

Secrecy Strategies

Global Patterns in Elites' Quest for Confidentiality in Offshore Finance

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Central Bank of Bahamas, Anti-Money Laundering Conference



Patterns of Secrecy

- Elites' usage of offshore is highly patterned (Haberly and Wójcik 2015)
- However, **institutional conditions** that drive these patterns are not well understood
- **Research Question**
What accounts for elites' patterned offshore secrecy strategies?

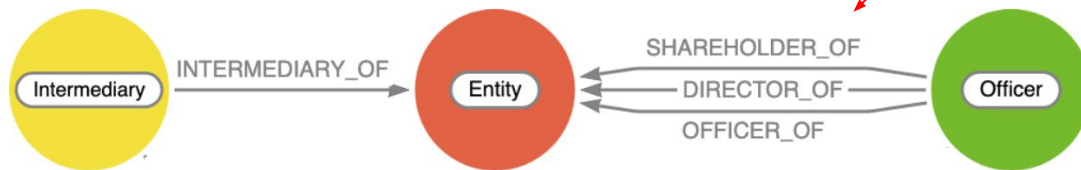
Main Findings

1. Clients from **highly corrupt** countries **diversify** by spreading assets across multiple offshore centers
2. Clients from countries where governments “**know too much**” use offshore **identity-concealment** strategies like nominees and bearer instruments
3. Clients from countries where **both corruption and confiscation** is a risk **diversify** by spreading assets across **blacklisted** offshore financial centers

Dataset 1 | ICIJ Offshore Leaks

Relational database built from *Pandora Papers (2021)*, *Paradise Papers (2017;2018)*, *Bahamas Leaks (2016)*, *Panama Papers (2016)*, and *Offshore Leaks (2013)*.

Focus on three general node classes:



Hundreds of subclass types within each category (i.e. shareholder vs bearer vs direct beneficiary)

Dataset 2 | World Justice Project Rule of Law Index

- **Rule of Law Index:** Statistic built from over **400 variables**, measuring the ability of a country to deliver on the construct **rule of law**, defined as:

“A durable system of laws, institutions, norms, and community commitment that delivers four universal principles: accountability, just law, open government, and accessible and impartial justice.”



**World Justice
Project**

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- Two data sources
 - **General population surveys** designed by the WJP with at least 1,000 respondents
 - **Qualified respondent questionnaires** completed by **in-country experts** on civil, commercial, criminal, and labor law
- **Compiled annually since 2008**, now covers **142 countries and jurisdictions**



**World Justice
Project**

OVERALL INDEX SCORE

Explore by Issue/Factor

1 | CONSTRAINTS ON GOVERNMENT POWERS

2 | ABSENCE OF CORRUPTION

3 | OPEN GOVERNMENT

4 | FUNDAMENTAL RIGHTS

5 | ORDER AND SECURITY

6 | REGULATORY ENFORCEMENT

7 | CIVIL JUSTICE

8 | CRIMINAL JUSTICE

8 Macro Factors

44 Indicators | Scored between 0 - 100

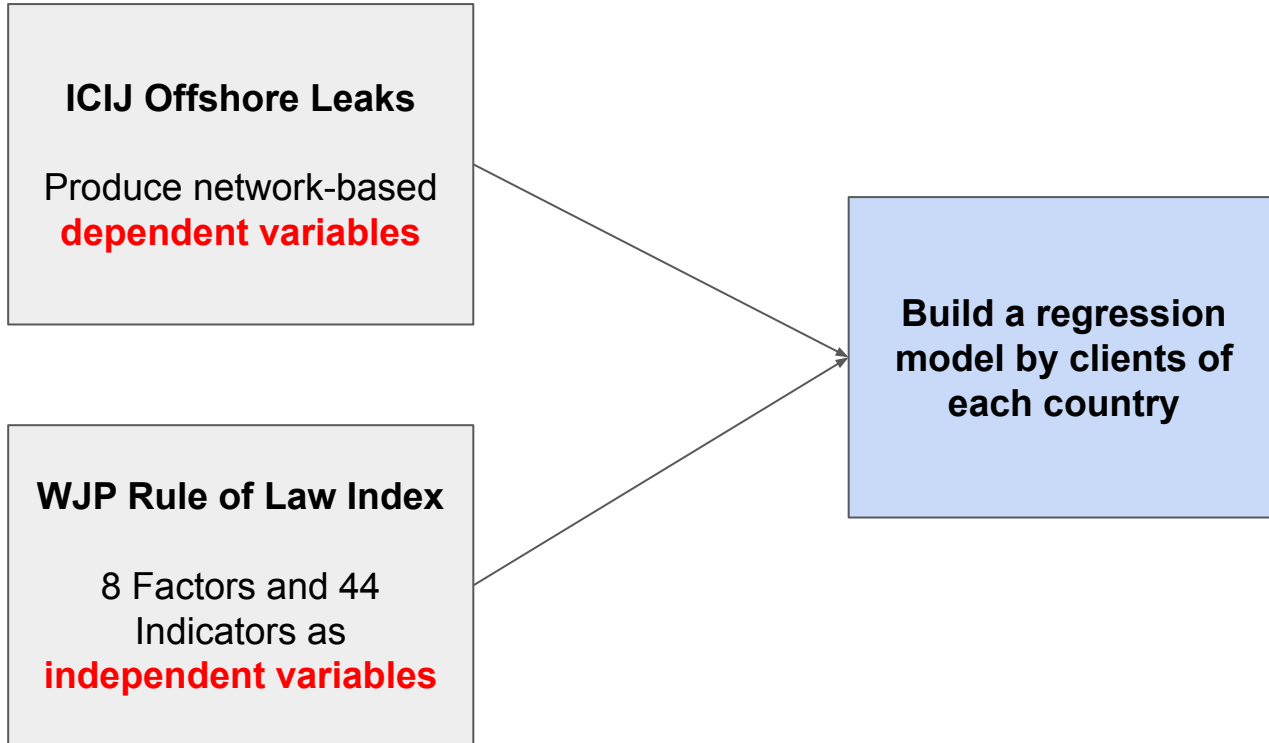
Absence of
Corruption

- 2.1 Government officials in the executive branch do not use public office for private gain
- 2.2 Government officials in the judicial branch do not use public office for private gain.
- 2.3 Government officials in the police and the military do not use public office for private gain.
- 2.4 Government officials in the legislative branch do not use public office for private gain.

Open
Government

- 3.1 Publicized laws and government data.
- 3.2 Right to information.
- 3.3 Civic participation.
- 3.4 Complaint mechanism.

Analytic Strategy

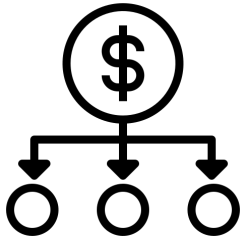


Two Strategies for Secrecy & Four Dependent Variables



Identity Concealment

- Anonymization (nominees and bearer shares)
- Use of blacklisted jurisdictions



Diversification

- Across OFCs in general
- Across blacklisted OFCs

Quick Terminology



Nominees:

People who **“rent” their names** to help elites avoid public disclosure requirements. Has a similar anonymizing effect as inserting “John Doe” in public-facing documents.



Bearer Instruments:

Shares and bonds not made out in the name of any particular owner; whoever holds the **piece of paper** is the legal owner of the asset.



Blacklisted Offshore Center:

Jurisdictions sanctioned for **excessive secrecy** and **harmful tax practices**; putting assets there increases transaction costs and reputational risks.

