

# Offshore Tax Havens and Evasion of Financial Sanctions

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# Motivation

## *Putin Faces Sanctions, but His Assets Remain an Enigma*

On paper, the Russian president appears to own very little. Yet estimates put his hidden wealth well over \$100 billion.



Oliver Bullough  
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Once more with feeling:

Sanctions are good for inconveniencing someone if you know what they own, and good for freezing property if you know who owns it.

If you don't know those things, which in the UK we largely don't, their main use is to generate headlines like this one.



11:13 AM · Feb 23, 2022 · Twitter Web App

# Research Question

Do financial sanctions affect international financial flows?

If sanction targets flee with their money, where does that money go?

# Preview of the Results

Countries hit by financial sanctions:

1. move their funds out of the sanctioning countries
2. move those funds into tax havens
  - evidence from the *Panama Papers*
  - evidence from the Bank of International Settlements

# Our Contribution

- I) “Sanctions” literature has studied the evasion of *trade* sanctions.
  - We study how actors evade *financial* sanctions.
- II) “Tax havens” literature has studied their role in corruption and tax evasion.
  - We study how tax havens facilitate sanction busting.

# What Makes Tax Havens Special?

Actors targeted by sanctions want to move their money somewhere safe.

Most countries are not safe because they are transparent. If funds can be located, they can be seized or expelled.

Tax havens provide secrecy, which makes them useful for sanction evasion.

# Data

## Financial sanctions: Global Sanctions Database

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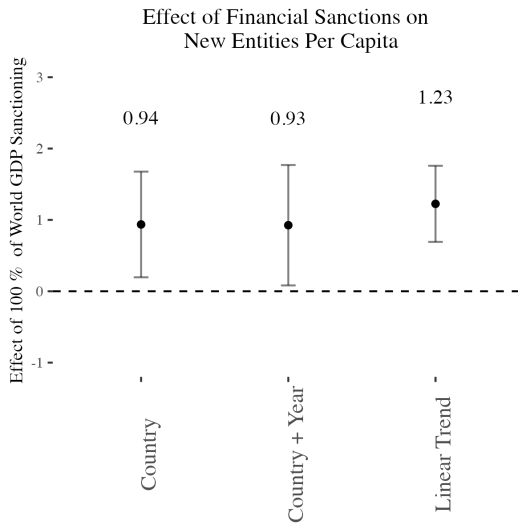
List of tax havens: Andersen et al (2022)

# Analysis of *Panama Papers*

$$\frac{\text{New Ent}_{ct}}{\text{Pop}_c} = \beta \text{Sanction Severity}_{ct} + X_{ct-1} + \alpha_c + \delta_t + \epsilon_{ct}$$

- $\frac{\text{New Ent}_{ct}}{\text{Pop}_c}$ : New shell companies per capita
- $\text{Sanction Severity}_{ct}$ : share of the world GDP sanctioning country  $c$  in year  $t$
- $X_{ct-1}$ : Lagged GDP
- $\alpha_c, \delta_t$ : Origin country and year fixed effects.
- Estimator: Poisson w/ multiway fixed effects

# Evidence from *Panama Papers*



Table

Fig GDP

Table GDP

## Evidence from *BIS* Data

$$\begin{aligned} \text{Deposits Abroad}_{ct} &= \beta_1 \text{Sanction Severity}_{ct} + \beta_2 \text{Tax Haven} \\ &+ \beta_3 (\text{Tax Haven} * \text{Sanction Severity}) \\ &+ X_{ct-1} + \alpha_c + \delta_t + \epsilon_{ct} \end{aligned}$$

- *Deposits*: Total deposits from origin country in tax haven and non-haven countries
- $X_{ct-1}$ : Lagged GDP, lagged population
- $\alpha_c, \delta_t$ : Origin country and year fixed effects.
- Estimator: Poisson w/ multiway fixed effects

# Evidence from *BIS* Data

	<i>Deposits abroad</i>		
	(1)	(2)	(3)
Sanction Severity	-1.026*** (0.371)	-1.033*** (0.365)	
Tax Haven	-1.334*** (0.216)	-1.334*** (0.216)	-1.341*** (0.217)
Tax Haven X Sanction Severity	2.566*** (0.601)	2.553*** (0.595)	2.862*** (0.743)
<i>N</i>	13,880	13,880	13,386
Log. Pop <sub><i>t</i>-1</sub>	✓	✓	✓
Log. Real GDP <sub><i>t</i>-1</sub>	✓	✓	✓
Origin country FE	✓	✓	✓
Year FE		✓	✓
Origin*Year			✓

S.E. are clustered by origin country.

# Other Analyses

- Distinguishing sanctions w/ and w/out USA
- Distinguishing sanctions before and after 9/11
- Controlling for time-variant factors (e.g. war in sanction target)

# Conclusion

- Sanction effectiveness hinges on the ability to track the target's funds.
- Tax havens undermine sanctions by helping targets conceal their funds.
- Efforts to regulate tax havens should consider this geopolitical aspect.