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Field Reviews

Oil and Corruption in Africa: Who is to Blame?

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Abstract. *The recent OPL245 scandal, involving Nigerian government officials and oil firms Shell and Eni, was nothing but the most recent scandal in the Oil&Gas sector: instead of enriching Nigerian state coffers, huge amounts of money (more than a billion dollars) were diverted to private bank accounts. Corruption and kleptocracy have undoubtedly become a common feature of oil-rich countries in Africa, with a wide body of literature highlighting the negative impact of oil on governance, the economy, democracy and peace. Writings on the "resource curse" and the "Dutch disease" have brought attention to the paradox of the misery that characterizes resource-rich countries, focusing on the ensuing corruption of the institutions and of the state in Africa. While this paper does not intend to dismiss the blame from corrupt leaders and bad governance, it seeks to redirect the focus of the issue on what is often – and conveniently - left out of the discourse: that is, the structure of global networks and energetic demands that lies behind the emergence of corrupt regimes in African petro-states. It is not the resource in itself, but the international demand for the resource, that triggers this wide range of problems. Therefore, this paper seeks to explore the complex set of networks behind the extraction and consumption of oil and the economic structure of African petro-states to offer a global framework in which to locate the corrupt and kleptocratic behaviours of these leaders.*

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The stipulation of trade deals for the exploration and extraction of oil seems to involve cases of corruption on a regular basis. Etymologically, the word corruption stems from *cum* (an intensifier) and *rumpo* (to break), indicating a condition of rupture in normality: by this definition, the occurrence of bribery and extortion during trade deals should be an exceptional incident, not the rule. However, corruption has increasingly become the norm in the oil and gas sector. Recent scandals such as the OPL245 case in Nigeria (involving Eni and Shell, former Nigerian oil minister Dan Etete and former president Goodluck Jonathan) show that bribery has become a widespread practice to secure the granting of extraction rights[1]. This system benefits not only government officials, but also the oil company chiefs, who reserve a portion of the bribe paid by the company for their own

[1] Retrieved 05/02/18, from: http://www.independent.co.uk/news/business/news/shells-top-bosses-knew-money-from-13bn-nigerian-oil-deal-would-go-to-convicted-money-launderer-a7676746.html

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pockets[2]. While some oil-exporting countries have managed to avoid the total squandering of oil revenues, African petro-states have traditionally fallen victim to the 'resource curse', a landscape dominated by corrupt and unaccountable political elites and rapacious oil companies (Beblawi *et al.* 1987; Karl 1997; Soares de Oliveira 2007) .

In his analysis of the impact of oil on politics and wars, Cyril Obi (2010) criticized the 'resource curse' approach, judging it an unhelpful way to represent the issue. According to him, the 'resource curse' puts an emphasis on the *resource*, i.e. oil, as the source of all the problems, and on the *curse*, i.e. mismanagement by the elites, as the main problem. While nobody can deny the frequency of predatory practices or even conflicts in many oil-rich countries, Obi notes that this way of framing the issue reproduces a distorted image of reality. The conventional wisdom, which has been reinforced by the 'resource curse' discourse, presents the following kind of narrative: poor countries discover oil, they are submerged by a great bulk of money, greedy leaders do not know how to administer it and prefer to divert it to their own bank accounts. This oversimplified picture builds a direct nexus between resource and curse, and considers elites as the main actors in the game. There is one aspect of the equation that is implicit to the discourse but often seems to be forgotten: it is not the resource itself, but the *international demand* for the resource that triggers this wide range of problems. While this might seem a tautology, it enables us to trace the real process behind the so-called 'resource curse' back to international actors, accountable for the consequences of their demands. While other models explore the historical ties of hegemony and exploitation behind oil extraction, this paper will focus on two structural constraints that influence the actions of African elites: the structure of the economy of oil-producing states and the international context of oil production and sale.

