The **Cost of Maritime Corruption** to the Industry and Society

The Imperative for Businesses and Governments to Combat Maritime Corruption

For over a decade, the Maritime Anti-Corruption Network (MACN) has gathered first-hand data to map the extent of maritime corruption. A significant portion of this data stems from our extensive work in the Nigerian port and maritime sector. Although we have detailed accounts of the direct cost of corruption, we have not yet assessed its overall monetary impact on the maritime industry and society, including indirect costs such as extended lead times and delays resulting from corrupt practices. Understanding these hidden costs is crucial, as they profoundly affect both the industry and society.

This study, developed by QBIS, puts a dollar value on the cost of corruption for the private sector, government, and society, taking into account some of the hidden indirect costs resulting from corrupt practices across the maritime supply chain. The findings demonstrate a clear economic benefit and a compelling business case for proactive anti-corruption measures by both governments and businesses. These benefits have positive ripple effects for the entire economy, domestic revenue mobilisation, the business climate, and people's livelihoods. Further, the study sheds light on the impact of MACN's current anti-corruption initiatives.

Through a combination of steadfast industry commitment and proactive government measures, significant strides have been made in reducing corruption within the Nigerian port sector. Prior to 2019, resolving a single bribery case took 7 to 10 days, but current data shows that over 90% of corruption incidents are now resolved within 24 hours by relevant government agency in Nigeria. This study contextualizes these results and demonstrates how MACN's efforts are promoting socioeconomic development, trade, and more inclusive economies. In a rapidly changing world economy and political landscape, strong anti-corruption commitments and actions are fundamental to resolving many of the global challenges ahead. This study strengthens our case for such actions.

Maritime Corruption – A key Obstacle to Global Trade and Development

More than 80% of world trade is transported by sea, and societies and businesses depend on the efficient clearance of vessels and goods in ports worldwide to function, develop, and prosper. In a seaport, multiple agencies

hold administrative monopolies over essential services intended to facilitate trade. This creates opportunities for 'coercive' corruption [1] where government officials extract bribes from companies for performing routine tasks during vessel and cargo clearance. Maritime corruption of this kind causes commercially damaging delays to ships [2], generates higher trade costs [3], endangers the wellbeing of seafarers [4], exposes companies and seafarers to the risk of criminal prosecution. Corruption in the maritime value chain drives up the cost of doing business [5], and a portion of these additional costs is ultimately passed on to the end consumer. This impact is particularly severe in low- and middle-income countries, which rely heavily on essential imported goods such as cooking oil, fuel, and pharmaceutical products.

How Maritime Corruption Hits Nigerian Households

Nigeria is heavily reliant on imports of essential products and imports most of its food and other daily consumables via seaports. In 2021, Nigeria's imports were estimated to consist of 14% food products, 20% petrol, 9% construction materials, 10% textiles products, 18% production inputs, 9% vehicles, and 22% other products. As evident, food and petrol account for around a third of total imports, highlighting the importance of these products to everyday life. This means that rising import costs due to corrupt payments will heavily impact household demand rather than, for example, domestic manufacturing. This further underscores the vulnerability of the Nigerian economy to rising import costs driven by corruption in the maritime and import supply chain. This is a vulnerability shared by several low- and middle-income neighbouring countries in West Africa.

Estimating the Import Costs

This study examines costs across the entire supply chain for importing petrol and food products transported by dry and wet bulk vessel to Nigerian ports and terminals. The assessment captures the import costs from sea transport to the price to the end consumer in the supermarket excluding profit, considering some of the hidden indirect costs from long lead times and delays as well as corrupt payments. The study has broken down the import supply chain in the following 15 steps, and studies costs associated with each step (figure 1).

