

UNCTC - United Nations Counter Terrorism Committee

Shell Companies and Their Role in Terrorism Financing

Overview

According to Global Shell Games¹, shell companies are corporations that exist only on paper and have no real business operations. They are often used to open bank accounts, transfer money, and hold assets even though they have no employees or products. Because they can be created so easily, shell companies are frequently used for illicit purposes, such as hiding money, evading taxes, and, in some cases, funding terrorism.

In recent decades, the United Nations and the Financial Action Task Force have both worked to prevent this problem. For instance, the FATF has established rules that require countries to collect information about who truly owns companies. However, enforcement remains inconsistent across jurisdictions, allowing shell companies to continue being widely used to conceal and move illicit funds.

The United Nations Counter Terrorism Committee

The United Nations Counter Terrorism Committee (UNCTC) is one of the key mechanisms for preventing shell companies from being used for harmful purposes. It was created in 2001 after the September 11 attacks. It ensures that countries have strong systems to stop the financing of terrorism. The committee helps states create laws that freeze terrorist assets, track illegal transactions, and prevent money from being sent to terrorist groups. The UNCTC also

¹ Findley, M., Nielson, D., & Sharman, J. (2013). *Global Shell Games: Testing Money Launderers' and Terrorist Financiers' Access to Shell Companies*. https://www.griffith.edu.au/_data/assets/pdf_file/0034/359174/Global-Shell-Games.pdf

provides support to countries that lack resources in order to monitor financial crimes. It essentially helps them improve training and coordination between banks and law enforcement. The committee's key goal is to prevent legal financial systems from being used for terrorism or other criminal activity.

Background Information

In many countries, companies can be created online within only a few hours and often without any verification of identity. In the study *Global Shell Games*, a handful of researchers tested thousands of company providers and found that almost half of them did not ask for any proof of identity². This demonstrates the extent to which anonymity in the formation of a company can facilitate illicit activity. An alternative study by Sharman in 2010 found out that developed countries such as the United States and the United Kingdom were less careful about verifying ownership than many smaller nations³. Shell companies were not originally made for illegal purposes. Researchers Floros and Sapp explained in *Shell Games: On the Value of Shell Companies* that shell firms were often used for "reverse mergers," which allowed private companies to become public without a long or expensive process⁴. This approach was legal and extremely convenient for small businesses, but it also made it easy for people to misuse this same system.

Today, shell companies can be easily created online in almost any country. Once they are established, they can open bank accounts and move money across borders with very little to no

² Floros, I., & Sapp, T. (2011). *Shell Games: On the Value of Shell Companies*. *Journal of Corporate Finance*.

<https://doi.org/10.1016/j.jcorpfin.2011.03.004>

³ Findley, Nielson, and Sharman, "Global Shell Games".

⁴ Hernández, A., et al. (2022). *Detection of Shell Companies in Financial Institutions Using Dynamic Social Networks*. *Expert Systems with Applications*.

<https://doi.org/10.1016/j.eswa.2022.117312>

oversight. Consequently, it has become quite common for terrorist organizations to use these companies to send or receive money in ways that look legitimate to banks and governments.

Consequences and the Global Impact

The weak enforcement of ownership laws over shell companies has serious global consequences. The *Global Shell Games* study has found that nearly half of company service providers failed to verify their clients' identities⁵. Sharman's 2010 research has also shown that countries such as the United States and the United Kingdom were among the least compliant⁶. When terrorist groups or criminals use shell companies, they can disguise illegal money as normal business activity. This makes it much harder for banks or governments to detect any funding for terrorism. It also undermines trust in the global financial system, as it becomes increasingly difficult to distinguish legitimate companies from those created for illicit purposes.

Case Study 1: Global Shell Games Research

The *Global Shell Games* research reveals valuable information on this issue. The researchers in this study contacted thousands of company service providers around the world while pretending to be potential clients, some of whom even said they were linked to corruption or terrorism⁷. Yet many of these providers still agreed to help them create anonymous companies. The results demonstrated that even some of the world's strongest economies often failed to enforce transparency requirements effectively. To illustrate the gravity of this issue, the United States was one of the easiest places to create an untraceable company, while other small nations with fewer resources followed the rules more carefully. This study proved that global standards alone are not enough if countries do not make an effort to enforce them.

⁵ Floros and Sapp, "Shell Games," 463.

⁶ Findley, Nielson, and Sharman, "Global Shell Games".

⁷ Floros and Sapp, "Shell Games," 463.

Case Study 2: Mexico and Technology

In 2022, researchers in Mexico developed an artificial intelligence system that can identify shell companies by detecting unusual patterns in financial transactions⁸. The model achieved accuracy rates of over 90 percent, demonstrating how effective advanced analytics can be in uncovering illicit activity. This example shows how technology can strengthen efforts to prevent money laundering and terrorism financing. The UNCTC encourages governments and financial institutions to adopt similar systems to identify suspicious behavior early and stop illegal money transfers before they occur. Other countries are experimenting with similar tools. In Australia, researchers have used graph-based machine-learning models to detect illicit shell-company networks with accuracy rates above 88 percent⁹. In the United Kingdom, data-matching algorithms in Companies House help flag unusual ownership patterns¹⁰. These examples reinforce the UNCTC's recommendation that governments and financial institutions adopt similar systems to detect suspicious activity and prevent illegal money transfers before they occur.

