

# Does Transparency bring Cleanliness? Offshore Financial Secrecy Reform and Corruption Control



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Anti-Corruption Evidence  

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Research Programme





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- GI-ACE part of the ongoing Anti-Corruption Evidence (ACE) research programme funded by UK Foreign, Commonwealth & Development Office (FCDO)
- Aimed at generating new evidence that policymakers, practitioners, and advocates can use to design and implement more effective anti-corruption programmes



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  - *Indications are of some success (albeit partial & uneven) at the level of policy change*
- **BUT**, limited understanding of actual impact of policy changes on illicit financial activities



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- Informing ongoing “offshore” reform efforts with assessment of existing policy effectiveness
  - Identification of trouble spots (in terms of policy and geography)
- Understanding what factors drive offshore shell company use by low income country actors

# Does Transparency bring Cleanliness?

## Three-part analysis:

### – **Part 1: Mapping Financial Secrecy Around the World, 1990-2015**

- **Q:** How has the world map of financial secrecy and IFF-regulation changed at the jurisdiction level?

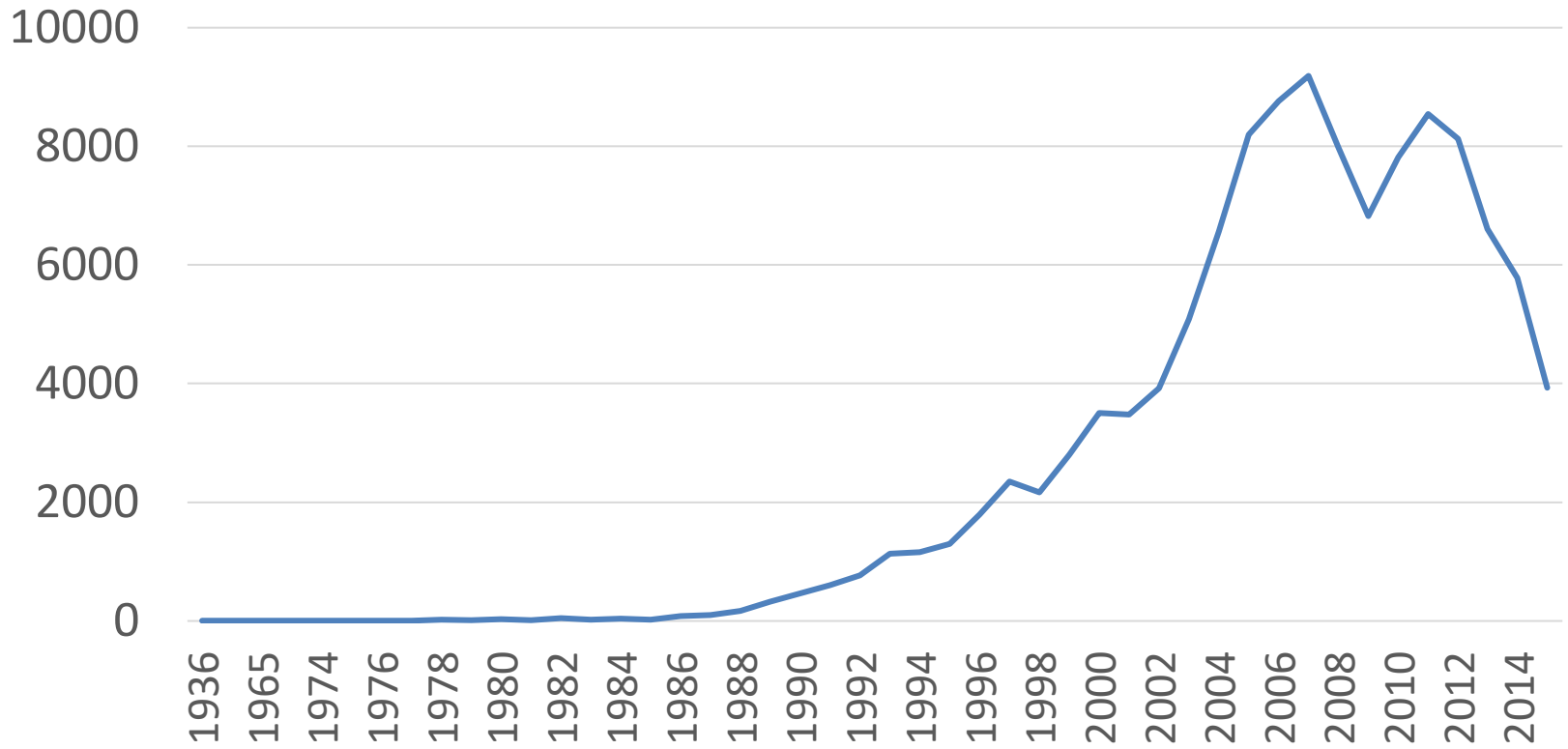
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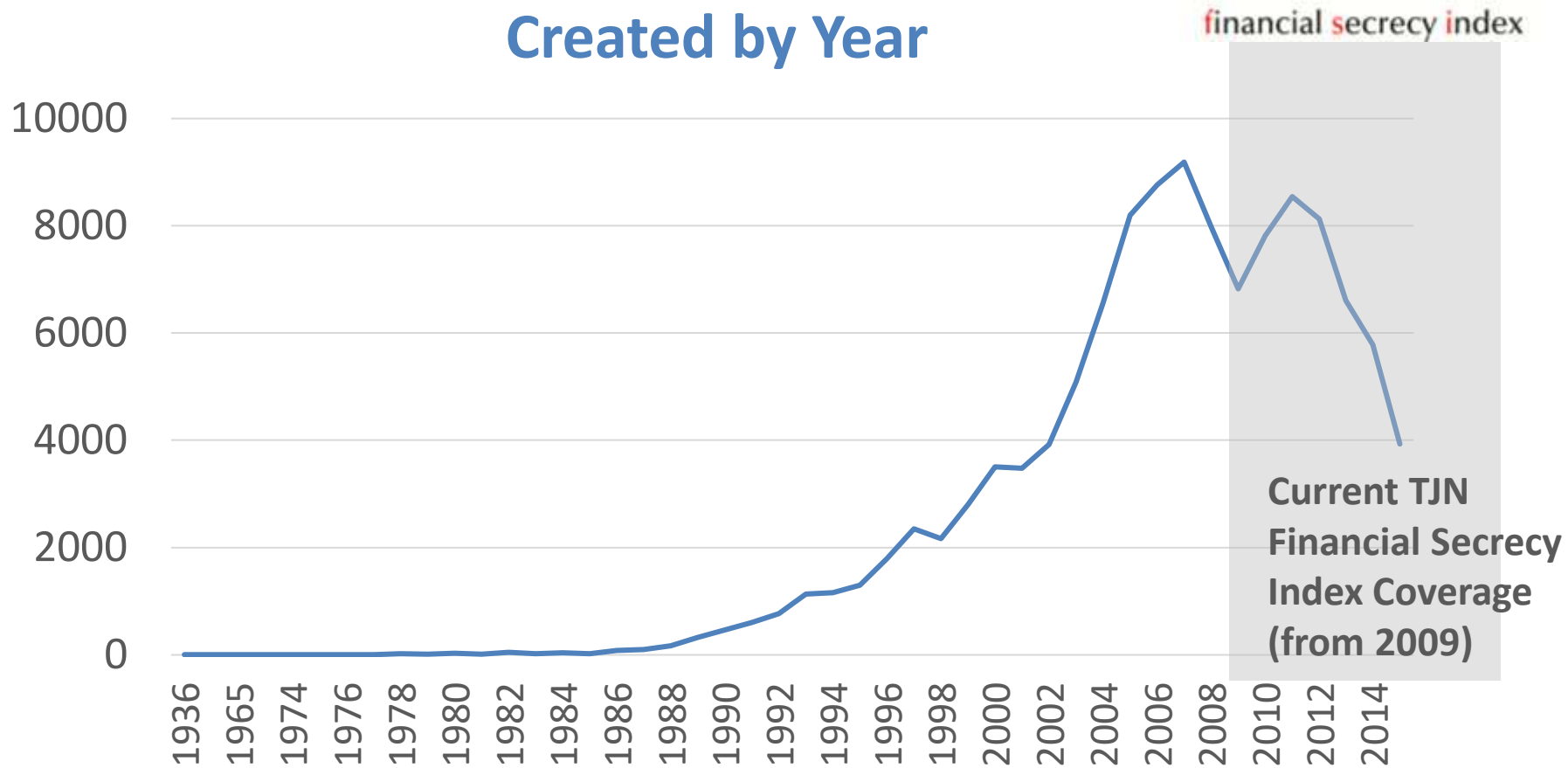
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# Panama Papers – Number of Entities Created by Year

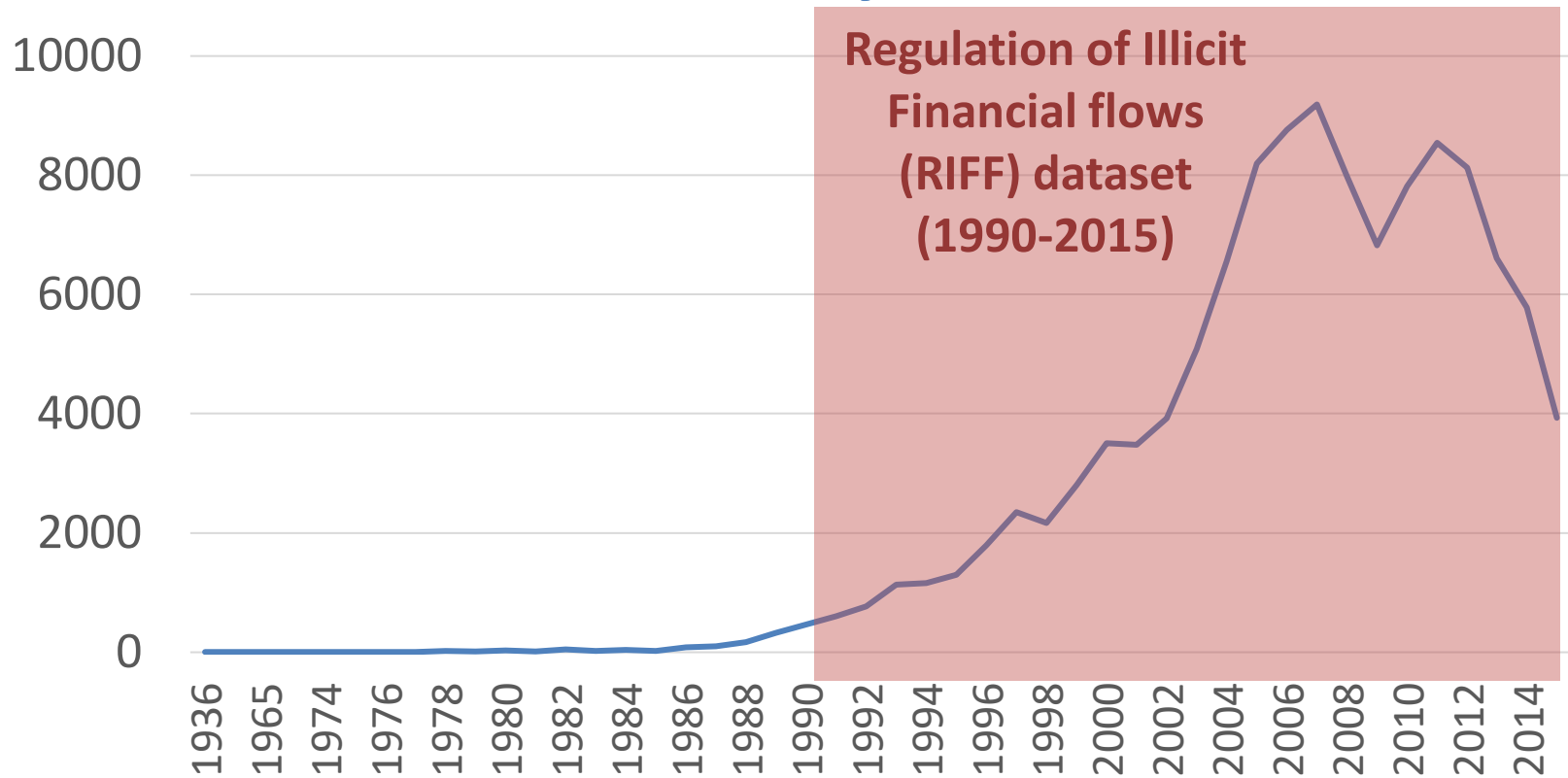


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## Regulation of Illicit Financial Flows (RIFF) Coverage

- 61 jurisdictions** – prioritized based on combination of OFC / tax haven lists, TJN evaluations, importance in international financial markets, and importance in ICIJ data
- 25 years (1990-2015)** – based on combination of ICIJ coverage and policy data availability
- 16 policy variables** – defined based on combination of importance and data availability
- Additional 4 variables for 2000-2015**

# HFSD Variables

- **Variables (1990-2015):**

- Banking secrecy
- Bearer shares (ban/immobilization)
- Suspicious transaction reporting (reporting obligations, whistleblower protections, anti-client tipping-off provisions)
- Client due diligence procedures (general and political exposed persons)
- Automatic Exchange of Information
- Money laundering criminalization (drug & non-drug)
- Financial intelligence unit establishment
- Terrorist financial criminalization
- Shell banks prohibition (establishment and correspondance)
- Bilateral tax treaties & information exchange agreements

- **Additional variables (2000-2015)**

- Trust registration
- Information exchange and judicial cooperation
- Beneficial ownership (reporting obligations and record-keeping)

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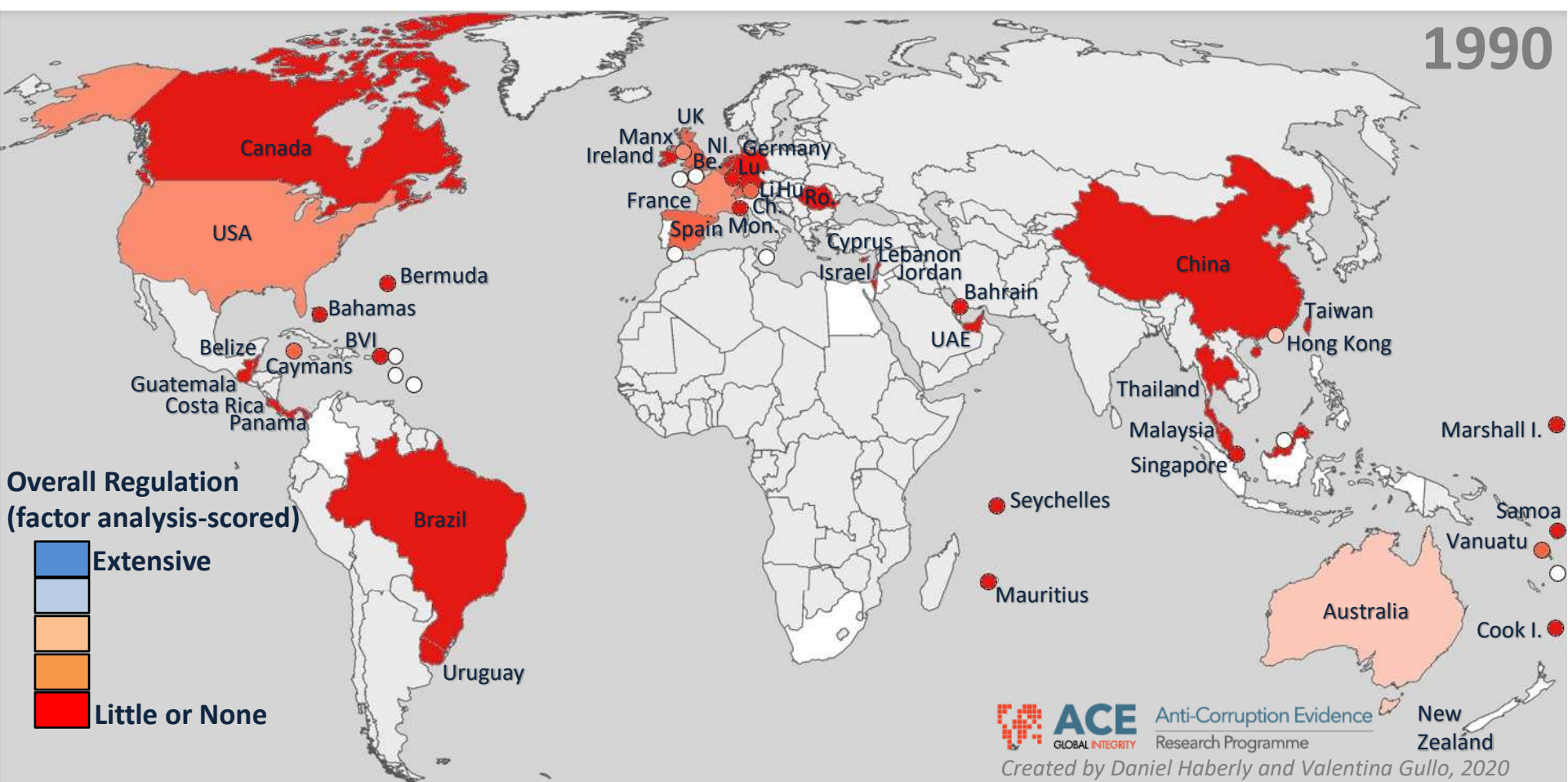
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1990

