

From Offshore Oil to Offshore Finance: Shell Companies and Oil Licenses

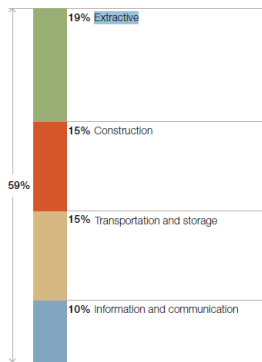
G. Marcolongo, D. Zambiasi

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Corruption in the Extractive Sector

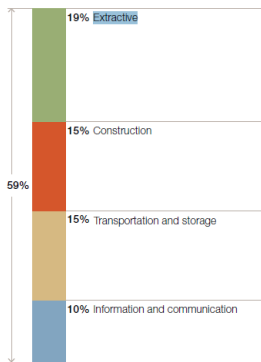
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Corruption in the Extractive Sector

Figure 9. Almost two-thirds of foreign bribery cases occurred in four sectors



- 19% of the cases of foreign bribery are concentrated in the extractive sector (OECD, 2014)
- NRGi report: offshore shell companies played a role in 8 out of 28 corruption cases.



Does the **award of oil/gas licenses** create opportunities for **corruption**?

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- Ministries/public figures hold a central role: high discretion.

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- Exploration licenses are often a prerequisite for a production license, thus more lucrative.

Does the **award of oil/gas licenses** create opportunities for **corruption**?

Measuring corruption: a challenge

+

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1. Politically connected individuals hide behind shell companies, win the permit and re-sell it to established oil companies.

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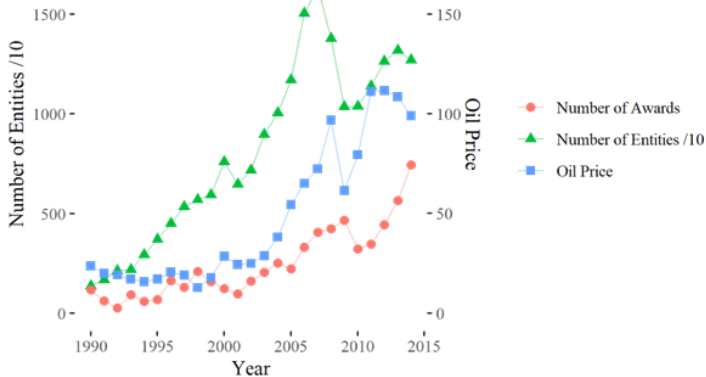
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The central role of SHELL COMPANIES:

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2. Companies participating in the awarding round bribe officials via offshore shell companies.
3. Politicians siphon off part of the contract signing bonus from the government's coffers to their personal accounts.

Does the award of oil/gas licenses create opportunities for corruption?

Descriptive Evidence



Preview of the Results

Does the **award of oil/gas licenses** create opportunities for **corruption**?

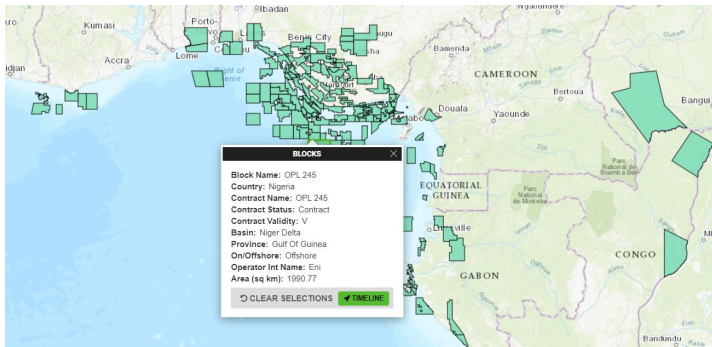
The dynamics of shell companies incorporation suggests it does.

In the period around the award of an exploration license:

1. the number of new shell companies increases by 11 percent;
2. this relationship reinforces during oil booms.

