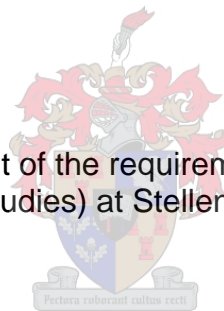


CORRUPTION AS A POLITICAL RISK FACTOR FOR INVESTORS IN THE OIL AND GAS INDUSTRY, WITH SPECIFIC EMPHASIS ON NIGERIA

Identification, Analysis and Measurement

Lone Jessen

Thesis presented in partial fulfillment of the requirements for the degree of Master of Arts
(International Studies) at Stellenbosch University



Supervisor: Ms Derica Lambrechts
Department of Political Science

T a & C G F G

Declaration

By submitting this thesis/dissertation electronically, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

T a&@GFG

Copyright © 201GUniversity of Stellenbosch

All rights reserved

Abstract

The central research question of this study concerns how corruption as a political risk factor should be measured in order to provide an accurate assessment of the risk factor within the oil and gas industry. The aim is to answer this question with the aid and support of two sub-questions that have been identified as crucial in pursuing this research. The first sub-question conceptualizes corruption as a political risk factor specifically within the oil and gas industry. The second sub-question addresses the oil and gas industry-specific indicators of corruption as a political risk factor. The research embarks upon seven industry-specific indicators, by isolating the relevant national political structural and institutional framework, which has proved essential in identifying the level of corruption as a risk to the oil and gas investor. The indicators are regarded as the most salient variables that can measure the level of corruption as a political risk in a realistic and practical approach. The indicators are subsequently systemised into a matrix that is constructed with the aim of using it as a general measurement tool for oil and gas investors. The study argues that this measurement tool can be of use to the oil and gas investor as it contributes to businesses' recognition and anticipation of corruption. The matrix is furthermore applied to the oil and gas industry in Nigeria, in an attempt to test the matrix, and in order to establish how and to what level corruption constitutes as a political risk factor for the oil and gas industry in this country. The result of the indicators demonstrates that the political risk of encountering corruption for the oil and gas investor in Nigeria is of a high level. This study provides a valid basis of constituting how corruption manifests as a risk for the oil and gas investor. Furthermore, the applicability of the matrix provides a practical utility and constructive assessment. This thesis provides a firm foundation for future research in this field.

Opsomming

Die sentrale navorsingsvraag van hierdie studie handel oor hoe korrupsie as 'n politieke risiko faktor gemeet moet word om 'n akkurate bepaling van die risiko faktor binne die olie- en gas industrie te maak. Die doel is om hierdie vraag te beantwoord met die hulp van twee sub-navorsingsvrae wat geïdentifiseer is essensieël on hierdie navorsing te voltooi. Die eerste sub-navorsingsvraag konseptualiseer korrupsie as 'n politieke risiko faktor, spesifiek binne die olie en gas industrie. Die tweede sub-navorsingsvraag handel oor die industrie-spesifieke indikatore van korrupsie as 'n politieke risiko faktor. Die navorsing is gevestig op sewe industrie-spesifieke indikatore, wat geïsoleer word vanaf relevante nasionale politieke strukture en institusionele raamwerke, wat essensieël is in die identifikasie van die vlak van korrupsie as 'n risiko vir die olie en gas belegger. Die indikatore word beskou as die mees prominente veranderlikes wat die vlak van korrupsie as 'n politieke risiko kan meet, as 'n realistiese en praktiese benadering. Die indikatore word gevolglik geplaas binne 'n raamwerk wat gebou is met die doel om dit te gebruik as 'n algemene maatstaf vir die belegger in die olie-en gas industrie. Hierdie studie argumenteer dat die maatstaf gebruik kan word in die olie-en gas industrie, siende dat dit bydrae tot besighede se erkenning en antisipasie van korrupsie. Die maatstaf word verder toegepas op die geval van die olie-en gasindustrie in Nigerië, met die doel om dit te toets en ook om vas te stel to watter vlak korrupsie as 'n politieke risiko faktor vir die olie-en gas industrie teenwoordig is in hierdie land. Die resultaat van die indikatore dui daarop dat daar 'n hoë vlak van politieke risiko vir die olie-en gas industrie in Nigerië bestaan. Die studie verskaf 'n geldige basis om vas te stel hoe korrupsie in die olie-en gas industrie manifesteer. Verder, die toepaslikheid van die maatstaf verskaf praktiese bruikbaarheid en konstruktiewe meeting. Die tesis verskaf 'n stewige basis vir toekomstige navrsing in die veld.

Acknowledgements

I would like to express my appreciation and gratitude to..

... my supervisor Ms. Derica Lambrechts, for not losing faith in me. She has given irreplaceable advice, insightful response and guidance throughout this process. I could not have completed this thesis without her.

...my mother, father and sister for being supportive and given great motivation throughout the course of writing.

...Kjersti Lohne, for always offering her assistance; Voytek Modrzewski for making me believe that I could; Marianne and Kristine for cheering on sideline; Leonardo Erazo Lynch for the many fun, yet unproductive library sessions, Per Filip Lindberg for working his magic to the very last minute.

Contents

Declaration	ii
Abstract	iii
Opsomming	iv
Acknowledgements	v
Contents	vi
List of figures and tables	viii
List of Abbreviations	viii
Chapter One: Introduction	1
1.1 General Introduction	1
1.2 Literature Review	3
1.3 Research Problem	5
1.4 Rationale and Objectives of the Research Study	5
1.5 Research Design and Methodology	7
1.6 Limitations and Delimitations	9
1.8 Conclusion	12
Chapter Two: Theoretical Framework and Contextualization of Political Risk in the Oil and Gas Industry	13
2.1 Introduction	13
2.2 Rational Choice and Problem Solving Theory	14
2.3 Conceptualizing Key Political Risk Terms	16
2.3.1 Risk	16
2.3.2 Political Risk	17
2.3.3 Political Instability	19
2.3.4 Country Risk	20
2.3.5 Quantitative Analysis versus Qualitative Analysis	21
2.3.6 Forecasting versus Prediction	23
2.3.7 Macro Risk versus Micro Risk	24
2.4 Contextualizing Political Risk in the Oil and Gas Industry	25
2.4.1 Contextualizing the Oil and Gas Sector	26
2.4.2 Contextualizing Political Risk in the Oil and Gas Sector	26
2.5 Conclusion	29
Chapter Three: Corruption as a Political Risk Factor in the Oil and Gas Industry	31

3.1 Introduction.....	31
3.2 The Growing Focus upon Corruption in Foreign Investments.....	32
3.3 Defining Corruption in the Oil and Gas Sector.....	34
3.2.1 Defining Corruption in the Oil and Gas Industry.....	38
3.4 Indicators of Corruption in the Oil and Gas Industry.....	41
3.4.1 Generic and Industry-Specific Indicators of Corruption in a Country.....	41
3.4.2 The Matrix: Corruption as a Political Risk for the Oil and Gas Investor.....	53
3.5 Conclusion.....	56
Chapter Four: Applied Theory: Corruption as a Political Risk for the Oil and Gas Investor in Nigeria.....	57
4.1 Introduction.....	57
4.2 Measurement of Indicators.....	57
4.2.1 Indicator of Level of Corruption in Oil and Gas Industry: Separation of Powers	57
4.2.2 Indicator of Level of Corruption in Oil and Gas Industry: Monopoly Power and Discretionary Power.....	60
4.2.3 Indicator of Level of Corruption in Oil and Gas Industry: Monitoring, Accountability and Transparency.....	64
4.2.4 Indicator of Level of Corruption in Oil and Gas Industry: Judicial Structures.....	68
4.2.5 Indicator of Level of Corruption in Oil and Gas Industry: Capture Economy.....	70
4.2.6 Indicator of Level of Corruption in Oil and Gas Industry: Inequality and Development.....	72
4.2.7 Indicator of Level of Corruption in Oil and Gas Industry: Perceptions of Corruption and Anti-Corruption Measures.....	75
4.2.8 Overall Risk Rating of Nigeria.....	75
4.3 Conclusion.....	76
Chapter Five: Conclusion.....	77
5.1 Introduction.....	77
5.2 Course of the Research Study.....	78
5.3 Evaluation of the Research Study.....	79
5.4 Critique of the Research and Suggestions for Further Research.....	82
5.6 Conclusion.....	83
Bibliography.....	84

List of figures and tables

- Table 1: Definition of Corruption as Defined by a Particular International Organization 36
- Table 2: Types of Corruption 38
- Figure 1: Actors involved in corruption 37
- Figure 2: Key Actors in International Business Corruption 39

List of Abbreviations

ADB: Asian Development Bank

BP: British Petroleum

BTI: Bertelsmann Transformation Index

CCB: Code of Conduct Bureau

CEO: Chief Executive Officer

CSO: Civil Society Organisation

CSR: Corporate Social Responsibility

CPI: Corruption Perception Index

D.N: Dagens Næringsliv

DOJ: Department of Justice

DPR: Development of Petroleum Resources

EFCC: Economic and Financial Crimes Commission

FDI: Foreign Direct Investment

FOI: Freedom of Information Bill

FPCA: US Foreign Corrupt Practices Act (FCPA)

GCB: Global Corruption Barometer

ICG: International Crisis Group

ICPC: Independent Corrupt Practices and Related Offences Commission

INEC: Independent National Electoral Commission

JV: Joint Venture

NAPIMS: National Petroleum Investment Management Services

NDDC: Niger Delta Development Commission

NEITI: Nigeria Extractive Industries Transparency Initiative

NGO: Non-Governmental Organisation

NEEDS: New Economic Empowerment And Development Strategy

NNPC: Nigerian National Petroleum Corporation

NOC: National Oil Company

OECD: Organisation for Economic Cooperation and Development (OECD)

PDP: Peoples Democratic Party

PIB: Petroleum Industry Bill

PPA: Public Procurement Act

PRA: Political Risk Analysis

PSC: Production Sharing Agreement

PTDF: Petroleum Technology Development Fund

PWC: Price Waterhouse Coopers

SEC: Securities Exchange Commission

T.I: Transparency International

U.N: United Nations

UNDP: United Nations Development Program

U.S: United States

WB: World Bank

WTO: World Trade Organisation

Chapter One: Introduction

1.1 General Introduction

Modern society and industry are virtually impossible to envisage without oil and gas, which are the essential foundation and drivers of the vibrancy of today's world economy. The oil and gas industry is in a position where it has to sustain equilibrium between domestic and international supply and demand. At the same time it has to maintain a level of profit that assures sustainability and continued existence in the market (Boshoff, 2009). As oil and gas are ultimately finite resources, investors continuously seek opportunities in regions and areas where oil and gas have been identified.

Private foreign investment in oil and gas¹ dates back to the beginning of the 20th century, where the host governments in the Middle East granted foreign companies concessions, providing them with the exclusive rights to exploit the natural resources of a specified area (Lax, 1983: 21). The internationalisation process of the oil and gas industry started escalating in the 1930-40s and an increasing number of private actors have entered the scene throughout the past century, contributing to a growing competition of access to oil and gas. On par with the globalisation trend of the past century, there has been an increasing flow of foreign direct investment (FDI) worldwide, with the oil and gas industry as one of the dominant ventures in this respect. Today, multinational corporations around the world compete in capturing an early market share in the oil and gas sector, as the gap between supply and demand is getting narrower.

At the same time that internationalisation and investments in the world have increased, multinational enterprises have, as a consequence, become exposed to a number of risks of various kinds, one of them being political risk. Political risk implicates the possibility of negative effects for a company due to political actions or inactions² (Brink, 2004: 18). Investment in foreign territories can present several factors of risk that may result in “not receiving expected returns, making fewer gains on the investment, or losing the investment entirely” (Brink, 2004: 1). Berlin et al. (2003: 1) define risk as “a constantly present factor in business decision-making process, and determining appropriate ways to manage and mitigate risks is crucial to the ultimate success of any new investment or expansion of already existing business operations”. For instance, the legal relationship

¹ The focus on natural gas was traditionally low-key, until it started to assume international political proportions from the early 1980s (Lax, 1983: 6)

² Chapter Two will treat the conceptualisation of Political risk and related concepts

between oil and gas companies and host governments has changed considerably since the original concessions were granted. Over time, bargaining power and project agreements have increasingly favoured the host states and foreign firms have steadily experienced a diminution of agency in their operations abroad (Lax, 1983: 25). As a result, a number of political risks have emerged from a variety of sources, such as expropriation, currency controls, and requirements for additional local production. The oil and gas companies operating on foreign land are vulnerable to foreign governments' decisions as they can affect the production or operation. In addition, there are an increasing number of factors that have caused financial, personnel or operative losses to the oil and gas industry. Investments often take place in destination countries that are unstable, unpredictable, complex or hostile.

Political risk analysis has therefore increased in importance and is now of great value to the oil and gas industry to help understand and evaluate the environment that the company will work in. Political risk analysis assists in the investment process that often requires large sunk costs upfront, staff to relocate to project site, reliance on local infrastructure and institutional safeguards and inputs (material and labour). By not including political risk analysis, all these mentioned risks will remain unknown to the investor.

Many of the political risks faced by the oil and gas sector originate from the relationship between the oil and gas companies and the host government. The conduct and arrangements are often different in foreign countries and the practices are dissimilar to their familiar business etiquette at home. Corruption is one such phenomenon that may be part of the accepted business environment in some countries, whilst not in others. Although corruption is not a new phenomenon, it has recently entered the stage of interest in political risk assessment and is acknowledged as hazardous for the oil and gas company's profit. Corruption is firstly a market failure, which implies an irregularity in the free market logic that can harm or hamper profit. Involvement in corrupt practises also counters corporate social responsibility (CSR), which may destroy the reputation of companies, and, furthermore, have judicial and financial consequences. The growing focus on corruption and corporate social responsibility in foreign territories has been translated as a political risk factor for oil and gas companies investing abroad. Many oil and gas ventures have (or are currently) operating in countries where various forms of corruption are inherent in the state's modus operandi, making the oil and gas companies particularly exposed to the risk of encountering corruption. The media and a number of

Non-Governmental Organisations (NGOs) have contributed to enhance the focus on corruption both on the domestic and international scale (Global Compact, 2008: 13). In turn, several governments and international institutions, such as the World Trade Organization (WTO), the United Nations (UN) and United States (US) stock market have responded with the implementation of laws and regulations, as mechanisms to mitigate different companies' involvement in corruption³, including in the oil and gas sector.

Although the various measures and efforts to counter corruption are evolving in the oil and gas industry, where some of them have been mentioned in previous paragraphs, certain scandals demonstrate that corruption still occurs. An example is Norwegian Statoil that had to pay a fine of \$21 million after admitting to having paid bribes to Iranian officials (Dagens Næringsliv, 2006). Other oil and gas companies, such as Total and British Petroleum (BP), have also been investigated and convicted for involvement in corruption (Dagens Næringsliv, 2006). As such, corruption stipulates a political risk to the investor in the oil and gas industry. However, corruption as a political risk factor has been a complex factor to determine in an overall risk analysis, as it manifests itself in many forms of varying degrees of severity. The major reason for this is that there is a lack of consistency in defining corruption as a political risk factor and a disparate understanding of the threshold of acceptance for corruption. In order to mitigate and manage corruption as a political risk factor, prior to and during the investment process, corruption in the oil and gas industry needs a definition with specific and measurable indicators. This study will provide an extensive investigation on how corruption constitutes a political risk factor in the oil and gas industry and determine how it can be measured as part of a political risk analysis.

The next section of this chapter will provide an overview of the literature that is used as a foundation for the thesis. The third section presents the research question, which will be the anchor point throughout the study. Section four addresses the rationale and objectives of the research study, while the fifth section will establish the research design and the methodology that will be applied to the study. The sixth section addresses the delimitations and limitations of the research, and section seven presents a readers' guide. The final section of this chapter provides the conclusion.

1.2 Literature Review

The literature and data utilised in this research have been divided into four major themes; 1. Political risk analysis and the theory behind it, 2. Political risk in the oil and gas industry,

³ Chapter three will treat corruption as a political risk factor and discuss the control mechanisms of corruption that affects businesses.

3. Corruption and causes of corruption in the oil and gas industry, 4. Corruption and causes of corruption in the oil and gas industry in Nigeria. The first and second themes are included in Chapter Two, the third theme forms the foundation of Chapter Three, and the fourth is covered in Chapter Four.

The first theme concerns the literature on conceptualisation of political risk analysis and theory that relates to political risk analysis as well as some theory of decision-making and rational choice. The theoretical framework in the first theme is provided with the aid of Brink's 2004 book, *Measuring Political Risk: Risks to foreign investment*. Furthermore, articles by Robock (1971), Kobrin (1978,1979), Kaplan and Garrick (1980), Fitzpatrick (1983), Simon (1982), Lindeberg and Morndal (2002), Jensen (2005), Alon et al. (2006), Hough et al. (2008) and Bremmer (2009) will be used for their theoretical and conceptual contribution to the field of political risk analysis.

The second theme focuses on political risk in the oil and gas industry, which will also be treated in Chapter Two. The literature covered on this area includes "*Political risk in the oil and gas industry*" by Lax (1983), Bremmer's "*The Fat Tail*" (2009), articles from Berlin et al. (2003) and Alon et al. (2006). These books and articles help to provide the link between the oil and gas industry and political risk analysis. Furthermore, they give an insight into the decision-making (risk-assessment) and risk management (risk-mitigation) aspects of political risk. Furthermore, articles by Knott (1997), Venter (1997), Alon and Martin (1998), Hallmark and Whited (2001), Boulos (2002), Price Waterhouse Coopers (PWC) and Control Risks (2009) will be used for their contribution to the field of political risk and the analysis thereof.

The third theme revolves around corruption and political causes of corruption, and includes literature that regards the phenomenon, and, furthermore, the legal aspects of corruption in business relations. The literature used includes articles from Control Risks (2009), Wolkers and Hakobyan (2004), Shkolnikov (2002), Neelankavil (2003), Al-Kasim, Søreide and Williams (2008), Webster (2002), Elliott (1997), Oslo Governance Centre (OGC, 2008), Klitgaard (1991), Brink (2004), Alt and Lassen (2008), Azfar and Nelson (2007), Goudie and Stasavage (1998), Tanzi (1998), Kennedy and Di Tella (2001), Schedler (1999), Webster (2002), Hellman, Jones and Kaufmann (2000), Uslaner (2007), Transparency International Norway (2009), TI (2011), Global Corruption Barometer (2010) and Global Integrity (2011).

The fourth theme, covered in Chapter Four, is applied theory. A matrix of corruption as a political risk will be used to assess the case of oil and gas investment in Nigeria. The

literature used for the fourth theme deals with an overview of the political structure and national framework in Nigeria, as well as the background of the oil and gas industry in Nigeria. The main articles and reports that will be used are from Amadi, Germiso and Henriksen (2006), Amundsen (2010), Gillies (2009), Bertelsmann Stiftung (BTI) (2010), Oraegbunam (2005), Republic report (2011), Control Risks (2009), Freedom Info (2011), Global Integrity report: Nigeria (2008), US Department of State (2010) as well as Transparency International (TI) (2009 and 2011).

1.3 Research Problem

Due to oil and gas companies' increased activity in foreign countries, businesses have devoted a larger interest in political risk analysis. In order to evaluate the risk of losing potential profit of an investment and operation, it is of vital importance to conduct a complete political risk analysis. Risk analysis involves the entire process from identifying the risks and assessing them to actually responding to the various risks in one way or another (Lindeberg and Morndal, 2002: 2). In this study the focus will be on corruption as one political risk factor in the oil and gas industry. In this regard, corruption will be conceptualised, identified and assessed. From the discussion in this chapter, the research question is as follows:

- *How should corruption as a political risk factor be measured in order to provide an accurate assessment of the risk within the oil and gas industry?*

To be able to answer this question, two sub-questions have been identified to supplement and support the main research question. They are as follows:

- *How can corruption as a political risk factor within the oil and gas industry be adequately conceptualised? What are the indicators of corruption as a political risk factor in the oil and gas industry?*

1.4 Rationale and Objectives of the Research Study

Many oil and gas companies have developed matrices that estimate how their profitability might be impacted under varying financial scenarios (PWC, 2006). However, many businesses have come to realise that the political landscape also has an immense impact on how markets operate. The political environment ultimately constructs the framework for

the economy as well as the stated policies, and changes in the regulatory political scene can severely affect the investment. Political risk analysis has therefore become considerably important for businesses investing and operating abroad, by the means of identifying, measuring and monitoring the political situation in order to help protect the companies from preventable losses.

Corruption is one of the factors that characterise the political environment in many of the resource-abundant countries, such as Nigeria, Iraq and Azerbaijan, and will consequently affect the investor in one way or the other (TI, 2009). It is thus of crucial interest to businesses to understand and evaluate the potential risk of corruption that can harm or hamper operations and economic returns. As Brink (2004: 3) argues, "one way of solving the problem of not knowing what is "out there", is by knowing what is". Political risk analysis can observe and measure threats such as corruption, which contribute to the recognition and anticipation of such future occurrences for businesses.

Corruption as a political risk factor has become more important in the past decade. This is partially due to the growing number of domestic and international laws and regulations to control corporate behaviour and because of the severe consequences of being involved in corrupt activities. However, as already mentioned, there is a general lack of consistency in defining corruption as a political risk factor, as the activities that constitute illegal corruption differ, depending on the country or jurisdiction. There is also a complexity to find comparative and rigorous means of incorporating the range of outcomes that might arise from corruption, related to oil and gas companies in their international business activities. For instance, certain political funding practices that are legal in one place may be illegal in another. Reports by the United Nations Development Program (UNDP) and the International Crisis Group (ICG) have identified some questionable strategies employed by oil companies in Nigeria; examples of these are paying off village chiefs or government officials for drilling rights (Nairne, 2007: 9). In some cases, government officials have broad or poorly defined powers, which make it difficult to distinguish between legal and illegal actions. For instance, bribery of government officials is illegal and is considered shameful in nearly every society. In other cases, however, the perspectives are very different. Many legal activities may be unethical, and some ethical activities may be illegal (Kennedy and Di Tella, 2001: 1).

Corruption manifests itself in many forms of varying degrees of severity, which creates a blurred distinction of what is tolerable and what is not. With an accurate understanding of where and how corruption as a risk arises in the oil and gas industry,

management can drive higher quality returns to the bottom line (PWC, 2006: 1). It is therefore of crucial importance, and is in the interest for oil and gas companies, to have a stipulated concept of corruption.

In addition to numerous international conventions and organisations that contribute to the prevention of corruption, oil and gas companies must also submit to the provisions of law, either by their home country or to stock market regulations. However, despite current policies, management systems and control, businesses still encounter corruption in certain host countries, an issue that cannot be neglected in decision-making. According to Brink (2004: 95), “corruption implies that a transaction takes place between a corruptor and corruptee”. However, there are still ambiguities as to what transactions this applies to and what defines a corruptor and corruptee. In order to establish how corruption poses a threat to investors, the supply and demand side of corruption needs to be scrutinised. Subsequently, the first objective of this research is to investigate how corruption constitutes a political risk factor for investors in the oil and gas industry. Based on such analysis, the objective is to create a refined and methodical matrix that can be added to a complete political risk analysis for an oil and gas company to use as a contribution to its overall risk profile. The matrix can also be used on its own as a tool to measure the risk of corruption in an oil and gas investment. This will provide useful knowledge of corruption for decision makers in the oil and gas industry.