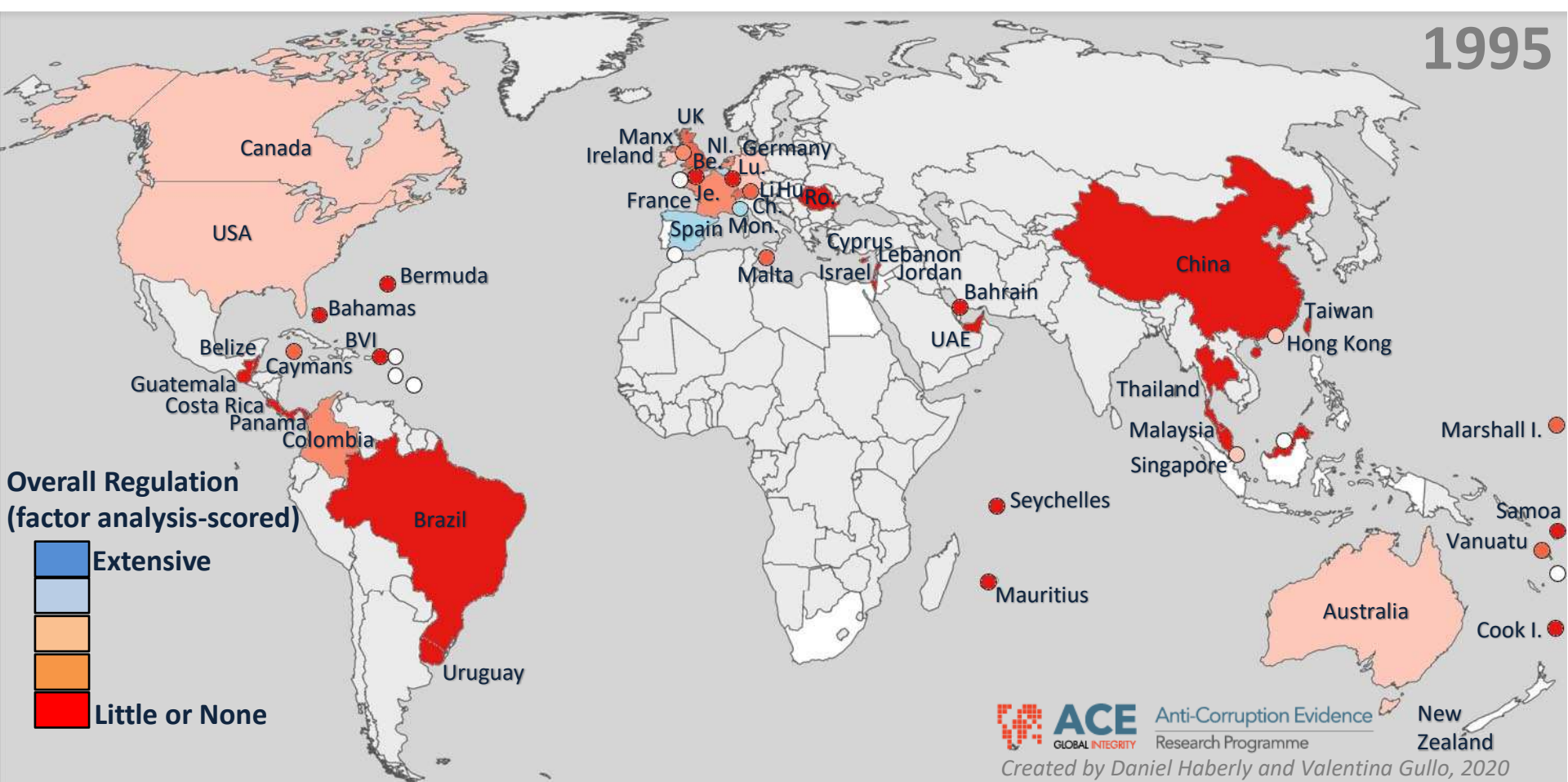


## Overall RIFF Composite Regulatory Score

**Scored based on factor analysis of 10 (of 16) indicators selected to minimize missing data; first factor explains 87% of total variance in 10 indicators**

Includes bearer shares ban/immobilization, suspicious transaction whistleblower protections, suspicious transaction reporting obligations, client tip-off restrictions, automatic exchange of information, client due diligence (general), PEP enhanced due diligence, ML criminalization drugs, ML criminalization other, financial intelligence unit)

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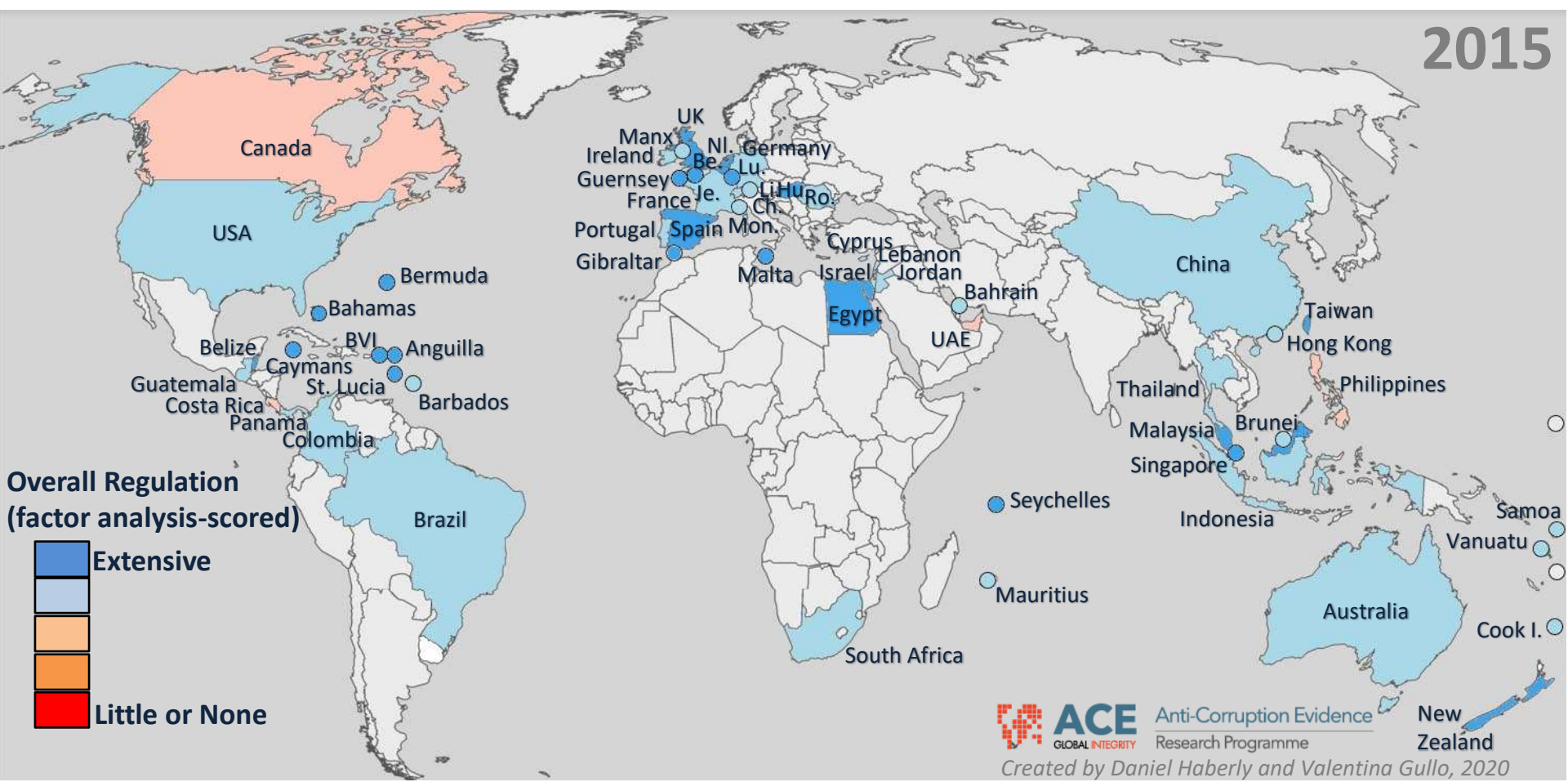


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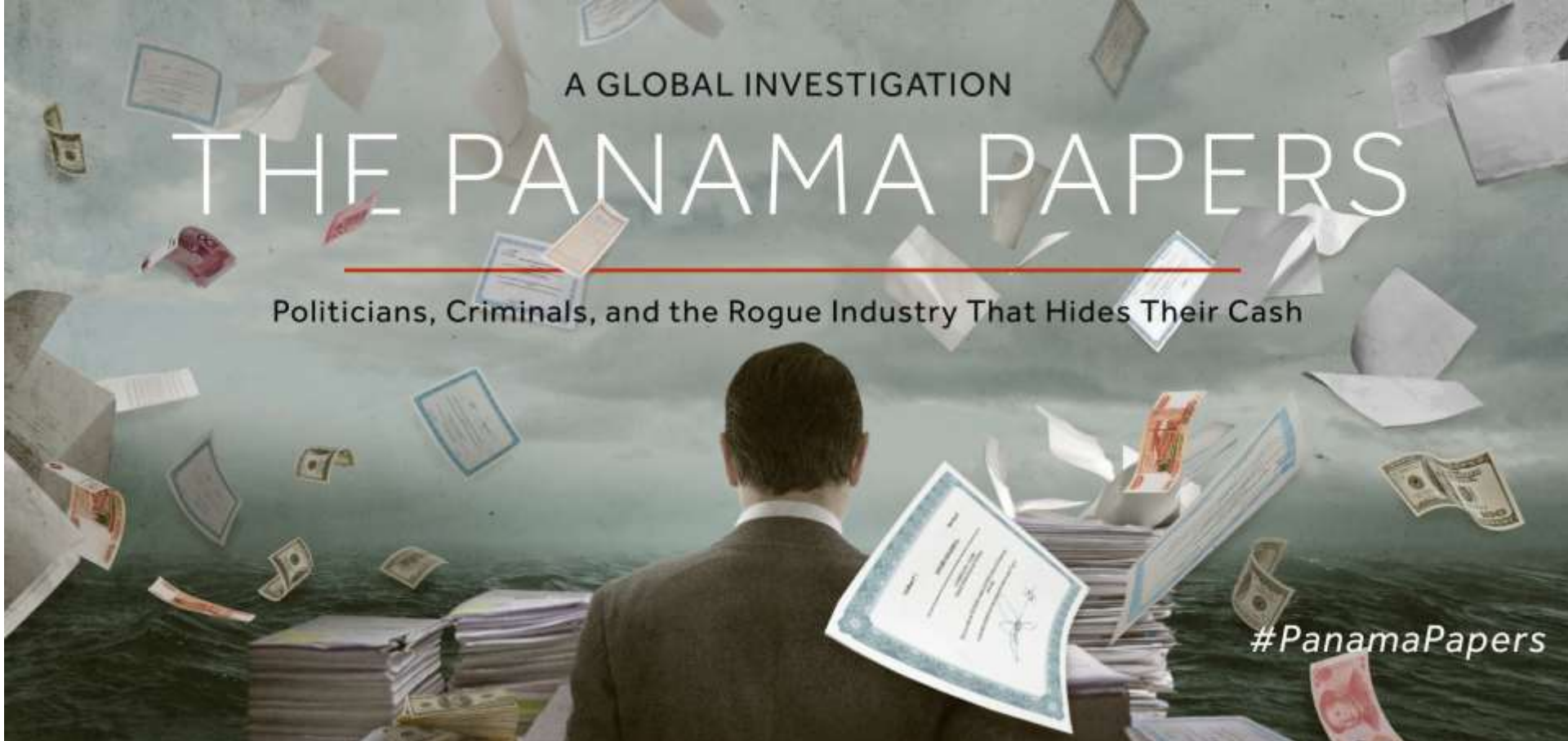
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A GLOBAL INVESTIGATION

# THE PANAMA PAPERS

Politicians, Criminals, and the Rogue Industry That Hides Their Cash

#PanamaPapers

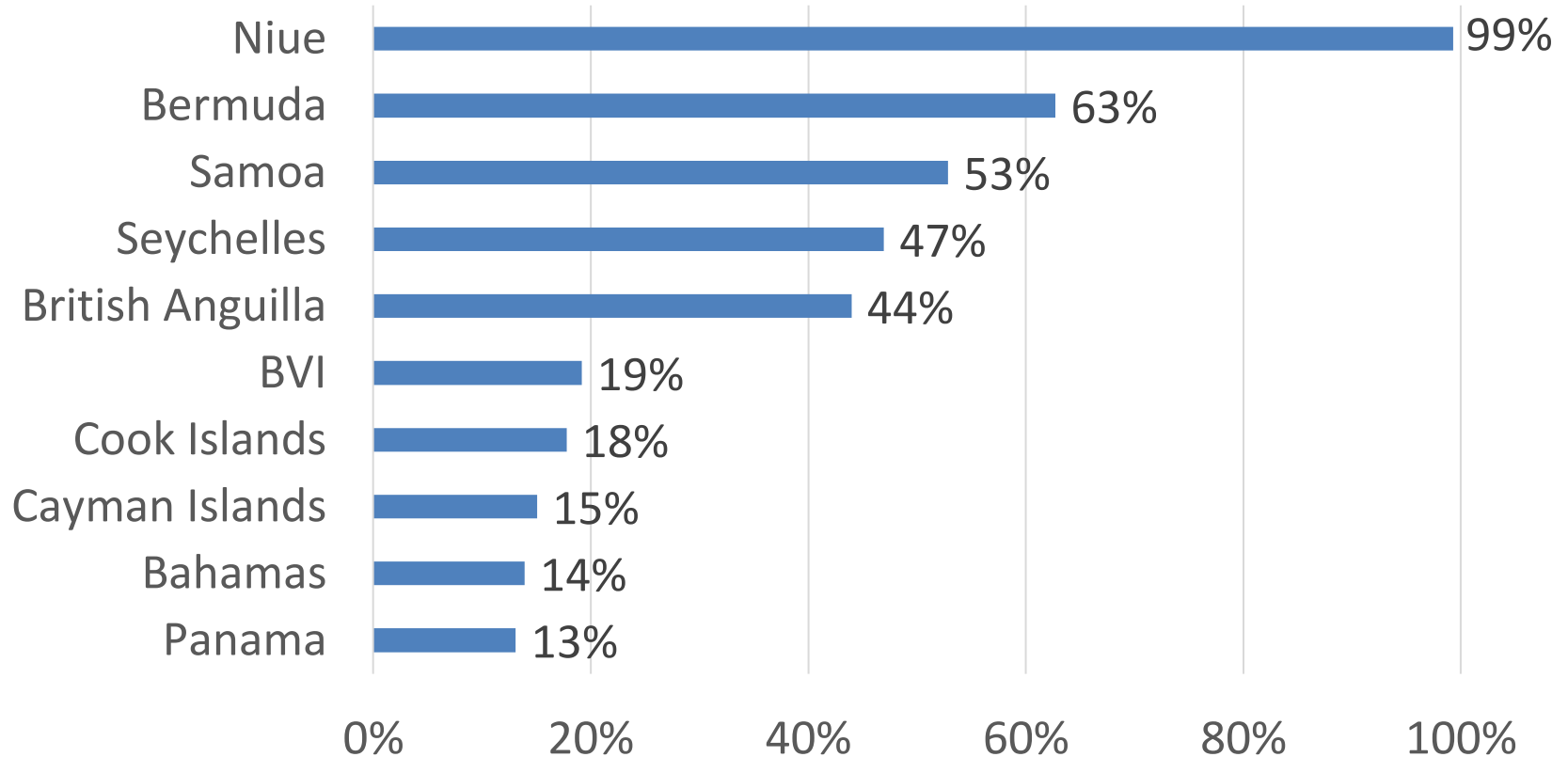
**The ICIJ leaked datasets** of shell company formation (Offshore Leaks, Panama Papers, Paradise Papers)

