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Development and Security Challenges in Oil-Producing Countries: The main causes and lessons in sub-Saharan Africa

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No: 28

Development and Security Challenges in Oil-Producing Countries:

The main causes and lessons in sub-Saharan Africa

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'Few people will argue that more income is a bad thing. Standard economic theory asserts that one can never be made worse off by a positive wealth effect. The answer, however, is not straight forward'

[Sarraf and Jiwanki (2001), p. 1]

Abstract

The central argument of this paper is that domestic political and economic factors are not exhaustive in unraveling the root causes of insecurity and underdevelopment in oil-producing countries. Empirical evidence shows that oil-producing countries in sub-Saharan Africa are either plunged into civil war, have low human development indicators, have high records of corruption, have high human rights abuses, or have a mixture of those. The resource curse thesis blames the large sums of oil revenue which accrue to governments as the main trigger which create unique political economy for corruption and mismanagement, which in turn heightens inequality. Consequently, poverty rates increase, and rebellion become rampant, as a result of which some regimes use heavy-handed security apparatus to suppress grievances. However, this paper uses examples from sub-Saharan Africa and other developing countries to demonstrate that, these domestic political factors notwithstanding, the role of multinational oil companies (MNCs) in a globalised world play some important roles in exacerbating the problem. It also argues that if the discourse of the resource curse is to reflect the reality in sub-Saharan Africa, it should avoid generalization and consider each case as unique. This is because in cases like Nigeria and Chad, some of the problems predate the production and export of crude oil. It means that socio-historical and other environmental concerns in specific contexts should also be given prominence in the discourse. The case-specific context of Nigeria's Niger Delta has also been extrapolated to provide some important lessons for Ghana, which is a new oil-producer in sub-Saharan Africa.

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It is my prayer that you all continue to be blessed in abundance; and to God be the ultimate glory.

List of Oil-Producing Countries in sub-Saharan Africa (in production by 2008)

Oil-Producing Countries	Reserves (billion barrels)
Nigeria	36.2
Angola	9.0
Sudan	5.0
(Ghana	4.0)**
Gabon	2.0
Democratic Republic of Congo	1.6
Chad	1.5
Equatorial Guinea	1.1
Cameroun	0.2
Cote d'Ivoire	0.1

**Ghana started exporting oil in 2010

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Acronyms

DRC	-	Democratic Republic of Congo
ECOWAS	-	Economic Community of West African States
EITI	-	Extractive Industries Transparency Initiative
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Production
GNPC	-	Ghana National Petroleum Company
GOG	-	Government of Ghana
GoG	-	Gulf of Guinea
HDI	-	Human Development Index
IFI	-	International Financial Institute
IMF	-	International Monetary Fund
MNC	-	Multinational Oil Company
MPLA	-	People's Movement for the Liberation of Angola
MOF	-	Ministry of Finance
NDC	-	National Democratic Congress
NDPC	-	National Development Planning Committee
NPP	-	New Patriotic Party
OPEC	-	Organization of Petroleum Exporting Countries
PRMA	-	Petroleum Revenue Management Act (Act 815)
PWYP	-	Publish What you Pay
UNDP	-	United Nations Development Programme
UNEP	-	United Nations Environment Programme
UNDP HDI	-	United Nations Development Programme Human Development Index
UNITA	-	National Union for the Total Independence of Angola
USSR	-	Union of Soviet Socialist Republic
US	-	United States of America
USD	-	United States Dollar

Chapter One

Background Information and Theory

1.0 Introduction

Windfalls of revenue from rents, also known as 'unearned income', accrue to resource-rich countries the world over.[1] However, most resource-rich countries in Africa are either plunged into civil war or have their economic growth and developments stifled.[2] Angola, for instance, had GDP per capita of USD1400 prior to oil production in 1969, but declined to USD200, by the time its annual oil revenue was about USD5 billion in 1997.[3] Similarly, although Nigeria is one of 'the fastest growing economies in the world', growing at 6.6% in 2012, with crude oil contributing to 40% of GDP, the poverty rate increased from 62.6% in 2010 to 64.2% in 2012.[4] Venezuela is also oil-endowed, which grew at 6.4% per annum between 1920 and 1980, and was the 'most stable democracy in Latin America',[5] but by 2004, two thirds of its population lived in poverty.[6] Explanations provided by the resource curse thesis to account for these anomalies have often placed emphasis on lapses in domestic political and economic mechanisms.[7] However, the important roles in which multinational oil companies (MNCs) and socio-historical factors play in fuelling these developmental challenges are understated.

This paper seeks to answer the question: why do oil producing countries in Africa exhibit the resource curse characteristics? The focus shall be on sub-Saharan Africa, although some examples shall be drawn from North Africa and the Middle East. The main conclusion is that a combination of complex networks of domestic political economy factors and external influences

[1] Segal (2011), p. 1; Wessel (1967), p. 1223
[2] Revenue Watch Institute (2013), p. 9; Africa Progress Panel (2013), p. 19; Mikesell (1997), p. 191; Gelb and Grasmann (2009), p. 89; Sachs and Warner (1999), p. 47
[3] Hodges (2001), p. 2
[4] The World Bank (2013), pp.7-8
[5] Hausmann (2003), p. 245
[6] Stiglitz (2004), para 9
[7] Mikesell (1997), p. 194; Sachs and Warner (2001), p. 835; Smith (2004), p. 232; Ross (1999), p. 298

– especially from MNCs – account for the shortfalls in sustainable development and security in these countries. Moreover, some of these factors do not always emanate directly from the oil sector, but have important consequences on that sector. This paper identifies some important lessons that Ghana, a new oil producer, can learn from Nigeria, which has exported oil since the 1960s. Crude oil is one resource which lends itself to the resource curse explanation.

1.1 Crude oil and its characteristics

Different types of natural resources have different impact on the politics and economics of a country.[8]Crude oil (or oil), has been selected for analysis since it is 'the most strategic resource in world economics and politics'.[9] In 2011, it constituted 14.2% and 90% of global commodity and mineral trades respectively; and Ross insists the 'resource curse is overwhelmingly an oil curse' in Africa,[10] in spite of the role diamonds have also played in Sierra Leone and Angola. Conflicts and development difficulties in Algeria, Chad, the Niger Delta, and secession in South Sudan have been associated with the presence of oil.[11] Ironically however, relative stability and prosperity in Brazil, Indonesia and Norway are also linked to revenue from oil;[12] although Sachs and Warner insist that natural resources in themselves can never make any nation prosperous.[13] This further heightens the need to understand the driving forces in oil governance, so that emerging oil economies could take some cues.

Oil is a point-source resource and requires huge capital for extraction and transportation. Therefore, it lends itself to central government control, although it does not preclude the potential for criminal activities like oil theft and hijacking.[14] Government monopoly could start rebellion to capture control where there are secessionist tendencies as in the case of South Sudan;[15] encourage coup d'états to capture state control;[16] or increase regime duration as in the case of Gaddafi and Omar Bongo of Libya and Gabon respectively. Basedau and Mahler describe oil as constituting 'motive and opportunity' for both underdevelopment and

[8] Ross (2003), p. 47
[9] Basedau and Mahler (2011), p. 73
[10] Ross (2012), pp. 1 and 3
[11] Humphreys (2005), p. 27; Ross (2012), p. 1; Swartz (2009), p. 4
[12] Revenue Watch Institute (2013), p. 8; Ross (2012), p. 2; Mehlum et al (2006), p. 3
[13] Sachs and Warner (2001), p. 832
[14] Gould and Winters (2012), p. 318; Humphreys (2005), p. 27; Obi (2009), p. 114
[15] Ross (2003), p. 64; Humphrey (2005), p. 27
[16] Cuaresma et al (2010), p. 2; Caselli (2006), p. 17

development, which presents great dilemmas.[17] Some reasons account for this heightened dilemmas of oil governance.

First, revenue from crude production is 'exceptionally large' and flows rapidly so that it potentially overwhelms governments, which lead them to over-estimate the value of their wealth, especially during periods of high petroleum prices. For instance, between 2001 and 2009, the respective national expenditures of Azerbaijan and Equatorial Guinea rose to 600% and 800%, a 'spending effect' which could be difficult to sustain when prices decline.[18] Care is needed in spending because in a single decade, crude prices shot-up from USD10 per barrel in 1998 to USD150 per barrel in July 2008. It sharply declined to USD30 per barrel six months later, and then up to USD80 per barrel in April 2010.[19] Such price fluctuations leave oil producing economies vulnerable, which means that adequate planning needs to be done for smoothing between high and low price periods.

Secondly, most oil-producing countries in Africa have weak institutional oversight, making opacity characterise revenue collection and expenditure.[20] Section 2.1 shows that governments easily use oil revenues to pursue political goals, and coerce opposition into compliance where necessary. However, the case study of the Niger Delta in section 3.1 demonstrates that the root causes of insecurity and developmental challenges in oil-producing countries are much complex. It requires deeper analysis of historical, social and external factors.

The enormous initial capital needed for exploration and production, and the huge cost of logistics needed for transportation of extracted crude, complicates the challenges for oil governance. This requires governments to necessarily include foreign investors.[21] MNCs come handily into this equation. Section 2.2 shows that, activities of MNCs compliment that of governments and globalization to influence the state-of-affairs in African oil economies.

[17] Basedau and Mahler (2011), p. 73
[18] Ross (2012), pp. 28 and 48
[19] Hammond (2012), p. 6; OECD (2009), P. 130; Natural Resource Canada (2010), p. 14
[20] Ross (2012), pp. 59-60
[21] Massey and May (2005), p. 253; Johnston (2007), p. 55; Radon (2007), p. 92

1.2 The Resource Curse Phenomenon and Statement of the Problem

The resource curse thesis proposes that countries with natural resources experience conflict and under-development, which are directly linked to the properties of the resources.[22] Angola, Chad, DRC and Nigeria's Niger Delta are often cited as examples of unstable states in the midst of abundant resources. Oil is one of the resources which easily lends itself to this irony.[23]

Factors which are used to explain this curse vary from political and geographical,[24] to greed by rebels to loot,[25] to grievances over corruption and mismanagement,[26] and then to what has become known as the 'Dutch Disease' following over-valuation of the resource sector and subsequent decline in agricultural and other productive sectors of the economy.[27] There are two other factors whose influences are usually understated in the discourse. These are the history of a people, and the profit-seeking culture of MNCs in the extraction industry. It is the role of the latter which this paper aims to explain presently, whilst the former shall be exemplified in the Niger Delta case study in section 3.1.

