

U4 Helpdesk Answer

U4 Helpdesk Answer 2023

Evidence on the transit and destination financial centres used for the proceeds of corruption

The corrupt have relied on loopholes in the global financial system to hide their proceeds of corruption or launder their ill-gotten gains. Their methods include, among others, using foreign bank accounts or investing in real estate, luxury goods or other assets overseas (FATF/OECD 2011). They have sought to obscure their ownership of these assets using shell companies or trusts, particularly in secrecy jurisdictions (FATF/OECD 2011). Disguising the true origin of the funds via a complex paper trail – often involving multiple jurisdictions – can allow corrupt actors to integrate their assets into the legitimate economy. The foreign countries and jurisdictions that are implicated in these schemes can be referred to as either transit or destination financial centres, depending on which role they play in facilitating or hiding the proceeds of corruption.

This Helpdesk Answer addresses several issues related to corrupt actors' chosen transit and destination financial centres. First, it reviews the most cited characteristics of transit and destination centres in terms of why they might appeal to a corrupt actor. These include (among others) high levels of financial secrecy, favourable conditions for professional enablers, advantageous legal system, strong rule of law and political stability, geographic and cultural proximity to the corrupt individual, and economic trade ties with the source country.

Secondly, it examines where these centres are likely to be located, based on information regarding offshore financial centres, countries that are vulnerable to money laundering, and the countries and jurisdictions that feature most frequently in leaks such as the Panama and Paradise Papers.

An annex provides a list and overview of the organisations currently researching this topic and related issues.

Helpdesk Answers are tailor-made research briefings compiled in ten working days.

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Query

Summarise the available evidence on the transit and destination financial centres used for the proceeds of corruption, providing any evidence around specific links between source countries and particular transit and destination centres.

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MAIN POINTS

- Corrupt officials who steal public funds have strong incentives to transfer their proceeds of corruption to foreign jurisdictions, which include protecting their funds from being easily reclaimed by domestic authorities and providing them access to foreign goods.
- Evidence suggests that transit financial centres commonly implicated in these schemes have high levels of financial secrecy and favourable legal conditions for financial enablers, which permits the establishment of anonymous structures to obscure the beneficial ownership of corporate vehicles that can be used to hide stolen assets.
- Destination financial centres may also be characterised by high levels of financial secrecy, but, in addition, tend to exhibit strong rule of law and political stability, geographic and cultural proximity to the kleptocrat's source country, as well as high levels of trade and foreign direct investment.
- This area of research is still being developed and, as such, there are several limitations to the available evidence. Data on stolen assets is patchy due to their hidden nature and there is a lack of qualitative comparative analysis on the characteristics of destination and transit centres.

Caveat

This Helpdesk Answer focuses on the proceeds of corruption. It does not look at other types of illicit financial flows such as tax evasion or tax fraud as tax related issues are beyond the Helpdesk mandate. In addition, although this Helpdesk Answer reviews the available evidence on transit and destination financial centres used to move or enjoy the proceeds of corruption, it should be noted that some of the studies included in this paper were not able or did not attempt to definitively identify the sources of these money flows. As such, some of the funds mentioned may have originated from other illicit sources such as tax evasion. Nonetheless, some of the literature referred to assumes that it is likely that a certain proportion of these money flows originate from acts of corruption. Finally, this Helpdesk Answer is desk-based and as such relies on research published by others. No original research was conducted.

Background

Corruption includes instances of public officials lining their own pockets with public funds. This may involve bribe-taking or kickbacks, extortion, self-dealing and conflict of interest, and embezzlement from the country's treasury by a variety of fraudulent means. Corrupt actors around the world divert public funds through such methods, leading to serious implications for a country's ability to provide quality goods and services to its citizens, and further fuelling inequalities (Transparency International no date a).

For the proceeds of corruption to be enjoyed in foreign countries, corrupt actors need to place, layer and integrate the funds into the global financial system without raising the attention of

authorities (FATF/OECD 2011). This can be achieved through money laundering, which is defined by UNODC as “the processing of... criminal proceeds to disguise their illegal origin” (UNODC no date). Corrupt cross-border money flows can also be referred to as types of illicit financial flows (IFFs).

In an archetypal bribery scheme involving a public official, money flows from a private entity to a public official in exchange for some kind of government concession, such as a public contract or licence, potentially through a shell company or trust of which the public official is the beneficial owner (FATF/OECD 2011). After this, the shell company can be used to purchase assets with the owner's identity hidden. Similarly, the proceeds generated through extortion schemes can pass from the victim to the public official through intermediaries such as shell companies or trusts registered in another country (FATF/OECD 2011).

Corrupt actors abuse the loopholes of the global financial system. Foreign jurisdictions provide corrupt actors with access to the services and tools that enable them to hide and launder their dirty money. They might hide their money in foreign jurisdictions as a kind of insurance policy against political instability at home, such as losing grip on power and being prosecuted for historical corruption. Transferring the proceeds of corruption to other jurisdictions can also provide better access to foreign goods (and the possibility to diversify their investments). This money can also help to build relationships with and exert influence over authorities in the foreign jurisdiction, which could potentially serve as a safe haven in the future (OECD 2014). An examination of grand corruption cases by the OECD and Financial Action Task Force (FATF) revealed that, in nearly every case examined, the illicit proceeds were transferred to foreign bank accounts as part of the scheme (FATF/OECD 2011: 23). These cross-border

movements of funds create what has been described as a “symbiotic relationship between the source countries of grand corruption and the destination host or haven countries” (Cooley and Sharman 2017).

The process of hiding the proceeds of corruption often involves the use of a transit centre (or multiple centres) where foreign bank accounts are held or a shell company is registered, among other methods, to obscure the ownership of funds. After the services of a transit centre have been used, funds can then be transferred to a destination centre (or multiple destination centres) to be invested, stored and used to purchase assets such as real estate or luxury goods. In some cases, the transit and destination centres may be indistinguishable from one another as jurisdictions can provide services of both centres. For example, one country might offer the services and industries to both facilitate money laundering and integrate the funds into the legitimate economy.

