

Anti-Corruption in Nigeria: A political settlements analysis

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July 2017

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Executive summary

Nigeria has some of the worst scores on corruption and governance despite the size of its economy. This performance is directly related to the fact that it is one of the world's most oil and gas rich economies. While Nigeria's per capita income is high for its level of development, its natural resource wealth has meant an undiversified economy. Pervasive rent capture marks its highly opaque oil economy, and these rents lead to distributive conflicts that frequently turn violent. Economic growth in recent times has been hampered by a steep fall in oil prices. Attempts at reforming the oil sector have been largely unsuccessful, owing to stiff resistance from incumbent regimes who have entrenched interests in the parallel oil economy, involving the highest levels of national leadership, international oil companies and even warlords in the country's conflict ridden oil rich south east. Other sectors of the economy have also not grown owing to the dependence on oil. This deeply structural nature of the problem is the chief constraint to productivity growth. On the other hand redistribution of oil rents allows some 'live and let live' arrangements between different political coalitions and at least in part sustains political stability in the country.

From the military regimes of the 1970s, to the political parties after the democratic transition in 1999, different political arrangements have been sustained on these rents. The political settlement in the country is now evolving into a *competitive clientelist* one, with the once dominant party facing competition from a unified opposition that has coalesced into a now-incumbent political party. Greater political mobilisation, and devolution of some fiscal power to the states, has given rise to political 'entrepreneurs' who owe little allegiance to one party and are likely to cross over to opposing parties, depending on the relative power of each party. The need of parties to provide more informal transfers, and include greater numbers, to stay in power is likely to increase factionalism and rent capture. Political corruption is deeply entrenched and some sections of the state have also seen predatory capture, especially in the oil sector.

This makes systemic anti-corruption reforms especially difficult in the country. The country is a signatory to some major transparency agreements for the extractives sector and to curb illicit financial flows. These have not been successful due to the structural processes of informal power relationships described above. The political corruption in these contexts is often a manifestation of this informality in the allocation of rents. It is in this context that incremental anti-corruption reforms that focus on improving developmental outcomes at the sectoral level have to be undertaken. The paper develops an analysis of economic drivers and political settlements to identify a range of sectoral issues where an incremental and sector-specific anti-corruption approach can lead to feasible and effective anti-corruption strategies in line with the Anti-Corruption Evidence programme (ACE) approach.

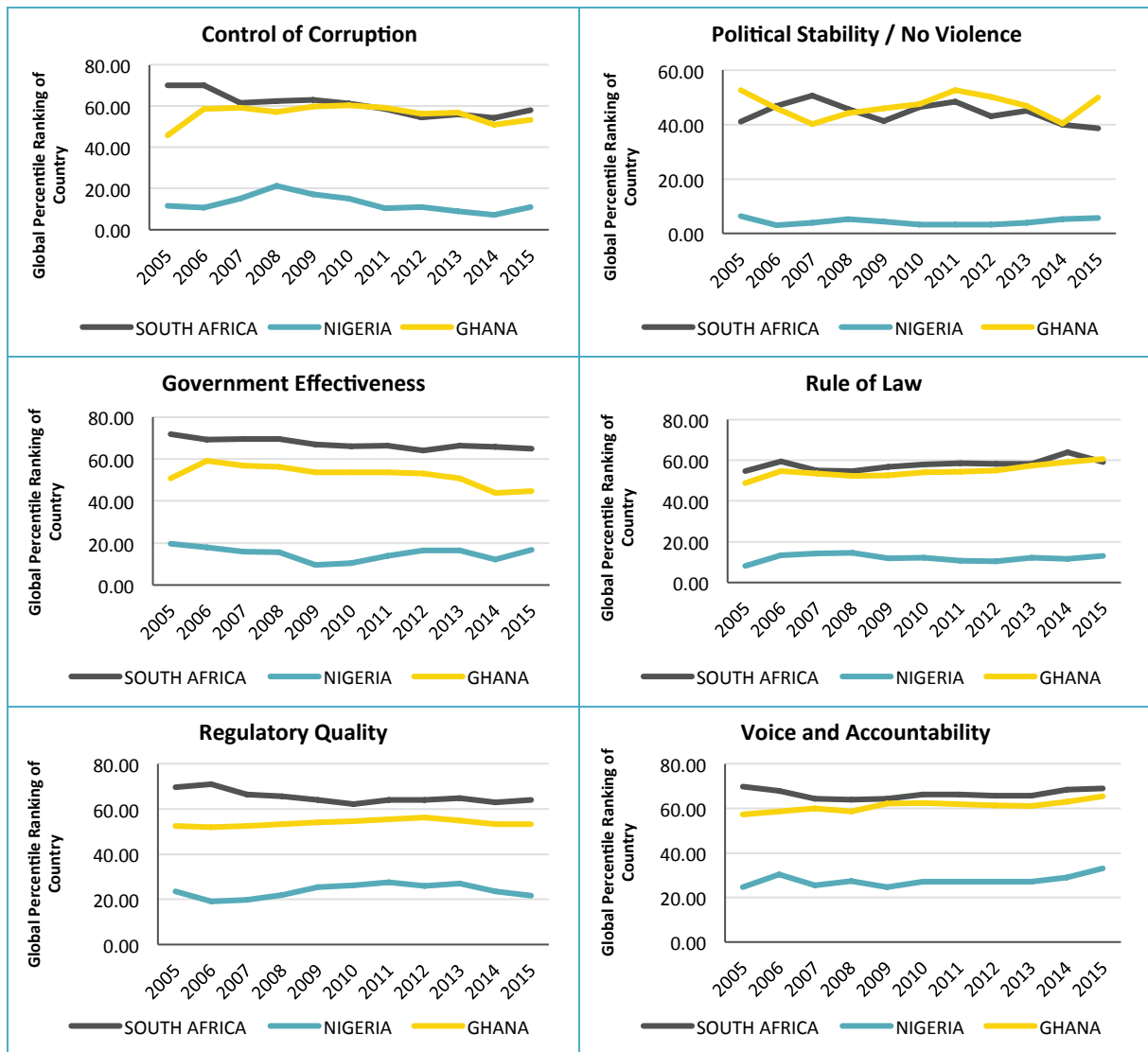
Valuable research assistance by Olayinka Babalola is gratefully acknowledged.

1. Introduction

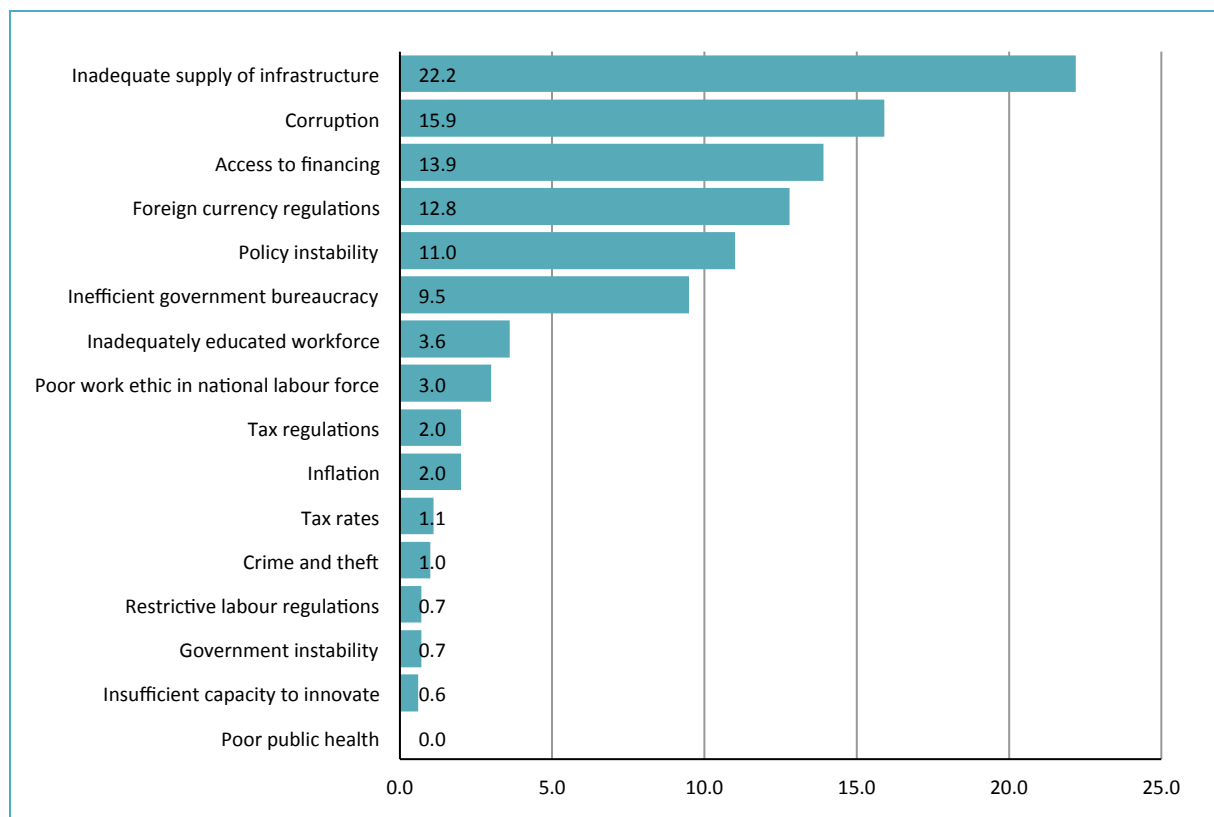
A rebasing exercise in 2013 almost doubled the size of the Nigerian economy, from NGN 42.4 trillion to NGN 80.2 trillion (USD 510 billion), by changing the base year for calculating GDP from 1990 to 2010. The first time a rebasing was done in 24 years, the move made it Africa's largest economy and increased the contribution of services and manufacturing to the economy while the weight of the oil and gas industry decreased. However oil remains the major contributor to government revenues, and the majority of its population of 175 million still live on less than USD 1.75 a day. Insurgencies, both low level and critical, have been buffeting the country at a time that oil prices have been at their lowest. The uptick in growth numbers brought by about the rebasing hasn't been reflected in Nigeria's ranking in the World Governance Indicators. As Figure 1 shows, the country is the lowest ranked based on all the governance indicators of *political stability/no violence*, *government effectiveness*, *rule of law*, *regulatory quality*, *voice and accountability* and *control of corruption*, when compared to Ghana, its neighbour in west Africa, and South Africa a reasonable comparator country. There has been a small rise in *government effectiveness*, perhaps owing to the election of Muhammadu Buhari as president. His government was elected with a strong majority on an anti-corruption mandate in 2015, and there were some early efforts at trying to rein in corruption, which is often perceived to be endemic in the country.

Corruption is closely associated with the oil and gas sector in the country, yet it remains a pervasive constraint for doing business across sectors, as is seen from Figure 2. Corruption was ranked as the second most problematic factor for doing business by executives in Nigeria in the Executive Opinion Survey by the World Economic Forum. This was second only to 'inadequate supply of infrastructure' and closely followed by 'access to financing', all of which are factors closely related to inefficiencies due to corruption and rent capture.

Figure 1: Nigeria Governance Rankings 2005-2015



Source: World Governance Indicators 2016

Figure 2: Most Problematic Factors for Doing Business in Nigeria 2016

Source: Executive Opinion Survey (World Economic Forum 2016: 110). The numbers are weighted scores of each factor.

The All Progressives Congress (APC) government, headed by Buhari, remains committed to anti-corruption efforts but, as this paper will show, these are hampered by the nature of the Nigerian political settlement, where resources are captured by powerful members of the establishment who cannot be disciplined. Equally important is the fact that one function of this rent capture is to create political stability in a country that is riven with violent factional conflicts. This analysis of corruption in the Nigerian political settlement in no manner condones it. The political corruption we identify here describes rent creation and distribution through informal patron-client networks, with the help of which powerful patrons maintain power and stability (Khan 2005, 2010; North et al 2013). In the absence of a strong formal economy and broad-based redistribution through budgetary allocations, rent capture and its distribution through informal means achieves a measure of political stabilisation without which existential threats to the country would be even greater. Though some of the ideologies used in Nigeria to mobilise constituencies are more instrumental than substantive, the conflicts they foster are intense.

As we shall see later in the paper, while ideological fault lines exist in Nigeria, opposing sides have often managed to find solutions, albeit fragile ones. Therefore devising an anti-corruption strategy in such a context needs a nuanced analysis in order to create policy that is targeted at the right sectors where intervention is both impactful and feasible, in line with the ACE framework (Khan et al 2017). To be sure, political corruption can often collapse into damaging predatory corruption and this is certainly true in some instances in Nigeria and this is analysed later in the paper. Some forms of rents are useful and indeed necessary for

late developers (Khan 2010; Stiglitz 1989; North et al 2012). However the distribution of power or the political settlement in many developing countries makes the enforcement or disciplining of such rents difficult. They could then get captured for unproductive reasons, as we shall see later in the paper in section 3, for instance through 'policy distorting corruption' (Khan 2005, 2009; Khan et al 2017). This makes an analysis of Nigeria's political settlement even more vital in understanding the drivers of corruption.