The extent of MNC influences in oil-producing countries is facilitated by globalisation. Carter identifies globalisation as an 'underemphasised dimension' of resource-related conflicts.[28] But Michael Roll disagrees with Carter and posits that 'domestic politics' dominate over 'external influence' in the resource curse discourse.[29] Roll made this conclusion after his assessment of the failures of the World Bank policies in Chad, where 'corruption and political instability' marred the Bank's efforts at establishing a model for oil governance in sub-Saharan Africa.[30]

The problems of tax evasion, bribery, the use of obsolete equipment, and contractual arrangements which put oil-producing countries at a disadvantage also have MNCs to blame.[31] It is due to some of these reasons that much of South America and the Middle East formed

[22] Auty (1993), p. 1; Le Billon (2001b), p. 562; Ross (2012), p. 5; Humphreys (2005), p. 27
[23] Ross (2012), p. 181
[24] Le Billon (2001b), p. 563
[25] Collier (2000), p. 92; Berdal and Malome (2000), p. 2
[26] Obi (2009), p. 118; Le Billon (2001b), p. 568
[27] Auty (1993), p. 15; van de Ploeg and Venables (2011), p. 2; Collier et al (2010), p. 85; Sachs (2007), p. 181
[28] Carter (2003), p. 20
[29] Roll (2011), p. 20
[30] Ibid.
[31] Stiglitz (2007), p. 24; Keefe (2013), p. 2-3; United Nations (1997), p. 27; Massey and May (2005), p. 253

National Oil Companies to take over the management dimensions from MNCs in the 1970s.[32] Whether this has yielded the desired results is contestable, though. It is also important to state that, the international market system allows governments to operate independent of their citizens, making interactions in the oil industry a bilateral one between the government and MNCs.[33] This makes it difficult for the people to demand accountability and transparency.

The resource curse is deficient in its scope,[34] since it mainly assesses domestic political and economic factors. This paper seeks to show that, external actors – especially MNCs – also have important roles to play to complement domestic socio-historical, political and economic factors in shaping the state-of-affairs in oil-producing African countries. Other actors include: the government, opposition groups, national oil companies,[35] ordinary citizens, international financial donors, and the wider international community. It shall be demonstrated that domestic politics and economics play important roles in retarding development in oil producing countries in Africa, but that those are not exhaustive. The roles of MNCs, whose sole aims are to make profit,[36] and the socio-cultural changes in oil-producing states are also very central.

1.3 Objectives and Methodology

The main objective of this paper is to identify important variables perpetuating development and security challenges in oil-producing countries in sub-Saharan Africa. Specifically, it seeks to do the following:

- First, to explore the role that domestic politics play in the governance of oil; and
- Second, to explore the impact of activities of external actors (especially MNCs) in oil-producing countries in sub-Saharan Africa.

MNCs are used in this paper to mean oil companies operating in Africa which have off-shore, on-shore, upstream and/or downstream operations in more than one country; and which operate on purely commercial terms. Downstream MNCs are those companies which explore and/or

[32] Philip (1982), p. 153
[33] Carter (2003), p. 32
[34] Roll (2011), p. 11
[35] Basedau and Mahler (2011), p. 77
[36] Jaffe and Soligo (2007), p. 11

extract petroleum, whilst upstream MNCs are those which handle the extracted product up to the international market.[37] Shell, Chevron, Anadarko, Tullow oil plc and ExxonMobil are some examples of MNCs operating in Africa.

Insecurity is understood to mean the persistent fear of violence and suffering, which people have for their lives, lives of others and their properties. The United Nations Development Programme (UNDP) links insecurity to underdevelopment, since lack of safety discourages 'productive investment that underpins development'.[38] Development is therefore understood to mean any context which is consistent with promoting the Millennium Development Goals (MDGs). Increasing poverty, violence, human rights abuses, destruction of the environment, as well as decline of public health and education indicators will therefore constitute underdevelopment in this discourse.

The next chapter will elaborate on the roles of the two main drivers – domestic politics and external actors – in oil producing countries. Whilst section 2.1 dwells on the domestic political economy factors, section 2.2 elucidates on how MNCs exercise the influence they wield. Delving deeper into the discussion, Nigeria, which has exported oil since 1966, is analyzed as a case study in section 3.1. In the case of Nigeria, the roles of all the actors and factors are discussed to highlight the multi-faceted nature of the problem. It will also become apparent that socio-historical factors which have historical underpinnings play some part in the situation. Some lessons shall be drawn for Ghana, which is a new oil exporter, in section 3.2. Critique of the resource curse shall be given in chapter four, followed by conclusion in the same chapter.

[37] United Nations (1997), p. 4
[38] UNDP (2012), P. 13

Chapter Two

The Resource Curse in an Oil Economy

Crude Oil is one of the natural resources which easily lends itself to the resource curse explanation. The aim of this chapter is to explore the causal factors in the resource curse dilemma of developing countries. After briefly describing the features of crude oil in the context of the resource curse in the previous chapter, this chapter elucidates on two main themes. The first theme deals with domestic political and economic dynamics which have mainly taken central stage in explaining the curse. The second theme focuses on the role of external actors (especially MNCs) in the irony of oil wealth, which further complicates the already delicate political economy of oil producing countries.

2.1 Domestic political and economic factors

The literature on the resource curse thesis is replete with data on domestic political and economic factors as main causes.[39] Ross is certain that governments of resource-rich developing countries have the elixir to tackle the resource curse problem. He writes:

> At least in theory, [governments] have the policy tools to mitigate each of these hardships.... The failure of states to take measures that could change resource abundance from a liability to an asset has become the most puzzling part of the resource curse.[40]

Although these domestic factors are important in getting to the root of the problem, they cannot be adequate. But it is important to understand them. In this section, two aspects of the domestic dynamics of oil-producing African countries shall be discussed. These are the political economy of rent collection and the spending effect following revenue increases from oil sale.

[39] Natural Resource Charter (2010), precept 1; de Soysa (2011), p. 38; Robinson and Torvik (2004), p. 198
[40] Ross (1999), p. 307

The Political Economy of Oil Rents

Revenue from Oil provides large sums of rent to oil producing countries, which significantly augment their annual budgetary needs.[41] Rent from oil is unique due to its nature, source and mode of collection.[42] This uniqueness also influences how it is expended. De Soysa puts it thus: it 'encourages grabber-friendly institutions and behaviour rather than producer-friendly ones.'[43]

Church defines resource rent as

> a payment for a commodity or factor of production in excess of the amount required to secure use of that scarce resource from the owner.... [that is], the difference between market price and opportunity cost.[44]

Oil rent is therefore the money paid to the custodian after extraction costs are deducted.[45] But who manages these oil rents in Africa?

In all African countries, natural resource rents are collected and managed by governments on behalf of the citizens. This is not unique to Africa, since apart from the United States of America which has an integrated system of private and public ownership, natural resource governance has been the prerogative of states, as far back as the conquests of the Roman Empire. This Roman tradition has been replicated since modern European times, dating back to the twelfth century.[46] Today, it has become a universal legal dictum.[47] This point is important because it explains why post colonial Africa has adopted constitutional mandates for central governance control of oil and other natural resources.

Two effects happen due to rent collection in sub-Saharan Africa. First, there is the tendency to increase production, which in turn increases the rate of depletion, since oil is non-renewable. Income earned from oil rent in the form of taxes, royalties, and exploration fees do not add productive value to the oil reserve. Second, with little institutional oversight, corruption and rent-seeking behaviours increase. An Institution is defined as 'constraint on government

[41] Ross (2012), p. 36
[42] Fjelde (2009), p. 201
[43] de Soysa (2011), p. 38
[44] Church (1982), p. 563
[45] Segal (2011), p. 5
[46] Ross (2012), p. 33
[47] Wernar (2008), p. 10

expropriation, independent judiciary', and other frameworks capable of enforcing equitable property rights and other socio-economic needs of citizens.[48] Governments therefore spend more on politically-motivated projects in oil producing countries.[49]

Karl defines rent-seeking in an oil economy as the 'widespread behaviour, in both the public and the private sectors, aimed at capturing oil money through unproductive means'.[50] This is similar to neo-patrimonialism, which is a system of governance where distribution of wealth is not based on merits, but on loyalty to ruling elites or parties.[51] The nature of oil rents encourages both rent-seeking behaviours and neo-patrimonialism. In Angola for instance, the government of Dos Santos has been able to sustain loyalty, even during difficult economic periods, through neo-patrimonial distribution of rents collected from oil and other natural resources.[52] The same could be said of Suharto's Indonesia, where there was extreme 'politicisation' of all facets of life.[53]

A number of consequences arise from rent-seeking and neo-patrimonialism. First, private participation in economic activities is stifled, since ''free" money from the government discourages innovation and private investment. Private investment is said to be the engine of growth in liberal economies. Collier and Sachs recognise the centrality of the private sector, and so caution against any attempt to diminish their role in a spending oil economy.[54] Whilst developed countries spend about 7% of their GDP on enhancing human capital in order to make private sector participation an integral part of their economies, developing countries spend 3% of GDP on same.[55] Governments in developing oil countries therefore become disproportionately larger than the private sector, militating against diversified growth.

Secondly, since projects and national corporations are mainly funded for political goals, governments ignore losses and spend above budget to sustain loyalty. Private goals supersede the public good; 'loyalty and political obligations' are traded for material reward.[56] Projects are

[48] Acemoglu et al (2001), p. 1371
[49] Robinson and Torvik (2004), p. 198
[50] Karl (2004), p. 661
[51] Reno (2003), p. 46; Obi (2009), p.108
[52] Le Billon (2001a), p. 64
[53] Temples (2003), p. 173
[54] Collier et al (2010), p. 114; Sachs (2007), P. 184
[55] Commission on Growth and Development (2008), p. 34
[56] Fjelde (2009),p. 202

mainly 'white elephants', aimed at pleasing political loyalists.[57] Revenue is diverted from high-yielding projects for political reasons. Such pursuance of private goals can also increase grievance due to widening inequality. But Smith is certain, after cross-country analysis of 123 developing countries, that this usually do not escalate to high scale violent protests, due to government's firm grip on the military.[58] Freedom of expression therefore becomes deficient in many oil-producing African countries.