***100Ks of companies formed by clients in hundreds of countries over several decades***

***Significant advantages over existing data sources to construct a DV in time series panel analysis of offshore shell company formation***

**(very rough) estimate % of all offshore companies\* by jurisdiction covered in ICIJ leaked datasets**

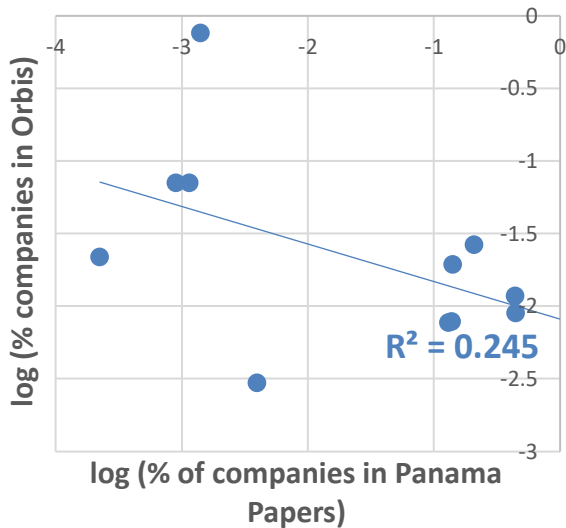
(ca. 290,000 entities w. useful data)



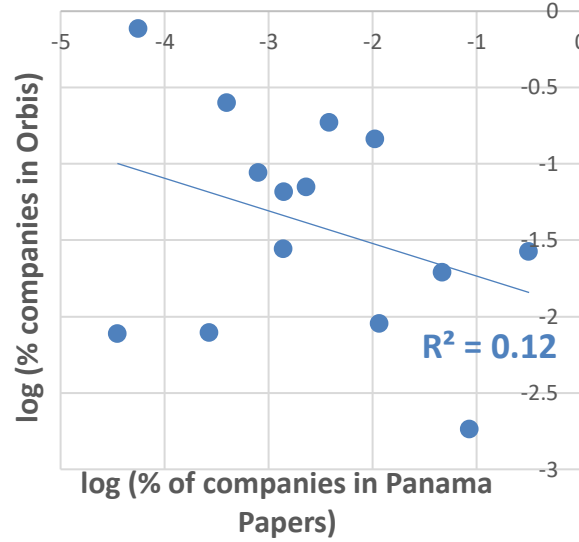
\*totals from Palan, Murphy, & Chavagneux 2010 & Bermuda Company Laws & Regulations Handbook 2012



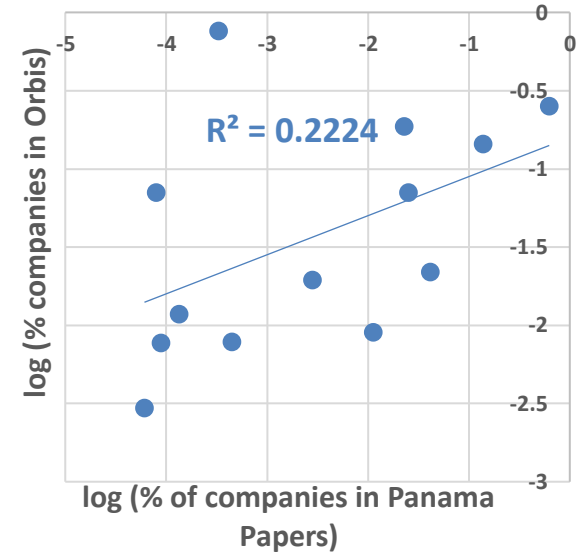
Panama Papers coverage versus Orbis coverage by jurisdiction (% of companies)



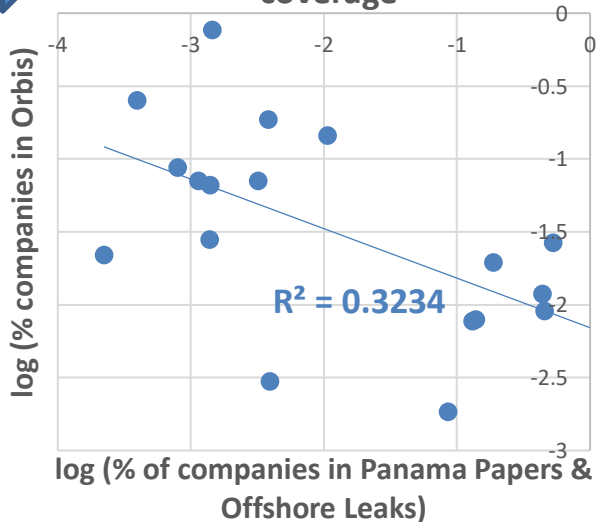
Offshore Leaks coverage versus Orbis coverage by jurisdiction (% of companies)



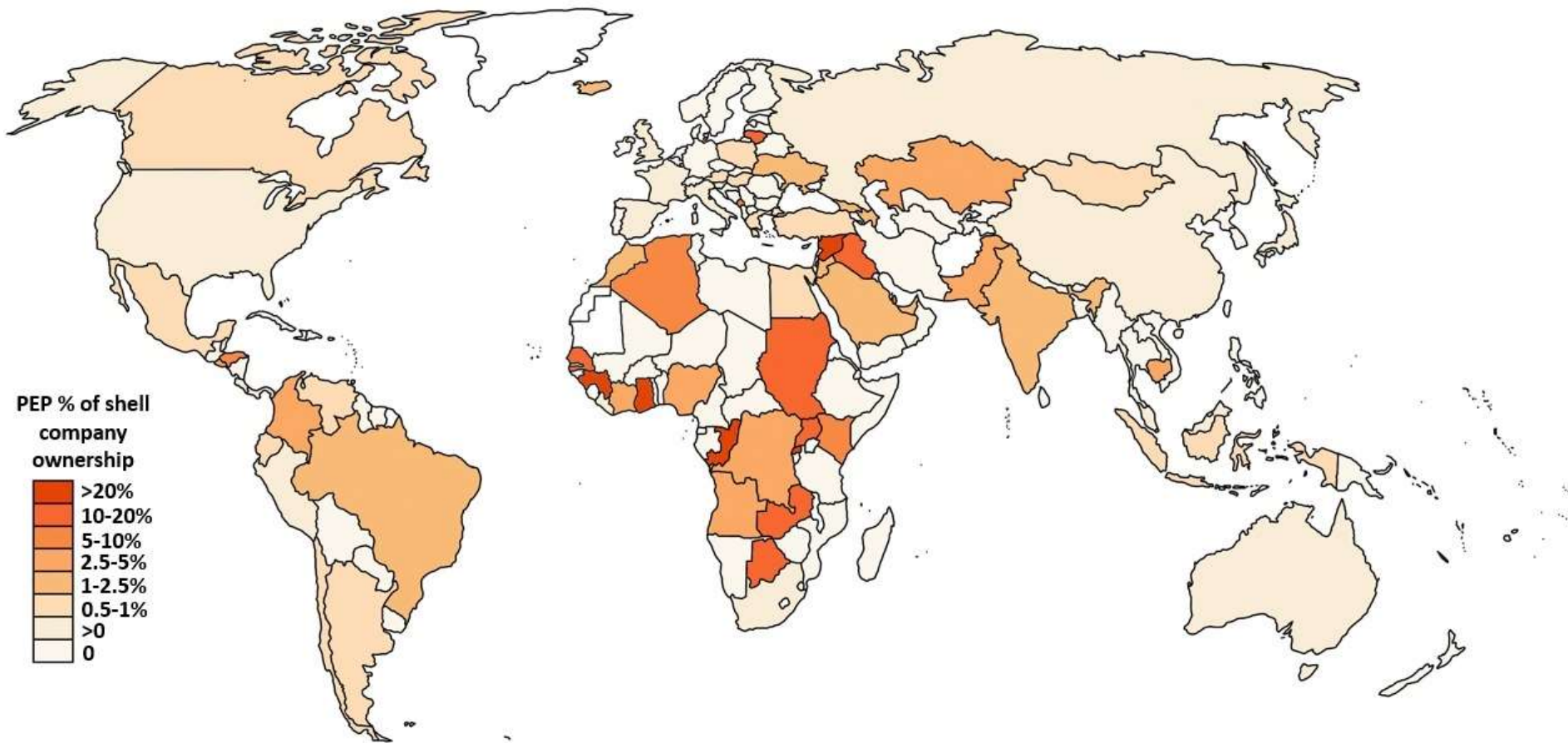
Paradise Papers coverage versus Orbis coverage by jurisdiction (% of companies)



Combined Offshore Leaks & Panama Papers coverage versus Orbis coverage



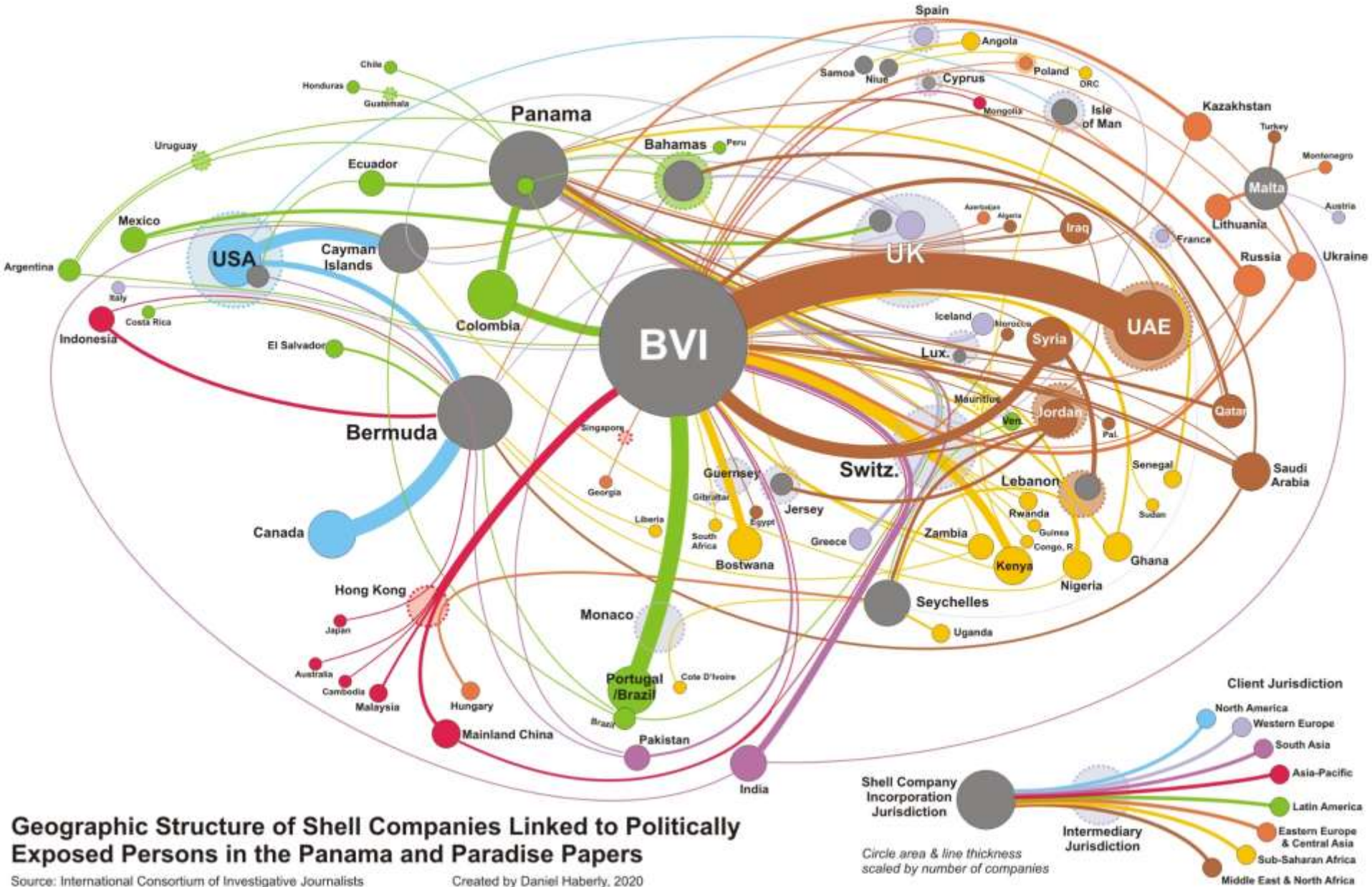
***Relationship of jurisdiction-level coverage of ICIJ databases with jurisdiction-level coverage of Orbis***



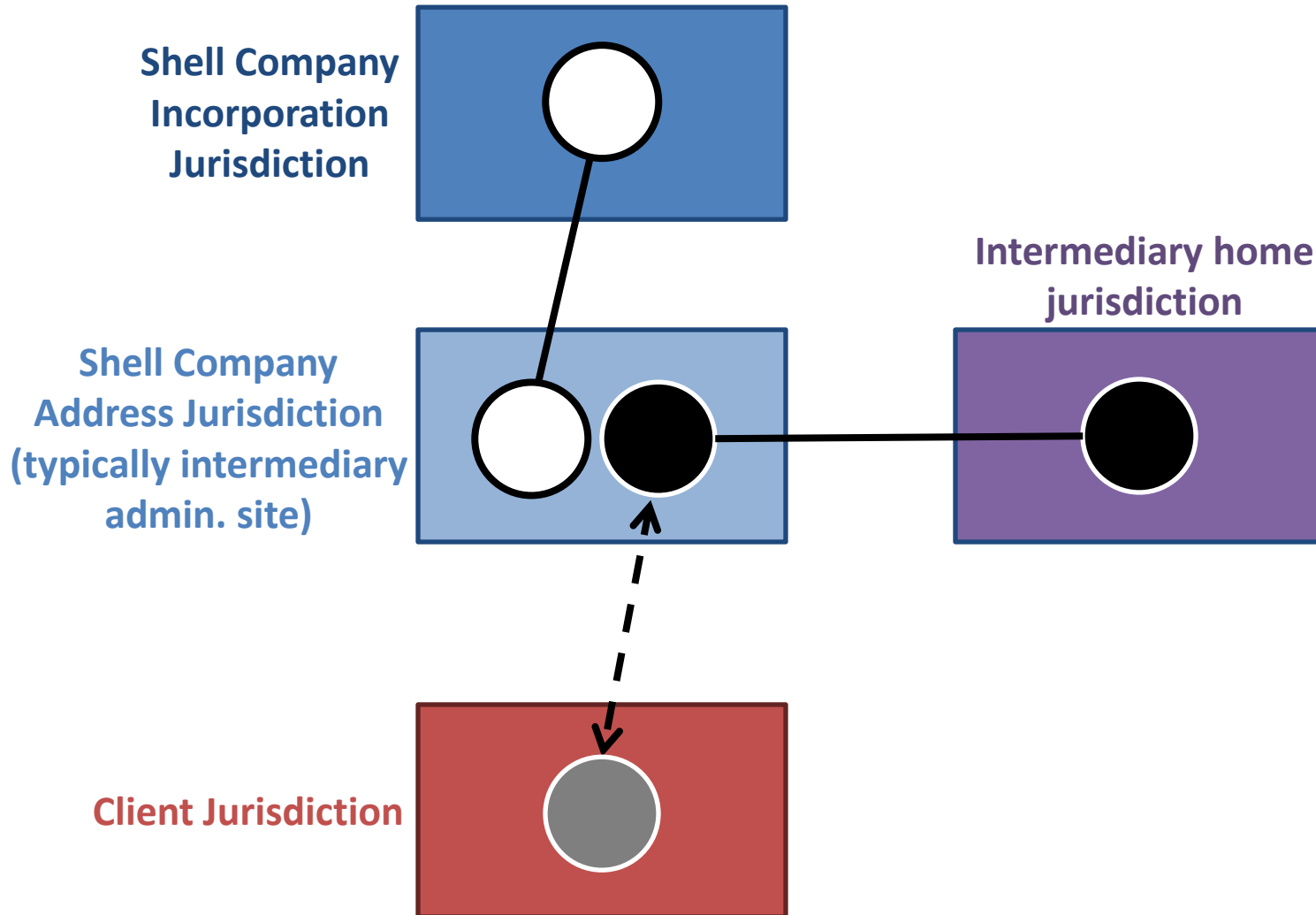
## Percent of all shell companies in Panama and Paradise papers belonging to identified politically exposed persons (PEPs)