This Helpdesk Answer reviews the literature on the transit and destination financial centres used to conceal and store the proceeds of corruption. It also reviews available evidence on their characteristics and the links between the source country and the transit and destination centres. The most observed, and perhaps most obvious, characteristic of a transit centre is a high level of financial secrecy. Financial secrecy allows for opaque corporate structures to exist and for professional enablers to work who obscure the ownership of funds. This reduces the likelihood of asset recovery if their crimes are uncovered.

Strong rule of law and political stability are shown to be common characteristics of destination centres as this ensures a level of protection for the assets by reducing the risk that the ill-gotten gains could be devalued due to conflict or instability, or arbitrarily confiscated without due process. Geographic and

cultural proximity to the source country has also been found to be a link between destination centres and the source countries, as are high levels of trade and foreign direct investment. It should be noted that, it is often a combination of these characteristics and services offered that will determine whether a corrupt actor selects one jurisdiction over another, rather than one standalone feature.

The characteristics of transit financial centres

Financial secrecy

Tax Justice Network has proposed the term “secrecy jurisdictions” to refer to jurisdictions which “provide facilities that enable people or entities to escape or undermine laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool” (TJN 2022: 6). Their [Financial Secrecy Index](#) is a ranking of the jurisdictions that are most complicit in helping individuals hide their finances from the rule of law (TJN 2022). It is comprised of 20 secrecy indicators that are used to measure the secrecy score of a country and are useful to identify common characteristics of secrecy jurisdictions. These indicators include (among others): banking secrecy, recorded company ownership register, corporate tax disclosure, anti-money laundering capabilities and legislation, and exchange of information upon request (TJN 2022: 21).

Opaque corporate structures and lax regulations offered in secrecy jurisdictions would make them ideal transit (or potentially destination) centres to conceal the proceeds of corruption.

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Research supports the hypothesis that a high level of financial secrecy is one of the characteristics that make a jurisdiction an attractive choice as a transit centre. For example, a 2022 study of the ownership of businesses in Europe examined a dataset on the nationality of 28.7 million shareholders of companies registered in 41 European countries (Aziani et al. 2022). The aim was to investigate the pattern of cross-border business ownership, and the dataset was analysed to test whether foreign ownership (with the assumption that a significant portion cross-border ownership links are “red flags” related to cross-border corruption) is driven by social and/or macroeconomic variables (Aziani et al. 2022). The authors’ premise was that, although geographical, economic and tax determinants are fundamental in explaining cross-border ownership links, the most significant driver is the need for financial secrecy (Aziani et al. 2022). To test this, they detected anomalous cross-border ownership links, and ranked these to help countries identify the foreign jurisdictions on which to focus their monitoring and investigation resources (Aziani et al. 2022). They found that anomalous cross-border ownership links are primarily explained by high levels of financial secrecy in the country of the shareholders (Aziani et al. 2022). These results confirm that the opacity of the financial, banking and corporate sectors is a key vulnerability for IFFs (Aziani et al. 2022).

Their findings also support the rational-choice explanation for the criminal’s selection of transit centre as risks are lower in countries with an opaque financial system (Aziani et al. 2022). It should be noted that the authors did not analyse individual cases but instead made inferences from the aggregate data. This means that the results are not disaggregated by source of IFFs (tax evasion or corruption, for example); nonetheless, their analysis can be relevant to cases involving the proceeds of corruption.

Offshore financial centres

Offshore financial centres (OFCs) are integrated into a complex network of international capital flows, and not only store capital but act as nodes in the global system (Garcia-Bernardo et al. 2017). According to the International Monetary Fund’s (IMF) definition, OFCs are “a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and financing of its domestic economy” (IMF 2007). The financial services offered to non-residents are what attracts corrupt actors looking to layer and integrate illicit funds.

Financial secrecy is closely linked to OFCs and is one of their core features (TJN no date). OFCs may serve legitimate business purposes, but the services that they offer to non-residents are vulnerable to abuse by criminal and corrupt networks because, compared to other financial centres, they are not subject to robust beneficial ownership requirements and lack the safeguards and capacity to prevent tax evasion and money laundering (GFI no date). These jurisdictions may in fact have established laws and regulations which instead facilitate foreign nationals to evade tax, such as strict banking secrecy measures and limited cooperation on the exchange of financial information with other jurisdictions (TJN no date). These mechanisms can also be exploited by non-resident corrupt actors to place, layer and then integrate the proceeds of corruption.

Global Financial Integrity (no date) argues that OFCs are distinct from other kinds of financial centres, such as international financial centres and regional financial centres. This is because other financial centres are characterised by strong regulatory structures and substantial participation in the domestic economy (GFI no date). OFCs, on the other hand, have weak regulatory structures and appeal to individuals through their banking secrecy (GFI no date).

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Studies show that OFCs are key to the money laundering process, providing services in the stages of placement of illicit funds when they are smuggled offshore using a bank or financial institutions. Assessing the main features of OFCs used as transit centres for money laundering, Koligkionis (2017) concluded that criminals choose an OFC based on whether there is absolutely or very strict banking secrecy and where financial businesses are not subject to any kind of control or supervision to operate (Koligkionis 2017: 1360). Other important factors include the absence of a requirement to keep official records of large amounts of cash transactions, no obligation to report suspicious transactions to national agencies, free trade zones with little state control or supervision and where public administration is ineffective or corrupt (Koligkionis 2017: 1360-1361).