An analysis of the economic structure of resource-rich countries reveals that the resource curse, while frequent, is not unavoidable. Even in the African continent, where the resource curse has been the most problematic, cases like Botswana and Ghana challenge generally held assumptions. Rather than seeing them as mere exceptions to the rule, Dunning (2008) provides a framework to make sense of the different outcomes by differentiating between resource-abundant, rentier, and resource-dependent states. The first are countries that are naturally endowed with one or more resources, and they can be rentier states or not; the second are states that depend on rents from natural resources to finance their budget and, in turn, they can be resource-dependent or not; the third are countries that depend on natural resources for most of their GDP and, hence, all economic activities revolve around the extractive sector. According to Dunning, predatory and authoritarian behaviour are a feature of resource-dependent countries, while rentier non resource-dependent countries exhibit different tendencies. A typical

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[2] Retrieved 05/02/18, from: https://www.ilfattoquotidiano.it/2017/12/20/tangenti-eni-nigeria-descalzi-e-scaroni-rinviati-a-giudizio-per-corruzione-internazionale-a-processo-anche-bisignani/4050617/

example of resource-dependent state is Angola: its spectacular post-war economic growth has been mainly sustained by oil exports, which have skyrocketed growth rates to double digits; as of 2009, oil accounted for 80% of the state budget, 97% of total exports and approximately half of its GDP[3]. Former president Eduardo dos Santos and Angola's elites have notoriously been using the national oil company, SONANGOL, to syphon money from the country and transfer it to private bank accounts: a 2011 IMF report states that between 2007 and 2010, over $32 billion were spent without being properly documented[4]. Moreover, the regime reportedly makes use of torture, rape, summary executions, arbitrary detention, and disappearances; actions that the Angolan government has justified by the need to maintain high oil outputs to sustain economic growth[5]. Thus, the picture emerging from Angola exhibits the general trends of predatory petro-states: the economy is totally dominated by the oil sector or other activities directly financed through oil. Hence, there is no economy outside of oil and the state and the elites have successfully "captured the state" to control the entirety of oil exports which they administer as though it was a personal possession. They do not hesitate to use violent repression to assert their control over oil rents and thus, create a strong rupture with civil society which feels strongly alienated from the state.

In contrast, the elites of rentier non resource-dependent states cannot afford to alienate the people. This is because, outside of the oil sector, these countries have a large economy operating that makes the population relatively autonomous. This explains why many Latin American countries have embarked on a series of populistic policies and democratic reforms that seek to make the oil sector more transparent in order to win votes rather than to repress the voice of the people. In the case of Africa, Ghana's major oil discovery came at a later stage of development, when the country's economy was diversified and relatively strong. Since the start of production, the county has achieved compliance to EITI guidelines (the Extractive Industries Transparency Initiative) and founded a civil society group to monitor extractive activities. Moreover, Ghana was the first African country to design a plan to back up the country's economy in case of oil price variability, by splitting revenues into an annual budget amount and two long-term funds (at least 30%) – imitating the successful Norwegian model. Clearly, this does not exclude corrupt practices, but at least reveals different public attitudes toward political accountability and entitlement to resource exploitation. Hence, bad governance and lack of accountability cannot be reduced to a matter of the elite's preferences; the structure of the economy delimits the space of manoeuvrability of elites and influences their actions.

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[3] Data from: OECD, International Energy Agency, 2006. *Angola: towards an energy strategy*.

[4] Retrieved 08/02/18, from: https://www.hrw.org/news/2011/12/20/angola-explain-missing-government-funds

[5] Retrieved 08/02/18, from: https://www.hrw.org/report/2004/01/12/some-transparency-no-accountability/use-oil-revenue-angola-and-its-impact-human

The second structural constraint, i.e. the international context of oil production and sale, reveals that bad governance is a consequence not only of the elites' actions, but also of global networks: not only have the superpowers done nothing to prevent corruption, but they have directly sustained it to further their own interests. World-systems theories claim that all global elites are interconnected, so that they directly benefit (through private gains) from reproducing the existing mechanism of hegemony, i.e. keeping the periphery subservient to the core (Wallerstein 1974). With specific regard to the politics of oil, we can make sense of kleptocratic regimes in petro-states by looking at how the US prioritized stability in oil-consumer countries.

