

#5 Offshore wealth

Data and measurement

By Carlotta Schuster
carlotta.schuster@un.org

Africa Section/Research and Policy Analysis Branch
Division for Africa, Least Developed Countries and Special Programme

Interregional training for measuring Illicit Financial Flows (IFFs)

Presentation in the framework of the DA-IFF project

December 8th, 2021



UNITED NATIONS
UNCTAD

Structure of the presentation (followed by Q&A)

1. Overview: Offshore wealth in the literature
2. Different data sources
3. BIS – Locational Banking Statistics
4. Country examples: Size of offshore wealth using the BIS data
5. How to link offshore wealth to IFFs?
6. Conclusion and policy recommendations



1. Overview: Offshore wealth in the literature

- Interest in **offshore wealth and beneficial ownership of companies** has increased significantly over the last years, as more and more data becomes available
- **Pandora leaks (2021)**, Panama papers (2016), Paradise papers (2017) and Swiss leaks (2015), where private information of offshore holdings were leaked to the public allowed a glimpse in the extend of the problem.
- A key challenge remains to **identify the true owners of undeclared assets**.
- **International statistics** often lump together institutional, corporate and private investors and do not look through various layers of shell companies and trusts that help conceal beneficial ownership.
- **Private wealth is not only hidden** in small financial offshore centers but also in large economies offering some secrecy options for foreign investors.
- In large economies, **hidden assets cause much fewer statistical anomalies** and are thus harder to identify.

Source: EUTax Observatory



1. Overview: Offshore wealth in the literature

- Zucman (2015) in his book *the Hidden Wealth of Nations* estimated that **8% of the world's household financial wealth**—the equivalent of **10% of world GDP**—is held offshore

8% of the world's financial wealth is held offshore, costing at least \$200bn

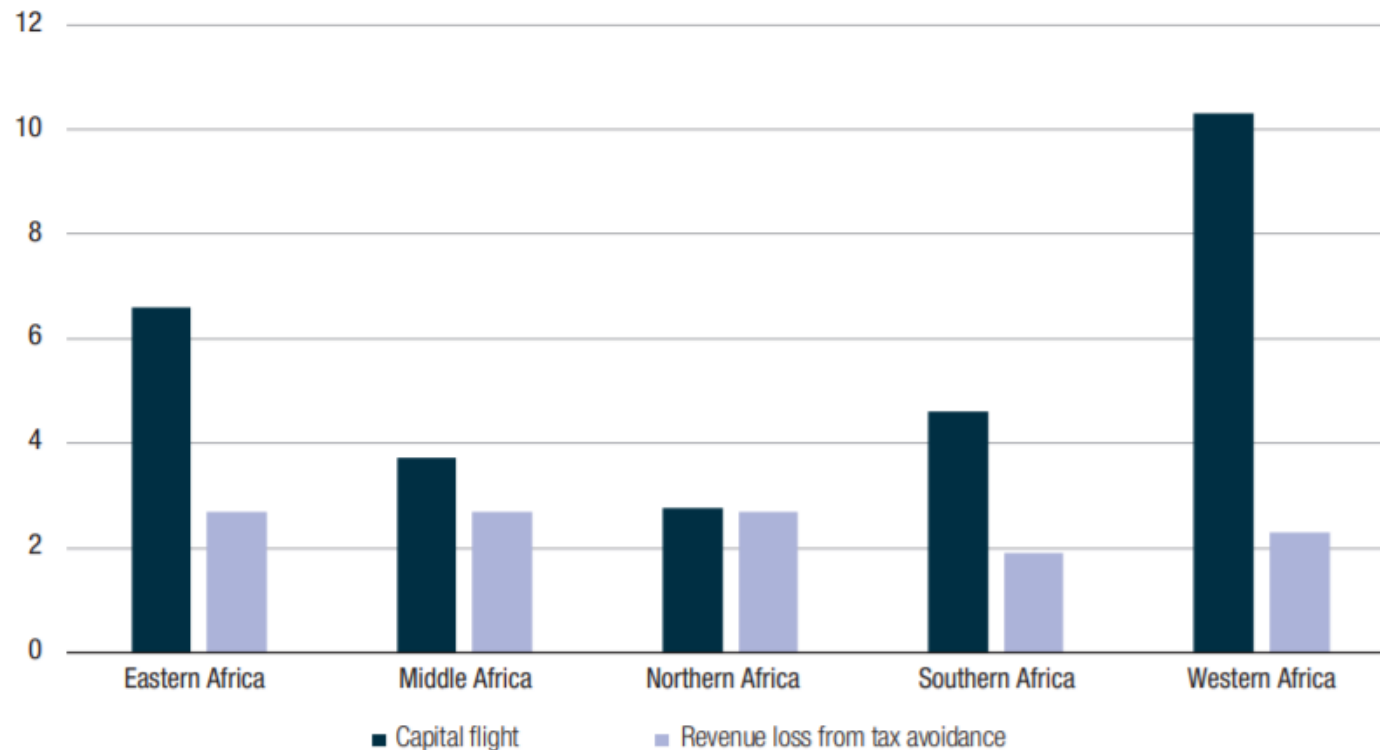
	Offshore wealth (\$ bn)	Share of financial wealth held offshore	Tax revenue loss (\$ bn)
Europe	2,600	10%	75
USA	1,200	4%	36
Asia	1,300	4%	35
Latin America	700	22%	21
Africa	500	30%	15
Canada	300	9%	6
Russia	200	50%	1
Gulf countries	800	57%	0
Total	7,600	8.0%	190



1. Overview: Offshore wealth in the literature

Capital flight and revenue loss from tax avoidance, median by region, 2013–2015

(Percentage of gross domestic product)



Source: UNCTAD calculations based on Cobham and Janský (2018) and Political Economy Research Institute database.