Source: International Consortium for Investigative Journalists

# Geographic Structure of PEP-linked ICIJ Shell Companies



# ICIJ Data Coverage of Illicit Global Wealth Chains



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## Part 2 goals and methods

- **Methodology:** Worldwide time series panel regression analysis of shell company formation determinants by developing and transition economy-based officers (“clients”), from 1991-2015
  - Exploratory analysis with emphasis on sensitivity analysis and robustness checks

# Independent Variables

- **Two groups of independent variables:**
  - **Institutional & political** (rule of law, private property rights, state ownership, & changes in all of these, plus regime change / political instability)
  - **Economic and financial** (external debt, foreign aid, IMF crisis assistance, natural resource rents, GDP growth, PPP GDP per/cap relative to USA)



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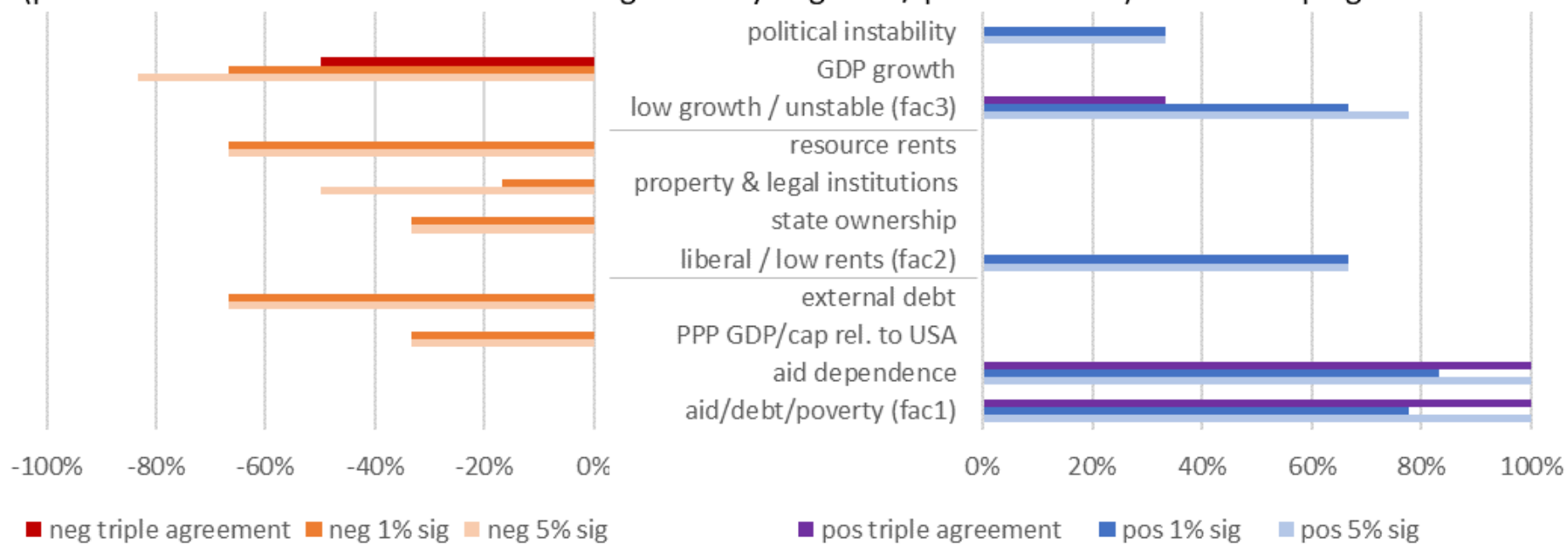
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## All developing and transition economies (1991-2015)

*Summary of multi-model sensitivity analysis (based on different samples & factor combos)*

**Long-term determinants of intl. (officer country) variation in shell company formation (relative to. GDP)**  
 (percent of models where variable had a significantly negative / positive effect) - all developing & transition

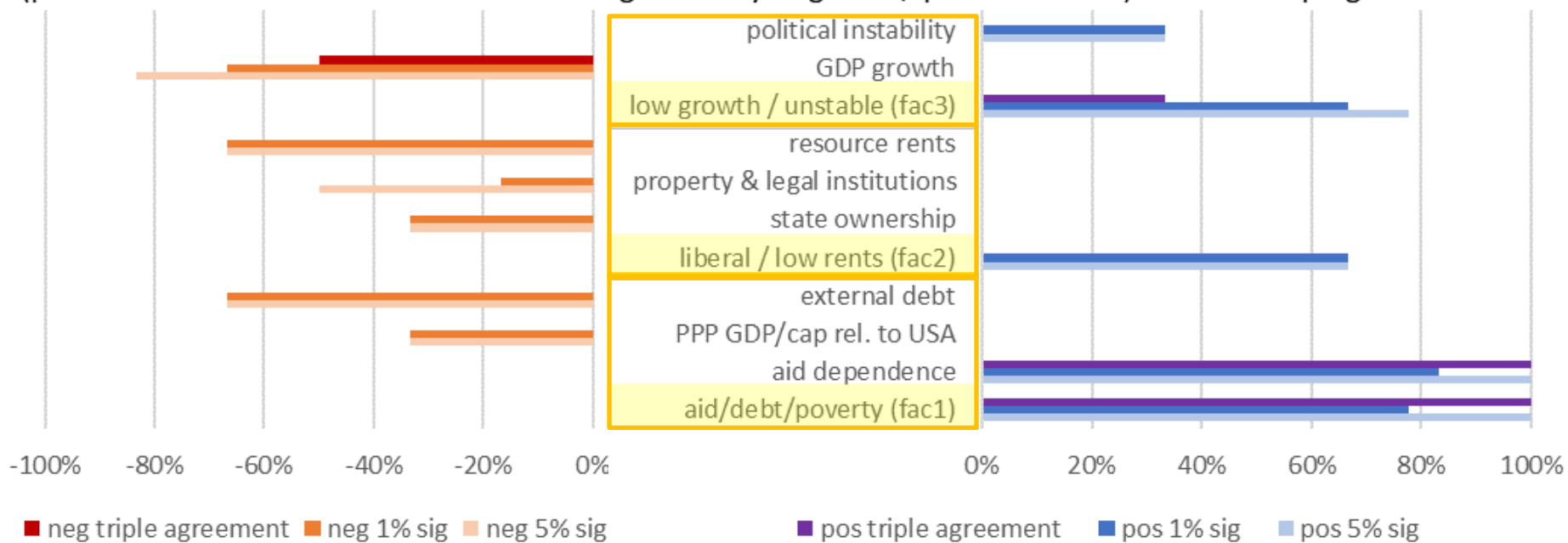


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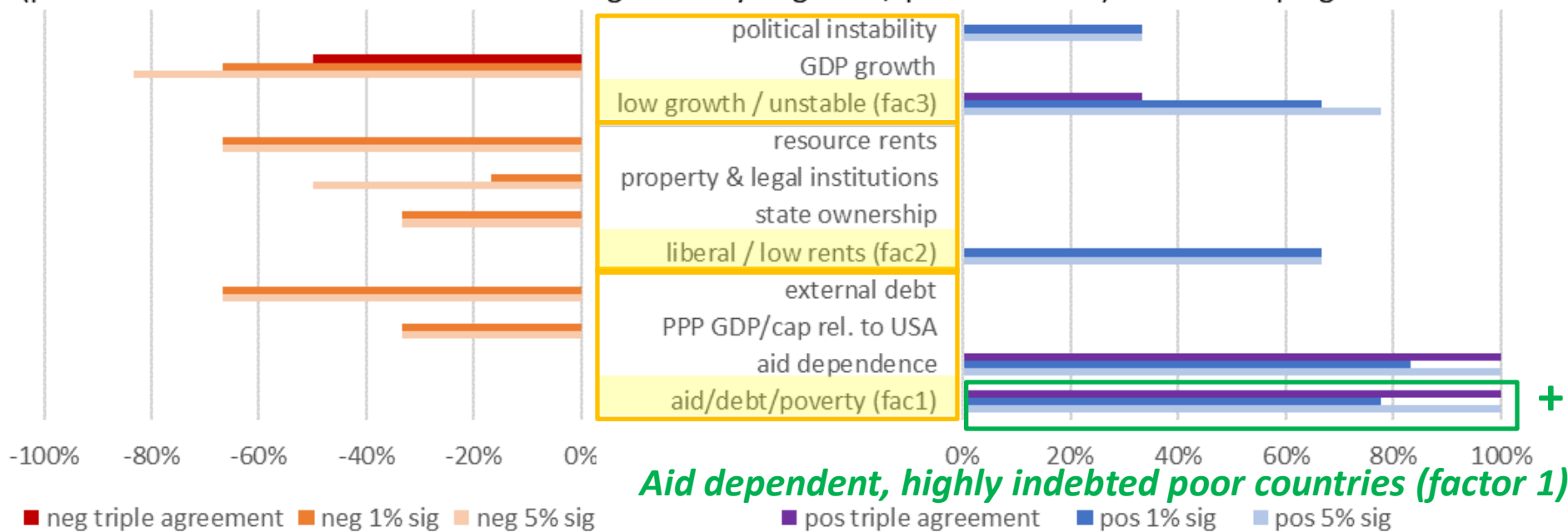
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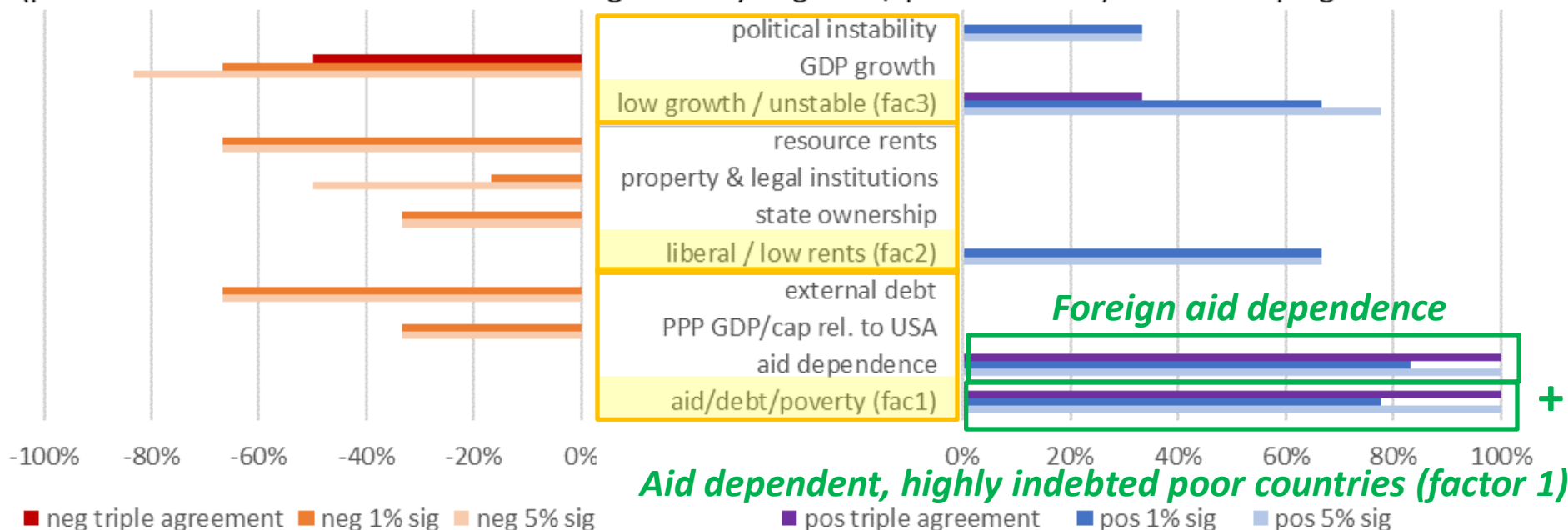
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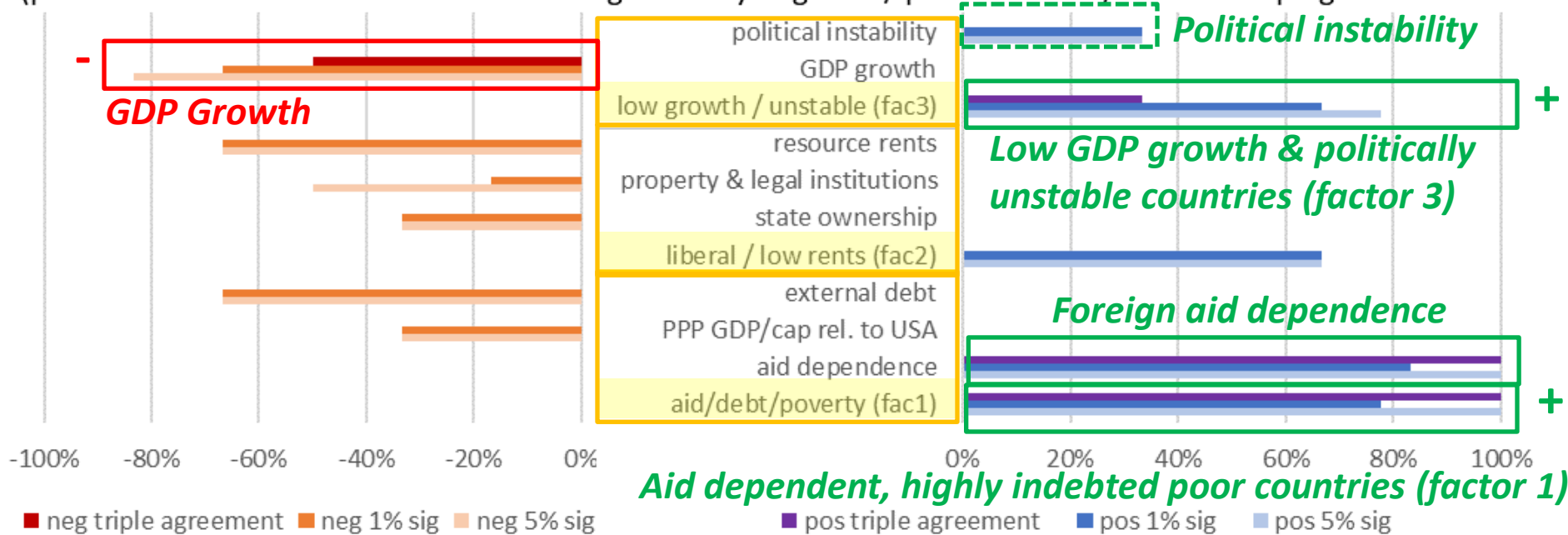
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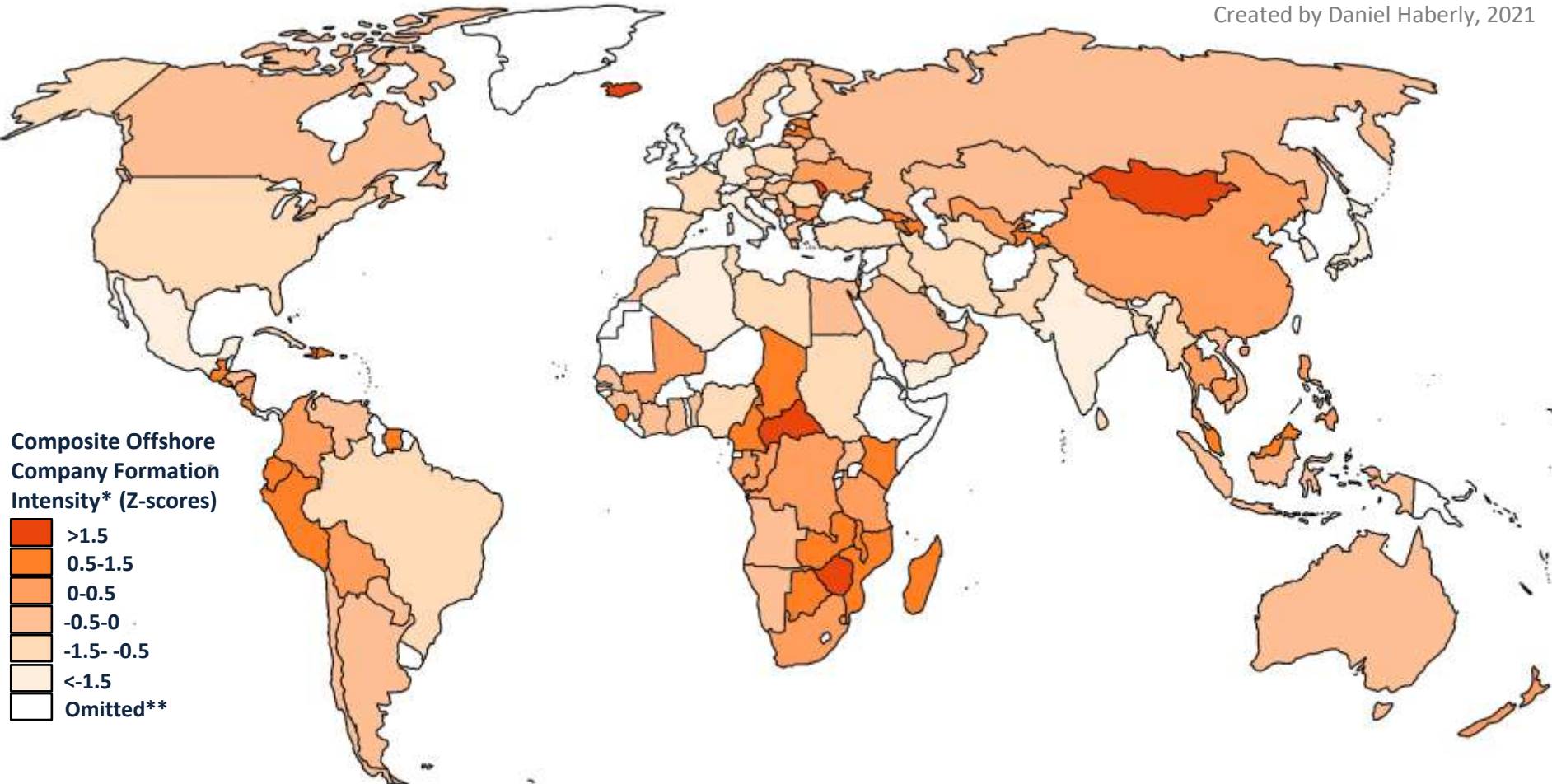