Identity Concealment

- Identity-concealment (direct anonymization)

$$IC(x) = \frac{1}{|x|} \sum_{i \in x} \frac{|Anon(j) \forall j \in Man(i)|}{|Man(i)|}$$

- Percentage use of blacklisted OFCs

$$\%BL(x) = \frac{\text{\# of blacklisted}}{\text{Total \# of offshore locations}}$$

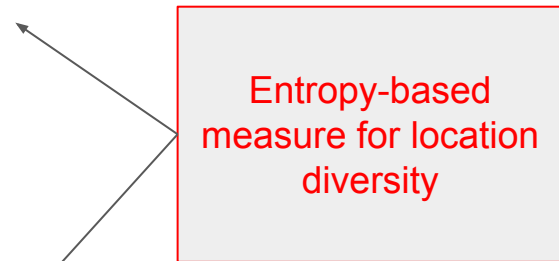
Diversification

- Offshore diversification

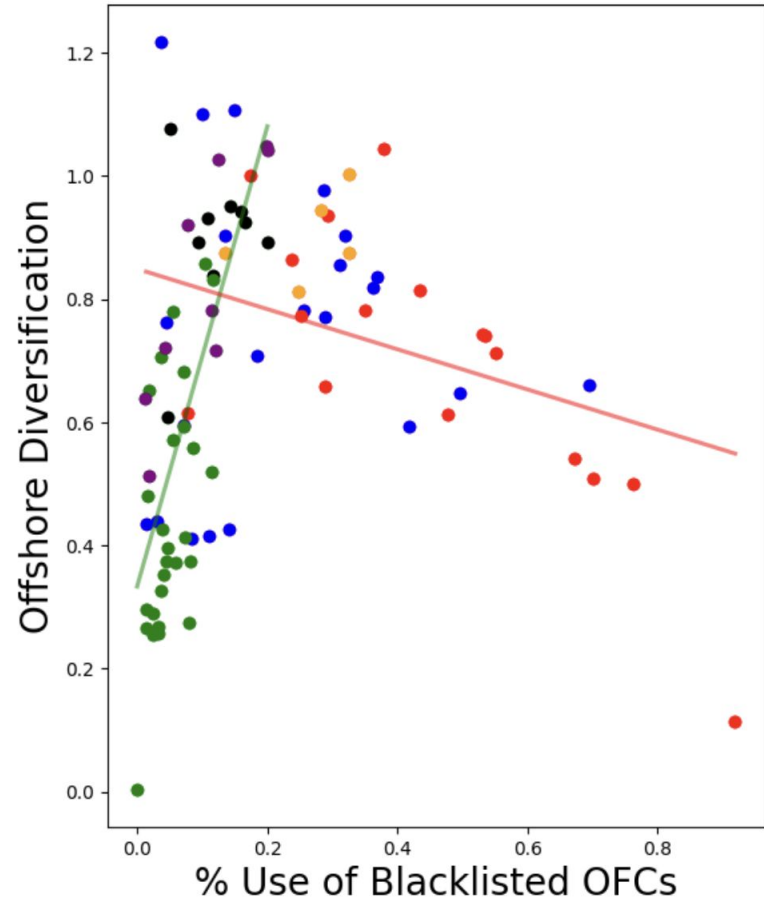
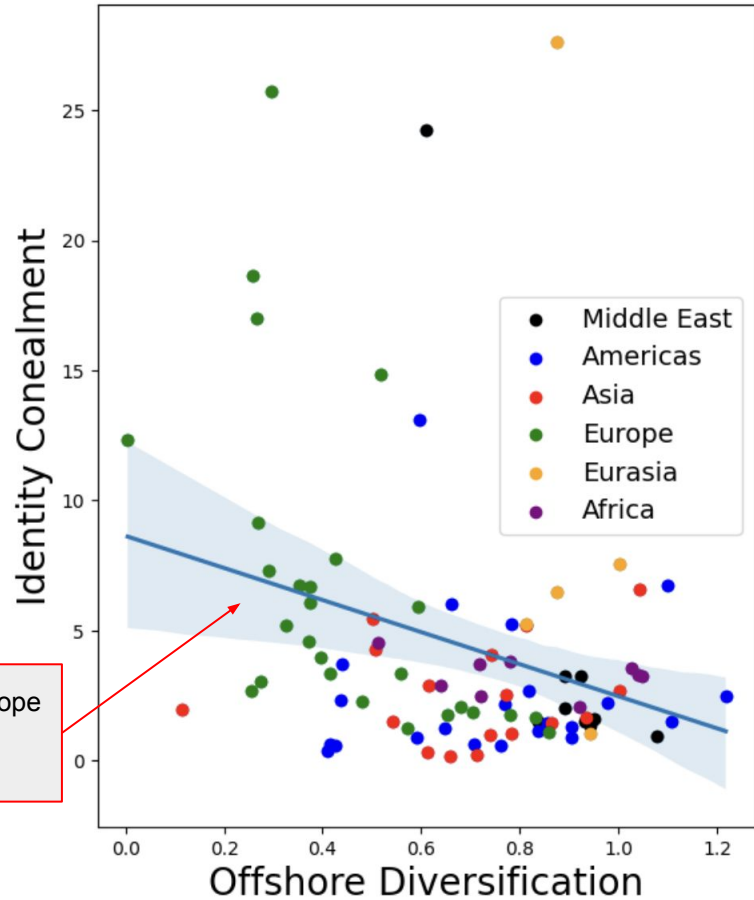
$$H_{offshore}(x) = - \sum_{p \in OFF} p \log p$$

- Blacklisted OFC diversification

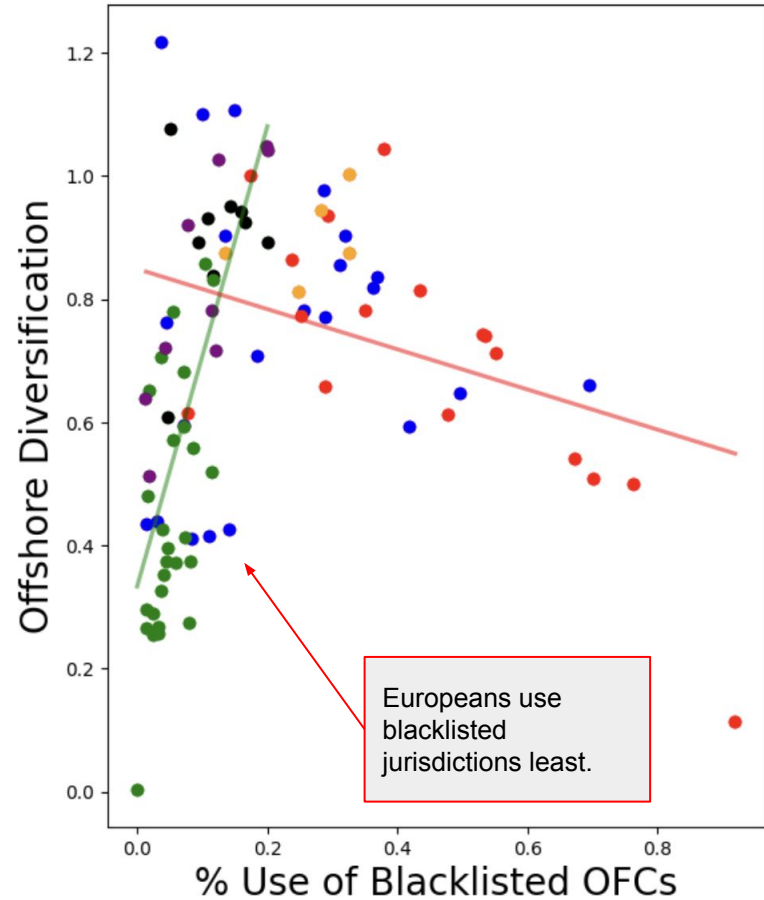
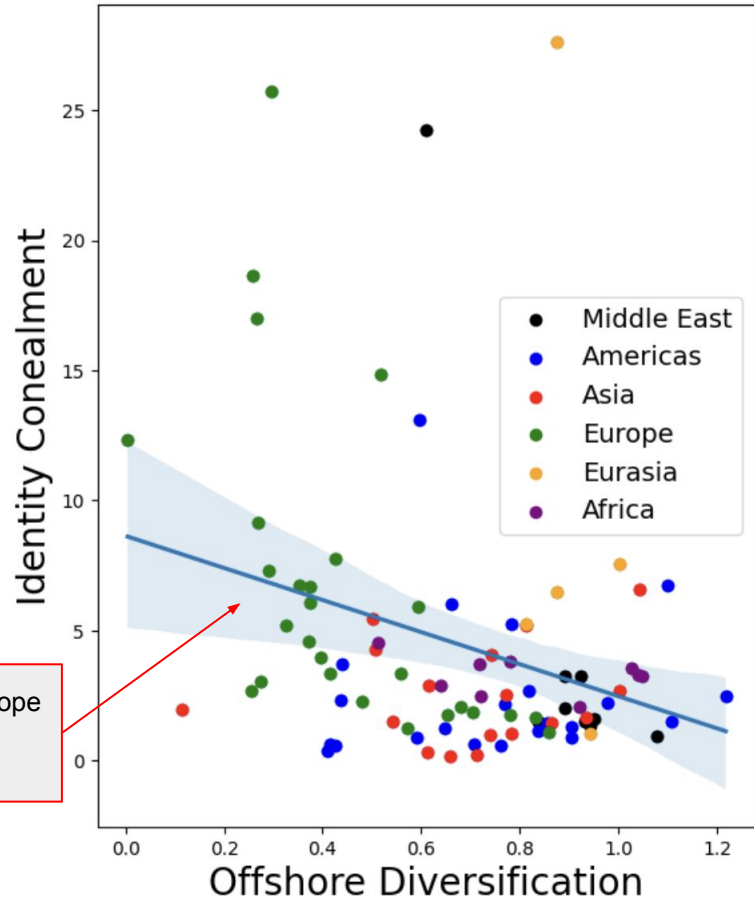
$$H_{blacklist}(x) = - \sum_{p \in BL} p \log p$$



