

From Secrecy to Scrutiny:

A New Map of Illicit Global Financial Networks and Regulation

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1. Introduction

This briefing paper summarises research conducted under the Anti-Corruption Evidence Programme (ACE Programme), which will be fully published in due course. This paper presents the analysis of three datasets which help to illustrate the geographic structure of different types of Illicit Global Financial Networks, how this has changed over time, and how it has been affected by changing regulatory regimes:

- The Regulation of Illicit Financial Flows (RIFF) dataset documents the evolution of the global illicit financial flows (IFF) regulatory landscape over the past 30 years, covering 23 regulatory indicators for 70 jurisdictions between 1990 and 2020. This dataset integrates various resources, including from the Financial Action Task Force (FATF) and the Tax Justice Network, to create a historically consistent and continuous dataset suitable for use in statistical analysis. The data here updates and expands upon the previous version of the RIFF dataset, and supports what we believe to be the most geographically and historically extensive analysis to date of changes in the global IFF regulatory landscape.
- Location of bank accounts, shell companies and intermediaries linked to bribery in US Foreign Corrupt Practices Act (FCPA) cases. This is, to the best of our knowledge, the first dataset to compile all available information on the use of bank accounts, shell companies, intermediaries, and other financial arrangements implicated in US FCPA cases, obtained through the systematic review of US DOJ and SEC case documents. This dataset covers 262 FCPA cases between 1978 and 2023, encompassing 790 bribe payer firm - bribe recipient country relationships, and has allowed us to conduct a comprehensive analysis of the use in FCPA cases of third country financial structures, which span countries other than that of the ultimate bribe payer or recipient.
- Location of entities sanctioned by the US Office of Foreign Assets Control (OFAC). This dataset compiles information on more than 10,000 US-sanctioned entities on the OFAC sanctions list, cross-referenced to integrate additional data from multiple sources. We believe this dataset to be the most comprehensive resource constructed to date on several key sanctioned entity data points including entity functions, network relationships, year of formation, and financial service providers. The dataset has allowed us to conduct a comprehensive analysis of the changing historical architectures of different types of cross-border sanctioned entity networks, spanning jurisdictions other than the home country of underlying sanctioned actors.

Taken together, these three datasets provide an unprecedented view of how the structure of different types of illicit global financial networks have evolved in conjunction with the changing global illicit financial regulatory landscape, over the past few decades. The findings have important implications for our assessment of existing policy impacts and effectiveness, and the targeting of new policies going forward.

2. Key Findings

1. Mismatch in Anti-Corruption Financial Regulatory Focus

There is a disparity between the emphasis of the international illicit financial flows (IFF) regulatory framework and the requirements of anti-corruption accountability.

While the primary focus of the IFF regulatory framework, led by organisations such as FATF and OECD, is on ensuring governmental access to client data and facilitating international data sharing, anti-corruption initiatives are largely driven by non-governmental actors such as journalists and civil society organisations.

These actors are largely excluded from intergovernmental mechanisms, suggesting the need for a redefinition of the IFF framework to better support the broad public foundations essential for government accountability.

2. Widening Disconnect between AML/CFT and Financial Transparency

While the stringency of AML/CFT compliance was once closely linked to broader financial transparency in areas such as banking, this link has now become weaker at the jurisdiction level. As a group, offshore jurisdictions appear to have mostly caught up with or even overtaken major developing countries in AML/CFT compliance, but still tend to lag in specific areas of financial transparency.

3. USA and China Have Significant Regulatory Deficiencies

While offshore jurisdictions still have specific regulatory gaps, the most consequential deficiencies in AML/CFT and financial transparency now appear to be in the world's two largest economies, the USA and China. Beyond the analysis of IFF regulatory frameworks, FCPA case data suggests that the USA may have replaced Switzerland as the banking centre of choice for corrupt transactions.

4. The Decline of London and the Emergence of the “Dubai-Kong Axis”

While there is substantial functional and regional variegation in illicit global financial networks, their overall centre of gravity appears to be shifting from London, to Dubai and Hong Kong, with the latter two centres increasingly closely linked together. These jurisdictions offer access to English common law and leading Western financial centres and service providers, while falling outside of Western political jurisdiction.