Data: Oil Licensing Rounds

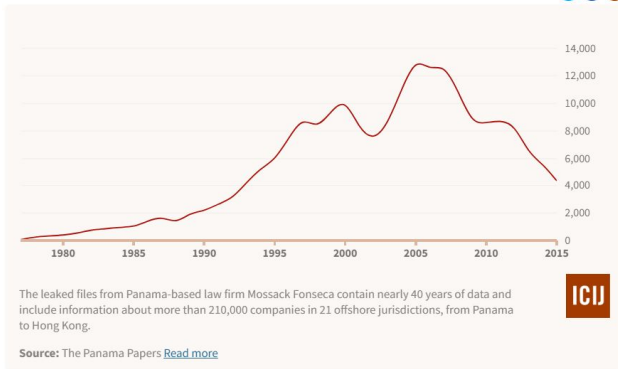
- Source: Business Intelligence provider
- 6,300 awards across 131 countries between 1990-2014
- Country / Date / Type (exploration vs production) of the award



Data: Shell Companies Incorporation

- Source: Offshore Leaks Database
- 740 thousand companies between 1990-2014, a third of which we can link to a country
- Country / Date of Incorporation

Offshore companies incorporated since 1977



Estimation Strategy

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3. We compare the number of new offshore shell companies a country opens in the “treated” period to the months in which the same country is not awarding a license.
4. We check whether this change (point 3) differs from a country that is not awarding licenses in the same calendar months.

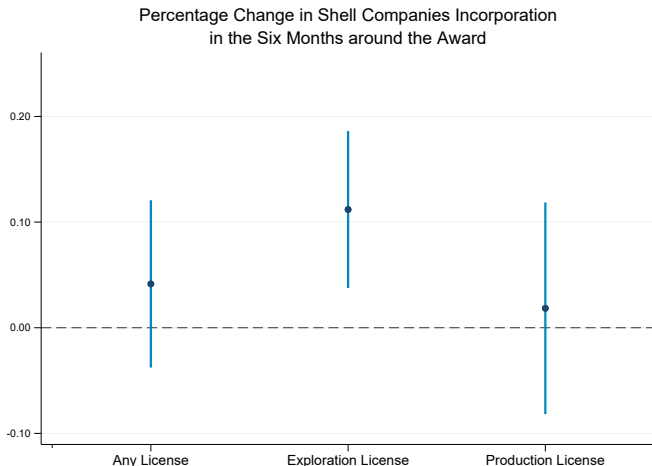
The hypothesis we test

If CORRUPTION occurs, we expect:

- a larger increase in the number of offshore shell companies during the awarding period compared to:
 - a) the same country when is not awarding licenses;
 - b) other countries that are not awarding licenses in the same calendar months;
- to observe an even greater increase in the number of shell companies during an oil boom, when the profitability of oil blocks increases.

Results: shell companies and awards of licenses

- The number of shell companies increases by 11%, in the six months around the award of an exploration license.
- The effect is true only for exploration licenses and not for production licenses.



Shell companies, Licensing during an Oil Boom

Results

During an oil boom, the incorporation of shell companies increases even more

	Number of New Entities (in IHS)	
	(1)	(2)
Around Exploration Award	0.1102*** (0.0353)	0.1109*** (0.0379)
Around Exploration Award × Oil Price Change	0.2748** (0.1309)	0.2631* (0.1440)
<i>Fixed-effects</i>		
Country	Yes	Yes
Month	Yes	Yes
<i>Varying Slopes</i>		
GDP Per Capita Quartile		Yes
Observations	35,268	31,320
Mean Dep. Var.	0.89	0.90

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- Corruption in the extractive industries perpetuates low and unequal growth of resource-rich countries (*Resource Curse*).
- This calls for an urgent response of institutions and policymakers to up their game in detecting corruption.
- Shell companies, as providers of secrecy, facilitate corruption in the awarding of license permits.
- More **transparency** in the awarding procedures and in the names of the ultimate beneficiaries of the shell companies is a first step to curb malfeasance in the extractive sector.

Thank You

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Policy Suggestions

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 - Linkages to Politically Exposed Persons.
- II) Involvement of International Organizations that are *super-partes*: through auditing and standardization of the awarding procedures.
- III) Disclosure of the ultimate beneficiaries behind shell companies as a requirement to operate in the extractive sector.

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Licenses and Shell Companies (1990-2014)

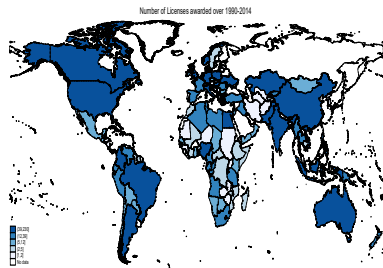


Figure: License Awards

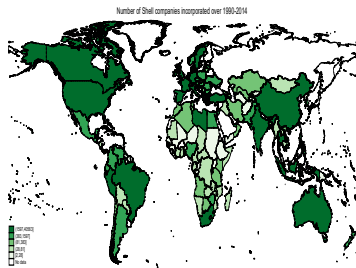


Figure: Shell Companies

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