

## OPENING PANDORA'S BOX: What the latest leaks mean for the World Bank's mission

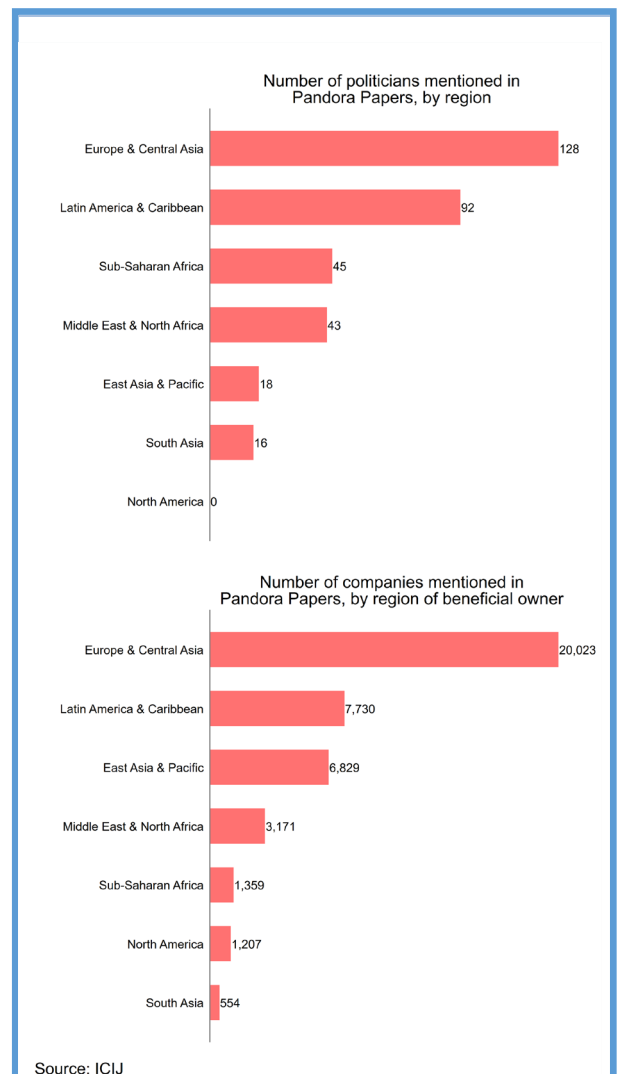
*The Pandora Papers highlight a worldwide lack of transparency of information on who owns and controls what and where. Unfortunately, trusts and complex corporate structures are still an effective way to hide ownership and/or control ("beneficial ownership") of assets. Such opacity facilitates the concealment of wealth, tax avoidance, tax evasion, money laundering, and corruption.*

*Even more so than previous similar leaks, these papers shine a spotlight on the crucial role of service providers (lawyers, accountants, banks, and other financial institutions) and on the role of jurisdictions normally considered "on-shore" in facilitating this conduct.*

Recently, newspapers were flooded with news of the [Pandora Papers](#), an exposé of hidden offshore wealth, tax avoidance and evasion, corruption and money laundering. The investigation, led by the International Consortium of Investigative Journalists (ICIJ) and its media partners, is unparalleled in its size and scope, covering over 330 politicians from around the world, in addition to a spate of other VIPs and high net worth individuals. The news has reignited a long-standing discussion around the persistence of hidden wealth in the global economy and led to a spate of official investigations and scrutiny by tax authorities and financial intelligence units across the globe.

In the Pandora Papers, journalists had access to an unprecedented amount of information: over 12 million leaked documents from over two dozen law firms and corporate service providers (CSPs) – businesses that help people set up offshore companies and trusts in different jurisdictions. The ICIJ and its partners identified the real owners of more than 29,000 offshore companies, spread across 194 different countries.

It will take further examination before we have an indication of what proportion of these arrangements were being used for illegal means. Holding wealth abroad is not illegal if it is being declared to one's tax authority when required. Neither is engaging in complex tax avoidance schemes – although this is still questionable behavior. But a sizable share of arrangements unveiled by the leaks may still reflect tax evasion or funds generated from corruption, embezzlement, or organized crime. Already, evidence is [cropping up](#) of people accused of criminal behavior and human rights abuses, or those with ties to corrupt regimes, successfully hiding their income and assets abroad, out of the reach of criminal investigations and costly civil lawsuits.



## LESSONS FROM THE PANDORA PAPERS

Even though the financial scale of illicit behavior is difficult to pin down, the Pandora Papers provides several lessons for how we think about the fight against illicit financial flows (IFFs) and tax avoidance.