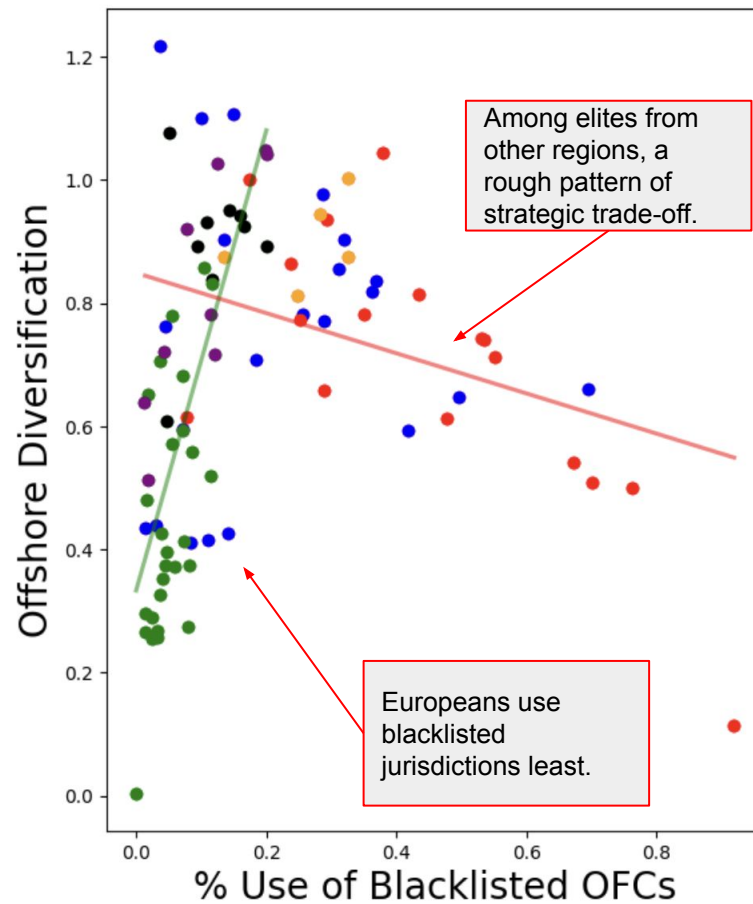
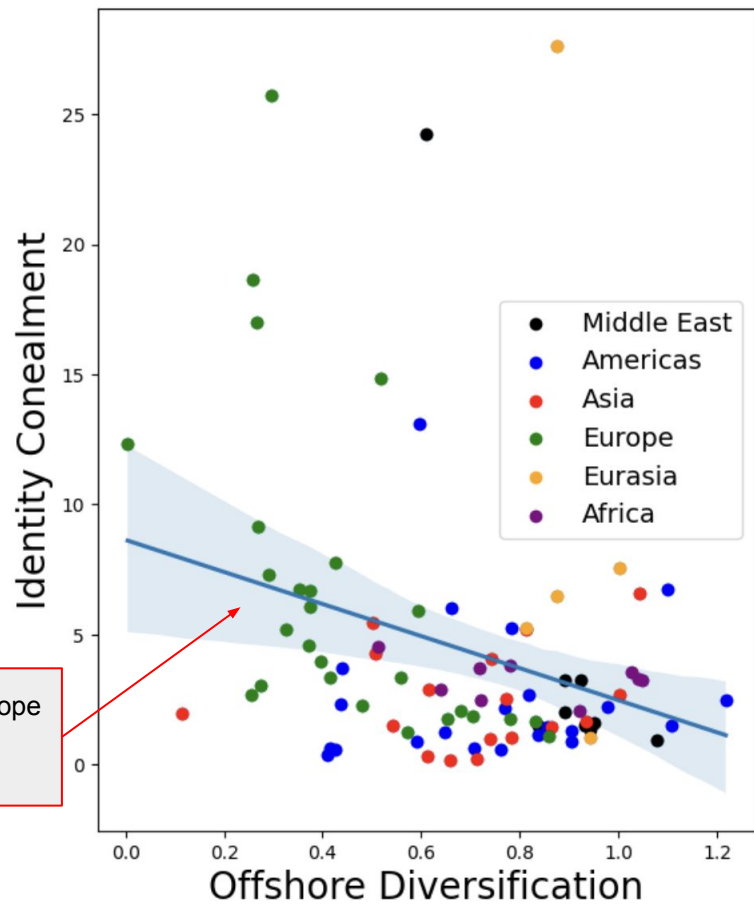
Finding 1: Strategic trade-offs vary with elites' home countries/regions



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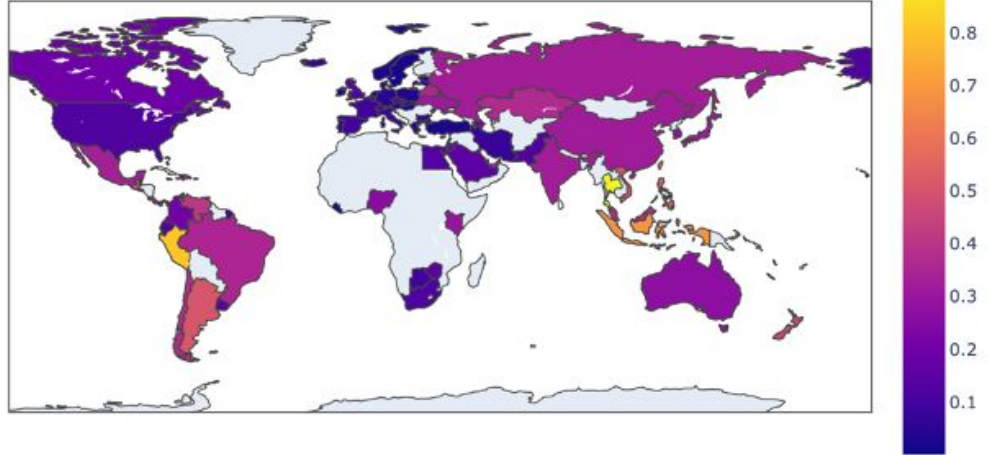
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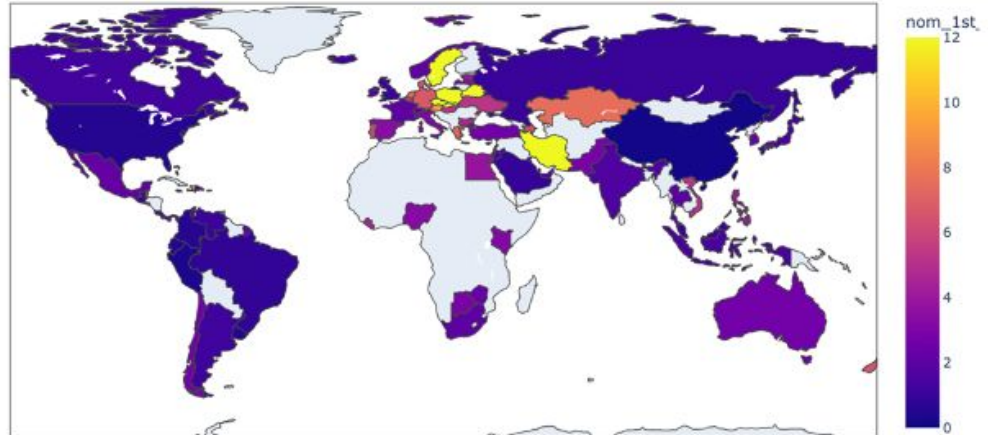
Overall **high uptake** in the use of **blacklisted jurisdictions**

