

Corruption Reduction in the Petroleum Sector in Nigeria: Challenges and Prospects

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Abstract

Corruption, in any way it is looked at, is a social-cankeworm as it pays no person, party government, institution and the society any good. Corruption is manifested in every phase and sector of the Nigerian socio-political economy but it is more pronounced in the petroleum sector in the country. Because Nigeria so much depends on the petroleum sector as her sources of living, income, economic growth and development, any corrupt practice in the sector by any person or party automatically affects all other sectors of the economy. Efforts have been made by both the past and present governments through legislative, executive and legal frameworks as well as administrative; to reduce corruption in the sector but it seems that not much has been achieved to drastically reduce this social vice in the Nigerian society. It is therefore suggested here that a combined effort of all stakeholders in the oil and gas business – the federal and state governments, the judiciary, legislature, law enforcement agencies (the ICPC, EFCC, immigration, customs, police, army, air force, navy, civil defence corps, etc) as well as the Nigeria National Petroleum Corporation (NNPC), the oil multinational companies in Nigeria, the oil markets and international community and other agencies like UNDP, World Bank, IMF, etc- should be the only way out to wipe corruption out of the country. The only way is through transparency and proper accountability in all dealing in the sector.

Introduction

It is no longer news that corruption has been existing in Nigeria since the country got her political independence in 1960, is still existing in all spheres of the nation's socio-political economy and if not challenged and eradicated from new, may continue to exist with its ugly consequences in all sectors of the nation. Though defined differently by many writers at different periods and circumstances, a brief over view of what corruption means is made here by few authors. Corruption means the following:

- Nepotism, favouritism, bribery, graft, and other unfair means adopted by government employees and the public alike to extract some socially and legally prohibited favours (Dwivedi, 1967).
- Behaviour which deviates from the formal duties of public role because of private, pecuniary or status gains; or violates rules against the exercise of certain types of private gains (Nye, 1970);
- The pervasion of integrity or state of affairs through bribery, favour or moral depravity. It involves the injection of additional but improper transactions aimed at changing the moral

course of events and altering judgements and position of trust. It consists of the doers and receivers' use of informal, extra legal or illegal acts to facilitate matters (Otite, 1986);

- The act of being dishonest (the Oxford English Learner's Dictionary;
- Dishonesty for personal gain, depravity (the Encarta Concise Dictionary, Student Edition, 2001) and/or
- The misuse of public power for private gain (World Bank, 1997).

Arising from the different definition is that from any perspective it is seen, corruption is a moral of responsibility to what is correct or good and is associated with derelation of duty, moral decadence and irresponsibility. In Nigeria of yesterday and today, corruption is endemic, it is in the high places, and in the lower places. It is practiced in the homes, institutions, religious houses, on the roads and is both seen and is hidden. There is no aspect of the Nigerian national life that has not been corroded by the cancer of corruption. These are in the police force, custom men, immigration, teachers, journalists, lawyers, doctors, engineers, public servants, airline staff and worse seen among the political class in Nigeria, hence political corruption. It is on these bases that Transparency International named Nigeria as the leader in the pantheon of corrupt nations.

Corruption steals money from social programmes and services through bribery, kickbacks and inflated pricing of contracts and public projects. Corruption breeds crises in the country when those saddled with the responsibility of managing the affairs of the country turn out to constitute some of the greatest dangers to the security of the nation. When they loot the treasury and become wealthy, rather than being investigated and reprimanded where necessary, they are acclaimed and worshiped.

It is this mismanagement or out right looting of the treasury and raping of the economy by our business and political elites and bureaucrats that has been responsible for producing the different atmosphere of crises that led to the break down of law and order and the different military takeovers of legitimate government (administrations) in Nigeria from 1966 to 1999.

The focus of this exercise is on corruption in the petroleum business in Nigeria, keeping constant the existence of corruption in the other aspects of the Nigerian society-economic, social, political, religious, academic/institutional and corruptions in the civil service, etc. The nature, types, consequences, efforts made to reduce corruption in the petroleum business in Nigeria, the success or failures and the way forward are x-rayed here, though briefly.

The petroleum business in Nigeria and corruption tendencies and typology

Nigeria discovered oil in 1956 and began to export it in 1958. Since the oil discoveries in the early 1970s, oil has become the dominant factor in Nigeria's economy. Using 1970 as a benchmark, Nigeria gained an extra \$390 billion in oil-related fiscal revenue over the period 1971-2005, or 4.5 times 2005 gross domestic product, expressed in constant 2000 dollars. The sizable oil windfall, of course, presented net wealth and thus additional spending room, but it also has complicated macroeconomic management and led to an extreme dependency on oil—a highly volatile source of income. The share of mining in total GDP increased substantially, representing about a half of GDP in 2005. Oil also accounts for about 90 percent of total exports and approximately four-fifths of total government revenues (Budina and Wijnbergen, 2008).

