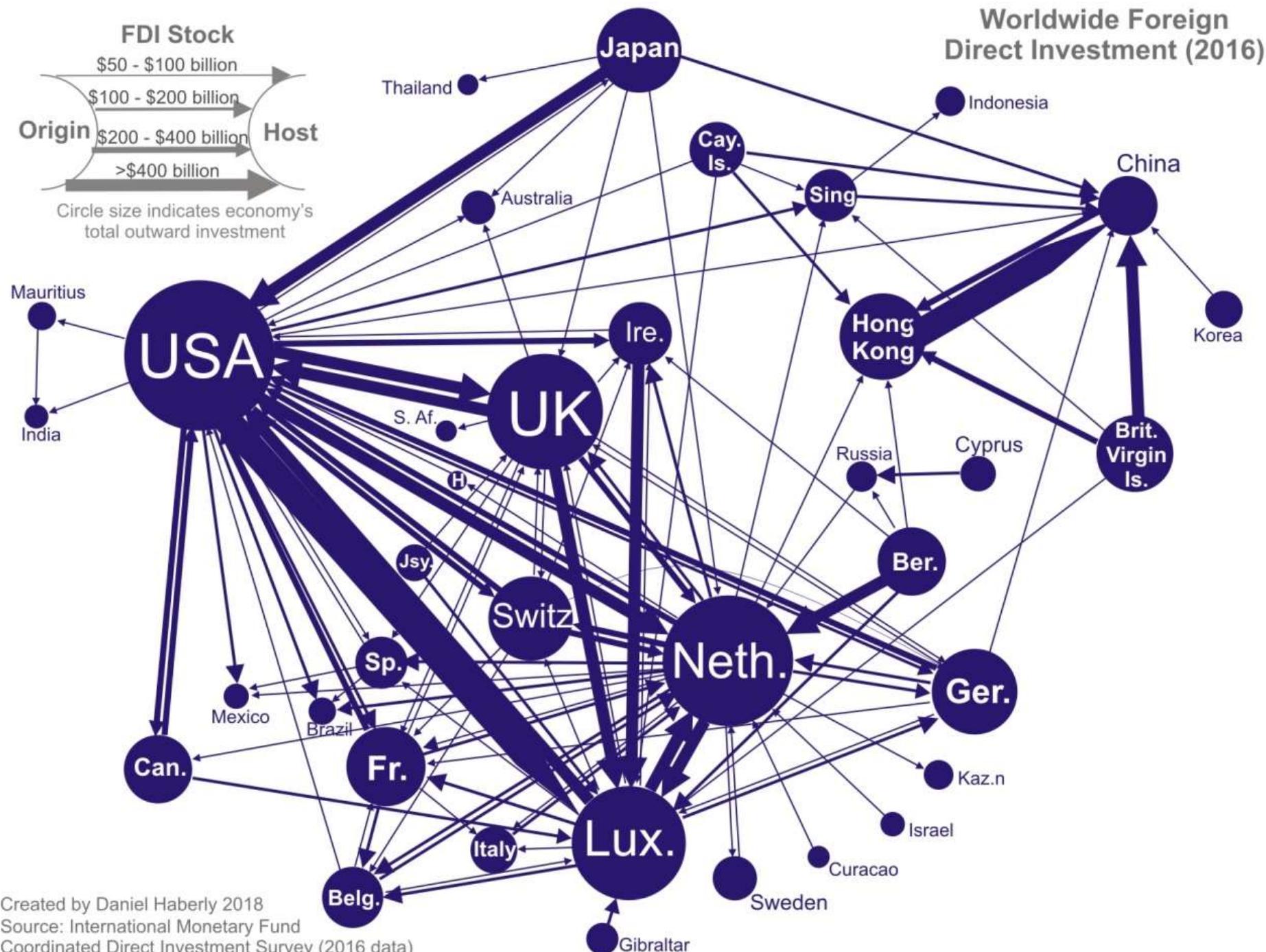


What drives offshore shell company formation? A time series panel analysis of Panama and Paradise Papers data on developing and transition economy clients, 1991-2015

**Daniel Haberly
Valentina Gullo**

University of Sussex
Department of Geography and Centre for the Study of Corruption

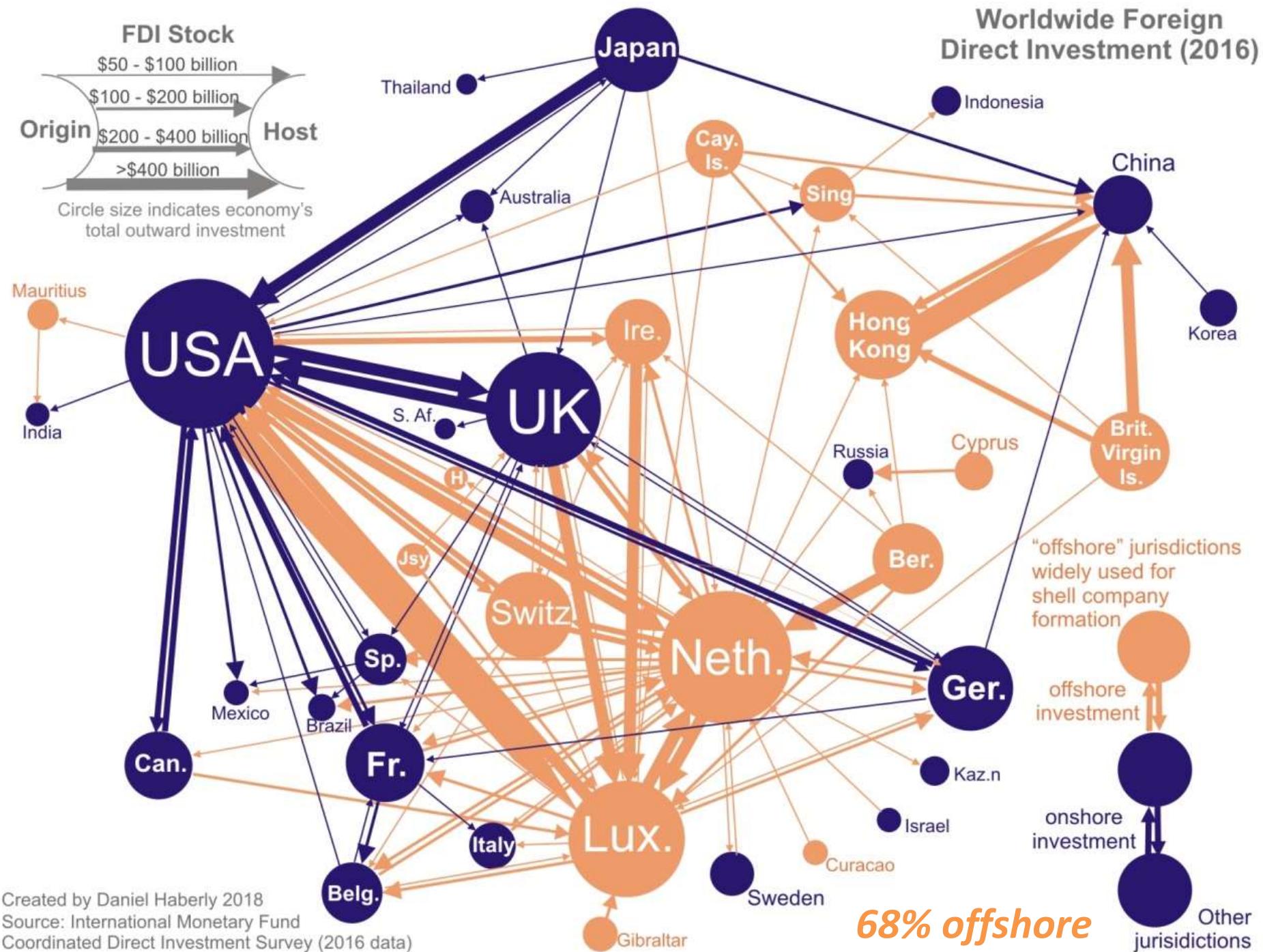




Created by Daniel Haberly 2018

Source: International Monetary Fund

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Coordinated Direct Investment Survey (2016 data)



*Offshore shell companies make the world
(economy) go round...*

*Offshore shell companies make the world
(economy) go round...*

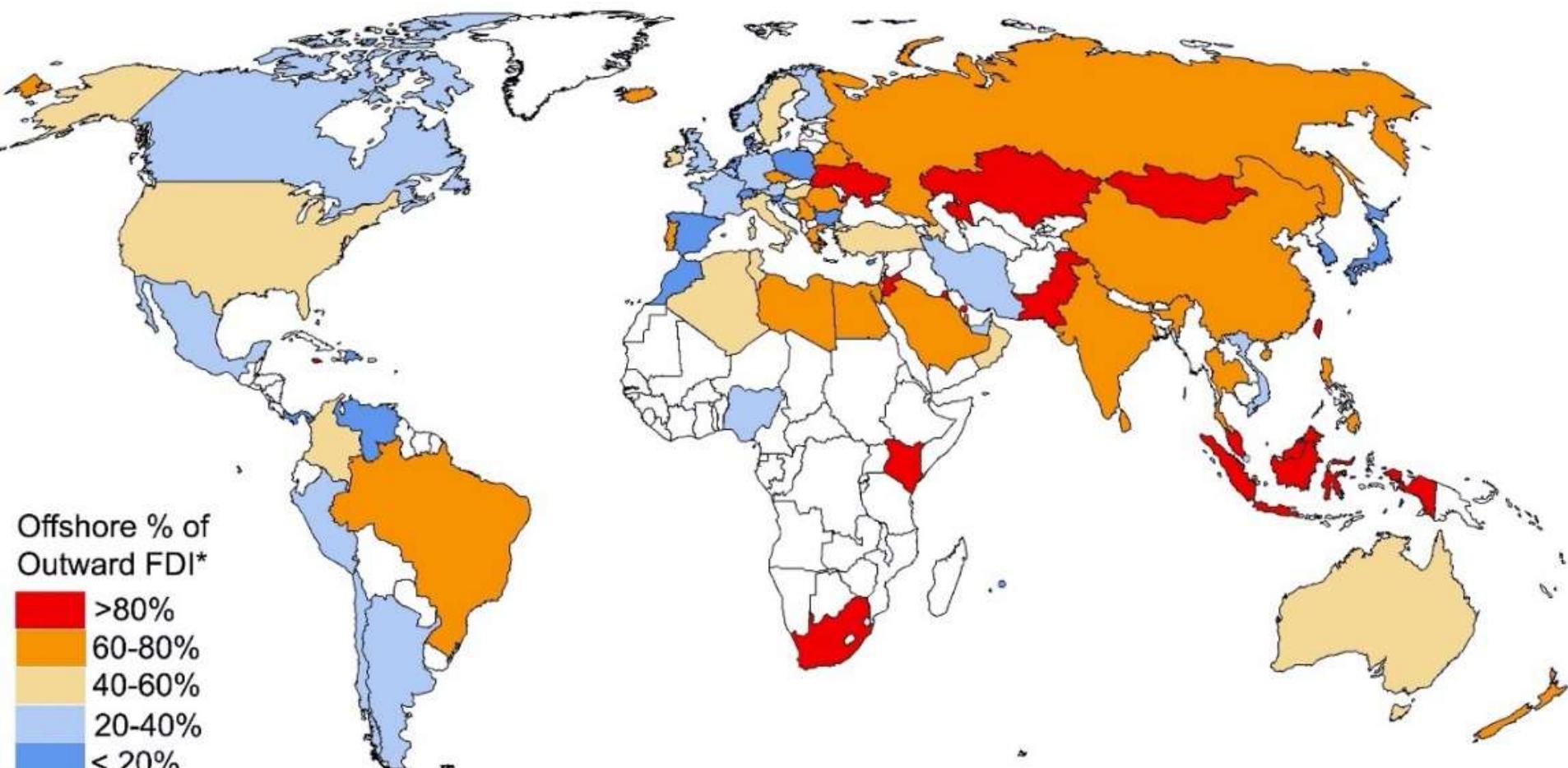
But what drives the use of offshore shell companies?

Offshore shell companies make the world (economy) go round...

But what drives the use of offshore shell companies?

Particularly important question in relation to developing and transition economy actors...

Estimated percentage of total outward FDI that passes through offshore jurisdictions, 2015



*excluding round-tripping

from Haberly 2024, a New Map of World FDI

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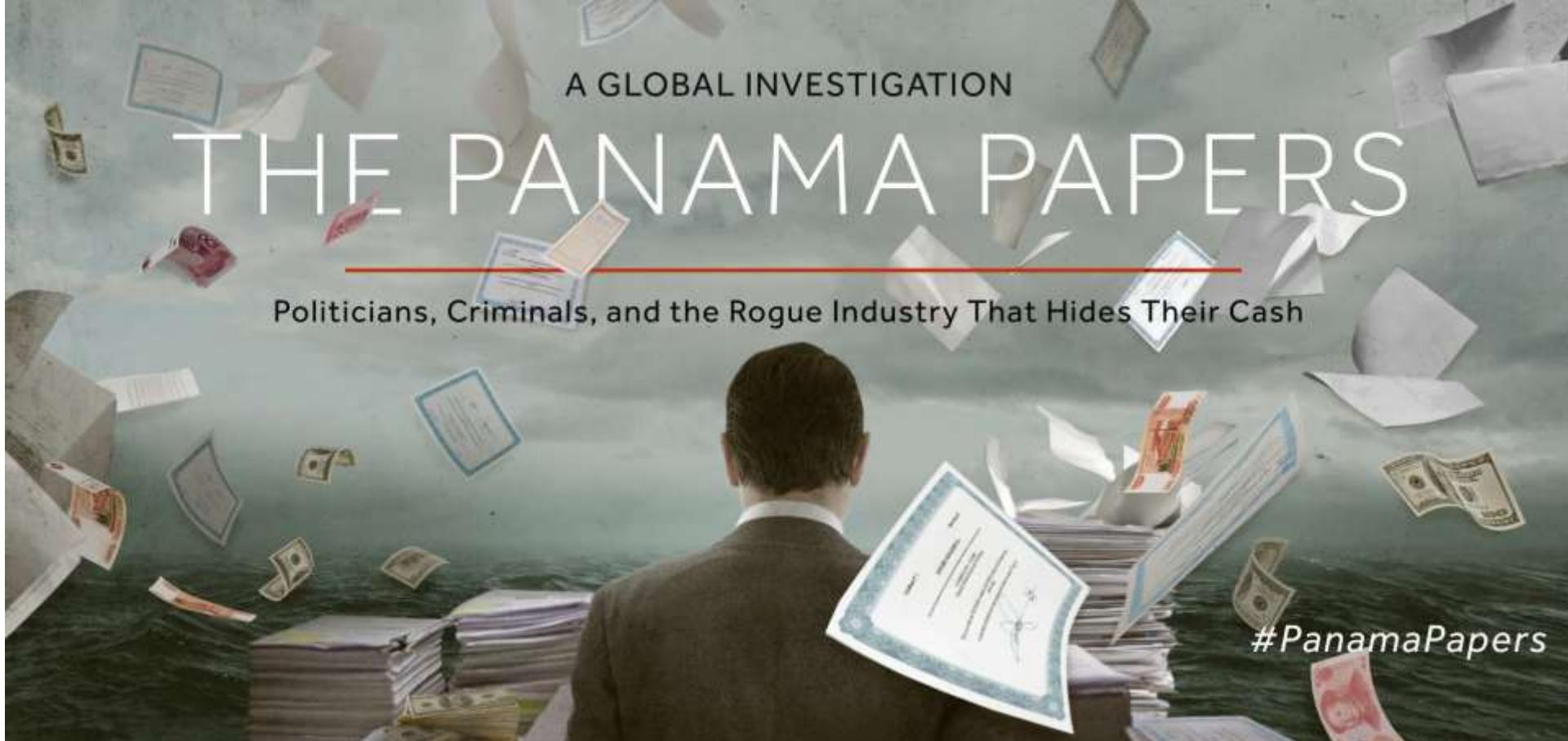
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How can we shed some empirical light on this conceptual deadlock?