1.5 Research Design and Methodology

The goal of this research is to assess what constitutes corruption as a political risk factor for investment in the oil and gas industry, and further, to develop a tool for measuring corruption as part of a political risk analysis. The point of departure is to design a viable strategy of conducting the research according to the nature of the research question and the sub-questions. This is called the research design, which is a blueprint of how the research should be conducted (Babbie and Mouton, 2006: 72-79). In order to arrive at the result of the research, the methodology shall provide an action plan for collecting, organising and integrating data for the research. The unit of analysis is corruption in the oil and gas industry.

Corruption can be studied in multiple ways; however, for the purpose of this research, where corruption is treated as a political risk factor, the research methodology will be of an empirical nature based on mainly qualitative research. Corruption is a social phenomenon with a subjective nature. There are examples of quantitative studies of

corruption, but as they are normally limited to a small aspect of corruption, this study will only include their conclusions as a contribution to the qualitative data.

A main advantage of the qualitative method is, according to Holme and Solvang (1991), its ability to show a totality of various variables and therefore give increased understanding of contexts and relations. The choice of the qualitative method corresponds well to the research problem, which requires an understanding of how a large amount of variables interrelate. Also, because corruption is ultimately a social phenomenon, it is best scrutinised by qualitative methods.

Unlike quantitative analysis, there are no clearly agreed rules or procedures for analysing qualitative data (Ritchie and Lewis, 2003: 201). However, for the purpose of studying corruption as a political risk factor, a “grounded theory” is the most suitable approach. Ritchie and Lewis (2003: 201) suggest that grounded theory “involves the generation of analytical categories and their dimensions, and the identification of relationships between them”. This research will thus be designed to systematically identify, develop and relate the concepts that constitute the building blocks of the theory. In other words, this qualitative study will bear similarities to the inductive approach, which implies that generalisations, concepts and hypotheses arise from the information obtained in a study and that theory will be built from data that is collected throughout the study (Merriam, 1988).

The research is micro in its scope as the focus is solely on the oil and gas industry and corruption as the single political risk factor. The research design firstly includes a discourse analysis of what constitutes corruption as a political risk factor. Discourse analysis in this case implies an analysis of the primary and secondary literature in order to identify relevant elements that can be used to operationalise corruption as a political risk factor.

For the purpose of measuring corruption in a political risk analysis in the oil and gas industry, a matrix will be constructed, with low-, medium- and high-risk measurements. Babbie and Mouton (2007: 643) define a matrix as “A type of composite measure that summarises several specific observations and represents some more general dimension”. With regards to the general matrix of corruption in political risk analysis, it will be developed to measure levels of severity for the risk of investment. Reports based on interviews with numerous groups that have dealt with some form of corruption, including oil employees, government officials and researchers, will be used to construct indicators of corruption as a political risk factor. Subsequently the matrix will be applied to a case study

of oil and gas investment in Nigeria and be used to measure the level of corruption as a political risk that is present for the investor.

The purpose of the study will thus be both descriptive and have a practical orientation. Moreover, it will include applied research. The descriptive part will be formed by the discussion of what corruption is and how it occurs. This will assist the development of the matrix, which has a practical purpose. The qualitative data analysis of the information from the secondary literature will be structured into this matrix. Furthermore, the practical part includes the application of the matrix on a case study of corruption as a political risk factor in Nigeria.

For practical reasons, and for the limitations that arises when doing research on corruption, the data collection has been limited to the method of using predominantly secondary literature. The study will thus mainly rely on secondary data, sourcing information from academic books, journals and articles available on the Internet.

For the investigation, there are no pre-determined numbers of parameters to conceptualise corruption, but rather an attempt to take in and evaluate all the variables that are detected to affect corruption as a political risk factor in the oil and gas industry. The research incorporates a case study with the intent to apply the data to a real investment situation in the oil and gas industry in Nigeria. Yin (1994) defines a case study as “an empirical inquiry that investigates a contemporary phenomenon with its real-life context, especially when the boundaries between phenomenon and context are not clearly evident”. In this thesis the purpose of a case study is not to obtain information about the problem area as described by Yin, but to apply the data to a specific case, which is investment in the oil and gas sector in Nigeria. Nigeria has been selected for this research as an investment country in oil and gas for two reasons; firstly because of the country's abundance of oil and gas resources, and secondly due to the strongly rooted history of corruption (Nairne, 2007: 4). Successive military regimes have subjugated the rule of law and facilitated the wanton looting of public funds as well as decapitated public institutions (Nairne, 2007: 4). Consequently, oil and gas companies in Nigeria have encountered a political system in which corruption is inherent.

1.6 Limitations and Delimitations

The research will be delimited to only one political risk factor, corruption, and specified to investment in the oil and gas industry. The research on corruption will further be delimited in its historical span in the sense that the current situation will be regarded in the construction of the matrix. This is because the laws and regulations that have emerged in

the past decades must be taken into account. The data compiled will only be up until July 2011. Any relevant events or information that may occur after that will not be taken into account.

The research treats corruption, which can be perceived as a sensitive topic, from several perspectives. It is therefore expected that a few obstacles and difficulties will arise throughout the research, and a number of limitations have been acknowledged. First of all, the research will not have access to already existing risk models that are either used by in-house analysts or established risk companies' current risk models, as they are considered intellectual property rights of those companies who have developed them. This will not necessarily be an obstacle to the research, as the purpose is to construct a new and general matrix of corruption as a political risk factor in the oil and gas industry. The information used will be gathered from general and academic sources. Other classified or confidential information that regards a company's involvement in corruption will not be included.

There is limited primary data to convey the study and no financial resources are provided to conduct this study, which will not make it possible in this case to do field research. More primary data would have further enhanced the study. However, this obstacle will be overcome by using up-to-date information and descriptive literature of both corruption in the oil and gas industry and corruption in Nigeria. The literature obtained is sufficient in forming a reliable and representative foundation for the purpose of measuring corruption as a political risk in the oil and gas industry.

1.7 Readers' guide

Chapter Two is dedicated to the conceptualisation of key terms related to political risk analysis and the theoretical framework that forms the basis of this research. The theoretical framework will help the reader to understand the principles and function of political risk analysis as well as the numerous aspects involved in the discipline. Furthermore, this chapter will contextualise political risk in the oil and gas industry.

Chapter Three will firstly discuss the growing focus on corruption in the business world and then conceptualise corruption as a political risk factor. Based upon generic indicators of corruption as a political risk for businesses, an matrix of corruption as a political risk factor in the oil and gas industry will be constructed in order to measure the risk factor for an investor.

Chapter Four will apply the matrix of corruption as a political risk factor to a case study of Nigeria. Nigeria has a high record of corruption present in society as well as an established presence of oil and gas companies. The matrix constructed in Chapter Three will be used to demonstrate its function in the case of investment in the oil and gas sector in Nigeria.

Chapter Five will conclude and reflect upon the accomplishments and failures of this research. It will comment on possible improvements. Furthermore, it will look at avenues for future research.

Chapter Two
-Theoretical framework
- Political risk in the oil and gas industry

Chapter Three
-Conceptualise corruption as political risk factor
-Matrix of corruption as political risk factor

Chapter Four
-Case study of Nigeria
- Demonstration of matrix

Chapter 5
- Conclusion

1.8 Conclusion

This chapter has provided a general introduction to the research problem, as well as a technical outline of the research design and methodology, its limitations and delimitations, and a readers' guide to the remaining chapters. The central research problem in this study is to conceptualise corruption in order to find means to measure corruption as a political risk factor in the oil and gas industry. The aim of this research is therefore to construct an matrix of indicators that can measure the level of corruption as a political risk factor in the oil and gas industry. Two sub-questions have been identified to supplement and support the research problem. The sub-questions include conceptualising corruption as a political risk factor by describing the indicators, which are the measurement tools of determining the level of risk. Furthermore, the matrix will be applied to a practical case of investment in oil and gas in Nigeria.

The following chapter will provide the theoretical framework for the discipline of political risk analysis and decision-making theory. It will point out certain key aspects and distinctions of political risk analysis. Furthermore, the chapter will contextualise political risk in the oil and gas industry.

Chapter Two: Theoretical Framework and Contextualization of Political Risk in the Oil and Gas Industry

2.1 Introduction

Multinational enterprises that seek opportunities in new regions and markets are usually faced with a number of unknown realities. Consequently, there is a need for businesses to identify, examine and explain the unknown circumstances, which often can be translated into various risks. The field of risk analysis has therefore become vital to the investor, as it has an important impact upon the evaluation of the profitability of an investment. Risk analysis includes both country risk and political risk, which in practice are two different fields. Although the distinction will be touched upon in this chapter, the purpose of this research is to focus on political risk and the analysis thereof, and not country risk.

For many of the decisions that modern businesses must take, sophisticated and specialised techniques such as large-scale econometric models are frequently utilised. Although judgment also plays a role in the decision process, it is buttressed by product, market, and advertising studies (Kobrin, 2001: 113). Throughout the past decades, businesses have also opened their eyes to the impact that the political environment has on the business and the expected returns. The importance of identifying, analysing and managing socio-political and governmental situations has thus developed as a discipline called political risk analysis.

This chapter has a dual aim; firstly to provide a theoretical framework and conceptualise relevant terminology of political risk analysis, and secondly, to contextualise political risk in the oil and gas industry. In order to illustrate the ground principles on how businesses make choices, the first section will start with a theoretical description of problem solving theory and rational choice theory. The chapter will further discuss key political risk concepts and aspects, which helps to provide a clearly defined point of departure of political risk analysis in the oil and gas industry. In this regard it is important to gain conceptual clarity of what political risk includes (and excludes) and the *analysis* thereof. This will be treated in the first part of this chapter, whilst the second part will explain the large composition of the oil and gas sector, as well as contextualise political risk in the oil and gas industry.

2.2 Rational Choice and Problem Solving Theory

Rational choice theory, also known as rational action theory, is one of the dominant theoretical approaches to understanding human behaviour, actions and choices. The theoretical framework has long been the central paradigm in economics, but in recent decades it has become more widely used in other disciplines, such as Sociology, Political Science and Anthropology (Green, 2002: 2). In colloquial language, rationality refers to 'sane' or 'in a thoughtful clear headed manner'. In Rational Choice Theory, 'rationality' simply means that a person acts upon balancing costs against benefits in order to arrive at a result that maximises advantage. Rational Choice Theory generally begins with consideration of the choice behaviour of one or more individual decision-making units— which in basic economics are most often consumers and/or firms (Green, 2002: 2). An agent's choices reflect the most preferred feasible alternative implied by preferences that are complete and transitive (Green, 2002: 46).

Although rational choice theory is conceived as a *normative model* of an idealised decision maker, and not a *description* of the behaviour of real people, it helps to understand and forecast why certain choices are taken. Rational choice is therefore rather a logical analysis than a psychological analysis of risk and value (Tversky and Khaneman, 1986: 251). The standard arguments for using this normative analysis to forecast and explain actual behaviour, is first of all, that people are generally thought to be effective in pursuing their goals, especially when they have incentives and opportunities. Rational choice can therefore be described as a maximisation process. Furthermore, competition favours rational individuals and organisations. Optimal decisions increase the chances of survival in a competitive environment, and a minority of rational individuals can sometimes impose rationality on the whole market (Tversky and Khaneman, 1986: 251). Risk analysis adds value to the maximisation process by outlining the potential costs versus benefits. If an investor is uncertain of the best option to invest, political risk analysis contributes to manage such uncertainty. Brink (2004: 30) states that "A political risk analysis, once conducted, draws the decision maker's attention to the various problems that political risks might pose to the profitability of the investment". Political risk analysis, in its attempt to manage uncertainties for the investor, can be seen as "a rational attempt at problem solving" (Brink, 2004: 30). According to Bunge (1998: in Brink, 2004: 30), "Rational agents behave as risk-averse persons intent on minimising uncertainty with the help of expert knowledge". The theory of rational choice is referred to in Chapter Three, which discusses

situations where corruption may occur in balancing benefits of engaging in corruption versus the potential costs of exposure.

In all businesses, management and leadership continuously need to make decisions according to what tasks, choices or problems they are confronted with. Closely related to rational choice theory, is problem solving theory and decision-making theory, which refers to evaluating and making a choice. The general theory of problem solving focuses upon how humans respond to unfamiliar tasks and how the decisions are made. Major parts of running a business revolve around problem solving, such as choosing issues that require attention, setting goals, finding or designing suitable courses of action, as well as evaluating and choosing among alternative actions. The practical process of problem solving involves fixing agendas, setting goals, and designing actions (Simon, 1986: 11).

Both problem solving and decision-making require that the management must make a critical decision as to which of several strategies will be followed. Decisions can be strategic, often affecting the long-term direction of the entire company. In scores of lesser decisions, they can be tactical, which focus on more intermediate-term issues, or operational, referring to day-to-day activities within the company. However, all decisions are important to the organisation's well being (Simon, 1986).

Decision making typically follows a six-step process: identify the problem or opportunity; gather relevant information; develop as many alternatives as possible; evaluate alternatives to decide which is best; decide on and implement the best alternative; and follow-up on the decision (Simon, 1986). In order to identify, assess and manage the situation, political risk analysis evaluates both the external environment and the internal position of the business in relation to the environment. As Beroggi (1999: in Brink, 2004: 30) states, "the words 'problem' and 'solving' denote, political risk analysis is concerned with situations in which one or more choices must be made, often under conditions of uncertainty and risk". A political risk analysis, once conducted, draws the attention to the political risks that can affect the profitability of the investment. As such, it becomes clear that solving the problem of "where to invest" or "expand operations" requires observations in order to find potential solutions. Investments in countries that have high levels of corruption requires both problem solving and the decision-making amongst the people involved in the process. Political risk analysis assists in coming to a solution and helps to rationalise the choice.

2.3 Conceptualizing Key Political Risk Terms

From the theoretical grounding of which political risk is based, this section will examine key concepts that are related to political risk analysis, in order to achieve a thorough and higher level understanding of the discipline. As will become clear, there are difficulties associated with defining political risk and there exist various definitions in different literature. A number of conceptualizations from different authors will therefore be examined, before arriving at a definition that will be used for the remainder of the study.

In order to arrive at a functional conceptualization of political risk, it is first necessary to clearly establish what is meant by risk, and secondly, what is meant by risk in a political context. The first sub-section treats the concept of risk and the second sub-section will give a conceptual clarification of political risk, which can be distinguished from political instability. The third sub-section treats the difference between the notion of political risk and political instability. The fourth sub-section distinguishes political risk from country risk, which are two different forms of analysis. However, it will become clear that there is an intricate relationship between these two concepts. Furthermore, some attention will be given to the difference between quantitative and qualitative analysis in political risk in sub-section five, where the methodological problems encountered in political risk analysis will also be discussed. In the sixth sub-section, forecasting and predicting political risk are briefly discussed, and the seventh sub-section examines the difference between micro and macro risk. This research is concerned with industry-specific political risk, and the third section is dedicated to discussing general political risk in the oil and gas industry, before the last section, which will contextualise corruption in the oil and gas industry.

2.3.1 Risk

In a broad sense, risk refers to a potential or possibility of danger, harm, loss or adverse consequences occurring towards something or someone (Thompson, 1995: 7). Words that are commonly associated with risk include: vulnerability, danger, misfortune, adversary, hazard, peril, loss, threat, and these words are commonly used in reference to uncertain situations (Boshoff, 2009). However, it must be noted that in cases of uncertainty and risk, the outcome can be both positive and negative. Risk and uncertainty are both abstract concepts that are difficult to measure with precision (Lindeberg and Mørndal, 2002: 19). Both risk and uncertainty exemplify situations where the outcome may deviate from the estimate or forecast value (Raftery, 1994). Although the distinction between risk and uncertainty is difficult to ascertain and may seem academic, there is a crucial conceptual difference. Lindeberg and Mørndal (2002: 19) provide the following distinction, "A decision

is called risky when the probability that an event will occur in the future is precisely known, for example in a fair roulette game. In contrast, a decision is called uncertain when the probability is not precisely known". Both terms refer to future likelihoods, but risk implies the ability to calculate probabilities and therefore to protect against and manage future contingencies, whilst uncertainty does not (Lax, 1983: 8). Unlike uncertainty, which deals with a subjective potentiality of a loss, risks are measurable probabilities (Lax, 1983:8).

Kaplan and Garrick (1980: 12) explain risk as "involving both uncertainty and some kind of loss or damage that might be received". Symbolically this could be expressed as $Risk = Uncertainty + loss/damage$ (Lindeberg and Mørndal 2002: 20). By itself, risk concerns the deviation of a result of a future event from the expected value. Risk is a dynamic concept that revolves around the probability of changes. Current conditions are not risks; rather, risk stems from changes in those conditions and future occurrences may change the rules (Lax, 1983: 8).

In line with this, Brink (2004: 3) argues that it is better to know what the risks are in order to manage the risks, instead of not knowing or being uncertain. The main task and challenge of risk management "is to transform uncertainty into probabilistic, measurable assessments, or risks" (Bremmer, 2009:17). Brink further states that when threats are recognized, they can be observed and measured. Thereby, one can plan ahead of them occurring and anticipate or manage the threats (Brink 2004: 3). In this study, the concept of risk is central in assessing how corruption translates as a political risk factor for investors.

2.3.2 Political Risk

Political risk can be seen as a related concept to risk, being the analytical process that uses particular variables to forecast the probability of events that may or may not affect an investment (Boshoff, 2009: 16). In other words, political risk can help assess how the business can be impacted under varying political scenarios. As multinational businesses operate in a particular political environment, the phenomenon of risk must be assessed in a political context. Political risk is a type of risk that investors, multinationals, foreign-based organizations and governments face as a result of a political-related situation, an unforeseen occurrence or environmental incident. Political risk can be regarded as "any political change that alters the expected outcome and value of a given economic action by changing the probability of achieving business objectives" (Price Waterhouse Coopers, 2006).

In the literature there have been several attempts to define political risk and provide a description of what factors political risk includes. The definitions of political risk range widely between the general and the specific; however, a conceptual framework has not yet been agreed upon (Fitzpatrick, 1983: 249). According to Fitzpatrick (1989: 249), “The evolution of a body of knowledge concerned with the definition and assessment of political risk has been uncoordinated, due to the absence of a consensus regarding the conceptual framework on which to develop”. The reason lies in that political risk is an interdisciplinary field that incorporates political, social, economic and environmental elements. Political risk analysis derives from social sciences and the nature of social science contains a degree of subjectivity. Brink (2004: 18) stresses that political risk is a nominal definition as many social scientific concepts. The reason for discrepancies in political risk has exactly to do with the nature of nominal definitions (Brink, 2004: 18). Some definitions are rather narrow, whilst others conceptualise political risk analysis in very broad terms. The Institute of Risk Management (IRM) provides an example of a traditional narrow definition by AON Corporation. It states that “Political risks arise from the unforeseen actions or inactions of a foreign or third country. These risks can frustrate the payment and profitability of all types of contract and investment. They can also affect the safe repayment of facilities and loans to financing banks and lenders” (IRM, 2004). The risk company, Control Risk Groups, presents a broader definition. It defines political risk as “Political risks, as defined as all non-commercial risks, are inherent and often hidden in a country’s political, business and cultural environment. They can have financial, operational, security and reputational impacts” (IRM, 2004).

As has been demonstrated, there are multiple definitions of political risk, but a common denominator is the “manifestation of doubt regarding the frequency and consequences of undesirable events” (Brink, 2004:17). For the purpose of this study, Simon’s (1982) definition will be used, which refers to political risk as “the governmental and societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of foreign business operations and investments.” (Simon, 1982: 68)

Simon’s (1982) definition of political risk is used because it includes political risks emanating from the host-country environment, home-country environment, international environment, and the global environment. Furthermore, it views political risk in the general environment context, whilst differentiating between internal and external causes of political risk, and includes both the country factors as well as the industry-specific concerns. This

study will expand Simon's conceptualization by including an economic aspect to the political risk analysis outlined by Alon (1996). The reason to include an economic dimension to political risk is firstly because the economic climate is an important source of political risk. Secondly, politics and economic risks are often inseparable at the experimental level, and thirdly, it provides a more holistic and accurate notion of political risk (Alon and Martin, 1998: 365 in Alon et al., 2006: 625).

Political risk involves assessing whether an irregular political event will occur, and if so, whether it is likely to affect the existing or the potential business (Kobrin, 1978: 114). Examples of political risk include government rule, shifts in power, terror, insurrection, war and civil conflict, health and environmental situation, infrastructure, business trends, corruption and environmental changes, to name a few. The impact of a political occurrence may have adverse affects for an international business. Venezuelan president, Hugo Chavez, illustrates this when his government in early 2007 announced that it had plans to re-nationalize CANTV, one of the first telephone service enterprises in the country. CANTV's shares plunged as investors sold their shares.

On the other hand, a political change can also improve the business climate, such as when the Chinese opened for economic reform and foreign trade, initiated after 1978, the country began to generate significant and steady growth in investment. Political risk analysis can therefore contribute to identify and capitalise on unexploited opportunities (PWC, 2006).

It is important to note that the political environment can change on a daily basis. Although a country appears to have a politically stable environment, the potential is always there that this may change. For those analyzing political risk it is important to maintain the analysis on a regular basis as the political environment is dynamic and continuous in nature. The presence of corruption in a country, which is the focus of this research, is not likely to change on a daily basis; however, as a political risk, it will also need a continuous assessment, as new rules or regulations regarding involvement in corruption may have an impact upon corruption as a risk factor.

2.3.3 Political Instability

Political instability is not the same as political risk (Kobrin, 1978: 114). As Robock notes, "Political instability, depending on how it is defined, is a separate although related phenomenon from that of political risk" (Robock, 1971: cited in Kobrin, 1978: 114). Political instability and political uncertainty are a part of political risk and can be regarded as one criterion that points toward the probability of political risk occurring (Brink 2004: 19).

According to Howell, cited in Brink (2004: 19), “Political uncertainty results from an inadequacy of information, whereas political risk is rather a more objective measurement of the amount of doubt, in contrast to the more subjective nature of instability and uncertainty”.

In a politically unstable country or region, there is a higher potential for violence or physical conflict occurring than in a politically stable environment. This would be a political risk that investors should be advised to either manage or avoid operating in the instable context (Brink, 2004: 19). According to Brink (2004: 19), “The underlying risk that political instability holds for a foreign organization is the possibility that political disequilibrium might result in governmental limitations on producing profits”. In political risk analysis, political instability would function as a variable in assessing the political risks of a country. However, it is important to note that political instability doesn’t necessarily pose a risk to all businesses. Certain industries may not be affected or specific companies may be geographically located in a safe place. An example could be an offshore oil company that is not directly affected by political instability on land. This happened in Nigeria on several occasions, where onshore companies were affected by rebel groups, whilst offshore companies noticed little of the trouble. Political instability is therefore only important if it may be a constraint to the actual or the potential business operations (Kobrin, 1978: 114). For that reason, political instability belongs to the environment, whilst risk is a property of the firm (Kobrin, 1978: 114). The next section examines the difference between political risk and country risk.