Finally, project allocation and distribution of wealth are not done by merit, but through political allegiances.[59] Such processes lack formal institutional support, and Robinson and Torvik describe them as 'very inefficiency'. They however insist that it is such inefficiency which 'makes them politically appealing', since it makes the politician stand out tall among the crowd as the only person capable of providing 'credible redistribution', sustenance and security.[60]

It is in these lights that some scholars argue that oil rent promotes authoritarianism, human rights abuses and widens the inequality gap.[61] Dos Santos (Angola), Omar Bongo (Gabon) and Mbasogo (Equatorial Guinea) are examples of regimes which have reigned for up to three decades. In Angola for instance, the Human Rights Watch reported of series of attempts by the government to curtail media freedom, freedom of Association and freedom of assembly in 2011.[62] On October 10, 2011, for instance, a William Tonet was given a suspended sentence for a year, and asked to pay a huge sum, USD100 000, for 'defaming' government officials. The same was reported of Equatorial Guinea, where the 33-year old regime of Mbasogo superintends over 'corruption, poverty, and repression....[amidst] lavish lifestyles for the small elites surrounding the president, whilst most of the population lives in poverty'.[63] Those who are not willing to conform are tortured or detained 'without fair trial'.[64]

Some scholars have argued that, in order to coerce people into conformity, oil states generally make large budgetary allocations for military expenditure, to consolidate their hold onto power.[65]

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[57] Robinson and Torvik (2004), p. 201
[58] Smith (2004), p. 234
[59] Fjelde (2009), p. 202
[60] Robinson and Torvik (2004), p. 201
[61] Karl (2004), p. 668; Smith (2004), p.243; Fjelde (2009),p. 203
[62] Human Rights watch (2012), p. 86
[63] Ibid. p. 110
[64] Ibid. p. 14
[65] Karl (2004), p. 668

Saudi Arabia and Iraq have often been cited as examples, which spent 10% and 8.6% of GDP on the military respectively in 2012.[66] However, this argument is not tenable in Africa, since Nigeria, Gabon and Equatorial Guinea spent 1.5%, 0.9% and 0.1% of GDP respectively. Moreover, Mauritania and Eritrea, which are not oil-producers, spent 5.5% and 6.3% of GDP on their military that year.[67] Yet, according to UNDP figures, Mauritania and Eritrea spent 2.3% and 1.3% of GDP respectively on public health; whilst Nigeria, Gabon and Equatorial Guinea spent 1.9%, 1.8% and 3.4% respectively on public health.[68] Although some of these expenditures on health in the oil-producing countries are below the 'Medium' expenditure of 2.4%, the evidence discounts any disproportionate expenditure of oil-producing African countries on the military.

But even if it is the case that oil promotes duration of authoritarian regimes, there is little evidence that such regimes disturb peace and stability. Smith concludes in his cross-country analysis of the causes of insecurity in developing countries between 1985 and 1999 that, 'democracy is positively related to civil war'.[69] Examples from Gabon, Libya under Gaddafi, and Saudi Arabia support the position of Lam and Wantchekon that longer regimes, which ensure peace and stability, are sometimes preferred options to any form of system, which cannot assure political stability.[70] However, in spite of these positive remarks about longer regimes, they are unable to resolve the persistent problems of poverty, human rights abuses and unequal distribution of wealth, an example of which includes Gabon's long regime.[71] Also in the case of Cameroun, 'waste, mismanagement and economic stagnation' characterises the existing political patronage and 'clientelism'.[72]

Moreover, the nature of oil rent collection induces a system where the citizens play passive role in governance. Governments do away with collecting taxes from the people, further alienating the government from the people. Oil-producing governments are 30% less reliant on taxes than non-oil producing ones.[73] Unlike taxation from the citizens which require systematic, universal

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[66] ChartsBin (2013), 'Current Worldwide Military Expenditure as a percentage of GDP', http://chartsbin.com/view/e3m (August 24, 2013)
[67] Ibid.
[68] UNDP (2012) 'Public Expenditure on Education (% of GDP)', http://hdrstats.undp.org/en/indicators/38006.html (August 8, 2013)
[69] Smith (2004), p. 240
[70] Lam and Wantchekon (2002), culled from Fjelde (2009), p.200
[71] Fjelde (2009), p. 203
[72] Gabriel (1999), p. 177, culled from Fjelde (2009), p. 203
[73] Ross (2012), p. 31

and bureaucratic institutions for collection, rent from oil is easy to collect and does not require elaborate institutions and consensus building.[74] But according to Acemoglu and Robinson, prosperity of any nation is hinged on its ability to build strong institutions, where citizens are made an intrinsic part of governance in a fair, equitable and transparent manner.[75] Temple supports this claim with examples from Suharto's Indonesia, where the lack of institutional development to accompany the country's economic growth led it into 'trouble' during the Asian crisis of 1997-1998.[76]

However, Pritchett uses Philippines' example to modify the general claim of institutional importance in development. In spite of strong democratic institutions in the 1990s, the presence of strong civil rights groups, and the thriving of press freedom, GDP per Capita grew by only 0.53% between 1988 and 1998, a decline from 4.49% a decade earlier.[77] Pritchett therefore concludes that the relevance of stronger institutions in an economy depends on whether it is a low-income, middle-income, or high-income country. Moreover, according to the UNDP, 'Human Development requires more than health, education, decent standard of living and political freedom'.[78] It shall be seen in the Nigeria case in section 3.1 that, in spite of robust institutions of governance and electoral democracy, the country is still unable to manage its security and development challenges effectively. Cultural and historical considerations, as well as influences from international market forces play significant role.

In the domestic political economy of resource rent, many other consequences – both intended and unintended – arise. Some of these include destruction of the environment and ecosystem which leads to loss of livelihood of local communities;[79] incentive for rebels to capture state control over the oil;[80] and increasing anxiety of local communities over potential depletion of "their" oil reserve as a result of which their influence may wane.[81] There is also the dilemma of striking a good balance between spending and saving, which bedevils governments of oil-producing countries. The next section discuses this latter dilemma.

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[74] Humphreys, Sachs and Stiglitz (2007), p. 11
[75] Acemoglu and Robinson (2013), p. 73
[76] Temple (2003), p. 175
[77] Pritchett (2003), p. 146
[78] UNDP (2004), p.6
[79] Alao (2007), p. 176; United Nations (1997), pp. 11 and 15
[80] Humphreys (2005), p. 27
[81] Humphreys (2005), p. 31; Obi (2009), p. 118

The Spending Effect

Governments of oil producing countries in Africa become bigger than other sectors of the economy. For instance, between 1969 and 1977, Nigeria's oil production grew in volume by up to 380%; and government revenue increased from USD4.9 billion to USD21.5 billion. This made the Nigerian government spending rise to over 25% above the rest of the economy.[82] Such an expanded oil sector stifles domestic production of agriculture in an African context, making importation of food and services preferred options.[83] Consequently, between 1972 and 1985, all agricultural commodities which hitherto supported the Nigerian economy – fishery, cocoa and palm oil – collapsed, making oil export contribute up to 80% of GDP.[84] Whilst some scholars are sceptical about the sustainability of rapid spending from oil revenues in Africa, others are very optimistic.

SAVING: Proponents of saving argue as follows: Firstly, oil is finite and the market price is unpredictable.[85] Between 1998 and July 2008, oil prices shot-up from USD10 per barrel to USD150 per barrel,[86] then declined to USD30 by December 2008. This makes planning difficult. Proponents therefore recommend savings to help provide some smooth transitions for national expenditure between extreme market prices.

Second, they argue that private rent-seeking and lack of institutional, technical and human resource capability of African countries make them incapable of expending the revenue flows judiciously.[87] Nigeria is often cited as a case where its lack of 'absorptive capacity' during its oil boom in the 1970s caused great harm creating 'costly congestions' in its ports.[88]

Thirdly, the possibility of the Dutch Disease – a situation of economic redundancy following 'sharp appreciation of the real exchange rate' due to exaggerated spending – could harm agriculture and other economic activities, which hitherto supported the economy.[89] Ross is certain, however, that the Dutch Disease 'is less common in developing states than originally

[82] Ross (2012), p. 27
[83] Humphreys, Sachs and Stiglitz (2007), p. 5
[84] Ross (2012), p. 48; Obi (2009), p. 115
[85] Collier et al (2010), p. 84; van de Ploeg and Venables (2011), p. 1
[86] Hammond (2012), p. 6; OECD (2009), P. 130
[87] Collier et al (2010), p. 107
[88] Sachs (2007), p. 186
[89] Sachs (2007), p.181

thought'.[90] In his view, even where it occurs, government of developing countries are capable of offsetting its impact through taking advantage of abundant human and natural resources. Oil revenues should therefore be spent to facilitate growth and development.

SPENDING: Proponents of spending argue as follows: First, it is unethical to save revenues for some future generation, whilst poverty is endemic among the present generation. Second, returns on profitable domestic investment in a developing economy far outweigh any fiscal saving module.[91] Sachs insists therefore that it makes economic sense even if a country has to 'borrow against future oil earnings' in order to enhance economic growth. But this, he said, must be done with prudence, efficiency and moderation.[92]

Pritchett's study of the Vietnamese economy adds an insight into this debate. He finds that savings and investment in the domestic economy rose from 2.4% in 1988 to 10.1% in 1997, with GDP growing at 5.85% over the same period. Although he concluded that the rise in domestic savings did not cause the GDP expansion, he indicated that it was 'a key element in the rapid transition' to economic growth.[93] Paul Collier adds another dimension to an ideal savings regime. According to him, an ideal savings regime should be the one which upholds domestic investment. Domestic investment in education, health, telecommunication, governance and physical infrastructure is the most ideal for a developing country, since the benefits of these investments extend beyond a single generation.[94]

But the role of private investment is indispensable in complementing government expenses. For instance, assuming a developing economy grows at 3% rate, and like happens in advance nations, up to 5% of GDP is devoted to public sector investment, Collier et al estimate that this could lead to additional 4% growth due to stimulation from private sector participation (making a total of 7 percent growth annually).[95] Provision of good transport networks, accessible power, and efficient telecommunication will be good incentives for private investors to invest. Figure 1 demonstrates the difference in growth between the base growth (continuous curve) and the additional boost by private investors (dotted curve).

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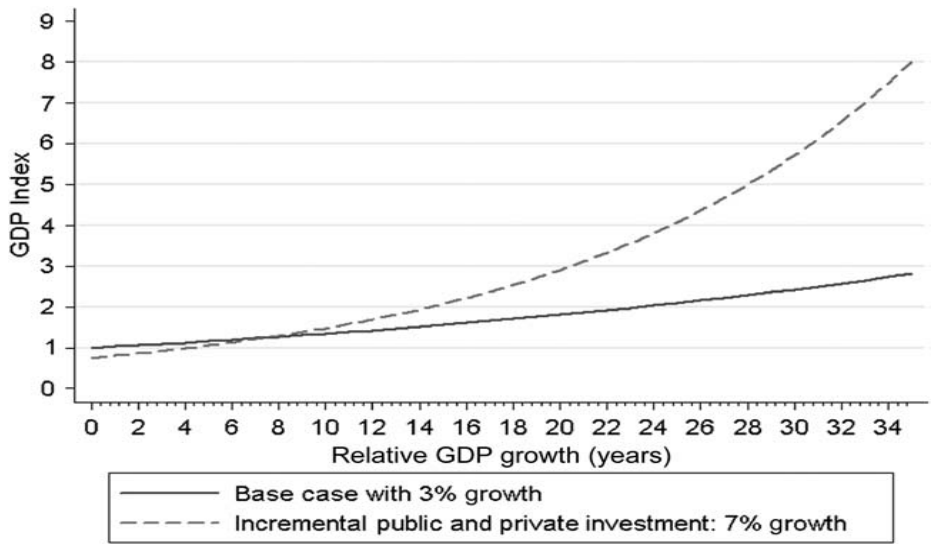
[90] Ross (1999), p. 305
[91] Collier et al (2010), p. 85; Sachs (2007), p. 183; Matsen and Torvik (2005), p. 495
[92] Sachs (2007), p. 190
[93] Pritchett (2003), pp. 143 and 145
[94] Collier et al (2010), p. 96; Ross (1999), p. 307
[95] Collier et al (2010), p. 96



Source: Collier et al (2010), p. 96

Figure 1: Chart indicating difference in economic growth after incremental investment in public sector

Yet, there is no simple categorical answer to the saving and spending dilemma. Very complex issues arise for governments to handle. For instance, if a country chooses to spend its oil revenue, there is an extended dilemma of timeframe. Governments have to explore the option of spending on short-term annual expenditure (like wages and services) or investing in long-term projects (like building hospitals, roads, schools, electricity, and human capital enhancement). Long-term domestic investments overlap with any desire to save for future generations since they have inter-generational benefits.[96] That is why many scholars describe exclusive fiscal savings as 'wasteful and inequitable' in African countries, which are still struggling with infrastructural deficits.[97]

So far, this paper has discussed the domestic governance mechanisms that have some effect on stability and development in oil producing African countries. The way rent collection influence decision making, governance, stability and development has been discussed. There are also the difficult decisions governments have to make on modalities for expending the revenue they collect from oil. The ultimate goal of such domestic governance mechanisms and dilemmas is to ensure that some depth is achieved in the distribution of the oil proceeds to the citizens. All these have consequences on the state-of-affairs in oil-producing African states. But these domestic decision-making processes and governance mechanisms are not exhaustive in the oil governance

[96] Collier et al (2010), p. 114; van de Ploeg and Venables (2011), p. 26
[97] Van de Ploeg and Venables (2011), p. 26; Segal (2012), p. 9; Collier et al (2010), p. 90; Sachs (2007), p. 189

equation. There is the external dimension. MNCs, for instance, have roles to play in achieving stability and development. The next section assesses their role in oil-producing African countries.