A GLOBAL INVESTIGATION

THE PANAMA PAPERS

Politicians, Criminals, and the Rogue Industry That Hides Their Cash

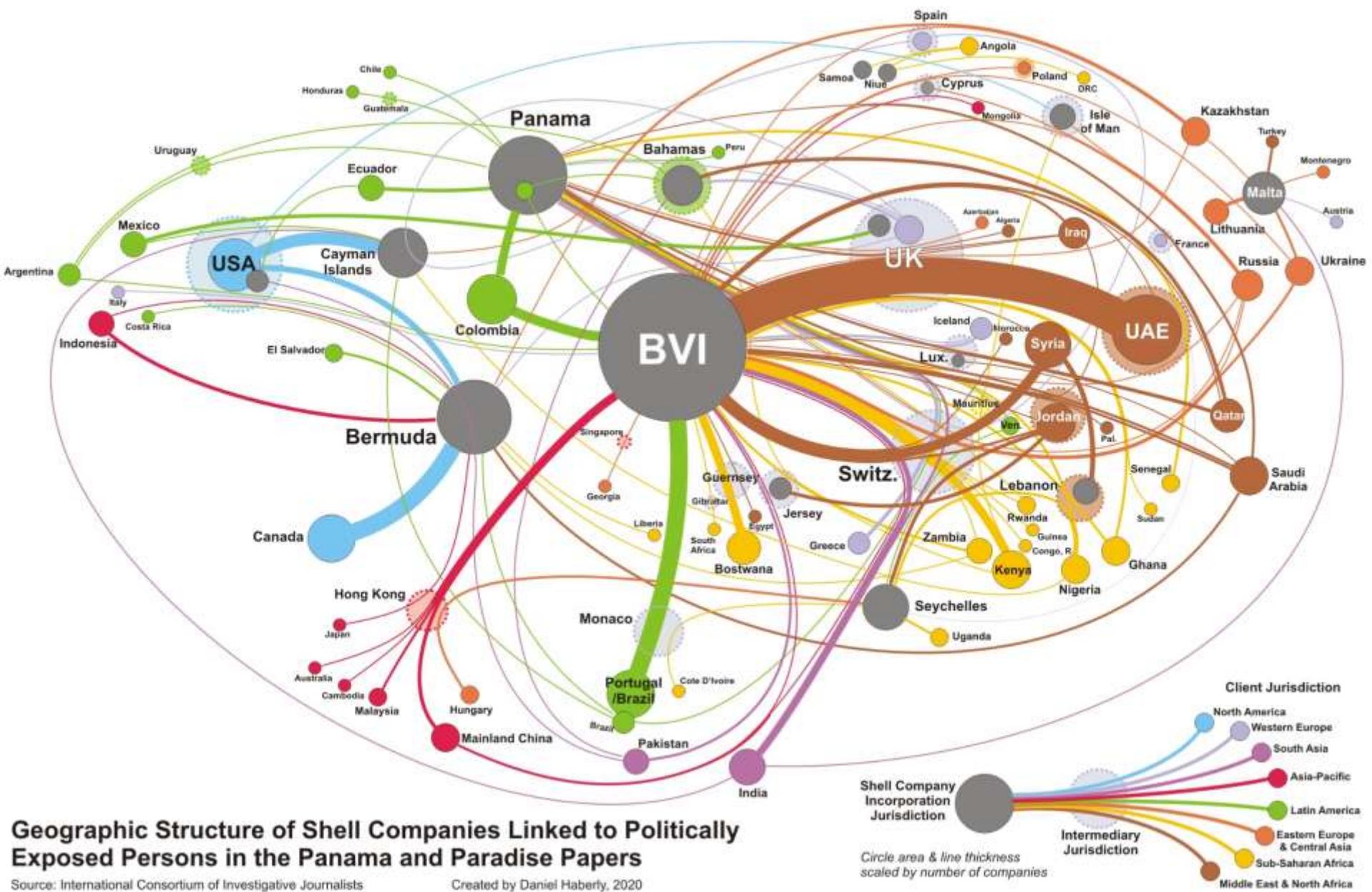
#PanamaPapers

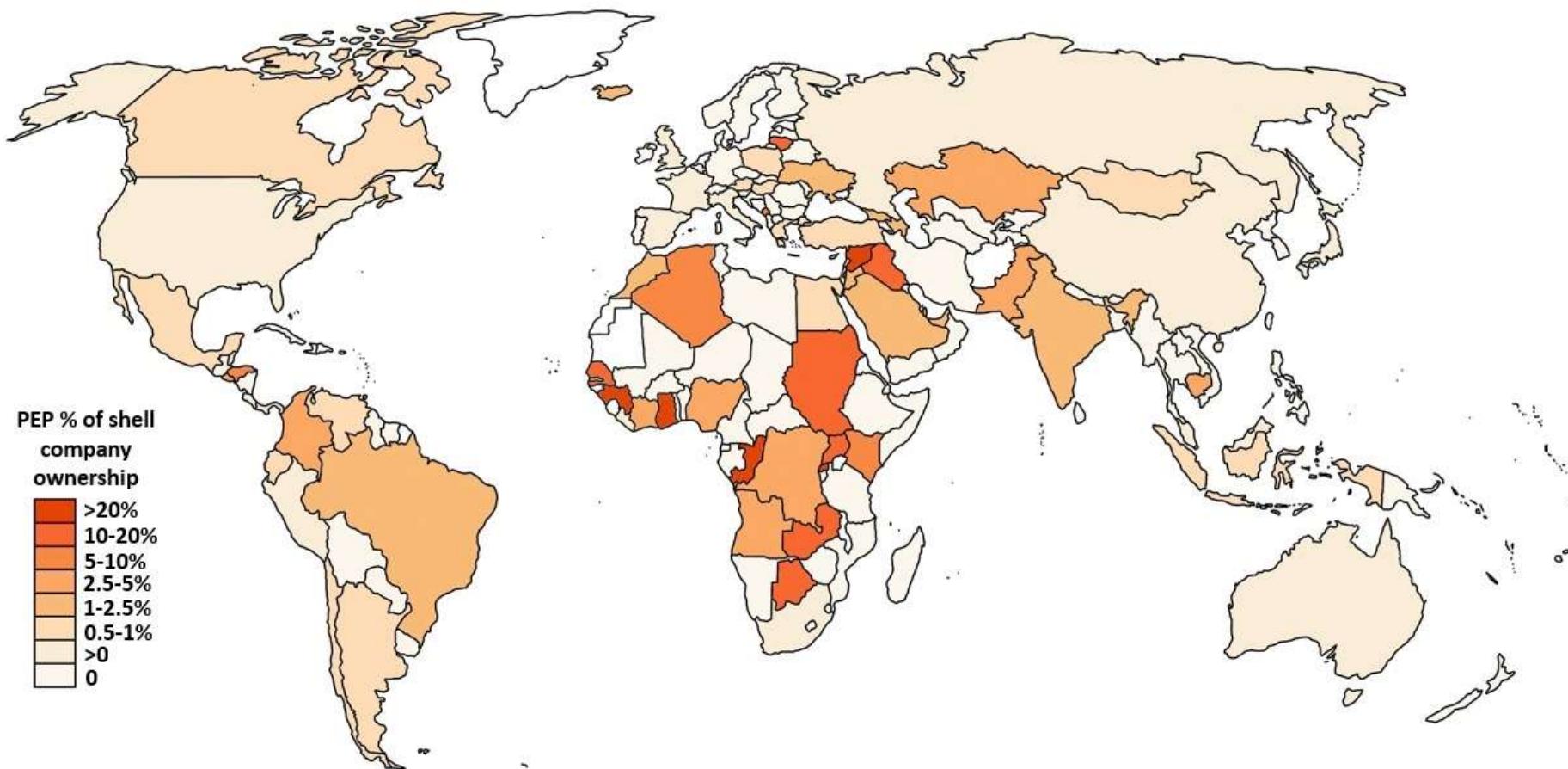
The ICIJ leaked datasets of shell company formation (Offshore Leaks, Panama Papers, Paradise Papers, Pandora Papers)

100Ks of companies formed by clients in hundreds of countries over several decades

Significant advantages over existing data sources to construct a DV in time series panel analysis of offshore shell company formation

Geographic Structure of PEP-linked ICIJ Shell Companies

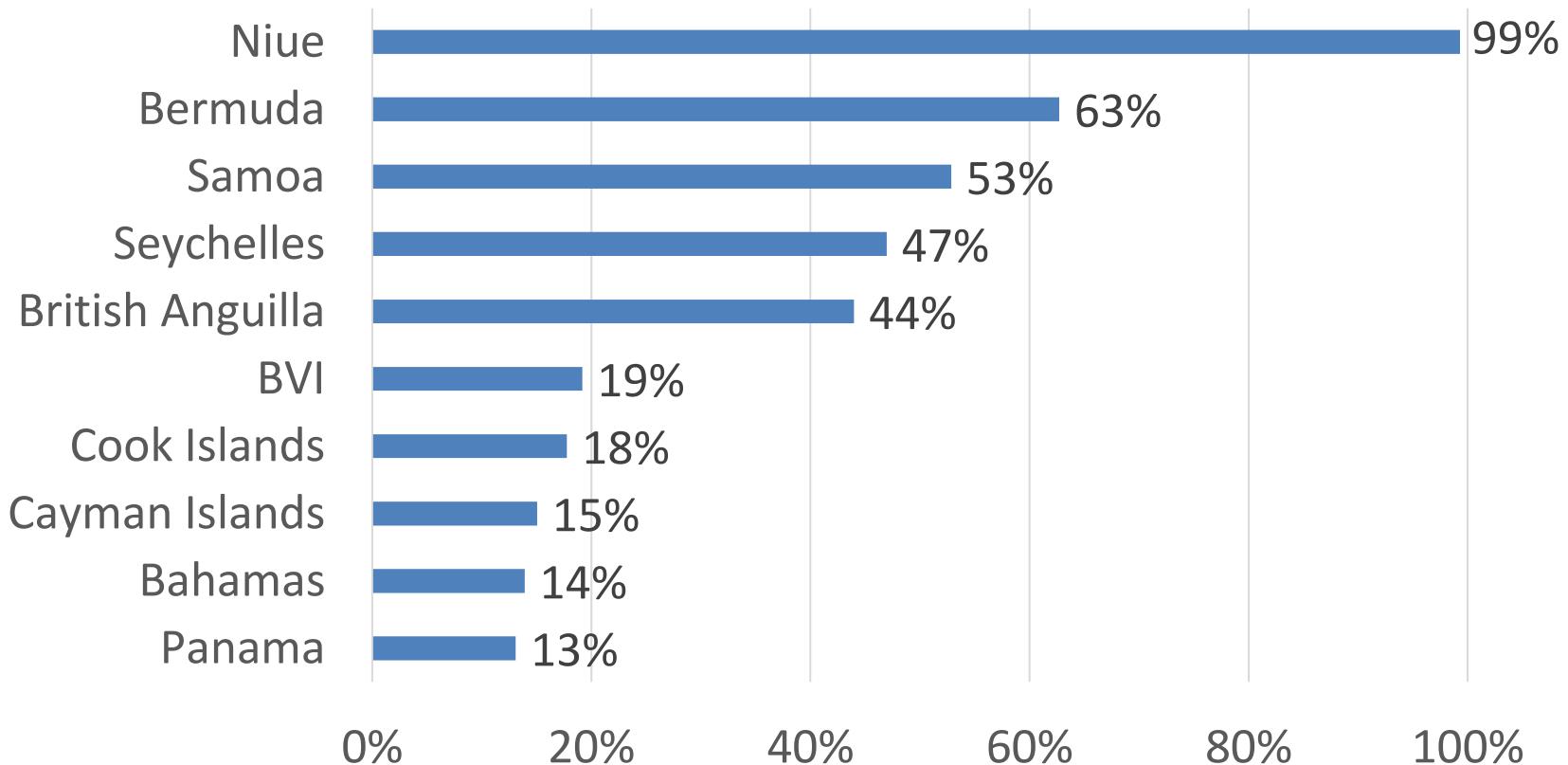




Percent of all shell companies in Panama and Paradise papers belonging to identified politically exposed persons (PEPs)

Source: International Consortium for Investigative Journalists

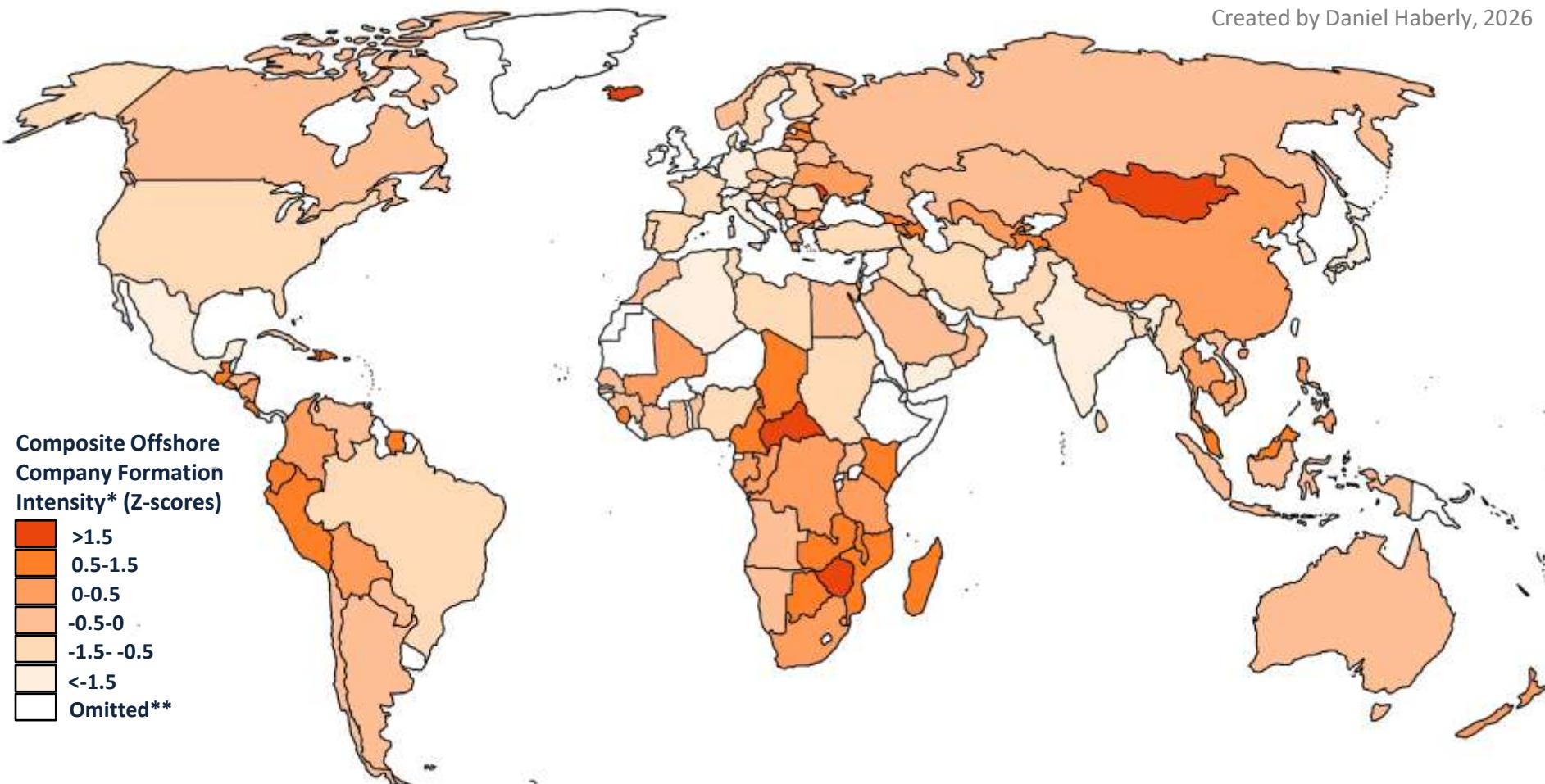
(very rough) estimate % of all offshore companies* by jurisdiction covered in ICIJ leaked datasets
(ca. 290,000 entities w. useful data)



*totals from Palan, Murphy, & Chavagneux 2010 & Bermuda Company Laws & Regulations Handbook 2012

Composite Map of Panama and Paradise Papers Offshore Shell Company Formation Intensity, in relation to GDP, 1990-2015

Created by Daniel Haberly, 2026



*Standardized officer country fixed effects coefficients estimated in fixed effects-terms only (officer-country, service provider-incorporation jurisdiction, service-provider time) panel regression model of annual Appleby & Mossack Fonseca offshore company formation events as a % of officer country GDP

**Country omitted due to insufficient observations or offshore intermediary status

Goals and methods

Question: what are the drivers of offshore shell company use by developing and transition economy actors?