Legal Frameworks and Global Agreements

The United Nations Security Council has passed several resolutions to fight the financing of terrorism. For instance, Resolution 1373 from 2001 requires countries to make terrorism

⁸ Sharman, J. (2010). Shopping for Anonymous Shell Companies: An Audit Study of Compliance with International Standards. *Journal of Economic Policy*.
<https://doi.org/10.1257/pol.2.2.707>

⁹ Giulia Aliprandi, Thijs Busschots and Carlos Oliveira, *Mapping the Global Geography of Shell Companies* (PSE – Paris School of Economics, EU Tax Observatory, 2023),
<https://pse.hal.science/hal-04563980v1/document>

¹⁰ Theo Van der Merwe, *Beneficial Ownership Registers: Progress to Date*.
https://knowledgehub.transparency.org/assets/uploads/helpdesk/Beneficial-ownership-registers_2020_PR.pdf

financing illegal and to freeze the assets of anyone involved. Later resolutions, such as 2199 and 2462, built on these rules and added tougher penalties for breaking them.

The Financial Action Task Force (FATF) also provides recommendations for countries on how to prevent money laundering and make company ownership more transparent. On top of that, the United Nations Convention against Transnational Organized Crime requires countries to criminalize hiding illegal money. Together, these rules give countries a framework to work together and make it harder for criminals or terrorists to use the financial system for illegal purposes.

Countries' Responses and Global Efforts

Countries have responded in different ways to the problem of shell companies. The United States, for example, faced criticism for allowing anonymous companies in states such as Delaware and Wyoming. In 2021, it passed the Corporate Transparency Act, which requires companies to report their real owners to the government. This means that authorities are authorized to better track who is behind companies and prevent misuse¹¹.

The United Kingdom created a public registry of company owners in 2016, and the European Union adopted the Fifth Anti-Money Laundering Directive to improve transparency. These measures make it harder for criminals to hide money through complex company structures. Mexico has introduced technological tools to detect shell company activity, while some island nations have strengthened compliance after international reviews. In Africa, Kenya has made progress in strengthening beneficial ownership registries under international guidance,

¹¹ Li, J. (2022). *Oil Industry Shell Company Business Strategy Analysis*. Singapore Institute of Management.

https://doi.org/10.2991/978-94-6463-408-2_51

while Nigeria has implemented reforms following FATF evaluations. In Asia, Singapore and the United Arab Emirates have increased corporate transparency measures to curb money laundering. Nevertheless, some countries resist stricter rules, fearing that tighter regulations could reduce investment or hurt economic competitiveness.

Ethical and Practical Problems

While transparency is essential, it also raises privacy concerns. Many business owners do not want their personal information made public, and some governments worry that strict laws could harm their economies. Policymakers must carefully balance the protection of privacy with the pursuit of financial accountability.

It is also important to distinguish between legitimate companies and those used for crime. For instance, Jiawen Li's study on Shell plc clarifies that not all shell companies are illegal¹². Shell plc is a real corporation that operates transparently in the energy industry. The real challenge for governments is to prevent illegal shell activity without restricting lawful businesses. Some experts argue that completely removing anonymity could discourage investment in countries where people rely on financial privacy for safety. Others point out that many legitimate companies use holding structures for normal administrative reasons, so regulations need to be designed carefully to avoid harming lawful business activity.

Future Solutions

To prevent shell companies from being used to finance terrorism, the UNCTC encourages countries to maintain accurate and up-to-date databases that identify the real owners of each company. Strengthening cross-border information sharing is also a priority because transparency

¹² Li, *Oil Industry Shell Company Business Strategy Analysis*.

only works when states can actually compare and verify data. One possibility is for the UNCTC to lead an international initiative that helps states exchange company-ownership information securely and efficiently.

There are already examples to build on. The European Union operates an interconnected network of beneficial-ownership registers under its Fourth and Fifth Anti-Money Laundering Directives¹³, which lets Member States share company-ownership information across borders. Outside Europe, several countries have developed their own registers as well. Nigeria created Africa's first public beneficial-ownership register for companies in the extractive sector¹³. Myanmar launched a digital register requiring mining, oil, and gas firms to disclose their owners¹³. Slovakia maintains an electronic register for firms involved in public procurement¹³, and jurisdictions such as Liechtenstein, Jersey, Guernsey, and the Isle of Man have introduced beneficial-ownership regimes¹³, even if access is still restricted to authorities and people with a legitimate interest.

Technology can also strengthen these efforts. Artificial intelligence can identify suspicious patterns in financial networks and flag high-risk transactions.¹⁴ The UNCTC and FATF could support developing countries by offering training and technical tools to implement these systems. International organizations such as the World Bank and INTERPOL could collaborate to trace global money flows and recover illicit assets.

Conclusion

Shell companies may seem harmless, but they create serious risks for the global financial

¹³ Van der Merwe, *Beneficial Ownership Registers*.

¹⁴ Sharman, "Shopping for Anonymous Shell Companies," 710.

system. They let people move money anonymously and fund illegal activities, including terrorism. Research shows that even wealthy countries with strict laws often fail to enforce them. The United Nations Counter-Terrorism Committee plays a central role in addressing this problem. Through stronger cooperation, new technology, and consistent enforcement of global standards, countries can make it much harder for terrorist networks to use shell companies. Transparency and accountability can help authorities spot suspicious activity before it becomes a bigger threat, protecting both national and international security.

Questions to Consider:

1. How can countries balance corporate transparency with individual privacy rights?
2. What steps should governments take to ensure beneficial ownership information is accurate and accessible?
3. Should international organizations create a global database of company owners? Why or why not?
4. How can developing countries access technology or training to detect suspicious financial activity?
5. What incentives or pressures could encourage resistant countries to adopt stricter transparency rules?

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