2.3.4 Country Risk

Country risk is frequently confused with political risk because both notions are related to analyzing and measuring the potential for loss or gain of a business. However, it is important to note that country risk analysis and political risk analysis are two different fields of scrutiny. Firstly, country risk relates to potential financial losses due to changes or problems that occur at the encompassing country level (Brink, 2004: 19). The main focus is on the financial and market situation of a country, as well as the linkages to the global economy. Country risk is concerned with establishing a country’s debt service ration, loans as percentages of gross domestic product, the size of reserves, or capital and current account credentials (Brink, 2004: 23). Secondly, the usual instruments that are included in country risk are balance of payment sheets, country credit worthiness, and data on debt servicing ratios. Country risk is usually practiced by credit rating agencies that tend to apply quantitative econometric models and have a focus on financial analysis. The country

level (or macro level, which will be elaborated on in sub-section 2.3.7) is the focal point of country risk, as well as the interrelation and interdependencies of global markets.

Credit rating companies have complex measurements to estimate the profitability under varying financial scenarios. However, few have rigorous means to incorporate the range of outcomes that might arise from political risks inherent in the international business activities. Shifts in the political landscape may change the regulatory environment, such as local attitudes to corporate governance, reaction to international competition, labour laws, and withholding and other taxes (PWC, 2006). These are all examples of what country risk does not incorporate, but factors that are included in political risk.

Another example may be if a country is unwilling to service the interest on debts. This would pose a certain degree of risk to lend money to this country. Country risk does not go as far as analyzing the political unwillingness. To assess whether the repayment is due to intended (un)willingness and (in)ability to repay is the mission of political risk analysis. Brink summarizes the distinction between political risk and country risk as follows, "Country risk implies a country's inability to repay loans, whilst political risk relates to a country's willingness to do so. Levels of political risk in a country are not necessarily pegged to levels of country risk and vice versa. A country can experience relatively little country risk, but relatively high levels of political risk". (Brink, 2004: 23)

Brink (2004) argues that it is important that country risk factors should also be incorporated in a political risk analysis. The global economy has significant impacts on several layers of every country, which may in turn have political implications. At the same time, businesses are vulnerable to the reactions of countries that seek to temper the pace and impact of globalization on their institutions and workforce. Due to the clear interlinkages between political risk and country risk, they should always be incorporated in an analysis. The next section elaborates on the two methodological ways to conduct a political risk analysis.

2.3.5 Quantitative Analysis versus Qualitative Analysis

As mentioned above, political risk analysis is multi-disciplinary and based upon socio-political factors. The normative nature of political risk analysis does not allow for complete objectiveness. Some political risk agencies operate solely with qualitative methods and apply them in models or matrices. However, many political risk analysts attempts to quantify traditionally subjective political, economic and social phenomena and apply them into mathematical models. In political risk analysis, both quantitative and qualitative

methods can be used, even hybrid versions have been constructed into political risk models.

Both quantitative and qualitative research conjectures from empirical details of social life. Neuman (2006: 460) distinguishes between the two concepts as follows; “Quantitative research(ers) conceptualize variables and refine concepts as part of the process of measuring variables. By contrast, qualitative research(ers) form new concepts or refine concepts that are grounded in the data”. Strauss and Corbin (1991: 11) describe qualitative research as “findings not arrived at by statistical procedures or other means of quantification”. The qualitative method has the advantage of presenting a totality of various variables, which gives an increased understanding of contexts and relations (Holme and Solvang, 1998). In political risk a large amount of variables interrelate and the qualitative method has the advantage to set these apart. However, qualitative research is by nature exposed by the subjectivity of the researcher and the result may depend on the sensitivity and experience of the person conducting the study (Lindeberg and Mørndal, 2002: 17).

Many companies find that quantitative methods reduce the subjectivity bias of merely using the qualitative methods (Lindeberg and Mørndal, 2002: 31). Nevertheless, it is important to underline that a quantitative approach in risk analysis is usually not significantly more objective since the quantified variables derive from subjective opinions (Ting, 1988). Ting (1988: 145) defines quantitative approaches to risk assessment as “any analytical procedure that is based on data that can theoretically lend themselves to statistical or mathematical operations”. In political risk analysis the quantitative procedure is based on conducting qualitative data into mathematical variables. It is challenging or sometimes unattainable to quantify political risk because of the difficulty of controlling all the variables and replicating the original conditions (Lindeberg and Mørndal, 2002: 3). However, for the sake of systemizing and gaining a more comprehensive overview of the political risk, quantitative research is more feasible.

The measurement and observation of political risk depends to a great extent on subjective human judgement. In order to balance the subjectivity in the analytical procedure, political risk makes use of a model that can reflect researched information in a more objective estimation of risk (Brink, 2004: 2). Brink argues that “a mathematical quantitative model can measure qualitative givens and present calculated results of a political risk analysis” (Brink, 2004: 5). Also, according to Brink “the country specific and comparative analyses should be combined with so-called “soft” political, social and even environmental factors. “Soft” variables can be empirically observed, measured and

translated into numbers and equations and be represented in a compounded result as a calculated risk” (Brink, 2004: 6).

The most obvious distinction between quantitative and qualitative political risk analysis is the way models are used. Yet a few key points should be mentioned on what they have in common. Both models include micro risks within a macro environment. The models are usually industry specific and exclude risks that do not pose a relevant threat. Also, both risk models cater for the specific client and include factors that contribute to validity and reliability of the analysis, which will be indicated by the client’s needs. The skill for both quantitative and qualitative measures is to find the factors and indicators that are relevant for the risk of the investor’s sector and needs. This thesis will be based on qualitative research and qualitative methods. The next section stresses the distinction between forecasting and prediction.

2.3.6 Forecasting versus Prediction

With regard to political risk analysis, an important distinction must be underlined between forecasting and prediction. A prediction implies that particular events will occur within a specific timeframe. A predicted statement states something for certain and accurate and is comparable to a prophecy. Political risk analysts do not predict that risk will occur or when it will happen. This is because certain elements of the analytical process prevent the prediction of specific events (Brink, 2004: 27). Also the analytical method and model does not allow for precise prediction. The projection of outcomes from a given situation can only be probable, because a model that is designed by selected risk factors does not necessarily simulate the complex set of circumstances (Brink, 2004: 27).

Forecasting, on the other hand, implies an estimate of something that may happen in the future. By forecasting, the analysis assesses the probability of whether a given country might pose a certain degree of risk. Where a prediction seems more definite, forecasting includes a probability factor and is based on sound rational basis, empirical evidence scientific theory and systematic, formal procedures of information gathering (Brink, 2004: 28). Political risk analysts stress that there will always remain a possibility of an unforeseen event that is outside the scope of analysis factors (Brink, 2004: 28), such as a natural catastrophe.

Brink (2004: 27) suggests that for political risk analysis “anticipating” or “forewarning” are even more preferable terms to use. The reason lies in that an additional element is present in the connotation of these words, that of partial information. Political

risk analysts attempt to anticipate a probability that risk will occur after careful observation. It becomes evident that the dynamics of the political environment require the political risk analyst to constantly be on top of the changes that occur. The final sub-section illustrates the difference between macro and micro risk.

2.3.7 Macro Risk versus Micro Risk

In political risk analysis there are many specific types of risks to assess, which originate in a wide range of political processes (Brewer, 1981: 11). Macro and micro risk represent two different levels that are both used for the political risk analysis. Macro level regards major sectors of society, entire societies or regions and focuses upon processes that occur between these levels (Neuman, 2006: 61). Micro level regards the smaller sectors of society, often the domestic dynamics or limited dimensions within a country. Kobrin defines macro- and micropolitical risks as follows: “(M)acrorisks (are) environmental events, which affect all foreign firms in a country without regard to organizational characteristics, and microrisks.....are industry, firm, and even project-specific” (Kobrin, 1981: 253; in Alon et al., 2006: 626). Another way of looking at macro versus micro risks can be factors that are of internal origin (from inside a country) and that can pose micro (specific) risks, and/or external origin (from outside a country) and pose macro (generic) risks (Brink, 2004: 1).

Macro risk in political risk analysis can be defined as “unanticipated and politically motivated environmental changes (that) are broadly directed at all foreign enterprise” as opposed to micro risk as “the environmental changes (that) are intended to affect only selected fields of business activity or foreign enterprises with specific characteristics” (Fitzpatrick, 1983: 250). However, both micro and macro risk can emerge from events that may or may not be in the control of a host government.

Macro level political risks are concerned with the large-scale situation of a country or the potential changes that may occur. Macro political risks will affect all businesses in a specific country. Some examples are: the geo-political situation of a certain state, the role of a state in the global economy and international regimes, the balance of payment, regulatory changes, war declarations and government composition changes. These events may pose risks to investment that can alter the intended objective for a business or the way it is conducted.

Micro level political risks are industry-specific risks that are relevant for the given investment because the impact is only on a certain industry. In this study, the terms micro risk and industry-specific risk can be used interchangeably.

Yet, political risk analysis includes both macro and micro risks, as they are continuously entangled. The coupling of local, national, and regional political events often means that events at the local level may have follow-on effects for stakeholders on a macro level and vice versa. As will become apparent with regards to corruption, these levels are all relevant for the full analysis.

2.4 Contextualizing Political Risk in the Oil and Gas Industry

"(For oil companies in Nigeria,) kidnapping is just a cost of doing business. Ethnic militants often kidnap their staff and demand money or jobs (and) oil firms really do hire people to gunpoint, or at least pay them to go away. Shell, the largest operator in Nigeria, said that 10% of national oil output is lost to thieves, who puncture pipes to get at the contents. But these expenses are bearable. It still costs under \$5 a barrel to pump Nigerian crude, so the oil firms will stay". (Another Day at the Office, 2003, quote from Alon et al., 2006: 623)

This example from Shell's experience in Nigeria demonstrates one of the kinds of political risks of an oil company's encounter in its international operation. In the ever-increasing flow of foreign investment in the oil and gas sector, companies compete in capturing an early market share, even in locales that may pose risky prospects. In the modern investment landscape there are several risks that can imply loss of profit. Investments in the extractive industries – particularly oil and gas – have proven to be sensitive to political events because of the visibility of petroleum operations, the importance of oil wealth and income to host governments and the vital role afforded to petroleum policies as the key to development (Lax, 1983: 29). Berlin (2003: 2) states that "an Oil Company must be able not only to find hydrocarbons, it must be able to develop and produce those hydrocarbons at a reasonable profit over time". Political risk is therefore a significant phenomenon in the present day oil and gas investment environment, and companies are forced to dedicate a substantial amount of time and resources in carefully identifying potential risks and the means to manage these risks successfully (Alon et al., 2006: 624).

The object of the first subsection is to briefly contextualize the oil and gas industry in general, in order to create an overview of the many segments involved in this industry. The second sub-paragraph will review the political risk involved in international oil and gas ventures. This is based upon the literature that focuses on the practical and industry-specific material, as well as the literature that treats the historical changes of political risk

in the oil and gas industry. The aim is to provide a more comprehensive and systematic illustration of specific factors affecting the oil and gas industry.

2.4.1 Contextualizing the Oil and Gas Sector

The oil and gas sector includes the oil and gas extraction industry as well as petroleum refining. Industries within the oil and gas extraction industry operate and/or develop oil and gas field properties. The activities that are included are everything from the phase of exploration for crude petroleum and natural gas; drilling, completing, and equipping wells; operating separators, emulsion breakers, destilting equipment, and field gathering lines for crude petroleum and natural gas; and all other activities in the preparation of oil and gas up to the point of shipment from producing property. The petroleum refining industry comprises establishments primarily engaged in refining crude petroleum into refined petroleum.

The activity of the oil and gas sector is commonly divided into the exploration and production of oil and natural gas segment, referred to as “Upstream”. This segment includes cutting-edge geology to high-tech offshore drilling platforms. The other segment is referred to as “Downstream”, which includes refining and marketing. In practical terms, this includes transporting petroleum products by tanker trucks from thousands of local terminals to millions of service stations around the world, as well as the ownership and operation of those retail outlets. An integral part of the oil and natural gas industry are the companies that provide equipment, services, supplies, and design and engineering support for exploration, drilling, refining and other operations. Many are local firms, while others are global manufacturers selling products for operations around the world (API, 2011).

In all the segments involved in the oil and gas sector it is very important to do a political risk analysis, as there are many fractions in this industry that can be affected by a political change. The next section will contextualize political risk in the oil and gas sector.

2.4.2 Contextualizing Political Risk in the Oil and Gas Sector

Although there are many influential factors that are similar for every company operating in a particular country, the significance varies according to the industry and the concerning company, thus the micro risk involved (Alon et al., 2006: 625). Political risk for international oil and gas ventures is a broad concept, encompassing the “non-commercial” landscape (Bolous, 2003: 15). By and large, there are a number of political risks to an oil and gas company that can be identified along several fronts: the prevalent legal rules and

regulations within a given country; war and security issues, governmental economic and fiscal policies; the existence of trade barriers; and so on (Alon et al., 2006: 625). All these risks relate to the host government, its policies and the domestic environment. However, certain political risks weigh more heavily to the oil and gas industry, than what they do to investors in other industries. For example, a banker might consider the balance-of-payments situation to have a greater bearing on his investment decision, whereas the risk of potential wars has a greater impact for the oil producer (Alon et al., 2006: 625).

Energy vulnerability, oil embargoes, environmental activism, and restrictions on oil exports can be identified as micro- or industry-specific variables that solely affect the oil and gas sector. For an oil and gas company, the unit of analysis is thus both the macro and the micro risks; however, it is vital to lay special emphasis on the specific micro variables that may affect them to a greater degree (Alon et al., 2006: 633). As will be arrived at in the next chapter, corruption can be identified as both macro and micro risk; however, in this study it will be treated as a micro risk, as the focus will only be on corruption related to the oil and gas sector. By this is meant that the study will predominantly look at specific instances and places where the industry encounters corruption.

In the assessment of political risk in the oil and gas industry, the relationship between the oil and gas company and the host country is of specific importance. Host governments' assertiveness of control over their respective national economies has centred on the issue of national resources, in particular oil and gas resources (Lax, 1983: 7). Almost every major oil and gas -production agreement abroad has been subjected to renegotiation or unilateral alternation in favour of the host country. In a simplified description, the bargaining advantage is initially with the oil company but continuously moves in favour of the oil-producing country. As the bargaining power of the host grows, the firm is exposed to an increased degree of political risk (Lax, 1983: 30). The past 50 years has empirically verified a logical result of the increasing bargaining power of host governments, by the change in demands on the part of the hosts (Lax, 1983: 31). In the pre-exploration stage of a project, oil companies usually assume the burden of the initial capital outlays involved. After a commercial find, involving expenses that often surpass tens of millions of dollars, the political risk is often so high that a host government will alter the terms of an agreement (Lax, 1983: 7). As Chapter Three will demonstrate, there is a risk of corruption entering the scene in the bargaining stage (as well as in many other stages); a typical situation is during the license tendering process.

Lax (1983: 7) states that “Host governments of all political complexions, and states spanning the gamut from the Third World to the industrialised nations, have intervened to play a larger role in the development and disposition of their petroleum and natural gas resources”. According to Berlin (2003), the political system of a host country, be it capitalist, Marxist, socialist, nationalist, monarchy, or democracy, does not affect the political risk of the investment. Oil and gas companies have worked in and with host countries with all these political systems, sometimes with great success. Democracy or autocracy, North or South, when it comes to regulating foreign involvement in a state’s petroleum and natural gas resources, countries tend to pursue similar goals of maximising domestic economic returns and control (Lax, 1983: 7). Political risk in the oil and gas sector should rather be seen as “changes to the political and socio-economic conditions of the host country from those that existed at the time the agreements in question were originally entered into” (Berlin, 2003).

Important for the oil and gas industry is the level of stability in the host country. Oil and gas companies are influenced to a large extent by risks of wars and external threats, taxation systems, terrorism, civil and labour unrest, corruption, governmental regulations, repatriation restrictions, political instability, energy vulnerability, and environmental activism, to name a few (Alon et al., 2006: 631). It is important to focus on the “potentially significant managerial contingencies that result from political events or processes” and not the events themselves. Political risks are the corresponding effects of political circumstances. An oil and gas firm must be concerned with how change in the political environment will affect that company’s interest and not lose sight of the particular political risks, with their tangible results (Lax, 1983: 10).

Political risks in the oil and gas industry can be classified in terms of the issues involved. Risks can be typed as *transfer*, *operational*, *administrative/statutory*, *ownership*, or *contractual* (Lax, 1983: 10). Transfer risks are concerned with the possibility of government restrictions with respect to the transfer abroad or into the host country, of capital, profits, technology, personnel, equipment, or the actual commodity produced. Operational risks concern the potential of government takeover of operations, or that government control may be used to the detriment of the company’s interests. The administrative/statutory risks are only relevant to direct investment projects. It includes the likelihood that changes in the regulatory climate will affect a project or agreement. Ownership risks involve questions of equity shares and issues of participation, expropriation, and nationalisation. Contractual risks encompass the supply/price issues

embodied in non-equity, non-service-agreement transactions (Lax, 1983: 11). As will become clear in Chapter Three, corruption can occur in a range of forms and situations. Therefore, all the above-mentioned political risk types in the oil and gas industry are relevant when identifying corruption as a political risk factor for the oil and gas investor.

The omnipresent political risks of international operations makes it difficult for companies to neglect political risk assessment and risk management strategies on a continual basis (Alon et al., 2006: 632). Oil and gas companies must adopt specific and comprehensive political risk assessment and strategies with regards to their country of origin and their country of investment. The company itself must judge the impact of political risk, determine the parameters for deciding on political risk, assess its own level of political risk tolerance and, in the final analysis, decide whether political risk will be manageable. Accepting to deal with political risk varies from investment to investment, as Berlin (2003) argues, “there is usually a direct correlation between the degree of political risk that a company is prepared to accept, and the degree of geological potential of the proposed area”. It is ultimately only the company itself that can decide whether or not to invest in an international oil and gas venture (Bolous, 2003: 15). Regardless, political risk analysis can, to a large degree, map out the expected risks involved and assist in the decision-making of an oil and gas company.

2.5 Conclusion

This chapter has provided the theoretical framework for the discipline of political risk analysis and key political risk concepts. It has pointed out certain key aspects and distinctions of political risk analysis. In this context, it has been crucial to establish what is meant by risk and risk for businesses in a political context. Political risk has been defined and distinguished from the notion of political instability. Further on, the difference between political risk and country risk has been emphasized. This study will only focus on political risk. Quantitative and qualitative analysis in political risk has been discussed as well as common methodological problems encountered in political risk. The difference between forecasting and predicting political risk and the difference between macro risk and micro risk have briefly been addressed.

The second part of this chapter has been dedicated to a general overview of the oil and gas sector and dealt with industry-specific political risks in this sector. Although there are many influential factors that are similar for every company operating in a particular country, the significance varies according to the industry and the company concerned. A political risk analysis draws the attention to the political risks that can affect the profitability

of the investment and help solve the questions that arise, of “where to invest” or “expand operations”.

As mentioned above, Alon et al. (2006: 625) argue that political risk for international oil and gas ventures can be identified along several fronts. Corruption, which is the focus of this study, is a phenomenon that can occur in several spheres of a country and translate as a political risk factor for an investor in the oil and gas industry. The following chapter will examine the phenomenon of corruption and create an outline of how it manifests as a political risk for the oil and gas industry.

Chapter Three: Corruption as a Political Risk Factor in the Oil and Gas Industry

3.1 Introduction

In February 2009, US oil services company Halliburton and its former subsidiary KBR agreed to pay a penalty of US\$579 million. This is the largest fine ever paid by a US company in a US Foreign Corrupt Practices Act (FCPA), exceeded only by the Siemens fine⁴. FCPA is one of the three major anti-corruption instruments that empowers the US authorities to prosecute US companies and individuals for paying bribes to foreign officials⁵. The Halliburton/KBR case involved a series of bribes paid to secure contracts to build a natural gas plant in Bonny Island, Nigeria. In September 2008, Jack Stanley, who served as KBR's CEO and chairman, pleaded guilty to FCPA offences: he could face a seven-year prison sentence. (Control Risks, 2009a: 3).

Most international companies have long accepted bribery as necessary for doing business in less developed economies where public officials had substantial control over contracts, licenses, and foreign investment decisions. Until recently, most Western countries even allowed bribery payments to foreign countries as legitimate business expenses (some still do). Times are changing, however, and the anti-corruption movement is growing in the business world.

This chapter will present an overview of the broad spectre of corruption and then move on to explain how corruption constitutes a political risk factor for oil and gas investors. Built upon generic indicators, the thesis will present an industry-specific matrix that can be used as a tool to measure various degrees of corruption as a political risk for oil and gas investors. The next section will present the consequences for business involvement in corrupt activity. The third section will move on to discuss corruption, based upon the works of researchers who have investigated this area in the last twenty to thirty

⁴ Siemens agreed to pay a record \$1.34 billion in fines in December 2008 after being investigated for serious bribery. The investigation found questionable payments of roughly €1.3 billion, from 2002 to 2006 that triggered a broad range of inquiries in Germany, the United States and many other countries. Siemens has been listed on the New York Stock Exchange since March 2001, and was therefore required to comply with the provisions of the FCPA (Control Risks, 2009: 3).

⁵ FCPA first came into force in 1977 and empowers the US Department of Justice (DOJ) and the Securities Exchange Commission (SEC) to prosecute the US companies for paying bribes to foreign officials. The FCPA also covers foreign companies that are listed on the US stock exchanges. The US has been particularly strict in enforcing its anti-bribery legislation, but other countries are catching up. In 1997, all member countries of the Organisation for Economic Co-operation and Development (OECD) signed an Anti-bribery Convention whereby they undertook to implement similar legislation to the FCPA.

years, and arrive at a definition that is most suitable and directed towards the oil and gas industry. The fourth section will then range seven generic indicators that constitute corruption as a political risk factor. Based on the generic indicators, industry-specific indicators for the oil and gas industry will be presented and ranked in a matrix that illustrates how it can be used to measure the level of risk of corruption for the oil and gas investor. The final section of this chapter concludes.

3.2 The Growing Focus upon Corruption in Foreign Investments

Since the early 2000s, corruption has become the centre of attention on the corporate agenda in several countries. This has largely been due to pressure from NGOs, government implementation of laws prohibiting corrupt practices, international institution efforts to set international benchmarks for anti-bribery legislation and attempts to set a global standard. Demand for diagnostic data and analysis on corruption continues to grow, which in turn has an impact on awareness-raising and policy-making processes (Wolkers and Hakobyan, 2004: 2). Think tanks and business associations are constantly working to raise public awareness of the problem of corruption. They are involved, together with representatives of public and private sectors, along with members of the international community, in drafting voluntary codes of corporate governance (Shkolnikov, 2002: 5).