First, the leaks confirm that [beneficial ownership transparency is the cornerstone for curbing IFFs](#). A beneficial owner is the natural person who ultimately owns or controls an asset, directly or indirectly, through corporate structures or arrangements. The Pandora Papers provides direct evidence that individuals hide their ownership through opaque offshore structures, a common practice across both developed and developing countries alike. The expansion of effective beneficial ownership registries – which require companies to register their owners with the relevant authority and in some circumstances make that information public, will make it harder for people to hide behind complex corporate structures.

Second, the Pandora Papers zero in on the role and responsibility of private sector professionals – known as “[facilitators](#)” – in [helping enable corruption, tax avoidance and evasion, and financial crime](#).

Facilitators can include lawyers, tax advisors, trust and company service providers, and investment advisors. They can inhabit even the most elite institutions – multinational banks, top-tier law firms (some with close connections to senior government officials), and accounting firms. Many of the clients who were accused in the Pandora Papers of criminal or corrupt ties should have been readily identifiable to the facilitators with whom they worked. This raises serious questions as to whether these sectors are conducting due diligence on their customers or taking preventative measures to ensure they are not facilitating illicit money – as required by international standards. In response to the latest leaks, U.S. legislators have proposed extending due diligence requirements to these “gatekeeper industries” helping the US catch up with best practice.

Third, the leaks provide further hard evidence that we are facing a global

problem, calling for global answers and collective action. These offshore corporate structures stretch across multiple national borders making [the need for better domestic and international inter-agency cooperation even more urgent](#). Without inter-agency domestic and international cooperation, jurisdictions are unable to effectively undertake complex investigations. While it is not a panacea, the release of the leaked information will bridge part of this gap, helping authorities uncover cases when secrecy and opacity were used to hide illegal activities. Ultimately, the leaks may help authorities cooperate across borders to identify and prosecute these cases, and ultimately recover the proceeds.

Fourth, many of the facts and stories coming out of the Pandora Papers confirm the damage that the ease of moving money into offshore structures can do to the coffers of governments around the world. Keeping money offshore helps keep it hidden from tax authorities around the world – an activity more common among the wealthiest, who have been shown to engage more frequently in offshore tax evasion. Even tax avoidance (using legal loopholes to minimize one’s tax liability) is enabled by complex, opaque structures, inhibiting the ability of tax authorities to tackle profit shifting. Taken together, these [offshore services undermine the equity of the tax system by hampering the ability of governments around the world to ensure their tax systems are broadly fair and progressive both on paper and as enforced](#).

Fifth, [the ability to easily hide large amounts of money in opaque structures and secrecy jurisdictions also facilitates corruption](#). The harm caused by corruption extends beyond the financial cost of lost revenue or excessive expenditures. Corruption is not a victimless crime. It may also lead to poor quality infrastructure, evasion of environmental and safety regulations, the worsening of inequality, and the deterioration of development outcomes across the board. Corrupt behavior is easier to get away with when is also easy to hide wealth offshore. This not only makes it harder to discover corruption, but also to

recover looted or other ill-gotten assets once the corruption is identified.

Finally, while jurisdictions frequently identified as being offshore financial centers or ‘tax havens’ featured prominently in the leaks, [the Pandora Papers highlight the role that other jurisdictions play as a destination for offshore wealth](#). For example, despite the U.S. Federal Government’s longstanding condemnation of opaque offshore jurisdictions, many U.S. states featured in the leaks are also part of the global offshore system, including Alaska, Delaware, Nevada, New Hampshire, and South Dakota. South Dakota has seen the number of trusts established in its jurisdiction quadruple over the last decade (over 200 trusts set up in recent years), now amounting to USD 360 billion in assets. The United Kingdom’s property market was also identified as a popular destination for offshore wealth, particularly at a time when there is still no beneficial ownership transparency in this sector, despite government pledges to enact it. The Pandora Papers also revealed politician-owned properties in jurisdictions ranging from France to Monaco, indicating that other onshore jurisdictions may also play a role.

### **INTERSECTION BETWEEN THE PANDORA PAPERS AND THE WORLD BANK’S WORK**

Although just a snapshot in time, [the Pandora Papers raise questions around the equity of tax systems and the implementation of existing standards to combat illicit financial flows](#). These are clear threats to the World Bank’s mission of ending extreme poverty and building shared prosperity.

There are three broad areas where the World Bank is working to address these issues.

The first area is [improving transparency at multiple levels, particularly in the space of beneficial ownership and tax transparency](#). For example, for over a decade the Bank has made tackling beneficial ownership and regulating the facilitators a core part of its financial market integrity work, as well as work under the umbrella of its [Stolen Asset](#)

[Recovery Initiative](#) (StAR). [The Puppet Masters](#), a StAR publication, advocated for greater focus on the collection and accessibility of beneficial ownership information as well as greater regulation of trust and company service providers and lawyers for anti-money laundering purposes, ultimately influencing [global standards](#) on these topics. Working towards “high-definition transparency” and addressing the facilitators are among the [Anticorruption Initiatives](#) launched to reaffirm the Bank’s commitment to addressing corruption as a development priority. The Bank is also extending transparency to its own procurement policies, and is currently expanding a program that requires the disclosure of ultimate beneficial information for high value contracts.