5. Geographic Mobility and Path Dependence of Illicit Global Financial Networks

Illicit global financial networks display a degree of mobility in response to regulatory and other pressures. However, this mobility is inherently constrained and uneven across different activities, due to the path-dependent nature of the evolution of financial networks. These networks are grounded in durable complexes of institutions and trust-based relationships, which develop over long historical timescales, and naturally tend towards geographic centralisation.

- **US Antagonistic States:** Financial networks created by US antagonistic states have moved from leading Western financial centres, to major non-Western centres with strong institutions and ties to the West, mediated largely through post-colonial ties. The largest shift is from London to the Dubai-Kong axis.
- **Organised Criminal Networks:** Dubai and Hong Kong are also increasingly important hubs in criminal networks, whereas Panama's formerly leading role appears to have declined following the release of the Panama Papers.
- **Terrorist Networks:** Post-9/11, non-Iran-linked terrorist networks were significantly disrupted and forced to relocate to peripheral locations outside the main global financial centres, restricting their global reach.
- **Corruption-Linked Networks:** These remain largely centred on the financial centres of Western countries, and offshore jurisdictions under the control of these countries, with minor adjustments. The UK and its overseas territories and dependencies remain disproportionately important in corruption-linked, as opposed to other types of illicit networks. It is unclear whether this relative fixity is the result of lower levels of political and regulatory pressure, or lower ease of geographic mobility, as compared to other types of illicit networks.