- **70-90%** of their offshore assets by elites of Peru, Thailand, Indonesia & Malaysia
- **30%** of their assets by elites of Mexico, Brazil, Russia, India & China (BRICS minus South Africa)

a) Percentage Blacklisted



b) Propensity of Identity Concealment



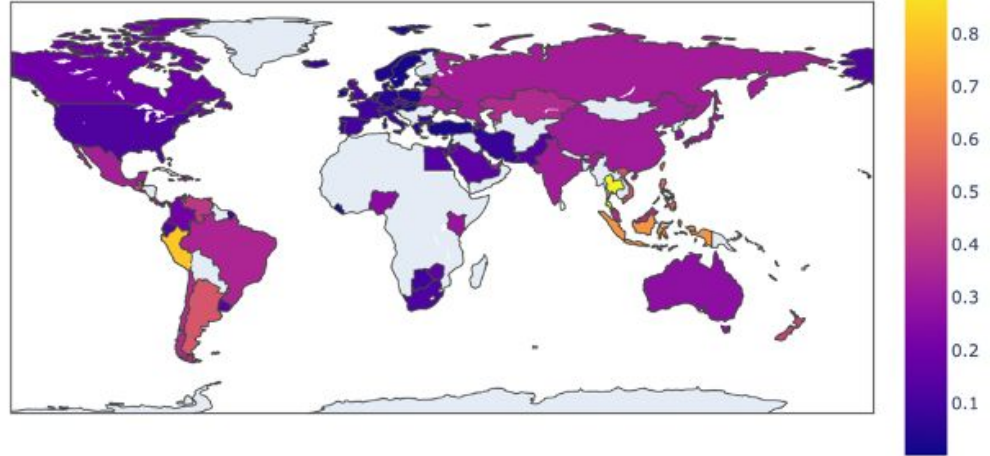
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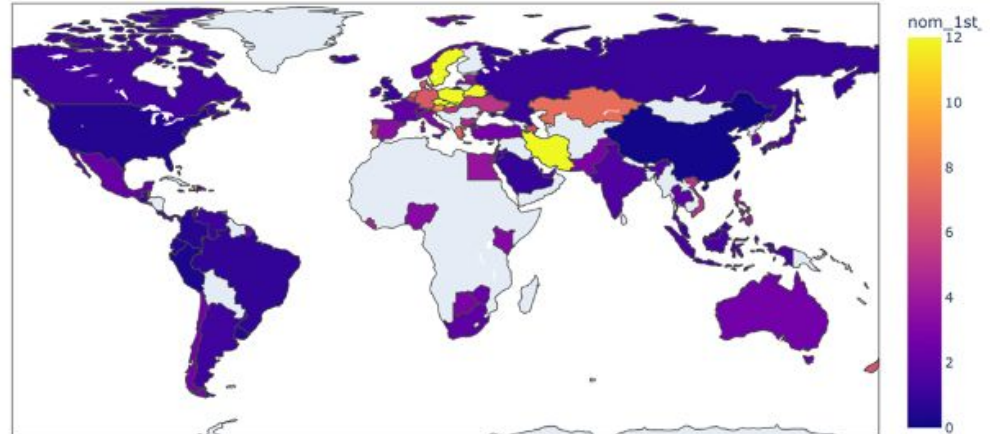
Highest uptake of **identity concealment** among an **unlikely** assortment of countries

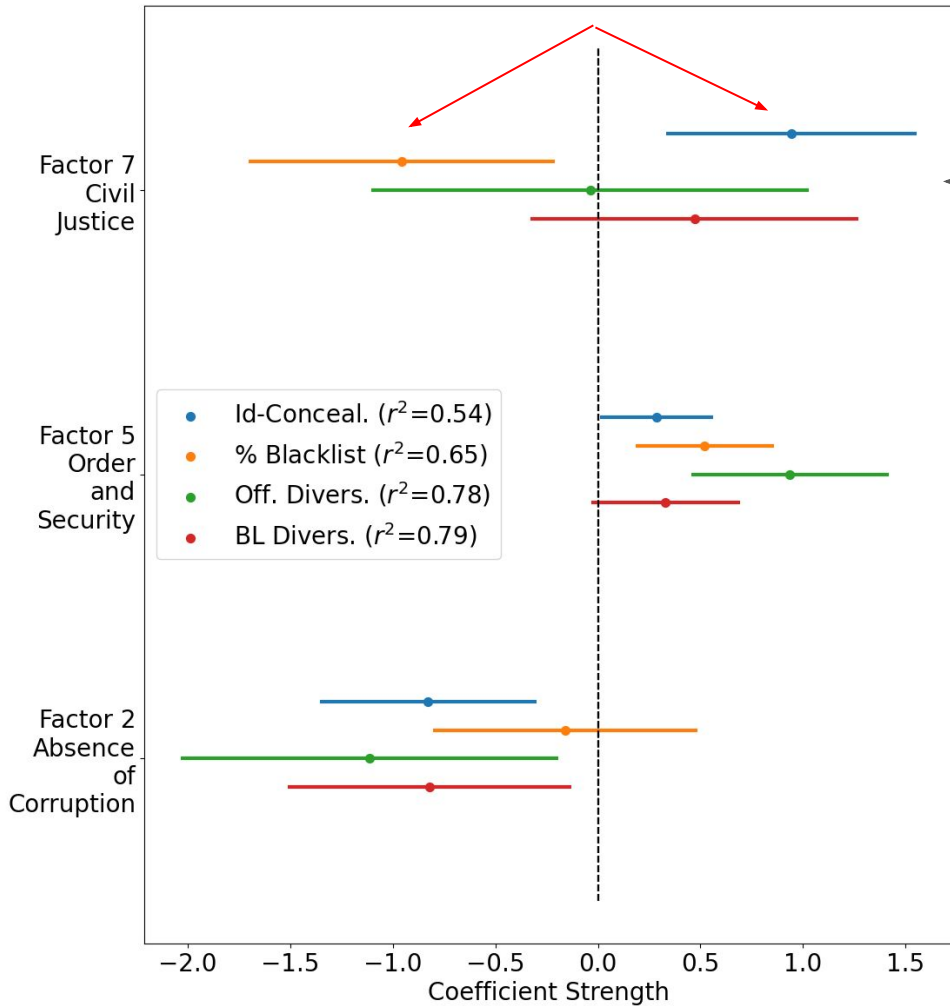
- Sweden, Iran, Poland, Belarus, Kazakhstan & Germany
- Good governance & autocracy

a) Percentage Blacklisted



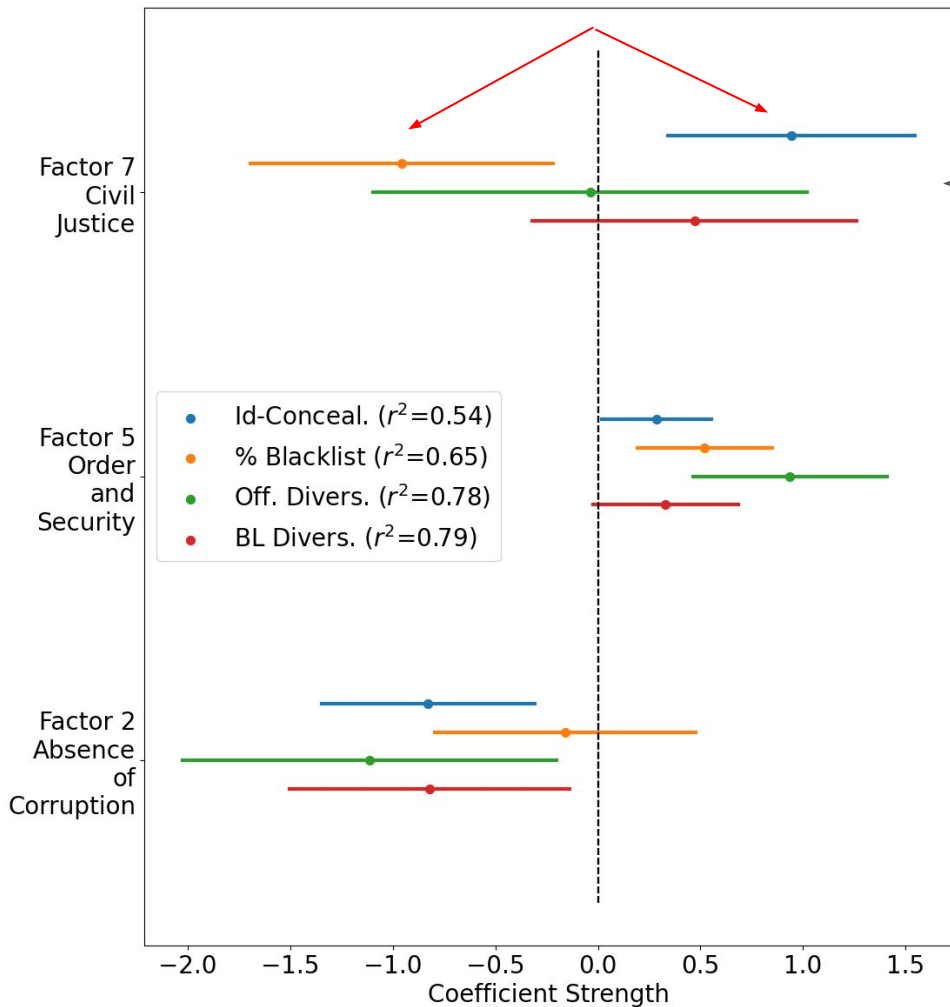
b) Propensity of Identity Concealment





Access to quality **civil justice** can be a **positive** or **negative** force for identity concealment