Since the oil discoveries in the early 1970s made Nigeria one of the world's top 10 oil exports, the Nigerian economy has followed the boom/burst cycles of the world oil market. It is unfortunate that rather than bringing the country to a position of wealth and prosperity (increase in socio-economic welfare of the citizens), the many years with oil money have not brought the

population an end to poverty nor have they enabled the economy to break out of what seems like perennial stagnation in the non-oil economy (a case of growth without development syndrome). The reason being corruption at all levels of the nation's socio-political economy.

Using oil producing nations of the African continent, of which Nigeria is one, as a case study, Devlin et al (2008) noted that given the significant size and transitory nature of Africa's oil windfall, it is critical for policy makers to harness these resources to sources of growth and poverty reduction. Unfortunately, these influx of oil revenues have brought in low per capita income for generality of the people and affluence and high living standards for the privileged few citizens of the nations concerned. These poor growth performance among these resource-rich countries is linked to rent seeking, corruption (Tornell and Lane, 1999) and weak institutional quality (Isham et al, 2003). For the African region in particular, existing studies indicate that oil exporters historically have benefited from terms-of-trade gains, but these gains generally have not been used to place countries on a sustainable growth path, rather cases of high inflation, large exchange rate appreciation, and the erosion of the competitiveness in non-oil sectors as well as conflicts and rent seeking behaviour. (Collier and Gunning, 1996, Collier and Hoffer 2002, and Sklar and Wintaker, 1991).

A critical analysis of the characteristics/features of the petroleum industry in Nigeria, in particular, will reveal what makes it so susceptible to corruption. Among these features, according to McPherson and MacSearraigh (2007) are;

Volume of Transaction

Oil is a very big business as dollar (Naira) volumes in the industry are huge but the very small fractions of transaction values in the petroleum sector can equate to very large sums of money, representing a very serious temptation to corruption. What is more, because they are such small fractions, they are very difficult to detect should they go missing, thus adding to temptation.

Rents

There is scarcely an industry that can touch oil for the magnitude of the rents it generates. Largely because of the oligopolistic character of the industry, prices are typically vastly in excess of costs. The average price of a barrel of crude oil on international markets during 2006 has been in the range of \$65-\$75, while costs per barrel range from \$4-\$5 in the Middle East, through \$12 in the Gulf of Mexico, to \$15 in the North Sea (International Energy Agency 2005, p.11). These numbers result in margins of \$50 to more than \$70 a barrel-an obvious corruption risk.

Concentration of Revenue Flows

Certainly at the production level, petroleum revenue flows to the government tend to be concentrated, coming from relatively few taxpayers, mostly foreign rather than domestic. In this sort of environment, the accountability to the populace of government agencies in receipt of the revenue flows is limited. Concerns of the general public, in particular challenges to account for the use of the revenues, can be ignored with impunity. Furthermore, given the likely scale of revenues, it is not difficult for government authorities to either buy off or intimidate those who would challenge their behavior.

Complexity

The oil industry is technically and structurally complex, and the legal, commercial, and fiscal arrangements governing revenue flows are typically even more complex. This makes it relatively easy for those who manipulate revenue flows for political or personal gain to conceal their activities.

Natural Monopolies

The sheer scale of the oil and gas industry and its supporting infrastructure often result in natural monopolies in areas such as pipeline transport, terminaling and port facilities. Monopoly control creates opportunities for corrupt abuse through discretionary control of access and through the setting of fees or traffic for use.

Strategic Significance

Oil is almost universally regarded as being of strategic significance. From the stand-point of producing-country governments, oil is one of the "commanding heights" of the economy, an argument that is used in support of wide-ranging government involvement in the sector. Government intervention ranges from ownership of the resource through policy formulation and legislation, control of access to infrastructure, and regulation of operations to the establishment of national oil companies. Each of these areas of government involvement may spawn innumerable opportunities for corruption.

Because of the demand and supply relationship between the consuming-country governments (mostly the developed nations) and the producing-country governments (mostly the oil producing-developing nations), the former in an attempt to maintain security of oil supply from the producers tend to support the corrupt practices in the producing nations. Even where and when they see corruption walking on four legs in these nations, they overlook that as long as they get their constant and continuous supply of what they want, using their economic, political and military leverage to influence the corrupt behaviour of the developing nations and their governments.