Inadequate financial integrity rules

Financial integrity rules are introduced to deter money laundering and other financial crimes. These include anti-money laundering regulations, which include preventive measures for financial institutions such as customer due diligence and additional checks for politically exposed persons, reporting of suspicious transactions, as well as the regulation and supervision of financial institutions (FATF 2012-2023). Other financial integrity rules include fostering a culture of integrity through training and incentives in financial institutions and fostering a “speak-up” culture that encourages financial sector employees to report misconduct and protects them from retaliation (Bechtel and Ulbrich 2021). And finally, targeted financial sanctions which include freezing assets of suspected individuals (FATF 2012-2023: 13). All of these, if implemented effectively and comprehensively, are intended to render a jurisdiction less attractive to corrupt actors and kleptocrats.

Inadequate anti-money laundering rules can result in the enablement of some of the newer methods of money laundering, such as the use of cryptocurrencies, which use blockchain technology to move assets from one place to another (Goodrich 2022). Investigations show that Russia based cryptocurrency exchanges do not ask questions on the identity of their customers (Goodrich 2022). This allows for heightened secrecy of these transactions and increases the risk that they could be exploited for money laundering.

Laws aimed to counteract opaque corporate structures should be implemented correctly to have an impact on levels of financial secrecy and money laundering. The recent public register of beneficial owners in the United Kingdom has had a significant shortfall in disclosures, missing 30% of registered companies’ beneficial owners (Cruise et al. 2023). This was due to “large and obvious holes” in the system that left corrupt individuals from revealing themselves as beneficial owners (Cruise et al. 2023). This included the exemption of beneficial owners only being required to register if they own more than 25% of the property-owning foreign company (Cruise et al. 2023). Therefore, it is not only a lack of financial integrity rules that might make a jurisdiction attractive as a transit centre, but also the weak rules with loopholes that can be exploited.

Favourable conditions for professional enablers

Scandals such as the Panama Papers and Paradise Papers have shone a light on the role that professional service providers play in hiding and moving illicit finance, including the proceeds of corruption. These industries are referred to as professional enablers (or gatekeepers) who, according to FATF, are “individuals that protect the gates to the financial system through which potential users of the system, including launderers,

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must pass in order to be successful. As a result of their status, they have the ability to furnish access to the various functions that might help criminals to move or conceal their funds” (FATF/OECD 2010: 44).

Professional enablers include lawyers, accountants, notaries, bankers, real-estate agents and/or other professionals that provide services that may include the buying and selling of real estate, the creation, administration and management of legal entities and arrangements (such as companies and trusts), and the selling or purchase of art and other luxury goods. Banks and other financial institutions may also be involved in schemes for hiding and storing the proceeds of corruption (IRI 2021: 31). As an example of a professional enabler exposed in the Panama Papers, the law firm Mossack Fonseca helped to create and administer thousands of entities on behalf of clients, some of which included individuals suspected of corruption (IRI 2021: 31). Their activities are enabled by a lack of regulation and oversight in certain jurisdictions from authorities, in part due to the same laws that result in high levels of financial secrecy.

Professional enablers can help to layer and integrate the proceeds of corruption in a jurisdiction to launder their illicit funds (IRI 2021: 31). For example, an analysis by the World Bank of 213 grand corruption investigations found that in 150 instances, at least one corporate vehicle had been created by professional enablers to conceal the beneficial owners (Van der Does de Willebois et al. 2011: 135).

Costa (2021) describes the clusters involved in the transnational network that helped conceal the proceeds of corruption from the former Peruvian president, Alejandro Toledo, by laundering bribes obtained by the construction company Odebrecht. The first cluster identified were the web of businesspeople and operative companies based in

Peru, the source country (Costa 2021: 15). These entities moved the proceeds of corruption along different stages of the money laundering chain (Costa 2021: 15). The second cluster involved the service providers (the professional enablers) who operated in offshore financial centres (Costa 2021: 15). These were mainly law firms that operated as service providers and resident agents and managed the activities of several different offshore companies, while at the same time connecting them into a web of interlocking offshore relations (Costa 2021: 15). This included several financial transactions that were sent from the bank accounts of Odebrecht operative companies to shell companies based in the British Virgin Islands, Panama, Antigua, Uruguay and Belize (Costa 2021: 17). These transit centres were selected by the professional enablers, highlighting the enablers’ role, and the environment that enables their work, in a corrupt actor’s choice of transit centre.

Strategic location

Location can play a role in the corrupt actor’s strategic selection of a transit centre to hide their proceeds of corruption. Cyprus, for example, is a member of the European Union (EU), giving any who invest in its economy access to the EU market. It also has high levels of financial secrecy, (Ledyeva et al. 2013). Ledyeva et al. analysed Russian statistics and identified that a large portion of the money invested in Cyprus from Russia is likely sourced from corrupt actors (Ledyeva et al. 2013). It has been estimated that one half to a third of all Cyprus bank deposits are of Russian origin, and that Cyprus is the third largest foreign investor back into the Russian economy (Ledyeva et al. 2013). This round-trip investment via Cyprus, the authors argue, is evidence of corruption linked money laundering (Ledyeva et al. 2013). Cyprus’ membership of the EU means that these laundered funds and assets could have access to EU markets,

and perhaps acts as an incentive for the selection of this country as a transit centre.

The characteristics of destination financial centres

Strong rule of law and stability

Strong rule of law and stability in a country are commonly identified as characteristics likely to make a jurisdiction a favourable destination centre. Many of these well-established economies provide easy access to a range of professional and financial services that could be attractive to a kleptocrat looking to purchase assets with their laundered funds. Assets, such as real estate, located in stable countries are likely to retain or increase in value. The abuse of the real-estate sector is often considered “one of the oldest known ways to launder ill-gotten gains” (European Parliament 2019). Real estate is key to the “integration” stage of money laundering, where illicit funds have already been layered through trusts or shell companies (European Parliament 2019).