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# Composite Map of Panama and Paradise Papers Offshore Shell Company Formation Intensity, in relation to GDP, 1990-2015

Created by Daniel Haberly, 2021



\*Standardized officer country fixed effects coefficients estimated in fixed effects-terms only (officer-country, service provider-incorporation jurisdiction, service-provider time) panel regression model of annual Appleby & Mossack Fonseca offshore company formation events as a % of officer country GDP

\*\*Country omitted due to insufficient observations or offshore intermediary status



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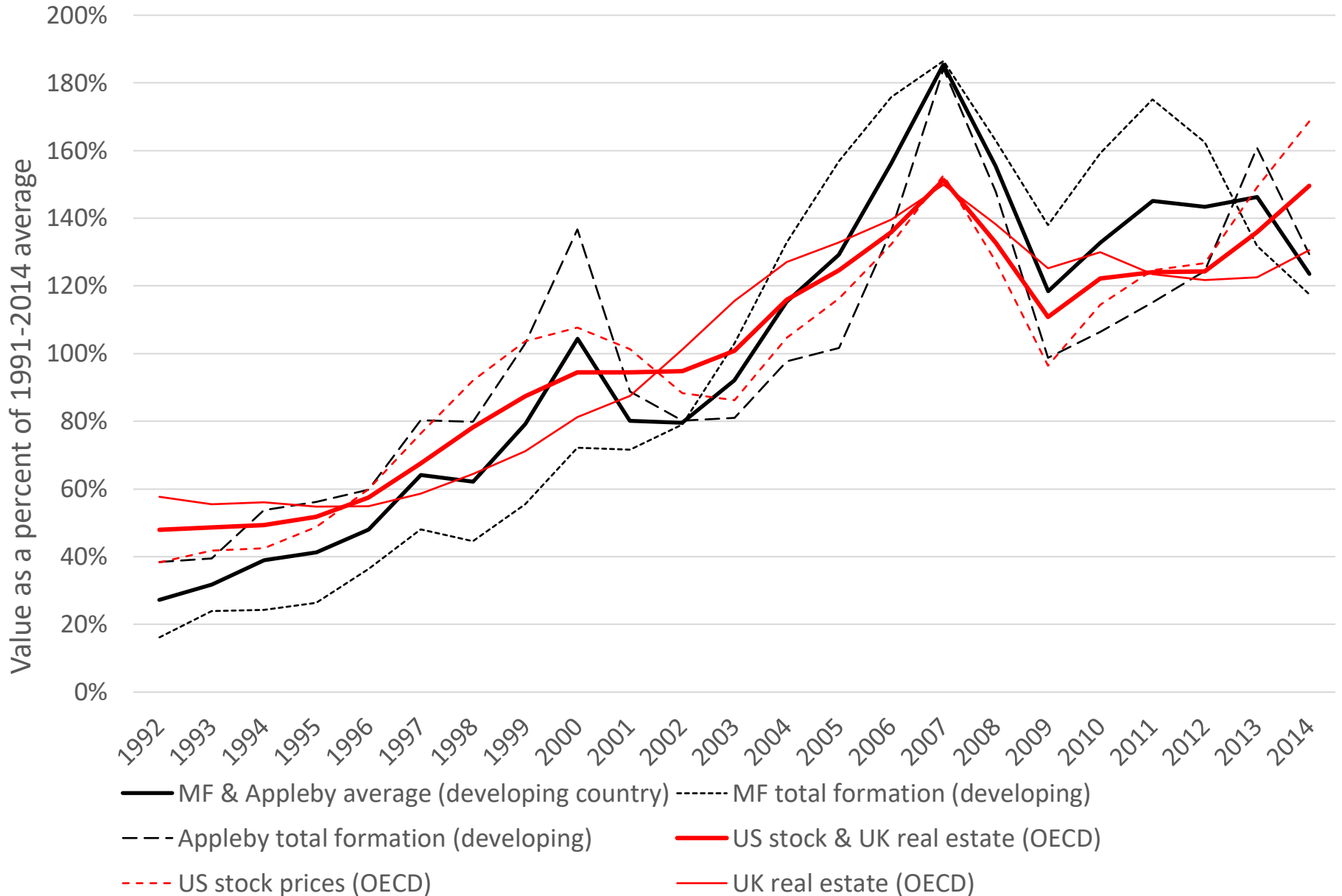
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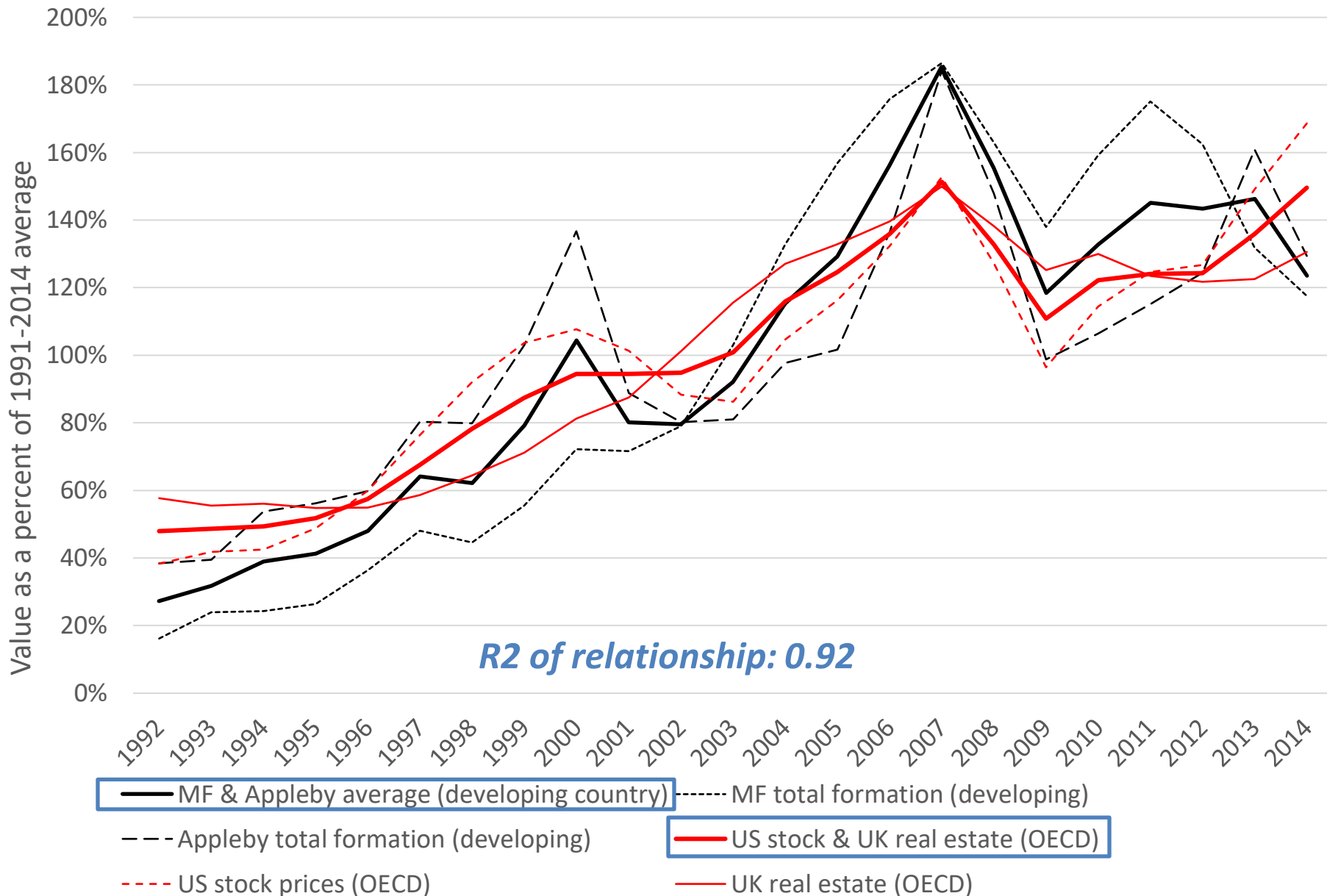
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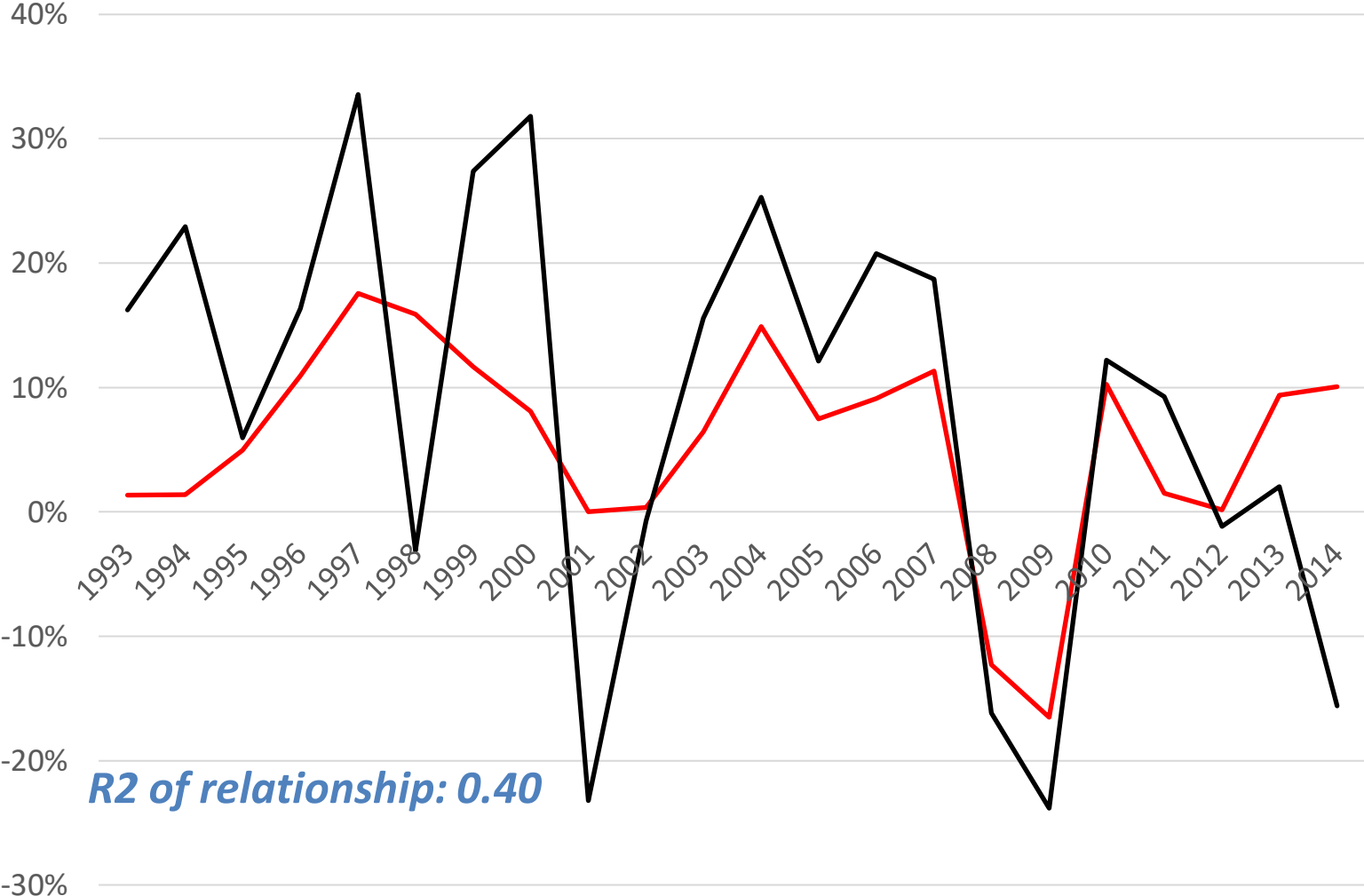
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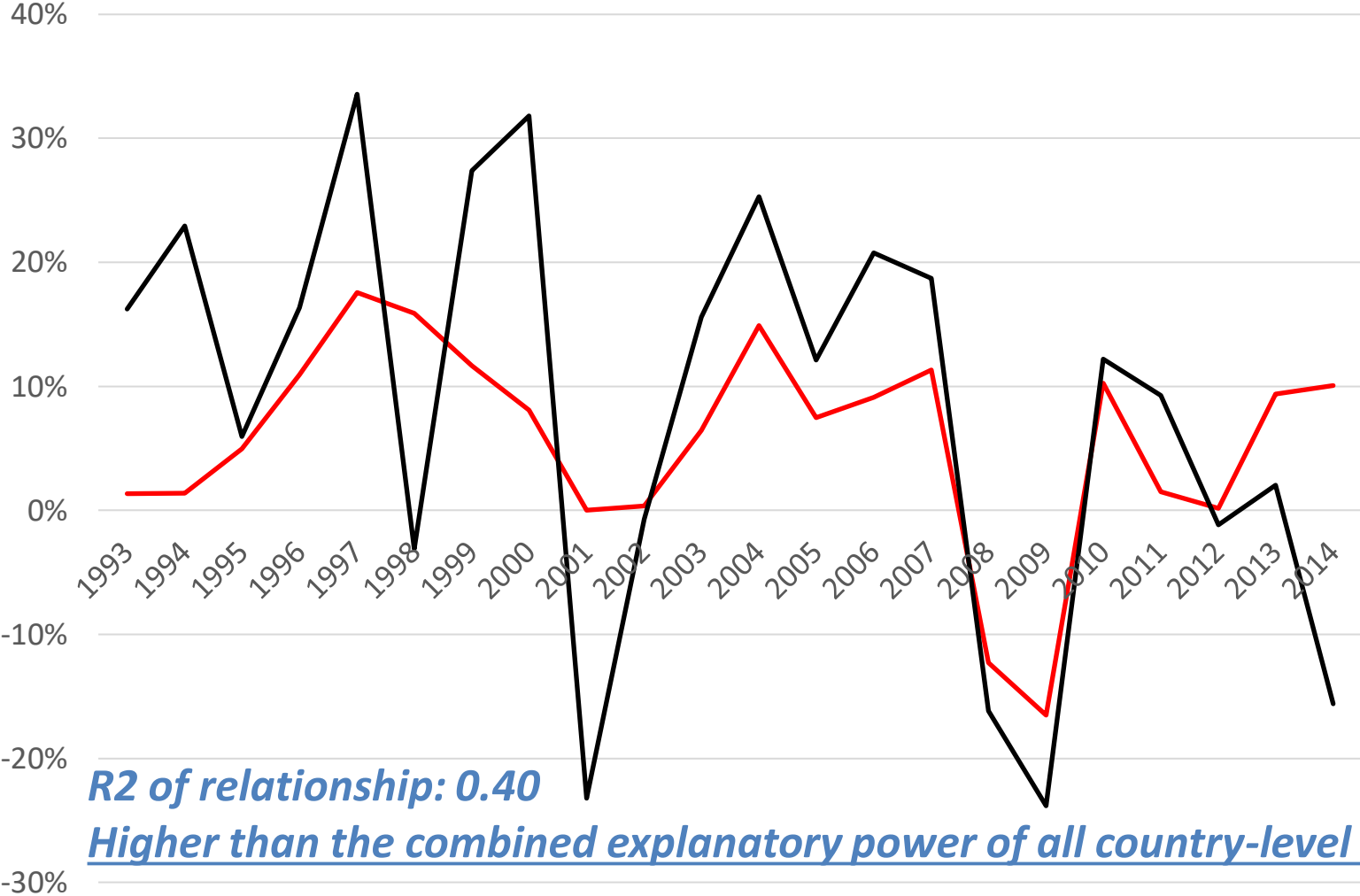
# Year-on-year ratio change in worldwide developing and transition economy client formation & performance of key asset markets



