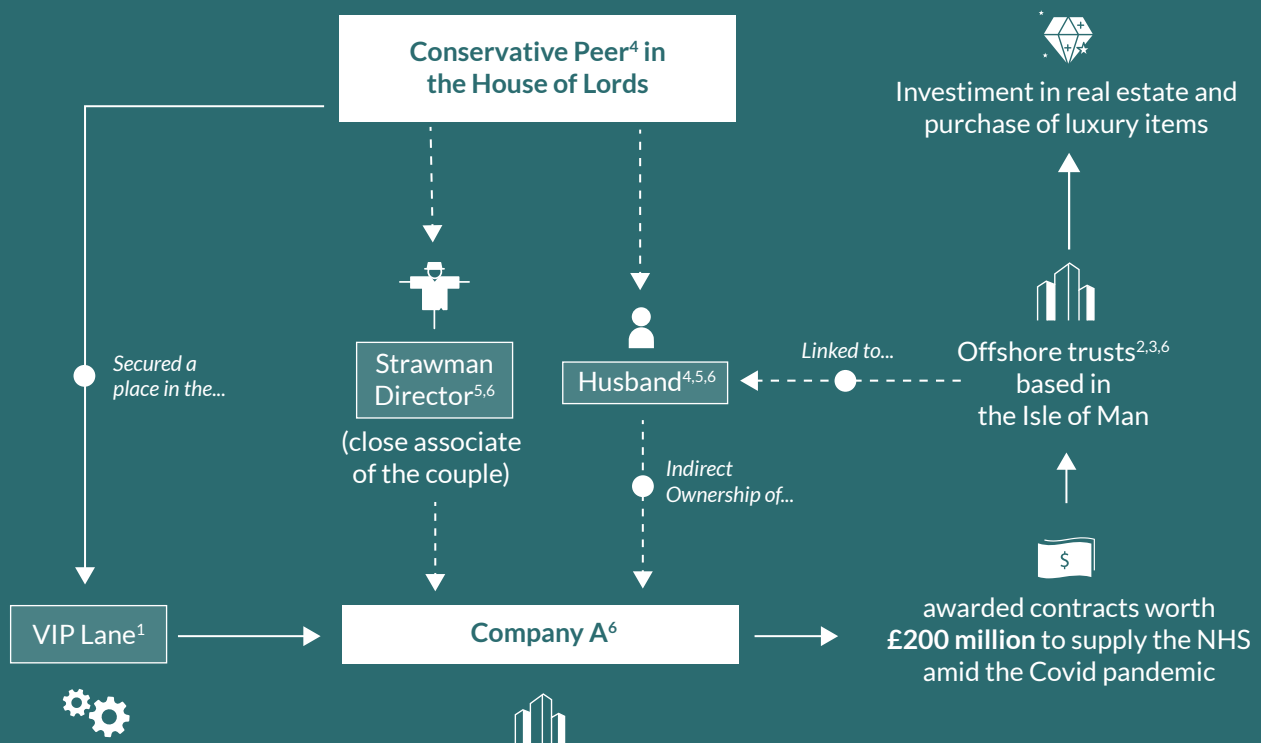
Risk Indicators

1. Emergency procedures in procurement
2. Legal arrangements and opaque vehicles
3. Offshore structures
4. Personal and political connections
5. Facilitators (family members and close associates)
6. Complex ownership structures

Border Corruption

A suspected **organized crime network** used vehicles with concealed compartments for the purpose of concealing **contraband cigarettes** across a custom **checkpoint from Belarus to Lithuania**. The network operated in groups of four to five vehicles, with each paying a **bribe to a border guard** officer or customs agent with whom they have interactions at border crossing clearance. Bribes were generally left on the seat or floor of a vehicle and then either directly taken by the officials or presented alongside the relevant documentation (passport, car registration, driving licence, etc.). Typical behaviors exhibited by these groups included the **high frequency of border crossing activities**, with members crossing the border several times within a single month, and the **very short duration of their visits**. Also, **replacement of car plates**, **fake passports** and **document forgery** are frequently employed. As a result, state border guard services face numerous challenges: the need to identify the most frequently used car models, to determine the duration of a vehicle's presence in the country, and to ascertain the frequency of border crossings by smugglers, whether individually or in groups.