Among the most prominent destinations for kleptocrats’ wealth are the cities of London and New York, which are both stable, established international financial centres where real estate or infrastructure investments are expensive and will retain their high value (IRI 2021 :30). A 2021 report by Global Financial Integrity estimated that more than US\$2.3 billion had been laundered through United States real estate market between 2015 and 2020 (a practice referred to as real-estate money laundering) and more of 50% of these reported cases involved politically exposed persons (IRI 2021: 31). Transparency International UK’s research (2022) also found that wealth from Russia

has been used to invest a£6.7 billion in the United Kingdom’s property market, with £1.5 billion of this from Russians accused of corruption or links to the Kremlin (TI UK 2022). Further analysis traced the transit centres of this wealth to companies registered in Britain’s overseas territories and crown dependencies, centres offering high levels of financial secrecy and previously recorded in Russian corruption cases (TI UK 2022). Through examining corruption and associated money laundering cases, they found that the United Kingdom acts as a destination centre primarily for Russia, Ukraine, China, Nigeria, Azerbaijan, Kazakhstan, Indonesia, Egypt, Brazil and Uzbekistan (TI UK 2022).

To support the hypothesis that strong rule of law and stability is a characteristic of destination centres, analysis by Aziani et al. (2022) of cross-border business ownership showed that there is a positive and strongly significant correlation between the rule of law and anomalous ownership links. As such, it appears that more stable and peaceful countries are more likely to be destinations for criminal’s stolen assets (Azianai et al. 2022).

Arif, Jawaid and Khan (2018) studied the preferred destinations of money laundered from Pakistan and find that the favoured destination (and transit) centres to hide illicit funds have high levels of political stability. According to the authors, for 2002 to 2014, Japan was top of the list of attractive destinations for Pakistanis to launder their ill-gotten gains, followed by Denmark, Switzerland, Luxemburg, Cyprus, Hong Kong and Qatar (Arif, Jawaid and Khan 2018: 29). These countries and jurisdictions have some of the largest economies with sophisticate financial systems (Arif, Jawaid and Khan 2018: 30). Those with high foreign direct investment seem to be attractive to money launderers, and some of them also have low tax rates (Arif, Jawaid and Khan 2018: 30). They concluded that these results indicate that international

financial centres with stable political environments are preferred by Pakistani money launderers (Arif, Jawaid and Khan 2018: 36). Interestingly, countries such as Denmark often perform well in terms of controlling perceived levels of corruption (Transparency International 2022). It should be noted that the analysis does not focus exclusively on the proceeds of corruption but rather on money laundering more broadly.

Geographic and cultural proximity

Geographic proximity makes trade and transporting large amounts of cash easier (UNODC 2011) and cultural similarities (such as a shared language) makes the use of foreign financial institutions and other services overseas simpler. In the 21st century, due to electronic money transfers and online financial services, these factors might not be as relevant as they once were but it is still likely that geographic proximity is an incentive for IFFs in the form of bulk cash (UNODC 2011: 54).

The Walker Gravity Model is an approach developed to estimate the flow of IFFs by analysing the proceeds of crime that may generate IFFs, which include transnational crimes and illicit markets, and corruption related schemes (Aziani 2023). The main hypothesis of gravity models is that flows are larger between larger and closer countries, with specific financial sectors and institutions in a country that also has an influence (Aziani 2023). The model measures the probability that the proceeds of crime are laundered internationally, and results in a risk assessment gravity model mapping the flow of illicit finance between any potential pair of countries (Aziani 2023). Within this framework, the volume of illicit flows between countries depends on risks and opportunities associated with the financial sectors/institutions in each country, such as banking secrecy, economic size, level of corruption, and geographical and cultural distance (Aziani 2023).

Ferwerda et al. (2020) build on the Walker Gravity Model to estimate the amount and types of money laundering flows through developing a gravity model-based simulation. They used a dataset of suspicious transaction reports (STRs) filed in the Netherlands from 2009 to 2014 to empirically test their assumptions (Ferwerda et al. 2020). This is achieved through an econometric gravity model estimate simulating the money laundering flows around the world (Ferwerda et al. 2020). They hypothesise that a significant factor in determining the direction of criminal money flows is the idea that hiding money is “easier in a bigger pool of money”. This implies that the volume of transactions between geographically and culturally similar countries makes money laundering easier and cheaper as, presumably, there will already be financial flows between the countries (Ferwerda et al. 2020). The authors found that there were larger flows of illicit finance between larger countries (by GDP) and that countries closer to each other do have larger bidirectional money laundering flows (Ferwerda et al. 2020). Cultural closeness, such as the same language or religion, is also a factor that facilitates flows between countries (Ferwerda et al. 2020). Their results find that money laundering is highest in Belgium, Luxembourg and Israel (Ferwerda et al. 2020).

Alstadsæter et al. (2022) analysed a dataset that captures the ownership of about 800,000 properties in Dubai. Recent leaks have shown that many owners of real estate in Dubai have been accused or convicted of crimes or are under international sanctions, such as Russian politicians and European officials accused of mishandling public funds (Flydal and Kupfer 2022). The authors found that at least US \$146 billion in foreign wealth is invested in the Dubai property market, and that geographical proximity and historic ties are the key determinants of this foreign investment (Alstadsæter et al. 2022). About half of the offshore

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Dubai real estate is owned by nationals from India, the United Kingdom, Pakistan, Saudi Arabia and Iran (Alstadsæter et al. 2022). The connection with the UK, for example, is that Dubai (along with the other precursor states of the United Arab Emirates) was a British protectorate (Alstadsæter et al. 2022). They also find that many conflict ridden and autocracies have large holdings in Dubai relative to the size of their economy, equating to between 5%-10% of their GDP (Alstadsæter et al. 2022).

Trade and foreign direct investment

Foreign direct investment and trade are two channels through which illicit finance can be moved between jurisdictions (TJN 2020; GFI 2023). Tax Justice Network's IFFs Vulnerability Tracker measures the levels of secrecy as well as the amount of trade of a country to identify possible destination countries for IFFs (TJN 2020). In 2021, for example, the Vulnerability Tracker found that the United Arab Emirates, Belgium, and Germany were the trading partners most responsible for Nigeria's vulnerability to IFFs (TJN 2021). This suggests that, due to the volume of trade between the countries, these are the jurisdictions most likely to be destination centres for IFFs stemming from Nigeria.