*R2 of relationship: 0.40*

- YOY change in US stock & UK real estate index (ratio)
- YOY change in MF & Appleby shell company formation (ratio)

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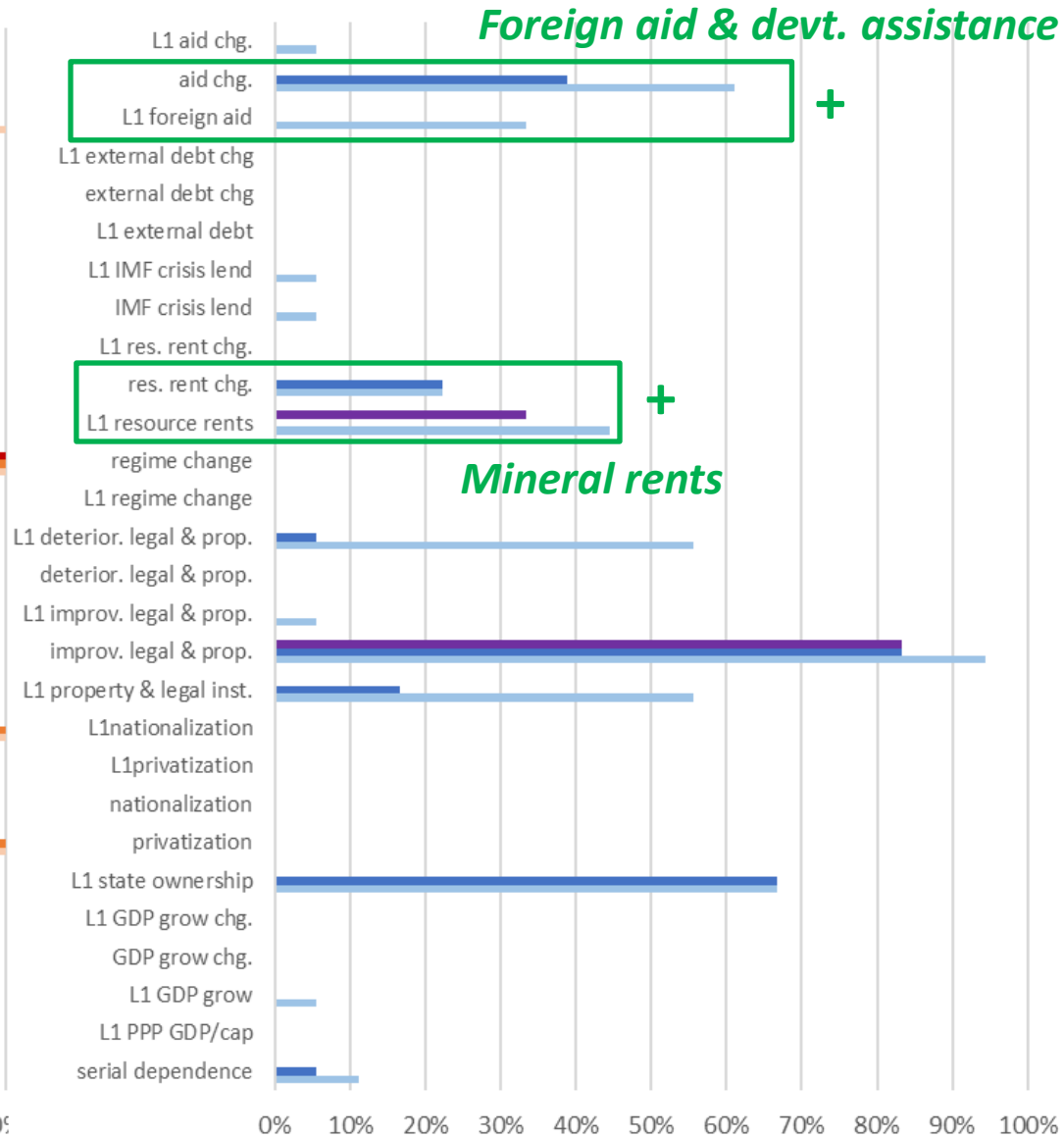
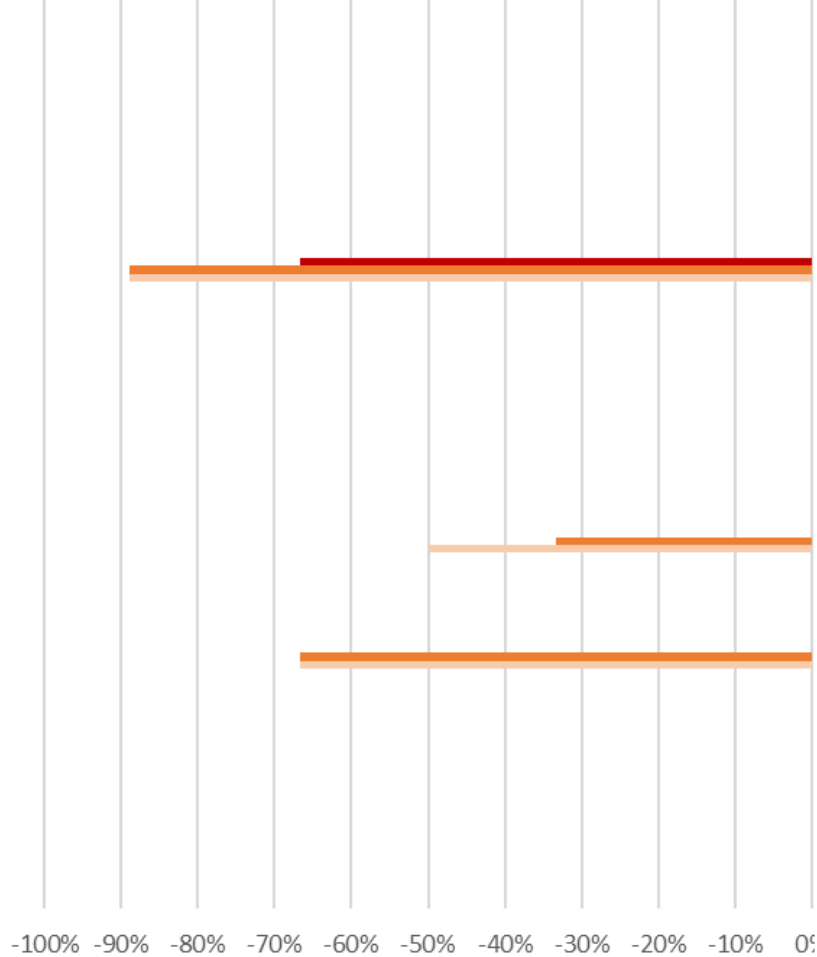
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**Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: All Low and Middle Income Countries**  
 percent of models in which a variable is statistically significant (sensitivity analysis based on co. formation threshold and data leak)

*Summary of multi-model sensitivity analysis (based on different samples)*



**All middle and low-income countries (time series shell co formation determinants)**

■ triple agreement (neg) ■ 1pct sig. (negative) ■ 5pct sig (negative)      ■ triple agreement (pos) ■ 1pct sig. (positive) ■ 5pct sig (positive)



**Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: Countries with no History of Communist Rule**  
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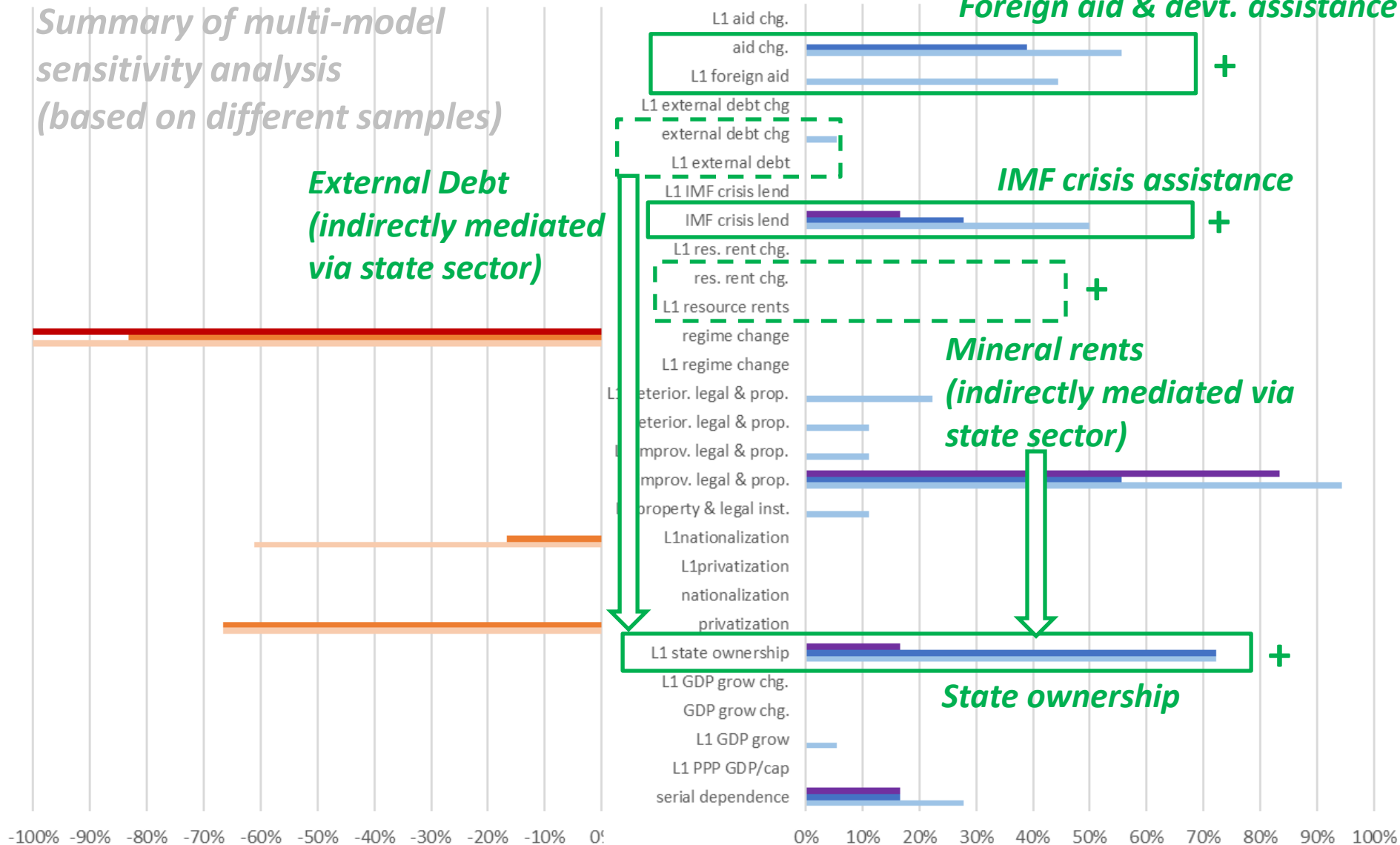
**External Debt (indirectly mediated via state sector)**

**Foreign aid & devt. assistance**

**IMF crisis assistance**

**Mineral rents (indirectly mediated via state sector)**

**State ownership**



**Countries with no communist history (time series shell co formation determinants)**

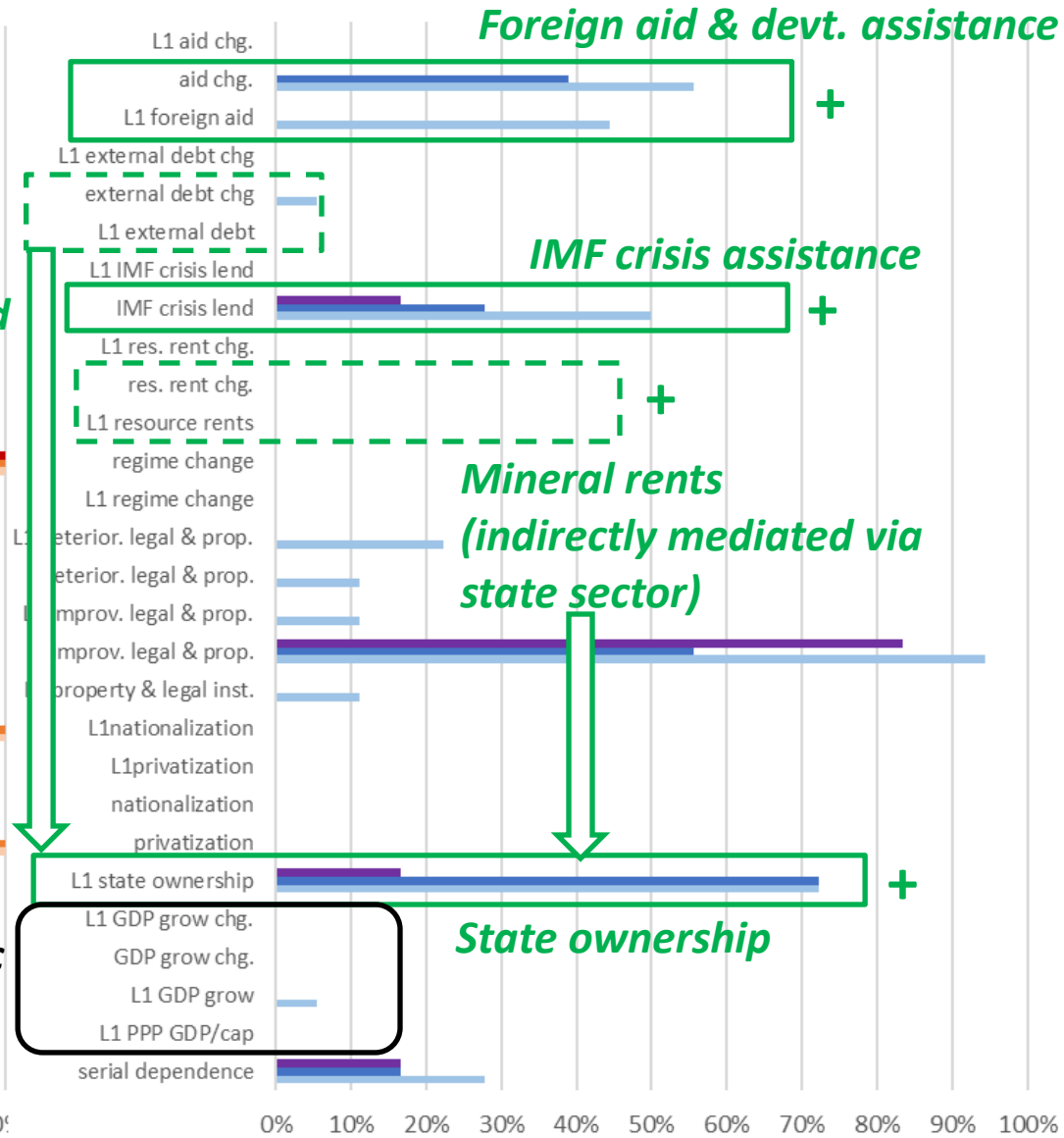
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**External Debt (indirectly mediated via state sector)**

**No general country-specific business cycle impact**



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# Results 2.2: Time Series Determinants of Shell Company Formation