- How is this shaped by interacting institutional, political and economic factors?
- What “high-risk” signals, potentially linked to IFFs, can we pull out statistically?

Goals and methods

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 - 252 models run with varying samples across and within different data leaks and country groups, and alternative institutional variable constructions
 - Given nature of the leaked data, only interested in results that are robust across samples

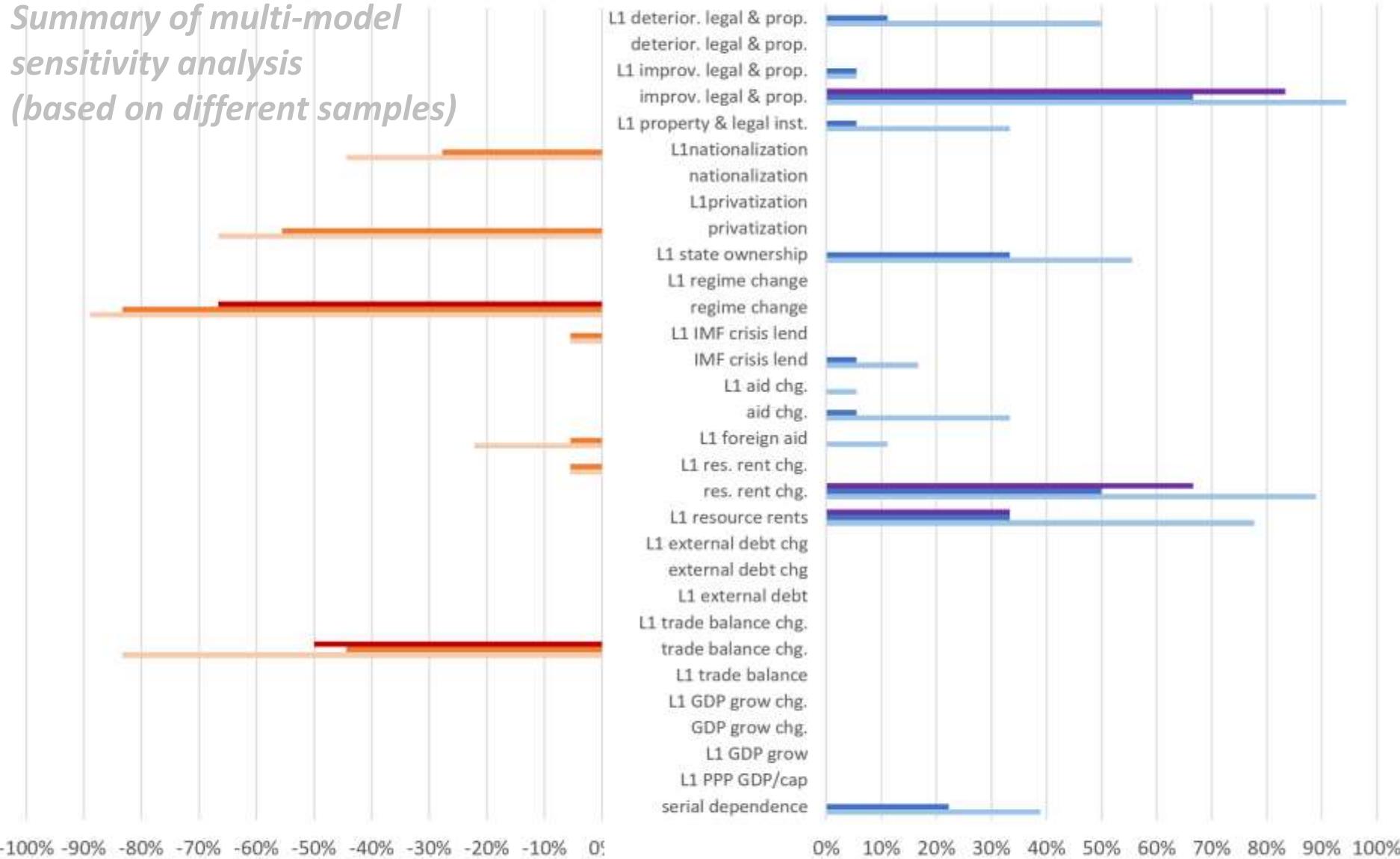
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- 1) “High risk” external foreign currency inflows received directly by the state are recycled back outwards via offshore company formation

Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: All Low and Middle Income Countries
 percent of models in which a variable is statistically significant (sensitivity analysis based on co. formation threshold and data leak)

*Summary of multi-model
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 (based on different samples)*



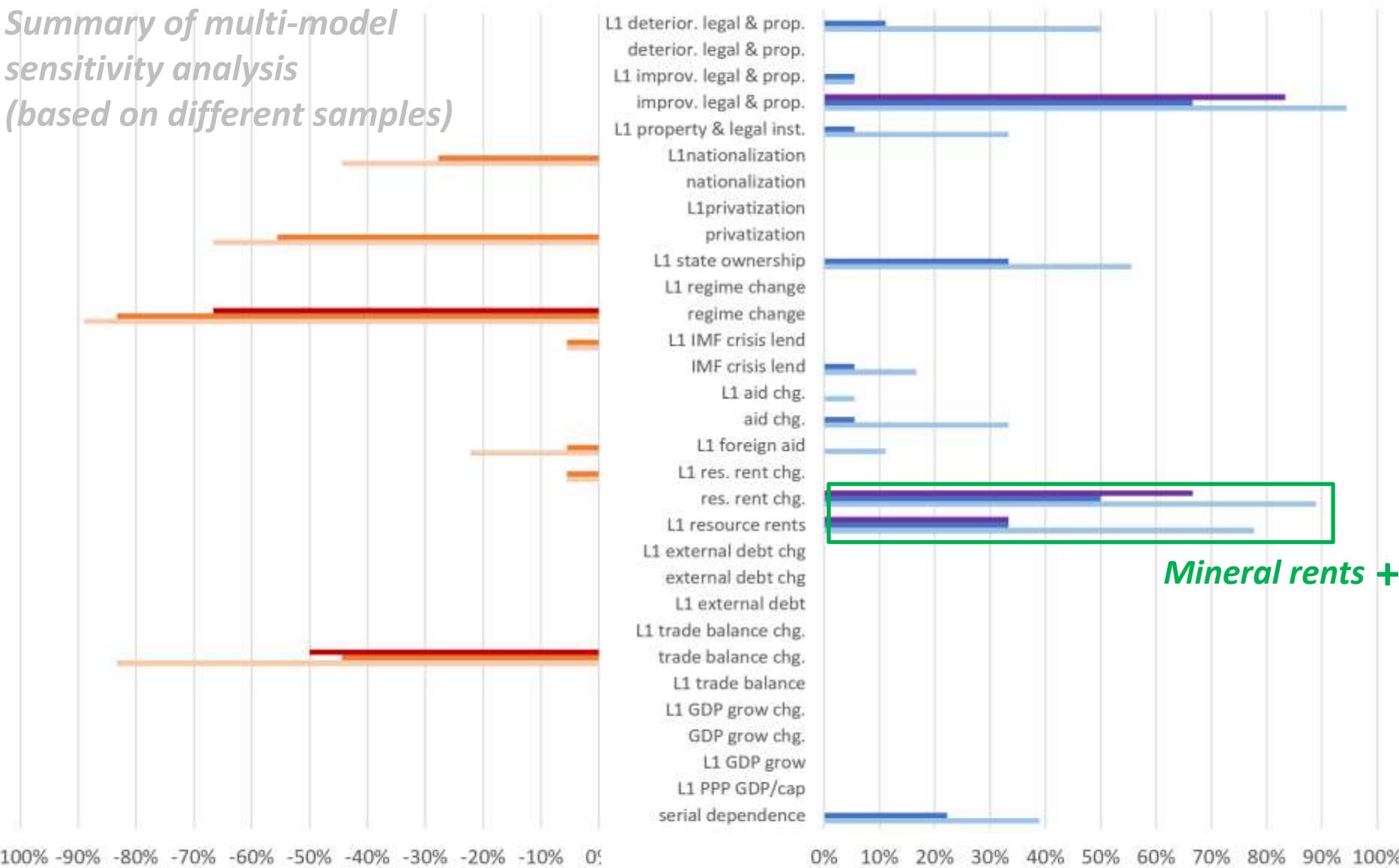
All middle and low-income countries (time series shell co formation determinants)

■ triple agreement (neg) ■ 1pct sig. (negative) ■ 5pct sign (negative)

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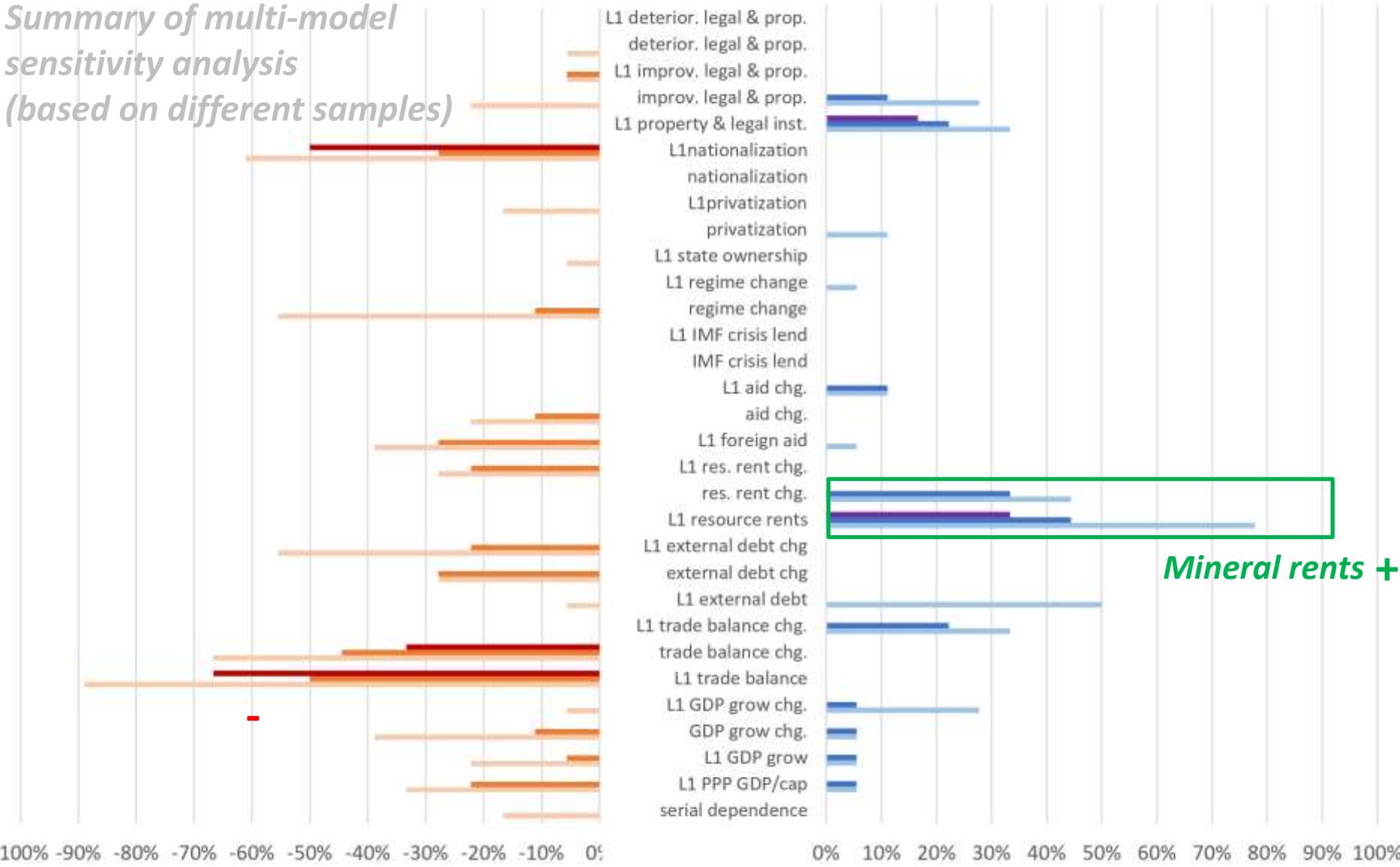
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Mineral rents +

Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: Countries with Communist History
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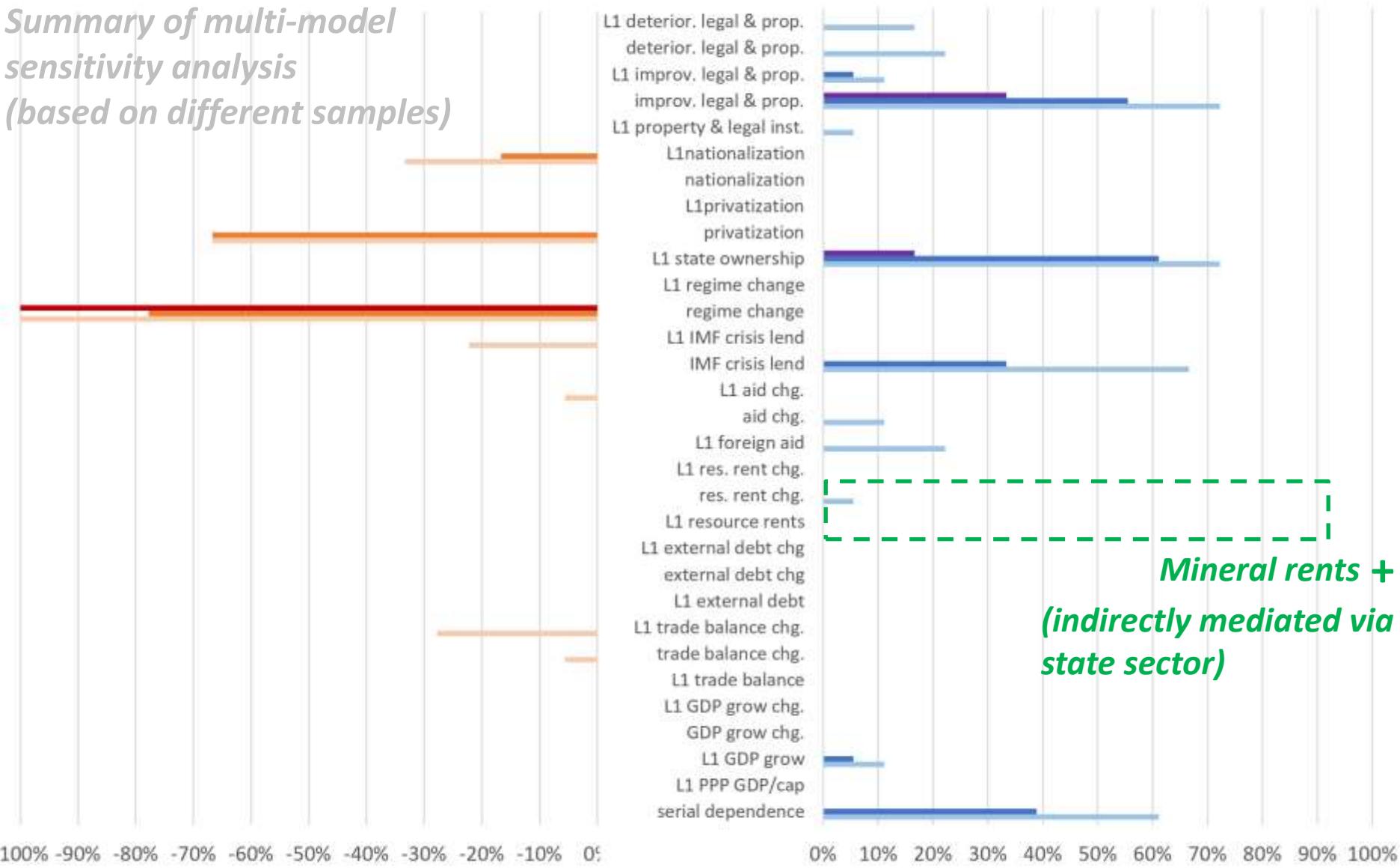
Countries with communist history (time series shell co formation determinants)

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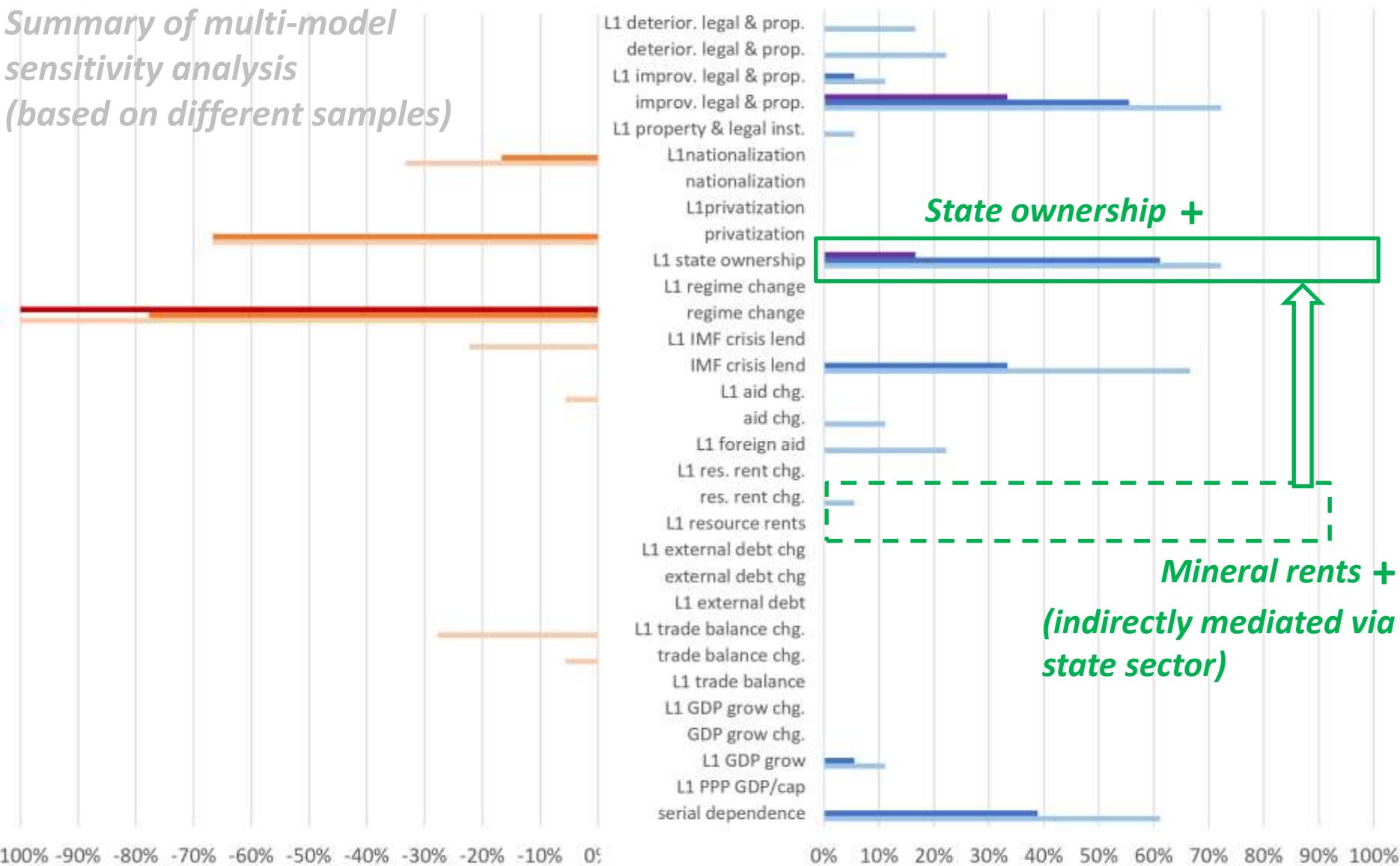
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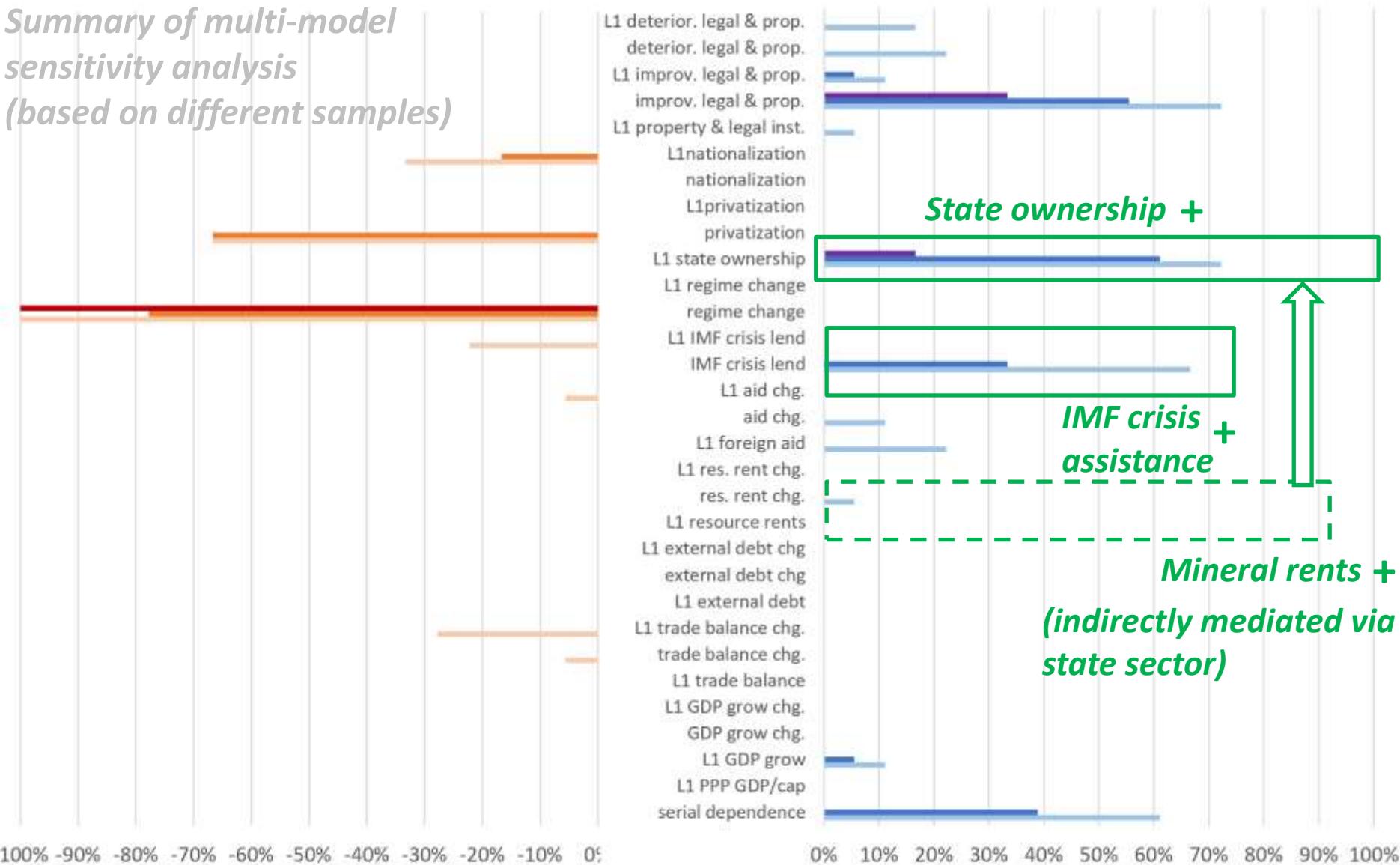
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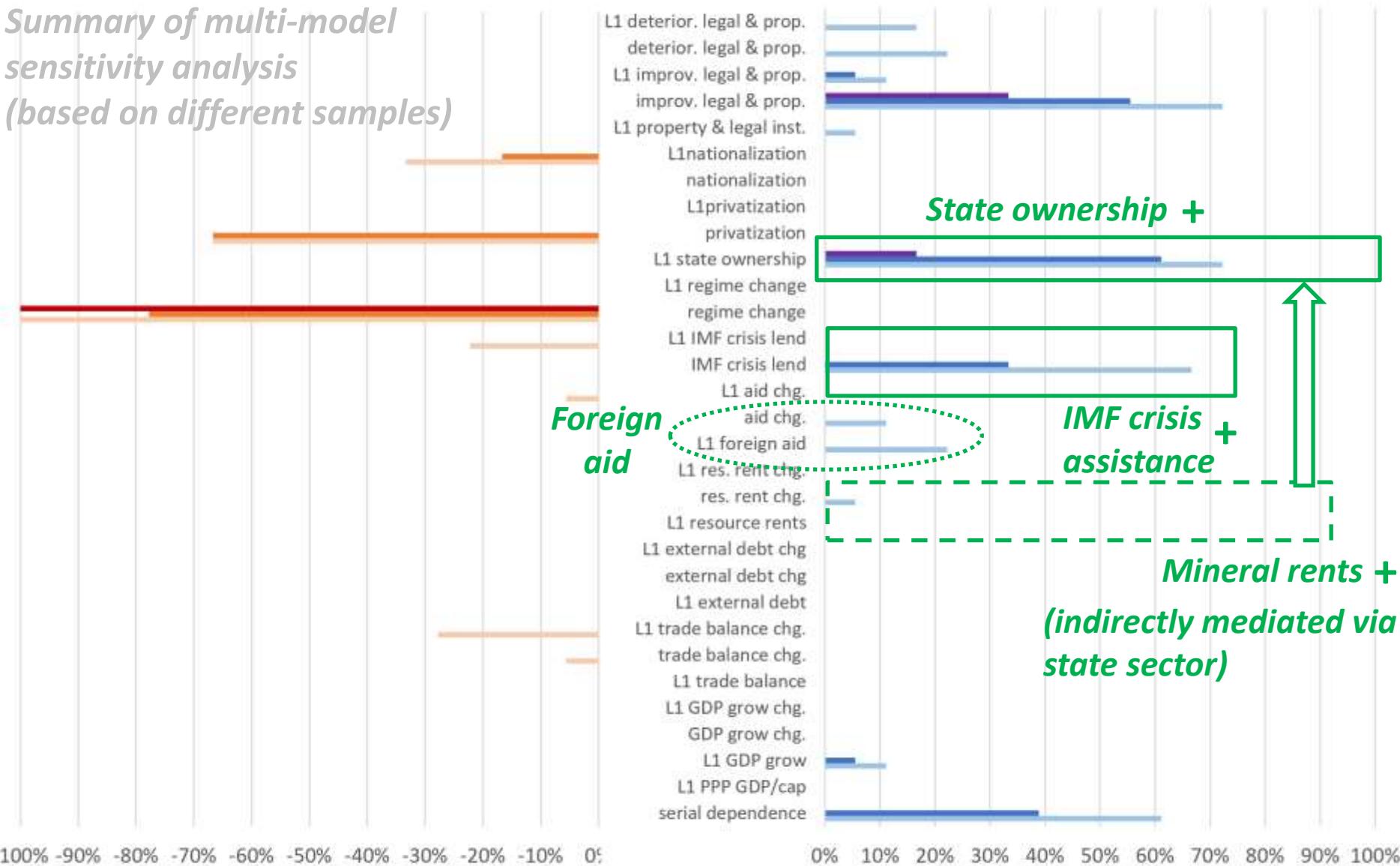
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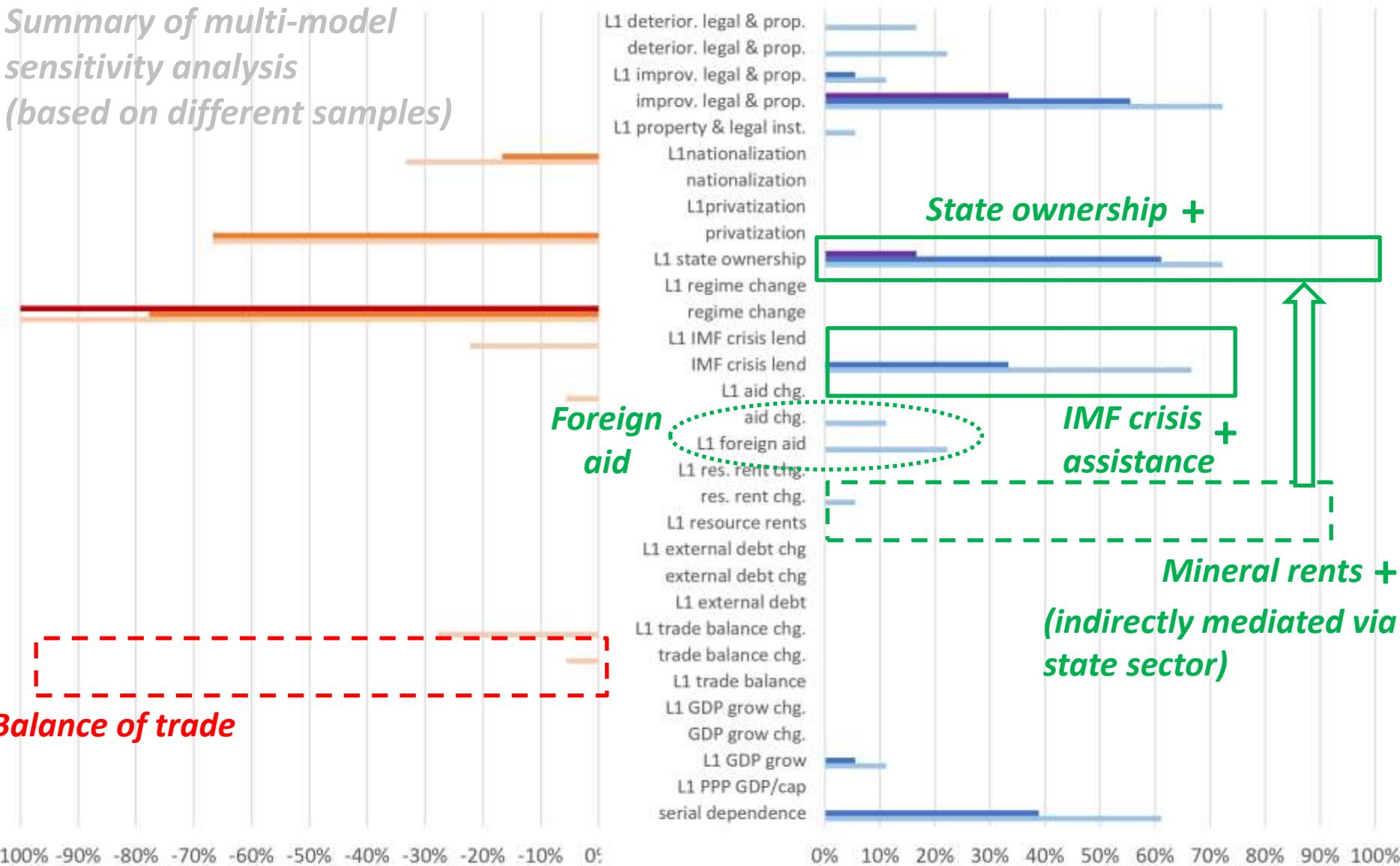
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Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: High Corruption No Communist History