In addition to this, the World Bank is working with client countries to [improve transparency in the space of beneficial ownership, tax](#) (through its [Global Tax Program](#)), and [anticorruption](#) including:

- **Helping countries assess and understand the risks their economies face:** The World Bank’s financial market integrity unit has been providing assistance on [national assessments](#) of money laundering and terrorism financing risk. This assistance has an increased emphasis on helping countries assess risks of financial crimes by different types of entities incorporated in or administered from their jurisdiction, as well as risks related to the country’s beneficial ownership framework. The Bank is also supporting IDA countries in conducting comprehensive Illicit Financial Flow (IFF) assessments and action plans to address relative risks.
- **Assisting countries in getting the information they need to deter or catch instances of corruption, money laundering, and tax evasion/avoidance:** by providing technical assistance for establishing beneficial ownership registries and implementing tax transparency standards (both exchange of information [on request](#) and [automatic](#)).
- **Working with countries that are frequent conduits or destinations for**



**illicit flows to protect their economies:** including tax information exchange agreements and AML/CFT transparency standards.

- **Promoting the inclusion of beneficial ownership information in the asset disclosures of public officials:** Asset disclosures of public officials are a valuable tool for the press, civil society and law enforcement alike to detect incongruencies in public officials' known legal sources of wealth and their lifestyles.

The second area is **supporting the strengthening of enforcement and accountability institutions**, which will give our clients the tools to reduce the scope for corruption, and tax evasion, and avoidance, and to retrieve stolen assets, and prosecute crimes. To that end, the World Bank is working in the following areas:

- **Supporting countries to enhance enforcement and recover proceeds of crime:** During the period 2018-2020, StAR has provided capacity building on asset recovery, financial investigation, and prosecution to more than 2500 officials across six countries.



- **Strengthening both law enforcement and the judicial system's capacity to tackle tax crimes:** In addition to developing a new National Risk Assessment module on Tax Evasion, the World Bank is also providing technical assistance at both the country and

regional level so countries can develop/strengthen their legal, institutional, and operational frameworks to better identify risks, and deter, investigate, and prosecute tax crimes.

- **Supporting client countries to strengthen institutions and systems of accountability and corruption prevention:** The Bank continues to advise countries on independent auditing, conflict of interest management systems, income and asset disclosure systems, revolving door regulations, whistle-blower protection, access to information regimes, and open government policies. The Bank also provides technical assistance and capacity building to strengthen oversight by judiciaries generally and anticorruption authorities specifically. By strengthening their internal organization and technical skills, they would be more effective in preventing and investigating corruption. The use of technology, GovTech, is an increasingly powerful tool enabling accountable institutions to create a more effective relationship with citizens and business people for the prevention and detection of corruption. Civil society plays an important role in accountability systems. To this end, the Bank supports social accountability, both through policy and capacity building for citizens and business people.

- **Helping countries reduce the risk of base erosion and profit shifting:** for example, the World Bank is providing assistance to countries on tax treaty policy to integrate anti-abuse measures and ensure cost-effectiveness of the tax treaty network. Similarly, following agreements on the implementation of Pillars 1 and 2 of the global tax agreement by members of the Inclusive Framework, the World Bank will provide assistance to countries on its implementation.

Finally, because **domestic and international inter-agency cooperation** is fundamental to untangling complex cases of money laundering, corruption and tax evasion, the World Bank is helping countries to:

- **Increase their capacity to conduct complex financial investigations and improve inter-agency cooperation.**
- **Facilitate more cooperation between law enforcement agencies and tax authorities.**
- **Continue the effort to improve international cooperation,** particularly around mutual legal assistance, the lack of which which remains a barrier to international asset recovery investigations.

## SEIZING THE MOMENT

The Pandora Papers are a reminder that the problems created by cross border money laundering, corruption, and tax evasion are still with us. While these problems are not new, they present a graver threat in an era when many have been pushed back into poverty by a global pandemic and trust in the the ability of governments to curb inequality is waning.

But the Pandora Papers also provide **several opportunities**:

- The first is **the chance to take stock and better understand** if **recent reforms** such as beneficial ownership and tax transparency have had an impact on offshore assets and arrangements. Such insights will inform and enhance the work of the World Bank in these areas going forward.
- The leaks also provide momentum for change: **a chance to push for greater commitment and real action** by domestic authorities in implementing a transparency agenda.
- They also **fuel an ongoing discussion as to whether even the legal use of offshore structures** for aggressive tax planning and avoidance is acceptable or **is a threat** to the **more equitable societies** that many are trying to build.

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