3. Regulation of Illicit Financial Flows (RIFF) Dataset

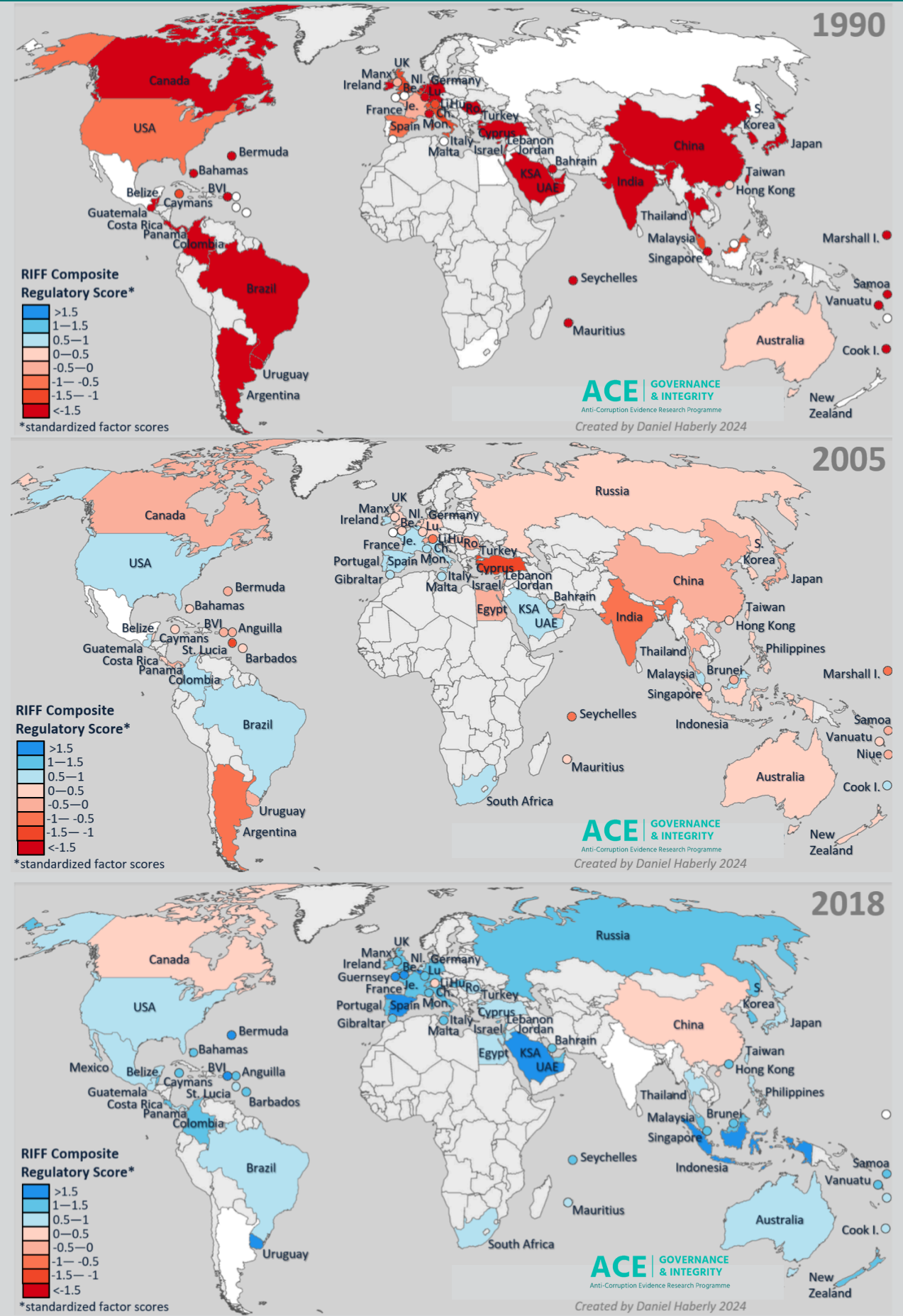


Figure 1. Evolution of RIFF composite regulatory scores, 1990-2018

What do these maps show?

- **Evolution of IFF Regulation:** The diagrams illustrate the international progression of Regulation of Illicit Financial Flows (RIFF) composite scores from 1990 to 2018, highlighting how regulatory measures have strengthened over time, especially in the areas of anti-money laundering (AML) and countering the financing of terrorism (CFT).
- **Geographic Disparities and Progress:** As of 1990, the majority of countries exhibited poor IFF regulatory environments (red). Over the 1990s, major developed countries spearheaded improvements, while most offshore jurisdictions and developing countries lagged. By 2018, however, upward global regulatory convergence (blue) can be seen across formerly underperforming regions, with offshore jurisdictions showing particular improvement.
- **Impact of International Pressure:** Post-2000, and particularly after 9/11, international initiatives such as the OECD's harmful tax competition initiative and FATF blacklisting appear to have promoted rapid regulatory improvements in offshore jurisdictions and developing countries, often overtaking reforms in OECD and FATF members themselves.

Key Findings from RIFF Dataset

- **Offshore Jurisdiction Improvement in AML Regulations and Counterterrorism Finance Controls:** Offshore jurisdictions have improved significantly in AML/CFT stringency, outperforming many OECD countries on average.
- **Financial Secrecy Remains a Feature of Offshore Jurisdictions:** Offshore jurisdictions continue to underperform most OECD states in financial secrecy. Key offshore regulatory discrepancies include maintaining statutory banking secrecy laws while signing onto international financial information exchange agreements, and preserving opacity for trusts while adopting beneficial ownership registers.
- **Non-Governmental Financial Secrecy:** Offshore jurisdictions are less likely to make company beneficial ownership information public, despite often having well-maintained registers. They also sometimes continue to use banking secrecy laws to prosecute whistleblowers and journalists, even while sharing banking information with other governments.
- **Low Regulatory Performance of US and China:** As of 2020, the world's two largest economies show a particularly poor combination of lax AML/CFT, and low financial transparency, as compared to nearly all other jurisdictions tracked.

Conclusions from RIFF Dataset

Arbitrage Opportunities:

- Discrepancies in areas such as trust versus corporate transparency create opportunities for regulatory arbitrage.
- Offshore jurisdictions have caught up with developed countries in AML/CFT stringency, but retain relatively high levels of financial secrecy, albeit through less overt devices than in the past.

Role of Non-Governmental Actors:

- Public access to beneficial ownership information is crucial for journalists and civil society to investigate illicit financial activities.
- Offshore jurisdictions often withhold this information from the public, impeding non-governmental investigations.

Need for powerful states to lead by example:

- Low standards in the world's two largest economies undermine the legitimacy and effectiveness of the global IFF regulatory framework, and should be a key focus for reform.