Trade based money laundering involves over and under-invoicing of goods and services, falsely describing goods and services, multiple invoicing of goods and services, among other tactics to disguise the proceeds of crime and move their value using trade transactions to legitimise their origin (FATF 2020). Global Financial Integrity estimates that 6%

of the predicate offences of trade based money laundering are related to corruption (GFI 2023: 7), implying that levels of trade with another country may affect a kleptocrat's choice in transit or destination centre.

Madden, Signé and Sow (2020) find that there has been a global shift in where IFFs from sub-Saharan Africa are being moved to, with an increase of illicit outflows towards emerging economics, such as China. They follow Global Financial Integrity's methodology on estimating IFFs through trade mis-invoicing, which relies on discrepancies in reported import and export data, particularly import over-invoicing as this is a common method of illegally moving money out of developing countries (GFI 2017). Madden, Signé and Sow's study shows that illicit flows to China have increased commensurately with trade since 2000, while illicit flows to the US have remained constant, with only a slight increase corresponding to a rise in total trade from 2008 to 2011 (Madden, Signé, and Sow 2020: 10).

Limited role of law enforcement

Where there is weak law enforcement, laundered funds can be more easily used to purchase assets and integrated into the legitimate economy. It also decreases the chances that asset recovery will take place. Haberly et al. (2023) assessed the gap between the rules a jurisdiction has in place on paper and how stringently they are enforced in practice. To do so, they combined the Regulation of Illicit Flows (RIFF) dataset¹ with data from the Global Shell Games² (Haberly et al. 2023). They

¹ The RIFF Dataset maps the global spread over time of regulations to counter financial secrecy and money laundering in 61 jurisdictions. For more information, see page 9 of [their report](#) (Haberly et al. 2023).

² [The Global Shell Games](#) dataset tested the effectiveness of international rules of anonymous shell companies through employing a mystery shopper approach.

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find that implementation gaps are widest in OECD member countries, which tend to have strong rules, but are not adequately enforcing them (Haberly et al. 2023). The jurisdictions with the highest implementation gaps include the United Kingdom and United States (Haberly et al. 2023). Their findings are consistent with other research identifying problems of the effectiveness of regulatory regimes in the United Kingdom and United States for preventing corruption proceeds from entering their markets (Bullough 2022).

Not only does the United Kingdom have weak laws with loopholes to be exploited, but law enforcement is weak in regard to the vast amount of real estate being exploited by corrupt actors (Heathershaw et al. 2021). The “risk-based approach” that was introduced in the 2007 UK Money Laundering Regulations and favours *de facto* self-regulation over effective enforcement (Heathershaw et al. 2021). However, this means that professionals in regulated industries such as banking and property have largely ignored the requirements, such as due diligence checks on politically exposed persons (PEPs) (Heathershaw et al. 2021: 23). Indeed, a report by the Office for Professional Bodies Anti-Money Laundering Supervision (OPBAS) (a government body set up to oversee the professional bodies that supervise legal and accountancy firms and companies regarding their anti-money laundering procedures) found that 81% of professional bodies had not implemented an effective risk-based approach (Heathershaw et al. 2021). It is therefore argued that, without actively complicit professional enablers facing prison and punitive fines, it is hard to see how transnational corruption can be deterred in the United Kingdom, however well-drafted the law (Heathershaw et al. 2021: 26).

Identifying transit and destination financial centres

Identifying the jurisdictions which serve as transit and destination financial centres for the proceeds of corruption can be challenging. The following anecdotal evidence can, however, help inform an analysis of which jurisdictions serve as transit and destination centres in the global phenomenon of cross-border corruption. The literature often does not distinguish as to whether a jurisdiction functions as a destination or transit centre. The difference is largely dependent on the services offered in the country, and one can be both serve as both a transit and destination centre.

A 2018 analysis on the Bank for International Settlements observed changing trends over time in where offshore wealth is stored in destination centres. Switzerland once hosted an estimated 40% of the world’s offshore wealth in 2001, peaking at 45%-50% in 2006-2007, and declining to 30% in recent years (Alstadsæter, Johannesen and Zucman 2018). Since Switzerland’s decline, international financial centres in the Asian continent have been rising, particularly Hong Kong, which (as of 2018), was ranked second behind Switzerland (Alstadsæter, Johannesen and Zucman 2018). However, it should be noted that the recent capital flight from Hong Kong may have since affected this ranking (Trading Economics no date). The amount of wealth recorded in the British Virgin Islands, Panama and similar OFCs where most of the world’s shell companies are domiciled is also growing, particularly since the mid-2000s (Alstadsæter, Johannesen and Zucman 2018).

A case study analysis by Soares de Oliveira (2020) also observed the changing trends through examining the flows of offshore wealth from African kleptocrats. Until a decade ago, most of the illicit

finance originating from the African continent flowed through a variety of onshore financial centres and offshore havens in OECD countries and British Overseas Territories (Soares de Oliveira 2020). Since then, there has been a diversification in the choice of destination and transit centres used by African kleptocrats towards Asian financial centres, namely Singapore and Hong Kong, as well as Dubai (Soares de Oliveira 2020).

A World Bank and UNODC analysis (2011) of 150 cases of grand corruption found that the top jurisdictions and countries involved in the cross-border movement of funds (using corporate vehicles) were the United States, British Virgin Islands, Panama, Liechtenstein, the Bahamas and the United Kingdom (Van der Does de Willebois et al. 2011: 121). In terms of the top jurisdictions for where the suspects' bank accounts were held were the United States, Switzerland, United Kingdom, Nigeria and the Bahamas (Van der Does de Willebois et al. 2011: 122).

As of 2022, the jurisdictions and countries ranking highest on the Financial Secrecy Index (with highest first) were: United States, Switzerland, Singapore, Hong Kong, Luxembourg, Japan and Germany (TJN 2022). Those ranked highest for the standalone secrecy score in 2022 were: Vietnam, Angola, Bolivia, UAE, Algeria and Puerto Rico (TJN 2022).