Nigeria gained independence from the United Kingdom (UK) in 1960 and had a civilian government until two significant military coups took place in 1966, culminating in the Biafran war of independence. Their effects continue to have significance in Nigerian politics, but the substantive role this plays has been reducing over the years. However the narratives behind the coups are still used for purposes of mobilising political constituencies. The regional dimension of the devastating Biafran war has continued significance, as the outbreaks of violence over the distribution of oil resources in the Delta area frequently invoke the sense of injustice that led to the war. It does need to be noted, however, that despite a common perception that Nigeria's first civilian government mainly reflected its regional and ethnic differences of the Hausa Fulani in the north, Yoruba in the south west and the Igbo in the south east, even in this phase there were attempts at coalition-building across the three regions, though the coups in 1966 upset any possibilities to cement those.

Military governments continued in power till 1979, through a series of violent and sometimes bloodless coups. Power was handed back to a civilian government in 1979 by General Olusegun Obasanjo (who later became a civilian president in 1999 and is now an elder statesman in Nigerian politics). A coup once again overturned the democratic government in 1983 and military rule lasted till 1999. There were attempts to renew democracy in this period but the efforts were not sustained. The last period of military rule was under the controversial general Sani Abacha, whose regime was known for both violent repression and state capture, especially of oil resources. His assassination led to the restitution of democracy in 1999, overseen this time by another military general. The People's Democratic Party (PDP) was established as the main political party after it won local council elections in 1998. The Nigerian political settlement has changed significantly since the years of military rule, as has the nature of rent seeking. The consequences of growth for this have also been significant and are discussed in section 3.

The ACE programme framework of political settlement analysis suggests that tackling damaging rent seeking and corruption is a long-term challenge, and the best way for this to occur is to foster a broad based productive economy. However, despite the stability-inducing functions of some forms of rent seeking, informal rent generation and allocation will always remain constraints on economic transition. Stability could be at the cost of providing rents to powerful constituencies, who might otherwise threaten the ruling coalition, and this could block meaningful developmental outcomes (Khan 2011). The policy framing process is therefore always at a knife edge in developing countries, where reform has to address political corruption, but do so in a way that eases developmental bottlenecks without threatening stability. Powerful actors in Nigeria will resist reform that is against their interests, and in the context of some sectors in the economy circumstances are so adverse

that reform should focus on the long term, while other opportunities for relatively less difficult policy implementation should be pursued.

As the economy grows, more productive and more firms that can benefit from formal rules emerge, and pressure from them for more ambitious reform is likely to drive the anti-corruption agenda in positive directions. The Buhari administration has already taken the right steps by publishing financial results of the state-owned Nigerian National Petroleum Corporation for the first time in ten years, and despite some opposition to its manner of implementation, setting up the Treasury Single Account, meant to consolidate inflows from all government agencies into one account in order to track leakages and increase transparency. However, sustainably formalising these reforms will take time. The economy still remains heavily dependent on oil and the collapse of oil prices has affected Nigeria adversely. According to Nigeria's National Bureau of Statistics oil accounts for 69 percent of exports and close to 70 percent of federal government revenue (Voice of America, 2016). In the second quarter of 2016 foreign direct inflows fell by 37 percent year-on-year, and capital inflows by 75.7 percent (Financial Times, 2016). However this could prove to be an opportunity for the country to rebalance its economy and move toward more productive sectors in manufacturing and services. We envisage the sectoral approach of the ACE programme to be a significant contributor in this respect.

The elections of 2015 marked a shift in the political settlement of Nigeria, as an incumbent government was voted out for the first time since independence. The incumbent People's Democratic Party (PDP), which had been in power since the transition to democracy in 1999, was voted out by the All Progressives Congress (APC) formed by four regional parties. While this might go some way to institutionalising a competitive democracy in Nigeria, it also means the balance of internal power within the APC is likely to be a key variable determining its sustainability. It is too early to say, but Nigeria appears to be consolidating the informal institutional mechanisms of changing ruling coalitions through elections. Put another way, some of the informal mechanisms through which the last few elections were fought are now being formalised. However, there are signs that the APC might be heading for an internecine conflict as Buhari has stepped away temporarily from the leadership role, citing ill health, while the Vice President Oluyemi Osinbajo has stepped in as Acting President. This has once again brought to the fore the spectre of North-South conflict in Nigerian politics, with many disaffected leaders reading this as a possible schism in the top APC leadership and seeking to further their own interests. This sort of fighting to signal the start of coalition building will get more frenetic as elections approach. Given that elections are only two years away, these developments have the potential to derail a relatively peaceful transition to the next democratically elected regime, as well as affect developmental outcomes in an already fragile economy.

The rest of the paper is structured as follows, with section 1 providing a brief overview of Nigeria's growth in both the oil and non-oil sectors and the various policies followed by successive Nigerian governments to stimulate growth. Section 2 provides an analysis of the political settlement in Nigeria and the resultant rent seeking that often leads to corruption and poor governance. We will be analysing the period since the return of democracy to Nigeria in 1999, as that is a turning point signifying a major break in how the politics of the

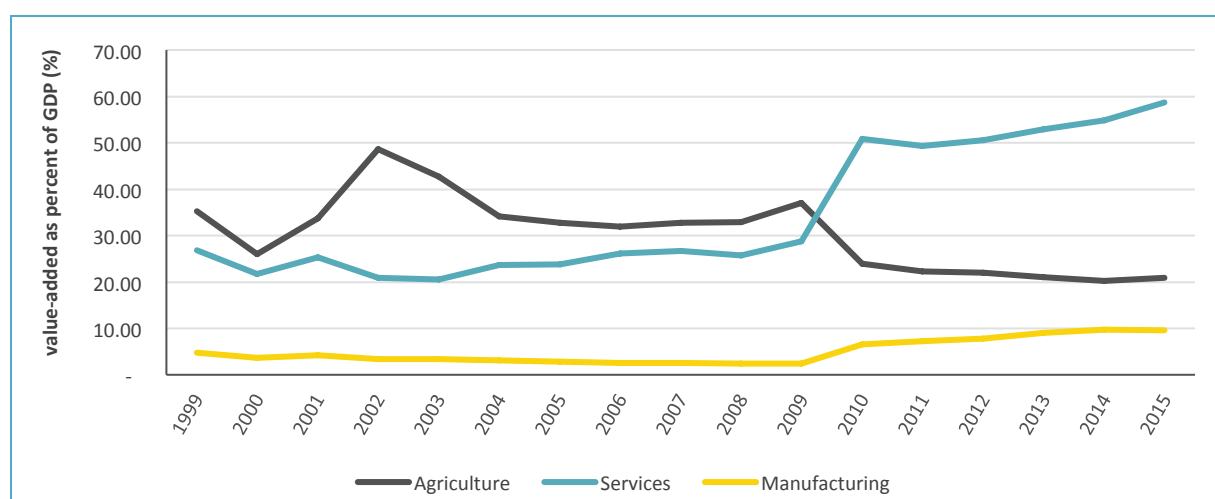
country is organised. The broad characteristics of democratic politics in Nigeria can therefore be traced from this period. Section 3 outlines the various anti-corruption policies undertaken by governments so far, and section 4 provides our analysis of what the potential for strategic anti-corruption policies targeting specific sectors could be in Nigeria.

2. Major sectors and drivers of growth in Nigeria

One of the major turning points in the trajectory of the Nigerian economy was the implementation of the IMF-led Structural Adjustment Programme (SAP) in 1986. Against the background of the 1984 oil crisis, the SAP was meant to restructure and diversify the Nigerian economy, primarily to reduce dependence on oil and imported inputs, while achieving low levels of inflation and balance of payments stability (Anyanwu, 1992). Although the introduction of the reforms was marked by policy reversals and haphazard implementation, there is some agreement on the impact of the reforms on specific sectors in the economy. While real GDP growth improved after having turned negative in the period of the oil price crisis, the devaluation of the Naira, interest rate deregulation and removal of some subsidies negatively affected a broad swathe of sectors, including the auto component, pharmaceutical and textile sectors, the last being one of the country's biggest employers (Mosley, 1992; Nwankwo 1988; Iwuagwu, 2011; Adenikinju & Chete, 2002; Onyeiwu 1997; Maiwada and Renne 2013). The stated aim of reducing dependence on the oil and gas sector did not bear out, and a number of import dependent sectors found it hard to adjust to the devaluation of the Naira. The SAP is certainly not the only reason for Nigeria's dismal performance in manufacturing, which contributes to just over 6 percent of GDP even after the rebasing. The same figure for South Africa is 13 percent and 5 percent for Ghana (World Bank).

The recent rebasing in Nigeria also reduced the weight of the oil and gas sector from 32 percent to 14 percent (Bloomberg, 2014). The share of services grew from 26 percent to 51 percent and manufacturing from less than 2 percent to 6.7 percent (Premium Times, 2014). A preliminary analysis could well provide evidence for diversification of the economy away from oil and gas with some incipient growth in the manufacturing sector, but a closer look at some relevant statistics that follow later in this section suggests otherwise. Figure 3 below captures the latest sectoral contributions to GDP.

Figure 3: Sectoral contributions to Nigeria's GDP



Source: World Bank Socio Economic Indicators

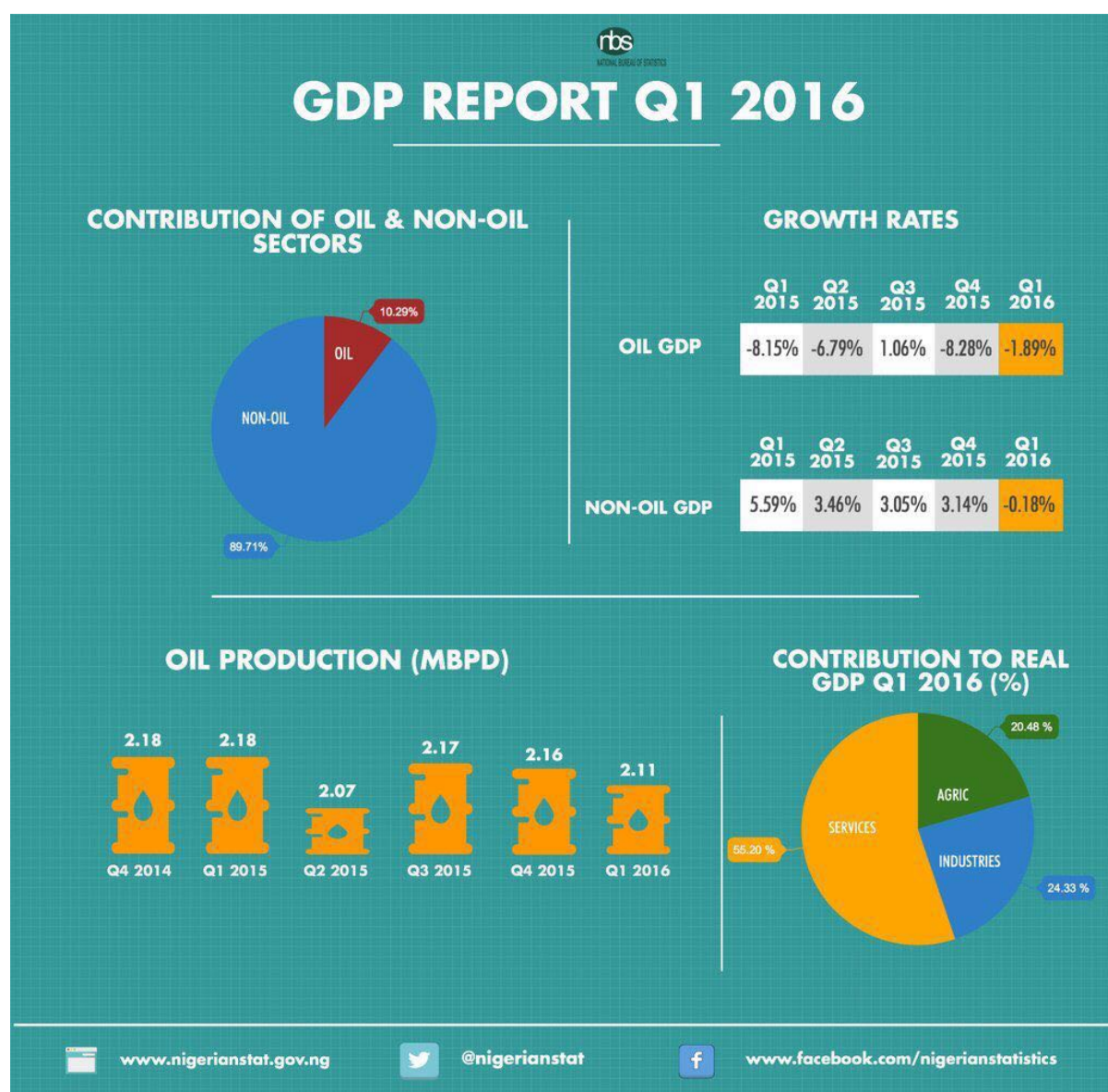
Table 1 highlights the sub-sectoral contributions to the three main sectors of GDP in the first quarter of 2016. It is evident that the oil and gas sector is still a major contributor to industry, with a share of 42.3 percent. Construction is the next largest contributor, followed by food and beverages, and textiles and garments. The contribution of sectors that have the potential to be drivers of growth and employment - like textiles, automotive, electricals and pharmaceuticals - have a very small share of the economy, suggesting its non-diversified nature. The inability to move away from crude oil and natural gas has been one of Nigeria's biggest failures. What compounds matters is that, despite being the eighth largest producer of crude oil, the country still imports petrol or motor spirit and refining makes up less than 1 percent of contribution to industry. In the services sector trade is the biggest contributor, followed by telecommunications and information (ICT) technology and real estate. Figure 4 outlines the performance of Nigeria's oil and non-oil GDP, and the performance of the former over the last year has on average lagged far behind that of the non-oil based GDP, mirroring depressed oil prices worldwide. The largest share in the agriculture sector is that of crop production and livestock rearing is a distant second.