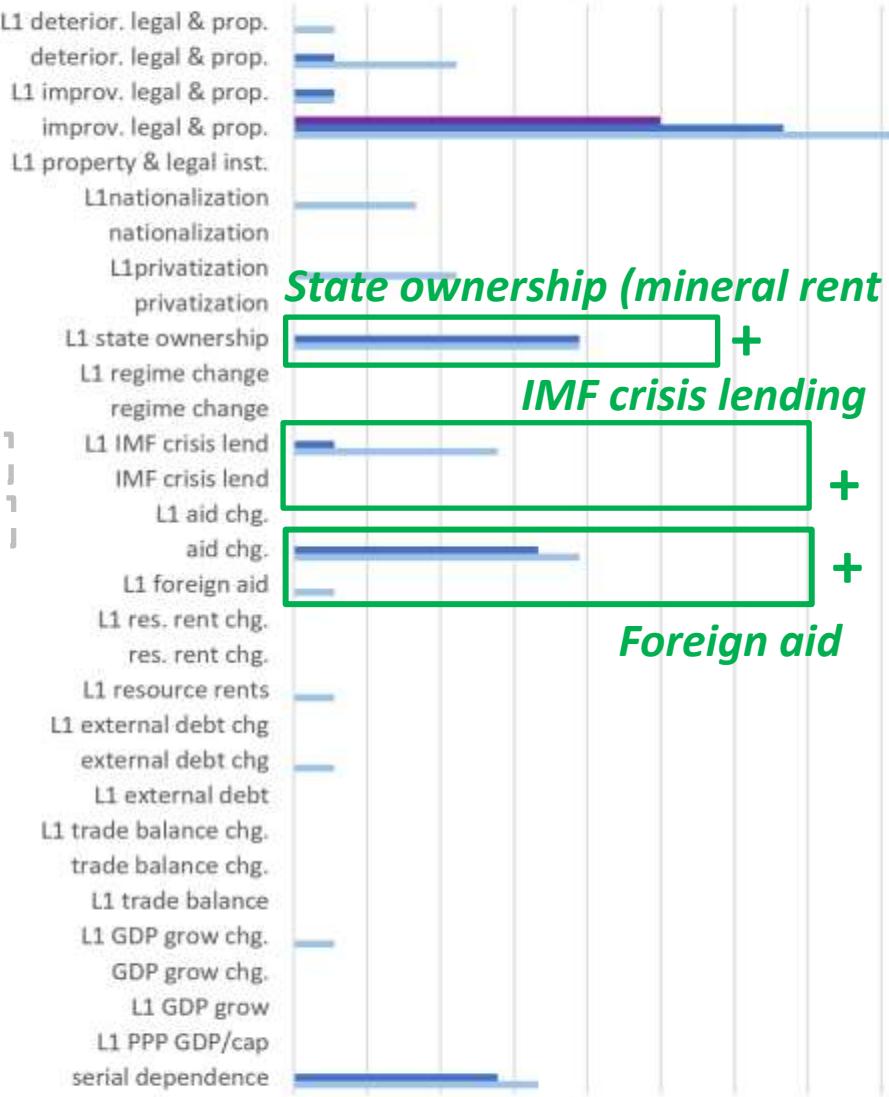
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Summary of multi-model sensitivity analysis (based on different samples)

Lagged IMF

Lagged foreign aid change

High Corruption
Countries



State ownership (mineral rent recycling)

IMF crisis lending

Foreign aid

-100% -90% -80% -70% -60% -50% -40% -30% -20% -10% 0%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

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Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: Low Corruption No Communist History

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Lagged IMF -

-

Lagged foreign aid change

Low Corruption Countries

L1 deterior. legal & prop.
deterior. legal & prop.
L1 improv. legal & prop.
improv. legal & prop.
L1 property & legal inst.
L1nationalization
nationalization
L1privatization
privatization
L1 state ownership
L1 regime change
regime change
L1 IMF crisis lend
IMF crisis lend
L1 aid chg.
aid chg.
L1 foreign aid
L1 res. rent chg.
res. rent chg.
L1 resource rents
L1 external debt chg
external debt chg
L1 external debt
L1 trade balance chg.
trade balance chg.
L1 trade balance
L1 GDP grow chg.
GDP grow chg.
L1 GDP grow
L1 PPP GDP/cap
serial dependence

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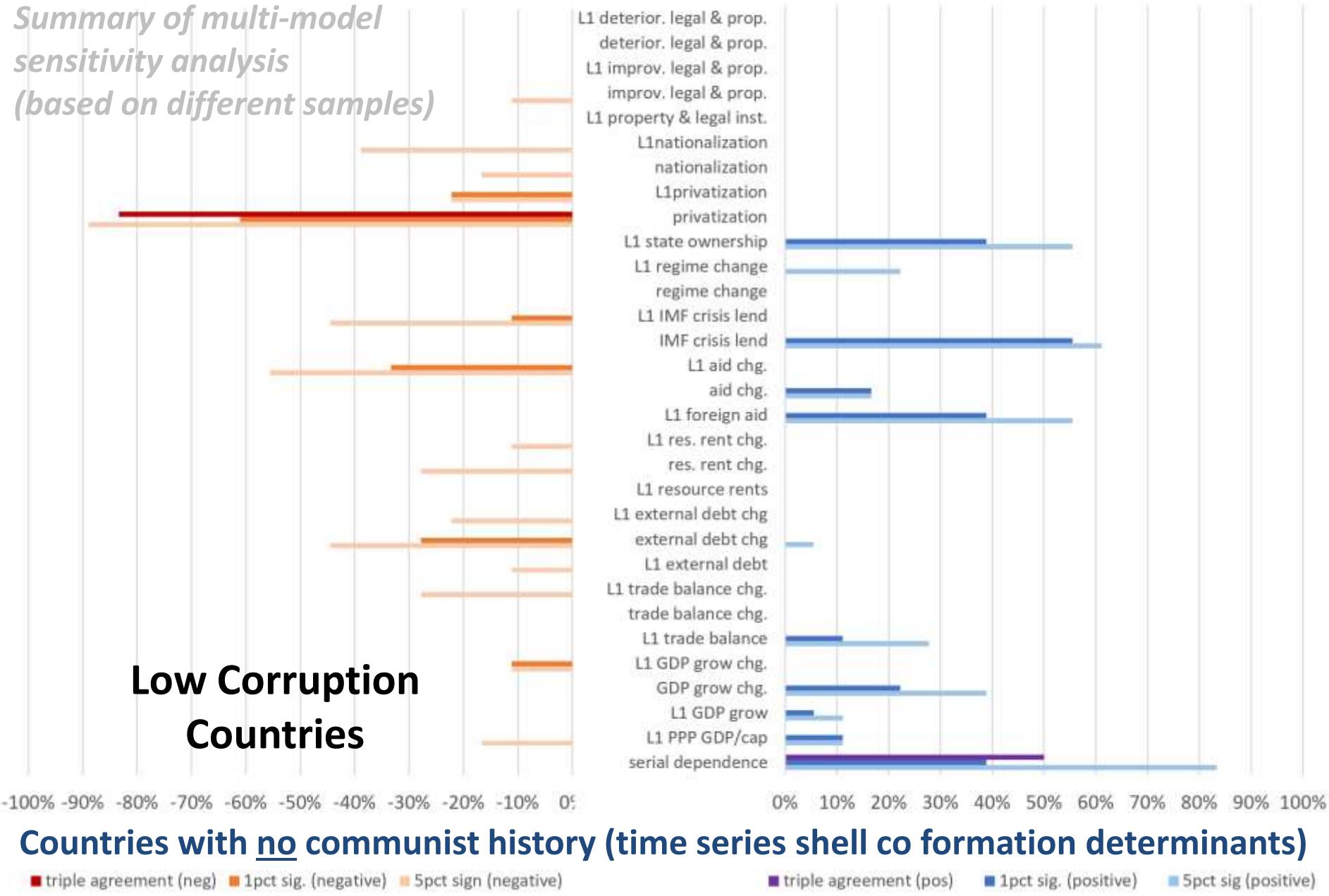
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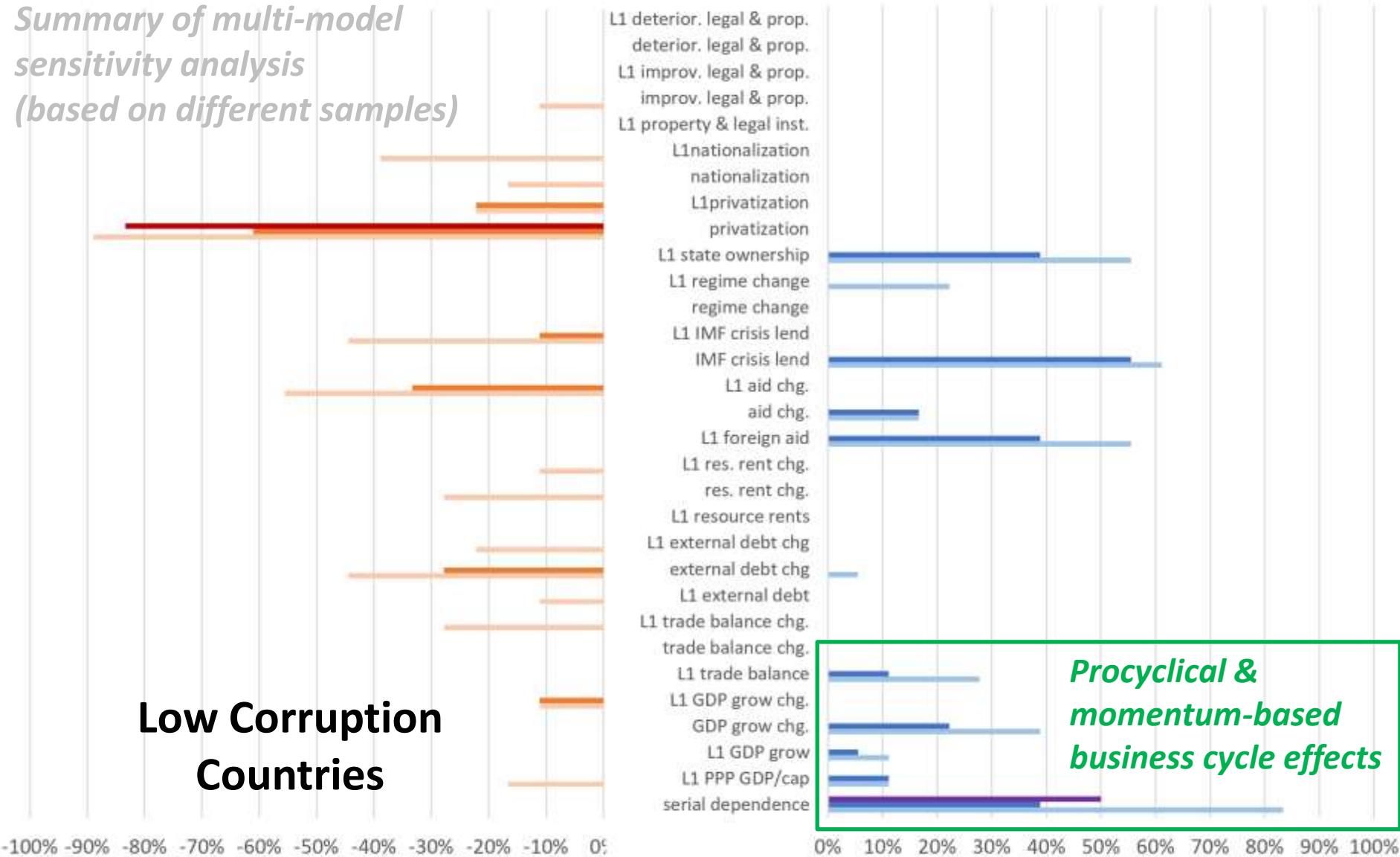
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**Low Corruption
 Countries**

*Procyclical &
 momentum-based
 business cycle effects*

-100% -90% -80% -70% -60% -50% -40% -30% -20% -10% 0%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Countries with no communist history (time series shell co formation determinants)