Civil society has also gained considerable impact as conscious consumers and customers that demand transparent business operations. Thus, there has been a significant upsurge in national and international anti-corruption practitioners that exchange information, experiences, training, agenda-setting and networking. As a result, laws and regulations related to the involvement with corruption have become embedded in national and international policies, and an intensified enforcement of criminal justice prohibitions. The US and the Organisation for Economic Co-operation and Development (OECD) countries' actions against foreign companies have become all the more effective because of increased co-operation between US investigators and their foreign counterparts.

Being involved or associated with corruption can have dramatic consequences for a company, both financially and with regards to the reputation of the company. Examples of a company's down fall, such as Enron in late 2001 and WorldCom, could both be traced to corrupt acts by senior executives. These executives misused their power for personal gains, and in so doing, destroyed the wealth of many of the shareholders, brought losses to pension funds, and also cost the jobs of innocent employees (Neelankavil, 2003). Both Enron and WorldCom were sent to bankruptcy.

Where corruption is relatively common in the oil and gas sector, its consequences can take many forms. There are direct consequences, such as loss of revenues, poor technical standards of operation, sub-optimal oil recovery or premature termination of production in an area. There are, in addition, many indirect consequences of corruption in an investment country that can affect the business and interest of the investor. This includes lowered investment in the country and retarded economic growth, capital flight, political decisions on resource allocation across sectors and industries, competition effects in the market, the design of the tax system, reduced aid flows, loss of tax revenue, adverse budgetary consequences, lower quality of infrastructure and public services, and a distorted composition of government expenditure (Al-Kasim, Søreide and Williams, 2008: 8). To generate growth, businesses must use their capital resources productively. All bribe payments shift money away from potentially productive investments in the business. When capital is drawn away into non-economic transactions, this negatively affects the business growth, as well as the marketplace in general. Corruption also distorts growth incentives by forcing out potentially better producers of goods and services (Webster, 2002: 11).

All the major industrialised countries now have laws against foreign bribery that are similar to the US FCPA. However, the critical question is how effectively laws are enforced. The answer, even now, is that the application of anti-corruption laws will remain highly inconsistent. According to Control Risks (2009: 1), we can expect a continuing trend towards tighter enforcement in the US and, to varying degrees, in other Western countries as well as Japan. However, greatly due to political reasons, the pattern of enforcement will remain highly uneven, both among the industrialised countries and still more in developing and transition economies (Control Risks, 2009a: 1).

As a natural consequence, it is this inconsistency that presents the greatest challenge for mainstream international oil and gas companies with regards to corruption. They cannot afford to ignore tighter legal enforcement, particularly if they are based in an OECD country, the US, or are listed on US stock exchanges. At the same time, they are still required to compete against rivals, many of whom are less careful on corruption matters, including countries with poor or uneven standards of governance (Control Risks, 2009a: 1). Several oil and gas companies now fear that their company will be affected by or associated with corruption, and they invest more time and resources to avoid getting involved in corruption. Political risk analysis is one of the tools developed to forecast a situation, and can warn against a certain probability that corruption exists in a certain place. Traditionally, corruption has been accepted as no more than a “cost of doing

business” in many countries, but as mentioned above, there have been considerable changes to this view.

Corruption takes place in industrialized, developing countries and less developed countries, even though the degree of corruption may vary from one group to another and from one place to another (Neelankavil, 2003). Since international business transcends many countries and cultures, understanding and studying corruption is a challenge. The challenge occurs when international companies with one set of rules and codes of conduct in their home country operate in countries that may have a different set of rules, especially if the host country’s rules are less stringent than the ones in their home country. This ultimately presents a risk to the investor and the remaining part of this chapter will explain how corruption manifests as a risk and how it can be detected.

3.3 Defining Corruption in the Oil and Gas Sector

Mankind with its proclivity for power and wealth has always succumbed to corruption in one form or another and also today various levels of corruption are common in most parts of the world (Neelankavil, 2003). Based upon rational choice theory, economic incentive theory suggests that an agent calculates the expected payoffs of corruption. Specifically, the agent is assumed to gauge the benefits of corruption, such as the size of the bribe or the amount embezzled, versus the risk of being caught and the ensuing sanction and other market-related losses. Sanctions may include fines, imprisonment, dismissal and associated loss of income, as well as informal sanctions, such as injury to reputation. The risks are determined by the probability of being caught, multiplied by the consequences thereof. According to the economic incentive theory, the agent chooses corruption over honest conduct, where, in such calculation, the benefits outweigh the risks (Al-Kasim, Søreide and Williams, 2008: 31).

Corruption is rampant in the business world, and internationally it is even more pervasive, as it affects many aspects of business, from cost of operations to business relationships, and even government-to-government relationships (Neelankavil, 2003). Susan Rose-Ackerman (in Elliott, 1997: 31) suggests that corruption arises from the interdependence of the economic and political spheres. “Whenever a public official has discretionary power over distribution to the private sector of a benefit or cost, incentives for bribery are created. Thus corruption depends on the magnitude of the benefits and costs under the control of public officials” (in Elliott, 1997: 31).

According to Shkolnikov (2002: 7), corruption can be regarded as a twofold phenomenon; a supply-side and a demand-side. The supply-side of corruption involves those parties that are providing money payments, gifts or other types of expressing gratitude for services. On the other hand, the demand-side of corruption is represented by those parties that are accepting those forms of payment and provide some form of service or favour in return (which can also include a denial of a service) (Shkolnikov, 2002: 7). Ultimately, corrupt practices must be analyzed from the perspective of the two parties that negotiate such agreements within a specific institutional framework as a condition for the fulfilment of a particular transaction.

The challenge that usually emerges when defining corruption, is how to differentiate corruption from other types of payments, favours, transactions or similar activities. For example, how does one differentiate corruption from mere patronage politics or favouritism for electoral reasons, since the basic assumption underlying political economy work, in general, is that officials use their office not only to maximise social welfare, but to serve their individual interests. Another example can illustrate the problem of defining corruption; when a customs official demands a bribe for letting a product enter the country duty-free, it is corruption, but what about when a politician decides whether or not to devalue based on whether it will suit his political supporters? The challenge with understanding corruption lies in the fact that it not only covers many different types, but also has a vast number of definitions that have been put forth by various agencies and researchers. Definitions also cover different contexts, and the definition for the purpose of this thesis only looks at the oil and gas industry.

Interestingly, the most commonly used definitions of corruption assign equal importance to “offering”, “receiving”, and “soliciting” of gifts or bribes (Neelankavil, 2003: 5). Table 1 is adopted from Neelankavil (2003: 5) and presents the five most commonly used definitions of corruption and the name of the agencies that define it and a summarised version.

Table 1

Definition of Corruption as Defined by a Particular International Organization

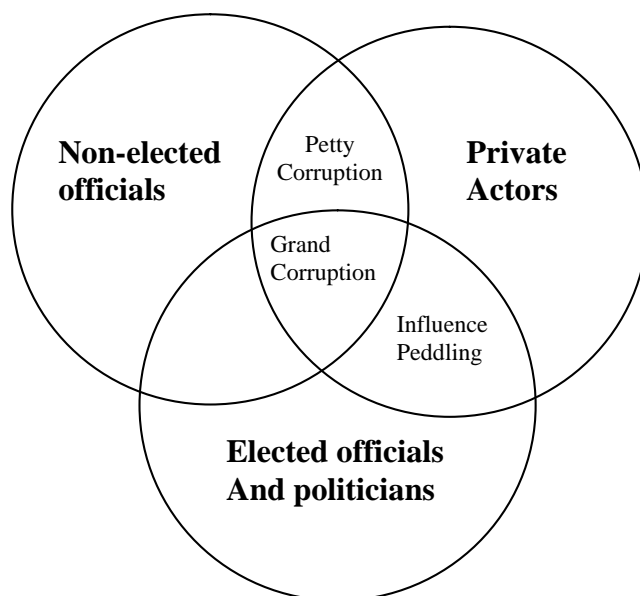
#	International Organization that defines it	Definition of Corruption
1	The United Nations (UN)	“Commission or Omission of an act in the performance of or in connection with one’s duties, in response to gifts, promises or incentives demanded or accepted, or the wrongful receipt of these once the act has been committed or omitted”
2	Organization for Economic Cooperation and Development (OECD)	“The offering, giving, receiving, or soliciting of any thing of value to influence the action of a public official in the procurement process or in contract execution”.
3	Transparency International (TI)	“The misuse of entrusted power for private gain”. TI further differentiates corruption “according to rule”. In the first instance, the definition covers all the areas in which the receiver is required by law to receive some form of compensation (bribe), and in the second instance, the receiver is prohibited from providing some of these services and therefore is not entitled to any compensation (bribe)
4	World Bank and Asian Development Bank (ADB)	“Corruption involves behaviour on the part of officials in the public and private sectors, in which they improperly and unlawful enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed”.
5	Law Library’s Lexicon	“An act done with an intent to give some advantage inconsistent with official duty and the rights of others. It includes bribery, but is more comprehensive; because an act may be corruptly done, though the advantage to be derived from it be not offered by another.”
6	Summarized definition based on the above	“When a public agent or person in power uses his or her position to gain for themselves and/or those close to them by acting improperly or misusing their given powers and thereby compromising the trust that is entrusted in them and in so doing gives an unfair advantage to the person or persons who initiated the gift or provided the said gains”.

(Table: Neelankavil, 2003: 5)

Although there is no international consensus on the definition of corruption, a popular way of differentiating corruption is by its scale (OGC, 2008: 6). According to the Oslo Governance Centre (OGC) (2008: 6), petty corruption refers to street-level, everyday corruption that ordinary citizens experience as they interact with low/mid-level public officials. Grand (or political) corruption generally involves much larger sums of money and people that abuse public office or public positions for private gain. An example could be defence contractors paying billions of dollars to lawmakers for awarding major defence or transportation projects. At the other end of the spectrum are the huge campaign contributions to politicians or the contributions to government leaders and can be referred to as influence peddling (Elliott, 1997: 177).

It is useful to distinguish between types of corruption. Elliott (1997: 177) provides a useful stylization (see Figure 1). The actors involved in a country have been divided into: private actors, elected politicians, and non-elected public officials identified as bureaucrats and the judiciary.

Figure 1 (Elliott, 1997:177)



Neelankavil (2003: 3) makes a further distinction that he classifies as business corruption and political corruption. Table 2 is adopted from Neelankavil (2003: 3) and presents the two different types of corruption:

Table 2: Types of Corruption

#	Type of Corruption	Example	Predominantly Found in:
1	Business corruption	<ul style="list-style-type: none"> *Bribing officials *Accounting irregularities *Tax evasion *Insider trading *Money laundering *Embezzlement *Falsifying documents (research data) 	Most countries
2	Political corruption	<ul style="list-style-type: none"> *Voting irregularities *Holding on to power awaiting the will of the people *Nepotism and cronyism *Rule of the few 	Mostly in developing and less developed countries

(Table: Neelankavil, 2003: 3)

Although some seek to provide a formal comprehensive definition of corruption, this study is not strictly designed to define corrupt activity *per se*, but rather deploy a definition to isolate those activities that are the subject of this thesis, namely corruption for the oil and gas investor. In that regard we already have the general framework of how corruption occurs in the business sector (see Table 2), and thereby we can establish a definition of corruption in oil and gas investments.

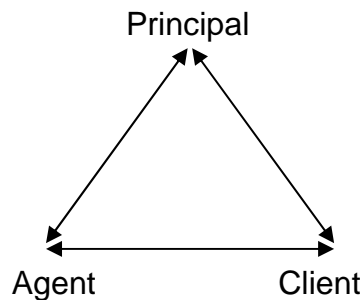
3.2.1 Defining Corruption in the Oil and Gas Industry

As mentioned above, the definition and discussion of corruption for this thesis only focuses on industry-specific political risk analysis, with specific reference to the oil and gas industry. In order to arrive at an appropriate definition of corruption in the oil and gas sector, this study will first establish who the relevant actors involved are. As has been demonstrated, most definitions of “corruption” start with the premise of “abuse of power” (Neelankavil, 2003). In the context of corruption occurring in the oil and gas sector, there are three main actors: The *Principal*, the *Agent* and the *Client*. The *Principal* represents the entity that has the authority to grant and approve projects, such as a government agency. In the oil and gas industry, the *Principal* is likely to be the Ministry of Oil and Gas, the parliament or the state owned national oil company (NOC). The *Agent* is the civil servant, which is the intermediary who represents the *Principal* and is actually responsible for granting the licence or the permit on behalf of the *Principal*. The last actor is the *Client*,

which is the company or the individual who seeks a grant or permit for projects or investments – a business entity (Klitgaard, 1991). Figure 2 demonstrates this relationship in a triumvirate.

Figure 2

Key Actors in International Business Corruption



The model demonstrates that corruption occurs when the civil servant/public official (Agent) betrays the interests of the government agency (Principal), and accepts gifts and/or money from the oil and gas company or the individual representing the company (Client) to grant a favour to the company without any thought for the fairness of such favour. Corruption in the oil and gas industry can also stem from the government agency (Principal) going directly to the company (Client). To put this in the larger context, government officials who have a lot of discretionary powers and (often, but not always) operate in environments where the system of checks and balances is weak or non-existent, characterize the demand-side. The supply-side, on the other hand, is often represented by businesses, such as the oil and gas sector, which is willing (or sometimes forced) to provide monetary and other forms of payment to the government officials for the services provided or denied (Shkolnikov, 2002: 7).

An example that illustrates this is when Aibel Group Ltd., a British engineering company, pleaded guilty in 2008 to an FCPA charge of paying bribes to the Nigerian Customs Services via international freight forwarding and customs clearing agent, and agreed to pay a fine of US\$4.2 million. The payments were made to secure preferential treatment, such as reduction of duty, and not only to speed up clearances. Secondly, the fact that the payments were made via an intermediary – in this case a freight forwarding agent – does not exempt the client company from liability. The case of Aibel Group Ltd. is

one of a series of cases where both US and foreign companies have been charged for bribes paid to customs officials (Control Risks, 2009a: 5).

The most common form of corruption met by oil and gas companies directly is financial corruption in the form of demands for special payments and bribes connected with import and export licenses, exchange controls, tax assessments, police protection or loans (Brink, 2004: 86). These examples pose a political risk and can make it difficult for oil and gas companies to conduct business effectively.

The principle-agent-client theory forms the basis of how to define corruption in the oil and gas industry. For the purposes of this study, corruption in the oil and gas industry is broadly defined as the use of public office for private gains accrued from the oil and gas investor, but with the following limitations: First, the definition is confined to business corruption; that is, where the receiver of the corrupt payment is a government official or civil servant, and the briber is the company (representative)⁶. Secondly, activities between the oil and gas investor and the government official/civil servant that can be perceived as corrupt in the sense that they lead to a personal benefit or a permission/license in the oil and gas industry, but which are conducted without involving a process of negotiation with any other external party. Acts that are conducted unilaterally, such as crime, and particularly theft, is excluded in this definition. The third limitation is with respect to the nature of the gain accumulated to the government official. This will be considered to be pecuniary in kind and direct, where the benefit takes on a negotiated and precise valuation (although the benefit may be accrued at a later time). Cultural and social variables will also not be included in the definition.

In order to detect the level of existence of corruption in a country of potential investment, corruption as a risk factor must reflect something measurable. These measurements are done by the help of indicators. An indicator can say something about “how much” or “how many” or “to what extent” or “what size”. Furthermore, an indicator provides evidence that a certain condition exists or certain results have or have not been achieved. Once an analyst knows what to look for, the issue of where to look for it becomes slightly less complicated (Brink, 2004: 77). The next section will show how the research is operationalised by introducing the indicators that have been chosen for the generic matrix. A risk factor and its indicators can be designed and chosen to be industry-

⁶ The reference is to the Principal and the Agent, as demonstrated in Figure 1.

specific (Brink, 2004: 77). Based upon the generic indicators, the industry-specific indicators will be used to create a measurement of corruption in the oil and gas industry.

3.4 Indicators of Corruption in the Oil and Gas Industry

In this section the political indicators of corruption will be presented. The first subsection introduces generic indicators of corruption that manifest as a risk to business operations. The generic indicators are based on specific literature that treats causes of corruption. This literature has contributed as building blocks of the generic indicators that will be presented. The literature concerned is by the following authors: Al-Kasim, Søreide and Williams (2008), Tanzi (1998), Goudie and Stasavage (1998), Alt and Lassen (2008), Brink (2004), Kennedy and Di Tella (2001), Webster (2002), Azfar and Nelson (2007), Schedler (1999), Hellman, Jones and Kaufmann (2000), Uslaner (2007), Transparency International (2011), Global Integrity (2011) and Neelankavil (2003).

The generic indicators represent those that foreign investors are most concerned about and that most investors have in common, regardless of which industry they want to invest in. This can be regarded as a first-tier operationalisation of the research by creating a basis of how to pinpoint the industry specific indicators. Based on the generic indicators, industry-specific analysis can be whittled down for any investment climate, and parameters can be specified for any such climate (Brink: 29-30). The industry-specific indicators of corruption in the oil and gas industry follow each generic indicator. The industry-specific indicators can be regarded as second-tier operationalisation, where the indicators are specified to the oil and gas industry, and ranked into a matrix in the second sub-section.

3.4.1 Generic and Industry-Specific Indicators of Corruption in a Country

This thesis will use indicators that are related to the national political and institutional structure of the country of investment. Particular aspects of the national structures are anticipated to play a major role in explaining patterns of corruption in different countries. Furthermore, these structures are instrumental in defining opportunities for corruption at the institutional level and determines the (in)ability of individuals to exploit such opportunities. For this study, what matters is the manner in which the regime interacts with, and exercises political control or influence through, the institutional structures. It is at the institutional level that oil and gas investors are likely to encounter corruption that is

relevant to their risk assessment. The general impression left by literature is that political institutions matter for the prevalence of corruption.

Closely related to the political and institutional structures of a country, is the regulatory framework. Regulatory frameworks in the oil and gas sector determine the revenues and responsibilities for actors involved in the industry, including the private sector and the government. By defining certain requirements regarding exploration, field development activities, technologies applied, the number of operators, the role of National Oil Companies (NOCs), and monitoring opportunities, this framework sets the scene for the industry's activities. Variations between countries in how well the oil industry functions depend not only on the robustness of the regulatory framework, but also on the efficiency and the capacity of the regulatory institutions. One explanation for weak oil and gas sector performance is corruption in the country's regulation of the sector (Al-Kasim, Søreide and Williams, 2008: 8).

Based on the political and institutional structures and regulatory framework of a country, seven key indicators have been identified and these are considered in detail below. The number of indicators that identify corrupt practices and the interrelationships between these indicators will help to conceptualize and ultimately operationalise corruption as a risk factor.

3.4.1.1 Separation of Powers

The principle of separation of powers is the model where the legislative, executive, and judicial functions of government are divided among separate and independent bodies. The intent is to prevent the concentration of power and provide for checks and balances. In other words, this indicator refers to the division of government responsibilities into distinct branches to limit any one branch from exercising the core functions of another. A government of separated powers assigns different political and legal duties to the legislative, executive and judicial departments. This means that while the legislature has the power to make laws, the executive branch has the authority to administer and enforce the laws so made. Separation of powers implies the need for multiple actors to propose, initiate, or manage the agenda, and is, in constitutional design, considered a necessary bulwark against tyranny. The procedure of checks and balances, for example through vetoes, judicial review, or regulatory oversight, has the aim of ensuring policy moderation and preventing misuse of political power. Separation of powers, in combination with

various forms of checks and balances, constitutes a crucial safeguard against corruption of government. Although the functions and powers of legislatures vary within respective political systems, the power to pass legislation is vested in this institution, thus supposedly negating instances of executive dictates of policy decrees (Brink, 2004: 89). For instance, Alt and Lassen (2008: 37) argue that judicial independence is of central importance for the judiciary's role as a watchdog of the other branches of governments. Azfar and Nelson (2007) have found that directly elected law enforcement officers work more vigilantly at exposing corruption than those that are appointed. In particular, it appears that elected attorneys generally collude less often with the executive.

Tension between separation and concentration of powers will always exist, and the greatest danger will always lie with the executive arm, because in the executive lies the greatest potential and practice for power and for corruption. Political appointments to the civil service and the designation of key officials by political leaders are characteristic of highly politicised civil services in which collusion between political and administrative decision makers may become explicit, and even open, rendering the mechanics of implementing acts of corruption considerably easier (Goudie and Stasavage, 1998: 123). Generally, the risk of exposing corrupt activity will increase as the degree of separation of powers increases and where the motivation of senior civil servants does not encompass political considerations.

Separation of Powers - Industry Specific

It is relevant to the oil and gas investor to look at the degree of autonomy and independence of legislative, executive and judicial powers in the investment country. The degree of autonomy of the ministry or body regulating the oil and gas industry is the focal point of this indicator. There is a higher degree of risk associated with countries where the oil and gas sector is controlled directly by the government, than an independent body. Furthermore, the degree to which the legislature, executive and the judiciary check and balance powers indicates the extent of opportunity for government and public officials to demand bribes from the investor in negotiations and renegotiations, in the various phases of investment. This is prone to occur in countries with weak regulatory governance of the oil and gas industry, or where an independent regulatory body for oil and gas does not exist at all. An independent body controlling the oil and gas sector can ensure standards, fair competition, compliance and best international industry practices. This indicator is closely linked to the indicator measuring judicial structures.

3.4.1.2 Monopoly Power and Discretionary Power

The role of the state is often carried out through the use of numerous rules or regulations, where government offices must be contacted to authorize all sorts of activity, such as acquiring licenses, permits, investing, engaging in trade, and so on (Tanzi, 1998: 566). If only a few officials are given monopoly to authorize or inspect the activities in a country, they can use their public power to extract bribes from those who need authorizations or permits. The question of whether officials have monopoly power over provision of a national good can indicate the incidence of corruption. These officials may refuse the authorizations or may simply sit on a decision for months or even years. Thus, they can use their public power to extract bribes from those who need the authorizations or permits. Surveys from various countries indicate that much of the time of managers of businesses is spent dealing with public bureaucracies.

The existence of regulations and authorizations generates the need for frequent contact between the investor and bureaucrats, and it also requires an enormous amount of time to be spent in dealing with public officials. The time that is taken away from the business to operate can be reduced through the payment of bribes (Goudie and Stasavage, 1998: 117). In some countries, individuals become middlemen or facilitators for obtaining permits and granting authorizations. In India, for example, the expression “licence raj” referred to the individual who sold the permits needed to engage in many forms of economic activities (Tanzi, 1998: 566). The fact that an authorization can be obtained only from a specific office or individual – that is, there is no competition in the granting of these authorizations – gives the bureaucrats a great amount of power and a good opportunity to extract bribes (Tanzi, 1998: 566). Conversely, the presence of competition reduces opportunities for corruption on the part of public officials. When more than one government agent can issue the same license, competition among different officials will drive the bribe price down to zero (Goudie and Stasavage, 1998: 118). Another measure to combat corruption would be if a country has anti-monopoly policies and procedures to enforce them.