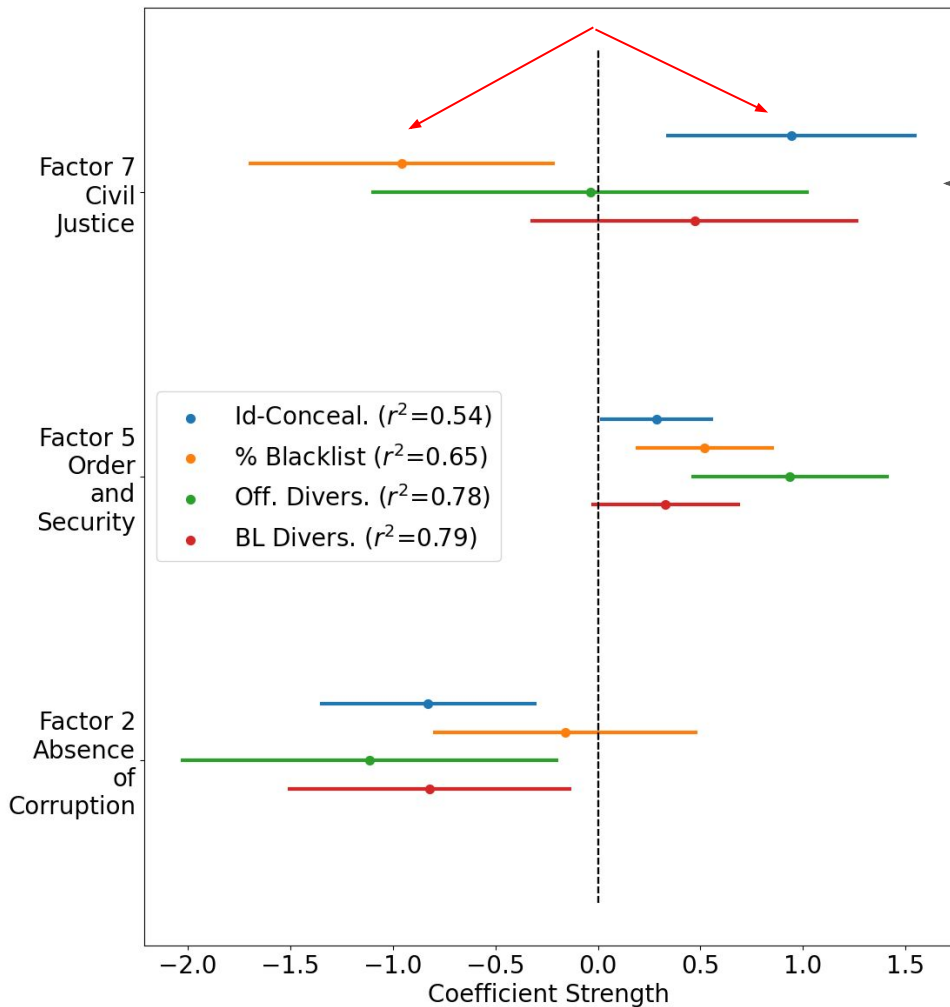
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Order and security positively predicts offshore use, but not blacklist diversification



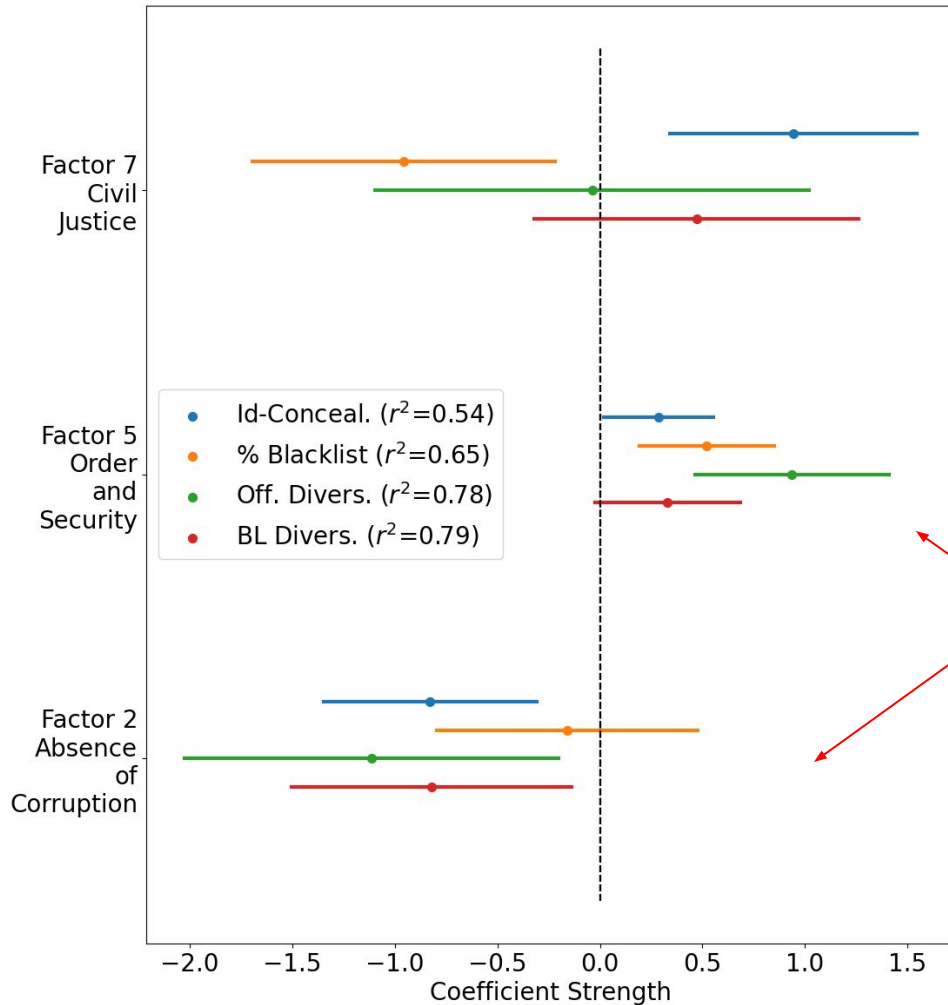
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Order and security positively predicts offshore use, but not blacklist diversification

Corruption predicts offshore use generally, but not use of blacklisted jurisdictions

Finding 2: Elites' offshore use is driven by both **positive** and **negative** political conditions at home

