

# From Offshore Oil to Offshore Finance

*Shell Companies and Oil Licenses*

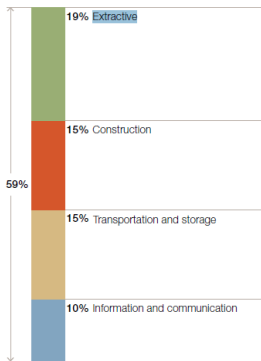
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“Corruption and Theft in the global Oil and Gas Sector”

UNU WIDER Webinar, April 18<sup>th</sup>, 2023

# 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: out of 28 cases, 8 saw the involvement of offshore shell companies



Does the **award of oil/gas licenses** increase **corruption**?

# The Award of Oil/Gas Licenses: a critical moment

- Large investments but also humongous rents at stakes
- The awarding of oil licenses occurs via:  
direct negotiation or participation in licensing rounds
- Ministries/public figures hold a central role: high discretion
- 2 types of licenses:  
EXPLORATION licenses (5/10 years) and PRODUCTION licenses (up to 25 years)
  - Exploration licenses are often a prerequisite for a production license, thus more lucrative.

Does the **award of oil/gas licenses** increase **corruption**?

# Measuring corruption: a challenge

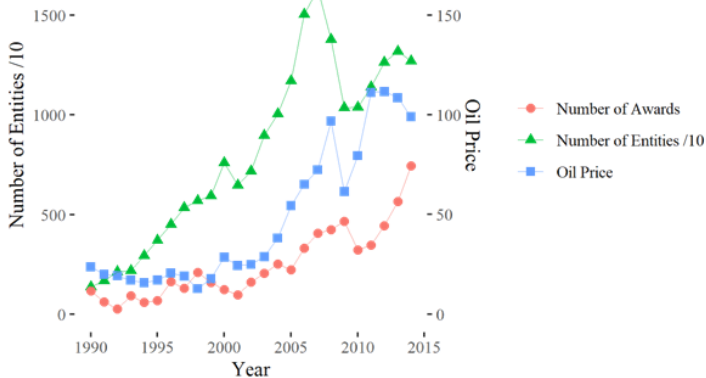
Large RENTS + high DISCRETION of public figures = Risk of CORRUPTION

The central role of SHELL COMPANIES:

1. Politically connected individuals hide behind shell companies, win the permit and re-sell it to established oil companies.
2. Companies participating in the awarding round bribe officials via offshore shell companies
3. Politicians siphon part of the contract signing bonus away from the government's coffers to their personal accounts.

# Does the award of oil/gas licenses increase corruption?

## *Descriptive Evidence*



# Preview of the Results

Does the **award of oil/gas licenses** increase **corruption**?

Looking at the dynamic of shell companies, it does seem so!

In the period around the award of an exploration license:

1. the number of new shell companies increases by 11 percent;
2. this association is stronger during an oil boom.



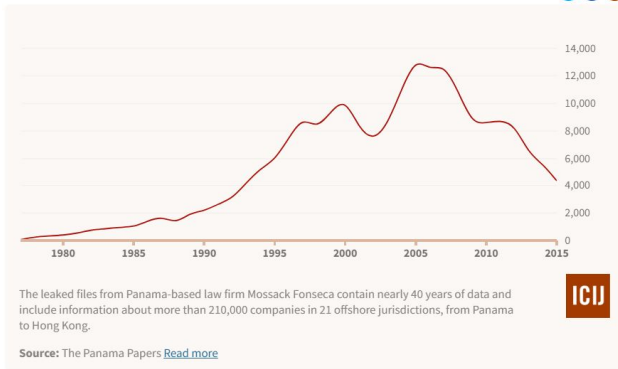
# Data: Oil Licensing Rounds

- 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

1. Let us consider the average number of offshore shell companies a country incorporates in a month
2. Let us focus on the 6 months around the award of a license (“treated” period)
3. Let us 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. Let us check whether this change (point 3) differs from a country that is not awarding licenses in the same calendar months.

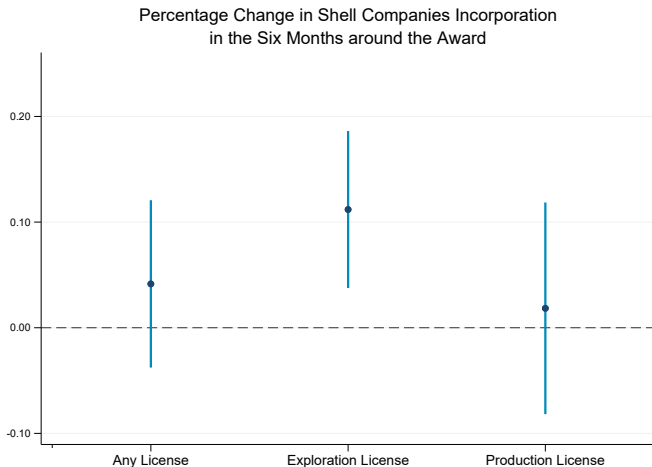
# The hypothesis we test

If CORRUPTION occurs, we expect:

- a higher increase in the number of offshore shell companies for countries awarding licenses than for countries not awarding licenses;
- to observe an even greater increase in the number of shell companies during an oil boom, when the profitability of oil blocks is even higher.

# Results: shell companies and awards of licenses

- In the six months around the award of an exploration license, the number of shell companies increases by 11%.
- 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 further

	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

# Conclusion

- The OECD estimated that 19% of transnational bribes are related to the extractive sector (2014).
- 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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