Note: Negative values are deleted; not all countries have data on capital flight and averages are therefore biased towards countries for which there is data available and high levels of capital flight; average values of capital flight as a percentage of GDP in 2013–2015 are 3.0 (Northern Africa), 5.9 (Southern Africa), 9.2 (Eastern Africa), 12.9 (Middle Africa) and 34.9 (Western Africa).



2. Publicly available and administrative data

1. Bank for International Settlements (BIS) - Locational Banking Statistics
 - 43 financial centers disclose statistics on the amount of deposits owned by foreigners in their banks.
 - Main limitation, is that they miss the largest form of offshore wealth, namely securities (e.g. stock, bonds)
2. IMF - International Investment Position (IIP) and Coordinated Portfolio Investment Survey (CPIS)
 - The website of the IMF provides access to IIP data [here](#) and CPIS data [here](#) .



2. Publicly available and administrative data

3. Swiss National Bank (SNB) - Banking statistics
 - publishes detailed statistics on the bank deposits, portfolios of equities, bonds, and mutual fund shares managed by Swiss banks on behalf of foreigners.
 - this data source alone captures a large fraction of the world's total offshore wealth (30%–50% in recent years).
4. Data leaks (Pandora, Paradise, Panama leaks and Swiss leaks)
5. Administrative data
 - **Audit data:** National administrations may conduct a variety of audits to verify the compliance of individual taxpayers and estimate the scale of abusive practices.
 - **Voluntary disclosure data:** Allows to disincentivise tax evasion, collect data and better understand the phenomenon of tax



3. BIS - Locational Banking Statistics

What does the data measure?

- 43 financial centers provide information on deposits owned by non-residence, revealing both partner countries and size of the flow.
- Select Non-Bank deposits because Bank deposits do not reflect households offshore wealth.

What is haven and non-haven?

- Follow the classification of Andersen et al. (2017) who classifies haven as countries that generally have institutional characteristics that make them attractive places to hide funds, **like bank secrecy rules, some confidentiality on bank deposits.**
- Following their classification, reporting countries such as Switzerland, Luxembourg, and Belgium are heaven in our sample.



3. BIS - Locational Banking Statistics

Table I -1

Reporting countries providing locational banking data*

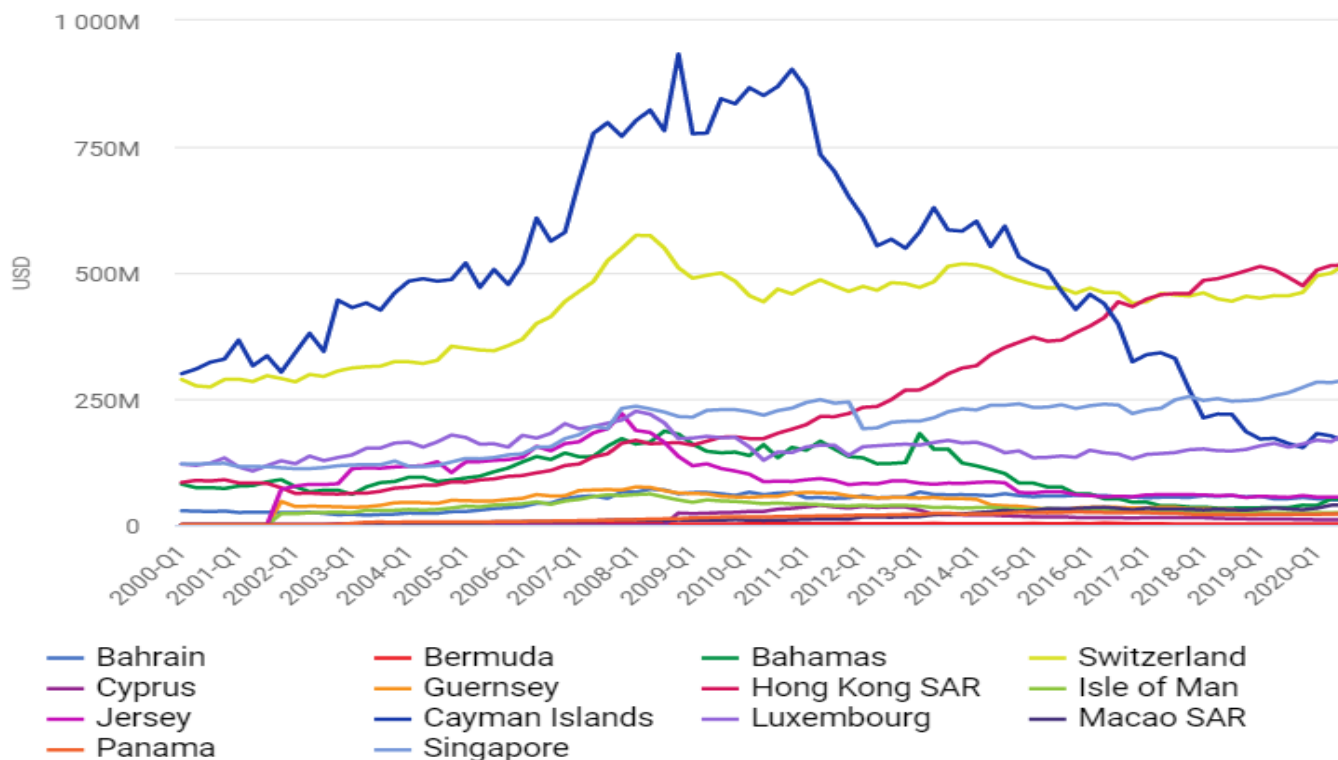
Australia (1997)	Curacao (2010) ²	Isle of Man (2001)	Panama (2002)
Austria (1987)	Cyprus (2008)	Italy (1977)	Portugal (1997)
Bahamas ¹ (1983)	Denmark (1977)	Japan (1977)	Singapore (1983)
Bahrain (1983)	Finland (1983)	Jersey (2001)	South Africa(2009)
Belgium (1977)	France (1977)	Luxembourg (1977)	South Korea (2005)
Bermuda (2002)	Germany (1977)	Macao SAR (2006)	Spain (1983)
Brazil (2002)	Greece (2003)	Malaysia (2008)	Sweden (1977)
Canada (1977)	Guernsey (2001)	Mexico (2003)	Switzerland (1977)
Cayman Islands (1983)	Hong Kong SAR (1983)	Netherlands (1977)	Turkey (2000)
Chile (2002)	India (2001)	Netherlands Antilles (1983) ³	United Kingdom (1977)
Chinese Taipei (2000)	Ireland (1977)	Norway (1983)	United States (1977)