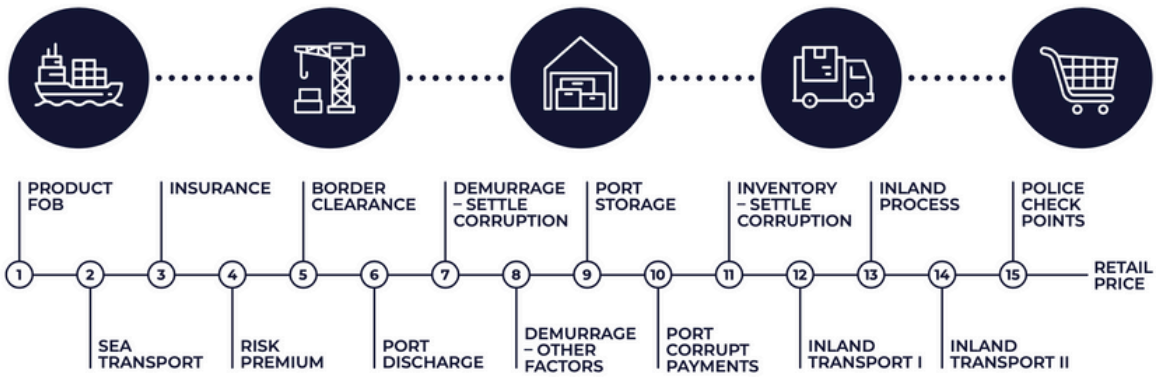

Figure 1 – Import Costs from sea transportation to retail price

The Cost of Corruption: Direct and Indirect Costs

The direct cost of corruption included in the study are captured in the ports during vessel clearance and at police checkpoints when leaving or entering the ports, where the shipping industry and local truckers may face corrupt demands. The study also captures some of the hidden indirect costs from long lead times and delays that arise due to corruption and the time it takes to settle corrupt demands. Demurrage costs - a penalty for keeping a vessel longer than the agreed laytime – may occur as an indirect cost of corruption when companies need to spend more time than expected to resolve corrupt demands in the port. Further, since the resolution time of a corrupt incident is unpredictable, importers need to keep extra safety stock to avoid out-of-stock situations and the associated production and delivery failures. This is an additional indirect cost of corruption that the study examines. In conclusion, the study does not only capture the direct corrupt payment that causes damaging costs to business and society, but also include the indirect costs such as the time it takes to settle the amount of a corrupt demand – a cost that may not be directly apparent nor taken into consideration by the private sector.

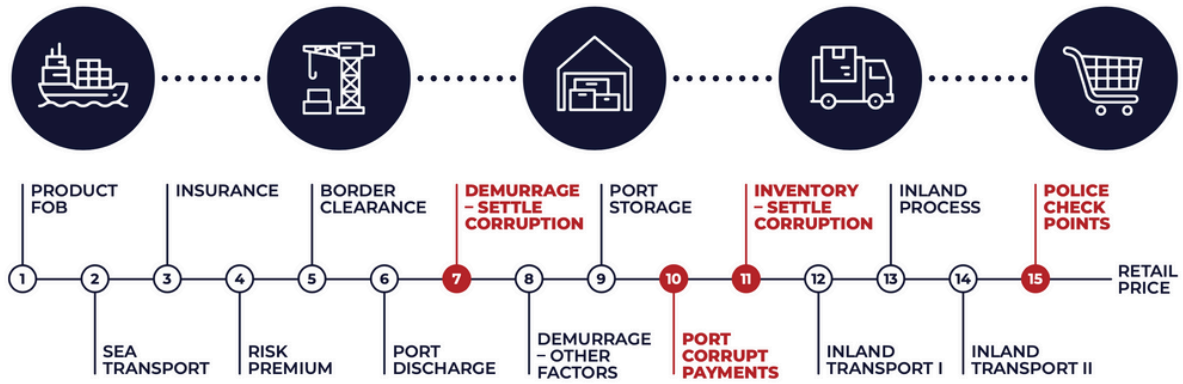

Figure 2 - Direct and Indirect Costs of Corruption

A Scenario Based Assessment

To showcase the cost of maritime corruption to the industry and society, the study makes use of two scenarios. The first scenario is a business-as-usual scenario, assuming all bribery requests that may occur during vessel clearance are met without any resistance from the private sector or government. The second scenario is a zero-tolerance scenario, assuming no bribery requests that may occur during vessel clearance are met - companies do not offer and the government does not request bribes. By comparing these two scenarios, the study tries to capture the cost and potential cost savings from rejecting maritime corruption. As such, it is important to point out that this is not an impact assessment of past and current anti-corruption efforts made in Nigeria, MACN's initiative in Nigeria, or business and government engagement to tackle corruption in the port and maritime sector in Nigeria.

The Business-as-Usual Scenario

Based on the business-as-usual scenario, the cost of maritime corruption to the industry involved in the import of food and bulk products in Nigeria is over USD 162 million per year. This cost of corruption adds about 15% to the total transport and logistics costs of importing bulk and food products into Nigeria. Per shipment, the cost of corruption is USD 147,000 per import shipment of grain and over USD 178,000 per import shipment of petrol. This is a significant cost that is borne by the private sector and has severe knock-on effects further down in the supply chain and ultimately impacts the end consumer.