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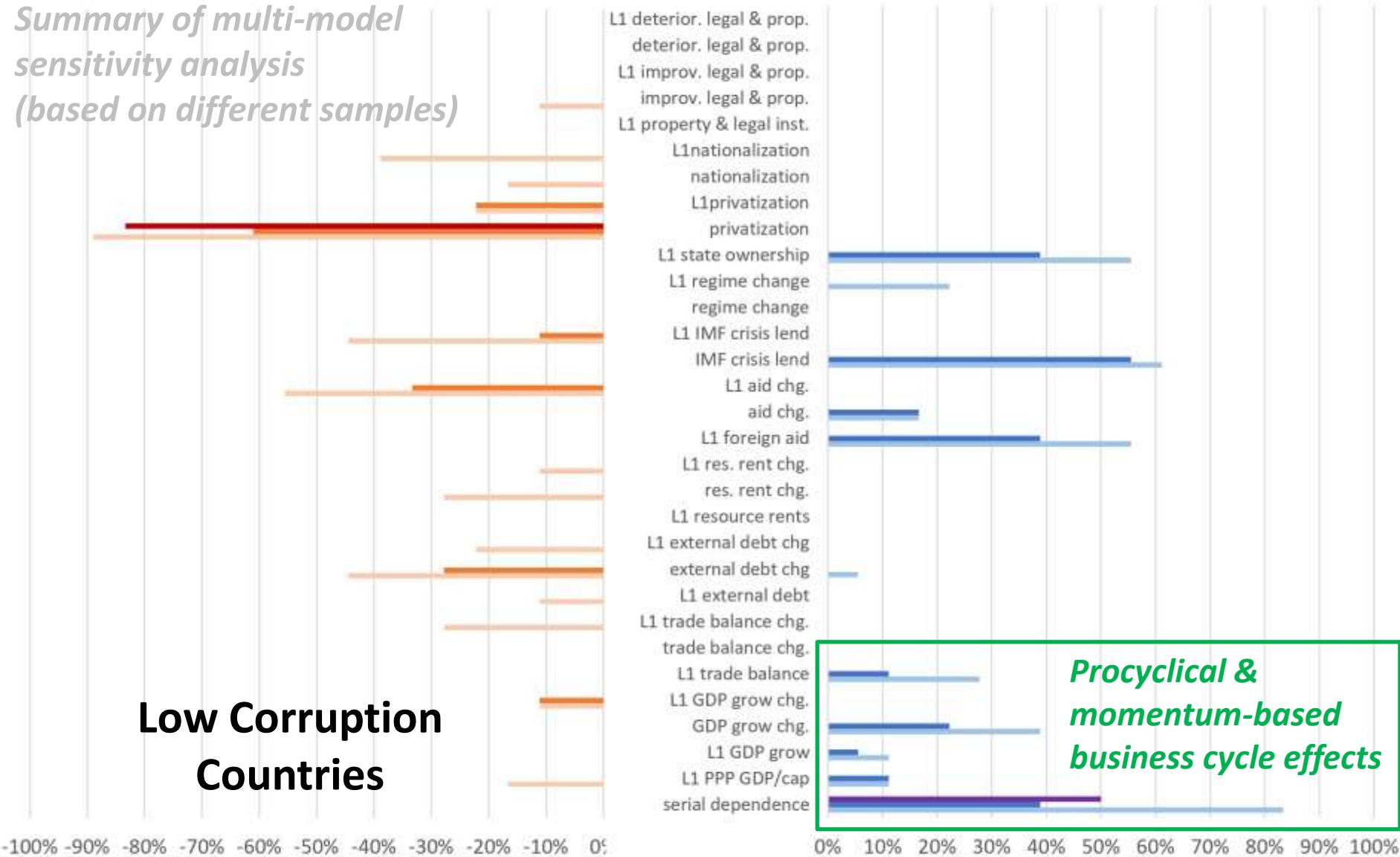
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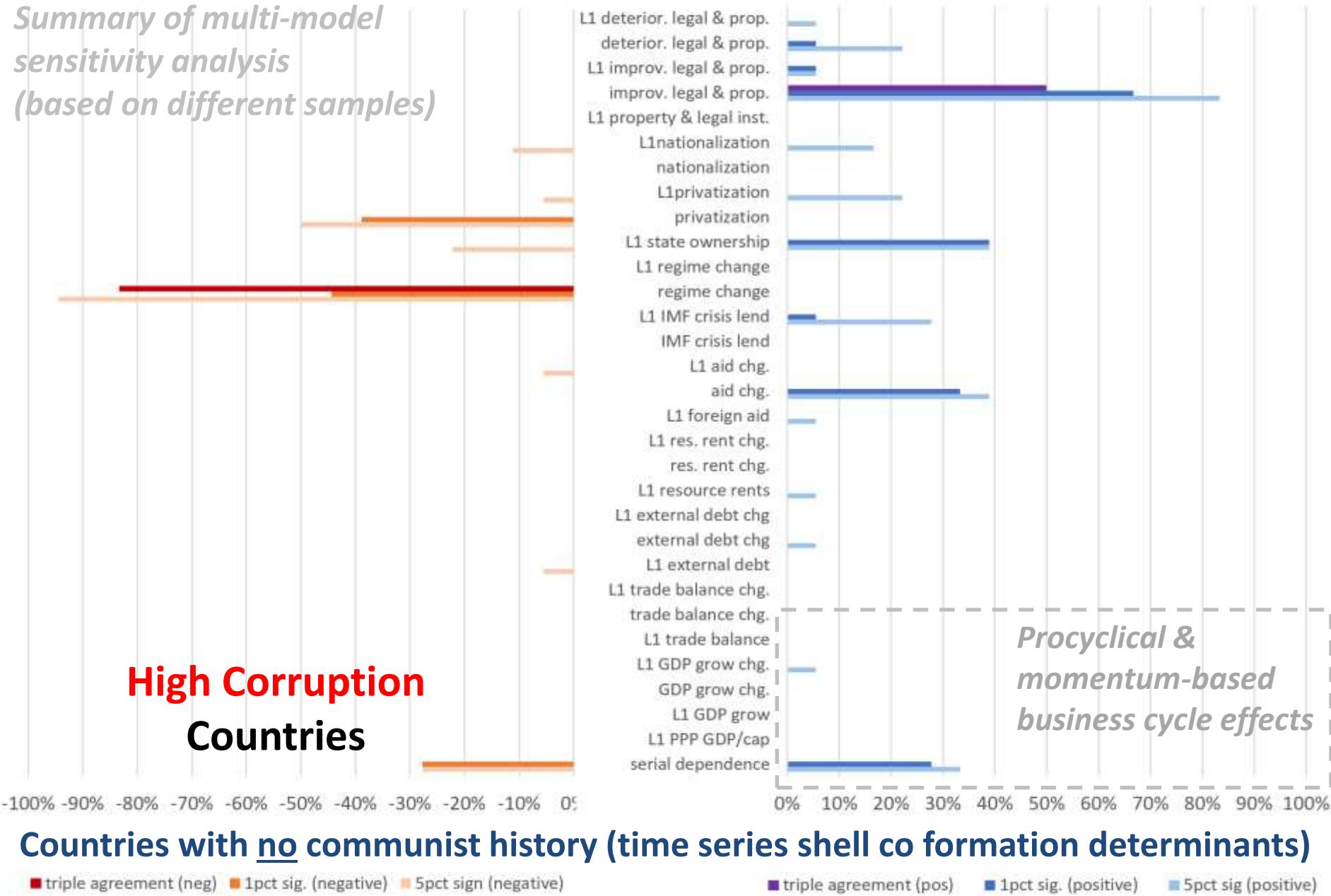
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Summary of multi-model sensitivity analysis (based on different samples)



Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: High Corruption No Communist History

percent of models in which a variable is statistically significant (sensitivity analysis based on co. formation threshold and data leak)

Summary of multi-model sensitivity analysis (based on different samples)

Regime change event

High Corruption Countries

Procylical & momentum-based business cycle effects

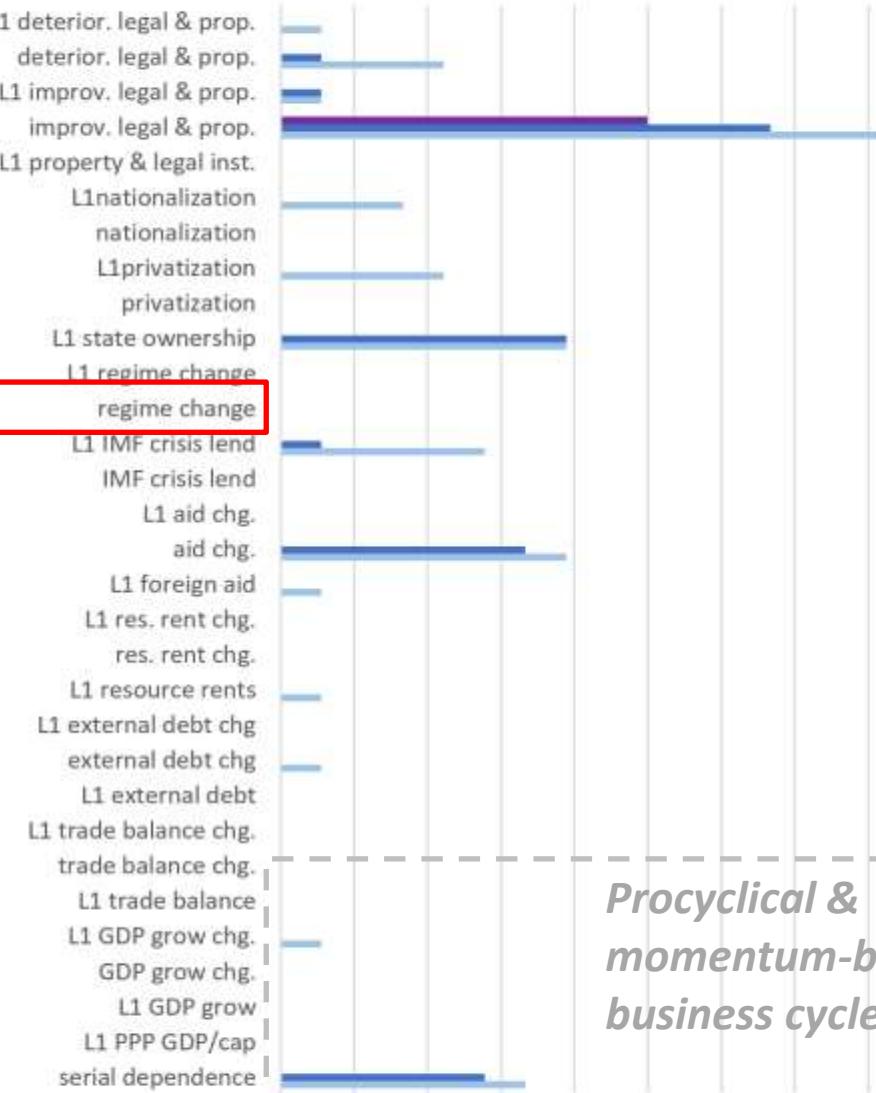
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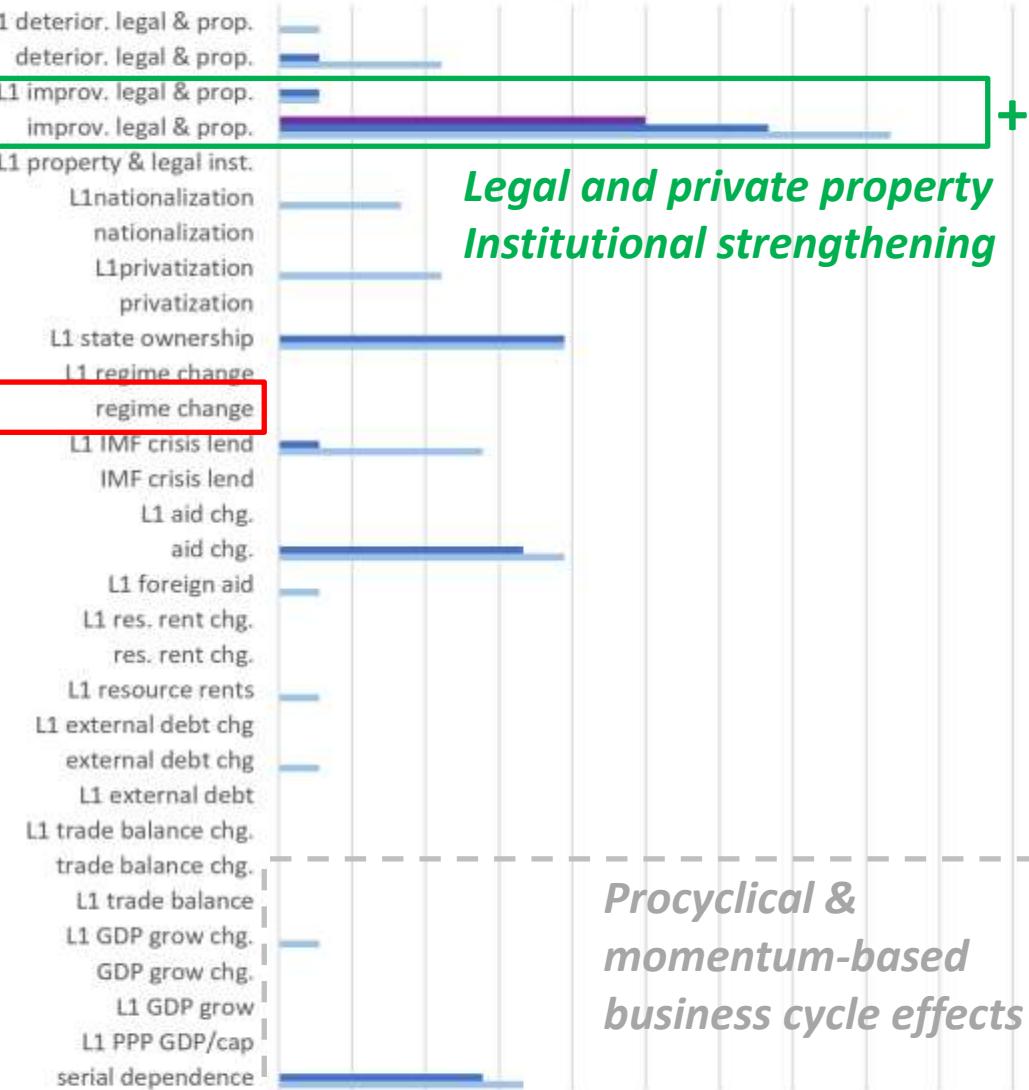
Regime change event

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**Legal and private property
Institutional strengthening**