4. Global Financial Networks in US FCPA Bribery Cases

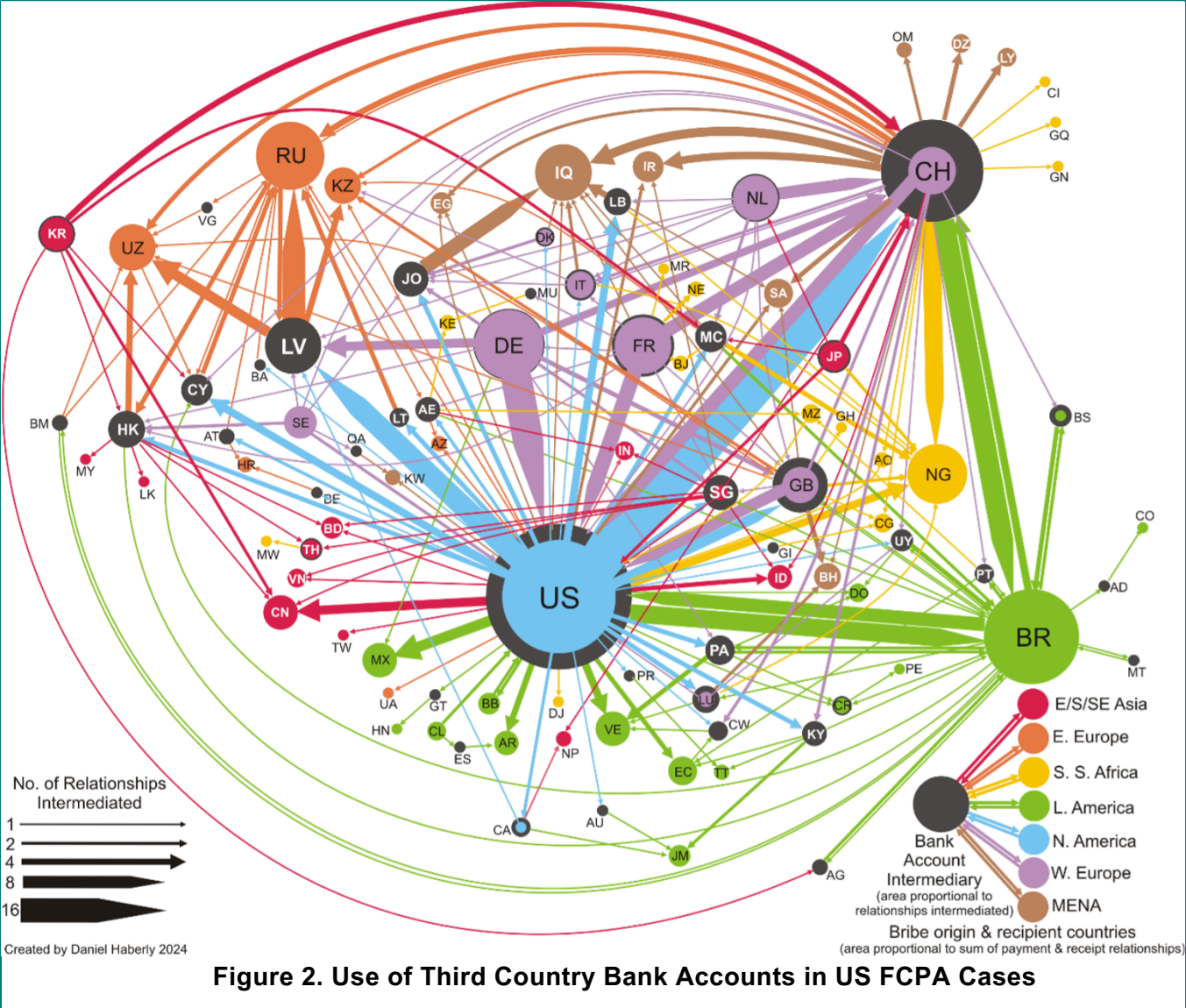


Figure 2. Use of Third Country Bank Accounts in US FCPA Cases

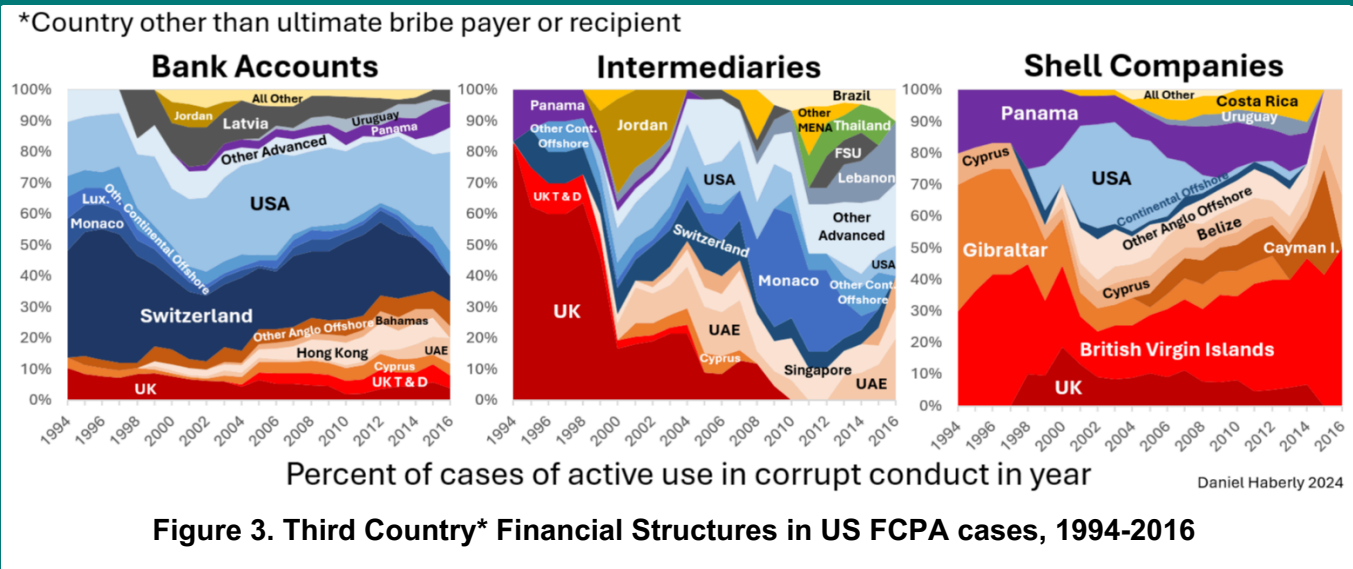


Figure 3. Third Country* Financial Structures in US FCPA cases, 1994-2016

What do these diagrams show us?

- **Third-Country Bank Accounts in Bribery Cases:** Figure 2 illustrates the geography of third-country bank accounts documented in US Foreign Corrupt Practices Act (FCPA) cases. This figure shows the use and network relationships of all bank accounts in countries other than those of the ultimate bribe payer or recipient. The size of each circle represents the number of corrupt relationships intermediated through bank accounts in each country, while the lines indicate the flow of bribes. The colour-coded regions denote the geographical areas involved: East/Southeast Asia, Eastern Europe, Sub-Saharan Africa, Latin America, North America, Western Europe, and the Middle East/North Africa.
- **Changing geography of corruption-enabling financial networks:** Figure 3 shows three different dimensions of the organisation of corruption-facilitating financial networks, in third country jurisdictions other than that of the ultimate bribe-payer or bribe recipient. From left to right, the figures show the percentage of corruption-facilitating bank accounts, intermediaries and shell companies that were based in different jurisdictions in each year. The wider the band, the greater the percentage of the documented corrupt relationships at that time that were making use of a particular type of structure in a particular jurisdiction.

Key Findings from FCPA Dataset

- **Decline of Switzerland and Rise of the US:** Switzerland (CH) and the United States (US) are the dominant global hubs for corruption case-linked banking. However, there has been a notable decline in the use of Swiss bank accounts in FCPA cases, possibly due to increased international pressure to adopt banking information exchange mechanisms including the OECD Common Reporting Standard (CRS). By the end of the time series the US, which has not adopted the CRS, had replaced Switzerland as the leading banking centre in FCPA cases.