The dataset of cross-border ownership of businesses in Europe analysed by Aziani et al. revealed that the OFCs Belize, the Marshall Islands, Seychelles, Panama and the Bahamas appeared most frequently as the origins of "anomalous" ownership links (Aziani et al. 2022). In addition to these OFCs jurisdictions including Norway, Liberia

and the United States also frequently appeared as countries in abnormal ownership links and are implied to be both (or either) transit and destination centres (Aziani et al. 2022).

FATF provides a list of jurisdictions under increased monitoring by the body as they have strategic deficiencies in their regimes to counter money laundering, terrorist financing and proliferation financing (FATF 2023). These jurisdictions currently include (among others) Albania, Burkina Faso, Panama, Senegal, South Sudan, UAE and Uganda³ (FATF 2023). They are placed on this high-risk list after significant deficiencies were found related to the [FATF Recommendations](#) (FATF 2023). Being on the FATF increased monitoring list does not necessarily indicate that corrupt actors and kleptocrats are using these jurisdictions as transit or destination centres, but it does highlight their vulnerability to some of the tactics (in money laundering) that kleptocrats are known to employ when hiding their stolen assets. This could indicate some of those listed could be used as transit centres as well as source countries for corrupt money flows.

The Panama Papers identified many of the largest OFCs used through its data leak. Dominguez et al. (2020) analysed the network of OFCs used from the information provided by the Panama Papers and found the most prevalent offshore jurisdictions identified were the British Virgin Islands, Hong Kong, Singapore, Indonesia, the Cook Islands and Samoa. The British Virgin Islands were found in their study to be the most predominant actor, serving as a hub in the offshore network connecting countries from different regions. (Dominguez et al. 2020).

³ For a full list of jurisdictions under increased monitoring by FATF, see [here](#) (FATF 2023).

Similarly, Global Integrity's mapping of shell companies exposed in the Panama Papers leaks, and more recently in the Paradise Papers, found that the most used transit centre (where the shell companies were incorporated in these cases) was the British Virgin Islands, serving almost all the regions outside of North America (Global Integrity 2020). Panama acts as the preferred transit centre for clients in Central and South America while Malta is the preferred centre for individuals in Central Asia and Eastern Europe (Global Integrity 2020: 7). Interestingly, Switzerland and the United Kingdom were identified as providing services as the administration centres for the shell companies incorporated elsewhere on behalf of their clients, adding an additional set of transit centres to the jurisdictions highlighted in the leaks (Global Integrity 2020).

However, it should be noted that the authors in both studies on the Panama and Paradise Papers did not disaggregate the financial centres by the source of proceeds. They do not identify which offshore jurisdictions are used for legitimate purposes and which ones for illicit activities such as tax evasion or cross-border corruption. Additionally, relying on leaks has limitations in that they are based on information from one service provider, which was, in the case of the Panama Papers, the Panamanian law firm and corporate service provider Mossack Fonseca. Service providers tend to operate in the same jurisdictions, so this provides an incomplete overview of the locations of transit and destination centres. Nonetheless, this data can help point towards some of the characteristics that other transit and destination centres might share.

Limitations of the literature

There are several limitations when it comes to the current breadth of literature identifying transit and destination centres used for the proceeds of corruption. Research into the money laundering value chains used by corrupt actors is "riddled with data gaps that detract from clear process tracing" (Prelec and Soares de Oliveira no date) making identifying precisely which jurisdictions are used as transit or destination financial centres difficult. Improvements in financial data collection could be made, for example, such as the data collected by the Bank for International Settlements expanding to include beneficial ownership information.

Additionally, quantifying IFFs is considered by researchers as extremely challenging as they are purposefully hidden or disguised by criminals, meaning that the available data is incomplete and unreliable, with systematic studies still at an early stage of development (Aziani 2023). There is also a limited consensus on IFFs and the extent to which they are composed of the proceeds of corruption. OFCs, being secretive in nature, rarely publish informative statistics (Alstadsæter, Johannesen and Zucman 2018: 89), meaning researchers are often relying on incomplete or outdated data.

Much of the research into transit and destination centres relies on open-source case studies where the schemes of corrupt actors have been uncovered and their assets have been successfully traced, including by journalists. However, undoubtedly, the majority of cases involving the proceeds of corruption have not been uncovered and the funds have not been traced. This reliance on only a few cases, Van Duyne et al. (2018: 213) warn, has led many academics to fall into the trap of finding an explanation for one set of observations and then attempt to make generalisations when they do not necessarily exist. Further support and protection

for the work of investigative journalists uncovering such schemes would help to bridge some of the gaps in data.

Additionally, methodologies such as the gravity model may have limited use in an increasingly globalised financial system, where geographic, linguistic and cultural proximity have less relevance than before. Later studies have found that applying a gravity model to trade based money laundering data rejects the hypothesis that criminals use larger and geographically closer countries and jurisdictions to launder their funds (Ferwerda et al. 2012).

Finally, there is an absence of a qualitative comparative analysis (QCA) of the characteristics of destination and transit centres, and of the links between source and destination and transit centres. For example, the United Nations Interregional Crime and Justice Research Institute (UNICRI) has produced a QCA of the source countries of IFFs, providing a comparative analysis of 42 countries and the common trends of drivers of IFFs (UNICRI 2018). It analysed the extra-economic determinants of IFFs and their interactions, to identify common patterns among different countries and which conditions are more important than others in enabling IFFs (UNICRI 2018: 5-6). A similarly structured QCA on the transit and destination centres could be useful to identify the key determinants of a corrupt actor's choice of one financial centre over another.