Table 1: Share of some select sub-sectors in GDP

Agriculture	
Crop Production (of agriculture)	86.80
Livestock (as above)	8.90
Forestry (as above)	0.14
Fishing (as above)	3.00
Industry	
Oil Refining (of industry)	0.66
Cement (as above)	3.50
Food, Beverage and Tobacco (as above)	16.90
Textile, Apparel and Footwear (as above)	8.80
Chemical and Pharmaceutical Products (as above)	0.92
Construction (as above)	16.90
Services	
Trade (of services)	32.90
Telecommunications & information services (as above)	15.90
Real estate (as above)	11.70
Professional, scientific and technical services (as above)	6.40
Education (as above)	3.80

Source: National Bureau of Statistics

Figure 4: Performance of oil and non-oil GDP



Source: National Bureau of Statistics

2.1. The real contribution of oil to Nigerian GDP

Analysing the nature of structural change in the Nigerian economy is not the remit of this paper. However, some direction on a possible growth trajectory would be apt given our remit of devising anti-corruption measures that increase productive and developmental outcomes in the country. Oil still accounts for the largest proportion of government revenue (close to 70 percent). Given that non-oil GDP makes up 90 percent of total GDP, it is apparent that other sectors are not taxed adequately enough, especially in the fast growing services sector. Or put another way, oil and gas which make up only 10 percent of GDP, yet according to latest figures account for 70 percent of government revenues. According to the National Bureau of Statistics the economy contracted by 1.5 percent in 2016, and growth in

both manufacturing and services declined. Low oil prices and a depreciating naira are likely to contribute to a projected current account deficit of 2.4 percent of GDP.

One issue that needs to be looked at more closely is the contribution of oil to the country's GDP. Before the rebasing exercise the contribution of oil was much larger and it has since been pared down to around 10 percent of GDP. As outlined earlier, this seems to suggest that the economy has diversified, but two issues need to be interrogated further. Nigeria's per capita GDP has slid steeply since oil prices started falling from the last quarter of 2014. This suggests GDP is linked much more strongly to oil than the figures suggest. Oil prices have fallen by around 50 percent since 2014. If the sector's contribution to Nigerian GDP is 10 percent per capita incomes should fall by 5 percent. The interesting observation is that with World Bank figures Nigeria's income has fallen by only 3.7 percent from 2014 (USD 2970) to 2015 (USD 2820), using the Atlas Method and in current USD (World Bank, 2017). But if IMF figures are used the per capita income fell by 16.8 percent, from USD 3268 in 2014 to USD 2763 in 2015 in nominal USD (IMF 2016). Another way of testing the oil sector's actual contribution, one that also allows us to avoid the difference in figures from the two IFIs, is to exclude the contribution of oil from Nigeria's current per capita income. If this is done then the GDP per capita for 2015 should be close to USD 2500 whether we take the IMF or WB estimate. This figure is much higher than that of economies like Vietnam and India, comparable LMICs who have high value added, export oriented manufacturing sectors. Vietnam's electronic sector is very well developed and in India's case the textiles, auto and auto components, and a number of other manufacturing sectors are globally competitive along with a high value added ICT sector. Nigeria has none of these types of globally competitive manufacturing sectors nor does it have an export-oriented sector like garments as in the case of Bangladesh, which is at a much lower level of per capita income.

While this line of questioning needs detailed research, it does open up the issue of recalculating the contribution of oil to GDP, when there are almost no other sectors making significant contributions to GDP and when by at least one estimate per capita incomes have fallen much more after the collapse in the price of oil than the sector's share in GDP suggests. One possible line of analysis is to see if unrecorded transfers from that sector could be adding to sectoral incomes elsewhere. For instance public sector wages in Nigeria are higher than those in the private sector. There is scope for much opacity in Nigeria's federal budget in terms of how transfers are made and non-oil revenues are transferred across the economy. Value added taxes, corporate income tax, customs and excise duties make up a significant portion of the country's non-oil budget, but 'independent revenue' seems much more discretionary, as it accrues to the federal government directly and includes components like dividends and surpluses from state owned enterprises (Budget Office of the Federation 2014). It is possible for governments to make transfers from the oil sector through these means, before income from the sector is taxed. Even if this does not turn out to be wholly accurate the real extent of the oil sector's contribution to GDP needs to be better understood. Without this understanding policy design will miss the priorities that need to be urgently addressed.

2.2. Some recent policy developments in the economy

Since the transition to democracy, successive Nigerian governments have announced various policy measures like the National Economic Empowerment and Development Strategy (NEEDS) and the Seven Points Agenda, which led to some banking sector reforms but most importantly the privatization of the telecom sector in 2001. The ICT sector since then has shown some signs of growth with multinational telecom providers like the South African company MTN and the Indian company Airtel becoming established players. In 2009 the government launched the Vision 20:20 industrialisation strategy, which finally led to the Nigerian Industrial Revolution Plan (NIRP) 2014. The NIRP focuses on four sectors (agro-allied, metals and solid minerals, oil and gas industrial activities and construction, light manufacturing and services) and seven sub-sectors. It is also supposed to be working with other relevant agencies/ministries in the government like agriculture, oil and gas, solid minerals and transport. However, given its diverse priorities and ambitious scope, the NIRP has yet to have any significant impact except for announcing a few sector specific policies like Nigerian Auto Industry Development Plan. The Agricultural Transformation Agenda (ATA) of which the Growth Enhancement Scheme (GES) is a component was a special package implemented for the agriculture sector, with a focus on the distribution of fertilisers through e-vouchers. Despite a few shortcomings the GES scheme has since been identified as being successful in reducing supply leakages of fertilisers to farmers (Modupe 2014; Nwalieji 2015; Fadairo et al 2015).

At the sectoral level, in the last five years the earlier PDP government and incumbent APC administration have made policy announcements targeting the oil and gas, power, textile, fertiliser, auto and sugar sectors. One of the most significant among these has been the bill to privatise and unbundle the Nigerian National Petroleum Corporation (NNPC) which is essentially the only organisation controlling the entire Nigerian oil industry. The Petroleum Investment Bill, which has been in the Nigerian Senate for over ten years now, envisages breaking up the NNPC into one regulating and two marketing companies or one regulator, one marketing and one production company. The current administration had promised the Bill's passage by March 2017, and it was finally passed in May 2017. However, opposition to it has already surfaced from various quarters, making its actual implementation a fraught process. The new Regulatory body is also supposed to take over the roles of the current Department of Petroleum Resources (DPR), the Petroleum Products Pricing Regulatory Agency (PPPRA) and Petroleum Inspectorate (PI). However Nigerian and international media reports have been speculating on whether Senators will be in agreement over the key provisions of the bill in order for it to be successfully passed (Vanguard 2017; Reuters 2017).

There is also significant opposition from the NNPC against unbundling, which will also lead to limited privatization. The Buhari administration has tried to quell this by bringing in members of the senior management from outside the NNPC. The Nigerian Local Content Bill, passed in 2010, was another significant industrial policy measure undertaken in the oil and gas sector. It stated that independent Nigerian operators and service companies in the sector would have to be given first right of refusal in oil and gas sector projects. However, recent reports have outlined that there is limited uptake of the opportunities provided by the act. While it has certainly helped a few legitimate and capable indigenous Nigerian

companies, a majority of the firms are actually fronts for foreign operators and this is a direct contravention of the act (Nwapi 2016).

A number of other policies in the agricultural and manufacturing sector were also targeted at curbing imports and smuggling, especially in the rice, sugar and automotive sectors. Most of these schemes were announced by the PDP administration under then president Goodluck Jonathan. The sugar and rice policies included incentives for investors to invest in backward linkages, like outgrower schemes supported by import bans. Rice growers have also been given access to extra credit through the Anchor Borrower's Programme (ABP). Nigeria has one of the most porous borders in Western Africa and domestic production in each of these three sectors has been affected by smuggling. The smuggling has also been exacerbated by the fact that high import tariffs have been a part of these domestic support schemes. While Nigeria's recent foreign exchange crisis does provide a logic for having high import duties, the Nigerian state has little capacity to enforce these rules, whether through monitoring if beneficiaries have made the backward linkages necessary to obtain import licences, as in the case of sugar, or by ensuring that Customs officials do not allow smuggling if they are bribed. In the rice sector smuggling has led to prices crashing and the ABP is being used by 'political farmers', intermediaries who use political connections to access loans or vouchers and distribute these onwards for profit (Eagle online 2017; The Nation Online 2017).

The Nigerian government has announced fiscal incentives like differential tariffs for the automotive and auto components sector, but these also lead to significant corruption rather than supporting targeted sectors. The impact of such corruption is on the growth of competitiveness in the Nigerian automobile industry, and it also indirectly affects ancillary industries and employment in these clusters and slows down economic diversification in general. The current policy regime provides a high tariff on fully built up cars, while the lowest tariffs are on completely knocked down (CKD) kits. This essentially means firms only have to assemble imported parts, rather than attempting to source a few parts locally. This policy benefits some assemblers and is sustained by collusion. The first and more visible corruption problem in the automobile sector, driven by the tariff regime, is an increase in smuggled second-hand cars from Benin and Togo.

The second is a collusion problem, which is more subtle. The current policy emerged through the close political links between a relatively new indigenous auto firm and members of the former government of Goodluck Jonathan. The low tariffs on auto components were beneficial for the individuals and companies involved, but damaging to the development of the automobile sector in Nigeria. The policy made the Nigerian auto sector dependent on auto component imports, with little possibility of developing backward linkages in the domestic economy. This policy also provides adverse incentives for moving into the production of any components, as companies that import completely knocked down kits can also import fully built up cars. This means companies have an incentive to assemble CKDs just to be able to import fully built up cars. In all these cases, bringing down the tariffs to deter smuggling (and increasing tariffs on selected auto components to support local industry) might be a beneficial policy option given the state's enforcement capabilities.

The power sector has also seen significant reforms with the generation and distribution sectors being completely privatised in the country. User subsidies have been abolished and tariffs are supposed to be cost reflective, though both industrial and residential end users have opposed the tariffs for being prohibitively high. The government has refused to bring down tariffs and power producers and distributors alike have simply been asked to use the Nigerian Electricity Market Stabilisation Facility in case of capital shortfalls. This policy too allows generators to access government support without necessarily delivering cheaper electricity. The Central Bank of Nigeria is now being increasingly used for such sectoral funding and in many cases the design of the support requires a degree of regulatory enforcement to achieve results that is currently not available in Nigeria.

The government has also just announced setting up the Development Bank of Nigeria with USD 1.3 billion to fund micro and small and medium enterprises, which are said to contribute close to 48 percent of GDP (Vanguard 2015). For observers of the Nigerian economy, government attempts at trying to revive the economy and diversify it have long been visible. However, these have often stopped short in terms of implementation and for not having the necessary governance support that could have ensured better results. Our next section analyses the reasons for this, through our framework of political settlement analysis: the distribution of power that defines the limits of the enforcement capability of a ruling coalition. This has implications for growth, stability and the implementation of relevant policy, and directs our attention towards policy formulation that can be feasibly implemented in the existing political settlement.

3. The political settlement and rent seeking in Nigeria

A political settlement is a sustainable distribution of organisational power based on a mix of formal and informal institutions that are supported by these organisations, and which deliver benefits or ‘rents’ to them. Informal institutions have long been accepted in the literature as an important driver of growth and stability, but are also treated primarily as culture in some sections of the literature (Williamson 2000; North 1995). However the informality that concerns us in our analysis of political settlements are the informal practices and systematic violations of formal rules that create informal rents in developing countries for powerful formal and informal organisations. Culture and social norms describe these practices but the political settlements approach offers a systematic explanation of why some types of social norms persist.