Lithuania

Belarus

Belarus/Lithuania
Checkpoint

**Organized
Crime Network**[3]

used groups of 4/5
vehicles with concealed
compartments

for cigarettes
contraband

paying a bribe to
a border guard[5]

Modi Operandi

→ ┆ →   High frequency of border crossing activities[1]

🕐   Very short duration of their visits[2]

▪▪▪   Replacement of car plates[4]

◉   Fake documents

Risk Indicators

1. Frequent crossing
2. Short visit to the country
3. Collaborative crossing
4. Same car, different plates
5. Border Crossing Point clearance through a single Border Guard

Sanction Circumvention

Between 2008 and 2017, a **Russian businessman** acquired multiple **real estate properties in the United States** valued at approximately **$75 million** through two shell companies registered in **Panama** and the **Bahamas**. These shell companies were indirectly owned by the oligarch via additional shell companies based in Panama and in the British Virgin Islands. To manage these properties, the businessman employed an **attorney** who handled related payments via a **trust account**. Following the **oligarch's designation** by the US Office of Foreign Assets Control (OFAC) in 2018, payment methods were altered to bypass sanctions and maintain access to his assets. Instead of coming from the original shell companies, funds were rerouted through a **Bahamian bank account linked to a shell company owned by a friend and close associate of the oligarch**, and a Russian bank account held by a family member of this associate. Additionally, the businessman made unauthorized attempts to sell two properties, disregarding sanctions and regulatory requirements to continue deriving financial benefits from the assets.


Shell Companies[1,2]

Panama[3]

British Virgin Islands[3]

Shell Companies[1,2]

Bahamas[3]

Panama[3]

USA[3]

Russian Businessman

acquired multiple
**Real Estate Properties
$75 million**

Payments via Trust account[1]

Attorney[4]

2008/ 2017

2018

Payment methods were altered to bypass sanctions

Shell Company[1,2]
owned by a friend[4] and close associate of the oligarch
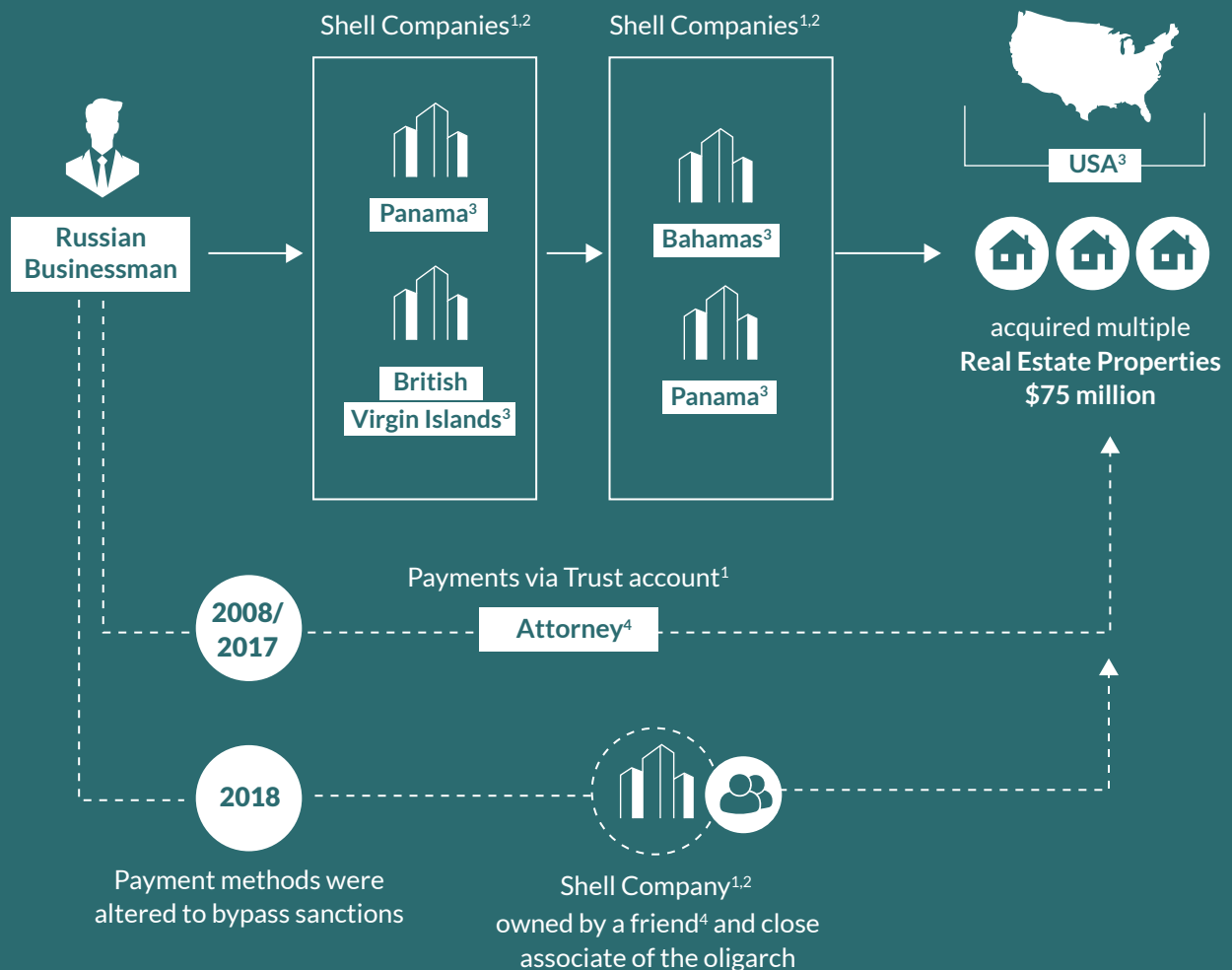
Risk Indicators

