

# Corruption interdependencies in the Extractives sector in Nigeria

## Mitigating the spill over effects of oil sector corruption in the Niger Delta for the more vulnerable

### Research Question

Predatory oil sector-related corruption is both endemic among the politically powerful in Nigeria and provides rents for redistribution that allow some 'live and let live' coalitions to provide political stability. Is it possible to achieve system-wide anti-corruption reform in the Nigerian extractives sector? If not, where is it possible to identify feasible solutions to the most problematic consequences of widespread and interdependent externalities of oil-sector corruption?

### Key Findings

Our initial scoping of the extractives sector suggests that systemic reform at a sector-level will be difficult to achieve. Given the high stakes nature of corruption in this sector there are no quick solutions.

Yet rent seeking and rent capture in this rent-rich sector has ramifications and spill over effects: for instance, related to health and pollution, or the high social costs paid by the population in oil regions with heightened insecurity.

### Implications

Our anti-corruption strategies will be different here from other ACE projects because we do not target the causes of corruption given the high-level political stakes, but rather the impact of that corruption. To identify the most damaging spill-over effects that are feasible to address, we disentangle some of the flows of oil-related rents in the Niger Delta to identify areas where policy may work on the harmful effects of corruption.

### Project Summary

This study focuses on examining empirically the effectiveness of system-wide anti-corruption policies, institutions and programmes on the oil and gas sector, and by extension the economic performance of Nigeria.

While the country has earned well over US\$1.23 trillion since the discovery of oil, poverty, unemployment, inequality continue to pose significant development and policy challenges. Part of the weak link between oil and gas earnings and development outcomes has been attributed to corruption, leakages, oil theft, and pervasive weak governance, institutional and regulatory structure in the sector. To resolve this issue, successive governments in Nigeria have put in place anti-corruption programmes, including establishing agencies like the Economic and Financial Crime Commission (EFCC) and the Independent Corrupt Practices Commission (ICPC). However, the effectiveness of these national agencies in addressing sectoral weaknesses remains an empirical issue - see project summary 'The politics and effectiveness of Nigeria's EFCC'.

Our central hypothesis is that systemic reform in the extractives sector will be difficult to achieve in the medium term. The data and evidence collected by mapping the interdependent policies that create rents for different organizations and interests in the sector will help us gain much better idea of how and where rent capture takes place, and the extent of the damage. We plan a comprehensive analysis that includes health-related negative externalities due to gas flaring in the Niger Delta, the transportation networks used in the capture of the Petro-Equalization Fund, the dealership network for generators used for self-generation and other related issues. We will then analyse where it may be possible to address some of these issues without focusing on more problematic areas in this set of interdependencies. The potential of true reform resulting from the Petroleum Industry Bill (PIB) will also be considered.

## Key research questions

- What is the structure of the extractives industry in Nigeria and what does its value chain look like?
- What is the evidence for capture in the sector and is it possible to estimate the levels of capture?
- Can a disaggregated micro-level analysis of the sector provide answers to changing incentive structures that could make policy implementation more successful?
- What are the sectors not directly linked to the extractives sector but still impacted by it (environment, transportation, skill development etc.)?
- What threats and opportunities is the PIB likely to throw up for the sector?

## Methodology

### Stage 1

Our core hypotheses were developed through our stakeholders workshop in Abuja in Nov 2018.

### Stage 2

Review of the literature to investigate the political economy of the sector.  
Mapping the value chain of the informal economy and gender impact of the artisanal refineries on host communities

### Stage 3

Conduct extensive key informant interviews and analysis of econometric exercises including sensitivity analysis, interrogating relationships between oil prices, foreign reserves and fiscal allocations.

### Stage 4

Develop anti-corruption strategies for different interdependent features of the extractives sector, for example, artisanal refineries, the informal networks supplying labour to these sites, networks of women workers.

## Policy and programming implications

Our research on the meso and micro effects of oil sector corruption (mainly through 'artisanal refining') at the Niger Delta is still at a very early stage and the findings will be refined as more fieldwork is conducted. However, our initial scoping suggests the apt anti-corruption response here is to work on mitigating the externalities that hurt the most vulnerable sections of society—children, youth and women.

Addressing the causes of this corruption will need systemic reform and in the medium to short term this looks difficult to achieve. Our anti-corruption strategies will target the most damaging spill-over effects that can be addressed in the meantime.

## Team members

Dr Pallavi Roy and Dr Joseph Ajefu (SOAS University of London), Professor Adeola Adenikinju, Elias Olubusoye, Niyi Falobi, Ronke Omotosho, Nkechi Oranye (CPEEL, University of Ibadan), Calvin Laing (Stakeholder Democracy Network).

## Contact information

Pallavi Roy ([pr16@soas.ac.uk](mailto:pr16@soas.ac.uk))