The greater the amount of discretion which is given to an agent, the more opportunities there will be for agents to give “favourable” interpretations of government rules and regulations to businesses in exchange for illegal payments (Goudie and Stasavage, 1998: 118). If a public official has discretionary power over distribution to the private sector of a benefit or cost, incentives for bribery are created. Thus, corruption depends on the magnitude of the benefits and costs under the control of public officials

(Kennedy and Di Tella, 2001). Strict rules and regulations that spell out all the details of a particular decision would be the antidote to the problem of excess discretion (although this assumes that formal rules are actually followed). There are examples where rules can be made too rigid or too unrealistic, inciting non-compliance, and a large amount of de facto discretion for officials. General tolerance towards discretionary decisions and informal solutions will contribute towards a climate of acceptance of corrupt practice.

Monopoly Power and Discretionary Power– Industry Specific

If one or two individual ministers hold monopolistic power in relation to certain decisions, the risk of corruption is far greater than in democratic countries where more ministers and their ministries are involved in budget preparation and control (as opposed to leaving the main decisions to the finance minister or to the minister of energy or oil). In this case, manipulation of licence tendering processes may be a risk. Often there are important clues that make it possible to assess how far a tender is likely to be rigged. These include very short deadlines, vague evaluation criteria, or on the other hand, very narrow specifications that may be designed to favour a particular oil and gas investing company.

There are several agencies that the oil and gas investor has to deal with throughout the investment process. Examples can be certain authorizations in the operational phase. If these officials concerned have monopoly power, they may refuse the authorizations or merely sit on a decision for a long period, which can be very costly for the oil and gas investor. Thus, they can use their public power to require bribes from the investor who needs the authorizations or permits.

Discretionary decision-making will always carry the risk of being marred by corruption. The importance of discretionary decision-making processes should not be underestimated; however, if rules in the oil and gas industry are too rigid it may rather encourage manipulation of the award system. A good balance between discretion and rigid rules is the best way a country can control corruption by some combination of discretion with good information laws.

In order for an oil and gas company to get access to the resources of a country, permits are needed. A government system and appropriate legislation are required to ensure this occurs in an orderly way. If this is not regulated by law, a licence contract for oil and gas exploration or production is often used instead that will include details related to these permits, and will usually replace active regulation for the given concession period.

Such arrangements can involve considerable corruption risks. Where oil and gas investors are coerced into accepting framework conditions embedded within a contract instead of in formal legislation, the regulatory capacity of the state is likely to be diluted (Al-Kasim, Søreide and Williams, 2008: 15).

3.4.1.3 Monitoring, Accountability and Transparency

The framework of monitoring, accountability and transparency concerns checks and oversight for surveillance and institutional constraint on the exercise of power. Furthermore, it concerns the obligation of public officials to inform about and to explain what they are doing; as well as the capacity of accounting agencies to impose sanctions on powerholders who have violated their public duties (Schedler, 1999: 13). Accountability according to Schedler (1999: 13) “embraces three different ways of preventing and redressing abuse of political power. It implies subjecting power to the threat of sanctions; obliging it to be exercised in transparent ways; and forcing it to justify its acts”.

Failure to rotate agents between posts, failure to use outside auditors, and lack of consultation of clients of a particular bureaucratic agency are three important aspects that increase opportunities for corruption. Countries that have measures to avoid corruption, streamline the functions of the industry regulatory agencies with the purpose of eliminating overlaps for effective operations monitoring. This is particularly important to remove bureaucratic bottlenecks that “encourage” corruption in the oil and gas sector. Asymmetries of information present challenges for the government (the Principal) to monitor the actions of government agents in carrying out an assigned task. If there is no oversight, corruption may very likely go unabashed (Neelankavil, 2003). A reliable and effective measure for monitoring and accountability is to employ independent control agencies in a country, such as outside auditors. Furthermore, it requires a stable set of regulations for governing licensing, inspections, as well as enforcement mechanisms that ensure accountability of private firms to their shareholders and capital markets. Another issue concerns the appropriate level of penalty to apply to officials who are caught.

The level of transparency is also essential in detecting and combating corruption. Without a substantial transparent system, it will allow government officials to maintain obscure or secret budgetary accounts (Webster, 2002: 13). Absence of transparent, accountable public institutions and regulations creates the opportunity (and the incentive) for corrupt transactions (Webster, 2002: 15). Transparency is also challenged if there is no free press, and as a result, many misdeeds go unreported. Furthermore, if citizens and

non-state actors, such as Civil Society Organisations (CSO), cannot hold the government accountable for financial transactions, corruption may go unabated.

Monitoring, Accountability and Transparency– Industry Specific

This refers to the effectiveness of the national institutional structures of the investment country to monitor oil and gas production and enforce basic regulations and contracts. There is a high risk of corruption if there is no design of rules and criteria for the pre-qualification phase or the license tendering. A corrupt bureaucracy has incentives to refer to regulatory frameworks as flexible and as of less importance than personal contacts. It thereby also has less transparency in the oil and gas sector about how rules should be understood. Countries are prone to have fewer occurrences of corruption if they have clearer and more transparent information that can be given to firms and foreign governments about what rules exist and how they should be respected, as well as the presence of enforcement mechanisms. Other preventative measures in the investment countries are good monitoring opportunities, such as the presence of accountable public institutions and regulations. Oil producing countries should also allow investigation units to operate independently. Lastly, the level of transparency, when it regards license bidding, negotiations, revenue streams and conditions behind licence contracts, is an important indication of level of corruption in an investment country.

3.4.1.4 Judicial Structures

The judicial system can play an important role in limiting corruption both at the highest and lowest levels of government by monitoring both civil servants and politicians, and by holding them accountable in the event of wrongdoing. The degree that the judiciary can do this is largely determined by the separation of powers. Political leaders who maintain very tight controls over the judiciary and law enforcement sector will typically have the capacity to undertake corrupt acts with impunity. In some countries, even if the risk of detection at the highest levels is significant, and, at the extreme, corrupt acts are openly acknowledged, their costs of that exposure will typically be small, both in terms of any legal sanction and in terms of the repercussions for political responsibility (Goudie and Stasavage, 1998: 124).

The potential role of the judiciary to tackle corruption also depends on the effectiveness of the security and law enforcement officials in the implementation of the law, as much as the integrity and management of the security and law enforcement officers themselves (Goudie and Stasavage, 1998: 124). Moreover, it is the de facto nature of

these elements that will ultimately be most crucial in this context, rather than the strict constitutional or legal situation.

Corruption is likely to occur in the absence of dependable legal machinery for preventing arbitrary application of regulations and laws. When the legal system fails, it becomes a hot bed for corruption, as there are no penalties for misuse of funds, and at the same time, the ones who loose out do not have any recourse for appeals (Neelankavil, 2003: 6). Countries that can better control corruption have a rational set of laws governing the operations of private business, the protection of property rights, and the enforcement of contracts. They also have an efficient judiciary (and Alternative Dispute Resolution (ADR) mechanisms) for sorting out contract disputes.

Judicial Structures – Industry Specific

All countries with oil and gas resources have some level of legislation in place. A first step is therefore to review existing legislation and identify serious deficiencies in the framework conditions and/or deviations between practices and regulations in the oil and gas industry. The incidence of corruption is more likely in a country that operates with a regulatory framework that is embedded in the licence contract, rather than in government decrees, regulations or in the general body of law. The opportunities for changing licence terms are stronger where regulation is contract-based, thus making the situation more prone to corrupt demands. In countries with adequate regulatory legislation, petroleum contracts tend to deal strictly with commercial terms, and the scope for revision is thus considerably narrower. Formal rules and regulations are extremely important, even if they are being violated and irrespective of political will for reform, or the benevolence of political leaders. If not respected, they nevertheless set the stage for what practices should have been, and provide a benchmark for evaluation and indication of corruption in a country. Whether the court system functions efficiently and neutrally or whether there are bottlenecks, is a further important indication of the judicial structure's impact upon reducing and controlling opportunities for corruption.

3.4.1.5 Capture Economy

A capture economy is one where payment of bribes, in an attempt to shape the policy and legal environment, are common variables in the state's decision-making procedures. An example could be a business manager "buying" a decision outcome that will favour his enterprise and create better growth opportunity for *him* (Webster, 2002: 5). In this type of economy, decision makers frequently abuse their position and offer up their influence to

solicit support from business in the form of cash or gifts. Public sector corruption also perpetuates a kind of illicit hierarchy and creates informal systems of kickbacks and patronage that perpetuate corrupt practices and inefficiencies (Webster, 2002: 12). The capture economy is an economy where officials “expect” companies to capture public officials at various levels of the state to extract concentrated rents and to purchase individualised provision by the state of public goods. The private gains to capture are clearly associated with substantial social costs in capture economies both in terms of overall economic performance and the capacity or commitment of the state to provide critical public goods for the development of the market economy. In a capture economy there is generally a lack of transparency, competitive and legitimate channels of voice and influence for enterprises, complemented with monopolisation, political competition and political accountability (Hellman, Jones and Kaufmann, 2000).

Capture Economy – Industry Specific

In a capture economy there is a tendency among politicians and civil servants to view oil and gas resources as a convenient source of rents for amassing personal wealth and securing political patronage. Public officials seek to sell their influence and power to the highest bidder. In the capture economy, public officials and politicians privately sell under-provided public goods and a range of rent-generating advantages “a la carte” to individual firms. When the state under-provides the public goods needed for entry and competition, it may require “captor” firms to purchase directly from the state. A critical element in the extraction of petroleum resources is the contract between the government and the oil company. A government that wants to exploit the country’s oil reserves through inviting international oil companies must decide on what type of contractual system is most appropriate. Basically, the options are concession/license agreements, joint ventures, or production-sharing agreements. The contract terms are vital to a government’s effort to reap the benefits of its natural resources. However, there are pitfalls in the process of developing, negotiating and renegotiating contracts, where all phases are potentially prone to be exposed to corrupt activity. Also, politicians can, on short notice, change the rules of the game through altering prevailing regulations and laws.

3.4.1.6 Inequality and Development

The economic environment contributes to the evolution of corruption to the extent that established economic strategies and policy instruments, together with institutions for the implementation of economic policy, provide different opportunities for the pursuit of corrupt

practices (Goudie and Stasavage, 1998: 125). Macro-economic fundamentals, such as budgetary planning, control of budget balances, execution and expenditure oversight at government level are essential in controlling corruption. An economic dependence on one sector makes the economy vulnerable. A diversified economy makes it less prone to corruption. Development plans that benefit civil society in a clearly articulated policy framework, as well as visible results of these development plans, are important to avoid civil society frustration. If the state manages to deliver dividends of development, such as general wealth creation and employment generation, it will create a greater trust and hence less corrupt activity. Furthermore, a large inequality between rich and poor in a country, often lays foundations for corrupt activity. Successful or “well-ordered” democracies are marked by high levels of trust in co-citizens and in government, low levels of economic inequality, and honesty and fairness in the public sphere. Trust in government is essential for political stability and compliance with the law. Corruption robs the economy of funds and leads to less faith in government as well as fellow citizens, and thus lowers compliance with the law (Uslaner, 2007: 1). Contributing to the emergence of corruption lies the unequal distribution of resources in a society. Corruption thrives on economic inequality. When just a few members of the population live lavishly, leaving the rest to barely manage, it can lead to corruption by necessity. This means that poor citizens’ income is predominantly based on acquiring bribes for doing various services and jobs (Webster, 2002: 12). Economic inequality therefore provides a fertile breeding ground for corruption, and, in turn, it leads to further inequalities (Uslaner, 2007: 1).

Inequality and Development – Industry Specific

The inability to promote growth and development from oil and gas revenues indicates huge failures on the part of governments in oil- and gas-rich countries. These failures have many domestic explanations, including the undue influence of power constellations and elites, large income inequalities amongst the population and more clear-cut forms of corruption, such as bribery and graft. Economic dependence on the oil and gas sector instead of a diversified economy makes the economy vulnerable and more prone to corruption. Transferring the oil and gas revenue of the country into substantial value-adding activity for the overall economy and society is a huge contribution to lay certain foundations for avoiding corruption. The oil and gas contract terms usually determine how much a producing nation earns from its natural resources, and whether a government will have the regulatory authority to enforce environmental, health, and other standards that

apply to the contractors. Contract terms may also be critical for the development of suppliers and contractors in the host state and hence the build-up of technological competence, local capital and creation of jobs. On the other hand, the contracts should not scare off oil and gas investors (Amadi, Germiso and Henriksen, 2006: 57).

The indication of corruption can furthermore be detected by looking at a country's long-term perspectives on the development of domestic institutions, plan of development from oil and gas revenues, conditions on local content, and moderate rates of oil development. These are all aspects that may be critically important for a country's effort to reduce corruption risks.

3.4.1.7 Perceptions of Corruption

An indirect indicator of corruption is the perceived existence of corruption in a country. This can give good information about the actual prevalence of corruption of a country or an institution in a country. Many useful surveys measure perceptions of corruption rather than corruption per se. Countrywide surveys are available from the following organizations: Global Competitiveness Report (Geneva); Political and Economic Risk Consultancy (Hong Kong); Transparency International (Berlin); and Political Risk Services (Syracuse). The results obtained from these surveys are widely used by researchers and businesspeople.

Transparency International conducts some of the best-known and useful surveys to foreign investors. These include the Corruption Perceptions Index (CPI) and Global Corruption Barometer (GCB). The CPI ranks countries based on perceptions of the level of corruption. The index is a compilation of surveys amongst businesspeople and analysis of researchers. The perceptions that are collected make the CPI an important contribution to the understanding of differences of the corruption spectre between different countries (TI Norway, 2009). The GCB is a world-encompassing measurement of attitudes and experiences of corruption. As a measurement of opinions it gives a good indication of how corruption affects civil society and individuals on a national level. The GCB further includes a range of corruption-related problems, such as which institutions are perceived to be the most corrupt (TI Norway, 2010).

It is important to keep in mind that these indexes reflect perceptions and not objective and quantitative measures of actual corruption (Tanzi, 1998: 578). However, a good feature is that the various indexes available are highly correlated among themselves and can thereby be a good indicator of corruption being a risk factor. Useful information can be obtained from case studies of corrupt agencies such as tax administrations,

customs and police. Unfortunately, while there are many such studies, often the reports are internal and are kept confidential.

Another useful indicator can be obtained from the Global Integrity Report. It is important to emphasize that the integrity indicators of this report do not measure corruption, but rather assess its opposite, that is, anti-corruption and good governance institutions, mechanisms, and practices. The Global Integrity's methodology differs considerably from the metrics such as CPI, by mobilizing a highly qualified network of in-country researchers and journalists to generate quantitative data and qualitative reporting on the country's anti-corruption framework, rather than only focusing on perception surveys. Each country assessment contained in the report comprises two core elements: a qualitative reporter's notebook and a quantitative integrity indicator's scorecard.

The scorecard assesses the existence, effectiveness and citizen access to key governance and anti-corruption mechanisms through more than 300 actionable indicators. It examines issues such as transparency of the public procurement process, media freedom, asset disclosure requirements, and conflicts of interest regulations. Scorecards take into account both existing legal measures on the books and de facto realities of practical implementation in each country. A lot of the data and information gathered by CPI, GCB and the Global Integrity Report are collected from businesspeople involved in the oil and gas sector (Global Integrity, 2011).

Perceptions of Corruption – Industry Specific

The most relevant indexes for perceived corruption in the oil and gas industry are good indicators for real corruption in an investment country of oil and gas. The available indexes are, as mentioned above, Corruption Perceptions Index (CPI), Global Corruption Barometer (GCB) and the Global Integrity Report. These measures are based on aggregates of third-party data dealing with perceived levels of corruption, indicators of governance outcomes and expert assessments of governance and anti-corruption performance.

The next section will present all the indicators and the levels of risk in a matrix.

3.4.2 The Matrix: Corruption as a Political Risk for the Oil and Gas Investor

Level of risk	Separation of powers in investment country	Monopoly power and discretionary power	Monitoring, Accountability and Transparency	Judicial Structures	Capture economy	Inequality and development	Perceptions of corruption
High	<p>Little or no separation of legislative, executive and judicial functions of government.</p> <p>High concentration of power.</p> <p>A ruling elite and no structural reforms in prospect.</p> <p>Oil and gas industry is predominantly controlled under the government.</p> <p>Few or no standards, fair compliance or international industry practices in the oil and gas industry.</p> <p>Political appointments to the civil service and the designation of key officials by political leaders.</p> <p>Low degree of checks and balances of what happens to the oil and gas revenues.</p> <p>Overpowerful executives.</p>	<p>Few government officials given monopoly to authorize licenses.</p> <p>Monopolistic structure of key segments of the economy.</p> <p>High-level officials have full authority over the allocation of licences in the oil and gas industry.</p> <p>Political and commercial elites are closely intertwined.</p> <p>Government officials refuse authorizations for unjustified reasons or sit on decisions for very long periods of time.</p> <p>Excess discretion over distribution in the oil and gas sector.</p> <p>General tolerance towards discretionary decisions and informal solutions.</p> <p>Frequent use of intermediaries and "middlemen".</p>	<p>Ineffective institutional structures to monitor the oil and gas industry.</p> <p>No design of rules and criteria for the pre-qualification phase or the licence tendering.</p> <p>Low regulatory governance and high levels of bureaucratic bottlenecks.</p> <p>No functional institutions of restraint and control.</p> <p>No use of outside auditors.</p> <p>Asymmetric information about the oil and gas industry and difficulties to monitor the actions of government agents.</p> <p>Low levels of transparency in the oil and gas sector.</p> <p>No transparency in the location of oil and gas revenues.</p>	<p>Serious deficiencies in the framework conditions and/or deviations between practices and regulations in the oil and gas industry.</p> <p>Regulatory framework embedded in license contract rather than in regulatory law.</p> <p>Absence of dependable legal machinery for preventing arbitrary application of regulations and laws.</p> <p>Courts systems do not function well.</p> <p>Low penalties for misuse of funds and no recourse for appeals.</p>	<p>Public officials seek to sell their influence and power to oil and gas bidders.</p> <p>Informal systems of kickbacks and patronage.</p> <p>Low overall economic performance and low levels of development of the market economy.</p> <p>Large pitfalls and irregularities in developing, negotiating and renegotiating contracts.</p>	<p>Extreme inequalities between high officials and civil society.</p> <p>Low overall growth rate and no long term development plan from oil and gas revenues. Inability of the government to promote growth and development from oil and gas revenues.</p> <p>High dependence on the oil and gas revenues and little focus on other sectors in the economy.</p>	<p>High levels of perceived corruption in the oil and gas industry, measured by CPI and GBC.</p> <p>Low score on the Global Integrity Report.</p>

Level of risk	Separation of powers in investment country	Monopoly power and discretionary power	Monitoring, Accountability and Transparency	Judicial Structures	Capture economy	Inequality and development	Perceptions of corruption
Medium	Moderate separation of legislative, executive and judicial functions of government. Separation of functions, yet not a clear separation of functionalities. Weak democracy and few prospects for structural reform. Oil and gas industry is partially controlled under the government and although under a separate body, it does not have complete autonomy. Few or unfulfilled standards, fair compliance or international industry practices in the oil and gas industry. Moderate degree of checks and balances of what regards the oil and gas revenues.	Limited number of officials can grant authorizations. Monopolistic structure of key segments of the economy is hardly present. High-level officials have an influence on the allocation of licences in the oil and gas industry. Political and commercial elites are not very close. General tolerance towards discretionary decisions, yet the country operates predominantly under formal regulations. Regulatory capacity of the state is somewhat diluted. Some use of intermediaries and "middlemen".	Moderate efficiency of institutional structures and moderate degree of transparency. Mediocre regulatory governance and bureaucratic challenges. Few or unclear rules and criteria for the pre-qualification phase or the licence tendering. Limited capacity of institutions of restraint and control. Some transparency in the location of oil and gas revenues.	Some deficiencies in the framework conditions and/or some deviations between practices and regulations in the oil and gas industry. Regulatory framework in license contract rather than in regulatory law. Adequate regulatory legislation where petroleum contracts deal predominantly with commercial terms. Arbitrary legal machinery for the application of regulations and laws. Courts systems functions moderately. Established penalties for misuse of funds and possibility for recourse for appeals.	Public officials have some ability to sell their influence and power to oil and gas bidders. Some informal systems of kickbacks and patronage. Moderate overall economic performance and moderate levels of development of the market economy. Some pitfalls and irregularities in developing, negotiating and renegotiating contracts.	Inequalities between high officials and civil society exist, but with a large middle class. Moderate overall growth rate and unclear long term development plan from oil and gas revenues. Little government promotion of growth and development. High dependence on oil and gas revenues, but possibility for other sectors to prosper in the economy.	Moderate levels of perceived corruption in the oil and gas industry, measured by CPI and GBC. Medium score on the Global Integrity Report.

Level of risk	Separation of powers in investment country	Monopoly power and discretionary power	Monitoring, Accountability and Transparency	Judicial Structures	Capture economy	Inequality and development	Perceptions of corruption
Low	<p>Complete separation of legislative, executive and judicial functions of government. Democratic country. Independent body controlling and regulating the oil and gas industry. Strong regulatory governance. Good standards, fair compliance and best international industry practices in the oil and gas industry. High degree of checks and balances with regards to the oil and gas revenues. Legal systems and courts are excluded from the political arena.</p>	<p>Several ministries or larger bodies are involved in all the important decisions in license tendering. No or few officials with monopoly power. No monopolistic structure of key segments of the economy. High-level officials do not influence in the allocation of licences in the oil and gas industry. Political and commercial elites are completely separated. A good balance between discretion and rigid rules and regulations that spell out all the details and information of a particular question. No use of intermediaries and "middlemen".</p>	<p>Transparent, accountable public institutions and regulations. Media have freedom of expression. Little or no presence of bureaucratic bottlenecks in the oil and gas industry. Clear and highly transparent information to firms and foreign governments about the rules as well as the presence of enforcement mechanisms. Well functioning institutions of restraint and control. Investigation units are allowed to operate independently. Highly transparent in the oil and gas industry. Transparency in the location of oil and gas revenues.</p>	<p>No or few deficiencies in the framework conditions and/or no deviations between practices and regulations in the oil and gas industry. Strong regulatory framework where petroleum contracts deal strictly with commercial terms. Regulatory framework embedded in license contract rather than in regulatory law. Formal rules and regulations in the oil and gas industry, efficient judiciary. Neutral court systems. High penalties for funds misuse and appeals possibilities.</p>	<p>The terms for the bidders are equal and formal. Public officials have little or no opportunity to sell their influence and power to the oil and gas bidders. No systems of kickbacks and patronage. High overall economic performance and high levels of development of the market economy. No irregularities in developing, negotiating and renegotiating contracts.</p>	<p>Low inequalities between high officials and civil society. Relatively high growth rate and long term development plan from oil and gas revenues. Visible results of development plans and high levels of trust in the government. The oil and gas revenues are transferred into substantial value adding activity for the overall economy and society. Diversified economy.</p>	<p>Low levels of perceived corruption in the oil and gas industry, measured by CPI and GBC. High score on the Global Integrity Report.</p>

3.5 Conclusion

This chapter has firstly presented the consequences for business involvement in corrupt activity. Corruption was discussed in general terms, before it was established how corruption constitutes a political risk factor for oil and gas investors. The chapter arrived at a definition that is most suitable and directed towards the oil and gas industry. Seven assorted indicators were presented, in which they constitute corruption as a political risk factor specifically for the oil and gas industry. Finally, a matrix was presented in order to illustrate how it can be used to measure the level of risk of corruption for the oil and gas investor. The next chapter will apply the matrix to measure the level of corruption in Nigeria.