¹ Reports semi-annual data only. ² Does not report locational by nationality statistics. ³ No longer exists from Q4 2010. Replaced by reporting from Curacao.



3. BIS - Locational Banking Statistics

Cross-border deposits by non-banks in selected offshore jurisdictions

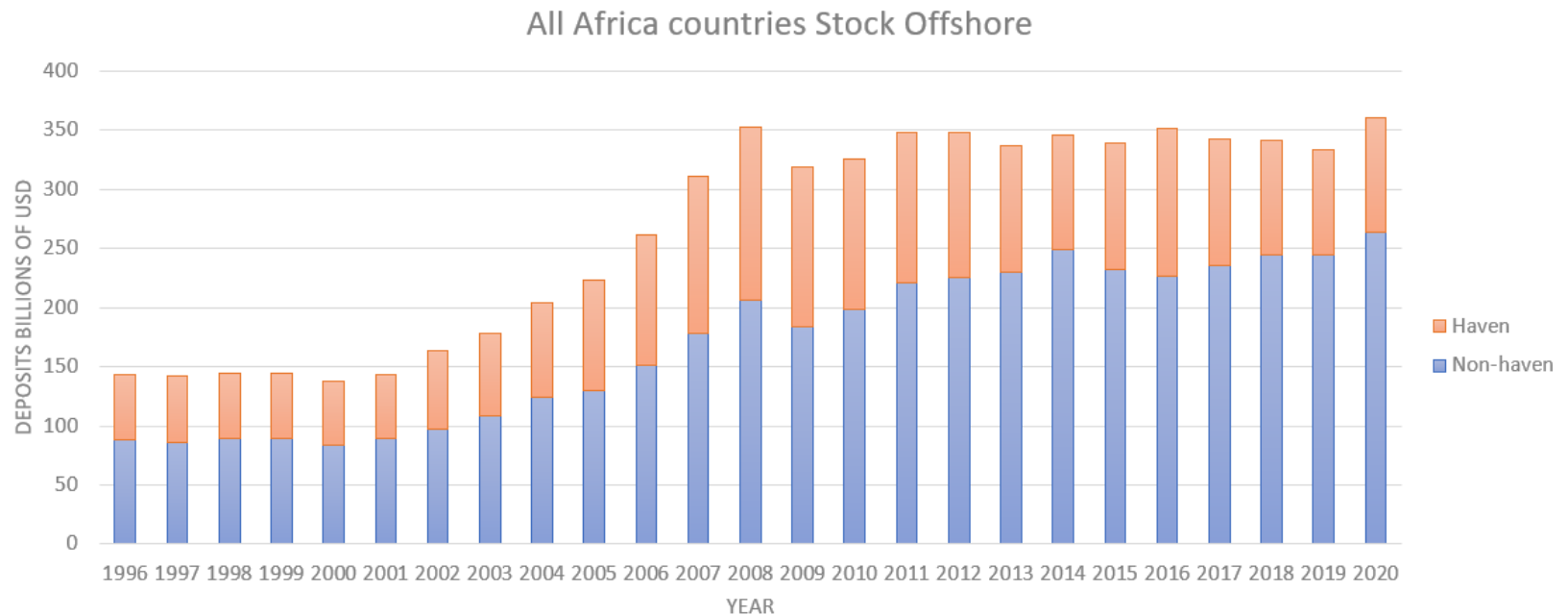


Note: The figure represents deposits held by non-residents in each jurisdiction. Non-banks comprise companies and private households. The share of private households in deposit ownership is not published and therefore frequently estimated based on other data. Find the link to the original data and more explanatory notes below. Source: Bank for international settlements (2021).