2.2 External Influences (especially by MNCs)

Domestic politics and economic management alone cannot account for the challenges of development and stability in oil-producing African countries. The influence of MNCs in a globalised world play some part in this. This section seeks to point out some of the roles these companies play. It is important, however, to lay some foundation on the context within which MNCs do their business – a globalised world.

Joseph Stiglitz define globalisation as

> The closer integration of countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communications and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge and peoples across borders.[98]

In June 1921, Mahatma Gandhi used an allegory to characterise his attitude towards globalisation:

> I do not want my house to be walled in on all sides and my windows to be stuffed;
> I want the cultures of all lands to be blown about in my house as freely as possible;
> But I refuse to be blown off my feet by any.[99]

This statement implies that globalisation is good but requires vigilance. Globalisation has had enormous effect on all facets of human life – trade, politics, economics, environment, culture and social interactions – which have been both negative and positive. When colonialism ended in Africa, what did not end was the persistent interaction between people across continents and across nations. Apart from governments who constantly interacted and influenced each other due to improved transportation and telecommunication, private individuals, businessmen and companies also entered into business arrangements with states. It is within this context that MNCs operate in Africa.

[98] Huwart and Verdier (2013), p. 3
[99] Culled from UNDP (2004), p. 85

A statement made as far back as the second century by the Greek historian Polybius confirms the time old influences which come to bear on countries from outside of their national boundaries. Polybius stated: 'Before, the events that took place in the world were not linked. Now, they are all dependent on each other'.[100] The UNDP puts it succinctly:

> Globalisation has accelerated the flow of investment that profoundly affects the livelihoods of many indigenous people.[101]

Between 1988 and 1997, the flow of foreign investment in the extractive industry in developing countries increased from USD1.2 billion to USD5.7 billion.[102]

Although by the 1970s, many oil-producing countries nationalised their oil industries for domestic management, multinational oil companies like Shell, Tullow oil, ExxonMobil and Anadarko have continued to operate on the African continent due to their ability to inject capital into the industry. In the process, their activities have had enormous effects on the governance, development and stability of the countries in which they operate. This is especially so because for many of these companies, it is the profit they seek which is their main goal, and not the social and economic wellbeing of the states from which they operate.[103] Effects of their operations vary from environmental, to economic, to political, to social. It is these effects which complement the domestic political dynamics to cause the kinds of security and developmental challenges evident in oil-producing countries in Africa. Some of these are discussed herein.

Environmental consequences of operations of MNCs

On-shore petroleum extraction is mainly done in rural communities in Africa. In the process of exploration and extraction (even in the case of off-shore drilling), some of the environmental effects are as follows. Firstly, large areas of land, which would otherwise be used for farming activities, are cleared for building infrastructure and constructing roads, leading to forced migration or loss of people's livelihoods.[104] Secondly, due to negligence and use of obsolete equipments by MNCs that handles transportation of extracted crude, large amounts of crude oil spill into water bodies or onto arable land. This destroys aquatic life and vegetation. Wide

[100] Huwart and Verdier (2013), p. 20
[101] UNDP (2004), p. 86
[102] ibid
[103] Jaffe and Soligo (2007), p. 11
[104] United Nations (1997), p. 11

stretches of land are left barren, whilst wide ranges of aquatic life are destroyed. This destroys the livelihood of farming and fishing communities, and the situation in Ogoniland is a typical example.[105] According to the United Nations, Shell's inability to follow its 'own procedures' and 'industry best practices' have caused destruction to farmlands and water bodies, even in areas where decommissioning of facilities have already taken place.[106]

Thirdly, there is the problem of forced migration of people from their communities, away from the sources of their livelihoods. Even where compensations are paid, they are either inadequate or are delayed unduly. This is a human rights issue, and although there are legislative instruments in countries like Nigeria, Cameroun and Papua New Guinea to check such land-grabbing phenomenon, it happens nevertheless, due to influences of these MNCs.[107] A frustrated resident of an oil-rich rural community in Papua New Guinea lamented in 2002:

> When you take away our land, you cut away the heart of our existence…Big multinational foreign companies being from an alien culture would neither understand nor grasp the significance of this. For them, land is a commodity to be bought or sold. They just treat it as an exploitable resource.[108]

This resident further goes on to blame the International Financial Institutions (IFIs) which fund some of these companies thus,

> Why would a genuine funding organization like the World Bank Group fund culprit industries and their government cronies to violate lesser indigenous communities' rights to exist.[109]

This is the extent of desperation which the operations of MNCs make indigenous communities feel. These testimonies are very critical, since the issues they have raised form the core of human development which defines human advancement – shelter, nutrition, housing, and health. If people's livelihoods are taken from them, and people are made homeless due to improper planning and inadequate or non-existent resettlement packages, that is a huge counter-developmental issue. The companies cannot absolve themselves of these human rights violations, since in Nigeria for instance, the Human Rights Watch reports that in practice, it is entirely the

[105] Vidal (2010), para 3
[106] United Nations (2011), pp. 5 and 99
[107] Tebtebba Foundation (2003), p. 29
[108] Ibid. p. 2
[109] Ibid

duty of MNCs to negotiate and pay for compensations and terms of relocation for people who are affected by exploration and production of petroleum.[110] That does not absolve the governments either, since it is the responsibility of every government to oversee the wellbeing of its citizens.

In Chad, the World Bank was involved in funding the Doba-Cameroun pipeline to convey extracted petroleum to the shores of Cameroun for export. However, this was a project in which the executing MNCs paid very little attention to concerns of the environmental and human rights issues regarding the transfer of people from their lands.[111] An affected resident in South West Cameroun, Samia Bailie, lamented: 'They promised us jobs. They took everything from us. They took our land. They took our water.'[112] The World Bank has recognised some of the lapses in its policies in the extractive industries, and have set up the Extractive Industries Review (EIR) in 2001 to assess the impact of its operations. Analysts are not pessimistic, however, about the prospects of any tangible change in policy.[113]

According to Stainer, MNCs use 'Best Available Technology and practices' in developed countries, whilst failing to use same in Africa and other developing countries.[114] This increases the devastating effects of oil production on the environment. For instance, soon after the disaster of the Gulf of Mexico in 2010, British Petroleum (BP) and other stakeholders further adopted advanced and efficient methods in their activities in the USA and elsewhere.[115] However, Shell and other companies have not adopted significant improvements in their practices in Africa. An opinion leader in Otuegwe in Nigeria lamented, after a 40-year old pipeline in their community busted and polluted their sources of water and farmlands:

> We lost out nets, huts, fishing pots.... This is where we fished and farmed. We have lost our forest. We told shell of the spill within days, but they did nothing for six months.[116]

Although Agha, Irrechukwu and Zagi are reluctant to shift all the blame on the foreign companies,[117] Vidal insist that the 'impunity', 'recklessness' and 'double-standards' of MNCs in

[110] Human Rights Watch (1999), para 17
[111] Massey and May (2004), p. 265
[112] Tebtebba Foundation (2004), p. 2
[113] Ibid. p. 3
[114] Steiner (2010), p. 23
[115] Ibid, p. 9
[116] Vidal (2010), para 3
[117] Agha (2004), p. 1

oil-producing African countries cannot be overemphasised.[118] Certainly, it is the duty and responsibility of domestic governments to ensure that the right legal frameworks governing best practices is available and enforced.[119] However, the MNCs cannot be exonerated either, since by their very act of adopting best practices elsewhere and not in Africa, they are exploiting the weaknesses in legal enforcements in these countries.

The role of MNCs in the political economy

The capital-intensive nature of oil production and other extractive industries opens up governments of oil-rich developing countries to negotiations for foreign direct capital investments. It is the MNCs who come by with such capital and or the expertise to explore and extract the oil. Due to the experienced bargaining power of these international companies, they are put at greater advantage over the long-term interest of the host countries.[120] Two examples, one of Guinea's capital-intensive budding iron ore industry and Ghana's Jubilee Oil Fields will substantiate this point.

In 2008, the Benny Steinmetz Group Resource acquired license to explore and mine the Simandou ore deposit in Guinea, and invested USD160 million. However, in just two years, by April 2010, it was able to sell 51% of its shares to Vale mining company for USD 2.5 billion.[121] Ironically, such huge revenue windfall at this initial state of exploration will benefit the international entity, whilst majority of Guineans still live under harsh economic conditions, and the government struggles to raise revenue to support its annual budget. According to the UNDP Human Development Index of 2012, Guinea was ranked 178th out of 186 countries; it spent 0.6% of its GDP on public health; and its population living below poverty was 43.3%.[122] This is a country in need of revenue at a time when its resource is yielding dividends into the accounts of a foreign multinational company. Apart from the economic loss, this could set the stage for grievances and potential disruption of civil order in future.

The second case in point concerns Ghana's Jubilee Oil Field in the Western Region of the country. The Ghanaian government's share of its Jubilee Oil Fields is just about an eighth of the

[118] Vidal (2010), para 4
[119] United Nations (1997), p. 22
[120] Humphreys, Sachs and Stiglitz (2007), p. 4
[121] Keefe (2013), p. 2
[122] UNDP (2012), 'Population Living Below $1.25 PPP per day', Op. cit

entire profit margin, whilst Tullow Oil and Kosmos Energy together own up to 53.78% of the net profit.[123] This can have serious governance repercussions in future, when citizens begin to question the rational for the allocation of shares. This could be attributed to the government's inability to negotiate on level grounds, but it underlines the profit-oriented nature of these MNCs who do business in the oil industry in Africa.