Chapter Four: Applied Theory: Corruption as a Political Risk for the Oil and Gas Investor in Nigeria.

4.1 Introduction

Nigeria is sub-Saharan Africa's largest oil producer with reserve levels that far exceed those of its neighbours. Oil and gas accounts for approximately 40 percent of the GDP, 95 percent of foreign exchange earnings, and about 65 percent of government revenues (Amundsen, 2010: ix). The oil boom of the 1970s led Nigeria to neglect its strong agricultural and light manufacturing bases in favour of a dependence on crude oil. New oil wealth, the concurrent decline of other economic sectors, and a lurch toward a non-dynamic economic model, generated massive migration to the cities and led to increasingly widespread poverty, especially in rural areas. Along with the ubiquitous malaise of Nigeria's non-oil sectors, the economy continues to witness massive growth of "informal sector" economic activities, estimated by some to be as high as 75 percent of the total economy. While oil dominates the Nigerian economy and generates the vast majority of government revenues, the country is perceived as one of the most corrupt countries in the world, and significant levels are said to exist within its oil and gas sector. The complex and largely opaque operations of the oil industry make it difficult to establish exactly how, when and to what extent corruption exists within this sector (Gillies, 2009: 1). However, this chapter will apply the matrix from Chapter Three in order to try to establish exactly this; to determine levels of corruption in Nigeria and to what extent it is present in the oil and gas sector in the country.

4.2 Measurement of Indicators

By applying the matrix from Chapter Three, this section will attempt to measure the level of corruption as a political risk for the oil and gas investor. The following subsections will apply each of the seven political risk indicators to illustrate the current situation in Nigeria and how this measures the level of corruption for oil and gas investors in Nigeria.

4.2.1 Indicator of Level of Corruption in Oil and Gas Industry: Separation of Powers

The Nigerian political system is a federal structure with vertical separation of powers. In this sense, governmental powers are shared between the central government and the

fringe governments (federal states). The sub-division into ever more federal states was initially a “divide and rule” strategy, but the state governments have now come to enjoy a significant degree of independence from the federal level, and have become a growing check on presidential power. There are some frictions, however, between the demands of states for autonomy and self-rule and the federal centre for control. The federal states are responsible for about half of all government spending (some estimates up to 60 percent). However, the transfer of funds to the states is likely to be a major source of corruption in the country. The federal government has taken some small steps towards political and economic reform, but federal officials have tolerated and often encouraged the rampant power abuse at the state level in order to benefit themselves (Amundsen, 2010: x). The federal government and the state governors execute real power. However, most institutions within the administrative system suffer from rather low political skills and corruption, and, especially on the level of the local governments and also the state assemblies, from insufficient funding and very poor administrative capacity (BTI, 2010: 3).

In the current constitution, 1999 Constitution of the Federal Republic of Nigeria, separation of powers is a fundamental constitutional principle. However, the president of Nigeria is both head of state and head of government, and of a multi-party system. The government exercises executive power, and legislative power is vested in both the government and the two chambers of legislature, which are the House of Representatives and the Senate. Together the two chambers make up the law-making body in Nigeria called the National Assembly. The National Assembly serves as check on the executive arm of government. The highest judiciary arm of government in Nigeria is the Supreme Court of Nigeria.

However, there is no complete and total separation of powers, as the three branches are not completely sealed off from each other (Oraegbunam, 2005). For instance, the president or the governor shares the law-making power of the legislature by virtue of the constitutional provision for presidential or governor's assent to bills before they become laws (Oraegbunam, 2005). Another major exception to the separation of powers is the presidential power to issue executive orders in some areas that derogate from the powers of the judiciary to impose sentence after a due process of adjudication (Oraegbunam, 2005).

There are many examples of acts that violate provisions of the 1999 constitution, which are in direct collision with the separation theory. Although there is a separation of functions, there is not a clear separation of functionaries (Oraegbunam, 2005). The judiciary is formally independent, and increasingly acting as a check against arbitrary acts

at the political level. The courts have managed remarkably well to self-improve, despite a challenging political environment, and form the most promising body that can rule against corruption cases. However, as will be mentioned later, the judiciary also has a long way to go in order to not be tainted by political influence (Amundsen, 2010: x).

There are four government institutions that run Nigeria's oil and gas industry affairs: Nigerian National Petroleum Corporation (NNPC); Ministry of Petroleum; the president and his advisors; and the Department of Petroleum Resources (DPR). The NNPC is Nigeria's national oil company and controls a large part of upstream and downstream activities and its expansive functions include the operation of 12 subsidiaries. The most crucial subsidiary is the National Petroleum Investment Management Services (NAPIMS), which acts as the industry's concessionaire, entering into contracts with oil and gas companies on behalf of the government. Given the size of personnel, budget, and mandate, and its high share of industry expertise, the NNPC is the lead government actor in the oil and gas sector (Gillies, 2009). The Ministry of Petroleum technically oversees NNPC and leads oil sector policy-making. Investigations show that while Olusegun Obasanjo served as President of Nigeria he also served as the Minister of Petroleum (1999 to 2007) and had powers to legally and illegally order the NNPC leadership to take orders from him and do what he wanted, including releasing of funds to him, without any questions asked. Several corrupt Nigerian politicians see oil-blocs and funds from NNPC as personal entitlements that should be shared amongst the Peoples Democratic Party (PDP) leadership and stakeholders (Republic report, 2011). The WikiLeaks' bombshell in 2011, alleged from US-diplomatic cable, revealed that the NNPC (beginning under former president Obasanjo's administration) allocated US\$ 1.00 per barrel of Nigerian oil sold as a type of personal payment or "kickback" to the president. By application, Nigeria's president, Goodluck Jonathan, supposedly pockets around US\$200 million monthly as his "personal share" of Nigeria's monthly oil earnings (Republic report, 2011). The DPR is the industry regulator. The department operate separately under the Ministry of Petroleum, whilst the NNPC retains some of the regulatory functions. DPR's mandate includes the allocation of oil blocks, the collection of royalties, the enforcement of sector regulations and other technical oversight tasks. The DPR, however, suffers from low capacity and the confusing assumption of regulatory functions by the NNPC itself (Gillies, 2009). Gillies (2009: 2) report that a number of criticisms have been raised regarding the ability of this set of actors to effectively execute their functions; weak DPR capacity, NNPC intrusion into regulatory and policy-making functions, lack of NNPC oversight and accountability, and weak incentives for efficiency and performance.

The political system still faces serious problems in terms of state coherence, institutional efficiency of the government system, patterns of democratic representation and attitudes and the enforcement of the rule of law (BTI, 2009: 2). The questions of political reform, democratisation and good governance is to a large extent a question of the degree to which the institutions of checks and balances can withstand and reduce the patrimonial and rent-seeking pressures in the country (Amundsen, 2010: x).

Comparing the situation in Nigeria to the indicator of separation of powers in the matrix, the political risk predominantly matches a high level of corruption for the oil and gas investor. Although there is a separation of functions in Nigeria, there is not a clear separation of functionaries. The oil and gas resources have given the ruling elite both the incentives for controlling the state apparatus (and thus the income), and the means to retain control of the state. Several corrupt Nigerian politicians see the oil revenues and funds from the NNPC as personal entitlements. There is a major lack of NNPC oversight and accountability as to what regards the oil and gas revenues as well as patrimonial and rent-seeking pressures in the country. Despite real progress in a very small number of fields, such as the judiciary, that retain the opportunity to act as a check on the legislative and executive, there is still need for major improvements. There are indications that the current leadership is neither willing nor capable of pushing forward the necessary structural reforms, particularly within the power and refinery sectors, towards real and tangible improvements (BTI, 2010: 3).

High risk

4.2.2 Indicator of Level of Corruption in Oil and Gas Industry: Monopoly Power and Discretionary Power

In political terms, the dominance of oil and gas in the Nigerian economy has led to a narrow revenue foundation that has lent itself to rent-seeking and “elite capture”, where the driving logic of governance is the allocation of resources and opportunities in ways that strengthen the position of those in power. Nigeria’s Petroleum Act gives the Minister of Petroleum full authority over the allocation of licenses for the exploration, prospecting and mining of oil. There are, therefore, no legally mandated processes or oversight mechanisms for the allocation of blocks (Gillies, 2009: 2). The ruling elite are in control of the state apparatus, which still has a monopolistic structure in key segments of the economy (power generation, petroleum refining, import and production of highly

subsidized fuel) (BTI, 2010:7). Political and commercial elites are closely intertwined and ownership structures are often opaque. Companies that have extensive contact with the government, or that work in areas considered of primary strategic interest to the government, are at the greatest risk of becoming involved in corruption in Nigeria. Private business interests of government officials, who are frequently in strategic sectors such as the oil and gas industry, can create conflicts of interest and problems can arise if companies seem to be setting up in competition with them (Control Risks, 2009b: 5). Therefore, it is difficult to predict the outcome of specific cases because the rapidly evolving nature of power politics, and business and political relationships. Acquiring intelligence requires the right mix of alertness on the part of the oil and gas investor (Control Risks, 2009b: 15).

The existing legal framework grants discretionary authority to top officials and does not clearly delineate roles and responsibilities among the sector's actors (Gillies, 2010). There is also no anti-cartel legislation as such; yet the slow but steady privatization trend and legislation promoting competition have, to a certain extent, broken state monopolies and state cartels (BTI, 2010:7). Administrative incompetence in conjunction with bureaucratic corruption still, however, takes its toll to the disadvantage of a competitive and enabling environment (BTI, 2010:7).

The oil and gas sector legislation, Petroleum Industry Bill (PIB), includes language that requires transparency and removes the discretion over block allocations permitted by the current Petroleum Act. The oil block bid rounds of 2005, 2006, and 2007 saw some efforts at replacing discretionary award procedures with more open and competitive process. The available blocks and bidding criteria were advertised and the round took place in public, with each bid announced before the attending audience. However, the result was that a number of companies lost their blocks after they bid large amounts with the expectation that they could be later negotiated downward. Thus, despite these improvements, transparency and due process appear to have fallen short before and after the rounds themselves. Guidelines for bidders and information regarding local partner requirements were released late. Preferential rights were awarded to some companies through non-transparent procedures and without regard for their actual technical capacity (Gillies, 2009). The aims to reduce discretion and improve transparency in these allocation processes were instead, in practical terms, flawed (Gillies, 2009). Licences to explore and produce oil and gas, contracts for oil and gas-related services and, more generally, government contracts funded by oil revenues all represent highly valuable assets. Bribery,

favouritism, and contract non-performance frequently mar these license and contract transactions in Nigeria (Gillies, 2009).

Contracts and other expenditures above a low threshold require NNPC approval. Most contracts are subject to a three-tier approval process consisting of NAPIMS, the NNPC Group Executive Council, and the NNPC Board, with larger awards also requiring Federal Executive Council approval. The average time for the review of contracts is 24 months, while the global industry average is closer to six or nine months. This bottleneck ensures that top NNPC officials remain the gatekeepers of the industry. Protecting this arrangement often contradicts profit maximisation within the national oil company. As a result, its functions remain inefficient, politicised, and susceptible to capture by individual interest (Gillies, 2009: 3).

Also, many of the major international corruption cases reported in Nigeria involve the participation of an intermediary who passes on bribes to senior officials or politicians on behalf of foreign clients. Several cases have involved a series of high-profile corporate names, where in almost all cases the bribes were paid to Nigerian government officials via “consultants” or other intermediaries (Control Risks, 2009b: 6 and 9). Furthermore, according to a World Bank Enterprise Survey for Nigeria in 2007 and interviews of business investors by Control Risks (2009b) firms, a high percentage of the respondents⁷ reported that they were expected to give gifts to secure major government contracts. Also, many of the major international corruption cases reported in Nigeria involve the participation of an intermediary who passes on bribes to senior officials or politicians on behalf of foreign clients (Control Risks, 2009b: 7).

Oil and gas service companies frequently confront costly delays and inefficiencies in their dealings with Nigerian state institutions. For instance, oil companies must gain approval and visas for each expatriate worker they employ; furthermore, they must import goods and equipment that involves port and customs delays and high-level jobs in customs and the port authority are widely perceived as immensely profitable for the officials who hold them. Although this does not constitute corruption per se, such delays create the motive and opportunity for “greasing the wheels”, or paying bribes to speed along procedures (Gillies, 2009: 3). Companies in a hurry may be tempted to offer bribes to officials in return for speeding up procedures. Malfunctioning or non-functioning administrative procedures create incentives for paying bribes. Nevertheless, companies

⁷ The numbers are taken from the World Bank’s Enterprise Survey for Nigeria, which was based on a survey of 1891 Nigerian firms in 2007, and Control Risks that have conducted interviews with a total of 25 individuals in Nigeria, from a variety of backgrounds, but many from the oil and gas sector.

that refuse to pay bribes face other costs in the form of a heavy “time tax” in which they must be prepared for.

However, it must be noted that regions within Nigeria differ when measured by the degree of rule of law, and the efficiency of their governments and administration. Moreover, certain agencies and ministries are also considered more honest and efficient than others. It is also important to note that there can be great differences even between departments within the same agency. The extent to which a tender will be clean and transparent is often very “personality-based”. (Control Risks, 2009b: 18).

Furthermore, demands from minor officials for small payments, sometimes characterised as “dash”, are commonplace throughout Nigeria. This could for instance be petty corruption like paying the police, or worse cases, hospital doctors for admitting emergency cases or fire brigadiers who demand money before responding to telephone calls. Obviously, in emergency cases like these, there is a general consensus that there is little choice but to pay (Control Risks, 2009b: 26).

Measuring up to the matrix, the political risk of monopoly power and discretionary power in the oil and gas industry in Nigeria is high. The oil and gas sector is highly characterized by a rent-seeking and “elite-capture” situation, where only few government officials are given monopoly and authority over authorizations regarding the allocation of licences for exploration, prospecting and mining for oil. Despite efforts to create a more competitive environment, including in oil and gas, these are flawed, and the country remains a monopolistic structure of key segments of the economy relevant to the oil and gas industry. This is also largely due to the commercial elites that are closely connected to the political elites. What further makes this indicator a high risk is that the existing legal framework grants discretionary authority to top officials and does not clearly delineate roles and responsibilities among the oil and gas sector’s actors. Bribery, favouritism and contract non-performance frequently tarnish the licence and contract transactions in Nigeria. Furthermore, there is frequent use of intermediaries or so-called “consultants” that pass on bribes to senior officials or politicians and constitute a high risk for oil and gas investors.

High risk

4.2.3 Indicator of Level of Corruption in Oil and Gas Industry: Monitoring, Accountability and Transparency

Nigeria maintains institutions of restraint and control, including the ombudsman, parliamentary commissions, the Auditor General, the Attorney General and directorates. All these are playing some role in exercising political and economic control. One of the government watchdogs is the Code of Conduct Bureau (CCB) and it has the constitutional mandate to fight corruption by receiving and checking the compulsory financial interest declarations of public officers. Although it took time before it actually started working (established in 1988), there is a substantial compliance today with the requirement for declaration of assets by public officials. Approximately 90 percent of the relevant public officials go through the process (Amundsen, 2010: 23). However, the assets declarations are not publicly available and the veracity of the declaration cannot always be independently confirmed due to the lack of human and material resources in the Bureau. Present president, Goodluck Jonathan, reconstituted the CCB in 2010 and declared that “the government would have to go tough with corrupt officials”. However, the effect of this reconstitution remains to be seen (Amundsen, 2010: 23).

A second anti-corruption body is the Independent Corrupt Practices and Related Offences Commission (ICPC) and it is mandated to receive and investigate reports of corruption and in appropriate cases prosecute the offenders, to examine, review and enforce the correction of corruption-prone systems and procedures of public bodies. The ICPC has taken on some politically sensitive cases and demonstrated some degree of courage and independence (Amundsen, 2010: 23). Other anti-corruption bodies include the Economic and Financial Crimes Commission (EFCC) and Independent National Electoral Commission (INEC), both with some success of pursuing corruption charges, however also under critique of inefficiency and lack of *de facto* independence. For example, the EFCC’s credibility has been weakened by a widespread debate about how far it amounts to a political instrument used by the government to eliminate political rivals. For example, the former president, Olusegun Obasanjo, is widely alleged to have used EFCC investigations as a tool to disqualify a number of his competitors in the run up to the April 2007 presidential, regional and National Assembly elections, though the majority of these individuals were never subsequently prosecuted (Control Risks, 2009b: 3).

In Nigeria, the Auditor General is appointed by the president on the recommendation of the Federal Civil Service Commission and confirmation of the Senate. This ensures two different layers of quality control and also the relative independence of the audit agency. The auditor-general shall audit all public accounts and report to the

National Assembly; however, this report is not issued regularly and is also not accessible to the public. The government does not always act on the report of the auditor-general and in most cases the auditor-general does not initiate investigations (Global Integrity, 2008: 80).

There is a Public Complaints Commission, which has a formal organizational structure with offices in all the states of the Federation and which reports to the National Assembly. Completed cases with concrete recommendations are usually acted upon. The problem is that the agency lacks the capacity to investigate and address most of the complaints it receives. The Commission is furthermore under-funded and its resources are low (Global Integrity, 2008: 82). In practice, the legislators also lack the capacity and diligence for effective monitoring. Furthermore, resistance from government institutions also interferes with the process. (Global Integrity, 2008: 66).

There are thus clear needs for reform of the controlling and monitoring institutions. In 2011, President Jonathan signed the Freedom of Information Bill (FOI), 11 years after a FOI bill was first submitted to the National Assembly in 1999. The law can provide a basis for a right to access information and resultant appeal process for oil and gas investors. Furthermore, it guarantees the right of access to information held by public institutions, irrespective of the form in which it is kept and is applicable to private institutions where they utilise public funds, perform public functions or provide public services. Furthermore, it requires all institutions to disclose basic information about their structure and processes and it provides protection for whistleblowers. The law also requires the Federal Attorney-General to oversee the effective implementation of the act and report on execution of this duty to parliament annually (Freedom Info, 2011). In theory, the document has now become the official Freedom of Information law and is a great step for improving transparency in the country, by which it is possible for the public to seek access to official information. However, the law is very recent and it remains to be tested in order to establish how effective it is. If the law proves successful and is implemented on the same level in the oil and gas sector, it can provide oil and gas investors with more predictability, transparency and openness in their dealing with public officials.

Nigeria has also established a number of institutions of specialised control, geared to the petroleum economy and petroleum-related problems, namely oil regulation, transparency, elections, and corruption. However, these institutions are all, more or less, subject to the political elite's control of the state (Amundsen, 2010: xi). As mentioned earlier, there is the national oil company, Nigerian National Petroleum Corporation (NNPC, that is serving a multitude of purposes), the Department of Petroleum Resources (DPR)

and the Federal Ministry of Energy (Petroleum Resources, Power and Steel), all of which serve as petroleum sector regulators. The fact still remains that sector operations, including the activities of the NNPC, are subject to insufficient oversight (Gillies, 2009). Each year, the NNPC issues contracts and awards licences to international oil trading companies, several NNPC-affiliated companies, and a few foreign governments. These transactions yield high levels of fungible returns, and the lack of transparency surrounding them creates considerable opportunities for corruption (Gillies, 2009: 3). For instance, following a pre-qualification process for the licenses, it is not clear how winners are selected or how much the contracts are worth. Press reports allege that officials regularly receive payments by the companies involved (Gillies, 2009: 3). In other words, NNPC allocates contracts, which “do not always follow advertised criteria or guarantee competitive pricing”, and it handles the crude sales and remittances of proceeds without always remitting all revenues (Amundsen, 2010: 26). Nigerian government officials occasionally use bureaucratic bottlenecks to discourage investors. This is especially so when such officials have an interest in a particular business or industry (Control Risks, 2009b: 15).

The Nigeria Extractive Industries Transparency Initiative (NEITI), which is the national branch of the global initiative Extractive Industries, is also a petroleum sector regulator. Since its launch in February 2004, NEITI has enjoyed a strong political backing, and it has been relatively successful in collecting and publishing detailed data on the petroleum sector, but the implementation of the NEITI principles have been slow over the last years. However, hopes are high for a new political “push” for NEITI under the new president, Goodluck Jonathan (Amundsen, 2010: xi).

The constitution guarantees freedom of association and peaceful assembly. Civil Society Organisations (CSOs) are generally allowed to register and operate legally. CSOs are furthermore free to offer opinions and engage with various aspects of the political process, including transparency and accountability. In some instances, their opinions and ideas are taken into consideration in decision-making, but usually they are not (Global Integrity, 2008: 12). For most of civil society in Nigeria, (non-state actors) issues relating to oil industry activity in Nigeria cannot be de-linked from the whole question of rights and the broader issues of governance and development (Amadi, Germiso and Henriksen, 2006: 40). It is therefore essential for the oil and gas investor that there is transparency and openness as to what happens with the oil and gas revenues, in order to avoid public discontent with their operations in the country. Several oil and gas companies have improved their engagement with civil society and CSOs, both acting as donors to certain

civil society projects and information about their role in the country. The fact that CSOs operate legally in Nigeria can be a positive tool for the oil and gas investor to function as an information channel to civil society.

The constitution also guarantees freedom “to own, establish and operate any medium for the dissemination of information, ideas and opinions”. The independent media increasingly criticises the government and its policies, and allows for robust public debate. However, there are some limitations on political issues in the state media and some self-imposed censorship in the private media, and the quality of coverage and analysis in newspapers varies considerably. Besides, journalists are still subject to intimidation and violence when reporting on issues implicating the political and economic elite (Amundsen, 2010: xi). Big private media owners are either politicians or have close ties to those in government. Stories of corruption are only allowed as long as they do not hurt the interest of the media owners or the interests of their close business associates (Global Integrity, 2008: 21). As with CSOs, the media can play an important role in contributing to a more transparent system. If cases of corruption go unreported in Nigeria, the presence and possibility of locating corruption is harder to detect.

Judging the level of corruption related to monitoring, accountability and transparency, the risk level is medium. The growing number of institutions and policy acts, which aim to increase the levels of transparency and monitoring possibilities, are contributing to reduce the possibility of corruption. Examples are the CCB, ICPC, EFCC and INEC. These institutions have demonstrated some success in pursuing corruption charges, and along with the FOI bill, there are promising prospects for improvements of transparency initiatives under the current president. However, the country is in need of major regulatory improvements, and less bureaucratic complications for the oil and gas investor. Furthermore, there are unclear rules and criteria in licence tendering, as it, for instance, is unclear how winners of licence contracts are selected or how much the contracts are worth. This is largely due to the unaccountability of the NNPC, which is still subject to the political elite’s control of the state. What happens to the oil and gas revenues remains largely unknown to the public. In this regard, CSOs play a critical role in pushing both the government and oil and gas investors to play with open cards.