With 63% of Nigerians or 133 million people classified as multidimensionally poor, most Nigerian families do not have a budget surplus. Increased import costs due to corruption are therefore likely to reduce their household demand and make essential goods less affordable to the average Nigerian family. Based on the business-as-usual scenario, the cost of corruption adds about 1-2 percent to the retail prices paid by the customer for grain and petrol. This results in less consumption and less sales and negatively impacts GDP, tariffs collected by Customs, and job creation. Maritime corruption results in an annual reduction in GDP of USD 204 million, an annual reduction in revenue collected by Customs of USD 42 million, and 235,000 fewer Full-Time Equivalent (FTE) jobs due to less sales and economic activity.

> "The cost of corruption is over USD 182,000 per import shipment – a significant cost that is borne by the private sector, but that has severe knock-on effects further down in the supply chain."

It's worth noting that the total economic damage of maritime corruption is likely to be much higher. Bulk imports are estimated to account for around 43% of the total value of imports, with containers accounting for the remaining 57%. If similar costs of corruption apply in container imports as in bulk imports, the economic damage of maritime corruption will more than double according to this study.

PRODUCT	CORRUPTION	TTLC	COST OF CORRUPTION PER SHIPMENT	RETAIL COSTS	GROSS DOMESTIC PRODUCT	TARIFF	JOBS
GRAIN	39.9 MUSD	14,6 %	147,000 USD	+1.8%	-46 MUSD	-8 MUSD	-53,000 FTE
PETROL	70 MUSD	13,2 %	178,200 USD	+0.8%	-88 MUSD	-19 MUSD	-101,000 FTE
TOTAL FOOD & BULK	162.9 MUSD	15,2 %	182,300 USD	+0.8%	-204 MUSD	-42 MUSD	-235,000 FTE

Figure 3 – The Cost of Corruption – The Business-as-usual Scenario

"The cost of maritime corruption to the industry involved in import of food and bulk products is over 162 million USD per year and adds close to 15% to the total transport and logistics costs."

"Maritime corruption results in an annual reduction in GDP of 204 million USD, an annual reduction in revenue collected by Customs of 42 million USD and more than 235,000 fewer Full-Time Equivalent (FTE) jobs due to less sales and economic activity."

The Zero Tolerance Scenario

Based on a zero-tolerance scenario, where companies and government stakeholders successfully prevent and/or reject corruption during vessel clearance, the damage of corruption is significantly reduced. For the industry, the cost of maritime corruption is reduced by over 62 percent or more than USD 100 million per year. This is a reduction in the cost of corruption per shipment of USD 114,000 per import shipment. Further, this reduces the economic damage of corruption by in total USD 230 million in sales of imported bulk including food products, which then contributes to more economic activity. By 'Saying No' to maritime corruption, GDP increases by about USD 130 million annually, customs revenue from tariffs increases by USD 28 million annually, and more than 147,000 Full-Time Equivalent (FTE) jobs are created due to more sales and economic activity across the supply chain in Nigeria.

PRODUCT	CORRUPTION	COST OF CORRUPTION PER SHIPMENT	SALES	GROSS DOMESTIC PRODUCT	TARIFF	JOBS
GRAIN	-25 MUSD	-92K USD	+50 MUSD	+30 MUSD	+6 MUSD	+33,000 FTE
PETROL	-38 MUSD	-97K USD	+90 MUSD	+48 MUSD	+11 MUSD	+55,000 FTE
TOTAL FOOD & BULK	-102 MUSD	-114K USD	+230 MUSD	+129 MUSD	+28 MUSD	+147,000 FTE

Figure 4 - The Cost of Corruption - The Zero-Tolerance Scenario

> "By saying No to maritime corruption, the damage of corruption for the maritime industry is significantly reduced with close to USD 114,000 per import shipment."

> "By rejecting maritime corruption, the Nigerian GDP increases with about 130 million USD annually, Customs revenue increase with 28 million USD annually and about 150,000 Full-Time Equivalent (FTE) jobs are created due to more sales and economic activity across the supply chain in Nigeria."