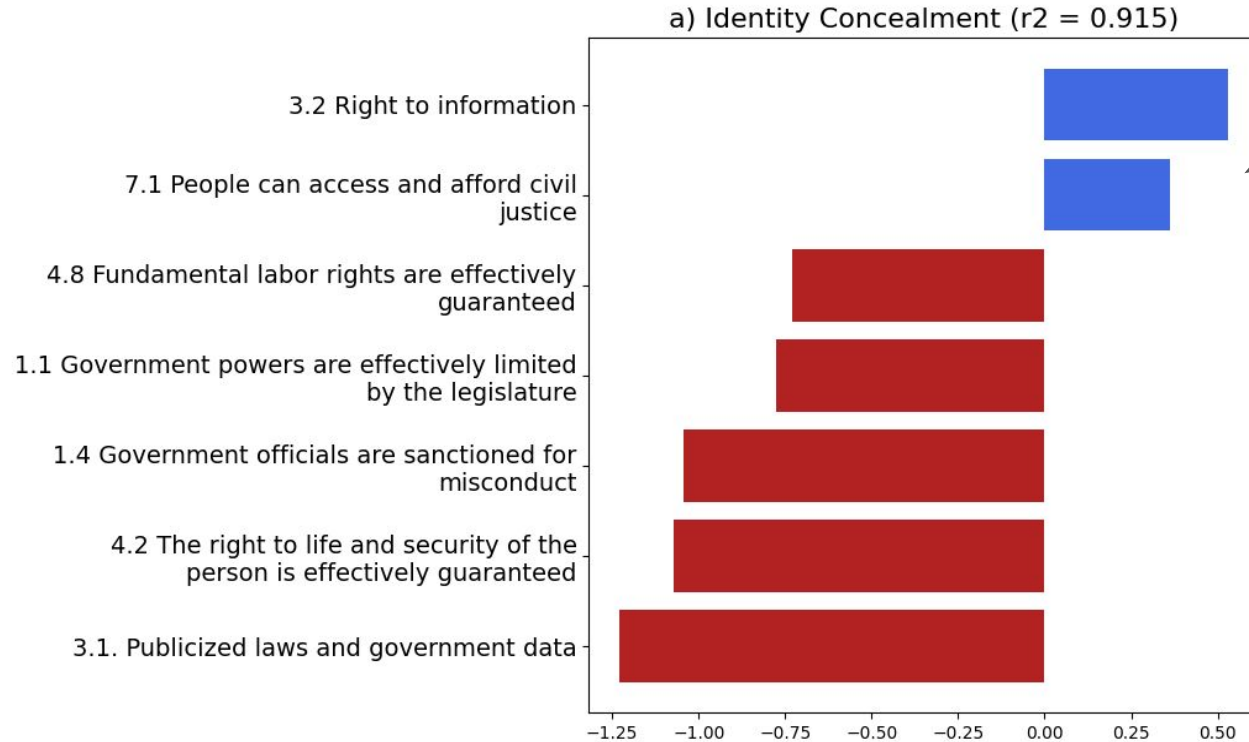


Size of countries' informal economies in relation to their quality of governance is a U-shaped curve (Portes (1994):

Largest underground economies emerge in both the worst- and best-governed nations.

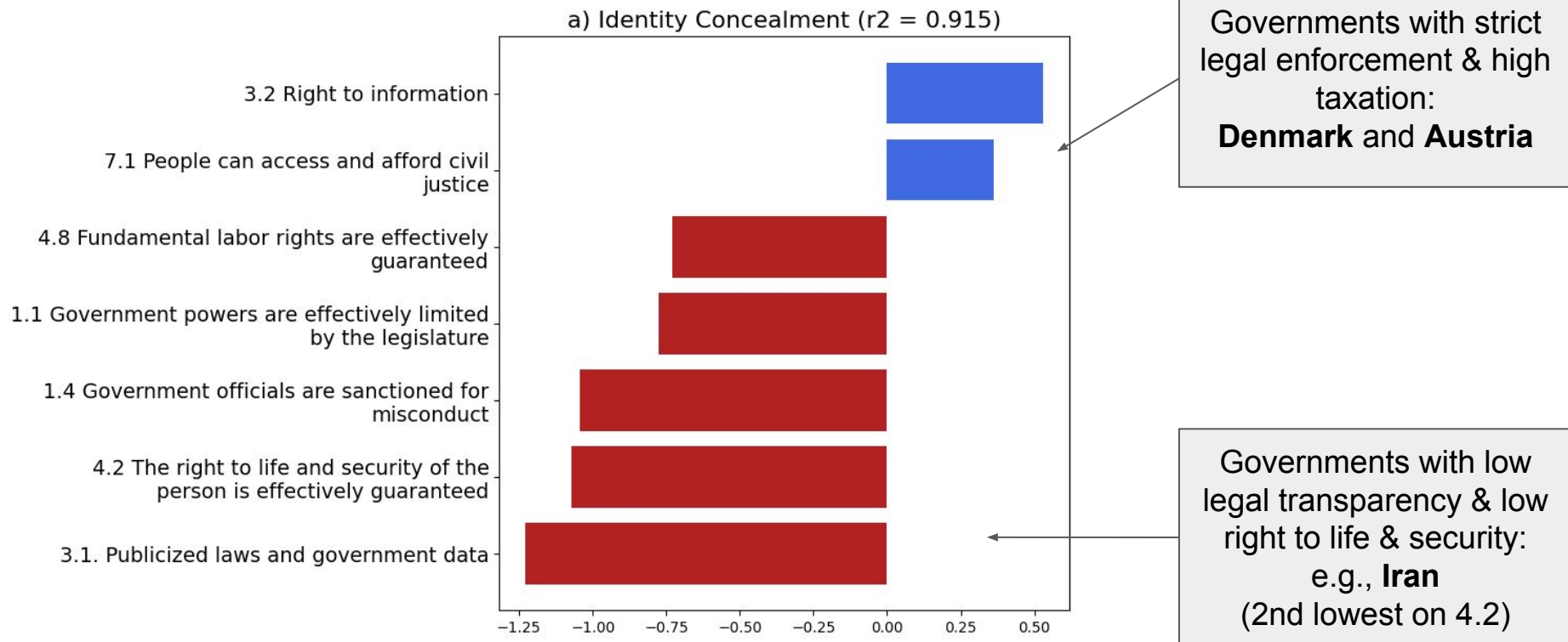
Similar trend driving elites' offshore use?

Finding 3a: Identity concealment correlates with both **strong right to information** and **low legal transparency**