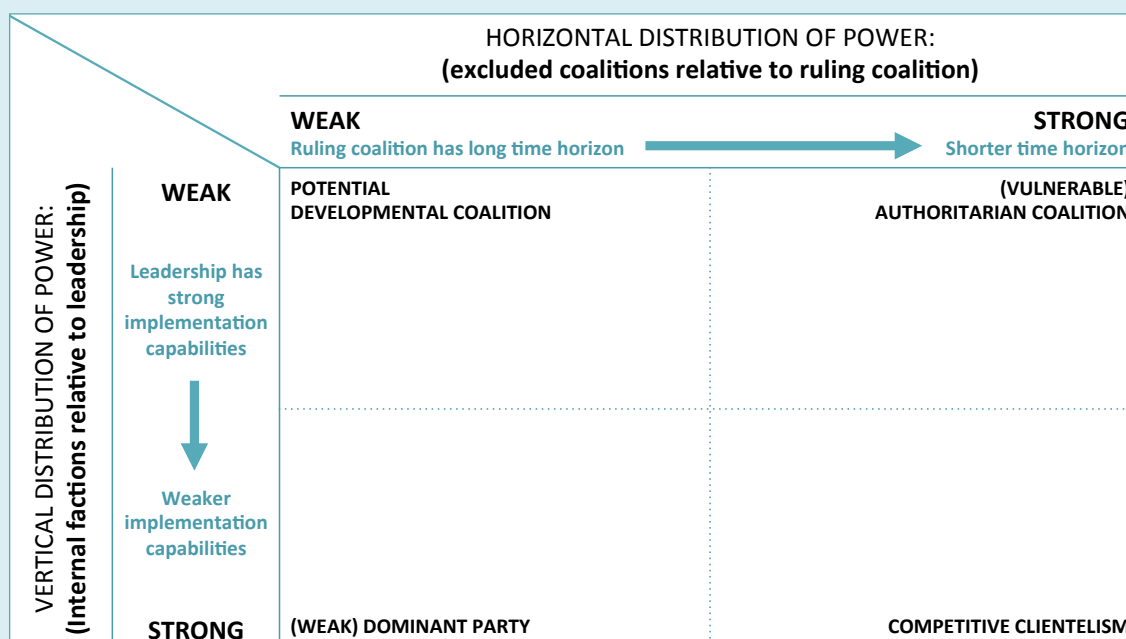
Developing countries do not have large productive economies and can be best described as pre- or proto-capitalist. They frequently have contested or overlapping structures of property rights. Nigeria is no exception. As productive capabilities are weak, powerful organisations in developing economies do not have access to large sources of formal income (in the form of profits or formal subsidies based on taxes). This means that the ruling coalition cannot redistribute sufficient income to their constituencies and supporters in formal ways, based on the formal budget for health, education, or social security, as they can in developed economies. Even though the allocation of formal budgetary resources is becoming increasingly important in lower middle-income countries like Nigeria, an important segment of political redistribution to critical constituencies still has a large informal component which comes from non-productive, informal sources.

The question to address is how power is distributed both formally and informally, and how this becomes a source of rents and a source of contestation over their distribution. The distribution of rents within and between organisations is a starting point for understanding their relative power. Political settlements can be classified in terms of the relative holding power across organisations and across different levels of organisations (Khan 2010). Political corruption in Nigeria includes transfers from resource sectors, through privatisation to cronies or the capture of subsidies. However, disrupting these flows can also lead to a reduction in political stability if constituents or organisations who were recipients of these benefits contest the disruption. If the organisations excluded from ruling coalitions are very powerful, they may be able to inflict serious costs through blocking policies or even through violent conflicts (Khan 2010). This is why a mapping of the political settlement and identifying the rents generated within it is helpful both as a diagnostic and predictive tool when devising policy solutions.

3.1. How power was configured in the Nigerian political settlement

Box 1: The Political Settlements Analysis (PSA)

The distribution of organisational power in a society (its political settlement) is an important determinant of the policies and institutions that emerge and how effectively they can be implemented. The distribution of power affects implementation because it identifies the organisations that are likely to capture rents, if necessary by distorting formal policies. The distribution of power *across* political organisations and *within* the ruling coalition are both important. The capabilities of economic organisations and of the bureaucracy (including the military) are also important components of the overall configuration of power. However, the configuration of *political* power is particularly important and we use the framework in Khan (2010) to describe this aspect of the political settlement as shown below.



The configuration of power in the top left hand corner of the diagram describes *potential developmental coalitions* where the ruling coalition faces weak opposition from excluded groups and the leadership has effective power over their own organisations. This combination results in long time horizons, as the ruling coalition is not vulnerable and significant implementation capabilities as its lower levels can be disciplined by higher levels. These coalitions may appear to be authoritarian but rarely have to use violence. In principle, they could also be elected to power.

As excluded organisations become more powerful, the ruling coalition may have to use more repression or violence to stay in power. We then have the emergence of *vulnerable authoritarian coalitions* as we move towards the top right. These coalitions have a shorter time horizon and the leadership engages in more unproductive rent capture even if their control over their followers remains strong.

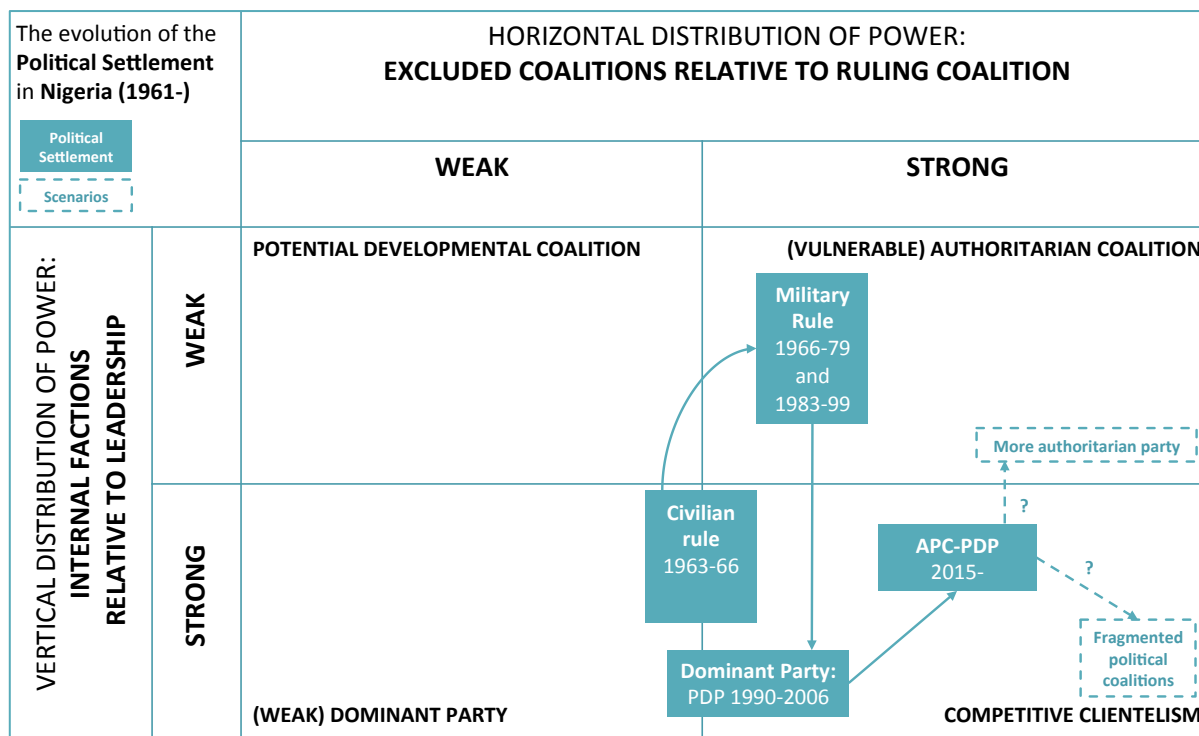
However, these ruling coalitions tend to lose control over lower levels because it is difficult to control lower levels if powerful excluded organisations offer them better deals. Parts of the ruling coalition can begin to leave and build new organisations or join the opposition hoping to get better deals. As multiple parties emerge, each party has weaker control over their organisation because disaffected members can leave. We are then in the bottom right hand corner described as *competitive clientelism*. This configuration of power typically supports democratic competition in developing countries. Democracy can be more stable and less repressive than a vulnerable authoritarian coalition if organisational power has actually become fragmented, but democratic parties also have short time horizons and weak implementation capacities. If the competing parties can work out 'live and let live' arrangements of replacing each other in power, institutional and policy stability may emerge with good development outcomes in some contexts.

Finally, a configuration of a large political organisation that faces limited opposition is the *weak dominant party* in the bottom left hand corner. Such a ruling coalition may have limited implementation capability because by including almost everyone the leadership also pays the price of not being able to impose discipline on their own organisation. These ideal types are simplifications and many examples lie on the boundaries of these categories: for instance dominant parties with strong organisations can be close to being developmental coalitions and developmental coalitions that face growing resistance can become vulnerable authoritarianisms and so on (Khan 2010).

Before moving onto different types of rents, Figure 5 below tracks changes in the distribution of power and the structure of ruling coalitions in Nigeria. Two dimensions of relative power are important for the allocation of political rents. One is the distribution of power between the ruling coalition and organisations excluded from the ruling coalition. The second is the distribution of power between higher and lower levels of the ruling coalition. Most political organisations or socio-political coalitions (like traditional kinship communities) have a pyramidal structure, with support from below being exchanged for resources from above. The distribution of power between higher and lower levels determines the implementation capability of the ruling coalition. If lower levels of the ruling coalition are powerful they can capture resources without constraint (Khan 2005). The typology above is clearly simplified, and in reality political settlements have mixed characteristics, but it does help to identify broad differences between ruling coalitions. In an ideal world a *potential developmental coalition* could lead to a developmental outcome as such a ruling coalition could implement policy without much opposition. A vulnerable authoritarian coalition is one where the lower levels of the ruling coalition are weak but excluded organisations are strong and repression has to be frequently used. The ruling coalition in Nigeria under Sani Abacha

could be described in these terms, as his administration frequently resorted to repression. The paradox about this variant is that as the ruling coalition gets weaker the regime tends to be more insecure and use more violence to repress any opposition. The logic of this variant is that the more repressive it becomes the more vulnerable is the ruling coalition.

Figure 5: The evolution of the political settlement in Nigeria

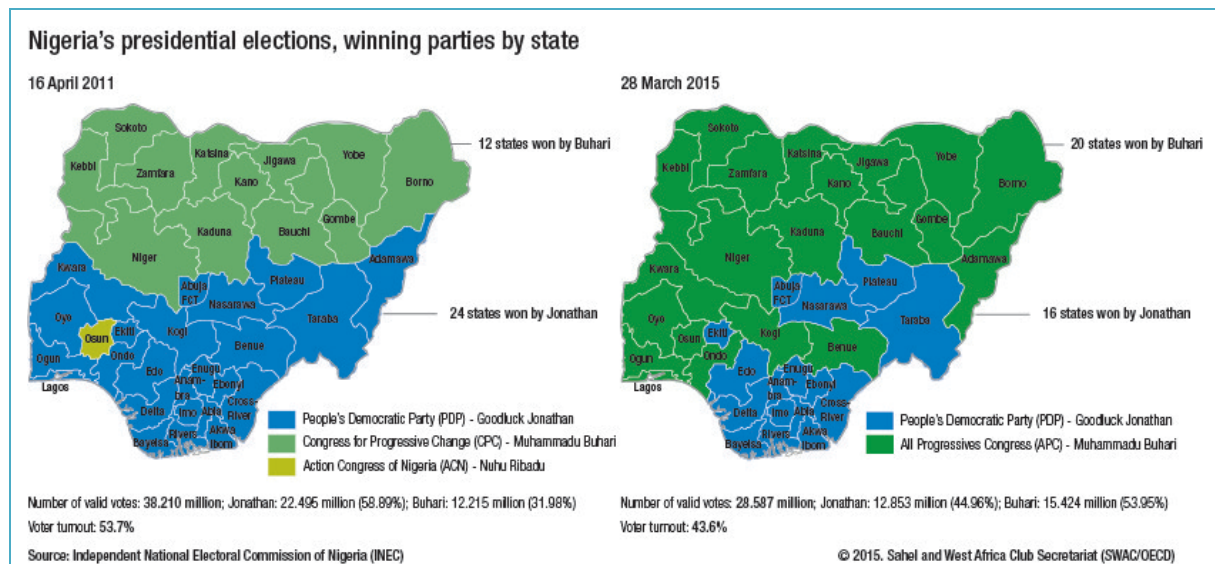


Source: Based on Khan 2010

Nigeria under PDP rule was closer in our typology to a *weak dominant party*, as rents were captured by networks within the party and disciplining was neither possible, nor was there an incentive to do so, as PDP leaders would not have risked alienating the constituencies controlled by lower-level leaders. The final variant is *competitive clientelism* where the ruling coalition faces strong external coalitions and lower level networks are also strong. With this configuration of power, authoritarianism is usually not an option and the only viable system of government tends to be some form of democracy though it can be much contested with high levels of violence, as is frequently the case in developing countries. This fragmentation also results in a heightened need to include more networks in order to broaden the support base, thus informal rent redistribution is likely to be widespread. In all these cases the likelihood of developmental interventions depends on the allocation and management of rents to achieve long-term development, and this depends in large part on the implementation capabilities of the ruling coalition and its time horizon. Given the characteristics of feasible governance forms in developing countries, it is possible to explain why corruption does not decline with conventional good governance strategies that often prescribe democratisation as a way of tackling corruption. *Competitive clientelism* tends to generate short time horizons and weak implementation capabilities, together with significant informal rent capture. Yet, when power is configured in this way, democracy may result in better development results than an authoritarianism, that has to use significant levels of

repression to stay in place. Since 2015 the Nigerian political settlement seems to have moved into a phase of tenuous *competitive clientelism*, with the PDP and APC becoming entrenched in a face-off with each other. As Figure 6 below shows the PDP is not a spent force and has begun mobilising for the 2019 elections in earnest. A renewed two way contest between the two is likely in the elections of 2019, but the real contest will be between the mobilising capabilities of the potential candidates rather than of the two parties.