Spillover Effects

Corruption in a sector as rich and as powerful as petroleum can be expected to have major negative spill over effects on the governance not only of other sectors but also of the economy as a whole.

The import of the observations made above is that corruption in the petroleum industry in Nigeria is both exogenous and endogenous. Exogenous corruption is the type of corruption that manifests in the industry's external environment while endogenous is seen within the industry's own internal environment. The endogenous corrupt practices in the industry are caused by greed among the workers, management and stakeholders in the industry, the inordinate ambition to get rich quick, enjoy financial security, and improve ones welfare, with extremely low risk of sanctions. The exogenous corruption comes from the government officials in selecting contractors to build the sector infrastructure, through the process of selecting a less competent contractor because of the desire to make personal gain by the government official.

The forms of endogenous corruption in the industry, as Nwakanma (2003) observed include overpricing, inventory recycling, syndicated bidding, connivance, espionage, collusion and fraud. While overpricing is the deliberate increase in the price of a contract or procurement order, which

enables the awarding or procuring officer to make illicit gain on the transaction, inventory recycling is the arrangement by which goods supplied are taken out of the company's warehouse for re-supply. Syndicated bidding is a methods of bidding for contract or procurement order. It involves the competitors meeting and agreeing on who wins the bid. Those who concede to the arrangement are paid compensation for the lost opportunity.

Connivance, in itself, is a situation in which an engineer, for example, writes an interim or completion artificate for a job that failed to meet the employer's specifications, while espionage is the act of a manager or employee spying or leaking sensitive information to its employers rival for the sake of private gain. Collusion involves the collaboration of two or more managers or employees to defraud or steal from the employer. Fraud, itself, includes falsification of figures while tampering is a device used by corporate officials connected with the tendering process to gain unauthorized access to submitted bids in order to leak out information to the favoured competitor that would enable the person to win it.

Arising from all these categorizations is that corruption in the petroleum sector in Nigeria can be characterized in four ways, thus:

(i) Policy Corruption

This involves corrupt influence on the design of sector policies, as well as the enactment of sector laws and taxes in a manner intended to provide political or personal gains at the public expense. Examples are the foreign policies, tax breaks, price controls, awards of exclusive rights (such as oil blocks to companies and individuals), special account procedures, and the myriad of special industry or regional incentives in the petroleum industry such as the oil subsidy to petroleum marketers in Nigeria.

Legal corruption of policy decisions may result from carefully cultivated close relationships between policy makers or legislators and special interest groups.

(ii) Administrative Corruption

This is the abuse of administrative office to extract illegal benefits in exchange for approval covering a wide range of commercial and operational activities, for "looking the other way" in the face of corrupt behavior, or for a favourable interpretation of fiscal regulations. It may also involve direct action by administrative agencies in their own interest, when, for example, such agencies become involved in trading government oil or in regulating access to infrastructure. The more heavily regulated the system, the higher the degree of government control, and the greater the scope for administrative corruption.

(iii) Commercial Corruption

Under this heading are the broad areas of procurement abuse, including tender rigging, kickbacks, and cost inflation.

(iv) Grand Corruption

Direct theft of massive amounts of money through diversion of production; products, or revenues are cases of grand corruption.

In any of these typologies, many institutions and individuals are involved. Among them in the oil sector corruption in Nigeria are the oil producing-country governments (the executive, legislative and judiciary), the oil companies themselves, the banks and the big men (that is, the powerful individual influence peddlers or arrangers) that act as conduct pipes or media/channels of corruption in the sector.

The petroleum business stages, corrupt practices and recommendations

The petroleum business is complex as it is divided into two parts: upstream and down stream. While the upstream involves oil and gas exploration through seismic surveys and the activities involved, development, production and crude oil transportation to the refineries or other terminals for exports, the down stream sector is made up of oil trading, transportation, refining and marketing. In all these cases- exploration, development, production, trading, transport, refining and marketing, and corporate accounting, taxes, and finance, etc, corrupt practices are here and there.

On how to combat the virus and the efforts made by the Nigerian governments to prevent and or control the high degree of corruption in the sector, the administration of former President of Nigeria- Olusegun Obasanjo - sent an Anti-Corruption Bill to the National Assembly which resulted into the Anti-Corruption Law. Some of the highlights of the Act are: Any person who asks for, receives or obtains any benefit before doing his or her duty is liable to imprisonment for seven years, fraudulent acquisition of property shall on conviction be liable to seven years imprisonment, and any person who corruptly gives or procures any property or benefit of a public officer for any other person shall be liable on conviction to seven years imprisonment.