When it comes to bargaining for government shares in the oil industry, it is an area where African leaders have to do more investment in building human capital. In the case of Chad, the government's contract with the consortium managing its oil sector – Exxon, Petronas and Chevron – expired in May 2004. Prior to renegotiation, the International Development Association offered USD1.6 million to the government of Chad to pay for legal services to enhance renegotiation. However, it was only able to gain 2% increase per barrel on its initial royalty agreement.[124] This underscores the fact that MNCs have very great influence and control in the oil industry in many of these sub-Saharan African countries.

MNCs also benefit from corruption, and actually perpetuate it in most of these countries. It is incomplete to discuss corruption with only the government as culprit. The pervasive nature of corruption in the oil industry which is perpetuated by both governments (mostly through national oil companies) and the MNCs is what has made the Extractive Industries Transparency Initiative (EITI) a very popular transparency and accountability tool.[125] The recognition of the role of MNCs in further emboldening corruption in the oil sector in Africa has also made the US government adopt the Publish What You Pay (PWYP) policy, for all MNCs with branches in the United States.[126] Such transparency initiatives are laudable, as they show how corruption could be double-edged. MNCs could be victims of corruption, but could also perpetuate corruption. Transparency is key in the oil industry; yet, most of the activities of MNCs and national oil companies in Africa are shrouded in secrecy, having very little 'disclosure' culture.[127]

[123] van de Ploeg (2012), p. 2; Kosmos Energy Ltd (2011), p. 9; Petroleum Agreement (2004), p. 36
[124] Massey and May (2004), p. 254
[125] Kolstad and Wiig (2009), p.527
[126] PWYP US (2011), p. 2
[127] Transparency International (2011), p. 5; Revenue Watch (2013), p. 16

However, it is also important to note that MNCs in many African countries have become both victims and primary causes of social instability.[128] Whilst their activities may have complemented corrupt and neo-patrimonial practices of governments to deepen the plight of oil-producing communities;[129] oil theft and sabotage, as shall be seen in the case of Nigeria in section 3.1, also end up funding rebellion against these same MNCs. There is increasing incidence of sabotage, hijacking of shipments, and hostage taking for ransom. But such phenomenon is not universal in all oil-producing countries, as is evident in the testimony of a manager in Angola:

> We ...have proven that we can produce anyhow. The conflict does not matter so much for our activities, except if the whole country was in blood and flames.... The price of petroleum bothers us much more than the political situation.[130]

The extent of the role of MNCs and consequences of their actions on their activities still remain a debatable subject. But it does not discount the fact that they also contribute to the state of security and underdevelopment in oil-producing African countries.

Other examples of external influences on domestic political economy

The effects that sanctions have on countries exemplify the fact that no single country can be assessed exclusively. Rossignol defines economic sanction as 'a ban on the sale and shipment of products to a country and on the purchase of its exports'.[131] Although the efficacy of these sanctions and the genuine apolitical intentions are debatable,[132] sanctions contribute in influencing domestic policies in oil-producing African countries; as in the case of the 1995 sanctions on Nigeria which gradually led to constitutional rule in 1999. Ross has argued that these influences are not exclusive to oil-producing countries. Moreover, countries like Venezuela and Iran have been resilient to such external pressures.[133] Yet, the current economic hardships on Iran, after losing USD40 billion in oil exports in 2012 due to recent sanctions over its nuclear ambitions is glaring.[134] The aim of this argument is not to justify the morality or appropriateness

[128] Africa Confidential (2004), Vol. 45, No. 13, p. 5
[129] Human Rights Watch (1999), para 1
[130] Le Billon (2001a), p. 77
[131] Rossignao (1996), para 4
[132] Collins (2009), p. 237
[133] Ross (2012), p. 4
[134] Energy Resources (2013), para 4

of sanctions, but to point out the role that global influences have on policies governing oil-producing countries.

Furthermore, the World Bank and IMF have often preferred oil producing countries to adopt saving options, even though the structure of developing economies requires, among other things, more rigorous spending programmes within efficient institutions of governance.[135] Chad presents a typical case in point where the Norwegian model of escrow account was identified as ideal by the World Bank, and set as 'precondition' for World Bank-assisted projects. However, today, Chad remains a typical example of an oil producer with serious security and development challenges, where corruption and political instability thrives.[136] Is it possible that the World Bank failed to understand the Chadian political economy properly? That is a nagging question begging for an answer, for which the affirmative is the most plausible.

There is also the issue of development partners sponsoring conflicts in oil-rich states. For example, in April 2013, the UK based Corruption Watch published a report on a corruption-ridden repayment deal in which the Angolan government was to pay USD5 billion debt it owed the Russian government. This debt came about because Russia (when it was still USSR) funded Dos Santos' MPLA against Savimbe's UNITA during the Angolan Civil War.[137] In the end, it was Sonagol, the Angolan state oil producer which had to use oil proceeds to pay off the loan in a very complicated deal. It is not the complicated and 'corrupt' repayment deal which is of interest to this discussion. What is of interest is the phenomenon Ross calls 'booty future' arrangements.[138] Because the Russian government knew that its continuous support for MPLA will guarantee the latter's control over the oil reserve under its control, it funded the war, especially between 1992 and 1994, prolonging the crisis.[139] Le Billon reiterates the fact that the ease, with which the Angolan government could secure loans with oil as collateral for military adventure, further heightened the conflict whilst reducing government public spending.[140]

Finally, in the case of Ghana, soon after oil started flowing for the commercial market, Ghana requested for a loan of USD3 billion from the Chinese Development Bank, in which Ghana's oil

[135] Fasano (2000), p. 19
[136] Humphreys and Sandbu (2007), p. 195
[137] Corruption Watch UK (2013), p. 23
[138] Ross (2004), p. 59
[139] Corruption Watch UK (2013), p. 23; Le Billon (2001a), p. 64
[140] Le Billon (2001), p. 73

was to be used as collateral for fifteen years, and in which the proposed projects was to employ up to 60% of Chinese contractors and expertise.[141] Yet, Ghana is a country with 11% of its population unemployed in 2000 (no current figures are available) and has almost half of its population described as 'active labour force'.[142] A Contract like this from oil revenue is recipe for public agitation and rebellion. Such public displeasure is exemplified in the civil law suit against the government in the case, Centre for Public Interest Law vs. The Attorney General in Ghana's Supreme Court in 2012.

However, some of the problems recorded in many of these oil producing countries in Africa have little to do directly with the oil. Some few examples will suffice.

In seeking for explanations for the prolonged conflict in DRC, for instance, it will be simplistic to blame the abundant natural resources like oil and diamonds as causes.[143] The vicious cycle of insecurity, sexual violence, human rights abuses by rebel groups like the M23, and other networks operating in that country do not only stem from struggles over resources, but also pursuit of interest by neighbouring state actors from Rwanda, Uganda, Angola and South Sudan. In 1994 for instance, the government of Angola lunched incursions into DRC and other neighbouring countries not in pursuit of oil, but in pursuit of UNITA rebels. Again, spill-over effects of the 1994 genocide in Rwanda led to the formation of many rebel groups in the vast expanse of DRC where there was little government presence.

Colgan makes very intriguing analysis regarding oil and conflict nexus. He disputes any claim that oil-producing countries are victims of international aggression for control over their oil. Instead, he uses evidence from 170 countries between 1945 and 2001 to demonstrate that, oil-producing countries with 'revolutionary leaders' rather demonstrate aggressive tendencies, and are likely to start wars across national borders.[144] He cited the fact that oil producing Libya attacked Chad in the 1970s and 1980s; Iraq attacked Kuwait and Iran in the 1990s; and Venezuela 'mobilized for war against Columbia' in the late 2000s.[145] There are also examples of Angola waging wars in neighbouring Congo Brazzaville in 1994 and Namibia in 1999 in pursuit

[141] CePIL vs The Attorney General (2012), pp. 7-8
[142] CIA (2013), The World Factbook
[143] Humphreys (2005), p. 25
[144] Colgan (2010), pp. 679 and 689
[145] Ibid., p.662

of UNITA rebels who were building camps in these countries.[146] According to Colgan, therefore, it is an overstatement to conclude that oil-rich countries are victims of international aggression, since apart from some few cases like Kuwait, oil-rich countries are rather aggressors.

It has been demonstrated in this chapter that political economy of oil rents in sub-Saharan Africa makes it easy for governments to control revenue, and perpetuate private rent-seeking. Corruption, together with neo-patrimonialism and political patronage, channels resources from achieving the public good to pursuing personal goals. Eventually, the socio-economic wellbeing of majority of citizens deteriorates and heightens inequality. In many cases, when the ordinary people are successful in rebelling, civil wars evolve and the situation gets worse. Where the governments succeed in suppressing the will of the people, regimes persist longer. But in many cases, longer and firmer regimes have sustained peace than shorter or democratic ones. On the other hand, even where there is the good will and institutions, governments struggle with the dilemma of which management policy to pursue – spending or saving. Undoubtedly, domestic actors in the political economy of oil in Africa play significant role, but those are not exhaustive.

No country can be assessed only based on its domestic political and economic mechanisms. Crude oil is worth its sort only in the context of an integrated world market. Conflicts in oil-rich countries attain their magnitude not simply because the resource is there, but also because of international interests in them. There is the willingness of external governments to fund these wars in exchange for something else. Since revenue from oil is mainly under government control, some governments of oil-producing countries in Africa are able to fund their wars and dictatorial regimes from future sales of the oil. Degradation of the environment, connivance with government officials in corrupt practices, and the neglect of the social responsibility of MNCs aggravate the problem. Now a closer look at Nigeria will substantiate these arguments.

[146] Le Billon (2001a), p. 64

Chapter Three

The Case of Nigeria and Lessons for Ghana

This chapter is divided into two sections. The first section discusses Nigeria's oil exploration dilemmas, especially oil-related conflicts and development challenges in the Niger Delta. Two things shall be achieved with this. First, the contributions of both domestic politics and MNCs in exacerbating the problem are expounded; and secondly, the weakness of generalisation in the resource curse thesis is pointed out. The second section discusses some of the lessons Ghana, a new oil-producing country, can learn from Nigeria's dilemmas.