Annex 1: Organisations researching illicit financial flows

The following is a non-exhaustive list highlighting institutions, organisations, networks and projects that have conducted research on topics such as corruption, IFFs and the movement of illicit funds between source, transit and destination countries. However, it should be noted that there are currently no systematic efforts to trace source to transit/destination movements solely of the proceeds of corruption. The items below focus predominately on IFFs and asset recovery, which are strongly related to the transit/source centres of the proceeds of corruption:

Basel Institute of Governance	<p>The institute describes itself as an independent not-for-profit organisation dedicated to countering corruption and to improving standards of governance. The institute houses the International Centre for Asset Recovery (ICAR). Research areas include IFFs stemming from the exploitation of natural resources.</p>
Centre for Budget and Governance Accountability (CBGA)	<p>The centre conducts research on topics such as tax policy and financial transparency, and fiscal architecture, fund flow and utilisation. It is based in and focuses on India.</p>
CiFAR - Civil Forum for Asset Recovery	<p>The forum's stated mission is to end cross-border corruption and to ensure transparency and accountability in asset recovery. It has a range of ongoing projects on asset recovery and produces reports and briefings. It currently manages a database tracking Switzerland's return of illicit assets to origin countries.</p>
Curbing Illicit Financial Flows from Resource-Rich Developing Countries	<p>The research project is funded by the Swiss Programme for Research on Global Issues for Development (R4D.ch). It is currently in the second phase of implementations which ends in 2023. The project includes a special research focus on Ghana and Lao PDR. Research outputs include a working paper series.</p>

<p>Chr. Michelsen Institute (CMI) U4 Anti-Corruption Research Centre</p>	<p>The institute is a non-profit and multidisciplinary development research institute based in Bergen, Norway. It houses the U4 Anti-Corruption Research Centre which works to understand and counter corruption worldwide. One of the centre's listed research topics is IFFs, and it has published on subjects ranging from kleptocracy and extractive sectors.</p>
<p>Detecting and countering illicit financial flows</p>	<p>This is an ongoing research project at the United Nations University – World Institute for Development Economics Research (UNU-WIDER) as part of the domestic revenue mobilization (DRM) programme. Its stated aim is to measure and monitor illicit financial flows in the Global South, study their negative impacts and evaluate policies for counteracting them. Research outputs will include 16 research papers.</p>
<p>Financial Action Task Force (FATF)</p>	<p>The global anti-money laundering standard setter sets recommendations, guidance and carries out mutual evaluation reports of member states, assessing their measures to counter money laundering and the financing of terrorism and proliferation of weapons of mass destruction. In the report, the reviewing task force may identify the countries which most commonly are the destination of any illicit funds from the member state being reviewed; this information is normally based on domestic authorities' intelligence.</p>
<p>Financial Transparency Coalition (FTC)</p>	<p>The coalition is a global network of at least 11 organisations working on IFFs. Coalition partners produce research outputs in the following areas of focus: country-by-country reporting; beneficial ownership; automatic exchange of information; open data; international institutional architecture; and gatekeepers.</p>
<p>Global Financial Integrity (GFI)</p>	<p>GFI describes itself as Washington DC based thinktank focused on illicit financial flows, corruption, illicit trade and money laundering. One of GFI's flagship research outputs is using trade statistics to estimate the volume of trade related IFFs between countries.</p>
<p>Global Initiative Against Transnational Organised Crime (GITOC)</p>	<p>The initiative is an independent civil society organisation, headquartered in Geneva, Switzerland that promotes regional networks of experts and civil society actors towards addressing transnational organised crime. GITOC houses, among others, the Observatory of Illicit Economies in East and Southern Africa (ESA-OBS), the Observatory of Illicit Economies in West Africa (WEA-OBS) and the Observatory of Illicit Economies in Asia-Pacific (APA-OBS), among others. Research outputs on IFFs and corruption include reports, risk bulletins and policy briefs.</p>

<p>Global Integrity Anti-Corruption Evidence (GI-ACE)</p>	<p>The GI-ACE research programme funds research projects with support from UK aid. Ongoing research projects include Global Finance and The Enablers of Corruption, Offshore Financial Secrecy Reform and Anti-Money Laundering & Banking/Reputation. Outputs include research on the flow of illicit funds from source to destination countries, including the article “Enabling African loots: Tracking the laundering of Nigerian kleptocrats’ ill-gotten gains in western financial centres” in the Journal of International Relations and Development.</p>
<p>International Anti-Corruption Academy</p>	<p>The academy is an international organisation and educational institution with a focus on anti-corruption research and training. It houses an ongoing Global Programme on Measuring Corruption which has produced research outputs on IFFs and grand corruption.</p>
<p>Organized Crime and Corruption Reporting Project - OCCRP</p>	<p>The project is an investigative reporting platform for a media centres and journalists working on organised crime and corruption stories. There are several ongoing and past investigations and large-scale projects that have uncovered how proceeds of corruption are transferred between origin and destination countries.</p>
<p>PERI-OSF Research Project on: Capital Flight from Africa: Channels, Actors and Enablers</p>	<p>The University of Massachusetts Amherst Political Economy Research (PERI) carried out a research project with support from the Open Society Foundation and Friedrich Ebert Foundation that studied capital flight from Africa. Research outputs include the Working Paper Series on Capital Flight from Africa as well as the edited volume On the Trail of Capital Flight from Africa: The Takers and the Enablers.</p>
<p>Royal United Services Institute (RUSI) Centre for Financial Crime and Security Studies (CFCS)</p>	<p>The centre is a permanent research group that describes itself as studying the intersection between finance and global security. Research outputs have included research on IFFs such as the occasional paper on Illicit Financial Flows and Corruption in Asia.</p>
<p>The Stolen Asset Recovery Initiative (StAR)</p>	<p>The initiative is a partnership between the World Bank and the United Nations Office on Drugs and Crime. It maintains an Asset Recovery Watch Database that traces asset recovery cases. The database identifies the jurisdictions where the public official allegedly involved in the case originated from and where their assets are located, making it possible to analyse links between countries. As the initiative operates in the framework of Chapter V of the UNCAC, it primarily collects and analyses data on asset recovery in relation to proceeds of corruption. The initiative regularly submits reports and presents to the UNCAC Working Group on Asset Recovery.</p>
<p>Tax Justice Network</p>	<p>The network is a research and advocacy group engaging with topics around tax and financial systems, including capital flight and illicit financial flows. Research outputs include reports, country profiles, and indexes and tools. The network developed the Illicit Financial Flows Vulnerability Tracker which measures and visualises each country’s vulnerability to various forms of illicit financial flows over different periods of time.</p>