- **Decentralisation of Intermediaries:** The once dominant role of London as a corruption intermediary centre has diminished, with several other centres, including Monaco, Dubai, and Singapore becoming more prominent.
- **Prominent Role of British Virgin Islands:** Nearly half of all shell companies in FCPA cases are domiciled in the UK and its overseas territories throughout the time series, with the British Virgin Islands in the lead. US states, led by Delaware and Florida, play the second most important role as shell company domiciles.
- **Significance of Regionally-Focused Jurisdictions:** In addition to the leading global hubs, several jurisdictions play a crucial role in facilitating aspects of corrupt transactions in particular regions, during particular periods: for example Latvia (LV) in banking in Eastern Europe and the former USSR, or Jordan (JO) in transactions linked to the Iraq oil-for-food program.

Conclusions from FCPA Dataset

- **Shifting Banking Secrecy Centres:** The global landscape of banking secrecy centres appears to be shifting, with the US increasingly becoming a hub for corruption-related banking as Switzerland faces greater scrutiny.
- **Geographic Spread of Financial Intermediaries:** While London's dominance as a corruption intermediary centre has waned, other global financial centres, particularly in the Middle East and Asia, are rising in prominence.
- **Anglo-American Dominance in Shell Company Hosting:** More than half of all shell companies in corruption cases are established under either US or UK jurisdiction, including UK Overseas Territories and Crown Dependencies, with the British Virgin Islands hosting the largest number of companies.