After WWII, the US asserted its economic hegemony in Europe by imposing a shift from coal to oil as the main source of energy, since global oil flows were controlled by American companies. Traditional readings on the Marshall Plan, the American initiative to finance post-war reconstruction in Europe started in 1948, focus on the liberal assumption that economic interconnectedness and prosperity would lead to peace, liberal democracies and would halt the spread of Communism. However, more critical perspectives on the Marshall Plan, such as Mitchell's (2009), highlight a different underlying aim: i.e. to increase oil consumption in Europe and ensure economic dependency on American-sold oil. In simple terms, the system worked in the following way: the US provided financial support to Western European countries; Europe spent this money to finance post-war reconstruction; the more it achieved economic growth and reconstruction, the more it increased its oil consumption. Hence, by purchasing oil from American companies, European countries were paying their debt to the US. In fact, due to inflation and high growth rates, the prices of oil were on a constant increase, which meant that American companies were making a profit out of this exchange: the total amount of US dollars (the currency of oil exchanges) given by the Americans through the Marshall Plan was lower than that returned by the Europeans through oil purchase. The difference between the two constituted a sort of tax that the US extracted from Europe in return for providing economic prosperity and a liberal democracy. It was in the American interest to nurture social and political stability on the consumers' side (Western Europe).

In contrast, the US had no interest in a stable Middle East and Africa, as the role of these regions on the global chessboard was limited to the exportation of oil (Mitchell 2009). In fact, Mitchell draws an interesting parallel between American interests in global oil trade after WWII and the huge increase in arms sales to oil-exporting countries: the US explicitly supported any regime that espoused American interests and thus, actively helped to perpetrate kleptocracy in petro-states. This system began with the US-Saudi partnership and has since been reproduced various times across the globe, by many other actors beside the US.

What is most fascinating about this perspective is that it makes us question the values and rationales behind democracy and reconsider the importance of economic structure. While the success of liberal democracies in the 20th century is undoubtedly linked to mass society, democratic participation and anti-

authoritarian feelings, the presence of economic interests and hegemonic tendencies are an undeniable reality. The ultimate question to ask ourselves, then, is whether liberal democracy and oil networks can be separated; whether a liberal democracy can be successfully sustained outside of the need to sell and buy oil.

Interestingly, the difference in levels of governance among oil-producing states can be traced back to oil consumption. Oil-producing countries that have escaped the resource curse and present democratic modes of governance are also the countries with high levels of oil consumption to sustain their economy. This goes some way towards answering the initial question of why corruption has become so endemic in African petro-states: most African petro-states are not oil consumers. In the absence of a strong diversified economy, the global system has no interest in supporting good governance and democracy in the continent, but rather prioritizes Africa's role as a provider of oil to oil-consuming democracies. Corruption sustained by global networks offers a reliable mechanism to ensure that this system works. Hence, elites in African countries are not necessarily more corrupt or "evil" than their counterparts outside of Africa; they simply have a global economic structure that allows them, or even encourages them, to repress civil society and engage in predatory behaviour.

The ways in which American interests have shaped global networks lie at the very roots of the process of normalization of corruption in the field of oil and gas. The OPL245 case is nothing but the most recent scandal and shows how these practices have been internalized also by other actors in the field. Such practices benefit all the elites involved, from the governments of extracting countries to the oil firms to the governments and populations in oil-consuming countries; the only actors who are left out from the distribution of wealth are the domestic non-elite public in oil-extracting countries. While petro-elites may have some degree of agency in articulating their preferences, their actions are undoubtedly shaped by the strong set of practices perpetrated by the international system. If elites were to move against this system, the chances are that the elites would be ousted. Moreover, regardless of their preferences, elites are constrained by the structure of their economy. Hence, this paper has shown that, even though oil does benefit the elites and supports their system of patronage, corrupt behaviour based on predatory instincts (the so-called 'resource curse') may be an oversimplified explanation of the real issue. Elites in African petro-states tend to assert their agenda in concordance with structural constraints and so, ultimately, structure – both that of their state economy and of the international demand - might wield more influence in explaining the issue.

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