Figure 6: States won by the APC and PDP



Source: <http://oecdinsights.org/2015/04/10/nigeria-is-the-winner-west-africa-too/>

These two parties currently represent a fair mix of the constituencies around which Nigerian politics is organised—regional, ethnic and religious. Our analysis suggests concentrating on these three factors separately while studying Nigerian development does not capture the complexity of the country's political economy. Nigeria's main political parties are an amalgam of all three constituencies, but these markers are not deployed in an additively separable manner within the political parties. The PDP was until 2015 accepted and elected as the only national party winning seats in the North and, despite being from the South West, the first PDP President, Olusegun Obasanjo, a Yoruba and a Christian, was widely accepted by voters in the mainly Muslim and Hausa North. He had also been a military ruler from 1973 to 1976. Yet one of northern (specifically north west) Nigeria's most influential organisations, the Katsina-based People's Democratic Movement, was instrumental in garnering support for him in the North (Hoffman 2014). This did not stop him from reaching out to his own constituency in the South West over Northern interests. It was also the PDP that started the informal practice of 'zoning' that ensures each of the six geo-political regions in the country holds each important post at the federal level by rotation.

The APC was formed with the merger of the All Nigeria Peoples Party, Congress for Progressive Change, Action Congress of Nigeria, and a faction of the All Progressives Grand Alliance in 2013. The first two are Northern parties and the latter are from the South West and South East respectively. It incorporates Yoruba and Hausa Fulani leadership as well as Muslims and Christians. An online article analysing the APC called it a 'big tent' (New African 2014) and this

is what many political parties tend to be—weak dominant parties that tend to fragment in a context of *competitive clientelism*. Several northern leaders crossed over from the PDP into the APC while the current Vice-President (and acting President at the time of writing) is from the South West. This is not to say that identities are not important but, as pointed out before, they are used as tools for mobilisation in a situation where the two political parties are becoming more broad-based with representation across the country (Katsina 2016; New African 2014). Goodluck Jonathan who became the first incumbent president to lose power in Nigeria was relatively more partisan, and this is one of the reasons behind his defeat, apart from the high levels of corruption perceived, anecdotal and real, in his government.

Nigeria's socio-political structure is not just made up of the three main ethnic groups of Hausa Fulani, Yoruba and Igbo, but also includes powerful minority groups like the Ijaw and the Kanuri. Other smaller communities, like the Tiv in Benue, or the Ibibio in Akwa Ibom, are politically powerful as they control these states despite making up a small proportion of Nigeria's population (2 to 3 percent). Equally Christians and Muslims make up significant minorities in the predominantly Muslim North and Christian South respectively. There are also overlapping structures of power in many parts of Nigeria, where traditional leadership roles overlap with post-independence governance structures. This is a holdover from colonial times, where the British chose not to overturn traditional authority but work with them or co-opt them. Nowhere is this more apparent than in the Hausa Fulani areas of northern Nigeria where the emirs have since 1999 been indirectly part of governance efforts (Hoffman 2014). Traditional leaders have sometimes also been used as arbiters in times of violence between the two communities (USAID 2014).

Ethnic and religious violence are no doubt a disturbing feature of Nigerian politics. It does not however, yet have the ideological nature of social and religious violence in India, another society with multiple religious, linguistic and other identities based on social strata (caste). While violence for any reason is unacceptable, the violence in Nigeria can still largely be attributed to a competition for rents, where violence is used to establish relative holding power given the evenly balanced distribution of power among the main ethnic and religious groups. Frequent violence in Plateau states or in some northern states has more to do with a clash between 'indigene' and 'settler' rights, rather than an ideological battle between Muslims and Christians.

In contrast, violence in India against social and ethnic minorities by Hindu majoritarian parties aims to reinforce their already asymmetric holding power, given that the Hindu community has an outright majority in the country (Roy 2013). The differences in federal structures between the two countries also has a bearing on how violence can be used as a tool to establish holding power. In Nigeria the police forces are directly under the federal government. In India the police, and the state branch of the Intelligence Bureau (IB), are under the authority of the chief minister in every state, giving her or him power over state level politics that even the prime minister does not have. The police and IB are often politicised in India, and work at the behest of politicians in power at the state level and this has a bearing on how violence is used as a political tool. This also makes elected Indian chief ministers extremely powerful, making India's federal structure very different from Nigeria's presidential federalism.

Given Nigeria's federal structure (36 states and 774 local government councils), the scope for programmatic clientelist politics is quite high. Local governments (through state governments) control primary and vocational education, primary health care and, among other areas, have joint authority over roads and transportation along with states (Figure 7). Local government expenditure as a proportion of total government expenditure is 20.6 percent. The funds are deposited in each State Joint Local Government (LG) account, which is under the state's control and the state governor decides when and how much the local governments receive. This is also the reason, however, why governors of states can often be in opposition to elected local councils, and it is not unknown for governors to dismiss elected councils to appoint their own local commissions. Elections or the lack of them can be points of contestation (This Day 2016; Premium Times 2017). Also over half of the Nigerian states do not currently have elected local governments. Anecdotal evidence suggests one reason for these contestations is the quantum of federal funds that local governments have access to, and which state governors do not want to relinquish control over.

Given the sectors local governments have primary responsibility for, the scope for redistributive politics affecting programmes is high. The derivative principle that governs the percentage of oil revenues that goes back to the oil producing states (currently 13 percent), also creates some redistributive tension between the federal and state/local governments (Hoffman 2014; Idemudia 2012). In addition, a key concern for policy-makers, donors and civil society is the opacity of the Nigerian budget. The country ranks a very low 24 out of a possible 100 on the Open Budget Index, which is far lower than the global average of 45. Questions about increasing fiscal federalism have been raised, as have been issues to do with the national consensus behind the creation of the budget (through the Appropriations Bill). The management of the budgetary process and the impact it has on monthly federal allocations to states remain contested issues. These are areas that further research on governance in Nigeria could gainfully focus on.

Apart from entirely informal resource allocations, the actual allocations of formal budgetary programmes can be informally distorted by the underlying politics determining the identity of beneficiaries. Patron-client interactions in developing countries can take place through both the implementation of formal programmes, as well as entirely informal allocations. In some cases local communities or associations may not support the local government or may be excluded by the latter, and they can reach out to the federal government directly. When this is attempted such associations normally lose out as the federal government is too far removed and the local government takes no interest in a constituency that does not support it politically. This has negative consequences, especially for the growth of informal production clusters that have the potential to be employment creating, as these often find it difficult to align with the interests of local politicians (Meagher 2014, 2013).

Figure 7: Division of responsibilities between tiers of government

Services	Delivering authority		
	Central	States	Local
GENERAL ADMINISTRATION			
Police	■		
Fire protection	■	■	
Civil protection	■		
Criminal justice	■	■	
Civil status register			■
Statistical office	■	■	
Electoral register	■	■	
EDUCATION			
Pre-school (kindergarten & nursery)			■
Primary		■	■
Secondary	■	■	
Vocational & technical		■	
Higher education	■	■	
Adult education		■	■
SOCIAL WELFARE			
Family welfare services			
Welfare homes		■	
Social security			
PUBLIC HEALTH			
Primary care			■
Hospitals	■	■	
Health protection			■
HOUSING & TOWN PLANNING			
Housing	■	■	
Town planning		■	■
Regional planning		■	■
TRANSPORT			
Roads	■	■	■
Transport	■	■	■
Urban roads	■	■	
Urban rail	■		
Ports	■		
Airports	■		
ENVIRONMENT & PUBLIC SANITATION			
Water & sanitation		■	■
Refuse collection & disposal			■
Cemeteries & crematoria			■
Slaughterhouses			■
Environmental protection		■	■
Consumer protection	■	■	
CULTURE, LEISURE & SPORTS			
Theatre & concerts	■	■	
Museums & libraries	■	■	
Parks & open spaces			■
Sports & leisure	■	■	■
Religious facilities	■	■	■
UTILITIES			
Gas services			
District heating			
Water supply		■	
Electricity	■		
ECONOMIC			
Agriculture, forests & fisheries	■		
Local economic development/promotion	■		
Trade & industry	■	■	
Tourism	■	■	

Source: Commonwealth Local Government Forum

■ Sole responsibility service ■ Joint responsibility service

3.2. Types of rent seeking in Nigeria

Given the federal structure described above, **political corruption** is a key feature of rent seeking in the Nigerian political settlement. As discussed earlier, political corruption creates rents for those within political organisations, including their supporters at the bottom of the pyramid, for instance through targeted programmatic spending which is legal, or informal modifications of legal programmes, or through entirely informal transfers at local levels for village communities. These decisions are made by political entrepreneurs to create and maintain political power and need not always be damaging, once we account for the redistributive and stability-inducing characteristics. But such allocations can also create tensions and conflict and have adverse redistributive consequences if rents are created for powerful (and rich) supporters who in return support the political leadership (Khan 2009). Some of these rents could also be policy support or subsidies to emerging businesses. If allocated in certain ways, these rents have the potential to be welfare enhancing, and can induce productivity growth by helping firms to become more competitive. But if the allocation, incentives and management of the rents are inappropriate, they can reduce social welfare. These types of rent capture can be described as **policy distorting corruption**, and can frequently overlap with political corruption. Distinctions between types of rents and rent seeking are provided in Khan (2009) and Khan et al (2017).

Policy-distorting corruption can still be good for welfare and growth if, despite any distortions, these discretionary allocations have net beneficial effects. This is possible, and we often see this in developing countries, where corruption that distorts some policies still allows positive outcomes provided the distortion is not too serious. But if the distortion crosses a limit, the outcomes are negative. For instance, rent capture can sometimes allow 'infant' firms to emerge and grow, and productive capitalists have often emerged in this manner, including in Nigeria. More problematic is the situation where unproductive firms capture the rent, but they are linked with powerful constituencies so that they are difficult to discipline without upsetting political stability. Similarly, some corruption around road building can still allow a road to be built, and the corruption may support the political allocations that reduce local resistance to the road-building programme. But beyond a point, corruption can result in no road being built, or a road that gets washed away in the next rainy season. These links between policy-distortion and political considerations make the analysis of the effects of corruption far from simple.

Nigerian firms straddle the spectrum in terms of productivity and political connections and there is evidence of both policy distorting and political corruption, alongside firms who have now emerged as successful. The Dangote Group headed by Aliko Dangote is one such successful firm that is today a conglomerate and often linked with high politics in Nigeria. It is no longer just a West African player but has multiple business interests (cement, sugar, fertiliser, oil refining, telecommunication, construction among many) across the continent. Some reports suggest that he was close to the former presidents from the PDP, Obasanjo and Jonathan (Forbes 2015). Whatever the nature of the links, he used them to grow his business in productive directions and is likely to become the first Nigerian in the private sector to operate an oil refinery, at a time when the three public sector refineries are operating way below capacity. Given his standing as a successful entrepreneur capable of

investing in critical sectors and providing employment, ministers from the APC government have shown no hesitation in sharing platforms with him and encouraging his investments, despite his political affiliations.

While Dangote is the only Nigerian entrepreneur who operates on a scale that successfully spans the entire African continent, the growing Nigerian economy has helped create entrepreneurs who are beginning to make a significant contribution. Political connections, deals and involvement in sectors like oil, real estate, telecommunications and financial services that tend to be non-tradable and oligopolistic, and hence provide scope for rent capture, have usually been the opportunities that successful Nigerian businessmen have used to move into more productive areas. These off-market origins, however, mirror a trajectory for businessmen across emerging economies, where collusion with the political leadership is often the norm for businessmen (Khan 2009, 2010). Nigeria is no exception. A significant number have been able to make use of their involvement in Nigeria's oil and gas sector, through onshore exploration and IT services, to build profitable enterprises that are now diversifying. Examples of such entrepreneurs are ABC Orjiako, Femi Otedola, Sam Iwuajoku, Arthur Eze, Aderemi Maknuola and Wale Tinubu. Others like Leonard Ekeh is one of Nigeria's successful IT entrepreneurs. Innoson Chukwuma is an entrepreneur who has started auto-assembly operations in Nigeria, but it remains to be seen if he can help foster a Nigerian auto industry (the reasons for which have been outlined in section 2). Despite the success of these entrepreneurs, the need for enforcement and discipline remains if the state is to direct the economy into more broad based inclusive sectors.

The private sector has to play an important role in Nigeria's growth, and the state too needs to play an important role as a facilitator. Nigeria's trajectory towards *competitive clientelism* suggests this is going to be increasingly difficult, as businessmen are likely to become more powerful vis-a-vis the state. Given that patron-client relationships can vary across a continuum, increasing fragmentation among the political elite can sometimes lead to a situation of a reversal of patron-client relationships, where powerful business interests can capture certain policies and politicians, and direct them for their own benefit (Roy 2013). Some parameters of the interaction between the two could then start being set by economic organisations. There is evidence of this in at least some sectors in Nigeria, like oil. At the extreme end of the spectrum lies state capture by crony capitalists, but given the multiplicity of powerful political organisations in Nigeria this is unlikely to happen. A feasible scenario would entail the main political parties reaching a 'live and let live' solution that works at two levels—pre-empting 'businesses' from capturing the parties and gaining untrammelled access to rents, and also providing productive businesses with a credible commitment that their investments will not be appropriated irrespective of the party in power. An emerging area of cooperation (and future research) between the private sector and the federal government is in terms of how the former is getting involved in conflict resolution. For instance Dangote is involved in some conflict-resolution activities in the North East, with the potential for a similar model being adopted in the conflict affected areas of the Middle Belt and the South.