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TRACE	TRACE is a research project with an implementation period from 2021 to 2024, coordinated by the University of Coventry and receives EU Commission Horizon 2020 funding. It aims to develop AI solutions to disrupt illicit money flows and engages law enforcement agencies from 16 European countries.
Transparency International	One of Transparency International's stated priorities is "dirty money", and research is conducted on an ongoing basis into corrupt money flows. Its work includes advocating for beneficial ownership transparency, common standards and mechanisms for controlling EU golden passport and visa schemes, stronger financial integrity legislation to counter banking secrecy and professional enablers, sanctions and asset recovery.
The Ownership Monitor (TOM)	The monitor is an ongoing joint initiative between Transcrime, a research centre on innovation and crime housed in the Università Cattolica del Sacro Cuore, and the company Crime&tech srl. One of its goals is to study business ownership structures to identify illicit financial flows.
United Nations Conference on Trade and Development (UNCTAD)	UNCTAD is a permanent intergovernmental body that is part of the UN Secretariat. With its sister agency, the United Nations Office on Drugs and Crime (UNDOC), UNCTAD leads developing statistical methodologies for measuring illicit financial flows, and in 2022 initiated pilot projects to apply these methodologies in select countries across Africa and Asia.
United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)	The commission is a regional commission under the United Nations Economic and Social Council. The commission's statistics division in cooperation with UNODC and UNTAC implemented a research project from 2020 to 2022 on Measuring Illicit Financial Flows in Asia-Pacific.
United Nations Interregional Crime and Justice Research Institute (UNICRI)	The institute is a research and training body headquartered in Turin working on issues of crime prevention and criminal justice. It conducts research on an ongoing basis into corruption and IFFs, including country and region specific profiles.
United Nations Office on Drugs and Crime (UNODC)	The Corruption and Economic Crime Branch within UNODC serves as the secretariat of the United Nations Convention against Corruption. The research and trend analysis branch conducts research into corruption and IFFs. For example, with its sister agency UNCTAD, UNODC leads a task force on developing statistical methodologies for measuring illicit financial flows. From 2017 to 2020, UNODC implemented a research project measuring illicit financial flows in Latin America, and from 2020 to 2022 implemented a similar project in the Asian-Pacific region.

Annex 2: The destination and transit financial centres identified in the literature review

Alstadsæter, Johannesen and Zucman 2018	Switzerland, Hong Kong, British Virgin Islands, Panama.	Countries where global offshore wealth is stored, potentially acting as destination centres.
Alstadsæter et al. 2022	Dubai.	A destination centre, through its real estate market, for individuals in India, the United Kingdom, Pakistan, Saudi Arabia and Iran.
Arif, Jawaid and Khan 2018	Japan, Denmark, Switzerland, Luxemburg, Cyprus, Hong Kong and Qatar.	Destination centres identified in the study being used by corrupt actors from Pakistan.
Aziani et al. 2022	Belize, the Marshall Islands, Seychelles, Panama, Bahamas, Norway, Liberia and the United States.	Transit centres where the anonymous owners of companies in Europe are registered.
Costa 2021	British Virgin Islands, Panama, Antigua, Uruguay and Belize	Transit centres used by the former Peruvian president, Alejandro Toledo, in his money laundering scheme.
Dominguez et al. 2020	British Virgin Islands, Hong Kong, Singapore, Indonesia, the Cook Islands and Samoa.	Transit centres identified in the Panama Papers leak.
FATF 2023	Albania, Burkina Faso, Panama, Senegal, South Sudan, United Arab Emirates and Uganda.	Jurisdictions with deficiencies in their anti-money laundering regulations meaning they are at risk of being source countries, transit, or destination centres.
Ferwerda et al. 2020	Belgium, Luxembourg and Israel.	Destination centres found in the analysis to have the highest levels of money laundering.
Financial Secrecy Index 2022	United States, Switzerland, Singapore, Hong Kong, Luxemburg, Japan, Germany, Vietnam, Angola, Bolivia, United Arab	Jurisdictions with highest secrecy scores, potentially used as transit and/or destination centres.

	Emirates, Algeria and Puerto Rico.	
Global Integrity 2020	British Virgin Islands, Panama, Malta. Switzerland and the United Kingdom.	Transit centres identified in the Panama Papers and Paradise Papers leaks as where shell companies are registered. Jurisdictions identified in the leaks as where financial enablers are based.
Soares de Oliveira 2020	Singapore, Hong Kong, Dubai.	Offshore (transit) centres used by African kleptocrats.
Transparency International UK 2022	United Kingdom.	Acting as a destination centre for corrupt actors in Russia, Ukraine, China, Nigeria, Azerbaijan, Kazakhstan, Indonesia, Egypt, Brazil and Uzbekistan.
World Bank and UNODC 2011	United States, British Virgin Islands, Panama, Liechtenstein, the Bahamas, and the United Kingdom, Nigeria.	Transit centres where the corporate vehicles were registered and bank accounts.

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The U4 anti-corruption helpdesk is a free research service exclusively for staff from U4 partner agencies. This service is a collaboration between U4 and Transparency International (TI) in Berlin, Germany. Researchers at TI run the helpdesk.

The U4 Anti-Corruption Resource Centre shares research and evidence to help international development actors get sustainable results. The centre is part of Chr. Michelsen Institute (CMI) in Bergen, Norway – a research institute on global development and human rights.

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