1. Complex ownership structures
2. Shell companies
3. Links with high-risk jurisdictions
4. Professionals and facilitators (close associates and family members)

Figure 6: Comparison of risk indicators in tendering practices between two Italian hospitals

Risk indicators provide an easy way to assess buyers' tendering practices and outcomes. Buyers seeking to favor certain companies often rely on risky procedures, which typically lead to limited competition—such as a high rate of single bidding (contracts awarded without competition). For example, in the comparison of two Italian hospitals below, one (Company A) saw an increase in both the share of risky procedures and contracts awarded through single bidding, while the other (Company B) experienced a decline in both indicators.
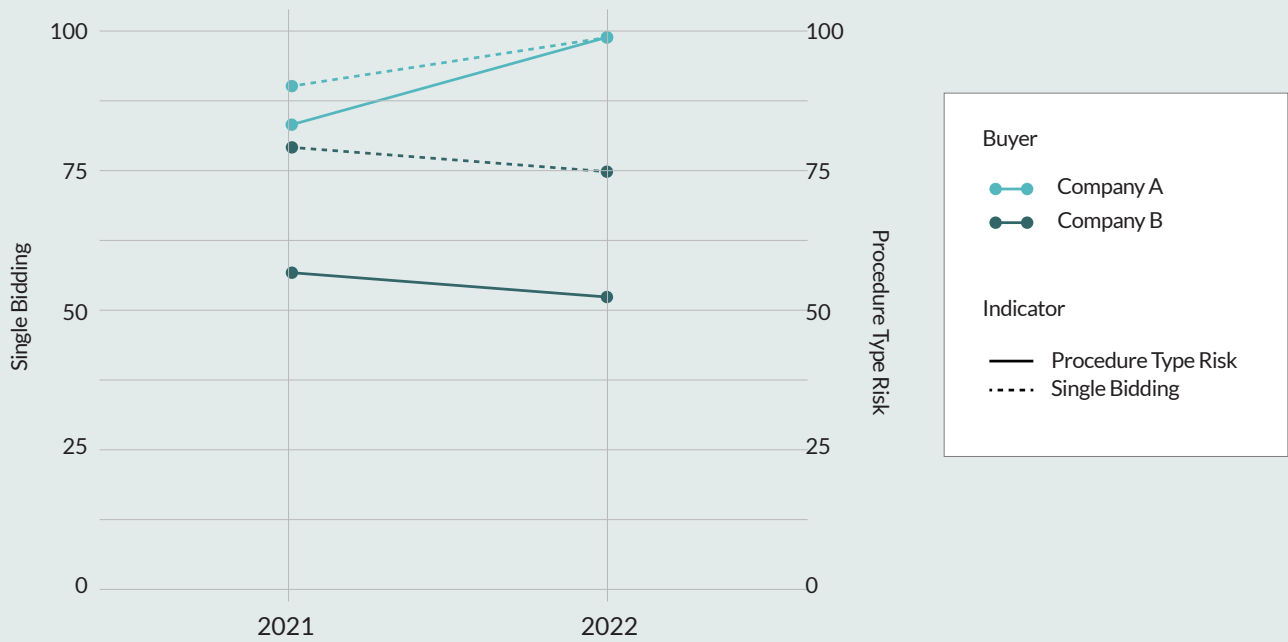
3. Consequences and Impact of Corruption

- Corruption impacts the core principles of public administration by undermining the **quality, fairness, and efficiency** of governance.