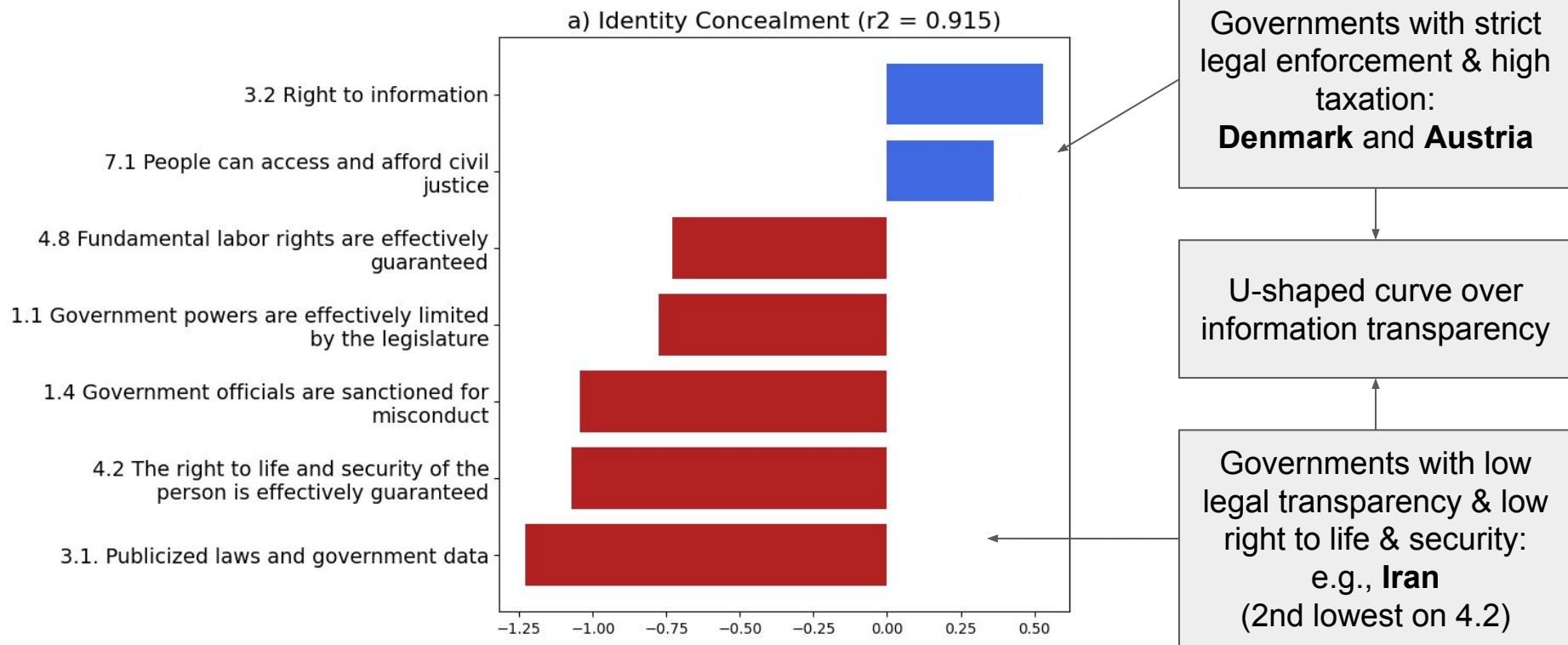


Governments with strict legal enforcement & high taxation:
Denmark and Austria

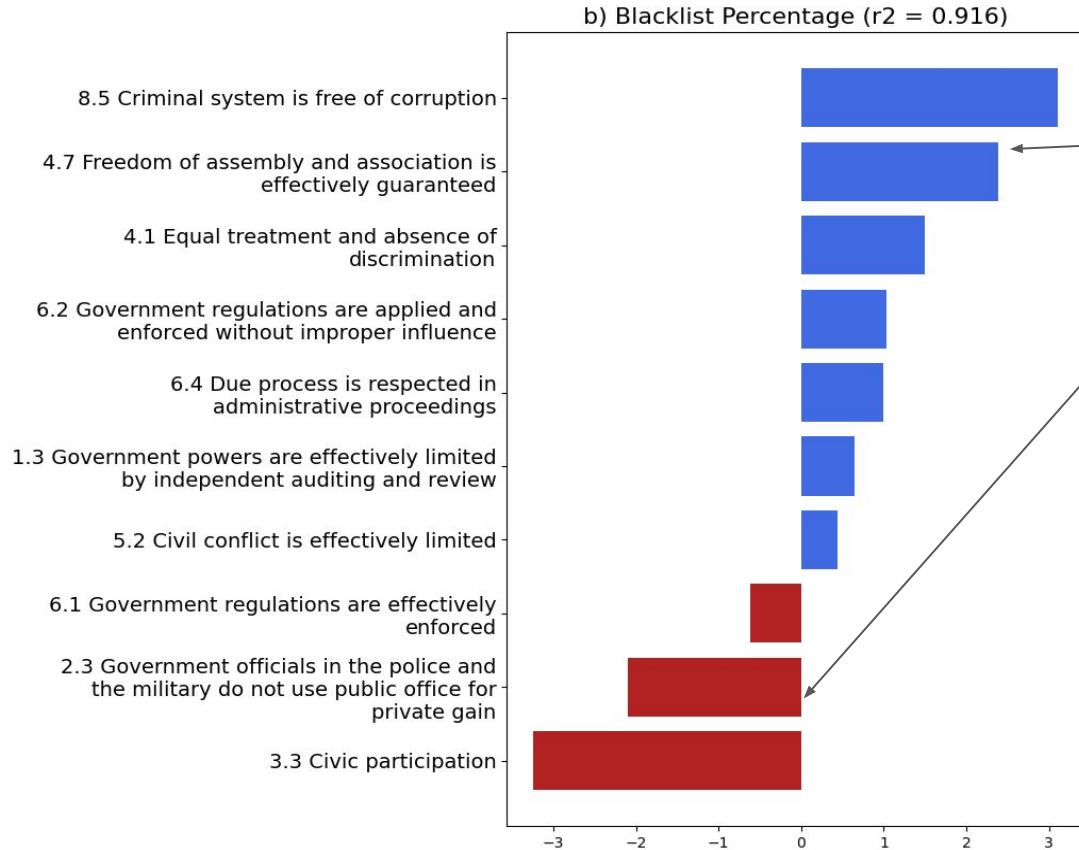
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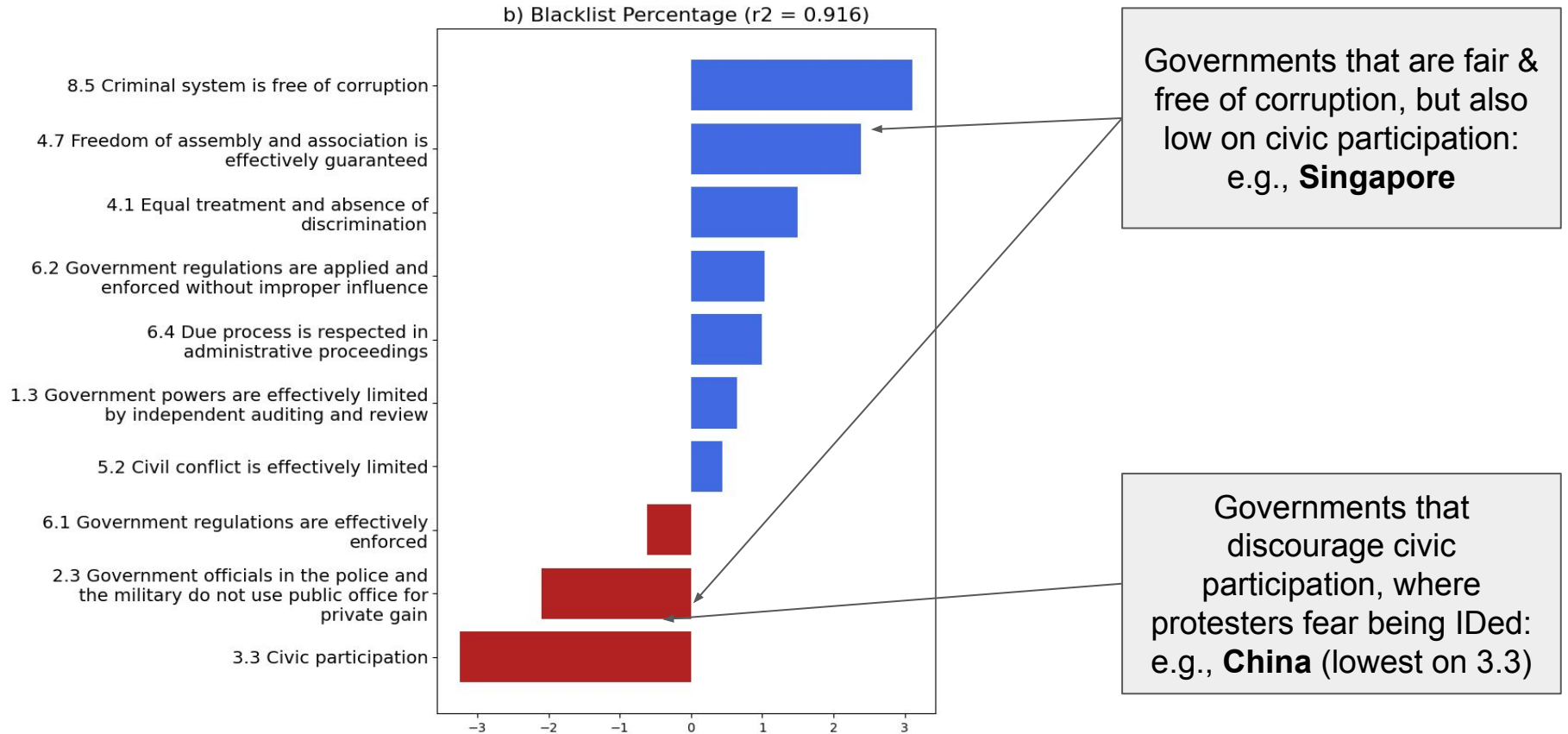


Finding 3b: **Low civic participation** and **high freedom of assembly** predict use of blacklisted OFCs

