Advancing anti-corruption in extractive industries through a political economy lens

Purpose of this note

This document provides background to participants joining the Executive Sessions Roundtable on political economy and anti-corruption organized by SOAS University of London and the Columbia Center on Sustainable Investment (CCSI) in London, on January 28, 2020. The objective is to ensure participants have a shared starting point in order to set expectations and more effectively achieve the objectives of the day.

About the executive sessions roundtable

The roundtable will bring together select participants to discuss and brainstorm how to better integrate politically informed, feasible anti-corruption strategies into how we as anti-corruption practitioners and advocates, design interventions, with a spotlight on extractive industries (EI). During this meeting, participants will discuss and unpack particularly promising routes of understanding and grappling with corruption, focusing on political economy (PE) approaches that could help stakeholders become more effective in doing their work.

We hope to end the day with more PE-informed approaches to anti-corruption in EI because we believe that not doing so limits the effectiveness of existing approaches, especially those relying largely on transparency. SOAS-ACE’s work in the Niger Delta provides an attempt to apply a thinking and working politically lens to anti-corruption in EI via the framework of political settlements. The research focus is to understand the incentives that motivate people to engage in the informal and often illicit activity of artisanal refining, despite significant negative externalities that affect the population engaged in it, as opposed to engaging in the formal economy. Using this as a starting point we hope to build on perspectives around the room and create a discussion space that keeps questions around power, politics, interests, and incentives front-and-center in order to identify mechanisms to better navigate the political realities of anti-corruption work to achieve developmental outcomes.

Objectives

- To explore how different approaches to applied political economy analysis can help practitioners make progress toward more effectively tackling corruption in resource rich countries;
- To explore the role power, incentives, and interests play in determining trajectories of corruption and the fate of efforts to combat these, in order to explore how actors can exert agency; and
- To brainstorm ideas about how to change, amend, or complement existing anti-corruption approaches with these considerations in mind.
1. The framework

SOAS-ACE is part of a growing number of approaches in the anti-corruption space that are beginning to complement existing approaches focusing on transparency and the use of data with better insights about, and awareness of, the prevailing power dynamics and incentives in a given context. Localizing interventions by grounding them in the specificities of a given context is one way of improving impact. Equally, enriching technical and normative transparency approaches with TWP approaches might help steer these approaches in more productive directions, enabling actors to design strategies with greater impact, improving outcomes in EI.

The political settlements framework says that institutions, may be fully or partially implemented, or implemented in ways that distort the original policy, because different groups will use their power to influence how institutions work in practice. Powerful groups often distort rules quite openly using not-so-subtle methods like corruption, patronage and even intimidation or threats. Sometimes these distortions happen in secret, and the source of the power is their exclusive access to information. In these cases, better information for others can make a substantial difference to outcomes, and this is where reforms involving better information and greater transparency can help.

But sometimes violations happen with impunity and power is based on organizational power (which could be based on control over resources, patronage-based or military organizations and so on), where information alone does not make a huge difference to outcomes. The actual outcome of institutions and policies will depend on the interests and relative bargaining power of the different groups who try to influence the operation of institutions and policies in their own interest. In developing countries (and resource rich developing countries are no exception) the de facto rules that operate in society are often very different from formal rules. The achievement of desired policy objectives depends on how changes in incentives and resource flows induce changes in the actual individual and organizational behaviour in society. The SOAS-ACE approach uses the political settlements and related political economy frameworks to analyse these incentive structures to identify feasible points of intervention.

2. The problem(s) with current anti-corruption approaches

Existing approaches to anti-corruption have tended to be of limited impact. In part this is because they inadequately engage with the political realities of corruption and typically assume that corrupt acts are occasional deviations in a society that otherwise has a rule of law. In reality, developing countries have large elements of informality (where the actual rules deviate from formal rules) and though formal rules are enforced, they are not equally enforced on the powerful. Rule violations by the powerful can happen despite evidence that they are violating because of their power to resist consequences and enforcement, power which may be further buttressed by their gains from these activities. At the same time, some potentially productive players who do not benefit from major rule violations, and may even suffer from them, may nevertheless not support rule enforcement because they are engaged in smaller violations of their own. These violations may be quite different and may reflect the difficulty of operating in these contexts while trying to follow all rules.