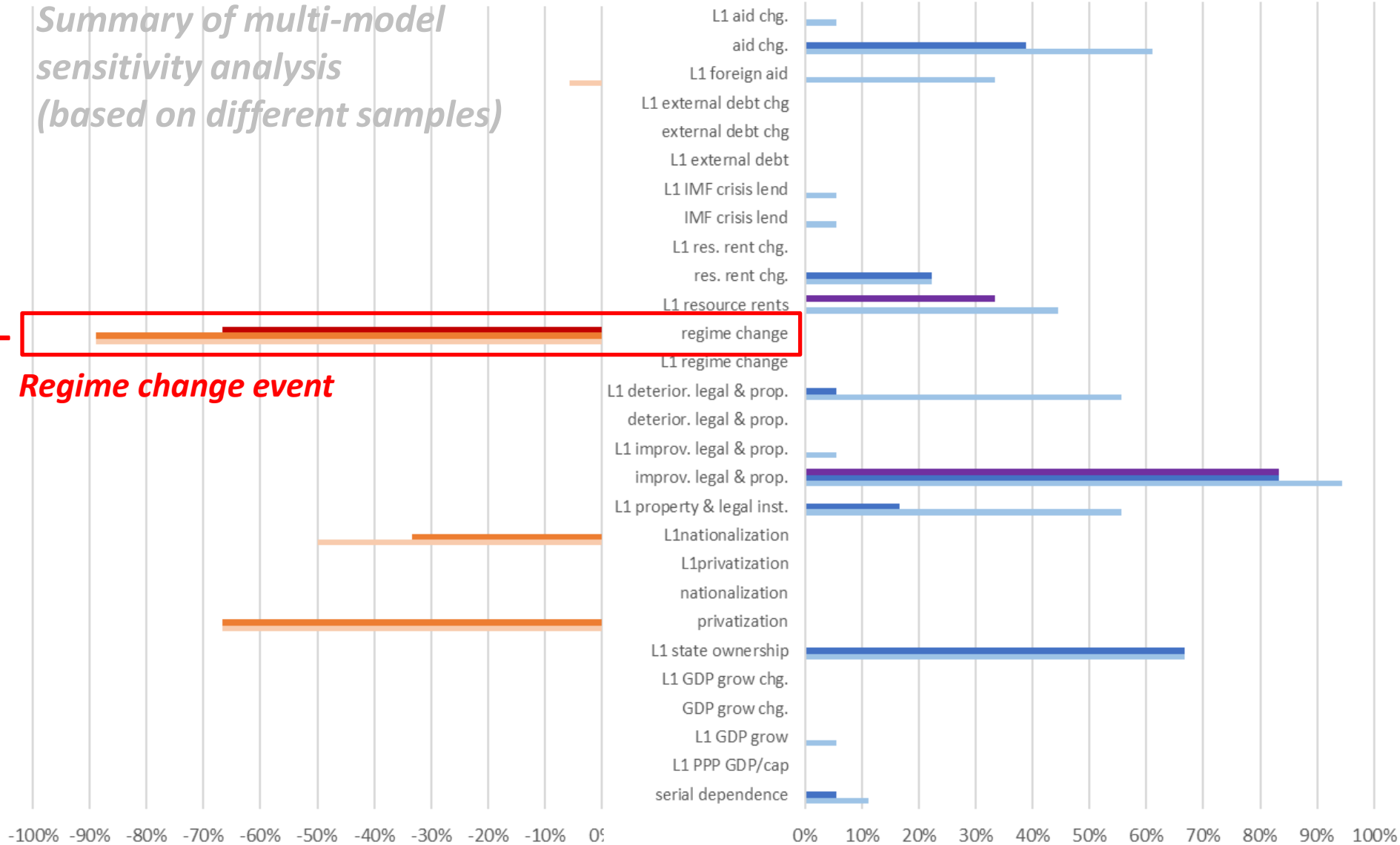
What are the causal mechanics of shell company formation, including “high risk” formation, by developing and transition economy clients?

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**Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: All Low and Middle Income Countries**  
 percent of models in which a variable is statistically significant (sensitivity analysis based on co. formation threshold and data leak)

*Summary of multi-model sensitivity analysis (based on different samples)*



**All middle and low-income countries (time series shell co formation determinants)**

■ triple agreement (neg) ■ 1pct sig. (negative) ■ 5pct sig (negative) ■ triple agreement (pos) ■ 1pct sig. (positive) ■ 5pct sig (positive)

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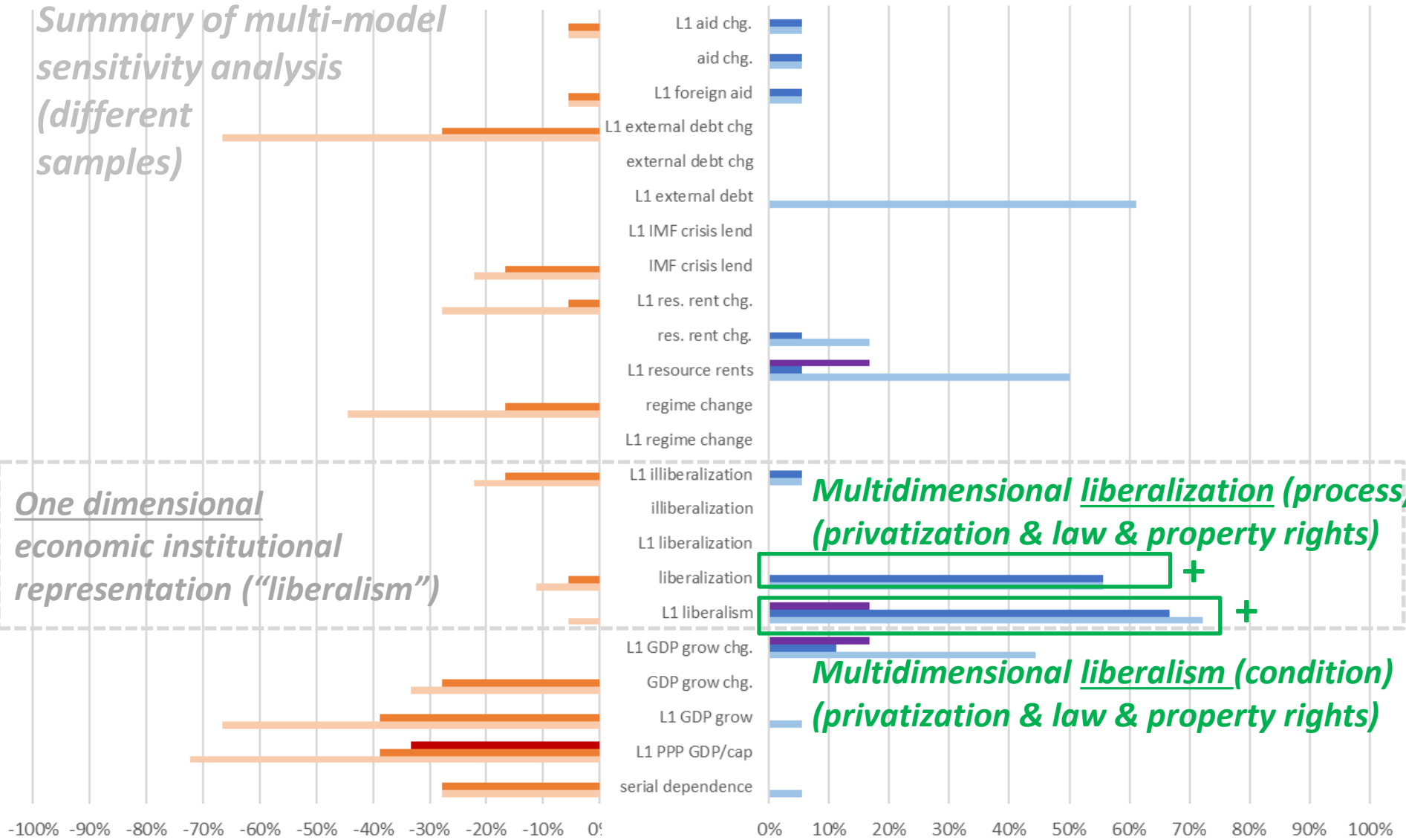
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 percent of models in which a variable is statistically significant (sensitivity analysis based on co. formation threshold and data leak)

*Summary of multi-model sensitivity analysis (different samples)*

*One dimensional economic institutional representation ("liberalism")*



*Multidimensional liberalization (process) (privatization & law & property rights)*

*Multidimensional liberalism (condition) (privatization & law & property rights)*

**Countries with communist history (time series shell co formation determinants)**

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-100% -90% -80% -70% -60% -50% -40% -30% -20% -10% 0%



*Legal and private property Institutional strengthening*

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*Two dimensional economic institutional representation (state ownership & Law/property rights)*

*Effects appear to be entangled with mineral rent & debt recycling, & external debt crises*



**Privatization event**

**Legal and private property Institutional strengthening**

**State ownership level**

## Countries with no communist history (time series shell co formation determinants)

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# Does Transparency bring Cleanliness?

## Three-part analysis:

### – **Part 1: Mapping Financial Secrecy Around the World, 1990-2015**

- **Q:** How has the world map of financial secrecy and IFF-regulation changed at the jurisdiction level?
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### – **Part 2: Understanding the Drivers of Offshore Shell Company**

Formation by Developing and Transition Economy Clients

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- **Method:** Joint panel regression analysis of RIFF indicators and Panama and Paradise Papers data **(in progress) -> preliminary findings**

# Impacts of Financial Secrecy Reform (preliminary)

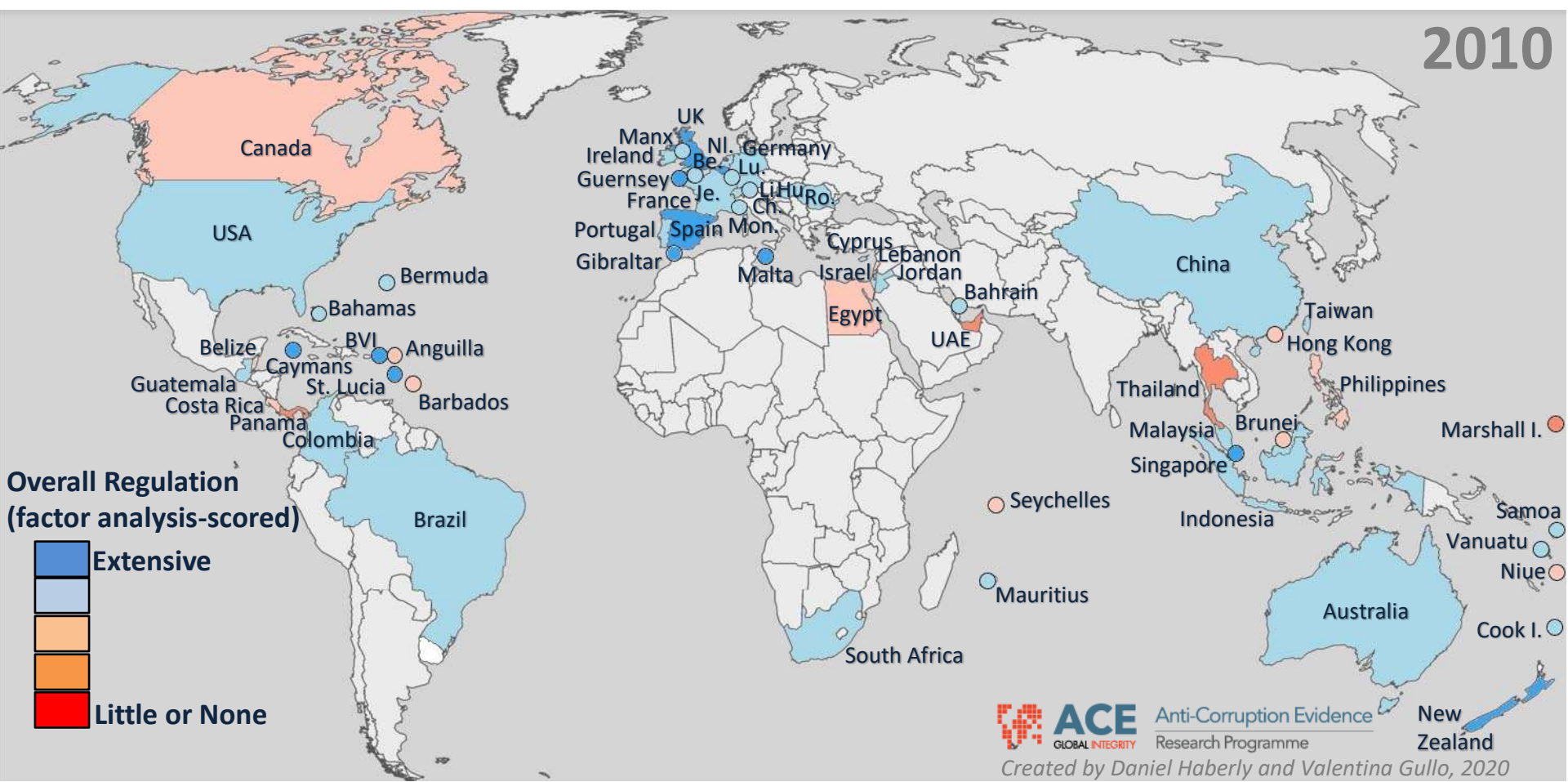
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2010



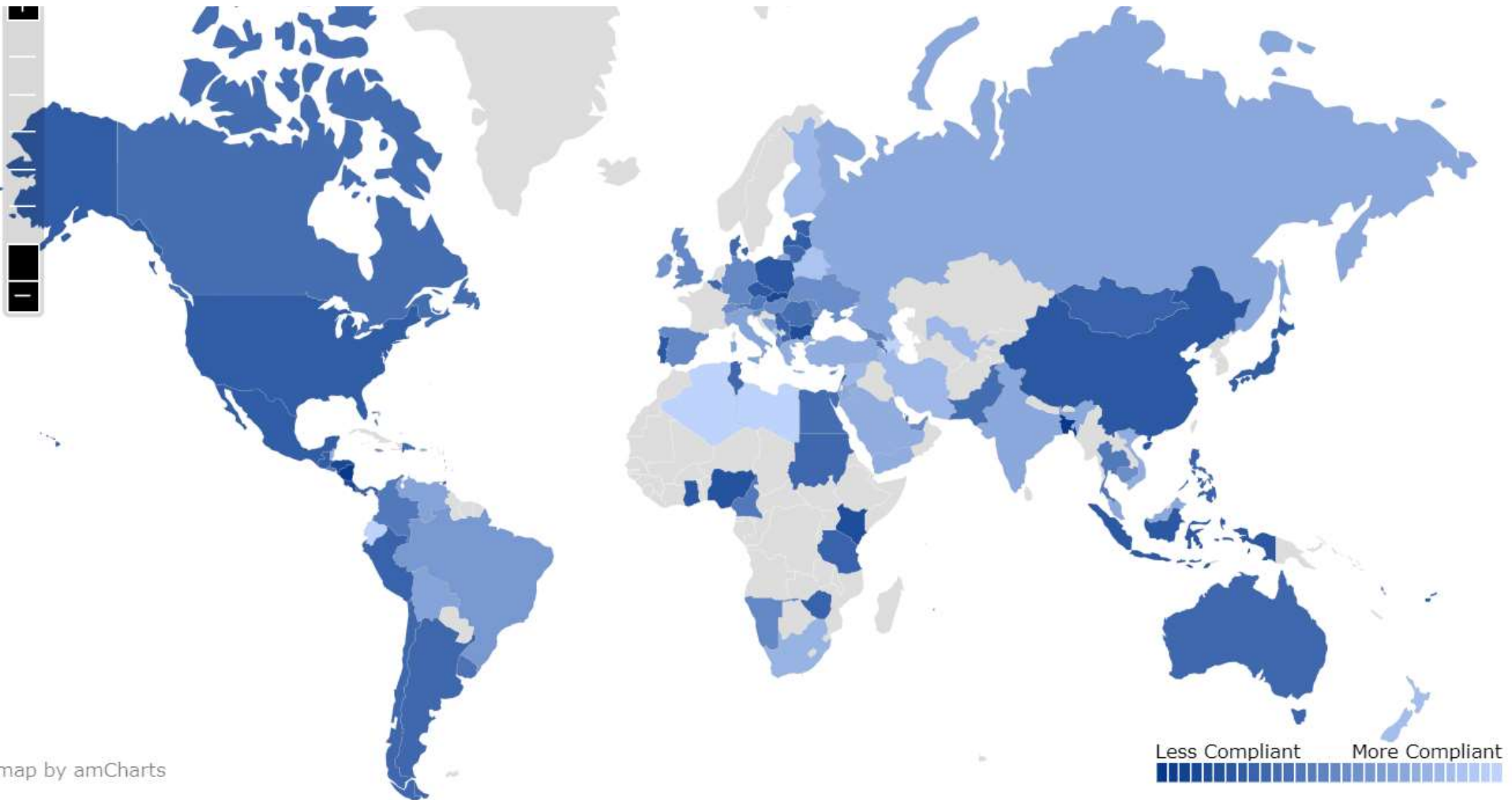
**ACE** Anti-Corruption Evidence  
GLOBAL INTEGRITY Research Programme  
 Created by Daniel Haberly and Valentina Gullo, 2020