Just as policy-distorting corruption can be closely tied to political corruption, political corruption can lead to **predatory corruption** in certain sectors. In this case rent-seeking is always damaging, because powerful leaders seek resources to maintain their constituencies including in some cases, militias or the military. They then use these bases of power to

capture further rents, which may be critically damaging for society. Hence, unlike the other types of corruption, predatory corruption is always damaging. A state that is characterised primarily by predatory rent seeking is a failed state, but that is certainly not the case in Nigeria. There are certain sectors and sections of society where rent seeking is dangerously close to being predatory or is already so, but this is not a corruption of a significant part of how Nigerian society works. Some forms of policy-distorting or political corruption can however collapse into predatory corruption, if powerful politicians or businessmen engage in theft of public resources.

However predatory corruption can become the dominant form of corruption when state failure leads to spirals of violence. The recently renewed violence in the oil-rich Niger Delta, by a group called the Niger Delta Avengers, is apparently being conducted with some local official collusion. A recent spurt in clashes between armed Fulani herders and pastoralists in the North is alleged to have the support of some local politicians too (Ynaija 2017). Other reports suggest funds meant to buy arms to combat Boko Haram in the north east have been siphoned off by political leaders (Voice of America 2014). While official investigations have unearthed some evidence supporting the allegation of a diversion of the arms fund in the north east, the other two claims are not as well substantiated. However the presence of persistent violence does suggest predation and the capture of some state machinery, given the nature and extent of the breakdown in the rule of law. It needs to be clarified that sometimes the grievances that lead to violence are real, and the complexities behind them are beyond the scope of this paper.

A less damaging instance of policy-distorting corruption, that has elements of political corruption and can collapse into predatory theft, is the case of smuggling in Nigeria. Recent estimates have shown that 50 percent of the consignments arriving in a Benin terminal facility were meant for Nigeria (according to the IMF Benin records Nigeria-bound imports as meant for consumption domestically). But just over 10 percent of the value of these goods were officially declared as goods that were transiting to Nigeria when they arrived in Benin (Hoffman and Melly 2015). Nigeria is known to have some of the most porous borders in Africa and collusion with customs authorities is endemic (Hoffman and Melly 2015). This is not just a problem of revenue collection for the Nigerian government, but has a knock-on effect in terms of swamping the Nigerian market with goods that do not pay taxes or duties, ranging from sugar, rice (even supposedly fake plastic rice), cars, diesel, textiles and electronics, that ensure local industry has very little chance to compete in the absence of countervailing policies.

Indeed smuggling could even be more damaging than the lack of electricity, or certainly as damaging, given the low initial competitiveness of Nigerian industry. One reason for smuggling is the excessive 'red tape', or bureaucratic procedures that traders and exporters face (Hoffman and Melly 2015). These market restrictions drive a form of corruption that we describe as **market restriction-driven corruption**. Importers have to resort to bribing officials to ease the flow of transactions. However, this corruption is also driven by politicians who deliberately create restrictions to raise political funds (political corruption) and sometimes descends into predatory corruption when state officials and powerful traders collude to steal resources. More instances of the interdependence of different types of corruption are provided in the next section.

3.3. A possible future trajectory for the Nigerian political settlement

With presidential elections due in the next two years, observers of the Nigerian political economy are expecting these elections to be even more keenly contested than those in 2015, where four regional parties came together to form the APC and take on the established might of the PDP. While the PDP was the only national party that won from 1999 onwards, it was not that there were no opposition parties in Nigeria during this period. It was successful mainly for three reasons. It was an inclusive party (a weak dominant party) that managed to incorporate old political leaders, anti-Abacha businessmen and even senior military personnel (Hoffman 2014), but given its broad base internal conflicts over power were always rife. For instance the party had more than 11 chairmen between 1999 and 2015 (Katsina 2016). On the other hand, the party also faced a very fragmented opposition, who were never serious electoral threats. Finally, it managed to win in the north despite being a Southern party because it was able to secure the support of leaders from the North like Ibrahim Babangida, Umaru Yar'Adua and Atiku Abubakar. Buhari was incidentally its main challenger in the North both in 2003 and 2007.

The success of the PDP was also instrumental in changing the power balance in Nigeria after the democratic transition (Hoffman 2014). Most of the country's military dictators were from the North, and the democratic period enabled the mainly Yoruba south to perceive it had won back some of the power that was with northern Hausa-Fulani leaders under successive military regimes (Hoffman 2014). What followed was a series of checks and balances that allowed leaders from the main socio-political groups to accommodate each other. This included the zoning pact set up by the PDP informally, and the decision of 19 northern governors to let Goodluck Jonathan take on the presidency when it was the 'turn' of a Northerner to do so. However Jonathan's increasingly partisan politics did alienate the North, and Buhari's presidency with an experienced and canny politician from the South West as Vice President has helped redress some of the balance. The APC in fact took a leaf out of PDP's book by choosing Buhari as their candidate. This way they were assured of a costless northern victory, while resources could be diverted to ensuring victory in the south. That is just how it worked out. The APC is in power in all of the north and south west, while the PDP is confined mainly to the south east.

The country has come together when required and the usual exigencies of clientelistic politics make Nigeria not much different from other developing countries. However violence and fragmentation is expected to increase, as various political factions in both the parties start preparing for the elections. Competing power structures within the PDP might produce an escalation of violence in the South East, as popular leaders feed off it to stamp their authority and therefore credibility. A popular ex-governor from the Delta state, and a fierce rival of Jonathan, is now back in Nigeria after being released from prison in the UK. Numerous other leaders are informally getting ready to announce their candidacy for 2019, even though the PDP has been in disarray since its loss in 2015, with internal factional politics growing in strength.

Within the APC various leaders who came in from the PDP, or belonged to one of the four parties that merged to create it, are making their own play for the next presidential candidacy. Buhari's repeated absences as a result of illness has galvanised both the forces loyal to him and those in opposition. A former powerful 'mentor' of the president, Bola Tinubu, is said to be considering his future options even though his public pronouncements have so far indicated that he is a strong supporter of Buhari. Nevertheless, the current vice president is very close to Tinubu and is seen by some as a politician who is able to manage the party in this crucial juncture, given the important part he played in helping the APC in the south west. The poor health of the economy and Buhari's failure to address these problems, his absences due to illness, and the fact that there are only two years left until the next election have combined to expose the APC's weakness as a coalition of interests rather than a political party. However the PDP is not very different, and this leaves the field open for more floor crossings and defections. In such a situation various calls for and against a 'restructuring' of Nigeria have been raised by contending politicians, in order to score populist points with various constituencies. South Eastern states are also calling for a re-opening of the 'derivation principle' that governs the distribution of oil revenues. The danger lies in the fact that populist politics can rarely be calibrated and could gain a damaging momentum the country can ill-afford.

The first scenario to consider however would be that of Buhari returning from his current illness-related absence. Incumbent presidents in Nigeria get nominated for a second term by the party and tend not to lose (except in the case Goodluck Jonathan in 2015). If Buhari is healthy enough and returns to Nigeria in the next six months to resume the presidency, then he will contest a second term and is almost certain to win giving this a probability of close to 90 percent. This would then lay to rest all speculation about who potential candidates might be. It must be noted however that the relatively smooth functioning of the presidency even while he is away, with Osinbajo taking on the role of 'acting president' is a marked change for the country from when a similar situation in 2009, with president Umaru Yar'Adua and vice president Goodluck Jonathan, plunged the country into a political crisis. This time round Buhari nominated Osinbajo as acting president before going on leave, unlike in the case of Yar'Adua, thus ensuring a destabilizing political vacuum was not created.

If however Buhari remains absent until well into 2018, the chances are that the politicians who make the first move to create coalitions (between the North and South West or North and South East) will retain a first mover's advantage. Tinubu, who was powerful in the South West owing to his former position as governor of Lagos State, was instrumental in creating such a winning coalition with Buhari in the North in 2015. However his hold over the South West is not as strong as it used to be. This does mean that the support of the crucial south western states for an alternative and strong coalition is not a foregone conclusion on the part of anyone at the moment.

The current front runners are Atiku Abubakar, a former vice president with the PDP and now with the APC, and a powerful politician from the North, Nasir Ahmed el-Rufai, who is the current governor of the Northern state of Kaduna. Abubakar has the financial muscle required to contest the election and currently has an edge. He has been touring southern Nigeria extensively, where he will need the support of the region's powerful leaders to win

and is known to be an effective deal-maker. Abubakar is still a member of the APC, but should he choose to make a successful attempt to return to the PDP it could transform the party into a national one again from the regional role that it has now been reduced to. However, it would need other powerful defectors to also move from the APC to the PDP for this transformation to be complete.

El-Rufai, on the other hand, has inherited the organisational capacity of the APC in the North, built up by Buhari, making him a close contender. In the absence of Buhari the probability of one of these two leaders becoming president therefore is as high as 80 percent, albeit with the aid of some 'kingmaker' politicians like Bukola Saraki, the current Senate president and a representative of the 'middle states' in the country. Saraki could swing the fortunes of most coalitions with his support. The chances of Osinbajo contesting however are very low, less than 30 percent, given he is a Southern Christian and that this is still the 'turn' of the North for presidency according to Nigeria's informal power sharing arrangements.

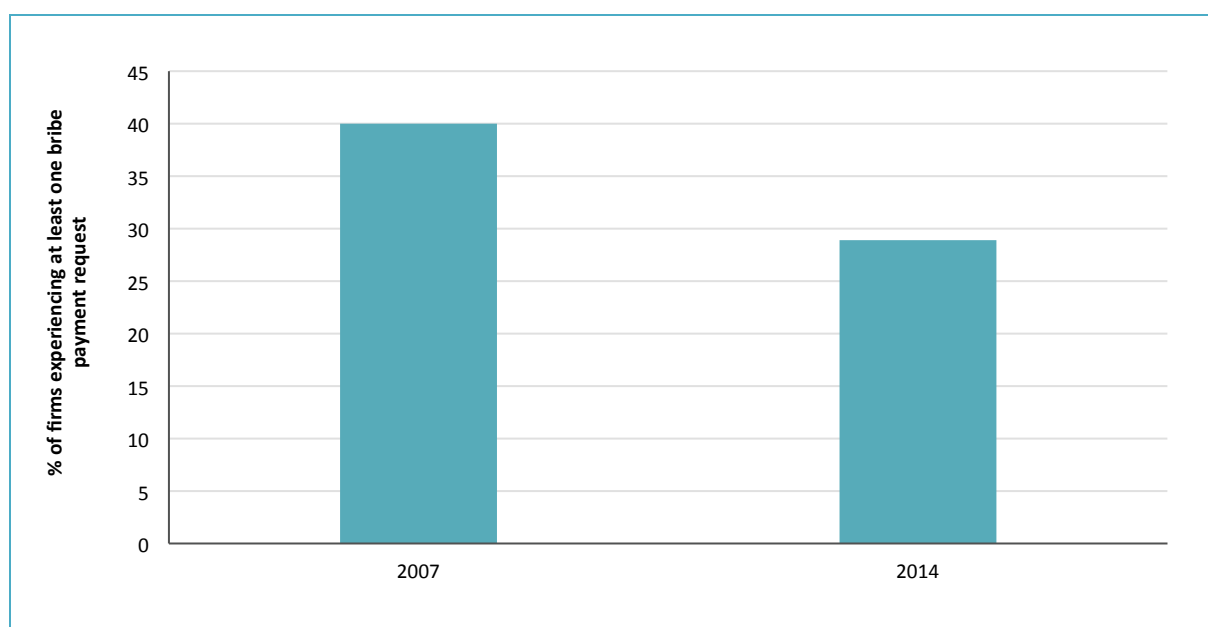
Political networks can break away or set up political organisations with an ease that hasn't been possible before in Nigeria. This has the potential to destabilise rents within party systems and threaten the viability of existing coalitions. Parties can split because political organisers want more rents, not because they are not getting any (Roy 2013). The two main political parties in Nigeria are unlikely to face existential threats given that for them, as one observer said, 'ideology is fungible' and crossing the floor is always an option. This is because the Nigerian parties still lack an institutionalised organisational structure. Mobilisations are based more on the personalities of leaders in the parties. Nigerian governors have been known to be able to mobilise effectively too and control their states. However, the last elections showed that governors are not always able to carry their states with them, as some states with PDP governors voted against the party. This calculation will also now have to be factored in by contenders for the presidency.