Designing policies to change behaviour without first addressing the perverse incentives of many players whose support we need is one reason why attempts to regulate and enforce so often fail in developing countries, including Nigeria. Thus, there are overlapping and structural drivers of rule-violating behaviour and corruption that are not addressed by an anti-corruption strategy that focuses on changing individual costs and benefits of rule violations by using information on violations to punish violators. At SOAS-ACE our aim is to identify opportunities within sectors where feasible policies can persuade a sufficiently powerful coalition of players to behave differently, in effect shifting incentives, to support the enforcement of rules that allow them to pursue profits legally.
3. Sectoral anti-corruption strategies that target specific problems

The SOAS-ACE strategy provides an analytically tractable way of identifying corruption problems from the bottom up. We begin with important sectoral problems and then map the often overlapping rents and rent seeking that cause adverse outcomes, and we assess the relative power of the significant organizations to identify an anti-corruption strategy that can be implementable in that context. While policies will obviously differ according to contexts, the method is one that can be applied across different country contexts. We have identified four broadly defined clusters of strategies that use this method to identify effective anti-corruption, which we describe as 1) Aligning incentives, 2) Designing for differences, 3) Building coalitions, and 4) Resolving rights. In each case, the anti-corruption strategy seeks to achieve the feasibility and impact goals in the way described.

As an example of an application to the EI sector, our study of micro level effects of oil sector corruption (mainly through ‘artisanal refining’) in the Niger Delta suggests that a feasible and effective anti-corruption response here is to work on mitigating the externalities that hurt the more vulnerable sections of society—children, youth and women. Addressing the causes of this corruption will need longer-term systemic reform that looks difficult in the medium to short term. We use the ACE framework and strategy clusters (especially the two listed below) to see if some of the most damaging spillovers can be addressed in the meantime, which may also create the local social base for addressing the deeper causes. The idea is to break up the value chain in the oil sector and identify discrete sections where an anti-corruption strategy can be feasibly implemented with some level of impact. 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 and improve poor people’s lives. We feel two of our strategies are relevant for designing feasible anti-corruption strategies in the extractive sector.
Aligning incentives

In some corruption cases, where potentially non-corrupt businesses are engaging in corruption, support for the enforcement of rules can be created with policies that change the value of rule-compliant choices relative to corrupt choices. If policy changes ensure that productive behaviour achieves satisfactory returns for important actors, this can create support for the enforcement of rules in a self-sustaining manner. In the Nigerian case, bunkering involves large politically connected criminal syndicates and smaller players who work in the ‘last mile’ delivering to middlemen and illicit artisanal refineries. The criminal syndicates are too powerful to be policed and there will be little in practical policy terms that can change their incentives away from predation. The latter however can be the target for future policy with an understanding of their competing incentive structures (illicit and formal). This will involve mapping not just employees in the artisanal refining units but those involved in the ecosystem—transportation, marketing and distribution, support services like catering—because all of these groups of people are deeply embedded in the local political economy and a piecemeal approach will not work.

For instance, the role of women is understudied in the illicit economy of the Niger Delta, especially in bunkering and artisanal refining. They play an important role as intelligence gatherers for illegal bunkerers and in the marketing and distribution of products from these refineries and so stand to lose significantly if the sector disappears. Any steps towards disarmament, demobilization, reintegration (DDR) or stamping out artisanal refining have to provide alternatives. This type of issue needs disaggregated analysis rather than an umbrella policy like amnesty for militants that leaves out the other critical drivers of the ecosystem.

Designing for differences

Artisanal refinery operators and workers in the Delta both have full information on the effects of refining in terms of the impact on their own health and other pollution-related effects, and yet take part in this activity. Clearly, the alternative is not attractive even with better health outcomes for themselves. To explain this, we have a hypothesis of ‘networked corruption’ where every member of the community is free riding on a public good (oil, technically the nation’s property). Changing incentives in this context that can persuade the artisanal workers and the local ecosystem to break out of this network may be difficult as the payoffs in the alternative are too low. As things stand, the highest payoff for most people comes from supporting the community in the corruption and collusion.

In these cases, the most effective way of creating support for anti-corruption is to distinguish between different types of organizations operating in a sector and their respective preferences. For example, categorizing them according to differing incentives and objectives (e.g. large vs. small firms, high-capability vs. low-capability skills training organizations). This is more than just restructuring incentives as we identify the different interests of the different players in a sector and design policy combinations that exploit and enhance differences in interests to create support for anti-corruption. One finding that came up consistently among a majority of our respondents in both Nembe in Bayelsa and Bolo in Rivers was their ability of many of them to ‘invest’ in upgraded technologies. One possible way to incentivize formalization would be to design support or subsidies that helped more capable firms to improve their technology, rather than a fruitless attempt at abolishing the sector.