Medium risk

4.2.4 Indicator of Level of Corruption in Oil and Gas Industry: Judicial Structures

In Nigeria, the regular court system consists of federal and state trial courts, state appeal courts, the Federal Court of Appeal, and the Supreme Court (Amundsen, 2010: 19). The judiciary is formally independent and its legal status, including financial autonomy, is guaranteed by the constitution. Although the constitution and laws of Nigeria provide for an independent judiciary, the judicial branch is susceptible to some executive pressure, particularly at the state and local levels. However, the judiciary is increasingly acting as a check against arbitrary acts at the political level. The courts have managed well to self-improve despite a challenging political environment. There is also a general impression that the judicial branch is the most promising branch in the political system, in terms of independence, authority and action. Empowered by the constitution, the judiciary has ruled against the government in some landmark cases, and judges have proved to adjudicate in citizens' disputes with government (Amundsen, 2010: x).

Still, however, court officials often lack the proper equipment, training, and motivation to perform their duties, with lack of motivation primarily due to inadequate compensation (US Department of State, 2010). Understaffing, under-functioning, inefficiency and corruption also prevent the judiciary from functioning satisfactorily. Moreover, Nigerian regulations are often contradictory, which makes it unclear and difficult to identify which rules apply in particular cases (Control Risks, 2009b: 12). There have also been several cases where judges fail to appear for trials, often because they can pursue other sources of income and sometimes because of threats against them (Amundsen, 2010: 19). Furthermore, Nigerian legal services are expensive, and judicial processes very slow (Amundsen, 2010: 19).

The Nigerian government has taken important steps towards institutional reform, notably by setting up the already mentioned agencies of ICPC in 2000 and the EFCC in 2004. Further significant developments include the decision to prosecute Nigerian officials implicated in the international investigations of Willbros and Siemens. There have also been a number of domestic corruption investigations involving many former governors as well as prominent businessmen – often the same people (Control Risks, 2009b: 3). The enabling laws of the agencies give them wide powers, but it must be noted that there are a number of grey areas in their powers and mandates (Global Integrity, 2008: 116). If complaining to supervisory bodies fails, there is still the possibility of taking the case to court. Most oil and gas companies, however, try to avoid such scenarios at all costs

because of the length and cost of court procedures and the inefficiency of the courts. Legal recourse is possible and is in fact a key element of any committed anti-corruption strategy, but it is costly both in time and lawyers fees, and is generally only last resort (Control Risks, 2009b: 28).

The Public Procurement Act (PPA) requires that major procurements, such as oil and gas exploration licences, shall be conducted by open competitive bidding, but it is subject to some exemptions and licence contracts are not embedded in a regulatory law. An unsatisfied bidder can appeal for an administrative review or challenge procurement decisions in court. However, in practice this is very costly and time consuming (Global Integrity, 2008: 84).

The key enforcement agency, the Nigerian police, is generally independent in its operation, but there have been allegations about their process and that officers are being used to achieve political aims (Global Integrity, 2008: 125). Despite patchy enforcement, the prominence of continuing investigations within Nigeria has certainly led to altered behaviour, with a diminished sense that certain individuals are “untouchable” or above the law (Control Risks, 2009b: 4).

There have been numerous calls for a more independent judiciary over the last years, both from outside of the judiciary itself, and from inside (US Department of State, 2010). The broad alliance made up of the government, the two corruption commissions, NGOs and international actors, the IMF, World Bank, Transparency International, and the International Finance Task Force, has made at least some progress in Nigerian society, amongst others calling for improved judicial structures, which benefits the oil and gas investors. A further strengthened judicial system makes it more effective to enforce contracts between the NNPC and the oil and gas investor.

Compared to the matrix, the current situation of the judicial system in Nigeria ranks as a medium risk for the oil and gas investor. Although the Nigerian constitution and laws of Nigeria provide for an independent judiciary, the judicial branch is susceptible to some executive pressure. There are, furthermore, some deficiencies in the framework conditions in the oil and gas industry and in licence contracts. The PPA requires that oil and gas exploration licences shall be conducted by open competitive bidding, but it is subject to some exemptions. This applies to a sometimes arbitrary legal machinery for the application of regulations and laws. The judiciary is, however, increasingly acting as a check against these arbitrary acts at the political level. The judiciary is possibly the most difficult of the branches to influence in the political framework of Nigeria, yet there have been numerous calls for a more independent judiciary. For the oil and gas investor, the

important thing is that there is the possibility to appeal for administrative reviews or even challenge procurement decisions in court. However, in practice, the investor must be prepared for a costly and time-consuming procedure.

Medium risk

4.2.5 Indicator of Level of Corruption in Oil and Gas Industry: Capture Economy

The share of the value of the petroleum production collected as revenue by the host government is often referred to as the government take. Nigeria's system of calculating taxes, royalties and tax rebates is mainly structured around Joint Venture (JV) agreements and Production Sharing Agreements (PSCs) between the government and the oil and gas companies (Amadi, Germiso and Henriksen, 2006: 9). In a PSC, the operator incurs all risk as it puts up the funds for exploration and production activities. If and when production begins, the oil is divided into "cost oil" and "profit oil". Cost oil goes to the operator so it can recoup its investments. Profit oil and gas is split between the operator and NNPC at a proportion set in the contract (Gillies, 2009: 2). In this regard, the overall conditions in the Nigerian system are known to be on the tough side for the oil and gas companies (Amadi, Germiso and Henriksen, 2006: 9). The government take will differ between different fields according to their projected profitability. A high-risk expensive development will typically have a lower government take, while a low-risk, less expensive development will have a higher government take specified in the contract between government and the oil company (Amadi, Germiso and Henriksen, 2006: 9). The Nigerian system is (like in many other petroleum producing countries) arranged such that the oil companies get some extra profit if the oil price goes up, but the government receives the bulk of it (Amadi, Germiso and Henriksen, 2006: 9).

In addition, the Nigerian government uses the common method of claiming signature bonuses to acquire benefits from its petroleum resources, which is a payment that is made upfront to the host country for the right to develop a block commercially before work begins. This system is a widely recognized and a legally accepted way for an oil company to secure the right to explore a certain field or block. These fees are kept by the host government regardless of whether oil is found or not, or whether commercial production takes place (Amadi, Germiso and Henriksen, 2006: 56). The International Oil and Gas Companies that have operated in Nigeria have been satisfied with the signature

that grants them permission, and merely transferred the agreed amount to the account number they are told to. However, according to Amadi, Germiso and Henriksen (2006: 56), there is good reason to believe that many politicians and bureaucrats in Nigeria have made their way to personal wealth through stealing from the bonuses. In this regard, it is extremely important that oil and gas companies publish what they pay in signature bonuses, so that civil society and the relevant government agencies can track this money, and oil and gas companies can claim that they are clean.

The Nigerian government retains a high degree of control over transactions, such as large-scale contracts, primarily to oil and gas service companies. In principle, it is the operator company that awards these contracts; however, in Nigeria NNPC approves all contracts or expenses over US\$ 1 million. For PSCs, NAPIMS approves anything over US\$ 250 000. These thresholds are considered extremely low by industry standards and inflate government involvement in contract decision making, which also gives good opportunity for government officials to demand bribes from the oil and gas investor (Gillies, 2009). Some prosecutions under the US FCPA have revealed how corruption has infiltrated in contracting procedures, such as in 2008, a former CEO from a US oil service company pled guilty to paying around US\$ 180 million in bribes to the NNPC, the Petroleum Ministry and other government officials. In addition to receiving bribes, government officials can benefit from procedures that favour companies in which they have a financial stake. For instance, senior political leaders reportedly manipulated tenders to benefit Intels Nigeira Ltd, a large logistics company, for their private gain (Gillies, 2009:3). Alternatively, officials can give preference to companies owned by their allies, and then seek repayment through other business deals or political favours (Gillies, 2009: 3).

Another flaw in the capture economy of Nigeria is oil bunkering, which is the theft of crude oil directly from pipelines, flow stations and export facilities. The estimates of the amount of bunkering are huge. Most sources quote around 100 000 barrels per day lost via bunkering in Nigeria. Some estimates, however, run as high as 600 000 barrels per day (Gillies, 2009: 3). It is widely alleged that both government and oil company representatives are involved in bunkering activities. Groups of well-armed men typically execute the pipeline sabotage, but their activities are overseen by powerful figures (Gillies, 2009: 3). Other methods of bunkering (for instance, loading of more crude than is reported onto export vessels) would likely require some level of official involvement. Bunkering metes out serious costs as it lowers the amount of crude Nigerian exports, thereby reducing the revenues which accrue to the state. The security risks and damage to

equipment associated with bunkering dissuade investment into onshore exploration and production. Another negative aspect about the bunkering is that it provides a steady stream of funding for the militant movements and corrupt associations responsible for destabilising the Delta region. Buying arms, paying militant forces and bribing officials become easier with readily available cash at hand (Gillies, 2009: 3). The capture economy in Nigeria thus harms the national interest by increasing the amount of wealth available through illicit means (Gillies, 2009: 4).

The Nigerian oil and gas sector is characterized by a high presence of a capture economy and thereby rates as a high risk for the oil and gas investor, according to the matrix. Nigeria can in its wide term be referred to as a capture economy. There is good reason to believe that many Nigerian politicians and bureaucrats have made their way to personal wealth through stealing from the signature bonuses. Furthermore, the Nigerian government retains a high control over all transactions, including oil and gas service companies. Several prosecutions under the US FCPA have revealed how corruption has infiltrated in these contracting procedures. Coupled with widespread illegal oil bunkering, escalating attacks against foreign-owned installations, support vessels and personnel in Nigeria is exacting a heavy toll on the oil and gas industry in the country.

High risk

4.2.6 Indicator of Level of Corruption in Oil and Gas Industry: Inequality and Development

The macro-economic fundamentals for growth in Nigeria are better today than they have ever been in the past 20 years. Economic growth has averaged about six percent per annum over the last years, budget balances are under control, inflation has declined to single digits, and exchange rate stability has been achieved (Amundsen, 2010: ix). However, Nigeria still faces significant challenges in altering the oil and gas sector into a substantial value adding activity for the Nigerian economy, not to say for the Nigerian society as a whole (Amadi, Germiso and Henriksen, 2006: 8). Petroleum revenue has become paramount in the Nigerian society and the government has been so focused on oil and gas that it seems to have paid too little attention to the other economic sectors of the country (Amadi, Germiso and Henriksen, 2006: 10). The extremely uneven income distribution in Nigeria adds to the problem, with a few people becoming very rich whilst the majority live in poverty (Amadi, Germiso and Henriksen, 2006: 10). The NNPC, which

earns revenues through a number of its subsidiaries, is subject to unusually limited budgetary and expenditure oversight. Beyond these specific challenges, the utility of oil and revenues depends on the wider practices of budgetary planning, execution, and oversight at the federal, state, and local levels of government (Gillies, 2009: 4). Typically, an oil or gas contract includes a prerequisite that preference shall be given to contractors whose companies are registered under the laws of the host state, and also to goods manufactured or produced in the host state. Experience however shows that Nigeria has hardly been able to identify qualified local suppliers, and has often chosen to employ internationally recognised contractors. In an attempt to change this, the Nigerian authorities employed a new approach to local content in the 2005 bid round and made local content a biddable item in the round (Amadi, Germiso and Henriksen, 2006: 57).

The Nigerian government has been infamous for a lack of correspondence between the revenue benefits accruing from the oil and gas sector and the overall performance of the Nigerian economy (Amadi, Germiso and Henriksen, 2006: 9). This is largely due to corruption and a clear economic strategy over the years and decades of fiscal indiscipline from previous governments; yet some initiatives have been put in place, such as the National economic and development agenda, called the New Economic Empowerment And Development Strategy (NEEDS) (Amadi, Germiso and Henriksen, 2006: 9). The NEEDS seeks to implement a series of reforms that can lay a diversified economy in the years to come. The major growth indices within NEEDS are wealth creation, employment generation, institutional reforms and social charter. However, in a country where good policy content has often been overcome by weak implementing institutions, corruption and lack of political will, there is a lot of scepticism as to whether the goals and priorities articulated within NEEDS will actually bear fruit (Amadi, Germiso and Henriksen, 2006: 11). Moreover, there are a few other initiatives with development in mind, such as government and companies' allocation of some oil earnings to the Niger Delta Development Commission (NDDC) and the Petroleum Technology Development Fund (PTDF). However, serious accusations of fraud have also surrounded both institutions in recent years (Gillies, 2009: 4).

The perception of large levels of civil society is that both the government and the oil companies are regarded as "collaborators" or co-conspirators, who have teamed up to aggravate poverty and exploit Nigerians of their rights in terms of dignity and access to the oil and gas revenues (Amadi, Germiso and Henriksen, 2006: 41). As far as they are concerned about the oil and gas sector operations in Nigeria, increased oil revenue does not necessarily indicate increased development or better standards of living for ordinary

people. Clarification as to what exactly happens to oil revenues remains unclear, even as the legal/policy framework for oil and gas operations remain even poorly articulated and updated about what currently exists for oil and gas production (Amadi, Germiso and Henriksen, 2006: 42).

The huge developmental gaps in the country have led to the placing of developmental demands at the doorsteps of the oil companies, and an expectation sometimes that they play surrogate government in a society where national and state leadership all too often have failed to deliver the dividends of development (Amadi, Germiso and Henriksen, 2006: 42). The oil and gas companies that are currently or have operated earlier in Nigeria, have often referred to the dilemma that citizens in the host communities expect them to play the role of “alternative government”, especially when it comes to the provision of basic amenities. Community demands range from the construction of roads, schools and provision of safe drinking water, to the provision of scholarship and employment opportunities. As far as the oil companies are concerned, what this shows is a lack of understanding as to the delineation between corporate and state/local/federal government responsibility towards the communities, and also how the demands should be placed (Amadi, Germiso and Henriksen, 2006: 42).

The macro-economic fundamentals and economic growth have improved in Nigeria over the past years, yet little is reflected in Nigerian society as a whole, and according to the matrix, the level of corruption risk for the oil and gas investor is high. The Nigerian economy is very dependent on the petroleum revenues and little effort has been made to generate competence and local capital in order to diversify the economy and create jobs. Highly uneven income distribution and extreme rates of inequality still persist in the society. Attempts of certain institutions to deal with this problem have been set up. However, there is no substantial implementation and a general lack of political influence, coupled with serious accusations of fraud surrounding the Nigerian institutions. Adding to the problem is the lack of clarification as to what exactly happens to oil revenues and this generates popular discontent amongst civil society, which doesn't delineate between the oil and gas companies and the government. The management and allocation of oil revenues require much greater oversight than is presently the case.

High risk

4.2.7 Indicator of Level of Corruption in Oil and Gas Industry: Perceptions of Corruption and Anti-Corruption Measures

The CPI ranking is based on data from country experts and business leaders at ten independent institutions, including the World Bank, Economist Intelligence Unit and World Economic Forum. In 2010, Nigeria was ranked 134 out of 178 countries. The score was 2.4. CPI country scores are on a scale from 10 (very clean) to 0 (very corrupt) (TI, 2010). The TI Global Corruption Barometer 2010 offers an insight into Nigerians' perception of their own institutions. The survey showed that citizens took particularly poor view of the political parties, which was given a rating of 4.5 on a scale of one to five where five represents the highest level of corruption. Other institutions that performed poorly include parliament, rated 4,2; police, rated 4,7; public officials, rated 3,5; and the judiciary, rated 3,7 (GCB, 2010). Adding to this poor evaluation, Nigerian respondents took a relatively divided view of the future outlook: 46 percent thought that their government's effort to fight corruption is effective, and 73 percent rather see that corruption levels have increased in the past three years, compared with ten percent who thinks they have stayed the same, and 17 percent who thinks the levels of corruption have decreased in the country (GCB, 2010). According to the Global Integrity Report 2008⁸, Nigeria was rated as weak overall, 64 out of 100, 100 being the best score. The legal framework was found to be somewhat stronger (79 of 100); however, the actual implementation is reported to be very weak (48 of 100). The report found that Nigeria continues to suffer from poor accountability across all branches of government and the civil service, while citizens' right to access information is embedded in the regulation of some specific agencies. Furthermore, a general freedom of information act has been sitting in the Nigerian legislature since 1999. The PPA of 2007 is still in the implementation process, but it is viewed as having a positive effect on Nigerian procurement practices (Global Integrity: Nigeria, 2008).

As the measures of the three indexes correlate among themselves and all score the level of perceived corruption as high, this indicator is indisputably also ranked as high.

Overall risk rating: High risk

4.2.8 Overall Risk Rating of Nigeria

Each of the seven indicators have been applied to the oil and gas sector in Nigeria, and measured according to the matrix. Viewing the final measurements of all the indicators,

⁸ The 2008 report is the most recent version that could be obtained from the Internet.

two of them are rated medium, while five are rated as high risk. Thereby, the overall risk rating of corruption in the oil and gas industry in Nigeria is high. The explanation of the high-risk level can be summarised as follows; the history of corruption in Nigeria is strongly rooted. Successive military regimes have subjugated the rule of law, followed by failed attempts at democracy, where the government instead has facilitated the wanton looting of public funds and decapitated many of the public institutions.

4.3 Conclusion

This chapter has applied the matrix from Chapter Three to the oil and gas industry in Nigeria. This has been done in an attempt to establish how and to what level corruption constitutes a political risk factor for the oil and gas investor. The result of the indicators, not surprisingly, demonstrates that corruption remains rife in many facets of Nigeria's public and private sectors, which spills out to a high extent in the oil and gas industry. The political risk of encountering corruption for the oil and gas investor is thus high in Nigeria.

Although there is a constitutional separation of powers in Nigeria, there is a separation of functions, yet not a clear separation of functionaries. The NNPC is highly exposed to corruption, and the DPR suffers from low capacity and unclear regulatory function. The oil resources have given the ruling elite both the incentives for controlling the state apparatus and the means to retain control of the state, and the phenomenon of rent-seeking and "elite capture" are highly applicable to the Nigerian economy. The Nigerian political structure is one of several monopolies in key segments of the economy, of which many are relevant to the oil and gas sector. The existing legal framework grants discretionary authority to top officials and does not clearly delineate roles and responsibilities among the sector's actors. The use of intermediaries or "middle-men" is a frequent phenomenon in Nigeria. Bribery, favouritism, and contract non-performance frequently mar these license and contract transactions in Nigeria. Although there are a number of established institutions of specialised control, geared to the petroleum economy and petroleum-related problems, again, all are more or less subject to the political elite's control of the state. The Nigerian constitution and laws of Nigeria provide for an independent judiciary; however, the judicial branch is susceptible to executive pressure, particularly at the state and local levels. But it remains to be said that the judiciary is increasingly acting as a check against arbitrary acts at the political level. Both the CPI ranking, the GCB and the Global Integrity report rate the level of corruption in Nigeria as high. The political risk facing the oil and gas investor is high, as the sum of indicators point in that direction.

Chapter Five: Conclusion

5.1 Introduction

The research study commenced by focusing on the oil and gas investors' continuous search for opportunities in regions and areas where oil and gas have been identified. As stated at the outset of this research endeavour, oil and gas investors are exposed to a number of risks of various kinds that can affect such a company's reputation, expected returns or loss of investment entirely. Political risk analysis assists in the investment process to locate the areas of risk and contribute to the overall decision-making process that all oil and gas companies carry out in their investments.

Many of the political risks faced by the oil and gas sector originate from the political, structural and institutional framework of the host country. The interaction with government officials and the conduct and arrangements are often different in foreign countries, and the practices may be very divergent to their familiar business etiquette at home. Corruption is one such phenomenon that can manifest itself in an investment country and potentially constitute a political risk for the oil and gas investor. Many oil and gas ventures have (or are currently) operating in countries where various forms of corruption are inherent in the state's modus operandi, making the oil and gas companies particularly exposed to the risk of encountering corruption.

Although corruption is a complex phenomenon to define in rigid terms, there is an overall understanding that it hampers profit for the oil and gas investors. Furthermore, involvement in corrupt activities can have drastic consequences for the oil and gas investors in terms of costly fines, penalties, reputational damage or indirect structural quandaries. The goal of this research has been to provide an extensive investigation on how corruption constitutes a political risk factor in the oil and gas industry and determine how it can be measured as part of a political risk analysis for the oil and gas investor. The intention of this research was thereby to provide a practical solution to the research problem with the supplement and support of two sub-questions, which will further be explained in the third section.

Having an understanding of the environment and the level of corruption in an investment country enables the investor to make sophisticated, informed and rational decisions about the political risk associated with the investment. Corruption manifests itself in many forms of varying degrees of severity, which creates a blurred distinction of what is tolerable and what is not. However, with an accurate understanding of where and how

corruption as a risk arises in the oil and gas industry, management can drive higher-quality returns to the bottom line. This thesis has argued that it is of crucial importance and interest for oil and gas companies to have a stipulated concept of corruption as a political risk factor in their industry.

5.2 Course of the Research Study

Chapter One introduced the research study with a general introduction, followed by a brief literature review. The research question was presented together with two sub-questions that were identified as crucial to conduct the research study. The rationale of the research discussed the relevance and validation of the study and the research objective was presented to clarify the function of a measurement tool of corruption as a political risk factor. The research design and methodology was outlined, followed by the limitations and delimitations of the study. Finally, a simplified readers' guide of the remaining course of the study was presented.

Chapter Two had a dual aim, where it firstly focused upon the theoretical framework for the discipline of political risk analysis central to this research. In this regard, conceptualizations of key political risk terms were systematically presented. Secondly, Chapter Two aimed at explaining the large composition of the oil and gas sector as well as a contextualization of political risk in the oil and gas industry. The purpose of this chapter, in examining the theoretical foundation and contextualizing political risk in the oil and gas industry, was to provide a clearly defined point of departure of conceptualizing corruption in Chapter Three and measuring corruption as a political risk factor for oil and gas investors in Nigeria in Chapter Four.

Chapter Three presented a broad overview of the phenomenon of corruption and discussed some of the consequences for investors' involvement in corrupt activity. As such, corruption stipulates as a political risk factor and Chapter Three aimed to arrive at a conceptualisation of corruption that is most suitable and directed towards the oil and gas industry. Seven generic indicators of corruption were introduced and moulded into industry-specific indicators that are applicable to measure the level of corruption in the oil and gas sector of an investment country. These indicators were subsequently ranked into a matrix that was constructed with the aim to use it as a general measurement tool for oil and gas investors.

Chapter Four applied the matrix from Chapter Three to the oil and gas industry in Nigeria. This was carried out in an attempt to establish how and to what level corruption constitutes a political risk factor for the oil and gas industry. The result of the indicators, not

surprisingly, demonstrated that corruption remains rife in many facets of Nigeria's public and private sectors, which spills out to a high extent in the oil and gas industry. The political risk of encountering corruption for the oil and gas investor was thus demonstrated to be of a high level in Nigeria.

5.3 Evaluation of the Research Study

Oil and gas companies usually conduct a political risk analysis as an integral part of their international investment analysis and strategy plan. As the research has pointed out, the political situation in many of the resource-abundant countries can pose considerable risks for the oil and gas operations and towards the expected profits and returns. It is therefore argued in this research that it is of high value to conduct a systematic and industry-specific analysis that can assist in the decision making process.