5. Sanctioned Actors: Structure of Related Entity Networks

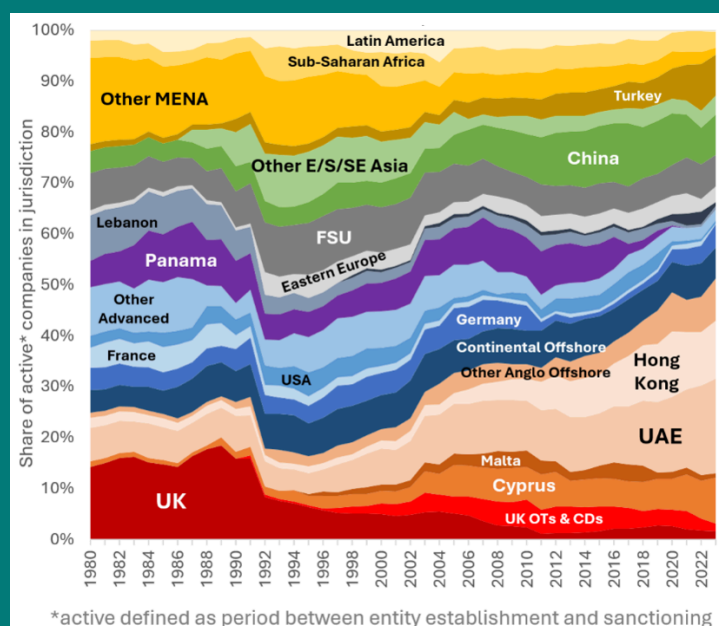
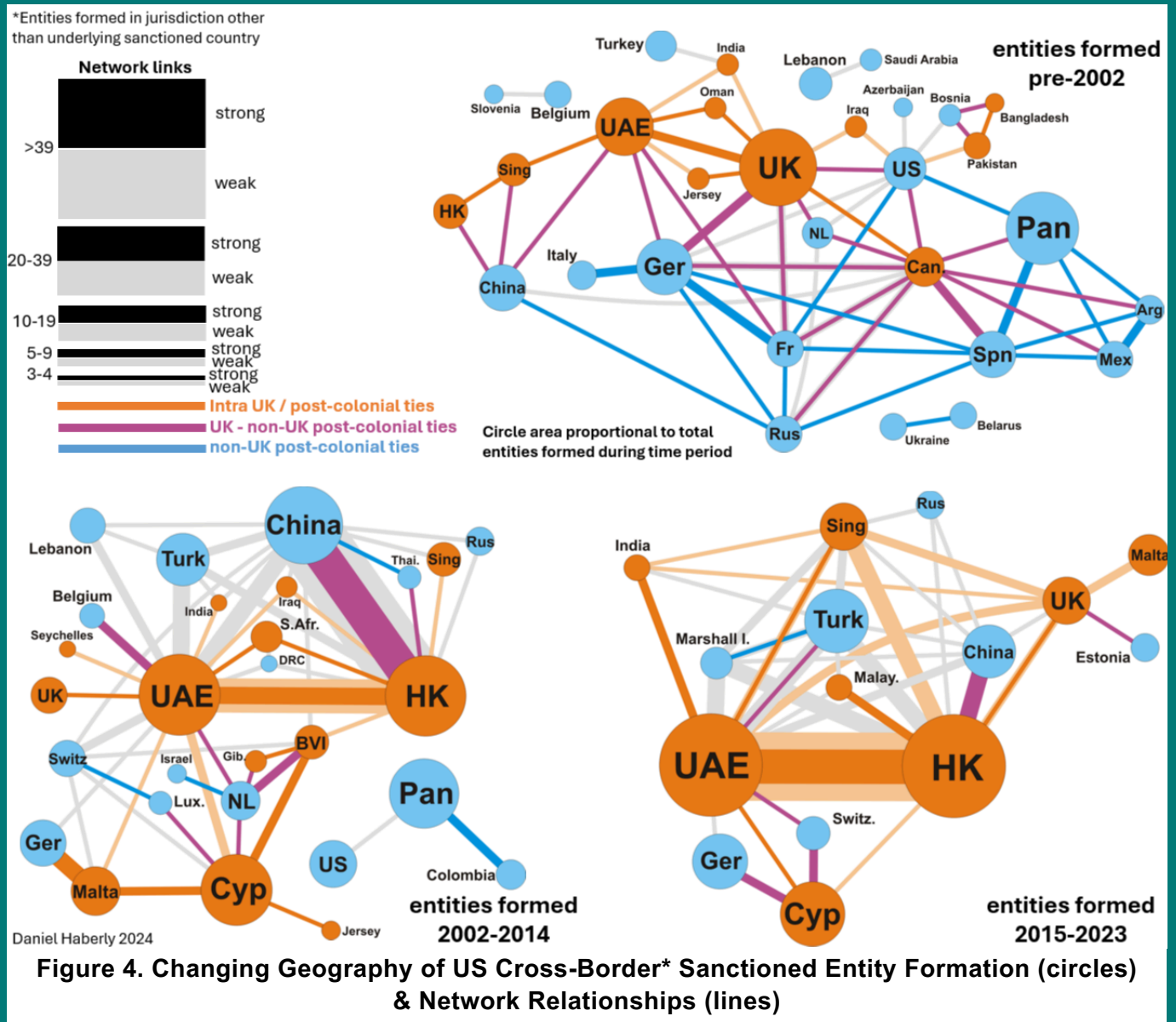