The other strategy clusters for ‘building coalitions’ and ‘resolving for rights’ are already being deployed in the sector through community-based movements.
4. Mitigation when enforcement doesn’t work

Our research also suggests there are many areas where corruption is massive and has significant welfare costs and is likely to persist in the medium term. This is because it is difficult to find the ‘sweet spot’ (between holding power and incentives) in some critical areas of extractives policy that have health and environment externalities. In such contexts the PE mapping suggests corruption may be intractable even though the consequences for society are negative and rising. The SOAS-ACE approach described earlier is also particularly useful in identifying such areas of intractable corruption where neither standard anti-corruption strategies nor the self-sustaining strategies that SOAS-ACE looks for are likely to work. In such cases, especially in the extractives sector the corruption in question can have significant adverse effects on poor people and neglecting these problems is not an option. Instead, we need to look for ‘mitigation strategies’ that can reduce the costs of these effects (spillage) like health and environmental externalities, particularly on the poorest, even though there might not be a feasible way to address this corruption immediately. Here we target the outcome of corruption while with the strategy clusters we are seeking feasible entry points for targeting corruption.

The SOAS-ACE approach recognizes that powerful organizations in a sector may be violating rules for different reasons. Understanding these differences allows the design of policies to enable more or most of these organizations to behave productively in their own interest and support rule enforcement. Policy here might need to be ‘orthogonal’, using interventions that may not be recognized as anti-corruption. For instance, we are considering if a housing policy for the Niger Delta region may reduce the reliance of the poor on bunkering. Anecdotal evidence suggests the construction boom (in residential houses) in the region has been financed by bunkering and artisanal refining. Ownership of a house is seen as insurance against insecurity. Access to decent housing could shift incentives at least for a significant few at the margins of this illicit economy.

5. Other politically savvy approaches to corruption

Thinking and working politically in principle

The discussions in this meeting will focus on generating and developing ideas for more systematically integrating political economy analysis into anti-corruption strategies in EI in order to improve our impact going forward. We do have resources and lessons on which to draw, many of which come from years of work by the Thinking and Working Politically (TWP) community of practice. At a general level, employing a TWP lens entails thinking about, and working with, greater awareness of the political dynamics that shape a particular problem in a specific context. TWP is based on the understanding that outcomes are necessarily (and legitimately) shaped by power, interests, relationships between key actors, incentives, and the norms that frame actors’ behaviors, rather than just laws or the formal processes and institutions which, to some degree, most definitely continue to shape the space in which action is taken.

Although there is no single agreed-upon definition or framework, the TWP community of practice has identified some common core principles for thinking and working politically in practice. The following table provides an overview of these principles and their characteristics:
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Table 1: Six principles of TWP approaches

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<th>Principle</th>
<th>Characteristics</th>
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<td>Politically smart</td>
<td>Context-specific analysis of the political economy, power, interests, and incentives at the core of design and implementation</td>
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<td>Technical approaches are informed by political awareness, and are responsive to political opportunities</td>
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<td>Locally led</td>
<td>Employment of best-fit (not best-practice) strategies driven by the demands and opportunities of a given context</td>
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<td>Adaptive and flexible</td>
<td>Flexible, responsive, and adaptive programming based on real-time learning instead of following blueprint thinking/planning</td>
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<td></td>
<td>Flexible Monitoring, Evaluation and Learning (MEL) frameworks for tracking non-linear progress</td>
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<td>Problem-driven and iterative</td>
<td>Identify and engage around specific real-world problems of a specific context through tailored responses</td>
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<td>Regularly (re)evaluate strategies &amp; tactics in response to changes in context;</td>
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<td>Brokering relationships</td>
<td>Build trust between stakeholders to identify shared problems and collaborate and co-create potential solutions</td>
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<td>Long-term commitment</td>
<td>Allocate sufficient resources to cover the level of effort required to build relationships, and to understand and engage with the ecosystem, acquiring local knowledge and testing strategies.</td>
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We will hear directly from senior academics, policy leads and leading practitioners on the extractive industry and the challenges they face in their work and the role of new evidence and different approaches that might help to overcome these.

Acknowledgements

The above note integrates and builds on the work done by GI-ACE at Global Integrity and CCSI in preparation for an earlier meeting in this series that took place in Washington, DC held on December 5, 2019. We are thankful for their valuable insight.

References