3.1 Nigeria and the Oil

Nigeria is the most populous African country, numbering close to one hundred and seventy five million, with a median age of 18, and comprising of over 250 different ethnic groups.[147] It is Africa's largest oil producer,[148] and Obi identifies it as 'West Africa's pivotal state', especially due to its huge military and economic strength in the region.[149] As a member of Organisation of Petroleum Exporting Countries (OPEC), Nigeria ranks fifth in volume of production,[150] with crude oil reserve of 36.2 billion barrels in 2011.[151] Nigeria is also home to vast water and forest resources, which serves as sources of livelihood for rural communities.[152] Whilst agriculture makes up 30.9% of the economy, the oil supports the country with up to 95% of foreign exchange and provides 80% budgetary support, with GDP real growth rate of 6.3% in 2012. The

[147] CIA (2013), The World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/ni.html (August 13, 2013)
[148] Onuoha (2013), p. 8
[149] Obi (2011), p. 106
[150] Duruigbo (2005), p. 22
[151] Basedau and Mahler (2011), p. 74
[152] Omofonmwan and Odia (2009), p. 26

country spent 0.9% of its GDP on the military in 2012,[153] 5.6% on health, and 6.0% on education in 2011.[154]

In spite of these positive indicators, statistics from the UNDP indicate that, Nigeria's population living in poverty – living on less than USD1.25 per day – was 68% in 2012,[155] maternal mortality was 630 per hundred thousand live births, and the country was 153rd out of 186 countries in Human Development rankings.[156] In 2011, unemployment rate was 23.9% and the percentage of rural population which had 'unimproved' source of drinking water was 57%.[157] Between 1966 and 1993, there were six coup d'états and forceful regime changes. Moreover, three major violent conflicts have been recorded since 1990.[158]

It is the Nigerian National Petroleum Company (NNPC) that deals with downstream management of the petroleum industry, whilst the MNCs, especially Shell Petroleum Development Company (SPDC), handle downstream operations.[159] Three MNCs, Shell, Chevron and ExxonMobil own a total of 65% of Nigeria's oil, with Shell owning 51%.[160]

Scholars have linked Nigeria's development and security challenges to the presence of oil.[161] However, it would be simplistic to conclude that oil will necessarily create similar outcome if it is discovered elsewhere. For instance, whilst both Nigeria and Indonesia heavily depend on oil and 'had comparable per capita incomes' in 1980,[162] Indonesia's GDP per capita was USD5,100 in 2012, making it 43rd in the world, whilst Nigeria's was USD2,800 and 180th in the world.[163] Indonesia's unemployment rate was 6.4%,[164] with 18.1% of its 'population living below poverty'

[153] CIA (2013), Op. cit
[154] African Economic Outlook (2012), p. 6
[155] UNDP (2012), 'Population Living Below $1.25 PPP...' http://hdrstats.undp.org/en/indicators/38906.html (August 16, 2013)
[156] UNDP (2012), HDI, http://hdrstats.undp.org/en/indicators/103106.html (August 14, 2013)
[157] CIA (2013), Op. cit.; African Economic Outlook (2012), p. 2
[158] Basedou and Mahler (2011), p. 80
[159] United Nations (2011), p. 43
[160] Obi (1999), p. 49
[161] Odularu (2008), p.4
[162] Stiglitz (2004), para 2
[163] CIA (2013), Op. cit
[164] Ibid.

in 2012;[165] whilst Nigeria's was 23.9% and 68% respectively. A closer look at Nigeria shall throw some light on the main bottlenecks.

a) Institutions of Governance

Nigeria has a federal system of governance comprising 36 states and 774 local government councils, and a federal government.[166] General elections are held every four years in accordance with the 1999 constitutional provisions.

Decentralisation is well rooted in Nigeria's Federal system. To ensure the autonomy of each state, article 7(1) of the 1979 constitution carved into the 1999 federal constitution states that, 'the government of every state shall ensure their existence under a law which provides for the establishment, structure, composition, finance and functions of such council'. Article 17 of the constitution provides assurance for 'freedom, equity and justice' in the Federal Republic; whilst chapters four, five and six comprehensively provide guidelines for the three arms of governance – legislature, executive and the judiciary. Moreover, Nigeria is an EITI-compliant country, with the appropriate legal framework for managing its oil revenue.[167] These are to ensure accountability, 'institutional safeguard against tyranny',[168] make the ordinary people participate in decision-making, help to 'effectively mobilize' resources, effectively deliver governance services to the people, and help preserve the cultural heritage of the different ethnic groups.[169] It is also to ensure transparency, accountability and rule of law.

There are two accounts into which petroleum revenue is deposited: The Federal Account and the Excess Crude Account.[170] Difference in prices of petroleum on the world market goes into the second account, whilst the rest goes into the Federal Account for budgetary allocation. In 2007,

[165] UNDP (2012), Op. cit
[166] Azikiwe (2013), p. 166
[167] EITI (2013), 'EITI Countries: Nigeria', http://eiti.org/Nigeria (August 17, 2013)
[168] Oviasuyi et al (2010), p. 81
[169] Ibid. p. 82
[170] Constitution of the Federal Republic of Nigeria, Article 162(2)

52.68% went to the federal government; 26.72% was distributed among the states; and 20.60% went to the local government councils.[171]

Despite these institutional governance systems, Transparency International ranks Nigeria among the most corrupt countries in the world;[172] with 70% of its population living below poverty line. Some analysts blame widespread corruption, which is 'undiluted and unambiguous' in all facets of governance, to be responsible for these ills.[173]

Others, like Abila, blame the present federal system of Nigeria as responsible for most of its challenges. According to Abila, 'multiplicity of ethnic groupings and the struggle for the resources' create a tug-of-war in which dominant and influential ethnic groups always win, moving minority groups to express their displeasure in violent ways.[174] Eibunu supports this view linking Nigeria's problems to 'structural deficiencies' in the federal system.[175] According to him, there is historical domination of federal governance by three major ethnic groupings – the Yoruba, Igbo and the Hausa-Fulani. There is a third explanation, which blames the tendency for succeeding governments to discontinue projects and policies started by previous governments, leading to inefficiencies and wastage.[176] This latter point has been corroborated by Olusegun Obasango, a former president of Nigeria.[177]

It is imperative, therefore, that institutions have not been the elixir to solving developmental and security challenges in Nigeria. This raises issues about the general assumption that economic and security problems in African oil-producing countries could readily be restored with formal management and democratic institutions. It should suffice now to look closely at some of the major challenges facing Nigeria's main extraction state, the Niger Delta.

b) Conflicts, Environmental Damage and Insecurity in the Niger Delta

Between 1990 and 2011, Nigeria experienced three large scale conflicts. According to classifications by Basedau and Mahler, only one of them – the political and religious clashes in

[171] Osuoka (2007), p. 5
[172] 'Corruption Perception Index 2013', http://cpi.transparency.org/cpi2012/results/#myAnchor1 (August 17, 2013)
[173] Oviasuyi et al (2010), p. 85
[174] Abila (2009), p. 172
[175] Eibunu (2009), p. 10
[176] Oviasuyi et al (2010), p. 85
[177] 'Nigeria is Curse', http://world.myjoyonline.com/pages/africa/201308/111424.php (August 18, 2013)

the mid and upper regions of Nigeria – was not oil-related.[178] The other two were oil-related. The first of these was the conflict with Cameroun over Bakassi Penninsula which caused greatest casualty in 1996. This conflict has since 2002 been resolved through international arbitration in favour of Cameroun. It must be noted, that the conflict in Bakassi predate the oil discovery in that area, even though the parties intensified their positions after proven reserves of petroleum were found.[179]

The second is the Niger Delta conflicts and general insecurity, which also has some connection to oil exploration and production. The Niger Delta will be the microcosm for analyses here, since it is the region most hit by both direct and indirect effects of oil production in Nigeria.

The Niger Delta crisis is in the form of militant groups clashing with government security forces, sabotaging oil facilities, maritime insecurity, taking of hostages for ransom, and general destruction of properties.[180] It reached its climax in 1999. It is estimated that between 1999 and 2004, about 1000 people were killed each year.[181] Various reasons have been cited to explain the persistent violence and insecurity in the region:

Ejibunu provides the first explanation that, struggles for economic survival and control for oil resources, and grievances over inequality and environmental concerns, account for the uprisings.[182] Omofonmwan and Odia give the second reason, blaming inequality and the disregard for environmentally-friendly practices in the region. According to them, the health and socio-economic impact of oil exploration have made the youth in the area restless, leading to conflicts between them and community leaders, government representatives, and MNCs in the Niger Delta.[183]

A third explanation blames it on the historical struggles for equality and liberation of the Ogoni people, with those of the Ijaw ethnic group on the sidelines.[184] According to this school of thought, the crisis began with Adako Boro's rebellion against the federal government in 1966, but gathered momentum after Ken Saro-Wiwa was executed by hanging in 1995 for leading the

[178] Basedou and Mahler (2011), p. 80
[179] Konings (2005), p. 283
[180] Ejibunu (2007), p. 3; Obasi (2011), p. 55
[181] Oyefusi (2007), p. 53
[182] Ejibunu (2007), p. 3
[183] Omofonmwan and Odia (2009), p. 25
[184] Abila (2009), p. 182

Movement for the Survival of the Ongoni People (MOSOP) resistance movement. Ejibunu link this minority group struggles, and other power struggles by the three dominant ethnic groups, to the frequent coup d'états before the establishment of the present constitutional regime in 1999.[185]

Fourth, there is another historical explanation. Slavery and colonial struggles for abundant natural resources in the area have made the area a platform for 'predatory activities' since the mid nineteenth century.[186] The wars and struggles for control over the palm oil trade and other abundant resources in the area in the 1880s, 'catastrophically' disturbed ordinary living in the Niger Delta and its surroundings. This triggered inter-ethnic wars and displaced entire communities.[187] After discovery of oil in 1957 and subsequent export in 1966, the environmental impact, and what the UN refers to as 'human, socio-economic and cultural impact' of oil production, has made the Niger Delta even more vulnerable.[188] The impact is particularly great, since over 60% of the inhabitants of the region 'depend on the natural environment for livelihood'.[189]

The Niger Delta therefore has had 'peculiar developmental challenges', which meant that the region required 'special protection' by the state, a situation which the state had recognised but has failed to expedite action since independence.[190] It took thirty nine years for this economic protection to become a reality. Under article 162(2) of the Constitution of the Federal Republic of Nigeria, 13% of revenue from oil and gas is to be paid as 'deprivation fund' to the Niger Delta and other extractive states. However, due to corrupt practices and leakages, very little has been done to improve the living standards of these communities.[191] The violence and rebellion have therefore persisted.

Fifthly, MNCs have played significant roles in the present situation of the Niger Delta. Firstly, they use obsolete equipments and practices in the area, which they would otherwise not use in the developed world.[192] In the case of Ogoniland, much of the infrastructure and oil wells which were disserted during the widespread protests in 1993 have been left to rot to cause more

[185] Eibunu (2009), p. 10
[186] Abila (2009), pp. 168 and 170
[187] Ibid. p. 170
[188] United Nations (1997), P. 11
[189] Amnesty International (2009), para 8
[190] Abila (2009), p. 169
[191] Ejibunu (2009), p. 19
[192] Steiner (2010), p.12; Vidal (2010), para 12

spillage.[193] This leads to air pollution, destruction of forest and water bodies which deprive people of their livelihood, and further increase poverty rates in the area. Secondly, they engage in activities of connivance with the Nigerian government,[194] especially to avoid taking full responsibility for the social and environmental responsibilities.[195] Finally, they have contributed to heightening relative inequality and relative poverty in the region. Hutchful, for instance, argues that Shell and other MNCs have created 'oil colonies' for their staff making the plight of the rural communities look worse.[196] This is in line with the relative deprivation theory, which posits that 'perceptions of discrepancies between the position of one's own group and some other more privileged group...produce an uncomfortable state'.[197] This leads people to express rebellion, which could be violent.