# Overall RIFF Composite Regulatory Score

**Scored based on factor analysis of 10 (of 16) indicators selected to minimize missing data; first factor explains 87% of total variance in 10 indicators**

Includes bearer shares ban/immobilization, suspicious transaction whistleblower protections, suspicious transaction reporting obligations, client tip-off restrictions, automatic exchange of information, client due diligence (general), PEP enhanced due diligence, ML criminalization drugs, ML criminalization other, financial intelligence unit)



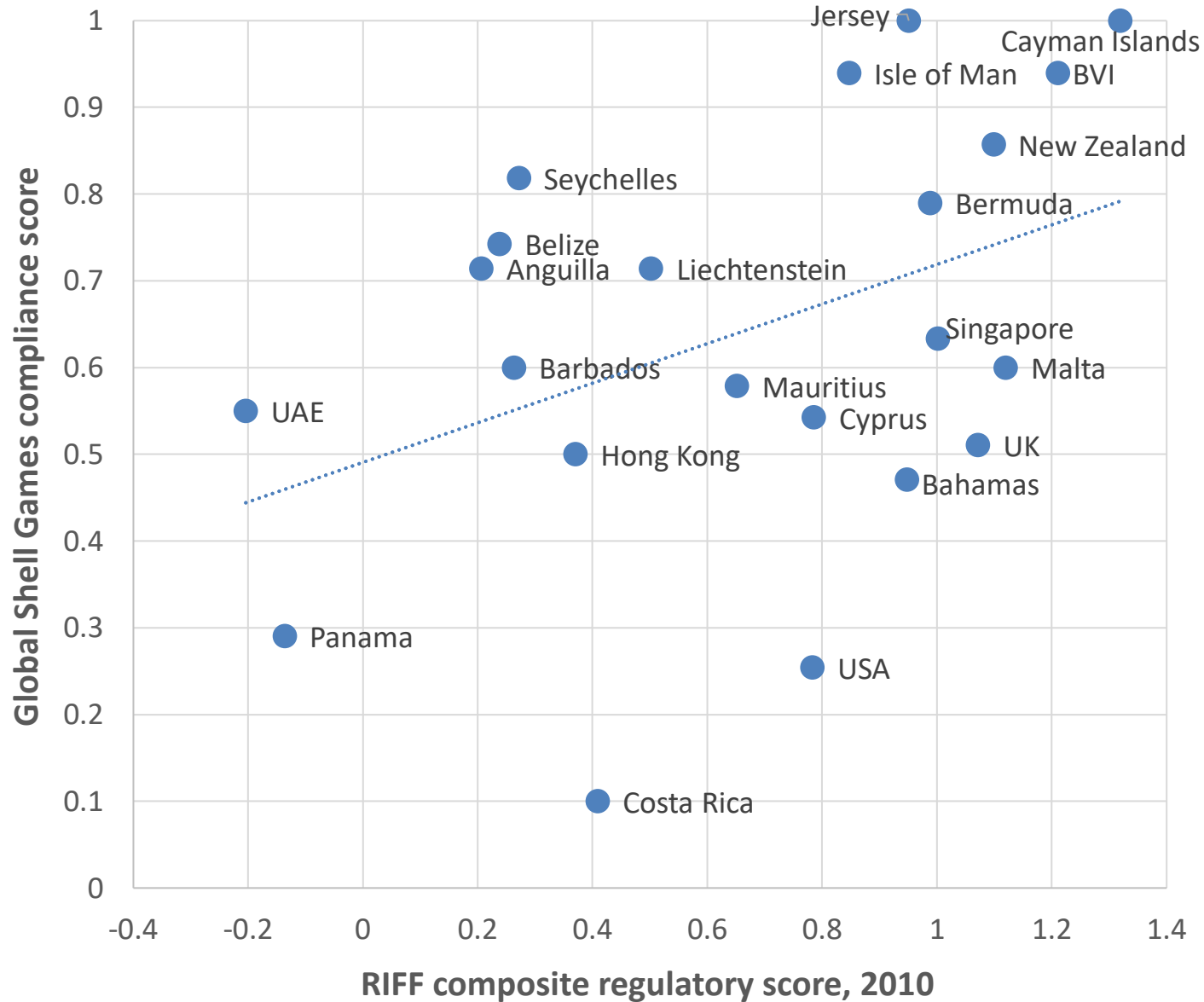


# Global Shell Games Service Provider Compliance Scores

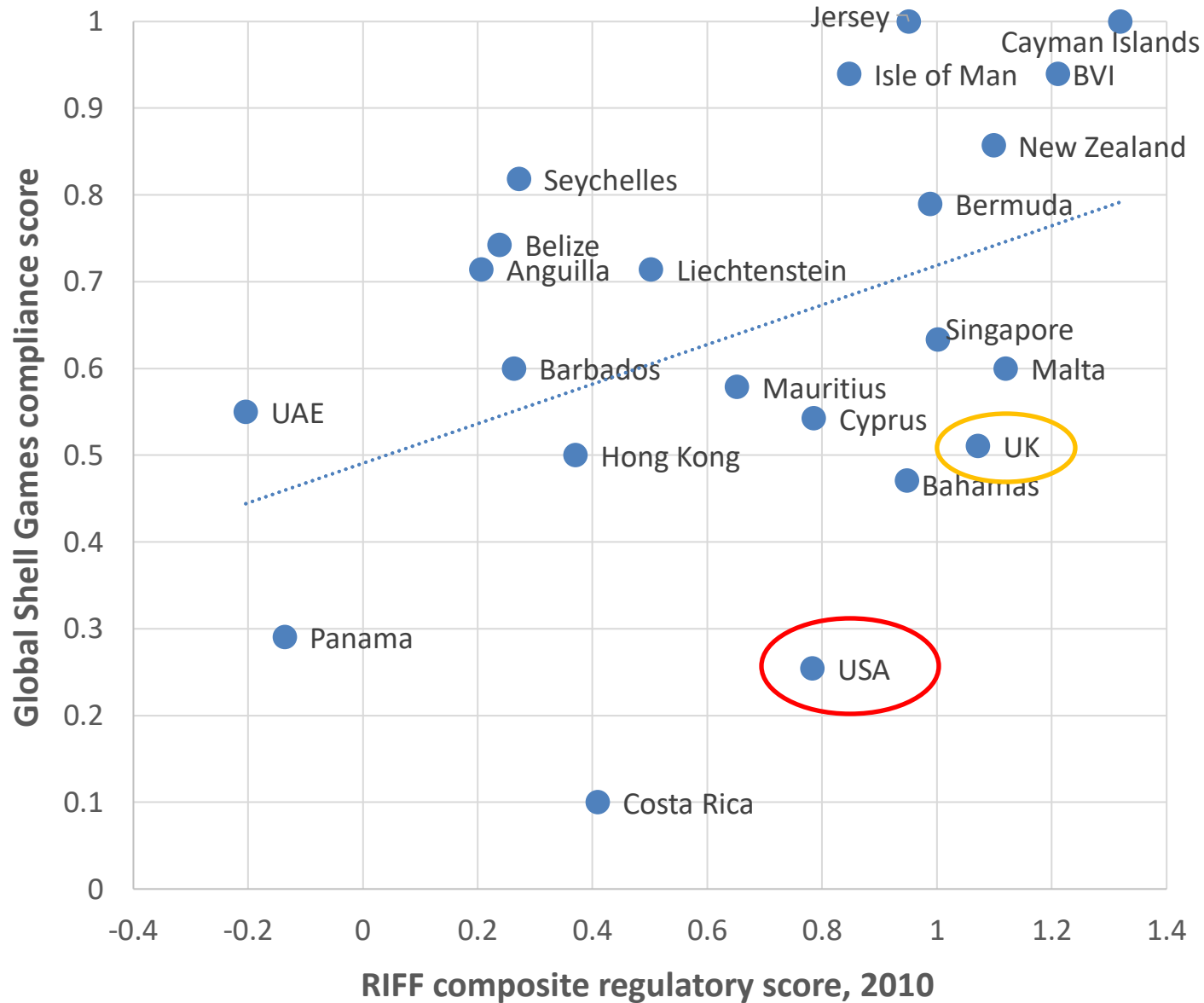
<http://www.globalshellgames.com/results--maps.html>

Source: Findley, M. G., Nielson, D. L., Sharman. 2014. *Global Shell Games* (online data mapper)

# Relationship between 2010 RIFF composite regulatory scores, and Global Shell Games service provider compliance scores



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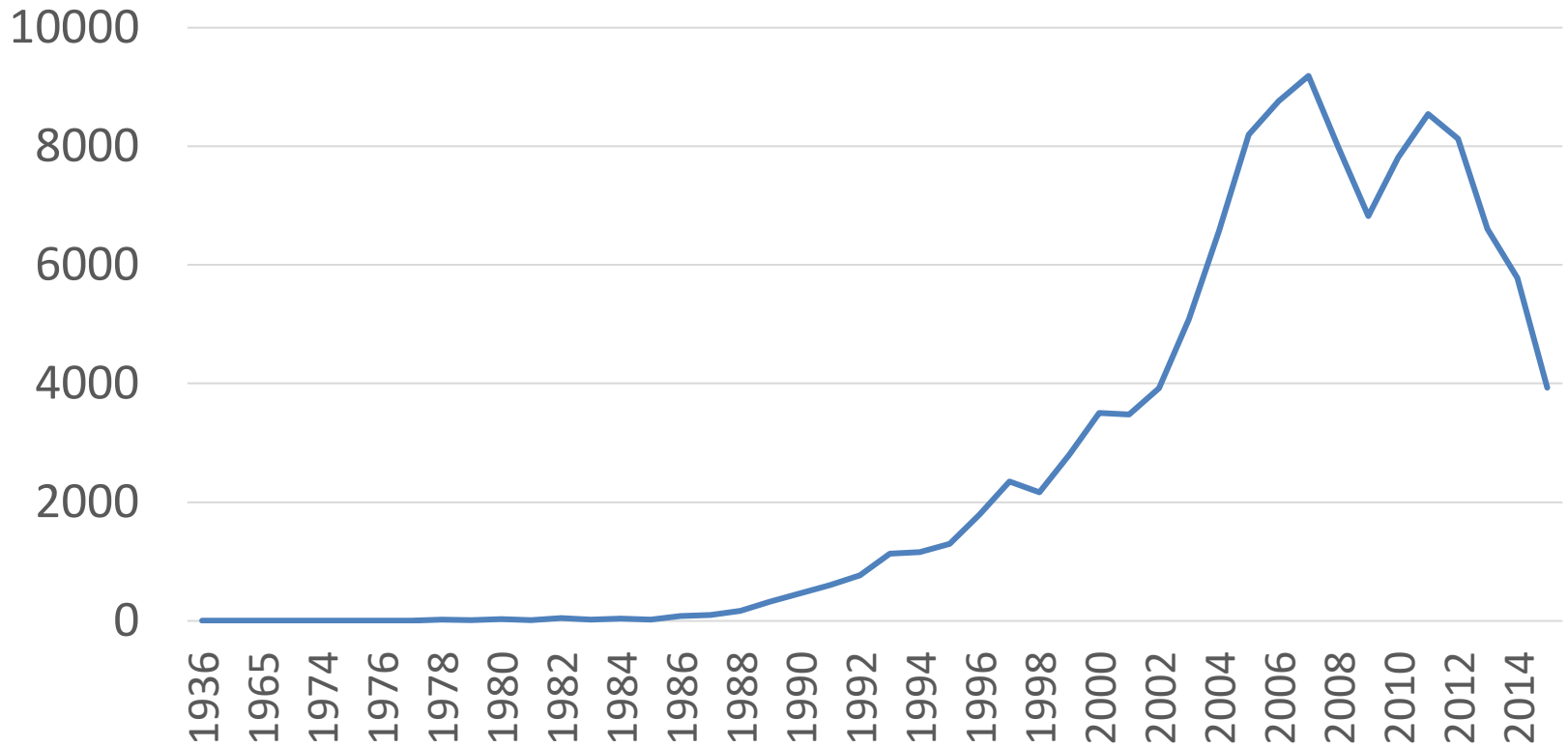
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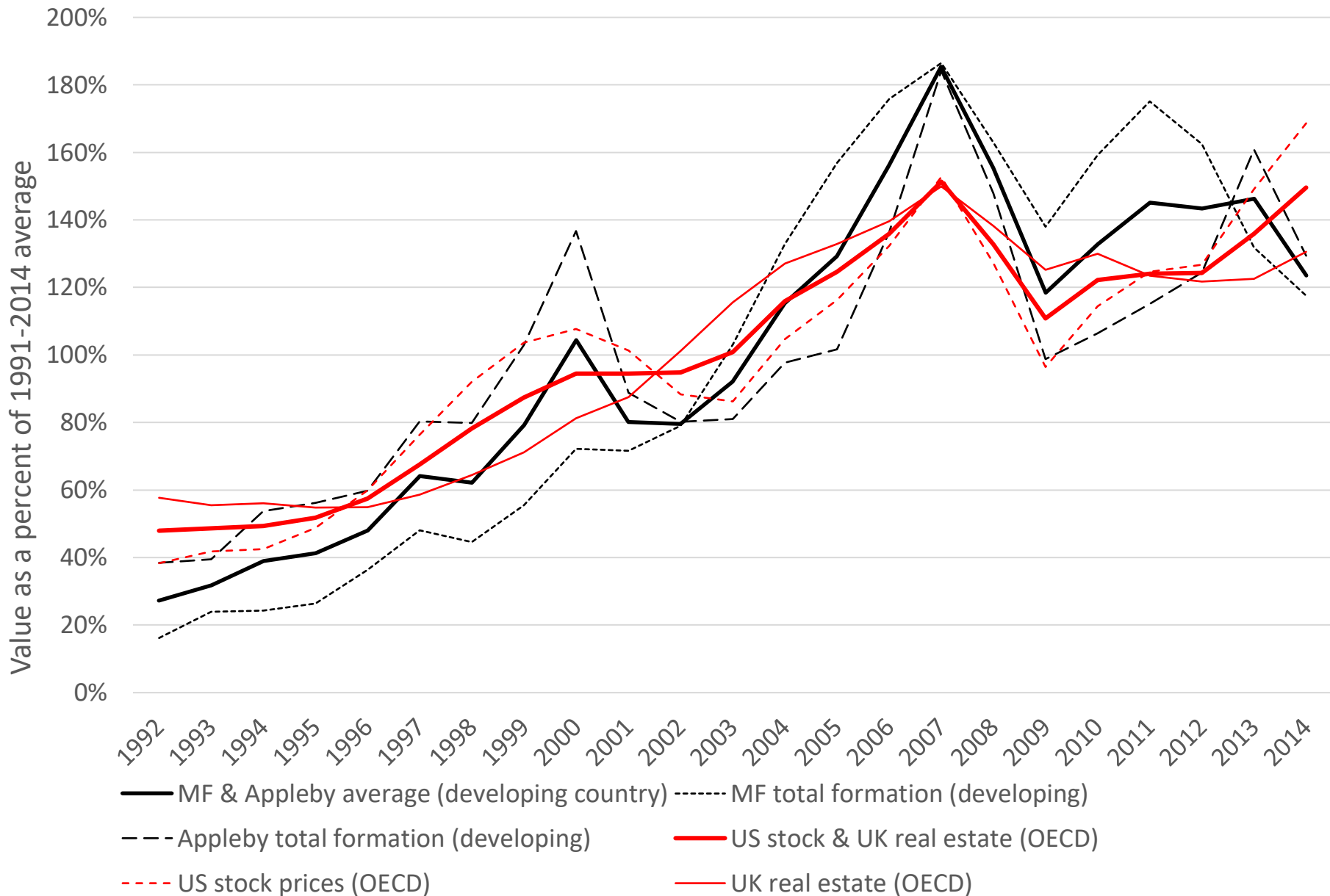
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## Panama Papers – Number of Entities Created by Year



# Worldwide developing & transition economy client offshore company formation & performance of key asset markets





# Conclusions and Implications

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  - *Link overseas official assistance inflows to capital controls?*

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  - *Paradox of building “good institutions” is that it creates bad opportunities?*

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  - (Taxation!)

An aerial photograph of a city skyline, likely London's Canary Wharf, featuring several prominent skyscrapers. The HSBC logo is visible on one of the buildings. The foreground shows a dense residential area with many houses and trees. The sky is overcast.

**Thank You!**

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**Valentina Gullo, [v.gullo@sussex.ac.uk](mailto:v.gullo@sussex.ac.uk)**