- One of its core effects is the **distortion of public resource allocation**. Corruption can divert resources from critical needs (e.g. healthcare, education) to politically motivated or rent-seeking projects (e.g. unuseful public works).

- Indirectly, it also erodes trust in **public institutions, decreases civic participation** and diminishes the perceived legitimacy of governments.

- As a result, corruption reduces **foreign direct investment** and **economic growth**, as investors perceive corrupt environments as unstable and risky.
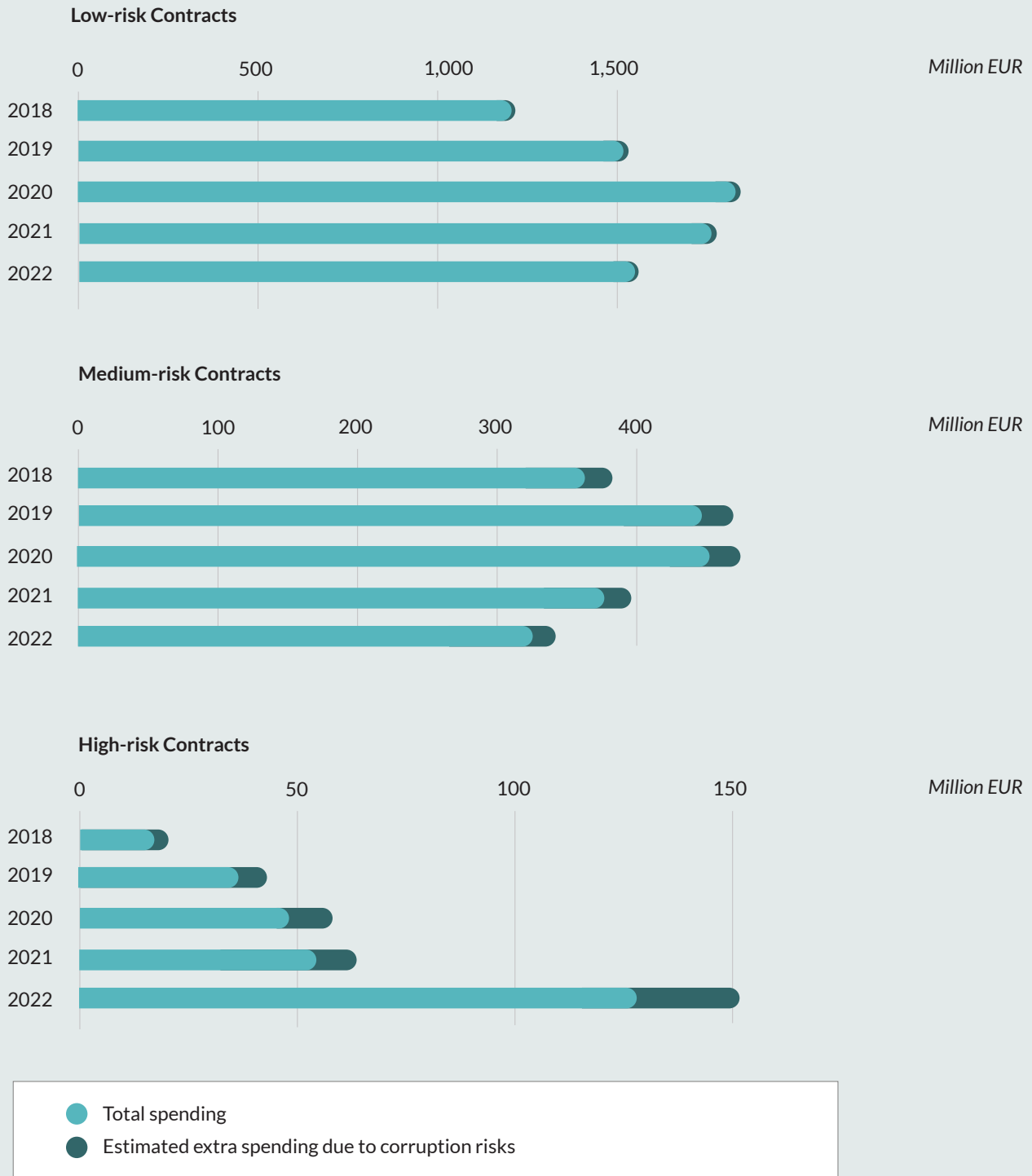
While generally negative, the impact of corruption is diverse depending on the specific corruption domain (Figure 7).