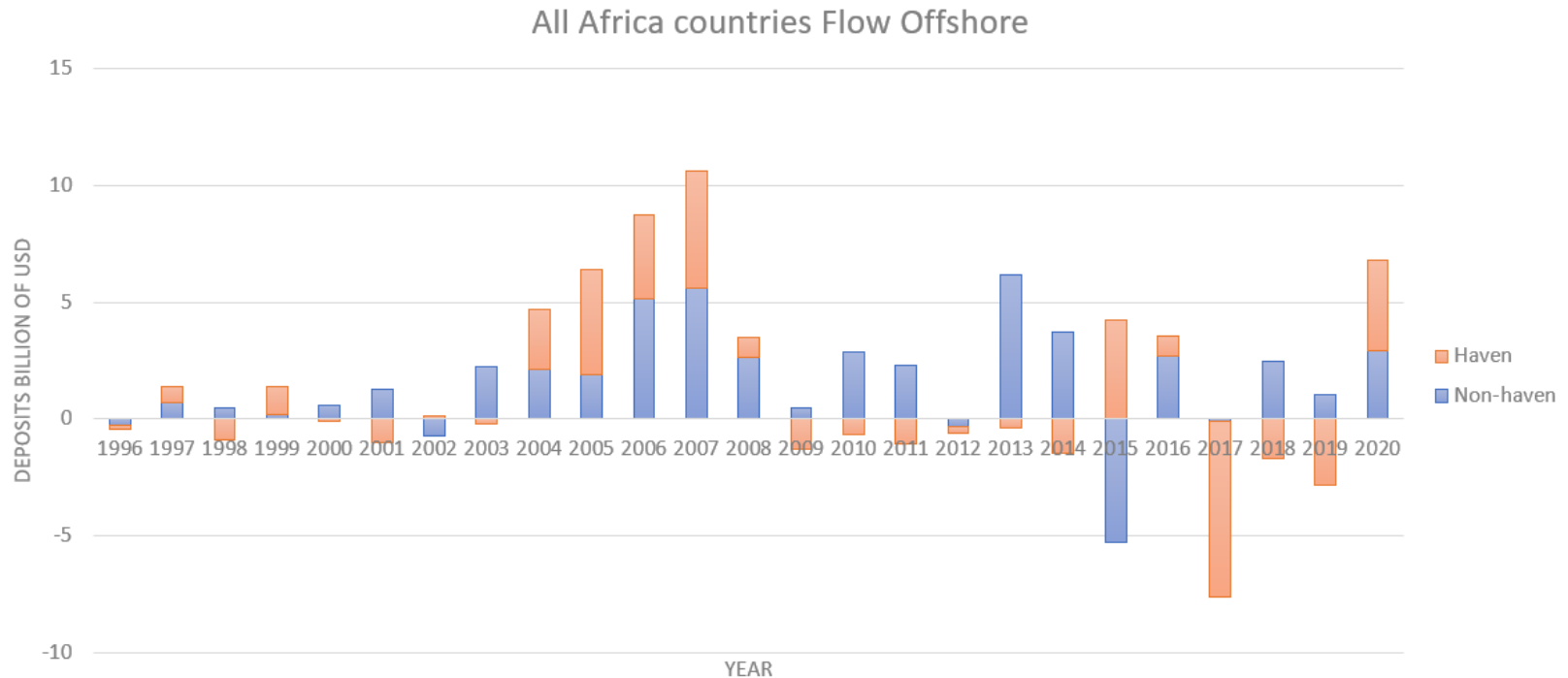
4. Examples: Africa and pilot countries

Stock Offshore Deposits by all African countries



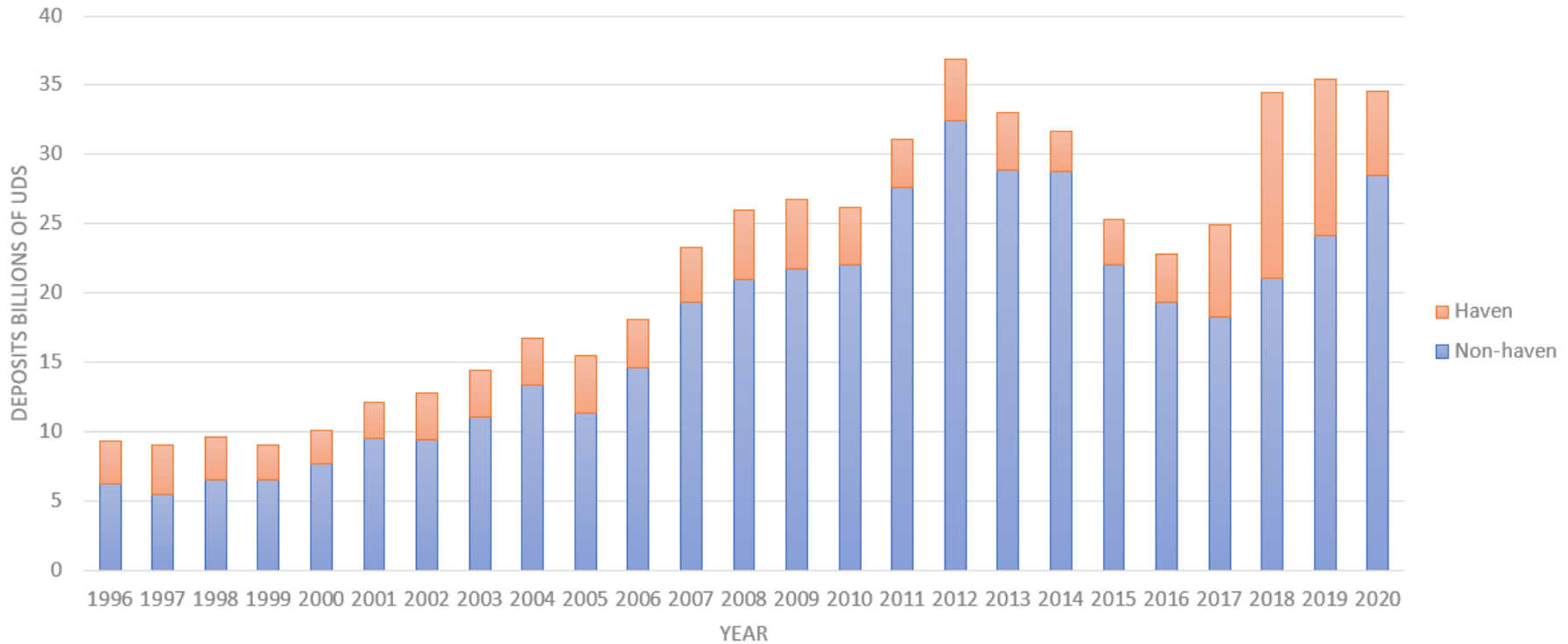
4. Examples: Africa and pilot countries

Flow Offshore Deposits by all African countries



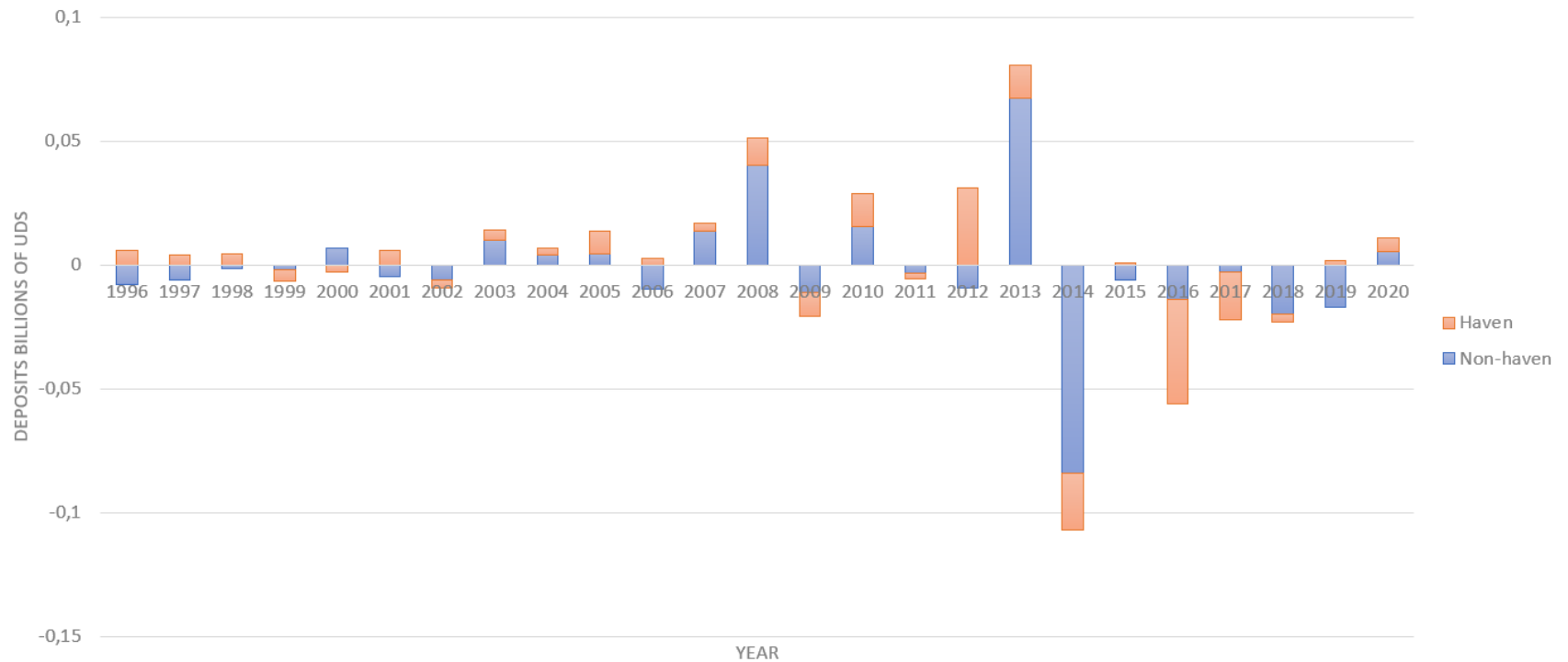
4. Examples: Africa and pilot countries

Stock Offshore Deposits by Nigeria over time



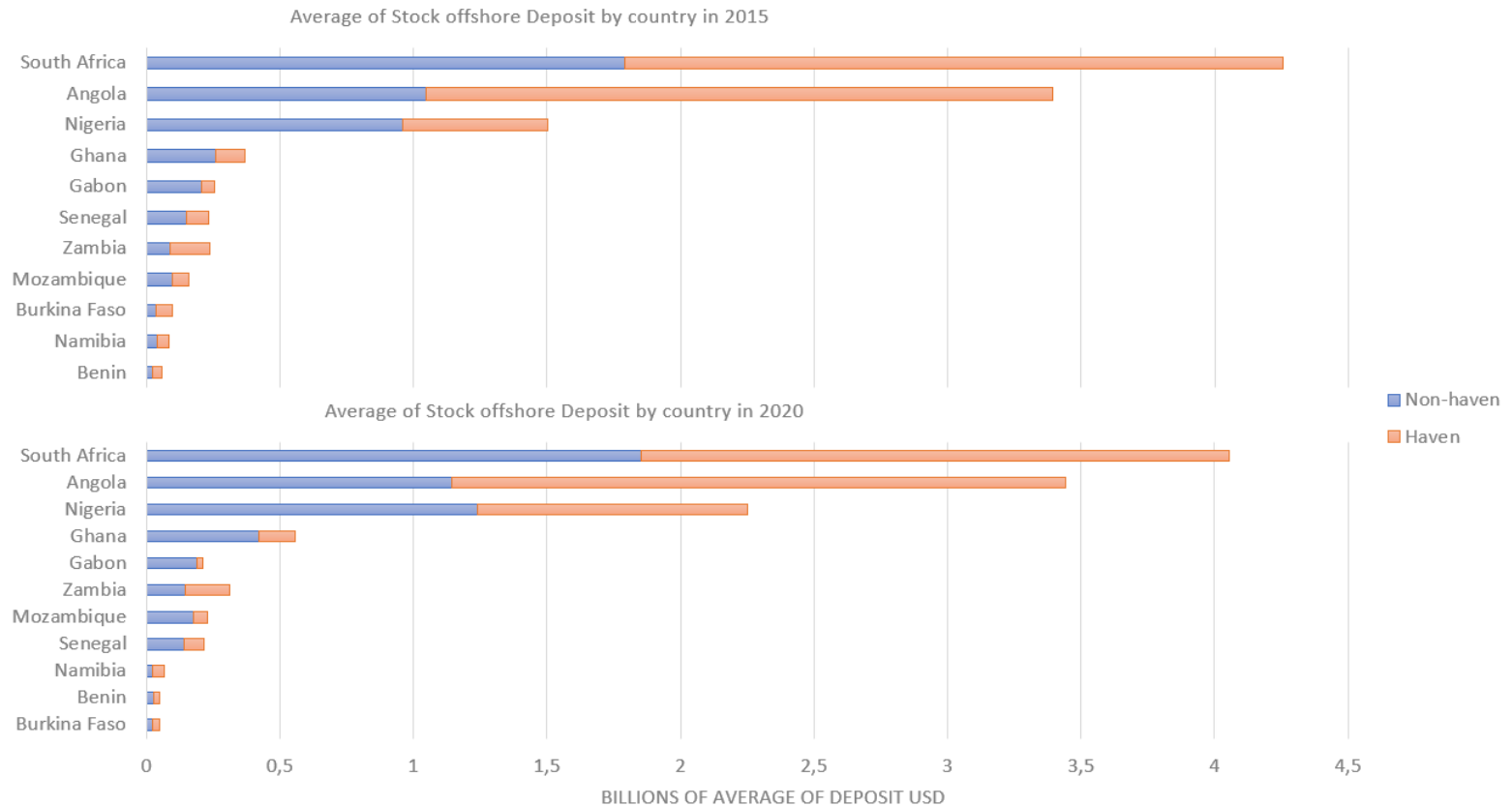
4. Examples: Africa and pilot countries