Sixthly, massive environmental degradation, through oil spillage, flaring of gas, pipeline explosions and the use of outdated technology and practices by MNCs account for some of the grievances which lead to violent confrontations.[198] Vidal quotes Williams Mkpa of Ibeno village as saying:

> Oil companies do not value our life: they want us all to die. In the past two years, we have experienced 10 oil spills and fishermen can no longer sustain their families. It is not tolerable.[199]

Such theme of intolerance for government inefficiency and MNCs insensitivity run through the grievances in the Niger Delta.

Accidental oil spillage, pollution over flaring of gas and the use of obsolete equipments for drilling and exporting petroleum by MNCs are the main causes of environmental damage.[200] According to the World Bank, by 1991, Nigeria was the only country in the world which flared more than half of the gas it produced in the open, 76.0%, compared to the United States and

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[193] United Nations (2011), p. 43
[194] Obi (1999), p. 56
[195] Amnesty International (2009), para 4; Vidal (2010), para 15; 'Foreign Bribery: SERAP asks EFCC to seek damages against Shell, Siemens, Others', Niger Delta Watch, August 2, 2011, http://www.nigerdeltawatch.org/reports/view/562 (August 22, 2013)
[196] Ejihutu (2009), p. 16
[197] Walker and Mann (1987),p.275
[198] Omofonmwan and Odia (2009), p. 26; Eubunu (2009), p. 12; Steiner (2010), p. 15.
[199] Vidal (2010), para 9
[200] Opukri and Ibaba (2008),p. 180

Algeria which flared 0.6% and 18% respectively.[201] (See fig. 2 for example of gas flaring). In 2006, the UNDP reported that 10,000 barrels of oil was spilt in the Niger Delta by MNCs,[202] 88% of which the Nigerian Department of Petroleum Revenue attributed to 'equipment failure'.[203] (See fig. 3 for example of effects of spillage). In the face of the increasing accusations of neglect and double standards by MNCs in their operations in the Niger Delta, Shell, one of the main operators in the region has consistently blamed 'sabotage' and 'vandalism'.[204]

A seventh factor is given by Obi to include globalisation. Globalisation has also contributed to the present instability and developmental challenges in the region.[205] Using the extent of global condemnation and isolation of Nigeria after the execution of Ken Saro-Wiwa in 1995, he arrives at the conclusion that any discussion of domestic governance in Africa cannot be completed without including the factor of globalisation. Sanctions by the United Nations, the Commonwealth of Nations, the United States and all major trading partners devastated the economic, diplomatic and political activities in the entire Nigerian state.

Fig. 2: Flaring of Gas in the Niger Delta in 2004 [Steiner (2010), p. 14]

[201] The World Bank (1995), p. 59
[202] UNDP (2006), P. 184
[203] Opukri and Ibaba (2008), p. 181
[204] SPDC (2000), P. 17; Vidal (2010), para 19
[205] Obi (1999), p. 41

Fig. 3: Polluted lake in the Niger Delta in 2004 [Steiner (2010), p. 8]

Fig 4: Obsolete equipment in the Niger Delta, 2005 [Steiner (2010), p. 10]

Moreover, the fact that Nigeria's oil is only worth its sort in the context of the international market needs places certain level of pressure on the country. Whilst Nigeria supplies 40% of crude imported into the US, it is also 'the world capital of oil pollution'.[206] That is not to say that globalisation dissolves borders of nations to provide a homogenous and seamless world, as Ohmae claims.[207] If that was the case, the sanctions on Nigeria would not have had the desired effect, since there would be no 'borders' to make the isolation possible. Nevertheless, the fact that the present global economic, social and technological order facilitates the movement of

[206] Vidal (2010), para 10
[207] Ohmae (2008), p. 29

arms, resources and people has drawn nations ever closer, heightening the influences each has on the other.

Apart from the conflict and environmental challenges, one other area of concern in the Niger Delta is maritime insecurity, where activities at both Nigerian territorial waters and international waters are put at risk by criminals. The International Maritime Bureau has classified Nigeria's waters in the Gulf of Guinea (GoG) as 'the second most dangerous in the world after Somalia'.[208]

Obasi links the maritime insecurity to the fact that most of Nigeria's oil is drilled off-shore, and that transportation of extracted crude and refined products go through this route. However, other scholars argue that the increasing insecurity in the Nigerian territorial waters is simply part of a major insecurity in the entire GoG, ranging from human trafficking en route the waters of Senegal; drug trafficking via the waters of Guinea Bissau; illegal fishing and other malpractices in Nigeria's waters down through Equatorial Guinea to Angola.[209] General socio-economic conditions on land, like high rates of poverty and unemployment, corrupt officials,[210] and long 'history of agitation and militant activities' account for these.[211] The oil industry may therefore be just one of the factors accounting for the problem.

In sum, insecurity and development challenges have taken grave dimensions in the region today, where lives are lost, properties destroyed, and hostages of foreign workers taken regularly. The recurring theme of these uprising and rebellion is inequality, corruption and loss of livelihood and health due to environmental damage. Amnesty International aptly described the Niger Delta as a state with 'crumbling social infrastructure....high unemployment, social deprivation, abject poverty...and endemic conflict'.[212]

Although Nigeria is one of the fastest growing economies in sub-Saharan Africa, poverty and inequality is still widespread. Government takes part of the blame, MNCs play some role in exacerbating the problem; but so is socio-historical dynamics which have not been properly handled. If attention at solving the crisis in the Niger Delta and the entire country make oil the

[208] Obasi (2011),p. 55
[209] Chatham House (2013c), p. 16
[210] Basedau and Mahler (2011), p. 81
[211] Chatham House (2013), p. 16
[212] Amnesty International (2009), para 6

central focus, to the neglect of youth unemployment and socio-historical attachments people have about their land, the region will continue to be a hot spot. The activities of MNCs also need to be closely supervised by the government.

3.2 Lessons for a new Oil Economy in Sub-Saharan Africa (Ghana)

In order to deal with the problem of generalisation in the resource curse discourse, it is important to pay attention to case-specificity in providing policy interventions in African oil-producing countries. One of the relatively stable and peaceful countries in Africa today is Ghana, which discovered and started exporting crude oil in 2007 and 2010 respectively. In order that Ghana will continue to be seen as a shining example of good governance and stability in sub-Saharan Africa, [213] some important lessons could be drawn from the past failures and successes of countries which have been in the oil industry for years. Some lessons shall be drawn from the context of Nigeria for Ghana, since the two West-African countries have some similarities.

First, the two countries lie in the GoG, and share similar maritime security threats and opportunities. Secondly, some of the oil reserves in both countries are located offshore. Thirdly, both countries have had similar history of multiple coup d'états since independence. Fourthly, each country has a population with mixed ethnic and religious backgrounds, with similar north-south divisions in both political and social interactions. Moreover, just like in Nigeria, sectarian and ethnic violence has often been bloody. An example of such violence in Ghana is the March 2002 Dagbon crisis which led to the murder of the *Dagomba* King in Yendi.[214] Finally, in both countries, MNCs play critical roles in the exploration and production of oil. A closer look at how to draw lessons for Ghana using the case of Nigeria will be done presently.

In 2007, Ghana discovered crude oil off its western coastlands, and many more discoveries have subsequently been made in the Volta basins in the south-eastern parts of the country. Ghana's oil revenue is projected to be accruing at an average of USD 1.5 billion per annum, and is expected to last for some 20 years.[215] Compared with countries like Saudi Arabia (265 billion barrels), Canada (175 billion barrels), Venezuela (98 billion barrels) and Nigeria (36 billion barrels),

[213] Gilbert et al (2013), p. 125; McKay and Aryeetey (2004), p. 9; Kaufmann et al (2008), p. 33; Acemoglu and Robinson (2013), p. 42
[214] Ayebi (2011), p. 4; See too Mahama (2009), p. 40
[215] van de Ploeg et al (2012), p. 1; Breisinger et al (2010), p. 304; Prempeh and Kruon (2012), p. 3

Ghana's total estimated reserve of 4 billion barrels is well below any significant global average.[216] Moreover, the commercial value of revenue which accrues to the Ghanaian government is only 13.5% of the net profit of extraction, with the rest accruing to MNCs.[217]

However, even at an average market price of about USD70 per barrel, annual oil revenue to the government will be equivalent to the total aid Ghana receives per annum, and could contribute to about 30% of government annual income, and up to 9% of GDP.[218] If all its estimated reserves are accessible, the rate of 'barrels of oil per dollar of GDP' will be comparable to that of Angola and Nigeria.[219] Ghana's economy grew by 7.1% in 2012. [220] This is quite significant, and can have significant impact on the country. So what lessons can Ghana learn from Nigeria?

First, Ghana should pay some attention to the call by the Western Regional House of Chiefs, which demanded that 10% of revenues from petroleum should be reserved for development purposes in the Western Region, where the oil is extracted.[221] Unfortunately, as soon as this petition was presented to Ghana's parliament in 2011, it was rejected on the grounds that article 257 of Ghana's Constitution entrust to the president only, the prerogative of allocating revenues from natural resources. The subject needs to be revisited, since extractive communities have 'peculiar developmental challenges'. This includes loss of livelihoods, destruction of the environment and potential health implications due to pollution. In 2012, Osei-Tutu found traces of livelihood losses and youth unemployment in that region.[222] In order to avoid any violent protests and the kinds of upheavals recorded in Nigeria's Niger Delta, it is important for the government to rethink the proposals submitted by the chiefs. Some social protection needs to be implemented in the region, and any such policy formulation should make localised youth groups and opinion leaders an integral part of the decision-making and implementation process.

Secondly, it is not enough to have the Petroleum Revenue Management Act (PRMA) of 2011 in place. Its stipulations should be rigorously enforced. Institutions and regulatory frameworks which are not effective are as worthless as having none. For instance, the violation of article

[216] van de Ploeg et al (2012), p. 3
[217] van de Ploeg (2012), p.2; Kosmos Energy Ltd (2011), p. 9
[218] Breisinger et al (2010), p. 304; van de Ploeg et al (2012), p. 3
[219] van de Ploeg et al (2012), p. 3
[220] MOF (2013), p. 2
[221] Osei-Tutu (2012), p. 1
[222] Ibid., p. 3

18(7) of the PRMA in the signing of a USD3 billion loan agreement with China Development Bank in 2011 should be avoided. The government used Ghana's oil as collateral for a period exceeding ten years, which is prohibited by the said article. The Supreme Court upheld such violation in a September 2012 ruling, excusing itself as an inappropriate court of judicature for adjudication.[223] Such statutory violations of legal instruments have the capacity to make institutions and laws become redundant and ineffective. All regulatory frameworks governing the petroleum sector, both national and international, should be followed rigorously.