In addition to the setting up of the Economic and Financial Crimes Commission, (EFCC), are the Independent Corrupt Practices Commission, Act 2000 (ICPC) along side the existing Criminal Codes in Nigeria, etc. Both the late President Umaru Yar'adua and the present President Goodluck Jonathan were and are against corruption in the country in all aspects of the nation's activities, the oil sector involved, hence, the slogan: "Zero Tolerance for Corruption".

The extent corruption has been prevented, controlled or eradicated in the petroleum sector in Nigeria remains an unfinished motion up to date. The cases of petroleum products subsidy removal policy of the federal government and the saints and sinners exposed in the deal by the Senate Committee probing the petroleum subsidy regime – the oil marketers, management of the Nigerian National Petroleum Corporation (NNPC), the legislators, etc, show the high degree of corruption in the sector. This agrees with the foresight of Olewuezi (2004) when he posited the following questions:

- (1) How do you assess a crusade against corruption in a country where those chosen by the people to represent them have turned out to be vampires sucking the blood of the nation?
- (2) With what do you compare the tragedy of a nation where those entrusted with the responsibility of making laws to back up the much vaunted poverty imposed on the people by many years of corrupt military dictatorship are busy haggling over how many millions of Naira each of them take home a day?
- (3) Who is expected to take crusade against corruption serious in a country where Senators and Legislators abandoned their sacred duty of making laws that would bring hope and succor to a people so badly battered by years of military madness and turned into an assemblage of greedy and fraudulent contractors, etc.

On how to eradicate corruption in the sector, the following steps should be taken by all and sundry in the business of petroleum in Nigeria.

- 1) The Anti-Corruption Law (ICPC and EFCC, etc) should be implemented without fear or favour. The President should start implementing the laws from his cabinet and any of his ministers, advisers and aids found guilty should be made to face the law. The law should not be selective but holistically. Again, the corrupt national legislators and governors who are found corrupt should not be left out in this crusade against corruption.

- 2) Because subsidization of prices of petroleum products in Nigeria meant large profits to the oil marketers who shipped the products across the Nigerian borders to outside the country, hence a major source of corruption in the petroleum sector, efforts should be made to totally remove the subsidy on the products and the Nigerian borders properly checked and manned/controlled by a joint task force (JTF) of corrupt-free staff of immigration, airforce, police, soldiers/army, customs and a special squad set up for it. Any of the men of this force found conniving or adding or encouraging corrupt practices in the business should be automatically dismissed and prosecuted.
- 3) Dealing with the malaise of corruption in the sector may appear complex and intractable when the management lacks transparency and accountability in managing the affairs of all oil business activities in Nigeria (from seismic survey, development, production, transportation, refining, marketing, etc). It is therefore suggested here that all culprits in any form in the sector should be immediately suspended/or dismissed, prosecuted and if found guilty imprisoned. This will serve as deterrent to others and the issue of "Plea Bargain" should not be allowed or permitted in any form.
- 4) Fighting corruption in the petroleum sector requires resources – the right skills and adequate funding. The resources needed range from moderate for informational campaigns, though serious for technical assistance to and capacity building in government agencies and civil society, to significant, where complicated investigations and surveillance are called for. Rhetoric without these resources will not go far (McPherson and MacSearraigh, 2007).
- 5) The cooperation of international pressure organizations such as the United Nations Development Programme (UNDP), the World Bank, the International Monetary Fund, the African Development Bank, and the like, is highly needed if corruption should be reduced in Nigeria. The provision of moral suasion and technical assistance to induce or help Nigeria in her fight against corruption by these bodies is a welcome development. Though international conferences, workshops and seminars on the subject matter – corruption, and cutting loans or other assistance to Nigeria if found guilty of continuous support to corruption in the petroleum and other sectors of the economy will make the government and her people to sit up and fight the social vice to its conclusive end.
- 6) The international communities can equally help more by discouraging direct foreign investment into their countries that are tied to revenue coming from the oil sector through corrupt practices. By this method, the vendors will stop and their ill-gotten wealth confiscated and returned to the national treasury. This means that governments of developed countries should make a special effort to avoid sending mixed signals to countries like Nigeria smuggling with petroleum sector corruption.
- 7) The Nigerian government should as much as possible implement to the fullest the global Extractive Industries Transparency Initiative (EITI) launched in 2003 by the former Prime Ministers of United Kingdom, Tony Blair. This is because the initiative is designed to address the paradox of plenty in resource-rich countries by requiring transparency of payments made by companies and of revenues received by governments, thereby limiting opportunities for corruption and promoting accountability. Technical assistance in support of implementation is provide by an EITI Multi-Door Trust Fund managed by the World Bank through bilateral aid programmes, and, in some cases, by implementing countries themselves.