Corruption is a phenomenon that has been identified as rampant in the business world and gained considerable attention in modern times. In this study, it was pointed out that there is no universal agreed upon definition of corruption and hence a need for research in understanding how it constitutes as a political risk for oil and gas companies. Despite there being no universal definition of corruption, being involved or associated with corruption can have dramatic consequences for an oil and gas company, both in terms of financial loss and with regards to the reputation of the company. In this study, a number of examples from the past decade have demonstrated how several companies' involvement in corrupt activity have been charged with large-scale bribery, which in turn has resulted in major fines, bankruptcy or individuals being imprisoned. All the major industrialised countries now have laws against foreign bribery, and according to Control Risks (2009a: 1), we can expect a continuing trend towards tighter enforcement in these countries. As such, corruption manifests as a political risk factor to the oil and gas investor and the purpose of this research study was to examine *how* corruption manifests as a political risk factor to the oil and gas investor and finding appropriate means to measure the level of corruption as a risk for the oil and gas investor.

The main research question was formulated as follows: How should corruption as a political risk factor be measured in order to provide an accurate assessment of the risk factor within the oil and gas industry? Concurrently, two sub-questions were identified to supplement and support the main research question in the conduct of the research. The first sub-question was to find an adequate conceptualisation of corruption as a political risk factor within the oil and gas industry; and secondly, determine what indicators can be used to measure corruption as a political risk factor in the oil and gas industry.

The research found that corruption can best be explained by relating it to rational-choice theory and economic incentive theory. With this as a derivation, the study leans on the hypothesis by Al-Kasim, Søreide and Williams (2008: 31) that an agent chooses corruption over honest conduct, where, in such calculation, the benefits outweigh the risks. Based upon a range of widely used definitions of corruption, the study found that they all assign equal importance to “offering”, “receiving” and “soliciting” of gifts or bribes. Additionally, in explaining corruption, the actors involved in corrupt practices were analysed from the supply-side and demand-side of corruption. It was discovered that corrupt engagement must ultimately be analysed from the perspective of the parties involved. This was demonstrated in a figurative triumvirate, where the actors involved can be divided into the “Principal”, the “Agent” and “Client”. Moreover, corruption must also be regarded within a specific institutional framework as a condition for the fulfilment of a corrupt transaction.

In the context of corruption occurring in the oil and gas sector, the three main actors involved, the Principal, the Agent and the Client, were translated respectively into: the entity or authority that grants and approves oil and gas projects; the civil servant representing the authorities; and thirdly, the oil and gas investment company. On the basis of the Principal-Agent-Client theory, the research found an appropriate conceptualisation of corruption as a political risk factor in the oil and gas industry, which could further assist answering the second sub-question.

The second sub-question was to determine the adequate indicators of corruption as a political risk factor in the oil and gas industry. This was approached by firstly identifying generic indicators that are applicable to all business investments and operations in a foreign country. The literature and data sources used in the third chapter introduced a number of general causes and explanations to the occurrence of corruption. These were trimmed down to what was considered the most salient and relevant variables for this study. Seven indicators were then identified that are within a national political and institutional framework of an investment country. The research ascertained that these structures were instrumental in defining opportunities for corruption at an institutional level. Based upon comprehensive literature, it was argued that it is at the institutional level that oil and gas investors are likely to encounter corruption that is relevant to their risk assessment.

The generic indicators served as a first-tier operationalisation of the study. The second-tier operationalisation of the research was to fashion the generic indicators into specific indicators of corruption in the oil and gas industry. This was carried out by whittling

down the generic framework of corruption to the oil and gas industry's general activities in an investment country, and the political structural and institutional framework that is mostly relevant to the oil and gas investor. The indicators proved both useful and functional for the desired outcome, which was to create an explanatory, practical and effective method of assessing the level of corruption as a political risk for the oil and gas industry.

The seven assorted indicators were systematically placed into a matrix to make it operative in measuring the level of risk; high, medium or low. This matrix was developed based on underlying theory of political risk central to this study and established in Chapter Two, and further based on the foundation presented in Chapter Three, which focused on the generic and industry specific indicators.

The main research question was largely treated and answered by the two sub-questions. The real litmus test of the measurement tool and the selected indicators was to apply it to a case study. Nigeria was chosen for this research for two rather obvious reasons: firstly, because of the country's abundance of oil and gas resources, and secondly, due to the strongly rooted history of corruption. Each indicator was applied to the current situation in Nigeria, which measured the level of corruption present in the various political institutional structures and regulatory framework of the oil and gas sector in the country. The result of the indicators, not surprisingly, demonstrated that corruption remains rife in many facets of Nigeria's oil and gas industry. According to the measurement tool, the political risk of encountering corruption for the oil and gas investor is thus high in Nigeria.

Political risk analysis can observe and measure such threats as corruption, which contributes to businesses' recognition and anticipation of such future occurrence. This study only treated one of many risk factors that need to be included in a complete political risk analysis. However, as corruption is one of the factors that need more exhaustive scrutiny, this study can hopefully provide a valuable contribution to this specific area. This study has firstly been successful in providing an overview of the complexities and many facets involved in corruption as a phenomenon. Furthermore, the study has outlined the major consequences for investors to be involved in corruption and how it, as such, constitutes as a political risk factor for investors. The study was specified to the oil and gas industry for two main reasons. Firstly, because political risk analysis, when conducted, is usually directed towards one type of industry or one specific investment case. Secondly, as the study has demonstrated, conceptualizing corruption as a risk factor should be linked to a specific context. Although there is no universal definition of corruption in general terms, this study has provided a useful conceptualisation of corruption specifically for the

context of the oil and gas sector. In addition, the study has provided a practical measurement tool, with the intention that it can be applied to any investment country and as a valuable supplement to the overall political risk analysis. The applicability of the matrix, as demonstrated by the case study of Nigeria, proved to have a functional utility, and as such, provide a solid result from measuring the indicators. The overall result of this study has reached its main goal and provided an answer to the research question.

5.4 Critique of the Research and Suggestions for Further Research

A high political risk factor in itself does not mean that investors should stay away from a country or a region. A high degree of risk, if sufficiently managed, can instead result in increased opportunities for higher returns or competitive advantage in comparison to other oil and gas investors (Alon et al., 2006: 624). The investor can take the assessment results and consider the further viability of the investment. This is done in light of the strategies that will have to be implemented in order to manage these risks and thus ensure that the profitability of the investment can be secured (Brink, 2004: 149). Risk management is an important element that has not been addressed in this study, due to limited space and resources. Political risk management is the strategy that the investment company employs according to the investment climate and as such contributes to the investor's decision-making. Risk management was not taken into account, as it in itself requires major attention, and should be dedicated to another research.

Embarking upon a conceptualization of corruption as a political risk for the oil and gas sector required finding the relevant variables and framework for the oil and gas industry. In doing this, the study narrowed the framework down to only regard the political institutional framework. Although this proved to be a practical solution to exclude a range of irrelevant variables, it might at the same time have excluded other important and useful variables potentially relevant to a more comprehensive assessment of corruption as a risk in the oil and gas industry. Therefore, there is certainly a need to enhance the conceptualisation of corruption as a political risk factor. Future research is recommended to expand upon the framework of corruption as a risk for the oil and gas investor, and possibly include cultural, social and individual variables.

The generic indicators derived from the conceptualisation of corruption as a political risk for the oil and gas investor. The secondary literature that was used contributed a great extent in determining the indicators and measuring their level of risk. However, further study could benefit largely from primary data from both the political risk industry itself and the oil and gas industry. This would enhance the knowledge regarding the real

world development and application of political risk factors. Such first-hand information could be obtained by conducting interviews with relevant actors from both industries and by doing longer-term field research. Furthermore, access to existing measurement tools of corruption that oil and gas companies operate with today, could furthermore allow for valuable insight and comparison of the indicators.

In addition to the abovementioned areas for potential expansions, is the need for supplementary case studies. Although the matrix was useful in testing it on the oil and gas industry in Nigeria, a more refined matrix would require other case studies to compare and adjust the measurement tool. Moreover, the information that was used to analyse the indicators in the case of Nigeria were all retrieved from secondary sources.

5.6 Conclusion

This study has firstly been an examination of corruption as a political risk factor for the oil and gas investor. Secondly, the study has provided a practical measurement tool that can assess the level of risk, which has been tested using the case study of the Nigerian oil and gas sector. Corruption has increasingly been acknowledged as hazardous for an oil and gas company's profits and as a considerable risk that needs further exploration in the field of political risk assessment.

Conceptualising corruption as a political risk factor proved to be a significant challenge, as it manifests itself in many forms and varying degrees of severity. Furthermore, there is a lack of consistency amongst the existing definitions of corruption and a disparate understanding of the threshold of acceptance for corrupt behaviour. However, this study provided a crucial contribution in the greater discussion by isolating corruption in the oil and gas industry and finding appropriate indicators to measure the phenomenon as a political risk for oil and gas investors.

From a broader perspective, the study contributes to the field of political risk analysis by highlighting the need for an industry-specific conceptualisation and measurement of corruption as a political risk factor. As such, political risk analysis has the potential to further develop and give more accurate assessments. By analysing the existing risks from both the supply-side and demand-side of corruption, management strategies can be fashioned to mitigate the risk.

Bibliography

- Ackerman, S.R. (1997) *The Political Economy of Corruption*. In K. A. Elliott (ed.). *Corruption and the Global Economy*. Washington: Institute for International Economies.
- Alon, I. & Martin, M. A. (1988). A Normative Model of Macro Political Risk Assessment. *Multinational Business Review*, 2 (6), 10-19.
- Alon, I., Gurumoorthy, R., Mitchell, M. C., & Steen, T. (2006). Managing Micropolitical Risk: A Cross-Sector Examination. *Thunderbird International Business Review*, 48 (5), 623-642.
- Al-Kasim, F., Søreide, T. & Williams, A. (2008). *Grand corruption in the regulation of oil*. U4 Issue. Bergen: Chr. Michelsen Institute. 3 September, 2010 from <http://www.u4.no/document/publications.cfm>
- Amadi, S., Germiso, M., and Henriksen A. (2006). *Statoil in Nigeria: Transparency and local content*. The Norwegian Council for Africa and The Future in our hands. Retrieved 15 September, 2011 from Statoil:<http://www.framtiden.no/download-document/49-statoil-in-nigeria-fivh-report-nr.-1-2006.html>
- Amundsen, I. (2010). *Good Governance in Nigeria— A Study in Political Economy and Donor Support*. Bergen: Chr. Michelsen Institute. Retrieved 3 September, 2010 from Norad: <http://www.norad.no/en/searchresult?col1=9%2C23%2C31&sort=relevance&query=Good+Governance+in+Nigeria+>
- American Petroleum Industry (2011). *Industry Sectors*. Retrieved 22 July, 2011 from American Petroleum Industry: <http://www.api.org/aboutoilgas/sectors/>
- Azfar, O. & Nelson, W.R. (2007). Transparency, wages, and the separation of powers: An experimental analysis of corruption. *Public Choice* (130), 471- 493.

- Babbie, E., & Mouton, J. (2005). *The Practice of Social Science Research. South African Edition*. Cape Town: Oxford
- BBC. (2006, 2 March). *High Court clears P&O's takeover*. Retrieved 25 July, 2010 from BBC News: <http://news.bbc.co.uk/1/hi/business/4765262.stm>.
- Berlin, A. (2003). *Managing Political Risk in the Oil and Gas Industries*. Retrieved 23 June, 2010, from: [http://www.stephankinsella.com/texts/berlin political-risk.pdf](http://www.stephankinsella.com/texts/berlin%20political-risk.pdf)
- Bertelsmann Stiftung (2010). *Nigeria Country Report*. Gutersich: Bertelsmann Stiftung: 2009. Retrieved 15 September, 2011 from BTI: <http://www.bertelsmann-transformation-index.de/67.0.html?L=1>
- Boshoff, M. (2010). *Investing in Troubled Territories: Industry Specific Political Risk Analysis and the Oil and Gas Industry*. Department of Political Science. Stellenbosch University.
- Boulos, A. J. (2003). *Assessing Political Risk*. NAPE International Forum. Houston: International Petroleum Association of America.
- Bremmer, I. (2009, January 5). *Ian Bremmer, the President of Eurasia Group, announces top political risks for 2009*. Retrieved 10 April, 2010 from Political Risk Insurance Centre: <http://www.pri-center.com/feature/index.cfm?fid=36>
- Bremmer, I. & Keat, P. (2009). *The Fat Tail: The Power of Political Knowledge for Strategic Investment*. New York: Oxford University Press.
- Brewer, T.L. (1981). *Political Risk Assessment for Foreign Direct Investment Decisions: better methods for better results*. Columbia Journal of World Business. 16 (1), 5-12.
- Brink, C. H. (2004). *Measuring Political Risk: Risk to Foreign Investment*. Aldershot: Ashgate Publishing.
- Control Risks (2009a). *Corruption, Compliance and Change: Responding to greater scrutiny in challenging times*. London: Control Risks. Retrieved 10 July, 2010 from

Control Risks: http://www.controlrisks.com/pdf/CORRUPTION_COMPLIANCE.pdf

Control Risks (2009b). *Facing up to Corruption in Nigeria*. London: Control Risks.

Retrieved 10 July, 2010 from Control Risks: http://www.controlrisks.com/PDF/nigeria_corruption_2009_final.pdf

Dagens Næringsliv. (2006, 13 October). *Statoil innrømmer korrupsjon*. Retrieved 6 July 2010, from Dagens Næringsliv: <http://www.dn.no/forsiden/energi/article897283.ece>

Elliott, K. (1997). *Corruption as an International Policy Problem: Overview and Recommendations*. In K. Elliott (ed.), *Corruption and the Global Economy*. Institute for International Economics

Fitzpatrick, M. (1983). The Definition and Assessment of Political Risk in International Business: A Review of the Literature. *Academy of Management Review*, 2 (8), 249-254.

Freedom Info (2011, 3 June). *Nigerian President Signs Freedom of Information Bill*.

Retrieved 17 September, 2011, from Freedom Info: <http://www.freedominfo.org/2011/06/nigerian-president-signs-freedom-of-information-bill/>

Green, S. (2002). *Rational Choice Theory: An Overview*. Seminar on Rational Choice. Baylor University.

Gillies, A. (2009). *Reforming corruption out of Nigerian oil*. Bergen: Chr. Michelsen Institute

(U4 Brief). Retrieved 3 September, 2011 from CMI: <http://www.cmi.no/publications/publication/?3295=reforming-corruption-out-of-nigerian-oil-part-one>.

Global Compact. (2008). *Business against corruption— Case stories and examples*.

Retrieved 16 September, 2011 from United Nations Global Compact Office: http://www.unglobalcompact.org/docs/issues_doc/7.7/BACbookFINAL.pdf

Global Corruption Barometer (2010). *Global Corruption Barometer Report 2010*.

Transparency International. Retrieved 5 October, 2011 from:
http://www.transparency.org/policy_research/surveys_indices/gcb/2010/results

Global Integrity (2011). *The Global Integrity Report: Methodology*. Retrieved 5 October, 2011, from: <http://www.globalintegrity.org/report/methodology>

Global Integrity report: Nigeria (2008). *Global Integrity report: Nigeria*. Retrieved 5 October, 2010 from Global Integrity: <http://report.globalintegrity.org/Nigeria/2008>

Goudie, A.W. & Stasavage, D. (1998). A framework for the analysis of corruption. *Crime, Law & Social Change*. 29, 113-159

Hallmark, T. & Whited, K. (2001). The IHS Energy Group's Political Risk Rating and Ranking Index. In L. D. Howell, *The Handbook of Country and Political Risk Analysis*. East Syracuse, NY: PRS Group.

Holme, I. & Solvang, B. (1991). *Forskningsmetodik – om Kvalitativa och Kvantitativa Metoder*. Lund: Studentlitteratur

Hough, M., Du Plessis, A., & Kruys, G. P. (2008). *Threat and Risk analysis in the Context of Strategic Forecasts*. (45). Pretoria: University of Pretoria.

Institute of Risk Management (2004). *Political Risk Analysis and Investment Decisions*. Retrieved 12 March 2010 from IRM: <http://www.theirm.org/>

Jensen, N. (2005). *Measuring Risk: Political Risk Insurance Premiums and Domestic Political Institutions*, UCLA International Institute

Kaplan, S. & Garrick, B. (1980). On the Quantitative Definition of Risk. *Risk analysis*, 1 (1).

Kennedy, R. E. & Di Tella, R. (2001). *Corruption in International Business (A)*. Harvard Business School. Retrieved 18 September, 2011 from <http://www.knkg-indonesia.com/KNKGDOWNLOADS/Corruption%20in%20International%20Business.pdf>

- Klitgaard, R. (1991) *Controlling Corruption*. California: University of California Press.
- Kobrin, S. (1979). Political Risk: A Review and Reconsideration. *Journal of International Business Studies*, 10 (1), 67-80.
- Kobrin, S. (1978). When Does Political Instability Result in Increased Investment Risk? *Columbia Journal of World Business* (Fall issue), 113-122.
- Lax, H. L. (1983). *Political Risk in the Oil and Gas Industry*. Boston: International Human Resource Development Corporation.
- Lindeberg, M. and Morndal, S. (2002). *Managing political risk - A contextual approach*. Linköpings Universitet. Ekonomiska Institutionen. Retrieved 11 March, 2010 from The University of Linköping:<http://www.ep.liu.se/exjobb/eki/2002/iep/012/>
- Merriam, S. (1988). *Fallstudien som Forskningsmetod*, San Francisco: Jossey-Bass inc. Publishers
- Nairne, S. (2007). *Nigeria: Mapping Political, Economic and Business Scenarios in the Post Obasanjo Area*. University of British Columbia. Retrieved 12 September, 2011 from Canadian Defence and Foreign Affairs Institute: <http://www.cdfai.org/countrystudies.htm>
- Neelankavil, J.P. (2003). *International Business Corruption: A Framework of Causes, Effects, and Prescriptions*. Zarb School of Business. Hofstra University. Retrieved 10 September, 2011 from: www.aueb.gr/deos/EIBA2002.files/PAPERS/W74.pdf
- Neuman, L.W. (2006). *Social Research Methods: Qualitative and Quantitative Approaches*. : Pearson Education Inc.
- Oraegbunam, I. (2005). *Separation of Powers and Nigerian Constitutional Democracy*. Retrieved 15 September, 2011, from Vanguard: <http://www.dawodu.com/oraegbunam1.htm>
- Oslo Governance Centre (2008). *A Users' Guide to Measuring Corruption*. Retrieved 15

September, 2011 from OGC:

http://www.undp.org/oslocentre/flagship/users_guide_measuring_corruption.html

Price Waterhouse Coopers (2006). *Integrating Political Risk Into Enterprise Risk Management*, Retrieved 11 March, 2010 from PWC:

[www.pwc.com/extweb/pwcpublications.nsf/docid/eab01ac994713716852570ff006868b6/\\$file/prarermfinal.pdf](http://www.pwc.com/extweb/pwcpublications.nsf/docid/eab01ac994713716852570ff006868b6/$file/prarermfinal.pdf)

Raftery, J. (1994). *Risk Analysis in Project Management*. London: Chapman & Hall

Republic Report. (2011, 15 October). *Obasanjo Ambushed \$2.8 Billion From NNPC, As President And Minister Of Petroleum To Bribe NASS-Members*. Retrieved 20 September, 2011 from Republic Report: <http://www.republicreport.com/obasanjo-ambushed-2-8billion-from-nnpc-as-president-and-minister-of-petroleum-to-bribe-nass-members-atiku/>

Robock, S. (1971). Political Risk: Identification and Assessment. *Columbia Journal of World Business* (July-August), 6-20.

Schedler, A. (1999). Conceptualizing Accountability. In L. Diamond, M. F. Plattner and A. Shcelder (eds.) *The Self-Restraining State— Power and Accountability in New Democracies Boulder*. Colorado: Lynne Rienner Publishers

Shkolnikov, A. (2002). Corporate Governance: An Antidote to Corruption. Center for International Private Enterprise (CIPE). Retrieved 13 September, 2011 from <http://www.afic.am/CG/CG-Antidote.pdf>

Simon, J. D. (1984). A Theoretical Perspective on Political Risk. *Journal of International Business Studies volume* (Winter), 123-143.

Simon, J.D. (1982). Political risk assessment: Past trends and future prospects. *Columbia Journal of World Business*, Fall: 62-71.

- Simon, H. A. (1986). *Decision Making and Problem Solving: Report of the Research Briefing Panel on Decision Making and Problem Solving*. Washington, DC: National Academy of Sciences.
- Strauss & Corbin. (1998). *Basics of Qualitative Research*. Thousand Oaks: Sage Publications
- Tanzi, V. (1998). Corruption Around the World; Causes, Consequences, Scope, and Cures. *International Monetary Fund*. 45 (4), 559-594.
- Transparency International. (2009). *Global Corruption Report 2009*. Cambridge: Cambridge University Press.
- The Economist. (2003, 3 May). Another Day at the Office. *The Economist*.
- The Concise Oxford English Dictionary*. (1995). D. Thompson (Ed.). New York: Oxford University Press.
- Ting, W. (1988). *Multinational Risk Assessment and Management*. Westport: Green Press Inc.
- TI Norway (2009). *Protect your business— Anticorruption Handbook for the Norwegian Business Sector*. Transparency International Norway. Retrieved 9 September, 2011 from TI Norway:
<http://www.transparency.no/downloadfile.php?i=69adc1e107f7f7d035d7baf04342e1ca>
- Transparency International. (TI). (2010). *Corruption Perception Index 2010 Results*. Retrieved 3 September, 2011 from
TI:http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results
- Transparency International. (2011). *About us*. Retrieved 5 September, 2011 from TI:
http://www.transparency.org/about_us

- Tversky, A., Khaneman, D. (1986). Rational Choice and the Framing of Decisions. *The Journal of Business*, 59 (4).
- US Department of State (2010). *Nigeria Country Specific Information*. Retrieved 12 October, 2011 from US Department of State:
http://travel.state.gov/travel/cis_pa_tw/cis/cis_987.html
- Uslaner, E. (2007). *Corruption and the Inequality trap in Africa*. Working paper no. 69. Afrobarometer. Retrieved 3 September, 2011 from Afrobarometer:
http://next.pls.msu.edu/index.php?option=com_docman&Itemid=39
- Venter, A. (1997). *An Assessment of Micro-Political Risk: Reasoned Decision Making as a Management Tool*. Retrieved 4 August, 2009, from UNISA: <http://www.unisa.ac.za>
- Webster, R. (2002). *Corruption and the Private Sector. Sectoral Perspectives on Corruption*. Prepared by MSI (November 2002). Retrieved 10 September, 2011 from USAID:
http://www.usaid.gov/our_work/democracy_and_governance/publications/ac/sector/privatesector.doc.
- Wolkers, M., Hakobyan, A. (2004). *Local Corruption Diagnostics and Measurement Tools in Africa*. Transparency International. U4 reports.
- Yin, R. (1994). *Case Study Research*. Thousand Oaks. Sage Publications

This document was created with Win2PDF available at <http://www.win2pdf.com>.
The unregistered version of Win2PDF is for evaluation or non-commercial use only.
This page will not be added after purchasing Win2PDF.