Flow Offshore Sum of Deposits by Nigeria over time



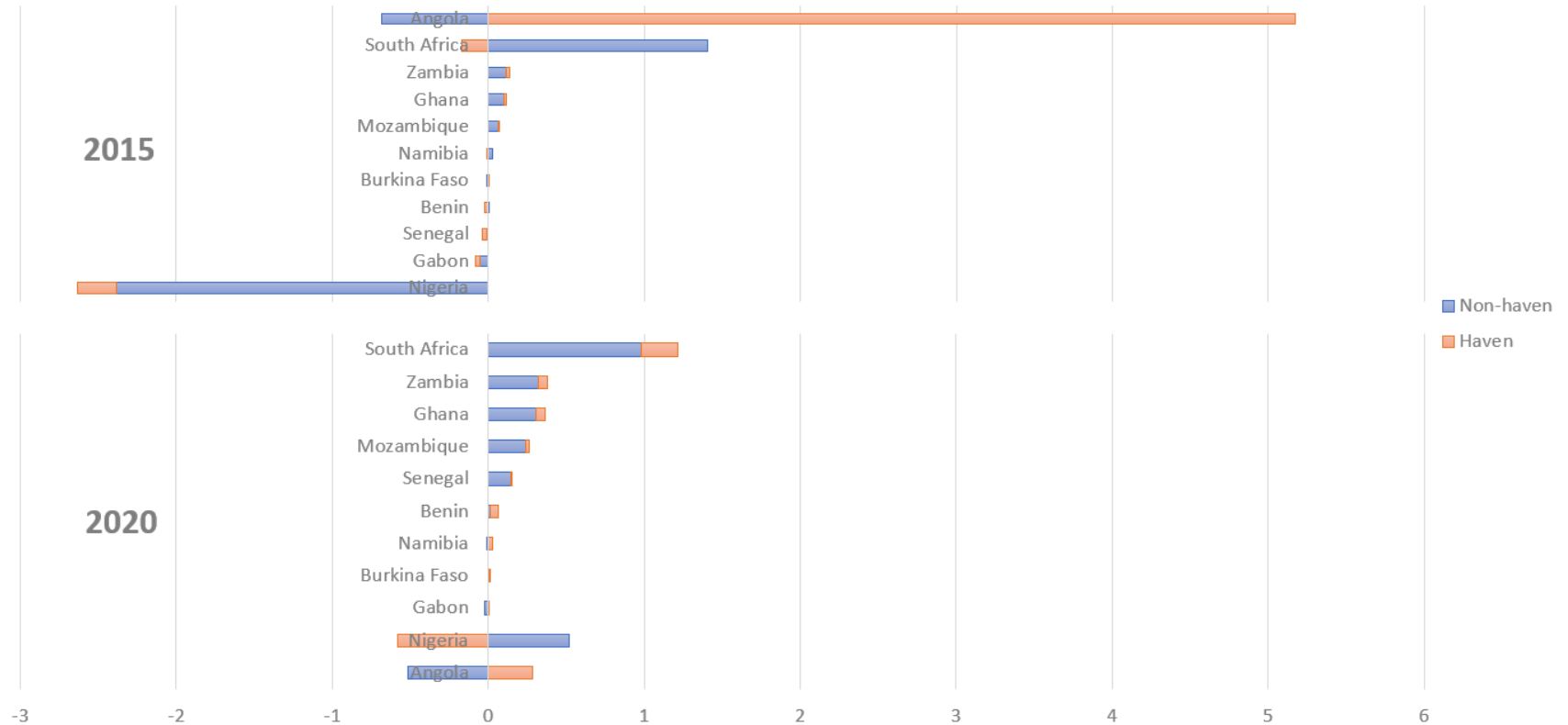
4. Examples: Africa and pilot countries

11 countries – Stock offshore Deposit in 2015 and 2020



4. Examples: Africa and pilot countries

11 countries – Flow offshore Deposit in 2015 and 2020



4. Examples: Africa and pilot countries

Stock Offshore - Percentage of GDP

%	2015	2020
Angola	1.15	2.37
Benin	0.24	0.16
Burkina Faso	0.37	0.14
Gabon	1.19	0.98
Ghana	0.46	0.52
Mozambique	0.56	1.03