- 8) As much as possible, the Fiscal Responsibility Act (FRA) to serve as petroleum management law and Fund or Future Generations (FFG) to take care of revenue accumulation fund and other policies towards use of oil windfall revenues practised by such countries like Angola, Chad, Gabon, Equatorial Guinea and Mauritania for their countries sustainable development should be adopted in Nigeria rather than the usual monthly sharing of the so-called excess crude fund by the federal, state and local governments, a major source of corruption in the oil sector.

In summary, Table A shows a breakdown of the petroleum value chain, their vulnerability to corruption, warning signals and recommended responses to be put into use by Nigeria if corruption should be eradicated in the petroleum sector in Nigeria.

Table A: Petroleum Sector Corruption: Summary Table

Petroleum Value Chain	Corruption Vulnerability	Warning Signals	Recommended Response
Exploration	<ul style="list-style-type: none"> * Policy formulation * Laws, contracts, Fiscal terms * Licensing, contract Awards * Permits, approvals 	<ul style="list-style-type: none"> * Lack of policy clarity * Opaque, incomplete legal, fiscal framework * Direct, nontransparent negotiation of licenses * "Unbalanced", "odd" awards * Delays on permits, approvals 	<ul style="list-style-type: none"> * Clear, publicly announced policies * Best practice legal, fiscal framework * Transparent, simplified bids for license awards, published results * Transparent public reports on permitting approvals
Development And Production	<ul style="list-style-type: none"> * Permits, approvals * Procurement * Theft of production or revenues 	<ul style="list-style-type: none"> * Permitting delays * Limited International competitive bidding, nontransparent bids * "Odd" or repeat procurement awards * Rumours of abuse * Aggressive local content rhetoric * Volume discrepancies * Absence of metering 	<ul style="list-style-type: none"> * Transparent public reports on permitting. * Transparent, competitive procurement * Publication of results * Credible channels for complaint or challenges * Regular volume audits and reconciliation
Trading and Transport	<ul style="list-style-type: none"> * Underreporting of value or volume * Illegal rent extraction for infrastructure access 	<ul style="list-style-type: none"> * Prices below reference benchmarks * Volume discrepancies * Opaque or lack of reporting on sales * Unusual reliance on middleman * Rumours of abuse * Queues for access to infrastructure 	<ul style="list-style-type: none"> * Full transparent reporting of trades sales * Transparent bidding for selection of middle man * Regular audit of sales * Volume audits, reconciliations * Transparent public rules and tariff for infrastructure access * Appeal, complaint procedures
Refining and Marketing	<ul style="list-style-type: none"> * Downstream policy formulation, such as price controls 	<ul style="list-style-type: none"> * Price controls * Nontransparent product procurement 	<ul style="list-style-type: none"> * Policy clarity * Price liberalization (transparent allocation of

	* Black marketers, Smuggling * Product adulteration	* Queues for products, product shortages * Volume discrepancies	proceeds * Competitive transparent tendering
Corporate Accounting and Finance	* Inaccurate reporting * Tax evasion * Diversion of funds * Money laundering	* Limited transparency, secrecy * Tax immunity or unusually low tax burdens * Inadequate audit	* Fully, transparent publicized audits * Qualified, independent tax and cost audits

Source: McPherson, C. and MacSearraigh, S. (2007) *Corruption in the Petroleum Sectors*, p. 191.

Conclusion

The petroleum sector is still the major source of revenue for the Nigerian government and her citizens. It is unfortunate that cases of corruption are here and there in the sector, beginning from oil and gas exploration to refining and marketing of the petroleum products. Because the country so much depends on the oil sector for her sustainable development and national economic growth, the high rate of corruption in the sector effects all other sectors of the nation's socio-political economy. Efforts have been made by the federal governments, management of the sector and other international bodies to eradicate corruption in the sectors, but it seems that the outputs of such efforts are far more than desired. In the fight against corruption in the sector, the ability of the stakeholders to detect acts of corruption and present those guilty of committing them is essential to deter corruption. This is where the combined efforts of legal framework through the corrupt-free agencies like the EFCC and ICPC, and the administrative framework of the Freedom of information Bill for the press to report cases of corruption undistributed, the legislature, executives and the judiciary are high welcome. The challenge of petroleum sector corruption is immense, but the payoffs to success ought to be equally impressive and is surely worth the effort. Better understanding of the phenomenon, new initiative, and a changing context less tolerant of corruption are all encouraging sign that the effort is well under way.

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