**Procyclical &
momentum-based
business cycle effects**

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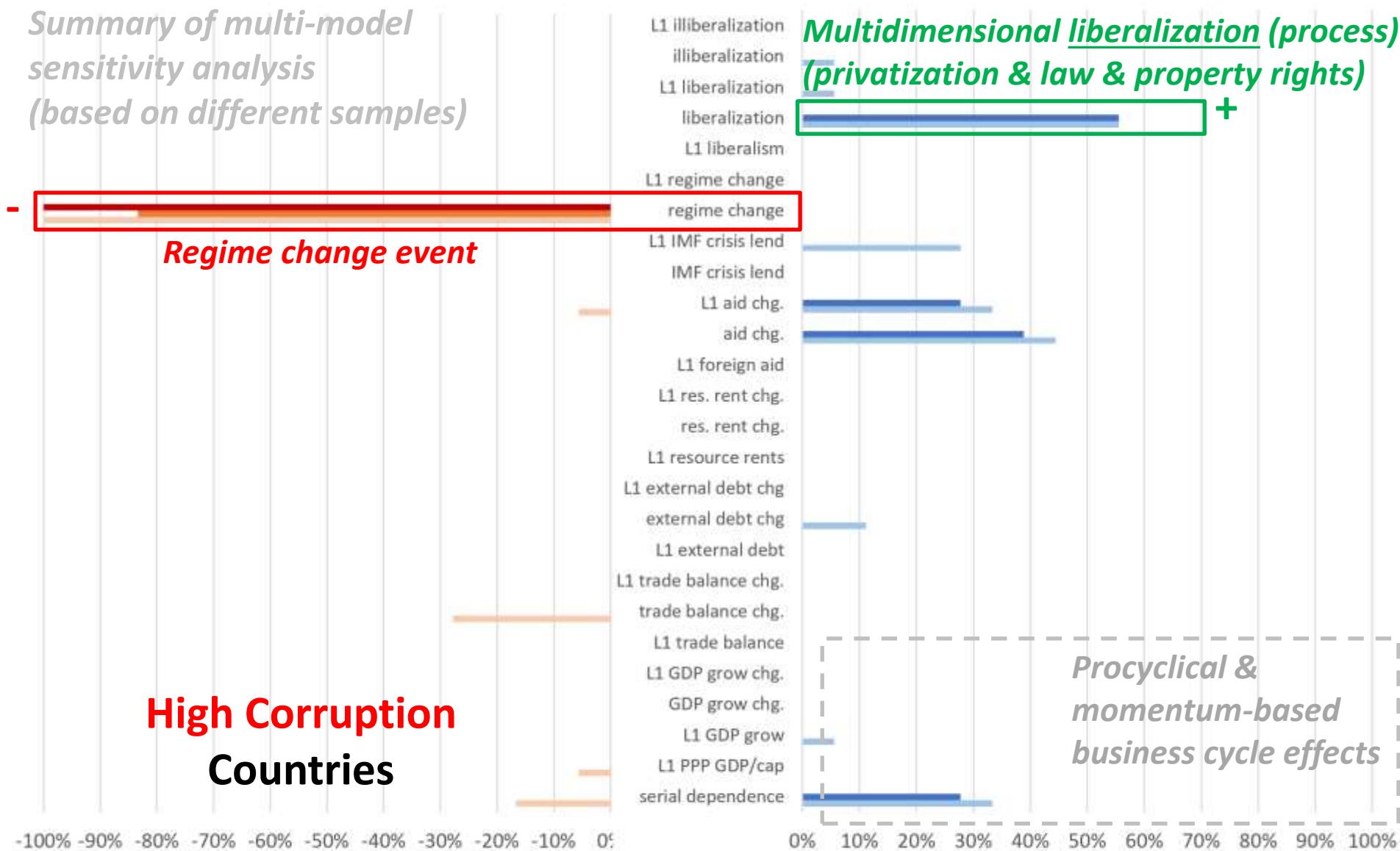
Regime change event

High Corruption Countries

**Multidimensional liberalization (process)
(privatization & law & property rights)**

+

Procyclical & momentum-based business cycle effects

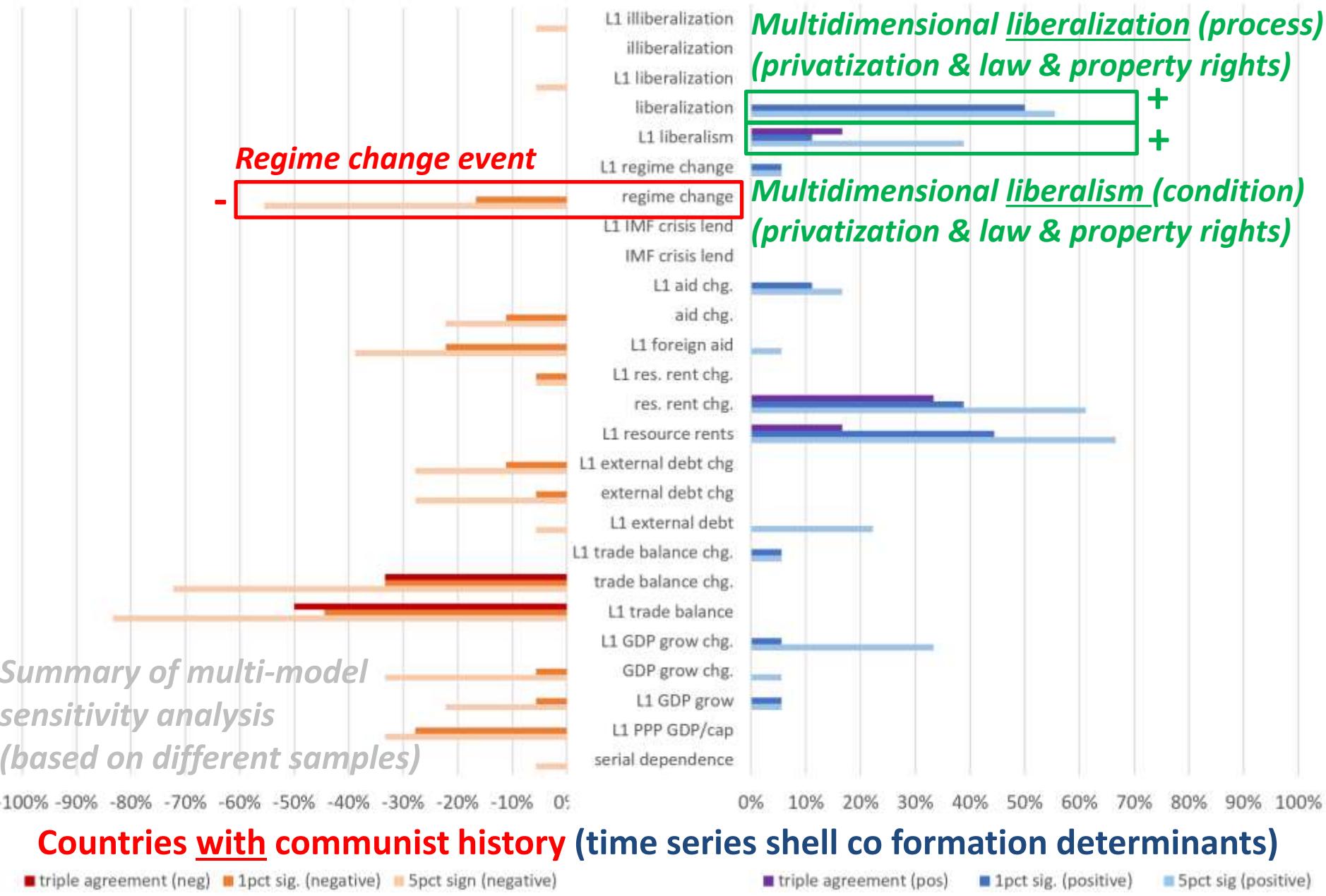


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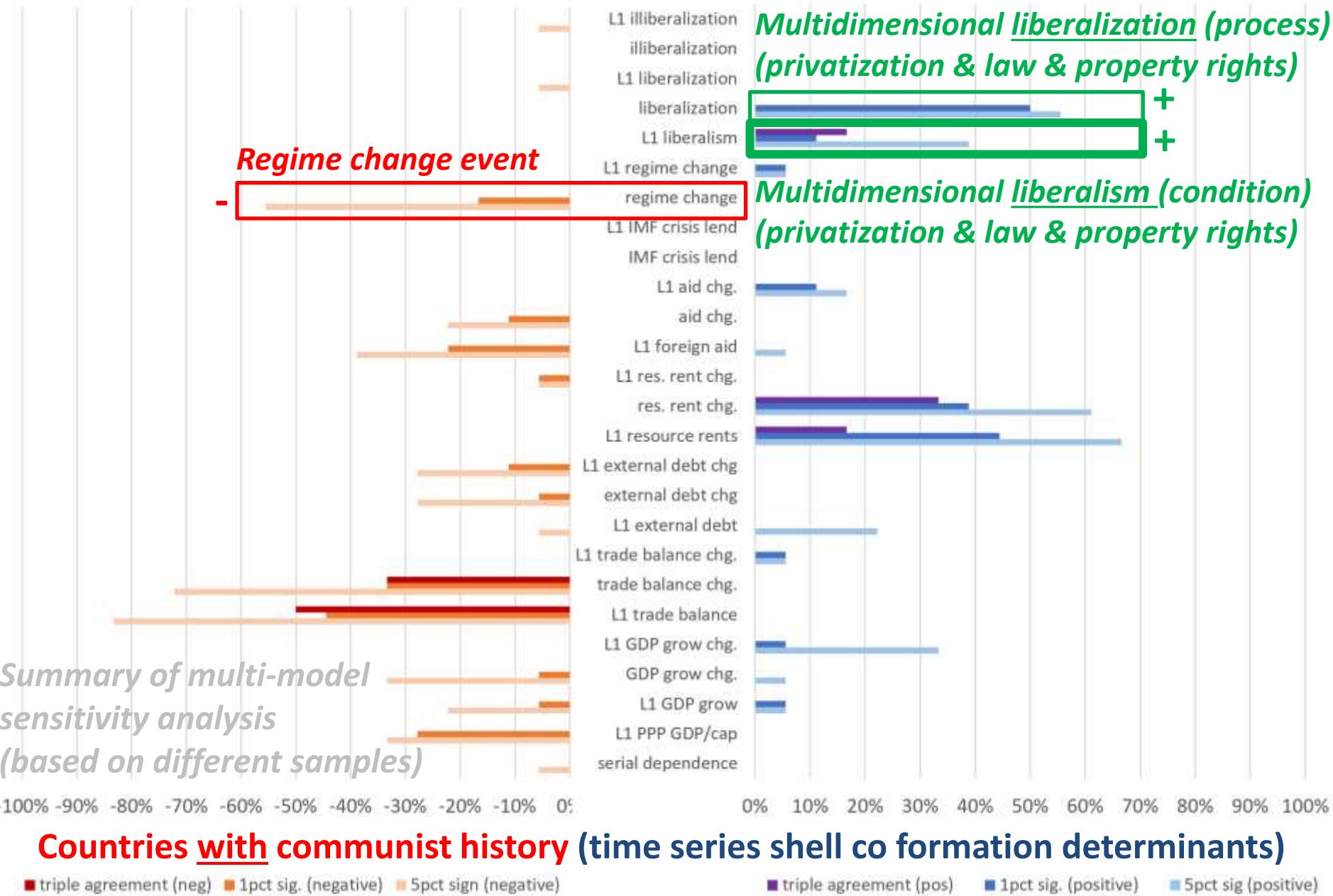
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Determinants of Shell Company Formation in Panama and Paradise Papers, 1991-2015: Countries with Communist History
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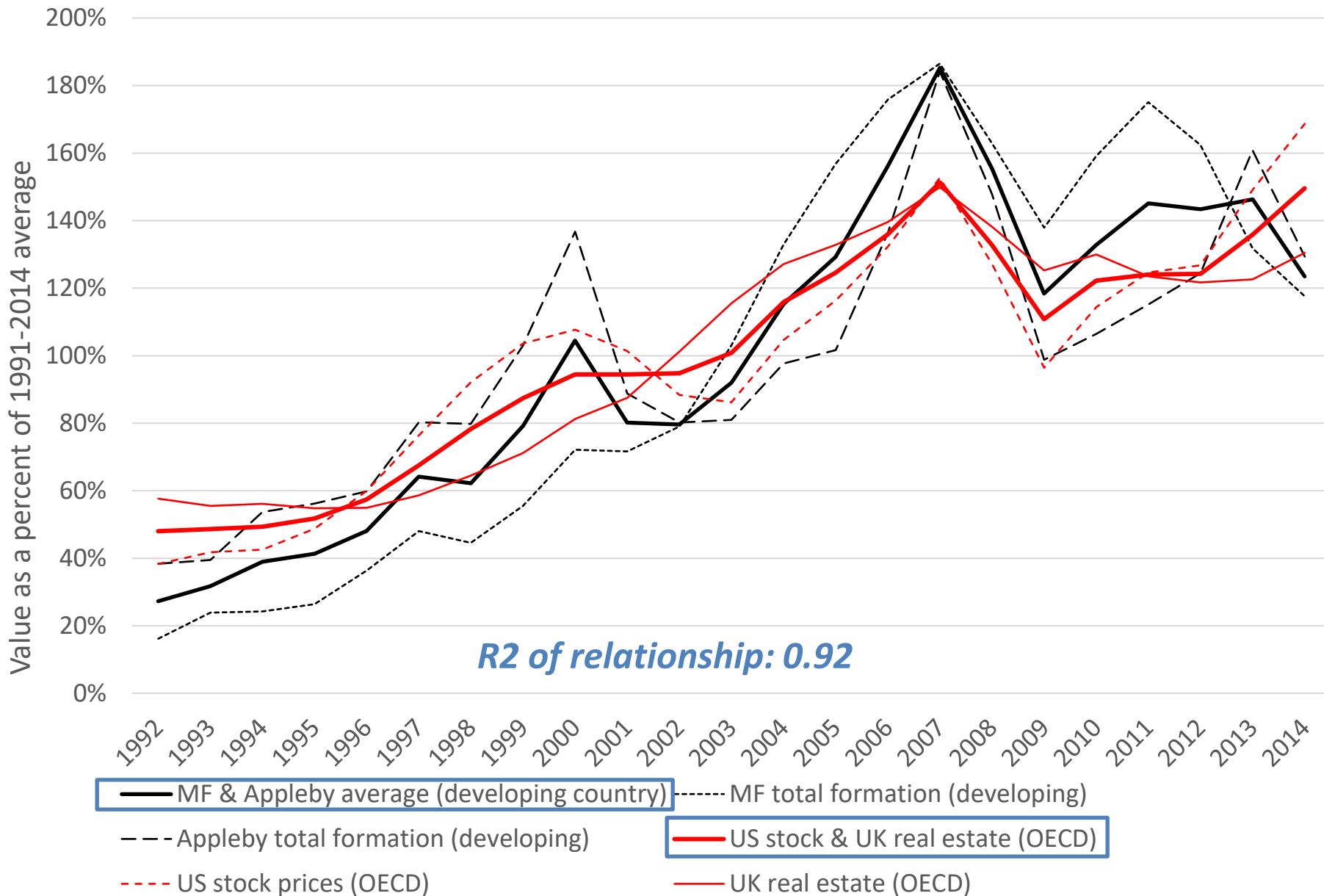
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 - Liberalizing economic institutional shocks increase offshore co. formation
 - Political regime change shocks decrease offshore company formation