On the Pathway to Zero Tolerance

Although the study is based on a hypothetical zero-tolerance scenario, the efforts of MACN in Nigeria illustrate that achieving zero tolerance for corruption is feasible, even in areas historically plagued by such challenges. Through a combination of steadfast industry commitment and proactive government measures, significant strides have been made in reducing corruption within the Nigerian port sector. The government's diligent monitoring and enforcement of anti-corruption compliance, coupled with industry initiatives like the MACN Anti-Corruption HelpDesk, have drastically improved the resolution time for corruption cases. Before 2019, resolving a single bribery case took 7 to 10 days, but current data shows that over 90% of corruption incidents are now resolved within 24 hours by relevant government agencies, with the average resolution time being just 1 to 8 hours. Impressively, 98% of escalated incidents have been successfully resolved, and the remaining 2% have been escalated to authorities to clarify protocols. This progress not only highlights the effectiveness of collective action but also fosters a stronger, trust-based relationship between the public and private sectors. MACN's initiative has become a transformative force in the maritime industry, setting a powerful example of how anti-corruption efforts can drive systemic change, enhance integrity in trade, and ultimately reduce the costs of doing business and make essential goods more affordable to the average Nigerian family.

About MACN

Since its inception in 2011, the Maritime Anti-Corruption Network (MACN) has become one of the preeminent examples of an industry-led Collective Action network taking tangible actions to eliminate corruption in the maritime and seaport sector by leveraging partnerships between the public sector, the private sector, and civil society. Through MACN, the maritime industry has built capacity and knowledge on tackling corruption collectively instead of working in silos. In MACN's Collective Action programmes, governments, the shipping industry, and civil society are engaged in finding constructive solutions to challenges that influence the entire maritime supply chain. MACN's Collective Action approach has proven to be efficient in countering corruption in challenging environments such as Argentina, Nigeria, Egypt, Ukraine, India, Indonesia, Malaysia, and more recently in Pakistan, Bangladesh, and Ghana. MACN has from its formation collected industry data to map and assess corruption challenges in ports worldwide.

In Nigeria, MACN has since 2012 implemented a collective action initiative in partnership with the private sector, the Nigerian Government, and the Convention on Business Integrity (CBi) to tackle corruption and enhance the operational environment in the port sector.

Learn more about MACN's collective action initiative in Nigeria here.

About this Study

This study has been developed by Thomas Westergaard-Kabelmann from Quantifying Business Impacts on Society (QBIS) - a specialised research consultancy solely dedicated to socio-economic impact and feasibility studies of corporate business and investment activities (www.qbis-consulting.com). By using Nigeria as a case study, the assessment seeks to understand the wide-reaching impact of maritime corruption on low- and middle-income countries. The study examines the cost of corruption of imported products transported by dry and wet bulk. Imports of grain, all food products, petrol, and total bulk imports are examined individually.

For assessing the cost of maritime corruption to the industry, the study applies the Total Transport and Logistics Costs (TTLC) methodology. For assessing the cost of maritime corruption to society, the study uses a standard input-output approach to estimate how reduced consumer demand due to corruption payments reduces sales in different industries, GDP, and employment. The study has been conducted using data from e.g. UNCTAD's port call and performance statistics, Clarksons timecharter rates for dry bulk and product tanker, interviews with shipping companies operating bulk carriers calling Nigerian ports and Nigerian trucking companies, MACN's HelpDesk data from Nigeria, container throughput statistics from APM Terminals in Nigeria, port throughput statistics from Nigerian Port Authority, import and export statistics at HS 6-digit product level from CEPII BACI, import and export statistics at HS 2-digit level from UN Comtrade. Data covering 2019 up to 2023 have been used for conducting the study.

The full study is available here.

[1] Chene, Marie (2013) 'Literature review on corruption at ports and border points in Southern Africa', U4 Anti-corruption Helpdesk
[2] Sequeira, Sandra and Djankov, Simeon, (2010), An empirical study of corruption in ports, MPRA Paper, Munich Personal RePEc Archive.
[3] Sequeira, S. Djankov, S. 2010. On the Waterfront: An Empirical Study of Corruption in Ports. MPRA Paper 21791.
[4] Safety 4 Sea. 2020. Study: Seafarers' challenges brought by port corruption Safety 4 Sea, March 3rd 2020.
[5] Sequeira, S. and Djankov, S. 2009. 'On the Waterfront: An Empirical Study of Corruption in Ports' 2009, 2.