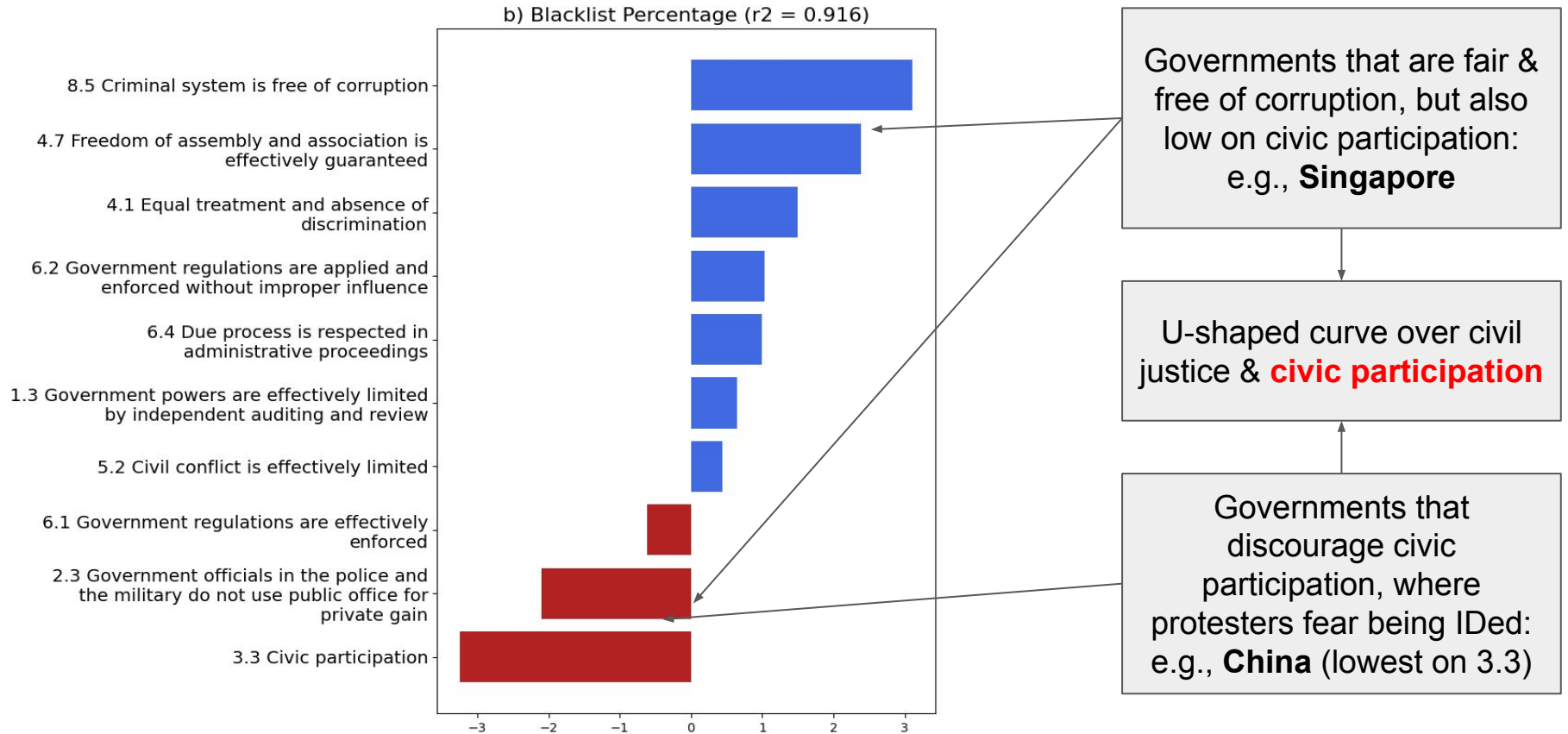


Governments that are fair & free of corruption, but also low on civic participation: e.g., **Singapore**

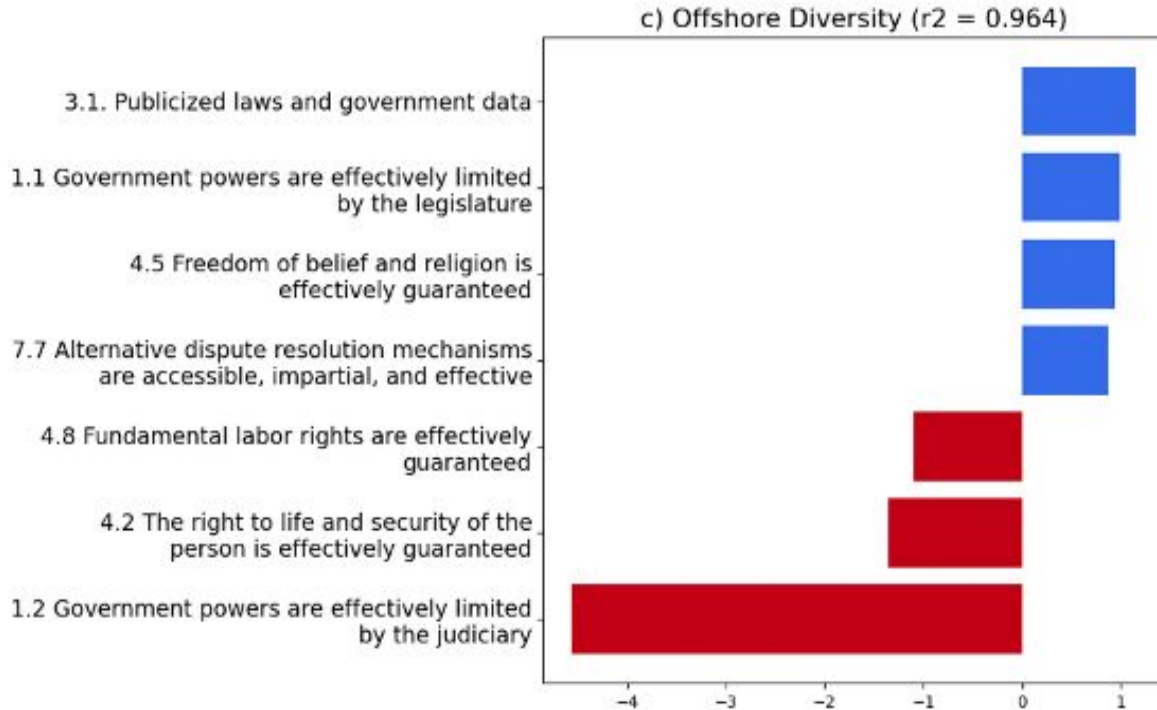
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Finding 3c: **Government dysfunction** drives offshore diversification

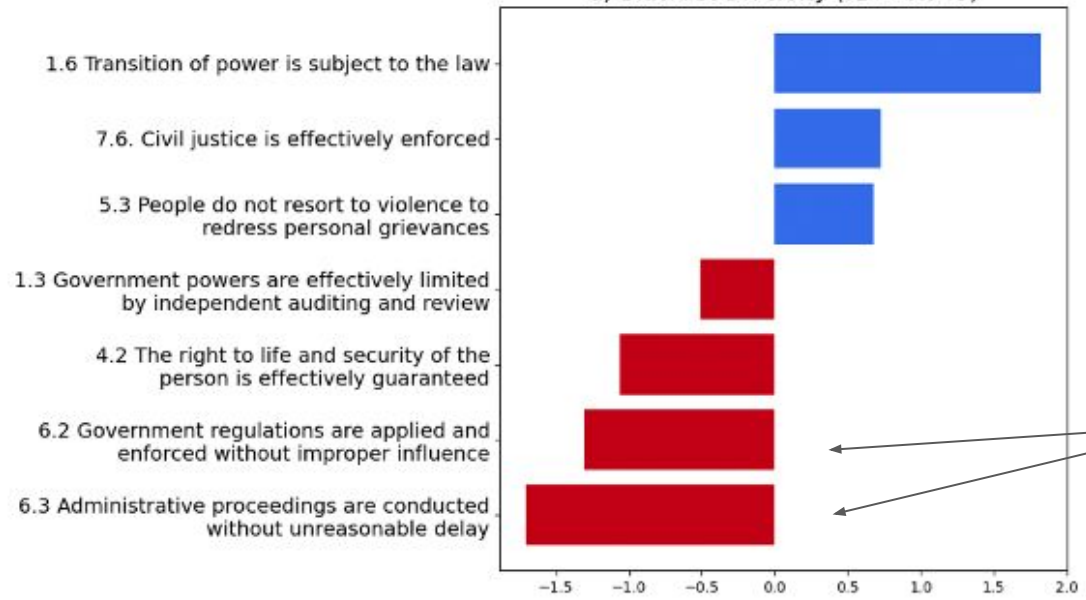


Governments where laws are well-publicized but few judicial checks on executive & legislative branches; power to confiscate assets or exact retribution against political enemies:

e.g., **Ukraine** and **Vietnam**

Finding 3d: **Corruption & bad governance** drive blacklist diversity

d) Blacklist Diversity (r2 = 0.949)



Example countries: **Liberia**, **Belize**, to lesser extent **South Africa**

Application of the law is unfair and proceedings are unreasonably slow.

Discussion

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As with informal economies, offshore use appears driven by both bad and good governance.



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Thank you!