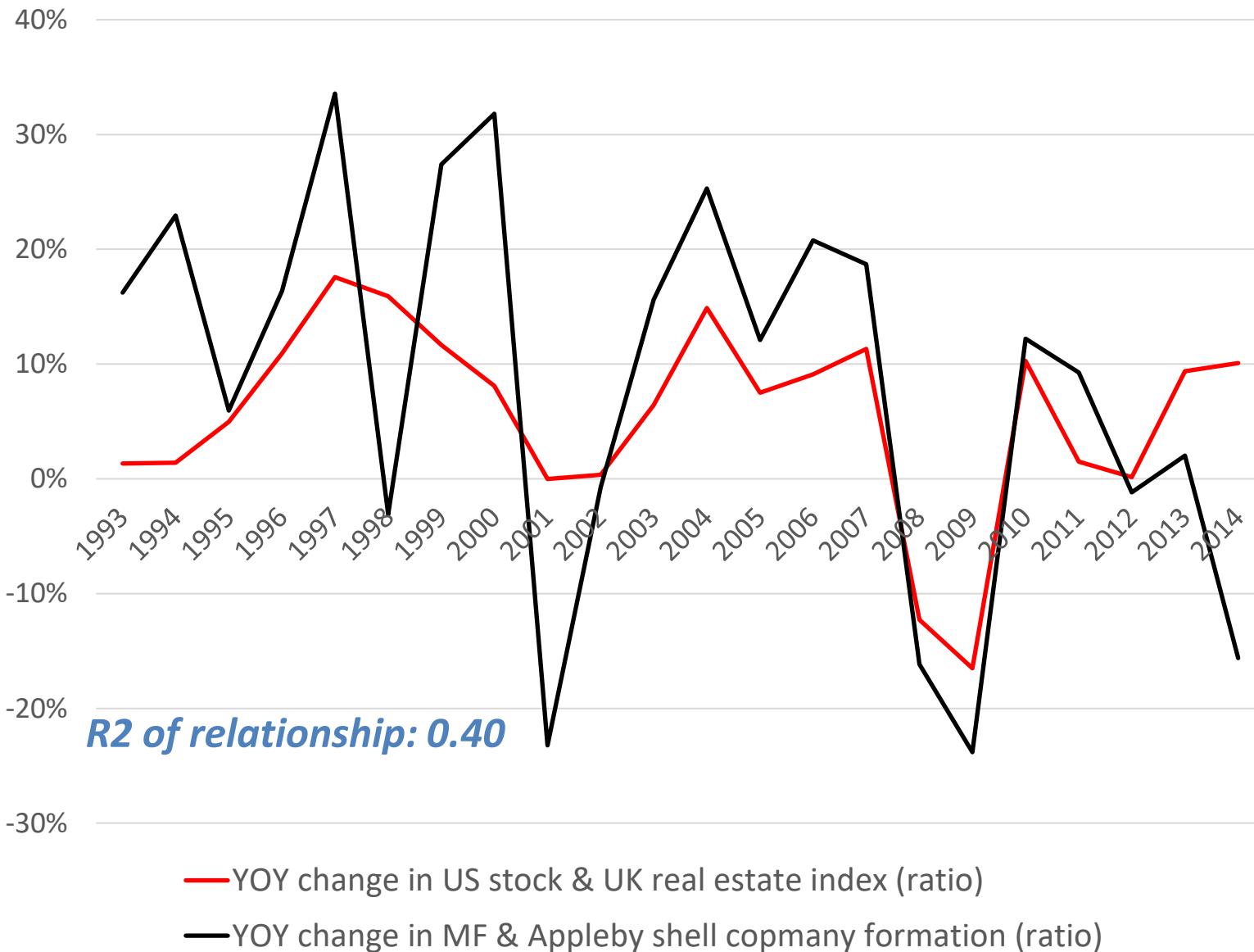
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- 3) Offshore company formation by developing country actors seems to be more strongly linked to financial cycles in developed countries, than anything occurring at actor home country-level

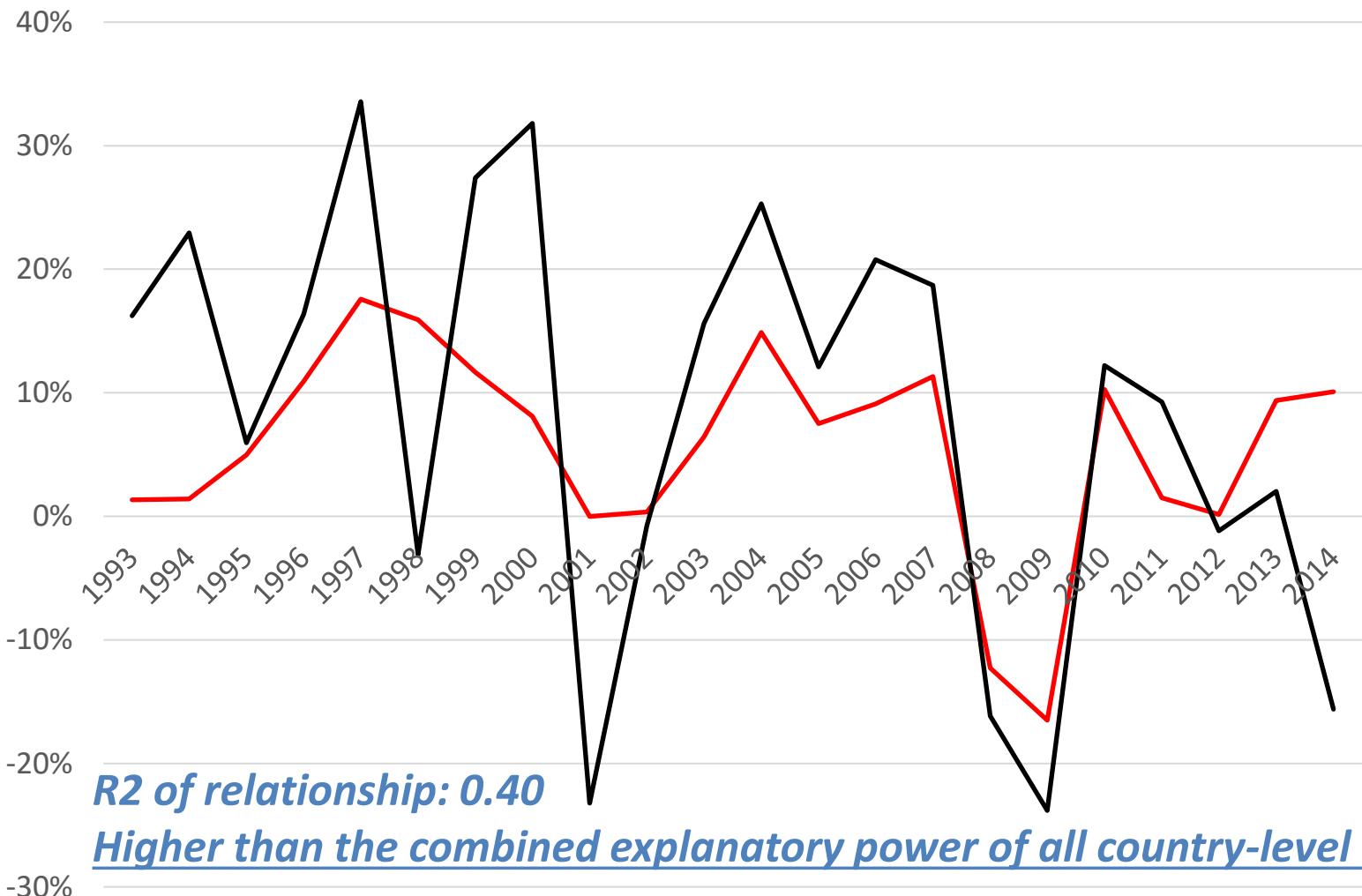
Worldwide developing & transition economy client offshore company formation & performance of key asset markets



Year-on-year ratio change in worldwide developing and transition economy client formation & performance of key asset markets



Year-on-year ratio change in worldwide developing and transition economy client formation & performance of key asset markets



- YOY change in US stock & UK real estate index (ratio)
- YOY change in MF & Appleby shell company formation (ratio)

Conclusions and Implications

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- Offshore company formation by developing and transition economy actors is strongly conditioned by corruption, but in counterintuitive and uneven ways

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- Offshore company formation by developing and transition economy actors is strongly conditioned by corruption, but in counterintuitive and uneven ways
 - **In highly corrupt (and post-socialist) countries:**
 - Regime change events decrease offshore co formation—elites move wealth offshore over long periods while in power, rather than rushing to do this when threatened

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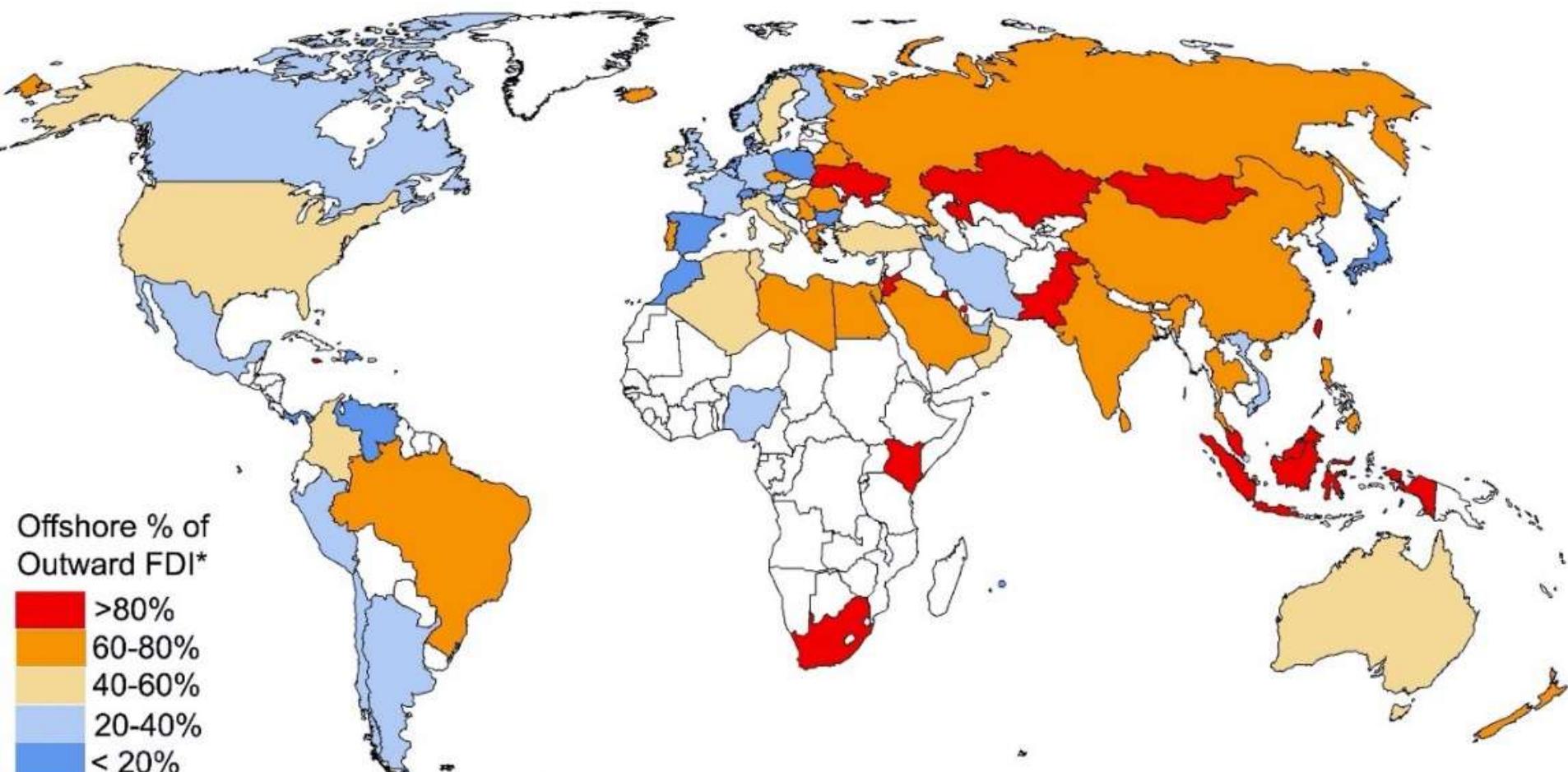
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 - **Need for caution in assuming that offshore recycling of aid, mineral rents, etc. represents IFFs—recycling will tend to happen by default at macroeconomic level**

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- Offshore company formation in developing and transition economies is largely linked to “normal” business activity and cycles

Estimated percentage of total outward FDI that passes through offshore jurisdictions, 2015



*excluding round-tripping

from Haberly 2024, a New Map of World FDI

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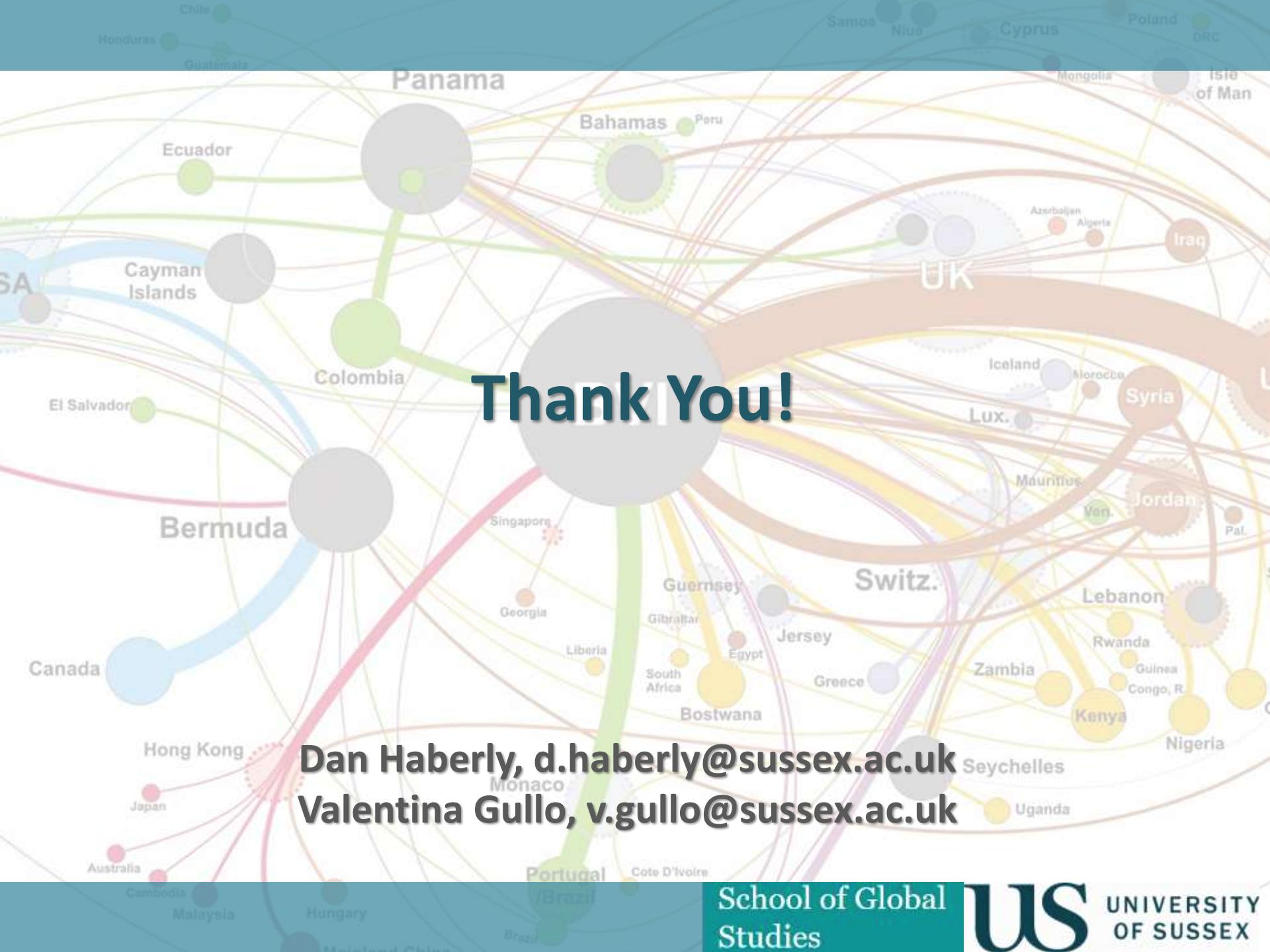
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 - **Conceptually and empirically important in relation to developing and transition economy IFFs**—to what extent are they actually “flowing” from South to North vs circulating within global financial centers and networks?



Thank You!

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