Namibia	0.37	0.27
Nigeria	0.18	0.28
Senegal	0.75	0.51
South Africa	0.61	0.64
Zambia	0.49	0.81

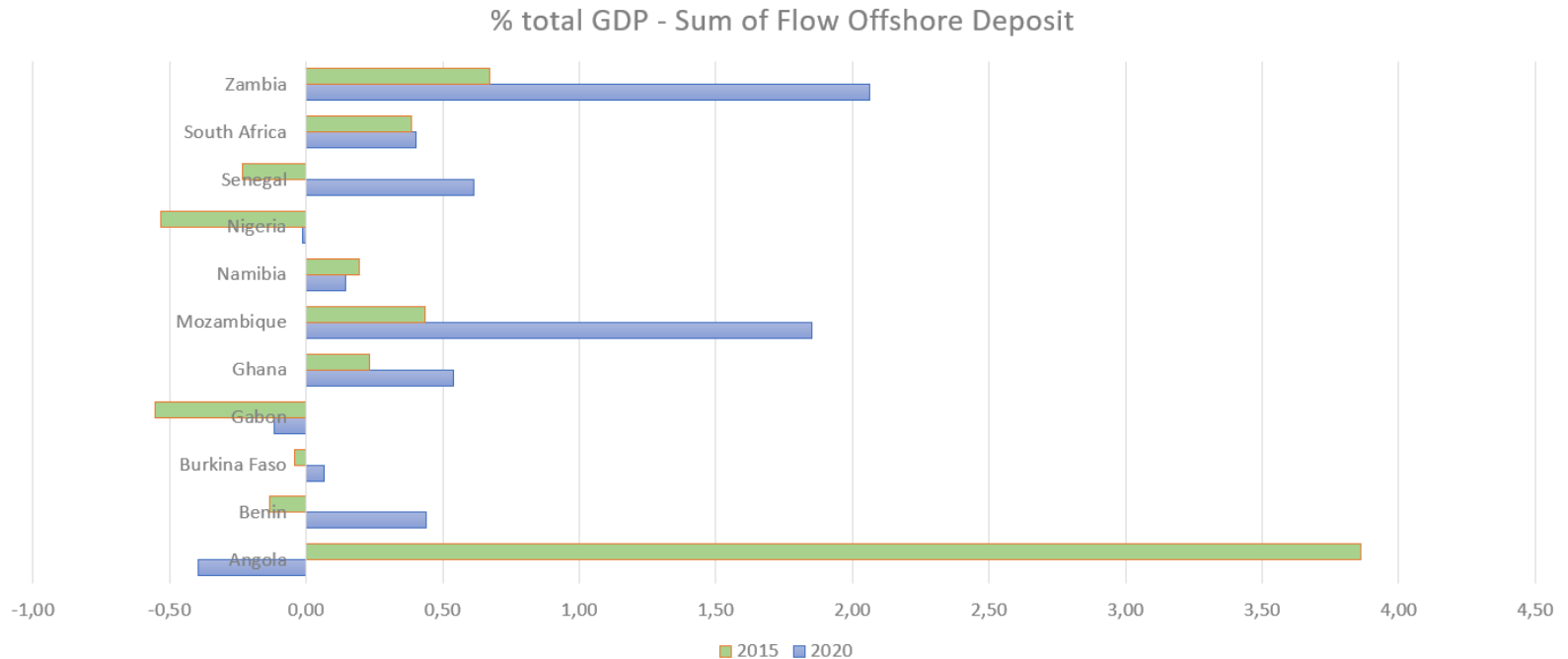
Percentage of Stock Offshore comparing with GDP of the year

$$Value = \frac{\text{Total offshore of the year}}{\text{GDP of the year}} * 100$$



4. Examples: Africa and pilot countries

Percentage of total GDP



5. How to link offshore wealth to IFFs?

- Offshore wealth **cannot be equated to tax evasion**, there are legitimate reasons to keep deposits in foreign accounts like insurance against political or economic instability.
- Similar to the trade gap method the **activity generating IFFs cannot be identified**
 - It can vary from tax evasion to proceeds of crime or corruption
- **Data leaks** can be used as an **investigative tool** to identify specific individual and companies with large offshore holdings and than compare with national data



5. How to link offshore wealth to IFFs?

How does tax evasion work?