Thirdly, the appropriate institutions mandated with overseeing activities of MNCs should closely monitor their activities to ensure that they conform to international laws, national regulatory frameworks, and their own internal management practices. International frameworks on climate change, migratory species and law of the sea should be enforced; whilst national ones on waste management, chemical use, human rights and decommissioning of equipments should be formulated and implemented. The United Nations acknowledges that, in spite of any international laws that may regulate the activities of MNCs, 'regulatory control and enforcement is strictly the responsibility of competent national authorities...[though] primary legislation'.[224] Prescriptive laws should be passed for MNCs, and enforced through regular monitoring. This however requires coordination of activities of many ministries who have overlapping roles, like the Ministry of Energy, Ministry of Land Resources, Environment, Science and Technology, and Ministry of Water Resources, Works and Housing. Such coordination would reduce duplication of tasks, and reduce inefficiency.

Fourthly, since maritime insecurity is a crisis which cannot be tackled by a single state, Ghana should liaise with other countries in the region to secure its waters. It is therefore commendable that the Ghana Maritime Security Act of 2004 (Act 675) has been amended in 2011 to expand the definition of Ghana's maritime jurisdiction. Clause 10 of the Amended Act defines Ghana's maritime jurisdiction to include 'the broader territorial sea, exclusive economic zone and continental shelf'.[225] Such an extension of definition is an acknowledgement that no single country in the region can handle increasing rate of crime on the sea, which has some direct effect on petroleum production. Efforts should be made to liaise with all other countries in the region to

[223] CePIL versus The Attorney General (2012), p. 9
[224] United Nations (1997), p. 22
[225] Ghana Maritime Security (Amendment) Act 2011, Clause 10

make security at sea a regional problem which requires regional action. This should involve Nigeria, Togo, Benin, Cameroun, ECOWAS, and other Gulf of Guinea states.

Fifthly, the government needs to be tactful in its interaction with MNCs and all its development partners. Globalisation has come to stay, and whilst it presents a vast expanse of opportunities, it can easily *blow one off one's feet.* The best is available on offer. Whilst China and Western Countries are competing for attention in resource-rich African countries, the onus is upon the government of Ghana to make the best choices among what is on offer.

Sixthly, Ghana needs massive injection of capital to expand infrastructure and improve social services. Therefore, spending of oil revenues on public investment should be its priority. The government has already done some borrowing against future oil revenues, example of which includes the USD3 billion loan agreement with the Chinese Development Bank aimed at improving roads in the Eastern corridor and expanding petroleum infrastructure in the Western Region. These are good investment projects, if only the money would be used for what it is intended for. Ghana's oil is expected to last for only twenty years. The government therefore needs to invest tactfully, so that benefits of its investment could be harnessed after the twenty-year extraction period.

Finally, all the arms of government – parliament, judiciary and the executive – should work effectively by complementing each other's efforts. Appropriate laws should be passed by parliament to regulate the activities of both the executive and MNCs; whilst at the same time, ensuring that the executive remain accountable to the people through the proper scrutiny of government annual budgets and spending. The Judicial should also ensure that cases of corruption and inappropriate practices brought forth are timely adjudicated upon. Furthermore, the police and other security forces should be tolerant of people who have grievances. People and communities that wish to display their grievances and displeasure at government and MNC activities should be provided appropriate protection to do so in public demonstrations. It is only in these instances that public confidence in the institutions of governance in the country would be sustained. People will more likely avoid resorting to violence as means of seeking redress and gaining attention of government.

Chapter Four

Critique and Conclusion

4.1 Critique of the Resource Curse

After quantitative analysis of cross-country cases in developing countries, Polterovic et al conclude:

> It does not appear that resource rich countries grow less rapidly due to their resource wealth.... [because] they pursue good policies in some areas and enjoy the advantages of having resource rent. In particular, resource abundant economies have lower budget deficits and inflation, higher investment/GDP ratio, higher inflows of FDI as compared to GDP...[226]

This stands in sharp contrast to much of the literature on the resource curse, which proposes that 'resource booms can actually harm resource-abundant economies'.[227] In sub-Saharan Africa, the successful cases of Botswana and Mauritius have shown that natural resource is not a curse. Political, economic and social explanations offered to account for the problems in Angola, DRC, Chad and Nigeria could as well account for security and development challenges in resource scarce regions like the Sahel, Darfur of western Sudan, Mali and Somalia. Nevertheless, abundant natural resources in commercial quantities broaden the scope of the challenges, and present peculiar ones which require peculiar attention. Oil is one of the resources, which has unique challenges and opportunities.

The first critique against the resource (oil) curse borders on generalisation. It is often assumed that all oil-producing countries in sub-Saharan Africa have similar characteristics.[228] Obviously, the socio-political and economic challenges of Nigeria's mainly off-shore extraction will differ

[226] Polterovic et al. (2010), p. 21
[227] Sarraf and Jiwanji (2001), p. 17
[228] Ross (1999), p. 300

from on-shore extraction in Chad and DRC. This generalisation also transforms into policy, where successful policies are transported from one context into another. For instance, despite all the structural weaknesses of the Chadian socio-political system, the World Bank staked its reputation on implementing the Sovereign Wealth Fund policy on Chad,[229] a project which became a huge failure. The bank failed to treat Chad as a distinct context for case-specific diagnosis and implementation of policy.

Secondly, the general conclusion is that because many oil-rich countries in Africa have security and developmental challenges, it must be the oil, which is the root cause of the problems. The mere availability of oil does not plunge a country into a state of insecurity. Many other factors which could be controlled come to play.[230] Hodges, for instance, posit that the rebellion and crisis in Angola which started in the 1950s, had very little to do with their oil or diamond resources.[231] According to him, Angola's crisis was started and deepened through three main mechanisms: an ethnically fragmented post-colonial society; logistical support for rebel groups offered by neighbouring countries like Zambia and Congo Brazzaville; and the Cold War Politics of the time which pitched one rebel group against the other through the provision of logistics and technical assistance. It may be true that revenue from oil may have helped MPLA to sell booty future of oil to fund the war, but that does not discount the fact that governments of non-oil countries also fund their wars.[232] Eritrea is a typical example of a country with no oil but has huge military expenditure.

Thirdly, even if the Dutch Disease as a resource curse phenomenon could affect agricultural production and other mainstream economic activities, its long-term effect has been overblown in Africa.[233] Many development experts concede that such development imbalances are normal for any economy which experiences huge inflow of revenue, and that it could potentially lay the foundation for positive economic and developmental turnover.[234] Hirschman, for instance, argues that forward linkages (building of domestic infrastructure) supersede backward linkages (like foreign capital investments). Hirschman argues that in building a development economy,

[229] The Economist (2002), culled from Massey and May (2006), p. 255
[230] Berdal (2005), p. 690; Obi (2009), p. 108; Hodges (2001), p. 7
[231] Hodges (2001), pp. 7-12
[232] de Soysa (2000), p. 113
[233] Ross (1999), p. 306
[234] Collier et al (2010), p. 85; Sachs (2007), p. 183; Matsen and Torvik (2005), p. 495

‘destabilizers’ rather than ‘equilibrating forces’ could help induce economic stability. He proposes that market frustrations and other economic bottlenecks associated with rapid growth could be augmented by other socio-political and institutional restructuring and support.[235] In this sense, Hirschman disagrees with the notion that ‘balanced growth’ is superior to ‘unbalanced growth’ in the savings and spending discourse.[236]

Moreover, the proposition that labour and capital in developing oil countries shifts from agriculture to the oil sector assumes that ‘capital and labour supplies are fixed and fully employed before a boom begins’. This is certainly not true for African countries, where there are ‘labour surpluses’ and inflow of ‘foreign capital’.[237]

Fourthly, the resource curse thesis identifies symptoms as root causes. According to van Tongeren most conflict interventions aim ‘at managing the conflict than solving it’. Experts fail to see that ‘development’ comes with changing ‘power relations’ which challenge the status-quo, and can therefore lead to instability if not well managed.[238] Therefore, in discussing the root causes of underdevelopment and insecurity in oil-rich countries, it is not enough to stop at the natural resource and its management structures. There are also cultural and historical undertones which come with it.

For instance, Massey and May attribute Chad’s present challenges to political instability, corruption and human rights abuses which predate oil production.[239] Alao agrees that any attempt to reverse challenges in resource-rich countries can only be successful if wide-ranging policy approaches are adopted.[240] Indeed, the case of Nigeria also depicts that institutional restructuring alone is not adequate, although it is important, to mitigate the challenges.

These shortcomings notwithstanding, the resource curse discourse has contributed in enhancing understanding of the role oil plays in governance, sustainable peace and development in Africa.[241] Some examples include the following: First, more insight has been gained into how different types of natural resources have different management dynamics. Second, the quality of

[235] Frank (1960), p. 433
[236] Hirschman and Lindblom (1962), p. 211
[237] Ross (1999), p. 306
[238] van Tongeren (2011), p. 46
[239] Massey and May (2004), p. 258
[240] Alao (2007), p. xi
[241] Dunning (2008), p. 5; Gelb and Grasmann (2009), p. 100ff; Ross (1999), p. 308

a country's institutions prior to resource exploration is crucial in assessing the impact of the resource.[242] Third, due to the in-depth analysis already made on the subject, policy makers can easily make inferences from cases similar to their specific context. Therefore, in spite of the shortfalls about the resource curse discourse discussed above, significant progress and important insights have been gained which add a lot to knowledge and policy-making.

4.2 Conclusion

The resource curse thesis seems to fit well into the context of oil-producing countries in sub-Saharan Africa. Typical cases in recent times include prolonged regimes in Gabon and Equatorial Guinea, military interventions and armed protests in Chad, secession of South Sudan from the North, armed conflicts in Angola and DRC, and sectarian violence in Nigeria. This presents a situation where oil is seen as a curse for countries which possess them in sub-Saharan Africa. This is true to the extent that in many cases, domestic politics and economic policies are influenced by the presence of oil. Yet, these problems have not been established to be exclusive to oil-producing countries.[243] Moreover, domestic socio-historical dynamics which sometimes predate the oil production have important consequences on present oil management too.

Furthermore, beyond the domestic mechanisms which come to bear on oil-producing countries in sub-Saharan Africa, there are external ones too. Some external actors include multinational oil companies and forces of globalisation. In the context of globalisation and the influences which come with it, MNCs have become integral part of oil politics in sub-Saharan Africa. Some of their actions and inactions make governments lose money, but also lead to triggering public outcry and agitations. Also coming to bear are market forces like price hikes which are beyond the control of domestic political actors.

It is imperative, therefore, that new oil-producers in sub-Saharan Africa (like Ghana) proceed with developments in the extractive industry with caution and avoid generalisation. First, they should pay attention to every detail of political, economic and social life of the country. Second, some social protection for extractive communities should be provided. Third, both the positive and negative impact of activities of multinational oil companies and other development partners

[242] Roll (2011), p. 12
[243] Mikesell (1999), p. 198; Ross (1999), p. 321

should be well measured. And finally, establishing institutions of governance is not enough. Efforts should be made to make these institutions work effectively.

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