Figure 7: Impact, challenges and costs of corruption by domain

Impact of Corruption in Public Procurement

- Inflated prices of public contracts
- Reduced quality of goods and services
- Inefficient resource allocation
- Eroded trust in public institutions
- Reduced foreign investments

Challenges with Sanctions Enforcement

- Assets concealment
- Illicit trade channels maintenance
- Use of intermediary countries
- Lack of international coordination

Economic and Societal Costs of Border Corruption

- Financial losses
- Tax losses
- Inefficiencies and inflated costs for legitimate trade
- Indirect costs: broader societal impacts
  (e.g. on healthcare systems from drug trafficking)

FALCON research highlighted that, in Croatia, high-risk contracts are awarded at around 14% higher prices compared to those without any risks (see Figure 8 below). This translates to around 54 million EUR extra spending between 2018 and 2022.

Figure 8: Extra spending due to corruption risks

Low-risk Contracts

Million EUR

2018	
2019	
2020	
2021	
2022	

Medium-risk Contracts

Million EUR

2018	
2019	
2020	
2021	
2022	

High-risk Contracts

Million EUR

2018	
2019	
2020	
2021	
2022	

● Total spending
● Estimated extra spending due to corruption risks

4. Policy Recommendations

Corruption is a complex and multifaceted phenomenon which can be prevented only by employing a variety of policies and countermeasures. The results of the FALCON analyses highlight two key areas for intervention.

Improving data for anti-corruption

The lack of standardized, high-quality, and interoperable datasets across key domains of governance such as **public procurement, company ownership, and asset declarations** hinders the monitoring of public spending and the development of corruption risk indicators.

- **Data quality:** Governments should improve data collection to ensure it is topically relevant, accurate, up-to-date and reliable. For example, public procurement data should include **digitalized tender specifications**, contract modifications and payments, that are often not collected in a systemic way. In other areas, such as border spaces, video surveillance, car recognition tools, and **artificial intelligence solutions** are key to produce reliable data for risk assessment.

- **Data interoperability:** Administrative datasets should be easy to link together. For example, conflict of interest is nearly impossible to assess, if data on public contracts, companies, political administrators and interest declarations are not interconnected. **Identifiers that are unique** across different administrative datasets – such as tax IDs, tender IDs, product codes, and addresses should be standardized.

- **Data standardization:** Datasets should be presented **in machine-readable formats** to enable automated analysis and integration with advanced statistical tools. Training and **capacity-building initiatives** for users, including public officials and non-governmental stakeholders, can further improve the effective use of these datasets.

- **Data accessibility:** Data without confidential information and personal data should be easily accessible to **civil society**, **journalists** and **researchers**. Data sharing protocols should ensure access by **law enforcement agencies** (including foreign ones) to those datasets containing sensitive and personal data – e.g. real estate and company registries, beneficial ownership registers, asset declarations. **Anonymization and encryption mechanisms** should be developed to allow data processing while protecting sensitive information. To support international cooperation, the EU must promote agreements between its member states to develop data sharing mechanisms and regulations for anonymization and data protection.

Bank and social media

Despite being essential for detecting suspicious mechanisms of illicit enrichment, and despite some regulatory developments (see e.g. Centralized Bank Account Register – CBAR – Directive) banking data are often not easily accessible by LEAs and other criminal justice actors, who must obtain judicial authorization before accessing them. Similarly, data from social media (such as Facebook, Instagram, Tik Tok, LinkedIn) like contact lists, posts, videos and pictures are hard to extract even for public authorities due to the opposition of social media companies. The regulator should:

(i) define agreements with private actors, including banks, financial sector associations, and social media corporations to regulate access to these data under precise conditions;
(ii) introduce forms of public-private partnership which can facilitate data collection and extraction and generate a cooperative environment between firms and investigative authorities.