- Shell or front companies
- Fake invoices
- Offshore accounts
- Dissociate legal and beneficial ownership



5. How to link offshore wealth to IFFs?

#5

Transfer of wealth to evade taxes by individuals: Flows of undeclared offshore assets indicator

- Calculation

$$\phi_i = \sum_j \beta_{j,i} - \alpha_i$$

ϕ_i ... undeclared assets of citizens of country i

$\beta_{j,i}$... the sum of assets of citizens of country i reported as being held in country j

α_i ... the sum of assets declared by citizens of country i as being held in other countries $j=1, \dots, n$, where $j \neq i$



6. Conclusion and Policy recommendation

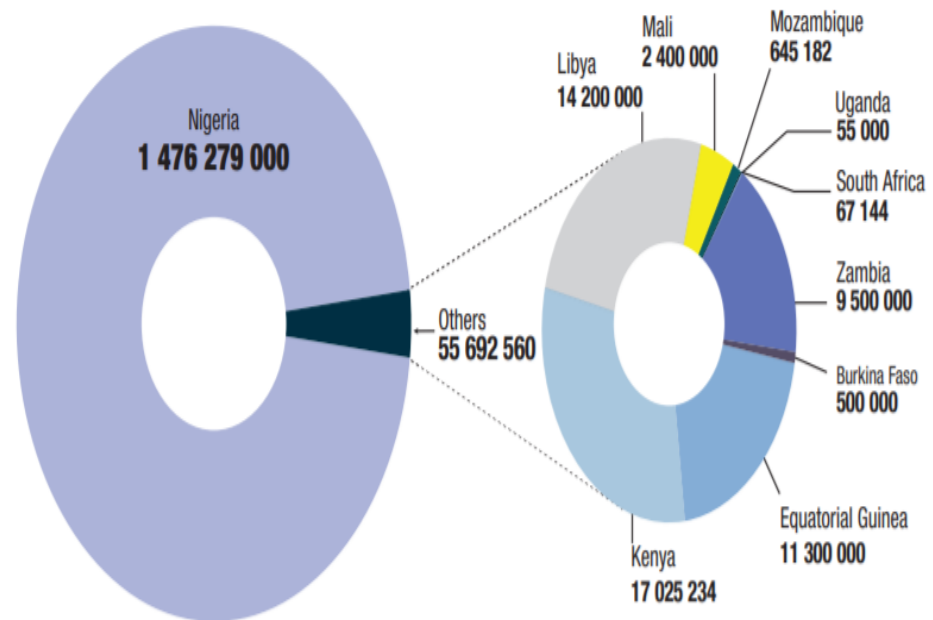
- Offshore wealth flows are large and growing.
- **What do offshore centers do?** Many of which are legal and legitimate activities:
 - Investment funds (Luxembourg, Ireland ...)
 - Shadow Finance (Cayman ...)
 - Cash management (US-Cayman ...)
 - Personal wealth management (Switzerland, Singapore ...)
- Some offshore centres, institutions and instruments facilitate tax evasion for wealthy individuals
- Capital flight has a **negative impact** on domestic socio-economic development **even if they are sometimes not illegal**



6. Conclusion and Policy recommendation

- New legal tools, like the **unexplained wealth orders** introduced in the UK allow for the confiscation of property without proving criminality, **by reversing the burden of proof**.
- **Join the WB-UNODC initiative on Recovery of stolen assets (StAR)**

Returned stolen assets, by country
(Sum in dollars)



Source: UNCTAD calculations based on the database of StAR.



Appendix: Data sources

Overview of data sources: EUTax Observatory

1. Bank for International Settlements (BIS) - Locational Banking Statistics
 - The data can be accessed on the website of the BIS, via this [link](#). It can either be downloaded or visualized through an online statistics explorer.
 - Recent studies: Langenmayr & Zyska 2021 ([read more](#)); Ahrens et al. 2020 ([read more](#)); Balakina et al. 2016 ([read more](#))

2. IMF - International Investment Position (IIP) and Coordinated Portfolio Investment Survey (CPIS)
 - The website of the IMF provides access to IIP data [here](#) and CPIS data [here](#) .
 - Recent studies: Zucman 2013 ([original article](#)); de Simone et al. 2019 ([read more](#)); Pellegrini et al. 2016 ([read more](#)); Vellutini et al. 2019 ([read more](#))



Appendix: Data sources

3. Swiss National Bank (SNB) - Banking statistics
 - Monthly banking statistics of the SNB can be accessed via [this link](#). The annual statistics datasets are available [here](#).
 - Recent studies: Zucman 2013 ([original article](#)); Alstadsæter et al. 2018 ([read more](#))

4. Data leaks (Pandora, Paradise, Panama leaks and Swiss leaks)
 - The Offshore Leaks Database can be accessed following this [link](#).
 - The Swiss Leaks website can be accessed following this [link](#).
 - Recent studies: Ownership links to tax havens of politically exposed persons. Leaked data were also used in academic research, for example by Caruana-Galizia & Caruana-Galizia 2016 ([go to the original article](#)), Alstadsæter et al. 2018 ([read more](#)), and Alstadsæter et al. 2019 ([read more](#)).



Appendix: Data sources

5. Administrative data

- **Audit data:** National administrations may conduct a variety of audits to verify the compliance of individual taxpayers and estimate the scale of abusive practices.
 - Recent studies: Guyton et al. 2021 with data from the U.S. ([read more](#)); Alstadsæter et al. 2019 with data from Denmark ([read more](#)); Hebous et al. 2020 with data from Norway ([original article](#)); Leenders et al. 2021 with data from the Netherlands ([read more](#)); Durán-Cabré et al. 2019 with data from Catalonia ([original article](#))
- **Voluntary disclosure data:** Allows to disincentivise tax evasion, collect data and better understand the phenomenon of tax
 - Recent studies: Pellegrini et al. 2016 with data from Italy ([read more](#)); Johannesen et al. 2020 with data from the U.S. ([original article](#)); Guyton et al. 2021 with data from the U.S. ([read more](#)); Andersson et al. 2019 with data from Norway ([original article](#)); Leenders et al. 2021 with data from the Netherlands ([read more](#))



Thank you

UNCTAD
PROSPERITY FOR ALL

www.unctad.org



UNITED NATIONS
UNCTAD