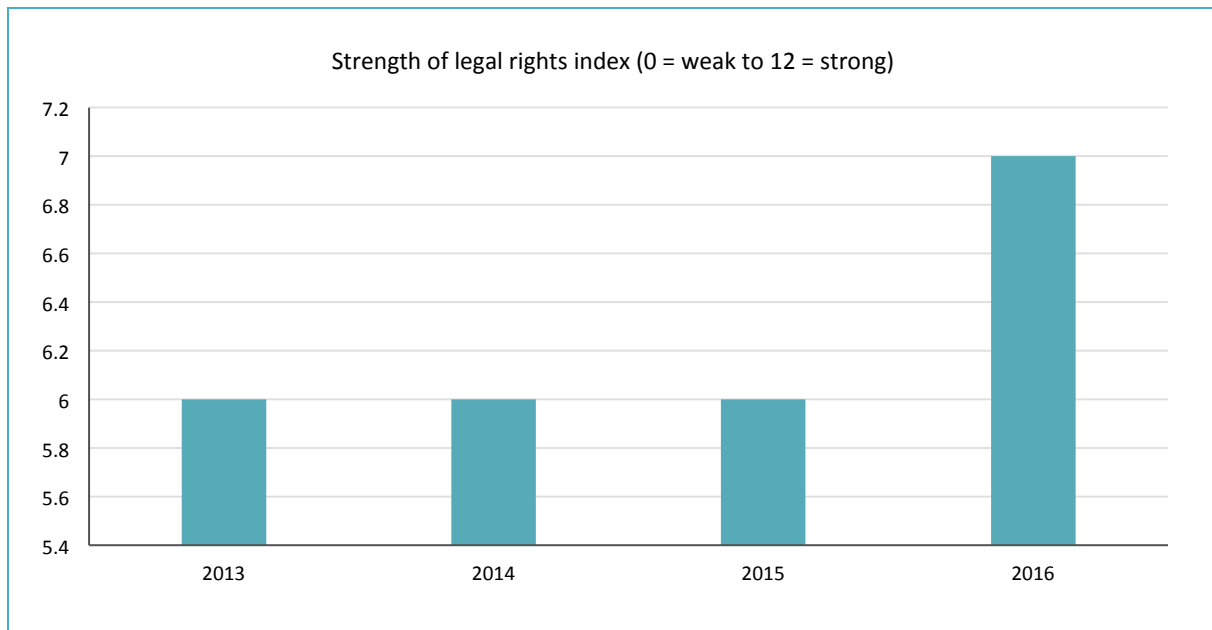
Whatever the scenario, the pre-election period in Nigeria is likely to see more political conflict. And depending on the political coalitions emerging after the elections in 2019 some observers are fearful of the Biafra issue again becoming a serious schism. Some political observers believe the political elite in the South East have become too disconnected from their constituencies, helping dissatisfaction take shape. A return to authoritarianism is unlikely, as low as 10 percent, as the military no longer plays an important role in domestic politics, especially after Obasanjo dismissed a number of senior members of the military. Secondly, given that the opportunities for political representation have now reached fairly deep into the Nigerian polity, usurping power through repressive violence is likely to prove difficult. The need for both wider inclusion and informal redistribution will make *competitive clientelism* a likely feature of the Nigerian political settlement at least in the short to medium term. This also means that some types of rent capture will continue, and that rent recipients will be difficult to discipline. The next section outlines some significant anti-corruption reforms in Nigeria, and indicate areas where reforms have not worked.

4. Anti-corruption in Nigeria

The first anti-corruption bill presented by Obasanjo to the National Assembly during his second term as President, during the transition to democracy, was the Corrupt Practices and Other Related Offences Act of 1999. This was the precursor to the Independent Corrupt Practices and Other Related Offences Commission (ICPC), which is charged with prosecuting offenders in relation to corruption crimes. In 2002 this was followed by the Economic and Financial Crimes Commission (EFCC), which had a more specific mandate of charging those involved in financial crimes, like fraud, financing for terror, and corruption involving oil related payments and activities. Earlier regimes in the country, especially the military ones, were known both for their corrupt practices and their impunity. The regime of Abacha was particularly predatorial, with the general personally handing out oil contracts (Obuah 2010). That regime scored as one the worst performers in terms of the perception of corruption according to Afrobarometer (2015). In Transparency International's ranking for the Corruption Perception Index in 2015 the country was positioned at 136 out of 170 countries. On the other hand, the country has made some progress according to the World's Bank Ease of Doing Business (Figure 8). Of course these are perception indices which come with their own problems. Recent surveys have suggested a mixed bag of results for Nigeria, but mostly suggesting much more work needs to be done.

Figure 8: World Bank Ease of Doing Business





Source: World Bank Ease of Doing Business Indicators (2014 and 2016)

On the positive side the establishment of both agencies outlived the Obasanjo administration. They were set up as part of a broader set of institutional, governance and macroeconomic reforms introduced by that administration. These efforts also included the establishment of the Due Process Office (now Bureau of Public Procurement), set up to increase efficiency and eliminate corruption in public procurement. The country also adopted the Nigeria Extractive Industries Transparency Initiative (NEITI), to improve oil sector governance (Okonjo Iweala & Osafo-Kwakoo, 2007). Other initiatives undertaken by the PDP include the Anti-Money Laundering Regulations Act and the Money Laundering Provisions Act. The EFCC in fact became a benchmark case study for the study of anti-corruption commissions in Africa (Lawson 2009). The EFCC's credibility came under scrutiny however, due to its seeming focus on the prosecution of opponents of Obasanjo (Lawson 2009). Governors who were not seen to be close to him were often targeted by the EFCC. It assumed a lower profile following the exit of Nuhu Ribadu and subsequent actions taken by Michael Aaondaka, the federal Attorney-General under the Yar'Adua administration who sought to make both the EFCC and ICPC less powerful (Ijewereme 2015).

In 2014 the presidency of Jonathan conferred a national honour to Abacha during the centenary celebrations of Nigeria's founding, in the same week as the US government announced it was freezing USD 483m in foreign accounts linked to Abacha. This was thought to be part of the USD 3 billion that Abacha had taken from the country. In a manner this was indicative of the attitude to corruption during Jonathan's tenure in government. Some key indicators in the Doing Business figures over the years of Johnson's presidency suggest an increase in perception of corruption. The strength of legal rights remained low during his tenure, as did the time required to obtain a licence. Such perceptions of high corruption also contributed to his election loss to Buhari (BBC 2015). One of the more prominent corruption scandals during Jonathan's time as president involved his former national security advisor, Sambo Dasuki. He is alleged to have arranged for fake contracts to the tune of USD 2 billion for helicopters, planes and weapons ostensibly to fight Boko Haram. Another instance

brought to light by the chairman of the Presidential Advisory Committee against Corruption (PACAC) referred to Chief Justices of Nigeria who were facilitators for illegal deals (Sahara Reporters 2017).

The PACAC is supposed to be the key advisory body to the president on anti-corruption but reports suggest it has not been able to gain the requisite access to the president, suggesting that anti-corruption drives can be difficult even when some 'political will' is present. Instances of parliamentary corruption were tracked on both sides of the political divide by the media in 2016, when the Speaker of the National Assembly removed the Chair of the Appropriations Committee and allegations were traded about how discretionary allocations of close to 20 percent of the budget were made. In principle, allocations should be based on real expenses and not 'envelopes' to be shared (Premium Times 2015). Nigerian governors are also given a controversial monthly 'security vote', a sum close to USD 1.3m, ostensibly for maintaining law and order in their states but which is completely unaccounted for.

The constitutional basis for the latter is often questioned but never formally challenged, given that this goes to powerful governors (Vanguard 2016; Naij 2016). Pension funds in Nigeria have also been the target of capture, with an Interpol notice out for the former head of a national pension fund who is alleged to have laundered money amounting to NGN 2 billion. Rice import quotas totalling NGN 117 billion have also been misused to benefit enterprises or the 'rice mafia' who did not set up any backward linkages as set out in the Domestic Rice Production Plan (DRPP). Much like the oil refining sector, with its import quotas, companies with rice import permits sold them on to traders who already had vessels with the commodity berthed close to Nigerian waters. Most of the beneficiaries were either politicians, former state officials or businessmen with close political links. Most of the cases above are instances of predatory corruption where theft occurred as a result of collusion between business and state officials.

4.1. Corruption in the oil sector

It is with regard to the oil sector however that the instances of the most opaque and damaging corruption are to be found in Nigeria. Most variants are common knowledge within the country (Sayne et al 2015) and we present below only a summary of some of the more recent instances to provide an idea of how ingrained the problem is. The leakages operate through multiple mechanisms and are deeply entrenched in society. They are therefore too complex to uncover and the effects are not just computable in terms of financial value. The flaring of gas, mostly illegally, leads to losses of around USD 2.5 billion annually (Elaw Advocate 2006). Acid rain caused by the flaring leads to debilitating conditions like asthma and leukaemia (World Bank 2011b.) The Kaima Declaration of 1998, fronted by Ijaw activists in the Niger delta to protest against collusion between the Nigerian government and international oil companies (IOC), can be seen as one of the main reasons for the continuing political violence in the region (World Bank 2011b). Bunkering or the theft of crude directly from pipelines, sustains oil companies and the politically powerful in the oil producing areas. Estimates suggest the loss is 100,000 bpd, close to Cameroon's total production (Huillery 2007). Unemployment in the states producing oil can vary between 18 to 39 percent (World Bank 2011a).

Corruption in the sector can be directly linked to how subsidies have been mismanaged and to ministerial discretion. The national oil company, NNPC, under Jonathan has been linked to many opaque swap contracts, where crude oil was traded for refined petrol. Known as Offshore Processing Agreements, these corrupt deals have sometimes included foreign companies. Companies like Trafigura, Taleveras and Ontario Oil and Gas are currently being investigated (Reuters). The swaps were ostensibly to address the shortfall of refined petrol in the country and linked to the Domestic Crude Allocation meant to feed refineries. However the refineries do not use a majority of this allocation (Sayne et al 2015). These swaps have only now started being renegotiated (Financial Times 2015). Exploration and production contracts given to oil service companies are also largely opaque and handled by the NNPC.

The then Central Bank of Nigeria governor, Lamidu Sanusi, alleged that a politically linked consortium was amassing USD 100m a month by misappropriating oil revenues. Oil prices were high in FY 2013-2014 and the Nigerian buffer fund based on oil exports, called the Excess Crude Account, should have been healthy, but according to the CBN it had fallen from USD 11.5 billion to USD 2.5 billion (BBC 2014). Sanusi was dismissed by Jonathan for making these allegations. The petroleum minister, Diezani Alison-Madueke, in the second Jonathan administration has been implicated in a number of cases where her office intervened in deals including paying bribes from oil sector income to officials of Nigeria's Independent National Electoral Commission in order to influence election outcomes for Jonathan. Estimates put the amount at USD 153m (The Nation 2017). A Reuters article on her tenure as oil minister stated that she presided over an "oil sector that leaked tens of billions of dollars during her five-year tenure" (Reuters 2016). Once regarded as one of the most powerful figures in Africa, she was arrested in the UK in October 2015. An audit from PricewaterhouseCoopers vindicated Sanusi's allegations against Alison-Madueke (Financial Times 2015). High profile cases are continuing to be pursued against her even while she is out on bail in the UK. Any conviction in her cases would be a significant victory for Buhari's anti-corruption campaign, which has somewhat flagged.

The NNPC was also responsible for a kerosene fuel subsidy that did not reach most Nigerians, though it was recovering the money by billing the treasury. The Petro Equalization Fund that was supposed to compensate for oil transportation costs to different parts of the country (so that all regions pay a uniform price for petroleum), is also often misappropriated. As a result, some parts of northern Nigeria pay between NGN 200 to 300 per litre, which is well above the administered price. Import quotas have hampered domestic refining capacity as the incentives to produce locally are skewed in favour of importing refined petrol. The three refineries in the country operate at less than half their capacity (U4 2009). Diesel is also imported illegally to fuel the thousands of generators that run Nigeria's households and small businesses.

Given that illegal activities like these provide quicker and higher returns than the short to medium term returns from setting up domestic refining and production capacity, the odds against developing domestic supply are high. Importers use their quotas to divert imported fuels, sell them on to smugglers and make super-normal profits. Another high profile oil sector scandal has been that of the allocation of the Malabu oil field with very significant

reserves, with alleged kickbacks of USD 1.3 billion involving Royal Dutch Shell, Eni, and the Jonathan administration. Nigeria is famous for 'briefcase' or shell companies in the oil sector that buy oil from NNPC and then sell on to companies like Trafigura and Gunvor (Panama Papers; Sayne et al 2015). The available research and the national and international media thus provide substantial evidence of opaque deal-making and rent capture in the oil sector, amounting to billions of dollars every year.

4.2. Anti-corruption in the new dispensation and its effects

The EFCC has been given new lease of life under the Buhari administration's anti-corruption programme, as it is prosecuting some high-profile cases including some outlined earlier. The Buhari government has also implemented or carried through other reforms, like introducing the Bank Verification Number (linking all bank accounts to this unique number in order to reduce unaccounted-for money), though the concept was introduced by the Jonathan administration. The Treasury Single Account was introduced, the NNPC now publishes monthly accounts and the PACAC was constituted. The implementation of the TSA was begun during Jonathan's administration, although its roll-out was completed under Buhari. Kaduna also became the first state to adopt the TSA under Governor El Rufai. Biometric voter identity cards were introduced in the last general election under the Jonathan administration, helping to reduce electoral fraud. Nigeria has also recently signed the Multilateral Competent Authority Agreement (MCAA) for implementing the exchange of country-by-country (CbC) reports. This gives Nigerian tax authorities access to information on the multinational corporations of members countries, to collect data on issues of transfer pricing and base erosion and profit shifting (BEPS). BEPS refers to legal but iniquitous tax planning strategies that exploit gaps in tax laws to artificially shift profits to low or no-tax locations, where there is little or no economic activity. This is disadvantageous for local firms who do not have access to such jurisdictions.

Another feature of the anti-corruption plank is the whistle-blower policy, which entitles whistle-blowers to between 2.5 and 5 percent of the amount recovered (This Day 2016). This has had the unintended consequence of many family members reporting on their relatives in the hope of sharing some of the wealth. The Buhari administration has also made aggressive use of foreign exchange regulations to prevent capital flight in a situation where Nigeria's foreign exchange reserves were depleting. Added to this has been the use of high tariffs on a range of products like rice, sugar, tomatoes, drugs and cars, to promote domestic production. These were introduced by the Jonathan administration but Buhari has retained them, despite evidence that smuggling has increased while local production has not. Media reports have often criticized these policies because they have failed in the presence of rampant smuggling and in addition prices of essential imports like medicines have been rising (Reuters 2015; Nigeria Today 2017; Business Day 2017).