Strengthening the anti-corruption legal framework

Procedures and legal frameworks prone to corruption

- Some administrative procedures and legislative solutions are vulnerable by design to corruption, and should be limited in scope.

- For example, **negotiated procedures** without publication in **public procurement** are exposed to the discretionary powers of public officials. These processes should be limited only to emergency situations, and the latter should also be strictly defined and regulated.

- In border corruption, procedures requiring **face-to-face interaction** during customs procedures and border guards' inspections should be minimized. Procedures should be digitalized by introducing national single window systems and electronic declarations, which will guarantee higher neutrality between customs authorities and business players.

- **Crime-proofing** of the regulation can also help preventing opportunities of corruption by identifying in advance and eliminating those vulnerabilities that could be exploited by criminals and corrupt offenders.

Existing discrepancies and loopholes across EU member states

Discrepancies and loopholes between laws, regulations, and procedures across EU member states can be exploited across several **corruption domains**:

Public Procurement

- The EU Public Procurement Directive only applies to tenders above a certain value threshold, leaving space for business players to adopt circumvention strategies.

- For example, bigger projects can be split into smaller tenders to avoid transparency and apply potentially more lenient national legislation.

Conflict of Interest

- Exceptions and differences exist in the application of Conflict of Interest (COI) rules.

- Firstly, cross-border differences exist in terms of what constitutes a conflict of interest.

- Secondly, COI rules often apply to senior public officials, but in other instances they treat senior and junior officials differently.

- Asset declaration duties, which are essential for identifying COI, are inconsistent across countries. Countries vary in terms of data coverage, requirements for declaration of interests, and data publication protocols.

- E-governance mechanisms should be introduced, e.g. as it allows public officials to complete their declarations online, with prioritization mechanisms based on an evidence-based risk approach.

Sanction Circumvention

- Discrepancies across EU countries in terms of their legislation on sanction circumvention are exploited by individuals and companies to avoid sanctions.

- Systems of exemptions should be streamlined across EU MS by the European Commission.

- The management of travel bans and restrictions on bank accounts for individuals from sanctioned countries - residing in an EU country – should also be harmonized and made more consistent.

- Public awareness campaigns should recognize and foster the role of civil society actors, including investigative journalists, in identifying and reporting sanctions evasion.

Border Corruption

- Border technologies should be harmonized across EU countries and improved in terms of quality of controls and automatization.

- For example, some borders lack the digitalization of customs procedures or the installation of high-quality scanners or video surveillance systems.

- In other instances, border guards and customs officials are not equipped with the necessary technological devices and skills needed for technologically advanced inspection.

Challenges with the implementation of legal frameworks

- Challenges in implementation further weaken the effectiveness of legal frameworks. These are often due to a **lack of financial and human resources** to carry out tasks properly, and to an **unclear division of responsibilities** between public bodies and authorities. At the same time, the **lack of coordination** between public actors can lead to increased confusion, duplication and waste of resources, which can be detrimental to the effective implementation of the legal framework.

- For instance, while the EU's **legal framework for sanctions** appears robust on paper, its enforcement is often undermined by limited financial and human resources allocated to competent national authorities, which prevent a prompt investigation on mechanisms and strategies aimed at circumventing sanctions.

- Similarly, an effective implementation of the **legal frameworks for the management of border corruption** is prevented by the lack of systematic cooperation between border guards and customs agents, making it difficult to conduct thorough inspections and controls on individuals, vehicles, and goods.

- To address these issues, it is crucial to invest in **strengthening institutional capacity** and **ensuring adequate resources** for **enforcement mechanisms**.

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18. "Other high-level corruption" encompasses cases of corruption involving high-level officials from public administration (but not involving public procurement, already covered by another category) and corporate organizations. The four categories under analysis slightly differ from the use cases adopted by the FALCON Project (for more details, see https://www.falcon-horizon.eu/).

19. Bribery is interpreted here as the act of offering or accepting money or valuable items to corruptly influence a public official or private entity in performing their official duties [16].

20. Misappropriation is interpreted here as the improper diversion or theft of funds, assets, or properties designated for a public purpose. Embezzlement refers to the same unauthorised use of funds but conducted by an individual who was directly entrusted with management [17]. To take place, misappropriation of funds and embezzlement often leverage a variety of fraudulent means (e.g. false provision of services or tax frauds).

21. Satellite jurisdictions are interpreted here as countries distinct from where the corrupt act occurs or the citizenship or residence of the actors involved.