Figure 5. Active* US Sanctioned Cross-Border Entities by Jurisdiction, 1980-2023

What do these diagrams show us?

- **US Sanctioned Cross-Border Entities:** Figures 4 and 5 illustrate the changing geography of US-sanctioned cross-border entities formed in jurisdictions other than the country of underlying sanctioned actors. In figure 4, circle sizes represent the percentage of US sanctioned cross-border entities formed in each jurisdiction during each time period. In figure 5, the changing width of the coloured bands represents the percentage of all active cross-border entities based in each jurisdiction, with active defined as the period between formation and sanctioning.
- **Strength and Nature of Links:** The thickness and colour of the lines in figure 4 indicate the strength and nature of the connections, with thicker lines representing a larger number of ties, while darker lines represent stronger ties. Different colours highlight the footprint of former British colonial relationships in the network:
 - **Orange** for intra-UK post-colonial jurisdiction ties (in British Empire 20th century or later)
 - **Purple** for ties between UK post-colonial and other jurisdictions
 - **Blue** for ties between jurisdictions with no recent history of UK rule

Key Findings from Sanctions Dataset

- **Shift from London to Dubai-Kong Axis:** There has been a shift in the global centre of gravity of sanctioned financial networks from the UK to the UAE and Hong Kong, which are also increasingly strongly connected to one another. These offer access to English common law in finance, and leading Western financial centres and service providers, while falling outside of Western political jurisdiction.
- **Significant and Growing Role of UK Post-Colonial Networks:** Despite the declining role of the UK, the rise of jurisdictions such as the UAE and Hong Kong means that Britain's global network of current and former colonial offshore jurisdictions is increasingly dominant, overall, in sanctioned financial networks, hosting roughly half of cross-border sanctioned entities established since 2020, up from one quarter as of the start of the time series.
- **Shift from the West to the Developing World:** Western countries are disappearing from sanctioned financial networks, while developing countries, including Turkey and China, are increasing in importance.
- **Role of UK Territories and Dependencies in Corruption-linked Networks:** Mirroring the FCPA data, UK Overseas Territories and Crown Dependencies still play a disproportionately large role in corruption-linked sanctioned networks, even while their role has declined in other types of sanctioned networks.

Conclusions from Sanctions Dataset

- **Evolving Financial Networks:** The architecture of sanctioned financial networks is evolving, with Dubai and Hong Kong, rather than Western financial centres, increasingly at their core.
- **Changing Role of the UK:** The role of the UK itself as a hub for these activities has diminished. However, its network of historical colonial and institutional ties, including with Hong Kong and Dubai, remains crucial. The influence of the former British Empire in sanctioned networks is increasing, but no longer rooted in London.
- **Resilience and Path Dependence:** Sanctioned financial networks show geographic resilience and adaptability, but also path dependence. Under pressure they have disproportionately relocated to a handful of leading non-Western financial hubs that have large and growing financial sectors, and close links to London and other leading Western financial centres.