Other efforts to combat smuggling and help local industry include directives like making it mandatory for the Nigerian Police force to source textiles for uniforms that are made in Nigeria, rather than using smuggled textiles. These policies can give rise to market restriction-driven corruption, as unnecessary red tape can provide an excuse for officials to ask for bribes. Incidentally the CBN has come in for criticism because of the opaque and

inefficient manner in which it operated auction windows to cater to forex demand (Punch 2016). In a somewhat ironical development at odds with these efforts, the government is having trouble confirming the presidential choice for EFCC chairman as the Senate president and some of his supporters have been blocking the appointment. This is despite the Senate president currently being from the APC though he was in the PDP before the last election.

These contradictions within government highlight the difficulties in pursuing anti-corruption agendas in developing countries. As highlighted in section 3, rent-seeking can have welfare enhancing outcomes if the rent is used for productive purposes. This implies an amount of discretionary decision-making on the part of the executive that does not always map on to anti-corruption efforts. This is a nuanced analysis but, for instance, in the presence of market failures in the financing of learning, enterprises in late developers can sometimes use discretionary allocations to build organisational capability and become competitive (Khan 2013; Roy 2013). A paradoxical effect of stringent anti-corruption measures across the board in Nigeria is that businesses can become loath to make new investments in emerging industries, using access to informal rents for fear of being investigated. High tariffs in a situation where local capability is still far from being developed means smuggled goods are meeting the shortfall. And local banks have figured out ways to avoid the official exchange rate and indulge in 'round tripping', where funds obtained at the official low rates are round-tripped internationally to achieve higher rates of return. Many banks also sell foreign currency on the black market, as most Nigerians do not have access to foreign exchange at the official rate. This makes money for dealers and banks but leaves those who need forex for genuine business transactions at a disadvantage (Nigerians Talk 2016).

Serious local producers who were willing to invest see no point given the low prices at which smuggled goods are sold, and those who have invested are losing money. This lack of investment is exacerbating the slowdown in the economy, and Buhari is being openly criticised for being more enthusiastic about anti-corruption efforts than about efforts to revive the economy. While business is hampered by uncertainty, Buhari is unable to rein in the Senate president, as he is a powerful functionary in the APC, who brought in a set of important supporters from the PDP at a time when the APC needed political support to match the PDP. There is no doubt that the anti-corruption efforts of the Buhari administration need to be lauded, but they also need to be more strategic and targeted. A very broadly-defined anti-corruption policy cannot be effectively implemented given the characteristics of developing country political settlements. Partial implementation can adversely affect the needs of a growing economy, especially where enterprises in many sectors have low capabilities and require access to formal or informal rents in order to achieve any learning opportunities. Equally, ambitious rule of law reforms are difficult to implement when political transfers, even when illegal, help to build networks of support within political parties and cement disparate regions and groups together. Political corruption will be difficult to eliminate without substantial increases in formal transfers through the budget. According to our analysis of political settlements, sectors with credible potential for productivity growth need to be identified where support from some of the players can be mobilised to implement reform at the sectoral level. Once a broad based productive economy begins to emerge, support for more ambitious rule of law reforms will be easier to come by (Khan et al 2017). The next section identifies some of these sectors and opportunities in Nigeria.

5. Strategic opportunities for anti-corruption in Nigeria

A recent report by PricewaterhouseCoopers estimates three scenarios to simulate “foregone output” and “output opportunity” for Nigeria, based on the country catching up with Ghana, Colombia and Malaysia. In each of the cases Nigeria’s GDP could be respectively USD 327bn, USD 270bn and USD 534bn higher in 2030, if corruption can be brought down to the levels of these countries (PricewaterhouseCoopers 2015). The policy solutions that are suggested to achieve this are systemic anti-corruption reforms, like improving transparency and public sector reform. As long-term goals these are necessary reforms. However, as this paper highlights, ambitious anti-corruption reforms that do not take into account the political settlement are likely to be met with resistance and failure. The distribution of power sets the primary constraints for the uptake of different types of policy. The best way to ensure policy success is to identify opportunities for strategic and incremental changes that are actually supported by some powerful players in particular sectors in their own interest.

The guiding principles of our selection of anti-corruption efforts at a sector level are feasibility and impact. Both can be assessed using a mapping of rents and political settlements at the national and sectoral levels. We have adopted a sectoral approach because we believe reform in these adverse contexts has to be low key, and focus on sectors and issues where some powerful sectoral players will support anti-corruption in their own interest. We have also identified sectors with productive potential, especially in terms of contributing to broad-based, inclusive employment. Every country has sectors and pockets of productivity where entrepreneurs will welcome reform, because specific types of anti-corruption will help them to be more profitable. This is particularly likely if they are already close to achieving competitiveness. Growth-enhancing policies in such sectors are less likely to get captured, given that competitive opportunities are likely to be sufficiently attractive and may induce productive coalitions to support efforts to reduce unproductive rent capture by the corrupt. For instance, while successful reforms in the oil sector may have a very high impact if they could be implemented, we do not think it is immediately feasible to implement effective anti-corruption reforms in the oil sector (despite the privatisation bill pending in parliament). The interests involved are far too powerful and the stakes too high to feasibly change these processes significantly in the short to medium term. There are, however, sectors like textiles, pharmaceuticals or skills development where anti-corruption reforms could be both feasible and impactful. Figure 9 below outlines the research areas that we feel should be prioritised based on our analysis of the Nigerian political settlement.

Figure 9: Sectoral research opportunities in Nigeria

ACE Sectors \ ACE Strategies	Public goods & infrastructures	Productive sectors & skills	Health & health care delivery	Governance Agencies	Media
1. Aligning incentives	Power (BNT)	Business Groups (BNT)	Health providers (BNT)		
		Skills (BNT)			
		Rice Value Chain (N)			
		Textile & Garments (N)			
2. Designing for differences		Secondary Education (BNT)	Pharmaceutical Production (BNT)		
3. Building coalitions		Fertilizers (NT) Extractives (N)	Health Social Accountability (BNT)	EFFC (N)	Media (BNT)
			Bribery Game (N)		
4. Resolving rights	Land (BNT)				

ACE Strategies
1. Aligning incentives

These will be strategies to restructure incentives. Here, the focus of the anti-corruption strategy is to change the relative returns to activities in different parts of a connected production or value chain to create support for specific anti-corruption initiatives.

2. Designing for differences

These are strategies to enhance compliance by addressing differences in organizational interests. Here the focus of the anti-corruption strategy is to address differences in the interests and capabilities of different types of organizations to enable the potentially compliant to comply and selecting appropriate strategies for dealing with others.

3. Building coalitions

These are strategies of organizing collective action. The primary focus of these strategies is to organize groups to engage in effective collective action to support the enforcement of particular aspects of an anti-corruption strategy.

4. Resolving rights

These are strategies for addressing contested rights.

Some corruption problems emerge because there are overlapping or contested rights and the only resolution available to the contesting parties may be to engage in corruption as a way of resolving disputes. See Khan et al (2017) for more details.

(N): projects that only cover Nigeria, (BNT): cross-country projects that cover Bangladesh, Nigeria and Tanzania.

Source: Author

Our scoping studies have identified a large number of projects in the public and private sectors that involve productive activities, skills development, health and infrastructure. We have a project on the **extractives sector** because though our analysis suggests systemic reform will be difficult to achieve, the data and evidence collected by mapping the interdependent policies that create rents for different organisations and interests in the sector will help us gain a much better idea of how and where the capture takes place and the extent of the damage. By interdependence we do not just mean how the NNPC works through its subsidiaries and networks of middlemen. 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. For instance, relatively simple healthcare delivery solutions might mitigate the environmental externalities, given that stopping companies from polluting may only be achievable in the long term. The ultimate goal has to be to stop companies from polluting, but that is a long-term solution given the distribution of power. In these types of areas, anti-corruption strategies could be mitigation strategies that can be designed in incremental ways.

Our **fertilizer sector** research will extend work done on the relative success of the Growth Enhancement Support Scheme and interrogate the extent to which technology can reduce unproductive subsidy capture or whether technology can still be manipulated by the local power structure. Given the interest in and obvious advantages of using technology as an enabler in anti-corruption reform, this project is likely to produce new evidence on how technology and the distribution of power interact in local contexts.

Rice and textiles were chosen because both sectors are being adversely affected by cheap imports, both legal and illegal. Rice is a staple in the country and provides subsistence and livelihood to many small farmers, including female-headed households. The effect of import tariffs and smuggling on this important segment will be explored and feasible anti-corruption measures assessed. The textile sector has huge employment potential, and it did live up to this it until a few decades ago. Though the sector has recently been declining, there seems to be ample scope for development of artisanal supply chains and networks that can be linked to export markets, similar to strategies in countries like India. Anti-corruption can be pursued at the sectoral level, in the context of interdependent policies that support productive activities by organisations that reduce the incentive for corruption, and create support for anti-corruption activities of these specific types.

Vocational skills and education are of significant importance to Nigeria for obvious reasons. The technical education sector has to become more market-facing and the needs of very heterogeneous firms across sectors have to be taken into account while designing policy. One reason why skills programmes fail in developing countries is that employers lack the capabilities to use skilled workers effectively and are therefore unwilling to pay a premium for better-trained workers. This is an important reason why skills trainers engage in corruption to get their funding released, when this is linked to successful employment or wage increases of their cohorts. Reducing this type of corruption may require recognising and addressing the differences in capabilities of both employers and trainers, and developing joined-up strategies where a majority of employers and trainers can behave productively without engaging in corruption. This can help create sectoral support for anti-corruption strategies. The issues around corruption in education involve local government and social accountability and our research design will take this into account.

Our project on strategies of **accumulation** will provide a key source of evidence on the development of the private sector as we will trace the evolution of successful business

houses across our three countries. The project will analyse the different forms of state business relationships and the continuum along which patron-client relationships work to identify when rents are used for productive purposes and when they are likely to get captured. This could have significant bearing on policies for private sector led growth.

The problems in the **power sector** are similar in nature to the oil and gas sector, largely because the main issue in Nigeria is the supply of gas and the consequences of a cost reflective tariff. Though this is a quasi-public good, the sector in Nigeria is mostly privatised and hence solutions would need to involve the private sector. Corruption in the sector is driven by policy capture by politically connected firms in generation and distribution. Our research will look at generation alternatives that are less capital intensive and involve the possibility of bringing together manufacturing associations for embedded generation. Anti-corruption in power generation, and therefore more efficient generation and distribution, may be easier to achieve by developing other strategies of generating power. Our other project in the public goods category is on land. Property rights over **land** are complex in most developing countries due to their colonial histories and the transition from traditional landholding structures to modern land rights that support capitalist land markets. Communal, traditional and modern definitions of property rights co-exist, making many transactions opaque and subject to political interventions and pricing out the poor from effective strategies of protecting their rights. Our research on land will explore the best methods to resolve these conflicts.

Our **pharmaceutical and health sector** projects will look at the health supply chain from end to end. At one end of the spectrum we will explore how local pharma producers can increase productivity and overcome the problem of smuggled drugs and illegal wholesale markets, by undertaking corporate governance reforms that will help them build more credibility and access capital markets to build organisational capability and an R&D base. The delivery side will provide insights into incentives of healthcare providers and why they indulge in corrupt practices, such as not attending the public hospitals that employ them and instead diverting patients to their own private practices. Addressing these problems requires a much better understanding of behavioural choices of doctors and other service providers, so that appropriate combinations of policies can be devised to reduce some of these instances of corruption.

Our last category is that of governance agencies and media. The **EFCC** is an obvious choice in Nigeria for a research project on the political underpinnings and limitations of anti-corruption institutions. The EFCC has a number of achievements to its credit, but is also hamstrung by the constraints set by the political settlement. Our research will identify the types of anti-corruption interventions where it has achieved greater success, and explore the implications for targeting its efforts so that it achieves better overall results. Our innovative **bribery game** will experiment with the efficacy of different types of messaging for anti-corruption campaigns, and provide inputs for more effective communication design for public agencies. Finally our project on how the **media** reports on corruption will address the sensitive issue of how reportage can be made more credible and effective. Apart from improving the use of evidence and numbers, we argue that reporting on corruption needs to be mindful of feasible anti-corruption strategies, so that the media does not inadvertently

contribute to mudslinging matches between government and opposition that has little sustainable effect on anti-corruption. This is a challenging goal, but we believe the ACE approach can have a significant effect on defining sustainable anti-corruption strategies and we will use the media project to test aspects of our hypothesis on how anti-corruption reporting can achieve impact.

Our research projects have therefore been chosen keeping in mind the political economy context of our countries, and are designed to generate evidence and understanding of effective anti-corruption strategies. We have identified coalitions of interest both at the meso or sectoral level, but we will not attempt to devise policy at the macro level as these have frequently been tried and have largely failed because they run up against powerful interests in the political settlement. Our understanding is that these incremental changes will contribute to macro-level anti-corruption in two ways: directly by reducing corruption incrementally in a series of sectors; and indirectly through productivity growth that will create pressure from emerging powerful groups for more systemic anti-corruption efforts, as social power and the political settlement shifts in favour of productive groups.

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Disclaimer: This publication is an output of a research programme funded by UK aid from the UK Government. The views presented in this paper are those of the author(s) and do not necessarily represent the views of UK Government's official policies.

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